

Finmeccanica Spa

**Board of Director's Report on the Corporate Governance system and voluntary acceptance
of the Self-Regulatory Code for Listed Companies**

April 2006

FINMECCANICA – Società per azioni

BOARD OF DIRECTOR'S REPORT ON THE CORPORATE GOVERNANCE SYSTEM AND
VOLUNTARY ACCEPTANCE OF THE SELF-REGULATORY CODE FOR LISTED COMPANIES

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SECTION I: CORPORATE GOVERNANCE STRUCTURE OF FINMECCANICA

Introduction

In accordance with the regulatory provisions issued by Borsa Italiana S.p.A. for boards of directors of listed companies to ensure the correctness and transparency of reporting, this report aims to describe Finmeccanica's corporate governance system for shareholders at the meeting approving the 2005 financial statements. The corporate governance system is outlined in Section I, while in Section II details of its implementation can be found with reference to the organisational model defined and recommended by the Self-Regulatory Code.

In accordance with the instructions of the Corporate Governance Committee, this description refers to the organisational model defined by the Self-Regulatory Code (July 2002 version) for the 2005 financial year. Information on the Company's integration of the recommendations and guidelines set out in the new Code, published recently (March 2006), will be described in the "Corporate Governance Report" to be published in 2007.

Shareholding structure

The share capital of Finmeccanica is composed exclusively of ordinary shares with a nominal value of €4.40 each.

The Italian Ministry of the Economy and Finance owns around 33.821% of the Company.

The shareholding of the Ministry of the Economy and Finance is governed by the Prime Minister's Decree of 28 December 1999, whereby the shares held by it may not fall below the minimum threshold of 30% of the share capital.

Based on the information contained in the Shareholders' Register and other information received, no other party holds more than 2% of the share capital and the Company is not aware of any shareholder agreements relating to the Company's shares.

Special powers

Under Act No. 474 of 30.07.1994, as amended by Act No. 350 of 24 December 2003 (Finance Act 2004), the Italian Minister of the Economy and Finance, jointly with the Italian Minister of Economic Development, has “special powers” (the so-called “golden share”) in certain State-owned companies, including Finmeccanica. Following changes in the law and in accordance with the relevant legal provisions, the Italian Ministry of the Economy and Finance, in its Decree No 3257 of 1 April 2005, specified the exact content of the statutory clause assigning special powers relating to Finmeccanica, transposed into the Articles of Association as Article 5.1-*ter* by resolution of the Board of Directors of 21 April 2005. In particular, this clause makes provision for:

- opposition to the acquisition of material shareholdings in the Company's capital (representing at least 3%);
- opposition to the signing of agreements or contracts representing at least 3% of the share capital;
- a right of veto, justified in view of the actual harm caused to the interests of the State, on resolutions to wind up the Company, sell the business, conduct mergers or demergers, relocate the Company's head office to a different country or amend the corporate objectives;
- the appointment of a director without a voting right.

Organisation of the Company

The organisation of the Company, based on the traditional model, is consistent with legal provisions on listed issuers and is as follows:

- BOARD OF DIRECTORS, vested with the utmost powers for the administration of the Company, with the power to perform any act that it considers appropriate in order to attain the corporate objectives, except for those acts reserved by law or by the Articles of Association for the Shareholders' Meeting.

- BOARD OF STATUTORY AUDITORS, which has the task of monitoring: a) compliance with the law and Memorandum of Association and observance of the principles of correct business administration; b) the adequacy of the Company's organisational structure, internal control system and administrative and accounting system, and also that the latter is reliable as a means of

accurately reporting events; c) the appropriateness of instructions issued by the Company to subsidiaries with regard to disclosures.

- SHAREHOLDERS' MEETING, with the power to adopt resolutions in ordinary and extraordinary sessions on the matters reserved for it by law or by the Articles of Association.

- INDEPENDENT AUDITORS: audits are carried out, as laid down by current legislation, by Independent Auditors listed in the special auditors' register and appointed by the Shareholders' Meeting.

Corporate objectives and mission

Finmeccanica aims to maintain and increase the role of Italian industry in advanced technology sectors, developing an integrated, synergy-based portfolio of businesses mainly in the aerospace, defence and security industries, through which it can effectively serve the needs of national clients, participate in European and international programmes and compete selectively in the global market. The Company currently also operates in the energy and transport sectors. Finmeccanica pursues its mission mainly with a view to building value for its shareholders and is committed to protecting and increasing the country's expertise in its various business sectors.

Organisational and management model

Since the 2003 financial year, the Company, in view of the entry into force of Legislative Decree No. 231 of 8.06.2001, which introduced special corporate responsibility for certain types of crime, took appropriate measures to avoid the occurrence of any criminal responsibility in accordance with the provisions of this law. As such, special supervisory systems were put in place aimed at preventing corporate offences or offences against the public authorities by directors, senior managers, employees or associates of the Company.

In particular, on 12 November 2003, the Board of Directors of Finmeccanica ratified the "ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL IN ACCORDANCE WITH LEGISLATIVE DECREE NO. 231/01", satisfying the requirements of that Decree. The Model was

based on the guidelines issued by Confindustria and serves as the template for models adopted by other Group companies.

The key components of the Model are:

- the Code of Ethics.
- required behaviour, procedures and controls;
- delegated authority and powers;
- staff training and communication;
- disciplinary system;
- appointment of a Supervisory Body.

The Model is composed of a general section and two special sections.

The general section mainly deals with the Supervisory Body and information to be sent to it, reporting by the Supervisory Body to Company organs, staff training and the dissemination of the Model within the Company, as well as disciplinary measures for non-compliance with the Model.

One of the special sections covers offences against the public authorities, while the other describes corporate offences. Both sections list the risk areas for each category of offence, setting down the rules of behaviour for individuals working in these areas and defining the monitoring procedures.

The Organisational, Management and Control Model, together with the corresponding Code of Ethics, is available in English and Italian on the Company's website.

During the 2005 financial year, the Company updated its Model to reflect the new organisational structure, operational since October 2004, and to take account of the new offences of insider dealing and market manipulation (the new "market abuse" regulations), as well as amendments to the sanctions provided by Legislative Decree No. 231/01, contained in Act No. 262/05 ("asset protection").

In May 2005, the Board of Directors also modified the composition of the Supervisory Body to make this more collegial following changes to the Confindustria Guidelines and in consideration of recent court rulings, which deemed this advisable for medium and large corporate groups.

Subsidiaries were also notified of this decision for the relevant assessment by their boards of directors.

The Supervisory Body of Finmeccanica is currently composed of the independent non-executive director Maurizio de Tilla (Chairman) and by the heads of the Audit Department and the Legal and Corporate Affairs Department.

At the meeting on 15 December 2005, the Board ratified the statute of the Supervisory Body and was informed of the adoption of special regulations by the Body.

The Supervisory Body sends the Board of Directors an annual written report on the implementation of the Organisational, Management and Control Model.

With regard to operations conducted within the Group pursuant to Legislative Decree No. 231/01, this process concluded itself with the ratification by the respective boards of directors of the Model and the measures deriving therefrom.

SECTION II: INFORMATION ON THE IMPLEMENTATION OF THE SELF-REGULATORY CODE

1. BOARD OF DIRECTORS

The Company is governed by a Board of Directors composed of no fewer than eight and no more than 12 members, appointed by the Shareholders' Meeting, which also decides on the number of members and the term of office.

The Shareholders' Meeting of 12 July 2005 set the number of members of the new Board of Directors at 11. Members will remain in office until the approval of the 2007 financial statements. To the 11 members of the Board of Directors thus appointed, a 12th member was subsequently added, following the Decree issued on 22 July 2005 by the Italian Minister of the Economy and Finance, jointly with the Minister of Economic Development, exercising the "special powers" referred to in Act No. 474/1994, as subsequently amended. The 12th member, Ambassador Giovanni Castellaneta, appointed as the director without a voting right pursuant to Article 5.1-*ter*, subparagraph d) of the Articles of Association, will remain in office until the mandate expires of the Board of Directors appointed by the Shareholders' Meeting.

The Shareholders' Meeting also named Pier Francesco Guarguaglini as Chairman of the Board of Directors. At its first meeting, the Board also made Mr Guarguaglini Managing Director of the Company, empowering him accordingly, in view of the authority vested in him during his previous term of office.

Therefore, the **Board of Directors** for the **three-year period 2005-2007** is composed as follows:

PIER FRANCESCO GUARGUAGLINI (1)	CHAIRMAN AND MANAGING DIRECTOR
PIERGIORGIO ALBERTI (2)	
FRANCO BONFERRONI (1)	
GIOVANNI CASTELLANETA (*)	
MAURIZIO DE TILLA (2)	
GIAN LUIGI LOMBARDI-CERRI (1)	
ERNESTO MONTI (3)	

ROBERTO PETRI (1)

DARIO SCANNAPIECO (1)

RICCARDO VARALDO (2)

GUIDO VENTURONI (1)

PAOLO VIGEVANO (1)

(1) Directors appointed from the majority list submitted by the Minister of the Economy and Finance.

(2) Directors appointed from the minority list submitted by Mediobanca S.p.A. and Sade Finanziaria S.p.A.

(3) Director appointed from the minority list submitted by Fineco Asset Management SpA SGR, Arca SGR SpA, BNL Gestioni SGR SpA, Banco di Napoli Asset Management SGR SpA, Ersel Asset Management SGR SpA, Monte dei Paschi Asset Management SGR SpA, Nextra Investment Management SGR SpA and Sanpaolo IMI Asset Management SGR SpA.

(*) Director without a voting right appointed by Decree of the Italian Minister of the Economy and Finance.

The Board is vested with the utmost powers for the administration of the Company, with the authority to perform any act it deems necessary in order to attain the corporate objectives, except for those acts reserved by law or by the Articles of Association for the Shareholders' Meeting.

Under Article 20.1 of the Articles of Association, the Board of Directors will meet whenever the Chairman or his replacement considers it necessary or whenever this is requested in writing by the majority of its members or by the Board of Statutory Auditors.

The scheduling of regular Board meetings is standard operating procedure. This was adopted some time ago by the Company on the basis that the Board will meet at least once a month. In 2005, 14 Board meetings were held, seven of them by the Board of Directors in office since 12 July 2005.

The following information relates to attendance at Board meetings of directors appointed by the Shareholders' Meeting on 12.07.2005:

PIER FRANCESCO GUARGUAGLINI	7 meetings
PIERGIORGIO ALBERTI	7 meetings
FRANCO BONFERRONI	7 meetings
GIOVANNI CASTELLANETA (*)	6 meetings
MAURIZIO DE TILLA	6 meetings
GIAN LUIGI LOMBARDI-CERRI	7 meetings

ERNESTO MONTI	7 meetings
ROBERTO PETRI	7 meetings
DARIO SCANNAPIECO	7 meetings
RICCARDO VARALDO	7 meetings
GUIDO VENTURONI	7 meetings
PAOLO VIGEVANO	7 meetings

(*) Director in office since 22.07.2005.

All absences were duly justified:

Except for the Chairman and Managing Director, the Board of Directors is composed of NON-EXECUTIVE DIRECTORS (in other words, directors without any operating powers and/or management role in the Company) able to influence Board decisions so that these will comply with the Company's interests.

A brief résumé for each member of the Board of Directors is given below.

• **PIER FRANCESCO GUARGUAGLINI – Chairman and Managing Director.**

Born in Castagneto Carducci (LI) on 25.02.1937, he has been Chairman and Managing Director of Finmeccanica since 24.04.2002. He was reappointed by the Shareholders' Meeting on 16.05.2003 and again on 12.07.2005. A graduate in electronic engineering from Pisa University, he also holds a Ph.D. in electrical engineering from the University of Pennsylvania. He is a freelance lecturer at Rome University and sits on the councils of Confindustria and AECMA (European Association of Aerospace Industries). He is also a member of the IEEE (Institute of Electrical and Electronics Engineers) and is a board member of the Council for the United States and Italy. He has held numerous posts: was Chief Executive and later Managing Director of Officine Galileo (1984-1994), Managing Director of Oto Melara and Breda Meccanica Bresciana (1994-1996), Head of the Finmeccanica Defence Consortium (1996-1999), Chairman of the Board of Directors of Alenia Marconi Systems (1998-2000) and Managing Director of Fincantieri Cantieri Navali Italiani (1999-2002).

• **PIERGIORGIO ALBERTI – MEMBER OF THE BOARD OF DIRECTORS**

Born in San Remo on 28.03.1943, he is a Professor of Administrative Law and a lecturer in European Administrative Law at the Law Faculty of Genoa University. He is self-employed, works as a barrister with the Supreme Court and is a certified auditor. The author of numerous monographs and Articles in scientific journals, he is also a member of various associations and committees (including the Institute of Administrative Science and Association of Urban Development Law). He is a former Deputy Chairman of Sviluppo Genova SpA, Autostrada dei Fiori SpA, Autostrada Ligure Toscana SpA and Finligure SpA, and is a Director of Locat SpA and Mediocredito Ligure.

He is currently, inter alia, a member of the Executive Committee of Banca Carige and a director of the Ente Ospedaliero Ospedali Galliera di Genova. He also sits on the scientific technical committee set up by the Italian Government for the implementation of Part V of the Constitution and on the governing board of the Graduate School of the Ministry of the Interior.

• **FRANCO BONFERRONI – MEMBER OF THE BOARD OF DIRECTORS**

Born in Reggio Emilia on 10.10.1938, he is a chartered accountant and certified auditor. He is also a former Member of Parliament (1979-1992) and Senator (1992-1994). Self-employed since 1976, he is a former member of the Council of the Chamber of Commerce of Reggio Emilia (1966-1974), where he was later President (1974-1979). He has held directorships with various companies, including Autostrada del Brennero SpA (1966-1974), Fidenza Vetraria SpA and Montedil SpA and Montedison Group (1977-1979). He is currently Deputy Chairman of Pianimpianti SpA and a director of Alerion Industries SpA. He was formerly President of the IFOA, a professional training institute (1975-1989). From 1989 to 1992 he held the post of Undersecretary of State at the Ministry of Industry and Commerce and at the Ministry of Foreign Trade.

• **GIOVANNI CASTELLANETA – MEMBER OF THE BOARD OF DIRECTORS (*)**

Born in Gravina di Puglia (BA) on 11.09.1942, he read law at La Sapienza University in Rome and entered the diplomatic service in 1967. He has held numerous posts both in Italy and abroad. He has been, inter alia, Secretary-General with the Ministry of Foreign Affairs, Press and Cultural Attaché in Paris, Deputy Permanent Representative for Geneva-based International Organisations, Head of the Press and Information Service at the Ministry of Foreign Affairs and

* Director without a voting right pursuant to Article 5.1-ter, subparagraph d) of the Articles of Association.

Ambassador to Iran and Australia. He has held the post of Diplomatic Advisor to the Italian Prime Minister and has acted as the Prime Minister's Personal Representative for G7/G8 summits. He is currently Italy's Ambassador to the United States.

• **MAURIZIO DE TILLA – MEMBER OF THE BOARD OF DIRECTORS**

Born in Naples on 6.04.1941, he has been a director of Finmeccanica since 25.10.2000. He was reappointed by the Shareholders' Meeting on 16.05.2003 and again 12.07.2005. He is a civil barrister with the Supreme Court and President of the Italian Legal Aid and Welfare Fund. He is President of the Italian Association of Private Welfare Associations and of the Italian Institute of Legal Culture and Principal Vice President of the European Federation of Bar Associations. Between 1993 and 1994 he was President of the Naples Bar Council. He is former President of the European Court of Arbitration for Southern Italy and current President of the Naples Interprofessional Advisory Council. He chairs the arbitration panel of the Italian-American Law Association. He is Chairman of Lextel, a director of Alleanza Assicurazioni and a member of the General Council of Assicurazioni Generali. He is a regular contributor to numerous legal journals and generalist publications and the author of countless publications (including the *Trattato di Diritto Immobiliare*). He co-edits *Immobili e Diritto* (published by Sole 24 Ore). A political journalist, he is a member of the Council of the Campania Journalists' Association.

• **GIAN LUIGI LOMBARDI-CERRI – MEMBER OF THE BOARD OF DIRECTORS**

Born in Genoa on 9.05.1926, he has been a director of Finmeccanica since 16.05.2003. He was reappointed by the Shareholders' Meeting on 12.07.2005. He holds a degree in mechanical industrial engineering from the Institute of Technology in Milan. He is a self-employed machine tool and production line designer. A former lecturer in machine tool technology at the Advanced Institute of Technology in Milan (ISTIM), he is a professor in industrial engineering at the Milan Institute of Technology, a technical consultant and arbitrator for the UCIMU and specialist advisor to the Autonomous Province of Trento for local business automation issues. He has also held numerous executive posts, including Technical Director for Officine Mariani, Chief Executive of Ceruti-Imes, Production Director for Ceretti & Tanfani, Technical Director for Induma, Production Director for Caser and Chief Executive of Canavese.

• **ERNESTO MONTI – MEMBER OF THE BOARD OF DIRECTORS**

Born in Marigliano (NA) on 2.01.1946, he has been a director of Finmeccanica since 27.06.2001. he was reappointed by the Shareholders' Meeting on 16.05.2003 and again on 12.07.2005. A graduate in economics and business, he has attended various specialist economic and financial courses at the Bocconi University School of Management and at the Catholic University. A former lecturer at the Bocconi University School of Management (1976-1980) and at Modena University (1983-1984), since 1986 he has held the chair in business finance at LUISS-Guido Carli University. He has held numerous executive posts, including several with IMI Group (1976-1984), most notably as IMI Regional Finance Director Italy and a Director of Sige, Fideuram, Imigest and Studi Finanziari S.p.a. He was Head of Securities, Treasury and Equity Investments at Banca Nazionale dell'Agricoltura (1984-1989) and has been Vice-President and a member of the Boards of Directors of various companies in the asset management sector. He was Vice-President of Markets with Banco di Santo Spirito (1989-1992) and a Vice-President with Banca di Roma (1992-1996), where he later become Deputy Director-General. He currently holds the office of Chairman of Astaldi and Finanziaria Tosinvest, and is a member of the Board of Directors of EnerTad and Fintecna

• **ROBERTO PETRI – MEMBER OF THE BOARD OF DIRECTORS**

Born in Pescara on 12.11.1949. A law graduate, he is a former employee of Banca Nazionale del Lavoro, where he held a number of posts: Head of the Credit Department at BNL in Busto Arsizio (1982), Deputy Business Manager at the Ravenna Branch (1983-1987), Area Manager at BNL in Venice (1987-1989) and Joint Manager at the Head Office in Rome (1989-1990). From 1990 to 1994, he was Business Manager at Banca Popolare di Ravenna, in charge of credit and business development. In October 1994, he went to Cassa di Risparmio di Ravenna as Business Manager. He is currently in charge of the Private Office of the Undersecretary of State for Defence, the Hon. Filippo Berselli, and since the 2003 financial year has been a member of the Board of Directors of Fintecna SpA.

• **DARIO SCANNAPIECO – MEMBER OF THE BOARD OF DIRECTORS**

Born in Rome on 18.08.1967, he has been a director of Finmeccanica since 16.05.2003. He was reappointed by the Shareholders' Meeting on 12.07.2005. He holds a degree in economics and business from LUISS University and has an MBA from Harvard Graduate School of Business Administration in Boston. Since 2002, he has been Director-General of Finance and Privatisations for the Italian Ministry of the Economy and Finance. He is a former member of the Board of

Directors of Ente Tabacchi Italiani and Consap. He currently sits on the management committee of the Italian State Property Agency and on the strategic committee of the Cassa Depositi e Prestiti. He has held numerous executive posts, including Head of Planning and Strategic Control at Telecom Italia (1992-1995), Summer Associate Consultant with Andersen Consulting-Strategic Services (1996), and member of the Council of Experts at the Italian Ministry of Economy and Finance (1997-2002).

• **RICCARDO VARALDO – MEMBER OF THE BOARD OF DIRECTORS**

Born in Savona on 17.06.1935, he read economics at Pisa University. Since 1972, he has been Professor of Business Management and Economics. He began his academic career at the Economics Faculty of Ancona University and in 1972 moved to Pisa University, where he was Dean of the Economics Faculty (1981-1986). Since 1988, he has been on the staff at the Sant'Anna Institute for Undergraduate and Postgraduate Study, where he is currently President. He was Vice-Chancellor of the Institute between 1993 and 2004. He has been a member of the Board of the Italy-Japan Business Group since 2004 and of the Board of Directors of the Fondazione IRI since 2001. He has held and continues holds a number of directorships with various companies, including Cassa di Risparmio di Volterra and Oto Melara (2003-2005), Alleanza Assicurazioni, Generali Group (1990-1993), Nuovo Pignone (1989-1992) and Consorzio Pisa Ricerche (1987-2001). He is the current President of the Italian Marketing Society and is a member of several other associations, most notably the Italian Society of Economists and the Italian Academy of Business Economics. He currently holds several ministerial and government posts: he is, inter alia, a member of various committees set up to promote new research companies and Industrial Liaison Offices at the Italian Ministry for Education, Universities and Research. He is also the author of countless monographs and articles in Italian and foreign scientific journals. He is editor of the publication *Mercati e Competitività* and co-editor of *Economia e Politica Industriale*, as well as sitting on the scientific committees of various other scientific journals.

• **GUIDO VENTURONI – MEMBER OF THE BOARD OF DIRECTORS**

Born in Teramo on 10.04.1934, he attended the Naval Academy in Livorno and in 1956 was appointed Official. In 1959 he obtained his naval aviation pilot's licence for operation from aircraft carriers. Promoted to Rear Admiral in 1982, he went on to hold a series of posts with increasing responsibility: Head of Operations for Naval Staff and then of the Defence Staff; Commander of

the First Naval Division; Assistant Chief of Naval Staff; Commander-in-Chief of the Naval Squadron and Central Mediterranean. In 1992 he was made Chief of Naval Staff and in 1994 Chief of Defence Staff. In 1999, he was invited to take up the post of President of the NATO Military Committee in Brussels. Admiral Venturoni retired in 2002 after 50 years of active service. He has held numerous major roles and has led various national and international military operations. He has been decorated countless times in Italy and elsewhere. Most notably, he held the strategic/operational command of Italian-led multinational intervention in Albania in 1997. From 2002 until November 2005, he was Chairman of Selenia Communications SpA (formerly Marconi Selenia Communications SpA).

• **PAOLO VIGEVANO – MEMBER OF THE BOARD OF DIRECTORS**

Born in Genoa on 28.03.1948, he has a degree in engineering from La Sapienza University in Rome. He is currently a director of Finsiel SpA. He is former Head of the Technical Office and Political Advisor for the Ministry for Innovation and Technology and was previously Chairman of Innovazione Italia S.p.A. Since 2002, he has been Deputy Chairman of the ICCP Committee of the OECD, a member of the General Council for Communications and Chairman of the Interministerial Executive Committee for the preparation of the Italian national broadband plan. In 2001, he chaired the Interministerial Commission set up to manage the deployment of broadband telecommunications networks. Since 2004, he has chaired the Interministerial Commission on digital content in the internet age. He was elected Member of Parliament in 1994. He is a former publisher of *Radio Radicale* (1979) and *Agorà Telematica* (1989), and is manager and director of various companies. In 1986 he founded and chaired the Italian association of national radio networks (RNA) and in 1983 set up FIERTI, the Italian federation of radio and television broadcasters.

The following directorships or auditorships are also held by the Directors in other companies listed on Italian and foreign regulated markets, in financial, banking or insurance companies or in other major companies.

- **PIERGIORGIO ALBERTI:**

Director of PARMALAT S.P.A.

Director of BANCA CARIGE

- **FRANCO BONFERRONI:**

Director of ALERION INDUSTRIES S.P.A.

- MAURIZIO DE TILLA:

Director of ALLEANZA ASSICURAZIONI S.P.A.

- ERNESTO MONTI:

Chairman of ASTALDI S.P.A.

Chairman of FINANZIARIA TOSINVEST S.P.A.

Director of ENERTAD S.P.A.

Director of FINTECNA S.P.A.

- ROBERTO PETRI:

Director of FINTECNA S.P.A.

- RICCARDO VARALDO:

Director of TARGETTI SANKEY S.P.A.

Director of MPS VENTURE SGR

Director of CASSA DI RISPARMIO DI VOLTERRA

- PAOLO VIGEVANO:

Director of FINSIEL S.P.A.

Directors have sole responsibility for managing the Company and implement the operations necessary for attaining the corporate objectives. The Board of Directors is also responsible for determining the content and limits of delegated powers, assessing the suitability of the Company's organisational, administrative and accounting structure based on the information received, examining strategic and industrial plans and evaluating overall management performance based on reports from the relevant bodies.

The Board has delegated the following powers to the Chairman and Managing Director for the purposes of managing the Company.

Chairman and Managing Director

The Chairman and Managing Director is the Company's legal representative according to the law and the Articles of Association. He also holds the signing authority. He is responsible for managing the Company and coordinating its various sites and branch offices, adopting resolutions and performing any acts that fall within the normal administration of the Company. He also identifies

the key strands of Company and Group strategy, affiliation policies and acquisitions and disposals, which he submits to the Board of Directors before taking the necessary action with subsidiaries, affiliates and shareholdings concerned.

The Chairman and Managing Director has been granted the necessary powers to perform these tasks.

Matters reserved exclusively for the Board

A) In accordance with Article 22.3 of the Articles of Association, the following are reserved exclusively for the Board of Directors:

1. proposals to place the Company in voluntary liquidation;
2. approval of plans for the merger or demerger of the Company;
3. proposals to modify any clause of the Articles of Association or to adopt new Articles of Association;
4. the sale, transfer, leasing, usufruct or any other disposition, as part of joint ventures or otherwise, or the placing of constraints on the business or parts of the business pertaining to defence-related activities;
5. the sale, transfer, licensing or any other disposition, as part of joint ventures or otherwise, or the placing of constraints on technology, manufacturing processes, know-how, patents, industrial projects and any other creative work in any way pertaining to defence-related activities;
6. relocation outside Italy of research and development pertaining to defence-related activities;
7. the sale, transfer, usufruct, pledging or any other disposition, as part of joint ventures or otherwise, or the placing of constraints on shareholdings in controlled undertakings, affiliates or subsidiaries (the concepts of control and affiliation shall be taken within the meaning of Article 2359 of the Italian Civil Code) involved in defence-related activities;
8. notification from the issuer relating to public offers for acquisition or exchange pursuant to Article 39 of Resolution No 11971 of 14 May 1999;
9. votes to be cast on the subjects referred to in the previous subparagraphs at general meetings of controlled undertakings, affiliates or subsidiaries (the concepts of control and

affiliation shall be taken within the meaning of Article 2359 of the Italian Civil Code) involved in defence-related activities.

Resolutions relating to these topics are validly adopted with the vote in favour of 7/10 of directors in office (with fractions rounded down to the nearest whole number).

The following matters are also exclusively reserved for the Board of Directors:

1. definition of strategic and organisational areas (including plans, programmes and budgets);
2. agreements with sector operators, other companies or groups, whether national or international, which are of strategic importance and which do not fall within the normal sphere of operations;
3. capital increases, incorporation, transformation, flotation, merger, demerger, liquidation and shareholder agreements for direct subsidiaries;
4. appointment of new directors with powers or directors, auditors or independent auditors of the Group for directly controlled companies;
5. acquisition, exchange and sale of buildings and leases with a term of more than nine years;
6. medium and long-term credit and debit financial transactions for amounts in excess of €25 million per transaction;
7. issue of guarantees for more than €50 million per transaction;
8. recruitment, appointment and dismissal of directors responsible for central departments, as defined in the organisational structure; assignment of consulting mandates ongoing for more than one year or for an amount in excess of €250,000;
9. deeds and contracts for amounts in excess of €150 million per transaction (the corresponding authority granted to the Chairman and Managing Director is in fact limited to amounts of no more than €150 million per transaction).

Acquisitions and disposals of shareholdings or companies or parts of the business, including those operating in sectors other than defence, are also reserved for the Board of Directors.

Furthermore, the Board of Directors grants powers to the Chairman and Managing Director, as well as revoking them where necessary and defining the procedures for exercising them. It also

sets limits on his authority and determines – through the Committee referred to in section 8 below – his remuneration.

With reference to the resolutions previously adopted on the matters reserved for it, the Board of Directors has specifically approved "GUIDELINES AND CRITERIA FOR THE IDENTIFICATION OF MATERIAL AND RELATED PARTY TRANSACTIONS", available on the Company's website.

Material transactions – which come under the Board's sole authority – are identified based on the nature of operations carried out by Finmeccanica and according to quantitative and qualitative criteria.

A different level of significance for material Related Party Transactions has not been identified, since the criteria used to identify transactions reserved exclusively for the Board of Directors are deemed sufficient.

Particular attention has been paid by the Board of Directors to potential conflicts of interest and to related party transactions that are not included among those reserved exclusively for it, as described earlier. The Board of Directors is provided with the relevant information regarding both the Company and its subsidiaries at least once a quarter, in accordance with Legislative Decree No. 58/1998 and Article 24.2 of the Articles of Association.

Evaluation of the operation of the Board of Directors

In the early part of this year, the Board of Directors decided to start assessing its own operation and efficiency in accordance with international best practice on corporate governance. A specialist firm of consultants was therefore chosen to assist the Board of Directors in this assessment process, analysing the experience acquired thus far by the Board since its appointment in July 2005.

As part of the methodological approach used by the consultants to understand the level of functionality and efficiency of the Board and to identify any aspects that might hinder improvements to these areas, special questionnaires were completed and personal interviews held with each director. The analysis focused on: a) the structure, composition and operation of

the Board and Committees, b) the Board's dealings with the management, shareholders and stakeholders, c) Board meetings, information flows, the roles and responsibilities of the Board and decision-making processes, d) performance targets and strategies, e) organisational structure, succession plans and remuneration policies.

From the studies carried out, several areas of excellence emerged. These include the following: the sense of unity within the Board of Directors, allowing fast, inclusive and solid decision-making; praise for the Company's senior management; commendation for the accessibility of the Chairman and Managing Director; adequate information flows, clear operating and performance targets and excellent shareholder and stakeholder relationship management.

Areas for improvement include the need to build on the Board's knowledge of factors that underpin strategic options for the business, to ensure that the Board is increasingly involved in their analysis and selection, particularly given the complexity of Group operations.

These areas will undergo further analysis and assessment by the Board in order to identify the most suitable means of optimising its work.

2. INDEPENDENT DIRECTORS

In accordance with the Self-Regulatory Code, the Board of Directors of Finmeccanica periodically assesses the level of independence of its non-executive members, based on information about material situations supplied by the individuals concerned, as provided by Article 3 of the Code.

Following the examination carried out on 28 March 2006, the Board confirmed that eight of the 10 non-executive directors appointed by the Shareholders' Meeting on 12 July 2005 met the independence criterion laid down by Article 3.1 of the Self-Regulatory Code. They were: PIERGIORGIO ALBERTI, FRANCO BONFERRONI, MAURIZIO DE TILLA, GIAN LUIGI LOMBARDI CERRI, ERNESTO MONTI, RICCARDO VARALDO, GUIDO VENTURONI and PAOLO VIGEVANO.

The Board found that the directors ROBERTO PETRI and DARIO SCANNAPIECO cannot be considered "independent" according to the criteria contained in the Self-Regulatory Code, in view of their relationship or collaboration with the Italian Government, which owns around 33.821% of the Company through the Ministry of the Economy and Finance.

Despite this, it is recognised that each director has honoured his duty to the Company to act with the diligence and expertise demanded by the nature of the appointment.

3. COMMITTEES

The following Committees report to the Board of Directors:

<u>COMMITTEE FOR INTERNAL CONTROL:</u>	MEETING ATTENDANCE (*)
ERNESTO MONTI – Chairman	4 meetings
PIERGIORGIO ALBERTI	4 meetings
MAURIZIO DE TILLA	3 meetings
GIAN LUIGI LOMBARDI-CERRI	4 meetings

(*) The attendance information refers to the new Committee, set up following the reappointment of the Board of Directors by the Shareholders' Meeting on 12.07.2005 and to the corresponding (four) meetings held in 2005.

The Committee is composed of four non-executive directors, all of them "independent". Its work mainly involves assisting the Board of Directors in its periodic audits of the adequacy and effectiveness of the internal control system, for which the Board is responsible.

The Committee, which meets at least every six months (when the Board of Directors approves the financial statements and interim report), has the power to advise and make recommendations to the Board so that it may carry out the necessary supervision.

In particular, the Committee has the task of verifying the adequacy and functionality of the internal control system, in addition to compliance with internal operating and administrative procedures

adopted to ensure sound and effective management and to identify, prevent and manage any potential financial and operating risks or defrauding of the Company. The specific functions of the Committee are listed as, but not restricted to, the following:

- a) to examine the main control issues and practices in the business;
- b) to evaluate the work plan devised by the Internal Control Manager and to receive periodic reports from him;
- c) to assess, together with the Company's administrative managers and auditors, the appropriateness of the accounting principles used and their uniformity for the purposes of preparing consolidated financial statements;
- d) to assess offers from independent auditors during the selection process, in addition to the audit plan proposed and the audit results contained in the report and letter of recommendations;
- e) to report back to the Board of Directors on the work undertaken and on the adequacy of the internal control system at least once every six months at meetings approving the draft financial statements and interim report;
- f) to perform any other tasks assigned by the Board of Directors, mainly with regard to dealings with the independent auditors.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by him also takes part in the Committee's work. The Chairman and Managing Director and, at the Committee's invitation, the Internal Control Manager may also be involved.

During the 2005 financial year, 10 Committee meetings were held, four of them in the second half of the year by the directors in office since 12 July 2005.

In the first quarter of 2006, the Committee met three times.

Committee meetings were attended by the Internal Control Manager, the Board of Statutory Auditors and sometimes also senior management.

In 2005 and in the first three months of 2006, the Committee for Internal Control addressed the following topics, resulting in periodic audits of the adequacy and effectiveness of the organisational structure from the point of view of the internal control system.

- monitoring of the procedures and directives adopted by Finmeccanica S.p.A.;
- verification of the application of Group directives in procedures adopted by subsidiaries;
- verification of the way in which business support roles are allocated by subsidiaries;
- preliminary assessment of the proposal to reappoint the independent auditors;
- status update on the work carried out by the company in charge of handling the liquidation, rationalisation and valuation of shareholdings in companies not operating in the Group's business sectors;
- audits of Group companies based in tax havens;
- Organisational, Management and Control Model and implementation of risk assessments in accordance with Legislative Decree No 231/01;
- dismantling of non-strategic companies;
- confirmation of the first-time application of IAS/IFRS principles.

The Committee has also conducted its audits on the preparation of quarterly reports, interim report and annual financial statements, informing the Board of Directors of the outcome of these audits and any recommendations in special reports.

The Committee has also assessed, based on the representations of the Company's administrative managers, the Internal Control Manager and the Independent Auditors, the adequacy of the accounting principles used and their uniformity for the purposes of drafting consolidated financial statements.

REMUNERATION COMMITTEE:**MEETING ATTENDANCE (*)**

RICCARDO VARALDO – Chairman	2 meetings
FRANCO BONFERRONI	2 meetings
ERNESTO MONTI	2 meetings
DARIO SCANNAPIECO	2 meetings

(*) The attendance information refers to the new Committee set up following the reappointment of the Board of Directors by the Shareholders' Meeting on 12.07.2005 and to the corresponding (two) meetings held in 2005.

The Committee – composed of four non-executive directors, three of them “independent” – has the task of:

- setting the salary and contract terms of the Chairman and Managing Director of the Company, in consultation with the Board of Statutory Auditors where this is required by Article 2389 of the Italian Civil Code, based on his employment contract with the Company;
- assessing the proposals of the Chairman and Managing Director of the Company in relation to the general criteria for pay and incentives, in addition to the plans and mechanisms in place for developing the management skills of the Group’s key resources and executive directors of Group companies;
- assisting the senior management of the Company in defining the best management policies for the Group’s management resources;
- assessing the proposals of senior management for the introduction or modification of share incentive and allocation plans for directors and senior managers of the Company and other companies in the Group, to be submitted to the Board of Directors;
- performing its required functions in relation to the management of the long-term incentive plan, as laid down by the corresponding regulations.

The Committee’s work is governed by special regulations.

To perform its tasks, the Committee may use external consultants paid for by the Company.

After it was appointed in December 2000, the Remuneration Committee played a supporting role alongside senior management in certain key areas relating to the strategic management of the Group’s human resources.

In this respect, incentive plans have been implemented based on performance and growth targets set for the Group’s stock and value.

Furthermore, in line with the strategic objective of refocusing on management development and planning as one of the key priorities of Finmeccanica, the Committee has put its support behind the creation of a qualified, structured and periodic management appraisal process, designed to select the beneficiaries of the long-term incentive programme objectively and impartially.

Finally, with particular regard to the work carried out in 2005, the Committee held six meetings, two of them in the second half of the year by the directors in office since 12 July 2005.

In 2005, the Committee continued to perform its institutional responsibilities involving the provision of support to senior management in key areas relating to the strategic management of the Group's human resources and its remuneration and retention policy, following on from initiatives resolved on in the previous period.

In this respect, the Committee has:

- examined the "Guidelines of the 2005 Human Resources Operating Plan";
- examined and put forward its recommendations on the structure of the 2005 MBO Programme for Group Management, specifically approving the MBO for the Chairman and Managing Director;
- examined the general framework and criteria for the Group's medium and long-term incentive schemes, including the proposal to set up a share incentive plan for the three-year period 2005-2007, subsequently approved by the Board following authorisation received from the Shareholders' Meeting for the acquisition and disposal of own shares to service this plan;
- following the mandate received, defined the regulations implementing the 2005-2007 share incentive plan and approved the corresponding allocation proposals;
- continued to manage operations to finalise earlier share incentive plans.

In the first quarter of 2006, the Committee met twice and:

- examined the "Guidelines for the 2006 Human Resources Operating Plan", partly with reference to the change management plan as a systematic means of governing change

through the integrated and monitored development of human resources within the framework of a targeted and planned process of management renewal;

- examined the 2006 MBO Programme for Group Management and specifically approved the programme for the Chairman and Managing Director;
- proceeded with the amendments to the salary and contract terms of the Chairman and Managing Director in accordance with Article 2389 of the Italian Civil Code;
- examined proposals to set up a share incentive plan for Ansaldo STS S.p.A. in connection with its flotation, reserved for senior managers of the company and its subsidiaries.

STRATEGIC COMMITTEE:**MEETING ATTENDANCE (*)**

PIER FRANCESCO GUARGUAGLINI – Chairman	4 meetings
GIOVANNI CASTELLANETA	4 meetings
ROBERTO PETRI	4 meetings
DARIO SCANNAPIECO	4 meetings
GUIDO VENTURONI	4 meetings
PAOLO VIGEVANO	3 meetings

(*) The attendance information refers to the new Committee set up following the reappointment of the Board of Directors by the Shareholders' Meeting on 12.07.2005 and to the corresponding (four) meetings held in 2005.

This Committee has the task of screening the strategic options for the enhancement of the Group and the corresponding business plans prepared by the Chairman and Managing Director for presentation to the Board.

In 2005, the Committee held six meetings, four of them in the second half of the year by the directors in office since 12 July 2005.

In the first quarter of 2006, the Committee met twice.

These meetings concluded the in-depth analysis of the market prospects and competitive positioning in the various business sectors of Finmeccanica, to ensure that these conform to the Group's guidelines as presented to the Board of Directors.

In 2005 and in the first quarter of 2006, the Committee:

- assessed, prior to their formalisation, the strategic value and business content of agreements with BAE Systems and Alcatel in the electronics sectors for defence and aerospace operations respectively;
- examined plans for the placement and listing of shares of Ansaldo STS, responsible for operations in the rail systems and signalling sector;
- examined the terms of the agreement signed between AnsaldoBreda and Alstom relating to high-speed rail transport;
- examined some of the strategic initiatives of Alenia Aeronautica before these were presented to the Board, .

The Committee also put forward its recommendations on the various issues and operations examined.

4. CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman of the Board of Directors convenes Board meetings, coordinates the work of the Board and chairs Board meetings, ensuring that directors are given correct information in time for the Board to make an informed choice about the matters submitted to it.

Accordingly, the Board of Directors of the Company has adopted special internal operating procedures which will ensure the integrity both of the preliminary information phase concerning the items on the agenda and of the way in which meetings are conducted. For a detailed description of the powers and responsibilities delegated to the Chairman of the Company, see section 1 above.

5. INFORMATION FOR THE BOARD OF DIRECTORS

The Chairman and Managing Director periodically reports back to the Board of Directors on how he has exercised the powers delegated to him and on any unusual or abnormal operations or related party transactions not reserved exclusively for the Board. For further information, see the specific principles of conduct described in section 10 below, with particular reference to related party transactions.

Reports are made when the periodic accounting documents (financial statements, interim report and quarterly reports) are approved by the Board of Directors.

6. TREATMENT OF CONFIDENTIAL INFORMATION

The Company has paid special attention to the management and processing of confidential information and to how this is released, particularly with regard to privileged information.

As such, special internal procedures have already been adopted suitable to coordinate, within the Group, price-sensitive information and the procedures governing its management and distribution.

This is to ensure the utmost respect at all levels of the organisation, even within subsidiaries, of the specific disclosure obligations and restrictions imposed on listed issuers.

These procedures were subsequently revised in more organic terms through special directives and procedures relating to the management and processing of both confidential information and price-sensitive information by senior managers and employees of the Company, directors, auditors, external consultants and subsidiaries.

The publication process is controlled by the Vice-President of Public Relations, who works closely with the Head of Legal and Corporate Affairs.

As part of the management and disclosure of Company information, and in accordance with the new provisions on internal dealing, the Board of Directors of Finmeccanica, at its meeting of 28 March 2006, resolved to adopt a CODE OF CONDUCT FOR INTERNAL DEALING to replace the previous Code of Conduct. The new Code conforms with the implementing regulations laid down by CONSOB, transposing the provisions of the new European directive on market abuse.

The new Code, which came into effect on 1 April 2006, regulates the flow of information about transactions relating to shares issued by Finmeccanica, as well as other “related financial instruments” identified by CONSOB and which are carried out, through intermediaries if necessary, by Key Persons of the Company and by the persons closely related to them. The term “Key Persons”, for the purposes of the Code, means directors, auditors and the chief executive, in addition to the deputy chief executives. The reporting obligations governed by the Code also apply to trading by “Persons closely related to the Key Persons”, as identified by CONSOB.

The Code imposes a maximum threshold for transactions reported and conducted since 1 April 2006. Under the new regulations, only operations for less than €5000 are exempt from the reporting obligation.

For information to be disclosed to CONSOB and to the public, Key Persons must report to the Company within four trading days from the transaction date, and the Company must in turn inform CONSOB, the market and news agencies on the next trading day.

To ensure that the new regulations are applied correctly, the Company has planned special operating procedures to make Key Persons aware of their obligations and to provide the necessary support.

7. APPOINTMENT OF DIRECTORS

For the appointment of directors, Article 18.4 of the Articles of Association describes a special voting list system whereby two thirds of the directors to be elected are taken from the list that obtains the majority of shareholder votes, while the remaining directors are taken from other lists based on the ratios obtained.

In addition to the directors thus elected, another director is also elected without a voting right, nominated (as laid down by Articles 5.1-*ter* and 18.1 of the Articles of Association) by the Italian Minister of the Economy and Finance, jointly with the Italian Minister of Economic Development,,in accordance with Act No. 474 of 30.07.1994.

The rights and obligations of the director thus appointed have also been expressly defined: he has the same rights recognised by law and/or by the Articles of Association for other directors, but cannot accept delegated powers or specific duties, not even on a supplemental or temporary basis, nor under any circumstances may he chair Board meetings or act as the Company's legal representative.

Voting lists may be submitted only by those shareholders who, either alone or together with other shareholders, represent at least 1% of the shares with voting rights at Ordinary General Meetings; the Articles of Association also allow the incumbent Board of Directors to submit its own list.

The Articles of Association stipulate, inter alia, that lists submitted by shareholders together with the relevant supporting documents must be deposited at head office at least 10 days prior to the date set for the General Meeting at first convocation, and must be published in at least three Italian national daily newspapers, two of which must be financial.

Lists may only be submitted by shareholders if nominations are deposited at least 10 days prior to the meeting, as expressly recommended by the Self-Regulatory Code.

The notice of meeting will contain the express recommendation for shareholders to submit a curriculum vitae containing personal and professional information about each candidate (with an indication of how they qualify as “independent”) when lists are deposited.

The Board of Directors has decided not to set up its own committee to nominate candidates for the office of director, since so far shareholders have not reported any problems with organising nominations based on the voting list system.

8. DIRECTORS' EMOLUMENTS

The Board of Directors has formed a special REMUNERATION COMMITTEE, as described in section 3 above. The Committee is responsible, inter alia, for determining the salary and contract terms of the Chairman and Managing Director of the Company, in consultation with the Board of Statutory Auditors if this is required by Article 2389 of the Italian Civil Code, based on his employment contract with the Company.

Like all the Group's strategic resources, the Chairman and Managing Director, in addition to his basic salary, receives the following types of performance-related pay:

1. annual MBO and additional payment in respect of the 2005-2007 three-year incentive plan, both of which are performance-related and dependent on the Group achieving certain financial and economic results;
2. the free allocation of shares, as provided for in the long-term share incentive plan, for the 2005-2007 period, also subject to the Group achieving certain financial and economic results.

As far as directors' emoluments are concerned, please note that in accordance with the disclosure obligations for listed issuers, Finmeccanica prepares a detailed report each year on payments

made on any basis and in any form, even by subsidiaries, to individual members of the Board of Directors and to the Chief Executive.

For further information, please see the relevant table contained in the Notes to the Financial Statements.

9. INTERNAL CONTROL SYSTEM

Conscious of how fundamentally important a proper internal control system is for sound and efficient business management, the Board of Directors believes that the internal control system adopted is an effective barrier against the risks inherent in the core business of the Company and its subsidiaries and a suitable means of monitoring the economic and financial situation of the Company and the Group.

As described in section 3 above, a COMMITTEE FOR INTERNAL CONTROL has been set up under the aegis of the Board of Directors. The Committee's work is governed by special regulations approved by the Board itself.

The Committee regulations have fully transposed the concept of internal control enshrined in the Self-Regulatory Code. This is understood to be the set of processes aimed at monitoring the efficiency of business operations, the reliability of financial information, compliance with the laws and regulations and the protection of company assets.

In 2002, Finmeccanica appointed an INTERNAL CONTROL MANAGER, who is currently also the head of the Audit Department.

The Internal Audit Manager is hierarchically independent from the operating managers and reports directly, generally once a month, to the Chairman and Managing Director, to the Committee for Internal Control and to the Statutory Auditors.

As part of internal control management, the Audit Department has the task of managing and coordinating the audits of Finmeccanica and Group companies in order to monitor and reduce

risks, promote the continuous improvement of procedures and assess the adequacy of internal control systems and their compliance with international best practice and the legislation in force.

These activities also include the analysis, set-up and coordination of audit plans of subsidiaries, as well as verification of initiatives derived from the results.

10. RELATED PARTY TRANSACTIONS

To guarantee the transparency and correctness of related party transactions, some time ago the Board of Directors of Finmeccanica ratified, together with the "Guidelines and criteria for the identification of material and related party transactions" (described in detail in section 1 above), the adoption of special principles of conduct aimed at governing the main substantive and procedural aspects of the transactions in question and areas not within the exclusive remit of the Board of Directors, under the following conditions.

The principles adopted will be adapted if necessary based on the general principles issued by CONSOB in accordance with Article 2391-*bis* of the Italian Civil Code.

PRINCIPLES OF CONDUCT FOR RELATED PARTY TRANSACTIONS

Related Party Transactions are handled in accordance with specific substantive and procedural criteria. For a definition of RELATED PARTIES, see IAS 24, adopted by Commission Regulation (EC) No 2238/2004 of 29 December 2004, as referred to in the Issuers' Regulations amended by CONSOB Resolution No 14990 of 14 April 2005.

In order to apply these principles, typical or standard transactions or those agreed under market conditions are excluded from the scope of Related Party Transactions.

Typical or standard transactions are those transactions that, by nature or purpose, are extraneous to the Company's ordinary business activities, or that are not particularly critical given their characteristics and the risks represented by the counterparty or their timing.

Transactions under market conditions are agreed under conditions that are materially similar to those usually applied to transactions with persons who are not related parties.

- RELATED PARTY TRANSACTIONS RESERVED EXCLUSIVELY FOR THE BOARD

The Board of Directors must receive sufficient information about the nature of the relationship, the procedures for implementing the transaction, the timing, the economic conditions applicable to its performance, the assessment procedure followed and the underlying reasons for the transaction, in addition to information about the potential risks for the Company.

Directors must inform the Company of any information that will allow it to comply with these principles.

In particular, directors who have an interest in the transaction, be it even potential or indirect, must inform the Board in a timely and exhaustive fashion about such interest and the related circumstances. These directors must also leave the Board meeting during deliberations, unless their departure compromises the meeting quorum.

Where the nature, value and other characteristics of the transaction so require, the Board of Directors, in order to prevent the transaction from being agreed under conditions that differ from those that would probably have been negotiated between non-related parties, may ask for the transaction to be carried out with the assistance of one or more independent experts so that the assets and/or financial, legal or technical basis may be assessed.

When choosing these experts (banks, auditors, legal firms or other experts of recognised professionalism and special expertise), the Board will conduct a careful assessment of their independence, possibly using different experts for each related party in the most significant cases.

- RELATED PARTY TRANSACTIONS NOT SUBJECT TO THE PRIOR APPROVAL OF THE BOARD

Related Party Transactions which are not reserved exclusively for the Board must be described by the Chairman and Managing Director in the periodic report presented by him to the Board on his activities and to the Board of Statutory Auditors – pursuant to Article 150, paragraph 1 of

Legislative Decree No. 58/1998 – on the most significant economic, financial and equity transactions carried out by the Company or by its controlled companies.

When periodically reporting on these transactions, the Chairman and Managing Director will describe the nature of the relationship, the procedures for implementing the transaction, the timing, the economic conditions applicable to its performance, the assessment procedure followed and the underlying reasons for the transaction, in addition to any risks for the Company.

11. INVESTOR RELATIONS

In view of the importance of establishing an ongoing professional relationship with shareholders and institutional investors, as underlined by the Code, a special Company department has been set up under the name “Investor Relations”, headed by a manager dedicated exclusively to this activity.

The department also provides key information so that the financial markets can gain a picture of the Company that reflects the intrinsic value of the Group’s businesses. The aim is to foster a transparent and continuous dialogue with the Italian and international financial community based on a clear strategic view of Finmeccanica’s business and prospects. This aim is pursued in line with the principles laid down by national and international best practice and in accordance with the regulatory plan.

The Investor Relations Department is in constant communication with shareholders and financial analysts, relaying information about the economic, financial and commercial performance of the Group and its shareholding structure, issuing guidance and carefully monitoring market consensus.

The department also prepares financial presentations to be given to Shareholders’ Meetings, ensuring that the information given to shareholders is consistent with that disclosed via other financial reporting channels used by the department.

During the year, special events are organised to improve market knowledge of the Group and to unveil its economic and financial results, as well as their expected development (economic and financial guidance). For this purpose, at least two institutional roadshows are organised each year with the Group's top management, preferably timed to coincide with the publication of the annual and first-half results, in line with best practice adopted by listed companies. The roadshows, which should last for at least two days, take place in Milan and London and in major European financial markets such as Paris and Frankfurt. There are stages in New York and Boston, and in California or Canada if necessary.

The other events organised by the Investor Relations Department include: conference calls with the financial markets when quarterly results are published and/or following significant non-recurring operations; visits to Group sites (in the aeronautical, helicopter and electronic defence sectors so far), normally preceded by a presentation on the Company given by its top management.

In addition, during the annual International Airshow (which alternates between Farnborough and Le Bourget airports), meetings are organised between the financial community and senior management of some of the Group's companies, with special presentations and individual/closed meetings.

The Company's financial statements are available in Italian and English, with the corresponding presentations and webcasts, on the Investor Relations page of the Finmeccanica website. The Investor Relations section also contains other retail market information (e.g. events calendar, dividends, share capital, stock performance, etc.). A section devoted exclusively to Corporate Governance is also available.

The content of the Company's website has also been expanded as part of a wider upgrade process, partly due to special guidelines issued by the Italian stock market specifically concerning the public documents deposited with Borsa Italiana. The head of the Investor Relations Department is John Douglas Stewart. He reports directly to the Deputy Chief Executive (currently Alessandro Pansa).

A Financial Reporting Unit has also been set up within the Investor Relations Department. This is managed by Raffaella Luglini.

Contact details

Tel +39 06 3247.290/066.

Fax: +39 06 32473603.

The department can also be contacted via the following email address:

investor_relations@finmeccanica.it

12. SHAREHOLDERS' MEETINGS

During the convocation, planning and management of general meetings, a special effort has always been made to maximise shareholder participation and to maintain an excellent standard of shareholder information, in accordance with the restrictions and distribution procedures applicable to price-sensitive information.

Shareholders' Meetings are convened by a notice of meeting published in the Official Journal of the Italian Republic and by a press release published in at least one national daily newspaper.

A while ago, Finmeccanica adopted MEETING REGULATIONS to define procedures that would allow general meetings to be conducted efficiently and in an orderly fashion, guaranteeing each shareholder the right to take part in the discussion of items on the agenda, and specifying certain aspects (e.g. maximum length of speeches, voting system, voting procedures, etc.) to enable business to be handled correctly.

In particular, the Chairman is specially empowered to resolve or prevent conflicts of interest from arising at the meeting and to prevent abuse of any kind.

These regulations were ratified by the Shareholders' Meeting on 10.05.2000. They are regularly distributed to all shareholders during meetings and are also available from the Company's website.

13. BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors of Finmeccanica is composed of five Regular Statutory Auditors and two Alternate Statutory Auditors. Its current members are listed below.

The Chairman of the Board of Statutory Auditors was appointed on 16.05.2003 by Decree of the Italian Minister of the Economy and Finance, jointly with the Italian Minister of Economic Development,, in accordance with Articles 5.1-*ter* and 28.3 of the Articles of Association in force at the time.

The current Chairman of the Board of Statutory Auditors is:

DOMENICO PIACENZA

Four Regular Statutory Auditors were appointed by the Shareholders' Meeting on 16.05.2003

GIORGIO CUMIN (1)

FRANCESCO FORCHIELLI (1)

LUIGI GASPARI (2)

ANTONIO TAMBORRINO (3)

(1) Auditors appointed by majority list submitted by the Italian Minister of the Economy and Finance.

(2) Auditor appointed by minority list submitted by the companies Fineco Asset Management SpA SGR, Arca SGR SpA, BNL Gestioni SGR SpA, Banco di Napoli Asset Management SGR SpA, Ersel Asset Management SGR SpA, Monte dei Paschi Asset Management SGR SpA, Nextra Investment Management SGR SpA and Sanpaolo IMI Asset Management SGR SpA.

(3) Auditor appointed by the Shareholders' Meeting on 16.05.2003 based on the recommendation of the Italian Minister of the Economy and Finance pursuant to Article 28.3 of the Articles of Association, since only three Regular Statutory Auditors and two Alternate Statutory Auditors were nominated and elected according to the voting list procedure.

Two Alternate Statutory Auditors were appointed by the Shareholders' Meeting on 16.05.2003:

GAETANO DE GREGORIO (2)

PIERO SANTONI (1)

(1) Auditor appointed by majority list submitted by the Minister of the Economy and Finance.

(2) Auditor appointed by minority list submitted by the companies Fineco Asset Management SpA SGR, Arca SGR SpA, BNL Gestioni SGR SpA, Banco di Napoli Asset Management SGR SpA, Ersel Asset Management SGR SpA, Monte dei Paschi Asset Management SGR SpA, Nextra Investment Management SGR SpA and Sanpaolo IMI Asset Management SGR SpA.

The term of office of members of the Board of Statutory Auditors will expire with the approval of the 2005 Financial Statements.

In 2005, 22 meetings of the Board of Statutory Auditors were held.

The attendance information for auditors at the 22 meetings of the Board of Statutory Auditors and at the 14 meetings of the Board of Directors held during the 2005 financial year is as follows:

	Board of Auditors	Board of Directors
DOMENICO PIACENZA	21 meetings	13 meetings
GIORGIO CUMIN	19 meetings	13 meetings
FRANCESCO FORCHIELLI	19 meetings	11 meetings
LUIGI GASPARI	21 meetings	11 meetings
ANTONIO TAMBORRINO	18 meetings	12 meetings

All absences were duly justified.

A brief résumé for each member of the Board of Statutory Auditors can be found below.

• **DOMENICO PIACENZA**

Born in Turin on 2.11.1935, he has been a Regular Statutory Auditor of Finmeccanica since 1988 and Chairman of the Board of Statutory Auditors since 30.04.1991. He holds a degree in law and is listed in the Register of Auditors. He is a civil barrister with the Court of Turin. He has held numerous directorships and auditorships with companies in IRI Group (SIFA and SIP) and in Bancario Unicredito Italiano Group, as well as acting as liquidator for various companies and

cooperatives. He was special receiver for the examining magistrate in Piedmont (1964-1973), a member of the Provincial Administrative Council (Tax Section) at the Prefecture of Turin (1965-1973) and Chairman and member of the Regional Control Committee (General Section) of Piedmont Regional Authority (1976-1990).

• **GIORGIO CUMIN**

Born in Milan on 7.10.1937, he has been a Regular Statutory Auditor of Finmeccanica since 10/05/2000. He was reappointed by the Shareholders' Meeting on 23/05/2003. He holds a degree in economics and business from Bocconi University in Milan. He is listed in the District Register of Chartered Accountants kept by the Courts of Milan and Lodi and is listed in the Register of Auditors. Self-employed, he has held numerous directorships and auditorships in other companies, as well as acting as liquidator and sole receiver for various companies in liquidation or administration. He is currently Chairman of the Board of Directors, Director, Chairman of the Board of Statutory Auditors and Statutory Auditor for several industrial companies, as well as liquidator for several companies in administration.

• **FRANCESCO FORCHIELLI**

Born in Urbino (PU) on 14.03.1930, he has been a Regular Statutory Auditor of Finmeccanica since 14.06.1994. He was reappointed by the Shareholders' Meeting on 23/05/2003. An economics and business graduate, he has worked as a chartered accountant since 1952. He has been official liquidator in arrangements and compositions with creditors and receiver in various bankruptcy proceedings.

He has been and remains a member of the Board of Directors of various capital companies. He is Chairman and Managing Director and member and Chairman of several Boards of Statutory Auditors and Audit Committees.

• **LUIGI GASPARI**

Born in Rome on 14.09.1956, he has been a chartered accountant since 1985 and is listed in the Register of Auditors. He has held numerous executive posts, including Administrative Manager with the Associazione Generale delle Cooperative Italiane (1976-1980), Operations Manager with RIA Società Nazionale di Certificazione (1980-1985), and consultant for Assogestioni (1985-2000). In 2001, he was on the Steering Committee that set up the Italian Accounting Body (OIC) and is currently a member of the Board of Directors of that organisation. He has held and continues to

hold numerous posts as director, liquidator, member of Boards of Auditors and Supervisory Boards, management consultant, business analyst and technical advisor in court cases.

• **ANTONIO TAMBORRINO**

Born in Torre del Greco (NA) on 23.09.1939, he is a chartered accountant and is listed in the Register of Auditors. He is self-employed and lectures in insurance Company economics at Lecce University. He has taught Masters degrees and specialist courses at Lecce University and Bari University and at the CECCAR in Bucharest. He is former President of the Lecce Provincial Association of Chartered Accountants (1993-1996). Since 2002, he has been President of the Italian National Council of Accountants and Tax Advisers (formerly a national counsellor elected in 1998 and reappointed in 2001). He has held – and continues to hold – numerous executive posts, including Director, Statutory Auditor, Chairman of the Board of Statutory Auditors and Audit Committee. He is also liquidator for various companies and organisations and has various legal appointments (receiver, official liquidator and court-appointed advisor). The author of a number of publications, he chairs and coordinates the work of two national study groups at the Italian National Council of Accountants and Tax Advisers.

• **GAETANO DE GREGORIO**

Born in Naples on 16.07.1961, he has a degree in economics and business from Federico II University in Naples. A chartered accountant for around 20 years, he assists companies in the industrial, commercial and financial sectors. He is listed in the Register of Chartered Accountants kept by Naples District Court, in the National Register of Auditors, in the Register of Arbitrators of the Public Works Authority and in the Registers of Technical Advisors and Receivers kept by Naples District Court. He is Regular Statutory Auditor for various companies, and a liquidator for a number of capital companies. He has held – and continues to hold – numerous supervisory posts at the Bank of Italy.

• **PIERO SANTONI**

Born in Rome on 3.11.1936, he holds a degree in economics and business and is listed in the Register of Auditors. He worked for IRI until 1987 in the Management Control and Planning Department (Vice-President), before moving to Sistemi Urbani (until 1993) as Joint Chief Executive. He has held numerous directorships and auditorships within IRI Group companies. He

is currently Regular Statutory Auditor at Isotta Fraschini Motori and Cetena and Chairman of the Board of Statutory Auditors at Finsider, in liquidation.

Except for Dr Luigi Gaspari (Alternate Statutory Auditor of RAS S.p.A.), the members of the Board of Statutory Auditors do not hold any other directorships or auditorships in other listed companies on Italian regulated markets.

In terms of the restriction on the total number of executive posts held (pursuant to Article 148 of Consolidated Act No. 58/1998), Article 28.3 of the Articles of Association states that individuals holding the office of Regular Statutory Auditor in more than five Italian companies listed on regulated markets are ineligible for the office of Statutory Auditor of the Company.

The voting list system has also been adopted for the appointment of Statutory Auditors (Article 28.3 of the Articles of Association). This system was recently updated following legislative changes introduced by Act No. 262 of 28.12.2005, with the deposit at head office and the publication in national daily newspapers of the lists submitted by shareholders – together with the relevant supporting documents – at least 10 days prior to the date scheduled for the meeting at first convocation.

Therefore, as with directors' appointments, lists may only be submitted by shareholders if nominations for the office of auditor are deposited at least 10 days prior to the meeting, as expressly recommended by the Self-Regulatory Code.

As with directors' appointments, the notice of meeting will contain the express recommendation for shareholders to submit a curriculum vitae for each candidate when lists are deposited. This is not a requirement under the Articles of Association.

Only those shareholders who, either singly or together with other shareholders, collectively hold at least 1% of the share capital with voting rights at Ordinary General Meetings are entitled to submit lists. Under the Articles of Association, two Regular Statutory Auditors and one Alternate Statutory Auditor must be taken from lists submitted by minority shareholders and the Chairman of the Board of Statutory Auditors must be nominated from among those Auditors elected by the minority shareholders.

With regard to the procedures for appointing members of the Board of Statutory Auditors, the aforementioned Act No. 350/2003 – transposed with the amendments to the Articles of Association ratified by the Extraordinary General Meeting on 26 May 2004 – revoked the right to appoint a Regular Statutory Auditor (who also chaired the Board of Statutory Auditors) previously held by the Italian Minister of the Economy and Finance jointly with the Minister of Economic Development..

Accordingly, special temporary rules were introduced into the Articles of Association regarding the Chairman of the Board of Statutory Auditors previously appointed by the Minister based on the legislation in force at the time and currently in office: he will remain in office until his term of office expires and, if he leaves office, his replacement will be appointed in accordance with the statutory provisions.

Finally, as mentioned in section 6 above, the confidentiality obligations for auditors and directors of the Company are expressly governed by the special procedures pertaining to the treatment of confidential information.

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors							Committee for Internal Control •		Remuneration Committee ♦		Strategic Committee		Appointments Committee (if any) ◇	
Position	Members	Executive	Non-executive	Independent	****	Number of other offices **	***	****	***	****	***	****	***	****
Director	Ernesto Monti*		X	X	7/7	4	X	4/4	X	2/2				
Director	Roberto Petri		X	=	7/7	1					X	4/4		
Director	Dario Scannapieco		X	=	7/7	=			X	2/2	X	4/4		
Director	Riccardo Varaldo*		X	X	7/7	3			X	2/2				
Director	Guido Venturoni		X	X	7/7	=					X	4/4		
Director	Paolo Vigevano		X	X	7/7	1					X	4/4		
Director														
• Summary of apologies for absences from Committee meetings or any other composition departing from the recommendations of the Code: =====														
♦ Summary of apologies for absences from Committee meetings or any other composition departing from the recommendations of the Code: =====														
◇ Summary of explanations for any other composition departing from the recommendations of the Code: =====														

NOTES

* The asterisk denotes that the director was appointed from a list submitted by the minority shareholders.

** This column indicates the number of directorships or auditorships held by the person concerned in other listed companies on regulated markets, whether in Italy or elsewhere, in financial, banking or insurance companies or in major companies. Executive posts are described in detail in the Corporate Governance Report.

*** In this column, the letter "X" indicates that the director is also a member of the Committee.

*** In this column, the attendance rate is given for directors at meetings of the Board of Directors and at committee meetings.

The attendance figures refer to the Board of Directors appointed by the Shareholders' Meeting on 12.07.2005, to the newly formed Committees and to the corresponding meetings held in the 2005 financial year.

Apologies were received for all absences from meetings of the Board of Directors.

TABLE 2: BOARD OF STATUTORY AUDITORS

Position	Members	Attendance rate at Board meetings ^([Ⓜ])	Number of other executive posts held ^{**}
Chairman	Domenico Piacenza ^([°])	21/22	=
Regular statutory auditor	Giorgio Cumin	19/22	=
Regular statutory auditor	Francesco Forchielli	19/22	=
Regular statutory auditor	Luigi Gaspari [*]	21/22	=
Regular statutory auditor	Antonio Tamborrino ^([∞])	18/22	=
Alternate statutory auditor	Gaetano De Gregorio [*]	=	=
Alternate statutory auditor	Piero Santoni	=	=
Number of meetings held during the period: 22			
Quorum required for the submission of lists by minorities for the election of two regular members (pursuant to Article 148 Italian Financial Services Act) and one alternate member: 1% of the share capital with voting rights at Ordinary General Meetings.			

NOTES

* The asterisk denotes that the auditor was appointed from a list submitted by the minority shareholders.

** This column indicates the number of directorships or auditorships held by the person concerned in other listed companies on Italian regulated markets. Executive posts are described in detail in the Corporate Governance Report.

^([°]) Appointed by Decree of the Italian Minister of the Economy and Finance, jointly with the Italian Minister of Manufacturing,

^([∞]) Appointed by the Shareholders' Meeting (Article 28.3 of the Articles of Association), since only three Regular Statutory Auditors and two Alternate Statutory Auditors were nominated and elected according to the voting list procedure.

^([Ⓜ]) Apologies were received for all absences from meetings of the Board of Statutory Auditors.

TABLE 3: OTHER PROVISIONS OF THE SELF-REGULATORY CODE

	YES	NO	Summary of explanations for any departure from the recommendations of the Code
Delegation system and related party transactions			
Has the Board of Directors has delegated powers, defining for each one:			
a) the limits	X		
b) the procedures for exercising them	X		
c) the reporting frequency?	X		
Has the Board of Directors reserved the right to examine and approve operations that are particularly important from an economic, equity or financial point of view (including related party transactions)?	X		
Has the Board of Directors defined guidelines and criteria for identifying "material" transactions?	X		
Are these guidelines and criteria described in the report?	X		
Has the Board of Directors defined procedures for the examination and approval of related party transactions?	X		
Are the procedures for the approval of related party transactions described in the report?	X		
Procedures for the last appointments of directors and auditors			
Were nominations for the office of director deposited at least 10 days in advance?	X		
Were nominations for the office of director accompanied by detailed information?	X		
Were nominations for the office of director accompanied by an explanation of how the candidate qualifies as independent?		X	
Were nominations for the office of auditor deposited at least 10 days in advance?	X		
Were nominations for the office of auditor accompanied by detailed information?	X		
General Meetings			
Has the Company approved special Meeting Regulations?	X		
Are the Regulations attached to the Report (or does it explain where they can be obtained/downloaded)?	X		
Internal control			
Has the Company appointed Internal Control Managers?	X		
Are they hierarchically independent from operating managers?	X		
Department responsible for internal control (Article 9.3 of the Code)	AUDIT DEPARTMENT		
Investor Relations			
Has the Company appointed an Investor Relations Manager?	X		
Department and contact details (address/telephone number/fax number/email) of the Investor Relations Manager.	INVESTOR RELATIONS DEPARTMENT Head of the IR Department: John Douglas Stewart. Head of Financial Reporting: Raffaella Luglini P.zza Monte Grappa, 4-00195 Rome – Tel. +39 06 3247.290/066. Fax: +39 06 32473603 – e-mail: investor_relations@finmeccanica.it		