
Finmeccanica: the main effects of adopting the new IAS/IFRS international accounting standards

Finmeccanica today presents to financial analysts the main effects of adopting the new IAS/IFRS international accounting standards that will be used to prepare the group's consolidated accounts with effect from the 2005 half-yearly accounts, and their impact on the annual consolidated accounts to 31 December 2004 and the opening position as at 31 December 2003.

This aim of this press release and the presentation is to provide the market with initial information on the effects that the new accounting principles will have on the group's accounts: this information is based on preliminary data, which may be subject to change. The group's auditors, PricewaterhouseCoopers, are currently carrying out an audit, and the results will be notified to the market in due course.

The 2004 annual accounts have been prepared in accordance with the IAS/IFRS standards and interpretations that are currently available. The figures that will be disclosed do not include the effects of adopting IAS32 or IAS39 on the treatment of financial instruments, which Finmeccanica will adopt from 1 January 2005 without revising the comparative data relating to 2004.

The main changes arising from the adoption of the IAS/IFRS principles are as follows:

- **Net income:** up in 2004 from EUR 548 million to around EUR 585 million, due essentially to lower goodwill amortisation charges;
- **EBIT:** a reduction of around EUR 50 million, mainly due to the restatement of items considered as extraordinary as per previous accounting standards, but which, according to IAS/IFRS principles, should be classified as operating costs;
- **Shareholders' equity:** a decrease of around EUR 150 million at the transition date (1 January 2004), due to IAS/IFRS adjustments;
- **Net debt:** around EUR 270 million higher at the end of 2004 (up from EUR 371 million to around EUR 640 million), chiefly due to changes in the basis of consolidation. This figure does not include the effects of IAS32 and IAS39, which the group will adopt starting from 1 January 2005.

The changes are mainly due to the application of different principles to the following:

- *Recording of fixed benefit plans and other staff benefits.* These plans, prevalent in the US and UK, are those in which the group guarantees members a certain level of benefits, and acts as guarantor in the event that the assets servicing the plan perform badly. Based on IAS/IFRS criteria, these are recorded at actuarial values that incorporate financial and statistical hypotheses. These adjustments have reduced shareholders' equity by about EUR 100 million at 31 December 2004, despite a net gain on the 2004 P&L due to a EUR 30 million reduction in costs relating to the staff severance fund;
- *Changes in the scope of consolidation.* The new IAS/IFRS regulations have led to the consolidation of companies and entities that were previously not consolidated, particularly certain special purpose vehicles operating in the aeronautics sector. This change has reduced shareholders' equity by about EUR 40 million, with negligible effects on the 2004 result, and led to an increase in debt of about EUR 180 million;

- *Cancellation of goodwill amortisation.* Goodwill is no longer subject to systematic amortisation, but rather to an impairment test. This change has improved net income and shareholders' equity at end-2004 by about EUR 70 million, net of the higher write-downs required to bring those already carried out according to Italian accounting principles into line with the new book values for goodwill under IAS/IFRS;
- *Adjustments to the book value of tangible and intangible assets.* These changes have a net positive effect of about EUR 20 million on shareholders' equity at 31 December 2004, and mainly relate to the write-off of intangible assets that do not meet capitalisation requirements according to IAS/IFRS, and to the recording of finance leases in accordance with IAS17. This last adjustment has led to the recording of higher debt for approximately EUR 35 million;
- *Adjustments to the book value of shareholdings.* These changes have decreased net profit for the period by approximately EUR 50 million, mainly as a result of the restating of the portion of the currency translation reserve reversed to P&L at the time of the sale of 93 million STM shares to CDP (Cassa Depositi e Prestiti). The result of the transaction has been restated to take into account the resetting of the reserve to zero at the date of transition to IAS/IFRS, as allowed by IFRS1.

Finally, it should be noted that the statutory accounts of parent company Finmeccanica SpA for 2005 will be prepared according to national accounting criteria, with IAS/IFRS to be applied from 1 January 2006, as allowed by current regulations.

The main effects that the adoption of IAS/IFRS will have for the group will be presented to financial analysts today during a conference call. The slides for the presentation may be accessed on the group website www.finmeccanica.it under Investor Relations.