

Board approves 2004 results: Operating profit up for third consecutive year; ROI at 23.1% (20.2% on 2003)

Dividend of 1.3 euro cents proposed to shareholders' meeting (up 30% on 2003)

Net profit trebles, including capital gain from the sale of STM

Commitment to technological innovation confirmed: R&D investment at EUR 1.5 billion, or 16% of value of production (up from 14% in 2003)

- Helicopters, Defence Electronics and Aeronautics confirmed as the group's growth drivers and are expected to be so again also in 2005.

- Strengthening of the core business is continuing, backed up by a solid financial structure with a debt to equity ratio of 10%. Average debt maturity has been lengthened; cash flow is positive, and working capital negative. Tax payments were substantially lower at EUR 174 million, down from EUR 212 million in 2003.

- Acquisition of AgustaWestland completed, financed via the sale of 93 million STM shares for a total of EUR 1,442 million. IT sector continues refocusing its activities on the Defence Electronics sector.

- Agreements signed with BAE Systems in the Defence Electronics sector and Alcatel in the Space sector.

Main figures 2004 (EUR million)

	2004	2003	Chg.	Chg. %
<i>Value of production</i>	9,387	8,646	741	9
<i>EBITDA</i>	878	790	88	11
<i>EBITA</i>	614	549	65	
EBITA margin	6.5%	6.4%		
<i>EBIT</i>	518	467	51	11
<i>Value of investments</i>	461	162	299	
<i>Profit before extraordinary items and taxes</i>	932	584	348	
<i>Net profit</i>	548	199	349	
<i>Orders</i>	10,802	9,136	1,666	18
<i>Order backlog</i>	25,877	22,276	3,601	16
<i>Net debt</i>	371	256	115	
<i>R&D investment</i>	1,477	1,251	226	18
<i>ROI (%)</i>	23,1	20,2		

Chairman and CEO Pier Francesco Guarguaglini commented: "For the third consecutive year, Finmeccanica has recorded an increase in operating profit, which ranks among the highest in the aerospace and defence sector worldwide. This enabled the board of directors to propose an increase in the dividend from 1 to 1.3 euro cents, as part of the group's stated policy of increasing shareholder remuneration. 2004 marks the end of a growth period which has placed Finmeccanica firmly among the sector leaders following the operations carried out over the last three years and a new focus on the core business. In 2004 we wrote down some of our assets with the aim of ensuring a good return on invested capital".

Key figures

2004 was a positive year for Finmeccanica. Results were better than expected, both in terms of the balance sheet and the P&L, and were an improvement on 2003, generating satisfactory returns on invested capital and the creation of significant shareholder value.

The year also confirmed the group's sound financial structure and financial flexibility, despite the large investment required for both to implement its growth and international expansion strategy, and to support research, development, and technological innovation.

Value of production rose significantly (+8,6%) to EUR 9,387 million, from EUR 8,646 million in 2003. The largest increases were recorded by Aeronautics (+19% - excluding Aermacchi's 2004 first-half results to make the comparison like-for-like - thanks to a larger contribution from the defence segment) and Defence Electronics (+11%, mainly as a result of volume growth at Selenia Communications and AMS, and the full consolidation of OTE). Transport and Defence Systems (+4%) also registered some improvement, while results from Space and Helicopters were broadly in line with 2003 (note that Helicopters was consolidated proportionally at 50% until 30 November, and at 100% from December).

An important feature of 2004 was a sharp increase in the group's return on capital compared to the previous year. Return on net invested capital (**ROI**) rose to 23.1%, vs. 20.2% in 2003; return on net capital (**ROE**) rose from 6.0% to 15.6%, and **EVA**[®], a value indicator devised by the group, was positive for EUR 193 million, its highest level in the last three years (it was EUR 168 million in 2003 and EUR 164 million in 2002), thus reaching a total of EUR 525 million for the last three years.

EBITDA also improved markedly, reaching EUR 878 million compared to EUR 790 million in 2003, resulting in an increase in the EBITDA margin from 9.1% in 2003 to 9.3%. **EBITA** also rose, from EUR 549 million to EUR 614 million, while the EBITA margin was 6.5%, up from 6.4% in 2003.

Orders acquired in 2004 were EUR 1,666 million up on those in 2003 (EUR 10,802 million compared to EUR 9,136 million) with more than 50% of the total coming from defence, a percentage that was broadly in line with the previous year. Orders secured in the last month of 2004 were particularly significant, with the signing of the contracts for the second tranche of the Eurofighter contract, which mainly concerned the Aeronautics and Defence Electronics divisions, and for the Cosmo-SkyMed satellite programme.

The **order backlog** at end-2004 was up EUR 3,601 million to EUR 25,877 million, compared with EUR 22,276 million in 2003, equivalent to about two and a half years of production.

EUR m		2004			2003			
Business	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	1,709	223	154	145	1,318	184	137	133
Helicopters *	1,428	167	147	130	1,297	157	137	128
Space	782	65	32	25	767	51	14	5
Defence Electronics								
	2,056	238	186	148	1,858	206	160	127
Defence Systems	1,148	127	106	87	1,102	105	88	68
Transport	1,375	95	70	65	1,320	91	66	61
Energy	729	44	31	31	796	36	23	23
IT	391	25	14	13	401	38	24	23
Various	144	(106)	(126)	(126)	112	(78)	(100)	(100)
Eliminations	(375)				(325)			
	9,387	878	614	518	8,646	790	549	467

*Consolidated proportionally at 50% until 30 November, and at 100% from December. The stake was consolidated proportionally at 50% in 2003.

Pre-tax profit was EUR 722 million, EUR 311 million higher than the EUR 411 million achieved in 2003. The sale of 3 million STM shares on the market in the first half of 2004, and the sale of around 93 million STM shares in the second half of the year in particular, covered the cost of acquiring 50% of

AgustaWestland and yielded a total capital gain of EUR 788 million. The above-mentioned operation entailed the sale of the group's controlling stake in STM at a price of EUR 15.50 per share. This was much higher than the average market price recorded by STM in the subsequent period. This liquidity also made possible various write-downs and one-off provisions, which enabled the group to proceed with an extensive restructuring and rationalisation of its operations, which will benefit the group's operations over the next few years. Measures of this type taken during 2004 included:

- Reorganisation of Fata Group, through the liquidation of some of its subsidiaries (EUR 165 million);
- Revaluation of AMS SpA, following recent agreements with BAE Systems, and the related change to the group's stake in the AMS joint venture (EUR 154 million);
- ALS, charges connected to the Atlantic Bird satellite programme (EUR 50 million);
- Charges relating to the refocusing of Elsag's operations towards areas more in line with Finmeccanica's core business (EUR 39 million);
- AgustaWestland, provisions for restructuring charges decided before the acquisition of 100% of the company (EUR 26 million);
- Restructuring charges covering various group companies (EUR 56 million).

Although taxable profit was up on the previous year, tax was much lower (-18%) thanks to careful application of the new rules introduced as a result of the recent tax reform in Italy.

The group closed 2004 with **consolidated net profit** of EUR 548 million, vs. EUR 199 million in 2003. If Finmeccanica's share of the profits of STM (EUR 69 million) and Avio (EUR -9 million) are stripped out, this figure comes to EUR 488 million, or more than three times the EUR 160 million reported in 2003. The increase of EUR 328 million is attributable partly (EUR 51 million) to a marked improvement in operating performance confirmed by growth in **EBIT**—which rose to EUR 518 million from EUR 467 million in 2003—and partly from the value of investments.

In light of the 2004 results, the Finmeccanica board has decided to offer shareholders a **dividend** of 1.3 EUR cents per share, +30% compared to that paid last year. If the dividend is approved as proposed by the shareholders' meetings, this will be paid on June 23 2005 (ex-date: 20 June).

Net financial debt at 31 December 2004 was EUR 371 million, compared with EUR 256 million at the end of 2003. The 2004 figure—10% of consolidated shareholders' equity—is below the sector average and within the limits of careful and prudent financial management.

During the year the group took steps to extend the average residual life of debt (from 5.0 to 7.8 years from January 2004 to 31 March 2005 and to more than 10 years after the repayment of the loan that expires in June 2005).

Net financial charges in 2004 were broadly in line with 2003, thanks partly to income from the measures taken last year to protect the value of the stake in STMicroelectronics NV. Specifically, the group carried out hedging operations on a total of 55 million STM shares, aimed at protecting the value of the stock from any decline in value in view of its sale to Cassa Depositi e Prestiti (CDP). Following the sale of the shares, the hedging positions were closed, generating net income of around EUR 3.5 million for 2004 and a further EUR 17.2 million in early 2005 (which will be recorded in this year's results). Further operations covering a total of 35 million shares, aimed at protecting the value of Finmeccanica's remaining portfolio of STM shares, were also carried out.

Headcount grew to 51,026 (+4,165 from the 46,861 in 2003), mainly due to the acquisition of AgustaWestland.

2004 highlights and significant events after year-end

2004 was an important year for Finmeccanica, and one in which internationalisation proceeded apace, and the group's aerospace and defence operations were gradually strengthened.

Helicopters. On 30 November 2004, Finmeccanica completed the acquisition of the UK group GKN's 50% share of the helicopter joint venture AgustaWestland NV, for around EUR 1,496 million (GBP 1,001.5 million). Finmeccanica also acquired GKN's plants already used by the joint venture for around EUR 93 million (GBP 62 million). This acquisition was financed largely through the sale to Cassa Depositi e Prestiti of 93,000,064 ordinary STM shares (about 10.3% of the share capital), at a nominal value of EUR 15.50 each, raising a total of EUR 1,442 million and a capital gain of EUR 758 million.

Following this sale to the Cassa Depositi e Prestiti, Finmeccanica still indirectly owns 59,741,576 STM shares, of which 20 million are earmarked to service the exchangeable EUR 501 million bond issue, and 23 million have been lent to banks to partly hedge against any fall in the share price.

Note too that in June Finmeccanica sold 3 million STM shares at an average price of EUR 17.46, generating a capital gain of about EUR 30 million.

Defence Electronics. At the end of January 2005 Finmeccanica signed a contract with BAE Systems to buy its defence electronics business. This will give Finmeccanica significant UK-based assets in the sectors of avionics, military and secure communications and air traffic control. Moreover, given that Finmeccanica has regained complete control of AMS' Italian operations, it will be able to generate important synergies with other group companies, and take a leading role as systems integrator in the defence electronics business.

Under the agreement:

- a new avionics company will be formed, 75% owned by Finmeccanica and 25% by BAE Systems;
- Finmeccanica will acquire BAE Systems' military and secure communications division;
- The Italian operations of AMS NV will come back under the full control of Finmeccanica. The new AMS SpA will also include the air traffic management (ATM) and air traffic control (ATC) operations acquired from BAE Systems in the UK, in Germany (Gematronik), and in the US (ASI); BAE Systems has the option to sell its remaining shares to Finmeccanica at the end of the 25th month after completion of the transaction, while Finmeccanica has a call option for an indefinite period;

This operation makes Finmeccanica Europe's second largest, and the world's sixth largest, defence electronics group.

The EuroSystems and AgustaWestland transactions have made Finmeccanica the second largest aerospace group in the UK (with a pro-forma turnover of some EUR 2,600 million and more than 10,000 employees) after BAE Systems.

In 2004, the group began to reposition the operations of subsidiary Eltag in the defence electronics and security field. This operation will involve the transfer of the security arm of Selenia Communications (with revenues of some EUR 100 million) to Eltag, while IT activities that are no longer considered strategic will be placed with third parties able to develop them further.

Space. On 28 January 2005 Finmeccanica and Alcatel signed the final agreement for an alliance in the space sector through the creation of two companies. The first, Alcatel Alenia Space, will be 67% owned by Alcatel and 33% by Finmeccanica; it will group the industrial operations of Alcatel Space and Alenia Spazio, and will produce space systems, satellites and payloads for civilian and military applications. The second, Telespazio, will be 67% owned by Finmeccanica and 33% by Alcatel; it will bring together the operations and satellite services of Telespazio and Alcatel Space Services & Operations, and will concentrate on operations and services for satellite solutions. Both companies will become fully operational in 2005, once the necessary clearances have been completed and the relevant authorities have given their approval.

Industrial restructuring. As part of the restructuring operations carried out in 2004, the group took measures regarding the Fata group which—apart from Fata Automation, whose liquidation was begun on 16 July 2004—related particularly to Fata Group. In September Finmeccanica, which already owned 42.97% of the company, acquired the remaining 57.03% following the

settlement of losses and reconstitution of the share capital made necessary by the 2003 results. In March, Fata Group SpA was placed in liquidation, having previously transferred its core business activities to a new company formed for the purpose. The charges connected to this operation (EUR 165 million) were sustained completely in the 2004 accounts, as were those resulting from the change in ownership relating to the previous year.

BredaMenarinibus. Measures taken to concentrate on core businesses include the preliminary contract, signed in March 2005, for the sale to Dipiudi Ambiente SpA of BredaMenarinibus (revenues of EUR 83 million and some 300 employees). The Bologna-based company makes and sells buses for urban and long-distance public transport on the domestic market. Potential buyers were chosen by taking into account not only the financial conditions of their offer but also the company's proposed business plan, with special emphasis on investment planned, the maintenance of the company's workforce and retention of its current location, as part of the consolidation and completion of the restructuring and development plan launched by Finmeccanica in recent years. The transfer of Bredamenarinibus shares to the new shareholder will take place as soon as the competition authority approves the deal.

Financial operations. The group did not launch any new bond issues in 2004, while a revolving credit line for EUR 1.2 billion was opened, but remained unused as of 31 December 2004. In July 2004, the group renewed and added to its Euro Medium Term Note (EMTN) issue on the Luxembourg market, increasing it from EUR 1.1 billion to EUR 2 billion. It also prepared the ground for possible new medium- or long-term issues. In March 2005 Finmeccanica SpA launched a new long-term issue totalling EUR 500 million, due 2025 and with a coupon of 4.875%.

Outlook

A significant increase in demand for commercial aircraft is expected in 2005, with fleets expected to double over the next 20 years. Also during the year Finmeccanica's **aeronautics** division will bring on stream the Boeing 787 programme, some of which is in partnership with the US company Vought. The defence market is growing, with new requirements for tactical transport aircraft, special mission aircraft and advanced trainers. Work will begin on the second tranche of the Eurofighter programme and on the updating of the AMX aircraft, while operations connected to the C-27J and special mission aircraft such as the ATR ASW and MP will be consolidated.

In **helicopters** the defence market, which accounts for some 75% of the total, is expected to grow, thanks to significant new demand in both Europe and the United States.

Space. In commercial satellites the highest growth is expected in services: broadband, telecoms, operations and earth observation; in manufacturing, government contracts are expected to account for the bulk of the work, growing faster than the commercial market.

In **defence electronics** the purchase of BAe Systems' assets will enable Finmeccanica to strengthen its competitive position considerably.

Transport is confirming the overall positive trend of the domestic market, which will benefit the different companies in the division in various ways.

The **energy** division is much smaller than the market leaders and has a much more limited (though well-established) geographical spread; demand in its market is not expected to increase to the point of reducing competitive pressure on prices.

Integration of operations now being acquired, especially BAE Systems' avionics operations, will involve considerable expenditure to realise the extensive synergies these are expected to bring.

Continuous monitoring of the group's tax policy, together with the optimisation of the basis of consolidation through the selection of companies to be consolidated (now that the basis of consolidation will expand as a result of recent acquisitions) should allow further improvement in the capacity to generate profit and cash flow.

Careful control of working capital, given the very large investments required to develop the new production operations described above, will contribute to a moderately positive cash flow, which should therefore not change the level of net financial debt incurred by the group during 2004.

Finally, to carry out the strategic programmes now under way, it may become necessary to dispose of further assets in Finmeccanica's portfolio, or to resort to outside sources of finance, with the aim of leaving the group's present financial structure essentially unchanged.

Finmeccanica and R&D

Research and development are vital for a group whose capacity to respond to market needs is based on high technology. Finmeccanica has further consolidated its position as undisputed leader in Italy and worldwide in the high-tech field. The successes achieved by the group's products, even in open competition with the world's leading companies, are confirmation that its strategy of investing in innovation is paying off. In 2004 Finmeccanica continued to spend a significant proportion of its turnover (16%) on research and development. This figure places the group, in percentage terms, at the top of the world league among aerospace, defence, and security companies.

In the security field especially, "dual" technologies are becoming extremely important. These are technologies based on primarily military research, which offer benefits for civilian applications of high strategic value—for example, biological and chemical security systems based on nanosensors or on laser-illuminated systems with multi-spectrum technologies.

In 2004 Finmeccanica began to form inter-company technological communities as an innovative means of sharing and directing the group's various activities in development, research and integration. At the end of the year, five communities were in operation, involving more than 400 researchers and technicians (compared to around 100 at the end of 2003) drawn from the most sophisticated areas of expertise. Finally, apart from continuing and consolidated links with the main Italian universities (Genoa, Naples, Rome, Pisa and Turin), collaboration begun in 2003 with the leading universities in the US (MIT–Cambridge, University of California, Carnegie-Mellon) is being further developed.

The transition to IAS/IFRS

In light of delays by the EU in defining 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, in accordance with guidance to be issued by the authorities and following the completion of activities currently still in progress;
- the accounts of the parent company, Finmeccanica SpA, will be prepared in accordance with existing Italian accounting principles for the financial year 2005; the new international accounting principles will be adopted from 1 January 2006;
- the relevant principles to be used for evaluating financial instruments (IAS32 "Financial Instruments: Disclosure and Presentation" and IAS39 "Financial Instruments: Recognition and Measurement"), which were only given final approval by 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.

In order 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 involves 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 working 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:

- **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");
- **tangible assets.** 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, while the lessor's profit and loss account will show the depreciation effects of the leased asset and the financial charges in place of the rental fee;
- **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 basis.** 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) which apply specifically to the UK branches of AgustaWestland, will be shown in the accounts at actuarial and financial values. As stipulated by international principles, on the transition date actuarial losses not recognised on the basis of the old principles will be calculated. 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 will be valued separately by component, thus splitting the derivatives from the equity instruments themselves. The application of this principle to debt issued or guaranteed by Finmeccanica (a convertible loan and an exchangeable bond underwritten by STM shares) 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 proceeds 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 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 recognised.

Consolidated economic and financial situation

For a better understanding and comparison of the results, note that AgustaWestland, which was 50% consolidated using the proportional method until 30 November 2004, was consolidated on a line-by-line basis from December.

CONSOLIDATED PROFIT AND LOSS ACCOUNT			
(EUR 000)	2004	2003	Change %
REVENUES	9.011.837	8.279.420	
VALUE OF PRODUCTION	9.386.882	8.646.211	9%
Costs of goods and services	(5.994.343)	(5.560.718)	
VALUE ADDED	3.392.539	3.085.493	
Labour cost	(2.516.245)	(2.339.691)	
Other provisions	(20.632)	(33.909)	
Provisions for risks and charges	(92.645)	(79.611)	
Other income (charges)	115.116	157.850	
EBITDA	878.133	790.132	11%
Depreciation	(287.762)	(267.156)	
Revenue from capital grants	24.110	26.074	
EBITA	614.481	549.050	12%
<i>EBITA margin (%)</i>	<i>6,5%</i>	<i>6,4%</i>	
Goodwill amortisation	(96.451)	(82.007)	
EBIT	518.030	467.043	11%
<i>EBIT margin (%)</i>	<i>5,5%</i>	<i>5,4%</i>	
Financial income (expenses)	(38.030)	(39.080)	
Exchange rate gains (losses)	(9.547)	(6.257)	
Increase/decrease in the value of investments	461.314	162.058	
<i>of which STMicroelectronics</i>	<i>857.000</i>	<i>185.000</i>	
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX	931.767	583.764	60%
Extraordinary income (expenses)	(209.830)	(173.091)	
PRE-TAX PROFIT	721.937	410.673	76%
Tax	(173.920)	(211.416)	
NET PROFIT	548.017	199.257	175%
<i>Minority interests</i>	<i>(22.376)</i>	<i>(10.592)</i>	
NET ATTRIBUTABLE PROFIT	525.641	188.665	179%

Value of production was EUR 9,387 million, an increase of around 8.6 % on the previous year (EUR 8,646 million). The largest increases came in Aeronautics (+19% excluding, for the first half of 2004, Aermacchi, acquired on 01/07/2003) due to a greater contribution from military orders and especially the supply of equipment for the Eurofighter; Defence Electronics (up by around 11%), largely due to increased volumes at Selenia Communications, AMS and the full consolidation of OTE; Transport and Defence Systems (+4%) also showed a slight increase, while the Space and Helicopters businesses were broadly in line with the previous year. The Energy division saw an 8% drop in sales, owing to the gradual completion of orders in its backlog, which as yet has not been offset by business generated by new orders on the domestic market acquired only in the last quarter.

Personnel costs stood at EUR 2,516 million, a 7.5% increase on 2003, owing to increased staff numbers and a rise in the average unit cost per employee. The acquisition of the remaining 50% stake in AgustaWestland in November 2004 had a varied effect: it was fully reflected in staff numbers, but for 11 months it contributed only 50% to average headcount and related costs. The average headcount in 2004 was 46,401, up 1,443 from 44,958 in the previous year—the combined effect of an increase following the changed basis of consolidation and a reduction due to normal staff turnover.

The headcount at 31.12.04 was 51,026, a rise of 4,165 on the 46,681 recorded at 31.12.03, owing mainly to the acquisition of the remaining 50% of AgustaWestland and the combined effect of the changed basis of consolidation and staff turnover.

Other income and charges were positive for EUR 115 million, a decline on the income of EUR 158 million generated in 2003. Income included income from real estate investment, insurance refunds, recovery of costs, recovery of receivables from insolvent countries (which were fully written down in previous years) and the use of provisions to the tune of EUR 81 million (EUR 102 million in 2003) relative to fines, contract risks, risks on aeronautics activities, guarantees, and the use of other provisions earmarked in previous years and made available following ordinary operations to offset costs incurred during the period. Charges include direct and indirect taxes, fines and contributions to severance funds.

EBITDA rose by 11%, from EUR 790 million in 2003 to EUR 878 million at 31.12.2004, while the EBITDA margin rose from 9.1% to 9.3%. Exchange rate risk management regulated by the directive issued by Finmeccanica in December 2002 and aimed at minimising risks through specific hedging transactions on contracts acquired enabled the group to avoid significant effects at EBITDA level despite the weakening of the dollar against the euro.

EBITDA growth was mainly attributable to the following sectors: Defence Electronics (up about 16%), mainly thanks to the avionics segment, which benefited from a more profitable mix of activities and emerging markets, following continued rationalisation and restructuring; Aeronautics (up around 21%), on the back of a good performance from the military segment, which benefited from the conclusion of negotiations and the receipt of revenues from activities already partly completed; Defence Systems (up about 21%) thanks to the improved performance of the MBDA joint venture, which was boosted by greater volumes and more profitable activities; Transport (up around 4%), thanks to the greater profitability of systems and signalling, which more than offset the reduced profitability of vehicles; Space (up around 27%), which benefited from the continued restructuring undertaken in previous years; and Energy (up around 22%), owing to the greater profitability of contracts on the domestic market.

This growth was slightly offset by poorer performances from Information Technology (down around 34%), given the fierce competition in its core markets (especially large systems) and in Helicopters (-7% approx), owing to the different mix of programmes, with the majority of orders won against fierce competition compared with previous programmes, and to the predicted fall in volumes of orders due to the completion of some important domestic programmes, partly offset by greater product support activity. This trend is expected to reverse next year owing to the efficiency measures launched during the year and to the integration process for Italian and UK activities.

Depreciation and amortisation totalled EUR 288 million (from EUR 267 million in 2003). EUR 225 million of this related to tangible assets (from EUR 205 million), and EUR 63 million to intangible assets (EUR 62 million). The figure rose as a result of higher investment in tangible assets over the year and following the change in the basis of consolidation due to the acquisition of AerMacchi (EUR 10 million) in 2H03 and of AgustaWestland (EUR 1 million) in November 2004.

Goodwill amortisation rose to EUR 96 million (from EUR 82 million in 2003), mainly due to the changed contributions from AgustaWestland and AerMacchi (included in the basis of consolidation from 2H03).

Net financial expenses totalled EUR 38 million, broadly in line with the EUR 39 million reported in 2003. The 2004 figure was however strongly affected by certain extraordinary items. Specifically, these included the income generated by hedging operations carried out as a precautionary measure following the decision to acquire AgustaWestland (around EUR 12 million), and revenues generated by measures to protect the value of the group's shareholding in STMicroelectronics NV (net income of around EUR 3.5 million). This last transaction will be completed in early 2005, yielding further positive results.

These factors contrast however with the net debt figure, which showed an increase in average debt compared to the previous year that was also significantly higher than the year-end figure recorded on 31.12.04.

Net exchange rate losses totalled EUR 9 million, vs. EUR 6 million in 2003. This figure confirms the trend already highlighted in previous quarterly reports concerning the negative effect of the constant rise in dollar interest rates (+1%). This is due to the increase in the sign change in forward agreements (which shows the spread between the euro and dollar), which—for disposals of maturing dollar contracts—worsened compared to the previous year.

The **increase in the value of investments** was EUR 461 million, compared to EUR 162 million in 2003. This figure includes:

- the capital gain of EUR 758 million resulting from the sale by the parent company to Cassa Depositi e Prestiti of 432,291 STMicroelectronics Holding NV (STV) shares, equivalent to 30.4% of the company; i
- Finmeccanica's share of STH (EUR 99 million, from EUR 185 million in 2003), which, like all the group's important non-consolidated holdings, is valued at equity. In particular, the figure benefited from a EUR 30 million capital gain from the sale of STMicroelectronics NV (STM) shares held by STH (EUR 140 million in 2003);
- a EUR 154 million write-down from the reorganisation of AMSH NV, including the imminent winding-up of the AMS NV joint venture, in the field of defence electronics;
- losses totalling EUR 191 million (EUR 25 million in 2003) from the group's other equity-valued shareholdings, of which EUR 9 million (EUR 2 million in 2003) relate to the subsidiary Aero Invest 1 SA. The most significant losses include EUR 183 million relating to Fata Group SpA, which has undergone a significant reorganisation process.
- net losses from other shareholdings valued at cost, totalling EUR 57 million (EUR 23 million in 2003). These include EUR 39 million arising from Ansaldo Industria SpA, currently in liquidation.

Extraordinary income and charges were negative for EUR 209 million, vs. EUR 173 million of charges in 2003. The main charges related to provisions, other restructuring costs and redundancies, minus the utilisation of EUR 190 million of funds earmarked in previous years (this figure was EUR 175 million in 2003). The restructuring encompassed the following sectors: Information Technology (EUR 39), which has been refocusing on its core business; Helicopters (EUR 26 million); Space (EUR 12 million); Defence Electronics (EUR 17 million); and Other Activities, particularly ALS SpA (EUR 50 million), whose costs are related to the Atlantic Bird programme, and BredaMenarinibus SpA (EUR 18 million), for the restructuring of the company before it was sold off in early 2005.

Tax came in at EUR 174 million, vs. EUR 212 million in 2003. The decline was due essentially to the adoption of the new national consolidated tax system on the IRES tax (as introduced by legislative decree 344/2003 on 1 January 2004) by a number of Finmeccanica group companies.

The tax figure is the sum of IRAP (EUR 96, from EUR 89 million in 2003), IRES and other direct taxes (EUR 94 million, vs. EUR 153 million in 2003) and net deferred tax credits (EUR 16 million, from EUR 30 million in 2003).

Note that the tax figure benefited from the tax-free sum of EUR 59 million (of which EUR 43 million relate to the parent company) arising from the valuation of negative taxable income, calculated as the current IRES rate (in accordance with the consolidation contract signed by subsidiaries participating in the new national consolidated tax system) offset by the positive taxable income registered within the group's consolidation perimeter. It follows that, without the option to adopt the new national consolidated tax system, this item would have been higher than in the previous year.

BALANCE SHEET				
	(Eur 000)	31.12.2004	31.12.2003	Change
Intangible assets		2.247.482	1.198.243	1.049.239
Tangible assets		1.925.535	1.692.357	233.178
Long-term investments		758.512	1.418.997	(660.485)
TOTAL NON-CURRENT ASSETS		4.931.529	4.309.597	621.932
Inventory (net of progress billings)		8.546.061	6.719.753	1.826.308
Trade receivables		3.472.240	3.327.889	144.351
Other assets		1.170.559	1.136.784	33.775
Trade payables		(2.890.049)	(2.564.344)	(325.704)
Customer advances		(4.986.009)	(4.231.639)	(754.370)
Provisions for risks and charges		(1.398.677)	(1.107.606)	(291.071)
Other liabilities		(3.972.490)	(3.317.692)	(654.797)
WORKING CAPITAL		(58.363)	(36.855)	(21.508)
<i>of which operating working capital</i>		4.142.243	3.251.659	890.584
STAFF SEVERANCE FUND		(777.824)	(714.089)	(63.735)
NET INVESTED CAPITAL		4.095.342	3.558.653	536.689
<i>covered by:</i>				
SHAREHOLDERS' EQUITY		3.724.463	3.302.169	422.294
NET DEBT		370.879	256.484	114.395
TOTAL		4.095.342	3.558.653	536.689

Total fixed assets increased by EUR 622 million, from EUR 4,309 million at 31.12.2003 to EUR 4,931 million at 31.12.2004, owing to the combined effect of: a EUR 605 million increase in fixed assets due to the contribution of the remaining 50% of AgustaWestland at the date of acquisition; a EUR 845 million increase in goodwill due to the acquisition of the remaining 50% of AgustaWestland by the parent company; a EUR 355 million rise in tangible assets relating to investments during the year, especially Aeronautics for the EFA, A380 and B787 (previously B7E7) programmes, Helicopters, for the acquisition of the production facilities of AgustaWestland, and Finmeccanica for the acquisition of the Torre Fiumara complex in Genoa, and for the redemption of the lease on the company's headquarters at Piazza Monte Grappa, Rome; a EUR 684 million reduction due to the sale of 30.4% of the group's stake in STMicroelectronics Holding NV; a EUR 182 million reduction in goodwill deriving from write-downs, particularly those relating to the AMSH NV joint venture (EUR 154 million).

Working capital stood at EUR -58 million, compared with EUR -37 million at 31.12.03.

In the same period, **operating working capital**—made up of inventory and work in progress, trade receivables, trade payables, advances from customers and progress billings—increased by around EUR 891 million. This was the combined effect of:

- a EUR 1,826 million increase in inventory and work in progress (net of progress billings of EUR 7,884 million at 31.12.04 and EUR 8,138 million at 31.12.03, recorded under the item "customer advances and progress billings") mainly due to the contribution of 50% of AgustaWestland (EUR 1,285 million), and to higher spending in the Aeronautics business for the start-up of some programmes and the production of prototypes; the start-up of the AB139 programme in the Helicopters business; and increased production volumes in the Space and Defence Electronics businesses;
- a EUR 182 million fall in trade receivables net of trade payables. The rise in receivables was due to the Aeronautics and Helicopters businesses (the net contribution from AgustaWestland came in at EUR 43 million). The rise in trade payables related mainly to the Aeronautics, Helicopters, Defence Electronics and Transport businesses, while Space and Energy saw their payables decline.
- a EUR 754 million increase in customer advances to EUR 4,986 million at 31.12.04 (vs. EUR 4,232 million at 31.12.03, recorded under "customer advances and progress billings"). This related mainly to the contribution of AgustaWestland (EUR 662 million), as well as to Aeronautics activities.

Cash flow statement

For the cash flow statement please see the international tables at the end of this press release.

DEBT		
	(EUR million)	
		31/12/2004
		31/12/2003
Short-term debt		75
Current portion of medium- to long-term debt		919
Medium- to long-term debt (net of current portion)		1.391
Cash on hand or equivalent*		(2.007)
NET BANK DEBT		378
		240
Interest-bearing securities		(13)
Government bonds		(33)
Loans to third parties		(504)
Loans to subsidiaries and affiliated companies		(59)
Loans from subsidiaries and affiliated companies		454
Liabilities to industry ministry (MAP)		69
Other financial liabilities		79
NET DEBT		371
		256
(*) of which "equivalent" €mil.:		0
		4

Group net debt rose from EUR 256 million at 31.12.03 to EUR 371 million at 31.12.04. The figures for March, June and September stood at EUR 682 million, EUR 717 million and EUR 949 million respectively. The year-end figure was the combined result of positive operating cash flows for the group and a negative figure due to the extraordinary operations described elsewhere.

The debt trend, and its sharp rise in the last quarter of the year confirm the typical seasonal trend of Finmeccanica's cash flows: these are generally concentrated towards the end of the year, especially as regards payments from the Italian public administration, which accounts for a significant share of the group's revenues.

Other events that affected debt for 2004 include:

- the payment of ordinary 2003 dividends totalling EUR 84 million in June by Finmeccanica SpA, and the payment of EUR 4 million in dividends to minority shareholders by other group companies;
 - the payment of around EUR 1,496 million in November, for the acquisition by Finmeccanica from GKN Plc of the remaining 50% of AgustaWestland NV; and a loan of around EUR 97 million at 31.12.04 to a UK subsidiary of AgustaWestland NV for the purchase of production facilities;
 - the overall effects of the restructuring and reorganisation of Fata, involving the winding-up of all the group's non-core activities. As part of this operation, Finmeccanica carried out capital operations on Fata that totalled EUR 41 million;
 - the proceeds from the non-recourse factoring of tax credits carried out by Finmeccanica in June, totalling EUR 106 million;
 - the receipt by Finmeccanica of an ordinary dividend of EUR 18 million from STMMicroelectronics Holding NV (STH) in June;
 - the receipt of an extraordinary dividend of EUR 52 million from STH following the sale of 3,000,000 STMMicroelectronics NV (STM) shares in June at an average price of EUR 17.46 per share;
 - the receipt of EUR 1,442 million relating to the indirect sale to Cassa Depositi e Prestiti (CDP) of 93,000,064 STMMicroelectronics NV (STM) shares (equal to 10.3% of the capital) at a price of EUR 15.50 per share. This sale was carried out in relation to the acquisition of 50% of AgustaWestland NV as stated above. The operation was carried out in December via the sale to CDP of 432,291 shares (around 30.4%) of the Dutch company STMMicroelectronics Holding NV (STH), owned on a 50-50 basis by FT1CI (Areva and France Telecom) and Finmeccanica. Following the sale, Finmeccanica still holds, through its subsidiary STH, 59,741,576 STM shares (6.6% of the capital). Of these, 20 million shares are earmarked for the exchangeable bond issued in 2003 by the group's subsidiary Finmeccanica Finance SA, while 23 million have been lent to the banks that were involved in the hedging of 35 million STM shares.
- The group's debt figure also benefited from the use of tax credits relating to 2003 by group companies including Finmeccanica SpA, to offset taxes owed by other companies (around EUR 60 million);

Net bank debt rose from EUR 240 million at 31.12.03 to EUR 378 million at 31.12.04, while cash in hand declined from EUR 2,234 to EUR 2,007, largely because of the need to finance the investments described above.

As regards the remaining debt items, note that **other financial receivables** included some EUR 443 million relating to the non-consolidated share of the financial receivables owned by the group's joint ventures in respect of other partners as part of past treasury agreements. In accordance with the consolidation method adopted, these receivables are included proportionally in the group's basis of consolidation in the same way as all the other balance sheet figures of the joint ventures. **Other financial payables** include around EUR 439 million owed by group companies to the non-consolidated part of the joint ventures.

SHARE DATA	2004	2003	Change %
Average number of shares issued	8.436.150.797	8.431.948.882	
Average number of "fully diluted" shares	9.056.419.278	8.988.053.102	
EPS issued incl. STM (euro cents)	6,50	2,36	175%
Fully diluted EPS incl. STM (euro cents)	6,05	2,22	173%
EPS issued excl. STM (euro cents)	5,68	1,88	203%
Fully diluted EPS excl. STM (euro cents)	5,29	1,76	200%
Dividend per share (euro cents)*	1,3	1,0	30%

* proposed dividend subject to approval of shareholders' meeting.

* 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 staff 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.

Performance by sector
(Figures in millions of euro)

Aeronautics

Companies: Alenia Aeronautica, Aermacchi (*)

Value of production: EUR 1,709 million (+30%); EBITA: EUR 154 million (+12%)

* Aermacchi was acquired 1 July 2003 and consolidated starting from second half 2003.

2004 was the year of the Eurofighter: the Italian air force took delivery of the first units of the new European fighter, to which both Finmeccanica companies in this sector have contributed. Contracts were also signed to build 236 further aircraft, of which 46 are destined for Italy. In the commercial market—which seems on the way to a solid recovery—Alenia Aeronautica signed important agreements during the year with Boeing and Vought for the new B787 aircraft (construction of 15% of the fuselage, with investment of around EUR 600 million), and with Airbus to strengthen industrial partnership on the A380 with the assignment of new work segments for the cargo version.

Value of production and EBITA: the sector experienced substantial growth in value of production and EBITA over the year—more than EUR 17 million up on 2003—thanks especially to Aermacchi and to the increased contribution of Alenia Aeronautica's defence aircraft business. This was chiefly due to the Eurofighter programme, the C-27J—of which the first aircraft are currently being built for Greece—and to the upgrading of the Tornado and AMX aircraft for the Italian air force.

Orders rose sharply to EUR 3,141 million, vs. EUR 1,401 million in 2003. A substantial proportion of this came from the second tranche of the Eurofighter contract, worth EUR 2.1 billion.

The order backlog at 31 December 2004 stood at EUR 5,430 million (up from EUR 4,075 million at 31 December 2003). About 90% of this related to the military segment, in which the Eurofighter accounted for 67%.

Research and development: investment was EUR 351 million, up from EUR 241 million in 2003.

Headcount at 31 December 2004 stood at 10,640, up 197 on the total of 10,443 at 31 December 2003.

Helicopters

Company: AgustaWestland (*)

Value of production: EUR 2,542 million (-2%); EBITA: EUR 257 million (-7%)

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

The world helicopter market promises substantial growth (from some USD 8 billion in 2004 to USD 11 billion in 2009-2010), both in the US and Far East military segment and in the commercial and government segments. Finmeccanica is a leader in the sector through its wholly-owned subsidiary AgustaWestland.

Value of production fell slightly by EUR 52 million, with the end of large domestic contracts in Italy and the UK (Apache, EH101).

EBITA dropped by EUR 18 million vs. 2003, because of a change in the mix of programmes under way and a reduction in the volume of domestic programmes. From 2005 this will be reversed, partly thanks to improved efficiency as a result of integrating the Italian and British operations.

Orders won by AgustaWestland in 2004 totalled EUR 1,808 million, an increase on the 2003 figure of EUR 1,794 million. This was due both to orders for new helicopters and to the excellent performance of product support.

The order backlog at 31 December 2004 stood at EUR 5,238 million, down on the previous year's figure of EUR 6,206 million, chiefly as a result of a temporary delay in some orders, including those for the US presidential helicopters (January 2005). However, the order backlog is big enough to maintain 2004 volumes of production in future years, mainly thanks to the start of work on the new NH90 and AB139 programmes.

Research and development: investment in 2004 totalled EUR 551 million, an increase on the EUR 446 spent the previous year.

Headcount at 31 December 2004 was 8,968, a fall of 24 compared to 31 December 2003. At end 2004 an efficiency plan was drawn up for the restructuring of Westland Helicopters/Transmissions involving

subsequent redundancies of about 700 people in the UK and an integration programme based on the setting up of a single company which foresees the complete integration of both Italian and UK companies. 50% of the EUR 52 million cost of this plan appears on Finmeccanica's balance sheet, because it was set aside before the acquisition of the whole company.

Space

Companies: Alenia Spazio, Telespazio

Value of production: EUR 782 million (+2%); EBITA: EUR 32 million (EUR 14 million in 2003)

Alenia Spazio and Telespazio have undergone a major restructuring, and will this year form two separate joint ventures with French group Alcatel Space. In 2004 they completed a management and production rationalisation plan aimed at strengthening and consolidating their industrial and financial structure. The results of this programme, already apparent in 2004, will lead to a gradual improvement in business performance in the short to medium term, while the joint venture with Alcatel Space will be leader in Europe's space industry.

The commercial space market has recently shown signs of an upturn, with major growth expected in broadband systems and services. Meanwhile, demand from European government programmes will be strong in the coming years, as important programmes such as Galileo and GMES (Global Monitoring for Environment and Security) get under way. Particular attention will be given to launch services, which are indispensable to giving Europe independent access to space.

In Italy, the defence ministry—after taking part in the Cosmo-SkyMed programme—plans to go ahead with the Sicral 1B satellite, which will allow it, among other things, to provide satellite telecommunications services to NATO.

Value of production increased by EUR 15 million, essentially as a result of more work on Cosmo-SkyMed.

EBITA increased sharply, on the back of restructuring and efficiency measures, as well as greater production. Note however that the previous year suffered as a result of provisions to cover credit risks, extra costs on certain contracts, and low use of production capacity.

Orders totalled EUR 1,052 million in 2004, an increase of EUR 380 million on 2003, partly thanks to the Cosmo-SkyMed programme following the signing of the contract in December.

The order backlog at the end of 2004 stood at EUR 1,428 million, an increase of about 20% on 2003 (EUR 1,189 million) and representing some two years' work.

Research and development: investment in 2004, at EUR 106 million, was broadly in line with the previous year.

Headcount at 31 December 2004 stood at 3,355, a fall of 437 since the end of 2003.

Defence electronics

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

Value of production: EUR 2,056 million (+11%); EBITA: EUR 186 million (+16%) *

(*) *The figures given are not like-for-like owing to the acquisition of OTE on 4 March 2003*

Electronics for defence and security applications is the largest segment of the aerospace and defence market, accounting for some 20% of world demand (estimated at about EUR 300 billion), with growth at 7-8% per year. Against this backdrop, Finmeccanica's defence electronics division has performed extremely well, both in terms of increased production volumes and, especially, improved profitability.

Finmeccanica's defence electronics activities include avionics, unmanned aircraft, radar, land and naval command and control systems, air traffic control systems, integrated communications systems and networks for land, naval, satellite and avionic applications, and private radiomobile communications. The International Naval Systems division also operates in this sector, and works on the Horizon frigates for the Italian and French navies.

Value of production increased by 11% over the previous year, essentially as a result of volume growth at Selenia Communications and AMS, and the full consolidation of OTE.

EBITA rose EUR 26 million from 2003 (EUR 160 million), mainly thanks to the contribution from the avionics segment, which benefited from a more profitable mix than in the past and to improvements brought by rationalisation and efficiency measures, as well as to the increase in revenues. The EBITA margin therefore came in at 7.2%, about half a percentage point higher than in 2003.

Orders worth EUR 1,893 million were secured in 2004, a drop of EUR 47 million from the previous year.

The order backlog at 31 December 2004 stood at EUR 3,472 million, about EUR 116 million below the end-2003 figure and representing little more than a year and a half's production.

Research and development: investments totalled EUR 425 million in 2004, an increase of EUR 23 million on 2003.

Headcount at 31 December 2004 stood at 11,787, a drop of 117 on the 2003 total.

Information Technology

Company: Elsag

Value of production: EUR 391 million (-2%); EBITA: EUR 14 million (-42%)

In 2004, this division, comprising Elsag and its subsidiaries, continued its poor performance of the previous year, and recorded a further fall in operating profitability. Elsag is now redirecting its efforts towards activities that are more in line with the Finmeccanica group's core business. This involves a reorientation towards defence, aerospace, security and clients requiring large automation systems, and focusing on the development of new technologies and system integration capabilities in the security field, while progressively winding down its traditional IT activities.

Orders totalled EUR 382 million in 2004, in line with the previous year.

The order backlog was also in line with the previous year. At 31 December 2004, it stood at EUR 243 million, a decline of EUR 3 million compared to 31 December 2003.

Headcount at 31 December 2004 totalled 2,697, a reduction of 96 on the 2003 total.

Defence systems

Companies: OTO Melara, WASS, MBDA

Value of production: EUR 1,148 million (+4%); EBITA: EUR 106 million (+20%)

Finmeccanica's defence systems division comprises MBDA—a joint venture with BAE Systems and EADS, in which Finmeccanica has a 25% stake—OTO Melara in land, naval, and airborne systems, and WASS in underwater weapons and sonar systems.

Growth in this sector is expected in land systems, whereas naval systems, artillery, and munitions are essentially stable, with a recovery in investment in some segments and new multinational co-operation programmes. Underwater systems, despite the segment's small size, offer promising opportunities. In this climate, in 2004 Finmeccanica's defence systems division largely continued the positive trend seen in 2003, with an improvement in both revenues and profitability.

Value of production: increased by EUR 46 million.

EBITA grew considerably from the previous year, thanks especially to the improved performance of MBDA, which benefited from greater volumes and in particular from more profitable activities than in previous years, and from synergies resulting from the restructuring programme.

Orders secured in 2004 were EUR 811 million, a drop of EUR 783 million on the previous year's figure (EUR 1,594 million).

The order backlog at 31 December 2004 stood at EUR 4,148 million, equal to more than three years' production.

Research and development: investments totalled EUR 199 million.

Headcount at 31 December 2004 stood at 4,147, broadly unchanged from the figure at 31 December 2003.

Transport

Companies: Ansaldo Trasporti Sistemi Ferroviari, Ansaldo Signal, AnsaldoBreda

Value of production: EUR 1,375 million (+4%); **EBITA:** EUR 70 million (+6%)

The market for rail and tram systems and components has confirmed the growth prospects it has shown over recent years, which are driven by several factors: increased demand for mobility and for shorter journey times; increasing political commitment to public transport; concern for the environment; users' and operators' demands for higher-quality, safer services; deregulation and growing internationalisation; and the need to upgrade infrastructure. This market is thought to be worth about EUR 30 billion a year.

Through its companies Ansaldo Trasporti Sistemi Ferroviari SpA (complete transport systems), Ansaldo Signal (rail signalling), and AnsaldoBreda (vehicles), Finmeccanica can offer clients complete solutions to satisfy the most advanced transport needs.

The three businesses in the transport division registered varied performances in 2004. There was a high level of orders for vehicles in Europe, both in the rail and the mass transit segments, and a significant increase in the backlog, whereas profitability and working capital were unsatisfactory. Order intake for Systems was worse than expected, because of delays over certain mass transit orders in Italy; profitability continued to increase, however. In signalling, the Italian subsidiary ASF recorded an excellent performance, benefiting from growing domestic demand, while the companies operating in other markets saw an overall drop in orders and production volumes.

Value of production was up on the previous year, chiefly thanks to higher volumes in the vehicles business.

EBITA: growth was largely due to improved profitability in the systems and signalling businesses, while vehicles experienced a decline in profitability.

Orders secured totalled EUR 1,645 million in 2004, a drop of EUR 72 million from the previous year (EUR 1,717 million) due to a fall in orders for systems.

The order backlog at 31 December 2004 stood at EUR 3,728 million, an increase of EUR 238 million on 31 December 2003 (EUR 3,490 million), enough to cover production comfortably over the next two years.

Research and development: spending, at EUR 26 million, was in line with 2003.

Headcount at 31 December 2004 stood at 6,005, a rise of 169 from 31 December 2003.

Energy

Companies: Ansaldo Energia

Value of production: EUR 729 million (-8%); **EBITA:** EUR 31 million (+35%)

The energy market continued the trend seen last year, with a further fall in demand on the open market. Over the coming years, however, this market promises a return to growth in demand for gas turbines. In Italy, new plants have been authorised, and existing ones upgraded, for a total of around 20,000 MW, compared to total applications of 58,000 MW. Orders for 10,700 MW have been assigned, of which 58% went to Ansaldo Energia.

Against this background, Ansaldo Energia is trying to further improve its efficiency and productivity levels. This should, among other things, allow it to deal with the expiry of the licence for Siemens gas turbines (Ansaldo Energia is already active in its own right in steam turbines and generators). It is expected that Ansaldo Energia could continue to produce and sell the current models, making its own improvements to them.

EBITA was better in 2004 than the previous year, chiefly thanks to the improved profitability of domestic orders, which has also offset higher R & D costs.

Orders in 2004 totalled EUR 937 million, some 40% more than the previous year (EUR 676 million).

The order backlog at 31 December 2004 stood at EUR 2,089 million, an increase of 16% on 2003 (EUR 1,806 million), which will keep capacity fully utilised throughout 2005 and part of 2006.

Research and development: investments reached EUR 9 million, compared with EUR 5 million in 2003.

Headcount at 31 December 2004 was 2,588, compared with 2,573 at 31 December 2003.

2004 RESULTS (EUR million)	Aeronautics	Helicopters*	Space	Defence Electronics	Defence Systems	Transport	Energy	I.T.	Other activities	Eliminations	TOTAL
Value of production	1.709	1.428	782	2.056	1.148	1.375	729	391	144	(375)	9.387
EBITA	154	147	32	186	106	70	31	14	(126)		614
EBITA margin (%)	9,0%	10,3%	4,1%	9,0%	9,2%	5,1%	4,3%	3,6%	-87,5%		6,5%
EBIT	145	130	25	148	87	65	31	13	(126)		518
Depreciation and amortisation**	85	39	40	99	44	31	13	12	21		384
Investments in non-current assets***	97	927	18	107	36	16	13	31	84		1.329
Research and development costs	351	349	106	425	199	26	9	10	2		1.477
New orders	3.141	1.252	1.052	1.893	811	1.645	937	382	121	(432)	10.802
Order backlog	5.430	5.238	1.428	3.472	4.148	3.728	2.089	243	101		25.877
Headcount	10.640	8.968	3.355	11.787	4.147	6.005	2.588	2.697	839		51.026
2003 RESULTS (EUR million)	Aeronautics	Helicopters	Space	Defence Electronics	Defence Systems	Transport	Energy	I.T.	Other activities	Eliminations	TOTAL
Value of production	1.318	1.297	767	1.858	1.102	1.320	796	401	112	(325)	8.646
EBITA	137	137	14	160	88	66	23	24	(100)		549
EBITA margin (%)	10,4%	10,6%	1,8%	8,6%	8,0%	5,0%	2,9%	6,0%	-89,3%		6,3%
EBIT	133	128	5	127	68	61	23	23	(100)		467
Depreciation and amortisation**	59	30	46	92	41	31	13	15	22		349
Investments in non-current assets	144	16	20	73	37	19	10	8	19		346
Research and development costs	241	223	105	402	228	31	5	12	4		1.251
New orders	1.401	897	672	1.940	1.594	1.717	676	382	127	(270)	9.136
Order backlog	4.075	3.103	1.189	3.588	4.685	3.490	1.806	246	94		22.276
Headcount	10.443	4.496	3.792	11.904	4.140	5.836	2.573	2.793	884		46.861

*Proportional consolidation (50%) until November and full consolidation only for December.

**Including goodwill amortisation

*** Helicopters include Eur mil. 845 of goodwill coming from the acquisition of the remaining AgustaWestland's 50% stake previously owned by GKN.

CONSOLIDATED CASH FLOWS	2004	2003
(in EUR million)		
CASH FLOW FROM OPERATING ACTIVITIES		
NET PROFIT (LOSS)	526	199
<i>Reconciliation of net profit (loss) with cash flow generated by (utilised in) operating activities</i>		
Minority interests	22	10
Extraordinary and restructuring charges, net of cash	153	134
Depreciation and amortisation	360	375
Provisions for staff severance fund	103	100
Valuation of STMicroelectronics at equity	(99)	(185)
Net write-downs of inventories, shareholdings, securities and other	258	64
(Profit) loss on disposal of other assets	(758)	1
Staff severance payments	(74)	(82)
<i>Changes in operating assets and liabilities</i>		
Customer receivables	29	203
Inventory and contract work in progress	(614)	(672)
Trade payables	158	(52)
Customer advances	92	68
Provisions for risks and charges	109	(146)
Other, net	99	479
CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES	364	496
CASH FLOW FROM INVESTMENTS		
Increases in tangible and intangible fixed assets	(434)	(279)
Acquisition of AgustaWestland, net of cash	(1.427)	0
Acquisition of Aermacchi e Avio Invest 1, net of cash	0	(281)
Acquisition of other assets net of cash, amounts covering losses of non-consolidated companies and other changes in consolidation area	(22)	(22)
Proceeds from the sale of STM	1.442	0
Proceeds from the sale of tangible and intangible assets and investments	48	18
Dividends from other shareholdings	74	217
Net change in other investments	(15)	262
Government grants and subsidies	63	62
CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES	(271)	(23)
CASH FLOW FROM FINANCING ACTIVITIES		
Share capital increase	1	1
Dividends paid	(88)	(84)
Bonds issued	0	1.001
Proceeds from medium to long-term debt issued	16	21
Repayment of medium to long-term debt and bonds	(217)	(70)
Net change in short-term financial debt and other financial debt	(32)	(64)
CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES	(320)	805
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(227)	1.278
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	2.234	956
CASH AND EQUIVALENTS AT END OF PERIOD	2.007	2.234