

Board of directors approves 2005 results: EBIT up 58% to EUR 735 million; value of production up 25% to EUR 11,469 million, operating cash flow (FCOF) of EUR 501 million

Proposed dividend: 31 euro cents (+19% vs. 2004) as well as extraordinary dividend of 19 euro cents due to flotation of Ansaldo STS

New orders up 46% at EUR 15,383 million; order backlog up 32% at EUR 32,114 million, equivalent to around three years' activity

Research and development investment up 26% vs. 2004, at EUR 1.7 billion (15% of value of production)

- **Finmeccanica once again saw improved results in 2005 thanks to growth from all sectors, particularly Aeronautics, Defence Electronics and Helicopters.**
- **Organic growth made a major contribution to the results: like-for-like, value of production rose by 4.4% and EBIT by 22%**
- **Free operating cash flow came in at EUR 501 million at 31 December, treble the figure posted at end-2004.**
- **The group's balance sheet remains sound (debt/equity up from 19% to 24%) and an improvement in capital return (ROI 17.5% vs 15.5%) notwithstanding significant strategic investments totalling EUR 807 million over the year.**
- **Extraordinary dividend of 19 Euro cents proposed on proceeds from successful Ansaldo STS flotation.**

Key 2005 figures
(EUR million)

	2005	2004	Change (absolute)
Revenues	10,952	8,834	2,118
Value of production	11,469	9,158	2,311
EBIT	735	465	270
EBIT margin	6.4%	5.1%	1.3
Net profit	396	585	-189
New orders	15,383	10,543	4,840
Order backlog	32,114	24,315	7,799
Net debt	1,100	701	399

Pier Francesco Guarguaglini, Chairman and CEO, commented: "The 2005 results confirm a growth trend that has been under way for several years now. This has been a particularly significant year for Finmeccanica, thanks to the major commercial success achieved internationally by all the group's

Finmeccanica è il primo gruppo italiano nel settore dell'alta tecnologia, leader nella progettazione e produzione di aerostutture, elicotteri, satelliti, infrastrutture spaziali, missili ed elettronica per la difesa. Finmeccanica svolge un ruolo di primo piano nell'industria europea dell'aerospazio e difesa ed è presente nei principali programmi internazionali del settore grazie a partnership consolidate in Europa e oltreoceano. Il Gruppo vanta anche asset produttivi e competenze di rilievo nei settori Trasporti, Energia e Information Technology. Finmeccanica, quotata alla borsa di Milano, opera in Italia e all'estero attraverso 16 società e 6 joint ventures, per un totale consolidato di oltre 55 mila addetti. Per mantenere e sviluppare le proprie competenze tecnologiche, Finmeccanica impegna in attività di Ricerca e Sviluppo risorse pari a oltre il 16 per cento dei ricavi.

subsidiaries. The decision to propose an increase in the dividend for the second year in a row meets our commitment to raise shareholder remuneration in line with growth in profitability. For 2006 and 2007 Finmeccanica will continue to improve its operating performance and strategic position, with increasing attention dedicated to achieving higher levels of efficiency and profitability.

BREAKDOWN OF KEY FIGURES

CONSOLIDATED PROFIT AND LOSS ACCOUNT			
EUR m	2005	2004	% Chg. Y/Y
Revenues	10,952	8,834	24%
Value of production	11,469	9,158	25%
Purchasing and staff costs	(10,330)	(8,198)	
Depreciation and amortisation	(347)	(277)	
Write-downs	(18)	(78)	
Restructuring costs	(32)	(124)	
Other net operating revenues (costs)	(7)	(16)	
EBIT	735	465	58%
<i>EBIT margin</i>	6.4%	5.1%	
Net financial income (expenses)	(149)	570	
Income taxes	(200)	(185)	
Net profit including discontinued operations	386	850	-55%
Profit of discontinued operations	10	(265)	
Net profit	396	585	-32%

Value of production came in at EUR 11,469 million, an increase of EUR 2,311 million on the EUR 9,158 million recorded in 2004. This was in line with the group's growth targets, and includes organic growth of around EUR 400 million (or 4.4%). The result was due largely to the consolidation of 100% of AgustaWestland and the new avionics operations acquired from BAE Systems. Looking at organic growth, the most significant improvements came in Defence Electronics (+14% approx), Aeronautics (+7% approx, due to the C-27J and Eurofighter military programmes and the ATR and A380 civil programmes), and Energy (+6% due to higher service activity compared to 2004).

EBIT rose by EUR 270 million (+58%), from EUR 465 million in 2004 to EUR 735 million. Around EUR 100 million of this change was due to organic growth, while the remaining EUR 170 million came from the changed basis of consolidation. The **EBIT margin** was 6.4%, from 5.1% at end-2004. The improvement was due to the increased contribution from the following sectors: Aeronautics (+42% from higher volumes, increased contribution of GIE-ATR consortium and compensation received from Boeing following negotiations for the closure of the B757 programme); Defence Electronics (+23%); Helicopter (+21% mainly due to higher product support and to profit improvement actions relating to the integration of British and Italian avionic activities); Defence Systems (+15% due to higher profitability above all in missiles) and Energy (+95%). In the Transport sector, Signalling and Systems, now incorporated into Ansaldo STS, recorded an increase in EBIT of EUR 21 million. AnsaldoBreda (vehicles) recorded an operating loss of EUR 130 mln due to significant extracosts related to a number of contracts all expensed within the restructuring process.

Net profit fell by EUR 189 million (-32%), from EUR 585 million in 2004 to EUR 396 million. Note, however, that the figure for 2004 was boosted by EUR 270 million, comprising the difference between the capital gains made on the sale of 93 million STMicroelectronics shares (EUR 702 million) and a number of non-recurring write-downs and provisions. Moreover, 2004 benefited from EUR 107 million in profit from STM, which in 2005 made no contribution as it was then recorded under assets held for sale, and thus valued at fair value in accordance with IFRS/IAS 39 (applied since 1 Jan 2005). The 2005 net profit figure was also hit by higher financial charges of EUR 74 million on the Group's debt, of which EUR 40 mln was due to higher average debt and EUR 17 million due to an increase in losses at Avio

SpA, as well as a EUR 15 million rise in taxes. In 2005, tax broke down as follows: IRES EUR 2 million (EUR 42m in 2004); IRAP EUR 105 million (EUR 96 million) and other taxes EUR 93 million (EUR 47 million).

CONSOLIDATED BALANCE SHEET		
EUR m	31.12.2005	31.12.2004
Non-current assets	7,671	5,520
Non-current liabilities	(2,018)	(1,877)
	5,653	3,643
Inventory	5,511	4,589
Contract work in progress	2,538	2,169
Trade receivables	3,600	3,353
Trade payables	(3,431)	(2,832)
Advances from clients	(4,389)	(3,214)
Short-term provisions for risks and charges	(523)	(514)
Other current net assets (liabilities)	(3,289)	(2,975)
Net working capital	17	576
Net invested capital	5,670	4,219
Group shareholders' equity	4,444	3,627
Minority interests	154	22
Shareholders' equity	4,598	3,649
Net debt	1,100	701
Net liabilities (assets) held for sale	(28)	(131)

FINANCIAL SITUATION			
EUR m	31.12.2005	01.01.2005	31.12.2004
Short-term debt	190	1,079	1,083
Medium- to long-term bank debt	1,879	1,443	1,551
Cash on hand or equivalent	(1,061)	(2,055)	(2,055)
BANK AND BOND DEBT	1,008	467	579
Government bonds	(20)	(33)	(33)
Loans to group companies	(17)	(89)	(89)
Other financial receivables	(443)	(445)	(445)
FINANCIAL RECEIVABLES AND BONDS	(480)	(567)	(567)
Loans from group companies	379	456	456
Other short-term debt	97	647	130
Other medium- to long-term bank debt	96	103	103
OTHER FINANCIAL PAYABLES	572	1,206	689
NET DEBT	1,100	1,106	701
Net debt attributable to discontinued operations	5	(61)	(61)

Net debt stood at EUR 1,100 million, from EUR 701 million in 2004. This debt/equity ratio of 23% is within the limits of a conservative financial management policy, and below the maximum limits set by the major ratings agencies. The group's financial structure was strengthened further by the extension of the average remaining life of debt from five years at end-2004 to ten. This steadily reduced costs, bringing the average interest rate down to 3.7% (4.8% for IAS/IFRS purposes owing to the application

of effective interest rates). The end-2005 figure includes the effects of the following non-recurring items: the agreement with BAE Systems (Defence Electronics), which had a total net impact of EUR 718 million at 29/04/2005, the date of the agreement, subsequently reduced to a net outflow of EUR 528 million due to the payment received from BAE; a payment of EUR 109 million for the setting up alliances with Alcatel in Space; dividends for 2004 totalling EUR 110 million paid out by Finmeccanica SpA; the cash receipt in April of EUR 68 million relating to the proportional repayment of share capital to Finmeccanica and Carlyle shareholders by Aero Invest 1 SA (owner of Avio SpA); and the payment in October of EUR 151 million for the acquisition of 52.7% of Datamat SpA.

Furthermore, in 2005, net debt benefited for the first time from the application of the Italian tax consolidation system which Finmeccanica adopted in 2004. This has allowed Finmeccanica to pay lower taxes for about EUR 131 million.

Net debt at end 2005 was favourably impacted by positive cash generation (Free Operating Cash Flow) for EUR 501 million with respect to EUR 129 million in 2004 which allowed us both to finance the dividend and in part the strategic investments carried out by Finmeccanica. Note that in January 2006, Finmeccanica paid EUR 89 million for Datamat's remaining shares.

The 2005 result was obtained by constantly controlling the financial requirements of the companies and by closely monitoring customers and suppliers, but also due to cashing in a number of contracts in the last days of December which could generate a negative reversal effect in the first few months of 2006.

New orders totalled EUR 15,383 million, vs. EUR 10,543 million in 2004, an increase of EUR 4,840 million (or 46%). More than 52% of new orders came from the military market, from 50% at 31 December 2004. The biggest contributors to this performance were: the Helicopters division, with the order for the first tranche of the US101 presidential helicopter in the US and orders relating to the AW139; Defence Electronics, with the order to manufacture the Defensive Aids Sub System (DASS) for the second tranche of the Eurofighter contract and orders for phase 2 of the VTS system for the Italian coastguard; Aeronautics, which won its first order for the aerostructures of the B787, as well as orders relating to the Eurofighter and ATR regional aircraft; and Energy, for the combined cycle plant at Napoli Levante and the repowering of the second thermoelectric unit at the Moncalieri plant.

The **order backlog** was worth some EUR 32,114 million, vs. EUR 24,315 million in 2004, due largely to organic growth. Of the EUR 7,799 million increase year-on-year, EUR 2,800 million was due to the operations acquired from BAE Systems, while EUR 5,000 million related to existing operations. The backlog is equivalent to around two years and eight months of production and is sufficient to cover 85% of 2006 production.

Investment in **research and development** totalled EUR 1,742 million, vs. EUR 1,381 million in 2004, an increase of EUR 361 million, or more than 26%. Total investment accounted for around 15% of value of production. The main activities included: the development of the A149 and variants on the basic EH101, NH90 and A109 LOH/LUH models (Helicopters); work on the Eurofighter programme, prototypes for the Falco UAV system, land and naval command and control systems, completion of the development of radar systems and the TETRA network (Defence Electronics); the development of the B787, A380, C-27J, Eurofighter and M346 trainer programmes (Aeronautics); and major satellite programmes and future testing of the International Space Station (Space).

The **headcount** stood at 56,603, an increase of 7,267 compared with end-2004 (+15%), due to the agreements with BAE Systems and the acquisition of Datamat. The group has around 15,500 employees abroad, including over 9,100 in the UK.

2005 HIGHLIGHTS AND SIGNIFICANT EVENTS SINCE THE END OF THE PERIOD

On **28 January 2005**, Finmeccanica and Alcatel signed an agreement to form a partnership in the space sector, which came into effect on 1 July 2005. The agreement covered the creation of two companies, dedicated to satellite manufacturing and services respectively. **Alcatel Alenia Space SAS**, (owned 33% by Finmeccanica) will focus on the design, development and production of satellites, payloads, and other space equipment and systems. **Telespazio Holding Srl** (owned 67% by Finmeccanica) will provide services for satellite solutions.

On **1 March 2005**, the Eurely consortium (comprising Finmeccanica, Alcatel, AENA and Hispasat) was selected, together with the rival iNavSat (EADS and Thales), to enter the final evaluation phase to win the concession for the **Galileo European satellite system**. One of the two Constellation Mission Control Stations and the Performance Assessment Centre will be located in Italy.

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

On **18 August 2005** Finmeccanica signed a memorandum of understanding with the Russian federal agency for industry. Under the agreement, **Alenia Aeronautica** and **Sukhoi** will work together to develop a new family of regional transport aircraft for the civil market. On the same date, Finmeccanica signed another three agreements with industrial partners in Russia. Specifically, Alenia Aeronautica will work together with Irkut in engineering as applied to civil aviation; Aermacchi and Yakovlev will collaborate in the field of leading-edge training aircraft; and Alenia Aeronautica, Aermacchi, Irkut and Yakovlev will begin joint testing on new technologies for unmanned aircraft.

On **29 September 2005** Finmeccanica's board of directors voted to extend the stock market listing in Italy of **Ansaldo Signal NV** to **Ansaldo Trasporti Sistemi Ferroviari SpA** (ATSF). The operation entailed the creation of a new company, **Ansaldo STS SpA**, which subsequently acquired the two companies from Finmeccanica, thus benefiting from the strongly complementary skills of both firms. On **8 March 2006** Consob gave the green light for the listing. The shares will be listed on 29 March.

On **3 October 2005** **AgustaWestland** and the US company **L-3 Communications Integrated Systems** (L-3/IS) announced an agreement that will see the US139 helicopter participate in the bidding for the US Army "Light Utility Helicopter" (LUH), a variant on the AW139. L-3/IS will deal with the final integration of the aircraft, the integration and sale of its avionics systems and logistical support.

On **21 November 2005** **AgustaWestland** and **Bell Helicopters** announced a reorganisation of activities at the joint venture Bell/Agusta Aerospace Company (BAAC). AgustaWestland bought 25% of the AB139 programme (renamed AW139) from Bell, thus taking full control of the operation. The shares of the BA609 programme remain unchanged, and include AgustaWestland's option to increase its portion from 25% to 40%.

On **4 November 2005** the group launched a takeover bid for the whole share capital of **Datamat**. The operation ended in early 2006 with the group paying out around EUR 89 million for the shares. Finmeccanica thus acquired 52.7% of Datamat's share capital, reaching a total of 89% including own shares held by the company itself. On **1 March 2006** Finmeccanica's board of directors voted to delist Datamat by buying up the rest of the shares. The acquisition of Datamat is part of a plan to create a centre of excellence in the sector of protection and security. This process began with the reorganisation of **Elsag**, via the repositioning of its IT activities within the Defence Electronics business, and the transfer of Selex Communications' **secure communications** division to Elsag. The group is currently working on a plan to gradually integrate Datamat and Elsag following the delisting of the former.

FINANCIAL OPERATIONS

In March 2005 Finmeccanica launched a new 20-year bond issue totalling EUR 500 million, with a coupon of 4.875%, maturing in March 2025. The operation not only introduced some flexibility to the group's financial structure, but also lengthened the average duration of its debt from five to ten years.

On 8 June 2005 a convertible bond loan issued in June by Finmeccanica SpA was repaid, totalling around EUR 953 million, of which EUR 878 million related to the repayment of capital.

On 16 August 2005 the group renewed its EMTN programme, totalling a maximum of EUR 2 billion, for another 12 months.

RESEARCH AND DEVELOPMENT

Basic research and development is a highly strategic activity for the group, engaged in with a view to the long term and requiring highly qualified staff and an efficient organisation. In this area, activities are focused on technologies using highly integrated components, and new materials and structures. Research and development has begun in the field of nanotechnology, especially sensors for detecting chemical agents and nanotubes (strong, lightweight cylindrical conductors).

Product research and development is focused mainly on radar, electronic warfare, missiles, electro-optics, the development of the BA609 tiltrotor and the MB346 trainer, and composite structures for civil aviation. Development of the dual-purpose Falco UAV system has also entered its final stages.

Finally, in the strategic sector of homeland security, the consolidation of some activities within Eltag, together with synergies from other subsidiaries operating in the field, have led to a high degree of integration for Finmeccanica's security products and the associated R&D.

OUTLOOK

In 2006 the group expects to generate revenues of between EUR 12.7 and EUR 13 billion, and EBIT of EUR 840-860 million. This year will see the consolidation of acquisitions made in 2005 for the whole of the year, particularly the defence electronics operations acquired from BAE Systems and consolidated from 01/05/2005, and Datamat, which was consolidated fully from 05/10/2005, when Finmeccanica acquired 52.7% of the company.

In 2007 the group expects to generate revenues of between EUR 13.6 and EUR 14 billion, and EBIT of EUR 960 million-EUR 1 billion.

Finmeccanica also expects to generate annually average free operating cash flows of around EUR 300 million per year in 2006, 2007 and 2008.

This forecast is based on the size of the order backlog, which covers 85% of production in 2006, and on the higher contribution (in terms of value of production and profitability) expected from the Defence Electronics and Aeronautics businesses. An improved performance is also expected from Energy, while the Vehicles business is expected to show a significant recovery.

Integrating the new acquisitions—particularly those in the avionics and space sectors—will involve costs that must be incurred to allow the expected synergies to be achieved.

Results by sector of activity
(figures in EUR million)

Helicopters

Companies: **AgustaWestland** (*)

Value of production: EUR 2,490 million (-4%); EBIT: EUR 272 million (+11%)

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

Through AgustaWestland NV and its subsidiaries (wholly owned since 30 November 2004), Finmeccanica is a leader in the global helicopter industry, alongside EADS (Eurocopter) and United Technologies (Sikorsky). At the end of 2004, AgustaWestland launched a plan to integrate the UK and Italian companies, with a view to improving operating profit to EUR 50 million upon completion of the process.

Value of production came in at EUR 2,490 million, down 4% compared to 2004, because of differences in the value of the helicopters delivered, while both the number of units produced (+53%) and the value of technical and production support activities were higher than in 2004.

EBIT came in at EUR 272 million, an increase of EUR 27 million vs. 2004 (EUR 245 million). This improvement was due to more technical support provided and the effect of measures implemented as part of the integration process, which in part offset the lower production mentioned above. The EBIT margin was 10.9%, up by around 1.5 percentage points compared to 2004 (9.4 %).

New orders totalled EUR 3,712 million, up 105% vs. 2004 (EUR 1,808 million), partly thanks to the supply of the first tranche of the US101 presidential helicopter contract, worth around EUR 900 million. The **order backlog** was EUR 7,397 million, up 41% on the figure of EUR 5,238 million recorded at 31 December 2004. This is sufficient to cover 83% of 2006 production. At 31 December 2005, helicopters represented 65% of the order backlog, support activities 30% and engineering 5%.

The **headcount** at the end of 2005 was 8,531, a decrease of 437 vs. the end of 2004 (8,968).

Spending on **research and development** was EUR 436 million, compared to EUR 551 million in 2004.

Aeronautics

Companies: **Alenia Aeronautica, Aermacchi**

Value of production: EUR 2,046 million (+7%); EBIT: 166 million (+42%)

The aeronautics sector comprises Alenia Aeronautica and its subsidiaries, including Aermacchi, Officine Aeronavali Venezia and the GIE-ATR consortium, in which Alenia owns 50%.

Value of production was EUR 2,046 million in 2005, up EUR 132 million (+7%) vs. 2004 (EUR 1,914 million). This rise was due to greater activity in the C-27J programme, with the first deliveries of aircraft for Greece at the end of 2005, as well as a greater contribution from the Eurofighter programme. Production for the ATR programme, engine nacelles and the A380 rose in the civil segment.

EBIT came in at EUR 166 million, an increase of EUR 49 million vs. 2004 (EUR 117 million). The improvement both in absolute terms and in terms of average profitability (EBIT margin of 8.1% vs. 6.1% in 2004) is mainly due to the greater contribution from the GIE-ATR consortium, which posted higher sales, and payments from Boeing following the conclusion of negotiations on the closure of the B757 programme. In the conversion of commercial aircraft, the division continued to feel the effects of lower business volumes and very low margins on civil contracts.

New orders totalled EUR 3,230 million in 2005, vs. EUR 3,315 million in 2004, when it included the order for the second tranche of the Eurofighter worth approximately EUR 2,100 million. The main contracts in 2005 included, for the defence sector, the Eurofighter, Tornado, AMX, G.222 and JSF programmes, and for the civil market, those relating to the B787, the GIE-ATR consortium (which sold 80 aircraft), the Falcon, the A380, engine nacelles and the conversion of passenger aircraft for cargo use.

The **order backlog** was EUR 6,865 million at 31 December 2005, with a significant portion relating to the Eurofighter (55%), B787 (17%), C-27J (6%) and AMX (4%) programmes. The order backlog grew by EUR 1,490 million (+28%) vs. the end of 2004 to EUR 5,375 million, and is sufficient to cover around 80% of 2006 production.

The **headcount** was 11,198, an increase of 467 on the headcount at the end of 2004 (10,731).

Research and development spending totalled EUR 405 million in 2005, up from EUR 372 million in 2004.

Space

Companies: **Alcatel Alenia Space, Telespazio**

Value of production: EUR 736 million (-5%); EBIT: EUR 26 million (+13%)

Figures for 2005 include the first six months of activity of fully consolidated companies Alenia Spazio and Telespazio, and the following six months of activity relating to the two new joint ventures, Alcatel Alenia Space SAS and Telespazio Holding Srl, consolidated using the proportional method at 33% and 67% respectively. Figures for this year are therefore not comparable with those of the previous year.

Alcatel Alenia Space SAS focuses on the design, development and manufacture of space systems, satellites, infrastructure and transport systems, and earth equipment, instruments and systems for civil and military applications. Telespazio Holding operates and monitors satellites in orbit, manages land

stations, supplies telecommunications networks and services, multimedia applications and high added value, satellite navigation and earth observation services.

The Galileo satellite navigation programme underwent some important developments in 2005: on 5 December 2005, an agreement was reached to base one of the two Constellation Mission Control Stations in Fucino, Italy. Furthermore, one of the two Performance Assessment Centres will be located in Rome. Furthermore, Giove A, the first of two prototype satellites, was launched on 28 December 2005. Lastly, on 19 January 2006, ESA and Galileo Industries GmbH signed a contract worth approximately EUR 1,000 million to develop, produce and launch the first four satellites and the related earth infrastructure.

Value of production came in at EUR 736 million in 2005, down around 5% on 2004 (EUR 775 million). **EBIT** was EUR 26 million, up EUR 3 million vs. 2004 (EUR 23 million). The EBIT margin rose from 3.0% in 2004 to 3.5%.

New orders totalled EUR 599 million in 2005, down EUR 451 million vs. 2004 (EUR 1,050 million). The 2004 figure benefited, however, from the Cosmo-SkyMed contract worth around EUR 585 million awarded at the end of the year.

The order backlog was EUR 1,154 million at 31 December 2005, down 18% compared to the previous year's figure (EUR 1,413 million). This is sufficient to cover 74% of 2006 production. Manufacturing accounted for 59% (43% satellites, 16% infrastructure and equipment) of the order backlog at the end of 2005, with satellite services making up the remaining 41%.

Research and development spending totalled EUR 79 million in 2005, down 19% vs. 2004.

The **headcount** was 3,194 at 31 December 2005, compared to 3,260 at 31 December 2004.

Defence electronics

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

Value of production: EUR 3,324 million (+60%); EBIT: EUR 269 million (+74%)

The structure of the defence electronics business was changed significantly by the agreement signed at the end of April 2005 with BAE Systems. This led to: the creation of Selex Sensors and Airborne Systems SpA, controlled 75% by Finmeccanica and 25% by BAE Systems, which groups the activities of Galileo Avionica and Selex Sensors and Airborne Systems Ltd; the sale to Finmeccanica of BAE Systems' military and secure communications business, now part of Selex Communications, and the unfolding of the AMS joint venture with the return under Finmeccanica's full control of the Italian operations, now Selex Sistemi Integrati.

Since 4Q05, the business has also included Datamat, which operates in information & communication technology in defence, space and public administration, and the activities of Elsag and its subsidiaries, which in the first half of 2005, acquired the security division of Selex Communications and Space Software Italia from Alcatel Alenia Space.

Given the different timescales of these operations, the change in the contribution of the new companies to the consolidated results and the unavailability of data relating to previous years for the companies acquired, 2004 and 2005 results cannot be compared on a like-for-like basis.

This sector also includes Finmeccanica's International Naval Systems division, which was transferred to Orizzonte Sistemi Navali SpA on 1 July.

Value of production was EUR 3,324 million, up EUR 1,251 million (+60%) on the previous year, mainly due to the change in the basis of consolidation, and in particular the acquisition of UK avionics activities, as well as growth across all businesses in the sector, notably communications.

EBIT was boosted by growth across all business areas, but in particular the larger basis of consolidation, and came in at EUR 269 million, up EUR 114 million vs. 2004, when the result was affected by one-off charges relating to the shift in the focus of the Information Technology sector. The EBIT margin rose from 7.5% to 8.1%, on the back of initiatives intended to increase efficiency and curb costs, and despite the consolidation of UK avionics activities, whose profitability was lower than the sector average. This area will see an improvement over the next few years, through significant synergies resulting from the integration and rationalisation of the avionics business.

New orders totalled EUR 4,627 million (EUR 1,931 million in 2004). The chief contributors were the DASS (Defensive Aids Sub System) order for Selex Sensors and Airborne Systems for the second tranche of Eurofighter. Selex Sistemi Integrati orders for the VTS phase II, FREMM and MEADS programmes worth around EUR 400 million also made a significant contribution.

The **order backlog** was EUR 6,946 million at 31 December 2005, up by more than EUR 4,000 million vs. 31 December 2004, mainly because of the larger basis of consolidation. This is sufficient to cover 72% of 2006 production. Avionics accounts for around 60% of the total order backlog for the sector, with radar and command and control systems accounting for 20% and the communications business around 15%.

The **headcount** was 19,786 at 31 December 2005, compared to 12,569 in 2004.

Research and development spending was EUR 501 million, compared to EUR 329 million in 2004.

Defence systems

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

Value of production: EUR 1,154 million (+1%); EBIT: EUR 112 million (+15%)

Demand in the defence systems business is highly cyclical. In the missile segment, global demand is now valued at around USD 18 billion a year. Supply in the sector is very concentrated, both in the US and in Europe. In early 2006, MBDA took a further step towards rationalising its supply structure with the acquisition of German group LFK. In land and naval defence systems, recent geopolitical developments could trigger the launch of a process to consolidate supply, which is still fragmented, particularly in Europe. Demand is growing in the underwater segment for advanced surveillance harbour protection systems and for systems to protect the main ships.

Value of production was EUR 1,154 million, broadly in line with the figure for 2004.

EBIT came in at EUR 112 million, up EUR 15 million vs. 2004, owing to more profitable activities and the benefits of efficiency programmes launched in previous years. As a result, the EBIT margin rose by more than a percentage point compared to the previous year.

New orders totalled EUR 763 million in 2005. The main orders included the design and development of MEADS (Medium Extended Air Defense System) and the supply of missile systems for the new Italian-French multi-mission FREMM frigates.

The **order backlog** was EUR 3,869 million at 31 December 2005, down 6% vs. 31 December 2004, and is sufficient to cover 95% of 2006 production. 66% of the order backlog relates to missile systems, 25% to land and naval defence systems and the remainder to underwater systems.

Research and development spending totalled EUR 268 million, up 35% compared to EUR 199 million in 2004.

The **headcount** was 4,104 employees at 31 December 2005, broadly in line with 2004.

Please note that figures relating to the MBDA joint venture are consolidated at 25% using the proportional method.

Transport

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

Value of production: EUR 1,230 million (-10%); EBIT: EUR -48 million (63 mln)

In 2005, the transport division included Ansaldo Trasporti Sistemi Ferroviari SpA (systems), Ansaldo Signal NV and its subsidiaries (signalling) and AnsaldoBreda SpA and its subsidiaries (vehicles). In 4Q05 Ansaldo STS SpA was also included in the transport division, with a view to grouping the systems and signalling activities pending the company's listing on the stock market. To this end, on 24 February 2006, Ansaldo STS acquired from Finmeccanica SpA its stakes in Ansaldo Trasporti Sistemi Ferroviari SpA and Ansaldo Signal NV.

Demand for both urban/suburban and rail transport systems shows that the sector has attractive growth prospects in the medium term. Europe was the main global market, while countries in the Asia-Pacific region, particularly China and India, continue to register very strong growth in demand. Lastly,

the US showed signs of recovery in the urban segment pending the launch, expected over the longer term, of some important high-speed programmes.

In 2005 AnsaldoBreda recorded a significant decline in its financial results compared to the previous year, with EBIT down EUR 130 million due to the delay in the delivery of certain contracts, resulting in extra costs. In December Finmeccanica launched a EUR 200 million capital increase for AnsaldoBreda, in order to give the company the financial resources necessary to implement a relaunch programme. This involved a major overhaul of its industrial programmes and processes, as well as a change to its management team, with the company identifying the major areas of difficulty and drawing up a wide-ranging restructuring and development plan.

Value of production was EUR 1,230 million, down EUR 139 million compared to the figure of EUR 1,369 million for 2004; EUR 195 million of this decrease was due to vehicles.

EBIT was negative to the tune of EUR 48 million in 2005, down EUR 111 million compared to 2004 (EUR 63 million), because of the losses recorded by the vehicles segment (EBIT margin for the sector of -32.2%). Systems (EBIT margin of 7.3%) and signalling (EBIT margin of 10.4%) performed well however, and benefited from a significant rise in industrial profitability. The EBIT margin for the division as a whole declined to -3.9%, compared to 4.6% in 2004.

New orders totalled EUR 1,615 million, down EUR 30 million vs. 2004 (EUR 1,645 million), with positive results for signalling and systems, but lower orders for vehicles.

The **order backlog** was EUR 3,956 million at 31 December 2005, up EUR 300 million compared to 31 December 2004 (EUR 3,656 million), sufficient to cover 90% of 2006 production.

The **headcount** was 6,321 at 31 December 2005, up 316 compared to the end of 2004 (6,005), mainly owing to the increase in staff in the signalling segment.

Research and development spending totalled EUR 40 million, up 26% vs. 2004.

Energy

Companies: **Ansaldo Energia**

Value of production: EUR 772 million (-6%); EBITA: EUR 39 million (+95%)

The energy division comprises 100%-owned subsidiary Ansaldo Energia SpA and its subsidiaries, including Ansaldo Nucleare SpA and other minor companies.

The world power generation market showed considerable growth compared to 2004. Orders totalled 64 GW, higher than the previous year. Asia registered the highest demand, with around 32% of total orders, followed by Europe with 23%, the Middle East with 21% and North America with 8.6%.

Against this backdrop, Ansaldo Energia continued on its growth path; in 2005 it achieved total technological autonomy and consolidated its position of leader on the domestic market. During the year, Ansaldo Energia acquired 45% of Swiss group ESG AG, specialising in on-site services, particularly in the field of steam turbines and alternators, with an option to acquire the remaining shares by the end of 2006. In the nuclear field, the formation of Ansaldo Nucleare SpA will exploit the group's expertise at a time when nuclear energy is increasingly the focus of attention nationally and internationally, and will increase opportunities for development in the three businesses of decommissioning/waste treatment, new plants and service.

Value of production totalled EUR 772 million, up 6% vs. 2004 (EUR 727 million). Plant and components contracts accounted for 73% of this figure, service for 20% and nuclear decommissioning/waste treatment for 7%.

EBIT came in at EUR 39 million, up 95% vs. 2004 (EUR 20 million), confirming the positive trend of the previous few quarters. The EBIT margin was 5.1%, vs. 2.7% in 2004.

New orders totalled EUR 1,032 million, of which 68% related to Italy and 32% to abroad, and represents a rise of more than 10% compared to 2004 (EUR 937 million). 58% of this figure related to plant and components contracts, 38% to service and 4% to decommissioning/waste treatment.

The **order backlog** was EUR 2,329 million at end-2005, up 11% vs. 31 December 2004, sufficient to cover 80% of 2006 production.

The **headcount** was 2,529 at 31 December 2005, compared to 2,588 at 31 December 2004.

Research and development spending was EUR 13 million, compared to EUR 8 million in 2004.

CASH FLOW			
	EUR m	2005	2004
Cash and cash equivalents at 1 January		2,055	2,259
Gross cash flow from operating activities		1,398	1,051
Changes in working capital		204	(193)
Changes in other operating assets and liabilities		(647)	(388)
Cash flow generated (used) by operating activities		955	470
Investment in tangible and intangible assets after disposals		(385)	(386)
Other investments		(69)	45
Free operating cash flow		501	129
Strategic investments		(807)	(124)
Changes in other financial assets		56	11
Cash flow generated (used) by investment activities		(1,205)	(454)
Dividends paid		(111)	(88)
Cash flow from financing activities		(640)	(136)
Cash flow generated (used) by financing activities		(751)	(224)
Translation difference		7	4
Cash and cash equivalents at 31 December		1,061	2,055

SHARE DATA			
	2005	2004	<i>% Chg. Y/Y</i>
Average number of shares in period (thousands)	421,941	421,614	<i>0.1%</i>
Adjusted profit including discontinued operations (EUR m)	373	563	
Profit of continuing operations (EUR m)	363	828	
BASIC EPS (EUR)	0,883	1,334	-33.8%
BASIC EPS of continuing operations (EUR)	0,861	1,964	-56.2%
Average number of diluted shares in period	424,994	449,110	<i>-5.4%</i>
Adjusted profit (EUR m)	373	585	
Adjusted profit of continuing operations (EUR m)	363	850	
DILUTED EPS (EUR)	0,877	1,301	-32.6%
DILUTED EPS of continuing operations (EUR)	0,854	1,893	-54.9%

(in EUR million)	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Value of production	2.490	3.324	2.046	736	1.154	772	1.230	170	(453)	11.469
EBIT	272	269	166	26	112	39	(48)	(101)		735
EBIT margin (%)	10,9%	8,1%	8,1%	3,5%	9,7%	5,1%	-3,9%	-59,4%		6,4%
Depreciation and amortisation	53	78	106	33	30	12	19	13		346
Investment in non-current assets	142	1.020	165	41	45	14	26	12		1.465
Research and development costs	436	501	405	79	268	13	40	0		1.742
New orders	3.712	4.627	3.230	599	763	1.032	1.615	465	(660)	15.383
Order backlog	7.397	6.946	6.865	1.154	3.869	2.329	3.956	487	(889)	32.114
Headcount	8.531	19.786	11.198	3.194	4.104	2.529	6.321	940		56.603
2004 (in EUR million)	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Value of production	1.453	2.073	1.914	775	1.145	727	1.369	79	(377)	9.158
EBIT	130	155	117	23	97	20	63	(140)		465
EBIT margin (%)	8,9%	7,5%	6,1%	3,0%	8,5%	2,8%	4,6%	-177,2%		5,1%
Depreciation and amortisation	23	55	91	35	22	13	25	13		277
Investment in non-current assets	897	128	95	18	35	14	15	133		1.335
Research and development costs	349	329	372	98	199	8	26	0		1.381
New orders	1.252	1.931	3.315	1.050	810	937	1.645	33	(430)	10.543
Order backlog	5.238	2.857	5.375	1.413	4.115	2.089	3.656	106	(534)	24.315
Headcount	8.968	12.569	10.731	3.260	4.147	2.588	6.005	1.068		49.336

*Consolidated proportionally at 50% until November and line-by-line in December