

# **OTO MELARA S.p.A.**

## **2015 SEPARATE FINANCIAL STATEMENTS**

*Disclaimer*

*These Financial Statements 2015 have been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the document and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.*

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## BOARDS AND COMMITTEES

**BOARD OF DIRECTORS \***  
*(for the three-year period 2014 - 2015)*

CRISTIANO CAPONERO  
Chairman

ROBERTO CORTESI  
Chief Executive Officer

PATRIZIA SPERA  
Director

**BOARD OF STATUTORY AUDITORS \*\***  
*(for the three-year period 2013 - 2015)*

**Regular Statutory Auditors**

DANIELA ROSINA  
Chairman

GIAN PIETRO CASTALDI

MARCO BUTTARELLI

**Alternate Statutory Auditors**

BERNARDINO SPAGNOLI

ELENA VIAPPANI

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

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\* The Board of Directors was appointed by the Shareholders' Meeting held on 1 August 2014.

\*\* The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 30 April 2013.

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**The Board of Directors and the Board of Statutory Auditors ceased to hold office on 1 January 2016, as a result of the merger by incorporation into the parent company Finmeccanica Società per Azioni. Accordingly, these financial statements have been approved by the Corporate Bodies of Finmeccanica Società per Azioni, and the board of statutory auditors' report to the shareholders' meeting has been prepared by the Board of Statutory Auditors of Finmeccanica Società per Azioni.**

## REPORT ON OPERATIONS AT 31 DECEMBER 2015

### Results and financial position

#### Key Performance Indicators (“KPI”)

	2015	2014	Change
New orders	562	136	n.a.
Order backlog	977	773	26.4%
Revenue	356	390	(8.7%)
EBITDA	45	54	(16.7%)
EBITDA Margin	12.5%	14.0%	(1.5) p.p.
EBITA	37	46	(19.6%)
ROS	10.4%	11.8%	(1.4) p.p.
EBIT	38	46	(17.4%)
Net result before extraordinary transactions	22	26	(15.4%)
Net result	22	26	(15.4%)
Net Debt (Funds)	(48)	(89)	46.1%
FOCF	(17)	21	n.a.
ROI	43.9%	73.1%	(29.2) p.p.
ROE	14.3%	17.2%	(2.9) p.p.
Workforce	1,064	1,065	(0.1%)

OTO Melara (hereinafter also referred to as “the Company”) was merged by incorporation into its parent company Finmeccanica Società per Azioni (hereinafter also referred to as “Finmeccanica”), with effect from 1 January 2016 and the Company was consequently extinguished in the framework of the overall process of structuring the Finmeccanica Group into Divisions in order to give it a more effective governance system and enhance its industrial efficiency. As a whole, the process has entailed the merger by incorporation of Oto Melara S.p.A. and WASS S.p.A., as well as the partial demerger of Selex ES S.p.A., Alenia Aermacchi S.p.A. and AgustaWestland S.p.A., into Finmeccanica. Specifically, Oto Melara will form part of the Defence Systems division, one of the seven divisions into which Finmeccanica is currently structured, within the sector of Electronics, Defence and Security Systems.

During 2015 the Company conducted its activities normally, continuing to develop its sales strategies for its different products and markets and attending to the designs and manufacturing involved in the supply programmes running for its various Italian and foreign customers.

There were no substantial changes in the general market scenario compared with the recent past. The effects of the difficult economic and financial situation continued to be felt at domestic and global level; in many countries this still leads to tightened expenditure budgets with consequent slowdowns and delays in starting new programmes. Some signs of a recovery in demand, however, are being glimpsed; in the coming years, this will be supported by increased expenditure on defence on the part of emerging economies and requirements for systems to protect against asymmetric threats. The Company, therefore, is engaged in

exploiting the commercial opportunities involved and some major objectives were attained during the 2015 financial year, which led to an increase in the order backlog compared to the end of the previous year.

In 2015 the Company recorded new orders of about €mil. 562, 28% of which was accounted for by orders received from foreign countries (against new orders of €mil. 136 in 2014, 70.0% of which was accounted for by orders received from foreign countries). Two major orders gained from the Italian Defence Administration affected the fall in the portion of foreign orders (in percentage terms), compared to the previous year:

- the first, regarding the orders (totalling more than €mil. 280), concluded through affiliate SES, were combat systems for new Italian Navy warships in the framework of the large-scale fleet modernisation programme approved by the recent Naval Law; and
- the second, regarding the supply of artillery systems, again to the Italian Navy, for the ninth and tenth ship in the FREMM (Fregate Europee Multi-Missione, European Multi-purpose Frigates) programme.

Other important new orders were gained in relation to the retrofit of naval guns for foreign customers and for the upgrading of M109 self-propelled howitzer for a foreign country.

Great efforts were made in the IVECO-OTO Melara consortium company to go on with the VBM (Veicolo Blindato Medio, Medium Armoured Vehicle) Freccia programme for the Italian Army, which, after the systems produced up to now, includes a second phase in which VBM Freccia vehicles will be supplied in various configurations, to be intended for the Second Medium Brigade of the Italian Army. Owing to a prolongation of the purchasing procedure for the first lot of VBM vehicles owing to a number of issues, the order could not be concluded before the end of December 2015. In January 2016 the Italian Defence Administration asked IVECO-OTO Melara to submit an offer for the supply of 30 VBM vehicles in combat version and related logistical support. The execution of this contract, which will start the second phase of the VBM Freccia programme, is expected by the end of 2016.

Therefore, at the end of the year, the **order backlog** came to €mil. 977 compared to €mil. 773 at 31 December 2014. The backlog ensures about two and a half years of production and relates to the line of naval weapons systems (including small calibre weapons and ammunition) for 60%, to the line of land weapons systems for 14% and to the other product lines for 26%.

**Revenue** was equal to €mil. 356 (€mil. 390 developed in the previous year). The lower revenues recorded in 2015 were affected by the delayed definition by the Italian Defence Administration of the above mentioned purchase order relating to a first lot of VBM vehicles intended for the Second Brigade of the Italian Army, the completion of which is expected in the current financial year. Pending the finalisation of the contract, the manufacturing activities that have already started have been entered under inventories, at production cost. As a result of lower revenues, **EBIT** showed a decrease (€mil. 38 in 2015 against €mil. 46 in 2014), ROS stood at 10.4% (11.8% in 2014). The **net result and net result before extraordinary transactions** for the year posted positive values of €mil. 22 (€mil. 26 in 2014).

As regards **cash flow operations**, it should be noted that the cash flow performance in the year allowed a positive net financial position to be maintained, despite a cash deficit recorded in the year. In fact, financial receivables passed from €mil. 89 in 2014 to €mil. 48 in 2015, as a result of dividends paid for €mil. 24, as well as of a negative **Free Operating Cash Flow** of €mil. 17 (against a positive cash generation of €mil. 21 in 2014).

In 2015 **investments** in property, plant and equipment and intangible assets amounted to about €mil. 5 and were mainly made in order to modify and keep up operating capacity.

As regards the most significant aspects of the **production activity** of the main product lines, it should be noted that, in the segment of land weapons systems, work continued for the production, for the Italian Army, involving the VBM systems, the HITROLE mod L turrets for the VTMM (Veicolo Tattico Medio Multiruolo, Multi-purpose Medium Tactical Vehicle) vehicle and of the turret for the new Centauro armoured vehicle. In the segment of naval weapons systems, the most important production commitments concerned the 76/62 and 127/64 naval guns intended for the domestic customer and foreign customers. In the ammunition sector, work continued on fine tuning and integrating the production line of Vulcano munitions in the 127 and 155 BER (Ballistic Extended Range) versions.

In the segment of small-calibre weapons, the most significant activities concerned the production of 40/70 machine guns, of Hitrole G turrets and ODLs (OTO Melara Decoy Launching System) rocket launchers. In the segment of airborne weapons systems, the final adjustments were made to the assembly line for the Paveway kits for NETMA (NATO Eurofighter and Tornado Management Agency), which was then tested and production was started, while activities are being completed which are connected with the JDAM (Joint Direct Attack Munition) kit programme, again for NETMA.

\* \* \* \* \*

### ***Business performance***

As regards the most important items, it should be noted that revenue, as already mentioned in the introduction, recorded a decrease of about €mil. 34, compared to 2014, mainly as a result of a delayed definition, by the Italian Defence Administration, of the order for the purchase of a first lot of VBM vehicles, as referred to above. **EBIT** showed a decrease of €mil. 8 compared to the same period in 2014. Accordingly, although the **net result and net result before extraordinary transactions** benefitted from lower financial costs and taxes, they recorded a decrease of about €mil. 4 compared to 2014.

The reclassified income statement for 2015 is reported below along with comparable data for 2014.

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

<i>€ thousands</i>	<i>Note</i>	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Revenues		356,184	389,942	(33,758)	(8.7%)
Purchase and personnel expense	(*)	(300,707)	(334,841)		
Other net operating income/(expenses)	(**)	(10,797)	(653)		
<b>EBITDA</b>		<b>44,680</b>	<b>54,448</b>	<b>(9,768)</b>	<b>(17.9%)</b>
<b>EBITDA Margin</b>		<b>12.5%</b>	<b>14.0%</b>	<b>(1,5) p.p.</b>	
Amortisation, depreciation and impairment losses	(***)	(7,475)	(8,443)		
<b>EBITA</b>		<b>37,205</b>	<b>46,005</b>	<b>(8,800)</b>	<b>(19.1%)</b>
<b>ROS</b>		<b>10.4%</b>	<b>11.8%</b>	<b>(1.4) p.p.</b>	
Restructuring costs		600	-		
<b>EBIT</b>		<b>37,805</b>	<b>46,005</b>	<b>(8,200)</b>	<b>(17.8%)</b>
<b>EBIT Margin</b>		<b>10.6%</b>	<b>11.8%</b>	<b>(1.2) p.p.</b>	
Net financial income/(expense)		(3,211)	(5,826)		
Income taxes		(12,701)	(14,174)		
<b>Net result before extraordinary transactions</b>		<b>21,893</b>	<b>26,005</b>	<b>(4,112)</b>	<b>(15.8%)</b>
Net result related to discontinued operations and extraordinary transactions					
<b>Net result</b>		<b>21,893</b>	<b>26,005</b>	<b>(4,112)</b>	<b>(15.8%)</b>

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

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

(\*\*) Includes the net amount of "Other operating income" and "Other operating expenses" (net of restructuring costs, non-recurring income/(expense) and accruals (reversals) for final losses on orders.

(\*\*\*) Includes "Financial income" and "Financial expense".

\* \* \* \* \*

### Financial performance

The 2015 financial year closed with a decrease of about €mil. 4 in cash and cash equivalents compared to the end of the previous year. In detail:

- the "Free Operating Cash Flow" posted a negative value of about €mil. 17 (against a positive value of about €mil. 21 in 2014). The decrease was mainly attributable to the deficit recorded by current operations, because of lower receipts collected compared to the previous year. The main reason for the fall in receipts was essentially the prolongation of the procedure for the Italian Army's purchase of the first lot of VBM vehicles for the Second Brigade (referred to above), so that invoices could not be issued and payment could not be collected for the products made during the financial year;
- the "cash flow from other investing activities" posted a slightly negative value (against a positive value of €mil. 2 in 2014, which benefitted from the disposal of the investment in OTO Melara North America) as a result of the increase in the share capital of subsidiary OTO Melara Do Brasil;
- the "cash flow from other financing activities" posted a positive value of about €mil. 37 (against a positive value of €mil. 4 in 2014), mainly as a result of the developments in the relationship concerning the treasury centralisation with the Parent Company, net of the payment of dividends.

Below is the reclassified statement of cash flows at 31 December 2015, compared to 2014:



## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

<i>€ thousands</i>	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
<b>Funds From Operations (FFO)</b>	<b>32,508</b>	<b>10,978</b>	<b>21,530</b>	<b>n.a.</b>
Change in working capital	(44,012)	16,360		
Cash flows from ordinary investing activities	(5,248)	(6,487)		
<b>Free Operating Cash Flow (FOCF)</b>	<b>(16,752)</b>	<b>20,851</b>	<b>(37,603)</b>	<b>n.a.</b>
Strategic transactions				
Change in other investing activities (*)	(238)	2,049		
Dividends paid	(24,000)	(21,231)		
Net change in loans and borrowings	37,327	3,805		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,663)</b>	<b>5,474</b>		
Cash and cash equivalents at 1 January	6,844	1,370		
Exchange rate differences and other changes				
<b>Cash and cash equivalents at 31 December</b>	<b>3,181</b>	<b>6,844</b>		

(\*) Includes "Acquisition of companies, net of cash acquired".

As regards the main changes that occurred in the most important financial items (in addition to those already commented on with reference to cash and cash equivalents), it should be noted that the "net invested capital" recorded an increase of about €mil. 38, which was almost entirely due to an increase in "working capital". The latter was affected by both increased work in progress not yet covered by contracts (with specific reference to the industrial operations on the lot of VBM vehicles, as already mentioned) and increased contract work in progress as a result of the production progress recorded in the year.

The table below summarises the balance sheet and financial position at 31 December 2015, and provides comparable data for 2014:

<i>€ thousands</i>	<i>Note</i>	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>Change</u>	<u>Change %</u>
Non-current assets		39,545	40,162		
Non-current liabilities	(*)	(13,175)	(14,891)		
<b>Capital assets</b>		<b>26,370</b>	<b>25,271</b>	<b>1,099</b>	<b>4.3%</b>
Inventories		178,596	120,669		
Trade receivables	(**)	221,995	218,495		
Trade payables	(***)	(261,337)	(239,191)		
<b>Working capital</b>		<b>139,254</b>	<b>99,9732</b>		
Provisions for short-term risks and charges		(44,549)	(42,197)		
Other net current assets (liabilities)	(****)	(17,071)	(17,638)		
<b>Net working capital</b>		<b>77,634</b>	<b>40,138</b>	<b>37,496</b>	<b>93.4%</b>
<b>Net invested capital</b>		<b>104,004</b>	<b>65,409</b>	<b>38,595</b>	<b>59.0%</b>
<b>Equity</b>		<b>151,820</b>	<b>154,215</b>	<b>(2,395)</b>	<b>(1.6%)</b>
<b>Net Debt (Cash and cash equivalents)</b>		<b>(47,816)</b>	<b>(88,806)</b>	<b>40,990</b>	<b>46.2%</b>

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

(\*) 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", net of "Income tax payables" and "Other current liabilities".

The table below shows the breakdown of available funds:

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

<i>€ thousands</i>	<u>31 December 2015</u>	<i>Of which with related parties</i>	<u>31 December 2014</u>	<i>Of which with related parties</i>
Bank debt	1		1	
Cash and cash equivalents	(3,181)		(6,844)	
<b>Net bank debt and bonds</b>	<b>(3,180)</b>		<b>(6,843)</b>	
Current loans and receivables from related parties	(46,248)	(46,248)	(83,350)	(83,350)
Other current loans and receivables				
<b>Current loans and receivables and securities</b>	<b>(46,248)</b>		<b>(83,350)</b>	
Related-party loans and borrowings	1,612	1,612	1,387	1,387
<b>Group Net Debt</b>	<b>(47,816)</b>		<b>(88,806)</b>	

### Other performance indicators

	<b>2015</b>	<b>2014</b>	<b>Change</b>
FFO	33	11	n.a.
Research and development expenses	49	42	16.7%

### Non-GAAP” performance indicators

The Management assesses the performance based on a number of indicators that are not envisaged by the IFRSs. Below is a description of the components of each of these indicators:

- **New orders:** this figure is the sum of the contracts gained, during the period, with customers that satisfy the requirements for being recorded in the order backlog.
- **Order backlog:** this figure is the difference between the orders acquired and the work invoiced for the relevant period, net of changes in contract work in progress. This difference shall be added to the backlog of the previous period.
- **EBITDA:** this is given by EBITA, as defined below, before amortisation, depreciation and impairment losses (net of those relating to goodwill or classified among “non-recurring costs”).
- **EBITDA Margin:** this is calculated as a ratio of EBITDA to revenue.
- **EBITA:** it is arrived at by eliminating from EBIT, as defined below, the following items:
  - restructuring charges, that are a part of defined and significant plans;
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

EBITA is then used to calculate return on sales (ROS) and return on investment (ROI) (which is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods).

A reconciliation of EBIT and EBITA for the two comparative periods is shown below:

<i>€ thousands</i>	<u>2015</u>	<u>2014</u>
<b>EBIT</b>	<b>37,805</b>	<b>46,005</b>
Restructuring costs	(600)	-
<b>EBITA</b>	<b>37,205</b>	<b>46,005</b>

- **Return on Sales (ROS):** this is calculated as the ratio of EBITA to revenue.
- **EBIT:** it is equal to the result before taxes and financial income and expense.
- **Net result before extraordinary transactions:** this is the Net Result before the result from Discontinued Operations and the effects of the extraordinary transactions (acquisitions and disposals).
- **Net Debt:** the calculation model complies with that provided in paragraph 127 of Recommendation CESR/05-054b implementing EC Regulation 809/2004. For details on its composition, reference is made to Note 19.
- **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) activities of investment in, and disinvestment from, property, plant and equipment and intangible assets 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 years under comparison is presented in the reclassified statement of cash flows shown in the previous paragraph.
- **Return on Investments (ROI):** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.
- **Return on Equity (ROE):** this is calculated as the ratio of the net result for the financial period to the average value of equity in the two comparative periods.
- **Workforce:** is the number of employees recorded in the register on the last day of the year.
- **Funds from Operations (FFO):** this is cash flow generated by (used in) operating activities, net of changes in working capital. The breakdown of the FFO for the comparative periods is shown in the reclassified statement of cash flows reported in the previous paragraph.
- **Research and Development expenditure:** it is obtained from the sum of internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes:
  - development costs capitalised even if covered by grants;
  - research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred;
  - research and development costs reimbursed by the customer as part of existing contracts (which fall under the scope of “work in progress” from an accounting viewpoint).

## **Outlook**

With effect from 1 January 2016, the Company was merged into parent company Finmeccanica Società per azioni, entering the Defence Systems Division in accordance with the merging company’s organisational and operational model. In this Division action will continue to be taken to ensure steady, orderly and balanced business growth in both economic and financial terms by means of the continuation of the plans for improvements already initiated during the last financial year and the launching of the new measures determined in the new business plan.

## Related party transactions

In accordance with the provisions of Article 2497-bis of the Italian Civil Code, it is noted that OTO Melara was subject to the management and coordination of the Parent Company Finmeccanica S.p.A..

A summary follows (in thousands of Euro) of the equity and profit and loss balances of the dealings which took place with subsidiaries, associates and the parent company, for various reasons, including any relations with the associates and subsidiaries controlled by the latter during the 2015 financial year and of a comparison between these figures and those at the end of the previous year as regards total equity and those for the same period the previous year as regards income and expenses. Furthermore, it should be noted that relations (if any) with subsidiaries, companies subject to joint control or significant influence by the Ministry of Economy and Finance (Ministero dell’Economia e delle Finanze, MEF) (the so-called “MEF Affiliates”), are also recognised as related party transactions, pursuant to the International Accounting Standards (IAS 24).

31.12.2015	Parent Companies	Subsidiaries	Associates	Affiliates (*)	Consortiums	Companies subject to the control or considerable influence of the MEF	Total	% against total for the accounts
<b>NON-CURRENT RECEIVABLES</b>								
- financial							2	1,9%
<b>CURRENT RECEIVABLES</b>								
- financial	46,248						<b>46,248</b>	100,0%
- trade	148	2,826	18,022	27,965		1,747	<b>50,708</b>	44,3%
- others and advances	26,150			11			<b>26,161</b>	95,8%
<b>TOTAL RECEIVABLES</b>							<b>123,119</b>	
<b>CURRENT PAYABLES</b>								
- financial	30	1,582					<b>1,612</b>	99,9%
- trade	2,798	5,960		54,230		1	<b>62,989</b>	31,6%
- others and advances	5,153		5,294	420			<b>10,867</b>	21,4%
<b>TOTAL PAYABLES</b>							<b>75,468</b>	
<b>2015</b>	<b>Parent Companies</b>	<b>Subsidiaries</b>	<b>Associates</b>	<b>Affiliates (*)</b>	<b>Consortiums</b>	<b>Companies subject to the control or considerable influence of the MEF</b>	<b>TOTAL</b>	<b>% against total for the accounts</b>
Revenues		1,184	60,737	57,475		463	<b>119,859</b>	33,7%
Other operating income				65		1	<b>66</b>	0,4%
Costs	3,425	13,045	1,119	64,881		23	<b>82,493</b>	27,5%
Other operating expenses	251		1,879	-397			<b>1,733</b>	6,3%
Financial income	29	8					<b>37</b>	14,2%
Financial expense	33		2,477				<b>2,510</b>	72,3%

(\*): companies subject to the management and coordination of Finmeccanica S.p.A.

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

31.12.2014	Parent Companies	Subsidiaries	Associates	Affiliates (*)	Consortiums	Companies subject to the control or considerable influence of the MEF	TOTAL	% against total for the accounts
<b>NON-CURRENT RECEIVABLES</b>								
- financial							2	1.8%
<b>CURRENT RECEIVABLES</b>								
- financial	83,350						83,350	100.0%
- trade	168	1,628	31,812	30,558		245	1,482	51.4%
- others and advances	25,330						25,330	95.6%
<b>TOTAL RECEIVABLES</b>							<b>110,164</b>	
<b>CURRENT PAYABLES</b>								
- financial		1,387					1,387	99.9%
- trade	2,151	1,783		46,631	6	5	50,576	30.7%
- others and advances			5,989	450			6,439	12.4%
<b>TOTAL PAYABLES</b>							<b>58,402</b>	
<b>2014</b>	<b>Parent Companies</b>	<b>Subsidiaries</b>	<b>Associates</b>	<b>Affiliates (*)</b>	<b>Consortiums</b>	<b>Companies subject to the control or considerable influence of the MEF</b>	<b>TOTAL</b>	<b>% against total for the accounts</b>
Revenues		1,840	120,145	51,591		257	173,833	44.6%
Other operating income	4		27	79			110	0.6%
Costs	3,312	5,882	1,025	55,864	19	199	66,301	19.8%
Other operating expenses	227		1,012	-244			995	4.9%
Financial income	59	1					60	10.6%
Financial expense		1	4,407	-84			4,324	67.6%

(\*): companies subject to the management and coordination of Finmeccanica S.p.A.

Finally, it should be noted that, pursuant to Article 2428, points 3) and 4), of the Italian Civil Code, there are no treasury shares, nor are there shares or quotas of controlling companies owned by the company, not even through trust companies or third parties, and that no treasury shares, or shares or quotas of controlling companies, have been acquired and/or disposed of by the Company, during the year, not even through trust companies or third parties.

It should be noted that the related party transactions concern ordinary operations and are regulated at arm's length.

### Performance of the main subsidiaries

Subsidiary **OTO Melara Iberica** went on with its work, mainly devoted to integrating and assembling product parts made by parent company OTO Melara. Revenue amounted to about €mil. 14 and the financial year closed with a positive net result of about €mil. 0.6. The workforce at 31 December 2015 was made up of 15 people.

**OTO MELARA DO BRASIL**, a company which is inactive industrially, went on with its promotion of OTO products in Brazil in accordance with the Marketing Services Agreement with parent company OTO

Melara, in order to pursue the commercial opportunities which might arise in that country. In 2015 it entered a tender for the supply of Hitfist turrets to the Brazilian Ministry of Defence and submitted a bid which is still being considered by the customer. The company is run by a board of directors and did not yet have any personnel in its establishment as of 31 December 2015.

## **Sustainability**

### **Employees**

At 31 December 2015 the workforce included 1,064 people, with a decrease of 1 resource compared to 1,065 resources at the end of 2014. Turnover consisted of 27 new hires and 28 terminations during 2015. The workforce at the end of the period included: 29 senior managers, 105 middle managers, 735 clerical employees and 195 manual labourers. The average number of staff members working during the year was 1,055 people compared to an average number of 1,078 in the previous year. Below is the breakdown, by category, of the average number of staff members employed:

	<b>2015</b>	<b>2014</b>	<b>Changes</b>
Senior managers	30	31	(1)
Middle managers	105	105	-
Clerical employees	730	753	(23)
Manual labourers	190	189	1
<b>Total</b>	<b>1,055</b>	<b>1,078</b>	<b>(24)</b>

At 31 December 2015 881 persons, over 80% of the workforce, had either degrees or higher secondary school leaving diplomas.

Human resources training and development is conducted concentrating on traditionally important issues, paying particular attention to health and safety at work and Trade Compliance.

Finally, in June 2015 a settlement agreement was reached with INAIL (*Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro*, Italian Institute for Insurance against Accidents at Work), to resolve the Institute's claims for the recovery of the costs it sustained to pay allowances and expenses to former company employees who suffered occupational illnesses. The cost of the settlement was paid out of the provision which had been set aside in previous financial years.

### **The Environment**

***Strategic guidelines and management approach*** – The environmental management system of Oto Melara is compliant with the rules governing the matter. The Company has been ISO 9001 certified since 1997 and ISO AQAP 110/150 since 26 April 2004. From 2005 its La Spezia site's corporate process of producing, monitoring and reporting greenhouse gases is inserted in an Environment Management system which measures environmental impact and is certified by RINA Services S.p.A. every year.

***Communication, education and training*** – In 2015 health and safety and environment training focused on the health and safety at work aspect, which is more affected by changes in law at the moment. Training

sessions continued at the La Spezia site: some courses on safety at work were opened for employees at low risk and a training session was prepared and given for personnel working at high altitudes. Separate courses were arranged for the HSE supervisors, health and safety at work training ended for the new Workers' Safety Representatives and courses were opened for training in electrical risk and the safe handling use of munitions. A training course on the management of environmental issues in the Shooting ranges also started.

**General environmental information** – The table below reports, separately for the two company sites, the applicability of the following regulations:

- Industrial Prevention Pollution Control (IPPC);
- Major incident risk pursuant to Legislative Decree 334/1999, as amended and supplemented (RIR, *Rischio di Incidente Rilevante*);
- Site of national interest pursuant to Law 426/1998, as amended and supplemented (SIN, *Sito di Interesse Nazionale*);
- Emission Trading Directive 2003/87/EC (ETS).

COMPANY SITES	REGULATIONS			
	IPPC	RIR	SIN	ETS
Brescia	No	No	Yes	No
La Spezia	Yes	Yes	No	Yes

**Water management**

Water consumption: the water for both toilets and canteens and for industrial uses at the plants is supplied by municipal aqueducts. Most of the industrial water is used to cool machinery (compressors, thermal chambers, furnaces), to treat metal surfaces, for coolant fluids for mechanical processes and to conduct trials and tests.

Waste water: the drains for all domestic and similar waste water and all industrial waste water are duly licensed. Specifically, domestic and similar waste water is conveyed to the municipal purification plants while industrial waste water is purified in the factory's own plants. The industrial drain for decontaminated groundwater is still operating in the Brescia site. About 40,945 cu. m was discharged in 2015 at the request of the Ministry's Services Conference; at the La Spezia site only 42 cu. m of waste water was discharged externally from the factory's purification plant, all the remainder being reused for industrial purposes.

**Waste production and management** – Waste is mainly composed of:

- Scrap waste and metal (steel, aluminium);
- Packaging (plastics, wood, mixed materials), either contaminated or uncontaminated;
- Adhesives and sealants;
- Exhausted oils (either hydraulic and lubricant) and greases;
- Sludge, solutions and resins deriving from water purification and emissions into the atmosphere;
- Coolant oil fluids deriving from mechanical processes;
- Exhausted solutions and substances deriving from the treatment of metal surfaces;

- Out-of-use equipment, cables and materials;
- Batteries.

Waste disposal is carried out by legally authorised firms.

***Energy consumption, greenhouse gas emissions, emissions trading and other emissions into the atmosphere***

Energy consumption: In 2015 energy consumption was divided as follows:

- La Spezia site: Electricity 13,263,000 kWh; Methane: 3.179 million cu. m.;
- Brescia site: Methane: 16,190 cu. m.; Electricity: 1,167,567 kWh; District heating: 4,835 mwh.

Most electricity is mainly used for lighting and to supply plants and equipment. Methane is used to heat the premises, to produce steam, for furnaces and to heat surface treatment tanks.

Greenhouse gas emissions and emissions trading: the Brescia site emits a minimum quantity of greenhouse gases (since the working areas are heated by district heating supplied by A2A, with a significant reduction in the related environmental impact); the La Spezia site falls within the scope of application of the Emissions Trading Directive and, therefore, it is not required to monitor and report greenhouse gas emissions.

The La Spezia site emits about 6,200 tons of carbon dioxide while the annual quota allocated for 2015 was 6,042 tons.

Other emissions into the atmosphere: they essentially derive from:

- Treatment of metal surfaces;
- Surface treatments;
- Thermal treatments;
- Welding and carpentry;
- Applications of adhesives and sealants;
- Washing;
- Tests, including those of military vehicles.

These emissions are not continuous and, in particular, none of the plants fall within the scope of application of Article 275 of Legislative Decree 152/2006, as amended and supplemented, relating to the emissions of Volatile Organic Compounds (VOC). The emissions from the “Surface Treatments” department of the La Spezia site are exceptions; they operate all the time but the best existing technologies are used to abate emissions.

The Brescia plant manager received an order to pay a criminal fine during the year, in relation to alleged breaches of Article 279, paragraphs 1 and 2, of Legislative Decree 152/2006. On 9 February 2016 the



Company filed proof that the fine had been paid with the Brescia Court and the Company now awaits the Court to issue an order not to proceed with the charge and consequently extinguish the offence.

**Management of hazardous substances** – The potentially hazardous substances used in production processes mainly include:

- Products for surface treatments;
- Adhesives and sealants;
- Hydraulic and lubricant oils and greases;
- Technical gases;
- Diesel oil;
- Substances for the chemical and physical treatment of industrial wastewater and emissions into the atmosphere.

Storage and handling methods are such as to cut risks to workers' health and safety and reduce the danger of contaminating the soil and water. Oto Melara constantly checks the consumption and stocks of potentially hazardous preparations and substances. The data are collected and managed by warehouse staff, who keep the quantities in stock to a minimum, compatibly with manufacturing processes, and thus keep potential risks and contamination as low as possible.

**Ozone-depleting substances** - Harmful substances for the ozone layer are still to be found in some refrigerating and cooling plants in the Company's factories. In accordance with Regulation (EC) 2037/2000 and Presidential Decree 147/2006, each site has drawn up a list of the appliances concerned and keeps it up to date, ensuring that refrigerating circuit seals are checked and that plants are disposed of in accordance with the law, even through specialist firms. The Declaration reporting information on the quantity of emissions into the atmosphere concerning fluorinated gases referred to in Article 16, paragraph 1, of Presidential Decree no. 43/2012 has been transmitted to the ISPRA (*Istituto Superiore per la Protezione e la Ricerca Ambientale*, Environmental Protection and Research Institute).

**Soil and groundwater contamination** – Affiliate company Finmeccanica Global Service S.p.A. (hereinafter referred to as FGS), which is the owner of the real estate complexes located in La Spezia and Brescia, continued with groundwater decontamination in a small portion of the factory as requested by the municipality of La Spezia. Not being able to use this part did not affect the operations of the factory as a whole.

The Company also went on, at its own expense, with the decontamination of the water layer from the hydrocarbon pollution which was detected in the La Spezia factory three years ago. The work consists of extracting hydrocarbons from the layer and sending them on to be disposed of or purified in compliance with the instructions issued some time ago by the public authorities responsible for the matter.

On the other hand, at the Brescia factory, which is located in the area of the "Brescia Caffaro" Site of National Interest, when ARPA (*Agenzia Regionale per la Protezione Ambientale*, Regional Environmental

Protection Agency) inspected the Caffaro industry contaminated site it found that the threshold for the contamination of the groundwater under the factory by total chromium and chromium VI had been exceeded. Within a Services Conference meeting the Environment Ministry asked the Company to start prevention and safety enhancement works, which were promptly carried out, and to draw up a decontamination plan.

As prescribed by the Ministerial Services Conference in March 2014, OTO Melara carried out the emergency plan to make the Brescia groundwater safe, after obtaining clearance from the competent authorities. In June 2014 the plan for the decontamination of the soil, subsoil and water layer was prepared as required by the Ministerial Services Conference. In October the plan was examined by the Conference, which made some observations on the basis of which the Company instructed its advisors to devise the appropriate action to take. The new plan was prepared and delivered in the first half of 2015. The plan for the decontamination of the soil and subsoil was approved by the Services Conference in December 2015, while the plan for making the water layer safe is still under consideration.

Meanwhile, at the request of the Services Conference, the Company optimised the performance of the treatment plant for the emergency safety enhancement of the water layer and asked ARPA to check the efficiency and effectiveness of the hydraulic barrier. This administrative procedure is being constantly followed jointly with FGS.

### **Research and Development activities**

In 2015 the Company continued with the R&D work it started some time ago in its various sectors of land and naval weapons systems and munitions. Total R&D costs, including those concerning projects financed by third parties, amounted to about €mil. 49, equal to about 14.0% of revenue.

The most important programmes on which the Design department staff have been engaged involve work on turrets in their various configurations in the segment of land weapons systems. Special efforts were devoted to the development and testing for the supply of the prototype turret for the new Centauro vehicle, of mine protection systems for Dardo and Ariete vehicles and for the upgrading of the SICCONA (*Sistema di Comando, Controllo e Navigazione*, Command, Control and Navigation System) command and control system, under the Forza NEC (Network Enabled Capability) and VBM programmes for the Italian Army.

Also noteworthy was the preparation of the remote-controlled 30 mm OWS (Overhead Weapon System) turret for promotion on potential foreign markets and the development of the prototype kit for the upgrading of the Recce version of the Hitifist 30 mm turret provided to the Polish Army. In Robotics, the biggest commitment was the approval of the Horus and TRP2 platforms.

In the naval sector (small, medium and large calibre) most of the work was done on design support for the performance of various contracts for the supply of 76/62 guns, 127/64 guns and small-calibre machine guns to various countries' naval forces. Also in the naval weapons systems sector, support was given for the supply of automated warehouses for naval units (completion of: installation of AAD deck 3 on board Bergamini Ship; installation of AAD deck 2 on board Rizzo Ship; FATs (Factory Acceptance Tests) by the

AAD on a De La Penne class destroyer) and the “vulcanisation” of the 127/54C guns of the Italian Navy warships Bersagliere and Mimbelli.

Following the orders gained under the Naval Law, work started for the development of the “SOVRAPONTE” (Over deck) version of the 76 mm naval gun.

In the munitions sector, considerable efforts were put into developing and trying out (tests and firing trials) the Vulcano guided ammunition, which are proving to be reliable and whose accuracy of fire is excellent.

About 1,700 munitions are being made for the approval of the BER Vulcano ammunition system, in collaboration with the Italian Defence Agency (*Agenzia Italiana Difesa*, A.I.D.) at the latter’s plant located in Baiano (Avellino). Work was completed for the development of the PD (Point Detonating) fuze and the 127 FC (Full Calibre) shot, and started on production for the supply of about 3,000 127 Full Calibre shots to the Algerian Navy. The 4AP (Action Plus) programmable fuse has ended its development phase and is on the way to obtaining industrial approval. The development of the 40 mm fuse has begun and the first prototypes will be ready during 2016. Finally, the Vulcano 76 guided ammunition is in the advanced design state; some prototypes have been fired electronically.

Also to be mentioned is the attention paid to technological development programmes with the aim of contributing to the introduction into service of the technologies that emerge in the various sectors. Noteworthy is the work done on the USV (Unmanned Surface Vehicle) SWAD (Sea Watch Dog) programme, whose purpose is to design a system based on a fast remotely controlled vessel equipped with a Hitrole turret. The USV system can operate with a high degree of autonomy not only in coastal areas but also in deep water and can be used in both protection and interception roles. In 2015 an agreement was entered into with the Ligurian Marine Technology District (Distretto Ligure delle Tecnologie Marine, DLTM) located in La Spezia for the financing of said research project, which will benefit from the facilities and grants provided for under Legislative Decree 297/1999.

## **Corporate Office**

The Company’s registered office was located in Rome, at Piazza Monte Grappa no. 4.

## **Corporate Governance**

The guidelines of the Corporate Governance system of Oto Melara S.p.A. were the following:

**Ownership structures** – The share capital of OTO Melara S.p.A. was divided into ordinary shares only. Finmeccanica S.p.A. held 100% of the Company’s share capital.

**Company organisation** - The organisation of the Company, based on the traditional model, was structured as follows:

- **BOARD OF DIRECTORS**, 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 – by law or by the By-laws – to the Shareholders' Meeting. From 1 August 2014 it is composed of three members. Pursuant to the By-laws, the Chairman is responsible for the legal representation of the Company towards third parties and before courts. The Board appointed the Chief Executive Officer, who was given the following responsibilities:

- a) direct and manage the Company in compliance with the Board of Directors' guidelines and directives;
  - b) carry out the Company's routine management activities;
  - c) execute Board of Directors' resolutions, carrying out all the activities, including extraordinary management activities, decided upon by the Board.
- **BOARD OF STATUTORY AUDITORS**, responsible for monitoring compliance with the law and the By-laws, the observance of the principles of proper business administration and specifically the adequacy of the organisational, administrative and accounting structure adopted by the Company and its effective functioning.

Both Directors and Statutory Auditors hold office for three years and may be re-elected.

- **SHAREHOLDERS' MEETING**, competent to pass resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws.
- **INDEPENDENT AUDITORS**, registered on the Special List, which carries out the statutory audit of accounts, as required by the current regulations, and which is appointed by the Shareholders' Meeting for this purpose.

The Parent Company has centralised internal auditing units in the framework of Finmeccanica S.p.A.'s coordination and control activities. Centralised auditing strengthens the Group's processes and control and renders them more effective.

**Corporate objectives and mission** - OTO Melara S.p.A. engages in designing, manufacturing and marketing tracked and untracked vehicles, arms of all kinds, conventional and unconventional weapons systems and munitions, rocket and missile launching systems and their sub-systems and accessory training and simulation, command, control and navigation systems. OTO Melara S.p.A. pursues its mission rigorously observing the objective of creating shareholder value, aiming to safeguard and strengthen its expertise in its field of business.

**Governance structure** – The structure was based on the co-existence of the following elements.

- **Internal control system:** is the set of processes which monitor the efficiency of the Company's operations, the reliability of financial information, compliance with laws and regulations and the safeguarding of the corporate assets. The main parts of the system are:
  - ✓ the corporate system of rules;
  - ✓ the system for delegating authority and granting powers;
  - ✓ corporate risk assessment;
  - ✓ the control activities performed by the corporate functions.

In the implementation of the approved auditing plan and in performing the duties assigned to it, Internal Auditing performs assurance and advisory functions in order to improve organisational effectiveness and efficiency.

- **Organisational and management model as per Legislative Decree 231/2001** - Legislative Decree 231 of 8 June 2001 lays down forms of criminal liability on the part of entities when certain types of criminal offence are committed by directors or employees in the interests or to the advantage of the entity concerned. According to the guidelines issued by Confindustria, the Company has adopted an Organisational, Management and Control Model and reviews it on an ongoing basis, in order to satisfy the conditions for being exempted from liability as laid down in the Decree (Articles 6 and 7).

Essential parts of the Model are:

- ✓ the Code of Ethics;
- ✓ identifying areas and activities at risk of and/or open to offences as per Legislative Decree 231/2001;
- ✓ the rules of conduct and the prevention, supervision and control system;
- ✓ the system of authorities and delegated powers;
- ✓ the Supervisory Board;
- ✓ the disciplinary system;
- ✓ training human resources and making the Model generally known.

The Model has a General Part, Special Parts and annexes:

- ✓ substantially, the General Part contains a description of the contents of the Decree and the reasoning behind it, the Company's motives and aims in adopting the Model, the functions, powers, communication system and procedures that the Supervisory Board follows in going about its work, staff training and making the Model known in the Company and the disciplinary system for failure to follow instructions.
- ✓ The Special Parts specify the areas of risk of or areas open to offences as per Legislative Decree 231/2001 for the different activities performed in the Company, lay down principles of conduct for those who operate in them and describe prevention and control instruments.

The Annexes to the Model are:

- ✓ Code of Ethics;
- ✓ Organisational structure of OTO Melara S.p.A.;
- ✓ System of authorities and delegated powers;
- ✓ Schedule of Executives' powers of signature and representation;
- ✓ Record sheet: meetings with public authority officers and/or representatives.;
- ✓ List of relevant persons pursuant to the Internal Dealing Code;
- ✓ Regulatory framework of OTO Melara S.p.A.;
- ✓ Contract clause;

- ✓ States with favourable tax regimes pursuant to Ministerial Decrees of 21 November 2001 and 23 January 2002.

The General Part, the Special Parts and the Code of Ethics are available on the Company's website.

The Supervisory Board holds periodical meetings, at least once every two months.

The function prepares a report for the Top Management and Corporate Bodies once a year. The report covers the activities performed, their outcomes, updates (if any) and the plans for the work which the function intends to do during the following year.

**Proposal to the Shareholders' Meeting**

**Financial Statements at 31 December 2015; Report of the Board of Directors, Report of the Board of Statutory Auditors and Independent Auditors' Report. Resolutions related thereto. Presentation of the Financial Statements at 31 December 2015.**

Dear Shareholders,

the 2015 financial statements, which we submit for your approval, close with a profit of Euro 21,893,564.

In light of the foregoing, and in consideration of the merger by incorporation into Finmeccanica Società per Azioni with effect from 1 January 2016, we submit the following proposed resolution for your approval:

“The Ordinary Shareholders' Meeting:

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

**resolves**

to approve the Directors' Report on operations and the financial statements at 31 December 2015 of OTO Melara S.p.A..”

Rome, 16 March 2016

For the Board of Directors of  
Finmeccanica Società per Azioni  
The Chairman

(Giovanni De Gennaro)

**ACCOUNTING STATEMENTS AND NOTES TO THE FINANCIAL  
STATEMENTS AT 31 DECEMBER 2015**



ACCOUNTING STATEMENTS

Separate income statement

<i>Values in €</i>	<i>Note</i>	<b>2015</b>	<i>of which with related parties</i>	<b>2014</b>	<i>of which with related parties</i>
Revenue	22	356,183,914	119,858,863	389,941,524	173,832,885
Other operating income	23	16,533,905	65,739	19,504,353	110,568
Purchase and personnel expense	24	(300,107,013)	(82,492,973)	(334,841,142)	(66,300,764)
Amortisation, depreciation and impairment losses	25	(7,474,754)		(8,442,578)	
Other operating expenses	23	(27,330,748)	(1,733,402)	(20,157,234)	(995,314)
<b>Income before tax and financial expenses</b>		<b>37,805,304</b>		<b>46,004,923</b>	
Financial income	26	260,561	36,642	567,150	59,782
Financial expense	26	(3,471,602)	(2,509,641)	(6,393,152)	(4,323,795)
<b>Operating profit (loss) before income taxes and Discontinued operations</b>		<b>34,594,263</b>		<b>40,178,921</b>	
Income taxes	27	(12,700,699)		(14,174,369)	
Profit (loss) from Discontinued Operations					
<b>Net profit/(loss) for the period</b>		<b>21,893,564</b>		<b>26,004,552</b>	

Statement of comprehensive income

<i>Values in €</i>	<b>2015</b>	<b>2014</b>
<b>Profit (loss) for the period</b>	<b>21,893,564</b>	<b>26,004,552</b>
<b>Other comprehensive income (expense):</b>		
<u>Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:</u>		
- Measurement of defined-benefit plans:	(50,559)	(1,243,590)
. revaluation	(50,559)	(1,243,590)
. exchange rate gains (losses)		
- Tax effect	-	912,261
	<b>(50,559)</b>	<b>(331,329)</b>
<u>Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:</u>		
- Changes in cash flow hedges:	(327,500)	2,970,222
. change generated in the period	454,857	4,056,036
. transferred to the profit (loss) for the period	(782,357)	(1,085,814)
- Tax effect	90,063	(816,811)
	<b>(237,437)</b>	<b>2,153,411</b>
<b>Total other comprehensive income (expense), net of tax:</b>	<b>(287,996)</b>	<b>1,822,082</b>
<b>Total comprehensive income (expense)</b>	<b>21,605,568</b>	<b>27,826,634</b>

Statement of financial position

<i>Values in €</i>		<i>31 December</i>	<i>of which</i>	<i>31 December</i>	<i>of which</i>
	<i>Note</i>	<i>2015</i>	<i>with</i>	<i>2014</i>	<i>with</i>
			<i>related</i>		<i>related</i>
			<i>parties</i>		<i>parties</i>
Intangible assets	7	1,679,989		3,098,429	
Property, plant and equipment	8	14,340,411		14,502,378	
Equity investments	9	1,635,789		1,397,353	
Receivables		102,679	2,230	113,531	2,347
Deferred tax assets	27	21,786,193		21,050,791	
<i>Non-current assets</i>		<b>39,545,061</b>		<b>40,162,482</b>	
Inventories	10	178,595,601		120,669,344	
Contract work in progress	11	107,475,806		90,340,577	
Trade receivables	12	114,519,187	50,707,531	128,153,303	65,892,603
Income tax receivables		1,319,241		626,500	
Loans and receivables	12	46,248,054	46,248,054	83,349,840	83,349,840
Other assets	13	32,664,456	26,160,327	33,951,766	25,330,590
Cash and cash equivalents	14	3,180,529		6,843,564	
<i>Current assets</i>		<b>484,002,874</b>		<b>463,934,894</b>	
<b>Total assets</b>		<b>523,547,935</b>		<b>504,097,376</b>	
Share capital		92,307,722		92,307,722	
Other reserves		59,512,757		61,907,197	
<i>Equity</i>	15	<b>151,820,479</b>		<b>154,214,919</b>	
Employee benefits	18	11,612,179		13,182,414	
Provisions for risks and charges	17	-		95,727	
Deferred tax liabilities	27	827,614		853,390	
Other non-current liabilities	19	735,359		759,420	
<i>Non-current liabilities</i>		<b>13,175,152</b>		<b>14,890,951</b>	
Progress payments and advances from customers	11	61,693,598		74,673,134	
Trade payables	20	199,643,288	62,988,552	164,517,894	50,576,229
Loans and borrowings (current)	16	1,612,741	1,612,062	1,387,702	1,386,736
Provisions for short-term risks and charges	17	44,548,542		42,196,963	
Other current liabilities	19	51,054,135	10,867,295	52,215,813	6,438,525
<i>Current liabilities</i>		<b>358,552,304</b>		<b>334,991,506</b>	
<b>Total liabilities</b>		<b>371,727,456</b>		<b>349,882,457</b>	
<b>Total liabilities and equity</b>		<b>523,547,935</b>		<b>504,097,376</b>	

Statement of cash flows

<i>Values in €</i>	<i>Note</i>	<b>2015</b>	<i>of which with related parties</i>	<b>2014</b>	<i>of which with related parties</i>
Gross cash flows from operating activities	28	53,111,031		49,784,832	
Change in trade receivables/payables, work in progress/progress payments and inventories	28	(44,011,757)	27,597,394	16,360,235	2,514,109
Change in other operating assets and liabilities and provisions for risks and charges	28	(15,248,337)	(8,008,020)	(17,112,836)	(12,925,359)
Interest paid		(3,025,157)	(2,370,300)	(5,437,066)	(4,115,372)
Income taxes paid		(2,329,164)		(16,257,435)	
<b>Cash flows generated from (used in) operating activities</b>		<b>(11,503,384)</b>		<b>27,337,730</b>	
Acquisition of companies, net of cash acquired		(238,435)		2,048,873	
Investments in property, plant and equipment and intangible assets		(5,252,634)		(6,536,339)	
Sales of property, plant and equipment and intangible assets		4,600		49,565	
Other investing activities					
<b>Cash flows generated from (used in) investing activities</b>		<b>(5,486,469)</b>		<b>(4,437,901)</b>	
Dividends paid	15	(24,000,008)		(21,230,776)	
Net change in other loans and borrowings		37,326,826	37,326,826	3,804,264	3,804,264
<b>Cash flows generated from (used in) financing activities</b>		<b>13,326,818</b>		<b>(17,426,512)</b>	
Net increase (decrease) in cash and cash equivalents		(3,663,035)		5,473,317	
Cash and cash equivalents at 1 January		6,843,564		1,370,247	
<b>Cash and cash equivalents at 31 December</b>		<b>3,180,529</b>		<b>6,843,564</b>	

Statement of changes in equity

Values in €

	Share capital	Retained earnings and other reserves	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Total equity
<b>1 January 2014</b>	<b>92,307,722</b>	<b>58,636,179</b>	<b>(603,815)</b>	<b>(2,721,025)</b>	<b>147,619,061</b>
Profit (loss) for the period		26,004,552			26,004,552
Other comprehensive income (expense)			2,153,411	(1,243,590)	909,821
<b>Total comprehensive income (expense)</b>	<b>-</b>	<b>26,004,552</b>	<b>2,153,411</b>	<b>(1,243,590)</b>	<b>26,914,373</b>
Dividends resolved		(21,230,776)			(21,230,776)
<b>Total transactions with owners of the parent, recognised directly in equity</b>	<b>-</b>	<b>(21,230,776)</b>	<b>-</b>	<b>-</b>	<b>(21,230,776)</b>
Other changes		912,261			912,261
<b>31 December 2014</b>	<b>92,307,722</b>	<b>64,322,216</b>	<b>1,549,596</b>	<b>(3,964,615)</b>	<b>154,214,919</b>
Profit (loss) for the period		21,893,564			21,893,564
Other comprehensive income (expense)			(237,438)	(50,558)	(287,996)
<b>Total comprehensive income (expense)</b>	<b>-</b>	<b>21,893,564</b>	<b>(237,438)</b>	<b>(50,558)</b>	<b>21,605,568</b>
Dividends resolved		(24,000,008)			(24,000,008)
<b>Total transactions with owners of the parent, recognised directly in equity</b>	<b>-</b>	<b>(24,000,008)</b>	<b>-</b>	<b>-</b>	<b>(24,000,008)</b>
Other changes					-
<b>31 December 2015</b>	<b>92,307,722</b>	<b>62,215,772</b>	<b>1,312,158</b>	<b>(4,015,173)</b>	<b>151,820,479</b>

## NOTES TO THE 2015 FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The Company was established on 16 July 2001. Its activity is mechanical, electronic and electric engineering carried out on its own behalf or for third parties, including conceiving, studying, developing, trying out, manufacturing, transforming, repairing, servicing and marketing arms applications of any kind for both military (land, sea and air defence) and civil use in Italy and abroad, involving tracked and non-tracked vehicles, conventional and non-conventional weapon and ammunition systems, rocket and missile launch systems, their subsystems, accessory training, simulation, command, control and navigation systems. The Company makes use of the right granted to the subgroups, pursuant to Article 27, paragraph 3, of Legislative Decree no. 127 of 1991, to not prepare the Consolidated Financial Statements, as they are prepared and published by the Parent Company Finmeccanica S.p.A.

The Company was merged into its parent company Finmeccanica Società per Azioni with effect from 1 January 2016.

### 2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

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

The general principle used in preparing these 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 financial statements at 31 December 2015 have been prepared on a going concern basis and are composed of the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

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

The accounting standards and policies used for preparing these financial statements are the same that were used in the preparation of the financial statements at 31 December 2014.

All figures are shown in thousands of Euros unless otherwise indicated.

Preparation of the 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 financial statements at 31 December 2015 of Oto Melara S.p.A. were approved by the Board of Directors of the merging company Finmeccanica S.p.A. on 16 March 2016.

These financial statements, which have been prepared according to IFRS standards, have been subject to statutory audit by KPMG S.p.A..

### **3. ACCOUNTING POLICIES ADOPTED**

#### **3.1 *Segment information***

The Company operates only in the business sector of the construction of defence vehicles and systems.

#### **3.2 *Currency translation***

##### **3.2.1 Identification of the functional currency**

The financial statements have been prepared in euros, which is the functional currency of the Company.

##### **3.2.2 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, 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 *Intangible assets***

##### **3.3.1 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, and in any case in a period no longer than 10 years. If such costs fall within the scope of costs defined as “non-recurring costs”, they are recognised in the specific item under intangible assets.

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

### **3.3.2 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 is 3 years.

### **3.4 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 capital 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 depreciation rates (expressed as a percentage) are calculated in the basis of the useful life of the various classes of assets estimated by the company, as reported in the table below:

<b>Description</b>	<b>Rate</b>
Land	-
Industrial buildings	3%
Light constructions	10%
General and special non-automated systems	10%
Treatment and purification systems	15%
Treatment furnaces and related appurtenances	15%
Non-automated operating machines	10%
Automated operating machines	15.50%
Robotised working units	15.50%
Sundry and small equipment	25%
Testing and control tools	25%
Office ordinary furniture and machines	12%
Office electromechanical and electronic machines	20%
Transport vehicles	20%
Cars, motorcycles and similar vehicles	25%
Special systems and company canteen equipment	10%

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 distinct elements with useful lives that are significantly 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 production” for job orders, which cannot be used otherwise. Depreciation is made on the basis of the expected disposal plans.

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

### **3.5 *Impairment of intangible assets and property, plant and equipment***

There are no assets with indefinite useful lives. 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.

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.

### **3.6 *Equity investments***

The Company classifies its equity investments in:

- “subsidiary companies” which are controlled by the investing company through the power to govern the financial and operating policies of an entity and obtain the related benefits;
- “associated companies” over which the investing company exercises a significant influence (which is assumed to exist when at least 20% of votes can be exercised during the ordinary Shareholders’ Meeting). The item also includes the case of companies subject to joint control (joint ventures);
- “controlling companies” as the investee company owns shares of its own controlling company;
- “other companies” that do not fall under any of the categories above.

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”.

The subsidiary companies, associated companies and other companies, except for those classified as “assets held for sale”, are measured at the cost of purchase or start-up. This cost is maintained in subsequent financial statements except in the event of a permanent loss of value, or any write-back, following a change in its economic use or capital transactions. Investments available for sale are valued at the lower of the cost and the fair value, net of selling costs.



The “Provision for losses related to shares” includes the possible loss of value exceeding the carrying amount. In the event that the requirements for impairment are no longer met, the value of equity investments is reinstated within the limits of the original cost.

### **3.7 *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.

### **3.8 *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.

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 operating expenses. Vice versa, the reversal of such allocations is recognised under other operating income, if relating to internal costs. The component relating to external costs represents a direct use of the provision for final losses.

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, already collected, 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 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 Company’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 4.1 below are applied.

### **3.9 *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 *Financial assets at fair value through profit or loss***

This category includes financial assets acquired for the purpose of short-term trading transactions, derivatives, which are discussed in the next section, as well as assets designated as such upon initial recognition. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement. The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

### **3.11 *Derivatives***

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

In particular, the Company uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of financial assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair-value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash-flow hedges).

The effectiveness of hedges is documented and tested both at the start of the operation and periodically thereafter 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.

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

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.

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 foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the expected rate differentials among the currencies involved. Financial assets and liabilities valued at fair value are classified in the three hierarchical levels described below, on the basis of the materiality of inputs used in the fair value measurement. In particular:

- Level 1: financial assets and liabilities whose fair value is determined on the basis of the unadjusted quoted prices in an active market for identical assets and liabilities that the Company can access at the measurement date;
- Level 2: financial assets and liabilities whose fair value is determined on the basis of inputs other than the quoted prices as in Level 1, that are directly or indirectly observable;
- Level 3: financial assets and liabilities whose fair value is determined on the basis of unobservable inputs.

### **3.12 *Cash and cash equivalents***

The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents. Cash and cash equivalents are recognised at their fair value, which normally coincides with their nominal value.

### **3.13 *Share capital***

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

### **3.14 Taxation**

The Company has joined the Group's taxation scheme (the so-called national tax consolidation) for the purposes of the application of IRES tax.

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

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

Deferred tax assets and liabilities are calculated based on temporary differences arising between the carrying amounts of assets and liabilities reported in the Company's accounting position and the value for tax purposes. 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.

### **3.15 Employee benefits**

Below are the various categories:

#### **Post-employment benefit plans -**

Types of pension and supplementary benefit plans can be classified as follows:

- defined-contribution plans in which the Company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The Company recognises the contributions to the plan only when employees rendered their services to the Company specifically in exchange for these contributions;
- defined-benefit plans in which the Company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method. Accordingly, the Company 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 "revaluation reserve of defined benefit plans").

**Other long-term benefits and post-employment benefits**

The Company grants employees with other benefits (such as seniority bonuses after a given period of service with the Company). 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.

**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 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.

**3.17 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; for the related accounting policies, reference should be made to the information reported above.

Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined.

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

### **3.18 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, 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.

### **3.19 Costs**

Costs are recorded in compliance with the accrual principle.

### **3.20 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 are capitalised together with the related asset.

### **3.21 Dividends**

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

### **3.22 Emission rights**

The Company recognises only the economic and financial effects arising from the purchase and/or sale of emission rights for the coverage of the possible differences between the portions assigned and the emissions that were actually made.

### **3.23 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 Company in the following financial periods. The main amendments and potential effects are summarised below:

<b>IFRS – IFRIC interpretation</b>		<b>Effects for the Company</b>
<ul style="list-style-type: none"> <li>• IFRS 2</li> <li>• IFRS 3</li> <li>• IFRS 8</li> <li>• IAS 16</li> <li>• IAS 24</li> </ul>	<ul style="list-style-type: none"> <li>• Share-based payment</li> <li>• Business Combinations</li> <li>• Operating Segments</li> <li>• Property, Plant and Equipment</li> <li>• Related Party Disclosures</li> </ul>	<p>The 2010-2012 and 2012-2014 improvement processes have provided for some amendments to the mentioned standards.</p> <p>No significant effects are expected for the Company.</p>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

<ul style="list-style-type: none"> <li>• IAS 38</li> <li>• IFRS 5</li>   <li>• IFRS 7</li> <li>• IAS 19</li> <li>• IAS 34</li> </ul>	<ul style="list-style-type: none"> <li>• Intangible Assets</li> <li>• Non-current Assets held for Sale and Discontinued Operations</li> <li>• Financial Instruments: Disclosures</li> <li>• Employee Benefits</li> <li>• Interim Financial Reporting</li> </ul>	
IAS 16 <i>amendment</i> and IAS 38 <i>amendment</i>	Property, Plant and Equipment and Intangible Assets	The amendments clarify that the use of revenue-based methods is not appropriate to calculate the depreciation of an asset. The effect on the Company deriving from the application of such standard is currently being defined.
IAS 1 <i>amendment</i>	Disclosure Initiative	The amendments made to the standard are mainly aimed at providing for a clearer recognition of the items attributable to other comprehensive income, facilitating the breakdown into comprehensive income components and the amount of other comprehensive income pertaining to associates and joint ventures accounted for at equity.
IAS 27	Separate Financial Statements	The standard provides for the possibility of measuring, in separate financial statements, investments in subsidiaries, joint ventures and associates according to the equity method.
IFRS 9	Financial instruments	The standard significantly amends the accounting treatment of financial instruments and in its final version, will replace IAS 39. At present, the IASB has modified the requirements for the classification and measurement of financial assets that are currently in the scope of IAS 39. Furthermore, the IASB has published a document on the principles for the measurement of financial instruments at amortised cost and for recognising impairment, if any. The new overall approach to financial instruments is currently under discussion by the various competent bodies and for the time being the date of adoption is not foreseeable. The effect on the Company deriving from the application of such standard is currently under analysis.
IFRS 15	Revenue from contracts with customers	The standard redefines how to account for revenue, which shall be recognised when the control of goods and services is transferred to customers, and envisages additional disclosures to be provided. The effect on the Company deriving from the application of such standard is currently under analysis.

There are a number of standards or amendments to existing principles issued by the IASB or new interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for which the revision and approval project is still under way. Specifically, reference is made to IFRS 16 “Leases”, which includes significant amendments to the methods to account for leases in the accounts of both lessors and lessees.

## **4. SIGNIFICANT ISSUES AND CRITICAL ESTIMATES BY MANAGEMENT**

### **4.1 *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 contracts denominated in currencies other than the functional currency, the Company usually enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment of the definition of commercial contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts). 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. These hedges are recognised 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.

### **4.2 *Provisions for risks and estimated final costs of long-term contracts***

The Company operates in a sector 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 realised 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 any possible delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Company 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.

Furthermore, the Company's operations regard sectors and markets where many disputes, which are brought by and against the Company, are settled only after a considerable period of time, especially in cases where the customer is a government entity, making it necessary for management to estimate the outcome of such disputes.

### **4.3 *Impairment of assets***

In accordance with the accounting standards applied by the Company, property, plant and equipment and intangible assets are tested for impairment, in order to establish whether there is any evidence of an impairment loss. This loss must be recognised through a write-down when there is evidence that it may be difficult to recover the related net carrying amount through the use of the asset. The impairment test requires the directors to conduct subjective assessments based on the information available within the Company and in the market, as well as from historical experience. Furthermore, if it is established that there is a potential impairment loss, the Company takes steps to calculate the same by using suitable valuation techniques. The



correct identification of evidence of any potential impairment loss, as well as the estimates for calculating the same, depend on some factors that may vary over time, affecting the measurements and estimates made by the directors.

#### **4.4 *Amortisation and depreciation***

The cost of property, plant and equipment and intangible assets is usually amortised and depreciated on a straight-line basis over the estimated useful life of the related assets. The amortisation of capitalised development costs and the depreciation of equipment intended for specific production activities are carried out according to the expected disposal plans. The economic useful life of the Company's property, plant and equipment and intangible assets is calculated by the directors at the time when the asset has been acquired: it is based on the historical experience for similar assets, market conditions and forecasts regarding future events that may have an impact on the useful life, including technology changes. Therefore, the actual useful life may differ from the estimated one. Periodically the Company assesses technology changes in the sector and the sales plans in order to update the residual useful life. This periodical updating may entail a change in the amortisation and depreciation period and, therefore, of the amortisation and depreciation rates to be applied in future financial years.

## **5. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS**

We report no significant non-recurring events or transactions which occurred during the period under examination.

## **6. SIGNIFICANT POST BALANCE SHEET EVENTS**

With effect from 1 January 2016 Oto Melara was merged by incorporation into the parent company Finmeccanica Società per Azioni (hereinafter also referred to as "Finmeccanica"), with the consequent dissolution of the Company. Within a larger process of structuring the Finmeccanica Group into divisions, aimed at providing it with an increasingly effective governance system and improved industrial efficiency. As a whole, the process has entailed the merger by incorporation of Oto Melara S.p.A. and WASS S.p.A., as well as the partial demerger of Selex ES S.p.A., Alenia Aermacchi S.p.A. and AgustaWestland S.p.A., into Finmeccanica. Specifically, Oto Melara will form part of the Defence Systems division, one of the seven divisions into which Finmeccanica is currently structured, within the sector of Electronics, Defence and Security Systems.

As regards the information reported above in relation to the VBM Freccia programme to be intended for the Second Brigade of the Italian Army, it should be noted that in January the Italian Defence Administration expressed its intention to enter into a contract for the acquisition of 30 VBM 8x8 Freccia vehicles, in Combat version, with the related logistical support, asking the consortium company to submit its bid.

## 7. INTANGIBLE ASSETS

	Development costs	Patent rights and similar rights	Total
<i>1 January 2014</i>			
Cost	25,979	12,273	<b>38,252</b>
Amortisation and impairment losses	(23,088)	(10,447)	<b>(33,535)</b>
<b>Carrying amount</b>	<b>2,891</b>	<b>1,826</b>	<b>4,717</b>
Investments	-	1,276	<b>1,276</b>
Amortisation	(1,713)	(1,220)	<b>(2,933)</b>
Other changes	-	38	<b>38</b>
<b>31 December 2014</b>	<b>1,178</b>	<b>1,920</b>	<b>3,098</b>
broken down as follows:			
Cost	25,979	13,587	<b>39,566</b>
Amortisation and impairment losses	(24,801)	(11,667)	<b>(36,468)</b>
<b>Carrying amount</b>	<b>1,178</b>	<b>1,920</b>	<b>3,098</b>
Investments	-	597	<b>597</b>
Amortisation	(845)	(1,170)	<b>(2,015)</b>
<b>31 December 2015</b>	<b>333</b>	<b>1,347</b>	<b>1,680</b>
broken down as follows:			
Cost	25,979	14,184	<b>40,163</b>
Amortisation and impairment losses	(25,646)	(12,837)	<b>(38,483)</b>
<b>Carrying amount</b>	<b>333</b>	<b>1,347</b>	<b>1,680</b>

The item showed an increase of €th. 1,418 compared to 31 December 2014. Specifically:

- “Development costs” include the residual value of capitalised development costs relating to the 30 mm OWS turret;
- “Industrial patent and intellectual property rights” are mainly made of the residual value of software packages used in different company areas. They are expected to be amortised over three years.

The amount of contractual commitments in place at 31 December 2015 for the acquisition of intangible assets was €th. 626 (€th. 684 at 31 December 2014).

## 8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Tangible assets in progress	Other tangible assets	Total
<b>1 January 2014</b>						
Cost	10	30,976	41,498	322	9,098	<b>81,904</b>
Amortisation, depreciation and impairment losses	(1)	(26,300)	(34,170)		(7,784)	<b>(68,255)</b>
<b>Carrying amount</b>	<b>9</b>	<b>4,676</b>	<b>7,328</b>	<b>322</b>	<b>1,314</b>	<b>13,649</b>
Investments	12	1,206	2,773	1,028	241	<b>5,260</b>
Sales		(3)				<b>(3)</b>
Depreciation	(2)	(1,038)	(2,890)		(435)	<b>(4,365)</b>
Other changes		3	214	(255)		<b>(38)</b>
<b>31 December 2014</b>	<b>19</b>	<b>4,844</b>	<b>7,425</b>	<b>1,095</b>	<b>1,120</b>	<b>14,503</b>
broken down as follows:						
Cost	22	32,182	44,485	1,095	9,339	<b>87,123</b>
Amortisation, depreciation and impairment losses	(3)	(27,338)	(37,060)	-	(8,219)	<b>(72,620)</b>
<b>Carrying amount</b>	<b>19</b>	<b>4,844</b>	<b>7,425</b>	<b>1,095</b>	<b>1,120</b>	<b>14,503</b>
Investments		1,930	2,452	120	154	<b>4,656</b>
Sales		(2)				<b>(2)</b>
Depreciation	(2)	(1,110)	(3,312)		(393)	<b>(4,817)</b>
Other changes			1,095	(1,095)		<b>-</b>
<b>31 December 2015</b>	<b>17</b>	<b>5,662</b>	<b>7,660</b>	<b>120</b>	<b>881</b>	<b>14,340</b>
broken down as follows:						
Cost	22	34,110	48,032	120	9,493	<b>91,777</b>
Amortisation, depreciation and impairment losses	(5)	(28,448)	(40,372)	-	(8,612)	<b>(77,437)</b>
<b>Carrying amount</b>	<b>17</b>	<b>5,662</b>	<b>7,660</b>	<b>120</b>	<b>881</b>	<b>14,340</b>

The item showed a decrease of €th. 163 compared to 31 December 2014. Specifically:

- “Land and buildings” are only made up of light constructions used by a production department and by the Training Center. The properties used by the Company for the conduct of its business have been leased from Finmeccanica Group Service (former Finmeccanica Group Real Estate).
- “Equipment” includes specific tangible assets for job orders amounting to €th. 2,646.
- “Tangible assets in progress” are mainly made up of production equipment not yet operating in the period under consideration.

The amount of contractual commitments in place at 31 December 2015 for the acquisition of tangible assets was €th. 3,559 (€th. 4,315 at 31 December 2014).

## 9. EQUITY INVESTMENTS

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Opening balance</b>	1,398	393
Acquisitions/subscriptions and capital increases	238	1,005
<b>Closing balance</b>	<b>1,636</b>	<b>1,398</b>

List of equity investments at 31 December 2015

Company name	HQ	Number of shares/quotas	Nominal value (Euro units)	Book value (€th.)	Ownership %
<b><u>Equity investments</u></b>					
<u>Subsidiaries</u>					
OTO Melara Iberica	Valencia	1,083,000	1,083,000	1083	100%
OTO MELARA DO BRASIL	Rio de Janeiro	1,499,999	475,970 (*)	476	99.99%
<u>Associates</u>					
IVECO - OTO Melara Scrl	Rome	1	20,000	24	50%
<u>Other companies</u>					
Consorzio Univesitario Ingegneria della Qualità	Pisa		5,165	5	6.24%
Consorzio CALS - ITALIA	Rome		11,190	11	16.66%
SCAM Srl	La Spezia	2	3,099	3	2%
S.I.I.T. Scpa	Genoa	138	13,800	14	2.30%
Distretto Ligure delle Tecnologie Marine Scarl	La Spezia	1	20,000	20	1.75%
<b><u>Total</u></b>				<b><u>1,636</u></b>	

(\*) relating to the total payment of share capital corresponding to BRL 1,499,999

The breakdown of equity investments and related changes are further analysed in appendices nos. 1 and 2 attached hereto.

The equity investments showed an increase of €th. 238 compared to 31 December 2014, as a result of the payment of the last tranche of share capital of subsidiary OTO MELARA DO BRASIL.

## 10. INVENTORIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Raw materials, supplies and consumables	77,645	71,256
Work in progress and semi-finished goods	69,959	21,987
Finished goods and merchandise	22,765	20,867
Advances to suppliers	8,227	6,559
	<b><u>178,596</u></b>	<b><u>120,669</u></b>

Inventories showed an increase of €th. 57,927 compared to 31 December 2014, relating in particular to the work in progress and semi-finished products (€th. 47,972) and essentially arising from work in progress relating to the construction of the first lot of VBM vehicles for the Second Brigade of the Italian Army. As already mentioned in the introduction of the report, pending the award of the order by the Italian defence

Administration, which is expected by 2016, the production operations already started have been recognised under inventories and measured at production costs.

## 11. CONTRACT WORK IN PROGRESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Contract work in progress (gross)	223,844	257,392
Final losses (positive wip)	(1,693)	(922)
Progress payments and advances from customers	(114,675)	(166,129)
<b>Contract work in progress (net)</b>	<b>107,476</b>	<b>90,341</b>
Progress payments and advances from customers (gross)	199,222	162,457
Contract work in progress	(140,542)	(89,369)
Final losses (negative wip)	3,014	1,585
<b>Progress payments and advances from customers (net)</b>	<b>61,694</b>	<b>74,673</b>
<b>Net value</b>	<b>45,782</b>	<b>15,668</b>

“Contract work in progress” are recognised net of advances already collected and instalment invoices, where the related orders show a positive balance; in the case that the balance of work in progress, determined in this manner, is negative, this amount is recognised as a liability under “advances”. Below is a breakdown of the net balance of contract work in progress and progress payments and advances from customers:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cost incurred and margins recognised, net of losses	359,679	344,254
Progress billings	(313,897)	(328,586)
	<b>45,782</b>	<b>15,668</b>

The main contracts that make up the balance are the Supply of VBM Freccia vehicles to the Italian Army - 1st Brigade (gross work in progress of €th. 47,347 and gross advances of €th. 31,426), the Supply of 76/62SR naval guns for the FREMM France programme (gross work in progress of €th. 21,247 and gross advances of €th. 24,405) and the Paveway Supply for Netma (gross work in progress of €th. 20,840 and gross advances of €th. 25,159).

## 12. TRADE AND FINANCIAL RECEIVABLES

	<u>31 December 2015</u>		<u>31 December 2014</u>	
	Trade	Financial	Trade	Financial
Receivables	70,529	-	68,337	-
(Impairments)	(6,718)	-	(6,076)	-
Related party current receivables (Note 29)	50,708	46,248	65,893	83,350
	<b>114,519</b>	<b>46,248</b>	<b>128,154</b>	<b>83,350</b>

The breakdown of trade receivables by maturity, currency and geographical area is reported in appendices nos. 4, 5 and 6 attached to these Notes to the Financial Statements.

### **13. OTHER CURRENT ASSETS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Derivatives	584	1,939
Prepaid expenses - current portion	738	1,144
Receivables from employees and social security	878	865
Indirect tax receivables	263	302
Other related party receivables (Note 29)	26,160	25,330
Other assets	4,041	4,370
	<u>32,664</u>	<u>33,950</u>

Specifically, “receivables from others” mainly relate to receivables for guarantee deposits, advances and credit positions other than those claimed from third parties, while “prepaid expenses” relate to deferrals of insurance premiums and other deferrals. Related party receivables relate to the parent company Finmeccanica and concern the transfer of tax items, within the consolidated IRES tax and Group VAT procedure.

The breakdown of assets by maturity, currency and geographical area are reported in appendices nos. 4, 5 and 6 attached to these Notes to the Financial Statements.

### **14. CASH AND CASH EQUIVALENTS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Current accounts	571	693
Deposit current accounts	2,608	6,149
Cash	2	2
	<u>3,181</u>	<u>6,844</u>

### **15. EQUITY**

#### **Share capital**

This amounts to €th. 92,308 and shows no changes compared to 31 December.

The share capital is fully subscribed and paid-up and is divided into 92,307,722 shares with a par value of € 1 each. At 31 December 2015, Finmeccanica S.p.A. held 100% of shares and carried out direction and coordination.

#### **Other reserves**

These amount to €th. 59,512, showing a decrease of €th. 2,395 compared to 31 December 2014. The table below reports the breakdown of the change compared to the previous year:

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>At the beginning of the year</b>	<b>61,907</b>	<b>55,311</b>
Dividends paid (-)	(24,000)	(21,230)
Cash flow hedge reserve	(238)	2,153
Capital gain from operations under common control	-	912
Revaluation reserve of defined benefit plans	(50)	(1,244)
Net profit (loss)	21,893	26,005
<b>At the end of the year</b>	<b>59,512</b>	<b>61,907</b>

The equity broken down by available and distributable reserves is shown in appendix no. 7.

## 16.LOANS AND BORROWINGS

	<u>31 December 2015</u>			<u>31 December 2014</u>		
	<b>Non- current</b>	<b>Current</b>	<b>Total</b>	<b>Non- current</b>	<b>Current</b>	<b>Total</b>
Bank loans and borrowings	-	1	1	-	1	1
Related party loans and borrowings (Note 29)	-	1,612	1,612	-	1,387	1,387
	<b>-</b>	<b>1,613</b>	<b>1,613</b>	<b>-</b>	<b>1,388</b>	<b>1,388</b>

The net financial position posted a positive value, passing from €th. 88,806 at the end of 2014 to €th. 47,816 at the end of the 2015 financial year. The decrease of €th. 40,990 in net financial receivables included an amount of €th. 24,000 relating to the payment of the 2014 dividends to the Parent Company. Below is the breakdown of the net financial position:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cash and cash equivalents	(2)	(2)
Securities held for trading	(3,179)	(6,842)
<b>Liquidity</b>	<b>(3,181)</b>	<b>(6,844)</b>
<b>Current loans and receivables</b>	<b>(46,248)</b>	<b>(83,350)</b>
Current bank loans and borrowings	1	1
Other current loans and borrowings	1,612	1,387
<b>Current financial debt</b>	<b>1,613</b>	<b>1,388</b>
<b>Net current financial debt (funds)</b>	<b>(47,816)</b>	<b>(88,806)</b>
<b>Net financial debt</b>	<b>(47,816)</b>	<b>(88,806)</b>

## 17. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Disputes	Product guarantees	Penalties	Restructuring	Other provisions	Total
<i>1 January 2014</i>						
Current	1,320	26,250	7,955	6,554	11,575	<b>53,654</b>
Non-current				231		<b>231</b>
	<b>1,320</b>	<b>26,250</b>	<b>7,955</b>	<b>6,785</b>	<b>11,575</b>	<b>53,885</b>
Allocations	600	5,670	1,773		4,855	<b>12,898</b>
Uses			(3,096)	(5,591)		<b>(8,687)</b>
Reversals	(4)	(11,368)	(361)		(4,217)	<b>(15,950)</b>
Other changes				147		<b>147</b>
<i>31 December 2014</i>	<b>1,916</b>	<b>20,552</b>	<b>6,271</b>	<b>1,341</b>	<b>12,213</b>	<b>42,293</b>
<i>Broken down as follows:</i>						
Current	1,916	20,552	6,271	1,245	12,213	<b>42,197</b>
Non-current	-	-	-	96	-	<b>96</b>
	<b>1,916</b>	<b>20,552</b>	<b>6,271</b>	<b>1,341</b>	<b>12,213</b>	<b>42,293</b>
Allocations	440	6,768	3,408		5,833	<b>16,449</b>
Uses	(605)		(1,553)	(197)	(22)	<b>(2,377)</b>
Reversals		(6,592)	(1,632)	(600)	(2,997)	<b>(11,821)</b>
Other changes	(3)			8		<b>5</b>
<i>31 December 2015</i>	<b>1,748</b>	<b>20,728</b>	<b>6,494</b>	<b>552</b>	<b>15,027</b>	<b>44,549</b>
<i>Broken down as follows:</i>						
Current	1,748	20,728	6,494	552	15,027	<b>44,549</b>
Non-current	-	-	-	-	-	<b>-</b>
	<b>1,748</b>	<b>20,728</b>	<b>6,494</b>	<b>552</b>	<b>15,027</b>	<b>44,549</b>

Specifically note the following:

- The “provision for disputes” includes amounts set aside to cover risks and charges arising from any possible negative outcome of disputes to be settled, as well as charges arising from the settlement of a dispute with a foreign counterparty. In the application of the relevant accounting standards, any possible liabilities were allocated for probable and quantifiable risks;
- The “provision for product guarantees” includes amounts set aside to meet guarantee commitments in consideration of goods delivered;
- The “provision for penalties” includes amounts set aside for risks from penalties in consideration of supplies;
- The “provision for corporate restructuring” is intended to cover any possible charges arising from corporate restructuring operations;
- “other provisions” include amounts set aside to cover other risks and charges. They are mainly made up of the “provision for charges from orders”, which includes accruals for costs to be incurred against some supply orders, and of the “provision for offset charges”, which is intended to cover charges arising from offsetting obligations originated from some supply contracts with foreign countries.



## 18.EMPLOYEE BENEFIT OBLIGATIONS

This item is made up of the following items:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Employee benefits obligations	10,784	12,347
Defined contribution plans	828	836
	<u><b>11,612</b></u>	<u><b>13,183</b></u>

“Payables for defined contribution plans” include payables to supplementary pension funds (Generali Italia, Cometa and other funds) and to the Treasury Fund set up at INPS (Italian Social Security Institute). The item also includes the amounts of employee benefits obligations accrued in the financial year, which are no longer allocated to the employee benefits obligations following the reform of the social security system.

Below are the changes recorded in the severance pay obligation:

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Opening balance</b>	12,347	13,248
Net interest expense	120	219
Remeasurement	50	1,244
- Actuarial losses (gains) through equity - financial assumptions	(183)	1,046
- Actuarial losses (gains) through equity resulting from adjustments based on the experience	233	198
Benefits paid	(1,724)	(2,364)
Other changes	(9)	
<b>Closing balance</b>	<u><b>10,784</b></u>	<u><b>12,347</b></u>

The amount recognised in the income statement is made up of the “interest cost” component. Below are the main actuarial assumptions used to calculate the Severance Pay:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Discount rate (annual)	1.222%	0.938%
Inflation rate	1.830%	2.000%

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

	<u>31 December 2015</u>		<u>31 December 2014</u>	
	<u>-0.25%</u>	<u>+0.25%</u>	<u>-0.25%</u>	<u>+0.25%</u>
Discount rate (annual)	137	(133)	171	(165)
Inflation rate	(116)	118	(138)	140

## 19. OTHER CURRENT AND NON-CURRENT LIABILITIES

	31 December 2015		31 December 2014	
	Non-current	Current	Non-current	Current
Derivatives		69		229
Employee obligations	616	11,807	639	13,333
Deferred income	-	90	-	107
Amounts due to social security institutions	119	5,710	120	6,500
Indirect tax liabilities	-	1,930	-	4,447
Other payables to related parties (Note 29)	-	10,867	-	6,439
Other liabilities	-	20,581	-	21,160
	<b>735</b>	<b>51,054</b>	<b>759</b>	<b>52,215</b>

Other liabilities are mainly made up of:

- “Employee obligations”, principally pay in lieu of leave and, as regards the non-recurring portion, severance benefits;
- “Amounts due to social security institutions”, which include payables to these institutions for social security, welfare and insurance contributions;
- “Payables to the Tax Office”, which mainly include the IRPEF (Personal Income) tax which the Company deducted from self-employed workers as withholding agent and to be paid to the tax office;
- “Other liabilities”, including royalties payable, commissions, various items to insurance firms, professionals, forwarding agents and other creditors and penalties that have accrued and are certain.

The breakdown for liabilities by maturity, foreign currency and geographical area is reported in appendices nos. 8, 9 and 10 attached to these Notes.

## 20. TRADE PAYABLES

	31 December 2015	31 December 2014
Suppliers	136,654	113,941
Trade payables to related parties (Note 29)	62,989	50,576
	<b>199,643</b>	<b>164,517</b>

The breakdown of liabilities by maturity, currency and geographical area is reported in appendices nos. 8, 9 and 10 attached to these Notes to the Financial Statements.

## 21. GUARANTEES AND OTHER COMMITMENTS

As at 31 December 2015, the Company had the following outstanding guarantees:

	31 December 2015	31 December 2014
Guarantees in favour of related parties	330,945	252,356
Guarantees in favour of third parties	185,646	193,305

Unsecured guarantees given	<u>516,591</u>	<u>445,661</u>
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## 22. REVENUE

	<u>2015</u>	<u>2014</u>
Revenue from sales	162,069	152,323
Revenue from services	29,896	39,994
Change in work in progress	44,360	23,792
Revenue from related parties (Note 29)	<u>119,859</u>	<u>173,833</u>
	<u><b>356,184</b></u>	<u><b>389,942</b></u>

The main revenues from third-party customers include fees invoiced against the supplies of naval guns and machine gunners, ammunitions and systems for aeronautics, as well as spare parts and logistical support supplied to various customers.

The breakdown of revenues by geographical area, also considering those from related parties, is accounted for by 49% in the domestic market and 51% in the foreign market.

## 23. OTHER OPERATING INCOME (EXPENSES)

	<u>2015</u>			<u>2014</u>		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Gains/losses on sales of intangible asset, property, plant and equipment	4	(1)	3	49	(3)	46
Reversals (accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	12,206	(19,194)	(6,988)	16,358	(12,656)	3,702
Exchange rate difference on operating items	675	(814)	(139)	317	(632)	(315)
Insurance reimbursements	377	-	377	-	-	-
Royalties and proceeds from licences	512	-	512	1,226	-	1,226
Indirect taxes	-	(692)	(692)	-	(551)	(551)
Other operating income (expenses) from/to related parties (Note 29)	66	(1,733)	(1,667)	110	(995)	(885)
Other operating income (expenses)	<u>2,694</u>	<u>(4,897)</u>	<u>(2,203)</u>	<u>1,444</u>	<u>(5,320)</u>	<u>(3,876)</u>
	<u><b>16,534</b></u>	<u><b>(27,331)</b></u>	<u><b>(10,797)</b></u>	<u><b>19,504</b></u>	<u><b>(20,157)</b></u>	<u><b>(653)</b></u>

As regards other operating income, accruals to provisions, totalling €th. 11,221, relate to the use of the provision for product guarantees (€th. 6,592), the use of the provision for penalties (€th. 1,632) and other provisions (€th. 2,997).

As regards other operating expenses, note the following:

- Accruals to provisions for risk and charges concern the provision for product guarantees (€th. 6,768) and other provisions (€th. 9,241). The latter provisions are made up of accruals for the provision for penalties (€th. 3,408), for costs to be incurred against some supply orders (€th. 5,413) and offsetting charges (€th. 420);

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- Other operating expenses, totalling €th. 4,897, are made up of commissions on sureties and bank charges (€th. 2,276), membership fees (€th. 213), penalties (€th. 1,919) and other sundry charges (€th. 489).

### 24. PURCHASES AND PERSONNEL EXPENSE

	<b>2015</b>	<b>2014</b>
Purchase of materials from third parties	127,353	106,669
Change in inventories of raw materials	(6,389)	887
Costs for purchases from related parties (Note 29)	58,081	38,117
<b>Purchases</b>	<b>179,045</b>	<b>145,673</b>
Services rendered by third parties	75,487	79,058
Costs of rents and operating leases	683	598
Royalties	616	604
Software fees	835	573
Services rendered by related parties (Note 29)	24,412	28,184
<b>Services</b>	<b>102,033</b>	<b>109,017</b>
Wages and salaries	49,940	50,232
Social security contributions	14,833	15,653
Costs related to defined-contribution plans	3,266	3,261
Costs related to other defined-benefit plans	440	600
Restructuring costs - net	(600)	-
Other personnel expenses	1,962	3,360
<b>Personnel expenses</b>	<b>69,841</b>	<b>73,106</b>
<b>Change in finished goods, work in progress and semi-finished products</b>	<b>(49,871)</b>	<b>8,210</b>
Personnel expenses	(185)	(199)
Materials	(746)	(920)
Other costs	(10)	(46)
<b>Internal work capitalised</b>	<b>(941)</b>	<b>(1,165)</b>
<b>Total purchases and personnel expenses</b>	<b>300,107</b>	<b>334,841</b>

### 25. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	<b>2015</b>	<b>2014</b>
Amortisation of intangible assets	2,015	2,933
<i>Development costs</i>	845	1,713
<i>Other intangible assets</i>	1,170	1,220
Depreciation of property, plant and equipment	4,817	4,365
Impairment	-	-
<i>operating receivables</i>	643	1,145
	<b>7,475</b>	<b>8,443</b>

## 26. FINANCIAL INCOME AND EXPENSE

	2015			2014		
	Income	Expenses	Net	Income	Expenses	Net
Interest and commissions	101	(759)	(658)	86	(1,551)	(1,465)
Fair value gains (losses) through profit or loss	19	(6)	13	13	(21)	(8)
Exchange rate differences	104	(72)	32	408	(267)	141
Interest cost on defined-benefit plans	-	(120)	(120)	-	(219)	(219)
Financial income (expense) - related parties (Note 29)	37	(2,510)	(2,473)	60	(4,324)	(4,264)
Other financial income and expense	-	(5)	(5)	-	(12)	(12)
	<b>261</b>	<b>(3,472)</b>	<b>(3,211)</b>	<b>567</b>	<b>(6,394)</b>	<b>(5,827)</b>

## 27. INCOME TAXES

	2015	2014
IRES (corporate income tax)	11,464	6,857
IRAP (reg. tax on production)	1,835	3,022
Other income taxes (foreign)	99	45
Tax related to previous periods	(26)	344
Deferred tax – net	(671)	3,906
	<b>12,701</b>	<b>14,174</b>

Following is an analysis of the difference between the theoretical and effective tax rate with reference to the same periods in the 2014 and 2015 financial years:

	31 December 2015			31 December 2014		
	Base	Tax	Impact	Base	Tax	Impact
			Theoretical			Effective
<b>IRES tax</b>						
Profit (loss) before income taxes	34,594	9,513	27.5%	40,179	11,049	27.5%
Permanent increases	2,642	727		1,594	438	
Temporary increases	22,182	6,100		16,278	4,476	
Permanent decreases	(1,122)	(308)		(3,650)	(1,004)	
Temporary decreases	(16,610)	(4,568)		(29,464)	(8,103)	
<b>Taxable result</b>	<b>41,686</b>	<b>11,464</b>	<b>33.1%</b>	<b>24,937</b>	<b>6,856</b>	<b>17.1%</b>
<b>IRAP tax</b>						
<b>A-B IRAP tax</b>	75,192	2,932	3.9%	119,679	4,667	3.9%
Permanent increases	3,434	134		4,031	157	
Temporary increases	21,455	837		13,771	537	
Permanent decreases	(625)	(24)		(529)	(21)	
Temporary decreases	(15,325)	(598)		(22,394)	(873)	
Deductions for Tax Wedge	(37,087)	(1,446)		(37,060)	(1,445)	
<b>Taxable result</b>	<b>47,044</b>	<b>1,835</b>	<b>2.4%</b>	<b>77,498</b>	<b>3,022</b>	<b>2.5%</b>
<b>OTHERS</b>						
Current taxes from previous financial years		(26)			344	
Deferred tax assets		(735)			3,898	
Deferred tax liabilities		64			8	
Foreign taxes		99			45	
<b>Total effective taxes in the Income Statement</b>		<b>12,701</b>	<b>36.71%</b>		<b>14,173</b>	<b>35.28%</b>

Deferred taxes and their related receivables and payables at 31 December 2015 were originated by the following temporary differences:

	Separate Income Statement		Balance Sheet	
	assets	liabilities	assets	liabilities
Inventory write-downs	566	-	7,509	-
Provisions for risks and charges	556	-	13,888	-
Other	(387)	64	389	330
<b>Total</b>	<b>735</b>	<b>64</b>	<b>21,786</b>	<b>330</b>
Cash-flow hedge derivatives		(90)		498
<b>Total comprehensive income (expense)</b>	<b>735</b>	<b>(26)</b>	<b>21,786</b>	<b>828</b>

Deferred tax assets (€th. 735) have been calculated by taking account of the reversal of taxes recognized in previous financial years (€th. 5,825), as well as of any and all adjusted deductible temporary differences (“valuation allowance”), in accordance with the principle of prudence, in order to take account of their probable recovery in future financial years. As a result of the reduction in the IRES tax rate, from 27.5% to 24.0%, which is expected from 1 January 2017, as required by the 2016 Stability Act, the amount of deferred taxes has been adjusted for the amount that is expected to be reversed after 1 January 2017, with a net cost of €th. 911.

Deferred tax liabilities include an amount of €th. 498 relating to deferred taxes allocated against a direct entry under equity, on derivatives accounted for according to the cash-flow hedge method.

## 28. CASH FLOWS FROM OPERATING ACTIVITIES

	2015	2014
Net result	21,894	26,005
Amortisation, depreciation and impairment losses	7,475	8,443
Income taxes	12,701	14,174
Net allocations to the provisions for risks and inventory write-downs	7,833	(4,617)
Capital gains on sale of property, plant and equipment and intangible assets	(3)	(46)
Net financial expense /(income)	3,211	5,826
	<b>53,111</b>	<b>49,785</b>

Changes in trade receivables and payables, work in progress and inventories, are as follows:

	2015	2014
Inventories	(58,264)	6,391
Contract work in progress and progress payments and advances from customers	(32,982)	9,702
Trade receivables and payables	47,234	267
<b>Change in trade receivables/payables, work in progress/progress payments and inventories</b>	<b>(44,012)</b>	<b>16,360</b>

“Changes in other operating assets and liabilities, provisions for risks and charges” are as follows:

	2015	2014
Payment of TFR	(1,724)	(2,364)
Changes in provisions for risks and other operating items	(13,524)	(14,751)
<b>Changes in other operating assets and liabilities</b>	<b>(15,248)</b>	<b>(17,115)</b>

## 29. RELATED PARTY TRANSACTIONS

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

### RECEIVABLES at 31 December 2015

	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
<b><u>Parent Companies</u></b>					
Finmeccanica S.p.A.		46,248	148	26,150	72,546
<b><u>Subsidiaries</u></b>					
Oto Melara Iberica SAU			2,826		2,826
<b><u>Associates</u></b>					
IVECO - OTO Melara Scrl			18,022		18,021
<b><u>Affiliates</u></b>					
AgustaWestland S.p.A.			3,567		3,567
Distretto Ligure delle Tecnologie			245		245
Fata Logistic Systems S.p.A.				10	11
Finmeccanica Global Services S.p.A.			139		139
MBDA SAS			5,220		5,220
Orizzonte Sistemi Navali S.p.A.			4,233		4,233
Selex ES S.p.A.			14,561		
<b><u>MEF Affiliates</u></b>					
Delfi S.p.A.			128		128
Enel S.p.A.	2				2
Fincantieri S.p.A.			1,619		1,619
<b>Total</b>	<b>2</b>	<b>46,248</b>	<b>50,708</b>	<b>26,160</b>	<b>123,118</b>
<b>% against total for the period</b>	<b>2.0%</b>	<b>100.0%</b>	<b>44.3%</b>	<b>95.8%</b>	

### RECEIVABLES at 31 December 2014

	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
<b><u>Parent Companies</u></b>					
Finmeccanica S.p.A.		83,350	168	25,330	108,848
<b><u>Subsidiaries</u></b>					
Oto Melara Iberica SAU			1,628		1,628
<b><u>Associates</u></b>					
IVECO - OTO Melara Scrl			31,812		31,812
<b><u>Affiliates</u></b>					
AgustaWestland S.p.a.			7,927		7,927
Cisdeg S.p.A.			15		15
Distretto Ligure delle Tecnologie			245		245
DRS Technologies Inc			131		131
Finmeccanica Global Services S.p.A.			146		146
MBDA SAS			7,044		7,044
Orizzonte Sistemi Navali S.p.A.			6,686		6,686
Selex ES S.p.A.			8,609		8,609
<b><u>MEF Affiliates</u></b>					
Delfi S.p.A.			5		5
Enel S.p.A.	2				2
Fincantieri S.p.A.			1,477		1,477
<b>Total</b>	<b>2</b>	<b>83,350</b>	<b>65,893</b>	<b>25,330</b>	<b>174,575</b>
<b>% against total for the period</b>	<b>1.8%</b>	<b>100.0%</b>	<b>51.4%</b>	<b>95.6%</b>	

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

The following should be noted:

- Trade receivables are commented on later, along with revenue from related parties;
- Current loans and receivables from the Parent Company concern the financial receivable made up of the credit balance of the current account held with the same;
- Other receivables from the Parent Company mainly relate to the items transferred as a result of the adoption of the Group VAT procedure and tax consolidation. The amount includes:
  - The residual receivable relating to the request for IRES tax refund for non-deduction of the IRAP tax relating to costs for subordinate staff and staff treated as such, pursuant to Decree Law no. 201 of 6 December 2011, art. 2, paragraph 1 - quater for €th. 1,465;
  - The residual receivable relating to the request for the refund of 10% of IRAP tax recoverable from the IRES taxable base (pursuant to Decree Law no. 185 of 29 November 2008) for €th. 207;
  - The VAT credit transferred to the Parent Company within the Group VAT procedure for €th. 24,478.

### *PAYABLES at 31 December 2015*

	Current loans and borrowings	Trade payables	Other current payables	Total
<b><u>Parent Companies</u></b>				
Finmeccanica S.p.A.	30	2,798	5,153	7,981
<b><u>Subsidiaries</u></b>				
Oto Melara Iberica SAU	1,582	5,708		7,290
Oto Melara do Brasil Ltda		252		252
<b><u>Associates</u></b>				
IVECO - OTO Melara Scrl			5,294	5,294
<b><u>Affiliates</u></b>				
AgustaWestland S.p.A.		9		9
Distretto Ligure delle Tecnologie		13		13
DRS Technologies Inc		115		115
Fata Logistic Systems S.p.A.		553		553
Finmeccanica Global Services S.p.A.		1,729		1,729
Larimart S.p.A.		13,776		13,776
MBDA SAS		1	420	421
Orizzonte Sistemi Navali S.p.A.		294		294
Selex ES S.p.A.		37,540		37,540
Telespazio Iberica SL		200		200
<b><u>MEF affiliates</u></b>				
Fincantieri S.p.A.		1		1
<b>Total</b>	<b>1,612</b>	<b>62,989</b>	<b>10,867</b>	<b>75,468</b>
	<b>99.9%</b>	<b>31.6%</b>	<b>21.4%</b>	



## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### PAYABLES at 31 December 2014

	Current loans and borrowings	Trade payables	Other current payables	Total
<b><u>Parent Companies</u></b>				
Finmeccanica S.p.A.		2,151		2,151
<b><u>Subsidiaries</u></b>				
Oto Melara Iberica SAU	1,387	1,624		3,011
Oto Melara do Brasil Ltda		159		159
<b><u>Associates</u></b>				
IVECO - OTO Melara Scrl			5,989	5,989
<b><u>Affiliates</u></b>				
AgustaWestland S.p.A.			130	130
DRS Technologies Inc		165		165
E-Security		24		24
Fata Logistic Systems S.p.A.		416		416
Finmeccanica Global Services S.p.A.		1,219		1,219
Finmeccanica UK Ltd		7		7
Larimart S.p.A.		15,405		15,405
MBDA SAS		2	320	322
Orizzonte Sistemi Navali S.p.A.		345		345
Selex ES S.p.A.		29,038		29,038
Selex Galileo Inc		10		10
<b><u>Consortiums</u></b>				
Consorzio Cals Italia		6		6
<b><u>MEF affiliates</u></b>				
Fincantieri S.p.A.		5		5
<b>Total</b>	<b>1,387</b>	<b>50,576</b>	<b>6,439</b>	<b>58,402</b>
<b>% against total for the period</b>	<b>99.9%</b>	<b>30.7%</b>	<b>12.4%</b>	

The following should be noted:

- Trade payables to the Parent Company are charges for participation in exhibitions and charges of costs for the use of centralised services, such as Audit, ICT and Security and for “Management fees”;
- Payables to subsidiaries relate to the debt positions towards:
  - OTO Melara Iberica, which are made up of the payable for the supplies made by the Spanish subsidiary in consideration of job orders gained from OTO Melara; and
  - OTO Melara Do Brasil for the services rendered by the latter under an agreement for the promotion of OTO Melara products in Brazil, respectively;
- Payables to associates relate to sundry payables to the consortium IVECO – OTO Melara, including assessments for penalties accrued against delayed supplies (€th. 4,607), a contribution for the coverage of the consortium’s operating expenses (€th. 383) and payables for sundry contractual charges (€th. 304);
- The main debt positions towards affiliates are made up of trade payables for the supplies provided by SELEX ES and Larimart under production programmes in which OTO Melara is the prime contractor.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 4, 5 and 6 to these Notes.

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

Below are all income statement transactions with the Company's related parties:

### *Income statement transactions at 31 December 2015*

#### Parent Companies

Finmeccanica S.p.A.

#### Subsidiaries

Oto Melara Iberica SAU

Oto Melara do Brasil Ltda

#### Associates

IVECO - OTO Melara Scrl

#### Affiliates

AgustaWestland S.p.A.

Alenia Aermacchi S.p.A.

Distretto Ligure delle Tecnologie

DRS Technologies Inc

E-Security

Fata Logistic Systems S.p.A.

Finmeccanica Global Services S.p.A.

Finmeccanica UK Ltd

Larimart S.p.A.

MBDA SAS

Orizzonte Sistemi Navali S.p.A.

Selex ES S.p.A.

Telespazio Iberica SL

#### MEF affiliates

Catena S.p.A.

Delfi S.p.A.

Enel S.p.A.

Fincantieri S.p.A.

RAI - Radio Televisione Italiana S.p.A.

**Total**

*% against total for the period*

	Revenue	Other operating income	Costs	Other operating expenses	Financial income	Financial expenses
Finmeccanica S.p.A.			3,425	251	29	33
Oto Melara Iberica SAU	1,184		12,670		8	
Oto Melara do Brasil Ltda			375			
IVECO - OTO Melara Scrl	60,737		1,119	1,879		2,477
AgustaWestland S.p.A.	6,881		31	(130)		
Alenia Aermacchi S.p.A.			10			
Distretto Ligure delle Tecnologie			10			
DRS Technologies Inc	831		511			
E-Security						
Fata Logistic Systems S.p.A.			2,124			
Finmeccanica Global Services S.p.A.			6,177	16		
Finmeccanica UK Ltd			14			
Larimart S.p.A.			14,249	(72)		
MBDA SAS	14,713	65	(343)	100		
Orizzonte Sistemi Navali S.p.A.	24,603		247			
Selex ES S.p.A.	10,447		41,651	(311)		
Telespazio Iberica SL			200			
Catena S.p.A.	14					
Delfi S.p.A.	112					
Enel S.p.A.		1				
Fincantieri S.p.A.	337		22			
RAI - Radio Televisione Italiana S.p.A.			1			
<b>Total</b>	<b>119,859</b>	<b>66</b>	<b>82,493</b>	<b>1,733</b>	<b>37</b>	<b>2,510</b>
<i>% against total for the period</i>	<b>33.7%</b>	<b>0.4%</b>	<b>27.5%</b>	<b>6.3%</b>	<b>14.2%</b>	<b>72.3%</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Income statement transactions at 31 December 2014

#### Parent Companies

Finmeccanica S.p.A.

#### Subsidiaries

Oto Melara Iberica SAU

Oto Melara North America LLC

Oto Melara do Brasil Ltda

#### Associates

IVECO - OTO Melara Scrl

#### Affiliates

AgustaWestland S.p.A.

DRS Technologies Inc

Fata Logistic Systems S.p.A.

Finmeccanica Global Services S.p.A.

Finmeccanica UK Ltd

Larimart S.p.A.

MBDA SAS

Orizzonte Sistemi Navali S.p.A.

Selex ES S.p.A.

(84)Selex Galileo Inc

Sirio Panel S.p.A.

Telespazio Iberica SL

#### Consortiums

Consortio CALS Italia

Consortio QUINN Ex Qualital

Consortio SNPE-OTO

#### MEF Affiliates

Delfi S.p.A.

Enel Energia S.p.A.

Fincantieri S.p.A.

Horizon SAS

RAI - Radio Televisione Italiana S.p.A.

**Total**

*% against total for the period*

	Revenue	Other operating income	Costs	Other operating expenses	Financial income	Financial expenses
Finmeccanica S.p.A.			4	3,312	227	59
Oto Melara Iberica SAU	1,638					
Oto Melara North America LLC	202				1	1
Oto Melara do Brasil Ltda				249		
IVECO - OTO Melara Scrl	120,145	27	1,025	1,012		4,407
AgustaWestland S.p.A.	6,787					
DRS Technologies Inc	420	18	460			
Fata Logistic Systems S.p.A.			2,018			
Finmeccanica Global Services S.p.A.			6,364	16		
Finmeccanica UK Ltd			40			
Larimart S.p.A.			17,204	(71)		
MBDA SAS	11,133	61	(340)			
Orizzonte Sistemi Navali S.p.A.	26,786		240			
Selex ES S.p.A.	6,465		29,568	(189)		
(84)Selex Galileo Inc			9			
Sirio Panel S.p.A.			1			
Telespazio Iberica SL			300			
Consortio CALS Italia			6			
Consortio QUINN Ex Qualital			6			
Consortio SNPE-OTO			7			
Delfi S.p.A.	8					
Enel Energia S.p.A.			2			
Fincantieri S.p.A.	300		196			
Horizon SAS	(51)					
RAI - Radio Televisione Italiana S.p.A.			1			
<b>Total</b>	<b>173,833</b>	<b>110</b>	<b>66,301</b>	<b>995</b>	<b>60</b>	<b>4,324</b>
<i>% against total for the period</i>	<b>44.6%</b>	<b>0.6%</b>	<b>19.8%</b>	<b>4.9%</b>	<b>10.6%</b>	<b>67.6%</b>

The following should be noted:

The main trade receivables and revenues from orders originating in relations with related parties arise from the supply of VBM vehicles in their various versions to the Italian Army through consortium company IVECO-OTO Melara, and from the supplies to Orizzonte of naval guns for the FREMM programme of the Italian Navy.

Costs for services include an amount of €th. 3,914 relating to the lease and facility management rentals for the plants located in La Spezia and Brescia.

Liabilities to affiliates mainly relate to supplies provided by SELEX ES and Larimart under production programmes in which OTO Melara is the prime-contractor.

The financial liabilities to associate consortium company IVECO – OTO Melara are amounts charged by the consortium company for the advance payment on trade receivables in accordance with factoring agreements entered into by the consortium company itself.

### 30. FINANCIAL RISK MANAGEMENT

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

- *Market risks*, related to exposure on interest-generating positions (interest rate risks) and to the operations in currency areas other than that of the reporting currency (exchange rate risks);
- *Credit risks*, resulting from normal commercial transactions or financing activities.

Specifically, the Company monitors each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, which has also been 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 risks*

As the Company's financial position is always positive, it is exposed to changes in the rates of interest on its cash investments, which, however, are mainly in parent company Finmeccanica S.p.A. in accordance with the Group policies.

Interest rate risks have been measured through sensitivity analyses, as required by IFRS 7. If the reference rates had been 50 bps higher (lower) than on 31 December 2014, the result and equity would have been €th. 116,000 higher (lower).

#### *Exchange rate risks*

The Company carefully monitors exchange rate risk arising from operations in currencies other than the reporting currency and takes prompt action to minimise this risk, through the use of hedging derivatives. Exchange-rate risk management is governed by the directive issued by the Parent Company in December 2002. The purpose of the directive is to standardise for all the companies the management criteria based on industrial-not speculative-strategies so as to contain risks within specific limits by carefully and constantly assessing all currency positions.

The Company is in the habit of hedging exchange rate risks when it acquires contracts in a foreign currency; it also takes out hedges on procurement contracts not executed in Euro, if significant and important. In many cases the amount of purchases to make in a local currency is covered by a corresponding amount of revenues in the same currency.

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

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Hedging transactions including forward currency purchases/sales are effected with the Parent Company. At the end of 2015 the total Euro notional amount of items hedged by derivatives was €th. 21,258 for purchases and €th. 830 for sales.

Exchange rate risks, for the main currencies, have been measured through a sensitivity analysis, considering a change in ratios, compared to the reference exchange rate at 31 December 2015, which was 5% higher (lower).

Below are the effects relating to said scenarios:

<i>Values in € thousands</i>	<b>Increase of 5.0% in exchange rates</b>	<b>Decrease of 5.0% in exchange rates</b>
Profit (loss) for the year	78	(85)
Equity	(894)	990

### **Credit risks**

The Company is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with counterparties, both commercial and financial (both for financing and investing activities) and industrial (for guarantees given on third-party debt or commitments).

Regarding commercial transactions, the most significant programmes are made with public sector contractors or customers deriving from public institutions, mainly concentrated in the Euro area. 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 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.

As regards liquidity risk, the Company could be exposed to the risk of not being able to meet the financial commitments deriving from its normal trade and investment transactions in addition to not being able to repay its debts when they fall due. The Company has a financial plan to counter this risk, which ensures an orderly supply of the resources needed to meet these financial requirements. OTO Melara is involved in treasury centralisation by means of cash pooling mechanisms with the Parent Company which allow sufficient cash levels to be maintained; this may also be achieved through credit factoring.

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

**Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.**

	31 December 2015						Total
	Governmental Agencies			Other customers			
	Area Europe	Area America	Others	Area Europe	Area America	Others	
Guarantee withholdings							-
Receivables not yet due	5,519		9,565	56,879		4,619	76,582
Receivables outstanding for less than 6 months	903		1,789	6,220		3,097	12,009
Receivables outstanding for less than 1 year	492		1,990	5,107		1,084	8,673
Receivables outstanding from 1 to 5 years	721		2,178	6,328	150	7,724	17,101
Receivables outstanding for more than 5 years			154				154
<b>Total</b>	<b>7,635</b>	<b>-</b>	<b>15,676</b>	<b>74,534</b>	<b>150</b>	<b>16,524</b>	<b>114,519</b>

  

	31 December 2014						Total
	Governmental Agencies			Other customers			
	Area Europe	Area America	Others	Area Europe	Area America	Others	
Guarantee withholdings							-
Receivables not yet due	3,131		3,670	37,883	46	14,739	59,469
Receivables outstanding for less than 6 months	644		5,291	22,402	749	3,229	32,315
Receivables outstanding for less than 1 year	527		603	13,892		4,864	19,886
Receivables outstanding from 1 to 5 years	730		2,543	9,698	134	3,379	16,484
Receivables outstanding for more than 5 years							-
<b>Total</b>	<b>5,032</b>	<b>-</b>	<b>12,107</b>	<b>83,875</b>	<b>929</b>	<b>26,211</b>	<b>128,154</b>

**Liquidity risk**

The Company is exposed to liquidity risk, i.e. the risk of not being able to finance its normal trade and investment programmes efficiently in addition to not being able to repay its debts when they fall due. In order to ensure that it has the necessary means, including investment and working capital requirements, the Company has a series of instruments aimed at optimizing the management of financial resources.

**Derivatives**

The Company has the following hedging contracts in place with the following notional values:

	<u>at 31.12.2015</u>	<u>at 31.12.2014</u>
<i>Domestic Currency Swap</i>		
- <u>to hedge receivables:</u>		
- in \$ USA	903,509.80	5,492,279.64
- <u>to hedge payables:</u>		
- in \$ USA	23,143,855.99	45,347,775.80

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

The measurement of derivatives at fair value has entailed the recognition of a positive reserve from cash flow hedge amounting to €th. 1,810 compared to a positive reserve of €th. 2,137 at the end of the previous year. The table below provides the fair values of the various derivatives in the portfolio (in €th.):

	<u>fair value at 31 December 2015</u>	<u>fair value at 31 December 2014</u>
<b><u>Assets</u></b>		
<i>Currency forward</i>		
<i>Cash flow hedge</i>	584	1939
<b><u>Liabilities</u></b>		
<i>Currency forward</i>		
<i>Cash flow hedge</i>	69	229

The table below reports the expiry dates set for these payments being hedged in 2015 and 2014:

	<u>31.12.2015</u>		<u>31.12.2014</u>	
	Notional (in USD million)		Notional (in USD million)	
	<u>Collections</u>	<u>Payments</u>	<u>Collections</u>	<u>Payments</u>
Expiry				
Within 1 year	0.8	21.2	5.4	45.3
Total	0.8	21.2	5.4	45.3

For the Board of Directors of  
Finmeccanica Società per Azioni  
The Chairman

(Giovanni De Gennaro)

**APPENDICES**



## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.1 - EQUITY INVESTMENTS

(€ thousands)

	31.12.2014											31.12.2015			
	Cost	Revaluations	Impairment	Carrying amount	Transfers /acquisition of business unit	Acquis./Subscriptions /payments of capital	Disposal	Reclass.	Reversal of impairments	Capital replenishment	Other changes	Cost	Revaluations	Impairment	Carrying amount
					(a)		(b)	(c)							(d)
<b>Equity investments in subsidiaries</b>															
<b>OTO MELARA IBERICA S.A.U.</b>	1,083	1	(1)	<b>1,083</b>								1,083	1	(1)	<b>1,083</b>
<b>OTO MELARA DO BRASIL LTDA</b>	238			<b>238</b>		238						476			<b>476</b>
	<b>1,321</b>	<b>1</b>	<b>(1)</b>	<b>1,321</b>	<b>-</b>	<b>238</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,559</b>	<b>1</b>	<b>(1)</b>	<b>1,559</b>
<b>Equity investments in associates</b>															
<b>IVECO - OTO MELARA S.C.A.R.L.</b>	26		(2)	<b>24</b>								26		(2)	<b>24</b>
	<b>26</b>	<b>-</b>	<b>(2)</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>-</b>	<b>(2)</b>	<b>24</b>
<b>Equity investments in companies subject to joint control</b>															
<b>Consortiums</b>															
<b>CONSORZIO S.N.P.E. - OTO</b>	2		(2)	<b>-</b>								2		(2)	<b>-</b>
<b>CONSORZIO UNIVERSIT. INEGGN. DELLA QUALITA'</b>	5			<b>5</b>								5			<b>5</b>
<b>CONSORZIO CALS ITALIA</b>	11			<b>11</b>								11			<b>11</b>
<b>DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCARL</b>	20			<b>20</b>								20			<b>20</b>
	<b>38</b>	<b>-</b>	<b>(2)</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>(2)</b>	<b>36</b>
<b>Other companies</b>															
<b>SCAM SRL</b>	3			<b>3</b>								3			<b>3</b>
<b>SIIT S.C.P.A.</b>	14			<b>14</b>								14			<b>14</b>
	<b>17</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>17</b>
<b>TOTAL</b>	<b>1,402</b>	<b>1</b>	<b>(5)</b>	<b>1,398</b>	<b>-</b>	<b>238</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,640</b>	<b>1</b>	<b>(5)</b>	<b>1,636</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.2 - LIST OF EQUITY INVESTMENTS

(€ thousands)

Name	Office	Reporting data	Share Capital total	Currency	Equity	Profit (loss)	Ownership (%)	Net equity in financial statements	Carrying amount Euro/th.
<b>Equity investments in subsidiaries</b>									
<b>OTO MELARA IBERICA S.A.U.</b>	Valencia (Spain)	31/12/2015	1,083,000	EURO	4,676,878	561,137	100%	4,676,878	1083
<b>OTO MELARA DO BRASIL LTDA</b>	Rio de Janeiro (Brazil)	31/12/2015	762,162	BRL	1,636,851	98,471	100%	1,636,851	476
<b>Equity investments in associates</b>									
<b>IVECO - OTO MELARA Società Consortile a r.l.</b>	Rome	31/12/2014	40,000	EURO	47,130	0	50%	23,565	24
<b>Consortiums</b>									
<b>CONSORZIO UNIVERSITARIO INGEGNERIA DELLA QUALITA'</b>	Pisa	31/12/2014	135,000	EURO	770,323	34,718	16.66%	* 24,180	5
<b>CONSORZIO CALS ITALIA DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCARL</b>	Rome	31/12/2014	100,709	EURO	47,991	-52,718	** 11.11%	4,362	11
	La Spezia		1,140,000	EURO			1.82%		20
<b>Other companies</b>									
<b>SCAM SRL</b>	La Spezia	31/12/2014	156,000	EURO	972,074	-83,097	2.02%	19,441	3
<b>SIIT Società Consortile per azioni</b>	Genoa	31/12/2014	600,000	EURO	609,753	2,594	2.3%	14,024	14
<b>TOTAL</b>									<b>1,636</b>

\* The equity investment does not match the percentage value as the portions pertaining to withdrawing shareholders remain into the Consortium fund as required by the by-laws

\*\* According to the Minutes of the Extraordinary Shareholders' Meeting of 26 February 2013 the Consortium Fund is reduced from EUR 123,088.90 to EUR 100,709.09 and the shareholding of Oto Melara went from 9.09% to 11.11%

### Appendix no.3 - NON-CURRENT RECEIVABLES

(€ thousands)

	31.12.2014			Disbursement	Reclassifications	Reimbursements	Other changes	Impairment (-) Reversal (+)	Mergers	31.12.2015		
	Residual nominal amount	Impairment	Carrying amount							Residual nominal amount	Impairment	Carrying amount
<b>Related party receivables</b>	2	-	2	-	-	-	-	-	-	2	-	2
<b>-Receivables from affiliated companies (*)</b>	2		2							2	-	2
<b>Enel Spa</b>	2		2							2		2
<b>Others</b>	111		111		(9)	2				100	-	100

(\*): companies subject to the control and coordination by Finmeccanica S.p.A

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no. 4 - ASSETS BROKEN DOWN BY MATURITY (€ thousands)

	31.12.2015				31.12.2014			
	Amounts due				Amounts due			
	within one year	from 2nd to 5th subsequent year	beyond 5th year	Total	within one year	from 2nd to 5th subsequent year	beyond 5th year	Total
<b>Receivables</b>								
Other receivables		100		100		111		111
Other non-current receivables from related parties		2		2		2		2
<b>Total receivables</b>	-	102	-	102	-	113	-	113
<b>Deferred tax assets</b>	21,786			21,786	21,050			21,050
<b>Total non-current assets</b>	21,786	102	-	21,888	21,050	113	-	21,163
<b>Loans and receivables</b>				-				-
Loans and receivables from related parties	46,248			46,248	83,350			83,350
<b>Total</b>	46,248	-	-	46,248	83,350	-	-	83,350
<b>Trade receivables</b>	60,106	3,705		63,811	58,615	3,646		62,261
Trade receivables from related parties	28,537	22,171		50,708	58,120	7,773	-	65,893
<b>Total</b>	88,643	25,876	-	114,519	116,735	11,419	-	128,154
<b>Other assets</b>	5,920			5,920	6,681			6,681
Other receivables from related parties	26,160			26,160	25,330			25,330
<b>Total</b>	32,080	-	-	32,080	32,011	-	-	32,011
<b>Income tax receivables</b>	1,319			1,319	627			627
<b>Derivatives</b>	584			584	1,939			1,939
<b>Cash and cash equivalents</b>	3,181			3,181	6,844			6,844
<b>Total current assets</b>	172,055	25,876	-	197,931	241,506	11,419	-	252,925

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no. 5 - FOREIGN CURRENCY ASSETS

(€ thousands)

	31.12.2015			31.12.2014		
	In foreign currency	In Euro	Total	In foreign currency	In Euro	Total
<b>Receivables</b>						
Other receivables		100	<b>100</b>		111	<b>111</b>
Other non-current receivables from related parties		2	<b>2</b>		2	<b>2</b>
<b>Total receivables</b>	<b>-</b>	<b>102</b>	<b>102</b>	<b>-</b>	<b>113</b>	<b>113</b>
<b>Deferred tax assets</b>		21,785	<b>21,785</b>		21,050	<b>21,050</b>
<b>Total non-current assets</b>	<b>-</b>	<b>21,887</b>	<b>21,887</b>	<b>-</b>	<b>21,163</b>	<b>21,163</b>
<b>Loans and receivables</b>			<b>-</b>			<b>-</b>
Loans and receivables from related parties		46,248	<b>46,248</b>		83,350	<b>83,350</b>
	<b>-</b>	<b>46,248</b>	<b>46,248</b>	<b>-</b>	<b>83,350</b>	<b>83,350</b>
<b>Trade receivables</b>	2,045	61,766	<b>63,811</b>	2,575	59,686	<b>62,261</b>
Trade receivables from related parties	2	50,706	<b>50,708</b>	131	65,762	<b>65,893</b>
	<b>2,047</b>	<b>112,472</b>	<b>114,519</b>	<b>2,706</b>	<b>125,448</b>	<b>128,154</b>
<b>Other assets</b>	2	5,918	<b>5,920</b>	92	6,589	<b>6,681</b>
Other receivables from related parties		26,160	<b>26,160</b>		25,330	<b>25,330</b>
	<b>2</b>	<b>32,078</b>	<b>32,080</b>	<b>92</b>	<b>31,919</b>	<b>32,011</b>
<b>Income tax receivables</b>		1,319	<b>1,319</b>		627	<b>627</b>
Derivatives	584		<b>584</b>	1,939		<b>1,939</b>
Cash and cash equivalents	2	3,179	<b>3,181</b>	2	6,842	<b>6,844</b>
<b>Total current assets</b>	<b>2,635</b>	<b>195,296</b>	<b>197,931</b>	<b>4,739</b>	<b>248,186</b>	<b>252,925</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.6 - ASSETS BY GEOGRAPHICAL AREA (€ thousands)

	31.12.2015				
	Italy	Rest of Europe	North America	Rest of the world	Total
<b>Receivables</b>					
Other receivables:	100				<b>100</b>
Other non-current receivables from related parties	2				<b>2</b>
<b>Total receivables</b>	<b>102</b>	-	-	-	<b>102</b>
<b>Deferred tax assets</b>	21,786				<b>21,786</b>
<b>Total non-current assets</b>	<b>21,888</b>	-	-	-	<b>21,888</b>
<b>Loans and receivables</b>					-
Loans and receivables from related parties	46,248				<b>46,248</b>
	<b>46,248</b>	-	-	-	<b>46,248</b>
<b>Trade receivables</b>	6,038	25,923	156	31,694	<b>63,811</b>
Trade receivables from related parties	46,108	4,600			<b>50,708</b>
	<b>52,146</b>	<b>30,523</b>	<b>156</b>	<b>31,694</b>	<b>114,519</b>
<b>Other assets</b>	2,010	1,377	3	2,530	<b>5,920</b>
Other receivables from related parties	26,160				<b>26,160</b>
		<b>1,377</b>	<b>3</b>	<b>2,530</b>	<b>32,080</b>
<b>Income tax receivables</b>	1,319				<b>1,319</b>
<b>Derivatives</b>	584				<b>584</b>
<b>Cash and cash equivalents</b>	3,180	1			<b>3,181</b>
<b>Total current assets</b>	<b>103,477</b>	<b>31,901</b>	<b>159</b>	<b>34,224</b>	<b>197,931</b>

	31.12.2014				
	Italy	Rest of Europe	North America	Rest of the world	Total
	110			1	<b>111</b>
	2				<b>2</b>
	<b>112</b>	-	-	<b>1</b>	<b>113</b>
	21,050				<b>21,050</b>
	<b>21,162</b>	-	-	<b>1</b>	<b>21,163</b>
					-
	83,350				<b>83,350</b>
	<b>83,350</b>	-	-	-	<b>83,350</b>
	3,242	24,388	1,191	33,440	<b>62,261</b>
	62,903	2,859	131		<b>65,893</b>
	<b>66,145</b>	<b>27,247</b>	<b>1,322</b>	<b>33,440</b>	<b>128,154</b>
	2,475	1,568	3	2,635	<b>6,681</b>
	25,330				<b>25,330</b>
	<b>27,805</b>	<b>1,568</b>	<b>3</b>	<b>2,635</b>	<b>32,011</b>
	627				<b>627</b>
	1,939				<b>1,939</b>
	6,842	2			<b>6,844</b>
	<b>186,708</b>	<b>28,817</b>	<b>1,325</b>	<b>36,075</b>	<b>252,925</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.7

#### AVAILABLE AND DISTRIBUTABLE RESERVES

(€ thousands)

Nature/description	Amount	Possible use	Available portion
<b>Share capital (*)</b>	<b>92,308</b>		
<b>Capital reserves:</b>			
Share premium reserve			
Merger surplusses			
<b>Revenue reserves:</b>			
Legal reserve	10,100	B	10,100
Extraordinary reserve			
reserve required by articles of association			
Reserves from measurement at Fair Value			
Cash Flow Hedge reserve	1,810	B	1,810
Reserve for available-for-sale assets			
Reserve for stock option / grant plans			-
-Share consignment reserve for stock option/grant plans			-
Reserve for actuarial profits (losses) through Equity	-4,015		-4,015
Other reserves	912	B	912
			-
Deferred taxes relating to items recognized in Equity	-498	B	-498
Retained earnings	29,310	B& A+B+C	29,310
<b>Total</b>	<b>129,927</b>		<b>37,619</b>
Non-distributable share			<b>13,155</b>
Remaining <b>distributable share</b>			<b>24,464</b>

#### Keys:

(\*) less treasury shares

A: for capital increase

B: for loss coverage

C: for distribution to shareholders

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.8 - LIABILITIES BROKEN DOWN BY MATURITY (€ thousands)

31.12.2015			
overdue amounts			
within one year	from 2nd to 5th subsequent year	beyond 5th year	Total
	735		<b>735</b>
Other non-current liabilities			-
Other non-current payables to related parties			-
	<b>735</b>		<b>735</b>
<b>Deferred tax liabilities</b>	828		<b>828</b>
<b>Total non-current liabilities</b>	<b>828</b>	<b>735</b>	<b>-</b>
			<b>1,563</b>
Loans and borrowings	1		<b>1</b>
Loans and borrowings to related parties	1,612		<b>1,612</b>
	<b>1,613</b>		<b>1,613</b>
Trade payables	136,654		<b>136,654</b>
Trade payables to related parties	62,989		<b>62,989</b>
	<b>199,643</b>		<b>199,643</b>
Other liabilities	40,118		<b>40,118</b>
Other payables to related parties	10,867		<b>10,867</b>
	<b>50,985</b>		<b>50,985</b>
<b>Derivatives</b>	69		<b>69</b>
<b>Total current liabilities</b>	<b>252,310</b>		<b>252,310</b>

31.12.2014			
overdue amounts			
within one year	from 2nd to 5th subsequent year	beyond 5th year	Total
	759		<b>759</b>
Other non-current liabilities			-
Other non-current payables to related parties			-
	<b>759</b>		<b>759</b>
<b>Deferred tax liabilities</b>	854		<b>854</b>
<b>Total non-current liabilities</b>	<b>854</b>	<b>759</b>	<b>-</b>
			<b>1,613</b>
Loans and borrowings	1		<b>1</b>
Loans and borrowings to related parties	1,387		<b>1,387</b>
	<b>1,388</b>		<b>1,388</b>
Trade payables	113,941		<b>113,941</b>
Trade payables to related parties	49,630	946	<b>50,576</b>
	<b>163,571</b>	<b>946</b>	<b>-</b>
			<b>164,517</b>
Other liabilities	45,547		<b>45,547</b>
Other payables to related parties	6,439		<b>6,439</b>
	<b>51,986</b>		<b>51,986</b>
<b>Derivatives</b>	229		<b>229</b>
<b>Total current liabilities</b>	<b>217,174</b>	<b>946</b>	<b>-</b>
			<b>218,120</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.9 - FOREIGN CURRENCY LIABILITIES

(€ thousands)

	31.12.2015			31.12.2014		
	In foreign currency	In Euro	Total	In foreign currency	In Euro	Total
Other non-current liabilities		735	735		759	759
Other non-current payables to related parties			-			-
	-	735	735	-	759	759
<b>Deferred tax liabilities</b>		828	828		854	854
<b>Total non-current liabilities</b>	-	1,563	1,563	-	1,613	1,613
Loans and borrowings		1	1		1	1
Loans and borrowings to related parties		1,612	1,612		1,387	1,387
	-	1,613	1,613	-	1,388	1,388
Trade payables	16,319	120,335	136,654	13,963	99,978	113,941
Trade payables to related parties	115	62,874	62,989	168	50,408	50,576
	16,434	183,209	199,643	14,131	150,386	164,517
Other current liabilities	694	39,424	40,118	823	44,724	45,547
Other payables to related parties		10,867	10,867		6,439	6,439
	694	50,291	50,985	823	51,163	51,986
<b>Derivatives</b>	69		69	229		229
<b>Total current liabilities</b>	17,197	235,113	252,310	15,183	202,937	218,120



## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

### Appendix no.10 - LIABILITIES BY GEOGRAPHICAL AREA

(€ thousands)

	31.12.2015					31.12.2014				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Other non-current liabilities	735				735	759				759
Other non-current payables to related parties					-					-
	<b>735</b>	-	-	-	<b>735</b>	<b>759</b>	-	-	-	<b>759</b>
<b>Deferred tax liabilities</b>	828				828	854				854
<b>Total non-current liabilities</b>	<b>1,563</b>	-	-	-	<b>1,563</b>	<b>1,613</b>	-	-	-	<b>1,613</b>
Loans and borrowings	1				1	1				1
Loans and borrowings to related parties	1,612				1,612	1,387				1,387
	<b>1,613</b>	-	-	-	<b>1,613</b>	<b>1,388</b>	-	-	-	<b>1,388</b>
Trade payables	108,613	15,176	12,603	262	136,654	92,249	7,810	12,695	1,187	113,941
Trade payables to related parties	56,713	5,909	115	252	62,989	48,609	1,633	175	159	50,576
	<b>165,326</b>	<b>21,085</b>	<b>12,718</b>	<b>514</b>	<b>199,643</b>	<b>140,858</b>	<b>9,443</b>	<b>12,870</b>	<b>1,346</b>	<b>164,517</b>
Other current liabilities	22,268	10,511	81	7,258	40,118	28,214	8,944	126	8,263	45,547
Other payables to related parties	10,867				10,867	6,352	87			6,439
	<b>33,135</b>	<b>10,511</b>	<b>81</b>	<b>7,258</b>	<b>50,985</b>	<b>34,566</b>	<b>9,031</b>	<b>126</b>	<b>8,263</b>	<b>51,986</b>
<b>Derivatives</b>	69				69	229				229
<b>Total current liabilities</b>	<b>200,143</b>	<b>31,596</b>	<b>12,799</b>	<b>7,772</b>	<b>252,310</b>	<b>177,041</b>	<b>18,474</b>	<b>12,996</b>	<b>9,609</b>	<b>218,120</b>

## Separate financial statements at 31 December 2015 – OTO MELARA S.p.A.

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### Appendix no.12 - KEY DATA FROM THE FINANCIAL STATEMENTS AT 31 DECEMBER 2014 OF THE COMPANY THAT CARRIES OUT DIRECTION AND COORDINATION ACTIVITIES

(article 2497-bis of the Italian Civil Code)

(€ thousands)

#### FINMECCANICA SPA

##### Balance Sheet

##### Assets

Non-current assets	7,893,964
Current assets	4,218,042
Non-current assets held for sale	0
<b>Total assets</b>	<b><u><u>12,112,006</u></u></b>

##### Liabilities

Shareholders' Equity	
- Share capital	2,524,859
- Reserves and retained earnings	1,350,919
- Net profit (loss) for the period	<u>-141,328</u>
	<u>3,734,450</u>
Non-current liabilities	2,691,655
Current liabilities	5,685,901
Liabilities directly associated with assets held for sale	0
<b>Total liabilities</b>	<b><u><u>12,112,006</u></u></b>

##### Income statement

Revenue	77,917
Costs	-179,058
Net financial income/(expense)	-43,344
Income taxes	3,157
(Losses) profits connected with discontinued operations	0
<b>Profit (loss) for the period</b>	<b><u><u>-141,328</u></u></b>

FINMECCANICA SPA PREPARES THE CONSOLIDATED FINANCIAL STATEMENTS

**INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL  
STATEMENTS AT 31 DECEMBER 2015**



**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and to article 165 of Legislative decree no. 58 of 24 February 1998**

To the shareholders of  
Finmeccanica S.p.a. (into which its fully controlled subsidiary Oto Melara S.p.A. was merged)

### **Report on the financial statements**

We have audited the accompanying financial statements of Oto Melara S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2015, the income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

### ***Directors' responsibility for the financial statements***

The directors of Finmeccanica S.p.a. are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union.

### ***Independent auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements give a true and fair view of the company's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

### ***Emphasis of matter***

Without modifying our opinion, we bring your attention to note 6. "Events after the reporting date", disclosing that Oto Melara S.p.A. was incorporated into its parent, Finmeccanica S.p.a., with effect from 1 January 2016.

### ***Other matters - Management and coordination***

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Oto Melara S.p.A. does not extend to such data.

### **Report on other legal and regulatory requirements**

#### ***Opinion on the consistency of the directors' report with the financial statements***

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report, which is the responsibility of the directors of Finmeccanica S.p.a., with the financial statements. In our opinion, the directors' report is consistent with the financial statements of Oto Melara S.p.A. as at and for the year ended 31 December 2015.

Genoa, 16 March 2016

KPMG S.p.A.

(signed on the original)

Michele Petino  
Director of Audit

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE  
SHAREHOLDERS' MEETING**

**OTO MELARA S.P.A.**

**A single member company subject to direction and coordination of Finmeccanica**

**S.p.a.**

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**REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31.12.2015**

Dear Shareholders,

This report was prepared by the Statutory Auditors pursuant to article 2429, paragraph 2, of the Italian Civil Code.

Oto Melara SpA (hereinafter also "Oto Melara") as a direct subsidiary, until 31/12/2015, of Finmeccanica S.p.a. - a company listed on regulated markets - is subject to the provisions of Section VI - Statutory Audit, Chapter II, Title III, Part IV (with the exception of article 157) of Legislative Decree n. 58/1998 ("*Draghi Law*").

It should be noted that, with effective date 1 January 2016, OTO Melara S.p.A. was merged into the parent company Finmeccanica S.p.a., resulting in the dissolution of the company and its corporate bodies as part of a larger divisionalisation process of the Finmeccanica Group; therefore, this report is submitted to you by the Finmeccanica Supervisory Body acting within the extent of its remit and in any case referring to the activities carried out by the previous Board of Statutory Auditors during the financial year 2015 as per their report signed on 31.12.2015.

During the year ended 31.12.2015, the previous Board of Statutory Auditors carried out the surveillance duties as required by applicable law until 31 December 2015; after that date up to today, the Board of Statutory Auditors of the Parent Company has continued, for the purposes of this report, the supervisory activities pursuant to applicable regulations and in compliance with the rules of conduct of the Italian National Council of Accountants and Tax Consultants.

In particular, the previous Board of Statutory Auditors:

- monitored compliance with the law and bylaws as well as principles of sound

administration;

- attended all the Board of Directors' and the Shareholders' meetings, which were conducted in compliance with the bylaws, laws and regulations that govern meeting procedures; in this regard, the Board of Statutory Auditors may report that the resolutions passed have always been in compliance with the applicable laws and the bylaws;
- acquired information from the Directors about the general business performance and outlook, as well as the most significant transactions, by size or special characteristics, carried out by the company; therefore, the Board of Statutory Auditors may report that the operations carried out are in compliance with the laws and the bylaws and are not imprudent, reckless, in potential conflicts of interest, nor do they conflict with the resolutions of the Shareholders' Meeting or otherwise are prejudicial to the integrity of the company's assets;
- ascertained that no atypical and/or unusual transactions were carried out, including intercompany and related-party transactions;
- met, at the quarterly review meetings, the people of the Independent Auditing Firm in charge of the statutory audit. KPMG S.p.A., during such exchange of information, confirmed the proper recording of the company's business operations and accurate keeping of accounting records, as well as the reliability of the control system of procedures relevant to the statutory audit. The previous Board of Statutory Auditors also verified, during periodical meetings with the people of the Independent Auditing Firm, that the statutory audit activities were properly carried out by the same. Today, the Independent Auditing Firm delivered us its report on the financial statements without qualifications, containing a reference to January 1, 2016 as effective date of the merger by incorporation of the company into Finmeccanica S.p.a.;
- evaluated and monitored the adequacy of the company's organizational structure and of the administrative and accounting system, as well as the reliability of such system as a means of accurately reporting business operations by obtaining the necessary information from the Top Management, the manager of the "internal auditing" function, the heads of the other functions



involved, as well by examining company documents; in this regard we have no comment to report;

- viewed and acquired information from the Surveillance Body on organizational and procedural activities carried out pursuant to Legislative Decree no. 231 of 8.6.2001 and monitored periodic update thereof.

The Surveillance Body in charge:

- reported to the previous Board of Statutory Auditors on the activities carried out during 2015;
- reported to the Board of Statutory Auditors of the Parent Company, including on the adoption of the directives issued by the Parent Company.

Furthermore, we declare that:

- even by virtue of what was reported by the previous Board of Statutory Auditors, no complaints or reports pursuant to Article 2408 of the Italian Civil Code have been received during the financial year up to today;
- no omissions, censurable facts or significant irregularities that would require mention in this report occurred during the supervisory activities and/or as result of the verifications made.

The previous Board of Statutory Auditors examined the procedure for merger by incorporation of the company with effective date 1 January 2016, and acknowledged:

- the resolutions passed by the Board of Directors of Oto Melara S.p.A. in its meeting of 30 July 2015, where the merger plan by incorporation of the company into Finmeccanica S.p.a. and the convening of an extraordinary shareholders' meeting were approved;
- the call of the extraordinary shareholders' meeting of Oto Melara S.p.A. held on 29 September 2015 which approved the merger by incorporation of the company into Finmeccanica S.p.A.

The Board of Statutory Auditors of the parent company Finmeccanica S.p.a. also confirms that the activities provided by applicable rules on mergers were completed after 31 December 2015 and that no other significant events occurred until the date

of this report.

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We examined the draft financial statements for the year ended 31.12.2015 made available to us in compliance with the provisions of Article 2429 of the Italian Civil Code, on which we report as follows.

As we are not responsible for the legal audit of the financial statements, we only supervised the general structure of the legal audit with regard to its compliance with the law in terms of its formation and structure; in that regard we have no comment to report.

The Board of Statutory Auditors examined the financial statements for the year ended 31.12.2015 as approved by the Board of Directors of Finmeccanica S.p.a. at its meeting of 16 March 2016 and delivered to the Statutory Auditors on that date, together with the account tables, the supporting documents and the Directors' report on operations.

The Oto Melara financial statements for the year ended 31.12.2015 were drafted in accordance with the International Accounting Standards (IAS/IFRS) approved by the European Commission and the related interpretations issued by the International Accounting Standards Board and in force at the closing of the financial year.

In drafting the financial statements, the same accounting standards and principles were applied as used for drafting the financial statements for the year ended 31.12.2014.

With regard to taxes, we recall that Oto Melara adheres to the tax system of group taxation (National Tax Consolidation) for the purposes of IRES [*Corporate Income Tax*].

We also verified compliance with the provisions of the law governing the preparation of the report on operations; in this regard we have no comment to report.

To the best of our knowledge and as reported by the Directors, related party transactions were conducted at arm's length, as were regulated interest-bearing receivables and payables, if not regulated by specific contractual conditions.

We also verified that the financial statements reflect the facts and information of which we have become aware when performing our duties; in this regard we have no comment to report.

In compliance with article 2497 bis, paragraph 4, of the Italian Civil Code, the financial statements contain a summary table of the key figures of the last approved financial statements - for the year 2014 - of Finmeccanica S.p.a., the company exercising direction and coordination.

On the basis of the activities carried out by the previous Board of Statutory Auditors who promptly and fully informed us, and the activities carried out by us up to date, the Board of Statutory Auditors has waived the terms of article 2429 of the Italian Civil Code concerning the provision of the financial statements by the Board of Directors.

In view of the foregoing, we propose the Shareholders' Meeting to approve the financial statements for the year ended 31.12.2015 in the form prepared by the Directors.

Rome, 16 March 2016

#### THE BOARD OF STATUTORY AUDITORS

Riccardo Raul Bauer

Niccolò Abriani

Luigi Corsi

Daniela Savi

Francesco Perrini