Board of Directors' report on the only item on the agenda

<u>Grant to the Board of Directors of the powers, pursuant to article 2443 of the Civil Code, to resolve upon a capital increase for consideration, and be paid up also *in tranches*, once or in repeated instances, for a maximum amount - including share premium - of Euro 1.400.000.000,00; annulment of the resolution to increase the share capital adopted by the Extraordinary Shareholders' Meeting on 30 May 2007; inherent and consequent resolutions.</u>

Shareholders,

The Board of Directors has called an Extraordinary Meeting to submit for your approval the amendments to article 5.1 of the Articles of Association concerning the granting of a mandate to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the Company's share capital, in return for payment, divisible and in one or more instalments, by 31 July 2009, up to a maximum amount of 1.4 billion Euro (inclusive of price premium) and to repeal the previous resolution to increase the share capital, pursuant to Article 2441, paragraph 4, 2nd sentence, of the Italian Civil Code, of the Extraordinary Shareholders' Meeting of 30 May 2007, and not yet executed.

This report, drafted pursuant to Articles 72 and 92 of the Regulations adopted by Consob with Resolution no. 11971/99, as subsequently amended and supplemented, and to Article 3 of Ministry Decree no. 437/98, sets forth the proposed amendments to the Articles of Associations.

1. Reasons for the proposed operation

During the meeting of 12 May 2008, the Board of Directors of the Company approved the operation for the purchase, by Finmeccanica, of DRS Technologies Inc. (DRS), a company incorporated under United States law, whose shares are listed on the New York Stock Exchange, leader in the supply and service of integrated defense electronics products.

The acquisition of a significant position in the defense electronics sector in the United States, through the purchase of the entire share capital of DRS, will enable the Company to: (i) benefit from a highly developed technological industrial base in order to further consolidate its competitive position on the international markets and spread the Group's expertise and skills through the American market, (ii) increase its assets chain and (iii) attempt to become a preferred supplier to American Prime Contractors involved in major defense programs in the United States.

In line with market practice for similar operations, it is envisaged that the operation will be executed through the merger of Dragon Merger Sub, Inc (Dragon) – a company incorporated under United States law with registered office in Delaware, specifically set up by Finmeccanica to act as the merging entity – into DRS, pursuant to a merger agreement to be approved by the DRS shareholders; in this respect, it should be noted that the relevant prospectus is being prepared together with the SEC, to be submitted to the DRS shareholders (Proxy Statement) to allow their proper evaluation of the proposed operation. The merger agreement provides for, *inter alia*, an undertaking to offer to each DRS shareholder and to the holders of DRS option rights, the agreed price of 81 US Dollars per share. Following completion of the operation, Dragon will be merged by incorporation into DRS, the DRS shareholders will be paid the agreed price and the DRS shares will no longer be listed on the New York Stock Exchange.

In addition to the DRS Shareholders Meeting's approval, the completion of the operation is also subject to obtaining the required authorizations from the competent authorities, including: (i) antitrust authorizations (including that issued by US authority) (ii) the authorization of the Committee on Foreign Investment in the US (CFIUS), which is necessary for the transfer to foreign subjects of control of American companies operating in sectors related to interests of national security.

Under US legislation, the inquest period for the issuance of the CFIUS authorization may take up to 90 days from the date of submission of the relevant application. The Board of Directors of DRS approved the operation on 12 May 2008. At present, it is envisaged that the closing will take place, subject to having obtained the aforementioned authorizations, in the last quarter of 2008.

The total purchase price for the entire share capital of DRS by Finmeccanica is equal to 3.4 billion Euro, to be paid on the date of completion of the operation.

In order to obtain the funds necessary for payment of the purchase price of DRS and any refinancing of DRS's indebtness, a pool of banks consisting of Goldman Sachs International, Intesa Sanpaolo S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A. and Unicredit Group, acting as Bookrunners and Mandated Lead Arrangers, have subscribed a bridging loan with Finmeccanica, with terms from one to three years, for an amount of 3.2 billion Euro.

This proposal aims at providing the Company with ready and flexible means to be able to acquire on the market the financial resources necessary for the aforesaid operation, by means of partial repayment of the aforesaid bridging loan, as well as at reinforcing its own assets and financial structure.

The repayment of the aforesaid loan will also be carried out by means of the profits derived from (i) the issue of long term bonds and (ii) the sale of assets, including the listing of Ansaldo Energia on the stock exchange.

As a result of the proposal for granting a mandate to the Board of Directors to increase the share capital, pursuant to Article 2443 of the Italian Civil Code, the previous resolution for an increase of the share capital, pursuant to Article 2441, paragraph 4, 2nd sentence, of the Italian Civil Code, adopted by the Extraordinary Shareholders' Meeting on 30 May 2007, and not yet executed, should be duly repealed.

2. Increase of the Company's share capital by way of option, in return for payment, through a mandate to the Board of Directors and relevant procedures

This proposal concerns the granting of a mandate to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the Company's share capital, in return for payment, divisible and in one or more instalments, by 31 July 2009 up to a maximum amount of 1.4 billion Euro (inclusive of price premium).

The capital increase, to be executed pursuant to the terms of Article 2443 of the Italian Civil Code, (i) could take place, pursuant to Article 2441, paragraph 1 of the Italian Civil Code, through the issue of ordinary shares with a par value of 4.40 Euro each, having the same characteristics as those already in circulation, bearing ordinary dividends, to be offered to shareholders by way of options and (ii) could be used, though only in part, to service convertible bonds – to be issued pursuant to Article 2420 *ter* of the Italian Civil Code – or warrants to be offered by way of options to the shareholders.

The Board of Directors will also have the right to establish the procedures, terms and conditions of the operation, pursuant to the aforementioned terms, and therefore to determine, at a time closer to the launch of the operation and subject to market conditions and to the Italian Treasury retaining a stake of not less than 30% of the share capital, as provided for in the Prime Ministerial Decree of 28th September 1999: (i) the subscription price for the shares, including the price premium, taking into account of, *inter alia,* the price trend of the shares and of the market conditions close to the time of the launch of the offer and market practices for similar operations; (ii) the exact number of ordinary shares to be issued and the relevant option ratio; (iii) the amount of the capital increase, which will not, in any case, exceed on aggregate a maximum countervalue of 1.4 billion Euro.

The Board of Directors, moreover, will have the right to establish the procedures for the increase of the share capital (i) through the issue of shares by way of options to be offered to the shareholders and (ii) to be used (though only in part) to service convertible bonds or warrants to be offered by way of options to the Company shareholders as well as to determine, in such event, the terms, conditions and payment criteria of the convertible bonds and warrants.

Subject to the appropriate market conditions and the obtainment of the aforementioned authorizations, it is envisaged that the offer by way of options will take place during the second half of 2008.

3. Right of withdrawal

Those shareholders who do not agree with the proposed amendments will not be entitled to exercise the right of withdrawal pursuant to Article 2437 of the Italian Civil Code.

The Extraordinary Meeting’s proposed resolutions

In light of all of the above, the Board of Directors wishes to submit the following resolution for your approval:

Proposed Resolution

Having examined the Board of Directors' report and the proposals contained therein,

The Extraordinary Meeting of the Shareholders of Finmeccanica – Società per azioni:

resolves

1. *to grant to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the Company's share capital, in return for payment, divisible and in one or more instalments, no later than 31 July 2009, up to a maximum amount of 1.4 billion Euro (inclusive of price premium). The capital increase (i) could take place, pursuant to Article 2441, paragraph 1 of the Italian Civil Code, through the issue of ordinary shares with a par value of 4.40 Euro each, bearing ordinary dividends, to be offered by way of options to the shareholders of the Company, and (ii) could be used, though only in part, to service convertible bonds – to be issued pursuant to Article 2420 ter of the Italian Civil Code – or warrants to be offered by way of options to the shareholders of the Company;*

2. *to grant the Board of Directors every possible right to determine the procedures, terms and conditions of the capital increase pursuant to the aforementioned terms, including, (though not constituting an exhaustive list): (i) the power to determine, subject to market conditions and to the Italian Treasury retaining a stake of not less than 30% of the share capital, as provided for in the Prime Minister's Decree of 28th September 1999, the exact amount of the capital increase, that, in any event, cannot exceed on aggregate the maximum amount of 1.4 billion Euro (inclusive of the price premium);(ii) the power to determine the subscription price of the shares, inclusive of the price premium, taking into account of – inter alia – the price trend of the share and of the market conditions close to the time of the launch of the offer, as well as market practices for similar operations; (iii) the power to determine the number of shares to be issued and the relevant option ratio; (iv) the power to*

implement the provisions prescribed by the relevant applicable legislation (v) the power to determine any allocation of part of the capital increase to service the conversion of convertible bonds – pursuant to Article 2420 ter of the Italian Civil Code – or warrants to be offered by way of options to the Company's shareholders; and (vi) the right to determine the procedures, terms and payment conditions of the convertible bonds and warrants;

3. *to repeal the resolution for a capital increase, pursuant to Article 2441, paragraph 4, 2nd sentence of the Italian Civil Code, adopted by the Extraordinary* Shareholders' *Meeting of 30 May 2007 and not yet executed;*

4. *to amend article 5.1 of the Articles of Association as set out below, pursuant to the resolution referred to above, and to adjust the amount of the Company's share capital to that actually paid-up and subscribed:*

Existing Text	Proposed New Text
Capital – Shares – Obligations - Withdrawal	Capital – Shares – Obligations - Withdrawal
Article 5	Article 5
5.1The Company's share capital is EUR 1,856,572,700.40 (one billion eight hundred and fifty-six million five hundred and seventy-two thousand seven hundred euros and forty cents), represented by 421,948,341 (four hundred and twenty-one million nine hundred and forty-eight thousand three hundred and forty-one) ordinary shares with a nominal value of EUR 4.40 (four euros forty) each. The Extraordinary General Meeting of 16 May 2003 granted the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the Company's share capital in return for payment, one or more times, by a maximum nominal amount of EUR 33,000,000 by issuing a maximum of 150,000,000 ordinary shares, to be reserved, in accordance with Article 2441, final paragraph of the Italian Civil Code and Article 134, paragraphs 2 and 3, of Legislative Decree 58/98, for subscription by Managers of Finmeccanica and the companies controlled by it, in accordance with the terms of the Share Incentive Plan and the relevant implementing regulations ratified by the Board of Directors. This right may be exercised within five years from the date of the aforesaid resolution of the Extraordinary General Meeting. The Board of Directors, at its meeting of 21 April 2005, exercising the authority delegated to it pursuant to Article 2443 of the Italian Civil Code by the Extraordinary General Meeting of the Shareholders held on 16 May 2003, has resolved to increase the share capital in return for payment by a maximum nominal amount of EUR 16,432,108, by issuing a maximum of	5.1The Company's share capital is EUR **1,870,960,542.00** (**one billion eight hundred and seventy million nine hundred and sixty thousand five hundred forty two euros and zero cents)** , represented by **425,218.305 (four hundred and twenty-five million two hundred and eighteen thousand three hundred and five)** ordinary shares with a nominal value of EUR 4.40 (four euros forty) each. The Extraordinary General Meeting of 16 May 2003 granted the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the Company's share capital in return for payment, one or more times, by a maximum nominal amount of EUR 33,000,000 by issuing a maximum of 150,000,000 ordinary shares, to be reserved, in accordance with Article 2441, final paragraph of the Italian Civil Code and Article 134, paragraphs 2 and 3, of Legislative Decree 58/98, for subscription by Managers of Finmeccanica and the companies controlled by it, in accordance with the terms of the Share Incentive Plan and the relevant implementing regulations ratified by the Board of Directors. This right may be exercised within five years from the date of the aforesaid resolution of the Extraordinary General Meeting. The Board of Directors, at its meeting of 21 April 2005, exercising the authority delegated to it pursuant to Article 2443 of the Italian Civil Code by the Extraordinary General Meeting of the Shareholders held on 16 May 2003, has resolved to increase the share capital in return for payment by a maximum nominal

74,691,400 ordinary shares with a nominal value of EUR 0.22 each, bearing ordinary dividends, at a price of EUR 0.70 each, irrevocably intended for the exercise of the options held by Managers of Finmeccanica – Società per azioni and the companies controlled by it, as identified by the Remuneration Committee in its resolution of 4 April 2005, in accordance with the provisions of the Share Incentive Plan and the corresponding Regulation. If the capital increase is not fully subscribed for by 31 December 2009, it shall be understood to have been increased by an equivalent amount to the subscriptions received. Following the consolidation of the shares (as resolved by the General Meeting on 1 June 2005): - the maximum number of shares to be issued in order to service the Stock Option Plan approved by the Extraordinary General Meeting of 16 May 2003 will be recalculated in the maximum amount of 7,500,000 ordinary shares with a nominal value of EUR 4.40 each; - the maximum number of shares to be issued in return for the capital increase in order to service the Stock Option Plan approved by the Board of Directors on 21 April 2005 will be recalculated in the maximum amount of 3,734,570 new ordinary shares with a nominal value of EUR 4.40 each at a price of EUR 14.00 each. The General Meeting of 30 may 2007 authorized a divisible capital increase, in return for payment, exclusively addressed to Italian and foreign institutional investors, for a nominal maximum amount of €185,638,002, subject to a maximum of 10% of the existing share capital of the company, by issuing a maximum of 42,190,455 shares with a par value of €4.40 each, bearing ordinary dividends, excluding option right pursuant to Article 2441, paragraph 4, 2nd sentence of the Italian Civil Code, to take place by and no later than 30 June 2009 and to be implemented according to the following procedures: 1. offered in whole or in part for subscription at an issue price aligned with the market value of the shares at the time of the offer, to be confirmed by a special report of the appointed Independent Auditors, on the sole condition that the issue price is more than 90% of the weighted average official price of Finmeccanica stock on the Italian stock market in the 30 trading days preceding the offer date; and/or in whole or in part 2. to service convertible or cum warrant bond issues issued by and no later than 30 June 2009, the principal terms and conditions of which will be defined by the Board of Directors of the company, with the right to exercise the conversion option, or the purchase right attached to the warrant, at a share issue price of no less than the market value of the shares at the time of the offer, to be confirmed by a special report of the appointed Independent Auditors, on the sole condition that the issue price of the shares to be issued deriving from the convertible or cum warrant bond issues is more than 15% of the weighted average official price of Finmeccanica stock on the Italian stock market in the 30 trading days preceding the offer date. The aforesaid General Meeting resolved that, pursuant to Article 2439, paragraph 2 of the Italian Civil Code, if the capital increase authorised according to the procedures described in paragraph 1 above should not be fully subscribed by 30 June 2009, the share capital	amount of EUR 16,432,108, by issuing a maximum of 74,691,400 ordinary shares with a nominal value of EUR 0.22 each, bearing ordinary dividends, at a price of EUR 0.70 each, irrevocably intended for the exercise of the options held by Managers of Finmeccanica – Società per azioni and the companies controlled by it, as identified by the Remuneration Committee in its resolution of 4 April 2005, in accordance with the provisions of the Share Incentive Plan and the corresponding Regulation. If the capital increase is not fully subscribed for by 31 December 2009, it shall be understood to have been increased by an equivalent amount to the subscriptions received. Following the consolidation of the shares (as resolved by the General Meeting on 1 June 2005): - the maximum number of shares to be issued in order to service the Stock Option Plan approved by the Extraordinary General Meeting of 16 May 2003 will be recalculated in the maximum amount of 7,500,000 ordinary shares with a nominal value of EUR 4.40 each; - the maximum number of shares to be issued in return for the capital increase in order to service the Stock Option Plan approved by the Board of Directors on 21 April 2005 will be recalculated in the maximum amount of 3,734,570 new ordinary shares with a nominal value of EUR 4.40 each at a price of EUR 14.00 each. **The General Meeting of [.] has granted to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the right to increase the Company's share capital, in return for payment, divisible and in one or more instalments, no later than 31 July 2009 for a maximum total amount (inclusive of price premium) of EUR 1,400,000,000.00 (i) to be executed, pursuant to Article 2441, para. 1 of the Italian Civil Code, through the issue of ordinary shares, having the same characteristics of those already in circulation, bearing ordinary dividends, to be offered by way of options to the shareholders and (ii) also to be used, though only in part, to service convertible bonds – to be issued pursuant to Article 2420 *ter* of the Italian Civil Code – or warrants to be offered by way of options to the Company's shareholders. The Board of Directors will have the right to determine the exact amount of the increase of the share capital, the number of shares to be issued, the issue price – including the price premium – the option ratio, any allocation of part of the capital increase to service the convertible bonds or warrants, as well as the procedures, terms and payment conditions of the convertible bonds and warrants.**

will be increased by the amount deriving from such subscriptions as have been made by said date. The General Meeting has also granted the Board of Directors with broad powers in order to implement the resolution with a view to ensuring the satisfactory outcome of the operation, hereby instructing the Chairman and Chief Executive Officer to complete the formalities required by law and to make any amendments/additions to resolutions of the General Meeting as might be required by the competent authorities, and any other amendments required during registration, and in general whatever may be necessary to implement fully the resolutions themselves, with any and all powers necessary and expedient for this purpose, without exclusions or exceptions.	

5. *to hereby grant to the Chairman of the Board of Directors and Chief Executive Officer a mandate to implement the requirements prescribed by law and amend the meetings declarations in accordance with any formal amendments/supplements required by the competent authorities, and any other amendments required during registration and, in general, to carry out any action that may be necessary to fully implement the resolutions, including any and all powers necessary and expedient to this end, with no exclusions or exceptions.*

Rome, 26 June 2008

For the Board of Directors

The Chairman and Chief Executive Officer

(Pier Francesco Guarguaglini)