

2007 HALF-YEAR REPORT
FINMECCANICA

CONTENTS

BOARDS AND COMMITTEES	6
REPORT ON OPERATIONS	7
1. Significant events in the first half of 2007 and events subsequent to closure of the accounts for the period	7
2. Group results	16
3. Financial position	32
4. Performance by division	38
<i>HELICOPTERS</i>	38
<i>DEFENCE ELECTRONICS</i>	44
<i>AERONAUTICS</i>	49
<i>SPACE</i>	55
<i>DEFENCE SYSTEMS</i>	60
<i>ENERGY</i>	64
<i>TRANSPORTATION</i>	68
<i>OTHER ACTIVITIES</i>	73
5. Analysis of the performance and financial position of the Group Parent	77
• FINANCIAL STATEMENTS OF THE GROUP PARENT	92
6. Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 30 June 2007	96
7. Finmeccanica: Research and Development	97
8. Human Resources	109

9.	Security Policy Statement (SPS)	130
10.	Stock option and stock grant plans	132
11.	Corporate Governance.....	138
12.	Outlook.....	141
ACCOUNTING STATEMENTS AND NOTES TO THE CONSOLIDATED half-year REPORT AT 30 JUNE 2007		142
13.	Income Statement	143
14.	Balance Sheet	144
15.	Cash Flow statement	145
16.	Statement of changes in shareholders' equity	146
17.	Notes to the consolidated report for the half-year ended 30 June 2007.....	147
	<i>I. GENERAL INFORMATION.....</i>	<i>147</i>
	<i>II. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS.....</i>	<i>147</i>
	<i>III. ACCOUNTING POLICIES ADOPTED.....</i>	<i>148</i>
	<i>IV. SIGNIFICANT ISSUES.....</i>	<i>174</i>
	<i>V. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS.....</i>	<i>177</i>
	<i>VI. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED.....</i>	<i>178</i>
	<i>VII. SEGMENT INFORMATION.....</i>	<i>183</i>
	<i>VIII. INTANGIBLE ASSETS.....</i>	<i>185</i>
	<i>IX. PROPERTY, PLANT AND EQUIPMENT.....</i>	<i>188</i>
	<i>X. INVESTMENT PROPERTIES.....</i>	<i>189</i>
	<i>XI. EQUITY INVESTMENTS.....</i>	<i>189</i>
	<i>XII. BUSINESS COMBINATIONS.....</i>	<i>191</i>

<i>XIII.</i>	<i>FINANCIAL ASSETS AT FAIR VALUE</i>	<i>194</i>
<i>XIV.</i>	<i>TRANSACTIONS WITH RELATED PARTIES</i>	<i>195</i>
<i>XV.</i>	<i>RECEIVABLES AND OTHER NON-CURRENT ASSETS</i>	<i>200</i>
<i>XVI.</i>	<i>INVENTORIES</i>	<i>201</i>
<i>XVII.</i>	<i>CONTRACT WORK IN PROGRESS AND ADVANCES RECEIVED</i>	<i>201</i>
<i>XVIII.</i>	<i>TRADE AND FINANCIAL RECEIVABLES</i>	<i>202</i>
<i>XIX.</i>	<i>CURRENT FINANCIAL ASSETS AT FAIR VALUE</i>	<i>202</i>
<i>XX.</i>	<i>TAX RECEIVABLES AND PAYABLES</i>	<i>203</i>
<i>XXI.</i>	<i>OTHER CURRENT ASSETS</i>	<i>204</i>
<i>XXII.</i>	<i>CASH AND CASH EQUIVALENTS</i>	<i>204</i>
<i>XXIII.</i>	<i>SHAREHOLDERS' EQUITY</i>	<i>205</i>
<i>XXIV.</i>	<i>BORROWINGS</i>	<i>210</i>
<i>XXV.</i>	<i>PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES</i>	<i>215</i>
<i>XXVI.</i>	<i>SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES</i>	<i>224</i>
<i>XXVII.</i>	<i>OTHER CURRENT AND NON-CURRENT LIABILITIES</i>	<i>228</i>
<i>XXVIII.</i>	<i>TRADE PAYABLES</i>	<i>230</i>
<i>XXIX.</i>	<i>DERIVATIVES</i>	<i>230</i>
<i>XXX.</i>	<i>GUARANTEES AND OTHER COMMITMENTS</i>	<i>234</i>
<i>XXXI.</i>	<i>TRANSACTIONS WITH related parties</i>	<i>235</i>
<i>XXXII.</i>	<i>REVENUE</i>	<i>237</i>
<i>XXXIII.</i>	<i>OTHER OPERATING INCOME (COSTS)</i>	<i>238</i>
<i>XXXIV.</i>	<i>COST OF GOODS AND SERVICES</i>	<i>239</i>
<i>XXXV.</i>	<i>PERSONNEL COSTS</i>	<i>240</i>
<i>XXXVI.</i>	<i>DEPRECIATION, AMORTISATION AND IMPAIRMENT</i>	<i>241</i>

<i>XXXVII. CAPITALISATION OF INTERNAL CONSTRUCTION COSTS.....</i>	<i>241</i>
<i>XXXVIII. FINANCIAL INCOME AND EXPENSE.....</i>	<i>242</i>
<i>XXXIX. EFFECT OF RECOGNITION USING THE EQUITY METHOD.....</i>	<i>244</i>
<i>XL. INCOME TAXES.....</i>	<i>244</i>
<i>XLI. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE.....</i>	<i>247</i>
<i>XLII. EARNINGS PER SHARE.....</i>	<i>249</i>
<i>XLIII. CASH FLOW FROM OPERATING ACTIVITIES.....</i>	<i>250</i>
<i>XLIV. INFORMATION ON FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS AND derivatives.....</i>	<i>251</i>
<i>XLV. REMUNERATION TO KEY MANAGEMENT PERSONNEL.....</i>	<i>258</i>

Statement of the manager responsible for the half-year report 2007 pursuant to Article 154 bis paragraph 2 of the Finance Code.....	260
---	-----

AUDITORS' REPORT ON THE LIMITED REVIEW OF THE HALF-YEAR REPORT AT 30 JUNE 2007.....	261
---	-----

Appendix: List of relevant equity investment under article 125 of CONSOB resolution no. 11971	262
---	-----

BOARDS AND COMMITTEES

BOARD OF DIRECTORS

(for the 2005 - 2007 term)

appointed by the Shareholders' Meeting of 12 July 2005

PIER FRANCESCO GUARGUAGLINI (1)
Chairman/Chief Executive Officer

PIERGIORGIO ALBERTI (2) (3)
Director

FILIPPO ANDREATTA (1)
Director (*)

FRANCO BONFERRONI (2) (3)
Director

GIOVANNI CASTELLANETA (1)
Director (since 22 July 2005) (**)

MAURIZIO DE TILLA (2)
Director

GIAN LUIGI LOMBARDI CERRI (2)
Director

ROBERTO PETRI (1)
Director

RICCARDO VARALDO (3)
Director

GUIDO VENTURONI (1)
Director

PAOLO VIGEVANO (1)
Director

ERNESTO MONTI (2) (3)

Director
(suspension declared by Board on 19 January 2007
resignation effective 28 February 2007)

DARIO SCANNAPIECO (1) (3)

Director
(resignation effective 3 September 2007)

(*) Appointed by the Board on 27 March 2007 pursuant
to Art. 2386 of the Civil Code and by the
Shareholders' Meeting of 30 May 2007

(**) Director without voting rights appointed with
Ministerial Decree pursuant to Decree Law 332/94
ratified with amendments by Law 474/94

(1) Member of the Strategy Committee
(2) Member of the Internal Auditing Committee
(3) Member of the Remuneration Committee

BOARD OF AUDITORS

(for the 2006- 2008 term)

*appointed by the Shareholders' Meeting of 23 May
2006*

LUIGI GASPARI
Chairman

GIORGIO CUMIN, FRANCESCO FORCHIELLI,
SILVANO MONTALDO, ANTONIO TAMBORRINO
Auditors

MAURIZIO DATTILO, PIERO SANTONI
Alternate Auditors

LUCIANO ACCIARI
Secretary of the Board of Directors

INDEPENDENT AUDITORS

(for the 2006- 2011 term)

PRICEWATERHOUSECOOPERS S.p.A.

REPORT ON OPERATIONS

1. Significant events in the first half of 2007 and events subsequent to closure of the accounts for the period

The first half of 2007 and the months subsequent to the close of the period were characterised by a collection of strategic initiatives that took the form of numerous industrial operations aimed at rationalising the Group's structure and concentrating on certain specific sectors, with the goal of strengthening the Group's role as a technological and commercial leader while reducing the rate of diversification of the product portfolio.

Industrial transactions

Within the *Helicopters* division, on 7 February 2007, AgustaWestland and Boeing signed a memorandum of understanding for the joint production of the next generation of Chinook transport helicopters for the Italian army and other future vertical take-off and landing (VTOL) craft both for the domestic market and for international opportunities.

At the end of August, the United States Government Accountability Office (GAO) requested, for the second time, that the US Air Force reconsider its decision of November 2006 to award Boeing the contract for 141 search and rescue helicopters. If this decision is reconsidered, the contract could be cancelled and the tender reopened with the consortium formed by Finmeccanica (AgustaWestland Bell) and Lockheed Martin participating based on the requirements.

In the *Defence Electronics* segment, activities were completed that have led to Finmeccanica holding the entirety of the share capital of **Datamat S.p.A.**, a company which develops and builds avionics and naval mission systems, and integrated solutions in the defence, space, government, healthcare, banking, finance and telecommunications sectors. Specifically, upon completion of the remaining purchase and consequent delisting of the company in the first part of 2007 and having reached the equity interest threshold of 98%, on 17 April 2007, Finmeccanica exercised its right to purchase the

remaining Datamat shares in accordance with Article 111 of the Italian consolidated finance act (the so-called *squeeze-out* clause) at a price of €10.040 per share as established by an expert appointed by the Rome court, thereby becoming the sole shareholder in Datamat.

Following the acquisition of the entire share capital of Datamat S.p.A, the process to merger Datamat S.p.A. and Eltag S.p.A. was begun. It was completed on 1 August.

The process to merge **O.T.E. S.p.A.** and **Prod-El S.p.A.** in **Selex Communications S.p.A.** was begun in April 2007 and was completed on 1 August.

On 14 February 2007, **Selex Sistemi Integrati S.p.A.** and the Indian firm Bharat Heavy Electricals Ltd. (BHEL) signed a memorandum of understanding for a partnership in the field of radar and other industry technologies. The two firms will be studying trade opportunities and all other business aspects for the development and production of technologically advanced devices.

On 30 March 2007, Finmeccanica completed the acquisition of the remaining 25% stake from BAE Systems in the company **Selex Sensors and Airborne Systems S.p.A.** (Selex S&AS S.p.A.) for a total outlay of roughly €mil. 400. In the coming months, an additional payment currently estimated at €mil. 12 will be added to this amount. The total price also includes the portion of undistributed earnings payable by Selex S&AS S.p.A. to BAE Systems for the entire period in which it held an interest in the company.

On 22 March 2007, **Finmeccanica** signed a memorandum of understanding with the Libyan government for the potential creation of a joint venture in the field of Security and Defence Electronics in order to create innovative solutions for the Libyan market and for the markets of other African nations. The goal is to use Finmeccanica's know-how together with local industry to develop integrated systems to monitor critical infrastructures, as well as communications and homeland security systems and integrated postal automation systems.

In the area of Security, on 14 March 2007, a decree of the Italian Ministry for the Economy and Finance was published in issue 61 of the Italian *Gazzetta Ufficiale*. This decree established the price of the **electronic ID card** and launched a project involving a number of domestic companies, including the Istituto Poligrafico e Zecca dello Stato

S.p.A. as project leader, aimed at creating a tool that will enable individuals to be recognized with certainty so as to certify one's identity and to be able to take advantage of value-added services. Finmeccanica will be responsible for developing the initiative, acting as a point of contact for business and technology, particularly as regards security-related aspects. The project is currently on hold due to further final agreement among the participants concerning their respective roles.

In *Aeronautics* on 5 April 2007, Alenia Aeronautica and TsAGI, the Russian central aero-hydrodynamics institute, signed a partnership agreement for the research, development, and design of aerostructures for civil craft, as well as for joint projects in the field of advanced aerodynamics and other design activities for next-generation aircraft.

On 20 February 2007, an inter-governmental agreement was signed by the Italian Ministry for Economic Development and the Russian Federation's Ministry of Industry and Energy concerning the trade agreements in effect between **Finmeccanica** and **Sukhoi Aviation Holding** and their respective subsidiaries, Alenia Aeronautica S.p.A. and Sukhoi Civil Aircraft Company (SCAC), concerning the programme for the "SuperJet 100" family of 75-100 seat regional jets. In June 2007, the agreement between Alenia Aeronautica S.p.A. and SCAC was signed. Based on this agreement, Alenia Aeronautica will acquire a 25% plus one share stake in SCAC and will have the right to a corresponding share in the programme. In addition Alenia Aeronautica S.p.A. and Sukhoi will establish a joint venture (51% Alenia Aeronautica S.p.A. and 49% Sukhoi) in Italy which will be responsible for marketing, sales, and delivery for the western hemisphere, as well as post-sales assistance for the aircraft throughout the world. There are, however, still certain operating agreements that need to be defined with the partner before the industrial and commercial activities can begin.

On 13 June 2007, Finmeccanica, through Alenia North America (a subsidiary of Alenia Aeronautica), in partnership with L-3 and Boeing, was awarded an important order in the United States. The C27J aircraft, designed, developed and produced by Alenia Aeronautica, was selected by the US Army and Air Force as the new tactical transport aircraft within the scope of the Joint Cargo Aircraft (JCA) programme. The C27J team, led by L-3 Integrated Systems with Alenia North America, Boeing Integrated Defence Systems and Global Military Aircraft Systems (GMAS, a company owned 50% by

Alenia Aeronautica and 50 % by L-3), was awarded an initial contract in the amount of \$2.04 billion to supply 78 aircrafts. The US armed forces' plans call for the purchase of 145 aircrafts, of which 75 for the Army and 70 for the Air Force, and with an estimated total of 207 aircrafts over 10 years, for around \$6 billion.

On 19 June 2007, on the occasion of the Le Bourget Air Show, Alenia Aeronautica signed a Letter of Intend with Dassault Aviation and Saab for a strategic cooperation in the field of unmanned surveillance systems (UAV MALE - Medium Altitude Long Endurance), for defence, security and civil applications. The purpose of the collaboration, which joins the current cooperation in the area of unmanned combat systems (Neuron Programme), is to define and develop a system that meets the requirements of most European countries. Alenia Aeronautica, as project leader, has already proposed expanding the collaboration to include other European partners, so as to support and develop all the technological product capabilities at both a platform level and that of electronic and communication systems.

In the *Space* segment, following authorization by the European Commission on 4 April 2007, Thales replaced Alcatel-Lucent in the joint ventures Alcatel Alenia Space – which was then renamed Thales Alenia Space (67% Thales and 33% Finmeccanica) – and Telespazio (67% Finmeccanica and 33% Thales).

With regard to the European Galileo satellite navigation programme, a consortium (“dedicated company”) was formed by Finmeccanica S.p.A. and other major European companies in the industry to oversee the building and launching of the system and to negotiate the contract to operate the system. The dedicated company’s difficulties in raising the needed funds and assuming the entire technical risks associated with the programmed led the European Council to revise the implementation plan to suggest the alternative solution of funding it with solely public funds. Methods for finding these funds will be discussed over the next few months within the Community bodies.

This prompted an effort to redefine the industrial organisation regarding the creation of the infrastructure in order to improve its efficiency and to resolve critical issues ties to the respective duties under the programme. Under existing agreements, the infrastructure will be built by European Satellite Navigation Industries (“ESNI”) – formerly Galileo Industries, a company that includes Finmeccanica S.p.A., EADS Astrium, Thales SA and Galileo Sistemas y Servicios – which is in charge of the system and of awarding

contracts to domestic manufacturers, using a mechanism agreed among the various countries participating in the project.

However, management of the programme has proven to be rather complex and considerable delays in implementation have accrued causing the European Space Agency's ("ESA") to request substantial changes to the configuration of contracts and a reduction in the role of ESNI.

At the European level, although the roles and funding methods are undergoing redefinition, the Galileo project remains a priority objective of great strategic importance on both the technological level and as to applications in the field of satellite navigation, especially with regard to the wide range of its potential uses in the security and infomobility segments.

On 18 October 2006, as part of the broader efforts to develop the company's civil businesses, **Finmeccanica** signed a memorandum of understanding with the **Russian railway** in order to begin a partnership concerning the manufacture, distribution, and technical support services for rolling stock and rail transport infrastructures.

In that regard, on 9 February 2007, the **Russian railway**, the **Ferrovie dello Stato group**, and **Finmeccanica** signed a memorandum of understanding aimed at developing commercial partnerships for international projects of mutual interest, particularly in the field of high-speed trains, which could also include the Moscow-St. Petersburg line. The first act of this partnership will involve Saudi Arabia with the participation in the tender for the Jeddah-Mecca-Medina high-speed line with an estimated value of some USDbil. 6. On 5 July 2007, Finmeccanica, Ferrovie dello Stato and the Russian Railways (RZD) were pre-qualified for the tender.

In March, during the Italy-Russia summit held in Bari, Finmeccanica also signed a new industrial cooperation agreement with the Russian railway, which defines the timing and procedures for implementing high-priority projects, such as: the development of a new regional train; the application of technology and capacity already available to Selex Sistemi Integrati S.p.A. in order to create safety and security systems; the development by Telespazio S.p.A. of a satellite observation system to monitor landslides near the Tuapse-Adler railway line.

On 25 May 2007 Finmeccanica, the Russian railways (RZD) and the Russian National Science Institute (VNIIS) signed an agreement in Sochi for cooperation in the railway signalling systems sector. The agreement calls for a new railway signalling system built

by Ansaldo STS to be used on existing Russian railway lines and stations. This innovative system can be adapted to the entire Russian railway network and may be used for any type of traffic (on medium-speed lines and high-speed lines).

On 5 February 2007, two conventions were also signed by **AnsaldoBreda S.p.A.**, the Province of Pistoia, the University of Florence, and Istituto Fedi aimed at creating a laboratory located in Pistoia for dynamic mechatronics simulations and applied research and innovation in the rail transport industry.

On 18 April 2007, Coinfra S.p.A., a member of the Tili group, also signed a preliminary purchase agreement for an 85% stake in **Ansaldo Trasmissione e Distribuzione S.p.A.**, whose capital is held by Fondo Athena (35.5%), Ezine S.A. (34.5%), and Sogepa S.p.A., a member of the Finmeccanica Group (30%). On 9 May, So.Ge.Pa. acquired the remaining 70% of the share capital from third parties, thus becoming the sole shareholder. On 10 May, SoGePa transferred 85% of the shareholding to Coinfra S.p.A., retaining a 15% interest.

Finally, on 6 July 2007, the agreement for the merger of **Ansaldo Segnalamento Ferroviario S.p.A.** and **Ansaldo Trasporti - Sistemi Ferroviari S.p.A.** was signed following the acquisition of the entire share capital of Ansaldo Segnalamento Ferroviario S.p.A. from Ansaldo Signal NV effective as of 1 July 2007. As a result of the acquisition, Ansaldo Trasporti - Sistemi Ferroviari S.p.A. has complete and direct control of Ansaldo Segnalamento Ferroviario S.p.A. The merger operation will have legal effect as of 1 November 2007. The integration of the railway signalling and transport systems businesses could lead to growth in size and overall profitability, expansion in international markets and entry into new business segments.

Financial transactions

In the first half of 2007, Finmeccanica carried out no transaction on the capital markets. As a result, there was no substantial change in the structure of medium to long-term debt, particularly with regard to bonds, which stood at around €mil. 1,756 (under IAS/IFRS). The average term of maturity is approximately 8.5 years.

It should be noted that, on 16 January 2007, the bond issued in 1997 by the Luxembourg subsidiary Finmeccanica Finance S.A. on the Japanese market came to maturity and was redeemed in its entirety for an amount of roughly €mil. 6.

Below is a list of bonds outstanding at 30 June 2007, including the transactions placed on the market by Finmeccanica Finance S.A.:

Issuer		Year of issue	Maturity	Amount (€mil)	Annual coupon	Type of offer	IAS recog. amts €mil. (5)
Finmeccanica Finance S.A.	(1)	2002	30-Dec-08	297	Variable	Italian retail	301
Finmeccanica Finance S.A.	(2)	2003	8-Aug-10	501	0.375%	European institutional	442
Finmeccanica Finance S.A.	(3)	2003	12-Dec-18	500	5.75%	European institutional	512
Finmeccanica S.p.A.	(4)	2005	24-Mar-25	500	4.875%	European institutional	501

- (1) Bonds exclusively offered to the public in Italy and listed on the TLX market, which is managed by Trading Lab Banca S.p.A. - Unicredito Italiano Group. Issued as part of the Euro Medium Term Notes (EMTN) programmes for a maximum €bil. 2.5, the bonds are governed by a specific Italian regulation. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. Prospectus filed with CONSOB on 4 December 2002 (authorisation notified with note no. 2079342/3.12.02)
- (2) Exchangeable bonds with a maximum number of 20,000,000 shares in STMicroelectronics N.V. (STM) at a conversion price of €25.07 per share. Starting from the third anniversary of the issue, Finmeccanica Finance can ask for the loan to be converted if the average price recorded during the 30 working days prior to the date of notice to bond-holders exceeds 125% of the conversion price. At the maturity date Finmeccanica Finance can repay in cash or, upon prior notice to be given with at least 15 working days, through a combination of STM shares valued at the average prices recorded in the prior 5 working days. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. Bonds are listed on the Luxembourg Stock Exchange.
- (3) Bonds issued as part of the EMTN programmes for a maximum of €bil. 2.5 The entire issue was converted from a fixed-rate issue to a floating-rate one for the first two years of the loan. The transaction was authorised pursuant to Article 129 of Legislative Decree no. 385/93. Bonds listed on the Luxembourg Stock Exchange.
Rate transactions were made on these bonds and led to benefit throughout 2005 from low floating rates with an effective cost of some 3.25%. During 2006, the effective cost of the loan returned to a fixed rate equal to an average value of some 5.92%.
- (4) Bonds issued as part of the EMTN programmes for a maximum of €bil. 2.5 The transaction was authorised pursuant to Article 129 of Legislative Decree no. 385/93. Bonds listed on the Luxembourg Stock Exchange. Some rate transactions were made to optimise collection costs.

- (5) The difference between the face value of bonds and book value is due to interest rates being classified as to increase debt and to discounts being recognised to decrease debt. Furthermore, as regards the issue of exchangeable bonds in (2) above, IAS 39 provides for the separation of the financial debt component and the call option sold. The debt component is measured by applying the market interest rate at the issue date in place of the nominal interest rate, while the option component, excluded from the financial position, is subject to periodic measurement at fair value. At 30 June 2007, this valuation method led to posting a debt €mil. 59 less than the face value of the bond. This differential will gradually come down as the maturity date draws near.

All the bond issues of Finmeccanica Finance S.A. are irrevocably and unconditionally secured by Finmeccanica S.p.A.

All the bonds above are governed by regulations with standard legal clauses for this type of company transactions. In the case of the Finmeccanica issues, these clauses do not require any commitment for specific financial parameters (financial covenants) but require negative pledge and cross default clauses.

Based on negative pledge clauses, issuers Finmeccanica Finance S.A., Finmeccanica S.p.A. and their Material Subsidiaries (companies whose issuer or guarantor owns more than 50% of share capital or represent at least 10% of total revenues) are expressly and specifically prohibited from creating guarantees to secure financial transactions to the partial benefit of one or more creditors, without prejudice to the generalities of the foregoing. Exceptions to this prohibition are securitisation and, starting from July 2006, the creation of assets for the use indicated in Article 2447 bis *et seq.* of the Italian Civil Code.

The cross-default clauses give the bondholders the right to request early redemption of the same (i.e. default) in the event that, for any loan or, more generally, any financial obligation of the Group, there should be a failure to make payment beyond preset limits or other default event.

All Finmeccanica S.p.A. and Finmeccanica Finance S.A. bonds were given a medium-term financial credit rating by the three international rating agencies: Moody's Investors Service, Fitch and Standard and Poor's. More specifically, at the reporting date these credit ratings were A3 (Moody's), BBB (outlook stable – Standard and Poor's) and BBB (outlook positive – Fitch), both with stable outlook. During the preceding years,

Moody's credit rating improved from Baa2 to A3, in part due to a review of the agency's methods.

Finally, in July 2007, the Euro Medium Term Notes (EMTN) programme for bond issues was renewed for a further 12 months, increasing the amount from €bil. 2 to €bil. 2.5. Under the programme, Finmeccanica acts as co-issuer with Finmeccanica Finance S.A. and as guarantor for the latter in its role as issuer. It should also be mentioned that, under this programme, three different issues have been performed for a total value of about €mil. 1,300, of which only the €mil. 500 nominal issue of 24 March 2005, with an annual coupon of 4.875% maturing in 2025, is directly by Finmeccanica.

As part of the centralisation of its financial operations, Finmeccanica S.p.A. has cash loans and endorsement loans facilities sufficient to meet the Group needs. Specifically, it holds a medium-term revolving credit line of €mil. 1,200 agreed in 2004 with a pool of national and foreign banks, whose interest rates and maturity (current maturity 2012) were renegotiated in 2005, thanks in part to the improved credit rating as mentioned above. This transaction is also governed by negative pledge clauses, which have been illustrated above. At 30 June 2007, this credit line has been used in the amount of €mil. 150. Finmeccanica also has additional short-term credit lines, for cash loans, amounting to around €mil. 1,200, of which €mil. 925 is unconfirmed and around €mil. 275 is confirmed; at 30 June 2007, these credit lines were partially used. There are also unconfirmed endorsement loan lines of around €mil. 2,400.

Other operations

Finally, it should be noted that on 30 May 2007 the Extraordinary Shareholders' decided on a share capital increase to be carried out in tranches for cash and reserved solely to Italian and foreign institutional investors for the maximum nominal amount of €185,638,002 within the limits of 10% of the share capital of the Company prior to the increase. This capital increase may be carried out by issuing a maximum of 42,190,455 shares at the nominal value of €4.40 each, with full voting rights, excluding option rights, pursuant to Article 2441(4)(2) of the Civil Code, by 30 June 2009, in the manner provided in the proposal of the Board of Directors in the "Report of the Board of Directors to the Shareholders' Meeting", approved by the Shareholders' Meeting, to which one should refer for a fuller explanation.

2. Group results

Highlights

€ millions	Jun-07	Jun-06	change	Dec-06
New orders	6,478	7,973	-19%	15,725
Order backlog	36,245	35,185		35,810
Revenues	6,079	5,706	6.5%	12,472
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	325	305	6.6%	902
EBIT	313	305	3%	878
Net result	177	575	-69%	1,020
Net capital employed	7,677	6,231	23%	6,188
Net debt	2,268	1,462	55%	858
FOCF	-1,224	-508	-141%	506
ROI	14.8%	14.2%	0.6 p.p.	17.7%
ROE	12.2%	18.5%	-6.3 p.p.	20.5%
EVA®	-32	-30	-7%	257
R&D costs	851	872	-2%	1,783
Employees (no.)	59,443	57,479		58,059

Before looking at the results for the first half of 2007, it should be noted that:

- during 2006, changes have taken place in the recognition of development costs as a result of changes in the regulatory framework. As a result, beginning with the 2006 annual report, reference is now made to “revenues” rather than to “value of production”. For further details on these changes, see the section concerning the “effects of changes in the accounting standards adopted” (Section 6.1);
- with regard to goodwill from acquisitions in previous years, on 31 December 2006, the process of defining the price allocation shares with calculation of the relative amortisation was completed. Therefore, for the purpose of comparison across different periods, in terms of both absolute values and percentages of revenues (return on sales), an intermediate result was calculated: “operating

result before the amortisation of non-current assets valued within the scope of business combinations” (EBITA*)¹.

To give additional information on the Group state of affairs, the following statements of reclassification have been prepared.

<i>Income statement</i> €mil.	Section	For the six months ended 30 June	
		2007	2006
Revenues	(*)	6,079	5,706
Costs for purchases and personnel	(**)	(5,592)	(5,508)
Depreciation and amortisation	36	(204)	(182)
Writedowns	36	(16)	(5)
Restructuring costs	(***)	(11)	(15)
Other net operating income (costs)	(****)	32	50
Change in inventories of work in progress, semi-finished and finished goods		37	259
EBITA*		<u>325</u>	<u>305</u>
Amortisation of assets valued within the scope of business combinations		(12)	-
EBIT		<u>313</u>	<u>305</u>
Net financial income (charges)	(*****)	44	375
Income taxes	40	(92)	(105)
NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS		<u>177</u>	<u>575</u>
Result of discontinued operations	41	-	-
NET PROFIT (LOSS)		<u>177</u>	<u>575</u>

Notes on the income statement reclassification:

- (*) Includes “revenues” and “revenues from related parties”
- (**) Includes “costs from related parties”, “costs for goods”, “costs for services”, and “personnel costs” (net of restructuring costs), net of “capitalized costs for internal production”.
- (***) Includes the restructuring costs classified as “personnel costs” and “other operating costs”.
- (****) Includes the net amount of “other operating revenues”, “other operating revenues from related parties”, and “other operating costs” (net of restructuring costs).
- (*****) Includes financial income and charges from related parties.

As has been noted many times before, the Finmeccanica Group’s consolidated results for the first six months of 2007 are not entirely representative of the trend for the financial year as a whole since more than half of Group activity is concentrated in the second half of the year. It should be noted that revenues for the first half of 2006 came to €mil. 5,706 and those for the second half of 2006 amounted to €mil. 6,766. Analogously, EBITA*

¹ EBITA* - obtained by subtracting from EBIT any impairment in goodwill and amortisations of the portion of the purchase price allocated to intangible assets within the scope of business combinations, as provided by IFRS3.

for the first half of 2006 came to €mil. 305 compared with €mil 597 in the second half of 2006.

A comparison of the results for the first half of 2007 with those of the same period of 2006 reveals that the Finmeccanica Group experienced a steady growth in income. Revenues came to €mil. 6,079, a 6.5% increase, which is in line with the increase in EBITA*, which rose from €mil. 305 at 30 June 2006 to €mil. 325 in the first half of 2007. As a result, ROS was essentially in line for the two period (5.3%).

The first six months of 2007 closed with a consolidated net profit of €mil. 177, compared with €mil. 575 for the first six months of 2006 with included the non-recurring event of the capital gain from the public offering to sell 60% of Ansaldo STS S.p.A., amounting to around €mil. 417. Excluding the impact of this event, the profit at 30 June 2006 would have amounted to €mil 158. Therefore, conditions being set equal, the profit for the first half of 2007 is €mil 19 higher than that for the same period of 2006.

This improvement is due to lower taxes at 30 June 2007 as a result of further benefits of the application of the consolidated tax mechanism, as well as the increase in EBIT², with substantially equivalent net financial income and charges for the two periods being compared.

With regard to the balance sheet, there was improvement in the Group's profitability indicators compared with the first half of 2006. The return on investment (ROI) was 14.8% (14.2%), return on equity (ROE) stood at 12.2% (10.0% in 2006, reclassified to eliminate the effect of the non-recurring gains from the listing of Ansaldo STS).

As regards EVA^{®3} it should be noted that, as a result of the changing macroeconomic landscape, marked by high levels of volatility on the financial markets and increasing interest rates, Finmeccanica has recently taken steps to increase the Group's cost of capital by more than one percent over the rate used until 31 December 2006. Thus,

² EBIT: is equal to earnings before taxes, financial income and expense, and profits connected with results from discontinued operations without any adjustment. EBIT does not include income and expenses arising from the management of unconsolidated equity investments and securities, as well as profits/losses from the sale of consolidated equity investments, classified in the financial statements under among "financial income/expense" or, as to profits/losses relating to just equity investments valued using the equity method, among "effects of accounting for equity investments with the equity method."

³ EVA[®] is a registered trademark of Stern Stewart & Co.

reclassifying the indicators of the first half of 2006 accordingly, EVA[®] was substantially in line for the two period compared, amounting to around negative €mil. 32 at 30 June 2007.

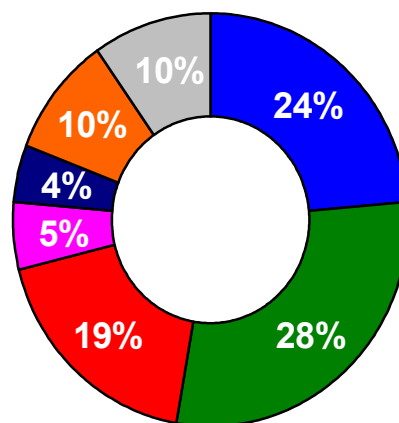
New orders for the first half of 2007 totalled €mil. 6,478, as compared with €mil. 7,973 for the same period of the previous year; However, for the purposes of providing a like-for-like comparison, it is important to note that the first half of 2006 benefited from a number of significant orders in the helicopter division totalling €mil.1,740 (specifically, the IMOS MCPS-Future Lynx contracts for the British Ministry of Defence).

Overall, there was an increase in new orders for the civil market in the first half of 2007, with the military market accounting for 40% of new orders and compared with 56% in the first half of 2006.

Among the significant commercial events that characterised the first half that were not included in the values of new orders described further above are the following:

- Helicopters division: the conclusion of negotiations with the Turkish government for the ATAK program concerning the supply of about 50 A129 helicopters worth roughly €mil. 1,200;
- Aeronautics division: the successful sale to the United States Air Force of 78 C27J aircraft to be delivered in lots by 2013, with the first order scheduled for the second half of 2007.

Orders			
€ millions	06 2007	06 2006	change
■ Helicopters	1,470	2,821	-48%
■ Defence Electronics	1,794	1,654	8%
■ Aeronautics	1,148	1,171	-2%
■ Space	325	331	-2%
■ Defence Systems	266	338	-21%
■ Energy	599	676	-11%
■ Transportation	595	1,143	-48%
■ Eliminations and other ac	281	-161	
	6,478	7,973	



The main new orders for the first half of 2007 included the following:

- Helicopters:
 - in the military-government sector: the agreement with the UK Ministry of Defence to upgrade EH 101 Merlin helicopters, which will be acquired from the fleet of EH 101 in service with the Royal Danish Air Force. The agreement also includes the purchase of a further 6 new EH 101 Merlin helicopters that will be delivered by the UK Ministry of Defence to the Royal Danish Air Force to replace the original helicopters. The agreement is worth €mil. 270 (Q2). Finally, there is an agreement for the provision of 8 AW 109 Power helicopters to the Libyan government (Q2) and a further 2 helicopters for the Nigerian Naval Ministry (Q2);
 - in the civil-government sector: orders for 40 AW139 helicopters for a total of €mil. 370, of which 14 helicopters for the Saudi Arabian Oil Company (Q1) and 2 for the Los Angeles City Fire Department (Q2) and 87 helicopters for a total of €mil. 313 divided as follows: 40 A109 Grand (of which 5 were purchased by Sloane Helicopters Q1), 25 AW109 Power (of which 6 were purchased by the Spanish Fire Brigade Q2) and 22 A119;

- Defence Electronics:
 - further orders in the avionics segment for the EFA programme and related logistics (Q1-Q2) and countermeasure systems (Q1-Q2);
 - orders in the land and sea command-and-control and communication systems segment for air traffic control systems from Trinidad and Tobago (Q1) and for logistics (Q1-Q2);
 - in integrated communication networks and systems, the order for the second lot of the TETRA Interpol contract (Q2), further orders for EFA communication systems (Q1-Q2) and the order by BAE Systems for communication and datalink systems for a Middle Eastern programme (Q2);
 - in information and security technology, the definition of the framework agreement with the National Centre for IT in Government (CNIPA) (Q1), the signing of a framework agreement with Telecom Italia for the provision of secure network products and services and business and management

processes support (Q2), the receipt of a variety of new orders from Poste Italiane for extending the new network and integrated coding services systems (SISC) (Q2).

- Aeronautics:

- military segment: the EFA Future Enhancements order to further develop the weapons system in order to enhance the craft's performance and operating capacity (Q1), logistics for the second EFA lot (Q2), and the agreement for the provision of two ATR 42 MP patrol boats by Nigeria (Q2).
- civil sector: orders of the GIE-ATR consortium that received orders for 51 aircraft (Q1-Q2). Finally, there were orders for the B767 aircraft (Q2) and the additional lots (1 and Q2) of the A321 and Falcon programmes, engine nacelles, and transformation of cargo aircrafts.

- Space:

- commercial segment: the renewal of the contracts for multi-year, high-value television services, particularly for Sky (Q1), the contract for the Indonesian Palapa D satellite (Q2), the order by the Norwegian company Telenor for the Thor 6 satellite (Q2), the first of three lots for 48 Low Earth Orbit (LEO) satellites for the second-generation Globalstar constellation (Q1 and Q2);
- Earth observation segment: the contract concerning the Cosmo programme for the completion of the fourth satellite (Q1), the first lot of the Sentinel 1 order for the Global Monitoring for Environment and Security (GMES) programme (Q2) programme for territorial control and security;
- navigation and infomobility segment: additional orders related to the Galileo (the in-orbit validation phase) and EGNOS programmes (Q1 and Q2).

- Defence Systems:

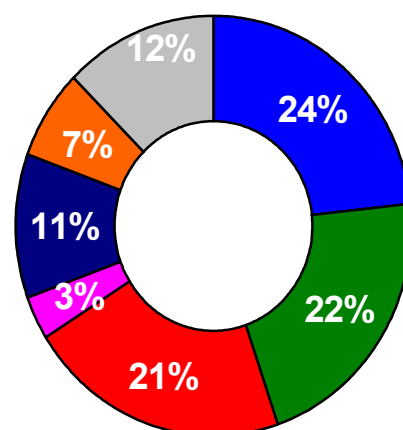
- in missile systems: orders to upgrade the German Patriot systems (Q1) and RAMs (Rolling Airframe Missile) (Q2) and orders to upgrade the battery of Aspide air-defence missiles (Q1) and the Exocet systems (Q2) abroad;
- in land, sea, and air weapons systems: orders for four 76/62SR cannons and for machine guns to Malaysia (Q1) for three 76/62 SR cannons from Oman (Q2);

- in underwater systems: orders for 22 launch systems for Lynx helicopters from Germany (Q2) and for additional activities relating to MU90 light torpedoes from Australia (Q2).
- Energy:
 - in the new units segment: a gas turbine and related alternator for the Algeciras site (lot 2) and the Vlore site (both in Q1); the order from Finland for a gas turbine (model V94.2 plus) and related alternator (Q2), two contracts with Algeria (Batna and Larbaa) for the customer Sonelgaz for the construction of two 300 MW electrical plants (both in Q2) and the contract with Iran for three alternators (Q2);
 - service segment: important orders in renewable energy related to the refurbishment of four hydroelectric assemblies, two hydroelectric generators, a hydroelectric plant and revamping a steam turbine (all in Q1), a contract with Iran for a set of 5 blades (Q2), a maintenance contract for the Batna and Larbaa plants in Algeria (Q2) and the revamping of a steam turbine for the Algeciras plant (Q2).
- Transportation:
 - signalling segment: two orders by the mining firm Rio Tinto in Australia (Q1), orders relating to the Chambers Street station of the New York subway (Q1); the order in Italy for SCMT on-board equipment to complete Step 3 of the double rail lines which were partially equipped under previous Step 2 contracts (Q2), the order by ERGA-OSE, the Greek railway agency, for the supply of onboard equipment (Q2), contracts as part of the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia (Q1 and Q2), and orders for components (Q1 and Q2);
 - systems segment: the order related to Alifana Inferiore to equip 15 Metrocampania Nordest electric trains with technological signalling systems (Q1); the order for the first phase of the project for the Rome Line C driverless metro (Q2); and changes to the Italian high-speed railway order (Q2);

- vehicles segment: service orders (Q1 and Q2) the options for the supply of 8 further regional service trains to Ferrovie Nord Milano (Q2).
- Other activities:
 - Fata S.p.A. received a significant order in Qatar for the execution of two separate packages (Qatalum Casthouse and Qatalum Baking Kiln) for the construction of an aluminium smelter worth in total about €mil. 370 (Q2).

At June 2007, the **order backlog** came to €mil. 36,245, as compared with €mil. 35,810 at 31 December 2006. These cover three years of Group production. The slight increase (€mil. 435) is due to ordinary order acquisition and customer invoicing activities.

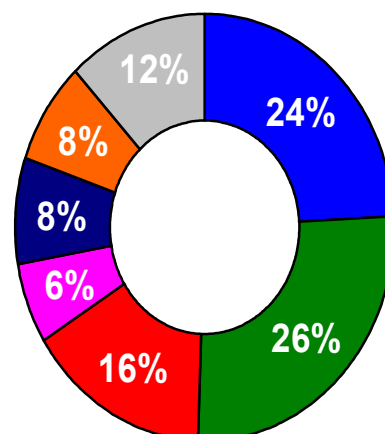
Order backlog			
€ million	06 2007	12 2006	change
■ Helicopters	8,497	8,572	-1%
■ Defence Electronics	7,860	7,676	2%
■ Aeronautics	7,798	7,538	3%
■ Space	1,260	1,264	0%
■ Defence Systems	4,024	4,252	-5%
■ Energy	2,587	2,468	5%
■ Transportation	4,560	4,703	-3%
Eliminations and other ac	-341	-663	
	36,245	35,810	



At 30 June 2007, **revenues** totalled €mil. 6,079 for an increase of €mil. 373, or 6.5% over the same period of the previous year.

These positive results, although not representative of performance for the entire year (since, as stated above, more than half of Group's activities are concentrated in the second half of the year), confirms the Group's general growth targets.

Revenues			
€ millions	06 2007	06 2006	change
■ Helicopters	1,478	1,333	11%
■ Defence Electronics	1,607	1,668	-4%
■ Aeronautics	953	833	14%
■ Space	377	347	9%
■ Defence Systems	497	494	1%
■ Energy	477	411	16%
■ Transportation	725	684	6%
Eliminations and other ac	-35	-64	
	6,079	5,706	



Specifically, the sectors that contributed most heavily to the increase in revenues include:

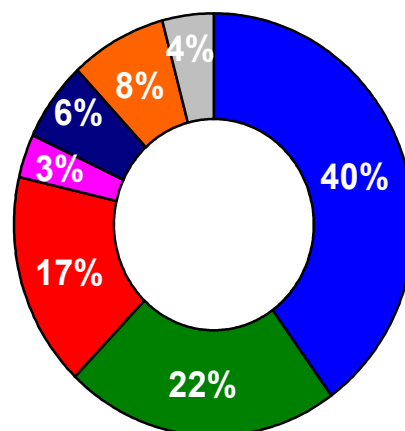
- the Helicopter division as a result of high production volumes in the civil-government segment (A109, AW139, A119), for the beginning of full operations for the helicopter for the President of the United States of America and for product support activities;
- the Aeronautics division, where growth is mainly attributable to the higher contribution of the civil segment, especially in relation to activity for the ATR aircraft and the start of B787 production;
- the Energy division, due to the sharp increase in the volumes of service orders.

There was more limited improvement in the Space (due to production increases in the manufacturing segment), Transportation (attributable to signalling and vehicles) and Defence Systems divisions.

Finally, there was a decline in revenues for the Defence Electronics division due, in particular, to the slowdown in the command and control systems and avionics segments. This situation, which was also caused by difficulties in obtaining new orders in specific segments, could have an impact on the reaching of year-end revenue growth targets for the segment.

EBITA*, for the first half of 2007 came to €mil. 325, an increase of €mil. 20 (6.6%) over the same period of last year and is substantially in line with the growth in revenues.

EBITA*			
€ millions	06 2007	06 2006	change
■ Helicopters	154	135	14%
■ Defence Electronics	85	99	-14%
■ Aeronautics	64	61	5%
■ Space	12	16	-25%
■ Defence Systems	24	22	9%
■ Energy	30	18	67%
■ Transportation	16	27	-41%
Other Activities	-60	-73	
	325	305	



The following divisions made positive contributions to **EBITA***:

- Helicopters: the good results achieved in terms of the absolute value (€mil 19), and percentage growth (+14%), is in line with the growth and composition of revenues and is correlated with the aforementioned increase in volumes and the consolidation of efficiency initiatives relating to the process of integrating Italian and UK activities;
- Energy: the €mil. 12 (+67%) rise is due to the increased production and the higher profitability of several orders for domestic plants which fully offset the increased cost of research and development incurred by the company to achieve technological independence.

There was also a slight improvement in **EBITA*** in the Aeronautics and Defence Systems divisions.

Conversely, the following segments posted declines in **EBITA***:

- Defence Electronics, down €mil. 14 (-14%), due to a contingent situation with lower volumes and a mix of less profitable activities than in the past, as well as difficulties in the saturation of production capacity in the communications segment. These declines have been mitigated in part by the contribution of the avionics segment which grew as expected.

- Transportation: down €mil. 11 (-41%) due to industrial problems in the Vehicles segment, addressed in a detailed plan being implemented, to improve corporate processes and products. The performance of Signalling and Systems segments was positive, featuring a growth in industrial profitability.
- Space: down €mil. 4 (-25%), in the manufacturing segment due to the higher costs of several commercial telecommunications programmes, net of productive synergies achieved by the joint venture.

Balance sheet	Section	30.06.2007	31.12.2006
<i>€mil.</i>			
Non-current assets		10,337	9,897
Non-current liabilities	(*)	(3,191)	(3,275)
		7,146	6,622
Inventories	16	3,353	3,095
Due from customers for contract work	17	3,278	2,823
Trade receivables	18	4,135	3,856
Trade payables	28	(3,529)	(3,561)
Due to customers for contract work	17	(5,625)	(5,529)
Provisions for short-term risks and charges	25	(553)	(571)
Other net current assets (liabilities)	(**)	(528)	(547)
Net working capital		531	(434)
Net invested capital		7,677	6,188
Group shareholders' equity		5,314	5,276
Minority interests		95	81
Shareholders' equity	23	5,409	5,357
Net financial debt (cash and cash equivalents)	24	2,268	858
Net (assets) liabilities held for sale	(***)	-	(27)

Notes on the reclassified balance sheet:

(*) Includes all non-current liabilities except financial liabilities to related parties (which are included among non-current liabilities to related parties) and non-current financial debt.

(**) Includes tax receivables, other current receivables from related parties (included among current receivables from related parties) and other current assets, net of tax payables, other payables to related parties (included among current liabilities to related parties), and other current liabilities.

(***) Includes the net of non-current assets held for sale and liabilities directly related to assets held for sale.

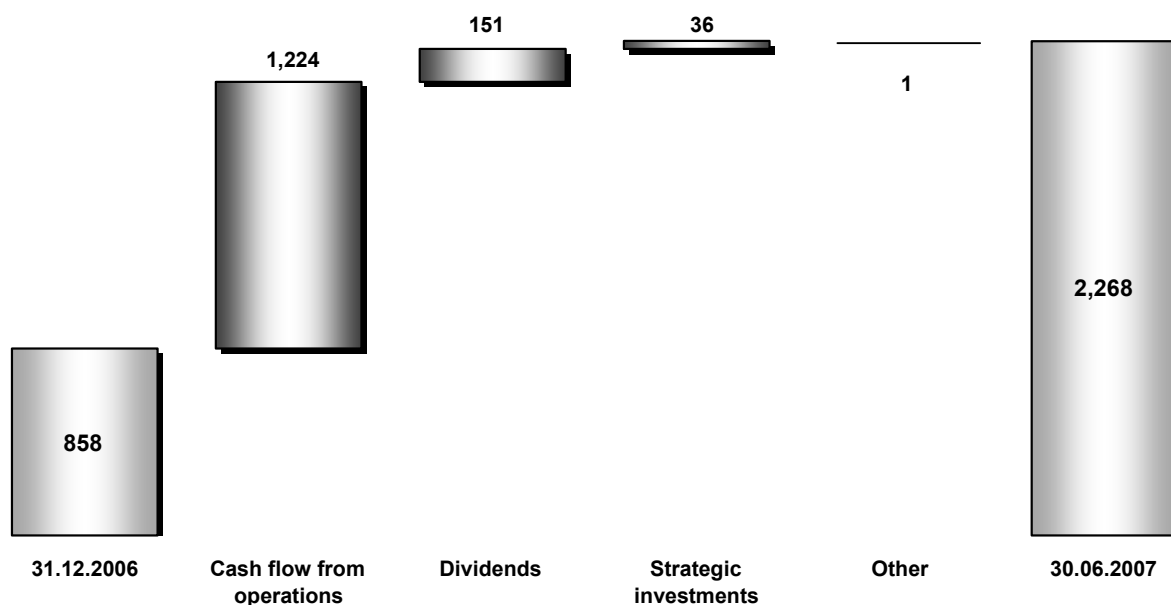
Group **net debt** (payables higher than financial receivables and cash and cash equivalents) at 30 June 2007 was €mil. 2,268 (€mil. 858 at 31 December 2006), a net increase of €mil. 1,410.

This debt level of 42% of consolidated shareholders' equity is lower than the amount achievable on a careful and prudent financial management and falls within the maximum limits set by the main rating companies.

A policy aimed at minimising the average cost of debt (3.9%) consistently over time and extending the average remaining life (about 8.5 years), also contributed to making the Group's financial structure more sound by making its debt structure and medium and long-term financial returns compatible with the significant investments required to develop products.

It was possible to maintain a stable financial and capital structure through constant control over the companies' financial needs and proactive dealings with customers and suppliers.

Net financial debt at 30 June 2007



Free Operating Cash Flow (FOCF)⁴ at 30 June 2007 was negative (use of cash) in the amount of €mil. 1,224 compared with a negative €mil. 508 at 30 June 2006. In analysing this FOCF, seasonal factors have to be taken into account. The balance between trade collections and payments reveals that payments are particularly higher than collections. Specifically, during the two periods being compared, the composition of FOCF was strongly affected by investment activity.

In fact, in the first half of 2007, the use of cash amounted to €mil. 1,224 and is attributable, for €mil. 588 to investment activity (compared with €mil. 253 for the same period of the previous year), and for €mil. 636 to operating activities (compared with €mil. 255 for the first half of 2006).

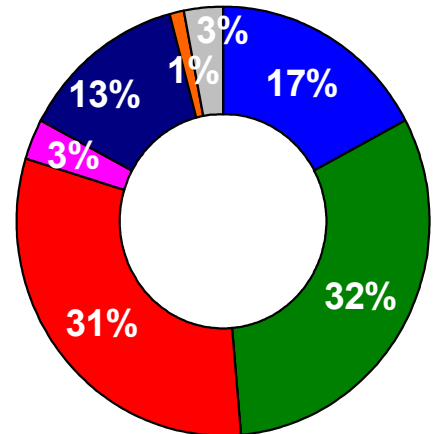
The worsening between the two periods of €mil. 716 of FOCF is due in part to greater investments (€mil. 335) mainly in programmes in the Aeronautics and Helicopters segments, although in line with expectations, and to the increase in production volumes (€mil. 381).

Consolidated **net invested capital** at 30 June 2007 came to €mil. 7,677, compared with the €mil. 6,188 of 31 December 2006. This increase of €mil. 1,489 was due to the €mil. 965 increase in **working capital** (€mil. 531 at 30 June 2007 compared to a negative €mil. 434 at 31 December 2006) due primarily to the aforementioned trend in FOCF and the increase in capital assets due to investments in non-current assets net of depreciation and amortization.

For the first half of 2007, **research and development** costs totalled €mil. 851, compared with the €mil. 872 of the first half of 2006, for a slight decline of €mil. 21 and representing approximately 14% of revenues generated.

⁴ FOCF: is arrived at by adding the cash flow generated from (used in) operating activities with the cash flow generated from (used in) investing and disposing of property, plant and equipment, intangible assets and equity investments, excluding cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments". The calculation of FOCF for the periods presented is contained in the reclassified cash flow statement found in section 3.

R&D Costs			
€ millions	06 2007	06 2006	change
■ Helicopters	147	180	-18%
■ Defence Electronics	266	281	-5%
■ Aeronautics	264	225	17%
■ Space	26	30	-13%
■ Defence Systems	110	126	-13%
■ Energy	8	7	14%
■ Transportation	27	23	17%
■ Other Activities	3	0	
	851	872	



The main R&D activities regarded:

- Helicopters:
 - within the scope of the programmes funded by Italian law 808/85: the development of technologies, mainly for military purposes, for a new helicopter of the 6-7 ton class named the A149 and development of multi-role versions of the BA609 convertiplane for national security purposes;
 - research into upgrading products, where activities continued on the customisation of the AW139 and Agusta Grand helicopters;

- Defence Electronics:
 - the continuation of development of the EFA programme electronic-scan radar systems for avionics, and the fine-tuning of the UAV FALCO prototypes;
 - the development of naval and land-based command and control systems and the completion of development of air-traffic control radar systems;
 - the completion of the TETRA network and activities in the new product families such as ad hoc networks, WIMAX, software radio and switch all IP;

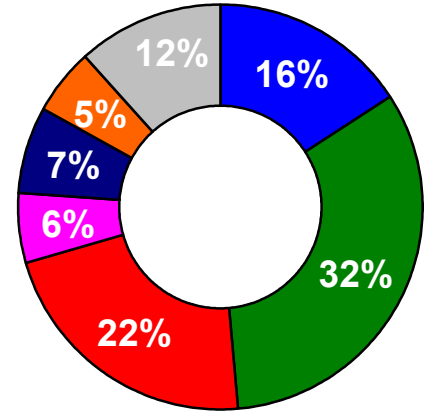
- Aeronautics:
 - the development of civil programmes, including the B787;
 - in the military segment, the C27J, the EFA, and the M346 trainer;
 - activities related to the second lot, Tornado, AMX, JSF, Unmanned Air Vehicles (UAVs), A380, engine nacelles, and B767 Cargo;

- other research and development activities continued into aerostructures and integration systems;
- Space:
 - the study and development phases of the Syracuse 3 and Sical 1B (SAR radar, altimeter, and radiometer) programmes, dual-use systems for security and civil protection (Cosmo), and scientific programmes (Alma, Bepi-Colombo, Goce, Herschel-Plank);
 - the development of platforms and solutions for the provision of navigation and infomobility services, Galileo, GIS (Geodatabase), and LEO applications;
- Defence Systems:
 - the continuation of development related to: the Meteor air-to-air missile in the missile segment; the guided multiple launch rocket system as part of land and naval weapons; and the Black Shark heavy torpedo in the underwater system segment;
- Energy:
 - development of strategic technologies for gas turbines and other critical projects connected with the technological autonomy of the blades;
 - rationalisation of development activities for steam turbines, especially alternators;
- Transportation:
 - in the Signalling segment, the projects intended primarily for alignment to new requirements both in the rail and mass transit segments and the development of on-board equipment.

The **number of employees** at 30 June 2007 stood at 59.443 people, an increase of 1,384 from the 58,059 of 31 December 2006. This rise is mainly due to positive turnover across all segments, in addition to the change in the scope of consolidation.

Employees (no.)

	06 2007	12 2006	change
■ Helicopters	9,212	8,899	4%
■ Defence Electronics	19,066	19,185	-1%
■ Aeronautics	12,811	12,135	6%
■ Space	3,297	3,221	2%
■ Defence Systems	4,145	4,275	-3%
■ Energy	2,920	2,856	2%
■ Transportation	6,885	6,677	3%
■ Other Activities	1,107	811	
	59,443	58,059	



3. Financial position

Net consolidated financial debt at 30 June 2007 is reported in the following table with comparative information at 30 June 2006 and 31 December 2006.

	<i>30.06.07</i>	<i>31.12.06</i>	<i>30.06.06</i>
	<hr/>	<hr/>	<hr/>
Short-term financial payables	506	159	145
Medium/long-term financial payables	1,842	1,865	1,851
Cash and cash equivalents	(411)	(2,003)	(680)
BANK DEBT AND BONDS	<hr/>	<hr/>	<hr/>
	1,937	21	1.316
	<hr/>	<hr/>	<hr/>
Securities	(16)	(21)	(20)
Financial receivables from Group companies	(32)	(26)	(21)
Other financial receivables	(452)	(452)	(393)
FINANCIAL RECEIVABLES AND SECURITIES	<hr/>	<hr/>	<hr/>
	(500)	(499)	(434)
	<hr/>	<hr/>	<hr/>
Financial payables to related companies	442	500	394
Other short-term financial payables	278	722	80
Other medium/long-term financial payables	111	114	106
OTHER FINANCIAL PAYABLES	<hr/>	<hr/>	<hr/>
	831	1.336	580
	<hr/>	<hr/>	<hr/>
NET FINANCIAL DEBT(CASH)	<hr/>	<hr/>	<hr/>
	2,268	858	1,462
	<hr/>	<hr/>	<hr/>
Net financial debt (cash and cash equivalents) of discontinued operations	-	6	10
	<hr/>	<hr/>	<hr/>

The Group's net financial debt at 30 June 2007 amounted to €mil. 2,268, compared with €mil. 858 at 31 December 2006 and €mil. 1,462 in June 2006.

The debt figure reflects the following effects attributable to the adjustments arising from the adoption of IAS 32 and 39:

- as regards the Finmeccanica Finance S.A. €mil. 500 bond paying a 0.375% coupon and maturing in August 2010 exchangeable for STM shares, IAS 39

requires the separation of the debt component from the call option embedded in the instrument. The debt component is measured using the market interest rate at the issue date rather than the nominal rate, while the option component is subject to periodic measurement at fair value. At 30 June 2007, as a result of the application of this methodology the debt recognized was €mil 59 less than the face value of the bond; this difference will gradually narrow as the maturity date approaches;

- the existence in the financial position of liabilities in respect of the remaining unpaid portion, equal to €mil. 6, of part of the trade receivables assigned without recourse to factoring companies during the periods preceding the introducing of the new IAS/IFRSs, the manner of assignment of which was not considered to be compatible with the new standards.

Consistent with the approach adopted in the presentation of the accounts in 2006, it was decided – in view of the fact that a significant part of these transactions are designed to hedge “underlying” commercial positions – not to recognize as debt the balancing entries resulting from fair value measurement of the derivatives on the date that the accounts were closed: at 30 June 2007 these items showed a positive balance of €mil. 39.

Taking account of these adjustments, as well as the operational events described below, the Group’s net financial debt went from €mil. 858 at 31 December 2006 to €mil. 2,268 at 30 June 2007, as already noted.

The June figure, which shows debt rising by €mil. 1,410 on the end of December, confirms the ordinary pattern of cash receipts and outlays with substantial cash absorption in the period examined. This pattern was also influenced by investments made in the first half and reflects early collections on a number of contracts recognized by Group companies in the closing days of December 2006.

Free Operating Cash Flow (FOCF) for the period came to negative €mil. 1,224 compared with a negative €mil. 508 at 30 June 2006. In the first half of 2007, the use of

cash is attributable, as mentioned above, to considerable investment activities, mainly in programmes in the Aeronautics and Helicopter division, in addition to higher production volumes.

The debt figure at 30 June includes:

- the payment of a total of around €mil. 11 in the first few months of the year to complete the PPO launched for the remaining shares of Datamat in the last few months of 2006 which led to the company's delisting;
- the payment of €mil. 149 relating to the ordinary dividends paid out by the Group Parent for 2006;
- the receipt of €mil. 13 in dividends received from STMicroelectronics Holding NV.

In March, Finmeccanica, exercised the call option inserted in the agreement with BAE Systems (BAE) for the purchase of the remaining 25% of Selex Sensors and Airborne Systems S.p.A. (Selex). It paid around €mil. 400 to BAE and now owns 100% of Selex. The only effect of the operation was a reduction in cash without any impact on the Group's net debt since the effects on the debt were already incorporated in the figures for the end of 2006 and were recognised under "other financial payables).

As with last year, the debt figure benefited from the offsetting effect of the consolidated taxation mechanism, with lower outlays of about €mil. 155 in the first half of 2007.

Finally, it should be noted that the Group made assignments of receivables totalling €mil. 27 during the period.

As regards the composition of the debt items, there was a shift in total gross bank borrowings from €mil. 2,024 at 31 December 2006 to €mil. 2,348 at 30 June 2007, mainly due to the increase in short-term debt. There was a significant decline in cash

and cash equivalents from €mil. 2,003 in December 2006 to €mil. 411 at 30 June 2007. This cash was used to finance ordinary operations and investments mentioned above as well as strategic activities, particularly with regard to the purchase of the remaining shares of Selex Sensors and Airborne Systems S.p.A., which was reflected in the reduction in “other financial payables” from €mil. 1.336 at 31 December 2006 to €mil. 831 at 30 June 2007.

The item “financial receivables and securities” equal to €mil. 500, in line with the figure reported in December 2006 (€mil. 499), includes the amount of €mil. 425 in respect of the portion of financial receivables that the MBDA and Alcatel Alenia Space joint ventures hold vis-à-vis the other partners in implementation of existing treasury agreements. In accordance with the consolidation method used, these receivables, like all the other joint venture items, are included in the Group’s scope of consolidation on a proportionate basis.

The item “financial payables to related parties” includes the debt of €mil. 418 of Group companies in the above joint ventures for the unconsolidated portion.

The reclassified cash flow statement as at 30 June 2007, compared with that of the previous year, is shown below:

<i>€mil.</i>	<i>For the six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
Cash and cash equivalents at 1 January	2,003	1,061
Gross cash flow from operating activities	669	626
Changes in working capital	(956)	(710)
Changes in other operating assets and liabilities	(365)	(145)
Cash flow generated from (used in) operating activities	(652)	(229)
Cash flow from ordinary investing activities	(572)	(279)
Free operating cash-flow	(1,224)	(508)
Strategic transactions	(416)	355
Changes in other financial assets	(10)	64
Cash flow generated from (used in) investing activities	(998)	140
Dividends paid	(151)	(214)
Cash flow from financing activities	211	(73)
Cash flow generated from (used in) financing activities	60	(287)
Translation differences	(2)	(5)
Cash and cash equivalents at 30 June	411	680

The first half of 2007 closed with a decline in liquidity net of translation differences of €mil. 1,590 (compared with one of €mil. 376 in the year-earlier period). This can be attributed to the following factors:

- negative operating cash flow of €mil. 652, compared with negative operating cash flow of €mil. 299 in the corresponding period of 2006, largely attributable

to the increase in production volumes and to seasonal variations in receipts in our core business, which are concentrated in the final months of the year;

- negative cash flow from investing activities equal to €mil. 998 (compared with a positive €mil. 140 at 30 June 2006), which includes the considerable ordinary investment activities mainly for programmes in the Aeronautics and Helicopter divisions and the effect of the strategic operations for the period, mainly attributable to the call option on the 25% stake of Selex Sensors & Airborne Systems (€mil. 400). Specifically, the first half of 2006 included the inflow of €mil. 458 arising from the Ansaldo STS IPO and the outflow of €mil. 89 required for the closing of the obligatory public offering on Datamat shares. For the purpose of analysing the comparative figures, note should be made of the different classification of investments among non-recurring costs and development costs (€mil. 280 in the first half of 2007), now included under investment activities and no longer under cash flow generated from operating activities;
- positive cash flow from financing activities of €mil. 60 (compared with a negative €mil. 287 at 30 June 2006). Compared with the corresponding period of last year, there has been an increase in resource to foreign sources of financing, partially offset by dividends paid to shareholders (of which €mil. 149 directly from the Group Parent).

4. Performance by division

HELICOPTERS

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	1,470	2,821	4,088
Order backlog	8,497	8,661	8,572
Revenues	1,478	1,333	2,727
EBITA*	154	135	299
R.O.S	10.4%	10.1%	11.0%
EBIT	150	135	290
Working capital	458	412	392
Net invested capital	2,141	2,114	2,085
R.O.I (*)	14.0%	12.8%	13.9%
Research and Development	147	180	356
Employees (no.)	9,212	8,807	8,899

(*) Calculated on invested capital at period-end

HIGHLIGHTS

New orders: despite the fact that a comparison with the year-earlier period shows a considerable decline (- €mil. 1,351), the first half of 2006 benefits from several significant orders (Mcsp-Imos-Future Lynx) from the UK Ministry of Defence totalling €mil. 1,740. There was a 14.2% increase in sales to the civil-government market in terms of volumes with further orders for 137 helicopters (AW 139/AW109/AW119).

Revenues: up 11% from 30 June 2006 (€mil. 1,333) attributable to the increase in volumes in the commercial segment (AW109, AW139, AW119), due to the beginning of production on the helicopter for the President of the United States (the first flight of the prototype occurred in July 2007) and support activity including the integrated support contracts (IOS) signed with the UK Ministry of Defence.

EBITA*: up by 14 % (€mil. 19) over the same period of the previous year.

The improvement is in line with the change in and composition of revenues and is correlated with the growth in volumes mentioned above and the consolidation of the efficiency enhancement actions undertaken as part of the process of integrating British and Italian activities. The impact of these factors on ROS (10.4%) is in line with that of 30 June 2006 (10.1%).

Finmeccanica is, together with AgustaWestland NV and its subsidiaries, a leader in the extremely restricted circle of systems designers in the world helicopter industry with EADS (Eurocopter) and United Technologies (Sikorsky).

The period saw a number of particularly significant commercial developments in the military segment, including:

- the conclusion of negotiations between the executive committee of the Turkish government and AgustaWestland, in partnership with Turkish Aviation Industry (TAI), regarding the ATAK (Tactical Reconnaissance and Attack Helicopter) programme for the leadership of Turkish ground forces. The value of this programme, based on a request for 51 A129 helicopters, is €mil. 1,200. The programme will involve local aerospace firms. The final assembly, delivery and acceptance of the helicopters will take place in Turkey. The contract is expected to be signed by the end of this year.
- the announcement of an important Memorandum of Understanding between AgustaWestland and the rotorcraft division of Boeing Integrated Defense System regarding the preparation of the bid that will commit the two manufacturers to supply CH-47F helicopters to replace the current Chinook helicopter fleet used by the Italian Army. In addition, the parties agreed that should further of these helicopters be sold in Italy and in the UK, AgustaWestland will act as prime contractor while Boeing will take on the role of primary supplier.
- the signing of the agreement with the UK Ministry of Defence to upgrade EH 101 Merlin helicopters, which will be acquired from the fleet of EH 101 in service with the Royal Danish Air Force. The agreement also includes the purchase of a further 6 new EH 101 Merlin helicopters that will be delivered by the UK Ministry of Defence to the Royal Danish Air Force to replace the original helicopters. The contract is valued at €mil. 270 (Q2).
- the contract for the supply of eight AW109 Power helicopters for the Libyan government (Q2) and an additional two for the Nigerian Naval Ministry (Q2).

In the civil and government sector, too, AgustaWestland demonstrated excellent performance given its ability to penetrate markets where the competition is increasingly selective thanks to the availability of a modern, competitive product portfolio. In the first half of 2007, it recorded orders for 127 helicopters worth €mil. 683. Of note in that regard are the following:

- orders for an additional 40 AW139 helicopters, totalling €mil. 370, including the provision of 14 helicopters to Saudi Arabian Oil Company (Q1) and 2 helicopters for the Los Angeles Fire Department (Q2); The portfolio of orders for the AW139 continues to grow, with over 150 helicopters currently on order.

Within the segment, orders were also obtained for a further 87 helicopters, of which 40 Grand (5 of which were purchased by Sloane Helicopters), 25 AW109 Power, including the contract for 6 helicopters for the Spanish Fire Brigade (Q2) and 22 A119 helicopters, for a total of €mil. 313. With regard to the A119 helicopters, contracts were concluded with the Spanish aeronautics group FAASA for 6 helicopters (Q1) and with the Libyan Red Crescent for 5 helicopters (Q1).

Total volume of **new orders** at 30 June 2007 came to €mil. 1,470, a decline from the same period of 2006 (€mil. 2,821) when several important orders were received from the UK Ministry of Defence worth a total of about €mil. 1,740 (Integrated Merlin Operational Support (IMOS) contract to provide logistics support for the fleet of EH 101 in service with the Royal Air Force and Navy for €mil. 640, the Merlin Capability Sustainment Plus (MCSP) contract upgrading 30 EH 101 Merlin Mk1 helicopters in service with the British Royal Navy with a value of €mil. 550 and the first lot of the Future Lynx contract for 70 helicopters for the British armed forces worth €mil. 550).

As a result of the high volume of new orders for the first half of the year, the value of the order backlog at 30 June 2007 came to €mil. 8,497, in line with the value at 31 December 2006 (€mil. 8,572).

The orders at 30 June 2007 can be broken down into 70% for helicopters, 26% for support activities and 4% for engineering. The order backlog guarantees coverage of over 3 years of production.

Revenues at 30 June 2007 amounted to €mil. 1,478, with an increase of 11% over 30 June 2006 (€mil. 1,333). This improvement is attributable to greater volumes in the civil-government sector (A109, AW139, A119) (39%), to the start of production on the VH 71 contract for the President of the United States (38%), for which the first test flight of the TV2 prototype occurred on July 5, 2007, and support activities (23%) primarily related to the integrated support contracts (IOS) with the UK Ministry of Defence.

EBITA* at 30 June 2007 came to €mil. 154, an increase of €mil. 19 (14%) over the same period of the previous year (€mil. 135).

The improvement is in line with the change in and composition of revenues and is correlated with the growth in volumes mentioned above and the consolidation of the efficiency enhancement actions undertaken as part of the process of integrating British and Italian activities. The impact of these factors on **ROS** (10.4%) is in line with that of 30 June 2006 (10.1%).

Net invested capital reached €mil. 2,141 at 30 June 2007 from €mil. 2,085 at 31 December 2006, an increase of €mil. 56 due to the decrease in current liabilities as a result of higher outlays connected with the increase in production noted earlier; this is reflected in the figure for **working capital**, which came to €mil. 458 at 30 June 2007, from €mil. 392 at 31 December 2006.

Return on investment (**ROI**) reached 14.0% at 30 June 2007, increasing both over the figure at 30 June 2006 (12.8%) and that at 31 December 2006 (13.9%), owing primarily to the increase in EBIT.

Research and development expenditure at 30 June 2007, amounting to €mil. 147 (€mil.180 at 30 June 2006), primarily concerned:

- research as part of programmes financed through Law 808/85, which include the development of technologies for a new helicopter of the 6/7-tonne class named the A149 and development of multi-role versions of BA 609 convertiplane for national security;

- research into upgrading products, where activities continued on the customisation of the AW139 and Agusta Grand helicopters;
- research and development into variants of base models in connection with government/military and civil contracts.

AgustaWestland had 9,212 **employees** at 30 June 2007, a 3.5% increase from 31 December 2006 (8,899 employees). The increase was necessary in order to meet the technical/production needs related to the increase in business volumes.

DEFENCE ELECTRONICS

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	1,794	1,654	4,197
Order backlog	7,860	7,714	7,676
Revenues	1,607	1,668	3,747
EBITA*	85	99	313
R.O.S	5.3%	5.9%	8.4%
EBIT	78	99	300
Working capital	1,137	1,131	734
Net invested capital	3,320	2,820	2,778
R.O.I (*)	4.7%	7.0%	10.8%
Research and development	266	281	541
Employees (no.)	19,066	19,588	19,185

(*) calculated on invested capital at period-end

HIGHLIGHTS

New orders: completion of the order for the second lot of the contract with the Ministry of the Interior for the programme to create the Tetra secure interforce digital communications network.

EBITA*: a contingent decline that is the result of lower volumes and a mix of less profitable activities than in the past, as well as the incomplete saturation of production capacity in the communications segment which will be gradually overcome with the introduction of the expected industrial reorganisation plan. A positive contribution was made by the avionics segment which grew as expected.

The division includes activities concerning the manufacture of avionics equipment and systems, unmanned aircraft, radar systems, 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 mobile radio communications systems and IT and security activities.

In addition to the production of electronic equipment and systems for defence and security, the division also continued its intensive efforts concerning the provision of large-scale integrated systems based on complex architectures and network-centric approaches.

The goal is to meet the increasingly pressing needs of customers to possess large-scale systems that integrate a variety of functions, platforms and sets of sensors in order to ensure effective performance in the surveillance, control, and protection of critical areas and infrastructures.

To that end, Selex Sistemi Integrati has begun numerous sales campaigns, particularly in export markets, in order to promote large-scale homeland protections systems, especially for applications related to border control and security management in conjunction with major events. This effort leverages all of the skills of the various group companies and takes advantage of the consolidated presence of a number of these companies in the various countries concerned.

New orders at 30 June 2007 came to €mil. 1,794, a slight improvement (+8%) over the first half of 2006 mainly due to higher orders in the information technology and security segment as well as the completion of the order for the second lot of the contract with the Ministry of the Interior for the programme to create the Tetra secure interforce digital communications network. The main new orders during the period include the following:

- Avionics: additional orders for the EFA programme and related logistics (Q1-Q2), various orders for systems for countermeasure (Q1-Q2) and orders for devices for space programmes (Q1-Q2);
- Land and naval command and control systems: orders of air-traffic control and management from Trinidad and Tobago (Q2) and logistics (Q1-Q2).

- Integrated communications systems and networks: in addition to the order for the second lot of the Tetra secure interforce digital communications network contract (Q2), additional orders for communication systems of the EFA (Q1-Q2), the order by BAE Systems for the datalink and communication systems for a Middle Eastern programme (Q2), as well as for activities within the scope of the European programme to supply MIDS (Multifunctional Information Distribution System) interface units (Q1-Q2);
- Information technology and security: signing of the framework agreement with Telecom Italia for the provision of secure network products and services and business and management processes support (Q2), the receipt of a variety of new orders from Poste Italiane for extending the new network and integrated coding services systems (SISC) (Q2), signing of the framework agreement resulting from the tender held by CNIPA (National Centre for IT in the Government) for the creation and management of website services, awarded to the joint venture by Datamat, Elsag, Telecom Italia and Engineering Italia (Q1);

The **orders backlog**, net of work in progress, came to €mil. 7,860 compared with €mil. 7,676 at 31 December 2006, an increase of €mil 184. The composition of the backlog is attributable for 50% to the avionics segments, while the communications field contributes about 20% and the radar and command and control systems and the information technology and security segments both contribute about 15% each.

Revenues came to €mil. 1,607 at 30 June 2007, indicating performance that did not meet expectations and a slight decrease over the same period of 2006 (€mil. -61, or -4%), due, in particular, to the slowdown in the command and control systems and avionics segments. This situation, which was also caused by difficulties in obtaining new orders in specific segments, could have an impact on the reaching of year-end revenue growth targets for the segment.

Revenues resulted from the following:

- avionics: the continuation of activities relating to DASS production and the production of avionics equipment and radar for the EFA programme, as well as

systems for countermeasures, avionics for the helicopter and space programmes, Tornado upgrades, and logistics;

- radar and command and control systems: the continuation of activities relating to contracts for Orizzonte, Nuova Unità Maggiore and FREMM vessels, to international cooperation contracts, FADR land-based radar, as well as air traffic control programmes both in Italy and abroad;
- integrated communications systems and networks: the continuation of activities relating to the development and manufacture of equipment for EFA, initiation of construction of the TETRA national network, and the provision of MIDS units and communication systems for the military;
- Information technology and security: activities relating to the security segment, systems, and automation services—especially orders from the Italian and Russian postal services—and to information technology services and naval systems for the defence division.

EBITA* came to €mil. 85 at 30 June 2007, a €mil. 14 decrease over the same figure posted for the first half of 2006. This decline is the result of lower volumes and a contingent situation involving a mix of less profitable activities than in the past relating to command and control systems as well as difficulties of saturation of production capacities in the communications segment which will be gradually overcome with the introduction of the expected industrial reorganisation plan. A positive contribution was made by the avionics segment which grew as expected. As a result, **ROS** at 30 June 2007 came to 5.3% down from the 5.9% reported for the same period of 2006.

Net invested capital at 30 June 2007 came to €mil. 3,320, up €mil. 542 compared with 31 December 2006 (€mil. 2,778) mainly owing to an increase in **working capital** (up €mil. 403 over the figure posted at the end of 2006). This latter figure reflects the trend in the first part of the year towards higher payments to suppliers than trade collections, which was affected by delays in invoicing for several programmes in the second half.

Research and development costs at 30 June 2007 came to €mil. 266 compared with €mil. 281 at 30 June 2006 and include, in particular: for avionics, the continuation of

the development for the EFA programme and its new electronic-scan radar systems, both for surveillance and combat, the fine-tuning of the Falco UAV system, activities for the JANUS electronic optics system for the new VBC armoured vehicle and test flights of the Grifo S prototypes for JF –17 Thunder; for command and control systems, the development of naval and land-based command and control systems and the completion of development of radar systems for air traffic control; for communications, the continuation of development of the TETRA network and of portfolio products, and activities on new product families, such as ad hoc networks, WiMAX, software radio, and switch all IP.

At 30 June 2007, there were 19,066 **employees**, a decrease of 119 employees from 31 December 2006, mainly related to the rationalisation of the Italian portion of the avionics segment.

AERONAUTICS

	€ millions	30.06.2007	30.06.2006	31.12.2006
New orders		1,148	1,171	2,634
Order backlog		7,798	7,189	7,538
Revenues		953	833	1,908
EBITA*		64	61	203
R.O.S		6.7%	7.3%	10.6%
EBIT		64	61	203
Working capital		(762)	(503)	(1,034)
Net invested capital		408	76	(249)
R.O.I (*)		n.s.	n.s.	n.s.
Research and development		264	225	486
Employees (no.)		12,811	11,594	12,135

(*) calculated on invested capital at period-end

The figures for the GIE-ATR consortium are consolidated on a proportionate basis at 50%.

HIGHLIGHTS

New orders: the positive trend continued in the civil segment, particularly with the ATR orders by the GIE-ATR consortium, and in the military segment.

The commercial figures at 30 June 2007 do not yet include the significant success achieved in the sale of the C27J craft to the United States Air Force, the initial contract for which calls for the provision of 78 aircraft to be delivered in lots by 2013, with the first order scheduled for the second half of 2007.

Revenues: up 14% over the first half of 2006 due to the higher contribution of the civil segment, especially in relation to activity for the ATR aircraft and the start of B787 production.

EBITA*: higher over 30 June 2006, which benefited from the release of an excess portion of the provision for risks. This improvement is due to the positive performance in civil production.

The Aeronautics division includes Alenia Aeronautica S.p.A. (production of military aircraft for combat, transport and special missions, as well as civil applications such as aerostructures and regional turboprop aircraft) and its subsidiaries, including: Alenia Aermacchi S.p.A. (production of military training aircraft and engine nacelles for civil aeronautics), Alenia Aeronavali S.p.A. (aircraft conversions and maintenance), and the GIE-ATR consortium, in which a 50% equity stake is held (marketing and assembly of ATR aircraft).

During the first three half of 2007 the principal activities in the military division were as follows:

- Alenia Aeronautica: continuation of EFA development, production and logistics; production of the C27J aircraft, particularly production for the Italian air force, to which the first two aircrafts have been delivered, and for Greece, to which six aircrafts have been delivered (of the 12 ordered by the Greek Air Force, a total of 8 had been delivered as at 30 June 2007), production for Lithuania and Bulgaria; the continuation of upgrades to the Tornado aircraft and the modernisation of avionics (ACOL) of the AMX; design and planning activities for the JSF aircraft commissioned by Lockheed Martin; production and logistics for ATR 42 MP crafts for the Italian *Guardia di Finanza* and harbour office; and, in the UAV segment, activities for the Neuron programme and new testing of the Sky-Y prototype which had its first flight on 21 June 2007;
- Alenia Aermacchi: the production and logistical support for the MB339 and SF260 training aircraft, further development of the new M346 training aircraft;
- Alenia Aeronavali: development and production for the B767 tanker programme; the overhaul and logistical support for the B707 Tanker, AWACS and return to airworthiness of the G222 aircraft.

In the military transport aircraft segment, Finmeccanica, through Alenia North America (a subsidiary of Alenia Aeronautica), in partnership with L-3 and Boeing, achieved significant commercial success in the US market. On 13 June, 2007, the C27J aircraft was selected by the US Army and Air Force as the new tactical transport aircraft within the scope of the Joint Cargo Aircraft (JCA) programme. The C27J team was awarded an initial contract in the amount of \$2 billion to supply 78 C27J aircrafts (54 for the US Army and 24 for the US Air Force) which will be ordered in lots through 2013 (the first two aircrafts are scheduled for the second half of 2007). The US armed forces' plans call for the purchase of 145 aircrafts, of which 75 for the Army and 70 for the Air Force, with orders that could total of 207 aircrafts.

The civil activities in the first half of 2007 of Alenia Aeronautica mainly involved the following:

- Boeing: production of components for fuselages and control surfaces for the B767 and B777 aircraft. Specifically, development and sales activities continued for the new B787, the manufacturing of which started at the end of 2006 in the new facilities at Grottaglie (central sections of the fuselage) and Foggia (horizontal tail wings). During the period, the first two sections of the fuselage and the first series of horizontal tail wings for B787 aircrafts, which was subsequently transported to the South Carolina (USA) facilities of Global Aeronautica LLC (a joint venture between Alenia North America Inc and Vought Aircraft Industries Inc.) to be assembled with the other sections of the fuselage manufactured.
- Airbus: the design of components for the central section of the fuselage of the A380, of a fuselage section for the A321 and of the tail cone and mechanical wing components for the A340;
- GIE ATR, in partnership with EADS-ATR: the production of the ATR 42 and 72 turboprops;
- Dassault Aviation: the fuselage section of the Falcon 2000 Extended Range and the engine nacelles for the Falcon 900EX.

The activities of Alenia Aeronavali involved the transformation from passenger to cargo craft of the MD10, MD11, B767, and ATR and maintenance, while those of Alenia Aermacchi concerned the production of engine nacelles.

With regard to the Superjet 100 programme, in June 2007, the agreement between Alenia Aeronautica S.p.A and SCAC was signed. Based on this agreement, Alenia Aeronautica will acquire a 25% plus one share stake in SCAC and will have the right to a corresponding share in the programme. In addition Alenia Aeronautica S.p.A. and Sukhoi will establish a joint venture (51% Alenia Aeronautica S.p.A. and 49% Sukhoi) in Italy which will be responsible for marketing, sales, and delivery for the western hemisphere, as well as post-sales assistance for the aircraft throughout the world. There are, however, still certain operating agreements that need to be defined with the partner before the industrial and commercial activities can begin.

New orders at 30 June 2007 came to €mil. 1,148, substantially in line with the €mil. 1,171 at 30 June 2006 despite delays in certain orders for the military segment. The main orders received during the first half of 2007 were the following:

- the military segment: the EFA Future Enhancements order (Q1) to further develop the weapons system to improve the performance and operational capacity of the craft, logistics for the second EFA lot (Q2), and the contract for the provision of two ATR 42 MP patrol boats for Nigeria (Q2);
- the civil segment: orders for the GIE-ATR consortium, which received orders for 51 aircraft (24 Q1 and 28 Q2) of which 11 from Spanish airlines, 10 from Malaysia Airlines, 6 from the Indian Jet Airways and 6 from the Philippine company Cebu Air; the order for the aerostructures of the B767 (Q1) and B777 (Q2); and the additional lots (Q1 and Q2) for the A321, Falcon programmes, engine nacelles, and the transformation of cargo.

The **order backlog** at 30 June 2007 totalled €mil. 7,798 made up principally of the following programmes: EFA (46%), B787 (21%), C27J (4%) AMX (3%). The backlog grew by €mil. 260 compared to the end of 2006 (€mil. 7,538), and is expected to continue expanding over the medium/long term.

Revenues for the first half of 2007 totalled €mil. 953, an increase of €mil. 120 (+14%) over the €mil. 833 recorded in the first half of 2006. The growth, already anticipated in the outlook, was mainly due to civil activities with the increase in deliveries and production of the ATR craft and the start and the increase in the production of the B787. In the military segment, there was a growth in revenues from the EFA programme due to increased development and production for the second lot.

EBITA* at 30 June 2007 came to €mil. 64, an increase of €mil. 3 over the €mil. 61 posted in the first half of the previous year (ROS of 6.7% as compared to 7.3% at 30 June 2006). It should be noted that EBITA* at 30 June 2006 benefited from the release of a portion of the provision for risks related to the ATR programme. This improvement in EBIT mainly reflects the positive performance in civil production by Alenia Aeronautica S.p.A and the GIE-ATR Consortium mentioned previously.

The performance of Alenia Aeronavali S.p.A. during the period under review reflects the negative effects of higher charges and allocations for risks related to production for the B767 Tanker and B767 Cargo programmes which are still in the prototype phase. Given this performance trend, activities under the plan for reorganisation and efficiency improvements, begun at the end of 2006, continued.

Working capital at 30 June 2007 came to negative €mil. 762, a worsening of €mil. 272 compared with 31 December 2006 (negative €mil. 1,034). The growth, which was physiological in the first half, is mainly due to the increase in net inventories, which were affected by higher advances to suppliers for the second lot of the EFA programme and the C27J programme, and to higher trade receivables.

Net invested capital at 30 June 2007 came to €mil. 408, an increase of €mil. 657 over the negative €mil. 249 at 31 December 2006, due to the developments in working capital, as noted above, and the increase in capital assets as a result of considerable investments in plant and equipment for B787 production and in non-recurrent activities conducted during the period concerning programmes being developed.

Research and development costs for the first half of 2007 came to €mil. 264, up from the €mil. 225 of the same period of 2006. This results reflects the significant commitment to activities of programmes such as B787, C27J, M346, second tranche EFA activities, Tornado, AMX, Unmanned Air Vehicles (UAVs), A380, engine nacelles, and B767 tankers. Research and development into technologies for aerostructures and system integration also continued.

The **number of employees** at 30 June 2007 stood at 12,811, representing an increase of 676 over the 12,135 employees at 31 December 2006. This increase was mainly due to new hires by Alenia Aeronautica (+ 311 employees) in order to meet the needs of higher workloads, and by Alenia Composite (+ 239 employees) with regard to rising production of the B787 at the Grottaglie facility.

SPACE

	millions €	30.06.2007	30.06.2006	31.12.2006
New orders		325	331	851
Order backlog		1,260	1,166	1,264
<i>Revenues</i>		377	347	764
EBITA*		12	16	44
R.O.S		3.2%	4.6%	5.8%
EBIT		12	16	44
Working capital		(28)	21	(66)
Net invested capital		365	342	318
R.O.I (*)		6.6%	9.4%	13.8%
Research and development		26	30	64
Employees (no.)		3,297	3,218	3,221

(*) calculated on invested capital at period-end

Note that all figures refer to the two joint ventures (Thales Alenia Space S.A.S. and Telespazio Holding S.r.l) consolidated on a proportionate basis at 33% and 67% respectively.

HIGHLIGHTS

Revenues: up roughly 9% over the first half of 2006, due to higher production, particularly in the manufacturing segment.

EBITA*: despite the production synergies achieved through the integration of activities, EBITA fell €mil. 4 as compared with 30 June 2006 due to higher costs in the manufacturing segment for several commercial telecommunications programmes.

Finmeccanica S.p.A. operates in the space industry through the Space Alliance between Finmeccanica and Thales, since 4 April 2007, the date on which the European Commission approved the transfer by Alcatel-Lucent to Thales of stakes in two joint ventures in the space sector dedicated, respectively, to satellite services (Telespazio Holding S.r.l., which is based in Italy and has its main industrial facilities in Italy, France and Germany and in which Finmeccanica S.p.A. holds 67% and Thales 33%) and to manufacturing (Thales Alenia Space S.A.S., which is based in France and has its main industrial facilities in France, Italy, Belgium and Spain, in which Finmeccanica S.p.A. holding 33% and Thales 67%).

More specifically, Telespazio Holding focuses on defence and security services, satellite navigation and earth observation, the provision of telecommunications networks and services, the management and orbital control of satellites and of terrestrial centres, and multimedia and high value applications.

Thales Alenia Space S.A.S. focuses on the design, development and production of space systems, satellites, orbital infrastructures, space transport systems, equipment, instruments, and terrestrial systems for civil and military applications.

From a commercial perspective, during the first half of 2007 **new orders** came to €mil. 325, down €mil. 6 from the same period of 2006(€mil. 331). The most significant new orders for the period were:

- in the commercial segment: the contract for the Indonesian Palapa D satellite (Q2); the order by the Norwegian company Telenor for the Thor 6 satellite (Q2); the supply contract for the Russian Sadko altimeter (Q2); an additional lot of the order for the Rascom Programme (Q2); the first three lots in the provision of 48 low-earth orbit (LEO) satellites for the Globalstar second-generation constellation (Q1 and Q2); the renewal of the multi-year contracts for TV services, particularly for Sky(Q1); and new orders for the provision of telecommunications satellite services (Q1 and Q2);
- in the institutional segment new orders for satellite orbit management, especially for the Artemis satellite by ESA, and terrestrial centre management (Q1);
- in the military segment: the first two lots of the order for the Armasat programme (Q1 and Q2);

- in the earth observation segment: the contracts related to the Cosmo programme for the launch of the fourth satellite (Q1); the first lot of the Sentinel 1 order for the Global Monitoring for Environment and Security (GMES) programme for territorial control and security (Q2); new orders for the provision of monitoring and territorial management services (Q1);
- in the navigation and infomobility segment: additional orders related to the Galileo (the in-orbit validation phase) and EGNOS programmes (Q1 and Q2);
- in the science programmes segment: the additional lot related to the Herschel/Plank and Bepi-Colombo programmes (Q1 and Q2) and the first lot for the Exomars Programme pursuant to the “bridge” contract (Q2);
- infrastructures and transportation segment: new orders for onboard equipment and transportation infrastructures (Q1 and Q2).

The **order backlog** at 30 June 2007 came to €mil. 1,260, a decrease of €mil. 4 over the same figure at 31 December 2006 (€mil. 1,264). The order backlog, based on the amount of work ready to begin, guarantees coverage of approximately 89% of the expected production for the next six months. The backlog at 30 June 2007 breaks down into manufacturing activities for 66% (56% satellites and *payload*, 10% infrastructure and equipment) and satellite services for the remaining 34%.

Revenues for the first six months of 2007 came to €mil. 377, up €mil. 30 from the same period in 2006 (€mil. 347) due to higher production levels in the manufacturing segment. The principle sources of production revenues were:

- project activities related to the W2A and W7 telecommunications satellites, as well as the satellites of the Globalstar constellation, and phase 1 of the third-generation Meteosat programme;
- the continuation of activities relating to:
 - earth observation programmes, in particular the Cosmo-SkyMed (the first of four constellation satellites was successfully launched on 8 June from the Vandenberg base in California) and second-generation Meteosat programmes;
 - commercial satellites, including the StarOne C1/C2, AMOS 3, Turksat 3A, Chinasat 9 and 6B (successfully launched on 5 July from the Xichang Space Center in China), Ciel 2, Alphabus, and Rascom satellites;

- military telecommunications satellites, Sicral 1B, BWSatcom and Syracuse III;
- science programmes, Herschel/Plank, Bepi Colombo, Alma and Goce;
- navigation programmes, Galileo and EGNOS;
- the continuation of the programmes connected with the International Space Station (ATV);
- the development of equipment and devices, in particular for the Koreasat 5 satellite, and the payloads for the Arabsat 4R, Express AM33/34 and AMC21 satellites, and Kompsat radar;
- the provision of telecommunications satellite services, and, in the television sector, the resale of satellite capacity and provision of value-added broadcasting services using the digital platform;
- the provision of earth observation services and products, orbital satellite management, and terrestrial infrastructure management.

EBITA* at 30 June 2007 came to €mil. 12 down €mil. 4 from the figure at 30 June 2006 (€mil. 16), mainly due to higher costs in the manufacturing segment for specific commercial telecommunications programmes. As a result, **ROS** fell from 4.6% in the first half of 2006 to 3.2% in June 2007.

Net invested capital at 30 June 2007 came to €mil. 365, an increase of €mil. 47 over 31 December 2006, primarily attributable to **working capital** (a negative €mil. 28 at 30 June 2007) posting an increase for the first half of the year of €mil. 38 over 31 December 2006 (a negative €mil. 66) due primarily to the reduction in trade payables.

Research and development costs for the first half of 2007 came to €mil. 26, down €mil. 4 from the same period in 2006 (€mil. 30). Key activities in this area included:

- research and development phases for programmes such as:
 - Syracuse 3, Satcom BW and Sicral 1B programmes (SAR radar, altimeter and radiometer);
 - dual-use civil and military navigation systems (Cosmo);
 - science programmes (Alma, Bepi-Colombo, Goce, and Herschel/Plank);
- development of:

- platforms and solutions for advanced telecommunications, satellite navigation /infomobility (Galileo);
- GIS platforms (Geodatabase);
- platforms for LEO applications;
- the development of production technology for mobile and/or broadband applications in particular,
- architectures and technologies for radar and optical instrumentation;
- studies relating to:
 - future experiments on board the International Space Station;
 - capsules, orbital infrastructure and manned re-entry craft.

The **number of employees** at 30 June 2007 came to 3,297, with an increase of 76 employees over the 3,221 at 31 December 2006 due to higher expected production in the manufacturing segment and the development of satellite services abroad.

DEFENCE SYSTEMS

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	266	338	1,111
Order backlog	4,024	4,087	4,252
Revenues	497	494	1,127
EBITA*	24	22	93
R.O.S.	4.8%	4.5%	8.3%
EBIT	23	22	91
Working capital	(330)	(270)	(374)
Net invested capital	132	214	104
R.O.I (*)	n.s.	n.s.	n.s.
Research and development	110	126	279
Employees (no.)	4,145	4,304	4,275

(*) calculated on invested capital at period-end

Note that the figures relating to the MBDA joint venture are consolidated on a proportionate basis at 25%.

HIGHLIGHTS

Consistent with expectations and the current performance of the market, the results for the Defence Systems division are essentially in line with those for the same period of the previous year and confirm the stability of that sector.

Defence Systems includes MBDA S.A.S. for missile systems, the joint venture with BAE Systems and EADS in which Finmeccanica holds a 25% stake, Oto Melara SpA for land, naval and air weapons systems, and WASS S.p.A. in underwater weapons (torpedoes and counter-measures) and sonar system.

New orders for the first half of 2007 came to €mil 266, a decrease over the figure for the same period of 2006 (€mil 338), , when there was a significant level of new orders for naval weapons for the FREMM programme. The main new orders for period included the following:

- in missile systems: orders to upgrade the German Patriot systems (Q1) and RAMs (Rolling Airframe Missile) (Q2), refurbishment the batteries of Aspide anti-air defence missiles (Q1) and the Exocet systems (Q2) abroad, and for the provision of Mistral surface-to-air missiles (Q1);
- in land, sea, and air weapons systems: orders for four 76/62 SR cannons and for machine guns from Malaysia (Q1), for three 76/62 SR cannons from Oman (Q2), the provision of 70 Pintle Mounts for the NH90 for the Italian Army (Q2) and numerous logistics orders (Q1 and Q2);
- in underwater systems: orders for 22 launch systems for Lynx helicopters from Germany (Q2), for additional activities relating to MU90 light torpedoes from Australia (Q2), for FREMM logistics activities (Q1) and for export (Q1).

The **order backlog** at 30 June 2007 came to €mil. 4,024, (€mil 4,252 at 31 December 2006), corresponding to 3.5 years of activities, and more than two-thirds of which related to missile systems.

Revenues for the first half of 2007 came to €mil 497, in line with the figure for the same period of 2006.

Revenues benefited from the following activities:

- missile systems: activities relating to the production of Aster missiles for PAAMS surface-to-air systems and of Storm Shadow air-to-surface missile systems and SCALP EG; the production of MICA air-to-air missiles Brimstone anti-tank missiles, as well as customer support activities;
- land, naval and aeronautical weapons systems: the provision of PZH 2000 howitzers to the Italian Army; and the production of Hitfist turrets kits for Poland, to phase three SAMP/T launchers for MBDA Italia, 76/62 SR cannons for Norway and Hitfist turrets for Ireland;
- underwater systems: activities relating to the Black Shark heavy torpedo and the MU90 and A244 light torpedoes, to Indian countermeasures and activities related to logistics.

EBITA* at 30 June 2007 totalled €mil 24, an increase of €mil 2 over the first half of 2006. The improvement recorded in missile systems was partially offset by the additionally activity relating to the MU90 light torpedoes for the period. As a result, **ROS** amounted to 4.8%, up 0.3 percentage points over the same period of 2006.

Working capital came to a negative €mil 330 at 30 June 2007 due principally to advances from MBDA customers, a decline of €mil 44 from 31 December 2006, primarily due to postponing certain collections to the second half of the year due to delays in invoicing for programmes in the land, naval and aeronautical weapons systems and underwater systems segments. As a result, **net invested capital** at 30 June 2007 came to €mil 132 (from €mil 104 at 31 December 2006).

Research and development spending for the first half of 2007 came to €mil 110 (from €mil 126 for the same period of 2006). Some of the key activities included the continuation of the development of the Meteor air-to-air missile, for which important technical milestones provided in the contract were reached, guided munitions

programmes and the development of the 127/64 LW cannon in the land naval and aeronautical weapons segment, and those relating to the Black Shark heavy torpedo and the A244 light torpedo in the underwater systems segment.

The **number of employees** at 30 June 2007 came to 4,1453, a decrease of 130 from 31 December 2006 mainly due to continuation of restructuring activities in the missile segment.

ENERGY

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	599	676	1,050
Order backlog	2,587	2,587	2,468
Revenues	477	411	978
EBITA*	30	18	63
R.O.S.	6.3%	4.4%	6.4%
EBIT	30	18	63
Working capital	(297)	(336)	(282)
Net invested capital	(266)	(330)	(254)
R.O.I (*)	n.s.	n.s.	n.s.
Research and development	8	7	17
Employees (no.)	2,920	2,550	2,856

(*) Calculated on invested capital at period-end

HIGHLIGHTS

Revenues: up by €mil. 66 (+16%) over the first half of 2006, mainly attributable to the significant growth in the service segment due, in part, to the increase in production and in part to the contribution of revenues by recently acquired companies which were not included in the scope of consolidation for the division as at 30 June 2006.

EBITA*: rose by €mil. 12 (+67%) over the same period of the preceding year due to the increased production and the higher profitability of several orders for domestic plants which fully offset the increased cost of research and development incurred by the company to achieve technological independence.

The Energy division is made up of Ansaldo Energia S.p.A. and its direct subsidiaries, including, Ansaldo Nucleare S.p.A., Ansaldo Ricerche S.p.A., Sagem S.r.l., Asia Power Project Private Ltd, Energy Service Group GmbH, and Thomassen Turbine Systems BV.

From a commercial viewpoint, in the first half of 2007, **new orders** totalled €mil. 599, an 11% decrease from the same period of the previous year (€mil. 676), due to a decrease in Long Term Service Agreements (LTSAs). The geographical distribution is very different, divided at the end of the first half of 2007 as follows: 74% abroad and 26% in Italy (at 30 June 2006, foreign orders accounted for only 9% of the total). These results serve to strengthen Ansaldo Energia's international presences as both an original equipment manufacturer and an independent service provider.

The most significant orders for the period were:

- systems and components segment: orders for the Algeciras (lot 2) and Vlore plants (Q1) (both for a model V94.3A gas turbine and related alternator), the order from Finland for a gas turbine (model V94.2 plus) and related alternator (Q2), two contracts with Algeria (Batna and Larbaa) for the customer Sonelgaz for the construction of two 300 MW electrical plants, each outfitted with two V94.2 open cycle gas turbines (both in Q2), the contract with Iran for three alternators (Q2);
- service segment: domestic orders for the restoration of four hydroelectric assemblies, two hydroelectric generators, a hydroelectric plant and revamping a steam turbine (Q1). The latter type of order is indicative of the current market where there is growing awareness of alternative energy sources. Also in the service segment, the following orders were obtained: a contract with Iran for a set of 5 blades (Q2), a maintenance contract for the Batna and Larbaa plants in Algeria (Q2) and the revamping of a steam turbine for the Algeciras plant (Q2).

The **order backlog** at 30 June 2007 came to €mil. 2,587, as compared to €mil. 2,468 at 31 December 2006. The size of the orders backlog, defined based on its workability, is such as to guarantee coverage of expected production for the next 2.4 years. The composition of the backlog at 30 June 2007 is attributable for 49% to manufacturing, 50% to service activities, and the remaining 1% to nuclear work processes.

Revenues came to €mil. 477 at 30 June 2007, an improvement of €mil. 66 (16%) over the same period of the previous year (€mil. 411), due to higher production in the service segment

Specifically, production in the first half of the year mainly regarded:

- systems and components segment: continued work on the new Algerian orders (Batna and Larbaa), progress made on orders received during the first quarter of the year (Algeciras and Vlore), in addition to continued work on the 800MW combined-cycle plants for Rizziconi, Sparanise and Rosignano. Finally, with regard to the Enipower, contract, the Final Acceptance Certificate (FAC) was received for units 1 and 2 of the Mantua site with regard to the “proof of warranty”, unit 3 of the Brindisi site (issuance of the certificate was tied to return of the performance bond);
- service segment: continued work in the renewable sources segment (new orders for four hydroelectric assemblies, two hydroelectric generators and a hydroelectric plant in the first quarter), and continuation of activities relating to long-term service agreement and flow agreements for maintenance and ordinary spare parts supply.

EBITA* at 30 June 2007 totalled €mil. 30, an improvement of €mil 12 from the same period of the previous year (€mil 18), attributable in part to the increase in production volumes and to higher profitability of certain orders in the foreign (Amman East) and domestic (Enipower and Rosignano) plants segment.

At a result, **ROS** came to 6.3% at 30 June 2007, an improvement of 1.9 percentage points over the first half of 2006.

Net invested capital at 30 June 2007 came to a negative €mil. 266, a further decline from 31 December 2006 (negative €mil. 254), entirely attributable to the reduction in **working capital**. At the end of the first half of 2007, working capital amounted to a negative €mil. 297 compared with a negative €mil. 282 at 31 December 2006. This effect is due in part to higher invoicing of contract milestones achieved during the period

that improved the net work in progress (in particular, the Sparanise, Ferrara and Rizziconi orders), and in part advances received (particularly, the Larbaa and Batna orders).

Research and development costs came to €mil 8, a €mil. 1 increase for the same period of the previous year.

In the first half of 2007, the main activities carried out included the following:

- development of strategic technologies for gas turbines and other critical projects connected with the technological autonomy of the blades;
- rationalisation of development activities for steam turbines, especially alternators.

The **number of employees** at 30 June 2007 came to 2,920, as compared with 2,856 at 31 December 2006 due to the hiring of employees required to meet the increased production described above.

TRANSPORTATION

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	595	1,143	2,127
Order backlog	4,560	4,401	4,703
Revenues	725	684	1,368
EBITA*	16	27	15
R.O.S	2.2%	3.9%	1.1%
EBIT	16	27	15
Working capital	93	100	61
Net invested capital	324	308	283
R.O.I (*)	9.9%	17.5%	5.3%
Research and development	27	23	40
Employees (no.)	6,885	6,525	6,677

(*)Calculated on invested capital at period-end

HIGHLIGHTS

New orders: down 48% compared with the first half of 2006, due primarily to lower acquisitions of orders in the Vehicles and Systems segments. It should be noted that, in the first half of 2007, an order was acquired by the Systems segment for the first phase of the project to build Rome's Line C driverless metro (€mil. 150).

EBITA*: down €mil. 11 compared with the first half of the preceding year due primarily to industrial problems in the Vehicles segment, addressed in a detailed plan being developed, to improve corporate processes and products. The performance of Signalling and Systems segments was positive, featuring a growth in industrial profitability.

The Transportation division includes the companies Ansaldo STS S.p.A. and its subsidiaries (Systems and Signalling) and AnsaldoBreda S.p.A. and its subsidiaries (Vehicles).

In the first half of 2007, the three business divisions showed the following performance:

- **Systems:** commercial performance in decline compared with the same period of 2006, when orders were received for the Thessaloniki driverless metro (€mil. 166) and the Milan Line 5 (€mil. 118) and the extension of the operation and maintenance contract for the Copenhagen driverless metro (€mil. 127). Note should also be taken of the order, acquired in the first half of 2007, for the first phase of the project to build Rome's Line C driverless metro (€mil. 150); EBIT grew slightly over the same period of last year (ROS at 11.0%);
- **Signalling:** new orders fell slightly with respect to the same period of 2006 which was characterised, in particular, by considerably positive performance in the Indian market; EBIT grew over the same period of the preceding year (ROS at 11.2%);
- **Vehicles:** volumes ordered fell from the first half of 2006, which benefited from a high number of orders in the mass transit area. Financial performance is characterised by operating losses, and is affected by difficulties in stabilising the configuration of certain products, production inefficiencies and in general by industrial problems addressed in the intervention plan that has been introduced affecting the main corporate processes.

In 2007, a human resources optimisation and development plan was added to the intervention plan. The human resources plan was drawn up with the national and local unions and with company-level union representatives. The goal of the plan is to make the company's productive structures more efficient while maintaining its productive capacity by:

- rebalancing the direct/indirect ratio;
- raising the level of technical and professional skills;
- accelerating the process of updating employees' professional skills.

Specifically, under the legislative decree of 2 May 2007 which permits the use of long-term mobility, an action to reduce the workforce through the voluntary leaving of about 300 employees (180 with long-term mobility) was agreed as a

supplement to previous agreement. As a result of these leavings, a plan to hire 200 employees between 2007 and 2009 following the implementation of a programmed targeted at professional development was prepared and communicated to the unions.

New orders acquired in the first half of 2007 totalled €mil. 595, a decrease of €mil. 548 over the same period of the previous year (€mil. 1,143), reflecting, in particular, a decrease in orders in the Vehicles and Systems segments. The key orders during the period included the following:

- **Systems:** order related to Alifana Inferiore to equip 15 Metrocampania Nordest electric trains with technological signalling systems (Q1), the order for the first phase of the project for the Rome Line C driverless metro (Q2) and changes to the Italian high-speed railway (Q2);
- **Signalling:** two orders placed by the mining firm Rio Tinto, one by Fortescue Metals Group in Australia (Q1), orders relating to the Chambers Street station of the New York subway (Q1), the order in Italy for SCMT on-board equipment to complete Step 3 of the double rail lines which were partially equipped under previous Step 2 contracts (Q2), the order by ERGA-OSE, the Greek railway agency, for the supply of onboard equipment (Q2), the order for building the *Communications Based Train Control* (CBTC) signalling system for the Shenyang Line 1 metro (Q2), a change in the Korean high-velocity railway order (Q2), contracts as part of the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia (Q1 and Q2), and orders for components (Q1 and Q2);
- **Vehicles:** the options for the supply of 8 further regional service trains to Ferrovie Nord Milano (Q2) and service orders (Q1 and Q2).

At 30 June 2007 the **order backlog** for the division totalled €mil. 4,560, a decrease of €mil. 143 over the same figure at 31 December 2006 (€mil. 4,703). The order backlog for the division at 30 June 2007 breaks down as follows: 46% for Vehicles, 29% for Systems and 25% for Signalling.

Revenues at 30 June 2007 came to €mil. 725, an increase of €mil. 41 over 30 June 2006 (€mil. 684), mainly attributable to the Signalling and Vehicles divisions. Among the noteworthy orders in the Transportation division were the following:

- **Systems:** the metro systems of Copenhagen, Naples Line 6, Genoa and Brescia, the Alifana regional line; and high-speed rail orders in Italy;
- **Signalling:** high-speed train orders and automated train control systems (SCMT), both wayside and on-board, for Italy; second phase of the Channel Tunnel Rail Link; the project for the realisation of the Optimizing Traffic Planner (OTP) system and the Next Generation Computer Aided Dispatch System (CAD) for Union Pacific Railroad; orders under the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia; and orders for components;
- **Vehicles:** trains for the Madrid metro; high-volume passenger trains for Morocco; trains for regional service for Ferrovie Nord Milano; trains for the Dutch-Belgian railway; trams for the city of Los Angeles; trains for the Danish railways; various Sirio orders; and service and revamping activities.

EBITA* at 30 June 2007 came to €mil. 16, a decrease of €mil. 11 from 30 June 2006 (€mil. 27), due to the problems mentioned concerning the Vehicles division. **ROS** for the sector fell as a result, reaching 2.2% as compared with the 3.9% recorded for the first half of the previous year.

Working capital at 30 June 2007 came to €mil. 93, up €mil. 32 over the figure at 31 December 2006 (€mil. 61), mainly attributable to the increase in net inventories for the Vehicles division.

Net invested capital at 30 June 2007 came to €mil. 324, up €mil. 41 from 31 December 2006 (€mil. 283), resulting primarily from the aforementioned increase in working capital.

Research and development costs at 30 June 2007 totalled €mil. 27, a €mil. 4 increase over the figure posted at 30 June 2006 (€mil. 23), mainly attributable to the Signalling division. In particular, these activities concerned Signalling projects, aimed primarily at

alignment with the new requirements emerging both in the railway segment (level 2 of the European Rail Traffic Management System, or ERTMS rbc) and the mass transit segment (Communications Based Train Control, or CBTC), as well as the development of certain on-board equipment (the next-generation cab).

The **number of employees** at 30 June 2007 stood at 6,885, representing an increase of 208 compared with 31 December 2006 (6,677 employees), principally due to hiring in the Signalling division, particularly in Australia, India, and the US.

OTHER ACTIVITIES

€ millions	30.06.2007	30.06.2006	31.12.2006
New orders	416	39	99
Order backlog	697	402	346
Revenues	135	104	229
EBITA*	(60)	(73)	(128)
R.O.S	n.s.	n.s.	n.s.
EBIT	(60)	(73)	(128)
Working capital	276	(306)	135
Net invested capital	1,199	640	774
R.O.I (*)	n.s.	n.s.	n.s.
Research and Development	3	-	-
Employees (no.)	1.107	893	811

(*) calculated on invested capital at period-end

The division includes: the Elsamcom N.V. group, which manages satellite telephony services; Finmeccanica Group Services S.p.A., the Group service management company; Ansaldo Fuel Cells S.p.A. which develops a product based on fuel cells for distributed electricity distribution; Finmeccanica Finance S.A. and Aeromeccanica S.A., which provide financial support to the Group; and So.Ge.Pa. - Società Generale di Partecipazioni S.p.A., which is responsible for centrally managing the pre-winding-up/winding-up and rationalisation processes of companies falling outside the business sectors through transfer/repositioning transactions.

Ansaldo Fuel Cells' technology is multifuel capable, i.e. it can use natural gas, gas oil, syngas and biomass derived fuels therefore, leading to access to markets for the

management of urban and industrial waste and the use of fuel logistics for military applications. During the previous period, Ansaldo Fuel Cells built its first fully hybrid plant.

The division also includes Fata S.p.A. (for which the reorganisation process begun in 2005 has been completed) which operates in the area of plants for the processing aluminium and steel flat rolled products and engineering design in the electricity generation area for engineering, procurement and construction (EPC) activities.

With regard to Fata S.p.A., from a commercial standpoint, the company received **new orders** totalling €mil. 396 in the first half of 2007, mainly attributable to the significant new contract for Qatar and the execution of two separate packages (Qatalum Casthouse and Qatalum Baking Kiln) for the construction of an aluminium smelter worth in total about €mil. 370. **Revenues** at 30 June 2007 came to €mil. 70 and related to progress on the Iranian Hormozal contract (for the Smelter line), the Chinese and American contracts, as well as the Globus and Bluescope orders (for the Hunter line), the Moncalieri, Vado and Leinì orders (for the Power line). Finally, note should be made, of the progress made in normal logistics activities carried out by Fata Logistic S.p.A. primarily for Finmeccanica Group companies. Its **workforce** at 30 June 2007 totalled 255 employees.

As of the first half of 2007, BredaMenarinibus S.p.A., which manufactures urban and interurban buses and which had been classified under discontinued operation since 2004 in preparation for a subsequent sale was reclassified among continuing operations. This company's operations are undergoing reorganisation in order to make the business more attractive.

BredaMenarinibus S.p.A. acquired **new orders** amounting to €mil. 22 in the first half of 2007, of which €mil. 16 related to the bus business segment and corresponding to 73 units, and €mil. 6 related to post-sale services. **Revenues** at 30 June 2007 came to €mil. 38, of which 83% was due to the bus segment and 17% to post-sale services. The **number of employees** at 30 June 2007 came to 303.

* * *

This division's figures also include those of Finmeccanica S.p.A., which for some years has been undergoing an extensive transformation process, altering its focus from a financial company to that of an industrial company. This process, which is not yet complete, received a boost during the preceding year with a commitment from management to press on with a series of actions concerning industrial, technological and commercial integration. The Group will then be able to benefit from an additional impetus in improving its own productivity through processes to increase efficiency and rationalisation.

In order to ensure that the financial objectives set by the Group would be met, the corporate division has pursued its activities implementing various initiatives, including the following:

- further strengthening of the mechanisms for the coordination of companies, including through development of specific Central Management structures, so that the individual parts could operate through a single policy, not just in financial terms, but particularly in industrial terms, involving the key processes of product engineering, technology and commercial strategy;
- the assignment of specific objectives to the companies: firstly, the constant growth of EBITA*, thanks to increased volumes and continuous efficiency-enhancement efforts, such as the optimisation of procurement, the rationalisation of production sites, as well as company restructuring leading to the containment/reduction of working capital and general and administrative costs and maximizing sales, with the consequent strengthening of production margins. The constant focus on trends in working capital in addition to the above will make it possible to generate the significant cash flows needed to finance the high level of investment in product development;
- review of processes from a Group perspective, in particular those that could have an effect on the optimisation of areas with possible synergies, such as information technology and real estate management;
- the issuance of specific directives aimed at the progressive alignment of cash flows with income and expenses;

- continued development of a process for the dissemination of a Group methodology for controlling and managing programmes, based on the integration of the international standards of life cycle management, phase review, project control, and risk management;
- within the scope of the Global Sourcing project in conjunction with Finmeccanica Group Services, initiation of the exploration of new procurement markets in several low-cost countries aimed at identifying opportunities for savings by the Group companies. Under this project, the first agreement of considerable industrial importance was signed with a Russian company for the purchase of raw materials.

The efficiency of policy and coordination activities in the Corporate Affairs department was further strengthened in its goal of reaching these objectives over the medium term with a broad-based management-by-objectives (MBO) policy, which involved top management and key resources from all companies within the Group. The correct application and monitoring of the promotion of these objectives will represent one of the principal aims in achieving the goals.

5. Analysis of the performance and financial position of the Group Parent

In order to provide further information on the performance and financial position of Finmeccanica S.p.A., a reclassified income statement, balance sheet, and cash flow statement have been prepared.

For the purposes of comparison, it should be noted that, in addition to its Corporate division, which plays a role of guidance, control, and support for the companies of the Group, Finmeccanica was, until 30 December 2006, still active in the Defence Electronics industry through several contracts in the International Naval Systems division. This division managed relations with Eurosysnav SAS for the realisation of defence systems as part of the Horizon SAS contract for the manufacture of Orizzonte-class frigates for the Italian and French navies. On 30 December 2006, these contracts were transferred to Selex Sistemi Integrati S.p.A.. The income statement at June 2006 also incorporates the impact of operations related to these contracts.

Finally, it should be noted that, in the last period, the value of the equity investment in Bredamenarinibus S.p.A was classified among “non-current assets held for sale” in preparation for subsequent sale. In 2007, the figure was reclassified under “continuing operations” as a result of the failure of the offer to purchase from third parties upon which the plan of sale was based.

The table below shows the financial performance for the first half of 2007.

<i>€ thousands</i>	<i>For the 6 months to 30 June</i>	
	<i>2007</i>	<i>2006</i>
Revenues (*)	2,153	25,009
Costs for purchases and personnel**	(84,010)	(95,601)
Depreciation and amortisation	(3,483)	(3,414)
Writedowns	-	-
Restructuring costs***	-	-
Other net operating income (costs)	27,341	42,472
Change in work in progress, semi-finished and finished products	-	-
EBIT	(57,999)	(31,534)
Net financial income (charges)	74,646	629,720
Income taxes	40,181	24,086
NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS	56,828	622,272
Result of discontinued operations	-	-
NET PROFIT (LOSS)	56,828	622,272

Notes on the income statement classification and the income statement:

(*) *Includes "revenues" and "revenues from related parties"*

(**) *Includes "costs from related parties", "costs for goods", "costs for services", and "personnel costs" (net of restructuring costs), net of "capitalized costs for internal production".*

(***) *Includes the restructuring costs classified as "personnel costs" and "other operating costs".*

- "Revenues" came to €mil. 2, a decrease of €mil. 25 from the same period of the previous year. As mentioned above, the figure at 2006 represented the revenues from contracts in the International Naval Systems division which was sold at the end of last year;
- "Costs for purchases and personnel" went from the €mil. 96 of the first half of 2006 to €mil. 84 for 2007. This item can be broken down as follows:

<i>€ millions</i>	<u>30.06.07</u>	<u>30.06.06</u>
Purchase of materials	-	-
Purchase of services	28	25
Costs from related parties	24	39
Costs for rents and operating leases	2	2
Total costs for goods and services	<u>54</u>	<u>66</u>
Wages and salaries	22	26
Costs for PSP	3	2
Costs for LTIP	3	1
Social security contributions	6	8
Costs for staff severance pay	3	1
Costs related to other defined-benefit plans	1	1
Employee disputes	-	(1)
Other net costs/(recoveries)	(8)	(8)
Total personnel costs	<u>30</u>	<u>30</u>
Capitalised costs for internal construction	-	-
Total	<u>84</u>	<u>96</u>

The decrease in “costs for goods and services”, especially those from related parties, is mainly attributable to the transfer of commercial contracts in the operating division, as mentioned above.

“Personnel costs”, net of recoveries, came to €mil. 30, in line with the figure recorded for the same period of 2006, although distributed in a slightly difference manner across the sub-items which reveal, on the one hand, a decline in wages and salaries which, in 2006, was impacted by the payment of compensation tied to extraordinary operations (the Ansaldo STS IPO) and greater early retirement incentives; and, on the other, an increase in 2007 resulting from the long-term management incentive programmes launched in past years, as well as the effect of the renewal of the Italian collective labour agreement for the metalworking industry and the application of new severance pay regulations.

The average number of active employees was basically in line with the figure for the first half of 2006 (286 employees compared with 284 for the first half of 2006). The

number of employees recorded at 30 June 2007 came to 295 compared with 294 at 31 December 2006;

- “depreciation and amortisation² for the period came to €mil. 3 (€mil. 3 for the same period of 2006) and is related to both property, plant and equipment and investment property;
- “other net operating income” came to €mil. 27 (€mil. 42 for the same period of 2006) and can be broken down as follows:

<i>€millions</i>	<u>30.06.07</u>	<u>30.06.06</u>
Contributions for training, research and development	-	1
Net exchange rate differences on operating items	-	(1)
Indirect taxes	(1)	(3)
Financial income from operating receivables	5	-
Income from related parties for investment properties	5	8
Provisions used (accrued)	15	39
Other operating income (costs)	3	(2)
Total	<u>27</u>	<u>42</u>

Specifically, provisions used relates to the risks on the sale of equity investments (€mil. 10) and guarantees given (€mil. 5). In 2006, €mil. 32 related to the provision for the activities of the GIE/ATR aeronautics consortium.

- “EBIT” came to a negative €mil. 58 compared to a negative €mil. 32 for the same period of the previous year;
- “net financial income” amounted to €mil. 75, a decrease from the same period of the previous year (€mil. 630 in net income). It should be noted that this item is comprised of the net balance of financial income and charges of €mil. 107 in income for the first six months of 2007 (compared with net income of €mil. 653 for the same period of 2006), and the net negative impact of the measurement of equity

investments of €mil. 32 in the first half of 2007 and €mil. 23 for the first half of 2006. More specifically:

<i>€ millions</i>	<i>30.06.07</i>	<i>30.06.06</i>
Dividends	148	242
Gains on securities and equity investments	6	413
Net financial income (charges) from related parties	(40)	-
Net interest and commissions	(13)	(24)
Net result on financial instruments measured at fair value through profit or loss	8	21
Net exchange rate differences	-	1
Other net financial income (charges)	(2)	-
Total	107	653

Dividends included dividends received from subsidiaries in the amount of €mil. 133 (€mil. 235 in the first half of 2006) and associates in the amount of €mil. 15 (€mil.7 in the first half of 2006).

Specifically, it includes: AgustaWestland (€mil. 68), So.Ge.Pa. (€mil. 20), STMicroelectronics Holding (€mil. 13), Ansaldo Energia (€mil. 24) and Telespazio Holding (€mil. 7).

It should be noted that the gains on equity investments relate to the €mil. 6 surplus on the return on the share capital of San Giorgio SA, which was then sold to the subsidiary So.Ge.Pa. S.p.A.. In 2006, the amount was comprised entirely of the net gain on the sale via public tender of a 60% stake in Ansaldo STS S.p.A.

Net financial expense from transactions with related parties, compared with the corresponding period of 2006 changed by negative €mil. 40. This change is due in part to a different dynamic in the performance of Finmeccanica's debt towards its own subsidiary. In addition, the figure for 2006 included the fair value of the call option embedded in the bonds exchangeable for STM shares, maturing August 2010, issued by Finmeccanica Finance for roughly €mil 25 in income (value equal to around €mil. 1 in

2007) offset by an equal, opposite amount included under the item “net result on financial instruments measured at fair value through profit or loss”.

The net gains on financial instruments measured at fair value through profit or loss can be broken down as follows:

<i>€ millions</i>	<i>30 June 2007</i>			<i>30 June 2006</i>		
	Income	Charges	Net	Income	Charges	Net
Currency options and swaps	3	(1)	2	2	-	2
Interest rate swaps	18	(22)	(4)	1	-	1
Options on STM	7	-	7	43	-	43
Option embedded in the exchangeable bond	-	(1)	(1)	-	(25)	(25)
Other capital instruments	4	-	4	-	-	-
	<u>32</u>	<u>(24)</u>	<u>8</u>	<u>46</u>	<u>(25)</u>	<u>21</u>

The charges on the option embedded in the exchangeable bond are related to the 2005 purchase by Finmeccanica S.p.A. of an opposite-signed option with the same underlying asset and same parameters as the option embedded in the exchangeable bond with the underlying STM shares held by Finmeccanica Finance and backed by Finmeccanica.

Income from other capital instruments relate to the extinguishment of the obligation, assumed in 2006 towards the subscribers of Ansaldo STS shares, to deliver the shares free to whomever held them through 28 March 2007.

The effects of the measurement of equity investments can be broken down as follows:

<i>€ millions</i>	<u><i>30.06.07</i></u>	<u><i>30.06.06</i></u>
AnsaldoBreda S.p.A.	(32)	(19)
Net results of other equity investments	-	(4)
	<u>(32)</u>	<u>(23)</u>

- With regard to taxes for the period, it should be noted that no provisions have been made for current or deferred taxes, in line with the first half of 2006. More specifically, for corporate income tax (IRES), no provision was made given that the

period benefited from tax-exempt income components (total or partial exclusion of dividends and partial participation exemptions on gains from the sale of equity investments) and from the positive effect of the recognition for tax purposes of negative components that were taxed in previous periods (e.g. the use of provisions for risks and charges).

This item also reflected the recognition of a tax-exempt gain of €mil. 42 (€mil. 24 in the first half of 2006) resulting from the adoption of the consolidated taxation mechanism envisaged under Legislative Decree 344/2003 of 1 January 2004.

For the half-year period, a benefit of €mil. 42 was recognised for the measurement of the overall IRES loss that was absorbed by consolidated taxation. A €mil 2 adjustment downward in income reported as at 2006 was recognised during the period.

Similarly, for the purposes of the regional business tax (IRAP), the lack of tax expenses is essentially the result of the negative taxable value of net production, including the net effect of the financial components considered for the purpose of IRAP in accordance with regulations that govern the calculation of taxable income of holding companies.

Finally, the income statement includes no net deferred tax assets, as there is a lack of reasonable certainty as to the future achievement of taxable income and, with specific regard to past tax losses, of the prerequisites defined by the applicable accounting standard.

This also takes account of the special tax regime for holding companies, which benefit from the effects of the partial exemption of dividends (except in the case of the adoption of optional favourable regimes) and of the gains on equity investments subject to the participation exemption.

The table below breaks down the balance sheet at 30 June 2007.

€ thousands	30.06.07	31.12.06
Non-current assets	8,662,638	8,613,421
Non-current liabilities	* (169,196)	(181,660)
	<u>8,493,442</u>	<u>8,431,761</u>
Inventories	-	-
Due from customers for contract work	-	-
Trade receivables	83,313	93,800
Trade payables	(46,953)	(55,592)
Due to customers for contract work	-	-
Provisions for short-term risks and charges	(91,752)	(96,894)
Other net current assets (liabilities) **	344,064	323,156
Net working capital	<u>288,672</u>	<u>264,470</u>
Net invested capital	<u>8,782,114</u>	<u>8,696,231</u>
Shareholders' equity	6,104,229	6,158,593
Net financial debt (cash and cash equivalents)	<u>2,677,885</u>	<u>2,541,938</u>
Net (assets) liabilities held for sale ***	<u>-</u>	<u>(4,300)</u>

Notes on the reclassified balance sheet and the balance sheet:

(*) *Includes all non-current liabilities except financial liabilities to related parties (which are included among non-current liabilities to related parties) and non-current financial debt.*

(**) *Includes tax receivables, other current receivables from related parties (included among current receivables from related parties), derivatives and other current assets, net of tax payables, other payables to related parties (included among current liabilities to related parties), derivatives and other current liabilities.*

(***) *Includes the net of non-current assets held for sale and liabilities directly related to assets held for sale.*

Non-current assets (€mil. 8,663 at 30 June 2007 compared to €mil. 8,613 at 31 December 2006) can be broken down as follows:

<i>€ millions</i>	<u>30.06.07</u>	<u>31.12.06</u>
Intangible assets	3	3
Property, plant and equipment	58	59
Investment property	109	111
Equity investments	7,324	7,308
Financial assets at fair value	854	840
Receivables from related parties	223	220
Receivables	2	1
Deferred taxes	88	69
Other assets	2	2
	<u>8,663</u>	<u>8,613</u>

This item increased by €mil. 50 over 31 December 2006, due, in particular, to the following:

- an increase in equity investments with the recognition of the following: €mil 20 arising from the exercise of the call option on 25% of Selex Sensors and Airborne Systems S.p.A.; €mil 11 for the completion of the public offering launched on the remaining shares of Datamat S.p.A. and €mil 11 amounting to the value of the shares underlying the stock grants awarded to companies participating in the 2005-2007 stock grant plan;
- the losses posted by the investee companies (€mil. 32);
- investments, taking out of loans and repayments and depreciation/amortisation for the period;
- the net increase of €mil. 19 in deferred taxes which includes taxes that the Group companies participating in the tax consolidation scheme have transferred to Finmeccanica, the sole entity legally responsible for tax payment (for the purposes of IRES);
- the valuation of the investment held indirectly in STM (equal to about a 6.6% stake at 30 June 2007) among financial assets measured at fair value, which posted an increase for the period of €mil. 14, going from the €mil. 840 at 31 December 2006 to €mil. 854 at 30 June 2007. The increase for the adjustment to fair value was recorded in a specific equity reserve;

Non-current liabilities amounted to €mil. 169 at 30 June 2007, compared with €mil. 182 at 31 December 2006, a decline of €mil. 13.

<i>€ millions</i>	<i>30.06.07</i>	<i>31.12.06</i>
Post-employment benefits and similar obligations	10	7
Provisions for risks and charges	79	96
Deferred taxes	44	41
Other liabilities	36	38
	<u>169</u>	<u>182</u>

This was due, in particular, to:

- a €mil. 3 net increase in deferred taxation, which includes taxes that the companies of the Group participating in the consolidated taxation mechanism measured according to related accounting standards and recognised to Finmeccanica, the sole entity legally responsible for tax payment (for the purposes of IRES) assuming that they will be reversed during the option's period of validity;
- the €mil. 3 increase in post-employment benefits and similar obligations as a result of the application of the new severance pay regulations;
- the €mil. 17 decrease in the provision for risks and charges due to the reversal of excess accruals related, in particular, to risks on the sale of equity investments (€mil. 10) and guarantees given (€mil. 5);
- the €mil. 2 decrease in other liabilities;

“Net working capital” came to €mil. 289, compared with €mil. 264 at 31 December 2006. Specifically:

- “trade receivables and payables”, in the amounts of €mil. 83 and €mil. 47 respectively (compared with €mil. 94 and €mil. 56, respectively, at 31 December 2006), can be broken down as follows:

<i>€ millions</i>	30.06.07		31.12.06	
	Receivables	Payables	Receivables	Payables
Subsidiaries and associates	29	17	25	22
Other third parties	72	30	87	34
Impairment	(18)	-	(18)	-
	<u>83</u>	<u>47</u>	<u>94</u>	<u>56</u>

- the “provisions for short-term risks and charges”, in the amount of €mil. 92 decreased by €mil. 5 from the €mil. 97 at 31 December 2006. The most significant uses concerned the provisions for risks on equity investments;
- “net current assets” came to €mil. 344, an increase of €mil. 21 from the previous period (net assets of €mil. 323 at 31 December 2006):

<i>€ million</i>	30.06.07		31.12.06	
	Assets	Liabilities	Assets	Liabilities
Employees	-	18	-	23
Deferrals	2	2	2	2
Direct and other taxes	283	15	280	17
Social security institutions	1	15	1	13
Subsidiaries, associates and consortia	296	254	285	241
Derivatives	41	17	31	16
Other	49	7	43	7
	<u>672</u>	<u>328</u>	<u>642</u>	<u>319</u>

More specifically, the item “Other” includes receivables for default interest for €mil. 28 as well as sundry receivables from third parties.

“Net invested capital” in the amount of €mil. 8,782 (€mil. 8,696 at 31 December 2006) is funded by equity in the amount of €mil. 6,104 (€mil. 6,158 at 31 December 2006) and net financial debt (€mil. 2,678 compared with €mil. 2,542 at 31 December 2006). At 31 December 2006 “assets held for sale” amounted to €mil. 4.

Net financial debt at 30 June 2007 came to €mil. 2,678, compared with a debt of €mil. 2,542 at 31 December 2006.

€ millions	<u>30.06.07</u>	<u>31.12.06</u>
Short-term financial payables	392	25
Medium/long-term financial payables	477	489
Cash and cash equivalents	(84)	(1,646)
BANK DEBT AND BONDS (CASH AND CASH EQUIVALENTS)	<u>785</u>	<u>(1,132)</u>
Securities	(11)	(11)
Financial receivables from Group companies	(1,225)	(655)
Other financial receivables	-	(15)
FINANCIAL RECEIVABLES AND SECURITIES	<u>(1,236)</u>	<u>(681)</u>
Financial payables to Group companies	3,022	3,783
Other short-term financial payables	107	572
Other medium/long-term financial payables		-
OTHER FINANCIAL PAYABLES	<u>3,129</u>	<u>4,355</u>
NET FINANCIAL DEBT(CASH)	<u><u>2,678</u></u>	<u><u>2,542</u></u>

The debt figure reflects the following effects attributable to the application of IAS 32 and 39:

- measurement of the payable to Finmeccanica Finance S.A. subsidiaries under the split accounting rules to take into account the put option on the STMicroelectronics NV (STM) shares incorporated in the debt ratio of the subsidiary, as a result of STMicroelectronics NV's issue of a bond exchangeable for STM shares. At 30 June 2007 this payable was recognised at €mil. 442 (€mil. 432 at 31 December 2006) compared with a face value of €mil. 501;
- measurement of other financial payables using the effective interest rate method, resulting in an increase in payables compared with the face value of €mil. 19 (€mil. 16 at 31 December 2006).

Based on the foregoing, the net financial debt of Finmeccanica S.p.A. at 30 June 2007 came to €mil. 2,678 compared with €mil. 2,542 at 31 December 2006. The figure incorporates a series of significant negative and positive including:

- total payments of roughly €mil. 11 in the first few months of the year to complete the obligatory public offering on the remaining shares of Datamat launched in the final months of last year which resulted in its delisting;
- the payment of the ordinary dividend of €mil.149 relating to the previous year;
- total collections of €mil. 131 as dividends distributed by Group subsidiaries and associates and a further €mil. 6 received as repayment of the share capital of San Giorgio SA, which was then sold to the subsidiary So.Ge.Pa, and about €mil. 13 received from STMicroelectronics Holding NV.

In March, Finmeccanica exercised the call option provided for in agreements with BAE Systems (BAE) to purchase the remaining 25% of Selex Sensors and Airborne Systems S.p.A. (Selex). It paid about €mil. 400 to BAE and as a result now owns 100% of Selex. The transaction only reduced the Group's cash and cash equivalents without having any impact on net financial debt, since the effects were already included in the figures for 2006 and recognised among "financial payables" under current liabilities.

In the first half of 2007, the Company did not sell any receivables.

Finally, it should be noted that, as for the previous year, the financial position again benefited from the offsetting effect of the Italian consolidated taxation mechanism, with a benefit of some €mil. 26 for the year.

As regards the composition of debt, bank debt consisted of medium and long-term debt (€mil.477) and short-term debt (€mil. 392) related, in part, to the use of a €mil 1,200 short-term revolving credit line agreed in 2004 with a pool of international banks and

maturing in 2012 (€mil. 150 circa) and the balance to the use of other short-term credit lines extended by banks.

Cash and cash equivalents fell significantly from €mil. 1,646 at the end of 2006 to €mil. 84 at 30 June 2007. This liquidity was used to finance the Group's ordinary operations and investment and other strategic areas, especially the acquisition of the remaining shares of Selex Sensors and Airborne Systems S.p.A., which was reflected in a decrease in the item "other short-term financial payables", which went from €mil. 572 at 31 December 2006 to €mil. 107 at 30 June 2007.

Furthermore, Finmeccanica has, in addition to the aforementioned revolving credit line of €mil. 1,200, further credit lines for a total of €mil. 1,200 (confirmed for €mil. 275), as well as guarantees agreed with banks for about €mil. 2,400. This amount is significantly higher than in the previous period in order to meet the Group's growing need to provide guarantees linked to the signing of very large commercial agreements.

Finally, in July 2007, the Euro Medium Term Notes (EMTN) programme for bond issues was renewed for a further 12 months, increasing the amount from €bil. 2 to €bil. 2.5. Under the programme, Finmeccanica acts as co-issuer with Finmeccanica Finance S.A. and as guarantor for the latter in its role as issuer. It should also be mentioned that, under this programme, three different issued for a total value of about €mil. 1,300 has already been performed, of which only the €mil. 500 nominal issue of 24 March 2005, with an annual coupon of 4.875% maturing in 2025, is directly by Finmeccanica.

<i>€ thousands</i>	<i>For the 6 months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
Cash and cash equivalents at 1 January	1,646,644	628,925
Gross cash flow from operating activities	(63,421)	(26,321)
Changes in working capital	91	(2,012)
Changes in other operating assets and liabilities	(46,954)	(51,026)
Cash flow generated from (used in) operating activities	(110,284)	(79,359)
Cash flow from ordinary investing activities	(1,168)	(2,189)
Free operating cash-flow	(111,452)	(81,548)
Strategic investments	(414,665)	365,496

Dividends received, net investments in equity investments and changes in other financing activities	145,323	309,627
Cash flow generated from (used in) investing activities	<u>(270,510)</u>	<u>672,934</u>
Dividends paid	(148,556)	(211,449)
Capital increases net of purchase of treasury shares	6,978	414
Cash flow from financing activities	(1,039,936)	(764,644)
Cash flow generated from (used in) financing activities	<u>(1,181,514)</u>	<u>(975,679)</u>
Cash and cash equivalents at 30 June	<u>84,336</u>	<u>246,821</u>

The first six months of 2007 closed with a net decrease in cash and cash equivalents of €mil. 1,562 (€mil. 382 during the same period of the previous year), attributable to the following factors:

- cash flow from operations was a negative €mil. 110, compared with a negative €mil. 79 for the previous period;
- cash flow from investing activities was a negative €mil. 271 mainly due to the effect during the period of the call option on the residual 25% of Selex Sensors & Airborne Systems. In the first half of 2006, the cash flow from investing activities was a positive €mil. 673, mainly due to receipt of €mil. 458 arising from the Ansaldo STS S.p.A. IPO and €mil. 246 from dividends received from subsidiaries;
- cash-flow from financing activities was a negative €mil. 1,182 (negative €mil. 976 at 30 June 2006), as a result of dividends distributed (€mil. 149 in 2007 as compared to €mil. 211 for 2006, which included the extraordinary dividend of €mil. 80 with respect to the positive placement of Ansaldo STS shares on the stock market) as well as the gradual decline in liquidity – with which 2006 closed – caused by the use of cash and cash equivalents by Group companies within the scope of carrying out their ordinary operations and investment activities.

FINANCIAL STATEMENTS OF THE GROUP PARENT

Income Statement

<i>(€ thousands)</i>	<i>For the six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
Revenues	-	1,440
Revenues from related parties	2,153	23,569
Other operating revenues	26,145	44,040
Other operating revenues from related parties	5,599	8,150
Cost of purchases	(156)	(132)
Cost of services	(30,335)	(26,424)
Cost (net of recoveries) from related parties	(23,700)	(39,329)
Personnel costs	(29,819)	(29,716)
Depreciation, amortisation and writedowns	(3,483)	(3,414)
Other operating costs	(4,403)	(9,718)
(-) Capitalisation of internal construction costs	-	-
Financial income	294,966	804,925
Financial income from related parties	31,565	53,238
Financial charges	(180,451)	(174,807)
Financial charges from related parties	(71,434)	(53,636)
<i>Profit (loss) before taxes and the effect of discontinued operations</i>	<i>16,647</i>	<i>598,186</i>
Income taxes	40,181	24,086
Profit (loss) associated with discontinued operations	-	-
<i>Net profit (loss)</i>	<i>56,828</i>	<i>622,272</i>
Earnings per share		
<i>Basic</i>	<i>0.13</i>	<i>1.47</i>
<i>Diluted</i>	<i>0.13</i>	<i>1.46</i>
Earnings per share net of discounted operations		
<i>Basic</i>	<i>0.13</i>	<i>1.47</i>
<i>Diluted</i>	<i>0.13</i>	<i>1.46</i>

Balance Sheet

<i>(€ thousands)</i>	<u>30.06.07</u>	<u>31.12.06</u>
<i>Non-current assets</i>		
Intangible assets	3,232	3,038
Property, plant and equipment	58,228	59,046
Investment property	109,273	110,964
Equity investments	7,323,462	7,307,706
Financial assets at fair value	854,305	840,205
Non-current receivables from related parties	222,982	220,204
Receivables	1,756	1,693
Deferred tax assets	88,075	68,712
Other assets	1,325	1,853
	<u>8,662,638</u>	<u>8,613,421</u>
<i>Current assets</i>		
Inventories	-	-
Due from customers for contract work	-	-
Current receivables from related parties	1,546,047	964,995
Trade receivables	54,097	68,605
Financial assets at fair value	11,572	10,975
Tax receivables	283,322	280,498
Financial receivables	4,345	15,156
Derivatives	41,304	30,999
Other assets	50,706	45,850
Cash and cash equivalents	84,336	1,646,644
	<u>2,075,729</u>	<u>3,063,722</u>
<i>Non-current assets held for sale</i>	-	4,300
Total assets	<u>10,738,367</u>	<u>11,681,443</u>
<i>Shareholders' equity</i>		
Share capital	1,860,533	1,858,340
Other reserves	4,243,696	4,300,253
Total shareholders' equity	<u>6,104,229</u>	<u>6,158,593</u>
<i>Non-current liabilities</i>		
Financial payables to related parties	1,202,444	1,178,847
Financial payables	477,164	489,379
Severance pay and other employee liabilities	9,391	7,427
Provisions for risks and charges	78,973	95,395
Deferred tax liabilities	44,575	41,425
Other liabilities	36,257	37,413
	<u>1,848,804</u>	<u>1,849,886</u>
<i>Current liabilities</i>		
Due to customers for contract work	-	-
Current payables to related parties	2,090,573	2,867,241
Trade payables	29,814	33,354
Financial payables	499,690	597,453
Tax payables	14,766	17,264
Provisions for risks and charges	91,752	96,894
Derivatives	16,910	15,686
Other liabilities	41,829	45,072
	<u>2,785,334</u>	<u>3,672,964</u>
<i>Liabilities directly correlated with assets held for sale</i>		
Total liabilities	<u>4,634,138</u>	<u>5,522,850</u>
Total liabilities and shareholders' equity	<u>10,738,367</u>	<u>11,681,443</u>

Cash Flow

(€ thousands)

	<i>For the 6 months to 30 June</i>	
	<i>2007</i>	<i>2006</i>
<i>Cash flow from operating activities:</i>		
Gross cash flow from operating activities	(63,421)	(26,321)
Changes in working capital	91	(2,012)
Changes in other operating assets and liabilities	7,754	(27,954)
Finance charges paid	(55,349)	(23,072)
Income taxes paid	641	-
Cash flow generated from (used in) operating activities	(110,284)	(79,359)
<i>Cash flow from investing activities:</i>		
Disposals (acquisitions) of other shareholdings	(414,665)	(9,922)
Investments in property, plant and equipment and intangible assets	(1,168)	(2,189)
Disposals of property, plant and equipment and intangible assets	-	-
Ansaldo STS IPO	-	457,470
Dividends received	149,578	246,050
Other investment activities	(4,255)	(18,475)
Cash flow generated from (used in) investing activities	(270,510)	672,934
<i>Cash flow from financing activities:</i>		
Increases in share capital	6,978	19,195
Treasury shares purchased	-	(18,781)
Dividends paid	(148,556)	(211,449)
Net change in other financing activities	(1,039,936)	(764,644)
Cash flow generated from (used in) financing activities	(1,181,514)	(975,679)
Net decrease in cash and cash equivalents	(1,562,308)	(382,104)
Cash and cash equivalents at 1 January	1,646,644	628,925
Cash and cash equivalents at 30 June	84,336	246,821

Statement of changes in shareholders' equity

(€ thousands)	Share capital	Retained earnings (losses)	Other reserves	Total shareholders' equity
Shareholders' equity at 31 December 2005	1,858,119	3,059,667	746,276	5,664,062
Change in the fair value of assets available for sale and transfers to the income statement			(153,707)	(153,707)
Change in the fair value of cash-flow hedge instruments			5,168	5,168
Transfers to the income statement of the cash-flow hedge reserve			(1,233)	(1,233)
Repurchase of treasury shares (net)	(18,781)			(18,781)
Allocations for stock grant plans		1,895	(622)	1,273
Transfers/contributions with related parties		17,919		17,919
Dividends		(211,448)		(211,448)
Share capital increase for exercise of stock options	5,981	13,214		19,195
Other minor changes		2,305		2,305
Net profit at 30 June 2006		622,272		622,272
Shareholders' equity at 30 June 2006	1,845,319	3,505,824	595,882	5,947,025
Shareholders' equity at 31 December 2006	1,858,340	3,601,670	698,584	6,158,593
Change in the fair value of assets available for sale and transfers to the income statement			14,697	14,697
Change in the fair value of cash-flow hedge instruments			795	795
Transfers to the income statement of the cash-flow hedge reserve				
Repurchase of treasury shares (net)				
Allocations for stock grant plans			14,913	14,913
Transfers/contributions with related parties		243		243
Dividends		(148,818)		(148,818)
Share capital increase for exercise of stock options	2,193	4,785		6,978
Other minor changes				
Net profit at 30 June 2007		56,828		56,828
Shareholders' equity at 30 June 2007	1,860,533	3,514,708	728,989	6,104,229

6. Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 30 June 2007

<i>€ millions</i>	Shareholders' equity	of which: net profit for the period
Group Parent shareholders' equity and net profit at 30 June 2007	6,104	57
Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies	(1,765)	192
Consolidation adjustment for:		
- difference between purchase price and corresponding book equity	2,532	(7)
- elimination of intercompany profits	(1,701)	41
- deferred tax assets and liabilities	128	18
- dividends	-	(141)
- translation differences	24	-
- other adjustments	(8)	(1)
Group shareholders' equity and net profit at 30 June 2007	5,314	159
Minority interests	95	18
Total shareholders' equity and net profit at 30 June 2007	5,409	177

7. Finmeccanica: Research and Development

For the first half of 2007, Finmeccanica continued its commitment to better focusing its Research and Development activities. Increasing emphasis has been placed on the analysis and promotion of long-range activities, along with significant levels of investment that are able to support internal growth over time through the development of new systems and devices. During the first half of 2007, these efforts included the approval and launch of numerous Product Development plans which, with the support of in-depth business analyses, will provide real returns on the planned investments. In the first part of the year, the operating structure of the new firm **Elsag Datamat S.p.A.** was also defined so as to create a hub of critical mass in Security, Logistics, Automation and IT Services, and Defence. Within the Space segment, the finalisation of the agreement with Thales, with the joint definition of the activities of the companies **Thales Alenia Space** and **Telespazio**, contributed to providing further impulse to certain Research and Development activities, thanks to the extensive backgrounds that the two groups are able to bring together.

Aerospace, Defence and Security

In these areas, technological development requires sizeable investments, cutting-edge skills, and medium-to-long term time horizons.

The consolidated subdivision of R&D into the areas of **technological research and development** (a) and **research and development applied to products** (b) allows for proper planning of both risks and benefits and therefore the optimisation of the technological transfer, which enables Group products to achieve success on international markets.

a) **Technological research and development**

These are technological developments that are sometimes described as “basic”, in that they are highly strategic and long-term, and that by nature require highly-qualified staff and specialised facilities.

Technological developments based on *highly-integrated components*, ranging from on-chip integration (MMIC – Monolithic Microwave Integrated Circuit) using cutting-edge

materials such as gallium nitride, to multi-chip integration on organic and ceramic substrates (LTCC – Low Temperature Co-fired Ceramic), to the new frontiers of electro-mechanical integration for electronics and sensors (MEMS – Micro Electro-Mechanical Systems) involve various Group companies (**Thales Alenia Space, Galileo Avionica, MBDA, Selex Communications, Selex S&AS Ltd, and Selex Sistemi Integrati**). Their application and spread enable “quality” radio frequency processing components to be miniaturised, reducing costs and producing benefits for satellites, radars, missile systems and avionics systems, and in general any applications where a small footprint and minimal power absorption are key factors. Also in development are certain technologies known as MOVPE (Metal Organic Vapor Phase Epitax) in relation to the design and production of infra-red sensors in the next generation bi-dimensional arrays components for advanced thermal imaging cameras (**Selex S&AS**).

In addition, technologies of *new materials and structures* stimulate future developments and production capabilities, both with low infra-red and electromagnetic footprints and those with high resistance thanks to the use of composite materials and specific welding treatments (**AgustaWestland, Alenia Aeronautica, Alenia Aermacchi, Avio, Selex S&AS Ltd, and Oto Melara**). **MBDA** is currently conducting studies of high resistance nano-structured ceramics to create missiles operating in the millimetric band. The future development of innovative UAV/UCAV (Unmanned Air Vehicle and Unmanned Combat Air Vehicle), convertiplanes, missiles, rockets and passive protection structures lies with these technologies.

Highly advanced research and development activities in the field of nanotechnology also continued, especially regarding sensors for revealing chemical agents (**Selex Communications**), already in advanced stages of experimentation, as well as carbon nanotubes for the manufacture of nano-electronic devices such as nanovalves and nanotransistors (**Selex Sistemi Integrati**) and heat conducting materials for microelectronic packaging (**Thales Alenia Space and Selex Sistemi Integrati**).

b) **Research and development applied to products**

All of our companies are heavily involved in maintaining, improving and streamlining their range of products to maintain and increase their competitiveness and customer

satisfaction ratings thanks to technological research and development in the following areas:

- the **radar segment**, with modern electronic phased-array scanning systems with integrated personal mobile radio module arrays for detection and aerial defence, including those used for air traffic control (**Selex Sistemi Integrati**). In this field, **Selex S&AS Ltd**, with its new Sea Spray radars entirely designed with solid state active modules, has posted a major commercial success, including in the US market, thanks to the advanced level of the system's technology. Placing these technologies on a common basis has paved the way for the development of a new radar denominated PICOSAR, which is specifically designed for surveillance with UAVs (Unmanned Air Vehicles) and a multiple-mode avionic radar called VIXEN-E with active electronic scanning that will form the future system for combat aircraft (**Selex S&AS**). Meanwhile, **Galileo Avionica** has begun making developments to revamp the exciter receiver processor which, using new digital technologies, will improve performance with regard to mechanical scanning radars (which have retained a level of market penetration) and to new electronic scanning radars;
- the **electronic warfare segment**, together with the "sensitive" and extremely important associated technologies, has become part of the Group's assets, thanks again to **Selex S&AS Ltd**. With the DASS (Defensive Aids Sub-System) for electromagnetic defence against radars and missiles, the Group's product range of aerial platforms underwent significant expansion, allowing Finmeccanica to complete its integrated onboard defence and surveillance range for all air platforms. Development continued on the next generation of self-protection systems in the radar field called radar warning receivers (RWR) based on advanced building blocks such as the broadband digital receiver (DRX) and the compact receiver module which contains a complete receiver in just one card;
- **electro-optics** for battlefield applications and for both land and sea integrated weaponry systems, and fixed-wing and rotary-wing aircraft applications (**Galileo Avionica, Selex Communications** and **Selex S&AS Ltd**). Development reached an advanced stage for a new generation of Direct Infrared Counter Measures (DIRCM)

for active protection against shoulder-fired missiles for both military and civil aircraft (**Selex S&AS Ltd**) in cooperation with a well-known American company. **Selex S&SA Ltd** has also continued to develop active image observation systems based on burst illuminator laser (BIL) techniques, combining a laser source with a thermal imaging camera, allowing long-distance, high-resolution night time surveillance.

Development of an obstacle detection system has been nearly completed. The system, called Laser Obstacle Avoidance (LOAM), is primarily for use in civilian helicopters. Based on laser/EO technologies, the system provides safety for the aircraft by detecting obstacles such as posts and high-voltage power lines which pose the greatest risk for low-flying aircraft (**Selex Communication**).

Development continues on the EO Hyperspectral system for space and avionics applications. Thanks to the analysis of the high-resolution image captured, this system, using hundreds of channels, will permit determination of even the type of material of which the object observed is made even from a distance (**Galileo Avionica**);

- naval, land, aeronautics and satellite **communications**, particularly secure tactical and strategic communications networks. Work continued in the field of architectures for future communications networks and network-centric services and in the development of software radio, an essential aspect of the emerging, irresistible need for integrated global communications (**Selex Communications, Thales Alenia Space and Telespazio**). Following the successful completion of operational testing, the WiMAX system for broadband fixed-line and mobile communications, for components such as the police force, the *Carabinieri*, civil protection, and so on, continued with the final development and industrialization activities in preparation of the upcoming national tender to assign the related licences (**Selex Communications, Selex Service Management**). The important studies into full Internet protocol (IP) convergence, which will make it possible to create and manage the networks dynamically, flexibly, and in an open manner, also continued (**Selex Communications**). In this area, multi-disciplinary studies also began into the implementation of the new Internet protocol IPV6 (the current system is known as

IPV4), which will make it possible to manage network communications securely and reliably (**Elsag Datamat, Selex Communications and Selex Service Management**). Development and testing was completed on new devices for the Sicral 1B military communications satellite system, adding sophisticated protection capabilities against intentional interference (nulling) and advanced digital techniques over communications channels to the product's existing operating features (**Thales Alenia Space**);

- the area of highly complex, highly integrated land, naval and Air Traffic Management (ATM) **command and control systems (C2-C4)** with the design of a modern Flight Data Processor (**Selex Sistemi Integrati**), as well as highly specialised systems based on advanced processing and presentation devices (including platform control systems and advanced Flight Management/Control Systems for flight management) for application on fixed-wing and rotary-wing aircraft (**AgustaWestland, Alenia Aermacchi, Alenia Aeronautica and Galileo Avionica**). In this segment, the simulation aspect is taking on a great deal of importance, particularly with the activities of **Galileo Avionica**, which began defining a new generation of flight simulators, and of **Selex Sistemi Integrati**, with the development of a modular simulator for large-scale systems integration.

In the second half of the year, in the naval sector, development began on a new Combat Management System (CMS) Standard system that will provide an effective modular solution for the next-generation command and control systems market (**Selex Sistemi Integrati**);

- in the **security** (or homeland security) area, which is becoming increasingly important, the Group has intensified efforts to provide tangible solutions in the short run.

In particular, intensive efforts have been made in within the scope of the **Zeus** project, which is being coordinated by **Selex Sistemi Integrati**, which has been given the mission of developing major systems for defence and homeland security applications. The Major Systems division of **Selex Sistemi Integrati**, which was recently formed to pursue business opportunities in integrated systems based on complex architectures and network-centric approaches, has undertaken a number of

joint studies with all the other companies of the Group with a view to achieving the following objectives:

- developing the operational specifications and functional architecture of a major integrated system and all of its components in order to translate them into competitive solutions that fully meet the needs of customers in the various applications requested by the market;
- leveraging the know-how, technologies and products available within the Group so as to enable their effective integration within a major homeland security system.

In particular, in the area of protecting critical national infrastructures (CNIs) related to the Transportation and Energy segments (where there is an increasing need for infrastructure control and protection from the dangers posed by international terrorism, large-scale organised crime or severe natural disasters), **Ansaldo Energia**, **Ansaldo Sistemi Trasporti e Segnalamento**, **Elsag**, **Selex Communication** and **Selex Sistemi Integrati** are jointly involved in defining and formulating cross-technological solutions that can be implemented over the short term.

Activities related to the recognition of human behaviour through the analysis of TV images and the monitoring of biometric sensor data (**Elsag Datamat**) is continuing and evolving, while investment is also continuing in data protection using traditional (**Selex Communications**) and quantum (**Elsag Datamat**) proprietary cryptography. Targeted investments also continued in the advanced concept of network-centric operations used in the management of security operations with adaptation and integration between Crisis Management Rooms and secure communications components (**Elsag**, **Selex Communications**, **Selex Sistemi Integrati** and **Telespazio**).

- in the **missiles segment**, with special reference to advanced seeker missiles, both infra-red (**Selex S&AS Ltd**) and radar and the active proximity fuses and related command and control systems (**MBDA**), preliminary and planning activities have continued on the project for new FREMM frigates for which surface-to-surface and surface-to-air system systems must be installed on board (**MBDA**). Important developments are also taking place in the application of new Digital Receivers to

improve existing seekers (Aster Meteor) and the use of passive phased array antennas for missile-based applications (**MBDA**);

- the **field of orbital infrastructures** and useful payloads (**Thales Alenia Space**), especially for scientific payloads, space robotics, and satellite observation and navigation. In the planet exploration area, development has been completed on radio communication equipment for Ka-band telemetry and command systems for deep-space missions that will be used on the Bepi Colombo mission and X-band systems for use in the ESA LISA and GAIA scientific missions. Development also continued in the area of automation and robotics, particularly in the field of vision and image processing, which will make it possible to use autonomous planetary exploration vehicles for the Exomars and Eurobot exploration programmes. In early June, the first four satellites of the Cosmo-Skymed series were successfully launched (**Thales Alenia Space**). The satellite expressly designed for dual (military and civilian) use has been equipped with advanced synthetic aperture radar (SAR) and will be one of the cornerstones to ground surveillance for both Italian and European homeland security;
- in the **orbital and space services management sector**, including the monitoring of sensitive areas (including security through the GMES programme) using differential radar interferometry and innovative 3-D digitalisation based on space photography (**Telespazio**), important research began on navigation and infomobility, which will generate significant returns in the areas of logistics and telecommunications (**Telespazio**). With the launch of the first of the satellites of the Cosmo-Skymed series, the provision of high-value services will also begin in the area of high and very high resolution earth observation based on SAR images (**Telespazio**);
- the field of **aeronautical platforms**, where **AgustaWestland**, in the helicopters division, presented at the Le Bourget aeronautics exhibition in June of this year the airworthy prototype of the BA609, the first convertiplane for civil use using cutting-edge systems and technologies; **Alenia Aermacchi**, with crucial developments regarding training aircraft, especially relating to the ultra-modern

M346 trainer, which is successfully completing the final qualification stages; **Alenia Aeronautica**, with research on *aerostructures* that have successfully led to components of the new A380. Concurrently, development has been completed for some of the main components of Boeing's 787 aircraft, also known as the Dreamliner. More specifically, we are building the central section of the fuselage, made entirely out of carbon-fibre composite materials, with the prototype having been delivered during the first part of the year for subsequent integration in the U.S. A brand new plant has been built near Grottaglie (TA) for this production.

Work continued on the Sky-X (**Alenia Aeronautica**), an unmanned aircraft designed to demonstrate the feasibility of an advanced prototype with a mainly Unmanned Combat Air Vehicle (UCAV) role.

Activities to design the Sky-Y prototype (**Alenia Aeronautica**) entered an operational stage. This modern medium-altitude long-endurance (MALE) UAV had its first flight at the Vidsel test range in Sweden in June of this year. Sky-Y could lay the groundwork for a future European UAV, in part through the collaboration with a number of companies and nations interested in the project. The development of the Falco medium altitude endurance (MAE) UAV system (**Galileo Avionica**) for surveillance and tactical observation (500 kg class) entered the final stages, with verification flights continuing successfully. The craft was designed and built for dual (civil and military) use, including activities for territorial security, and is winning widespread acclaim thanks to its versatility and high useful load ratio.

Transportation and Energy

Group companies that operate in the civil sector also continue to carry out significant research and development, in addition to those described above, in part in collaboration with companies operating in the Defence and Security sectors.

Specifically, important activities are being carried out in the following areas:

- **Energy:** with advanced processes to optimise the performance and maintenance of power plants. Innovative programmes on gas turbine and combustion system technologies are currently under way, focusing on low environmental impact, and the configuration of combined-cycle gas and steam plants (**Ansaldo Energia**).

Progress continues to be made in the field of fuel cells which represent a better solution for eco-friendly transportation in the future (**Ansaldo Energia**).

An innovative high-output electric axial-flow engine is in an advanced stage of development. Participating in the project are **Ansaldo Energia**, which was responsible for its design through its **Ansaldo Ricerche** research centre subsidiary, as well as other Group companies including **WASS**, **Oto Melara** and **AnsaldoBreda**.

Innovative developments in simulating the functioning of a complex system of power generation, including the turbine combustion component, have reached advanced stages of development, in part to contain the emissions generated (**Ansaldo Energia** and **Ansaldo Ricerche**).

- **Transportation:** with developments in hybrid propulsion systems and components for handling, comfort and safety (including crash safety) in tracked transportation systems for city, suburban and rail vehicles (**Ansaldo STS** and **AnsaldoBreda**). The main activities (**Ansaldo STS**) have focused on urban systems overall and on related railway signalling systems. The details of the projects are as follow:
 - SIMMI for the improvement of the operational availability of railway infrastructure through a preventive diagnostic;
 - SITI for infrastructure diagnostics and safety (with the TRAIN consortium);
 - INTEGRAIL regarding a support decision system for railway operations.

The developments in the field of entirely automated (i.e. driverless) subway systems continued and confirmed their effectiveness (**AnsaldoBreda** and **Ansaldo STS**).

With regard to railway signalling, significant activities regard the development of components for high-speed railway line applications and high-density conventional lines through the radio block centre (RBC) and automated train control systems (SCMT) projects. The projects aim to improve the functional integrations of various related subsystems (**Ansaldo STS**).

AnsaldoBreda is developing an advanced high-speed new generation train with a European partner.

Group governance of technologies and products

The development of **Inter-company Technological Communities** (within the MindSh@re®⁵ platform) is becoming a key resource and a breakthrough method to share and steer development, research and integration activities.

Currently, seven communities had been started with activities involving over researchers and technicians from among the company's top professionals:

- **Radar:** advanced radar system technologies;
- **Capability Maturity Model (CMM):** development and project management process;
- **Security:** research and development of technological systems and projects for **homeland security**;
- **Materials and Nanotechnology:** research and development on innovative materials and support nanotechnologies;
- **Design tools and methods:** analysis and rationalisation of design support methods and tools;
- **Simulation for Training:** simulation and training technologies and systems, including all the associated processes and the possible supply of advanced future turnkey systems.
- **Logistics:** technologies and systems for the management of logistics systems within the scope of providing integrated services.

Three major initiatives involving the communities and the *MindSh@re*® project were continued during the first half of 2007:

- **Corporate Projects** that are intended to foster collaboration between the various Finmeccanica companies and universities, research centres and end users in new technology and market segments. These projects, which are being coordinated directly by the Central Technical Department and are partially financed by the Group Parent, have achieved considerable success, thanks especially to the participation of many potential customers. The opportunity to collaborate on technology with Finmeccanica has given them a new insight into the Group and appreciation of its strengths in new and emerging sectors.

- Phase 2 of the *MindSh@re*[®] project, which is evolving from “collaboration” on technologies to a greater focus on stimulating “innovation”.

European Programmes

The Group is also active in R&D activities at the European level (European Commission, ESA, NATO).

Finmeccanica’s involvement in a range of ongoing programmes is continuing:

- **Sixth Framework Programme.** Development work is continuing on the LIMES project, led by **Telespazio**, which seeks to integrate satellite surveillance within the broad context of complementary solutions and systems, within the scope of the GMES programme.
- **Galileo Programme** for the new global positioning system, for which Finmeccanica was selected, with other European partners, to design and place in orbit the satellite constellation. During the year, the first of the “Giove A” pre-series satellites was launched (**Thales Alenia Space**).
- **Preparatory Action Programme** for European technological development in the Security field (**PASR**). Development of the two European projects awarded to Group companies continues: border protection (**Galileo Avionica** with the SOBCAH project) and rail transport security (**Ansaldo STS** with the TRIPS project). Work is in progress to install the two prototypes in order to verify that the two projects meet contract requirements.
- Research and development programmes coordinated by the **European Defence Agency (EDA)**, with which relations were tightened for the provision of new technological development in the areas of UAV and software radio.

During the first half of the year, the tenders related to the first call of the **Seventh Framework Programme** (2007-2013) began, an area in which Finmeccanica’s strategy has been consolidated, with broad initiatives on defining the programmes and on possible collaborative consortiums:

⁵ *MindSh@re*[®] è un marchio registrato da Finmeccanica S.p.A.

- Strong participation in **Collaborative Research** in the **aeronautical** area and the related Joint Technology Initiative (**JTI**, called Clean Sky) which will have a total financing of over €mil. 2,000, proposing two technological platforms with development to be led by Finmeccanica: the Green Regional Aircraft (**Alenia Aeronautica**) and the Green Rotorcraft (**AgustaWestland** in a consortium with Eurocopter). **Avio** and **Galileo Avionica** are also involved.
- **The SESAR Programme**, now that the pre-development phase has been completed, will be implemented within the Seventh Framework Programme with some €mil. 1,400 in financing from the European Commission and Eurocontrol. This project will allow the development of the new European ATM system for an efficient air traffic control management system by 2020 and **Selex Sistemi Integrati** and **Alenia Aeronautica** (likely top-level leaders), **Galileo Avionica**, **Selex Communications** and **Telespazio** are actively involved.
- **The Security Programme**, which, with an investment of roughly €mil. 1,400, will permit the designing of homeland security products and systems. Thanks to its excellent positioning on PASR projects, Finmeccanica has begun a number of technologically-based initiatives and international cooperation activities with the support of the ASD (Aeronautic, Space and Defence) association in Brussels. As many as 10 top-tier Group companies will be directly involved in the programme.

Partnerships continued with the leading **Italian universities (Genoa, Naples, Parma, Pisa, Rome and Turin)** in the fields of both nanotechnologies and security. Exchange relationships with the most important **US universities (MIT–Cambridge, University of California at Berkley, Carnegie-Mellon–Pennsylvania)** are also ongoing.

In June, as part of the “*Primavera Italiana*” event, an important workshop was held in Tokyo. The event saw the involvement of the Group’s leading companies, together with experts from Japanese manufacturing and research and was an opportunity for Finmeccanica to demonstrate its capacities in both manufacturing and research and development, which will likely lead to partnerships in areas of cutting-edge development.

Also of note was the beginning of the second “*FHINK*” Masters programme (see below).

8. Human Resources

Organisation

The intensive revision and adjustment of our Group's organisation, aimed at meeting the new challenges of our competitive environment, continued in the first half of 2007: consolidation of international business forecasts; the integration of strategic assets; and leveraging of international acquisitions and partnerships concluded in previous years in terms of greater productivity and synergies, cultural and industrial conversion of the Group based on the global player model.

The following section reviews some of the most significant organisational developments during the first half of the year.

In January, as part of the gradual corporate and organisational convergence, the new integrated structure of **Elsag Datamat** was formalised.

In February, **Telespazio**, a joint venture with Thales in which Finmeccanica has a majority stake and which provides satellite services, finalised the revision of its organisational structure, which, in particular, included the redesign and strengthening of commercial processes and the consequent new structure of the marketing and sales area (with a new target segmentation by Customer/Market), as well as the redefinition of management of technological innovation with the creation of a specific unit under the CEO.

Also in February, following turnover in the position of Company Director, **WASS**, too, defined a new organisational structure.

AnsaldoBreda is continuing its process of reorganisation in incremental steps, obtaining a new structure featuring, in particular, the assignment of full responsibility by market/product line to the units that manage and coordinate project management activities, which, being based on a matrix structure, interact with the other areas of the company (particularly Engineering, Production, and Quality).

In March, in order to solidify its unified operating responsibility, **AgustaWestland** also launched a new integrated organisation model (called “One Global Company”), which hinges upon focusing on and strengthening the two key areas of **business** and **operations**, as well as on centralising the shared services and infrastructures that support the company’s entire organisation.

In May, **Selex Sistemi Integrati** completed its broad organisational reconfiguration, which began at the end of 2006, thereby concentrating integrated responsibility for legal affairs and contracts, central purchasing, information system, general services, and security into a single area of the company.

The most significant organisational changes at the **Group Parent** in the first half of 2007 were, in brief:

- the creation of the new **Social & Health Services** offices within the *Industrial Relations and Personnel Services* unit (Human Resources department);
- the new organisational structure, effective as of 1 January, of the *Public Relations* department, with, in particular, the creation of the **Washington Office** and the **Communications Office**.

In July, **Finmeccanica Group premises throughout the world** were updated: at the end of June 2007, the Group operated through **303 offices**, of which 150 in Italy and 153 around the world. These included 130 so-called “operational” sites (manufacturing plants and other sites used mainly for production), or roughly 43% of the total. A census of Group sites is updated every six months, in concert with the human resources staff of the operating companies, which feeds a specific application for publication on the Finmeccanica website.

Resource development and compensation

For a number of years now, the **management review** process has been a true cornerstone to the Group’s management system and will now be culminating in one-to-one meetings with all of the main operational companies, which are, again this year, to be held in the period

from July to September. This year, one of the key objectives of the meetings will be to gather all of the information and assessments needed to strengthen the processes of strategically leveraging and developing human resources, beginning with an increasingly effective and decisive implementation of internal headhunting policies and the consequent management of “substitution tables”. Such meetings remain the main opportunity to analyse, disseminate, and verify the company’s policies and activities in the area of human resources, as well as the status of special projects and other group-wide activities.

In the area of compensation, and of **Short-term Incentive Systems** in particular, the guidelines of the **2007 MBO System** were defined subsequent to efforts to profoundly revise the operating strategies, structures and mechanisms, so as to increasingly tie the incentives to the achievement of excellence in operating performance. More specifically, these efforts have led to the definition of a set of innovative indicators designed specifically to enable accurate measurement of industrial performance and company profitability, as well as to the introduction, for each target of the MBO System, of a threshold (or “gateway”) level. Achievement of this gateway level is a prerequisite to earning the incentives associated with the MBO System. This mechanism of correlating objectives, which has resulted in eliminating the potential benefits for significant under-performance in relation to even just one target, falls fully within the scope of efforts to increase focus on overall quality of performance. The sole objective for which incentives are not subject to potential elimination due to failure to achieve the gateway level is the managerial GEAR target, which is another innovation added to the 2007 MBO System (see below). This target will make it possible to promote and reward the individual annual performance of each of the Group’s executives and senior managers in relation to the performance indicators of Finmeccanica’s new Managerial Competencies System.

With regard to **Long-Term Incentive Systems**, in conjunction with the meeting of Finmeccanica S.p.A. shareholders of 30 May of this year, the guidelines for the new **Performance Share Plan 2008-2010** (stock grants) were approved, as was the purchase and availability of the shares servicing the plan, which, in line with the previous Performance Share Plan 2005-2007, calls for the allocation of rights to receive Finmeccanica shares free of charge upon achieving specific VAE and order targets for the period 2008-2010 and is

intended for key employees of the Group. The process of defining criteria and identifying future participants in the plan is, of course, to be completed following the 2007 Management Review meetings.

Furthermore, both the **Performance Share Plan 2005-2007** and the cycles activated thus far for the **Long-Term Incentive Plan** – which is a self-funded plan restricted to Group employees of strategic importance and which calls for the provision of cash incentives upon achieving ambitious Group targets – are currently being implemented.

Also during the first half of 2007, as concerns the strategic management and professional and managerial development of human resources, the significant commitment of the Human Resources department has continued in **Project GEAR** (Group Executives Advanced Review), which is designed to **evaluate the managerial abilities** of all Finmeccanica Group executives and senior managers. This project, which will become operational with the first evaluations upon completion of the 2007 financial year, represents the completion of the extensive **Group Managerial System**.

The *GEAR Objective*, which is a part of the 2007 MBO System, will have an impact on the total annual pay-out of each manager within a range of between 10% and 15%. The Skills Model on which it is based will also make it possible to have a shared managerial profile as a global point of reference for all Finmeccanica management.

Among the other project activities for the first half of the year, of particular note was the definition and activation of an IT tool, *MBO-GEAR System*, which will enable all Group companies to manage MBO files in digital format, thereby saving a significant amount of time in all phases of the process.

During the first half of 2007, an intensive communications plan aimed at highlighting the importance of evaluating management, as well as at promoting and facilitating the proper management of the GEAR evaluation process and disseminating the procedures for using the MBO-GEAR application, was also implemented. This required the design of 7 training workshops targeting a total of 73 members of the Human Resources professional family,

both in Italy and abroad, as well as the launch of the management initiative “**Gear-Up to Build Finmeccanica’s Future**” dedicated to all Group executives and senior managers.

Among the other significant initiatives, the Human Resources department of the Group Parent launched an **Individual Executive Coaching** project targeting a range of senior managers demonstrated great potential within the operational companies and who were selected following the **Future Leader Review** project, which was carried out in 2006 with the help of a leading headhunting firm. The coaching plan, which was designed by the corporate head office, is a part of the implementation of tools intended for individual development and which can be extensively customized in order to strengthen employees’ organizational skills, based on company-level improvement objectives.

The implementation of **Project CHANGE** (Challenge Hunters Aiming at New Generation Excellence), an innovative initiative intended to leverage skills and develop our “**Rockets**”, i.e. young people of excellence, identified by their companies, with international visibility who have clear growth potential in more complex roles, is also continuing successfully. In 2007, the project involved **41** Group employees, for a total of some **100** employees from all Group companies, both foreign and domestic, involved since the project began. During the first half of 2007, 2 editions, out of the 4 planned for the year, were carried out, one of which was specifically international, thereby confirming the success of *Project CHANGE for Rockets* as a key initiative for developing young talent within the Group.

Training and Knowledge Management Systems

Definition of the **2007 Operating Plan for the Training and Knowledge Management Systems Unit**, designed to support the development of the competencies needed to face business challenges and of a distinctive Finmeccanica model of culture and management, has pursued the following main lines of development:

- *consolidation of the system of collaboration and integration of the corporate Human Resources department and Group companies* by implementing a common process of defining training needs and initiatives, which has made it possible to focus on common areas of intervention that are in line with the strategic drivers of the Group;

- *management of training content supporting the implementation of Group targeted projects* in order to consolidate Finmeccanica's corporate culture, as well as to strengthen, align, and update the competencies that are key to our business;
- *coverage of target groups of strategic importance for the Group* in order to increase awareness of the process of change currently under way and to develop competencies on a lifelong-learning basis.

Therefore, the macro-areas into which the 2007 Operating Plan has been organised are:

1. Industrial Processes and Knowledge Management
2. The Group's Culture and Identity
3. Ongoing Skills Development (Lifelong Learning)

1. Industrial Processes and Knowledge Management

In line with the goal of consolidating the Group's Corporate Culture, the **Finmeccanica Economics Programme** continued in order to strengthen economic and financial management skills and to foster the application of tools to monitor and measure performance on the basis of a value creation approach. The training path, which involves an innovative approach based on experience and innovative implementation methods with significant levels of involvement for certain managers of the Group, is organised into three distinct areas for the various target groups: ***Introduction*** (organised into three increasing levels of depth – i.e. absolute beginner, beginner, and user); ***Intermediate Specialisation*** in order to meet the needs of specific units (and currently implemented for the professional families of HR and ICT); and ***Performance Measurement*** dedicated to the heads of the areas/business units. During the first half of 2007, 25 editions of the Introduction course were held, as well as 7 editions of the Intermediate Specialisation for HR and 8 for ICT, for a total of some 600 participants from 19 Group companies. A needs analysis is currently being completed in order to schedule further editions during the second half of the year.

In April, the “meta-organisational” (i.e. broad-based encompassing all formalised corporate units) **Project Management Programme (PMP)** initiative was launched. The primary goal of this initiative is to define a shared language and system of concepts within the Project Management area, as well as to identify the Group's key professional roles, in part by defining their respective key competencies, so as to design targeted training programmes

and initiatives and to define certification procedures for Group positions that are in line with related international standards.

Intended for all Group companies both in Italy and abroad, the goal of PMP is to define and develop the position of Finmeccanica Project Manager (PM) and, subsequently, to implement training paths that will strengthen and update key project management skills by integrating international best practices and Group methodologies in order to achieve PM certification by the most accredited international bodies. In the first half of 2007, the preliminary analysis and definition phase for the *Group Model* was completed. This phase saw the involvement, in various working groups, of roughly one hundred employees from the main corporate units and from all of the Group companies in Italy and abroad and resulting in publishing the model's guidelines. The project is expected to be funded by the Fondimpresa Interprofessional Fund (for which a funding request is to be presented in the second half of 2007).

During 2007, the *Knowledge Management Systems* department, in concert with the Finmeccanica Group Services' ICT Department and Finmeccanica's Technical, Marketing and Commercial Affairs and Strategy Departments, continued developing the Group *Knowledge Management Model*. The approach to testing and the related IT infrastructure architecture were also both defined. Work has also begun to define the collaborative environment for document sharing within the department.

In March 2007, the first session of the **Intellectual Property Governance** training programme was completed. This programme is being carried out with the collaboration of the Technical department and seeks to strengthen awareness of the importance of protecting intellectual property and of the patents process. Since its launch in October 2006, 27 editions of the initiative have been carried out, 18 of which during the current year, reaching a total of 56' participants and involving all roles of responsibility, both technical and non-technical, that contribute to the receipt of patents.

In order to stimulate and leverage the skills, abilities and technologies of the various companies, Finmeccanica has, since 2004, sponsored the **Innovation Award**, an international award open to all employees of the Group who present innovative ideas and projects for corporate business areas. Over the years, the project has attracted a growing

number of participants, involving a total of some 6,500 people worldwide, for a total of roughly 2,150 innovative projects, a number of which have received patents that have had a significant impact on business. During the first half of 2007, each company launched and managed their own Innovation Award. In the second half of the year, the 3 winners from each company will qualify for the **Group Innovation Award**. Now in its fourth edition, the Award has seen attracted 758 innovative projects, 27% of which contributed by employees of the Group's foreign offices.

2. Group Culture and Identity

In order to meet the challenge posed by internationalisation, to highlight the distinctive cultural elements of each Group company, and to make them strong points in the process of change, Finmeccanica's Human Resources Department performed a **survey** of its employees under the **Business Culture Project**. The survey involved all Group employees from around the world. In 2006, 22,000 employees submitted responses to an online questionnaire (provided in 7 languages). During the first half of 2007, the results of the survey were disseminated to all levels of Finmeccanica organisation and all its companies through meetings intended to present the main findings relative to the various business units. The findings were also published on the company intranets and on the Group's portal, as well as distributed in hard-copy pamphlets to all employees. The action plans defined by the individual companies in response to the areas for improvement pointed to by the survey are currently being implemented and disseminated. These action plans are also designed to meet employee expectations and to achieve business targets. Within each company, the **champions of change**, i.e. recognised owners of significant processes, are, with the help of a working group and the supervision of the HR department and the company's management, managing the implementation of the action plans, as well as measuring and evaluating the results achieved and ensuring that such results are disseminated.

In 2008, another online survey will be launched in order to verify that the results have actually been achieved and to begin a new cycle of improvement.

Within the scope of the **Integrated Project of Internal Communication & Group Identity**, which is the result of a collaboration between the Human Resources, Training and Knowledge Management Systems, Public Relations, and Communications units intended to

optimise the flow of communication within the Group, the *Training Course for Finmeccanica In-house Communicators* has been launched. Beginning with the definition of the competency model for the Finmeccanica *In-house Communicator*, the initiative seeks to develop awareness of the role, as well as the knowledge, capacity, and skills needed to act effectively within the Group through the study of public speaking, writing press releases and web content, creating communication plans, listening, and managing multicultural environments.

In order to emphasise the attention that Finmeccanica pays to the **development of human capital** within the various Group companies worldwide, the Training and Knowledge Management Systems unit is defining content for the sections related to human resources on **Finmeccanica's web site** (www.finmeccanica.it) and on the **Group's portal** (www.inportal.finmeccanica.it).

As regards the activities intended to support the **Professional Families** (PFs), in February, a one-day meeting was held for all members of the **PF Internal Auditing** unit (70 people) in order to present and discuss the results achieved for the period 2005-2007 within the scope of the initiatives carried out to support PF development (first and foremost, the creation of the Finmeccanica Internal Auditing Manual) and to identify the challenges to be faced and the goals to be achieved beginning in 2007. In June, based on the newly established plan of initiatives, the first of a series of seminars was held in order to update specialist skills (with 60 people involved).

For the **Purchasing PF**, work began to design the Competency Management System, which is one of the responsibilities of a working group comprised of the Human Resources department, the Finmeccanica Group Services Purchasing department, and a number of representatives from company HR and Purchasing offices. The system seeks to identify homogeneous categories of professional competencies (technical/specialist knowledge, role-specific skills) at the Group level that can be used by the companies. Based on these categories, training and professional development plans are being defined.

3. Ongoing Skills Development (Lifelong Learning)

Initiatives aimed specifically at strategic targets of employees, particularly newly hired young people and high-potential young people and executives continued.

With regard to **training for young people**, the four-month long **FLIP** (Finmeccanica Learning Induction Programme) continued with both online and in-class training. FLIP is tailored for **recent university graduates hired by the Group** and is aimed at *promoting Finmeccanica distinctive values*. FLIP includes access to an online simulation and web-based training (WBT) that focuses on the following content: organisational models; project management; economics; security; quality; and effective conduct in complex organisations. It also includes a specific focus on public speaking and effective communication. For 2007, 10 editions have been scheduled, 4 of which were held during the first half of the year and involved 88 participants. To date, the initiative, launched in 2005, has involved 446 new employees from 17 Group companies in its 16 editions.

Also continuing is the 12-month initiative **BEST**, Masters in General Management, which includes both online and in-class training and targets **brilliant university graduates from all Group companies who have been with the company around 3 years**. Thus far, the BEST Masters programme has, in its 20 editions, attracted 388 young people from 17 Group companies. In 2007, a further 4 editions are scheduled and are expected to attract some 90 participants. The winners of each edition of the Masters are allowed to take part in a **study tour** that will enable them to experience international best practices and will provide concrete opportunities for on-the-job training. The 2007 edition, **Study Tour Future L.I.F.E.**, will involve 21 young people from a number of Group companies and will be an essential step in a training programme that seeks to consolidate the skills acquired during the months of study and to apply them to experience in an international, multicultural context.

The initiatives described above are to be considered a systemic part of the development of young talent at Finmeccanica, and that provide a springboard towards management training projects for seventh level employees and middle managers showing great potential (i.e. CHANGE for Rockets).

As mentioned in the section dedicated to managerial development and compensation, during the first half of 2007, Project **GEAR-UP – Building Finmeccanica’s Future** was designed

and launched. This project seeks to support the promotion of the new management performance evaluation systems, as well as:

- the increasing awareness of and ability to interpret and understand one's own path within the context of the business (i.e. employability);
- an understanding of the strategies underlying the Group's new managerial skills model (i.e. commitment);
- active involvement in creating a new, distinctive Finmeccanica management style (i.e. engagement).

The initiative is expected to involve a total of some 1,600 executives both in Italy and abroad and entails the execution of a one-day workshop, with 16 editions in Italy, 3 in the UK, and one in the US during the period June-October 2007. The first two editions were held this June and involved a total of 156 executives. Having been shared with the various Social Partners, Finmeccanica S.p.A. has also presented a *Group Corporate Training Plan* to Fondirigenti. Finmeccanica is representing the 33 companies (all of which belong to Fondirigenti, with the exception of Thales Alenia Space and MBDA) that have signed a collective agreement. The entire amount of funding requested, a total of €586,300, has been approved.

Within the scope of the management training initiative "**From Technology to Values**", which targets **high-potential executives** from all Group companies, during the first half of 2007, a (Focus-On) event entitled "*Etica dell'Impresa e nell'Impresa*" (Corporate Ethics within the Corporation) was held (for 110 participants).

The "Focus-On" events are one-day opportunities for discussion with authorities from both within and outside the Group on topics of strategic importance to Finmeccanica and are attended by all those who attended the previous editions of the seminar (thus far 155 executives and senior managers). These events are preceded by opportunities for sharing and reflection within the project's web community.

The first half of 2007 saw the launch of the **Finmeccanica Faculty Project**, which seeks to map the **owners of key knowledge and skills within the Group**, thereby promoting skills of knowledge transfer and enhancing talent in order to create a sort of register of Subject-Matter Experts (SMEs). Thus far, ten SMEs have been identified and trained at the

prestigious CALT Insead business school at Fontainebleau. Twenty candidates, selected directly from Group companies, are to be chosen by a high-profile scientific committee and will follow the programme by the end of 2007.

During the first half of 2007, planning was also completed for the **New Executive Programme**, a training programme intended for **young executives and senior managers in Italy and abroad** designed to strengthen both a common identity and role-specific skills. During the second half of 2007, the first two editions will be held (simultaneously in Italy and the UK) and are expected to involve 45 employees. The first 4 days of the scheduled 13 of the programme are scheduled to be held. A request for funding, with the presentation of a *Group Corporate Training Plan*, is expected to be presented to Fondirigenti for the **New Executive Programme**, as well.

As regards training at the Group Parent, **legislative training/information** (which was extended to Finmeccanica S.p.A. employees in addition to those of Finmeccanica Group Services and SO.GE.PA) continued with a number of initiatives:

- a training course for employees and managers who handle personal information, in compliance with Italian legislative decree 196/03 and our corporate Security Policy Statement, including the design and creation of WBT which will be available during the second half of 2007 to new-hires and those who participated in the prior in-class training, for a total of 100 persons involved;
- online training (accessible through the corporate intranet) on the “Management and Control Model” adopted by Finmeccanica S.p.A. in accordance with Italian legislative decree 231/01, for a total of 100 persons involved. The course was made available and appropriately customised for all Group companies (AgustaWestland, Ansaldo STS, Ansaldo Energia, Selex Sistemi Integrati, Selex Communications, Eltag Datamat, Galileo Avionica, Selex Sensors and Airborne Systems, Telespazio, Finmeccanica Group Services, and Alenia SIA have already signed up).

The **International Behaviour & Skills Programme** is an integrated model aimed at developing international skills and improving participants’ knowledge of their foreign languages for business. In 2007, the project involved 178 personnel from Finmeccanica

S.p.A. and SO.GE.PA. Project learning objectives were tied to participants' professional activities.

The programme used flexible teaching methodologies and implemented differentiated learning paths:

- *traditional in-class learning*, structured into weekly semi-individual courses of 90 minutes each (for office staff and middle management);
- *paths to be implemented upon request*, with a certain total of on-demand hours (for senior management).

Industrial Relations and Social Affairs

During the first half of 2007, Finmeccanica focused on **the four-year renewal of the national collective bargaining agreement for the metal-working and engineering industry**. This included the direct involvement of company representatives on the Federmeccanica negotiating delegation. In that regard, it should be noted that Finmeccanica's involvement in this context was increasingly ongoing and decisive in recent months, particularly as concerned the direct impact of such issues have on the Group as a whole.

In addition, Finmeccanica representatives involvement in the **Standing Groups for Trade Union Dialogue** has increased. Following renewal of the two-year financial portion of agreement in January 2006, the groups were formalised to promote shared management and efficiency in work relations as a fundamental condition for reviving the competitiveness of the productive system. The groups discussed in-depth issues related to competitiveness, productivity, working hours and the labour market, with a focus on reviewing contract regulations on part-time work. The results of these discussions will be important in conjunction with the start of negotiations with the national trade unions FIM, FIOM, and UILM.

Finmeccanica's presence within the "**Large Corporate Working Group**", comprised of the heads of industrial relations for the leading firms nationwide, has also been confirmed. The group will analyse the key issues affecting such companies. It seeks to address common problems on specific areas and current issues in order to preventively define, where possible, common, homogeneous positions, particularly with regard to institutional and trade-union counterparts.

In light of the new rules established by the metalworkers' national collective bargaining agreement and in line with the **memorandum of understanding with the national trade unions**, the new **Professional Apprenticeship contract** was implemented and developed in a Group project aimed at embracing and harnessing opportunities from the targeted use of this tool to bring new personnel into the world of work. In that regard, it should also be noted that the target set by the Finmeccanica Group to hire 1,000 employees as a part of this programme for the period 2006-2007 was both reached and surpassed much more quickly than expected. As of June 2007, Group companies and the various facilities throughout Italy hired **1,084 young new employees**, both through "*professionalizing*" apprenticeship contracts and "*high-training*" apprenticeship contracts. The broad-based nature of this new form of contract made it possible to hire both blue-collar workers (856 employees) and white-collar (228 employees), primarily secondary-school graduates (1,002 employees), but also university graduates (82 employees, 63 of which with engineering degrees).

The extensive use of this apprenticeship contract provided significant financial benefits both in the case of apprentice office staff hired in place of white-collar workers on permanent employment contracts (with an approximate average savings of 20%) and temporary workers (with an average savings of 28%), and in the case of blue-collar apprentices hired in place of blue-collar workers on permanent employment contracts (average savings of 24%) and temporary workers (average savings of 32%). Given the above, and due to the significant level of training implicit in the apprenticeship contract, this form of employment contract continues to be implemented and is being extended.

In terms of **corporate agreements**, activities continued on the **renewal of second-tier bargaining**, which resulted, in particular, in the definition of supplemental agreements and

related performance bonuses for **Alenia Aeronautica** and **AgustaWestland**. In that regard, and again through the constant monitoring of the new regulatory and financial demands proposed by the trade unions during negotiations, Finmeccanica confirmed the key role it plays as a driver of new ideas, thereby safeguarding the specific needs of each individual context, while also ensuring the crucial lines of development that are consistently reiterated in second-tier negotiations for the entire Group.

Definition of certain temporary agreements, as amnesties for past years, was also achieved, and significant progress has been made in other areas of negotiation.

These results were achieved by paying close attention to costs (always within the budget for the years in question) and, especially, without any dispute with the unions (no strike and the broad consensus of the employees involved), thereby undoubtedly having a positive impact on the corporate climate, union relations, and the “external” perception of the Finmeccanica Group.

In that regard, it should be noted that, again during the first half of 2007 (1.02 hours of strike per employee) and in line with 2006 (1.84 hours of strike per employee), on the whole, the level of participation in strikes remained modest throughout the Group, with the exception of a limited number of episodes involving certain specific critical issues. It should also be noted that the percentages of strike participation throughout the Finmeccanica Group was markedly lower than the current estimates for the entire Federmeccanica system (of 5.5 hours of strike per employee).

Finmeccanica also continued to provide support to a number of companies involved in **integration/reorganisation/outsourcing**. These actions involved a series of initiatives both within the Group and with the trade unions in order to assist the individual companies in managing the various processes. Specifically, a positive conclusion was reached in several disputes that were especially complex for political or union-relation reasons (such as, for example, the reorganisation agreement for Selex Communications, the merger of Eltag and Datamat, and the understanding on the AnsaldoBreda optimisation and development plan), particularly with regard to possible employment and social impacts.

Finally, it is important to underscore the role Finmeccanica has played in the so-called “*Mobilità Lunga*” early retirement process, as concerns both the competent ministerial offices and the national offices of the various trade unions. In particular, it should be noted that the process aimed at acquiring long-mobility units has been managed with the full agreement of the trade unions concerned that it is a useful means of reducing the use of other social safety valves that have a more traumatic impact. Furthermore, the allocation of positions and group companies involved – those that are expressly indicated in the ministerial agreement – were rationally selected on the basis of real needs, thereby giving priority to the companies undergoing processes of reorganisation, restructuring, conversion, crisis, or other corporate alterations over the coming months.

As in previous years, the Group continued to promote and implement a variety of contractual arrangements involving senior and middle management. In particular, the Group fine-tuned certain rationalisation processes related to important incentives such as supplementary health insurance, insurance coverage and supplementary pension schemes. As concerns the **Finmeccanica Group Executive Pension Fund** specifically, the first half of 2007 saw the preparation for the delicate process of enacting the new legislation concerning pension funds and the Italian post-employment benefit known as *Trattamento di Fine Rapporto* (or TFR). Work also continued on promoting and implementing **social services** aimed at all Group employees, which focus on offering especially advantageous benefit packages, including with regard to financial and commercial matters. Finmeccanica employee healthcare servers were also strengthened and coordinated by uniting the traditional healthcare activities with a series of preventive medicine initiatives.

The Group’s increasingly well-established international presence has led to closer scrutiny of integration processes concerning employment-related organisational, regulatory and contractual matters.

A great deal of emphasis has also been placed on monitoring, managing, and harmonising the current international social security programmes, particularly in the UK with, in part, the adoption of a **group directive for UK pension funds**, which seeks to define related strategic guidelines and internal operating procedures.

A great deal of attention has also been paid to intragroup mobility processes at the international level, and the Group has continued to implement **shared services** dedicated to providing support for human resources activities that benefit all Group companies, especially those in the United Kingdom, thereby allowing us to optimise performance, reduce operational costs and offer high-profile, standard services for all the businesses involved.

During the first half of 2007, specific initiatives were undertaken at the Group level aimed at reorganising the management of legal disputes by identifying specific common tools, as well as sharing the most significant problems for the Group companies.

The **directive on legal disputes** is also being issued, and this directive seeks to define a series of measures intended to strengthen the guiding system and the control processes and activities at the Group level.

In conclusion, as part of the process of legislative reform launched in 2007, specific studies have been carried out in order to define interpretive policies at the Group level.

“FHINK” – Masters in International Business Engineering

The Finmeccanica Masters in **International Business Engineering** is an advanced training and development program aimed at developing skills in analysing complex international organisational contexts and industries that are characterised by the need to manage long-term multi-technological jobs. Through this masters programme, Finmeccanica seeks to experiment with an ambitious, innovative training initiative that can be effectively inserted into the Group’s development system. The programme seeks to develop young talent that can be inserted into the Group’s operations and in its corporate head office, as well as to develop advanced management methodologies. Again this year, Finmeccanica participated in the European Career Fair at the Massachusetts Institute of Technology (MIT) in Boston, where we presented the masters programme, which was well received by young people from around the world who were in attendance.

The first “pilot” edition was officially launched at an event held on 15 November 2006 at the site where the programme is held in Rome (Via Piemonte, 60). The event was attended by Finmeccanica top management. Right from the start, the students selected for the programme demonstrated excellent analytical skills, dynamism, curiosity, and motivation to pursue such an advanced development programme in the fields of advanced technology.

The first few months of the course were highly encouraging for the programme’s organisers. The activities for the first half of 2007 included the completion of the coursework and the start of the internships within the Group’s operations.

The masters programme is a unique and important opportunity for integration of business and education, as well as of dialogue between educators and businesspeople with fundamentally different scientific traditions and approaches to education, which have come together in the form of innovative learning methods.

The course includes intensive periods of traditional learning, along with seminars led by some of the world’s leading scientists and researchers in specific areas of technology and innovation and soft-skill labs and other sessions aimed at developing managerial skills. The topics dealt with in all of the learning modules are supported by contributions from people within Finmeccanica, who, together with the instructors, illustrate how the related concepts are actually applied in company operations. In addition to the soft-skill sessions, the course content focuses on the following main areas:

- Business & Project Management
- Innovation & Technology Management
- International Strategic Business Management
- Laboratory Sessions for Competency Development

The learning modules are accompanied by supplemental evening sessions in economics, financial and strategic management, and basic Italian. The coursework comes to a total of some 1,000 hours and is highly focused on project management, which accounts for fully

40% of the whole syllabus. Technology management and the laboratory sessions together account for 50% of the remaining hours. Throughout the course, students are given the opportunity to meet with around 50 university instructors and more than 20 members of the in-house faculty (Group managers with proven teaching skills and experience), who help to contextualise the concepts learned as they apply to Finmeccanica. Students also have the opportunity to meet with various members of Finmeccanica top management during the evening sessions dedicated to company presentations.

From January to June 2007, the students completed 15 of the 17 exams scheduled for the course. **All of the students passed these evaluation sessions.**

The course finished with two presentations related to soft skills and the Laboratory Sessions 2 and a presentation of the project work, which was followed and coordinated by members of Finmeccanica's central Human Resources department.

The project work included about 10 meetings over the span of three months and sought to create a business plan for the applicability of the Finmeccanica masters programme in terms of international offset. Students were divided into 4 groups, and a panel of judges comprised of members of Finmeccanica management evaluated the work done. The winning team was awarded iPods and given the opportunity to attend the *Salon International de l'Aéronautique et de l'Espace Le Bourget* held mid-June 2007.

In early June, upon completion of the coursework, an event was held at the site of the masters programme in Rome to **assign the 28 young talents to various operational companies of the Group.**

This process began with an initial screening phase, both in relation to the company (gathering project documents) and the students (updating skills and motivations), in order to ensure a "soft landing" for the students in their new assignments. The heads of Human Resources and members of the HR offices of 15 operational companies, together with the Human Resources department of the head office, held some 80 interviews over the course of two days. Each representative of the operational companies met with an average of five students, and each student had an average of three interviews with the companies. While seeking to match the students with the right projects, the companies saw first hand the fruits

of the investment in the masters programme, and the students understood the importance of the programme for their professional careers.

This process led to the following assignments:

COMPANY	NUMBER OF STUDENTS ASSIGNED
AgustaWestland	3
Aeronautics area	4
AnsaldoBreda	1
Ansaldo Energia	1
Ansaldo STS	3
Elsag Datamat	2
Finmeccanica	2
Finmeccanica Group Services	1
Selex S&AS	2
OTO Melara	1
Selex Communications	2
Selex Sistemi Integrati	3
WASS	1
Telespazio	1

The selection process for the 2007-2008 edition of the Master in International Business Engineering has again demonstrated the marked international nature of the programme.

During the online selection process that took place from April to June 2007, fully **5,107 enrolment requests from recent university graduates in 105 nations** were received. In June, following an initial screening of these applications, **653 phone interviews** were held, which led to an assessment of the final list of candidates for the assessment centre. In Rome

(at the training site in Via Piemonte) beginning on 11 July, Finmeccanica's corporate Human Resources department and representatives of the HR offices of the various group companies contributed to the activities of the assessment centre. As many as 175 candidates from around the world, **70 of whom will be selected for the exam of the "Mixed Technical Commission"** (comprised of members of Finmeccanica management, the HR managers of the various Group companies, and university instructors), will be involved in this final selection process.

The new class for the 2007-2008 edition is expected to be formed by the end of September 2007.

9. Security Policy Statement (SPS)

Information provided pursuant to Italian legislative decree no. 196 of 30 June 2003 (protection of personal information)

Pursuant to Section 26 of the Technical Regulations on minimum security measures, which constitutes Annex B to legislative decree no. 196 of 30 June 2003 (the Italian personal data protection code), the Security Policy Statement (SPS) on the handling of personal information was prepared by the deadline of 31 March 2007 as established by law, updating the SPS with regard to the handling of personal information.

The Security Policy Statement contains the information referred to in Section 19 of the Technical Regulations and describes the security measures adopted by the Company with the aim of minimising the risk of even accidental destruction or loss of personal information, unauthorized access, unauthorized handling of information, or use for any purpose other than that for which it was gathered.

Information security management system

On 21 May 2007, the annual inspection of the **Det Norske Veritas (DNV) inspector** for confirmation of the ISO 27001:2005 certification⁶ concerning the electronic mail service was held. Obtained in May 2006 and confirmed in May 2007, this certification is a part of the initiatives aimed at improving the quality and reliability of Finmeccanica services, while making it possible to identify the most critical areas.

In order to develop competencies in security risk analysis, the Group Security Office (GSO) and the Training and Knowledge Management Systems department designed a training programme focused on the **MIGRA** (*Metodologia Integrata per la Gestione del*

⁶ ISO 27001:2005 sets out the guidelines and related controls that companies must follow in implementing an ISMS (Information Security Management System), essentially to achieve the objective of protecting corporate information and data.

Rischio Aziendale, or “Integrated Methodology of Corporate Risk Management”) **methodology** and on the use of the related software application. The programme included two phases, a Basic and an Advanced course, and was attended by representatives of all of companies of the Group. It came to a close with the presentation of 68 course certificates of participation for “MIGRA Analysts”.

The goals that the GSO hopes to achieve by using MIGRA are as follows:

- to promote implementation of the security governance process within all Group companies in line with Finmeccanica policies;
- to develop competencies in risk management analysis;
- to provide guidelines, tools, and know-how in dealing with attacks and emerging threats;
- to promote the dissemination of a single culture of security among all companies of the Group.

10. Stock option and stock grant plans

On 30 May 2006, the Ordinary Shareholders' Meeting approved the renewal for a period of 18 months of the authorisation of the purchase of treasury stock, previously approved by the Meeting on 1 June 2005, subsequently renewed at the Shareholders' Meeting of 23 May 2006, to be used as part of a Stock Grant Incentive Plan for the 2005-2007 period for strategic employees and key employees of the Group, under which shares were granted without cost subject to verification of the attainment of objectives set out in the Rules of the Plan.

On 21 April 2005, the Board of Directors examined and approved the general outline of the Plan to be submitted to the Shareholders' Meeting.

The Plan provided for granting the participants the right to receive shares of the Company without cost subject to verification of the attainment of objectives set by the Remuneration Committee, which was given the task of managing the Plan based upon general criteria set by the Board of Directors.

The Shareholders' Meeting of 1 June 2005 had authorised, pursuant to Art. 2357 of the Italian Civil Code, the purchase in one or more instalments and for a period of 18 months from the date of resolution a maximum of 7,500,000 (seven million five hundred thousand) ordinary shares (150,000,000 prior to the reverse split) of Finmeccanica - Società per azioni for a minimum price of €4.40 per ordinary share, equal to its par value (€0.22 prior to the reverse split), and for a maximum price of €20.00 (€1.00 prior to the grouping) to service the new 2005-2007 Incentive Plan.

At its 20 September 2005 meeting, the Remuneration Committee examined the matter and drafted a proposal for the creation of a 2005-2007 Stock Incentive Plan that envisages that the Board of Directors shall delegate the adoption of Implementing Regulations and the share allotment, based upon a proposal from top management, to the Remuneration Committee.

At its 29 September 2005 meeting, the Board of Directors adopted a resolution formally creating the 2005-2007 Stock Incentive Plan (called the Performance Share Plan), and instructed the Remuneration Committee to approve the Implementing Regulations.

The Remuneration Committee, at its 28 November 2005 meeting, approved the regulations for the 2005-2007 Performance Share Plan and the right to receive shares of the Company without cost for 574 beneficiaries, for a total of 5,611,531 shares, based upon the proposal set out by the Chairman and the Chief Executive Officer. Due to certain slight changes in the scope of the participants, the number of beneficiaries was reduced to 573 while, following certain adjustments to the individual grants, the total value of the rights granted fell to 5,577,961 shares. This update was approved by the Remuneration Committee in managing the Plan.

The number of shares granted is calculated (according to the usual market practices for such a transaction) on the basis of the individual beneficiary's annual gross remuneration (AGR), which depends upon both the position held in the company and on the assessment made during the annual Management Review. For this purpose, the unit value of the share is taken to be €15.03, which is the average price of the share from 1 January 2005 (the date on which the Plan came into effect) through 29 September 2005, the date on which the Board of Directors formally established the Plan.

Under the Plan, the granting of shares is conditional on achieving certain objectives set out in the Regulations. These objectives regard orders (while maintaining expected margins) for 40% of the shares and economic value added (EVA) for 60% of the shares. Shares would be granted as follows: 25% for achieving targets in each of 2005 and 2006 and 50% for 2007 targets. Under the Regulations, achievement of the latter could enable "recovery" of share rights that had not been allocated in previous years.

Achievement of the objectives is verified annually by the Remuneration Committee. At its 23 May 2007 meeting, the Committee conducted a review to verify whether the performance targets had been achieved at the Group and company level on the basis of the consolidated and statutory financial statements for 2006, and calculated the number of shares to be granted to each of the beneficiaries for 2006. Upon completion of the review, the Committee

approved the award of a total of 1,072,258 shares (equal to about 76% of the total attributable to 2006. Due to some slight changes in the scope of the beneficiaries that occurred following the date of the Committee meeting, the total number of shares attributable is 1,062,955.

Taking into account the shares attributable with regard to the results achieved in 2006, as well as the quantity of shares already awarded on 1 December 2006, and due to the changes in the scope of Plan Beneficiaries that occurred during the period of its application, the total amount of Finmeccanica - Società per azioni shares attributable to the 598 Plan Participants, in the event of complete achievement of the objective set for 2007, is 3,438,711.

At its 26 July 2007 meeting, the Board of Directors of Finmeccanica, following the 30 May 2007 Shareholders' Meeting's decision to authorise the purchase and use of treasury stock to service the Plan, decided to go ahead with the purchase in several tranches of a maximum of 4,067,880 shares of the Company and therefore authorised the Chairman and CEO to purchase the shares under the conditions provided in the Shareholders' resolution.

The Company currently holds 600,601 treasury shares (equal to 0.413% of the share capital) of which 433,786 are already in service to the Plan.

Previously, on 16 May 2003, the Ordinary and Extraordinary Shareholders' Meeting resolved to approve a Long-Term Three-Year Incentive Plan (*Stock Option Plan*) for the key resources of Finmeccanica S.p.A. and its subsidiaries, which provided for the granting of subscription and purchase options for ordinary shares of Finmeccanica - Società per azioni, subject to the attainment of specific objectives.

When the plan was created, up to 7,500,000 (150,000,000 prior to the reverse split) shares were allocated that could be made available by issuing new shares and/or by purchasing treasury shares, leaving the Board of Directors with the power to choose one or the other instrument in light of how the stock is performing at the time the grant is made and on its performance outlook.

The options granted could be exercised through 31 December 2009, a period in line with the most common standard business practices.

There were 271 Plan beneficiaries including almost all the Group's executives or directors.

Each option granted the right to purchase/subscribe a Finmeccanica share at a price not less than the "normal value" to ensure that the Plan is tax efficient. That value was set at €14.00 (€0.70 prior to the reverse split).

The Plan, following the Shareholders' resolution, was established by the Board of Directors on 12 November 2003 and was entrusted to the management of the Remuneration Committee.

As contained in the Plan Regulations, the Remuneration Committee took steps to verify whether the performance objectives had been attained, based upon the draft individual and consolidated 2004 financial statements approved by the Board of Directors, and calculated the number of options effectively exercisable for each participant.

Upon completion of the verification process, it was discovered that the objectives had been reached, thus permitting the Group to release for the period 60% of the options originally granted, for a total of 3,993,175 (79,863,500 prior to the reverse split) exercisable options, at the fixed price of €14.00 each.

On 21 April 2005, the Board of Directors resolved a paid capital increase of a nominal maximum of €16,432,108.00 through the issuance of a maximum number of 3,734,570 shares (74,691,400 prior to the reverse split), to be offered for subscription at €14.00 (€0.70 prior the reverse split) each (with allocation of the difference to the share premium reserve) to the executives of Finmeccanica - Società per azioni and its subsidiaries, as established by the Remuneration Committee on 4 April 2005.

For the remaining 258,605 options (5,172,100 prior to the reverse split) granted to persons not employed by the company, the Shareholders' Meeting of 1 June 2005 had extended for a

further 18 months the authorization to purchase/sell the corresponding number of treasury shares, taking into consideration that the company already holds 193,500 such shares (3,870,000 prior to the reverse split). In order to ensure that the Incentive Plan was adequately serviced, the Company had purchased 65,105 (1,302,100 prior to the reverse split) shares of treasury stock.

Under the Plan, of the 3,993,175 options granted (79,863,500 prior to the reverse split), 3,198,094 ordinary Finmeccanica shares have effectively been subscribed, with a resulting capital increase of €14,071,613.60, while 91,790 options to purchase treasury stock have been exercised.

The ordinary Shareholders' Meeting of 30 May 2007 also approved a proposed Incentive Plan for the three-year period 2008-2010 for key members of the Finmeccanica Group's management. Under the Plan, beneficiaries are given the right to receive free shares that the Company bought back on the market, and the related request for authorisation to buy back 7,500,000 ordinary shares of Finmeccanica - Società per azioni for a period of 18 months from the date of the resolution pursuant to Article 2357 of the Civil Code.

On 20 April 2007, the Board of Directors of the Company approved the general guidelines for the proposal. The proposed Plan for 2008-2010 is substantially the same as the Plan created for the 2005-2007 period, which, during the period it was implemented proved to be a valid incentive and loyalty tool which also ensured an optimum level of correlation between management compensation and the Company's financial results over the medium term. Based on the experience, the Board of Directors decided to propose to the Shareholders' Meeting that the Plan be confirmed for a further three-year period.

The Plan – called the Performance Share Plan 2008-2010 – consists of the awarding plan Recipients the right to receive free ordinary Finmeccanica - Società per azioni shares through a “closed” cycle of three years, from 1 January 2008 to 31 December 2010, subject to achieving set performance targets for the 2008-2010 three-year period and for each year thereof.

Specifically, the objectives refer to two performance indicators, Orders (an related EBIT) and EVA, and the relative targets set under the 2008-2010 Budget/Plan for the Group of the Subsidiary, based on the operating situation of each beneficiary.

Over the next few months, the details of the mechanisms for carrying out the Performance Share Plan 2008-2010 will be defined, the relative Group and Company targets will be identified, and the Plan's implementing Regulations will be approved. Upon completion of the 2007 management review process, the Board of Directors will identify the Plan beneficiaries.

11. Corporate Governance

The Corporate Governance system of the Company and its compliance generally and as to specific methods of implementation with the model set forth in the Corporate Governance Code, are periodically explained by the Board of Directors in a specific report which is published on the occasion of the Shareholders' Meeting held to approve the financial statements for 2006.

This section briefly explains the main changes made in relation to the Company's Corporate Governance in the first six months of 2007 compared to the financial statements for 2006.

1. **BOARD OF DIRECTORS** – On 28 February 2007, Ernesto Monti resigned his position as a Director of the Company.

On 27 March 2007, the Board appointed Filippo Andreatta as a Director by co-option..

The ordinary Shareholders' Meeting of 30 May 2007 confirmed the appointed of Filippo Andreatta as a member of the Board of Directors of the Company. Dario Scannapieco resigned his position as a Director as of 3 September 2007.

2. **COMMITTEES** - On 14 May 2007, the Board of Directors completed the composition of its internal committees which currently consist of the following members:

- Internal Auditing Committee: Piergiorgio Alberti (Chairman), Franco Bonferroni, Maurizio de Tilla and Gian Luigi Lombardi Cerri.
- Remuneration Committee: Riccardo Varaldo (Chairman), Piergiorgio Alberti, Franco Bonferroni and Dario Scannapieco.
- Strategy Committee: Pier Francesco Guarguaglini (Chairman), Filippo Andreatta, Giovanni Castellaneta, Roberto Petri, Dario Scannapieco, Guido Venturoni and Paolo Vigevano.

3. **LEAD INDEPENDENT DIRECTOR** – On 26 July 2007, Finmeccanica’s Board of Directors, in accordance with the recommendations of the new Corporate Governance Code, appointed Guido Venturoni as Lead Independent Director. Mr. Venturoni is also a member of the Strategy Committee.

Specifically, the Lead Independent Director works with the Chairman and CEO to ensure that the Directors receive timely, complete information; to convene, independently or at the request of other Directors, special meetings of the Independent Directors (at least annually) to discuss topics of interest regarding the workings of the Board of Directors or corporate management; to facilitate the assessment process of the Board of Directors; to assist the Chairman in preparing the annual calendar of Board meetings; to inform the Chairman and CEO of any issues to be examined and assessed by the Board.

The Lead Independent Director will remain in office for the remaining period of the Board’s mandate, i.e. until the Shareholders’ Meeting to approve the 2007 financial statements.

4. **RESPONSIBLE MANAGER**– On 14 June 2007, with regard to the statutory modifications to the corporate bylaws in accordance with the provisions of Law 262/2005 “**Provisions for the protection of savings and the regulation of financial markets**” as modified and supplemented, particularly those contained in Art. 154-bis (1) of the Consolidated Law on Financial Intermediation concerning the methods for appointing and the requirements for the manager responsible for drafting company financial reports, Finmeccanica’s Board of Directors appointed Alessandro Pansa, Co-General Manager of the Company, as this manager through the expiration of the term of office of the current Board of Directors.

In addition, Finmeccanica, aiming to comply with the rules set out in said law, developed a special project to update in accordance with the new regulation which the Group is seizing upon as a further opportunity to continually improve its Corporate Governance. The project, begun during the fourth quarter of 2006, aims to verify the compliance and the management methods of administrative accounting procedures for preparing consolidated and statutory financial statements

5. With regard to the modifications made to the organisational structure and regulatory changes under Legislative Decree 231/01, concerning privileged information and market manipulation (Law 62/2005, the “Market Abuse Law”) as well as a result of the introduction of Law 262/2005 concerning “Provisions for the protection of savings and the regulation of financial markets” as modified and supplemented, Finmeccanica completed its updated **COMPLIANCE PROGRAMME PURSUANT TO LEGISLATIVE DECREE 231/01** and its **CODE OF ETHICS**. This process was completed on 26 July 2007 with Board approval of the new document.

Almost all of the **SUPERVISORY BODIES** in the Group subsidiaries are multi-party in form. The smaller Group companies are single-party in structure pursuant to Art. 6 of Legislative Decree 231/01.

As to the general process of implementing the requirements of Legislative Decree 231/01 within the Group, it should be noted that the Compliance Programme and the consequent implementing actions were approved by the Boards of Directors of the subsidiaries. In addition, the Group has substantially initiated the process of updating it to reflect changes in the law and the organisation of the Group companies which is expected to be completed for the major subsidiaries in 2007.

12. Outlook

Performance in the first half of 2007 improved with respect to the performance in the same period of the previous year and to the forecasts made at that time. In the light of developments to date, there would appear to be no circumstances that would alter the forecasts made for all of 2007 and announced along with the publication of the results for 2006.

The size of the orders backlog at 31 December 2006 defined based on its workability, is such as to guarantee 89% coverage of expected production for the current period and therefore contributes greatly to the achievement of the set performance targets.

As a result, during 2007 we expect overall growth in Group revenues of between 4% and 10% with an increase in EBIT of between 8% and 14% over 2006.

We also expect Group Free Operating Cash Flow (FOCF) to remain substantially the same, given the significant investments in the development of products and communications, necessary to sustain Group growth, that will focus especially on Aeronautics, Helicopters and Defence Electronics.

for the Board of Directors
Pier Francesco Guarguaglini
Chairman and Chief Executive Officer

**ACCOUNTING STATEMENTS AND NOTES TO THE CONSOLIDATED HALF-
YEAR REPORT AT 30 JUNE 2007**

13. Income Statement

<i>(€mil.)</i>	<i>Section</i>	<i>For the six months ended 30 June</i>	
		<i>2007</i>	<i>2006</i>
Revenue	32	5,560	5,337
Revenues from related parties	31	519	369
Other operating revenue	33	222	233
Other operating revenue from related parties	31	2	
Costs for goods	34	(2,366)	(2,135)
Costs for services	34	(1,774)	(1,672)
Costs (net of recoveries) from related parties	31	(34)	(34)
Personnel costs	35	(1,836)	(1,712)
Depreciation, amortisation and impairment	36	(232)	(187)
Other operating costs	33	(195)	(189)
Changes in inventories of work in progress, semi-finished and finished goods		37	259
(-) Capitalisation of internal construction costs	37	410	36
		313	305
Financial income	38	230	643
Financial income from related parties	31	1	1
Financial expense	38	(272)	(253)
Financial expense from related parties	31	(10)	(6)
Effect of accounting for equity investments with equity method	39	7	(10)
<i>Profit before taxes and the effect of discontinued operations</i>		269	680
Income taxes	40	(92)	(105)
(Loss) profit associated with discontinued operations	41		
<i>Net profit</i>		177	575
. <i>Group</i>		159	564
. <i>Minority interests</i>		18	11
Earnings per share	42		
<i>Basic</i>		0.38	1.33
<i>Diluted</i>		0.37	1.32
Earnings per share net of discontinued operations	42		
<i>Basic</i>		0.38	1.33
<i>Diluted</i>		0.37	1.32

14. Balance Sheet

<i>(€mil.)</i>	<i>Section</i>	<u><i>30 June 2007</i></u>	<u><i>31 December 2006</i></u>
<i>Non-current assets</i>			
Intangible assets	8	5,620	5,317
Property, plant and equipment	9	2,795	2,660
Investment properties	10	1	2
Equity investments	11	140	140
Financial assets at fair value	13	854	857
Non-current receivables from related parties	14	12	16
Receivables	15	425	426
Deferred tax assets	40	484	470
Other assets	15	6	9
		<u>10,337</u>	<u>9,897</u>
<i>Current assets</i>			
Inventories	16	3,353	3,095
Contract work in progress	17	3,278	2,823
Receivables from related parties	14	449	438
Trade receivables	18	3,758	3,479
Financial assets at fair value	19	16	21
Tax receivables	20	455	469
Financial receivables	18	452	452
Derivatives	29	115	147
Other assets	21	488	447
Cash and cash equivalents	22	411	2,003
		<u>12,775</u>	<u>13,374</u>
<i>Non-current assets held for sale</i>	41		<u>110</u>
Total assets		<u>23,112</u>	<u>23,381</u>
<i>Shareholders' equity</i>			
Share capital	23	1,861	1,858
Other reserves	23	3,453	3,418
<i>Group shareholders' equity</i>		<u>5,314</u>	<u>5,276</u>
<i>Shareholders' equity of minority interests</i>	23	95	81
<i>Total shareholders' equity</i>		<u>5,409</u>	<u>5,357</u>
<i>Non-current liabilities</i>			
Borrowings	24	1,953	1,979
Severance pay and other employee liabilities	26	1,218	1,238
Provisions for risks and charges	25	393	365
Deferred tax assets	40	344	340
Other liabilities	27	1,236	1,332
		<u>5,144</u>	<u>5,254</u>
<i>Current liabilities</i>			
Advances from customers	17	5,625	5,529
Trade payables to related parties	14	518	594
Trade payables	28	3,466	3,486
Borrowings	24	784	881
Tax payables	20	249	322
Provisions for risks and charges	25	553	571
Derivatives	29	76	104
Other liabilities	27	1,288	1,200
		<u>12,559</u>	<u>12,687</u>
<i>Liabilities directly correlated with assets held for sale</i>	41		<u>83</u>
Total liabilities		<u>17,703</u>	<u>18,024</u>
Total liabilities and shareholders' equity		<u>23,112</u>	<u>23,381</u>

15. Cash Flow statement

<i>(€mil.)</i>	<i>Section</i>	<i>For the six months ended 30 June</i>	
		<i>2007</i>	<i>2006</i>
<i>Cash flow from operating activities:</i>			
Gross cash flow from operating activities	43	669	626
Changes in working capital	43	(956)	(710)
Changes in other operating assets and liabilities	43	(208)	28
Financial charges paid		(66)	(58)
Income taxes paid		(91)	(115)
Cash flow used for operating activities		(652)	(229)
<i>Cash flow from investing activities:</i>			
Acquisitions of companies, net of cash acquired	11	(416)	(141)
Investments in property, plant and equipment and intangible assets		(614)	(281)
Disposals of property, plant and equipment and intangible assets		13	40
Ansaldo STS IPO	5	-	458
Other investing activities		19	64
Cash flow generated from (used in) investing activities		(998)	140
<i>Cash flow from financing activities:</i>			
Extinguishment of debenture loans	24	(6)	-
Net change in other financial payables		217	(73)
Dividends paid to shareholders of the Group Parent	23	(149)	(211)
Dividends paid to minority shareholders	23	(2)	(3)
Cash flow used for financing activities		60	(287)
Net increase in cash and cash equivalents		(1,590)	(376)
Translation differences		(2)	(5)
Cash and cash equivalents at 1 January		2,003	1,061
Cash and cash equivalents at 30 June 2007	22	411	680

16. Statement of changes in shareholders' equity

<i>€mil.</i>	Share capital	Retained earnings and consolidation reserve	Other reserves	Group shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at 31 December 2005	1,858	2,173	413	4,444	154	4,598
Change in the fair value of assets available for sale and transfers to the income statement			(155)	(155)		(155)
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			81	81	(1)	80
Repurchase of treasury shares (net)	(19)			(19)		(19)
Allocations for stock grant plans			8	8		8
Translation differences			(9)	(9)	(3)	(12)
Dividends		(211)		(211)	(3)	(214)
Share capital increases				0	1	1
Share capital increase for exercise of stock options	6	15	(2)	19		19
Change in the scope of the consolidation area and other minor changes		26		26	(92)	(66)
Net profit at 30 June 2006		564		564	11	575
Shareholders' equity at 30 June 2006	1,845	2,567	336	4,748	67	4,815
Shareholders' equity at 31 December 2006	1,858	2,933	485	5,276	81	5,357
Change in the fair value of assets available for sale and transfers to the income statement			14	14		14
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			6	6	(1)	5
Repurchase of treasury shares (net)				0		0
Allocations for stock grant plans			15	15	1	16
Translation differences			(11)	(11)	1	(10)
Dividends		(149)		(149)	(2)	(151)
Share capital increase for exercise of stock options	3	5		8		8
Change in the scope of the consolidation area and other minor changes		(4)		(4)	(3)	(7)
Net profit at 30 June 2007		159		159	18	177
Shareholders' equity at 30 June 2007	1,861	2,944	509	5,314	95	5,409

Section

23

23

for the Board of Directors
Pier Francesco Guarguaglini
Chairman and Chief Executive Officer

17. Notes to the consolidated report for the half-year ended 30 June 2007

I. GENERAL INFORMATION

Finmeccanica is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Milan stock market (S&P/MIB).

The Finmeccanica Group is a major Italian high technology organisation. Finmeccanica S.p.A., the holding company responsible for guiding and controlling industrial and strategic operations, coordinates its subsidiaries (the Finmeccanica Group or, simply, the Group), which are especially concentrated in the fields of helicopters, defence, aeronautics, space, energy and transportation.

II. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

Pursuant to Article 81 of the Issuers Regulation no. 11971/99 as amended and integrated, the consolidated report of the Finmeccanica Group for the half-year ended 30 June 2007 has been prepared in accordance with IAS 34 'Interim Financial Reporting' issued by the International Accounting Standards Board (IASB), as endorsed at the date of presentation of this half-year report.

In application of Regulation (EC) No. 1606/2002 of 19 July 2002, the consolidated half-year report of the Finmeccanica Group at 30 June 2007 was prepared in accordance with the international accounting standards (IFRSs) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB).

The general principle used in preparing these consolidated financial statements is the cost method, except for the recognition of derivative instruments and some financial assets, which must or – to the extent of financial assets – can be recognised at fair value under IAS 39.

Among the options permitted by IAS 1, the Group has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the items. Instead, the cash flow statement was prepared using the indirect method.

All figures are shown in millions of euros unless otherwise indicated.

Preparation of the consolidated quarterly report required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 5.

The consolidated half-year report at 30 June 2007, which was prepared in accordance with IFRS, has been audited on the basis of a specific engagement of PricewaterhouseCoopers S.p.A.

III. ACCOUNTING POLICIES ADOPTED

III.1 Standards and scope of consolidation

The consolidated accounts for the half-year ended 30 June 2007 include the statements of the companies/entities included in the scope of consolidation ('consolidated entities'), which have been prepared in accordance with the IFRSs adopted by the Finmeccanica Group. Below is a list of the consolidated entities and the respective shares held either directly or indirectly by the Group:

List of companies consolidated on a line-by-line basis

Company Name	Registered Office	% owned by the Group		% owned by the Group
		Directly	Indirectly	
ADVANCED TECHNOLOGIES SRL	Pianezza (Turin)		100	100
AEROMECCANICA S.A.	Luxembourg	99.967		100
AGUSTA AEROSPACE CORP. USA	Wilmington Delaware (USA)		100	100
AGUSTA AEROSPACE SERVICES A.A.S. S.A.	Grace Hollogne (Belgium)		98	98
AGUSTA HOLDING BV	Amsterdam (the Netherlands)		100	100
AGUSTA SPA	Cascina Costa (Varese)		100	100
AGUSTA US INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Melbourne (Australia)		100	100
AGUSTAWESTLAND BELL LLC	Wilmington, Delaware (USA)		51	51
AGUSTAWESTLAND DO BRASIL LTDA	Sao Paulo (Brazil)		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Farnborough (U.K.)		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil Somerset (U.K.)		100	100
AGUSTAWESTLAND INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND NORTH AMERICA INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND NV	Amsterdam (the Netherlands)	100		100
AGUSTAWESTLAND PROPERTIES LTD	Yeovil Somerset (U.K.)		100	100
ALENIA AERMACCHI SPA	Venegono Superiore (Varese)		99.998	99.998
ALENIA AERONAUTICA SPA	Pomigliano (Naples)	100		100
ALENIA AERONAVALI SPA	Tessera (Venice)		100	100
ALENIA COMPOSITE SPA	Grottaglie (Taranto)		97	97
ALENIA IMPROVEMENT SPA	Pomigliano D'Arco (Naples)		100	100
ALENIA NORTH AMERICA-CANADA CO	Halifax (Canada)		100	88.409
ALENIA NORTH AMERICA INC.	New Castle, Delaware (USA)		88.409	88.409
ALENIA S.I.A. SPA	Turin		100	100
AMTEC SPA	Piancastagnaio (Siena)		100	100
ANSALDO ENERGIA SPA	Genoa	100		100
ANSALDO FUEL CELLS SPA	Genoa		78.43	78.43
ANSALDO INDUSTRIA SPA (IN LIQ.)	Genoa		100	100
ANSALDO NUCLEARE SPA	Genoa		100	100
ANSALDO RICERCH SPA	Genoa		100	100
ANSALDO SEGNALAM. FERROVIARIO SPA	Tito (Potenza)		100	40
ANSALDO SIGNAL.ESPANA S.A.	Madrid (Spain)		100	40
ANSALDO SIGNAL.FINLAND O.Y.	Helsingfors (Finland)		100	40
ANSALDO SIGNAL NV	Amsterdam (the Netherlands)		100	40
ANSALDO SIGNAL SWEDEN AB	Spanga (Svezia)		100	40
ANSALDO SIGNAL UK LTD	London (U.K.)		100	40
ANSALDO SIGNAL IRELAND LTD	CO. KERRY (Ireland)		100	40
ANSALDO STS SPA	Genoa	40		40
ANSALDO TRASPORTI - SIST. FERROV. SPA	Naples		100	40
ANSALDOBRED A INC.	New York (USA)		100	100
ANSALDOBRED A SPA	Naples	100		100
ASIA POWER PROJECTS PRIVATE LTD	Bangalore (India)		100	100
AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA	Les Ulis (France)	99.999		39.9996
BEIJING CS SIGNAL. CONTR. SYST. CO. LTD	Beijing (China)		80	32
BREDAMENARINIBUS SPA	Bologna	100		100
CSEE TRANSPORT HONG KONG LTD	Hong Kong (China)		100	40
CSEE TRANSPORT SA	Les Ulis (France)		99.999	40
CONSULTANCY AND PROJECTS GROUP SRL (IN LIQ.)	Rome		100	100
DATAMAT SOLUZIONI PER LE IMPRESE SRL (IN LIQ.)	Rome		100	100
DATAMAT SPA	Rome	95.755	4.245 (*)	100
DATAMAT (SUISSE) SA (IN LIQ.)	Lugano (Svizzera)		100	100
DATASPAZIO-TELESPAZIO e DATAMAT PER L'INGEGNERIA DEI SISTEMI SPA	Rome		100	83.83
DAVIES INDUSTRIAL COMMUNICATIONS LTD	Coventry (U.K.)		100	100
ELECTRON ITALIA SRL	Rome		80	80
ELSACOM NV	Amsterdam (the Netherlands)	100		100
ELSACOM SPA	Rome		100	100
ELSAG SPA	Genoa	100		100
ELSAG BANKLAB SPA	Genoa		100	100
ELSAG DOMINO SPA	Genoa		100	100
ENERGY SERVICE GROUP LTD	Wurenlingen (Svizzera)		100	100
E-SECURITY SRL	Montesilvano (Pescara)		79.69	79.69
FATA AUTOMATION SPA (IN LIQ.)	Pianezza (Turin)		100	100
FATA DTS SPA	Pianezza (Turin)		100	100
FATA ENGINEERING SPA	Pianezza (Turin)		100	100
FATA GROUP SPA (IN LIQ.)	Pianezza (Turin)		100	100
FATA HANDLING SPA (IN LIQ.)	San Marco Evangelista (Caserta)		100	100
FATA HUNTER INC.	Riverside (USA)		100	100
FATA SPA	Pianezza (Turin)	100		100

List of companies consolidated on a line-by-line basis (continued)

Company Name	Registered Office	% owned by the Group		% owned by the Group
		Directly	Indirectly	
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)		100	100
FINMECCANICA FINANCE SA	Luxembourg	73.6395	26.3578	99.9973
FINMECCANICA GROUP REAL ESTATE SPA	Rome	100		100
FINMECCANICA GROUP SERVICES SPA	Rome	100		100
GALILEO AVIONICA SPA	Campi Bisenzio (Florence)		100	100
ITALDATA INGEGNERIA DELL'IDEA SPA	Rome		51	51
KEYCAB SPA	Rome		100	100
LARIMART SPA	Rome		60	60
MECFINT (JERSEY) LTD	Luxembourg		99.999	99.996
METASISTEMI SPA	Rome		100	100
NET SERVICE SRL	Bologna		70	70
OTE MOBILE TECHNOLOGIES LIMITED	Warwckshire (U.K.)		100	100
OTE SPA	Firenze		100	100
OTO MELARA IBERICA SA	Valencia (Spain)		100	100
OTO MELARA SPA	La Spezia	100		100
PROD-EL - PRODOTTI ELETTRONICI SPA	Milan		100	100
QUADRICS LTD	Bristol (U.K.)		100	100
SAGEM ITALIA SRL	Genoa		100	100
SECURTEAM SRL	Rome		100	100
SEICOS SPA	Rome	100		100
SELENIA MARINE CO. LTD (IN LIQ.)	Coventry (U.K.)		99.99996	99.99996
SELENIA MOBILE SPA	Chieti Scalo (Chieti)		100	100
SELEX COMMUNICATIONS DO BRASIL LTDA	Rio de Janeiro (Brazil)		100	100
SELEX COMMUNICATIONS GMBH	Backnang (Germany)		100	100
SELEX COMMUNICATIONS HOLDINGS LTD	Chelmsford (U.K.)		100	100
SELEX COMM INC	Mountain View (USA)		100	100
SELEX COMMUNICATIONS INTERNATIONAL LTD	Coventry (U.K.)		100	100
SELEX COMMUNICATIONS LTD	Coventry (U.K.)		100	100
SELEX COMMUNICATIONS ROMANIA SRL	Bucharest (Romania)		99.976	99.976
SELEX COMMUNICATIONS SPA	Genoa	100		100
SELEX KOMUNIKASYON AS	GOLBASI (Turkey)		99.999	99.999
SELEX COMMUNICATIONS SECURE SYSTEMS LTD	Coventry (U.K.)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS SPA	Campi Bisenzio (Florence)	100		100
SELEX SENSORS AND AIRBORNE SYSTEMS LTD	Essex (U.K.)		100	100
SELEX SERVICE MANAGEMENT SPA	Rome	100		100
SELEX SISTEMI INTEGRATI GMBH	Neuss (Germany)		100	100
SELEX SISTEMI INTEGRATI INC.	Delaware (USA)		100	100
SELEX SISTEMI INTEGRATI LTD	Portsmouth Hampshire (U.K.)		100	100
SELEX SISTEMI INTEGRATI SPA	Rome	100		100
SC ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)		50.5	50.4997
SIRIO PANEL SPA	Montevarchi (Arezzo)		75	75
SISTEMI E TELEMATICA SPA	Genoa		92.793	92.793
SO.GE.PA. SOC. GEN. DI PARTECIPAZIONI SPA	Genoa	100		100
SPACE SOFTWARE ITALIA SPA	Taranto		100	100
TECNOSIS SPA	Genoa		100	100
THOMASSEN TURBINE SYSTEMS BV	Rheden (the Netherlands)		100	100
TRANSCONTROL CORPORATION	Wilmington, Delaware (USA)		100	40
TRIMPROBE SPA	Rome	100		100
UNION SWITCH & SIGNAL (MALAYSIA) SDN BHD	Kuala Lumpur (Malaysia)		100	40
UNION SWITCH & SIGNAL INC. (USA)	Dover, Delaware (USA)		100	40
UNION SWITCH & SIGNAL INC. (CAN)	Burlington, Ontario (Canada)		100	40
UNION SWITCH & SIGNAL INT. CO.	Wilmington, Delaware (USA)		100	40
UNION SWITCH & SIGNAL INT. PROJECTS CO.	Dover, Delaware (USA)		100	40
UNION SWITCH & SIGNAL PRIVATE LTD	Bangalore (India)		100	40
UNION SWITCH & SIGNAL PTY LTD	Sidney (Australia)		100	40
WESTLAND HELICOPTERS INC.	Wilmington, Delaware (USA)		100	100
WESTLAND HELICOPTERS LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND INDUSTRIES LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND TRANSMISSIONS LTD	Yeovil, Somerset (U.K.)		100	100
WHITEHEAD ALENIA SIST.SUBACQUEI SPA	Genoa	100		100

(*) Ownership of treasury shares

List of companies consolidated using the proportionate method

Company Name	Registered Office	% owned by the Group		% owned by the Group
		Directly	Indirectly	
THALES ALENIA SPACE SAS	Paris (France)	33		33
THALES ALENIA SPACE FRANCE SAS	Paris (France)		100	33
THALES ALENIA SPACE ITALIA SPA	Rome		100	33
THALES ALENIA SPAZIO NORTH AMERICA INC	Wilmington (USA)		100	33
THALES ALENIA SPACE ESPANA SA	Madrid (Spain)		100	33
THALES ALENIA SPACE ETCA SA	Charleroi (Belgium)		100	33
THALES ALENIA SPACE ANTWERP SA	Hoboken (Belgium)		100	33
FORMALEC SA	Paris (France)		100	33
MARILEC SA	Paris (France)		100	33
VANELEC SAS	Paris (France)		100	33
TELESPAZIO HOLDING SRL	Rome	67		67
TELESPAZIO FRANCE SAS	Toulouse (France)		100	67
TELESPAZIO DEUTSCHLAND GMBH	Gilching (Germany)		100	67
TELESPAZIO SPA	Rome		100	67
E-GEOS SPA	Matera		55	36.85
EURIMAGE SPA	Rome		51	34.17
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)		98.534	66.018
TELESPAZIO NORTH AMERICA INC.	Doover, Delaware (USA)		100	67
TELESPAZIO HUNGARY SAT. TELEC. LTD	Budapest (Hungary)		100	67
RARTEL SA	Bucharest (Romania)		61.061	40.91
TELESPAZIO ARGENTINA S.A.	Buenos Aires (Argentina)		100	66.950
MARS SRL	Naples		100	67
GAF AG	Munich (Germany)		100	67
EUROMAP SATELLITENDATEN-VERTRIEB MBH	Neustrelitz (Germany)		100	67
AMSH BV	Amsterdam (the Netherlands)	50		50
MBDA SAS	Paris (France)		50	25
MBDA ITALIA SPA	Rome		100	25
MBDA UK LTD	Stevenage (U.K.)		100	25
MBDA FRANCE SA	Paris (France)		100	25
MATRA ELECTRONIQUE SA	Paris (France)		100	25
MBDA INCORPORATED	Wilmington, Delaware (USA)		100	25
MBDA TREASURE COMPANY LTD	Jersey (U.K.)		100	25
MBDA SERVICES SA	Paris (France)		99.76	24.94
MARCONI OVERSEAS LTD	London (U.K.)		100	25
LFK-LENKFLUGKORPERSYSTEME GMBH	Unterschleißheim(Germany)		100	25
AVIATION TRAINING INTERNATIONAL LIMITED	Dorset (U.K.)		50	50
CONSORZIO ATR GIE e S.P.E.	Toulouse (France)		50	50
GLOBAL AERONAUTICA LLC	Delaware (USA)		50	44.2045
GLOBAL MILITARY AIRCRAFT SYSTEMS LLC	Greenville (USA)		50	44.2045
LMATTS LLC	Georgia (USA)		50	44.2045

List of companies consolidated using the equity method

Company Name	Registered Office	% owned by the Group		% owned by the Group
		Directly	Indirectly	
ABRUZZO ENGINEERING SCPA	L'Aquila		30	30
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)		43.043	43.043
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Darul Ehsan (Malaysia)		40	40
ADVANCED LOGISTICS TECHNOLOGY ENGINEERING CENTER SPA	Turin		51	16.83
ALENIA HELLAS SA	Kolonaki (Athens) (Greece)		100	100
ALIFANA DUE SCRL	Naples		53.34	21.336
ALIFANA SCRL	Naples		65.85	26.34
ANSALDO ARGENTINA SA	Buenos Aires (Argentina)		99.98	99.98
ANSALDO DO BRASIL E.E. LTDA	San Paolo (Brazil)		99.999	99.999
ANSALDOBREDAS ESPANA SLU	Madrid (Spain)		100	100
ANSALDO ELECTRIC DRIVES SPA	Genoa		100	100
ANSALDO - E.M.I.T. SCRL	Genoa		50	50
ANSALDO ENERGY INC.	Wilmington, Delaware(USA)		100	100
ANSALDO INVEST DENMARK AS (IN LIQ.)	Gentofte (Denmark)		100	100
ANSERV SRL	Bucharest (Romania)		100	100
AUTOMATION INTEGRATED SOLUTIONS SPA	Pianezza (Turin)		40	40
AVIONS DE TRANSPORT REGIONAL IRELAND LIMITED	Dublin (Ireland)		50	50
BELL AGUSTA AEROSPACE COMPANY LLC	Wilmington, Delaware (USA)		45	45
BRITISH HELICOPTERS LTD	Yeovil, Somerset (U.K.)		100	100
CARDPRIZE TWO LIMITED	Basildon, Essex (U.K.)		100	100
CLOSED JOINT STOCK COMPANY MAREMS	Moscow (Russia)		49.001	49.001
COMLENIA SENDIRIAN BERHAD	Selangor Darul Ehsan (Malaysia)		30	30
CONSORZIO START SPA	Rome		40	40
CONTACT SRL	Naples		30	30
DIGINT S.R.L.	Milan		49	49
DOGMATIX LEASING LIMITED	Mauritius Islands		100	50
ECOSEN SA	Caracas (Venezuela)		48	19.2
ELETTRONICA SPA	Rome	31.333		31.333
ELSACOM BULGARIA AD	Sofia (Bulgaria)		90	90
ELSACOM HUNGARIA KFT	Budapest (Hungary)		100	100
ELSACOM SLOVAKIA SRO	Bratislava (Slovakia)		100	100
ELSACOM-UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)		49	49
ELSAG EASTERN EUROPE SRL (IN LIQ.)	Bucharest (Romania)		75	75
HR GEST SPA	Genoa		30	30
ELSAG INC.	Washington D.C. (USA)		100	100
ENCOM CONSTRUCCOES E MONTAGENS LTDA	S. Paolo (Brazil)		95.555	95.555
ENERGECO GAS ITALIA SRL	Brindisi		22.631	22.631
EURISS NV	Leiden (the Netherlands)		25	8.25
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER INTERN. LTD	London (U.K.)		21	21
EUROFIGHTER SIMUL. SYST. GMBH	Unterhaching (Germany)		24	24
EUROMIDS SAS	Paris (France)		25	25
EUROPEA MICROFUSIONI AEROSPAZIALI SPA	Morra De Sanctis (Avellino)	49		49
EURO PATROL AIRCRAFT GMBH	Munich (Germany)		50	50
EUROSATELLITE FRANCE SA	France		99.76	32.92
EUROSYSNAV SAS	Paris (France)	50		50
FATA AUTOMATION SRO (IN LIQ.)	Kosmonosy (Czech Republic)		100	100
FATA CONTRACTING LTD	Moscow (Russia)		100	100
FATA HUNTER INDIA PVT LTD	New Dehli (India)		100	100
FATA POLAND LTD (IN LIQ.)	Bielsko Biala (Poland)		100	100
FINMECCANICA INC.	Dover, Delaware (USA)	100		100
FINMECCANICA UK LTD	London (U.K.)	100		100
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH	Ottobrunn (Germany)	18.94	18.94	25.19
EUROPEAN SATELLITE NAVIGATION INDUSTRIES SA	Brussels (Belgium)	18.94	18.94	25.19
GALILEO VACUUM SYSTEMS SPA	Prato		24.9	24.9
GROUPEMENT IMMOBILIER AERONAUTIQUE G.I.A. S.A.	Blagnac (France)		20	20
IAMCO SCRL	Mestre (Venice)		20	20
ICARUS SCPA	Turin		49	49
IGS SPA (IN LIQ.)	Rome		100	100
IMMOBILIARE CASCINA SRL	Gallarate (Varese)		100	100
IMMOBILIARE FONTEVERDE SRL	Rome		60	48
INDRA ESPACIO SA	France		49	16.17
INTERNATIONAL LAND SYSTEMS INC.	Wilmington, Delaware (USA)		28.37	19
IRIDIUM ITALIA SPA (IN LIQ.)	Rome		35	35
I.M. INTERMETRO SPA	Rome		33.333	23.338
I.T.I.S.A. SA (IN LIQ.)	Nanterre (France)		100	100

List of companies consolidated using the equity method (continued)

<i>Company Name</i>	<i>Registered Office</i>	<i>% owned by the Group</i>		<i>% owned by the Group</i>
		<i>Directly</i>	<i>Indirectly</i>	
IVECO FIAT - OTO MELARA SCRL	Rome		50	50
JIANGXI CHANGE AGUSTA HELICOPTER CO. LTD	Zone Jiangxi Province (China)		40	40
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Lybia)	25	25	50
MACCHI HUREL DUBOIS S.A.S.	Meudon La Foret (France)		50	49.99
MEDESSAT SAS	Toulouse (France)		28.801	19.296
METRO 5 SPA	Milan		31.9	17.14
MUSI NET ENGINEERING SPA	Turin		49	49
NAHUELSAT S.A.	Buenos Aires (Argentina)	33.332		33.33
NGL PRIME SPA	Turin	30		30
N.H. INDUSTRIES SARL	Aix en Provence (France)		32	32
NICCO COMMUNICATIONS SAS	Colombes (France)		50	50
NNS - SOC. DE SERV. POUR REACTEUR RAPIDE S.N.C.	Lyon (France)		40	40
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	49		49
OTE M	Moscow (Russia)		100	100
OTO MELARA NORTH AMERICA INC.	Dover, Delaware (USA)		100	100
PEGASO SCRL	Rome		46.87	18.748
POLARIS SRL	Genoa		50	50
PT DAYALISTRİK PRATAMA (IN LIQ.)	Jakarta (Indonesia)		45	45
QUADRICS INC	New Castle, Delaware (USA)		100	100
REMINGTON ELSAG LAW ENFORCEMENT SYST.	Madison (USA)		50	50
ROXEL SAS	Le Plessis Robinson (France)		50	12.5
SAN GIORGIO SA	Paris (France)		99.97	99.97
SAPHIRE INTERNAT. ATC ENGINEERING CO. LTD	Beijing (China)		65	65
SATELLITE TERMINAL ACCESS SA (IN LIQ.)	France		21.19	6.993
SELEX SENSORS AND AIRBORNE SYSTEMS ELECTRO OPTICS (OVERSEAS) LTD	Basildon Essex (U.K.)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS INFRARED LTD	Basildon Essex (U.K.)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS (US) INC	Wilmington, Delaware (USA)		100	100
SELEX SISTEMI INTEGRATI DE VENEZUELA S.A.	Caracas (Venezuela)		100	100
SEVERNYJ AVTOBUZ Z.A.O.	S. Pietroburgo (Russia)		35	35
SISTEMI DINAMICI SPA	S. Piero a Grado (Pisa)		40	40
SOGELI - SOCIETA' DI GESTIONE DI LIQ. SPA	Rome		100	100
SOSTAR GMBH	Immerstad (Germany)		28.2	28.2
TELBIOS SPA	Milan		31.034	20.793
TELESPAZIO NETHERLAND BV	Enschede (the Netherlands)		100	67
THOMASSEN SERVICE AUSTRALIA PTY LTD	Canning Vale (Australia)		100	100
THOMASSEN SERVICE GULF LLC	Abu Dhabi, United Arab Emirates		49	49
TRADE FATA B.V.	Rotterdam (the Netherlands)		100	100
WESTLAND INDUSTRIAL PRODUCTS LTD	Yeovil Somerset (U.K.)		100	100
WITG L.P. INC.	Dover, Delaware (USA)		24	21.22
WITG L.P. LTD	Dover, Delaware (USA)		20	17.68
ZAO ARTETRA	Moscow (Russia)		51	51

List of companies valued at fair value

<i>Company Name</i>	<i>Registered Office</i>	<i>% owned by the Group</i>		<i>% owned by the Group</i>
		<i>Directly</i>	<i>Indirectly</i>	
BCV INVESTMENTS S.C.A.	Luxembourg		15	15
BCV MANAGEMENT S.A.	Luxembourg		15	15
STMICROELECTRONICS HOLDING NV (*)	Amsterdam (the Netherlands)	20		20

(*) Valued as an "asset held for sale"

List of subsidiaries and associates valued at cost

<i>Company Name</i>	<i>Registered Office</i>	<i>% owned by the Group</i>		<i>% owned by the Group</i>
		<i>Directly</i>	<i>Indirectly</i>	
ANSALDO STS DEUTSCHLAND GMBH	Berlino (Germany)		100	40
CCRT SISTEMI SPA (IN FALL.)	Milan		30.34	30.34
EUROPEAN CO. FOR MOBILE COMM. SERV. BV (IN LIQ.)	Amstelveen (the Netherlands)		100	100
FOSCAN SRL (IN FALL.)	Anagni (Frosinone)		20	20
IND.AER.E MECC.R.PIAGGIO SPA(AMM.STR.)	Genoa	30.982		30.982
INTERNATIONAL METRO SERVICE S.R.L.	Milan		49	19.60
SAITECH SPA (IN FALL.)	Passignano (Perugia)		40	40
SCUOLA ICT S.r.l.	L'Aquila	20		20
SELEX PENSION SCHEME (TRUSTEE) LTD	Basildon (UK)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS (PROJECTS) LTD	Basildon (UK)		100	100
UNION SWITCH & SIGNAL (CHILE) LTDA	Santiago (Chile)		68	27.2
U.V.T. SPA (IN FALL.)	San Giorgio Jonico (Taranto)		50.613	50.613
U.V.T. ARGENTINA S.A.	Buenos Aires (Argentina)		60	30.368

Subsidiaries and entities controlled jointly

In particular, the entities over which Finmeccanica exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising a dominant influence through the power to govern the financial and operating policies of an entity and obtain the related benefits regardless of the nature of the shareholding, have been consolidated on a line-by-line basis.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia which, by charging costs to their members, do not have their own financial results and the financial statements of which do not, net of intercompany assets and liabilities, have material balances) or their current status (e.g. companies that are no longer operational, have no assets or personnel, or for which the liquidation process appears to be essentially concluded), would be immaterial to the Group's situation in both quantitative and qualitative terms. These holdings have been consolidated using the equity method.

Participating interests in entities (including special-purpose entities) over which control is exercised jointly with other parties are consolidated proportionally (so as to incorporate only the value of the assets, liabilities, costs and income proportional to the percentage held without, therefore, including the holdings of the other parties).

All controlled entities are consolidated at the date on which control was acquired by the Group. The entities are removed from the consolidated financial statements at the date on which the Group relinquishes control.

Business combinations are recognised using the purchase method, whereby the acquirer purchases the equity and recognises all assets and liabilities, even if merely potential, of the acquired company. The cost of the transaction includes the fair value at the date of purchase of the assets sold, the liabilities assumed, the capital instruments issued, and all other incidental charges. Any difference between the cost of the transaction and the

fair value at the date of purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded as an expense immediately at the purchase date.

In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group Parent.

Amounts resulting from transactions with consolidated entities have been eliminated, particularly where related to receivables and payables outstanding at the end of the period, as well as interest and other income and expenses recorded on the income statements of these enterprises. Also eliminated are the net profits or losses posted between the consolidated entities along with their related tax adjustments.

The consolidated entities all close their financial years on 31 December. The Group half-year financial statements have been prepared based on the ending balances at 30 June.

Other equity investments

Investments in entities over which significant influence is exercised, which generally corresponds to a holding of between 20% and 50%, are accounted for either using the equity method or at fair value. In the case of the equity method, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of consolidated financial statements. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Any value losses in excess of book value are recorded in the provision for risks on equity investments if there is an obligation to cover these losses.

The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared (in this case 29 June 2007).

III.2 Segment information

The Group considers the organisation by industry to be ‘primary’, as company risks and benefits are influenced significantly by differences in the products and services provided, with the organisation by geographic area being ‘secondary’, as company risks and benefits are also significantly influenced by operating in different countries or different geographic areas.

III.3 Currency translation

Identification of the functional currency

The balances of the financial statements of each Group entity are presented in the currency of the primary economy in which each enterprise operates (the functional currency). The consolidated half-year financial statements for the Finmeccanica Group have been prepared in euros, which is the functional currency of the Group Parent.

Translation of transactions denominated in a foreign currency

Items expressed in a currency other than the functional currency, whether monetary (cash and cash equivalents, receivables or payables due in pre-set or measurable amounts, etc.) or non-monetary (advances to suppliers of goods and services, goodwill, intangible assets, etc.), are initially recognised at the exchange rate prevailing at the date on which the transaction takes place. Subsequently, the monetary items are translated into the functional currency based on the exchange rate at the reporting date, and any differences resulting from this conversion are recognised in the income statement. Non-monetary items continue to be carried at the exchange rate on the date of the transaction, except in situations where there is a persistent unfavourable trend in the exchange rate concerned. If this is the case, exchange differences are recognised in the income statement.

Translation of financial statements expressed in a currency other than the functional currency

The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy—a situation not applicable to the Group) are as follows:

- the assets and liabilities presented, even if solely for comparative purposes, are translated at the end-of-period exchange rate;
- costs and revenues, charges and income presented, even if solely for comparative purposes, are translated at the average exchange rate for the period in question, or at the exchange rate on the date of the transaction in the event this is significantly different from the average rate;
- the 'translation reserve' includes both the exchange rate differences generated by the translation of balances at a rate different from that at the close of the period and those that are generated by the translation of opening balances of shareholders' equity at a rate different from that at the close of the period.

Goodwill and adjustments to fair value related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.

III.4 Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate future economic benefits for the company. They are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any permanent impairments of value. Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset is recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

Development costs

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised over the entire period in which the future earnings are expected to be realised for the project itself. If such costs fall within the scope of costs defined by Group standards as ‘non-recurring costs’, they are recognised in a specific item under intangible assets (Section 4.1).

Research costs, on the other hand, are expensed in the period in which they are incurred.

Industrial patent and intellectual property rights

Patents and intellectual property rights are carried at acquisition cost net of amortisation and accumulated impairment losses. Amortisation begins in the period in which the rights acquired are available for use and is calculated based on the shorter of the period of expected use and that of ownership of the rights.

Concessions, licences and trademarks

This category includes: concessions, i.e. government measures that grant private parties the right to exclusive use of public assets or to manage public services under regulated conditions; licences that grant the right to use patents or other intangible assets for a determinate or determinable period of time; trademarks that establish the origin of the products of a given company; and licences for the know-how or software owned by others. The costs, including the direct and indirect costs incurred to obtain such rights, can be capitalised after receiving title to the rights themselves and are amortised systematically over the shorter of the period of expected use and that of ownership of the rights.

Goodwill

Goodwill recognised as an intangible asset is associated with business combinations and represents the difference between the cost incurred to acquire a company or division and the Group's share of the sum of the values assigned, based on current values at the time of the acquisition, to the individual assets and liabilities of the given company or division. As it does not have a definite useful life, goodwill is not amortised but is subject to impairment tests conducted at least once a year, unless market and operational factors identified by the Group indicate that an impairment test is also necessary in the preparation of interim financial statements. In conducting an *impairment test*, goodwill is allocated to the individual cash-generating units (CGUs), i.e. the smallest financially independent business units through which the Group operates in its various market segments.

Goodwill related to the acquisition of consolidated companies is recognised under intangible assets. Goodwill related to unconsolidated associated companies or subsidiaries is included in the value of investments.

III.5 Property, plant and equipment

Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition.

Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public capital grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the period of actual use of

the asset. The estimated useful lives adopted by the Group for the various asset classes are as follows:

	Years
	indefinite useful
Land	life
Buildings	20-33
Plant and machinery	5-10
Equipment	3-5
Other assets	5-8

In the event the asset to be depreciated is composed of distinct elements with useful lives that are significantly different from those of the other constituent parts, each individual part that makes up the asset is depreciated separately, in application of the component approach to depreciation.

This item also includes equipment intended for specific programmes (tooling), although it is depreciated, as with other non-recurring costs (see Section 4.1), on the basis of units manufactured in relation to those expected to be produced.

The gains and losses from the sale of assets or groups of assets are calculated by comparing the sales price with the related net book value.

III.6 Investment properties

Those investments that can generate cash flows, regardless of the company business, are carried under 'Investment properties'; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any.

III.7 Impairment of intangible assets and property, plant and equipment

Assets with indefinite lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value.

For assets that are depreciated or amortised, an assessment is made to determine whether there is any indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess being recognised in the income statement.

If the reasons for such write-downs should cease to obtain, the asset's book value is restored within the limits of its net book value; the write-back is also taken to the income statement. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

III.8 Equity investments

The Group classifies its equity investments as follows:

- 'subsidiaries' in which the owner of the interest has the power to determine the financial and operating decisions and to receive the related benefits;
- 'associated companies' in which the owner of the interest exercises significant influence (which is assumed to exist when owner can exercise at least 20% of the votes in the ordinary shareholders' meeting). This also includes companies subject to joint control (joint ventures);
- 'parent companies', when the company held holds shares in its own parent;
- 'other companies' that do not fall under any of the categories above.

Equity investments due to be sold and those purchased for the sole purpose of being sold within twelve months are classified separately under 'assets held for sale'.

Subsidiaries (including those subject to joint control), associates and other companies, with the exception of those that are held for sale, are recognised at the cost of purchase or start-up posted in the separate accounts of the companies of the Group that have been prepared for consolidation purposes. The cost value is maintained in subsequent financial statements except in the event of a loss of value, or any write-back, following a change in its economic use or capital transactions. Equity investments held for sale are carried at the lower of cost and fair value net of sales costs.

III.9 Inventories

Inventories are recorded at the lower of cost and net realisable value. The Group used the weighted average cost method. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale. Any write-downs made with regard to any risk of obsolescence are eliminated in future periods if the reason for the write-down should cease to obtain.

The Group classifies inventories as follows:

- Raw materials, supplies and consumables
- Work in progress and semi-finished goods
- Finished products
- Goods

Work in progress is recognised at production cost using the weighted average cost, excluding financial charges and general overheads.

III.10 Contract work in progress

Work in progress is recognised on the basis of progress (or percentage of completion), whereby costs, revenues and margins are recognised based on the progress of production. The state of completion is determined on the basis of the ratio between costs incurred at the measurement date and the total expected costs for the programme.

The valuation reflects the best estimate of the schedules prepared at the reporting date. The assumptions upon which the valuations are made are periodically updated. Any impact on profit or loss are recognised in the period in which the updates are made.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable.

Contract work in progress is recorded net of any write-downs, as well as pre-payments and advances related to the contract being performed.

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under 'due to customers for contract work'. If it has not been collected at the

date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a directly contra-item in trade receivables.

Contracts with payments in a currency other than the functional currency (the euro for the Group) are measured by converting the portion of payments due, calculated using the percentage-of-completion method, at the exchange rate prevailing at the close of the period in question. However, the Group's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically. In such cases, the recognition methods described in Section 4.3 below are applied.

III.11 Receivables and financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity financial assets;
- available-for-sale financial assets.

Management classifies assets at the time they are first recognised.

Financial assets at fair value through profit or loss

This category includes financial assets acquired for the purpose of short-term trading transactions, or designated for this use by management, as well as derivatives, which are discussed in the next section. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement.

The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If the reasons for the write-down should cease to obtain, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

Financial assets held to maturity

These are non-derivative assets with fixed maturities that the Group has the intention and ability to hold to maturity. Those maturing within 12 months are carried as current assets. Should objective evidence of impairment emerge, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

Financial assets available for sale

This category encompasses non-derivative financial assets specifically designated as available for sale or are not classified in any of the previous items. They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ('Reserve for assets available for sale'). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it become evident that the impairment in value already

recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the effective marketability of the security itself. Assets that are expected to be sold within 12 months are carried under current assets.

Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset; reductions in value previously recognised in equity are reversed to profit or loss. If the reasons for the write-down should cease to obtain, the value of the asset is restored.

III.12 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit and loss unless they are deemed eligible for hedge accounting and effective in offsetting the risk in respect of underlying assets, liabilities or commitments undertaken by the Group.

In particular, the Group uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash flow hedges). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see Section 4.3.

The effectiveness of hedges is documented both at the start of the operation and periodically thereafter (at least every time an annual or interim report is published) and measured by comparing changes in the fair value of the hedging instrument against changes in the hedged item ('dollar offset ratio'). For more complex instruments, the measurement involves statistical analysis based on the variation of the risk.

Fair value hedges

Changes in the value of derivatives that have been designated and qualify as fair value hedges are recognised in profit or loss, similarly to the treatment of changes in the fair value of the hedged assets or liabilities that are attributable to the risk that has been offset with the hedge.

Cash flow hedges

Changes in the fair value of derivatives that have been designated and qualify as cash flow hedges are recognised - with reference to the 'effective' component of the hedge only - in a specific equity reserve ('cash flow hedge reserve'), which is subsequently recognised in profit or loss when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in profit or loss for the period. If the derivative is sold, or ceases to function as an effective hedge against the risk for which it was originated, or the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the cash flow hedge reserve is immediately recognised in the income statement.

Determining fair value

The fair value of instruments quoted on public markets is determined with reference to the bid price for the instrument in question at the reference date. The fair value of unquoted instruments is determined with financial valuation techniques. Specifically, the fair value of interest rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the rate differentials among the currencies involved.

III.13 Cash and cash equivalents

The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents, as well as investments maturing in less than three months from the date of acquisition. Cash and cash equivalents are recognised at their fair value.

III.14 Shareholders' equity

Share capital

Share capital consists of the capital subscribed and paid up by the Group Parent. Costs directly associated with the issue of shares are recognised as a decrease in share capital when they are directly attributable to capital operations.

Treasury shares

Treasury stock is recognised as a decrease in Group shareholders' equity. The costs incurred in the issue of new shares by the Group Parent are recognised as decreases in shareholders' equity, net of any deferred tax effect. Gains or losses realised in the acquisition, sale, issue or cancellation of treasury stock are recognised directly in shareholders' equity.

Profits (losses) carried forward

These include net profits or losses for the period and for previous periods that are not distributed or allocated to reserves (for profits) or covered (for losses). The item also includes transfers from other equity reserves when the restrictions on their release cease to apply, as well as the effects of changes in accounting policies and significant errors.

Other reserves

They include the fair value reserve relating to items accounted for using the fair value method recognised in equity and the cash flow hedge reserve in respect of the effective portion of such hedges.

III.15 Payables and other liabilities

Payables and other liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest rate method (see Section 3.22).

Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

III.16 Deferred tax assets

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are calculated by applying the tax rate in force at the time the temporary differences will be reversed. Deferred tax assets are recognised to the extent that it is probable the company will post taxable income at least equal to the temporary differences in the financial periods in which such assets will be reversed.

III.17 Employee benefits

Post-employment benefit plans

Group companies use several types of pension and supplementary benefit plans, which can be classified as follows:

- Defined contribution plans in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;
- Defined benefit plans in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method.

In compliance with IAS 19, the Finmeccanica Group uses the so-called 'corridor' approach in recognising actuarial losses and gains relating to defined benefit plans. This method makes it possible to dilute the effects of changes in the valuation parameters over a number of financial years. Consequently, net actuarial losses and gains at the end of the prior period that exceed the greater of 10% of the present value of the obligation and 10% of the fair value of the benefit plan assets divided by the remaining working life of employees are recognised in each period.

The 'trattamento di fine rapporto', a staff severance pay mechanism peculiar to Italy, is discussed in Note 6.3.

Other long-term benefits and post-employment benefit plans

Group companies grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined benefit plans, using the projected unit credit method. However, the corridor approach cannot be used for 'other long-term benefits'. Consequently, net actuarial gains and losses are recognised both immediately and in full as they occur.

Benefits payable for the termination of employment and incentive plans

Termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring any future economic benefit to the enterprise and are therefore recognised immediately as expenses.

Equity compensation benefits

The Group uses stock option and stock grant plans as part of its compensation of senior management. In these cases, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring the fair value of the assigned instrument using financial valuation techniques that take account of market conditions and, at the date of each annual or interim report, an updated estimate of the number of instruments expected to be distributed.

III.18 Provisions for risks and charges

Provisions for risks and charges cover certain or probable losses and charges whose timing or amount was uncertain at the reporting date.

The provision is recognised only when a current obligation (legal or constructive) exists as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation. The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

III.19 Leasing

Group entities as lessees in a finance lease

At the date on which a lease is first recognised, the lessee records a non-current asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from

principal component of the lease payment made in the period is recognised in the income statement.

Group entities as lessors in a finance lease

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, financial income is recognised in the income statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor's net investment.

The unsecured residual value is reviewed periodically for possible impairment.

Operating leases

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract.

III.20 Revenue

Revenues generated by an operation are recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions.

Revenues also include changes in work in process, the accounting policies for which were described in Section 3.10 above.

Revenues generated from the sale of goods are recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined. Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

III.21 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred. Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense.

III.22 Financial income and expense

Interest is recognised on an accruals basis using the effective interest rate method, i.e. the interest rate that results in the financial equivalence of all inflows and outflows (including any premiums, discounts, commissions etc) that make up a given operation. Financial expense is never capitalised.

III.23 Dividends

Dividends are recognised as soon as shareholders obtain the right to receive payment, which is normally when the shareholders' meeting approves the distribution of dividends.

Dividends distributed to Finmeccanica shareholders are recognised as liabilities for the period in which their distribution is approved by the shareholders' meeting.

III.24 Emission rights

In expectation of specific rules governing emission rights, the Group recognises only income and expense items and assets and liabilities arising from the sale and/or purchase of emission rights to cover deficits for the sale of any surpluses among the shares assigned and the effective emissions produced. Specifically, they are recognized in a special provision for risk if the estimated emissions is higher than the allocated share and if it is believed that the deficit has to be covered by acquiring rights in the marketplace.

III.25 Transactions with related parties

Transactions with related parties are carried out at arm's length.

III.26 Costs

Costs are recorded in compliance with the inherence principle and the matching principle.

III.27 Treatment of income taxes applied in the preparation of interim reports and the seasonality of operations

Treatment of income taxes

In the interim financial statements, income taxes are estimated by applying the expected effective tax rate to the interim pre-tax result.

Cash flows relating to operations

The businesses in which the Group is primarily active are characterized by a high concentration of cash flows from customers in the closing months of the year. This pattern affects both the interim cash flow statements and the volatility of the debt situation of the Group over each interim period, which shows a marked improvement in the final months of the calendar year.

IV. SIGNIFICANT ISSUES

V.1 Non-recurring costs

The Group classifies costs incurred for design activities, prototype development and customisation to technical and operating specifications if clearly identified – if financed by Law 808/1985, which governs state interventions to promote the competitiveness of companies operating in the aeronautics and defence industries –separately among intangible assets. These costs are presented net of incentives received or to be received under Law 808/1985 for programmes qualifying as important for national security or similar purposes. For these programmes, the Law 808/1985 incentives are recognised as

a decrease in capitalised costs, while the royalties due to the Distributing Agency are recognised in the accounts upon verification of satisfaction of the requirements of the applicable law (sale of products incorporating technology eligible for legal subsidies).

As to “Other programmes”, non-recurring costs are recognized under the item “non-recurring costs”, while financing received is recognised among “other liabilities” at the nominal value, with a distinction being made between the current and non-current portions based on the expected date of repayment. In both cases, non-recurring costs are suspended between intangible assets and amortisation on the basis of units manufactured in relation to those expected to be produced. These costs are subject to impairment tests performed at least annually until development is completed, and thereafter if the outlook of the obtaining of contracts changes due to the absence of or delay in expected orders. The test is performed on the basis of the project sale plans, generally over 5 years, in consideration of the especially long life-cycle of the products being developed.

IV.1 Financing for GIE ATR aircraft

In order to enhance its competitive position, in certain cases GIE ATR facilitates access to financing by its customers by providing specific guarantees to third parties (an approach taken by its direct competitors), an activity that in the past it also conducted through special purpose entities.

Where, due to the effect of the guarantees provided or the content of other contractual provisions, it is felt that substantially all risks and benefits attaching to aircraft sale contracts have not transferred to customers, the sale is not recognised as such in the accounts. Rather, the entire operation is recognised as a lease, postponing the recognition of profits until such time as the risks no longer obtain by way of recognition under deferred income and carrying the aircraft among the Group’s assets, undergoing normal depreciation. If, however, the operation is structured in a manner in which substantially all risks and benefits are transferred to the customer, it is booked as a loan or a finance lease, with the sale being recognised upon delivery and the financial component being recognised under financial income on an accruals basis. If contracts envisage a buy-back clause or a residual value guarantee, the operation is recognised as

a sale only if the present value of the guarantees can be considered immaterial with respect to the overall value of the transaction; otherwise, the aircraft is carried under the Group's assets and depreciated. All likely risks associated with operations carried out by GIE ATR are measured on the basis of a prudent valuation conducted by management and are either deducted directly from the carrying value of the asset or are recognised under provisions for risks and charges.

IV.2 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the commercial contracts are finalised, except where the award of the contracts is felt to be highly likely as a result of existing framework contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in some cases, however, in order to protect the Group against the persistent adverse trend in the US dollar, we have entered into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In these cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed to exchange rate variations. The effects of this recognition policy are reported in Section 39. Hedges in the former case are carried as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items. The effects of this recognition policy are reported in Section 38. Hedges in the former case are carried as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

IV.3 Recognition of the equity investment in STMicroelectronics NV (STM)

The equity investment indirectly held in STM was designated as 'available for sale'. Accordingly, the carrying value is adjusted at each balance-sheet or interim balance-sheet date to market value (bid price), recognising changes in fair value, in a specific equity reserve (reserve for assets available for sale), which will be reversed to profit or loss only if and when the equity investment is sold.

IV.4 Provisions for risks and estimates of final costs of long-term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements and in the interim reports represent management's best estimate at the reporting date using said procedures.

In addition, the Group's operations regard sectors and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity, making it necessary for management to estimate the outcome of such disputes. The main potential loss situations classified as 'probable' or 'possible' (no provision is recognised for the latter) are discussed further on.

V. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

On 30 March 2007 Finmeccanica completed the purchase of 25% of Selex Sensors and Airborne Systems S.p.A. from BAE Systems for about €mil. 400. The value of the

investment is reflected in the net financial indebtedness at the end of 2006. Therefore, the transactions had no impact on the balance sheet for the period.

It should be noted that in the first half of 2006 a project was finalised for listing **Ansaldo STS S.p.A.**, the head of a group which includes system and railway signalling in the Transportation segment, on the Italian Stock Exchange. On 24 March 2006 52.17% (52,174,000 shares) of the company's share capital was placed to institutional and retail investors, and the price was set at €7.8 per share. Over the days following the first listing day (29 March), the banks guiding the placing consortium exercised the greenshoe option to purchase 7,826,000 shares (7.83% of the share capital) at a price of €7.8 per share, bringing total shares placed to 60%. The shares are listed in the STAR segment of the Automated Stock Market of the Italian Stock Exchange.

The following table summarised the operation for the first half of 2006:

	<i>€mil.</i>
Revenue from IPO	458
Gain	417
Tax expense	(12)

At present the company is consolidated on a line-by-line basis and 60% of net income and equity is attributable to minority interests.

VI. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

VI.1 Non-recurring costs

Non-recurring costs were previously classified by the Group among inventories. In 2006, the regulations implementing Law 808/1985 underwent profound changes.

Specifically, special rules were carved out for programmes involving national security or of European interest. As a consequence, non-recurring costs reported as intangible assets are off-set by funds received, whereas royalties are paid to the Funding Agency based on sales of goods that use technologies developed under these programmes. Vice-versa, the obligation to repay the amount without interest stands for programmes other than the aforementioned.

The related payable was classified among other current or non-current liabilities based on the assumed date of repayment.

The primary changes compared with balance sheet and income statement at 30 June 2006 are:

- the reclassification of non-recurring costs among intangible assets, due to the overall redefinition of the accounting treatment of these items and in adherence with the practices developed following the introduction of the IFRSs;
- the reclassification of payables pursuant to Law 808 for “civil” programmes that were classified among other current or non-current liabilities, based on the assumed date of repayment, while funds relating to national security programmes were taken against the correlating non-recurring costs, recognised among intangible assets. In the event where funds exceeded capitalised costs, the difference was classified among other liabilities;
- the recognition of non-current receivables from the Ministry of Economic Development (MED) with regard to the current value of funds pursuant to Law 808 relating to national security projects where receipt of payment is deferred;
- the recognition of payments for royalties relating to sales already made but not yet paid to the Funding Agency;
- the increase in non-current assets and liabilities. In the past, these items were entirely classified within working capital.

In order to provide a better comparison of the income statement and the statement of cash flows for the same period of 2006, it should be noted that:

- the capitalisation of non-recurring costs were recognised in the first half of 2007 income statement as a reduction of costs. In the first half of 2006, this value was treated as a separate component of revenue, within the value of production (change in work in progress, semi-finished and finished goods);
- the cash flows relating to these expenses were recognised among investments in the first half of 2007 statement of cash flows. In the first half of 2006, these figures were treated as “change in other operating assets and liabilities”, within the cash flow generated by operating assets.

VI.2 Participation of the MBDA joint venture in the BAE Systems pension funds

The British employees of the MBDA joint venture, consolidated proportionally at 25% by the Group, participate in pension plans in the UK, in which the primary employer is BAE Systems Plc.

Under IAS 19, these funds are treated as “Multi-employer plan”. Although under the shareholders’ agreement, MBDA’s contribution to the fund is capped through 31 December 2007, with any difference to be contributed by BAE, IAS 19 provides that any plan deficit is to be allocated to all the companies that participate in the plan and not only to the sponsor. Starting from 1 January 2005, as a result of the transition to IFRS, BAE revealed a deficit in its plans calculated under IAS 19. However, the information provided was not deemed sufficient by the Group to permit it to properly allocate a share of the deficit to its assets held in MBDA and, as a result, the participation in the fund was accounted for using the rules provided for defined-contribution plans by recognising the contribution paid in the income statement without any recognition of the actuarial deficit attributable to the fund. In 2006, greater information concerning the methods for determining the total deficit and possible allocations to individual entities

that participate in the plan was obtained. Therefore, the Group estimated its share of the deficit for MBDA at €mil. 75. The change in the accounting presentation method of the participation of MBDA in BAE's pension fund was recognised in accordance with IAS 8 ("*Accounting policies, changes in estimates and errors*") adjusting the opening shareholders' equity at 1 January 2006.

As a result, costs related to this plan are reported as defined-benefit plan costs in 2007 and calculated in accordance with the actuarial rules set out by IAS 19, whereas they were accounted for as defined-contribution costs in 2006.

VI.3 Effects of the reform of severance pay legislation (The 2007 Finance Law and enabling acts)

In respect of the severance pay contributions (TFR), recognised as a defined-benefit plan through 31 December 2006, Law 296 of 27 December 2006 ("*2007 Finance Law*") and the subsequent decrees and regulations issued in 2007 introduced significant changes concerning the destination of the accrued severance pay contributions within the context of the reform of the pension system.

Specifically, employees may direct new funds allocated as severance pay towards supplementary pension plans or may elect that the funds remain with the company (for companies with 50 or fewer employees), or transferred to INPS, the national social security institute (in the case of companies with more than 50 employees). Based on these rules and on the generally agreed interpretation of them, the Group has decided that:

- severance pay contributions accrued as of 31 December 2006 shall be treated as a defined-benefit plan, measured using actuarial rules without, however, including the component relating to future salary increases. The resulting difference between the new calculation and the previous amount recognised is treated as a curtailment in accordance with IAS 19, paragraph 109, and is recognised in the income statement along with the actuarial profits and losses not previously recognised under the corridor method. The estimated effects of

this curtailment are reported in Section 26. It should be noted that the effect was estimated based on information currently available which is still incomplete and uncertain given that the option was exercised by employees largely in final days of the half-year period;

- subsequent severance pay contributions, whether paid towards the supplementary pension plan or paid into a treasury account held with INPS, has been treated as a defined-contribution plan. The estimated actuarial component has been excluded from the calculation of the accrued cost.

VII. SEGMENT INFORMATION

Primary basis

The Group operates in a variety of industry segments: helicopters, defence electronics, aeronautics, space, defence systems, energy, transportation and other activities.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations. The results for each segment at 30 June 2007, as compared with those of the same period of the previous year, are as follows:

<i>30 June 2007</i>										
	Helicopters	Defence Electronics	Aero-nautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
Revenue from external customers	1,472	1,357	674	359	424	475	707	108		5,576
Revenue from other segments	6	250	279	18	73	2	18	27	(170)	503
Operating result	150	78	64	12	23	30	16	(60)		313
Financial income and expense - net										(51)
Share of result of associates		1	8		(1)			(1)		7
Tax expense										(92)
Profit (loss) from discontinued operations										
Profit (loss) for the period										177
Group share of net result										159
Minority share										18
Investments	75	102	388	13	24	9	10	10		631

<i>30 June 2006</i>										
	Helicopters	Defence Electronics	Aero-nautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
Revenue from external customers	1,325	1,418	668	343	453	410	684	90		5,391
Revenue from other segments	8	250	165	4	41	1		14	(168)	315
Operating result	135	99	61	16	22	18	27	(73)		305
Financial income and expense - net										385
Share of result of associates	1	(1)	(3)		(1)			(6)		(10)
Tax expense										(105)
Profit (loss) from discontinued operations										
Profit (loss) for the period										575
Group share of net result										564
Minority share										11
Investments	32	427	161	10	76	5	10	4	0	725

The assets and liabilities attributable to the segments at 30 June 2007 and at 31 December 2006 are as follows:

<i>30 June 2007</i>										
	Helicopter s	Defence Electron- ics	Aero- nautics	Space	Defence Systems	Energy	Transport ation	Other activities	Elimin- ations	Total
Assets	5,470	6,675	4,542	996	2,196	1,145	1,904	3,375	(3,191)	23,112
Liabilities	3,407	3,908	4,201	552	1,558	1,101	1,571	4,742	(3,337)	17,703

<i>31 December 2006</i>										
	Helicopter s	Defence Electron- ics	Aero- nautics	Space	Defence Systems	Energy	Transport ation	Other activities	Elimin- ations	Total
Assets	5,142	6,398	4,551	1,090	2,289	1,108	1,837	4,303	(3,447)	23,271
Liabilities	3,086	3,732	4,257	639	1,666	1,056	1,729	5,572	(3,796)	17,941

Secondary basis

Group revenue can also be broken down geographically as follows (based on the customer's home country):

	<i>30 June 2007</i>	<i>30 June 2006</i>
Europe	4,472	4,352
North America	712	642
Other	895	712
	<u>6,079</u>	<u>5,706</u>

Assets are geographically distributed as follows:

	<i>30 June 2007</i>	<i>31 December 2006</i>
Europe	22,695	22,819
North America	352	351
Other	65	101
	<u>23,112</u>	<u>23,271</u>

Capital expenditure is distributed as follows (based on the location in which it is made):

	<u>30 June 2007</u>	<u>30 June 2006</u>
Europe	604	713
North America	25	11
Other	2	1
	<u>631</u>	<u>725</u>

VIII.

INTANGIBLE ASSETS

	Goodwill	Develop- ment costs	Non- recurring costs	Patents & similar rights	Concessions, licences and trademarks	Other	Total
<i>1 January 2006</i>							
Cost	3,516	84	-	63	187	311	4,161
Depreciation, amortisation and impairment	(194)	(60)	-	(54)	(74)	(183)	(565)
Carrying amount	<u>3,322</u>	<u>24</u>	<u>-</u>	<u>9</u>	<u>113</u>	<u>128</u>	<u>3,596</u>
Investments (*)	443	3	-	2	9	15	472
Sales	-	-	-	-	-	-	-
Depreciation and amortisation	-	(3)	-	(2)	(11)	(17)	(33)
Increases for business combinations	-	-	-	-	-	-	-
Other changes	(145)	-	-	(1)	2	211	67
<i>30 June 2006</i> broken down as follows:							
Cost	3,785	86	-	64	196	533	4,664
Depreciation, amortisation and impairment	(165)	(62)	-	(56)	(83)	(196)	(562)
Carrying amount	<u>3,620</u>	<u>24</u>	<u>-</u>	<u>8</u>	<u>113</u>	<u>337</u>	<u>4,102</u>
<i>1 January 2007</i>							
Cost	3,672	385	826	65	209	970	6,127
Depreciation, amortisation and impairment	(194)	(101)	(133)	(58)	(93)	(231)	(810)
Carrying amount	<u>3,478</u>	<u>284</u>	<u>693</u>	<u>7</u>	<u>116</u>	<u>739</u>	<u>5,317</u>
Investments (**)	-	74	223	1	6	26	330
Sales	-	-	-	-	-	-	-
Depreciation and	-	(14)	(18)	(2)	(8)	(29)	(71)

amortisation							
Increases for business combinations	23	-	-	-	-	-	23
Other changes	26	2	(3)		(4)		21
30 June 2007 broken down as follows:							
Cost	3,699	463	1,044	63	202	999	6,470
Depreciation, amortisation and impairment	(172)	(117)	(149)	(57)	(92)	(263)	(850)
Carrying amount	<u>3,527</u>	<u>346</u>	<u>895</u>	<u>6</u>	<u>110</u>	<u>736</u>	<u>5,620</u>
(*) of which capitalisation of internal construction costs	-	2	-	-	1	5	8
(**) of which capitalisation of internal construction costs	-	66	215	-	-	5	286

Goodwill rose by €mil. 49. Specifically, the increases for business combinations (Section 12) were affected by:

- the recognition of the further share of goodwill deriving from the exercise of the call option for 25% of the Selex Sensors and Airborne Systems Group, previously held by BAE Systems (€mil. 13);
- transactions with minorities in Datamat S.p.A. (€mil. 7) and Ansaldo STS S.p.A. (€mil. 3).

The recognised amount of goodwill is allocated to the individual cash-generating units (CGUs) concerned, which generally coincide with the Group's individual legal entities as per Group practice.

A summary of goodwill by segment is as follows:

	<u>30 June 2007</u>	<u>31 December 2006</u>
Helicopters	1,335	1,314
Defence Electronics	1,385	1,368
Aeronautic	60	60
Space	328	315
Defence Systems	371	376
Energy	7	7

Transportation	41	38
Other activities	-	-
	<u>3,527</u>	<u>3,478</u>

Goodwill is subject to impairment tests to determine any losses in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In particular, the value in use is measured by discounting the cash flows of the three-year plans approved by management and projected beyond the explicit time horizon covered by the plan using growth rates of no greater than those forecast for the market in which the given CGU operates.

“Development costs” and “non-recurring costs” increased due to capitalisations made during the period (€mil. 74 and €mil. 223, respectively), primarily in relation to programmes in the Aeronautics (€mil. 200), Helicopter (€mil. 27) Defence Electronics (€mil. 47) divisions.

“Concessions, licences and trademarks” include €mil. 75 (€mil. 77 at 31 December 2006) in expenses related to the acquisition made by the BAAC joint venture amounting to US\$mil. 95 for all of the production and marketing rights for the AW139 helicopter.

“Other” includes €mil. 576 of the residual value of the intangible assets identified in the course of corporate aggregation operations, in accordance with IFRS 3. Of this, €mil. 124 related to internally-developed technological knowledge and software, €mil. 393 to activities related to the backlog of acquired companies, and their commercial positioning and to acquired programs, and €mil. 13 to licenses. The change during the period is as follows:

1 January 2007	590
Amortisation	(12)
Foreign exchange rate differences	(2)
Value at 30 June 2007	<u>576</u>

IX. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other	Total
<i>1 January 2006</i>					
Cost	1,410	1,492	851	1,225	4,978
Depreciation, amortisation and impairment	(365)	(1,020)	(537)	(550)	(2,472)
Carrying amount	<u>1,045</u>	<u>472</u>	<u>314</u>	<u>675</u>	<u>2,506</u>
Investments (*)	20	31	27	175	253
Sales	(11)	-	-	(7)	(18)
Depreciation and amortisation	(23)	(54)	(33)	(39)	(149)
Increases for business combinations	5	-	-	1	6
Other changes	(5)	(5)	-	(24)	(34)
<i>30 June 2006 broken down as follows:</i>					
Cost	1,423	1,491	871	1,376	5,161
Depreciation, amortisation and impairment	(392)	(1,047)	(563)	(595)	(2,597)
Carrying amount	<u>1,031</u>	<u>444</u>	<u>308</u>	<u>781</u>	<u>2,564</u>
<i>1 January 2007</i>					
Cost	1,426	1,549	897	1,466	5,338
Depreciation, amortisation and impairment	(407)	(1,096)	(583)	(592)	(2,678)
Carrying amount	<u>1,019</u>	<u>453</u>	<u>314</u>	<u>874</u>	<u>2,660</u>
Investments (**)	15	34	210	42	301
Sales	(5)	(1)	-	(4)	(10)
Depreciation and amortisation	(22)	(55)	(34)	(34)	(145)
Increases for business combinations	-	-	-	-	-
Other changes	14	(9)	(15)	(1)	(11)
<i>30 June 2007 broken down as follows:</i>					
Cost	1,450	1,558	1,116	1,501	5,625
Depreciation, amortisation and impairment	(429)	(1,136)	(641)	(624)	(2,830)
Carrying amount	<u>1,021</u>	<u>422</u>	<u>475</u>	<u>877</u>	<u>2,795</u>
(*) of which capitalisation of construction internal costs	-	1	2	24	27
(**) of which capitalisation of internal construction costs	-	2	90	16	108

Property, plant and equipment includes assets held under finance leases of €mil. 29 (€mil. 31 at 31 December 2006), which is composed of land and buildings of €mil. 25 (€mil. 25 at 31 December 2006) and plant, machinery, equipment and other assets of €mil. 4 (€mil. 6 at 31 December 2006).

Other non-current assets include a total of €mil. 18 (€mil. 16 at 31 December 2006) for helicopters owned by the AgustaWestland Group and a total of €mil. 199 (€mil. 214 at 31 December 2006) for aircraft owned by the GIE ATR group, as well as for aircraft that did not meet the requirements, in terms of the substantial transfer of the risks of ownership (see Section 4.2), to recognize the sale, despite the fact that sales contracts have been concluded with external customers.

The item also includes the value of assets under construction totalling €mil. 522 (€mil. 507 at 31 December 2006).

The most significant investments amounted to €mil. 179 for the Aeronautics segment (mainly for the start-up of the B787 programme), €mil. 36 for the Defence Electronics segment, €mil. 44 for the Helicopters segment and €mil. 13 for the Defence Systems segment.

X. INVESTMENT PROPERTIES

Investment properties, amounting to €mil. 1 (€mil. 2 at 31 December 2006), entirely regarded land and buildings.

XI. EQUITY INVESTMENTS

	<u>30 June 2007</u>	<u>31 December 2006</u>
<i>Opening balance</i>	140	138
Acquisitions/subscriptions and capital increases	3	44
Revaluations/impairment	12	6
Dividends received	(11)	(3)
Sales	(1)	(37)
Other changes	(3)	(8)
<i>Closing balance</i>	<u>140</u>	<u>140</u>

The increases mainly related to the acquisition of Digint Srl (€mil. 2) in other activities.

Revaluations concerned Eurofighter Jagdflugzeug GmbH (€mil. 8), Elettronica S.p.A. (€mil. 1), NH Industries Sarl (€mil. 1), Eurosynnav S.A.S. (€mil. 1) and other minor companies (€mil. 2); impairment mainly relate to Roxel SAS (€mil.1).

Dividends received essentially regarded Eurofighter Jagdflugzeug GmbH, Elettronica S.p.A., San Giorgio SA and I.M. Intermetro S.p.A..

List of unconsolidated equity investments at 30 June 2007 (millions of euros)

	<i>Ownership</i> %	<i>€mil.</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Currency</i>
Orizzonte-Sistemi Navali S.p.A.	49.00%	10	242	221	
Elettronica S.p.A.	31.333%	10	719	684	
Metro 5 S.p.A.	31.90%	8	14	8	
Icarus S.C.p.A.	49.00%	5	16	6	
Europea Microfusioni Aerospaziali S.p.A.	49.00%	5	37	26	
Eurofighter Jagdflugzeug GmbH (+)	21.00%	5	1,338	1,321	
Eurosynnav S.A.S.	50.00%	4	311	304	
Finmeccanica Inc.	100.00%	3	5	1	USD
Consorzio CRIS	81.00%	2	9	7	
Jiangxi Changhe Agusta Helicopters Co. Ltd	40.00%	2	69	27	CNY
Musinet Engineering S.p.A. (+)	49.00%	2	8	4	
Digint S.r.l. (.)	49.00%	2	-	-	
Libyan Italian Advanced Technology Company	50.00%	2	1	-	LYD
Metro C S.p.A.	14.00%	21			
Indra Espacio S.A. (*)	16.17%	8			
Vitrociset S.p.A.	10.00%	6			
Innovazione e Progetti S.C.p.A.	15.00%	4			
Panavia Aircraft GmbH	15.00%	3			
Digitalglobe Inc. (*)	1.39%	3			
Ferromovil 9000 S.L.	10.00%	2			
Sofresa S.A.	3.00%	2			
Equity investments in companies and consortiums with value lower than €mil. 2		<u>31</u>			
Total equity investments (less impairment provisions)		<u><u>140</u></u>			

(+) Financial statements 2005

(*) Investment with % ownership in Group companies

(.) Established on 7 June 2007

XII. BUSINESS COMBINATIONS

The following summarises the business combinations that took place in previous financial periods. With regard to 2007 Group net cash outlays totalled €mil. 416 (€mil. 94 in the first half of 2006).

Exercise of the call option on Selex Sensors & Airborne Systems

On 30 March 2007 Finmeccanica exercised the call option on the remaining 25% of the shares in Selex Sensors & Airborne Systems, held by BAE Systems (BAE) at a price of €mil. 400, less the refund of certain costs incurred in prior years and recognised in the Group financial statements as financial receivables (€mil. 15) of BAE. The effects of this transaction had already been recognised as financial receivables, due to the translation of the consideration agreed between the parties at the period-end exchange rate for the possible exercise of the put and call options rights.

Due to this transaction, greater goodwill of €mil. 13 was recognised.

Transactions with minority shareholders

In 2007, the Group entered into transactions with minority shareholders. In this regard, it should be noted that IFRS 3 applies solely to transactions that involve the acquisition of control by the acquiring entity over the assets of the acquired company. Therefore, acquisitions of additional shares after control has already been achieved are not specifically governed by the IFRSs. Under the current doctrine, these transactions may be recognised as equity transactions (with the difference between the acquisition cost and the carrying value of the minority stakes acquired being directly attributed to the Group's shareholders' equity) or, in accordance with the parent company approach (which treats minority shareholders as third parties), allocating the difference between the acquisition cost and the carrying value of the minority stakes acquired to goodwill.

Consistent with its approach to the sale of shares that do not lead to the loss of control (Ansaldo STS IPO in the first half of 2006 presented for comparison), the Group treats

such transactions using the “parent company approach”, which presently complies with the current version of IAS 27, recognising the difference as goodwill.

The details of these transactions are as follows:

- *Datamat*. In 2005, Finmeccanica, as a result of exceeding the 30% statutory threshold provided by Legislative Decree 58/1998, launched a mandatory public offering on the 12,284,840 ordinary Datamat shares for a unit price of €9.65 per share. At the conclusion of the mandatory public offering, the Group acquired, as of 4 January 2006, an additional 9,178,274 ordinary shares, for a total value of €mil. 89. The Group later acquired further shares on the open market, thus exceeding the 90% necessary to launch the residual offering, at a price per share set by CONSOB (the Italian Securities Regulator) of €9.911 per share. In the end, the Group’s total stake came to 98.6% for a total additional outlay of €mil. 20. Following this process, the Datamat S.p.A. shares were withdrawn from the MTAX market effective as from 9 January 2007. In 2007 Finmeccanica plans to exercise the right to purchase the remaining Datamat shares in a squeeze-out operation pursuant to Article 111 of the Finance Act, for a unit price of €10.040 determined by an expert appointed by the President of the Court of Rome. The Group now holds the entire capital of the Datamat shares.
- *Ansaldo STS*. During the period Finmeccanica acquired on the open market Ansaldo STS shares in order to keep its stake fixed despite the commitment, as part of the IPO, to grant, for no further compensation, to subscribers who retained possession of the shares for at least 12 months, one share for every 10 held.

The total effects of these transactions on the performance and financial position of the Group were as follows:

	<u>Datamat</u>	<u>Ansaldo STS</u>	<u>Total</u>
Cash paid	11	5	16
Transactions costs	-	-	-
Cash outlays	<u>11</u>	<u>5</u>	<u>16</u>
Minority interests acquired	4	2	6
Goodwill resulting from the acquisition	<u>7</u>	<u>3</u>	<u>10</u>

Transactions related to financial year 2006

During the first half of 2006 the group was involved in these transactions:

- acquisition of minority interests - Datamat. As earlier noted, in 2006 Finmeccanica acquired as part of the mandatory public offering 9,178,274 Datamat ordinary shares; in June Finmeccanica acquired an additional 272,000 shares. The effects of these acquisitions on the performance and financial position of the Group are as follows:

Cash paid	<u>89</u>
Transactions costs	2
Cash outlays	<u>91</u>
Minority interests acquired	38
Goodwill resulting from the acquisition	<u>53</u>

- On 1 March 2006 the joint venture MBDA, owned by the Group at 25% and consolidated using the proportionate method, acquired the remaining 81.25% of the LFK Group, the main manufacturer of missile systems in Germany. At 30 June the process for allocating the price paid was not completed yet. The table below reports amounts at 30 June 2006 and the fair value attributed to the assets and liabilities acquired at the end of this process (Finmeccanica share):

	Amounts at 30 June 2006	Fair value adjustment (2nd half of 2006)	Amounts at 31 December 2006	2007 adjustments	Amounts recognised at acquisition
Cash and cash equivalents	59	-	59	-	59
Property, plant and equipment	8	1	9	-	9
Intangible assets	-	29	29	-	29
Receivables	27	-	27	-	27
Inventories and contract work in progress	30	-	30	-	30
Other assets	1	-	1	-	1
Liabilities for pension plans	(26)	-	(26)	-	(26)
Payables	(60)	(1)	(61)	-	(61)
Provisions for risks	(37)	-	(37)	-	(37)
Deferred taxes	-	(5)	(5)	5	-
Net assets acquired	2	24	26	5	31
Negative interest of minority interests	1	-	1	-	1
Net assets of the Group	3	-	27	5	32
81.25% acquired	2	-	22	5	27
Price paid	64	-	64	-	64
Transactions costs	1	-	1	-	1
Total cost of the acquisition	65	-	65	-	65
Goodwill resulting from the acquisition	63	-	43	(5)	38
Cash acquired	-	-	59	-	59
Net cash outlays	-	-	6	-	6

XIII. FINANCIAL ASSETS AT FAIR VALUE

	<i>30 June 2007</i>		<i>31 December 2006</i>	
	Assets available for sale	Assets at fair value through profit or loss	Assets available for sale	Assets at fair value through profit or loss
Investment in STM	854	-	840	-
Other securities	-	-	17	-
	854	-	857	-

These relate to the indirectly-owned interest in STMicroelectronics (STM), amounting to 6.6% at 30 June 2007. Below are changes for the period in this item:

<i>31 December 2006</i>	<u>840</u>
Acquisitions in the period	-
Sales in the period	-
Fair Value adjustment at 30 June 2007	14
<i>30 June 2007</i>	<u><u>854</u></u>

The increase for the period was offset by a specific equity reserve named ‘reserve for assets available for sale’ (€mil. 386 at 30 June 2006 net of the translation reserve which was negative in the amount of €mil. 14 relating to prior years). The strategy for hedging the STM instrument is designed to limit the negative effects of a partial decrease in the price of the investment.

The Group likewise is exposed in the event the coverage limits are exceeded (Notes 29 and 44).

XIV. TRANSACTIONS WITH RELATED PARTIES

In general, commercial relations with related parties are carried out at arm's length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. Below are the amounts:

(millions of euros)
RECEIVABLES AT 30 JUN 2007

	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
<u>Subsidiaries</u>						
Finmeccanica UK Ltd			4			4
Ansaldo Invest Denmark A/S (in liq.)			3			3
Finmeccanica Inc.			1		1	2
Alifana Due S.c.r.l.				2		2
Ansaldo Argentina S.A.				1		1
IGS S.p.A. (in liq.)			1			1
Ansaldo Do Brasil Equipamentos Eletromecanicos Ltda					1	1
Ansaldo Electric Drives S.p.A			1			1
Oto Melara North America Inc.			1			1
Other companies with unit amount lower than €mil. 1			1	1		2
<u>Associates</u>						
Eurofighter Jagdflugzeug Gmbh				96		96
Iveco Fiat/Oto Melara S.c.r.l.				39		39
Eurosysnav SAS				27		27
Orizzonte - Sistemi Navali S.p.A.				26		26
Galileo Vacuum Systems S.p.A.			12	1		13
Macchi Hurel Dubois SAS				12		12
NH Industries S.a.r.L.				8		8
Euromids SAS				6		6
Elettronica S.p.A.				3		3
Remington Eltag Law Enforcement Systems LLC				4		4
Nahuelsat S.A.	2			1		3
Nicco Communications SAS				3		3
I.M. Intermetro S.p.A.				2		2
Metro 5 S.p.A.				2		2
Consorzio Start S.p.A.				2		2
Advanced Air Traffic Systems Sdn Bhd				2		2
Contact S.r.l.				1		1
Industrie Aeronautiche e Meccaniche Rinaldo Piaggio S.p.A. (Extr. adm.)				1		1
Eurofighter Simulation System GmbH				1		1
Comlenia Sendirian Berhard				1		1
Sostar GmbH				1		1
Thomassen Service Gulf LLC				1		1
Other companies with unit amount lower than €mil. 1				1		1
<u>J.V.(*)</u>						
MBDA SAS				61		61
GIE ATR					37	37
Thales Alenia Space SAS				28		28
Aviation Training International Ltd	10		1			11
Telespazio S.p.A.				1	1	2
Telbios S.p.A.				1		1
<u>Consortiums (**)</u>						
Saturno				10		10
Trevi - Treno Veloce Italiano				8		8
C.I.S. DEG				8		8
CMS Italia				6		6
Filobus Vesuvio				3		3
Thamus			3			3
Telaer				2		2
CREO - Centro Ricerche Elettroniche			2			2
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			2			2
S3Log				2		2
Ferrovioario Vesuviano				1		1
Sistemi Navali Selenia-Elsag				1		1
Total	12	0	32	377	40	461

(millions of euros)
PAYABLES AT 30 JUN 2007

	Non-current financial payables	Other non-current payables	Current financial payables	Trade payables	Other current payables	Total
<u>Subsidiaries</u>						
Alifana Due S.c.r.l.				3		3
Finmeccanica UK Ltd				3		3
Finmeccanica Inc				1		1
Selex Sensors and Airborne Systems				1		1
Electro Optics (overseas) Ltd						
Oto Melara North America Inc.				1		1
<u>Associates</u>						
Eurosystnav SAS			20			20
Iveco Fiat/Oto Melara S.c.r.l.					7	7
Metro 5 S.p.A.					5	5
Consorzio Start S.p.A.				5		5
Eurofighter Jagdflugzeug GmbH				3		3
HR Gest S.p.A.				3		3
Advanced Air Traffic Systems Sdn Bhd				2		2
Pegaso S.c.r.l.				1		1
Europea Microfusioni Aerospaziali S.p.A.			1			1
Macchi Hurel Dubois SAS				1		1
Libyan Italian Advanced Technology Company			1			1
Bell Agusta Aerospace company LLC				1		1
Sistemi Dinamici S.p.A				1		1
Eurofighter International Ltd			1			1
<u>J.V. (*)</u>						
MBDA SAS			399	11		410
Telespazio S.p.A.			19	1		20
Thales Alenia Space SAS				7		7
GIE ATR				4		4
<u>Consortiums (**)</u>						
CMS Italia				6		6
SESM – Soluzioni Evolute per la Sistemistica e i Modelli				2		2
Sistemi Navali Selenia - Elsag			1			1
Telaer				1		1
Thamus				1		1
S3Log				1		1
RES - Raggruppamento Europeo per la Sicurezza				1		1
C.I.S. DEG				1		1
Trevi - Treno Veloce Italiano				1		1
Other consortiums with unit amount lower than €Mil. 1					1	1
Total	-	-	442	63	13	518

(*) Amounts refer to the portion not eliminated for consolidation

(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control

(millions of euros)
RECEIVABLES AT 30 DEC 2006

	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
<u>Subsidiaries</u>						
Ansaldo Invest Denmark A/S (in liq.)			3			3
Alifana Due S.c.r.l.				3		3
Finmeccanica UK Ltd			2			2
Ansaldo Argentina S.A.				1		1
Finmeccanica Inc.			1			1
IGS S.p.A. (in liq.)			1			1
Alenia Improvement S.p.A.				1		1
Ansaldo Do Brasil Equipamentos Eletromecanicos Ltda					1	1
Ansaldo Electric Drives S.p.A			1			1
Other companies with unit amount lower than €mil. 1				1		1
<u>Associates</u>						
Eurofighter Jagdflugzeug GmbH				79		79
Iveco Fiat/Oto Melara S.c.r.l.				58		58
NH Industries S.a.r.l.				14		14
Eurosysnav S.A.S.				11		11
Galileo Vacuum Systems S.p.A.			9	1		10
Orizzonte - Sistemi Navali S.p.A.				9		9
Macchi Hurel Dubois S.A.S.				8		8
Ansaldo Trasmissione e Distribuzione S.p.A.	5			1		6
Elettronica S.p.A.				5		5
Remington Elsas Law Enforcement Systems LLC				4		4
Euromids S.A.S.				4		4
I.M. Intermetro S.p.A.				3		3
Consorzio Start S.p.A.				2		2
Eurofighter Simulation System GmbH				2		2
Comlenia Sendirian Berhard				2		2
Nicco Communications S.A.S.				1		1
Eurofighter Aircraft Management GmbH				1		1
Advanced Air Traffic Systems Sdn Bhd				1		1
Industrie Aeronautiche Rinaldo Piaggio S.p.A. (Extr. adm.)				1		1
Thomassen Service Gulf LLC				1		1
Other companies with unit amount lower than €mil. 1				2		2
<u>J.V. (*)</u>						
GIE ATR					33	33
MBDA S.A.S.				45		45
Alcatel Alenia Space S.A.S.			2	23		25
Aviation Training International Ltd	11		1			12
Telespazio S.p.A.				1	1	2
<u>Consortiums (**)</u>						
Saturno				35		35
Trevi - Treno Veloce Italiano				24		24
CMS Italia				14		14
C.I.S. DEG				6		6
Filobus Vesuvio				3		3
Telaer				2		2
CREO - Centro Ricerche Elettroniche			2			2
Thamus			2			2
S3Log				2		2
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			2			2
Ferrovioario Vesuviano				2		2
Ferrovioario S. Giorgio Volla				2		2
Contact				1		1
Sistemi Navali Selenia-Elsag				1		1
Total	16	-	26	377	35	454

(millions of euros)
PAYABLES AT 31 DEC 2006

	Non-current financial payables	Other non-current payables	Current financial payables	Trade payables	Other current payables	Total
<u>Subsidiaries</u>						
Alifana Due S.c.r.l.				5		5
Oto Melara North America Inc.				1	2	3
Finmeccanica UK Ltd				2		2
Finmeccanica Inc.				1		1
Alenia Hellas S.A.				1		1
Alifana S.c.r.l.				1		1
Selex Sensors and Airborne Systems						
Electro Optics (overseas) Ltd				1		1
Other companies with unit amount lower than €mil. 1			1			1
<u>Associates</u>						
Eurofighter Jagdflugzeug GmbH			78	9		87
Eurosysnav S.A.S.			20			20
Ansaldo Trasmissione & Distribuzione S.p.A.			10		1	11
Iveco Fiat/Oto Melara S.c.r.l.					9	9
Metro 5 S.p.A.					6	6
Pegaso S.c.r.l.				4		4
Advanced Air Traffic Systems Sdn Bhd				3		3
Orizzonte - Sistemi Navali S.p.A.					1	1
Europea Microfusioni Aerospaziali S.p.A.			1			1
Libyan Italian Advanced Technology Company			1			1
Bell Agusta Aerospace Company LLC				1		1
Eurofighter International Ltd			1			1
Other companies with unit amount lower than €mil. 1				1		1
<u>J.V. (*)</u>						
MBDA S.A.S.			358	15		373
Telespazio S.p.A.			28			28
GIE ATR				4		4
Alcatel Alenia Space S.A.S.				4		4
<u>Consortiums (**)</u>						
CMS Italia				14		14
C.I.S. DEG				3		3
S3Log				2		2
Trevi - Treno Veloce Italiano				1		1
Sistemi Navali Selenia - Elsag			1			1
RES - Raggruppamento Europeo per la Sicurezza			1			1
Telaer				1		1
Thamus				1		1
Total	-	-	500	75	19	594

(*) Amounts refer to the portion not eliminated for consolidation

(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control

XV. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Third-party financing	22	1
Security deposits	14	16
Receivables for finance leases	19	20
Deferred receivables Law 808/85	303	314
Other	67	75
Non-current receivables	<hr/> 425 <hr/>	<hr/> 426 <hr/>
Financial accrued income - non-current	5	6
Other accrued income - non-current	1	1
Other non-current assets	-	2
Other non-current assets	<hr/> 6 <hr/>	<hr/> 9 <hr/>

Third-party financing relates to receivables from Ansaldo Trasmissione e Distribuzione S.p.A. (€mil. 5) and loans granted to customers of Group companies (€mil. 16) as part of the export activities.

Receivables for finance lease relate to transactions qualifying as finance lease made by GIE ATR where the Group is the lessor: in this case, the aircraft being the subject-matter of the lease contract is removed from assets and replaced by a receivable, and the relevant financial income is recognised progressively over the term of the contract at the effective interest rate applicable to the lease contract.

The item “deferred receivables Law 808/85” includes the receivables from the Ministry of Economic Development relating to the current value of the interventions pursuant to Law 808/85 in national security and similar projects for which collections were deferred. The portion for which collection is expected within 12 months (€mil. 36 compared with €mil. 38 at 31 December 2006) is classified among other current assets (Note 21).

The item also includes tax receivables for the prepayment of withholdings for personal income tax (IRPEF) on the severance benefits for Italian companies (€mil. 17, in line with the amount at 31 December 2006).

XVI. INVENTORIES

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Raw materials, supplies and consumables	1,685	1,543
Work in progress and semi-finished goods	786	800
Finished goods and merchandise	139	134
Advances to suppliers	743	618
	<hr/>	<hr/>
	3,353	3,095
	<hr/>	<hr/>

Inventories are shown net of impairment charges of €mil. 413 (€mil. 418 at 31 December 2006).

XVII. CONTRACT WORK IN PROGRESS AND ADVANCES RECEIVED

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Contract work in progress (gross)	6,892	6,184
Advances from customers	(3,614)	(3,361)
Contract work in progress (net)	<hr/>	<hr/>
	3,278	2,823
	<hr/>	<hr/>
Advances from customers (gross)	12,780	12,996
Contract work in progress	(7,155)	(7,467)
Advances from customers (net)	<hr/>	<hr/>
	5,625	5,529
	<hr/>	<hr/>

Contract work in progress is recognized as an asset if the gross value of a given contract is greater than the advances received from the customer or as a liability if the advances received are greater than the related contract work in progress. In the event the advances

have not been received at the balance sheet date, the corresponding value is recognised among trade receivables.

XVIII. TRADE AND FINANCIAL RECEIVABLES

	<i>30 June 2007</i>		<i>31 December 2006</i>	
	Trade	Financial	Trade	Financial
Receivables	3,933	452	3,659	453
Impairment	(175)	-	(180)	(1)
	<u>3,758</u>	<u>452</u>	<u>3,479</u>	<u>452</u>

Other trade receivables at 30 June 2007 include €mil. 6 (€mil. 6 at 31 December 2006) related to receivables sold as part of non-recourse assignments to factoring companies that do not qualify for derecognition under IAS 39. It should be noted (see also Section 24) that these assets are not available to the Group, given that they have been transferred fully and with no possibility of repurchase by third parties.

Financial receivables mainly include receivables from other partners of the joint ventures (€mil. 425 compared with €mil. 429 at 31 December 2006) related to the deposit of cash and cash equivalents of the MBDA and the Thales Alenia Space group with the other participants in the joint venture (BAE Systems Plc, EADS NV and Thales SA), acquired on a pro rata basis (25% MBDA and 33% Thales Alenia Space respectively) through the proportional consolidation of the groups.

XIX. CURRENT FINANCIAL ASSETS AT FAIR VALUE

These assets are as follows:

<i>30 June 2007</i>		<i>31 December 2006</i>	
Assets available for sale	Assets at fair value through profit or loss	Assets available for sale	Assets at fair value through profit or loss

Bonds	4	-	9	-
Other securities	12	-	12	-
	<u>16</u>	<u>-</u>	<u>21</u>	<u>-</u>

The bonds are largely securities issued by the Italian government with maturities in financial year 2007. The other securities relate to Group Parent liquidity being invested almost exclusively in units of a fund established under the laws of Italy.

XX. TAX RECEIVABLES AND PAYABLES

	<u>30 June 2006</u>		<u>31 December 2006</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
Direct taxes	301	104	370	139
Other taxes	154	145	99	183
	<u>455</u>	<u>249</u>	<u>469</u>	<u>322</u>

Tax receivables include receivables of the Group Parent totalling €mil. 283 (€mil. 280 at 31 December 2006) related to income taxes in the amount of €mil. 115, interest on tax credits of €mil. 93, VAT credits in the amount of €mil. 58 and other receivables (IRAP, ILOR) in the amount of €mil. 17. The tax receivables of the Group Parent include €mil. 106 which were assigned without recourse under terms and conditions that do not meet the requirements for derecognition under IAS 39. A financial payable in the same amount as this receivable was recognised by the Group because, being a receivable of the factor, it was not recognised in the cash and cash equivalents of the Group (Section 24).

Tax payables include payables of the Group Parent totalling €mil. 15 (€mil. 17 at 31 December 2006), of which €mil. 13 relates to stamp taxes on share capital increase and €mil. 2 relates to IRPEF and other payables.

XXI. OTHER CURRENT ASSETS

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Accrued income - current portion	82	80
Equity investments	1	-
Receivables for contributions	80	83
Receivables from employees and social security	38	33
Deferred receivables Law 808/85 (Section 15)	36	38
Other assets	251	213
	<hr/>	<hr/>
	488	447
	<hr/>	<hr/>

Other assets include receivables from the Camozzi group of €mil. 14 (€mil. 14 at 31 December 2006), the receivable for a fixed deposit account for €mil. 40 established in favour of the Ministry of Economic Development by a Group company, sundry advances of €mil. 24 (€mil. 21 at 31 December 2006) and receivables for default interest of the Group Parent for €mil. 28. Equity investments (€mil. 1) relate to S.Giorgio SA and Sogeli S.p.A..

XXII. CASH AND CASH EQUIVALENTS

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Cash	5	5
Bank deposits	406	1,998
	<hr/>	<hr/>
	411	2,003
	<hr/>	<hr/>

The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

XXIII. SHAREHOLDERS' EQUITY

Shareholders' equity at 30 June 2007 is equal to €mil. 5,409 (€mil. 5,357 at 31 December 2006), a net increase of €mil. 52.

Share capital

	Number of ordinary shares	Par value €mil.	Treasury shares €mil.	Total €mil.
Outstanding shares	422,845,466	1,860	-	1,860
Treasury shares	(258,605)	-	(2)	(2)
<i>31 December 2005</i>	<u>422,586,861</u>	<u>1,860</u>	<u>(2)</u>	<u>1,858</u>
Shares subscribed during the period	1,359,275	6	-	6
Repurchase of treasury shares, less shares sold	(1,040,901)	-	(19)	(19)
<i>30 June 2006</i>	<u>422,905,235</u>	<u>1,866</u>	<u>(21)</u>	<u>1,845</u>
<i>broken down as follows:</i>				
Outstanding shares	424,204,741	1,866	-	1,866
Treasury shares	(1,299,506)	-	(21)	(21)
	<u>422,905,235</u>	<u>1,866</u>	<u>(21)</u>	<u>1,845</u>
Outstanding shares	424,594,156	1,868	-	1,868
Treasury shares	(631,701)	-	(10)	(10)
<i>31 December 2006</i>	<u>423,962,455</u>	<u>1,868</u>	<u>(10)</u>	<u>1,858</u>
Shares subscribed during the period	498,429	3	-	3
Repurchase of treasury shares, less shares sold	-	-	-	-
<i>30 June 2007</i>	<u>424,460,884</u>	<u>1,871</u>	<u>(10)</u>	<u>1,861</u>
<i>broken down as follows:</i>				
Outstanding shares	425,092,585	1,871	-	1,871
Treasury shares	(631,701)	-	(10)	(10)
	<u>424,460,884</u>	<u>1,871</u>	<u>(10)</u>	<u>1,861</u>

The Group Parent's share capital fully subscribed and paid-up is divided into 425,092,585 ordinary shares with a par value of €4.40 each, including 631,701 treasury shares.

During the first half of 2007 the share capital increased by €mil. 3 for the issue of 498,429 new shares resulting from the exercise of subscription rights as resolved by the Board of Directors as part of the stock option plan 2002 - 2004.

Treasury shares amounted to 631,701, of which 197,915 were used in the above said stock option plan and 433,786 in the stock grant plan.

At 31 June 2007, the Ministry of Finance held 33.7283%, Goldman Sachs Asset Management L. P. held 3.2754% and Capital Research and Management Company 2.1177% of the shares.

Retained earnings and consolidation reserve

	<u>30 June 2007</u>	<u>31 December 2006</u>
<i>Start of period</i>	2,933	2,173
Dividends paid	(149)	(211)
Surplus on share capital increases	5	17
Reclassified from reserve for stock-option plans	-	2
Awarding of stock grants	-	(4)
Changes in accounting treatment of UK employee pension plans	-	(53)
Revaluation reserve	-	5
Other changes	(4)	16
Net profit for the period	159	988
<i>End of period</i>	<u>2,944</u>	<u>2,933</u>

Other reserves

	Reserve for assets available for sale	Cash flow hedge reserve	Translation reserve	Reserve for stock-option and stock- grant plans	Total
<i>31 December 2006</i>	372	58	35	20	485
Stock option/grant plans					
- services rendered				15	15
- issue of new shares/delivery of shares				-	-
Fair value adjustments	14	25			39
Recognition in the income statement		(19)			(19)
Translation differences			(11)		(11)
<i>30 June 2007</i>	386	64	24	35	509

Reserve for assets available for sale

This reserve includes changes in the value of the indirect investment in STMicroelectronics NV (Section 13), which is designated as an asset available for sale, and in the other assets included in this category.

Cash flow hedge reserve

This reserve includes the fair value of derivatives used by the Group to hedge its exposure to currency or interest rate risk net of the effect of deferred taxes until the moment in which the underlying position is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Translation reserve

This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the U.K. component of the

AgustaWestland (€mil. 17), Selex Communications (€mil. 6), Selex S&AS (€mil. 5) and Ansaldo Signal (€mil. 2) groups.

Reserve for stock-option and stock-grant plans

This reserve is the equity contra-item of the value of the activities performed by employees and non-employees, remunerated through the assignment of options on the shares of Finmeccanica S.p.A. stock as part of the previous stock option plan for 2002-2004 or through the free assignment of shares as part of the stock grant plan 2005-2007. With regard to the stock option plan 2002-2004, following achievement of the conditions specified in the plan, a total of 3,993,175 (79,863,500 before combining them) options have been assigned and are currently exercisable by their recipients through 31 December 2009. The strike price is set at €14 per share with a par value of the shares to be subscribed of €4.40, with the difference allocated to the share premium reserve. With the increase in the share capital authorised by the Board of Directors within the limits set by the shareholders on 16 May 2003, at 30 June 2007, a total of 3,198,094 ordinary shares have been subscribed, for an increase in capital of €mil. 14. At 31 December 2006 treasury shares used in the stock option plan amounted to 197,915, following the exercise of 60,690 call options for treasury shares from persons not related to Finmeccanica through an employment contract.

With regard to the stock grant plan, this was approved by the Board of Directors on 29 September 2005 and its beneficiaries are 573 (originally 574) key resources among executives, directors and self-employed workers with top-level roles in Finmeccanica S.p.A. or its subsidiaries. Under the plan, each of the beneficiaries is entitled to receive Finmeccanica S.p.A.'s ordinary shares for each of the years 2005, 2006 and 2007, on annual assignment and deferred delivery of shares, subject to the achievement of the performance goals defined internally.

The shares to be assigned following the assignment and subject to the achievement of the goals will be made available through a share capital increase resolved by the Company pursuant to Article 2349 of the Italian Civil Code or through shares already issued and included in the Group portfolio, to be purchased upon prior authorisation resolved by the Shareholders' Meeting on 1 June 2005. In the meeting of 26 July 2007

the Board of Directors of Finmeccanica, following the renewal resolved by the Shareholders' Meeting dated 30 May of the authorisation to purchase and dispose of treasury shares in the plan, resolved to acquire – even in more tranches of maximum 4,067,880 Company shares – giving the CEO instructions to acquire such shares at the conditions determined in such resolution.

The fair value of the shares of the tranche 2007 to be assigned in 2008 was set at €15.9 per share, on the basis of the market value of the share at the date the plan structure and the key parameters were defined: during the year the valorisation of the rights that are estimated to be assigned has increased the reserve by €mil. 15 (€mil. 1 on minority interests); this reserve also includes contributions of €mil. 3, for a total cost of €mil. 19 for the year (Section 35).

Shareholders' equity of minority interests

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
<i>Start of period</i>	81	154
Dividends paid	(2)	(3)
Change in scope of consolidation and other minority shareholders	(3)	(101)
Share capital increases	-	4
Provisions for stock grant plans	1	
Translation differences	1	(4)
Fair value adjustments	(1)	-
Other changes	-	(1)
Net profit for the period	18	32
<i>End of period</i>	<hr/> <hr/>	<hr/> <hr/>
	95	81

The net change in the scope of consolidation is essentially due to transactions involving the Datamat group.

XXIV. BORROWINGS

	<i>30 June 2007</i>			<i>31 December 2006</i>		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	73	1,683	1,756	78	1,670	1,748
Bank borrowings	433	159	592	81	195	276
Finance leases	4	18	22	5	20	25
Payable for non-recourse factoring	113	-	113	116	-	116
Other borrowings	161	93	254	601	94	695
	784	1,953	2,737	881	1,979	2,860

Bonds

	<i>31 December 2006</i>	<i>Interest</i>	<i>Repayments</i>	<i>Other changes</i>	<i>30 June 2007</i>
Exchangeable bonds	432	10	-	-	442
Bonds - 1997	6	-	(6)	-	-
Bonds - 2002	299	7	(5)	-	301
Bonds - 2003	497	15	-	-	512
Bonds - 2005	514	12	(25)	-	501
	1,748	44	(36)	-	1,756

	<i>31 December 2005</i>	<i>Interest</i>	<i>Repayments</i>	<i>Other changes</i>	<i>31 December 2006</i>
Exchangeable bonds	415	19	(2)	-	432
Bonds - 1997	6	-	-	-	6
Bonds - 2002	292	12	(5)	-	299
Bonds - 2003	497	29	(29)	-	497
Bonds - 2005	513	25	(24)	-	514
	1,723	85	(60)	-	1,748

Below are the salient features of these bonds:

- *Exchangeable bonds*: The bond, with a total nominal value of €mil. 501, was issued by Finmeccanica Finance S.A. during financial year 2003 with a maturity

of 8 August 2010 and offers investors the option to exchange the bond for STMicroelectronics N.V. shares at a price of €25.07 per share.

With a nominal yield of 0.375% annually, the bond was measured at an effective interest rate of 4.36%, which is the rate at which it would have been issued had it not had the exchange option. This component, separated from the value of the bond, was measured at fair value and recognised through profit and loss (see Sections 29 and 38 for more information). On 1 June 2005, the Group entered into a transaction to hedge the income volatility caused by the recognition of the embedded option by purchasing an offsetting option sold to investors with the same underlying position and the same basic parameters. The economic effects of this transaction are nil (see Section 38). For the handling of the STM shares linked to the conversion (20,000,000) see Section 13.

- *Bonds – 2002*: this bond, issued by Finmeccanica Finance S.A. in 2002 with a maturity date of 30 December 2008 has a total nominal value of €mil. 297, returns a variable yield based on the Euribor rate with spread of 90 b.p.s., mitigated by a “cap & floor” mechanism.
- *Bonds – 2003*: this bond was issued in 2003 by Finmeccanica Finance S.A. with a maturity date of 12 December 2018 and has a total nominal value of €mil. 500. With an annual coupon of 5.75%, the effective interest rate is 5.93%.
- *Bonds – 2005*: this bond was issued in 2005 by Finmeccanica Finance S.A. with a maturity date of 24 March 2025 and has a total nominal value of €mil. 500. With an annual coupon of 4.875%, the effective interest rate is 4.96%.

Changes in borrowings are:

	<i>31 December 2006</i>	<i>Increases (*)</i>	<i>Repayments (*)</i>	<i>Change in scope of consolidation</i>	<i>Other changes</i>	<i>30 June 2007</i>
Bonds	1,748	44	(36)	-	-	1,756
Bank borrowings	276	337	(20)		(1)	592
Finance leases	25		(3)			22
Payable for non-recourse factoring	116		(3)			113
Other borrowings	695	7	(459)		11	254

2,860	388	(521)	-	10	2,737
-------	-----	-------	---	----	-------

	<i>31 December 2005</i>	<i>Increases (*)</i>	<i>Repayments (*)</i>	<i>Change in scope of consolidation</i>	<i>Other changes</i>	<i>31 December 2006</i>
Bonds	1,723	85	(60)	-	-	1,748
Bank borrowings	346	25	(93)		(2)	276
Finance leases	36		(11)			25
Payable for non-recourse factoring	39		(29)		106	116
Other borrowings	125	593	(26)	(1)	4	695
	2,269	703	(219)	(1)	108	2,860

(*) Net changes for current liabilities. The items also include changes resulting from the application of the effective interest rate method, which may not correspond with actual cash movements.

Bank borrowings

This item specifically includes the Group Parent payable of €mil. 369, borrowings by the joint ventures ATIL Ltd in the helicopters segment (€mil.83), and GIE ATR in the aeronautics segment (€mil. 13), and subsidised loans posted by Selex Sistemi Integrati S.p.A. (€mil. 50). Of the non-current portion, €mil. 85 falls due in between 2 and 5 years, and €mil. 74 falls due in more than 5 years.

Finance leases

These obligations are related to property, plant and equipment and intangible assets held by the Group under finance lease contracts. Of these, €mil. 17 has an expiration of between 2 and 5 years.

Payable for non-recourse factoring

Although some assignments of receivables carried out by the Group in prior years are both legally and substantively assignments without recourse and their terms and conditions do not envisage repurchase or reversion clauses or guarantees that could require reimbursement of the amounts received, these are not eligible for derecognition. Accordingly, the accounting policy adopted calls for the trade receivable to remain

among *assets* (even though the Group no longer has control over the asset), with the recognition of a corresponding financial liability. On the date the assignee receives payment from the assigned debtor, the receivable and the related financial liability are eliminated from the Group's assets and liabilities.

This item specifically includes €mil. 106 of tax receivables that were derecognised in prior years.

Other borrowings

This item includes:

- the liability of €mil. 62 to the Ministry for Economic Development for medium and long-term financing granted under various Italian laws;
- the amount of €mil. 114 arising from financial costs for advances made by customers, that a Group company will be required to pay during the next period, recognised as financial payables considering the particular contractual context from which they arise;
- the amount of €mil. 18 to Agenzia Sviluppo Italia.

Of the non-current portion, €mil. 67 falls due in between 2 and 5 years, and €mil. 26 falls due in more than 5 years.

Below is the financial information required under CONSOB communication no. DEM/6064293 of 28 July 2006:

	<u>30-Jun-2007</u>	<u>31-Dec-2006</u>	<u>30-Jun-2006</u>
Cash	5	5	6
Bank deposits	406	1,998	674
Securities held for trading	16	21	20
	<hr/>	<hr/>	<hr/>
LIQUIDITY	427	2,024	700
	<hr/>	<hr/>	<hr/>
CURRENT FINANCIAL RECEIVABLES	484	478	414
	<hr/>	<hr/>	<hr/>
Current bank payables	433	81	73
Current portion of non-current borrowings	78	83	78
Other current borrowings	715	1,217	468
	<hr/>	<hr/>	<hr/>
CURRENT NET DEBT	1,226	1,381	619
	<hr/>	<hr/>	<hr/>
CURRENT NET DEBT (CASH)	315	(1,121)	(495)
	<hr/>	<hr/>	<hr/>
Non-current bank payables	159	195	188
Bonds issued	1,683	1,670	1,663
Other non-current payables	111	114	106
	<hr/>	<hr/>	<hr/>
NON-CURRENT NET DEBT	1,953	1,979	1,957
	<hr/>	<hr/>	<hr/>
NET DEBT	<u>2,268</u>	<u>858</u>	<u>1,462</u>

XXV. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restruct- uring	Penalties	Product guarantees	Other	Total
<i>1 January 2006</i>						
<i>Current</i>	9	53	50	101	310	523
<i>Non-current</i>	55	24	6	90	248	423
	<u>64</u>	<u>77</u>	<u>56</u>	<u>191</u>	<u>558</u>	<u>946</u>
Allocations	-	6	5	29	36	76
Uses	(1)	(6)	(2)	(7)	(20)	(36)
Reversal	(8)	(6)	(9)	(10)	(56)	(89)
Other changes	14	(6)	2	1	16	27
<i>30 June 2006</i>	<u>69</u>	<u>65</u>	<u>52</u>	<u>204</u>	<u>534</u>	<u>924</u>
<i>broken down as follows:</i>						
<i>Current</i>	24	43	44	108	277	496
<i>Non-current</i>	45	22	8	96	257	428
	<u>69</u>	<u>65</u>	<u>52</u>	<u>204</u>	<u>534</u>	<u>924</u>
<i>1 January 2007</i>						
<i>Current</i>	-	28	43	132	368	571
<i>Non-current</i>	39	10	9	99	208	365
	<u>39</u>	<u>38</u>	<u>52</u>	<u>231</u>	<u>576</u>	<u>936</u>
Allocations	-	9	7	32	50	98
Uses	-	(6)	(2)	(19)	(27)	(54)
Reversal	(6)	(9)	-	(11)	(29)	(55)
Other changes	(1)	3	19	(7)	7	21
<i>30 June 2007</i>	<u>32</u>	<u>35</u>	<u>76</u>	<u>226</u>	<u>577</u>	<u>946</u>
<i>broken down as follows:</i>						
<i>Current</i>	-	26	46	109	372	553
<i>Non-current</i>	32	9	30	117	205	393
	<u>32</u>	<u>35</u>	<u>76</u>	<u>226</u>	<u>577</u>	<u>946</u>

Other changes include changes in the scope of consolidation.

These specifically include:

- the provision for guarantees given in the amount of €mil. 32 (€mil. 39 at 31 December 2006) is related to business in the Aeronautics segment, for activities with foreign partners, and activities related to the space segment;
- the provision for conversion and restructuring in the amount of €mil. 35 (€mil. 38 at 31 December 2006) was established for expected charges resulting from the

programme to restructure the various segments. The most significant uses for the period involved the helicopter, space and defence electronics segments. The amounts recorded are related to the defence systems, space, helicopter, energy, defence electronics and other activities segments;

- the provision for penalties in the amount of €mil. 76 (€mil. 52 at 31 December 2006). The amounts recorded are related to the helicopter, aeronautics, space, defence systems and defence electronics;
- the provision for product guarantees, in the amount of €mil. 226 (€mil. 231 at 31 December 2005) includes allocations related to commitments for products sold. The amounts recorded are related to the helicopter, energy, defence electronics, defence systems and transportation segments;
- the other provisions total €mil. 577 (€mil. 576 at 31 December 2006) and include:
 - the provision for risks on the business of G.I.E./ATR in the amount of €mil. 68, which is unchanged from the previous year;
 - the provision for risks and contractual charges in the amount of €mil. 84 (€mil. 93 at 31 December 2006) related, in particular, to business in the helicopter, defence electronics, transportation, defence systems and other business segments;
 - the provision for bad debts of €mil. 35 (€mil. 27 at 31 December 2006) includes accruals to cover losses exceeding the carrying amounts of investees;
 - the provision for taxes in the amount of €mil. 49 (€mil. 43 at 31 December 2006);
 - the provision for disputes with employees and former employees in the amount of €mil. 42 (the same as the prior year);
 - the provision for risks on aeronautical business related to the C27J and AMX programmes in the amount of €mil. 37 (€mil. 38 at 31 December 2006);

- the provision for pending litigation in the amount of €mil. 106 (€mil. 110 at 31 December 2006);
- the provisions for risk on contract-related losses in the amount of €mil. 42 (€mil. 49 at 31 December 2006);
- other provisions in the amount of €mil. 114 (€mil. 106 at 31 December 2006).

With regard to the risk provisions, the Group's operations regard industries and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity.

Of course, in application of related accounting standards, provisions have been made for any obligations related to probable and quantifiable risks. Likewise, to the best of our knowledge, regarding other disputes against the Group, no specific allocation has been made since the Group reasonably believes that such disputes may be resolved satisfactorily and without any significant impact on the results.

The situations below are mentioned here for the purposes of full disclosure.

Of particular note:

- the dispute in which Finmeccanica has been asked to cover the contractual commitments assumed upon the sale of the former subsidiary Finmilano S.p.A. to Banca di Roma (now Capitalia) originated from the assessment ordered by the Rome Office of Direct Taxes of Finmilano S.p.A. regarding the disallowance of the tax deductibility of the capital loss originating in 1987 on the sale of a non-recourse 'deferred' receivable at a price below the nominal value. In essence, the Italian tax authorities felt that this sale was actually a financing transaction and that the loss, in the same manner as a finance cost, should not have been deducted in its entirety in 1987, but should have been recognised over subsequent years as implicit interest in the transaction.

After the Court of Cassation (the supreme court of appeal) - in allowing the appeal filed by the tax authorities - had returned the parties to the court of first instance, the latter once again upheld the company's complaint. This ruling was once again appealed to the Court of Cassation. It should be noted that substantial charges to be paid by Finmeccanica are not currently foreseeable. In agreement with the bank, it has been deemed that there is insufficient justification to accept the settlement of pending disputes pursuant to Article 16 of Law 289/2002, partly in light of the fact that the significant financial outlay that this would have required does not make sense from a cost-benefit point of view;

- the dispute resulting from the notice to settle the registry fee of about €mil. 10, which was received by Finmeccanica in July 2001 and due on the capital increase approved in 1998. Although the tax liability had already been recognized in the related financial year, the company felt it was unnecessary to meet the tax demand because it was unjustified both in law and in fact. In fact, in addition to being received after statutory deadline, the notice contained a request for a tax related to a tax base that was partially inconsistent with applicable laws. The Tax Commission for the Province of Rome upheld the company's dispute in its ruling filed in December 2002. The ruling was appealed by the company in relation to the failure to order the tax authorities to reimburse costs. In the first half of 2004, the tax authorities in turn filed a cross-appeal of the same ruling, but only with regard to the decision that confirmed the termination of the office's assessment power in the matter. No objection was raised, however, with regard to the substance of the original ruling establishing the partial lack of justification of the amount requested by the revenue office. In a ruling filed in October 2004, the appeal court rejected the company's primary appeal regarding the lack of reimbursement of costs, but at the same time declared that the cross appeal filed by the tax authorities was inadmissible in that it was filed after the ordinary statutory deadlines. In particular, the Regional Tax Commission in Rome upheld the complaint filed by the company regarding the fact that the tax authorities had erroneously deemed the suspension of the procedural deadlines defined by Article 16 of Law 289/02 (facilitated settlement of pending disputes) to be applicable, given that the case did not fall within the

scope of this law. The sentence of the court of second instance has been appealed to the Court of Cassation by the tax authorities.

- the dispute initiated by Telespazio S.p.A against the *Agenzia delle Entrate*, Rome District 4, challenging a tax assessment regarding direct income taxation (IIDD) for the year 2000, which contained a demand for a total of about €mil. 30 consisting of additional taxes, penalties and interest. The notice of assessment, served on 27 November 2006, relates to a tax audit completed in 2001 in which the Tax Authority challenged the deductibility of the loss regarding receivables from a foreign company taken by Telespazio SpA within the context of a non-recourse sale carried out following many fruitless attempts to recover these receivables. Specifically, the Tax Authority, deeming the actions undertaken by the Company to forcibly collect the receivables and therefore the evidence of the foreign debtor's solvency or lack thereof to be insufficient, found that the requirements of certainty and precision under the law were not met to allow the loss to be fully deducted, regardless of the fact that the loss was conclusively realised by Telespazio S.p.A. within the context of the non-recourse sale of the receivables arguing that sale per se guarantees certainty only of the legal loss of the receivable but not the financial loss. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company's opinion, it can prove that the transaction was accounted for properly;

- the dispute initiated by Telespazio S.p.A. (TSP) against the *Agenzia delle Entrate*, Rome District 4, challenging a tax assessment for the purposes of direct income taxation (IIDD) and regional business taxation (IRAP) for the year 2001 containing an adjustment of about €mil. 9.7 in taxable income at the time the tax statement was prepared. Considering that the adjustment, for IIDD purposes, results in a reduction by an amount equal to the final tax loss in 2001 and that this loss was fully used by the Company in 2006, the total amount owed to the Tax Authority would be about €mil. 7 plus additional taxes, penalties and interest. The notice of assessment, served on 27 November 2006, relates to a tax audit completed in 2003 in which the Tax Authority challenged Telespazio S.p.A.'s reserving tax treatment

until the completion of the Astrolink contract. Specifically, in November 2001, the customer Astrolink at its discretion terminated a long-term contract triggering Telespazio's right to compensation under the contract equal to the costs (plus 20% and in any event "be agreed" with the customer) that Telespazio would incur as a result of the early termination. Since it was not possible in 2001 to determine and agree upon the total amount of these costs (and the corresponding compensation revenues), the Company prudentially allocated €mil 48.5 in the 2001 financial statements to a provision for risks and charges, as it deemed that amount to not be tax deductible. The auditors, starting, instead, with the assumption that Telespazio could have calculated the amount of compensation due from the counterparty as early as 2001 since the costs that it would have incurred as a result of the early termination of the contract were determinable, challenged the failure to account for revenues in the amount of €mil. 58.2 and also gave full tax effect to the amount of €mil. 48.5 in the provision for risks and charges which Telespazio, instead treated as fully taxed. As a result, the Tax Authority determined that Telespazio had €mil. 9.7 more in taxable income in 2001 for direct income taxation and regional business taxation purposes. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company's opinion, it can prove that the transaction was accounted for properly.

Beyond the merits, it should be pointed out that it is currently impossible to estimate the substantive costs to be borne by the Finmeccanica Group considering that the liability, if it should be found to exist, would be neutralised by the guaranteed issued by Telecom Italia within the scope of the contract selling its shares of Telespazio in November 2002;

- the dispute initiated by Telespazio S.p.A against the *Agenzia delle Entrate*, Rome District 4, challenging a tax assessment regarding direct income taxation (IIDD) for the year 2001, which contained a demand for a total of about €mil. 18 consisting of additional taxes, penalties and interest. The tax claim, served on 27 December 2006, traces back to a tax audit completed in 2004 against ALS S.p.A., a Finmeccanica Group company absorbed by So.Ge.Pa. in 2006, in which the tax inspectors – without including any formal comments – merely notified the tax

office responsible for the assessment of possible violations in applying the regulations concerning the tax appraisal of work in progress inventories within the context of the long-term contract for the provision and launching of the Atlantic Bird1 satellite obtained in 2000. Specifically, the warning originates from the fact the company had, over the years, accounted for these inventories based on the percentage completed (calculated using the cost-to-cost method), thereby rendering the settlement and payments received over the medium-term upon the achievement of various milestones irrelevant since they are not, under the contract, final settlements and therefore recognising as revenues (and therefore taxable) the entire amount of the inventories only when ownership of the satellite was transferred in 2002 upon acceptance in orbit of the satellite by the customer as contractually agreed. By contrast, the tax inspectors asked the competent tax office to assess whether, in reality, under the contract, the various milestones could have been treated using the Work Status (WS) process, so as to include in the tax assessment of work-in-progress inventories the payments received based on the achievement of the WS objectives, regardless of the amounts recognised in the financial statements, on the assumption that the object of the contract could be divided into individual, “autonomous” lots for which each payment represents a final settlement of payments owed.

The tax officials, receiving the auditors’ report and without carrying out any further analysis of the matter although it involves a rather complex contractual relationship, issued the notice of assessment against the company. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company’s opinion, it can prove that the transaction was accounted for properly;

- the appeal, together with ENEL and other parties, filed with the Regional Administrative Court of Lombardy of the resolution of the Italian Electricity and Gas Authority regarding the method of calculating interest due on amounts to be paid, as compensation, in relation to the termination of the Italian national nuclear energy programme.

Interest due calculated using a different calculation method is around €mil. 13. Previous rulings by the Lombardy Regional Administrative Court do not support the resolutions of the Authority. Accordingly, it is reasonable to expect a favourable outcome for Finmeccanica;

- with regard to the litigation commenced by Reid in 2001 against Finmeccanica and Alenia Spazio before the Court of Texas to object against alleged breaches by former Finmeccanica–Space Division of agreements for the project for the implementation of the Gorizont satellite programme. The litigation had a favourable outcome, after more than five years, due to the lack of jurisdiction of the Court of Texas. On 11 May 2007, Reid served Finmeccanica and Alcatel Alenia Space Italia with a Complaint commencing a new lawsuit before the Court of Chancery of Delaware.

In the new lawsuit, Reid demands the same claims for compensation that were demanded in the prior Texas lawsuit, without giving an amount for the damage incurred.

On 29 June 2007 Finmeccanica filed a Motion to Dismiss objecting to the time-barring and the statute of limitation on the action and the lack of jurisdiction of the Court of Delaware.

- on 1 October 2003, the European Commission notified the Ministry of Foreign Affairs of the formal proceedings initiated for an investigation of the Italian State, pursuant to Article 11 of the EC Treaty, in relation to subsidies granted by the Italian Government to the companies Alenia Aeronautica S.p.A., Alenia Aermacchi S.p.A. (formerly Aermacchi S.p.A.), and Agusta S.p.A., based on Law 808/85, for six research and development projects. The Commission considers the subsidies to be state aid. The preliminary assessment of the Commission was that these subsidies were not notified to the Commission at the time, even though they were each in excess of the ECU 20 million threshold (1 ECU being equal to 1 euro) until 1996 and ECU 25 million after that year. On 22 January 2004, the decision to open proceedings was published in the EU Official Journal.

The Italian authorities submitted their own observations to the Commission on 30 January 2004.

In response to requests of third parties, the Commission requested further information from the Italian Government, which was provided in the latter part of May 2004. Further exchanges of requests and information between the Commission and the Italian Government continued in the second half of the year. With its letter of 22 June 2005 C(2005)1813, received by the Permanent Representation of Italy in the EU on 24 June, the European Commission informed the Italian Government of its decision to extend the scope of the current proceedings to an additional six projects of the aforementioned companies that had initially been excluded by the Commission itself. The Italian Authorities submitted their reply to the Commission on 29 November 2005. On 19 December 2005 the Commission served on the Italian Government further considerations filed by a third anonymous party, and the Government replied accordingly on 24 February 2006. At the moment, this procedure deeply affects the application principles of Law no. 808/85; Finmeccanica will follow the issue with special attention with the assistance of local counsel. At present, information is being exchanged between the Italian Government and the Commission before the latter issues its final decision;

- o In November 1997 in relation to a contract commissioned by Prepa, the Puerto Rican Electric Power Authority, the company Abengoa awarded to Ansaldo Energia a sub-supplier contract for expansion work on the San Juan, Puerto Rico power plant.

In connection with the contract between Abengoa and Prepa, American International Insurance Company of Puerto Rico (“AIIP”), a member of the AIG group, issued a performance bond and a payment bond, each in the amount of US\$mil. 125, in favour of Prepa which Ansaldo Energia, as a supplier, counter-guaranteed for US\$mil. 36 each.

In 2000, Abengoa unilaterally terminated its contract without informing Ansaldo Energia and filed suit against the customer in the Court of Puerto Rico seeking compensation for damages it allegedly suffered.

In 2001, Ansaldo Energia initiated arbitration proceedings in Paris seeking a finding that Abengoa breached the contract by terminating its agreement with Prepa without notifying Ansaldo Energia in advance. The arbitration award, issued in March 2003, came out in favour of Ansaldo Energia.

In order to avoid any enforcement of the aforementioned guarantees, on 13 May 2005, Ansaldo Energia brought an action against Abengoa, AIG and AIP before the Court of Milan, requesting that its counter-guarantees be found void, or, in the alternative, that it be held harmless by Abengoa. AIP asked that Ansaldo Energia be held jointly liable to hold harmless AIG in the event it loses the case.

In the opinion of its legal team, even if the court does not accept Ansaldo Energia's arguments and, if the counter-guarantees are enforceable, the company could, in any case, initiate an action against Abengoa, a company that is absolutely solvent, even based on the aforementioned arbitration award.

XXVI. SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<u> </u>	<u> </u>
Severance obligations	766	778
Defined-benefit retirement plans	336	341
Share of joint venture pension obligation	72	75
Other employee obligations	44	44
	<u>1,218</u>	<u>1,238</u>

The statutory severance pay obligation is specific to Italy and calls for the payment of the entitlement accumulated by employees until the time they leave the company. This provision is calculated in accordance with Article 2120 of the Italian Civil Code by dividing the fixed components of an employee's compensation by 13.5. Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued in the first months of 2007, as part of the complementary social security reform, altered significantly the functioning of the social security system: the severance pay accrued after the date of the

reform can be transferred to a treasury fund managed by INPS (the Italian Social Security Institution). The effects of these changes are illustrated in the sections below.

With the defined-benefit plans, the Group assumes the obligation to ensure a specific retirement benefit level for employees participating in the plan, guaranteeing to make good any negative difference between value of plan assets and the agreed-upon benefit level.

Liabilities relating to defined-benefit retirement plans include the share of the total defined-benefit retirement plans managed by BAE Plc (Note 6.2) allocable to the MBDA joint venture.

Other employee obligations mainly relate to provisions of the MBDA joint venture (€mil. 39).

A detail of the defined-benefit retirement plans is as follows:

	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
GBP area	299	304
Euro area	37	37
	<hr/>	<hr/>
	336	341
	<hr/> <hr/>	<hr/> <hr/>

A detail of the defined-benefit retirement plans is as follows:

	Defined-benefit plans	
	<i>30 June 2007</i>	<i>31 December 2006</i>
	<hr/>	<hr/>
Present value of the obligations	1,072	1,126
Fair value of the plan's assets	(881)	(796)
Unrecognised actuarial gain (loss)	145	11
Carrying amount of the obligation	<hr/>	<hr/>
	336	341
	<hr/> <hr/>	<hr/> <hr/>

Unrecognised net actuarial gains mainly relate, with regard to defined-benefit plans, to the AgustaWestland group (€mil. 127) and Selex Sensors & Airborne Systems Ltd (€mil. 11).

The considerable increase in unrecognised actuarial gains is due to the considerable rise the fair value of the plan's assets, following the increase in expected returns on the equity instruments, and the increase in the inflation and discount rates which brought a significant reduction in liabilities.

Below are movements in defined-benefit plans:

<i>30 June 2007</i>				
	Present value of the obligation	Present value of the asset	Unrecognised actuarial (gain) loss	Net liability defined-benefit plans
<i>Opening balance</i>	1,126	796	(11)	341
Costs of benefits paid	39	-	-	39
Interest expense	29	-	-	29
Expected return on plan assets	-	29	-	(29)
Actuarial losses (gains)	(121)	13	(134)	-
Decreases for sales	-	-	-	-
Increases from business combinations	-	-	-	-
Contributions paid	-	44	-	(44)
Contributions from other plan participants	15	15	-	-
Exchange rate differences	(4)	(3)	-	(1)
Benefits paid	(12)	(12)	-	-
Other changes	-	(1)	-	1
<i>Closing balance</i>	1,072	881	(145)	336

<i>31 December 2006</i>				
	Present value of the obligation	Present value of the asset	Unrecognised actuarial losses	Net liability defined-benefit plans
<i>Opening balance</i>	1,025	641	66	318
Costs of benefits paid	78	-	-	78
Interest expense	50	-	-	50
Expected return on plan assets	-	46	-	(46)
Actuarial losses (gains)	(54)	23	(77)	-
Decreases for sales	-	-	-	-
Increases from business combinations	-	-	-	-
Contributions paid	-	66	-	(66)
Contributions from other plan participants	20	20	-	-
Exchange rate differences	21	15	-	6
Benefits paid	(20)	(19)	-	(1)
Other changes	6	4	-	2
<i>Closing balance</i>	1,126	796	(11)	341

The amounts recognised in the income statement were calculated as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>
Costs of benefits paid	39	38
Interest expense	29	24
Expected return on plan assets	(29)	(23)
Actuarial gains (losses) recognized during the period	-	-
Total cost	<u>39</u>	<u>39</u>

Changes in severance obligations are shown below:

	<u>30 June 2007</u>	<u>31 December 2006</u>
<i>Opening balance</i>	778	778
Costs for the period	48	88
Change in scope of consolidation	5	(7)
Benefits paid	(49)	(82)
Other changes	(16)	1
<i>Closing balance</i>	<u>766</u>	<u>778</u>

During the first half of 2007, the accounting effects of the changes brought under the Finance Law 2007 to the regulation of the severance pay have been recognised, as discussed in Section 6.3.

Specifically, the provision accrued at 31 December 2006 in companies with more than 50 employees was redetermined (which maintains its nature of defined-benefit plan), except for future salary increases, as was the subsequent effect of curtailment, which was recognised in the income statement under section 109 of IAS 19 (€mil. 6 of greater expense). Also, the portion of cost attributable to the year was recognised according to the rules for defined-contribution plans, without any actuarial valuation. The other movements mainly relate to the reclassification to other current liabilities of the portion to be transferred to the treasury fund managed by INPS. The change in the scope of consolidation relates to the consolidation of Bredamerinibus, which was previously recognised as a discontinued operation.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance pay provision that maintained the nature of defined-benefit plan are as follows:

	Severance obligations		Defined-benefit plans	
	<i>30 June 2007</i>	<i>31 December 2006</i>	<i>30 June 2007</i>	<i>31 December 2006</i>
Discount rate (annual)	4.00-4.20%	3.40-4.10%	4.10-5.90%	4.50-5.20%
Expected return on plan assets	-	-	3.30-8.30%	4.50-8.0%
Rate of salary increase	-	1.30-4.30%	3.30-4.37%	3.30-4.15%
Rate of turnover	1.00-5.75%	1.00-5.75%	-	--

Assets of defined-benefit plans include:

	<i>30 June 2007</i>	<i>31 December 2006</i>
Shares	545	500
Real properties	121	116
Bonds	65	66
Cash or equivalents	15	6
Other	135	108
	<u>881</u>	<u>796</u>

Below is statistical information regarding the excess (deficit) of defined-benefit plans:

	<i>30 June 2007</i>	<i>31 December 2006</i>	<i>31 December 2005</i>	<i>31 December 2004</i>
Present value of obligations	1,072	1,126	1,025	709
Fair value of the plan's assets	<u>(881)</u>	<u>(796)</u>	<u>(641)</u>	<u>(474)</u>
Plan excess (deficit)	191	330	384	235

XXVII. OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		Current	
	<i>30 June 2007</i>	<i>31 December 2006</i>	<i>30 June 2007</i>	<i>31 December 2006</i>
Employee obligations	43	54	375	337
Deferred income	117	138	104	100
Social security payable	6	6	261	201

Payable to Min. of Econ. Dev. Law 808/1985	532	564	93	58
Payable to Min. of Econ. Dev. for monopoly rights Law 808/1985	51	46	16	15
Other payables Law 808/1985	397	425	-	-
Other payables	90	99	439	489
	<u>1,236</u>	<u>1,332</u>	<u>1,288</u>	<u>1,200</u>

The payables to the Ministry of Economic Development (MED) include the payables for royalties accrued pursuant to Law 808/1985 for “national security” and similar projects, in addition to payables for disbursement received from the Ministry of Economic Development supporting development of non-national security and similar programmes eligible for the incentives under Law 808/85 (€mil. 625 at 30 June 2007 and €mil. 622 at 31 December 2006). The payables are reimbursed on the basis of a scheduled repayment plan, without the incurrment of financial expense. These disbursements are included, by the virtue of their precise nature, especially considering the risk-sharing characteristics and correlation with development programmes, which distinguishes them from other non-financial payables.

The item “Other liabilities Law 808/1985” includes the difference between the interventions received or to be received pursuant to Law 808/1985, relating to programmes qualifying as “national security and similar”, with regard to the share of the subsidised costs classified among non-recurring costs, as well as the differential between the monopoly rights charged for the above programs and the effective payable accrued based on the established reimbursement ratio (Note 6.1).

Other payables include:

- the amount of €mil. 59 (of which €mil. 52 is carried as a non-current liability) (€mil. 61 at 31 December 2006) due to the ‘BAAC reorganisation’, which involved the acquisition of 100% of the construction and marketing rights for the helicopter AW 61, previously owned by Bell Helicopter at 25%.
- the amount of €mil. 37 (€mil. 33 at 31 December 2006) due to EADS NV from GIE/ATR (consortium owned by Alenia Aeronautica S.p.A. and EADS NV);

- the amount of €mil. 24 (€mil. 41 at 31 December 2006) in respect of contractual penalties;
- the amount of €mil. 35 (€mil. 36 at 31 December 2006) due to repurchase of a G222 aircraft;
- commissions due in the amount of €mil. 18 (€mil. 38 at 31 December 2006);
- royalties due in the amount of €mil. 23 (€mil. 24 at 31 December 2006);

XXVIII. TRADE PAYABLES

Trade payables are substantially unchanged from €mil. 3,486 at 31 December 2006 to €mil. 3,466 at 30 June 2007.

XXIX. DERIVATIVES

The table below provides a detail of the asset and liability positions related to derivative instruments. The portion of changes recognised in the income statement is shown in Section 38.

	<i>30 June 2007</i>		<i>31 December 2006</i>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward forex instruments	71	43	115	69
Forex options	6	1	1	-
<i>Interest rate swaps</i>	7	22	7	21
Options on STM	21	-	13	-
Exchangeable bond option	10	10	11	11
Other equity derivatives	-	-	-	3
	<u>115</u>	<u>76</u>	<u>147</u>	<u>104</u>

Forward forex instruments

The notional value of the forward transactions totalled €mil. 3,191 of which €mil. 2,104 is related to contracts to sell and €mil. 1,087 to contracts to buy, primarily US dollars.

The Group hedges its own contracts for purchases or sales denominated in a currency different from the functional currency using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position. Under Group procedures,

derivative instruments are purchased with the intent to hedge certain or highly probably commitments and, as such, are designated as hedging instruments at the time of purchase. The effectiveness of the hedge is tested at least at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is immediately recognized through profit or loss. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (see Section 4.3). The change in the fair value of forward instruments is due to the volatility of the US dollar against the euro: the exchange rate increased from 1.317 at 31 December 2006 to 1.3505 at 30 June 2007.

Forex options

At 30 June 2007 forex options are held in the notional amount of €mil. 365, carried out by the Group Parent on behalf of its subsidiaries. Given their nature and the particularly restrictive requirements of IAS 39, these instruments do not qualify for hedge accounting. The fair value of the instruments included in the portfolio is positive in the amount of €mil. 5. During the period income of €mil. 5 and expense amounting to €mil. 1 were recorded.

Interest rate swaps

At 30 June 2007, the Group held interest rate swaps totalling €mil. 830. A detail of the main instruments is as follows:

Description	Notional	Underlying position	
Fixed/floating /fixed swap	€mil. 500	Bonds - 2003	(a)
Fixed/floating /fixed swap	€mil. 200	Bonds - 2005	(b)
Floating/fixed swap	€mil. 130	Bonds - 2002	(c)
Interest rate options	€mil. 200	Bonds - 2005	(b)

(a) The transaction was carried out to benefit from low short-term interest rates without, however, exposing the Group to the risk of any subsequent increases. As such, the exposure was converted to a floating rate through 19 December 2005 and back to fixed (5.80% average) after that date.

The transaction was measured at fair value through profit or loss, thereby generating a revenue of €mil. 15 during the year. At 30 June 2007, the fair value of the instrument was a positive €mil 4 (it was negative in the amount of €mil. 11 at 31 December 2006).

(b) The transaction was carried out during 2005 in order to earn short-term benefits from low interest rates. The instruments purchased also include a number of interest rate options that enable the Group to protect portion of the debt portfolio exposed to floating rates and to switch to floating for additional portions of the debt.

The transaction was measured at fair value through profit or loss, thereby generating a profit of €mil. 2 and an expense of €mil. 22. The fair value of these instruments was negative at 30 June 2007 in the amount of €mil. 15 (it was positive in the amount of €mil. 5 at 31 December 2006).

(c) The transaction makes it possible to limit exposure to future changes in the reference interest rate (6-month Euribor) and has been recognised as a cash-flow hedge. At 30 June 2007, the fair value of the instrument was a positive €mil 2 (it was positive in the amount of €mil. 1 at 31 December 2006).

This item also includes other minor transactions with a total negative fair value of €mil. 6 (negative fair value of €mil. 5 at 31 December 2006) and a floating/fixed interest rate swap carried out by the helicopter-related joint venture ATIL, the fair value of which was nil at 30 June 2007 (negative in the amount of €mil. 4 at 31 December 2006), and recognised as a cash-flow hedge.

The transactions recognised as cash-flow hedges have resulted in a positive reserve at 30 June 2007 in the amount of €mil. 2 (negative in the amount of €mil. 3 at 31 December 2006), and an income relating to the ineffective portion of €mil. 1, whereas those that have been recognised at fair value through profit or loss have produced financial income of €mil. 17 and financial expense totalling €mil. 23.

Options on STM

This item includes transactions to hedge a portion of the remaining portfolio of STM securities, which were valued at fair value through profit or loss. The changes during the period were as follows:

31-Dec-06	New transactions	Closed transactions	Fair value delta	30-Jun-07
13	-	-	8	21

Following new transactions during 2006 on an additional 15,000,000 shares the hedge is extended to 45,000,000 STM shares at 30 June 2007 (of which €mil. 30 was closed in August 2007). The fair value of such instruments is positive in the amount of €mil. 21 at 30 June 2007 (€mil. 13 at 31 December 2006), generating an income for the period of €mil. 8.

The strategy for hedging the STM instrument is designed to limit the negative effects of a partial decrease in the price of the investment. The Group, on the contrary, is exposed in the event the coverage limits are exceeded (Note 44).

Exchangeable bond options

This item includes the liability related to the call option embedded in the exchangeable bonds (Section 24). On 1 June 2005, the Group purchased a call option with the same key parameters in order to hedge future changes in the value of the option sold.

Other equity derivatives

Following the stock exchange placement of 60% of the shares of Ansaldo STS, Finmeccanica undertook the obligation to deliver, without compensation, shares to subscribers who held shares through 28 March 2007: The fair value of this obligation at

31 December 2006 amounts to € mil. 3. During the period, the obligation was discharged as the shares were delivered to those entitled to them.

XXX. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Group is party to a number of operating leases as both lessor and lessee primarily for the purposes of acquiring the use of plant and equipment. Below are the non-cancellable minimum future payments and collections relating to operating lease contracts:

	<u>30 June 2007</u>		<u>31 December 2006</u>	
	<u>As a lessee</u>	<u>As a lessor</u>	<u>As a lessee</u>	<u>As a lessor</u>
Within 1 year	129	72	135	86
2 to 5 years	230	103	226	165
Beyond 5 years	67	36	70	38
	<u>426</u>	<u>211</u>	<u>431</u>	<u>289</u>

The amount of the purchase and sale commitments includes those relating to the satellite capacity business conducted by the Telespazio joint venture, as well as those relating to GIE ATR's airplane leasing and sub-leasing operations. Specifically, the amount of the commitments to purchase satellite capacity came to about €mil. 187 (€mil. 215 at 31 December 2006) and is substantially covered by the customer orders backlog. The corresponding sales commitments amounted to €mil. 188 (€mil. 217 at 31 December 2005).

Guarantees

At 30 June 2007, the Group had the following outstanding guarantees:

	<i>30 June 2007</i>	<i>31 December 2006</i>
Guarantees	13,099	12,970
Other unsecured guarantees	528	583
Unsecured guarantees given	<u>13,627</u>	<u>13,553</u>

At 30 June 2007 there are no secured guarantees given for the liabilities or obligations of others.

XXXI. TRANSACTIONS WITH RELATED PARTIES

The following described all transactions with related parties for the half-years 2007 and 2006:

(millions of euros) 30 Jun 2007

	Revenue	Other operating revenue	Costs	Financial income	Financial expense
<u>Subsidiaries</u>					
Alifana Due S.c.r.l.			4		
Finmeccanica UK Ltd			3		
Finmeccanica Inc.			2		
Oto Melara North America Inc.			1		
Other companies with unit amount lower than €mil. 1	1				
<u>Associates</u>					
Eurofighter Jagdflugzeug GmbH	223				
Iveco Fiat/Oto Melara S.c.a.r.l.	52		1		2
Eurosynnav SAS	27				
Orizzonte - Sistemi Navali S.p.A.	21				
Macchi Hurel Dubois SAS	15				
Euromids SAS	8				
Eurofighter Simulation System GmbH	6				
NH Industries S.a.r.l.	5				
Remington Eltag Low Enforc.Systems LLC	3				
Nicco Communications SAS	3				
Thomassen Service Gulf LLC	2				
Elettronica S.p.A.	1				
Consorzio Start S.p.A.	1		5		
Pegaso S.c.r.l.			2		
HR Gest S.p.A.			1		
Advanced Air Traffic Systems Sdn Bhd	1				
Metro 5 S.p.A.	1				
Other companies with unit amount lower than €mil. 1	3	1	1		
<u>J. V./(*)</u>					
GIE ATR	44				
Thales Alenia Space SAS	20		5		
MBDA SAS	24				7
Telespazio S.p.A.	2				1
Aviation Training International Ltd.				1	
<u>Consortiums(**)</u>					
Saturno	37		1		
CMS Italia	11		6		
C.I.S.DEG	4		1		
Ferroviano Vesuviano	1				
Trevi - Treno Veloce Italiano	1				
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			1		
Ferroviano S.Giorgio Volla 2		1			
Other consortiums with unit amount lower than €Mil. 1	2				
Total	519	2	34	1	10

(*) Amounts refer to the portion not eliminated for consolidation

(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control

(millions of euros) 30 Jun 2006

	Revenue	Other operating revenue	Costs	Financial income	Financial expense
<u>Subsidiaries</u>					
Finmeccanica UK Ltd			1		
<u>Associates</u>					
Eurofighter Jagdflugzeug GmbH	151				
Iveco Fiat/Oro Melara S.c.a.r.l.	66				2
Eurosynav SAS	25				
Eurofighter Simulation System GmbH	9				
Euromids SAS	6				
NH Industries S.a.r.l.	7				
Orizzonte - Sistemi Navali S.p.A.	2		1		
Consorzio Start S.p.A.	1				
Elettronica S.p.A.	1		1		
Remington Elsas Low Enforc. Systems LLC	1				
Eurofighter Aircraft Management GmbH	1				
Other companies with unit amount lower than €mil. 1	1				
<u>J.V./E.I.G. (*)</u>					
MBDA SAS	33				4
GIE ATR	24				
Alcatel Alenia Space SAS	15		4		
Telespazio S.p.A.	1		1		
Aviation Training International Ltd.				1	
<u>Consortiums</u>					
Trevi - Treno Veloce Italiano	16		1		
CMS Italia	6		13		
C.I.S.DEG	1		12		
Contact	1				
Optel	1				
Total	369		34	1	6

(*) Amounts refer to the portion not eliminated for consolidation

XXXII. REVENUE

	<u>30 June 2007</u>	<u>30 June 2006</u>
Revenue from sales	4,643	3,466
Revenue from services	1,012	975
	<u>5,655</u>	<u>4,441</u>
Change in contract work in progress	(95)	896
	<u>5,560</u>	<u>5,337</u>
Total revenue	<u>5,560</u>	<u>5,337</u>

The trends in revenue by business segment are described in the notes above (Section 7).

XXXIII. OTHER OPERATING INCOME (COSTS)

	<i>30 June 2007</i>		<i>30 June 2006</i>	
	<u>Revenue</u>	<u>Costs</u>	<u>Revenue</u>	<u>Costs</u>
Grants for research and development costs	15	-	13	-
Other subsidies	5	-	6	-
Gains (losses) on the sale of intangible assets and property, plant and equipment	7	(4)	22	(1)
Reversals of/Accruals to provisions for risks and charges	45	(68)	80	(57)
Reversal of impairment of receivables	8	-	7	-
Exchange rate difference on operating items	51	(47)	33	(19)
Adjustment of receivables and liabilities in a foreign currency at the end-of-period exchange rate	7	(6)	19	(28)
Insurance reimbursements	5	-	7	-
Reorganisation costs	9	(12)	3	(10)
Indirect taxes	-	(20)	-	(17)
Other operating income (costs)	70	(38)	43	(57)
	<u>222</u>	<u>(195)</u>	<u>233</u>	<u>(189)</u>

“Gains on the sale of intangible assets and property, plant and equipment” refer primarily to the sale of assets by the Defence Systems (€mil. 4); in the half-year 2006 the amount essentially related to the sale of buildings by Selex Communications Ltd (€mil. 21). Losses (€mil. 4 from €mil. 1 in the first half of 2006) specifically regarded the MBDA group.

Other revenues also include interest income on commercial transactions of €mil. 11 (€mil. 15 in the first half of 2006), compensation for damages from asbestos received by the Energy sector (€mil. 11) and gains on receivables that had been previously written down from insolvent countries of €mil. 3 (€mil. 1 in the first half of 2006).

Accruals to provisions for risks and charges of €mil. 45 (€mil. 80 in the first half of 2006), mainly regard the following provisions: product guarantees for €mil. 11 (€mil. 10 in the first half of 2006), guarantees given for €mil. 6 (€mil. 8 in the first half of 2006), contractual expenses of €mil. 2 (€mil. 12 in the first half of 2006), risks on sale of equity investments of €mil. 10 (nil in the first half of 2006) and other provisions for €mil. 16 (€mil. 50 in the first half of 2006). Specifically, in 2006, the main reversals of other provisions related to the GIE ATR fund in the amount of €mil. 32.

Overall, the accruals related to the Helicopters, Defence Electronics, Defence Systems and Other Activities segments.

Reversals provisions for risks and charges of €mil. 68 (€mil. 57 in the first half of 2006), regard: disputes with third parties for €mil. 4 (€mil. 4 in the first half of 2006), product guarantees for €mil. 32 (€mil. 29 in the first half of 2006), penalties for €mil. 7 (€mil. 5 in the first half of 2006), contractual expenses of €mil. 4 (€mil. 15 in the first half of 2006), and other provisions for €mil. 21 (€mil. 4 in the first half of 2006). Specifically, with regard to other provisions, €mil. 10 relates to accruals made by the Energy sector to cover the risks for damages from asbestos.

The largest reversals for the period involved the Energy, Defence Systems and Defence Electronics segments.

Specifically, other operating costs include contractual penalties of €mil. 12 (€mil. 18 in the first half of 2006) and interest expense on commercial transactions of €mil. 3 (€mil. 13 in the first half of 2006).

XXXIV. COST OF GOODS AND SERVICES

	<u>30 June 2007</u>	<u>30 June 2006</u>
Purchase of materials from third parties	2,501	2,200
Change in inventories	(135)	(65)
Total cost of goods	<u>2,366</u>	<u>2,135</u>
Services rendered by third parties	1,657	1,561
Costs of acquiring satellite capacity	34	36
Costs of airplane leases	5	7
Costs of rents and operating leases	49	35
Rental fees	29	33
Total cost of services	<u>1,774</u>	<u>1,672</u>

The costs for the acquisition of satellite capacity relate to satellite capacity trading business conducted by the Telespazio joint venture with a counter-item in revenues

from sales. The costs of leasing airplanes relate to leasing and sub-leasing transactions entered into by GIE ATR.

The amount for the purchase commitments undertaken to that regard through Telespazio and GIE ATR are described in Section 30.

XXXV. PERSONNEL COSTS

	<i>30 June 2007</i>	<i>30 June 2006</i>
	<hr/>	<hr/>
Wages and salaries	1,321	1,246
Cost of PSP (Section 23)	19	10
Cost of LTIP	3	3
Social security contributions	347	331
Severance pay costs (Section 26)	48	41
Costs related to other defined-benefit plans (Section 26)	39	39
Costs related to defined-benefit plans	20	15
Employee disputes	1	1
Net reorganization costs	8	8
Other costs	30	18
	<hr/> <hr/>	<hr/> <hr/>
	1,836	1,712

The average workforce at 30 June 2007 numbered 58,301, as compared with 56,249 of 2006. The net increase of 2,052 is due to the positive turnover in certain sectors, also through the use of new contractual forms, such as Aeronautics – following the development of new programmes –, Helicopters, Transportation and Energy, and to the change in the scope of consolidation.

The total workforce increased from 58,059 in 2006 to 59,443 at 30 June 2007.

Personnel costs rose from €mil. 1,712 at 30 June 2006 to €mil. 1,836 at 30 June 2007. The increase is mainly due to the change in the scope of consolidation, specifically for foreign companies, to the medium/long-term management incentive plans, to greater social security liabilities payable by enterprises in connection with the pension benefits due legally and contractually, especially to employees in the UK, and to the increase in the average exchange rate of the pound sterling against the euro.

Cost of PSP relates to the stock-grant plan 2005-2007 (Section 23).

Net reorganization costs relate to the Defence Electronics and Space segments.

XXXVI. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	<i>30 June</i>	<i>30 June</i>
	<i>2007</i>	<i>2006</i>
Depreciation and amortisation:		
• intangible assets	71	33
• property, plant and equipment	145	149
	<u>216</u>	<u>182</u>
Impairment		
• operating receivables	16	5
• other assets	-	-
	<u>16</u>	<u>5</u>
Total depreciation, amortisation and impairment	<u>232</u>	<u>187</u>

XXXVII. CAPITALISATION OF INTERNAL CONSTRUCTION COSTS

	<i>30 June</i>	<i>30 June</i>
	<i>2007</i>	<i>2006</i>
Personnel costs	168	13
Materials	88	7
Other costs	154	16
	<u>410</u>	<u>36</u>

The increase in the item is attributable to the different method for recognising non-recurring costs (Section 6.1) compared with the first half of 2006. Inclusion of these costs among intangible assets is recognised as capitalisation of costs (in the item increases in capitalisation of internal construction costs) and no longer as a separate

component of revenue (in the item change in work in progress, semi-finished goods and finished products, which decreased from a positive change of €mil. 259 in the first half of 2006 to a positive change of €mil. 37 in the first half of 2007).

XXXVIII. FINANCIAL INCOME AND EXPENSE

	2007			2006		
	Income	Expense	Net	Income	Expense	Net
Income from Ansaldo STS IPO	-	-	-	417	-	417
Dividends	20	-	20	8	-	8
Gains on investments and securities	1	-	1	1	-	1
Discounting of receivables, liabilities and provisions	6	(3)	3	-	(1)	(1)
Interest income/expense (*)	44	(87)	(43)	26	(79)	(53)
Commission income/expense (including commissions on non-recourse items)	-	(5)	(5)	-	(11)	(11)
Fair value adjustments through profit or loss	47	(36)	11	82	(43)	39
Premiums paid/received on forwards	11	(23)	(12)	5	(6)	(1)
Exchange rate differences	95	(96)	(1)	97	(112)	(15)
Value adjustments to equity investments	-	(12)	(12)	-	(1)	(1)
Other financial income and expense	6	(10)	(4)	7	-	7
	<u>230</u>	<u>(272)</u>	<u>(42)</u>	<u>643</u>	<u>(253)</u>	<u>390</u>

(*) of which financial expenses arising from the application of the effective (not liquidated) interest rate on bonds for €mil. 8 (€mil. 12 at 30 June 2006).

Financial income and expense came to a negative €mil. 42 in the half-year (positive by €mil. 390 in the first half of 2006). A comparison with 2006 is strongly affected by the capital gain, recognised in the first half of 2006, arising from the stock exchange placement of the Ansaldo STS group (€mil. 417).

During the period, dividends were recognised from associates and other companies in the amount of €mil. 20 (€mil. 8 in the year-earlier period) relating to the investments in STM (€mil. 13) and Vitrociset S.p.A. (€mil. 7).

Interest includes the Group cash flow operations, including received/paid on interest rate hedges (interest rate swap). The net item shows a slight improvement over the previous period, due to the increase in the average amounts deposited with banks for the period and the increase in the relevant interest rates. Such increase, on the contrary,

thanks to the Group debt structure, which is mainly fixed-rate, did not significantly affect the level of charges.

Net income from measurement of fair value through profit or loss is as follows:

	<i>30 June 2007</i>			<i>30 June 2006</i>		
	Income	Expense	Net	Income	Expense	Net
Exchange rate swaps	6	-	6	-	-	-
Forex options	5	(1)	4	2	-	2
Interest rate swaps (Section 29)	18	(23)	(5)	1	(3)	(2)
Options on STM (Section 29)	8	-	8	43	-	43
Inefficient swap component on hedging exchange rates	6	(11)	(5)	11	(15)	(4)
Option embedded in the exchangeable bond (Section 24)	1	(1)	-	25	(25)	-
Other equity derivatives	3	-	3	-	-	-
	<u>47</u>	<u>(36)</u>	<u>11</u>	<u>82</u>	<u>(43)</u>	<u>39</u>

Net expense on swaps and forex options include the effects of trading derivative instruments or instruments which, although they meet the objective of limiting the fluctuations of the underlying position within a specific range, do not meet the conditions of IAS 39, either because of the nature of the instruments themselves or the inability to mathematically demonstrate their effectiveness.

Income from options on STM stems from the decrease in the value of the underlying position. At 30 June 2007 total shares with options were 45 million. The Group also has an offsetting call option on STM shares with the same underlying and same key parameters as that embedded in the exchangeable bonds issued in 2002. As a result of this transaction, the Group is in an essentially neutral position with regard to further variations in the fair value of the call option sold (income of €mil. 1 from the call option sold and expense of €mil. 1 for the call option acquired).

In the period, premiums on forwards were paid in the amount of €mil. 23 (€mil. 6 in the year-earlier period), and premiums received amount to €mil. 11 (€mil. 5 in the year-earlier period). The increase in net expense relating to premiums paid is due to the higher differences between the euro and US dollar interest rates, as more fully described in the section on Financial risk management.

The effect of exchange rate differences is essentially nil in the first half of 2007 (it was negative by €mil. 15 in the same period of the prior year). The income statement for the first half of 2006 was affected by the realignment with the current exchange rates of the foreign currency current accounts held by the GIE/ATR consortium (of which the subsidiary Alenia Aeronautica is a participant) with regard to the other shareholders, not subject to exchange rate risk hedging due to its special nature which does not allow for the signing of IAS compliant operations. To that regard, it should be noted that, starting in 2007, the risk of fluctuation in the future foreign exchange rate is partially mitigated with the signing of forward contracts specifically for that purpose, even though they do not meet the requirements of IAS 39.

Value adjustments to equity investments primarily includes the write-down of Consorzio Trevi, held by AnsaldoBreda (€mil. 12).

XXXIX. EFFECT OF RECOGNITION USING THE EQUITY METHOD

	<u>30 June 2007</u>	<u>30 June 2006</u>
Recognition of Eurofighter J. GmbH	8	-
Recognition of AvioGroup S.p.A.	-	(7)
Net recognition of other investees	(1)	(3)
	<u>7</u>	<u>(10)</u>

XL. INCOME TAXES

Income tax expense can be broken down as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>
Corporate income tax (IRES)	96	84
Regional business tax (IRAP)	59	58
Benefit under consolidated tax mechanism	(79)	(59)
Other income taxes	34	35

Tax related to previous periods	2	(3)
Provisions for tax disputes	2	4
Deferred tax - net	(22)	(14)
	92	105
	92	105

Income from adopting the consolidated taxation mechanism for IRES purposes (a tax introduced by Legislative Decree 344/2003) from 1 January 2004 was considered in the calculation of income taxes. According to this mechanism, there is only one taxable income for all the Group companies included in the scope of consolidation.

This option makes it possible to offset the tax results (taxable income and losses in the consolidation period) of the participating companies. As a result, the income statement includes the benefit resulting from the tax losses for the period up to the limit of the taxable income included in the consolidated tax base. This income was then allocated to all the consolidated companies reporting a fiscal loss.

With regard to the Group Parent, the consolidated income statement includes neither current taxes (as there was no taxable income during the first half of 2007) nor net deferred tax assets, as there is a lack of the prerequisites established by the applicable accounting standard.

Following is an analysis of the difference between the theoretical tax rate and the effective tax rate for the half-years 2007 and 2006:

	30 June 2007	30 June 2006
Profit (loss) before taxation	269	680
<u>Percentage impact of Italian and foreign taxes</u>		
IRES (net of tax receipts)	6.54%	3.67%
IRAP	22.18%	8.53%
Other income taxes	12.77%	5.21%
Tax related to previous periods	0.46%	(0.51)%
Provisions for tax disputes	0.77%	0.63%
Deferred tax - net	(8.43)%	(2.07)%
Effective rate	34.29%	15.46%

Increase/(decrease)

Percentage impact of the permanent difference on the effective rate	-	19.13%
Theoretical rate	34.29%	34.59%

No differences were found between the effective and the theoretical tax rates, because no transaction was carried out under reduced tax regimes.

Deferred taxes and their related receivables and payables at 30 June 2007 were the result of the following temporary differences:

	Income Statement		Balance Sheet
	Asset	Liability	Net effect
Derivatives at Fair value through profit or loss	-	(1)	10
Stock option/stock grant	2	-	5
Impairment and provisions for risks and charges	46	(5)	95
Past losses	1	(4)	157
UK pension schemes	-	(9)	103
Severance pay and other employee provisions	1	-	(19)
Intangibles recognised as parts of business combinations	4	-	(220)
Other differences on assets	2	(17)	12
Finance leases	1	(1)	6
Grants	1	(1)	(9)
Other	35	(33)	-
	93	(71)	140

Deferred tax assets include €mil. 26 related to net deferred tax liabilities allocated directly to equity for derivative instruments recognized as cash-flow hedges. The changes for the period for the equity item were as follows:

	<i>31 December 2006</i>	<i>Recognition in the income statement</i>	<i>Fair value adjustments</i>	<i>Other changes</i>	<i>30 June 2007</i>
Deferred taxes recognised directly in equity	(23)	4	(7)	-	(26)

XLI. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Group operations were classified as discontinued operations as they are about to be sold. As such, the balance sheet includes the assets and liabilities attributed to this business segment, net of impairment charges to realign the carrying value with the fair value (sales value less transaction costs). Similarly, the results of the operations identified as discontinued have been shown separately on the income statements.

In the first half of 2006 non-current assets held for sale and liabilities directly related to assets held for sale included, among others, Group assets and liabilities attributable to the manufacturing of trucking systems through the subsidiary BredaMenarinibus S.p.A.. Similarly, costs and revenues have been shown separately as Profit (loss) connected with discontinued operations. These costs and revenues were carried as discontinued operations as they were about to be sold. Following the failure to finalise a purchase offer from third parties, the Group believes that, although it pursues the valorisation of these assets with a view to a possible sale, the implementation of this plan cannot be highly probable, as required by IFRS 5, if there are no advanced negotiations. Therefore, the assets of BredaMenarinibus have been reclassified as continuing operations.

	<u><i>30 June 2007</i></u>	<u><i>30 June 2006</i></u>
Revenue	-	55
Costs	-	(55)
Net financial (expense)/ income	-	-
(Write-down)/Net write-backs	-	-
Tax expense	-	-
	<u>-</u>	<u>-</u>

XLII. EARNINGS PER SHARE

Earnings per share (EPS) are calculated as follows:

- for basic EPS, by dividing net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period less treasury shares;
- for diluted EPS, by dividing net profit by the average number of ordinary shares and the average number of ordinary shares potentially deriving from the exercise of all the option rights for stock option plans less treasury shares.

<i>Basic EPS</i>	<u>30 June 2007</u>	<u>30 June 2006</u>
Average number of shares for the period (in thousands)	424,328	423,635
Net result (not including minority interests) (€mil.)	159	564
Result of continuing operations (not including minority interests) (€mil.)	159	564
Basic EPS	<u>0.38</u>	<u>1.33</u>
Basic EPS from continuing operations	<u>0.38</u>	<u>1.33</u>
<i>Diluted EPS</i>	<u>30 June 2007</u>	<u>30 June 2006</u>
Average number of shares for the period (in thousands)	425,256	425,625
Result adjusted (not including minority interests) (€mil.)	159	564
Adjusted result of continuing operations (not including minority interests) (€mil.)	159	564
Diluted EPS	<u>0.37</u>	<u>1.32</u>
Diluted EPS from continuing operations	<u>0.37</u>	<u>1.32</u>

XLIII. CASH FLOW FROM OPERATING ACTIVITIES

	<i>For the six months ended 30 June</i>	
	<u>2007</u>	<u>2006</u>
Net profit	177	575
Depreciation, amortisation and impairment	232	187
Effect of the measurement of equity investment on the equity method	(7)	10
Income taxes	92	105
Provisions	21	76
Cost of severance pay, defined-benefit plans and stock grant plans	106	80
Gains from Ansaldo STS IPO	-	(417)
Gains from the sale of assets	(3)	(22)
Financial expense, net of the gain from IPO of Ansaldo STS	51	32
	<u>669</u>	<u>626</u>

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and translation differences, are as follows:

	<i>For the six months ended 30 June</i>	
	<u>2007</u>	<u>2006</u>
Inventories	(295)	(392)
Contract work in progress and advances received	(349)	(31)
Trade receivables and payables	(312)	(287)
Changes in working capital	<u>(956)</u>	<u>(710)</u>

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and translation differences, are as follows:

Payment of severance pay and other defined-benefit plans	(93)	(74)
Changes in provisions for risks and other operating items	(115)	102
	<u>(208)</u>	<u>28</u>

XLIV. INFORMATION ON FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS AND DERIVATIVES

The Group is exposed to financial risks associated with its operations, specifically in relation with these types of risks:

- *market risks*, related to the Group exposure on interest-bearing financial instruments (interest rate risks), operations in currency areas other than the reporting currency area (exchange rate risk) and the changes in the price of listed securities (STMicroelectronics N.V.);
- *liquidity risks*, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Group specifically monitors each of these financial risks, with the objective of promptly minimising them, also through hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest rate risk

The Finmeccanica Group is exposed to changes in interest rates on its floating-rate debt instruments in the euro area. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related financial expense. To that end, at 30 June 2007 Finmeccanica had outstanding interest rate swaps for medium and long-term financing in the amount of €mil. 1,798 (nominal amount) with highly rated financial counterparties totalling €mil. 830 (notional amount). Thanks to these transactions, it was possible to earn benefits

from low costs of floating rates, especially in 2004-2005, with the debt structure mainly including fixed rates starting from 2006 (the portion exposed to floating risks is €mil. 367). This policy guaranteed the company against rises that are functional to the anti-inflation risk policy started by the European Central Bank from December 2005. This created a market expectation that rises might occur which are partly included in the current rates (Euribor 6 months at 4.315% from 3.245% 12 months ago).

Interest rate risks have been measured through a sensitivity analysis, as required by IFRS 7. Should reference interest rates be greater (lower) by 50 basis points at 30 June 2007, the net result would have been lower (higher) by €mil. 1 (1) and equity lower (greater) by €mil. 1 (1).

Exchange rate risk

Due to its commercial operations, the Group is exposed to the risk of fluctuations in the currencies in which its orders are denominated (specifically US\$ and, to a lesser extent, GBP), due to the fact that costs are concentrated in the euro and the GBP areas.

Exchange rate risk management is governed by the directive in force within the Group. The goal of the directive is to create uniformity in management criteria based on industrial - not speculative - strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments of a specific nature as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralizing the effects of exchange rate fluctuations. Therefore, at the moment of receiving payment from a customer (or making payment to a vendor), which takes place at the current exchange rate on that day, the related hedging transactions are extinguished in order to substantially offset the effects of the difference between the current exchange rate and the rate of the hedging instrument. These transactions are mainly carried out with banks by Finmeccanica's Group Finance Department and then matched with the companies of the Group, which incur the relevant costs. At 30 June 2007, Finmeccanica had outstanding foreign exchange transactions with highly rated financial counterparties in the interest of other Group companies totalling €mil. 3,556 (notional amount) (an increase of about 22% over the year-earlier period) of which

€mil. 3,191 for swaps and forwards – sales of €mil. 2,104 and purchases of €mil. 1,087 – and €mil. 365 for foreign exchange options.

The depreciation of the US dollar in 2007 (the difference between the 2006 value and the H1 07 value was 2.54%, with an impact on the average value for the period of 1.25562 from 1.32935 in H1 07) mainly due to expectations of a slow-down in US economy and the risks of further weakening, have brought an increase in the level of attention by the Group. To that end, hedges are being made in respect of orders that are highly probable but have not been acquired yet. This is also achieved through structured instruments, which pursue the management goal of minimising the risks for the Group, but do not always qualify for hedge accounting under IAS 39. The Finmeccanica Group does not have financial transactions of a speculative nature, in the sense that none of its transactions add risk to that which is already implicit in its operations. At 30 June 2007 the impact of these instruments is not significant (€mil. 4 of net income).

The section derivatives provides a description of the amounts associated with the use of derivative instruments.

For the purposes of the sensitivity analysis, the potential effects of the fluctuations in the reference exchange rates €/US\$ and €/GBP have been analyzed. Should the euro be appreciated (depreciated) by 5% against the US\$ at 30 June 2007, the net result would have been lower (greater) by €mil. 7 (nil) and equity (intended as the sum of the cash-flow hedge reserve and result) be greater (lower) by €mil. 28 (39). Should the euro be appreciated (depreciated) by 5% against the GBP at 30 June 2007, the net result would have been higher (lower) by €mil. 7 (8) and equity intended as the sum of the cash-flow hedge reserve and result) be greater (lower) by €mil. 7 (8).

The Group is also exposed to the translation risk, i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly GBP and, to a lesser extent, US\$) can have different values in euros depending on the performance of exchange rates, which affects the equity reserve named translation reserve (Section 23). The Group monitors the performance of this exposure, for which at 30 June 2007 no hedging transactions were in place.

Other risks on financial instruments

At 30 June 2007 the Group has 59.7 million shares in STMicroelectronics NV ('STM'), recognised as available for sale and valued at fair value through equity. The carrying amount at 30 June 2007 was €mil. 854 (€mil. 840 at 31 December 2006), with an equity reserve of €mil. 386 (€mil. 372 at 31 December 2006).

The Group has derivatives to hedge most of its portfolio against the risk of fluctuations in the market price of the STM shares. These hedges are classified as trading operations and therefore the fair value is recognised in the income statement. The strategy implemented using put spreads and the sale of calls allows Finmeccanica to limit the negative impact of a partial depreciation of STM shares while leaving open the possibility of benefiting, within certain limits, from any appreciation in the shares and exposing the Group to potential lost revenues in the event this limit is exceeded. At 30 June 2007 options were in place with an underlying position of 45 million of STM shares: in August 30 million options were closed, with proceeds of €mil. 43. It should also be noted that the management of derivatives on STM shares has permitted the Group to receive about €mil. 63 between 2004 and 2006, improving its portfolio position.

The STM bond is, for 20 million shares, the underlying position of the exchangeable bonded loan with a maturity of August 2010. This embedded option is accounted for separately from the bonded loan and is valued at fair value through profit or loss. However, in 2005 Finmeccanica acquired a virtually identical option to hedge the option sold to bondholders thereby neutralising the effects (because both the option purchased and the option sold as a part of the bond are valued at fair value through profit or loss) while at the same time freeing up the STM shares that were originally used in the translation .

Should the STM share price be appreciated (depreciated) by 10% compared with 30 June 2007, the result would be lower (greater) by €mil. 26 (31), with an increase (decrease) in equity of €mil. 59 (54).

Liquidity risk

The Group is exposed to the liquidity risk, i.e. the risk that it cannot manage efficiently the ordinary commercial and investment performance and that it cannot repay its payables at maturity. In order to support growth in its businesses, based on an adequate prospective analysis and an analysis on return on investments, Finmeccanica took on a set of tools with the aim of optimising the management of financial resources. Particularly relevant to that end is the decentralisation of treasury (achieved through cash pooling procedures with Group companies), and the subsequently easier maintenance of levels of sufficient cash and cash equivalents, also by unblocking receivables with longer collection times, and being in financial markets to obtain sufficient short- and long-term credit lines, which are added to the availability of non-strategic assets. Within this context Finmeccanica S.p.A has obtained credit lines and guarantees sufficient to meet Group needs. Specifically, it holds a medium-term revolving credit line of €mil. 1,200 agreed in 2004 with a pool of national and foreign banks, whose interest rates and maturity (current maturity 2012) have been renegotiated in 2005. At 30 June 2007 €mil. 150 was drawn down from such credit line. Finmeccanica also has additional short-term credit lines amounting to around €mil. 1,200 (of which around €mil. 925 is unguaranteed and €mil. 275 is guaranteed) partially drawn at 30 June 2007. There are also unconfirmed guarantees available amounting to around €mil. 2,400.

In July the EMTN bond-issue programme was extended until July 2008. In this programme Finmeccanica is co-issuer together with the Luxembourg subsidiary Finmeccanica Finance S.a., where the Parent is a guarantor in case of issue by the subsidiary. The total amount of the programme was increased from €mil. 2,000 to €mil. 2,500, for which bonded loans have been issued up to now in the amount of €mil. 1,300. Moreover, the Extraordinary Shareholders' Meeting of Finmeccanica on 30 May 2007 approved, and left its performance to the Board of Directors, a share capital increase intended for institutional investors for a maximum amount of 42,190,455 shares. The share capital increase can be performed within 30 June 2009, in order to make the financial commitments for the valorisation and continuation of the growth strategy consistent with the maintenance of the financial solidity of the Group, still using traditional sources of hedging.

Credit risk

The Group is exposed to credit risk, both to the counterparties of its commercial transactions and for financing and investing activities, as well as for the guarantees given on payables or third-party commitments (Section 30).

Regarding commercial transactions, the most significant programmes are made with public administration companies or similar, mainly in the euro area, in the UK and USA. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analyzed and valued at the time of the offer in order to highlight insolvency risks, if any. Customers being public companies represents a guarantee for solvency, but, on the other hand, means that collection times are longer (in some countries they are significantly longer) than in other businesses, creating significant outstanding debts and the subsequent need for unblocking. At 30 June 2007 trade receivables of €mil. 3,758 mainly from public administration companies or similar were outstanding in the amount of €bn. 2.0, of which €bn. 0.6 were due for more than 12 months. A portion of this amount is balanced by liabilities or provisions for risks on net positions.

Receivables from financing activities, amounting to €mil. 537, of which €mil. 53 was classified as non-current and was not included in net debt accordingly, mainly relate (€mil. 425) to cash and cash equivalents of JV MBDA and Thales Alenia Space paid to the other partners (BAE and EADS for the former company; Thales for the latter) and loans to other related parties in the amount of €mil. 44.

Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

Classification of financial assets and liabilities

The table below gives a breakdown of Group assets by type of recognition. Derivatives are analyzed separately. Liabilities are all recognised on the amortised cost method.

	Fair value through profit or loss	Loans and receivables	Held to maturity	Available- for-sale	Total
<i>Non-current assets</i>					
Non-current receivables from related parties	-	12	-		12
Financial assets at fair value	-	-	-	854	854
Receivables	-	425	-		425
<i>Current assets</i>					
Current receivables from related parties	-	449	-		449
Trade receivables	-	3.758	-		3.758
Financial assets at fair value	-	-	-	16	16
Financial receivables	-	452	-		452
Other assets	-	488	-		488

Derivatives

The table below provides the fair values of the different derivative instruments:

		Fair value at 30 June 2007	Fair value at 31 December 2006
Assets			
Interest rate swaps			
	<i>Trading</i>	5	6
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	2	1
Currency forward/swap/option			
	<i>Trading</i>	12	1
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	65	115
Equity instruments (trading)		20	13
Embedded derivatives (trading)		10	11
Liabilities			
Interest rate swaps			
	<i>Trading</i>	22	17
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	-	4
Currency forward/swap/option			
	<i>Trading</i>	9	-
	<i>Fair value hedges</i>	-	-
	<i>Cash flow hedges</i>	35	69
Equity instruments (trading)		-	3
Embedded derivatives (trading)		10	11

With reference to derivatives hedging exchange rate risk, the Group hedges both future receipts and outflows. The table below provides the maturities of these hedged payments:

Maturity	Receipts		Payments	
	Notional amount (in millions)		Notional amount (in millions)	
	US\$	GBP	US\$	GBP
2007	862	67	276	68
2008-2009	1,760	-	726	-
2010-2015	143	-	75	-
After 2015	-	-	-	-
Total	2,765	67	1,077	68

XLV. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have power and responsibility over the planning, management and control of the Company, including executive and non-executive Directors, is as follows:

<i>€mil.</i>	<u>30 June 2007</u>	<u>30 June 2006</u>
Compensation	36	31
Post-employment benefits	1	1
Other long-term benefits	-	-
Severance indemnity	-	-
Stock grant	-	-
Total	<u>37</u>	<u>32</u>

Remuneration paid to directors and managers with strategic responsibility came to €mil. 37 in the first half of 2007 and €mil. 32 in the first half of 2006. Remuneration to the

statutory auditors came to €mil. 2 and €mil. 2 respectively for the first half of 2007 and the first half of 2006.

These figures include fees and other compensation, pensions and other benefits, including the portion borne by the Company, owed as a result of holding the position of director or statutory auditor of the Group Parent and of the other Group companies included in the scope of consolidation, that represented a cost for the Group.

The parent, Finmeccanica S.p.A., in order to create an incentive and retention system for Group employees and consultants, implemented incentive plans providing for the granting of Finmeccanica shares, subject to the attainment of specific objectives.

At 30 June 2007 there were commitments to grant 1,062,955 ordinary Finmeccanica shares without compensation to Finmeccanica employees and consultants, resulting from the attainment of the performance objectives for the year 2006. Therefore, the residual amount of grantable rights, in the case of full achievement of the objectives 2007, is 3,438,711. The changes in the stock grant plans are as follows:

	<i>30 June 2007</i> <i>(number of</i> <i>shares)</i>	<i>31 December</i> <i>2006</i> <i>(number of</i> <i>shares)</i>
Rights existing at 1 January		-
New rights assigned	-	888,456
Rights exercised during the year	1,072,258	888,456
Rights lapsed during the year	(9,303)	-
Rights existing at period-end	<u>1,062,955</u>	<u>-</u>

For the Board of Directors
the Chairman and Chief Executive Officer
(Pier Francesco Guarguaglini)

**STATEMENT OF THE MANAGER RESPONSIBLE FOR THE HALF-YEAR
REPORT 2007 PURSUANT TO ARTICLE 154 BIS PARAGRAPH 2 OF THE
FINANCE CODE**

The undersigned, Alessandro Pansa, manager in charge of the preparation of company accounting documents and General Co-Manager of Finmeccanica S.p.A., declares, in accordance with Article 154-bis (2) of the Finance Code that the half-year report 2007 corresponds to the entries in documents, ledgers and accounting books.

The Manager Responsible for the
preparation of company accounting
documents
(Alessandro Pansa)

Rome, 12 September 2007

FINMECCANICA SPA

**AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM
FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2007 PREPARED IN ACCORDANCE WITH
ARTICLE 81 OF CONSOB REGULATION APPROVED BY
RESOLUTION No 11971 OF 14 MAY 1999 AND
SUBSEQUENT AMENDMENTS AND INTEGRATIONS**

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the Shareholders of
Finmeccanica SpA

- 1 We have performed a limited review of the consolidated interim financial statements consisting of balance sheet, income statement, statement of changes in shareholders' equity and cash flows (hereinafter "accounting statements") and related explanatory and supplementary notes included in the interim financial reporting of Finmeccanica SpA for the period ended 30 June 2007. The interim financial reporting is the responsibility of Finmeccanica SpA's Directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial reporting.
- 2 Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution No 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial statements. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the consolidated financial statements of the prior year and of the prior year consolidated interim financial statements presented in the accounting statements, reference should be made to our reports dated respectively 7 May 2007 and 6 October 2006.

- 4 Based on our limited review, no significant changes or adjustments came to our attention that should be made to the consolidated accounting statements and related explanatory and supplementary notes, identified in paragraph 1 of this report, in order to make them consistent with International Accounting Standard IAS 34 and with the criteria for the preparation of interim financial reporting established by Article 81 of CONSOB Regulation approved by Resolution No 11971 of 14 May 1999 and subsequent amendments and integrations.

Rome, 24 September 2007

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

This report has been translated into the English language solely for the convenience of international readers.

**APPENDIX: LIST OF RELEVANT EQUITY INVESTMENT UNDER ARTICLE
125 OF CONSOB RESOLUTION No. 11971**

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
1 ABRUZZO ENGINEERING SOCIETA' CONSORTILE PER ITALY AZIONI		30,000	30,000	SELEX Service Management SpA	Voting right ownership
2 ABU DHABI SYSTEMS INTEGRATION (ADSI) LLC	UNITED ARAB EMIRATES	43,043	43,043	SELEX Sistemi Integrati SPA	Voting right ownership
3 ADVANCED AIR TRAFFIC SYSTEMS Sdn Bhd	MALAYSIA	40,000	40,000	SELEX Sistemi Integrati SPA	Voting right ownership
4 ADVANCED TECNOLOGIES SRL	ITALY	100,000	100,000	FATA GROUP SpA (in liq.)	Voting right ownership
5 AERIMPIANTI SpA	ITALY	100,000	100,000	ANSALDO INDUSTRIA SpA (in liq)	Pledge
6 AEROMECCANICA SA	LUXEMBOURG	99,967			Voting right ownership
7 AGUSTA AEROSPACE CORPORATION	DELAWARE - USA	100,000	100,000	AGUSTA SpA	Voting right ownership
8 AGUSTA AEROSPACE SERVICES - A.A.S.	BELGIUM	98,000	98,000	AGUSTA SpA	Voting right ownership
9 AGUSTA HOLDING BV	NETHERLANDS	100,000	100,000	AgustaWestland NV	Voting right ownership
10 AGUSTA SpA	ITALY	100,000	100,000	AGUSTA HOLDING BV	Voting right ownership
11 AGUSTA U.S.	DELAWARE - USA	100,000	100,000	AGUSTA SpA	Voting right ownership
12 AgustaWestland International Limited	UNITED KINGDOM	100,000	50,000	AGUSTA SpA	Voting right ownership
			50,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
13 AGUSTAWESTLAND AUSTRALIA PTY LTD	AUSTRALIA	100,000	100,000	AgustaWestland NV	Voting right ownership
14 AGUSTAWESTLAND DO BRASIL LTDA	BRAZIL	100,000	99,000	AGUSTA SpA	Voting right ownership
			1,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
15 AgustaWestland Holdings Limited	UNITED KINGDOM	100,000	100,000	AgustaWestland NV	Voting right ownership
16 AgustaWestland Inc	DELAWARE - USA	100,000	100,000	AgustaWestland North America Inc	Voting right ownership
17 AgustaWestland North America Inc	DELAWARE - USA	100,000	100,000	AgustaWestland Holdings Limited	Voting right ownership
18 AgustaWestland NV	NETHERLANDS	100,000			Voting right ownership
19 AgustaWestland Properties Limited	UNITED KINGDOM	100,000	100,000	AgustaWestland Holdings Limited	Voting right ownership

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
20 AgustaWestlandBell LLC	DELAWARE - USA	51,000	51,000	AgustaWestland North America Inc	Voting right ownership
21 ALENIA AERMACCHI SpA	ITALY	99,998	7,229	ALENIA AERMACCHI SpA	Voting right ownership
			92,769	ALENIA AERONAUTICA SpA	Voting right ownership
22 ALENIA AERONAUTICA SpA	ITALY	100,000			Voting right ownership
23 ALENIA AERONAVALI SpA	ITALY	100,000	100,000	ALENIA AERONAUTICA SpA	Voting right ownership
24 ALENIA COMPOSITE S.p.A.	ITALY	97,000	97,000	ALENIA AERONAUTICA SpA	Voting right ownership
25 ALENIA HELLAS S.A.	GREECE	100,000	100,000	ALENIA AERONAUTICA SpA	Voting right ownership
26 ALENIA IMPROVEMENT S.P.A.	ITALY	100,000	100,000	ALENIA AERONAUTICA SpA	Voting right ownership
27 ALENIA NORTH AMERICA, INC.	DELAWARE - USA	88,409	88,409	ALENIA AERONAUTICA SpA	Voting right ownership
28 ALENIA NORTH AMERICA-CANADA, CO.	CANADA	100,000	100,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
29 Alenia SIA SpA	ITALY	100,000	60,000	ALENIA AERONAUTICA SpA	Voting right ownership
			30,000	GALILEO AVIONICA SpA	Voting right ownership
			10,000	SELEX COMMUNICATIONS SpA	Voting right ownership
30 ALIFANA - Societa` Consortile a responsabilita` limitata	ITALY	65,850	65,850	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
31 ALIFANA DUE - Societa` Consortile a r.l.	ITALY	53,340	53,340	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
32 ALLIANCE GROUND SURVEILLANCE INDUSTRIES GMBH	GERMANY	10,239	10,239	GALILEO AVIONICA SpA	Voting right ownership
33 AMSH B.V.	NETHERLANDS	50,000			Voting right ownership
34 AMTEC SpA	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
35 ANSALDO ARGENTINA SA	ARGENTINA	99,980	99,980	ANSALDO INDUSTRIA SpA (in liq)	Voting right ownership
36 ANSALDO DO BRASIL EQUIPAMENTOS ELETROMECHANICOS LTDA	BRAZIL	99,999	99,999	ANSALDO INDUSTRIA SpA (in liq)	Voting right ownership
37 ANSALDO ELECTRIC DRIVES SpA	ITALY	100,000	100,000	ANSALDO RICERCHE SpA	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
38	ANSALDO EMIT SCRL	ITALY	50,000	50,000	ANSALDO INDUSTRIA SpA (in liq)	Voting right ownership
39	ANSALDO ENERGIA SpA	ITALY	100,000			Voting right ownership
40	ANSALDO ENERGY Inc	DELAWARE - USA	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
41	ANSALDO FUEL CELLS SpA	ITALY	78,434	78,434	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
42	ANSALDO INDUSTRIA SpA (in liq)	ITALY	100,000	100,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
43	ANSALDO INVEST DENMARK A/S (in liq)	DENMARK	100,000	100,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
44	ANSALDO NUCLEARE SpA	ITALY	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
45	ANSALDO RICERCHE SpA	ITALY	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
46	ANSALDO SEGNALAMENTO FERROVIARIO SpA	ITALY	100,000	100,000	ANSALDO SIGNAL N.V.	Voting right ownership
47	ANSALDO SIGNAL ESPANA S.A.	SPAIN	100,000	100,000	CSEE TRANSPORT SA	Voting right ownership
48	ANSALDO SIGNAL FINLAND O.y.	FINLAND	100,000	100,000	ANSALDO SIGNAL SWEDEN AB	Voting right ownership
49	ANSALDO SIGNAL IRELAND LIMITED	IRELAND	100,000	99,999	ANSALDO SIGNAL N.V.	Voting right ownership
				0,001	UNION SWITCH & SIGNAL Inc	Voting right ownership
50	ANSALDO SIGNAL N.V.	NETHERLANDS	100,000	100,000	ANSALDO STS SpA	Voting right ownership
51	ANSALDO SIGNAL SWEDEN AB	SWEDEN	100,000	100,000	ANSALDO SIGNAL N.V.	Voting right ownership
52	ANSALDO SIGNAL U.K. LTD.	UNITED KINGDOM	100,000	100,000	ANSALDO SIGNAL N.V.	Voting right ownership
53	ANSALDO STS DEUTSCHLAND GMBH	GERMANY	100,000	100,000	ANSALDO SEGNALAMENTO FERROVIARIO SpA	Voting right ownership
54	ANSALDO TRASMISSIONE & DISTRIBUZIONE S.p.A.	ITALY	15,000	15,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
55	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	ITALY	100,000	100,000	ANSALDO STS SpA	Voting right ownership
56	ANSALDOBREDA ESPANA S.L.U.	SPAIN	100,000	100,000	ANSALDOBREDA SpA	Voting right ownership
57	ANSALDOBREDA SpA	ITALY	100,000			Voting right ownership

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
58 ANSALDOBREDA, Inc.	USA	100,000	100,000	ANSALDOBREDA SpA	Voting right ownership
59 ANSERV SRL	ROMANIA	100,000	100,000	ANSALDO NUCLEARE SpA	Voting right ownership
60 ASIA POWER PROJECTS PRIVATE LTD	INDIA	100,000	99,997	ANSALDO ENERGIA SpA	Voting right ownership
			0,003	SAGEM ITALIA Srl	Voting right ownership
61 AUTOMATION INTEGRATED SOLUTIONS SpA	ITALY	40,000	40,000	FATA SPA	Voting right ownership
62 AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA	FRANCE	99,999	0,001	CSEE TRANSPORT HONG KONG Ltd	Voting right ownership
			99,994	CSEE TRANSPORT SA	Voting right ownership
			0,004	CSEE TRANSPORT SA	Voting right as per contractual commitments
63 AVIATION TRAINING INTERNATIONAL LIMITED	UNITED KINGDOM	50,000	50,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
64 AVIONS DE TRANSPORT REGIONAL IRELAND LIMITED	IRELAND	50,000	50,000	ALENIA AERONAUTICA SpA	Voting right ownership
65 BCV INVESTMENT S.C.A.	LUXEMBOURG	15,000	15,000	AEROMECCANICA SA	Voting right ownership
66 BCV MANAGEMENT S.A.	LUXEMBOURG	14,999	14,999	AEROMECCANICA SA	Voting right ownership
67 BEIJING CS SIGNAL CONTROLLING SYSTEM CO LTD	CHINA	80,000	80,000	CSEE TRANSPORT SA	Voting right ownership
68 BELL AGUSTA AEROSPACE COMPANY LLC	DELAWARE - USA	45,000	45,000	AGUSTA U.S.	Voting right ownership
69 BREDAMENARINIBUS SpA	ITALY	100,000			Voting right ownership
70 BRITISH HELICOPTERS LIMITED	UNITED KINGDOM	100,000	100,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
71 C.I.R.A. (Centro Italiano di Ricerche Aerospaziali) SCpA	ITALY	11,989	2,757	ALENIA AERMACCHI SpA	Voting right ownership
			8,912	ALENIA AERONAUTICA SpA	Voting right ownership
			0,320	SELEX COMMUNICATIONS SpA	Voting right ownership
72 CARDPRIZE Two Limited	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership
73 CCRT SISTEMI SpA (in fall)	ITALY	30,340	30,340	ANSALDO INDUSTRIA SpA (in liq)	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
74	Closed Joint Stock Company MAREMS	RUSSIAN FEDERATION	49,001	49,001	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	Voting right ownership
75	COMLENIA Sendirian Berhad	MALAYSIA	30,000	30,000	SELEX Sistemi Integrati SPA	Voting right ownership
76	CONSORZIO START Societa` per Azioni	ITALY	40,000	40,000	SPACE SOFTWARE ITALIA SpA	Voting right ownership
77	CONSORZIO SESM SOLUZIONI EVOLUTIVE PER LA SISTEMATICA ED I MODELLI	ITALY	100,000	10,000	GALILEO AVIONICA SpA	Voting right ownership
				90,000	SELEX Sistemi Integrati SPA	Voting right ownership
78	Consultancy and Projects Group S.r.l. (in liq.)	ITALY	100,000	100,000	DATAMAT S.p.A.	Voting right ownership
79	CONTACT SRL	ITALY	30,000	30,000	ANSALDOBREDA SpA	Voting right ownership
80	CSEE TRANSPORT HONG KONG Ltd	CHINA	100,000	99,999	CSEE TRANSPORT SA	Voting right ownership
				0,001	CSEE TRANSPORT SA	Voting right as per contractual commitments
81	CSEE TRANSPORT SA	FRANCE	100,000	99,999	ANSALDO SIGNAL N.V.	Voting right ownership
				0,001	ANSALDO SIGNAL N.V.	Voting right as per contractual commitments
82	DATAMAT S.p.A.	ITALY	100,000	4,245	DATAMAT S.p.A.	Voting right ownership
83	DATAMAT Soluzioni per l' Impresa S.r.l. (in liq.)	ITALY	100,000	100,000	DATAMAT S.p.A.	Voting right ownership
84	Datamat Suisse SA (in liq.)	SWITZERLAND	100,000	100,000	DATAMAT S.p.A.	Voting right ownership
85	DATASPAZIO - Telespazio e Datamat per l'ingegneria dei Sistemi - SpA	ITALY	100,000	51,000	DATAMAT S.p.A.	Voting right ownership
				49,000	TELESPAZIO SpA	Voting right ownership
86	DAVIES INDUSTRIAL COMMUNICATIONS Ltd	UNITED KINGDOM	100,000	100,000	SELEX Communications Ltd	Voting right ownership
87	DIGINT SRL	ITALY	49,000	49,000	FINMECCANICA GROUP SERVICES SPA	Voting right ownership
88	e - GEOS SpA	ITALY	55,000	2,000	EURIMAGE SpA	Voting right ownership
				53,000	TELESPAZIO SpA	Voting right ownership
89	E-SECURITY S.r.l.	ITALY	79,688	79,688	ELSAG SpA	Voting right ownership

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
90 ECOSEN CA	VENEZUELA	48,000	48,000	CSEE TRANSPORT SA	Voting right ownership
91 ELECTRON ITALIA S.r.l.	ITALY	80,000	80,000	ELSAG SpA	Voting right ownership
92 ELETTRONICA SpA	ITALY	31,333			Voting right ownership
93 ELSACOM BULGARIA AD	BULGARIA	90,000	90,000	ELSACOM NV	Voting right ownership
94 ELSACOM HUNGARIA KFT	HUNGARY	100,000	100,000	ELSACOM NV	Voting right ownership
95 ELSACOM NV	NETHERLANDS	100,000			Voting right ownership
96 ELSACOM SLOVAKIA SRO	SLOVAKIA	100,000	100,000	ELSACOM NV	Voting right ownership
97 ELSACOM SpA	ITALY	100,000	100,000	ELSACOM NV	Voting right ownership
98 ELSACOM UKRAINE Joint Stock Company	UKRAINE	49,000	49,000	ELSACOM NV	Voting right ownership
99 ELSAG BANKLAB SpA	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
100 ELSAG DOMINO SpA	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
101 ELSAG Eastern Europe Srl (in liq)	ROMANIA	75,000	75,000	ELSAG SpA	Voting right ownership
102 ELSAG INC.	WASHINGTON -USA	100,000	100,000	ELSAG SpA	Voting right ownership
103 ELSAG SpA	ITALY	100,000			Voting right ownership
104 ENCOM - Construcoes e Montagens LTDA	BRAZIL	95,555	95,555	ANSALDO DO BRASIL EQUIPAMENTOS ELETROMECHANICOS LTDA	Voting right ownership
105 ENERGEKO GAS ITALIA SRL	ITALY	22,631	22,631	SAGEM ITALIA Srl	Voting right ownership
106 ENERGY SERVICE GROUP LTD	SWITZERLAND	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
107 EURIMAGE SpA	ITALY	51,000	51,000	TELESPAZIO SpA	Voting right ownership
108 EURO PATROL AIRCRAFT GmbH	GERMANY	50,000	50,000	ALENIA AERONAUTICA SpA	Voting right ownership
109 EUROFIGHTER AIRCRAFT MANAGEMENT GmbH	GERMANY	21,000	21,000	ALENIA AERONAUTICA SpA	Voting right ownership
110 EUROFIGHTER INTERNATIONAL Ltd	UNITED KINGDOM	21,000	21,000	ALENIA AERONAUTICA SpA	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
111	EUROFIGHTER JAGDFLUGZEUG Gmbh	GERMANY	21,000	21,000	ALENIA AERONAUTICA SpA	Voting right ownership
112	EUROFIGHTER SIMULATION SYSTEMS Gmbh	GERMANY	24,000	24,000	GALILEO AVIONICA SpA	Voting right ownership
113	EUROMAP SATELLITENDATEN-VERTRIEBSGESELLSCHAFT MBH	GERMANY	100,000	100,000	GAF A.G.	Voting right ownership
114	EUROMIDS SAS	FRANCE	25,000	25,000	SELEX COMMUNICATIONS SpA	Voting right ownership
115	EUROPEA MICROFUSIONI AEROSPAZIALI SpA	ITALY	49,000			Voting right ownership
116	EUROPEAN COMPANY FOR MOBILE COMMUNICATION NETHERLANDS SERVICES BV (in liq.)		100,000	27,994	EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES BV (in liq.)	Voting right ownership
				72,006	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
117	EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH	GERMANY	18,939			Voting right ownership
118	EUROPEAN SATELLITE NAVIGATION INDUSTRIES S.A	BELGIUM	18,939			Voting right ownership
119	EUROSYSNAV SAS	FRANCE	50,000			Voting right ownership
120	FATA AUTOMATION SPA (in liq.)	ITALY	100,000	100,000	FATA GROUP SpA (in liq.)	Voting right ownership
121	FATA AUTOMATION SRO (in liq.)	CZECK REPUBLIC	100,000	100,000	FATA AUTOMATION SPA (in liq.)	Voting right ownership
122	FATA CONTRACTING Ltd	RUSSIAN FEDERATION	100,000	100,000	FATA GROUP SpA (in liq.)	Voting right ownership
123	FATA DTS SpA	ITALY	100,000	100,000	FATA SPA	Voting right ownership
124	FATA ENGINEERING SpA	ITALY	100,000	100,000	FATA GROUP SpA (in liq.)	Voting right ownership
125	FATA GROUP SpA (in liq.)	ITALY	100,000	100,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
126	FATA HANDLING SpA (in liq.)	ITALY	100,000	100,000	FATA AUTOMATION SPA (in liq.)	Voting right ownership
127	FATA HUNTER INC.	USA	100,000	100,000	FATA SPA	Voting right ownership
128	FATA HUNTER INDIA PVT LTD	INDIA	100,000	100,000	FATA SPA	Voting right ownership
129	FATA LOGISTIC SYSTEMS SpA	ITALY	100,000	100,000	FATA SPA	Voting right ownership
130	FATA POLAND LTD (in liq.)	POLAND	100,000	100,000	FATA AUTOMATION SPA (in liq.)	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
131	FATA SPA	ITALY	100,000			Voting right ownership
132	FINMECCANICA FINANCE SA	LUXEMBOURG	99,997	26,358	FINMECCANICA GROUP SERVICES SPA	Voting right ownership
133	FINMECCANICA GROUP REAL ESTATE SPA	ITALY	100,000			Voting right ownership
134	FINMECCANICA GROUP SERVICES SPA	ITALY	100,000			Voting right ownership
135	FINMECCANICA Inc.	DELAWARE - USA	100,000			Voting right ownership
136	FINMECCANICA UK LIMITED	UNITED KINGDOM	100,000			Voting right ownership
137	FOSCAN srl (in fall)	ITALY	20,000	20,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
138	GAF A.G.	GERMANY	100,000	100,000	TELESPAZIO SpA	Voting right ownership
139	GALILEO AVIONICA SpA	ITALY	100,000	100,000	SELEX Sensors and Airborne Systems SpA	Voting right ownership
140	GALILEO VACUUM SYSTEMS SPA	ITALY	24,900	24,900	FATA GROUP SpA (in liq.)	Voting right ownership
141	GLOBAL AERONAUTICA, LLC	DELAWARE - USA	50,000	50,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
142	GLOBAL MILITARY AIRCRAFT SYSTEMS, LLC	TEXAS - USA	50,000	50,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
143	GROUPEMENT IMMOBILIER AERONAUTIQUE - GIA SA	FRANCE	20,000	20,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
144	HR GEST SpA	ITALY	30,000	30,000	ELSAG SpA	Voting right ownership
145	I.M. INTERMETRO SpA	ITALY	33,332	16,666	ANSALDOBREDA SpA 16,666 ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership Voting right ownership
146	IAMCO-INTERNATIONAL AEROSPACE MANAGEMENT COMPANY scrI	ITALY	20,000	20,000	ALENIA AERONAUTICA SpA	Voting right ownership
147	ICARUS SCpA	ITALY	49,000	49,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
148	IGS SpA (in liq.)	ITALY	100,000	100,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
149	IMMOBILIARE CASCINA S.r.l.	ITALY	100,000	100,000	FINMECCANICA GROUP SERVICES SPA	Voting right ownership
150	IMMOBILIARE FONTEVERDE Srl	ITALY	60,000	60,000	ELECTRON ITALIA S.r.l.	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
151	INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SpA (in amministrazione straordinaria)	ITALY	30,982			Voting right ownership
152	INFOLOGISTICA S.p.A.	ITALY	11,111	11,111	SISTEMI & TELEMATICA S.p.A.	Voting right ownership
153	Innovazione e Progetti Societa' Consortile per Azioni (in liq.)	ITALY	15,000	15,000	SELEX Service Management SpA	Voting right ownership
154	INTERNATIONAL LAND SYSTEMS INC.	DELAWARE - USA	28,365	28,365	GAF A.G.	Voting right ownership
155	INTERNATIONAL METRO SERVICE SRL	ITALY	49,000	49,000	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
156	INTOSPACE Gmbh (in liq)	GERMANY	11,000	11,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
157	IRIDIUM ITALIA SpA (in liq)	ITALY	35,000	35,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
158	ITALDATA INGEGNERIA DELL'IDEA SpA	ITALY	51,000	51,000	ELSAG SpA	Voting right ownership
159	ITISA SA (in liq)	FRANCE	100,000	100,000	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
160	ITP srl (in fall)	ITALY	13,584			Voting right ownership
161	IVECO FIAT - OTO MELARA Societa' Consortile a responsabilita' limitata	ITALY	50,000	50,000	OTO MELARA SpA	Voting right ownership
162	Jiangxi Changhe Agusta Helicopter Co. Ltd	CHINA	40,000	40,000	AGUSTA SpA	Voting right ownership
163	KEYCAB - Societa' per azioni	ITALY	100,000	100,000	DATAMAT S.p.A.	Voting right ownership
164	LARIMART SpA	ITALY	60,000	60,000	SELEX COMMUNICATIONS SpA	Voting right ownership
165	LMATTS LLC	GEORGIA - USA	50,000	50,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
166	LUMIQ SpA	ITALY	12,750	12,750	FATA GROUP SpA (in liq.)	Voting right ownership
167	LYBIAN ITALIAN ADVANCED TECHNOLOGY COMPANY	LIBYA	50,000	25,000	AgustaWestland NV	Voting right ownership
168	MACCHI HUREL DUBOIS SAS	FRANCE	50,000	50,000	ALENIA AERMACCHI SpA	Voting right ownership
169	MARS-MICROGRAVITY ADVANCED RESEARCH AND USER SUPPORT CENTER srl	ITALY	100,000	100,000	TELESPAZIO SpA	Voting right ownership
170	MECFINT (JERSEY) SA	LUXEMBOURG	99,999	99,999	FINMECCANICA FINANCE SA	Voting right ownership

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
171 MEDESSAT S.A.S.	FRANCE	28,801	28,801	TELESPAZIO FRANCE Sas	Voting right ownership
172 METASISTEMI S.p.A.	ITALY	100,000	100,000	DATAMAT S.p.A.	Voting right ownership
173 METRO 5 Societa` per Azioni	ITALY	31,900	7,300	ANSALDOBREDA SpA	Voting right ownership
			24,600	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
174 METRO C S.P.A.	ITALY	14,000	14,000	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
175 MIDSCO INC	USA	18,000	18,000	SELEX COMMUNICATIONS SpA	Voting right ownership
176 MUSINET ENGINEERING SpA	ITALY	49,000	49,000	FATA SPA	Voting right ownership
177 N.H. INDUSTRIES SARL	FRANCE	32,000	32,000	AGUSTA SpA	Voting right ownership
178 NAC srl	ITALY	81,540	81,540	AERIMPIANTI SpA	Voting right ownership
179 NAHUELSAT SA	ARGENTINA	33,332			Voting right ownership
180 NASIF srl	ITALY	12,000	12,000	AERIMPIANTI SpA	Voting right ownership
181 Net Service S.r.l.	ITALY	70,000	70,000	DATAMAT S.p.A.	Voting right ownership
182 NGL Prime S.p.A.	ITALY	30,000			Voting right ownership
183 NICCO COMMUNICATIONS SAS	FRANCE	50,000	50,000	SELEX COMMUNICATIONS SpA	Voting right ownership
184 NNS - SOCIETE` DE SERVICE POUR REACTEUR RAPIDE snc	FRANCE	40,000	40,000	ANSALDO NUCLEARE SpA	Voting right ownership
185 ODISSEUS S.r.l. - Liguria Innovation Technologies	ITALY	12,500	12,500	ELSAG SpA	Voting right ownership
186 ORIZZONTE - Sistemi Navali SpA	ITALY	49,000			Voting right ownership
187 OTE M	RUSSIAN FEDERATION	100,000	100,000	OTE SpA	Voting right ownership
188 OTE MOBILE TECHNOLOGIES LTD	UNITED KINGDOM	100,000	100,000	OTE SpA	Voting right ownership
189 OTE SpA	ITALY	100,000	100,000	SELEX COMMUNICATIONS SpA	Voting right ownership
190 OTO MELARA IBERICA S.A.	SPAIN	100,000	100,000	OTO MELARA SpA	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
191	OTO MELARA NORTH AMERICA INC.	DELAWARE - USA	100,000	100,000	OTO MELARA SpA	Voting right ownership
192	OTO MELARA SpA	ITALY	100,000			Voting right ownership
193	PANAVIA AIRCRAFT GmbH	GERMANY	15,000	15,000	ALENIA AERONAUTICA SpA	Voting right ownership
194	PEGASO-Societa` consortile a responsabilita` limitata	ITALY	46,870	46,870	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
195	POLARIS SRL	ITALY	50,000	50,000	ANSALDO ENERGIA SpA	Voting right ownership
196	PROD-EL prodotti elettronici SpA	ITALY	100,000	100,000	SELEX COMMUNICATIONS SpA	Voting right ownership
197	PT DAYALISTRIK PRATAMA (in liq.)	INDONESIA	45,000	45,000	ANSALDO ENERGIA SpA	Voting right ownership
198	QUADRICS INC.	DELAWARE - USA	100,000	100,000	QUADRICS LTD	Voting right ownership
199	QUADRICS LTD	UNITED KINGDOM	100,000	100,000	ALENIA AERONAUTICA SpA	Voting right ownership
200	RARTEL SA	ROMANIA	61,061	10,000	TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS Ltd	Voting right ownership
				50,061	TELESPAZIO SpA	Voting right ownership
				1,000	TELESPAZIO HOLDING S.R.L.	Voting right ownership
201	Remington Elsag Law Enforcement Systems LLC	USA	50,000	50,000	ELSAG INC.	Voting right ownership
202	S.C. ELETTRA COMMUNICATIONS S.A.	ROMANIA	50,500	1,500	SELEX Communications Romania S.r.l.	Voting right ownership
				49,000	SELEX COMMUNICATIONS SpA	Voting right ownership
203	SAGEM ITALIA Srl	ITALY	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
204	SAITECH SpA (in fall)	ITALY	40,000	40,000	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	Voting right ownership
205	SAN GIORGIO SA	FRANCE	99,969	99,969	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	Voting right ownership
206	SAPHIRE International Aviation & ATC Engineering Co. Ltd	CHINA	65,000	65,000	ALENIA AERONAUTICA SpA	Voting right ownership
207	SCUOLA ICT SRL	ITALY	20,000			Voting right ownership
208	SECBAT-SOC EUROPEENNE DE CONSTRUCTION DE L'AVION BREGUET ATLANTIC SARL	FRANCE	13,550	13,550	ALENIA AERONAUTICA SpA	Voting right ownership

Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
209 SECURTEAM Srl	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
210 SEICOS SPA	ITALY	100,000			Voting right ownership
211 SELENIA MARINE COMPANY Ltd. (in liq.)	UNITED KINGDOM	99,999	99,999	SELEX Communications Holdings Ltd	Voting right ownership
212 SELENIA MOBILE S.p.A.	ITALY	100,000	100,000	SELEX COMMUNICATIONS SpA	Voting right ownership
213 SELEX Communications do Brasil Ltda	BRAZIL	100,000	0,199	AMTEC SpA	Voting right ownership
			99,801	SELEX COMMUNICATIONS SpA	Voting right ownership
214 SELEX COMMUNICATIONS SpA	ITALY	100,000			Voting right ownership
215 SELEX Communications (International) Ltd	UNITED KINGDOM	100,000	100,000	SELEX Communications Holdings Ltd	Voting right ownership
216 SELEX Communications Gmbh	GERMANY	100,000	100,000	SELEX Communications Holdings Ltd	Voting right ownership
217 SELEX Communications Holdings Ltd	UNITED KINGDOM	100,000	100,000	SELEX COMMUNICATIONS SpA	Voting right ownership
218 SELEX Communications Inc.	CALIFORNIA -USA	100,000	100,000	SELEX Communications Holdings Ltd	Voting right ownership
219 SELEX Communications Ltd	UNITED KINGDOM	100,000	100,000	SELEX Communications Holdings Ltd	Voting right ownership
220 SELEX Communications Romania S.r.l.	ROMANIA	99,976	99,976	SELEX COMMUNICATIONS SpA	Voting right ownership
221 SELEX Communications Secure Systems Ltd	UNITED KINGDOM	100,000	100,000	SELEX Communications Holdings Ltd	Voting right ownership
222 SELEX Komunikasyon A.S.	TURKEY	99,999	6,525	SELEX Communications Holdings Ltd	Voting right ownership
			0,002	SELEX Communications (International) Ltd	Voting right ownership
			0,002	SELEX Communications Ltd	Voting right ownership
			93,470	SELEX COMMUNICATIONS SpA	Voting right ownership
223 SELEX PENSION SCHEME (TRUSTEE) LIMITED	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership
224 SELEX Sensors and Airborne Systems (Projects) Ltd	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership
225 SELEX SENSORS AND AIRBORNE SYSTEMS (US) Inc.	DELAWARE - USA	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
226	SELEX Sensors and Airborne Systems Electro Optics (Overseas) Ltd	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership
227	SELEX Sensors and Airborne Systems InfraRed Ltd	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems Ltd	Voting right ownership
228	SELEX Sensors and Airborne Systems Ltd	UNITED KINGDOM	100,000	100,000	SELEX Sensors and Airborne Systems SpA	Voting right ownership
229	SELEX Sensors and Airborne Systems SpA	ITALY	100,000			Voting right ownership
230	SELEX Service Management SpA	ITALY	100,000			Voting right ownership
231	SELEX Sistemi Integrati de Venezuela S.A.	VENEZUELA	100,000	100,000	SELEX Sistemi Integrati SPA	Voting right ownership
232	SELEX Sistemi Integrati GmBH	GERMANY	100,000	100,000	SELEX Sistemi Integrati Ltd	Voting right ownership
233	SELEX Sistemi Integrati Inc.	DELAWARE - USA	100,000	100,000	SELEX Sistemi Integrati Ltd	Voting right ownership
234	SELEX Sistemi Integrati Ltd	UNITED KINGDOM	100,000	100,000	SELEX Sistemi Integrati SPA	Voting right ownership
235	SELEX Sistemi Integrati SPA	ITALY	100,000			Voting right ownership
236	SESAMO SECURITY AND SAFETY MOBILITY SCARL	ITALY	19,000	19,000	CONSORZIO SESM SOLUZIONI EVOLUTIVE PER LA SISTEMATICA ED I MODELLI	Voting right ownership
237	SEVERNYJ AVTOBUS ZAO	RUSSIAN FEDERATION	35,000	35,000	ANSALDOBREDA SpA	Voting right ownership
238	SIIT Societa` Consortile per Azioni	ITALY	16,266	2,300	ANSALDO ENERGIA SpA	Voting right ownership
				2,300	ANSALDO SEGNALAMENTO FERROVIARIO SpA	Voting right ownership
				4,766	ELSAG SpA	Voting right ownership
				2,300	OTO MELARA SpA	Voting right ownership
				2,300	SELEX COMMUNICATIONS SpA	Voting right ownership
				2,300	SELEX Sistemi Integrati SPA	Voting right ownership
239	SIRIO PANEL SPA	ITALY	75,000	75,000	SELEX COMMUNICATIONS SpA	Voting right ownership
240	SISTEMI & TELEMATICA S.p.A.	ITALY	92,793	92,793	ELSAG SpA	Voting right ownership
241	SISTEMI DINAMICI SPA	ITALY	40,000	40,000	AGUSTA SpA	Voting right ownership
242	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	ITALY	100,000			Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
243	SOGEI - Societa` di Gestione di Liquidazioni SpA	ITALY	100,000	100,000	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	Voting right ownership
244	SOSTAR GMBH	GERMANY	28,200	28,200	GALILEO AVIONICA SpA	Voting right ownership
245	SPACE SOFTWARE ITALIA SpA	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
246	STMicroelectronics Holding NV	NETHERLANDS	20,000			Voting right ownership
247	TAC ONE SAS	FRANCE	16,680	16,680	SELEX COMMUNICATIONS SpA	Voting right ownership
248	TCAR Industries GmbH	GERMANY	16,000	16,000	GALILEO AVIONICA SpA	Voting right ownership
249	TecnoSIS SpA	ITALY	100,000	100,000	ELSAG SpA	Voting right ownership
250	TECNOSSAN SpA (in fall)	ITALY	12,328	12,328	SO.GE.PA.-Societa` Generale di Partecipazioni S.p.A.	Voting right ownership
251	TELBIO SpA	ITALY	31,034	31,034	TELESPAZIO SpA	Voting right ownership
252	TELESPAZIO ARGENTINA S.A.	ARGENTINA	100,000	5,000	TELESPAZIO BRASIL SA	Voting right ownership
				95,000	TELESPAZIO SpA	Voting right ownership
253	TELESPAZIO BRASIL SA	BRAZIL	98,534	98,534	TELESPAZIO SpA	Voting right ownership
254	TELESPAZIO DEUTSCHLAND GMBH	GERMANY	100,000	100,000	TELESPAZIO FRANCE Sas	Voting right ownership
255	TELESPAZIO FRANCE Sas	FRANCE	100,000	100,000	TELESPAZIO HOLDING S.R.L.	Voting right ownership
256	TELESPAZIO HOLDING S.R.L.	ITALY	67,000			Voting right ownership
257	TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS Ltd	HUNGARY	100,000	99,000	TELESPAZIO SpA	Voting right ownership
				1,000	TELESPAZIO HOLDING S.R.L.	Voting right ownership
258	TELESPAZIO NEDERLAND B.V.	NETHERLANDS	100,000	100,000	TELESPAZIO FRANCE Sas	Voting right ownership
259	TELESPAZIO NORTH AMERICA Inc	DELAWARE - USA	100,000	100,000	TELESPAZIO SpA	Voting right ownership
260	TELESPAZIO SpA	ITALY	100,000	100,000	TELESPAZIO HOLDING S.R.L.	Voting right ownership
261	THALES ALENIA SPACE S.A.S.	FRANCE	33,000			Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
262	THOMASSEN SERVICE AUSTRALIA PTY LTD	AUSTRALIA	100,000	100,000	THOMASSEN TURBINE SYSTEMS B.V.	Voting right ownership
263	THOMASSEN SERVICE GULF LLC	UNITED ARAB EMIRATES	48,667	48,667	THOMASSEN TURBINE SYSTEMS B.V.	Voting right ownership
264	THOMASSEN TURBINE SYSTEMS B.V.	NETHERLANDS	100,000	100,000	ANSALDO ENERGIA SpA	Voting right ownership
265	TRADE FATA B.V.	NETHERLANDS	100,000	100,000	FATA SPA	Voting right ownership
266	Tradexim S.r.l. (in liq.)	ITALY	18,180	18,180	DATAMAT S.p.A.	Voting right ownership
267	TRAM DI FIRENZE SpA	ITALY	17,464	13,664	ANSALDOBREDA SpA	Voting right ownership
				3,800	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	Voting right ownership
268	TRANSCONTROL Corporation	USA	100,000	100,000	UNION SWITCH & SIGNAL Inc	Voting right ownership
269	TRANSIT SAFETY RESEARCH ALLIANCE (No Profit Corporation)	USA	100,000	100,000	UNION SWITCH & SIGNAL Inc	Voting right ownership
270	TRIMPROBE SPA	ITALY	100,000			Voting right ownership
271	U.V.T. (Ultraviolet Technology) SpA (in fall)	ITALY	50,613	50,613	SO.GE.PA.-Societa' Generale di Partecipazioni S.p.A.	Voting right ownership
272	UNION SWITCH & SIGNAL (MALAYSIA) SDN BHD	MALAYSIA	100,000	100,000	UNION SWITCH & SIGNAL PTY Ltd	Voting right ownership
273	UNION SWITCH & SIGNAL CHILE Ltda	CHILE	68,000	67,000	TRANSCONTROL Corporation	Voting right ownership
				1,000	UNION SWITCH & SIGNAL INTERNATIONAL Co	Voting right ownership
274	UNION SWITCH & SIGNAL Inc	DELAWARE - USA	100,000	100,000	ANSALDO SIGNAL N.V.	Voting right ownership
275	UNION SWITCH & SIGNAL INC (Canada)	ONTARIO - CANADA	100,000	100,000	UNION SWITCH & SIGNAL Inc	Voting right ownership
276	UNION SWITCH & SIGNAL INTERNATIONAL Co	DELAWARE - USA	100,000	100,000	UNION SWITCH & SIGNAL Inc	Voting right ownership
277	UNION SWITCH & SIGNAL INTERNATIONAL PROJECTS Co	DELAWARE - USA	100,000	100,000	UNION SWITCH & SIGNAL Inc	Voting right ownership
278	UNION SWITCH & SIGNAL PRIVATE LTD	INDIA	100,000	99,9998	ANSALDO SIGNAL N.V.	Voting right ownership
				0,0002	TRANSCONTROL Corporation	Voting right ownership
279	UNION SWITCH & SIGNAL PTY Ltd	AUSTRALIA	100,000	100,000	TRANSCONTROL Corporation	Voting right ownership

	Company OWNED (name and legal form)	COUNTRY	%TOTAL	% INDIRECT	TROUGH	KIND OF POSSESSION
280	UVT ARGENTINA SA	ARGENTINA	60,000	60,000	U.V.T. (Ultraviolet Technology) SpA (in fall)	Voting right ownership
281	WESTERN INVESTORS TECHNOLOGY GROUP Inc	DELAWARE - USA	24,000	24,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
282	WESTERN INVESTORS TECHNOLOGY GROUP Ltd Partnership	DELAWARE - USA	20,000	20,000	ALENIA NORTH AMERICA, INC.	Voting right ownership
283	WESTLAND HELICOPTERS INC	DELAWARE - USA	100,000	100,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
284	WESTLAND HELICOPTERS LIMITED	UNITED KINGDOM	100,000	100,000	AgustaWestland Holdings Limited	Voting right ownership
285	WESTLAND INDUSTRIAL PRODUCTS LIMITED	UNITED KINGDOM	100,000	100,000	WESTLAND INDUSTRIES LIMITED	Voting right ownership
286	WESTLAND INDUSTRIES LIMITED	UNITED KINGDOM	100,000	100,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
287	WESTLAND SUPPORT SERVICES LIMITED	UNITED KINGDOM	100,000	100,000	WESTLAND HELICOPTERS LIMITED	Voting right ownership
288	WESTLAND TRANSMISSIONS LIMITED	UNITED KINGDOM	100,000	100,000	AgustaWestland Holdings Limited	Voting right ownership
289	WHITEHEAD ALENIA SISTEMI SUBACQUEI SpA	ITALY	100,000			Voting right ownership
290	ZAO ARTETRA	RUSSIAN FEDERATION	51,000	51,000	OTE SpA	Voting right ownership