# FINMECCANICA
# 2008 CONSOLIDATED
# FINANCIAL STATEMENTS

*Disclaimer*

*This Annual Report 2008 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsintency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.*

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## BOARDS AND COMMITTEES

**BOARD OF DIRECTORS**
***(for the 2008 - 2010 term)***
***appointed by the Shareholders' Meeting of 6 June 2008***

PIER FRANCESCO GUARGUAGLINI (1)
Chairman / Chief Executive Officer

PIERGIORGIO ALBERTI (2) (3)
Director

ANDREA BOLTHO von HOHENBACH (1)
Director

FRANCO BONFERRONI (2) (3)
Director

GIOVANNI CASTELLANETA (1)
Director (*)

MAURIZIO DE TILLA (2)
Director

DARIO GALLI (1) (3) (**)
Director

RICHARD GRECO (1)
Director

FRANCESCO PARLATO (1) (3)
Director

NICOLA SQUILLACE (1) (2)
Director

RICCARDO VARALDO (3)
Director

GUIDO VENTURONI (1)
Director

(*) Director without voting rights appointed by Ministerial Decree on 26.06.2008, pursuant to Decree-Law No 332/94, converted with amendments into Act No 474/94
(**) Member of the Remuneration Committee since 4.02.2009

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

**BOARD OF STATUTORY 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
Regular Statutory Auditors

MAURIZIO DATTILO, PIERO SANTONI
Alternate Statutory Auditors

LUCIANO ACCIARI
Secretary of the Board of Directors

**INDEPENDENT AUDITORS**
***(for the 2006- 2011 term)***
**PRICEWATERHOUSECOOPERS SpA**

**BOARD OF DIRECTORS**
***(up to 6 June 2008)***

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

FRANCESCO PARLATO (1) (3)
Director (***)

ROBERTO PETRI (1)
Director

RICCARDO VARALDO (3)
Director

GUIDO VENTURONI (1)
Director

PAOLO VIGEVANO (1)
Director

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(*) Appointed by the Board of Directors 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 by Ministerial Decree pursuant to Decree Law No 332/94, converted with amendments into Act No 474/94.
(***) Appointed by the Board of Directors on 12 September 2007, pursuant to Art. 2386 of the Civil Code and by the Shareholders' Meeting of 16 January 2008.

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

**REPORT ON OPERATIONS AT 31 DECEMBER 2008**

## Group results and financial position

Highlights

| *€ millions* | **2008** | **2007** | **change** |
|---|---|---|---|
| **New orders** | **17,575** | **17,916** | **(2%)** |
| **Order backlog** | **42,937** | **39,304** | **9%** |
| **Revenue** | **15,037** | **13,429** | **12%** |
| **Adjusted EBITA (*)** | **1,305** | **1,045** | **25%** |
| **Net profit** | **621** | **521** | **19%** |
| **Net capital invested** | **9,513** | **6,590** | **44%** |
| **Net financial debt** | **3,383** | **1,158** | **192%** |
| **FOCF (*)** | **469** | **375** | **25%** |
| **ROS (*)** | ***8.7%*** | ***7.8%*** | ***0.9 p.p.*** |
| **ROI (*)** | ***21.4%*** | ***18.9%*** | ***2.5 p.p.*** |
| **ROE (*)** | ***10.5%*** | ***9.7%*** | ***0.8 p.p.*** |
| **EVA (*)** | **376** | **227** | **66%** |
| **Research & Development** | **1,809** | **1,836** | **(1%)** |
| **Workforce (no.)** | **73,398** | **60,748** | **21%** |

*(*): refer to the following section for definitions of the indicators*

Before turning to examine the results at 31 December 2008, which confirm the solid growth noted several times throughout the year, it should be reported that, in the fourth quarter, the Finmeccanica Group (the Group) completed the purchase of 100% of the American group DRS Technologies (DRS), a leader in providing integrated products, services and support in the defence electronics and security sector. The acquisition of

DRS was completed on 22 October 2008, the date on which DRS began to be included in the Group's scope of consolidation on a line-by-line basis.

It is not always possible to make a homogeneous comparison between the 2008 and 2007 data, particularly regarding the income statement, due to inclusion of DRS's figures in the Group's consolidated results.

The table below shows the principle indicators for DRS, for which the values pertaining to the income statement were consolidated within the Group's results for the period from 22 October 2008 to 31 December 2008.

| | ***€ millions*** |
|---|---|
| New orders | 251 |
| Revenue | 551 |
| Adjusted EBITA *(*)* | 51 |
| Net profit | 16 |
| FOCF *(*)* | 26 |

*(*): refer to the following section for definitions of the indicators*

Finally, the Group's consolidated figures for the Defence Electronics and Security division include the results of the Vega Group, specialising in providing hi-tech professional services. The Group purchased 100% of Vega in 2008. In 2007 it was only consolidated on the balance sheet.

In an effort to provide accurate figures for internal Group growth, comments have been provided on discrepancies between the two periods being compared. Approximations of values have been made as best as possible, isolating to the extent possible the effects of the changes in the scope of consolidation as noted above.

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Therefore, as stated, the Group's consolidated results at 31 December 2008 confirm its sound financial growth.

The analysis of the main indicators reveals that revenues increased by about 12% over the previous year and adjusted EBITA rose by roughly 25%. Return on sales (ROS)

increased to 8.7%, up 0.9 percentage points over the 7.8% reported at 31 December 2007. Commercial performance suffered slightly, with a 2% decline in orders compared with 2007.
With regard to Group profitability, return on investment (ROI) stood at 21.4% (18.9% in 2007), EVA came to a positive €mil. 376 (positive €mil. 227 in 2007) and return on equity (ROE) came to 10.5% (9.7% in 2007).

The Group's consolidated net profit at 31 December 2008 amounted to €mil. 621, compared with €mil. 521 at 31 December 2007, for an increase of €mil. 100 (+19%), of which €mil. 84 (+ 16%) is attributable to internal growth. Earnings per share (EPS) came to 1.294 (diluted EPS of 1.293) compared with 1.140 (diluted EPS 1.138) for 2007 and incorporates the effect of the capital increase involving the issue of 152,921,430 ordinary shares.
The following non-recurring items contributed to the positive result for 2008:

- the €mil. 56 gain on the sale of 26 million shares of STMicroelectronics (STM) to the French company FT1CI (Section 6), and impairment of €mil. 111 on the 34 million shares remaining in the Group's portfolio;
- the final net positive adjustment of the writeback of the receivable from ENEA equal to €mil. 20 (Section 6).

The non-recurring transactions at 31 December 2007, described in the 2007 financial statements, include:

- writeback of the receivable from ENEA based on a prudent estimate and excluding amounts recognized to suppliers and third parties, for roughly €mil. 248 (Section 6);
- the impairment of capitalised costs for €mil. 125 and financial charges for €mil.105 as the result of the determinations made concerning the programs under investigation by the European Commission relating to Law 808 (Section 6).

The consolidated net profit, excluding the impact of non-recurring events (net of the corresponding tax effects), came to roughly €mil. 664 at 31 December 2008, an increase of €mil. 161 over the €mil. 503 reported at 31 December 2007.

The €mil. 161 improvement in the Group's net profit is primarily due to: the increase in EBIT of €mil. 229, offset €mil. 35 by the deterioration in financial charges and €mil. 33 by higher taxes for the period, which guarantee a theoretical tax rate of about 39.09% at 31 December 2008 (effective tax rate of 37.13%).

* * * * * *

| ***Income Statement*** | ***Section*** | ***2008*** | ***2007*** |
|---|---|---|---|
| ***€ millions*** | | | |
| **Revenue** | | 15,037 | 13,429 |
| Raw materials and consumables used and personnel costs | *(*)* | (13,188) | (12,033) |
| Depreciation and amortisation | *36* | (506) | (478) |
| Other net operating income (expenses) | *(**)* | (38) | 127 |
| **Adjusted EBITA** | | **1,305** | **1,045** |
| Non-recurring income/(costs) | | 20 | 123 |
| Restructuring costs | | (41) | (58) |
| Impairment of goodwill | | (40) | |
| Amortisation of intangible assets acquired through a business combination | *36* | (34) | (26) |
| **EBIT** | | **1,210** | **1,084** |
| Net finance income (costs) | ***(***)*** | (222) | (237) |
| Income taxes | *40* | (367) | (326) |
| **NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS** | | **621** | **521** |
| Result of discontinued operations | | - | - |
| **NET PROFIT (LOSS)** | | **621** | **521** |

*Notes on the reconciliation between the reclassified income statement and the statutory income statement:*

*(*)* *Includes "Raw materials and consumables used", "purchase of services" and "personnel costs" (excluding "restructuring costs", "work performed by the Group and capitalised" and "change in inventories of work in progress, semi-finished and finished goods").*

*(**)* *Includes "other operating income", "other operating expenses" (excluding restructuring costs, impairment of goodwill, non-recurring income/(costs) and impairment).*

*(***)* *Includes "finance income", "finance costs" and "share of profit (loss) of equity accounted investments".*

## Primary Finmeccanica Group indicators by segment

| 2008 (€ millions) | New orders | Order backlog | Revenues | Adj. EBITA | ROS % | R&D | Workforce (no.) |
|---|---|---|---|---|---|---|---|
| **Helicopters** | 5,078 | 10,481 | 3,035 | 353 | 11.6% | 273 | 10,289 |
| **Defence Electronics and Security** | 4,418 | 10,700 | 4,362 | 442 | 10.1% | 619 | 30,330 |
| **Aeronautics** | 2,720 | 8,281 | 2,530 | 250 | 9.9% | 508 | 13,907 |
| **Space** | 921 | 1,383 | 994 | 65 | 6.5% | 64 | 3,620 |
| **Defence Systems** | 1,087 | 3,879 | 1,116 | 127 | 11.4% | 258 | 4,060 |
| **Energy** | 2,054 | 3,779 | 1,333 | 122 | 9.2% | 32 | 3,285 |
| **Transportation** | 1,557 | 4,849 | 1,759 | 126 | 7.2% | 51 | 6,838 |
| **Other activities** | 113 | 357 | 425 | -180 | n.a. | 4 | 1,069 |
| **Eliminations** | (373) | (772) | (517) | 0 | n.a. | 0 | 0 |
| | **17,575** | **42,937** | **15,037** | **1,305** | **8.7%** | **1,809** | **73,398** |

| 2007 (€ millions) | New orders | Order backlog | Revenues | Adj. EBITA | ROS % | R&D | Workforce (no.) |
|---|---|---|---|---|---|---|---|
| | | **at 31 Dec. 2007** | | | | | **at 31 Dec. 2007** |
| **Helicopters** | 3,970 | 9,004 | 2,980 | 377 | 12.7% | 322 | 9,556 |
| **Defence Electronics and Security** | 5,240 | 8,725 | 3,826 | 427 | 11.2% | 557 | 19,589 |
| **Aeronautics** | 3,104 | 8,248 | 2,306 | 240 | 10.4% | 581 | 13,301 |
| **Space** | 979 | 1,423 | 853 | 61 | 7.2% | 62 | 3,386 |
| **Defence Systems** | 981 | 4,099 | 1,130 | 125 | 11.1% | 241 | 4,149 |
| **Energy** | 1,801 | 3,177 | 1,049 | 93 | 8.9% | 20 | 2,980 |
| **Transportation** | 1,786 | 5,108 | 1,356 | -110 | (8.1%) | 47 | 6,669 |
| **Other activities** | 557 | 597 | 345 | -168 | n.a. | 6 | 1,118 |
| **Eliminations** | (502) | (1077) | (416) | 0 | n.a. | 0 | 0 |
| | **17,916** | **39,304** | **13,429** | **1,045** | **7.8%** | **1,836** | **60,748** |

| Change | New orders | Order backlog | Revenues | Adj. EBITA | ROS % | R&D | Workforce (no.) |
|---|---|---|---|---|---|---|---|
| | **delta %** | **delta %** | **delta %** | **delta %** | **delta p.p.** | **delta %** | **delta %** |
| **Helicopters** | 28% | 16% | 2% | (6%) | -1 p.p. | (15%) | 8% |
| **Defence Electronics and Security** | (16%) | 23% | 14% | 4% | -1 p.p. | 11% | 55% |
| **Aeronautics** | (12%) | 0% | 10% | 4% | -0.5 p.p. | (13%) | 5% |
| **Space** | (6%) | (3%) | 17% | 7% | -0.6 p.p. | 3% | 7% |
| **Defence Systems** | 11% | (5%) | (1%) | 2% | 0.3 p.p. | 7% | (2%) |
| **Energy** | 14% | 19% | 27% | 31% | 0.3 p.p. | 60% | 10% |
| **Transportation** | (13%) | (5%) | 30% | n.a. | 15.3 p.p. | 8% | 3% |
| **Other activities** | (80%) | (40%) | 23% | n.a. | n.a. | (33%) | (4%) |
| | **(2%)** | **9%** | **12%** | **25%** | **0.9 p.p.** | **(1%)** | **21%** |

The primary changes that marked the Group's performance compared with the previous period are described below. A deeper analysis can be found in the section covering the trends in each business segment.

From a commercial perspective, the Group ended 2008 with a slight drop (about 2%) in **new orders** which came to €mil. 17,575 at 31 December 2008, compared with €mil. 17,916 at 31 December 2007.
New orders in 2008 were attributable to the Aerospace and Defence segments for 80% and to Energy and Transportation for 20%.

The following new orders within Aerospace and Defence are of note:

- *Helicopters*, new orders up 28% from the same period of 2007, mainly due to the ATAK contract for the Turkish Ground Forces Command;
- *Defence Systems*, new orders up 11% over 2007 thanks to the order for an additional lot to supply combat systems for the Italian and French FREMM programme and other significant new orders in the underwater systems segment.

As to *Defence Electronics and Security*, new orders were lower than in the previous year, during which significant new orders were received relating to avionics equipment and systems for the Eurofighter Typhoon (EFA) for Saudi Arabia.

Roughly 65% of the new orders for the Aerospace and Defence sector in 2008 came from the military market.

There was good commercial performance in the *Energy* division, with growth of more than 14% over the same period of 2007, due to numerous orders for equipment and components for the foreign market, and orders for three combined-cycle plants.

There was a 13% decline in new orders in the *Transportation* division compared with 2007. This is mainly due to fewer new orders in the signalling and systems segment, which benefited in the previous year from a particularly significant order in the systems sector.

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The **order backlog** at 31 December 2008 amounted to €mil. 42,937, compared with €mil. 39,304 at 31 December 2007. This €mil. 3,633 increase is attributable for about €mil. 2,948 to the impact of the acquisition of DRS and for roughly €mil. 685 to internal growth.

The net change is due to ordinary order acquisition and customer billing activities, which more than offset the negative effect deriving from the translation of financial statements expressed in foreign currencies (euro/dollar and euro/pound sterling) at more unfavourable exchange rates than in the previous period.

The order backlog at 31 December 2008 can be broken down into 81% for Aerospace and Defence and 19% for Energy and Transportation.

The order backlog, based on workability, guarantees coverage of around 2.5 years of production.

* * * * * *

At 31 December 2008, **revenues** totalled €mil. 15,037, compared with €mil. 13,429 for 2007, an increase of €mil. 1,608, or 12%, of which €mil. 1,057 (+8%) is attributable to internal growth.

The production increase in 2008 was divided between the Aerospace and Defence segment for 80% and the Energy and Transportation segments for 20%.

In terms of the internal growth in revenues, it should be noted that the increase in production volumes spans all sectors of activity. In Aerospace and Defence, growth was most apparent in the *Aeronautics* division due to the higher contribution of the civil segment (increase in production of the ATR, B787 and A380), and in the *Space* division, where there was increased production in both segments (manufacturing and satellite services).

There was also significant growth in revenues in the *Energy* division with regard to work on orders for plants and for services pertaining to maintenance, spare parts and flow solutions, and in the *Transportation* division as a result of improvement in both segments (signalling and systems, vehicles).

* * * * * *

**Adjusted EBITA** at 31 December 2008 came to €mil. 1,305, compared with €mil. 1,045 for 2007, an increase of €mil. 260 (25%), of which €mil. 209 (+20%) is attributable to internal growth.

In terms of the internal growth in adjusted EBITA, in Aerospace and Defence, growth was most apparent in the *Aeronautics* division (up about 4% over 2007) due to higher production in the civil segment and the positive performance of the EFA programme, and in the *Space* division (up 7% over 2007) as the result of greater production volumes and initiatives undertaken to improve efficiency (in Telespazio and in Thales Alenia Space).

With regard to the *Helicopters* division (-6%) and *Defence Electronics and Security* (-8%), there was a deterioration in adjusted EBITA compared with 2007, due mainly to the negative effect deriving from the translation of financial statements expressed in foreign currencies (euro/dollar and euro/pound sterling) corresponding to roughly €mil. 14 for Helicopters and €mil. 25 for Defence Electronics and Security.

Finally, there was positive performance in:

- *Energy* (up 31% compared with 2007) attributable to the increase in production volumes and improved industrial profitability for a number of orders in the plant segment;
- *Transportation*, due to increased production volumes and profitability in the signalling and systems segment, and substantially breaking even in the vehicles segment.

**Research and development** costs at 31 December 2008 amounted to €mil. 1,809, a slight decline (about 1%) from 31 December 2007 (€mil. 1,836).

Group R&D represents roughly 12% of consolidated revenues, with the bulk (95%) going to Aerospace and Defence and the remainder (5%) to Energy and Transportation.

Of the research and development costs in the Aerospace and Defence segment, €mil.508 (roughly 28% of the entire Group amount) was attributable to the *Aeronautics Division.* This expenditure reflects the commitment to programs being developed in the civil and military sectors.

The Defence Electronics and Security division was also responsible for a considerable portion, with R&D costs of €mil. 619, or 34% of the Group's total R&D spending. The costs for this segment relate in particular to: new electronic-scan radar systems for both surveillance and combat; continued development of the EFA programme; Tetra technology products and the new switching ALL-IP, software design radio, ad hoc networks and WIMAX product families in the communications segment; continuation of activity on the mobile three-dimensional early-warning radar system, on the 3D Kronos and MFRA multi-functional active radar surveillance systems, and the upgrading the current SATCAS products, and the programme to develop capabilities and technologies for architectural design and construction of major systems for the integrated management of operations by armed ground forces.

Finally, as to the Helicopters division, R&D expenditure came to €mil. 273, or 15% of the Group total. This spending mainly regarded the activity to develop technologies primarily for military use (AW149) and to develop multi-role versions of the BA 609 convertiplane for homeland security.

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The **workforce** at 31 December 2008 came to 73,398, an increase of 12,650 over the 60,748 at 31 December 2007.

This increase is attributable to the positive turnover in almost all sectors and to the entry of 10,789 employees as a result of the acquisition of DRS.

The geographical distribution of the workforce in 2008 broke down into 59% of the workforce in Italy and 41% in foreign countries (largely the United States, the United Kingdom and France).

* * * * * *

| ***Balance Sheet*** | ***Section*** | ***31 Dec. 2008*** | ***31 Dec. 2007*** |
|---|---|---|---|
| ***€ million*** | | | |
| Non-current assets | | 13,113 | 9,845 |
| Non-current liabilities | *(*)* | (2,655) | (2,562) |
| | | **10,458** | **7,283** |
| Inventories | *16* | 4,365 | 3,383 |
| Trade receivables | *(**) 18* | 8,329 | 7,546 |
| Trade payables | *(***) 28* | (12,134) | (10,481) |
| **Working capital** | | **560** | **448** |
| Provisions for short-term risks and charges | *25* | (632) | (545) |
| Other net current assets (liabilities) | *(****)* | (873) | (596) |
| **Net working capital** | | **(945)** | **(693)** |
| **Net invested capital** | | **9,513** | **6,590** |
| Capital and reserves attributable to equity holders of the Company | | 5,974 | 5,329 |
| Minority interests in equity | | 156 | 103 |
| **Shareholders' equity** | *23* | **6,130** | **5,432** |
| **Net financial debt (cash)** | *24* | **3,383** | **1,158** |
| **Net (assets) liabilities held for sale** | *(*****)* | **-** | **-** |

*Notes on the reconciliation between the reclassified balance sheet and the statutory balance sheet:*

*(*) Includes all non-current liabilities except "non-current borrowings".*

*(**) Includes "contract work in progress."*

*(***) Includes "advances from customers".*

*(****) Includes "income tax receivables, "other current assets and "derivative assets", excluding "income tax payables", "other current liabilities" and "derivative liabilities".*

*(*****) Includes the net amount of "non-current assets held for sale" and "liabilities directly connected with assets held for sale".*

At 31 December 2008 the consolidated **net capital invested** came to €mil. 9,513, compared with €mil. 6,590 at 31 December 2007, for a net increase of €mil. 2,923, of which €mil. 3,643 is attributable to the entry of DRS.

More specifically, there was a €mil. 252 decline in **net working capital** (negative €mil. 945 at 31 December 2008, compared with negative €mil. 693 negative at 31 December 2007), of which positive €mil. 41 is due to the entry of DRS.

The €252 decrease in working capital is mainly the result of the improved management of operating capital.

As to **capital assets**, there was a net increase of €mil. 3,175 (€mil.10,458 at 31 December 2008, compared with €mil. 7,283 at 31 December 2007), of which €mil. 3,602 is due to the entry of the DRS group (of which €mil. 2,901 relates to goodwill).

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***Free Operating Cash Flow*** (FOCF) at 31 December 2008 was positive (generation of cash after investments) in the amount of €mil. 469, compared with positive €mil. 375 at 31 December 2007, for a net increase of €mil. 94. DRS's contribution to Group FOCF came to €mil. 26.

In terms of the internal change in FOCF, the €mil. 94 improvement between the two periods compared correlates to cash generated from operations of €mil. 1,419 (€mil. 1,399 at 31 December 2007), used to support cash flow from ordinary investing activities for €mil. 950 (€mil. 1,024 at 31 December 2007).

In 2008, investment activities, needed for product development, were largely concentrated in the Aeronautics (38%), Defence Electronics and Security (21%) and Helicopters (18%) divisions, with the remaining 23% equally distributed among the other divisions.

| ***€ million*** | ***2008*** | | ***2007*** | |
|---|---|---|---|---|
| **Cash and cash equivalents at 1 January** | 1,607 | | 2,003 | |
| Gross cash flow from operating activities | 1,968 | | 1,711 | |
| Changes in other operating assets and liabilities and provisions for risks and charges (*) | (380) | | (630) | |
| ***Funds From Operations (FFO)*** | | **1,588** | | **1,081** |
| Changes in working capital | (169) | | 318 | |
| **Cash flow generated from (used in) operating activities** | 1,419 | | 1,399 | |
| Cash flow from ordinary investing activities | (950) | | (1,024) | |
| **Free Operating Cash Flow (FOCF)** | | **469** | | **375** |
| Strategic operations | (2,207) | | (441) | |
| Change in other investing activities (**) | (22) | | 2 | |
| **Cash flow generated from (used in) investing activities** | (3,179) | | (1,463) | |
| Capital increases | 1,206 | | - | |
| Net change in borrowings | 1,444 | | (169) | |
| Dividends paid | (187) | | (151) | |
| **Cash flow generated from (used in) financing activities** | 2,463 | | (320) | |
| **Exchange gains/losses** | (13) | | (12) | |
| **Cash and cash equivalents at 31 December** | **2,297** | | **1,607** | |

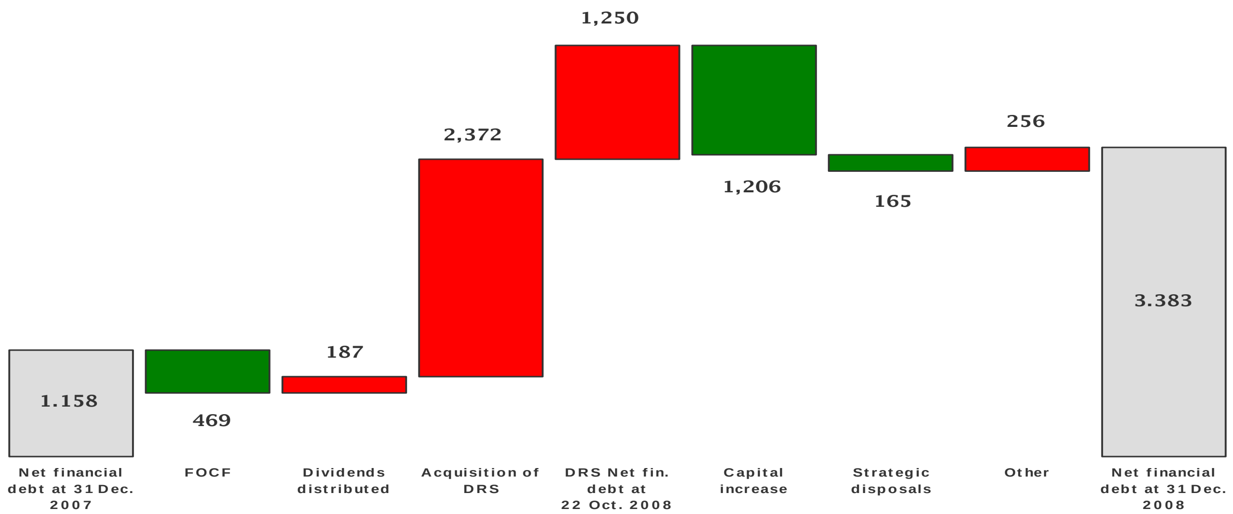
*(*) Includes the amounts of "change in other operating assets and liabilities", "finance costs paid", "income taxes paid" and "change in provisions for risks and charges".*

*(**) Includes "other investing activities", dividends received from subsidiaries and loss coverage for subsidiaries.*

Group **net financial debt** (payables higher than financial receivables and cash and cash equivalents) at 31 December 2008 came to €mil. 3,383 (€mil. 1,158  at 31 December 2007), a net increase of €mil. 2,225. This change is mainly the result of the acquisition of DRS (purchased for €mil. 2,372 and contribution of the US group's financial debt at the date of purchase of €mil.1,250), partially offset by the receipt of the net amount of the Finmeccanica capital increase of €mil. 1,206 and the aforementioned cash generation of €mil. 469.

The following graph shows the most significant movements that contributed to the change in net financial debt between the two periods being compared.

*Net financial debt at 31 December 2008 - € millions*



| *€ millions* | *31 Dec. 2008* | *31 Dec. 2007* |
|---|---|---|
| Short-term borrowings | 1,144 | 484 |
| Medium/long-term borrowings | 3,995 | 1,556 |
| Cash and cash equivalents | (2,297) | (1,607) |
| **BANK DEBT AND BONDS** | **2,842** | **433** |
| Securities | (1) | (13) |
| Financial receivables from Group companies | (26) | (20) |
| Other financial receivables | (653) | (586) |
| **FINANCIAL RECEIVABLES AND SECURITIES** | **(680)** | **(619)** |
| Borrowings to related parties | 652 | 560 |
| Other short-term borrowings | 469 | 665 |
| Other medium/long-term borrowings | 100 | 119 |
| **OTHER BORROWINGS** | **1,221** | **1,344** |
| **NET FINANCIAL DEBT (CASH)** | **3,383** | **1,158** |

Consistent with the approach adopted in the presentation of the accounts over the last few years, the net debt figure for December 2008 does not include the net fair value of derivatives at the date the accounts were closed (positive balance of €mil. 7).

The year 2008 confirms the ordinary pattern of cash flows and related debt, with considerable uses of cash during most of the period and a significant recovery during the latter part of the year, which was characterised by important cash flows by all Group companies.

The net debt figure for the year includes, among other things, the effects of the following transactions:

- the payment of €mil. 2,372 for the purchase of the US group DRS to hedge euro/dollar exchange rates since May;
- the payment of roughly €mil. 63 relating to Finmeccanica's purchase of the entire share capital of the British company Vega Group Plc;
- the payment of €mil. 12 for the purchase of an additional 18% stake in Sirio Panel SpA by Selex Communications SpA;

- the payment of €mil. 174 relating to the ordinary dividends paid out by the Group Parent to its shareholders for 2007;
- the payment of €mil. 12 relating to the minority interest portion of the ordinary dividends paid out by Ansaldo STS SpA to its shareholders for 2007;
- the payment of €mil. 18 relating to the purchase of approximately 11.1% of Eurotech SpA, an Italian company listed on the Milan stock exchange;
- the receipt, net of expenses paid, of €mil. 1,206 relating to the capital increase, a transaction described more fully elsewhere in this document, performed in connection with the purchase of DRS;
- the receipt of around €mil. 260 from the sale of 26,034,141 shares of STM to its French partner, equal to about 2.9% of the remaining shares held by Finmeccanica, at the price of €10 each;
- the receipt of €mil. 9 relating to dividends paid by Elettronica (€mil. 3) and STM (€mil. 6) for 2007;
- the receipt of €mil. 26 (principal plus interest) relating to the resolution of the dispute with GKN Holding BV (GKN) that arose with regard to the purchase of 50% of AgustaWestland by Finmeccanica on 30 November 2004. The agreement provided that a portion of the purchase price (GBPmil. 50) would be held in escrow, to be paid to the seller GKN or returned to the purchaser Finmeccanica based on whether or not the AgustaWestland group was awarded a procurement contract by the U.K. Ministry of Defence within a specified period of time. In 2006, an arbitration proceeding was initiated following a disagreement between the parties as to strict observance of the conditions in the purchase agreement. The arbitration concluded August 2008 with a settlement agreement under which the amount in escrow, plus any interest that had accrued in the meantime, was to be equally divided between the parties.

In May, the relevant Group companies made the first reimbursement payment of €mil. 297 (out of a total of €mil. 389 for financial debts) to the Ministry for Economic Development (MED) as a result of the decisions made concerning the methods for complying with the scheduled repayment plans and the corresponding finance costs related to programmes funded by Law 808/1985.

In December, the Group received the first instalment of the receivable due from ENEA in the amount of €mil. 307, out of a total of €mil. 371 owed. The amount relates to the settlement agreement signed between ENEA and Finmeccanica which is more fully described in another part of this document (Section 6). The balance is expected to be received in 2009.

As stated above, the Group’s net financial debt is also affected by the inclusion of the DRS group within the scope of consolidation. On 22 October 2008, DRS brought with it debt of €mil. 1,250, which contributed to the Group’s debt figure of €mil. 1,183 at 31 December 2008.

As with last year, the debt figure benefited from the offsetting effect of the consolidated taxation mechanism, with lower outlays of about €mil. 214 in 2008.

In 2008, the Group made assignments of non-recourse receivables totalling €mil. 1,006 during the period (about €mil. 1,081 at 31 December 2007).

As regards the composition of the debt items, with particular regard to bank borrowings and bonds, which went from €mil. 433 at 31 December 2007 to €mil. 2,842 at 31 December 2008, the main changes were as follows:

- short-term debt rose from €mil. 484 at 31 December 2007 to €mil. 1,144 at 31 December 2008, mainly due to the inclusion in this item of the DRS bond issues (about €mil. 850). Although these bonds were set to mature in future years, the acquisition triggered the change of control clause requiring the accelerated repayment of the principle (put option) in January 2009 (see the Financial Transactions section). In 2007, the item includes the amount of the €mil. 297 bond that matured and was repaid in December 2008;
- medium/long-term debt rose from €mil. 1,556 at 31 December 2007 to €mil. 3,995 at 31 December 2008, mainly due to the effect of the recognition of the medium/long-term portion of the Bridge Loan (€mil. 1,762) relating to the

purchase of DRS, as well as to the new bond issue for €mil. 750 (nominal value) completed in December;

- also of importance is the fact that cash and cash equivalents grew from €mil. 1,607 in December 2007 to €mil. 2,297 in December 2008. This high amount is the result of the significant cash flows recognised during the year, particularly during the final quarter. The figure also includes the proceeds from the new bond issue amounting to €mil.750, less the €mil. 297 used to repay the bond described above, as well as the cash surpluses that a number of Group companies pay directly to Finmeccanica outside of the cash pooling system as its share or pay through Finmeccanica Finance under treasury agreements signed between the parties. The balancing entry is found under “other financial debts” described later on. As mentioned above, the figure also incorporates the payment of €mil. 297 to the MED.

The item “financial receivables and securities” equal to €mil. 680 (€mil. 619 at 31 December 2007) includes the amount of €mil. 628 (€mil. 552 at 31 December 2007) 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 “borrowings to related parties” amounting to €mil. 652 (€mil. 560 at 31 December 2007) includes the debt of €mil. 570 (€mil. 541 at 31 December 2007) of Group companies in the above joint ventures for the unconsolidated portion, and the debt of €mil. 62 to the company Eurofighter, of which Alenia Aeronautica owns 21%. In regard to this, under a new treasury agreement, surplus cash and cash equivalents at 31 December 2008 was distributed among the partners.

As part of the centralisation of its financial operations, Finmeccanica SpA has credit lines and guarantees 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 domestic and foreign banks (current maturity 2012). At 31 December 2008, this credit line was entirely unused. Also on that date had additional short-term credit lines for cash amounting to around €mil. 966, of which €mil. 841 is unconfirmed and €mil. 125 is confirmed; at 31 December 2008, these credit lines were also unused. There are also unconfirmed guarantees of around €mil. 1,750.

Despite the existence of an extremely volatile and uncertain financial market in 2008, Finmeccanica pursued a policy aimed at minimizing the average cost of debt by maintaining an average remaining life (currently about 5 years) consistent with its operating needs. This makes the Group's financial structure more sound and compatible with medium and long-term financial returns for significant investments required to develop products. By maintaining a stable financial and equity structure, the Group is able to keep steady control over its companies' financial need and to carefully plan cash flows.

## “Non-GAAP” performance indicators

Finmeccanica’s management assesses the Group’s performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs. Specifically, adjusted EBITA is used as the primary indicator of profitability, since it allows us to analyse the Group’s marginality by eliminating the impact of the volatility associated with non-recurring items or items unrelated to ordinary operations.

As required by Communication CESR/05-178b, below is a description of the components of each of these indicators:

- ***EBIT***: i.e. earnings before interest and taxes, with no adjustments. EBIT also does not include costs and income resulting from the management of unconsolidated equity investments and other securities, nor the results of any sales of consolidated shareholdings, which are classified on the financial statements either as “*finance income and costs*” or, for the results of equity investments accounted for with the equity method, under “*effect of the accounting for equity investments with the equity method*”.

- ***Adjusted EBITA***: It is arrived at by eliminating from EBIT (as defined above) the following items:
  - any impairment in goodwill;
  - amortisation of the portion of the purchase price allocated to intangible assets in relation to business combinations, as required by IFRS 3;
  - reorganization costs that are a part of significant, defined plans;
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

  Adjusted EBITA is then used to calculate return on sales (ROS) and return on investment (ROI), which is calculated as the ratio of adjusted EBITA to the average value of capital invested during the two periods being compared, net of investments in STM and Avio. The figures associated with DRS were not used in calculating ROI for 2008.

A reconciliation of EBIT and adjusted EBITA for the periods concerned is shown below.

| | 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Helicopters** | **Defence Electronics and Security** | **Aeronau-tics** | **Space** | **Defence Systems** | **Energy** | **Transportation** | **Other Activities** | **Total** |
| Earnings before income taxes, net financial income and costs and share of results of equity accounted investments (EBIT) | 344 | 357 | 246 | 62 | 116 | 122 | 123 | (160) | 1,210 |
| Impairment of goodwill (Selex Comms) | | 40 | | | | | | | 40 |
| Amortisation of intangible assets acquired through a business combination | 9 | 23 | | 1 | 1 | | | | 34 |
| Restructuring costs | | 22 | 4 | 2 | 10 | | 3 | | 41 |
| Net income from ENEA | | | | | | | | (20) | (20) |
| Total exceptional costs (income) | | 22 | 4 | 2 | 10 | | 3 | (20) | 21 |
| **Adjusted EBITA** | **353** | **442** | **250** | **65** | **127** | **122** | **126** | **(180)** | **1,305** |

| | 2007 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Helicopters** | **Defence Electronics and Security** | **Aeronau-tics** | **Space** | **Defence Systems** | **Energy** | **Transportation** | **Other Activities** | **Total** |
| Earnings before income taxes, net financial income and costs and share of results of equity accounted investments (EBIT) | 340 | 382 | 150 | 48 | 116 | 93 | (129) | 84 | 1,084 |
| Impairment of goodwill (Selex Comms) | | | | | | | | | |
| Amortisation of intangible assets acquired through a business combination | 9 | 15 | | | 2 | | | | 26 |
| Impairment related to the closure of the Law 808 dispute | 28 | | 90 | 7 | | | | | 125 |
| Restructuring costs | | 30 | | 6 | 7 | | 19 | (4) | 58 |
| Net income from ENEA | | | | | | | | (248) | (248) |
| Total exceptional costs (income) | 28 | 30 | 90 | 13 | 7 | | 19 | (252) | (65) |
| **Adjusted EBITA** | **377** | **427** | **240** | **61** | **125** | **93** | **(110)** | **(168)** | **1,045** |

- ***Adjusted net profit***: This is arrived at by eliminating from net profits the positive and negative components of income that are the effects of events that, due to their scale and departure from the Group's usual performance, are treated as extraordinary.

The reconciliation of net profit and adjusted net profit for the periods concerned is shown below:

| € million | 2008 | 2007 | Section |
|---|---|---|---|
| Net profit | 621 | 521 | |
| Net gain from ENEA | (20) | (248) | 6 |
| Net gain on sale of STM shares | (56) | - | 6 |
| Impairment related to STM | 111 | - | |
| Impairment related to the closure of the Law 808 dispute | - | 125 | 6 |
| Financial charges related to the closure of the Law 808 dispute | - | 105 | 6 |
| **Adjusted earnings before taxes** | **656** | **503** | |
| Tax effect of the adjustments | 8 | - | |
| **Adjusted net profit** | **664** | **503** | |

This adjusted net profit is used to calculate return on equity (ROE), which is based on the average value of equity for the two periods being compared. The effects of the acquisition of DRS and the Finmeccanica capital increase completed in November 2008 were not used in calculating ROE for 2008.

- ***Free Operating Cash Flow (FOCF)***: This is the sum of the cash flow generated by (used in) operating activities and the cash flow generated by (used in) investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of 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 concerned is presented in the reclassified statement of cash flows shown in the previous section.

- ***Funds From Operations (FFO)***: This is cash flow generated by (used in) operating activities net of changes in working capital (as described under Section 43). The calculation of FFO for the periods concerned is presented in the reclassified statement of cash flows shown in the previous section.

- ***Economic Value Added (EVA)***: This is calculated as adjusted EBITA net of taxes and the cost (comparing like-for-like in terms of consolidated companies) of the average value of invested capital (excluding the investments in STM and Avio) for the two periods concerned and measured on a weighted-average cost of capital (WACC) basis.

- ***Working capital***: this includes trade receivables and payables, contract work in progress and advances received.

- ***Net working capital***: this is equal to working capital less current provisions for risks and charges and other current assets and liabilities.

- ***Net capital invested***: this is the algebraic sum of non-current assets, non-current liabilities and net working capital.

- ***Net financial debt***: the calculation model complies with that provided in Paragraph 127 of Recommendation CESR/05-054b implementing EC Regulation 809/2004. For details on its composition, refer to Section 24 of the notes.

- ***Research and development spending:*** the Group classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. These costs may be partly or entirely reimbursed by customers, funded by public institutions through grants or other incentives under law or, lastly, be borne by the Group. From an accounting standpoint, R&D costs can be categorised differently as indicated below:

  – if they are reimbursed by the customer pursuant to a contract, they are classified under “work in progress”;

- if they relate to research – or if they are at a stage at which it is not possible to demonstrate that the activity will generate future economic benefits – these costs are taken to profit or loss in the period incurred;
- finally, if these costs relate to a development activity for which the technical feasibility, the capability and the willingness to see the project through to the end, as well as the existence of a potential market for generating future economic benefits can be shown, they are capitalised under “Intangible assets”. In the case in which a grant is given towards these expenses, the carrying value of the intangible assets is reduced by the amount received or to be received.

- ***New orders:*** this is the sum of contracts signed with customers during the period that satisfy the requirements for being recorded in the order book.

- ***Order backlog:*** this figure is the difference between new orders and invoiced orders (income statement) during the reference period, excluding the change in contract work in progress. This difference is added to the backlog for the preceding period.

- ***Workforce:*** the number of employees reported on the last day of the period.

## Operations with related parties

Transactions with related parties concern activities in the ordinary course of business and are carried out at arm's length (where they are not governed by specific contractual conditions), as is the settlement of interest-bearing payables and receivables.

These mainly relate to the exchange of assets, the performance of services and the generation and use of net cash from and to associated companies, held under common control (joint ventures), consortia, and unconsolidated subsidiaries.

There are no transactions qualifying as atypical and/or unusual[1].

Below are the amounts of transactions with related parties (a breakdown is shown in Notes 14 and 31) for 2008 and the previous year.

| **31.12.2008 (€ millions)** | **Unconsolidated subsidiaries** | **Associates** | **Joint Ventures (*)** | **Consortiums (**)** | **Total** |
|---|---|---|---|---|---|
| **Non-current receivables** | | | | | |
| - financial | | 2 | 11 | | 13 |
| - other | | | | | |
| **Current receivables** | | | | | |
| - financial | 13 | 1 | 7 | 5 | 26 |
| - trade | 8 | 284 | 126 | 100 | 518 |
| - other | 1 | 1 | 11 | 1 | 14 |
| **Non-current payables** | | | | | |
| - financial | | | | | |
| - other | | | | | |
| **Current payables** | | | | | |
| - financial | 1 | 73 | 578 | | 652 |
| - trade | 16 | 41 | 19 | 8 | 84 |
| - other | 1 | 29 | 4 | | 34 |
| **Guarantees** | | 12 | 528 | 1 | 541 |

| **2008 (€ millions)** | **Subsidiaries** | **Associates** | **Joint Ventures (*)** | **Consortiums (**)** | **Total** |
|---|---|---|---|---|---|
| Revenue | 13 | 1.297 | 262 | 133 | 1.705 |
| Other operating income | | 1 | | | 1 |
| Costs | (29) | (90) | (19) | (9) | (147) |
| Finance income | | | 2 | | 2 |
| Finance costs | | (4) | (22) | | (26) |

*(*): amounts refer to the portion not eliminated for proportionate consolidation*
*(**): consortiums over which the Group exercises considerable influence or which are subject to joint control*

[1] as defined in CONSOB communication no. DEM/6064293 of 28 July 2006

| **31.12.2007 (€ millions)** | **Subsidiaries** | **Associates** | **Joint Ventures (*)** | **Consortiums (**)** | **Total** |
|---|---|---|---|---|---|
| **Non-current receivables** | | | | | |
| - financial | | 2 | 9 | | 11 |
| - other | | | | | |
| **Current receivables** | | | | | |
| - financial | 9 | | 3 | 8 | 20 |
| - trade | 7 | 244 | 115 | 85 | 451 |
| - other | 1 | 2 | 11 | 1 | 15 |
| **Non-current payables** | | | | | |
| - financial | | | | | |
| - other | | | | | |
| **Current payables** | | | | | |
| - financial | | 16 | 544 | | 560 |
| - trade | 8 | 37 | 25 | 11 | 81 |
| - other | 1 | 12 | | 12 | 25 |
| **Guarantees** | | 12 | 272 | | 284 |

| 2007 (€ millions) | **Subsidiaries** | **Associates** | **Joint Ventures (*)** | **Consortiums (**)** | **Total** |
|---|---|---|---|---|---|
| Revenue | 11 | 1.124 | 247 | 131 | 1.513 |
| Other operating income | | 1 | | 1 | 2 |
| Costs | (22) | (45) | (17) | (19) | (103) |
| Finance income | 1 | 1 | 1 | | 3 |
| Finance costs | | (6) | (16) | | (22) |

*(*): amounts refer to the portion not eliminated for proportionate consolidation*
*(**) consortiums over which the Group exercises considerable influence or which are subject to joint control*

Within the Group rules of corporate governance, specific conduct guidelines were identified to ensure that transactions with related parties are carried out in compliance with methods of procedural and substantial fairness.

## Performance by division

### HELICOPTERS

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 5,078 | 3,970 |
| Order backlog | 10,481 | 9,004 |
| Revenues | 3,035 | 2,980 |
| Adjusted EBITA | 353 | 377 |
| ROS | 11.6% | 12.7% |
| Research & Development | 273 | 322 |
| Workforce (no.) | 10,289 | 9,556 |

<u>HIGHLIGHTS</u>

**New orders:** up 28% over 31 December 2007. This increase is largely due to new contracts worth €mil. 1,079 to supply 51 attack helicopters, plus an option for an additional 41 for the Turkish Ground Forces Command. There were new orders for 312 helicopters, worth about €mil. 2,300 in the commercial segment in 2008.

**Revenues:** up 2% over 31 December 2007. Growth was attributable to the increased volumes in the civil and government helicopters segment (AW109, AW139, AW119), which partially offset lower volumes for product support.

**Adjusted EBITA and ROS:** down 6% from 31 December 2007. Excluding the negative impact of the translation of financial statements in foreign currencies into euros (€mil. 14), the deterioration was due, on the one hand, to expenses incurred in relation to contracts signed in the past with Bell Helicopter Textron Inc to acquire all its rights to the AW139 helicopter, and, on the other, to the reduced contribution of spare parts and service contracts.

As a result of these factors, **ROS** fell by one percentage point.

Finmeccanica, through the AgustaWestland group, is a world leader in the helicopter industry. The group possesses the technologies required to carry out all the steps in constructing a helicopter: from preliminary analysis and determination of operating requirements to design, development and production of transmissions, rotors, structures made of metal and composite materials, and the avionics system, through the integration of all these components within the complete “helicopter system”.

The helicopter **market** – which was worth about €bil. 12 in 2008 – will remain stable in the coming years in the helicopters for military use segment, which represents roughly 75% of the total.

The greatest opportunities in the **military** market are to be found in the United States, thanks to the pressing need to replace and upgrade a fleet largely made up of older generation aircraft. In Europe, all the major countries continue to view helicopters as having great strategic value given their versatility. Great Britain, in particular, recently reiterated that supporting troops in operational environments remains the top priority, as demonstrated by the increase in “out-of-theatre” helicopter capacity, which has grown 60% over the last two years. These factors lie at the heart of recently confirmed orders for the Future Lynx and for upgrading various types of helicopters for land-based uses, confirming projected spending of around GBP bil. 3.5 in the short/medium term. The most promising product segments include medium-range transport/utility helicopters and naval helicopters, thanks to search and rescue needs.

Another factor driving demand internationally is the need for border protection defence and maritime patrols in which helicopters form an important component of integrated homeland security systems.

In the **civil** market, current demand has remained stable after several years of significant market expansion, although we expect demand to gradually decline. We expect a drop in demand in the Corporate/VIP helicopter segment in particular.

Partnership agreements concerning technology and delocalisation of production in newly industrialised nations are playing an increasingly important role internationally. Potential collaborations in Turkey, India and, with regard to the civil applications segment only, Russia and China, are of particular interest. With regard to technology, significant programmes are being conducted into high-speed flight innovation, with the roll-out of the convertiplane, which could revolutionise how resources are used in the military segment. This could potentially stimulate new areas of demand in the civil segment for protecting helicopters (in hostile operating environments and electronic counter-measures), in achieving full operational capacity (all weather/day-night), in using propulsion systems and materials with a low environmental impact (green technology).

The total volume of **new orders** at 31 December 2008 came to €mil. 5,078, a 28% increase over 2007 (€mil. 3,970).

The considerable increase is mainly attributable to receipt of the contract to supply 51 T-129 attack and tactical recognisance (ATAK) helicopters (a version of the AW129 Mangusta used by the Italian Army), plus an option for an additional 41 for the Turkish Ground Forces Command, which became operational on 3 July. The contract is worth €mil. 1,079 (Q3).
AgustaWestland's proposal contains significant benefits for the Turkish aerospace firms that will be involved in the programme. Turkish Aerospace Industries (TAI) will be the prime contractor for the ATAK programme, while Aselsan and AgustaWestland will act as sub-contractors. Manufacturing, final assembly and acceptance of the helicopters will take place in Turkey. The programme is expected to last more than 9 year and the first aircraft will be delivered within 5 years.

The most significant other new orders received in 2008 in the military segment included:

- the exercise by the French and German governments of the contractual option to purchase 24 NH90 Tactical Transport Helicopters (TTH). The contract is worth €mil. 54 to AgustaWestland (Q1);
- the contract to supply an additional five AW101 helicopters out of a total of 14 to the Japanese Navy under the agreement signed in 2003 between Kawasaki Heavy Industries and AgustaWestland. The agreement requires AgustaWestland to manufacture the kits, while Kawasaki will carry out the customisation and final assembly in Japan. The contract is worth €mil. 106 (Q1);
- the contract for six (5+1) Light Utility Helicopters (LUH)-version AW109 helicopters for the government of New Zealand. The contract is worth €mil. 40 (Q2 and Q4);

- the second lot of the Future Lynx programme, worth about €mil. 640, following confirmation of the order by the UK Ministry of Defence. The programme calls for 62 units—34 for the army and 28 for the navy (Q4).

In the commercial segment AgustaWestland's performance in 2008 was good with orders for 312 helicopters (up 112 units compared with 31 December 2007) worth about €mil. 2,300. However, there is the risk of shrinking demand for equipment, despite the availability of a modern, competitive order backlog in this segment. The following are the most significant acquisitions:

- the contract to supply two AW101 VVIP helicopters, a special configuration of the VIP version featuring high standards of safety and comfort for an important Saudi Arabian customer (Q2);
- orders for an additional 119 AW139 helicopters, totalling €mil. 1,300, including the contracts for 5 helicopters for an important Asian customer (Q1), 2 helicopters for the Korean government for that country's national coast guard (Q1), 10 rescue helicopters, with an option for a further 2, for the non-profit Canadian organisation Ornge and 3 for the Trento province fire brigade command centre (Q4). The order backlog for the AW139 remains high with 119 units ordered and awaiting delivery.

  Within the segment, orders were also obtained for a further 191 helicopters, of which 97 Grand, 5 of which were purchased by the Australian company Heliflite Helicopters (Q1) and 9 by the Aero Toy Store (Q3); 46 AW109 Power, including the contract for an additional 5 helicopters for the Japan National Police Agency (JNPA), under its programme to upgrade the fleet used by police forces (Q2); 5 helicopters for Aerolíneas Ejecutivas, a Mexican operator (Q1). And the AW119 helicopter has also proven successful with contracts for 48 helicopters being signed in the first nine months of 2008 including the contracts with the Spanish operator Helicopteros de Sureste and with the Finnish Border Guard for 3 units (Q1 and Q3).

The **order backlog** at 31 December 2008 came to €mil. 10,481, higher (16%) than the €mil. 9,004 reported at 31 December 2007, despite the considerable negative impact (€mil. 899) of translating the financial statements in pound sterling and dollars into euros.

The order backlog at 31 December 2008 breaks down into 79% for helicopters, 20% for support activities, and 1% for engineering activities. The overall amount is sufficient to guarantee coverage of production for an equivalent of 3 years.

With regard to progress made in major projects in 2008, the order for the **VH-71 helicopter for the President of the United States of America** was characterised by three fundamental factors: the unexpected reduction in funding available for 2008 from the customer Navair for the first phase of the programme (Increment 1), the delivery by AgustaWestland to its American partner Lockheed Martin System Integrator Ltd of the last two test vehicles and the first two pilot production aircraft despite the cut in available funding which may lead to a delay in delivery; the order from Navair to temporarily suspend any activity connected with the second part of the programme (Increment 2) until funding is found for that phase.

As to funding, the US Administration has initiated the Nunn-McCurdy process requiring Congress to reconsider the programme. The re-examination starts with the confirmation of the requirements set by Navair and the White House, followed by an analysis of the alternatives considered and validation of the timetable and associated costs of the solution proposed, and ends with the assessment of the adequacy of the management structure created to manage the programme. It should be emphasised that, during the analysis carried out in the first quarter of 2008, both the White House and Navair formally identified the VH-71 as the only product capable of satisfying the requirements for an aircraft to be used by the President.

The Nunn-McCurdy certification process should be completed by June 2009. In the meantime, activity relating to the first phase will continue, with five pilot production aircraft scheduled to enter into service in mid-2011.

**Revenues** at 31 December 2008 came to €mil. 3,035 up 2% from the figure at 31 December 2007 (€mil. 2,980), despite the considerable negative impact of the translation of financial statements in foreign currencies (€mil. 177). Excluding this factor, revenues grew by €mil. 232, mainly due to the increase in the production rates of the commercial lines.

Of particular significance was the performance of the AW139, which grew by 22%, and the entire AW109 line, which grew by 34%.

Steady growth of about 30% was reported for the NH90 line, for total revenues of roughly €mil. 150.

Even production of the AW101 is better than the performance the previous year due to the start of 4 new programmes for the Italian Navy (3rd lot), Algeria, Japan and the MK3A for the UK government, respectively.
The production volumes for the AW119 grew by 50% over the previous year.
Product support business declined by about 12%, compared with 31 December 2007, with the most marked decline in spare parts and servicing due to the completion of international programmes and the AW129 programme for the Italian Army. However, there was 16% growth in "turnkey" support (COMP – IMOS), which posted revenues of €mil. 330.

The number of helicopters delivered at 31 December 2008 came to 226 units, up 20% compared with the 188 units delivered the previous year.

**Adjusted EBITA** at 31 December 2008 came to €mil. 353, down 6% from the previous year (€mil. 377). This result, however, was affected by the significant negative impact of the translation of financial statements in foreign currencies into euros (€mil. 14).
Excluding the impact of translation, there was a €mil. 10 deterioration attributable to, on the one hand, expenses incurred in relation to contracts signed in the past with Bell Helicopter Textron Inc to acquire all its rights to the AW139 helicopter, and on the other to the reduced contribution of spare parts and service contracts.
As a result of these factors, **ROS** fell to 11.6%, down one percentage point from the figure reported at 31 December (12.7%).

**Research and development** costs at 31 September 2008, amounting to €mil. 273 (€mil. 322 at 31 December 2007), primarily concerned:

- the area of pre-competitive research: which includes the development of technologies primarily for military use for a new helicopter of the 6/7-tonne class named the AW149 and development of multi-role versions of the BA609 convertiplane for national security;
- the area of product improvement research: for the EH101 for development and testing of the new tail rotor;
- research and development into variants of base models: in connection with government/military and civil contracts.

The **workforce** at 31 December 2008 came to 10,289, a 733 employee increase over 31 December 2007 (9,556). This increase was necessary in order to meet the technical/production needs related to the increase in business volumes and, for roughly 200 employees, was due to the change in the Great Britain employee classification scheme for "apprentices" who, until 31 December 2007, were treated as temporary workers and thus were not included in the workforce figure.

**DEFENCE ELECTRONICS AND SECURITY**

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 4,418 | 5,240 |
| Order backlog | 10,700 | 8,725 |
| Revenues | 4,362 | 3,826 |
| Adjusted EBITA | 442 | 427 |
| ROS | 10.1% | 11.2% |
| Research & Development | 619 | 557 |
| Workforce (no.) | 30,330 | 19,589 |

<u>HIGHLIGHTS</u>

**The acquisition of the DRS Technologies (DRS) group was completed on 22 October 2008.**

**Orders:** completion of the order for the additional lot of the FREMM program and significant new information technology and security orders, in addition to the second lot of the Eurofighter Typhoon programme (EFA).

**Revenues and adjusted EBITA:** excluding the effect of the consolidation of DRS, revenues remained substantially in line with those of the previous year despite the unfavourable impact of the euro/pound sterling exchange rate. Adjusted EBITA fell due to the aforementioned impact of the exchange rate, the writedown of certain items of working capital in the communications segment, as well as trend-based factors that benefited the previous year.

The division covers activities relating to the creation of major integrated systems for defence and security based on complex architectures and network-centric techniques and the manufacture of avionics and electro-optical equipment and systems, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, communications systems and integrated networks for land, naval, satellite and avionic applications, and activities for private mobile radio communications systems, value-added services and IT and security activities.

Finmeccanica has a number of companies that are active in the Defence Electronics and Security industry, including: Selex Sensors and Airborne Systems Ltd, Galileo Avionica SpA, the Selex Sistemi Integrati Group, the Elsag Datamat Group, the Selex Communications Group, Selex Service Management SpA, Seicos SpA and the British Vega Group (which was consolidated as to equity values in 2007).

On 22 October 2008, Finmeccanica also successfully completed the acquisition of DRS, the American group that is a leader in the supply of integrated products, services and support for military forces and governmental agencies in the Defence Electronics and Security sector. DRS specialises in defence and security technologies, developing, producing and supplying assistance for a vast range of systems conceived to satisfy the requirements of mission critical and military support operations, as well as homeland security systems.

Therefore, the results for the division include the consolidation of DRS, starting from 22 October 2008, with **new orders** of €mil. 251, an **order backlog** of €mil. 2,404, **revenues** of €mil. 551, and **adjusted EBITA** of €mil. 51 and a **workforce** of 10,789.

However, in order to provide an accurate representation of the division’s performance, the differences between the two periods compared are presented, excluding the effect of these figures.

As a result of the recent worldwide financial crisis, in the defence **market**, where there was already a trend towards stabilising spending, we have seen for the moment only a reduction in investment growth rates. Despite considerable budgetary constraints, Italy has confirmed major military programmes. In Great Britain, the process of concentrating investing in sectors that ensure better support for “out-of-theatre” operations. In the US, it is hoped that the election of the new President will lead to confirmation of major upgrade programmes, but there may yet be cuts in supplementary funds, which grew ten-old between 2001 and the present.

Within the broader defence sector, the defence electronics and security market is the largest in terms of value (roughly €bil. 65 in 2008 for military applications and about €bil. 55 for homeland security applications), with considerably higher growth opportunities for activities connected with security than for those related to defence.

“Diversification of the threat” has prompted the scope of the sector to be extended beyond traditional systems to major integrated systems for military and/or homeland security (border control, maritime traffic surveillance, protection of sensitive locations and infrastructures, managing security for large events, etc.) applications.

Specifically, these refer to major integrated systems based on complex architectures and network-centric techniques intended to respond to customers’ increasingly complex and sophisticated needs and to have available scalable, modular architectures that integrate a variety of functions, different platforms and a collection of various sensors.

The defence and security sector is distinguished by the following factors:

- the products and systems contain extremely advanced technologies (nanotechnologies, active modules, digitalisation, special materials, etc.), thereby shortening their life-cycles and leading to rapid obsolescence;
- platforms that require a growing use of electronic components, essential for performing operational tasks and necessary for ensuring the relative performance;
- there is more frequent use made of “dual” technologies through a constant, mutual exchange of know-how with the civil segments (communications and information technology) (Commercial Off-The-Shelf - COTS);
- demand suggests that simulating and training will continue to grow in importance, particularly those that employ artificial intelligence techniques and those for operating environments (e.g. preparation of scenarios for security at large events) and for training personnel in the use of equipment and systems;
- the major players are adopting a competitive model that is increasingly focused on offering integrated solutions (rather than supplying individual equipment), in line with customers’ specific needs, lining together a broad spectrum of platforms and sub-

systems within a single operating network, making generous use of information technologies and communications (Network Centric Systems and Operations - NCSO);

- therefore growth rates are tied to demand for advanced, complex network–centric systems (Systems of Systems) for:
    - battlefield management;
    - the gathering, analyses and shielded dissemination of information;
    - controlling airspace and waterways;
    - intelligent management of weapons systems and supplies;
    - reducing reaction time between when a threat is detected and when counter-measures are implemented (Sensor-to-Shooter);
- the offering also suggests a new, integrated approach to logistics, which is no longer thought of as post-supply maintenance of equipment and systems, but rather as a fundamental component that spans the product's operating life (Through-Life Management Capability).

In this sector, Finmeccanica is present in the major product segments (sensors, communications, command and control, information technology, etc.) for a variety of applications (air, land, sea and satellite), including adjacent markets linked to homeland security. Finmeccanica has distinguished itself for the excellence of its radar and electro-optical sensor systems, its command and control systems and equipment for the security (encryption) of strategic and tactical communication networks.

As to the Defence Electronics and Security division, **new orders** at 31 December 2008 totalled €mil. 4,418 (€mil. 5,240 at 31 December 2007). Excluding the contribution of DRS, there was a 20% decrease in orders received from the previous year, during which there were significant orders for avionics systems and devices for the EFA for Saudi Arabia.

The main new orders received in the various segments include the following:

- *avionics and electro-optical systems*: additional orders for the second lot of the European EFA programme, relating, in particular to the supply of the Defensive Aids

Sub System (DASS) and the construction of the simulator, as well as logistics; orders for countermeasures; a first lot of the order for logistic support services for the UK Ministry of Defence (Q4); important orders for the supply of new products, such as the Seaspray 7500E radar, under the programme to revamp the HC-130H for the US Coast Guard (Q1) and the Vixen radar for the US Border Patrol (Q4); and space programme orders;

- *radar and command and control systems*: the order for 4 additional ships for the Italian Navy's FREMM programme (Q1); the signing of a contract with the Italian Department of Civil Protection to develop, manage and maintain a technologically integrated emergency management system through a joint venture with Seicos (Q3); the order to build a "major system" for the new Doha, Qatar airport, including the design and integration of all air traffic control and meteorological devices (Q3); the additional order for the new lot of the "Piano Radar" programme as part of ENAV's plan to upgrade Italian radar sites (Q3); the order to upgrade the Palermo airport (Q4); orders for 6 Kronos radar for the Italian Ministry of Defence (Q4); the order from the Italian Navy to install and integrate 9 radar systems on its Maestrale and Minerva class vessels (Q4);
- *integrated communication networks and systems*: additional orders for EFA communication systems; order to develop and supply avionics systems interface control units and to manufacture the cockpit lighting system for the new Airbus A350 XWB (eXtra Wide Body) (Q1); the contract to develop and supply General Purpose Automatic Test Equipment (GPATE) for the avionics on the NH90 (Q2); the order for communications systems for additional FREMM vessels (Q2); the order to develop software defined radio as part of the European Secure Software Radio Programme (ESSOR) (Q4); various orders to supply Tetra systems and networks for foreign markets (Q4);
- *information technology and security*: the renewal of the contract with Poste Italiane to maintain letter sorting systems and to manage information systems (Q2); the order for the "physical security" system for Monte dei Paschi di Siena (Q1); integration of the project for INPS's Five-Year Plan to make sensitive applications more secure (Q2); the order from CNIPA (National Centre for IT in the Government) for the development of an advanced ICT platform for government; the order to supply Telecom Italia with devices for its content delivery network (CDN) to be installed in postal offices (Q2); the

order from the Carabinieri to upgrade license plate reading devices and to supply biometrics equipment (Q2); the order for the Molo C baggage sorting system at Fiumicino (Q4);

- *value-added services in security applications*: the order from the Italian Department of Civil Protection signed as part of a joint venture with Selex Sistemi Integrati (Q3); the contracts to manage e-government applications for the Province of Rome (Q1) and for "Improving the availability of ICT services for industry" for the Region of Abruzzo (Q1); in December, the Ministry for the Environment granted formal authorisation relating to an infomobility project.

It should further be noted that the division continued its intensive efforts to supply major integrated systems based on complex architectures and network-centric techniques.

The **order backlog** came to €mil. 10,700, compared with €mil. 8,725 at 31 December 2007. Excluding the contribution of DRS, this figure is lower than that for 2007, mainly due to the depreciation of the pound sterling against the euro (roughly negative €mil. 760). Little less than half of the order backlog related to the avionics and electro-optical systems segment.

As to progress on the **Interpol Tetra**, in 2008 the working plans for the networks in the Regions of Basilicata and Calabria were submitted to and accepted by the customer. Radio service was also activated in the Province of Benevento and will soon be activated in the Provinces of Naples and Caserta. Other activities carried out during the year include the significant progress made in the roll-out phases of the network in the remaining Provinces of Campania and Basilicata. Finally, the supply contract relating to Sardinia, partly in preparation for the G8 event to be held in July 2009, is near to being signed.

**Revenues** at 31 December 2008 amounted to €mil. 4,362 (€mil. 3,826 at 31 December 2007) and, excluding the contribution of DRS, are substantially in line with those recorded for 2007, despite the negative impact of the depreciation of the pound sterling against the euro, which resulted in €mil. 210 in lower revenues. This was thanks to increased activity in information technology and security and avionics and electro-optical systems, as well as the consolidation of the Vega Group, which offset the drop in production volumes due particularly to delays in starting activity on several programmes in communications and in command and control systems.

Revenues resulted from the following:

- *avionics and electro-optical systems*: the continuation of activities relating to DASS production and the production of avionics equipment and radar for the EFA program; electronic battle systems for the Tornado for the UK and Saudi Arabian Ministries of Defence; systems for countermeasures; devices for the helicopter and space programmes; and logistics;
- *radar and command and control systems*: the continuation of activities relating to air traffic control programmes both in Italy and, above all, abroad, particularly India, Turkey, Qatar and Venezuela, and coastal and port naval traffic (Vessel Traffic System-VTS); contracts for Orizzonte, FREMM, Nuova Unità Maggiore (NUM) and upgrading; Medium Extended Air Defense System (MEADS) and Future Surface to Air Family (FSAF) international cooperation contracts; and the programme to supply Fixed Air Defence Radar (FADR) to the Italian Ministry of Defence;
- *integrated communication systems and networks*: the continuation of activities relating to the construction of the national Tetra network; the development and manufacture of equipment for EFA and the NH90; the provision of communication systems for the military both in Italy and the UK; the continuation of activities relating to the FREMM programme;
- *information technology and security*: activities relating to postal automation services, especially orders from the Italian and Russian postal services; information technology services and naval systems for the Defence division; activities for CNIPA (National Centre for IT in the Government) relating to the development of an advanced ICT platform for government; activities with Telecom Italia per Poste Italiane and for ENAV;
- *value-added services with regard to security applications*: activities relating to the Interpol contract and to supplying broadband infrastructures and applications to the Region of Abruzzo for regional monitoring.

**Adjusted EBITA** reached €mil. 442 at 31 December 2008. Excluding the contribution of DRS (€mil. 50), adjusted EBITDA was lower by €mil. 35 than the figure reported the previous year (€mil. 427), mainly due to the negative effect of the change in the euro/pound sterling exchange rate (roughly €mil. 25) and the writedown of certain items of working capital, in particular obsolete inventory, in the communications segment, as well as trend-based factors that benefited the previous year, such as the release of contingencies for a number of programmes being completed and the realisation of a gain on the sale of a building. As a result, **ROS** came to 10.1% (11.2% at 31 December 2007).

**Research and development** costs at 31 December 2008 totalled €mil. 619, up (roughly €mil. 62) from the figure reported at 31 December 2007, and relate in particular:

- *in the avionics and electro-optical systems segment*, to the continuation of development for the EFA programme, new electronic-scan radar systems for both surveillance and combat, laser technologies, electro-optical devices, Falco tactical surveillance unmanned aerial vehicle (UAV), as well as the start of development of the store management system and simulator for the M346 aircraft;
- *in the command and control systems segment,* to the continuation of development of the mobile three-dimensional mobile and fixed early-warning radar system, naval command and control systems, MFRA multi-functional 3D Kronos active radar surveillance systems and upgrading the current SATCAS products (now in the version called CLIO) and the start of the programme to develop capabilities and technologies for architectural design and construction of major systems for the integrated management of operations by armed ground forces (Combined Warfare Proposal (CWP));
- *in the communications systems and integrated networks segment*, to the development of Tetra technology products and new product families such as ALL-IP switching, software design radio and WIMAX;
- in the *information technology and security segment,* to the continuation of development of a multi-sorting suite system for postal automation.

The **workforce** at 31 December 2008 totalled 30,330, and includes the 10,789 employees of the newly acquired DRS. Looking at an equivalent scope of consolidation as at 31 December 2007 (19,589 employees), there was a decrease of 48 due mainly to the effect of the industrial reorganisation plan in the communications segment.

**AERONAUTICS**

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 2,720 | 3,104 |
| Order backlog | 8,281 | 8,248 |
| Revenues | 2,530 | 2,306 |
| Adjusted EBITA | 250 | 240 |
| ROS | 9.9% | 10.4% |
| Research & Development | 508 | 581 |
| Workforce (no.) | 13,907 | 13,301 |

HIGHLIGHTS

**Orders:** there continued to be good commercial performance despite the drop from the previous year which benefited from important orders for the ATR and Eurofighter Typhoon (EFA). The most significant orders for 2008 include, in the military segment, the supply of four ATR 72 for maritime patrol to the Italian Air Force, seven C27J to Romania and four to Morocco, and 18 reconditioned G222 to the US Air Force. In the civil segment, there were orders for 42 ATR and additional lots for the production of aerostructures.

**Revenues:** up 9.7% compared to 31 December 2007. This increase is due to greater activity in the civil segment, with higher production of ATR aircraft and B787 and A380 aerostructures, and of EFA production in the military segment.

**Adjusted EBITA:** improvement over 2007 due to positive performance in civil production and the EFA programme.

The Aeronautics division includes Alenia Aeronautica SpA (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 SpA (production of military training aircraft and engine nacelles for civil aeronautics); Alenia Aeronavali SpA (cargo aircraft conversions and maintenance); and the GIE-ATR consortium, in which a 50% equity stake is held (final assembly and marketing of ATR aircraft), Alenia North America Inc which operates in the American market through a joint venture and Superjet International SpA in which a 51% equity stake is held (sale and assistance for Superjet aircraft).

Despite budget cutbacks in a number of countries, the world's **military** aeronautics market continues to follow an overall positive trend in all the major product segments, in particular:

- combat aircraft continued to be the highest-value segment, with growth supported by a limited number of significant manufacturing programmes (F-22, Eurofighter, Rafale) and development programmes (Joint Strike Fighter- JSF) based in part on inter-governmental cooperation agreements;
- there are interesting opportunities in the market for aircraft for special missions (particularly, maritime surveillance and in-air refuelling) and for tactical transport;
- new operating requirements in major countries which, together with limiting and rationalising their spending, are generating a higher demand for maintenance and retrofitting services to extend the operating life of existing fleets, to optimise the logistical management of the aircraft and, in some cases, to improve operational performance by modernizing on-board avionics systems;
- in unmanned systems, where there are considerable long-term prospects, development and testing of Unmanned Air Vehicles (UAV) and Unmanned Combat Air Vehicles (UCAV) for reconnaissance applications continues in the US and in Europe. These activities frequently lead to important technological innovations in the fields of materials, network-centric approaches to platforms, avionics and mission systems onboard aircraft and in ground command and control centres.

Finmeccanica is active in all segments of the military aeronautics industry: combat (with participation in important programs such as EFA and JSF); advanced trainers (M346);

tactical transport with the C27J aircraft (which is becoming the most successful craft in its class); aircraft for special missions (particularly for surveillance and patrol with the military version of the ATR family); and unmanned aircraft (UAV and UCAV).

In 2008, production in the *military segment* mainly regarded:

- *aircraft*: logistics and continuation of development and production for the second lot of the EFA programme and logistics; production of the C27J aircraft, particularly for the Italian Air Force, for Greece, Bulgaria, Romania and Lithuania and for the US Army; the continuation of upgrades to the Tornado aircraft and the ACOL modification and upgrading of the avionics of the AMX; the start-up of reconditioning used G222, ordered by the US Air Force (USAF), that will be provided to the Afghan Armed Forces;
- *trainers*: the production of the M339 aircraft with regard to contracts for upgrading 14 aircraft for the Italian Air Force and for supplying 8 craft to the Royal Malaysian Air Force; further development and test flights of the new M346 training aircraft as well as works in preparation for the start of production;
- *transformation*: production for the B767 tanker program; overhaul and logistical support for the B707 tanker and AWACS aircraft.

In the global **civil aeronautics market**, the trend continues towards growth in the medium/long-term, based on expectations of rising demand for transport and progress in programmes currently being developed in the sector of medium and large capacity craft (B787, A350), in addition to the entry into production of the A380. The sharp increase in oil prices in the first part of 2008 – which caused significant losses for airlines – and, especially, the current financial crisis are having a negative impact in the short-term. In the final months of 2008, there was an overall reduction in the transport of passengers and, especially, goods. This results in a number in delays in delivering existing orders and a slowdown in new orders, partially foreseen following the peak in orders over the last few years. The negative impact of the crisis could be lessened by actions taken to boost demand (for example, incentives for financing the purchase of new aircraft) by some governments and the recent drop in oil prices.

In 2008, there were net orders for 1,439 aircraft (of which 777 Airbus and 662 Boeing) compared to the record for 2007 (orders for 2,756 units) There was also confirmation of the trend towards outsourcing a growing portion of aerostructure design and production. This segment, driven in part by technological progression towards greater use of composite materials, has an annual growth rate of around 7%-8%, compared with an expected average annual growth rate of 4-5% over the next five years for the civil aircraft sector.

Finmeccanica is active in the civil aeronautics industry in aerostructures, regional transport craft, both turboprop (through the joint venture with EADS, GIE-ATR) and jets (with the new joint venture Superjet International SpA in which Sukhoi holds a 49% stake), and passenger-to-cargo transformations.

In 2008, production in the *civil segment* mainly related to supplying the following customers:

- Boeing: production of sections of fuselages and horizontal tail wings for the new B787 aircraft and of components for fuselages and control surfaces for the B767 and B777 aircraft;
- Airbus: production 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.

For other customers work continued on:

- the assembly and sale of ATR craft by GIE-ATR which, in 2008, invoiced 55 aircraft (of which 8 in Q1, 14 in Q2 and 15 in Q3 and 18 in Q4), with an increase of 11 aircraft over the 44 invoiced in 2007;
- production of engine nacelles and cargo transformations of the MD10, MD11 and B767 aircraft.

**New orders** at 31 December 2008 came to €mil. 2,720, a decline of €mil. 384 from the €mil. 3,104 reported at 31 December 2007, which benefited from significant orders for ATR and EFA aircraft, including those from Saudi Arabia. Therefore, there was confirmation of the positive commercial trend in both the military and the civil segments.

The main orders received in 2008 included the following:

- *in the military segment*: the order for seven C27J aircraft for Romania (Q1), four aircraft for Morocco (Q3) and four for the U.S. Army (Q3); the supply of four ATR 72 Maritime Patrol aircraft to the Italian Air Force for use in sea patrols (Q4); orders for logistical support for EFA craft from Saudi Arabia (Q1-Q4), for initial "non-recurring" activities for the third lot (Q4) and additional development lots (Q2-Q3); the contract to supply the US Air Force with 18 reconditioned G222 transport aircraft (Q3); logistical support for the C130J (Q1) and Tornado craft (Q1-Q2) for the Italian Air Force; the order from Libya for an ATR42 MP aircraft (Q4) and from the Harbour Office for the third "green" ATR MP aircraft (Q2); the first contract signed with Lockheed Martin Inc. for industrial activity for beginning production on portions of the wings of the F-35 Joint Strike Fighter (Q3) and the order to develop the Neuron programme in collaboration with Dassault (Q3);
- *the civil segment*: orders for GIE-ATR, which received orders for 42 aircraft (3 in Q1, 4 in Q2 and 35 in Q4); orders for aerostructures for the B767 (Q1 and Q4), the B777 (Q3) and additional lots for the A380, A321 and Falcon programmes and for engine nacelles.

The **order backlog** at 31 December 2008 came to €mil. 8,281, roughly the same level as at the end of 2007 (€mil. 8,248). The breakdown at the end of the year revealed a significant portion for the following programmes: EFA (about 45%), B787 (about 16%), C27J (about 7%) and special versions of the ATR (about 6%). It is expected to continue expanding over the medium/long term. The order backlog guarantees coverage of around 3 years of production.

The following is of note with regard to the performance of the leading programs:

- for the **C27J,** at 31 December 2008 there were total orders or commitments for 121 aircraft for the air forces of: Italy (12), the USA (initial contract for 78 aircraft of which 54 for the Army and 24 for the Air Force), Greece (12), Bulgaria (5), Lithuania (3), Romania (7) and Morocco (4). The Moroccan order, received in 2008, marks an important commercial success since it is the first sale to a non-NATO country. Furthermore, the aircraft is currently being used in tenders in various countries, including the Slovak Republic, India, Libya, Nigeria, and Australia.

So far, 27 aircraft have already been produced of which 25 have been delivered to or accepted by customers and another 4 are being completed.

In 2008, 9 aircraft where completed and delivered: 5 to the Italian Air Force, the first 2 to the US Army (the first in September and the second in November 2008) and one each to Lithuania and Bulgaria.

As to “non-recurring” activities, development continued for the “in-flight refuelling” modification, as did activities related to the Improvement Industrialization Program (“redesign-to-cost”) and on specific modifications for the “USA configuration”;

- For the **Eurofighter Typhoon (EFA)** programme managed by an international consortium in which Alenia Aeronautica SpA hold a 21% stake, the aircraft orders in two distinct lots by 4 programme partners (Germany, Great Britain, Italy and Spain) came to 384 craft (out of a total of 620 planned) at 31 December 2008. To these are added foreign orders from Austria (15) and Saudi Arabia (72), bringing the total of 471 aircraft.

  The first craft of the second tranche (a German single-seater) made its maiden flight on 16 January 2008 and received type acceptance on 12 September 2008. Alenia Aeronautica delivered the first Tranche 2 craft to the Italian Air Force on 18 November 2008.

  Alenia Aeronautica’s activities in 2008 mainly related to the second tranche, specifically, production including the readying of the first 7 aircraft and development relating to modifications. It also continued to provide logistical support. By the end of 2008, Alenia Aeronautica had produced, in total, 241 wings (of which 51 in 2008), 238 posterior fuselages (of which 49 in 2008) and 34 aircraft for the Italian Air Force (of which 7 in 2008).

- for the **M346** trainer there was continuation of intense development and test flights for three prototypes, with over 200 test and demonstration flights. In particular, roll-out of the pre-series craft in its Industrial Base Line configuration began on 13 April 2008 and its first successful official flight occurred on 7 July 2008.

  Industrialization activities continued as did those prior to the start of production. The first order, expected by the end of the first half of 2009, relates to the provision of the first lot of 6 aircraft to the Italian Air Force along with training and logistical support services.

Marketing and sales efforts were also intensified internationally. The aircraft is currently being used in tenders in various countries, including the United Arab Emirates, in which a bid for 48 aircraft was submitted in November 2008 and negotiations started in February 2009. The air forces of various countries have also shown interest, including Austria, Greece, Singapore, Portugal, Mexico and Indonesia.

On 20 October 2008, Finmeccanica signed an industrial partnership agreement with Mubadala Development Company, located in the United Arab Emirates, to produce aeronautical components in composite materials for the civil sector.

Finally, in March 2008, Alenia Aermacchi SpA and Empresa National de Aeronautica de Chile (ENAER) signed a memorandum of understanding to jointly market the M346 in South America;

- for the **B787** program, production, which is carried out at the new Grottaglie facilities (central sections of the fuselage) and the Foggia facilities (horizontal tail wings), slowed and there was a decline in activity due to delays in programmes announced by Boeing in 2008. Despite the lower production, total revenues for 2008 were higher than those for 2007.

  In 2008, delivery was made of 5 fuselage sections and 5 horizontal tail wings (at 31 December 2008, a total of 11 fuselage sections, of which 2 units relating to *test articol*, and 9 horizontal stabilizers had been delivered). These were then transported to South Carolina (USA) to the facilities of Global Aeronautica LLC, a joint venture between Alenia North America Inc and Boeing Company Inc, for integration with the other fuselage sections.

  Development and industrialisation has also continued in line with the new plan for production, which, despite a number of postponements in short-term production rates, confirms the gradual increases in production over the coming years and the achievement of a rate of 10 series per month.

**Revenues** at 31 December 2008 came to €mil. 2,530, an increase of €mil. 224 (+9.7%) over the €mil. 2,306 reported for 2007. The growth was mainly due to civil activities with the increase in production of ATR and aerostructures for the B787 and A380 crafts, despite the slowdowns in production mentioned above. Activity in the military segment was substantially stable, with increased production of the second lot of the EFA and of MB3389 training crafts.

**Adjusted EBITA** came to €mil. 250 at 31 December 2008, €mil. 10 higher than the €mil. 240 reported at 31 December 2007. **ROS** fell slightly to 9.9%, compared with 10.4% at 31 December 2007, mainly due to the different mix of products mentioned above and to difficulties in start-up of production on and delays in a number of projects, particularly for the B787.

**Research and development** costs for 2008 totalled €mil. 508 (€mil. 581 in 2007). This result reflects the commitment to programmes being developed: B787, C27J, M346, ATR ASW, UAV, A380 and engine nacelles. Research and development into technologies for innovative aerostructures using composite materials and system integration also continued. Furthermore, a portion of these costs is related to the development of important military programmes (EFA, JSF, Tornado and Neuron) that have been commissioned by customers.

The **workforce** at 31 December 2008 numbered 13,907, an increase of 606 (+4.6%) over the 13,301 employees at 31 December 2007. This increase in tied to technical and production requirements related to the increase in business volumes, mainly by Alenia Aeronautica SpA.

## SPACE

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 921 | 979 |
| Order backlog | 1,383 | 1,423 |
| Revenues | 994 | 853 |
| Adjusted EBITA | 65 | 61 |
| ROS | 6.5% | 7.2% |
| Research & Development | 64 | 62 |
| Workforce (no.) | 3,620 | 3,386 |

***Note that all figures refer to the two joint ventures (Thales Alenia Space SAS and Telespazio Holding Srl) consolidated on a proportionate basis at 33% and 67%, respectively.***

<u>HIGHLIGHTS</u>

**Orders:** down 6% from 2007 despite the positive performance in satellite services and the stability of the geostationary telecommunications satellite segment, due to the financial difficulties encountered by the entities that own the satellite constellations in beginning and/or completing development programmes;

**Revenues**: up around 17% over 2007 due to increased production in both segments (manufacturing and satellite services).

**Adjusted EBITA:** up around 7% over 2007 due to higher production volumes.

Finmeccanica SpA operates in the space industry through the **Space Alliance** between Finmeccanica and Thales through two joint ventures in the space industry dedicated, respectively, to satellite services (Telespazio Holding Srl, which is based in Italy and has its main industrial facilities in Italy, France, Germany and Spain and in which Finmeccanica SpA holds 67% and Thales 33%) and to manufacturing (Thales Alenia Space SAS, which is based in France and has its main industrial facilities in France, Italy, Belgium and Spain, in which Finmeccanica SpA holds 33% and Thales 67%).

More specifically, **Telespazio Holding Srl** focuses on satellite services in the following segments: networks and connectivity (fixed and mobile telecommunications services, network services, TV, defence and security services, valued-added services), satellite operations (in-orbit satellite control, earth centre management, telemetry services, command and control and Launch and Early Operation Phase (LEOP) services), earth observation (data, thematic maps, operational services) and navigation and infomobility (Galileo services).

**Thales Alenia Space SAS** focuses on manufacturing (design, development and production) in the following segments: telecommunications satellites (commercial, governmental and military), scientific programmes, earth observation systems (optical and radar), satellite navigation, orbital infrastructures and transport systems, equipment and devices.

For 2008, the **space systems market** was valued at roughly €bil. 66, of which 55% related to manufacturing (€bil. 17 for the civil and government segment, €bil. 14 for military and roughly €bil. 4 for commercial applications), 26% to satellite services and the remaining for general space agency spending. Government programmes are the driving factor in the market, accounting for almost 90% of manufacturing. The predominance of the United States is significant, accounting for over 50% of the global government budgets in the civil segment and nearly 90% of the budgets in the military segment. However, a number of emerging nations have launched important programs to acquire their own space-access capabilities (India, China). In the background there remains the great technological capability of Russia, which is being redeveloped after years of difficulties due to a lack of funding.

Though the space sector is feeling the short-term effects of the current financial crisis, its long-term growth potential remains unchanged. In fact, 900 new satellites are expected to be placed into orbit over the next ten years, considerably more than over the past decade. In addition, the interministerial conference of the member countries of the European Space Agency (ESA), held in November, emphasised the strategic value of this industrial sector and expressed its willingness to support development along with the European Commission. They also confirmed the continuation of all current science programmes (including the ExoMars programme in which Italy is playing a leading role), activities dedicated to ensuring European access to space (Ariane 5, Vega, etc.), earth observation programmes, (Global Monitoring for Environment and Security(GMES)-Kopernicus; Meteosat), the Galileo global satellite navigation programme and advanced communications programmes (ARTES, EDRS, etc.).

As to the application segments, growth is expected in *navigation and global positioning systems*, *communication systems for defence and security* and *earth observation and homeland security systems*. In all of these segments, Europe tends to play a significant role with programs that are characterised by a high degree of dual-purpose (military and civil) applications, such as Galileo (navigation), GMES, COSMO-SkyMed, Pleiades and SAR-Lupe (earth observation). However, in the case of both Galileo and GMES, this dual purpose is only potential, following agreements with the US concerning GPS and limitations resulting from the ESA bylaws, as well as European Union policy, all of which exclude the support of programs for military applications.

The only area where there remains a substantial separation between military and civil applications is in telecommunications. In this segment, a large part of the civil applications originate from commercial customers. There is, however, a rising military use of civil systems. In addition, in Europe in particular, new initiatives involving explicit dual-use have been seen (for example, the Italian and French Athena-Fidus program).

The launch systems segment is also showing signs of slight growth over the next few years, both for heavy-payload launching systems (where Europe is a world leader thanks to the Ariane program) and for launching systems for putting smaller satellites into orbit, the segment in which the Vega programme is found.

The offering in this segment is like a pyramid, with a low number of global players, essentially in the U.S. and Europe, and a large number of sub-vendors that are becoming increasingly specialised.

In the **space services** segment, which is based on the prevalent use of telecommunications, earth observation, navigation and global positioning satellite platforms, the context is more

varied. This market, excluding the television broadcasting segment, which has its own peculiar market dynamics, is worth some €bil. 15 annually and is expected to grow at a rate of around 7% annually for the period 2008-2016.
The greatest demand is for networking and connectivity applications, particularly for innovative solutions based on terrestrial mobile platforms and dual-purpose (civil and military) systems, as well as for earth observation and, over the longer term, navigation and infomobility applications, particularly for critical safety systems in air, land and sea transport.
In telecommunications applications, the customer base is predominantly in the private sector, although military telecommunications programs continue to increase in number. The earth observation segment includes all types of customers, although government use is predominant, while navigation, global positioning programs and scientific applications are almost always for government clients.
The more traditional television broadcasting segment, on the other hand, has reached maturity, although there are new needs related to the digital divide, the provision of high-definition programs, and mobile entertainment. The main geographic areas that are requiring satellite capacity are North America, western Europe, and Asia-Pacific, which currently account for nearly 75% of the global market.
The business model for the offering of telecommunications and television broadcasting services includes two main categories of players: global and regional satellite operators, limited in number, which own satellite capacity and sell connectivity and, in some cases, services to the customer; and service providers, small companies that tend to be highly specialised, frequently operate in single national markets, acquire satellite capacity, integrate and manage networks, develop sophisticated solutions, and provide connectivity and value-added services to the customer. The latter category includes companies connected with the leading telecommunications groups and space manufacturers.

From a commercial perspective, in 2008, the Group acquired **new orders** in the amount of €mil. 921, down €mil. 58 from 2007 (€mil. 979) due to fewer new orders in the manufacturing segment, in the commercial telecommunications satellites constellations area, which was offset in part by performance in the satellite services segment.
The most significant new orders for the period were:

- in the *commercial telecommunications segment*: the contracts for the provision of the W3B satellite to Eutelsat, Nilesat 201 (Q1), RascomQaf-1R (Q2) and EuropaSat to Inmarsat (Q4); the first lot in the provision of 16 low-earth orbit (LEO) satellites for the O3B constellation (Q3); the additional lots for the Yahsat programme (Q2) and the provision of 48 low-earth orbit (LEO) satellites for the second-generation Globalstar constellation (Q2 and Q3); contracts to supply the payloads for the Israeli Amos 4 satellite (Q2) and Amos 5 satellite (Q3), the Koreasat 6 satellite (Q3) and for the Chinese Sinosat 5 satellite (Q3); new orders for satellite TV capacity (Q1, Q2 and Q4, specifically to RAI Way) and telecommunications satellite services (Q1, Q2, Q3 and Q4);
- in the *military and government telecommunications segment*: the first lot of the order from the Italian Ministry of Defence relating to the Sicral 2 telecommunications satellite (Q1) and further lots for the Syracuse 3 programme (Q2, Q3);
- in the *earth observation segment*: the order for the first lot of the Sentinel 3 mission (oceanography and territorial vegetation) relating to the GMES-Kopernikus programme for territorial control and security (Q1); new monitoring and territorial management services (Q1, Q2, Q3 and Q4); the supply of COSMO data/products (Q3 and Q4) and the order for the launch of the 4th COSMO satellite (Q4);
- in the *navigation and infomobility segment*: further orders relating to the IOV phase of the Galileo Programme (Q1, Q2);
- in the *satellite operations segment*: new orders for in-orbit satellite management (Q1) and for the supply of ground-based operations services and telemetry and command services (Q3 and Q4);
- in the *science programmes segment*: additional lots for the Exomars Programme (Q1) and the Herschel-Planck Programme (Q2) and the order for the first phase of the BEPI programme (Q3);
- in the *equipment and devices segment*: new orders for onboard equipment (Q1, Q3 and Q4).

The **order backlog** at 31 December 2008 came to €mil. 1,383, a decrease of €mil. 40 from the same figure at 31 December 2007 (€mil. 1,423). The size of the orders backlog, defined based on its workability, is such as to guarantee coverage of 62% of expected production for the next year (75% by manufacturing and 25% by satellite services). The backlog at 30 September 2008 is composed of manufacturing activities (53% satellites and payloads, 10% infrastructures and equipment) for 63% and satellite services for the remaining 37%.

The following is a description of the notable aspects of the main programmes:

- the **Galileo** programme, the largest project ever conceived by the European Union and the ESA, aims to build the first global navigation and positioning infrastructure for civil use that is entirely independent of other existing or future systems (GPS, GLONASS, etc.). It will be placed into operation starting in 2013.

  The system is currently in the "development and validation" phase (In-Orbit Validation—IOV, 2005-2010, worth around €bil. 1.5), which covers the production of the first four satellites and a significant portion of the ground infrastructure and the in-orbit validation of the system. This phase, financed by the EU and the ESA, is currently being overseen by the ESA in its dual role as programme leader and customer of the lead companies involved, including Thales Alenia Space Italia (System Support).

  The second experimental satellite, GIOVE-B (assembled in Thales Alenia Space's laboratories), was launched on 27 April 2008 using a Soyuz launcher. The Launch and Early Operation Phase (LEOP) and satellite control were managed by Telespazio's Fucino space centre, where one of the two control centres for the Galileo programmes constellation and mission has been established.

  The subsequent "deployment" (Fully Operational Capability-FOC, 2010-2013, worth an estimated €bil. 2.4-2.6), which comprises the production of all the space and ground infrastructures and preparations for the operational phase, will be entirely funded by the EU. The entire development was broken down into 6 main "segments", of which procurement officially began on 1 July. Among the candidates selected were Thales Alenia Space Italia (System Support), Thales Alenia Space France (Ground Mission System) and Telespazio (Operations). The final contracts are expected to be awarded at the end of 2009 or the start of 2010.

  Finmeccanica's involvement in the Galileo program is a fundamental opportunity for the operations in satellite services, in that it allows the Group to be a leader in a project of global scale which is strategic for new value-added applications (commercial services with accuracy of less than one meter, public regulated services and safety of life services).

- the integration test phase for the **Sicral 1B** military telecommunications satellite, built by Thales Alenia Space as the lead contractor, was completed and was delivered on 14 November to Sea Launch, in California, where preparation for the upcoming launch has begun. Telespazio will be responsible for the launch services, the subsequent LEOP phase and in-orbit testing, as well as for the operational management of the same.

  Telespazio has also invested directly in the development of the program in order to be able to have its own "proprietary" satellite capabilities and, therefore, to provide communication services to the European defence and NATO.

- the **COSMO-SkyMed** program, which is being funded by the Italian Ministry of Defence, the Italian Space Agency (ASI) and the Ministry for Education and Research is the first worldwide earth observation satellite radar system for dual-use applications (civil and military). It represents the Italian contribution to the European GMES-Kopernikus system.

  The first three satellites in the constellation were launched in June 2007, December 2007 and October 2008, respectively. The fourth and final satellite is expected to be launched by mid- 2010.

  A total investment of roughly €bil. 1 is required to build the system, developed entirely in Italy by Telespazio as concerns the ground segment (civil and military) and by Thales Alenia Space Italia as concerns the space segment.

  Telespazio also manages in-orbit operations of the constellation through the control centre located in Telespazio's Fucino space centre, and is responsible for collecting and processing data at its Matera space centre.

  With the launch of the 2nd satellite, the system became fully operational and is currently capable of obtaining roughly 1,350 images per day. As to civil applications COSMO-SkyMed is being marketed, starting 16 July 2008, by the company E-GEOS, formed by ASI and Telespazio.

**Revenues** at 31 December 2008 came to €mil. 994, an increase of €mil. 141 over the previous year (€mil. 853) due to the higher level of production in both segments, particularly manufacturing. The principle sources of production revenues were the continuation of activities relating to:

- the *commercial telecommunications segment*:
  - the Globalstar, W2A and W7 for Eutelsat, Yahsat, Alphabus, Thor 6, Palapa D, Star One C2 (launched on 18 April from the Kourou base in French Guiana, with an Ariane 5 ECA launcher), Chinasat 9 (launched on 9 June from the Xichang Space Centre in China, with a 3B Long-Range rocket), Turksat 3° (launched on 12 June from the Kourou base with an Ariane 5 ECA launcher), Jason-2 (launched on 20 June from the Vandemberg base in California, with a Delta II rocket), AMC-21 (launched on 14 August from the Kourou base with an Ariane 5 ECA launcher), Ciel 2 (launched on 10 December from the Baikonur Cosmodrome in Kazakhstan with an ILS/Proton rocket)*;*
  - development of the payloads for the Arabsat 4R and 5°/5B satellites, the Express AM33/34 and Express MD 1&2, Loutch 5°/5B, and Kompsat satellites;
  - the provision of telecommunications satellite services and the resale of satellite capacity;
- in the *civil and governmental telecommunications segment*: the 2$^{nd}$ and 3$^{rd}$ generation Meteosat programmes;
- in the *military telecommunications segment*: the Sicral 1B (which will be launched in early 2009), Satcom BW and Syracuse III programmes;
- in the *earth observation segment:* the COSMO-SkyMed programme, the satellites for the Sentinel 1 and 3 missions (GMES programme), the GOCE satellite (which will be launched in March 2009 from the Plesetsk base in Russia with a Rockot rocket, the project phase of the MUSIS programme (successor to the Helios 2 Programme), the provision of environmental monitoring products and services, including based on the availability of COSMO date;
- in the *science programmes segment*: the Herschel- Plank (deep-space observation mission which is expected to be launched by the middle of 2009) and Alma programmes (one of the largest radio telescopes on Earth for astronomy, which should be installed in the Atacama desert in Chile by the end of 2009);
- in the *satellite navigation segment*: the Galileo programme (IOV phase and Galileo Test Range phase) and the Egnos programme;
- in the *orbital infrastructure segment*: programmes connected with the International Space Station (on 7 February the Space Shuttle “Atlantis” transported the Columbus

module into orbit, and on 9 March the first module of the ATV Programme, called the "Jules Verne", was launched);

- in the *equipment and devices segment*: the development of onboard equipment.

**Adjusted EBITA** at 31 December 2008 came to €mil. 65, up €mil. 4 from the figure posted at 31 December 2007 (€mil. 61), due to higher production volumes. **ROS** came to 6.5%, compared with the 7.2% reported in December 2007, specifically due to the cost overruns and lower productivity of a number of manufacturing activities in France.

**Research and development** costs at 31 December 2008 came to €mil. 64, an increase of €mil. 2 over the figure posted for 2007 (€mil. 62).
Activities in this area included the development of:

- systems and solutions for security and emergency management (GMES), for navigation/infomobility services (Galileo) and logistics;
- GIS platforms (Geodatabase) and algorithms and processors for the production of earth observation data (COSMO-SkyMed);
- flexible Ka, C and Ku-band telecommunications payloads, platforms and payloads for earth observation payloads;
- preparatory studies for planetary exploration (ExoMars), technologies for space infrastructures, life-support systems and vehicles for interplanetary exploration.

The **workforce** at 31 December 2008 came to 3,620, for an increase of 234 employees over the 3,386 at 31 December 2007, due to the inclusion of the Spanish company Aurensis (of which Telespazio acquired control on 1 April 2008) within the scope of consolidation and higher production in both segments.

**DEFENCE SYSTEMS**

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 1,087 | 981 |
| Order backlog | 3,879 | 4,099 |
| Revenues | 1,116 | 1,130 |
| Adjusted EBITA | 127 | 125 |
| ROS | 11.4% | 11.1% |
| Research & Development | 258 | 241 |
| Workforce (no.) | 4,060 | 4,149 |

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

<u>HIGHLIGHTS</u>

**Orders**: positive performance thanks to a new order for an additional lot of the programme to supply combat systems for the Italian and French FREMM frigates and other significant new orders in the underwater systems segment.

**Adjusted EBITA and ROS**: increased, and the growth is even greater if the effect of an extraordinary income item reported last year is excluded, thanks to the improvement in land, sea and air weapons systems and in underwater systems, as well as to the higher profitability of programmes in the missile systems segment.

Defence Systems includes the activities of MBDA (the joint venture with BAE Systems and EADS in which Finmeccanica holds a 25% stake), in missile systems, the Oto Melara group (which, from 1 January 2008, includes the fully consolidated subsidiary Oto Melara North

America Inc) in land, naval and air weapons systems, and WASS SpA in underwater weapons (torpedoes and counter-measures) and sonar systems.

In **land, sea and air weapon systems,** the **market** – estimated in 2008 at around €bil. 15 – expanded. Demand in the sector was revitalised by recent operating experiences (Iraq, Afghanistan) that emphasised the need for ensuring greater protection for military personnel engaged in asymmetrical combat operations which increasingly involve urban warfare situations, where collateral damage must be kept to a minimum. Customers needs are likewise changing, with a gradual shift of emphasis from the platform to operational requirement: interoperability in diversified environments, situation awareness and flexibility. The major development programmes in the primary western nations were therefore conceived based on completely digitalised network-centric architectures (FCS in the USA, FRES in Great Britain, Forza NEC in Italy, etc.), featuring a number of important characteristics:

- integration on new electronic capability platforms (command and control, day and night vision optoelectronic systems, active and passive protection systems);
- modular configurations of platforms, with possible integration of different types of optimal vision and shooting control systems (turrets) for a variety of operating and application environments, in order to achieve optimal management of logistics and support activities for the entire operating life.

As part of the projects to modernise and upgrade operating fleets, there has also been seen a rising demand for all-protected tactical vehicles, capable of guaranteeing total protection of personnel, even from landmines or attacks with explosives.

In the naval systems segment, despite the continuing reduction in the number of new platforms produced, the cannon market remained stable in all product areas. In fact, small calibre cannons are the ideal armament for protecting units and interfering with enemy movements in asymmetric threat scenarios, while medium and large calibre cannons are moving towards an integrated cannon-guided munitions system capable of ensuring greater flexibility, of broadening possible operating environments and of providing accuracy comparable to the most expensive missile systems.

The **underwater weapons system**s segment, while limited overall in size and with a substantially stable demand trend, presents some interesting opportunities:

- new requirements for protecting civil and military port installations from a variety of threats (harbour protection), with integration of underwater detection capabilities as part of more complex homeland security systems;
- rising demand for anti-torpedo protection systems for major surface and submarine naval units, both electronic and those based on a missile/anti-missile approach;
- market opportunities for modernizing the torpedo fleets of the major international navies and for selling new weapons systems in newly industrialised countries.

Unlike in the land, sea and air weapons systems segment, in this sector there are significant, ongoing collaboration programmes in Europe for both torpedoes and counter-measure systems. Some of these programmes also form the basis of strategic collaboration agreements or agreements to form joint ventures among a number of the major operators in the sector.

Finally, in the **missile systems** segment, demand remained substantially stable with a total market value of around €bil. 15 per year. More than 50% of the market is concentrated in the United States, although the timetable of a number of important air defence programmes with strategic (NMD, Thaad) and tactical (MEADS, Patriot) anti-missile capabilities have a heavy impact on short/medium-term dynamics. Even though the greatest factors driving demand remain the need to ensure the national defence of industrialised nations from ballistic missiles, the tactical protection of forces engaged in asymmetrical battle operations and the capability of making precision strikes, the short-term dynamics of the various product segments are affected by new technological developments and by the timetables for major development programs, often carried out as part of international collaboration programmes.

**New orders** at 31 December 2008 came to €mil 1,087, a significant increase of 11% over the figure for 2007 (€mil 981) thanks in particular to the increase reported in the underwater systems segment. The most important new orders for the year, in the various segments, include:

- *in land, sea and air weapons systems*: orders for six 120 mm for the Centauro from Oman (Q1), a 76/62 SR cannon and PFF shells for France (Q2), two 76/62 SR cannons for Mexico (Q2), further orders for the Italian FREMM programme including the provision of seven 76/62 SR cannons, one 127/64 cannon and 7 Davide kits (Q3), three 76/62 cannons for Morocco (Q3), machine gunner for the Netherlands (Q3), turrets for AgustaWestland helicopters for Turkey (Q4) and various logistics orders (Q1-Q2-Q3-Q4) including the Indian order (Q1);
- *in underwater systems*: orders for an additional lot for the FREMM programme (Q1-Q3), business for faster-than-light (FTL) torpedoes for France (Q2-Q3), the modification of the A184 torpedo for an important foreign shipyard (Q3); A244 light torpedoes (Q1-Q4) and counter-measure systems (Q1-Q3) for various countries;
- *in missile systems*: order for the Spada air defence system for the Pakistani Air Force (Q1), the contract from the UK Ministry of Defence for through-life support for Seawolf air defence naval systems (Q2); a contractual amendment to the order to develop the Meteor missile system to realign the programme with the customer's needs (Q4); a series of important orders from the UK Ministry of Defence for the pre-evaluation phases of new Defence Industrial Strategy programmes (Q2); the additional lot for the provision of missile systems for the FREMM frigates (Q1); and numerous orders for customer support.

The **order backlog** at 31 December 2008 came to €mil. 3,879 (€mil. 4,099 at 31 December 2007), corresponding to 3.5 years of activity, of which two-thirds relates to missile systems.
Regarding progress on major programs, it should be noted:

- ongoing production of the **PZH 2000** howitzer for the Italian Army, with the invoicing of 21 units during the course of 2008, in addition to the 20 units already invoiced during previous periods, as part of the contract stipulating the provision of 70 vehicles overall;
- the start-up of production on the first lot of the supply of 54 **Medium Armoured Vehicles (MAV)** to the Italian army, with the fitting out of the first six 25 mm Hitfist turrets;
- production of **76/62 naval cannons,** for which 16 units have been invoiced, of which 9 for the Super Rapido configuration, for programs to supply a variety of foreign

customers, including Malaysia, Oman, Egypt, Indonesia, France, the United Arab Emirates and Spain;

- the new **Black Shark heavy torpedo**, a programme that passed the acceptance tests during the year, leading to the invoicing of 20 units in various countries;
- the **MU 90 light torpedo**, for which the presentation of 5 lots of torpedoes for testing for France and 2 lots for Italy;
- the **Meteor missile system**, for which an agreement was reached with the customer to remodulate programme development, from a technical standpoint further important milestones were reached during the year to consolidate the project. Specifically, the second guided operations launch from a Gripen aircraft was carried out, while the pre-production configuration was substantially defined and the first missiles were assembled.

**Revenues** at 31 December 2008 came to €mil 1,116, substantially in line with the previous year (€mil. 1,130), due to increased activity recorded in the underwater systems and land, sea and air weapons systems segments, which offset the decline in volumes in missile systems caused by the completion of important production orders and some delays in the start of new programmes.

Revenues were the result of the following activities:

- *land, sea and air weapons systems*: the production of the PZH 2000 howitzers, MAVs and business related to the Siccona programme for the Italian Army; the production of Hitfist turrets kits for Poland, 76/62 SR cannons for various foreign customers; development of guided munitions; the production of SAMPT missile launchers and logistics;
- *underwater systems*: activities relating to the Black Shark heavy torpedo, the MU90 and A244/3 light torpedoes and to countermeasures for various countries;
- *missile systems*: activities relating to the production of Aster missiles, MICA air-to-air missiles for Greece and France, and Seawolf missiles; the delivery of Taurus cruise missiles; completion of deliveries of Brimstone anti-tank missiles; activities relating to the development of the Meteor missile system and the air defence system in connection with the tri-national Medium Extended Air Defense System (MEADS) programme in which the US, Germany and Italy participate, as well as customer support activities.

**Adjusted EBITA** at 31 December 2008 totalled €mil. 127, a slight increase over the previous year (€mil. 125) which benefited from income of €mil. 18 resulting from the successful completion of a contract signed with the Italian Ministry of Defence. Excluding the impact of this event, there was a significant increase in adjusted EBITA for 2008 thanks to increased business and improved profitability in land, sea and air weapons systems and in underwater systems. As a result, **ROS,** which also benefited from the improved profitability of the missile systems segment, amounted to 11.4% at 31 December 2008 compared to 11.1% for 2007 (9.5% excluding the aforementioned income item effect).

**Research and development** spending at 31 December 2008 came to €mil. 258, a 7% increase over 2007 (€mil. 241). Some of the key activities included those for the MEADS air-defence programme mentioned above and the continuation of the development of the Meteor air-to-air missile; guided munitions programmes, the SAMPT missile launcher and the development of the 127/64 LW cannon in the land, sea and air weapons segment; and those relating to the Black Shark heavy torpedo and the upgrading of the A244 light torpedo in the underwater systems segment.

The **workforce** at 31 December 2008 came to 4,060, a decrease of 89 from 31 December 2007 (4,149 employees) due primarily to the industrial restructuring and reorganisation in the land, sea and air weapons systems segment.

## ENERGY

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 2,054 | 1,801 |
| Order backlog | 3,779 | 3,177 |
| Revenues | 1,333 | 1,049 |
| Adjusted EBITA | 122 | 93 |
| ROS | 9.2% | 8.9% |
| Research & Development | 32 | 20 |
| Workforce (no.) | 3,285 | 2,980 |

HIGHLIGHTS

**Orders**: up 14% owing to an increase in orders in the new unit segment, as a result both of the numerous machine and component supplies for the export market and of new orders acquired for three combined-cycle plants (in Italy and abroad).

**Adjusted EBITA:** up 31% on the previous year, as a result of the increase in production volumes and the greater industrial profitability of a number of plant engineering contracts (foreign in particular).

Ansaldo Energia and its subsidiaries make up the division of Finmeccanica specialising in the provision of power generation "plants and components" (conventional thermal plants, single and combined cycles, cogeneration, geothermal and nuclear plants), and post-sales service activities.

Ansaldo Energia purchased 78.43% of the share capital of Ansaldo Fuel Cells SpA (a company specialising in fuel cell production) from So.Ge.Pa SpA, which is 100% owned by Finmeccanica, in the course of the 2008 financial year as part of its process of alternative energy growth and development.

As a result, the scope of the companies directly controlled by Ansaldo Energia now includes Ansaldo Nucleare SpA, Ansaldo Ricerche SpA, Ansaldo Fuel Cells SpA, Asia Power Projects Private Ltd, Ansaldo ESG AG and the Ansaldo Thomassen BV group.

With regard to the **world energy market**, the demand for new plants depends on electricity consumption trends, both industrial and private, which are, in turn, linked to a number of macroeconomic and geopolitical variables, such as industrial production, population increase and urbanisation. In addition to these factors, technological developments also have to be considered, and in particular the increased efficiency of the major components and the need to reduce the plants' impact on the environment.

The forecast for the coming years is thus for demand for new installed capacity in excess of 200 GW per year, with a moderate growth trend, although the impact of short-term economic trends, basically the reduction in industrial output caused by the current economic crisis, might make for a reduction in the forecast growth rates.

Demand is very strong in the recently industrialised countries, primarily in Asia-Pacific and the Middle East, where a new installed capacity base is being built up, whereas the market looks far more stable in Europe and North America, where the demand is largely for the replacement of existing and, by now, partly obsolete plants. Interesting prospects are also opening up in Russia and the eastern European countries in general, largely as a result of the start of a gradual market liberalisation process and the weakness of the local builders. Overall, in terms of power consumption, 85% growth is forecast in the non-OECD countries over the next 20 years, compared with growth lower than 20% in the industrialised countries.

As far as the technologies employed are concerned, fossil fuels (coal, natural gas and fuel oil) will continue to meet much of the demand. Renewable energy sources are the segment of highest relative growth and might, overall, meet around 30% of total demand between

2015 and 2020 (along with the more traditional hydroelectric stations). On the other hand, the non-conventional (nuclear) power station sector will remain marginal for some years yet before it gets a boost from new technology developments, which are expected to reach the industrialisation stage in the medium/long term.

An increasingly important role is being taken on by service-related activities designed to lengthen plants' life cycle, enhancing their efficiency and reducing their impact on the environment. The demand for such activities is, of course, stronger in areas where larger numbers of less recent plants are installed, primarily the United States and Europe. Gas-fired plants – whether open-cycle or combined-cycle – show more attractive growth rates than the more traditional steam systems for this business.

Finmeccanica can boast a position as both producer and service provider in this sector, with autonomous technological capability and access potential for the modernisation of plants built by third parties as well.

From the commercial standpoint, the 2008 financial year closed with **new orders** worth €mil. 2,054, showing a 14% improvement on 2007 (€mil. 1,801), mainly owing to the larger number of new orders in the new unit segment, driven by the positive situation on the market for electricity generation plants and components that has marked the last two financial years.

As of 31 December 2008, plants and components accounted for 67% of new orders, service-related activities for 31% and nuclear work processes for 2%.

In geographical terms, the company received major new orders both in new markets, such as Israel, Congo and Hungary, and in established markets like  Russia, Greece, Chile, France and Belgium.

Turning to the service segment, orders stood at €mi. 639 at 31 December 2008, showing an increase of €mil. 176 (up 38% on 2007), with a product mix distribution that showed major growth in Long-Term Service Agreements (LTSA).

More specifically, growth in this segment has been fostered by the consolidation of Ansaldo Energia's presence on the global power generation service market via the Original Service Provider (OSP*)* seal that combines the company's international experience in its dual role as Original Equipment Manufacturer and Independent Service Provider.

In absolute terms, LTSA contracts were worth €mil. 258 at 31 December 2008 and accounted for 40% of new orders, whereas maintenance and spare parts contracts (flow solution) stood at €mil. 381 and accounted for 60% of new service segment orders.

Lastly, nuclear generation orders stood at €mil. 41 at 31 December 2008 with no substantial change from the 2007 financial year, even in terms of geographical distribution: 21% in Italy (19% in 2007) and the remaining 79% abroad, split between eastern Europe (including ENEL business in the Slovak Republic) and North America (including business for Westinghouse in China).

The most significant new orders received by the Energy division in 2008 were:

- in the *new units segment:*
  - Congo: supply of two V94.2 turbo groups (Q1);
  - Chile: one steam turbo group for the Nueva Ventanas site (Q1); two steam turbo groups for the Angamos site (Q1);
  - Hungary: supply of one V94.3A turbo group for the Dunamenti site (Q2);
  - Russia: supply of four V64.3A turbo groups for the Pervomaiskaya site (Q2);
  - Israel: one steam turbo group for the Tzafit site (Q2);
  - Italy: one 800-MW combined-cycle plant for the Turano site (Q2); one 400-MW combined-cycle plant for the San Severo site (Q3);
  - Greece: supply of one V94.3A turbo group and one steam turbo group for the Thisvi site (Q3);
  - Belgium: supply of one V94.3A4 turbo group for the Marcinelle site (Q3);
  - France: one 400-MW combined-cycle plant for the Bavet site (Q3);
- In the *services segment*: the spare parts contract for the Dunamenti site in Hungary (Q1); the solution-type contract (turbine parts modification) for the Brindisi site with client ENEL (Q1); the LTSA-type contracts won for the Turano (Q2), Bayet (Q3) and San Severo (Q3) sites;
- in the *nuclear segment*: as regards the power station side, the new order from China, which is also the result of the agreement reached with Westinghouse in late 2007 (Q1,) and new engineering orders for the completion of the Mohovce power station in the Slovak Republic (Q2, Q3 and Q4); on the service-related side, the Superphoenix reactor

support contract for the Creyes Malville power station (Q2, Q3 and Q4) and the service contract for the Embalse (Argentina) power station (Q3).

As a result of the aforementioned new orders, the **order backlog** at 31 December 2008 stood at €mil. 3,779, up approximately 19% on 31 December 2007 (€mil. 3,177). The composition of the order book remained virtually unchanged compared with 31 December 2007, with plant and manufacturing business accounting for about 52%, servicing for approximately 47% (largely made up of scheduled maintenance contracts) and nuclear business for the remaining 1%.

**Revenues** stood at €mil. 1,333 at 31 December 2008, an increase of over 27% on the previous financial year (€mil. 1,049). The increase in production volumes was chiefly attributable to the work involved in plant-related contracts (in particular Larbaa, Batna, M'Sila and Turano) and to flow-type servicing.
Plants and components accounted for 74% of output, service-related business for 24% and the nuclear sector for 2%.

Turning to manufacturing, 45 machines were completed and delivered in 2008, including those for 4 turn-key plants (Batna, Larbaa, M'Sila, Turano), 2 power blocks (Algeciras, Thisvi) and 30 stand-alone machines, whereas 7 plants in Italy and elsewhere are currently at the planning stage on the plant engineering business front.

With regard to the services segment, the positive production trend recorded over recent years was confirmed, with a particular increase in the solution (revamping, upgrading and turbine parts modification) section, which has shifted the centre of gravity of service-related business towards large-scale contracts comparable to new machinery/plant supplies. Last but not least, 2008 saw the entry into force of the LTSA contracts on the recently installed plants (Moncalieri, Vado Ligure) and the start of the full operating guarantee on the Rizziconi plant.

An increase in output in the region of 16% over the previous financial year was recorded in the nuclear segment owing to the launch of the Sanmen project in China.

Production in the nuclear segment consisted largely in engineering work on phases 3 and 4 for the Mochovce power station in the Slovak Republic and waste and decommissioning business, which accounted for over 30% of output.

**Adjusted EBITA** at 31 December 2008 amounted to €mil. 122, more than 31% of the figure for 2007 (€mil. 93). This result is chiefly attributable to the aforementioned increase in production volumes and the greater industrial profitability of a number of plant contracts.
**ROS** at 31 December 2008 thus stood at 9.2%, up 0.3 percentage points on the 2007 financial year (8.9%).

**Research and development** costs stood at €mil. 32 at 31 December 2008, up 60% on the previous financial year (€mil. 20), with a percentage increase on earnings that rose from 1.9% for 2007 to 2.4 % for 2008.
Research and development activities focused primarily on the following items in 2008:

- *gas turbines:* with V94.3A turbine development projects setting out to raise efficiency and power with a view to maintaining and enhancing competitiveness in this market segment;
- *steam turbines*: with international projects investigating the behaviour of special materials with a view to developing the "ultrasupercritical" turbine (with a power rating in excess of 300 MW);
- *generators*: with development work on the new air-cooled 400-MVA model intended to complement the large, high-performance gas turbines.

The **workforce** stood at 3,285 at 31 December 2008 compared with 2,980 at 31 December 2007. The increase of 305 employees was due both to routine turnover and to the entry of 56 employees as a result of the purchase of Ansaldo Fuel Cells SpA.

**TRANSPORTATION**

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 1,557 | 1,786 |
| Order backlog | 4,849 | 5,108 |
| Revenues | 1,759 | 1,356 |
| Adjusted EBITA | 126 | (110) |
| ROS | 7.2% | (8.1%) |
| Research & Development | 51 | 47 |
| Workforce (no.) | 6,838 | 6,669 |

<u>HIGHLIGHTS</u>

**New orders:** down 13% on 2007, largely owing to a decrease in signalling and transport systems orders attributable to the transport systems area, which had benefited in the previous financial year from a particularly large order regarding the Naples Metro Line 6 project; the signalling area showed growth, winning particularly significant orders in Turkey, China, France, Great Britain, Sweden, Tunisia and Brazil.

**Revenues:** up 30% on 2007, with increases in all segments.

**Adjusted EBITA:** €mil. 236 up on 2007, by virtue of the growth in production volumes and in the profitability of the signalling and transport systems segment, and of the achievement of a substantial operating break-even by the vehicles segment (Adjusted EBITA standing at €mil. 5 at 31 December 2008 and at negative €mil. 212 at 31 December 2007).

The Transportation division comprises the Ansaldo STS group (signalling and transport systems) and AnsaldoBreda SpA and its subsidiaries (vehicles).

In reference **market** terms, the vehicles and signalling and transport systems segments present different characteristics and trends.

The **vehicles** market is of great importance in terms of size (about €bil. 25 per year), on the whole mature and marked by growth rates that are low (2% to 3% per year), but for which stable growth is expected over the coming years. Indeed, the railway sector is shored up by environmental protection policies and by mounting congestion in the newly industrialised nations' urban areas. Within the vehicles segment, the urban systems section – which accounts for approximately 20% of the whole – presents higher growth rates, precisely as a result of mounting overpopulation in many metropolitan areas.

Western Europe has traditionally been the most promising geographical area, in terms both of size of demand (roughly one-third of the world total) and of the technical features of the products called for and the level of technological innovation, which has been sustained by major investment programmes. Eastern Europe presents promising opportunities for growth, given its need to replace fleets that are now largely obsolete, as, of course, do the recently industrialised areas.

The product categories showing the most positive trends are distributed power trains, in particular electrical multiple units for urban and regional use, and metropolitan transport systems, both heavy and light rail vehicles. The demand for high-speed trains has fallen off slightly, largely offset by a growing demand for ultrahigh-speed vehicles, on which major investment is planned over the coming years. These systems often tend to enter into competition with air transport, especially on domestic routes.

The demand for maintenance and service activities is developing further, shifting away from the operators onto industry, in the wake of the gradual liberalisation of rail and urban transport operators.

Turning to **signalling and transport systems**, demand is tending to grow at rates higher than the trend for vehicles. Boosted by the growth in world trade in goods and services, increasing urbanisation and the ever-increasing trend in the direction of enormous urban centres with more than five million inhabitants, major programmes are under way worldwide to build new transportation infrastructures providing interoperability among various forms and standards and marked by high safety, efficiency and reliability requisites.

This translates, for the signalling and traffic supervision systems market and for the transport system design and building market, into average growth rates in excess of 5% to 6% per year. Whereas this business was largely local in the past, with high levels of customisation and different design and implementation architectures in the various geographical areas, an increasing demand for turn-key systems based on cross-border technology standards and modular architectures is now being seen. Thrust is also being imparted to the market by the growing demand for protection against non-accidental events, from a homeland security point of view.

Analysing the figures to 31 December 2008, **new orders** amounted to €mil. 1,557, down €mil. 229 compared with 31 December 2007 (€mil. 1,786), which figure, as has already been pointed out, benefitted from a particularly high value for orders booked in the signalling and transport systems segment, and, in particular, in the transport systems section (Naples Metro Line 6). The following were the most important new orders for the year:

- *signalling and transport systems*:
  - *signalling*: the French Railways order for on-board equipment (Q1); the contract in Tunisia for the Tunis Banlieue sud area railway network (Q1); the order for the Level 2 on-board and wayside European Rail Traffic Management System (ERTMS) for the high-speed Zhengzhou-Xi'an line in China (Q2); the contract in Sweden for the supply of ERTMS railway signalling systems (Q2); the Trenitalia order for the 6th implementing contract for on-board Sistemi di Controllo Marcia Treno [train speed control system] (SCMT) equipment (Q2); two contracts to extend the Shanghai Metro's Line 2 (Q2); the contract in Brazil for Lines 7 and 12 of the Sao Paulo metro (Q3); the order for the South Yonge zone of the Toronto metro's Yonge-University-Spadina (YUS) line (Q3); the orders in Turkey for the Bogazkopru-Ulukisla-Yenice and Mersin-Toprakkale railway lines (Q4) and for the Ankara metro (Q4); phase 2/3 of the Cambrian Line project in Great Britain (Q1 and Q4); the order in France for the eastern stretch of the new high-speed Rhine-Rhone line (Q4); the orders in China for the design and installation of Communications-Based Train Control (CBTC) signalling systems for the Shenyang metro's Line 2 and the Chengdu metro's Line 1 (Q4); contracts concluded with Australian Rail Track Corporation (ARTC) in Australia and miscellaneous component orders;

    - *transport systems*: the order for the new railway line linking Ipoh and Padang Besar in northern Malaysia (Q3); new orders in connection with the Rome Metro Line C project (Q1-Q2-Q4) and modifications to the Alifana (Q1-Q3-Q4) and Vesuviane line programmes (Q1-Q4);
- *vehicles*: Sirio trams for Samsun in Turkey (Q3), vehicles for the Milan metro (Q4) and service orders.

The **order backlog** at 31 December 2008 amounted to €mil. 4,849, down €mil. 259 from 31 December 2007 (€mil. 5,108). The signalling and transport systems segment accounted for 64% of the order backlog at 31 December 2008 and the vehicles segment for 36%.

**Revenues** stood at €mil. 1,759 at 31 December 2008, up €mil. 403 over the figure posted on 31 December 2007 (€mil. 1,356). The increase may be attributed both to the signalling and transport systems segment, whose revenues showed 14% growth as a result of the greater business done by both sections, and to the vehicles segment, whose revenues for the previous financial year had suffered in particular from the decline in the whole-life estimates for a number of orders, and which at the same time showed a gradual, though still difficult, recovery in production volumes. Of the orders on which production work was performed in the Transportation division, the following were the most important:

- *signalling and transport systems*:
    - *signalling*: the Milan-Bologna high-speed line and the on-board and wayside SCMT orders in Italy; the orders for Australian Rail Track Corporation (ARTC) and for Fortescue Metals Group in Australia; the Cambrian Line in Great Britain; the Shitai line in China; the Ghaziabad-Kanpur railway line stretch in India; the Seoul-Busan high-speed line in Korea; the Union Pacific Railroad project and the components orders;
    - *transport systems*: the Copenhagen, Genoa, Rome Line C, Naples Line 6 and Brescia metros; the Alifana regional line and the high-speed orders in Italy;
- *vehicles:* regional service trains for Ferrovie Nord Milano; trains for the Dutch and Belgian railways; vehicles for the Milan and Madrid metros; the Circumvesuviana; commuter trains for Morocco; trains for the Danish railways; trams for Los Angeles; various Sirio contracts and service orders.

**Adjusted EBITA** stood at €mil. 126 at 31 December 2008, up €mil. 236 over the previous financial year (negative €mil. 110), €mil. 19 of the increase deriving from the signalling and transport systems segment as a result of both sections' higher production volumes and operating profitability, and €mil. 217 from the vehicles segment. The latter shows an adjusted EBITA just in the black as compared with the significant loss posted in the previous financial year owing, as stated above, to the worsening of the whole-life estimates for a number of orders. The sector's **ROS** increased accordingly, rising from negative 8.1% for 2007 to positive 7.2% for 2008.

**Research and development** costs stood at €mil. 51 at 31 December 2008, up €mil. 4 from the figure at 31 December 2007 (€mil. 47). R&D work focused primarily on signalling and transport systems segment projects, with the main emphasis on signalling projects, of which:

- on the *railway* market, projects on systems based on the European traffic control standards, setting out to ensure line interoperability (ERTMS);
- on the *mass transit* market, the project to develop the Communications-Based Train Control (CBTC) system based on radio communications and designed for metropolitan applications.

The **workforce** stood at 6,838 at 31 December 2008, up 169 over 31 December 2007 (6,669 employees), the increase working out at 109 for the signalling and transport systems segment, mainly in the wake of the increase in business in the Asia-Pacific area, and 60 for the vehicles segment, as envisaged in the human resources development and optimisation plan.

## OTHER ACTIVITIES

| € millions | 31 Dec. 2008 | 31 Dec. 2007 |
|---|---|---|
| New orders | 113 | 557 |
| Order backlog | 357 | 597 |
| Revenues | 425 | 345 |
| Adjusted EBITA | (180) | (168) |
| ROS | n.s. | n.s. |
| Research & Development | 4 | 6 |
| Workforce (no.) | 1,069 | 1,118 |

The division includes: the Elsacom NV group, which manages satellite telephony services; Finmeccanica Group Services SpA, the Group service management company; Finmeccanica Finance SA and Aeromeccanica SA, which provide financial support to the Group; and So.Ge.Pa. - Società Generale di Partecipazioni SpA, which manages the pre-winding-up/winding-up and rationalisation processes of companies falling outside the activity sectors through transfer/repositioning transactions.

The division also includes Fata SpA, which operates in the area of plants for 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 SpA, from a commercial standpoint, the company received **new orders** totalling €mil. 75 at 31 December 2008, down €mil. 436 from the same period of 2007 (€mil. 511). This decline is entirely traceable to the receipt of the significant order from Qatar in 2007.

Among the most important acquisitions in 2008 were the Zargan project (Iran) involving preparation for the construction of major plants in partnership with Ansaldo Energia for an advance of €mil. 8 (Q1) (power line). There were several changes to the Qatalum (Qatar) contract for the smelter line (Q2, Q3 and Q4). For the Hunter line, there were two orders from Baoshan (Q2) and Tianjin Tiantie (Q3) in China for steel processing lines worth €mil 7 and €mil. 9, respectively.

**Revenues** at 31 December 2008 came to €mil. 308, up €mil. 76 over the previous year (€mil. 232), mainly due to increased revenues from the smelter line.

Production broke down as follows: 77% attributable to the smelter line, 12% to the Hunter line, 4% to the power line and 7% to logistics.

Specifically, progress was made on the Hormozal, Hormozal Phase 2 and Qatalum orders (smelter line), on the Chinese, Korean and Romanian orders (Hunter line) and on the Moncalieri order (power line). Logistics activities carried out by Fata Logistic SpA, primarily for Finmeccanica Group companies, contributed to these results. Fata SpA's **workforce** at 31 December 2008 totalled 285 employees.

The division also includes BredaMenarinibus SpA, which manufactures urban and interurban buses and offers related services. At 31 December 2008, BredaMenarinibus SpA acquired **new orders** amounting to €mil. 38, an €mil. 8 decline (-17%) from 2007 (€mil. 46). This decline is attributable to the €mil. 10 drop in the bus segment, which was partially offset by increased orders for post-sales services. Therefore, of these orders, €mil. 24 related to the bus business segment corresponding to 109 units and €mil. 14 related to post-sales services. **Revenues** at 31 December 2008 came to €mil. 39, down €mil. 30 compared with 31 December 2007 (€mil. 69), attributable largely to the reduced activity in the bus business segment. Of these revenues, 65% was due to the bus business segment and 35% to post-sales services.

The **workforce** at 31 December 2008 came to 295.

This division's figures also include those of **Finmeccanica SpA**, 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 fiscal 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.

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

## Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 31 December 2008

| *€mil.* | Shareholders' equity | of which: Net profit for the year |
|---|---|---|
| **Parent Company shareholders' equity and net profit at 31 December 2008** | **6,596** | **116** |
| Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies | (3,893) | 1,012 |
| Consolidation adjustments for: | | |
| - difference between purchase price and corresponding book equity | 5,898 | (16) |
| - elimination of intercompany profits | (1,979) | (244) |
| - deferred tax assets and liabilities | 174 | 29 |
| - dividends from consolidated companies | - | (326) |
| - exchange gains/losses | (811) | - |
| - other adjustments | (11) | - |
| **Group shareholders' equity and net profit at 31 December 2008** | **5,974** | **571** |
| Minority interests | 156 | 50 |
| **Total shareholders' equity and net profit at 31 December 2008** | **6,130** | **621** |

## Significant events in 2008 and events subsequent to closure of the accounts for the period

### Acquisition of DRS Technologies Inc

On 12 May 2008, **Finmeccanica** and **DRS Technologies (DRS)**, a US company listed on the New York Stock Exchange and a leader in the integrated Defence Electronics products and services industry, signed an agreement for the cash purchase of 100% of DRS for US$81 per share. The acquisition, completed on 22 October 2008, was carried out using a reverse triangular merger, whereby DRS was merged with a US special-purpose entity formed by Finmeccanica. As a result of this merger, DRS's shareholders received a payment of US$81 per share and the US company was delisted from the New York Stock Exchange (NYSE). Finmeccanica, as part of the transaction, also formed another US company named Meccanica Holdings USA Inc. which became owner of the entire share capital of DRS following the merger. DRS will operate in accordance with agreements with the US Department of Defense designed to regulate the influence and control over DRS by a non-US company.

This transaction will permit Finmeccanica to consolidate its role as the international leader in integrated Defence and Security systems and products and to achieve the top position in the US market in this area, too. It also opens up new, significant growth prospects for the DRS group in the US and abroad.

The financial structure of the operation is described in more detail in the next section.

### Financing for acquisition of DRS Technologies (DRS)

The acquisition was financed through Senior Term Loan Facilities, totalling €mil. 3,200, obtained by Finmeccanica from four banks serving as bookrunners (Goldman Sachs Int'l, Intesa SanPaolo SpA, Mediobanca-Banca di Credito Finanziario SpA and Unicredit Group through Bayerische Hypo-und VereinsBank AG.

The transaction was divided into three tranches (A, B and C):

- tranche A: €mil. 1,000 with a maturity of 364 days and a spread of 0.70 percentage points per year on the applicable Euribor;

- tranche B: €mil. 1,500 and an initial maturity of 364 days, renewable at Finmeccanica's discretion for a further 364 days and with a spread of 0.70 percentage points (plus an extension fee of 0.15 points);
- tranche C: €mil. 700 with a maximum maturity of three years and a spread of 0.85 percentage points per year.

The term of maturity of each tranche starts from the date of signing of the agreement. The spreads are subject to adjustment in the event Finmeccanica's current debt rating improves or worsens.

The agreement includes the usual terms found in syndicated loans offered on the European market and found in previous Finmeccanica contracts (e.g., representations, warranties, undertakings, negative pledges, events of default, etc.), as well as several special clauses described below.

Due to its nature as bridge financing, the agreement contains a clause under which the proceeds from the Finmeccanica capital increase (subsequently realised), the divestment of non-strategic assets, IPOs of Group companies, and assumptions of new debt, including bond issues, would have been used to repay the Senior Term Loan until the amount outstanding fell below 20% of the initial loan amount. The agreement required that an initial repayment of €mil. 800 be made by 31 March 2009 out of the proceeds from the Finmeccanica capital increase and the divestment of assets.

The agreement also contains financial covenants under which the debtor, during the life of the loan, must comply with the following ratios:

Net debt/EBITDA < = 3

EBITDA/Net interest = > 5

These indicators will be checked annually based on the Group's consolidated financial statements.

Finally, the agreement provides that the Group may make new strategic investments funded through debt in addition to ordinary investments up to a total amount of about €bil. 1 spread over the life of the loan. This restriction does not apply to listed Group companies nor to the joint ventures Thales Alenia Space and MBDA.

These restrictions (mandatory prepayment, financial covenants and limit on strategic investments) will cease to apply once the amount of the Senior Term Loan falls below the threshold of 20% of the initial loan amount provided that, at that time, beyond the completed capital increase, Finmeccanica has been able to maintain its investment grade rating.

Over the life of the loan, all the borrowing and guarantee activities relating to the Group's ordinary business will continue to be carried out using existing lines of credit.

Projections that the Group's total net debt will increase as a result of the acquisition of DRS and the related operations prompted the ratings agencies S&P and Moody's to place Finmeccanica on a negative credit watch, although Fitch had not done so. The credit watch was lifted once the aforementioned Finmeccanica capital increase was successfully completed.

The loan was syndicated among domestic and international banks. The syndication process was successfully completed in July, with a wide spectrum of domestic and foreign banks taking part.

At 31 December 2008, €bil. 1.8 of the loan was used out of an initial disbursement of roughly €bil 3 made at the closing of the purchase of DRS on 22 October 2008. The dollar equivalent of this disbursement allowed the Company to pay the full purchase price agreed and the transaction costs, in addition to refinancing a portion of DRS's debt. Subsequently, the €bil. 1.2 raised through the successful capital increase described below was used to make a partial initial repayment of the loan as provided in the loan agreement. Specifically, tranche A was entirely extinguished with a payment of €bil. 1 and approximately €mil. 200 of tranche B was repaid.

On 15 January 2009, the loan was used to repay tranche B in the amount of approximately €mil. 150.

In connection with the DRS acquisition, Finmeccanica hedged the exchange rate risk associated with the fact that the acquisition cost was denominated in US dollars. On 22 October 2008, the date of the closing of the acquisition, a total of around US$bil. 3.6 in forward currency was purchased at an average exchange rate of $1.54 to the euro, equal to roughly €bil. 2.3.

**<u>Capital increase</u>**

As previously mentioned, among the initiatives undertaken to finance the acquisition of DRS was the Finmeccanica SpA capital increase carried out in the fourth quarter of 2008. Specifically:

- on 15 October 2008, the Board of Directors of Finmeccanica SpA determined the final terms and conditions of the capital increase by way of rights offered to Finmeccanica shareholders, pursuant to the decisions taken by it on 8 September 2008 and executing the mandate conferred to it by the Shareholders' Meeting of 1 August 2008;
- on 15 October, CONSOB authorised the publication the following day of the Prospectus on the option offer and the listing of ordinary shares resulting from the capital increase. The Prospectus, containing material information required by Art. 71 of the Issuer Regulation, was published as required by law and is available for public consultation at the Company's registered office, the offices of Borsa Italiana SpA, and on the Company's Internet site;
- the capital increase consisted of an issuance of 152,921,430 ordinary shares with a nominal value of €4.40 per share, with full dividend rights and the same characteristics as current outstanding shares. These were offered by way of rights to Finmeccanica shareholders at a ratio of 9 ordinary shares for every 25 shares held. The issue price for each newly issued ordinary share was €8.00, including a share premium of €3.60 per share;
- on 7 November 2008, the rights subscription period, which began on 20 October, ended with the exercise of 417,369,675 option rights, corresponding to 150,253,083 shares, equivalent to 98.26% of the shares offered, for a total receipt of €1,202,024,664;

- after the shareholders exercised their options, Finmeccanica offered the unexercised rights on the stock exchange within the period required pursuant to Art. 2441(3) of the Italian Civil Code for the sale of which Finmeccanica received €2,370,570. Following the auction of the unexercised rights, all the remaining 2,668,347 shares offered were subscribed by 21 November 2008 at a price of €8.00 per share, for an aggregate value of €21,346,776.00. The capital increase therefore ended with the full subscription of the 152,921,430 new ordinary shares issued, equivalent to 26.45% of the new share capital, for a total value of €1,223,371,440.00, gross of expenses and fees. As a result, no action on the part of the underwriters was required. These includes Goldman Sachs International and Mediobanca as joint global coordinators and bookrunners, Banca IMI, BNP Paribas, Credit Suisse, Deutsche Bank, Morgan Stanley and UniCredit Group as joint bookrunners, and BBVA, Euromobiliare, Nomura International and Société Genéralé as co-managers;
- the new share capital of Finmeccanica therefore amounts to €2,543,861,738.00, represented by 578,150,395 ordinary shares with a par value of €4.40 each.

During the option period, the Ministry for the Economy and Finance (MEF) subscribed 31,249,998 new ordinary shares (equal to approximately 20.43% of the offer and 5.41% of the new share capital) for a total value of roughly €mil 250, pursuant to Art. 59 of Law 133 of 6 August 2008. Following the full subscription of the capital increase and the completion of the rights subscription process, MEF holds around 30.20% of Finmeccanica's new share capital.

**Industrial transactions**

In the ***Helicopters*** division, on 16 May 2008, **AgustaWestland** and the Russian company **Oboronprom Corporation,** based on a Letter of Intent signed in 2007 to promote cooperation between the two companies, announced the beginning of a long-term, large-scale collaboration in the civil helicopter field. The collaboration consists of (i) a distribution agreement for a series of helicopters (such as the AW119Ke, AW109 Power, the Grand and the A139) for a variety of applications (i.e., VIP Corporate, medical transport, support for energy and oil operations) in Russia and CIS countries and (*ii*) the joint establishment by

AgustaWestland and Oboronprom Corporation of a network of maintenance centres for AgustaWestland helicopters in Russia, for both the domestic and international markets. The parties also plan to collaborate in the joint production of AgustaWestland civil helicopters in Russia. Concerning this, on 6 November 2008, AgustaWestland and Oboronprom Corporation signed an agreement to establish a 50/50 joint venture (subject to the approval of the Russian government) for setting up an assembly line for the AW139 civil helicopter in Russia.

On 12 February 2009, AgustaWestland and **Tata Sons** – an Indian business group active in the ICT, engineering, materials, services and energy sectors – signed a Memorandum of Understanding to form an Indian joint venture for the final assembly of the AW119 helicopter. The new joint venture will be responsible for AW119 final assembly, customisation and delivery worldwide, while AgustaWestland will remain responsible for worldwide marketing and sales.

In the ***Defence Electronics and Security*** division, on 30 November 2007, **Finmeccanica** acquired on the market a 28.2% stake in **Vega Group Plc** (Vega), a UK firm listed on the London Stock Exchange and active in the defence, aerospace, and government services sectors, following the announcement on 29 November 2007 of a public tender offer (PTO) for the cash acquisition of Vega. On 16 January 2008, given that a level of participation of 65.1% in Vega capital had been reached, which, together with the shares purchased previously, brought Finmeccanica's total share to 93.3%, the tender offer was deemed to be irrevocable, and payment of the purchase price was made. Furthermore, given that the level required by law had been reached and in accordance with the tender document, Finmeccanica began the process of delisting the shares from the London Stock Exchange, as well as the squeeze-out of the remaining shares not acquired as part of the buyout. Vega's shares were taken off of the London Stock Exchange on 13 February 2008, and the squeeze-out was completed in March 2008. On 2 January 2009, as part of the process of strengthening Selex Sistemi Integrati role as a system integrator, Finmeccanica transferred the entire share capital of Vega Group Plc (renamed Vega Consulting Services Ltd) to Selex Systems Integration Ltd (a UK subsidiary of Selex Sistemi Integrati). The systems business belonging to Vega Consulting Services Ltd was also transferred to Selex Systems Integration Ltd. Only the highly-specialised consulting services targeted at the UK Ministry of Defence in the Defence and Government divisions and customer care services remain with Vega Consulting Services Ltd.

Starting 1 January 2008, Selex Sensors and Airborne Systems SpA, Galileo Avionica SpA and Selex Sensors and Airborne Systems Ltd began operating under the name **Selex Galileo** to offer products, benefiting from the combined reputations of the two companies, in the fields of sensors, electro-optics, electronic warfare and tactical Unmanned Aerial Vehicles (UAV). This new name will allow the companies to present themselves as leaders in integrated solutions for airborne sensors, surveillance and protection systems, radar and imaging.

On 17 March 2008, with regard to **postal automation**, **Poste Italiane** and **Egypt Post** signed an agreement for the technological development and expansion of the Egyptian postal service with **Elsag Datamat** chosen to act as the project's technological partner. The goal is to provide solutions to improve the postal service's organisation, automation and the distribution of correspondence and deliveries, security systems, applications for the peripheral network of Egyptian post offices, ICT innovation and training of personnel.

On 27 April 2008, **Selex Communications** completed the purchase of 18% of **Sirio Panel,** a company that designs and produces cockpits and panels for aeronautic platforms, to add to its existing 75% stake. The agreement gives Selex Communications the option of purchasing the remaining 7% starting from 2011.

On 26 May 2008, **Finmeccanica** signed agreements for purchase roughly 11.1% of the share capital of **Eurotech**, an Italian company listed on the Milan Stock Exchange and a leader in research, development, production and sale of miniaturised computers and high performance computing computers, from a number of the company's founders. The purchase of 3,936,461 shares at a price of €4.60 per share was completed on 5 November 2008. At that time a shareholders' agreement between Finmeccanica and the management of Eurotech (which holds around 10.7% of the share capital of the company) took effect. The entrance into the share capital reinforces the strategic partnership initiated in July 2006 through an agreement for commercial and scientific cooperation.

In the **Aeronautics** division on 27 March 2008, **Alenia Aermacchi**, a leader in the military trainer aircraft market, and **ENAER** (Empresa Nacional de Aeronautica de Chile) signed a Memorandum of Understanding that sets out the terms of partnership for programmes relating to the M346 (advanced new-generation trainer) and M311 (basic-advanced trainer) aircraft. The agreement provides for the joint manufacture and sale of M346 and M311 aircraft in Latin America to effectively meet the diverse needs of the region's Air Forces for basic, advanced and Lead-In-Fighter training and in the operational role of Close Air Support.

On 7 April 2008, **L–3 Communications Integrated Systems** sold to **Alenia North America** a stake equal to 1% of the 50/50 joint venture Global Military Aircraft Systems (GMAS), created in 2005 and active in the Joint Cargo Aircraft (JCA) programme for the US Army and Air Force through the provision of the C27J tactical transport aircraft. As a result of this sale, Alenia North America now holds a 51% stake in the joint venture.

On 20 October, **Finmeccanica** and **Mubadala Development Company** (Mubadala), an Abu Dhabi-based (United Arab Emirates) investment and business development company, announced the signing of an agreement for a hi-tech industrial partnership. Finmeccanica and Mubadala will work together to manufacture composite components for civil aircrafts at the new Abu Dhabi plant. Alenia Aeronautica will provide technology, technical assistance and specialised training and will transfer composite aerostructure manufacturing business to the new plant. For this, Alenia Aeronautica will also provide support to develop the manufacturing processes needed to obtain international industrial certifications. Activities will begin this year and are expected to reach full capacity by 2011.

On 25 February 2009, the Government of the United Arab Emirates announced in Abu Dhabi during the International Defence Exhibition & Conference (IDEX 2009) that negotiations have been started for the acquisition of 48 advanced M346 trainers from Alenia Aermacchi. According to the arrangements, a joint venture will be created in the UAE between Alenia Aermacchi and **Mubadala Development Company** for the development of a final assembling line for the M346.

On 6 November 2008, **Finmeccanica** and **Russian Technologies State Corporation** signed a partnership agreement in the carbon fibre components sector.

In the ***Space*** division, on 2 April 2008, **Telespazio** (67% Finmeccanica; 33% Thales) acquired 100% of the Spanish company **Aurensis**, which specialises in technologies for territorial applications and satellite and aerial Earth observation services. With this acquisition, Telespazio continues its international expansion and consolidation of its position as European leader in the Earth observation sector.

On 16 July 2008, **E-GEOS**, a joint venture set up by the **Italian Space Agency** (ASI) and **Telespazio**, began internationally marketing products from its earth observation satellite system COSMO-SkyMed. The company aims to become a global leader in the geospatial information sector, with an integrated range of application solutions, content and services, based on synthetic aperture radar (SAR) and very high resolution (VHR) optical data.

On 31 July 2008, **Telespazio** signed the agreement to purchase 100% of the Italian company **ISAF**, specializing in the geographical technologies information systems sector. ISAF participates in a consortium of companies that was awarded the contract tendered by Agenzia per le Erogazioni in Agricoltura (AGEA) for the development and management of the national agriculture information system.

On 27 August 2008, **Telespazio** acquired an approximately 40% stake in **Novacom Services**, a French company owned 60.27% by Collecte Localisation Satellites (CLS) which develops, manages, consults on, distributes and sells long-distance messaging and localisation services and products using satellite and ground-based systems.

On 29 December 2008, **Telespazio** signed a framework agreement with Group company **DRS Technologies** to provide telecommunication services via the Italian SICRAL satellites and the Telespazio satellite telecommunications centre in Fucino.

More generally, in terms of leveraging its civil activities, on 17 March 2008, **AnsaldoBreda** and **Bombardier Transportation** signed a preliminary agreement to jointly develop, market and manufacture a new high-speed train capable of reaching speeds of over 300 km/h, which surpasses existing concepts and takes into account important aspects such as efficiency, safety, enhanced seating capacity and compliance with the latest European interoperability standards. The parties signed the final partnership agreements on 16 September 2008.

On 20 June 2008, the Boards of Directors of **Ansaldo STS SpA** (ASTS), and its subsidiaries Ansaldo Trasporti - Sistemi Ferroviari SpA (ATSF) and Ansaldo Segnalamento Ferroviario SpA (ASF) approved the merger of ATSF and ASF with ASTS. The merger agreement was signed on 26 September 2008, effective 1 January 2009. This transaction represents a further step in the rationalisation and simplification of Ansaldo STS launched at the end of 2007, that could also involve the merger of the Dutch sub-holding company Ansaldo Signal NV with ASTS in 2009. As a result, some of the foreign operating companies, such as Ansaldo STS France and the US company Union Switch & Signal (renamed Ansaldo STS USA starting from 1 January 2009), will pass under the direct control of ASTS.

On 6 November 2008, **Finmeccanica** and the **Russian Railways** (RZD) signed a multi-year partnership agreement in the railway sector. The agreement concerns the installation of equipment and signalling systems for the control and safety of rail traffic. The agreement also envisages the introduction of satellite remote sensing systems, TETRA telecommunications systems and the use of Internet on board trains.

On 27 February 2008, **Ansaldo Fuel Cells** and **Enel** signed a partnership agreement to develop, build and test a molten carbonate fuel cells generation plant. The agreement marks the start of an important collaboration in the development of these technologies.

## Financial transactions

In 2008, the Group also carried out a new transaction in the capital markets. Specifically, on 26 November 2008, with payment on 3 December 2008, Finmeccanica Finance SA, as part of the €bil. 2.5 Euro Medium Term Note (EMTN) Programme, issued a new fixed-rate bond with maturity at 3 December 2013 (5-year) for a nominal amount of €mil. 750. The bonds, with an annual coupon of 8.125%, were placed with a re-offer price of 99.758%. Bonds, backed by a guarantee from Finmeccanica SpA, were placed with Italian and foreign institutional investors in the Eurobond market. The bonds were listed on the Luxembourg Stock Exchange.

Banca IMI, BNP Paribas, Merrill Lynch International, UBS Investment Bank and UniCredit Group served at joint bookrunners, while Abaxbank acted as co-lead manager.

The issue falls within the ordinary financing activities of the Group and reflects its policy of maintaining capital structure stability and financial flexibility.

At 30 December 2008, the €mil. 297 bond issued in 2002 by Finmeccanica Finance SA on the Italian retail market reached maturity and was entirely repaid.

It should also be taken into consideration that the US company DRS, acquired in October 2008, had the following US bond issues outstanding at 31 December 2008:

- Senior Notes with a nominal value of US$mil. 350, maturity 2016;
- Senior Subordinated Notes with a nominal value of US$mil. 250, maturity 2018;
- Senior Subordinated Notes with a nominal value of US$mil. 550, maturity 2013.

All three bond issues contained change of control clauses that gave the bondholders a put option in the event of a change of control of the issuer. The acquisition of DRS by Finmeccanica, which extended its own guarantee to the American bondholders following the transaction, triggered the change of control clause, resulting in the accelerated repayment at the start of January of most of the bonds. The remaining amounts are as follows:

- Senior Notes: maturity 2016, US$mil. 350 reduced to roughly US$mil. 12;
- Senior Subordinated Notes: maturity 2018, US$mil. 250 reduced to roughly US$mil. 5;
- Senior Subordinated Notes: maturity 2013, US$mil. 550 reduced to roughly US$mil. 20.

DRS paid the amounts owed using an intercompany loan granted by Finmeccanica SpA.

As a result, the average term of maturity of medium to long-term debt linked to Group bonds, excluding the theoretical maturities of the DRS bonds, most of which were repaid in advance in January 2009, was approximately 7.8 years at 31 December 2008.

Below is a list of bonds outstanding at 31 December 2008, which shows, in the first part, the euro-denominated bonds issues by Finmeccanica SpA and those placed on the market by the subsidiary Finmeccanica Finance SA, followed by the dollar-denominated bond issues by DRS:

| **Issuer** | | **Year of issue** | **Maturity** | **Nominal Amount (€mil)** | **Annual coupon** | **Type of offer** | **IAS recog. amts €mil. (6)** |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| Finmeccanica Finance SA | (1) | 2003 | 2010 | 501 | 0.375% | European institutional | 470 |
| Finmeccanica Finance SA | (2) | 2003 | 2018 | 500 | 5.75% | European institutional | 497 |
| Finmeccanica SpA | (3) | 2005 | 2025 | 500 | 4.875% | European institutional | 515 |
| Finmeccanica Finance SA | (4) | 2008 | 2013 | 750 | 8.125% | European institutional | 749 |
| | | | | | | | |
| | | | | | | | |
| **Issuer** | | **Year of issue** | **Maturity** | **Nominal Amount (US$mil)** | **Annual coupon** | **Type of offer** | **IAS recog. amts €mil. (6)** |
| DRS | (5) | 2003 | 2013 | 550 | 6.875% | American institutional | 403 |
| DRS | (5) | 2006 | 2016 | 350 | 6.625% | American institutional | 260 |
| DRS | (5) | 2006 | 2018 | 250 | 7.625% | American institutional | 187 |

(1) 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 bondholders exceeds 125% of the conversion price. At the maturity date Finmeccanica Finance can repay in cash or, upon 15-working days prior notice, 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 385/93. Bonds are listed on the Luxembourg Stock Exchange.

(2) 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 385/93. Bonds listed on the Luxembourg Stock Exchange.

Rate derivative transactions were made on these bonds and led to benefits 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 5.8%.

(3) 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 385/93. Bonds listed on the Luxembourg Stock Exchange. Some rate transactions were made to optimise the total cost of the debt.

(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 385/93. Bonds listed on the Luxembourg Stock Exchange.

(5) DRS requested and received permission to delist all the bond issues on regulated US markets in December 2008. Therefore, the outstanding DRS bonds are no long covered by the US Securities Act of 1933 and are no longer registered with the Securities and Exchange Commission (SEC).

(6) 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 (1) 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 31 December 2008, this valuation method led to posting a debt €mil. 31 less than the face value of the bond. This differential will gradually come down as the maturity date draws near.

As part of its Group debt refinancing activities, after 31 December 2008, Finmeccanica, through Finmeccanica Finance SA, re-opened the fixed-rate bond issue launched in December 2008, issuing additional bonds totalling €mil. 250, bringing the total value of the transaction to €bil. 1.

The bonds, with a yield to maturity of 7.121%, have a re-offer price of 103.930% (and an annual coupon of 8.125%).

As in the past, the bonds were placed with institutional investors on the Eurobond market.

Banca IMI, BNP Paribas, Merrill Lynch International, UBS Investment Bank and UniCredit Group served at joint bookrunners, while Banca Finnat Euramerica acted as co-manager.

All the bond issues of Finmeccanica Finance SA, as well as those of DRS arising after the date of acquisition, are irrevocably and unconditionally secured by Finmeccanica SpA.

All the bonds above are governed by rules with standard legal clauses for this type of corporate transaction. In the case of the Finmeccanica issues, these clauses do not require any undertaking with regard to compliance with specific financial parameters (financial covenants) but they do require negative pledge and cross-default clauses.

Based on negative pledge clauses, issuers Finmeccanica Finance SA, Finmeccanica SpA 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 prohibited from pledging collateral security 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 establishment 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 SpA and Finmeccanica Finance SA bonds, as well as those of DRS following its acquisition and issuance of the relative guarantees by Finmeccanica, were given a medium-term financial credit rating by the three international rating agencies: Moody's Investors Service, Standard and Poor's and Fitch. More specifically, at the reporting date these credit ratings were A3 (Moody’s) and BBB (Fitch and Standard and Poor’s). As previously explained, Moody’s and S&P placed Finmeccanica on a negative credit watch following the announcement of the acquisition of DRS, although Fitch did not take analogous steps. The credit watch was lifted upon the conclusion of the capital increase process described above.

Finally, we note that in July 2008 there was the extension for a further twelve months of the EMTN programme for new bond issues amounting to €bil. 2.5.

## Other transactions

As already described in the 2007 financial statements, on 16 January 2008 the Shareholders' Meeting of **Finmeccanica** SpA approved the share buy back programme proposed by the Board of Directors on 21 November 2007 up to a maximum of about 8% of the share capital of the Company (a maximum of 34 million ordinary shares) with the goal of using them for servicing stock incentive plans and for industrial projects or extraordinary financial operations, if any.

On 28 February 2008, in order to initiate the programme and to complete it within the appropriate time frame, Finmeccanica's Board of Directors, exercising the mandate granted by the Shareholders' Meeting, confirmed the powers granted to the Chairman and Chief Executive Officer for the execution of the Shareholders' resolution.

In 2008, Finmeccanica, carrying out the programme only to the extent required to service the stock incentive plans, arranged to acquire a total of 1,225,000 ordinary shares. On 1 October, the final tranche of shares, totalling 1,121,568 shares, provided by the 2005-2007 Stock Grant Plan was delivered to the beneficiaries, after withholding the balance of the shares, as indicated by the beneficiaries, to cover tax and social security obligations owed in relation to said delivery. At 31 December 2008, the number of treasury shares came to 447,209 (about 0.07735% of the share capital).

The daily volume of shares purchased did not exceed 20% of the average daily volume of Finmeccanica shares traded on the market.

Moreover, on 26 February 2008, **Finmeccanica, Cassa Depositi e Prestiti** and **FT1CI** (a company owned by Areva), as shareholders of STMicroelectronics Holding NV (STH), the Dutch company which owns 27.54% of the share capital of **STMicroelectronics NV** (STM), signed an agreement amending the existing shareholders' agreement concerning the joint Italian-French governance of STH.
Under the agreement, the Italian and French parties agreed to rebalance their respective stakes in STM, indirectly held through STH. Specifically, Finmeccanica, as shareholder of

STH, agreed to sell to FT1CI the equivalent of 26,034,141 shares of STM at the price of €10 per share, plus an earn-out equal to 40% of any positive price differential of STM stock between the base price of €10 and the average market price calculated over a three-month period starting nine months from the date of signing of the agreement, up to €4 per share. Upon completion of the operation, Finmeccanica received approximately €mil. 260.

Additionally, the agreement establishes, among other things, that the Italian and French parties will continue to share governance of STH equally subject to certain conditions.

## Finmeccanica and risk management

| | RISKS | ACTIONS |
|---|---|---|
| ***The Group is strongly dependent on the level of expenditure of national governments and public institutions*** | The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous international programmes funded by the European Union or other intergovernmental organisations.<br>Given that the expenditure programmes adopted by governments may be subject to delays, changes under way, annual reviews or cancellations, the Group's industrial plans, as well as the financial resources necessary to their implementation, might be affected by changes, even relevant ones.<br>Moreover, cuts to the defence budget, if any, in domestic markets might have an impact on the financing of R&D activities, which are functional to successfully compete on the reference market. | The Group is pursuing an international diversification policy, which led to the identification of three "domestic markets" (Italy, Great Britain and the USA), in order to be less dependent on cuts that may be made by individual countries. Moreover, under the Group strategy, performance in the major countries is constantly monitored, in order to ensure a timely alignment of activities planned with customer needs. |
| ***The Group operates significantly under long-term contracts at a given price*** | In order to recognise revenue and margins resulting from medium- and long-term contracts in the Income Statement of each period, the Group adopts the percentage-of-completion method, which requires: (i) an estimate of the costs necessary to carry out the performances, including risks for delays and additional activities to be implemented in order to mitigate the risks of non-performance and (ii) checking the state of progress of the activities. Given their nature, these are both subject to the management's estimates and, as a result, they depend on the ability to estimate the effects of future events. An unexpected increase in the costs incurred while performing the contracts might determine a significant reduction in profitability or a loss, if these costs exceed the revenues deriving from the contract. | The Group reviews the estimated costs of contracts regularly, at least quarterly. In order to identify, monitor and assess risks and uncertainties linked to the performance of the contracts, the Group adopted Lifecycle Management and Risk Assessment procedures, aimed at reducing the probability of occurrence or the negative consequences identified and timely implementing the mitigation actions identified. Under these procedures, all significant risks must be identified from the offering stage and monitored while the programme is being carried out, also by making a constant comparison between the physical progress and the accounting progress of the programme. These tests involve top management, programme managers and the quality, production and finance functions ("phase review"). The results are weighted in determining the costs necessary to complete the programme on an at least quarterly basis. |

| | RISKS | ACTIONS |
|---|---|---|
| ***During the current activity, the Finmeccanica Group was exposed to liability risks to customers or associated third parties*** | As part of its activities, the Group may be held liable in connection with (i) the delay in or non-supply of the products or the services indicated in the contract, (ii) the non-compliance of these products or services with the customer's requests, due to designing and implementation defects of products and services, for example, and (iii) defaults and/or delays in the marketing, rendering of after-sale services and maintenance and revision of products. These liabilities might arise from causes that are directly ascribable to Group companies or causes that are ascribable to third parties outside the Group which act as providers or sub-contractors of the Group. | Group companies usually take out the insurance policies that are available on the market to cover the damages that may have been caused. However, it cannot be excluded that there may be damages that are not covered by insurance policies exceeding the limit of liability insured or that insurance premiums may be increased in the future. Moreover, the Group continuously monitors the performance of programmes through the above-said Lifecycle Management techniques. |
| ***Group debt significantly rose due to the acquisition of DRS. A part of this debt will be refinanced in the next 24 months*** | At 31 December 2008, the Group has net financial debt of €mil. 3,383, equal to 57% del Group equity at the same date (€mil. 1,158 at 31 December 2007, equal to 21% of Group equity at the same date). The increase in debt for the year is attributable to the payment of the amount due for the acquisition of DRS and DRS's debt consolidation, less proceeds from the share capital increase ended in November. The residual amount of the bridge loan opened to finance the transaction, equal to some €mil. 1,300 with final maturity of June 2010 and some €mil. 700 with maturity of June 2011, will be reimbursed through a number of transactions, including refinancing transactions in bank and bond markets. In 2010 a bonded loan of €mil. 500 will be repaid. Almost all the bonded loans issued by DRS have already been reimbursed early in January 2009 using the proceeds from the placement on the euro market of the new 5-year bonded loan for €mil. 1,000 in November 2008 and extended in January 2009.<br>Based on the expected performance of cash flows from operations, of bank credit lines that have already been confirmed or that are about to be settled, and the success of the placement of the above-said bonded loan, it is felt that Finmeccanica can address said commitments at the present market conditions, which are significantly heavier than the pre-existing ones; however, a further worsening of the conditions of liquid assets in the capital and bank markets and other circumstances may determine difficulties in generating and finding the financial resources sufficient to fulfil the above-said financial obligations at the relevant maturity dates and deadlines. The performance of debt during the year reflects the cyclical demand for working capital, due to the fact that the operating costs of the Group are generally | The Group financed part of the acquisition of DRS through the share capital increase (€mil. 1,205, less settlement costs) completed in November 2008, which was partly used to repay the bridge loan taken out to finance the acquisition. The Group also refinanced almost all of the DRS's debt through a new 5-year bond of €mil. 1,000 which was placed in the market in November 2008 (€mil. 750) and January 2009 (€mil. 250). Transactions that are functional to the valorisation of a part of the interest in Ansaldo Energia and of non-strategic assets also commenced. |

| | RISKS | ACTIONS |
|---|---|---|
| | distributed regularly during the year, while some of the major customers (including the Italian governmental institutions) usually pay invoices issued during the fourth quarter of the year. The Group finances a significant percentage of its operating costs with the amounts paid in advance by customers. If, in the future, the Group should collect lower amounts as advances on new orders, even due to changes in customers' commercial policies, this may bring a further increase in the average amount of debt. | |
| ***The Group realises part of its revenue in currencies other than the currencies in which costs are incurred, exposing to the risk of exchange rate fluctuations. A part of consolidated assets is denominated in US$ and GBP.*** | The Group reports a significant portion of revenues in dollars and sterling pounds, while costs can be denominated in other currencies (mainly euros). Accordingly, any negative changes in the reference exchange rate may have negative effects (transaction risk).<br>Moreover, the Group made significant investments in the United Kingdom and in the United States. Since the reporting currency of the consolidated group financial statements is the euro, negative changes in the exchange rates between euros and dollars and euros and sterling pounds might have a negative impact, also in the translation of the financial statements of foreign subsidiaries, on the Group balance sheet and income statement (translation risk). | The Group applies continuously an organised hedging policy for the transaction risk on all the contracts using the financial instruments available on the market.<br>Changes in the USD and GBP exchange rates also determine translation differences recognised in Group equity that are not hedged. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged centrally. |
| ***The Group operates in some segments through joint ventures, in which the control is shared with other partners*** | The major joint ventures in the Aerospace and Defence area are MBDA, held at 25% (with partners BAE Systems and EADS), Thales Alenia Space, held at 33%, and Telespazio, held at 67% (both with partner Thales). These joint ventures, which are consolidated in the Group results on a line-by-line basis, jointly generated 11% of the revenues consolidated in 2008.<br>The operativity of the joint ventures is subject to management risks and uncertainties, mainly due to the possible arising of differences between the partners on the identification and the achievement of operating and strategic objectives, and the difficulties to solve any conflicts as may arise between them regarding the ordinary course of business of the joint venture. In particular, the joint ventures in which the Group has an interest may be subject to decision deadlocks which may ultimately lead to the liquidation of the joint venture. In the case of liquidation of the joint venture or sale of the interest by the Group, this may have to share or transfer technological skills or know-how that were originally transferred. | The Group constantly follows, also through the involvement of its own Top Management, the performance of these activities, in order to timely identify and manage critical issues. |

| | RISKS | ACTIONS |
|---|---|---|
| ***The Group is a sponsor in defined benefit schemes both in the UK and in the USA*** | In defined benefit plans, the Group is required to ensure that the participants get a certain level of future benefits, taking the risk that the plan assets (stocks, bonds, etc.) are not sufficient to hedge the promised benefits. In case plan assets are lower than the benefits promised in terms of value, the Group regularly recognises as a liability an amount equal to the deficit; at 31 December 2008, this amount was €mil. 209. Should the value of plan assets reduce significantly, for example due to the particular volatility of stock and bond markets, the Group should compensate this diminution in value to the benefit of the plan participants, with subsequent negative effects on the financial statements. | The deficits of plans and investment strategies are constantly followed by the Group and regularly followed by the Trustees. Corrective actions are timely implemented. |
| ***The Group operates in particularly complex markets, in which the settlement of any dispute may be extremely complicated and can be completed only in the long-term.*** ***The Group also operates through numerous industrial sites and is therefore exposed to environmental risks*** | The Group is a party to legal, civil and administrative proceedings, for some of which a specific provision for risks and charges is recognised in the consolidated financial statements to cover potential liabilities that may arise (equal to €mil. 101 at 31 December 2008). Some of the proceedings in which the Finmeccanica Group is involved for which an unlikely or unquantifiable outcome is expected are not included in the provision.<br>The Group activities are subject to laws and regulations protecting environment and health that limit emissions into the atmosphere and discharge in waters and soil and govern the treatment of hazardous waste and the remediation of polluted sites. Under applicable laws, the owners and managers of polluted sites are responsible for polluting and therefore may be required to pay for the assessment and remediation costs, regardless of the causes of pollution. In performing the production activities, the Group is therefore exposed to the risk of an accidental contamination of the environment and may have to pay for the expenses for the remediation of polluted sites, if any. | The Group regularly monitors the status of the existing and potential disputes, taking the necessary corrective actions and adjusting its provisions for risks posted on a quarterly basis.<br>With regard to environmental risks, the Group has an existing monitoring and environmental assessment, plus insurance coverage in order to mitigate the consequences of a polluting event. |
| ***The Group operates in particularly complex markets which require compliance with specific provisions*** | The Group designs, develops and produces products in the defence segment. These products are particularly relevant in terms of protection of interests of national security and, therefore, their exporting abroad is subject to the obtainment of specific authorizations from the relevant authorities. The prohibition, limitation of withdrawal, if any, (in the case, for example, of embargoes or geopolitical conflicts) of the authorisation to the exportation of products might determine negative relevant effects on the activity and on the Group financial statements. Moreover, the non-compliance of these regulations may involve the withdrawal of the authorisations. | The Group monitors, through specific structures, the constant update with the relevant regulations, and commercial actions are subject to the control of the compliance with restrictions and the obtainment of the necessary authorisations. |

| | RISKS | ACTIONS |
|---|---|---|
| ***A significant portion of consolidated assets relates to intangible assets, in particular goodwill*** | At 31 December 2008 the Group reported intangible assets of €mil. 8,237, of which €mil. 5,790 relates to goodwill (19% of total assets) and €mil. 1,107 to development costs. The recoverability of these amounts is linked to the realisation of future plans of the reference businesses/products. | The Group constantly monitors performance against the expected plans, implementing the necessary corrective measures in the case of unfavourable trends. These updates are reflected, when the consistency of the amounts posted is assessed, on the expected flows used for the impairment tests. |

## Finmeccanica and the environment

### Strategic guidelines and management approach

In the letter of presentation of the third Environmental Report[1], the Chairman and Chief Executive Officer of Finmeccanica declared: "The Environmental Policy and the Group Code of Ethics acknowledge that environment is a primary asset to protect. We constantly search for an optimal balance between economic priorities and environmental safeguard, so that environment-linked factors are a part of our business goals, our innovation strategies and the basic values of our culture, which are cross-shared among all our companies".

Consistently with the goals stated in the Environmental Policy, the Group companies are implementing measures aiming at continuously improving their own environmental performances which are communicated annually (www.finmeccanica.com - Communication Section/Environmental Report), through the Report audited and certified by an independent Certification Body.

In the Environmental Report, Finmeccanica Group Real Estate, a Group company, as *Process Owner* of the process; specifically, the *Environment, Health and Safety* Service (EHS Service) implemented and managed the Environmental Information System, aimed at collecting, filing and processing environmental data. The EHS Service also ensures the performance of a consistent and methodical environmental check-up of industrial sites of different Countries operating in different business areas, for the update of a Group environmental data base and the preparation of the environmental indicators to be added in the Report.

The commitment of the Finmeccanica Group for the eco-compatible development of its own business grew in the latest few years as the company policy and goals developed. The choices made requested a remarkable engagement of resources and a significant organization effort, but also allowed the implementation of innovative industrial processes that are more and more environmentally sustainable and of management methods with a view to ever-growing environmental responsibility. Every year Finmeccanica invests

[1] For the area of consolidation of the companies disclosed and for 2007 figures, reference should be made to the 2007 Environmental Report of the Finmeccanica Group

significant resources to improve its own environmental performances, the safety of plants and the protection of the employees’ health.

A significant percentage of the Group production units already has an environmental policy and is implementing or has implemented environmental management systems, some of which are ISO14001 certified, while some sites obtained the Eco Management and Audit Scheme (EMAS) registration; over the last few years, Group sites obtaining the ISO 14001 certification have increased (42 sites certified in 2007).

In the last few years, certifications OHSAS 18001 (Occupational Health and Safety Assessment Series) in the Group rose significantly, proving the growing attention paid by companies to the employees’ health and safety at workplace.

**Innovation and disclosure of best practices**

Finmeccanica believes that the environmental and technological improvement also goes through knowledge sharing, the disclosure of environmental best practices and the designing and implementation of projects that, after the pilot experimental stage, can be applied to the Group on a wide scale.

Product and process technological innovation is one of the basic strategic factors for the development and improvement of competitiveness and success in international markets. To that end specific bodies were established, such as *Mindsh@re®*[1] *Community Advanced Materials & Enabling Technologies* and projects were commenced, such as Risk Gate - *General Assessment Through Environment* (this project was awarded at Finmeccanica’s Innovation Prize).

**Energy issues**

The international energy and environmental scenario and the objectives for fossil fuel emissions reduction and energy demand (Kyoto Protocol and UE objectives) boosted the development of management policies for primary energy sources.

In promoting a sustainable exercise of energy, technical and civil infrastructures at the plants and offices of Group companies, since 2005 Finmeccanica, through the subsidiary Finmeccanica Group Services (FGS), developed a model based on the integration of the

[1] Mindsh@re® is a registered trademark of Finmeccanica.

purchasing leverage and the use of energy, implemented through a multidisciplinary approach for pilot experiences. Interest initiatives have been previously coordinated with the companies' Energy Managers, if any, and the contact persons of the Finmeccanica Group Real Estate in order to optimize valorization.

Finmeccanica's energy management model is mainly based on interconnected activities aiming at the minimization of energy consumptions and of the related overall costs; it is based on a self-financing mechanism where the financial resources deriving from the savings generated by centralizing the negotiation and control of supplies. They are aimed at preparing energy efficiency studies and structural interventions for the reduction of energy consumptions. Moreover, thanks to the partnership with the Global Service operator, it is possible to ensure a cognizant maintenance of general and production facilities, also with a view to the control and optimization of energy vectors.

In order to spread an environmental sustainability culture, Finmeccanica is also actively involved in promoting the use and self-production of renewable energy in its premises. In the purchasing process, market operators are timely required to make offers also for green supplies, and in 2008 collaboration has continued with Group companies for the construction of photovoltaic and thermal plants.

Additional integrations to the model, which is being further developed, are the development of integrated governance in terms of water, wastes and IT architecture and systems with a low environmental impact and the initiatives to increase awareness as to the rational and responsible use of energy resources.

As in previous years, best practices have been shared as an action of energy efficiency at the different Group plants, in order to spread low-environmental impact energy-saving solutions.

An awareness action was undertaken aimed at all Group employees to promote a cognizant use of household and business energy resources. The highest point of this action was the "Finmeccanica Energy Day" on 27 October 2008, a day which was fully devoted to energy saving.

## Communication, education and training

The Environmental Policy of the Group highlights how the continuous improvement of environmental performance is an objective which can be achieved through active commitment by all employees.

Thos responsible for the Group health and safety and environmental matters are the promoters and coordinators at a local level of management systems which foster the control of business production processes for the purposes of environmental protection and the optimal use of natural resources. To that end, those responsible and/or the EHS heads of Group companies are actively involved also through the use of the EHS intra-group Portal (EHS Inportal).

Training on matters of health, safety and the environment, together with the ongoing global training projects and professional training, is a fundamental requirement in order to preserve and strengthen Finmeccanica’s role of industrial leader in the international scenario.

## Relevant environmental issues and Group performance

Below are some of the most significant issues of Finmeccanica’s activities which have a direct relation with the environment. For more extensive details reference should be made to the Finmeccanica’s Environmental Report published annually on the institutional site.

## Green areas and protection of the soil and subsoil

Unlike what might be thought regarding an industrial Group, Finmeccanica is also owner and manager of a wide extension of green areas (in 2007 such areas were 41% of the total surface area of the sites of the Group).

During the last few years, Finmeccanica has been actively involved in the identification and delimitation of potential areas of contamination in its sites, undertaking numerous environmental surveys and, when necessary, implementing the pertinent safety and/or remediation procedures.

In some cases, companies have started processes for environmental characterization as they are located within sites of national interest (S.N.I.); the S.N.I. are the industrial areas identified in Italian law 426/98 and ff. changes and amendments, for which the industrial activities taking place therein are bound to include the characterization of the environmental surrounds of the areas occupied.

Careful assessments of the existing or potential environmental risks are made during the acquisition and/or disposal of any industrial property, using methodologies recognized at an international level (ASTM 1527-05; ISO 14015:2001).

**Water resources management**

The main sources of water supplies of the Finmeccanica Group consist of ground water from wells and water from aqueducts used for industrial processes and as a thermal vector, in addition to drinking, hygiene-sanitary uses, fire prevention and the irrigation of green areas.

In the last few years, the water consumption by the Group gradually decreased in line with the goals set by the Group Environmental Policy.

The discharge waters produced by the sites are classifiable as domestic wastewaters or similar, or industrial or process wastewaters. Both are removed from sites in compliance with applicable laws.

During 2008 2 Pilot Projects of Water Audit were performed in two sites of the Group companies with the objective of analyzing the management of the integrated cycle of waters and promoting and, where possible, spreading to other Group companies potential actions of improvement/upgrading of plants, reduction of environmental impacts and reduction in resource consumption.

**Production and management of special wastes**

In the past, Finmeccanica has promoted numerous initiatives for the reduction of the quantity of wastes produced, the differential disposal of wastes and to maximize the amount of wastes intended to be recovered.

In previous years, the “Guidelines for Waste Management” were produced and published on the intra-group Portal (EHS Inportal), and between 2007 and 2008 training courses on waste management were provided to personnel responsible for the maintenance and purchases of 18 sites belonging to three Companies in the Group.

Even if the overall quantity of special, hazardous and non-hazardous wastes produced by the Group companies is affected by the performance of production in the various businesses, their production is still targeted to be minimized and the amount intended to be recovered is targeted to rise (38% of total in 2007).

**Energy consumption, $CO_2$ emissions and Emission Trading**

The Group, for production and operational purposes, uses these energy sources:

- electric power from the main network;
- methane gas;
- gas oil for the production of energy and heat;
- other fuels.

In the previous years, energy consumption gradually decreased in line with the goals set by the Group Environmental Policy.

In the same reporting period the production of $CO_2$ on-site (methane gas, gas oil and other fuels) decreased proportionately with the reduction in energy consumption.

The Emission Trading Directive (*Emission Trading Scheme - ETS)* (Directive 2003/87/EC), the regulation for the implementation of the Kyoto Protocol for the reduction of $CO_2$ emissions, involved 5 Companies in the Group and a total of twelve plants nationwide (2007 figures).

The ETS is specifically aimed at activities which imply the production of significant quantities of $CO_2$ (energy combustion, production and processing of ferrous metals, processing of mineral products, production of paste for paper, paper and cardboard, etc.). The activities carried out in the Finmeccanica Group sites are included only marginally among those defined in the Directive and only in cases in which the sites contain large-scale installations for heat generation. The Finmeccanica Group sites for which the ETS Directive is applicable are among the sites defined as “Group A”, in other words those with less $CO_2$ emissions than the other Groups defined in the Directive.

**Other emissions into the atmosphere**

The activities carried out by the sites of the Finmeccanica Group could involve emissions of NOx, $SO_2$, Volatile Organic Composites (VOC), Volatile Inorganic Composites (VIC) and heavy metals (Pb, Hg, Cd, Cr, As, Co, Ni) as well as $CO_2$ emissions. These emissions are generally due to the use of methane and gas oil and the production activities carried out in the Aeronautical, Helicopter and Defence sectors especially.

The authorized sources of emission are subject to the periodical measurement of pollution levels according to that required by the regulations in force on the matter and the specific authorizations.

With a view to improving the registration, calculation and trackability of environmental data, especially VOC and VIC, and powders into the atmosphere, during the prior year a standard procedure was shared, disclosed and used by the sites included in the Environmental Report. This procedure was fine-tuned during 2008 for the registration and automatic calculation of on-site annual emissions.

**Management of hazardous substances and companies at major accident risk**

The use of hazardous substances by Group companies is closely connected to processes for the surface treatment of materials and painting and gluing activities. These processes and activities are connatural to the type of production, and especially those in the Aeronautical, Helicopter and Defence Electronics and Security sectors.

In some cases the increase in production registered in the last few years in these sectors has determined an increase in the consumption of the products used. These include the substances classified as R40 (Substance with possible cancerogenic effects - Insufficient proof), R45 (Substance which may cause cancer) and R49 (Substance which may cause cancer by inhalation) according to the XXXI adjustment to technical progress imposed by Directive 67/548/EC concerning the classification, packaging and labelling of hazardous substances.

The management and use of hazardous substances has always been the subject of continuous training for employees on the matter of health, safety and the environment.

The reduction in the consumption of hazardous substances in conformity with the needs of the production processes is one of the priority objectives of Finmeccanica.

In this scenario, there are Group sites (12 plants belonging to 5 companies in 2007), that are classified as being with a Major Accident Risk (MAR), and therefore within the field of application of Italian Legislative Decree 334/99 and ff. changes and amendments (Directive 96/82/EC).

These sites are within the field of application of the Directive due to the quantity of substances and compounds used in typical activities in the Aeronautical and Defence sectors and the size of the basins used for the surface treatment of metals.

**Ozone depleting substances**

In some Group sites, there are substances harmful to ozone; these are mainly used in the freezing and air-conditioning systems.
The sites in question listed the apparatus containing ozone depleting substances and the relevant quantities and are progressively replacing them with substances that are less damaging to the ozonosphere, in accordance with that provided by the international agreements and laws in force on the matter.

**Electromagnetic fields**

The aspects of electromagnetic fields mainly concern the Group Companies which operate in the sectors of the production of installations/devices for radar systems, air traffic control and telecommunications, where there are sources of electromagnetic fields, such as radar and transmitting aerials.
The emissions of electromagnetic fields are the subject of constant measurements both within the sites in which the sources of electromagnetic fields are produced and tested and the locations in which these sources are installed.
The measurement of electromagnetic fields and the adoption of the relevant prevention and protection measures are carried out according to that provided by the laws in force on the protection of the health and safety of workers in the workplace and the environmental protection (protection of the population).

## Finmeccanica and Research and development

In 2008 Finmeccanica continued in its commitment to better focus its Research and Development activities. Many new programs were begun while other ongoing programs were continued, especially concerning systems integration and technological innovation involving Group company products.

The new structure of **Elsag Datamat,** operating in Security, Logistics, Automation, IT Services, and Defence, became operational. Starting 1 January 2008, the **Selex Galileo** brand was adopted, marking a further step towards the integration of the activities of Galileo Avionica SpA and Selex Sensors and Airborne Systems (S&AS) Ltd. They now have a fully integrated operating structure.

Also in the Defence Electronics and Security division, Finmeccanica expanded its presence in the UK with the acquisition of **Vega Consulting Services Ltd** (formerly Vega Group Plc)**,** which operates mainly as an engineering consulting firm providing simulation and training and which takes part in numerous domestic (UK) and European Research and Development programs, and in the USA, with the completion of the acquisition of **DRS Technologies**. The latter transaction has significantly strengthened Finmeccanica's position in the US market and offers the best prospects for further important technological developments.

### Aerospace, Defence and Security

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

The consolidated subdivision of R&D into the areas of (a) **technological research and development** and (b) and **research and development applied to products** allows for proper planning and containment of risk, optimizing the incorporation of new technologies in Group products, and enabling them 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 specialized facilities.

Within this context, work continued on 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 (GaN), to multi-chip integration on organic and ceramic substrates (LTCC - Low Temperature Co-fired Ceramic) in an innovative system-in-package (SiP) concept, to the new frontiers of electro-mechanical integration for electronics and sensors (MEMS - Micro Electro-Mechanical Systems), involving several of the Group’s major companies (**Selex Sistemi Integrati, Selex Galileo, Selex Communications** and the **MBDA** and **Thales Alenia Space** joint ventures). Their application and spread enable “quality” radio frequency processing components to be miniaturized, reducing costs and producing benefits for satellites, radars, missile systems and avionics systems, and in general any applications where a small footprint, minimal power absorption and thermal dissipation are key factors.

With regard to materials for electro-optical applications, development continues on Metal Organic Vapor Phase Epitax (MOVPE) technologies for producing infra-red sensors in the next generation bi-dimensional dual-band arrays components for advanced thermal imaging cameras (**Selex Galileo**).

**Selex Sistemi Integrati** continues to make advances in the innovative phototonic field with the development of prototypes of extremely high frequency analogue/digital (AD) samplers and direct synthesis waveform generators in collaboration with **Selex Galileo**. Collaboration between **Alenia Aeronautica** and **Selex Sistemi Integrati** continues in the field of multi-functional structures with the integration of aeronautical structures using fiber optic sensors, especially those made of composite materials. A project was begun to expand the use of these fiber optic sensors in detecting chemical, biological and explosive (CBE) threats. **Elsag Datamat** also initiated research into the use of cutting-edge infra-red sensors for detecting CBE threats, based on innovative plasmonic concepts and nanotechnologies.

Activity in the area of nanotechnologies has progressed on several fronts: in the area of sensors for revealing chemical agents (**Selex Communications**), already in advanced stages of experimentation, in the field of microelectronics on the use of carbon nanotubes for the manufacture of nano-electronic devices such as nanovalves and nanotransistors (**Selex Sistemi Integrati**) and heat conducting materials for packaging (**Thales Alenia Space** and **Selex Sistemi Integrati**) and, in the aeronautics field, the use of nanotechnologies in composite materials and nanostructuring of metal alloys (**Alenia Aeronautica**). **MBDA** is currently conducting studies of high-resistance nano-structured ceramics to create radomes operating in the millimetric band. **Thales Alenia Space** is researching high- resistant shields to be used on re-entry vehicles and hypersonic flights.

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 also intended for use on future national security projects (**AgustaWestland** with the ELIMAT project**, Alenia Aeronautica**, **Alenia Aermacchi** and **Oto Melara)**.

**Selex Communications** and **Selex Sistemi Integrati** are exploring new frontiers in extremely high frequency technologies (TeraHertz) to determine their potential in applications for sensors against CBE threats, security imaging and in ultrabroadband communications.

There has been constant development in the field of sensor networks - “smart” networks of low-cost sensor nodes - relating to networks and their interoperability, and sensor nodes **(Selex Communications, Elsag Datamat, 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:

- in **radar**, 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 the field of onboard radar for airborne platforms (fixed-wind or rotary-wing), development and production continues on the active transmit/receive module, a fundamental building block for the entire family of products of **Selex Galileo,** which range from highly-compact PICOSAR surveillance radar, specifically designed for use with UAVs (Unmanned Air Vehicles) and advanced SEA SPRAY radars, to a multiple-mode avionic radar called VIXEN-E with active electronic scanning, that will form the future system for combat aircraft (**Selex Galileo**). Meanwhile, **Selex Galileo** has continued 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. Following the excellent results achieved in the development of transmit/receive modules for C-band naval and land radar, using gallium arsenide microcircuits, produced in its own foundry and integrated using advanced microelectronic technologies, **Selex Sistemi Integrati** has begun the phase of integrating and testing the C-band active array antenna. **Selex Sistemi Integrati** made significant progress in the development of a man portable radar for battlefield observation and has moved into the production phase;
- the **electronic warfare segment** of defence electronics has become part of **Selex Galileo**'s core business. With its variety of systems for electromagnetic defence against radars and missiles, the Group's product range has expanded, allowing Finmeccanica to complete its integrated onboard defence and surveillance range for all air platforms. In the first part of 2008, the Group continued to upgrade its avionics products, expanding its catalogue with new solutions, even addressing the use of UAVs (compact array), and development began on land applications. In the area of applied research, studies are being conducted on new localization techniques based on the use of networked systems;

- in **missiles systems**, with special reference to advanced seeker missiles, both infra-red (**Selex S&AS Ltd**) and radar, and to the active proximity fuses and related command and control systems (**MBDA**), planning activities have continued for new FREMM frigates for which surface-to-surface and surface-to-air 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**);

- in **electro-optics** for battlefield applications and for both land and sea integrated weaponry systems, and fixed-wing and rotary-wing aircraft applications (**Selex Galileo and Selex Communications**), development is in an advanced stage for a new generation of Direct Infra-red Counter Measures (DIRCM) for active protection against shoulder-fired missiles for both military and civil aircraft by **Selex Galileo** in cooperation with a well-known American company. **Selex Galileo** is also continuing to develop products based on 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 continues on the EO Hyperspectral system for avionics applications. Thanks to the analysis of the high-resolution image captured, this system, initially designed for space applications, using hundreds of channels in the visible and infra-red bands, even permits determination of the type of material of which the object observed is made from a distance **(Selex Galileo)**;

- in 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 the family of solutions based on the Software Defined Radio (SDR) paradigm, an essential aspect of the emerging, irresistible need for integrated global communications (**Selex Communications).**

  In the area of avionics communication, **Selex Communications** continues efforts to expand its portfolio of equipment, systems and solutions for developing an complete, integrated Communications Navigation Identification (CNI) system for fixed-wing and rotary-wing platforms. Specifically, progress continues to be made on avionics SDR, MIDS-JTRS, civil and military Laser Obstacle Avoidance Systems (LOAM), the Wide Band Data Link (WBDL) and support solutions for Air Traffic Management (ATM) programs.

In the area of military and space (ground terminals) communications, efforts continue to strengthen the Group companies' role as a solution provider by fully introducing ALL IP solutions version 6 of Internet protocol (IP) convergence (IPv6) which will make it possible to create and manage the networks dynamically, flexibly, and in an open and mobile environment (**Elsag Datamat, Selex Communications** and **Selex Service Management)**. Also in this sector, **Selex Communications** is continuing to develop vehicle and naval-based SDR, manpack and handheld SDR, Satcom on the move (mesh ground terminal) communications satellites, as well as network-centric solutions for Future Soldier and Forza NEC (Network Enabling Capability) forces. Also in regard to SDR, important work continues on developing innovative devices based on Super Conductive Electronics (SCE) technologies aimed at producing direct multi-channel analysis modules for radio frequency signals (**Selex Communications**). With regard to this, a partnership was begun with the US company Hypres to build a prototype of a front-end receiver integrated into the radio channel tuning component. The use of superconducting micro electronics (SME) technology will lead to significant performance benefits and could reduce the system's complexity.

In professional secured communications, activities continued to strengthen the operational interoperability of institutions such as the police force, the *Carabinieri*, fire department, civil protection, and so on, with new-generation solutions and equipment for the high-speed, IP-based Tetra system, Tetra 2 and Tetra/WiMax interoperability. Development and industrialization activities began on the WiMAX (**W**orldwide **I**nteroperability for **M**icrowave **A**ccess) system for broadband fixed-line and mobile communications following successful completion of operational testing (**Selex Communications, Selex Service Management)**.

In the area of **satellite communications**, the Sicral 1B military communications system was completed. The SICRAL (*Sistema Italiano per Comunicazioni Riservate ed Allarmi*) 1B satellite, built by **Thales Alenia Space**, is now being prepared for launch at the end of February 2009. **Telespazio** will oversee the launch of SICRAL 1B, the launch and early orbit phase (LEOP) and the subsequent testing phases, thus it will be able to offer tactical and strategic communications services (UHF and SHF) to NATO forces. Work has also begun on defining the architecture of the SICRAL 2 satellite **(Thales Alenia Space)**. Furthermore, in the **orbiting infrastructures** area, studies continue on environmental control and life-support systems (water, air) for future long-term missions and on protection from micro-meteorites and ionizing radiation for missions to planets and studies on new, cutting-edge materials capable of combining thermal, mechanical and electrical capacities for innovative use in manned satellite platforms, capsules, and re-entry vehicles. Thales Alenia Space continued with the integrated design and testing of virtual reality technologies;

- in **earth observation,** work continued on defining the mission of the Sentinel-1 satellite and development began within the context of ESA on the platform, radar payload, active antenna and onboard data recording and transmission system. Preparatory studies continued for the Sentinel-3 mission, specifically concerning the microwave radiometer, the onboard computer and onboard data recording and transmission system. The third satellite of the COSMO-SkyMed constellation was placed into orbit. The fourth and final satellite will be launched in just over one year's time (spring 2010). This will mark the completion of the satellite constellation designed to observe the Earth for primarily civil protection and military purposes. COSMO-SkyMed is the first worldwide Earth observation satellite designed for dual use (civil and military). The four satellites are equipped with synthetic aperture radar sensors that are able to "see" the Earth's surface in all weather and lighting conditions. **(Thales Alenia Space)**. **Telespazio** built the civil and military earth segments and is overseeing the constellation's operations in orbit and its data acquisition and processing;

- in **space exploration**, studies are proceeding to define scientific lunar and planetary missions. In the area of scientific equipment, pieces have been developed to contend with microgravity and on-site exploration. Design and validation of a measurement system based on laser interferometry has continued in preparation for a new-generation gravimetric mission. Research continued into obtaining critical technologies, such as laser metrology for in-formation flight, and the creation of a testing system for the characterization of the micro-thrusters that will be used in the GAIA, LISA Pathfinder, etc. missions **(Thales Alenia Space)**;

- in **satellite navigation**, the focus is mainly on conceiving new NavCom systems for the Air Force and developing professional applications. Applications development also involves the study of remote tolling systems, pay-per-use insurance services and systems for monitoring valuable buildings, in critical area. Work also continued on building a simulator for satellite-based aeronautical communications and navigation, for the emulation of services and the validation of NavCom avionics terminals **(Thales Alenia Space)**;

- in the **orbital and space services management sector**, including the monitoring of sensitive areas (including security through the GMES program) using differential radar interferometry (**Telespazio**). Important research began on navigation and infomobility, which will generate significant returns in the areas of logistics and telecommunications (**Telespazio**). Another business line that was consolidated during the year was the development of a web platform using GIS technology based on aerial and satellite imagery for providing value-added monitoring services (**Telespazio**);

- the area of highly complex, highly integrated land, naval and Air Traffic Management (ATM) **command and control systems** (C2-C4) (**Selex Sistemi Integrati**), also involved highly specialized avionics systems based on advanced processing, presentation and control devices and on advanced Flight Management Systems for fixed-wing and rotary-wing aircraft **(AgustaWestland, Alenia Aermacchi, Alenia Aeronautica, Selex Communications** and **Selex Galileo)**. In this segment, the simulation aspect is taking on a great deal of importance, particularly with the activities of **Selex Galileo** which began defining a new generation of flight simulators, and of **Selex Sistemi Integrati**, with the development of a modular simulator for major systems integration.

As to naval systems, development continues on the new Combat Management System (CMS) Standard which will provide an effective modular solution for the new generation command and control systems market **(Selex Sistemi Integrati)**.

Following the completion of the feasibility study on the *Forza NEC* project by an Integrated Project Office consisting of defence and industrial segment companies (**AgustaWestland, Alenia Aeronautica, Elsag Datamat, Selex Galileo, MBDA, Oto Melara, Selex Communications** and **Selex Sistemi Integrati**), the detailed definition of the architectural plan is being carried out. *Forza NEC* is a project launched by the Italian Army to makes its components "net-centric", in order to provide an effective response to the commitment needs of the Italian Army in the face of a continuing increase in missions outside the area and to the request for interoperability with other Coalition Forces operating internationally;

- in **land weapons systems**, **Oto Melara** continues to make developments geared towards solutions applicable in asymmetric scenarios. These include the Overhead Weapon Station (OWS) and the wheeled and tracked Unmanned Ground Vehicle (UGV) families (Mobile Ground Robotics) which represent the cutting-edge technology and market for the sector;

- in **aeronautical platforms, AgustaWestland**, in the helicopters division, continues testing of the prototype of the BA609, the first convertiplane using cutting-edge systems and technologies, developing structural modifications and electronic devices for the version to be used for national security; research also continues on "all weather" helicopter technologies including recent experiments with the Enhanced Vision System (EVS), to improve platform comfort (internal noise and vibration reduction), on innovative electrical system technologies (generation and distribution), on avionics and flight controls and on Health & Usage Monitoring Systems (HUMS). **Alenia Aermacchi** is making crucial developments regarding training aircraft, especially relating to the ultra-modern M346 military trainer, recently named "Master", which is successfully completing the final qualification stages. **Alenia Aeronautica** continues developing aerostructure technologies that are contributing greatly to the success of the components of the new A380. Concurrently production has begun on some of the main components of Boeing's 787 aircraft (known as the Dreamliner), with first examples of the fuselage being assembled and sent to the United States last year. A brand new plant has been built and placed into operation near Grottaglie (TA) for this production. It also continues in its commitment to build facilities and technological development support infrastructures, such as the Sky-Light Simulator, the Anechoic Chamber and the New Laboratory in Pomigliano (also to provide services to other Group and external companies).

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 Neuron (technologies for UCAV, with first flight scheduled for 2011) and Sky-Y (the modern medium-altitude long-endurance (MALE) UAV) prototypes (**Alenia Aeronautica**) entered an operational stage. Sky-Y could lay the groundwork for a future European UAV, in part through the collaboration with other companies and nations interested in the project. The development of the Falco medium-altitude endurance (MAE) UAV system (**Selex Galileo**) for surveillance and tactical observation (Maximum Take-Off Weight <500 kg class) entered the final stages, with verification flights continuing successfully.

Other important initiatives include the TIAS (*Tecnologie Integrazione AeroStrutture*) project for coordinating the development of innovative aerostructural technologies to create one of the top centers in the world; the collaboration between **Alenia Aeronautica** and **Alenia Aermacchi** in researching systems for protecting aircraft and engine nacelles from ice; and the launch of the Alenet project for implementing the Extended Enterprise;

- in **security** (*Homeland Security*), the Group continues to strengthen its ability to offer major system products. **Selex Sistemi Integrati** has been given the mission of coordinating the Group companies in developing joint, integrated solutions for territorial control systems, maritime traffic systems, maritime and territorial border control systems, civil protection and crisis management systems, port and critical infrastructures security systems.

The collaborative projects begun by **Selex Sistemi Integrati** with the Group companies, intended to consolidate joint engineering and industrial capacities and to reinforce the required technological skills and processes, have produced the following significant results:

- the creation of a simulation environment specifically designed to validate complex system solutions through the integrated use of simulation tools developed by the companies to represent the dynamic behavior of their systems
- The Major Systems Center of Excellence (CEGS), with its open architecture, also used for studies conducted as part of the Zeus project, was conceived to test and demonstrate to institutional customers the potential of Major Defence and Homeland Security Systems based on complex architectures and network-centric approaches.

Activities related to biometric sensors (**Elsag Datamat**) is continuing and evolving, while investment is also continuing in data protection using traditional (**Selex Communications**) and quantum (**Elsag Datamat**) proprietary cryptography.

**Transportation and Energy**

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, (Ansaldo Energia)** where processes to optimize the performance and maintenance of power plants continue. Innovative programs 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. Progress continues to be made in the field of fuel cells (**Ansaldo Fuel Cells**).
  In 2008, research and development continued into advanced remote diagnostics and non-destructive controls. Finally, the extension of the maintenance cycle on Class F gas turbines was completed.

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.

In the field of steam turbines, an important international project was begun to study the behavior of special materials that are yielding fundamental results for the development of ultra-supercritical turbines.

Starting from 2008, these solutions, which are capable of ensuring significant improvement in performance, are being applied.

As to the technology for combined-cycle plants, the key factors for plant success have been identified as flexibility, reliability, availability and security. With regard to these objectives, activities continue aimed at rapid, replicable plant start-up.

As to the project to improve plant security, the commercial risk and physical plant security analysis packages were completed.

Efforts continue to develop the service in order to expand the portfolio for serving third-party machinery. These projects relate to the development of incinerators, control systems and re-engineering gas turbines.

Additionally, research continues in the field of nuclear energy, specifically:

- the development of the reference configuration for a lead-cooled critical reactor to generate power and burn fewer actinides.
- the development of the reference configuration for a sub-critical reactor coupled with a high-intensity proton accelerator;

- **transportation,** development activities primarily regarded tracked transportation systems for city, suburban and rail vehicles and related signaling and traffic controls systems **(Ansaldo STS)**

  The main projects were:

  - the development and installation of components for management, comfort and safety, including through the SAFEDMI (SAFE Driver Machine Interface for ERTMS automatic train control) project - **AnsaldoBreda, Ansaldo STS);**
  - the research and development of integrated solutions, targeted at reducing electricity consumption and minimizing environmental impact, particularly within an urban context; specifically, the development and adaptation of

**Ansaldo STS's** technology for the ground power supply system for electric vehicles for application to a catenary-free tram system; implementation and integration of systems that accumulate braking energy through the use of off-board devices;

- the development of "electric-wheel" carriages for trams, (**AnsaldoBreda)**, using a permanent magnet motor and the carrying out of preliminary tests of the magnetic pick-up system on the test ring along with **Ansaldo STS**;
- developments in the signaling field focusing on the implementation of the new generations of ERTMS wayside and onboard systems. There was also development of dual-use security/safety components (**Ansaldo STS**);
- developments in the field of entirely automated (i.e. driverless) subway systems have confirmed their effectiveness (**AnsaldoBreda** and **Ansaldo STS)**;
- developments for a new-generation distributed-power train in cooperation with a European partner in the high-speed (AV) trains field (**AnsaldoBreda);**
- cross-over technologies regarding which **AnsaldoBreda** has activities involving predictive diagnostics for carriages, basic architectures for traction converters, (European) equipment standardization projects, polymers/thermoplastics and structural adhesives, high-performance electric motors, and manufacturing processes.

**Group Governance of Technologies and Products**

The development of **Inter-company Technological Communities** (within the MindSh@re®[1] platform) is becoming a key resource and a method for sharing information and steering development, research and integration activities, with interesting collaborations in areas of Defence Administration (OPTEL Consortium and NMP Program). Currently, seven communities had been started and six are operating with the involvment of over 600 researchers and technicians from among the company's top professionals:

- ***Radar***: advanced radar system technologies;

[1] MindSh@re® is a registered trademark of Finmeccanica SpA.

- ***Software***: technologies, systems and methods for avionics and land-based embedded real-time software applications;
- ***Materials and Nanotechnology***: research and development on the new frontiers of basic emerging technologies, including innovative materials, microelectronics, MEMS, phototonics, robotics and nanotechnologies;
- ***Design tools and methods***: analysis and rationalization of design support methods and tools;
- ***SET2 Simulation***: simulation 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.

In 2009, important initiatives originating within the communities of the MindSh@re® project continued. Three new **Corporate R&D projects,** partially financed by the Parent Company, were begun with the goal of promoting and increasing collaboration between the various Finmeccanica companies and universities, research centers and end users on issues such as: fiber-optic sensors, applications in the THz region, microelectromechanical systems (MEMS) applied in the field of radio frequency (RF), UAV-UGV integration for applications for monitoring critical infrastructures, the use of the LINUX operating system in safety critical applications, the development of innovative methods integrated in logistics and shared laboratories for virtual design and manufacturing.

**Other Research and Development activities – Domestic Programs**

With regard to the initiatives sponsored by the Ministry for Education, Universities and Research, particularly the “Major Strategic Projects” tender, a number of research programs were launched concerning issues relating to aerostructures using composite materials for high-efficiency acoustics, engine nacelle technologies, electronic scan active radar antennas, composite materials for railed vehicles and broadband communications systems for emergency management.

As to the Industrial Innovation Projects on **Sustainable Mobility** within the scope of **Industry 2015**, which aims to promote the development of new products and innovative technological solutions capable meeting of mobility and transport needs for persons and goods that are more efficient while at the same time being more respectful of the environment and society, Finmeccanica is coordinating the following funded programs:

- Flexible security vehicle (A flexible, highly-advanced, multi-purpose rail and road vehicle for civil protection uses in crisis areas), with **OtoMelara;**
- PBI (*Piattaforma Bus Innovativi*-Innovative Bus Platform), aimed at developing a new, highly modular bus system that can be fitted with different energy conversion modules that are interchangeable and that can be configured for a variety of urban mass transit service uses, with **BredaMenarinibus;**
- SITMAR (*Sistema Integrato per il Trasporto MARittimo di merci nel contesto intermodale*-Integrated System for the maritime transport of goods within an intermodal context), with **Selex Sistemi Integrati;**
- SITRAM (*SIstema di trasporto TRAMviario innovative*-Innovative tram transport system), the primary goals of which are: Security (in terms of safety and security), Energy Efficiency, Environmental Impact, Service Regularity and Availability, with **Ansaldo STS;**
- SLIMPORT (*Sistema per la gestione integrata di Logistica e sicurezza, per InterModalità PORTuale-System for the integrated management of logistics and security for port intermodality*), with **ElsagDatamat.**

The Technology District initiatives in which Finmeccanica is involved continue, specifically: the Lazio Aerospace Technology District, the Puglia Aerospace Technology District, the Piedmont Aerospace Technology District, the District on integrated intelligent systems and technologies for logistics and transportation and the Liguria Marine Technology District. In addition, in relation to IMAST, Campania's technology district, **Alenia Aeronautica** and Boeing founded a research center to jointly develop advanced materials and aerostructures.

As to the promotion of technological poles, the preliminary phase for the projects approved by the decree of April 2006, relating to the Ministry for Productive Activities/Ministry for Technological Innovative tender of July 2005, is nearing completion.

Domestically, Finmeccanica is promoting the **SERIT** (SEcurity Research in Italy) initiative along with the National Research Council in order to support the inclusion of the Security issue in the National Research Plan and the launch of national tenders.

Finmeccanica is participating in the **TERIT** (TElecommunications Research In ITaly) platform sponsored by the National Research Council/National Interuniversity Consortium on Telecommunications for the formation of a research and development program into new-generation telecommunications infrastructures, which has promoted a number of the issues developed through the Sustainable Mobility-Industry 2015 tender.

The Group has also just begun to participate in the **PHORIT** (*PHOtonic Research in ITaly)* project which intends to create a photonic technological platform to form the basis of highly important applications in all the Group's fields of interest.

Within the scope of activities partially funded by the Region of Piedmont and the European Community is the SMAT (*Sistema di Monitoraggio Avanzato del Territorio*-Advanced Territorial Monitoring System) project, co-led by **Alenia Aeronautica** with the participation of two other major companies, three universities and 11 small and medium-sized enterprises. The system involves the use of three different types of unmanned platforms: a MALE aircraft (Sky-Y or Molynx from **Alenia Aeronautica**) to be used at highest elevations, equipped with SAR and electro-optical sensors, an aircraft intended for a lower elevation (the Falco from **Galileo Avionica**) and a light aircraft (C-Fly, the Nimbus hybrid), for local, low-elevation monitoring of specific areas. The project was approved in July 2008.

**European and NATO Programs**

The Group is also involved in European research and development activities (European Commission, EDA, NATO):

- **EDA** (European Defence Agency): **Selex Galileo** and **Selex Communications** acquired two Research & Technologies contracts in response to the second call for the JIP-Force Protection program:
  - the first project, called AHEAD (Advanced HElmet And Devices for Individual Force Protection), addresses the issue of individual protection with

portable, modular solutions based on new technologies for designing sensors and actuators;

- the second project, named WOLF (Wireless rObust Link for urban Force operations), aims to discover innovative solutions for improving the capabilities of wireless tactical communications systems in an urban environment.

Finmeccanica, along with **Alenia Aeronautica**, **Selex Communications**, **Selex Galileo** and **Selex Sistemi Integrati** is participating in the **MIDCAS** (MID Air Collision Avoidance System) project for unmanned systems**,** which aims to define Sense & Avoid standards and to demonstrate technological solutions for use with UAV (UAS) systems in non-segregated airspaces. The preparatory phase was completed in 2008. Development activities involving five European countries are set to start. The contract with EDA is expected to be signed in April 2009.

- **NATO:** In the first half of 2008, Finmeccanica took part in the RTO study "Long-Term Scientific Study on Joint Operations 2030" to define research scenarios for NATO operations and various NIAG studies. In the second half of the year, it began activities related to its participation in the BELCOAST09 program (Demos of devices and systems within the context of the CINAD POW 10 - Critical infrastructures protection program);

- **Seventh Framework Program - Security** (2007-2013), during the first half of 2008, the results of the Joint Call ICT - Security were announced, an area in which Finmeccanica's strategy has been consolidated, with broad initiatives on defining the programs and on possible collaborative consortiums.

  Finmeccanica is the coordinator for the following projects:

  - MICIE (Tool for systemic risk analysis and secure mediation of data exchanged across linked CI information infrastructures), with **Selex Communications** regarding tools for risk analysis of interdependent critical infrastructures, such as ICT;
  - COMIFIN (COmmunication MIddleware for Monitoring FINancial CI), with **Elsag Datamat** on monitoring financial networks to prevent illegal activities on the network;

- ISTIMES (Integrated System for Transport Infrastructures surveillance and Monitoring by Electromagnetic Sensing), through the TeRN (*Tecnologie per le osservazioni della terra ed i Rischi Naturali*-Technologies for observing the Earth and natural risks) consortium in which **Telespazio** participates, on transportation network monitoring systems.

In addition, the Group plays a significant role in other projects such as:

- the development of sensors and communication tools for first responders in crisis situations;
- the design of network architectures that can resist intentional attacks.

o **Seventh Framework Program - ICT** (2007-2013), Finmeccanica is the coordinator for the following second-call projects:

- INTERSECTION (INfrastructure for heTErogeneous, Resilient, SEcure, Complex, Tightly Inter-Operating Networks), with **Elsag Datamat**, on the protection of heterogeneous networks;
- SHARE (Sharing open source software middleware to improve industry competitiveness in the embedded system domain) with the **SESM Consortium** on the use of open source software in embedded systems.

In addition, the Group actively participates in the Joint Technology Initiative Artemis program for research into embedded systems technologies. In the first call for the program, Finmeccanica was the coordinator of the CAMMI (Cognitive Adaptive Man Machine Interface) project with **Selex Galileo**. The project aims to develop cognitive multi-modal man-machine interfaces. The primary field of application is aeronautics, including UAV;

- **Seventh Framework Program - Space** (2007-2013), currently the Group is negotiating a number of contracts in the Space area, specifically the G-Mosaic Security Pilot Projects, coordinated by **Telespazio**, to define the external security methods and services in support of the Common European Security and Defence Policy;

- **Seventh Framework Program - Transportation, including Aeronautics** (2007-2013), Group companies are providing committed, experienced participation in research in the aeronautics field, an area to which considerable European funding has been allocated:

- on 4 February 2008, the **Clean Sky Joint Undertaking**, a public-private partnership created by the European Council on 20 December 2007, came into being. It will implement the Joint Technology Initiative to develop the most suitable technologies for drastically reducing the environmental impact of aircraft. Finmeccanica is co-leader of two of the six ITD-Integrated Technology Demonstrators: the Green Regional Aircraft **(Alenia Aeronautica)** and the Green Rotorcraft **(AgustaWestland** in cooperation with Eurocopter**)**. **Selex Galileo** and **Selex Sistemi Integrati** are also involved, along with many other companies, research centers and Italian universities. The program will last 7 years, from 2008 to 2014;
- The **SESAR Program**, after the formation of the SESAR Joint Undertaking in March 2007 and the completion of the pre-development phase, will be implemented within the Seventh Framework Program. The SESAR 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), **Selex Galileo, Selex Communications** and **Telespazio** are actively involved. Activity will begin in 2009 and will last 6 years;
- In the area of **Collaborative Research,** the conclusion of the first call resulted in Alenia Aeronautica heading the HIRF SE project to develop electromagnetic compatibility simulation models and taking part in the MAAXIMUS project on advanced design methods for aeronautics structures. **Selex Galileo**, **Selex Communications** and **Alenia Aeronautica** are also participating in the SCARLETT project on scalable and reconfigurable avionics.

  Of the Level 2 proposals submitted in the second call in May 2008, the following were approved: ALICIA (ALl condition operations and Innovative Cockpit InfrAstructure), on innovative cockpit architectures, with the leadership of AgustaWestland; SANDRA (formerly COMNET), on communications in a network-centric environment, headed by Selex

Communications; CRESCENDO, on the simulation of systems integration, in which **Alenia Aeronautica** participates, and OPENAIR on motors, in which **Alenia Aermacchi** participates.

Partnerships continued with leading **Italian universities** (**Genoa, Federico II of Naples, Parma, S.Anna of Pisa, La Sapienza and Tor Vergata of Rome, Politecnico of Turin, Politecnico of Milan, IUSS of Padua and others**) in the fields of aeronautics, radar, security and communications.

## Finmeccanica: 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 2008: consolidation of international business; 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 based on the global player model.

The year saw confirmation of the general macro-organisational trend in which companies are the driving force behind a gradual shift from an organisational structure that is basically "functional" to one better characterised as "divisional", with business units (however they may be called) that are more modular, focused on specific business segments, in charge of the entire "life-cycle" of orders, based on a supply and demand "matrix".

The following section reviews some of the most significant organisational developments during 2008.

In the first half of the year:

**Selex Galileo** introduced its new integrated, transnational organisational model centring around "lines of business", thus completing the intense examination and comparison conducted in the second half of 2007 and coordinated by a Senior Transition Team.

**Alenia Aermacchi** partially redesigned its structure by creating the new position of Deputy General Manager for coordination of Operations (Technical, Production and Purchasing Department) and reconfiguring its Programmes Department, which reports to the General Manager.

**AnsaldoBreda** reviewed and rationalised its organisational structure, specifically eliminating the position of Deputy General Manager for Operations and Planning.

**Selex Communications** conducted a review of its organisation, consistent with the new need for strategic flexibility and managerial efficiency arising with regard to external competition and internal production. The new structure, which focuses the company's business on two areas--"Italy" and "International"--, was especially designed to streamline decision-making processes, improve organisational reaction capability and simplify inter-departmental integration, by removing two Deputy General Manager positions (in practice eliminating one hierarchical level).

The reorganisation of **Aeronautica** was completed following careful analysis and preparation. The new organisational structure of the sector is designed to achieve, through four business units, concentration by business area, integrated control over programmes, greater organisational efficiency at all levels, as well as simplification of decision-making processes and the resulting implementation processes.

**Elsag Datamat** gradually rationalised its executive-level structure, eliminating its General Manager position and one of its three Co-General Manager positions and concentrating its business within three Divisions (at the start of 2008, there were five Divisions).

In the second half of the year:

The new organisational structure of **Ansaldo Energia**, was formalised by rationalising and dividing its group's operational processes into two "blocks". One Co-General Manager (Business and Products) is responsible for coordinating commercial and development activities, while a General Manager (Operations) is in charge of coordinating the areas involved in the production of plants/components and the provision of services (Engineering, Purchasing, Production, Project Management, Quality).

**Oto Melara** also made a few adjustments to the responsibilities of its top management, as well as introduced a number of significant changes to the structure of the top level. These include forming the new Operational Management Programmes unit under the Operations Department.

Finally, **Selex Sistemi Integrati** significantly rationalised its organisational structure by cutting one of its two Co-General Managers.

The two “alternating majority” joint ventures with Thales comprising the “**Space Alliance**” (Thales Alenia Space and Telespazio) underwent significant organisational changes in 2008. **Thales Alenia Space,** seizing upon the chance to appoint new executives, altered its transnational structure by creating, in particular, the Deputy CEO position.

The most significant organisational changes at the **Parent Company** in the 2008 targeted at rationalising the structure were, in brief:

- the elimination of the **Space Activities Coordination Department** (1 August);
- the elimination of the **Co-General Manager** position held by Remo Pertica (who was simultaneously appointed Senior Advisor for Defence Electronics and Security, reporting directly to the Chairman and CEO starting 1 September);
- the reorganisation of the **Communications Department** (September), specifically with the creation of the International Media Relations Unit.

Finally, **Finmeccanica Group premises throughout the world** were updated. At the end of 2008, the Group operated through **391 offices**, of which 245 around the world (63% of the total) and 146 in Italy. There were 177 so-called “operational” sites (manufacturing plants and other sites used mainly for production), or roughly 45% of the total. As a result of the acquisition of **DRS Technologies,** 63 operational sites were added, of which 59 in the USA.
A census of Group sites is updated every six months, in concert with the human resources staff of the operating companies.

**Management Review, Succession Plans, Compensation and Incentive Systems**

Between July and October 2008, one-to-one meetings with the Group operating companies were held within the scope of the now entrenched **Management Review** process-begun in 2002 and continually evolving with regard to structure and content involving the strategic management of Human Resources-which has become in the process a true “backbone” of the Finmeccanica Group’s management system.

In fact, the Management Review meetings constitute a fundamental opportunity for analysing, sharing and verifying the company's policies and activities in managing, rewarding and developing human resources as well as an occasion, along with the periodic Professional Family workshops, for planning, sharing and implementing special projects and other group-wide activities in the human resources area.

In 2008, the meetings were, for the first time, preceded by sessions dedicated to analysing and discussing the **Succession Plans** for all the top management positions and the top organisational level of the main operating companies. The decision to devote a portion of the Human Resources Professional Family meetings schedule to the Succession Plans for the most prominent Group positions demonstrates the extreme importance of the issue, but, more significantly, it reflects the need to pursue and to continue to strengthen central control over strategic human resources management processes, starting with the most elite and crucial segments, from a business continuity standpoint, in order to optimise - by also making proper use of the team represented by the Group Professional Families System - human capital from an ever-increasing Group perspective.

Within the Management Review 2008 process, special effort was devoted to improving reporting and feedback to the operating companies, in order to make the process more dynamic and interactive, by establishing strong continuity features with the cycle of meetings that will be held in 2009. However, in light of the positive pilot programme experience at Selex Galileo and Telespazio, it is expected that, under the **Management Review 2009** process, all the information can be handled and shared through a **dedicated IT platform**, which will reinforce the intelligence and strategic governance capabilities of human capital at the Group level.

In the area of **Compensation**, the main challenge continues to be the need to establish incentive policies and systems that are standard across the Group and that respond to company-specific needs, in line with compensation parameters and the most advanced trends in the relevant markets, in order to attract, motivate and retain all the resources and professional skills that are critical for the Group, in Italy and abroad, particularly with regard to the most important countries, the United Stated and the United Kingdom.

In 2008, there was a further consolidation of the scope of the beneficiaries of the **MBO System**, which is targeted at over 95% of Group senior managers and executives and continues to represent a significant component of the overall compensation package.

The 2008 MBO System guidelines were defined by adapting the 2007 MBO System policy, for which, in the preparation, efforts were made to profoundly revise the operating strategies, structures and mechanisms, so as to more accurately tie the incentives to the achievement of financial and operational results and "excellence" in operating performance.

The mix of financial and performance indicators was partially redefined in order to improve the ability to accurately and timely recognise and reward industrial performance and company profitability. The application of the performance gate (i.e. the minimum performance level for each target, attainment of which is a prerequisite to earning the incentives associated with the MBO System) introduced in 2007 was also revised, limited to just financial and operational results, and not those tied to specific position and to GEAR objectives.

The 2008 MBO System retains the mechanism of correlating objectives, which may result in eliminating the potential benefits for significant under-performance in relation to even just one target, thus confirming the increased focus on the overall quality of performance as a corporation.

With regard to **long-term incentive systems**, 2007 marked the end of the three-year **Performance Share Plan 2005-2007 (**the stock grant plan approved by the Board of Directors of Finmeccanica SpA on 29 September 2005). The third and final instalment of shares-constituting 50% of the shares granted, except for those recoupable, and awardable upon the attainment of the 2007 performance targets-was delivered on 1 October 2008.

In order to ensure substantial continuity in the Group's compensation system architecture, on 18 December 2007 the Board of Directors of SpA approved the **Performance Share Plan 2008-2010**, the guidelines which had been previously approved by the Finmeccanica SpA Shareholders' Meeting of 30 May 2007, as was the purchase and availability of the shares to service the plan. It is intended for key Group resources and calls for the allocation of options to receive Finmeccanica SpA shares free of charge upon achieving specific EVA and order targets for the period 2008-2010.

The Plan participants were identified in early 2008 based on the results of the Management Review process and by applying selection parameters and criteria ensuring a good balance between managers belonging to different functional areas and, especially, increasing the proportion of young management employees who, although they do not currently hold positions that have a high impact on corporate business, may represent strategic Group assets based on their medium/long-term development potential.

In 2008, the **2008-2010 cycle of a Cash Incentive Plan** targeted at the top management of Finmeccanica SpA and of the main Group subsidiaries, based on the achievement of ambitious Group targets, using an entirely self-financed logic, was initiated. Under the traditional rolling-scheme approach, this Plan runs concurrently with the 2006-2008 and 2007-2009 three-year cycles, with the goal of maintaining a high level of attention on and motivation towards the joint achievement of medium/long-term performance levels that are significantly higher that the performance and financial targets in the budget and in terms of the appreciation of the value Finmeccanica stock on the stock market.

## Training, Human Resource Development and Knowledge Management Systems

In 2008, the initiatives of Finmeccanica's training and development systems were integrated. All courses have therefore been improved and revised to promote the development of intellectual and human capital within the different Group companies worldwide and the professional growth of persons individually.

From a "People & Business Partner" standpoint, the objective of the **Integrated System of Training and Development** is to simultaneously respond to the needs of resources and to business targets, through constant focus on the pursuit of excellence, the development of individual talents and the optimisation of investment.

Since the pursuit of excellence in **Personnel** must also satisfy existing **quality control processes** and methods, the Training and Human Resources Development Department applied for and received ISO 9001:2000 quality certification for "The Finmeccanica Group's

Processes for Designing, Carrying Out and Managing Training and Human Resources Development Projects" from the international certifying body, Globe Certification.

The qualification and certification of individual initiatives provided a further boost to integration and cooperation among the human resource departments of the Group companies internationally, resulting in the establishment of additional common methods and tools.

The primary activities carried out under the 2008 Business Plan can be divided into:

- ***Dedicated courses (*the Young People Programme and the Executive & Middle Manager Programme*)*** for specific **target** populations within the company, to support the professional development of personnel with a view towards life-long learning. They were conducted continuously, focusing on clusters of employees deemed strategic (from recently hired young persons to top management), with an approach designed to develop individual strengths and aimed at identifying elite candidates who may eventually constitute the Group's new management class.

- Initiatives aimed at reinforcing ***Group Culture*** **(Group Identity and Business Culture & Knowledge Management)**, to promote the integration of different international experiences and the establishment of a "distinctly Finmeccanica identity" that combine values, competences and high-technology in a well-structured set of increasingly efficient, integrated and "sustainable" processes and methodologies **(Occupational Safety)**.

### *1. Dedicated Courses*

#### 1.1 Young People Programme

The Young People Programme is a training and development programme dedicated to all the Group's young people which aims to initially instruct them in the complex world of Finmeccanica and its distinctive values and to later develop specific professional and managerial skills.

The first step of the programme consists of the **FHINK Master**, the Finmeccanica Master in International Business Engineering, the third edition of which was held in 2008.

Reflecting its strong international scope, the initial on-line recruitment phase attracted (between May and July 2008) more than 6,500 applications from recent university graduates in 121 nations. The subsequent selection phase resulted in a class of 29 students from 16 countries, with an average age of 25 years.

The Masters programme was completely revised, particularly in light of the collaboration of new international university partners such as the Imperial College London, the Politecnica de Valencia, Kellogg Business School, etc. The academic course (the contents of which revolve around four macro-areas: Project Management, Innovation Management, Technology and Operations Management and International Business) combines "traditional" training methods with soft skills sessions, project work, case solutions and applied research activities.

Seminars conducted by a number of the most imminent international researchers on technology and innovation issues and meetings with Group managers to give students an understanding of the issues faced by Finmeccanica are considered an integral part of classroom learning, which consists of about 1,500 hours of lessons.

Students and academic and organisational staff also have access to an advanced web portal for consulting educational material and which provides an environment for collaboration.

In 2008, students were able to visit the offices of Ansaldo Energia in Genoa. This was the first of a series of meetings held at some of the most important sites of the Group companies. Foreign students are also required to take a course in basic Italian during the eight months of classroom training in order to ease their insertion into the Italian cultural and relationship system.

Contemporaneously with the start of the third edition, sessions were held in Rome to present the **Final Project Work of the second edition students,** who had completed their internships within the Group operating companies and in Finmeccanica. All the second-edition students were awarded diplomas, thus marking the start of a new phase in their advancement within and employment by the Finmeccanica Group.

Also under the Young People Programme, all recent graduates newly hired by the Finmeccanica companies take part in FLIP, the Finmeccanica Learning Induction Programme. Since 2005, about 700 young persons have taken part. Its goal is to guide, engage and familiarize young people with the Group's One Company philosophy and

Finmeccanica’s primary drivers (Internationalisation, Integration, Value Creation, Innovation and Customer Orientation).

FLIP includes access to on-line 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 2008, 11 editions were held, involving a total of 204 participants.

**FLIP International** was also launched in 2008. Twenty recently-hired young persons from the UK, France and Italy took part in the course’s first international edition, which concluded in July.

In 2008, **BEST** (Business Education Strategic Ten), Masters in General Management, targeting brilliant university graduates from all Group companies who have been with the company around three years and includes both on-line and in-class training, was the first programme in Italy to receive the prestigious ASFOR (Italian Management Training Association) accreditation as a **e-learning corporate MBA programme,** thus becoming an Italian case study.
Thus far, the BEST Masters programme has (since 2002) attracted about 600 young people from 17 Group companies to its 29 editions.
In 2008, five editions were held attracting 96 participants.

The 2008 edition of **Future L.I.F.E** (Learning Intensive Finmeccanica Experience) was designed and held during the period**.** Future L.I.F.E is a new training experience that, in addition to rewarding the winners of the BEST Masters, is also an essential step in developing and grooming young talent for management positions within the Group. The goal is to give them an opportunity to interact with “excellent role models” at the international level.

The programme provides for:

- the involvement of an SME (Subject Matter Expert) who will assist in in-depth study and will provide useful suggestions for academic work;

- the involvement of the stakeholders to provide a well-rounded view of the subject identified: suppliers, customers, universities, local institutions.

The 2008 edition gave 10 participants the chance to engage in an "intense training experience" that led to deeper work on the subject of the Business Winning process in an interactive live session in Edinburgh (November 2008).
In Scotland, activity was set within an international context and was made tangible through a meting with Group managers, suppliers and centres of excellence (Herriot-Watt University).

The Young People Programme also encompasses the revised **Project CHANGE** (Challenge Hunters Aiming at New Generation Excellence), an initiative intended to leverage skills and develop **Rockets**, i.e. excellent Group resources (middle managers and 7$^{th}$ level employees or foreign equivalent) up to 35 years of age, identified by their companies, with international visibility who have clear growth potential for more complex roles.
To promote the emergence of an elite class of Group employees, the project, which has been entirely remodulated and features a further international approach, provides that, at the end of the course, a list will be drawn up of the best resources who will be the subject of targeted career development plans.

### 1.2 Executive & Middle Manager Programme

The pathways open to **Management Employees** aim to develop and enhance those qualities that are crucial for moving within the complex Finmeccanica environment and within the relevant global market. These include awareness of *change*, which improves strategic vision, *skills*, which permits one to anticipate challenges and seize opportunities, and *leadership*, which makes one's intuitions shareable and garners support for decisions.

In 2008, an assessment of the management practices of all Finmeccanica Group executives under the **MBO-GEAR** system designed in 2007 was carried out.
This process involved over 1,500 executives, ranging from Italian and foreign recently-appointed executives to heads of companies, and resulted in an investment in training and communication that focused on defining a shared **Management Model,** enhanced with new features in 2008.

In 2008, the **GEAR-UP Project - Building Finmeccanica's Future**, a management training and development initiative in support of the MBO GEAR system created in 2007 and in which a total of 1,415 executives worldwide took part, received 100% funding from Fondirigenti.

Design continued in 2008 on the **Competency Lab**, a library of "learning objects" that will be made available to Group executives to help them develop GEAR management model skills. Specifically the system architecture, the utilisation process, monitoring and governance methods were defined by an inter-company working group. Work also began on compiling the library with a selection of articles, books, links, documents and identification of on-the-job suggestions.

Among the most significant activities carried out in 2007 was the **Future Leaders' Review Project,** an integrated development, management and training initiative intended to study in-depth the managerial and professional traits of high-potential managers to be developed in order to mark out pathways that are consistent with management diversification and growth into more complex roles from a Group standpoint.
The initiative involved about 40 highly qualified managers, identified from among the Marketing and Commercial Affairs Professional Families (first edition) and the Administration and Control Professional Families (second edition) via the Management Review process.
The project resulted in a report analysing the strong points and the areas of improvement of each participant with the goal of crafting further training and development courses. The report was prepared by the Training and Human Resources Department, in cooperation with a leading head-hunting firm based on group activities and individual interviews.

The goal of the international management training initiative, "**From Technology to Values"**, aimed at high-potential managers at all Group companies, is to develop the qualities required to play a management role in running the overall business and process of change. In 2008, four editions of the Seminar were held, with 84 managers of various nationalities (Italian, English, French, German, American and Australian) attending. This contributed to increasing the number of members of the Community to 234.

In the spirit of continual improvement, an **Alumni Book** containing profiles of all the members of the "From Technology to Values" Community was created and a web community via the Group's portal was launched in order to encourage development of the network and to promote communication and the sharing of information among colleagues of different departments, companies and nationalities.

In June 2008, the first issue of the new in-house reporting series "**Technologies to Values – Management Culture Journals"** entitled "**Corporate Ethics and Ethics within the Corporation**" was published. It contains observations of external authors and in-house commentators gathered during the course of the Focus-On initiative (dedicated to those who already attended the Seminar) carried out in 2007. However, this publication is just the first of a series geared towards all Group executives, in the belief that the distribution and circulation of ideas and information is a fundamental tool for encouraging the development of a distinctive Group management culture.

### 1.3 Training by the Parent Company

In 2008, **training activities dedicated to employees of Finmeccanica SpA** were also carried out:

1. **Legislative training/information initiatives**, through:
   - the holding of a training course for employees and managers who handle personal information, in compliance with Italian Legislative Decree 196/03 and the corporate Security Policy Statement. This course was created in WBT fashion and will be available on the corporate Intranet starting in 2009 (roughly 100 participants expected);
   - the updating of the on-line course on the "Organisational, Management and Control Model" adopted by Finmeccanica SpA in accordance with Italian Legislative Decree 231/01. It is expected to be available to all Parent Company personnel in 2009;
   - the creation of a training course in compliance with Italian Legislative Decree 626/1994 and the corporate Security Policy Statement. This course was created in WBT fashion and will be available on the corporate Intranet starting in 2009 (roughly 100 participants expected).

2. **A Language Training Project**, aimed at improving participants' knowledge of foreign languages for business and to develop international skills. In 2008, the project involved 168 personnel from Finmeccanica. 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).

## *2. Group Culture*

### 2.1 Business Culture & Knowledge Management

In 2008, the Project Management Programme (PMP) training course, created in cooperation with all the Group companies, was introduced. Its key objectives are as follows:

- To define and develop Finmeccanica Project Management positions (in terms of areas of responsibility, activities, technical skills and fundamental practices, job grading) in a homogenous manner applicable to all companies ("Project Management in Finmeccanica's Way").
- To conduct world-class training courses that meet the highest market standards, to strengthen, align and update the key skills for the project and to institute a systematic approach. The training courses are designed for a variety of Project Management positions and degrees of professional experience and combine technical and specialized issues with those that focus on conduct.
- To assist a select number of candidates in receiving their **Project Management certification** from the most accredited international certifying bodies: PMI (USA), APM (UK), IPMA (Switzerland).
- **To launch the Finmeccanica Project Management Professional Community** and to encourage the accumulation and sharing of experiences and best practices among companies through the Group's Knowledge Management System.
- To increase the professional level of the Group's Project Management skills through life-long training and, where necessary, presentation of the model to the Stakeholders (customers, suppliers, institutions, etc.).

In 2008, the initiative's participants (holding positions such as Programme Manager, Project Manager, Risk Assessor, Project Controller, Contract Manager, Control Account Manager) totalled 940, from 21 operating companies and representing nine different nationalities.
The initial on-line skills assessment phase (technical and conduct) was carried out in three steps (self-evaluation, supervisor evaluation, joint meeting) and involved 940 participants and their 270 supervisors.
Afterwards, training courses began (18 different modules and five content areas). A total of 86 editions were held between April and November in three "key" Group companies (Italy, the UK, the USA).
Training activities addressed both the most cutting-edge technical subjects relating to project management (Risk and Opportunity Management, Value-based Management, Project Planning and Controlling, Contract Management, Earned Value Management, etc.) and the primary relational skills required to effectively perform their jobs (negotiating techniques, conflict management, effective communication, team-working in a multi-cultural context).
In 2008, roughly 46,000 training hours were conducted, for an average of 53 hours per participant. About 9,000 distance (e-learning) training hours were conducted by exploiting the technologies and opportunities available to Group employees.

Roughly 110 participants are working on receiving their Project Management certification from one of the most prominent independent international certifying bodies.

Most of the training activities were funded by the Fondimpresa which allowed us to offer this important training initiative on a broader scale.
The initiative's high quality and its international dimension were ensured through partnerships with 10 leading training and consulting firms on relevant subject matter, while the Politecnico di Milano acted as the initiative's Global Educational Partner, carrying out Design Quality Assurance and measuring and verifying the quality of the training. Finally, 42 co-trainers and experts from the Group's companies contributed to developing the six case studies used in the lessons.

The PMP was chosen as an internationally distinguished project in the Project Management training area and was recognised at the 22nd IPMA World Congress held in Rome in November 2008.

The PMP will continue in 2009 for another segment of the population engaged in Project Management, while a number of 2008 participants will pursue more specialised training.

In 2008, another significant Group industrial culture initiative, the **Finmeccanica Economics Programme,** continued and expanded. It aims to improve economic and financial management skills, specifically to promote value creation approaches and methodologies along three increasing levels of depth.

By the end of 2008, the initiative, launched in 2006, had drawn more than 1,000 participants from all the Group companies. This is proof of interest in the technical subject matter covered and of the high quality of the training course, which uses an experience-based approach built on business simulation, in which tools for assessing value creation are applied.

Between April and June 2008, the group of experts from the operating companies took part in several workshops to review the training structure and “industrialize” the course. The new version (called **Finmeccanica Economics Programme 2.0**), uses advanced distance-learning training methods based on Web 2.0 technologies and is focused on creating a catalogue of on-line modules (web-based training) that prepare students for classroom learning. The catalogue, which will be available in 2009, will make the course accessible to a wider audience within the companies and will provide continual support for skill improvement.

Regarding **Knowledge Management,** in 2008, in concert with the Finmeccanica Group Services’ Purchasing and ICT Department, work continued to develop the Group Knowledge Management System with the definition of the related IT infrastructure architecture and the selection of the technical solution, which began to be implemented in 2008 and which will be completed in 2009. This platform will initially support two Business Culture projects:

- the **Project Management Programme**, for which functions for skill assessment, knowledge testing, testing of satisfaction/functionality in support of training organisation and approaches and a repository for educational materials will be available. In addition, it will serve as the reference platform for all on-line training activities and for functions supporting the creation of the Project Management

Practice Community, so as to encourage the sharing and exchange of experiences between old and new PMP participants;

- the **Finmeccanica Economics Programme**, with functions supporting distance-learning and the testing of knowledge before and after completion, ensuring accessibility in a private, protected environment.

### 2.2 Group Identity

In 2008, under the **Business Culture Project**, the second **Finmeccanica Corporate Climate and Culture Survey** was conducted through publication of an on-line questionnaire available in nine languages on the Group's portal. Almost 29,000 persons, from 272 Finmeccanica site throughout the world, once again expressed their opinions on a series of questions posed, thereby contributing to tracking the progress made since the last survey conducted in 2006 and the areas most requiring action in 2009.

Whereas the 2006 survey offered a "first snapshot" of the Group, this year's survey was a "second slide of film" with Finmeccanica as the driver of a positive and encouraging continuous growth process. Compared with the previous edition, there was an increase in the number of respondents, from 43% to 52% of the population between 2006 and 2008.

The high response level in 2008 proves that the Business Culture Project is now recognised within the various Finmeccanica companies as a **"model" for listening, action and involvement** of persons in the growth and continual improvement of the Group, who are moving towards building a distinctive, multi-cultural identity that respects local and corporate affiliations that mark the various companies.

Following the path forged in 2006, we are identifying several areas on which to focus improvement efforts at the Group and individual company levels based on the results gathered, which are also currently the subject of a broader communication process underway within the various Group companies.

Within the scope of the **Integrated Project of Internal Communication & Group Identity**, which is the result of a collaboration between the Training and Human Resources Development Department and the Communications Department intended to optimise the flow of communication within the Group, the ***Training Course*** for ***Finmeccanica In-house Communicators*** was developed. The initiative, intended to reinforce job-related skills and managerial abilities within the different Finmeccanica companies, offered participants the chance to talk with members of best performing companies on In-house Communication subjects, and resulted in the strengthening of the Group's In-house Communicators network. In 2008, the team of Communicators lent support to the process of standardizing in-house communication tools across all Group companies and introduced new tools (**Finmeccanica Bulletin Boards**), setting for itself the challenging task of crafting an In-house Communication Plan for the Group in 2009.

In order to emphasise the attention that Finmeccanica pays to the **development of human capital** within the various Group companies worldwide, the Training and Development Department is constantly defining content for the human resources-related sections of the **Finmeccanica's web site** (www.finmeccanica.com) and of the **Group's portal** (http://inportal.finmeccanica.it).

In the conviction that young people are capable of making an important contribution to change and transnational integration at Finmeccanica, the Training and Human Resources Development Department, in cooperation with the Communications Department and the Communication Sciences School of "La Sapienza" University of Rome launched, in 2008, the **Young People's Perception** project.
The initiative, with the creative contribution of 20 talented young people recruited from among all the Group companies who provided their perceptions of Finmeccanica's image and communication methods, led to the creation of an Action Plan containing original solutions and ideas for restyling the Group's Internet site, which will be carried out in 2009.
The objectives are to improve Finmeccanica's web-based image in terms of employer branding, to make communication processes more effective, appealing and people-oriented, and to improve the ability to convey corporate visions, objectives and strategies.

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 participation, involving a total of almost 10,000 worldwide, for a total of over 3,000 innovative projects, many of which have received patents. In 2008, each company launched and managed their own Innovation Award. The 3 winners from each company took part in the **Group Innovation Award,** now in its fifth edition. This year's Award attracted 976 innovative projects, roughly 33% of which were contributed by employees of the Group's foreign offices.

To promote the further spread of a customer-oriented culture and to reward and encourage best practices, the Training and Human Resources Development Department, in cooperation with the Technical, Industrial and Commercial Development Department, introduced a new award, the **Customer Satisfaction Award**.

All Group companies took part by submitting specific customer satisfaction-oriented programme. A Customer Satisfaction Board judged the programmes submitted based on the information provided by the various companies and announced the "winner" during the **2008 Management Convention**.

As regards the activities intended to support the **Professional Families** (PFs), in 2008 designing of the Competency Management System was completed. It is the reference model for identifying and developing the professional traits and core skills of the PFs - creating a shared language and a single, common reference for the companies, as well as promoting the growth, leveraging and sharing of knowledge.

In 2008, two meetings were held with the project representatives of the HR departments of all the Group companies in order to share methods and activities that have already been implemented on an experimental basis for the **Procurement PF** and to establish the operational steps to be taken to compile an inventory of the skills of the all members of the PFs worldwide. IT platform tools were set up and the communications process for the activity was introduced. Work will begin in 2009.

A dedicated working group comprised of the Human Resources Department, the Group Purchasing and ICT Department, and representatives from a number of company HR and ICT offices completed the design of the professional system of the **ICT PF**, with regard to:

1. identification and description of the Professional Roles, with relative seniorities, and standardisation of all the names used by the companies within this framework;
2. definition of the total store of technical/specialist knowledge of the PFs;
3. rationalisation of theoretical training and professional development among the roles.

## 2.3 Occupational Safety

In 2008, Finmeccanica, through its Human Resources Department, initiated a project designed to introduce a standard safety system across the Group to promote and ensure, tailored for each individual company, the spread of a culture of safety, as well as continual improvement of employee safety and health conditions in the workplace.

Receiving training on these subjects within the Finmeccanica Group, which encompasses a variety of business environments and different complex production processes, means:

- taking part in a common safety culture through the communication of "good experiences" and training in "good practices" on prevention and risk management;
- understanding proper safety-related conduct, arranging conducts starting with specific work processes;
- transferring "good experiences" to develop new common practices.

Thus, Finmeccanica's Training and Human Resources Department, seizing the opportunity presented by the issuance of Fondimpresa's Notice 1/2008 entitled "Occupational Safety and Workers' Health", submitted two training projects for the Group companies last October on behalf of the Parent Company.

Both received a combined total of €365,000 in funding from Fondimpresa pursuant to a decision of its board of directors on 23 December 2008.

Specifically, the first project, entitled "**Safety & Environment: a multi-dimensional approach in the Finmeccanica Group Companies**", is aimed at roughly 600 key employees in 26 Group companies, operating within the security management system: supervisors, worker safety representatives (RLS), prevention and protection service managers (RSPP), prevention and protection service employees (ASPP), and facility heads.

The ultimate goal is to transmit to all security experts information useful for:

- carrying out appropriate upgrades to conform with the new Consolidated Safety Act (Legislative Decree 81/2008), consistent with EU and national regulations, taking into account changes that have occurred in civil, criminal and corporate law areas;
- oversight over the proper adoption of safe practices in the workplace, as well as proper planning and management of technical projects, including financial aspects;

- designing, implementing, strengthening and continually improving the corporate safety system (in compliance with international regulations, e.g. OHSAS 18001 and the Italian Workers' Compensation Authority (INAIL) regulations and guidelines);
- improvement in skills in the areas of:
  - identifying and controlling specific risks for each sector where the recipient of the training operate:
  - prevention, protection and measurement of environmental aspects of risks.

The second project, entitled "**Training in good Health and Safety practices within the Finmeccanica Group**", is aimed at about 200 resources from 18 Group companies, including security experts (RSPP, ASPP and RLS) and "key personnel" responsible for corporate processes (production, technical areas, management).
The ultimate goal is to implement training starting with a number of winning experiences in the areas of prevention and security discovered among the Group companies.
Training under both projects will be carried out in 2009.

**Industrial Relations and Social Affairs**

In 2008 - following the renewal of the national collective bargaining agreement for the metal-working and engineering industry (signed on 20 January 2008) in which Finmeccanica's representatives maintained a constant, direct involvement in Federmeccanica delegations and at the official bargaining "table" - Finmeccanica focused its attention on the accurate, proper application of the new text of the contract and the issues arising from it within the Group companies, from a regulatory standpoint, as well as with regard to benefits packages.

Against this background, it should be noted that Finmeccanica's representatives have been proactive in dialogue groups with the trade unions FIM, FIOM, and UILM on issues outstanding following the reaching of the agreement on 20 January 2008, with a focus on reviewing the employee classification system and standardisation of benefits resulting from the unification of white-collar, skilled and blue-collar workers categories.

In addition, Finmeccanica's representatives received recognition within Confindustria through, among other things, appointment to the Vice-Presidency of Federmeccanica with responsibility for European Affairs, the Presidency of the Council of European Employers of the Metal Engineering and Technology-Based Industries (CEEMET), appointment of one of its members to the board of directors Fondo Cometa, as well as the Vice-Presidency within the metal-working section of the Rome Industrialist Association.

In the wake of the **Memorandum of Understanding signed with national trade unions FIM-CISL, FIOM-CGIL and UILM-UIL and the Group Policy issued by Finmeccanica,** work continued to launch and increase the skills of **corporate middle managers**.

Therefore, under the understanding and with the support of the individual companies, a professional growth management pathway was identified based on the role performed as well as the size of that portion of the workforce, recognizing the special importance of training for consolidating the goal of professional development and identifying middle managers with the corporate objectives and values of Finmeccanica.

Of special importance is the support that Finmeccanica guaranteed to a number of companies involved in **restructuring/reorganisation/realignment**.

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, especially with regard to the possible impact on an employment and corporate level.

Specifically, a conclusion was reached in several disputes that were especially complex for political or, especially, union-relation reasons, such as, for example, the reorganisation agreement for Alenia Aeronavali, the redevelopment and new business outlook plan for Oto Melara's Brescia site, the precise application of the reorganisation agreement for Selex Communications begun in 2007 and the completion of the merger of Elsag Datamat.

Within this context and to ensure that the individual companies receive adequate support, Finmeccanica coordinated and managed the infragroup mobility processes (the so-called "Compensation Basins") to maximize the effective management of the above processes.

These initiatives (in particular, the Turin production unit of Elsag Banklab; the Rome production unit of Quadrics; the Rome and Genoa production units of SO.GE.PA.; the

Pratica di Mare production unit of Alenia Aeronavali) were positively received by both the unions and the personnel affected.

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 Oto Melara and Ansaldo Energia, as well as significant progress at other "negotiating tables" that are still active and are expected to be concluded by the end of the year (Alenia Aermacchi, Ansaldo STS).
The results were achieved by paying close attention to costs, by the signing of agreements/understandings with national, local and business-level unions, and by substantially maintaining "social peace" in the workplace.

Finally, it is important to underscore, within the scope of actions undertaken to assist individual companies in managing different processes, especially in relation to the possible employment and social impacts, the primary role played by the Parent Company with regard to the so-called *"**Mobilità Lunga**"* early retirement process, as concerns both the competent ministerial offices and the national offices of the various trade unions.
This process, begun in 2007, resulted in the use of all 495 of the "mobilità lunga" units assigned to the Finmeccanica Group and was fully supported by the trade unions concerned since 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, within the scope of those companies that are expressly indicated in the ministerial agreement, were rationally selected on the basis of real need, thereby giving priority to companies undergoing processes of reorganisation, restructuring, conversion, crisis, or other corporate alterations.

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 **insurance coverage** and **supplementary pension schemes.**

As concerns the **Finmeccanica Group Executive Pension Fund** in particular, in 2008 an analysis was conducted of the fund's regulatory and procedural compliance, specifically to

verify the compatibility of management decisions adopted with regard to the reference regulatory framework and the economic context.
In order to further diversify investments, a new insurance company was introduced to which pension contributions can be directed on a voluntary, individual basis. Finally, 2008 was characterised by the reappointment of the Fund's boards.

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** (ambulatory physician and check-ups) with a series of **preventive medicine initiatives**.
Specifically, medical screening initiatives were undertaken as were programmes to provide information and spread awareness about ophthalmology, posturology (with an appropriately equipped gym) and aging.

In 2008, agreements were established/redefined with several healthcare facilities, while first **Occupational Medicine** "conference" was held in June on the subject of "The Effectiveness and Efficiency of Occupational Medicine within the Finmeccanica Group".

Consistent with the guidelines established the previous year and from an increasing business internationalisation perspective, closer scrutiny was given to integration processes concerning employment-related organisational, regulatory and contractual matters.
Specifically, with regard to the UK area, work continued to standardise employee benefits, implementing synergies between the structures of operating companies, encouraging the formation of centralised **HR Shared Services** and the establishment of homogenous employee benefits policies.
Among the important activities relating to the UK Pension Funds, the new Group FuturePlanner Plan, which currently includes all the new enrolees of AgustaWestland, Finmeccanica UK and Selex Communications, was extended.

In 2008, the process of rationalising pending labour disputes was completed through constant control and monitoring, leading to a significant reduction in and optimisation of legal fees for **Labour Disputes**.

On a regulatory level, within the context of the legislative reforms that were undertaken in 2008, in-depth studies were made concerning topics having a high impact on the Group in order to establish a common interpretative policy. Special attention was given to the impact of application of the new welfare regulations (the "*manovra d'estate*) introduced by Law 133 of 2008 (labour market, simplification of administrative processes, pension system).

Finally, a **Health and Safety Coordination Committee** was formed within the Human Resources Central Function. It is responsible for reporting and monitoring with regard to regulatory, organisational, training, health and environmental oversight at the Group level.

The Committee, which is under the coordination of the Human Resources Management and Industrial Relations Department, is composed of the heads of the Human Resources Central Function units directly involved in the Security Project (Organization, Regulatory, Prevention and Protection Service and Training) and involves the Finmeccanica Group Real Estate with regard to its specific areas of expertise.

## Finmeccanica: Security Policy Statement (SPS)

**"Information provided pursuant to Italian Legislative Decree 196 of 30 June 2003 (Personal Data Protection Code)"**

Pursuant to Section 26 of the Technical Regulations on minimum security measures, which constitutes Annex B to Legislative Decree 196 of 30 June 2003 (the Italian personal data protection code), the **Security Policy Statement (SPS)** on the handling of personal data was updated during the year by the deadline of 31 March 2008 as established by law.

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

### Information security management system

On 4 June 2008, the annual inspection by **Det Norske Veritas (DNV)** was carried out to confirm the ISO/IEC 27001:2005 certification[1] concerning the security management system for the electronic mail service. The Company's certification was re-confirmed.

During the final quarter of 2008, the Information Security Awareness Programme (ISAP) was introduced to increase awareness of and knowledge about security in using Information and Communication Technology (ICT) resources.

Between September and December 2008, Finmeccanica's Business Impact Analysis (BIA) project was developed and completed. Its purpose was to establish and implement business continuity and disaster recovery management plans within the Company.

[1] ISO/IEC 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.

## Incentive plans (*stock option* and *stock grant* plans)

*2002-2004 Long-Term Incentive Plan*

On 16 May 2003, the Ordinary and Extraordinary Shareholders' Meeting resolved to approve a Long-Term Incentive Plan (Stock Option Plan) for the key resources of Finmeccanica – Società per azioni and its subsidiaries, based on 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 were 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 grants the right to purchase/subscribe a Finmeccanica – Società per azioni 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.

In relation to the capital increase carried out in 2008, the exercise price was adjusted by the Remuneration Committee on 15 October 2008 to €12.28 each for options not yet exercised at the start date of the capital increase, although the number of options granted remained unchanged. The foregoing was carried out in accordance with the Plan Regulations to offset the dilutive effects on the capital.

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), 3,334,474 ordinary Finmeccanica – Società per azioni shares have effectively been subscribed, with a resulting capital increase of €14,671,685.60, while 91,790 options to purchase treasury stock have been exercised.

The Finmeccanica – Società per azioni Shareholders' Meeting of 16 January 2008 revoked the authorisation to purchase and make available the shares mentioned above resulting from the unexercised options, however it guaranteed the availability of the same number of shares to service the Plan—as well as the shares still required for other plans—within the scope of a broader treasury share buy-back programme.

*2005-2007 Long-term Incentive Plan*

The Shareholders' Meeting of 1 June 2005 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 reverse split) to service the new 2005-2007 Incentive Plan, reserved to strategic and key Group employees.

On 21 April 2005, the Board of Directors examined and approved the general outline of the Plan to be submitted to the aforementioned Shareholders' Meeting, based on which the Plan provides for the allocation of the right to receive Finmeccanica shares free of charge to participants (stock grant), upon verification of the achievement of pre-determined performance objectives.

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.

The Remuneration Committee provided that, following the conclusion of each accounting period (2005, 2006 and 2007) and the approval of the relative individual and consolidated financial statements by the Board of Directors of Finmeccanica – Società per azioni - based upon the representations and the data provided by the Company's departments that are duly certified in accordance with Group Procedures - an assessment be made of the degree to which the assigned performance objectives have been reached and a calculation be made of the number of shares to be allocated to each person, and that notice of such be provided to the participants.

At its 11 May 2006 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 2005, and calculated the number of shares to be granted to each of the beneficiaries for 2005. Upon completion of the review, the Committee approved the award of a total of 1,076,225 shares (equal to about 76% of the total attributable to 2005). The purchase of the shares to service the Plan was completed on 2 June 2006.

At the same meeting, the Committee also authorized, following the placement of more than 50% of Ansaldo STS on the stock market, the revocation of the share rights awarded to 41 beneficiaries for a total of 318,265 shares. As from 2006, these beneficiaries will participate in a long-term incentive plan established by Ansaldo STS after its listing. The Committee also approved the adjustment of the performance targets to match the new values in the business plans of the companies affected by changes in their scope of operations or other major discontinuities, and the consequent adjustment at the consolidated level.

On 28 August 2006, Finmeccanica – Società per azioni sent written notice to each of the beneficiaries of the shares to be granted based upon the results achieved in 2005.

Based on the findings of the 2006 Management Review, on 17 October, the Chairman and Chief Executive Officer presented a proposal to the Remuneration Committee for the inclusion of 78 new managers as Plan participants, granting them to right to receive up to a total of 366,840 Finmeccanica – Società per azioni shares at no cost. On 17 October 2006, the Remuneration Committee approved the proposal of the Chairman and Chief Executive Officer. As a result of some slight changes following the date of the meeting, the number of new Plan Participants rose to 80 managers, up to a total of 374,926 shares. This change was accepted by the Remuneration Committee in managing the Plan.

On 1 December 2006, effective delivery was made of the shares awarded for 2005. Of the 1,076,225 total shares available, 642,115 shares were transferred into individual deposit securities indicated by the beneficiaries, while the remaining 434,110 shares were withheld to cover tax and social security obligations arising under the Plan.

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 draft 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). As a result of some slight changes following the date of the meeting, the total number of shares attributable fell to 1,055,710. The Committee approved the inclusion of a Group top manager among the Plan Participants.

At its meeting of 26 July 2007, the Board of Directors of Finmeccanica – Società per azioni, following the decisions of the 23 May 2006 and 30 May 2007 Shareholders' Meetings to renew authorisation to purchase and make available treasury shares to service the Plan, passed a resolution for the purchase—in one or more instalments—of up to 4,067,880 shares of the Company. It authorised the Chairman and Chief Executive Officer to take the required measures to purchase the shares as set out in the resolution.

On 28 August 2007, Finmeccanica – Società per azioni sent written notice to each of the beneficiaries of the shares to be granted based upon the results achieved in 2006.

On 3 December 2007, effective delivery was made of the shares awarded for 2006. Of the 1,055,710 total shares available, 606,824 shares were transferred into individual deposit securities indicated by the beneficiaries, while the remaining 448,886 shares were withheld to cover tax and social security obligations arising under the Plan.

Taking into account the shares already delivered based on the 2005 and 2006 results, and as a result of the changes in the scope of the Plan beneficiaries that occurred during its period of application, a total of 3,436,523 Finmeccanica - Società per shares may granted to the 594 Plan participants in the event the targets for 2007 are fully reached.

The Finmeccanica – Società per azioni Shareholders' Meeting of 16 January 2008 revoked the authorisation to purchase and make available the shares mentioned above resulting from the unexercised options, however it guaranteed the availability of the same number of shares to service the Plan—as well as the shares still required for other plans—within the scope of resolution on a broader treasury share buy-back and use programme. On 28 February 2008 the Board of Directors authorised the Chairman and the Chief Executive Officer to carry out the Shareholders’ Resolution.

On 23 April 2008, the Remuneration Committee took steps to verify whether the performance targets had been attained at the Group and individual company levels, based upon the draft individual and consolidated 2007 financial statements, and calculated the number of shares effectively granted for each beneficiary for 2007. Upon completion of the verification process, the Committee approved the granting of a total of 2,081,558 shares (equal to about 77% of the total grantable for 2007). The reason why this amount is significantly higher than for the tranches granted in previous years is due to the complexity of the Plan itself, which provides that 50% on the rights granted during the three-year period are tied to the objectives for 2007. Therefore, to fully achieve these objectives, the Plan Regulation contains the option of “recouping” shares from previous years that have not been awarded. Due to a number of minor changes in the scope of beneficiaries that occurred subsequent to the date of the Committee meeting above, the total number of shares awardable declined to the final figure of 2,042,384.

In 2008 through the end of September 1,225,000 treasury shares were purchased and destined to service the Plan..

In accordance with the Plan Regulation and in keeping with the goal of letting the beneficiaries fully exercise all the option connected with the capital increase – approved on 1 August 2008 by the Extraordinary Meeting of the Shareholders of Finmeccanica – Società per azioni in connection with the acquisition of DRS Technologies by Finmeccanica – Società per azioni – on 30 July 2998 the Remuneration Committee moved forward the delivery of the tranche of shares tied to the final performance figures for 2007 from 1 December 2008 to 1 October 2008.

As a result, on 1 October 2008, delivery of 1,121,568 shares awarded for 2007 was made to the beneficiaries. As indicated by the beneficiaries, the balance of the shares were withheld to cover tax and social security obligations owed by the beneficiaries in relation to said delivery. By this delivery the Long-Term Incentive Plan 2005-2007 was definitively concluded.

*Long-term Incentive Plan 2008-2010*

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 (thus, a stock grant plan) 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 awarding Plan beneficiaries 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 (and related EBIT) and EVA, and the relative targets set under the 2008-2010 Budget/Plan for the Group and the Subsidiary, based on the operating situation of each beneficiary.

As mentioned above, the Finmeccanica - Società per azioni Shareholders' Meeting of 16 January 2008 revoked the authorisation to purchase and make available its treasury shares, however it guaranteed the availability of the required number of shares to service the Plan, to be achieved through a specific resolution on a broader treasury share buy-back and use programme which will include the purchase of the shares needed for Performance Share Plan 2008-2010.

At its 18 December 2007 meeting, the Board of Directors adopted a resolution formally creating the 2008-2010 Stock Incentive Plan (called the Performance Share Plan), and instructed the Remuneration Committee oversee all aspects of Plan management.

At its 28 February 2008 meeting, the Remuneration Committee allocated the right to receive shares of the Company without cost to 562 beneficiaries for a total of 4,579,483 shares.

The number of shares granted is calculated (according to the usual market practices for such a transaction and consistently with the grants made under the previous 2005-2007 Plan) 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 €20.44, which is the average price of the share from 1 October 2007 through 31 December 2007, the same value on which the performance of Finmeccanica - Società per azioni stock is measured throughout the long-term cash incentive plan cycles for the top management of Finmeccanica Società per azioni.

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 2008 and 2009 and 50% for 2010 targets. Under the Regulations, achievement of the latter could enable “recovery” of share rights that had not been allocated in previous years.

The Remuneration Committee shall provide that, following the conclusion of each accounting period (2008, 2009 and 2010) and the approval of the relative individual and consolidated financial statements by the Board of Directors of Finmeccanica Società per azioni- based upon the representations and the data provided by the Company’s departments that are duly certified in accordance with Group Procedures - an assessment shall be made of the degree to which the assigned performance objectives have been reached and shall calculate the number of shares to be allocated to each person, providing that notice of such be given to the participants.

**Equity investments held by members of administrative and control bodies, by the general manager and managers with trategic responsibilities**

| SURNAME AND NAME | INVESTEE COMPANY | Number of shares held at previous year-end | Number of shares acquired | Number of shares sold | Number of shares held at current year-end |
|---|---|---|---|---|---|
| Guarguaglini Pier Francesco | Finmeccanica | 45,240 | 76,753 (1) | 0 | 121,993 |
| Greco Richard Jr. | Finmeccanica | 0 | 600 | 0 | 600 |
| Venturoni Guido | Finmeccanica | 0 | 24,994 | 0 | 24,994 |
| Zappa Giorgio | Finmeccanica | 56,036 | 72,905 (2) | 0 | 128,941 |
| Managers with strategic responsibilities | Finmeccanica | 18,283 | 20,578 (3) | 12,374 | 26,487 |

(1) - Of which no. 25,599 assigned free of charge
(2) - Of which no. 28,777 assigned free of charge
(3) - Of which no. 12,352 assigned free of charge

## Finmeccanica and financial communication

***Relations with the financial market***

Finmeccanica keeps a constant dialogue with the national and international financial community – financial analysts, institutional and individual investors – through continuous communication from the Investor Relations Function.

Investor Relations provides the quality and quantity information on the expected financial and economic performance and the Group commercial and industrial performance by presenting economic and financial results, their outlook and the business areas in which the Group operates.

This is the reason why, during the year, Investor Relations organises various events aiming at letting the financial market know Finmeccanica, in order to improve perception and reach a valuation of the stock that is consistent with the intrinsic value of the Group activities.

The major events organised during the year include:

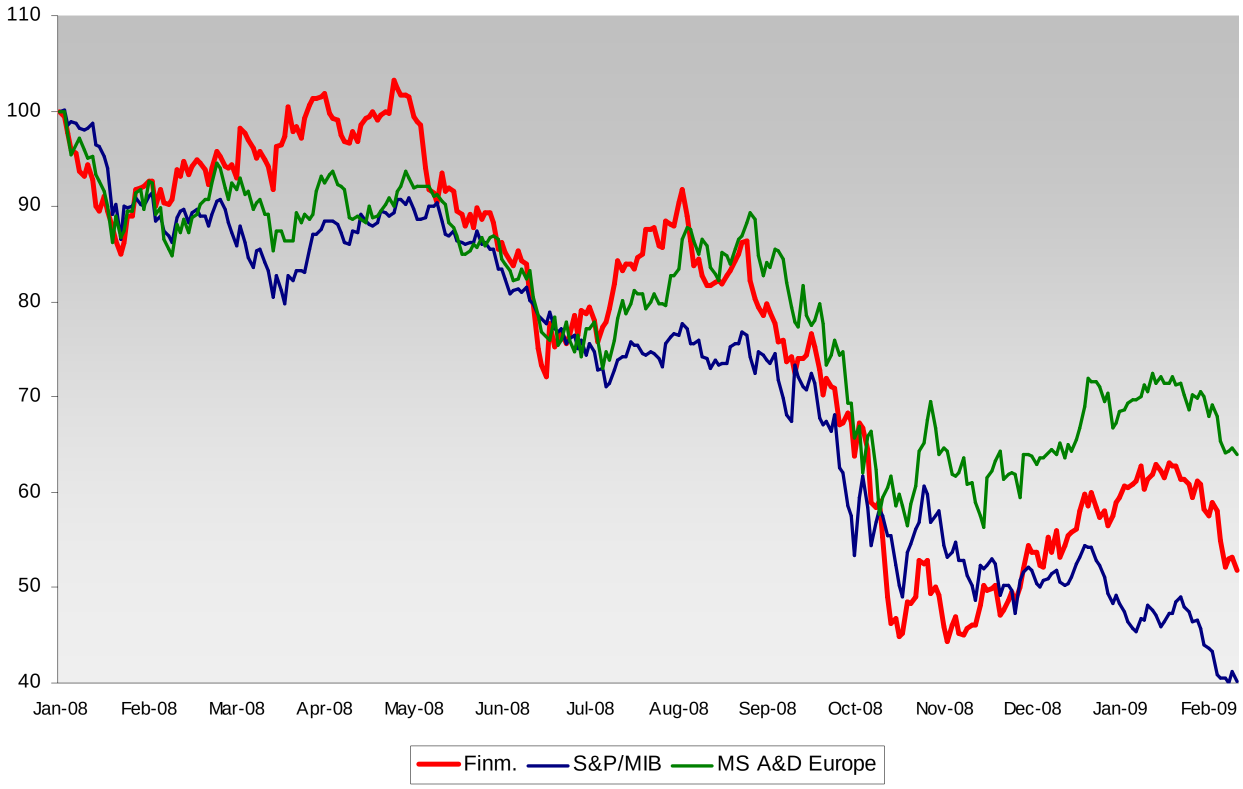
- institutional roadshows with the Group Top Management when the annual and half-year results are published; these are held in the major European and North American financial centres; and deal roadshows organised when extraordinary transactions are made, such as Finmeccanica's share capital in the last quarter of 2008;
- the Investor Day, organised on average once a year with Finmeccanica's Top Management and top managers from the Group operating companies. This is entirely devoted to gaining insight on the Group activities, focussing on segments and/or geography depending on the event edition; traditionally Investor Day comes with a visit to the production sites of the operating companies;
- conference calls, when the first and the third quarter results are published, as well as when significant transactions are announced.

Moreover, each year, at the International Aerospace Exhibition (which is held annually in turn at Farnborough-UK and Le Bourget-France), Investor Relations organises numerous meetings between the financial community and the Top Management of Finmeccanica and of the major Group companies.

More information on the shareholder activities performed by Finmeccanica's Investor Relations is also available in the section Investor Relations of the institutional site www.finmeccanica.it, especially: economic and financial data, market presentations, financial statements and prospectuses on financial transactions, real-time updates on stock performance and information on Corporate Governance.

Shareholders can also use this contact:
e-mail: investor_relations@finmeccanica.com

**Performance of the Finmeccanica Stock in the Italian S&P/MIB index and the European segment index Morgan Stanley A&D (01/01/2008 = 100)**

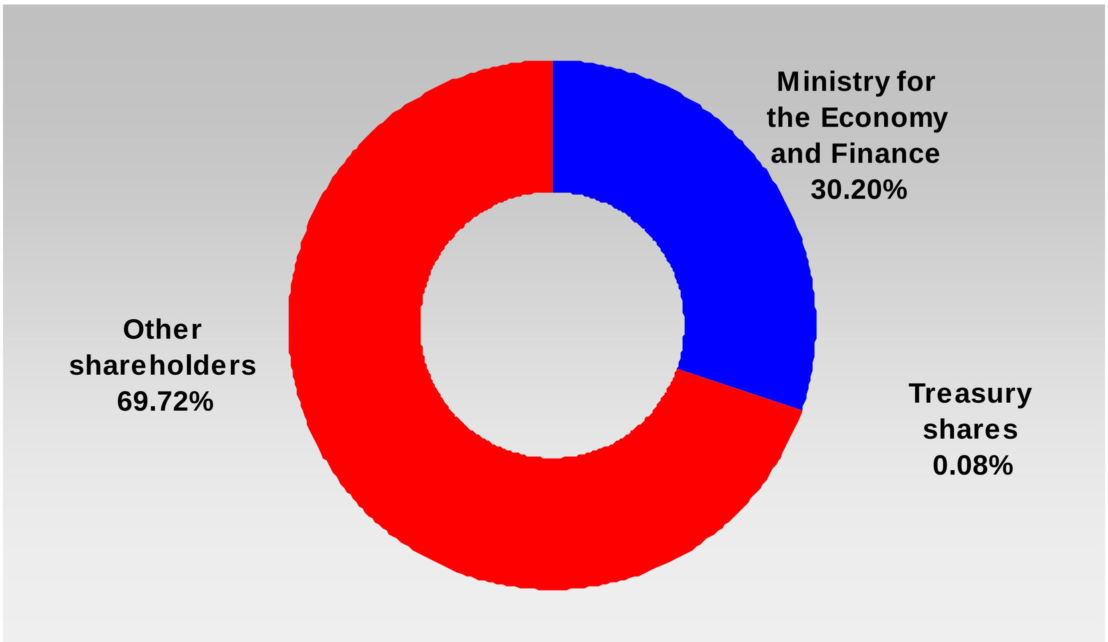



Source: Bloomberg historical closing prices

The year 2008 was marked by a strong reduction in the value of the share listings. The macroeconomic scenario, which was already negative in the first part of the year, further worsened since September. In this scenario, the Italian stock index S&P/MIB closed the year 2008 with a decrease of almost 50% as compared with the end of the previous year. The Aerospace and Defence European segment was also affected by this negative trend. In particular, the European index for the Aerospace and Defence segment (MS A&D Europe) ended the year with a decrease of almost 40% as compared with the end of 2007. In the same period, the value of the Finmeccanica stock decreased by some 44%. We remind you that during 2008 Finmeccanica commenced some strategic transactions in a particularly difficult financial context, first of all the share capital increase of €bn 1.2 in order to finance a part of the acquisition of the US Group DRS Technologies (this transaction is thoroughly commented on in the section Significant events in 2008 and events subsequent to closure of the accounts for the period).

## Major Shareholders

At 31 December 2008 Finmeccanica's share capital is divided into 578,150,395 ordinary shares, broken down as follows:




At the same date, Finmeccanica holds 447,209 treasury shares (equal to some 0.077% of the share capital).

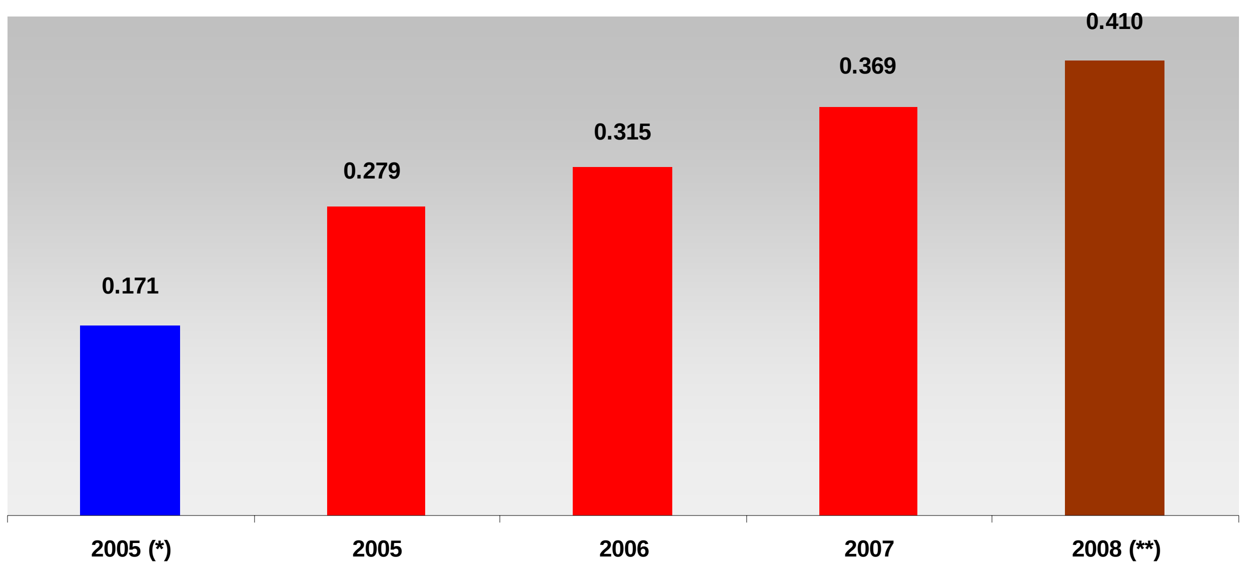
For further details on the shareholding structure, reference should be made to the page "Shareholding Structure" in the section "Investor Relations" on the institutional site of Finmeccanica (www.finmeccanica.it).

## Main Data per Share (2005-2008)

### Earning per Share

| (in euros) | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| *Basic EPS* | **1.294** | 1.140 | 2.353 | 0.861 |
| *Diluted EPS* | **1.293** | 1.138 | 2.344 | 0.854 |

### Dividend per Share (in euros)




Dividends for years from 2005 through 2007 have been restated to reflect the share capital increase on 21 November 2008.
(*) Extraordinary Dividend
(**) Dividend proposed by the Board of Directors to the Shareholders' Meeting

## Corporate Governance

The Corporate Governance system of Finmeccanica 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.

The text of the Report on the Corporate Governance Code will be made available, in accordance with law, at the Company's registered office and on its website (www.finmeccanica.com) in the Investor Relations/Corporate Governance section, as well in a special section (also directly accessible from the website's home page) dedicated to the Shareholders' Meeting held to approve the financial statements, containing documents and information relating to the Shareholders' Meeting.

The main changes made in relation to the Company's Corporate Governance in 2008 are briefly explained below.

1. **BOARD OF DIRECTORS -** On 6 June 2008, the Ordinary Shareholders' Meeting set the number of number of directors at 11 and appointed a new Board of Directors for the 2008-2010 three-year period. Pursuant to a decree issued on 26 June 2008 by the Minister for the Economy and Finance, in agreement with the Minister for Economic Development, exercising the "special powers" granted by Law No. 474/1994, the 11 members of the Board of Directors are joined by Ambassador Giovanni Castellaneta, who is appointed as a director without voting rights pursuant to Article 5.1-ter, letter d), of the Company Bylaws.

   The new Board of Directors, whose term of offices runs until the financial statements for 2010 are approved by the Shareholders' Meeting, is composed of the following 12 members: Pier Francesco Guarguaglini, Franco Bonferroni, Dario Galli, Francesco Parlato, Nicola Squillace, Riccardo Varaldo, Guido Venturoni (belonging to the list presented by the Ministry for the Economy and Finance), Piergiorgio Alberti, Richard Greco, Maurizio de Tilla, Andrea Boltho von Hohenbach (belonging to the list presented by Mediobanca SpA) and Giovanni Castellaneta (appointed by ministerial decree).

The Shareholders' Meeting also appointed Pier Francesco Guarguaglini as Chairman of the Board of Directors and as Chief Executive Officer.

2. **COMMITTEES -** On 26 June 2008, the new Board of Directors completed the re-composition of its internal committees, formed as provided by the Corporate Governance Code, as follows:
   - Internal Auditing Committee: Piergiorgio Alberti (Chairman), Franco Bonferroni, Maurizio de Tilla and Nicola Squillace (all non-executive, independent directors).
   - Remuneration Committee: Riccardo Varaldo (Chairman), Piergiorgio Alberti, Franco Bonferroni, Francesco Parlato and Dario Galli (all non-executive and most independent directors).
   - Strategy Committee: Pier Francesco Guarguaglini (Chairman), Andrea Boltho von Hohenbach, Giovanni Castellaneta, Dario Galli, Richard Greco, Francesco Parlato, Nicola Squillace and Guido Venturoni.

3. **LEAD INDEPENDENT DIRECTOR** - On 26 June 2008, Finmeccanica's Board of Directors, in accordance with the recommendations of the Corporate Governance Code, appointed (with the abstention of the Chairman and Chief Executive Officer, as provided by the Rules of the Board of Directors) Guido Venturoni as Lead Independent Director. His role is to guide and coordinate the requests and contributions of the non-executive directors.

   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 2010 financial statements.

4. **RESPONSIBLE MANAGER -** Finally, on 26 June 2008, the Board of Directors, having first consulted the Board of Statutory Auditors, appointed Alessandro Pansa, Co-General Manager of the Company, as Manager responsible for drafting company financial reports pursuant to Art. 154-bis (1) of the Consolidated Law on Financial Intermediation and Arts. 25.4 and 25.5 of the Company Bylaws, until the expiration of the term of office of the current Board of Directors.

In addition, to ensure compliance with these regulations, the Company undertook to more accurately define the administrative accounting procedures for preparing consolidated and statutory annual and interim financial statements.

**5.** With regard to the modifications made to the organizational structure and regulatory changes under Legislative Decree 231/01, concerning occupational health and safety (Legislative Decree 81/08), the receipt, laundering and use of money obtained illegally within Italy (Legislative Decree 231/07), as well as the introduction of Law 48/08 on computer-based crimes, Finmeccanica is working on updating its **COMPLIANCE PROGRAMME PURSUANT TO LEGISLATIVE DECREE 231/01.** This process is expected to be completed in the first half of 2009, with Board approval of the new document which will also reflect the instructions contained in the Confindustria Guidelines revised in 2008.

The **SUPERVISORY BODIES** in the major Group subsidiaries are collegial in form, while the function is carried out by an individual in the other Group companies pursuant to Art. 6 of Legislative Decree 231/01. The duties and responsibilities of the Supervisory Bodies are set out in specific bylaws approved by the Group companies’ boards of directors, while their operation is governed by Rules also acknowledged by these boards of directors.

As to the general process of implementing the requirements of Legislative Decree 231/01 within the Group, it should be noted that the individual Group companies are in the process of updating their Compliance Programmes in response to regulatory changes and modification to their individual organisational structures. The process is expected to be completed by the end of 2009.

* * * * * *

**CONSOB - ISSUER REGULATION, ART. 36. -** In accordance with CONSOB provisions contained in the Market Regulation and specifically Art. 36 of Resolution no. 16191/2007, the assessment of whether the regulatory provision applies to the Finmeccanica Group and the existence of the conditions referred to in the provisions, revealed, that the subsidiaries on

30 September 2008, established and regulated under the law of non-European Union countries, were not deemed material based on the exemption criteria provided under 151 of the Issuers Regulation adopted through CONSOB Resolution no. 11971/1999.

With regard to non-EU foreign subsidiaries that are deemed material under Art. 151 of the Issuer Regulation, an up-to-date assessment will be conducted on a much broader scope that was used in analysing and considering the interim financial report for the third quarter of 2008 due to the acquisition of the US group DRS Technologies on 22 October 2008.

Given that the regulations provide that the Company has six months from the completion of the acquisition to comply, this statement will be updated based on assessments carried out following the aforementioned acquisition, as well as with regard to non-EU foreign subsidiaries that have as a result become material under Art. 151 of the Issuer Regulation. This update will be made on the occasion of the approval of the interim financial report for the first quarter of 2009, which is expected on 28 April 2009.

## Outlook

As is well known, the year 2008 was marked by a crisis that originated in the financial sector, later moving to the real economy, bringing with it sharp drops in investments and industrial production. It is hoped that the actions of the monetary authorities and the governments of the major industrialised countries will eliminate the threat of a potential financial collapse and of plunging into a phase of depression.

In spite of these measures, according to many sources, the crisis is first hitting the industrial sectors that produce consumer goods, although some of the effects are starting to appear in several of the Group's business divisions. Assuming that the crisis will be recessive, with improvement in 2010, the sectors that operate based on long-term investment programmes may be affected by a slowing trend, more or less marked in the short term.

If, instead, the current situation leads, over the next 18-24 months, to a deeper, more widespread crisis, involving the financial conditions in a number of European countries, a revision of the budget of these countries may be called for to reduce expenditure for investments in order to deal with the impact of such unpredictable scenario.

A more specific analysis of these markets, based on current expectations, reveals as follows:

- In the defence division, there has been a gradual stabilisation in expenditure and for now a reduction in growth rates in investments is being seen. In Italy, even given the considerable budgetary constraints, the major military programmes are being confirmed. Great Britain has begun the process of concentrating investment within those sectors that ensure better support for "out-of-theatre" operations. In the United States, it is hoped that election of the new President will confirm major upgrading programmes, although cuts in supplementary funds, which increased more than ten-fold between 2001 and the present, cannot be ruled out.

- In the aeronautics and helicopter commercial market, there was slowdown in the demand for passenger transport, and an even greater decline in the air transport of goods, in the last few months of 2008, because of reduced industrial production. This involved a decrease in orders for new aircraft and possible delays for existing orders. Some positive elements, such as the reduction in the price of fuel and the launch of measures supporting airlines for the purchase of new aircraft, might offset – at least in part – these trends. The low price of fuels may adversely affect the demand for Turboprops over regional jets. It is expected that orders for the ATR will be more limited, but should still remain at an adequate level. A reduction in demand is also expected in the helicopter division, especially in the corporate/VIP segment.

- In the space market, ongoing programmes are confirmed for the time being. The recent interministerial ESA meeting confirmed the strategic role of this segment in Europe and the division's major investment programmes.

- In the energy generation market, the reduction in industrial production is a reflection of the drop in overall power consumption. This may lead to a slowdown in demand for new capacity and orders for new components, accordingly.

- In the transportation market, there is no clear sign of a slowdown in demand for guided transport system, thanks to the confirmation of ongoing investment programmes for track upgrading and the construction of new infrastructures. The segment may benefit in the medium term from programmes meant to boost employment through the relaunch of infrastructural works nationwide.

The scenario which implies, so to speak, an orderly management of the crisis would not compromise the Group's development objectives, especially from the profitability standpoint, but will require Finmeccanica and the Group companies to pay the utmost attention in continuing actions commenced to ensure solid, orderly and constant growth in profitability and an ever greater alignment of this growth with cash flows, also through initiatives aimed at strengthening the productive efficiency and the capital stability.

Prior to discussing the main Group highlights, it is important to note that the order backlog at 31 December 2008, based on workability, guarantees coverage of 85% of expected production for the coming year.

Based on the indications above, and fully considering the contribution of DRS, Group revenues for 2009 are expected to be in the range of €bil. 17.1 to €bil. 17.7, with a ratio of adjusted EBITA to revenues of around 9.1%.

We expect FOCF to generate cash surpluses in line or above those achieved in 2008, given the significant investments in the development of products necessary to sustain growth that, as in the present year, will focus especially on the Aeronautics, Helicopters and Defence Electronics and Security divisions.

It is clear that a sudden, significant deterioration in the reference scenario could lead to expectations being revisited, although the Group's capital remains structurally sound and it retains financial flexibility.

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

# ACCOUNTING STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

## Consolidated Income Statement

| *(€mil.)* | *Section* | **2008** | *of which with related parties* | **2007** | *of which with related parties* |
|---|---|---|---|---|---|
| Revenue | *32* | 15,037 | *1,705* | 13,429 | *1,513* |
| Other operating income | *33* | 702 | *1* | 1,033 | *2* |
| Raw materials and consumables used | *34* | (5,343) | *(24)* | (5,566) | *(10)* |
| Purchase of services | *34* | (4,944) | *(121)* | (3,843) | *(91)* |
| Personnel costs | *35* | (3,928) | | (3,599) | |
| Amortisation, depreciation and impairment | *36* | (622) | | (709) | |
| Other operating expenses | *33* | (686) | *(2)* | (564) | *(2)* |
| Changes in inventories of work in progress, semi-finished and finished goods | | 281 | | 54 | |
| (-) Work performed by the Group and capitalised | *37* | 713 | | 849 | |
| | | 1,210 | | 1,084 | |
| Finance income | *38* | 1,017 | *2* | 624 | *3* |
| Finance costs | *38* | (1,255) | *(26)* | (877) | *(22)* |
| Share of profit (loss) of equity accounted investments | *39* | 16 | | 16 | |
| ***Profit before taxes and the effect of discontinued operations*** | | **988** | | **847** | |
| Income taxes | *40* | (367) | | (326) | |
| (Loss) Profit from discontinued operations | | - | | - | |
| ***Net profit*** | | **621** | | **521** | |
| *. equity holders of the Company* | | *571* | | *484* | |
| *. minority interests* | | *50* | | *37* | |
| **Earnings per Share** | *41* | | | | |
| *Basic* | | *1.294* | | *1.140* | |
| *Diluted* | | *1.293* | | *1.138* | |
| **Earnings per share net of discontinued operations** | *41* | | | | |
| *Basic* | | *1.294* | | *1.140* | |
| *Diluted* | | *1.293* | | *1.138* | |

# Consolidated Balance Sheet

| *(€mil.)* | *Section* | **31.12.08** | *of which with related parties* | **31.12.07** | *of which with related parties* |
|---|---|---|---|---|---|
| *Non-current assets* | | | | | |
| Intangible assets | *8* | 8,237 | | 5,266 | |
| Property, plant and equipment | *9* | 3,099 | | 2,855 | |
| Investment properties | *10* | 1 | | 1 | |
| Equity investments | *11* | 192 | | 148 | |
| Financial assets at fair value | *13* | 154 | | 589 | |
| Receivables | *14;15* | 302 | *13* | 169 | *11* |
| Deferred taxes | *40* | 648 | | 450 | |
| Other assets | *15* | 480 | | 367 | |
| | | **13,113** | | **9,845** | |
| *Current assets* | | | | | |
| Inventories | *16* | 4,365 | | 3,383 | |
| Contract work in progress | *17* | 3,674 | | 3,227 | |
| Trade receivables | *18* | 4,655 | *518* | 4,319 | *451* |
| Financial assets at fair value | *19* | 1 | | 13 | |
| Income tax receivables | *20* | 236 | | 277 | |
| Financial receivables | *18* | 679 | *26* | 606 | *20* |
| Derivatives | *29* | 243 | | 162 | |
| Other assets | *21* | 659 | *14* | 609 | *15* |
| Cash and cash equivalents | *22* | 2,297 | | 1,607 | |
| | | **16,809** | | **14,203** | |
| *Non-current assets held for sale* | | - | | - | |
| ***Total assets*** | | **29,922** | | **24,048** | |
| *Shareholders' equity* | | | | | |
| Share capital | | 2,519 | | 1,864 | |
| Other reserves | | 3,455 | | 3,465 | |
| *Capital and reserves attributable to equity holders of the Company* | | **5,974** | | **5,329** | |
| *Minority interests in equity* | | 156 | | 103 | |
| *Total shareholders' equity* | *23* | **6,130** | | **5,432** | |
| *Non-current liabilities* | | | | | |
| Borrowings | *24* | 4,095 | | 1,675 | |
| Employee liabilities | *26* | 1,027 | | 946 | |
| Provisions for risks and charges | *25* | 344 | | 353 | |
| Deferred taxes | *40* | 553 | | 442 | |
| Other liabilities | *27* | 731 | | 821 | |
| | | **6,750** | | **4,237** | |
| *Current liabilities* | | | | | |
| Advances from customers | *17* | 7,399 | | 6,477 | |
| Trade payables | *28* | 4,735 | *84* | 4,004 | *81* |
| Borrowings | *24* | 2,265 | *652* | 1,709 | *560* |
| Income tax payables | *20* | 201 | | 68 | |
| Provisions for risks and charges | *25* | 632 | | 545 | |
| Derivatives | *29* | 236 | | 109 | |
| Other liabilities | *27* | 1,574 | *34* | 1,467 | *25* |
| | | **17,042** | | **14,379** | |
| *Liabilities directly correlated with assets held for sale* | | - | | - | |
| *Total liabilities* | | **23,792** | | **18,616** | |
| *Total liabilities and shareholders' equity* | | **29,922** | | **24,048** | |

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## Consolidated Cash Flow Statement

| *(€mil.)* | *Section* | **2008** | *of which related parties* | **2007** | *of which related parties* |
|---|---|---|---|---|---|
| ***Cash flow from operating activities:*** | | | | | |
| Gross cash flow from operating activities | *42* | 1,968 | | 1,711 | |
| Changes in working capital | *42* | (169) | *(68)* | 318 | *(74)* |
| Collection of Enea settlement | *6* | 296 | | - | |
| Changes in other operating assets and liabilities and provisions for risks and charges | *42* | (349) | *(8)* | (273) | *26* |
| Finance costs paid | | (127) | *(24)* | (116) | *(19)* |
| Income taxes paid | | (200) | | (241) | |
| **Net cash generated from operating activities** | | **1,419** | | **1,399** | |
| ***Cash flow from investing activities:*** | | | | | |
| Acquisitions of subsidiaries, net of cash acquired | *12* | (82) | | (434) | |
| Acquisition of DRS | *12* | (2,372) | | - | |
| Sale of STM shares | *6* | 260 | | - | |
| Purchase of property, plant and equipment and intangible assets | | (989) | | (1,128) | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 23 | | 74 | |
| Other investing activities | | (19) | *(9)* | 25 | *(2)* |
| **Net cash used in investing activities** | | **(3,179)** | | **(1,463)** | |
| ***Cash flow from financing activities:*** | | | | | |
| Share capital increase | *23* | 1,206 | | | |
| Repayment of DRS's convertible bond and bank payables | *24* | (315) | | | |
| Repayments of bonds | *24* | (297) | | (6) | |
| Issue of bonds | *24* | 745 | | | |
| Opening of bridge loan | *24* | 3,015 | | | |
| Repayment of bridge loan | *24* | (1,205) | | | |
| Net change in other borrowings | | (499) | *108* | (163) | *55* |
| Dividends paid to Company's shareholders | *23* | (174) | | (149) | |
| Dividends paid to minority interests | *23* | (13) | | (2) | |
| **Net cash used in financing activities** | | **2,463** | | **(320)** | |
| Net increase (decrease) in cash and cash equivalents | | 703 | | (384) | |
| Exchange losses on cash and cash equivalents | | (13) | | (12) | |
| Cash and cash equivalents at 1 January | | 1,607 | | 2,003 | |
| **Cash and cash equivalents at 31 December** | *22* | **2,297** | | **1,607** | |

## Statement of Recognised Income and Expenses

| € millions | 2008 | | 2007 | |
|---|---|---|---|---|
| Reserves of income (expense) recognised in equity | | | | |
| - Financial assets available for sale: | | | | |
| - sale of shares | *(57)* | | - | |
| - fair value adjustment | *(175)* | | *(251)* | |
| - impairment of stock | *111* | (121) | - | (251) |
| - Actuarial gains (losses) on defined-benefit plans: | | | | |
| - plan discounting | *(111)* | | *224* | |
| - exchange gains/losses | *(40)* | (151) | - | 224 |
| - Changes in cash-flow hedges: | | | | |
| - fair value adjustment | *383* | | *31* | |
| - transferred to the Income Statement | *2* | | *(18)* | |
| - transferred to investment in DRS | *(460)* | | - | |
| - exchange gains/losses | *13* | (62) | - | 13 |
| Exchange gains/losses | | (675) | | (188) |
| Tax on expense (income) recognised in equity | | 53 | | (75) |
| Income (expense) recognised in equity | | (956) | | (277) |
| Profit (loss) for the year | | 621 | | 521 |
| **Total income and expense for the year** | | **(335)** | | **244** |

| | | |
|---|---|---|
| Attributable to: | | |
| - equity holders of the Company | (387) | 215 |
| - minority interests | 52 | 29 |

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

**Notes to the consolidated financial statements at 31 December 2008**

## 1. 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 SpA, 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 electronics and security, aeronautics, space, defence systems, energy and transportation.

## 2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002 and to legislative decree no. 38 of 28 February 2005, the consolidated financial statements of the Finmeccanica Group at 31 December 2008 were prepared in accordance with the international accounting standards (IFRS) 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).

In certain respects, at the date of the preparation of these notes, the official bodies had not yet completed their adaptation and interpretations. As a result, there may be further modifications or amendments to these standards and interpretations that could require or permit the Finmeccanica Group to modify the accounting, measurement and classification standards adopted in preparing these consolidated financial statements.

The general principle used in preparing these consolidated financial statements is the cost method, except for financial assets available for sale and financial liabilities (including derivatives) valued at fair value through profit and loss. The changes introduced by IAS39 amendment, approved in October 2008, allowing for the reclassification into another category of financial assets other than derivatives at fair value through profit and loss, have not been applied by the Group.

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. Compared with the 2007 financial statements, the format of the accounting statements has been modified, and the balance sheet and P&L relations with related parties have been included in the balance of relations with third parties, though showing in a separate column the portion attributable to related parties. The cash flow statement has been modified accordingly.

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

Preparation of the consolidated financial statements 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 Section 4.

The consolidated financial statements at 31 December 2008 of the Finmeccanica Group were approved by the Board of Directors authorising their dissemination on 10 March 2009.

The financial statements, prepared in accordance with IFRS, have been subject to an audit by PricewaterhouseCoopers SpA.

## 3. ACCOUNTING POLICIES ADOPTED

### *3.1 Standards and scope of consolidation*

The consolidated financial statements include the statements at 31 December 2008 of the companies/entities included in the scope of consolidation ('consolidated entities'), which have been prepared in accordance with the IFRS 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

| *Name* | *Registered office* | *% Group ownership* | | *% Group shareholding* |
|---|---|---|---|---|
| | | *Direct* | *Indirect* | |
| 3083683 NOVA SCOTIA LIMITED | Halifax, Nova Scotia (Canada) | | 100 | 100 |
| ABS TECHNOLOGY SPA | Florence | | 60 | 60 |
| AEROMECCANICA SA | Luxembourg | 99.967 | | 100 |
| AGUSTA AEROSPACE CORP. USA | Wilmington Delaware (USA) | | 100 | 100 |
| AGUSTA AEROSPACE SERVICES A.AS SA | 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 | São Paulo (Brazil) | | 100 | 100 |
| AGUSTAWESTLAND INTERNATIONAL LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| AGUSTAWESTLAND HOLDINGS LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| AGUSTAWESTLAND INC | Nex Castle,Wilmington, Delaware (USA) | | 100 | 100 |
| AGUSTAWESTLAND MALAYSIA SDN BHD | Kuala Lumpur (Malaysia) | | 100 | 100 |
| AGUSTAWESTLAND NORTH AMERICA INC | Wilmington, Delaware (USA) | | 100 | 100 |
| AGUSTAWESTLAND NV | Amsterdam (the Netherlands) | 100 | | 100 |
| AGUSTAWESTLAND PORTUGAL SA | Lisbon (Portugal) | | 100 | 100 |
| AGUSTAWESTLAND PROPERTIES LTD | Yeovil, Somerset (UK) | | 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) | | 98 | 98 |
| ALENIA NORTH AMERICA-CANADA CO | Halifax, Nova Scotia (Canada) | | 100 | 88.409 |
| ALENIA NORTH AMERICA INC | Nex Castle,Wilmington, Delaware (USA) | | 88.409 | 88.409 |
| ALENIA SIA SPA | Turin | | 100 | 100 |
| AMTEC SPA | Piancastagnaio (Siena) | | 100 | 100 |
| ANSALDO ENERGIA SPA | Genoa | 100 | | 100 |
| ANSALDO ESG AG ex ENERGY SERVICE GROUP AG | Wurenlingen (Switzerland) | | 100 | 100 |
| ANSALDO FUEL CELLS SPA | Genoa | | 94.37 | 94.37 |
| ANSALDO NUCLEARE SPA | Genoa | | 100 | 100 |
| ANSALDO RICERCHE SPA | Genoa | | 100 | 100 |
| ANSALDO SEGNALAMENTO FERROVIARIO SPA | Tito (Potenza) | | 100 | 40.0655 |
| ANSALDO SIGNAL NV (IN LIQ.) | Amsterdam (the Netherlands) | | 100 | 40.0655 |
| ANSALDO STS AUSTRALIA PTY LTD | Birsbane (Australia) | | 100 | 40.0655 |
| ANSALDO STS BEIJING LTD | Beijing (China) | | 80 | 32.0524 |
| ANSALDO STS DEUTSCHLAND GMBH | Berlin (Germany) | | 100 | 40.0655 |
| ANSALDO STS ESPANA SAU | Madrid (Spain) | | 100 | 40.0655 |
| ANSALDO STS FINLAND OY | Helsinki (Finland) | | 100 | 40.0655 |
| ANSALDO STS FRANCE SA | Les Ulis (France) | | 100 | 40.0655 |
| ANSALDO STS HONG KONG LTD | Kowloon Bay (China) | | 100 | 40.0655 |
| ANSALDO STS IRELAND LTD | CO KERRY (Irland) | | 100 | 40.0655 |
| ANSALDO STS MALAYSIA SDN BHD | Kuala Lumpur (Malaysia) | | 100 | 40.0655 |
| ANSALDO STS SWEDEN AB | Solna (Sweden) | | 100 | 40.0655 |
| ANSALDO STS TRASP. SYST. INDIA PRIV. LTD ex UNION SWIT. & SIGN. PRIV. LTD | Bangalore (India) | | 100 | 40.0655 |
| ANSALDO STS UK LTD | Barbican (UK) | | 100 | 40.0655 |
| ANSALDO STS SPA | Genoa | 40.0655 | | 40.0655 |
| ANSALDO THOMASSEN BV ex THOMASSEN TURBINE SYSTEMS BV | Rheden (the Netherlands) | | 100 | 100 |
| ANSALDO TRASPORTI - SISTEMI FERROVIARI SPA | Naples | | 100 | 40.0655 |
| ANSALDOBREDA ESPANA SLU | Madrid (Spain) | | 100 | 100 |
| ANSALDOBREDA SPA | Naples | 100 | | 100 |
| ANSALDOBREDA INC | Pittsburg, California (USA) | | 100 | 100 |
| ASIA POWER PROJECTS PRIVATE LTD | Bangalore (India) | | 100 | 100 |
| AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA | Les Ulis (France) | | 99.999 | 40.0651 |
| BREDAMENARINIBUS SPA | Bologna | 100 | | 100 |
| DAVIES INDUSTRIAL COMMUNICATIONS LTD | Chelmsford, Essex (UK) | | 100 | 100 |
| DRS C3 SYSTEMS INC | Plantation, Florida (USA) | | 100 | 100 |
| DRS CODEM SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS DATA & IMAGING SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS HOMELAND SECURITY SOLUTIONS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS INTELLIGENCE & AVIONIC SOLUTIONS INC | Cleveland, Ohio (USA) | | 100 | 100 |
| DRS INTERNATIONAL INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS MOBILE ENVIRONMENTAL SYSTEMS CO | Cleveland, Ohio (USA) | | 100 | 100 |

## List of companies consolidated on a line-by-line basis (cont'd)

| *Company name* | *Registered office* | *% Group ownership* | | *% Group shareholding* |
|---|---|---|---|---|
| | | *Direct* | *Indirect* | |
| DRS POWER & CONTROL TECHNOLOGIES INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS POWER TECHNOLOGY INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SENSORS & TARGETING SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SIGNAL SOLUTIONS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SONAR SYSTEMS LLC | Wilmington, Delaware (USA) | | 51 | 51 |
| DRS SURVEILLANCE SUPPORT SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SUSTAINMENT SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SYSTEMS MANAGEMENT LLC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS TACTICAL SYSTEMS GLOBAL SERVICES INC | Plantation, Florida (USA) | | 100 | 100 |
| DRS TACTICAL SYSTEMS INC | Plantation, Florida (USA) | | 100 | 100 |
| DRS TECHNICAL SERVICES GMBH & CO KG | Baden, Wurttemberg (Germany) | | 100 | 100 |
| DRS TECHNICAL SERVICES INC | Baltimora, Maryland (USA) | | 100 | 100 |
| DRS TECHNOLOGIES CANADA INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS TECHNOLOGIES CANADA LTD | Kanata, Ontario (Canada) | | 100 | 100 |
| DRS TECHNOLOGIES UK LIMITED | Farnham, Surrey (UK) | | 100 | 100 |
| DRS TECHNOLOGIES VERWALTUNGS GMBH | Baden, Wurttemberg (Germany) | | 100 | 100 |
| DRS TECHNOLOGIES INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS TEST & ENERGY MANAGEMENT LLC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS UNMANNED TECHNOLOGIES INC | Wilmington, Delaware (USA) | | 100 | 100 |
| ED CONTACT SRL | Rome | | 100 | 100 |
| ELECTRON ITALIA SRL | Rome | | 80 | 80 |
| ELSACOM NV | Amsterdam (the Netherlands) | 100 | | 100 |
| ELSACOM SPA | Rome | | 100 | 100 |
| ELSAG DATAMAT SPA | Genoa | 100 | | 100 |
| ELSAG NORTH AMERICA LLC ex REMINGTON ELSAG LAW ENFORCEMENT SYST. | Madison, North Carolina (USA) | | 100 | 100 |
| ENGINEERED COIL COMPANY | Clayton, Missouri (USA) | | 100 | 100 |
| ENGINEERED ELECTRIC COMPANY | Clayton, Missouri (USA) | | 100 | 100 |
| ENGINEERED SUPPORT SYSTEMS INC | Clayton, Missouri (USA) | | 100 | 100 |
| E-SECURITY SRL | Montesilvano (Pescara) | | 79.688 | 79.688 |
| ESSI RESOURCES LLC | Louisville, Krntucky (USA) | | 100 | 100 |
| FATA ENGINEERING SPA | Pianezza (Turin) | | 100 | 100 |
| FATA GROUP SPA (IN LIQ.) | Pianezza (Turin) | | 100 | 100 |
| FATA HUNTER INC | Riverside, California (USA) | | 100 | 100 |
| FATA LOGISTIC SYSTEMS SPA | Pianezza (Turin) | | 100 | 100 |
| FATA SPA | Pianezza (Turin) | 100 | | 100 |
| FINMECCANICA FINANCE SA | Luxembourg (Luxembourg) | 73.6395 | 26.3575 | 99.997 |
| FINMECCANICA GROUP REAL ESTATE SPA | Rome | 100 | | 100 |
| FINMECCANICA GROUP SERVICES SPA | Rome | 100 | | 100 |
| GALILEO AVIONICA SPA | Campi Bisenzio (Florence) | | 100 | 100 |
| GLOBAL MILITARY AIRCRAFT SYSTEMS LLC | Wilmington, Delaware (USA) | | 51 | 45.0886 |
| ITALDATA INGEGNERIA DELL'IDEA SPA | Rome | | 51 | 51 |
| LARIMART SPA | Rome | | 60 | 60 |
| LAUREL TECHNOLOGIES PARTNERSHIP | Wilmington, Delaware (USA) | | 80 | 80 |
| MECCANICA HOLDINGS USA INC | Wilmington, Delaware (USA) | 100 | | 100 |
| MECFINT (JERSEY) SA | Luxembourg (Luxembourg) | | 99.999 | 99.996 |
| MSSC COMPANY | Philadelphia, Pennsylvania (USA) | | 51 | 51 |
| NET SERVICE SRL | Bologna | | 70 | 70 |
| NIGHT VISION SYSTEMS LLC | Wilmington, Delaware (USA) | | 100 | 100 |
| OTE MOBILE TECHNOLOGIES LIMITED | Chelmsford, Essex (UK) | | 100 | 100 |
| OTO MELARA IBERICA SA | Loriguilla, Valencia (Spain) | | 100 | 100 |
| OTO MELARA NORTH AMERICA INC | Dover, Delaware (USA) | | 100 | 100 |
| OTO MELARA SPA | La Spezia | 100 | | 100 |
| PCA ELECTRONIC TEST LTD | Grantham, Lincolnshire (UK) | | 100 | 100 |
| PIVOTAL POWER INC | Halifax, Nova Scotia (Canada) | | 100 | 100 |
| QUADRICS LTD | Bristol (UK) | | 100 | 100 |
| SEICOS SPA | Rome | 100 | | 100 |
| SELENIA MARINE CO LTD (IN LIQ.) | Chelmsford, Essex (UK) | | 100 | 100 |
| 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 (UK) | | 100 | 100 |
| SELEX COMMUNICATIONS INC | San Francisco, California (USA) | | 100 | 100 |
| SELEX COMMUNICATIONS INTERNATIONAL LTD | Chelmsford, Essex (UK) | | 100 | 100 |

**List of companies consolidated on a line-by-line basis (cont'd)**

| *Company name* | *Registered office* | *% Group ownership Direct* | *% Group ownership Indirect* | *% Group shareholding* |
|---|---|---|---|---|
| SELEX COMMUNICATIONS LTD | Chelmsford, Essex (UK) | | 100 | 100 |
| SELEX COMMUNICATIONS ROMANIA SRL | Bucarest (Romania) | | 99.976 | 99.976 |
| SELEX COMMUNICATIONS SPA | Genoa | 100 | | 100 |
| SELEX COMMUNICATIONS SECURE SYSTEMS LTD | Chelmsford, Essex (UK) | | 100 | 100 |
| SELEX KOMUNIKASYON AS | Golbasi (Turkey) | | 99.999 | 99.999 |
| SELEX SENSORS AND AIRBORNE SYSTEMS SPA | Campi Bisenzio (Florence) | 100 | | 100 |
| SELEX SENSORS AND AIRBORNE SYSTEMS LTD | Essex (UK) | | 100 | 100 |
| SELEX SENSORS AND AIRBORNE SYSTEMS (US) INC | Wilmington, Delaware (USA) | | 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 SYSTEMS INTEGRATION LTD ex SELEX SISTEMI INTEGRATI LTD | Portsmouth, Hampshire (UK) | | 100 | 100 |
| SELEX SISTEMI INTEGRATI SPA | Rome | 100 | | 100 |
| S.C. ELETTRA COMMUNICATIONS SA | Ploiesti (Romania) | | 50.5 | 50.4997 |
| SIRIO PANEL SPA | Montevarchi (Arezzo) | | 93 | 93 |
| 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 |
| SUPERJET INTERNATIONAL SPA | Tessera (Venice) | | 51 | 51 |
| T - S HOLDING CORPORATION | Dallas, Texas (USA) | | 100 | 100 |
| TECH-SYM CORPORATION | Reno, Nevada (USA) | | 100 | 100 |
| THOMASSEN SERVICE GULF LLC | Abu Dhabi, United Arab Emirates | | 48.667 | 100 |
| TRANSCONTROL CORPORATION | Wilmington, Delaware (USA) | | 100 | 40.0655 |
| UNION SWITCH & SIGNAL INC (CAN) | Burlington, Ontario (Canada) | | 100 | 40.0655 |
| UNION SWITCH & SIGNAL INC (USA) (*) | Wilmington, Delaware (USA) | | 100 | 40.0655 |
| UNION SWITCH & SIGNAL INT. CO (**) | Wilmington, Delaware (USA) | | 100 | 40.0655 |
| UNION SWITCH & SIGNAL INT. PROJECTS CO (***) | Wilmington, Delaware (USA) | | 100 | 40.0655 |
| UNIVERSAL POWER SYSTEMS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| VEDECON GMBH ex ANITE TRAVEL SYSTEMS GMBH | Cologne (Germany) | | 100 | 100 |
| VEGA CONSULTING & TECHNOLOGY SL | Madrid (Spain) | | 100 | 100 |
| VEGA CONSULTING SERVICES LTD ex VEGA GROUP PLC | Hertfordshire (UK) | 100 | | 100 |
| VEGA DEUTSCHLAND GMBH & CO KG ex ANITE DEUTSCHLAND GMBH & CO KG | Cologne (Germany) | | 100 | 100 |
| VEGA DEUTSCHLAND HOLDING GMBH ex ANITE DEUTSCHLAND MANAG. GMBH | Cologne (Germany) | | 100 | 100 |
| VEGA DEUTSCHLAND MANAGEMENT GMBH ex ANITE DEUTSCHL. HOLD. GMBH | Cologne (Germany) | | 100 | 100 |
| VEGA SERVICES LTD ex CREW GROUP LTD | Hertfordshire (UK) | | 100 | 100 |
| VEGA SPACE LTD ex VEGA SPACE SYSTEMS ENGINEERING LTD | Hertfordshire (UK) | | 100 | 100 |
| VEGA TECHNOLOGIES SAS | Ramonville Saint Agne (France) | | 100 | 100 |
| WESTLAND HELICOPTERS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| WESTLAND HELICOPTERS LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| WESTLAND INDUSTRIES LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| WESTLAND SUPPORT SERVICES LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| WESTLAND TRANSMISSIONS LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| WHITEHEAD ALENIA SIST. SUBACQUEI SPA | Leghorn (Italy) | 100 | | 100 |
| WING NED BV | Rotterdam (the Netherlands) | | 100 | 100 |

(*) From 1 January 2009 ANSALDO STS USA INC

(**) From 1 January 2009 ANSALDO STS INTERNATIONAL CO

(***) From 1January 2009 ANSALDO STS INTERNATIONAL PROJECT CO

## List of companies consolidated using the proportionate method

| *Company name* | *Registered office* | *% Group ownership* | | *% Group shareholding* |
|---|---|---|---|---|
| | | *Direct* | *Indirect* | |
| THALES ALENIA SPACE SAS | Cannes La Bocca (France) | 33 | | 33 |
| THALES ALENIA SPACE FRANCE SAS | Paris (France) | | 100 | 33 |
| THALES ALENIA SPACE ITALIA SPA | Rome | | 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 |
| THALES ALENIA SPACE NORTH AMERICA INC | Wilmington (USA) | | 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, Munich (Germany) | | 100 | 67 |
| TELESPAZIO SPA | Rome | | 100 | 67 |
| E - GEOS SPA | Matera | | 75 | 49.593 |
| EURIMAGE SPA | Rome | | 51 | 34.17 |
| TELESPAZIO BRASIL SA | Rio de Janeiro (Brazil) | | 98.534 | 66.0178 |
| TELESPAZIO NORTH AMERICA INC | Doover, Delaware (USA) | | 100 | 67 |
| TELESPAZIO HUNGARY SAT. TELEC. LTD | Budapest (Hungary) | | 100 | 67 |
| RARTEL SA | Bucarest (Romania) | | 61.061 | 40.9109 |
| TELESPAZIO ARGENTINA SA | Buenos Aires (Argentina) | | 100 | 66.9509 |
| MARS SRL | Naples | | 100 | 67 |
| FILEAS SA | Paris (France) | | 85 | 56.95 |
| AURENSIS SL | Barcelona (Spain) | | 100 | 67 |
| ISAF - INIZIATIVE PER I SISTEMI AVANZATI E FORNITURE SRL | Rome | | 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 TREASURE COMPANY LTD | Jersey (UK) | | 100 | 25 |
| MBDA FRANCE SAS | Paris (France) | | 100 | 25 |
| MBDA INCORPORATED | Wilmington, Delaware (USA) | | 100 | 25 |
| MBDA ITALIA SPA | Rome | | 100 | 25 |
| MBDA UK LTD | Stevenage (UK) | | 100 | 25 |
| MARCONI UAE LTD ex MARCONI OVERSEAS LTD | London (UK) | | 100 | 25 |
| MATRA ELECTRONIQUE SA | Paris (France) | | 100 | 25 |
| MBDA SERVICES SA | Paris (France) | | 99.76 | 24.94 |
| LFK-LENKFLUGKORPERSYSTEME GMBH | UnterschleiBheim (Germany) | | 100 | 25 |
| BAYERN-CHEMIE GMBH | Germany | | 100 | 25 |
| TAURUS SYSTEMS GMBH | Germany | | 67 | 16.75 |
| TDW GMBH | Germany | | 100 | 25 |
| AVIATION TRAINING INTERNATIONAL LIMITED | Dorset (UK) | | 50 | 50 |
| CONSORZIO ATR GIE e SPE | Toulouse (France) | | 50 | 50 |
| GLOBAL AERONAUTICA LLC | Wilmington, Delaware (USA) | | 50 | 44.2045 |
| LMATTS LLC | Georgia (USA) | | 50 | 44.2045 |

## List of companies consolidated using the equity method

| *Company name* | *Registered office* | *% Group ownership* | | *% Group shareholding* |
|---|---|---|---|---|
| | | *Direct* | *Indirect* | |
| 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) | | 30 | 30 |
| ADVANCED LOGISTICS TECHNOLOGY ENGINEERING CENTER SPA | Turin | | 51 | 16.83 |
| ALENIA HELLAS SA | Kolonaki, Athens (Greece) | | 100 | 100 |
| ALIFANA DUE SCRL | Naples | | 53.34 | 21.371 |
| ALIFANA SCRL | Naples | | 65.85 | 26.38 |
| ANSALDO ARGENTINA SA | Buenos Aires (Argentina) | | 99.9933 | 99.9933 |
| ANSALDO ELECTRIC DRIVES SPA | Genoa | | 100 | 100 |
| ANSALDO – E.M.I.T. SCRL | Genoa | | 50 | 50 |
| ANSALDO ENERGY INC | Wilmington, Delaware(USA) | | 100 | 100 |
| ANSERV SRL | Bucarest (Romania) | | 100 | 100 |
| AUTOMATION INTEGRATED SOLUTIONS SPA | Pianezza (Turin) | | 40 | 40 |
| BELL AGUSTA AEROSPACE COMPANY LLC | Wilmington, Delaware (USA) | | 40 | 40 |
| BRITISH HELICOPTERS LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| CANOPY TECHNOLOGIES LLC | Wilmington, Delaware (USA) | | 50 | 50 |
| CARDPRIZE TWO LIMITED | Basildon, Essex (UK) | | 100 | 100 |
| COMLENIA SENDIRIAN BERHAD | Selangor Darul Ehsan (Malaysia) | | 30 | 30 |
| CONSORZIO START SPA | Rome | | 40 | 40 |
| CONTACT SRL | Naples | | 30 | 30 |
| DIGINT SRL | Milano | | 49 | 49 |
| DOGMATIX LEASING LIMITED | Mauritius Islands | | 100 | 50 |
| DRS CONSOLIDATED CONTROLS INC | Wilmington, Delaware (USA) | | 100 | 100 |
| DRS INTEGRATED DEFENSE SOLUTIONS LLC | Wilmington, Delaware (USA) | | 100 | 100 |
| ECOSEN SA | Caracas (Venezuela) | | 48 | 19.23 |
| ELETTRONICA SPA | Rome | 31.333 | | 31.333 |
| ELSACOM BULGARIA AD (IN LIQ.) | Sofia (Bulgaria) | | 90 | 90 |
| ELSACOM HUNGARIA KFT | Budapest (Ungheria) | | 100 | 100 |
| ELSACOM SLOVAKIA SRO | Bratislava (Slovakia) | | 100 | 100 |
| ELSACOM-UKRAINE JOINT STOCK COMPANY | Kiev (Ukraine) | | 49 | 49 |
| ELSAG EASTERN EUROPE SRL (IN LIQ.) | Bucarest (Romania) | | 100 | 100 |
| ENERGEKO GAS ITALIA SRL | Brindisi | | 20.99 | 20.99 |
| EURISS NV | Leiden (the Netherlands) | | 25 | 8.25 |
| EUROFIGHTER AIRCRAFT MANAGEMENT GMBH | Hallbergmoos (Germany) | | 21 | 21 |
| EUROFIGHTER JAGDFLUGZEUG GMBH | Hallbergmoos (Germany) | | 21 | 21 |
| EUROFIGHTER INTERNATIONAL LTD | London (UK) | | 21 | 21 |
| EUROFIGHTER SIMULATION SYSTEMS GMBH | Unterhaching (Germany) | | 24 | 24 |
| EUROMIDS SAS | Paris (France) | | 25 | 25 |
| EURO PATROL AIRCRAFT GMBH (IN LIQ.) | Munich (Germany) | | 50 | 50 |
| EUROPEA MICROFUSIONI AEROSPAZIALI SPA | Morra De Sanctis (Avellino) | 49 | | 49 |
| EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH | Ottobrunn (Germany) | 18.939 | 18.94 | 25.1892 |
| EUROSATELLITE FRANCE SA | France | | 99.76 | 32.92 |
| EUROSYSNAV SAS | Paris (France) | 50 | | 50 |
| EUROTECH SPA | Amaro (Udine) | 11.08 | | 11.08 |
| FATA DTS SPA (IN LIQ.) | Pianezza (Turin) | | 100 | 100 |
| FATA HUNTER INDIA PVT LTD | New Dehli (India) | | 100 | 100 |
| FEDER PETROLI GREEN ENERGY SRL | Rome | | 20 | 20 |
| FINMECCANICA CONSULTING SRL | Rome | 100 | | 100 |
| FINMECCANICA NORTH AMERICA INC | Dover, Delaware (USA) | 100 | | 100 |
| FINMECCANICA UK LTD | London (UK) | 100 | | 100 |
| GALILEO INDUSTRIES SA | Brussels (Belgium) | 18.939 | 18.939 | 25.189 |
| GROUPEMENT IMMOBILIER AERONAUTIQUE G.I.A. SA | Blagnac (France) | | 20 | 20 |
| GRUPO AURENSIS SA DE CV | Bosque de Duraznos (Mexico) | | 100 | 67 |
| HR GEST SPA | Genoa | | 30 | 30 |
| IAMCO SCRL | Mestre (Venice) | | 20 | 20 |
| ICARUS SCPA | Turin | | 49 | 49 |
| 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) | | 28.365 | 19.005 |
| INTERNATIONAL METRO SERVICE SRL | Mialn | | 49 | 19.63 |
| I.M. INTERMETRO SPA | Rome | | 33.332 | 23.343 |
| 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 (Libya) | 25 | 25 | 50 |

## List of companies consolidated using the equity method (cont'd)

| *Company name* | *Registered office* | *% Group ownership* Direct | Indirect | *% Group shareholding* |
|---|---|---|---|---|
| MACCHI HUREL DUBOIS SAS | Plaisir (France) | | 50 | 49.99 |
| MEDESSAT SAS | Toulouse (France) | | 28.801 | 19.296 |
| METRO 5 SPA | Milan | | 31.9 | 17.156 |
| MUSI NET ENGINEERING SPA | Turin | | 49 | 49 |
| N2 IMAGING SYSTEMS LLC | Wilmington, Delaware (USA) | | 30 | 30 |
| NAHUELSAT SA | 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 SNC | Lyon (France) | | 40 | 40 |
| NOVACOM SERVICES SA | Toulouse (France) | | 39.73 | 26.62 |
| ORIZZONTE – SISTEMI NAVALI SPA | Genoa | 49 | | 49 |
| OTE M | Moscow (Russian Federation) | | 100 | 100 |
| PEGASO SCRL | Rome | | 46.87 | 18.748 |
| POLARIS SRL | Genoa | | 50 | 50 |
| ROXEL SAS | Le Plessis Robinson (France) | | 50 | 12.5 |
| SAN GIORGIO SA (IN LIQ.) | Paris (France) | | 99.969 | 99.969 |
| SAPHIRE INTERNAT. ATC ENGINEERING CO LTD | Beijing (China) | | 65 | 65 |
| SATELLITE TERMINAL ACCESS SA (IN LIQ.) | France | | 21.19 | 6.993 |
| SCUOLA ICT SRL | L'Aquila | 20 | | 20 |
| SELEX PENSION SCHEME (TRUSTEE) LTD | Basildon, Essex (UK) | | 100 | 100 |
| SELEX SENSORS AND AIRBORNE SYSTEMS ELECTRO OPTICS (OVERSEAS) LTD | Basildon, Essex (UK) | | 100 | 100 |
| SELEX SENSORS AND AIRBORNE SYSTEMS (PROJECTS) LTD | Basildon, Essex (UK) | | 100 | 100 |
| SELEX SENSORS AND AIRBORNE SYSTEMS INFRARED LTD | Basildon, Essex (UK) | | 100 | 100 |
| SELEX SISTEMI INTEGRATI DE VENEZUELA SA | Caracas (Venezuela) | | 100 | 100 |
| SERVICIOS TECNICOS Y SPECIALIZADOS DE INFORM. SA DE CV | Bosque de Duraznos (Mexico) | | 100 | 67 |
| SEVERNYJ AVTOBUZ Z.A.O. | St. Petersburg (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 (IN LIQ.) | Immerstad (Germany) | | 28.2 | 28.2 |
| TELBIOS SPA | Mialn | | 32.86 | 22.0162 |
| TELESPAZIO NETHERLAND BV | Enschede (the Netherlands) | | 100 | 67 |
| THOMASSEN SERVICE AUSTRALIA PTY LTD | Canning Vale (Australia) | | 100 | 100 |
| TRADE FATA BV | Rotterdam (the Netherlands) | | 100 | 100 |
| TRIMPROBE SPA (IN LIQ.) | Rome | 100 | | 100 |
| TURBOENERGY SRL | Cento (Ferrara) | | 25 | 25 |
| WESTLAND INDUSTRIAL PRODUCTS LTD | Yeovil, Somerset (UK) | | 100 | 100 |
| WITG L.P. INC | Kent, Dover, Delaware (USA) | | 24 | 21.2184 |
| WITG L.P. LTD | Kent, Dover, Delaware (USA) | | 20 | 17.682 |
| WORLD'S WING SA | Geneva (Swiltzerland) | | 95.364 | 95.364 |
| XAIT SRL | Ariccia (Rome) | | 100 | 100 |
| ZAO ARTETRA | Moscow (Russian Federation) | | 51 | 51 |

## List of companies valued at fair value

| Company name | Registered office | % Group ownership | | % Group shareholding |
|---|---|---|---|---|
| | | Direct | Indirect | |
| BCV INVESTMENTS SCA | Luxembourg | | 14.321 | 14.321 |
| BCV MANAGEMENT SA | Luxembourg | | 14.999 | 14.999 |
| STMICROELECTRONICS HOLDING NV (*) | Rotterdam (the Netherlands) | 20 | | 20 |

(*) Recognised ad "assets available for sale"

## List of subsidiaries and associates valued at cost

| Company name | Registered office | % Group ownership | | % Group shareholding |
|---|---|---|---|---|
| | | Direct | Indirect | |
| 179CENTELEC SAS | Neuilly Sur Seine (France) | | 21 | 21 |
| ALENIA NORTH AMERICA DEFENSE LLC | Wilmington, Delaware (USA) | | 100 | 88.409 |
| ANSALDO RAILWAY SYSTEM TECHNICAL SERVICE (BEIJING) LTD | Beijing (China) | | 100 | 40.0655 |
| ANSALDO STS INFRADEV SOUTH AFRICA (PTY) LTD | Johannesburg (ZA) - South Africa | | 50.7 | 20.31 |
| ANSALDO STS SOUTHERN AFRICA (PTY) LTD | Gaborone (Botswana) - Africa | | 100 | 40.0655 |
| CCRT SISTEMI SPA (IN FALL.) | Milan | | 30.34 | 30.34 |
| DATAMAT SUISSE SA (IN LIQ.) | Lugano (Switzerland) | | 100 | 100 |
| FOSCAN SRL (IN FALL.) | Anagni (Frosinone) | | 20 | 20 |
| IND. AER. E MECC. R. PIAGGIO SPA (AMM.STR.) | Genoa | 30.982 | | 30.982 |
| SAITECH SPA (IN FALL.) | Passignano sul Trasimeno (Perugia) | | 40 | 40 |
| SEL PROC SCRL | Rome | | 100 | 100 |
| SESM - SOLUZIONI EVOLUTE PER LA SISTEMISTICA E I MODELLI - SCRL | Naples | | 100 | 100 |
| U.V.T. SPA (IN FALL.) | San Giorgio Jonico (Taranto) | | 50.614 | 50.614 |
| U.V.T. ARGENTINA SA | Buenos Aires (Argentina) | | 60 | 30.368 |

For ease of understanding and comparability, below are the main changes in the scope of consolidation during 2008:

- the group Vega Group, which was purchased in 2007, was fully consolidated since that date on a line-by-line basis;
- Global Military Aircraft LLC, previously consolidated proportionally (50%) through the 2007 financial statements, has been consolidated on a line-by-line basis since 1 January 2008;
- Aurensis S.L., acquired by Telespazio SpA on 1 April 2008, has been consolidated on a proportionate basis (67%) from that date;
- ISAF Iniziative per i Sistemi Avanzati Srl, acquired by Telespazio SpA on 31 July 2008, is consolidated on a proportionate basis (67%) beginning from such date;
- DRS Technologies group, acquired on 22 October 2008, is consolidated on a line-by-line basis starting from that date.

**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 consolidated financial statements have been prepared based on the ending balances at 31 December.

**Other equity investments**

Investments in entities over which significant influence is exercised, which generally corresponds to a holding of between 20% (10% if listed) and 50% (equity investments in associates), are accounted for using the equity method. 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.

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 31 December 2008), or based on financial valuation techniques for not listed instruments.

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within "assets held for sale".

### *3.2 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.

### *3.3 Currency translation*

**<u>Identification of the functional currency</u>**

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 financial statements for the Finmeccanica Group have been prepared in euros, which is the functional currency of the Group Parent.

**<u>Translation of transactions denominated in a foreign currency</u>**

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.

**<u>Translation of financial statements expressed in a currency other than the functional currency</u>**

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.

With reference to data comparability, the year 2008 has been marked by significant changes in the euro against the main currencies of interest for the Group. Specifically, the currency exchange rates at 31 December2008 and the average exchange rates for the period showed, for the main currencies, these changes from 2007: final exchange rates for the period  (euro/US dollar -5.46% and euro/sterling pound + 29.88%); average exchange rates for the period (euro/US dollar + 7.32% and euro/sterling pound + 16.36%).

Below are the exchange rates adopted for the currencies that are most significant for the Group:

| | At 31 December 2008 | | At 31 December 2007 | |
|---|---|---|---|---|
| | average exchange rate for the year | exact | average exchange rate for the year | exact |
| US Dollar | 1.47076 | 1.39170 | 1.37048 | 1.47210 |
| Pound Sterling | 0.79629 | 0.95250 | 0.68434 | 0.73335 |

## *3.4 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 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 period in which the future earnings are expected to be realised for the project itself, and in any case in a period no longer than 10 years. 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.

**<u>Concessions, licences and trademarks</u>**

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.

**<u>Goodwill</u>**

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.

### *3.5 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 date in which the asset is ready for use. The estimated useful lives adopted by the Group for the various asset classes are as follows:

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

The estimated useful life and the residual value are regularly revised.

Depreciation ends when the asset is sold or reclassified as asset held for sale.

In the event the asset to be depreciated is composed of significant distinct elements with useful lives that are 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.

### *3.6 Investment properties*

Properties held to earn rentals or for capital appreciation are carried under ‘Investment properties’; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any.

### *3.7 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.

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use calculated on the basis of a model of discounted cash flows. The discount rate encompasses the risks peculiar to the asset which have not been considered in the expected cash flows.

Assets which do not generate independent cash flows are tested as cash-generating units.

If the reasons for such write-downs should cease to obtain, the asset’s book value is restored within the limits of the book value that would have resulted if no loss was recognised due to previous years’ loss of value. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

### *3.8 Inventories*

Inventories are recorded at the lower of cost, calculated with reference to the weighted average cost, and net realisable value. They do not include finance costs and overheads. 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.

### 3.9 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 or based on the productions units delivered.

The valuation reflects the best estimate of the schedules prepared at the balance sheet date. The assumptions upon which the estimates 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.

### 3.10 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, 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, applicable only to debt financial instruments.

### *3.11 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 and tested 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 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. If the derivative is sold or ceases to function as an effective hedge against the risk for which it was originated, the relevant portion of the "cash flow hedge reserve" is kept recognised until the underlying contract shows its effect.

**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.

### *3.12 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.

### *3.13 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, net of the deferred tax effect.

**Treasury shares**

Treasury stock is recognised as a decrease in Group shareholders' equity. Gains or losses realised in the acquisition, sale, issue or cancellation of treasury stock are recognised directly in shareholders’ equity.

### *3.14 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 3.21).

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.

### *3.15 Deferred tax assets and liabilities*

Deferred tax assets and liabilities are calculated based on temporary differences arising between the carrying amounts in the consolidated financial statements of assets and liabilities and their value for tax purposes. 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.

### *3.16 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. For the

recognition of defined benefit plans, the Group adopts the so-called "equity option" approach. According to this option the Group recognise a liability for the same amount arising from the actuarial estimation, and recognise actuarial gains and losses in the period in which they occur, directly in equity (in the "Reserve for actuarial gains (losses) to equity").

**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 for 'other long-term benefits' net actuarial gains and losses are both recognised to Profit and Loss 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 at the assignment date the fair value of the assigned instrument using financial valuation techniques that take account of market conditions and, at the date of each annual report, an updated estimate of the number of instruments expected to be distributed.

### *3.17 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.

### *3.18 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, finance 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 on a straight-line basis.

### *3.19 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 3.9 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.

### *3.20 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. In Balance sheet grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to Profit and Loss.

### *3.21 Finance income and costs*

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.

Finance costs are never capitalised.

### 3.22 *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.

### 3.23 *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 differences, if any, among the shares assigned and the effective emissions produced.

### 3.24 *Transactions with related parties*

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

### 3.25 *Costs*

Costs are recorded in compliance with the competence principle.

### 3.26 *New IFRSs and IFRIC interpretations*

At the date of preparation of this report, the IASB and the International Financial Reporting Interpretations Committee (IFRIC) had published new standards and interpretations that are not compulsory or that have not been endorsed by the European Commission. The Group has considered their effects and reported their potential impact on its balance sheet and income statement, as follows:

| IFRS - IFRIC interpretation | | Effects for the Group |
|---|---|---|
| IAS 39 Amendments | Financial instruments | Not significant |
| IFRS 8 | Operating segments | Application of the standard results in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009. |
| IAS 23 | Borrowing costs | The Group does not currently capitalise borrowing costs. The new standard, which will be applied starting from 1 January 2009, requires the capitalisation of borrowing costs for certain categories of assets |
| IAS 1 | Presentation of financial statements | Application would only result in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009 |
| IFRS 2 Amendment | Share-based payments | Not significant. The Group expects to apply these changes from 1 January 2009 |
| IAS 27 | Consolidated and separate financial statements | As of today the Group adopts the Parent company approach, which is no longer envisaged in the Amendment to IAS 27.<br>The Group expects to apply these changes from 1 January 2010. |
| IFRS 3 | Business combinations | The new version of IFRS 3 envisages the recognition in the income statement of transaction costs; the elimination of the obligation to value each asset and liability of the subsidiary at fair value in subsequent step acquisitions, and the recognition at the acquisition date of liabilities for conditional payments.<br>The Group expects to apply these changes from 1 January 2010. |
| IFRIC 12 | Service concession agreements | The Group expects to apply these changes after the ratification by the European Union. The Group is evaluating the possible impact arising from the application. |
| IFRIC 13 | Customer loyalty programs | Not significant |
| IFRIC 14 | The limit on a defined benefit asset, minimum funding requirements and their interaction | The Group expects to apply these changes from 1 January 2009. |
| IFRIC 15 | Agreements for the construction of real estate | The Group expects to apply these changes after the ratification by the European Union. The Group is evaluating the possible impact arising from the application |
| IFRIC 16 | Hedges on a net investment in a foreign operation | The Group expects to apply these changes after the ratification by the European Union. |
| IFRIC 17 | Distributions of non-cash assets to owners | The Group expects to apply these changes after the ratification by the European Union. |
| IFRIC 18 | Transfers of assets from customers | The Group expects to apply these changes after the ratification by the European Union. |

## 4. SIGNIFICANT ISSUES

### *4.1 Non-recurring costs*

The Group separately discloses as intangible assets the costs incurred in designing, prototyping and upgrading to the technical and functional specifications of clearly identified potential clients, if they are financed under Law 808/1985 governing State aids to support the competitiveness of entities operating in the Aeronautics and Defence segments. These costs are shown excluding the benefits collected or to be collected under Law 808/1985 for programmes qualified as functional to National Security and similar. The aid under Law 808/1985 is deducted from capitalised costs, and the royalties to be given to the grantor are recognised as the requirements are met (sale of products embedding the technology for which the Law permits aids).

For other programmes, non-recurring costs are recognised as 'non-recurring costs', and the funds received are recognised as 'other liabilities' at their nominal value, making a distinction between the current portion and the non-current portion, based on the date of repayment. In both cases, non-recurring costs are suspended between intangible assets and are amortised on the units-of-production method. These costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.

In the case of programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of non-recurring costs capitalised which have not been assessed yet by the issuer is shown separately, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry. The amount shown in other non-current assets is calculated based on an estimate made by management that reflects the reasonable probability that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

### *4.2 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 finance 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.

### *4.3 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 38. Hedges in the former case are reported 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.

### *4.4 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 the changes in fair value in a specific equity reserve (reserve for assets available for sale), which is reversed to profit or loss only in case of sale or impairment.

### *4.5 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 represent management’s best estimate at the reporting date.

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 below.

### *4.6 Liabilities from defined-benefit pension plans*

The Group is sponsor to two UK defined-benefit pension plans. It has the obligation to ensure a given level of benefits to the plan participants and carries the risk that the plan assets are not adequate to cover the benefits promised. In case these plans are in a deficit position, the trustee responsible for the management requests the Group to fund the plan.

The deficit resulting from the most updated actuarial valuations made by independent experts is recognised as a liability: however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.

Through the JV MBDA, which is consolidated proportionally at 25%, the Group also participates in defined-benefit pension plans in the UK where the main employer is BAE Systems Plc. As envisaged by IAS 19, the Group recognises the deficit amount that is estimated to be related to MBDA, based on information provided by BAE.

### *4.7 Impairment of assets*

Group assets are tested for impairment at least annually if their lives are indefinite, or more often if there are indications of impairment. Similarly, impairment tests are conducted on all the assets showing signs of impairment, even if the amortisation already commenced.

Impairment tests are generally conducted using the discounted cash flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.

For these valuations, the Group uses plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

## 5. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

No changes have been made to the accounting policies.

## 6. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

*Acquisition of DRS and relevant financing transactions*

On 22 October Finmeccanica carried out the acquisition of the DRS Group for an overall amount of US $mil. 3,600, hedged through derivatives starting from May at an average exchange rate of 1.54 (against an exchange rate at 28 October of 1.28). Therefore, Group consideration was €mil. 2,342 (plus transaction costs of €mil. 43), in addition to financial payables, mainly bonds, of DRS of €mil. 1,250, which mostly provided for put clauses in the case of a change in the shareholder to be exercised between October and January. The transaction was financed as follows:

| | ***€ millions*** | Section | | ***€ millions*** | Section |
|---|---|---|---|---|---|
| *Equity value* | 2,342 *(*)* | *12* | Sale of STM | 260 | *6* |
| Transaction costs | 43 | *12* | Share capital increase | 1,226 *(***)* | *23* |
| DRS financial payables - net | 1,250 *(**)* | *12* | Transaction costs | (24) | *23* |
| *- of which: reimbursed in October 2008* | *287 (**)* | | Residual bridge loan | 1,830 (****) | *24* |
| *- of which: reimbursed in January 2009* | *934 (**)* | | EMTN bond issue | 448 *(*****)* | *24* |
| *- of which: outstanding in January 2009* | *29 (**)* | | | | |
| *Enterprise value* | 3,635 | | | 3,740 | |

*(*) At the hedge exchange rate*
*(**) At the $/€ exchange rate of 22 October 2008*
*(***) Including transaction costs*
*(****) The original amount of the bridge loan (nominal €mil. 3,040) was reduced by €mil. 1,205 as a result of the share capital increase. Additional €mil. 150 was used in January 2009*
*(*****) €mil: 750, less €mil. 297of transaction costs intended to refinance the Finmeccanica Finance bonded loan closed in December 2008*

Bridge loan clauses and the relevant reimbursement mechanisms are analysed in the section "Significant events in 2008 and events subsequent to the closure of accounts for the period" in the Directors' Report.

*Sale of STM shares*

On 26 February 2008, Finmeccanica, Cassa Depositi e Prestiti and FT1CI (a company owned by Areva), as shareholders of STMicroelectronics Holding NV (STH), the Dutch company which owns 27.54% of the share capital of STM, signed an agreement amending the existing shareholders' agreement concerning the joint Italian-French governance of STH. Under the agreement, the Italian and French parties agreed to rebalance their respective stakes in STM, indirectly held through STH. Specifically, Finmeccanica, as shareholder of STH, agreed to sell to FT1CI the equivalent of 26,034,141 shares of STM at the price of €10 per share, plus an earn-out equal to 40% of any positive price differential of STM stock between the base price of €10 and the average market price calculated over a three-month period starting nine months from the date of signing of the agreement, up to €4 per share, with these effects:

| | *€ millions* |
|---|---|
| Sale proceeds | 260 |
| Capital gain realised | 56 |
| Tax effect | (2) |

The interest indirectly held in STM after the partial sale is equal to 3.7% of the share capital.

*Settlement of the Enea dispute*

On 12 December 2008 the settlement agreement between Finmeccanica SpA and Ente per le Nuove tecnologie e l'Ambiente (**ENEA**) was signed in relation with the settlement of the dispute initiated in 1995 between ENEA and Finmeccanica concerning the costs borne by it as a result of the settlement under Law 321/1988 of the contract for the construction of the nuclear power plant named PEC, signed in previous years between ENEA and Finmeccanica, with these effects:

| *€ millions* | *Balance Sheet* | *Income Statement* | *Cash Flow Statement* |
|---|---|---|---|
| Receivable recognised in financial statements 2007 | 340 | | |
| Write-back after settlement | 31 | 31 | |
| Proceeds | (307) | | 307 |
| Receivable recognised in financial statements 2008 | 64 | | |
| Stamp tax | | (11) | (11) |
| Tax effect | | (6) | |
| Effect on the 2008 result | | 14 | 296 |

***Financing under Law 808/1985***

In May the reimbursements, including finance costs, expired in 2007 were paid in line with the provisions made in the Group financial statements (reference should be made to the section below relating to the year 2007). We also remind you that the Commission, through the decision above, retained the right to submit to Italy additional requests for information on two helicopter projects (for which the Group feels it has proven full compatibility with Community regulations, as these are national security programmes) before a final decision on the matter is taken. The Commission and the Italian Government are currently exchanging information.

***Financial year 2007***

With regard to the transactions disclosed in the financial statements at 31 December 2007, the following should be noted:

- concerning financing under **Law 808/1985**, on 11 March 2008, the European Commission issued a decision on the individual aids granted by Italy for R&D projects in the aeronautics sector under Law 808/95, Article 3 a.. Pending the decision, the Group had recognised impairment of assets for €mil. 125, and finance costs of €mil. 105.

  The decision declared that these aids are compatible with the common market, under Article 87 of the Treaty, provided that the Italian authorities obtained the repayment, plus relevant finance costs, within two months of the service of the community decision;
- on 30 March 2007 the call option on 25% of Selex Sensors and Airborne Systems SpA held by BAE Systems was exercised, with an outlay of some €mil. 408;
- under Law 222/2007 the amount of a receivable recognised by Finmeccanica in previous financial statements was partially written back. The amount was due from Ente per le Nuove tecnologie e l'Ambiente (**ENEA**) concerning the costs borne by it as a result of the settlement under Law 321/1988 of the contract for the construction of the nuclear power plant named PEC. The receivable was written back, even without a formal settlement agreement, in line with the applicable accounting standards and with a view to prudence and reasonable reliability, with these effects:

| *€ millions* | ***Balance Sheet*** | ***Income Statement*** |
|---|---|---|
| Receivable recognised in financial statements 2006 | 53 | |
| Write-back | 287 | 287 |
| Estimated legal fees and third party share | | (39) |
| Receivable recognised in financial statements 2007 | 340 | |
| Tax effect (*deferred in the amount of €mil. 82*) | | (80) |
| Effect on the 2008 result | | 168 |

## 7. SEGMENT INFORMATION

<u>Primary basis</u>

The Group operates in a variety of industry segments: Helicopters, Defence Electronics and Security, 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 31 December 2008, as compared with those of the same period of the previous year, are as follows:

***31 December 2008***

| | **Helicopters** | **Defence Electronics and Security** | **Aero-nautics** | **Space** | **Defence Systems** | **Energy** | **Transportation** | **Other activities** | **Elimin-ations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3,035 | 4,362 | 2,530 | 994 | 1,116 | 1,333 | 1,759 | 425 | (517) | 15,037 |
| of which from other segments | 92 | 755 | 954 | 27 | 171 | 3 | 140 | 80 | (517) | 1,705 |
| Result before tax and finance income and costs | 344 | 357 | 246 | 62 | 116 | 122 | 123 | (160) | | 1,210 |
| Finance income and costs - net | | | | | | | | | | (238) |
| Share of result of associates | | | 6 | 1 | 1 | | | 8 | | 16 |
| Tax expense | | | | | | | | | | (367) |
| Profit (loss) from discontinued operations | | | | | | | | | | - |
| Profit for the period | | | | | | | | | | 621 |
| Group share of net result | | | | | | | | | | 571 |
| Minority share | | | | | | | | | | 50 |
| Investments | 193 | 199 | 298 | 31 | 56 | 65 | 33 | 14 | | 889 |

***31 December 2007***

| | **Helicopters** | **Defence Electronics and Security** | **Aero-nautics** | **Space** | **Defence Systems** | **Energy** | **Transportation** | **Other activities** | **Elimin-ations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 2,980 | 3,826 | 2,306 | 853 | 1,130 | 1,049 | 1,356 | 345 | (416) | 13,429 |
| of which from other segments | 51 | 629 | 896 | 34 | 168 | | 86 | 65 | (416) | 1,513 |
| Result before tax and finance income and costs | 340 | 382 | 150 | 48 | 116 | 93 | (129) | 84 | | 1,084 |
| Finance income and costs - net | | | | | | | | | | (253) |
| Share of result of associates | | 3 | 8 | | (2) | | | 7 | | 16 |
| Tax expense | | | | | | | | | | (326) |
| Profit (loss) from discontinued operations | | | | | | | | | | |
| Profit for the period | | | | | | | | | | 521 |
| Group share of net result | | | | | | | | | | 484 |
| Minority share | | | | | | | | | | 37 |
| Investments | 127 | 206 | 523 | 53 | 48 | 20 | 25 | 26 | | 1,028 |

The assets and liabilities attributable to the segments at 31 December 2008 and at 31 December 2007 are as follows:

*31 December 2008*

| | Helicopters | Defence Electronics and Security | Aero-nautics | Space | Defence Systems | Energy | Transportation | Other activities | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 5,428 | 10,923 | 5,372 | 1,268 | 2,503 | 1,595 | 2,035 | 5,575 | (4,777) | 29,922 |
| Liabilities | 3,315 | 6,554 | 5,007 | 756 | 1,780 | 1,485 | 1,783 | 8,030 | (4,918) | 23,792 |

*31 December 2007*

| | Helicopters | Defence Electronics and Security | Aero-nautics | Space | Defence Systems | Energy | Transportation | Other activities | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 5,394 | 6,827 | 5,129 | 1,049 | 2,444 | 1,269 | 1,866 | 4,360 | (4,290) | 24,048 |
| Liabilities | 3,151 | 3,985 | 4,821 | 555 | 1,743 | 1,196 | 1,650 | 5,950 | (4,435) | 18,616 |

Secondary basis

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

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Europe | 10,345 | 10,139 |
| North America | 1,809 | 1,468 |
| Other | 2,883 | 1,822 |
| | 15,037 | 13,429 |

Assets are geographically distributed as follows:

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Europe | 24,712 | 23,511 |
| North America | 5,051 | 468 |
| Other | 159 | 69 |
| | 29,922 | 24,048 |

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

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Europe | 815 | 983 |
| North America | 69 | 34 |
| Other | 5 | 11 |
| | 889 | 1,028 |

## 8. INTANGIBLE ASSETS

| | **Goodwill** | **Development costs** | **Non-recurring costs** | **Concessions, licences and trademarks** | **Acquired through business aggregations** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|
| *1 January 2007* | | | | | | | |
| Cost | 3,672 | 385 | 826 | 209 | 614 | 421 | 6,127 |
| Amortisation and impairment | (194) | (101) | (133) | (93) | (24) | (265) | (810) |
| Carrying amount | 3,478 | 284 | 693 | 116 | 590 | 156 | 5,317 |
| Investments (*) | - | 148 | 140 | 10 | | 100 | 398 |
| Sales | (2) | - | - | (2) | - | (2) | (6) |
| Amortisation | - | (65) | (58) | (18) | (26) | (43) | (210) |
| Impairment | | (32) | (91) | | | (21) | (144) |
| Increases for business combinations | 58 | - | - | 1 | 8 | - | 67 |
| Other changes | (100) | (3) | - | (14) | (33) | (6) | (156) |
| *31 December 2007* | 3,434 | 332 | 684 | 93 | 539 | 184 | 5,266 |
| broken down as follows: | | | | | | | |
| Cost | 3,606 | 528 | 964 | 168 | 586 | 500 | 6,352 |
| Amortisation and impairment | (172) | (196) | (280) | (75) | (47) | (316) | (1,086) |
| Carrying amount | 3,434 | 332 | 684 | 93 | 539 | 184 | 5,266 |
| Investments (**) | - | 212 | 35 | 47 | - | 93 | 387 |
| Sales | - | - | - | - | - | - | - |
| Amortisation | - | (71) | (59) | (26) | (34) | (46) | (236) |
| Impairment | (40) | (13) | (1) | - | - | (1) | (55) |
| Increases for business combinations | 2,979 | - | - | - | 638 | 11 | 3,628 |
| Other changes | (583) | 14 | (26) | 7 | (119) | (46) | (753) |
| *31 December 2008* | 5,790 | 474 | 633 | 121 | 1,024 | 195 | 8,237 |
| broken down as follows: | | | | | | | |
| Cost | 5,996 | 742 | 964 | 222 | 1085 | 538 | 9,547 |
| Amortisation and impairment | (206) | (268) | (331) | (101) | (61) | (343) | (1,310) |
| Carrying amount | 5,790 | 474 | 633 | 121 | 1,024 | 195 | 8,237 |
| (*) of which for capitalisation of internal construction costs | - | 144 | 103 | - | - | 11 | 258 |
| (**)of which for capitalisation of internal construction costs | 1 | 171 | (3) | (1) | - | 7 | 175 |

Goodwill grew by €mil. 2,356 as a result of:

- business aggregations (Section 12), particularly the acquisition of DRS;
- the recognition of impairment in the amount of €mil. 40 in the communications segment of the Defence Electronics and Security division;
- translation differences on the goodwill of assets denominated in British pound sterling and US dollars (included in the flow "other changes").

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:

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Helicopters | 1,147 | 1,289 |
| Defence Electronics and Security | 3,831 | 1,338 |
| Aeronautics | 60 | 60 |
| Space | 339 | 328 |
| Defence Systems | 364 | 370 |
| Energy | 7 | 7 |
| Transportation | 42 | 42 |
| | 5,790 | 3,434 |

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 five-year plans (for the 2009-2013 period) 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 (1.5% - 2% in 2008). For the impairment tests conducted in 2008, the interest rates applied are between 8.5% - 9.5%. Assuming that the growth rate across all the CGUs falls by 50 basis points, no impairment would be recognized on any CGU other than that to which the aforementioned impairment of €mil. 40 applies. An analogous result would be reached if the interest rate used to discount cash flows across all the CGUs were to rise by 50 basis points.

"Development costs" and "non-recurring costs" increased due to the capitalisations for the period (€mil. 212 and €mil. 35, respectively), mainly due to Aeronautics (€mil. 71) and Defence Electronics and Security (€mil. 67) programmes, which have been partly offset by amortisation and impairment (€mil. 144). As regards programmes that benefit from the provisions of Law 808 and are classified as functional to national security, the portion of capitalised non-recurring costs whose fairness must be assessed yet by the grantor is separately disclosed within other non-current assets (Section 15).

"Concessions, licences and trademarks" includes €mil. 94 (€mil. 71 at 31 December 2007) for the production and marketing rights for the AW139 helicopter acquired by Bell Helicopter. In 2008, the value of these rights rose by €mil. 33. The balancing item for this investment is found among other non-current liabilities.

Intangible assets acquired in the course of corporate aggregation operations increased as a result of the fair value allocated to the intangible assets of DRS (Section 12) and include the following items:

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Know-how | 88 | 118 |
| Trademarks | 45 | 46 |
| Licenses | 16 | 16 |
| Backlog and commercial positioning | 875 | 359 |
| | 1,024 | 539 |

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Plant and machinery | Equipment | Other | Total |
|---|---|---|---|---|---|
| *1 January 2007* | | | | | |
| Cost | 1,426 | 1,549 | 897 | 1,466 | 5,338 |
| Depreciation and impairment | (407) | (1,096) | (583) | (592) | (2,678) |
| Carrying amount | 1,019 | 453 | 314 | 874 | 2,660 |
| Investments (*) | 28 | 171 | 343 | 88 | 630 |
| Sales | (17) | (2) | (1) | (25) | (45) |
| Depreciation | (44) | (110) | (72) | (67) | (293) |
| Impairment | - | - | (25) | - | (25) |
| Increases for business combinations | 3 | - | - | 4 | 7 |
| Other changes | (2) | (34) | (20) | (23) | (79) |
| *31 December 2007* | 987 | 478 | 539 | 851 | 2,855 |
| broken down as follows: | | | | | |
| Cost | 1,430 | 1,619 | 1,200 | 1,491 | 5,740 |
| Depreciation and impairment | (443) | (1,141) | (661) | (640) | (2,885) |
| Carrying amount | 987 | 478 | 539 | 851 | 2,855 |
| Investments (**) | 30 | 69 | 130 | 273 | 502 |
| Sales | (8) | (1) | (2) | (12) | (23) |
| Depreciation | (46) | (117) | (79) | (62) | (304) |
| Impairment | - | - | - | - | - |
| Increases for business combinations | 74 | 10 | 66 | 57 | 207 |
| Other changes | 96 | 192 | (31) | (395) | (138) |
| *31 December 2008* | 1,133 | 631 | 623 | 712 | 3,099 |
| broken down as follows: | | | | | |
| Cost | 1,603 | 1,768 | 1,288 | 1,388 | 6,047 |
| Depreciation and impairment | (470) | (1,137) | (665) | (676) | (2,948) |
| Carrying amount | 1,133 | 631 | 623 | 712 | 3,099 |
| (*) of which capitalisation of internal construction costs | | 5 | 171 | 26 | 202 |
| (**) of which capitalisation of internal construction costs | | 6 | 81 | 12 | 99 |

Property, plant and equipment includes €mil. 40 (€mil. 28 at 31 December 2007) of assets held under contracts that can be qualified as finance leases, of which €mil. 29 (€mil. 24 at 31 December 2007) relates to land and buildings and €mil. 11 (€mil. 4 at 31 December 2007) to plant and machinery, equipment and other assets.

Other assets include a total of €mil. 8 (€mil. 9 at 31 December 2007) for helicopters owned by the AgustaWestland group as well as a total of €mil. 148 (€mil. 169 at 31

December 2007) for those 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. 393 (€mil.529 at 31 December 2007).

The most significant investments amounted to €mil. 198 for Aeronautics (mainly for the start-up of the B787 programme), €mil. 94 for Defence Electronics and Security, €mil.79 for Helicopters, €mil. 25 for Defence Systems, and €mil. 29 for Transportation.
Increases from business combinations relate to the consolidation of DRS in the amount of €mil. 204.
Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 143 (€mil. 135 at 31 December 2007).

## 10. INVESTMENT PROPERTIES

Investment properties, amounting to €mil. 1 (€mil. 1 at 31 December 2007), entirely regarded land and buildings.

## 11. EQUITY INVESTMENTS

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| *1 January* | 148 | 140 |
| Acquisitions/subscriptions and capital increases | 41 | 7 |
| Effect of recognition using the equity method | 17 | 19 |
| Impairment of other equity investments | (4) | (1) |
| Dividends received | (10) | (11) |
| Sales | - | (3) |
| Other changes | - | (3) |
| *31 December* | 192 | 148 |

The increases mainly related to the acquisition of a stake in Eurotech SpA (€mil. 19) in Defence Electronics and Security, in PZ-Swonik SA (€mil. 7) in the Helicopters division and in Sin Srl (€mil. 5) in the Space division.

Net revaluations using the equity method primarily concerned Eurofighter Jagdflugzeng GmbH for €mil. 6 (€mil. 8 in 2007) and Elettronica SpA for (€mil. 5). Impairment related to Vitrociset SpA (€mil. 4).

**List of unconsolidated equity investments at 31 December 2008 (millions of euros)**

| | *Ownership %* | *€mil.* | *Assets* | *Liabilities* | *Currency* |
|---|---|---|---|---|---|
| **SUBSIDIARIES –ASSOCIATES** | | | | | |
| Eurotech SpA | 11.08% | 19 | 157 | 39 | |
| Elettronica SpA | 31.333% | 15 | 668 | 618 | |
| Orizzonte – Sistemi Navali SpA | 49.00% | 12 | 714 | 689 | |
| Metro 5 SpA | 31.90% | 8 | 145 | 120 | |
| Europea Microfusioni Aerospaziali SpA | 49.00% | 7 | 49 | 34 | |
| Eurosysnav SAS | 50.00% | 6 | 1,193 | 1,182 | |
| Icarus ScpA | 49.00% | 6 | 24 | 12 | |
| Eurofighter Jagdflugzeug GmbH | 21.00% | 5 | 1,306 | 1,251 | |
| Finmeccanica North America Inc. | 100.000% | 3 | 5 | 1 | USD |
| Libyan Italian Advanced Technology Company (+) | 50.00% | 3 | 3 | 1 | LD |
| Consorzio C.R.I.S. | 81.00% | 2 | 5 | 3 | |
| Musinet Engineering SpA | 49.00% | 2 | 6 | 2 | |
| Digint Srl | 49.00% | 2 | 3 | 1 | |
| Jiangxi Changhe Agusta Helicopters Co. Ltd | 40.00% | 2 | 56 | 3 | RMB |
| I.M. Intermetro SpA (+) | 33.33% | 2 | 1,532 | 1,522 | |
| Novacom Services SA (*) | 26.62% | 2 | 7 | 3 | |
| **MINORITY INTERESTS** | | | | | |
| Metro C ScpA | 14.00% | 21 | | | |
| Indra Espacio S.A. (*) | 16.17% | 8 | | | |
| PZL – Swidnik SA | 6.135% | 7 | | | |
| SIN Srl | 4.00% | 5 | | | |
| Innovazione e Progetti ScpA (in liq.) | 15.00% | 4 | | | |
| BCV Investments SCA | 14.32% | 4 | | | |
| Roxel SAS (*) | 12.50% | 4 | | | |
| Panavia Aircraft GmbH | 15.00% | 3 | | | |
| Digitalglobe Inc. (*) | 1.39% | 3 | | | |
| Ferromovil 9000 SL | 10.00% | 2 | | | |
| Sofresa SA (*) | 3.00% | 2 | | | |
| Vitrociset SpA | 1.46% | 2 | | | |
| Equity investments in companies and consortiums with value lower than €mil. 2 | | 31 | | | |
| **Total equity investments (less impairment provisions)** | | **192** | | | |

(*) Investment with % ownership in Group companies.
(+) Reference values: 2007 financial statements

## 12. BUSINESS COMBINATIONS

The following summarises the overall effects of the business combinations that took place in the financial periods presented:

| *€ millions* | *2008* | | *2007* | |
|---|---|---|---|---|
| | Goodwill | Effect of cash | Goodwill | Effect of cash |
| Acquisition of DRS | 2,901 | (2,372) | - | - |
| Other acquisitions | 5 | (7) | 25 | (10) |
| Transactions with minority shareholders | 73 | (75) | 33 | (424) |
| Total | 2,979 | (2,454) | 58 | (434) |

*Acquisition of DRS Technologies Inc.*

On 22 October 2008 Finmeccanica purchased, through its US subsidiary Meccanica Holdings USA Inc, 100% of DRS Technologies Inc. (DRS), a US company listed on the New York Stock Exchange and a leader in the integrated defence electronics products and services industry, for US$81 per share. The total value of the transaction was US$bil. 5.2, which included the assumption of financial liabilties amounting to US$bil. 1.6 (€mil. 1,250 at the exchange rate on the date of the transaction) which, in large part, went to cover the put options triggered by the change in control, options exercised between October and January. The amount paid to DRS's shareholders, equivalent to US$bil. 3.6, was hedged using derivatives starting from May at an average exchange rate of 1.54 (compared with an exchange rate of 1.28 on 22 October), equal to €mil. 2,342 (to which are added transaction costs of €mil. 43). Following the acquisition, DRS, which will operate in accordance with agreements with the US Department of Defense designed to regulate the influence and control over DRS by a non-US company, was delisted from the New York Stock Exchange.

DRS was consolidated on a line-by-line basis starting from 22 October 2008, contributing the following (translated into euros) to the Group's results:

| | ***€ millions*** |
|---|---|
| Revenue | 551 |
| Earnings before amortisation of intangible assets acquired | 51 |
| Net profit | 16 |
| Cash flow generated by operating activities, net of capital investments | 26 |

If DRS had been consolidated starting from 1 January, its contribution to the Group (translated into euros), net of transactions costs, would have been as follows:

| | *€ millions* |
|---|---|
| Revenue | 2,648 |
| Earnings before amortisation of intangible assets acquired | 263 |
| Net profit | 75 |

The pro-forma information presented is merely intended as a simulation, obtained by adjusting DRS's historical data to take into account (excluding the corresponding tax effects): (*i*) the costs incurred by DRS in the course of the transaction, not considered in the pro forma results presented; and (*ii*) amortisation identified in the course of the acquisition. Finally, if the transaction had occurred on 1 January, the above results would not necessarily have been attained and the pro forma figures do not in any way reflect projected figures.

The transaction had the following effect on the Group's balance sheet and cash flow statement:

| ***€ millions*** | Original values | Provisional Fair Value | Cash flow |
|---|---|---|---|
| Non-current assets | 272 | 1,085 | |
| - of which: *intangible assets* | *8* | *646* | |
| - of which: *deferred tax assets* | *35* | *229* | |
| Non-current liabilities | (88) | (383) | |
| - of which*: deferred tax liabilities* | *(21)* | *(280)* | |
| Working capital | 467 | 277 | |
| Provisions for risks and charges | (72) | (109) | |
| Other net liabilities | (146) | (129) | |
| Cash and cash liabilities | 44 | 44 | |
| Borrowings | (1,291) | (1,294) | |
| Minority interests | (7) | (7) | |
| Net assets acquired | (821) | (516) | |
| Price paid | 2,342 | 2,342 | *(2,342)* |
| Transaction costs | 43 | 43 | |
| - paid | *17* | | *(17)* |
| - not paid | *26* | | |
| Total costs of the transaction | | 2,385 | |
| Goodwill resulting | | 2,901 | |
| Cash acquired | | | *44* |
| Transaction costs paid by DRS following the acquisition | | | *(57)* |
| Total cash outlays | | | *(2,372)* |

The recognition of the intangible assets can be traced largely to the order backlog and relations with customers. The process of identifying the fair value of the assets and liabilities acquired as required by IFRS 3 is still ongoing. Therefore, the residual value currently attributed to goodwill could change once the allocation process is concluded.

*Other acquisitions*

Other acquisitions in 2008 related to:

- the acquisition of the Spanish company Aurensis SL, specialising in technologies for territorial applications and satellite and aerial Earth observation services, by the Telespazio joint venture which is consolidated proportionally (67%); and
- the purchase of 100% of the Italian company ISAF, specializing in the geographical technologies information systems sector, by Telespazio. ISAF participates in a consortium of companies that was awarded the contract tendered by Agenzia per le Erogazioni in Agricoltura (AGEA) for the development and management of the national agriculture information system;

The effects of these acquisitions on the Group's balance sheet are as follows:

| | Aurensis | ISAF | Total |
|---|---|---|---|
| Non-current assets | - | 4 | 4 |
| Non-current liabilities | | | - |
| Working capital | 2 | 3 | 5 |
| Provisions for risks and charges | | | - |
| Other net liabilities | (1) | (1) | (2) |
| Cash and cash equivalents | - | - | - |
| Borrowings | - | (5) | (5) |
| Net assets acquired | 1 | 1 | 2 |
| Price paid | 4 | 3 | 7 |
| Transaction costs | - | - | - |
| Total costs of the transaction | 4 | 3 | 7 |
| Goodwill resulting | 3 | 2 | 5 |
| Cash acquired | - | - | - |
| Net cash outlays | 4 | 3 | 7 |

*Transactions with minority shareholders*

In 2008, 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, 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 the transactions are as follows:

- *Vega Group*. On 29 November 2007 Finmeccanica announced the launch of a Public Offer on the shares of Vega Plc, a company listed on the London Stock Exchange, at a price per share of 280 pence, to be completed in the period 7 December 2007 - 28 December 2007, with an extension to 16 January 2008. On 30 November Finmeccanica acquired 28.2% of Vega Plc, with a total outlay of €mil. 23. In 2008, following the successful completion of the Public Offer, Finmeccanica began the squeeze-out process and the delisting of the shares, bringing its total stake to 100%, with a total outlay in 2008, including transaction costs, of €mil. 63;
- *Sirio Panel*. In 2008, the Group, which already held 75% of Sirio Panel, purchased a further 18% stake for a price of €mil. 12. Based on the put and call options on the remaining 7% held by third parties, the Group has recognised the value of these rights among borrowings and consolidates the company without recognising any minority interests.

The total effects of these transactions on the Group's balance sheet and cash flow statement were as follows:

| | **Vega Group** | **Sirio Panel** | **Total** |
|---|---|---|---|
| Purchase price | 61 | 16 | 77 |
| Transaction costs | 2 | - | 2 |
| of which deferred payment | - | (4) | (4) |
| Cash outlays for the period | 63 | 12 | 75 |
| Minority interests acquired | (2) | 8 | 6 |
| Goodwill resulting | 65 | 8 | 73 |

*Transactions related to financial year 2007*

During 2007, the Group was involved in the following business combinations:

- the aforementioned purchase of 28.2% of the Vega Group, in exchange for a net outlay of €mil. 21, and the purchase of Bayern-Chemie, a company operating in the missile systems sector, by the MBDA joint venture involving the acquisition of cash amounting to €mil. 11, net the purchase price paid;
- the payment of the call option on 25% of the shares in Selex Sensors & Airborne Systems, previously held by BAE Systems (€mil. 408) in addition to transactions with minority shares for an outlay of €mil. 16.

## 13. FINANCIAL ASSETS AT FAIR VALUE

| | ***31 December 2008*** | | ***31 December 2007*** | |
|---|---|---|---|---|
| | **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 | 154 | - | 589 | - |
| Other securities | - | - | - | - |
| | 154 | - | 589 | - |

The item relates to the indirectly-owned interest in STMicroelectronics (STM), amounting to 3.7% of the share capital, classified entirely as “assets available for sale”.

Below are the changes for the periods being compared:

| | ***2008*** | ***2007*** |
|---|---|---|
| *1 January* | 589 | 840 |
| Purchases for the period | - | - |
| Disposals for the period | (260) | - |
| Fair value adjustment | (175) | (251) |
| *31 December* | 154 | 589 |

As explained in more detail in Section 6, 26 million shares were sold in 2008 for a total amount received of €mil. 260, with a resulting transfer of a portion of the “reserve for assets available for sale” (€mil. 56 in net income recognised on the transaction) to the income statement. However, the stock was heavily affected by the negative performance of the financial markets, particularly during the final quarter of the year, remaining persistently below the original carrying value. Therefore, the Group recognised an impairment of the “reserve for assets available for sale” (€mil. 111 in the 2008 income statement) on shares still held in its portfolio (33.7 million) equal to the entire negative value at 31 December. In order to mitigate the risk of stock depreciation, the Group has routinely taken positions in derivatives, classified as assets held for trading, that through the purchase of put spreads and calls, have made it possible to recognise total income of €mil. 22 for the year. The Group’s hedging strategy is analysed in Section 43.

## 14. 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 31 DECEMBER 2008* | **Non-current financial receivables** | **Other non-current receivables** | **Current financial receivables** | **Trade receivables** | **Other current receivables** | **Total** |
|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | |
| Other companies with unit amount lower than €mil. 5 | | | 13 | 8 | 1 | 22 |
| ***Associates*** | | | | | | |
| Eurofighter Jagdflugzeug GmbH | | | | 92 | | 92 |
| Iveco Fiat/Oto Melara Scarl | | | | 65 | | 65 |
| Orizzonte – Sistemi Navali SpA | | | | 36 | | 36 |
| NH Industries Sarl | | | | 23 | | 23 |
| Macchi Hurel Dubois SAS | | | | 12 | | 12 |
| Metro 5 SpA | | | | 19 | | 19 |
| Abruzzo Engineering Scpa | | | | 9 | | 9 |
| Other companies with unit amount lower than €mil. 5 | 2 | | 1 | 28 | 1 | 32 |
| ***Joint ventures(*)*** | | | | | | |
| MBDA SAS | | | | 77 | | 77 |
| Thales Alenia Space SAS | | | 6 | 29 | | 35 |
| GIE ATR | | | | 15 | 6 | 21 |
| Aviation Training International Ltd | 6 | | | | | 6 |
| Other companies with unit amount lower than €mil. 5 | 5 | | 1 | 5 | 5 | 16 |
| ***Consortiums (**)*** | | | | | | |
| Saturno | | | | 49 | | 49 |
| Trevi – Treno Veloce Italiano | | | | 15 | | 15 |
| C.I.S. DEG | | | | 9 | | 9 |
| Elmac | | | | 6 | | 6 |
| Other consortiums with unit amount lower than €mil. 5 | | | 5 | 21 | 1 | 27 |
| **Total** | **13** | **-** | **26** | **518** | **14** | **571** |
| ***% against total for the year*** | ***16.5*** | ***-*** | ***3.8*** | ***11.1*** | ***2.1*** | |

| *(millions of euros)* ***PAYABLES AT 31 DECEMBER 2008*** | **Non-current financial payables** | **Other non-current payables** | **Current financial payables** | **Trade payables** | **Other current payables** | **Total** | **Guarantees** |
|---|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | | |
| Other companies with unit amount lower than €mil. 5 | | | 1 | 16 | 1 | 18 | |
| | | | | | | | |
| ***Associates*** | | | | | | | |
| Eurofighter Jagdflugzeug Gmbh | | | 62 | 7 | | 69 | |
| Iveco Fiat/Oto Melara Scarl | | | | | 25 | 25 | |
| Eurosysnav SAS | | | 9 | | | 9 | |
| Consorzio Start SpA | | | | 19 | | 19 | |
| Orizzonte – Sistemi Navali SpA | | | | | | | 12 |
| Other companies with unit amount lower than €mil. 5 | | | 2 | 15 | 4 | 21 | |
| | | | | | | | |
| ***Joint ventures (*)*** | | | | | | | |
| MBDA SAS | | | 544 | 10 | | 554 | 161 |
| Thales Alenia Space SAS | | | 19 | 8 | | 27 | 3 |
| Superject International SpA | | | 8 | | | 8 | |
| Telespazio SpA | | | 7 | | | 7 | 364 |
| Other companies with unit amount lower than €mil. 5 | | | | 1 | 4 | 5 | |
| | | | | | | | |
| ***Consortiums*** *(**)* | | | | | | | |
| C.I.S.DEG | | | | | | | 1 |
| Other consortiums with unit amount lower than €mil. 5 | | | | 8 | | 8 | |
| | | | | | | | |
| **Total** | **-** | **-** | **652** | **84** | **34** | **770** | **541** |
| | | | | | | | |
| ***% against total for the year*** | ***-*** | ***-*** | ***28.8*** | ***1.8*** | ***2.2*** | | |

| *(millions of euros)* ***RECEIVABLES AT 31 DECEMBER 2007*** | **Non-current financial receivables** | **Other non-current receivables** | **Current financial receivables** | **Trade receivables** | **Other current receivables** | **Total** |
|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | |
| Other companies with unit amount lower than €mil. 5 | | | 9 | 7 | 1 | 17 |
| ***Associates*** | | | | | | |
| Eurofighter Jagdflugzeug GmbH | | | | 108 | | 108 |
| Iveco Fiat/Oto Melara Scarl | | | | 33 | | 33 |
| Orizzonte – Sistemi Navali SpA | | | | 29 | | 29 |
| Eurosysnav SAS | | | | 8 | | 8 |
| Abruzzo Engineering Scpa | | | | 13 | | 13 |
| NH Industries Sarl | | | | 13 | | 13 |
| Macchi Hurel Dubois SAS | | | | 11 | | 11 |
| Metro 5 SpA | | | | 7 | | 7 |
| Other companies with unit amount lower than €mil. 5 | 2 | | | 22 | 2 | 26 |
| ***Joint ventures(*)*** | | | | | | |
| MBDA SAS | | | | 87 | | 87 |
| Thales Alenia Space SAS | | | | 25 | | 25 |
| GIE ATR | | | | | 10 | 10 |
| Aviation Training International Ltd | 9 | | | | | 9 |
| Other companies with unit amount lower than €mil. 5 | | | 3 | 3 | 1 | 7 |
| ***Consortiums (**)*** | | | | | | |
| Saturno | | | | 42 | | 42 |
| Trevi – Treno Veloce Italiano | | | | 14 | | 14 |
| C.I.S. DEG | | | | 10 | | 10 |
| Elmac | | | | 6 | | 6 |
| Other consortiums with unit amount lower than €mil. 5 | | | 8 | 13 | 1 | 22 |
| **Total** | **11** | **-** | **20** | **451** | **15** | **497** |
| ***% against total for the year*** | ***18.3*** | ***-*** | ***3.3*** | ***10.4*** | ***2.5*** | |

| *(millions of euros)* *PAYABLES AT 31 DECEMBER 2007* | **Non-current financial payables** | **Other non-current payables** | **Current financial payables** | **Trade payables** | **Other current payables** | **Total** | **Guarantees** |
|---|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | | |
| Other companies with unit amount lower than €mil. 5 | | | | 8 | 1 | 9 | |
| ***Associates*** | | | | | | | |
| Consorzio Start SpA | | | | 16 | | 16 | |
| Eurosysnav SAS | | | 13 | | | 13 | |
| Iveco Fiat/Oto Melara Scarl | | | | | 6 | 6 | |
| Metro 5 SpA | | | | | 6 | 6 | |
| Orizzonte – Sistemi Navali SpA | | | | | | | 12 |
| Other companies with unit amount lower than €mil. 5 | | | 3 | 21 | | 24 | |
| ***Joint ventures (*)*** | | | | | | | |
| MBDA SAS | | | 494 | 11 | | 505 | 165 |
| Telespazio SpA | | | 23 | | | 23 | 102 |
| Thales Alenia Space SAS | | | 24 | 9 | | 33 | 5 |
| Other companies with unit amount lower than €mil. 5 | | | 3 | 5 | | 8 | |
| ***Consortiums*** *(**)* | | | | | | | |
| Trevi – Treno Veloce Italiano | | | | | 12 | 12 | |
| Other consortiums with unit amount lower than €mil. 5 | | | | 11 | | 11 | |
| **Total** | **-** | **-** | **560** | **81** | **25** | **666** | **284** |
| ***% against total for the year*** | ***-*** | ***-*** | ***32.8*** | ***2.0*** | ***1.7*** | | |

*(*) Amounts refer to the portion not eliminated for proportional consolidation*
*(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control*

## 15. RECEIVABLES AND OTHER NON-CURRENT ASSETS

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Third-party financing | 60 | 39 |
| Security deposits | 21 | 19 |
| Receivables for finance leases | 6 | 10 |
| Deferred receivables Law 808/85 | 135 | 51 |
| Net asset defined-benefit retirement plans (Section 26) | 39 | - |
| Other | 28 | 39 |
| Financial receivables from related parties (Section 14) | 13 | 11 |
| **Non-current receivables** | **302** | **169** |
| Financial accrued income - non-current | 3 | 4 |
| Other accrued income - non-current | 10 | 1 |
| Non-recurring costs awaiting interventions under Law 808/1985 | 467 | 362 |
| **Other non-current assets** | **480** | **367** |
| **Total other non-current assets** | **782** | **536** |

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 finance 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. 35) is classified among other current assets (Section 21). Non-recurring costs awaiting interventions under Law 808 include the portion of non-recurring costs paid on programmes that benefit from the provisions of Law 808/1985, are classified as being functional to national security, and whose expenses have not been assessed yet by the issuer. After the legal requirements for the recognition of the receivable from the Ministry are fulfilled, the recognised amount is reclassified as a receivable (current or non-current, based on the expected payment schedule). The amount shown is calculated based on an estimate made by management that reflects the reasonable probability that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

## 16. INVENTORIES

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Raw materials, supplies and consumables | 1,996 | 1,678 |
| Work in progress and semi-finished goods | 1,328 | 806 |
| Finished goods and merchandise | 229 | 150 |
| Advances to suppliers | 812 | 749 |
| | 4,365 | 3,383 |

Inventories are shown net of impairment charges of €mil. 530 (€mil. 427 at 31 December 2007). Inventories have grown considerably due to the consolidation of DRS (€mil. 377 at the exchange rate on the transaction date).

## 17. CONTRACT WORK IN PROGRESS AND ADVANCES RECEIVED

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Work in progress (gross) | 7,825 | 6,426 |
| Advances from customers | (4,151) | (3,199) |
| Work in progress (net) | 3,674 | 3,227 |
| | | |
| Advances from customers (gross) | 16,245 | 15,457 |
| Work in progress | (8,846) | (8,980) |
| Advances from customers (net) | 7,399 | 6,477 |

Work in progress is recognised as an asset net of the relative advances if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. This offsetting is performed only with regard to work in progress and not to inventories or other assets. If the advances have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

## 18. TRADE AND FINANCIAL RECEIVABLES

| | *31 December 2008* | | *31 December 2007* | |
|---|---|---|---|---|
| | Trade | Financial | Trade | Financial |
| Receivables | 4,317 | 653 | 4,037 | 586 |
| Impairment | (180) | - | (169) | - |
| Receivables from related parties (Section 14) | 518 | 26 | 451 | 20 |
| | **4,655** | **679** | **4,319** | **606** |

The increase in receivables from related parties in 2008 is mainly due to the acquisition of DRS (€mil. 413 at the exchange rate on the transaction date).

Trade receivables from related parties refer specifically to the non-eliminated portion of receivables from joints ventures and the lead companies or consortiums of major programmes in which the Group participates. The most important of these relate to the Eurofighter (EFA programme) totalling €mil. 92 (€mil. 108 in 2007) for contracts for the production of wings and posterior fuselages and for the assembly of aircraft for the Italian Air Force; receivables from the Saturno consortium amounting to €mil. 49 (€mil. 42 in 2007) for work on high-speed train lines; receivables from the Iveco Fiat/Oto Melara consortium amounting to €mil. 65 (€mil. 33 in 2007) for production and post-sales assistance on defence and security ground vehicles (production is currently under way on Blindo Puma, Carro PZH2000 and self-propelled vehicles for the Italian Army); receivables from Orizzonte-Sistemi Navali SpA amounting to €mil. 36 (€mil. 29 in 2007) relating to the FREMM programme.

Financial receivables mainly include receivables from other partners of the joint ventures (€mil. 629 compared with €mil. 552 at 31 December 2007) related to the deposit of cash and cash equivalents of the MBDA and the Thales Alenia Space joint ventures 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 proportional consolidation.

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Section 43.

## 19. CURRENT FINANCIAL ASSETS AT FAIR VALUE

These assets include:

| | *31 December 2008* | | *31 December 2007* | |
|---|---|---|---|---|
| | **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 | - | - | - | - |
| Other securities | 1 | - | 13 | - |
| | 1 | - | 13 | - |

This item decreased due to the sale of the shares in an Italian fund, resulting from a past investment of liquidity made by the Parent Company.

Other securities refer to government securities given to guarantee performance of sale contracts with national government customers and are held until sale upon the expiration of the associated guarantee.

## 20. INCOME TAX RECEIVABLES AND PAYABLES

| | *31 December 2008* | | *31 December 2007* | |
|---|---|---|---|---|
| | Receivables | Payables | Receivables | Payables |
| Parent Company receivables | 76 | - | 122 | - |
| Receivables assigned without recourse | 106 | - | 106 | - |
| Other income tax receivables/payables | 54 | 201 | 49 | 68 |
| | 236 | 201 | 277 | 68 |

Parent Company receivables relate to IRES for €mil. 25 (€mil 56 at 31 December 2007), to receivables for interest on tax receivables for €mil. 40 (€mil. 59 at 31 December 2007), and to other receivables (IRAP, regional tax on productive activities, and ILOR, local income tax, etc.) for €mil. 11 (€mil. 7 at 31 December 2007). Receivables assigned without recourse relates to IRPEG (corporate income tax) receivables maintained as Group assets, even though they have been sold to third parties, because this is not included in the requirements of IAS 39 on derecognition. A financial payable of the same amount is recognised against these tax receivables (Section 24).

## 21. OTHER CURRENT ASSETS

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Accrued income - current portion | 114 | 82 |
| Equity investments | 1 | 1 |
| Receivables for contributions | 71 | 69 |
| Receivables from employees and social security | 37 | 40 |
| Indirect tax receivables | 204 | 161 |
| Deferred receivables Law 808/85 | 35 | 39 |
| Other assets | 183 | 202 |
| Other receivables from related parties (Section 14) | 14 | 15 |
| | **659** | **609** |

The item “deferred receivables Law 808/1985” includes the receivables from the Ministry of Economic Development relating to the interventions pursuant to Law 808/1985 in national security and similar projects for which collections are expected within 12 months. Portions for which collections are expected beyond 12 months are recognised as accounts receivable and other non-current assets (Section 15).

Other assets include, among others, receivables from the Ministry of Defence in connection with the settlement of disputes in the amount of €mil. 34, sundry advances in the amount of €mil. 23 (€mil. 20 in 2007), receivables from Algeria for €mil. 7, receivables for disputes for €mil. 6, and receivables from the Camozzi group in the amount of €mil. 3 (€mil. 14 at 31 December 2007).

## 22. CASH AND CASH EQUIVALENTS

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Cash | 3 | 3 |
| Bank deposits | 2,294 | 1,604 |
| | 2,297 | 1,607 |

The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

## 23. SHAREHOLDERS' EQUITY

Shareholders’ equity at 31 December 2008 came to €mil. 6,130 (€mil. 5,432 at 31 December 2007), a net increase of €mil. 698.

*Share capital*

| | Number of ordinary shares | Par value €mil. | Treasury shares €mil. | Costs incurred net of tax effect €mil. | Total €mil. |
|---|---|---|---|---|---|
| Outstanding shares | 425,135,260 | 1,870 | - | | 1,870 |
| Treasury shares | (343,777) | - | (6) | | (6) |
| *31 December 2007* | 424,791,483 | 1,870 | (6) | | 1,864 |
| Capital increase November 2008 | 152,921,430 | 673 | - | (17) | 656 |
| Shares subscribed through 2002-2004 stock option plan | 93,705 | 1 | - | | 1 |
| Repurchase of treasury shares, less shares sold | (103,432) | - | (2) | | (2) |
| *31 December 2008* | 577,703,186 | 2,544 | (8) | (17) | 2,519 |
| *broken down as follows:* | | | | | |
| Outstanding shares | 578,150,395 | 2,544 | - | (17) | 2,527 |
| Treasury shares | (447,209) | - | (8) | | (8) |
| | 577,703,186 | 2,544 | (8) | (17) | 2,519 |

The Group Parent's share capital fully subscribed and paid-up is divided into ordinary shares with a par value of €4.40 each. The changes for the period relate to the following transactions:

- the subscription of 152,921,430 new shares as part of the share capital increase approved by the Shareholders' Meeting on 1 August 2008. The transaction had the following overall impact on the Group's balance sheet and cash flow statement:

| | Balance Sheet | Statement of Cash Flows |
|---|---|---|
| Share capital increase | 673 | |
| Share premium | 550 | |
| Proceeds from subscriptions | 1,223 | |
| Proceeds of sale of unexercised options | 3 | |
| Total proceeds | 1,226 | 1,226 |
| Transaction costs: | (24) | |
| *- of which: paid* | (20) | (20) |
| Deferred tax assets on transaction cost | 7 | |
| Net capital increase | 1,209 | 1,206 |

- the issue of 93,705 new shares for the exercise of as many options under the 2002-2004 stock option plan;
- the repurchase of 1,225,000 (€mil. 21) own shares, net of 1,121,568 shares (€mil. 19), corresponding to the options granted to the beneficiaries of the stock grant and stock option plans.

At 31 December 2008 the Ministry for the Economy and Finance held about 30.2043% of the shares. No other shareholder held more than 2% of the shares.

## Other reserves

| | Retained earnings and consolidation reserve | Reserve for assets available for sale | Cash-flow hedge reserve | Reserve for stock-option and stock-grant plans | Reserve for actuarial profits (losses) posted to shareholders' equity | Translation reserve | Other reserves | Total other Group reserves | Minority interests |
|---|---|---|---|---|---|---|---|---|---|
| *1 January 2007* | 2,933 | 372 | 58 | 20 | (37) | 35 | - | 3,381 | 81 |
| Dividends paid | (149) | | | | | | | (149) | (2) |
| Capital increase for stock option plan | 5 | | | | | | | 5 | |
| Total income and costs | 484 | (251) | 13 | | 154 | (185) | | 215 | 29 |
| Stock options/grant plans: | | | | | | | | | |
| - services rendered | | | | 32 | | | | 32 | 3 |
| - stock grant assigned | 1 | | | (20) | | | | (19) | - |
| Effects of curtailment | (50) | | | | 50 | | | | - |
| Change in scope of consolidation and other minor changes | | | | | | | | | (8) |
| *31 December 2007* | 3,224 | 121 | 71 | 32 | 167 | (150) | - | 3,465 | 103 |
| Dividends paid | (174) | | | | | | | (174) | (13) |
| Capital increases | 550 | | | | | | | 550 | 10 |
| Sale of unexercised grants | 3 | | | | | | | 3 | - |
| Capital increases for stock option plan | 1 | | | | | | | 1 | - |
| Total income and costs | 571 | (121) | (54) | | (111) | (672) | | (387) | 52 |
| Stock options/grant plans: | | | | | | | | | |
| - services rendered | | | | 19 | | | | 19 | 1 |
| - stock grant assigned | (3) | | | (32) | | | | (35) | (3) |
| Change in scope of consolidation and other minor changes | 11 | | 6 | | (15) | 11 | | 13 | 6 |
| *31 December 2008* | 4,183 | - | 23 | 19 | 41 | (811) | | 3,455 | 156 |

*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. Due to the stress in the financial markets which pushed the value of STMicroelectronics NV stock below its carrying value, the Group recognised an impairment in value of €mil. 111 on the 33.7 million shares remaining in its portfolio (Section 38).

*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 recognized in the income statement. When this condition is met, the reserve is recognized in the income statement to offset the economic effects of the hedged transaction.

*Translation reserve*

This reserve is used to recognize 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 UK component of the AgustaWestland (€mil. -165), Selex Communications (€mil. -47) and Selex Sensors and Airborne Systems (€mil. -408) and the DRS Technologies group (€mil. -184).

*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 the parent company Finmeccanica SpA 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 by 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 was 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.
In relation to the capital increase carried out in 2008, the exercise price was adjusted by the Remuneration Committee on 15 October 2008 to €12.28 per share for options not yet exercised at the start date of the capital increase, although the number of options granted remained unchanged. With the increase in the share capital authorized by the Board of Directors within the limits set by the shareholders on 16 May 2003, at 31 December 2007, a total of 3,334,474 ordinary shares had been subscribed, for an increase in capital of €mil. 15. At 31 December 2008 treasury shares used in the stock option plan amounted to 166,815, following the exercise of 91,790 call options for treasury shares from persons not related to Finmeccanica through an employment contract.
Finmeccanica also introduced Long-term Incentive Plans (stock grant plans) targeted at key resources among executives, directors and self-employed workers with top-level roles in Finmeccanica SpA or its subsidiaries. The first plan related to the 2005-2007 three-year period, while the second related to the 2008-2010 three-year period.
The 2005-2007 stock grant plan, approved by the Board of Directors on 29 September 2005, had 574 beneficiaries (a number later changed). Under the plan, each of the beneficiaries was entitled to receive Finmeccanica SpA’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 were 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 authorization 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 2007 of the authorization 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. 1 October 2008, delivery of 1,121,568 shares awarded for 2007 was made to the beneficiaries. As indicated by the beneficiaries, the balance of the shares were withheld to cover tax and social security obligations owed by the beneficiaries in relation to said delivery.

On 20 May 2007, the Board of Directors of the Company approved the 2008-2010 stock grant plan. The plan, which has 562 beneficiaries, is substantially the same as the plan created for the 2005-2007 period. The plan consists of awarding designated individuals the right to receive ordinary Finmeccanica SpA shares for each of 2008, 2009 and 2010, granted on an annual basis with deferred delivery of the shares, subject to achieving set performance targets.

With regard to both plans, the Finmeccanica SpA Shareholders' Meeting of 16 January 2008 revoked its authorization to purchase and make available the shares mentioned above resulting from the unexercised options, however it guaranteed the availability of the same number of shares to service the Plan, as well as the shares still required for other stock incentive plans, within the scope of resolution on a broader treasury share buy-back and use program.

The fair value of the shares of the tranche 2008 to be assigned in 2008 was set at €20.44 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. 20 (€mil. 1 on minority interests); this reserve also includes contributions of €mil. 6, for a total cost of €mil. 26 for the year (Sections 33 and 34).

*Minority interests*

The most significant changes for the period related the capital increase of Global Military Aircraft System LLC (49%) for €mil. 9, the payment of dividends and the change in income and costs largely attributable to the Ansaldo STS group (60%) recognised in shareholders' equity.

*The following is a breakdown of the tax effects on the gain and loss items recognised in shareholders' equity.*

| | *Group* | | | *Minority interest* | | |
|---|---|---|---|---|---|---|
| | Amount before taxes | Tax effect | Amount net of tax effect | Amount before taxes | Tax effect | Amount net of tax effect |
| Available-for-sale financial assets | (121) | - | (121) | - | - | - |
| Actuarial gains (losses) on defined benefit plans | (150) | 39 | (111) | (1) | - | (1) |
| Changes in cash flow hedges | (70) | 16 | (54) | 8 | (2) | 6 |

## 24. BORROWINGS

| | ***31 December 2008*** | | | ***31 December 2007*** | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | **Current** | **Non-current** | **Total** |
| Bonds | 966 | 2,115 | 3,081 | 351 | 1,407 | 1,758 |
| Bank borrowings | 178 | 1,880 | 2,058 | 133 | 149 | 282 |
| Finance leases | 14 | 2 | 16 | 5 | 15 | 20 |
| Payable for non-recourse factoring | 109 | - | 109 | 109 | - | 109 |
| Payables to related parties (Section 14) | 652 | - | 652 | 560 | - | 560 |
| Other borrowings | 346 | 98 | 444 | 551 | 104 | 655 |
| | **2,265** | **4,095** | **6,360** | **1,709** | **1,675** | **3,384** |

Changes in borrowings are:

| | ***1 January 2008*** | ***Increases (*)*** | ***Repayments/ Payment of coupons (*)*** | ***Change in scope of consolidation*** | ***Other changes*** | ***31 December 2008*** |
|---|---|---|---|---|---|---|
| Bonds | 1,758 | 850 | (614) | 1,193 | (106) | 3,081 |
| Bank borrowings | 282 | 3,058 | (1,225) | 106 | (163) | 2,058 |
| Finance leases | 20 | 1 | (5) | - | - | 16 |
| Payable for non-recourse factoring | 109 | - | - | - | - | 109 |
| Payables to related parties (Section 14) | 560 | 92 | - | - | - | 652 |
| Other borrowings | 655 | 64 | (297) | 3 | 19 | 444 |
| | 3,384 | 4,065 | (2,141) | 1,302 | (250) | 6,360 |

| | *1 January 2007* | *Increases (*)* | *Repayments/ Payment of coupons (*)* | *Change in scope of consolidation* | *Other changes* | *31 December 2007* |
|---|---|---|---|---|---|---|
| Bonds | 1,748 | 88 | (78) | - | - | 1,758 |
| Bank borrowings | 276 | 42 | (25) | 32 | (43) | 282 |
| Finance leases | 25 | - | (5) | - | - | 20 |
| Payable for non-recourse factoring | 116 | - | (7) | - | - | 109 |
| Payables to related parties (Section 14) | 500 | 60 | | | | 560 |
| Other borrowings | 695 | - | (407) | 3 | 364 | 655 |
| | 3,360 | 190 | (522) | 35 | 321 | 3,384 |

(*) 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.

*Bonds*

| | *1 January 2008* | *New borrowings* | *Change in scope* | *Interest* | *Repayments* | *Payment of coupons* | *Effect of exchange rate* | *31 December 2008* |
|---|---|---|---|---|---|---|---|---|
| Exchangeable bonds | 451 | - | - | 21 | - | (2) | - | 470 |
| Bonds -1997 | - | - | - | - | - | - | - | - |
| Bonds - 2002 | 296 | - | - | 14 | (297) | (13) | - | - |
| Bonds - 2003 | 497 | - | - | 29 | | (29) | - | 497 |
| Bonds - 2005 | 514 | - | - | 25 | | (24) | - | 515 |
| Bonds - 2008 | - | 745 | - | 4 | - | - | - | 749 |
| DRS –Bonds - 2003 | - | - | 445 | 6 | - | (13) | (35) | 403 |
| DRS –Bonds - 2006 | - | - | 278 | 4 | - | - | (22) | 260 |
| DRS –Bonds - 2006 | - | - | 200 | 2 | - | - | (15) | 187 |
| DRS –Bonds - 2006 | - | - | 270 | - | (235) | (1) | (34) | - |
| | 1,758 | 745 | 1,193 | 105 | (532) | (82) | (106) | 3,081 |

| | 1 January 2008 | New borrowings | Change in scope | Interest | Repayments | Payment of coupons | Effect of exchange rate | 31 December 2008 |
|---|---|---|---|---|---|---|---|---|
| Exchangeable bonds | 432 | - | - | 21 | - | (2) | - | 451 |
| Bonds - 1997 | 6 | - | - | - | (6) | - | - | - |
| Bonds - 2002 | 299 | - | - | 14 | - | (17) | - | 296 |
| Bonds - 2003 | 497 | - | - | 29 | - | (29) | - | 497 |
| Bonds - 2005 | 514 | - | - | 24 | - | (24) | - | 514 |
| Bonds - 2008 | - | - | - | - | - | - | - | - |
| DRS –Bonds - 2003 | - | - | - | - | - | - | - | - |
| DRS –Bonds - 2006 | - | - | - | - | - | - | - | - |
| DRS –Bonds - 2006 | - | - | - | - | - | - | - | - |
| DRS –Bonds - 2006 | - | - | - | - | - | - | - | - |
| | 1,748 | - | - | 88 | (6) | (72) | - | 1,758 |

Below is some information on the features of these bonds. More detailed information can be found in the "Financial transactions" section:

- *Exchangeable bonds:* The bond, issued by Finmeccanica Finance SA during for a nominal value of €mil. 501 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 SA for a total nominal value of €mil. 297, was repaid in December 2008.
- *Bonds – 2003:* this bond was issued by Finmeccanica Finance SA 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 SpA and has a total nominal value of €mil. 500. With an annual coupon of 4.875%, the effective interest rate is 4.96%.
- *Bonds - 2008:* this bond was issued in December 2008 by Finmeccanica SpA and has a total nominal value of €mil. 750. With an annual coupon of 8.125%, the effective interest rate is 8.32%.
- As a result of the acquisition in 2008, the Group assumed a total of US$mil. 1,495 in bonds. Over the last two months of the year, the US$mil. 345 convertible bond was extinguished due to the triggering of the put option held by the bondholders as a result of the change in the controlling shareholder. The financial statements at 31 December 2008 incorporate DRS's other bond issues for a nominal value of US$mil. 1,150, which were almost entirely repaid in January 2009 (except for US$ mil. 37) upon the triggering of the DRS bondholders' right to repayment under the change of control clause.

*Bank borrowings*

This item includes €mil. 1,830 (non-current portion of €mil. 1,762) as the remaining amount of the bridge loan signed by Finmeccanica relating to the purchase of DRS (Section 6) for €mil. 3,015 (excluding commissions), which has been partially repaid (€mil. 1,205) from the proceeds of the capital increase. The remaining amount of €mil. 1,288 falls due in June 2009 (extendable to 2010) and of €mil. 697 in June 2011. As part of the purchase of DRS, the Group assumed its bank borrowings (€mil. 101 at the exchange rate on the transaction date), which were almost entirely extinguished under the accelerated repayment clause in the loan agreement triggered by the change in the controlling shareholder. This item also includes borrowings by the joint ventures ATIL Ltd in the helicopters segment (€mil. 71, compared with €mil. 80 at 31 December 2007), and GIE ATR in the aeronautics segment (€mil. 9, compared with €mil. 15 at 31 December 2007) and subsidised loans (€mil. 79, compared with €mil. 81 at 31 December 2007).

*Finance leases*

These obligations are related to property, plant and equipment held by the Group under finance lease contracts.

*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.

*Payables to related parties*

Payables to related parties (Section 14) includes the €mil. 570 (€mil. 541 at 31 December 2007) debt of Group companies to the MBDA and Thales Alenia Space joint ventures for the unconsolidated portion, and the debt of €mil. 62 to the company Eurofighter, of which Alenia Aeronautica owns 21%. As regards the latter, under a new treasury agreement its surplus cash and cash equivalents at 31 December 2008 were distributed among the partners.

*Other borrowings*

Other borrowings" fell significantly (€mil. 211) attributable largely to the payment of €mil. 297 (out of a total of €mil. 389) to the Ministry of Economic Development (MED) as a result of the decisions made concerning the methods for complying with the scheduled repayment plans and the corresponding finance costs related to programmes funded by Law 808/1985 (Section 6).

The Group’s financial liabilities are subject to the following repayment schedules and exposures to interest rate risk:

| | ***31 December 2008*** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Bank borrowings** | | **Bonds** | | **Related parties** | | **Other** | | **TOTAL** | |
| | Floating | Fixed | Floating | Fixed | Floating | Fixed | Floating | Fixed | **Floating** | **Fixed** |
| Within 1 year | 178 | - | 73 | 893 | 652 | - | 455 | 14 | **1,358** | **907** |
| 2 to 5 years | 1,864 | - | 738 | 632 | - | - | 44 | 2 | **2,646** | **634** |
| Beyond 5 years | 16 | - | 196 | 549 | - | - | 54 | | **266** | **549** |
| **TOTAL** | **2,058** | **-** | **1,007** | **2,074** | **652** | **-** | **553** | **16** | **4,270** | **2,090** |

| | ***31 December 2007*** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Bank borrowings** | | **Bonds** | | **Related parties** | | **Other** | | **TOTAL** | |
| | Floating | Fixed | Floating | Fixed | Floating | Fixed | Floating | Fixed | **Floating** | **Fixed** |
| Within 1 year | 133 | - | 167 | 184 | 560 | - | 660 | 5 | **1,520** | **189** |
| 2 to 5 years | 91 | - | - | 662 | - | - | 90 | 15 | **181** | **677** |
| Beyond 5 years | 58 | - | 200 | 545 | - | - | 14 | - | **272** | **545** |
| | | - | | | | | | | | |
| **TOTAL** | **282** | **-** | **367** | **1,391** | **560** | **-** | **764** | **20** | **1,973** | **1,411** |

*Below is the financial information required under CONSOB communication no. DEM/6064293 of 28 July 2006:*

| | *Section* | ***31 Dec. 2008*** | ***31 Dec. 2007*** |
|---|---|---|---|
| Cash | *22* | (3) | (3) |
| Bank deposits | *22* | (2,294) | (1,604) |
| Securities held for trading | *19* | (1) | (13) |
| **LIQUIDITY** | | **(2,298)** | **(1,620)** |
| **CURRENT FINANCIAL RECEIVABLES** | *18* | **(679)** | **(606)** |
| Current bank payables | *24* | 178 | 133 |
| Current portion of non-current borrowings | *24* | 980 | 356 |
| Other current borrowings | *24* | 1,107 | 1,220 |
| **CURRENT NET DEBT** | | **2,265** | **1,709** |
| **CURRENT NET DEBT (CASH)** | | **(712)** | **(517)** |
| Non-current bank payables | *24* | 1,880 | 149 |
| Bonds issued | *24* | 2,115 | 1,407 |
| Other non-current payables | *24* | 100 | 119 |
| **NON-CURRENT NET DEBT** | | **4,095** | **1,675** |
| **NET DEBT** | | **3,383** | **1,158** |

## 25. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

| | Guarantees given | Restructuring | Penalties | Product guarantees | Other | Total |
|---|---|---|---|---|---|---|
| *1 January 2007* | | | | | | |
| *Current* | - | 28 | 43 | 132 | 368 | 571 |
| *Non-current* | 39 | 10 | 9 | 99 | 208 | 365 |
| | 39 | 38 | 52 | 231 | 576 | 936 |
| Allocations | 14 | 27 | 21 | 45 | 159 | 266 |
| Uses | (2) | (13) | (8) | (28) | (72) | (123) |
| Reversals | (3) | (16) | (28) | (24) | (84) | (155) |
| Other changes | 4 | 3 | 17 | (23) | (27) | (26) |
| *31 December 2007* | 52 | 39 | 54 | 201 | 552 | 898 |
| *Broken down as follows:* | | | | | | |
| *Current* | 16 | 23 | 20 | 91 | 395 | 545 |
| *Non-current* | 36 | 16 | 34 | 110 | 157 | 353 |
| | 52 | 39 | 54 | 201 | 552 | 898 |
| Allocations | 9 | 14 | 41 | 59 | 108 | 231 |
| Uses | (1) | (9) | (15) | (30) | (39) | (94) |
| Reversals | (6) | (4) | (1) | (36) | (50) | (97) |
| Other changes | 1 | (8) | - | 25 | 20 | 38 |
| *31 December 2008* | 55 | 32 | 79 | 219 | 591 | 976 |
| *Broken down as follows:* | | | | | | |
| *Current* | 23 | 18 | 26 | 117 | 448 | 632 |
| *Non-current* | 32 | 14 | 53 | 102 | 143 | 344 |
| | 55 | 32 | 79 | 219 | 591 | 976 |

Other changes include changes in the scope of consolidation (DRS for €mil. 118 at the exchange rate at the transaction date).

The provisions for risks and charges include:

- the provision for guarantees given in the amount of €mil. 55 (€mil. 52 at 31 December 2007) is related to business in the Aeronautics, Transportation and Other activities segments with foreign partners;

- the provision for conversion and restructuring in the amount of €mil. 32 (€mil. 39 at 31 December 2007) was established for expected charges resulting from the programme to restructure the various segments. The most significant uses for the period involved the Defence Electronics and Security, Helicopters and Space segments. The amounts recorded are related to the Aeronautics, Defence Systems, Energy, Defence Electronics and Security and Transportation segments;

- the provision for penalties in the amount of €mil. 79 (€mil. 54 at 31 December 2007). The amounts recorded are related to the Aeronautics, Helicopter, Space, Defence Systems and Defence Electronics and Security;

- the provision for product guarantees, in the amount of €mil. 219 (€mil. 201 at 31 December 2007) includes allocations related to commitments for products sold. The amounts recorded are related to the Helicopter, Energy, Defence Electronics and Security, Defence Systems and Transportation segments;

- the other provisions total €mil. 591 (€mil. 552 at 31 December 2007) 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. 69 (€mil. 74 at 31 December 2007) related, in particular, to business in the Defence Electronics and Security, Defence Systems and Space segments;

  - the provision for bad debts of €mil. 17 (€mil. 25 at 31 December 2007) includes accruals to cover losses exceeding the carrying amounts of unconsolidated investees valued using the equity method;

  - the provision for taxes in the amount of €mil. 64 (€mil. 49 at 31 December 2007);

  - the provision for disputes with employees and former employees in the amount of €mil. 35 (€mil. 41 at 31 December 2007) relating, in particular, to the

Aeronautics, Defence Electronics and Security, Space and Transportation segments;

- the provision for pending litigation in the amount of €mil. 101 (€mil. 96 at 31 December 2007);

- the provisions for risk on contract-related losses in the amount of €mil. 44 (€mil. 46 at 31 December 2007);

- other provisions in the amount of €mil. 193 (€mil. 153 at 31 December 2007).

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:

o the dispute in which Finmeccanica has been asked to cover the contractual commitments assumed upon the sale of the former subsidiary Finmilano SpA to Banca di Roma (now Unicredit Group) originated from the assessment ordered by the Rome Office of Direct Taxes of Finmilano SpA 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 its 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;

- 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 recognised 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 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 SpA 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 SpA 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 court of first instance upheld the company's appeal with ruling filed on 25 September 2008. The deadline for a possible challenge by the tax authorities is currently pending;

- the dispute initiated by Telespazio SpA (TSP) against the Agenzia delle Entrate, Rome District 4 challenging a tax assessment regarding 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 SpA'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 TSP's right to compensation under the contract equal to the costs (plus 20% and in any event "be agreed" with the customer) that TSP 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 TSP 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 TSP instead treated as fully taxed. As a result, the Tax Authority determined that TSP had €mil. 9.7 more in taxable income in 2001 for direct income taxation and regional business taxation purposes. The court of first instance upheld the company's appeal with ruling filed on 25 September 2008. The deadline for a possible challenge by the tax authorities is currently pending.

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 TSP in November 2002;

- the dispute initiated by So.Ge.Pa. SpA 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 SpA, 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 court of first instance upheld the company's appeal with ruling filed on 28 October 2008. The sentence of the court of second instance has been challenged by the tax authorities and the appellate judge has to set the date of the hearing;

- 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 (now So.Ge.Pa. SpA) 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 relevant Court. On 11 May 2007, Reid served Finmeccanica and Alcatel Alenia Space Italia (now Thales 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. These objections were discussed in the hearing of 29 October 2007. On 27 March 2008 the Court denied the plaintiff's motion, finding the action to be time-barred. This decision has been challenged by the opposing party before the Supreme Court of Delaware, which is expected to render a decision following the hearing held on 14 January 2009;

- with regard to work to build Line 6 of the Naples metro, in 1995 the Regional Prosecutor's Office attached to the State Auditors' Court brought an action against the directors of Azienda Tranvie Autofilovie Napoli (now Azienda Napoletana Mobilità) and the then Ansaldo Trasporti seeking compensation for damages amounting to €mil. 100 from all the defendants jointly and severally. In the first instance, the State Auditors' Court rejected the petition due to lack of jurisdiction. The Regional Prosecutor's Office attached to the State Auditors' Court challenged the decision, bringing Finmeccanica into the action as successor to Ansaldo Trasporti as a result of the merger in September 2001. The Company objected, arguing that it lacked capacity to be sued since, prior to the merger, the contract was transferred to Ansaldo Trasporti Sistemi Ferroviari, which would be the company to suffer any negative consequences. On 20 March 2007, the Appellate Section of the State Auditors' Court reversed the decision of the court of first instance and found the existence of accounting jurisdiction, even against the former directors of Ansaldo Trasporti. It referred the action to the court of first instance of the local Section for a decision on the merits. This finding was challenged before the Supreme Court, which affirmed, in its decision of 18 July 2008, that the State Auditor's Court had jurisdiction. The State Attorney's Office attached to the State Auditors' Court reinstated the action before the Jurisdictional Section of the State Auditors' Court of Campania for the decision on the merits. The hearing on the matter is scheduled for 22 July 2010;

- in May 2007 Finmeccanica voluntarily intervened in a suit brought by Calyon SpA against the Agenzia delle Entrate before the Court of Rome seeking payment of a tax receivable of roughly €mil. 71, plus interest of €mil. 34, transferred by Finmeccanica in May 2004. The Agenzia delle Entrate challenged on the grounds that Calyon lacked standing since Finmeccanica had, in the past, transferred the same tax receivable to Mediofactoring SpA (the sale was later rescinded due to breach and the receivable was returned to Finmeccanica) and that the action on the receivable was time-barred. Finmeccanica intervened on behalf of Calyon and to protect its own interests related to any resulting right to restitution of the credit by Calyon. The next hearing is scheduled for 28 October 2009;

- In 1999 the Royal Thai Army summoned Finmeccanica before the Court of Bangkok demanding a compensation for damages amounting to USD 37,375,564 plus interest of USD mil. 20, for operation defects in the "Spada Aspide" missile system, which was the subject-matter of a supply contract made in 1986 with former Selenia Industrie Elettroniche Associate. The supply contract under dispute was transferred in 1998 to the former Alenia Marconi Systems SpA (now Selex Sistemi Integrati SpA), which undertook any risks connected with the dispute. When filing the appeal, the lack of jurisdiction of the relevant court (due to the arbitration clause of the contract) and the time-barring on the action were challenged. The next hearing to discuss these challenges is scheduled for 10 February 2009;

- 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 Rican 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 USD mil. 125, in favour of Prepa which Ansaldo Energia, as a supplier, counter-guaranteed in relation to the sub-supply. 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. Prepa in turn filed an appeal demanding that Abengoa be sentenced to pay the compensation for damages and filed suit against AIIP to obtain the payment of the bonds issued by it as a security of the proper performance of works. Ansaldo Energia is not a party to the suit. 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 counter-guarantee, on 13 May 2005, Ansaldo Energia brought an action against Abengoa, AIG and AIIP before the Court of Milan, requesting that the same be found void, or, in the alternative, that the amount of the guarantee be assessed until USD mil. 36 and that it be held harmless by Abengoa. In this suit AIIP asked that Ansaldo Energia be held jointly liable to hold harmless AIG in the event it loses the case. The Court's decision is still pending. In the opinion of its legal team, even if the court does not accept the company's arguments and if the counter-guarantee is enforceable, the company could, in any case, initiate an action against Abengoa even based on the aforementioned arbitration award;

- In December 2007, EADS ATR initiated arbitration proceedings with the International Chamber of Commerce of Lausanne to challenge an alleged breach by Alenia Aeronautica in relation with an agreement signed in May 2001 for the transfer to GIE ATR (in which EADS ATR and Alenia own a 50% stake) of ATR 42 and ATR 72 aircraft components made by Alenia Aeronautica and EADS ATR. The plaintiff claims that Alenia Aeronautica had withdrawn itself from the contractual obligation of renegotiating the prices established in that contract. These prices were no longer valid since 2003 and the plaintiff demands that the company be sentenced to pay USD mil. 32, plus interest as compensation for the damages resulting from that breach. EADS ATR also demands that the arbitration panel determined a new price for the transfer to GIE ATR of the components made by the parties based on their actual industrial costs. In its appeal, Alenia Aeronautica challenged the plaintiff's claim and filed counterclaims. On 29 September 2008 EADS ATR served on Alenia Aeronautica a brief increasing the amount of damages from USD mil. 32 to USD mil. 55. The next hearing to gather evidence is scheduled for 12 May 2009.

## 26. SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES

| | *31/12/2008* | *31/12/2007* |
|---|---|---|
| Severance obligations | 701 | 736 |
| Defined-benefit retirement plans | 248 | 152 |
| Share of joint-venture pension obligation | 50 | 41 |
| Other employee funds | 28 | 17 |
| | 1,027 | 946 |

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 complementary funds or in a treasury fund managed by INPS (the Italian Social Security Institution).

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 Systems Plc allocable to the MBDA joint venture. The valuation of these liabilities entailed the recognition of actuarial losses in the shareholders' equity accounts in the amount of €mil. 31, whereas the cost booked to the income statement was €mil. 4 (Section 35).

The detail of the defined-benefit retirement plans is as follows:

| | ***31/12/2008*** | ***31/12/2007*** |
|---|---|---|
| GBP area | 54 | 75 |
| Euro area | 76 | 77 |
| USD area | 76 | 0 |
| Other | 3 | 0 |
| | 209 | 152 |
| *of which related to:* | | |
| - net liabilities | 248 | 152 |
| - net assets (Section 15) | (39) | - |

Below is a breakdown of defined-benefit plans and statistical information regarding the excess (deficit) of the plans:

| | ***31 December 2008*** | ***31 December 2007*** | ***31 December 2006*** | ***31 December 2005*** | ***31 December 2004*** |
|---|---|---|---|---|---|
| Present value of obligations | 1,055 | 1,038 | 1,126 | 1,025 | 709 |
| Fair value of plan assets | (846) | (886) | (796) | (641) | (474) |
| Plan excess (deficit) | (209) | (152) | (330) | (384) | (235) |
| *of which related to:* | | | | | |
| - net liabilities | (248) | (152) | (330) | (384) | (235) |
| - net assets | 39 | - | - | - | - |

The increase in the total deficit is due to the net effect of the increase of €mil 87 for the DRS acquisition (inclusive of €mil. 76 for the USA area) and €mil. 44 for the AgustaWestland plan (€mil. 90 as of 31/12/2008) and the decrease of €mil. 68 in the Selex Sensors and Airborne Systems Ltd. plan.

Changes in defined-benefit plans are reported below:

| | ***31 December 2008*** | | |
|---|---|---|---|
| | Present Value of the Obligation | Present Value of the Assets | Net Liabilities of Defined-Benefit Plans |
| *Opening balance* | 1,038 | 886 | 152 |
| Costs of benefits paid | 56 | | 56 |
| Interest expense | 56 | | 56 |
| Expected return on plan assets | 0 | 59 | (59) |
| Actuarial losses (gains) through equity | (30) | (67) | 37 |
| Increases from business combinations | 210 | 123 | 87 |
| Contributions paid | - | 74 | (74) |
| Contributions from other plan participants | 20 | 20 | - |
| Exchange-rate differences | (268) | (222) | (46) |
| Benefits paid | (27) | (27) | - |
| Other changes | - | - | - |
| *Closing balance* | 1,055 | 846 | 209 |
| *of which related to:* | | | |
| - net liabilities | 916 | 668 | 248 |
| - net assets | 139 | 178 | (39) |

| | ***31 December 2007*** | | |
|---|---|---|---|
| | Present Value of the Obligation | Present Value of the Assets | Net Liabilities of Defined-Benefit Plans |
| *Opening balance* | 1,126 | 796 | 330 |
| Costs of benefits paid | 52 | - | 52 |
| Interest expense | 77 | - | 77 |
| Expected return on plan assets | - | 77 | (77) |
| Actuarial losses (gains) through equity | (148) | 33 | (181) |
| Increases from business combinations | 7 | - | 7 |
| Contributions paid | - | 73 | (73) |
| Contributions from other plan participants | 16 | 16 | - |
| Exchange-rate differences | (92) | (109) | 17 |
| Benefits paid | (2) | - | (2) |
| Other changes | 2 | - | 2 |
| *Closing balance* | 1,038 | 886 | 152 |
| *of which related to:* | | | |
| - net liabilities | 1,038 | 886 | 152 |
| - net assets | - | - | - |

The amount recognised in the income statement for defined-benefit plans was calculated as follows:

| | *31/12/2008* | *31/12/2007* |
|---|---|---|
| Costs of current service | 56 | 74 |
| Past service costs | - | (22) |
| Total personnel costs (Section 35) | 56 | 52 |
| Interest expense | 56 | 77 |
| Expected return on plan assets | (59) | (77) |
| Costs (income) booked as "finance income/costs" | (3) | 0 |
| Total cost to income statement | 53 | 52 |

Changes in severance obligations are shown below:

| | *31/12/2008* | *31/12/2007* |
|---|---|---|
| *Opening balance* | 736 | 846 |
| Costs of benefits paid | 1 | 10 |
| Effects of curtailment | - | (60) |
| Interest expense | 19 | 28 |
| Actuarial losses (gains) through equity | 43 | (18) |
| Increases from business combinations | 0 | 6 |
| Benefits paid | (98) | (80) |
| Other changes | - | 4 |
| *Closing balance* | **701** | **736** |

The decrease in the costs of current service is essentially due to the accounting effects of the changes in the regulation of severance obligations introduced by the 2007 Budget Law. Until the new regulations went into effect, the severance obligations had been considered a defined-benefit plan, and the related provision was included as part of the costs of current service in relation to the defined-benefit plans. For the effect of the regulatory changes, the severance obligations (for companies with more than 50 employees) accrued after the option date are now considered as a defined-contribution plan: the cost is accordingly reported as related to such plans (Section 35). The severance obligations remaining on the corporate accounting books, accrued up to the date of option for complementary funds or INPS funds, are reported as defined-benefit plans.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance obligations that has maintained the nature of a defined-benefit plan are as follows:

| | **Severance Obligations** | | **Defined-Benefit Plans** | |
|---|---|---|---|---|
| | ***31 December 2008*** | ***31 December 2007*** | ***31 December 2008*** | ***31 December 2007*** |
| Discount rate (annual) | 2.7%-3.5% | 4.15-4.30% | 5.1%-7.3% | 5.8% |
| Expected return on plan assets | - | - | 6%- 8.3% | 4.5%- 8.0% |
| Rate of salary increase | - | - | 3%-5% | 4.20-4.30% |
| Rate of turnover | 1%-5.75% | 1.00-5.75% | - | - |

Assets of defined-benefit plans include:

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Shares | 319 | 348 |
| Real properties | 30 | 62 |
| Bonds | 163 | 220 |
| Cash or equivalents | 28 | 6 |
| Other | 306 | 250 |
| | 846 | 886 |

## 27. OTHER CURRENT AND NON-CURRENT LIABILITIES

| | **Non-Current** | | **Current** | |
|---|---|---|---|---|
| | ***31 December 2008*** | ***31 December 2007*** | ***31 December 2008*** | ***31 December 2007*** |
| Employee obligations | 56 | 50 | 456 | 333 |
| Deferred income | 48 | 89 | 118 | 100 |
| Social security payable | 3 | 3 | 291 | 294 |
| Payable to Min. of Econ. Dev. Law 808/1985 | 276 | 288 | 23 | 8 |
| Payable to Min. of Econ. Dev. for monopoly rights Law 808/1985 | 72 | 56 | 28 | 17 |
| Other liabilities Law 808/1985 | 158 | 258 | - | - |
| Indirect tax payables | - | - | 174 | 192 |
| Other payables | 118 | 77 | 450 | 498 |
| Other payables to related parties (Section 14) | - | | 34 | 25 |
| | **731** | **821** | **1,574** | **1,467** |

The payables to the Ministry of Economic Development (MED) relate to 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. The payables are reimbursed on the basis of a scheduled repayment plan, without the payment of finance costs.

The item "Other liabilities Law 808/1985" includes the difference between the subsidies received or to be received pursuant to Law 808/1985, relating to programmes qualifying as programmes "of European interest", 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 programmes of national security and the effective payable accrued based on the established reimbursement ratio. The account decreased due to the effect of the recognition in the income statement (€mil. 113) of the portion of the subsidies under Law 808/1985 on programmes qualifying as "national security" or similar programmes in order to cover the costs charged to the income statement.

Other payables include:

- the payable to Bell Helicopters of €mil. 14 included among non-current liabilities (€mil. 48 as of 31 December 2007), arising from the "BAAC reorganisation" which involved the acquisition of 100% of the construction and marketing rights for the helicopter AW139, previously owned by Bell Helicopter at 25%;
- the payable to EADS NV due by GIE ATR (50-50 consortium owned by Alenia Aeronautica S.p.A. and EADS NV) in the amount of €mil. 6 (€mil. 10 at 31 December 2007);
- the payable for customer deposits in the amount of €mil. 33 (€mil. 32 at 31 December 2007);
- the payable for contractual penalties in the amount of €mil. 32 (€mil. 24 at 31 December 2007);
- the payable for the repurchase of a G222 aircraft in the amount of €mil. 9 (€mil. 36 at 31 December 2007);

- commissions due in the amount of €mil. 25 (€mil. 35 at 31 December 2007);
- royalties due in the amount of €mil. 19 (€mil. 22 at 31 December 2007);
- payables for insurance in the amount of €mil. 22 (€mil. 14 at 31 December 2007).

## 28. TRADE PAYABLES

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Trade payables | 4,651 | 3,923 |
| Trade payables to related parties (Section 14) | 84 | 81 |
| | **4,735** | **4,004** |

The trade payables increase for the effect of DRS consolidation (€mil. 225 at the exchange rate at the acquisition date) and the incremental production developed in the final quarter when compared with the previous year.

## 29. DERIVATIVES

The table below provides detail of the asset and liability positions related to derivative instruments.

| | *31 December 2008* | | *31 December 2007* | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Forward forex instruments | 137 | 195 | 115 | 80 |
| Forex options | - | 36 | - | 3 |
| Embedded derivatives | 69 | - | | |
| Interest rate swaps | 19 | 5 | 3 | 25 |
| Options on STM | 18 | - | 43 | - |
| Exchangeable bond option | - | - | 1 | 1 |
| | **243** | **236** | **162** | **109** |

The change in the fair value of the forward instruments is caused by the volatility of the USD with respect to the EUR: the exchange rate went from 1.4721 at 31 December 2007 to 1.3917 at 31 December 2008.

The interest rate swaps with a total notional value of €mil. 1,400 were placed into effect to hedge bonds issued for a total of €mil. 3,077 (inclusive of €mil. 826 in relation to short-term bonds issued by the acquired company DRS, equal to $mil. 1,150, denominated in USD).

As indicated in more detail in Section 38, in 2008, a Group company entered into a sale contract that included embedded derivatives with a fair value of €mil. 69 at 31 December 2008.

At 31 December 2008, the Group has 33.7 million STMicroelectronics NV ("STM") securities classified as "assets available for sale", with a fair value of €mil. 154 at 31 December (Section 13). In order to hedge the exposure to the risk of fluctuation of the market price of the securities, the Group put derivatives in place to protect most of its portfolio: the hedging transactions are classified as trading activity, with the consequent economic impact resulting from the change in fair value (Section 13). At 31 December 2008, options were outstanding against 25 million STM shares.

The table below illustrates the fair value of the various derivatives in the portfolio:

| | | *Fair value at 31 December 2008* | *Fair value at 31 December 2007* |
|---|---|---|---|
| **Assets** | | | |
| Interest rate swaps | | | |
| | Trading | 18 | 2 |
| | Fair-value hedge | - | - |
| | Cash-flow hedge | 1 | 1 |
| Currency forwards/swaps/options | | | |
| | Trading | - | - |
| | Fair-value hedge | - | - |
| | Cash-flow hedge | 206 | 115 |
| Equity instruments (trading) | | 18 | 43 |
| Embedded derivatives (trading) | | - | 1 |
| **Liabilities** | | | |
| Interest rate swap | | | |
| | Trading | 1 | 23 |
| | Fair-value hedge | - | - |
| | Cash-flow hedge | 4 | 2 |
| Currency forwards/swaps/options | | | |
| | Trading | 36 | 3 |
| | Fair-value hedge | - | - |
| | Cash-flow hedge | 195 | 80 |
| Equity instruments (trading) | | - | - |
| Embedded derivatives (trading) | | - | 1 |

The portion of changes that had an earnings impact is illustrated in Section 38.
Details on the instruments outstanding are provided in Section 43.

## 30. 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:

| | *31 December 2008* | | *31 December 2007* | |
|---|---|---|---|---|
| | **As Lessee** | **As Lessor** | **As Lessee** | **As Lessor** |
| Within 1 year | 143 | 63 | 152 | 68 |
| 2 to 5 years | 300 | 109 | 247 | 77 |
| Beyond 5 years | 278 | 88 | 270 | 29 |
| | **721** | **260** | **669** | **174** |

The amounts of the purchase and sale commitments include 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. 228 (€mil. 157 at 31 December 2007) and is substantially covered by the customer orders backlog. The corresponding sales commitments amounted to €mil. 219 (€mil. 157 at 31 December 2007).

Guarantees

At 31 December 2008, the Group had the following outstanding guarantees:

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Sureties in favour of third parties | 16,786 | 13,900 |
| Other unsecured guarantees to third parties | 567 | 577 |
| Unsecured guarantees given | 17,353 | 14,477 |

At 31 December 2008, there are no secured guarantees given for the liabilities or obligations of third parties.

## 31. TRANSACTIONS WITH RELATED PARTIES

The income statement transactions with Group's related parties for 2008 and 2007 are described below:

| *(millions of euros) 31/12/2008* | **Revenue** | **Other Operating Income** | **Costs** | **Finance Income** | **Finance Costs** |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| Alifana Due Scrl | 11 | | 11 | | |
| Finmeccanica UK Ltd | | | 9 | | |
| Other companies with unit amount < €mil. 5 | 2 | | 9 | | |
| ***Associates*** | | | | | |
| Eurofighter Jagdflugzeug GmbH | 805 | | | | |
| Iveco Fiat/Oro Melara Scarl | 136 | | | | |
| NH Industries Sarl | 92 | | | | |
| Orizzonti - Systems Navali SpA | 82 | | | | |
| Macchi Hurel Dubois SAS | 40 | | | | |
| International Metro Service Srl | | | 36 | | |
| Eurofighter Simulation Systems GmbH | 30 | | | | |
| Eurosysnav SAS | 30 | | | | |
| Abruzzo Engineering Scpa | 23 | | | | |
| Euromids SAS | 19 | | | | |
| Metro 5 SpA | 14 | | | | |
| Consorzio Start SpA | | | 21 | | |
| Pegaso Scrl | | | 10 | | |
| Automation Integrated Solution SpA | | | 9 | | |
| Other companies with unit amount < €mil. 5 | 26 | 1 | 14 | | 4 |
| ***Joint ventures (*)*** | | | | | |
| GIE ATR | 120 | | 13 | | |
| MBDA SAS | 92 | | | | 21 |
| Thales Alenia Space SAS | 46 | | | | |
| Other joint ventures with unit amount < €mil. 5 | 4 | | 6 | 2 | 1 |
| ***Consortiums (**)*** | | | | | |
| Saturno | 104 | | | | |
| C.I.S.DEG | 6 | | | | |
| Other consortiums with unit amount < €mil. 5 | 23 | | 9 | | |
| **Total** | **1,705** | **1** | **147** | **2** | **26** |
| ***% against total for the year*** | ***11.3*** | ***0.1*** | ***1.3*** | ***0.2*** | ***2.2*** |

| *(millions of euros) 31/12/2007* | **Revenue** | **Other Operating Income** | **Costs** | **Finance Income** | **Finance Costs** |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| Finmeccanica UK Ltd. | | | 8 | | |
| Alifana Due Scrl | 7 | | 7 | | |
| Other companies with unit value < €mil. 5 | 4 | | 7 | 1 | |
| ***Associates*** | | | | | |
| Eurofighter Jagdflugzeug GmbH | 772 | | 4 | | |
| Iveco Fiat/Oro Melara Scarl | 126 | | 2 | | 5 |
| Eurosysnav SAS | 50 | | | | 1 |
| Orizzonti - Systems Navali SpA | 48 | | 1 | | |
| NH Industries Sarl | 48 | | | | |
| Macchi Hurel Dubois SAS | 32 | | | | |
| Euromids SAS | 13 | | | | |
| Eurofighter Simulation Systems GmbH | 11 | | | | |
| Metro 5 SpA | 6 | | | | |
| Consorzio Start SpA | 1 | | 21 | | |
| Pegaso Scrl | | | 6 | | |
| Other companies with unit value < €mil. 5 | 17 | 1 | 11 | 1 | |
| ***Joint ventures /(*).*** | | | | | |
| GIE ATR | 103 | | 6 | | |
| MBDA SAS | 86 | | | | 15 |
| Thales Alenia Space SAS | 54 | | 10 | | |
| Other joint ventures with unit value < €mil. 5 | 4 | | 1 | 1 | 1 |
| ***Consortiums (**)*** | | | | | |
| Saturno | 87 | | 4 | | |
| CMS Italia | 15 | | 6 | | |
| C.I.S.DEG | 8 | | 5 | | |
| Elmac | 7 | | | | |
| Other consortiums with unit amount < €mil. 5 | 14 | 1 | 4 | | |
| **Total** | **1,513** | **2** | **103** | **3** | **22** |
| ***% against total for the year*** | ***11.3*** | ***0.2*** | ***1.1*** | ***0.5*** | ***2.5*** |

*(*) Amounts refer to the portion not eliminated for proportional consolidation*
*(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control*

## 32. REVENUE

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Revenue from sales | 9,392 | 9,152 |
| Revenue from services | 2,660 | 2,191 |
| | 12,052 | 11,343 |
| Change in contract work in progress | 1,280 | 573 |
| Revenue from related parties (Section 31) | 1,705 | 1,513 |
| **Total revenue** | **15,037** | **13,429** |

The trends in revenue by business segment are described above (Section 7).

## 33. OTHER OPERATING INCOME (COSTS)

| | *2008* | | *2007* | |
|---|---|---|---|---|
| | **Income** | **Costs** | **Income** | **Costs** |
| Grants for research and development costs | 42 | | 29 | - |
| Other operating grants | 18 | | 17 | - |
| Gains/losses on sales of intangible assets, property, plant and equipment | 3 | (3) | 30 | (5) |
| Reversals / Accruals of provisions for risks | 85 | (200) | 128 | (198) |
| Write-up of receivables from ENEA (Section 6) | 31 | (11) | 287 | - |
| Reversal of impairment of receivables | 5 | | 19 | - |
| Exchange-rate differences on operating items | 308 | (308) | 216 | (207) |
| Reversal of deferred income under Law 808/1985 (Section 27) | 113 | | 169 | - |
| Insurance reimbursements | 22 | | 12 | - |
| Reorganisation costs | 3 | (11) | 15 | (21) |
| Indirect taxes | - | (56) | - | (46) |
| Other operating income (costs) | 71 | (95) | 109 | (85) |
| Other operating income (costs) from related parties | 1 | (2) | 2 | (2) |
| | **702** | **686** | **1,033** | **(564)** |

The reversals of provisions for risks of €mil. 85 (€mil. 128 in 2007) regarded: the provision for product guarantees in the amount of €mil. 36 (€mil. 24 in 2007), the provision for guarantees granted in the amount of €mil. 6 (€mil.3 in 2007), and the provision for penalties in the amount of €mil. 2 (€mil. 28 in 2007). The accruals of provisions for risks of €mil. 200 (€mil. 198 in 2007) regarded: the provision for disputes with third parties in the amount of €mil. 7 (€mil. 5 in 2007), the provision for product guarantees in the amount of €mil. 59 (€mil. 45 in 2007), the provision for guarantees given in the amount of €mil. 9 (€mil. 14 in 2007), the provision for penalties in the amount of €mil. 41 (€mil. 21 in 2007), and the provision for contractual risks and charges in the amount of €mil. 9 (€mil. 10 in 2007).

Other operating income and costs include, amongst other things, interest income and expense on commercial transactions and contractual penalties.  The reorganisation costs also include the reversal and accrual of provisions for restructuring risks.

## 34. RAW MATERIALS AND CONSUMABLES USED AND PURCHASE OF SERVICES

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Purchase of materials from third parties | 5,746 | 5,725 |
| Change in inventories | (427) | (169) |
| Costs for purchases from related parties (Section 31) | 24 | 10 |
| **Total raw materials and consumables used** | **5,343** | **5,566** |
| Services rendered by third parties | 4,525 | 3,470 |
| Royalties | 48 | 45 |
| Cost of PSP relating to non-employees (Section 23) | 1 | 3 |
| Software fees | 13 | 14 |
| Costs of acquiring satellite capacity | 70 | 68 |
| Costs of airplane leases | 9 | 10 |
| Costs of rents  and operating leases | 138 | 118 |
| Rental fees | 19 | 24 |
| Costs for services from related parties (Section 31) | 121 | 91 |
| **Total purchase of services** | **4,944** | **3,843** |

The costs for purchases as a percentage of revenue fall from 41% to 36%, whereas the costs for services rise from 29% to 33%. These changes are partly due to the different means for booking certain types of purchases, which as of 2008 have been reported as costs for purchases and no longer as costs for services received.

Royalties mostly relate to royalties due under Law 808/1985 for programmes qualified as national security and similar programmes (Section 27).

The costs for the acquisition of satellite capacity refer to satellite capacity trading business conducted by the Telespazio joint venture and are more than offset by revenues from sales; this activity carried out primarily on the basis of back-to-back contracts in terms of their expiry date and penalties in the event of breach of contract. 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.

## 35. PERSONNEL COSTS

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Wages and salaries | 2,866 | 2,653 |
| Cost of PSP (Section 23) | 25 | 40 |
| Cost of LTIP | 5 | 7 |
| Social security contributions | 725 | 679 |
| Costs of severance pay, less curtailment effect (Section 26) | 1 | (50) |
| Costs related to other defined-benefit plans (Section 26) | 60 | 52 |
| Costs related to defined-contribution plans (Section 26) | 122 | 107 |
| Employee disputes | (3) | 1 |
| Reorganisation costs, net | 33 | 52 |
| Other costs | 94 | 58 |
| | 3,928 | 3,599 |

The overall personnel cost remained substantially in line with the prior-year level as a percentage of revenue, going from 26.8% to 26.1%. The slight decrease is partially attributable to wages and salaries, whereas social security contributions remained unchanged as a percentage of revenue.

The average workforce at 31 December 2008 numbered 62,791, as compared with 58,700 of 2007. The net increase of 4,091 is especially significant in the case of personnel abroad as a result of changes in the area of consolidation (in particular, Vega Group, and in the final part of the year, DRS Group) and the positive turnover in certain sectors (Energy, Helicopters, Space and Aeronautics), including through the use of new contractual forms. The total workforce inclusive of all personnel of the acquired DRS (10,798 employees) went from 60,748 at 31 December 2007 to 73,398 at 31 December 2008.

| | *2008* | *2007* | *Net Change* |
|---|---|---|---|
| Senior managers (*) | 2,328 | 2,071 | 257 |
| Middle managers | 8,232 | 6,671 | 1,561 |
| Clerical employees (**) | 43,569 | 37,102 | 6,467 |
| Manual labourers | 19,269 | 14,904 | 4,365 |
| **Total** | **73,398** | **60,748** | **12,650** |

*(*)* *Includes pilots*
*(**)* *Includes temporary employees*

Personnel costs went from €mil. 3,599 at 31 December 2007 to €mil. 3,928 at 31 December 2008. The increase is the result of the factors outlined above as well as contract renewals and medium-/long-term incentive programmes for management that were inaugurated in recent years.

The decrease reported in the costs of PSP is attributable to a different percentage of assignment for the final tranche of the 2005-2007 Plan (equal to 50%) compared with the percentage for the first tranche of the 2008-2010 Plan (equal to 25%) as well as different reference values for the security (Section 23).

Personnel costs for 2008 also include €mil. 33 of reorganisation costs (€mil. 52 in 2007) that specifically relate to Defence Electronics and Security, Aeronautics, Defence Systems, Transportation and Space. They mainly include costs incurred and accruals in relation to the ongoing reorganisation of various companies of the Group.

## 36. DEPRECIATION, AMORTISATION AND IMPAIRMENT

| | *2008* | *2007* |
|---|---|---|
| Depreciation and amortisation: | | |
| • Intangible assets | 236 | 210 |
| • Property, plant and equipment | 304 | 293 |
| | 540 | 503 |
| Impairment | | |
| • Property, plant and equipment | - | 25 |
| • Intangible assets | 55 | 144 |
| • Operating receivables | 27 | 37 |
| | 82 | 206 |
| **Total depreciation, amortisation, and impairment** | **622** | **709** |

The impairment charges with regard to intangible assets refer to goodwill (€mil. 40) and non-recurring charges and development costs.

## 37. WORK PERFORMED BY THE GROUP AND CAPITALISED

| | *31 December 2008* | *31 December 2007* |
|---|---|---|
| Personnel costs | 300 | 359 |
| Materials | 92 | 161 |
| Other costs | 321 | 329 |
| | 713 | 849 |

## 38. FINANCE INCOME AND COSTS

The components of finance income and costs are as follows:

| | *31 December 2008* | | | *31 December 2007* | | |
|---|---|---|---|---|---|---|
| | **Income** | **Costs** | **Net** | **Income** | **Costs** | **Net** |
| Capital gain on sale of STM | 56 | - | 56 | - | - | - |
| Impairment of STM | - | (111) | (111) | - | - | - |
| Dividends | 8 | - | 8 | 24 | - | 24 |
| Gains on investments and securities | 3 | - | 3 | 1 | - | 1 |
| Discounting of receivables, payables and provisions | 9 | (9) | - | 9 | (8) | 1 |
| Interest (*) | 99 | (261) | (162) | 99 | (182) | (83) |
| Commissions (including commissions on non-recourse items) | | (39) | (39) | 1 | (35) | (34) |
| Fair value adjustments through profit and loss | 156 | (60) | 96 | 82 | (44) | 38 |
| Premiums paid/received on forwards | 16 | (14) | 2 | 16 | (34) | (18) |
| Exchange-rate differences | 642 | (630) | 12 | 275 | (272) | 3 |
| Value adjustments to equity investments | 5 | (6) | (1) | 2 | (51) | (49) |
| Interest cost on defined-benefit plans (net of expected returns on plan assets) | - | (16) | (16) | - | (28) | (28) |
| Finance income (costs) - related parties | 2 | (26) | (24) | 3 | (22) | (19) |
| Other finance income (costs) | 21 | (83) | (62) | 112 | (201) | (89) |
| | 1,017 | (1,255) | (238) | 624 | (877) | (253) |

(*) of which unpaid finance costs arising from the application of the effective interest rate in the amount of €mil. 43 (€mil. 16 at 31 December 2007) inclusive of €mil. 23 in relation to bonds.

With reference to the effects of the STM investment, during the year, the Group reported a capital gain of €mil. 56 on the sale of 26 million STM shares, impairment of €mil. 111 on the 34 million shares remaining in the portfolio, earnings arising from options on STM in the amount of €mil. 22 (including €mil. 7 from valuation of the instruments in the portfolio and €mil. 15 from the sale of part of the options held), and dividend in the amount of €mil. 6.

The 2007 figure was significantly influenced by the recognition of finance costs to be paid on the programmes provided by Law 808/1985 under review by the EU (€mil.105).

Following are the significant components of the account:

- net interest costs of €mil. 162, inclusive of premiums collected/paid on the hedging of interest-rate risk (interest-rate swaps) for a net charge of €mil. 7. The net account balance is significantly worse than in the prior year mainly due to the growing level of average indebtedness in 2008. In particular, the 2008 figure includes €mil. 105 of interest on bonds and €mil. 35 of interest on bridge loan financing secured in June 2008 as part of the DRS acquisition;
- net income of €mil. 96 arising from the application of fair value to the income statement, as detailed below:

| | ***31 December 2008*** | | | ***31 December 2007*** | | |
|---|---|---|---|---|---|---|
| | **Income** | **Costs** | **Net** | **Income** | **Costs** | **Net** |
| Foreign-currency swaps and options | 5 | (43) | (38) | 6 | (5) | 1 |
| Interest-rate swaps (Section 29) | 41 | (3) | 38 | 6 | (15) | (9) |
| Options on STM (Section 29) | 7 | - | 7 | 44 | - | 44 |
| Ineffective component of hedging on swaps | 19 | (13) | 6 | 13 | (14) | (1) |
| Embedded derivatives | 83 | - | 83 | - | - | - |
| Option embedded in exchangeable bond (Section 24) | 1 | (1) | - | 10 | (10) | - |
| Other equity derivatives | - | - | - | 3 | - | 3 |
| | 156 | (60) | 96 | 82 | (44) | 38 |

- Net income on foreign-currency swaps includes 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 interest rate swaps reflects the significant reduction of interest rates worldwide (6-month EURIBOR went from 4.71% at 31 December 2007 to 2.97% at 31 December 2008); the Group was able to benefit from the reduction on the portion of bond issues transformed into variable-rate instruments via the use of derivatives (Section 29);

- Income on the options on STM is correlated to the decrease in price of the hedged instruments. At 31 December 2008, options were in effect on a total of 25 million STM shares. In addition, the Group has an offsetting call option on STM shares with the same underlying position and the same parameters of reference as the option embedded in the exchangeable bonds issued in 2002; as a result of this transaction, the Group is essentially in a neutral position with regard to further variations in the fair value of the call option sold (income of €mil. 1 on the call option sold and expense of €mil. 1 on the call option acquired);
- The embedded derivatives are related to commercial contracts denominated in currencies other than the currencies of the contractually involved parties and that generally used in the markets of reference. This component is separated from the commercial contract and valued at fair value through the income statement.

* other net costs of €mil. 62, inclusive of €mil. 15 of income arising from the closing out of options on STM.

Finally, it is noted that the Group assigned receivables without recourse during the year in an amount equal to around €mil. 1,006 (roughly €mil. 1,081 at 31 December 2007).

## 39. SHARE OF PROFIT (LOSS) OF EQUITY ACCOUNTED INVESTMENTS

| | ***31 December 2008*** | ***31 December 2007*** |
|---|---|---|
| Recognition of Eurofighter J.GmbH | 6 | 8 |
| Recognition of Elettronica SpA | 5 | 4 |
| Net recognition of other investees | 5 | 4 |
| | 16 | 16 |

## 40. INCOME TAXES

Income tax expense can be broken down as follows:

| | *2008* | *2007* |
|---|---|---|
| Corporate income tax (IRES) | 231 | 253 |
| Regional tax on productive activities (IRAP) | 129 | 124 |
| Benefit under consolidated tax mechanism | (72) | (216) |
| Other income taxes | 120 | 97 |
| Substitute taxes | 30 | - |
| Tax related to previous periods | (17) | (28) |
| Provisions for tax disputes | 11 | 14 |
| Deferred tax - net | (65) | 82 |
| | **367** | **326** |

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 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.

As to the parent company, current taxes (IRAP) of €mil 10 have been included in the consolidated income statement.

Following is an analysis of the difference between the theoretical tax rate and the effective tax rate for 2008 and 2007:

| | *2008* | *2007* |
|---|---|---|
| **Profit (loss) before taxation** | 988 | 847 |
| **Percentage impact of Italian and foreign taxes** | | |
| Corporate income tax (IRES) (net of tax receipts) | 16.06 | 4.34 |
| IRAP | 13.02 | 14.70 |
| Other income taxes | 12.13 | 11.47 |
| Substitute taxes | 3.09 | - |
| Taxes related to previous periods | (1.70) | (3.27) |
| Provisions for tax disputes | 1.10 | 1.68 |
| Deferred tax - net | (6.57) | 9.62 |
| **Effective rate** | **37.13** | **38.54** |
| **Increase (decrease)** | | |
| Percentage impact of the permanent difference on the effective rate | 1.96 | 0 |
| **Theoretical rate** | **39.09** | **38.54** |

The permanent differences that generated a variance between the effective rate and the theoretical rate are the result of the capital gain on the investment sold under the participation exemption.

Deferred taxes and their related receivables and payables at 31 December 2008 were the result of the following temporary differences:

| | ***2008*** | | | ***2007*** | | |
|---|---|---|---|---|---|---|
| | ***Income statement*** | | | ***Income statement*** | | |
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| Deferred taxes on tax losses | 3 | 51 | (48) | 42 | 39 | 3 |
| Goodwill | 12 | 2 | 10 | 1 | 2 | (1) |
| Intangible assets acquired through a business combination | 11 | | 11 | 39 | - | 39 |
| Other differences on non-current assets | 65 | 14 | 51 | 35 | 35 | - |
| Financial assets and liabilities | | 44 | (44) | | | |
| Severance and retirement benefits | 1 | 8 | (7) | 4 | 28 | (24) |
| Writeback of receivables from ENEA (Section 6) | 93 | | 93 | | 82 | (82) |
| Provision for risks and impairment | 34 | 25 | 9 | 27 | 27 | - |
| Stock option/stock grant | 1 | 5 | (4) | 4 | 3 | 1 |
| Grants | 3 | 3 | | 3 | 3 | - |
| Other | 61 | 67 | (6) | 69 | 87 | (18) |
| Offsetting | - | - | - | - | - | - |
| **Deferred taxes recognised through income statement** | **284** | **219** | **65** | **224** | **306** | **(82)** |
| On cash-flow hedge derivatives | - | - | - | - | - | - |
| On actuarial gains and losses | - | - | - | - | - | - |
| Deferred taxes recognised through shareholders' equity | - | - | - | - | - | - |
| | **284** | **219** | **65** | **224** | **306** | **(82)** |

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Balance Sheet | | | Balance Sheet | | |
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Deferred taxes on tax losses | 119 | | 119 | 109 | - | 109 |
| Goodwill | - | 22 | (22) | - | 20 | (20) |
| Intangible assets acquired through a business combination | - | 359 | (359) | - | 168 | (168) |
| Other differences on non-current assets | 39 | 54 | (15) | 28 | 61 | (33) |
| Severance and retirement benefits | 92 | 12 | 80 | 108 | 18 | 90 |
| Financial assets and liabilities | - | 19 | (19) | | | |
| Writeback of receivables from ENEA (Section 6) | - | - | - | - | 82 | (82) |
| Provision for risks and impairment | 261 | | 261 | 119 | 6 | 113 |
| Stock option/stock grant | 14 | - | 14 | 6 | - | 6 |
| Grants | - | 9 | (9) | - | 9 | (9) |
| Other | 168 | 105 | 63 | 161 | 90 | 71 |
| Offsetting | (91) | (91) | - | (92) | (92) | - |
| **Deferred taxes recognised through balance sheet** | **602** | **489** | **113** | **439** | **362** | **77** |
| On cash-flow hedge derivatives | 33 | 30 | 3 | 11 | 29 | (18) |
| On actuarial gains and losses | 13 | 34 | (21) | - | 51 | (51) |
| Deferred taxes recognised through shareholders' equity | 46 | 64 | (18) | 11 | 80 | (69) |
| | **648** | **553** | **95** | **450** | **442** | **8** |

## 41. 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.

| **Basic EPS** | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Average number of shares for the period (in thousands) | 441,354 | 424,336 |
| Net earnings (not including minority interests) (€mil.) | 571 | 484 |
| Earnings of continuing operations (not including minority interests) (€mil.) | 571 | 484 |
| Basic EPS | 1.294 | 1.140 |
| Basic EPS from continuing operations | 1.294 | 1.140 |

| **Diluted EPS** | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Average number of shares for the period (in thousands) | 441,499 | 425,191 |
| Adjusted earnings (not including minority interests) (€mil.) | 571 | 484 |
| Adjusted earnings of continuing operations (not including minority interests) (€mil.) | 571 | 484 |
| Diluted EPS | 1,293 | 1,138 |
| Diluted EPS from continuing operations | 1,293 | 1,138 |

In 2008, the weighted average shares takes into account the issuance of 152,921,430 ordinary shares consequent to the parent company's capital increase.

## 42. CASH FLOW FROM OPERATING ACTIVITIES

| | For the 12 months ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Net profit | 621 | 521 |
| Depreciation, amortisation and impairment | 622 | 709 |
| Effect of the measurement of equity investments on the equity method | (16) | (16) |
| Income taxes | 367 | 326 |
| Costs of pension and stock grant plans | 87 | 152 |
| Net finance costs (income) | 238 | 253 |
| Net capital gains on sale of non-current assets | - | (25) |
| Writeback of ENEA receivable | 31 | - |
| Other non-monetary items | 18 | (209) |
| | **1,968** | **1,711** |

Costs of pension and stock grant plans include the portion of costs relating to defined-benefit and defined-contribution pension plans that is recognised as a personnel cost (the portion of costs relating to interest is carried among net finance costs). They also include the cash outlays relating to the stock grant plan.

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and exchange gains/losses, are as follows:

| | For the 12 months ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Inventories | (797) | (443) |
| Contract work in progress and advances received | 531 | 706 |
| Trade receivables and payables | 97 | 55 |
| **Changes in working capital** | (169) | 318 |

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and exchange gains/losses, are as follows:

| | For the 12 months ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Payment of pension and stock grant plans | (201) | (276) |
| Changes in provisions for risks and other operating items | (148) | 3 |
| | (349) | (273) |

## 43. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks associated with its operations, specifically related to 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 prices of listed securities (STMicroelectronics NV);
- 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, most of which are tied to EURIBOR. 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 finance costs. At 31 December 2008, the Group has bonds outstanding for the total nominal amount of €mil. 3,077 (including roughly €mil. 826 circa related to the euro countervalue of fixed-rate bonds issued by the newly acquired company, DRS, equal to $mil. 1,150). Almost all of the DRS bond were repaid in January 2009; accordingly, against bonds outstanding for a total nominal value of €mil. 2,251, interest-rate swaps for a total notional value of €mil. 1,400 executed by Group with financial counterparties of prime standing entailed as of 31 December 2008 a mix of interest-rate risk on financings equal to the nominal value of €mil. 1,251 (fixed rate) and the nominal value of €mil. 1,000 (floating rate).

The detail of the impact of the main instruments and their earnings effects is shown below:

| € million | Notional | | Underlying | | Fair Value 01/01/08 | Changes | | | Fair value 31/12/08 |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | | | | **Income** | **Costs** | **CFH Reserve** | |
| IRS fixed/floating/fixed | 400 | 500 | Bond 2003 | (a) | (10) | 14 | - | - | 4 |
| IRS fixed/floating and options | 250 | 250 | Bond 2005 | (b) | (7) | 23 | (3) | - | 13 |
| IRS floating /fixed | | 280 | Bond 2002 | (c) | 1 | - | - | (1) | - |
| IRS fixed/floating | 750 | - | Bond 2008 | (e) | - | - | - | - | - |
| | - | - | Bond 2003 | (f) | - | - | - | - | - |
| Other | - | - | - | (d) | (6) | 4 | - | (1) | (3) |
| **Total notional** | **1,400** | **1,030** | | | **(22)** | **41** | **(3)** | **(2)** | **14** |

| € million | Notional | | Underlying | | Fair Value 01/01/07 | Changes | | | Fair value 31/12/07 |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2006** | | | | **Income** | **Costs** | **CFH Reserve** | |
| IRS fixed/floating/fixed | 500 | 500 | Bond 2003 | (a) | (11) | 1 | - | - | (10) |
| IRS fixed/floating and options | 250 | 200 | Bond 2005 | (b) | 5 | 3 | (15) | - | (7) |
| IRS floating/fixed | 280 | 130 | Bond 2002 | (c) | 1 | - | - | - | 1 |
| IRS fixed/floating | - | - | Bond 2008 | (e) | - | - | - | - | - |
| | - | - | Bond 2003 | (f) | - | - | - | - | - |
| Other | - | - | - | (d) | (9) | 2 | - | 1 | (6) |
| **Total notional** | **1.030** | **830** | | | **(14)** | **6** | **(15)** | **1** | **(22)** |

(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.

(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.

(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.

(d) The item includes a floating/fixed swap out by JV ATIL, which operates in the helicopter sector, and other minor items.

(e) The transaction was placed into effect at the time of the issue of the bond loan of €mil. 750, in December 2008, with the objective providing for a floating rate for the bonds and in view of the conversion (which occurred in January 2009) into USD, needed for the prepayment of the issues of the subsidiary, DRS, against which was pending the right to reimbursement on the part of the bondholders in light of the clause on the change of control.

(f) The exchangeable bond was negotiated at a fixed rate and is not backed by any interest rate swap.

The table below shows the effects of a sensitivity analysis, namely the impact on 2008 and 2007 of a 50-basis-point shift in the interest rate curves:

| | **31/12/08** | | **31/12/07** | |
|---|---|---|---|---|
| | **Effect of Shift of Interest-Rate Curve** | | **Effect of Shift of Interest-Rate Curve** | |
| | Increase of 50 bps | Decrease of 50 bps | Increase of 50 bps | Decrease of 50 bps |
| Net result | (15) | 21 | 3 | (3) |
| Shareholders' equity (*) | (15) | 20 | 3 | (3) |

(*): *Defined as sum of earnings and cash-flow hedge reserve*

**Exchange-rate risk**

*Transaction 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 that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position. 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.

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 recognised through profit and 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).

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 31 December 2008, Finmeccanica had outstanding foreign exchange transactions in the interest of other Group companies totalling €mil. 5,604 (notional amount) (an increase of about 49% over the year-earlier period), broken down as follows:

| € million | Notional | | | Fair value **01/01/08** | Changes | | | Fair value **31/12/08** |
|---|---|---|---|---|---|---|---|---|
| | **Sales** | **Purchases** | **Total** | | **Revenue** | **Costs** | **Reserve CFH** | |
| Swap and forward transactions | 3,532 | 1,707 | 5,239 | 35 | 24 | (23) | (94) | (58) |
| Options | 365 | - | 365 | (3) | - | (33) | - | (36) |
| **Total notional** | **3,897** | **1,707** | **5,604** | **32** | **24** | **(56)** | **(94)** | **(94)** |

| € million | Notional | | | Fair value 01/01/07 | Changes | | | Fair value 31/12/07 |
|---|---|---|---|---|---|---|---|---|
| | Sales | Purchases | Total | | Revenue | Costs | Reserve CFH | |
| Swap and forward transactions | 1,890 | 1,427 | 3,317 | 46 | 19 | (15) | (15) | 35 |
| Options | 423 | - | 423 | 1 | - | (4) | - | (3) |
| **Total notional** | **2,313** | **1,427** | **3,740** | **47** | **19** | **(19)** | **(15)** | **32** |

The table below shows the expected collections and payments of the hedged flows in the hedged currency according to due dates:

| **In million** | **31/12/08** | | | | **31/12/07** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Receipts** | | **Payments** | | **Receipts** | | **Payments** | |
| **Cash-Flow Hedge** | Notional | | Notional | | Notional | | Notional | |
| | USD | GBP | USD | GBP | USD | GBP | USD | GBP |
| Within 1 year | 2,500 | 9 | 831 | 636 | 1,665 | 11 | 833 | 542 |
| 2 to 3 years | 1,187 | - | 167 | 1 | 375 | - | 238 | 90 |
| 4 to 9 years | 50 | - | 5 | - | 21 | - | 33 | 29 |
| More than 9 years | - | - | - | - | - | - | - | - |
| **Total** | **3,737** | **9** | **1,003** | **637** | **2,061** | **11** | **1,104** | **661** |
| **Transactions other than cash-flow hedges** | 370 | 1 | 74 | 5 | 47 | - | 48 | - |
| **Total transactions** | **4,107** | **10** | **1,077** | **642** | **2,108** | **11** | **1,152** | **661** |

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the British pound and the US dollar, assuming a +/- 5% change of the EUR/USD exchange rate and the EUR/GBP exchange rate compared with the rates of reference at 31 December 2008 (respectively, 1.3917 and 0.9525, respectively), and at 31 December 2007 (1.4721 and 0.7333, respectively).

| | **31/12/2008** | | | | **31/12/2007** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Effect of Change of the EUR/GBP rate** | | **Effect of Change of the EUR/USD rate** | | **Effect of Change of the EUR/GBP rate** | | **Effect of Change of the EUR/USD rate** | |
| | increase of 5% | decrease of 5% | increase of 5% | decrease of 5% | increase of 5% | decrease of 5% | increase of 5% | decrease of 5% |
| Net result | 6 | (6) | 9 | (26) | 17 | (17) | 2 | 13 |
| Shareholders' equity (*) | 12 | (13) | 60 | (83) | 17 | (17) | 30 | (22) |

(*): *Defined as sum of earnings and cash-flow hedge reserve*

*Translation risk*

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 is constantly monitoring this risk, and at 31 December 2008 there were no hedging transactions against it using derivatives.

Finally, with reference to intercompany receivable and payable accounts denominated primarily in GBP and USD, it is noted that hedging transactions are in effect so as to sterilise the potential income-statement effects arising from such intercompany positions. The cash balance generated by such hedging contributes to the Group's net debt.

**Other risks on financial instruments**

*Options on STM*

At 31 December 2008, the Group has 33.7 million STMicroelectronics NV ("STM") securities (Section 13), and is this exposed to the risk of a fluctuation of the market price of the security. During the final quarter of 2008, the security's price was mostly impacted by the financial crisis: accordingly, the carrying value was impaired, and a loss of value was reported in the amount of €mil. 111 (see Section 38).

In order to mitigate this risk, the Group has regularly put into place derivatives transactions to hedge most of the portfolio; such transactions are booked as trading activity. The strategy employed through the purchase of put spread structures and the sale of calls allows Finmeccanica to limit the negative effects of a partial decline in the price of the STM security, though continuing to make it possible to benefit to a certain extent from any increase in the price of the security. The Group is therefore still exposed to the potential loss of income in the event such limits are exceeded.

A summary of these transactions during the past two years is shown below:

| € million | Fair Value at 01/01/08 | Fair Value Transactions Closed | Premiums Paid for New Transactions | Delta Fair Value | Fair Value at 31/12/08 |
|---|---|---|---|---|---|
| Options on STM | 43 | (39) | 7 | 7 | 18 |
| - realised capital gains | | 15 | | | |
| - total receipts | | 54 | | | |
| **Underlying position (millions of STM shares)** | 40 | (30) | 15 | - | 25 |

| € million | Fair Value at 01/01/07 | Fair Value Transactions Closed | Premiums Paid for New Transactions | Delta Fair Value | Fair Value at 31/12/07 |
|---|---|---|---|---|---|
| Options on STM | 13 | (18) | 4 | 44 | 43 |
| - realised capital gains | | 26 | | | |
| - total receipts | | 44 | | | |
| **Underlying position (millions of STM shares)** | 45 | (30) | 25 | - | 40 |

Exchangeable bond options

The STM security represents, for 20 million shares, the underlying security of the exchangeable bond loan with a maturity of August 2010. This embedded option is accounted for separately from the bond loan and is valued at fair value through the income statement. However, in 2005 Finmeccanica acquired a virtually identical option to hedge the option sold to bondholders thereby neutralising the economic effects of the former (because both the option purchased and the option sold as a part of the bond are valued at fair value through profit and loss) while at the same time freeing up the STM shares that were originally used for servicing the conversion.

Were the STM market value to have appreciated (depreciated) by 10% compared with the value at 31 December 2008, earnings would have been higher (lower) by €mil. 15 (15), with an increase (decrease) of €mil. 15 (15) in shareholders' equity.

**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. As part of the effort to mitigate such risk, Finmeccanica has adopted a financial planning system aimed at insuring the orderly procurement of the resources needed to cover financial requirements. Such planning involves a series of instruments: the setting of solidity and flexibility targets for the capital structure so that the Group's credit rating by the rating agencies is at an investment grade level; quantification of confirmed bank facilities for sources of cash in the short and medium term; quantification of unsecured credit facilities; funding activity in the equity and bond markets in order to ensure orderly refinancing of maturing loans / bonds; centralisation of the treasury through cash-pooling with companies wholly owned by the Group and the resulting easier maintenance of adequate liquidity levels; planning and management of operational financial flows; employment of techniques to convert receivables with longer collection times into cash; and projects to evaluate the sale of non-strategic assets. In July 2008, the EMTN bond-issue programme was extended for another period of 12 months. Finmeccanica is co-issuer in the programme with the Luxembourg subsidiary Finmeccanica Finance S.a., and serves as a guarantor in case of issue by the subsidiary. The total amount of the programme is €mil. 2,500, with bonds of roughly €mil. 2,000 issued to date (€mil. 1,750 at 31 December 2008).

It is also noted that the Group will be required to reimburse bonds in the amount of €mil. 501 by 2010. Also, the tranches of the bridge loan still outstanding will need to be refinanced in the next few years according to the following schedule:

- tranche B for the residual €mil. 1,288 (inclusive of the €mil. 1,139 outstanding at 31 December 2008, and the €mil. 149 disbursed in January 2009) by June 2009, renewable through the month of June 2010;
- tranche C for €mil. 697 by June 2011.

**Credit risk**

The Group is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties (for both financing and investing activities), and industrial counterparties (for guarantees given on payables or third-party commitments) (Section 30).

With regard to commercial counterparties, the most significant programmes are made with public-sector contractors or contractors belonging to public institutions, mainly in the Euro Area, 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 solvency risks, if any, and the possible forms of hedging. Customers being public companies represent 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 credit positions and the subsequent need for transactions to convert the receivables into cash.

The table below summarises trade receivables at 31 December 2008 and 2007, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

| **€ billion** | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Portion due | 1.8 | 1.4 |
| - including: more than 12 months | 0.4 | 0.4 |
| Portion not yet due | 2.9 | 2.9 |
| **Total trade receivables** | 4.7 | 4.3 |

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Receivables from financing activities, amounting to €mil. 758 (€mil. 666 at 31 December 2007) include €mil. 79 (€mil. 60 at 31 December 2007) classified as "non-current" and consequently excluded from the net financial position. The receivables mainly refer to the cash and cash equivalents of the MBDA joint venture and Thales Alenia Space (TAS) on deposit with the other partners (BAE and EADS in the first case; Thales in the second case), booked as "Other non-current financial receivables" and financing to other related parties, as shown in the table below:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| **€ million** | **Total** | **incl. MBDA** | **incl. TAS** | **Total** | **incl. MBDA** | **incl. TAS** |
| Financial receivables from related parties | 13 | - | - | 11 | - | - |
| Other financial receivables | 65 | - | 1 | 49 | - | 1 |
| **Non-current financial receivables** | **78** | **-** | **1** | **60** | **-** | **1** |
| Financial receivables from related parties | 26 | - | - | 32 | - | - |
| Other financial receivables | 653 | 546 | 82 | 574 | 491 | 61 |
| **Current financial receivables** | **679** | **546** | **82** | **606** | **491** | **61** |
| **Total financial receivables** | **757** | **546** | **83** | **666** | **491** | **62** |

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 analysed separately in Section 29. Liabilities are all valued on the amortised cost method.

| **31/12/08**<br>**€ million** | **Fair value through Income Statement** | **Loans and Receivables** | **Held to Maturity** | **Available for Sale** | **Total** |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Financial assets at fair value | | | | 154 | 154 |
| Non-current receivables from related parties | | 13 | | | 13 |
| Receivables | | 730 | | | 730 |
| **Current assets** | | | | | |
| Trade receivables | | 4.655 | | | 4.655 |
| Financial assets at fair value | | | | 1 | 1 |
| Financial receivables | | 679 | | | 679 |
| Other assets | | 340 | | | 340 |

| 31/12/07<br>€ million | Fair value through Income Statement | Loans and Receivables | Held to Maturity | Available for Sale | Total |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Financial assets at fair value | | | | 589 | 589 |
| Receivables | | 473 | | | 473 |
| | | | | | |
| **Current assets** | | | | | |
| Trade receivables | | 4.319 | | | 4.319 |
| Financial assets at fair value | | | | 13 | 13 |
| Financial receivables | | 606 | | | 606 |
| Other assets | | 667 | | | 667 |

## 44. INFORMATION PURSUANT TO ARTICLE 149 *DUODECIES* OF THE CONSOB ISSUER REGULATION

The following statement was prepared in accordance with Article 149-*duodecies* of the Consob Issuer Regulations and reports the fees for the year 2008 for auditing services and for services other than auditing provided by the same auditing firm and entities belonging to the auditing firm's network.

| (€thou.) | Entity Providing the Service | To | Fees for the Year 2008 for the Engagement | |
|---|---|---|---|---|
| Auditing services | PricewaterhouseCoopers SpA | Parent company | 3,038 | *(1)* |
| | PricewaterhouseCoopers SpA | Subsidiaries | 3,655 | |
| | PricewaterhouseCoopers network | Subsidiaries | 5,678 | |
| Verification services | PricewaterhouseCoopers SpA | Parent company | 104 | *(1)* |
| | PricewaterhouseCoopers SpA | Subsidiaries | 76 | *(2)* |
| | PricewaterhouseCoopers network | Subsidiaries | 307 | *(3)* |
| Tax consulting services | PricewaterhouseCoopers network | Subsidiaries | 1,260 | *(4)* |
| Other services | PricewaterhouseCoopers network | Parent company | 16 | *(1)* |
| | PricewaterhouseCoopers SpA | Subsidiaries | 10 | *(5)* |
| | PricewaterhouseCoopers network | Subsidiaries | 37 | *(5)* |
| | | | **14,181** | |

*(1) See statement attached to the financial statements of Finmeccanica S.p.A.*

*(2) Activities connected with the audit of statements in order to tender bids.*

*(3) Activities related to the acquisition and sale of equity investments.*

*(4) Tax assistance services mainly for issues regarding employees in foreign companies, expatriates.*

*(5) Agreed-upon procedures.*

*(6) Tax assistance services mainly for issues regarding employees in foreign companies, expatriates.*

*(7) Agreed-upon procedures.*

## 45. 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:

| **€ million** | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Compensation | 80 | 81 |
| Post-employment benefits | 1 | 1 |
| Other long-term benefits | 1 | - |
| Severance indemnity | 3 | 1 |
| Stock grants | 7 | 4 |
| **Total** | **92** | **87** |

Remuneration paid to directors and managers with strategic responsibility came to €mil. 89 in 2008 and €mil. 84 in 2007.

Remuneration to the statutory auditors came to €mil. 3 and €mil. 3 for 2008 and 2007 respectively.

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 parent company and of the other companies included in the scope of consolidation, that represented a cost for the Group.

The detail of compensation paid to the directors, statutory auditors, the general manager and the managers with strategic responsibility of the parent company is reported in the following table:

**COMPENSATION PAID TO MEMBERS OF ADMINISTRATIVE AND CONTROL BODIES, TO GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES**
(in thousands of euros)

| PERSON | DESCRIPTION OF POSITION | | | *Emoluments by position* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Name* | *Position* | *Office term* | *Term of office expiring* | *in the reporting Company* | | *Non-cash benefits* | *Bonuses and other incentives* | | *Other remunerations* | |
| Guarguaglini Pier Francesco | Chairman/Chief Executive Officer | 1.1/31.12.2008 | year 2010 | 85 | | 9 | 3,966 | (1) | 1,500 | |
| Alberti Piergiorgio | Director | 1.1/31.12.2008 | year 2010 | 92 | | | | | 50 | |
| Andreatta Filippo | Director | 1.1/5.6.2008 | year 2007 | 23 | | | | | | |
| Boltho von Hohebach Andrea | Director | 6.6/31.12.2008 | year 2010 | 36 | | | | | | |
| Bonferroni Franco | Director | 1.1/31.12.2008 | year 2010 | 87 | | | | | | |
| Castellaneta Giovanni | Director | 1.1/5.6.08-26.6/31.12.08 | year 2010 | 55 | | | | | | |
| De Tilla Maurizio | Director | 1.1/31.12.2008 | year 2010 | 102 | | | | | | |
| Galli Dario | Director | 6.6/31.12.2008 | year 2010 | 36 | | | | | | |
| Greco Richard | Director | 6.6/31.12.2008 | year 2010 | 36 | | | | | | |
| Lombardi Cerri Gian Luigi | Director | 1.1/5.6.2008 | year 2007 | 31 | | | | | | |
| Parlato Francesco | Director | 1.1/31.12.2008 | year 2010 | 67 | (2) | | | | | |
| Petri Roberto | Director | 1.1/5.6.2008 | year 2007 | 23 | | | | | | |
| Squillace Nicola | Director | 6.6/31.12.2008 | year 2010 | 45 | | | | | | |
| Varaldo Riccardo | Director | 1.1/31.12.2008 | year 2010 | 74 | | | | | | |
| Venturoni Guido | Director | 1.1/31.12.2008 | year 2010 | 74 | | | | | | |
| Vigevano Paolo | Director | 1.1/5.6.2008 | year 2007 | 23 | | | | | | |
| Gaspari Luigi | Chairman of the Board of Statutory Auditors | 1.1/31.12.2008 | year 2008 | 78 | | | | | 36 | |
| Cumin Giorgio | Regular Member | 1.1/31.12.2007 | year 2008 | 52 | | | | | 36 | |
| Forchielli Francesco | Regular Member | 1.1/31.12.2008 | year 2008 | 59 | | | | | 15 | |
| Montaldo Silvano | Regular Member | 1.1/31.12.2008 | year 2008 | 52 | | | | | | |
| Tamborrino Antonio | Regular Member | 1.1/31.12.2008 | year 2008 | 71 | | | | | 57 | |
| Zappa Giorgio | General Manager | 1.1/31.12.2008 | | | | 152 | 1,158 | (1) | 1,066 | (3) |
| | Managers with strategic responsibilities | 1.1/31.12.2008 | | | | 193 | 1,282 | (1) | 1,518 | (4) |

(1) - Variable remunerations, to be paid, are shown at their estimated value recorded in the company's financial statements.
(2) - Of which €th. 61 paid to the Ministry of Economy and Finance.
(3) - Of which €th. 55 for emoluments by position in Group companies, paid to Finmeccanica SpA.
(4) - Of which €th. 60 for emoluments by position in Group companies, paid to Finmeccanica SpA.

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 31 December 2008, there were commitments to Finmeccanica employees and consultants to grant 4,759,483 ordinary Finmeccanica shares with a par value of €20.44. The changes in the stock grant plans are as follows (see "Incentive plans (stock option and stock grant plans)" in the Report on Operations):

| | 31 December 2008 (no. shares) | 31 December 2007 (no. shares) |
|---|---|---|
| **Rights existing at 1 January** | - | - |
| New rights assigned | 2,042,384 | 1,055,710 |
| Rights exercised during the year | 2,042,384 | 1,055,710 |
| Rights lapsed during the year | - | - |
| **Rights existing at period end** | - | - |

For the Board of Directors
the Chairman and Chief Executive Officer
(Pier Francesco Guarguaglini)

**CERTIFICATION ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED**

1. The undersigned, Pier Francesco Guarguaglini, Chairman and Chief Executive Officer, and Alessandro Pansa, the manager in charge of the preparation of the company accounting documents of Finmeccanica SpA, certify, in accordance with Art. 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business
   - the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2008.
2. In this respect it is noted that:
   a) the assessment of the appropriateness and the effective application of administrative and accounting procedures in preparing the consolidated financial statements of the Finmeccanica Group was not extended to the DRS TECHNOLOGIES Inc. group, considering that Finmeccanica SpA acquired control over it on 22 October 2008;
   b) no significant matters arose.
3. It is also certified that:
   3.1 the financial statements:
   a. were prepared in accordance with applicable international accounting standards as recognised in the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. correspond to the entries in the books and accounting records;
   c. prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/98 and subsequent amendments and integrations, provide a true and fair representation of the performance and financial position of the issuer and all the companies included in the scope of consolidation;

   3.2 the report on operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and all the companies included in the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This certification also is made pursuant to and for the purposes of Art. 154-*bis*, paragraph 2, of Legislative Decree no. 58 of 24 February 1998.

Rome 10 March 2009

| | |
|---|---|
| Chairman and Chief Executive Officer<br>Pier Francesco Guarguaglini | Manager in charge of the preparation of company accounting documents<br>Alessandro Pansa |

# REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

## REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

as in the past, the consolidated financial statements of the Finmeccanica Group have been prepared in accordance with the provisions of law on financial reporting and comply with the Articles of Association and the Board of Directors' directions.

In application of Regulation (EC) no. 1606/2002 of 19 July 2002 and in implementation of CONSOB resolution no. 14990 of 14 April 2005, the consolidated financial statements of the Finmeccanica Group at 31 December 2008 are prepared in accordance with the International Accounting and Financial Reporting Standards (IAS/IFRS) as approved by the European Commission, supplemented by the interpretations existing at the consolidated balance sheet date issued by the International Accounting Standards Board (IASB).

In particular, the standards used are those approved by the EU and contained in the EU Regulations enacted until the consolidated balance sheet date.

The Board of Statutory Auditors has ensured that the Parent Company has appropriately organised the flow of the necessary information from the companies included in the consolidation scope and that the consolidation procedures are adequate.

The Auditors who issued their report in accordance with Article 156 of Law Decree no. 58 dated 24 February 1998 expressing their opinion on the consolidated financial statements at 31 December 2008 have informed us that they have appropriately checked that the figures of the consolidated accounts matched the accounting records of the Parent Company and the data provided by the subsidiary companies and that these data have been interpreted in an appropriate manner. To this regard the Auditors have not delivered any observations or remarks worth mentioning herein.

Rome, 6 April 2009

The Board of Statutory Auditors

**"This report has been translated from the original which was issued in accordance with Italian legislation".**

**AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008**

PRICEWATERHOUSECOOPERS

# AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE NO 58 DATED 24 FEBRUARY 1998

## FINMECCANICA SPA

## CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

## AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE NO 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Finmeccanica SpA

1 We have audited the consolidated financial statements of Finmeccanica SpA and its subsidiaries ("Finmeccanica Group") as of 31 December 2008, which comprise the balance sheet, the income statement, the statement of recognised income and expenses, the cash flow statement and related notes. The directors of Finmeccanica SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 22 April 2008.

3 In our opinion, the consolidated financial statements of Finmeccanica SpA as of 31 December 2008 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of the Finmeccanica Group for the period then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

4 The directors of Finmeccanica SpA are responsible for the preparation of the report on operations in accordance with applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by article 156, paragraph 4-bis, letter d), of Legislative Decree No 58/98. For this purpose, we have performed the procedures required under Auditing Standard No 001 issued by the Italian Accounting profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations is consistent with the consolidated financial statements of Finmeccanica SpA as of 31 December 2008.

Rome, 6 April 2009

PricewaterhouseCoopers SpA

**Signed by**

Corrado Testori
(Partner)

*This report has been translated from the original which was issued in accordance with Italian legislation.*

## ATTACHMENT 1: INFORMATION ABOUT THE SHAREHOLDING STRUCTURE (ART. 123-BIS D. L. 58/98)

**FINMECCANICA – Società per azioni**

**Information about the Shareholding Structure**
**pursuant to art. 123-bis of Legislative Decree 58 of 24 February 1998**
**(Consolidated Law on Financial Intermediation) 2008 Financial Statements**

**a)** STRUCTURE OF THE SHARE CAPITAL.

The Company's share capital consists exclusively of common shares with a par value of €4.40 each, all accompanied by the same rights and obligations and having the same voting rights at both ordinary and extraordinary Shareholders' Meetings.
For information on the 2002-2004 Stock Option Plan, approved by the Shareholders' Meeting of 16 May 2003, which provides for the granting of subscription options on ordinary shares of Finmeccanica with a resulting capital increase, please refer to the Report on Operations at 31 December 2008 (Incentive Plans-stock option and stock grant plans section), as well as the disclosure statement prepared pursuant to Art. 84-bis of the Issuer Regulation and available on the Company's website (www.finmeccanica.com), in the Investor Relations/Corporate documents section.

**b)** RESTRICTIONS ON SHARE OWNERSHIP.

In accordance with the laws on privatisation, the Company Bylaws (Art. 5.1-bis) provide as follows:
"Under Art. 3 of Decree-law 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, no one, except for the State, public bodies or entities controlled thereby and any other party authorised by law, may possess, on any basis, shares in the Company that constitute a shareholding of more than 3% of the share capital represented by shares with voting rights.
The maximum shareholding limit is also calculated in consideration of the total holding of the controlling undertaking, which may be a natural person, legal person or corporation, by direct or indirect subsidiaries and by the subsidiaries of a single controlling undertaking, by affiliated undertakings and by relatives within the second degree of consanguinity or affinity or spouses, provided that the spouses are not legally separated.
With also reference to parties other than companies, the term "control" is held to be within the meaning of Art. 93 of Legislative Decree 58 of 24 February 1998. The term "affiliation" is held to be within the meaning of Art. 2359(3) of the Italian Civil Code, and is also deemed to exist between parties who, directly or indirectly, through their subsidiaries, other than those which manage mutual funds, sign, with third parties or otherwise, agreements relating to the exercise of voting rights or the transfer of shares, belonging to third parties or otherwise, or other agreements or contracts with third parties or otherwise, as referred to in Art. 122 of the aforesaid Legislative Decree 58 of 24 February 1998, if such agreements or contracts concern at least 10% of the voting capital for listed companies or 20% of the voting capital for unlisted companies.

For the purposes of calculating the aforesaid shareholding limit (3%), consideration is also given to shares held through trust companies and/or intermediaries or by third parties in general."

**c)** MATERIAL SHAREHOLDINGS.

Based on information received pursuant to Art. 120 of Legislative Decree 58/1998 (Consolidated Law on Financial Intermediation) and other available information, the only entity that currently has a "material" shareholding (exceeding 2% of the share capital) is the Ministry for the Economy and Finance, with 174,626,554 shares, equivalent to approximately 30.20% of the ordinary shares.

**d)** HOLDERS OF SECURITIES THAT CONFER SPECIAL RIGHTS.

No securities have been issued conferring special rights.

**d1)** SPECIAL POWERS OF THE ITALIAN MINISTRY FOR THE ECONOMY AND FINANCE.

The special powers conferred upon the Minister for the Economy and Finance by Art. 5.1-ter of the Bylaws provides that Art. 2(1) Decree-law 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, as replaced by Art. 4(227) of Law 350 of 24 December 2003, the Italian Minister for the Economy and Finance, jointly with the Italian Minister for Productive Activities (now Minister for Economic Development), has the following special rights:

a) "the right to oppose the acquisition, by parties subject to the shareholding limit, as referred to in Art. 3 of Decree-law 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, of material shareholdings, this being understood to mean shareholdings that – as laid down by Decree of the Italian Minister of the Treasury, Budget and Economic Planning of 8 November 1999 – represent at least 3% of the share capital composed of shares with voting rights at Ordinary Shareholders' Meetings. The objection shall be raised within 10 days from notification, to be issued by the directors when entry in the shareholders' register is requested, if the Minister considers that the operation could harm the vital interests of the State. During the period in which the right of opposition may be exercised, the voting right and any other rights not relating to equity pertaining to shares representing the material shareholding shall be suspended. If the right of opposition is exercised, in the form of a ruling duly justified by the actual harm caused by the operation to the vital interests of the State, the shareholder concerned may not exercise the voting rights or rights not relating to equity pertaining to the shares representing the material shareholding and shall transfer these shares within a period of one year. In case of non-compliance, the court, upon the request of the Italian Minister for the Economy and Finance, shall order the sale of the shares representing the material shareholding in accordance with the procedures set out in Art. 2359-ter of the Italian Civil Code. The ruling by which the right of opposition is exercised may be challenged by the shareholder concerned within 60 days before the Regional Administrative Court of Lazio";

b) “the right to oppose the signing of pacts or agreements as set out in Art. 122 of the Consolidated Law, Legislative Decree 58 of 24 February 1998, in the event that – as laid down by Decree of the Italian Minister of the Treasury, Budget and Economic Planning of 8 November 1999 – such pacts or agreements represent at least 3% of the share capital composed of shares with voting rights at Ordinary Shareholders’ Meetings. So that the right of opposition may be exercised, CONSOB shall inform the Italian Minister for the Economy and Finance of any material agreements and contracts within the meaning of the present article of which it has been informed under said Art. 122 of the Consolidated Law, Legislative Decree 58/1998. The right of opposition must be exercised within 10 days from the date of notification by CONSOB. During the period in which the right of opposition may be exercised, the voting right and any other rights not relating to equity of shareholders who signed the agreement shall be suspended. If an opposition ruling is issued, duly justified in view of the actual harm caused by said agreements or contracts to the vital interests of the State, said agreements or contracts shall be invalidated. If the behaviour at meetings of syndicated shareholders suggests that the obligations assumed under the agreements or contracts referred to in Art. 122 of the Consolidated Law, as referred to in Legislative Decree 58/1998, still apply, resolutions adopted with the vote of the shareholders concerned may be challenged. The ruling exercising the right of opposition may be challenged within 60 days by shareholders who signed the agreements or contracts before the Regional Administrative Court of Lazio”;
c) “the right of veto, duly justified in view of the actual harm caused to the vital interests of the State, on resolutions to wind up the Company, transfer the business, proceed with mergers or demergers, relocate the Company’s head office to a different country, alter the corporate objects or amend the Bylaws, where such resolutions abolish or alter the powers referred to in the present article. The ruling by which the right of veto is exercised may be challenged within 60 days by dissenting shareholders before the Regional Administrative Court of Lazio”;
d) the right to appoint a director without a voting right (see letter “h” below).

**e)** EMPLOYEE SHAREHOLDINGS: VOTING MECHANISM.

No provision is made for any employee shareholding scheme.

**f)** VOTING RESTRICTIONS.

In accordance with the laws on privatisation (Law 474/1994), the Corporate Bylaws provide that voting rights relating to shares held above the maximum limit of 3% laid down by Art. 5.1-bis of the Bylaws may not be exercised.
Article 5.1-bis also provides that “The Bylaws (Art. 5.1-bis), in accordance with legislation on privatisation (Law 474/1994), stipulate that voting rights relating to shares held above the maximum limit of 3% laid down by Art. 5.1-bis of the Bylaws may not be exercised. Art. 5.1-bis also provides that “and voting rights held by shareholders in excess of the shareholding limit shall be reduced proportionally, unless otherwise previously and jointly indicated by all the shareholders concerned. In case of non-compliance, meeting resolutions may be challenged under Art. 2377 of the Italian

Civil Code if the required majority would not have been reached had the votes exceeding the maximum limit not been included.
However, non-voting shares shall be included for the purposes of calculating the meeting quorum".
Note should also be taken of the contents of subsection d1) above, with reference to Art. 5.1-ter of the Bylaws and, specifically, the special powers described therein.

**g)** AGREEMENTS NOTIFIED TO THE COMPANY PURSUANT TO ART. 122 OF LEGISLATIVE DECREE 58/1998 (CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION).

The Company has no knowledge of any shareholder agreements as referred to in Art. 122 of Legislative Decree 58/1998 (Consolidated Law on Financial Intermediation).

**h)** LAWS GOVERNING THE APPOINTMENT AND REPLACEMENT OF DIRECTORS AND AMENDMENTS TO THE BYLAWS.

- APPOINTMENT OF DIRECTORS -
- The directors are appointed as provided by Art. 18.4 of the Company's Bylaws: "Directors shall be appointed by Shareholders' Meetings based on lists submitted by shareholders and by the retiring Board of Directors in which the candidates are numbered consecutively.
If the retiring Board of Directors submits its own list, this must be deposited at the registered office and published in at least three Italian national daily newspapers, two of which must be financial, at least 20 days prior to the date set for the meeting at first convocation.
The lists submitted by shareholders must be deposited at the registered office and published in the same manner as above at least 10 days prior to the date set for the meeting at first convocation.
Each shareholder may submit or take part in the submission of only one list and each candidate may appear on only one list, failing which he or she shall be disqualified.
Only those shareholders who, either alone or together with other shareholders, represent at least 1% of the shares with voting rights at Ordinary Shareholders' Meetings shall be entitled to submit lists, or such lesser number as might be provided by legal or regulatory provisions, where applicable.
In order to prove possession of the number of shares necessary for the submission of lists, shareholders must submit and/or send to the registered office, at least five days prior to the date scheduled for the meeting at first convocation, a copy of the documentation proving that they are eligible to take part in the meeting.
At least two Directors must satisfy the independence criteria as laid down for statutory auditors by law. Candidates on the lists who satisfy the independence criteria must be expressly indicated.
All candidates must also satisfy the requirements for good repute laid down by the applicable legislation.
Declarations must be deposited with each list, within the aforesaid time limit, in which each candidate accepts his or her candidacy and attests, under his or her own responsibility, that there are no reasons for ineligibility and that the requirements laid

down by the applicable legislation for the office in question have been met, including satisfying the independence criteria, as required by these Bylaws.
Directors nominated shall immediately inform the Company if they no longer satisfy the aforesaid independence criteria and requirements for good repute and if any reasons for ineligibility have arisen.
Each person entitled to vote may only vote for one list.
Directors shall be elected as follows:

a) two thirds of the directors to be elected shall be taken from the list that receives the most votes from shareholders, according to the order in which they appear on the list, rounded down to the nearest whole number where necessary;
b) the remaining directors shall be taken from the other lists; for this purpose, the votes received by the lists shall be divided once, twice, three times and so on, according to the numbering of the directors to be elected. The ratios thus obtained shall be assigned in consecutive order to the candidates on each list, based on the order shown in the list. The ratios thus allocated to the candidates on the various lists shall be arranged in decreasing order in a single list. Those candidates who have obtained the highest ratios shall be elected.
   If several candidates obtain the same ratio, the director shall be chosen from the list which has not yet elected a director or which has elected the fewest directors.
   If none of these lists has elected a director, or if all of them have elected the same number of directors, the candidate on the list with the highest number of votes shall be elected. In case of a tied vote, where the same ratios are obtained, the entire meeting shall hold another vote and the candidate that receives the simple majority of votes shall be elected.
c) if, following the application of the aforesaid procedure, the minimum number of independent Directors required by the Bylaws has not been appointed, the ratio of votes to be allocated to each candidate on the various lists will be calculated according to the method described in subparagraph b); candidates not yet elected from the lists pursuant to subparagraphs a) and b) and who satisfy the independence criteria and who have obtained the highest ratios shall be elected. They shall be sufficient in number to ensure compliance with the Bylaws and shall replace non-independent directors who have been allocated the lowest ratios. If there are insufficient candidates to fulfil the required minimum of two independent directors, the Meeting shall adopt a resolution based on the statutory majority to replace those candidates who do not satisfy the independence criteria and who have obtained the lowest ratios".

Article 18.5 of the Bylaws also provides that "for directors not appointed in accordance with the aforesaid procedure for any reason, the meeting shall adopt a resolution based on the statutory majority. If during the financial year one or more directors should be absent, the procedure laid down by Art. 2386 of the Italian Civil Code shall be adopted, without prejudice to the powers of appointment referred to in Art. 5.1-ter(d). To replace directors who have left office, the meeting shall adopt resolutions based on the statutory majority by selecting replacements from the same list as that to which the departed directors belonged, provided that candidates not previously elected remain on this list. The Board of Directors shall proceed with the replacement pursuant to Art. 2386 of the Italian Civil Code by selecting replacements based on the same criteria as set out in the preceding subparagraph at the next suitable meeting after the withdrawal from office is announced".

Art. 5.1-ter of the Bylaws provides, pursuant to Art. 2(1) of Decree-law 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, as replaced by Art. 4(227) of Law 350 of 24 December 2003, that the Minister for the Economy and Finance, jointly with the Italian Minister for Productive Activities (now the Minister for Economic Development), has the special right to appoint a director without a voting right (see subsection d1 of section d above). Should the director thus appointed leave office, the Minister for the Economy and Finance, jointly with the Minister for Economic Development, shall appoint a replacement.

- AMENDMENTS TO THE BYLAWS -

Amendments to the Bylaws are ratified by the shareholders' meeting in accordance with the law.

However, under Art. 24.1 of the Bylaws, the Board of Directors has the power to adapt the Bylaws to legislative provisions.

Under Art. 22.3 of the Bylaws, any proposals to amend articles or to adopt new Bylaws are decided by the Board of Directors with the vote in favour of 7/10ths of the directors in office, excluding the director without voting rights, appointed in accordance with Art. 5.1-ter(d) of the Bylaws.

Finally, as illustrated in subsection d1) of section d, the Minister for the Economy and Finance, jointly with the Minister for Productive Activities (now the Minister for Economic Development), has a veto over the adoption of amendments to the Bylaws that revoke or modify the powers referred to in Art. 5.1-ter of the Bylaws or that alter the object of the company.

**i)** AUTHORISATION FOR CAPITAL INCREASES AND AUTHORISATION TO PURCHASE OWN SHARES.

1) Directors have no authority to increase the share capital under Art. 2443 of the Italian Civil Code.

   The Shareholders' Meeting of 1 August 2008 decided:

   - to authorise, pursuant to Art. 2443 of the Italian Civil Code, the Board of Directors to launch a paid capital increase of up to €bil. 1.4 including a price premium The capital increase may occur in one or more tranches by 31 July 2009. In accordance with Art. 2441(1) of the Italian Civil Code, the capital increase is to take place through the issue of ordinary shares with dividend rights and a par value of €4.40 to be offered to the shareholders by way of rights. A portion may be used for servicing convertible bonds – to be issued pursuant to Art. 2420-ter of the Italian Civil Code – or warrants to be offered by way of rights to the shareholders;

   - to grant the Board of Directors broader powers to set the procedures, terms and conditions for the capital increase within the above-stated limits, including, for example: (i) the power to decide – after first assessing market conditions and verifying that the Ministry for the Economy and Finance would hold no less than 30% of the share capital, as provided in the Prime Ministerial Decree (DPCM) of

28 September 1999– to set the exact amount of the capital increase, which may not exceed €bil. 1.4 (including the share premium); (ii) the power to set the subscription price of the shares, including the share premium, taking into account factors such as the Company's share price performance and market conditions in the run-up to the offer, as well as market practices for similar operations; (iii) the power to set the number of shares to be issued and the rights ratio; (iv) the power to take the necessary actions to complete the operation as provided by applicable legislation (v) the power to also decide on the use of a portion of the capital increase to service the conversion of convertible bonds – to be issued pursuant to Art. 2420-ter of the Italian Civil Code – or of warrants to be offered by way of rights to the shareholders of the Company, as well as (vi) the power to set the procedures, terms, conditions and regulations of the convertible bonds and warrants;

- to revoke the capital increase, pursuant to Art. 2441(4)(2) of the Italian Civil Code, authorised by the Shareholders' Meeting of 30 May 2007 but not yet carried out.

On 8 September 2008, the Board of Directors of Finmeccanica decided to (i) increase the share capital for a maximum amount of €bil. 1.4, including share premium, through the issue of ordinary shares with a par value of €4.40 (with share premium) and full dividend rights, with the same characteristics as those outstanding, to be offered as options to the Company's shareholders at the start of the subscription period, in proportion to the number of shares held: (ii) to set the share subscription deadline for 31 July 2009 (specifying that, if the capital increase is not fully subscribed by that the date, the share capital will be increased by an amount equal to the subscriptions received); and (iii) to postpone the determination of the number of shares, the issue price and, therefore, the final amount of the capital increase and the option allocation ratio, to a later Board of Directors meeting to be held, as provided by Art. 2443, final paragraph, of the Italian Civil Code, in the days immediately preceding the launch of the offer. The offer price will be determined by taking into account, among other things, market practices for similar operations, general market conditions and the price performance of the Company's shares.
On 15 October 2008, the Board of Directors of Finmeccanica decided to issue 152,921,430 new ordinary shares, all with a par value of €4.40 each, with the same characteristics as those outstanding, to be offered as options to the Company's shareholders, at a price of €8.00 per share, including a share premium of €3.60. These are offered at a ratio of 9 new shares for every 25 shares held, for a total value of €1,223,371,440.00.

During the options period, which began on 20 October 2008 and ended on 7 November 2008, 417,369,675 options were exercised, corresponding to a total of 150,253,083 new ordinary Finmeccanica shares, or 98.26% of the 152,921,430 the shares offered, for a total value of €1,202,024,664.00.

At the end of the option period, 7,412,075 option rights remained unexercised, corresponding to subscriptions for a total of 2,668,347 new ordinary shares worth a total of €21,346,776.00.

The unexercised option rights were then offered on the stock market by Finmeccanica pursuant to Art. 2441(3) of the Italian Civil Code, through Mediobanca – Banca di Credito Finanziario SpA during trading on 14, 17, 18, 19 and 20 November 2008, with the deadline for the subscription of the new ordinary shares set for 21 November 2008.

Following the auction of the unexercised rights, carried out pursuant to Art. 2441(3) of the Italian Civil Code, all the remaining 2,668,347 shares offered were subscribed by 21 November 2008 at a price of €8 per share, for an aggregate value of €21,346,776.00.

The capital increase therefore ended with the full subscription of the 152,921,430 new ordinary shares issued, equivalent to 26.45% of the new share capital, for a total value of €1,223,371,440.00, gross of expenses and fees. As a result, no action on the part of the underwriters guided by joint global coordinators Goldman Sachs International and Mediobanca was required.

Therefore, the new share capital of Finmeccanica, recorded with the Rome Company Register on 1 December 2008, amounted to €2,543,861,738.00, represented by 578,150,395 ordinary shares with a par value of €4.40 each.

Following the completion of the capital increase, the Ministry for the Economy and Finance holds around 30.20% of Finmeccanica's new share capital.

2) As already explained in the Information on the Shareholding Structure in relation to the 2007 financial statements, it should be reported that the Finmeccanica Shareholders' Meeting of 16 January 2008 ratified the purchase programme for own shares proposed by the Board of Directors on 21 November 2007 for up to approximately 8% of the Company's share capital (a maximum of 34 million common shares), distributed as follows:

- approximately 2.6% for performance share plans (a maximum of 11.1 million common shares, 7.5 million of which are intended to be assigned over the next few years), subject to the withdrawal of any unused purchase authorisations and the availability of treasury shares authorised to service the plans, and without prejudice to existing resolutions of Shareholders' Meetings concerning the ratification of these performance share plans;
- approximately 5.4% (22.9 million common shares) to create maximum shareholder value.

The programme provides that the shares purchased will remain available to be used to service the stock incentive plans and as part of industrial projects or extraordinary financial operations. The Shareholders' Meeting determined that the share-buy back programmes must be implemented within 18 months and in accordance with standard market practice for this kind of operation, taking account of the Company's performance. The programme was to be financed primarily using cash flow from operations generated by the Group.

Shares to service the programme were to have been purchased, at suitable intervals, at a maximum and minimum unit price equivalent to the reference price on the Italian Electronic Stock Exchange (MTA) on the day before the purchase (plus or minus 5% for the maximum and minimum price respectively), either on the market or by buying and selling derivatives traded on regulated markets.

In 2008, as authorised by the Shareholders’ Meeting, the Board purchased an additional 1,225,000 treasury shares to add to the 343,777 already held to service existing stock incentive plans. The Board limited its action to purchasing these shares as the conditions for a broader buy-back programme were not met.

As of the date of this report, Finmeccanica holds 447,209 treasury shares, equivalent to 0.077% of the share capital.

## l) CHANGE OF CONTROL CLAUSES

Material agreements entered into by Finmeccanica or its subsidiaries and which will become effective, will be amended or extinguished in case of a change of control of the company concerned. These agreements are listed below with an indication of the corresponding effects.

| PARTIES | | AGREEMENT | EFFECTS OF THE CHANGE OF CONTROL CLAUSE |
|---|---|---|---|
| FINMECCANICA | **BANCO BILBAO VIZCAYA ARGENTARIA SA, BANCA INTESA SPA, BANCA NAZIONALE DEL LAVORO SPA, BNP PARIBAS SA, CALYON CORPORATE AND INVESTMENT BANK, CITIGROUP GLOBAL MARKETS LIMITED, HSBC BANK PLC, MCC SPA, SG CORPORATE AND INVESTMENT BANKING, THE ROYAL BANK OF SCOTLAND PLC AND UNICREDIT BANCA IMMOBILIARE SPA, UNICREDIT BANCA D'IMPRESA SPA** | **LOAN AUTHORISATION AGREEMENT** | **AFTER AN OPTIONAL 90-DAY DISCUSSION PERIOD, BANKS MAY REQUEST THE RESTITUTION OF THEIR STAKE.** |
| **FINMECCANICA** | ING BANK N.V. AND ING BANK NV, MILAN BRANCH | GUARANTEE AGREEMENT FOR ANSALDOBREDA. | AFTER AN OPTIONAL 90-DAY DISCUSSION PERIOD, THE BANKS MAY CANCEL THE AGREEMENT AND REQUEST A REFUND FOR GUARANTEES ISSUED. |
| **FINMECCANICA / FINMECCANICA FINANCE SA** | BAYERSICHE HYPO- UND VEREINSBANK AG – MILAN BRANCH, GOLDMAN SACHS INTERNATIONAL, INTESA SANPAOLO SPA, MEDIOBANCA – BANCA DI CREDITO FINANZIARIO SPA (ARRANGERS) PLUS ANOTHER 36 BANKS UNDER THE SYNDICATION AGREEMENT | FINANCING AGREEMENT SIGNED AS PART OF THE ACQUISITION OF DRS AND THE RELATED SYNDICATION AGREEMENT | AFTER A 90-DAY DISCUSSION PERIOD, EACH BANK MAY REQUEST THE RESTITUTION OF AMOUNTS DISBURSED AND STILL TO BE REPAID. |
| **FINMECCANICA** | BAE SYSTEM AND EADS | SHAREHOLDER AGREEMENT RELATING TO MBDA SAS, A COMPANY OPERATING IN THE MISSILE SYSTEMS SECTOR | IN CASE OF A CHANGE IN CONTROL OF FINMECCANICA, THE OTHER SHAREHOLDERS – BAE SYSTEMS AND EADS – HAVE THE OPTION OF DECIDING WHETHER TO EXTINGUISH |

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| | | | FINMECCANICA'S RIGHT TO APPOINT CERTAIN MANAGERS AND TO OBTAIN CERTAIN INFORMATION ABOUT MBDA. IF THIS IS REQUESTED BY THE SHAREHOLDERS, FINMECCANICA CAN ASK THESE SHAREHOLDERS TO BUY ITS STAKE IN MBDA AT MARKET PRICE. |
| **FINMECCANICA** | THALES | SHAREHOLDER AGREEMENT RELATING TO THALES ALENIA SPACE SAS (TAS) (FINMECCANICA 33%), COMPANY OPERATING IN THE SATELLITE MANUFACTURING SECTOR | IN CASE OF A CHANGE IN CONTROL OF FINMECCANICA TO A COMPETITOR OF THALES, THALES IS ENTITLED TO BUY FINMECCANICA'S SHARES IN TAS AT A PRICE TO BE AGREED BY THE PARTIES. |
| **FINMECCANICA** | THALES | SHAREHOLDER AGREEMENT RELATING TO TELESPAZIO HOLDING SRL (TPZH) (FINMECCANICA 67%), COMPANY OPERATING IN THE SATELLITE SERVICES SECTOR | IN CASE OF A CHANGE IN CONTROL OF FINMECCANICA TO A COMPETITOR OF THALES, THALES IS ENTITLED TO BUY FINMECCANICA'S SHARES IN TPZH AT A PRICE TO BE AGREED BY THE PARTIES. |
| **FINMECCANICA** | THALES AND BENIGNI | SHAREHOLDER AGREEMENT RELATING TO ELETTRONICA SPA (FINMECCANICA 31.33%), COMPANY OPERATING IN THE DEFENCE ELECTRONICS SECTOR | IN CASE OF A CHANGE OF CONTROL, THE OTHER SHAREHOLDERS ARE ENTITLED TO BUY FINMECCANICA'S SHAREHOLDING IN ELETTRONICA ON A PRO-RATA BASIS AT A PRICE TO BE AGREED BY THE PARTIES. |

| PARTIES | | AGREEMENT | EFFECTS OF THE CHANGE OF CONTROL CLAUSE |
|---|---|---|---|
| SUBSIDIARY | | | |
| AGUSTA SPA<br><br>**100% FINMECCANICA THROUGH AGUSTAWESTLAND NV** | **GENERAL ELECTRIC COMPANY (THROUGH THE AVIATION BUSINESS UNIT, MA, USA – "GE")** | **FRAMEWORK AGREEMENT RELATING TO THE SUPPLY OF HELICOPTER ENGINES** | **RENEGOTIATION OF AGREEMENTS IF CONTROL OF AGUSTA IS ACQUIRED BY A COMPETITOR OF GE; AGUSTA LIABLE FOR ANY BREACH OF CONFIDENTIALITY IN RELATION TO GE'S PROPRIETARY INFORMATION.** |
| **AGUSTA SPA**<br><br>100% FINMECCANICA THROUGH AGUSTAWESTLAND NV | BELL HELICOPETR TEXTRON | LICENSE FOR THE PRODUCTION AND SALE OF 412, 412SP, 412HP, 412EP-SAR, 212, 206A, 206B HELICOPTERS AND SPARE PARTS | TERMINATION OF THE AGREEMENT IN CASE OF TRANSFER OF OWNERSHIP OF AGUSTA TO A THIRD-PARTY HELICOPTER MANUFACTURER AND SELLER, EXCLUDING INTRA-GROUP TRANSFERS. |
| **AGUSTA SPA**<br>100% FINMECCANICA THROUGH AGUSTAWESTLAND NV | BOEING COMPANY DEFENCE & SPACE GROUP | AGREEMENT FOR THE REVISION AND SALE OF THE CH47C AND SPARE PARTS | EXPRESS CANCELLATION CLAUSE, EXCLUDING TRANSFER OF CONTROL WITHIN THE FINMECCANICA GROUP. |
| **AGUSTA SPA**<br>AGUSTA US INC<br>AGUSTAWESTLAND N.V.<br><br>100% FINMECCANICA THROUGH AGUSTAWESTLAND N.V. | BELL HELICOPTER TEXTRON INC | JV BELL/AGUSTA AEROSPACE COMPANY LLC FOR THE DEVELOPMENT OF THE TILTROTOR PROJECT, ALSO KNOW AS BA609 | IN CASE OF DE FACTO OR DE JURE TRANSFER OF CONTROL TO A COMPETITOR OF BELL OR ANY THIRD PARTY, BELL MAY WIND UP THE LLC;<br>IF BELL DECIDES TO NOT WIND UP THE LLC, IT MAY STIPULATE THAT CERTAIN RESEARCH PROJECTS AND CONFIDENTIAL INFORMATION/TECHNIQUES CANNOT BE TRANSFERRED TO THIRD PARTIES. |
| **AGUSTAWESTLAND NORTH AMERICA INC**<br><br>100% FINMECCANICA THROUGH AGUSTAWESTLAND NV | BELL HELICOPTER TEXTRON INC | JV AGUSTAWESTLAND BELL LLC FOR THE "VH71" PROGRAMME RELATING TO THE SUPPLY OF A FLEET OF AIRCRAFT FOR THE US PRESIDENT BASED ON THE "US101" HELLICOPTER | DISSOLUTION OF THE LLC AND END OF THE COLLABORATION BETWEEN AGUSTAWESTLAND, BELL AND THE LLC RELATING TO THE PROGRAMME. |
| **WING NED NV**<br><br>100% ALENIA AERONAUTICA | SUKHOI COMPANY | JV AGREEMENT CONCERNING THE DEFINITION OF THE GOVERNANCE RULES RELATING TO THE COMPANY SUPERJET | PURCHASE OPTION IN FAVOUR OF SUKHOI ON SHARES IN SUPERJET INTERNATIONAL SPA HELD BY WING NED N.V. AT A MARKET PRICE WHICH IS |

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| | | International SpA, company active in marketing regional jets | the lessor of fair market value and floor value (which corresponds to the total purchase price of shareholdings in Superjet International and in Sukhoi Aircraft Company –whoose stake is in the process of being acquired) and the total contributions paid by Alenia under the Funding Plan provided for under the General Agreement. |
| **Alenia North America Inc**<br><br>100% Finmeccanica through Alenia Aeronautica SpA | L3 Communications Integrated Systems L.P. | Agreement to set up a Limited Liability Company -- global military aircraft systems C27J aircraft | If a stake equal to or more than 50% of the stake of the LLC or assets are transferred to a competitor of the other party, the party not involved will be entitled to a purchase option at the market value on the other party's shareholding. |
| **Alenia North America Inc**<br><br>100% Finmeccanica through Alenia Aeronautica SpA | Vought Aircraft Industries Inc | Limited Liability Company Agree-ment for Global Aeronautica, LLC for the implementation of industrial activities relating to the Boeing 787 aeronautical programme | The change of control of Alenia North America Inc is considered a disposal of the shareholdings and requires the consent of Vought;<br>A change in control of Vought would allow Alenia North America Inc to insist that Vought buy Alenia's stake in Global Aeronautica, LLC. |
| **Ansaldobreda**<br>(100% Finmeccanica) as a member of the Trevi Consortium along with:<br>- Alstom Ferroviaria SpA<br>- Firema Trasporti SpA<br>- Bombardier Transportation Italia SpA | Trevi Consortium, which has a locomotive supply contract with Trenitalia SpA | Bylaws of the Trevi Consortium | The bylaws of the Trevi consortium stipulate that the shareholders' meeting can decide to exclude a member of the consortium. |
| **Ansaldobreda**<br><br>(100% Finmeccanica) | Bombardier Transportation GmbH | Cooperation Agreement concerning the joint development, manufacture and sale of the new high-speed train | In the case in which more than 50% of the share capital of one of the parties or its parent company is transferred to a competitor of the parties, or in the case of |

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| | | | MERGER OF ONE OF THE PARTIES WITH A COMPETITOR OR IN THE CASE OF THE TRANSFER OF THE ASSETS TO A COMPETITOR, THE PARTY NOT INVOLVED WILL BE ENTITLED TO TERMINATE THE CONTRAAT WITHIN 6 MONTHS OF THE EVENT. |
| **ANSALDO ENERGIA SPA**<br><br>100% FINMECCANICA | SIEMENS AKTIENGESELLSCHAFT | SUPPLY CONTRACT FOR TURBINE BLADES | EXPRESS CANCELLATION CLAUSE. |
| **ANSALDO STS SPA**<br><br>40.065% FINMECCANICA | NAPLES CITY COUNCIL | CONCESSION AGREEMENT FOR THE CONSTRUCTION OF LINE 6 OF THE METRO | TERMINATION OF THE CONTRACT IN CASE OF THE INCORPORATION OR MERGER WITH OTHER NON-GROUP COMPANIES. |
| **SELEX SAS LTD**<br><br>100% FINMECCANICA THROUGH SELEX SAS SPA | NORTHROP GRUMMAN | "MISSILE COUNTER MEASURE (INFRARED)" CONTRACT | TERMINATION OF THE CONTRACT OR ALTERNATIVELY A REQUEST FOR ADDITIONAL PERFORMANCE GUARANTEES, AT THE DISCRETION OF THE PARTY NOT SUBJECT TO A CHANGE IN CONTROL. |
| **DRS SYSTEMS MANAGEMENT LLC**<br><br>100% FINMECCANICA THROUGH **DRS TECNHOLOGIES** | SUNRBUST MANAGEMENT INC. | PARTNERSHIP AGREEMENT CONCERNING LAUREL TECHNOLOGIES, A COMPANY OPERATING IN THE CIRCUIT CARD AND CABLE ASSEMBLY SECTOR | RIGHT OF THE PARTY NOT SUBJECT TO A CHANGE OF CONTROL TO PURCHASE THE OTHER PARTY'S STAKE AT A PRICE EQUAL TO THE BOOK VALUE OF THE STAKE RECORDED BY THE OTHER PARTY. |
| **DRS C3 SYSTEMS LLC**<br><br>100% FINMECCANICA THROUGH **DRS TECNHOLOGIES** | THALES NORTH AMERCA INC. | JOINT VENTURE AGREEMENT CONCERNING DRS SONAR SYSTEMS LLC, A COMPANY OPERATING IN THE SONAR SECTOR | OPTION OF THE PARTY NOT SUBJECT TO A CHANGE OF CONTROL (I) TO PURCHASE THE STAKE OF THE OTHER PARTY AT THE MARKET PRICE AS DETERMINED BY AN EXPERT, OR (II) TO OFFER ITS STAKE AT A REASONABLE PRICE TO THE PARTY SUBJECT TO THE CHANGE OF CONTROL WHICH, IF IT REFUSES THE OFFER, WILL BE REQUIRED TO SELL ITS SKATE AT THE SAME PRICE (IN PROPORTION TO THE %AGE HELD) TO THE PARTY NOT SUBJECT TO A CHANGE OF CONTROL. |
| **DRS POWER & CONTROL TECHNOLOGIES INC** | ELLIOT COMPANY | JOINT VENURE AGREEMENT CONCERNING CANOPY TECHNOLOGIES LLC, A COMPANY OPERATING IN THE | RIGHT OF THE PARTY NOT SUBJECT TO A CHANGE OF CONTROL TO PURCHASE THE STAKE OF THE OTHER PARTY AT A PRICE EQUAL TO THE |

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| 100% FINMECCANICA THROUGH **DRS TECNHOLOGIES** | | MAGNET MACHINERY SECTOR | SHAREHOLDERS' EQUITY. |
| **MSSC COMPANY**<br><br>100% FINMECCANICA THROUGH **DRS TECNHOLOGIES** | THALES NEDERLAND BV | TECHNOLOGY TRANSFER AND LICENCE AGREEMENT | RIGHT TO TERMINATE THE CONTRACT |
| **DRS TECNHOLOGIES**<br><br>(100%) FINMECCANICA | FINMECCANICA - SOCIETÀ PER AZIONI | LOAN AGREEMENT INTENDED, AMONG OTHER THINGS, TO ALLOW DRS TO MAKE AN ACCELERATED REPAYMENT ON ITS BONDS DUE TO THE CHANGE OF CONTROL OF DRS THAT OCCURED FOLLOWING ITS ACQUISITION BY FINMECCANICA | IN CASE OF CHANGE OF CONTROL OF DRS, ACCELERATED REPAYMENT OF THE LOAN TO FINMECCANICA AND TERMINATION OF THE CONTRACT |

**m)** COMPENSATION FOR DIRECTORS IN CASE OF DISMISSAL OR REDUNDANCY WITHOUT JUST CAUSE OR TERMINATION OF EMPLOYMENT FOLLOWING A TAKEOVER BID.

No compensation is proposed for directors in the case of termination following a takeover bid.

As to the Chairman and Chief Executive Officer, P.F. Guarguaglini, in the event his mandate is terminated early for any reason (except for voluntary resignation), he will be paid a scaled severance indemnity, equal to, respectively, 36, 24 and 12 twelfths of his annual compensation based on whether the termination occurs during the first, second or third year of his mandate.

For this purpose, annual compensation consists of a fixed portion (paid pursuant to Art. 2389 of the Italian Civil Code) and a variable portion comprised of the MBO and the incentive plans, taking as reference, for the measurement of the variable portion, the average of the compensation effectively received or accrued for the last two years.

In addition, in the event of early termination of his position on the Board for reasons other than voluntary resignation without cause, the Chairman and Chief Executive Officer will receive an amount equal to 60% of the fixed component of his gross compensation that he had the right to receive at the end of the first and the second year of his mandate and had not yet received at the date of early termination of the relationship.

For the Board of Directors
the Chairman and Chief Executive Officer
(Pier Francesco Guarguaglini)

# ATTACHMENT 2: LIST OF EQUITY INVESTMENTS PURSUANT TO ARTICLE 125 OF CONSOB RESOLUTION NO. 11971

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 1 | 179CENTELEC Sas | FRANCE | 21,000 | 21,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 2 | 3083683 NOVA SCOTIA LIMITED | CANADA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 3 | ABRUZZO ENGINEERING SOCIETA` CONSORTILE PER AZIONI | ITALY | 30,000 | 30,000 | SELEX Service Management SpA | Voting right ownership |
| 4 | ABS TECHNOLOGY SPA | ITALY | 60,000 | 60,000 | AMTEC SpA | Voting right ownership |
| 5 | ABU DHABI SYSTEMS INTEGRATION (ADSI) LLC | UNITED ARAB EMIRATES | 43,043 | 43,043 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 6 | ADVANCED AIR TRAFFIC SYSTEMS Sdn Bhd | MALAYSIA | 30,000 | 30,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 7 | AERIMPIANTI SpA | ITALY | 100,000 | 100,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Pledge |
| 8 | AEROMECCANICA SA | LUXEMBOURG | 99,967 | | | Voting right ownership |
| 9 | AGUSTA AEROSPACE CORPORATION | DELAWARE - USA | 100,000 | 100,000 | AGUSTA SpA | Voting right ownership |
| 10 | AGUSTA AEROSPACE SERVICES - A.A.S. | BELGIUM | 98,000 | 98,000 | AGUSTA SpA | Voting right ownership |
| 11 | AGUSTA HOLDING BV | NETHERLANDS | 100,000 | 100,000 | AgustaWestland NV | Voting right ownership |
| 12 | AGUSTA SpA | ITALY | 100,000 | 100,000 | AGUSTA HOLDING BV | Voting right ownership |
| 13 | AGUSTA U.S. Inc. | DELAWARE - USA | 100,000 | 100,000 | AGUSTA SpA | Voting right ownership |
| 14 | AGUSTAWESTLAND AUSTRALIA PTY LTD | AUSTRALIA | 100,000 | 100,000 | AgustaWestland NV | Voting right ownership |
| 15 | AGUSTAWESTLAND DO BRASIL LTDA | BRAZIL | 100,000 | 99,000 | AGUSTA SpA | Voting right ownership |
| | | | | 1,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 16 | AgustaWestland Holdings Limited | UNITED KINGDOM | 100,000 | 100,000 | AgustaWestland NV | Voting right ownership |
| 17 | AgustaWestland Inc | DELAWARE - USA | 100,000 | 100,000 | AgustaWestland North America Inc | Voting right ownership |
| 18 | AGUSTAWESTLAND INTERNATIONAL LIMITED | UNITED KINGDOM | 100,000 | 50,000 | AGUSTA SpA | Voting right ownership |
| | | | | 50,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 19 | AGUSTAWESTLAND MALAYSIA SDN. BHD | MALAYSIA | 100,000 | 100,000 | AGUSTA SpA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 20 | AgustaWestland North America Inc | DELAWARE - USA | 100,000 | 100,000 | AgustaWestland Holdings Limited | Voting right ownership |
| 21 | AgustaWestland NV | NETHERLANDS | 100,000 | | | Voting right ownership |
| 22 | AGUSTAWESTLAND PORTUGAL SA | PORTUGAL | 100,000 | 100,000 | AgustaWestland NV | Voting right ownership |
| 23 | AgustaWestland Properties Limited | UNITED KINGDOM | 100,000 | 100,000 | AgustaWestland Holdings Limited | Voting right ownership |
| 24 | AgustaWestlandBell LLC | DELAWARE - USA | 51,000 | 51,000 | AgustaWestland North America Inc | Voting right ownership |
| 25 | ALENIA AERMACCHI SpA | ITALY | 99,998 | 7,229 | ALENIA AERMACCHI SpA | Voting right ownership |
| | | | | 92,769 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 26 | ALENIA AERONAUTICA SpA | ITALY | 100,000 | | | Voting right ownership |
| 27 | ALENIA AERONAVALI SpA | ITALY | 100,000 | 100,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 28 | ALENIA COMPOSITE SPA | ITALY | 97,000 | 97,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 29 | ALENIA HELLAS SA | GREECE | 100,000 | 100,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 30 | ALENIA IMPROVEMENT SPA | ITALY | 98,000 | 98,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 31 | ALENIA NORTH AMERICA DEFENSE LLC | DELAWARE - USA | 100,000 | 100,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 32 | ALENIA NORTH AMERICA, INC. | DELAWARE - USA | 88,409 | 88,409 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 33 | ALENIA NORTH AMERICA-CANADA, CO. | CANADA | 100,000 | 100,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 34 | 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 |
| 35 | ALIFANA - Societa` Consortile a responsabilita` limitata | ITALY | 65,850 | 65,850 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 36 | ALIFANA DUE - Societa` Consortile a r.l. | ITALY | 53,340 | 53,340 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 37 | ALLIANCE GROUND SURVEILLANCE INDUSTRIES GMBH (in liquidazione) | GERMANY | 10,239 | 10,239 | GALILEO AVIONICA SpA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 38 | AMSH B.V. | NETHERLANDS | 50,000 | | | Voting right ownership |
| 39 | AMTEC SpA | ITALY | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 40 | ANSALDO ARGENTINA SA | ARGENTINA | 99,993 | 99,993 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 41 | ANSALDO ELECTRIC DRIVES SpA | ITALY | 100,000 | 100,000 | ANSALDO RICERCHE SpA | Voting right ownership |
| 42 | ANSALDO EMIT SCRL | ITALY | 50,000 | 50,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 43 | ANSALDO ENERGIA SpA | ITALY | 100,000 | | | Voting right ownership |
| 44 | ANSALDO ENERGY Inc | DELAWARE - USA | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 45 | ANSALDO ESG AG | SWITZERLAND | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 46 | ANSALDO FUEL CELLS SpA | ITALY | 94,370 | 94,370 | ANSALDO ENERGIA SpA | Voting right ownership |
| 47 | ANSALDO NUCLEARE SpA | ITALY | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 48 | ANSALDO RAILWAY SYSTEM TECHNICAL SERVICE LLC | CHINA | 100,000 | 100,000 | ANSALDO SEGNALAMENTO FERROVIARIO SpA | Voting right ownership |
| 49 | ANSALDO RICERCHE SpA | ITALY | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 50 | ANSALDO SEGNALAMENTO FERROVIARIO SpA | ITALY | 100,000 | 100,000 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 51 | ANSALDO SIGNAL N.V. (in liquidazione) | NETHERLANDS | 100,000 | 100,000 | ANSALDO STS SpA | Voting right ownership |
| 52 | ANSALDO STS AUSTRALIA PTY Ltd | AUSTRALIA | 100,000 | 100,000 | ANSALDO STS SpA | Voting right ownership |
| 53 | ANSALDO STS BEIJING LTD | CHINA | 80,000 | 80,000 | ANSALDO STS FRANCE SA | Voting right ownership |
| 54 | ANSALDO STS DEUTSCHLAND GMBH | GERMANY | 100,000 | 100,000 | ANSALDO SEGNALAMENTO FERROVIARIO SpA | Voting right ownership |
| 55 | ANSALDO STS ESPANA SA | SPAIN | 100,000 | 100,000 | ANSALDO STS FRANCE SA | Voting right ownership |
| 56 | ANSALDO STS FINLAND O.y. | FINLAND | 100,000 | 100,000 | ANSALDO STS SWEDEN AB | Voting right ownership |
| 57 | ANSALDO STS FRANCE SA | FRANCE | 100,000 | 99,999 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right ownership |
| | | | | 0,001 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right as per contractual commitments |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 58 | ANSALDO STS HONG KONG Ltd | CHINA | 100,000 | 99,999 | ANSALDO STS FRANCE SA | Voting right ownership |
| | | | | 0,001 | ANSALDO STS FRANCE SA | Voting right as per contractual commitments |
| 59 | ANSALDO STS IRELAND LIMITED | IRELAND | 100,000 | 99,999 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right ownership |
| | | | | 0,001 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 60 | ANSALDO STS MALAYSIA SDN BHD | MALAYSIA | 100,000 | 100,000 | ANSALDO STS AUSTRALIA PTY Ltd | Voting right ownership |
| 61 | ANSALDO STS SOUTHERN AFRICA (PTY) LTD | BOTSWANA | 100,000 | 100,000 | ANSALDO STS AUSTRALIA PTY Ltd | Voting right ownership |
| 62 | ANSALDO STS SWEDEN AB | SWEDEN | 100,000 | 100,000 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right ownership |
| 63 | ANSALDO STS TRANSPORTATION SYSTEMS INDIA PRIVATE LTD | INDIA | 100,000 | 0,001 | ANSALDO STS SpA | Voting right ownership |
| | | | | 99,999 | ANSALDO STS AUSTRALIA PTY Ltd | Voting right ownership |
| 64 | ANSALDO STS UK LTD. | UNITED KINGDOM | 100,000 | 100,000 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right ownership |
| 65 | ANSALDO STS-INFRADEV SOUTH AFRICA (PTY) LTD | SOUTH AFRICA | 50,700 | 50,700 | ANSALDO STS AUSTRALIA PTY Ltd | Voting right ownership |
| 66 | ANSALDO THOMASSEN B.V. | NETHERLANDS | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 67 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | ITALY | 100,000 | 100,000 | ANSALDO STS SpA | Voting right ownership |
| 68 | ANSALDOBREDA ESPANA SLU. | SPAIN | 100,000 | 100,000 | ANSALDOBREDA SpA | Voting right ownership |
| 69 | ANSALDOBREDA SpA | ITALY | 100,000 | | | Voting right ownership |
| 70 | ANSALDOBREDA, Inc. | USA | 100,000 | 100,000 | ANSALDOBREDA SpA | Voting right ownership |
| 71 | ANSERV SRL | ROMANIA | 100,000 | 100,000 | ANSALDO NUCLEARE SpA | Voting right ownership |
| 72 | ASIA POWER PROJECTS PRIVATE LTD | INDIA | 100,000 | 100,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 73 | AURENSIS S.L | SPAIN | 100,000 | 100,000 | TELESPAZIO SpA | Voting right ownership |
| 74 | AUTOMATION INTEGRATED SOLUTIONS SpA | ITALY | 40,000 | 40,000 | FATA SPA | Voting right ownership |
| 75 | AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA | FRANCE | 99,999 | 0,001 | ANSALDO STS HONG KONG Ltd | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| | | | | 99,994 | ANSALDO STS FRANCE SA | Voting right ownership |
| | | | | 0,004 | ANSALDO STS FRANCE SA | Voting right as per contractual commitments |
| 76 | AVIATION TRAINING INTERNATIONAL LIMITED | UNITED KINGDOM | 50,000 | 50,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 77 | BCV INVESTMENT SCA | LUXEMBOURG | 14,321 | 14,321 | AEROMECCANICA SA | Voting right ownership |
| 78 | BCV MANAGEMENT SA | LUXEMBOURG | 14,999 | 14,999 | AEROMECCANICA SA | Voting right ownership |
| 79 | BELL AGUSTA AEROSPACE COMPANY LLC | DELAWARE - USA | 40,000 | 40,000 | AGUSTA U.S. Inc. | Voting right ownership |
| 80 | BREDAMENARINIBUS SpA | ITALY | 100,000 | | | Voting right ownership |
| 81 | BRITISH HELICOPTERS LIMITED | UNITED KINGDOM | 100,000 | 100,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 82 | 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 |
| 83 | CANOPY TECHNOLOGIES, LLC | DELAWARE - USA | 50,000 | 50,000 | DRS POWER & CONTROL TECHNOLOGIES, INC. | Voting right ownership |
| 84 | CARDPRIZE Two Limited | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sensors and Airborne Systems Ltd | Voting right ownership |
| 85 | CCRT SISTEMI SpA (in fall) | ITALY | 30,340 | 30,340 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 86 | COMLENIA Sendirian Berhad | MALAYSIA | 30,000 | 30,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 87 | CONSORZIO START Societa` per Azioni | ITALY | 40,000 | 40,000 | SPACE SOFTWARE ITALIA SpA | Voting right ownership |
| 88 | CONTACT SRL | ITALY | 30,000 | 30,000 | ANSALDOBREDA SpA | Voting right ownership |
| 89 | Datamat Suisse SA (in liquidazione) | SWITZERLAND | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 90 | DAVIES INDUSTRIAL COMMUNICATIONS Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Communications Ltd | Voting right ownership |
| 91 | DIGINT SRL | ITALY | 49,000 | 49,000 | FINMECCANICA GROUP SERVICES SPA | Voting right ownership |
| 92 | DRS C3 SYSTEMS, INC | USA | 100,000 | 100,000 | TECH-SYM CORPORATION | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 93 | DRS CODEM SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS SIGNAL SOLUTIONS, INC. | Voting right ownership |
| 94 | DRS CONSOLIDATED CONTROLS INC | USA | 100,000 | 100,000 | DRS POWER & CONTROL TECHNOLOGIES, INC. | Voting right ownership |
| 95 | DRS DATA & IMAGING SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 96 | DRS HOMELAND SECURITY SOLUTIONS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 97 | DRS INTEGRATED DEFENSE SOLUTIONS, LLC | USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 98 | DRS INTELLIGENCE & AVIONIC SOLUTIONS, INC. | USA | 100,000 | 100,000 | DRS TACTICAL SYSTEMS GLOBAL SERVICES, INC. | Voting right ownership |
| 99 | DRS INTERNATIONAL, INC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 100 | DRS MOBILE ENVIRONMENTAL SYSTEMS CO. | USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 101 | DRS POWER & CONTROL TECHNOLOGIES, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 102 | DRS POWER TECHNOLOGY, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS POWER & CONTROL TECHNOLOGIES, INC. | Voting right ownership |
| 103 | DRS SENSORS & TARGETING SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 104 | DRS SIGNAL SOLUTIONS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 105 | DRS SONAR SYSTEMS, LLC | DELAWARE - USA | 51,000 | 51,000 | DRS C3 SYSTEMS, INC | Voting right ownership |
| 106 | DRS SURVEILLANCE SUPPORT SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 107 | DRS SUSTAINMENT SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 108 | DRS SYSTEMS MANAGEMENT, LLC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 109 | DRS SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 110 | DRS TACTICAL SYSTEMS GLOBAL SERVICES, INC. | USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 111 | DRS TACTICAL SYSTEMS, INC. | USA | 100,000 | 100,000 | DRS TACTICAL SYSTEMS GLOBAL SERVICES, INC. | Voting right ownership |
| 112 | DRS TECHNICAL SERVICES GMBH & CO. KG | GERMANY | 100,000 | 100,000 | DRS TECHNICAL SERVICES, INC. | Voting right ownership |
| 113 | DRS TECHNICAL SERVICES, INC. | USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 114 | DRS TECHNOLOGIES CANADA, INC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 115 | DRS TECHNOLOGIES CANADA, LTD | CANADA | 100,000 | 100,000 | DRS TECHNOLOGIES CANADA, INC | Voting right ownership |
| 116 | DRS TECHNOLOGIES UK LIMITED | UNITED KINGDOM | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 117 | DRS TECHNOLOGIES VERWALTUNGS GMBH | GERMANY | 100,000 | 100,000 | DRS TECHNICAL SERVICES, INC. | Voting right ownership |
| 118 | DRS TECHNOLOGIES, INC. | DELAWARE - USA | 100,000 | 100,000 | MECCANICA HOLDINGS USA, INC. | Voting right ownership |
| 119 | DRS TEST & ENERGY MANAGEMENT, LLC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 120 | DRS UNMANNED TECHNOLOGIES, INC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 121 | e - GEOS SpA | ITALY | 75,000 | 2,000 | EURIMAGE SpA | Voting right ownership |
| | | | | 73,000 | TELESPAZIO SpA | Voting right ownership |
| 122 | E-SECURITY SRL | ITALY | 79,688 | 79,688 | ELSAG DATAMAT SPA | Voting right ownership |
| 123 | ECOSEN CA | VENEZUELA | 48,000 | 48,000 | ANSALDO STS FRANCE SA | Voting right ownership |
| 124 | ED CONTACT SRL | ITALY | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 125 | ELECTRON ITALIA SRL | ITALY | 80,000 | 80,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 126 | ELETTRONICA SpA | ITALY | 31,333 | | | Voting right ownership |
| 127 | ELSACOM BULGARIA AD (in liquidazione) | BULGARIA | 90,000 | 90,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 128 | ELSACOM HUNGARIA KFT | HUNGARY | 100,000 | 100,000 | ELSACOM NV | Voting right ownership |
| 129 | ELSACOM NV | NETHERLANDS | 100,000 | | | Voting right ownership |
| 130 | ELSACOM SLOVAKIA SRO | SLOVAKIA | 100,000 | 100,000 | ELSACOM NV | Voting right ownership |
| 131 | ELSACOM SpA | ITALY | 100,000 | 100,000 | ELSACOM NV | Voting right ownership |
| 132 | ELSACOM UKRAINE Joint Stock Company | UKRAINE | 49,000 | 49,000 | ELSACOM NV | Voting right ownership |
| 133 | ELSAG DATAMAT SPA | ITALY | 100,000 | | | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 134 | ELSAG Eastern Europe Srl (in liquidazione) | ROMANIA | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 135 | ELSAG NORTH AMERICA LLC | USA | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 136 | ENERGEKO GAS ITALIA SRL | ITALY | 20,990 | 20,990 | ANSALDO ENERGIA SpA | Voting right ownership |
| 137 | ENGINEERED COIL COMPANY | USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 138 | ENGINEERED ELECTRIC COMPANY | USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 139 | ENGINEERED SUPPORT SYSTEMS, INC | USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 140 | ESSI RESOURCES, LLC | USA | 100,000 | 100,000 | DRS SUSTAINMENT SYSTEMS, INC. | Voting right ownership |
| 141 | EURIMAGE SpA | ITALY | 51,000 | 51,000 | TELESPAZIO SpA | Voting right ownership |
| 142 | EURO PATROL AIRCRAFT GmbH (in liquidazione) | GERMANY | 50,000 | 50,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 143 | EUROFIGHTER AIRCRAFT MANAGEMENT Gmbh | GERMANY | 21,000 | 21,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 144 | EUROFIGHTER INTERNATIONAL Ltd | UNITED KINGDOM | 21,000 | 21,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 145 | EUROFIGHTER JAGDFLUGZEUG Gmbh | GERMANY | 21,000 | 21,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 146 | EUROFIGHTER SIMULATION SYSTEMS Gmbh | GERMANY | 24,000 | 24,000 | GALILEO AVIONICA SpA | Voting right ownership |
| 147 | EUROMAP SATELLITENDATEN-VERTRIEBSGESELLSCHAFT MBH | GERMANY | 100,000 | 100,000 | GAF A.G. | Voting right ownership |
| 148 | EUROMIDS SAS | FRANCE | 25,000 | 25,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 149 | EUROPEA MICROFUSIONI AEROSPAZIALI SpA | ITALY | 49,000 | | | Voting right ownership |
| 150 | EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH | GERMANY | 18,939 | | | Voting right ownership |
| 151 | EUROSYSNAV SAS | FRANCE | 50,000 | | | Voting right ownership |
| 152 | FATA DTS SpA (in liquidazione) | ITALY | 100,000 | 100,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 153 | FATA ENGINEERING SpA | ITALY | 100,000 | 100,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 154 | FATA GROUP SpA (in liquidazione) | ITALY | 100,000 | 100,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 155 | FATA HUNTER INC. | USA | 100,000 | 100,000 | FATA SPA | Voting right ownership |
| 156 | FATA HUNTER INDIA PVT LTD | INDIA | 100,000 | 100,000 | FATA SPA | Voting right ownership |
| 157 | FATA LOGISTIC SYSTEMS SpA | ITALY | 100,000 | 100,000 | FATA SPA | Voting right ownership |
| 158 | FATA SPA | ITALY | 100,000 | | | Voting right ownership |
| 159 | FEDER PETROLI GREEN ENERGY SRL | ITALY | 20,000 | 20,000 | FATA SPA | Voting right ownership |
| 160 | FILEAS SAS | FRANCE | 85,000 | 85,000 | TELESPAZIO SpA | Voting right ownership |
| 161 | FINMECCANICA CONSULTING SRL | ITALY | 100,000 | | | Voting right ownership |
| 162 | FINMECCANICA FINANCE SA | LUXEMBOURG | 99,997 | 26,358 | FINMECCANICA GROUP SERVICES SPA | Voting right ownership |
| 163 | FINMECCANICA GROUP REAL ESTATE SPA | ITALY | 100,000 | | | Voting right ownership |
| 164 | FINMECCANICA GROUP SERVICES SPA | ITALY | 100,000 | | | Voting right ownership |
| 165 | FINMECCANICA NORTH AMERICA Inc. | DELAWARE - USA | 100,000 | | | Voting right ownership |
| 166 | FINMECCANICA UK LIMITED | UNITED KINGDOM | 100,000 | | | Voting right ownership |
| 167 | FOSCAN srl (in fall) | ITALY | 20,000 | 20,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 168 | GAF A.G. | GERMANY | 100,000 | 100,000 | TELESPAZIO SpA | Voting right ownership |
| 169 | GALILEO AVIONICA SpA | ITALY | 100,000 | 100,000 | SELEX Sensors and Airborne Systems SpA | Voting right ownership |
| 170 | GALILEO INDUSTRIES S.A | BELGIUM | 18,939 | | | Voting right ownership |
| 171 | GLOBAL AERONAUTICA, LLC | DELAWARE - USA | 50,000 | 50,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 172 | GLOBAL MILITARY AIRCRAFT SYSTEMS, LLC | DELAWARE - USA | 51,000 | 51,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 173 | GROUPEMENT IMMOBILIER AERONAUTIQUE - GIA SA | FRANCE | 20,000 | 20,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 174 | GRUPPO AURENSIS SA DE C.V. | MEXICO | 100,000 | 100,000 | AURENSIS S.L | Voting right ownership |
| 175 | HR GEST SpA | ITALY | 30,000 | 30,000 | ELSAG DATAMAT SPA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 176 | I.M. INTERMETRO SpA | ITALY | 33,332 | 16,666 | ANSALDOBREDA SpA | Voting right ownership |
| | | | | 16,666 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 177 | IAMCO-INTERNATIONAL AEROSPACE MANAGEMENT COMPANY scrl | ITALY | 20,000 | 20,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 178 | ICARUS SCpA | ITALY | 49,000 | 49,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 179 | IMMOBILIARE CASCINA SRL | ITALY | 100,000 | 100,000 | FINMECCANICA GROUP SERVICES SPA | Voting right ownership |
| 180 | IMMOBILIARE FONTEVERDE Srl | ITALY | 60,000 | 60,000 | ELECTRON ITALIA SRL | Voting right ownership |
| 181 | INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SpA (in amministrazione straordinaria) | ITALY | 30,982 | | | Voting right ownership |
| 182 | INFOLOGISTICA SPA | ITALY | 11,111 | 11,111 | SISTEMI & TELEMATICA SPA | Voting right ownership |
| 183 | Innovazione e Progetti Societa` Consortile per Azioni (in liquidazione) | ITALY | 15,000 | 15,000 | SELEX Service Management SpA | Voting right ownership |
| 184 | INTERNATIONAL LAND SYSTEMS INC. | DELAWARE - USA | 28,365 | 28,365 | GAF A.G. | Voting right ownership |
| 185 | INTERNATIONAL METRO SERVICE SRL | ITALY | 49,000 | 49,000 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 186 | ISAF - INIZIATIVE PER I SISTEMI AVANZATI E FORNITURE SRL | ITALY | 100,000 | 100,000 | TELESPAZIO SpA | Voting right ownership |
| 187 | ITALDATA INGEGNERIA DELL´IDEA SpA | ITALY | 51,000 | 51,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 188 | ITP srl (in fallimento) | ITALY | 13,584 | | | Voting right ownership |
| 189 | IVECO FIAT - OTO MELARA Societa` Consortile a responsabilita` limitata | ITALY | 50,000 | 50,000 | OTO MELARA SpA | Voting right ownership |
| 190 | Jiangxi Changhe Agusta Helicopter Co. Ltd | CHINA | 40,000 | 40,000 | AGUSTA SpA | Voting right ownership |
| 191 | LARIMART SpA | ITALY | 60,000 | 60,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 192 | LAUREL TECHNOLOGIES PARTNERSHIP | DELAWARE - USA | 80,000 | 80,000 | DRS SYSTEMS MANAGEMENT, LLC | Voting right ownership |
| 193 | LIBYAN ITALIAN ADVANCED TECHNOLOGY COMPANY | LIBYA | 50,000 | 25,000 | AgustaWestland NV | Voting right ownership |
| 194 | LMATTS LLC | GEORGIA - USA | 50,000 | 50,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 195 | MACCHI HUREL DUBOIS SAS | FRANCE | 50,000 | 50,000 | ALENIA AERMACCHI SpA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 196 | MARS-MICROGRAVITY ADVANCED RESEARCH AND USER SUPPORT CENTER srl | ITALY | 100,000 | 100,000 | TELESPAZIO SpA | Voting right ownership |
| 197 | MECCANICA HOLDINGS USA, INC. | USA | 100,000 | | | Voting right ownership |
| 198 | MECFINT (JERSEY) SA | LUXEMBOURG | 99,999 | 99,999 | FINMECCANICA FINANCE SA | Voting right ownership |
| 199 | MEDESSAT SAS. | FRANCE | 28,801 | 28,801 | TELESPAZIO FRANCE Sas | Voting right ownership |
| 200 | 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 |
| 201 | METRO C S.C.P.A. | ITALY | 14,000 | 14,000 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 202 | MIDSCO INC | USA | 18,000 | 18,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 203 | MSSC COMPANY | PENNSYLVANIA | 51,000 | 51,000 | DRS C3 SYSTEMS, INC | Voting right ownership |
| 204 | MUSINET ENGINEERING SpA | ITALY | 49,000 | 49,000 | FATA SPA | Voting right ownership |
| 205 | N.H. INDUSTRIES SARL | FRANCE | 32,000 | 32,000 | AGUSTA SpA | Voting right ownership |
| 206 | N2 IMAGING SYSTEMS, LLC | DELAWARE - USA | 30,000 | 30,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 207 | NAC scrl | ITALY | 81,540 | 81,540 | AERIMPIANTI SpA | Voting right ownership |
| 208 | NAHUELSAT SA | ARGENTINA | 33,332 | | | Voting right ownership |
| 209 | NASIF scrl | ITALY | 12,000 | 12,000 | AERIMPIANTI SpA | Voting right ownership |
| 210 | Net Service SRL | ITALY | 70,000 | 70,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 211 | NGL Prime SPA | ITALY | 30,000 | | | Voting right ownership |
| 212 | NICCO COMMUNICATIONS SAS | FRANCE | 50,000 | 50,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 213 | NIGHT VISION SYSTEMS, LLC | DELAWARE - USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 214 | NNS - SOCIETE´ DE SERVICE POUR REACTEUR RAPIDE snc | FRANCE | 40,000 | 40,000 | ANSALDO NUCLEARE SpA | Voting right ownership |
| 215 | NOVACOM SERVICES SA | FRANCE | 39,730 | 39,730 | TELESPAZIO SpA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 216 | ORIZZONTE - Sistemi Navali SpA | ITALY | 49,000 | | | Voting right ownership |
| 217 | OTE M | RUSSIAN FEDERATION | 100,000 | 100,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 218 | OTE MOBILE TECHNOLOGIES LTD | UNITED KINGDOM | 100,000 | 100,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 219 | OTO MELARA IBERICA SA | SPAIN | 100,000 | 100,000 | OTO MELARA SpA | Voting right ownership |
| 220 | OTO MELARA NORTH AMERICA INC. | DELAWARE - USA | 100,000 | 100,000 | OTO MELARA SpA | Voting right ownership |
| 221 | OTO MELARA SpA | ITALY | 100,000 | | | Voting right ownership |
| 222 | PANAVIA AIRCRAFT Gmbh | GERMANY | 15,000 | 15,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 223 | PCA ELECTRONIC TEST LTD | UNITED KINGDOM | 100,000 | 100,000 | DRS SUSTAINMENT SYSTEMS, INC. | Voting right ownership |
| 224 | PEGASO-Societa` consortile a responsabilita` limitata | ITALY | 46,870 | 46,870 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 225 | PIVOTAL POWER, INC. | CANADA | 100,000 | 100,000 | 3083683 NOVA SCOTIA LIMITED | Voting right ownership |
| 226 | POLARIS SRL | ITALY | 50,000 | 50,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 227 | QUADRICS LTD | UNITED KINGDOM | 100,000 | 100,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 228 | 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 SRL | Voting right ownership |
| 229 | S.C. ELETTRA COMMUNICATIONS SA | ROMANIA | 50,500 | 1,500 | SELEX Communications Romania SRL | Voting right ownership |
| | | | | 49,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 230 | SAITECH SpA (in fall) | ITALY | 40,000 | 40,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 231 | SAN GIORGIO SA (in liquidazione) | FRANCE | 99,969 | 99,969 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 232 | SAPHIRE International Aviation & ATC Engineering Co. Ltd | CHINA | 65,000 | 65,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 233 | SCUOLA ICT SRL | ITALY | 20,000 | | | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 234 | SECBAT-SOC EUROPEENNE DE CONSTRUCTION DE L`AVION BREGUET ATLANTIC SARL | FRANCE | 13,550 | 13,550 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 235 | SEICOS SPA | ITALY | 100,000 | | | Voting right ownership |
| 236 | SEL PROC SOCIETA' CONSORTILE A RESPONSABILITA` LIMITATA | ITALY | 100,000 | 30,000 | SEICOS SPA | Voting right ownership |
| | | | | 70,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 237 | SELENIA MARINE COMPANY Ltd. (in liquidazione) | UNITED KINGDOM | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 238 | SELENIA MOBILE SPA | ITALY | 100,000 | 100,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 239 | SELEX Communications do Brasil Ltda | BRAZIL | 100,000 | 0,199 | AMTEC SpA | Voting right ownership |
| | | | | 99,801 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 240 | SELEX COMMUNICATIONS SpA | ITALY | 100,000 | | | Voting right ownership |
| 241 | SELEX Communications (International) Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 242 | SELEX Communications Gmbh | GERMANY | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 243 | SELEX Communications Holdings Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 244 | SELEX Communications Inc. | CALIFORNIA -USA | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 245 | SELEX Communications Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 246 | SELEX Communications Romania SRL | ROMANIA | 99,976 | 99,976 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 247 | SELEX Communications Secure Systems Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Communications Holdings Ltd | Voting right ownership |
| 248 | 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 |
| 249 | SELEX PENSION SCHEME (TRUSTEE) LIMITED | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sensors and Airborne Systems Ltd | Voting right ownership |
| 250 | SELEX Sensors and Airborne Systems (Projects) Ltd | UNITED KINGDOM | 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 |
|---|---|---|---|---|---|---|
| 251 | SELEX SENSORS AND AIRBORNE SYSTEMS (US) Inc. | DELAWARE - USA | 100,000 | 100,000 | SELEX Sensors and Airborne Systems Ltd | Voting right ownership |
| 252 | SELEX Sensors and Airborne Systems Electro Optics (Overseas) Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sensors and Airborne Systems Ltd | Voting right ownership |
| 253 | SELEX Sensors and Airborne Systems InfraRed Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sensors and Airborne Systems Ltd | Voting right ownership |
| 254 | SELEX Sensors and Airborne Systems Ltd | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sensors and Airborne Systems SpA | Voting right ownership |
| 255 | SELEX Sensors and Airborne Systems SpA | ITALY | 100,000 | | | Voting right ownership |
| 256 | SELEX Service Management SpA | ITALY | 100,000 | | | Voting right ownership |
| 257 | SELEX Sistemi Integrati de Venezuela SA | VENEZUELA | 100,000 | 100,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 258 | SELEX Sistemi Integrati GmBH | GERMANY | 100,000 | 100,000 | SELEX SYSTEMS INTEGRATION LTD | Voting right ownership |
| 259 | SELEX Sistemi Integrati Inc. | DELAWARE - USA | 100,000 | 100,000 | SELEX SYSTEMS INTEGRATION LTD | Voting right ownership |
| 260 | SELEX Sistemi Integrati SPA | ITALY | 100,000 | | | Voting right ownership |
| 261 | SELEX SYSTEMS INTEGRATION LTD | UNITED KINGDOM | 100,000 | 100,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 262 | SERVICIOS TECNICOS Y ESPECIALIZADOS Y DE INFORMACION SA DE CV | MEXICO | 100,000 | 100,000 | AURENSIS S.L | Voting right ownership |
| 263 | SESAMO SECURITY AND SAFETY MOBILITY SCARL | ITALY | 19,000 | 2,000 | ANSALDO SEGNALAMENTO FERROVIARIO SpA | Voting right ownership |
| | | | | 17,000 | SESM SOLUZIONI EVOLUTE PER LA SISTEMATICA E I MODELLI SOCIETA` CONSORTILE A RESPONSABILITA` LIMITATA | Voting right ownership |
| 264 | SESM SOLUZIONI EVOLUTE PER LA SISTEMATICA E I MODELLI SOCIETA` CONSORTILE A RESPONSABILITA` LIMITATA | ITALY | 100,000 | 10,000 | GALILEO AVIONICA SpA | Voting right ownership |
| | | | | 90,000 | SELEX Sistemi Integrati SPA | Voting right ownership |
| 265 | SEVERNYJ AVTOBUS ZAO | RUSSIAN FEDERATION | 35,000 | 35,000 | ANSALDOBREDA SpA | Voting right ownership |
| 266 | SIIT Societa` Consortile per Azioni | ITALY | 16,200 | 2,300 | ANSALDO ENERGIA SpA | Voting right ownership |
| | | | | 2,300 | ANSALDO SEGNALAMENTO FERROVIARIO SpA | Voting right ownership |
| | | | | 4,700 | ELSAG DATAMAT SPA | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| | | | | 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 |
| 267 | SIRIO PANEL SPA | ITALY | 93,000 | 93,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |
| 268 | SISTEMI & TELEMATICA SPA | ITALY | 92,793 | 92,793 | ELSAG DATAMAT SPA | Voting right ownership |
| 269 | SISTEMI DINAMICI SPA | ITALY | 40,000 | 40,000 | AGUSTA SpA | Voting right ownership |
| 270 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | ITALY | 100,000 | | | Voting right ownership |
| 271 | SOGELI - Societa` di Gestione di Liquidazioni SpA | ITALY | 100,000 | 100,000 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 272 | SOSTAR GMBH (in liquidazione) | GERMANY | 28,200 | 28,200 | GALILEO AVIONICA SpA | Voting right ownership |
| 273 | SPACE SOFTWARE ITALIA SpA | ITALY | 100,000 | 100,000 | ELSAG DATAMAT SPA | Voting right ownership |
| 274 | STMicroelectronics Holding NV | NETHERLANDS | 20,000 | | | Voting right ownership |
| 275 | SUPERJET INTERNATIONAL SPA | ITALY | 51,000 | 51,000 | WING NED BV | Voting right ownership |
| 276 | T-S HOLDING CORPORATION | TEXAS - USA | 100,000 | 100,000 | TECH-SYM CORPORATION | Voting right ownership |
| 277 | TCAR Industries GmbH (in liquidazione) | GERMANY | 16,000 | 16,000 | GALILEO AVIONICA SpA | Voting right ownership |
| 278 | TECH-SYM CORPORATION | USA | 100,000 | 100,000 | DRS TECHNOLOGIES, INC. | Voting right ownership |
| 279 | TECNOSSAN SpA (in fall) | ITALY | 12,328 | 12,328 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 280 | TELBIOS SpA | ITALY | 32,860 | 32,860 | TELESPAZIO SpA | Voting right ownership |
| 281 | TELESPAZIO ARGENTINA SA | ARGENTINA | 100,000 | 5,000 | TELESPAZIO BRASIL SA | Voting right ownership |
| | | | | 95,000 | TELESPAZIO SpA | Voting right ownership |
| 282 | TELESPAZIO BRASIL SA | BRAZIL | 98,534 | 98,534 | TELESPAZIO SpA | Voting right ownership |
| 283 | TELESPAZIO DEUTSCHLAND GMBH | GERMANY | 100,000 | 100,000 | TELESPAZIO FRANCE Sas | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 284 | TELESPAZIO FRANCE Sas | FRANCE | 100,000 | 100,000 | TELESPAZIO HOLDING SRL | Voting right ownership |
| 285 | TELESPAZIO HOLDING SRL | ITALY | 67,000 | | | Voting right ownership |
| 286 | TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS Ltd | HUNGARY | 100,000 | 99,000 | TELESPAZIO SpA | Voting right ownership |
| | | | | 1,000 | TELESPAZIO HOLDING SRL | Voting right ownership |
| 287 | TELESPAZIO NEDERLAND B.V. | NETHERLANDS | 100,000 | 100,000 | TELESPAZIO FRANCE Sas | Voting right ownership |
| 288 | TELESPAZIO NORTH AMERICA Inc | DELAWARE - USA | 100,000 | 100,000 | TELESPAZIO SpA | Voting right ownership |
| 289 | TELESPAZIO SpA | ITALY | 100,000 | 100,000 | TELESPAZIO HOLDING SRL | Voting right ownership |
| 290 | THALES ALENIA SPACE SAS. | FRANCE | 33,000 | | | Voting right ownership |
| 291 | THOMASSEN SERVICE AUSTRALIA PTY LTD | AUSTRALIA | 100,000 | 100,000 | ANSALDO THOMASSEN B.V. | Voting right ownership |
| 292 | THOMASSEN SERVICE GULF LLC | UNITED ARAB EMIRATES | 100,000 | 48,667 | ANSALDO THOMASSEN B.V. | Voting right ownership |
| | | | | 51,333 | ANSALDO THOMASSEN B.V. | Pledge |
| 293 | TRADE FATA B.V. | NETHERLANDS | 100,000 | 100,000 | FATA SPA | Voting right ownership |
| 294 | Tradexim SRL (in liquidazione) | ITALY | 18,180 | 18,180 | ELSAG DATAMAT SPA | Voting right ownership |
| 295 | TRAM DI FIRENZE SpA | ITALY | 17,464 | 13,664 | ANSALDOBREDA SpA | Voting right ownership |
| | | | | 3,800 | ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA | Voting right ownership |
| 296 | TRANSCONTROL CORPORATION | DELAWARE - USA | 100,000 | 100,000 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 297 | TRANSIT SAFETY RESEARCH ALLIANCE (No Profit Corporation) | USA | 100,000 | 100,000 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 298 | TRIMPROBE SPA (in liquidazione) | ITALY | 100,000 | | | Voting right ownership |
| 299 | TURBOENERGY SRL | ITALY | 25,000 | 25,000 | ANSALDO ENERGIA SpA | Voting right ownership |
| 300 | U.V.T. (Ultraviolet Technology) SpA (in fall) | ITALY | 50,614 | 50,614 | SO.GE.PA.-Societa` Generale di Partecipazioni SPA | Voting right ownership |
| 301 | UNION SWITCH & SIGNAL Inc | DELAWARE - USA | 100,000 | 100,000 | ANSALDO SIGNAL N.V. (in liquidazione) | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 302 | UNION SWITCH & SIGNAL INC (Canada) | ONTARIO - CANADA | 100,000 | 100,000 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 303 | UNION SWITCH & SIGNAL INTERNATIONAL CO | DELAWARE - USA | 100,000 | 100,000 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 304 | UNION SWITCH & SIGNAL INTERNATIONAL PROJECTS CO | DELAWARE - USA | 100,000 | 100,000 | UNION SWITCH & SIGNAL Inc | Voting right ownership |
| 305 | UNIVERSAL POWER SYSTEMS, INC. | DELAWARE - USA | 100,000 | 100,000 | ENGINEERED SUPPORT SYSTEMS, INC | Voting right ownership |
| 306 | UVT ARGENTINA SA | ARGENTINA | 60,000 | 60,000 | U.V.T. (Ultraviolet Technology) SpA (in fall) | Voting right ownership |
| 307 | VEDECON GmbH | GERMANY | 100,000 | 100,000 | VEGA DEUTSCHLAND GMBH & CO.KG | Voting right ownership |
| 308 | VEGA CONSULTING & TECHNOLOGY SL | SPAIN | 100,000 | 96,774 | VEGA SERVICES LTD | Voting right ownership |
| | | | | 3,226 | VEGA CONSULTING SERVICES LTD | Voting right ownership |
| 309 | VEGA CONSULTING SERVICES LTD | UNITED KINGDOM | 100,000 | | | Voting right ownership |
| 310 | VEGA DEUTSCHLAND GMBH & CO.KG | GERMANY | 100,000 | 0,125 | VEGA DEUTSCHLAND MANAGEMENT GMBH | Voting right ownership |
| | | | | 99,875 | VEGA DEUTSCHLAND HOLDING GMBH | Voting right ownership |
| 311 | VEGA DEUTSCHLAND HOLDING GMBH | GERMANY | 100,000 | 100,000 | VEGA CONSULTING SERVICES LTD | Voting right ownership |
| 312 | VEGA DEUTSCHLAND MANAGEMENT GMBH | GERMANY | 100,000 | 100,000 | VEGA DEUTSCHLAND HOLDING GMBH | Voting right ownership |
| 313 | VEGA SERVICES LTD | UNITED KINGDOM | 100,000 | 100,000 | VEGA CONSULTING SERVICES LTD | Voting right ownership |
| 314 | VEGA SPACE LTD | UNITED KINGDOM | 100,000 | 100,000 | VEGA CONSULTING SERVICES LTD | Voting right ownership |
| 315 | VEGA TECHNOLOGIES SAS | FRANCE | 100,000 | 100,000 | VEGA SERVICES LTD | Voting right ownership |
| 316 | WESTERN INVESTORS TECHNOLOGY GROUP Inc | DELAWARE - USA | 24,000 | 24,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 317 | WESTERN INVESTORS TECHNOLOGY GROUP Ltd Partnership | DELAWARE - USA | 20,000 | 20,000 | ALENIA NORTH AMERICA, INC. | Voting right ownership |
| 318 | WESTLAND HELICOPTERS INC | DELAWARE - USA | 100,000 | 100,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 319 | WESTLAND HELICOPTERS LIMITED | UNITED KINGDOM | 100,000 | 100,000 | AgustaWestland Holdings Limited | Voting right ownership |
| 320 | WESTLAND INDUSTRIAL PRODUCTS LIMITED | UNITED KINGDOM | 100,000 | 100,000 | WESTLAND INDUSTRIES LIMITED | Voting right ownership |

| | Company OWNED (name and legal form) | COUNTRY | %TOTAL | % INDIRECT | TROUGH | KIND OF POSSESSION |
|---|---|---|---|---|---|---|
| 321 | WESTLAND INDUSTRIES LIMITED | UNITED KINGDOM | 100,000 | 100,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 322 | WESTLAND SUPPORT SERVICES LIMITED | UNITED KINGDOM | 100,000 | 100,000 | WESTLAND HELICOPTERS LIMITED | Voting right ownership |
| 323 | WESTLAND TRANSMISSIONS LIMITED | UNITED KINGDOM | 100,000 | 100,000 | AgustaWestland Holdings Limited | Voting right ownership |
| 324 | WHITEHEAD ALENIA SISTEMI SUBACQUEI SpA | ITALY | 100,000 | | | Voting right ownership |
| 325 | WING NED BV | NETHERLANDS | 100,000 | 100,000 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 326 | WORLD` S WING SA | SWITZERLAND | 95,364 | 95,364 | ALENIA AERONAUTICA SpA | Voting right ownership |
| 327 | XAIT SRL | ITALY | 100,000 | 100,000 | SELEX Service Management SpA | Voting right ownership |
| 328 | ZAO ARTETRA | RUSSIAN FEDERATION | 51,000 | 51,000 | SELEX COMMUNICATIONS SpA | Voting right ownership |