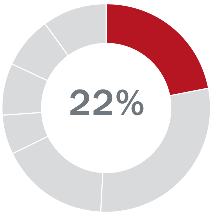
FINMECCANICA

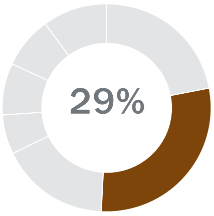
ANNUAL REPORT 2007

FINMECCANICA REVENUES 2007



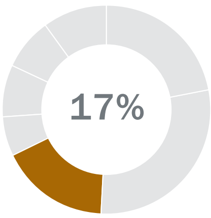
HELICOPTERS

AgustaWestland
BAAC



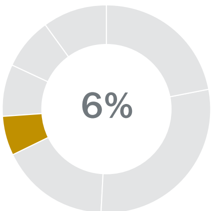
DEFENCE AND SECURITY ELECTRONICS

Selex Communications
Selex Galileo
Selex Sistemi Integrati
Selex Service Management
  Seicos
Elsag Datamat
VEGA
Orizzonte
Elettronica
Reles



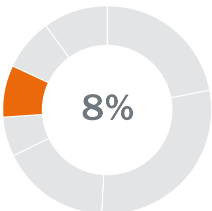
AERONAUTICS

Alenia Aeronautica
  Alenia Aermacchi
  Alenia Aeronavali
  SuperJet International
  ATR
  Global Military Aircraft Systems
  Global Aeronautica



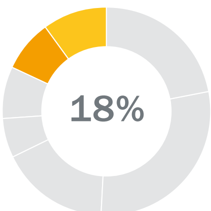
SPACE

Telespazio
Thales Alenia Space



DEFENCE SYSTEMS

Oto Melara
WASS
MBDA



ENERGY AND TRANSPORTATION

- Energy 8%
- Transportation 10%

Ansaldo Energia
  Ansaldo Fuel Cells
  Ansaldo Nucleare
  Ansaldo Ricerche
AnsaldoBreda
Ansaldo STS
BredaMenarinibus

- OWNED COMPANIES
- JOINT VENTURE

ANNUAL REPORT 2007

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letter to shareholders

Dear Shareholders,
due to the general operating context, 2007 was a particularly demanding year for the company. At the same time, it was also a very important year in terms of the results achieved and the operations carried out.

The international context has recently been characterised by fears of a recession in the United States. The various factors fuelling these worries include signs of a slump in the home property market and of a slowdown in the job market, where the services sector no longer appears able to offset diminishing employment opportunities in the construction and manufacturing industries. Another significant factor is the impact that rising international energy and food prices has on the domestic market, also due to depreciation of the US dollar in foreign-exchange markets. Furthermore, financial brokers have lost confidence in the market owing to the sub-prime mortgage crisis in the United States.
The European Union has not been spared from nervousness concerning the overall economic slowdown at world level. Quality indicators and conditions in the liquidity market point to a similar outlook for Europe which, from some perspectives, has a more fragile market than that of the US. Nonetheless, good labour market conditions, income policies that do not impact prices, and sufficient manoeuvring room for economic policies all help to ward off the risk of a sharp downturn in GDP growth between 2007 and 2008.

The Italian economy has not escaped the negative effects of the international economic situation. Inflation concerns are being reignited and growth is moving at an ever slower pace. Unfortunately, the latter trend was already underway when the crisis in financial markets exploded, bringing forecasts for GDP growth in 2008 down to 1%.
In contrast, leading developing countries continue to post sustained growth. Brazil, China, India and Russia have kept their rates between 5% and 11%.

The backdrop in which the aerospace and defence industry, and more generally the high-tech industry, operates has changed considerably in recent years. This is true in Italy, in Europe and in the rest of the world.
Changes have regarded not only evolutions in products and process technologies, which have continued at an even faster pace compared with the past. Perhaps even more importantly, they have involved a vast reorganisation of firms' production and ownership structures and the definition of new, more far-reaching growth strategies. Rather than focusing on the procurement of national government contracts, companies are adopting a broader approach to competition that also leads them to compete in international markets.
More than one factor has contributed to bringing about such a thorough and across the board process of renewal.
The resurgence of international terrorism has contributed to radically altering the paradigms of national defence borders. The concept of "security" has been expanded and rendered more complex than ever before.
On the one hand, military demand in Europe, and especially in Italy, has fallen with respect to the past. In contrast, it has risen in the United States and in certain emerging and developing countries. At the same time, we are witnessing an evolution in defence sector procurement models, especially in the United Kingdom, as well as some steps towards greater coordination in EU activities, even if sharp national segmentation of markets continues.
More so than in the past, these surrounding conditions have led to restructurings, alliances and mergers on the offer side as well as to greater competition.
Moreover, ongoing technological advances continuously produce new solutions in the sectors of information and communication, nanotechnologies, composite materials and microelectronics. These new opportunities have accentuated, also in the sectors of aerospace and defence, an ever greater fragmentation and specialisation of the markets and of the production cycles.
As noted above, security requisites are becoming ever more pervasive, to the point that large infrastructures, both hardware and software, can no longer be without them. This increases companies' need to offer integrated solutions incorporating this dimension from the moment of conception and planning rather than simpler products and systems.

Finally, the request for new infrastructures (especially in the transport sector) on the part of emerging and developing countries and the pressing need to meet their growing energy requirements can create important business opportunities for firms able to carry out the necessary foreign investment.

In 2007 the world energy and electricity production market confirmed the growth trend underway in the last three years. Price increases in primary energy sources, particularly oil and natural gas, have not slowed the growth in orders for thermoelectric generation machinery and equipment. The market for new energy generation plants and systems is expected to remain stable in upcoming years. North America and western Europe (where demand essentially involves the modernisation and replacement of obsolete plants) are going through a negative cyclical phase. In contrast, in the Asian

Pacific, the Middle East and Latin America, there is a strong request for expansion of installed capacity.

In the transportation field, motorised vehicles form the largest and most mature sector, as shown by the stable, but relatively low annual growth rate of 2%. Demand is sustained by the constant attention paid to environmental policies, consequently favouring rail transportation over road transportation, and by economic development in new geographical areas. In the railway segment, the urban component reports the highest rate of growth, primarily due to congestion and population increases in urban centres.
Western Europe has traditionally been the largest geographical market and that one that produces the most important technological and product innovations. The European Union is carrying out various projects designed to foster interoperability and overcome longstanding national barriers in rail and tram transportation. Moreover, steady liberalisation of the market in Europe will favour the entrance of new operators and consequently boost the demand for new vehicles.
The geographical areas expected to experience the most growth are the Asian Pacific, owing to population expansion and the resulting rise in the need for mobility, and in eastern Europe, thanks to recently launched programmes aimed at substantial renewal of the rolling stock and construction and development of new infrastructure.

Against this backdrop, Finmeccanica, by means of its own equity investments and alliances, is effectively integrated and in good standing in the European aerospace, defence and security industries and has launched decisive development initiatives in foreign markets, first and foremost in the United States.
Additionally, heavy investment in research and innovation, regularly set at around 15% of revenues, has ensured hitherto unknown growth in technological assets.
The first phase of transformation from a pure financial holding company to a Group Parent responsible for strategic and business planning has drawn to a close. Objectives have been reached as regards increasing critical mass in the principal business sectors, focusing on core competencies, enhancing the value of all segments of activity and internationalising business. Furthermore, joint ventures have been dissolved, thereby allowing Finmeccanica to take complete control in strategic sectors such as those of helicopters and defence electronics.
The second phase is already underway. Its main strategic objectives are Group consolidation, via whole scale integration of acquisitions and full development of alliances, increased competitiveness and profitability, thanks to more efficient control of times and costs, and improved production and process efficiency. To this end, Finmeccanica has adopted a new management model for all Group companies and an international and integrated system for the training and development of human resources, in order to increase Group personnel's competencies and professional skills.

As regards operating performance, in 2007 Finmeccanica improved its own results through structured growth, confirming the stability and quality of its own development process. Revenues rose from 12,472 million euros in 2006 to 13,429 million in 2007, representing an increase of 8%. EBITA rose 11% to 1,045 million euros, including growth of more than 200 million in the sectors of Aeronautics, Defence and Security. Net profit stood at 521 million euros without taking account of extraordinary items, which influenced both 2007 and 2006. Growth reached 49% (503 million against 337 million euros). As of 31 December 2007, the Free Operating Cash Flow was a positive 375 million euros.
Orders rose 14% to 17,916 million euros, whilst outstanding orders jumped 10% to reach 39,304 million euros, the equivalent of approximately three years of production. ROI rose from 17.7% in 2006 to 18.9% in 2007, thanks management's careful selection of investments offering adequate profitability. Investments in Research and Development totalled 1,836 million euros, equivalent to 14% of revenues.

At year end net borrowing totalled 1,158 million euros, compared with 858 million as of 31 December 2006. The soundness of the Group's financial position is confirmed by a debt/equity ratio of 21%.
EPS, net of extraordinary operations and minority interests, grew 53% with respect to 2006.
The headcount as of 31 December 2007 was 60,748 (compared with 58,059 as of 31 December 2006), representing an increase of 2,689 in staff members due to a positive turnover in personnel and growth in activities.

As regards financial performance, since 2002 Finmeccanica has been implementing a policy of stable growth of pay-out, in line with growth in the Group's net profit. From 2004 to 2006, pay-out, calculated on net profit shorn of extraordinary items, has risen from just under 20% to more than 45%.
This is all being accompanied by transparent financial communication to the market. Such communication regards economic and financial objectives in terms of annual revenue growth, operating income and cash flow for each financial year. Moreover, Finmeccanica has made this information public since 2003, including its first Business Plan. For four years in a row, the objectives have been achieved, if not exceeded, thus boosting confidence on the part of the international financial community. In 2006, Finmeccanica held its first Investor Day, where all the Group's management presented a full description of business performances and outlooks as well as comprehensive information on the medium/long-term economic and financial market objectives.
Proof of the market's appreciation of the Group's renewed strategies and effective as well as insightful communication is provided by the significant increase in securities hedging on the part of foreign analysts specialised in the sector of aerospace and defence, as well as by the increase in foreign institutional shareholders in Finmeccanica's share capital and an improved and more stable shareholders body.

Finmeccanica's international expansion has gone ahead based on a precise conviction and guiding belief: Europe is our home; the world is our market.
This is why the most significant acquisitions and strategic alliances are made in Europe, especially in the United Kingdom, now our second domestic market as regards the defence sector, and in France, very important as regards the space sector and where the joint ventures with Thales can provide a good starting point for further operations. Outside Europe, we have pursued important programme alliances, in many cases accompanied by significant direct investments, in particular in the United States and in Russia, and targeted acquisitions, again in the United States, because real market penetration requires that a part of production be transferred to the country of destination.
Finmeccanica is also very active in other markets where the Group already enjoys a significant presence, such as in Turkey, Malaysia and Algeria, and where there are interesting development prospects, such as in India, China and Japan.

In Italy, Finmeccanica has pursued a strategy to expand its client base (Ministry of Transportation, Ministry of the Interior, Ministry of Production Activities). Mention must also be made of developments in the sector of helicopters, with the delivery of the first batch of AW109N helicopter to the Carabinieri corps, and in the aeronautics sector, with the delivery of the first Eurofighter Typhoon simulator, the signing of a contract worth 48.5 million euros with the Italian Air Force for the upgrading of Tornado aircraft and Italy's approval of the construction of Joint Strike Fighter planes.
In the transportation sector, September 2007 saw the signing of a contract to supply underground trains for Rome's Line C underground.
Additionally, the year saw completion of the feasibility study for the "*Forza NEC*" project, launched by the Italian Army and involving the "net-centric" transformation of its components. The purpose of the project is to provide an effective solution to the ris-

ing need to employ Italian Armed Forces in outside missions and the related need for interoperability with Coalition forces present in international scenarios.

In November 2007, AgustaWestland, in its role as the UK Defence Ministry's strategic partner, was awarded a first contract valued at 660 million euros for the second phase of the Sea King Integrated Operational Support programme, for operational support to helicopters in the service of the British Armed Forces.
In the same month, Finmeccanica acquired Vega, the UK firm listed on the London stock exchange and active in the sectors of defence, aerospace, and government services. This acquisition further strengthened the integration capacity of Finmeccanica systems in the United Kingdom and has strategic value not only in terms of possible opportunities for Group companies operating in defence electronics and aerospace industries, but also thanks to Vega's relations with British government bodies, especially in the security sector.

In June 2007, in the United States, with the C27J, an aircraft designed, developed and produced by Alenia Aeronautica, L-3, Boeing and Finmeccanica together won a contract for the Joint Cargo Aircraft programme to supply a new tactical transport aircraft to the US Army and US Air Force. The initial contract is worth more than 2 billion dollars and regards the supply of 78 aircraft, and the US Armed Forces plan to purchase 145 planes having a total estimated value of around 6 billion dollars.
In September 2007 Elsag Datamat finalised acquisition of 100% of the US firm, Remington Elsag Law Enforcement Systems, thereby strengthening its presence in the international security market.
These results, together with the success of the B787 Dreamliner programme, in which Alenia Aeronautica is Boeing's risk partner with a frontline role in terms of technology and process, sanction Finmeccanica's firmly established presence in the United States.

In Europe, in November 2007, Finmeccanica announced its agreement with DCNS and Thales to form a partnership in the underwater defence systems sector. This new partnership will strengthen the European defence industry, creating a leading world player in this sector.
On 30 November 2007, during the Italian-French summit talks in Nice, Finmeccanica and Thales signed a Memorandum of Understanding to put forward, develop and carry out an integrated project for European maritime security, within the framework of the joint SEASAME initiative.
In the aeronautics sector, following success in America with the C27J, two of the aircraft were delivered to Greece and a contract was signed with Rumania's Defence Ministry for seven C27J planes. In December 2007, Alenia Aeronautica was awarded a contract regarding the new operational capabilities of the Eurofighter for the Italian, German, British and Spanish Armed Forces.

In Russia, Finmeccanica carries out important activities in the sectors of communications security (thanks to Tetra technology), air and land traffic control, energy, postal automation, railway transportation and aeronautics. Commitment in the last two sectors has particular strategic importance. The alliance with Sukhoi to build the Superjet 100 marks Finmeccanica entrance into a new business segment and opens up possible entrance into new markets. The railways sector offers Finmeccanica opportunities to take part in the role of systems analyst to highly important international projects, especially in the field of high speed trains.
In 2007 areas of particular interest included China, India, Turkey, Algeria, Japan and the Gulf area, where the Group's skilful participation, both at the level of holding company and operating companies has made the "Italian Spring" possible.

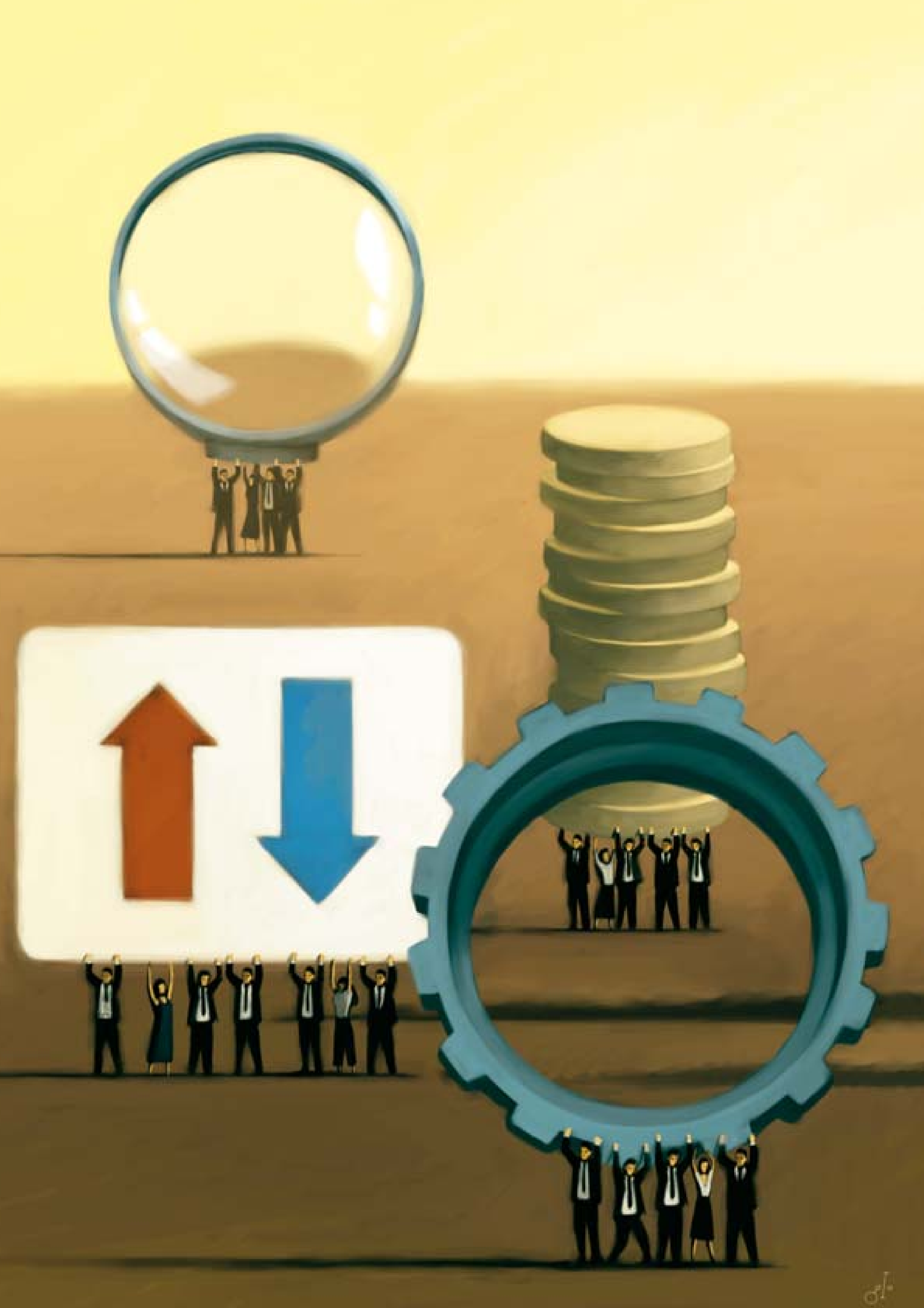
Large integrated security systems form the common thread that unites all of the Group's main activities, both in terms of business sectors, including transportation and energy, and in terms of country strategies. They also represent an essential element for future industrial development. Such systems constitute a fast growing business, in which Finmeccanica can aspire to become a key player, thanks to its full control of strategic and operational levers, dominion of products, technologies and industrial processes, and a competitive edge comparable to that of leaders in the sector.

In recent years, Finmeccanica has also dealt with problems arising within the Group. These include, by way of example, the restructuring of AnsaldoBreda. A business plan to relaunch the company has been implemented and decisive steps have been taken to further strengthen its management. The principal interventions are aimed at recovering efficiency and punctuality in deliveries, improving competencies and management of the chain of value and revising industrial processes via structured management of the different phases of a product's life cycle and greater specialisation of manufacturing sites.

In order to sketch out the Group's future, consideration must be taken of some phenomena having a long-term impact on the context in which Finmeccanica will necessarily have to operate and take decisions.
The aerospace and defence industry, and to a certain extent that of critical infrastructures such as energy and transportation, is, by its very nature, technology led with strong entrance and exit barriers. To a large extent, it is conditioned by changes and developments in government budgets. At the same time, it can influence political choices thanks to the information mismatch in its favour. Finally, it is able to favour a positive relationship between public expenditure and GDP and is one of the few sectors in which western countries can effectively compete with emerging economies and carry out a certain foreign industrial policy.
In this context, in order to reach future growth objectives, Finmeccanica will have to pursue an adequate growth strategy and possible targeted acquisitions, aimed primarily at further enhancing the Group's technological assets and international presence. Once put into practice, these strategies will make it possible for Finmeccanica to improve its standing, take a leading role in future processes of consolidation of European industry and successfully compete at global level.

In this complex and wide-ranging scenario, the Board of Directors of your company has constantly pursued rules of good governance regarding not only the modus operandi of the Board itself but also the administrative bodies of Group companies and the relative decision-making processes, keeping close control of real and potential conflicts of interest, together with formal and substantive respect for the rules of conduct set out by law and the Code of Ethics, extended to all operative facilities in Italy and abroad.

FOR THE BOARD OF DIRECTORS
The Chairman and Chief Executive Officer
Pier Francesco Guarguaglini



Board of Directors
(for the 2005-2007 term)
appointed by the Shareholders' Meeting
of 12 July 2005

PIER FRANCESCO GUARGUAGLINI [1]
Chairman/Chief Executive Officer

PIERGIORGIO ALBERTI [2] [3]
Director

FILIPPO ANDREATTA [1]
Director (*)

FRANCO BONFERRONI [2] [3]
Director

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

MAURIZIO DE TILLA [2]
Director

GIAN LUIGI LOMBARDI CERRI [2]
Director

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

ROBERTO PETRI [1]
Director

RICCARDO VARALDO [3]
Director

GUIDO VENTURONI [1]
Director

PAOLO VIGEVANO [1]
Director

ERNESTO MONTI [2] [3]
Director
(suspended by Board resolution of 19 January 2007, resigned as of 28 February 2007)

DARIO SCANNAPIECO [1] [3]
Director
(resignation effective 3 September 2007)

Board of Statutory Auditors
(for the 2006-2008 term)
appointed by the Shareholders' Meeting
of 23 May 2006

LUIGI GASPARI
Chairman

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

MAURIZIO DATTILO, PIERO SANTONI
Alternate Auditors

LUCIANO ACCIARI
Secretary of the Board of Directors

Independent Auditors
(for the 2006-2011 term)

PRICEWATERHOUSECOOPERS SpA

(*) Appointed by the Board of Directors' Meeting of 27 March 2007 in accordance with Art. 2386 of the Civil Code and by the Shareholders' Meeting of 30 May 2007.

(**) Director without voting rights appointed with Ministerial Decree pursuant to Decree Law 332/1994 ratified with amendments by Law 474/1994.

(***) Appointed by the Board of Directors' Meeting of 12 September 2007, in accordance with Art. 2386 of the Civil Code and by the Shareholders' Meeting of 16 January 2008.

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

report on operations at 31 december 2007

Finmeccanica Group results

HIGHLIGHTS

Once again, the Finmeccanica Group achieved results that, in addition to being significant, are an improvement over 2006 and over expectations for 2007.

€ millions	2007	2006	Change
New orders	17,916	15,725	14%
Order backlog	39,304	35,810	10%
Revenues	13,429	12,472	8%
Adjusted EBITA (*)	1,045	942	11%
Net profit	521	1,021	-49%
New invested capital	6,590	6,151	7%
Net financial debt	1,158	858	35%
FOCF (*)	375	506	-26%
ROS (*)	*7.8%*	*7.6%*	*0.2 p.p.*
ROI (*)	*18.9%*	*17.7%*	*1.2 p.p.*
ROE (*)	*9.7%*	*20.5%*	*-10.8 p.p.*
EVA (*)	227	257	-12%
R&D costs	1,836	1,783	3%
Workforce (no.)	60,748	58,059	5%

(*) Refer to the following section for definitions of the indicators.
p.p.: percentage points.

The figures (about which comments follow) do not reveal significant lack of homogeneity between the two periods being compared in terms of the scope of consolidation. Non-recurring items and their amounts have been appropriately emphasised so as to provide a homogeneous representation of the Group's "managerial" performance.
Revenues increased by 8% over 31 December 2006 and adjusted EBITA rose by about 11%. Return on sales (ROS) rose, too, to 7.8% compared with 7.6% in 2006 and orders acquired increased by 14% over 31 December 2006.

With regard to Group profitability, return on investment (ROI) stood at 18.9% (17.7% in 2006), EVA came to a positive € mil. 227 (positive € mil. 257 in 2006) and return on equity (ROE) came to 9.7% (20.5% in 2006).

As regards EVA, it should be noted that, as a result of the changing macroeconomic landscape, marked by high levels of volatility on the financial markets and increasing interest rates, Finmeccanica has recently taken steps to increase the Group's cost of capital, increasing it by more than one percentage point over the rate used until 31 December 2006. Calculating the EVA related to the cost of capital used for 2007, at 31 December 2006 it would have amounted to € mil. 192 instead of € mil. 257.

With regard to ROE, it should be noted that, as will be seen below, the net profit contained non-recurring transactions for about € mil. 684. If these items are eliminated from the net profit (and consequently from shareholders' equity), ROE at 31 December 2006 would have been 7.3%.

Income Statement For the twelve months ended 31 December

€ millions	Note	2007	2006
Revenues	(*)	13,429	12,472
Costs for purchases and personnel	(**)	(12,098)	(11,091)
Depreciation and amortisation	35	(478)	(458)
Write-downs	35	(93)	(23)
Other net operating income (costs)	(***)	220	66
Change in inventories of work in progress, semi-finished and finished goods		65	(24)
Adjusted EBITA		**1,045**	**942**
Non-recurring income (costs)		123	-
Restructuring costs	(****)	(58)	(10)
PPA amortisation		(26)	(24)
EBIT		**1,084**	**908**
Net finance income (costs)	(*****)	(237)	365
Income taxes	39	(326)	(243)
NET PROFIT (LOSS) BEFORE DISCONTINUED OPERATIONS		**521**	**1,030**
Result of discontinued operations	40	-	(9)
NET PROFIT (LOSS)		**521**	**1,021**

Notes on the income statement reclassifications:
(*) Includes "revenues" and "revenues from related parties".
(**) Includes "costs from related parties", "raw materials and consumables used", "purchase of services", and "personnel costs" (net of restructuring costs), net of "capitalised costs for internal production".
(***) Includes the net amount of the items "other operating income", "other operating income from related parties" and "other operating costs" (net of restructuring costs).
(****) Includes the restructuring costs classified as "personnel costs" and "other operating costs".
(*****) Includes finance income and costs from related parties.

The Finmeccanica Group's consolidated net profit at 31 December 2007 came to € mil. 521, compared with € mil. 1,021 at 31 December 2006.
Contributing to the positive results for 2007, as well as for 2006, were a series of non-recurring transactions that (net of the effect of taxes) can be summarised as follows:

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

The non-recurring transactions at 31 December 2006, described in the 2006 financial statements, include:

› the gain realised on the public tender for the 60% stake in Ansaldo STS SpA for roughly € mil. 416;
› the capital gain on the sale of AvioGroup SpA of around € mil. 291.

The consolidated net profit of the Finmeccanica Group, excluding the impact of non-recurring events (net of the corresponding tax effects), came to roughly € mil. 503 at 31 December 2007, an approximately 49% increase over the € mil. 337 at 31 December 2006.

The € mil. 166 improvement in the Group's net profit is primarily due to the increase in EBIT of € mil. 53 (despite higher restructuring costs of about € mil. 48); the improvement in financial charges of € mil. 210 primarily as a result of provisions made in 2006 for interest payable on advances paid to AnsaldoBreda and to a more favourable result from the measurements at fair value and exchange rate differences; and discontinuing operations for € mil. 9. These improvements were partially offset by higher taxes during the period for € mil. 106 which, although increasing in absolute terms, guarantee, in any event, the Group a theoretical tax rate of about 39% which is in line with the previous period.

PRIMARY GROUP INDICATORS BY SEGMENT

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

2007	New orders	Order backlog	Revenues	Adj. EBITA	ROS %	R&D	Workforce (no.)
Helicopters	3,970	9,004	2,980	377	12.7%	322	9,556
Defence and Security Electronics	5,240	8,725	3,826	427	11.2%	557	19,589
Aeronautics	3,104	8,248	2,306	240	10.4%	581	13,301
Space	979	1,423	853	61	7.2%	62	3,386
Defence Systems	981	4,099	1,130	125	11.1%	241	4,149
Energy	1,801	3,177	1,049	93	8.9%	20	2,980
Transportation	1,786	5,108	1,356	(110)	-8.1%	47	6,669
Other Activities and eliminations	55	(480)	(71)	(168)	n.a.	6	1,118
	17,916	**39,304**	**13,429**	**1,045**	**7.8%**	**1,836**	**60,748**

2006	New orders	Order backlog	Revenues	Adj. EBITA	ROS %	R&D	Workforce (no.)
Helicopters	4,088	8,572	2,727	296	10.9%	356	8,899
Defence and Security Electronics	4,197	7,676	3,747	338	9.0%	541	19,185
Aeronautics	2,634	7,538	1,908	209	11.0%	486	12,135
Space	851	1,264	764	42	5.5%	64	3,221
Defence Systems	1,111	4,252	1,127	107	9.5%	279	4,275
Energy	1,050	2,468	978	65	6.6%	17	2,856
Transportation	2,127	4,703	1,368	17	1.2%	40	6,677
Other Activities and eliminations	(333)	(663)	(147)	(132)	n.a.	0	811
	15,725	**35,810**	**12,472**	**942**	**7.6%**	**1,783**	**58,059**

Change (delta %)	New orders	Order backlog	Revenues	Adj. EBITA	ROS (delta p.p.)	R&D	Workforce (no.)
Helicopters	-3%	5%	9%	27%	1.8 p.p.	-10%	7%
Defence and Security Electronics	25%	14%	2%	26%	2.2 p.p.	3%	2%
Aeronautics	18%	9%	21%	15%	-0.5 p.p.	20%	10%
Space	15%	13%	12%	45%	1.7 p.p.	-3%	5%
Defence Systems	-12%	-4%	0%	17%	1.6 p.p.	-14%	-3%
Energy	72%	29%	7%	43%	2.3 p.p.	18%	4%
Transportation	-16%	9%	-1%	n.a.	-9.4 p.p.	18%	0%
	14%	**10%**	**8%**	**11%**	**0.2 p.p.**	**3%**	**5%**

n.a.: not applicable.
p.p.: percentage points.

From a commercial perspective, the Group ended 2007 with acquisitions on the rise. In fact, **new orders** at 31 December 2007 stood at € mil. 17,916, an increase of about 14% over the corresponding period of 2006 (€ mil. 15,725).
New orders in 2007 were attributable to the Aerospace and Defence segments for 80% and Energy and Transportation for 20%.

In the Aerospace and Defence segment, new orders in the Helicopters division in 2007 were in line with those of 2006. The main orders for 2007 include: the contracts with the British Ministry of Defence (Skios, EH101 MKIII A) and with the Algerian government in the military-government market, and new orders for 200 units in the civil market.

New orders in the Defence and Security Electronics division also rose (+25% over 2006), due to numerous new orders of strategic importance for significant amounts including the order from Saudi Arabia to supply avionics equipments and systems for EFA aircraft, the contract with an important Mediterranean country to build a "large-scale" security system for the country, and the order for the second lot of the contract for the Tetra interforce protected digital communications network programme by the Ministry of the Interior.

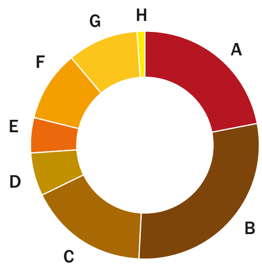
Also of note was the good performance in the Aeronautics division, in both the civil (with orders for ATR aircrafts by the GIE-ATR consortium) and military (with orders for the EFA and C27J programmes) segments, and in the Space division, thanks to significant results in satellite services.

Finally, for the Aerospace and Defence segment, 68% of new orders in 2007 originated from the military market, a 2.7 percentage point increase over 2006.

As regards the Energy and Transportation sectors, there was good commercial performance in the Energy division, with growth of more than 70% over the same period of 2006, due to increased orders for turnkey plants and equipment, especially abroad, and in new markets, particularly Russia.

The **order backlog** at 31 December 2007 amounted to € mil. 39,304, an increase of € mil. 3,494 over 31 December 2006 (€ mil. 35,810).
The order backlog at 31 December 2007 can be broken down into 80% for Aerospace and Defence and 20% for Energy and Transportation.

New orders at 31 December 2007



A	Helicopters	22%
B	Defence and Security Electronics	29%
C	Aeronautics	17%
D	Space	6%
E	Defence Systems	5%
F	Energy	10%
G	Transportation	10%
H	Other Activities	1%

The order backlog, based on workability, guarantees coverage of around 3 years of production.

At 31 December 2007, **revenues** totalled € mil. 13,429 for an increase of € mil. 957, or 8%, over 2006.
The production increase in 2007 was divided between the Aerospace and Defence segment for 82% and the Energy and Transportation segments for 18%.
The increase in production volumes is mainly attributable to the Aeronautics division due to the higher contribution of the civil segment (increased production of ATR and B787 aircraft), and the military segment (greater activity on the EFA programme).
There were also higher revenues in the Helicopters (mainly due to higher volumes in the civil-government segment and the increase in product support activities) and Space divisions (increases in the manufacturing segment and in satellite services).

The **adjusted EBITA** at 31 December 2007 amounted to € mil. 1,045, an 11% increase over 31 December 2006 (€ mil. 942).
This growth was characterised by widespread improvement across all the business sectors, with the sole exception of the Vehicles segment of the Transportation division.

In the Aerospace and Defence segment, the divisions that contributed the most to the improvement in the adjusted EBITA include:

› Helicopters (+27% over 2006) due to the growth in volumes and the consolidation of efficiency actions relating to the process of integrating Italian and British activities;
› Defence and Security Electronics (+26% over 2006) thanks to the improvement in the avionics segment (the British segment in particular), in information technology and security activities and in command and control systems;
› Space (+45% over 2006) due to the efficiency actions undertaken by Telespazio and Thales Alenia Space and the operating synergies achieved by the Space Alliance.

As to Energy and Transportation, the steady performance of the Energy division (+ 43% over 2006) correlated to the increase in revenues in addition to the increased industrial profitability of certain plant and service orders.
Finally, in the Transportation division, the improvement in the Signalling segment due to higher volumes and the increase in industrial profitability was entirely absorbed by the significant decline in the Vehicles segment, mainly attributable to the reassessment of order estimates required to complete the programme to stabilise industrial problems and products.

Research and Development costs at 31 December 2007 came to € mil. 1,836, a 3% increase over 2006 (€ mil. 1,783).
Group R&D represents roughly 14% of revenues generated, with the bulk (96%) going to the Aerospace and Defence segments and the remainder (4%) to Energy and Transportation segments.

Of the Research and Development costs in the Aerospace and Defence segment, € mil. 581 (roughly 32% of the entire Group amount) was attributable to the Aerospace division. This expenditure reflects the consistent commitment to programmes being developed in the civil and military sectors.
R&D spending in the Defence and Security Electronics division was significant, amounting to € mil. 557 and representing about 30% of the Group total. Spending primarily related to the continuation, in the communications sector, of development of Tetra technology products and activities in new product families such as multilevel switching boxes for communications networks based on Internet protocols, software design radio, *ad hoc* networks, and products using WiMAX technology.
Finally, as to the Helicopters division, the R&D expenditure for which amounted

to € mil. 322 and which represents about 18% of total research, mention should be made of the activity to develop technologies primarily for military use (AW149) and the completion of the development and certification of the AW119 variant called the AW119Ke.

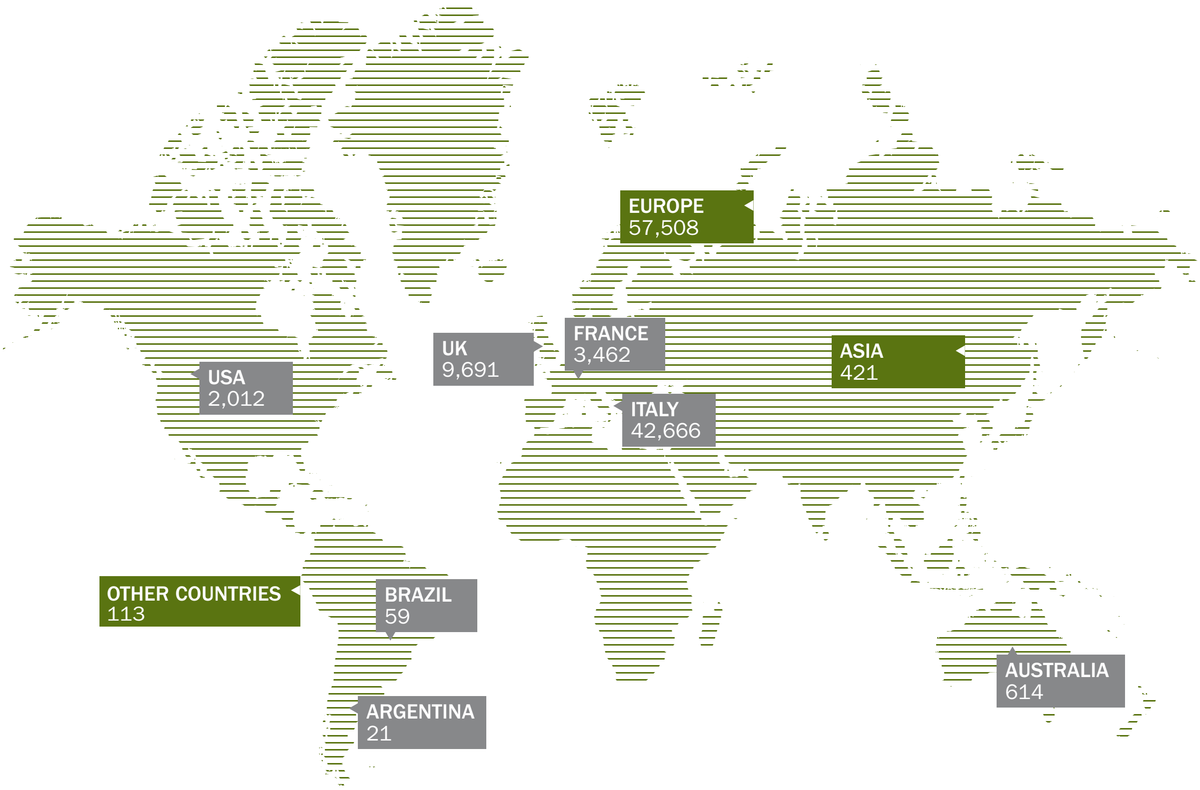
The **workforce** at 31 December 2007 came to 60,748, an increase of 2,689 over the 58,059 at 31 December 2006.

This increase is attributable to the change on the scope of consolidation (primarily the Vega Group with 751 employees) and the positive turnover in almost all sectors, particularly in Aeronautics and Helicopters.

The geographical distribution of the workforce in 2007 was substantially in line with that of 2006, with about 70% of the workforce in Italy, and 30% in foreign countries (largely the United Kingdom and France).

Finmeccanica Group's
employees worldwide.

UPDATED AT 31 DECEMBER 2007



FINMECCANICA - Consolidated **60,748 people** (*)
2,689 new employees compared to the end of 2006

+4.6%

(*) The employees of the joint ventures are consolidated based on the percentage of equity interest held by the Group.

Balance Sheet

€ millions	Note	31 December 2007	31 December 2006
Non-current assets		9,845	9,919
Non-current liabilities	(*)	(2,562)	(3,334)
		7,283	**6,585**
Inventories	16	3,383	3,095
Contract work in progress	17	3,227	2,823
Trade receivables	18	4,319	3,856
Trade payables		(4,004)	(3,561)
Advances from customers	17	(6,477)	(5,529)
Provisions for short-term risks and charges	25	(545)	(571)
Other net current assets (liabilities)	(**)	(596)	(547)
Net working capital		**(693)**	**(434)**
Net invested capital		**6,590**	**6,151**
Capital and reserves attributable to equity holders of the Company		5,329	5,239
Minority interests in equity		103	81
Shareholders' equity	23	**5,432**	**5,320**
Net debt (cash)	24	**1,158**	**858**
Net (assets) liabilities held for sale	(***)	**-**	**(27)**

Notes on the balance sheet reclassifications:
(*) Includes all non-current liabilities except "financial liabilities to related parties" (which are included among "non-current liabilities to related parties") and "non-current financial debt".
(**) Includes "tax receivables", other current receivables from related parties (included among "current receivables from related parties") and "other current assets", net of "tax payables", other payables to related parties (included among "current liabilities to related parties"), "other current liabilities" and derivative assets and liabilities.
(***) Includes the net of "non-current assets held for sale" and "liabilities directly related to assets held for sale".

At 31 December 2007 the consolidated **net invested capital** came to € mil. 6,590, compared with € mil. 6,151 at 31 December 2006. This net increase of € mil. 439 is due to the € mil. 698 increase in **capital assets** (€ mil. 7,283 at 31 December 2007, compared with € mil. 6,585 at 31 December 2006), partially offset by a decrease in **working capital** of € mil. 259 (negative € mil. 693 at 31 December 2007 compared with a negative € mil. 434 at 31 December 2006).

The increase in capital assets is attributable to purchase of property, plant and equipment and intangibles net of depreciation and amortisation, and, primarily, to the net effect of the reclassification of € mil. 284 among other financial payables and of the write-down of € mil. 125 as the result of the determinations made concerning the programmes under investigation by the European Commission, relating to Law 808/1985, with regard to the financing repayment plans and the review of capitalised costs.

The decrease in working capital, which will be described below, is partially attributable to the good performance of FOCF resulting from careful management between cash in flows from customers and cash outflows as payments to suppliers. This management also resulted in the generation of notably high cash flows from operating activities during the period.

Free operating cash flow (FOCF) at 31 December 2007 was positive (generation of cash after investments) in the amount of € mil. 375 compared with a positive € mil. 506 at 31 December 2006.

€ millions	2007		2006	
Cash and cash equivalents at 1 January	**2,003**		**1,061**	
Gross cash flow from operating activities	1,711		1,600	
Changes in other operating assets and liabilities	(630)		(629)	
Funds from operations (FFO)		**1,081**		**971**
Changes in working capital	318		347	
Cash flow generated from (used in) operating activities	**1,399**		**1,318**	
Cash flow from ordinary investing activities	(1,024)		(812)	
Free operating cash flow (FOCF)		**375**		**506**
Strategic operations	(441)		580	
Change in other financing activities	2		(30)	
Cash flow generated from (used in) financing activities	**(1,463)**		**(262)**	
Dividends paid	(151)		(214)	
Cash flow from financing activities	(169)		102	
Cash flow generated from (used in) financing activities	**(320)**		**(112)**	
Exchange gains (losses)	**(12)**		**(2)**	
Cash and cash equivalents at 31 December	**1,607**		**2,003**	

The positive cash flow generated from operating activities, which came to € mil. 1,399 (€ mil. 1,318 at 31 December 2006) net of payments for financial charges, taxes and severance pay contributions amounting to € mil. 613, was used to support the cash flow from ordinary investing activities for about € mil. 1,024 (€ mil. 812 at 31 December 2006) and to pay dividends for € mil. 151, without recourse to any other sources of financing.
Investing activities in 2007, required primarily for product development, were concentrated in the Aeronautics (58%) and Helicopters (17%) segments.

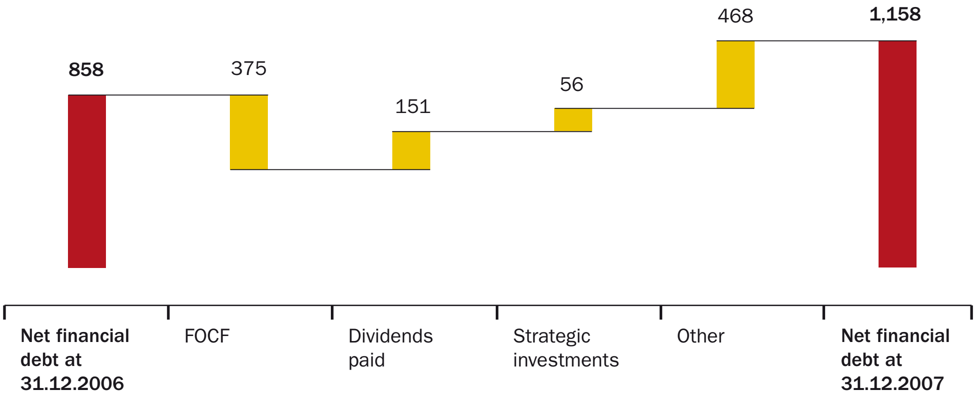
Group **net financial debt** (payables higher than financial receivables and cash and cash equivalents) at 31 December 2007 came to € mil. 1,158 (€ mil. 858 at 31 December 2006), a net increase of € mil. 300. This change, as shown in the following graph, is the result, in addition to normal financial activities, of the recognition of € mil. 389 in financial payables resulting from the determination of the financing repayment plans and the corresponding financial charges relating to programmes financed by Law 808/1985 mentioned above.

This debt level of 21% of consolidated shareholders' equity falls within the amount achievable by a careful and prudent financial management and the maximum limits set by the main rating companies.
A policy aimed at minimising the average cost of debt (3.9%) consistently over time, and at safeguarding the high average remaining life (about 8 years), also contributed to making the Group's financial structure more sound by making its debt structure and medium and long-term financial returns compatible with the significant investments required to develop products.

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

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

Net financial debt at 31.12.2007



"Non-GAAP" performance indicators

Finmeccanica's management assesses the Group's financial performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs.
As required by Communication CESR/05-178b, below is a description of the components of each of these indicators:

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

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

Adjusted EBITA is then used to calculate return on sales (ROS) and return on investment (ROI), which is calculated as the ratio of adjusted EBITA to the average value of capital invested during the two periods being compared, net of investments in STM and Avio.

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

€ millions		2007		2006	Note
Earnings before income taxes, finance net result and share of results of equity accounted investments (EBIT)		1,084		908	
Impairment of goodwill		-		-	8
Amortisation of intangible assets acquired as part of business combinations		26		24	8
Impairment related to the closure of the Law 808 dispute	125		-		33;36
Restructuring costs	58		10		35
Write-up of receivables from ENEA	(248)		-		6
Total exceptional expense (income)		**(65)**		**10**	
Adjusted EBITA		**1,045**		**942**	

› ***Adjusted net profit***: this is given by net profit before exceptionals.

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

€ millions	2007	2006	Note
Net profit	521	1,021	
Write-up of receivables from ENEA (Avio and A.STS IPO gains in 2006)	(248)	(707)	6
Impairment related to the closure of the Law 808 dispute	125	-	6
Financial charges related to the closure of the Law 808 dispute	105	-	6
Adjusted earning before taxes	**503**	**314**	
Tax effect of the adjustments	-	23	
Adjusted net profit	**503**	**337**	

The adjusted net profit is used to calculate return on equity (ROE), which is based on the average value of equity for the two periods being compared.

- ***Free operating cash flow (FOCF)***: this is the sum of the cash flow generated by (used in) operating activities and the cash flow generated by (used in) investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments". The calculation of FOCF for the periods concerned is presented in the reclassified statement of cash flows shown in the previous section.
- ***Funds from operations (FFO)***: this is cash flow generated by (used in) operating activities net of changes in working capital (as described under Note 42). The calculation of FFO for the periods concerned is presented in the reclassified statement of cash flows shown in the previous section.
- ***Economic value added (EVA)***: this is calculated as adjusted EBITA net of taxes and the cost (comparing like-for-like in terms of consolidated companies) of the average value of invested capital (excluding the investments in STM and Avio) for the two periods concerned and measured on a weighted average cost of capital (WACC) basis.

Financial position

The Group's net financial debt at 31 December 2007 amounted to € mil. 1,158, compared with € mil. 858 at 31 December 2006.

€ millions	31 December 2007	31 December 2006
Short-term financial payables	484	159
Medium/long-term financial payable	1,556	1,865
Cash and cash equivalents	(1,607)	(2,003)
BANK DEBT AND BONDS	**433**	**21**
Securities	(13)	(21)
Financial receivables from Group companies	(33)	(26)
Other financial receivables	(573)	(452)
FINANCIAL RECEIVABLES AND SECURITIES	**(619)**	**(499)**
Financial payables to related parties	560	500
Other short-term financial payables	665	722
Other medium/long-term financial payables	119	114
OTHER FINANCIAL PAYABLES	**1,344**	**1,336**
NET FINANCIAL DEBT (CASH AND CASH EQUIVALENTS)	**1,158**	**858**
Net financial debt (cash and cash equivalents) of discontinued operations	-	6

With regard to the adjustments arising from the adoption of IAS 32 and 39, it should be noted that, as regards the Finmeccanica Finance SA € mil. 500 bond paying a 0.375% coupon and maturing in August 2010 exchangeable for STM shares, IAS 39 requires the separation of the debt component from the call option embedded in the instrument. The debt component is measured using the market interest rate at the issue date rather than the nominal rate, while the option component, excluded from the financial position, is subject to periodic measurement at fair value. At 31 December 2007, as a result of the application of this methodology, the debt recognised was € mil. 50 less than the face value of the bond; this difference will gradually narrow as the maturity date approaches.

Consistent with the approach adopted in the presentation of the accounts in 2006, it was decided – in view of the fact that a significant part of these transactions are designed to hedge "underlying" commercial positions – not to recognise as debt the balancing entries resulting from fair value measurement of the derivatives on the date that the accounts were closed. At 31 December 2007 these items showed a positive balance of € mil. 53.

Taking account of these adjustments, as well as the operational events described below, the Group's net financial debt went from € mil. 858 at 31 December 2006 to € mil. 1,158 at 31 December 2007, as already noted.

The figure at December 2007 deteriorated by € mil. 300 compared to December 2006, but was a considerable improvement compared to the figures for the first three quarters of 2007, confirming the ordinary pattern of cash receipts and outlays, the latter of which were largely concentrated in the final quarter of the year. The figure also reflects higher-than-expected advances received on contracts by several Group companies, as well as the significant amounts received in 2007 from non-recourse sales as in past periods. This leads us to expect a considerable use of cash during the first part of 2008.

The figure at 31 December also includes the recognition under net financial debt of roughly € mil. 389 relating to the amount that several Group companies owe to the Ministry for Economic Development following the determinations made concerning the financing repayment plans and the corresponding finance costs related to Law 808 financing programmes (Note 6). However, the inclusion of this amount did not have an impact on cash flow generation which, once again in 2007, recorded free operating cash flow (FOCF) of a positive € mil. 375. This figure is particularly significant given that it was achieved during the same period that the Group engaged in considerable investment activities, mainly in the Aeronautics, Helicopters and Defence and Security Electronics segments.

The debt figure at 31 December also includes:

- the payment of a total of around € mil. 11 in the first few months of the year to complete the PPO launched for the remaining shares of Datamat in the last few months of 2006 which led to the company's delisting;
- the payment of € mil. 149 relating to the ordinary dividends paid out by the Group Parent for 2006;
- the payment of € mil. 23 relating to Finmeccanica's purchase of a 28.2% stake in the British company Vega Group Plc (described in more detail elsewhere in these notes), followed by a PPO launched for the remaining shares of the company;
- the receipt of around € mil. 13 in dividends from STMicroelectronics Holding NV;
- the receipt of around € mil. 9 in dividends from Elettronica SpA (€ mil. 2) and Vitrociset SpA (€ mil. 7);
- the receipt of around € mil. 44 arising from the closing of transactions to hedge STMicroelectronics shares, which are described in more detail elsewhere in these notes.

In March, Finmeccanica, exercised the call option inserted in the agreement with BAE Systems (BAE) for the purchase of the remaining 25% of Selex Sensors and Airborne Systems SpA (Selex). It paid around € mil. 408 to BAE and now owns 100% of Selex. The only effect of the operation was a reduction in cash without any impact on the Group's net debt since the effects on the debt were already incorporated in the figures for the end of 2006 and were recognised under "other financial payables".

As with last year, the debt figure benefited from the offsetting effect of the consolidated taxation mechanism, with lower outlays of about € mil. 153 in 2007.

Finally, it should be noted that the Group made assignments of non-recourse receivables totalling € mil. 1,081 during the period (about € mil. 1,000 at 31 December 2006).

As regards the composition of the debt items, there was not a significant shift in total gross bank borrowings from € mil. 2,024 at 31 December 2006 to € mil. 2,040 at 31 December 2007. There was a significant decline in cash and cash equivalents from € mil. 2,003 in December 2006 to € mil. 1,607 at 31 December 2007. This cash was used to finance ordinary operations and investments mentioned above as well as strategic activities, particularly with regard to the purchase of the remaining shares of Selex Sensors and Airborne Systems SpA, which was reflected in the reduction in "other financial payables"; this item also includes the payable to the Ministry for Economic Development described above, rising from € mil. 1,336 at 31 December 2006 to € mil. 1,344 at 31 December 2007.

The item "financial receivables and securities" equal to € mil. 619 (€ mil. 499 at 31 December 2006) includes the amount of € mil. 552 in respect of the portion of financial receivables that the MBDA and Thales Alenia Space joint ventures hold vis-à-vis the other partners in implementation of existing treasury agreements. In accordance with the consolidation method used, these receivables, like all the other joint venture items, are included in the Group's scope of consolidation on a proportionate basis.

The item "financial payables to related parties" includes the debt of € mil. 541 of Group companies in the above joint ventures for the unconsolidated portion.

helicopters

REVENUES 2007

+9%

€ MILLIONS	31.12.2007	31.12.2006
New orders	3,970	4,088
Order backlog	9,004	8,572
Revenues	2,980	2,727
Adjusted EBITA	377	296
ROS	12.7%	10.9%
Research and Development	322	356
Workforce (no.)	9,556	8,899

HIGHLIGHTS

New orders. In line with the previous year. The period saw a number of particularly significant commercial developments in the military-government segment, including the contract with the Algerian government for the provision of 6 EH101 International and 4 Super Lynx 300 helicopters (€ mil. 402); the contract with the British Ministry of Defence for the upgrade of 6 EH101 Merlin helicopters (€ mil. 260); the second lot for the Sea King Integrated Operational Support (Skios) programme related to operating support for the Sea King helicopters in service with the British armed forces (€ mil. 660). In the civil sector in 2007, there were new orders for 200 units for a total value of some € mil. 1,200.

Revenues. An increase of 9% over 31 December 2006 due to the regular advancement of programmes already under way, as well as to the increase in volumes in the civil and government helicopters segment (AW109, AW139, AW119) and product support activities, including the integrated support contracts (IOS) for the British Ministry of Defence.

Adjusted EBITA. Up +27% from 31 December 2006. This improvement is correlated with the growth in revenues and change in product mix as mentioned above, as well as with the consolidation of the efficiency enhancement actions undertaken as part of the process of integrating British and Italian activities. As a result of these factors, **ROS** increased by 1.8 percentage points to 12.7%.
Finmeccanica is, together with AgustaWestland NV and its subsidiaries, a leader in the extremely restricted circle of systems designers in the world helicopter industry with EADS (Eurocopter) and United Technologies (Sikorsky).

In 2007, the global helicopter market surpassed a total value of some USD 11 billion, thereby continuing the upward trend that began in 2004.
Although demand in the commercial market, which is significantly greater than the military segment in quantity terms, continued to grow at a steady pace, demand for helicopters for **military uses** was once again the driving force in the market in value terms.
Military demand, which is expected to account for roughly 75% of total demand over the next 10 years, remains heavily influenced by the process of replacing old models produced by US firms that are in service in all of the leading markets, as well as by the cyclical upgrading of the fleets of the leading producer nations.
Of importance in this regard is the global success of two of AgustaWestland's key products, the EH101 and NH90, which are benchmark models in the marketplace.
There is also potential for recovery in the intermediate utility segment and in naval applications, which will be supported in particular by the increase in demand in the markets of the Far East.
Within Europe, the UK remains the leading national market, with an expected level of spending over the short term of some € bil. 3.5.
Demand for helicopters for **commercial uses** is being supported in particular by demand in offshore applications, where the AW139 is a leader in its market class, and in search and rescue (SAR), which includes important programmes, again with the AW139, that are being launched in a number of countries. Demand also remains strong in emergency and homeland security, where an important programme is under way to upgrade the national fleet of helicopters.

With regard to developments in technology, the helicopter segment is intrinsically more complex than the other aerospace segments due to the greater diversity in potential applications. This makes it necessary to work towards significant levels of innovation, both in the development of technologically advanced aircraft, such as the convertiplane being developed by AgustaWestland together with the US firm Bell, and in the improvement of performance.
In relation to the commercial activities of AgustaWestland, and in the military-govern-

ment segment more specifically, below are some of the most significant events that took place in 2007:

› the conclusion of negotiations between the executive committee of the Turkish government and AgustaWestland, in partnership with Turkish Aviation Industry (TAI), regarding the ATAK (Tactical Reconnaissance and Attack Helicopter) programme for the leadership of Turkish ground forces. The value of this programme, based on a request for 51 A129 helicopters, is € mil. 1,200. The programme will involve local aerospace firms. The final assembly, delivery and acceptance of the helicopters will take place in Turkey. The signing of the final agreement, which was initially expected to take place by 31 December 2007, has been postponed to the first part of 2008;
› the announcement of an important Memorandum of Understanding between AgustaWestland and the rotorcraft division of Boeing Integrated Defense Systems regarding the preparation of the bid that will commit the two manufacturers to supply CH-47F helicopters to replace the current Chinook helicopter fleet used by the Italian Army. In addition, the parties agreed that should more of these helicopters be sold in Italy and in the UK, AgustaWestland will act as prime contractor while Boeing will take on the role of primary supplier;
› on 31 August 2007, for the second time, the US Government Accountability Office (GAO) asked the US Air Force to reconsider its decision made in November 2006 to award Boeing Ltd the contract for 141 search and rescue helicopters. As a result thereof, the contract award was rescinded, with the bidding reopened; the consortium formed by Finmeccanica, through its indirect subsidiary AgustaWestland Bell, and Lockheed Martin submitted a new bid on the basis of the requisites specified. The contract is expected to be awarded in the first half of 2008.

Total volume of **new orders** at 31 December 2007 came to € mil. 3,970, a slight decline from the same period of the previous year (€ mil. 4,088). The most significant new orders received during 2007 in the military segment included:

› the signing of the agreement with the British Ministry of Defence to upgrade 6 EH101 Merlin helicopters, which will be acquired from the fleet in service with the Royal Danish Air Force. The agreement also includes the purchase of a further 6 new EH101 Merlin helicopters that will be delivered by the British Ministry of Defence to the Royal Danish Air Force to replace the original helicopters. The contract is valued at € mil. 270 (Q2). In November, AgustaWestland was also awarded the second lot of the Sea King Integrated Operational Support (Skios) programme concerning the Sea King helicopters in service with the British armed forces. The total value of the contract is € mil. 660 over a 5-year period (Q4);
› the contract with the Algerian government for the provision of 6 EH101 International helicopters, search and rescue (SAR) versions, and 4 Super Lynx 300s. The total value of the contract is € mil. 402 (Q4);
› the contract for the provision of 8 AW109 Power helicopters for the Libyan government (Q2) and 5 AW119s for the Red Crescent (Q1);
› the contract for the provision of 7 helicopters for the Nigerian Navy, of which 2 were AW109 Power helicopters (Q2) and 5 (Q3) were AW109 light utility helicopters (LUH).

In the civil and government sector, too, AgustaWestland demonstrated excellent performance given its ability to penetrate markets where the competition is increasingly selective thanks to the availability of a modern, competitive product portfolio. In 2007, it recorded orders for 200 helicopters worth some € mil. 1,200. Of note in that regard are the following:

› orders for an additional 75 AW139 helicopters, totalling € mil. 718, including the provision of 14 helicopters to the offshore operator Saudi Arabian Oil Company (Q1), 2 helicopters for the Los Angeles Fire Department (Q2), and 12 for the offshore ope-

rator Hawker Pacific (Q3). The order backlog for the AW139 continues to grow, with 155 units ordered and awaiting delivery.
Within the segment, orders were also obtained for a further 120 helicopters, of which 60 Grand, 5 of which were purchased by Sloane Helicopters (Q1); 38 AW109 Power, including the contract for 6 helicopters for the Spanish Fire Brigade (Q2); and 21 AW119 helicopters, for a total of € mil. 490. With regard to the AW119 helicopters, contracts were concluded with the Spanish aeronautics group FAASA for 6 helicopters (Q1).

As a result of the high volume of new orders and of production for 2007, the value of the **order backlog** as at 31 December 2007 came to € mil. 9,004 for an increase of 5% over the same figure of 31 December 2006 (€ mil. 8,572).
The order backlog at 31 December 2007 breaks down into 67% for helicopters, 30% for support activities, and 3% for engineering activities, which is sufficient to guarantee coverage of production for an equivalent of 3 years.

The following is a description of the progress made in the main programmes:

› 2007 was a particularly important year for the provision of the **helicopter to the Office of the President of the United States**. The year included the AgustaWestland delivery to its US partner Lockheed Martin Systems Integration Ltd of the first two test vehicles in October and December.
During the year, work was also completed to prepare the production kit for the final assembly of the production pilot aircraft, for which final assembly is expected to take place in 2008.
Also of note in October, Agusta SpA, an indirect subsidiary of AgustaWestland NV, formally obtained certification for the Earned Value Management System (EVMS) from the US Defense Contract Management Agency (DCMA) in accordance with both the contract requirements and US standards, thereby becoming the first Italian firm, and the second in Europe, to be awarded this certification;
› other important programmes that reached significant milestones in 2007 include the **NH90 helicopter**, which completed the qualification programme for 6 variants in the tactical transport helicopter (TTH) version and included deliveries of 12 helicopters to 4 different nations (Germany, Italy, Sweden, and Australia), as well as the NATO frigate helicopter (NFH), which made significant progress during the year with the successful completion, following a number of modifications, of onboard testing in severe weather conditions for the main landing gear. Progress is also being made with the weight problems, leading to a 200 kg reduction in weight.

Revenues at 31 December 2007 reached € mil. 2,980 for an increase of 9% over 31 December 2006 (€ mil. 2,727) due to the regular advancement of programmes already under way, as well as to the increase in volumes in the civil and government helicopters segment (AW109, AW139, AW119) and product support activities, including the integrated support contracts (IOS) for the British Ministry of Defence.

Adjusted EBITA at 31 December 2007 came to € mil. 377, up roughly 27% over the same period of the previous year (€ mil. 296).
This improvement is correlated with the growth in revenues and change in product mix as mentioned above, as well as with the consolidation of the efficiency enhancement actions undertaken as part of the process of integrating British and Italian activities.
As a result of these factors, **ROS** increased to 12.7% from the 10.9% of 31 December 2006.

Research and Development costs at 31 December 2007, amounting to € mil. 322 (€ mil. 356 at 31 December 2006), primarily concerned:

› the area of pre-competitive research, which includes the development of technologies primarily for military use for a new helicopter of the 6/7-tonne class named A149 and development of multi-role versions of the BA 609 convertiplane for national security;

- the area of product improvement research, which includes, for the AW139, the certification of the new configuration with avionics in long nose and of the new four-axis autopilot and, for the A119, the completion of the development and certification of the AW119Ke variant;
- the area of research and development into variants of base models in connection with government/military and civil contracts.

AgustaWestland had a **workforce** of 9,556 at 31 December 2007, a 657 (or 7.4%) increase from 31 December 2006 (8,899 employees). This increase was necessary in order to meet the technical/production needs related to the increase in business volumes.

defence and security electronics

REVENUES 2007

+2%

€ MILLIONS	31.12.2007	31.12.2006
New orders	5,240	4,197
Order backlog	8,725	7,676
Revenues	3,826	3,747
Adjusted EBITA	427	338
ROS	11.2%	9.0%
Research and Development	557	541
Workforce (no.)	19,589	19,185

HIGHLIGHTS

New orders. Numerous significant new orders, both in terms of amount and of strategic importance, particularly the order for the provision of avionics systems and devices for the EFA craft from Saudi Arabia and the contract, in an important Mediterranean country, for the creation of a "large-scale system" for homeland security, as well as the completion of the order for the second lot of contract with the Italian Ministry of the Interior for the programme to create the Tetra secure interforce digital communications network.

Adjusted EBITA and ROS. Significant growth thanks to a more profitable mix of activities than in the past, as well as to the benefits of the initiatives launched in previous periods to increase efficiency and integrate the various businesses, the cyclical effect due to the release of contingencies allocated for reasons of prudence in past periods for a number of programmes currently being completed, and the recognition of a gain on the sale of one property. These improvements were partially absorbed by the difficulties encountered in 2007 related to the saturation of the production facilities in the communications segment.

The division includes activities concerning the manufacture of avionics and electro-optical equipment and systems, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communications systems and networks for land, naval, satellite and avionic applications, private mobile radio communications systems, value-added services and IT and security activities.
Finmeccanica has a number of companies that are active in the Defence and Security Electronics segment, including Selex Sensors and Airborne Systems Ltd; Galileo Avionica SpA; Selex Sistemi Integrati SpA; the Elsag Datamat group; the Selex Communications group; Selex Service Management SpA.; Seicos SpA and the Vega Group Plc (the 2007 figures for which are only recognised on the balance sheet).
It should further be noted that, in addition to the realisation 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 techniques. The goal is to meet the increasingly pressing needs of customers to possess large-scale systems that integrate a variety of functions, platforms and sets of sensors in order to ensure effective performance in the surveillance, control, and protection of critical areas and infrastructures. To that end, Selex Sistemi Integrati has begun numerous sales campaigns, particularly in export markets, in order to promote large-scale homeland protections systems, especially for applications related to border control and security management in conjunction with major events. This effort leverages all of the skills of the various Group companies and takes advantage of the consolidated presence of a number of these companies in the various countries concerned.

Defence spending for the coming years is expected to post stable growth (at around 3% annually), although at a slower rate than in previous years. The US, despite the strong pressure coming from the federal deficit and growth in current spending for operations abroad, is far and away the leading national market with investment (research and development and the purchase of new systems) accounting for more than 30% of the world's total. While spending in Europe is tending to decline in real terms – with a consequent drop in its global market share – certain areas of recent industrialisation, particularly in continental Asia, southwest Asia, and the Middle East, continue to post rapid growth. As such, the share of the so-called "open" markets is tending to increase, with the competition between the world's leading players in the industry, both American and European, becoming increasingly intense. Alongside this traditional demand for military systems, we are seeing significant expansion in the market for integrated security systems, with applications in border patrol for all types of threats (including immigration and illegal activities), in the protection of critical infrastructures, transport systems and virtual networks from terrorist threats, and in the management of important events (international summits, the Olympics, etc.).

Within this context, Defence and Security Electronics is the segment of greatest interest, both in terms of size (at some € bil. 60 in 2007) and expected growth for the future (at an average of 6% annually through 2011) and for the fact that it includes the products and technologies needed to face new threats and meet the new characteristics of demand, both in traditional military applications and civil defence. Indeed, the most likely outlook for the next few years is for continued threats from the so-called “failed” or “rogue” states and from international terrorist organisations, which will require coalitions of “variable geometry” led by the US or by supranational organisations for asymmetric warfare and “peace enforcement” operations and the protection of the world’s energy sources and distribution networks. As such, demand is increasing for projection of force systems that are able to operate in all possible scenarios and that are highly flexible and interoperable, as well as for battlefield control systems. Secure communications systems, information superiority systems and advanced sensors (radars, optoelectronics, sensors for electronic warfare) will be the fundamental components of the new integrated multi-platform systems necessary to satisfy increasing demand from end users for operational solutions. The high rates of growth forecast for the division in the medium and long term are based on the development of advanced and complex network-centric systems for battlefield management, for the collection, analysis and secure dissemination of information, for the control of airspace and the sea, for the intelligent management of systems for arms and supplies, and for the development of fast, efficient sensor-to-shooter systems. Demand also continues to increase for systems of artificial intelligence that are able to simulate possible scenarios in order to test the doctrines of use and to implement advanced training programmes. In terms of changes in the dynamics of competition, there is an increasing trend, at least with the more advanced clients, to ask for “operational solutions” instead of the more traditional request for devices. This makes it necessary for anyone wanting to play a role of prime contractor globally to have reliable, proven products, modular architectures, and flexible systems in order to be able to adapt quickly to specific needs. Another highly important phenomenon is the awarding of through-life management contracts, which require that the contractor be responsible not only for the initial provision of the devices, but also for the maintenance and logistics needed to keep the platforms and devices operational throughout their entire lifecycles.

These trends are also leading to processes of further rationalisation of the offerings that are being created around the world. Although the increasing complexity of electronic systems allows for the development of small and medium businesses with advanced, specialist skills, the global players are developing strategies to become service providers for their key accounts and to enhance their ability to compete in the global marketplace. This approach involves the progressive acquisition of skills in systems engineering, advanced IT systems, and integrated logistics, as well as the gradual creation – given the increasing importance of the markets of newly industrialised nations – of a network of local partnerships in areas where there is the greatest spending potential in the industry.

Coming back to the distinguishing characteristics of the Defence and Security Electronics segment, **new orders** at 31 December 2007 totalled € mil. 5,240 and posted strong growth (24.9%) over the orders received during the prior year. This improvement was due, in particular, to a number of orders completed in the latter part of the year. Some of the most important in terms of amount and strategic significance were the order for the provision of avionics systems and devices for the EFA craft from Saudi Arabia and the contract in an important Mediterranean country for the creation of a “large-scale system” for homeland security, which falls within the scope of the aforementioned commercial campaigns launched by Selex Sistemi Integrati within the export market. The order calls for Selex Sistemi Integrati, as the prime contractor, Selex Communications, and Elsag Datamat to provide devices and systems for surveillance, security and control, which will be supported by a communications network that is able to integrate a variety of services and technologies.

The main new orders received during the period include the following:

› avionics and electro-optical systems: the Saudi Arabia EFA order (Q4); additional orders for logistics for the European EFA programme; various orders related to countermeasures, EH101 and NH90 helicopter programmes, and space programmes;
› land and naval command and control systems: the mentioned order for the creation of a “large-scale system” for homeland security (Q4); the order related to 20 land-based targeting radar systems and logistics support for the Pakistani Ministry of Defence (Q4); various contracts for the Italian Navy related to additional activities for the Orizzonte, FREMM, and Cavour ship programmes new orders for the provision of 5 25X radar systems and logistics support for the Spanish Navy (Q4); and various orders for air-traffic control and management systems, including the provision of 13 primary and secondary CKD radar systems for the Indian Air Force (Q4);
› integrated communication networks and systems: the order related to the second lot of the contract with the Italian Ministry of the Interior for the programme to create the Tetra secure interforce digital communications network (Q2); additional orders for EFA and NH90 communication systems (Q3 and Q4); the order from the Fiat Iveco/Oto Melara consortium as part of the programme to provide mid-sized armored vehicles to the Italian Army (Q4); and the BAE Systems order for communication systems and datalinks for a programme in the Middle East (Q2);
› information technology and security: the extension of automation and sorting services for the hybrid mail service in Russia (Q3); the signing of a framework agreement with Telecom Italia for the provision of secure network products and services and business and management processes support (Q2); the receipt of a variety of new orders from Poste Italiane for extending the new network and integrated coding services systems (SISC) (Q2); and the signing of the framework agreement resulting from the tender held by CNIPA (National Centre for IT in the Government) for the creation and management of website services, awarded to the joint venture established by Elsag Datamat, Telecom Italia and Engineering Italia (Q1);
› value-added services in security applications: the provision of a broadband infrastructure and earth monitoring applications for the region of Abruzzo (Q3).

Total **order backlog** reached € mil. 8,725, half of which related to the avionics division, and which compares with the € mil. 7,676 at 31 December 2006. The level of these orders at 31 December 2007 is sufficient to ensure coverage equivalent to approximately two-thirds of the expected production for the coming year.

With regard to the performance of the **interforce Tetra** programme during the year, as mentioned above, the acquisition of the second order was completed for the provision of the infrastructure for a Tetra-standard digital mobile radio network and the related provision of services for the operation of this network for the Italian regions of Calabria and Basilicata and the completion of the province of Turin and the region of Campania. The activities carried out for the programme during the year included the official activation of the service in Turin, whereas activation is approaching for the provinces of Benevento and Naples. The plans related to completion in Turin and Campania were also presented.

Revenues at 31 December 2007, amounting to € mil. 3,826, are slightly higher than the previous year (€ mil. 3,747). Revenues resulted from the following:

› avionics and electro-optical systems: the continuation of activities relating to DASS production and the production of avionics equipment and radar for the EFA programme, as well as systems for countermeasures, devices for the helicopter and space programmes, and logistics;

› radar and command and control systems: the continuation of activities relating to contracts for Orizzonte, Nuova Unità Maggiore and FREMM vessels, to international cooperation contracts regarding both land and naval systems, as well as to air traffic control programmes both in Italy and, above all, abroad;

› integrated communication systems and networks: the continuation of activities relating to the development and manufacture of equipment for EFA and the NH90, construction of the national Tetra network, and the provision of communication systems for the military both in Italy and in the UK;

› information technology and security: activities relating to the security segment, systems and automation services – especially orders from the Italian and Russian postal services – and information technology services and naval systems for the defence division;

› value-added services: in 2007 the first segment of the national interpol mobile radio network using Tetra digital technology came into operation to support the operations and communications of the police forces of the province of Turin. In addition, activities and preparation continued on the network operation centre (NOC) for the police headquarters of Sassari, which, when running, will cover the entire country.

Adjusted EBITA reached € mil. 427 at 31 December 2007 for an increase of € mil. 89 over the figure posted in 2006 thanks to improvement in the avionics and electro-optical systems segment, particularly in the UK, in information technology and security activities, as well as in command and control systems. EBITA benefited from the results of a number of initiatives launched in previous periods to increase efficiency and integrate the various businesses, as well as to a more profitable mix of activities than in the past, thanks in part to the cyclical effect due to the release of contingencies allocated for reasons of prudence in past periods for a number of programmes currently being completed. In addition to this, there was the recognition of a gain on the sale of a property located in an area of Milan previously occupied by Galileo Avionica. These improvements were partially absorbed by the difficulties encountered in 2007 related to the saturation of the production facilities in the communications segment. A substantial portion of the reorganisation needed in order to deal with these situations has already been implemented. As a result, **ROS** improved by 2.2 percentage points to reach 11.2%.

Research and Development costs at 31 December 2007 totalled € mil. 557 compared with € mil. 541 at 31 December 2006 and relate in particular to the following:

› avionics and electro-optical systems: the continuation of the development for the EFA programme and its new electronic-scan radar systems, both for surveillance and combat; the Falco tactical surveillance unmanned aerial vehicle (UAV), which has passed the final technical and operational tests by the Pakistani Air Force and completed a number of test flights in Bulgaria and Libya; the start of development of the hyperspectral sensor for the ASI's Prisma mission; the completion of development for the JANUS panoramic surveillance system and LOTHAR pointing system, which have gone into production for the new VBC armored vehicle for the Italian Army; the continuation of work on the ATOS surveillance system for the Australian Coastwatch; and the launch of the Fly-by-Wire study for installation on all AgustaWestland military and civilian helicopter platforms;

› command and control systems: the completion of investments for the development of the base version of the fixed three-dimensional early-warning radar system and the continuation of investments for the mobile version; the development of naval command and control systems and MFRA multi-functional 3D Kronos active radar surveillance systems; upgrading the current SATCAS products; and the completion of development of air-traffic control radar;

- communications: the continuation of developments related to the Tetra-technology family of products and portfolio products; and activities on new product families, in particular the multilevel switches for IP communication networks, software design radio, *ad hoc* networks, and WiMAX products;
- information technology and security: the start of design and development for the multisorting suite, which is an innovative line of sorting machines for flats, packages and luggage; the development of a new integrated video-surveillance system for the security market; and the start of development of a new generation of mission-planning systems compatible with the JMPS standards and technologies for the defence market.

At 31 December 2007, the **workforce** numbered 19,589, an increase of 404 employees from 31 December 2006, due to the contribution of the newly acquired British group, the Vega Group, despite the drop related to the rationalisation of the Italian portion of the avionics segment and the effects of the reorganisation of the communications segment.

aeronautics

REVENUES 2007

+21%

€ MILLIONS	31.12.2007	31.12.2006
New orders	3,104	2,634
Order backlog	8,248	7,538
Revenues	2,306	1,908
Adjusted EBITA	240	209
ROS	10.4%	11.0%
Research and Development	581	486
Workforce (no.)	13,301	12,135

HIGHLIGHTS

New orders. The positive trend continued in the civil segment, particularly with the ATR orders by the GIE-ATR consortium, and in the military segment for the EFA and C27J programmes.

Revenues. Up 21% over 2006 due to the higher contribution of the civil segment, especially in relation to activity for the ATR aircraft and the start of B787 production, as well as to EFA production in the military segment.

Adjusted EBITA. Improved over 2006 due to the aforementioned performance of the EFA programme and production in the civil segment.

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

Growth in the world's **military** aeronautics market is being driven by a variety of factors, in particular the need to increase the multi-role capabilities of aircraft currently in production or in advanced stages of development, as well as the demand to include the air platform in network-centric integrated systems, the need to support operations outside the training grounds in both land and coastal contexts, and the integrated approach of logistics and maintenance throughout the operating lives of the crafts. Avionics systems that are able to enhance the performance and extend the operating lives of fleets are also very important.
The most significant segment is that of combat aircraft, followed by cargo craft (particularly for tactical applications) and aircraft for special missions (surveillance, resupply, sea patrol). Furthermore, with the start of service of new combat aircraft, demand is growing for high-performance integrated training systems, which are to be provided in the form of turnkey solutions. The leading military programme in Europe is the Eurofighter Typhoon (EFA), for which a contract was signed in September 2007 by the UK and Saudi governments for the provision of 72 craft and related logistics support. Over the medium to long term, the most significant growth will be connected with the development and production of unmanned and unattended systems of combat applications, as well as for strategic reconnaissance, for which important development programmes are under way both in Europe and the US.

Finmeccanica is active in all segments of the military aeronautics industry: combat (with participation in important programmes such as EFA and JSF); advanced trainers; tactical transport with the C27J aircraft (which is becoming the world's most successful craft in its class); aircraft for special missions (particularly for surveillance and patrol); and unmanned aircraft.

In 2007, the main activities in the military aeronautics division were as follows:

› aircraft: EFA production and logistics and the continuation of development, including for the second lot; production of the C27J aircraft, particularly for the Italian Air Force, for Greece, Lithuania and Bulgaria and the start of activities for the provision of the first two craft to the US army; the continuation of upgrades to the Tornado aircraft and the modernisation of avionics (ACOL - Adeguamento Capacità Operative e Logistiche) of the AMX; design and planning activities for the JSF aircraft; production and logistics for ATR 42 MP crafts for the Italian Guardia di Finanza and harbor office; and, in the unmanned aerial vehicles (UAV) segment, activities for the Neuron programme and new testing of the Sky-Y prototype;

› trainers: the production and logistical support for the MB339 and SF260 training aircraft; and further development and test flights of the new M346 training aircraft;

› transformation: production for the B767 Tanker programme; and the overhaul and logistical support for the B707 Tanker and AWACS aircraft.

In 2007, the global **civil** aeronautics market posted a new sales record (of some 3,300 aircraft), thereby confirming the upward trend of recent years. Of particular significance were the results achieved by commercial craft with capacities of greater than 100 seats, with 2,756 new craft ordered (1,341 Airbus and 1,415 Boeing), compared with the 1,834 craft (790 Airbus and 1,044 Boeing) of the prior year. Demand was also higher for regional craft (with orders for more than 500 units as compared with the 409 of 2006), driven by turboprop aircraft (more than 200 units sold) and the strong performance of the ATR (123 craft), whereas jets remained essentially stable (304 units sold in 2007).
For the next few years, we are expecting stable growth in deliveries through 2010-2011, and a subsequent cycle of expansion is expected for the second half of the next decade. This growth will be based on both the programmes currently being developed or for which production has just begun (B787, A380, A350) and the new narrow-body successors to the current B737 and A320 families. Over the short to medium term in the area of regional transport, the outlook is for an increase in deliveries of turboprop craft and an increase in the demand for higher-capacity (more than 70 seats) regional jets, in line with the new programmes currently being developed, including the new Superjet100 craft. In the aerostructures segment, the trend is for an increase in the outsourcing of a number of development, production and assembly phases through partner risk-sharing agreements by the leading industry players, and the share of aerostructures outsourced to partner firms has been growing by more than 10% annually.

Finmeccanica is active in the civil aeronautics industry in aerostructures, regional transport craft, both turboprop (through the joint venture with GIE-ATR, EADS) and jets (with the new joint venture Superjet International SpA in which Sukhoi holds a 49% stake), and passenger-to-cargo transformations.
In 2007, the main activities in the civil aeronautics division involved provisions for the following customers:

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

› Airbus: the production of components for the central section of the fuselage of the A380, of a fuselage section for the A321, and of the tail cone and mechanical wing components for the A340;

› GIE-ATR, in partnership with EADS-ATR: the production of the ATR 42 and 72 turboprops;

› Dassault Aviation: the fuselage section of the Falcon 2000 Extended Range and the engine nacelles for the Falcon 900EX;

› for other customers, work also continued on the assembly and sale of ATR craft by GIE-ATR, as well as on the production of engine nacelles and cargo transformations of the MD10, B767, MD11 and ATR aircraft.

New orders in 2007 came to € mil. 3,104, with an increase of € mil. 470 (+18%) from the € mil. 2,634 of the previous year. The main orders received during 2007 included the following:

› in the military segment, the EFA orders: activities related to the provision of 72 aircraft to Saudi Arabia (Q4); the Future Enhancements order to further develop the weapons system to improve the performance and operational capacity of EFA craft

(Q1) and logistics; the contract for the provision of two ATR 42 MP patrol craft for Nigeria (Q2); and the order for the provision of the first two C27J craft to the US Army (Q3);

› the civil segment: orders for GIE-ATR, which received orders for 123 aircraft, of which 24 from Malaysian airlines, 13 from the Indian airline Jet Airways, 13 from Spanish airlines, 10 from the Philippine company Cebu Air, 8 from the Kenyan company Lonrho, 5 from the Russian market, and 5 from the Brazilian market; the order for the aerostructures of the B767 (Q1) and B777 (Q2); and the additional lots for the A321 and Falcon programmes, engine nacelles, and the transformation of cargo craft.

The **order backlog** at the end of 2007 came to € mil. 8,248 with a significant portion for the EFA (49%), B787 (19%), and C27J (3%) programmes. The backlog grew by € mil. 710 compared to the end of 2006 (€ mil. 7,538), and is expected to continue expanding over the medium/long term.

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

› for the **C27J**, the important commercial success in the US for Alenia Aeronautica S.p.A, through the subsidiary Alenia North America Inc., together with L-3 Communications and Boeing. On 13 June, the C27J aircraft was selected by the US Army and Air Force as the new tactical transport aircraft within the scope of the Joint Cargo Aircraft (JCA) programme. The business grouping was awarded an initial contract in the amount of USD 2 billion to supply 78 C27J aircraft (54 for the US Army and 24 for the US Air Force), the first two of which were ordered in September 2007, with the remaining craft to be ordered in lots through 2013. The US armed forces' plans call for the purchase of 145 aircraft, of which 75 for the Army and 70 for the Air Force, with orders that could total as many as 207 aircraft. Furthermore, on the back of the success in the US market, the aircraft in currently being used in tenders in various countries, including Qatar, Morocco, Nigeria, and Libya.
At 31 December 2007, a total of 117 C27Js had been sold to the armed forces in Italy (12), Greece (12), Bulgaria (5), Lithuania (3), Romania (7), and the US (78). Eighteen have already been produced, sixteen of which have been delivered or accepted by the customers, with a further eight being completed. In 2007, twelve C27Js were invoiced, and, in the area of non-recurring activities, development continued for the in-flight refueling modification, as did the activities related to the redesign to cost, while work began on the specific modifications for the US configuration;

› for the **M346** trainer, the continuation of development and test flights for two prototypes and the start of industrialisation activities prior to the start of production of the first craft in the second half of 2008. In 2007, marketing efforts were also intensified for the craft both domestically, with an order expected in 2008 for the provision of an initial lot of aircraft and logistical support to the Italian Air Force, and internationally, with the presentation of the craft in various countries, including the United Arab Emirates, Singapore, Qatar and Indonesia.
In 2007, Finmeccanica also began negotiations with Mubadala, an investment fund in the United Arab Emirates, for the establishment of an industrial partnership through the subsidiaries Alenia Aeronautica and Alenia Aermacchi as part of the M346 programmes and the UAV segment;

› for the **B787** programme, production of which began at the end of 2006 in the new Grottaglie facilities (central sections of the fuselage) and the Foggia facilities (horizontal tail wings), the first delivery was made on 23 March 2007.
In 2007, delivery was made for 6 series of fuselage sections (four commercial and two for stress and static tests) and two horizontal tail wings, which were then transported to South Carolina (USA) to the facilities of Global Aeronautica LLC, a joint venture between Alenia North America Inc. and Vought Aircraft Industries Inc., for integration with the other fuselage sections. Development and industrialisation have also continued in line with the plan for production growth, which calls for gradual

increases over the coming years and the achievement of a rate of 10 series per month.
Finally, there was the significant commercial success of the craft by the end of 2007 with Boeing receiving orders for a total of 817 aircraft (300 of which Boeing has thus far ordered from Alenia Aeronautica);

› for the new **Superjet 100** craft, in June 2007, the agreement between Alenia Aeronautica SpA and Sukhoi Civil Aircraft Company (SCAC) was signed. Based on this agreement, Alenia Aeronautica will acquire a 25% plus one share stake in SCAC and will have the right to a corresponding share in the programme. In application of this agreement, on 23 July 2007, the company Superjet International SpA was established. The company is owned by Wing Ned BV (a Dutch company which is wholly owned by Alenia Aeronautica SpA), which has a 51% interest, and Aviation Holding Company Sukhoi, which has the remaining 49% stake. The company is based in Venice and will be responsible for the marketing, sale, and delivery in the western hemisphere, as well as for post-sale assistance for the craft throughout the world. The company is also responsible for the design and development of the VIP and cargo versions of the craft. In the coming months, the process of Alenia Aeronautica acquiring a stake in SCAC will be completed.

Revenues for 2007 came to € mil. 2,306, representing an increase of € mil. 398 (+21%) compared with the € mil. 1,908 recorded for 2006. The growth, which was already anticipated in the outlook, was mainly due to civil activities with the increase in deliveries and production of the ATR craft and the start and increase in production for the B787 programme. In the military segment, there was a growth in revenues from the EFA programme due to increased development and production for the second lot and for logistical support.

Adjusted EBITA at 31 December 2007 came to € mil. 240, an increase of € mil. 31 over the € mil. 209 posted for the previous year (ROS of 10.4% as compared to 11.0% in 2006). This improvement primarily reflects the aforementioned contribution of EFA and civil production.
In the transformations segment, the performance of Alenia Aeronavali SpA during the period under review reflects reduced activity and the negative effects of higher charges related to production for the B767 Tanker and B767 Cargo programmes which are still in the prototype phase and of the write-downs for the early closure of the DC10 cargo transformation programme. Given this performance trend, activities under the plan for reorganisation and efficiency improvements, begun at the end of 2006, continued.

Research and Development costs for 2007 came to € mil. 581, up from the € mil. 486 of 2006. This result reflects the significant commitment to activities of programmes being developed: C27J, M346, ATR ASW, UAV, A380, and engine nacelles. Research and development into technologies for innovative aerostructures using composite materials and system integration also continued.
Furthermore, a portion of these costs is related to the development of important military programmes (EFA, JSF, AMX and Tornado) that have been commissioned by customers.

The **workforce** at 31 December 2007 stood at 13,301, representing an increase of 1,166 over the 12,135 employees at 31 December 2006. This increase was mainly due to new hires by Alenia Aeronautica SpA (+635 employees) in order to meet the needs of higher workloads, and by Alenia Composite SpA (+340 employees) with regard to rising production of the B787 at the Grottaglie facility.

€ MILLIONS	31.12.2007	31.12.2006
New orders	979	851
Order backlog	1,423	1,264
Revenues	853	764
Adjusted EBITA	61	42
ROS	7.2%	5.5%
Research and Development	62	64
Workforce (no.)	3,386	3,221

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

space

REVENUES 2007

+15%

HIGHLIGHTS

New orders. Up 15% from the same period of 2006 thanks to the positive trend in satellite services, particularly for new orders from the Italian Ministry of Defence related to the completion, launch and management of the Sicral 1B military communications satellite and the NATO orders related to the use of this satellite capacity, as well as to the solid performance of the commercial telecommunications satellite segment.

Revenues. Up 12% over the previous year due to greater production in both segments (satellite manufacturing and services).

Adjusted EBITA. Up more than 45% over the 2006 figure due to efficiency gains achieved since the end of the prior year by both Telespazio and Thales Alenia Space, as well as to operational synergies achieved by the Space Alliance.

Finmeccanica SpA has operated in the space industry through the **Space Alliance** between Finmeccanica and Thales since 6 April 2007, two days after the European Commission approved the transfer by Alcatel Participations to Thales of stakes in two joint ventures in the space industry dedicated, respectively, to satellite services (Telespazio Holding Srl, which is based in Italy and has its main industrial facilities in Italy, France and Germany and in which Finmeccanica SpA holds 67% and Thales 33%) and to manufacturing (Thales Alenia Space SAS, which is based in France and has its main industrial facilities in France, Italy, Belgium and Spain, in which Finmeccanica SpA holds 33% and Thales 67%).
More specifically, **Telespazio Holding Srl** focuses on defence and security services, satellite navigation, infomobility and earth observation, the provision of telecommunications networks and services, the management and orbital control of satellites and of terrestrial centres, and multimedia and high-value applications.
Thales Alenia Space SAS 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.

For 2007, the **space systems** market was valued at roughly € bil. 66, 55% of which related to manufacturing, 26% to services, and the remainder to general space agency spending. It continues to be made up largely by government programmes, the costs of which are supported either by the national or intergovernmental space agencies or by the governments directly. More specifically, industrial return for the manufacturing segment is estimated at some € bil. 17 for the civil governmental segment, € bil. 14 for the military segment, and € bil. 4 for commercial applications. On the whole, therefore, nearly 90% of manufacturing activities is related to government programmes. The European Union in particular has reiterated the strategic importance of this industry segment and its intention, therefore, to support development. The predominance of the United States is significant, accounting for approximately 50% of the global government budgets in the civil segment and nearly 90% of the budgets in the military segment. Numerous newly industrialised nations, particularly India and China, have recently launched important programmes to acquire their own space and satellite development capabilities, particularly for military applications and (in China) satellite navigation. In the background, there remains the great technological capability of Russia, which is being redeveloped after years of difficulties due to a lack of funding. After a number of years of sharply declining demand, the satellite market has begun growing again, due both to the need to renew a portion of the fleet in operation and to the start of new programmes. Growth is being seen in all market segments, with a particular emphasis on navigation and global positioning systems, communication sys-

tems, and earth observation systems. In all of these segments, Europe tends to play a significant role with programmes that are characterised by a high degree of dual-purpose (military and civil) applications, such as Galileo (navigation), GMES, Cosmo-SkyMed, Pleiades and SAR-Lupe (earth observation). However, it is also important to note that, in the case of both Galileo and GMES, this dual purpose is only potential, following agreements with the US concerning GPS and limitations resulting from the ESA bylaws, as well as the European Union policy, all of which exclude the support of programmes for military applications.
The only area where there remains a substantial separation between military and civil applications is in communications. In this segment, a large part of the civil applications originates from commercial customers and is dedicated to television broadcasting applications. A certain trend towards dual-purpose applications is being seen in earth observation programmes, which have originated in the military segment and have been extended to homeland security and civil protection applications.
Conversely, in telecommunication systems, there is currently a trend towards an increased military use of civil systems. In Europe in particular, this dual use has been made explicit in a number of recent programmes, including the recently launched Italian and French Athena-Fidus programme and a number of recent Spanish initiatives.
The launch systems segment is also showing slight growth for the next few years, both for heavy-payload launching systems (where Europe is a world leader thanks to the Ariane programme, for which the European Union has launched European Guaranteed Access to Space - EGAS support programme) and for launching systems for putting smaller satellites into orbit.
The offering in this segment is like a pyramid, with a lower number of global players, essentially in the US and Europe, and a large number of sub-vendors that are becoming increasingly specialised.

In the **space services** segment, which is based on the prevalent use of communication, earth observation and global positioning satellite platforms, the context is more varied. In communication applications, the customer base is almost exclusively in the private sector, although military telecommunications programmes continue to increase in number. The earth observation segment includes all types of customers, although government use is predominant, while global positioning programmes and scientific applications are almost always for government clients. In any event, the market is highly competitive, and the services are provided by smaller firms that often operate within a single national market, tend to be highly specialised, and provide services and applications that are targeted to local markets.
Excluding the television broadcasting segment, which has its own peculiar market dynamics, the space services market is worth some € bil. 18 annually and is expected to grow at a rate of around 4% annually for the period 2007-2016. The main geographic areas that are requiring satellite capacity (which is also expected to increase over the next few years) are essentially North America, Western Europe, and Asia-Pacific, which currently account for nearly 75% of the global market. Of the services offered, the greatest demand is for networking and connectivity applications, particularly for innovative solutions based on terrestrial mobile platforms and dual-purpose (civil and military) systems, as well as for earth observation and, over the longer term, navigation and infomobility applications, particularly for critical safety systems in air, land and sea transport.
The more traditional television broadcasting segment, on the other hand, appears to have reached maturity, although there are new needs related to the digital divide, the provision of high-definition programmes, and mobile entertainment.
The business model for the offering of services includes two main categories of players: satellite operators, particularly in communications and global and regional television broadcasting, which own satellite capacity and sell connectivity and, in some cases, services to the customer; and service providers, who acquire satellite capacity, integrate and manage networks, develop sophisticated solutions, and provide connec-

tivity and value-added services to the customer. The latter category includes companies connected with the leading telecommunications groups and space manufacturers. There are still a few large-scale companies that provide satellite capacity at a global level, but regional players are increasing in number and size, while network integrators are fragmented. On the whole, the offering in the satellite-operator segment has, in recent years, undergone a rapid process of consolidation (with further opportunities for rationalisation remaining in the US); therefore, one could expect satellite operators to expand into service provision in the near future.
The service providers, in turn, given their skills in network integration and application platform development, and their knowledge of the customer's needs, could complete their offerings with the availability of satellite capacity.

From a commercial perspective, during 2007, the group acquired **new orders** in the amount of € mil. 979, up € mil. 128 from the same period of 2006 (€ mil. 851), due to an increase in orders in the satellite services segment, particularly in relation to the completion of the system and the launch and commercial use of the Sicral 1B military telecommunications satellite. The most significant new orders for the period were:

› in the commercial segment: the contract for the provision, jointly with EADS Astrium, of the dual-use (radar and optical) satellites for the Yahsat programme in the United Arab Emirates (Q4) and the Arabsat 5A and 5B satellites (Q2); the order related to the Palapa D satellite (Q2) from the Indonesian Indosat; the order by the Norwegian company Telenor for the Thor 6 satellite (Q2); the supply contract for the Russian Sadko altimeter (Q2); the first five lots in the provision of 48 low-earth orbit (LEO) satellites for the second-generation Globalstar constellation; the orders for the Russian satellites Loutch 5A and 5B payloads (Q3) and the Amazonas-2 satellite for Hispasat (Q4); the renewal of the multi-year contracts for value-added TV services; and new orders for the provision of telecommunications satellite services;
› in the government segment: new orders for satellite orbit management, especially for the Artemis satellite by ESA (Q3), and terrestrial centre management (Q1);
› in the military segment: the aforementioned order by TELEDIFE and the Italian Ministry of Defence for the completion, launch and management of the Sicral 1B satellite (Q3) and the NATO orders for the provision of satellite services using the capacity of the Sicral 1B satellite (Q4);
› in the earth observation segment: the contracts related to the Cosmo-SkyMed programme for the completion of the fourth satellite (Q1); the order for the first lot of the Sentinel 1 optical satellite for the Global Monitoring for Environment and Security (GMES) programme for territorial control and security (Q2); and new orders for the provision of new monitoring and territorial management services;
› in the navigation and infomobility segment: additional orders related to the Galileo (the in-orbit validation phase) and EGNOS programmes (Q1, Q2 and Q4);
› in the science programmes segment: the additional lots related to the Herschel/Plank and Bepi Colombo programmes (Q1 and Q2) and the first lot for the Exomars programme (Q1);
› in the infrastructures and transportation segment: new orders for onboard equipment and transportation infrastructures.

The **order backlog** at 31 December 2007 came to € mil. 1,423, an increase of € mil. 159 over the same figure at 31 December 2006 (€ mil. 1,264) due to the aforementioned increase in new orders. The order backlog, based on workability, guarantees coverage of 76% of production expected for the coming year. The backlog at 31 December 2007 is composed of manufacturing activities (65% satellites, 10% infrastructures and equipment) for 75% and satellite services for the remaining 25%.

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

› the **Galileo** programme, which is the European Union's and ESA's response to the US GPS satellite system and is currently being implemented using a two-stage approach. The production of the first four satellites and a significant portion of the ground infrastructure is taking place within the scope of the "in-orbit validation" (IOV) contract (2005-2009 at a value of some € bil. 1.5), which was signed by the European Space Agency at the start of 2006 and recently (December 2007) underwent a general reconfiguration of development activities between the ESA and the main companies involved (including Thales Alenia Space), with an increase in the value of the contract from € bil. 1.1 to roughly € bil. 1.5.
The remaining 26 satellites in the constellation and the ground infrastructure will be part of the deployment phase, which will bring Galileo to full operational capability (2009-2013 and an estimated value of € bil. 2.6). The project will also involve Telespazio in the provision of services related to the launch of the satellites and in the management of subsequent operations.
As regards the deployment phase, the Council of Europe, in its resolution of 8 June 2007, reiterated that Galileo is a key project for the European Union and decided to end negotiations regarding the contract for its transfer to a public-private partnership, while also acknowledging the need for additional public funding. In November 2007, first the European Economic and Financial Affairs (ECOFIN) Council and then the European Parliament reached an agreement on the public funding of the programme out of the European Union budget, while the EU transport ministers reached an agreement on the future organisation of the programme in terms of governance and procurement. In particular, the European Commission has assumed responsibility for managing the entire programme, acting as the *maître d'ouvrage* (or "sponsor"), overseeing all development, procurement, operations and maintenance, and exploitation contracts related to the system infrastructure. In turn, the European Space Agency, as the co-initiator and technical architect of the European navigation programmes, has taken on the role of *maître d'œuvre* (or "prime contractor") involved in signing the contracts with the companies involved, as well as the role of programme leader in the performance of the activities beginning with the completion, as mentioned above, of the current IOV phase.
Finmeccanica's involvement in the Galileo programme is a fundamental opportunity for the operations in satellite services, in that it allows the Group to be a leader in a project of global scale which is strategic for new value-added applications (Public Regulated Services – or PRS – infomobility, security, etc.). Indeed, with a constellation of 30 satellites in three separate medium earth orbits (MEO) at 24,000 km above the Earth's surface, with 9 satellites in each orbit, in addition to one backup satellite, Galileo will guarantee high-precision positioning services for air, sea and land satellite navigation applications.
In this regard, it is important to mention the start, in 2007, of production at Telespazio's Fucino space centre of the infrastructure of one of the two control centres for the constellation and the mission based on the agreement signed with the Abruzzo region. Italy has also been assigned the performance evaluation centre, which is to be created near Rome making use of the competencies of Telespazio and the Galileo Test Range (GTR), the centre of technological excellence in satellite navigation, which includes a controlled environment that is able to reproduce the main characteristics of the Galileo system in term of its navigation signals, services, and performance. The first stage of the creation of the GTR has been entrusted by the Lazio region, via Filas SpA, to the temporary business grouping comprised of Telespazio (as agent) and Thales Alenia Space Italia and Finmeccanica (as principals);

› the completion of development of the **Sicral 1B** military telecommunications system is currently being executed by a temporary business grouping with Telespazio as the agent responsible for the launch services, the subsequent launch and early operation phase (LEOP) services, and in-orbit testing, as well as for the operational management of the same. Thales Alenia Space Italia, in turn, is responsible for production of the satellites and payloads.

Telespazio has also invested directly in the development of the programme in order to be able to have its own "proprietary" satellite capabilities and, therefore, to provide communication services to NATO and the European Defence.
Sicral 1B is expected to be launched in the second half of 2008 and to remain in operation for approximately 13 years. The system's first satellite, Sicral 1, was launched in February 2001 and is being used entirely for NATO applications;

› the **Cosmo-SkyMed** programme, which is being funded by the Italian space agency, the Ministry of Defence, and the Ministry for Education and Research, is one of the most innovative earth observation programmes.
Being developed entirely in Italy – by Telespazio as concerns the ground segment and Thales Alenia Space Italia as concerns the space segment – the system calls for the launch of a constellation of 4 satellites equipped with radar sensors that can operate in all weather conditions and at a high fly-over rate (less than 6 hours) for a given geographic area.
Cosmo-SkyMed is designed to be a dual-use programme for both civil applications and applications related to homeland security and disaster management.
The control centre for the constellation is located in Telespazio's Fucino space centre, and the Matera space centre is responsible for collecting, processing and distributing data for the civil applications.
The constellation's first two satellites were successfully launched at Vandenberg air force base in California on 7 June and 8 December 2007 using Boeing's Delta II launcher. The third satellite is expected to be launched by summer 2008.
With the launch of the first two satellites, Telespazio has begun providing earth observation data and value-added services based on the already available high and very high-resolution Synthetic Aperture Radar (SAR) images.

Revenues for 2007 came to € mil. 853, an increase of € mil. 89 over the previous year (€ mil. 764) due essentially to the higher level of production in both segments (manufacturing and satellite services). The principle sources of production revenues were:

› the start of project activities related to the Arabsat 5A/5B, Palapa D, Yahsat and Thor 6 telecommunications satellites, as well as activities related to the Sentinel 1 optical satellite as part of the GMES programme; continuation of activities for the Eutelsat W2A and W7 satellites, the satellites of the Globalstar constellation, and phase 1 of the third-generation Meteosat programme;

› the continuation of implementation activities relating to:
  • civil and governmental and earth observation programmes, particularly phase C/D and the launch of the Cosmo-SkyMed programme and the second-generation Meteosat programme;
  • commercial satellites, including the StarOne C1/C2, Turksat 3A, Chinasat 9 and 6B (successfully launched on 5 July from the Xichang Space Centre in China), Ciel 2, Alphabus, and Rascom satellites;
  • Sicral 1B, BWSatcom and Syracuse III military telecommunications satellites;
  • science programmes, Herschel/Plank, Bepi Colombo, Alma and Goce C/D;
  • navigation programmes, Galileo and EGNOS;

› the continuation of the programmes connected with the International Space Station;

› the development of equipment and devices, in particular for the Koreasat 5 satellite, and the payloads for the Arabsat 4R, Express AM 33/34 and AMC21 satellites, and Kompsat radar;

› the provision of telecommunications satellite services, and, in the television sector, the resale of satellite capacity and provision of value-added broadcasting services using the digital platform;

› the provision of earth observation services and products, orbital satellite management, and terrestrial infrastructure management.

Adjusted EBITA at 31 December 2007 was € mil. 61, representing an improvement of € mil. 19 compared with the figure posted at 31 December 2006 (€ mil. 42), due to efficiency gains both by Telespazio and Thales Alenia Space and synergies resulting from the Space Alliance. As a result of the above, as well as of greater profitability in the satellite services segment, **ROS** came to 7.2%, which is a significant increase over the figure for December 2006 (5.5%).

Research and Development costs for 2007 came to € mil. 62, down € mil. 2 from the same period of 2006 (€ mil. 64).
Key activities in this area included:

› research and development phases for programmes such as: the Syracuse III and Sicral 1B (SAR, altimeter) programmes; Cosmo and Sentinel 1 (dual-use systems for security and disaster management); science programmes (Alma, Goce, Herschel/Plank);

› development of:
- platforms, systems and solutions for navigation/infomobility services (Galileo);
- algorithms and processors for the production of earth observation data (Cosmo) and GIS platforms (Geodatabase);
- platforms for LEO applications and the SB 4000 platform for GEO applications;
- networks and architecture for value-added telecommunications services;
- production technologies for Ka-band mobile TV and/or broadband applications;
- technologies for radar (band C/Ku flexible payloads) and optical instrumentation;
- radio communication equipment for Ka-band telemetry and command systems for deep-space missions (Bepi Colombo, ESA, LISA and GAIA);
- automation and robotics in the field of vision and image processing for use on autonomous planetary exploration vehicles (Exomars and Eurobot);

› studies relating to:
- future experiments on board the International Space Station;
- formation flying techniques for future scientific programmes;
- preparatory space exploration studies;

› testing for the use of active-array antennas installed on the satellites of the Cosmo-SkyMed constellation.

The **workforce** at 31 December 2007 came to 3,386, for an increase of 165 employees over the 3,221 at 31 December 2006 due to higher production in both segments and the commercial development of satellite services.

defence systems

€ MILLIONS	31.12.2007	31.12.2006
New orders	981	1,111
Order backlog	4,099	4,252
Revenues	1,130	1,127
Adjusted EBITA	125	107
ROS	11.1%	9.5%
Research and Development	241	279
Workforce (no.)	4,149	4,275

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

HIGHLIGHTS

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

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

An overall demand of approximately € mil 120-130 is expected over the next 10 years in the **land and naval weapons systems** segment, which is in a phase of expansion lasting until at least 2008-2009. These figures do not include maintenance and logistics which are of growing importance (up to 10-15% of the total). This increase in demand, apart from normal cyclicality in the sector, is due to recent warfare experiences demonstrating the need to ensure the protection of military personnel engaged in peace-keeping operations and physically occupying the battlefield during asymmetric warfare operations. These needs are also reflected in the significant programmes to upgrade existing fleets of vehicles by installing additional protections and upgrading, for the purposes of situation awareness and communication between the various platforms. Major programmes undergoing development in industrialised nations also point towards the development of weapons systems embedded in completely digitalised network-centric architectures (FCS in the US, FRES in UK, Forza-NEC in Italy).
Regarding the various types of platforms, the progressive decrease in the importance of main battle tanks continues, while there has been an increased demand for light battle tanks and wheeled vehicles in particular. The latter are in fact easier to transport outside the theatre of war and offer greater flexibility of use in new operating theatres. Although faced with a progressive decrease in constructed platforms, the naval sphere retains a high demand for cannons of every caliber. Even though small calibers still represent the principal solution for the most in-demand defence needs for asymmetrical threat scenarios, demand within the segment for larger caliber cannons (76mm, 127mm) was recently revitalised by the arrival of large programmes for implementing guided and intelligent missiles, both as a defence against advanced missile-related threats and for coastal and ground support operations. Interesting developments on the international level are also under way to implement a new large-caliber (155mm) naval weapons system for special attack operations on land.

Regarding offerings, land and naval weapons systems continue to present a scarcity of international collaboration programmes around which to operate a deeper industrial rationalisation. The sector is dominated by two large transatlantic operators (General Dynamics – primarily land-based – and BAE Systems – land and sea-based systems) and a smaller number of national “champions” in major European countries (NEXTER, Rheinmentall, KMW, primarily land systems). Several local builders are also active in Asia, Latin America and Eastern Europe, mainly employed in satisfying their respective domestic customers.

The **underwater weapons systems** segment, while limited overall in size and with a substantially stable demand trend over the coming years, presents some interesting opportunities cases in the torpedo segment. Compared with the overall decrease in the number of new torpedoes ordered, whether light or heavy, there has been a growing demand for integrated logistical support systems, technical assistance and training. There is also new demand for the development and installation of a new generation of anti-torpedo protection systems for naval platforms (this need derives from the progressive entry into service of the latest generation of torpedoes, including the Mu-90 and the Black Shark) and for the construction of integrated systems for the protection of both civilian and military ports as part of homeland security.

Regarding offerings, despite an already highly concentrated structure, other important consolidation processes are under way, especially in certain European countries. Given this situation, on 30 November 2007 Finmeccanica, Thales and DCNS signed the Heads of Agreement for the creation of an Italian-French partnership in the underwater defence systems sector.

Demand in the **missile systems light** will be stable or decline slightly through approximately 2010, in anticipation of the next cycle of expansion tied essentially to the entry into production of new, more advanced systems in the air defence, air-to-surface and anti-tank segments. The global market is valued at approximately € bil. 150 over the next 10 years, of which systems and logistics activities represent a significant share. Despite the current phase of a slight decrease in demand, largely determined by the market being saturated by air-to-surface and anti-tank missiles and development delays in some large US programmes and transatlantic partnerships in the segment of surface-to-air missiles with anti-missile capabilities (Thaad, Patriot, MEADS), important development and acquisition programmes for new technologies are under way. Among these are the new generation of European short and medium-range air-to-air missiles to be installed on multi-purpose aircraft in production and GPS non-propulsion guided bombs (low cost but highly effective asymmetric war systems). Longer term, demand will be driven by the development of air defence systems covering metropolitan areas and operations outside the theatre of war against every type of threat (including ballistic and cruise missiles) and high-precision attack systems with a high capability of selecting targets, for the purpose of reducing collateral damage as much as possible during peace-enforcement operations.

Supply in the sector is very concentrated around three large global operators (Raytheon, MBDA and Lockheed Martin), with the residual presence of operators controlling the niche markets for certain product segments or areas of technological excellence on the level of subsystems (seekers, data links, propulsion and guidance systems). During 2007 MBDA acquired the German company Bayern-Chemie/Protac, which produces missile propulsion systems, from EADS and Thales, marking another important step in the effort to consolidate the European missile industry.

New orders in 2007 came to € mil. 981, a decrease of 12% compared to 2006, which saw the completion of the contract regarding VBM vehicles for the Italian Army. The most important new orders for 2007 include:

› in land, sea and air weapons systems: orders for four naval 76/62 SR cannons and for machine guns from Malaysia (Q1); three 76/62 SR naval cannons from Oman (Q2); the provisions of 70 Pintle Mount machine guns for NH90 helicopters for the Italian Airforce (Q2); the order for the provision of 16 40mm “Twin Compact” weapons systems to the Turkish Navy (Q3); five 127/64 naval cannons with the arrangement for the Vulcano guided armament system for Germany (Q4) and numerous logistics orders;

› in underwater systems: orders for 6 countermeasure launch systems for FREMMs (Q4); surveillance systems for the Elettra-class ships belonging to Italian Navy (Q4); 22 launch systems for Lynx helicopters from Germany (Q2); additional activities relating to the MU90 light torpedo from Australia (Q2), for FREMM logistics activities (Q1) and for export;

› in missile systems: a contract from the British Ministry of Defence for through-life maintenance on the Rapier anti-air defence system (Q3); substantial orders for Mistral surface-to-air defence systems, short-range VL Mica anti-air defence missiles, Exocet anti-carrier and Eryx anti-tank systems for Middle Eastern countries (Q4); an order for Milan anti-tank missiles from Libya (Q4); orders to update the German Patriot (Q1) and Rolling Airframe Missile (RAM) (Q2) systems and to refurbish Aspide anti-air defence missile batteries (Q1) and Exocet systems (Q2) abroad;

The **order backlog** at 31 December 2007 came to € mil. 4,099 (€ mil. 4,252 at 31 December 2006), corresponding to 3.5 years of production, more than two-thirds of which relates to missile systems.

Regarding progress on major programmes, it should be noted:

› ongoing production of the **PZH 2000** howitzer for the Italian Army, with the invoicing of 14 units during the course of 2007, in addition to the 6 units already invoiced during previous periods, as part of the contract stipulating the provision of 70 vehicles overall;

› production of 76/62 naval cannons (of which 10 units have been invoiced), largely for the Super Rapido configuration, for programmes to supply a variety of foreign customers, including Malaysia, Norway, Indonesia and United Arab Emirates;

› the positive conclusion of the final in-sea acceptance tests by the Chilean Navy of the **Black Shark heavy torpedo** during the year, as well as the success of in-workshop trials for additional torpedoes destined for Chile and Malaysia;

› the positive conclusion of revision activities for configuring the **MU90 light torpedo**, enabling both the delivery of the first two lots in France, and the in-workshop trials of two lots of torpedoes in Italy and the launching of trials required for acceptance. Two lots of torpedoes were also delivered to Germany, and the Phase 2 contract provisions to Poland and Australia were completed, an event of fundamental importance for proceeding with the provision of an additional 150 torpedoes;

› completion and customer acceptance of the remaining three “key” milestones stipulated by the development phase of the contract for the **Meteor missile system** (the fourth having already been achieved in 2006), considerably reducing the risks of the programme. Moreover, further tests were successfully conducted to verifying the torpedo’s engine performance from a technical standpoint, and the first guided operating launch was implemented, representing a significant step forward in consolidating the development of the missile’s seeker.

Revenues for 2007 came to € mil. 1,130, in line with the figure for the same period of 2006 thanks to the growth in underwater systems, which offset the decrease in land, naval and air systems.

Revenues were the result of the following activities:

› land, sea and air weapons systems: the production of the PZH 2000 howitzers for the Italian Army; the production of Hitfist turrets kits for Poland; the SAMP/T launchers for MBDA Italia; 76/62 SR cannons; activities for the Vulcan guided munitions system and the initial activities of the VBM programme for the Italian army;

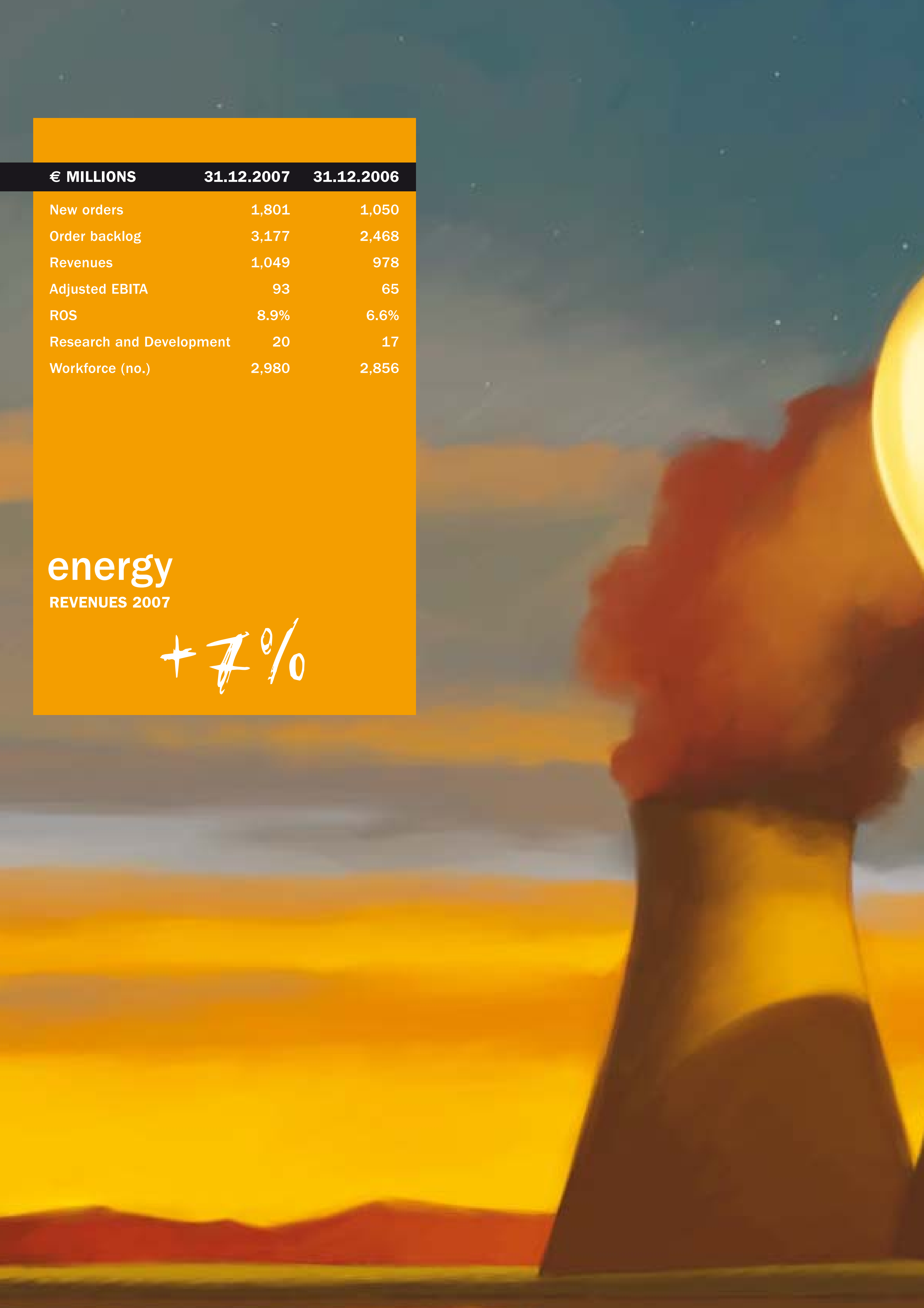
› underwater systems: activities relating to the Black Shark heavy torpedo and the MU90 and A244 light torpedoes, to countermeasures for India and logistics.

› missile systems: activities relating to the production of Aster missiles for PAAMS surface-to-air systems and of Storm Shadow air-to-surface missile systems and SCALP EG; the production of MICA air-to-air missiles and Brimstone anti-tank missiles; activities relating to the development of the Meteor missile and the air defence system in connection with the tri-national Medium Extended Air Defense System (MEADS) programme in which the US, Germany and Italy participate; as well as customer support activities.

Adjusted EBITA at 31 December 2007 totalled € mil. 125, an increase of € mil. 18 over 2006. The improvement is the result of the successful conclusion of an agreement signed with the Ministry of Defence ending several past disputes and the improvement recorded in underwater systems, where profitability is in line with the sector average. As a result, **ROS** amounted to 11.1%, up 1.6 percentage points over 2006.

Research and Development spending for 2007 came to € mil. 241 (from € mil. 279 for 2006). Some of the key activities included those for the MEADS air-defence programme mentioned above and the continuation of the development of the Meteor air-to-air missile, for which, as stated above, important technical milestones provided in the contract were reached; guided munitions programmes and the development of the 127/64 LW cannon in the land, sea and air weapons segment; and those relating to the Black Shark heavy torpedo and the upgrading of the A244 light torpedo in the underwater systems segment.

The **workforce** at 31 December 2007 came to 4,149, a decrease of 126 from 31 December 2006 mainly due to the continuation of restructuring activities in the missile segment.



€ MILLIONS	31.12.2007	31.12.2006
New orders	1,801	1,050
Order backlog	3,177	2,468
Revenues	1,049	978
Adjusted EBITA	93	65
ROS	8.9%	6.6%
Research and Development	20	17
Workforce (no.)	2,980	2,856

energy

REVENUES 2007

+7%

HIGHLIGHTS

New orders. Up 72% as the result of new orders from abroad, including new markets, for turnkey plants and equipment. The increase in new orders received by Ansaldo Energia during 2007 correlates to its favourable market position.

Adjusted EBITA. Up 43% due to the increased production and the higher profitability of several orders which fully offset the increased cost of research and development incurred to achieve technological independence.

Ansaldo Energia and its subsidiaries comprise the segment of Finmeccanica specialising in the provision of "plants and components" for the production of energy (conventional thermal plants, single and combined cycles, cogenerative, geothermal and nuclear plants), and post-sale service activities.
The segment includes the following companies in which Ansaldo Energia SpA holds a stake: Ansaldo Nucleare SpA, Ansaldo Ricerche SpA, Sagem Srl, Asia Power Projects Private Ltd, Energy Service Group GmbH and Thomassen Turbine Systems BV.

In 2007, the global energy and electrical production market confirmed the same growing trend that characterised the previous three years. The price increase affecting primary energy sources, oil and natural gas in particular, has not in fact slowed down the growth in orders for thermoelectric generation equipment: on the global level, 2007 actually witnessed a doubling of gas and steam turbine orders, up from 105 GW in 2006 to 220 GW.

This increase was even more obvious for steam turbine orders, which constituted 70% of turbine orders in 2007, up 61% from 2006. In the medium/long-term, it is predicted that high oil and natural gas prices will further spur this growth in steam turbines, favoured by the use of less costly fossil fuels such as coal. At the same time, the enormous environmental impact of coal-based electricity generation will provide an incentive for research and development to find technologies to diminish related negative effects.

The market for new **power plants** appears to be essentially stable in coming years, with a demand for added capacity of around 140-150 GW per year.
Regarding the major geographic areas, North America and Western Europe (basically representing the demand to modernise and replace gradually obsolete plants) are passing through a negative phase in the cycle, whereas Asia-Pacific, the Middle East and Latin America are experiencing a high demand to expand their installed capacity.

Despite global attention to environmental issues, it is predicted that the major part of energy production will remain strongly based on fossil fuels at least through 2030, as was also reiterated during the World Energy Council, which took place in Rome in November 2007.

Being more sensitive to environmental issues, the European Union has set the goal of increasing the proportion of renewable energy sources in its mix of energy sources to 20% by 2020.
Within the overall panorama of renewable technologies, wind-based power is considered to have the greatest growth potential in the medium/long-term. During the 2000-2006 period, this technology expanded by an average of 24% per year, largely benefiting from the successful implementation of government regulations to promote the installation of renewable energy power plants, especially in Northern European countries. With 50 GW of installed power, Europe has almost 70% of the global market. India and China on the other hand represent the highest additional yearly growth, equal to over 25%.

2007 also witnessed the process of privatisation and revival of the Russian electricity sector as well as the consolidation of economic growth in India and China.

In Russia, the former monopoly RAO UES was subdivided into approximately 25 small generation companies that since last year have been listed on the market and are in the process of being acquired by international groups such as Enel, E.On, Fortun and EdF, or national groups such as Gazprom and the industrial group Renova. This liberalisation, together with the strong economic growth in Russia (7.7% growth in pro capita GDP in 2007) has pushed forecasts in the Power Generation market to predict an annual market growth of 25% over the next 5 years, before settling above USD 1.5 billion for the entire subsequent five-year period.
The Russian market is all the more interesting due to the substantial weakness of local builders and of engineering procurement and construction (EPC) and service firms. Yet even the presence of major international builders remained relatively weak throughout 2007. The Energy segment received orders equal to 25% of the market share.

China and India continue their strong growth rates, increasing their pro capita GDP 10.7% and 6.5%, respectively. Consistently, energy requirements are expected to see an average annual growth in the Power Generation market of approximately 7% over the next 10 years.
Given the local abundance of coal and the high prices of oil and natural gas, both countries are investing heavily in steam turbines, orders for which reached 75 and 27 GW in 2007, respectively, corresponding to 99% and 94% of overall turbine orders for thermoelectric generation. Local manufacturers satisfy the majority of Chinese energy requirements.

North African and Middle Eastern countries represented the largest steam turbine market in 2007, which showed an increase in pro capita GDP of approximately 3% in 2007, translating to 15 GW of gas turbine orders and 5 GW of steam turbine orders (80% of which for use in combined cycle plants).

The growing market for power plants, the liberalisation of Eastern European markets, and the aging of the installed plants have also spurred growth in the service market. In 2007 this market saw an overall increase of almost 10% compared to the previous year, also favoured by increased attention in general to operating efficiency, especially regarding environmental issues.

Regarding the Energy sector in the context of the global scenario, 2007 saw a strong shift away from traditional markets. In 2007, the Energy segment claimed over 5.5% of the global market for gas turbines for 50Hz electricity generation.
During the same period, and especially with regard to certain specific regions, the Energy segment conquered 60% of the North African market, 25% of the Russian market, and 8% of the European market excluding Italy.

Lastly, note that although the Energy segment is not yet present in the renewable energy market, it will be in the near future thanks to the acquisition of Ansaldo Fuel Cells SpA, active in the development of “fuel cell” products, from another Finmeccanica Group company.
From a commercial standpoint, the 2007 fiscal year ended with **new orders** totalling € mil. 1,801, an improvement of over 70% compared to the corresponding period of 2006 (€ mil. 1,050). This result is mainly due to major new orders in the plants and components segment, spurred by the favourable market position for plants and components for the generation of electricity that characterised 2007. There was a reversal in the trend compared to 2006, which was decidedly in favour of the plants and components segment as opposed to services.
At 31 December 2007, 72% of new orders regarded plants and components, 26%

regarded service-related activities, and 2% regarded nuclear work processes (at the end of 2006 orders for plants and components represented 52% of the total).
There were changes in the commercial landscape, with important new orders obtained in new markets such as Russia, Finland, and South Africa, and familiar markets like Algeria, Egypt and Greece.
Moreover, the consolidation of synergies with recently acquired companies made it possible for Ansaldo Energia to launch the OSP (Original Service Provider) brand, which joins and strengthens the quality and international experience of the company in its double role as Original Equipment Manufacturer and Independent Service Provider.
Orders in the service segment at 31 December 2007 came to € mil. 464 and were essentially in line with 2006, although with a different product mix distribution, strongly favouring flow agreements (ordinary maintenance), reflecting the altered commercial attitude of the Energy segment, aimed at understanding customer's needs and thus at finding innovative solutions for optimising plants with a subsequent improvement in services.
Regarding the nuclear segment, there was a decrease of 11% in new orders compared to 31 December 2006, with an essentially stable geographical distribution compared to the preceding fiscal year: 19% in Italy (21% in 2006) with the remaining 81% abroad, divided between Eastern Europe and North America (including the Westinghouse company's activities in China).

The most significant orders obtained in the Energy segment in 2007 were:

› **plants and components** segment:
  - in Albania, 1 turbo group with V64.3A and related steam turbine for the first combined cycle plant built (Q1);
  - in Finland, 1 V94.2 turbo group for the ESPOO plant (Q2);
  - in Spain, 1 V94.3A4 turbo group for the Algeciras plant (Q1);
  - in Algeria, 4 simple cycle plants: 1 for the Batna site (Q2); 2 for the Larba site (Q2 and Q3) and 1 for the M'Sila site (Q3);
  - in Egypt, 2 300 MW steam turbines for the Sidi Krir and Latf plants (Q4);
  - in South Africa, 2 V94.2 turbo groups for the Avon plant (Q3);
  - in Russia, 10 V64.3A turbo groups: 4 for the Prevomaskaia plant (Q3), 1 for the Tyumen plant (Q3) and 5 for the St. Petersburg plant (Q4);
  - in Greece, 1 V94.3A4 turbo group and steam turbine for the Livadia plant (Q4);

› **services** segment: domestic orders in renewable energies related to the refurbishing of 4 hydroelectric assemblies, 2 hydroelectric generators, 1 hydroelectric plant; the revamping of a steam turbine (Q1); a contract with Iran for 5 sets of blades (Q2); the revamping of a steam turbine for the Algeciras site (Q2); a spare parts contract for the Batna, Larba and M'Sila plants in Algeria (Q2 and Q3) and a spare parts contract in Russia (Q4);

› **nuclear** segment: an agreement reached with the North American company Westinghouse for a share in the Sanmen project in China and the start-up of a partnership with Enel to complete the Mohovce plant in Slovakia (both in Q4).

Due to the above-mentioned orders, the **order backlog** at 31 December 2007 came to € mil. 3,177, a 29% increase over 31 December 2006 (€ mil. 2,468). The size of the orders backlog, defined based on its workability, is such as to guarantee coverage of expected production for the next three years. The composition of the backlog at 31 December 2007 is attributable for 53% to plant and manufacturing-related activities, 46% to service activities (largely constituted of scheduled maintenance contracts), and the remaining 1% to nuclear work processes.

Revenues came to € mil. 1,049 at 31 December 2007, an improvement of 7% over the preceding fiscal year (€ mil. 978) due to higher production in the plants and components segment and the service segment (specifically flow agreements).

Specifically, 73% of developed production focused on plants and components, 24% on services and 3% on nuclear work processes.

Regarding plant activities, in 2007 four engineering procurement and construction (EPC) plants were delivered (Rosignano, Sparanise, Vado Ligure, Leinì), for which Provisional Acceptance Certificates (PACs) were received. The Enipower order was also completed, with Final Acceptance Certificates (FAC) obtained from the customer for all seven sites.
Regarding the provision of equipment, the major manufacturing in 2007 was related to the orders from the Russian market (15 pieces), the European market in general (Finland, Spain, Albania, Belgium) and the Middle Eastern market (Oman, Jordan).

In 2007, the services segment continued to grow in both the production of spare parts and on-site activities, with a fairly equal mix as compared to the previous year. Moreover, the expansion in products offered brought the beginning of new activities such as the complete maintenance of the Sparanise plants (for which the first total operations warranty contract is now under way), and the revamping and refurbishing activities for the Mers plant in Algeria.

Regarding the nuclear segment, the 33% decrease in revenues from 2006 is attributable both to delays in the orders for the Sanmen project in China (which did not occur until the end of the year), and the slow-down in decommissioning activities in Italy.

Production in the nuclear segment in 2007 was essentially characterised by the completion of the second Cernavoda unit which came on-line at the end of September, as well as waste and decommissioning activities, with activities developed at the Saluggia site assuming particular significance.

Adjusted EBITA at 31 December 2007 totalled € mil. 93, an improvement of 43% over 31 December 2006 (€ mil. 65), attributable to normal industrial profitability on orders covering both plants and services, and to the conclusion of the Enipower order.
As a result, **ROS** came to 8.9% at 31 December 2007, an improvement of 2.3 percentage points over the 2006.

Research and Development costs at 31 December 2007 came to € mil. 20, an increase of 18% over 2006 (€ mil. 17), increasing as a percentage in revenues from 1.7% in 2006 to 1.9% in 2007.

In 2007, research and development mainly included:

› gas turbines: development projects for the V94.3A and V94.2 turbines, which will allow the Energy Group to maintain and improve its competitive position with respect to the competition;
› steam turbines: international projects to study the performance of special materials aimed at the development of the “ultra-supercritical” turbine (with power of over 300 MW);
› generators: development activities for the new 400 MVA air-cooled model aimed at completing the large size gas turbine and its related services.

The **workforce** at 31 December 2007 came to 2,980 as compared with 2,856 at 31 December 2006. The hiring of 124 employees is due to normal turnover.

transportation

REVENUES 2007

-1%

€ MILLIONS	31.12.2007	31.12.2006
New orders	1,786	2,127
Order backlog	5,108	4,703
Revenues	1,356	1,368
Adjusted EBITA	(110)	17
ROS	-8.1%	1.2%
Research and Development	47	40
Workforce (no.)	6,669	6,677

HIGHLIGHTS

New orders. Down 16% compared with 2006, due to lower acquisitions of orders in the Vehicles segment, offset in part by the positive trend in Signalling and Systems. Major acquisitions for the year include the order related to the Naples Line 6 metro (€ mil. 426) by Systems and the orders regarding the Rome Line C metro (€ mil. 439), broken down by Systems (€ mil. 322) and Vehicles (€ mil. 117).

Adjusted EBITA. Down € mil. 127 over 2006. The improvement in Signalling, thanks to higher volumes and growth in industrial profitability, was completely offset by the significant lost posted by Vehicles, mainly due to an incisive reassessment of order estimates required to complete the programme to stabilise industrial problems and products.

The Transportation division includes the Ansaldo STS SpA group (Systems and Signalling) and AnsaldoBreda SpA and its subsidiaries (Vehicles).

The **vehicles** market is currently worth about € bil. 30, and represents the largest, albeit the most mature, segment within Transportation, as its consistent, but limited 2% annual growth rate demonstrates. Demand is sustained by growing attention to environmental policies, with the subsequent tendency to favour rail over wheel-based transportation, as well as by the economic development of new geographical areas.

The railway segment represents over 75% of the market, even though the urban segment shows a greater growth rate, mainly due to congestion and demographic increases in urban centres.

Western Europe is traditionally the largest geographic market and the market that originates the most significant technological and product-related innovation, in addition to benchmark standards. The European Union is advancing various projects for the purpose of favouring interoperability and overcoming the historical national dimension in rail-based transportation. Moreover, the liberalisation of the market progressively taking place in Europe will favour the entry of new operators and consequently an increased demand for new vehicles.

Geographical areas where the greatest growth is expected in coming years are Asia-Pacific, due to demographic increases and the consequent increased demand for mobility, and Eastern Europe, pursuant to recently launched programmes aimed at the substantial replacement of the rolling stock and the development of new infrastructures.

In conjunction with the vehicles market, the demand for service activities continues to increase due to the trend to outsource management and maintenance services on behalf of participants.

Regarding offerings, along with the traditional (mostly European) global players, there has been the gradual appearance of new builders operating in the areas experiencing the greatest growth (Korea, Central Europe) specialising, for the most part, in specific products, in addition to the appearance in Europe and the US of certain Japanese industries that hitherto concentrated on their own domestic market.

The overall **signalling** and **systems** market grew faster than the vehicles market, with an annual average of 5% to 6%, mainly due to the need to ensure higher levels of security for both traditional and high-speed transportation systems, and to the need to optimise existing infrastructures, in order to increase the volumes transported by increasing the frequency of trains on the lines. Demand was also stimulated by the demand, especially in the European Union, for the development of systems with a high level of standardisation and operability, and by programmes of investment in new infrastructures, in Europe as well as in many newly industrialised countries (China, India, Russia, Australia, etc.).

The signalling market is estimated as worth over € bil. 6.5 in 2007 with Eastern Europe representing the largest geographical area in this market as well, followed by Asia-Pacific and North America. The transportation systems market, on the other hand, comes to approximately € bil. 3. The offering within these markets is highly concentrated, with certain European builders in positions of absolute leadership.

A detailed analysis of the Transportation segment reveals the following performance by the three business divisions:

› Systems: an increase in order volume compared to 31 December 2006, thanks in particular to orders related to the Naples Line 6 metro (€ mil. 426) and Rome Line C (€ mil. 322), while mention should also be made of new orders in 2006 for the Thessaloniki (€ mil. 166) and Milan Line 5 (€ mil. 118) driverless metro, the extension of the operation and maintenance contract for the Copenhagen driverless metro (€ mil. 127) and the Piscinola-Capodichino line of Campania's regional metro line (€ mil. 83). EBIT is in line with the same period of last year (ROS equal to 9.1%);
› Signalling: orders acquired were essentially in line with 2006, despite a slow-down in the Italian market. Production volumes and EBIT increased compared to 2006 (ROS equal to 11.5%), with a significant increase in the contribution of activities in Asia-Pacific;
› Vehicles: order volumes fell compared to 2006, which benefited in particular from the posting of the maintenance contract for the Madrid metro, the order to provide trains for regional service to Ferrovie Nord Milano and significant orders from abroad in the mass transit system sector. Financial performance was characterised by a high operating losses, affected, as mentioned above, by the worsening in estimates on various orders, as a result of the checks performed on further requirements needed to completely address industrial problems and products. Specifically, events with the greatest impact on the reassessment of order estimates may be summarised as follows: additional activities to resolve technical difficulties, product reconfiguration requirements, greater engineering commitments on orders not yet at an advanced stage of production, the need to review efficiency recovery profiles and to provide for the imposition of penalties due to potential delays in delivery schedules for some orders.

New orders at 31 December 2007 came to € mil. 1,786, down € mil. 341 compared to 2006 (€ mil. 2,127), due in particular to fewer new orders for Vehicles, partly offset by the positive performance in Systems. New orders for the year include:

› Systems: the order regarding the Naples Line 6 metro (Q3); orders for the Rome Line C metro (Q2, Q3 and Q4); the order related to the Alifana Inferiore programme (Q1); changes to the order for the Milan Line 5 driverless metro (Q3) and changes to the order for the Italian high-speed railway;
› Signalling: orders from the Rio Tinto mining company, an order from the Fortescue Metals Group (Q1), contracts as parts of the agreement signed with Australian Rail Track Corporation (ARTC) (all in Australia); order changes for a high-speed Milan-Bologna railway (Q4); the order related to the Shitai railway in Northeastern China (Q4); the Italian order of the SCMT wayside equipment to complete Step 3 (Q2); orders from Erga-Ose, the Greek railway agency, for the supply of onboard equipment (Q2 and Q3); the order in Germany for the ETCS (European Train Control System) levels 2 and 3 of the German tract of the "North POS" corridor (Q4); the order relating to the Chambers Street station of the New York subway (Q1); the order for building a signalling system with communications based train control (CBTC) technology

for the Shenyang line 1 metro (Q2); the order related to the ACS Torino Rebaudengo (Q3); a change in the order for the Korean high-speed railway (Q2) and orders for components;

› Vehicles: an order for the Rome Line C metro (Q3); options to provide 8 additional trains for the regional service of Ferrovie Nord Milano (Q2) and 9 additional vehicles for the Milan metro (Q4) and service orders.

At 31 December 2007 the **order backlog** for the division totalled € mil. 5,108, up € mil. 405 compared to 31 December 2006 (€ mil. 4,703), mainly due to the substantial volume of orders posted by Systems. The order backlog at 31 December 2007 breaks down as follows: 42% for Vehicles, 36% for Systems and 22% for Signalling.

Revenues at 31 December 2007 were equal to € mil. 1,356, down € mil. 12 compared to 31 December 2006 (€ mil. 1,368), already affected by the above-cited reassessment of order estimates for the Vehicles division, offset by the increased activity in Signalling, in particular in Asia-Pacific. Noteworthy orders in the Transportation division include:

› Systems: the metro systems of Copenhagen, Naples Line 6, Genoa and Brescia, the Alifana regional line; and high-speed rail orders in Italy;

› Signalling: high-speed train orders and automated train control systems (SCMT), both wayside and onboard, for Italy; second phase of the Channel Tunnel Rail Link; the project for the realisation of the Optimising Traffic Planner (OTP) system and the Next Generation Computer Aided Dispatch System (CAD) for Union Pacific Railroad; orders under the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia; and orders for components;

› Vehicles: trains for the Madrid metro; high-volume passenger trains for Morocco; trains for regional service for Ferrovie Nord Milano; trains for the Dutch-Belgian railway; trams for the city of Los Angeles; trains for the Danish railways; E403 locomotives for Trenitalia; various Sirio orders; and service and revamping activities.

Adjusted EBITA at 30 December 2007 came to a negative € mil. 110, a decline of € mil. 127 compared to 31 December 2006 (€ mil. 17). The improvement in Signalling, due to greater volumes and increased industrial profitability, was completely offset by the significant decrease in the Vehicles division. **ROS** for the sector fell as a result, reaching a negative 8.1% as compared with the positive 1.2% recorded for the previous fiscal year.

Research and Development costs at 31 December 2007 were equal to € mil. 47, up € mil. 7 over the € mil. 40 reported at 31 December 2006, mainly attributable to Signalling. Specifically the activities involving Signalling projects included:

› railway signalling: projects related to systems based on European standards for traffic management, aimed at guaranteeing the interoperability of lines (ERTMS - European Rail Traffic Management System);

› mass transit: a project related to the development of a CBTC (Communications Based Train Control) system, based on radio communications system for metro-type applications.

The **workforce** at 31 December 2007 stood at 6,669, representing a decrease of 8 units compared to 31 December 2006 (6,677), caused by a decrease in Vehicles employees due to the restructuring plan launched during the second part of the year, essentially offset by hiring in the Signalling division, particularly in Australia and India.

€ MILLIONS	31.12.2007	31.12.2006
New orders	557	99
Order backlog	597	346
Revenues	345	229
Adjusted EBITA	(168)	(132)
ROS	n.s.	n.s.
Research and Development	6	-
Workforce (no.)	1,118	811

other activities

REVENUES 2007

+2%

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

Ansaldo Fuel Cells' technology is multifuel capable, i.e. capable of using methane, gas oil, syngas and biomass derived fuels, therefore allowing access to markets for the management of urban and industrial waste and the use of fuel logistics for military applications. During the previous fiscal year, Ansaldo Fuel Cells built its first fully hybrid plant.

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

With regard to Fata SpA, from a commercial standpoint, the company received **new orders** totalling € mil. 513 at 31 December 2007, mainly attributable to the significant new contract for Qatar (acquired during the first half of the year) relative to the execution of two separate packages (Qatalum Casthouse and Qatalum Baking Kiln) for the construction of an aluminum smelter worth in total about € mil. 370. **Revenues** at 31 December 2007 came to € mil. 232 and related to progress on the Iranian Hormozal contract (for the Smelter line), the Chinese and American contracts, as well as the Globus and Bluescope orders (for the Hunter line), the Moncalieri, Vado and Leinì orders (for the Power line). Finally, note should be made of the progress made in normal logistics activities carried out by Fata Logistic SpA primarily for Finmeccanica Group companies. Its **workforce** at 31 December 2007 totalled 254 employees.

Starting from the first half of 2007, BredaMenarinibus SpA, which manufactures urban and interurban buses and which had been classified under discontinued operation since 2004 in preparation for a subsequent sale was reclassified among continuing operations. This company's operations are undergoing reorganisation in order to make the business more attractive.
At 31 December 2007, BredaMenarinibus SpA acquired **new orders** amounting to approximated € mil. 46, of which € mil. 34 related to the bus business segment and corresponding to 148 units, and € mil. 12 related to post-sale services. **Revenues** at 31 December 2007 came to € mil. 69, of which 83% was due to the bus segment and 17% to post-sale services. The **workforce** at 31 December 2007 came to 305.

This division's figures also include those of Finmeccanica SpA, which for some years has been undergoing an extensive transformation process, altering its focus from a financial company to that of an industrial company. This process received a boost during the preceding fiscal year with a commitment from management to press on with a series of actions concerning industrial, technological and commercial integration. The Group will then be able to benefit from an additional impetus in improving its own productivity through processes to increase efficiency and rationalisation.

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

› further strengthening of the mechanisms for the coordination of companies, including through development of specific Central Management structures, so that the individual parts could operate through a single policy, not just in financial terms, but particularly in industrial terms, involving the key processes of product engineering, technology and commercial strategy;

› the assignment of specific objectives to the companies: firstly, the constant growth of the adjusted EBITA, thanks to increased volumes and continuous efficiency-enhancement efforts, such as the optimisation of procurement, the rationalisation of production sites, as well as company restructuring leading to the containment/reduction of working capital and general and administrative costs and maximising sales, with the consequent strengthening of production margins. The constant focus on trends in working capital in addition to the above will make it possible to generate the significant cash flows needed to finance the high level of investment in product development;

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

› the issuance of specific directives aimed at the progressive alignment of cash flows with income and expenses;

› continued development of a process for the dissemination of a Group methodology for controlling and managing programmes, based on the integration of the international standards of life-cycle management, phase review, project control, and risk management;

› within the scope of the Global Sourcing project in conjunction with Finmeccanica Group Services, initiation of the exploration of new procurement markets in several low-cost countries aimed at identifying opportunities for savings by the Group companies. Under this project, the first agreement of considerable industrial importance was signed with a Russian company for the purchase of raw materials.

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

Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 31 December 2007

€ millions	Shareholders' equity	of which: Net profit for the period
Parent Company shareholders' equity and net profit at 31 December 2007	**5,830**	**45**
Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies	(1,428)	434
Consolidation adjustments for:		
› difference between purchase price and corresponding book equity	2,486	(14)
› elimination of intercompany profits	(1,550)	192
› deferred tax assets and liabilities	152	42
› dividends from consolidated companies	-	(213)
› exchange gains/losses	(150)	-
› other adjustments	(11)	(2)
Group shareholders' equity and net profit at 31 December 2007	**5,329**	**484**
Minority interests	103	37
Total shareholders' equity and net profit at 31 December 2007	**5,432**	**521**

Significant events in 2007 and events subsequent to closure of the accounts for the period

INDUSTRIAL TRANSACTIONS

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

At the end of August, the United States Government Accountability Office (GAO) requested, for the second time, that the US Air Force reconsider its decision of November 2006 to award Boeing the contract for 141 search and rescue helicopters. As a result thereof, the contract award was rescinded, with the bidding reopened; the consortium formed by Finmeccanica (AgustaWestland Bell) and Lockheed Martin will participate in the bidding on the basis of the requisites to be specified.

In September, AgustaWestland manifested its interest in becoming PZL - Swidnik's future strategic partner and taking an investment in the company's capital if the Polish authorities were to confirm the intention of privatising the company. The initiative would facilitate even closer collaboration between the two companies, and would guarantee additional growth opportunities for PZL - Swidnik.

In the ***Defence and Security Electronics*** division, activities were completed that led to Finmeccanica's acquisition of all of the share capital of **Datamat SpA**, a company which develops and builds avionics and naval mission systems, and integrated solutions in the defence, space, government, healthcare, banking, finance and telecommunications sectors. Following the acquisition of the entire share capital of Datamat SpA, efforts got under way for a merger between Datamat SpA and Elsag SpA; the merger was completed on 1 August and thereafter the company took on the name of **Elsag Datamat SpA.**

On 26 September 2007, Elsag Datamat finalised (through its subsidiary Elsag Inc.) the acquisition of 100% of the US company, Remington Elsag Law Enforcement Systems (“Reles”), thereby reinforcing the company's presence in the international market for security systems and devices. Reles was incorporated in 2004 as a 50-50 joint venture between Remington Arms Company Inc. and Elsag Inc. (now Elsag Datamat), a wholly owned American subsidiary of Elsag. The joint venture was set up to market products used in reading automobile license plates to government entities and police forces in the United States, which have been rapidly adopted by more than 240 police departments in 21 states. In 2007, Reles was also awarded sizeable projects for the Homeland Security department that will be carried out in collaboration with major companies in the US.

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

The process to merge **OTE SpA** and **Prod-El SpA** into **Selex Communications SpA** was also begun in April 2007 and was completed on 1 August.

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

On 30 March 2007, Finmeccanica completed the acquisition of the remaining 25% stake from BAE Systems in the company **Selex Sensors and Airborne Systems SpA** (Selex S&AS SpA) for a total outlay, including the balance payment made in December 2007, of roughly € mil. 408.

On 23 October 2007, **Selex Service Management** signed an agreement with the region of Abruzzo for a project to develop technology for the region. As a result of said agreement, highly innovative solutions will be implemented in order to strengthen the region's broadband network, which will, particularly in the mountainous parts of the region, facilitate access for the public to all of the most modern forms of communication, as well as the development of services to protect the environment and to improve the management of relations with the public, thanks to a series of applications provided by the government and made available on-line.

On 29 November 2007, **Finmeccanica** announced a public tender offer (PTO) for the cash acquisition of **Vega Group Plc** (Vega), a UK firm listed on the London Stock Exchange and active in the defence, aerospace, and government service sectors. The price offered is GBP 2.80 per share for a total of approximately GBP 61.6 million on a fully diluted basis (roughly € mil. 90). On 30 November 2007, Finmeccanica acquired on the market a 28.2% stake in Vega, and on 7 December 2007, the tender period began, the completion of which remained subject to certain conditions, including reaching a minimum threshold equal to at least 90% of Vega's capital. On 16 January 2008, given that a level of participation of 65.1% in Vega capital had been reached, which, together with the shares purchased previously, brought Finmeccanica's total share to 93.3%, the tender offer was deemed to be irrevocable, and payment of the purchase price was made. Furthermore, given that the level required by law had been reached and in accordance with the tender document, Finmeccanica began the process of delisting the shares from the London Stock Exchange, as well as the squeeze-out of the remaining shares not acquired as part of the buyout. Vega's shares were taken off of the London Stock Exchange on 13 February 2008, and the squeeze-out should be completed by the end of March 2008.

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

On 30 November 2007, in conjunction with the Italy-France summit held in Nice, **Finmeccanica** and **Thales** signed a memorandum of understanding in order to propose, develop and carry out an integrated European Maritime Security & Safety (MSS) project targeting multiple users within the framework of a joint initiative known as SEASAME. This joint initiative, which concerns the environment and security sectors, seeks to provide a global, multidisciplinary response to the management of European maritime zones and to offer ideas and solutions for the optimal development of maritime activities, such as sea transport, in an environmentally friendly manner in compliance with the European Union Integrated Maritime Policy adopted on 10 October 2007 by the European Commission. SEASAME seeks to unify and coordinate the objectives of all of the parties concerned, including European agencies (the European Maritime Safety Agency, Frontex, the European Defence Agency), public bodies (navies and coastguards), and private firms.

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

On 20 February 2007, an inter-governmental agreement was signed by the Italian Ministry for Economic Development and the Russian Ministry of Industry and Energy concerning the trade agreements in effect between **Finmeccanica** and **Aviation Holding Company Sukhoi** and their respective subsidiaries, Alenia Aeronautica SpA and Sukhoi Civil Aircraft Company (SCAC), in relation to the programme for the “SuperJet 100” family of 75-100 seat regional jets. In June 2007, the agreement between Finmeccanica, Alenia Aeronautica, **Aviation Holding Company Sukhoi**, and SCAC was signed. Based on this agreement, Alenia Aeronautica will acquire a 25% plus one share stake in SCAC. Furthermore, in July, in accordance with this agreement, Alenia Aeronautica and Sukhoi established the joint venture Superjet International SpA (51% Alenia Aeronautica and 49% Sukhoi), which is responsible for marketing, sales and delivery to the western market, as well as for post-sale assistance for the aircraft throughout the world. In the coming months, the process of Alenia Aeronautica acquiring a stake in SCAC will be completed.

On 13 June 2007, **Finmeccanica**, through **Alenia North America** (a subsidiary of Alenia Aeronautica), in partnership with L-3 and Boeing, was awarded an important order in the United States. The C27J aircraft, designed, developed and produced by Alenia Aeronautica, was selected by the US Army and Air Force as the new tactical transport aircraft within the scope of the Joint Cargo Aircraft (JCA) programme. The C27J team, led by L-3 Integrated Systems with Alenia North America, Boeing Integrated Defence Systems and Global Military Aircraft Systems (GMAS, a company owned 50% by Alenia Aeronautica and 50 % by L-3), was awarded an initial contract in the amount of USD 2.04 billion to supply 78 aircraft. The US armed forces plan to purchase 145 aircraft, of which 75 for the Army and 70 for the Air Force, and with an estimated total of 207 aircraft over 10 years, for around USD 6 billion.

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

With regard to the ***Space*** division, following authorisation by the European Commission on 4 April 2007, Thales took the place of Alcatel Lucent in two joint ventures, **Alcatel Alenia Space** – which was then renamed **Thales Alenia Space** (67% Thales and 33% Finmeccanica) – and **Telespazio Holding** (67% Finmeccanica and 33% Thales).

On 1 October 2007, Telespazio purchased 85% stake in the French firm FILEAS, which is active in broadcasting content via satellite. The purchase of the remaining 15% stake shall be done through put and call options to be exercised over the next three years.

With regard to the **European Galileo satellite navigation programme**, a number of important developments came about following the redefinition of the organisational and contractual schemes by the European authorities, in terms both of the services and the infrastructures.
As concerns service management, an industrial consortium was originally to be established – with the participation of Finmeccanica SpA and the leading industry players – to be a service provider responsible for providing and running the satellite system under a contract to be negotiated with the Galileo Supervisory Authority (GSA). The difficulties encountered within the space industry and by the various EU bodies in reaching an agreement on the contract as concerned the potential technical, financial and legal risks related to the programme led the European Council, upon the recommendation of the Commission, to end negotiations and to eliminate the service provision format. The Council is now calling for the system to be financed entirely by public funds to be taken from the European Union budget. As a result, the consortium originally established for the project was disbanded.
As concerns the construction of the satellite system, thus far European Satellite Navigation Industries GmbH (ESNIS) – formerly Galileo Industries GmbH, a company owned by Finmeccanica SpA, EADS Astrium GmbH, EADS Astrium Ltd, Thales ATM GmbH, Thales Communications SA, Thales ATM Ltd, Thales Alenia Space France SAS and Galileo Sistemas y Servicios SL – has acted as prime contractor responsible for awarding contracts to domestic manufacturers in their respective segments, using a distribution mechanism agreed among the various countries and groups participating in the programme. However, managing operations has proven to be highly complex, with delays mounting in the implementation phases, due in part to changes in the engineering of the system that were requested by the European Space Agency (ESA). In order to make the development and implementation of the system more efficient, the ESA requested substantial changes in relations with the industry, which led to a verticalisation of contractual relations with the parent companies in the various industry segments through specific agreements and authorisations to proceed and the closure of all activities by ESNIS prior to its liquidation.
Thanks in part to these developments, the Galileo project remains a priority objective of great strategic importance both at a technological level and with regard to applications in the field of satellite navigation, especially with reference to the wide range of its potential uses in the security and infomobility segments.

Within the ***Defence Systems*** division, on 30 November 2007, in conjunction with the Italy-France summit held in Nice, Finmeccanica, Thales, and DCNS signed a joint heads of agreement document for the creation of an Italian-French partnership in the underwater defence systems segment. Given the longstanding partnership between the three companies in Eurotorp, a European Economic Interest Grouping (EEIG) for the development and distribution of light torpedoes (MU 90), and Euroslat, an EEIG for anti-torpedo defence systems, the agreement will focus on the creation of three joint ventures:

- **Torpedo Program JV**, which will be responsible for engineering, design and development (the Design Authority), as well as for the marketing and sale of the underwater defence systems and programme management. Held jointly by Finmeccanica (51%) and DCNS (49%), this joint venture shall have Design Authority for the products (heavy and light torpedoes and anti-torpedo defence systems) and will be responsible for relations with the end customer;
- **Torpedo Manufacturing JV**, which will focus on the manufacture of torpedoes and related support activities, as well as on engineering, testing, and manufacturing energy modules. It is to be held jointly by DCNS (51%) and Finmeccanica (49%);
- **Sonar JV**, which will be responsible for the design, development and manufacture of acoustic heads and related support activities. This new organisation will target Italian customers in the sonar industry and is to be held jointly by Thales (51%) and Finmeccanica (49%).

The agreement will be of great strategic importance and will result in significant synergies, thereby promoting the centres of technological excellence in the two nations (Italy and France). It represents an important milestone in the process of consolidating the European naval defence industry.

On 16 May 2007, in the ***missiles*** segment, **MBDA** (a joint venture in which Finmeccanica owns 25%) through its subsidiary LFK GmbH signed an agreement with EADS and Thales to acquire the German company Bayern-Chemie/Protac (held 50% by EADS Deutschland GmbH and 50% by Thales SA), active in the development and production of missile propulsion systems. The agreement came into effect as from 31 August 2007 following receipt of authorisation from the relevant national and international authorities.

On 18 October 2006, as part of the broader efforts to develop the company's civil businesses, **Finmeccanica** signed a memorandum of understanding with the **Russian railway** in order to begin a partnership concerning the manufacture, distribution, and technical support services for rolling stock and rail transport infrastructures.
In that regard, on 9 February 2007, the **Russian railway (RZD)**, the **Ferrovie dello Stato** group, and **Finmeccanica** signed a memorandum of understanding aimed at developing commercial partnerships for international projects of mutual interest, particularly in the field of high-speed trains, which could also include the Moscow-St. Petersburg line. The first act of this partnership will involve Saudi Arabia with the participation in the tender for the Jedda-Mecca-Medina high-speed line with an estimated value of some USD 6 billion. On 5 July 2007, Finmeccanica, Ferrovie dello Stato and RZD were pre-qualified for the tender.
In March, during the latest Italy-Russia summit held in Bari, Finmeccanica also signed a new industrial cooperation agreement with the Russian railway, which defines the timing and procedures for implementing high-priority projects, such as: the development of a new regional train; the application of technology and capacity already available to Selex Sistemi Integrati SpA in order to create safety and security systems; and the development by Telespazio SpA of a satellite observation system to monitor landslides near the Tuapse-Adler railway line.

On 25 May 2007, Finmeccanica, the Russian railway (RZD) and the Russian National Science Institute (VNIIAS) signed an agreement in Sochi for cooperation in the railway signalling systems sector. The agreement calls for a new railway signalling system built by **Ansaldo STS** to be used on existing Russian railway lines and stations. This innovative system can be adapted to the entire Russian railway network and may be used for any type of traffic (on medium-speed lines and high-speed lines).

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

On 6 July 2007, the agreement for the merger of **Ansaldo Segnalamento Ferroviario SpA** and **Ansaldo Trasporti - Sistemi Ferroviari SpA** was signed, to occur following the acquisition, effective as of 1 July 2007, of the entire share capital of Ansaldo Segnalamento Ferroviario SpA from Ansaldo Signal NV. The merger is expected to be completed in 2008. The integration of the railway signalling and transport systems businesses could lead to growth in size and overall profitability, expansion in international markets and entry into new business segments.

Finally, it is noted that on 9 October 2007, **Ansaldo Fuel Cells**, a Finmeccanica company coordinated by Ansaldo Energia, and L-3 Communications Combat Propulsion Systems signed a collaboration agreement for the development and marketing of sys-

tems for energy generation with the use of fuel cells. The agreement contemplates cooperation between the two companies for the purpose of developing marketing activity in the US and joint product development for the military segment, as well as the possibility of setting up a joint venture for offering products and services to the US government.
On 27 February 2008, Ansaldo Fuel Cells and Enel signed a partnership agreement to develop, build and test a molten carbonate fuel cells generation plant. The agreement marks the start of an important collaboration in the development of such technology.

FINANCIAL TRANSACTIONS

In 2007, Finmeccanica carried out no transaction on the capital markets. As a result, there was no substantial change in the structure of medium to long-term debt, particularly with regard to bonds, which stood at around € mil. 1,758 (under IAS/IFRS). The average term of maturity is approximately 8.7 years.

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

Below is a list of bonds outstanding at 31 December 2007, including the transactions placed on the market by Finmeccanica Finance SA:

Issuer	Year of issue	Maturity	Amount (€ mil.)	Annual coupon	Type of offer	IAS recog. amts € mil. (5)
Finmeccanica Finance SA (1)	2002	30.12.08	297	Variable	Italian retail	296
Finmeccanica Finance SA (2)	2003	8.8.10	501	0.375%	European institutional	451
Finmeccanica Finance SA (3)	2003	12.12.18	500	5.75%	European institutional	497
Finmeccanica SpA (4)	2005	24.3.25	500	4.875%	European institutional	514

1. Bonds exclusively offered to the public in Italy and listed on the TLX market, which is managed by Trading Lab Banca SpA - Unicredito Italiano Group. Issued as part of the Euro Medium Term Notes (EMTN) programmes for a maximum € bil. 2.5, the bonds are governed by a specific Italian regulation. Transaction authorised pursuant to Article 129 of Legislative Decree 385/1993. Prospectus filed with Consob on 4 December 2002 (authorisation notified with note 2079342/3.12.02)
2. Exchangeable bonds with a maximum number of 20,000,000 shares in STMicroelectronics NV (STM) at a conversion price of € 25.07 per share. Starting from the third anniversary of the issue, Finmeccanica Finance can ask for the loan to be converted if the average price recorded during the 30 working days prior to the date of notice to bond-holders exceeds 125% of the conversion price. At the maturity date Finmeccanica Finance can repay in cash or, upon prior notice to be given with at least 15 working days, through a combination of STM shares valued at the average prices recorded in the prior 5 working days. Transaction authorised pursuant to Article 129 of Legislative Decree 385/1993. Bonds are listed on the Luxembourg Stock Exchange.
3. Bonds issued as part of the EMTN programmes for a maximum of € bil. 2.5 The entire issue was converted from a fixed-rate issue to a floating-rate one for the first two years of the loan. The transaction was authorised pursuant to Article 129 of Legislative Decree 385/1993. Bonds are listed on the Luxembourg Stock Exchange.
   Rate transactions were made on these bonds and led to benefit throughout 2005 from low floating rates with an effective cost of some 3.25%. During 2006, the effective cost of the loan returned to a fixed rate equal to an average value of some 5.8%.
4. Bonds issued as part of the EMTN programmes for a maximum of € bil. 2.5 The transaction was authorised pursuant to Article 129 of Legislative Decree 385/1993. Bonds are listed on the Luxembourg Stock Exchange. Some rate transactions were made to optimise collection costs.
5. The difference between the face value of bonds and book value is due to interest rates being classified as to increase debt and to discounts being recognised to decrease debt. Furthermore, as regards the issue of exchangeable bonds in (2) above, IAS 39 provides for the separation of the financial debt component and the call option sold. The debt component is measured by applying the market interest rate at the issue date in place of the nominal interest rate, while the option component, excluded from the financial position, is subject to periodic measurement at fair value. At 31 December 2007, this valuation method led to posting a debt € mil. 50 less than the face value of the bond. This differential will gradually come down as the maturity date draws near.

All the bond issues of Finmeccanica Finance SA are irrevocably and unconditionally secured by Finmeccanica SpA

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

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

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

All Finmeccanica SpA and Finmeccanica Finance SA bonds were given a medium-term financial credit rating by the three international rating agencies: Moody's Investors Service, Fitch and Standard and Poor's. More specifically, at the reporting date these credit ratings were A3 (Moody's), BBB (outlook stable – Standard and Poor's) and BBB (outlook positive – Fitch). During the preceding years, Moody's credit rating improved from Baa2 to A3, in part due to a review of the agency's methods.

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

As part of the centralisation of its financial operations, Finmeccanica SpA has cash loans and endorsement loans facilities sufficient to meet the Group needs. Specifically, it holds a medium-term revolving credit line of € mil. 1,200 agreed in 2004 with a pool of national and foreign banks, whose interest rates and maturity (current maturity 2012) were renegotiated in 2005, thanks in part to the improved credit rating as mentioned above. This transaction is also governed by negative pledge clauses, which have been illustrated above. At 31 December 2007, this credit line was entirely unused.
Finmeccanica also has additional short-term credit lines, for cash loans, amounting to around € mil. 1,170, of which € mil. 920 is unconfirmed and around € mil. 250 is confirmed; at 31 December 2007, these credit lines were also unused. There are also unconfirmed endorsement loan lines of around € mil. 2,300.

OTHER OPERATIONS

On 30 May 2007, the Extraordinary Shareholders' Meeting of **Finmeccanica SpA** decided on a capital increase – to be executed by the Board of Directors – to be carried out in tranches and reserved solely to institutional investors, excluding option rights, within the limits of 10% of the share capital of the Company. Capital may be increased by up to a maximum nominal amount of € 185,638,002, through the issue of up to 42,190,455 shares with a par value of € 4.40 each, to be carried out in whole or in part by subscription and/or in whole or in part to back convertible bonds or bonds cum warrants.

The Board of Directors of Finmeccanica may implement the operation, in the manner and in accordance with the criteria established above, by 30 June 2009.

If the capital increase is carried out, the issue price shall be in line with the market value of the shares at the time of offer and in any event at a price greater than 90% of the official average weighted price of Finmeccanica stock in the 30 trading days prior to the offer.
If the capital increase is used to service convertible bonds or bonds *cum* warrant, the issue price of the shares shall be at least 15% higher than the official average weighted price of Finmeccanica stock in the 30 trading days prior to the offer.

In the event the entire capital increase is subscribed, the Ministry for the Economy and Finance shall maintain a stake of more than 30% of the share capital of Finmeccanica, in accordance with the Prime Ministerial Decree of 28 September 1999.

Finmeccanica's Shareholders' Meeting of 16 January 2008 approved the share buy back programme proposed by the Board of Directors on 21 November 2007 up to a maximum of about 8% of the share capital of the Company (a maximum of 34 million ordinary shares) broken down as follows:

› approximately 2.6% will be used for the stock incentive plan (up to 11.1 million ordinary shares, of which 7.5 million for grants to be made in the next few years), subject to prior revocation – for the part still unused – of previous authorisations to buy back and use treasury shares to service the plans, although shareholders' resolutions approving these incentive plans shall remain in effect;
› about 5.4% (up to 22.9 million ordinary shares) will be used to create value for the shareholders. Based on an assumed average unit price of € 20, the buy back should be worth about € 460 million.

The purchased shares will be available in the form of treasury shares and may be used for industrial projects or extraordinary financial operations, if any. The share buy back programme may be carried out within 18 months, in a manner consistent with the practices commonly followed by the financial market for analogous operations, taking into account performance. The programme will be primarily financed with the Group's operating cash flow.
The purchase of shares to service the programme may be carried out, in an appropriately gradual manner, at a maximum and minimum unit price equal to the reference price recorded on the MTA on the day before the purchase (plus/minus 5%, respectively, for the maximum and the minimum), through the purchase on the market or through the purchase and sale of derivatives traded on regulated markets.
On 28 February 2008, in order to initiate the programme and to complete it within the appropriate time frame, Finmeccanica's Board of Directors, exercising the mandate granted by the Shareholders' Meeting, confirmed the powers granted to the Chairman and Chief Executive Officer for the execution of the Shareholders' resolution.

On 26 February 2008, **Finmeccanica**, **Cassa Depositi e Prestiti** and **FT1CI** (a company owned by Areva), as shareholders of **STMicroelectronics Holding NV** (STH), the Dutch company which owns 27.54% of the share capital of **STMicroelectronics NV** (STM), signed an agreement amending the existing shareholders' agreement concerning the joint Italian-French governance of STH.

Under the agreement, the Italian and French parties agreed to rebalance their respective stakes in STM, indirectly held through STH. Specifically, Finmeccanica, as shareholder of STH, agreed to sell to FT1CI the equivalent of 26,034,141 shares of STM at the price of € 10 per share, plus an earn-out equal to 40% of any positive price differential of STM stock between the base price of € 10 and the average market price calculated over a three month period starting nine months from the date of signing of the agreement, up to € 4 per share. Upon completion of the operation, Finmeccanica will receive approximately € mil. 260.
Additionally, the agreement establishes that the Italian and French parties will continue to share governance of STH equally subject to certain conditions.

Finmeccanica: Research and Development

In 2007, Finmeccanica continued in its commitment to better focusing its Research and Development activities. Many new programmes were begun, especially concerning systems integration and technological innovation involving electronic components of products. During 2007, these efforts included the approval and launch of numerous Product Development plans which, with the support of in-depth business analyses, will provide real returns on the planned investments. In the first part of the year, the operating structure of the new firm **Elsag Datamat** was also defined so as to create a hub of critical mass in security, logistics, automation and IT services, and defence. Within the Space segment, the finalisation of the agreement with Thales, with the joint definition of the activities of the companies **Thales Alenia Space** and **Telespazio**, contributed to providing further impulse to certain Research and Development activities, thanks to the extensive backgrounds that the two groups are able to bring together. Starting 1 January 2008, the **Selex Galileo** brand was adopted in the Defence and Security Electronics segment marking a further step towards the integration of the activities of **Galileo Avionica SpA** and **Selex Sensors and Airborne Systems (S&AS) Ltd**.

AEROSPACE, DEFENCE AND SECURITY

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

a. Technological research and development

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

Technological developments based on ***highly integrated components***, ranging from on-chip integration (MMIC - Monolithic Microwave Integrated Circuit) using cutting-edge materials such as gallium nitride, to multi-chip integration on organic and ceramic substrates (LTCC - Low Temperature Co-fired Ceramic), to the new frontiers of electro-mechanical integration for electronics and sensors (MEMS - Micro Electro-Mechanical Systems) involve various Group companies (**Thales Alenia Space, Galileo Avionica, MBDA, Selex Communications, Selex S&AS Ltd**, and **Selex Sistemi Integrati**). Their application and spread enable “quality” radio frequency processing components to be miniaturised, reducing costs and producing benefits for satellites, radars, missile systems and avionics systems, and in general any applications where a small footprint, minimal power absorption and thermal dissipation are key factors. Also in development are certain technologies known as MOVPE (Metal Organic Vapor Phase Epitax) in relation to the design and production of infra-red sensors in the next generation bi-dimensional arrays components for advanced thermal imaging cameras (**Selex S&AS**). **Selex Communications** and **Selex Sistemi Integrati** have begun exploring new frontiers in extremely high frequency technologies (TeraHertz) in order to assess their potential in short-range sensoristic applications and in broadest band communications.

Selex Sistemi Integrati has made advances in the innovative phototonic field with the development of prototypes of extremely high frequency analogue/digital samplers and has begun research on frequency and direct synthesis waveform generators in collaboration with **Galileo Avionica**. Collaboration between **Alenia Aeronautica** and **Selex Sistemi Integrati** continues in the field of monitoring aeronautical structures, especially those made of composite materials, using fiber optic sensors.

In addition, technologies of ***new materials and structures*** stimulate future developments and production capabilities, both with low infra-red and electromagnetic footprints and those with high resistance thanks to the use of composite materials and specific welding treatments also intended for use on future national security projects (**AgustaWestland** with the ELIMAT project, **Alenia Aeronautica, Alenia Aermacchi, Avio, Selex S&AS Ltd**, and **Oto Melara**). **MBDA** is currently conducting studies of high resistance nano-structured ceramics to create missiles operating in the millimetric band. The future development of innovative UAV/UCAV (unmanned air vehicles and unmanned combat air vehicles), convertiplanes, missiles, rockets and passive protection structures lies with these technologies.
Highly advanced research and development activities in the field of nanotechnology also continued, especially regarding sensors for revealing chemical agents (**Selex Communications**), already in advanced stages of experimentation, as well as carbon nanotubes for the manufacture of nano-electronic devices such as nanovalves and nanotransistors (**Selex Sistemi Integrati**) and heat conducting materials for microelectronic packaging (**Thales Alenia Space** and **Selex Sistemi Integrati**). **Alenia Aeronautica** is studying the impact of nanotechnologies, through the use of carbon nanotubes in composite materials and nanostructuring of metal alloys.

b. Research and development applied to products

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

› the **radar segment**, with modern electronic phased-array scanning systems with integrated personal mobile radio module arrays for detection and aerial defence, including those used for air traffic control (**Selex Sistemi Integrati**). In the field of onboard radar for airborne platforms (fixed-wind or rotary-wing), **Selex S&AS Ltd**, with its new Sea Spray radars entirely designed with solid state active modules, has posted a major commercial success, including in the US market, thanks to the advanced level of the system's technology. Placing these technologies on a common basis has paved the way for the development of a new radar denominated PICOSAR, which is specifically designed for surveillance with UAVs (unmanned air vehicles), and a multiple-mode avionic radar called VIXEN-E with active electronic scanning that will form the future system for combat aircraft (**Selex S&AS**). Meanwhile, **Galileo Avionica** has begun making developments to revamp the exciter receiver processor which, using new digital technologies, will improve performance with regard to mechanical scanning radars (which have retained a level of market penetration) and to new electronic scanning radars. **Selex Sistemi Integrati** has completed development of transmit/receive modules for C-band naval and land radar, using gallium arsenide microcircuits, produced in its own foundry and integrated using advanced microelectronic technologies;

› the **electronic warfare segment**, together with the "sensitive" and extremely important associated technologies, has become part of the Group's assets, thanks again to **Selex S&AS Ltd**. With the DASS (Defensive Aids Sub-System) for electromagnetic defence against radars and missiles, the Group's product range of aerial platforms underwent significant expansion, allowing Finmeccanica to complete its integrated onboard defence and surveillance range for all air platforms. Development continued on the next generation of self-protection systems in the radar field called radar warning receivers (RWR) based on advanced building blocks such as the broadband digital receiver (DRX) and the compact receiver module which contains a complete receiver in just one card;

› in the **missiles segment**, with special reference to advanced seeker missiles, both infra-red (**Selex S&AS Ltd**) and radar and the active proximity fuses and related command and control systems (**MBDA**), preliminary and planning activities have continued on the project for new FREMM frigates for which surface-to-surface and surface-to-air systems must be installed on board (**MBDA**). Important developments are also taking place in the application of new digital receivers to improve existing seekers (Aster Meteor) and the use of passive phased array antennas for missile-based applications (**MBDA**);

› **electro-optics** for battlefield applications and for both land and sea integrated weaponry systems, and fixed-wing and rotary-wing aircraft applications (**Galileo Avionica**, **Selex Communications** and **Selex S&AS Ltd**). Development reached an advanced stage for a new generation of Direct Infrared Counter Measures (DIRCM) for active protection against shoulder-fired missiles for both military and civil aircraft (**Selex S&AS Ltd**) in cooperation with a well-known US company. **Selex S&SA Ltd** has also continued to develop active image observation systems based on burst illuminator laser (BIL) techniques, combining a laser source with a thermal imaging camera, allowing long-distance, high-resolution night time surveillance.
Development of an obstacle detection system has been completed. The system, called Laser Obstacle Avoidance (LOAM), is primarily for use in civilian helicopters. Based on laser/EO technologies, the system provides safety for the aircraft by detecting obstacles such as posts and high-voltage power lines which pose the greatest risk for low-flying aircraft (**Selex Communications**).
Development continues on the EO Hyperspectral system for space and avionics applications. Thanks to the analysis of the high-resolution image captured, this system, using hundreds of channels, will permit determination of even the type of material of which the object observed is made even from a distance (**Galileo Avionica**);

› naval, land, aeronautics and satellite **communications**, particularly secure tactical and strategic communications networks. Work continued in the field of architectures for future communications networks and network-centric services and in the development of software radio, an essential aspect of the emerging, irresistible need for integrated global communications (**Selex Communications**, **Thales Alenia Space** and **Telespazio**). In the area of secured communications, development has continued on the Crypt module for SDR new-generation radio (Software Defined Radio) and has begun development on deciphering the new-generation high-speed protocol (**Selex Communications**). Also with regard to Software Defined Radio, important work began on developing innovative devices based on SCE (Super Conductive Electronics) technologies aimed at producing direct multi-channel analysis modules for radio frequency signals (**Selex Communications**). With regard to this, a partnership was begun with the US company Hypres to build a prototype of a front-end receiver integrated into the radio channel tuning component. The use of superconducting micro electronics (SME) technology could lead to significant performance benefits and could reduce the system's complexity. Following the successful completion of operational testing, the WiMAX (Worldwide Interoperability for Microwave Access) system for broadband fixed-line and mobile communications, for components such as the police force, *Carabinieri*, civil protection, and so on, continued with the final development and industrialisation activities in preparation of the upcoming national tender to assign the related licenses (**Selex Communications**, **Selex Service Management**). The important studies into full Internet protocol (IP) convergence, which will make it possible to create and manage the networks dynamically, flexibly, and in an open manner, also continued (**Selex Communications**). In this area, multi-disciplinary studies also began into the implementation of the new Internet protocol IPV6 (the current system is known as IPV4), which will make it possible to manage network communications securely and reliably (**Elsag Datamat**, **Selex Communications** and **Selex Service Management**). Development and testing was completed on new devices for the Sicral 1B military communications satellite system, adding sophisticated protection capabilities against intentional interference (nulling) and advanced digital techniques over communications channels to the product's existing operating features (**Thales Alenia Space**);

- the **field of orbital infrastructures** and useful payloads (**Thales Alenia Space**), especially for scientific payloads, space robotics, and satellite observation and navigation. In the planet exploration area, development has been completed on radio communication equipment for Ka-band telemetry and command systems for deep-space missions that will be used on the Bepi Colombo mission and X-band systems for use in the ESA, LISA and GAIA scientific missions. Development also continued in the area of automation and robotics, particularly in the field of vision and image processing, which will make it possible to use autonomous planetary exploration vehicles for the Exomars and Eurobot exploration programmes. In early June, the first four satellites of the Cosmo-SkyMed series were successfully launched (**Thales Alenia Space**) and the testing phase began in the use of active array antenna installed on the satellite. In December, the second satellite of the series was launched successfully reaching the projected orbit. The satellite expressly designed for dual (military and civilian) use has been equipped with advanced synthetic aperture radar (SAR) and will be one of the cornerstones to ground surveillance for both Italian and European homeland;
- in the **orbital and space services management sector**, including the monitoring of sensitive areas (including security through the GMES programme) using differential radar interferometry and innovative 3-D digitalisation based on space photography (**Telespazio**), important research began on navigation and infomobility, which will generate significant returns in the areas of logistics and telecommunications (**Telespazio**). With the launch of the first of the satellites of the Cosmo-SkyMed series, the initial phases of the provision of high-value services began in the area of high and very high resolution earth observation based on SAR (Synthetic Aperture Radar) images (**Telespazio**);
- the area of highly complex, highly integrated land, naval and Air Traffic Management (ATM) **command and control systems** (C2-C4) with the design of a modern Flight Data Processor (**Selex Sistemi Integrati**), as well as highly specialised systems based on advanced processing and presentation devices (including platform control systems and advanced Flight Management/Control Systems for flight management) for application on fixed-wing and rotary-wing aircraft (**AgustaWestland, Alenia Aermacchi, Alenia Aeronautica** and **Galileo Avionica**). In this segment, the simulation aspect is taking on a great deal of importance, particularly with the activities of **Galileo Avionica**, which began defining a new generation of flight simulators, and of **Selex Sistemi Integrati**, with the development of a modular simulator for large-scale systems integration.
  As to naval systems, development continues on the new Combat Management System (CMS) Standard which will provide an effective modular solution for the new generation command and control systems market (**Selex Sistemi Integrati**).
  The feasibility study on the "Forza NEC" project was completed by an Integrated Project Office consisting of defence and industrial segment companies (**AgustaWestland, Alenia Aeronautica, Elsag Datamat, Galileo Avionica, MBDA, Oto Melara, Selex Communications** and **Selex Sistemi Integrati**). Forza NEC is a project launched by the Italian Army to make its components "net-centric", in order to provide an effective response to the commitment needs of the Italian Army in the face of a continuing increase in missions outside the area and to the request for interoperability with other Coalition Forces operating internationally;
- the field of **aeronautical platforms**, **AgustaWestland**, in the helicopters division, continued testing of the prototype of the BA609, the first convertiplane using cutting-edge systems and technologies, and developed structural modifications and electronic devices for the version to be used for national security, that was presented at the Le Bourget aeronautics exhibition in June of 2007. AgustaWestland also continued

research on “all weather” helicopter technologies to improve platform comfort (internal noise and vibration reduction), on innovative electrical system technologies and on development of Health & Usage Monitoring Systems (HUMS). **Alenia Aermacchi**, with crucial developments regarding training aircraft, especially relating to the ultra-modern M346 military trainer, which is successfully completing the final qualification stages; **Alenia Aeronautica**, with research on ***aerostructures*** that have successfully led to components of the new A380. Concurrently, development has been completed for some of the main components of Boeing’s 787 aircraft (known as the Dreamliner), the first examples of which were assembled and sent to the United States. More specifically, we are building the central section of the fuselage, with the prototype having been delivered during the first part of the year for subsequent integration in the US. A brand new plant has been built and placed into operation near Grottaglie (TA) for this production.
Work continued on the Sky-X (**Alenia Aeronautica**), an unmanned aircraft designed to demonstrate the feasibility of an advanced prototype with a mainly unmanned combat air vehicles (UCAV) role.
Activities to design the Sky-Y prototype (**Alenia Aeronautica**) entered an operational stage. This modern medium altitude long endurance (MALE) UAV had its first flight at the Vidsel test range in Sweden in June of 2007. Sky-Y could lay the groundwork for a future European UAV, in part through the collaboration with a number of companies and nations interested in the project. The development of the Falco medium altitude endurance (MAE) UAV system (**Galileo Avionica**) for surveillance and tactical observation (500 kg class) entered the final stages, with verification flights continuing successfully. The craft was designed and built for dual (civil and military) use, including activities for territorial security, and is winning widespread acclaim thanks to its versatility and high useful load ratio;

› 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. In particular, intensive efforts have been made within the scope of the **Zeus** project, which is being coordinated by **Selex Sistemi Integrati**, which has been given the mission of developing major systems for defence and homeland security applications.
The Major Systems division of **Selex Sistemi Integrati**, which was recently formed to pursue business opportunities in integrated systems based on complex architectures and network-centric approaches, has undertaken a number of joint studies with all the other companies of the Group with a view to achieving the following objectives:
  - developing the operational specifications and functional architecture of a major integrated system and all of its components in order to translate them into competitive solutions that fully meet the needs of customers in the various applications requested by the market;
  - leveraging the know-how, technologies and products available within the Group so as to enable their effective integration within a major homeland security system.

In particular, in the area of protecting critical national infrastructures (CNIs) related to the Transportation and Energy segments (where there is an increasing need for infrastructure control and protection from the dangers posed by international terrorism, large-scale organised crime or severe natural disasters), **Ansaldo Energia**, **Ansaldo STS**, **Elsag Datamat**, **Selex Communications** and **Selex Sistemi Integrati** are jointly involved in defining and formulating cross-technological solutions that can be implemented over the short term.
Activities related to the recognition of human behaviour through the analysis of TV images and the monitoring of biometric sensor data (**Elsag Datamat**) are continuing and evolving, while investment is also continuing in data protection using traditional (**Selex Communications**) and quantum (**Elsag Datamat**) proprietary cryptography.
Targeted investments also continued in the advanced concept of network-centric operations used in the management of security operations with adaptation and integra-

tion between Crisis Management Rooms and secure communications components (**Elsag Datamat**, **Selex Communications**, **Selex Sistemi Integrati** and **Telespazio**).
In *ad hoc* networks, design and development continues on sensors using nanotechnologies for employment in homeland security applications and environmental monitoring. The network architecture for the network node communication was defined and initial implementation of networking protocols with nanosensor links was achieved (**Selex Communications**).

TRANSPORTATION AND ENERGY

Companies that operate in the civil sector also continue to carry out significant research and development, in addition to those described above, in part in collaboration with companies operating in the Defence and Security sectors.
Specifically, important activities are being carried out in the following areas:

› **Energy**: with advanced processes to optimise the performance and maintenance of power plants. Innovative programmes on gas turbine and combustion system technologies are currently under way, focusing on low environmental impact, and the configuration of combined-cycle gas and steam plants (**Ansaldo Energia**).
Progress continues to be made in the field of fuel cells which represent a better solution for eco-friendly transportation in the future (**Ansaldo Energia).**
Innovative developments in simulating the functioning of a complex system of power generation, including the turbine combustion component, have reached advanced stages of development, in part to contain the emissions generated (**Ansaldo Energia**).
In the field of steam turbines, an important international project has begun to study the behaviour of special materials that will yield fundamental results for the development of “ultra-supercritical” turbines (**Ansaldo Energia**).
As to the technology for combined-cycle plants, the key factors for plant success have been identified as flexibility, reliability, availability and security. With regard to these objectives, development began in 2007 aimed at rapid, replicable plant start-up.
Finally, the programme to develop and release a plant security system was completed; further improvements are expected in 2008 (**Ansaldo Energia**).
Development of an innovative high-output electric axial-flow engine was completed involving **Ansaldo Energia**, as well as other Group companies including **AnsaldoBreda, Oto Melara** and **WASS.**

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

The developments in the field of entirely automated (i.e. driverless) subway systems continued and confirmed their effectiveness (**AnsaldoBreda** and **Ansaldo STS**).
With regard to railway signalling, significant activities regard the development of components for high-speed railway line applications and high-density conventional lines through the radio block centre (RBC) and automated train control systems (SCMT) projects. The projects aim to improve the functional integrations of various related subsystems (**Ansaldo STS**).
AnsaldoBreda is developing an advanced high-speed new generation train with a European partner.

GROUP GOVERNANCE OF TECHNOLOGIES AND PRODUCTS

The development of **Inter-company Technological Communities** (within the MindSh@re® [1] platform) is becoming a key resource and a breakthrough method to share and steer development, research and integration activities.
Currently, seven communities had been started with activities involving over researchers and technicians from among the company's top professionals:

- **Radar**: advanced radar system technologies;
- **Capability Maturity Model** (CMM): development and project management process;
- **Security:** research and development of technological systems and projects for **homeland security**;
- **Materials and Nanotechnology**: research and development on the new frontiers of basic technologies, including innovative materials, microelectronics, MEMS, phototonics and 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.

The major initiatives involving the communities within the MindSh@re® project were continued during the 2007:

- **Corporate Projects** that are intended to foster collaboration between the various Finmeccanica companies and universities, research centres and end users in new technology and market segments. These projects, which are being coordinated directly by the Central Technical department and are partially financed by the Parent Company, 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. Work will begin on 6 highly innovative new projects, selected from over 30 project ideas, in 2008;
- phase 2 of the **MindSh@re®** project, which is evolving from "collaboration" on technologies to a greater focus on stimulating "innovation".

EUROPEAN PROGRAMMES

The Group is also active in R&D activities at the European level (European Commission, ESA, NATO).
Finmeccanica's involvement in a range of ongoing programmes is continuing:

- **Sixth Framework Programme.** Development work is continuing on the LIMES project, led by **Telespazio**, which seeks to integrate satellite surveillance within the broad context of complementary solutions and systems, within the scope of the GMES programme. As to technological research programmes in the Helicopters segment, in 2007 two critical technology projects (CTP) were formally completed: ADYN (aeroelasticity and acoustics rotors) and TRISYD (transmission characteristics and innovation) related to the new ERICA convertiplane in which **AgustaWestland** served as project coordinator. Finmeccanica also took part in several other projects in the role of co-partner related to:
  - the study of the structural failure of composite panels;
  - the optimisation of landing procedures and techniques and the integration of the helicopter into the ATM system;
  - the improvement of acoustic comfort and reduction of the environmental impact of the helicopters;

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

› **Galileo Programme** for the new global positioning system, for which Finmeccanica was selected, with other European partners, to design and place in orbit the satellite constellation. During the year, the second of the "Giove B" pre-series satellites was delivered to ESA and the first of the "Giove A" pre-series satellites was successfully launched on 28 December 2005 (**Thales Alenia Space**);

› **Preparatory Action Programme** for European technological development in the Security field (**PASR**). Development of the two European projects awarded to Group companies has been completed: border protection (**Galileo Avionica** with the SOBCAH project) and rail transport security (**Ansaldo STS** with the TRIPS project). The SOBCAH project (for border protection, especially ports) completed its final demonstration at the port of Genoa. It demonstrated its effectiveness under the following real-life scenarios: a terrorist attack using radioactive materials in a container ("dirty bombs"), identification of vehicles evidencing anomalous behaviour in port areas, identification of suspicious small boats and an attack carried out by scuba divers. The TRIPS project performed a demonstration at a SNFC train station in Paris with French railway operators and European Commission members in attendance. Both projects were successfully completed;

› **European Defence Agency** (**EDA**), with which relations were tightened for the provision of new technological development in the areas of UAV and software radio. We also won a study within the scope of the Autonomous Remote Multisensing System (ARMS) project, with **Selex Sistemi Integrati**, Thales's partner, working on the wireless connectivity of networked sensors;

› during the first half of 2007, the results (partial) of the first call of the **Seventh Framework Programme - Security** (2007-2013) were announced, an area in which Finmeccanica's strategy has been consolidated, with broad initiatives on defining the programmes and on possible collaborative consortiums.
Finmeccanica is the coordinator for the following projects:
• ARGUS-3D, with **Selex Sistemi Integrati** on passive radar surveillance;
• SICMA, with **Elsag Datamat** on a crisis management simulator;
• SUBITO, with **Galileo Avionica** on airport area surveillance, especially on discovering unattended luggage and searching for the owner.
In addition, the Group was significantly involved in other projects such as:
• security at large-scale events using adaptable applications, including the London 2012 Olympics;
• software defined radio technologies to improve the interoperability of forces that operate under crisis scenarios;
• surveillance and recognition of anomalous behaviour using intelligent video cameras and air and sea surveillance systems;

› **Seventh Framework Programme - ICT** (2007-2013). In this area, too, in the second half of 2007 the results (partial) of the second call were announced. Finmeccanica's position has improved due to strategies of participating in the Artemisia and Aenea European technological platforms. Several significant projects regarding embedded systems (sensors and systems with intrinsic calculation capabilities) and nanotechnologies were won in these areas; Finmeccanica will act as partner to major industrial players and research centres;

› strong participation in **Collaborative Research** in the **aeronautical** area and the related Joint Technology Initiative (**JTI**, called Clean Sky) which will have a total financing of over € mil. 2,000, proposing two technological platforms with development to be led by Finmeccanica: the Green Regional Aircraft (**Alenia Aeronautica**) and the Green Rotorcraft (**AgustaWestland** in a consortium with Eurocopter). **Avio** and **Galileo Avionica** are also involved;

› **the SESAR Programme**, now that the pre-development phase has been completed, will be implemented within the Seventh Framework Programme with some € mil. 1,400 in financing from the European Commission and Eurocontrol. This project will allow the development of the new European ATM system for an efficient air traffic control management system by 2020 and **Selex Sistemi Integrati** and **Alenia Aeronautica** (likely top-level leaders), **Galileo Avionica**, **Selex Communications** and **Telespazio** are actively involved.

Partnerships continued with the leading **Italian universities** (**Genoa, Naples, Parma, Pisa, Rome** and **Turin**) in the fields of both nanotechnologies and security. Exchange relationships with the most important **US universities** (**MIT-Cambridge, University of California at Berkley, Carnegie-Mellon–Pennsylvania**) are also ongoing.
Following participation in the *"Primavera Italiana"* event in Japan held in June 2007, involving the Group's leading companies and experts from Japanese manufacturing and research, work began on establishing contacts within the Japanese academic world in order to grasp opportunities for innovation and to forge partnerships in the research and development areas.

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 2007: consolidation of international business forecasts; the integration of strategic assets; and leveraging of international acquisitions and partnerships concluded in previous years in terms of greater productivity and synergies, cultural and industrial conversion of the Group based on the global player model.

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

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

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

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

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

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

The organisation of **Finmeccanica Group Real Estate**, the new Group company that centrally coordinates the Group's real estate activities and matters relating to healthcare, the environment and security was completed in June.

In July, **Alenia Composite**, the company operating in the aeronautics segment on the Boeing 787 Programme, was reorganised.

In the second half of 2007, the Senior Transition Team (STT) gradually intensified its work of examination and comparison which led to the development of the integrated transnational structure of **Selex Galileo**[1], which began operations in January 2008.

The process of merging **Elsag** and **Datamat** through **the new company Elsag Datamat** was completed in August as part of a move towards greater organisational and corporate convergence.

1. This is the brand under which the companies Selex Sensors and Airborne Systems SpA, Selex Sensors and Airborne Systems Ltd and Galileo Avionica SpA are known in the marketplace.

It should also be noted that there has been a gradual strengthening of regional presence in two primary markets, with regard to the Group's core business sectors, i.e. the United Kingdom, through **Finmeccanica UK Ltd**, and the United States, through **Finmeccanica North America Inc.** Within the Group's organisational structure, both companies mentioned fall under the responsibility of Finmeccanica's General Manager.

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

› the reorganisation of the **Public Relations department** (June), with, in particular, the concentration of all activities involving external (Press Office and Media Relations, events, exhibitions, trade shows, etc.) and internal Group communications within the *Communications Office*;

› the creation of a new **Technical, Industrial and Commercial Development Office** (October), in order to make only one body responsible for coordinating the technical (*Technical Office*) and commercial areas (*Commercial Office, USA/UK Programmes Development Office, Marketing department*) of the Corporate division;

› the development of the organisational structures within the **Strategies Office** (November);

› the reorganisation of the **Human Resources department** (December), centring around the *Human Resources Management and Industrial Relations Office* and the *Human Resources Training and Development Office* through integrated operating processes and mechanisms.

Finally, the **Finmeccanica Group premises throughout the world** were updated: at the end of 2007, the Group operated through **300 offices,** of which 142 in Italy (47.3% of the total) and 158 around the world. These included 128 so-called "operational" sites (manufacturing plants and other sites used mainly for production), or roughly 42.7% of the total. A census of Group sites is updated every six months, in concert with the human resources staff of the operating companies, which feeds a specific publication on the Finmeccanica website.

RESOURCE DEVELOPMENT AND COMPENSATION

Between July and October 2007, all the one-to-one meetings with the Group operational companies were held within the scope of the now entrenched **Management Review** process, which was begun in 2002 and has continued to evolve since then, with regard to structure and content, in order to meet all challenges, priorities and objectives involving the strategic management of Human Resources, becoming in the process a true "cornerstone" of the Finmeccanica Group's management system.

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

Within the scope of the cycle of meetings scheduled for the year, special focus was placed on gathering all information and assessments useful for strengthening Human Resources development and reward processes, starting with a more precise, wide-scale application of the policy on infra-group transfers of managers and one more effective management of "succession tables" and individual career plans, even through finally overcoming the one-company dimension in all activities geared towards developing the human capital of the Finmeccanica Group.

Also during the second half of 2007, as concerns the strategic management and professional and managerial development of human resources, the significant commitment of the Human Resources department has continued in **Project GEAR** (Group Executives Advanced Review), which is designed to **evaluate the managerial abilities** of all Finmeccanica Group executives and senior managers. This project, which will become operational with the initial evaluations within the first quarter of 2008, represents the "missing" piece of the extensive **Group Managerial System.**

The GEAR Objective, which as part of the 2007 MBO System will have an impact on the total annual pay-out of each manager, is based on a unified skills model that will be of significant value as the worldwide reference managerial profile for all Finmeccanica management.

Below are listed the **7 Managerial Skills** upon which all Group executives will be evaluated for the first time in 2008 with regard to performance in 2007:

› Value creation;

› Market and customer orientation;

› Excellence in the pursuit of the assigned objectives;

› Maximisation of human capital;

› Business knowledge;

› International integration and development;

› Innovation and proactivity in change.

Major activities undertaken in the second half of 2007 include the activation of the MBO-GEAR System IT tool, the primary process automation tool, which, it is estimated, will result in considerable savings in the management process (over 30% due to the near total elimination of paper documents).

The communication and dissemination plan continued with the latest international editions of GEAR-UP, the cycle of seminars designed to share the strategy behind and the relevant abilities under the new management model, and the planning and distribution of specific corporate training kits in order to complete the final step in the training offered by the companies.
This portion, which will be completed in early 2008, will be aimed at advancing the evaluation experience by highlighting the innovative significance of the management development process connected with the evaluation of the skills of each manager by the direct supervisor and by the next-level superior who, in many cases, is also a Leader of the Professional Families. Standardising the results at the company level and at the Group level will also allow us to draw up a Finmeccanica manager profile to which to add targeted, specific training and development programmes.

Among the other significant initiatives, another **Individual Executive Coaching** project was launched by the Human Resources department of the Group Parent targeting a range of senior and middle managers who have demonstrated great corporate division potential. The project will be replicated at the company level. The coaching plan, which was designed by the corporate head office, is a part of the implementation of tools intended for individual development and which can be extensively customised in order to strengthen employees' organisational skills, based on company-level improvement objectives.

Project CHANGE (Challenge Hunters Aiming at New Generation Excellence), an innovative initiative intended to leverage skills and develop our "**Rockets**", i.e. young people of excellence, identified by their companies, with international visibility who have clear growth potential in more complex roles, was redesigned in the second half of 2007. The new, entirely remodulated editions featuring a further international approach were introduced in early 2008.

In the area of **Compensation**, the main challenge continues to be the need to establish incentive polices and systems that are homogeneous at the Group level and that respond to company-specific needs, in line with reference compensation figures and the most advanced trends in the relevant markets, in order to attract and retain all the employees and professional skills that are "key" for the Group.

In 2007, there was a further consolidation of the scope of the beneficiaries of the **MBO System**, which is targeted at over 90% of Group senior managers and executives and continues to represent a significant component of the overall compensation package.

The 2007 MBO System guidelines were defined subsequent to efforts to profoundly revise the operating strategies, structures and mechanisms, so as to increasingly tie the incentives to the achievement of financial and operational results and excellence in operating performance.

More specifically, these efforts have led to the definition of a set of innovative indicators designed specifically to enable accurate measurement of industrial performance and company profitability, as well as to the introduction, for each target of the MBO System, of a threshold (or "gateway") level. Achievement of this gateway level is a prerequisite to earning the incentives associated with the MBO System. This mechanism of correlating objectives, which may result in eliminating the potential benefits for significant under-performance in relation to even just one target, falls fully within the scope of efforts to increase focus on overall quality of performance, both individually and as a corporation.

The sole objective for which incentives are not subject to potential elimination due to failure to achieve the gateway level is the managerial GEAR target, which is another innovation added to the 2007 MBO System (see above). The introduction of this target has made it possible to promote and reward managerial abilities in pursuit of the targets assigned to each of the Group's executives and senior managers in relation to the performance indicators of Finmeccanica's new Managerial Skills System.

With regard to **long-term incentive systems,** specifically the **Performance Share Plan 2005-2007,** the stock grant plan approved by the Board of Directors of Finmeccanica SpA on 29 September 2005, in 2007, upon verification of the achievement of the performance objectives (for the company or the Group, as appropriate) the second instalment of Finmeccanica SpA shares were freely allocated and delivered up to a maximum of 25% of the total shares awarded under the plan. It should be noted that plan participants were identified based on the results of the Management Review process and include young management employees who, although they do not currently hold positions that have a high impact on corporate business, represent strategic Group assets based on their long-term development potential.

The year 2007 marks the end of the Performance Share Plan 2005-2007. Upon verification of the achievement of the relative objectives, the third and final instalment of shares will be allocated and delivered, constituting 50% of the shares awarded under the plan. If the 2007 targets are fully achieved, participants may recoup previously undistributed shares.

In order to ensure substantial continuity in the Group's compensation system architecture, at the most recent Finmeccanica SpA Shareholders' Meeting held on 30 May 2007, the guidelines for the new Performance Share Plan 2008-2010 (stock grant plan), were approved, as was the purchase and availability of the shares to service the plan, which – in line with the previous Performance Share Plan 2005-2007 – is intended for key Group employees and calls for the allocation of rights to receive Finmeccanica SpA shares free of charge upon achieving specific VAE and order targets for the period 2008-2010. During the Management Review 2007 meetings, criteria for participating in the new plan were shared and the idea of granting shares to managers was discussed in an initial manner.

The Finmeccanica SpA Shareholders' Meeting of 16 January 2008 subsequently revoked the aforementioned authorisation, guaranteeing, however, the availability of the same number of shares to service the Performance Share Plan 2008-2010 – as well as the shares still required for the Performance Share Plan 2005-2007 and the Stock Option Plan 2002-2004 – through a specific resolutions on a broader share buy-back programme.

In 2007, there was the start of the **2007-2009 cycle of a Cash Incentive Plan** targeted at the top management of Finmeccanica SpA of the main Group subsidiaries, based on the achievement of ambitious Group targets, using an entirely self-financed logic. Under the traditional rolling-scheme approach, this plan runs concurrently with the 2005-2007 and 2006-2008 cycles, with the goal of maintaining a high level of attention and motivation towards the joint achievement of performance levels that are significantly higher than the performance and financial targets in the budget and as to the appreciation of the value of the stock among the highest level of management.

TRAINING AND KNOWLEDGE MANAGEMENT SYSTEMS

In 2007, the integrated international Training and Knowledge Sharing System initiatives were further refined and the groundwork was laid for making it more accessible to all the international stakeholders and for consolidating the System on a global scale.
In addition, there was further consolidation of the system of collaboration between the Human Resources department and the Group companies by implementing a common process of identifying training needs and initiatives, which has made it possible to focus on common areas of intervention that are in line with the strategic drivers of the Group.

The primary activities carried out under the 2007 Business Plan were designed to:

1. reinforce Finmeccanica's distinctive Culture and Identity (Group Culture and Identity);
2. manage target groups of strategic importance for the Group in order to increase awareness of the process of change and to develop skills on a lifelong-learning basis (Ongoing Skills Development);
3. develop, standardise, enhance and share the skills that are key to the business (Business Management Training and Knowledge Management).

1. Group Culture and Identity

During 2006, the first **On-line Survey** involving all Group employees from around the world was performed under the Business Culture Project. During the first quarter of 2007, the results of the survey were disseminated through meetings, published on company intranets and on the Group's portal and distributed in hard-copy pamphlets to all employees. During the year, each company defined, disseminated and implemented action plans on areas of improvement identified by the survey. These action plans are also designed to meet employee expectations and to achieve corporate targets. Within each company, the **Champions of Change**, i.e. authoritative owners of significant processes, have, with the help of a working group and the supervision of the HR department and the company's management, managed the implementation of the action. In December 2007, the process of analysing the results achieved, which were disseminated and distributed within each company and within the Group, began.
In May 2008, another on-line survey will be launched in order to verify that the results have actually been achieved and to begin a new cycle of improvement.

Within the scope of the **Integrated Project of Internal Communication & Group Identity**, which is the result of a collaboration between the Human Resources, Training and Knowledge Management Systems, Public Relations, and Communications units intended to optimise the flow of communication within the Group, the **Training Course for Finmeccanica In-house Communicators** was held. Beginning with the definition of the skill model for the Finmeccanica **In-house Communicator**, the initiative focused on developing awareness of the role, knowledge, capacity, and skills needed to act effectively. During the final quarter of 2007, an editorial committee was established within each Group company, presided over by the In-house Communicators, chosen from within the Communication and Human Resources departments.

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

In order to stimulate and leverage the skills, abilities and technologies of the various companies, Finmeccanica has, since 2004, sponsored the **Innovation Award**, an international award open to all employees of the Group who present innovative ideas and projects for corporate business areas. Over the years, the project has attracted a growing participation, involving a total of more than 6,000 people worldwide, for a total of over 2,100 innovative projects, many of which have received patents that have had a significant impact on business. During the first half of 2007, each company launched and managed their own Innovation Award. In the second half of the year, the 3 winners from each company took part in the **Group Innovation Award,** the ceremony for which was held at Alenia Aeronautica’s Grottaglie facility on 26 October 2007. In 2007, now in its fourth edition, the Award attracted 758 innovative projects, 27% of which contributed by employees of the Group’s foreign offices.

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

For the **Purchasing and ICT PF**, work began on designing the Competency Management System, which is one of the responsibilities of a working group comprised of the Human Resources department, the Group Purchasing and ICT department, and representatives from company HR and Purchasing and ICT offices. The results achieved thus far have permitted:

› identification and description of the Professional Roles, with relative seniorities, characterising the Professional Families, and cross-coding of all the names used by the companies in accordance with a homogeneous classification at the Group level;
› definition of the total store of technical/specialist knowledge of the Professional Families, broken down by item, the possession and degree of depth of which is tied to the different levels of seniority held by the Professional Roles;
› the rationalisation of theoretical training and professional development among the roles, useful for governing vertical development processes and broad-based mobility within and between the Professional Families;
› initial planning of the learning library which is intended to ensure the development of the technical/specialist knowledge of the members of the Professional Families;

› definition of the requirements needed to identify and develop a technological platform to support the skill inventory and learning processes.

2. Ongoing Skills Development

2.1 Training for young people

The year 2007 saw the consolidation of initiatives aimed at strategic targets of employees, particularly newly hired young people and high-potential young people, senior managers and high-potential senior managers with a strong international orientation.
With regard to training for young people, the four-month long **FLIP** (**Finmeccanica Learning Induction Programme**) continued, tailored for recent university graduates hired by the Group (within one year of hire). Its goal is to guide and engage the younger generation within the Finmeccanica Group.
Internationalisation, Integration, Value creation, Innovation and Customer orientation are the fundamental points of FLIP training. The goal is to encourage active participation and initiative on the part of participants, providing an integrated vision and greater organisational awareness of their role within their company and the Group.
The special feature of this training is its use of blended learning – an effective combination of tradition and innovation based on classroom lessons, distance learning and project work.
FLIP includes access to on-line simulation and web-based training (WBT) that focuses on the following content: organisational model, project management, economics, security, quality, and effective conduct in complex organisations. It also includes a specific focus on public speaking and effective communication. For 2007, 10 editions were held, involving a total of 211 participants. To date, the initiative, launched in 2005, has involved 487 new employees from 17 Group companies in its 21 editions.

Also continuing is the initiative **BEST** (**Business Education Strategic Ten**), Masters in General Management, targeting **brilliant university graduates from all Group companies who have been with the company around 3 years** and including both on-line and in-class training.
In 2007, the Masters were redesigned to meet the accreditation requirements of ASFOR (Italian Management Training Association). The process began during the year, but will reach culmination with the receipt of official accreditation in early 2008.
Thus far, the BEST Masters programme has, in its 23 editions, attracted 480 young people from 17 Group companies. In 2007, 4 editions were held attracting 90 participants.
The 2007 edition of **Future LIFE** (**Learning Intensive Finmeccanica Experience**) was designed and held during the period. Future LIFE is a new training experience that, in addition to rewarding the winners of the BEST Masters, is also an essential step in developing and grooming young talent for management positions within the Group.
The goal is to give them an opportunity to interact with “excellent role models”, especially regarding issues of complex project management in an increasingly international, multicultural context.
The 2007 edition gave 23 participants the chance to engage in approximately two months of initial training and on-line preparation for a study tour that was held in South Carolina, United States, during the week of 23-29 September 2007 (at Alenia Aeronautica’s Charleston facility and Union Switch and Signal’s Batesburg facility).
During the final event on 19 December, the young participants demonstrated the lessons learned to their respective Chief Executive Officers.

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

2.2. Management training

In 2007, Project **GEAR-UP - Building Finmeccanica's Future**, an international initiative to support the promotion and understanding of the Group's new managerial skills model (GEAR), was designed and carried out. The project also promotes:

› increasing awareness of and ability to interpret and understand one's own path within the context of the business (i.e. employability);

› an understanding of the strategies underlying the Group's new managerial skills model (i.e. commitment);

› active involvement in creating a new, distinctive Finmeccanica management style (i.e. engagement).

Seventeen editions of the initiative were held between June and November 2007 (13 in Italy, 3 in the UK and one in the US) in the form of a one-day workshop involving a total of 1,415 executives from around the world.
Design began on the Competency Lab*,* a library of "learning objects" that will be made available to Group executives in 2008 to help them develop GEAR management model skills.
Having been shared with the various Social Partners, Finmeccanica SpA also presented a *Piano Formativo Aziendale di Gruppo* (Group Corporate Training Plan) to Fondirigenti. Finmeccanica is representing the 33 companies (all of which belong to Fondirigenti, with the exception of Thales Alenia Space and MBDA) that have signed a collective agreement. Along with approving the entire amount of funding requested, it highlighted the "solidarity nature of the initiative" and expressed appreciation of "the spirit and the goals".

Within the scope of the management training initiative **From Technology to Values**, also of an international nature, which targets **high-potential senior managers** from all Group companies, a Focus-On event entitled *"Etica dell'Impresa e nell'Impresa"* (Corporate Ethics within the Corporation) was held (for 110 participants).
The Focus-On events are one-day opportunities for discussion with authorities from both within and outside the Group on topics of strategic importance to Finmeccanica and are attended by all those who attended the previous editions of the seminar (thus far 155 executives and senior managers). These events are preceded by opportunities for sharing and reflection within the project's web community.

The year 2007 saw the launch of the **Finmeccanica Faculty Project**, which seeks to map the **owners of key knowledge and skills within the Group**, thereby promoting skills of knowledge transfer and enhancing talent in order to create a sort of register of Subject-Matter Experts (SMEs). Ten SMEs were trained during the year at the prestigious CALT INSEAD business school at Fontainebleau.

2.3 Corporate training

Legislative training/information activities continued through:

› the holding of a training course for employees and managers who handle personal information, in compliance with Italian Legislative Decree 196/2003 and our corporate Security Policy Statement, including the design and creation of WBT which will be available on-line to new-hires and those who did not participate in the prior in-class training, for a total of 100 persons involved;

› on-line training (accessible through the corporate intranet) on the "Management and Control Model" adopted by Finmeccanica SpA in accordance with Italian Legislative Decree 231/2001, for a total of 100 persons involved. The course was made available and appropriately customised for all Group companies (AgustaWestland, Ansaldo STS, Ansaldo Energia, Selex Sistemi Integrati, Selex Communications, Elsag Datamat, Galileo Avionica, Selex Sensors and Airborne Systems, Telespazio, Finmeccanica Group Services, and Alenia SIA have already signed up).

The **International Behaviour & Skills Programme** is an integrated model aimed at developing international profiles and improving participants' knowledge of their foreign languages for business. In 2007, the project involved 183 personnel from Finmeccanica and So.Ge.Pa. Project learning objectives were tied to participants' professional activities.
The programme used flexible teaching methodologies and implemented differentiated learning paths:

› traditional in-class learning, structured into weekly semi-individual courses of 90 minutes each (for office staff and middle management);

› paths to be implemented upon request, with a certain total of on-demand hours (for senior management).

3. Business Management Training and Knowledge Management

Finmeccanica, within the scope of the process to develop its control models and Group corporate culture, plans to strengthen the skills of those holding various Project Management roles in order to create a systematic vision aimed at achieving performance objectives.
Therefore, the Group has established the objective of defining a framework that, although considering the distinctiveness of the various companies/business sectors, may constitute a common, shared reference for the Group, or "Project Management Finmeccanica's way".
Therefore, in 2007, the Project Management Programme (PMP) was launched aimed at all Group companies.
The goal of this initiative is to identify the Group's key professional roles, in order to implement training programmes targeted at strengthening and updating key project management skills in line with the highest market standards.
The initiative also envisages Project Management certification by the top internationally recognised bodies such as *PMI* (USA), *APM* (UK) and *IPMA* (Switzerland).
The Project Management Programme design phase was completed in July 2007 through integrated work by experts from all the Group companies. This has allowed the Group to implement and integrate company-level best practices with international standards. In September 2007, the Group PMP Model Guidelines were issued.
Over 1,000 participants from all the companies and from six different countries working in the area of Project Management are involved in the Project, which was launched in early 2008. Of these 1,000 participants, roughly 13% will have the opportunity to obtain the Project Management certification.
Training activities are expected to be funded primarily by the Fondimpresa Interprofessional Fund.
The initiative's high degree of quality and its international dimension are ensured by the partnership with *Politecnico di Milano*, chosen as the initiative's Global Educational Partner.

In 2007, another significant Group industrial culture initiative, the **Finmeccanica Economics Programme**, continued in order to strengthen economic and financial management skills and to foster the application of tools to monitor and measure performance on the basis of a value creation approach. The success of the training path, which attracted more than 700 employees from all companies involved in 2007, is due mainly to its strongly experience-geared approach based on analysis and discussion of case studies and interaction with corporate management.
The training path, divided by skill level and professional area, is aimed at providing a key understanding of Business Economics at three increasing levels of depth: ***Introduction*** (organised into three increasing levels of depth – i.e. absolute beginner, beginner, and user); ***Intermediate Specialisation*** in order to meet the needs of specific units (and currently implemented for the professional families of HR and ICT); and

Performance Measurement dedicated to the heads of the areas/business units.
The initiative will continue in 2008 with the goal of achieving wide-scale offering of the training path (**Finmeccanica Economics Programme 2.0**), especially for the *Introduction* level, in order to make it accessible to a broader cross-section of employees and to support the strengthening of skills over time.

During 2007, the ***Knowledge Management Systems*** department, in concert with the Finmeccanica Group Services' ICT department, continued developing the Group *Knowledge Management Model* with the definition of the related IT infrastructure architecture and the qualification of the approach to testing, which will begin in 2008.
Work has also begun to design and implement a collaborative environment for document sharing within the Human Resources Department.

In March 2007, the first session of the **Intellectual Property Governance** training programme was completed. This programme was carried out with the collaboration of the Technical department and seeks to strengthen awareness of the importance of protecting intellectual property and of the patents process. Since its launch in late 2006, 27 editions of the initiative have been carried out, 18 of which in 2007, reaching a total of about 560 participants and involving all roles of responsibility, both technical and non-technical, that contribute to the receipt of patents.

INDUSTRIAL RELATIONS AND SOCIAL AFFAIRS

During 2007, Finmeccanica focused on the four-year renewal of the national collective bargaining agreement for the metal-working and engineering industry (signed on 20 January 2008) through constant, direct involvement in Federmeccanica delegations and at the official bargaining "table".
In that regard, the role of Finmeccanica's representatives was especially important for the positive conclusion of the long, drawn-out negotiations, confirming Finmeccanica's increasingly ongoing and decisive involvement in the negotiations, particularly as concerns the impact that such issues have within the Group and from a regulatory standpoint, as well as with regard to benefits packages.

In addition, Finmeccanica continued its participation in the **Standing Groups for Trade Union Dialogue** to promote shared management and efficiency in work relations as a fundamental condition for reviving the competitiveness of the productive system, thereby strengthening its role with ongoing involvement and innovative proposals. 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 were particularly important in conjunction with the negotiations with the national trade unions FIM, FIOM, and UILM.

Finmeccanica's presence within the "**Large Corporate Working Group**", comprised of the heads of industrial relations for the leading firms nationwide, has also been confirmed, with the scope of analysing the key issues affecting such companies by addressing common problems and by defining, where possible, common, homogeneous positions, particularly with regard to institutional and trade-union counterparts.

The new **Professional Apprenticeship contract** was implemented and developed in light of the memorandum of understanding signed with the national trade unions and through a Group project aimed at embracing and harnessing opportunities from the targeted use of this tool to bring new personnel into the world of work.
In that regard, it should also be noted that the target to hire 1,000 Group employees as a part of this programme for the period 2006-2007 was both reached and surpassed much more quickly than expected.

As of 31 December 2007, Group companies and the various facilities throughout Italy hired **1,374 young new employees**, both through "professionalising" apprenticeship contracts and "high-training" apprenticeship contracts.
The broad-based nature of this new form of contract made it possible to hire both blue-collar workers (1,086 employees) and white-collar (288 employees), primarily secondary-school graduates, but also university graduates (63 of which with engineering degrees).
The extensive use of this apprenticeship contract provided significant financial advantages, causing an estimated savings of 28% compared with temporary employment contracts and 20% compared with permanent employment contracts.

With a view to identifying innovative professional growth paths for our employees, **Finmeccanica** signed a **Memorandum of Understanding** with the national trade unions (FIM-CISL, FIOM-CGIL and UILM-UIL) in order to increase the skills of corporate middle managers.
The Memorandum outlines a professional growth management pathway based on the role performed as well as the size of that portion of the workforce, recognising the special importance of training for consolidating the goal of professional development, on both an individual and class scale, in order to stimulate the development of corporate know-how.
In addition, on the one hand, the Memorandum recognises the representative role of the trade unions in representing these employees through a concrete response to rising expectations and, on the other hand, it forms an essential piece of Finmeccanica's management policy concerning employees deemed fundamental for the Group's future growth.
Finally, the agreement has a strong relational value since it aims to consolidate the "Proper and Advanced Industrial Relations" plan with the relevant trade unions, as has occurred regarding other issues with a cross-sectional impact (Professional Apprenticeships, second-tier Bargaining, Co-funded Training Programmes).
The joint signing is of particular significance given the current political and labour climate.

Of special importance is the support that Finmeccanica guaranteed to a number of companies involved in **integration/reorganisation/outsourcing**. These actions involved a series of initiatives both within the Group and with the trade unions in order to assist the individual companies in managing the various processes.
Specifically, a positive conclusion was reached in several disputes that were especially complex for political or union-relation reasons (such as, for example, the reorganisation agreement for Selex Communications, the merger of Elsag Datamat, the understanding on the AnsaldoBreda optimisation and development plan, the redevelopment and new business outlook plan for Oto Melara's Brescia site, the international integration process for Selex Galileo, the process of developing and requalifying RITEL's Rieti site, and the sale of the share capital of Ansaldo T&D), particularly with regard to possible employment and social impacts.

In terms of **corporate agreements**, activities continued on the **renewal of second-tier bargaining**, which resulted, in particular, in the definition of supplemental agreements and related performance bonuses for Alenia Aeronautica and AgustaWestland, as well as significant progress at other "negotiating tables" that are still active and are expected to be concluded by the end of 2008 (Oto Melara).

The results were achieved by paying close attention to costs, by the signing of agreements/understandings with national, local and business-level unions, and by substantially maintaining "social peace".
All this undoubtedly had a positive impact on the corporate climate, union and institutional relations and on the "external" perception of the Finmeccanica Group.
In that regard, on the whole, the level of participation in strikes remained modest throughout the Group, with the exception of a limited number of episodes involving certain specific critical issues.

The percentage of union membership (in absolute and pro-capita terms) recorded in the Finmeccanica Group is sharply lower than current estimates for the entire Federmeccanica system, also considering the national mobilisation related to the renewal of the national collective bargaining agreement for the metal-working and engineering industry.

Finally, it is important to underscore, within the scope of actions undertaken to assist individual companies in managing different processes, especially in relation to the possible employment and social impacts, the primary role played by the Corporate division with regard to the so-called *"Mobilità Lunga"* early retirement process, as concerns both the competent ministerial offices and the national offices of the various trade unions.
In particular, it should be noted that the entire process, which led to the acquisition of 495 long-mobility units by the Finmeccanica Group, has been managed with the full agreement of the trade unions concerned since it is a useful means of reducing the use of other social safety valves that have a more traumatic impact.
Furthermore, the allocation of positions and Group companies involved, within the scope of those companies that are expressly indicated in the ministerial agreement, were rationally selected on the basis of real needs, thereby giving priority to the companies undergoing processes of reorganisation, restructuring, conversion, crisis, or other corporate alterations over the coming months.

As in previous years, the Group continued to promote and implement a variety of contractual arrangements involving senior and middle management.
In particular, the Group fine-tuned certain rationalisation processes related to important incentives such as insurance coverage and supplementary pension schemes.
With regard to insurance coverage, policies covering workplace and non-workplace accidents and life insurance policies for executives were renegotiated, providing us with significantly better coverage at essentially the same cost.
As concerns the Finmeccanica Group Executive Pension Fund specifically, the first half of 2007 saw the preparation for the delicate process of enacting the new legislation concerning pension funds and the Italian post-employment benefit plan known as *Trattamento di Fine Rapporto* (or TFR). In the second half of 2007, compliance with the new legislation was achieved. Moreover, plans were made to shift from a single-sector to a multi-sector solution, adding a new insurance company alongside the present provider in order to provide greater choice with a view towards diversifying investments.

Work also continued on promoting and implementing social services aimed at all Group employees, which focus on offering especially advantageous benefit packages, including with regard to financial and commercial matters. Finmeccanica employee healthcare services were also strengthened and coordinated by uniting the traditional healthcare activities with a series of **preventive medicine initiatives**. Specifically, medical screening initiatives were undertaken as were programmes to provide information and spread awareness about cancer prevention.
Additionally, in order to implement all tools required for employees to perform their work in the safest environment possible, all Group companies began identifying needs concerning occupational medicine so that the Group may integrate and harmonise the various initiatives.

The Finmeccanica Group's increasingly well-established international presence has led to closer scrutiny of integration processes concerning employment-related organisational, regulatory and contractual matters. Specifically, work continued on developing and implementing initiatives aimed at standardising current international pension benefits, especially with regard to the UK area, in part by forming a new defined contribution fund for newly hired employees which is already in place at AgustaWestland.
At the same time a great deal of emphasis was paid to intragroup mobility processes at the international level, through a revision of existing Group policies and a greater commitment to managing international transfers.

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

During 2007, in line with the process begun in 2006, a number of initiatives were developed at the Group level aimed at reorganising the management of legal disputes by identifying specific common tools (criteria for evaluating homogenous risks, use of computerised databases), as well as sharing the most significant problems for the Group companies.

Special attention was given to monitoring and controlling pending legal disputes, which translated into a significant reduction in and optimisation of the costs related to labour disputes.

On a regulatory level, within the context of the legislative reforms that were undertaken in 2007, in-depth studies were made concerning topics having a high impact on the Group in order to establish a common interpretative policy (especially regarding supplementary pension schemes and workplace safety).

In addition, following the signing of the Welfare Protocol on 23 July 2007, the Group paid close attention to the regulatory process that was completed in December 2007 with the issuing of the Finance Act and the related welfare package. In regard to this, the Group companies have undertaken information initiatives to establish standard interpretation and implementation processes.

FHINK MASTERS

The Finmeccanica Masters in International Business Engineering, the advanced training and development programme aimed at developing skills in analysing complex international organisational contexts and industries that are characterised by the need to manage long-term multi-technological jobs, completed its **second edition**. As a fruitful opportunity for integration of business and education, as well as of dialogue between educators and businesspeople, the Masters programme uses both “traditional” learning, with seminars led by some of the world’s leading scientists and researchers in specific areas of technology and innovation, and “soft skills” sessions aimed at developing managerial skills and project work. As an integral part of the coursework, the students will have the opportunity to meet with Group managers in order to contextualise the topics covered by the academic programme vis-à-vis actual Finmeccanica operations.
Reflecting the strong international interest in this initiative, the initial on-line recruitment phase attracted (between April and June 2007) **5,107 requests from recent university graduates in 105 nations.** The subsequent selection phase (653 telephone interviews, 170 candidates invited to the assessment centre in Rome, 70 final interviews before the **Mixed Technical Commission** comprised of Finmeccanica management, the HR managers of the various Group companies, and university instructors), **resulted in a class of 29 students from 16 countries,** with an average of 25 years.

The programme began on 22 October 2007 with the start of the Introductory Courses (Mathematics & Statistics, Financial Accounting, Micro and Macroeconomics, etc.) designed to bring the basic preparation of the class to the same level.
Commencement Day, the traditional ceremony to mark the start of the “academic year”, was held on 23 November 2007, attended by Mr. Guarguaglini, Mr. Zappa, Mr. Maglione and the top management of the Corporate division.
The learning content of the Masters programme, totalling some 1,000 hours of lessons, focuses on the following four main area: PM Business & Programme Management;

TM Innovation & Technology Management; MS International Marketing and Sales; and LAB Laboratory Sessions.
The use of an advanced web portal was made available to the students and the teaching and organisational staff to permit them to gather informational material, manage logistical matters, and keep in touch with a virtual community comprised of students and course organisers. Course material, presentations and content that the various university and corporate speakers share with the participants during the course are gathered and "collected" in a digital Masters programme library available through the portal.

During these early months of the course, the students selected have demonstrated, in addition to highly developed analytical skills, dynamism, curiosity and the motivation to pursue an advanced development course within the high-technology sectors reflecting the Group's specific business areas. In order to ensure the personal, and as well as professional, development of the participants in view of a future professional career, Masters programme students also attended several days of soft skills training, which will continue throughout the year, aimed at improving their professional attitudes. During these days, students were also given the opportunity to visit Telespazio' "Piero Fanti" Space Centre in Fucino, the first of several visits to the Group's most important sites. In order to further personal development, foreign students will take an eight-month Basic Italian course to facilitate their insertion in the Group's cultural and relational system.

Along with the start of the second edition, the sessions to present the **Final Project Work of the first edition students,** who had completed their internships within the Group companies and in the Corporate division, were held in Rome. The conclusions of their Master's programme training were submitted to a Final Commission, comprised of members of Group management and their project tutors. All the students were awarded diplomas, thus marking the start of a new phase in their advancement within and employment by the Finmeccanica Group.
The ceremony for awarding diplomas and the passing of the baton from the first to the second edition students was held in December in Milan during the third Group executives convention.

Finmeccanica: Security Policy Statement (SPS)

"INFORMATION PROVIDED PURSUANT TO ITALIAN LEGISLATIVE DECREE 196 OF 30 JUNE 2003 (PROTECTION OF PERSONAL INFORMATION)"

Pursuant to Section 26 of the Technical Regulations on minimum security measures, which constitutes Annex B to Legislative Decree 196 of 30 June 2003 (the Italian personal data protection code), the Security Policy Statement (SPS) on the handling of personal information was prepared by the deadline of 31 March 2007 as established by law, updating the SPS with regard to the handling of personal information during the year 2007.

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

INFORMATION SECURITY MANAGEMENT SYSTEM

On 21 May 2007, the annual inspection of the **Det Norske Veritas (DNV) inspector** for confirmation of the ISO 27001:2005 certification[1] concerning the electronic mail service was held. Obtained in May 2006 and confirmed in May 2007, this certification is a part of the initiatives aimed at improving the quality and reliability of Finmeccanica services, while making it possible to identify the most critical areas.

In order to develop competencies in security risk analysis, the Group Security Office (GSO) and the Training and Knowledge Management Systems department designed a training programme focused on the **MIGRA** (*Metodologia Integrata per la Gestione del Rischio Aziendale*, or "Integrated Methodology of Corporate Risk Management") **methodology** and on the use of the related software application. The programme included two phases, a Basic and an Advanced course, and was attended by representatives of all of companies of the Group. It came to a close with the presentation of 68 course certificates of participation for "MIGRA Analysts".

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

› to promote implementation of the security governance process within all Group companies in line with Finmeccanica policies;

› to develop competencies in risk management analysis;

› to provide guidelines, tools, and know-how in dealing with attacks and emerging threats;

› to promote the dissemination of a single culture of security among all companies of the Group.

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

Incentive plans (stock option and stock grant plans)

2002-2004 LONG-TERM INCENTIVE PLAN

On 16 May 2003, the Ordinary and Extraordinary Shareholders' Meeting resolved to approve a Long-Term Incentive Plan (Stock Option Plan) for the key resources of Finmeccanica SpA and its subsidiaries, based on the granting of subscription and purchase options for ordinary shares of Finmeccanica - Società per Azioni, subject to the attainment of specific objectives.

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

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

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

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

Under the Plan, of the 3,993,175 options granted (79,863,500 prior to the reverse split), 3,290,624 ordinary Finmeccanica shares have effectively been subscribed, with a resulting capital increase of € 14,478,745.60, while 91,790 options to purchase treasury stock have been exercised.

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

2005-2007 LONG-TERM INCENTIVE PLAN

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

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

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

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

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

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

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

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

At its 11 May 2006 meeting, the Committee conducted a review to verify whether the performance targets had been achieved at the Group and company level on the basis of the consolidated and statutory financial statements for 2005, and calculated the number of shares to be granted to each of the beneficiaries for 2005. Upon completion of the review, the Committee approved the award of a total of 1,076,225 shares (equal to about 76% of the total attributable to 2005). The purchase of the shares to service the Plan was completed on 2 June 2006.

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

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

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

On 1 December 2006, effective delivery was made of the shares awarded for 2005. Of the 1,076,225 total shares available, 642,115 shares were transferred into individual deposit securities indicated by the beneficiaries, while the remaining 433,786 shares were withheld to cover tax and social security obligations arising under the Plan.

At its 23 May 2007 meeting, the Committee conducted a review to verify whether the performance targets had been achieved at the Group and company level on the basis of the draft consolidated and statutory financial statements for 2006, and calculated the number of shares to be granted to each of the beneficiaries for 2006. Upon completion of the review, the Committee approved the award of a total of 1,072,258 shares (equal to about 76% of the total attributable to 2006). As a result of some slight changes following the date of the meeting, the total number of shares attributable fell to 1,055,710. The Committee approved the inclusion of a Group top manager among the Plan participants.

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

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

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

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

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

2008-2010 LONG-TERM INCENTIVE PLAN

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

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

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

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

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

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

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

The number of shares granted is calculated (according to the usual market practices for such a transaction and consistently with the grants made under the previous 2005-2007 Plan) on the basis of the individual beneficiary's annual gross remuneration (AGR), which depends upon both the position held in the company and on the assessment made during the annual Management Review. For this purpose, the unit value of the share is taken to be € 20.44, which is the average price of the share from 1 October 2007 through 31 December 2007, the same value on which the performance of Finmeccanica stock is measured throughout the long-term cash incentive plan cycles for the top management of Finmeccanica SpA.

Under the Plan, the granting of shares is conditional on achieving certain objectives set out in the Regulations. These objectives regard new orders (while maintaining expected margins) for 40% of the shares and economic value added (EVA) for 60% of the shares. Shares would be granted as follows: 25% for achieving targets in each of 2008 and 2009 and 50% for 2010 targets. Under the Regulations, achievement of the latter could enable "recovery" of share rights that had not been allocated in previous years.

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

Corporate Governance

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

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

The main changes made in relation to the Company's Corporate Governance in 2007 are briefly explained below.

1. BOARD OF DIRECTORS

Following the resignation of Ernesto Monti as a Director on 28 February 2007, the Board of Directors appointed Filippo Andreatta as a Director on 27 March 2007.
The Ordinary Shareholders' Meeting of 30 May 2007 confirmed the appointment of Filippo Andreatta as a member of the Board of Directors of the Company.
After the resignation of Dario Scannapieco as a Director effective as of 3 September 2007, the Board appointed Francesco Parlato as his replacement on 12 September 2007.
The Ordinary Shareholders' Meeting of 16 January 2008 confirmed the appointment of Francesco Parlato to the Board of Directors of the Company.

2. COMMITTEES

On 18 October 2007, the Board of Directors completed the composition of its internal committees which currently consist of the following members:

› **Internal Auditing Committee:** Piergiorgio Alberti (Chairman), Franco Bonferroni, Maurizio de Tilla and Gian Luigi Lombardi Cerri;

› **Remuneration Committee:** Riccardo Varaldo (Chairman), Piergiorgio Alberti, Franco Bonferroni and Francesco Parlato;

› **Strategy Committee:** Pier Francesco Guarguaglini (Chairman), Filippo Andreatta, Giovanni Castellaneta, Francesco Parlato, Roberto Petri, Guido Venturoni and Paolo Vigevano.

3. LEAD INDEPENDENT DIRECTOR

On 26 July 2007, Finmeccanica's Board of Directors, in accordance with the recommendations of the new Corporate Governance Code, appointed Guido Venturoni as Lead Independent Director. Mr. Venturoni is also a member of the Strategy Committee.
Specifically, the Lead Independent Director works with the Chairman and CEO to ensure that the Directors receive timely, complete information; to convene, independently or at the request of other Directors, special meetings of the Independent Directors (at least annually) to discuss topics of interest regarding the workings of the Board of Directors or corporate management; to facilitate the assessment process of the Board of Directors; to assist the Chairman in preparing the annual calendar of Board meetings; and to inform the Chairman and CEO of any issues to be examined and assessed by the Board.
The Lead Independent Director will remain in office for the remaining period of the Board's mandate, i.e. until the Shareholders' Meeting to approve the 2007 financial statements.

4. RESPONSIBLE MANAGER

With regard to the statutory modifications to the corporate bylaws in accordance with the provisions of **Law 262/2005 "Provisions for the protection of savings and the regulation of financial markets**" as modified and supplemented, particularly those contained in Art. 154-bis (1) of the Consolidated Law on Financial Intermediation concerning the methods for appointing and the requirements for the manager responsible for drafting company financial reports, on 14 June 2007 the Board of Directors appointed Alessandro Pansa, Co-General Manager of the Company, as this manager through the expiration of the term of office of the current Board of Directors.
In addition, Finmeccanica, aiming to comply with the rules set out in said law, developed a special updating project in accordance with the regulation which the Group is seizing upon as a further opportunity to continually improve its Corporate Governance. The project aims to verify the compliance and the management methods of administrative accounting procedures for preparing consolidated and statutory annual and interim financial statements.

5. COMPLIANCE PROGRAMME

With regard to the modifications made to the organisational structure and regulatory changes under Legislative Decree 231/2001, concerning privileged information and market manipulation (Law 62/2005, the so-called "Market Abuse Law") as well as a result of the introduction of Law 262/2005 concerning "Provisions for the protection of savings and the regulation of financial markets" as modified and supplemented, Finmeccanica implemented its updated **Compliance Programme Pursuant to Legislative Decree 231/2001** and its **Code of Ethics**. In its 26 July 2007 meeting the Board approved the new Compliance Programme.
In addition, in accordance with Law 123/2007 on the reorganization of the rules concerning workplace health and safety, specifically regarding Art. 9, which added Art. 25 *septies* to Legislative Decree 231/2001 and well as with regard to the implementation of European Parliament Directive 2005/60/EC concerning money laundering (under the new Art. 25 *octies* of the Decree), a review of the Compliance Programme was undertaken as these amendments have expanded companies' administrative responsibility. The process of implementing these latest modifications (begun in August and December 2007) will take into account the updated instructions contained in the upcoming Confindustria Guidelines.

The **Supervisory Bodies** in the major Group subsidiaries are collegial in form, while the function is carried out by an individual in the other Group companies pursuant to Art. 6 of Legislative Decree 231/2001.

As to the general process of implementing the requirements of Legislative Decree 231/2001 within the Group, it should be noted that the Compliance Programme, updated in compliance with 2006 regulations, was approved by the respective Boards of Directors. Additionally, the subsidiaries are engaged in preparations for updating processes resulting from modifications to Legislative Decree 231/2001 in 2007, which are expected to be completed this year.

Outlook

Over the past five years, the Finmeccanica Group has pursued and achieved strategic objectives resulting in a strengthening of its overall position (doubling of revenues in Helicopters, Aeronautics and Defence and Security Electronics resulting in full control of core assets), increased internationalisation (doubling of export orders) and product innovation through the development of incorporated enabling technologies.

This strategy has enabled the Group to become more competitive and profitable, raising profitability by roughly 35% and stimulating the creation of value which, in addition to investments to develop products and important selective acquisitions, has resulted in an increasing return for shareholders.

Thus strengthened, the Group must, however, over the next few years, contend with a global setting affected by serious disruptions such as increased competition in domestic and, especially, international markets, uncertainties resulting from the violent fluctuations in exchange rates and a shift in demand that is largely concentrated in different geographical areas than in the past.

This outlook therefore places the Group in the position of having to take new courses of action to ensure solid, systematic and consistent growth in profitability and improvement in cash flows. These objectives can be achieved through short-term actions such as:

› achieving a percentage decline in general and administrative costs thanks to the rationalisation of processes and the containment of services and consulting costs;
› reassessing investments by carefully selecting investments, constantly monitoring potential synergies among companies and prudently managing the dedicated resources;
› reducing production costs through continual improvements in purchasing by guiding and supporting companies in focusing on procurement from low-cost;

and through medium-term initiatives including:

› rationalising the product portfolio, even between Group companies, in order to concentrate sectors based on their strengths;
› redefining production sites in order to optimise processes and achieve more efficient and effective localisation.

Before addressing the improvement in the primary Group figures, it should be noted that the size of the order backlog at 31 December 2007, defined based on its workability, is such as to guarantee 82% coverage of expected production for the next year.

As a result, during 2008 we expect an overall growth in Group revenues of between 6% and 11% with an increase in adjusted EBITA of between 12% and 19% over 2007.

We also expect Group free operating cash flow (FOCF) to generate cash flows that are relatively comparable with those of 2007, given the significant investments in the development of products necessary to sustain Group growth that, as in 2007, will focus especially on Aeronautics, Helicopters and Defence and Security Electronics.

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

accounting statements and notes to the consolidated financial statements at 31 december 2007

Consolidated Income Statement

For the twelve months ended 31 December

€ millions	Note	2007	2006
Revenue	31	11,916	11,179
Revenues from related parties	30	1,513	1,293
Other operating income	32	1,031	487
Other operating income from related parties	30	2	7
Raw materials and consumables used	33	(5,556)	(4,788)
Purchase of services	33	(3,752)	(3,543)
Net costs charged by related parties	30	(103)	(118)
Personnel costs	34	(3,599)	(3,361)(*)
Amortisation, depreciation and impairment	35	(709)	(505)
Other operating costs	32	(562)	(433)
Changes in inventories of work in progress, semi-finished and finished goods		54	(24)
(-) Work performed by the Group and capitalised	36	849	714
		1,084	**908**
Finance income	37	621	1,191
Finance income from related parties	30	3	3
Finance costs	37	(855)	(808)(*)
Finance costs from related parties	30	(22)	(16)
Share of profit (loss) of equity accounted investments	38	16	(5)
Profit before taxes and the effect of discontinued operations		**847**	**1,273**
Income taxes	39	(326)	(243)
(Loss) Profit from discontinued operations	40	-	(9)
Net profit		**521**	**1,021**
› *equity holders of the Company*		*484*	*989*
› *minority interests*		*37*	*32*
Earnings per share	**41**		
Basic		*1.140*	*2.333*
Diluted		*1.138*	*2.323*
Earnings per share net of discontinued operations	**41**		
Basic		*1.140*	*2.353*
Diluted		*1.138*	*2.344*

(*) Items changed due to the retrospective change in the treatment of defined-benefit plans (Note 5).

Consolidated Balance Sheet

€ millions	Note	31.12.2007	31.12.2006
Non-current assets			
Intangible assets	8	5,266	5,317
Property, plant and equipment	9	2,855	2,660
Investment properties	10	1	2
Equity investments	11	148	140
Financial assets at fair value	13	589	857
Non-current receivables from related parties	14	11	16
Receivables	15	158	426
Deferred taxes	39	450	492(*)
Other assets	15	367	9
		9,845	**9,919**
Current assets			
Inventories	16	3,383	3,095
Contract work in progress	17	3,227	2,823
Current receivables from related parties	14	486	438
Trade receivables	18	3,868	3,479
Financial assets at fair value	19	13	21
Income tax receivables	20	277	371
Financial receivables	18	586	452
Derivatives	28	162	147
Other assets	21	594	545
Cash and cash equivalents	22	1,607	2,003
		14,203	**13,374**
Non-current assets held for sale	40	-	*110*
Total assets		**24,048**	**23,403**
Shareholders' equity			
Share capital	23	1,864	1,858
Other reserves	23	3,465	3,381(*)
Capital and reserves attributable to equity holders of the Company		*5,329*	*5,239*
Minority interests in equity	23	*103*	*81*
Total shareholders' equity		**5,432**	**5,320**
Non-current liabilities			
Borrowings	24	1,675	1,979
Severance pay and other employee liabilities	26	946	1,295(*)
Provisions for risks and charges	25	353	365
Deferred taxes	39	442	342(*)
Other liabilities	27	821	1,332
		4,237	**5,313**
Current liabilities			
Advances from customers	17	6,477	5,529
Current payables from related parties	14	666	594
Trade payables		3,923	3,486
Borrowings	24	1,149	881
Income tax payables	20	68	139
Provisions for risks and charges	25	545	571
Derivatives	28	109	104
Other liabilities	27	1,442	1,383
		14,379	**12,687**
Liabilities directly correlated with assets held for sale	40	-	*83*
Total liabilities		**18,616**	**18,083**
Total liabilities and shareholders' equity		**24,048**	**23,403**

(*) Items changed due to the retrospective change in the treatment of defined-benefit plans (Note 5).

Consolidated Cash Flow Statement For the twelve months ended 31 December

€ millions	Note	2007	2006
Cash flow from operating activities			
Gross cash flow from operating activities	42	1,711	1,600
Changes in working capital	42	318	347
Changes in other operating assets and liabilities	42	(273)	(257)
Financial charges paid		(116)	(160)
Income taxes paid		(241)	(212)
Net cash generated from operating activities		**1,399**	**1,318**
Cash flow from investing activities			
Acquisitions of subsidiaries, net of cash acquired	12	(434)	(181)
Purchase of property, plant and equipment and intangible assets		(1,128)	(873)
Proceeds from sale of property, plant and equipment and intangible assets		74	94
IPO Ansaldo STS	6	-	458
Avio operation	6	-	303
Other investing activities		25	(63)
Net cash used in investing activities		**(1,463)**	**(262)**
Cash flow from financing activities			
Repayments of bonds	24	(6)	-
Net change in other borrowings		(163)	102
Dividends paid to Company's shareholders	23	(149)	(211)
Dividends paid to minority interests	23	(2)	(3)
Net cash used in financing activities		**(320)**	**(112)**
Net increase (decrease) in cash and cash equivalents		(384)	944
Exchange losses on cash and cash equivalents		(12)	(2)
Cash and cash equivalents at 1 January		2,003	1,061
Cash and cash equivalents at 31 December	**22**	**1,607**	**2,003**

Statement of Recognised Income and Expenses

€ millions	2007	2006
Reserves of income (expense) recognised in equity		
› Assets available for sale	(251)	(66)
› Actuarial gains (losses) on defined-benefit plans	224	82
› Changes in cash flow hedges	13	134
› Revaluation of assets acquired in prior years	-	5
› Exchange gains/losses	(188)	29
Tax on expense (income) recognised in equity	(75)	(59)
Income (expense) recognised in equity	(277)	125
Profit (loss) for the year	521	1,021
Total income and expense for the year	**244**	**1,146**
Attributable to:		
› equity holders of the Company	216	1,120
› minority interests	28	26

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

Notes to the consolidated financial statements at 31 December 2007

1. GENERAL INFORMATION

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

The Finmeccanica Group is a major Italian high technology organisation. Finmeccanica SpA, the holding company responsible for guiding and controlling industrial and strategic operations, coordinates its subsidiaries (the Finmeccanica Group or, simply, the Group), which are especially concentrated in the fields of Helicopters, Defence System, Aeronautics, Defense and Security Electronics, Space, Energy and Transportation.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002, the consolidated financial statements of the Finmeccanica Group at 31 December 2007 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB). Specifically, the standards used are those that have been endorsed by the European Union at the date of presentation of these financial statements and which are contained in the following EU regulations: 1725/2003, 707/2004, 2236/2004, 2237/2004, 2238/2004, 2086/2004, 211/2005, 1751/2005, 1864/2005, 1910/2005, 2106/2005, 108/2006, 708/2006, 1329/2006, 610/2007 e 611/2007.

In certain respects, at the date of the preparation of these notes, the official bodies had not yet completed their adaptation and interpretations. As a result, there may be further modifications or amendments to these standards and interpretations that could require or permit the Finmeccanica Group to modify the accounting, measurement and classification standards adopted in preparing these consolidated financial statements.

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

Among the options permitted by IAS 1, the Group has chosen to present its Balance Sheet by separating current and non-current items and its Income Statement by the nature of the items. Instead, the Cash Flow Statement was prepared using the indirect method. Comparative figures have been restated compared to 2006 published accounts as a consequence of changes in accounting for defined-benefit plans (Note 5.1).
Due to the adoption of the “full equity option” the statement of changes in equity has been replaced by the “Statement of Recognised Income and Expenses” (SORIE). The balance-sheet format has been additionally amended with respect to the addition of the line items “derivatives” (before included within “other current assets” and “other current liabilities”) and the reclassification of non-income taxes items as “other assets” and “other liabilities”.

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

Preparation of the consolidated financial statements required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 4.

The consolidated financial statements at 31 December 2007 of the Finmeccanica Group were approved by the Board of Directors authorising their dissemination on 17 March 2008.

The financial statements, prepared in accordance with IFRS, have been subject to a review by PricewaterhouseCoopers SpA.

3. ACCOUNTING POLICIES ADOPTED

3.1 Standards and scope of consolidation

The consolidated financial statements for the year ended 31 December 2007 include the statements of the companies/entities included in the scope of consolidation ("consolidated entities"), which have been prepared in accordance with the IFRSs adopted by the Finmeccanica Group. Below is a list of the consolidated entities and the respective shares held either directly or indirectly by the Group:

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

Company name	Registered office	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
ADVANCED TECHNOLOGIES SRL (***)	Pianezza (Turin)		100	100
AEROMECCANICA SA	Luxembourg	99.967		100
AGUSTA AEROSPACE CORP. USA	Wilmington, Delaware (USA)		100	100
AGUSTA AEROSPACE SERVICES A.A.S. S.A.	Grace Hollogne (Belgium)		98	98
AGUSTA HOLDING BV	Amsterdam (the Netherlands)		100	100
AGUSTA SPA	Cascina Costa (Varese)		100	100
AGUSTA US INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Melbourne (AUSTRALIA)		100	100
AGUSTAWESTLAND BELL LLC	Wilmington, Delaware (USA)		51	51
AGUSTAWESTLAND DO BRASIL LTDA	São Paulo (Brazil)		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Farnborough (UK)		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)		100	100
AGUSTAWESTLAND INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)		100	100
AGUSTAWESTLAND NORTH AMERICA INC.	Wilmington, Delaware (USA)		100	100
AGUSTAWESTLAND NV	Amsterdam (the Netherlands)	100		100
AGUSTAWESTLAND PROPERTIES LTD	Yeovil, Somerset (UK)		100	100
ALENIA AERMACCHI SPA	Venegono Superiore (Varese)		99.998	99.998
ALENIA AERONAUTICA SPA	Pomigliano (Naples)	100		100
ALENIA AERONAVALI SPA	Tessera (Venice)		100	100
ALENIA COMPOSITE SPA	Grottaglie (Taranto)		97	97
ALENIA IMPROVEMENT SPA	Pomigliano D'Arco (Naples)		100	100
ALENIA NORTH AMERICA-CANADA CO.	Halifax (Canada)		100	88.409
ALENIA NORTH AMERICA INC.	New Castle, Delaware (USA)		88.409	88.409
ALENIA S.I.A. SPA	Turin		100	100
AMTEC SPA	Piancastagnaio (Siena)		100	100
ANSALDO ENERGIA SPA	Genoa	100		100
ANSALDO FUEL CELLS SPA	Genoa		78.434	78.434
ANSALDO NUCLEARE SPA	Genoa		100	100
ANSALDO RICERCHE SPA	Genoa		100	100
ANSALDO SEGNALAM. FERROVIARIO SPA	Tito (Potenza)		100	40.0656
ANSALDO STS AUSTRALIA PTY LTD	Sidney (Australia)		100	40.0656
ANSALDO STS BEIJING LTD	Beijing (China)		80	32.0525
ANSALDO STS DEUTSCHLAND GMBH	Berlin (Germany)		100	40.0656
ANSALDO STS ESPANA S.A.U.	Madrid (Spain)		100	40.0656
ANSALDO STS FINLAND O.Y.	Helsingfors (Finland)		100	40.0656
ANSALDO STS FRANCE SA	Les Ulis (France)		99.999	40.0656
ANSALDO STS HONG KONG LTD	Hong Kong (China)		100	40.0656
ANSALDO STS MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)		100	40.0656
ANSALDO SIGNAL NV	Amsterdam (the Netherlands)		100	40.0656
ANSALDO STS IRELAND LTD	Co. Kerry (Ireland)		100	40.0656
ANSALDO STS SWEDEN AB	Spanga (Sweden)		100	40.0656
ANSALDO STS UK LTD	London (UK)		100	40.0656
ANSALDO STS SPA	Genoa	40.0656		40.0656
ANSALDO TRASPORTI - SIST. FERROV. SPA	Naples		100	40.0656
ANSALDOBREDA ESPAÑA S.L.U.	Madrid (Spain)		100	100
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	40.0656

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

Company name	Registered office	% Group ownership		% Group shareholding
		Direct	Indirect	
BREDAMENARINIBUS SPA	Bologna	100		100
DATASPAZIO-TELESPAZIO e DATAMAT PER L'INGEGNERIA DEI SISTEMI SPA	Rome		100	83.83
DAVIES INDUSTRIAL COMMUNICATIONS LTD	Coventry (UK)		100	100
ELECTRON ITALIA SRL	Rome		80	80
ELSACOM NV	Amsterdam (the Netherlands)	100		100
ELSACOM SPA	Rome		100	100
ELSAG DATAMAT SPA	Genoa	100		100
ELSAG BANKLAB SPA	Genoa		100	100
ELSAG INC.	Wilmington, Delaware (USA)		100	100
ENERGY SERVICE GROUP LTD	Wurenlingen (Switzerland)		100	100
E-SECURITY SRL	Montesilvano (Pescara)		79.688	79.688
FATA AUTOMATION SPA (BANKRUPTCY) (***)	Pianezza (Turin)		100	100
FATA DTS SPA	Pianezza (Turin)		100	100
FATA ENGINEERING SPA	Pianezza (Turin)		100	100
FATA GROUP SPA (BANKRUPTCY)	Pianezza (Turin)		100	100
FATA HANDLING SPA (BANKRUPTCY) (***)	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	26.3575	99.997
FINMECCANICA GROUP REAL ESTATE SPA	Rome	100		100
FINMECCANICA GROUP SERVICES SPA	Rome	100		100
GALILEO AVIONICA SPA	Campi Bisenzio (Florence)		100	100
ITALDATA INGEGNERIA DELL'IDEA SPA	Rome		51	51
LARIMART SPA	Rome		60	60
MECFINT (JERSEY) S.A.	Luxembourg		99.999	99.996
NET SERVICE SRL	Bologna		70	70
OTE MOBILE TECHNOLOGIES LIMITED	Warwickshire (UK)		100	100
OTO MELARA IBERICA SA	Valencia (Spain)		100	100
OTO MELARA SPA	La Spezia	100		100
QUADRICS LTD	Bristol (UK)		100	100
REMINGTON ELSAG LAW ENFORCEMENT SYST.	Madison (USA)		100	100
SAGEM ITALIA SRL	Genoa		100	100
SEICOS SPA	Rome	100		100
SELENIA MARINE CO. LTD (BANKRUPTCY)	Coventry (UK)		100	100
SELENIA MOBILE SPA	Chieti Scalo (Chieti)		100	100
SELEX COMMUNICATIONS DO BRASIL LTDA	Rio de Janeiro (Brazil)		100	100
SELEX COMMUNICATIONS GMBH	Backnang (Germany)		100	100
SELEX COMMUNICATIONS HOLDINGS LTD	Chelmsford (UK)		100	100
SELEX COMM INC.	Mountain View (USA)		100	100
SELEX COMMUNICATIONS INTERNATIONAL LTD	Coventry (UK)		100	100
SELEX COMMUNICATIONS LTD	Coventry (UK)		100	100
SELEX COMMUNICATIONS ROMANIA SRL	Bucharest (Romania)		99.976	99.976
SELEX COMMUNICATIONS SPA	Genoa	100		100
SELEX COMMUNICATIONS SECURE SYSTEMS LTD	Coventry (UK)		100	100
SELEX KOMUNIKASYON AS	GOLBASI (Turkey)		99.999	99.999
SELEX SENSORS AND AIRBORNE SYSTEMS SPA	Campi Bisenzio (Florence)	100		100
SELEX SENSORS AND AIRBORNE SYSTEMS LTD	Essex (UK)		100	100
SELEX SERVICE MANAGEMENT SPA	Rome	100		100

(***) Merged into Fata Group SpA (in liq.) with accounting and tax effects as of 1 January 2008.

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

Company name	Registered office	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
SELEX SISTEMI INTEGRATI GMBH	Neuss (Germany)		100	100
SELEX SISTEMI INTEGRATI INC.	Delaware (USA)		100	100
SELEX SISTEMI INTEGRATI LTD	Portsmouth, Hampshire (UK)		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		92.79	92.79
SO.GE.PA. SOC. GEN. DI PARTECIPAZIONI SPA	Genoa	100		100
SPACE SOFTWARE ITALIA SPA	Taranto		100	100
TECNOSIS SPA	Genoa		100	100
THOMASSEN SERVICE GULF LLC	Abu Dhabi, United Arab Emirates		48.667	100
THOMASSEN TURBINE SYSTEMS BV	Rheden (the Netherlands)		100	100
TRANSCONTROL CORPORATION	Wilmington, Delaware (USA)		100	40.0656
TRIMPROBE SPA (****)	Rome	100		100
UNION SWITCH & SIGNAL INC. (USA)	Dover, Delaware (USA)		100	40.0656
UNION SWITCH & SIGNAL INC. (CAN)	Burlington, Ontario (Canada)		100	40.0656
UNION SWITCH & SIGNAL INT. CO.	Wilmington, Delaware (USA)		100	40.0656
UNION SWITCH & SIGNAL INT. PROJECTS CO.	Dover, Delaware (USA)		100	40.0656
UNION SWITCH & SIGNAL PRIVATE LTD	Bangalore (India)		100	40.0656
VEGA GROUP PLC	Hertfordshire (UK)	28.223		28.223
WESTLAND HELICOPTERS INC.	Wilmington, Delaware (USA)		100	100
WESTLAND HELICOPTERS LTD	Yeovil, Somerset (UK))		100	100
WESTLAND INDUSTRIES LTD	Yeovil, Somerset (UK)		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)		100	100
WESTLAND TRANSMISSIONS LTD	Yeovil, Somerset (UK)		100	100
WHITEHEAD ALENIA SIST. SUBACQUEI SPA	Genoa	100		100
WING NED BV	Rotterdam (the Netherlands)		100	100

(****) Put into liquidation on 14 January 2008.

List of companies consolidated using the proportionate method

Company name	Registered office	% Group ownership		% Group shareholding
		Direct	Indirect	
THALES ALENIA SPACE SAS	Paris (France)	33		33
THALES ALENIA SPACE FRANCE SAS	Paris (France)		100	33
THALES ALENIA SPACE ITALIA SPA	Rome		100	33
THALES ALENIA SPACE ESPAÑA SA	Madrid (Spain)		100	33
THALES ALENIA SPACE ETCA SA	Charleroi (Belgium)		100	33
THALES ALENIA SPACE ANTWERP SA	Hoboken (Belgium)		100	33
THALES ALENIA SPAZIO NORTH AMERICA INC.	Wilmington, Delaware (USA)		100	33
FORMALEC SA	Paris (France)		100	33
MARILEC SA	Paris (France)		100	33
VANELEC SAS	Paris (France)		100	33
TELESPAZIO HOLDING SRL	Rome	67		67
TELESPAZIO FRANCE SAS	Toulouse (France)		100	67
TELESPAZIO DEUTSCHLAND GMBH	Gilching (Germany)		100	67
TELESPAZIO SPA	Rome		100	67
E-GEOS SPA	Matera		55	36.85
EURIMAGE SPA	Rome		51	34.17
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)		98.534	66.018
TELESPAZIO NORTH AMERICA INC.	Dover, Delaware (USA)		100	67
TELESPAZIO HUNGARY SAT. TELEC. LTD	Budapest (Hungary)		100	67
RARTEL SA	Bucharest (Romania)		61.061	40.91
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)		100	66.950
MARS SRL	Naples		100	67
FILEAS SA	Paris (France)		85	56.95
GAF AG	Munich (Germany)		100	67
EUROMAP SATELLITENDATEN-VERTRIEB MBH	Neustrelitz (Germany)		100	67
AMSH BV	Amsterdam (the Netherlands)	50		50
MBDA SAS	Paris (France)		50	25
MBDA TREASURE COMPANY LTD	Jersey (UK)		100	25
MBDA FRANCE SA	Paris (France)		100	25
MBDA INCORPORATED	Wilmington, Delaware (USA)		100	25
MBDA ITALIA SPA	Rome		100	25
MBDA UK LTD	Stevenage (UK)		100	25
MARCONI OVERSEAS LTD	London (UK)		100	25
MATRA ELECTRONIQUE SA	Paris (France)		100	25
MBDA SERVICES SA	Paris (France)		99.76	24.94
LFK-LENKFLUGKORPERSYSTEME GMBH	Unterschleißheim (Germany)		100	25
BAYERN-CHEMIE GMBH	Germany		100	25
PROTAC PROPULSION TACTIQUE SA	France		100	25
TAURUS SYSTEMS GMBH	Germany		67	16.75
TDW GMBH	Germany		100	25
AVIATION TRAINING INTERNATIONAL LIMITED	Dorset (UK)		50	50
CONSORZIO ATR GIE e S.P.E.	Toulouse (France)		50	50
GLOBAL AERONAUTICA LLC	Delaware (USA)		50	44.2045
GLOBAL MILITARY AIRCRAFT SYSTEMS LLC	Greenville (USA)		50	44.2045
LMATTS LLC	Georgia (USA)		50	44.2045
SUPERJET INTERNATIONAL SPA	Venice		51	51

List of companies consolidated using the equity method

Company name	Registered office	% Group ownership		% Group shareholding
		Direct	Indirect	
ABRUZZO ENGINEERING SCPA	L'Aquila		30	30
ABS TECHNOLOGY SPA	Florence		60	60
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)		43.043	43.043
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Darul Ehsan (Malaysia)		30	30
ADVANCED LOGISTICS TECHNOLOGY ENGINEERING CENTER SPA	Turin		51	16,83
ALENIA HELLAS SA	Kolonaki (Athens) (Greece)		100	100
ALIFANA DUE SCRL	Naples		53.34	21.336
ALIFANA SCRL	Naples		65.85	26.34
ANSALDO ARGENTINA SA	Buenos Aires (Argentina)		99.9933	99.9933
ANSALDO ELECTRIC DRIVES SPA	Genoa		100	100
ANSALDO – E.M.I.T. SCRL	Genoa		50	50
ANSALDO ENERGY INC.	Wilmington, Delaware (USA)		100	100
ANSERV SRL	Bucharest (Romania)		100	100
AUTOMATION INTEGRATED SOLUTIONS SPA	Pianezza (Turin)		40	40
AVIONS DE TRANSPORT REGIONAL IRELAND LIMITED	Dublin (Ireland)		50	50
BELL AGUSTA AEROSPACE COMPANY LLC	Wilmington, Delaware (USA)		45	45
BRITISH HELICOPTERS LTD	Yeovil, Somerset (UK)		100	100
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)		100	100
CLOSED JOINT STOCK COMPANY MAREMS	Moscow (Russia)		49.001	49.001
COMLENIA SENDIRIAN BERHAD	Selangor Darul Ehsan (Malaysia)		30	30
CONSORZIO START SPA	Rome		40	40
CONSULTANCY AND PROJECTS GROUP SRL (BANKRUPTCY)	Rome		100	100
CONTACT SRL	Naples		30	30
DATAMAT SOLUZIONI PER LE IMPRESE SRL (BANKRUPTCY)	Rome		100	100
DATAMAT (SUISSE) SA (BANKRUPTCY)	Lugano (Switzerland)		100	100
DIGINT SRL	Milan		49	49
DOGMATIX LEASING LIMITED	Mauritius Islands		100	50
ECOSEN SA	Caracas (Venezuela)		48	19.23
ELETTRONICA SPA	Rome	31.333		31.333
ELSACOM BULGARIA AD	Sofia (Bulgaria)		90	90
ELSACOM HUNGARIA KFT	Budapest (Hungary)		100	100
ELSACOM SLOVAKIA SRO	Bratislava (Slovakia)		100	100
ELSACOM-UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)		49	49
ELSAG EASTERN EUROPE SRL (BANKRUPTCY)	Bucharest (Romania)		100	100
ENERGEKO GAS ITALIA SRL	Brindisi		20.99	20.99
EURISS NV	Leiden (the Netherlands)		25	8.25
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)		21	21
EUROFIGHTER INTERN. LTD	London (UK)		21	21
EUROFIGHTER SIMUL. SYST. GMBH	Unterhaching (Germany)		24	24
EUROMIDS SAS	Paris (France)		25	25
EUROPEA MICROFUSIONI AEROSPAZIALI SPA	Morra De Sanctis (Avellino)	49		49
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH	Ottobrunn (Germany)	18.939	18.94	25.1892
EUROSATELLITE FRANCE SA	France		99.76	32.92
EURO PATROL AIRCRAFT GMBH	Munich (Germany)		50	50
EUROSYSNAV SAS	Paris (France)	50		50
FATA CONTRACTING LTD	Moscow (Russia)		100	100

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

Company name	Registered office	% Group ownership		% Group shareholding
		Direct	Indirect	
FATA HUNTER INDIA PVT LTD	New Dehli (India)		100	100
FATA POLAND LTD (BANKRUPTCY) (**)	Bielsko Biala (Poland)		100	100
FEDER PETROLI GREEN ENERGY SRL	Rome		20	20
FINMECCANICA NORTH AMERICA INC.	Dover, Delaware (USA)	100		100
FINMECCANICA UK LTD	London (UK)	100		100
GALILEO INDUSTRIES SA	Brussels (Belgium)	18.939	18.94	25.1892
GROUPEMENT IMMOBILIER AERO NAUTIQUE G.I.A. SA	Blagnac (France)		20	20
HR GEST SPA	Genoa		30	30
IAMCO SCRL	Mestre (Venice)		20	20
ICARUS SCPA	Turin		49	49
IMMOBILIARE CASCINA SRL	Gallarate (Varese)		100	100
IMMOBILIARE FONTEVERDE SRL	Rome		60	48
INDRA ESPACIO SA	France		49	16.17
INTERNATIONAL LAND SYSTEMS INC.	Wilmington, Delaware (USA)		28.365	19.005
INTERNATIONAL METRO SERVICE SRL	Milan		49	19.63
IRIDIUM ITALIA SPA (BANKRUPTCY)	Rome		35	35
I.M. INTERMETRO SPA	Rome		33.332	23.343
FIAT IVECO/OTO MELARA SCRL	Rome		50	50
JIANGXI CHANGE AGUSTA HELICOPTER CO. LTD	Zone Jiangxi Province (China)		40	40
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	25	25	50
MACCHI HUREL DUBOIS SAS	Meudon La Foret (France)		50	49.99
MEDESSAT SAS	Toulouse (France)		28.801	19.296
METRO 5 SPA	Milan		31.9	17.156
MUSI NET ENGINEERING SPA	Turin		49	49
NAHUELSAT SA	Buenos Aires (Argentina)	33.332		33.33
NGL PRIME SPA	Turin	30		30
N.H. INDUSTRIES SARL	Aix en Provence (France)		32	32
NICCO COMMUNICATIONS SAS	Colombes (France)		50	50
NNS-SOC. DE SERV. POUR REACTEUR RAPIDE S.N.C.	Lyon (France)		40	40
ORIZZONTE-SISTEMI NAVALI SPA	Genoa	49		49
OTE M	Moscow (Russia)		100	100
OTO MELARA NORTH AMERICA INC.	Dover, Delaware (USA)		100	100
PEGASO SCRL	Rome		46.87	18.748
POLARIS SRL	Genoa		50	50
PT DAYALISTRIK PRATAMA (BANKRUPTCY)	Jakarta (Indonesia)		45	45
QUADRICS INC.	New Castle, Delaware (USA)		100	100
ROXEL SAS	Le Plessis Robinson (France)		50	12.5
SAN GIORGIO SA (BANKRUPTCY)	Paris (France)		99.969	99.969
SAPHIRE INTERNAT. ATC ENGINEERING CO. LTD	Beijing (China)		65	65
SATELLITE TERMINAL ACCESS SA (BANKRUPTCY)	France		21.19	6.993
SCUOLA ICT SRL	L'Aquila	20		20
SELEX PENSION SCHEME (TRUSTEE) LTD	Basildon, Essex (UK)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS ELECTRO OPTICS (OVERSEAS) LTD	Basildon, Essex (UK)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS (PROJECTS) LTD	Basildon, Essex (UK)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS INFRARED LTD	Basildon, Essex (UK)		100	100
SELEX SENSORS AND AIRBORNE SYSTEMS (US) INC.	Wilmington, Delaware (USA)		100	100

(**) Cancelled on 14 January 2008.

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

Company name	Registered office	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
SELEX SISTEMI INTEGRATI DE VENEZUELA S.A.	Caracas (Venezuela)		100	100
SEVERNYJ AVTOBUZ Z.A.O.	St. Petersburg (Russia)		35	35
SISTEMI DINAMICI SPA	San Piero a Grado (Pisa)		40	40
SOGELI-SOCIETÀ DI GESTIONE DI LIQ. SPA	Rome		100	100
SOSTAR GMBH (BANKRUPTCY)	Immerstadt (Germany)		28.2	28.2
TELBIOS SPA	Milan		32.86	22.02
TELESPAZIO NETHERLAND BV	Enschede (the Netherlands)		100	67
THOMASSEN SERVICE AUSTRALIA PTY LTD	Canning Vale (Australia)		100	100
TRADE FATA B.V.	Rotterdam (the Netherlands)		100	100
WESTLAND INDUSTRIAL PRODUCTS LTD	Yeovil, Somerset (UK)		100	100
WITG L.P. INC.	Dover, Delaware (USA)		24	21.22
WITG L.P. LTD	Dover, Delaware (USA)		20	17.68
ZAO ARTETRA	Moscow (Russia)		51	51

List of companies valued at fair value

Company name	Registered office	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
BCV INVESTMENTS SCA	Luxembourg		15	15
BCV MANAGEMENT SA	Luxembourg		14.999	14.999
STMICROELECTRONICS HOLDING NV (*)	Amsterdam (the Netherlands)	20		20

(*) Recognised as "assets available for sale"

List of subsidiaries and associates valued at cost

Company name	Registered office	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
CCRT SISTEMI SPA (BANKRUPTCY)	Milan		30.34	30.34
FOSCAN SRL (BANKRUPTCY)	Anagni (Frosinone)		20	20
IND.AER.E MECC.R.PIAGGIO SPA (SPECIAL ADMIN.)	Genoa	30.982		30.982
SAITECH SPA (BANKRUPTCY)	Passignano (Perugia)		40	40
UNION SWITCH & SIGNAL (CHILE) LTDA	Santiago (Chile)		68	27.244
U.V.T. SPA (BANKRUPTCY)	San Giorgio Jonico (Taranto)		50.614	50.614
U.V.T. ARGENTINA SA	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, except for the new acquired Vega Group Plc, which close its financial year on 30 April. The Group consolidated financial statements have been prepared based on the ending balances at 31 December.

Other equity investments

Investments in entities over which significant influence is exercised, which generally corresponds to a holding of between 20% 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 31 December 2007), or based on financial valuation techniques for not listed instruments.

3.2 Segment information

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

3.3 Currency translation

Identification of the functional currency

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

Translation of transactions denominated in a foreign currency

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

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

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

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

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

3.4 Intangible assets

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

Development costs

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised over the period in which the future earnings are expected to be realised for the project itself, and in any case in a period no longer than 10 years. If such costs fall within the scope of costs defined by Group standards as "non-recurring costs", they are recognised in a specific item under intangible assets (Note 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 exclusively use 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 t*est*, goodwill is allocated to the individual cash-generating units (CGUs), i.e. the smallest financially independent business units through which the Group operates in its various market segments.
Goodwill related to the acquisition of consolidated companies is recognised under intangible assets. Goodwill related to unconsolidated associated companies or subsidiaries is included in the value of investments.

3.5 Property, plant and equipment

Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition. Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public capital grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.
The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the period of actual use of the asset. The estimated useful lives adopted by the Group for the various asset classes are as follows:

Asset classes	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 Note 4.1), on the basis of units manufactured in relation to those expected to be produced.

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

3.6 Investment properties

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 of accumulated depreciation and impairment, if any.

3.7 Impairment of intangible assets and property, plant and equipment

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

3.8 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);

"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".

3.9 Inventories

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

› raw materials, supplies and consumables;

› work in progress and semi-finished goods;

› finished products;

› goods.

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

3.10 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 "advances from customers". 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 Note 4.3 below are applied.

3.11 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;

› financial assets held to maturity ;

› financial assets available for sale.

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 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 becomes 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.

3.12 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit or 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 Note 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.

3.13 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.

3.14 Shareholders' equity

Share capital

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

Treasury shares

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

Profits (losses) carried forward

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

Other reserves

They include the fair value reserve relating to items accounted for using the fair value method recognised in equity, the cash flow hedge reserve in respect of the effective portion of such hedges, the stock option/grant reserve and the reserve of actuarial effects on defined-benefit plans recognised directly in equity.

3.15 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 Note 3.22).
Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

3.16 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.

3.17 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.

Until 2006 consolidated financial statements, Finmeccanica Group used the so-called “corridor” approach in recognising actuarial losses and gains relating to defined-benefit plans. This method made it possible to dilute the effects of changes in the valuation parameters over a number of financial years.

As from 2007 consolidated financial statements, Finmeccanica Group adopt the so-called "equity option" approach, in compliance with IAS 19 as amended in 2006. According to the "equity option" approach the Group recognise a liability for the same amount arising from the actuarial estimation, and recognise actuarial gains and losses in the period in which they occur directly in equity (in the "reserve for actuarial gains (losses) to equity"). The reason of such a change in accounting policies is discussed in Note 5.1

Other long-term benefits and post-employment benefit plans

Group companies grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the projected unit credit method. However for "other long-term benefits" net actuarial gains and losses are both recognised to profit or loss immediately and in full as they occur.

Benefits payable for the termination of employment and incentive plans

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

Equity compensation benefits

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

3.18 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.

3.19 Leasing

Group entities as lessees in a finance lease

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

Group entities as lessors in a finance lease

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the

lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, finance income is recognised in the income statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor's net investment.
The unsecured residual value is reviewed periodically for possible impairment.

Operating leases

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

3.20 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 progress, the accounting policies for which were described in Note 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.

3.21 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. In balance sheet grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss.

3.22 Finance income and costs

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

3.23 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.

3.24 Emission rights

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

3.25 Transactions with related parties

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

3.26 Costs

Costs are recorded in compliance with the competence principle.

3.27 New IFRSs and IFRIC interpretations

At the date of preparation of this report, the IASB and the International Financial Reporting Interpretations Committee (IFRIC) had published new standards and interpretations that are not compulsory or that have not been endorsed by the European Commission. The Group has considered their effects and reported their potential impact on its balance sheet and income statement, as follows:

IFRS - IFRIC interpretation		Effects for the Group
IAS 39 Amendments	Financial instruments	Not significant
IFRS 8	Operating segments	Application of the standard would only result in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009.
IAS 23	Borrowing costs	The Group does not currently capitalise borrowing costs. The new standard, which will be applied starting from 1 January 2009, requires the capitalisation of borrowing costs for certain categories of assets.
IAS 1	Presentation of financial statements	Application would only result in a different disclosure in the financial statements. The Group expects to apply these changes from 1 January 2009.
IFRS 2 Amendment	Share-based payments	Not significant. The Group expects to apply these changes from 1 January 2009.
IFRIC 12	Service concession agreements	The Group expects to apply these changes from 1 January 2008.
IFRIC 13	Customer loyalty programmes	The Group expects to apply these changes from 1 January 2009.
IFRIC 14	The limit on a defined-benefit asset, minimum funding requirements and their interaction	The Group expects to apply these changes from 1 January 2008.

4. SIGNIFICANT ISSUES

4.1 Non-recurring costs

The Group separately discloses as intangible assets the costs incurred in designing, prototyping and upgrading to the technical and functional specifications of clearly identified potential clients, if they are financed under Law 808/1985 governing State aids to support the competitiveness of entities operating in the Aeronautics and Defence segments. These costs are shown excluding the benefits collected or to be collected under Law 808/1985 for programmes qualified as functional to national security and similar. The aid under Law 808/1985 is deducted from capitalised costs, and the royalties to be given to the grantor are recognised as the requirements are met (sale of products embedding the technology for which the Law permits aids).
For other programmes, non-recurring costs are recognised as ‘non-recurring costs’, and the funds received are recognised as ‘other liabilities’ at their nominal value, making a distinction between the current portion and the non-current portion, based on the date of repayment. In both cases, non-recurring costs are suspended between intangible assets and are amortised on the units-of-production method. These costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.
In the case of programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of non-recurring costs capitalised which have not been assessed yet by the issuer is shown separately, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry. The amount shown in other non-current assets is calculated based on an estimate made by management that reflects the reasonable probability that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

4.2 Financing for GIE-ATR aircraft

In order to enhance its competitive position, in certain cases GIE-ATR facilitates access to financing by its customers by providing specific guarantees to third parties (an approach taken by its direct competitors), an activity that in the past it also conducted through special purpose entities.
Where, due to the effect of the guarantees provided or the content of other contractual provisions, it is felt that substantially all risks and benefits attaching to aircraft sale contracts have not transferred to customers, the sale is not recognised as such in the accounts. Rather, the entire operation is recognised as a lease, postponing the recognition of profits until such time as the risks no longer obtain by way of recognition under deferred income and carrying the aircraft among the Group’s assets, undergoing normal depreciation. If, however, the operation is structured in a manner in which substantially all risks and benefits are transferred to the customer, it is booked as a loan or a finance lease, with the sale being recognised upon delivery and the financial component being recognised under finance income on an accruals basis. If contracts envisage a buy-back clause or a residual value guarantee, the operation is recognised as a sale only if the present value of the guarantees can be considered immaterial with respect to the overall value of the transaction; otherwise, the aircraft is carried under the Group's assets and depreciated. All likely risks associated with operations carried out by GIE-ATR are measured on the basis of a prudent valuation conducted by management and are either deducted directly from the carrying value of the asset or are recognised under provisions for risks and charges.

4.3 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the commercial contracts are finalised, except where the award of the contracts is felt to be highly likely as a result of existing framework contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in some cases, however, in order to protect the Group against the persistent adverse trend in the US dollar, we have entered into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In these cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed to exchange-rate variations. The effects of this recognition policy are reported in Note 37. Hedges in the former case are reported as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

4.4 Recognition of the equity investment in STMicroelectronics NV (STM)

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

4.5 Provisions for risks and estimates of final costs of long-term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management’s best estimate at the reporting date. In addition, the Group’s operations regard sectors and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity, making it necessary for management to estimate the outcome of such disputes. The main potential loss situations classified as "probable" or "possible" (no provision is recognised for the latter) are discussed below.

4.6 Liabilities from defined-benefit pension plans

The Group is sponsor to two UK defined-benefit pension plans. It has the obligation to ensure a given level of benefits to the plan participants and carries the risk that the plan assets are not adequate to cover the benefits promised. In case these plans are in a deficit position, the trustee responsible for the management requests the Group to fund the plan.
The deficit resulting from the most updated actuarial valuations made by independent experts is recognised as a liability: however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.
Through the JV MBDA, which is consolidated proportionally at 25%, the Group also participates in defined-benefit pension plans in the UK where the main employer is BAE Systems Plc. As envisaged by IAS 19, the Group recognises the deficit amount that is estimated to be related to MBDA, based on information provided by BAE.

4.7 Impairment of assets

Group assets are tested for impairment at least annually if their lives are indefinite, or more often if there are indications of impairment. Similarly, impairment tests are conducted on all the assets showing signs of impairment, even if the amortisation already commenced.
Impairment tests are generally conducted using the discounted cash flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.
For these valuations, the Group uses plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

5. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

5.1 Recognition of defined-benefit plans with the adoption of the equity option

Until the annual report 2006 the Finmeccanica Group applied the so-called "corridor" approach in recognising actuarial losses and gains relating to defined-benefit plans. Under this method, effects of changes in the valuation parameters were diluted and charged to income over the remaining useful lives of plan participants, only when some quantitative parameters were exceeded. These items, together with the unwinding of the discount of the liability and the effects on the financial assets connected with the pension plans, were reported as personnel costs.
From the present consolidated financial statements the Group adopts the equity option, as envisaged in IAS 19 as amended in 2006, to recognise actuarial gains and losses. Therefore, the liability is now reported at the amount resulting from the valuation performed by external actuaries. Actuarial gains and losses are fully and directly recognised against a specific equity reserve ("reserve for actuarial gains (losses) to equity") in the period in which they occur. These are the resulting benefits:

- the amount of the liability recognised is now in line with that resulting from actuarial valuations, and there is no deferred recognition of the effects of the changes in demographic, actuarial and financial estimates and parameters;
- the entire amount of these effects is directly and fully recognised when they occur against equity, with no effects on the income statement;
- the income statement no longer includes actuarial items, which were not correlated to the estimated amount of the liability.

Interest costs and expected results on plan assets (particularly significant with reference to the UK plans) are now more properly reported as finance income and expense. As envisaged by IAS 8 "Accounting policies, changes in accounting estimates and errors", the Group adopted the new standard retrospectively, and also changed the comparative figures presented: therefore, the comparative balance sheet and income statement have been changed to reflect the effects of adopting the new standard.

The effects on the comparative income statement 2006 were as follows:

€ millions	2006	Effect of changes	2006 restated
Revenue	11,179		11,179
Revenues from related parties	1,293		1,293
Changes in inventories of work in progress, semi-finished and finished goods	(24)		(24)
Other operating income	487		487
Other operating income from related parties	7		7
Raw materials and consumables used	(4,788)		(4,788)
Purchase of services	(3,543)		(3,543)
Net costs charged by related parties	(118)		(118)
Personnel costs	(3,391)	30	(3,361)
Amortisation, depreciation and impairment	(505)		(505)
Other operating costs	(433)		(433)
(-) Work performed by the Group and capitalised	714		714
	878	**30**	**908**
Finance income	1,191		1,191
Finance income from related parties	3		3
Finance costs	(779)	(29)	(808)
Finance costs from related parties	(16)		(16)
Share of profit (loss) of equity accounted investments	(5)		(5)
Profit before taxes and discontinued operations	**1,272**	**1**	**1,273**
Income taxes	(243)		(243)
(Loss) Profit from discontinued operations	(9)		(9)
Net profit	**1,020**	**1**	**1,021**

The effects on the balance sheet at 31 December 2006 were as follows:

€ millions	31 December 2006	Effect of changes	31 December 2006 restated
Non-current assets			
Intangible assets	5,317		5,317
Property, plant and equipment	2,660		2,660
Investment properties	2		2
Equity investments	140		140
Financial assets at fair value	857		857
Non-current receivables from related parties	16		16
Receivables	426		426
Deferred taxes	470	22	492
Other assets	9		9
	9,897	**22**	**9,919**
Current assets	*13,374*	*0*	*13,374*
Non-current assets held for sale	*110*		*110*
Total assets	**23,381**	**22**	**23,403**
Shareholders' equity			
Share capital	1,858		1,858
Other reserves	3,418	(37)	3,381
Capital and reserves attributable to equity holders of the Company	*5,276*	*(37)*	*5,239*
Minority interest in equity	*81*		*81*
Total shareholders' equity	**5,357**	**(37)**	**5,320**
Non-current liabilities			
Borrowings	1,979		1,979
Severance pay and other employee liabilities	1,238	57	1,295
Provisions for risks and charges	365		365
Deferred taxes	340	2	342
Other liabilities	1,332		1,332
	5,254	**59**	**5,313**
Current liabilities	*12,687*	*0*	*12,687*
Liabilities directly correlated with assets held for sale	83		83
Total liabilities	**18,024**	**59**	**18,083**
Total liabilities and shareholders' equity	**23,381**	**22**	**23,403**

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

With regard to the severance pay (TFR), that was recognised as a defined-benefit plan at 31 December 2006, Law 296 of 27 December 2006 ('Finance Law 2007') and subsequent Decrees and Regulations issued in 2007 introduced, as part of the reform of the social security system, significant changes as to where to allocate the severance pay provision.

Specifically, the employee may choose to put the new accruals to the severance pay provision in supplementary pension schemes of his choice, to keep them at the company (for companies with less than 50 employees), or to transfer them to the INPS (for companies with more than 50 employees). Based on these regulations, and on the generally accepted interpretations, the Group believed that:

- for the severance pays accrued at 31 December 2006, the provision is a defined-benefit plan to be measured on actuarial rules but without including future pay increases. The resulting difference was treated as a curtailment in accordance with the provisions of Section 109 of IAS 19. The estimated effects of this curtailment are described in Note 26;
- for the severance pays accruing after 31 December 2006, the nature of supplementary pension funds and of funds allocated to the INPS treasury fund is that of a defined-contribution plan, without including actuarial estimates in the determination of the portion of cost attributable to the period.

6. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

The following events took place in 2007:

- on 30 March 2007 Finmeccanica completed the acquisition of 25% of Selex Sensors and Airborne Systems SpA from BAE Systems with a cash-out of € mil. 408. Such amount was already included in net debt at the end of 2006. As a result, the transaction had no significant effects on the financial position;
- on 29 November 2007 Law Decree 159 of 1 October 2007 was transposed into Law 222/2007. Article 32 identifies the financial resources necessary to let ENEA (*Ente per le Nuove tecnologie e l'Ambiente*) pay – also by way of settlement – the amounts due to Finmeccanica for the closing of the dispute started in 1995 between ENEA and Finmeccanica regarding the expenses borne by Finmeccanica following the termination under Law 321/1988 of the contract signed by **ENEA** and Finmeccanica in prior years for the construction of a nuclear plant named PEC. By partial ruling, neither final nor provisional enforceable, issued in 2003, which reformed the ruling of the court of first instance, the Court of Appeal of Rome had sanctioned Finmeccanica's right to be paid in respect of all the items deriving from the termination of the contract. ENEA filed an appeal with the Supreme Court against this ruling. In the meantime, at the request of the same Court of Appeal, the parties decided to see whether a settlement was viable or not. In this way, also under Article 32 of Law Decree 159/2007, the Supreme Court accepted the joint request of Finmeccanica and ENEA for a stay of ruling. The parties then confirmed their willingness to settle the matter and started to review jointly the individual items claimed by Finmeccanica. The review identified a range of amounts for a possible settlement, against a total claim of € mil. 670 at 31 December 2007.
  Based on these considerations, although there is no formal settlement agreement, the Group determined to write up the amount of the receivable from ENEA (in the financial statements at 31 December 2006 the net amount recorded was € mil. 53), and to report an additional amount in order to reach the minimum range identified, in accordance with accounting standards and with a view to prudence and reasonable reliability, even if the reasons for the claim are considered to be fully grounded. The formal closing of the settlement agreement might involve the recognition of additional income. However, this is not recognised yet in the Group financial statement as long as additional elements of certainty are collected.
  The effects of this on the financial statements 2007 have been as follows:

	€ millions
Amount reported	340
Estimated legal fees and amounts due to third parties	(39)
Amount reported at 31 December 2006	(53)
	248
Tax effect *(deferred in the amount of € mil. 82)*	(80)
Effect on result 2007	**168**

› in December 2007 the Ministry for Economic Development, the Competition Directorate-General of the European Commission and the Group have decided the methods for determining the repayment plans and the relevant financial expense on programmes that are being investigated in connection with the infringement procedure against the Italian Government. The procedure was notified to the Ministry of Foreign Affairs on 1 October 2003 pursuant to Article 11 of the EC Treaty, with respect to the non-bearing loans granted by the Italian Government to Group companies under **Law 808/1985** for R&D programmes, which, according to the Commission, are State aids. The preliminary assessment of the Commission was that these subsidies were not notified to the Commission at the time, even though they were each in excess of the ECU 20 million threshold (1 ECU being equal to 1 euro) until 1996 and ECU 25 million after that year. On 22 January 2004, the decision to open proceedings was published in the EU Official Journal. 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 additional projects. The decision was later published on the EU Official Journal.
Given this situation, even if the formal progress of the procedure has not been completed yet, the Group posted the following effects in these financial statements:
  - the recognition of interests amounting to € mil. 105 on programmes for which the additional benefit of not paying interest was considered by the Commission as an additional State aid to be repaid, even though Law 808/1985 did not provide, and still does not provide, for the payment of any interest;
  - the reclassification of payables under Law 808/1985 for a total amount of € mil. 389 (of which € mil. 284 was recognised in prior years as a liability, plus the above said financial expense reported in 2007) under other current financial payables, given the definition of a repayment plan which does not depend any longer by the actual achievement of estimated sales;
  - the review of costs capitalised in respect of these programmes, to take into account that the risk-sharing mechanisms of Law 808/1985 no longer applies, which led to the impairment of assets amounting of € mil. 125.

  During a meeting held on 11 March 2008 the European Commission has decided, under EC Treaty State aid rules, to require Italy to ensure that loans granted under such projects and the related interests are fully reimbursed within two months from the date the decision is notified. The Commission's investigation will continue for two helicopter projects. The Group believe that the full compatibility of these projects with the EU laws has already been proved, since they are both of extreme importance for national security.

The following events took place in the year 2006:

› the finalisation of a project for listing **Ansaldo STS SpA** on the Italian Stock Exchange. After this, the Group sold 60% of the stock held, maintaining a 40% controlling stake;

› the sale, together with the Carlyle investment fund holding the majority of the share capital, of the interest in **Avio**, and the simultaneous buy-back from the British Cinven investment funds, through Aeromeccanica SA, of a 15% stake in the Avio group for about € mil. 130. The effects of these transactions were as follows:

€ millions	IPO Ansaldo STS	Sale of Avio
Revenue	458	302
Gain	417	291
Tax expense	(12)	(11)

7. SEGMENT INFORMATION

Primary basis

The Group operates in a variety of industry segments: Helicopters, Defence and Security 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 31 December 2007, as compared with those of the same period of the previous year, are as follows:

31 December 2007

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other Activities	Eliminations	Total
Revenue from external customers	2,929	3,197	1,410	819	962	1,049	1,270	280		11,916
Revenue from other segments	51	629	896	34	168		86	65	(416)	1,513
Result before tax and finance income and costs	340	382	150	48	116	93	(129)	84		1,084
Finance income and costs - net										(253)
Share of result of associates		3	8		(2)			7		16
Tax expense										(326)
Profit (loss) from discontinued operations										
Profit for the period										521
Group share of net result										484
Minority share										37
Investments	127	206	523	53	48	20	25	26		1,028

31 December 2007

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other activities	Eliminations	Total
Revenue from external customers	2,697	3,175	1,066	758	961	976	1,350	196		11,179
Revenue from other segments	30	572	842	6	166	2	18	33	(376)	1,293
Result before tax and finance income and costs	293	314	209	46	92	65	17	(128)		908
Finance income and costs - net										370
Share of result of associates	1		(4)		(2)					(5)
Tax expense										(243)
Profit (loss) from discontinued operations										(9)
Profit for the period										1,021
Group share of net result										989
Minority share										32
Investments	89	150	554	16	51	15	22	17		914

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

31 December 2007

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other activities	Eliminations	Total
Assets	5,394	6,827	5,129	1,049	2,444	1,269	1,866	4,360	(4,290)	24,048
Liabilities	3,151	3,985	4,821	555	1,743	1,196	1,650	5,950	(4,435)	18,616

31 December 2006

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other activities	Eliminations	Total
Assets	5,143	6,404	4,561	1,092	2,289	1,110	1,838	4,303	(3,447)	23,293
Liabilities	3,085	3,754	4,287	633	1,666	1,062	1,734	5,575	(3,796)	18,000

Secondary basis

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

	31 December 2007	31 December 2006
Europe	10,139	9,241
North America	1,468	1,408
Other	1,822	1,823
	13,429	**12,472**

Assets are geographically distributed as follows:

	31 December 2007	31 December 2006
Europe	23,511	22,841
North America	468	351
Other	69	101
	24,048	**23,293**

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

	31 December 2007	31 December 2006
Europe	983	893
North America	34	18
Other	11	3
	1,028	**914**

8. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Patents & similar rights	Concessions, licences and trademarks	Other	Total
1 January 2006							
Cost	3,516	84		63	187	311	4,161
Amortisation, depreciation, and impairment	(194)	(60)		(54)	(74)	(183)	(565)
Carrying amount	**3,322**	**24**	**-**	**9**	**113**	**128**	**3,596**
Reclassifications	(358)	174	596	-	-	578	990
Investments (*)	-	118	156	4	21	49	348
Amortisation	-	(34)	(59)	(5)	(19)	(55)	(172)
Increases for business combinations	156	2	-	-	-	29	187
Other changes	358	-	-	(1)	1	10	368
***31 December 2006* broken down as follows:**	**3,478**	**284**	**693**	**7**	**116**	**739**	**5,317**
Cost	3,672	385	826	65	209	970	6,127
Amortisation and impairment	(194)	(101)	(133)	(58)	(93)	(231)	(810)
Carrying amount	3,478	284	693	7	116	739	5,317
Reclassifications	-	-	-	-	(11)	(10)	(21)
Investments (**)	-	148	140	4	10	96	398
Sales	(2)	-	-	-	(2)	(2)	(6)
Amortisation	-	(65)	(58)	(4)	(18)	(65)	(210)
Write-downs	-	(32)	(91)	-	-	(21)	(144)
Increases for business combinations	58	-	-	-	1	8	67
Other changes	(100)	(3)	-	(1)	(3)	(28)	(135)
***31 December 2007* broken down as follows:**	**3,434**	**332**	**684**	**6**	**93**	**717**	**5,266**
Cost	3,606	528	964	45	168	1,041	6,352
Amortisation and impairment	(172)	(196)	(280)	(39)	(75)	(324)	(1,086)
Carrying amount	3,434	332	684	6	93	717	5,266
(*) of which work performed by the Group and capitalised	-	118	441	1	2	16	578
(**) of which work performed by the Group and capitalised	-	144	103	-	-	11	258

Goodwill fell by € mil. 44. In particular, increases for business combinations (Note 12) relate to:

› the acquisition in November of 28.2% of the shares in Vega Group Plc, prior to the launch in December of the Public Offer on the remaining share capital, as described in Note 12, which led to the recognition of goodwill of € mil. 24;

› the recognition of additional goodwill deriving from the actual exercise of the call option over 25% of the Selex Sensors and Airborne Systems group, previously held by BAE Systems (€ mil. 22);

› the acquisition of Bayern-Chemie from JV MBDA (€ mil. 1);

› the operation to purchase shares held by minority shareholders in Datamat SpA (€ mil. 7) and Ansaldo STS SpA (€ mil. 4).

As a result of these increases, the net value of goodwill fell due to the translation differences on the goodwill of assets denominated in British pounds (included in the flow “other changes”).

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

A summary of goodwill by segment is as follow:

	31 December 2007	31 December 2006
· Helicopters	1,289	1,314
· Defence and Security Electronics	1,338	1,368
· Aeronautics	60	60
· Space	328	315
· Defence Systems	370	376
· Energy	7	7
· Transportation	42	38
· Other Activities	-	-
	3,434	**3,478**

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 no greater than those forecast for the market in which the given CGU operates. For the impairment tests conducted in 2007, the growth rate used was 2%, and the interest rates applied are between 9.0% - 9.8%.

Development costs and non-recurring costs increased due to the capitalisations for the period (€ mil. 148 and € mil. 140 respectively), mainly due to Aeronautics (€ mil. 172) and Defence and Security Electronics (€ mil. 77) programmes, which have been partly offset by the impairment (€ mil. 144) of the programmes included in the infringement procedure of the European Commission (Note 6) (€ mil. 87).
As regards programmes that benefit from the provisions of Law 808 and are classified as functional to national security, the portion of capitalised non-recurring costs whose fairness must be assessed yet by the grantor is separately disclosed within other non-current assets (Note 15).

Concessions, licences and trademarks include € mil. 71 (€ mil. 77 at 31 December 2006) in expenses related to the acquisition by JV BAAC amounting to USD 95 million for all of the production and marketing rights for the AW139 helicopter.

The item "other" include € mil. 539 of the residual value of the intangible assets identified in the course of corporate aggregation operations, in accordance with IFRS 3. Of this, € mil. 118 relates to internally-developed technological knowledge and software, € mil. 46 to trademarks, € mil. 359 to activities related to the backlog of acquired companies, to their commercial positioning and to acquired programmes, and € mil. 16 to licences.

The changes for the period are as follows:

	2007	2006
1 January	590	-
Completion of the allocation process	-	578
Amortisation	(26)	(24)
Transactions for the year	8	29
Exchange rate differences	(29)	7
Other changes	(4)	-
Amount at 31 December	**539**	**590**

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other	Total
1 January 2006					
Cost	1,410	1,492	851	1,225	4,978
Depreciation and impairment	(365)	(1,020)	(537)	(550)	(2,472)
Carrying amount	**1,045**	**472**	**314**	**675**	**2,506**
Investments (*)	56	87	73	350	566
Sales	(36)	(4)	(1)	(19)	(60)
Depreciation	(45)	(112)	(71)	(82)	(310)
Increases for business combinations	5	1	-	5	11
Other changes	(6)	9	(1)	(55)	(53)
***31 December 2006* broken down as follows:**	**1,019**	**453**	**314**	**874**	**2,660**
Cost	1,426	1,549	897	1,466	5,338
Depreciation and impairment	(407)	(1,096)	(583)	(592)	(2,678)
Carrying amount	**1,019**	**453**	**314**	**874**	**2,660**
Investments (**)	28	171	343	88	630
Sales	(17)	(2)	(1)	(25)	(45)
Depreciation	(44)	(110)	(72)	(67)	(293)
Impairment	-	-	(25)	-	(25)
Increases for business combinations	3	-	-	4	7
Other changes	(2)	(34)	(20)	(23)	(79)
***31 December 2007* broken down as follows:**	**987**	**478**	**539**	**851**	**2,855**
Cost	1,430	1,619	1,200	1,491	5,740
Depreciation and impairment	(443)	(1,141)	(661)	(640)	(2,885)
Carrying amount	**987**	**478**	**539**	**851**	**2,855**
(*) of which work performed by the Group and capitalised	-	2	90	16	108
(**) of which work performed by the Group and capitalised	-	5	171	26	202

Property, plant and equipment includes € mil. 28 (€ mil. 31 at 31 December 2006) of assets held under contracts that can be qualified as finance leases, of which € mil. 24 (€ mil. 25 at 31 December 2006) relates to land and buildings and € mil. 4 (€ mil. 6 at 31 December 2006) to plant and machinery, equipment and other assets.

Other assets include a total of € mil. 9 (€ mil. 16 at 31 December 2006) for helicopters owned by the AgustaWestland group and a total of € mil. 169 (€ mil. 214 at 31

December 2006) for aircraft owned by the GIE-ATR group, as well as for aircraft that did not meet the requirements, in terms of the substantial transfer of the risks of ownership (Note 4.2), to recognise 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. 529 (€ mil. 507 at 31 December 2006).

The most significant investments amounted to € mil. 326 for Aeronautics (mainly for the start-up of the B787 programme), € mil. 98 for the Defence and Security Electronics, € mil. 109 for Helicopters and € mil. 25 for Defence Systems. Impairment relates to tooling costs relating to the infringement procedure commenced by the European Commission (Note 6).

Purchase commitments of property, plant and equipment are recorded in the amount of € mil. 135 (€ mil. 122 at 31 December 2006).

10. INVESTMENT PROPERTIES

Investment properties, amounting to € mil. 1 (€ mil. 2 at 31 December 2006), entirely regarded land and buildings.

11. EQUITY INVESTMENTS

	2007	2006
Opening balance	140	138
Acquisitions/subscriptions and capital increases	7	44
Revaluations/impairment	18	6
Dividends received	(11)	(3)
Sales	(3)	(37)
Other changes	(3)	(8)
Closing balance	**148**	**140**

The increases mainly related to the acquisition of Digint Srl (€ mil. 2) in Other Activities and of ABS Technology SpA (€ mil. 3) in Defence and Security Electronics.

Revaluations concerned Eurofighter Jagdflugzeug GmbH (€ mil. 8), Elettronica SpA (€ mil. 4), NH Industries Sarl (€ mil. 1), Eurosysnav SAS (€ mil. 1), Orizzonte Sistemi Navali (€ mil. 1) and other minor companies (€ mil. 3); impairment mainly relate to Roxel SAS (€ mil. 1).

Dividends received essentially regarded Eurofighter Jagdflugzeug GmbH, Elettronica SpA, San Giorgio SA and I.M. Intermetro SpA.

List of unconsolidated equity investments at 31 December 2007 (€ millions)

	Ownership %	€ millions	Assets currency /millions	Liabilities currency /millions	Currency
Orizzonte - Sistemi Navali SpA	49.00%	11	421	398	
Elettronica SpA	31.333%	13	622	581	
Metro 5 SpA	31.90%	8	60	35	
Icarus SCpA	49.00%	5	16	6	
Europea Microfusioni Aerospaziali SpA	49.00%	6	43	30	
Eurofighter Jagdflugzeug GmbH	21.00%	5	985	931	
Eurosysnav SAS	50.00%	4	1,283	1,274	
Finmeccanica North America Inc.	100.000%	3	5	1	USD
ABS Technology SpA (.)	60.000%	3	-	-	
I.M. Intermetro SpA (+)	33.33%	2	1,487	1,479	
Consorzio C.R.I.S.	81.00%	2	6	4	
Jiangxi Changhe Agusta Helicopters Co. Ltd	40.00%	1	105	57	RMB
Musinet Engineering SpA	49.00%	2	6	2	
Digint Srl	49.00%	2	3	1	
Libyan Italian Advanced Technology Company	50.00%	2	3	1	LD
Metro C SCpA	14.00%	21			
Indra Espacio SA (*)	16.17%	7			
Vitrociset SpA	10.00%	6			
Innovazione e Progetti SCpA	15.00%	4			
Panavia Aircraft GmbH	15.00%	3			
Roxel SAS (*)	12.50%	3			
Digitalglobe Inc. (*)	1.39%	3			USD
Ferromovil 9000 SL	10.00%	2			
Sofresa SA	3.00%	2			
Equity investments in companies and consortiums with value lower than € mil. 2		28			
Total equity investments (less impairment provisions)		**148**			

(*) Investment with % ownership in Group companies.
(.) Formed on 20 December 2007, the first annual report will be prepared in 2008.
(+) Amounts of reference: financial statements 2006.

12. BUSINESS COMBINATIONS

The following summarises the business combinations that took place in previous financial periods. With regard to 2007 Group net cash outlays totalled € mil. 434 (€ mil. 181 in 2006).

Acquisition of the Vega Group

On 29 November 2007 Finmeccanica announced the launch of a Public Offer on the shares of Vega Group Plc, a company listed on the London Stock Exchange, at a price per share of 280 pence, to be completed in the period 7 December 2007 - 28 December 2007, with an extension to 16 January 2008. On 30 November Finmeccanica performed the acquisition of 28.2% of Vega Group Plc, with a total outlay of € mil. 23.
At 31 December 2007 irrevocable bids on the offer launched by Finmeccanica amounted to 85.1% of the share capital of Vega: therefore, even if the acquisition was not completed, since it is subject to certain conditions which have not been fulfilled yet (a minimum acceptance of 90% of the share capital), due to Finmeccanica's right to waive these conditions and to the irrevocability of the shareholders acceptance, the company was consolidated on a line-by-line basis, as permitted by IAS 27 (14), from 31 December 2007 (without any impact on the income statement), allocating the remaining 71.8% to minority interests.
The transaction led to the recognition of additional goodwill of € mil. 24 (calculated on the amount held at 31 December 2007), with this effect on the Group balance sheet:

	Amounts at 31 December 2007
Cash and cash equivalents	2
Property, plant and equipment	2
Intangible assets	1
Receivables	20
Inventories and contract work in progress	9
Other assets	1
Advances from customer and trade payables	(11)
Borrowings	(22)
Other liabilities	(6)
Net liabilities acquired	(4)
28.2% acquired	**(1)**
Price paid	23
Transactions costs	-
Total cost of the acquisition	**23**
Goodwill resulting from the acquisition	24
Cash acquired	2
Net cash outlays	21

On 16 January 2008 the offer was positively completed, with 93.3% acceptance. At the same time, Finmeccanica commenced the squeeze-out process, and the delisting was completed on 13 February 2008.

Exercise of the call option on Selex Sensors & Airborne Systems

On 30 March 2007 Finmeccanica exercised the call option on the remaining 25% of the shares in Selex Sensors & Airborne Systems, held by BAE Systems (BAE) at a price of € mil. 408 (including a later price adjustment determined in December 2007), less the refund of certain costs of BAE incurred in prior years and recognised in the Group financial statements at 31 December 2006 as financial receivables (€ mil. 15).

The effects of this transaction had already been recognised as financial receivables, due to the translation of the consideration agreed between the parties for the possible exercise of the put and call options rights.
Due to this transaction, additional goodwill of € mil. 22 was recognised.

Acquisition of Bayern-Chemie
On 31 August 2007 JV MBDA acquired from EADS and Thales 100% of Bayern-Chemie GmbH and Protac SA, companies operating in the development and manufacturing of missile production systems. In the 4 months, the companies accounted for a negative € mil. 1. The effects on the balance sheet resulting from the acquisition are the following (Finmeccanica share):

	Amount before acquisition	Fair value adjustment	Amounts recognised at acquisition
Cash and cash equivalents	13	-	13
Property, plant and equipment	5	-	5
Intangible assets	-	8	8
Receivables	3	-	3
Inventories and contract work in progress	3	(5)	(2)
Other assets	1	-	1
Liabilities for pension plans	(8)	-	(8)
Payables	(11)	-	(11)
Provisions for risks	(6)	(2)	(8)
Net assets acquired	**-**	**1**	**1**
Price paid	2		2
Transactions costs	-	-	-
Total cost of the acquisition	**2**	**-**	**2**
Goodwill resulting from the acquisition	2	(1)	1
Cash acquired	13	-	13
Net cash outlays	(11)	-	(11)

Transactions with minority shareholders
In 2007, the Group entered into transactions with minority shareholders. In this regard, it should be noted that IFRS 3 applies solely to transactions that involve the acquisition of control by the acquiring entity over the assets of the acquired company. Therefore, acquisitions of additional shares after control has already been achieved are not specifically governed by the IFRSs. Under the current doctrine, these transactions may be recognised as equity transactions (with the difference between the acquisition cost and the carrying value of the minority stakes acquired being directly attributed to the Group's shareholders' equity) or, in accordance with the parent company approach (which treats minority shareholders as third parties), allocating the difference between the acquisition cost and the carrying value of the minority stakes acquired to goodwill.
Consistent with its approach to the sale of shares that do not lead to the loss of control (Ansaldo STS IPO in the comparative 2006), the Group treats such transactions using the "parent company approach", which presently complies with the current version of IAS 27, recognising the difference as goodwill.

The details of these transactions are as follows:

› *Datamat.* In 2005, Finmeccanica, as a result of exceeding the 30% statutory threshold provided by Legislative Decree 58/1998, launched a mandatory public offering on the 12,284,840 ordinary Datamat shares for a unit price of € 9.65 per share. At the conclusion of the mandatory public offering, the Group acquired, as of 4 January

2006, an additional 9,178,274 ordinary shares for a total value of € mil. 89. The Group later acquired further shares on the open market, thus exceeding the 90% necessary to launch the residual offering, at a price per share set by Consob (the Italian Securities Regulator) of € 9.911 per share. In the end, the Group's total stake came to 98.6% for a total additional outlay of € mil. 20. Following this process, the Datamat SpA shares were withdrawn from the MTAX market effective as from 9 January 2007. In 2007 Finmeccanica exercised the right to purchase the remaining Datamat shares in a squeeze-out operation pursuant to Article 111 of the Finance Act, for a unit price of € 10.040 determined by an expert appointed by the President of the Court of Rome. The Group now holds the entire capital of the Datamat shares. Soon after the full ownership of the Datamat shares was reached, the process of merger between the company and Elsag SpA was started and finalised on 1 August 2007. On completion of the merger, the company was named Elsag Datamat SpA.

› *Ansaldo STS.* During the period Finmeccanica acquired on the open market Ansaldo STS shares in order to keep its ownership percentage, since, as part of the IPO, the company made a commitment to grant, for no further compensation, to subscribers who retained possession of the shares for at least 12 months, one share for every 10 held.

The total effects of these transactions on the performance and financial position of the Group were as follows:

	Datamat	Ansaldo STS	Total
Cash paid	11	5	16
Transactions costs	-	-	-
Cash outlays	11	5	16
Minority interests acquired	4	1	5
Goodwill resulting from the acquisition	**7**	**4**	**11**

Transactions related to financial year 2006

During 2006 the Group was involved in these transactions:

Thomassen Turbine Systems and Energy Service Group

In 2006, Ansaldo Energia SpA acquired 100% of Thomassen Turbine Systems BV (TTS), a Dutch company specialising in services for gas turbines, for € mil. 12, and the remaining 55% of the Swiss firm Energy Service Group AG (ESG), which provides on-site plant maintenance and repairs, for € mil. 2. The fair value attributed to the assets and liabilities acquired is as follows:

	TTS	ESG
Cash and cash equivalents	1	1
Property, plant and equipment	2	-
Intangible assets	2	-
Other non-current assets	5	-
Receivables	4	2
Inventories and contract work in progress	7	-
Payables	(11)	(1)
Provisions for risks	(2)	-
Deferred taxes	-	-
Net assets acquired	8	2
Portion acquired	100%	55%
Portion acquired of net assets	**8**	**1**
Price paid	12	2
Transactions costs	-	-
Total cost of the acquisition	**12**	**2**
Goodwill resulting from the acquisition	4	1
Cash acquired	1	1
Net cash outlays	11	1

Alcatel adjustment

In September 2006 Finmeccanica paid € mil. 47 to Alcatel as the price adjustment contractually agreed upon formation of the joint ventures in the space segment.

Acquisition of 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 table below reports amounts at the date of acquisition and the fair value attributed to the assets and liabilities acquired at the end of this process (Finmeccanica share) in 2006 and in part in 2007 (when deferred tax assets amounting to € mil. 5 have been recognised).

	Amounts before acquisition	Fair value adjustment	Amounts at 31 December 2007	2007 adjustments	Amounts recognised at acquisition
Cash and cash equivalents	59	-	59	-	59
Property, plant and equipment	8	1	9	-	9
Intangible assets	-	29	29	-	29
Receivables	27	-	27	-	27
Inventories and contract work in progress	30	-	30	-	30
Other assets	1	-	1	-	1
Liabilities for pension plans	(26)	-	(26)	-	(26)
Payables	(60)	(1)	(61)	-	(61)
Provisions for risks	(37)	-	(37)	-	(37)
Deferred taxes	-	(5)	(5)	5	-
Net assets acquired	2	24	26	5	31
Negative interest of minority interests	1	-	1	-	1
Net assets of the Group	3	24	27	5	32
81.25% acquired	**2**	**20**	**22**	**5**	**27**
Price paid	64	-	64	-	64
Transactions costs	1	-	1	-	1
Total cost of the acquisition	**65**	**-**	**65**	**-**	**65**
Goodwill resulting from the acquisition	63	(20)	43	(5)	38
Cash acquired	59	-	59	-	59
Net cash outlays	**6**	**-**	**6**	**-**	**6**

Transactions with minority shareholders

The details of these transactions are as follows:

- *Datamat.* The total outlays for 2006 were € mil. 109. As described, the transaction was completed in 2007 with the squeeze-out operation;
- *Tecnosis.* At the beginning of 2006, the Group, through Elsag SpA purchased a minority stake (30%) in Tecnosis SpA for € mil. 2;
- *GAF.* On 21 December 2006 Telespazio SpA (a joint venture in which the Group holds 67% and which is consolidated proportionally) purchased the remaining 24.92% of the German company GAF AG for € mil. 3.

The total effects of these acquisitions on the performance and financial position of the Group were as follows:

	Datamat	Tecnosis	GAF (67%)	Total
Cash paid	109	2	2	113
Transactions costs	3	-	-	3
Cash outlays	112	2	2	116
Minority interests acquired	48	-	1	49
Goodwill resulting from the acquisition	**64**	**2**	**1**	**67**

13. FINANCIAL ASSETS AT FAIR VALUE

	31 December 2007		31 December 2006	
	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	589	-	840	-
Other securities	-	-	17	-
	589	**-**	**857**	**-**

These relate to the indirectly-owned interest in STMicroelectronics (STM), amounting to 6.6% at 31 December 2007. Below are changes for the periods in this item:

	2007	2006
1 January	840	906
Purchases for the year	-	-
Sales for the year	-	-
Fair value adjustment at 31 December 2007	(251)	(66)
31 December	**589**	**840**

The decrease for the year was offset by a specific equity reserve named ‘reserve for assets available for sale’ (€ mil. 121 net of the translation reserve which was negative in the amount of € mil. 14 relating to prior years). The strategy for hedging the STM instrument is designed to limit the negative effects of a partial depreciation of the security.
The Group, on the contrary, is exposed in the event the coverage limits are exceeded (Note 43).
Following the changes in the shareholders’ agreement between the three shareholders of STMicroelectronics Holding NV, it was resolved to sell 26 million shares during the first months of 2008. The details of the agreement are contained in Note 43.

14. EQUITY 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:

Receivables at 31 December 2007

€ millions	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Subsidiaries						
Oto Melara North America Inc.			1	5		6
Finmeccanica UK Ltd			3			3
Finmeccanica North America Inc.			2			2
Ansaldo Argentina SA				1		1
Ansaldo Electric Drives SpA			1			1
Datamat (Suisse) SA (in liq.)			1			1
Elsag Eastern Europe Srl (in liq.)			1			1
Other companies with unit amount lower than a € mil. 1				1	1	2
Associates						
Eurofighter Jagdflugzeug GmbH				108		108
Fiat Iveco/Oto Melara Scarl				33		33
Orizzonte - Sistemi Navali SpA				29		29
Abruzzo Engineering Scpa				13		13
NH Industries Sarl				13		13
Macchi Hurel Dubois SAS				11		11
Eurosysnav SAS				8		8
Metro 5 SpA				7		7
Euromids SAS				3		3
HR Gest SpA				3		3
Nahuelsat SA	2			1		3
Elettronica SpA				2		2
Nicco Communications SAS				2		2
I.M. Intermetro SpA				2		2
Consorzio Start SpA				2		2
International Metro Service Srl					2	2
Advanced Air Traffic Systems Sdn Bhd				2		2
Contact Srl				1		1
Industrie Aeronautiche e Meccaniche Rinaldo Piaggio SpA (Amm. Str.)				1		1
Comlenia Sendirian Berhad				1		1
NNS - Societè de Service pour reacteur rapide Snc				1		1
Abu Dhabi Systems Integration LLC				1		1
J.V. (*)						
MBDA SAS				87		87
Thales Alenia Space SAS			2	25		27
GIE-ATR					10	10
Aviation Training International Ltd	9		1			10
Telespazio SpA				1	1	2
Telbios SpA				1		1
Superjet International SpA				1		1
Consortiums (**)						
Saturno				42		42
Trevi - Treno Veloce Italiano				14		14
C.I.S. DEG				10		10
Elmac				6		6
Filobus Vesuvio				3		3
S3LOG				3		3
Thamus			3			3

Receivables at 31 December 2007 (cont'd)

€ millions	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Consortiums (**) (cont'd)						
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			3			3
Ferroviario Vesuviano				2		2
CREO - Centro Ricerche Elettroottiche			2			2
Ferroviario San Giorgio Volla				1		1
Ferroviario San Giorgio Volla 2				1		1
R.E.S. - Raggruppamento Europeo per la Sicurezza				1		1
Telaer				1		1
Spike				1		1
Ansco Cairo					1	1
Total	**11**	**0**	**20**	**451**	**15**	**497**

Payables at 31 December 2007

€ millions	Non-current financial payables	Other non-current payables	Current financial payables	Trade payables	Other current payables	Total
Subsidiaries						
Finmeccanica UK Ltd				3	1	4
Finmeccanica North America Inc.				2		2
Alifana Due Scrl				1		1
Selex Sensors and Airborne Systems						
Electro Optics (overseas) Ltd				1		1
Alenia Hellas SA				1		1
Other companies with unit amount lower than a € mil. 1						
Associates						
Consorzio Start SpA				16		16
Eurosysnav SAS			13			13
Fiat Iveco/Oto Melara Scarl					6	6
Metro 5 SpA					6	6
Eurofighter Jagdflugzeug GmbH				4		4
HR Gest SpA				3		3
Advanced Air Traffic Systems Sdn Bhd				3		3
Pegaso Scrl				3		3
Automation Integrated Solutions SpA				2		2
Europea Microfusioni Aerospaziali SpA			1			1
Macchi Hurel Dubois SAS				1		1
Libyan Italian Advanced Technology Company			1			1
Orizzonte - Sistemi Navali SpA				1		1
Sistemi Dinamici SpA				1		1
NH Industries Sarl				1		1
Bell Agusta Aerospace Company LLC				1		1
Ansaldo E.m.i.t Scrl				1		1
Eurofighter International Ltd			1			1
J.V. (*)						
MBDA SAS			494	11		505
Telespazio SpA			23	1		24
Thales Alenia Space SAS			24	9		33
GIE-ATR				4		4
Superjet International SpA			3			3
Consortiums (**)						
Trevi - Treno Veloce Italiano					12	12
SESM - Soluzioni Evolute per la Sistemistica e i Modelli				3		3
C.I.S. DEG				3		3
R.E.S. - Raggruppamento Europeo per la Sicurezza				1		1
Saturno				1		1
Thamus				1		1
Other consortiums with unit amount lower than € mil. 1				2		2
Total	-	-	**560**	**81**	**25**	**666**

Receivables at 31 December 2006

€ millions	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Subsidiaries						
Ansaldo Invest Denmark A/S (in liq.)			3			3
Alifana Due Scrl				3		3
Finmeccanica UK Ltd			2			2
Ansaldo Argentina SA				1		1
Finmeccanica Inc.			1			1
IGS SpA (in liq.)			1			1
Alenia Improvement SpA				1		1
Ansaldo Do Brasil Equipamentos Eletromecanicos Ltda					1	1
Ansaldo Electric Drives SpA			1			1
Other companies with unit amount lower than a € mil. 1				1		1
Associates						
Eurofighter Jagdflugzeug GmbH				79		79
Fiat Iveco/Oto Melara Scarl				58		58
NH Industries Sarl				14		14
Eurosysnav SAS				11		11
Galileo Vacuum Systems SpA			9	1		10
Orizzonte - Sistemi Navali SpA				9		9
Macchi Hurel Dubois SAS				8		8
Ansaldo Trasmissione e Distribuzione SpA	5			1		6
Elettronica SpA				5		5
Remington Elsag Law Enforcement Systems LLC				4		4
Euromids SAS				4		4
I.M. Intermetro SpA				3		3
Consorzio Start SpA				2		2
Eurofighter Simulation Systems GmbH				2		2
Comlenia Sendirian Berhard				2		2
Nicco Communications SAS				1		1
Eurofighter Aircraft Management GmbH				1		1
Advanced Air Traffic Systems Sdn Bhd				1		1
Industrie Aeronautiche Rinaldo Piaggio SpA (Amm. Str.)				1		1
Thomassen Service Gulf LLC				1		1
Other companies with unit amount lower than a € mil. 1				2		2
J.V. (*)						
GIE-ATR					33	33
MBDA SAS				45		45
Alcatel Alenia Space SAS			2	23		25
Aviation Training International Ltd	11		1			12
Telespazio SpA				1	1	2
Consortiums (**)						
Saturno				35		35
Trevi - Treno Veloce Italiano				24		24
CMS Italia				14		14
C.I.S. DEG				6		6
Filobus Vesuvio				3		3

Receivables at 31 December 2006 (cont'd)

€ millions	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Consortiums (**) (cont'd)						
Telaer				2		2
CREO - Centro Ricerche Elettroottiche			2			2
Thamus			2			2
S3Log				2		2
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			2			2
Ferroviario Vesuviano				2		2
Ferroviario San Giorgio Volla				2		2
Contact				1		1
Sistemi Navali Selenia-Elsag				1		1
Total	**16**	**-**	**26**	**377**	**35**	**454**

Payables at 31 December 2006

€ millions	Non-current financial payables	Other non-current payables	Current financial payables	Trade payables	Other current payables	Total
Subsidiaries						
Alifana Due Scrl				5		5
Oto Melara North America Inc.				1	2	3
Finmeccanica UK Ltd				2		2
Finmeccanica Inc.				1		1
Alenia Hellas SA				1		1
Alifana Scrl				1		1
Selex Sensors and Airborne Systems Electro Optics (overseas) Ltd				1		1
Other companies with unit amount lower than a € mil. 1			1			1
Associates						
Eurofighter Jagdflugzeug GmbH			78	9		87
Eurosysnav SAS			20			20
Ansaldo Trasmissione & Distribuzione SpA			10		1	11
Fiat Iveco/Oto Melara Scarl					9	9
Metro 5 SpA					6	6
Pegaso Scrl				4		4
Advanced Air Traffic Systems Sdn Bhd				3		3
Orizzonte - Sistemi Navali SpA					1	1
Europea Microfusioni Aerospaziali SpA			1			1
Libyan Italian Advanced Technology Company			1			1
Bell Agusta Aerospace Company LLC				1		1
Eurofighter International Ltd			1			1
Other companies with unit amount lower than a € mil. 1				1		1
J.V. (*)						
MBDA SAS			358	15		373
Telespazio SpA			28			28
GIE-ATR				4		4
Alcatel Alenia Space SAS				4		4
Consortiums (**)						
CMS Italia				14		14
C.I.S. DEG				3		3
S3Log				2		2
Trevi - Treno Veloce Italiano				1		1
Sistemi Navali Selenia - Elsag			1			1
RES - Raggruppamento Europeo per la Sicurezza			1			1
Telaer				1		1
Thamus				1		1
Total	**-**	**-**	**500**	**75**	**19**	**594**

(*) Amounts refer to the portion not eliminated for consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

15. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2007	31 December 2006
Third-party financing	39	19
Security deposits	19	16
Receivables for finance leases	10	20
Deferred receivables under Law 808/1985	51	314
Other	39	57
Non-current receivables	**158**	**426**
Financial accrued income - non-current	4	6
Other accrued income - non-current	1	1
Other non-current assets	-	2
Non-recurring costs awaiting interventions under Law 808/1985	362	-
Other non-current assets	**367**	**9**
Total other non-current assets	**525**	**435**

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

The item “deferred receivables under Law 808/1985” includes the receivables from the Ministry for Economic Development relating to the current value of the interventions pursuant to Law 808/1985 in national security and similar projects for which collections were deferred. The portion for which collection is expected within 12 months (€ mil. 39) is classified among other current assets (Note 21). Non-recurring costs awaiting interventions under Law 808/1985 include the portion of non-recurring costs paid on programmes that benefit from the provisions of Law 808/1985, are classified as being functional to national security, and whose expenses have not been assessed yet by the issuer. After the legal requirements for the recognition of the receivable from the Ministry are fulfilled, the recognised amount is reclassified as a receivable (current or non-current, based on the expected payment plan). The amount shown is calculated based on an estimate made by management that reflects the reasonable probability that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

16. INVENTORIES

	31 December 2007	31 December 2006
Raw materials, supplies and consumables	1,678	1,543
Work in progress and semi-finished goods	806	800
Finished goods and merchandise	150	134
Advances to suppliers	749	618
	3,383	**3,095**

Inventories are shown net of impairment charges of € mil. 427 (€ mil. 418 at 31 December 2006).

17. CONTRACT WORK IN PROGRESS AND ADVANCES FROM CUSTOMERS

	31 December 2007	31 December 2006
Work in progress (gross)	6,426	6,184
Advances from customers	(3,199)	(3,361)
Work in progress (net)	**3,227**	**2,823**
Advances from customers (gross)	15,457	12,996
Work in progress	(8,980)	(7,467)
Advances from customers (net)	**6,477**	**5,529**

Work in progress is recognised as an asset if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. If the advances have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

18. TRADE AND FINANCIAL RECEIVABLES

	31 December 2007		31 December 2006	
	Trade	Financial	Trade	Financial
Receivables	4,037	586	3,659	453
Impairment	(169)	-	(180)	(1)
	3,868	**586**	**3,479**	**452**

Other Trade receivables at 31 December 2007 include € mil. 3 (€ mil. 10 at 31 December 2006) related to receivables sold as part of non-recourse assignments to factoring companies that do not qualify for derecognition under IAS 39. It should be noted (Note 24) that these assets are not available to the Group, given that they have been transferred fully and with no possibility of repurchase by third parties.

Financial receivables mainly include receivables from other partners of the joint ventures (€ mil. 552 compared with € mil. 429 at 31 December 2006) related to the deposit of cash and cash equivalents of the MBDA and the Thales Alenia Space groups with the other participants in the joint venture (BAE Systems Plc, EADS NV and Thales SA), acquired on a pro-rata basis (25% MBDA and 33% Thales Alenia Space respectively) through the proportional consolidation of the groups.

The ageing of receivables together with an analysis of how the Group manage credit risk is reported under Note 43.

19. CURRENT FINANCIAL ASSETS AT FAIR VALUE

These assets include:

	31 December 2007		31 December 2006	
	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	1	-	9	-
Other securities	12	-	12	-
	13	**-**	**21**	**-**

Bonds mainly relate to Government securities issued by the Italian Government. The other securities almost exclusively relate to an investment of the Parent Company in units of a fund organised under the laws of Italy.

20. INCOME TAX RECEIVABLES AND PAYABLES

	31 December 2007		31 December 2006	
	Receivables	Payables	Receivables	Payables
Parent Company receivables	122	-	173	-
Receivables assigned without recourse	106	-	106	-
Other income tax receivables/payables	49	68	92	139
	277	**68**	**371**	**139**

Parent Company receivables relate to IRPEG/IRES (corporate income tax) receivables of € mil. 56, to interest on tax receivables of € mil. 59 and other receivables (IRAP, regional tax on productive activities, and ILOR, local income tax) of € mil. 7.
Receivables assigned without recourse relates to IRPEG receivables maintained as Group assets, even though they have been sold to third parties, because this is not included in the requirements of IAS 39 on derecognition. A financial payable of the same amount is recognised against these tax receivables (Note 24).

21. OTHER CURRENT ASSETS

	31 December 2007	31 December 2006
Accrued income - current portion	82	80
Equity investments	1	-
Receivables for contributions	69	83
Receivables from employees and social security	40	33
Indirect tax receivables	161	98
Deferred receivables Law 808/85 (Section 15)	39	38
Other assets	202	213
	594	**545**

The item “deferred receivables Law 808/1985” includes the receivables from the Ministry for Economic Development relating to the interventions pursuant to Law 808/1985 in national security and similar projects for which collections are expected within 12 months. Deferred portions are recognised as accounts receivable and other non-current assets (Section 15).
Other assets include, among others, receivables from the Camozzi group in the amount of € mil. 14 (€ mil. 14 at 31 December 2006), sundry advances in the amount of € mil. 20 (€ mil. 21 at 31 December 2006) and receivables from the Ministry of Defence in connection with the settlement of disputes in the amount of € mil. 37.

22. CASH AND CASH EQUIVALENTS

	31 December 2007	31 December 2006
Cash	3	5
Bank deposits	1,604	1,998
	1,607	**2,003**

Cash and cash equivalents decreased also due to the payment of the acquisition of the remaining 25% of Selex Sensors and Airborne Systems SpA.
The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

23. SHAREHOLDERS' EQUITY

Shareholders' equity at 31 December 2007 came to € mil. 5,432 (€ mil. 5,320 at 31 December 2006), a net increase of € mil. 112.

Share capital

	Number of ordinary shares	Par value € mil.	Treasury shares € mil.	Total € mil.
Outstanding shares	424,594,156	1,868	-	1,868
Treasury shares	(631,701)	-	(10)	(10)
31 December 2006	**423,962,455**	**1,868**	**(10)**	**1,858**
Shares subscribed during the period	541,104	2	-	2
Repurchase of treasury shares, less shares sold	287,924	-	4	4
31 December 2007	**424,791,483**	**1,870**	**(6)**	**1,864**
broken down as follows:				
Outstanding shares	425,135,260	1,870	-	1,870
Treasury shares	(343,777)	-	(6)	(6)
	424,791,483	**1,870**	**(6)**	**1,864**

The Group Parent's share capital fully subscribed and paid-up is divided into 425,135,260 ordinary shares with a par value of € 4.40 each, including 343,777 treasury shares.

During 2007, share capital increased by € mil. 6 due to:

› the issue of 541,104 new shares for the exercise of as many options under the 2002-2004 stock option plan approved by the Board of Directors (€ mil. 2);

› the repurchase of 350,000 (€ mil. 7) treasury shares, in support of the 2005-2007 stock grant plan; 31,100 options to purchase treasury shares were exercised by non-employees under the stock option plan and 606,824 shares were delivered under the stock grant plan for a total amount of € mil. 11.

As a result of these transactions, there were 343,777 treasury shares held in the portfolio, of which 166,815 to service the aforementioned stock option plan and 176,962 to service the stock grant plan.

At 31 December 2007 the Ministry of Finance held 33.725%, Fidelity International Ltd held 2.127% and Capital Research and Management Company held 2.1177% of the shares.

Other reserves

	Retained earnings and consolidation reserve	Reserve for assets available for sale	Cash flow hedge reserve	Reserve for stock option/grant plans	Reserve for actuarial profits (losses) posted to shareholders' equity	Translation reserve	Other reserves	Total
31 December 2005	2,173	438	(44)	17		2		2,586
					(93)			(93)
1 January 2006 restated	2,173	438	(44)	17	(93)	2		2,493
Dividends paid	(211)							(211)
Surplus on share capital increases	17							17
Revaluation of assets acquired in previous years	5							5
Actuarial profits (losses)					56			56
Changes to UK pension plans	(53)							(53)
Other changes	13							13
Stock option/grant plans:								
- services rendered				18				18
- stock grant assigned				(15)				(15)
Fair value adjustments and transfers to the income statement		(66)	102					36
Net profit for the year	989							989
Exchange gains/losses						33		33
31 December 2006	**2,933**	**372**	**58**	**20**	**(37)**	**35**	**-**	**3,381**
Dividends paid	(149)							(149)
Surplus on share capital increases	5							5
Actuarial profits (losses)					154			154
Other changes								
Stock option/grant plans:								
- services rendered				32				32
- stock grant assigned	1			(20)				(19)
Fair value adjustments and transfers to the income statement		(251)	13					(238)
Effects of curtailment	(50)				50			-
Net profit for the year	484							484
Exchange gains/losses						(185)		(185)
31 December 2007	**3,224**	**121**	**71**	**32**	**167**	**(150)**		**3,465**

Reserve for assets available for sale
This reserve includes changes in the value of the indirect investment in STMicroelectronics NV (Note 13), which is designated as an asset available for sale, and in the other assets included in this category.

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

Translation reserve
This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the UK component of the AgustaWestland (€ mil. -33), Selex Communications (€ mil. -7) and Selex Sensors and Airborne Systems (€ mil. -103).

Reserve for stock option/grant plans
This reserve is the equity contra-item of the value of the activities performed by employees and non-employees, remunerated through the assignment of options on the shares of the Parent Company Finmeccanica SpA stock as part of the previous stock option plan for 2002-2004 or through the free assignment of shares as part of the stock grant plan for 2005-2007.
With regard to the 2002-2004 Stock Option Plan, following achievement of the conditions specified by the plan, a total of 3,993,175 (79,863,500 before combining them) options have been assigned and are currently exercisable by their recipients through 31 December 2009. The strike price 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 31 December 2007, a total of 3,240,769 ordinary shares have been subscribed, for an increase in capital of € mil. 14. At 31 December 2007 treasury shares used in the stock option plan amounted to 166,815, following the exercise of 91,790 call options for treasury shares from persons not related to Finmeccanica through an employment contract.
With regard to the stock grant plan, this was approved by the Board of Directors on 29 September 2005 and its beneficiaries are 574 (a number modified at later dates) key resources among executives, directors and self-employed workers with top-level roles in Finmeccanica SpA or its subsidiaries. Under the plan, each of the beneficiaries is entitled to receive Finmeccanica SpA's ordinary shares for each of the years 2005, 2006 and 2007, on annual assignment and deferred delivery of shares, subject to the achievement of the performance goals defined internally.
The shares to be assigned following the assignment and subject to the achievement of the goals were made available through a share capital increase resolved by the Company pursuant to Article 2349 of the Italian Civil Code or through shares already issued and included in the Group portfolio, to be purchased upon prior authorisation resolved by the Shareholders' Meeting on 1 June 2005. In the meeting of 26 July 2007 the Board of Directors of Finmeccanica, following the renewal resolved by the Shareholders' Meeting dated 30 May 2007 of the authorisation to purchase and dispose of treasury shares in the plan, resolved to acquire – even in more tranches of maximum 4,067,880 Company shares – giving the Chairman and CEO instructions to acquire such shares at the conditions determined in such resolution. On 3 December 2007, effective delivery was made of the shares awarded for 2006. Of the 1,055,710 total shares available, 606,824 shares were transferred into individual deposit securities indicated by the beneficiaries, while the remaining 448,886 shares were withheld

to cover tax and social security obligations arising under the plan.
With regard to both plans, the Finmeccanica SpA Shareholders' Meeting of 16 January 2008 revoked its authorisation to purchase and make available the shares mentioned above resulting from the unexercised options, however it guaranteed the availability of the same number of shares to service the plan, as well as the shares still required for other stock incentive plans, within the scope of resolution on a broader treasury share buy-back and use programme.
The fair value of the shares of the tranche 2007 to be assigned in 2008 was set at € 15.90 per share, on the basis of the market value of the share at the date the plan structure and the key parameters were defined: during the year the valorisation of the rights that are estimated to be assigned has increased the reserve by € mil. 32 (€ mil. 3 on minority interests); this reserve also includes contributions of € mil. 8, for a total cost of € mil. 43 for the year (Notes 33 and 34).

Shareholders' equity of minority interests

	31 December 2007	31 December 2006
1 January	81	154
Dividends paid	(2)	(3)
Change in scope of consolidation and other minority shareholders	(5)	(100)
Share capital increases	-	4
Provisions for stock grant plans	3	-
Exchange gains/losses	(3)	(4)
Fair value adjustments through profit and loss	(4)	(1)
Actuarial gains (losses)	(2)	(1)
Other changes	(2)	-
Net profit for the period	37	32
31 December	**103**	**81**

24. BORROWINGS

	31 December 2007			31 December 2006		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	351	1,407	1,758	78	1,670	1,748
Bank borrowings	133	149	282	81	195	276
Finance leases	5	15	20	5	20	25
Payable for non-recourse factoring	109	-	109	116	-	116
Other borrowings	551	104	655	601	94	695
	1,149	**1,675**	**2,824**	**881**	**1,979**	**2,860**

Changes in borrowings are:

	1 January 2007	Increases (*)	Repayments/ Payment of coupons (*)	Change in scope of consolidation	Other changes	31 December 2007
Bonds	1,748	88	(78)	-	-	1,758
Bank borrowings	276	42	(25)	32	(43)	282
Finance leases	25	-	(5)	-	-	20
Payable for non-recourse factoring	116	-	(7)	-	-	109
Other borrowings	695	-	(407)	3	364	655
	2,860	**130**	**(522)**	**35**	**321**	**2,824**

	1 January 2006	Increases (*)	Repayments/ Payment of coupons (*)	Change in scope of consolidation	Other changes	31 December 2006
Bonds	1,723	85	(60)	-	-	1,748
Bank borrowings	346	25	(93)	-	(2)	276
Finance leases	36	-	(11)	-	-	25
Payable for non-recourse factoring	39	-	(29)	-	106	116
Other borrowings	125	593	(26)	(1)	4	695
	2,269	**703**	**(219)**	**(1)**	**108**	**2,860**

(*) Net changes for current liabilities. The items also include changes resulting from the application of the effective interest rate method, which may not correspond with actual cash movements.

Bonds

	1 January 2007	Interest	Repayments	Payment of coupons	31 December 2007
Exchangeable bonds	432	21	-	(2)	451
Bonds - 1997	6	-	(6)	-	-
Bonds - 2002	299	14	-	(17)	296
Bonds - 2003	497	29	-	(29)	497
Bonds - 2005	514	24	-	(24)	514
	1,748	**88**	**(6)**	**(72)**	**1,758**

	1 January 2006	Interest	Repayments	Payment of coupons	31 December 2006
Exchangeable bonds	415	19	-	(2)	432
Bonds - 1997	6	-	-	-	6
Bonds - 2002	292	12	-	(5)	299
Bonds - 2003	497	29	-	(29)	497
Bonds - 2005	513	25	-	(24)	514
	1,723	**85**	**-**	**(60)**	**1,748**

Below are the salient features of these bonds:

› *Exchangeable bonds:* the bond, with a total nominal value of € mil. 501, was issued by Finmeccanica Finance SA during financial year 2003 with a maturity of 8 August 2010 and offers investors the option to exchange the bond for STMicroelectronics NV 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 or loss (see Note 28 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 (Note 37). For the handling of the STM shares linked to the conversion (20,000,000) see Note 13.

› *Bonds - 2002:* this bond, issued by Finmeccanica Finance SA in 2002 with a maturity date of 30 December 2008 and a total nominal value of € mil. 297, returns a variable yield based on the Euribor rate with spread of 90 bps, mitigated by a “cap & floor” mechanism.

› *Bonds - 2003:* this bond was issued in 2003 by Finmeccanica Finance SA 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 SpA 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%.

Bank borrowings
This item specifically includes borrowings by the joint ventures ATIL Ltd in the helicopters segment (€ mil. 80), and GIE-ATR in the aeronautics segment (€ mil. 15), and subsidised loans (€ mil. 178). Of the non-current portion, € mil. 91 falls due in between 2 and 5 years, and € mil. 58 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. 15 has an expiration of between 2 and 5 years.

Payable for non-recourse factoring
Although some assignments of receivables carried out by the Group in prior years are both legally and substantively assignments without recourse and their terms and conditions do not envisage repurchase or reversion clauses or guarantees that could require reimbursement of the amounts received, these are not eligible for derecognition. Accordingly, the accounting policy adopted calls for the trade receivable to remain among assets (even though the Group no longer has control over the asset), with the recognition of a corresponding financial liability. On the date the assignee receives

payment from the assigned debtor, the receivable and the related financial liability are eliminated from the Group's assets and liabilities.
This item specifically includes € mil. 106 of tax receivables that were derecognised in prior years.

Other borrowings

These increased due to the reclassification under Law 808/1985 on civil programmes for which, as part of a broader re-definition of the methods for granting and the nature of these subsidies, repayment plans have been defined with the Ministry for Economic Development that do not consider the actual achievement of sales (€ mil. 389, of which € mil. 284 was previously classified as other liabilities, plus € mil. 105 of finance costs expensed to the income statement 2007). The decrease specifically refers to the excercise of the call option for 25% of Selex Sensors and Airbone Systems SpA (€ mil. 401).

The maturity of the other borrowings is shown below:

	1 year	2 to 5 years	Beyond 5 years
Total borrowings	**551**	**90**	**14**

Below is the financial information required under Consob communication DEM/6064293 of 28 July 2006:

	31 December 2007	31 December 2006
Cash	(3)	(5)
Bank deposits	(1,604)	(1,998)
Securities held for trading	(13)	(21)
LIQUIDITY	(1,620)	(2,024)
CURRENT FINANCIAL RECEIVABLES	(606)	(478)
Current bank payables	133	81
Current portion of non-current borrowings	356	83
Other current borrowings	1,220	1,217
CURRENT NET DEBT	1,709	1,381
CURRENT NET DEBT (CASH)	**(517)**	**(1,121)**
Non-current bank payables	149	195
Bonds issued	1,407	1,670
Other non-current payables	119	114
NON-CURRENT NET DEBT	**1,675**	**1,979**
NET DEBT	**1,158**	**858**

25. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Penalties	Product guarantees	Other	Total
1 January 2006						
Current	9	53	50	101	310	523
Non-current	55	24	6	90	248	423
	64	**77**	**56**	**191**	**558**	**946**
Allocations	-	9	14	52	150	225
Uses	(1)	(13)	(6)	(12)	(58)	(90)
Reversal	(11)	(22)	(16)	(29)	(93)	(171)
Other changes	(13)	(13)	4	29	19	26
31 December 2006	**39**	**38**	**52**	**231**	**576**	**936**
Broken down as follows:						
Current	-	28	43	132	368	571
Non-current	39	10	9	99	208	365
	39	**38**	**52**	**231**	**576**	**936**
Allocations	14	27	21	45	159	266
Uses	(2)	(13)	(8)	(28)	(72)	(123)
Reversal	(3)	(16)	(28)	(24)	(84)	(155)
Other changes	4	3	17	(23)	(27)	(26)
31 December 2007	**52**	**39**	**54**	**201**	**552**	**898**
Broken down as follows:						
Current	16	23	20	91	395	545
Non-current	36	16	34	110	157	353
	52	**39**	**54**	**201**	**552**	**898**

Other changes include changes in the scope of consolidation.
These specifically include:

› the provision for guarantees given in the amount of € mil. 52 (€ mil. 39 at 31 December 2006) is related to business in the Aeronautics, Transportation and Other Activities segments with foreign partners;

› the provision for conversion and restructuring in the amount of € mil. 39 (€ mil. 38 at 31 December 2006) was established for expected charges resulting from the programme to restructure the various segments. The most significant uses for the period involved the Energy, Space and Transportation segments. The amounts recorded are related to the Helicopter, Defence Systems, Space, Energy, Defence and Security Electronics and Other Activities segments;

› the provision for penalties in the amount of € mil. 54 (€ mil. 52 at 31 December 2006). The amounts recorded are related to the Aeronautics, Helicopter, Space, Defence Systems and Defence and Security Electronics;

› the provision for product guarantees, in the amount of € mil. 201 (€ mil. 231 at 31 December 2006) includes allocations related to commitments for products sold. The amounts recorded are related to the Helicopter, Energy, Defence and Security Electronics, Defence Systems and Transportation segments;

› the other provisions total € mil. 552 (€ mil. 576 at 31 December 2006) and include:
  • the provision for risks on the business of GIE-ATR in the amount of € mil. 68, which is unchanged from the previous year;
  • the provision for risks and contractual charges in the amount of € mil. 74 (€ mil. 93 at 31 December 2006) related, in particular, to business in the Defence and Security

Electronics, Transportation, Defence Systems and Other Activities segments;
- the provision for bad debts of € mil. 25 (€ mil. 27 at 31 December 2006) includes accruals to cover losses exceeding the carrying amounts of unconsolidated investees;
- the provision for taxes in the amount of € mil. 49 (€ mil. 43 at 31 December 2006);
- the provision for disputes with employees and former employees in the amount of € mil. 41 (the same as the prior year);
- the provision for pending litigation in the amount of € mil. 96 (€ mil. 110 at 31 December 2006);
- the provisions for risk on contract-related losses in the amount of € mil. 46 (€ mil. 49 at 31 December 2006);
- other provisions in the amount of € mil. 153 (€ mil. 106 at 31 December 2006).

With regard to the risk provisions, the Group's operations regard industries and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity.

Of course, in application of related accounting standards, provisions have been made for any obligations related to probable and quantifiable risks. Likewise, to the best of our knowledge, regarding other disputes against the Group, no specific allocation has been made since the Group reasonably believes that such disputes may be resolved satisfactorily and without any significant impact on the results.
The situations below are mentioned here for the purposes of full disclosure.

Of particular note:

› the dispute in which Finmeccanica has been asked to cover the contractual commitments assumed upon the sale of the former subsidiary Finmilano SpA to Banca di Roma (now Unicredit Group) originated from the assessment ordered by the Rome Office of Direct Taxes of Finmilano SpA regarding the disallowance of the tax deductibility of the capital loss originating in 1987 on the sale of a non-recourse "deferred" receivable at a price below 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 recognised in the related financial year, the Company felt it was unnecessary to meet the tax demand because it was unjustified both in law and in fact. In 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 289/2002 (facilitated settlement of pending disputes) to be applicable, given that the case did not fall within the scope of this law. The sentence of the court of second instance has been appealed to the Court of Cassation by the tax authorities.

- the dispute initiated by Telespazio SpA against the Agenzia delle Entrate, Rome District 4 challenging a tax assessment regarding direct income taxation (IIDD) for the year 2000, which contained a demand for a total of about € mil. 30 consisting of additional taxes, penalties and interest. The notice of assessment, served on 27 November 2006, relates to a tax audit completed in 2001 in which the Tax Authority challenged the deductibility of the loss regarding receivables from a foreign company taken by Telespazio SpA within the context of a non-recourse sale carried out following many fruitless attempts to recover these receivables. Specifically, the Tax Authority, deeming the actions undertaken by the Company to forcibly collect the receivables and therefore the evidence of the foreign debtor's solvency or lack thereof to be insufficient, found that the requirements of certainty and precision under the law were not met to allow the loss to be fully deducted, regardless of the fact that the loss was conclusively realised by Telespazio SpA within the context of the non-recourse sale of the receivables arguing that sale *per se* guarantees certainty only of the legal loss of the receivable but not the financial loss. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company's opinion, it can prove that the transaction was accounted for properly. In February 2008 the Company received a request for the provisional payment of some € mil. 8.3 for additional tax accrued plus interest, as envisaged by the current provisions pending the sentence of the court of first instance. The Company will specifically and timely request that this payment be suspended both legally and administratively;
- the dispute initiated by Telespazio SpA (TSP) against the Agenzia delle Entrate, Rome District 4 challenging a tax assessment for the purposes of direct income taxation (IIDD) and regional business taxation (IRAP) for the year 2001 containing an adjustment of about € mil. 9.7 in taxable income at the time the tax statement was prepared. Considering that the adjustment, for IIDD purposes, results in a reduction by an amount equal to the final tax loss in 2001 and that this loss was fully used by the Company in 2006, the total amount owed to the Tax Authority would be about € mil. 7 plus additional taxes, penalties and interest. The notice of assessment, served on 27 November 2006, relates to a tax audit completed in 2003 in which the Tax Authority challenged Telespazio SpA's reserving tax treatment until the completion of the Astrolink contract. Specifically, in November 2001, the customer Astrolink at its discretion terminated a long-term contract triggering Telespazio's right to compensation under the contract equal to the costs (plus 20% and in any event "be agreed" with the customer) that Telespazio would incur as a result of the early termination. Since it was not possible in 2001 to determine and agree upon the total amount of these costs (and the corresponding compensation revenues), the Company prudentially allocated € mil. 48.5 in the 2001 financial statements to a provision for risks and charges, as it deemed that amount to not be tax deductible. The auditors, starting, instead, with the assumption that Telespazio could have calculated the amount of compensation due from the counterparty as early as 2001 since

the costs that it would have incurred as a result of the early termination of the contract were determinable, challenged the failure to account for revenues in the amount of € mil. 58.2 and also gave full tax effect to the amount of € mil. 48.5 in the provision for risks and charges which Telespazio instead treated as fully taxed. As a result, the Tax Authority determined that Telespazio had € mil. 9.7 more in taxable income in 2001 for direct income taxation and regional business taxation purposes. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company's opinion, it can prove that the transaction was accounted for properly.
Beyond the merits, it should be pointed out that it is currently impossible to estimate the substantive costs to be borne by the Finmeccanica Group considering that the liability, if it should be found to exist, would be neutralised by the guaranteed issued by Telecom Italia within the scope of the contract selling its shares of Telespazio in November 2002;

› the dispute initiated by So.Ge.Pa. SpA against the Agenzia delle Entrate, Rome District 4 challenging a tax assessment regarding direct income taxation (IIDD) for the year 2001, which contained a demand for a total of about € mil. 18 consisting of additional taxes, penalties and interest. The tax claim, served on 27 December 2006, traces back to a tax audit completed in 2004 against ALS SpA, a Finmeccanica Group company absorbed by So.Ge.Pa. in 2006, in which the tax inspectors – without including any formal comments – merely notified the tax office responsible for the assessment of possible violations in applying the regulations concerning the tax appraisal of work in progress inventories within the context of the long-term contract for the provision and launching of the Atlantic Bird1 satellite obtained in 2000. Specifically, the warning originates from the fact the company had, over the years, accounted for these inventories based on the percentage completed (calculated using the cost-to-cost method), thereby rendering the settlement and payments received over the medium term upon the achievement of various milestones irrelevant since they are not, under the contract, final settlements and therefore recognising as revenues (and therefore taxable) the entire amount of the inventories only when ownership of the satellite was transferred in 2002 upon acceptance in orbit of the satellite by the customer as contractually agreed. By contrast, the tax inspectors asked the competent tax office to assess whether, in reality, under the contract, the various milestones could have been treated using the Work Status (WS) process, so as to include in the tax assessment of work in progress inventories the payments received based on the achievement of the WS objectives, regardless of the amounts recognised in the financial statements, on the assumption that the object of the contract could be divided into individual, "autonomous" lots for which each payment represents a final settlement of payments owed.
The tax officials, receiving the auditors' report and without carrying out any further analysis of the matter although it involves a rather complex contractual relationship, issued the notice of assessment against the Company. The case is currently pending before tax court of first instance and no provision has been made in the financial statements since, in the Company's opinion, it can prove that the transaction was accounted for properly;

› the appeal, together with Enel and other parties, filed with the Regional Administrative Court of Lombardy of the resolution of the Italian Electricity and Gas Authority regarding the method of calculating interest due on amounts to be paid, as compensation, in relation to the termination of the Italian national nuclear energy programme.
Interest due calculated using a different calculation method is around € mil. 13. Previous rulings by the Lombardy Regional Administrative Court do not support the resolutions of the Authority. Accordingly, it is reasonable to expect a favourable outcome for Finmeccanica;

› with regard to the litigation commenced by Reid in 2001 against Finmeccanica and

Alenia Spazio before the Court of Texas to object against alleged breaches by former Finmeccanica-Space Division of agreements for the project for the implementation of the Gorizont satellite programme. The litigation had a favourable outcome, after more than five years, due to the lack of jurisdiction of the Court of Texas. On 11 May 2007, Reid served Finmeccanica and Alcatel Alenia Space Italia (now Thales Alenia Space Italia) with a Complaint commencing a new lawsuit before the Court of Chancery of Delaware.
In the new lawsuit, Reid demands the same claims for compensation that were demanded in the prior Texas lawsuit, without giving an amount for the damage incurred.
On 29 June 2007 Finmeccanica filed a Motion to Dismiss objecting to the time-barring and the statute of limitation on the action and the lack of jurisdiction of the Court of Delaware. These objections were discussed in the hearing of 29 October 2007. The judge has not issued a ruling yet;.

- in November 1997 in relation to a contract commissioned by Prepa, the Puerto Rican Electric Power Authority, the company Abengoa awarded to Ansaldo Energia a sub-supplier contract for expansion work on the San Juan, Puerto Rican power plant.
  In connection with the contract between Abengoa and Prepa, American International Insurance Company of Puerto Rico ("AIIP"), a member of the AIG group, issued a performance bond and a payment bond, each in the amount of USD mil. 125, in favour of Prepa which Ansaldo Energia, as a supplier, counter-guaranteed for USD mil. 36 each.
  In 2000, Abengoa unilaterally terminated its contract without informing Ansaldo Energia and filed suit against the customer in the Court of Puerto Rico seeking compensation for damages it allegedly suffered.
  In 2001, Ansaldo Energia initiated arbitration proceedings in Paris seeking a finding that Abengoa breached the contract by terminating its agreement with Prepa without notifying Ansaldo Energia in advance. The arbitration award, issued in March 2003, came out in favour of Ansaldo Energia.
  In order to avoid any enforcement of the aforementioned guarantees, on 13 May 2005, Ansaldo Energia brought an action against Abengoa, AIG and AIIP before the Court of Milan, requesting that its counter-guarantees be found void, or, in the alternative, that it be held harmless by Abengoa. AIIP asked that Ansaldo Energia be held jointly liable to hold harmless AIG in the event it loses the case.
  In the opinion of its legal team, even if the court does not accept Ansaldo Energia's arguments and, if the counter-guarantees are enforceable, the company could, in any case, initiate an action against Abengoa, a company that is absolutely solvent, even based on the aforementioned arbitration award.

26. SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES

	31 December 2007	31 December 2006
Severance obligations	736	846
Defined-benefit retirement plans	152	330
Share of joint venture pension obligation	41	75
Defined-contribution plans	17	44
	946	**1,295**

The statutory severance pay obligation is specific to Italy and calls for the payment of the entitlement accumulated by employees until the time they leave the company. This provision is calculated in accordance with Article 2120 of the Italian Civil Code by dividing the fixed components of an employee's compensation by 13.5. Law 296 of 27 December 2006 and subsequent Decrees and Regulations issued in the first months of 2007, as part of the complementary social security reform, altered significantly the functioning of the social security system: the severance pay accrued after the date of the reform can be transferred to complementary funds or in a treasury fund managed by INPS (the Italian Social Security Institution). The effects of these changes are illustrated in the sections below.
With the defined-benefit plans, the Group assumes the obligation to ensure a specific retirement benefit level for employees participating in the plan, guaranteeing to make good any negative difference between value of plan assets and the agreed-upon benefit level.
Liabilities relating to defined-benefit retirement plans include the share of the total defined-benefit retirement plans managed by BAE Systems Plc allocable to the MBDA joint venture. The recognition of such liabilities, in 2007, brought to record actuarial gains under equity amounting to € mil. 25.

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

	31 December 2007	31 December 2006
GBP area	75	300
Euro area	77	30
	152	**330**

Below is a breakdown of defined-benefit plans and statistical information regarding the excess (deficit) of the plans:

	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Present value of obligations	1,038	1,126	1,025	709
Fair value of the plan's assets	(886)	(796)	(641)	(474)
Plan excess (deficit)	**(152)**	**(330)**	**(384)**	**(235)**

Total net deficit mainly relates to € mil. 46 for the AgustaWestland plan and to € mil. 29 for the Selex Sensors and Airborne Systems Ltd plan. The deficit reduction is due to the positive performance of the plan's assets and the reduction in liabilities, mainly resulting from the increase in interest rates, as well as to the effect of the changes to the AugustaWestland plan, as commented below.

Below are movements in defined-benefit plans:

31 December 2007

	Present value of the obligation	Present value of the asset	Net liability defined-benefit plans
Opening balance	1,126	796	330
Costs of benefits paid	52	-	52
Interest expense	77	-	77
Expected return on plan's assets	-	77	(77)
Actuarial losses (gains) through equity	(148)	33	(181)
Increases from business combinations	7	-	7
Contributions paid	-	73	(73)
Contributions from other plan participants	16	16	-
Exchange rate differences	(92)	(109)	17
Benefits paid	(2)	-	(2)
Other changes	2	-	2
Closing balance	**1,038**	**886**	**152**

31 December 2006

	Present value of the obligation	Present value of the asset	Net liability defined-benefit plans
Opening balance	*1,025*	*641*	*384*
Costs of benefits paid	78	-	78
Interest expense	50	-	50
Expected return on plan's assets	-	46	(46)
Actuarial losses (gains) through equity	(54)	23	(77)
Increases from business combinations	-	-	-
Contributions paid	-	66	(66)
Contributions from other plan participants	20	20	-
Exchange rate differences	21	15	6
Benefits paid	(20)	(19)	(1)
Other changes	6	4	2
Closing balance	**1,126**	**796**	**330**

The amount recognised in the income statement for defined-benefit plans was calculated as follows:

	31 December 2007	31 December 2006
Costs of current service	74	78
Past service costs	(22)	-
Total personnel costs	**52**	**78**
Interest expense	77	50
Expected return on plan assets	(77)	(46)
Total interest expense	**-**	**4**
Total cost	**52**	**82**

Past service costs refer to some changes made in the AgustaWestland plan, which brought among others a reduction in benefits and a new defined-contribution plan for new employees.

Changes in severance obligations are shown below:

	31 December 2007	31 December 2006
Opening balance	846	851
Costs of benefits paid	(50)	64
Interest expense	28	25
Actuarial losses (gains) through equity	(18)	(5)
Decreases for sales	-	(7)
Increases from business combinations	6	-
Benefits paid	(80)	(82)
Other changes	4	-
Closing balance	**736**	**846**

The amounts recognised in the income statement on the portion of severance pay qualifying as defined-benefit plan were calculated as follows:

	31 December 2007	31 December 2006
Costs of benefits paid	10	64
Curtailment	(60)	-
Personnel costs	**(50)**	**64**
Interest expense	**28**	**25**
Total cost	(22)	89

During 2007, the accounting effects of the changes brought under the Finance Law 2007 to the regulation of the severance pay have been recognised, as discussed in Section 5.2.

Specifically, the provision accrued at 31 December 2006 in companies with more than 50 employees was redetermined (which maintains its nature of defined-benefit plan), except for future salary increases, as was the subsequent effect of curtailment, which was recognised in the income statement under section 109 of IAS 19 (€ mil. 60 of lower expense). Also, the portion of cost attributable to the year was recognised according to the rules for defined-contribution plans, without any actuarial valuation. Therefore, starting from the year 2007 the amount set aside to the severance pay is included in costs of defined-contribution plans (Section 35). The severance pay maintained with the company (equal to the amount accrued until the date for the option between the complementary funds or the INPS funds) changed because of advances and severances paid as well as the discounting effects (expected date of payment drawing near and change in actuarial assumptions): these effects are reflected in the income statement among finance costs and, to the extent of the changes in actuarial gains, as profits and losses directly recognised in equity. The change in the scope of consolidation relates to the consolidation of BredaMenarinibus, which was previously recognised as a discontinued operation.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance pay provision that maintained the nature of defined-benefit plan are as follows:

	Severance obligations		Defined-benefit plans	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Discount rate (annual)	4.15-4.30%	3.40-4.10%	5.8%	4.50-5.20%
Expected return on plan assets	-	-	4.5%- 8.0%	4.50-8.0%
Rate of salary increase	-	1.30-4.30%	4.20-4.30%	3.30-4.15%
Rate of turnover	1.00-5.75%	1.00-5.75%	-	-

Assets of defined-benefit plans include:

	31 December 2007	31 December 2006
Shares	348	500
Real properties	62	116
Bonds	220	66
Cash or equivalents	6	6
Other	250	108
	886	**796**

27. OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		Current	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Employee obligations	50	54	333	337
Deferred income	89	138	100	100
Social security payable	3	6	294	201
Payable to MED Law 808/1985	288	564	8	58
Payable to MED for monopoly rights Law 808/1985	56	46	17	15
Other liabilities Law 808/1985	258	425	-	-
Indirect tax payables	-	-	192	183
Other payables	77	99	498	489
	821	**1,332**	**1,442**	**1,383**

The payables to the Ministry for Economic Development (MED) relate to the payables for royalties accrued pursuant to Law 808/1985 for “national security” and similar projects, in addition to payables for disbursement received from the Ministry for Economic Development supporting development of non-national security and similar programmes eligible for the incentives under Law 808/1985. The payables are reimbursed on the basis of a scheduled repayment plan, without the incurrment of finance costs. These decreased due to the reclassification under borrowings (€ mil. 284 - Note 24) of payables on civil programmes for which, as part of a broader redefinition of the methods for granting and the nature of these subsidies, repayment plans have been defined with the Ministry for Economic Development that do not consider the actual achievement of sales.

The item “other liabilities Law 808/1985” includes the difference between the subsidies received or to be received pursuant to Law 808/1985, relating to programmes qualifying as programmes “of European interest”, with regard to the share of the subsidised costs classified among non-recurring costs, as well as the differential between the monopoly rights charged for the programmes of national security and the effective payable accrued based on the established reimbursement ratio. The item decreased due to the effect of recognising to the income statement the subsidies under Law 808/1985 on programmes qualifying as “national security” in order to cover the costs expensed in the income statement in prior years.

Other payables include:

- the liability to Bell Helicopters of € mil. 48 among non-current liabilities (€ mil. 61 at 31 December 2006) due to the “BAAC reorganisation”, which involved the acquisition of 100% of the construction and marketing rights for the helicopter AW 139, previously owned by Bell Helicopters at 25;

- the amount of € mil. 10 (€ mil. 33 at 31 December 2006) due to EADS NV from GIE-ATR (consortium owned by Alenia Aeronautica SpA and EADS NV);
- the amount of € mil. 32 (€ mil. 9 at 31 December 2006) for customer deposits;
- the amount of € mil. 24 (€ mil. 41 at 31 December 2006) in respect of contractual penalties;
- the amount of € mil. 36 (same amount at 31 December 2006) due to the repurchase of a G222 aircraft;
- commissions due in the amount of € mil. 35 (€ mil. 38 at 31 December 2006);
- royalties due in the amount of € mil. 22 (€ mil. 24 at 31 December 2006);
- the amount of € mil. 18 due to the consortium company Fiat Iveco/Oto Melara for commitments deriving from the settlement of disputes with the Ministry of Defence.

28. DERIVATIVES

The table below provides a detail of the asset and liability positions related to derivative instruments.

	31 December 2007		31 December 2006	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	115	80	115	69
Forex options	-	3	1	-
Interest rate swaps	3	25	7	21
Options on STM	43	-	13	-
Exchangeable bond option	1	1	11	11
Other equity derivatives	-	-	-	3
	162	**109**	**147**	**104**

The portion of changes recognised in the income statement is shown in Note 37. Outstanding derivatives are broken down in detail in Note 43.

29. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Group is party to a number of operating leases as both lessor and lessee primarily for the purposes of acquiring the use of plant and equipment. Below are the non-cancellable minimum future payments and collections relating to operating lease contracts:

	31 December 2007		31 December 2006	
	As a lessee	As a lessor	As a lessee	As a lessor
Within 1 year	152	68	135	86
2 to 5 years	247	77	226	165
Beyond 5 years	270	29	70	38
	669	**174**	**431**	**289**

The amounts of the purchase and sale commitments include those relating to the satellite capacity business conducted by the Telespazio joint venture, as well as those relating to GIE-ATR's airplane leasing and sub-leasing operations. Specifically, the amount of the commitments to purchase satellite capacity came to about € mil. 157 (€ mil. 215 at 31 December 2006) and is substantially covered by the customer orders backlog. The corresponding sales commitments amounted to € mil. 157 (€ mil. 217 at 31 December 2006).

Guarantees

At 31 December 2007, the Group had the following outstanding guarantees:

	31 December 2007	31 December 2006
Guarantees	13,900	12,970
Other unsecured guarantees	577	583
Unsecured guarantees given	**14,477**	**13,553**

At 31 December 2007 there are no secured guarantees given for the liabilities or obligations of others.

30. TRANSACTIONS WITH RELATED PARTIES

The following describes all transactions with related parties for 2007 and 2006:

31.12.2007

€ millions	Revenues	Other operating income	Costs	Finance income	Finance costs
Subsidiaries					
Alifana Due Scrl	7		7		
Finmeccanica UK Ltd			8		
Finmeccanica North America Inc.			4		
Oto Melara North America Inc.	3		1		
Alenia Hellas SpA			1		
Alifana Scrl			1		
Other companies with unit amount lower than a € mil. 1	1			1	
Associates					
Eurofighter Jagdflugzeug GmbH	772		4		
Iveco Fiat/Oto Melara Scarl	126		2		5
Eurosysnav SAS	50				1
Orizzonti - Sistemi Navali SpA	48		1		
NH Industries Sarl	48				
Macchi Hurel Dubois SAS	32				
Euromids SAS	13				
Eurofighter Simulation Systems GmbH	11				
Metro 5 SpA	6				
Nicco Communications SAS	5				
Elettronica SpA	4				
Advanced Air Traffic Systems Sdn Bhd	2		2		
Consorzio Start SpA	1		21		
HR Gest SpA	1		5		
Pegaso Scrl			6		
Automation Integrated Solutions SpA			4		
Sostar GmbH	1				
Comlenia Sendirian Berhad	1				
Abu Dhabi Systems Integration LLC	1				
I.M. Intermetro SpA	1				
Galileo Vacuum Systems SpA				1	
Other companies with unit amount lower than a € mil. 1	1	1			

31.12.2007 (cont'd)

€ millions	Revenues	Other operating income	Costs	Finance income	Finance costs
Joint ventures (*)					
GIE-ATR	103		6		
MBDA SAS	86				15
Thales Alenia Space SAS	54		10		
Telespazio SpA	2		1		1
Aviation Training International Ltd	1			1	
Telbios SpA	1				
Other companies with unit amount lower than a € mil. 1					
Consortiums (**)					
Saturno	87		4		
CMS Italia	15		6		
C.I.S. DEG	8		5		
Elmac	7				
Trevi - Treno Veloce Italiano	5				
S3LOG	3				
Ferroviario Vesuviano	2				
Ascosa Quattro	1				
Telaer	1				
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			3		
Ferroviario San Giorgio Volla 2		1			
Thamus			1		
Other consortiums with unit amount lower than a € mil. 1	2				
Total	**1,513**	**2**	**103**	**3**	**22**

31.12.2006

€ millions	Revenues	Other operating income	Costs	Finance income	Finance costs
Subsidiaries					
Alifana Due Scrl			23		
Finmeccanica UK Ltd			6		
Finmeccanica Inc.			3		
Oto Melara North America Inc.			1		
Associates					
Eurofighter Jagdflugzeug GmbH	764				
Fiat Iveco/Oto Melara Scrl	149		3		7
Eurosysnav SAS	51				
N.H. Indutries Sarl	26				
Macchi Hurel Dubois SAS	25	1			
Euromids SAS	11				
Orizzonte-Sistemi Navali SpA	14		2		
Eurofighter Simulation Systems GmbH	13				
Nicco Communications SAS	6				
Elettronica SpA	6		1		
Pegaso Scrl			7		
Automation Integrated Solutions SpA			2		
Nahuelsat SA		2			
Ansaldo Trasmissione & Distribuzione SpA	2				
Selex Sistemi Integrati De Venezuela SA	2				
Sostar GmbH	1				
Advanced Air Traffic Systems Sdn Bhd	1		3		
Consorzio START SpA	2				
Sistemi Dinamici SpA			1		
I.M Intermetro SpA		2			
Eurofighter Aircraft Management GmbH	1				
Comlenia Sendirian Berhad	1				
Alenia Hellas SA			1		
Other companies with unit amount lower than a € mil. 1	3	1		2	
J.V. (*)					
MBDA SAS	84				8
GIE-ATR	54				
Alcatel Alenia Space SAS	23		7		
Telespazio SpA	3		1		1
Aviation Training International Ltd	1			1	
Consortiums (**)					
CMS Italia	14		36		
Trevi - Treno Veloce Italiano	21		2		
C.I.S. DEG	10		16		
Contact	2				
Consorzio Ferroviario San Giorgio Volla 2	2				
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			1		
Filobus Vesuvio	1				
Saturno		1	2		
Total	**1,293**	**7**	**118**	**3**	**16**

(*) Amounts refer to the portion not eliminated for consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

31. REVENUE

	2007	2006
Revenue from sales	9,152	7,879
Revenue from services	2,191	2,364
	11,343	**10,243**
Change in contract work in progress	573	936
Total revenue	**11,916**	**11,179**

The trends in revenue by business segment are described in the notes above (Note 7).

32. OTHER OPERATING INCOME (COSTS)

	2007		2006	
	Income	Costs	Income	Costs
Grants for research and development costs	29	-	32	-
Other operating grants	17	-	11	-
Gains/Losses on sales of assets	30	(5)	34	-
Reversals of/Accruals to provisions for risks *(Note 25)*	128	(204)	138	(162)
Write-up of receivables from ENEA *(Note 6)*	287	-	-	-
Reversal of impairment of receivables	19	-	13	-
Exchange rate difference on operating items	216	(207)	121	(98)
Reversal of deferred income under Law 808/1985 *(Note 27)*	169	-	-	-
Insurance reimbursements	12	-	12	-
Reorganisation costs	21	(15)	12	(17)
Indirect taxes	-	(46)	-	(47)
Other operating income (costs)	103	(85)	114	(109)
	1,031	**(562)**	**487**	**(433)**

Gains on sales of assets relate to the disposal of assets; the most significant include the gain posted by Finmeccanica Group Real Estate SpA (€ mil. 13) on the sales of real estate properties located in Milan, Nerviano (Milan) and Pomezia (Rome), and by the Parent Company (€ mil. 6) relating to the partial sale of the plant in Somma Lombardo (Varese).
The reversals of provisions for risks and charges of € mil. 128 (€ mil. 138 in 2006) included, among others the provision for product guarantees in the amount of € mil. 24 (€ mil. 29 in 2006), the provision for guarantees given in the amount of € mil. 3 (€ mil. 11 in 2006), the provision for penalties in the amount of € mil. 28 (€ mil. 16 in 2006), the provision for risks on equity investments in the amount of € mil. 10 (nil in 2006). The accruals to provisions for risks and charges totalling € mil. 204 (€ mil. 162 in 2006) also included the provision for disputes with third parties in the amount of € mil. 5 (€ mil. 10 in 2006), the provision for product guarantees in the amount of € mil. 45 (€ mil. 52 in 2006), the provision for guarantees given in the amount of € mil. 14 (nil in 2006), the provision for penalties in the amount of € mil. 21 (€ mil. 14 in 2006), the provision for risks and contractual charges in the amount of € mil. 10 (€ mil. 3 in 2006), the provision for future losses on contracts in the amount of € mil. 24 (€ mil. 9 in 2006). For the other provisions, the major accruals (€ mil. 33) relate to expected charges which may derive from the closing of the settlement with ENEA.
Reversals of deferred income under Law 808/1985 (€ mil. 169) relate to the reversal to income of deferred income related to programmes defined as being of “national security” in order to cover costs expensed in the income statement in prior years.
Other operating income and costs include, among others, interest income and expense on commercial transactions and contractual penalties.

33. RAW MATERIALS AND CONSUMABLES USED AND PURCHASE OF SERVICES

	2007	2006
Purchase of materials from third parties	5,725	4,998
Change in inventories	(169)	(210)
Total raw materials and consumables used	**5,556**	**4,788**
Services rendered by third parties	3,470	3,274
Royalties	45	40
Cost of PSP relating to non-employees (Note 23)	3	2
Software fees	14	11
Costs of acquiring satellite capacity	68	70
Costs of airplane leases	10	12
Costs of rents and operating leases	118	113
Rental fees	24	21
Total cost of services	**3,752**	**3,543**

Royalties mostly relate to royalties due under Law 808/1985 for programmes qualified as functional to national security and similar.
The costs for the acquisition of satellite capacity refer to satellite capacity trading business conducted by the Telespazio joint venture and more than offset by revenues from sales; this activity carried out primarily on the basis of back to back contracts in terms of their expiry date and penalties in the event of breach of contract. The costs of leasing airplanes relate to leasing and sub-leasing transactions entered into by GIE-ATR. The amount for the purchase commitments undertaken to that regard through Telespazio and GIE-ATR are described in Note 29.

34. PERSONNEL COSTS

	2007	2006
Wages and salaries	2,653	2,456
Cost of PSP (Note 23)	40	20
Cost of LTIP	7	6
Social security contributions	679	637
Costs of severance pay, less curtailment effect (Note 26)	(50)	64
Costs related to other defined-benefit plans (Note 26)	52	78
Costs related to defined-contribution plans (Note 26)	107	35
Employee disputes	1	10
Net reorganisation costs	52	5
Other costs	58	50
	3,599	**3,361**

The average workforce at 31 December 2007 numbered 58,700, as compared with 56,653 of 2006. The net increase of 2,047 is due to the positive turnover in certain sectors, also through the use of new contractual forms, such as Aeronautics – following the development of new programmes – Helicopters, Space and Energy, and to the change in the scope of consolidation.
The total workforce increased from 58,059 in 2006 to 60,748 at 31 December 2007.

Personnel costs rose from € mil. 3,361 at 31 December 2006 to € mil. 3,599 at 31 December 2007. The increase is due to the reasons above, to the long-term incentive policies for managers started in prior years, and to significant reorganisation costs.
Costs for other defined-benefit plans decreased due to some changes made in the AgustaWestland plan, which brought among others a reduction in benefits and a new defined-contribution plan for new employees.
Cost of PSP relates to the stock grant plan for 2005-2007 (Note 23).
With regard to the costs related to defined-contribution plans and the costs of severance pay, that is recognised as a defined-benefit plan at 31 December 2006, Law 296 of 27 December 2006 ("Finance Law 2007") and subsequent Decrees and Regulations issued in 2007 introduced, as part of the reform of the social security system, significant changes as to where to allocate the severance pay provision (Note 26).
Personnel costs 2007 also include € mil. 52 of reorganisation costs (€ mil. 45 in Italy and € mil. 7 abroad) that specifically relate to Defence and Security Electronics, Transportation and Space. They mainly include costs incurred and accruals made in respect of mobility and pension bonuses as part of the reorganisation made in several companies of the Group.

35. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	2007	2006
Depreciation and amortisation:		
› intangible assets	210	172
› property, plant and equipment	293	310
	503	**482**
Impairment		
› property, plant and equipment	25	-
› intangible assets	144	-
› operating receivables	37	23
	206	**23**
Total depreciation, amortisation and impairment	**709**	**505**

Impairment mostly (€ mil. 112, of which € mil. 87 relates to non-recurring expenses and € mil. 25 relates to tooling costs recognised as property, plant and equipment, see Notes 8 and 9) refers to the programmes discussed in the infringement procedure of the European Commission (Note 6).

36. WORK PERFORMED BY THE GROUP AND CAPITALISED

	2007	2006
Personnel costs	359	312
Materials	161	121
Other costs	329	281
	849	**714**

37. FINANCE INCOME AND COSTS

	2007			2006		
	Income	Expense	Net	Income	Expense	Net
Income from Ansaldo STS IPO	-	-	-	416	-	416
Gain from the sale of AvioGroup SpA	-	-	-	291	-	291
Dividends	24	-	24	8	-	8
Gains on investments and securities	1	-	1	7	-	7
Discounting of receivables, liabilities and provisions	9	(8)	1	3	(2)	1
Interest income/expense (*)	99	(182)	(83)	75	(269)	(194)
Commission income/expense (including commissions on non-recourse items)	1	(35)	(34)	-	(31)	(31)
Fair value adjustments through profit or loss	82	(44)	38	47	(54)	(7)
Premiums paid/received on forwards	16	(34)	(18)	5	(27)	(22)
Exchange rate differences	275	(272)	3	322	(340)	(18)
Value adjustments to equity investments	2	(51)	(49)	3	(22)	(19)
Interest cost on defined-benefit plans (less expected returns on plan assets)	-	(28)	(28)	-	(29)	(29)
Other finance income and costs	112	(201)	(89)	14	(34)	(20)
	621	**(855)**	**(234)**	**1.191**	**(808)**	**383**

(*) Of which finance costs arising from the application of the effective (not liquidated) interest rate on bonds for €mil. 16 (€mil. 25 at 31 December 2006).

Finance income and costs were negative in the amount of € mil. 234 in the year (positive in the amount of € mil. 383 in 2006). A comparison with 2006 is strongly affected by the two capital gains, recognised in 2006, arising from the stock exchange placement of the Ansaldo STS group (€ mil. 416) and the sale of AvioGroup SpA (€ mil. 291).
During the period, dividends were recognised from associates and other companies in the amount of € mil. 24 (€ mil. 8 in 2006) relating to the investments in STM (€ mil. 13) and Vitrociset SpA (€ mil. 7).
Interest includes the Group cash flow operations, including received/paid on interest rate hedges (interest rate swap). The net figure rose from the prior year mainly due to interest for advances of € mil. 114 paid to AnsaldoBreda included in the figure for 2006.

Net income from measurement of fair value through profit or loss is as follows:

	2007			2006		
	Income	Expense	Net	Income	Expense	Net
Swaps and forex options	6	(5)	1	2	-	2
Interest rate swaps (Note 28)	6	(15)	(9)	3	(7)	(4)
Options on STM (Note 28)	44	-	44	9	-	9
Ineffective component of hedging swap	13	(14)	(1)	10	(21)	(11)
Option embedded in the exchangeable bond (Note 24)	10	(10)	-	23	(23)	-
Other equity derivatives	3	-	3	-	(3)	(3)
	82	**(44)**	**38**	**47**	**(54)**	**(7)**

Net expense on swaps and forex options include the effects of trading derivative instruments or instruments which, although they meet the objective of limiting the fluctuations of the underlying position within a specific range, do not meet the conditions of IAS 39, either because of the nature of the instruments themselves or the inability to mathematically demonstrate their effectiveness.
Income from options on STM relates to the decrease in the value of the underlying position. At 31 December 2007 total shares with options were 40 million. The Group also has an offsetting call option on STM shares with the same underlying position and the same basic parameters as the option 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. 10 on the call option sold and expense of € mil. 10 on the call option purchased).

In the year, premiums on forwards were paid in the amount of € mil. 34 (€ mil. 27 in 2006), and premiums received amounted to € mil. 16 (€ mil. 5 in 2006). The decrease in net expense relating to premiums paid is due to the lower differences between the euro and US dollar interest rates, as more fully described in the Note on financial risk management.

The effect of exchange rate differences is a positive € mil. 3 in 2007 (it was a negative € mil. 18 in 2006). The 2006 income statement was affected by the realignment with the current exchange rates of the foreign currency current accounts held by GIE-ATR (of which the subsidiary Alenia Aeronautica is a participant) with regard to the other shareholder, not subject to exchange rate risk hedging due to its special nature which does not allow for the signing of IAS compliant operations. To that regard, it should be noted that, starting in 2007, the risk of fluctuation in the future foreign exchange rate is partially mitigated with the signing of forward contracts specifically for that purpose, even though they do not meet the requirements of IAS 39.

Value adjustments to equity investments mainly include the write-down of Consorzio Trevi, held by AnsaldoBreda (€ mil. 12), of Galileo Vacuum System SpA, held by Fata Group (€ mil. 16), and of Ansaldo Trasmissione & Distribuzione SpA, held by So.Ge.Pa. (€ mil. 13).

Interest cost includes the cost of interest deriving from the expected date of maturity of the defined-benefit liability drawing near, less the expected results on the financial assets of the plan. As described in more detail in Note 5.1, the comparative figures for 2006 were adjusted to reflect the effects of the different recognition of expense starting from these consolidated financial statements.
Other finance income and costs relate to € mil. 105 of finance costs on programmes being reviewed by the European Commission as part of the breach procedure against the Italian Government, discussed in more detail in Note 6, and to the recognition of income of € mil. 103 and expense of € mil. 80 from the closing of options on STM.
Finally, we note that during 2007, the Group assigned receivables without recourse in the amount of about € mil. 1,081 (about € mil. 1,000 at 31 December 2006).

38. SHARE OF PROFIT (LOSS) OF EQUITY ACCOUNTED INVESTMENTS

	2007	2006
Recognition of Eurofighter J. GmbH	8	-
Net recognition of other investees	8	(5)
	16	**(5)**

39. INCOME TAXES

Income tax expense can be broken down as follows:

	2007	2006
Corporate income tax (IRES)	253	232
Regional tax on productive activities (IRAP)	124	126
Benefit under consolidated tax mechanism	(216)	(151)
Other income taxes	97	89
Tax related to previous periods	(28)	(4)
Provisions for tax disputes	14	14
Deferred tax - net	82	(63)
	326	**243**

Income from adopting the consolidated taxation mechanism for IRES purposes (a tax introduced by Legislative Decree 344/2003) from 1 January 2004 was considered in the calculation of income taxes. According to this mechanism, there is only one taxable income for all the Group companies included in the scope of consolidation.
This option makes it possible to offset the tax results (taxable income and losses in the consolidation period) of the participating companies. As a result, the income statement includes the benefit resulting from the losses for the period up to the limit of the taxable income included in the consolidated tax base. This income was then allocated to all the consolidated companies reporting a fiscal loss.
As for the Parent Company current taxes have not been included in the consolidated income statement, because no taxable income was recognised in the financial statements 2007, and deferred taxes were recognised in the amount of € mil. 44.
Following is an analysis of the difference between the theoretical tax rate and the effective tax rate for the 2007 and 2006:

	2007	2006
Profit (loss) before taxation	**847**	**1,272**
Percentage impact of Italian and foreign taxes		
Corporate income tax (IRES) (net of tax receipts)	4.34	6.37
IRAP	14.70	9.91
Other income taxes	11.47	7
Tax related to previous periods	(3.27)	(0.31)
Provisions for tax disputes	1.68	1.10
Deferred tax - net	9.62	(4.95)
Effective rate	**38.54**	**19.12**
Increase (decrease) Percentage impact of the permanent difference on the effective rate	-	19.62
Theoretical rate	**38.54%**	**38.74%**

During the year there were no permanent differences that could generate a variance between the effective and the theoretical rates, because no transactions were made that could determine that variance, unlike the year 2006, when gains on equity investments sold under the participation exemption brought an increase in the theoretical rate over the effective rate.
Deferred taxes and their related receivables and payables at 31 December 2007 were the result of the following temporary differences:

	Income Statement			Balance Sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred taxes on tax losses	42	39	3	109	-	109
Goodwill	1	2	(1)	-	20	(20)
Intangible assets acquired through a business combination	39	-	39	-	168	(168)
Other differences on assets	35	35	-	28	61	(33)
Severance and retirement benefits	4	28	(24)	108	18	90
Write-back of receivables from ENEA (Note 6)	-	82	(82)	-	82	(82)
Provision for risks and impairment	27	27	-	119	6	113
Stock option/stock grant	4	3	1	6	-	6
Grants	3	3	-	-	9	(9)
Other	69	87	(18)	161	90	71
Offsetting	-	-	-	(92)	(92)	-
Deferred taxes recognised through profit and loss	**224**	**306**	**(82)**	**439**	**362**	**77**
On cash flow hedge derivatives	-	-	-	11	29	(18)
On actuarial gains and losses	-	-	-	-	51	(51)
Deferred taxes recognised through equity	-	-	-	11	80	(69)
	224	**306**	**(82)**	**450**	**442**	**8**

40. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Group operations were classified as discontinued operations as they are about to be sold. As such, the balance sheet includes the assets and liabilities attributed to this business segment, net of impairment charges to realign the carrying value with the fair value (sales value less transaction costs). Similarly, the results of the operations identified as discontinued have been shown separately on the income statements.

In the 2006 non-current assets held for sale and liabilities directly related to assets held for sale included, among others, Group assets and liabilities attributable to the manufacturing of trucking systems through the subsidiary BredaMenarinibus SpA. Similarly, costs and revenues have been shown separately as profit or loss connected with discontinued operations. These costs and revenues were carried as discontinued operations as they were about to be sold. Following the failure to finalise a purchase offer from third parties, the Group believes that, although it pursues the valorisation of these assets with a view to a possible sale, the implementation of this plan cannot be highly probable, as required by IFRS 5, if there are no advanced negotiations. Therefore, the assets of BredaMenarinibus have been reclassified as continuing operations.

	2007	2006
Revenue	-	88
Costs	-	(96)
Net financial (expense) income	-	(1)
(Write-down) Net write-backs	-	-
Tax expense	-	-
	-	**(9)**

With regard to balance sheet items:

ASSETS	31 December 2007	31 December 2006
Intangible assets	-	1
Property, plant and equipment	-	10
Investment properties	-	-
Equity investments	-	-
Securities held to maturity	-	-
Financial assets at fair value	-	-
Non-current receivables from related parties	-	-
Receivables	-	-
Deferred taxes	-	-
Other non-current assets	-	-
	-	**11**
Inventories	-	26
Contract work in progress	-	-
Current receivables from related parties	-	-
Trade receivables	-	67
Short-term securities held to maturity	-	-
Current financial assets at fair value	-	-
Tax receivables	-	-
Financial receivables	-	-
Other current assets	-	1
Cash and cash equivalents	-	5
	-	**99**
	-	**110**

LIABILITIES	31 December 2007	31 December 2006
Non-current payables from related parties	-	-
Non-current borrowings	-	-
Severance pay and other employee provisions	-	5
Provisions for non-current risks and charges	-	28
Deferred tax liabilities	-	-
Other non-current liabilities	-	-
	-	**33**
Advances from customers	-	-
Current payables from related parties	-	-
Trade payables	-	36
Current financial payables	-	11
Tax payables	-	1
Provisions for risks and charges	-	-
Other current liabilities	-	2
	-	**50**
	-	**83**

41. EARNINGS PER SHARE

Earnings per share (EPS) are calculated as follows:

› for basic EPS, by dividing net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period less treasury shares;

› for diluted EPS, by dividing net profit by the average number of ordinary shares and the average number of ordinary shares potentially deriving from the exercise of all the option rights for stock option plans less treasury shares.

Basic EPS	2007	2006
Average number of shares for the period (in thousands)	424,336	423,323
Net result (not including minority interests) (€ mil.)	484	989
Result of continuing operations (not including minority interests) (€ mil.)	484	998
Basic EPS	1.140	2.333
Basic EPS from continuing operations	1.140	2.353

Diluted EPS	2007	2006
Average number of shares for the period (in thousands)	425,191	425,094
Result adjusted (not including minority interests) (€ mil.)	484	989
Adjusted result of continuing operations (not including minority interests) (€ mil.)	484	998
Diluted EPS	1.138	2.323
Diluted EPS from continuing operations	1.138	2.344

42. CASH FLOW FROM OPERATING ACTIVITIES

	For the 12 months ended 31 December	
	2007	2006
Net profit	521	1,021
Depreciation, amortisation and impairment	709	505
Effect of the measurement of equity investments on the equity method	(16)	5
Income taxes	326	243
Provisions	82	24
Costs of pension and stock grant plans	152	197
Net gains from the sale of assets	(25)	(34)
Gains from Avio and Ansaldo STS	-	(707)
Net finance costs (net of the gains from Avio and Ansaldo STS in 2006)	253	337
Other non-monetary items	(291)	9
	1,711	**1,600**

Costs of pension and stock grant plans include the portion of costs relating to defined-benefit and defined-contribution pension plans that is recognised as a personnel cost (the portion of costs relating to interest is carried among net finance costs). They also include the cash outlays relating to the stock grant plan. Other non-monetary items mostly relate to the write-back of the amount receivable from ENEA, recognised among other revenues.

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and exchange gains/losses, are as follows:

	For the 12 months ended 31 December	
	2007	**2006**
Inventories	(443)	(288)
Contract work in progress and advances from customers	706	828
Trade receivables and payables	55	(193)
Changes in working capital	**318**	**347**

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and exchange gains/losses, are as follows:

	For the 12 months ended 31 December	
	2007	**2006**
Payment of pension and stock grant plans	(276)	(203)
Changes in provisions for risks and other operating items	3	(54)
	(273)	**(257)**

43. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks associated with its operations, specifically related to these types of risks:

- *market risks*, related to the Group exposure on interest-bearing financial instruments (interest rate risks), operations in currency areas other than the reporting currency area (exchange rate risk) and the changes in the prices of listed securities (STMicroelectronics NV);
- *liquidity risks*, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Group specifically monitors each of these financial risks, with the objective of promptly minimising them, also through hedging derivatives.
The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest rate risk

The Finmeccanica Group is exposed to changes in interest rates on its floating-rate debt instruments in the euro area. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related finance costs. To that end, at 31 December 2007 Finmeccanica had outstanding interest rate swaps for medium and long-term financing in the amount of € mil. 1,798 (nominal amount) with highly rated financial counterparties totalling € mil. 1,030 (notional amount). Thanks to these transactions, it was possible to earn benefits from low costs of floating rates, especially in 2004-2005, with the debt structure mainly including fixed rates starting from 2006 (the portion exposed to floating risks is € mil. 367), hedging the Company against rises that are functional to the inflation risk control policy adopted by the European Central Bank since December 2005. This created a market expectation that rises might occur which are partly included in the current rates (Euribor 6 months at 4.71% from 3.85% 12 months ago).

A detail of the main instruments is as follows (€ mil.):

Description	Notional	Underlying position	Fair Value	Change Income	Change Expense	CFH reserve	
Fixed/floating/fixed swap	500	Bonds - 2003	(10)	1	-	-	a
Fixed/floating/fixed swap and options	250	Bonds - 2005	(7)	3	15		b
Floating/fixed swap	280	Bonds - 2002	1	-	-	-	c
Other	-	-	(6)	2	-	1	d
	1,030		**(22)**	**6**	**15**	**1**	

a The transaction was carried out to benefit from low short-term interest rates without, however, exposing the Group to the risk of any subsequent increases. As such, the exposure was converted to a floating rate through 19 December 2005 and back to fixed (5.80% average) after that date.

b The transaction was carried out during 2005 in order to earn short-term benefits from low interest rates. The instruments purchased also include a number of interest rate options that enable the Group to protect portion of the debt portfolio exposed to floating rates and to switch to floating for additional portions of the debt.

c The transaction makes it possible to limit exposure to future changes in the reference interest rate (6-month Euribor) and has been recognised as a cash flow hedge.

d The item includes a floating/fixed swap with negative fair value of € mil. 2 carried out by JV ATIL, which operates in the helicopter sector, and other minor items.

The table below shows the effects of the sensitivity analysis deriving from the shift in the interest rate curves:

Effect of shift in interest rate curves	31 December 2007 Increase by 50 bps	31 December 2007 Decrease by 50 bps	31 December 2006 Increase by 50 bps	31 December 2006 Decrease by 50 bps
Net result	3	(3)	4	(4)
Shareholders' equity (*)	3	(3)	4	(4)

(*) Sum of result and cash flow hedge reserve.

Exchange rate risk

Due to its commercial operations, the Group is exposed to the risk of fluctuations in the currencies in which its orders are denominated (specifically USD and, to a lesser extent, GBP), due to the fact that costs are concentrated in the euro and the GBP areas.
Exchange rate risk management is governed by the directive in force within the Group. The goal of the directive is to create uniformity in management criteria based on industrial – not speculative – strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position. Therefore, at the moment of receiving payment from a customer (or making payment to a vendor), which takes place at the current exchange rate on that day, the related hedging transactions are extinguished in order to substantially offset the effects of the difference between the current exchange rate and the rate of the hedging instrument.
The effectiveness of the hedge is tested at least at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is immediately recognised through profit or loss. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash flow hedge accounting method of recognition is adopted (see Note 4.3).
These transactions are mainly carried out with banks by Finmeccanica's Group Finance department and then matched with the companies of the Group, which incur the relevant costs. At 31 December 2007, Finmeccanica had outstanding foreign exchange transactions with highly rated financial counterparties in the interest of other Group companies totalling € mil. 3,740 (notional amount) (an increase of about 28% over the year-earlier period), broken down as follows:

€ millions	Notional			Fair Value		Cost or revenue recognised in the income statement	CFH reserve
	Sales	Purchases	Total	2007	2006		
Swaps and forwards	1,890	1,427	3,317	35	46	4	(15)
Options	-	-	423	(3)	1	(4)	-
			3,740	**32**	**47**	-	**(15)**

The change in the fair value of forward instruments is due to the volatility of the US dollar against the euro: the exchange rate went from 1.317 at 31 December 2006 to 1.4721 at 31 December 2007. The decrease in value of the US dollar, mainly due to expectations of slowdowns in the US economy, and the risks of further weakening led to an increase in the Group level of attention: to that end, orders that are highly probable, but have not been received yet, are currently being hedged, in part, through structured instruments which pursue the management goal of minimising Group risks, but do not always qualify for hedge accounting under IAS 39. The Finmeccanica Group does not have financial transactions of a speculative nature, in the sense that none of its transactions add risk to that which is already implicit in its operations.

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the British pound and the US dollar:

31.12.2007

	Effect of the change in €/GBP exchange rate		Effect of the change in €/USD exchange rate	
	5% increase	5% decrease	5% increase	5% decrease
Net result	17	(17)	2	13
Shareholders' equity (*)	17	(17)	30	(22)

(*) Sum of result and cash flow hedge reserve

31.12.2006

	Effect of the change in €/GBP exchange rate		Effect of the change in €/USD exchange rate	
	5% increase	5% decrease	5% increase	5% decrease
Net result	9	(11)	3	(4)
Shareholders' equity (*)	9	(11)	26	(28)

(*) Sum of result and cash flow hedge reserve.

The Group is also exposed to the translation risk, i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly GBP and, to a lesser extent, USD) can have different values in euros depending on the performance of exchange rates, which affects the equity reserve named translation reserve (Note 23). The Group is monitoring this risk, and at 31 December 2007 there were no hedging transactions against it using derivatives.

Other risks on financial instruments

Options on STM

At 31 December 2007 the Group has 59.7 million shares in STMicroelectronics NV (STM), recognised as available for sale and valued at fair value through equity. The carrying amount at 31 December 2007 was € mil. 589 (€ mil. 840 at 31 December 2006), with an equity reserve of € mil. 123 (€ mil. 372 at 31 December 2006).
On 26 February 2008 Finmeccanica, Cassa Depositi e Prestiti and FT1CI, as shareholders of STMicroelectronics Holding NV (STH), a Dutch company holding 27.54% of STM share capital, executed a change in the shareholders' agreement governing the Italian-French controlling company of STH. This change also provides for the realignment of the shares held in STM. As part of this realignment, Finmeccanica will sell to FT1CI 26.0 million of STM shares at the price of € 10 per share, plus an earn-out equal to 40% of the increase in value of the STM shares, if any, between the basic price of € 10 and the market average calculated over a period of three months from the ninth month after the date of the agreement, with a cap agreed at € 4 per share, realising a gain of € mil. 56, not including the earn-out effects. When the transaction is completed, the French and the Italian companies will indirectly hold 125.4 million STM shares each (Finmeccanica is to hold 33.7 million shares). Finally, the agreement provides for the possibility, for the party that may have made further sales, to realign its own shareholding at the end of the three-year period on 17 March 2011.

In the last few years the Group has had derivatives to hedge most of its portfolio against the risk of fluctuations in the market price of the STM shares. These hedges are classified as trading operations and therefore the fair value is recognised in the income statement. The strategy implemented using put spreads and the sale of calls allows Finmeccanica to limit the negative impact of a partial depreciation of STM shares while leaving open the possibility of benefiting, within certain limits, from any appreciation in the shares and exposing the Group to potential lost revenues in the event this limit is exceeded.

Movements in these transactions in the last two years were as follows:

	Fair value at 1.1.07	Fair value of closed transactions	Premiums paid on new transactions	Fair value delta	Fair value at 31.12.07
Options on STM	13	(18)	4	44	43
› *gains realised*		*26*			
› *total receipts*		*44*			
Underlying position (millions of shares)	**45**	**(30)**	**25**	**-**	**40**

	Fair value at 1.1.06	Fair value of closed transactions	Premiums paid on new transactions	Fair value delta	Fair value at 31.12.06
Options on STM	1	(1)	4	9	13
› *gains realised*		*8*			
› *total receipts*		*9*			
Underlying position (millions of shares)	30	(15)	30	-	45

It should also be noted that the management of derivatives on STM shares has permitted the Group to receive about € mil. 64 between 2004 and 2006, improving its portfolio position.

Exchangeable bond options

The STM bond is, for 20 million shares, the underlying position of the exchangeable bonded loan with a maturity of August 2010. This embedded option is accounted for separately from the bonded loan and is valued at fair value through profit or loss. However, in 2005 Finmeccanica acquired a virtually identical option to hedge the option sold to bondholders thereby neutralising the effects (because both the option purchased and the option sold as a part of the bond are valued at fair value through profit or loss) while at the same time freeing up the STM shares that were originally used in the translation.
Should the STM share price be appreciated (depreciated) by 10% compared with 31 December 2007, the result would be lower (greater) by € mil. 13 (11), with an increase (decrease) in equity of € mil. 45 (48).

Other equity derivatives

Following the stock exchange placement of 60% of the shares of Ansaldo STS, Finmeccanica undertook the obligation to deliver, without compensation, shares to subscribers who held shares through 28 March 2007. The fair value of this obligation at 31 December 2006 amounts to € mil. 3.

Liquidity risk

The Group is exposed to the liquidity risk, i.e. the risk that it cannot manage efficiently the ordinary commercial and investment performance and that it cannot repay its payables at maturity. In order to support growth in its businesses, based on an adequate prospective analysis and an analysis on return on investments, Finmeccanica took on a set of tools with the aim of optimising the management of financial resources. Particularly relevant to that end is the centralisation of treasury (achieved through cash pooling procedures with Group companies), and the subsequently easier maintenance of levels of sufficient cash and cash equivalents, also by unblocking receivables with longer collection times, and being in financial markets to obtain sufficient short- and long-term credit lines, which are added to the availability of non-strategic assets. Within this context Finmeccanica SpA has obtained credit lines and guarantees sufficient to meet Group needs. Specifically, it holds a medium-term revolving credit line of € mil. 1,200 agreed in 2004 with a pool of national and foreign banks, whose interest rates and maturity (current maturity 2012) have been renegotiated in 2005. At 31 December 2007 no amount had been drawn down from such credit line. Finmeccanica also has additional short-term credit lines amounting to around € mil. 1,170 (of which around € mil. 920 is unguaranteed and € mil. 250 is guaranteed) partially drawn at 31 December 2007. There are also unconfirmed guarantees available amounting to around € mil. 2,300.

In July the EMTN bond-issue programme was extended until July 2008. In this programme Finmeccanica is co-issuer together with the Luxembourg subsidiary Finmeccanica Finance SA, where the Parent is a guarantor in case of issue by the subsidiary. The total amount of the programme was increased from € mil. 2,000 to € mil. 2,500, for which bonded loans have been issued up to now in the amount of € mil. 1,300.

Moreover, the Extraordinary Shareholders' Meeting of Finmeccanica on 30 May 2007 approved, and left its performance to the Board of Directors, a share capital increase intended for institutional investors for a maximum amount of 42,190,455 shares. The share capital increase can be performed within 30 June 2009, in order to make the financial commitments for the valorisation and continuation of the growth strategy consistent with the maintenance of the financial solidity of the Group, still using traditional sources of hedging.

In this respect, it should be noted that on 16 January 2008 the Extraordinary Shareholders' Meeting approved the share buy-back plan for a maximum total amount of 34 million ordinary shares. This transaction, more broadly illustrated in the Report on Operations, will be financed through the operating cash flow generated by the Group.

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

Credit risk

The Group is exposed to credit risk, both to the counterparties of its commercial transactions and for financing and investing activities, as well as for the guarantees given on payables or third-party commitments (Note 29).

Regarding commercial transactions, the most significant programmes are made with public administration companies or similar, mainly in the euro area, in the UK and USA. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight insolvency risks, if any. Customers being public companies represents a guarantee for solvency, but, on the other hand, means that collection times are longer (in some countries they are significantly longer) than in other businesses, creating significant outstanding debts and the subsequent need for unblocking. At 31 December 2007 trade receivables mainly from public administration companies or similar were broken down as follows:

€ billions	31 December 2007	31 December 2006
Overdue	1.4	1.5
› *of which: for more than 12 months*	*0.4*	*0.5*
Not overdue yet	2.5	2.0
Total trade receivables	**3.9**	**3.5**

A part of the overdue amount has a contra-item in liabilities, provisions for risks on net exceeds, if any.
Receivables from financing activities, amounting to € mil. 666, of which € mil. 60 was classified as non-current and was not included in net debt accordingly, mainly relate (€ mil. 552) to cash and cash equivalents of JV MBDA and Thales Alenia Space paid to the other partners (BAE and EADS for the former company; Thales for the latter) and loans to other related parties in the amount of € mil. 43.
Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

Recognition of financial assets and liabilities

The table below gives a breakdown of Group assets by type of recognition. Derivatives are analysed separately. Liabilities are all recognised on the amortised cost method.

	Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Total
Non-current assets					
Financial assets at fair value				589	589
Non-current receivables from related parties		11			11
Receivables		462			462
Current assets					
Current receivables from related parties		486			486
Trade receivables		3,868			3,868
Financial assets at fair value				13	13
Financial receivables		586			586
Other assets		652			652

Derivatives

The table below provides the fair values of the different derivative instruments:

ASSETS		Fair value at 31 December 2007	Fair value at 31 December 2006
Interest rate swap			
	Trading	2	6
	Fair value hedge	-	-
	Cash flow hedge	1	1
Currency forward/swap/option			
	Trading	-	1
	Fair value hedge	-	-
	Cash flow hedge	115	115
Equity instruments (trading)		43	13
Embedded derivatives (trading)		1	11

LIABILITIES		Fair value at 31 December 2007	Fair value at 31 December 2006
Interest rate Swap			
	Trading	23	17
	Fair value hedge	-	-
	Cash flow hedge	2	4
Currency forward/swap/option			
	Trading	3	-
	Fair value hedge	-	-
	Cash flow hedge	80	69
Equity Instruments (trading)		-	3
Embedded derivatives (trading)		1	11

With reference to derivatives hedging exchange rate risk, the Group hedges both future receipts and outflows. The table below provides the maturities of these hedged payments denominated in the hedging currency:

31.12.2007

	RECEIPTS Notional amount (in millions)		PAYMENTS Notional amount (in millions)	
Maturity	USD	GBP	USD	GBP
Within 1 year	1,665	11	833	542
2 to 3 years	375	-	238	90
4 to 9 years	21	-	33	29
Beyond 9 years				
Total	**2,061**	**11**	**1,104**	**661**
Notional amount of hedging instruments (in € millions)	**1,440**	**14**	**786**	**902**

31.12.2006

	RECEIPTS Notional amount (in millions)		PAYMENTS Notional amount (in millions)	
Maturity	USD	GBP	USD	GBP
Within 1 year	1,642	15	480	333
2 to 3 years	1,210	1	617	-
4 to 9 years	8	-	93	-
Beyond 9 years	-	-	-	-
Total	**2,860**	**16**	**1,190**	**333**
Notional amount of hedging instruments (in € millions)	**2,173**	**22**	**906**	**497**

44. INFORMATION PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER REGULATION

This statement was prepared in accordance with Article 149-*duodecies* of the Consob Issuer Regulation and reports the fees for the year 2007 for auditing services and for services other than auditing provided by the same auditing firm and entities belonging to the auditing firm's network.

€ thousands	Entity providing the service	To	Fees for the year 2007 for the engagement	
Auditing services	PricewaterhouseCoopers SpA	Parent Company	1,630	*(1)*
	PricewaterhouseCoopers SpA	Subsidiaries	2,379	
	PricewaterhouseCoopers network	Subsidiaries	2,829	
Verification services	PricewaterhouseCoopers SpA	Parent Company	150	*(1)*
	PricewaterhouseCoopers SpA	Subsidiaries	24	*(2)*
	PricewaterhouseCoopers network	Subsidiaries	3	*(2)*
Tax consulting services	PricewaterhouseCoopers SpA	Subsidiaries	41	*(3)*
	PricewaterhouseCoopers network	Subsidiaries	781	*(3)*
Other services	PricewaterhouseCoopers SpA	Parent Company	60	*(1)*
	PricewaterhouseCoopers SpA	Subsidiaries	92	*(4)*
	PricewaterhouseCoopers network	Subsidiaries	52	*(4)*
			8,041	

(1) See the statement attached to the financial statements of Finmeccanica SpA
(2) Activities connected with the audit of statements in order to tender bids.
(3) Tax assistance services mainly for issues regarding employees in foreign companies, expatriates.
(4) Agreed-upon procedures.

45. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have power and responsibility over the planning, management and control of the Company, including executive and non-executive Directors, is as follows:

€ millions	31 December 2007	31 December 2006
Compensation	81	72
Post-employment benefits	1	3
Other long-term benefits	-	-
Severance indemnity	1	4
Stock grant	4	6
Total	**87**	**85**

Remuneration paid to directors and managers with strategic responsabilities come to € mil. 84 in 2007 and € mil. 83 in 2006. Remuneration to the statutory auditors came to € mil. 3 and € mil. 2 respectively for 2007 and 2006.
These figures include fees and other compensation, pensions and other benefits, including the portion borne by the Company, owed as a result of holding the position of director or statutory auditor of the Parent Company and of the other Group companies included in the scope of consolidation, that represented a cost for the Group.

The compensation paid to the directors, statutory auditors, the general manager and the managers with strategic responsibility of the Parent Company are reported in detail in the following table:

Compensation Paid to Members of Administrative and Control Bodies, to General Managers and Managers with Strategic Responsibilities (in thousands of euros)

PERSON	DESCRIPTION OF POSITION	
Name	**Position**	**Office term**
Guarguaglini Pier Francesco	Chairman/Chief Executive Officer	1.1 › 31.12.2007
Alberti Piergiorgio	Director	1.1 › 31.12.2007
Andreatta Filippo	Director	27.3 › 31.12.2007
Bonferroni Franco	Director	1.1 › 31.12.2007
Castellaneta Giovanni	Director	1.1 › 31.12.2007
De Tilla Maurizio	Director	1.1 › 31.12.2007
Lombardi Cerri Gian Luigi	Director	1.1 › 31.12.2007
Parlato Francesco	Director	12.9 › 31.12.2007
Petri Roberto	Director	1.1 › 31.12.2007
Scannapieco Dario	Director	1.1 › 30.9.2007
Varaldo Riccardo	Director	1.1 › 31.12.2007
Venturoni Guido	Director	1.1 › 31.12.2007
Vigevano Paolo	Director	1.1 › 31.12.2007
Gaspari Luigi	Chairman of the Board of Statutory Auditors	1.1 › 31.12.2007
Cumin Giorgio	Regular Member	1.1 › 31.12.2007
Forchielli Francesco	Regular Member	1.1 › 31.12.2007
Montaldo Silvano	Regular Member	1.1 › 31.12.2007
Tamborrino Antonio	Regular Member	1.1 › 31.12.2007
Zappa Giorgio	General Manager	1.1 › 31.12.2007
	Managers with strategic responsibilities	1.1 › 31.12.2007

(1) Variable remunerations, to be paid, are shown at their estimated value recorded in the company's financial statements.
(2) Of which € th. 17 paid to the Ministry of Economy and Finance.
(3) Of which € th. 17 paid to the Ministry of Economy and Finance.
(4) Of which € th. 55 for emoluments by position in Group companies, paid to Finmeccanica SpA
(5) Of which € th. 49 for emoluments by position in Group companies, paid to Finmeccanica SpA
(*) Including refund of expenses

Term of office expiring	EMOLUMENTS BY POSITION IN THE REPORTING COMPANY	NON-CASH BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER REMUNERATIONS
year 2007	77	9	2,653 (1)	1,500
year 2007	87			76
year 2007	45			
year 2007	80			
year 2007	60			
year 2007	100			
year 2007	74			
year 2007	21 (2)			
year 2007	60			
year 2007	48 (3)			
year 2007	69			
year 2007	79			
year 2007	60			
year 2008	78			36
year 2008	68 (*)			51
year 2008	57 (*)			15
year 2008	52			
year 2008	70 (*)			57
		137	1,680 (1)	1,076 (4)
		212	2,779 (1)	1,697 (5)

The Parent, Finmeccanica SpA, in order to create an incentive and retention system for Group employees and consultants, implemented incentive plans providing for the granting of Finmeccanica shares, subject to the attainment of specific objectives.

At 31 December 2007 there were commitments to grant 3,436,523 ordinary Finmeccanica shares at a par value of € 15.90 without compensation to Finmeccanica employees and consultants. The changes in the stock grant plans are as follows:

number of shares	31 December 2007	31 December 2006
Rights existing at 1 January	-	-
New rights assigned	1,055,710	888,456
Rights exercised during the year	1,055,710	888,456
Rights lapsed during the year	-	-
Rights existing at period-end	-	-

For the Board of Directors
the Chairman and Chief Executive Officer
(Pier Francesco Guarguaglini)

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999, AS AMENDED

1. The undersigned, Pier Francesco Guarguaglini, Chairman and Chief Executive Officer, and Alessandro Pansa, the Manager in charge of the preparation of the company accounting documents of Finmeccanica SpA, certify, in accordance with Art. 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   › the appropriateness of the financial statements with regard to the nature of the business;
   › the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2007

2. The Group has begun rationalising and formalising administrative and accounting procedures and practices that comprise all the processes involved in preparing the financial statements, based on internationally accepted methods, particularly models such as the “Internal Control - Integrated Framework”, issued by the Committee of Sponsoring Organisations of the Treadway Commission (“CoSO report”), and the Control Objectives for Information and related Technology (“Cobit”).

3. It is also certified that the financial statements:
   a. correspond to the entries in the books and accounting records;
   b. were prepared in accordance with the International Financial Reporting standards adopted by the European Union, as well as measures issued under Art. 9 of Legislative Decree 38/2005, and, to our knowledge, provide a true and fair representation of the performance and financial position of the issuer and all the companies included in the scope of consolidation.

This certification also is made pursuant to and for the purposes of Art. 154-bis, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 17 March 2008

Chairman and Chief Executive Officer
Pier Francesco Guarguaglini

Manager in charge of the preparation of
company accounting documents
Alessandro Pansa

ATTACHMENTS

› Report of the Board of Statutory Auditors on the consolidated financial statements at 31 December 2007

› Auditors’ Report on the consolidated financial statements at 31 December 2007

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE 2007 CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

as in the past, the consolidated financial statements of the Finmeccanica Group have been prepared in accordance with the provisions of law on financial reporting and comply with the Articles of Association and the Board of Directors' directions.

In application of Regulation (EC) no. 1606/2002 of 19 July 2002 and in implementation of CONSOB resolution no. 14990 of 14 April 2005, the consolidated financial statements of the Finmeccanica Group at 31 December 2007 are prepared in accordance with the International Accounting and Financial Reporting Standards (IAS/IFRS) as approved by the European Commission, supplemented by the interpretations existing at the consolidated balance sheet date issued by the International Accounting Standards Board (IASB).

In particular, the standards used are those approved by the EU and contained in the EU Regulations enacted until the consolidated balance sheet date.

The Board of Statutory Auditors has ensured that the Parent Company has appropriately organised the flow of the necessary information from the companies included in the consolidation scope and that the consolidation procedures are adequate.

The Auditors who issued their report in accordance with Article 156 of Law Decree no. 58 dated 24 February 1998 expressing their opinion on the consolidated financial statements at 31 December 2007 have informed us that they have appropriately checked that the figures of the consolidated accounts matched the accounting records of the Parent Company and the data provided by the subsidiary companies and that these data have been interpreted in an appropriate manner. To this regard the Auditors have not delivered any observations or remarks worth mentioning herein.

Rome, 22 April 2008

The Board of Statutory Auditors

PRICEWATERHOUSECOOPERS

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156
OF LAW DECREE NO 58 DATED 24 FEBRUARY 1998

FINMECCANICA SPA

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Finmeccanica SpA

1 We have audited the consolidated financial statements of Finmeccanica SpA and its subsidiaries (Finmeccanica Group) as of 31 December 2007, which comprise the balance sheet, income statement, statement of recognised income and expenses, cash flow statement and related notes. These consolidated financial statements are the responsibility of Finmeccanica SpA's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

The consolidated financial statements present, for comparative purposes, the prior year corresponding figures. As shown in the explanatory notes, the directors have modified the comparative figures related to the previous year statutory financial statements, which have been audited by us and on which we issued our report dated 7 May 2007. The methods to redetermine the previous year corresponding figures and the information presented in the explanatory notes have been examined by us to provide a reasonable basis for our opinion on the consolidated financial statements at 31 December 2007.

PRICEWATERHOUSECOOPERS

3 In our opinion, the consolidated financial statements of Finmeccanica SpA as of 31 December 2007 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of the Finmeccanica Group for the year then ended.

Rome, 22 April 2008

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

"This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation."

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