

**QUARTERLY REPORT**

**First quarter 2005**

**FINMECCANICA**

## TABLE OF CONTENTS

### MANAGEMENT REPORT AT 31 MARCH 2005

1.	RESULTS FOR THE FIRST QUARTER OF 2005	3
2.	MAIN EVENTS DURING AND AFTER QUARTER	7
3.	ANALYSIS OF THE CONSOLIDATED ECONOMIC AND FINANCIAL POSITION	12
4.	BREAKDOWN OF RESULTS BY MARKET	26
5.	PERFORMANCE BY SECTOR:	
	• AERONAUTICS	27
	• HELICOPTERS	32
	• SPACE	37
	• DEFENCE ELECTRONICS	40
	• DEFENCE SYSTEMS	44
	• TRANSPORTATION	47
	• ENERGY	50
	• INFORMATION TECHNOLOGY	52
	• OTHER ACTIVITIES	54
6.	THE PROJECT FOR TRANSITION TO IAS/IFRS	55
7.	OUTLOOK	60

## Finmeccanica Group

### Management Report at 31 March 2005

The report for the first quarter of 2005 was drawn up in accordance with national accounting standards. As discussed more in detail in the paragraph “The Project for transition to IAS/IFRS”, the Group is expected to adopt IAS/IFRS as from the 2005 quarterly report.

#### 1. Results for the first quarter of 2005

The Finmeccanica Group’s consolidated results for the first quarter of 2005 - which, as is widely known, give a partial view of the full year, since more than half of the Group’s business is squeezed into the second half of the year - showed a rise in income, both in absolute terms and as a percentage on revenues, despite a substantial alignment in the value of production compared to the same period of 2004; still, results looked brighter than expected and enable the Group to confirm the outlook regarding overall performance for the current year.

The two quarters, in particular with reference to income statement figures, cannot be always properly compared since, as at 31 March 2004, the AgustaWestland joint venture was still 50% consolidated on a proportional basis.

€million Sectors	1 <sup>st</sup> Quarter 2005				1 <sup>st</sup> Quarter 2004			
	Value of Production	EBITDA	EBITA	EBIT	Value of Production	EBITDA	EBITA	EBIT
Aeronautics	355	27	8	6	369	13	(3)	(5)
Helicopters (*)	527	45	34	8	266	17	13	11
Space	174	16	10	8	166	13	4	2
Defence Electronics	440	34	20	13	422	33	21	12
Defence Systems	198	11	5		259	14	9	4
Transportation	301	14	8	7	305	15	9	8
Energy	132	8	5	5	152	5	2	2
I. T.	82	1	(1)	(1)	85	4	2	1
Other Activities	16	(22)	(27)	(27)	31	(17)	(21)	(21)
Eliminations	(66)				(55)			
	<b>2,159</b>	<b>134</b>	<b>62</b>	<b>19</b>	<b>2,000</b>	<b>97</b>	<b>36</b>	<b>14</b>

(\*) at 50% in the first quarter of 2004

The first quarter of 2005 closed with a **net loss** of €mil. 16, compared to a net loss of €mil. 35 in the same period of 2004.

Considerations on this result must take into due account the fact that the transfer of a total of 96 million shares of STMicroelectronics NV (STM) - either directly or indirectly through the sale of roughly 30.4% of the shares of the related concern STMicroelectronics Holding NV (STH) - generated an indirect equity

investment in STM of approximately 6.6% and a direct equity investment in STH of about 19.6%: this led to a change in the criteria to value the subsidiary, from the equity to the cost method. Hence, the income statement for the first quarter of 2005 includes no contribution from the STM equity investment, which showed a profit of €nil. 11 in the same period of the previous year. Take also note that the first quarter of 2005 of Avio S.p.A. (owned by Aero Invest 1 S.A.) closed with a loss of €nil. 11, showing an increase compared to the loss of €nil. 9 over the same period of 2004.

For a like-for-like comparison, by deducting STM's contribution from the results for the first quarter of 2004, the consolidated net result, at 31 March 2005, showed a loss of €nil. 16 compared to a loss of €nil. 46.

The overall improvement of €nil. 30 stems from a €nil. 5 rise in operating results (EBIT), from a substantial improvement of €nil. 17 in financial management, due basically to the effects of certain hedging transactions, from the best effects of equity investments and lower net extraordinary charges of €nil. 3, and from less taxes for €nil. 5, basically ascribable to the effects of deferred taxation at 31 March 2005.

**Value of production** totalled €nil. 2,159 at 31 March 2005, compared to €nil. 2,000 in the same period of 2004. The €nil. 159 rise is the result of the different contribution from AgustaWestland, offset by the slight drop of €nil. 61 million in Defence Systems, following reduced business in the missile systems sector, of a drop of €nil. 20 in Energy, due to a decline in business on Iranian orders, and of lower business activities on EFA equipment worth €nil. 14 in Aeronautics.

The **operating profit before depreciation and amortization (EBITDA)** was €nil. 134 at 31 March 2005, compared to €nil. 97 in the same period of 2004, up in absolute terms by €nil. 37. Although not really notable, income as a percentage on the value of production increased from approximately 5.0% in the first quarter of 2004 up to 6.2% in the first quarter of 2005.

Such an improvement, given the other sectors - which either inch up or down - basically in line with the first quarter of 2004, is ascribable to Aeronautics, with €nil. 14 from the result of higher contribution from the military segment, in particular from the programmes EFA and C27J; to Helicopters (€nil. 28), owing to increased contribution and the different mix of programmes in progress, which saw an increase in product support.

The **operating profit before goodwill amortization (EBITA)** was €nil. 62 in the first quarter of 2005, compared to €nil. 36 in the first quarter of 2004, rising €nil. 26 in absolute terms; it is €nil. 11 below the EBITDA due to a different contribution from AgustaWestland and to increased amortization (net of the portion of set-up grants) as a result of increased investments in tangible assets made during the previous financial year.

The **operating income after depreciation and amortization (EBIT)** amounted to €mil. 19 in the first quarter of 2005 compared to €mil. 14 at 31 March 2004. Compared to the increase in the EBITA, the lower rise of €mil. 6 is substantially ascribable to the higher goodwill amortization from the acquisition of the remaining 50% of AgustaWestland.

The improvement in economic results is also gathered by comparing the 2005 and 2004 quarter figures, drawn up on a pro-forma basis and the scope of consolidation remaining unchanged (assuming 100% consolidation of AgustaWestland). Then, EBITDA increased from €mil. 114 in 2004 up to €mil.134, EBITA from €mil. 49 up to €mil. 62 and EBIT from €mil. 17 up to €mil. 19.

\* \* \* \* \*

The Group's **net financial debt** (financial payables in excess of financial receivables and cash), at 31 March 2005, stood at €mil. 901, compared to a net debt of €mil. 371 at 31 December 2004, with net financial requirements of €mil. 530, lower than expected, but on the rise compared to €mil. 426 in the first quarter of 2004. Given also its seasonal nature, this net financial debt, related both to shareholders' equity (24%) and to income indicators (reimbursement capacity ratios) - is below the industry average and within the limits to guarantee a careful and prudent financial management. A strategy constantly aimed at minimising the average cost of debt and extending the residual average life (from 5 to 10.6 years - after the next payment of the debenture loan of Finmeccanica due in June) has also contributed to strengthening the Group's financial structure.

At 31 March 2005, the consolidated **net invested capital** totalled €mil. 4,618 compared to €mil. 4,095 at the end of 2004. The €mil. 523 increase is basically attributable to growth in **working capital** (negatively affected by an increase in net inventories), whose impact was, however, mitigated with respect to the forecasts for the period, thanks to the foregoing careful and prudent financial management.

**New orders** were acquired at 31 March 2005 totalling €mil. 2,771, compared to €mil. 1,252 in the first quarter of 2004. Over 55% of total orders acquired in the first quarter of 2005 refers to the military market, up over the same period of the previous financial year (45%). The extraordinary increase of €mil. 1,519 is due to the strong rise witnessed in Defence Electronics, basically ascribable to Helicopters following acquisition, on 28 January 2005, of the order for the replacement of the US presidential helicopter Marine One with the US101, US version EH101.

This helped to further strengthen the **order backlog** which, at 31 March 2005, totalled €mil. 26,922, compared to €mil. 25,877 at the end of 2004, guaranteeing the Group, as for the year ended 31 December 2004, work for over two and a half years of production, although activities developed in the first quarter of

2005 amounted to approximately €bil. 2.2.

The **number of employees** in the Group was 50,753 at 31 March 2005, compared to 51,026 at 31 December 2004, dropped by 273, due mainly to the deconsolidation of BredaMenarinibus S.p.A., for which a preliminary sale agreement was signed in March 2005.

## 2. Main events during and after quarter

During the first quarter of 2005 and the months following the period-end, the Group continued transactions involving alliances and acquisitions started in 2004. Specifically:

### Industrial Transactions

On 27 January 2005, Finmeccanica and BAE Systems Plc (BAE) signed the final agreement involving the project for Finmeccanica's acquisition of BAE business in Defence Electronics (better known as *Eurosystems* transaction). This agreement is extremely important from a strategic and economic viewpoint for the entire Defence Electronics sector. It provides for the establishment of a new company operating in the Avionics sector owned by Finmeccanica (75%), the acquisition of BAE activities in the military and secure communications field, and the return of Italian business of the AMS NV joint venture under the full control of Finmeccanica. The new perimeter of Alenia Marconi Systems S.p.A. will also include Air Traffic Management (ATM) and Air Traffic Control (ATC) activities previously controlled by BAE in Great Britain, Germany (Gematronik) and the United States (ASI).

The agreement was completed on 29 April 2005, after the approval by Antitrust Authorities and the granting of all further regulatory permits. In particular, the newly-formed company Selex Sensors and Airborne Systems S.p.A. will group together the activities of Galileo Avionica S.p.A. and BAE Avionics Ltd.

Through this agreement, Finmeccanica becomes the second-largest European group and the sixth on a global scale in the Defence Electronics sector, with a turnover in excess of €bil. 3, thus helping the Group achieve its growth targets in and focus on Aerospace and Defence.

On 28 January 2005, Finmeccanica and Alcatel SA (Alcatel) signed the final agreement for the creation of an alliance in the space sector with the establishment of two companies dedicated to industrial production and satellite service businesses, respectively. The first company, 33% owned by Finmeccanica, will group together the industrial business of Alenia Spazio and Alcatel Space, and will specialise in the design, development and production of satellites, payload and other space equipment and systems. The second company, 67% owned by Finmeccanica, will group together the activities of Telespazio and of Alcatel Space Services and Operations and will specialise in activities and services for satellite solutions, the supply of high value-added networks and services, multimedia applications and Earth observation.

The agreement is intended to further significant operating synergies and economies of scale, which will improve profitability and the Group's position at worldwide level in the Space sector, reaching a co-

leadership status in Europe.

On 28 April 2005, the European Commission authorised the foregoing merger, conditional upon certain commitments that the parties will be called to meet in order to safeguard competition in some market segments. To date, the transaction is scheduled to be completed in the second half of 2005.

On 1 March 2005, the Eurely consortium, formed by Finmeccanica S.p.A., Alcatel SA, AENA (Spanish public air navigation board) and by the Spanish company Hispasat, was selected, together with the competing consortium iNavSat (formed by Inmarsat, EADS and Thales), for the final phase of the talks involving the license for the European Galileo satellite system. The Eurely consortium has already passed a number of stages in the selection process, while procedures on the last phase of the talks are nearing completion. Finmeccanica's participation in the foregoing consortium is a golden opportunity for the satellite service business, since it allows the Group to operate as a leading actor in the frame of a project which is extremely important at worldwide level and particularly strategic for the new value-added applications (PRS - Public Regulated Services, info-mobility, air, railway and vessel traffic services, security, commercial applications, etc.).

During the quarter, Finmeccanica also conducted a series of additional activities involving the logistics and security businesses, creating, in particular, with private partners, a joint venture for the management of the general services of the Presidency of the Council of Ministers, and signing a Memorandum of Understanding with the Civil Protection Department to identify and assess a system for the prevention of risks and management of emergencies.

As part of the development of strategies involving protection and security, the Group gave impulse to the establishment of a pole of excellence by transferring the Secure Communications Division, including a number of equity investments, from Selenia Communications to Elsag, the aim being to reposition Information Technology (IT) activities within the Group's core business.

Finally, in the frame of the longstanding relations of collaboration with both national and local institutional bodies, Finmeccanica, following also the Memorandum of Understanding signed with the Lazio Region, is promoting and developing high-tech content ventures (Eneide Mission: space mission jointly funded by the Lazio Region, Military Aeronautics and Alenia Spazio; Galileo Test Range project: centre of excellence for satellite navigation realized jointly by the Lazio Region and Finmeccanica, etc.)

## Financial transactions

In the first quarter of 2005, Finmeccanica launched a new €mil. 500 20-year bond issue bearing a 4.875% coupon, due March 2025, placed entirely on the European institutional market. Besides adding flexibility to the Group's financial structure, this transaction, thanks also to the combined effect of the next payment of the debenture loan of Finmeccanica due in June, also allowed to extend the average life of the Group's debt from 5 to 10.6 years. Except for the earlier mentioned transaction, the financial structure is basically the same as the one recognised in the preparation of the 2004 Financial Statements and is based on the convertible debenture loan of Finmeccanica, expiring on 8 June 2005, and on transactions placed on the market by the related concern Finmeccanica Finance SA, through guarantee of the Parent Company.

The table below summarises outstanding debenture loans at 31 March 2005:

Issuer		Year of Issue	Maturity	Counter-value Amount (€000)	Annual coupon	Type of offering
Finmeccanica SpA	(1)	2000	8 June 2005	877,977	2%	European institutional
Finmeccanica Finance SA		1997	16 Jan. 2007	6,664	3.30%	Japanese institutional
Finmeccanica Finance SA	(2)	2002	30 Dec. 2008	297,000	variable	Italian Retail
Finmeccanica Finance SA	(3)	2003	8 Aug. 2010	501,400	0.375%	European institutional
Finmeccanica Finance SA	(4)	2003	12 Dec. 2018	500,000	5.75%	European institutional
Finmeccanica SpA	(5)	2005	24 Mar. 2025	500,000	4.875%	European institutional

- (1) Bonds convertible into Finmeccanica shares at a conversion price of € 1.875 per share (p.s.), plus a premium calculated on an annual basis that the investor receives upon expiration, raising the compounded annual yield to 3.25% p.s. The bonds are listed on the Luxembourg Stock Exchange. Upon expiration, Finmeccanica may refund the loans by cash or, upon receiving a prior notice of no less than 50 days, with a combination of Finmeccanica shares valued at the mean price recorded for the 20 previous business days and of cash for the difference.
- (2) Bonds offered solely to the mass public in Italy and listed on the TLX market, managed by Trading Lab Banca SpA – Gruppo Unicredito Italiano. Although they were issued within the framework of a Euro Medium Term Notes programme (“EMTN”), the bonds are governed by specific regulations of the Italian law. Transaction authorised pursuant to Article 129 of Legislative Decree No. 385/93. Prospectus filed with Consob on 4 December 2002 (authorisation notified with note No. 2079342 of 3 December 2002).
- (3) Bonds “exchangeable” with a maximum number of 20,000,000 shares of STMicroelectronics NV (STM) at a conversion price of €25.07 per share. Beginning three years after issue, Finmeccanica Finance may require that the loan be converted if the mean price recorded for the 30 business days prior to the date bondholders were notified is more than 125% of the conversion price. Upon expiration, Finmeccanica Finance may refund the loans by cash or, upon receiving a prior notice of no less than 15 business days, for a combination of STM shares valued at the mean price recorded for the 5 previous business days and of cash for the difference. Transaction authorised pursuant to Article 129 of Legislative Decree No. 385/93. The bonds are listed on the Luxembourg Stock Exchange.
- (4) Bonds issued within the EMTN programme for maximum €bil. 2. Transaction authorised pursuant to Article 129 of Legislative Decree No. 385/93. The bonds are listed on the Luxembourg Stock Exchange.

- (5) Bonds issued within the EMTN programme for maximum €bil. 2. The bonds are listed on the Luxembourg Stock Exchange.

All Finmeccanica Finance SA bond issues are irrevocably backed by Finmeccanica S.p.A..

All of the above debenture loans are governed by regulations containing standard law provisions for these kinds of transactions implemented by corporate subjects. The aforementioned Finmeccanica issues contain clauses that do not require any commitment regarding specific financial covenants, while they do include the so-called negative pledge and cross default clauses.

All bonds issued by Finmeccanica S.p.A. and Finmeccanica Finance SA have been assigned a medium-term credit rating by the three international rating agencies, Moody's Investors Service, Fitch and Standard and Poor's. Specifically, at the date of this Quarterly Report, such credit ratings were Baa2 (Moody's), BBB (Fitch), BBB (Standard and Poor's), all showing a stable outlook.

Furthermore, take note that on 29 April 2005, the Group completed the Eurosystems transaction, referred to in the agreements executed between Finmeccanica and BAE Systems Plc on 27 January 2005. The completion of the agreement, discussed more in detail in another section of the document, will bring significant effects on the Group debt in the second quarter of 2005. More specifically, Finmeccanica has been called to pay out through own financial resources, a net total of €nil. 515 (equal to 355 million pounds sterling), plus variation in the debt arising from the changed composition of the Group's scope of consolidation.

In terms of financial planning, the funds available, together with credit lines made available to Finmeccanica, are fully adequate to repay the debenture loan expiring on 8 June 2005. Finmeccanica will also continue, as usual, to monitor the financial flows of the Group companies, with a view to their optimisation.

### **Other restructuring operations**

In the frame of the initiatives regarding the sale of equity investments in companies carrying on activities outside the Group's core business, as discussed more in detail upon preparation of the 2004 Financial Statements, in March 2005, a preliminary contract was entered into with Dipiudi' Ambiente S.p.A. for the sale of BredaMenarinibus S.p.A. (BMB), a company wholly and directly owned by Finmeccanica. The transfer of BMB shares to the new shareholder will be completed upon the Antitrust Authority's go-ahead.

### 3. Group's financial position

To provide further information on the Group's financial position, the following prospects "Reclassified Consolidated Income Statement", "Reclassified Consolidated Balance Sheet" and "Reclassified Net Financial Debt" have been drawn up in accordance with the statements used in the previous years.

For a better understanding and comparison of the data below, please note that:

- Domino Fin S.r.l. was acquired on 15 April 2004 and subsequently merged by incorporation in Elsag S.p.A.;
- S.C. Electra Communications SA was established on 5 May 2004;
- Sistemi Radiomobili S.r.l. was established on 1 June 2004;
- E-Security S.r.l., which began operations after switching from a consortium to a limited liability company, was consolidated on a line-by-line basis as from the third quarter of 2004;
- the AgustaWestland Group, 50% consolidated on a proportional basis until 30 November 2004 (the date of acquisition of the further 50%) was consolidated on a line-by-line basis (100%);
- Oto Melara Iberica SAU was consolidated on a line-by-line basis beginning 1 January 2005;
- Seicos S.p.A. was consolidated on a line-by-line basis beginning 1 January 2005;
- on 24 March 2005, the demerger deed of a branch of business of Galileo Avionica S.p.A. was completed, leading to the establishment of the companies Trimprobe S.p.A. and G.A. Immobiliare S.p.A.. Both companies were consolidated on a line-by-line basis;
- BredaMenarinibus S.p.A. was deconsolidated as from the first quarter of 2005, following the preliminary sale agreement in favour of third parties;
- IGS S.p.A. was deconsolidated as from the first quarter of 2005, following its liquidation.

The "Reclassified Consolidated Income Statement" contains the values for both the period from 1 January to 31 March 2005, and for the periods under comparison, only from the acquisition (or effective) date.

The "Reclassified Consolidated Balance Sheet" at 31 December 2004 does not include values for the groups and companies consolidated beginning in 2005.

In reference to the comparability of figures, take also note that the first quarter of 2005 was marked by changes in the Euro against the main currencies concerning the Group. In particular, period-end (31 March 2005) and average conversion ratios showed the following changes in the currencies particularly significant to the Group, compared to 2004: final period-end exchange rates (Euro/US Dollar -5.1% and Euro/Pound

Sterling -1.9%); average exchange rates for the period (Euro/US Dollar +4.6% and Euro/Pound Sterling +1.9%).

The Table below shows the Reclassified Consolidated Income Statement in the first quarter of 2005.

**RECLASSIFIED CONSOLIDATED INCOME STATEMENT**  
(IN THOUSANDS OF EUROS)

	<u>1<sup>st</sup> Quarter 2005</u>	<u>1<sup>st</sup> Quarter 2004</u>	<u>2004 Financial Statements</u>
<b>A. - REVENUES</b>	<b>2,095,869</b>	<b>1,896,874</b>	<b>9,011,837</b>
Change in inventories of work in progress, semi-finished and finished goods	50,239	97,152	335,338
Capitalisation of internal construction costs	12,710	6,274	39,707
<b>B. - VALUE OF PRODUCTION</b>	<b>2,158,818</b>	<b>2,000,300</b>	<b>9,386,882</b>
Cost of goods and services	(1,341,115)	(1,278,056)	(5,994,343)
<b>C. - ADDED VALUE</b>	<b>817,703</b>	<b>722,244</b>	<b>3,392,539</b>
Personnel costs	(698,249)	(628,560)	(2,516,245)
Other adjustments	(951)	(959)	(20,632)
Provisions for risks and charges	(7,540)	(9,842)	(92,645)
Balance of other income (charges)	22,752	14,131	115,116
<b>D. - EBITDA</b>	<b>133,715</b>	<b>97,014</b>	<b>878,133</b>
Industrial amortization and depreciation	(76,603)	(66,772)	(287,762)
Set-up grants for the period	5,112	5,890	24,110
<b>E. - EBITA</b>	<b>62,224</b>	<b>36,132</b>	<b>614,481</b>
Goodwill amortization	(42,780)	(21,689)	(96,451)
<b>F. - EBIT</b>	<b>19,444</b>	<b>14,443</b>	<b>518,030</b>
Financial income (charges)	3,500	(11,167)	(38,030)
Foreign exchange gains (losses)	3,157	1,748	(9,547)
Adjustments to equity investments and financial assets	(8,733)	1,128	461,314
<b>G. - INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES</b>	<b>17,368</b>	<b>6,152</b>	<b>931,767</b>
Extraordinary income (charges)	(8,124)	(11,464)	(209,830)
<b>H. - INCOME BEFORE TAXES</b>	<b>9,244</b>	<b>(5,312)</b>	<b>721,937</b>
Taxes	(25,467)	(29,503)	(173,920)
<b>I. - NET PROFIT</b>	<b>(16,223)</b>	<b>(34,815)</b>	<b>548,017</b>
of which:			
. Group share	(16,294)	(35,341)	525,641
. Minority interests	71	526	22,376
	(16,223)	(34,815)	548,017

- “Value of production”, equal to €mil. 2,159, showed a 8.0% rise on the previous period’s figure (€mil. 2,000). This increase is due to the different contribution from AgustaWestland (50% in the first quarter of 2004 compared to 100% in the first quarter of 2005), contrasted by a slight drop, in particular in the Defence Systems, Energy and Aeronautics sector;
- “Costs of goods and services” rose from €mil. 1,278 in the first quarter of 2004 to €mil. 1,341 in the same period of 2005. This trend (approximately 5%), as the “value of production”, is attributable to the net effect of the different contribution from AgustaWestland to the scope of consolidation and to the foregoing trend in the sectors’ activity;
- “Personnel costs” of €mil. 698, compared to €mil. 628 in the same period of 2004, show an increase in both the number of employees and the average cost per employee.  
The average headcount was 49,870, compared to 45,784 in the same period of the previous financial year (46,401 in the 2004 financial year), with an increase essentially due to the variation in the scope of consolidation.  
The final headcount at 31 March 2005 was 50,753, 273 less than the 51,026 at 31 December 2004, due to the net effect of acquisition and transfer of companies and a slightly positive turnover.  
Average unit cost per employee showed an increase for Italy, essentially due to changes in the scope of consolidation and renewed collective agreements. On the contrary, the slight net decrease abroad resulted from the dual effect of the variation in the scope of consolidation and of the drop of the Pound Sterling and Dollar against the Euro, as mentioned earlier;
- “Adjustments” and “provisions for risks and charges” (€mil. 8 in the first quarter of 2005, against €mil. 11 in the same period of 2004) are allocations for product warranties, doubtful accounts, penalties, contractual charges and others. Specifically, the provisions for risks involved products warranties (€mil. 3 compared to €mil. 3 in the same period of 2004) and contractual charges (€mil. 2 compared to €mil. 1 in the same period of 2004). Provisions for bad debts are equal to €mil. 1, in line with the value posted in the same period of 2004;
- “Other income and charges”, equal to €mil. 23 of net income, showed an increase compared to the same period of the previous financial year (€mil. 14 of net income). Income also included income from real investment (€mil. 2 compared to €mil. 1 in the same period of 2004), insurance reimbursements (€mil. 6 compared to €mil. 1 in the same period of 2004), costs recovery (€mil. 5 compared to €mil. 2 in the same period of 2004) and use of provisions (€mil. 18 compared to €mil. 5 in the same period of 2004) for contractual risks (€mil. 1 compared to €mil. 2 in the same period

of 2004), risks for aeronautics activities (€nil. 5 compared to a balance equal to zero in the same period of 2004), guarantees (€nil. 4 compared to a balance equal to zero in the same period of 2004), bad debts (€nil. 5 compared to €nil. 1 in the same period of 2004) and others established in previous years and made available following ordinary transactions and costs incurred over the period. In particular, revenues for the first quarter of 2004 included €nil. 6 relating to revised credit/debt relations. Charges also include indirect taxes and taxes for the period (€nil. 4 compared to €nil. 4 in the same period of 2004), penalties (€nil. 3 compared to €nil. 3 in the same period of 2004), membership fees (€nil. 2 compared to €nil. 2 in the same period of 2004);

- “EBITDA” was €nil. 134, showing an increase by €nil. 37 (approximately +38%) compared to the same period of the previous financial year (€nil. 97);
- “Industrial amortization and depreciation” showed an increase with respect to the same period of the previous financial year, also due to the variation in the scope of consolidation (in particular for the consolidation of the further 50% of AgustaWestland), while the shares assigned to set-up grants showed a decrease consequential to the completed amortization and depreciation of some assets. Amortization and depreciation for the period amounted to €nil. 77 (€nil. 67 in the same period of 2004), of which €nil. 62 related to tangible assets (€nil. 53 in the same period of 2004) and €nil. 15 to intangible assets (€nil. 14 in the same period of 2004);
- “EBITA” stood at €nil. 62, showing an increase of €nil. 26 (approximately +72%) compared to the same period of the previous financial year (€nil. 36). This rise is essentially due to an increase attributable to the Helicopters sector, showing, in addition to a different percentage contribution, a greater profitability from the different mix of programmes in progress and a growth in Aeronautics sector due to the higher contribution from the military segment and specifically from the EFA and C27J programmes;
- “Goodwill amortization” was €nil. 43 compared to €nil. 22 in the same period of 2004. This increase is largely owing to the higher goodwill from the acquisition of the further 50% of AgustaWestland and to its different effect on the scope of consolidation;
- “EBIT”, which discounts the increase in industrial amortization/depreciation and goodwill, increased by €nil. 5 (approximately +36%), from €nil. 14 in the first quarter of 2004 to €nil. 19 in the same period of 2005;

- net “financial income and charges” equal to €nil. 3 of net income showed an increase of €nil. 14 compared to the same period of the previous financial year (€nil. 11 of net charges). The figure’s positive trend - despite the period’s higher average exposure compared to the same period of the previous financial year - is ascribable to the combined effect of two major transactions: approximately €nil. 17 of income from hedging transactions carried out to protect the value of the STMicroelectronics NV equity investment (which, in December 2004, had already generated a net financial income of around €nil. 4) and around €nil. 1 of income produced by hedging transactions prudentially carried out following the resolution to implement the Eurosystems transaction, whose consideration was paid in sterling at the end of April 2005;
- net “foreign exchange gains and losses” totalled €nil. 3 of net gains (€nil. 2 of net gains in the first quarter of 2004) and show a value substantially in line with the period under comparison. The period’s increase is due basically to the net effect of foreign currency hedging for the increase in traded volumes and to the positive effect of the realignment of items in currencies other than the Euro;
- the negative economic component deriving from “Adjustments to equity investments and financial assets” was €nil. 9 compared to €nil. 1 of net income in the first quarter of 2004. This net balance mainly includes:
  - net decreases of €nil. 7 from equity investments valued at equity, of which €nil. 11 refers to the investee company Aero Invest 1 SA (€nil. 10 of net decreases in the first quarter of 2004, of which €nil. 9 refers to the investee company Aero Invest 1 SA);
  - net provisions for equity investments valued at cost of €nil. 2 (€nil. 0.3 in the first quarter of 2004).

Take also note that, after the transfer to third parties of approximately 30.4% of shares in STMicroelectronics Holding NV (STH), made at the end of the previous financial year, this company is no longer valued at equity, but at cost, since Finmeccanica currently holds less than 20% of the equity investment. Profits in the first quarter of 2004 of STH, attributable to Finmeccanica, stood at €nil. 11;

- “Extraordinary income and charges”, either net or extraordinary, show a negative balance of €nil. 8 (compared to €nil. 11 in the first quarter of 2004). The main items involve personnel redundancy payments and other restructuring charges, net of provisions of €nil. 8 allocated in the previous financial years (€nil. 5 in the same period of 2004). In particular, the reorganisation process

regarded the following sectors: Defence Electronics (€mil. 4), Energy (€mil. 1) and Defence Systems (3);

- “Income taxes for the year” totalled €mil. 25 compared to €mil. 30 in the same period of 2004. In particular, this item is the algebraic sum of:
  - the IRAP (Local Tax on Production Activities) (€mil. 23 compared to €mil. 20 in the same period of 2004);
  - the I.Re.S. (Corporate Income Tax) of €mil. 2, resulting from current taxes of €mil. 17 minus the consolidated taxation of €mil 15 (€mil. 5, a sum already inclusive of the estimated consolidated taxation benefits in the corresponding period of 2004);
  - other direct taxes (€mil. 7 compared to €mil. 5 in the same period of 2004);
  - net deferred tax assets of €mil. 3 and €mil. 4 for surplus provisions for deferred taxes allocated in previous financial years (a value equal to zero in the same period of 2004).

The consolidated income statement includes neither current taxes since in 2005 the Parent Company produced no taxable income, nor net deferred tax assets, as there is no reasonable certainty that taxable income will be generated in the future, in particular with respect to previous tax losses since the conditions set out in the generally accepted accounting standards are not in place.

The Table below shows the Reclassified Consolidated Balance Sheet at 31 March 2005.

**RECLASSIFIED CONSOLIDATED BALANCE SHEET**

(IN THOUSANDS OF EUROS)

	<u>31 March 2005</u>	<u>31 Dec. 2004</u>	<u>31 March 2004</u>
<b>A. - <u>FIXED ASSETS</u></b>			
Intangible assets	2,223,964	2,247,482	1,187,141
Tangible assets	1,906,994	1,925,535	1,691,328
Financial assets	<u>684,631</u>	<u>758,512</u>	<u>1,429,020</u>
	<b><u>4,815,589</u></b>	<b><u>4,931,529</u></b>	<b><u>4,307,489</u></b>
<b>B. - <u>WORKING CAPITAL</u></b>			
Inventories	17,202,865	16,430,061	15,678,027
Trade receivables	3,304,840	3,472,240	3,180,143
Other assets	1,245,396	1,170,559	1,194,070
Trade payables	(2,715,917)	(2,890,049)	(2,428,098)
Advances from customers and on-account billings	(13,120,411)	(12,870,009)	(12,768,253)
Provisions for risks and charges	(1,388,952)	(1,398,677)	(1,140,698)
Other liabilities	<u>(3,957,137)</u>	<u>(3,972,488)</u>	<u>(3,327,821)</u>
	<b><u>570,684</u></b>	<b><u>(58,363)</u></b>	<b><u>387,370</u></b>
<b>C. - <u>INVESTED CAPITAL</u> , minus</b>			
liabilities	<b><u>5,386,273</u></b>	<b><u>4,873,166</u></b>	<b><u>4,694,859</u></b>
<b>D. - <u>STAFF SEVERANCE</u></b>			
<b><u>PROVISION</u></b>	(768,425)	(777,824)	(713,716)
<b>E. - <u>INVESTED CAPITAL</u>, minus</b>			
liabilities and staff severance provision	<b><u>4,617,848</u></b>	<b><u>4,095,342</u></b>	<b><u>3,981,143</u></b>
<i>Covered by :</i>			
<b>F. - <u>SHAREHOLDERS' EQUITY</u></b>			
Capital and reserves attributable to the Group	3,712,714	3,177,536	3,326,906
Net profit attributable to the Group	(16,292)	525,641	(35,341)
Capital and reserves attributable to minority interests	20,555	(1,090)	7,177
Net profit attributable to minority interests	<u>71</u>	<u>22,376</u>	<u>526</u>
	<b><u>3,717,048</u></b>	<b><u>3,724,463</u></b>	<b><u>3,299,268</u></b>
<b>G. - <u>NET FINANCIAL DEBT</u></b>			
i) medium/long-term financial payables	<u>2,874,691</u>	<u>2,379,335</u>	<u>2,493,903</u>
ii) short-term:			
. financial payables	518,246	608,866	511,326
. cash and financial receivables	<u>(2,477,798)</u>	<u>(2,603,454)</u>	<u>(2,298,958)</u>
	(1,959,552)	(1,994,588)	(1,787,632)
iii) adjusting items (*)	<u>(14,339)</u>	<u>(13,868)</u>	<u>(24,396)</u>
	<b><u>900,800</u></b>	<b><u>370,879</u></b>	<b><u>681,875</u></b>
<b>I. - <u>TOTAL INVESTED CAPITAL AS IN E</u></b>	<b><u>4,617,848</u></b>	<b><u>4,095,342</u></b>	<b><u>3,981,143</u></b>
(*) Include:			
. interest-bearing receivables from financial brokerage activities	(14,339)	(13,868)	(24,396)

Fixed assets (€nil. 4,815 at 31 March 2005 compared to €nil. 4,931 at 31 December 2004) dropped sharply by €nil. 116, owing mainly to:

- the net effect of the decline in equity investments valued at equity by €nil. 80, deriving particularly from the partial repayment of the capital of Aero Invest 1 SA for €nil. 68;
- investment, repayments and amortization activities in the period;
- a net decrease in values deriving from exchange rate differences consequent to the translation of the financial statements in foreign currency (mainly dollars and sterling).

The working capital amounted to €nil. 571 compared to a negative figure of €nil. 58 at 31 December 2004. Specifically:

- “Inventories”, equal to €nil. 9,137 compared to €nil. 8,546 in the previous financial year (net of on-account billings equal respectively to €nil. 8,066 at 31 March 2005 and to €nil. 7,884 at 31 December 2004, recorded under “advances from customers and on-account billings”) showed a net increase, relating mainly to Aeronautics, owing in particular to greater operating commitments on programmes being started and production of prototypes, and to growth in the Helicopters, Space, Defence Systems, Defence Electronics and Transportation sectors;
- “Trade receivables net of trade payables” (equal to €nil. 3,305 and €nil. 2,716 at 31 March 2005, compared to €nil. 3,472 and €nil. 2,890 at 31 December 2004, respectively) showed a net increase of €nil. 7 compared to the previous financial year. In particular, the decrease in trade receivables relates to the Transportation and Aeronautics sectors. The decrease in trade payables relates mostly to Defence Electronics, Defence Systems and Transportation, while Helicopters increased;

- “Other assets” totalled €mil. 1,245, up by €mil. 75 compared to €mil. 1,170 at 31 December 2004. In particular, these record an increase in receivables from unconsolidated companies, due also to the deconsolidation of BredaMenarinibus S.p.A., from the Tax Office and from the accruals of financial income;
- “Advances from customers” (recorded under the item “Advances from customers and on-account billings”) went up by €mil. 68, from €mil. 4,986 at 31 December 2004 to €mil. 5,054 at 31 March 2005. This increase largely refers to the Helicopters, Defence Systems and Energy sectors;
- “Provisions for risks and charges”, equal to €mil. 1,389, were down €mil. 10 compared to €mil. 1,399 at 31 December 2004, due also to the deconsolidation of BredaMenarinibus S.p.A.. The most significant allocations were for contractual risks, product warranties, pending litigation and reorganization and restructuring processes in some areas. The most significant uses and overuses were for the settlement of disputes and contractual risks, for the cost of restructuring begun in the previous financial years and to cover the past losses of unconsolidated investees. Note that income taxes for the period, recorded under “other liabilities” (tax liabilities) at year-end, are recorded in the mid-year accounts under the liabilities;
- “Other liabilities” of €mil. 3,957 showed a decrease by €mil. 15 compared to €mil. 3,972 at 31 December 2004, mainly deriving from increased payables to personnel and decreased taxes payable and payables to social security institutions. The main item, amounting to €mil. 2,588, refers to relations with the Ministry of Production Activities (pursuant to Article 3a of Law No. 808/85) for research and design activities aimed basically at aeronautical and helicopter products. To conclude, as already stressed in the comments on “provisions for risks and charges”, take note that taxes for the period are entered in appropriate provisions in the liabilities;
- “Staff severance provision”, equal to €mil. 768, showed a net decrease of €mil. 10 compared to €mil. 778 at 31 December 2004, due also to the deconsolidation of BredaMenarinibus S.p.A.;

Invested capital, equal to €nil. 4,618 (€nil. 4,095 at 31 December 2004) is covered by the shareholders' equity for €nil. 3,717 (€nil. 3,724 at 31 December 2004), and by the net financial debt for €nil. 901 (€nil. 371 at 31 December 2004).

Capital goods held under financial lease contracts are valued at equity in the quarterly report, in accordance with national accounting practices. The adoption of the financial method would have meant higher net fixed assets of €nil. 61, financial debts of €nil. 29, a €nil. 18 decline in working capital, as well as a higher profit for the year and an increase in shareholders' equity respectively of €nil. 1 and €nil. 13, net of the relevant tax effects.

The Table below shows the consolidated net financial debt at 31 March 2005, together with the corresponding figure at 31 December 2004 and at 31 March 2004 for comparison purposes.

	31 March 2005 (€mil.)	31 Dec. 2004 (€mil.)	31 March 2004 (€mil.)
Short-term financial payables	74	75	41
Current portion of medium/long-term financial payables	917	919	59
Medium/long-term financial payables (excluding current portion)	1,892	1,391	2,311
Cash or cash equivalents (*)	(1,863)	(2,007)	(1,712)
Net bank and bonded debt	1,020	378	699
<u>Other financial receivables and payables:</u>			
Interest-bearing receivables from financial brokerage activities	(14)	(13)	(20)
Government bonds	(66)	(33)	(51)
Financial receivables from third parties	(419)	(504)	(421)
Financial receivables from subsidiaries, associated companies and related concerns	(130)	(59)	(119)
Financial payables to subsidiaries, associated companies and related concerns	346	454	370
Liabilities to the Ministry of Production Activities	66	69	63
Other financial liabilities	98	79	161
NET FINANCIAL DEBT	901	371	682

(\*) of which "equivalent" €mil.:

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The Group's net financial debt rose from €mil. 371 at 31 December 2004 up to €mil. 901 at 31 March 2005.

The €mil. 530 increase in debt recorded in the first quarter confirms, also in 2005, the Group's performance of receipts and payments, the latter normally squeezed in the first months of the year, with resulting high uses of cash, then usually offset by large receipts

in the second half of the financial year, when the Group receives considerable cash inflows especially from its public clients. Except for the partial repayment of the capital of the related concern Aero Invest 1 SA (€mil. 68), the quarter did not record significant extraordinary events in cash flows, which must therefore be basically referred to ordinary business.

Instead, with regard to debt composition, in particular reference to bank debt, there was a significant increase in medium and long-term bank debt, due basically to the launch of the new bond of Finmeccanica S.p.A. placed on the market on 24 March 2005. The €mil. 500, 20-year bond, due March 2025, was designed entirely for institutional investors, and bears a 4.875% coupon. Besides adding flexibility to the Group's financial structure, this transaction, thanks also to the combined effect of the next payment of the debenture loan of Finmeccanica due in June, also allowed to extend the average life of the Group's debt from 5 to 10.6 years.

There were slight variations in the short-term debt, €mil. 74, compared to 31 December 2004, while cash at hand dropped from €mil. 2,007 to €mil. 1,863, owing to the foregoing combined effect of cash uses in the first quarter of 2005, referred to hereinabove, partially offset by income from the foregoing debenture loan placed on the market in March and discussed earlier. €mil. 1,213 of said cash on hand are directly managed by the Parent Company (€mil. 515 of which temporarily held by the subsidiary company Galileo Avionica in the frame of the completion of the Eurosystems transaction), €mil. 256 by the subsidiary company Finmeccanica Finance, and €mil. 57 by the MBDA and AMS joint ventures for their own operative requirements. Furthermore, €mil. 175 is deposited on accounts, mainly in pounds, of AgustaWestland Group companies, whose process to centralise financial management is nearing completion.

As regards the remaining debt items, *financial receivables from third parties* included approximately €mil. 333, related to the unconsolidated share of the financial receivables owned by the joint ventures in respect of other partners, under past treasury agreements, receivables which, in accordance with the consolidation method adopted, are

proportionally included in the Group's scope of consolidation, as all other financial statements figures. *Financial payables to subsidiaries, associated companies and related concerns* include the debt of approximately €nil. 333 owed by Group companies to the unconsolidated part of the joint ventures.

Finally, take note that on 29 April 2005, the Eurosystems transaction was completed. The completion of the agreement, discussed more in detail in another section of this report, will bring significant effects on the Group debt as from the second quarter of 2005. More specifically, under the agreements entered into with BAE Systems Plc, Finmeccanica paid out a total of €nil. 515 (equal to 355 million pounds sterling). Added to the resulting variation in the debt will be the variation arising from the different composition of the Group's scope of consolidation.

#### 4. Breakdown of turnover by market

Total revenues in the income statement for the period in question (€mil. 2,096) were the sum of turnover (€mil. 1,472), of operating grants (€mil. 7) and of changes in contract work in progress (€mil. 617). Turnover, amounting to €mil. 1,472, is split up by the following areas:

	<u>€mil.</u>	<u>%</u>
Italy	510	34.7
Rest of Europe	680	46.2
North America	124	8.4
Rest of the world	158	10.7

## 5. Performance by sector

### AERONAUTICS

€million	31 March 2005	31 March 2004
New orders	123	166
Order backlog	5,148	3,912
Value of production	355	369
EBITDA	27	13
EBITA	8	(3)
EBIT	6	(5)
ROS	1.7%	(1.4%)
Employees (no.)	10,711	10,491

Aeronautics sector includes Alenia Aeronautica and its investees (production of military combat, transport and special mission aircraft, as well as civil productions including aerostructures, regional turboprop aircraft and cargo aircraft conversions) and Aermacchi (production of military training aircraft and engine nacelles for civil aeronautics).

The aeronautical market, both in the civil and military segments, is at the dawn of a cyclic phase of strong expansion, spurred by the trend of important programmes for multi-role or transport aircraft in Europe and in the United States, and by the upswing in the demand for both passenger and freight air transport.

In particular, in the military segment, besides the big opportunities coming from the order for the second tranche of the European multi-role aircraft Eurofighter, signed at the end of December 2004, an agreement which also strengthens penetration prospects on the export market, the new operating requirements for out-of-area operations and protection and security requirements are boosting the demand for tactical transport and special mission aircraft (airspace and battlefield surveillance, sea patrol, etc.), and for a new generation of advanced training aircraft.

In the civil segment, new models of commercial aircraft are about to enter production. These aircraft are marked by cutting-edge performance and new technological solutions, with significant growth opportunities also for the companies involved in the design and construction of structural components. Finmeccanica, through the companies in the Aeronautics sector, takes part in the new developing programmes, both of Boeing and of Airbus, with important duties, and has talks in progress for participation also in future programmes.

In the first quarter of 2005, Alenia Aeronautica achieved important results in the military segment, as it was chosen by the Turkish Government to supply its Navy with 10 ATR72 ASW (Anti Sub Marine) aircraft for sea patrol and anti-submarine purposes. In January, Aermacchi signed a Memorandum of Understanding with the Greek Ministry of Defence for the new trainer M346, identifying the guidelines for Greece's future participation in the programme, which represents the first step in the internationalisation process.

As far as the C27J is concerned, in order to back the aircraft's promotion on the North American market, on 15 February 2005, Alenia Aeronautica and L-3 Communications announced the creation of the jointly held JV - named Global Military Systems (GMAS) - for its production and logistic support to the C27J aircraft, which will take part in the tender to supply the US Army with about 130 transport aircraft, in view of the forthcoming start of the process to award the first order of 33 aircraft. Furthermore, mention must be made of the important commercial success achieved at the beginning of April 2005 when the Bulgarian Government announced it had selected the C27J for the supply of 8 aircraft. Further promotional initiatives are in progress in a number of countries, such as Canada and Finland.

Alenia Aeronautica is holding talks with Dassault, EADS and other potential partners in the UAV/UCAV (Unmanned Aerial Vehicle / Unmanned Combat Aerial Vehicle – remote-controlled vehicles) sector for the development and implementation of new products.

In the civil segment, air transport posted an upswing also in the first months of 2005 and continued the positive trend in the demand for commercial aircraft, which is however still far from the volumes of business recorded at the end of the 1990s.

Regarding the new B787 aircraft, in December 2004 Alenia Aeronautica and Boeing executed a “Memorandum of Agreement” for the participation of Alenia Aeronautica in the development and construction of important segments of the fuselage made in composite material, with an overall share of about 15% of the fuselage. Alenia Aeronautica continued its design activities, while talks are underway with Boeing on award by the latter of the first order of production.

Thanks to its high-tech features, the aircraft will become the medium-long/long range flagship of commercial aircraft, and three types of models are currently under study (basic, extended and short range).

In reference again to B787, following the agreement signed between Alenia Aeronautica and Vought Aircraft Industries Inc. in December 2004, to set up a programme joint venture, based in Charleston, South Carolina, work started on the construction of the plant in February 2005. The plant’s activities will regard integration of the fitted subassemblies and, in particular, of the various fuselage sections of the B787 produced by the two partners. The main benefits of the joint venture for Alenia Aeronautica regard the acquisition of high value-added volumes of activity also through the supply of integration services, and its role as small prime, enhancing its competitive positioning and becoming the candidate supplier for future programmes too.

As to Airbus, the agreement signed in December 2004 strengthens the industrial partnership of Alenia Aeronautica in the frame of the A380 programme, with the granting of new segments of business for the cargo version. Furthermore, talks are underway to seek new opportunities to collaborate (additional activities on aircraft currently in production and participation in the new A350 aircraft).

During the first quarter of 2005, activities in the military sector mainly involved: EFA development, production and logistics, for which the first example of single-seater aircraft was delivered to the Italian Air Force; production of the C27J aircraft and, in particular, of the aircraft to be delivered to the Greek Air Force during the year; upgrades to the Tornado aircraft (retrofit Pre-Mid Life Upgrade) and to the AMX for the Italian Air Force. For Aermacchi: production and logistical support for the MB339 and SF260 training aircraft, further development of the new M346 training aircraft. For Officine Aeronavali Venezia: development and production for the B767 Tanker programme, overhaul and logistical support for the Atlantic, B707 and G222 aircraft.

As to the civil segment, production continued to suffer from reduced production volumes. Alenia Aeronautica continued its co-supply activities for the leading world producers, which specifically regarded:

- Boeing: production of fuselage components and of control surfaces for the B767 and B777 aircraft and the fuselage for the B717;
- Airbus, with the design of the components of the central section of the fuselage of the A380, of the Tail Cone for the A300, of mechanical wing components for the A340 aircraft and of a fuselage section for the A321;
- GIE ATR, in partnership with EADS-ATR, with the production of the ATR 42 and 72 turboprop;
- Dassault Aviation, with the fuselage section for the Falcon 2000 Extended Range, and the engine nacelles for the Falcon 900EX.

As for Officine Aeronavali Venezia, activities worth mentioning regarded passenger-to-cargo aircraft conversions, and for Aermacchi, the civil production of engine nacelles.

**New orders** at 31 March 2005 were worth €nil. 123, compared to €nil. 166 acquired in the first quarter of 2004. Some of the main orders for the period were those relating to the EFA logistics and the Tornado programme. The civil sector included contracts related to the ATR, Falcon, engine nacelles and the cargo conversion of MD-11.

The **order backlog** at the end of March 2005 stood at €nil. 5,148, of which approximately 90% relating to the military segment, mostly to the EFA programme

(69%). The backlog is expected to develop in the medium and long term.

The **value of production** in the first quarter of 2005, amounting to €nil. 355, was lower than the value recorded in the first quarter of 2004 (€nil. 369), owing to the drop in EFA equipment orders. C27J production was on the rise, stable civil production for aerostructures, ATR and conversions, and slightly on the rise production of engine nacelles.

**EBITA** totalled €nil. 8 at 31 March 2005, compared to a negative €nil. 3 in the first quarter of the previous financial year. The improvement both in absolute terms and in average profitability (ROS of 1.7% against -1.4% of 31 March 2004) is mainly ascribable to increased contribution from the military segment, in particular from the EFA and C27J programmes.

At 31 March 2005, there were 10,711 **employees**, up by 71 compared to 10,640 at 31 December 2004, due mainly to recruitments associated with higher engineering work loads for programmes undergoing development.

## HELICOPTERS

	31 March 2005	31 March 2004	31 March 2004
€million			
	<b>100%</b>	<b>100%</b>	<b>50%</b>
New orders	1,272	194	97
Order backlog	6,051	6,014	3,007
Value of production	527	532	266
EBITDA	45	34	17
EBITA	34	26	13
EBIT	8	13	11
ROS	1.5%	2.4%	4.1%
Employees (no.)	8,925	8,916	4,458

Finmeccanica is, together with EADS (Eurocopter) and Sikorsky, leader in the extremely tight circle of systems designers in the world helicopter industry with AgustaWestland NV and its related concerns, wholly-owned as from 30 November 2004.

To convey the true extent of the business, total figures at 31 March 2004 for AgustaWestland are also given and, in order to allow a comparison between homogeneous figures, the notes below refer to 100% of the group.

The helicopter market shows interesting growth prospects for the upcoming years, mostly in the military segment (accounting for approximately 75% of the total demand), with new important opportunities deriving, in particular, from the need to renew the fleet of helicopters already in service in the United States and in Great Britain. In this frame, Finmeccanica appears to be extremely well-positioned, thanks to its rich, innovative catalogue of products, as recently demonstrated by the order acquired for the supply of the US101 helicopter to the White House. Take note that the US market is currently focused almost exclusively on modernisation programmes or on additional lots of previous-generation helicopters, and will represent, in the next 10 years, almost 40% of

the world market, with a demand for latest-generation machines.

The traditional heavy weight of logistics and after-sales services on the sector appears to be gaining even more strength, pushing towards the outsourcing of training services and operative training and the demand for integrated maintenance systems, both in NATO countries and on the open market.

As for the civil segment, which is extremely important in terms of units produced, although not weighing much on overall figures, the market is stable or fairly on the rise, thanks to the higher unit cost of latest-generation models. A major development may be represented by the introduction of the convertiplane, a new type of vertical take-off and horizontal flight aircraft, capable of spurring the demand especially in a number of higher added-value market segments (VIP/Corporate transport, off-shore links, emergency and security services).

AgustaWestland's development strategy on the US and British markets continued to score good results also in the first quarter of 2005. In fact, the Pentagon's announcement, on 28 January, that the EH101 – the US 101 version - had been chosen to replace Marine One, the helicopter used to transport the US President, was followed by the British Ministry of Defence's intention to develop a long-standing partnership with AgustaWestland, since it reposes the latter as being a preferred supplier. In this frame, mention must be made of the British Ministry of Defence's decision to award AgustaWestland the Future Lynx programme for the BLUH (battlefield light utility helicopters)/SCMR (surface combatant maritime rotorcraft) requirements, in addition to the turnkey support of the SeaKing aircraft.

This string of successes allows the Group to have more odds to win the future tenders for variations in the products involved (USAF CSAR and Special Forces, UK Medium Lift, Royal Navy SAR), to effectively keep up expectations as the selected supplier for the Deepwater with the AB139 and to have interesting prospects also for other requirements such as: in the USA the LUH (light utility helicopters) programme with the A109 and the ARH (armed reconnaissance helicopters) programme with the A119; in Great Britain the Future Rotorcraft Capability requirement, the helicopter component of the MFTS (military flying training system) military training system, as well as the Future Heavy

Lift - the successor of the CH-47 -, which may converge in a programme of widespread, general interest.

Finally, one must consider that the strategic advantages offered by:

- the acquisition of the avionics business of BAE by the controlling shareholder Finmeccanica, which helps to better meet the growing demand for avionics upgrading, is synergically beneficial to the need for a development in the systems business of AgustaWestland;
- the wealth of experience in contracts for training, maintenance and logistic support service to the British military client also according to the new PFI (private finance initiative) procedures;
- the growing success of existing partnerships between AgustaWestland and Lockheed Martin, one of the very few existing integrators of systems of existing systems.

These represent a competitive plus which may help AgustaWestland come smoothly through the tough challenges opened up by a market where the offer should witness a further merging of the actors involved.

Some of the major commercial events that marked the first quarter of 2005 included:

- the supply of the first tranche of 8 out of a total of 23 units of the helicopter, named US 101, designed for use by the President of the United States, acquired on 28 January;
- the order of 20 AB139 helicopters for the Seacor client, as a helicopter for support and link to the oil platforms in the Gulf of Mexico;
- the order for further 8 AB139 helicopters for the Arab Emirates' Air Force, 6 of which are the SAR (search and rescue) version and 2 the VIP version.

In addition to the foregoing orders acquired, mention must also be made of the excellent trend in product support related to integrated support services, confirming the constant evolution in the demand, which no longer regards helicopters only, but also the quality of after-sales service.

The total volumes of **orders** acquired at 31 March 2005 amounted to €mil. 1,272, showing a strong increase compared to 31 March 2004 (€mil. 194).

The **order backlog** at 31 March 2005, equal to €mil. 6,051, showed a strong increase of about 15% compared to 31 December 2004 (€mil. 5,238); this rise is basically due to the postponement of several orders expected by the end of the previous year; these include the supply of the US Presidential helicopter acquired, as mentioned, on 28 January 2005. Such is the size of the backlog that forecasts see the same production volumes of the previous financial year, thanks mainly to the start of activities on the AB139 line, to continuation of activities on EH101 helicopters for Portugal, Denmark and Japan, and to activities regarding the Super Lynx 300 helicopter, besides the start of production of the NH90 helicopter.

**Value of production** at 31 March 2005 amounted to €mil. 527, in line with the value posted at 31 March 2004 (€mil. 532).

The main programmes relating to AgustaWestland's production in the first quarter of 2005 included:

- EH 101 for the Italian Navy, Danish and Portuguese governments, of which the third unit out of 14 was delivered; furthermore, note that an important milestone was marked for the supply of the EH101 to the Japanese Navy: the first successful flight;
- Super Lynx 300 helicopter, for which activities for the supply contracts with the Oman and South Africa Air Forces were continued;
- A129 helicopter in the CBT (Combat) configuration and upgrade in this configuration of the A129 Mangusta, currently in service with the Italian Army;
- AB139 helicopter, with further five units delivered;
- AB412 helicopter for Italian and foreign government agencies;
- A109 Power helicopter for the civil-government market;
- development and industrialisation work on the A109E Power variant for the supply contracts with the South African Air Force and Swedish Armed Forces;

- industrialisation and production programmes for the NH90 helicopter.

**EBITA**, amounting to €nil. 34 at 31 March 2005, increased by €nil. 8 compared to 31 March 2004 (€nil. 26). This increase was ascribable to the different mix of programmes in progress, where main activities involved product support activities.

**Employees** of AgustaWestland were 8,925 at 31 March 2005, down by 43 compared to 31 December 2004 (8,968). This drop is ascribable to the start of the efficiency plan laid down at the end of the previous financial year, which is split up into the following plans:

- a restructuring plan for Westland Helicopters/Transmission, with consequent redundancy of approximately 700 people in UK;
- an integration programme based on the establishment of a single company which entails full integration of Italian and UK companies.

The relevant costs of the plan, amounting to €nil. 52, were allocated during the 2004 financial year.

## SPACE

€million	31 March 2005	31 March 2004
New orders	116	88
Order backlog	1,504	1,134
Value of production	174	166
EBITDA	16	13
EBITA	10	4
EBIT	8	2
ROS	4.6%	1.2%
Employees (no.)	3,318	3,762

Finmeccanica operates in the space industry through Alenia Spazio and its related concerns which produce space infrastructure and transportation systems, scientific satellites for telecommunication, remote sensing and payload satellites, and Telespazio and its related concerns in earth stations, telecommunications services, television, satellite navigation and Earth observation.

Following overcapacity in the offer of satellite connections and stagnation in the demand for new systems witnessed over the past years, the commercial market showed recent signs of recovery. Greater developments are expected to arise especially in broadband systems and services.

Despite the slow recovery in the short term in EU countries, owing to budget constraints, it is expected that the institutional demand may truly fuel space industry activities in the coming years. In fact, both the European Union and the European Space Agency (ESA) deem the space sector to be strategic: the priority applications regard satellite navigation (Galileo programme), territorial defence and control (GMES programme, Global Monitoring for Environment and Security) and broadband communications. Special attention will also be devoted to the development of launching services, required to assure Europe independent access to space.

The whole sector will benefit from the effects of the Galileo programme: 30 satellites in MEO (Medium Earth Orbit), to be fully launched by 2010. As to the manufacturing business, Alenia Spazio participates in Galileo Industries GmbH, based in Germany and its subsidiary Galileo Industries S.p.A. based in Italy. This company is responsible for the In-Orbit Validation stage (launching and testing the first four satellites) and plans to gain responsibility for the implementation of the complete infrastructure. Within Galileo Industries, Alenia Spazio is responsible for systems, including the assembly and validation of satellites, also from a security point of view.

Telespazio actively took part in organising the proposal to participate in the tender for the awarding of the concession, including the completion of the constellation and signal and system management. The tender in which Finmeccanica is participating with Alcatel, Aena and Hispasat through the Eurely Consortium is due to conclude in 2005.

On a domestic level, the Ministry of Defence is appearing to show an increasingly keen interest in the use of space systems. Following contribution to the Cosmo-SkyMed programme, a noteworthy point was the start of the design of the Sicral 1-B satellite for telecommunications.

On 28 January 2005, Finmeccanica and Alcatel signed the final agreement for the integration of their respective space businesses with the establishment of two companies, to which the two Groups will contribute their respective manufacturing (Alcatel Alenia Space, 67% owned by Alcatel and 33% owned by Finmeccanica) and satellite service businesses (Telespazio, 67% owned by Finmeccanica and 33% owned by Alcatel).

With the integration of their space activities, the two Groups aim to achieve significant operative synergies and scale economies. The two companies will be fully operational in 2005, once the procedures of approval by the competent authorities have been completed.

On the commercial side, in the first quarter of 2005, the Group acquired **new orders** worth €nil. 116, up by €nil. 28 compared to the same period of 2004 (€nil. 88). The major orders in the first quarter of 2005 regarded: completion of the order for the Node 3

involving the International Space Station, the orders for the Galileo programme and a further tranche for the Herschel/Plank scientific satellite, plus renewal of the contracts for TV broadcasting and signal distribution services and the collection of new orders for the supply of telecommunication satellite services.

**Order backlog**, at 31 March 2005, amounted to €nil. 1,504, increasing by approximately 5% compared to 31 December 2004 (€nil. 1,428).

**Value of production** in the first quarter of 2005 was equal to €nil. 174, increasing by 5% compared to the same period of 2004 (€nil. 166), essentially due to increased activity on Cosmo-SkyMed and the programmes associated with the International Space Station programmes (ATV aircraft and Node 3).

In addition to the abovementioned programmes, the production mainly regarded activities relating to the Herschel/Plank and GOCE scientific satellites, study of the new Sicral 1B satellite, preliminary activities on the Galileo programme, progress in the Express MD Kazakhstan, Meteosat Second Generation, Radarsat 2 programmes and the devices for the Koreasat satellite, the supply of satellite telecommunication services, and for the TV sector, resale of satellite capabilities and the supply of broadcasting services.

**EBITA** stood at €nil. 10 at 31 March 2005, up by €nil. 6 compared to the value posted in the same period of 2004 (€nil. 4). This improvement is ascribable to the furtherance and consolidation of the restructuring and efficiency measures adopted in the past, both in Alenia Spazio and in Telespazio, in addition to lower structure costs and higher volumes of activity. Accordingly, the **ROS** went up from 1.2% in the first quarter of 2004 to 4.6% at 31 March 2005.

**Employees** at 31 March 2005 were 3,318, dropping by 37 against 3,355 at 31 December 2004, owing to the continuation of measures to adjust resources to work loads.

## DEFENCE ELECTRONICS

€million	31 March 2005	31 March 2004
New orders	432	309
Order backlog	3,534	3,553
Value of production	440	422
EBITDA	34	33
EBITA	20	21
EBIT	13	12
ROS	3.0%	2.8%
Employees (no.)	11,748	11,864

Finmeccanica operates in Defence Electronics through Galileo Avionica, OTE, the AMS JV and the Selenia Communications Group, with activities regarding the manufacture of avionic equipment, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communications systems and networks for land, naval, satellite and avionic applications and private mobile radio communication systems. This division includes the operative division International Naval Systems of Finmeccanica S.p.A., which manages relations with Eurosynav SAS to develop the combat system within the framework of the contract with Horizon SAS to build 4 Orizzonte class frigates for the Italian and French Navies.

Take note that the 2005 first quarter results refer to a different scope of consolidation, compared to the same period of the previous financial year, since two Selenia Communications group companies and SEICOS S.p.A. (Servizi Integrati di Comunicazione per la Sicurezza) were included in the perimeter. The latter is a newly-formed company whose mission is the outsourcing management and maintenance coordination of telecommunication networks in service with the Italian Police Forces.

Defence electronics and security currently account for roughly 20% of the world demand in the Aerospace and Defence industry (worth around €bil. 300), with a 7-8% annual growth rate, and stem from the increasing importance attached to electronic systems

related to new operative requirements, based on complex and “networked” architectures formed by sensors, platforms and weapons systems.

The sector is also spurred by the gradual technological convergence of the radar, electronic warfare and electro-optics segments, thanks to the development of Data and Sensor Fusion techniques and active modules.

The world demand is also fuelled by the start/continuation of production phases involving aeronautical platforms both in Europe (Eurofighter, Rafale, and, in perspective, Eurotrainer) and in the United States (F/A18, F/A22, and, in perspective, JSF), by the development of new naval platforms (Europe: FREMM, Horizon, Major Units; USA: DD(X), LCF), of multi-platform integrated systems, of surveillance systems (air-to-air and air-to-ground), of Air Space Management systems, and by the growing demand in Solution Solving systems and the supply of services and products.

The new Homeland Security requirements, including protection of national critical infrastructures, and coast and border control, are gradually diversifying the military business and steering it towards civil applications; this opportunity will allow Finmeccanica companies operating in the sector to gain access to any future allocation of national and international funds capable of offsetting the stagnation in European defence budgets.

Furthermore, it must be noted that, following the final agreement with BAE Systems Plc (BAE) on the acquisition of avionic business from BAE, and the dissolution of the AMS NV joint venture, signed on 29 April 2005, with the return of Italian activities under the full control of Finmeccanica, the sector's shape is bound to change, owing to its bigger size, hence, to the resulting increased weight on the Finmeccanica Group businesses, and to the changed composition in the order portfolio.

Within this context, results for Finmeccanica's Defence Electronics business were posted which are in line with those recorded in the previous financial year and particularly positive in commercial terms.

In the first quarter of 2005, **new orders** came to a total of €nil. 432, up by €nil. 123 compared to 31 March of 2004.

The major orders regarded:

- avionics: orders relating to the second tranche of the EFA programme, the supply of Mirach 100/5 targets to Great Britain and various orders in the space component, in addition to logistics activity;
- for radar and command and control systems: further activities involving the British Navy, regarding upgrade of the ADAWS display system and maintenance of T996 naval surveillance radars;
- for systems and integrated communication networks: orders for the integrated control panels on the A400M, for the lighting system on the A400M aircraft and for the transponder and New Generation IFF interrogator on the EFA2000 aircraft;
- for private mobile communications: orders for the supply of TBT components involving the Disaster Recovery system for a number of Italian airports.

The **order backlog** at 31 March 2005 came to €nil. 3,534, increasing by €nil. 62 compared to 31 December 2004 (€nil. 3,472).

**Value of production** amounted to €nil. 440 in the first quarter of 2005, with an increase of €nil. 18 compared to the same period of 2004. Most of the revenues came from:

- avionics: activities relating to the EFA programme, to the production of Grifo and PAR radars, and to the NH90 programme;
- radar and command and control systems: activities regarding PAAMS/FSAF naval and terrestrial missile systems, Orizzonte and Type 45 naval systems, 3D long range land radar systems and Air Traffic Control programmes, as well as customer support activity;
- systems and integrated communication networks: activities related to the supply of V/UHF radio systems on NATO AWACS aircraft, development for the NGIFF interrogator on the EFA2000 aircraft;
- private mobile communications: the supply and activation of a TETRA-based digital mobile radio network for the Russian Volga region, and the supply and activation of RCC devices and passenger counting system for 255 buses of Azienda Trasporti Milanesi.

At 31 March 2005, **EBITA** was in line with the value posted in the same period of the previous financial year, and amounted to €mil. 20, while **ROS** showed a slight increase, reaching 3.0% compared to 2.8% in March 2004.

At 31 March 2005, there were 11,748 **employees**, down by 39 compared to 31 December 2004, ascribable to Galileo Avionica and AMS reorganisation plans underway.

## DEFENCE SYSTEMS

€million	31 March 2005	31 March 2004
New orders	137	196
Order backlog	4,150	4,622
Value of production	198	259
EBITDA	11	14
EBITA	5	9
EBIT	-	4
ROS	-	1.5%
Employees (no.)	4,138	4,121

Defence Systems include MBDA for missile systems, the JV with BAE Systems and EADS in which Finmeccanica holds an equity investment equal to 25%, Oto Melara S.p.A. for land, naval, and air weapons systems, and WASS S.p.A. for underwater weapons (torpedoes and counter-measures) and sonar systems.

The first quarter of 2005 still witnessed the gap on the Defence Systems market dividing Europe and the United States in terms of investments, therefore of technical capabilities; activities still favoured anti-missile defence, the Network Centric Warfare (NCW), the use of Smart Weapons and of Unmanned Aerial Vehicles / Unmanned Combat Aerial Vehicles (UAV/UCAV).

In this frame, the missile industry confirmed the market's growth trend propelled by new operating requirements associated with activities regarding air and antimissile defence and precision attack systems, basically related to peace enforcement missions. The demand in smart bombs rose, owing to cheaper costs for the systems, capable of replacing the more expensive high-performance tactical guided missiles.

The conventional weapons field saw an upswing in the armoured vehicles market (either wheeled or tracked), spurred by the ambitious technological requirements of US (FCS) and UK (FRES) national programmes. Following operations in Iraq, MBTs have won back regard and are now undergoing upgrading and modernisation through integration of advanced electronics, in order to fit them into the Network Centric Warfare. Despite the

increasing popularity of missile systems (anti-aircraft, anti-ship, or for land attacks), naval cannons are still used to meet the evolution in operating requirements, especially in relation to security demands (against terrorist attacks, smuggling and drug trafficking). Specifically, this sector was marked by the integrated offer of both medium or large-calibre smart artillery and munitions, with the possibility to also include the small calibre type.

The underwater market will be spurred by the new operating requirements emerging in the surveillance and countermeasures field, associated with demands for protection against non-conventional threats (terrorism). In the medium-term, new naval programmes for surface and underwater vessels are expected both in Italy and in Europe, which will stimulate the demand for underwater systems.

In the first quarter of 2005, Finmeccanica's Defence Systems sector, as forecasted, scored lower results than in 2004, with a drop in production volumes and less profitable activities than in the past.

At 31 March 2005, **new orders** came to a total of €mil. 137, down by €mil. 59 compared to the value posted in the first quarter of 2004.

Mention must be made, also for its strategic importance, of the order related to the supply of 24 Black Shark heavy torpedoes to be installed on the submarines ordered last year from the German consortium DHW by the Portuguese Navy, an order won after tough competition with the rival German torpedo. The major orders acquired included the order for the supply, once again by WASS, of countermeasures for submarines of the Indian Navy, besides customer support activities in the missiles sector.

**Order backlog** came to €mil. 4,150 at 31 March 2005, essentially in line with the value posted at 31 December 2004 (€mil. 4,148).

**Value of production** stood at €mil. 198 in the first quarter of 2005, showing a decrease of 24% compared to the same period of the previous financial year (€mil. 259), basically due to the lower activities in the missile systems sector.

Most of the revenues came from:

- activities regarding the PAAMS surface-to-air missile systems for naval platforms and FSAF ground-based platforms, the production of the Storm Shadow air-to-surface missile systems for the British Ministry of Defence and SCALP EG for the French Ministry of Defence, the Brimstone anti-tank missile and customer support;
- land, naval and aeronautical weapons systems: the production of the turrets for the Centauro armoured car for the second *tranche* in the supply of 62 vehicles to the Spanish Army, the supply programmes for the Italian Armed Forces of the Dardo armoured vehicle and PZH2000 howitzer, as well as the production of 76/62 naval cannons.

**EBITA**, which stood at €mil. 5 at 31 March 2005, fell by €mil. 4 compared to the same period of the previous financial year, due, as predicted, to a mix of less profitable activities than in the past in the underwater sector, which privileged the development programme for the new heavy torpedo, and to one-off events which had helped the results posted at March 2004 (for example, higher royalties from the sale of naval cannons in Japan). Instead, the drop in production volumes in the missiles sector was offset, at EBITA level, by higher margins compared to March 2004, and by the effects arising from optimisation and cost-curbing policies.

Accordingly, **ROS** declined by 1.5 percentage points, compared to the first quarter of 2004.

At 31 March 2005, there were 4,138 **employees**, dropping by 9 compared to 31 December 2004.

## TRANSPORTATION

€million	31 March 2005	31 March 2004
New orders	293	238
Order backlog	3,732	3,430
Value of production	301	305
EBITDA	14	15
EBITA	8	9
EBIT	7	8
ROS	2.3%	2.6%
Employees (no.)	6,076	5,891

The Transportation division includes the companies Ansaldo Trasporti - Sistemi Ferroviari S.p.A. (Systems), Ansaldo Signal NV and its related concerns (Signalling) and AnsaldoBreda S.p.A. and its related concerns (Vehicles). They operate in all segments of the rail and mass transit business mainly on the European market, with a sizeable presence in North America and on the Asia-Pacific market for Signalling activities. Through the three companies, Finmeccanica offers its clients complete solutions to satisfy the most exacting transportation demands.

The rail and tram systems and components market continued to grow as in previous periods, thanks to a number of positive factors. In particular, the sector's core markets confirmed the following:

- Vehicles: the overall high level of demand in Europe, against a decline in some countries;
- Systems: a slowdown in orders granted on the European market, due to the deferred assignment of important works which should become effective in the short term;
- Signalling: the Italian market was by far the major market in Europe, thanks to the high volumes of orders granted by Ferrovie dello Stato.

In the first quarter of 2005, Transport, all in all, witnessed a trend basically in line with that of the first quarter of 2004, with a few elements marking the three businesses. In detail:

- Vehicles: profits lower than the same period of the previous financial year, due to a different mix of orders and to the revision of the estimates of a number of contracts;
- Systems: a surge in profits, thanks also to the release of funds made available following the settlement of a legal dispute;
- Signalling: a positive commercial trend, thanks to acquisitions on the domestic market by the Italian subsidiary Ansaldo Segnalamento Ferroviario.

**New orders** acquired in the first quarter of 2005 were worth €mil. 293, up by €mil. 55 compared to the same period of the previous financial year (€mil. 238), due to increased orders in the Signalling business, which include: the orders for the supplies to Rete Ferroviaria Italiana of ground systems related to the 2b phase of the “automatic train control systems” (SCMT) master agreement; the maintenance order involving the Madrid-Lerida *Alta Velocità* (High-Speed) rail link; the DART order acquired in the United States.

At 31 March 2005, the **order backlog** stood at €mil. 3,732, essentially in line with the value posted at 31 December 2004 (€mil. 3,728), guaranteeing a high level of production volumes in the next two financial years.

**Value of production** stood at €mil. 301 in the first quarter of 2005, essentially in line with the value posted in the same period of 2004 (€mil. 305).

The main orders for the Transportation division included:

- Vehicles: DMU trains for the Danish railways, new ETR500 *Politensione* locomotives for Trenitalia, trains for the Madrid subway, high volume passengers traffic trains for Morocco, orders for Sirio trams for Athens, Goteborg, Milan, Naples and Bergamo;

- Systems: *Alta Velocità* (High-Speed) contracts for Rome-Naples rail link, and the Copenhagen, Genoa, Brescia and Naples subways;
- Signalling: *Alta Velocità* (High-Speed) contracts for Italy, France, Spain, central static apparatus (ACS) for the UK and Italy, automatic train control systems (SCMT), both ground and aboard, for Italy.

In the first quarter of 2005, **EBITA** came to €mil. 8, down €mil. 1 compared to the first quarter of 2004, due to an improvement in Systems and worse results in both Vehicles, owing to lower industrial profits, and in Signalling, for lower volumes. **ROS** inched down, from 2.6% to 2.3%.

**Employees** at 31 March 2005 came to 6,076, up by 71 compared to 31 December 2004 (6,005), due to the increased personnel in the Signalling sector.

## ENERGY

€million	31 March 2005	31 March 2004
New orders	228	52
Order backlog	2,172	1,706
Value of production	132	152
EBITDA	8	5
EBITA	5	2
EBIT	5	2
ROS	3.8%	1.3%
Employees (no.)	2,537	2,532

This segment comprises Ansaldo Energia S.p.A., 100% owned, and by some smaller companies directly owned by Ansaldo Energia itself.

The Energy market kept on showing a weak demand in the European and Mediterranean regions, while the Middle East continued its good trend. The upswing in the Asian demand was confirmed, while significant signs of recovery were noticed on the US market. The Italian market, too, confirmed a higher demand, which impacted positively on Ansaldo Energia business.

In fact, during the first quarter of 2005, **new orders** acquired were worth €nil. 228, against a mere €nil. 52 in the same period of the previous financial year. The main orders acquired involved a contract with Piemonte Energia of the Electrabel Group, for construction of a power plant in Leinì (Turin) regarding a 380 MW combined cycle plant and related scheduled maintenance and orders for current service.

At 31 March 2005, the **order backlog** went up to €nil. 2,172, compared to €nil. 1,706 at 31 March 2004 and €nil. 2,089 at the end of 2004.

The **value of production**, at 31 March 2005, amounting to €nil. 132, was 13% lower compared to the first quarter of 2004 (€nil. 152), owing to lower business on low-profit

Iranian orders. The main production programmes regarded the new orders of Sparanise and Vado Ligure, continuation of activities for Enipower and service, up over the first quarter of 2004.

Profits in the first quarter of 2005 were higher than the results achieved in the same period of the previous year, with **EBITA** amounting to €nil. 5, compared to €nil. 2 in the first quarter of 2004, despite higher R&D costs for the implementation of the technological autonomy plan, thanks to a different mix of activities, with greater contribution from service and the constant improvement of efficiency and production plans. Accordingly, **ROS** rose to reach 3.8%, against 1.3% of 31 March 2004.

At 31 March 2005, **employees** were 2,537, dropping by 51 compared to 31 December 2004 (2,588).

## INFORMATION TECHNOLOGY

€million	31 March 2005	31 March 2004
New orders	217	173
Order backlog	593	335
Value of production	82	85
EBITDA	1	4
EBITA	(1)	2
EBIT	(1)	1
ROS	(1.2%)	1.2%
Employees (no.)	2,704	2,770

The Information Technology division includes Eltag S.p.A. (wholly-owned by Finmeccanica S.p.A.) and its subsidiaries, which primarily operate in: designing, integrating, and supplying IT systems and services; management and maintenance of equipment and systems; manufacture of and technical assistance for automated postal systems.

The first quarter of 2005 saw the start of the process to steer Eltag's business towards activities more consistent with the Finmeccanica Group's core business, following a reshaping of the company's mission, whose strategic guidelines may be summarised as follows:

- activities and resources steered towards defence, aerospace and security markets, and towards clients demanding large-scale automation systems, focusing development of technologies and system integration capabilities on dedicated projects and systems;
- gradual divestment of activities conducted so far on the traditional Information Technology market.

In particular, the first quarter of 2005 witnessed an organisational restructuring, with the transition from a "matrix" structure to a vertical organisation split up into Divisions capable of working independently on the markets and in favour of selected clients. The

second quarter of 2005 will see completion of the first stage of this process, with the acquisition - completed on 6 April 2005 - of the “Security” branch of business of Selenia Communications S.p.A. and acquisition from Alenia Spazio S.p.A. of Space Software Italia S.p.A.. Hence, as from the next report at 30 June 2005, Elsag will be definitely included in the Defence Electronics sector.

In connection with the Security business, note that, on 4 March 2005, TecnoSIS S.p.A. was set up (70% owned by Elsag), whose mission will be the outsourcing management of security services of Telecom Italia sites.

**New orders** were acquired in the first quarter of 2005 totalling €nil. 217, up by €nil. 44 compared to the first quarter of 2004 (€nil. 173); the major orders acquired included the new order involving technical assistance of mechanisation plants for Poste Italiane.

At 31 March 2005, the **order backlog** stood at €nil. 593, showing an increase of €nil. 350 compared to the value at 31 December 2004 (€nil. 243). The change in orders and in order backlog was also due, in particular, to the different accounting criteria for long-term orders (recording the entire order upon acquisition, instead of spreading the order over the years), adopted as from this report.

The **value of production** in the first quarter of 2005, equal to €nil. 82, was basically in line with the value posted in the first quarter of 2004 (€nil. 85).

**EBITA** in the first quarter of 2005 was €nil. -1, dropping by €nil. 3 compared to the first quarter of the previous year (€nil. 2), with a **ROS** equal to -1.2%.

**Employees** at 31 March 2005 stood at 2,704, up by 7 compared to 31 December 2004.

## OTHER ACTIVITIES

€million	31 March 2005	31 March 2004
New orders	3	14
Order backlog	38	93
Value of production	16	31
EBITDA	(22)	(17)
EBITA	(27)	(21)
EBIT	(27)	(21)
ROS	n.a.	n.a.
Employees (no.)	596	884

The sector includes: the Elsacom NV Group, which manages satellite telephony services; Mecfin - Meccanica Finanziaria S.p.A., a real-estate and service management company; Iritech S.p.A., holding the equity investment in Ansaldo Ricerche, to carry out spin offs of branches of business to be managed with other synergic partners, such as, for example, the production of energy through fuel cells with the subsidiary Ansaldo Fuel Cells S.p.A.; Finmeccanica Finance SA, responsible for financially supporting the Group; SO.GE.PA. - Società Generale di Partecipazioni S.p.A., responsible for directly managing the pre-winding-up/winding-up and rationalisation processes of companies falling outside the business sectors through transfer/replacement transactions and other smaller companies, including ALS S.p.A., a company transferring the branch of business to the Space sector. This company left a number of doubtful assets, deemed no longer functional to the development of the Space sector.

BredaMenarinibus S.p.A. was deconsolidated from the sector as from 1 January 2005, for which a preliminary sale agreement had been signed at the end of March 2005, still awaiting the Antitrust Authority's opinion.

## 6. The project for transition to IAS/IFRS

Under the European Union Regulation No. 1606 of 19 July 2002, all companies in the European Union listed on a regulated market will be required to prepare consolidated accounts in accordance with IAS (International Accounting Standards) and IFRS (International Financial Reporting Standards) from 2005. 2003 European Regulation has also delegated to the national governments the task of assessing the possible extension of the scope of application of the IAS/IFRS to cover the financial statements of listed companies on a compulsory basis and the accounts of subsidiaries of listed companies on a discretionary basis. Subsequently, the Italian Legislator has exercised the delegation in question (Legislative Decree No. 38/2005) providing that the above obligation starts to run, for listed companies, from 1 January 2006, on a discretionary basis (for unlisted companies as well) starting from the 2005 financial year.

In the light of the delays in the adoption process of the new standards both at a Community level with the definition of the reference principles and at a national level with their incorporation into Italian law, (particularly with regard to the tax implications) Finmeccanica has considered the following strategy for the adoption of the standards:

- the Consolidated Financial Statements of the Finmeccanica Group, drawn up on the basis of the new IAS/IFRS, are expected to be published starting from the 2005 half-year report;
- the statutory Financial Statements of Finmeccanica S.p.A. will be drawn up according to the current Italian accounting standards in the 2005 financial year, with the adoption of the new international accounting standards starting from 1 January 2006;
- the reference standards for the identification of financial instruments (IAS 32 “*Financial instruments: disclosure and presentation*” and IAS 39 “*Financial instruments: recognition and measurement*”) were finally approved by the European Union only in December 2004 in an abridged version with respect to the original provision. They will be applied by the Finmeccanica Group in the abridged version starting from 1 January 2005, showing the effects up to that date on the opening shareholders’ equity reserves.

In November 2003, Finmeccanica launched a complex project for the transition to IAS/IFRS in order to ensure the correct adoption of the new accounting standards. In addition to complying with the obligations imposed by the legislator, this was designed to ensure that the Group's accounts adhere even more closely to the requirements of international financial markets.

The project involves both the Parent Company and its Subsidiaries, and entails the setting-up of various working groups specialised in particular issues. These groups will be responsible for defining the new standards to be used for the Consolidated Financial Statements and for the Statutory Financial Statements of the Parent Company and its Subsidiaries. In particular, the activities of the working groups have concentrated on the identification of the main differences between the Italian accounting standards and the International Accounting Standards together with an evaluation of the alternative accounting treatments permitted under the latter. These considerations have been brought together in the preparation of a new "*IAS/IFRS Finmeccanica Group Handbook*". This will be the basis for the preparation of accounts starting from the 2005 financial year, including also the corresponding comparisons relating to the 2004 financial year. The second stage of the Project's activities has been focused on the implementation of management and administrative procedures and IT systems required for the reception of the new standards both at a consolidated level and with respect to the implications for the individual statutory financial statements. Consistently with the strategy described above, this latter activity is still in progress, including the subsequent developments of the project for the adoption of the new IAS/IFRS.

In April 2004, a "provisional project organisation" was set up to support in a well-organised and effective manner the Group's transition to the international accounting standards with the establishment of a Technical Committee and Steering Committee, responsible for management and coordination of the project.

The analysis conducted so far leads to believe that, with respect to the criteria currently adopted, the main innovative aspects relate to the following areas:

- ***goodwill***. This item will no longer undergo systematic amortisation, but regular valuation to recognise any long-term loss of value (“impairment test”);
- ***intangible assets***. Some types of intangible assets which are capitalised on the basis of current standards might not satisfy the conditions required by the international accounting standards, particularly with reference to start-up and expansion costs, leasehold improvements and other intangible assets;
- ***tangible assets***. Assets used under what can be described as “capital” lease contracts (or transferred by means of what can be defined as “capital” lease when Group companies are in the position of lessors) must be entered pursuant to IAS 17. This accounting method means that the transaction is recorded as the purchase or sale of the asset with the simultaneous identification of the related financial payables or receivables. The lessee’s income statement must show the effects of depreciation of the asset purchased in leasing and the financial charges in place of the amount of the lease charges;
- ***investments***. The equity method, previously applied by the Parent Company and by the consolidated companies, in the valuation of equity investments, will no longer be possible to apply in separate accounts;
- ***scope of consolidation***. The international accounting standards require the consolidation of all subsidiaries irrespective of the existence of relations based on the equity ownership. This standard, when applied to the Finmeccanica Group, will mean the consolidation of some special-purpose vehicle companies operating in the Aeronautics sector. Companies will also be included within the scope of consolidation which, even though in a state of liquidation, nonetheless satisfy the conditions for consolidation;
- ***staff severance provision***. The staff severance provision will no longer be entered on the nominal amount of the payable accruing at the closing date of the financial statements. It will now be effected on the basis of actuarial and financial valuations designed to establish the current value of the benefit to be paid to the employee on the cessation of the employment relationship in accordance with the international accounting standards referring to defined benefit plans;

- ***other employee benefits.*** Pension plans with defined benefits are typical of the Anglo-Saxon context. These indeed characterise the British components of AgustaWestland, and will be recorded in accordance with actuarial and financial valuations. As provided for under the international standards, the actuarial losses not entered under the previous standards will be shown on the transition date. In addition, other forms of long-term benefits to employees (such as, for example, seniority bonuses) will be shown in the financial statements on the basis of the same actuarial and financial assumptions;
- ***stock options.*** Plans assigning shares to Group employees and managers are currently shown in the financial statements, according to national standards, as capital increases at the time of subscription. Under the international standards they will be shown as costs for the period on the basis of financial valuations designed to identify the fair value of the financial instruments assigned;
- ***extraordinary items.*** The new financial statements formats do not include extraordinary items;
- ***provisions for risks and charges.*** The amounts to be allocated to the provision for risks and charges will be determined by discounting the costs shown in the provisions made in the financial statements when it is likely that they will be incurred more than 12 months following the closing date of the financial statements themselves. In the case of some categories of provisions for risks (for example, provisions for restructuring) formal requirements are imposed by the international accounting standards not contained in current national standards in order to ensure the liability is recognised in the financial statements;
- ***compound financial instruments.*** Compound financial instruments will be evaluated separately for each of their components, separating derivatives from equity instruments. The application of this standard to the debt instruments issued or guaranteed by Finmeccanica (convertible loans and exchangeable debenture loans with underlying STM shares) will have a positive effect on the initial shareholders' equity at the date of application of the previously cited IAS 32 and IAS 39 (1 January 2005) due to the reduction in value of the liability correlated to the premium component cashed at the date of the transaction;

- *derivative instruments*. The Group hedges exchange risks affecting credit and debit flows correlated to the performance of long-term foreign exchange contracts in which it is a party, together with the interest rate risks linked to its own debt position. The application of IAS 39 will lead to recognise significant changes in equity since it assumes that shareholders' equity may be affected by the fair value, whether positive or negative, of the hedging derivatives at the date when the hedged underlying item has taken economic form.

## 7. Outlook

As already mentioned earlier, with regard to the evolution in the Group's performance, to date, there are no signs that indicate trends or results basically different from those forecasted.

The forecasts below for the 2004 financial year were made on a *pro-forma* IAS/IFRS basis, which also includes the economic consolidation of AgustaWestland at 100%; instead, for 2005, the effects deriving from the recent acquisition of BAE Systems Plc (BAE) activities were not included.

More in detail, 2005 forecasts see production volumes rising by approximately 3.5 percentage points over 2004 figures, with a resulting higher EBIT both in absolute terms and in percentage up by 0.5%. Besides the foregoing results, integration of BAE activities will entail sizeable integration costs required to achieve the predicted significant synergies.

To conclude, the constant monitoring of working capital trends, in the face of heavy investments required for the development of new production, will help create a fairly positive cash flow which should not modify the Group's level of net financial debt reached at 31 December 2004.

For the Board of Directors  
Chairman and Managing Director  
(Pier Francesco Guarguaglini)