

Orders more than double in 1Q05 (from EUR 1,252 million to 2,771 million), while value of production rises 8%

1Q loss falls from EUR 35 million to EUR 16 million following sharp increase in EBITA. Growth expected in 2005 vs. 2004

- EBITA jumped from EUR 36 million to EUR 62 million, mainly thanks to the Helicopters and Aeronautics businesses. The EBITA margin was up from 1.8% to 2.9%.
- The group reduced its normal 1Q loss from EUR 35 million to EUR 16 million, despite not benefiting from STM earnings, which contributed EUR 11 million in 1Q04.
- New orders rose sharply thanks to the US101 contract, and to a lesser extent, Defence Electronics. The order backlog is equivalent to around 2.5 years of production.
- Net debt was up on end-December 2004. This was due partly to seasonal factors and partly to the changed mix of production and receipts, although the figure remains well within the limits of a conservative financial management policy.

### Key 1Q05 figures (EUR million)

	1Q05		1Q04	Chg.	Chg. %
Value of production	2,159	2,000	159	8	
EBITDA	134	97	37	38	
EBITA	62	36	26	72	
<b>EBITA margin</b>	<b>2.9%</b>	<b>1.8%</b>			
EBIT	19	14	5	35	
Net profit	-16	-35	19		
New orders	2,771	1,252	1,519	121	
Order backlog	26,922	25,877*	1,115		
Net debt	901	371*	530		

\* result at 31.12.2004

**Pier Francesco Guarguaglini**, Chairman and CEO, commented: "While they only reflect a fraction of the year, Finmeccanica's 1Q05 results show the group is constantly able to improve operating results, and support our forecasts for the whole of 2005. The agreements with BAE Systems in Defence Electronics and Alcatel in Space will create synergies and economies of scale that will further improve profitability and increase our role at an international level".

## Key figures

**Value of production** at 31 March 2005 was EUR 2,159 million, compared to EUR 2,000 million in the same period last year.

**EBITDA** rose by EUR 37 million, from EUR 97 million in 1Q04 to EUR 134 million. This improvement was mainly due to the Helicopters and Aeronautics divisions.

**EBITA** was up EUR 26 million, from EUR 36 million in 1Q04 to EUR 62 million in 1Q05, while **EBIT** came in at EUR 19 million, compared to EUR 14 million at 31 March 2004; the figure rose less than EBITA chiefly owing to higher goodwill amortisation resulting from the acquisition of the remaining 50% of AgustaWestland.

Results also improved versus 1Q04 on a pro forma basis (i.e. assuming 100% consolidation of AgustaWestland last year). In this case, EBITDA rose from EUR 114 million in 1Q04 to EUR 134 million; EBITA from EUR 49 million to EUR 62 million and EBIT from EUR 17 million to EUR 19 million.

The group registered a net loss of EUR 16 million in 1Q05, compared to a loss of EUR 35 million in 1Q04. This improvement is even more significant given that following the sale of 30.4% of the group's shares in the subsidiary STH NV, Finmeccanica's indirect stake in STMicroelectronics fell to 6.6%. This means that the shareholding is now valued at cost rather than at equity. 1Q05 results therefore do not include any contribution from the stake in STM, which contributed profit of EUR 11 million to the group in 1Q04. Furthermore, the subsidiary Avio registered a loss of EUR 11 million, compared to a EUR 9 million loss in 1Q04. The overall improvement of EUR 19 million in the net result was due to the higher EBIT figure, the significant improvement in financial management, the higher value of investments, lower extraordinary charges and lower taxes.

Sector	1Q05				1Q04			
	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
Transport	301	14	8	7	305	15	9	8
Energy	132	8	5	5	152	5	2	2
IT	82	1	(1)	(1)	85	4	2	1
Other	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>

(\*) consolidated at 50% in 1Q04

**Net debt** was EUR 901 million at 31 March 2005, compared with EUR 371 million 31 December 2004, while funding requirements were lower than expected (EUR 530 million) but higher than the EUR 426 million recorded in 1Q04. The increased debt was due partly to seasonal factors and partly to the changed mix of value of production and receipts, although the figure remains well within the limits of a conservative financial management policy. Consolidated **net invested capital** totalled EUR 4,618 million at 31 March 2005, from EUR 4,095 million at end-2004. The rise was due mainly to an increase in **working capital**.

The company secured new **orders** worth EUR 2,771 million in the first quarter, an increase of EUR 1,519 million on the EUR 1,252 million recorded in 1Q04. More than 55% of this figure relates to the defence market (45% in the same period of last year). The jump was due to the Helicopters business, following the order for the US101 from the US, as well as to a good performance from the Defence Electronics division. The **order backlog** stood at EUR 26,922 million at 31 March, versus EUR 25,877 million at end-2004. This is equivalent to more than 2.5 years' production.

**Headcount** stood at 50,753 at the end of 1Q05, from 51,026 at 31 December 2004, a decrease of 273 caused essentially by the deconsolidation of BredaMenarinibus SpA, for which a preliminary sale agreement was signed in March 2005.

The group's 1Q05 results have been prepared in accordance with national accounting principles. As discussed in more detail in the section "The transition to IAS/IFRS", the group plans to adopt IAS/IFRS accounting standards from the 2005 halfyear results.

First-quarter highlights and significant events after the end of the quarter

On 27 January 2005, Finmeccanica and BAE Systems signed the final agreement under which Finmeccanica will buy BAE's UK-based defence electronics operations. The agreement was completed on 29 April 2005, once the competition regulators had given the go-ahead and the necessary regulatory permits had been obtained.

The agreement will lead to an increase in Finmeccanica's debt from the second quarter of this year, although this has already been factored into the group's financial forecasts. Finmeccanica has paid out a total of EUR 515 million (GBP 355 million), and added to this will be the increased debt arising from the change in the group's basis of consolidation.

On 28 January 2005 Finmeccanica and the French company Alcatel signed the definitive agreement for a joint venture in the space sector. This will entail the creation of two companies: a manufacturer and a provider of satellite services. On 28 April 2005, the European Commission gave the green light to the agreement, subject to certain conditions that the two groups will have to meet to safeguard competition in some market segments. The operation is expected to be completed in the second half of 2005.

As part of Finmeccanica's project to strengthen its core business and develop its protection and security operations, the group has created a specialist unit in this area by transferring the secure communications activities of Selenia Communications to Elsag.

Looking now at financial operations, in 1Q05 Finmeccanica launched a new EUR 500 million, 20-year bond issue, paying 4.875% and due in March 2025. This initiative has lengthened the average life of the group's debt from 5 to 10.6 years.

Finmeccanica's existing cash and credit lines are wholly sufficient to enable it to repay the bond loan due on 8 June 2005.

As regards operations relating to subsidiaries that do not form part of the group's core business, as we have already announced, in March 2005 Finmeccanica signed a preliminary agreement with Dipiudi' Ambiente for the sale of the Bologna-based company BredaMenarinibus (BMB), which is currently entirely and directly owned by Finmeccanica. The transfer of BMB to its new owner will take place as soon as authorisation has been received from the competition authorities.

Outlook

This year, Finmeccanica projects year-on-year revenue growth of over 20% in 2005, taking EBITA to approximately EUR 700 million. This projection includes the consolidation of 100% of AgustaWestland and of the Defence Electronics activities acquired from BAE Systems from 1 May 2005. It also assumes that the Space activities forming part of the joint venture with France's Alcatel will be consolidated from 1 July 2005. In 2006, revenues are expected to grow by a further 10% year-on-year, with EBITA rising to approximately EUR 800 million.

In addition the company estimates that it will generate cumulative free operating cash flow of more than EUR 600 million over the three years from 2005 to 2007. These forecasts already take into account the impact of the introduction of new IAS/IFRS standards.

## Consolidated economic and financial situation

For a better understanding of and comparison between the results shown below, please note that AgustaWestland was consolidated proportionally at 50% until 30 November 2004, and was then fully consolidated (100%) in December 2004.

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>				
(EUR 000)	<b>Q1 2005</b>	<b>Q1 2004</b>	<b>Change in % YoY</b>	<b>2004</b>
<b>REVENUES</b>	<b>2.095.869</b>	<b>1.896.874</b>		<b>9.011.837</b>
<b>VALUE OF PRODUCTION</b>	<b>2.158.818</b>	<b>2.000.300</b>	<b>8%</b>	<b>9.386.882</b>
Costs of goods and services	(1.341.115)	(1.278.056)		(5.994.343)
<b>VALUE ADDED</b>	<b>817.703</b>	<b>722.244</b>	<b>13%</b>	<b>3.392.539</b>
Labour cost	(698.249)	(628.560)		(2.516.245)
Other provisions	(951)	(959)		(20.632)
Provisions for risks and charges	(7.540)	(9.842)		(92.645)
Other income (charges)	22.752	14.131		115.116
<b>EBITDA</b>	<b>133.715</b>	<b>97.014</b>	<b>38%</b>	<b>878.133</b>
Depreciation	(76.603)	(66.772)		(287.762)
Revenue from capital grants	5.112	5.890		24.110
<b>EBITA</b>	<b>62.224</b>	<b>36.132</b>	<b>72%</b>	<b>614.481</b>
<i>EBITA margin (%)</i>	<i>2,9%</i>	<i>1,8%</i>		<i>6,5%</i>
Goodwill amortisation	(42.780)	(21.689)		(96.451)
<b>EBIT</b>	<b>19.444</b>	<b>14.443</b>	<b>35%</b>	<b>518.030</b>
<i>EBIT margin (%)</i>	<i>0,9%</i>	<i>0,7%</i>		<i>5,5%</i>
Financial income (expenses)	3.500	(11.167)		(38.030)
Exchange rate gains (losses)	3.157	1.748		(9.547)
Increase/decrease in the value of investments	(8.733)	1.128		461.314
<b>PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX</b>	<b>17.368</b>	<b>6.152</b>	<b>182%</b>	<b>931.767</b>
Extraordinary income (expenses)	(8.124)	(11.464)		(209.830)
<b>PRE-TAX PROFIT</b>	<b>9.244</b>	<b>(5.312)</b>	<b>n.s</b>	<b>721.937</b>
Tax	(25.467)	(29.503)		(173.920)
<b>NET PROFIT</b>	<b>(16.223)</b>	<b>(34.815)</b>	<b>n.s</b>	<b>548.017</b>
<i>Minority interests</i>	<i>71</i>	<i>526</i>		<i>22.376</i>
<b>NET ATTRIBUTABLE PROFIT</b>	<b>(16.294)</b>	<b>(35.341)</b>	<b>n.s</b>	<b>525.641</b>

**Value of production**, rose by around 8% compared with 1Q04, from EUR 2 billion to EUR 2.159 billion. The rise of EUR 159 million was due to the increased contribution from AgustaWestland, offset by a slight decline of EUR 61 million in Defence Systems due to reduced missile systems activity, a fall of EUR 20 million in Energy owing to a dip in work on Iranian orders, and a fall of EUR 14 million in Aeronautics, as a result of reduced activity on equipment for the Eurofighter.

**Personnel costs** came in at EUR 698 million, compared with EUR 628 million in the same period in 2004, owing to increased headcount and a rise in the average unit cost per employee. The average headcount during the period was 49,870, from 45,784 in 1Q04 (and 46,401 in 2004 as a whole). The rise was essentially due to the change in the basis of consolidation.

The headcount at 31 March 2005 stood at 50,753, a fall of 273 on the 51,026 registered at 31 December 2004, again owing to company acquisitions and disposals and to a slightly positive balance of employee turnover. These acquisitions and disposals included the deconsolidation of BredaMenarinibus SpA, for which a preliminary sale agreement was signed in March 2005.

The balance of **other income and charges** was positive for EUR 23 million, up from EUR 14 million in the same period last year. The income component includes gains on real estate investments, insurance refunds, the recovery of costs, and the use of provisions (EUR 18 million, from EUR 5 million in 1Q04) relative to contract risks, risks on aeronautics activities, guarantees, credit risks and other provisions earmarked in previous years and made available following ordinary operations to offset costs incurred during the period. Charges included direct and indirect taxes, fines and contributions to severance funds.

**EBITDA** at 31 March 2005 stood at EUR 134 million, versus EUR 97 million in the same period last year, an increase of EUR 37 million. The EBITDA margin increased from around 5.0% in 1Q04 to 6.2% in 2005. This improvement was due mainly to: the Aeronautics division (EUR 14 million), as a result of a higher contribution from the military business, especially the Eurofighter and C27J programmes; and the Helicopters division (EUR 28 million), owing to the increased contribution from AgustaWestland and a changed mix of programmes under way, as product support activities increased.

**Depreciation and amortisation** rose compared with 1Q04, partly because of the changed basis of consolidation (in particular following the full takeover of AgustaWestland), while revenues from capital grants declined following the complete depreciation of some assets. The total figure came in at EUR 77 million (from EUR 67 million in 1Q04); EUR 62 million of this related to tangible assets (from EUR 53 million in 2004), and EUR 15 million to intangible assets (EUR 14 million in 2004).

**EBITA** was up EUR 26 million, from EUR 36 million in 1Q04 to EUR 62 million in 1Q05, owing to the same factors that caused the rise in EBITDA. The figure rose by EUR 11 million less than EBITDA, however, owing to the combined effect of the increased contribution from AgustaWestland and a rise in depreciation charges (net of the revenues from capital grants) due to higher investment in tangible assets last year.

**Goodwill amortisation** totalled EUR 43 million, vs. EUR 22 million in the same period of 2004. The rise was due mainly to the acquisition of the remaining 50% of AgustaWestland and to the company's full inclusion in the consolidation base.

The balance of **net income and charges** was positive, at EUR 3 million, a rise of EUR 14 million on last year, which showed net charges of EUR 11 million. This increase came despite higher average debt in 1Q05 than in 1Q04, and was the combined effect of: income from hedging operations (around EUR 17 million) carried out to protect the value of STMicroelectronics NV (which by December last year had already generated around EUR 4 million in net income); and EUR 1 million from hedging operations carried out as a prudential measure following the agreement to launch the Eurosystems venture, which was paid for by the company in sterling at the end of April 2005.

The change in the **value of investments** was negative for EUR 9 million, compared with a EUR 1 million increase in the first three months of 2004. This figure includes: a negative net result totalling EUR 7 million from shareholdings valued at equity, of which EUR 11 million relates to the subsidiary Aero Invest 1 SA (versus a negative figure of EUR 10 million in 1Q04, of which EUR 9 million related to Aero Invest 1 SA); and net provisions of EUR 2 million for holdings valued at cost (versus EUR 0.3 million in 1Q04).

Note too that, following the sale of around 30.4% of the group's stake in STMicroelectronics Holding NV (STH) at the end of last year, the subsidiary is no longer valued at equity, but at cost, since Finmeccanica now holds less than a 20% stake. Finmeccanica's share of STH's 1Q earnings is EUR 11 million.

**Extraordinary income and charges** showed a negative net balance of EUR 8 million (from EUR 11 million in 1Q04). The main items relate to redundancy payments and other restructuring costs, net of the use of EUR 8 million in provisions earmarked in previous years (EUR 5 million in 1Q04). The restructuring process mainly related to Defence Electronics (EUR 4 million), Energy (EUR 1 million) and Defence Systems (EUR 3 million);

**Tax** totalled EUR 25 million, down from EUR 30 million in the same period of last year. This is the sum of EUR 23 million in IRAP (EUR 20 million in 1Q04); EUR 2 million in IRES—EUR 17 million in tax payables minus EUR 15 million in tax credits deriving from the new tax consolidation system (versus EUR 5 million in 1Q04, a figure which already included the estimated benefits from the new system); EUR 7 million in other direct taxes (EUR 5 million in 1Q04); EUR 3 million of net deferred tax credits; and EUR 4 million in surplus deferred tax provisions earmarked in previous years (this was zero in the same period last year).

<b>BALANCE SHEET</b>				
	(Eur 000)	<b>31/03/2005</b>	<b>31/12/2004</b>	<b>31.03.2004</b>
Intangible assets		2.223.964	2.247.482	1.187.141
Tangible assets		1.906.994	1.925.535	1.691.328
Long-term investments		684.631	758.512	1.429.020
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4.815.589</b>	<b>4.931.529</b>	<b>4.307.489</b>
Inventory (net of progress billings)		9.136.865	8.546.061	7.248.027
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)
Customer advances		(5.054.411)	(4.986.009)	(4.338.253)
Provisions for risks and charges		(1.388.952)	(1.398.677)	(1.140.698)
Other liabilities		(3.957.137)	(3.972.488)	(3.327.821)
<b>WORKING CAPITAL</b>		<b>570.684</b>	<b>(58.363)</b>	<b>387.370</b>
<i>of which operating working capital</i>		4.671.377	4.142.243	3.661.819
<b>STAFF SEVERANCE FUND</b>		<b>(768.425)</b>	<b>(777.824)</b>	<b>(713.716)</b>
<b>NET INVESTED CAPITAL</b>		<b>4.617.848</b>	<b>4.095.342</b>	<b>3.981.143</b>
<i>covered by:</i>				
<b>SHAREHOLDERS' EQUITY</b>		<b>3.717.048</b>	<b>3.724.463</b>	<b>3.299.268</b>
<b>NET DEBT</b>		<b>900.800</b>	<b>370.879</b>	<b>681.875</b>
<b>TOTAL</b>		<b>4.617.848</b>	<b>4.095.342</b>	<b>3.981.143</b>

**Non-current assets** totalled EUR 4,815 million at 31 March 2005, from EUR 4,931 million at 31 December 2004, a drop of EUR 116 million. This was the combined effect of a EUR 80 million decrease in shareholdings valued at equity (with EUR 68 million due in particular to the repayment of part of the capital of Aero Invest 1 SA); and exchange rate losses following the conversion of balance sheets in foreign currency (mainly dollars and sterling).

**Working capital** stood at EUR 571 million, compared with a negative figure of EUR 58 million at 31 December 2004. In the same period, **operating working capital**—made up of inventory and work in progress, trade receivables, trade payables, customer advances and progress billings—increased from EUR 4,142 million at 31 December 2004 to EUR 4,671 million at 31 March 2005. This was the combined effect of:

- a EUR 591 million increase in inventory and work in progress, from EUR 8,546 million in 1Q04 to EUR 9,137 million (net of progress billings of EUR 8,066 at 31 March 2005, from EUR 7,884 million at 31 December 2004, recorded under the item “customer advances and progress billings”). This rise was due mainly to higher spending in the Aeronautics division for the start-up of new programmes and the production of prototypes, and to growth in the Helicopters, Space, Defence Systems, Defence Electronics and Transport divisions;
- a EUR 7 million increase in trade receivables net of trade payables. The Transport and Aeronautics businesses saw a drop in their trade receivables, which was offset by a rise in receivables in the Helicopters division. The decline in trade payables related mainly to the Defence Electronics, Defence Systems and Transport businesses, and was offset by growth in the Helicopters division;
- a EUR 68 million increase in advances from customers (recorded under the item “customer advances and progress billings”), due chiefly to the Helicopters, Defence Systems and Energy businesses.

<b>DEBT</b>				
	(EUR million)	31/03/2005	31/12/2004	31/03/2005
Short-term debt		74	75	41
Current portion of medium- to long-term debt		917	919	59
Medium- to long-term debt (net of current portion)		1.892	1.391	2.311
Cash on hand or equivalent		(1.863)	(2.007)	(1.712)
<b>NET BANK DEBT</b>		<b>1.020</b>	<b>378</b>	<b>699</b>
Interest-bearing securities		(14)	(13)	(20)
Government bonds		(66)	(33)	(51)
Loans to third parties		(419)	(504)	(421)
Loans to subsidiaries and affiliated companies		(130)	(59)	(119)
Loans from subsidiaries and affiliated companies		346	454	370
Liabilities to industry ministry (MAP)		66	69	63
Other financial liabilities		98	79	161
<b>NET DEBT</b>		<b>901</b>	<b>371</b>	<b>682</b>
<i>of which "equivalent" €mil.:</i>		-	-	9

**Net debt** rose from EUR 371 million at 31 December 2004 to EUR 901 million at 31 March 2005.

This EUR 530 million increase in 1Q05 confirms the typical situation in the group, whereby payments are concentrated in the first half of the year, leading to high cash burn, which is then generally offset in the second half of the year by high receipts, particularly from the public administration. Apart from the repayment of part of the capital of subsidiary Aero Invest 1 SA (EUR 68 million), cash flows over the quarter mainly related to ordinary rather than extraordinary business.

Medium- to long-term **bank debt** rose significantly, mainly as a result of the new Finmeccanica SpA bond issue launched on 24 March 2005. The EUR 500 million issue was reserved for institutional investors. The 20-year bonds carry a coupon of 4.875% and are due in March 2025. Combined with the forthcoming repayment of the Finmeccanica bond due in June, the operation allowed the group to lengthen the average life of its debt from 5 to 10.6 years, and also made its financial structure more flexible.

Cash in hand fell from EUR 2,007 million at end-December 2004 to EUR 1,863 million, as a result of cash burn in 1Q05 partly offset by proceeds from the bond issue mentioned above.

As regards the remaining debt items, **loans to third parties** include around EUR 333 million relating to the non-consolidated portion of the financial receivables owned by the group's joint ventures in respect of other shareholding partners in accordance with treasury agreements in place. In accordance with the consolidation method adopted by the company, these receivables have been included proportionally in the group's basis of consolidation along with all the other balance sheet items. **Loans from subsidiaries and affiliated companies** include the non-consolidated portion (EUR 333 million) of the loans of group companies from joint ventures in respect of the other shareholding partners.

The Eurosystems agreement was completed on 29 April 2005 and is expected to have an effect on group debt from 2Q05. Specifically, in accordance with the agreements signed with BAE Systems Plc, Finmeccanica paid a total of EUR 515 million (GBP 355 million). As well as increasing debt, this will also change the group's consolidation base.

SHARE DATA	Q1 2005	Q1 2004
Average number of shares issued	8.437.889.820	8.434.666.066
Average number of "fully diluted" shares	9.056.144.070	9.056.694.486
EPS issued (euro cents)	(0,19)	(0,41)
Fully diluted EPS (euro cents)	(0,18)	(0,38)

\* The average number of fully-diluted shares includes:

- the bond convertible into 468,254,250 ordinary Finmeccanica shares, issued at a face value of EUR 1.875 and convertible at a rate of one bond per Finmeccanica share between 08.06.2000 and 08.06.2005;

- 150,000,000 shares, representing the maximum number of shares available for the long-term incentive plan (LTIP) for key employees of Finmeccanica SpA and its subsidiaries, approved by the ordinary and extraordinary shareholders' meetings of 16 May 2003. The plan gives management options on Finmeccanica SpA ordinary shares, based on the achievement of performance targets. The options will be awarded after 31 December 2004 once achievement of the performance targets has been measured, and must be exercised by 31 December 2009.

### The transition to IAS/IFRS

In light of delays by the EU in establishing the relevant principles, and by the Italian government in adopting the new measures, specifically in respect of tax implications, Finmeccanica has put in place the following implementation strategy for the new accounting standards:

- Finmeccanica will publish its first consolidated accounts prepared on the basis of the new IAS/IFRS principles starting with the half-yearly report for 2005;
- the accounts of the parent company, Finmeccanica SpA, will be prepared in accordance with existing Italian accounting principles for 2005; the new international accounting principles will be adopted from 1 January 2006;
- the relevant principles for evaluating financial instruments (IAS32 "Financial instruments: Disclosure and Presentation" and IAS39 "Financial instruments: Recognition and Measurement"), which only gained final approval from the European Union in December 2004 and in a shortened form of the original, will be applied in their new version by the Finmeccanica group from 1 January 2005. The group will also disclose their effect on the opening balance of net equity reserves up to that date.

To ensure that Finmeccanica adopts the new international accounting principles in accordance with correct procedures, the company formulated a detailed plan in November 2003 for transition to the IAS/IFRS standards. The plan concerns the parent company and subsidiaries, and involved the creation of specialist work groups to define the new principles to be adopted for the consolidated accounts and for the individual accounts of the parent company and subsidiaries. Specifically, the work groups were given the task of identifying the main differences between Italian and international accounting standards, evaluating the alternative accounting treatment allowed by the standards, and defining the group's new accounting principles. The second stage of the plan focuses on the implementation of operating and administrative procedures, and the IT systems that will be required for the adoption of the new principles for both the consolidated and individual company accounts. This is currently in progress, in accordance with the adoption strategy previously described, and includes the next steps in the implementation of the new IAS/IFRS principles.

We are currently still preparing the consolidated accounts to 31 December 2004, revised on the basis of the new IAS/IFRS principles, which will be audited by PricewaterhouseCoopers SpA. The revised results will be published in accordance with the implementation strategy previously described.

Analysis so far carried out indicates that the main changes relate to the following areas:

- **tangible and intangible assets** Goodwill will no longer be subject to systematic amortisation (which amounted to a charge of EUR 96.5 million on the 2004 profit and loss account), but to periodic revaluations to identify any lasting loss in value ("impairment test"). Furthermore, assets in use under leasing contracts and described as "financial assets" (or sold through leasing schemes defined as "financial", where group companies are the lessees) must be accounted for in accordance with IAS17. This method views the transaction as the sale or purchase of the asset and includes the corresponding debit or credit entries;

- **equity holdings** The equity method currently applied by the parent company in the valuation of its shareholdings may no longer be applied to separate accounts;
- **consolidation base.** International accounting principles state that all subsidiaries must be consolidated, regardless of existing shareholding relationships between parent company and subsidiaries. Applied to Finmeccanica, this principle will require the consolidation of some special purpose vehicles operating in the aeronautics sector. In addition, even some companies in liquidation must be included in the consolidated accounts;
- **staff severance fund and other employee benefits.** The staff severance fund and fixed benefit pension plans (these last typically favoured in the UK) will be shown in the accounts at actuarial and financial values. Actuarial losses not recognised on the basis of the old principles will be calculated on the transition date. Other long-term employee benefits (e.g. seniority bonuses) will also be disclosed in the accounts, on the same actuarial and financial basis;
- **stock options** Stock option plans for the group's employees and managers, currently accounted for as a capital increase at the start of the plan, in accordance with Italian practice, will be disclosed as a cost to the accounting period, on the basis of financial valuations aimed at measuring the stock set aside for such plans at a fair value;
- **compound financial instruments** Compound financial instruments issued or guaranteed by Finmeccanica (a convertible loan and an exchangeable bond underwritten by STM shares) will be valued separately by component, thus splitting the derivatives from the instruments themselves. The application of this principle will have a positive effect on opening net equity at the date of application of the IAS32 and IAS39 principles (1 January 2005), by reducing the value of the liability that corresponds to the premium component received on the date of the transaction;
- **derivative instruments** The Finmeccanica group undertakes exchange rate hedging transactions for inflows and outflows relating to long-term contracts in foreign currencies. It also hedges against interest rate risks relating to the group's debt. The application of IAS39 will lead to significant variability in balance sheet values, since under the principle, shareholders' equity may vary according to upwards and downwards changes in the fair value of hedging instruments up to the date on which the underlying hedged item is realised.

Results by sector of activity  
(Figures in EUR million)

### Aeronautics

Companies: **Alenia Aeronautica, Aermacchi**

*Value of production: EUR 355 million (-4%); EBITA: EUR 8 million (n.s)*

Alenia Aeronautica was selected by the Turkish government in 1Q05 to supply the Turkish navy with 10 ATR 72 ASW aircraft. In addition, Aermacchi signed a Memorandum of Understanding with the Greek Defence Ministry in January for the cooperation of Greek companies in the production of the new M346 trainer. On 15 February 2005 Alenia Aeronautica and L-3 Communications announced the creation of a joint venture for the production and logistical support of the G27J aircraft, which will also compete for the contract to supply approximately 130 transport planes to the US army. The G-27J scored an important commercial success in early April when the Bulgarian Air Force opted to buy eight aircraft.

**Value of production and EBITA:** EBITA came in at EUR 8 million in 1Q05, versus a loss of EUR 3 million in 1Q04, while value of production fell slightly. The improved operating results both in absolute and average profitability terms (EBITA margin of 1.7% versus -1.4% at 31 March 2004) chiefly reflects the higher contribution from the defence business. Value of production was lower versus the same quarter last year, due to the decrease in equipment orders for the Eurofighter programme. Production increased for the G-27J, but remained stable for aerostructures.

**New orders:** at 31 March 2005 new orders totalled EUR 123 million versus EUR 166 million in 1Q04. The main orders in 1Q05 related to logistics for the Eurofighter programme, to the Tornado and to the civil aviation industry, including ATR, Dassault Falcon, engine nacelles and the conversion of the MD-11 into a cargo aircraft.

**Order backlog:** this stood at EUR 5,148 million at end-March 2005, of which about 90% related to the defence business, with a significant percentage for Eurofighter (69%).

**Headcount:** the headcount at 31 March 2005 was 10,711, an increase of 71 on the end-2004 figure of 10,640.

### Helicopters

Company: **AgustaWestland (\*)**

*Value of production: EUR 527 million (-1%); EBITA: EUR 34 million (+31%)*

(\*) Figures and comments refer to 100% of the company

Through its subsidiary AgustaWestland, Finmeccanica is a global leader in the helicopter business with a market share of about 25%. In 1Q05, AgustaWestland scored several business successes, including the contract for the new Marine One, the transport helicopter for the president of the United States.

**Value of Production:** this was broadly in line with the 1Q04 figure. The main production programmes were the EH 101 for the Italian navy, the Danish government and the Portuguese government. 1Q05 also saw the first flight of the EH 101 for the Japanese navy.

**EBITA:** at 31 March 2005, EBITA was EUR 34 million, an increase of EUR 8 million compared to 31 March 2004. The increase is attributable to various production programmes, led by product support activities.

**New orders:** new orders acquired by AgustaWestland at 31 March 2005 totalled EUR 1,272 million, up sharply on the 1Q04 figure of EUR 194 million, mainly thanks to the order for Marine One.

**Order backlog:** the order backlog was EUR 6,051 million at 31 March 2005, a significant increase of around 15% on the end-December 2004 figure of EUR 5,238 million. Given the strength of the order backlog, we can expect the same levels of production as last year, especially thanks to production on the AB139 helicopter, the ongoing manufacturing of the EH101 for Portugal, Denmark and Japan, and production on the Super Lynx 300 helicopter as well as the start of NH90 production.

**Headcount:** headcount was 8,925 at 31 March 2005, a fall of 43 from the figure of 8,968 at 31 December 2004. This decrease is attributable to the launch of the restructuring plan at Westland

Helicopters/Transmissions, with the resulting reduction in headcount by 700 in the UK, and a rationalisation plan based on the complete integration of the Italian and UK companies into a single company.

## Space

Companies: **Alenia Spazio, Telespazio**

*Value of production: EUR 174 million (+5%); EBITA: EUR 10 million (+150%)*

The commercial space market has recently shown signs of recovery. Growth is expected to be strongest in broadband systems and in services, while institutional demand in the European space industry is also set to increase in the next few years.

**Value of Production:** value of production rose EUR 8 million (+5%) on the figure of EUR 166 million recorded in 1Q04, basically due to the greater activity on Cosmo-SkyMed and the programmes related to the international space station (ATV vehicles and Node 3).

**EBITA:** at 31 March 2005 EBITA was EUR 10 million, an increase of EUR 6 million over the same period last year. This increase is attributable to the implementation and consolidation of the restructuring undertaken last year at Alenia Spazio and Telespazio, and also to lower structural costs and greater business volumes. This management activity is reflected in the EBITA margin, which improved from 1.2% in 1Q04 to 4.6% in 1Q05.

**New orders:** new orders in 1Q05 totalled EUR 116 million, an increase of EUR 28 million over the same period last year.

**Order backlog:** this came in at EUR 1,504 million at 31 March 2005, an increase of about 5% compared with 31 December 2004 (EUR 1,428 million).

**Headcount:** the headcount was 3,318 at 31 March 2005, a reduction of 37 compared with 3,355 at end-December 2004, as the company continued to bring staff numbers into line with workload.

## Defence Electronics

Companies: **Galileo Avionica, Selenia Communications, OTE, AMS, Sistemi Navali Internazionali**

*Value of production: EUR 440 million (+4%); EBITA: EUR 20 million (-5%)*

Defence and Security Electronics are today the main business segment of Aerospace and Defence, absorbing around 20% of global demand in the industry (valued at about EUR 300 billion) with an annual growth rate of 7-8%. Against this backdrop, Finmeccanica's Defence Electronics segment posted results in line with last year's. 1Q05 results were particularly positive in commercial terms. Finmeccanica's Defence Electronics business comprises avionics, unmanned aircraft, radar, land and naval command and control systems, air traffic control, integrated communication networks for land, naval, satellite and avionic applications and private radiomobile communications. In addition, this sector also includes the International Naval Systems division, which is involved in the programme to build Horizon naval frigates for the Italian and French navies.

**Value of Production:** this came in at EUR 440 million in 1Q05, an increase of EUR 18 million over the same period last year. The increase is attributable to the rise in volumes for companies in the sector.

**EBITA:** at 31 March 2005 EBITA was in line with the figure recorded in the same period last year, reaching EUR 20 million, while the EBITA margin was up modestly to 3% compared with 2.8% at 31 March 2004.

**New orders:** new orders in 2005 came in at EUR 432 million, an increase of EUR 123 million compared with the 1Q04 figure.

**Order backlog:** this was EUR 3,534 million at 31 March 2005, an increase of EUR 62 million compared with 31 December 2004 (EUR 3,472 million).

**Headcount:** at 31 March 2005 the headcount was 11,748, a decrease of 39 compared with 31 December 2004, due to the ongoing restructuring at AMS and Galileo Avionica.

## Information Technology

Company: **Elsag**

*Value of production: EUR 82 million (-4%); EBITA: EUR (1) million (n.s)*

The sector includes Elsag and its subsidiaries. In 1Q05 the company launched a programme to bring Elsag's business more into line with the core activities of the Finmeccanica group. This initiative redefined the company's mission, with business and resources targeted towards the defence, aerospace and security markets and towards clients with large automation systems, with the development of technologies and system integration capacities in dedicated projects and the systems related to these. In addition, a gradual divestment of businesses conducted in the traditional information technology market has started.

**Value of production:** this came in at EUR 82 million in 1Q05, basically in line with the 1Q04 figure (EUR 85 million).

**EBITA:** Elsag registered a EBITA loss of EUR 1 million in 1Q05, versus a positive figure of EUR 2 million for the same period last year, with a EBITA margin of -1.2%.

**New orders:** new orders in the first quarter were EUR 217 million, an increase of EUR 44 million in the same period in 2004 (EUR 173 million).

**Order backlog:** at 31 March 2005 the order backlog was EUR 593 million, an increase of EUR 350 million compared with 31 December 2004 (EUR 243 million).

**Headcount:** the headcount at 31 March 2005 was 2,704, a decrease of 7 on the figure of 31 December 2004.

## Defence Systems

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

*Value of production: EUR 198 million (-24%); EBITA: EUR 5 million (-44%)*

Finmeccanica's Defence Systems sector includes 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 1Q05 Finmeccanica's Defence Systems business posted results below those of 1Q04 but in line with internal forecasts.

**Value of production:** value of production was EUR 198 million in 1Q05, a drop of 24% compared with the same period last year (EUR 259 million), due primarily to the reduced business in missile systems.

**EBITA:** EBITA was EUR 5 million at 31 March 2005, a drop of EUR 4 million compared with the same period last year. This downturn was in line with expectations and is attributable to a series of less profitable activities in the underwater segment, which focused on the development of the new heavy torpedo. In addition, some one-off events had a positive impact on last year's first-quarter results. The EBITA margin decreased by 1.5% percentage points versus 1Q04.

**New orders:** at 31 March 2005 new orders amounted to EUR 137 million, a reduction of EUR 59 million compared with 1Q04.

**Order backlog:** this was EUR 4,150 million at 31 March 2005, broadly in line with the figure posted at 31 December 2004 (EUR 4,148 million).

**Headcount:** the headcount at 31 March 2005 was 4,138 employees, 9 fewer than at 31 December 2004.

## Transport

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

*Value of production: EUR 301 million (-1%); EBITA: EUR 8 million (-11%)*

The heavy and light rail systems and components market continued to expand thanks to various positive factors. The performance of the Transport segment in 1Q05 was in line with that of 1Q04, with some different factors impacting the three businesses. In particular, the Vehicles segment posted lower earnings than in 1Q04; Systems saw its profitability rise, while Signalling saw positive commercial growth thanks to the domestic orders for the Italian subsidiary Ansaldo Segnalmento Ferroviario.

**Value of production:** this was EUR 301 million in 1Q05, basically in line with the figure recorded in 1Q04 (EUR 305 million).

**EBITA:** EBITA was EUR 8 million in 1Q05, a slight drop of EUR 1 million compared with 1Q04, the combined effect of an increase in Systems, a downturn in Vehicles due to lower profit margins and a reduction in Signalling due to lower volumes. The EBITA margin fell slightly from 2.6% to 2.3%.

**New orders:** new orders in 1Q05 totalled EUR 293 million, an increase of EUR 55 million compared with 1Q04 (EUR 238 million); the increase is attributable to the rise in purchases by the Signalling division.

**Order backlog:** this was EUR 3,732 million at 31 March 2005, broadly in line with the figure at 31 December 2004 (EUR 3,728 million) and enough to guarantee high production levels for the next two years.

**Headcount:** the headcount at 31 March 2005 was 6,076, an increase of 71 compared with 31 December 2004 (6,005), due to the increase in staff in the Signalling business.

## Energy

Company: **Ansaldo Energia**

*Value of production: EUR 132 million (-13%); EBITA: EUR 5 million (+150%)*

The power generation market continues to show weak demand in Europe and the Mediterranean area, while the Middle East and Asia maintain their upward trend. The Italian market has shown higher demand, which has had a positive impact on Ansaldo Energia.

**Value of production:** this was EUR 132 million at 31 March 2005, down on the figure of EUR 152 million for 1Q04. The main production programmes are the new operations at Sparanise and Vado Ligure, the continuation of Enipower's activities while the service activities grew compared to 1Q04.

**EBITA:** EBITA was EUR 5 million for the period versus EUR 2 million in 1Q05, despite higher research and development costs resulting from the launch of the technology assessment plan, and thanks to a number of activities containing a higher services contribution and to the ongoing improvement in the implementation of efficiency and productivity plans. As a result, the EBITA margin was 3.8%, compared with 1.3% at 31 March 2004.

**New orders:** new orders in 1Q05 were EUR 228 million, well above the figure from the prior-year period (EUR 52 million).

**Order backlog:** the order backlog was EUR 2,172 million at 31 March 2005, versus EUR 1,706 million at 31 March 2004 and EUR 2,089 million at end-2004.

**Headcount:** the headcount at 31 March 2005 was 2,537, a decrease of 51 on the figure of 51 December 200



	Aeronautics	Helicopters	Space	Defence Electronics	Defence Systems	Transport	Energy	IT	Other activities	Eliminations	TOTAL
<b>Q1 2005 (EUR million)</b>											
Value of production	355	527	174	440	198	301	132	82	16	(66)	2.159
EBITA	8	34	10	20	5	8	5	(1)	(27)		62
EBITA margin (%)	2,3%	6,5%	5,7%	4,5%	2,5%	2,7%	3,8%	-1,2%	n.s		2,9%
EBIT	6	8	8	13	0	7	5	(1)	(27)		19
Depreciation and amortisation*	23	37	9	22	11	7	3	2	5		119
New orders	123	1.272	116	432	137	293	228	217	3	(50)	2.771
Order backlog	5.148	6.051	1.504	3.534	4.150	3.732	2.172	593	38		26.922
Headcount	10.711	8.925	3.318	11.748	4.138	6.076	2.537	2.704	596		50.753
<b>Q1 2004 (EUR million)</b>											
Value of production	369	266	166	422	259	305	152	85	31	(55)	2.000
EBITA	(3)	13	4	21	9	9	2	2	(21)		36
EBITA margin (%)	-0,8%	4,9%	2,4%	5,0%	3,5%	3,0%	1,3%	2,4%	n.s		1,8%
EBIT	(5)	11	2	12	4	8	2	1	(21)		14
Depreciation and amortisation*	20	6	11	23	11	7	3	3	4		88
New orders	166	97	88	309	196	238	52	173	14	(81)	1.252
Order backlog	3.912	3.007	1.134	3.553	4.622	3.430	1.706	335	93		21.792
Headcount	10.491	4.458	3.762	11.864	4.121	5.891	2.532	2.770	884		46.773

\*Including goodwill amortisation