

Board of Directors approves the 1H05 results: EBIT +29% (from EUR 195 million to 251 million); net profit at EUR 105 million, from EUR 94 million in 1H04.

The group consolidates AgustaWestland and the assets acquired from BAE Systems. Orders shoot up 123% to EUR 7,872 million.

Focus on integrating acquisitions and growing profitability. Management confirms its guidance for FY2005.

- EBIT rose 29% in 1H05, following growth of 13% in value of production to EUR 4,958 million. Net profit was EUR 105 million, vs. EUR 94 million in the same period of 2004 (which benefited moreover from EUR 62 million from the stake in STM).
- New orders were up 123% on 1H04, thanks mainly to the US101 and the Eurofighter electronics programmes.
- The group has consolidated AgustaWestland and, in May, the operations acquired from BAE Systems.
- Debt EUR 1,952. This was mainly due to strategic acquisitions and the new IAS principles, as well as to the typically seasonal nature of the business. The group's balance sheet remains sound (debt/equity ratio: 43%).
- Revenues in Finmeccanica's core businesses did particularly well: Aeronautics +6%, Defence Electronics +6% and Space +5%.
- Research and development spending went up 13% y/y, to EUR 711 million.

### Key 1H05 figures (EUR million)

	First half 2005	First half 2004	Tot. chg.	Chg %
Revenues	4,721	4,201	520	12%
Value of production	4,958	4,374	584	13%
EBIT	251	195	56	29%
EBIT margin	5.1%	4.5%		
Net profit	105	94	11	
New orders	7,872	3,526	4,346	123%
Order backlog	30,897	24,315*	6,582	
Net debt	1,952	701*	1,251	

\* Result at 31.12.2004

**Pier Francesco Guarguaglini**, Chairman and CEO, commented: "The good results generated in the first half of 2005 confirm that the moves undertaken over the last three years to strengthen the business and shift its strategic position are paying off. The focus now will be on integrating our new activities so as to start generating significant synergies. Finmeccanica's recent growth, achieved through major acquisitions, now makes the group one of the leading players on the world stage, and is bringing us increasing success on the international market. Today, Finmeccanica is the second-largest operator in the UK, and has also won prestigious contracts in the US and on the main global markets".

**Finmeccanica** is Italy's leading high-tech company, operating in the design and manufacture of aerostructures, helicopters, satellites, space infrastructure, missiles and defence electronics. It plays a leading role in the European aerospace and defence industry, and participates in some of the biggest international programmes in the sector through well-established alliances with European and American partners. Finmeccanica also boasts significant manufacturing assets and skills in the transport, energy and IT sectors. The group is listed on the Milan stock exchange, and operates in Italy and abroad through 16 companies and 6 joint ventures. It employs around 55,000 staff in total. As part of its drive to maintain and build on its technological expertise, Finmeccanica spends the equivalent of over 16% of its revenues on research and development.

**KEY FIGURES**

**Value of production** stood at EUR 4,958 million at 30 June 2005, a sharp increase of +13% on the EUR 4,374 million generated in 1H04. The result was in line with targets, and was due essentially to the consolidation of AgustaWestland and the operations acquired from BAE Systems.

**EBIT** came in at EUR 251 million, vs. EUR 195 million last year, an increase of EUR 56 million. The improvement was due particularly to Aeronautics (+EUR 18 million), Space (+ EUR 31 million) and Energy (+EUR 6 million). The Transport division was boosted by good performances from Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari, while AnsaldoBreda's results were dragged down by increased costs relating to some international contracts. However, the rationalisation programme launched by Finmeccanica at the same time as a management changeover, together with a capital increase of EUR 61 million, should enable a recovery from 2006.

**Net profit** rose to EUR 105 million, compared with EUR 94 million in 1H04. In accordance with IAS, the stake in STM has been valued at equity, and is not included on the profit and loss account. STM contributed EUR 62 million to net profit in the same period of last year. The total rise in net profit in 1H05 is therefore EUR 73 million, due mainly to the increase in EBIT and the reduction of the tax burden.

As is usual in the first half of the year, the **debt** figure (EUR 1.952 million) was affected by the seasonal nature of the business, which means that receipts from customers come mostly in the second half of the year. The rise in debt was also due in significant measure to two factors: the effects of the application of IAS, and the impact of the large investments (EUR 528 million) made as part of the drive to shift the group's strategic position.

Although debt has increased, the acquisitions will enable the company to achieve significant synergies and increase the profitability of the new companies, thus ensuring the continuation of a conservative financial management policy.

The group secured **new orders** worth EUR 7,872 million in 1H05, compared with EUR 3,526 million in 2004, an increase of 123%. The biggest contributors to this performance were the Helicopters division, following the acquisition of the order for the first tranche of the US101 presidential helicopter contract, and Defence Electronics, thanks to the second tranche of the EFA contract to manufacture the Defensive Aids Sub System (DASS). Some 63% of total new orders related to the defence sector, compared with 44% in the same period of last year.

The **order backlog** stood at EUR 30,897 million at 30.06.05, a rise of EUR 6,582 million on the EUR 24,315 million figure recorded at 31.12.04. This is equivalent to around 2.7 years' production. About 27% of current orders will be carried out in 2006. The agreement with BAE Systems accounts for EUR 2,620 million of the increase in orders.

Finmeccanica continued to increase its investment in **research and development**, spending EUR 711 million, compared with EUR 624 million in 2004 (+13%). The main activities included: prototypes and technologies for aerostructures and systems integration (Aeronautics); the CosmoSkyMed, Galileo and International Space Station programmes (Space); the development of the A149 and the BA609, as well as the variants on the basic EH101, NH90 and A109 LOH/LUH models (Helicopters); and avionics activities, command and control systems, integrated communication systems and networks, and private mobile communications (Defence Electronics).

The **headcount** at 30 June 2005 was 55,449, an increase of 6,133. This was chiefly due to the agreements with BAE Systems. The group has more than 14,000 employees abroad.

**FIRST-HALF HIGHLIGHTS AND SIGNIFICANT EVENTS SINCE JUNE 2005**

On 1 March 2005, the Eurely consortium (of which Finmeccanica is a member) was selected, together with the rival iNavSat consortium, to enter the final evaluation phase to win the concession for the **Galileo** satellite system. In June, the Galileo Joint Undertaking authorised the merger between the two consortia and began the negotiations, which should lead to the signing of a concession agreement by the end of 2005.

In March 2005 Finmeccanica SpA launched a new 20-year **bond issue** worth EUR 500 million, with a coupon of 4.875%, maturing in March 2025. The issue has been placed entirely with European institutional investors, and will provide some flexibility to Finmeccanica's finances. It has also lengthened the group's debt from an average of five to 10.4 years, helped by the reimbursement of another bond loan in June.

On 29 April 2005, **Finmeccanica and BAE Systems** signed the definitive agreement for the Eurosystems project, making Finmeccanica Europe's second-largest operator and sixth in the world in the field of defence electronics, generating turnover of more than EUR 3 billion from the business. The agreement created a new avionics company, Selex Sensors and Airborne Systems SpA (75% Finmeccanica and 25% BAE Systems); in addition, BAE's military communications operations were transferred to Finmeccanica, as were the Italian operations of the AMS NV joint venture, under the name Selex Sistemi Integrati SpA.

On 1 July **Finmeccanica and Alcatel** signed an agreement to set up two companies, dedicated to satellite manufacturing and services respectively. Alcatel Alenia Space SAS, (owned 33% by Finmeccanica) will focus on the design, development and production of satellites, payloads, and other space equipment and systems. Telespazio Holding Srl (owned 67% by Finmeccanica) will provide services for satellite solutions. The aim of the agreement is to develop major synergies and economies of scale, in order to improve the group's market position in the space sector and make it European leader.

On 27 July 2005 Finmeccanica signed an agreement for the acquisition of a 52.7% stake in the Italian IT company **Datamat SpA**. The group will subsequently launch a takeover bid for all the remaining shares.

On 18 August 2005 Finmeccanica signed a memorandum of understanding (to be followed by a binding agreement) with the Russian federal agency for industry. Under the agreement, **Alenia Aeronautica** and **Sukhoi** will work together to develop a new family of regional transport aircraft for the civil market. On the same day, Finmeccanica also signed three separate agreements with other Russian companies in the sectors of aviation design, training aircraft and unmanned aerial vehicle (UAV) technology.

**OUTLOOK**

Finmeccanica projects year-on-year revenue growth of over 20% in 2005, taking EBIT to around EUR 700 million. This forecast includes the consolidation of 100% of AgustaWestland for the whole year, and the consolidation of the defence electronics operations acquired from BAE Systems from 1 May 2005, as well as the consolidation of the space operations included under the joint venture with Alcatel from 1 July 2005. In 2006, revenues are expected to rise by a further 10%, with EBIT rising to some EUR 800 million. In addition, the company estimates that it will generate cumulative operating free cash flow of over EUR 600 million over the three years from 2005 to 2007. The projections include the impact of the new IAS/IFRS accounting principles.

The integration of new acquisitions (especially BAE's avionics operations), and the consolidation of those currently under way, will generate major integration costs. However, these are necessary to enable the management to create significant synergies. Continued close monitoring of working capital, against a backdrop of the major investments needed to develop new products, will lead to moderately positive cash flows. No change is therefore expected in net debt from the level recorded at 30.06.05.

## RESULTS BY SECTOR OF ACTIVITY

**Helicopters**Companies: **AgustaWestland** (\*)*Value of production: EUR 1,168 million (+1%); EBITA: EUR 127 million (-7%)**(\*) Figures and comments refer to 100% of the company. Finmeccanica took 100% control of AgustaWestland on 30 November 2004.*

The global helicopters market is experiencing a growth trend caused by the need for fleet replacement in countries that spend significant amounts of their GDP on defence, such as the US and the UK. The defence sector accounts for 75% of world demand for helicopters, and in the first six months of 2005 Finmeccanica posted a good performance thanks to the US101 and the contracts signed with the UK Ministry of Defence.

**Value of production** stood at EUR 1,168 million, in line with the figure posted at 30 June 2004 (EUR 1,159 million). AgustaWestland's main programmes during the first six months of the year include: completion of the first batch of EH101 for the Italian navy; delivery of Super Lynx 300s to Oman and South Africa, the AB139 (of which nine were delivered during the first half); the first delivery of the Grand; the upgrading of the A129 for the Italian army; and the A109E Power for South Africa and Sweden.

**EBIT** at 30 June 2005 came in at EUR 127 million, a slight dip on the same period of last year, but better than forecast. The decrease was due to the limited input from some major contracts (such as the Apache in the UK), which had made a significant contribution in the previous six-month period. However, thanks to efficiency gains deriving from the integration of the Italian and UK operations, the result for the whole of 2005 will show a significant improvement on the figure at end-2004. **ROI** stood at 12.5% at 30.06.05, unchanged compared with 30.06.04 and 31.12.04. **ROS** fell from 11.8% to 10.9%.

**New orders** totalled EUR 2,420 million, a sharp rise on the EUR 542 million posted at 30.06.04.

**The order backlog** totalled EUR 7,155 million at 30 June 2005, an increase of around 36% vs. the EUR 5,238 million posted at 31 December 2004. The rise was due to orders acquired in early 2005 that were originally expected by the end of last year; these include the first tranche of the US presidential helicopter, valued at about EUR 800 million. Given the size of the order backlog, the company should be able to maintain the same production volumes as last year.

The **headcount** was 8,627, a decrease of 341 on the headcount at 31 December 2004 (8,968).

**Defence electronics**Companies: **Selex Sensors and Airborne Systems, Selex Communications, Selex Sistemi Integrati, Eltag, Sistemi Navali Internazionali, Seicos***Value of production: EUR 1,219 million (+6%); EBIT: EUR 81 million (-7%) \***\* Figures are not like-for-like owing to the consolidation of 100% of Selex Sensors and Airborne Systems SpA and 100% of Selex Sistemi Integrati SpA from 1 May 2005; the deconsolidation of AMS Ltd from 31 December 2004, and the consolidation of 100% of Seicos from 1 January 2005.*

The agreement signed at the end of April 2005 with BAE Systems profoundly changed the face of the Defence Electronics business for Finmeccanica. The new agreement is of particular importance in the avionics field, since it completes Finmeccanica's range of skills and products, especially in the sector of electronic warfare self-protection systems. The group's existing know-how and technologies have been further enhanced by BAE's state-of-the-art systems. The acquisition of BAE Avionics will also

enable Finmeccanica to speed up its strategy of penetrating the US market, thanks to BAE Avionics' participation in a number of important military programmes that are expected to see strong growth in the next few years.

The strategic decisions made by Finmeccanica yielded significant results in the first six months of the year, with EFA (avionics) contracts making the group one of the consortium's main suppliers. The defence electronics market is worth around 20% of global demand in the aerospace, defence and security sector (valued at around EUR 300 billion), with a projected growth rate of around 6% a year until 2009.

**Value of production** was EUR 1,219 million, up EUR 73 million (6%) on the same period last year, mainly due to growth in the Security division and in communication systems, as well as the change in the basis of consolidation.

**EBIT** was EUR 81 million in 1H05, down EUR 6 million compared to the same period of 2004; this was due to a delay in signing the Tetra contract and a temporary decline in profitability, which is expected to recover in the second half of the year. This is reflected in a slight drop in **ROS**, from 7.6% at 30 June 2004 to 6.6%. **ROI** fell from 12.9% to 6.3%.

**New orders** totalled EUR 2,849 million, up EUR 1,771 million on the same period last year. One of the chief contributors was the order for Selex Sensors and Airborne Systems for the production of DASS (Defensive Aids Sub System) for all Eurofighter Typhoons in the second tranche of production. Selex Sistemi Integrati also received an important order from MBDA Italia for activities relating to multifunctional active radar and surveillance radar for MEADS (Medium Extended Air Defense System). The most significant orders for integrated communication systems and networks related to the A400M and Typhoon EF2000 programmes, while the group received orders for Personal Role Radios from the UK and the US.

The **order backlog** was EUR 7,337 million at 30 June 2005, up EUR 4,480 million compared to 31 December 2004, owing to the consolidation of Selex Sensors and Airborne Systems Ltd, after which activities in avionics account for 62% of the sector's total portfolio.

The **headcount** rose 6,134 to 18,730, owing to the larger basis of consolidation and the 100% consolidation of Selex Sistemi Integrati.

## Aeronautics

Companies: **Alenia Aeronautica, Aeronavali, Aermacchi, GIE ATR**

*Value of production: EUR 934 million (+6%); EBIT: EUR 49 million (+58%)*

The Aeronautics business confirmed in 1H05 the growth forecasts made in 2004, on the back of increased activity in large civil programmes (Boeing and Airbus), more work on own aircraft production (ATR), and, in the international arena, the stimulus provided by the agreement sealed in Paris by the main European heads of state for the Neuron unmanned aircraft programme. Alenia Aeronautica, the main company in the segment, captured some important contracts, including the order to supply eight C-27J aircraft to Bulgaria, the contract to provide ten ATR72 ASW aircraft to the Turkish navy, and the sale on the commercial market of 52 ATRs by subsidiary GIE ATR.

**Value of production** stood at EUR 934 million at 30.06.05, compared with EUR 883 million in 2004 (+5.7%). The rise was due to increased activity on the C27J and the Eurofighter; upgrades on the Tornado and the AMX for the Italian air force; the SF260 and MB339 programmes; and a rise in production of engine nacelles, which offset the slight fall in aerostructure production and aircraft conversion.

**EBIT** rose from EUR 31 million in 1H04 to EUR 49 million in 1H05, mainly on the back of greater activity relating to the ATR, better results at Aermacchi and contributions to the C-27J, AMX and JSF military programmes. **ROS** fell from 3.5% at 30 June 2004 to 5.2%.

**New orders** shot up by 78%, from EUR 600 million in 1H04 to EUR 1,067 million. The increase was largely due to the Eurofighter and JSF programmes, the mid-life upgrade of the Tornado, and the ATR and MD-11 cargo programmes.

The **order backlog** at 30 June 2005 stood at EUR 5,674 million, with significant proportions going to the Eurofighter (68%), C-27J (8%) and AMX (5%) programmes.

The **headcount** was up 148 compared to 31 December 2004, to 10,852.

### Space

Companies: **Alenia Spazio, Telespazio.**

*Value of production: EUR 373 million (+5%); EBIT: EUR 21 million (n.s.)*

The alliance with Alcatel was not operational in the first half of the year. The final contract, signed in January, was finally ratified following the approval by the European authorities on 1 July. The agreement radically changed the group's prospects in the sector: previously a niche player, it is now a market leader, just as demand is picking up again in Europe. The commercial space market has recently shown signs of a recovery. The greatest growth is concentrated in broadband systems and in services, while institutional demand in Europe—which is marked by slow growth in the short term—will in the next few years represent a source of strength for industrial space activities, through programmes such as Galileo for satellite navigation and GMES for land monitoring.

**Value of production** rose by EUR 18 million (+5%) in 1H05, from EUR 355 million in 1H04, mainly thanks to greater activity in programmes relating to the International Space Station (ATV vehicle and Node 3) and the Herschel/Plank scientific satellite.

**EBIT** was EUR 21 million at 30 June 2005, an increase of EUR 31 million over the same period last year, which was affected by restructuring provisions and write-downs. This increase is attributable to the implementation and consolidation of the restructuring undertaken last year at Alenia Spazio and Telespazio, and also to the lower cost structure and greater business volumes. This performance was also reflected in **ROS**, which improved from a negative 2.8% in 1H04 to a positive 5.6% in 1H05. **ROI** rose from 13% at end-2004 to 17.6%.

**New orders** totalled EUR 267 million, up EUR 19 million on the same period last year.

The **order backlog** at 30 June 2005 was worth EUR 1,306 million, down from the EUR 1,413 million registered at 31 December 2004.

The **headcount** was 3,282 at 30 June 2005, up 22 on the figure of 3,260 registered at 31 December 2004.

### Defence systems

Companies: **OTO Melara, WASS, MBDA**

*Value of production: EUR 469 million (-10%); EBIT: EUR 20 million (-39%)*

Finmeccanica's Defence systems business includes the activities of MBDA, a joint venture with BAE Systems and EADS, in which Finmeccanica holds a 25% stake, and the activities of OTO Melara in land, naval and airborne systems, and the business of WASS in underwater weapons and sonar systems. In 1H05, the Defence systems business posted weaker results although in line with forecasts.

**Value of production** was EUR 469 million in 1H05, lower than in 1H04, mainly as a result of less activity in land and airborne systems.

**EBIT** totalled EUR 20 million in 1H05, down EUR 13 million on the same period last year. The decrease, which was in line with forecasts, was due to lower production volumes and a less profitable mix of activities than in the past. Specifically, in the underwater sector, the huge development costs for

the new heavy torpedo had a negative impact on the EBIT figure. As a result, **ROS** fell by around two percentage points against the same period last year.

**New orders** totalled EUR 332 million, up EUR 49 million compared to 30 June 2004, thanks to orders for MEADS, Mica air-to-air missiles, PAAMS, torpedoes for the Portuguese navy and countermeasures for the Indian navy's submarine fleet.

The **order backlog** at 30 June 2005 totalled EUR 4,124 million, of which around two thirds related to missile systems. The result was in line with the figure at 31 December 2004.

The **headcount** was 4,138, nine less than at 31 December 2004.

## Energy

Companies: **Ansaldo Energia**

*Value of production: EUR 338 million (-1%); EBIT: EUR 12 million (+100%)*

Growth in global demand for power generating plants and equipment remained strong, driven by demand in China and India for traditional fossil fuel plants. The strong levels of demand seen last year on the Italian market were maintained, and this trend is likely to continue in the short to medium term.

**Value of production** was EUR 338 million at 30 June 2005, broadly in line with the same period last year. This came from the plant segment (70%), services (22%) and the nuclear division (8%).

**EBIT** was EUR 12 million in 1H05, double the figure for the same period last year, despite higher research and development costs (EUR 5 million compared to EUR 3 million last year). This result was achieved thanks to a different mix of activity, a greater contribution from services and the ongoing improvement in efficiency and productivity plans. As a result, **ROS** rose from 1.7% to 3.7%.

**New orders** stood at EUR 436 million, vs. EUR 91 million in 2004. The 380% increase was due to the increasing presence of Ansaldo Energia in Europe and Asia. Some 69% of orders related the plant segment, 27% to services and 4% to the nuclear division. The main orders included a 380 MW combined-cycle plant for the Leine facility in Piedmont, and a power block for the 800 MW combined cycle plant in Escatron (Spain).

The **order backlog** was EUR 2,181 million at 30 June 2005, 4% up on the figure at 31 December 2004.

The **headcount** was down 44 compared to 31 December 2004, to 2,544.

## Transport

Companies: **Ansaldo Trasporti Sistemi Ferroviari, Ansaldo Signal, AnsaldoBreda**

*Value of production: EUR 586 million (-16%); EBIT: EUR -13 million (-152%)*

In the first six months of 2005, the Transport division reported varied results in the different business areas. Both Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari registered an excellent performance, boosted by greater orders and a significant increase in operating profit (+EUR 14 million). AnsaldoBreda put in a negative performance, however. Its EBIT dropped by EUR 52 million owing to delays in delivery times on some orders (Denmark and Norway).

Europe was again the main global market. Italy has significant growth prospects, mainly in urban transport systems and high-speed trains. China and India continue to register very strong growth in demand and are destined to play an increasingly important role on the international market.

**Value of production** was EUR 586 million at 30 June 2005, down EUR 108 million compared to 30 June 2004 (EUR 694 million), as a result of difficulties in the Vehicles segment.

**EBIT** was negative to the tune of EUR 13 million, a drop of EUR 38 million on the positive figure of EUR 25 million posted in 1H04. This was due to a decline in the Vehicles segment (**ROS** -19.4%), only partly offset by an improvement in Systems (**ROS** 10.7%) and Signalling (**ROS** 9.6%), which both saw a significant increase in profitability. Overall **ROS** for the sector declined as a result, and was a negative 2.2%, compared to a positive 3.6% in 1H04.

**New orders** totalled EUR 836 million, a decrease of EUR 251 million on the same period last year (EUR 1,087 million) due to fewer orders in the Vehicles business, partly offset by higher orders in Signalling and Systems.

The **order backlog** at 30 June 2005 was EUR 3,921 million, up EUR 265 million compared to 31 December 2004 (EUR 3,656 million), equivalent to around three years' production.

The **headcount** was 6,207, an increase of 202 compared to 31 December 2004, due to the increase in staff in the Signalling and Vehicles business.

## Profit (loss) for the period

For the first time, the balance sheet and the profit and loss account have been prepared in accordance with the new IFRS accounting standards. The main items of the balance sheet and the profit and loss account are shown based on the following assumptions:

- following the adoption from 1 January 2005 of IAS 32 and 39 regarding the treatment of financial instruments, figures are not comparable with those of previous periods, particularly with regard to the profit and loss account;
- note that the sale of a total 96 million shares in StMicroelectronics NV (STM) in 2004, both directly and indirectly through the sale of around 30.4% of shares in holding company STMicroelectronics Holding NV (STH), gave the group an indirect stake in STM of around 6.6% and a direct stake of around 19.6% in STH. Following the adoption of IFRS principles, and more specifically IAS 39, Finmeccanica SpA has classified this shareholding as available for sale. It is therefore recorded at fair value with a compensating entry under shareholders' equity. The 1H05 profit and loss account does not therefore include any contribution from the stake in STM, which showed an attributable profit of EUR 62 million in 1H04.
- lastly, comparisons between the periods, particularly with regard to profit and loss account entries, are not always meaningful, as at 30 June 2004, the AgustaWestland joint venture was still consolidated proportionally at 50%, but was fully consolidated from December 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNT			
€mil.	1H 2005	1H 2004	Change %
<b>Revenues</b>	<b>4.721</b>	<b>4.201</b>	<b>12%</b>
<b>Value of production</b>	<b>4.958</b>	<b>4.374</b>	<b>13%</b>
Cost of goods, services and labour	(4.578)	(3.954)	
Depreciation and amortization	(155)	(144)	
Provisions for risks and charges	(10)	(17)	
Restructuring costs	(10)	(41)	
Other operating revenues (costs)	46	(23)	
<b>EBIT</b>	<b>251</b>	<b>195</b>	<b>29%</b>
<i>EBIT Margin</i>	<i>5,1%</i>	<i>4,5%</i>	
Financial income (expenses)	(64)	20	
Income taxes	(82)	(114)	
<b>Profit before discontinued operations</b>	<b>105</b>	<b>101</b>	<b>4%</b>
Profit of discontinued operations	-	(7)	
<b>Net profit</b>	<b>105</b>	<b>94</b>	<b>12%</b>

**Value of production** jumped by 13.4%, from EUR 4,374 million in 1H04 to EUR 4,958 million in 1H05, a rise of EUR 584 million largely attributable to the increased contribution of AgustaWestland. Other sectors put in mixed performances. Growth sectors included:

- Aeronautics, where value of production rose 5.6% to EUR 51 million compared to 1H04, both in the military segment owing to increased activity on the C27J, particularly in relation to aircraft for Greece, and in the civil segment, which saw growth in the production of the GIE/ATR and engine nacelles, offsetting the slight fall in aerostructure production and aircraft conversion;
- Defence Electronics, where value of production rose EUR 73 million, largely as a result of the acquisition of the avionics activities of BAE Systems Plc at the end of April 2005;

The following sectors saw a decline in value of production:

- Defence Systems, where value of production fell 10.2% to EUR 53 million compared to the same period last year, owing to less activity in the land and aeronautics systems segment;
- Transport Systems, where value of production fell EUR 108 million (-15.6%). This drop was attributable to AnsaldoBreda SpA, as the value of production of Ansaldo Signal NV, its subsidiaries and Ansaldo Trasporti Sistemi Ferroviari SpA is broadly in line with that of 1H04.

**EBIT** came in at EUR 251 million, up EUR 56 million on the EUR 195 million recorded at 30 June 2004. The EBIT margin also improved, from 4.5% in 2004 to 5.1% in 2005. Again, the bigger contribution from AgustaWestland is the main reason for the increase. Other sectors put in mixed performances. Growth sectors included:

- Aeronautics, where EBIT rose EUR 18 million, mainly due to greater business volumes in 1H05 compared to 1H04 for the reasons mentioned above;
- Space, where EBIT rose by EUR 31 million, as 1H04 was affected by provisions/write-downs aimed at restructuring non-core activities. The result was also partly due to recently-concluded agreements with Alcatel leading to the creation of two joint ventures, one in manufacturing (Finmeccanica's share: 33%) and the other in satellite services (Finmeccanica's share: 67%);
- Energy, where EBIT rose by EUR 6 million, as a result of the different mix of activities, a greater contribution from services and the impact of efficiency and productivity plans;
- Transport, where EBIT rose EUR 14 million, as Ansaldo Signal NV, its subsidiaries and Ansaldo Trasporti Sistemi Ferroviari SpA benefited from a significant increase in industrial profitability;

The following businesses saw a decline in EBIT:

- Defence Systems, where EBIT fell EUR 13 million, although this was broadly in line with forecasts. The drop was due to the above-mentioned drop in production volumes and a less profitable mix of activities than in the past, particularly in the underwater segment, which focused on the development of the new heavy torpedo;
- Defence Electronics, where EBIT dropped by EUR 6 million, due partly to delays in the Tetra order and partly to a temporary decline in profitability, which is however expected to recover by the end of the year;
- in the Transport sector, AnsaldoBreda SpA saw a EUR 52 million decline in EBIT. As delays in expected delivery times intensified, the new management of AnsaldoBreda SpA was set the task of implementing a complete restructuring programme aimed at increasing efficiency/competitiveness on both the domestic market and the international market in particular. This required estimates regarding the "whole life" of certain contracts to be revised, and lead to the inclusion of significant extra costs on the balance sheet.

First-half **consolidated net profit** stood at EUR 105 million, compared to EUR 94 million in the same period last year.

For the reasons mentioned above, for a like-for-like comparison of the results, the contribution of STM (EUR 62 million) should not be included in the consolidated net profit figure for 1H04, which then comes out at EUR 32 million. The group therefore registered an overall improvement of EUR 73 million in 1H05. This is largely attributable to the EUR 56 million rise in EBIT.

Note that net financial expenses grew by EUR 13 million, and the value of investments fell by EUR 9 million (chiefly due to the performance of Avio SpA which declined by EUR 16 million). These were more than offset by the improvement in discontinued operations (loss of EUR 7 million relating to BredaMenarinibus SpA in 1H04) and a fall in tax of EUR 32 million.

**Tax** at 30 June 2005 totalled EUR 82 million, of which EUR 50 million related to IRAP (EUR 48 million in 1H04); excluding this figure, the group's theoretical tax rate, calculated in relation to pre-tax profit, was around 18%, compared to around 35% in 1H04. This is partly attributable to the decline of one percentage point in the IRES-IRPEG rate, and partly to the decision, as in 1H04, to opt for taxation at consolidated level, following the introduction of new tax laws.

BALANCE SHEET		
	€mil.	
	30/06/2005	31/12/2004
Non-current assets	7.397	5.520
Non-current liabilities	(2.008)	(1.877)
	5.389	3.643
Inventories	5.161	4.589
Construction contracts	2.671	2.169
Receivables	3.610	3.353
Trade payables	(3.024)	(2.832)
Customer advances	(3.713)	(3.214)
Provisions for risks and charges S/T	(573)	(514)
Other net current assets (liabilities)	(3.030)	(2.975)
<b>Net working capital</b>	<b>1.102</b>	<b>576</b>
<b>Net invested capital</b>	<b>6.491</b>	<b>4.219</b>
Group's equity	4.100	3.627
Minorities interests	449	22
<b>Shareholders' equity</b>	<b>4.549</b>	<b>3.649</b>
<b>Net debt</b>	<b>1.952</b>	<b>701</b>
<b>Net (assets) liabilities held for sale</b>	<b>(10)</b>	<b>(131)</b>

At 30 June 2005, consolidated **net invested capital** was EUR 6,491 million, compared to EUR 4,219 million at 31 December 2004; the increase of EUR 2,272 million was mainly due to:

- goodwill on new acquisitions (EUR 1,303 million);
- **working capital** (EUR 526 million), partly owing to the negative impact of higher net inventory and partly as a result of the adoption of IAS 32 and 39 relating to non-recourse transactions, covered in more detail below;
- a sum of EUR 404 million, mainly due to the recording of the stake in STMicroelectronics NV at fair value rather than at equity, in accordance with IFRS standards.

Note that the prudent financial management with constant control of the financial requirements of the businesses, through careful management of receipts and payments with regard to both customers and suppliers, allowed net invested capital to be broadly contained within the forecasts and the parameters set. This approach has for some considerable time now characterised the management actions of Finmeccanica.

DEBT				
	30.06.2005	01.01.2005	31.12.2004	30.06.2004
Short-term financial debt	385	1.079	1.083	1.183
Medium to long term financial debt	1.884	1.443	1.551	1.362
Cash on hand or equivalent	(588)	(2.055)	(2.055)	(1.637)
<b>NET BANK DEBT</b>	<b>1.681</b>	<b>467</b>	<b>579</b>	<b>908</b>
Government bonds and securities	(33)	(33)	(33)	(22)
Loans to subsidiary and affiliated companies	(40)	(89)	(89)	(142)
Loans to third parties	(358)	(445)	(445)	(467)
<b>FINANCIAL LOANS and securities</b>	<b>(431)</b>	<b>(567)</b>	<b>(567)</b>	<b>(631)</b>
Loans from subsidiary and affiliated companies	325	456	456	385

Other short-term financial debt	279	647	130	172
Other medium to long term financial debt	98	103	103	116
<b>OTHER FINANCIAL DEBT</b>	<b>702</b>	<b>1.206</b>	<b>689</b>	<b>673</b>
<b>NET DEBT</b>	<b>1.952</b>	<b>1.106</b>	<b>701</b>	<b>950</b>
Net debt of <i>discontinued operations</i>	-	(61)	(61)	17

Note that the new IFRS regulations entered into effect in two stages; adjustments at 31.12.04 do not include the effects of IAS 32 and 39, which came into effect from 1 January 2005 and will therefore have an impact from these interim results onwards.

**Net debt** (payables minus receivables and cash on hand) rose by EUR 1,251 million, from EUR 701 million at 31 December 2004 to EUR 1,952 million at 30 June 2005. This was due to the fact that free operating cash flow (FOCF) in the first half of the year showed a funding requirement of EUR 361 million (as is normal in such a seasonal business), broadly in line with the EUR 348 million registered in 1H04.

Considering the huge strategic investments made by the group and the seasonal nature of payment flows, however, debt ratios are still low enough to maintain the group's conservative financial management, all other things being equal.

Below is the net debt statement at 31.12.04 drawn up using Italian accounting standards, and the same statement prepared using the new standards at 31.12.04 and 1 January 2005. This last represents the starting figures used for this year and for comparison with the half-year 2005 figures:

<b>RECONCILIATION TABLE</b>		EUR m
<b>Net debt at 31.12.2004 (Italian standards)</b>		<b>371</b>
Application of IAS 17 concerning financial leasing		36
Inclusion of accrued charges in the debt figure		53
Effects of change in the basis of consolidation		245
Other minor adjustments		(4)
Net debt at 31.12.2004 (IFRS standards)		701
Net debt attributable to discontinued operations		(61)
		<b>640</b>
Application of IAS 32 and 39		
Separation of embedded derivatives and adoption of effective interest rate method		(112)
Application of rules concerning derecognition		526
Other minor items		(9)
<b>Net debt at 01.01.05 (IFRS standards)</b>		<b>1,045</b>

The adjustments arising from the adoption of IAS 32 and 39 from 1 January 2005 have had the following effect:

- for the EUR 500 million Finmeccanica Finance SA bond loan, with 0.375% coupon, maturing in August 2010 and exchangeable for STM shares, IAS 39 demands that the liabilities are split into a financial debt component and a call option component. The debt component is measured by applying the market interest rate at the date of issue instead of the nominal rate, while the option component, removed from the company's debt position, is periodically revalued using the fair value principle. At 30 June 2005, this method led to a EUR 97 million decrease in recorded debt at the nominal value of the loan; this difference will gradually decline as the repayment date approaches.
- the company's debt position now includes payables relating to the non-reimbursed portion of trade receivables sold to factoring companies without recourse. These transactions were carried out to optimise the correlation between receipts and payments. At 30 June 2005, these factored payables (whose non-recourse status is confirmed by authoritative legal opinions) totalled around EUR 274 million. The company took into account the uncertain interpretation of IAS 39 in this respect, especially in the matter of non-recourse transactions that involve the payment of fees and charges calculated according to the actual date on which the factor receives the receivables due: these

effectively mean that the seller of the receivables still shoulders much of the risk of late payment, although only for a set period of time. In view of this uncertainty, Finmeccanica conservatively decided to record in its balance sheet (drawn up using IFRS) the outstanding portion of the factored receivables and the corresponding debt, which has led to an increase in the total debt recorded. Note that these trade receivables were sold according to standard Italian factoring regulations and practice, which to date have required the cancellation of the receivables from the asset side of the balance sheet pursuant to Italian accounting standards. The full nominal amount has thus disappeared permanently from the balance sheet, and the group has booked the relative proceeds, as well as the fees and charges incurred as described above. Group companies have also recorded debt positions for the above reasons; these will gradually be reduced, and in fact have already decreased following the receipt by the factors of some of the receivables sold. Some EUR 90 million has already been received at the time of writing, and more is expected by the end of the year, which will have a positive effect on the company's debt position.

The company has not felt it necessary to record among its debts compensating entries resulting from the recording at fair value of all the hedging transactions subject to that valuation method, and existing at 30 June 2005. Such compensating entries at that date would, in any event, have been positive and thus recorded under assets.

Taking into account the adjustments and operating factors mentioned, Finmeccanica's net debt rose from EUR 701 million at 31.12.04 to EUR 1,952 million at 30.06.05., an increase of EUR 1,251 million (including the adjustments arising from the application of IAS 32 and 39 as stated above). This confirms once again the typical trend in the group, whereby payments are generally concentrated in the first few months of the year, leading to high cash burn, a situation generally rectified in the second half of the year by significant receipts, especially from the public sector.

The June figure was also affected by the following extraordinary operations:

- the agreement with BAE Systems to reorganise the defence electronics business (described earlier in this release), whose net impact on the group's financial position at the date of the agreements (29.04.05) was EUR 718 million. This value is reduced to a cash outlay of EUR 528 million due to the payment made by BAE for its share of the project;
- dividends paid by Finmeccanica for 2004, totalling EUR 110 million. This is an increase on the EUR 84 million paid out in each of the last three years;
- the receipt of EUR 68 million in April relating to the pro rata repayment of share capital to Finmeccanica and Carlyle shareholders by Aero Invest 1 SA (which owns Avio SpA).

The financial position also benefited for the first time from the application of the new system of consolidated tax calculation, which Finmeccanica joined in 2004. This led to a decrease of around EUR 63 million in tax in the first six months of the year.

A breakdown of **debt** shows that **bank and bond debt** decreased, from EUR 2,522 million at 01.01.05 (EUR 2,634 million at 31.12.04) to EUR 2,269 million, owing to the combined effect of:

- a new EUR 500 million bond issue by Finmeccanica SpA. This operation will provide some flexibility to Finmeccanica's finances, and has also lengthened the group's debt from an average of five to 10.4 years, thanks partly to the reimbursement of the bond loan described below;
- the reimbursement of the convertible bond loan issued in June 2000 by Finmeccanica SpA, which reached maturity and was settled on 08.06.05 for a total of around EUR 953 million, of which EUR 878 million relates to the portion in shares.

**Cash and cash equivalents** stood at EUR 588 million at 30 June 2005, down from EUR 2,055 million at 31 December 2004. The cash was used to cover the funding, strategic, operational and refinancing requirements described above. Some of the group's cash is held at the parent company, and some at the subsidiaries. Finmeccanica is currently in the process of centralising the cash management of recently acquired foreign companies.

<b>CASH FLOW</b>		
€mil.	<b>1H 2005</b>	<b>1H 2004</b>
<b>CASH AND EQUIVALENTS AT 1 JANUARY 2005</b>	<b>2.055</b>	<b>2.259</b>
CASH FLOW FROM OPERATING ACTIVITIES	527	448
Changes in working capital	(402)	(591)
Changes in other operating assets and liabilities	(267)	(155)
<b>CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES</b>	<b>(142)</b>	<b>(298)</b>
Net CAPEX	(134)	(143)
Other financial investments	(85)	93
<b>Free operating cash-flow</b>	<b>(361)</b>	<b>(348)</b>
Investments for acquisitions	(528)	-
<b>CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES</b>	<b>(747)</b>	<b>(50)</b>
Dividends paid	(111)	(88)
CASH FLOW FROM FINANCING ACTIVITIES	(476)	(177)
<b>CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES</b>	<b>(587)</b>	<b>(265)</b>
Exchange differences on cash and equivalents	9	(9)
<b>CASH AND EQUIVALENTS AT 30 JUNE 2005</b>	<b>588</b>	<b>1.637</b>

<b>SHARE DATA</b>			
	30/06/2005	30/06/2004	Change %
Average number of shares issued (in thousand)	8.434	8.431	-
Net profit including discontinued operations (EUR m)	105	94	11,7%
Profit of <i>continuing operations</i> (EUR m)	105	101	4,0%
<b>BASIC EPS (EURO)</b>	0,013	0,011	18,2%
<b>BASIC EPS OF CONTINUING OPERATIONS (EURO)</b>	0,013	0,012	
Average number of diluted shares (in thousand)	8.748	8.982	-2,6%
Adjusted profit including discontinued operations (EUR m)	140	110	27,3%
Adjusted profit of continuing operations (EUR m)	140	117	19,7%
<b>DILUTED EPS (EURO)</b>	0,016	0,012	33,3%
<b>DILUTED EPS OF CONTINUING OPERATIONS (EURO)</b>	0,016	0,013	23,1%
On 18 July 2005 the parent company carried out a reverse split on its ordinary shares. Following this operation, EPS at 30 June 2005 was adjusted as follows:			
	<b>30/06/2005</b>		
<b>BASIC EPS (EURO)</b>	0,250		
<b>DILUTED EPS (EURO)</b>	0,319		

Earnings per share is calculated:

- by dividing net profit by the average number of ordinary shares in the period, excluding own shares (basic EPS);

- by dividing net profit - adjusted to take into account interest payable on convertible bonds - by the average number of ordinary shares and those that may result from the exercise of convertible bonds and stock options, excluding own shares (diluted EPS).

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1H 2005	Aeronautics	Helicopters	Space	Defence Electronics	Defence Systems	Transport	Energy	Other Activities and Corporate	Eliminations	Total
Value of production	934	1.168	373	1.219	469	586	338	68	(197)	<b>4.958</b>
EBIT	49	127	21	81	20	(13)	12	(46)		<b>251</b>
EBIT margin (%)	5,2%	10,9%	5,6%	6,6%	4,3%	-2,2%	3,6%	-67,6%		5,1%
Depreciation and amortisation	44	27	15	34	13	10	6	6		<b>155</b>
Investment in fixed assets	62	22	9	940*	16	13	4	5		<b>1.071</b>
R&D costs	180	186	54	196	73	17	5	n.d		<b>711</b>
New orders	1.067	2.420	267	2.849	332	836	436	84	(419)	<b>7.872</b>
Order backlog	5.674	7.155	1.306	7.337	4.124	3.921	2.181	185	(986)	<b>30.897</b>
Headcount	10.852	8.627	3.282	18.730	4.138	6.207	2.544	1.069		<b>55.449</b>
1H 2004	Aeronautics	Helicopters**	Space	Defence Electronics	Defence Systems	Transport	Energy	Other Activities and Corporate	Eliminations	Total
Value of production	883	580	355	1.146	522	694	341	19	(166)	<b>4.374</b>
EBIT	31	72	(10)	87	33	25	6	(49)		<b>195</b>
EBIT margin (%)	3,5%	12,4%	-2,8%	7,6%	6,3%	3,6%	1,8%	-257,9%		4,5%
Depreciation and amortisation	50	10	19	30	11	13	6	4		<b>143</b>
Investment in fixed assets	45	8	8	58	14	6	5	11		<b>155</b>
R&D costs	138	109	47	214	97	16	3	n.d		<b>624</b>
New orders	600	271	248	1.078	283	1.087	91	9	(141)	<b>3.526</b>
Order backlog	3.877	2.872	1.038	3.778	4.430	3.821	1.598	56	(357)	<b>21.113</b>
Headcount	10.731	4.432	3.584	14.665	4.130	5.934	2.523	532		<b>46.531</b>

\* Including Eur 883 mln of goodwill coming from the acquisition of British assets of Defence Electronics.

\*\*Proportional consolidation 50%)

**Finmeccanica** is Italy's leading high-tech company, operating in the design and manufacture of aerostructures, helicopters, satellites, space infrastructure, missiles and defence electronics. It plays a leading role in the European aerospace and defence industry, and participates in some of the biggest international programmes in the sector through well-established alliances with European and American partners. Finmeccanica also boasts significant manufacturing assets and skills in the transport, energy and IT sectors. The group is listed on the Milan stock exchange, and operates in Italy and abroad through 16 companies and 6 joint ventures. It employs around 55,000 staff in total. As part of its drive to maintain and build on its technological expertise, Finmeccanica spends the equivalent of over 16% of its revenues on research and development.