FINMECCANICA

CONSOLIDATED HALF-YEAR REPORT

AT 30 JUNE 2006

"*The consolidated Half-year Report has been translated from that issued in Italy from the Italian into the English language solely for the convenience of international readers*".

CONTENTS

BOARDS AND COMMITTEES

BOARD OF DIRECTORS
(for the 2005 - 2007 term)
appointed by the Shareholders' Meeting of 12 July 2005

PIER FRANCESCO GUARGUAGLINI (1)
Chairman/Chief Executive Officer

PIERGIORGIO ALBERTI (2)
Director

FRANCO BONFERRONI (3)
Director

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

MAURIZIO DE TILLA (2)
Director

GIAN LUIGI LOMBARDI CERRI (2)
Director

ERNESTO MONTI (2) (3)
Director

ROBERTO PETRI (1)
Director

DARIO SCANNAPIECO (1) (3)
Director

RICCARDO VARALDO (3)
Director

GUIDO VENTURONI (1)
Director

PAOLO VIGEVANO (1)
Director

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

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

BOARD OF AUDITORS
(until 23 May 2006)

DOMENICO PIACENZA
Chairman

GIORGIO CUMIN, FRANCESCO FORCHIELLI,
LUIGI GASPARI, ANTONIO TAMBORRINO
Auditors

GAETANO DE GREGORIO, PIERO SANTONI
Alternate Auditors

BOARD OF AUDITORS
(for the 2006- 2008 term)
appointed by the Shareholders' Meeting of 23 May 2006

LUIGI GASPARI
Chairman

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

MAURIZIO DATTILO, PIERO SANTONI
Alternate Auditors

LUCIANO ACCIARI
Secretary of the Board of Directors

INDEPENDENT AUDITORS
(for the 2006- 2011 term)
PRICEWATERHOUSECOOPERS S.p.A.

REPORT ON OPERATIONS

1. Significant events in the first half of 2006 and events subsequent to closure of the accounts for the period

Industrial transactions

Helicopters. Agusta Westland signed an agreement on 28 February 2006 with the British company Sloane Helicopters Ltd. to distribute civilian helicopters on the UK and Republic of Ireland markets. The agreement with Sloane Helicopters will further consolidate Agusta Westland's position in the UK light, bi-turbine helicopter market for VIP and Corporate use. It will also pave the way for further growth in the emergency medical services and law enforcement markets.

Defence electronics. The early months of 2006 saw the completion of the acquisition of Datamat S.p.A., an Italian company that develops and designs air and naval mission systems and integrated solutions in the defence, space, government, healthcare, banking, finance and telecommunications sectors.

In the previous year, Finmeccanica S.p.A. had initially acquired 52.7% of Datamat for around €mil. 151. A public offering was subsequently launched for the remaining Datamat shares available, at a price of €9.65 per share, which was completed for a total value of about €mil. 89 in the first few days of 2006. After the offering, Finmeccanica held around 89% of the share capital, including treasury shares already held by the company. On 1 March 2006, the Finmeccanica Board of Directors decided to begin the process of delisting Datamat shares by launching a residual public tender in accordance with Article 108 of Legislative Decree 58/1998 once the statutory percentage holding had been reached. On 12 June 2006, Finmeccanica completed a series of additional acquisitions of a total of 272,000 ordinary Datamat shares, equal to 0.959% of Datamat's share capital. This exceeded the 90% necessary to launch the residual offering.

In accordance with current legislation, the duration and procedures of the offering, which will be launched at a price set by Consob, will be agreed with Consob and the Borsa Italiana.

Meanwhile, the process of merging Elsag and Datamat began, with the aim of ensuring that they are managed on a unitary basis.

Aeronautics. On 19 January 2006, Aermacchi S.p.A. (now Alenia Aermacchi S.p.A.) and Hellenic Aerospace Industry (HAI) signed a Memorandum of Understanding governing the terms and conditions of their cooperation on a programme to develop the next generation M-346 advanced training aircraft. Under the Memorandum, HAI becomes the prime Greek contractor of the programme and will be responsible for a series of activities, such as the design, manufacture and assembly of major aircraft parts, such as the rear fuselage. In addition, HAI will manage the work of other Greek companies participating in the programme as sub-contractors.

The Greek company's will be responsible for about 10% of the international project activities to develop and manufacture the aircraft and its sub-systems.

For Alenia Aermacchi, HAI's participation marks an important step in the company strategy to boost the M346 project internationally by establishing highly-qualified partnerships to develop this cutting-edge programme for advanced training aircraft.

On 27 April 2006, ***Alenia Aeronautica*** and L-3 Communications signed a Memorandum of Understanding with Boeing Integrated Defense Systems. Under the agreement, Boeing Integrated Defense Systems will participate in the Global Military Aircraft Systems (GMAS) joint venture for C27J aircraft, set up in 2005 to take part in the Joint Cargo Aircraft (JCA) programme for the US Army and Air Force. Boeing will be fully involved in GMAS, including the development of a specific version of the aircraft requested by the US armed forces and, in the event of selection, in manufacturing the C27J in the United States. Boeing's arrival boosts the C27J team, which, in addition to the companies already mentioned, includes leading components and system suppliers such as Dowty, Honeywell, Lockheed Martin and Rolls-Royce.

Furthermore, Boeing Integrated Defense Systems' participation in GMAS could contribute to the development special versions of the aircraft that satisfy any additional, future requirements of the US armed forces.

On 20 June 2006, ***Finmeccanica and Sukhoi Aviation Holding***, and their subsidiaries, Alenia Aeronautica and Sukhoi Civil Aircraft Company (SCAC), signed a draft agreement to embark upon a strategic partnership for the Russian Regional Jet (RRJ) programme. The RRJ programme entails the design, development, manufacture, marketing, and provision of technical support for a family of new-generation regional 75- and 100-seater jets. Once the final agreement has been negotiated and signed, Alenia Aeronautica will acquire a stake of 25% plus one share in SCAC (subject to approval by the Russian government) and will have a corresponding share of the development of the RRJ programme.

Space. On 19 January 2006 in Berlin, Galileo Industries (a consortium that includes Finmeccanica, EADS Astrium, Thales SA and Galileo Sistemas y Servicios) and the European Space Agency (ESA) signed a contract worth around €bil. 1 to develop and build the first four satellites for the European Galileo satellite navigation system and the related earth infrastructure . The Galileo project (the response of the European Union and the ESA to the US Global Positioning System (GPS)) also includes Telespazio S.p.A., a Finmeccanica and Alcatel company, which will supply all services related to satellite launching and orbit placement and the management of subsequent operations. In this context, Finmeccanica is part of the consortium created by the merger of two consortiums, Eurely (Finmeccanica S.p.A., Alcatel S.A., AENA and Hispasat) and iNavSat (EADS, Thales and Inmarsat), to negotiate the contract to operate the system. Finmeccanica’s participation in the consortium is a golden opportunity for its satellite services business, since it allows the Group to operate as a leading actor in a project of global scope and is particularly strategic for new value-added applications (PRS - public regulated services, infomobility, security, etc.).
A major landmark in the project was reached when Italy was awarded one of the two Constellation and Mission Control Centres and the Performance Evaluation Centre for the new satellite navigation system.

Defence Systems. In January 2006, MBDA completed its acquisition of LFK GmbH, Germany’s leading missile system manufacturer. Announced last year, the acquisition was formalised following approval by the European Commission and the German government. With this operation, MBDA (of which Finmeccanica holds 25%; the other shareholders are BAE Systems and EADS) has further consolidated its global leadership in guided missiles and has taken another step forward in rationalising the European offer in this sector. The merger of the two companies will also increase MBDA’s international collaborative relationships in Europe and in transatlantic programmes, as well as boost its overall system and product capacities.

As part of its efforts to leverage its civil activities, the plan to list **Ansaldo STS S.p.A.** (head of a group that comprises Ansaldo Trasporti - Sistemi Ferroviari S.p.A. (ATSF) and Ansaldo Signal N.V.) on the Italian stock exchange was completed. On 8 March 2006, Consob gave its approval, after Borsa Italiana (the Italian stock exchange) had agreed to list the company. On 24 March 2006, 52.17% (52,174,000 shares) of the company with institutional and retail investors was placed on the market at a price of €7.80 per share. The first day of trading in the company’s shares was 29 March 2006. In the days that followed, the banks that led the placement consortium exercised their greenshoe option to acquire an additional 7,826,000 shares (7.83% of share capital), at a price of €7.80 per share, raising the amount placed to 60%. The stock is listed on the STAR section of Borsa Italiana’s electronic stock exchange. The new industrial company will benefit fully from the highly complementary skills of the two companies: ATSF will enjoy greater opportunities to penetrate foreign markets, thanks to the commercial network and international profile of Ansaldo Signal, a global leader in the railway signalling sector, while Ansaldo Signal will increase its ability to compete with integrated systems, thanks to ATSF’s design and system specialisations.

On 6 August 2006, Finmeccanica signed agreements to reorganise its equity investment in **AvioGroup S.p.A.** (formerly Aero Invest 1 SA, which holds the equity interest in Avio S.p.A., a company that develops and manufactures large engines and major aeronautical and space components).

Under the terms of the agreements, based on an enterprise value of €bil. 2.57 , Finmeccanica (and Carlyle for the part pertaining to it) will sell around 30% of AvioGroup to Cinven investment funds for a total gross amount of around €mil. 430. Finmeccanica will simultaneously buy back a 15% stake in AvioGroup for an amount currently estimated at around €mil. 150, a figure which could vary slightly subsequent to definition of the financial structure of the acquisition. New shareholders’ agreements

between Finmeccanica and Cinven to manage the Avio group provide for rights with regard to governance and shareholdings that are equivalent to those currently in force.
Before closing of the operation, which is expected to take place by the end of the year once the necessary regulatory authorisations have been granted, Finmeccanica will have the right to exercise its option to increase its stake in AvioGroup up to 30%.

Please note that a number of Group companies changed their name during the period: Aermacchi S.p.A. became Alenia Aermacchi S.p.A, Officine Aeronavali Venezia S.p.A. became Alenia Aeronavali S.p.A and S.I.A.- Società Italiana Avionica S.p.A. became Alenia SIA S.p.A.

Financial transactions

In the first six months of 2006, Finmeccanica did not carry out any new transactions on the capital market. As a result, medium-long term debt did not undergo any significant variations, recording an overall sum of around €1,735 at accounts closure (according to IAS/IFRS) and an average debt life of around 9.5 years.

The following table summarises the outstanding bond issues at 30 June 2006, including the issues placed on the market by Finmeccanica Finance S.A.:

Issuer		Year of Issue	Maturity date	Counter-value Amount (€/000)	Annual Coupon	Type of offering	IAS values recognized €mil. (5)
Finmeccanica Finance S.A.		1997	16 Jan 2007	6	3.30%	Japanese institutional	6
Finmeccanica Finance S.A.	(1)	2002	30 Dec 2008	297	variable	Italian retail	292
Finmeccanica Finance S.A.	(2)	2003	8 Aug 2010	501	0.375%	European institutional	425
Finmeccanica Finance S.A.	(3)	2003	12 Dec 2018	500	5.75%	European institutional	511
Finmeccanica S.p.A.	(4)	2005	24 Mar 2025	500	4.875%	European institutional	501

(1) Bonds offered solely to the general public in Italy and listed on the TLX market operated by Trading Lab Banca S.p.A. – Unicredito Italiano Group. Although they were issued within the framework of a Euro Medium Term Notes programme ("EMTN") with a maximum of €bil. 2, the bonds are governed by specific regulations under Italian law. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. Prospectus filed with Consob on 4 December 2002 (authorisation notified with note No. 2079342 of 3 December 2002).

(2) Bonds exchangeable for a maximum number of 20,000,000 shares in STMicroelectronics NV (STM) at a conversion price of €25.07 per share. Beginning three years after issue, Finmeccanica Finance may require that the bond be exchanged if the average price recorded for the 30 business days prior to the date bondholders were notified is more than 125% of the conversion price. At maturity, Finmeccanica Finance may redeem the bonds in cash or, upon receipt of prior notice of no less than 15 business days, with a combination of STM shares valued at the average price recorded over the 5 previous business days, and with cash for the difference. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. The bonds are listed on the Luxembourg Stock Exchange.

(3) The bonds have been issued under the EMTN programme with a maximum of €bil. 2. The entire issue was converted from fixed rate to variable rate for the first two years of the bond term. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. The bonds are listed on the Luxembourg Stock Exchange.

A number of interest rate transactions involving these bonds were carried out to enable the Company to benefit from low variable rates throughout 2005, with an effective rate of around 3.25%. Starting in 2006, the effective interest rate will revert back to an average of about 5.80%.

(4) The bonds have been issued under the EMTN programme with a maximum of €bil. 2. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. The bonds are listed on the Luxembourg Stock Exchange. A number of interest rate transactions were carried out to optimise funding costs.

(5) The differential between the face value of the bond and the value posted in the financial statements is due to the classification of accrued interest as an increase in the value of the debt, and the recognition of issue discounts as a reduction in that value. Furthermore, with regard to the issue of the exchangeable bond referred to in note (2), IAS 39 requires the separation of the debt component from the call option embedded in the instrument. The debt component is measured using the market interest rate at the issue date rather than the nominal rate, while the option component is subject to periodic measurement at fair value. At 30 June 2006, as a result of the application of this methodology the debt recognized was €mil. 76 less than the face value of the bond; this difference will gradually narrow as the maturity date approaches.

All Finmeccanica Finance SA bond issues are irrevocably backed by Finmeccanica S.p.A.

All of the above bond issues are governed by rules containing standard legal clauses for these kinds of transactions carried out by corporations. The terms and conditions of the Finmeccanica issues do not require any commitment regarding specific financial covenants, but they do include so-called negative pledge and cross default clauses.

Under the negative pledge clauses, the issuers Finmeccanica Finance S.A., Finmeccanica S.p.A. and their material subsidiaries (companies in which the issuer or guarantor holds more than 50% of capital or which represent at least 10% of its overall revenues) are specifically and exclusively prohibited from providing guarantees for financial transactions that partially benefit one or more creditors, excluding the rest of the latter. Securitisation transactions and, as of July 2006, the establishment of segregated assets pursuant to articles 2447 *bis* et seq. of the Italian Civil Code, are exempt from this prohibition.

All bonds issued by Finmeccanica S.p.A. and Finmeccanica Finance SA have been assigned a medium-term credit rating by the three international rating agencies, Moody's Investors Service, Fitch and Standard and Poor's. Specifically, at the date of this Report, these credit ratings were A3 (Moody's) and BBB (Fitch and Standard and Poor's), all with a stable outlook. The Moody's credit rating in the previous financial year improved two levels, advancing from Baa2 to A3, after a methodological revision by the Agency regarding the level of correlation in the relationship between the companies and governments where a government holds a stake in the company.

Furthermore, as part of its centralisation of finance activities, Finmeccanica S.p.A has obtained credit lines and guarantees sufficient to meet Group needs. Specifically, it holds a medium-term revolving credit line of €mil. 1,200 agreed in 2004 with a pool of national and foreign banks, whose interest rate terms improved during the previous financial year thanks in part to Moody's improved credit rating. This transaction is also governed by negative pledge clauses. At 30 June 2006, the credit line had not been used. Finmeccanica also has additional short-term, unconfirmed credit lines amounting to around €mil. 1,200 and unconfirmed guarantees amounting to around €mil. 1,800.

Following the close of the period, on 21 July 2006 the EMTN bond-issue programme was extended for an additional 12 months, for a maximum of €bil. 2, under which the issues described in notes (1), (3) and (4) were carried out.

2. Finmeccanica Group Results

Highlights

€ millions	Jun-06	Jun-05	change	Dec-05
Orders	7,973	7,872	1%	15,383
Order backlog	35,185	30,897		32,114
Value of production	5,965	4,958	20%	11,469
EBIT	305	251	22%	735
Net profit	575	105	n.a.	396
Net invested capital	6,231	6,491		5,670
Net financial debt	1,462	1,952		1,100
FOCF	-508	-361	41%	501
ROI	*14.2%*	*12.2%*	*2.0 p.p.*	*17.5%*
ROE	*18.5%*	*15.0%*	*3.5 p.p.*	*9.6%*
EVA®	6	-8		217
R&D expenditure	872	711	23%	1,742
Employees (no.)	57,479	55,449		56,603

Prior to examining the results at 30 June 2006, it should be recalled that the Finmeccanica Group's scope of consolidation has undergone a number of changes, caused principally by mergers and moves to strengthen the Group's Aerospace and Defence presence:

- Defence Electronics: in 2005, the BAE Systems Plc (BAE) agreement and the acquisition of Datamat S.p.A.;
- Space: in 2005, the Alcatel S.A. (Alcatel) agreement;
- Defence Systems: in 2006, MBDA's acquisition of LFK GmbH.

The different times when these transactions took place, particularly those in 2005, the varying contributions to consolidated results of these new enterprises and, in certain cases, a lack of data regarding the prior period performance of the incoming entities means that it has not always been possible to provide a like-for-like comparison of the figures below, particularly earnings figures.

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 limited as far as possible, implicitly incorporating the effects of the changes to the scope of consolidation as noted above.

€mil.	*In the 6 months to 30 June*	
	2006	***2005***
Revenues	5,706	4,721
Change in work in progress, semi-finished goods and finished products	259	237
	5,965	4,958
Costs for purchases and personnel	(5,508)	(4,578)
Depreciation and amortisation	(182)	(155)
Writedowns	(5)	(10)
Restructuring costs	(15)	(10)
Other net operating income (costs)	50	46
EBIT	305	251
Net financial income (charges)	375	(64)
Income taxes	(105)	(82)
NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS	575	105
Result of discontinued operations	-	-
NET PROFIT (LOSS)	575	105

Finmeccanica Group's consolidated results for the first six months of 2006 are not entirely representative of the trend for the financial year as a whole since more than half of Group activity is concentrated in the second half of the year. Compared with 30 June 2005, the value of production has increased by 20% and EBIT by 22%; in terms of organic growth, they have increased by 9% and 15% respectively. The return on sales (ROS) was unchanged from the 5.2% posted for the same period of the previous financial year. Likewise, new orders acquired are broadly the same for the two periods under comparison. As for the Group's profitability ratios compared with the previous financial year (last year's figures in brackets), return on net invested capital (ROI) amounted to 14.2% (12.2%), Group EVA®[1] was a positive €mil. 6 (negative €mil. 8), and return on equity (ROE) amounted to 18.5% (15.0%).

The first six months of 2006 closed with a consolidated net profit of €mil. 575 (€mil.105 in the first six months of 2005). Excluding the capital gain from the public offering to sell 60.0% of Ansaldo STS S.p.A. (around €mil. 405 net of the impact of the consolidated taxation mechanism), profit amounted to €mil. 170, an increase of €mil. 65 compared with the same period of the previous financial year. This is due mainly to an increase in EBIT (€mil. 54), while the improvement in net financial income (charges) (€mil.22) was partially offset by greater taxation this year (€mil. 11).

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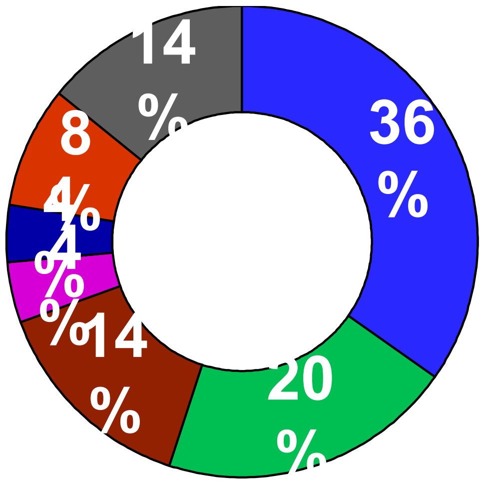
New **orders** acquired in the first six months of 2006 amounted to €mil. 7,973 compared with €mil. 7,872 for the same period of the previous financial year. Around 56% of overall new orders acquired can be attributed to the military market.

Orders

€ millions	06 2006	06 2005	change
Helicopters	2,821	2,420	17%
Defence Electronics	1,654	2,850	-42%
Aeronautics	1,171	1,066	10%
Space	331	267	24%
Defence Systems	338	332	2%
Energy	676	436	55%
Transportation	1,143	836	37%
Eliminations and other activities	-161	-335	
	7,973	7,872	



The main new orders acquired refer to:

- Helicopters: the acquisition of the initial lot of 70 Future Lynx helicopters by the UK armed forces with a value of around €mil. 550 (2nd quarter). The initial lot

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

covers the first 5 years (out of a total of 25) of the IMOS contract for logistical support of the entire EH 101 fleet deployed by the RAF and the Royal Navy, with an overall value of €mil. 640, and of the MCSP contract to upgrade 30 EH 101 Merlin Mk 1 helicopters currently deployed by the Royal Navy, with an overall value of €mil. 550 (both in 1st quarter);

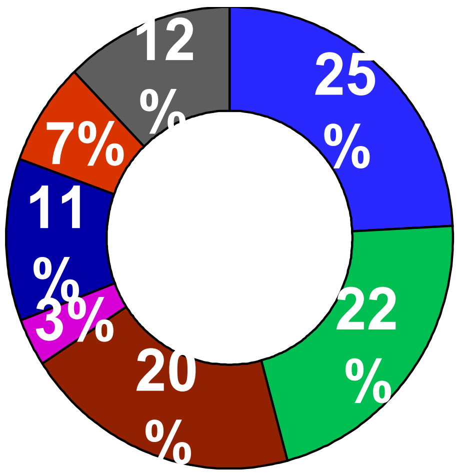
- Defence Electronics: €mil. 134 (1st and 2nd quarter) for command-and-control and communication systems for multi-mission Italo-French frigates (FREMM); €mil. 114 (2nd quarter) for the second delivery of EFA IRST avionics systems; and €mil. 87 (2nd quarter) for FALCON, the UK Ministry of Defence's principal strategic communications programme. In the first six months of 2005, performance by Defence Electronics benefited significantly (around €mil. 1,200) from the order to produce the DASS (Defensive Aids Sub-System) for all Eurofighter Typhoons in the second round of aircraft production;
- Aeronautics: the GIE-ATR consortium, which received orders for 29 (2nd quarter) and 18 (1st quarter) aircraft, with an overall value of around €mil. 300, and Alenia Aeronautica, which won the contract for of 10 C27J aircraft, worth around €mil. 180, to the Turkish Navy and 5 C27J aircraft, worth around €90 mil., to Bulgaria (both quarters);
- Space: order acquisitions for Turksat 3A and Ciel 2 (1st quarter) telecommunications satellites and orders for Arabsat 4AR and AMC1 commercial satellite payloads and additional acquisitions for the Galileo and Egnos (2nd quarter) navigation programmes.
- Defence Systems: orders for the delivery of missile systems: Tirgat (2nd quarter) long-range anti-tank; Exocet SM39 and Sea Wolf anti-ship to Chile (1st quarter). In naval weapons, FREMMs for the Italian Navy (2nd quarter), whose initial lot (1st quarter) includes the underwater sector;
- Energy: the combined-cycle power plant in Rizziconi, including scheduled maintenance, worth around €mil. 500 (1st quarter) and strong growth in Service orders, which increased from €mil. 116 in the first six months of 2005 and €mil. 294 at 30 June 2006;
- Transport: in Signalling, the order for "automated train control systems" (SCMT), both wayside and on-board, for Italy, worth around €mil. 70, and the

order for the Ghaziabad-Kampur stretch in India, worth around €mil. 60 (1st quarter); in Systems, the extension, to 2010, of the operation and maintenance of Copenhagen's metro, worth €mil. 127 (1st quarter), and the driverless metros in Thessaloniki (worth around €mil. 280) and Milan Line 5 (worth around €mil. 153), which also affected the vehicles segment (2nd quarter); and in vehicles, the order acquisition for Sirios tram in Turkey, worth around €mil. 50, and the supply contract for Line 2 of the Milan metro, worth around €mil. 40 (2nd quarter).

At 30 June 2006, the **order backlog** totalled €mil. 35,185, compared with €mil. 32,114 at 31 December 2005, guaranteeing the Group coverage equal to three years of production. The increase of €mil. 3,071 is due mainly to ordinary acquisition and order volumes and client billing.

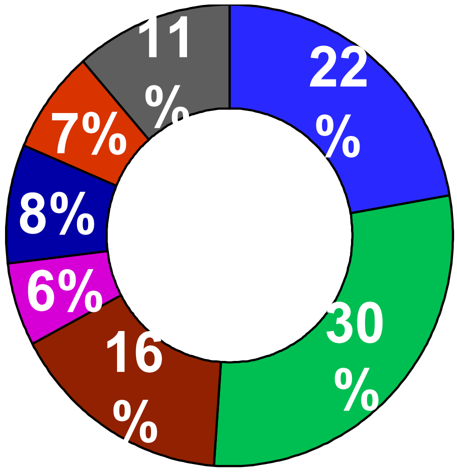
Order backlog

€ millions	06 2006	12 2005	change
Helicopters	8,661	7,397	17%
Defence Electronics	7,714	6,946	11%
Aeronautics	7,189	6,865	5%
Space	1,166	1,154	1%
Defence Systems	4,087	3,869	6%
Energy	2,587	2,329	11%
Transportation	4,401	3,956	11%
Eliminations and other activities	-620	-402	
	35,185	32,114	



The Group value of production at 30 June 2006 (equal to €mil. 5,965, compared with €mil. 4,958 at 30 June 2005) met growth targets with a net increase of €mil. 1,007 (+20%), of which around €mil. 464 (9.0%) can be attributed to internal growth, and the remainder - around €mil. 543 - to changes to the scope of consolidation.

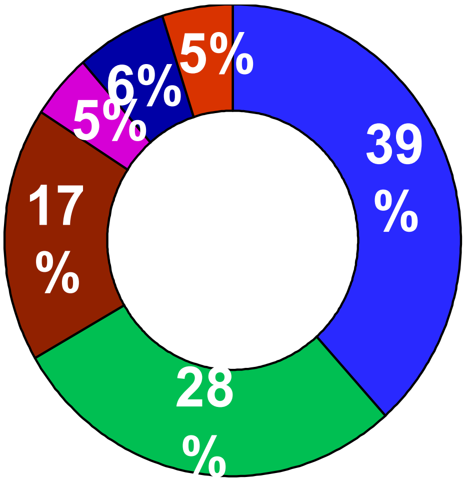
Value of production			
€ millions	06 2006	06 2005	change
Helicopters	1,348	1,168	15%
Defence Electronics	1,737	1,209	44%
Aeronautics	968	944	3%
Space	349	373	-6%
Defence Systems	512	469	9%
Energy	426	338	26%
Transportation	689	586	18%
Eliminations and other activities	-64	-129	
	5,965	4,958	



Organic growth in the **value of production** was registered in Helicopters (15%), thanks to the start of work on the VH 71 order for the President of the United States of America, the increased production rate for the AW 139 line, and a greater volume of product support, mainly in the United Kingdom. Defence Electronics and Aeronautics also expanded, although the latter increased its civil activities with a slight decline in military activities following delays in order acquisitions. The slight decline posted in Space is due essentially to reduced activity in manufacturing. Defence Systems registered growth, principally in missiles and, to a lesser degree, in ground weapons systems. Growth in Energy (26%) is due to recent order acquisitions, mainly for power plants. Finally, growth in Transportation is attributable almost entirely to signalling, thanks to increased activity, plus better performance in vehicles, which in the first half of 2005 had already began to reflect the early results of the far-reaching review of “whole life estimates”.

For the first six months of 2006, **EBIT** was €mil. 305, compared with €mil. 251 at 30 June 2005 – a net increase of €mil. 54 or +22% - of which around €mil. 38 (15%) was organic growth while the remaining share, around €mil.16, is attributable to changes to the scope of consolidation.

EBIT			
€ millions	06 2006	06 2005	change
Helicopters	135	127	6%
Defence Electronics	99	81	22%
Aeronautics	61	49	24%
Space	16	21	-24%
Defence Systems	22	20	10%
Energy	18	12	50%
Transportation	27	-13	
Other activities	-73	-46	
	305	251	



At 5.1%, ROS was broadly in line with that of the first six months of 2005.

Organic growth of EBIT includes:

- a 6% increase in Helicopters due in part to increased production and the effect of efficiency drives implemented last year under the integration of Italian and UK activities;
- broad alignment in Defence Electronics due essentially to improved profitability in command and control systems offset by the protraction of delays caused by the postponement of the TETRA Interpolice order in communications;
- growth in Aeronautics is attributable to lower risks due to positive sales trends and the commercial prospects of the ATR programme, which permitted release of excess provisions. This was partly offset by a deterioration at Alenia Aeronavali, due mainly to provisions for charges on orders and write-offs of development costs;
- the slight worsening in Space is due mainly to higher labour costs, net of productive synergies created by new joint ventures;
- the 50% Energy growth is due mainly to increased volumes;
- growth in Transport is due entirely to vehicles. Although the latter registered an operating loss, this segment performed better than in the first six months of 2005. Similar conditions obtain in signalling and systems, which have benefited from substantial improvement in industrial profitability.

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€mil.	*30.06.2006*	*31.12.2005*
Non-current assets	8,082	7,671
Non-current liabilities	(2,100)	(2,018)
	5,982	5,653
Inventories	5,910	5,511
Due from customers for contract work	2,756	2,538
Trade receivables	3,711	3,600
Trade payables	(3,226)	(3,431)
Due to customers for contract work	(4,581)	(4,389)
Provisions for short-term risks and charges	(496)	(523)
Other net current assets (liabilities)	(3,825)	(3,289)
Net working capital	249	17
Net invested capital	6,231	5,670
Group shareholders' equity	4,748	4,444
Minority interests	67	154
Shareholders' equity	4,815	4,598
Net financial debt (cash and cash equivalents)	1,462	1,100
Net (assets) liabilities held for sale	(46)	(28)

The Group's **net financial debt** (financial payables in excess of financial receivables and cash and cash equivalents) at 30 June 2006 stood at €mil. 1,462, compared with €mil. 1,100 at 31 December 2005, a net increase of €mil. 362.

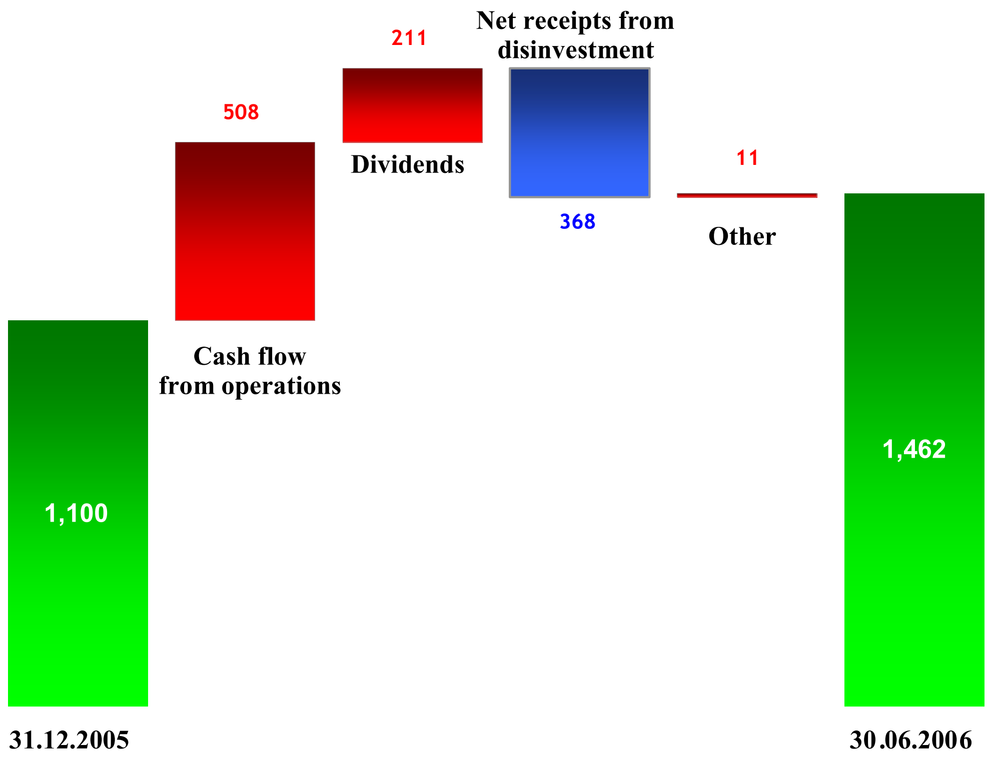
The debt level (30% of consolidated shareholders' equity) is within the limits compatible with sound and prudent financial management and the maximums indicated by leading credit rating companies.

Free operating cash flow (FOCF) at 30 June 2006 was negative (absorption of cash) in the amount of €mil. 508, compared with negative €mil. 361 at 30 June 2005. FOCF is seasonal in nature, with outlays considerably exceeding receipts in the first half of the year.

Non-recurring events in the period included the sale of 60.0% of Ansaldo STS S.p.A. in a public offering, which generated a positive cash flow of €mil. 458, and the €mil. 89 outlay to purchase an additional 33% (approximately) of Datamat in a public offering launched in 2005 and completed in January 2006. At present, Finmeccanica holds 90.005% of Datamat, including treasury shares held directly by Datamat.

With regard to the funds raised with the Ansaldo STS flotation, on 28 March 2006 Finmeccanica's Board of Directors asked the Shareholder's Meeting to approve the pay-out of an extraordinary dividend of €0.19 per share, equal to a maximum of €mil. 81 (€mil. 80 was actually disbursed). The latter, combined with the ordinary dividend, entailed an overall outlay of €mil 211.

Net financial debt at 30 June 2006



Consolidated **net invested capital** at 30 June 2006 was €mil. 6,231 compared with €mil. 5,670 at 31 December 2005, a net increase of €mil. 561. **Working capital** increased by €mil. 232 (€mil. 17 at 31 December 2005 compared with €mil. 249 at 30 June 2006). Current debt at 30 June 2006 included the €mil. 389 debt for the BAE put and call option for the right to exercise the purchase/sale option for the remaining 25% of Selex Sensors and Airborne Systems S.p.A..

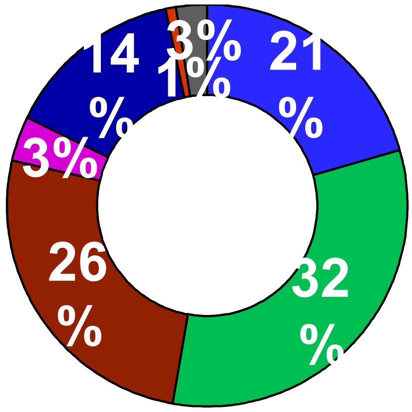
Excluding the effect of the option, working capital increased by €mil. 622, attributable in large part to the FOCF developments mentioned in the comments on net financial debt.

The €mil. 329 increase in capital assets is due essentially to the recognition of goodwill from the acquisition of activities from BAE (€mil. 326), Datamat (€mil. 53) and LFK GmbH (€mil. 62). The rest is due to routine investment in property, plant and equipment and intangible assets, net of amortisation, and the €mil. 155 decrease due to the fair value measurement of the investment in STMicroelectronics NV.

Research and Development costs, which stood at €mil. 872 at 30 June 2006, compared with €mil. 711 in the first six months of 2005, increased by around 23%. This represented around 15% of the value of production.

R&D expenditure

€ millions	06 2006	06 2005	change
Helicopters	180	186	-3%
Defence Electronics	281	185	52%
Aeronautics	225	191	18%
Space	30	54	-44%
Defence Systems	126	73	73%
Energy	7	5	40%
Transportation	23	17	35%
	872	711	



Activity was related mainly to the following programmes:

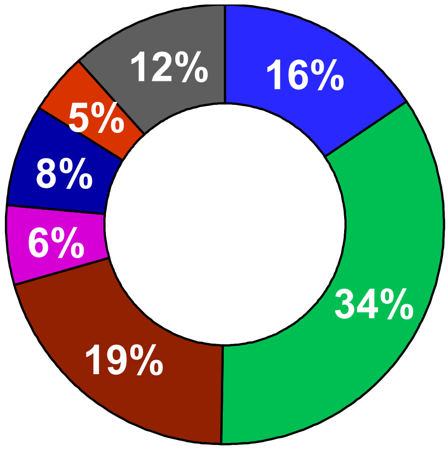
- Helicopters: in the context of research funded by Law 808/85, the development of technologies predominantly for military use, for a new six/seven-ton class helicopter named A149, and the BA 609 convertiplane;
- Defence Electronics: ongoing EFA programme development, development of the UAV FALCO system prototypes, naval and ground command and control system development, completion of radar system development for air traffic control, and completion of the TETRA network;
- Aeronautics: development of civil programmes including the B787 and A380, and military programmes with the C27J, EFA and the M346 training aircraft;
- Space: major satellite programmes and future experiments to be undertaken aboard the International Space Station;
- Defence Systems: ongoing development of the Meteor air-to-air missile, the land and sea "guided" munitions system, and Black Shark heavy torpedoes in the underwater systems sector;
- Energy: ongoing work on the steam and gas turbine technology autonomy programme;

- Transport: in Signalling, work to meet new, emerging requirements in rail transport and mass transit, and the development of on-board equipment.

The number of **employees** at 30 June 2006 was 57,479, up 876 compared with 56,603 employees at 31 December 2005. This rise is due mainly to the inclusion of LFK GmbH company (246 employees) in the scope of consolidation, under the Defence Systems division, in addition to positive turnover.

Employees

	03 2006	12 2005	change
Helicopters	8,807	8,531	3%
Defence Electronics	19,588	19,786	-1%
Aeronautics	11,594	11,198	4%
Space	3,218	3,194	1%
Defence Systems	4,304	4,104	5%
Energy	2,550	2,529	1%
Transportation	6,525	6,321	3%
Other	893	940	
	57,479	56,603	



3. Financial position

Net consolidated financial debt at 30 June 2006 is reported in the following table with comparative information at 30 June 2005 and 31 December 2005.

	30.06.06	*31.12.05*	*30.06.05*
Short-term financial payables	145	190	385
Medium/long-term financial payables	1,851	1,879	1,884
Cash and cash equivalents	(680)	(1,061)	(588)
BANK DEBT AND BONDS	1,316	1,008	1,681
Securities	(20)	(20)	(33)
Financial receivables from Group companies	(21)	(17)	(40)
Other financial receivables	(393)	(443)	(358)
FINANCIAL RECEIVABLES AND SECURITIES	(434)	(480)	(431)
Financial payables to Group companies	394	379	325
Other short-term financial payables	80	97	279
Other medium/long-term financial payables	106	96	98
OTHER FINANCIAL PAYABLES	580	572	702
NET FINANCIAL DEBT(CASH)	1,462	1,100	1,952
Net financial debt (cash and cash equivalents) of discontinued operations	10	5	-

The Group's net financial debt at 30 June 2006 amounted to €mil. 1,462, compared with €mil. 1,100 at 31 December 2005 and €mil. 1,481 in March this year.

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

- as regards the Finmeccanica Finance S.A. €mil. 501 bond paying a 0.375% coupon and maturing in August 2010 exchangeable for STM shares, IAS 39 requires the separation of the debt component from the call option embedded in the instrument. The debt component is measured using the market interest rate at the issue date rather than the nominal rate, while the option component is subject to periodic measurement at fair value. At 30 June 2006, as a result of the application of this methodology the debt recognized was €mil 76 less than the face value of the bond; this difference will gradually narrow as the maturity date approaches;

- inclusion in the financial position of liabilities in respect of the unpaid portion of part of trade receivables assigned without recourse to factoring companies in a manner that prompted Finmeccanica to take the precaution of entering these amounts as part of its debt in accordance with IAS/IFRS. The remaining amount was equal to €mil. 22, compared with €mil. 39 at 31 December 2005 and €mil. 274 in June 2005.

Consistent with the approach adopted in the presentation of the accounts in 2005, it was decided – in view of the fact that a significant part of these transactions are designed to hedge “underlying” commercial positions – not to recognize as debt the balancing entries resulting from fair value measurement of the derivatives on the date that the accounts were closed: at 30 June 2006 these items showed a positive balance of €mil. 82.

Taking account of these adjustments, as well as the operational and non-recurring events described below, the Group’s net financial debt went from €mil. 1,100 at 31 December 2005 to €mil. 1,462 at 30 June 2006.

The June figure, which shows debt rising by €mil. 362 on the end of December, confirms the ordinary pattern of cash receipts and outlays, with substantial cash absorption in the first part of the year, and reflects a number of increases in operating cash flow in the closing days of December 2005. Use of free operating cash flow amounted to about €mil. 508 in the first half of this year after completion of a number of without-recourse assignments. Forecasts for recovering the outflow, which generally occurs in the second half of the year, must be assessed especially carefully in the light of difficulties in obtaining payment, especially from government customers, which are of great importance to the Finmeccanica Group.

The debt figure was significantly impacted by the positive and negative effects of the following operations:

- a payment in January as part of the public tender offer launched in 2005 to acquire the remainder of Datamat, which was completed in early January with an outlay of €mil. 89, which in addition to the €mil. 151 paid in 2005 for 52.7% of the company, brought the total outlay to €mil. 240 and the overall stake in the company to about 89% (including the treasury shares owned directly by the company). Following a subsequent public announcement, additional shares were acquired on the market, bringing Finmeccanica's holding in Datamat above 90%, which means that Finmeccanica is required to launch an offer for the remainder of the shares, after which Datamat will be delisted;

- the payment by Finmeccanica of an ordinary dividend of €mil. 131 in addition to a special dividend of €mil. 80 paid following the successful listing of Ansaldo STS;

- the receipt of about €mil. 398, net of commissions, in March following the placement of 52.17% of Ansaldo STS, the Group's lead company in the transportation sector, which holds investments in companies operating in rail systems (Ansaldo Trasporti - Sistemi Ferroviari S.p.A.) and rail signalling (Ansaldo Signal N.V.), with the sale of 52,174,000 shares at a price of €7.80 each. In April, an additional net receipt of about €mil. 60 was posted following the exercise of the greenshoe option by the banks coordinating the placement. A further 7,826,000 shares, equal to 7.83% of the company, were sold. Following these two transactions, 60% of Ansaldo STS is held by the market and 40% by Finmeccanica S.p.A.. The listing of Ansaldo STS did not involve the deconsolidation of the company; the debt figure for June 2006 therefore includes its net financial position.

Finally, it should be noted that the financial position again benefited from the offsetting effect of the consolidated taxation mechanism, with lower outlays of about €mil. 127 in the first half of 2006.

Finally, developments in the first half of the year also included the payment of €mil. 260 in respect of the acquisition of LFK GmbH, which was partially offset (€mil. 237) by the acquisition of that company's cash. As a result, and taking account of the fact that MBDA was consolidated proportionately, the overall cash impact for the Group was not significant.

As regards the composition of debt, bank debt and bonds did not change significantly during the period, edging down from €mil. 2,069 at 31 December 2005 to €mil. 1,996 at 30 June 2006.

Cash and cash equivalents declined from €mil. 1,061 at 31 December 2005 to €mil. 680 at 30 June 2006. The reduction was associated with meeting financial and operational needs, benefiting at the same time from the receipts from the listing of Ansaldo STS described earlier. Liquidity is largely held by the Group Parent, with the exception of cash temporarily held by subsidiaries, which transferred the funds to the centralized treasury system immediately after the closing of the period. As part of the centralization of Group finance operations under Finmeccanica, work is still under way on centralizing the liquidity of recent acquisitions in Italy and abroad.

As regards the composition of the remaining debt items, note that the item *other financial receivables* includes about €mil. 338 in respect of the unconsolidated portion of financial receivables that the joint ventures MBDA and Alcatel Alenia Space 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 items, are included in the Group's scope of consolidation on a proportionate basis. The item *financial payables to Group companies* includes the debt of about €mil. 360 of Group companies to the joint ventures, for the unconsolidated portion

CASH FLOW

€ millions	*For the six months to 30 June*			
	2006		***2005***	
Cash and cash equivalents at 1 January	1,061		2,055	
Cash flow from operating activities	626		527	
Changes in working capital	(710)		(402)	
Changes in other operating assets and liabilities	(145)		(267)	
Cash flow generated from (used in) operating activities	(229)		(142)	
Cash flow from ordinary investing activities	(279)		(219)	
Free operating cash flow		**(508)**		**(361)**
Strategic investments	355		(528)	
Changes in other financial assets	64		-	
Cash flow generated from (used in) investing activities	140		(747)	
Dividends paid	(214)		(111)	
Cash flow from financing activities	(73)		(476)	
Cash flow generated from (used in) financing activities	(287)		(587)	
Translation differences	(5)		9	
Cash and cash equivalents at 30 June	680		588	

The first half of 2006 closed with a decline in liquidity net of translation differences of €mil. 376 (compared with one of €mil. 1,476 in the year-earlier period). This can be attributed to the following factors:

- negative operating cash flow of €mil. 229, compared with negative operating cash flow of €mil. 142 in the corresponding period of 2005, largely attributable to seasonal variations in receipts in our core business, which are usually concentrated in the final months of the year;

- positive cash flow from investing activities equal to €mil. 140 (compared with a negative €mil. 747 at 30 June 2005). The aggregate figure reflects the receipt of €mil. 458 from the Ansaldo STS public offering and the outlay of €mil. 89 to complete the compulsory public tender for Datamat shares. Strategic transactions at 30 June 2005 included the effects of the agreements with BAE System in order to reorganize the Group's operations in the Defence Electronics sector, which amounted to €mil. 528;

- negative cash flow from financing activities of €mil. 287 (compared with a negative €mil. 587 at 30 June 2005), primarily owing to the dividend payment (of which €mil. 211 and €mil. 110 at 30 June 2006 and 2005, respectively, directly from the Group Parent). At 30 June 2005, cash flows from financing activities were negatively affected by the repayment of the convertible bond maturing in June (€mil. 953, including interest for the final coupon and additional interest paid upon settlement of the debt), which was partially offset by the placement of a new bond of €mil. 500 in March 2005.

4. Performance by division

HELICOPTERS

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	2,821	2,420	3,712
Order backlog	8,661	7,155	7,397
Value of production	1,348	1,168	2,490
EBIT	135	127	272
R.O.S.	10.0%	10.9%	10.9%
Working Capital	412	362	309
Net Invested Capital	2,114	2,039	2,023
R.O.I. (*)	12.8%	12.5%	13.4%
Research and Development	180	186	436
Employees (no.)	8,807	8,627	8,531

(*) Calculated on invested capital at period-end

HIGHLIGHTS

New orders were sharply higher (+17%) due both to the orders received from the UK Ministry of Defence – of particular note being the Future Lynx programme for the provision of 70 helicopters to the British Armed Forces, the MCSP order for the upgrade of the EH 101 Merlin MK1 helicopters being used by the Royal Navy, and the IMOS order for the transformation of the *modus operandi* for the provision of logistics support for the EH 101 fleet in service with the Royal Air Force and Navy – and to civil sales that saw new orders for 128 units (AW139/A109/A119).

Value of production increased from the first half of 2005 (+15%) due to the start of production on the US 101 contract, known as VH 71, for the President of the United States, as well as to the increase in the rate of production on the AW 139 line and the increase in volumes for the support activities generated in the United Kingdom.

EBIT rose by 6.3% over the same period of the previous year. The improvement was partly due to the aforementioned growth in volumes, as well as to the effect of efficiency enhancement actions undertaken as part of the process of integrating British and Italian activities.

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

Total volume of **new orders** for AgustaWestland came to €mil. 2,821 at 30 June 2006, sharply higher (+17%) on the same period of the previous year (€mil. 2,420).
The first half of the year saw a number of particularly significant commercial developments in the military segment, including the following orders received from the UK Ministry of Defence:

- the €mil. 1,400 programme for the provision of 70 Future Lynx helicopters to the British Armed Forces (2nd quarter), the first group of which, for the development phase, has a value of about €mil. 550. This contract, which calls for the delivery of 30 helicopters to the Royal Navy and 40 to the Royal Army beginning in 2011, is part of the strategic partnering agreement between the UK Ministry of Defence and AgustaWestland, which calls for close collaboration in the helicopter programmes of the British armed forces as also defined by the British government's Defence Industrial Strategy. This agreement, together with the Future Lynx contract, will ensure that the high-profile engineering and systems skills required by the UK Ministry of Defence are maintained at the AgustaWestland facilities in Yeovil in order to provide the needed support;

- the contract for the Merlin Capability Sustainment Plus (MCSP) programme with a value of about €mil. 550, which includes upgrading 30 EH 101 Merlin Mk1 helicopters in service with the British Royal Navy, with an option for a further 8 helicopters (1st quarter);

- the Integrated Merlin Operational Support (IMOS) contract, in the amount of about €mil. 640 for the first five of a total of 25 years, for the transformation of the *modus operandi* for the provision of logistics support for the fleet of EH 101 in service with the Royal Air Force and Navy (1st quarter).

Given its unique and virtually complete range of modern and competitive products, AgustaWestland has also proven its ability to compete in increasingly broad segments of the civilian market. Of note in that regard are the following orders:

- an additional 38 AW139 helicopters, including the provision of 12 helicopters to Mitsui (a Japanese civil aviation firm) and 8 to Hawker Pacific (Australian government agency) in the first quarter. The portfolio of orders for the AW139 continues to grow, with about 130 helicopters currently on order;

- an additional 59 A109 light twin-turbine helicopters. The company has scored a number of major successes for this type of craft, as demonstrated by the steady increase in the orders for this product, which now stands at 164 units;

- the order of 31 A119 helicopters, including 20 to Seacor for oil platform support and transport links;

The three types of helicopters mentioned above posted orders for a total of 128 craft for the first half of 2006, compared with the 70 units sold at 30 June 2005, an increase of more than 80%.

As a result of the high volume of new orders for the first half of the year, the value of the **order backlog** at 30 June 2006 came to €mil. 8,661, an increase of approximately 17% over the same figure at 31 December 2005 (€mil. 7,397).
The orders backlog at 30 June 2006 can be broken down into 65% for helicopters, 30% for support activities, and 5% for engineering and other activities.

The **value of production** at 30 June 2006 amounted to €mil. 1,348, an increase of 15% over 30 June 2005 (€mil. 1,168). This improvement is primarily attributable to the start of production on the VH 71 contract for the President of the United States, as well as to the increase in the rate of production on the AW 139 line and the greater volumes for the support activities generated primarily in the UK.
AgustaWestland output focused on the following main programmes:

- the EH101 for the Italian Navy, continuing activities for the second lot; five further units were delivered to the Danish government in the first six months of the year; the Portuguese government received all of its order with the delivery of the 12th and final helicopter; and activities continued for the provision of the EH 101 to the Japanese Navy with the delivery of the first helicopter;
- the Super Lynx 300 helicopter, with work continuing on contracts with the South African and Thai navies and having been completed on the contract with the Air Forces of Oman with the delivery of the 16th and final unit;
- the A109 Power helicopter for the civil/government market, of which 13 units have been delivered;
- the A109 “Grand” helicopter, of which eight machines have been delivered;
- the A129 helicopter in the combat (CBT) configuration and the upgrade in this configuration of the A129 Mangusta, currently in service with the Italian Army;
- the AB412 helicopter for Italian and foreign government agencies, of which two units were delivered;
- manufacturing of the A109E Power variant for contracts with the Swedish Armed Forces and the South African Air Force, with an additional 12 units delivered;
- activities concerning the production of the NH90 helicopter;
- logistics and support services for existing civil/governmental and military fleets.

At the end of 2004, AgustaWestland began work on a plan to integrate the UK and Italian units in order to increase profitability by an estimated €mil. 50 in operating margins once the plan is fully implemented, as well as to combine the objectives of improving operations and meeting shareholder expectations. In order to achieve these goals, given the outlook for the development of the international helicopter business, which is characterised by:

- great potential in the US market;
- the confirmation and development of the importance of the UK market;
- the opening of new international markets (e.g. Russia, India, China and the Far East);
- significant growth in global trade;

the previously adopted operating model has been redesigned in order to focus on:

- the creation of an integrated organisation with the elimination of the current national corporate organisational structures;
- the concentration and integration of technical and operational activities into a single unit (manufacturing, engineering, procurement, and product support);
- the creation of business units that are highly focused on specific market segments and are responsible for developing a specific business.

EBIT at 30 June 2006 amounted to €mil. 135, an increase of 6.3% over the same period of the previous year (€mil. 127). This improvement is due, in part, to the aforementioned growth in volumes, as well as to the effect of efficiency enhancement actions undertaken last year as part of the process of integrating British and Italian activities.

ROS settled at 10.0%, down 10.9% from 30 June 2005 due to product support activities related to the new contracts acquired in the UK

Invested capital at 30 June 2006 came to €mil. 2,114, up €mil. 91 compared with 31 December 2005 (€mil. 2,023) due to an increase in current assets as a result of the increase in production volumes. This increase is also reflected in **working capital**, the value of which reached €mil. 412 at 30 June 2006, compared with the €mil. 309 of 31 December 2005.

Return on invested capital (**ROI**), which reached 12.8% at 30 June 2006, remained in line with the value of 30 June 2005 (12.5%), while it fell by one half percent from 31 December 2005 (13.4%) due to the increase in invested capital.

Research and development expenditure at 30 June 2006 amounted to €mil. 180 (€mil. 186 at 30 June 2005) and primarily concerned:

- research as part of programmes financed through Law 808/85, which include the development of technologies, mainly for military purposes, for a new helicopter of the 6/7-tonne class named the A149 and development of the BA 609 convertiplane, which has reached an important milestone with the scheduling of its first flight by the end of the year;

- research into upgrading products, where activities continued on the customisation of the AW139 and "Agusta Grand" helicopters;

- research and development into variants of base models in connection with government/military contracts, which include the EH101, NH90 and A109 LOH/LUH helicopters.

AgustaWestland had 8,807 employees at 30 June 2006, a 3% increase from 31 December 2005 (8,531 employees). The rise was necessary in order to meet the technical/production needs related to the increase in business volumes.

DEFENCE ELECTRONICS

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	1,654	2,850	4,627
Order backlog	7,714	7,337	6,946
Value of production	1,737	1,209	3,324
EBIT	99	81	269
R.O.S.	5.7%	6.7%	8.1%
Working Capital	1,131	1,009	802
Net Invested Capital	2,820	2,548	2,154
R.O.I. (*)	7.0%	6.4%	12.5%
Research and Development	281	185	501
Employees (no.)	19,588	18,705	19,786

(*) Calculated on invested capital at period-end

HIGHLIGHTS

Significant **new orders** came for the infrared search and track (IRST) avionics system for the second tranche of the EFA, as well as for command, control and communication systems for the FREMM frigates and communication system activities in the UK, particularly for the Falcon programme. The decrease from the first half of the previous year is due to the order acquired in June 2005 by Selex Sensors and Airborne Systems for the production of the Defensive Aids Sub-System (DASS) for all Eurofighter Typhoon jets of the second lot (about €mil. 1,200).

Value of production increased thanks to the contribution of the UK avionics component and Datamat.

EBIT was higher due essentially to the change in the scope of consolidation. Also of note is the delay in the electronic ID card order for the applications related to national security, as well as the continuing delays connected with acquiring the TETRA Interpolice order for Communications.

As already detailed in last year's annual report, the agreement signed with BAE Systems plc (BAE) at the end of April 2005 deeply changed the structure of Finmeccanica's Defence Electronics division. This agreement entailed:

- the formation of a new company, Selex Sensors and Airborne Systems S.p.A., 75% owned by Finmeccanica and 25% owned by BAE Systems, which groups together the activities of Galileo Avionica S.p.A. and Selex Sensors and Airborne Systems Ltd.;
- the transfer to Finmeccanica S.p.A. of the military and secure communications businesses, which were absorbed by Selex Communications S.p.A.;
- the termination of the AMS joint venture and the return of the Italian business, now Selex Sistemi Integrati S.p.A., under full control of Finmeccanica.

From the fourth quarter of 2005, the Defence Electronics division also includes Datamat, a group involved the design and creation of information technology solutions, particularly in the defence, space and government markets. Finmeccanica S.p.A. currently holds a 90.005% stake in Datamat S.p.A., taking account of treasury shares.

Also last year, Finmeccanica, through its subsidiary Selex Service Management S.p.A. (SE.MA.), finalised participation in the consortium Innovazione e Progetti S.c.p.A., which is to develop the programme for the realisation and distribution of the electronic ID card.

It should also be noted that, up to 30 June 2005, this sector included Finmeccanica's International Naval Systems division. On 1 July 2005, the division was transferred to the associate Orizzonte - Sistemi Navali S.p.A., which also manages the contracts that remain wholly owned by Finmeccanica.

The different timing of the execution of these transactions, the varying contributions to consolidated results of these new enterprises and a lack of data regarding the prior period performance of the incoming entities means that it has not been possible to provide a like-for-like comparison of the figures, particularly earnings figures.

The division includes activities concerning the manufacture of avionics equipment and systems, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communications systems and networks for land, naval, satellite and avionic applications, and private mobile radio communications systems and IT and security activities.

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

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

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

At 30 June 2006, **new orders** totalled €mil. 1,654. The main new orders during the period include the following:

- avionics: additional orders finalised in the second quarter for the EFA programme, particularly the provision of some 200 infrared search and track (IRST) PIRATE systems for the aircraft of the second lot and spare parts for the Defensive Aids Sub-System (DASS), as well as for the development of the Helicopter Integrated Defensive Aids System (HIDAS) for AgustaWestland's Future Lynx helicopters for the UK Ministry of Defence, which join those already recorded in the first quarter for the production of the DASS for the Typhoon fighters going to Austria, for F18 avionics, and for activities concerning the Capability Sustainment Plus programme for the EH101 Merlin helicopter;

- land and naval command and control systems: an additional order in the second quarter for the FREMM frigates by Orizzonte - Sistemi Navali S.p.A. for the provision of the Combat Management System and the other command and control systems, which joins the order recorded by MBDA (in the Defence Systems segment) in the first quarter for the Empar radar for the frigates' missile system; air-traffic control: in the second quarter, ENAV E-Net finalised the contract for the adaptation, upgrade, and standardisation of the CNS-ATM systems of 4 ACCs (Milan, Brindisi, Rome and Padua) and 37 airports, while the first quarter included the acquisition of the contract with the Malaysian Ministry of Transportation for the provision of primary and secondary radar systems and control centres for two locations;
- integrated communications systems and networks: significant orders in the UK for the main strategic communications programme (Falcon) of the Ministry of Defence and for the second batch of Type 45 vessels, as well as for communication systems of the FREMM frigates and the EFA and for the provision of a new Mobile Radio Relay Station (MRRS) as part of the Theatre Independent Tactical Army and Air Force Network (TITAAN) programme for the Dutch Armed Forces, all of which were acquired in the second quarter;
- information technology and security: an order for postal automation in Greece acquired in the first quarter, as well as the Telecom order for the Italian secure postal network (*Rete sicura Poste Italiane*), the *Nuova Rete* (new network) order change by Poste Italiane, and an FREMM order (Datamat), all acquired in the second quarter.

The **order backlog**, net of work in progress, came to €mil. 7,714 at 30 June 2006, an increase of 11% over 31 December 2005.

The **value of production** came to €mil. 1,737 at 30 June 2006, an increase of 44% or €mil. 528 compared with the same period of the previous year. This increase is essentially due to the acquisition of the British avionics business and of Datamat. Revenues increased principally due to the following:

- avionics: the continuation of activities relating to DASS production and the production of avionics equipment and radar for the first and second tranches of the EFA programme, as well as systems for countermeasures, avionics for the helicopter programmes (NH90 and EH101) and AMX, the provision of Mirach 100/5 targets, Grifo combat radar, PAR systems, and logistics;
- radar and command and control systems: the continuation of activities relating to contracts with the Italian Navy, particularly for naval systems on the Nuova Unità Maggiore vessel and for the modernisation of the Maestrale Class and De La Penne frigates, FSAF and Orizzonte international cooperation contracts, FADR D-band land-based radar for Austria and NATO, as well as air traffic control programmes both in Italy and abroad);
- integrated communications systems and networks: activities relating to the development and manufacture of equipment for the NH90 and EFA aircraft (V/UHF, MIDS interface, interrogator, transponder), the provision of radio systems for NATO's AWACS aircraft, and the production of personal role radios;
- IT and security: activities relating to security, automation, IT, and defence systems and services.

EBIT at 30 June 2006 came to €mil. 99, an increase of €mil. 18 over the same figure posted for the first half of 2005. This growth is the result of the contribution of the UK avionics component and of Datamat, as well as of the improvement in command and control systems, which, in 2005, were penalised by extra costs arising for a number of contracts, and the increase in margins for the Information Technology & Security segment, which primarily reflects the first benefits of the strategic repositioning of Elsag.

ROS at 30 June 2006 settled at 5.7%, down from the 6.7% posted for June 2005 due essentially to the consolidation of UK avionics businesses, the profitability of which was lower than the sector average. This overall cyclical effect will be recovered over the coming financial years by achieving important synergies from projects for the integration and rationalisation of the avionics area.

Invested capital at 30 June 2006 came to €mil. 2,820, up €mil. 666 compared with 31 December 2005 (€mil. 2,154) due both to an increase in **working capital** (€mil. 329, up from the figure posted at the end of 2005), which reflects the growth in net inventories and higher payments to suppliers than receipts from customers, which is typical of the first part of the year, as well as in capital assets, which reflects the liability resulting from the put and call option of Finmeccanica and BAE Systems for the potential purchase/sale of the remaining 25% of avionics activities by BAE (€mil. 389) and the €mil. 53 increase in goodwill related to Datamat.

Research and development costs at 30 June 2006 came to €mil. 281, compared with the €mil. 185 of the same period of the previous year, and include the continuation of development for the EFA programme, the fine-tuning of the Falco UAV system, the development of naval and land-based command and control systems, the completion of development of radar systems for air traffic control, and the completion of the TETRA network.

At 30 June 2006, the division had 19,588 **employees**, representing a decrease of 198 employees from 31 December 2005, related essentially to the Information Technology & Security area due to the sale of Elsag STI S.p.A. and Elsag Business Process S.r.l. and of the ERP division of Datamat Soluzioni per le Imprese S.r.l.

AERONAUTICS

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	1,171	1,066	3,230
Order backlog	7,189	5,674	6,865
Value of production	968	944	2,046
EBIT	61	49	166
R.O.S.	6.3%	5.2%	8.1%
Working Capital	(503)	(400)	(764)
Net Invested Capital	76	33	(227)
R.O.I. (*)	n.s.	n.s.	n.s.
Research and Development	225	191	405
Employees (no.)	11,594	10,877	11,198

(*) Calculated on invested capital at period-end

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

HIGHLIGHTS

New orders were up 10% over the first half of the previous year due to the increased contribution of the civil segment, which accounts for 53% of the total, compared with the 47% at 30 June 2005. The positive trend in ATR new orders acquired by the GIE-ATR consortium and in the military segment has continued.

The period also saw an improvement in **EBIT** and **ROS**, as the reduction in risk due to the positive trends in sales and in the commercial outlook for the ATR programme has resulted in the release of excess provisions. The use of this provision was partially offset by deterioration at Alenia Aeronavali related primarily to provisions for charges on contracts and the expensing of development costs.

The **number of employees** increased due essentially to new hires associated with higher workloads, particularly for engineering and programmes under development.

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

In the first half of 2006, the main activities in the military division were as follows:

- Alenia Aeronautica: EFA development, production and logistics; production of the C27J aircraft, the continuation of upgrades to the Tornado aircraft (retrofit pre-mid-life upgrade) and the modernisation of avionics (ACOL) of the AMX for the Italian Air Force;
- Alenia Aermacchi: the production and logistical support for the MB339 and SF260 training aircraft, further development of the new M346 training aircraft, and feasibility studies for the M311 aircraft;
- Alenia Aeronavali: development and production for the B767 tanker programme and the overhaul and logistical support for the G222, AWACS and Atlantic aircraft.

The civil activities of Alenia Aeronautica mainly involved the following:

- Boeing: production of components for fuselages and control surfaces for the B767 and B777 aircraft. Development and sales activities continued for the new B787, the manufacturing of which is to be done in the new facilities at Grottaglie (central sections of the fuselage) and Foggia (horizontal stabilisers) beginning during the second half of 2006. In the Global Aeronautica LLC (a joint venture with Vought Aircraft Industries) facilities in Charleston, South Carolina, the sections of the fuselage manufactured by the two partners will then be assembled.

- Airbus: the design of components for the central section of the fuselage of the A380, of the tail cone for the A300, of mechanical wing components for the A340, and of a fuselage section for the A321;
- GIE ATR; in partnership with EADS-ATR, for the production of the ATR 42 and 72 turboprops;
- Dassault Aviation: for the fuselage section of the Falcon 2000 Extended Range and the engine nacelles for the Falcon 900EX.

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

In June 2006, Finmeccanica and Sukhoi Aviation Holding and their subsidiaries Alenia Aeronautica and Sukhoi Civil Aircraft Company (SCAC), respectively, signed an agreement establishing a strategic partnership for the Russian Regional Jet (RRJ) programme. The RRJ programme calls for the design, development, manufacture, marketing and support for a family of next-generation regional jets with capacities of between 75 and 100 seats. Based on the agreement, Alenia Aeronautica is to acquire a 25% stake plus one share in SCAC and will participate in the development of the aircraft, for which a number of partnership initiatives have already begun, as well as handle the certification of the aircraft to European standards and sales and technical support. In order to develop sales in the European and US markets, the two partners will also establish a joint venture based in Europe.

New orders at 30 June 2006 amounted to €mil. 1,171, an increase of €mil. 105 over the €mil. 1,066 of the first half of 2005 due to the greater contribution of the civil segment, particularly aerostructures. In the second quarter of 2006, new orders amounted to €mil. 740, primarily related to the following:

- the military segment: new orders related to five C27J aircraft plus an option for three to Bulgaria; the provision of ten ATR72 anti-submarine warfare (ASW) aircraft for sea patrol and anti-submarine activities to the Turkish Navy, the order for which has been operational since April 2006; and the maintenance and upgrading of the avionics of 12 MB339 aircraft already in use by Nigeria;

- the civil segment: new orders for the GIE-ATR consortium, including orders for 29 aircraft (for a total of 47 for the six months); the additional tranches for the B767, A380 and Falcon programmes; engine nacelles; and the transformation of three B767-300 aircraft, which represents the first order within the scope of the framework agreement between Alenia Aeronavali and Boeing.

Continuing with sales activities, and the sale of the C27J to the United States in particular, in June 2006 the proposal was submitted in response to the RFP related to the joint programme of the US Army and Air Force known as the Joint Cargo Aircraft (JCA). The initial provision concerns a maximum of 75 aircraft, but this could increase to more than 200 if the US Air Force confirms the selection of the C27J for its own needs. Partnering with Alenia Aeronautica for the initiative are both L3 Communications and Boeing Integrated Defence Systems, with participation agreements being signed with the latter in April 2006.
Also of note, again in June, is the signing of the order for the provision of three C27J aircraft to Lithuania. This order will be operational by the end of the year.

The **order backlog** at the end of June 2006 came to €mil. 7,189, made up principally of the following programmes: EFA (50%), B787 (16%), C27J (5%), and AMX (5%). The backlog grew by €mil. 324 from €mil. 6,865 at the end of 2005, and is expected to continue expanding over the medium/long term.

The **value of production** for the first half of 2006 totalled €mil. 968, an increase of €mil. 24 over the first half of 2005 (€mil. 944). Civil activities contributed to this growth with increases in ATR and A380 sales and manufacturing. Military production for Alenia Aermacchi and Alenia Aeronavali was slightly lower due, respectively, to the delay of a number of foreign orders and the reduced activities in aircraft for the Italian Air Force for the B707 tanker overhaul and Breguet Atlantic inspections.

EBIT at 30 June 2006 came to €mil. 61, an increase of €mil. 12 over the €mil. 49 posted for the first half of the previous year; ROS was 6.3%, compared with the 5.2% of 30 June 2005.
The results posted by Alenia Aeronautica, Alenia Aermacchi, and the GIE-ATR consortium were essentially in line with those of the same period of the previous year. For the GIE-ATR consortium, the reduction in risks thanks to the positive trends in sales and the commercial outlook for the ATR programme prompted the release of excess provisions. This was partially offset by a deterioration at Alenia Aeronavali related primarily to provisions for charges on contracts, the expensing of development costs and lower than expected productivity.

Working capital at 30 June 2006 came to a negative €mil. 503, up €mil. 261 compared with 31 December 2005 (a negative €mil. 764). This increase, which is, in part, a normal development in the first half of the year, is primarily attributable to net inventories, which were affected by higher advances to suppliers and a number of delays in invoicing, with the related impact on cash inflows. Non-recurring work in progress also increased over 31 December 2005 as a result of the development activities conducted during the period.

Net invested capital at 30 June 2006 came to €mil. 76, an increase of €mil. 303 over the negative €mil. 227 at 31 December 2005, due entirely to developments in working capital, as noted above, and the increase in capital assets as a result of larger investments, particularly those regarding the new Grottaglie facilities and plant and machinery for B787 production.

Research and development costs for the first half of 2006 came to €mil. 225, representing an increase of €mil. 191 over the same period of 2005. This result reflects the greater commitment to activities of programmes such as B787, C27J, M346, second tranche EFA activities, Tornado, AMX, Unmanned Air Vehicles (UAVs), A380, engine nacelles, and B767 tankers. Technical research and development also continued along two main strands, namely aerostructures and systems integration.

The **number of employees** at 30 June 2006 stood at 11,594, representing an increase of 396 over the 11,198 employees at 31 December 2005. This increase was due to new hires by Alenia Aeronautica in order to cope with higher workloads, particularly for engineering and new programmes.

SPACE

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	331	267	599
Order backlog	1,166	1,306	1,154
Value of production	349	373	736
EBIT	16	21	26
R.O.S.	4.6%	5.6%	3.5%
Working Capital	21	153	(18)
Net Invested Capital	342	238	309
R.O.I. (*)	9.4%	17.6%	8.4%
Research and Development	30	54	79
Employees (no.)	3,218	3,282	3,194

(*) Calculated on invested capital at period-end

Note that the figures at 30 June 2005 include the companies Alenia Spazio and Telespazio, 100% consolidated, while those at 30 June 2006 are related to the two new joint ventures (Alcatel Alenia Space S.A.S. and Telespazio Holding S.r.l.), consolidated on a proportionate basis at 33% and 67%, respectively. Therefore, the figures for the current financial period cannot be compared with those of the previous period.

HIGHLIGHTS

New orders rose by about €mil. 64 from their level in the same period of 2005 due to increased orders in the commercial satellite segment.

The **value of production** declined by approximately 6% from the first half of 2005 due to lower production in the manufacturing segment.

EBIT fell by €mil. 5 from June 2005 due, in particular, to the greater impact of the cost of labour net of the production synergies achieved by the new joint ventures.

Since 1 July 2005, Finmeccanica has operated in the space industry through Telespazio Holding S.r.l. (satellite services), which is based in Italy and has its main industrial facilities in Italy, France and Germany and in which Finmeccanica holds a 67% stake, as well as through Alcatel Alenia Space S.A.S. (manufacturing), which is based in France and has its main industrial facilities in France, Italy, Belgium and Spain and in which Finmeccanica holds a 33% stake.

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

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

In the first half of 2006, **new orders** came to €mil. 331, up €mil. 64 from the same period of 2005 (€mil. 267), thanks, above all, to the higher level of new orders for commercial satellites. The most significant new orders for the period were:

- in the first quarter, orders related to the Turksat 3A and Ciel 2 telecommunications satellites and to the Kompsat payload, the additional tranche related to the Herschel/Plank science programme, the renewal of long-term TV service contracts (particularly W3/Express for RAI), and the new orders for orbital satellite management (particularly Eutelsat AB1 and Satelcom Geo);
- in the second quarter, the orders related to the payload of the Arabsat 4AR and AMC21 commercial satellites, the additional new orders related to the Galileo and Egnos satellite navigation programmes, the new orders in the transport equipment and infrastructures sector, and new orders for the provision of telecommunications and earth observation satellite services (particularly the Agrisian contract).

The **order backlog** at 30 June 2006 came to €mil. 1,166, an increase of about €mil. 12 over the same figure at 31 December 2005 (€mil. 1,154). The order backlog, based on the amount of work ready to begin, guarantees coverage of 90% of production expected for the next six months of the year. The backlog at 30 June 2006 is composed of manufacturing activities (45% satellites, 15% infrastructure and equipment) for 60% and satellite services for 40%.

The **value of production** for the first half of 2006 came to €mil. 349, down about €mil. 24 from the same period of the previous year (€mil. 373) due to the manufacturing component. The principle sources of production revenues were:

- the start of project activities related to the Turksat 3A and Ciel 2 telecommunications satellites;
- the continuation of activities relating to:
  - the Cosmo-SkyMed and Pleiades earth observation programmes;
  - the StarOne C1/C2, Alphabus, Thaicom 5, Chinasat 6B/9, Galaxy 17, Rascom and Koreasat 5 commercial satellites;
  - the Herschel/Plank, Alma and Goce science programmes and the Meteosat Second Generation programme;
  - the Syracuse and Sicral 1B military telecommunications satellites;
  - the Galileo and EGNOS navigation programmes;
- the continuation of the programmes connected with the International Space Station;
- the development of equipment and devices for EQS France/Italy and for the Koreasat 5 satellite, and the payloads for the Arabsat 4A/4B/4R, Express AM 33/34, Kompsat, and AMC21 satellites;
- the provision of telecommunications satellite services, earth observation services, orbital satellite management, and, in the television sector, the resale of satellite capacity and provision of broadcasting services.

EBIT at 30 June 2006 came to €mil. 16, down €mil. 5 from 30 June 2005 (€mil. 21) due essentially to a greater incidence of labour costs, net of production synergies resulting from the new joint ventures. As a result, **ROS** fell from the 5.6% of the first half of 2005 to 4.6% at 30 June 2006.

Net invested capital at 30 June 2006 came to €mil. 342, an increase of €mil. 33 over 31 December 2005, attributable primarily to **working capital** of €mil. 21, up €mil. 39 over 31 December 2005 (a negative €mil. 18) due to growth in net inventories and a decline in trade payables, net of an increase in receipts on trade receivables.

Research and development costs for the first half of 2006 came to €mil. 30, down about €mil. 24 from the same period of 2005 (€mil. 54) as a result of the synergies achieved with the establishment of joint ventures. Key activities in this area included:

- research and development phases for programmes such as:
  - Cosmo (SAR radar), Syracuse and Sicral 1B, Sentinel 1 (SAR radar, altimeter and radiometer);
  - science programmes (Alma, Spirale/Melissa, Bepi-Colombo, Goce and Herschel/Plank);
  - Egnos and Galileo (phase GSTB V2);
- studies relating to:
  - future experiments on board the International Space Station;
  - capsules, orbital infrastructure and manned re-entry craft;
  - the development of production technology (equipment, flexible payloads, etc.) for mobile and/or broadband applications in particular;
  - the development of GIS platforms, algorithms and processors for SAR interferometry;
  - the definition of solutions for advanced telecommunication, satellite navigation, infomobility, and digital terrestrial TV.

The **number of employees** at 30 June 2006 came to 3,218, an increase of 24 over the 3,194 of 31 December 2005 due to delays in the implementation of the approved Alcatel Alenia Space reorganisation in France.

DEFENCE SYSTEMS

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	338	332	763
Order backlog	4,087	4,124	3,869
Value of production	512	469	1,154
EBIT	22	20	112
R.O.S.	4.3%	4.3%	9.7%
Working Capital	(270)	(225)	(321)
Net Invested Capital	214	200	111
R.O.I. (*)	n.s.	n.s.	n.s.
Research and Development	126	73	268
Employees (no.)	4,304	4,138	4,104

(*) Calculated on invested capital at period-end

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

HIGHLIGHTS

Value of production at 30 June 2006 increased 9% over the first half of 2005 due primarily to the growth in missile systems and, to a lesser extent, to land-based weapons systems.

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

In February, as part of the integration of the European missiles industry, MBDA finalised the acquisition of the German firm LFK GmbH, which has been consolidated as of 1 March 2006.

New orders for the first half of the year came to €mil. 338, which is in line with the same period of 2005, when there was a significant level of new orders for torpedoes in Portugal and for submarine counter-measures in India. Of particular importance was the order completed in the second quarter by the German company recently acquired by MBDA for the third-generation Trigat long-rang anti-tank missile system for German helicopters. Other key orders for the period included the following: the provision of Exocet SM39 anti-ship missile systems and Sea Wolf air-defence and anti-missile systems for Chilean submarines and frigates, respectively; customer support in the missile systems segment; customer support concerning the FREMM frigates for the Italian Navy (2nd quarter) within the naval weapons segment; an initial tranche of activities concerning the FREMM frigates (1st quarter) in the underwater systems segment; as well as orders for Hitfist turrets in Ireland and turret components in Poland within the land-based weapons segment.

The **order backlog** at 30 June 2006 came to €mil. 4,087, 69% of which related to missile systems, an increase of approximately 6% over 31 December 2005.

The **value of production** at 30 June 2006 came to €mil. 512, an increase of 9% over the first half of 2005 due primarily to missile systems and, to a lesser extent, to growth in the PZH 2000 programme in the land-based weapons systems segment.

Revenues benefited from the following activities:

- activities relating to the following: the production of Storm Shadow air-to-surface missile systems for the British Ministry of Defence, SCALP EG for the French Ministry of Defence, and Black Shaheen for exporting; the production of FSAF systems; the production of MICA air-to-air missiles and Brimstone anti-tank missiles, as well as customer support activities;
- land, naval and aeronautical weapons systems: the provision of PZH 2000 howitzers to the Italian Army; and the production of turrets for the Centauro armoured car for the Spanish Army;
- underwater systems: activities relating to the new Black Shark heavy torpedo and the production of MU90 light torpedoes.

EBIT for the first half of 2006 came to €mil. 22, an improvement of €mil. 2 over the same period of 2005, when this figure benefited from a non-recurring gain for the disposal of an Otomelara property. This improvement was essentially due to greater business volumes, improved profitability, and the consolidation of the German firm in the missiles segment.

ROS at 30 June 2005 was in line with that of the first half of 2005.

Working capital came to a negative €mil. 270 at 30 June 2006 due principally to advances from MBDA customers, an increase of €mil. 51 over 31 December 2005 (a negative €mil. 321) following the performance of the first few months of the year, which saw an increase in net inventories and an imbalance in payments to suppliers compared with receipts.

Net invested capital at 30 June 2006 came to €mil. 214, an increase of €mil. 103 over 31 December 2005 due both to the growth in working capital and the recognition of goodwill related to the acquisition of LFK GmbH (€mil. 62) in the missile systems segment.

Research and development spending for the first half of 2006 came to €mil. 126, an increase of 73% over the same period of 2005. Some of the key activities included the continuation of development of the Meteor air-to-air missile, guided munitions in the land and naval weapons segment, and the Black Shark heavy torpedo in the underwater systems segment.

The **number of employees** at 30 June 2006 came to 4,304, an increase of 200 from 31 December 2005, due essentially to the acquisition of LFK GmbH.

ENERGY

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	676	436	1,032
Order backlog	2,587	2,181	2,329
Value of production	426	338	772
EBIT	18	12	39
R.O.S.	4.2%	3.6%	5.1%
Working Capital	(336)	(136)	(193)
Net Invested Capital	(330)	(135)	(184)
R.O.I. (*)	n.s.	n.s.	n.s.
Research and Development	7	5	13
Employees (no.)	2,550	2,544	2,529

(*) Calculated on invested capital at period-end

HIGHLIGHTS

The Energy sector posted generally better financial and operating performance for the first half of 2006. This improvement is strongly correlated to the full development of technological autonomy achieved in 2005, which, together with the significant commercial successes achieved following the conclusion of the licence with Siemens and the constant growth in the Service segment, has enabled Ansaldo Energia to operate independently as one of the leading service providers in the power generation market.

In this context, Ansaldo Energia closed the first half of 2006 with a stronger presence in the domestic market and is exploring new opportunities for growth in Africa, Latin America, and the Middle and Far East.

The Energy division is made up of Ansaldo Energia S.p.A., a wholly owned subsidiary, and its direct subsidiaries, including Ansaldo Nucleare S.p.A. and other smaller firms.

In the first half of 2006, **new orders** totalled €mil. 676 (with 89% in Italy and 11% abroad), which is sharply higher than the same period of the previous year (€mil. 436), of which 52% related to plants and components, 44% to service activities, and 4% to nuclear work.

Notable among new orders for plant and components were the following:

- an 800 MW combined-cycle plant for the Rizziconi facilities in Reggio Calabria for the EGL Group (order received in the first quarter);
- the design and provision of a steam turbine for the Amercoeur plant in Belgium for Electrabel.

New orders in the Service segment were sharply higher, going from the €mil. 116 of 30 June 2005 to €mil. 294 at 30 June 2006, an increase of 153% (note that new orders for the first quarter came to €mil. 235.)

For the first half of 2006, new orders in the Service segment were characterised by a strong growth in Long Term Service Agreements (LTSAs) and flow contracts (repairs, spare parts, maintenance, and upgrades). LTSAs accounted for 78% of all new orders, with flow contracts accounting for the remaining 22%.

The main new orders in the Service segment include the following:

- an LTSA for the new Rizziconi plant (order received in the first quarter);
- an LTSA for existing plants at the Ferrara and Teverola facilities;
- flow contracts for maintenance and spare parts for machines installed in Italy and abroad (Europe, Africa, the Americas, Asia, and the Middle East).

New orders in the Nuclear segment were associated with the continued construction of the second unit of the nuclear power plant of Cernavoda in Romania, as well as other service and decommissioning activities.

As a result of the high volume of new orders, the **order backlog** at 30 June 2006 came to €mil. 2,587, compared with the €mil. 2,329 of 31 December 2005, an increase of 11%.

The **value of production** came to €mil. 426 at 30 June 2006, an improvement of 26% over the same period of the previous year (€mil. 338). This increase is due essentially to the aforementioned Rizziconi order and activities related to other contracts of a prevalently systems nature for the plants at Sparanise, Rosignano, Vado Ligure, and Escatron, as well as to the continuation of work for Enipower for its various sites in Italy and for the Iranian customer Mapna.

The contribution of each area of business to value of production is as follows: Plant – €mil. 331 (78%); Service – €mil. 72 (17%); Nuclear – €mil. 23 (5%).

EBIT for the first half of 2006 came to €mil. 18, an increase of 50% over the same period of the previous year (€mil. 12) attributable to the increase in volumes, despite the increase in research and development spending for the period (€mil. 7, compared with the €mil. 5 of the first half of 2005). **ROS** came to 4.2%, an improvement of 0.6 percentage points over 30 June 2005.

Working capital posted a significant improvement at 30 June 2006, reaching a negative €mil. 336, compared with the negative €mil. 193 of 31 December 2005. The main effects include the advances received on new orders, Rizziconi in particular, which confirms the positive trend in the financial management of contracts and an efficient balance of cash inflows and outflows.

Net invested capital also improved to a negative €mil. 330 at the end of the first half of 2006, compared with the negative €mil. 184 of the end of 2005.

Research and development costs came to €mil. 7 (€mil. 5 for the first half of 2005) due to the continuation of the activities called for by the plan for technological independence in the area of gas and steam turbines, which began in previous periods.

The **number of employees** at 30 June 2006 was 2,550, compared with 2,529 at 31 December 2005, an increase of 21.

TRANSPORTATION

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	1,143	836	1,615
Order backlog	4,401	3,921	3,956
Value of production	689	586	1,230
EBIT	27	(13)	(48)
R.O.S.	3.9%	(2.2%)	(3.9%)
Working Capital	100	358	235
Net Invested Capital	338	507	441
R.O.I. (*)	16.0%	n.s.	n.s.
Research and Development	23	17	40
Employees (no.)	6,525	6,207	6,321

(*) calculated on invested capital at period-end

HIGHLIGHTS

New orders were up 37% over the first half of 2005 thanks to an increase in new orders in Systems and Vehicles. For both business segments, the formalisation of contracts for the driverless underground transit systems in Thessaloniki and for Milan's Line 5 totalling €mil. 280 and €mil. 153 for the two segments, respectively.

Value of production was up €mil. 103 (+18%), €mil. 64 of which attributable to an increase in activities in the Signalling division and €mil. 30 to an improvement in the general performance of the Vehicles division over the first half of 2005, which reflected the initial effects of the extensive revision of contract estimates, thereby heavily penalising the previous financial year.

EBIT increased by €mil. 40, attributable primarily to the Vehicles segment, which, despite posting an operating loss of €mil 15 (ROS of -6.2%), showed a significant improvement over the financial performance of the first half of 2005, as well as to the

Signalling segment (ROS of 9.7%), which benefited from a substantial increase in margins. Systems also performed well (ROS of 10.5%).

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

On 24 February 2006, Ansaldo STS acquired stakes in Ansaldo Trasporti - Sistemi Ferroviari S.p.A. (Systems) and Ansaldo Signal N.V. from Finmeccanica S.p.A. (Signalling), while in April 2006 Finmeccanica S.p.A. completed a public tender for the sale of a 60% stake in Ansaldo STS. Since 29 March 2006, the company’s shares have been traded on the STAR segment of the Italian electronic stock market.

In the first half of 2006, the three business divisions showed the following performance:

- Signalling: positive trends with improvements both in financial position and performance, especially thanks to the Italian subsidiary Ansaldo Segnalamento Ferroviario;
- Systems: strong commercial performance both in Italy and abroad, particularly in the area of driverless metro systems;
- Vehicles: improvements in financial performance over 2005, but with continued operating losses, reflecting the effects of the sharp reductions in contract margins as a result of the revision of estimates in the previous year following the emergence of significant production difficulties for a number of contracts. In that regard, actions are under way as defined by the reorganisation and development plan prepared in 2005 in order to limit the impact of these issues and to lay the groundwork for profit growth.

New orders acquired in the first half of 2006 totalled €mil. 1,143, an increase of €mil. 307 over the first half of the previous year (€mil. 836), reflecting increased orders in Systems and Vehicles, while orders in the Signalling division declined. The key orders during the period included the following:

- Signalling: orders placed by Rete Ferroviaria Italiana for the provision of ground systems relating to the 2c phase of the "automated train control systems" (SCMT) framework agreement, the order by Trenitalia concerning the fourth contract for supplying on-board SCMT devices for trains, and the orders related to the Ghaziabad-Kanpur line in India and for the Chicago subway line, all acquired in the first quarter; the order related to the high-speed Perpignan-Figueras line in France and Spain acquired in the second quarter, and contracts as part of the agreement signed with the Australian Rail Track Corporation (ARTC) in the first and second quarters;
- Systems: the extension of the operation and maintenance contract for the automated underground transit system in Copenhagen in the first quarter, and the orders related to the automated (driverless) metro systems in Thessaloniki and Milan (Line 5) received in the second quarter;
- Vehicles: the Sirio trams for Kayseri in Turkey and the options for Line 1 of the Milan metro, both acquired in the first quarter; the contract for Line 2 of the Milan metro and the orders related to the automated metro systems in Thessaloniki and Milan (Line 5) acquired in the second quarter.

At 30 June 2006, the **order backlog** for the division totalled €mil. 4,401, an increase of €mil. 445 over the same figure at 31 December 2005 (€mil. 3,956).

The **value of production** for the first half of 2006 came to €mil. 689, an increase of €mil. 103 over the first half of 2005 (€mil. 586), which was attributable to the Signalling and Vehicles divisions. Among the noteworthy orders in the Transportation division were the following:

- Signalling: high-speed train orders in Italy and France; automated train control systems (SCMT), both wayside and on-board, for Italy; second phase of the Channel Tunnel Rail Link; and the manufacture of components.
- Systems: the metro systems of Naples and Copenhagen; the Alifana regional line; and high-speed rail orders in Italy;
- Vehicles: trains for the Madrid metro; DMU trains for the Danish railways; high-volume passenger trains for Morocco; trains for regional service for Ferrovie

Nord Milano; E402 locomotives and ETR500 Politensione trains for Trenitalia; trams for the cities of Los Angeles and Gothenburg; high-speed trains for the Netherlands-Belgium railways; and service and revamping activities.

EBIT for the first half of 2006 came to €mil. 27, an increase of €mil. 40 over the same period of the 2005, thanks to the sharp improvement in the Vehicles and Signalling divisions. **ROS** for the sector improved as a result, reaching 3.9% compared with the negative 2.2% recorded for the first half of the previous year.

Working capital at 30 June 2006 amounted to €mil. 100, a decline of €mil. 135 from the figure posted at 31 December 2005 (€mil. 235). This improvement is primarily attributable to the Signalling division, particularly for the Italian subsidiary Ansaldo Segnalamento Ferroviario, which benefited from a high level of collections on trade receivables.

Net invested capital at 30 June 2006 came to €mil. 338, down €mil. 103 from 31 December 2005 (€mil. 441), as the aforementioned reduction in working capital was offset primarily by an increase in equity investments in the Systems segment due to investments in the companies established for the contracts related to the new Rome (Line C) and Milan (Line 5) metro lines.

Research and development costs for the first half of 2006 came to €mil. 23, up €mil. 6 from the same period of 2005 (€mil. 17), which is essentially attributable to the Signalling segment. In particular, these activities concerned Signalling projects, aimed primarily at meeting the new requirements emerging both in the railway segment (level 2 of the European Rail Traffic Management System, or ERTMS rbc) and the mass transit segment (Communications Based Train Control, or CBTC), as well as the development of certain on-board equipment (the next-generation cab).

The **number of employees** at 30 June 2006 stood at 6,525, an increase of 204 compared with 31 December 2005 (6,321 workers), principally due to hiring in the Signalling division.

OTHER ACTIVITIES

€ millions	30.06.2006	30.06.2005	31.12.2005
New orders	39	84	465
Order backlog	402	185	487
Value of production	104	68	170
EBIT	(73)	(46)	(101)
R.O.S.	n.s.	n.s.	n.s.
Working Capital	(306)	(19)	(33)
Net Invested Capital	610	996	975
R.O.I. (*)	n.s.	n.s.	n.s.
Research and Development	-	-	-
Employees (no.)	893	1.069	940

(*) Calculated on invested capital at period-end

This division the Elsacom NV group, which manages satellite telephony services; Mecfin - Meccanica Finanziaria S.p.A., a real estate and service management company; Ansaldo Ricerche S.p.A to carry out spin-offs of branches of business to be managed with other synergic partners, such as the production of energy through fuel cells with the Ansaldo Fuel Cells S.p.A. subsidiary; Finmeccanica Finance SA, responsible for providing financial support to the Group; and SO.GE.PA - Società Generale di Partecipazioni S.p.A., responsible for centrally managing the pre-winding-up/winding-up and rationalisation processes of companies falling outside the business sectors through transfer/repositioning transactions. Effective 27 July 2006, the shareholdings ALS S.p.A. and Iritech S.p.A. were merged into SO.GE.PA. S.p.A. The division also includes Fata S.p.A., which operates in the area of plants for the processing aluminium and steel flat rolled products and engineering design in the electricity generation area for engineering, procurement and construction (EPC) activities. In that regard, it should be noted that, during the previous year, the Hormozal contract for the provision of a second refining line at the Bandar Abbas smelter, with a production capacity of 147,000 tonnes of aluminium per year, came into effect. This contract is worth €mil. 315.

As a result of the adoption of the IFRSs, the following equity investments in liquidation were included within the scope of consolidation as from 31 December 2004: Ansaldo Industria S.p.A., Fata Automation S.p.A., and Fata Group S.p.A.
Also as of 2004, Bredamenarinibus S.p.A., which manufactures urban and interurban buses, was deconsolidated from the division, with the recognition of the income and expense items under discontinued operations and of the assets and liabilities as held for sale. This company's operations are undergoing reorganisation in order to make the business more attractive to potential buyers.

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

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

- further strengthening of the mechanisms for the coordination of companies, including through development of specific Central Management structures, so that the individual parts could operate through a single policy, not just in financial terms, but particularly in industrial terms, involving the key processes of product engineering, technology and commercial strategy. This was done within the framework of optimising the allocation of resources within the Group in order to maximise returns and avoiding overlapping, which restricts effectiveness and efficiency.

- the assignment of specific objectives to the companies: firstly, the constant growth of EBIT, thanks to increased volumes and continuous efficiency efforts, such as the optimisation of procurement, the rationalisation of production sites, as well as company restructuring leading to the containment of working capital; and secondly, but of no less importance, the reduction of industrial and structural costs;

- review of processes from a Group perspective, in particular those that could have an effect on the optimisation of areas with possible synergies, such as information technology and real estate management;

- the issuance of specific directives aimed at the progressive alignment of cash flows with income and expenses and an ordered and the dynamic growth of investments. This will guarantee a more efficient correlation between the absorption of resources aimed at sustaining important future programmes and the associated returns;

- continued development of a process for the dissemination of a Group methodology for controlling and managing programmes, based on the integration of the international standards of life cycle management, phase review, project control, and risk management. The unification and implementation of control processes, scheduled to occur by the end of 2007, will reduce the level of risk, improve the quality of profitability and manage more efficiently reduction in inventories and increases in production efficiency;

- fulfilment of the principal aspects of the IAS/IFRS transition project, which has led to the preparation of the "Finmeccanica Group IAS/IFRS Accounting Standards Handbook", which will also be used by the companies in drawing up their statutory individual financial statements for 2006. The new phase of planning activities will focus on the implementation of managerial and administrative processes and the information systems necessary for the definitive implementation of the new accounting standards within the company, as well as the review of administrative flows, including from the perspective of simplification/integration with other company functions, and for providing greater support for industrial processes.

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

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

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

For the purposes of comparison, it should be noted that, in addition to its Corporate division, which plays a role of guidance, control, and support for the companies of the Group, Finmeccanica was, until 30 June 2005, directly active in the Defence Electronics industry through its International Naval Systems division. This division managed relations with Eurosysnav SAS for the realisation of defence systems as part of the Horizon SAS contract for the manufacture of Orizzonte-class frigates for the Italian and French navies. On 1 July 2005, the division was transferred to the associate Orizzonte - Sistemi Navali S.p.A., which will manage the contracts that remain wholly owned by Finmeccanica.

The table below shows the financial performance for the first half of 2006.

€ thousands	*For the 6 months to 30 June*	
	2006	*2005*
Revenues	25,009	27,837
Change in work in progress, semi-finished and finished products	-	-
	25,009	27,837
Costs for purchases and personnel	(96,007)	(87,057)
Depreciation and amortisation	(3,414)	(4,442)
Writedowns	-	-
Restructuring costs	-	-
Other net operating income (costs)	104,944	37,668
EBIT	30,532	(25,994)
Net financial income (charges)	630,437	75,416
Income taxes	24,086	16,597
NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS	685,055	66,019
Result of discontinued operations	-	-
NET PROFIT (LOSS)	685,055	66,019

- Revenues (value of production) came to €mil. 25, a decrease of about 11% from the same period of the previous year (€mil. 28). They are essentially comprised of revenues from services and the change in contract work in progress related to the contracts that remain the property of Finmeccanica following the sale of the International Naval Systems division;

- Costs for purchases and personnel went from the €mil. 87 of the first half of 2005 to €mil. 96 for 2006. This item can be broken down as follows:

		30.06.06		30.06.05
Purchase of materials		1		-
Purchase of services		61		59
Costs for rents and operating leases		4		4
Total costs for goods and services		66		63
Wages and salaries		27		23
Costs for PSP		2		-
Costs for LTIP		1		-
Social security contributions		8		6
Costs for staff severance pay		1		1
Costs related to other defined-benefit plans		-		1
Employee disputes		(1)		1
Other costs		(8)		(8)
Total personnel costs		30		24
Capitalised costs for internal construction		-		-
Total		96		87

The increase in costs for goods and services (about 5%) is due to the increase in services received in the first half of 2006.

Personnel costs, net of recoveries, came to €mil. 30, compared with the €mil. 24 of the same period of 2005, for a net increase due to: the gradual shift in contract categories towards more managerial roles; long-term management incentive programmes launched at the end of 2005; the effect of the renewal of the Italian collective labour agreement for the metalworking industry; and an increase in the workforce, less the decrease related to the cost of human resources for the International Naval Systems division, which was sold on 1 July 2005.

The average number of active employees came to 284, compared with 296 in the same period of the previous year, for a net decrease of 12 employees due to the sale of the International Naval Systems division (-34 employees) net of increases related to a strengthening of the Marketing & Commercial Affairs and Group Strategies & Finance units, as well as the gradual centralisation within the Company of the top management of a number of Group companies. It should also be noted that the costs related to the latter factor are subsequently billed back to the various companies.

The number of employees at 30 June 2006 was 296, an increase of 14 from the 282 of 31 December 2005, due essentially to the factors listed above;

- Depreciation and amortisation decreased from the same period of the previous year due essentially to the change in property, plant and equipment following the sale of assets to Ansaldo STS. Depreciation for the period, in the amount of €mil. 3 (€mil. 4 for the same period of 2005), is related to both property, plant and equipment and investment property;

- Other net operating income came to €mil. 105 (€mil. 37 for the same period of 2005) and can be broken down as follows:

	30.06.06		***30.06.05***
Contributions for training, research and development	1		-
Net exchange rate differences on operating items	(1)		-
Indirect taxes	(3)		(1)
Gains on the disposal of non-current assets	62		20
Gains on investment property	8		9
Provisions used (accrued)	39		11
Other operating income (costs)	(1)		(2)
Total	105		37

More specifically, the gains on the disposal of non-current assets concern the recognition of deferred capital gains during the period, which were originally generated by the transfer/disposal of business units during the period 1998-2002, as well as to subsequent sales to companies of the Group. These figures are correlated with the increases in depreciation for the individual companies that received these business units, as well as with any related writedowns of the assets transferred. The balance for the first half of 2006 also includes €mil. 20 for the accrued portion of the gains on the sale of the property complex in Genoa to Ansaldo STS;

- EBIT came to €mil. 31, compared with a loss of €mil. 26 for the same period of the previous year;

- Net financial income amounted to €mil. 630, up by €mil. 555 over the same period of the previous year (net income of €mil. 75). It should be noted that this item is comprised of the net balance of financial income and charges of €mil. 653 in income for the first six months of 2006 (compared with net income of €mil. 124 in the same period of 2005) and the net negative impact of the measurement of equity investments of €mil. 23 for the first half of 2006 (a negative €mil. 49 in the same period of 2005). More specifically:

	30.06.06		***30.06.05***
Dividends	242		97
Gains on securities and equity investments	413		1
Net interest and commissions	(24)		(16)
Net result on financial instruments measured at fair value through profit or loss	21		46
Net exchange rate differences	1		(5)
Other net financial income (charges)	-		1
Total	653		124

Dividends included dividends received from subsidiaries in the amount of €mil. 235 (€mil. 97 at 30 June 2005) and associates in the amount of €mil. 7 (nil at 30 June 2005).

Specifically, it includes: AgustaWestland (€mil. 80); Selex Sistemi Integrati (€mil. 31); So.Ge.Pa (€mil. 24); Ansaldo Signal (€mil. 22); Ansaldo Energia (€mil. 17); and Selex Sensors and Airborne Systems SpA (€mil. 16).

The gains on equity investments are comprised entirely of the net gain on the sale via public tender of a 60% stake in Ansaldo STS S.p.A.

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

	Income		Charges		Net
Currency options and swaps	2		-		2
Interest rate swaps	1		-		1
Options on STM	43		-		43
Option embedded in the exchangeable bond	-		(25)		(25)
	46		(25)		21

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

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

		30.06.06		*30.06.05*
Ansaldobreda S.p.A.		(19)		(49)
Net results of other equity investments		(4)		-
		(23)		(49)

- With regard to taxes for the period, it should be noted that no provisions have been made for current or deferred taxes, in line with the first half of 2005. More specifically, for corporate income tax (IRES), no provision was made given that the period benefited from tax-exempt income components (deferred gains on past transfers/disposals and partial participation exemptions on gains from the sale of equity investments) and from the positive effect of the recognition for tax purposes of negative components that were taxed in previous periods (e.g. the use of provisions for risks and charges).

  This item also reflected the recognition of a tax-exempt gain of €mil. 24 (€mil. 17 in the first half of 2005) resulting from the adoption of the consolidated taxation mechanism envisaged under Legislative Decree 344/2003 of 1 January 2004.

  For the half-year period, a benefit of €mil. 24 was recognised for the measurement of the overall IRES loss that was absorbed by consolidated taxation.

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

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

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

The table below breaks down the balance sheet at 30 June 2006.

€ thousands	*30.06.06*	*31.12.05*
Non-current assets	8,275,286	8,089,795
Non-current liabilities	1,993,316	2,031,936
	6,281,970	6,057,859
Inventories	25,551	27,728
Due from customers for contract work	-	-
Trade receivables	113,732	99,693
Trade payables	(82,527)	(67,718)
Due to customers for contract work	(35,082)	(37,813)
Provisions for short-term risks and charges	(244,492)	(290,707)
Other net current assets (liabilities)	35,628	374,953
Net working capital	(187,190)	106,136
Net invested capital	6,094,780	6,163,995
Shareholders' equity	4,172,218	3,844,389
Net financial debt (cash and cash equivalents)	1,922,562	2,319,606
Net (assets) liabilities held for sale	-	-

Non-current assets (€mil. 8,275 at 30 June 2006 vs. €mil. 8,090 at 31 December 2005) can be broken down as follows:

	30.06.06	*31.12.05*
Intangible assets	1	-
Property, plant and equipment	59	60
Investment property	117	119
Equity investments	7,205	6,850
Financial assets at fair value	751	906
Receivables	93	108
Deferred taxes	46	45
Other assets	3	2
	8,275	8,090

This item increased by €mil. 185 over 31 December 2005 due, in particular, to the following:

- an increase in equity investments with the recognition of the following: €mil. 389 for a 25% stake in Selex Sensors and Airborne Systems S.p.A. for the exercise of a put and call option as per contractual agreements; an additional stake in Datamat S.p.A. (€mil. 93) as a result of the public offering launched in 2005 and completed in January 2006 and the subsequent purchase of shares; and the increase in capital by Ansaldo STS S.p.A. (€mil. 60) prior to the partial IPO;
- a decrease as a result of the sale of 60% in the Ansaldo STS Group (€mil. 130) and of Iritech S.p.A. (€mil. 17) and OTE S.p.A. (€mil. 24) and other Group companies;
- the losses posted by the investee companies (€mil. 23);
- investments, taking out of loans and repayments and depreciation/amortisation for the period;
- the valuation of the investment held indirectly in STM (equal to about a 6.6% stake at 30 June 2006) among financial assets measured at fair value, which posted a decrease for the period of €mil. 155, going from the €mil. 906 of 31 December 2005 to €mil. 751 at 30 June 2006. The decrease for the adjustment to fair value was recorded in a specific equity reserve;

Non-current liabilities amounted to €mil. 1,993 at 30 June 2006, compared with €mil. 2,032 at 31 December 2005, a decline of €mil. 39.

	30.06.06	***31.12.05***
Post-employment benefits and similar obligations	7	7
Provisions for risks and charges	155	153
Deferred taxes	18	14
Other liabilities	1,813	1,858
	1,993	2,032

This was due, in particular, to:

- a €mil. 4 net increase in deferred taxation, which includes taxes that the companies of the Group participating in the consolidated taxation mechanism measured according to related accounting standards and recognised to Finmeccanica, the sole entity legally responsible for tax payment (for the purposes of IRES) assuming that they will be reversed during the option's period of validity;

- a €mil. 45 decrease in other liabilities attributable to deferred income for the recognition in the income statement of portions of capital gains deferred in previous period related to past transfers and for the accrued portion of sales made during the period itself. These gains are recognised as income in correspondence with the increase in depreciation recognized by the companies receiving the business units sold.

Net working capital came to a negative €mil. 187, compared with a positive €mil. 106 at 31 December 2005. In particular:

- inventories came to €mil. 25, compared with the €mil. 28 of the previous period, and are comprised entirely of advances related to the contract for the manufacture of Orizzonte-class frigates for the Italian and French navies, which remained with the Company following the sale of the International Naval Systems division;

- trade receivables and payables, in the amounts of €mil. 114 and €mil. 83 respectively (compared with €mil. 100 and €mil. 68 respectively at 31 December 2005), can be broken down as follows:

	30.06.06		***31.12.05***	
	Receivables	Payables	Receivables	Payables
Subsidiaries and associates	44	51	27	34
Consortia	14	-	14	-
Other third parties	56	32	59	34
	114	83	100	68

- amounts due to customers for contract work came to €mil. 35, compared with €mil. 38 at 31 December 2005, and can be broken down as follows:

	30.06.06	*31.12.05*
Due to customers for contract work (gross)	42	55
Due from customers for contract work	(7)	(17)
Due to customers for contract work (net)	35	38

This item is related to advances related to the contract to manufacture four Orizzonte-class frigates for the Italian and French navies;

- the provisions for short-term risks and charges, in the amount of €mil. 244, decreased by €mil. 47 from the €mil. 291 of 31 December 2005. The most significant uses concerned the provisions for guarantees, risks on equity investments and pending disputes;

- net current assets came to €mil. 36, down €mil. 339 from the previous period (net assets of €mil. 375 at 31 December 2005):

	30.06.06		*31.12.05*	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Employees	-	16	-	19
Deferrals	1	3	3	3
Direct and other taxes	179	22	157	41
Social security institutions	1	10	1	11
Subsidiaries, associates and consortia	383	184	428	219
Derivatives	60	7	34	8
Other	52	398	61	8
	676	640	684	309

More specifically, the item “Other” at 30 June 2006 includes €mil. 389 for the liability resulting from the potential acquisition of the remaining 25% stake in Selex Sensors and Airborne Systems S.p.A. from BAE Systems in the event of the exercise of the put and call option envisaged in the contractual agreements.

Net invested capital in the amount of €mil. 6,095 (€mil. 6,164 at 31 December 2005) is funded by equity in the amount of €mil. 4,172 (€mil. 3,844 at 31 December 2005) and net financial debt in the amount of €mil. 1,923 (€mil. 2,320 at 31 December 2005).

Net financial debt at 30 June 2006 came to €mil. 1,923, compared with the €mil. 2,320 of 31 December 2005.

The debt figure was significantly impacted by the positive and negative effects of the operations described below.

With regard to payments:

- a payment in January as part of the public tender offer launched in 2005 to acquire the remainder of Datamat, which was completed in early January with an outlay of €mil. 89, which in addition to the €mil. 151 paid in 2005 for 52.7% of the company, brought the total outlay to €mil. 240 and the overall stake in the company to about 89% (including the treasury shares owned directly by the company). Following a subsequent public announcement, additional shares were acquired on the market, bringing Finmeccanica's holding in Datamat above 90%, which means that Finmeccanica is required to launch an offer for the remainder of the shares, after which Datamat will be delisted;

- the payment by Finmeccanica of an ordinary dividend of €mil. 131 in addition to a special dividend of €mil. 80 paid following the successful listing of Ansaldo STS;

- a capital increase for Ansaldo STS carried out prior to the listing date in the amount of about €mil. 60 and for the subsidiary Selex Service Management in the amount of about €mil. 4;

With regard to receipts:

- receipts on the sale to Ansaldo STS of the investments in Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Signal for a total of about €mil. 100, which took place prior to the listing of Ansaldo STS;

- receipts of about €mil. 398, net of commissions, in March following the placement of 52.17% of Ansaldo STS, the Group's lead company in the transportation sector, which holds investments in companies operating in rail systems (Ansaldo Trasporti - Sistemi Ferroviari S.p.A.) and rail signalling (Ansaldo Signal N.V.), with the sale of 52,174,000 shares at a price of €7.80 each.

  In April, an additional net receipt of about €mil. 60 was posted following the exercise of the greenshoe option by the banks coordinating the placement. A further 7,826,000 shares, equal to 7.83% of the company, were sold. Following these two transactions, 60% of Ansaldo STS is held by the market and 40% by Finmeccanica S.p.A.;

- receipts resulting from the sale of OTE and Iritech to the subsidiaries Selex Communication and SO.GE.PA., respectively, for about €mil. 30 and €mil. 17;

- receipts resulting from the payment of dividends by subsidiaries related to the previous year for a total of some €mil. 215;

- receipts resulting from the payment of dividends by STMicroelectronics related to the previous year for about €mil. 31;

- receipts resulting from the advance received from a subsidiary for the sale of property in the amount of about €mil. 2.

It should also be noted that, as in the previous year, financial position benefited from the compensation mechanism of the consolidated taxation procedure in the amount of about €mil. 37.

€ thousands	For the 6 months to 30 June			
	2006		2005	
Cash and cash equivalents at 1 January	**628,925**		**1,032,577**	
Cash flow from operating activities	(26,321)		(32,977)	
Changes in working capital	(2,012)		(17,079)	
Changes in other operating assets and liabilities	(51,026)		(27,830)	
Cash flow generated from (used in) operating activities	(79,359)		(77,886)	
Cash flow from ordinary investing activities	(2,189)		(1,811)	
Free operating cash flow		**(81,548)**		**(79,697)**
Strategic investments	365,496		(481,322)	
Dividends received, net equity investments, and changes in other financial assets	309,627		(52,588)	
Cash flow generated from (used in) investing activities	672,934		(535,721)	
Dividends paid	(211,449)		(109,652)	
Capital increases net of treasury share purchases	414		141	
Cash flow from financing activities	(764,644)		(146,727)	
Cash flow generated from (used in) financing activities	(975,679)		(256,238)	
Cash and cash equivalents at 30 June	**246,821**		**162,732**	

The first six months of 2006 closed with a net decrease in cash and cash equivalents of €mil. 382 (€mil. 870 for the same period of the previous year), due to the following factors:

- negative operating cash flow of €mil. 79, which is in line with that of the previous year when there was a net cash outflow of €mil. 78;

- positive cash flow from investing activities in the amount of €mil. 673, due primarily to receipts resulting from the Ansaldo STS S.p.A. IPO (€mil. 458) and dividends received from shareholdings in the amount of €mil. 246. This compares with the first half of 2005, when cash flow from investing activities (negative in the amount of €mil. 536) included the outlay by Finmeccanica to conclude the "Eurosystems" agreements with BAE Systems, as well as significant capital transactions with subsidiaries, including the companies that were to then become part of the joint ventures with Alcatel in the amount of €mil. 274, which was only partially offset by dividends received (€mil. 166);

- negative cash flow from financing activities in the amount of €mil. 976 (€mil. 256 at 30 June 2005) as a result of the dividend paid (€mil. 211 in 2006, compared with €mil. 110 for 2005) and of the greater level of net debt to companies of the Group as a result of the cash pooling mechanism.

Financial statements of the Group Parent

Income Statement

(€ thousands)	*For the six months ended 30 June*	
	2006	*2005*
Revenues	25,009	27,837
Changes in inventories of work in progress, semi-finished and finished products	-	-
Other operating income	114,662	46,427
Cost of purchases	(538)	(38)
Cost of services	(65,753)	(62,875)
Personnel costs	(29,716)	(24,144)
Depreciation, amortisation and writedowns	(3,414)	(4,442)
Other operating costs	(9,718)	(8,759)
(-) Capitalisation of internal construction costs		
	30,532	(25,994)
Financial income	834,376	286,975
Finance charges	(203,939)	(211,559)
Profit (loss) before taxes and the effect of discontinued operations	660,969	49,422
Income taxes	24,086	16,597
Profit (loss) associated with discontinued operations	-	-
Net profit (loss)	685,055	66,019

Balance Sheet

(€ thousands)	*30.06.06*	*31.12.05*
Non-current assets		
Intangible assets	1,249	215
Property, plant and equipment	59,252	59,895
Investment property	116,903	118,519
Equity investments	7,204,865	6,849,566
Financial assets at fair value	751,489	905,682
Securities held to maturity		
Receivables	93,275	108,084
Deferred tax assets	45,873	44,926
Other assets	2,380	2,908
	8,275,286	8,089,795
Current assets		
Inventories	25,551	27,728
Due from customers for contract work		
Trade receivables	113,732	99,693
Financial assets at fair value	10,541	10,055
Securities held to maturity		
Tax receivables	178,994	157,052
Financial receivables	1,373,527	975,392
Other assets	497,460	527,105
Cash and cash equivalents	246,821	628,925
	2,446,626	2,425,950
Non-current assets held for sale		
Total assets	10,721,912	10,515,745
Shareholders' equity		
Share capital	1,845,319	1,858,119
Other reserves	2,326,899	1,986,270
Total shareholders' equity	4,172,218	3,844,389
Non-current liabilities		
Financial payables	1,691,738	1,702,371
Severance pay and other employee liabilities	7,332	6,741
Provisions for risks and charges	155,327	152,779
Deferred tax liabilities	18,358	13,775
Other liabilities	1,812,299	1,858,641
	3,685,054	3,734,307
Current liabilities		
Due to customers for contract work	35,082	37,813
Trade payables	82,527	67,718
Financial payables	1,861,713	2,231,607
Tax payables	21,896	41,072
Provisions for risks and charges	244,492	290,707
Other liabilities	618,930	268,132
	2,864,640	2,937,049
Liabilities directly correlated with assets held for sale		
Total liabilities	6,549,694	6,671,356
Total liabilities and shareholders' equity	10,721,912	10,515,745

Cash Flow

(€ thousands)	*For the 6 months to 30 June*	
	2006	***2005***
Cash flow from operating activities:		
Gross cash flow from operating activities	(26,321)	(32,977)
Changes in working capital	(2,012)	(17,079)
Changes in other operating assets and liabilities	(27,954)	(9,753)
Finance charges paid	(23,072)	(18,077)
Cash flow used in operating activities	**(79,359)**	**(77,886)**
Cash flow from investing activities:		
Investments in property, plant and equipment and intangible assets	(2,189)	(1,811)
Equity investments	(156,661)	(938,564)
Ansaldo STS IPO	457,470	-
Disposals of other shareholdings	146,739	281,810
Dividends received	246,050	165,547
Changes in other investing activities	(18,475)	(42,703)
Cash flow generated from (used in) investing activities	**672,934**	**(535,721)**
Cash flow from financing activities:		
Increases in share capital	19,195	141
Treasury shares purchased	(18,781)	-
Dividends paid	(211,449)	(109,652)
Net change in other financing activities	(764,644)	(146,727)
Cash flow used in financing activities	**(975,679)**	**(256,238)**
Net decrease in cash and cash equivalents	(382,104)	(869,845)
Cash and cash equivalents at 1 January	628,925	1,032,577
Cash and cash equivalents at 30 June	**246,821**	**162,732**

Statement of changes in shareholders' equity

(€ thousands)	Share capital	Retained earnings and reserves	Other reserves	Total shareholders' equity
Shareholders' equity at 31 December 2004	1,856,336	1,290,060		3,146,396
Adoption of IAS 32: treasury shares	(1,326)			(1,326)
Adoption of IAS 32 and IAS 39: other effects		110,909	702,300	813,209
Adoption of IFRS 2		(5,590)	5,590	0
	(1,326)	105,319	707,890	811,883
Change in fair value of assets available for sale			37,675	37,675
Change in fair value of cash-flow hedges and transfers to income statement			2,032	2,032
Other	(1,075)	2,133	(1,334)	(276)
	(1,075)	2,133	38,373	39,431
Dividends		(109,657)		(109,657)
Capital increases	4,184	9,129		13,313
Other				0
Net profit (loss) at 31 December 2005		(56,977)		(56,977)
Shareholders' equity at 31 December 2005	1,858,119	1,240,007	746,263	3,844,389
Change in fair value of assets available for sale			(153,707)	(153,707)
Change in fair value of cash-flow hedges and transfers to income statement			3,935	3,935
Share buy-back	(18,781)			(18,781)
Net change in reserve for stock option plans		1,895	(622)	1,273
Other		2,305		2,305
	(18,781)	4,200	(150,394)	(164,975)
Dividends		(211,446)		(211,446)
Capital increases	5,981	13,214		19,195
Net profit (loss) at 30 June 2006		685,055		685,055
Shareholders' equity at 30 June 2006	1,845,319	1,731,030	595,869	4,172,218

6. Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 30 June 2006

€ millions	**Shareholders' equity**	**of which: net profit for the period**
Group Parent shareholders' equity and net profit at 30.06.06	**4,172**	**685**
Excess of shareholders' equities in the half-year financial statements compared with the carrying amounts of the equity investments in consolidated companies	(1,936)	150
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	2,436	(4)
- elimination of intercompany profits	-	(53)
- deferred tax assets and liabilities	83	15
- dividends	-	(237)
- translation differences	(9)	-
- other adjustments	2	8
Group shareholders' equity and net profit at 30.06.06	4,748	564
Minority interests	67	11
Total consolidated shareholders' equity and net profit at 30.06.06	**4,815**	**575**

7. Finmeccanica: Research and Development

Following the major initiatives to expand and rationalise the Group that were completed last year (which primarily involved **AgustaWestland, Selex Sistemi Integrati, Selex Sensors & Airborne Systems Ltd (S&SA), Alcatel Alenia Space, Telespazio and Datamat**), in the first half of 2006 we increased the amount of attention devoted to organic growth, which also involved placing a greater focus on core research and development, accompanied by an effort to standardize and select activities in this area. One initiative in this process was the recent recasting of the strategies and activities of **Datamat** and its integration with **Elsag** in order to create a critical mass in Security, Logistics, Automation and IT services and Defence.

Finmeccanica's core business: Aerospace, Defence and Security

In these areas, technological development requires sizeable investments, cutting-edge skills, medium-to-long term time horizons.
The consolidated subdivision of R&D into the areas of **technological research and development** (a) and **research and development applied to products** (b) allows for proper planning of both risks and benefits and therefore the optimisation of the technological transfer, which enables Group products to achieve success on international markets.

a) **Technological research and development**

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

Technological developments based on ***highly integrated components***, ranging from on chip integration (MMIC – Monolithic Microwave Integrated Circuit) using cutting-edge materials such as gallium nitride, to multi chip integration on organic and ceramic substrates (LTCC - Low Temperature Cofired Ceramic), to the new frontiers of electro-mechanical integration for electronics and sensors (MEMS: Micro Electro-Mechanical Systems) involve various Group companies (**Selex**

Sistemi Integrati, **Alcatel Alenia Space**, **MBDA**, **Selex Communications, Selex S&AS Ltd,** and Galileo Avionica). Their application and spread enable "quality" radio frequency processing components to be miniaturised, reducing costs and producing benefits for satellites, radars, missile systems and avionics systems, and in general any applications where a small footprint and minimal power absorption are key factors.

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 (**Alenia Aeronautica**, **AgustaWestland, Alenia Aermacchi, Avio**, **Selex S&AS Ltd**, **MBDA** and **Oto Melara).** The future development of innovative UAV/UCAV (Unmanned Air Vehicle / Unmanned Combat Air Vehicle), convertiplanes, radome, rockets and passive protection structures lies with these technologies.

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

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

All of our companies are heavily involved in maintaining, improving and streamlining their range of products to maintain and increase their competitiveness and customer satisfaction ratings thanks to technological research and development in the following areas:

- the **radar segment**, with modern electronic scanning systems (*Phased Array*) for detection and aerial defence, including those used for air traffic control (**Selex Sistemi Integrati**). In this field, **Selex S&AS Ltd**, with its new Sea Spray radars entirely designed with solid state active modules, has posted a major commercial success, including in the US market, thanks to the advanced level of the system’s technology. Placing these technologies on a common basis has paved the way for Galileo Avionica to develop a new radar denominated PICOSAR, which is specifically designed for surveillance with UAVs (Unmanned Air Vehicles). The development of the Synthetic Aperture Radar installed on the Cosmo-Skymed satellites (**Alcatel Alenia** Space) was also completed. The final stage of installation on the first satellite platform was concluded for the first system, with launch scheduled for the end of this year or early next year. The system has achieved considerable success, raising expectations of the benefits it can bring to national and European security

- the **electronic warfare segment**, together with the “sensitive” and extremely important associated technologies, has become part of the Group’s assets, thanks again to **Selex S&AS Ltd**. With the DASS (Defensive Aids Sub-System) for electromagnetic defence against radars and missiles, the Group’s product range of aerial platforms underwent significant expansion, allowing Finmeccanica to complete its integrated defence and surveillance range on board all air platforms.

- the **missiles division**, with special reference to advanced seeker missiles, both infra-red (**Selex S&AS Ltd**) and radar and the active proximity fuses and related command and control systems (**MBDA**);

- **electro-optics** for battlefield applications and for both land and sea integrated weaponry systems, and fixed-wing and rotary-wing aircraft applications (**Selex S&AS Ltd, Galileo Avionica, Oto Melara**); the new DIRCM (Directo Infrared CounterMeasure) for active protection against shoulder-fired missiles for both military and civil aircraft (**Selex S&AS Ltd**);

- naval, land, aeronautics and satellite **communications**, particularly secure tactical and strategic communications networks (**Alcatel Alenia Space Italia**, **Selex Communications** and **Telespazio**). Important projects are going ahead in the field of architectures of future communication networks and services in a Network Centric environment and in the development of on Software Radios, a vital aspect for the emerging, inexorable need for integrated global communications (**Selex Service Management**, **Selex Communications**). Operational testing has also begun on the Wi-Max system in collaboration with the Ministry of Communications. The system has the potential to make a major contribution to mobile broadband communication for government agencies, such as the police, the Carabinieri etc. (**Selex Communications, Selex Service Management**);

- the field of **orbital infrastructures** and useful loads (**Alcatel Alenia Space**), especially for scientific payloads and telecommunications; in this division, preliminary studies were conducted for the re-use of inflatable space stations as structures to spread out on the ground as protected areas in the event of contamination from chemical and bacteriological agents;

- **orbital and space services management**, including monitoring sensitive areas using differential radar interferometry and the innovative 3-D digitalisation based on space photography (**Telespazio**);

- the area of highly complex, highly integrated land, naval and ATM (Air Traffic Management) **command and control systems** (C2-C4) with the design of a modern Flight Data Processor (**Selex Sistemi Integrati**), as well as highly specialised systems based on advanced processing and presentation devices (including platform control systems and advanced Flight Management/Control Systems for flight management) for application on fixed-wing and rotary-wing aircraft (**Alenia Aermacchi**, **Alenia Aeronautica**, **AgustaWestland**, **Selex Sistemi Integrati**);

- the field of **aeronautical platforms**, where **AgustaWestland** uses the latest technology and systems solutions to develop the BA609 in the helicopters division, the first convertiplane for civil use; **Alenia Aermacchi**, with crucial developments regarding training aircraft, especially relating to the ultra-modern MB 346 trainer, which is successfully completing the final qualification stages. **Alenia Aeronautica**, with research on aerostructures that have successfully led to components of the new A380. Concurrently, development continues on the some of the main components of Boeing's 787 aircraft. More specifically, we are building the central section of the fuselage, made entirely out of carbon fibre composite materials, with the prototype now in the final stages of production. A brand new plant has been built near Grottaglie to manufacture the components.

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

The development of the Falco UAV (**Galileo Avionica**) system for surveillance and tactical observation (500 kg class) entered the final stages. The Falco system was designed and built for "dual" purposes (both civil and military), including activities for territorial security, and is winning widespread acclaim thanks to its versatility and high useful load ratio;

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

  A major R&D effort has gone into the **Zeus** project. The project is coordinated by Selex Sistemi Integrati, which has been given the mission of developing major systems for defence and homeland security applications. The Major Systems division of Selex Sistemi Integrati, which was recently formed to pursue business opportunities in integrated systems based on complex architectures and network centric approaches, has undertaken a number of joint studies with all the other companies of the Group (including those in the Transportation and Energy sectors, where there is a growing need for infrastructure monitoring and protection in response to the threat of international terrorism, organized crime and natural disasters) with a view to achieving the following objectives:

  - developing the detailed operational specifications and functional architecture of a major integrated system and all of its components in order to translate them into competitive solutions that fully meet the needs of customers in the various applications requested by the market;

- leveraging the know-how, technologies and products available within the Group so as to enable their effective integration within a major homeland security system.

R&D activities related to the observation of human behaviour through the analysis of TV images and the monitoring of biometric sensor data (**Elsag**) is continuing and evolving, while investment is also continuing in data protection using traditional (**Selex Communications**) and quantum (**Elsag**) proprietary cryptography.
Targeted investments also continued in the advanced concept of Network Centric Operation used in the management of security operations with the adjustment and integration between Crisis Management Rooms and secure communications components (**Selex Sistemi Integrati**, **Elsag**, **Selex Communications**, **Telespazio**).

Other Finmeccanica activities

In addition to the core business, the Group's other businesses also carry out research and development on:

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

- **Transportation**: with advanced developments in fuel cells and hybrid propulsion systems and programmes regarding new components for safety, handling, comfort and "Security" in tracked transportation systems for city, suburban and rail vehicles (**Ansaldo Trasporti Sistemi Ferroviari**, **AnsaldoBreda**, **Ansaldo Signal**). The developments in the field of entirely automated subway systems (driverless) confirmed their effectiveness, which led to the winning of major important national and foreign orders in early 2006.

Group governance of technology and products

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

At the end of the first half of 2006, seven communities had been started with activities involving over 600 researchers and technicians from among the company's top professionals:

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

Two major initiatives involving the communities and MindSh@re project were launched in the first half of the year:

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

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

Finally, work on compiling the Group's integrated product catalogue was completed. With the use of a series of IT tools and the significant amount of information collected, this project gives access to extensive aggregated data both at the level of products on the basis of systems/platforms and commercial data by geographic area or individual company.

European Programmes

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

Finmeccanica's involvement a range of ongoing programmes is continuing:

- **6th Framework Programme**. Development work has begun on the LIMES project, led by **Telespazio**, which seeks to integrate satellite surveillance the broad context of complementary solutions and systems, within the scope of the GMES programme.
- **"Single Sky" Project** to develop the new European ATM (Air Traffic Management) system by 2020. **Selex Sistemi Integrati, Selex SAS** and **Selex Communications** are actively involved in the SESAR Development Phase project, an essential development component of the Single Sky initiative scheduled to be implemented in the 7th Framework Programme.
- **Galileo Programme** for the new global positioning system, for which Finmeccanica was selected, with other European partners, for the design and placement in orbit of the satellite constellation.
- **Preparatory Action Programme** for European technological development in the Security field (**PASR**). Development of the two European projects awarded to Group companies has begun: border protection (**Galileo Avionica** with the SOBCAH project) and on rail transport security (**Ansaldo Trasporti Sistemi Ferroviari** with the TRIPS project).

- **EDA (European Defence Agency)** with which relations were tightened, for the provision of new technological development areas on UAV and Software Radio.

Finmeccanica's strategy for the upcoming **7th Framework Programme** has been consolidated, with broad initiatives on defining and developing collaborative arrangements on aeronautical JTIs (Joint Technology Initiatives), proposing two technological platforms with development to be led by Finmeccanica: the Green Regional Aircraft (**Alenia Aeronautica**) and the Green Rotorcraft (**AugustaWestland** in a consortium with Eurocopter).

Finally, in addition to our long-standing collaborative relationships with the leading **Italian universities** (**Genoa**, **Naples**, **Rome**, **Pisa** and **Turin**), cooperation with the **CRUI** (**Conference of Italian University Rectors**) has expanded with a number of important initiatives, such as the major joint workshop on nanotechnologies held in Turin with the participation of experts from Group companies and more than 40 academics from 30 Italian departments/universities. Exchange relationships with the most important **US universities** (**MIT – Cambridge**, **University of California at Berkley**, **Carnegie-Mellon – Pennsylvania**) also continued.

8. 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 first six months of 2006: accelerated internationalisation of our business; the integration and globalisation of strategic assets; efficiency drives and the translation of international acquisitions and partnerships concluded in 2002-2005 into operating results.

The following section reviews some of the most significant organisational developments in the first half of this financial year.

In February, the organisational model for **Ansaldo STS** was finalised. Ansaldo STS is the signalling and railway system company floated at the end of March, which comprises Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari.

As regards the integration of **Elsag** and **Datamat**, Elsag has been restructured and rationalised to enhance the focus of its divisional activities and respond more effectively to market needs. In another move, the same senior executive has been appointed to the top position at the two Group companies in the ICT & Security sector (Defence Electronics).

Ansaldobreda has also undergone a thorough restructuring aimed at implementing a new organisational approach and operational mechanisms: greater effectiveness in governance, guidance and control processes through the centralisation of certain skills and strategic activities; the harmonisation of company processes and methodologies; and efficiency drives in the production structure.

As part of the turnover in top management, the organisational structures of **Mecfin**, the Group company responsible for Shared Services, and **Alenia Aeronavali** have been redefined.

In addition, **WASS** and **Alenia Aermacchi** have had their business models revised in the light of new challenges in their reference market, with a consequent reconfiguration of their organisational arrangements.

Finally, the organisational structure of **Selex Communications** has also been revamped to face the evolutionary dynamics of its reference market, in accordance with the ongoing change management process.
The most significant organisational changes at the **Group Parent** in the first six months of 2006 were, in brief:

- the restructuring of organisational units under the **Technical Department**, **Marketing and Commercial Affairs Department**, and **Legal and Corporate Affairs Department**;

- new responsibilities for the **Transportation Department**;

- the establishment of the **FNM Masters in International Business Engineering**.

With regard to initiatives designed to promote and boost the Group's corporate culture, March saw the creation of the **Group Targeted Projects Committee**. The latter supports top management in overseeing key programmes for business development and guarantees the uniform implementation of common Group methodologies and cross-cutting enabling systems.

Resource development and compensation

To complete ongoing work on human resources strategic management and development, Finmeccanica has extended its **Group Managerial System** further by planning an **integrated assessment system for all Group management**, which should be introduced on a trial basis as of 2007.

The **Management Review** has established itself as the key moment and "central axis" of the Group Managerial System. It is the prime occasion for one-to-one meetings with Group companies; analysing, sharing and verifying corporate policies to develop human resources. It is also the ideal forum for the periodic meetings of the Professional

Families to plan, agree and implement Special Group Projects and inter-group human resources activities.

The 2006 format of the Management Review meetings, held between July and September again this year, was extended specifically to gather information and discuss issues to support and facilitate **intragroup management mobility**. This implements the specific policy established in May to promote the development of Group managerial resources.

Under the **Future Leaders Review** (a combined assessment of a selected group of managers with high potential for personal development identified by Group companies), 54 interviews were carried out in the first half of the year with support from a specialised international consulting company. The Management Review meetings in July were an opportunity to return the main results of these discussions, particularly in terms of planning career paths and mobility within the Group.

With regard to **long-term incentive systems**, a **Performance Share Plan** (Stock Grant) is being put in place. The Plan is aimed at the Group's key resources for 2005-2007 and envisages a free grant of Finmeccanica shares upon fulfilment of specific company or Group performance targets, depending on the company at which they are employed.

With regard to the **System of Professional Families**, the Group model for the integrated development of inter-group activities within homogeneous professional environments, the first half of 2006 saw activities continue on different fronts in a variety of ways. A series of special meetings and structured interviews with the Leaders of the Professional Families discussed in-depth organisational aspects, training, skills development, knowledge sharing and a common vision and objectives related to each professional area.

Specifically, the **Marketing and Sales** Professional Family, which comprises around 1,600 Group employees, began its activities.

The first six months of 2006 saw the successful creation of the **CHANGE** (Challenge Hunters Aiming at New Generation Excellence) project, an innovative initiative to leverage the skills and develop our "Rockets". These are young people of excellence, identified by their companies, who have clear growth potential in more complex roles with international visibility.

This initiative, which has involved around sixty young employees across Group companies in Italy and abroad, develops a highly original model of action learning. Participants analyse and create innovative proposals on strategic issues chosen by top management, working through a virtual network. Projects last around one month from introduction to completion and are held at one of the Group companies, depending on the issue being examined.

The early months of the year saw the upgrade of **Finmeccanica Group premises across the world**: at the end of 2005, the Group operated through **267 offices** (160 in Italy, around 60%). These included 93 so-called “operational” sites (manufacturing plants and other sites used mainly for production), around 35% of the total. A census of Group sites is updated every six months, in concert with the human resources staff of the operating companies, and published on the Finmeccanica website.

Training and Knowledge Management Systems

Incorporating the needs that have emerged during this dynamic period of Group growth and transformation, the 2006 **Training and Knowledge Management Plan** has prioritised projects in accordance with business needs and the rationalisation of initiatives on a systemic basis, while ensuring the necessary continuity of ongoing initiatives.

The learning governance model focuses on three aspects: identifying requirements in a manner that integrates the needs identified by companies with Group strategic priorities (specifically, *value creation, internationalisation and integration, change management and innovation*); monitoring; and measuring the outcome of actions implemented and the impact on results.

The system comprises three principal macro areas:

1. Corporate Culture and Knowledge Management
2. Group Culture and Identity
3. Change Awareness and Life-Long Learning

1. Corporate Culture and Knowledge Management

To consolidate the Group's Corporate Culture skills in systematic, integrated manner, two training programmes were implemented in 2006. Once fully up and running, they will involve around 2,000 employees throughout Group companies in Italy and abroad. The programmes are designed to strengthen economic and financial management skills to foster the application of tools to monitor and measure performance (***Finmeccanica Economics Programme***) on the basis of a value creation approach, and to ensure the application of methodologies that support order management using the specific models and best practices of programme/project management and risk management (***Finmeccanica Project Management Programme***).

In the first six months of 2006, Training and Knowledge Management Systems, in concert with the Mecfin Group ICT and Finmeccanica's Technical, Marketing and Commercial Affairs, and Strategy Departments, began developing the **Group Knowledge Management System**. This involved the progressive activation of common tools to help capitalise and share knowledge among *Professional Families* and *Technology Communities* and decision-making support tools, such as the *Product Catalogue* and *Technological Plans*, to facilitate integration and innovation.

The **Intellectual Property Management programme,** aimed at stimulating the protection and leveraging of the products and processes of the Group companies, is centred on corporate *intellectual property managers*. In the first six months of 2006, in concert with the Technical Department, training was planned and begun both for positions that influence "patentability" and innovators/researchers. The aim is to develop awareness of the importance of protecting intellectual property (around 80 people were involved in the first six months, with 600 employees to be involved once the training is fully operational).

The **Innovation Award** is an international initiative for all Finmeccanica Group employees who present innovative ideas and projects for corporate business areas.

This Award, run with the Technical Department, received around 530 innovative projects in 2006, of which 13% came from employees in our international sites. Each company organised and ran its own Innovation Prize. In the second half of the year, the three winners from each company will take part in the Group Innovation Prize.

2. Group Culture and Identity

The **Integrated Project on Internal Communication and Group Identity** has begun. It involves close integration on all planned initiatives between Human Resources, Training and Knowledge Management Systems, External Relations and Communication and Corporate Image. The project is aimed at developing integration and a sense of belonging to the Group, leveraging corporate best practices and creating synergies. An international network of company contact people (one for External Relations and another for Human Resources in each company – only the Italian part was involved for subsidiaries and associates – for a total of 50 contact people), who work in groups to develop specific initiatives (Finmeccanica Noticeboards and Portal Rooms, Portal updates and Magazine, and Feelers), has also been created.

The **Business Culture Project** is used by Finmeccanica to analyse corporate climate and culture within Group companies. In 2006, the Project posted an online questionnaire on the Group's internal communication portal (available in 7 languages), which guarantees respondents' total anonymity. The results will be presented at the end of 2006 to the top management of Finmeccanica and the Group companies, and all Group employees. This will allow us to identify and implement improvement measures that develop people's values and behaviour in accordance with strategic business objectives.

In May the new configurations of the **Finmeccanica website** (www.finmeccanica.it) and the **Group portal** (www.webportal.finmeccanica.it) were rolled out. Training and Knowledge Management Systems was responsible for developing content for sections on human resources, highlighting ongoing initiatives to leverage human resources (Training and Development) at Group level, as well as intra-group projects for all our employees (such as Job Posting, the Innovation Prize, the Business Culture Project, and Finmeccanica Masters).

With regard to support initiatives for the **Professional Families**, a cycle of workshops was completed for the managers of Professional Families, Procurement and ICT from all Group companies (around 60 employees were involved, including at least 10 British personnel). There were also two HR professional workshops geared towards executives (20) and middle managers (22) from the HR Professional Family. In July, interactive study seminar cycles began on the "Tax Community" (around 60 people). Community functions were activated on the Intragroup Portal for these Professional Families.

A cross-functional group comprising the Marketing and Commercial Affairs Department, External Relations and Human Resources developed a project entitled **Show Management: Integrated Finmeccanica Model**. The aim is to define and implement a "Finmeccanica model" for integrated management among companies and the Group Parent for Group exhibition activities and those who participate in them, like Stand Managers, Stand Manners and Hostesses. In June and July, training courses were held for 18 Stand Managers, 74 Stand Manners and 43 Hostesses (Italian and British), with the aim of developing an integrated, systematic vision of the Finmeccanica group, a sense of belonging to the Group, and the skills necessary to perform their tasks efficiently.

3. Change Awareness and Life-Long Learning

Initiatives aimed specifically at corporate employees, particularly newly hired young people and high-potential young people and executives continued:

With regard to training for young people, the four-month long FLIP (Finmeccanica Learning Induction Programme) continued. FLIP is tailored for new graduates hired by the Group and is aimed at *sharing Finmeccanica distinctive values*. In the first six months of 2006, there were five editions of FLIP for a total of 117 participants. Launched in 2005, the initiative has involved 215 new employees to date.

BEST, an online Masters in General Management for outstanding graduates at all Group companies with around 3 years' seniority which lasts 18 months, continued. In the first six months of 2006, there were six editions involving around 120 participants.

Four editions started in 2005, which involved 94 employees overall, remain ongoing. Launched in 2003, BEST has involved 341 young employees to date.

High-potential executives were the target of an in-house seminar, **From Technology to Values**, designed to develop a systematic view of the business with regard to macroeconomic and international strategic scenarios. There were two editions in the first half of 2006 (one Italian and one international) for a total of 43 participants. This was in addition to the104 participants in the second half of 2004 and during 2005.

There was a **follow-up** event in May for 128 executives (Italian and foreign) who had taken part in previous seminars. Entitled, "New Competitors and Business Areas", the event focused on the "India phenomenon" from a macro-economic and social, cultural standpoint.
A specific Community was also set up on the Group Portal.

There was also an important initiative aimed at middle managers, who form a strategic organisational "hinge" during change. The training and skills development project, called **Innovate to Compete**, involved over 1,000 middle managers from all Group companies, joint ventures and Finmeccanica. The project entailed over 72,000 training hours to develop skills in *innovation management, change management* and *interfunctionality*. Funded by Fondimpresa, the project took place between January and May 2006, with the collaboration of 60 HR representatives from all participating companies. Project participants produced 208 improvement projects in Communication, Knowledge Management, Process Improvement and Human Resource Development.

To support the Group's **Job Posting Project**, 13 professionals selected in the initial initiative took part in **International Sales Manager** training, which was aimed at supporting the sharing and management of market principles and culture through knowledge of clients, the market and tools important to the Finmeccanica Group. The training course lasted three months and introduced participants to the complexity of the Finmeccanica Group and brought them into contact with important market leaders and institutional representatives.

As regards training at the Group Parent, there were a number of initiatives aimed at **legislative training/information** (which was extended to Mecfin and SO.GE.PA employees in addition to those of Finmeccanica):

- Training course for employees and managers who handle personal information, in compliance with current legislation and our corporate Security Policy Statement;

- Online training (accessible from the corporate intranet) on the "Compliance Model" adopted by Finmeccanica in accordance with Legislative Decree 231/01. The course was appropriately customised for all Group companies (AgustaWestland, Ansaldo STS, Ansaldo Energia, Selex Sistemi Integrati and Selex Communications have already signed up).

The **International Behaviour & Skills Programme** is an integrated model aimed at improving participants' knowledge of their foreign business language and presentation and negotiation skills in multi-cultural contexts. In the first six months of the year, the Project involved 210 personnel from Finmeccanica, Mecfin and SO.GE.PA.. Project learning objectives were tied to participants' professional activities.

The programme used innovative, flexible teaching methodologies:

- **Seminars for Functions/Professional Families** (e.g. legal English, financial English, etc…);

- **Foreign-language workshops on specific themes** for those with advanced-level language knowledge (*Working in a multicultural context, Presentation & Negotiation Skills, Customer Satisfaction, Time Management*);

- **Blended courses** (classroom and online).

Following trials of this model at the Group Parent, we will shortly be able to extend the model to Group companies and establish framework agreements with the language schools involved.

Finmeccanica Masters in International Business Engineering

The **Masters** integrates and enriches the Group's Training and Knowledge Management System. It is designed to train young high-potential graduates from across the world, and prepare them to face complex, international organisational contexts in the following areas: *Programme/Project Management, Sales & Marketing, Business Improvement, Business Development, Risk Management*. The Masters programme entails around 1,600 study hours over eight months in the following subject areas (including lab hours and soft skill training):

- **Business & Programme Management**
- **Innovation & Technology Management**
- **International Strategic Business Management**.

The eight-month study period will be followed by a four-month internship at a Finmeccanica Group company in Italy or abroad.

Finmeccanica will provide Masters students with a study grant that covers all enrolment and attendance fees, in addition to providing accommodation near the course premises (Via Piemonte, 60, Rome).

Learning will be monitored continually throughout the course. Final course results will depend on passing exams and defending a final project. Subsequently, Finmeccanica will offer students the opportunity to work at a Group company in complex, international, organisational contexts, on hi-tech projects and activities.

The Masters was submitted to the Finmeccanica Board of Directors, which approved the course at its meeting on 11 May 2006. Andrea Del Chicca (former Head of Personnel at WASS) has been entrusted with implementing the initiative through Finmeccanica Human Resources. He will be supervised by a special ***Strategic Steering Committee***, chaired by P. F. Guarguaglini, which comprises L. Borgogni, A. Caporaletti, G. Grasso, R. Maglione, A. Pansa, R. Pertica, and G. Zappa, as well as leading academics, such as Prof. A. Romano, Prof. S. Sandri, Prof. G. Sapelli and Prof. R. Varaldo.

One of the strong points of the Masters is the organic involvement of Finmeccanica Group Managers, lecturers from prestigious partner universities (**S.S. S. Anna** in Pisa; **Cefriel** - Politecnico di Milano; **Columbia University** in New York; and the **ISUFI** - Università di Lecce) and respected lecturers from leading international academic bodies. At the end of June, a recruitment campaign was launched for the ***first edition of the Masters***. The external (around 30,000 hits on our dedicated web pages) and internal Finmeccanica Group response to the new initiative prompted over 3,500 applications from around the world in two months.

Candidate selection is currently under way. This will result in the selection of **25 talented graduates who will begin lessons on 15 November 2006**.

Industrial Relations and Social Affairs

Having completed negotiations of the two-year compensation part of the Metalworkers' National Collective Bargaining Agreement, in the first six months of 2006 Finmeccanica focused its attention on the correct implementation of both the pay and regulatory aspects of the Agreement within Group companies.

Furthermore, the new Professional Apprenticeship contract was developed in a Group project aimed at embracing and harnessing opportunities from the targeted use of this tool to bring new personnel into the world of work.

This initiative, innovative in Italy, was developed with the contribution and support of **Federmeccanica**. This confirmed the increasingly influential role of Finmeccanica representatives within this industry association.

Remaining in the same vein, a **Protocol of Understanding** was signed with the **national trade unions** was signed to agree the principles and criteria for implementing the new type of contract within the Group at a political level, and to ensure its general effectiveness at the national level.

Following the national political agreement, in the first six months of 2006, a number of Group companies drew up specific agreements with the trade unions to regulate the technical and applicative aspects of using apprentices. This led to the immediate hiring of young employees. Around 1,000 are expected to be hired at Group level during 2006-2007.

In addition, Finmeccanica representatives' involvement in **the Standing Groups for Trade Union Dialogue** has increased. Following renewal of the Metalworkers' National Collective Bargaining Agreement last January, the groups were formalised to promote shared management and efficiency in work relations as a fundamental condition for reviving the competitiveness of the productive system.

The groups discussed in-depth issues related to competitiveness, productivity, working hours and the labour market, with a focus on reviewing contract regulations on part-time work. The results of these discussions will be important in view of the next four-year renewal of the National Collective Bargaining Agreement.

Finmeccanica and the main Group companies' presence on the **Joint Technical Committees** has been confirmed. Specifically, the Committees discussed **revision of the job classification system** through the study and identification of an innovative model better tailored to the requirements of new situations and on the new organisational models characterising the Finmeccanica Group.

Meanwhile, the Group continued to work on the process to create a **System of Relations** aimed at agreeing and solving issues that have an impact at the domestic and (with regard to joint ventures) international levels. This process involves representatives from the main Group companies and national trade-union officials.

A ***"Large Company Working Group"*** has also been set up this year. The working group comprises the heads of industrial relations at the Group's leading companies at national level, with the direct, constant involvement of Finmeccanica. The group will analyse the key issues affecting such companies. It seeks address common problems on specific areas and current issues in order to preventively define, where possible, common, homogeneous positions, particularly with regard to institutional and trade-union counterparts.

As to **corporate agreements**, activities continued on the **renewal of second-tier bargaining**, through the Group Parent's constant monitoring of the principle lines to follow concerning the regulatory and compensation demands submitted by the unions as part of the negotiations. Finmeccanica confirmed its pivotal role in spurring innovation, while protecting the specific features of each different entity.

These processes led to the definition of additional agreements (Ansaldobreda), and significant progress in other negotiations, which should be completed by the end of this year (**Alenia Aeronautica, Selex Communications**).

This year should also see new negotiations for the renewal of supplementary contracts at **Agusta Westland** and **Oto Melara**.

Finmeccanica also continued to provide support, at both institutional and union levels, to a number of companies involved in **integration/reorganisation/outsourcing.** These measures have been developed through a series of interventions designed to help individual companies manage the different processes involved, particularly with regard to possible employment and social impacts.

As in previous years, the Group continued to promote and implement a variety of contractual arrangements involving executives and middle managers. In particular, the Group fine-tuned certain rationalisation processes related to important incentives such as supplementary health insurance, insurance coverage and supplementary pension schemes.

Work 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.

The Group's increasingly well-established international presence has led to closer scrutiny of integration processes concerning employment-related organisational, regulatory and contractual matters. In particular, programmes were launched aimed at standardizing current international pension schemes (especially in the UK) and a close look was taken at the processes of intra-Group mobility at the supra-national level.

Finally, the Group has continued to implement shared services dedicated to providing support for human resources activities that benefit all Group companies, especially those in the United Kingdom, thereby allowing us to optimise performance, reduce start-up and operational costs and offer high-profile, standard services for all the businesses involved.

9. Finmeccanica: Security Policy Statement

“Information provided pursuant to Legislative Decree No. 196 of 30 June 2003 (Protection of personal data)”

Pursuant to Section 26 of the Technical Regulations on minimum date security measures, which constitutes Annex B to Legislative Decree no. 196 of 30 June 2003 (“Personal Data Protection Code”), the Security Policy Statement on the handling of personal information was updated by the deadline of 31 March 2006.

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

The updating of the statement did not involve significant changes with respect to the previous update carried out in December 2005, for the following reasons:

(i) the Company’s data protection strategy has not changed;

(ii) the short time that had passed since the previous update;

(iii) the absence of significant changes in the organisational and functional structure of the Company.

10. Stock option and stock grant plans

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

On 21 April 2005, the Board of Directors had already examined and approved the general outline of the Plan to be submitted to the Shareholders' Meeting. The Plan provided for granting the participants the right to receive shares of the Company free of charge subject to verification of the attainment of objectives set by the Remuneration Committee, which was given the task of managing the Plan based upon general criteria set by the Board of Directors.

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

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

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

The Remuneration Committee, at its 28 November 2005 meeting, approved the regulations for the 2005-2007 Performance Share Plan and the right to receive shares of the Company free of charge 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.

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

Achievement of the targets is verified annually by the Remuneration Committee. 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 1,075,901 shares (equal to about 76% of the total attributable to 2005). The purchase of the shares to serve 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.

Any new participants in the Plans will be proposed by the Chairman and the CEO to the Remuneration Committee on the basis of the findings of the 2006 Management Review for the Finmeccanica Group.

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

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

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

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

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

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

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

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

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

For the remaining 258,605 options (5,172,100 prior to the reverse split) granted to persons not employed by the company, the Shareholders’ Meeting of 1 June 2005 had extended for a further 18 months the authorization to purchase/sell the corresponding number of treasury shares, taking into consideration that the company already holds 193,500 such shares (3,870,000 prior to the reverse split).

In order to ensure that the Incentive Plan was adequately serviced, the Company had purchased 65,105 (1,302,100 prior to the reverse split) shares of treasury stock.

Under the Plan, of the 3,993,175 options (79,863,500 prior to the reverse split) granted, 2,311,550 ordinary Finmeccanica shares have effectively been subscribed, with a resulting capital increase of €10,170,820.00, while 35,000 options to purchase treasury stock have been exercised.

11. Outlook

Performance in the first half of 2006 improved with respect to that in the same period of the previous year, in line with the forecasts made at that time. In the light of developments to date, there would appear to be no circumstances that would alter the forecasts made during the preparation of the 2005 annual report, which are summarized below.

During 2006 we expect overall growth in Group revenues of between 10.5% and 13.5% with an increase in EBIT of between 14.0% and 17.0%, over 2005.

The forecasts for 2006 reflect the consolidation for the full year of the acquisitions made in 2005, particularly the Defence Electronics activities purchased from BAE Systems and consolidated as of 1 May 2005, and Datamat, fully consolidated as of 5 October 2005, the date on which we acquired 52.7% of the company.

The integration of recently acquired businesses, especially BAE Systems in the avionics sector and those in the Space division arising from the joint venture with Alcatel, will give rise to integration-related costs that must be incurred to permit us to exploit the considerable synergies expected.

12. Corporate Governance

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

This section briefly explains the main changes made to the Company's Corporate Governance structure in the first six months of 2006 compared with that reported in the 2005 annual report.

1. **BOARD OF AUDITORS.** On 23 May 2006, the Shareholders' Meeting appointed the new Board of Auditors of the Company, whose term of office runs until the financial statements for 2008 are approved.

   The new Board of Auditors is composed of the following members:

   Auditors: Giorgio Cumin, Francesco Forchielli, Luigi Gaspari, Silvano Montaldo and Antonio Tamborrino.

   Alternates: Maurizio Dattilo and Piero Santoni.

   The Shareholders' Meeting also appointed Luigi Gaspari as Chairman of the Board of Auditors pursuant to the new paragraph 2-bis of the Uniform Financial Services Code (Legislative Decree 58/98), as well as Article 28.3 of the Company Bylaws, under which the Chairman of the Board of Auditors is appointed by the Shareholders' Meeting from among auditors elected by minority shareholders.

2. **INDEPENDENT DIRECTORS.** The Board of Directors of the Company carried out an evaluation of the independence of its non-executive members appointed by the aforementioned Shareholders' Meeting, as required by the Corporate Governance Code, taking into account the information provided by the individual concerning the "relevant circumstances" provided for by the Code.

Upon completion of the evaluation, carried out on 28 March 2006, the Board confirmed that eight of the non-executive directors out of ten met the independence requirements pursuant to Article 3.1 of the Code: Piergiorgio Alberti, Franco Bonferroni, Maurizio de Tilla, Gian Luigi Lombardi Cerri, Ernesto Monti, Riccardo Varaldo and Guido Venturoni and Paolo Vigevano.

Based on the criteria set forth in the aforementioned Code, the Board determined that Roberto Petri and Dario Scannapieco were “not independent" by virtue of their employment or collaboration relationships with the Italian government, which currently holds an equity interest of about 33.799% in the Company, through the Ministry for the Economy and Finance

3. In addition to updating its **COMPLIANCE PROGRAMME PURSUANT TO LEGISLATIVE DECREE 231/01**, the Company is also implementing the more recent instructions provided for by Law 262 of 28 December 2005 concerning “Provisions for the protection of savings and the regulation of financial markets”. The update is expected to be completed by the end of the year.

   The formation of the multi-party **SUPERVISORY BODY** in the Group subsidiaries is now in the final stages and should be completed by the end of the year.

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

For the Board of Directors

Pier Francesco Guarguaglini
Chairman and Chief Executive Officer

ACCOUNTING STATEMENTS AND NOTES TO THE CONSOLIDATED HALF-YEAR REPORT AT 30 JUNE 2006

13. Income Statement

(€mil.)	*Notes*	*For the six months ended 30 June*	
		2006	***2005***
Revenue	*31*	5,706	4,721
Changes in inventories of work in progress, semi-finished and finished goods		259	237
Other operating revenue	*32*	233	203
Costs for purchases	*33*	(2,168)	(1,668)
Costs for services	*33*	(1,673)	(1,488)
Personnel costs	*34*	(1,712)	(1,440)
Depreciation, amortisation and impairment	*35*	(187)	(165)
Other operating costs	*32*	(189)	(164)
(-) Capitalisation of internal construction costs	*36*	36	15
		305	251
Financial income	*37*	644	252
Financial expense	*37*	(259)	(293)
Effect of accounting for equity investments with equity method	*38*	(10)	(23)
Profit before taxes and the effect of discontinued operations		680	187
Income taxes	*39*	(105)	(82)
(Loss) profit associated with discontinued operations	*40*	-	-
Net profit		575	105
. Group		*564*	*101*
. Minority interests		*11*	*4*
Earnings per share	*41*		
Basic		*1.33*	*0.24*
Diluted		*1.32*	*0.24*
Earnings per share net of discontinued operations	*41*		
Basic		*1.33*	*0.24*
Diluted		*1.32*	*0.24*

14. Balance Sheet

(€mil.)	*Notes*	*30 Jun 06*	*31 Dec 05*
Non-current assets			
Intangible assets	*7*	4,102	3,596
Property, plant and equipment	*8*	2,564	2,506
Investment properties		3	2
Equity investments	*9*	164	138
Financial assets at fair value	*11*	751	906
Securities held to maturity		-	-
Receivables	*12*	107	122
Deferred tax assets	*39*	386	397
Other assets	*12*	5	4
		8,082	7,671
Current assets			
Inventories	*13*	5,910	5,511
Contract work in progress	*14*	2,756	2,538
Trade receivables	*15*	3,711	3,600
Financial assets at fair value	*16*	20	20
Securities held to maturity		-	-
Tax receivables	*17*	366	364
Financial receivables	*15*	414	460
Other assets	*18*	564	532
Cash and cash equivalents	*19*	680	1,061
		14,421	14,086
Non-current assets held for sale	*40*	135	120
Total assets		22,638	21,877
Shareholders' equity			
Share capital	*20*	1,845	1,858
Other reserves	*21/22*	2,903	2,586
Group shareholders' equity		4,748	4,444
Shareholders' equity of minority interests	*23*	67	154
Total shareholders' equity		4,815	4,598
Non-current liabilities			
Borrowings	*24*	1,957	1,975
Severance pay and other employee liabilities	*26*	1,139	1,114
Provisions for risks and charges	*25*	428	423
Deferred tax assets	*39*	184	101
Other liabilities	*27*	349	380
		4,057	3,993
Current liabilities			
Advances from customers	*14*	4,581	4,389
Trade payables	*28*	3,226	3,431
Borrowings	*24*	619	666
Tax payables	*17*	301	268
Provisions for risks and charges	*25*	496	523
Other liabilities	*27*	4,454	3.917
		13,677	13,194
Liabilities directly correlated with assets held for sale	*40*	89	92
Total liabilities		17,823	17,279
Total liabilities and shareholders' equity		22,638	21,877

15. Cash flow statement

(€mil.)	*Notes*	*For the six months ended 30 June*	
		2006	***2005***
Cash flow from operating activities:			
Gross cash flow from operating activities	*42*	626	527
Changes in working capital	*42*	(710)	(402)
Changes in other operating assets and liabilities	*42*	28	(204)
Financial charges paid		(58)	(7)
Income taxes paid		(115)	(56)
Cash flow used for operating activities		(229)	(142)
Cash flow from investing activities:			
Acquisitions of companies, net of cash acquired	*10*	(141)	(528)
Investments in property, plant and equipment and intangible assets		(281)	(167)
Disposals of property, plant and equipment and intangible assets		40	33
IPO Ansaldo STS		458	-
Other investing activities		64	(85)
Cash flow generated from (used in) investing activities		140	(747)
Cash flow from financing activities:			
Issues of debenture loans	*24*	-	494
Repayments of debenture loans	*24*	-	(927)
Net change in other financial payables		(73)	(43)
Dividends paid to shareholders of the Group Parent	*21*	(211)	(110)
Dividends paid to minority shareholders	*23*	(3)	(1)
Cash flow used for financing activities		(287)	(587)
Net decrease in cash and cash equivalents		(376)	(1.476)
Translation differences		(5)	9
Cash and cash equivalents at 1 January		1,061	2,055
Cash and cash equivalents at 30 June 2006	*19*	680	588

16. Statement of changes in shareholders' equity

(€mil.)	Share capital	Retained earnings and consolidation reserve	Other reserves	Group shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at 31 December 2004	1,856	1,798	(27)	3,627	22	3,649
Adoption of IAS32: treasury shares	(1)			(1)		(1)
Adoption of IAS32 and IAS39: other effects		109	418	527		527
Adoption of IFRS2		(5)	5	0		0
	(1)	104	423	526	0	526
Change in the fair value of assets available for sale and transfers to the income statement			46	46		46
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			(56)	(56)		(56)
Repurchase of treasury shares	(1)			(1)		(1)
Net change in reserve for stock option plans			12	12		12
Translation differences			13	13	(1)	12
	(1)	0	15	14	(1)	13
Dividends		(110)		(110)	(1)	(111)
Share capital increases	4	9		13	1	14
Change in scope of consolidation and other minor changes		(1)	2	1	110	111
Net profit (loss) at 30 June 2005		373		373	23	396
Shareholders' equity at 31 December 2005	1,858	2,173	413	4,444	154	4,598
Change in the fair value of assets available for sale			(155)	(155)		(155)
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			81	81	(1)	80
Repurchase of treasury shares	(19)			(19)		(19)
Net change in reserve for stock option plans		2	6	8		8
Translation differences			(9)	(9)	(3)	(12)
	(19)	2	(77)	(94)	(4)	(98)
Dividends		(211)		(211)	(3)	(214)
Share capital increases	6	13		19	1	20
Change in scope of consolidation and other minor changes		26		26	(92)	(66)
Net profit (loss) at 30 June 2005		564		564	11	575
Shareholders' equity at 30 June 2006	1,845	2,567	336	4,748	67	4,815
Section	*20*	*21*	*22*		*23*	

17. Notes to the consolidated report for the half-year ended 30 June 2006

I. GENERAL INFORMATION

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

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).

II. BASIS OF PREPARATION AND ACCOUNTING STANDARDS USED

Pursuant to Article 81 of the Issuers Regulation no. 11971/99 as amended and integrated, the consolidated report of the Finmeccanica Group for the half-year ended 30 June 2006 has been prepared in accordance with IAS 34 'Interim Financial Reporting' issued by the International Accounting Standards Board (IASB), as endorsed at the date of presentation of this half-year report.

Specifically, the standards used are those that have been endorsed by the European Union and which are contained in the following EU regulations: nos. 1725/2003, 707/2004, 2236/2004, 2237/2004, 2238/2004, 2086/2004, 211/2005, 1751/2005, 1864/2005, 1910/2005, 2106/2005 and 108/2006.

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

Preparation of the consolidated accounts for the first half of 2006 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 accounts for the first half of 2006, which have been prepared in accordance with IFRSs, and the financial statements of the Group Parent, which have been prepared in accordance with Article 81 of Issuers' Regulation no. 11971/1999, have been subject to a limited review by PricewaterhouseCoopers S.p.A., in accordance with CONSOB recommendation No. 97001574 of 20 February 1997.

In accordance with CONSOB resolution no. DEM/6064313 of 28 July 2006, Appendix A of this report includes the statements of reconciliation of the Group Parent prepared in conformity with the provisions of IFRS 1 'First-time Adoption of International Reporting Standards', par. 39 and 40. The reconciliations have been audited on the basis of a specific engagement of PricewaterhouseCoopers S.p.A., pursuant to CONSOB communication DEM/5025723 of 15 April 2005 and DEM/6064313 of 28 July 2006.

III. ACCOUNTING STANDARDS ADOPTED

III.1 Standards and scope of consolidation

The consolidated accounts for the year ended 30 June 2006 include the statements of the companies/entities included in the scope of consolidation ('consolidated entities'), which have been prepared in accordance with the IFRSs adopted by Finmeccanica Group. In compliance with CONSOB communication DEM/6064293 of 28 July 2006, below is a list of the consolidated entities and the respective shares held either directly or indirectly by the Group:

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

Company name	*Registered office*	*Owned by the Group* FINMEC-CANICA	Other companies	*Group shareholding*
ADVANCED TECHNOLOGIES SRL	Pianezza (Turin)		100	100
AERMACCHI SPA (.)	Venegono Superiore (Varese)		99.998	99.998
AGUSTA AEROSPACE CORP. USA	Wilmington Delaware (USA)		100	100
AGUSTA AEROSPACE SERVICES A.A.S. S.A.	Grace Hollogne (Belgium)		98	98
AGUSTA HOLDING BV	Amsterdam (the Netherlands)		100	100
AGUSTA SPA	Cascina Costa (Varese)		100	100
AGUSTA US INC.	Wilmington Delaware (USA)		100	100
AGUSTAWESTLAND BELL LLC	Wilmngton Delaware (USA)		51	51
AGUSTAWESTLAND DO BRAZIL LTDA	Sao Paulo (Brazil)		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Farnborough (U.K.)		100	100
AGUSTAWESTLAND HOLDINGS LTD	Somerset (U.K.)		100	100
AGUSTAWESTLAND INC.	Newcastle, Delaware (USA)		100	100
AGUSTAWESTLAND NORTH AMERICA INC.	Newcastle, Delaware (USA)		100	100
AGUSTAWESTLAND NV	Amsterdam (the Netherlands)	100		100
AGUSTAWESTLAND PROPERTIES LTD	Somerset (U.K.)		100	100
ALENIA AERONAUTICA SPA	Pomigliano (Naples)	100		100
ALENIA NORTH AMERICA INC.	Newcastle, Delaware (USA)		100	100
ALENIA S.I.A. SPA	Turin		100	100
ALS SPA	Rome		100	100
AMTEC SPA	Piancastagnaio (Siena)		100	100
ANSALDO ENERGIA SPA	Genoa	100		100
ANSALDO FUEL CELLS SPA	Genoa		78.851	78.851
ANSALDO INDUSTRIA SPA (IN LIQ.)	Genoa		100	100
ANSALDO NUCLEARE SPA	Genoa		100	100
ANSALDO RICERCHE SPA	Genoa		100	100
ANSALDO SEGNALAM. FERROVIARIO SPA	Tito (Potenza)		100	100
ANSALDO SIGNAL ESPANA S.A.	Madrid (Spain)		100	40
ANSALDO SIGNAL FINLAND O.Y.	Helsingfors (Finland)		100	40
ANSALDO SIGNAL NV	Amsterdam (the Netherlands)		100	40
ANSALDO SIGNAL SWEDEN AB	Spanga (Sweden)		100	40
ANSALDO SIGNAL UK LTD	London (U.K.)		100	40
ANSALDO SIGNAL IRELAND LTD	CO. KERRY (Ireland)		100	40
ANSALDO STS SPA	Genoa	40		40
ANSALDO TRASPORTI - SIST. FERROV. SPA	Naples		100	40
ANSALDOBREDA INC.	New York (USA)		100	100
ANSALDOBREDA SPA	Naples	100		100
ASIA POWER PROJECTS PRIVATE LTD	Bangalore (India)		100	100
AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA	Les Ulis (France)		99.999	39.9996
BEIJING CS SIGNAL CONTR. SYST. CO. LTD	Beijing (China)		80	32
BIOFATA SPA	Lamezia Terme (Catanzaro)		51	51
BREDAMENARINIBUS SPA	Bologna	100		100
CSEE TRANSPORT HONG KONG LTD	Hong Kong (China)		100	40
CSEE TRANSPORT SA	Les Ulis (France)		99.999	39.9996
CONSULTANCY AND PROJECTS GROUP SRL (IN LIQ.)	Rome		100	89.5614
DATAMAT SOLUZIONI PER LE IMPRESE SRL	Milan		100	89.5614
DATAMAT SPA	Rome	85.76	4.2445 (*)	89.5614
DATAMAT (SUISSE) SA	Lugano (Switzerland)		100	89.5614
DATASPAZIO-TELESPAZIO e DATAMAT PER L'INGEGNERIA DEI SISTEMI SPA	Rome		100	78.50631
DAVIES INDUSTRIAL COMMUNICATIONS LTD	Coventry (U.K.)		100	100
ELECTRON ITALIA SRL	Rome		80	80
ELSACOM NV	Amsterdam (the Netherlands)	64.6	35.4	100
ELSACOM SPA	Rome		100	100
ELSAG SPA	Genoa	100		100
ELSAG BANKLAB SPA	Genoa		100	100
ELSAG DOMINO SPA	Genoa		100	100
ELSAG GEST SPA	Genoa		100	100
E-SECURITY SRL	Montesilvano (Pescara)		80	80
FATA AUTOMATION SPA (IN LIQ.)	Pianezza (Turin)		100	100
FATA DTS SPA	Pianezza (Turin)		100	100
FATA ENGINEERING SPA	Pianezza (Turin)		100	100
FATA GROUP SPA (IN LIQ.)	Pianezza (Turin)	100		100
FATA HANDLING SPA (IN LIQ.)	San Marco Evangelista (Caserta)		100	100
FATA HUNTER INC.	Riverside (USA)		100	100
FATA SPA	Pianezza (Turin)	100		100
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)		100	100
FINMECCANICA FINANCE SA	Luxembourg	73.6395	26.3578	99.9973

List of companies consolidated on a line-by-line basis (cont'd)

Company name	*Registered office*	*Owned by the Group*		*Group shareholding*
		FINMECCANICA	*Other companies*	
GA IMMOBILIARE SPA	Rome	100		100
GALILEO AVIONICA SPA (**)	Campi Bisenzio (Florence)		100	100
IRITECH SPA	Rome		100	100
ITALDATA INGEGNERIA DELL'IDEA SPA	Rome		51	51
KEYCAB SPA	Rome		100	89.5614
LARIMART SPA	Rome		60	60
MECFIN - MECCANICA FINANZIARIA SPA	Rome	100		100
MECFINT (JERSEY) LTD	Jersey Channel Islands (U.K.)		99.997	99.997
METASISTEMI SPA	Rome		100	89.5614
NET SERVICE SRL	Bologna		70	62.69298
OFFICINE AERONAVALI VENEZIA SPA (..)	Tessera (Venice)		100	100
OTE MOBILE TECHNOLOGIES LIMITED	Warwickshire (U.K.)		100	100
OTE SPA	Florence		100	100
OTO MELARA IBERICA SA	Valencia (Spain)		100	100
OTO MELARA SPA	La Spezia	100		100
PROD-EL - PRODOTTI ELETTRONICI SPA	Milan		100	100
QUADRICS LTD	Bristol (U.K.)		100	100
SAGEM ITALIA SRL	Genoa		100	100
SAN GIORGIO SA	Parigi (France)	99.999		99.999
SECURTEAM SRL	Rome		100	100
SELENIA MARINE CO. LTD (IN LIQ.)	Coventry (U.K.)		99.99996	99.99996
SELENIA MOBILE SPA	Chieti Scalo (Chieti)		100	100
SELEX COMM. DO BRASIL LTDA	Rio de Janeiro (Brazil)		100	100
SELEX COMMUNICATIONS GMBH	Backnang (Germany)		100	100
SELEX COMMUNICATIONS HOLDINGS LTD	Chelmsford (U.K.)		100	100
SELEX COMMUNICATIONS INC	Mountain View (USA)		100	100
SELEX COMMUNICATIONS INTERN. LTD	Coventry (U.K.)		100	100
SELEX COMMUNICATIONS LTD	Coventry (U.K.)		100	100
SELEX COMM. ROMANIA SRL	Bucarest (Romania)		99.976	99.976
SELEX COMMUNICATIONS SPA	Genoa	100		100
SELEX KOMINIKASYON AS	GOLBASI (Turkey)		99.999	99.999
SELEX COMMUNICATIONS SECURE SYSTEMS LTD	Coventry (U.K.)		100	100
SELEX SENSOR AND AIRBORNE SYSTEMS SPA (**)	Campi Bisenzio (Florence)	75		100
SELEX SENSOR AND AIRBORNE SYSTEMS LTD (**)	Essex (U.K.)		100	100
SELEX SERVICE MANAGEMENT SPA	Rome	100		100
SELEX SITEMI INTEGRATI GMBH	Neuss (Germany)		100	100
SELEX SISTEMI INTEGRATI INC.	Delaware (USA)		100	100
SELEX SISTEMI INTEGRATI LTD	Portsmouth Hampshire (U.K.)		100	100
SELEX SISTEMI INTEGRATI SPA	Rome	100		100
SC ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)		50.5	50.4997
SIRIO PANEL SPA	Montevarchi (Arezzo)		75	75
SISTEMI E TELEMATICA SPA	Genoa		92.793	92.793
SISTEMI RADIOMOBILI SRL	Rome		100	100
SO.GE.PA. SOC. GEN. DI PARTECIPAZIONI SPA	Genoa	100		100
SPACE SOFTWARE ITALIA SPA	Taranto		100	100
TECNOSIS SPA	Genoa		100	100
TELESPAZIO LUXEMBOURG SA	Luxembourg		100	100
THE DEE HOWARD CO.	S. Antonio, Texas (USA)		100	100
TRANSCONTROL CORPORATION	Wilmington, Delaware (USA)		100	40
TRIMPROBE SPA	Rome	100		100
UNION SWITCH & SIGNAL (MALAYSIA) SDN BHD	Kuala Lumpur (Malaysia)		100	40
UNION SWITCH & SIGNAL INC. (USA)	Dover, Delaware (USA)		100	40
UNION SWITCH & SIGNAL INC. (CAN)	Burlington, Ontario (Canada)		100	40
UNION SWITCH & SIGNAL INT. CO.	Wilmington, Delaware (USA)		100	40
UNION SWITCH & SIGNAL INT. PROJECTS CO.	Dover, Delaware (USA)		100	40
UNION SWITCH & SIGNAL PRIVATE LTD INDIA	Bangalore (India)		100	40
UNION SWITCH & SIGNAL PTY LTD	Sydney (Australia)		100	40
WESTLAND HELICOPTERS INC.	Wilmington Delaware (USA)		100	100
WESTLAND HELICOPTERS LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND INDUSTRIES LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (U.K.)		100	100
WESTLAND TRANSMISSIONS LTD	Yeovil, Somerset (U.K.)		100	100
WHITEHEAD ALENIA SIST.SUBACQUEI SPA	Genoa	100		100

(.) Alenia Aermacchi S.p.A. from 13 July 2006

(..) Alenia Aeronavali S.p.A. from 4 July 2006

(*) Ownership of treasury shares

(**) See Section VII Intangible Assets

List of companies consolidated using the proportionate method

Company name	*Registered office*	*Owned by the Group* FINMEC-CANICA	*Other companies*	*Group shareholding*
ALCATEL ALENIA SPACE SAS	Paris (France)	33		33
ALCATEL ALENIA SPACE FRANCE SAS	Paris (France)		100	33
ALCATEL ALENIA SPACE ITALIA SPA	Rome		100	33
ALENIA SPAZIO NORTH AMERICA INC	Wilmington (USA)		100	33
ALCATEL ALENIA SPACE ESPANA SA	Madrid (Spain)		100	33
ALCATEL ALENIA SPACE ETCA SA	Charleroi (Belgium)		100	33
ALCATEL ALENIA SPACE ANTWERP	Hoboken (Belgium)		100	33
FORMALEC	Paris (France)		100	33
MARILEC	Paris (France)		100	33
VANELEC	Paris (France)		100	33
TELESPAZIO HOLDING SRL	Rome	67		67
TELESPAZIO FRANCE SAS	Paris (France)		100	67
ALCATEL SPACE NETHERLANDS BV	Leiden (the Netherlands)		100	67
TELESPAZIO DEUTSCHLAND GMBH	Gilching (Germany)		100	67
TELESPAZIO SPA	Rome		100	67
E-GEOS SPA	Matera		55	36.19
EURIMAGE SPA	Rome		51	34.17
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)		98.534	66.018
TELESPAZIO NORTH AMERICA INC.	Doover, Delaware (USA)		100	67
TELESPAZIO HUNGARY SAT. TELEC. LTD	Budapest (Hungary)		100	67
RARTEL SA	Bucarest (Romania)		61.061	40.91
GAF AG	Munich (Germany)		75.078	50.3
EUROMAP SATELLITENDATEN-VERTRIEB MBH	Neustrelitz (Germany)		100	50.3
AMSH BV	Amsterdam (the Netherlands)	50		50
MBDA SAS	Paris (France)		50	25
MBDA ITALIA SPA	Rome		100	25
MBDA UK LTD	Stevenage (U.K.)		100	25
MBDA FRANCE SAS	Paris (France)		100	25
MATRA ELECTRONIQUE SA	Paris (France)		100	25
ALKAN SA	Paris (France)		100	25
MBDA INCORPORATED	Wilmington, Delaware (USA)		100	25
MBDA TREASURE COMPANY LTD	Jersey (U.K.)		100	25
MBDA SERVICES SA	Paris (France)		100	25
MARCONI OVERSEAS LTD	Londra (U.K.)		100	25
LFK-LENKFKUGKORPERSYSTEME GMBH	UnterschleiBheim(Germany)		100	25
AVIATION TRAINING INTERNATIONAL LIMITED	Dorset (U.K.)		50	50
CONSORZIO ATR GIE e S.P.E.	Tolouse (France)		50	50

List of companies consolidated using the equity method

Company name	*Registered office*	*Owned by the Group*		*Group shareholding*
		FINMECCANICA	*Other companies*	
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)		43.043	43.043
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Selangor (Malaysia)		40	40
ADVANCE LOGISTICS TECHNOLOGY ENGINEERING CENTER SPA	Turin		51	16.83
AERO INVEST 1 SA (...)	Luxembourg	29.874		29.874
ALENIA HELLAS SA	Kolonaki (Athens) (Greece)		100	100
ALENIA NORTH AMERICA-CANADA CO	Halifax (Canada)		100	100
ALENIA SPAZIO NORTH AMERICA INC	Wilmington, Delaware (USA)		100	33
ALIFANA DUE SCRL	Naples		53.34	53.34
ALIFANA SCRL	Naples		65.85	65.85
ALTRA SPA	Genoa		33.333	33.333
ANSALDO ARGENTINA SA	Buenos Aires (Argentina)		99.98	99.98
ANSALDO DO BRASIL E.E. LTDA	San Paolo (Brazil)		99.999	99.999
ANSALDO ELECTRIC DRIVES SPA	Genoa		100	100
ANSALDO - E.M.I.T. SCRL	Genoa		50	50
ANSALDO ENERGY INC.	Wilmington, Delaware (USA)		100	100
ANSALDO INVEST DENMARK AS (IN LIQ.)	Vedbaek (Denmark)		100	100
ANSALDO TRASMISSIONE E DISTRIBUZIONE SPA	Genoa		30	30
ANSERV SRL	Bucarest (Romania)		100	100
AUTOMATION INTEGRATED SOLUTIONS SPA	Pianezza (Turin)		40	40
AVIONS DE TRANSPORT REGIONAL IRELAND LIMITED	Dublino (Ireland)		50	50
AVIONICS SENSORS US INC (**)	Delaware (USA)		100	100
BELL AGUSTA AEROSPACE COMPANY LLC	Delaware (USA)		45	45
BRITISH HELICOPTERS LTD	Somerset (U.K.)		100	100
CARDPRIZE TWO LIMITED (**)	Basildon, Essex (U.K.)		100	100
CLOSED JOINT STOCK COMPANY MAREMS	Moscow (Russia)		49.001	49.001
COMLENIA SENDIRIAN BERHAD	Selangor Darul Ehsan(Malaysia)		30	30
CONSORZIO PER IL GIURISTA D'IMPRESA SCRL	Genoa		22.7	22.7
CONSORZIO START SPA	Rome		40	40
ECOSEN SA	Caracas (Venezuela)		48	48
ELETTRONICA SPA	Rome	31.333		31.333
ELSACOM BULGARIA AD	Sofia (Bulgaria)		90	89.997
ELSACOM HUNGARIA KFT	Budapest (Hungary)		100	99.999
ELSACOM SLOVAKIA SRO	Bratislava (Slovakia)		100	99.999
ELSACOM-UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)		49	48.999
ELSAG EASTERN EUROPE SRL	Bucarest (Romania)		75	75
ELSAG INC.	Washington D.C. (USA)		100	100
ENCOM CONSTRUCOES E MONTAGENS LTDA	S. Paolo (Brazil)		95.555	95.555
ENERGEKO GAS ITALIA SRL	Brindisi		22.631	22.631
ENERGY SERVICE GROUP LTD	Wurenlingen (Switzerland)		45	45
EURISS NV	Leiden (the Netherlands)		25	8.25
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER INTERN. LTD	London (U.K.)		21	21
EUROFIGHTER SIMUL. SYST. GMBH	Unterhaching (Germany)		24	18
EUROMIDS SAS	Paris (France)		25	25
EUROPEA MICROFUSIONI AEROSPAZIALI SPA	Morra de Sanctis (Avellino)	49		49
EUROPEAN CO. FOR MOBILE COMM. OPER. BV (IN LIQ.)	Amsterdam (the Netherlands)		100	100
EUROPEAN CO. FOR MOBILE COMM. SERV. BV (IN LIQ.)	Amsterdam (the Netherlands)		100	100
EURO PATROL AIRCRAFT GMBH	Munich (Germany)		50	50
EUROSYSNAV SAS	Paris (France)	50		50
FATA AUTOMATION GMBH (IN LIQ.)	Frankfurt (Germany)		100	100
FATA AUTOMATION SRO (IN LIQ.)	Kosmonosy (Czech Republic)		100	100
FATA CONTRACTING LTD	Moscow (Russia)		100	100
FATA ENGINEERING SA (IN LIQ.)	Friburgo (Switzerland)		100	100
FATA HUNTER INDIA PVT LTD	New Dehli (India)		100	100
FATA LTD	Workcester (U.K.)		100	100
FATA POLAND LTD	Bielsko Biala (Poland)		100	100
FINMECCANICA INC.	Dover, Delaware (USA)	100		100
FINMECCANICA UK LTD	Somerset (U.K.)	100		100
GALILEO INDUSTRIES SA	Brussels (Belgium)		38	12.54
GALILEO VACUUM SYSTEMS INC.	Atlanta (USA)		100	100
GALILEO VACUUM SYSTEMS SPA	Prato		24.9	24.9
GIEINTER AG	Lugano (Switzerland)		100	100
GLOBAL AERONAUTICA LLC	Delaware (USA)		50	50
GLOBAL MILITARY AIRCRAFT SYSTEMS LLC	Greenville (USA)		50	50

List of companies consolidated using the equity method (cont'd)

Company name	*Registered office*	Owned by the Group FINMECCANICA	Owned by the Group Other companies	*Group shareholding*
GROUPEMENT IMMOBILIER AERONAUTIQUE G.I.A. S.A.	Blagnac (France)		20	20
IAMCO SCRL	Mestre (Venice)		20	20
ICARUS SCPA	Turin		49	49
IGS SPA (IN LIQ.)	Rome	100		100
IMMOBILIARE CASCINA SRL	Gallarate (Varese)		100	100
IMMOBILIARE FONTEVERDE SRL	Rome		60	48
INIZIATIVE IND. MILANO SRL (IN LIQ.)	Milan		35	35
INTERNATIONAL LAND SYSTEMS INC.	Wilmington, Delaware (USA)		28.365	14.27
IRIDIUM ITALIA SPA (IN LIQ.)	Rome		35	35
I.M. INTERMETRO SPA	Rome		33.333	33.333
I.T.I.S.A. SA (IN LIQ.)	Nanterre (France)		100	100
IVECO FIAT - OTO MELARA SCRL	Rome		50	50
JIANGXI CHANGE AGUSTA HELICOPTER CO. LTD	Zone Jiangxi Province (China)		40	40
LOCKHEED MARTIN ALENIA T.T.S. LLC	Georgia (USA)		50	50
MACCHI HUREL DUBOIS S.A.S.	Meudon La Font Cedex (France)		50	49.7375
MARS SRL	Naples		100	67
MEDESSAT SAS	Tolouse (France)		28.801	19.296
MUSI NET ENGINEERING SPA	Turin		49	49
NAHUELSAT S.A.	Buenos Aires (Argentina)	33.332		33.33
NGL PRIME SPA	Turin	30		30
N.H. INDUSTRIES SARL	Aix en Provence (France)		32	32
NICCO COMMUNICATIONS SAS	Colombes (France)		50	50
NNS - SOC. DE SERV. POUR REACTEUR RAPIDE S.N.C.	Lyon (France)		40	40
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	49		49
OTE M	Moscow (Russia)		100	100
OTO MELARA NORTH AMERICA INC.	Washington D.C. (USA)		100	100
PEGASO SCRL	Rome		46.87	46.87
POLARIS SRL	Genoa		50	50
PT DAYALISTRIK PRATAMA (IN LIQ.)	Jakarta (Indonesia)		45	45
QUADRICS INC	Delaware (USA)		100	100
REMINGTON ELSAG LAW ENFORCEMENT SYST.	Madison (USA)		50	50
SAPHIRE INTERNAT. ATC ENGINEERING CO. LTD	Beijing (China)		65	65
SEICOS SPA	Rome	100		100
SELEX COMPOSITE SPA	Taranto		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS ELECTRO OPTICS (OVERSEAS) LTD (**)	Basildon, Essex (U.K.)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS INFRARED LTD (**)	Basildon, Essex (U.K.)		100	100
SELEX SISTEMI INTEGRATI DE VENEZUELA S.A.	Caracas (Venezuela)		100	100
SEVERNYJ AVTOBUZ Z.A.O.	St. Petersburg (Russia)		35	35
SISTEMI DINAMICI SPA	Pisa		40	40
SOGELI - SOCIETA' DI GESTIONE DI LIQ. SPA	Rome		100	100
SOSTAR GMBH	Immerstad (Germany)		28.2	21.15
TELBIOS SPA	Milan		31.034	20,793
TELESPAZIO ARGENTINA S.A.	Buenos Aires (Argentina)		100	71.878
TERMOMECCANICA SAUDI LTD	Riyadh (Saudi Arabia)		30	30
TRADE FATA B.V.	Rotterdam (the Netherlands)		100	100
WESTLAND INDUSTRIAL PRODUCTS LTD	Yeovil, Somerset (U.K.)		100	100
WITG L.P. INC.	Delaware (USA)		24	24
WITG L.P. LTD	Delaware (USA)		20	20
ZAO ARTETRA	Moscow (Russian Federation)		51	51

(...) AvioGroup S.p.A. from 1 August 2006

(**) See Section VII Intangible Assets

List of companies valued at fair value

Company name	*Registered office*	*Owned by the Group* FINMECCANICA	Other companies	*Group shareholding*
STMICROELECTRONICS HOLDING NV	Amsterdam (The Netherlands)	20		20

List of subsidiaries and associates valued at cost

Company name	*Registered office*	*Owned by the Group* FINMECCANICA	Other companies	*Group shareholding*
BEIJING CASSAN STRATEGY CONSULTANCY LTD	Beijing (China)		34	34
CLC SRL (IN LIQ.)	Genoa		75	75
CCRT SISTEMI SPA (IN FALL.)	Milan		30.34	30.34
FOSCAN SRL (IN FALL.)	Anagni (Frosinone)		20	20
IND.AER.E MECC.R.PIAGGIO SPA(AMM.STR.)	Genoa	30.982		30.982
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	25	25	50
METRO 5 SPA	Milan		31.9	31.9
SAITECH SPA (IN FALL.)	Passignano (Perugia)		40	40
UNION SWITCH & SIGNAL (CHILE) LTDA	Santiago (Chile)		68	68
U.V.T. SPA (IN FALL.)	San Giorgio Ionico (Taranto)		50.613	50.613
U.V.T. ARGENTINA S.A.	Buenos Aires (Argentina)		60	30.368

Subsidiaries and entities controlled jointly

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

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

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

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

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

fair value at the date of purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded as an expense immediately at the purchase date.
In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group Parent.

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

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

Other equity investments

Investments in entities over which significant influence is exercised, which generally corresponds to a holding of between 20% and 50%, are accounted for either using the equity method or at fair value. In the case of the equity method, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of consolidated financial statements. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.
Any value losses in excess of book value are recorded in the provision for risks on equity investments if there is an obligation to cover these losses.
The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared (in this case 30 June 2006).

III.2 Segment information

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

III.3 Currency translation

<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 half-year 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.

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

The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy) are as follows:

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

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

III.4 Intangible assets

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

Development costs

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

Industrial patent and intellectual property rights

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

Concessions, licences and trademarks

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

Goodwill

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

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

III.5 Property, plant and equipment

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

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

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the period of actual use of the asset. The estimated useful lives adopted by the Group for the various asset classes are as follows:

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

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

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

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

III.6 Investment properties

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

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

Assets with indefinite lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value.
For assets that are depreciated or amortised, an assessment is made to determine whether there is any indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess being recognised in the income statement.

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

III.8 Equity investments

The Group classifies its equity investments as follows:

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

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

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

III.9 Inventories

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

The Group classifies inventories as follows:

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

In particular, work in progress and semi-finished goods, as specified in Section 4.1, include non-recurring costs.

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

III.10 Contract work in progress

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

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

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

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

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under ’due to customers for contract work’. If it has not been collected at the date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a directly contra-item in trade receivables.

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

III.11 Receivables and financial assets

The Group classifies its financial assets into the following categories:

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

Management classifies assets at the time they are first recognised.

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Financial assets held to maturity

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

Financial assets available for sale

This category encompasses non-derivative financial assets specifically designated as available for sale or are not classified in any of the previous items. They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ('Reserve for assets available for sale'). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it become evident that the impairment in value already recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the effective marketability of the security itself. Assets that are expected to be sold within 12 months are carried under current assets.

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

III.12 Derivatives

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

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

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

Fair value hedges

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

Cash flow hedges

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

Determining fair value

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

III.13 Cash and cash equivalents

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

III.14 Shareholders' equity

Share capital

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

Treasury shares

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

Profits (losses) carried forward

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

Other reserves

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

III.15 Payables and other liabilities

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

Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the reporting date.

III.16 Deferred tax assets

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

III.17 Employee benefits

Post-employment benefit plans

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

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

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

Other long-term benefits and post-employment benefit plans

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

Benefits payable for the termination of employment and incentive plans

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

Equity compensation benefits

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

III.18 Provisions for risks and charges

Provisions for risks and charges cover certain or probable losses and charges whose timing or amount was uncertain at the reporting date.
The provision is recognised only when a current obligation (legal or constructive) exists as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation. The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability.
Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

III.19 Leasing

Group entities as lessees in a finance lease

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

<u>Group entities as lessors in a finance lease</u>

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

The unsecured residual value is reviewed periodically for possible impairment.

<u>Operating leases</u>

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

III.20 Revenue

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

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

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

Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

III.21 Government grants

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

III.22 Financial income and expense

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

III.23 Dividends

Dividends are recognised as soon as shareholders obtain the right to receive payment, which is normally when the shareholders' meeting approves the distribution of dividends.
Dividends distributed to Finmeccanica shareholders are recognised as liabilities for the period in which their distribution is approved by the shareholders' meeting.

III.24 Costs

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

III.25 Seasonality of the core businesses

Cash flows relating to operations

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

III.26 New IFRSs and IFRIC interpretations

Over the last months of 2005, the IASB and the International Financial Reporting Interpretations Committee (IFRIC) published new standards and interpretations. Although at the date of preparation of this report the standards and interpretations are not compulsory or 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
IFRS 6 Amendment	Exploration for and Evaluation of Mineral Assets	N/A
IAS 19 Amendment	Employee benefits	The Group expects to apply these changes from 1 January 2007
IAS 39 Amendments	Financial instruments	Not significant
IFRS 4 Amendment	Insurance contracts	N/A
IFRS 7	Disclosures and changes to IAS 1 – Presentation of financial statements	The application of this standard implies more disclosures on financial instruments and capital
IFRIC 4	Determining a lease contract	Not significant
IFRIC 5	Rights from interests and Environmental Rehabilitation Funds	N/A
SIC 12 Amendment	Special purpose entities	Not significant
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	N/A

IV. SIGNIFICANT ISSUES

IV.1 Non-recurring costs

The Group classifies costs incurred for design activities, prototype development and customisation to the technical and operating specifications of clearly identified customers are carried under inventories at the item work in progress and semi-finished goods even if there is no contractual relationship, if it feels that the contract is highly likely to be awarded, on the basis of actions to conclude a contract or the correspondence of the Group's projects with the business and financial plans of potential customers. The item also includes the difference between the increased labour costs in the initial manufacturing stage and those considered standard on the basis of the expected learning curve. Such costs are suspended until the contract is formally awarded without recognition of any margin; subsequently, they are allocated to the relevant contract (under the item contract work in progress) and amortised against the margin on the contract on the basis of units manufactured in relation to those expected to be produced.

If the prospects for being awarded a contract should change as a result of changes in the conditions noted above or are delayed to the extent that the time horizon for the award is less clearly specified, the suspended costs are immediately recognised in the income statement. This classification also takes into account that said expenses generally benefit from the provisions of Law 808 (regarding the implementation of interventions for the development and competitiveness growth of the companies in the aeronautics industry), which is expected to undergo changes in the present year which should affect the accounting treatment of non-recurring costs. In this context, now that these changes have not been made yet, non-recurring costs continue to be recognised as inventories in the consolidated half-year financial statements at 30 June 2006, which have been prepared in accordance with IFRSs.

IV.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 financial income on an accruals basis. If contracts envisage a buy-back clause or a residual value guarantee, the operation is recognised as a sale only if the present value of the guarantees can be considered immaterial with respect to the overall value of the transaction; otherwise, the aircraft is carried under the Group's assets and depreciated. All likely risks associated with operations carried out by GIE ATR are measured on the basis of a prudent valuation conducted by management and are either deducted directly from the carrying value of the asset or are recognised under provisions for risks and charges.

IV.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 39. Hedges in the former case are carried as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items. The effects of this recognition policy are reported in Section 37. Hedges in the former case are carried as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

IV.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 differential with respect to the carrying value determined in accordance with previous GAAP, as well as subsequent changes in fair value, in a specific equity reserve (reserve for assets available for sale), which will be reversed to profit or loss only if and when the equity investment is sold.
The effects of this recognition policy are reported in Section 11.

IV.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 and in the interim reports represent management's best estimate at the reporting date using said procedures.
In addition, the Group's operations regard sectors and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity, making it necessary for management to estimate the outcome of such disputes. The main potential loss situations classified as 'probable' or 'possible' (no provision is recognised for the latter) are reported in Section 25.

V. SIGNIFICANT NON RECURRING EVENTS OR TRANSACTIONS

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

Placing 52.17% of the share capital of Ansaldo STS at a price of €7.8 each brought total revenue of €mil. 398 less commissions. The sale of an additional 7.83% of the share capital in April brought net revenue of €mil. 60. The overall gain was €mil. 405 excluding taxes. Below is a summary of the transaction:

	€mil.
Revenue from IPO	458
Gain	417
Tax expense	(12)

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

VI. SEGMENT INFORMATION

<u>Primary frame of reference</u>

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

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations. The results for each segment at 30 June 2006, as compared with those of the same period of the previous year, are as follows:

30 June 2006

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

30 June 2005

	Helicopters	Defence Electronics	Aero-nautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
Revenue from external customers	1,153	930	507	365	377	347	578	58	0	4,315
Revenue from other segments	4	223	304	8	50	1	0	14	(198)	406
Operating result	127	81	49	21	20	12	(13)	(46)		251
Financial income and expense - net										(41)
Share of result of associates		(1)		1				(23)		(23)
Tax expense										(82)
Profit (loss) from discontinued operations										0
Profit (loss) for the period										105
Group share of net result										101
Minority share										4
Investments	22	934	68	9	16	4	13	5	0	1,071

The assets and liabilities attributable to the segments at 30 June 2006 and 31 December 2005 are as follows:

30 June 2006	Helicopters	Defence Electronics	Aero-nautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
Assets	5,533	6,012	4,850	970	2,167	1,060	1,725	3,482	(3,296)	22,503
Liabilities	3,616	3,681	4,623	592	1,506	1,037	1,639	4,469	(3,429)	17,734

31 December 2005	Helicopters	Defence Electronics	Aero-nautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
Assets	5,283	5,394	4,510	967	2,093	941	1,920	3,798	(3,149)	21,757
Liabilities	3,383	3,392	4,281	594	1,430	909	1,845	4,667	(3,315)	17,186

Secondary frame of reference

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

	30 June 2006	*30 June 2005*
Europe	4,352	3,866
North America	642	322
Other	712	533
	5,706	4,721

Assets are geographically distributed as follows:

	30 June 2006	*31 December 2005*
Europe	22,107	21,167
North America	318	539
Other	78	51
	22,503	21,757

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

	30 June 2006	*30 June 2005*
Europe	710	1,061
North America	8	4

Other	7	6
	725	1,071

VII. INTANGIBLE ASSETS

	Goodwill	Development costs	Patents & similar rights	Concessions, licences and trademarks	Other	Total
31 December 2005						
Cost	3,516	84	63	187	311	4,161
Depreciation, amortisation and impairment	(194)	(60)	(54)	(74)	(183)	(565)
Carrying amount	3,322	24	9	113	128	3,596
Investments (*)	443	3	2	9	15	472
Sales	-	-	-	-	-	-
Depreciation and amortisation	-	(3)	(2)	(11)	(17)	(33)
Increases for business combinations	-	-	-	-	-	-
Other changes	(145)	-	(1)	2	211	67
30 June 2006 broken down as follows:	3,620	24	8	113	337	4,102
Cost	3,785	86	64	196	533	4,664
Depreciation, amortisation and impairment	(165)	(62)	(56)	(83)	(196)	(562)
Carrying amount	3,620	24	8	113	337	4,102
(*) of which capitalisation of internal construction costs	-	2	-	1	5	8

Goodwill rose by €mil. 298, due to:

- the recognition of the relevant goodwill deriving from the possible exercise of the put and call options over 25% of the Selex Sensors and Airborne Systems Group, now held by BAE Systems Ltd (€mil. 326). Based on these agreements, the companies involved have been fully consolidated on a line-by-line basis and minority interests have not been calculated, provided that the legal portion held by the Finmeccanica Group amount to 75%, and GBPmil. 269 (€mil. 389 at the exchange rate prevailing at 30 June 2006, see Section 27) has been recorded as a liability at 30 June 2006. The put option can be exercised by BAE Systems Plc during a fixed time period (from May 2007 through August 2007), and the call option can be currently exercised by Finmeccanica. The aforesaid amount is contractually subject to price adjustments upon the occurrence of certain events;

- the completion (Section 10) on 4 January 2006 of the mandatory PPO on the Datamat S.p.A. shares (€mil. 53), the acquisition by the joint venture MBDA of the residual 81.25% of the LFK Group (€mil. 62) and the acquisition by Elsag S.p.A. (€mil. 2) of the remaining 30% of Tecnosis S.p.A.; the completion of the purchase price allocation process for the helicopter operations of the joint venture AgustaWestland, which were previously held at 50% by GKN Plc. This led to decrease in goodwill of €mil. 132 and recognition of other intangible assets (€mil. 211) and deferred tax liabilities (€mil. 79) (Section 39);
- exchange differences and other negative changes amounting to €mil. 12, almost entirely due to assets held in the United Kingdom.

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:

	30 June 2006	***31 December 2005***
Helicopters	1,297	1,435
Defence Electronics	1,554	1,180
Aeronautics	60	60
Space	277	276
Defence Systems	394	333
Energy	-	-
Transportation	38	38
Other activities	-	-
	3,620	3,322

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

'Concessions, licences and trademarks' include €mil. 78 of expenses incurred as part of the restructuring of the helicopters segment made by the joint venture BAAC in the second half of 2005. This led to the acquisition of all of the production and marketing rights for the AW139 helicopter (amounting to US$ 95 million), which were previously held by Bell Helicopter at 25% and the Group at 75% through the interest held in the above said joint venture.

'Other' include €mil. 206 of the residual value of the intangible assets identified for the helicopters operations acquired by GKN Plc.

VIII. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Plant and machinery**	**Equipment**	**Other**	**Total**
31 December 2005					
Cost	1,410	1,492	851	1,225	4,978
Depreciation, amortisation and impairment	(365)	(1,020)	(537)	(550)	(2,472)
Carrying amount	1,045	472	314	675	2,506
Investments (*)	20	31	27	175	253
Increases for business combinations	5	-	-	1	6
Sales	(11)	-	-	(7)	(18)
Depreciation and amortisation	(23)	(54)	(33)	(39)	(149)
Other changes	(5)	(5)	-	(24)	(34)
30 June 2006 broken down as follows:	1,031	444	308	781	2,564
Cost	1,423	1,491	871	1,376	5,161
Depreciation, amortisation and impairment	(392)	(1,047)	(563)	(595)	(2,597)
	1,031	444	308	781	2,564

(*) of which capitalisation of

internal construction costs	-	1	2	24	27

Property, plant and equipment includes assets held under finance leases of €mil. 122 (€mil. 131 at 31 December 2005), which is composed of land and buildings of €mil. 108 (€mil. 115 at 31 December 2005) and plant, machinery, equipment and other assets of €mil. 14 (€mil. 16 at 31 December 2005).
Other non-current assets include a total of €mil. 25 (€mil. 28 at 31 December 2005) for helicopters owned by the AgustaWestland Group and a total of €mil. 238 (€mil. 271 at 31 December 2005) for aircraft owned by the GIE ATR group, as well as for aircraft that did not meet the requirements, in terms of the substantial transfer of the risks of ownership (see Section 4.2), to recognize the sale, despite the fact that sales contracts have been concluded with external customers.

The item also includes the value of assets under construction totalling €mil. 368 (€mil. 223 at 31 December 2005).
The most significant investments amounted to €mil. 153 for the Aeronautics segment (mainly for the start-up of the B787 programme), €mil. 41 for the Defence Electronics segment, €mil. 25 for the Helicopters segment and €mil. 11 for the Defence Systems segment.

IX. EQUITY INVESTMENTS

	30 June 2006	***31 December 2005***
Opening balance	138	197
Acquisitions/subscriptions and capital increases	41	21
Revaluations/impairment	(9)	(25)
Dividends received	(3)	(1)
Sales	(3)	(10)
Other changes	-	(44)
Closing balance	164	138

Increases specifically included the increase in the share capital of Selex Composite S.p.A. (€mil. 10) and the incorporation of Metro C S.p.A. (€mil. 21) and Metro 5 S.p.A.

(€mil. 8) in the Transportation segment. Impairment regarded, among others, AvioGroup S.p.A. (€mil. 7).

Dividends received specifically regarded Elettronica S.p.A. and Eurosysnav SAS.

List of unconsolidated equity investments at 30 June 2006

	Ownership %	*€mil.*	*Assets €mil.*	*Liabilities €mil.*
Subsidiaries and Associates				
Aero Invest 1 S.A. (.)	29.87%	25	3,846	3,770
Selex Composite S.p.A.	100.00%	10	-	-
Orizzonte-Sistemi Navali S.p.A.	49.00%	10	25	4
Elettronica S.p.A.	31.333%	9	758	718
Metro 5 S.p.A. (..)	31.90%	8	-	-
Icarus S.c.p.A.	49.00%	5	16	7
Europea Microfusioni Aerospaziali S.p.A.	49.00%	5	37	28
Eurofighter Jagdflugzeug GmbH	21.00%	4	n.a.	n.a.
I.M. Intermetro S.p.A.	33.33%	3	1,450	1,442
Airlink Properties LTD	50.00%	2	77	0
Eurosysnav S.A.S	50.00%	2	1,059	1,053
Consorzio Cris	81.00%	2	11	9
Energy Service Group LTD	45.00%	2	2	1
Jiangxi Changhe Agusta Helicopters Co (*)	40.00%	2	3	0
Musi Net Engineering S.p.A.	49.00%	2	8	3
Libyan Italian Advanced Technology Company (…)	50.00%	2	-	-
Other investments and consortia				
Metro C S.p.A.	14.00%	21		
Indra Espacio S.A.	16.17%	6		
Innovazione e Progetti S.c.p.A.	15.00%	5		
Vitrociset S.p.A.	10.00%	4		
Panavia Aircraft GmbH	15.00%	3		
Digitalglobe Inc	2.078%	3		
Sofresa S.A.	2.50%	2		
Cesi - Centro Elettrotecnico Sperimentale G. Motta	9.36%	2		
Investments in companies and consortia with value lower than €mil. 2		25		
Total equity investments (less provision for bad debts)		**164**		

(*) financial statements 2004

(.) from 1 August 2006 AvioGroup S.p.A.

(..) incorporated on 5 June 2006

(...) incorporated on 18 May 2006

n.a. not available

X. BUSINESS COMBINATIONS

Below are the effects of the transactions that took place in the first half of 2006.

Datamat

On 4 October 2005 the Group purchased 52.7% of the share capital of Datamat S.p.A., a company listed on the Electronic Share Exchange (Techstar segment) organised and managed by Borsa Italiana and operating in the Defence Electronics business at a set price of €mil. 151.

Since the 30% threshold set by Legislative Decree no. 58 of 1998 was exceeded, Finmeccanica launched a compulsory purchase offer over 12,284,840 ordinary shares of Datamat S.p.A., at a unit price of €9.65 per share. At the end of the compulsory offer, as of 4 January 2006 the Group acquired an additional 9,178,274 ordinary shares of Datamat S.p.A., amounting to 32.4% of the share capital in the company (33.8% including treasury shares), for a total amount of €mil. 89.On 12 June 2006, the Group acquired an additional 272,000 ordinary shares, amounting to 0.959% of the share capital, exceeding the 90% percentage necessary to commence the residual PPO.

The Datamat group was already consolidated on a line-by-line basis at 31 December 2005: as a result, the transaction was recorded as a transaction with third parties, with the difference between the price paid and minority interests acquired being recorded as goodwill, without Group equity being affected.

Below are the effects of this transaction on Group equity:

Cash paid	89
Transactions costs	2
Minority interests acquired	38
Goodwill resulting from the transaction	53

LFK

On 1 March 2006 the joint venture MBDA, owned by the Group at 25% and consolidated using the proportionate method, acquired the remaining 81.25% of the LFK Group, the main manufacturer of missile systems in Germany.

The fair value attributed to the assets and liabilities acquired (pertaining to Finmeccanica) is as follows:

Cash and cash equivalents	60
Property, plant and equipment	8
Other assets	52
Liabilities	(117)
Fair value of the assets acquired	3
Cost of acquisition	65
Goodwill resulting from the acquisition	62

XI. FINANCIAL ASSETS AT FAIR VALUE

	30 June 2006		***31 December 2005***	
	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	751	-	906	-
Other securities	-	-	-	-
	751	-	906	-

These fully relate to the indirectly-owned interest in STMicroelectronics N.V. (STM), amounting to 6.6% at 30 June 2006. Below are changes for the period in this item:

31 December 2005	906
Purchases for the year	-
Sales for the year	-
Fair value adjustment at 30 June 2006	(155)
30 June 2006	751

The decrease for the first half-year was offset by a specific equity reserve named ‘reserve for assets available for sale’ (€mil. 283 at 30 June 2006 net of the translation reserve which was negative in the amount of €mil. 14 relating to prior years).

XII. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	30 June 2006	*31 December 2005*
Loans to associates and unconsolidated subsidiaries	11	12
Third-party financing	1	3
Security deposits	14	15
Receivables for finance leases	20	19
Other	61	73
Non-current receivables	107	122
Financial accrued income - non-current	2	3
Other accrued income - non-current	1	1
Other non-current assets	2	-
	5	4

Receivables for finance lease relate to transactions qualifying as finance lease made by GIE ATR where the Group is the lessor: in this case, the aircraft being the subject-matter of the lease contract is removed from assets and replaced by a receivable, and the relevant financial income is recognised progressively over the term of the contract at the effective interest rate applicable to the lease contract.

The item also includes tax receivables for the prepayment of withholdings for personal income tax (IRPEF) on the severance benefits for Italian companies (€mil. 25).

XIII. INVENTORIES

	30 June 2006	*31 December 2005*
Raw materials, supplies and consumables	1,373	1,297
Work in progress and semi-finished goods	3,781	3,527

Finished goods and merchandise	166	168
Advances to suppliers	590	519
	5,910	5,511

Work in progress includes assets defined according to Group practice (see Section 4.1) as non-recurring costs of €mil. 2,911 (€mil. 2,719 at 31 December 2005), which are largely related to programmes in the aeronautics (€mil. 1,592) and helicopter (€mil. 796) segments. Inventories are shown net of impairment charges of €mil. 405 (€mil. 404 at 31 December 2005).

XIV. CONTRACT WORK IN PROGRESS AND ADVANCES RECEIVED

	30 June 2006	*31 December 2005*
Contract work in progress (gross)	6,172	5,728
Advances from customers	(3,416)	(3,190)
Contract work in progress (net)	2,756	2,538
Advances from customers (gross)	11,675	11,146
Contract work in progress	(7,094)	(6,757)
Advances from customers (net)	4,581	4,389

Contract work in progress is recognized as an asset if the gross value of a given contract is greater than the advances received from the customer or as a liability if the advances received are greater than the related contract work in progress. In the event the advances have not been received at the balance sheet date, the corresponding value is recognised among trade receivables.

XV. TRADE AND FINANCIAL RECEIVABLES

	30 June 2006		*31 December 2005*	
	Trade	Financial	Trade	Financial
Receivable from associates and subsidiaries not fully consolidated	201	14	206	10
Receivable from consortia	65	7	63	7
Receivable from other partners of joint ventures	64	339	63	386

Other third parties	3,381	54	3,268	57
	3,711	414	3,600	460

Other trade receivables at 30 June 2006 include €mil. 22 (€mil. 39 at 31 December 2005) related to receivables sold as part of non-recourse factoring transactions that do not qualify for derecognition under IAS 39. It should be noted (see also Section 24) that these assets are not available to the Group, given that they have been transferred fully and with no possibility of repurchase by third parties.

Trade receivables from associates and subsidiaries not fully consolidated include €mil. 79 (€mil. 89 at 31 December 2005) related to amounts receivable from the EFA consortium as part of the Eurofighter programme, €mil. 47 related to amounts receivable from Iveco Fiat/Oto Melara (€mil. 32 at 31 December 2005), €mil. 9 (€mil. 17 at 31 December 2005) related to Macchi Hurel Dubois SAS ED and €mil. 33 related to Eurosysnav SAS (€mil. 3 at 31 December 2005).

Financial receivables from associates and subsidiaries not fully consolidated include €mil. 3 related to Finmeccanica UK Ltd, €mil. 2 related to IGS S.p.A., €mil. 3 related to Finmeccanica Inc., €mil. 2 related to Gieinter AG and €mil. 3 related to Galileo Vacuum Systems S.p.A.. Financial receivables from other partners of the MBDA joint venture mostly relate to the deposit of cash and cash equivalents of the MBDA group with the other participants in the joint venture (BAE Systems plc and EADS NV), acquired on a pro rata basis (25%) through the proportional consolidation of the Group.

XVI. CURRENT FINANCIAL ASSETS AT FAIR VALUE

At 30 June 2006, these assets are as follows:

	30 June 2006		*31 December 2005*	
	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	10	-	10	-
Other securities	10	-	10	-
	20	-	20	-

Bonds mainly relate to Government securities issued by the Italian Government and maturing during the year. Other securities relate to Group Parent liquidity being temporarily invested in units of a fund established under the laws of Italy.

XVII. TAX RECEIVABLES AND PAYABLES

	30 June 2006		*31 December 2005*	
	Receivables	Payables	Receivables	Payables
Direct taxes	280	134	262	80
Other taxes	86	167	102	188
	366	301	364	268

Tax receivables include receivables of the Group Parent totalling €mil. 179 (€mil. 157 at 31 December 2005) related to IRPEG/I.Re.S. (income) taxes in the amount of €mil. 79, interest on tax credits of €mil. 56, VAT credits in the amount of €mil. 27 and other receivables (IRAP, ILOR) in the amount of €mil. 17.

Tax payables include payables of the Group Parent totalling €mil. 22 (€mil. 41 at 31 December 2005), of which €mil. 8 relates to VAT payables and €mil. 14 relates to other payables (IRPEF and stamp taxes).

XVIII. OTHER CURRENT ASSETS

	30 June 2006	*31 December 2005*
Accrued income - current portion	87	101
Equity investments	-	-
Derivatives (Section 29)	142	59
Receivables for contributions	55	69
Receivables from employees and social security	35	32
Receivables from associates and subsidiaries not fully consolidated	7	10
Receivables from other partners of the joint ventures	45	34
Other assets	193	227
	564	532

The receivables from associates and subsidiaries not fully consolidated include €mil. 3 for Ansaldo Invest Denmark AS in liquidation (€mil. 3 at 31 December 2005), while receivables from other partners of the joint ventures relate to relations with the GIE ATR consortium (€mil. 44, €mil. 34 at 31 December 2005) for the portion not eliminated as a result of proportionate consolidation (50%).

Other assets include receivables from SACE of €mil. 3 (€mil. 18 at 31 December 2005), from the Camozzi Group of €mil. 14 (€mil. 14 at 31 December 2005), from Standard Bank Plc of €mil. 8 (€mil. nil at 31 December 2005) and sundry advances of €mil. 17 (€mil. 22 at 31 December 2005).

XIX. CASH AND CASH EQUIVALENTS

	30 June 2006	*31 December 2005*
Cash	6	3
Bank deposits	674	1,058
	680	1,061

The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

XX. SHARE CAPITAL

	Number of ordinary shares	Par value €mil.	Treasury shares €mil.	Total €mil.
Outstanding shares	422,845,466	1,860	-	1,860
Treasury shares	(258,605)	-	(2)	(2)
31 December 2005	422,586,861	1,860	(2)	1,858
Shares subscribed during the period	1,359,275	6	-	6
Repurchase of treasury shares, less shares sold	(1,040,901)	-	(19)	(19)
30 June 2006	422,905,235	1,866	(21)	1,845
broken down as follows:				
Outstanding shares	424,204,741	1,866	-	1,866
Treasury shares	(1,299,506)	-	(21)	(21)
	422,905,235	1,866	(21)	1,845

The Group Parent’s share capital fully subscribed and paid-up is divided into 424,204,741 ordinary shares with a par value of €4.40 each, including 1,299.506 treasury shares.

During the first half of 2006 the share capital increased by €mil. 6 for the issue of 1,359,275 new shares resulting from the exercise of subscription rights as resolved by the Board of Directors as part of the stock option plan 2002 - 2004.
Moreover, 1,075,901 ordinary shares were purchased on the market, for a total amount of €mil. 19, in order to support the stock grant plan 2005-2007, and 35,000 options were exercised for the purchase of treasury shares of Finmeccanica from persons not related to Finmeccanica through an employment contract as part of the former stock option

plan. As a result, treasury shares amounted to 1,299,506, of which 223,605 were used in the above said stock option plan and 1,075,901 in the stock grant plan.

At 30 June 2006, the Ministry of Finance held 33.799% of shares.

XXI. RETAINED EARNINGS AND CONSOLIDATION RESERVE

	30 June 2006	***31 December 2005***
Start of period	2,173	1,902
Dividends paid	(211)	(110)
Surplus on share capital increases	13	9
Reclassified from reserve for stock-option plans	2	1
Other changes	26	(2)
Net profit for the period	564	373
End of period	2,567	2,173

XXII. OTHER RESERVES

	Reserve for assets available for sale	**Cash flow hedge reserve**	**Translation reserve**	**Reserve for stock-option and stock-grant plans**	**Total**
31 December 2005	438	(44)	2	17	413
Stock option plans:					
- services rendered	-	-	-	8	8
- issue of new shares	-	-	-	(2)	(2)
Fair value adjustments	(155)	84	-	-	(71)
Recognition in the income statement	-	(3)	-	-	(3)
Change in scope of consolidation	-	-	-	-	-
Translation differences	-	-	(9)	-	(9)
30 June 2006	283	37	(7)	23	336

Reserve for assets available for sale

This reserve includes changes in the value of the indirect investment in STMicroelectronics NV (Section 11), which is designated as an asset available for sale, and in the other assets included in this category.

Cash flow hedge reserve

This reserve includes the fair value of derivatives used by the Group to hedge its exposure to currency or interest rate risk net of the effect of deferred taxes until the moment in which the underlying position is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Translation reserve

This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the U.K. component of the AgustaWestland (€mil. 6), Selex Communications (€mil. 2), Selex S&AS (€mil. -14) and Ansaldo Signal (€mil. 2) groups.

Reserve for stock-option and stock-grant plans

This reserve is the equity contra-item of the value of the activities performed by employees and non-employees, remunerated through the assignment of options on the shares of Finmeccanica S.p.A. stock as part of the previous stock option plan for 2002-2004 or through the free assignment of shares as part of the stock grant plan 2005-2007.
With regard to the stock option plan 2002-2004, following achievement of the conditions specified in the plan, a total of 3,993,175 (79,863,500 before combining them) options have been assigned and are currently exercisable by their recipients through 31 December 2009. The strike price is set at €14 per share with a par value of

the shares to be subscribed of €4.40, with the difference allocated to the share premium reserve. With the increase in the share capital authorised by the Board of Directors within the limits set by the shareholders on 16 May 2003, at 30 June 2006 a total of 2,310,250 ordinary shares have been subscribed, for an increase in capital of €mil. 10.At 30 June 2006 treasury shares used in the stock option plan amounted to 223,605, following the exercise of 35,000 call options for treasury shares from persons not related to Finmeccanica through an employment contract.

With regard to the stock grant plan, this was approved by the Board of Directors on 29 September 2005 and its beneficiaries are 574 key resources among executives, directors and self-employed workers with top-level roles in Finmeccanica S.p.A. or its subsidiaries. Under the plan, each of the beneficiaries is entitled to receive Finmeccanica S.p.A.'s ordinary shares for each of the years 2005, 2006 and 2007, on annual assignment and deferred delivery of shares, subject to the achievement of the performance goals defined internally.

The shares to be assigned following the assignment and subject to the achievement of the goals will be made available through a share capital increase resolved by the Company pursuant to Article 2349 of the Italian Civil Code or through shares already issued and included in the Group portfolio, to be purchased upon prior authorisation resolved by the Shareholders' Meeting on 1 June 2005. In the first half of 2006 1,075,901 treasury shares were purchased and used in the plan. The fair value of the shares to be assigned was set at €15.9 per share, on the basis of the market value of the share at the date the plan structure and the key parameters were defined; the valorisation of the rights that are estimated to be assigned has increased the reserve by €mil. 8 during the period; this reserve also includes contributions of €mil. 2, for a total cost of €mil. 10 for the first half-year 2006 (Section 34).

XXIII. SHAREHOLDERS' EQUITY OF MINORITY INTERESTS

	30 June 2006	*31 December 2005*
Start of period	154	22
Dividends paid	(3)	(1)
Change in scope of consolidation	(91)	110
Share capital increases	1	1
Translation differences	(3)	(1)
Fair value adjustments	(1)	-
Other changes	(1)	-
Net profit for the year	11	23
End of period	67	154

The net change in the scope of consolidation is essentially due to transactions involving the Datamat group and the Ansaldo STS Group and operations in the Defence Electronics segment which were the subject-matter of agreements made in 2005 with BAE Systems Plc.

XXIV. BORROWINGS

	30 June 2006			*31 December 2005*		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Bonds	72	1,663	1,735	64	1,659	1,723
Payable to associates and subsidiaries not fully consolidated	28	-	28	3	-	3
Bank borrowings	73	188	261	126	220	346
Finance leases	6	27	33	8	28	36
Payable for non-recourse factoring	22	-	22	39	-	39
Payable to other joint venture partners	360	-	360	368	-	368
Other borrowings	58	79	137	58	68	126
	619	1,957	2,576	666	1,975	2,641

Bonds

	31 December 2005	Interest	Repayments	Other changes	30 June 2006
Exchangeable bonds	415	10	-	-	425
Bonds - 1997	6	-	-	-	6
Bonds - 2002	292	5	(5)	-	292
Bonds - 2003	497	14	-	-	511
Bonds - 2005	513	12	(24)	-	501
	1,723	41	(29)	-	1,735

Below are the salient features of these bonds:

- *Exchangeable bonds:* The bond, with a total nominal value of €mil. 501, was issued by Finmeccanica Finance S.A. during financial year 2003 with a maturity of 8 August 2010 and offers investors the option to exchange the bond for STMicroelectronics N.V. shares at a price of €25.07 per share.

  With a nominal yield of 0.375% annually, the bond was measured at an effective interest rate of 4.36%, which is the rate at which it would have been issued had it not had the exchange option. This component, separated from the value of the bond, was measured at fair value and recognised through profit and loss (see Sections 29 and 37 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 37). For the handling of the STM shares linked to the conversion (20,000,000) see Section 11.

- *Bonds - 1997:* this bond, issued by Finmeccanica Finance S.A. in 1997 with a maturity date of 16 January 2007, pays an annual coupon of 3.30% and has a total nominal value of JPY 900 million (€mil 6).

- *Bonds - 2002:* this bond, issued by Finmeccanica Finance S.A. in 2002 with a maturity date of 30 December 2008 has a total nominal value of €mil. 297, returns a variable yield based on the Euribor rate with spread of 90 b.p.s., mitigated by a "cap & floor" mechanism.

- *Bonds – 2003:* this bond was issued in 2003 by Finmeccanica Finance S.A. with a maturity date of 12 December 2018 and has a total nominal value of €mil. 500.With an annual coupon of 5.75%, the effective interest rate is 5.93%.

- *Bonds – 2005:* this bond was issued in 2005 by Finmeccanica Finance S.A. with a maturity date of 24 March 2025 and has a total nominal value of €mil. 500.With an annual coupon of 4.875%, the effective interest rate is 4.96%.

Changes for the period in borrowings are:

	31 December 2005	***Increases (*)***	***Repayments (*)***	***Change in scope of consolidation***	***Other changes***	***30 June 2006***
Bonds	1,723	41	(29)	-	-	1,735
Payable to associates and subsidiaries not fully consolidated	3	25	-	-	-	28
Bank borrowings	346	3	(68)	-	(20)	261
Finance leases	36	0	(3)	-	-	33
Payable for non-recourse factoring	39	0	(17)	-	-	22
Payable to other joint venture partners	368	0	(8)	-	-	360
Other borrowings	126	12	(7)	(1)	7	137
	2,641	81	(132)	(1)	(13)	2,576

(*) 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.

Payable to associates and subsidiaries not fully consolidated

This also includes payables to Eurosysnav SAS of €mil. 25.

Bank borrowings

This item specifically includes borrowings by the joint ventures ATIL Ltd in the helicopters segment (€mil.98), and GIE ATR in the aeronautics segment (€mil. 17), borrowings related to companies being liquidated (€mil. 3) and subsidised loans posted by Selex Sistemi Integrati S.p.A. (€mil. 60). Of the non-current portion, €mil. 95 falls due in between 2 and 5 years, and €mil. 93 falls due in more than 5 years.

Finance leases

These obligations are related to property, plant and equipment and intangible assets held by the Group under finance lease contracts. Of these, €mil. 26 has an expiration of between 2 and 5 years, and €mil. 1 has an expiration of greater than 5 years.

Payable for non-recourse factoring

Although some assignments of receivables carried out by the Group in prior years are both legally and substantively assignments without recourse and their terms and conditions do not envisage repurchase or reversion clauses or guarantees that could require reimbursement of the amounts received, these are not eligible for derecognition. Accordingly, the accounting policy adopted calls for the trade receivable to remain among assets (even though the Group no longer has control over the asset), with the recognition of a corresponding financial liability. On the date the assignee receives payment from the assigned debtor, the receivable and the related financial liability are eliminated from the Group's assets and liabilities.
The changes in this payable during the period are as follows:

31 December 2005	***Repayments***	***New transactions***	***30 June 2006***
39	17	-	22

Payable to other joint venture partners

This item regards the liability to the MBDA (€mil. 339) and Telespazio (€mil. 21) joint ventures not eliminated after the proportionate consolidation (25% and 67% respectively) of the entities, resulting from the transfer of liquidity produced. At 31 December 2005, the balance item totalled €mil. 368, €mil. 349 of which related to amounts payable to MBDA and €mil. 19 payable to the Telespazio joint venture.

Other borrowings

This item includes the liability to the Ministry for Economic Development for medium and long-term financing granted under various Italian laws. Of the non-current portion, €mil. 48 falls due in between 2 and 5 years, and €mil. 31 falls due in more than 5 years.

Below is the financial information required under CONSOB communication no. DEM/6064293 of 28 July 2006:

	30 Jun 2006	***31 Dec 2005***
Cash	6	3
Bank deposits	674	1,058
Securities held for trading	20	20
LIQUIDITY	700	1,081
CURRENT FINANCIAL RECEIVABLES	414	460
Current bank payables	73	126
Current portion of non-current borrowings	78	72
Other current borrowings	468	468
CURRENT NET DEBT	619	666
CURRENT NET DEBT (CASH)	(495)	(875)
Non-current bank payables	188	220
Bonds issued	1,663	1,659
Other non-current payables	106	96
NON-CURRENT NET DEBT	1,957	1,975
NET DEBT	1,462	1,100

XXV. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	**Restruct-uring**	**Penalties**	**Product guarantees**	**Other**	**Total**
31 December 2005	64	77	56	191	558	946
Allocations	-	6	5	29	36	76
Uses	(1)	(6)	(2)	(7)	(20)	(36)

Reversal	(8)	(6)	(9)	(10)	(56)	(89)
Other changes	14	(6)	2	1	16	27
30 June 2006	69	65	52	204	534	924
31 December 2005						
Current	9	53	50	101	310	523
Non-current	55	24	6	90	248	423
	64	77	56	191	558	946
30 June 2006						
Current	24	43	44	108	277	496
Non-current	45	22	8	96	257	428
	69	65	52	204	534	924

Other changes include changes in the scope of consolidation.

These specifically include:

- the provision for guarantees given in the amount of €mil. 69 (€mil. 64 at 31 December 2005) related to business in the Aeronautics segment, for activities with foreign partners, and in the Defence Electronics segment, as well as activities related to the transport, space and energy segments. The increase is also due to the acquisition of LFK GmbH by MBDA SAS;

- the provision for conversion and restructuring in the amount of €mil. 65 (€mil. 77 at 31 December 2005) was established for expected charges resulting from the programme to restructure the various segments. The most significant uses for the period involved the helicopter, space and other activities segments. The amounts recorded are related to the space, helicopter, energy, defence electronics and other activities segments;

- the provision for penalties in the amount of €mil. 52 (€mil. 56 at 31 December 2005).The amounts recorded are related to the aeronautics, space and defence systems segments;

- the provision for product guarantees, in the amount of €mil. 204 (€mil. 191 at 31 December 2005) includes allocations related to commitments for products sold. The amounts recorded are related to the helicopter, energy, and defence electronics segments;

- the other provisions total €mil. 534 (€mil. 558 at 31 December 2005) and include:

  - the provision for risks on operations of the G.I.E./ATR in the amount of €mil. 68 (€mil. 100 at 31 December 2005);
  - the provision for risks and contractual charges in the amount of €mil. 123 (€mil. 153 at 31 December 2005) related, in particular, to business in the energy, defence electronics, transport, and other business segments;

  - the provision for bad debts of €mil. 21 (€mil. 26 at 31 December 2005) includes accruals to cover losses exceeding the carrying amounts of investees;

the provision for taxes in the amount of €mil. 33 (€mil. 27 at 31 December 2005);

- the provision for disputes with employees and former employees in the amount of €mil. 36 (€mil. 37 at 31 December 2005);
- the provision for risks on aeronautical business related to the C27J and AMX programmes in the amount of €mil. 16 (€mil. 26 at 31 December 2005);
- the provision for pending litigation in the amount of €mil. 107 (€mil. 121 at 31 December 2005);
- other provisions in the amount of €mil. 130 (€mil. 68 at 31 December 2005).

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.

Based on the information currently available, it is believed that the various issues that could result in an outflow of resources, and which are not covered by a specific provision, can be resolved in a satisfactory manner without a significant impact on earnings.

Of course, in application of related accounting standards, provisions have been made for any obligations related to probable and quantifiable risks. The situations below do not fall under this category, but are mentioned here solely for the purposes of full disclosure.

Of particular note:

- the dispute in which Finmeccanica has been asked to cover the contractual commitments assumed upon the sale of the former subsidiary Finmilano S.p.A. to Banca di Roma (now Capitalia) originated from the assessment ordered by the Rome Office of Direct Taxes of Finmilano S.p.A. regarding the disallowance of the tax deductibility of the capital loss originating in 1987 on the sale of a non-recourse 'deferred' receivable at a price below the nominal value. In essence, the Italian tax authorities felt that this sale was actually a financing transaction and that the loss, in the same manner as a finance cost, should not have been deducted in its entirety in 1987, but should have been recognised over subsequent years as implicit interest in the transaction.

  After the Court of Cassation (the supreme court of appeal) - in allowing the appeal filed by the tax authorities - had returned the parties to the court of first instance, the latter once again upheld the company's complaint. This ruling was once again appealed to the Court of Cassation. It should be noted that substantial charges to be paid by Finmeccanica are not currently foreseeable. In agreement with the bank, it has been deemed that there is insufficient justification to accept the settlement of pending disputes pursuant to Article 16 of Law 289/2002, partly in light of the fact that the significant financial outlay that this would have required does not make sense from a cost-benefit point of view;

- the dispute resulting from the notice to settle the registry fee of about €mil. 10, which was received by Finmeccanica in July 2001 and due on the capital increase approved in 1998. Although the tax liability had already been recognized in the related financial year, the company felt it was unnecessary to meet the tax demand because it was unjustified both in law and in fact. In fact, in addition to being received after statutory deadline, the notice contained a request for a tax related to a tax base that was partially inconsistent with applicable laws. The Tax Commission for the Province of Rome upheld the company's dispute in its ruling filed in

December 2002. The ruling was appealed by the company in relation to the failure to order the tax authorities to reimburse costs. In the first half of 2004, the tax authorities in turn filed a cross-appeal of the same ruling, but only with regard to the decision that confirmed the termination of the office's assessment power in the matter. No objection was raised, however, with regard to the substance of the original ruling establishing the partial lack of justification of the amount requested by the revenue office. In a ruling filed in October 2004, the appeal court rejected the company's primary appeal regarding the lack of reimbursement of costs, but at the same time declared that the cross appeal filed by the tax authorities was inadmissible in that it was filed after the ordinary statutory deadlines. In particular, the Regional Tax Commission in Rome upheld the complaint filed by the company regarding the fact that the tax authorities had erroneously deemed the suspension of the procedural deadlines defined by Article 16 of Law 289/02 (facilitated settlement of pending disputes) to be applicable, given that the case did not fall within the scope of this law. The sentence of the court of second instance has been appealed to the Court of Cassation by the tax authorities.

- the 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.
  The amount of interest that would result from a different calculation method amounts to roughly €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;

- on 6 July 2001, Finmeccanica and its subsidiary Alenia Spazio (now ALS S.p.A.) received notice of a summons to appear before the Texas Federal Court to respond to a request for damages resulting from the alleged violation of agreements as part of the Gorizont program, which is related to the events of 1998-1999 when Alenia Spazio operated as a division of Finmeccanica (on 9 July 2001, Alenia Spazio alone received a second summons to appear before the court for the same issue).

Based on an examination of the case files by U.S. lawyers, the company feels there are valid reasons to contest the substance of the demands of the plaintiffs; The pre-trial issue of the lack of jurisdiction of the Texan Court raised by Finmeccanica and ALS in both suits was given a favourable outcome by the various degrees of jurisdiction. Regarding the dispute against Finmeccanica and ALS, on 8 June 2006 the plaintiff filed a Petition for Writ of Certiorari to the Federal Supreme Court of the United States to obtain a review of all the papers of the case. According to the legal counsels of the company in the US, there is a small chance that the Supreme Court accepts the petition;

- arbitration is under way to settle a dispute between Consorzio Trevi - of which the subsidiary AnsaldoBreda S.p.A. is a member with a 40% stake - and Trenitalia S.p.A. in relation to the application of penalties for the late delivery of ETR 500 trains. Consorzio Trevi has contested the penalties and has requested reimbursement of the significant additional costs incurred. The arbitration board arranged for the issues involved in the arbitration to be examined by an independent expert. The expert’s report was filed on 10 January 2005 and is in favour of Consorzio Trevi. However, on 19 October 2005 the arbitration board arranged, upon request of Trenitalia, for a supplementation of the expert’s report; this was filed on 31 January 2006. The findings of this supplementation of report do not provide clear indications on the amount of Trenitalia’s delays; these indications had been clearly reported in the former report. For this reason, Consorzio Trevi has confirmed its own reservations concerning the lawfulness of the supplementation of report and demanded to file its own considerations on this matter. On 13 March 2006 the parties filed their final pleadings. The arbitration award will be filed by November 2006;

- on 1 October 2003, the European Commission notified the Ministry of Foreign Affairs of the formal proceedings initiated for an investigation of the Italian State, pursuant to Article 11 of the EC Treaty, in relation to subsidies granted by the Italian Government to the companies Alenia Aeronautica S.p.A., Aermacchi S.p.A. (now Alenia Aermacchi S.p.A.), and Agusta S.p.A., based on Law 808/85, for six research and development projects. The Commission considers the subsidies to be state aid. The preliminary assessment of the Commission was that these subsidies were not notified to the Commission at the time, even though they were each in excess of the ECU 20 million threshold (1 ECU being equal to 1 euro). On 22 January 2004, the decision to open proceedings was published in the EU Official Journal.

The Italian authorities submitted their own observations to the Commission on 30 January 2004.

In response to requests of third parties, the Commission requested further information from the Italian Government, which was provided in the latter part of May 2004. Further exchanges of requests and information between the Commission and the Italian Government continued in the second half of the year. With its letter of 22 June 2005 C(2005)1813, received by the Permanent Representation of Italy in the EU on 24 June, the European Commission informed the Italian Government of its decision to extend the scope of the current proceedings to an additional six projects of the aforementioned companies that had initially been excluded by the Commission itself. The Italian Authorities submitted their reply to the Commission on 29 November 2005. On 19 December 2005 the Commission served on the Italian Government further considerations filed by a third anonymous party, and the Government replied accordingly on 24 February 2006. At the moment, this procedure deeply affects the application principles of Law no. 808/85; Finmeccanica will follow the issue with special attention with the assistance of local counsel. At present, information is being exchanged between the Italian Government and the Commission before the latter issues its final decision.

XXVI. SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES

	30 June 2006	*31 December 2005*
Severance obligations	775	778
Defined-benefit retirement plans	323	318
Other employee obligations	41	18
	1,139	1,114

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.

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.

Other employee obligations mainly relate to provisions of the joint venture MBDA (€mil. 37). The increase for the period (€mil. 23) fully relates to the inclusion in the scope of consolidation of the defined-benefit plans of the LFK group, which was acquired by the joint venture on 1 March 2006.

A detail of the defined-benefit retirement plans is as follows:

	30 June 2006	*31 December 2005*
GBP area	286	282
Euro area	37	36
	323	318

A breakdown of severance obligations and defined-benefit plans is as follows:

	Severance obligations		**Defined-benefit plans**	
	30 June 2006	*31 December 2005*	*30 June 2006*	*31 December 2005*
Present value of the obligations	824	851	1,020	1,025
Fair value of the plan's assets	-	-	(673)	(641)
Unrecognized actuarial loss	(49)	(73)	(24)	(66)
Carrying amount of the obligation	775	778	323	318

Unrecognised actuarial losses mainly relate, with regard to defined-benefit plans, to the AgustaWestland group (€mil. 26), and are partly offset by unrecognised actuarial gains of Selex Sensors and Airborne Systems Ltd (€mil. 1) and Telespazio France (€mil. 1). The considerable decrease in unrecognised actuarial losses on both types of defined-benefit plans is due to the rise in rates used in calculating pension differences.

Below are movements in defined-benefit plans:

	30 June 2006			
	Present value of the obligation	Present value of the asset	Unrecognised actuarial loss	**Net liability defined-benefit plans**
Opening balance	1,025	641	66	318
Costs of benefits paid	38	-	-	38
Interest expense	24	-	-	24
Expected return on plan assets	-	23	-	(23)
Actuarial losses (gains)	(60)	(18)	(42)	-
Decreases for sales	-	-	-	-
Increases from business combinations	-	-	-	-
Contributions paid	-	32	-	(32)
Contributions from other plan participants	9	9	-	-
Exchange rate differences	(9)	(6)	-	(3)
Benefits paid	(9)	(8)	-	(1)
Other changes	2	-	-	2
Closing balance	1,020	673	24	323

	31 December 2005			
	Present value of the obligation	Present value of the asset	Unrecognised actuarial loss	**Net liability defined-benefit plans**
Opening balance	709	474	22	213
Costs of benefits paid	51	-	-	51
Interest expense	42	-	-	42
Expected return on plan assets	-	35	-	(35)
Actuarial losses (gains)	117	73	44	-
Decreases for sales	-	-	-	-
Increases from business combinations	83	-	-	83
Contributions paid	-	55	-	(55)
Contributions from other plan participants	16	16	-	-
Exchange rate differences	19	13	-	6
Benefits paid	(22)	(22)	-	-
Other changes	10	(3)	-	13
Closing balance	1,025	641	66	318

Changes in severance obligations are shown below:

	30 June 2006			
	Present value of the obligation	Present value of the asset	Unrecognized actuarial loss	**Net liability defined-benefit plans**
Opening balance	851	-	73	778
Costs of benefits paid	28	-	-	28
Interest expense	12	-	-	12
Actuarial losses (gains)	(23)	-	(24)	1
Decreases for sales	-	-	-	-
Increases from business combinations	-	-	-	-
Benefits paid	(42)	-	-	(42)
Other changes	(2)	-	-	(2)
Closing balance	824	-	49	775

	31 December 2005			
	Present value of the obligation	Present value of the asset	Unrecognized actuarial loss	**Net liability defined-benefit plans**
Opening balance	806	-	55	751
Costs of benefits paid	66	-	-	66
Interest expense	21	-	-	21
Actuarial losses (gains)	19	-	18	1
Decreases for sales	(89)	-	-	(89)
Increases from business combinations	110	-	-	110
Benefits paid	(76)	-	-	(76)
Other changes	(6)	-	-	(6)
Closing balance	851	-	73	778

The amounts recognised in the income statement were calculated as follows:

	30 June 2006		*30 June 2005*	
	Severance obligations	**Defined-benefit plans**	**Severance obligations**	**Defined-benefit plans**
Costs of benefits paid	28	38	30	21
Interest expense	12	24	10	19
Expected return on plan assets	-	(23)	-	(17)
Actuarial loss recognized during the period	1	-	-	-
Total cost	41	39	40	23

No actuarial losses were recognised in the income statement in relation with defined-benefit plans, in compliance with the corridor approach, as the actuarial deficit is lower than such threshold.

The main actuarial assumptions are as follows:

	Severance obligations		Defined-benefit plans	
	30 June 2006	*31 December 2005*	*30 June 2006*	*31 December 2005*
Discount rate (annual)	3.50-3.90%	3.00-3.60%	5.20-5.30%	4.70-4.80%
Expected return on plan assets	-	-	4.60-7.40%	4.50-7.50%
Rate of salary increase	2.00-6.00%	2.00-5.20%	3.95-4.00%	3.90-4.00%
Rate of turnover	0.90-5.00%	0.90-4.50%	-	-

Assets of defined-benefit plans include:

	30 June 2006	*31 December 2005*
Shares	503	455
Real properties	104	92
Bonds	63	62
Cash or equivalents	9	6
Other	(6)	26
	673	641

Specifically, other net assets (negative in the amount of €mil. 6) include a swap of Selex Sensors and Airborne Systems Ltd, which is related to the performance of the interest rate and the inflation rate. Its fair value at 30 June 2006 was negative in the amount of €mil. 9.

Below is statistical information regarding the excess (deficit) of plans and adjustments made on estimated liabilities and assets of the plan:

	30 June 2006		*31 December 2005*		*31 December 2004*	
	Severance obligations	**Defined-benefit plans**	**Severance obligations**	**Defined-benefit plans**	**Severance obligations**	**Defined-benefit plans**
Present value of obligations	824	1,020	851	1.025	806	709
Fair value of the plan's assets	-	(673)	-	(641)	-	(474)
Plan excess (deficit)	824	347	851	384	806	235

XXVII. OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		Current	
	30 June 2006	*31 December 2005*	*30 June 2006*	*31 December 2005*
Employee obligations	48	49	364	299
Deferred income	155	178	92	93
Social security payable	6	6	180	182
Payable to Min. of Prod. Act. Law 808/1985	-	-	2,899	2,767
Payable to associates, consortia and subsidiaries not fully consolidated	-	-	13	8
Derivatives (Section 29)	-	-	60	121
Other payables	140	147	846	447
	349	380	4,454	3,917

Specifically, other payables include:

- the amount of €mil 389 due to Bae Systems Plc in connection with the put and call option on the remaining 25% of Selex Sensors and Airborne Systems S.p.A.;
- the amount of €mil. 71 (of which €mil. 63 is carried as a non-current liability) due to the 'BAAC reorganisation', which involved the acquisition of 100% of the construction and marketing rights for the helicopter AW 139, previously owned by Bell Helicopter at 25%.
- the amount of €mil. 44 due to EADS NV from GIE/ATR (consortium owned by Alenia Aeronautica S.p.A. and EADS NV);
- the amount of €mil. 45 in respect of contractual penalties;
- the amount of €mil. 27 due to repurchase of a G222 aircraft;
- royalties due in the amount of €mil. 20.

XXVIII. TRADE PAYABLES

	30 June 2006	*31 December 2005*
Payable to associates and subsidiaries not fully consolidated	19	27

Payable to consortia	21	7
Payable to other joint venture partners	19	27
Other vendors	3,167	3,370
	3,226	3,431

XXIX. DERIVATIVES

The table below provides a detail of the asset and liability positions related to derivative instruments. The portion of changes recognised in the income statement is shown in Section 37.

	30 June 2006		*31 December 2005*	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward forex instruments	83	36	25	69
Forex options	1	-	-	1
Interest rate swaps	3	16	-	18
Options on STM	47	-	1	-
Exchangeable bond option	8	8	33	33
	142	60	59	121

Forward forex instruments

The notional value of the forward transactions totalled €mil. 2,892 of which €mil. 2,010 is related to contracts to sell and €mil. 882 to contracts to buy, primarily US dollars.

The Group hedges its own contracts for purchases or sales denominated in a currency different from the functional currency using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position. Under Group procedures, derivative instruments are purchased with the intent to hedge certain or highly probably commitments and, as such, are designated as hedging instruments at the time of purchase. The effectiveness of the hedge is tested at least at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is immediately recognised through profit or loss (income of €mil. 2 and expense amounting to nil at 30 June 2006). In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (see Section 4.3). The negative change in the fair value of forward instruments is due to the considerable appreciation of the US dollar against the euro: the exchange rate increased from 1.1797 at 31 December 2005 to 1.2713 at 30 June 2006.

Forex options

At 30 June 2006 forex options are held in the notional amount of €mil. 18, carried out by the Group Parent on behalf of its subsidiaries in prior years. Given their nature and the particularly restrictive requirements of IAS 39, these instruments do not qualify for hedge accounting. From 31 December 2004 to now almost all of these transactions have been closed. The fair value of the instruments included in the portfolio is positive in the amount of €mil. 1.

Interest rate swaps

At 30 June 2006, the Group held interest rate swaps totalling €mil. 830.A detail of the main instruments is as follows:

Description	Notional	Underlying position	
Fixed/floating /fixed swap	€mil. 500	Bonds - 2003	(a)
Fixed/floating /fixed swap	€mil. 200	Bonds - 2005	(b)
Floating/fixed swap	€mil. 130	Bonds - 2002	(c)
Interest rate options	€mil. 200	Bonds - 2005	(b)

(a) The transaction was carried out to benefit from low short-term interest rates without, however, exposing the Group to the risk of any subsequent increases. As such, the exposure was converted to a floating rate through 19 December 2005 and back to fixed (5.80% average) after that date.
The transaction was measured at fair value through profit or loss, thereby generating a profit of €mil. 14.At 30 June 2006, the fair value of the instrument was a positive €mil. 3.

(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 company to protect portion of the debt portfolio exposed to floating rates and to switch to floating for additional portions of the debt.

The transaction was measured at fair value through profit or loss, thereby generating a loss of €mil. 13. The fair value of these instruments was negative at 30 June 2006 in the amount of €mil. 6.

(c) The transaction makes it possible to limit exposure to future changes in the reference interest rate (6-month Euribor) and has been recognised as a cash-flow hedge. At 30 June 2006, the fair value of the instrument was nil.

This item also includes other minor transactions with a total negative fair value of €mil. 6 and a floating/fixed interest rate swap carried out by the helicopter-related joint venture ATIL, the fair value of which was a negative €mil. 4 at 30 June 2006, and recognised as a cash-flow hedge.

The transactions recognised as cash-flow hedges have resulted in a negative reserve at 30 June 2006 in the amount of €mil. 4 (€mil.11 at 31 December 2005), whereas those that have been recognised at fair value through profit or loss have produced financial expense totalling €mil. 2.

Options on STM

This item includes transactions to hedge a portion of the remaining portfolio of STM securities, which were valued at fair value through profit or loss. During the period, transactions were made on an additional 10,400,000 shares for premiums paid of €mil. 3 which extend the hedge to 40,400,000 STM shares at 30 June 2006. The fair value of such instruments is positive in the amount of €mil. 47 at 30 June 2006 (€mil. 1 at 31 December 2005), generating an income for the period of €mil. 43.

Exchangeable bond options

This item includes the liability related to the call option embedded in the exchangeable bonds (Section 24). On 1 June 2005, the Group purchased a call option with the same key parameters in order to hedge future changes in the value of the option sold.

XXX. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Group holds a number of operating leases primarily for the purposes of acquiring the use of plant and equipment. Below are the non-cancellable minimum future payments relating to operating lease contracts and the commitments for contracts that may be considered as capital lease contracts:

	Operating leases	**Finance leases**
Within 1 year	90	8
2 to 5 years	96	22
Beyond 5 years	30	2
	216	32

Guarantees

At 30 June 2006, the Group had the following outstanding guarantees:

	30 June 2006	***31 December 2005***
Guarantees in favour of Group companies	8,707	8,313
Guarantees in favour of third parties	3,599	3,939

Endorsements in favour of third parties	-	18
Other unsecured guarantees given to third parties	333	1,337
Unsecured guarantees given	12,639	13,607

At 30 June 2006, the amount of secured guarantees given for the obligations of others totalled €mil. 889 (€mil. 29 at 31 December 2005).

XXXI. REVENUE

	30 June 2006	*30 June 2005*
Revenue from sales		
• external customers	3,479	2,736
• associates and subsidiaries not fully consolidated	210	240
	3,689	2,976
Revenue from services		
• external customers	982	888
• associates and subsidiaries not fully consolidated	105	166
	1,087	1,054
Change in contract work in progress	930	691
Total revenue	5,706	4,721

The trends in revenue by business segment are described in the notes above.

XXXII. OTHER OPERATING INCOME (COSTS)

	30 June 2006		*30 June 2005*	
	Income	**Costs**	**Income**	**Costs**
Grants for research and development costs	13	-	5	-
Other subsidies	6	-	7	-
Gains on the sale of intangible assets and property, plant and equipment	22	-	9	-
Accruals to/Reversals of provisions for				

risks and charges	80	(57)	63	(39)
Reversal of provision for doubtful accounts	7	-	8	-
Exchange rate difference on operating items	33	(19)	26	(32)
Adjustment of receivables and liabilities in a foreign currency at the end-of-period exchange rate	19	(28)	31	(16)
Insurance reimbursements	7	-	8	-
Reorganisation costs	3	(10)	-	(7)
Indirect taxes	-	(17)	-	(7)
Other operating income (costs)	43	(58)	46	(63)
	233	(189)	203	(164)

Specifically, other operating costs include contractual penalties of €mil. 18, losses on disposals of €mil. 1 and interest expense on commercial transactions of €mil. 13.

XXXIII. COST OF GOODS AND SERVICES

	30 June 2006	*30 June 2005*
Purchase of materials from third parties	2,231	1,780
Purchase of materials from associates	2	3
Change in inventories	(65)	(115)
Total cost of goods	2,168	1,668
Services rendered by third parties	1,561	1,357
Services rendered by associates	1	5
Costs of rents and operating leases	100	126
Rental fees	11	-
Total cost of services	1,673	1,488

Costs of rents and operating leases include, among others, the costs for the acquisition of satellite capacity (€mil. 36) sold to customers. The amount for the purchase commitments undertaken to that regard through the joint venture Telespazio is some €mil. 241, which is essentially covered by the customer order book (the relevant sale commitments amounted to €mil. 245).

The remaining costs of rents and operating leases relate to €mil. 35 of rent expense for real properties, rent of aircraft by GIE ATR of €mil. 7 and other rent expense of €mil. 22.

XXXIV. PERSONNEL COSTS

	30 June 2006	*30 June 2005*
Wages and salaries	1,246	1,058
Cost of PSP (Section 22)	10	-
Cost of LTIP	3	-
Social security contributions	331	292
Severance pay costs (Section 26)	41	40
Costs related to other defined-benefit plans (Section 26)	39	23
Costs related to defined-benefit plans	15	8
Employee disputes	1	3
Reorganisation costs	8	3
Other costs	18	13
	1,712	1,440

The average workforce at 30 June 2006 numbered 56,249, as compared with 51,240 at June 2005. The increase is essentially due to the change in the scope of consolidation, especially the acquisition of the Datamat group, the different incidence of Selex Sensors and Airborne Systems Ltd, which was acquired in the second half of 2005, and the acquisition of the LFK Group by MBDA during 2006.
Cost of PSP relates to the stock-grant plan 2005-2007 (Section 22).

The increase in personnel costs from €mil. 1,440 in the first half of 2005 to €mil. 1,712 in the first half of 2006 is mainly due to the change in the scope of consolidation for both Italian and foreign companies; in the scope of consolidation of foreign companies, the increase is also due to social security liabilities payable by enterprises in connection with the pension benefits due legally and contractually to employees in the UK, which are far more than those for the year-earlier period.

XXXV. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	30 June 2006	*30 June 2005*
Depreciation and amortisation:		
• Intangible assets	33	24
• Property, plant and equipment	149	131
	182	155
Write-downs		
• operating receivables	5	10
• other assets	-	-
	5	10
Total depreciation, amortisation and impairment	187	165

XXXVI. CAPITALISATION OF INTERNAL CONSTRUCTION COSTS

	30 June 2006	*30 June 2005*
Personnel costs	13	7
Materials	7	3
Other costs	16	5
	36	15

XXXVII. FINANCIAL INCOME AND EXPENSE

	30 June 2006			*30 June 2005*		
	Income	Expense	Net	Income	Expense	Net
Income from Ansaldo STS IPO (Section 5)	417	-	417	-	-	-
Dividends	8	-	8	1	-	1
Gains on investments and securities	1	-	1	5	-	5
Discounting of receivables, liabilities and provisions	-	(1)	(1)	1	(3)	(2)
Interest and commission income and	27	(88)	(61)	49	(116)	(67))

expense						
Exchange rate differences	102	(118)	(16)	106	(115)	(9)
Fair value adjustments through profit or loss	82	(43)	39	62	(45)	17
Value adjustments of equity investments carried at cost	-	(1)	(1)	-	-	-
Other financial income and charges	7	(8)	(1)	28	(14)	14
	644	(259)	385	252	(293)	(41)

In the first half of 2006 financial income and expense, which in the first half 2005 was negative in the amount of €mil. 41, is positive in the amount of €mil. 385. This is mainly due to the gain from the stock exchange placement of the Ansaldo STS Group (€mil. 417).

The first half of 2006 also benefited from €mil. 8 (€mil. 1 in the year-earlier period) of dividends from associates and other companies, mainly relating to the investments in STM (€mil. 5) and Vitrociset S.p.A. (€mil. 2).

Net income from measurement of fair value through profit or loss is as follows:

	30 June 2006			***30 June 2005***		
	Income	Expense	Net	Income	Expense	Net
Swaps and forex options	13	(15)	(2)	11	(45)	(34)
Interest rate swaps (Section 29)	1	(3)	(2)	15	-	15
Options on STM (Section 29)	43	-	43	15	-	15
Option embedded in the exchangeable bond (Section 24)	25	(25)	-	21	-	21
	82	(43)	39	62	(45)	17

Net expense on swaps and forex options include changes in the fair value of the components that have been excluded from the hedging contracts on efficient instruments (swap and forward premium or discount points and time value on options of €mil. 4), and the effects of derivative instruments which, although they meet the objective of limiting the fluctuations of the underlying position within a specific range, do not meet the particularly restrictive conditions of IAS 39, either because of the nature of the instruments themselves or the inability to mathematically demonstrate their effectiveness. Specifically, the income statement at 30 June 2005 included €mil. 42 of net expense on options that were not eligible for hedge accounting: these transactions were closed in the subsequent months of 2005.

Income from options on STM stems from the decrease in the value of the underlying position. During the period, additional options were made in respect of 10.4 million of STM shares, bringing the total of shares with options to 40.4 million. The Group also has an offsetting call option on STM shares with the same underlying and same key parameters as that embedded in the exchangeable bonds issued in 2002. As a result of this transaction, the Group is in an essentially neutral position with regard to further variations in the fair value of the call option sold (income of €mil. 25 from the call option sold and expense of €mil. 25 for the call option acquired). The income statement 2005 included the difference in fair value from the date of first-time application of IAS 39 and that of the purchase of the call option (€mil. 21). In 2005 other financial income included (€mil. 18) the positive effects of the closure of previous transactions in options to hedge the investment in STM.

XXXVIII. EFFECT OF RECOGNITION USING THE EQUITY METHOD

	30 June 2006	*30 June 2005*
Recognition of AvioGroup S.p.A.	(7)	(25)
Net recognition of other investees	(3)	2
	(10)	(23)

XXXIX. INCOME TAXES

Income tax expense can be broken down as follows:

	30 June 2006	*30 June 2005*
Corporate income tax (IRES)	84	48
Regional business tax (IRAP)	58	50
Benefit under consolidated tax mechanism	(59)	(48)

Other income taxes	35	24
Tax related to previous periods	(3)	(1)
Provisions for tax disputes	4	6
Deferred tax - net	(14)	3
	105	82

Income from adopting the consolidated taxation mechanism from 1 January 2004 was considered in the calculation of IRES (Corporate Income Tax), which was introduced by Legislative Decree 344/2003. According to this mechanism, there is only one taxable income for all the Group companies included in the scope of consolidation.

This option makes it possible to offset the tax results (taxable income and losses in the consolidation period) of the participating companies. As a result, the income statement includes the benefit resulting from the tax losses for the period up to the limit of the taxable income included in the consolidated tax base. This income was then allocated to all the consolidated companies reporting a fiscal loss.

With regard to the Group Parent, the consolidated income statement includes neither current taxes (as there was no taxable income during the first half of 2006) nor net deferred tax assets, as there is a lack of reasonable certainty as to the future realization of taxable income that would allow them to be recognised, and a lack, with specific regard to past tax losses, of the prerequisites established by the applicable accounting standard.

Deferred taxes and their related receivables and payables at 30 June 2006 were the result of the following temporary differences:

	Income Statement		**Balance Sheet**	
	Asset	Liability	Asset	Liability
Derivatives at fair value through profit or loss	-	1	10	1
Inventory impairment	9	-	16	(21)
Provisions for risks and charges	8	-	59	14
Past losses	(3)	-	113	-
Severance pay, pension funds and seniority bonuses	-	3	107	(16)
Carrying value of non-current assets	(1)	12	48	(136)
Finance leases	-	-	1	3

Government grants	-	-	-	(14)
Other	9	(8)	32	(15)
	22	8	386	(184)

Specifically, the increase in deferred tax liabilities (€mil. 83) is due to the end of the process for the allocation of the price paid to acquire 50% of the operations of the joint venture AgustaWestland, which involved taking up deferred tax liabilities of €mil. 79 in respect of identified intangible assets (Section 7).

Deferred tax assets include €mil. 11 related to deferred taxes allocated directly to equity for derivative instruments recognized as cash-flow hedges. The changes for the period for the equity item were as follows:

	31 December 2005	***Recognition in the income statement***	***Fair value adjustments***	***Other changes***	***30 June 2006***
Deferred taxes recognised directly in equity	8	1	(20)	-	(11)

XL. DISCONTINUED OPERATIONS

Group operations in the bus manufacturing sector were classified as discontinued operations as they are about to be sold. As such, the balance sheet includes the assets and liabilities attributed to this business segment, net of impairment charges to realign the carrying value with the fair value (sales value less transaction costs).

Similarly, the results of the operations identified as discontinued have been shown separately on the income statements.

For 2005, the result on the U.K. operations in the radar-devices segment through the sale date (29 April 2005) are also shown.

	30 June 2006	***30 June 2005***
Income	55	80

Costs	(55)	(81)
Net financial income (expense)	-	1
(Write-down)/Net write-backs	-	-
Tax expense	-	-
	-	-

With regard to balance sheet items:

Assets	***30 June 2006***	***31 December 2005***
Intangible assets	1	1
Property, plant and equipment	20	20
Equity investments	-	-
Inventories	27	26
Contract work in progress	-	-
Trade receivables	84	69
Financial receivables	-	-
Other assets	-	1
Cash and cash equivalents	3	3
	135	120

Liabilities	***30 June 2006***	***31 December 2005***
Severance pay and other employee provisions	5	4
Provisions for risks and charges	26	27
Deferred tax assets	-	-
Trade payables	40	46
Advances from customers	1	3
Borrowings	12	8
Tax payables	1	3
Other liabilities	4	1
	89	92

XLI. 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	***30 June 2006***	***30 June 2005***
Average number of shares for the period (in thousands)	423,635	421,706
Net result (not including minority interests) (€mil.)	564	101
Result of continuing operations (not including minority interests) (€mil.)	564	101
Basic EPS	1.33	0.24
Basic EPS from continuing operations	1.33	0.24

Diluted EPS	***30 June 2006***	***30 June 2005***
Average number of shares for the period (in thousands)	425,625	425,699
Result adjusted (not including minority interests) (€mil.)	564	101
Adjusted result of continuing operations (not including minority interests) (€mil.)	564	101
Diluted EPS	1.32	0.24
Diluted EPS from continuing operations	1.32	0.24

XLII. CASH FLOW FROM OPERATING ACTIVITIES

	For the six months ended 30 June	
	2006	2005
Net profit	575	105
Depreciation, amortisation and impairment	187	165
Effect of the measurement of equity investment on the equity method	10	23
Income taxes	105	82
Provisions	76	61
Cost of severance pay	41	40
Cost of defined-benefit plans	39	23
Gains from STS IPO	(417)	-
Gains from the sale of assets	(22)	(13)
Value adjustments of equity investments carried at cost	1	-
Financial expense, net of gains from the sale of STM shares and of adjustments for equity investments carried at cost	31	41
	626	527

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and translation differences, are as follows:

	For the six months ended 30 June	
	2006	2005
Inventories	(392)	(425)
Contract work in progress and advances received	(31)	(237)
Trade receivables and payables	(287)	260
Changes in working capital	(710)	(402)

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and translation differences, are as follows:

Payment of severance pay and other defined-benefit plans	(74)	(52)
Changes in provisions for risks	(136)	(69)
Changes in other operating items	238	(83)
	28	(204)

XLIII. FINANCIAL RISK MANAGEMENT

Within the scope of the policies of the Group Parent aimed at centralising the financial management of the Group, this section describes the operating criteria adopted to manage foreign exchange risk, interest rate risk and equity risk.

The application of IFRSs by Finmeccanica involves the adoption of fair value to measure the total portfolio of derivatives.

Exchange rate risk management is governed by the directive issued by Finmeccanica in December 2002 and is currently being updated. The goal of the directive remains that of creating uniformity in management criteria based on industrial - not speculative - strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments of a specific nature as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralizing the effects of exchange rate fluctuations. Therefore, at the moment of receiving payment from a customer (or making payment to a vendor), which takes place at the current exchange rate on that day, the related hedging transactions are extinguished in order to offset the effects of the difference between the current exchange rate and the rate of the hedging instrument. These transactions are carried out almost exclusively with banks by Finmeccanica's Group Finance Department and then matched with the companies of the Group. The companies that have the greatest need for such hedging transactions are:

Alenia Aeronautica S.p.A. and its subsidiaries, Ansaldo Energia S.p.A., Oto Melara S.p.A., Selex Sensors and Airborne Systems Ltd and its subsidiaries, Alcatel Alenia Space SAS Italia, Ansaldobreda S.p.A., the AgustaWestland Group, Selex Communications S.p.A. and subsidiaries, Selex Sistemi Integrati S.p.A.. At 30 June 2006, Finmeccanica had outstanding foreign exchange transactions with highly rated financial counterparties in the interest of other Group companies totalling €mil. 2,910 (an increase of about 6.3% over 30 June 2005), €mil. 2,892 of which for swaps and forwards and €mil. 18 for foreign exchange options.

The IFRS and the related interpretations effectively make a distinction between derivatives considered to be held for hedging purposes, and for which it is possible to apply hedge accounting, and those that are not eligible for hedge accounting and for which changes in the fair value are to be recognised through profit or loss.

As a result, the Finmeccanica Group recognises the fair value of foreign exchange derivatives as follows:

- forward instruments, the fair value of which totalled a positive €mil. 47 at 30 June 2006;

- options not eligible for hedge accounting, the fair value of which came to a positive €mil. 1.

The fair value of forward instruments of the Finmeccanica group was mainly affected by the great volatility of the euro/USDollar exchange rate, which was 1.2092 at 30 June 2005 from 1.1797 at December 2005. At 30 June 2006 the ECB registered an exchange rate of 1.2713 with a significant depreciation of the US dollar against the euro. This depreciation determined the recovery of the net fair value of instruments held from a negative €mil. 44 at 31 December 2005 up to a positive €mil 47 at 30 June 2006.

The depreciation of the US dollar for the first half of 2006 and the risks of further weakening led to an increase in the level of attention from Finmeccanica and the Group companies on the expectations for new orders and the participation in new tenders where the reporting currency is the US dollar. Under IASs/IFRSs, any hedging transaction would be recognised using hedge accounting only in respect of orders that are very likely to be made, not in respect of all the potential orders. Specifically, according to Group policy only orders acquired can be hedged.

In any event, the Finmeccanica Group does not have financial transactions of a speculative nature, in the sense that none of its transactions add risk to that which is already implicit in its operations. On the contrary, in compliance with the Group directive, all existing financial transactions have the specific objective of eliminating or minimizing such risks.

The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related financial expense. To that end, at 30 June 2006 Finmeccanica had outstanding interest rate swaps for medium and long-term financing with highly rated financial counterparties totalling €mil. 830. Thanks to these transactions, it was possible to earn benefits from low costs of floating rates, especially in 2004-2005, with the debt structure mainly including fixed rates starting from 2006, shielding the company from rises such as those that made short-term interest rates increase by more than 1%. At 30 June 2006, the total fair value of the interest rate derivatives portfolio was a negative €mil. 13, as compared with the negative €mil. 18 at 31 December 2005. The transactions designated as a hedge had a negative fair value of €mil. 4, compared with the negative €mil. 11 at 31 December 2005, an improvement of €mil. 7 during the period. At the same date, transactions not eligible for hedge accounting had a negative fair value of €mil. 9, compared with the negative €mil. 7 at 31 December 2005, a deterioration of €mil. 2 during the period. The restrictive IFRS standards and related interpretations make it necessary to consider certain transactions as speculative even when they are essentially intended to contain finance costs mitigating the risk for the Group in the event of rising interest rates.

From the end of 2005, the European Central Bank applied a policy for the control of inflationary risks through rising bank rates by 0.75% overall. This created a market expectation that rises might occur which are partly included in the current rates (Euribor 6 months at 3.25% from 2.10% 12 months ago).

The management of price risk on equity concerns the management of the indirect investment held in STMicroelectronics NV (STM). At 30 June 2006 options are in place with an underlying position of 40.4 million of STM shares. These hedges are classified as trading operations. In the first half of 2006, with premiums paid of €mil. 3, the recognition of the fair value through profit or loss of these instruments led to a gain of €mil. 43.

In June 2005, a call option was purchased for STM stock for €mil. 17, which duplicates and neutralises the option sold with the convertible STM bond with maturity date 2010. The purpose of the transaction was to sterilise the effects of the separation, under IFRSs, of the debt component from the option, thereby allowing Finmeccanica to recognise consolidated revenue of roughly €mil. 21 for the year 2005, which is the difference between the value of the option sold in the exchangeable bond at 1 January 2005 and the purchase price of the new option. Finmeccanica also finalised negotiations that make it possible to free up the 20 million STM shares used to guarantee the bond and replace them with the option purchased, thereby making these shares available to the Group.

XLIV. TRANSACTIONS WITH RELATED PARTIES

In general, commercial relations with related parties are carried out at arm's length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. Below are the amounts:

(millions of euros) ***RECEIVABLES AT 30 JUN 2006***	**Non-current receivables**	**Current financial receivables**	**Trade receivables**	**Other current receivables**	**Total**
Subsidiaries					
Ansaldo Invest Denmark A/S (in liq.)				3	3
Finmeccanica UK Ltd		3			3
Finmeccanica Inc.		3			3
Gieinter A.G.		2			2
Alifana Due S.c.r.l.			2		2
IGS SPA (in liq.)		2			2
Oto Melara North America Inc.		1		1	2
Ansaldo Do Brasil Equip.Eletrom. LTDA				1	1
Other companies with unit amount lower than €mil. 1			1		1
Associates					
Eurofighter Jagdflugzeug GmbH			79		79
Iveco Fiat/Oto Melara S.c.a.r.l.			47		47
Eurosysnav SAS			33		33
Macchi Hurel Dubois SAS			9		9
Euromids SAS			6		6
Galileo Vacuum Systems S.p.A.		3	1		4
NH Industries Sarl			4		4
Nicco Communications SAS			3		3
Sostar GmbH			3		3
Comlenia Sendirian Berhad			2		2
Elettronica S.p.A.			2		2
I.M. Intermetro S.p.A.			2		2
Remington Elsag Low Enforc.Systems LLC			2		2
Ansaldo Trasmissione e Distribuzione S.p.A.				1	1
Consorzio Start S.p.A.			1		1
Eurofighter Aircraft Manag.GmbH			1		1
Eurofighter Simulation System Gmbh			1		1
Iniziative Industriali Milano S.r.l. (in liq.)				1	1
Orizzonti - Sistemi Navali S.p.A.			1		1
Other companies with unit amount lower than €mil. 1			1		1
J.V. / G.I.E (*).					
GIE ATR				44	44
MBDA SAS			43		43
Alcatel Alenia Space SAS			19		19
Aviation Training Int. Ltd	11	1			12
Telespazio S.p.A.			2	1	3

(*) Amounts refer to the portion not eliminated for consolidation

(millions of euros) **PAYABLES AT 30 JUN 2005**	Non-current payables	Current borrowings	Trade payables	Other current payables	Total
Subsidiaries					
Selex Composite S.p.A.				6	6
Alifana Due S.c.r.l.			2		2
Selex Sensor Airborne Syst El.(Overseas) Ltd.			1		1
Oto Melara North America Inc.			1		1
Finmeccanica UK Ltd			1		1
Associates					
Eurosysnav SAS		25			25
Eurofighter Jagdflugzeug Gmbh			11		11
Iveco Fiat/Oro Melara S.c.a.r.l.				6	6
Elettronica S.p.A.			1		1
Automation Integrated Solutions S.p.A.			1		1
Bell Agusta Aerospace company LLC			1		1
Orizzonti - Sistemi Navali S.p.A.				1	1
Europea Microfusioni Aerospaziali S.p.A.		1			1
Eurofighter International Ltd		1			1
Other companies with unit amount lower than €mil. 1		1			1
J.V. / G.I.E.(*)					
MBDA SAS		339	10		349
Telespazio S.p.A.		21			21
Alcatel Alenia Space SAS			4		4
GIE ATR			4		4
Other companies with unit amount lower than €mil. 1			1		1

(*) Amounts refer to the portion not eliminated for consolidation

(millions of euros) *RECEIVABLES AT 31 DEC 2005*	**Non-current receivables**	**Current financial receivables**	**Trade receivables**	**Other current receivables**	**Total**
Subsidiaries					
Alifana Due S.c.r.l.			6		6
CLC S.r.l (in liq.)				3	3
Finmeccanica UK Ltd		3			3
Ansaldo Invest Denmark A/S (in liq.)				3	3
Ansaldo Argentina S.A.			1	1	2
IGS S.p.A. (in liq.)		2			2
GIEINTER A.G.		1			1
Finmeccanica Inc.		1			1
Ansaldo Do Brasil				1	1
Other companies with unit amount lower than €mil. 1		2	2		4
Associates					
Eurofighter Jagdflugzeug Gmbh			89		89
Bell Agusta Aer. Co			32		32
Iveco Fiat/Oto Melara S.c.r.l.			32		32
Macchi Hurel Dubois SAS			17		17
Eurofighter Simulation System GmbH			4		4
Euromids SAS			3		3
Eurosysnav SAS			3		3
Sostar GmbH			3		3
Iniziative Industriali Milano S.r.l. (in liq.)				2	2
Nicco Communications SAS			2		2
Comlenia Sendirian Berhad			2		2
Intermetro S.p.A.			2		2
Remington Elsag Law Enforcement Systems LLC			1		1
Advanced Air Traffic Systems SDN BHD			1		1
Other companies with unit amount lower than €mil. 1			5		5
J.V. / G.I.E (*).					
MBDA SAS (Group)		1	41		42
GIE ATR				34	34
Alcatel Alenia Space SAS			19		19
Aviation Training Int. Ltd	12	1			13
Telespazio S.p.A.			3		3

(millions of euros) ***PAYABLES AT 31 DEC 2005***	**Non-current payables**	**Current borrowings**	**Trade payables**	**Other current payables**	**Total**
Subsidiaries					
Alifana Due S.c.r.l.			3		3
CLC S.r.l (in liq.)		2			2
Selex Sensors and Airborne Systems Infrared Ltd			1		1
Finmeccanica UK Ltd			1		1
Selex Sensors and Airborne Systems Electro Optics (overseas) Ltd			1		1
Oto Melara North America Inc			1		1
Finmeccanica Inc.			1		1
Other companies with unit amount lower than €mil. 1			2		2
Associates					
Eurofighter Jagdflugzeug Gmbh			11		11
Iveco Fiat/Oto Melara S.c.r.l.				7	7
Pegaso S.c.r.l.			4		4
Other companies with unit amount lower than €mil. 1		1	2		3
J.V. / G.I.E.(*)					
MBDA SAS (Group)		349	16		365
Telespazio S.p.A.		19		1	20
Alcatel Alenia Space SAS			6		6
GIE ATR			5		5

(*) Amounts refer to the portion not eliminated for consolidation

(millions of euros) 30 Jun 2006	Revenue	Financial income	Purchases and costs	Financial expense
Subsidiaries				
Finmeccanica UK Ltd			1	
Associates				
Eurofighter Jagdflugzeug GmbH	144			
Iveco Fiat/Oro Melara S.c.a.r.l.	36			2
Eurosysnav SAS	34			
Eurofighter Simulation System GmbH	10			
Euromids SAS	9			
NH Industries Sarl	7			
Consorzio Start S.p.A.	1			
Elettronica S.p.A.	1		1	
Nicco Communications SAS	1			
Orizzonti - Sistemi Navali S.p.A.			1	
Remington Elsag Low Enforc.Systems LLC	1			
J. V./G.I.E (*).				
MBDA SAS	33			4
GIE ATR	24			
Alcatel Alenia Space SAS (+)	8		4	
Telespazio S.p.A. (+)	1		1	

(*) Amounts refer to the portion not eliminated for consolidation
(+) Starting from 1 July 2005

(millions of euros) 30 Jun 2005	Revenue	Financial income	Purchases and costs	Financial expense
Associates				
Eurofighter Jagdflugzeug GmbH	293			
Iveco Fiat/Oto Melara S.c.r.l.	34			1
Eurosysnav SAS	23			
Euromids SAS	7			
Eurofighter Simulation System GmbH	7			
Orizzonte Sistemi Navali S.p.A.	2		1	
NH Industries S.A.R.L.	2			
Nicco Communications SAS	3			
Lockheed Martin Alenia Tactical Transport Systems LLC	1			
Elettronica S.p.A.	1		1	
Dataspazio S.p.A.			1	
J. V./G.I.E (*).				
MBDA SAS	19			3
Alenia Marconi Systems S.p.A.	5			
Alenia Marconi Systems LTD				1
GIE ATR	12			

(*) Amounts refer to the portion not eliminated for consolidation

For the Board of Directors
the Chairman and Managing Director
(Pier Francesco Guarguaglini)

APPENDIX A: EFFECTS OF THE TRANSITION TO IAS/IFRS ON THE FINANCIAL STATEMENTS OF THE GROUP PARENT

The effects of IFRS adjustments on consolidated shareholders' equity of the Group Parent

In accordance with IFRS 1.24, the date of transition to the IAS/IFRS for Finmeccanica S.p.A. is 1 January 2004, date of IAS/IFRS adoption of the Finmeccanica Group (1 January 2005 for the adoption of IAS 32 and 39 and IFRS 2). However, in accordance with the requirements of Consob Communication no. DEM/6064313 of 28 July 2006 'Explanation on the half-year accounts 2006 prepared in accordance with International Accounting Standards', below are the effects of the transition to the International Accounting Standards on the Shareholders' Equity of Finmeccanica S.p.A. at 1 January 2005 and 31 December 2005, and on the result for 2005. The reasons for adjustments are detailed below.

	Shareholders' equity at 1 Jan 2005	Net profit/(loss) 2005	Shareholders' equity at 31 Dec 2005	NOTES
ITALIAN GAAP	**3,702**	**228**	**3,834**	
IAS/IFRS adjustments:				
Recognition of finance leases under IAS 17	42	3	45	***A.1***
Derecognition of intangible assets	(3)	3		***A.2***
Adjustment of the carrying value of STM	410	7	455	***A.3***
Adjustment of the value of other securities and investments	(176)	(166)	(342)	***A.4***
Derecognition of inclusion of deferred gains	(123)	(77)	(200)	***A.5***
Recognition of Cash Flow Hedges	(4)		(4)	***A.6***
Reclassification of treasury shares	(1)		(2)	***A.7***
Embedded derivatives: effects of split accounting	73	(30)	44	***A.8***
Derivatives not eligible for hedge accounting	37	(22)	15	***A.9***
Recognition of employee incentive plans		(3)	(1)	***A.10***
Other minor items	1			***A.11***
Total IAS/IFRS adjustments	*256*	*(285)*	*10*	
IAS/IFRS	**3,958**	**(57)**	**3,844**	

Description of the main IFRS adjustments

A.1 Recognition of finance leases under IAS 17

Under Italian GAAP, finance leases were recognised using a ‘balance-sheet method’, in which the lessor did not recognise the asset or any correlated liability, taking lease payments to the income statement on an accruals basis. Under IFRSs, however, these transactions are recognised using the ‘finance lease method’, under which lessees must:

- recognise the asset in its balance sheet;
- recognise a financial liability of the same amount;
- depreciate the asset in the same manner as other assets owned by the lessee, while lease payments are separated into the finance charge and the principal component.

Likewise, for finance leases where Finmeccanica is the lessor and other Group companies are the lessees, IAS 17 envisages that:

- the asset must be derecognised from the balance sheet and is replaced by a financial receivable with the same value as the future lease instalments due under the existing contract;
- the lease instalments received must be allocated as financial income for the period and as reduction of remaining receivable, recognising the gain over the entire duration of the contract.

The increase of €mil. 42 in equity at 1 January 2005 includes the effects of the IAS 17 recognition of the registered office of Finmeccanica S.p.A., which at the date of transition held the property as a lessee and then acquired it in 2005 (€mil. 26), and of the plants leased to Agusta S.p.A. (€mil. 16).
The income statement 2005 shows an improvement of €mil. 3 due to the net effect of these two recognitions, which involved greater net expense of €mil. 1 and greater net income of €mil. 4 respectively.

A.2 Derecognition of intangible assets

Some of the intangible assets capitalised under Italian GAAP do not meet the more restrictive requirements of IAS 38. Specifically, derecognised long-term costs mainly regard leasehold improvements and costs incurred as part of a cost reduction project carried out in the interest of the Group companies.

The application of these rules involved a decrease of €mil. 3 in shareholders' equity at 1 January 2005, which was fully reversed in 2005 due to lower amortisation on derecognised costs.

<u>A.3 Adjustment of the carrying value of STMicroelectronics</u>

The interest held in STMicroelectronics Holding NV was impacted negatively in the amount of €mil. 410 in shareholders' equity at 1 January 2005 by following these IAS/IFRS adjustments:

- the interest was valued in the Italian GAAP financial statements using the equity method. This method is no longer allowed for financial statements prepared under IAS/IFRS; accordingly, the equity investment was aligned with the original carrying value by recognising the subsequent changes at cost. Dropping from the beginning the equity method involved a decrease of €mil. 296 (from €mil. 439 to €mil. 143);
- at the date of application of IAS 39 (1 January 2005) the investment was designated as a 'financial asset available for sale'. This method resulted in the alignment of the carrying value with the fair value at the reporting date, and the recognition of an increase in the carrying value of the investment of €mil. 706 with a contra-item in the 'reserve for assets available for sale'.

Because of these adjustments, due to the lower carrying value than that posted in the Italian GAAP financial statements at the date of designation as 'financial asset available for sale' the income statement 2005 included a greater gain of €mil. 7 from the sale of 1,355,000 shares on the market during the year.

Shareholders' equity at 31 December 2005 was affected by the change in fair value between 1 January and 31 December 2005. Accordingly, the overall effect on Shareholders' equity at 31 December 2005 was €mil. 455. The equity investment was posted for an amount of €mil. 906, with a reserve for assets available for sale of €mil. 744.

<u>A.4 Adjustment of the value of other securities and investments</u>

Under Italian GAAP equity investments in subsidiaries and associates could be valued on the equity method in separate financial statements. But under International Accounting Standards these equity investments must be valued at cost: therefore the carrying value of the equity investments was realigned with original cost, without recognising the effects of the adjustments deriving from the application of the equity method, due to translation differences and other changes in the balance sheet and the net result for the period, unless where these adjustments were considered as indications of impairment losses.

These adjustments involved a decrease in shareholders' equity at 1 January 2005 of €mil. 176 and a deterioration in the net result for 2005 of €mil. 166, of which €mil. 129 relates to different methods for the recognition of dividends. Previously, dividends were recognised so as to decrease the equity investment, at the date of transition they were recognised under shareholders' equity, and after such date they were carried in the income statement for the period in which they were resolved by the meetings of the investees. As regards the method of recognition of dividends, the income statement 2005 showed a deterioration of €mil. 228 due to the derecognition of a portion of dividends for which such assumption had not materialised at the reporting date (31 December 2005), and an improvement of €mil. 99 due to dividends pertaining to the year 2004 but which were resolved by subsidiaries and associates during 2005.

A.5 Derecognition of inclusion of deferred gains

The results of Finmeccanica S.p.A. include, under Italian GAAP, the portion of deferred gains pertaining to each period resulting from the transfers/sales of business lines in 1998/2002, which were included in the income statement against greater amortisation charges for each individual transferee. Following the transition to IASs/IFRSs, these greater amortisation charges do no longer include goodwill, which is no longer amortised but subject to annual impairment test; accordingly, Shareholders' equity at 1 January 2005 and the income statement 2005 decreased due to the derecognition of deferred amounts of goodwill amortisation.

A.6 Recognition of Cash Flow hedges

Under previous GAAP, hedging transactions to cover both exchange rate risk and interest rate risk were reported only in the memorandum accounts. Recognition of derivatives was reserved for non-hedging instruments and whose fair value at the balance-sheet date was negative (those with a positive fair value continued to be reported in memorandum accounts).

Under IAS 39, Finmeccanica S.p.A. defined some of its hedging transactions against exchange and interest rate risks as cash-flow hedges. Accordingly, hedged assets and liabilities have been adjusted at end-of-period exchange rates with recognition in the 'profit (loss) carried forward reserve' (the items were recognised at the spot exchange rate under previous GAAP), while derivative instruments have been posted at fair value under specific balance sheet headings ('derivatives - assets' or 'derivatives - liabilities') within current assets/liabilities, with recognition in shareholders' equity under the 'cash-flow hedge reserve' or, for the portion already covered by the realignment of recognised assets and liabilities, the 'profit (loss) carried forward reserve'. Under previous GAAP, premiums or discounts on forward transactions were treated like interest and recognised on an accruals basis. IAS 39 requires that this component also be measured on the basis of changes in fair value. Accordingly, the 'profit (loss) carried forward reserve' also includes the accumulated impact of this change in the allocation of discounts or premiums on forward transactions.

With respect to the transactions hedging against interest rate risks, the cash-flow hedge reserve included the fair value of some interest rate swaps on bond issues, for the portion not covered by the underlying positions.

The combined effect of these adjustments was a decrease in Shareholders' equity of €mil. 4.

A.7 Reclassification of treasury shares

Treasury shares (€mil. 1), which under previous GAAP were carried under current assets, are now recognised as a reduction in shareholders' equity, as required by IAS 32.

A.8 Embedded derivatives: effects of split accounting

At 1 January 2005 two instruments were eligible for split accounting with regard to ‘embedded derivatives’:

- convertible bonds (€mil. 878) issued by Finmeccanica S.p.A. on 8 June 2000, under which the bondholders had the option at maturity to convert their holding into Finmeccanica shares. The operation was completed on 8 June 2005. However, the application of the rules envisaged by IAS 32, despite the fact that the fair value of the option was zero as it was significantly out of the money at 1 January 2005, led to the adjustment of the carrying value of the liability as a result of the application of the effective-interest-rate method (a €mil. 14 increase in consolidated shareholders’ equity, which translated into increased costs charged to the year 2005);
- exchangeable bonds issued by Finmeccanica Finance S.A. in the amount of €mil. 501 on 8 August 2003 and guaranteed by Finmeccanica S.p.A., which give bondholders the option to exchange their holding into STMicroelectronics NV shares as from 2 January 2004, at a strike price of €25.07. Since the underlying is held by Finmeccanica, the operation must be recognised using ‘split accounting’. Accordingly, the original value of the debt has been separated into two components: the premium for the option sold (€mil. 39 at 1 January 2005), recognised at fair value in the income statement (see section A.9), and the remaining component classified as debt, which was measured using the notional market interest rate that would apply in the absence of the option (4.365%, compared with the nominal rate of 0.375%). At 1 January 2005, the debt amounted to €mil. 404 (compared with a carrying value of €mil. 501 under previous GAAP), while the liability in respect of the embedded option amounted to €mil. 39, increasing the Group’s overall equity by €mil. 58. The calculation of the liability using the effective interest rate method led to greater interest expense of €mil. 16 in the income statement 2005.

The item also includes the effects of the new treatment of premiums, discounts, commissions, etc. in respect of financial liabilities. IAS 39 requires such elements to be included in the determination of the liability (and not considered as non-current assets or deferred items, as under Italian GAAP) and recognised in profit or loss on the basis of the effective interest rate method, i.e. using the rate that equalises all inward and outward cash flows associated with the transaction in the place of the nominal interest rate paid to the creditor. At the date of adoption of IAS 39 (1 January 2005) the value of financial liabilities was therefore redetermined using these rules, with a consequent increase in consolidated shareholders' equity of €mil. 2.

A.9 Derivatives not eligible for hedge accounting

A number of derivatives in the Finmeccanica portfolio covering assets and liabilities denominated in foreign currency, although intended to be used for hedging purposes, do not qualify for hedge accounting pursuant to IAS 39. Accordingly, these instruments were recognised at fair value at 1 January 2005, with ‘profit (loss) carried forward reserve’ (the income statement after 1 January 2005) as a contra-item. Similarly, the asset previously considered hedged was valued at the exchange rate prevailing on 1 January 2005, as if it had never been hedged. This recognition policy produced no increase in shareholders' equity at the adoption date and a decrease in the income statement 2005 of €mil. 9.

In the same manner, a number of interest rate swaps, whilst achieving the goal of stabilising the long-term exposure of a number of financial transactions, were designated as non-hedging derivatives. This recognition policy produced a decrease of €mil. 2 in consolidated shareholders' equity and a decrease in the income statement 2005 of €mil. 2.

Finally, in order to hedge the carrying value of the STM investment, in 2004 Finmeccanica entered into a number of option transactions whose fair value at 1 January 2005 was €mil. 39. The adjustment to the fair value of this instrument at 31 December 2005 resulted in income of €mil. 15. During the year, options on 15,000,000 shares were closed, generating income of €mil. 44 and gain of €mil. 18 (as compared with gain of €mil. 44 in the financial statements prepared under Italian GAAP).

A.10 Recognition of employee incentive plans

The stock-option and stock-grant reserve is the equity contra-item of the value of the activities performed by employees and non-employees remunerated through the assignment of options on the shares of Finmeccanica S.p.A..

Specifically, during 2005 the stock-grant plan 2005-2007 was approved. Under this plan, shares should be assigned to Group key resources subject to the achievement of goals, through share capital increase or through previously issued shares in the Finmeccanica portfolio.

The valorisation of rights that were estimated to be assigned to Company resources decreased shareholders’ equity at 31 December 2005 (€mil. 1). This was the net effect of the recognition of costs 2005 (€mil. 3) and the posting of a specific reserve of €mil. 2.

A.11 Other adjustments

The shareholders’ equity of Finmeccanica was adjusted partly due to minor changes such as, among others, discounting of assets and liabilities to be recorded in the balance sheet after more than 12 months, and recognition of seniority bonuses paid to staff under the actuarial rules of IAS 19.

For the Board of Directors
the Chairman and Managing Director
(Pier Francesco Guarguaglini)

FINMECCANICA SPA

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the Shareholders of
Finmeccanica SpA

1 We have performed a limited review of the consolidated interim financial statements consisting of balance sheet, income statement, statement of changes in shareholders' equity and cash flow statement (hereinafter "accounting statements") and related explanatory and supplementary notes of the Finmeccanica Group included in the interim financial reporting of Finmeccanica SpA for the period ended 30 June 2006. The interim financial reporting is the responsibility of Finmeccanica SpA's Directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial reporting.

2 Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with Resolution no. 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial statements. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.

3 Regarding the comparative data of the prior year consolidated financial statements and the prior year interim financial reporting presented in the accounting statements, reference should be made to our reports dated 4 May 2006 and 18 October 2005 respectively.

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** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **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 Manzoni 16 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 Based on our review, no significant changes or adjustments came to our attention that should be made to the consolidated accounting statements and related explanatory and supplementary notes of the Finmeccanica Group, identified in paragraph 1 of this report, in order to make them consistent with the international accounting standard IAS 34 and with the criteria for the preparation of interim financial reporting established by Article 81 of CONSOB Regulation approved by Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations.

Rome, 6 October 2006

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

This report has been translated into the English language solely for the convenience of international readers.

PRICEWATERHOUSECOOPERS

FINMECCANICA SPA

AUDITORS' REPORT ON THE IFRS RECONCILIATION SCHEDULES (SEPARATE "UNCONSOLIDATED" ACCOUNTS) ILLUSTRATING THE EFFECTS OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT ON THE IFRS RECONCILIATION SCHEDULES (SEPARATE "UNCONSOLIDATED" ACCOUNTS) ILLUSTRATING THE EFFECTS OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of Directors of
Finmeccanica SpA

1 We have audited the accompanying reconciliation schedules consisting of the shareholders' equity at 1 January 2005 and at 31 December 2005 and the net profit for the year ended 31 December 2005 (hereinafter "IFRS reconciliation schedules") of Finmeccanica SpA and the related explanatory notes presented in accordance with the standards and criteria required by CONSOB Notice no. 6064313 of 28 July 2006 in section "Effects of the transition to IAS/IFRS on the financial statements of the parent company" of the interim financial reporting at 30 June 2006. The IFRS reconciliation schedules have been derived from the annual financial statements of Finmeccanica SpA at 31 December 2005 that were prepared in accordance with the laws governing the criteria for their preparation, which we audited and on which we issued our report dated 4 May 2006. The IFRS reconciliation schedules have been prepared as part of the transition to International Financial Reporting Standards as adopted by the European Union. The IFRS reconciliation schedules are the responsibility of Finmeccanica SpA's Directors. Our responsibility is to express an opinion on these reconciliation schedules based on our audit.

2 We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS reconciliation schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS reconciliation schedules. 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 opinion.

The responsibility for the audit of the data relating to certain subsidiary and associated companies in respect of the amount of equity investments accounting for 24 per cent of the caption "equity investments" and 16 per cent of total assets rests with other auditors.

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3 In our opinion, the IFRS reconciliation schedules referred to in the first paragraph of this report, have been prepared, in all material respects, in compliance with the standards and criteria of CONSOB Notice no. 6064313 of 28 July 2006.

Rome, 6 October 2006

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

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FINMECCANICA **List of equity investments pursuant to Article 125 of CONSOB resolution no. 11971** situation at: **June 30, 2006**

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
1	ABU DHABI SYSTEMS INTEGRATION (ADSI) LLC	UNITED ARAB EMIRATES	43.043%	43.043%	SELEX Sistemi Integrati SPA	1
2	ADVANCED AIR TRAFFIC SYSTEMS Sdn Bhd	MALAYSIA	40.000%	40.000%	SELEX Sistemi Integrati SPA	1
3	ADVANCED TECNOLOGIES SRL	ITALY	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
4	AERIMPIANTI SpA	ITALY	100.000%	100.000%	ANSALDO INDUSTRIA SpA (in liq)	6
5	AERMACCHI SpA	ITALY	99.998%	92.769%	ALENIA AERONAUTICA SpA	1
				7.229%	AERMACCHI SpA	1
6	AERO INVEST 1 S.A.	LUXEMBOURG	29.874%			1
7	AGUSTA AEROSPACE CORPORATION	DELAWARE - USA	100.000%	100.000%	AGUSTA SpA	1
8	AGUSTA AEROSPACE SERVICES - A.A.S.	BELGIUM	98.000%	98.000%	AGUSTA SpA	1
9	AGUSTA HOLDING BV	NETHERLANDS	100.000%	100.000%	AgustaWestland NV	1
10	AGUSTA SpA	ITALY	100.000%	100.000%	AGUSTA HOLDING BV	1
11	AGUSTA U.S.	DELAWARE - USA	100.000%	100.000%	AGUSTA SpA	1
12	AgustaWestland International Limited	UNITED KINGDOM	100.000%	50.000%	WESTLAND HELICOPTERS LIMITED	1
				50.000%	AGUSTA SpA	1
13	AGUSTAWESTLAND DO BRASIL LTDA	BRAZIL	100.000%	84.830%	AGUSTA AEROSPACE SERVICES - A.A.S.	1
				13.439%	WESTLAND HELICOPTERS LIMITED	1
				1.731%	AGUSTA AEROSPACE CORPORATION	1
14	AgustaWestland Holdings Limited	UNITED KINGDOM	100.000%	100.000%	AgustaWestland NV	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
15	AgustaWestland Inc	DELAWARE - USA	100.000%	100.000%	AgustaWestland North America Inc	1
16	AgustaWestland North America Inc	DELAWARE - USA	100.000%	100.000%	AgustaWestland Holdings Limited	1
17	AgustaWestland NV	NETHERLANDS	100.000%			1
18	AgustaWestland Properties Limited	UNITED KINGDOM	100.000%	100.000%	AgustaWestland Holdings Limited	1
19	AgustaWestlandBell LLC	DELAWARE - USA	51.000%	51.000%	AgustaWestland North America Inc	1
20	AIRBUS MILITARY COMPANY SAS (in liq)	FRANCE	15.276%	15.276%	ALENIA AERONAUTICA SpA	1
21	ALCATEL ALENIA SPACE S.A.S.	FRANCE	33.000%			1
22	ALCATEL SPACE NETHERLANDS B.V.	NETHERLANDS	100.000%	100.000%	TELESPAZIO FRANCE Sas	1
23	ALENIA AERONAUTICA SpA	ITALY	100.000%			1
24	ALENIA HELLAS S.A.	GREECE	100.000%	100.000%	ALENIA AERONAUTICA SpA	1
25	ALENIA NORTH AMERICA, INC.	DELAWARE - USA	100.000%	100.000%	ALENIA AERONAUTICA SpA	1
26	ALENIA NORTH AMERICA-CANADA, CO.	CANADA	100.000%	100.000%	ALENIA NORTH AMERICA, INC.	1
27	Alenia SIA SpA	ITALY	100.000%	60.000%	ALENIA AERONAUTICA SpA	1
				30.000%	GALILEO AVIONICA SpA	1
				10.000%	SELEX COMMUNICATIONS SpA	1
28	ALIFANA - Società Consortile a responsabilità limitata	ITALY	65.850%	65.850%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
29	ALIFANA DUE - Società Consortile a r.l.	ITALY	53.340%	53.340%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
30	ALLIANCE GROUND SURVEILLANCE INDUSTRIES GMBH	GERMANY	10.239%	10.239%	GALILEO AVIONICA SpA	1
31	ALS SpA	ITALY	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
32	ALTRA SpA	ITALY	33.330%	33.330%	IRITECH SpA	1
33	AMSH B.V.	NETHERLANDS	50.000%			1
34	AMTEC SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
35	ANSALDO ARGENTINA SA	ARGENTINA	99.980%	99.980%	ANSALDO INDUSTRIA SpA (in liq)	1
36	ANSALDO DO BRASIL EQUIPAMENTOS ELETROMECANICOS LTDA	BRAZIL	99.999%	99.999%	ANSALDO INDUSTRIA SpA (in liq)	1
37	ANSALDO ELECTRIC DRIVES SpA	ITALY	100.000%	60.000%	ANSALDO RICERCHE SpA	1
				40.000%	IRITECH SpA	1
38	ANSALDO EMIT SCRL	ITALY	50.000%	50.000%	ANSALDO INDUSTRIA SpA (in liq)	1
39	ANSALDO ENERGIA SpA	ITALY	100.000%			1
40	ANSALDO ENERGY Inc	DELAWARE - USA	100.000%	100.000%	ANSALDO ENERGIA SpA	1
41	ANSALDO FUEL CELLS SpA	ITALY	78.851%	78.851%	IRITECH SpA	1
42	ANSALDO INDUSTRIA SpA (in liq)	ITALY	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
43	ANSALDO INVEST DENMARK A/S (in liq)	DENMARK	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
44	ANSALDO NUCLEARE SpA	ITALY	100.000%	100.000%	ANSALDO ENERGIA SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
45 ANSALDO RICERCHE SpA	ITALY	100.000%	100.000%	IRITECH SpA	1
46 ANSALDO SEGNALAMENTO FERROVIARIO SpA	ITALY	100.000%	100.000%	ANSALDO SIGNAL N.V.	1
47 ANSALDO SIGNAL ESPANA S.A.	SPAIN	100.000%	100.000%	CSEE TRANSPORT SA	1
48 ANSALDO SIGNAL FINLAND O.y.	FINLAND	100.000%	100.000%	ANSALDO SIGNAL SWEDEN AB	1
49 ANSALDO SIGNAL IRELAND LIMITED	IRELAND	100.000%	99.999%	ANSALDO SIGNAL N.V.	1
			0.001%	UNION SWITCH & SIGNAL Inc	1
50 ANSALDO SIGNAL N.V.	NETHERLANDS	100.000%	100.000%	ANSALDO STS SpA	1
51 ANSALDO SIGNAL SWEDEN AB	SWEDEN	100.000%	100.000%	ANSALDO SIGNAL N.V.	1
52 ANSALDO SIGNAL U.K. LTD.	UNITED KINGDOM	100.000%	100.000%	ANSALDO SIGNAL N.V.	1
53 ANSALDO TRASMISSIONE & DISTRIBUZIONE S.p.A.	ITALY	30.000%	30.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
54 ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	ITALY	100.000%	100.000%	ANSALDO STS SpA	1
55 ANSALDOBREDA SpA	ITALY	100.000%			1
56 ANSALDOBREDA, Inc.	USA	100.000%	100.000%	ANSALDOBREDA SpA	1
57 ANSERV SRL	ROMANIA	100.000%	100.000%	ANSALDO NUCLEARE SpA	1
58 ASIA POWER PROJECTS PRIVATE LTD	INDIA	100.000%	99.997%	ANSALDO ENERGIA SpA	1
			0.003%	SAGEM ITALIA Srl	1
59 AUTOMATION INTEGRATED SOLUTIONS SpA	ITALY	40.000%	40.000%	FATA SPA	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
60	AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES ACELEC SA	FRANCE	99.999%	99.994%	CSEE TRANSPORT SA	1
				0.004%	CSEE TRANSPORT SA	9
				0.001%	CSEE TRANSPORT HONG KONG Ltd	1
61	AVIATION TRAINING INTERNATIONAL LIMITED	UNITED KINGDOM	50.000%	50.000%	WESTLAND HELICOPTERS LIMITED	1
62	AVIONICS SENSORS US Inc	DELAWARE - USA	100.000%	100.000%	SELEX Sensors and Airborne Systems Ltd	1
63	AVIONS DE TRANSPORT REGIONAL IRELAND LIMITED	IRELAND	50.000%	50.000%	ALENIA AERONAUTICA SpA	1
64	BEIJING CASSAN STRATEGY CONSULTANCY LTD	CHINA	34.000%	34.000%	FATA GROUP SpA (in liq.)	1
65	BEIJING CS SIGNAL CONTROLLING SYSTEM CO LTD	CHINA	80.000%	80.000%	CSEE TRANSPORT SA	1
66	BELL AGUSTA AEROSPACE COMPANY	DELAWARE - USA	45.000%	45.000%	AGUSTA U.S.	1
67	BIOFATA SpA	ITALY	51.000%	51.000%	FATA GROUP SpA (in liq.)	1
68	BREDAMENARINIBUS SpA	ITALY	100.000%			1
69	BRITISH HELICOPTERS LIMITED	UNITED KINGDOM	100.000%	100.000%	WESTLAND HELICOPTERS LIMITED	1
70	C.I.R.A. (Centro Italiano di Ricerche Aerospaziali) SCpA	ITALY	11.989%	8.912%	ALENIA AERONAUTICA SpA	1
				2.757%	AERMACCHI SpA	1
				0.320%	SELEX COMMUNICATIONS SpA	1
71	CARDPRIZE Two Limited	UNITED KINGDOM	100.000%	100.000%	SELEX Sensors and Airborne Systems Ltd	1
72	CCRT SISTEMI SpA (in fall)	ITALY	30.340%	30.340%	ANSALDO INDUSTRIA SpA (in liq)	1
73	CLC srl (in liq)	ITALY	75.000%	75.000%	ANSALDO INDUSTRIA SpA (in liq)	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
74	Closed Joint Stock Company MAREMS	RUSSIAN FEDERATION	49.001%	49.001%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
75	COMLENIA Sendirian Berhad	MALAYSIA	30.000%	30.000%	SELEX Sistemi Integrati SPA	1
76	CONSORZIO START Società per Azioni	ITALY	40.000%	40.000%	SPACE SOFTWARE ITALIA SpA	1
77	CONSORZIO PER IL GIURISTA D´IMPRESA SCrl	ITALY	22.700%	22.700%	SELEX COMMUNICATIONS SpA	1
78	Consultancy and Projects Group S.r.l. (in liq.)	ITALY	100.000%	100.000%	DATAMAT S.p.A.	1
79	CSEE TRANSPORT HONG KONG Ltd	CHINA	100.000%	99.999%	CSEE TRANSPORT SA	1
				0.001%	CSEE TRANSPORT SA	9
80	CSEE TRANSPORT SA	FRANCE	100.000%	99.999%	ANSALDO SIGNAL N.V.	1
				0.001%	ANSALDO SIGNAL N.V.	9
81	DATAMAT Soluzioni per l´ Impresa S.r.l.	ITALY	100.000%	100.000%	DATAMAT S.p.A.	1
82	Datamat Suisse SA	SWITZERLAND	100.000%	100.000%	DATAMAT S.p.A.	1
83	DATASPAZIO - Telespazio e Datamat per l´ingegneria dei Sistemi - SpA	ITALY	100.000%	51.000%	DATAMAT S.p.A.	1
				49.000%	TELESPAZIO SpA	1
84	DAVIES INDUSTRIAL COMMUNICATIONS Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Communications Ltd	1
85	e - GEOS SpA	ITALY	55.000%	53.000%	TELESPAZIO SpA	1
				2.000%	EURIMAGE SpA	1
86	ECOSEN SA	VENEZUELA	48.000%	48.000%	CSEE TRANSPORT SA	1
87	ELECTRON ITALIA S.r.l.	ITALY	80.000%	80.000%	ELSAG SpA	1
88	ELETTRONICA SpA	ITALY	31.333%			1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
89	ELSACOM BULGARIA AD	BULGARIA	90.000%	90.000%	ELSACOM NV	1
90	ELSACOM HUNGARIA KFT	HUNGARY	100.000%	100.000%	ELSACOM NV	1
91	ELSACOM NV	NETHERLANDS	100.000%	35.400%	SAN GIORGIO SA	1
92	ELSACOM SLOVAKIA SRO	SLOVAKIA	100.000%	100.000%	ELSACOM NV	1
93	ELSACOM SpA	ITALY	100.000%	100.000%	ELSACOM NV	1
94	ELSACOM UKRAINE Joint Stock Company	UKRAINE	49.000%	49.000%	ELSACOM NV	1
95	ELSAG BANKLAB SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
96	ELSAG DOMINO SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
97	ELSAG Eastern Europe Srl	ROMANIA	75.000%	75.000%	ELSAG SpA	1
98	ELSAG GEST SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
99	ELSAG INC.	WASHINGTON -USA	100.000%	100.000%	ELSAG SpA	1
100	ELSAG SpA	ITALY	100.000%			1
101	ENCOM - Construçoes e Montagens LTDA	BRAZIL	95.555%	95.555%	ANSALDO DO BRASIL EQUIPAMENTOS ELETROMECANICOS LTDA	1
102	ENERGEKO GAS ITALIA SRL	ITALY	22.631%	22.631%	SAGEM ITALIA Srl	1
103	ENERGY SERVICE GROUP LTD	SWITZERLAND	45.000%	45.000%	ANSALDO ENERGIA SpA	1
104	E-SECURITY S.r.l.	ITALY	80.000%	80.000%	ELSAG SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
105 EURIMAGE SpA	ITALY	51.000%	51.000%	TELESPAZIO SpA	1
106 EURO PATROL AIRCRAFT GmbH	GERMANY	50.000%	50.000%	ALENIA AERONAUTICA SpA	1
107 EUROFIGHTER AIRCRAFT MANAGEMENT Gmbh	GERMANY	21.000%	21.000%	ALENIA AERONAUTICA SpA	1
108 EUROFIGHTER INTERNATIONAL Ltd	UNITED KINGDOM	21.000%	21.000%	ALENIA AERONAUTICA SpA	1
109 EUROFIGHTER JAGDFLUGZEUG Gmbh	GERMANY	21.000%	21.000%	ALENIA AERONAUTICA SpA	1
110 EUROFIGHTER SIMULATION SYSTEMS Gmbh	GERMANY	24.000%	24.000%	GALILEO AVIONICA SpA	1
111 EUROMAP SATELLITENDATEN-VERTRIEBSGESELLSCHAFT MBH	GERMANY	100.000%	100.000%	GAF A.G.	1
112 EUROMIDS SAS	FRANCE	25.000%	25.000%	SELEX COMMUNICATIONS SpA	1
113 EUROPEA MICROFUSIONI AEROSPAZIALI SpA	ITALY	49.000%			1
114 EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS BV (in liq.)	NETHERLANDS	100.000%	100.000%	EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES BV (in liq.)	1
115 EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES BV (in liq.)	NETHERLANDS	100.000%	72.006%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
			27.994%	EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES BV (in liq.)	1
116 EUROSYSNAV SAS	FRANCE	50.000%			1
117 FATA AUTOMATION GMBH (in liq.)	GERMANY	100.000%	100.000%	FATA AUTOMATION SPA (in liq.)	1
118 FATA AUTOMATION SPA (in liq.)	ITALY	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
119 FATA AUTOMATION SRO (in liq.)	CZECK REPUBLIC	100.000%	100.000%	FATA AUTOMATION SPA (in liq.)	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
120 FATA CONTRACTING Ltd	RUSSIAN FEDERATION	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
121 FATA DTS SpA	ITALY	100.000%	100.000%	FATA SPA	1
122 FATA ENGINEERING S.A. (en Liquidation)	SWITZERLAND	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
123 FATA ENGINEERING SpA	ITALY	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
124 FATA GROUP SpA (in liq.)	ITALY	100.000%			1
125 FATA HANDLING SpA (in liq.)	ITALY	100.000%	100.000%	FATA AUTOMATION SPA (in liq.)	1
126 FATA HUNTER INC.	USA	100.000%	100.000%	FATA SPA	1
127 FATA HUNTER INDIA PVT LTD	INDIA	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
128 FATA LOGISTIC SYSTEMS SpA	ITALY	100.000%	100.000%	FATA SPA	1
129 FATA LTD	UNITED KINGDOM	100.000%	100.000%	FATA AUTOMATION SPA (in liq.)	1
130 FATA POLAND LTD	POLAND	100.000%	100.000%	FATA AUTOMATION SPA (in liq.)	1
131 FATA SPA	ITALY	100.000%			1
132 FINMECCANICA FINANCE SA	LUXEMBOURG	99.997%	26.358%	MECFIN - MECCANICA FINANZIARIA SpA	1
133 FINMECCANICA Inc.	DELAWARE - USA	100.000%			1
134 FINMECCANICA UK LIMITED	UNITED KINGDOM	100.000%			1
135 FOSCAN srl (in fall)	ITALY	20.000%	20.000%	IRITECH SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
136 GA IMMOBILIARE SPA	ITALY	100.000%			1
137 GAF A.G.	GERMANY	75.078%	75.078%	TELESPAZIO SpA	1
138 GALILEO AVIONICA SpA	ITALY	100.000%	100.000%	SELEX Sensors and Airborne Systems SpA	1
139 GALILEO VACUUM SYSTEMS INC.	USA	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
140 GALILEO VACUUM SYSTEMS SPA	ITALY	24.900%	24.900%	FATA GROUP SpA (in liq.)	1
141 GIEINTER AG	SWITZERLAND	100.000%	100.000%	ANSALDO INDUSTRIA SpA (in liq)	1
142 GLOBAL AERONAUTICA, LLC	DELAWARE - USA	50.000%	50.000%	ALENIA NORTH AMERICA, INC.	1
143 GLOBAL MILITARY AIRCRAFT SYSTEMS, LLC	TEXAS - USA	50.000%	50.000%	ALENIA NORTH AMERICA, INC.	1
144 GROUPEMENT IMMOBILIER AERONAUTIQUE - GIA SA	FRANCE	20.000%	20.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
145 I.M. INTERMETRO SpA	ITALY	33.333%	16.666%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
			16.666%	ANSALDOBREDA SpA	1
146 IAMCO-INTERNATIONAL AEROSPACE MANAGEMENT COMPANY scrl	ITALY	20.000%	20.000%	ALENIA AERONAUTICA SpA	1
147 ICARUS SCpA	ITALY	49.000%	49.000%	ALS SpA	1
148 IGS SpA (in liq.)	ITALY	100.000%			1
149 IMMOBILIARE CASCINA S.r.l.	ITALY	100.000%	100.000%	MECFIN - MECCANICA FINANZIARIA SpA	1
150 IMMOBILIARE FONTEVERDE Srl	ITALY	60.000%	60.000%	ELECTRON ITALIA S.r.l.	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
151	INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SpA (in amministrazione straordinaria)	ITALY	30.982%			1
152	INFOLOGISTICA S.p.A.	ITALY	11.111%	11.111%	SISTEMI & TELEMATICA S.p.A.	1
153	INIZIATIVE INDUSTRIALI MILANO Srl (in liq)	ITALY	35.000%	35.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
154	Innovazione e Progetti Società Consortile per Azioni	ITALY	15.000%	15.000%	SELEX Service Management SpA	1
155	INTERNATIONAL LAND SYSTEMS INC.	DELAWARE - USA	28.365%	28.365%	GAF A.G.	1
156	INTOSPACE Gmbh (in liq)	GERMANY	11.000%	11.000%	ALS SpA	1
157	IRIDIUM ITALIA SpA (in liq)	ITALY	35.000%	35.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
158	IRITECH SpA	ITALY	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
159	ISTITUTO PER LE RICERCHE DI TECNOLOGIA MECCANICA E PER L`AUTOMAZIONE SpA	ITALY	16.162%			1
160	ITALDATA INGEGNERIA DELL´IDEA SpA	ITALY	51.000%	51.000%	ELSAG SpA	1
161	ITISA SA (in liq)	FRANCE	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
162	ITP srl (in fall)	ITALY	13.584%			1
163	IVECO FIAT - OTO MELARA Società Consortile a responsabilità limitata	ITALY	50.000%	50.000%	OTO MELARA SpA	1
164	Jiangxi Changhe Agusta Helicopter Co. Ltd	CHINA	40.000%	40.000%	AGUSTA SpA	1
165	KEYCAB - Società per azioni	ITALY	100.000%	100.000%	DATAMAT S.p.A.	1
166	LARIMART SpA	ITALY	60.000%	60.000%	SELEX COMMUNICATIONS SpA	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
167	LOCKHEED MARTIN ALENIA TACTICAL TRANSPORT SYSTEMS LLC	GEORGIA - USA	50.000%	50.000%	ALENIA NORTH AMERICA, INC.	1
168	LUMIQ SpA	ITALY	12.750%	12.750%	FATA GROUP SpA (in liq.)	1
169	LYBIAN ITALIAN ADVANCED TECHNOLOGY COMPANY	LIBYA	50.000%	25.000%	AgustaWestland NV	1
170	MACCHI HUREL DUBOIS SAS	FRANCE	50.000%	50.000%	AERMACCHI SpA	1
171	MARS-MICROGRAVITY ADVANCED RESEARCH AND USER SUPPORT CENTER srl	ITALY	100.000%	100.000%	TELESPAZIO SpA	1
172	MECFIN - MECCANICA FINANZIARIA SpA	ITALY	100.000%			1
173	MECFINT (JERSEY) Ltd	UNITED KINGDOM	99.997%	99.997%	FINMECCANICA FINANCE SA	1
174	MEDESSAT S.A.S.	FRANCE	28.801%	28.801%	TELESPAZIO FRANCE Sas	1
175	METASISTEMI S.p.A.	ITALY	100.000%	100.000%	DATAMAT S.p.A.	1
176	METRO 5 Società per Azioni	ITALY	31.900%	7.300%	ANSALDOBREDA SpA	1
				24.600%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
177	METRO C S.P.A.	ITALY	14.000%	14.000%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
178	MIDSCO INC	USA	18.000%	18.000%	SELEX COMMUNICATIONS SpA	1
179	MUSINET ENGINEERING SpA	ITALY	49.000%	49.000%	FATA SPA	1
180	N.H. INDUSTRIES SARL	FRANCE	32.000%	32.000%	AGUSTA SpA	1
181	NAC scrl	ITALY	81.540%	81.540%	AERIMPIANTI SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
182 NAHUELSAT SA	ARGENTINA	33.332%			1
183 NASIF scrl	ITALY	12.000%	12.000%	AERIMPIANTI SpA	1
184 Net Service S.r.l.	ITALY	70.000%	70.000%	DATAMAT S.p.A.	1
185 NGL Prime S.p.A.	ITALY	30.000%			1
186 NICCO COMMUNICATIONS SAS	FRANCE	50.000%	50.000%	SELEX COMMUNICATIONS SpA	1
187 NNS - SOCIETE´ DE SERVICE POUR REACTEUR RAPIDE snc	FRANCE	40.000%	40.000%	ANSALDO NUCLEARE SpA	1
188 ODISSEUS S.r.l. - Liguria Innovation Technologies	ITALY	12.500%	12.500%	ELSAG SpA	1
189 OFFICINE AERONAVALI VENEZIA SpA	ITALY	100.000%	100.000%	ALENIA AERONAUTICA SpA	1
190 ORIZZONTE - Sistemi Navali SpA	ITALY	49.000%			1
191 OTE M	RUSSIAN FEDERATION	100.000%	100.000%	OTE SpA	1
192 OTE MOBILE TECHNOLOGIES LTD	UNITED KINGDOM	100.000%	100.000%	OTE SpA	1
193 OTE SpA	ITALY	100.000%	100.000%	SELEX COMMUNICATIONS SpA	1
194 OTO MELARA IBERICA S.A.	SPAIN	100.000%	100.000%	OTO MELARA SpA	1
195 OTO MELARA NORTH AMERICA INC.	DELAWARE - USA	100.000%	100.000%	OTO MELARA SpA	1
196 OTO MELARA SpA	ITALY	100.000%			1
197 PANAVIA AIRCRAFT Gmbh	GERMANY	15.000%	15.000%	ALENIA AERONAUTICA SpA	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
198	PEGASO-Società consortile a responsabilità limitata	ITALY	46.870%	46.870%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
199	POLARIS SRL	ITALY	50.000%	50.000%	ANSALDO ENERGIA SpA	1
200	PROD-EL prodotti elettronici SpA	ITALY	100.000%	60.000%	SISTEMI RADIOMOBILI S.r.l.	1
				40.000%	SELEX COMMUNICATIONS SpA	1
201	PT DAYALISTRIK PRATAMA (in liq.)	INDONESIA	45.000%	45.000%	ANSALDO ENERGIA SpA	1
202	QUADRICS INC.	DELAWARE - USA	100.000%	100.000%	QUADRICS LTD	1
203	QUADRICS LTD	UNITED KINGDOM	100.000%	100.000%	ALENIA AERONAUTICA SpA	1
204	RARTEL SA	ROMANIA	61.061%	50.061%	TELESPAZIO SpA	1
				10.000%	TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS Ltd	1
				1.000%	TELESPAZIO HOLDING S.R.L.	1
205	Remington Elsag Law Enforcement Systems LLC	USA	50.000%	50.000%	ELSAG INC.	1
206	S.C. ELETTRA COMMUNICATIONS S.A.	ROMANIA	50.500%	49.000%	SELEX COMMUNICATIONS SpA	1
				1.500%	SELEX Communications Romania S.r.l.	1
207	SAGEM ITALIA Srl	ITALY	100.000%	100.000%	ANSALDO ENERGIA SpA	1
208	SAITECH SpA (in fall)	ITALY	40.000%	40.000%	IRITECH SpA	1
209	SAN GIORGIO SA	FRANCE	99.999%			1
210	SAPHIRE International Aviation & ATC Engineering Co. Ltd	CHINA	65.000%	65.000%	ALENIA AERONAUTICA SpA	1
211	SECBAT-SOC EUROPEENNE DE CONSTRUCTION DE L`AVION BREGUET ATLANTIC SARL	FRANCE	13.550%	13.550%	ALENIA AERONAUTICA SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
212 SECURTEAM Srl	ITALY	100.000%	100.000%	ELSAG SpA	1
213 SEICOS SPA	ITALY	100.000%			1
214 SELENIA MARINE COMPANY Ltd.	UNITED KINGDOM	99.999%	99.999%	SELEX Communications Holdings Ltd	1
215 SELENIA MOBILE S.p.A.	ITALY	100.000%	100.000%	SELEX COMMUNICATIONS SpA	1
216 SELEX Communications do Brasil Ltda	BRAZIL	100.000%	99.801%	SELEX COMMUNICATIONS SpA	1
			0.199%	AMTEC SpA	1
217 SELEX COMMUNICATIONS SpA	ITALY	100.000%			1
218 SELEX Communications (International) Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Communications Holdings Ltd	1
219 SELEX Communications Gmbh	GERMANY	100.000%	100.000%	SELEX Communications Holdings Ltd	1
220 SELEX Communications Holdings Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX COMMUNICATIONS SpA	1
221 SELEX Communications Inc.	CALIFORNIA -USA	100.000%	100.000%	SELEX Communications Holdings Ltd	1
222 SELEX Communications Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Communications Holdings Ltd	1
223 SELEX Communications Romania S.r.l.	ROMANIA	99.976%	99.976%	SELEX COMMUNICATIONS SpA	1
224 SELEX Communications Secure Systems Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Communications Holdings Ltd	1
225 SELEX COMPOSITE S.p.A.	ITALY	100.000%	100.000%	ALENIA AERONAUTICA SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
226 SELEX Komunikasyon A.S.	TURKEY	99.999%	86.952%	SELEX COMMUNICATIONS SpA	1
			13.040%	SELEX Communications Holdings Ltd	1
			0.004%	SELEX Communications Ltd	1
			0.004%	SELEX Communications (International) Ltd	1
227 SELEX Sensors and Airborne Systems Electro Optics (Overseas) Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Sensors and Airborne Systems Ltd	1
228 SELEX Sensors and Airborne Systems InfraRed Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Sensors and Airborne Systems Ltd	1
229 SELEX Sensors and Airborne Systems Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Sensors and Airborne Systems SpA	1
230 SELEX Sensors and Airborne Systems SpA	ITALY	75.000%			1
231 SELEX Service Management SpA	ITALY	100.000%			1
232 SELEX Sistemi Integrati de Venezuela S.A.	VENEZUELA	100.000%	100.000%	SELEX Sistemi Integrati SPA	1
233 SELEX Sistemi Integrati GmBH	GERMANY	100.000%	100.000%	SELEX Sistemi Integrati Ltd	1
234 SELEX Sistemi Integrati Inc.	DELAWARE - USA	100.000%	100.000%	SELEX Sistemi Integrati Ltd	1
235 SELEX Sistemi Integrati Ltd	UNITED KINGDOM	100.000%	100.000%	SELEX Sistemi Integrati SPA	1
236 SELEX Sistemi Integrati SPA	ITALY	100.000%			1
237 SEVERNYJ AVTOBUS ZAO	RUSSIAN FEDERATION	35.000%	35.000%	ANSALDOBREDA SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
238 SIIT Società Consortile per Azioni	ITALY	13.800%	2.300%	SELEX Sistemi Integrati SPA	1
			2.300%	OTO MELARA SpA	1
			2.300%	ELSAG SpA	1
			2.300%	SELEX COMMUNICATIONS SpA	1
			2.300%	ANSALDO SEGNALAMENTO FERROVIARIO SpA	1
			2.300%	ANSALDO ENERGIA SpA	1
239 SIRIO PANEL SPA	ITALY	75.000%	75.000%	SELEX COMMUNICATIONS SpA	1
240 SISTEMI & TELEMATICA S.p.A.	ITALY	92.793%	92.793%	ELSAG SpA	1
241 SISTEMI DINAMICI SPA	ITALY	40.000%	40.000%	AGUSTA SpA	1
242 SISTEMI RADIOMOBILI S.r.l.	ITALY	100.000%	100.000%	SELEX COMMUNICATIONS SpA	1
243 SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	ITALY	100.000%			1
244 SOGELI - Società di Gestione di Liquidazioni SpA	ITALY	100.000%	100.000%	SO.GE.PA.-Società Generale di Partecipazioni S.p.A.	1
245 SOSTAR GMBH	GERMANY	28.200%	28.200%	GALILEO AVIONICA SpA	1
246 SPACE SOFTWARE ITALIA SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
247 STMicroelectronics Holding NV	NETHERLANDS	20.000%			1
248 TAC ONE SAS	FRANCE	16.680%	16.680%	SELEX COMMUNICATIONS SpA	1
249 TecnoSIS SpA	ITALY	100.000%	100.000%	ELSAG SpA	1
250 TECNOSSAN SpA (in fall)	ITALY	12.328%	12.328%	IRITECH SpA	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
251 TELBIOS SpA	ITALY	31.034%	31.034%	TELESPAZIO SpA	1
252 TELESPAZIO ARGENTINA S.A.	ARGENTINA	100.000%	95.000%	TELESPAZIO SpA	1
			5.000%	TELESPAZIO BRASIL SA	1
253 TELESPAZIO BRASIL SA	BRAZIL	98.534%	98.534%	TELESPAZIO SpA	1
254 TELESPAZIO DEUTSCHLAND GMBH	GERMANY	100.000%	100.000%	TELESPAZIO FRANCE Sas	1
255 TELESPAZIO FRANCE Sas	FRANCE	100.000%	100.000%	TELESPAZIO HOLDING S.R.L.	1
256 TELESPAZIO HOLDING S.R.L.	ITALY	67.000%			1
257 TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS Ltd	HUNGARY	100.000%	99.000%	TELESPAZIO SpA	1
			1.000%	TELESPAZIO HOLDING S.R.L.	1
258 TELESPAZIO LUXEMBOURG SA	LUXEMBOURG	100.000%	100.000%	FINMECCANICA FINANCE SA	1
259 TELESPAZIO NORTH AMERICA Inc	DELAWARE - USA	100.000%	100.000%	TELESPAZIO SpA	1
260 TELESPAZIO SpA	ITALY	100.000%	100.000%	TELESPAZIO HOLDING S.R.L.	1
261 TERMOMECCANICA SAUDI LTD	SAUDI ARABIA	30.000%	30.000%	SAGEM ITALIA Srl	1
262 THE DEE HOWARD Company	TEXAS - USA	100.000%	100.000%	ALENIA NORTH AMERICA, INC.	1
263 TRADE FATA B.V.	NETHERLANDS	100.000%	100.000%	FATA GROUP SpA (in liq.)	1
264 Tradexim S.r.l. (in liq.)	ITALY	18.180%	18.180%	DATAMAT S.p.A.	1
265 TRAM DI FIRENZE SpA	ITALY	17.464%	3.800%	ANSALDO TRASPORTI-SISTEMI FERROVIARI SpA	1
			13.664%	ANSALDOBREDA SpA	1

	Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
266	TRANSCONTROL Corporation	USA	100.000%	100.000%	UNION SWITCH & SIGNAL Inc	1
267	TRANSIT SAFETY RESEARCH ALLIANCE (No Profit Corporation)	USA	100.000%	100.000%	UNION SWITCH & SIGNAL Inc	1
268	TRIMPROBE SPA	ITALY	100.000%			1
269	U.V.T. (Ultraviolet Technology) SpA (in fall)	ITALY	50.613%	50.613%	IRITECH SpA	1
270	UNION SWITCH & SIGNAL (MALAYSIA) SDN BHD	MALAYSIA	100.000%	100.000%	UNION SWITCH & SIGNAL PTY Ltd	1
271	UNION SWITCH & SIGNAL CHILE Ltda	CHILE	68.000%	67.000%	TRANSCONTROL Corporation	1
				1.000%	UNION SWITCH & SIGNAL INTERNATIONAL Co	1
272	UNION SWITCH & SIGNAL Inc	DELAWARE - USA	100.000%	100.000%	ANSALDO SIGNAL N.V.	1
273	UNION SWITCH & SIGNAL INC (Canada)	ONTARIO - CANADA	100.000%	100.000%	UNION SWITCH & SIGNAL Inc	1
274	UNION SWITCH & SIGNAL INTERNATIONAL Co	DELAWARE - USA	100.000%	100.000%	UNION SWITCH & SIGNAL Inc	1
275	UNION SWITCH & SIGNAL INTERNATIONAL PROJECTS Co	DELAWARE - USA	100.000%	100.000%	UNION SWITCH & SIGNAL Inc	1
276	UNION SWITCH & SIGNAL PRIVATE LTD	INDIA	100.000%	100.000%	ANSALDO SIGNAL N.V.	1
				0.000%	TRANSCONTROL Corporation	1
277	UNION SWITCH & SIGNAL PTY Ltd	AUSTRALIA	100.000%	100.000%	TRANSCONTROL Corporation	1
278	UVT ARGENTINA SA	ARGENTINA	60.000%	60.000%	U.V.T. (Ultraviolet Technology) SpA (in fall)	1
279	WESTERN INVESTORS TECHNOLOGY GROUP Inc	DELAWARE - USA	24.000%	24.000%	ALENIA NORTH AMERICA, INC.	1
280	WESTERN INVESTORS TECHNOLOGY GROUP Ltd Partnership	DELAWARE - USA	20.000%	20.000%	ALENIA NORTH AMERICA, INC.	1

Company OWNED (name and legal form)	Country	% TOTAL	% INDIRECT	Through	kind of possession (see legend)
281 WESTLAND HELICOPTERS INC	DELAWARE - USA	100.000%	100.000%	WESTLAND HELICOPTERS LIMITED	1
282 WESTLAND HELICOPTERS LIMITED	UNITED KINGDOM	100.000%	100.000%	AgustaWestland Holdings Limited	1
283 WESTLAND INDUSTRIAL PRODUCTS LIMITED	UNITED KINGDOM	100.000%	100.000%	WESTLAND INDUSTRIES LIMITED	1
284 WESTLAND INDUSTRIES LIMITED	UNITED KINGDOM	100.000%	100.000%	WESTLAND HELICOPTERS LIMITED	1
285 WESTLAND SUPPORT SERVICES LIMITED	UNITED KINGDOM	100.000%	100.000%	WESTLAND HELICOPTERS LIMITED	1
286 WESTLAND TRANSMISSIONS LIMITED	UNITED KINGDOM	100.000%	100.000%	AgustaWestland Holdings Limited	1
287 WHITEHEAD ALENIA SISTEMI SUBACQUEI SpA	ITALY	100.000%			1
288 ZAO ARTETRA	RUSSIAN FEDERATION	51.000%	51.000%	OTE SpA	1

Legend:	kind of share ownership or voting rights
1	Ownership
2	Giver-on
3	Taker-in
4	Holder on behalf of third parties
5	Fund management
6	Pledge
7	Usufruct
8	Deposit
9	Voting right by contractual agreements