QUARTERLY REPORT

AT 30 SEPTEMBER 2007

FINMECCANICA

CONTENTS

Finmeccanica Group

Report on operations at 30 September 2007

The results for the first nine months of the year

Highlights

€mil	Sep-07	Sep-06	Change	Dec-06
New orders	**9,861**	10,231	**-4%**	**15,725**
Order backlog	**36,247**	34,084		**35,810**
Revenues	**9,117**	8,524	**7%**	**12,472**
Operating result before the amortisation of non-current assets valued within the scope of business combinations **(EBITA*)**	**502**	472	**6%**	**902**
EBIT	**484**	472	**3%**	**878**
Net result	**294**	612	**-52%**	**1,020**
Net invested capital	**7,843**	7,087	**11%**	**6,188**
Net debt	**2,485**	2,184	**14%**	**858**
FOCF	**-1,432**	-1,149	**-25%**	**506**
EBITA*/Revenues	***5.5%***	*5.5%*	***0 p.p.***	***7.2%***
ROI	***13.7%***	*13.1%*	***0.6 p.p.***	***17.7%***
ROE	***13.7%***	*17.2%*	***-3.5 p.p.***	***20.5%***
EVA®	**-61**	-70 *	**13%**	**257**
R&D costs	**1,233**	1,199	**3%**	**1,783**
Employees (no.)	**59,882**	57,705		**58,059**

Before examining the results at 30 September 2007, it should be noted that:

- during 2006, changes were made in the recognition of development costs as a result of changes in the regulatory framework. Consequently, beginning with the 2006 annual report, reference is now made to "revenues" rather than to "value of production". For further details on these changes, see the section concerning the "effects of changes in the accounting standards adopted" (Note 3.2);

- with regard to goodwill from acquisitions in previous years, on 31 December 2006, the process of defining the portion of price allocation with calculation of the relative amortisation was completed. Therefore, for the purpose of comparison across different periods, in terms of both absolute values and percentages of revenues (return on sales), an intermediate result was calculated: "operating result before the amortisation of non-current assets valued within the scope of business combinations" (EBITA*)[1].

As shown by a comparison of the results of the third quarter of 2007 with those for the same period of the preceding year and as also evidenced in the 2007 half-year report, the Finmeccanica Group is enjoying stable growth of revenues and earnings. Revenues, which were equal to €mil 9,117, increased by 7%, with the growth in line with that of the "operating result before the amortisation of non-current assets valued within the scope of business combinations" (EBITA*), which went from €mil 472 at 30 September 2006 to €mil 502 at the end of third quarter of 2007; consequently, the ROS remained unchanged during the two periods of reference (5.5%).

The third quarter of 2007 closed with consolidated net profit of €mil 294, compared with €mil 612 for the same period of the preceding year, with the latter figure inclusive of the non-recurring capital gain of roughly €mil 417 realised on the public offer for sale of 60% of Ansaldo STS S.p.A. Excluding such effect, the profit at 30 September 2006 would have been €mil 195; accordingly, at equivalent conditions, the earnings for the first nine months of 2007 are €mil 99 higher than the earnings for the same period of the preceding year.
This increase incorporates €mil 12 of growth in operating earnings (EBIT)[2] as well as a pronounced €mil 67 improvement in the net financial income (charges) (as a result of the positive effect of the equity valuation of affiliate companies, higher dividends and the closing out of various hedging transactions) and a €mil 19 reduction in the tax provision thanks to the application of the consolidated tax mechanism.

With regard to the balance sheet, the Group achieved year-on-year improvement in its profitability indicators. The return on investment (ROI) was 13.7% (13.1%), while the

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[1] EBITA* - obtained by subtracting from EBIT any impairment in goodwill and amortisation of the portion of the purchase price allocated to intangible assets within the scope of business combinations, as provided by IFRS3.

[2] EBIT: is equal to earnings before taxes, financial income and expense, and profits connected with results from discontinued operations without any adjustment. EBIT does not include income and expenses arising from the management of unconsolidated equity investments and securities, as well as profits/losses from the sale of consolidated equity investments, classified in the financial statements under among "*financial income/expense*" or, the profits/losses for the only equity investments valued using the equity method, among "*effects of accounting for equity investments with the equity method*".

return on equity (ROE) stood at 13.7% (8.5% in 2006, reclassified to eliminate the effect of the non-recurring gains from the listing of Ansaldo STS).

With reference to EVA®[3] it should be noted that, as a result of the changing macroeconomic scenario, 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 by more than one percent over the rate used until 31 December 2006. Thus, reclassifying the indicators for the third quarter of 2006, EVA® , though still negative (€mil 61) at 30 September 2007, had shown some improvement over the value recorded at the end of the third quarter of 2006 (a negative €mil 70).

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New orders procured at 30 September 2007 amounted to €mil 9,861 compared with €mil 10,231 at the same date of the preceding year, with a reduction of €mil 370. With order procurement not being an aggregate measuring linear growth, it should be emphasised that comparing the trend of order procurement during interim periods vis-à-vis the entire year may not be that significant. In this regard, it is also noted that the orders procured at 30 September 2006 included several important contracts for the helicopters divisions worth €mil 1,740 (and specifically, the IMOS MCPS-Future Lynx contracts for the British Ministry of Defence).
The total orders procured at 30 September 2007 reflect slight growth of the percentage related to the civil market, with the military accounting for 51% compared with 55% of orders on the books at the end of third quarter of 2006.

Some of the more significant business transactions during the period of reference are outlined below, but are not included in the values of the orders procured set out above:

- Helicopters: the conclusion of negotiations with the Turkish government for the ATAK program in relation to the supply of roughly 51 A129 helicopters with a value of roughly €mil 1,200. The signing of the definitive contract is expected to take place prior to the end of the current year.

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

It is also noted that on 31 August 2007, 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 Ltd. a 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.

- Aeronautics: Following the success of the sale of the C27J craft to the United States Air Force (supply of 78 aircraft, the first two of which were ordered in September 2007, with the others to be commissioned in tranches through 2013), the C27J was selected by Romania for seven aircraft and the related order is now in the process of being perfected.

  With reference to the EFA programme, it is noted that the contract between the Saudi Arabian and British governments was signed for the supply of 72 aircraft and the related logistical support.

  Finally, with reference to the Superjet 100 programme, the company, Superjet International S.p.A., was incorporated in July 2007 by Wing Ned B.V., a Dutch company owned by Alenia Aeronautica S.p.A. (51%) and Aviation Holding Company Sukoi (49%). Operating from a head office in Venice, the new company will be responsible for the marketing, sale and delivery activity in the U.S. and Europe, as well as post-sale assistance on the aircraft for the entire world market. Several contractual aspects are still to be defined with the partner as a necessary condition to the start-up of the production and marketing activities.

Orders			
€mil	09 2007	9 2006	change
■ Helicopters	2,084	3,328	-37%
■ Defence Electronics	2,336	2,195	6%
■ Aeronautics	1,532	1,427	7%
■ Space	545	515	6%
■ Defence Systems	446	496	-10%
■ Energy	1,351	741	82%
■ Transportation	1,329	1,738	-24%
Other activity, elimination	238	-209	
	9,861	10,231	

The main new orders procured at 30 September 2007 included the following:

- Helicopters:
    - Military-government segment: the agreement with the UK Ministry of Defence to upgrade six EH 101 Merlin helicopters, which will be acquired from the fleet of EH 101 in service with the Royal Danish Air Force. The agreement also includes the purchase of six new EH 101 Merlin helicopters that will be delivered by the UK Ministry of Defence to the Royal Danish Air Force to replace the original helicopters. The agreement is worth €mil 270 (Q2). Another agreement covers the supply of 8 AW 109 Power helicopters to the Libyan government (Q2). Finally, there is a contract for the supply of seven units to the Nigerian Naval Ministry, including two AW109 Power units (Q2) and five AW109 Light Utility Helicopters (LUH) (Q3);
    - Civil-government segment: orders for 61 AW139 helicopters for a total of €mil 560, of which 14 helicopters for the Saudi Arabian Oil Company (Q1), 2 for the Los Angeles City Fire Department (Q2) and another 12 units for Hawker Pacific (Q3); 104 helicopters for a total of €mil 384 divided as follows: 48 A109 Grand (of which 5 were purchased by Sloane Helicopters Q1), 31 AW109 Power (of which 6 were purchased by the Spanish Fire Brigade Q2) and 25 A119;

- Defence Electronics:
    - Avionics segment: further orders for the EFA programme and related logistics (Q1, Q2 and Q3) and countermeasure systems (Q1, Q2 and Q3);
    - Land and sea command-and-control and communication systems segment: orders for air traffic control systems from Trinidad and Tobago (Q2) and for logistics (Q1 and Q2);
    - Integrated communication networks and systems: the order for the second lot of the TETRA Interpol contract (Q2); further orders for EFA communication systems (Q1, Q2 and Q3) and the NH90 communication systems (Q3); and the order by BAE Systems for communication and datalink systems for a Middle Eastern programme (Q2);
    - Information and security technology,: the extension of sorting and automation services for the Hybrid Post 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 the Italian Post Office for extending the new network and integrated coding services systems (SISC) (Q2);
    - Value-added services for security applications: the supply of a broad-band infrastructure and applications for territorial monitoring for the Region of Abruzzo (Q3).

- Aeronautics:
    - Military segment: the EFA Future Enhancements order to develop the weapons system in order to enhance the craft's performance and operating capacity (Q1); logistics for the second EFA lot (Q2 and Q3); the agreement for the supply of two ATR 42 MP patrol boats to Nigeria (Q2); and the order for the supply of the first two C27J aircraft to the U.S. military (Q3);
    - Civil segment: orders of the GIE-ATR consortium that received orders for 75 aircraft (24 in Q1, 27 in Q2 and 24 in Q3); the order for the B767 aircraft (Q1) and B777 aircraft (Q2); and the additional lots (Q1, Q2 and Q3) of the

A321 and Falcon programmes, engine nacelles, and transformation of cargo aircrafts.

- Space:
  - Commercial segment: the renewal of the contracts for multi-year, high-value television services, particularly for Sky (Q1); the contract for the Indonesian Palapa D satellite (Q2); the order by the Norwegian company Telenor for the Thor 6 satellite (Q2); the first four lots for 48 Low Earth Orbit (LEO) satellites for the second-generation Globalstar constellation (Q1, Q2 and Q3); the contract through a 50-50 partnership with EADS Astrium for the supply of Arabsat 5A/5B satellites (Q3); the order for the Russian payload Loutch (Q3);
  - Military segment: the order for the completion, launch and operational management of the Sicral 1B military telecommunications satellite (Q3); and the first two tranches of order in relation to the Armasat programme (Q1 and Q2);
  - Earth observation segment: the contract concerning the Cosmo programme for the completion of the fourth satellite (Q1); the first lot of the Sentinel 1 order for the Global Monitoring for Environment and Security (GMES) programme for territorial control and security (Q2); new orders for the supply of territorial monitoring and management services (Q1 and Q3);
  - Navigation and infomobility segment: additional orders related to the Galileo (the in-orbit validation phase) and EGNOS programmes (Q1 and Q2).

- Defence systems:
  - Missile systems: the contract from the British Ministry of Defence for activity on the Rapier anti-aircraft defence system (Q3); orders to upgrade the German Patriot systems (Q1) and RAMs (Rolling Airframe Missile) (Q2); and orders to upgrade the battery of Aspide air-defence missiles (Q1);
  - Land, sea, and air weapons systems: orders for four 76/62SR cannons and for machine guns to Malaysia (Q1) and for three 76/62 SR cannons from Oman

(Q2); and the order for the supply of 16 40-mm "Twin Compact" arms systems to the Turkish Navy (Q3);
    - Underwater systems: orders for 22 launch systems for Lynx helicopters from Germany (Q2) and for additional activities relating to MU90 light torpedoes from Australia (Q2).

- Energy:
    - New units segment: a gas turbine and related alternator for the Algeciras site (lot 2) and the Vlore site (both in Q1); the order from Finland for a gas turbine (model V94.2 plus) and related alternator (Q2); two contracts with Algeria (Batna and Larbaa) for the customer Sonelgaz for the construction of two 300 MW electrical plants (both in Q2); the doubling at the Larbaa site in Algeria for the construction of another 300-MW plant equipped with two V94.2 open-cycle gas turbines (Q3); a 400-MW plant in Algeria at the M'Sila site (Q3); two contracts in Russia with Power Machines for the supply of five TG V64 3.A with related generators and auxiliary systems for the combined-cycle plants of Tyumen, central part of Western Siberia and Pervomaiskaya, in the Saint Petersburg area (both in Q3); the procurement of an order in South Africa for the supply of two 170-MW TG V94.2, with generators and auxiliary systems, for the open-cycle peak plant located at Port Elizabeth (Q3);
    - Service segment: important orders in renewable energy related to the refurbishment of four hydroelectric assemblies, two hydroelectric generators, a hydroelectric plant and revamping a steam turbine (Q1); a contract with Iran for a set of 5 blades (Q2); the revamping of a steam turbine for the Algeciras plant (Q2); a maintenance contract for the Batna and Larbaa plants in Algeria (Q2); and spare parts for the new plant at the M'Sila site in Algeria (Q3).

- Transportation:
    - Signalling segment: orders by the mining firm Rio Tinto in Australia (Q1, Q2 and Q3), orders relating to the Chambers Street station of the New York

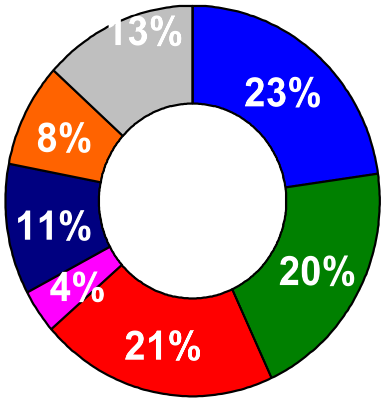
subway (Q1); the order in Italy for SCMT on-board equipment to complete Step 3 of the double rail lines which were partially equipped under previous Step 2 contracts (Q2); the order by ERGA-OSE, the Greek railway agency, for the supply of onboard equipment (Q2 and Q3); the order related to the ACS Torino Rebaudengo (Q3); contracts as part of the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia (Q1, Q2 and Q3); and orders for components (Q1, Q2 and Q3);

    - Systems segment: the order related to Alifana Inferiore (Q1); the order for the first phase of the project for the Rome Line C driverless metro (Q2 and Q3); changes to the Italian high-speed railway order (Q2 and Q3); and the order regarding Line 6 of the Naples metro (Q3);
    - Vehicles segment: service orders (Q1, Q2 and Q3); options for the supply of another 8 trains for regional service to Ferrovie Nord Milano (Q2); and vehicles for the Line C of the Rome metro (Q3).

- Other Activities:
    - Fata S.p.A. received a significant order in Qatar for the execution of two separate packages (Qatalum Casthouse and Qatalum Baking Kiln) for the construction of an aluminium smelter worth in total about €mil 370 (Q2).

The **order backlog** at 30 September 2007 amounted to €mil 36,247 compared with €mil 35,810 at 31 December 2006, thereby ensuring the Group coverage equivalent to roughly three years of production. The growth (€mil 437) reflects ordinary order procurement and customer invoicing.

Order backlog €mil	09 2007	12 2006	Change
Helicopters	8,290	8,572	-3%
Defence Electronics	7,420	7,676	-3%
Aeronautics	7,572	7,538	0%
Space	1,286	1,264	2%
Defence Systems	4,030	4,252	-5%
Energy	3,062	2,468	24%
Transporation	4,928	4,703	5%
Other activity, elimination	-341	-663	
	36,247	35,810	



At 30 September 2007, **revenues** totalled €mil 9,117 for an increase of €mil 593, or 7% over the same period of the previous year.

Revenues €mil	09 2007	9 2006	Change
Helicopters	2,084	1,949	7%
Defence Electronics	2,462	2,444	1%
Aeronautics	1,496	1,329	13%
Space	593	519	14%
Defence Systems	719	728	-1%
Energy	751	631	19%
Transporation	1,054	999	6%
Other activity, elimination	-42	-75	
	9,117	8,524	

Specifically, the sectors that contributed most heavily to the increase in revenues include:

- Helicopters, for the effect of higher production volumes in the civil-government segment (AW109, AW139, AW119), the full-scale start-up of the activity for the helicopter for the President of the United States of America, and product support activity;

- Aeronautics, whose growth is mainly the result of the higher contribution of the civil segment, with the expansion of the activities for the ATR aircraft and the start-up of B787 production; in the military segment, the revenue growth came from the EFA programme as a result of stepped-up development and production activity in relation to the second tranche.

- Energy, essentially for the effect of the sharp increase in volumes in the service segment.

- Space, for the effect of the higher production developed by the manufacturing area.

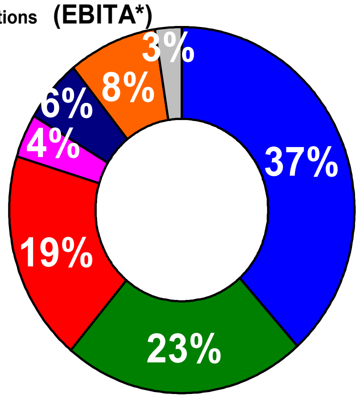
- Transportation, as a result of higher production volumes in both the signalling and vehicles segments.

The results for the Defence Electronics and Defence Systems divisions were essentially on par with those for the preceding year.

The **operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)** was equal to €mil 502 at 30 September 2007, and thus rose by €mil 30 (or 6.3%) year on year, with the growth essentially in line with the growth of revenues.

Oper. result before amortis. of non-current assets valued within the scope of business combinations (EBITA*)

€mil	09 2007	9 2006	Change
Helicopters	219	183	20%
Defence Electronics	129	125	3%
Aeronautics	106	115	-8%
Space	23	22	5%
Defence Systems	32	38	-16%
Energy	46	38	21%
Transportation	15	39	-62%
Other activities	-68	-88	
	502	472	



The following divisions made positive contributions to **EBITA***:

- *Helicopters*: The improvement in absolute terms (€mil 36) and in terms of the percentage of growth (+20%) is in line with the trend and mix of revenues, and is related both to the growth of volumes mentioned above and to the results of efforts to achieve greater efficiency in relation to the integration of the Italian and British operations.
- *Energy*: The increase of €mil 8 (+21%) is the result of higher production volumes and higher returns on several contracts in the plant and components segment, both in Italy and abroad; such gains made it possible to offset fully the increase in research and development expenses sustained by the company in order to achieve technological independence.

The EBITA* was also slightly higher in the Space and Defence Electronics divisions, with the increase in the latter case due to improvement in the avionics segment.

Conversely, the following segments posted declines in EBITA*:

- *Aeronautics*: The division reported a decrease of €mil 9 (-8%) with respect to the previous year, though the latter period included significant benefits from the release of risk reserves for the ATR programme and compensation from Boeing for the shutting down of the B717 programme.

- *Defence systems*: The division reported a decrease of €mil 6 (-16%), essentially due to the additional activity on the MU90 light torpedo and to incremental restructuring costs for the missile segment.

- *Transportation*: The division reported a decrease of €mil 24 (-62%), due to the decline in the vehicles segment resulting from production problems and the costs of a human-resources optimisation and development plan; the performance of the vehicles segment was mitigated by the improvement in the signalling segment, for the effect of higher volumes and the growth of industrial profitability.

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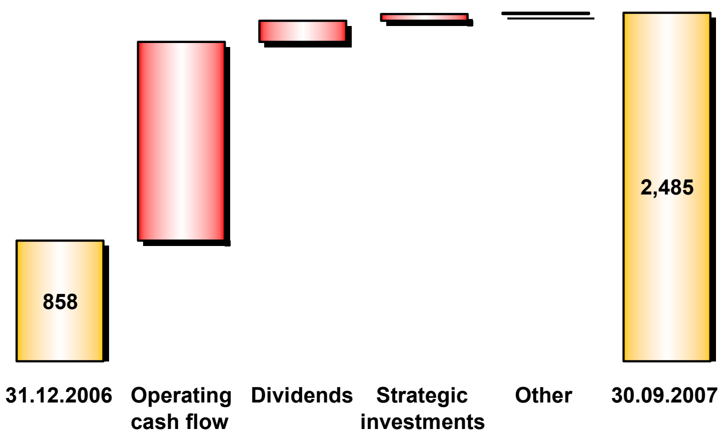
The Group's **net debt** (prevalence of financial payables over financial receivables and cash / cash equivalents) at 30 September 2007 amounted to €mil 2,485 (versus €mil 858 as of 31 December 2006), with net increase of €mil 1,627.

At 46% of consolidated shareholders' equity, the level of debt falls within the limits contemplated for careful and prudent financial management and within the maximum limits set by the main rating agencies.

A policy aimed at keeping the average cost of debt (3.9%) at the lowest level possible over time and ensuring a long average residual life (about 8.5 years) has furthermore contributed to making the Group's financial structure more solid, thus making the debt structure and medium-/long-term financial returns compatible with the sizeable investments required to develop products.
It has been possible to maintain a stable financial and capital structure thanks to constant control over the financial needs of the Group companies and pro-active dealings with customers and suppliers.

Trend of debt during nine months ending 30 September 2007



The **free operating cash flow** (FOCF)[4] at 30 September 2007 was negative (use of cash) in the amount of €mil 1,432 compared with a negative €mil 1,149 at 30 September 2006. In analysing FOCF, seasonal factors have to be taken into account. The relationship between trade receivable collections and trade payments is particularly skewed in favour of the latter. Specifically, during the two periods being compared, the composition of FOCF was strongly affected by investment activity.

During the first nine months of 2007, the use of cash amounted to €mil 1,432 and is attributable to investment activity (€mil 871 compared with €mil 600 for the same period of the previous year), and to operating activities (€mil 561 compared with €mil 549 for the first nine months of 2006). It is noted that the 2006 figures have been reclassified to take into account the different accounting treatment of non-recurring charges.

The deterioration year on year (€mil 283 of FOCF) can be attributed to the higher investments realised (€mil 271) mainly with respect to the aeronautical, helicopter, and defence electronics programmes, though such outlays were in line with expectations, and to higher flows for operating activity (€mil 12).

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[4] FOCF: is the sum of cash flow generated from (used in) operating activities and the cash flow generated from (used in) investing and disposing of property, plant and equipment, intangible assets and equity investments, excluding 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 presented is contained in the reclassified cash flow statement found in section 3.

At 30 September 2007, consolidated **net invested capital** was equal to €mil 7,843 compared with €mil 6,188 at 31 December 2006; the net increase of €mil 1,655 is the result of an increase of €mil 1,198 in **working capital** (€mil 764 at 30 September 2007 versus a negative balance of €mil 434 at 31 December 2006) and a net increase of €mil 457 in **fixed capital** (€mil 7,079 at 30 September 2007 versus €mil 6,622 at 31 December 2006). Such increase is linked to the trend of FOCF outlined above, which was impacted by the increase in fixed capital due to the investment in property, plant and equipment and intangible assets, net of depreciation/amortisation charges.

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For the nine months ending 30 September 2007, the **research and development costs** amounted to €mil 1,233, compared with €mil 1,199 for the same period of 2006, with a slight increase of €mil 34. The costs were equal to around 13% of the revenues generated.

R&D Costs

€mil	09 2007	9 2006	Change
Helicopters	213	256	-17%
Defence Electronics	386	378	2%
Aeronautics	393	342	15%
Space	38	39	-3%
Defence Systems	149	141	6%
Energy	14	11	27%
Transportation	36	32	13%
Other activities	4	0	
	1,233	1,199	

The main research and development activities regarded:

- Helicopters:
    - financed programmes: the development of technologies, mainly for military purposes, for a new helicopter of the 6-7 ton class named the A149 and development of multi-role versions of the BA609 convertiplane for national security purposes;
    - research for product upgrades: the activity of developing and certifying customised work requested by final customers for the AW139 and Agusta Grand helicopters;
    - changes to base models: the activities carried out with respect to civil, government and military contracts.

- Defence Electronics:
    - the continuation of development of the EFA programme electronic-scan radar systems for avionics, and the fine-tuning of the UAV FALCO prototypes;
    - the development of naval and land-based command and control systems and the completion of development of air-traffic control radar systems;
    - the completion of the TETRA technological network and activities in the new product families such as ad hoc networks, WIMAX, software radio and switch all IP.

- Aeronautics:
    - the development of the civil programmes, including the B787, A380, engine nacelles and B767 Cargo;
    - in the military segment, the activities related to the second tranche of the EFA, the M346, the C27J, AMX, Tornado, JSF, ATR ASW, UAV (*Unmanned Air Vehicle)*;
    - other research and development activities continued into aerostructures and integration systems.

- Space:
  - the study and development phases of the Syracuse 3 and Sicral 1B (SAR radar, altimeter, and radiometer) programmes, dual-use systems for security and civil protection (Cosmo), and scientific programmes (Alma, Bepi-Colombo, Goce, Herschel-Plank);
  - the development of platforms and solutions for the provision of navigation and infomobility services, Galileo, GIS (Geodatabase), and LEO applications.

- Defence systems:
  - the continuation of development related to: the Meteor air-to-air missile in the missile segment; the guided multiple launch rocket system as part of land and naval weapons; and the Black Shark heavy torpedo in the underwater system segment.

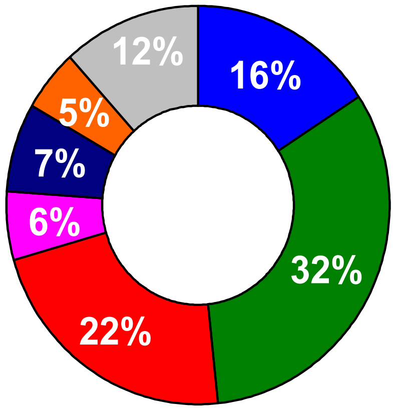
- Energy:
  - development of strategic technologies for gas turbines and other critical projects connected with the technological autonomy of the blades;
  - rationalisation of development activities for steam turbines, especially alternators.

- Transportation:
  - in the signalling segment, the projects intended primarily for alignment to new requirements both in the rail and mass-transit segments and the development of on-board equipment.

The **number of employees** at 30 September 2007 stood at 59,882 employees, an increase of 1,823 from the 58,059 of 31 December 2006. This rise is mainly due to positive balance of turnover in all segments, in addition to the change in the scope of consolidation.

Employees (No.)

	09 2007	12 2006	Change
Helicopters	9,363	8,899	5%
Defence Electronics	19,052	19,185	-1%
Aeronautics	13,000	12,135	7%
Space	3,339	3,221	4%
Defence Systems	4,164	4,275	-3%
Energy	2,929	2,856	3%
Transportation	6,924	6,677	4%
Other activities	1,111	811	
	59,882	58,059	



The results for the quarter

During the third quarter of 2007, the Finmeccanica Group realised revenues of €mil 3,047 (+8% compared with €mil 2.818 for the third quarter of 2006), with the operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) amounting to €mil 178 (+7% compared with the €mil 167 reported for the third quarter of 2006).

Given this positive trend, the ROS (ratio between operating earnings and revenues) amounted to 5.8%, remaining substantially in line with the 5.9% reported for the third quarter of 2006.

€mil	1.7 - 30.9.2007			1.7 - 30.9.2006		
Division	Revenues	EBITA*	EBIT	Revenues	EBITA*	EBIT
Helicopters	610	65	63	616	48	48
Defence Electronic	857	45	42	776	26	26
Aeronautics	545	42	42	496	54	54
Space	216	11	11	172	6	6
Defence Systems	222	7	6	234	16	16
Energy	274	16	16	220	20	20
Transportation	329	(1)	(1)	315	12	12
Other Activities	79	(7)	(7)	54	(15)	(15)
Eliminations	(85)	-	-	(65)	-	-
	3,047	**178**	**172**	**2,818**	**167**	**167**

The net financial income for the third quarter of 2007 rose by €mil 68 year on year, and included €mil 24 of income booked on the closing of hedging transactions on the STM shares and €mil 34 representing positive differences in fair value booked to the profit and loss.

Taxes for the period amounted to €mil 62, decreasing by €mil 7 year on year, partially due to the change in the scope of the consolidation for tax purposes.

The net profit for the period was thus equal to €mil 117, improving by €mil 80 year on year.

Significant events during the first nine months of 2007 and after the end of the quarter

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 (VTOL) 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 the 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 Electronics*** division, activities were completed that led to Finmeccanica's acquisition of all of the share capital of **Datamat S.p.A.**, 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 S.p.A, efforts got under way for a merger between Datamat S.p.A. and Elsag S.p.A.; the merger was completed on 1 August and thereafter, the company took on the name of Elsag Datamat S.p.A.

On 26 September 2007, Elsag Datamat finalised (through its subsidiary, Elsag Inc.) the acquisition of 100% of the U.S. 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., a wholly owned American subsidiary of Elsag, today known as Elsag Datamat. The joint venture was set up for the purpose of the marketing products used in reading automobile license plates to government entities and police forces in the United States, considering such products have been approved for use 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 large companies in the U.S.

The process to merge **OTE S.p.A.** and **Prod-El S.p.A.** in **Selex Communications S.p.A.** was begun in April 2007 and was completed on 1 August.

On 14 February 2007, **Selex Sistemi Integrati S.p.A.** 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 S.p.A.** (Selex S&AS S.p.A.) for a total outlay of roughly €mil 400. In the coming months, an additional payment currently estimated at €mil 12 will be added to this amount.

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 Security and Defence 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.

In the security segment, Finmeccanica is part of an Italian project for an **electronic ID card** involving a number of domestic companies; the project is currently at a standstill in light of the need for additional analyses to perfect various aspects of the project and the consequent agreement between the participants.

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 Federation's Ministry of Industry and Energy concerning the trade agreements in effect between **Finmeccanica** and **Sukhoi Aviation Holding** and their respective subsidiaries, Alenia Aeronautica S.p.A. 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 Alenia Aeronautica S.p.A and 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 July, Alenia Aeronautica S.p.A. and Sukhoi established a joint venture, Superjet International (51% Alenia Aeronautica S.p.A. and 49% Sukhoi), as described in further detail in the preceding section of this report.

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 $2.04 billion to supply 78 aircraft. The U.S. 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 $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 (67% Finmeccanica and 33% Thales).

With regard to the European Galileo satellite navigation programme, a consortium ("concessionaire") was formed by Finmeccanica S.p.A. and other major European companies in the industry to oversee the building and launching of the system and to negotiate the contract to operate the system. The concessionaire's difficulties in raising the needed funds and assuming the entire technical risks associated with the programme led the European Council to revise the implementation plan and to suggest as an alternative solution that the project would be financed solely with public funds. Methods for finding these funds will be discussed over the next few months by EU entities.
The situation prompted an effort to redefine the industrial organisation for the construction of the infrastructure in order to improve its efficiency and to resolve critical issues tied to the respective duties under the programme. Under existing agreements, the

infrastructure will be built by European Satellite Navigation Industries ("ESNI") – formerly Galileo Industries, a company that is owned by Finmeccanica S.p.A., EADS Astrium, Thales SA and Galileo Sistemas y Servicios – which is in charge of the system and of awarding contracts to domestic manufacturers, using a mechanism agreed among the various countries participating in the project.

However, management of the programme has proven to be rather complex and considerable delays in implementation have accrued causing the European Space Agency's ("ESA") to request substantial changes to the configuration of contracts and a reduction in the role of ESNI.

At the European level, although the roles and funding methods are being redefined, the Galileo project remains a priority objective of great strategic importance at both 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.

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**, 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 USDbil. 6. On 5 July 2007, Finmeccanica, Ferrovie dello Stato and the Russian Railways (RZD) were pre–qualified for the tender.

In March, during the 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 S.p.A. in order to create safety and security systems; the development by Telespazio S.p.A. of a satellite observation system to monitor landslides near the Tuapse-Adler railway line.

On 25 May 2007 Finmeccanica, the Russian railways (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 S.p.A.**, 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 S.p.A.** and **Ansaldo Trasporti - Sistemi Ferroviari S.p.A.** was signed following the acquisition of the entire share capital of Ansaldo Segnalamento Ferroviario S.p.A from Ansaldo Signal NV effective as of 1 July 2007. The merger transaction will have legal effect as of 1 November 2007. 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 systems 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 U.S. 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 U.S. government.

Financial transactions

During the first nine months of 2007, Finmeccanica did not execute any new transactions in the capital market; as a result, the medium-/long-term debt structure, and the bond component, in particular, did not experience any significant changes. The total debt amounted to around €mil 1,771 (IAS/IFRS), with an average term of roughly 8.3 years.

It should be noted that, on 16 January 2007, the bond issued in 1997 by the Luxembourg subsidiary Finmeccanica Finance S.A. 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 30 September 2007, including the transactions placed on the market by Finmeccanica Finance S.A.:

Issuer		**Year of Issue**	**Maturity**	**Amount (€mil)**	**Annual Coupon**	**Type of Offer**	**Values Booked (IAS) (€mil) (5)**
Finmeccanica Finance S.A.	(1)	2002	30/12/08	297	Variable	Italian retail	299
Finmeccanica Finance S.A.	(2)	2003	08/08/10	501	0.375%	European institutional	445
Finmeccanica Finance S.A.	(3)	2003	12/12/18	500	5.75%	European institutional	519
Finmeccanica S.p.A.	(4)	2005	24/03/25	500	4.875%	European institutional	508

(1) Bonds exclusively offered to the public in Italy and listed on the TLX market, which is managed by Trading Lab Banca S.p.A. - Unicredito Italiano Group. Issued as part of the Euro Medium Term Notes (EMTN) programme for a maximum €bil 2.5, the bonds are governed by a specific Italian regulation. Transaction authorised pursuant to Article 129 of Legislative Decree no. 385/93. Prospectus filed with CONSOB on 4 December 2002 (authorisation notified with note no. 2079342/03/12/02)

(2) Exchangeable bonds with a maximum number of 20,000,000 shares in STMicroelectronics N.V. (STM) at a conversion price of €25.07 per share. Starting from the third anniversary of the issue, Finmeccanica Finance can ask for the loan to be converted if the average price recorded during the

30 working days prior to the date of notice to 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 no. 385/93. Bonds are listed on the Luxembourg Stock Exchange.

(3) Bonds issued as part of the EMTN programme 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 no. 385/93. Bonds listed on the Luxembourg Stock Exchange.

Interest-rate swap transactions carried out with respect to these bonds yielded benefits throughout 2005 as a result of low floating rates, with the actual cost of the debt at around 3.25%. During 2006, the actual cost of the debt returned to a fixed rate equal to an average value of some 5.92%

(4) Bonds issued as part of the EMTN programme for a maximum of €bil 2.5 The transaction was authorised pursuant to Article 129 of Legislative Decree no. 385/93. Bonds listed on the Luxembourg Stock Exchange. Some interest-rate swap transactions were made to optimise funding costs.

(5) The difference between the face value of bonds and book value is due to the classification of the accrued interest as an increase in the value of the debt and the booking of issuing discounts being as a decrease in the 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 periodically adjusted to its fair value. As a result of this valuation method, the carrying value of the debt was €mil 56 less than the face value as of 30 September 2007. This differential will gradually come down as the maturity date draws near.

All the bond issues of Finmeccanica Finance S.A. are irrevocably and unconditionally secured by Finmeccanica S.p.A.

All the bonds above are governed by regulations with standard legal clauses for these types of corporate debt 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.

Based on negative pledge clauses, issuers Finmeccanica Finance S.A., Finmeccanica S.p.A. 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. The prohibition does not cover securitisation transactions and, starting from July 2006, the pledging of assets referenced 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 S.p.A. and Finmeccanica Finance S.A. bonds have a medium-term credit rating assigned by the three international rating agencies: Moody's Investors Service, Fitch and Standard & Poor's. More specifically, at the reporting date these credit ratings were A3 (Moody's), BBB with a stable outlook (Standard and Poor's) and BBB with a positive outlook (Fitch. In preceding years, Moody's upgraded its rating from Baa2 to A3, partially in relation to changes in the agency's rating 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 S.A. 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 perfected, 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 S.p.A. 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, whose content has been illustrated above. At 30 September 2007, this credit line has been used in the amount of €mil 500. Finmeccanica also has additional short-term credit lines, for cash loans, amounting to around €mil 1,250, of which €mil 925 is unconfirmed and around €mil 275 is confirmed; at 30 September 2007, these credit lines were partially used. There are also unconfirmed endorsement loan lines of around €mil 2,200.

Other transactions

On 30 May 2007 the extraordinary meeting of the Finmeccanica S.p.A. shareholders approved a share capital increase to be carried out in tranches for cash and reserved solely to Italian and foreign institutional investors for the maximum nominal amount of €185,638,002 within the limits of 10% of the share capital of the Company prior to the increase. This capital increase may be carried out by issuing a maximum of 42,190,455 shares at the nominal value of €4.40 each, with full voting rights, excluding option rights, pursuant to Article 2441(4)(2) of the Civil Code, by 30 June 2009, in the manner provided in the proposal of the Board of Directors in the "Report of the Board of Directors to the Shareholders' Meeting", approved by the shareholders' meeting, to which reference should be made for a fuller explanation.

Finally, it is noted that the Italian government, with Article 32 of Legislative Decree n. 159 of 1 October 2007, has identified the legislative/technical steps needed for supplying the Entity for New Technologies, Energy and the Environment (ENEA) with the financial resources to pay, including as a settlement, the charges resulting from the termination (pursuant to Law 321/1988) of a contract for the design and construction of the nuclear plant known as PEC.

In this regard, it is noted that a dispute between Finmeccanica and ENEA has been outstanding since 1995 for the payment of the amounts that ENEA owes to Finmeccanica after the termination of the supply contract in relation to the building of the aforementioned nuclear plant. The Rome Appellate Court with a partial ruling handed down in 2003 that revised the decision of the court of first degree recognised Finmeccanica's right to the payment of all sums in relation to the charges arising from the termination of the contract. ENEA appealed such order in the Court of Cassation.

Against this backdrop, Finmeccanica and ENEA, acting upon the Appellate Court's recommendation to try to come up with a conciliatory settlement, came to an agreement in 2004 to examine the practicability of a settlement which was not however implemented until Legislative Decree n. 159 of 2007 because of the lack of the financial resources needed.

Analysis of Group's earnings, capital and financial position

I. ACCOUNTING STATEMENTS

Income statement

(€mil)	*Nine months ended 30 September*		*Three months ended 30 September*	
	2007	***2006***	***2007***	***2006***
Revenue	8,339	7,992	2,765	2,655
Revenues - related parties	778	532	282	163
Other operating revenues	329	307	104	71
Other operating revenues - related parties	3	4	2	4
Costs for purchases	(3,653)	(3,254)	(1,287)	(1,119)
Costs for services	(2,610)	(2,490)	(845)	(819)
Costs (net of recoveries) - related parties	(56)	(46)	(18)	(12)
Costs for personnel	(2,708)	(2,484)	(873)	(769)
Depreciation/amortisation and writedowns	(345)	(288)	(114)	(100)
Other operating costs	(290)	(234)	(93)	(45)
Change in inventories of work in progress, semi-finished and finished goods	96	383	59	124
(-) Capitalised costs for internal construction	601	50	190	14
	484	**472**	**172**	**167**
Financial income	380	708	149	65
Financial income - related parties	2	1	1	-
Financial charges	(411)	(375)	(138)	(123)
Financial charges - related parties	(15)	(10)	(6)	(4)
Effect of valuation of shareholdings with the net equity method	9	(9)	1	1
Net profit (loss) before taxes and effects of discontinued operations	**449**	**787**	**179**	**106**
Income taxes	(155)	(174)	(62)	(69)
Profit (loss) associated with discontinued operations	-	(1)	-	-
Net profit	**294**	**612**	**117**	**37**
. Group	*269*	*594*	*110*	*30*
. Minority interests	*25*	*18*	*7*	*7*
Earnings per share				
Basic	*0.63*	*1.40*	*0.26*	*0.07*
Diluted	*0.63*	*1.40*	*0.26*	*0.07*
Earnings per share, net of discontinued operations				
Basic	*0.63*	*1.40*	*0.26*	*0.07*
Diluted	*0.63*	*1.40*	*0.26*	*0.07*

Balance sheet

€mil	*30.09.07*	*31.12.06*
Non-current assets		
Intangible assets	5,691	5,317
Property, plant and equipment	2,829	2,660
Investment property	1	2
Equity investments	143	140
Financial assets at fair value	704	857
Non-current receivables from related parties	12	16
Receivables	416	426
Deferred tax assets	480	470
Other assets	6	9
	10,282	**9,897**
Current assets		
Inventories	3,530	3,095
Due from customers for contract work	3,341	2,823
Current receivables from related parties	437	438
Trade receivables	3,723	3,479
Financial assets at fair value	13	21
Tax receivables	461	469
Financial receivables	473	452
Derivatives	174	147
Other assets	482	447
Cash and cash equivalents	404	2,003
	13,038	**13,374**
Non-current assets held for sale	-	110
Total assets	**23,320**	**23,381**
Shareholders' equity		
Share capital	1,856	1,858
Other reserves	3,403	3,418
Total shareholders' equity	**5,259**	**5,276**
Minority interests	99	81
Total shareholders' equity and minority interests	**5,358**	**5,357**
Non-current liabilities		
Financial payables	1,964	1,979
Severance pay and other employee liabilities	1,199	1,238
Provisions for risks and charges	398	365
Deferred tax liabilities	379	340
Other liabilities	1,227	1,332
	5,167	**5,254**
Current liabilities		
Due to customers for contract work	5,640	5,529
Current payables to related parties	516	594
Trade payables	3,528	3,486
Financial payables	992	881
Tax payables	241	322
Provisions for risks and charges	545	571
Derivatives	98	104
Other liabilities	1,235	1,200
	12,795	**12,687**
Liabilities directly correlated with assets held for sale	-	83
Total liabilities	**17,962**	**18,024**
Total liabilities and shareholders' equity	**23,320**	**23,381**

Cash flow

€mil	For 9 months ended 30 September 2007	2006
Cash flow from operating activities:		
Gross cash flow from operating activities	943	811
Changes in working capital	(1,040)	(1,221)
Changes in other operating assets and liabilities, taxes and financial charges	(464)	(330)
Cash flow generated from (used in) operating activities	**(561)**	**(740)**
Cash flow from investing activities:		
Company acquisition, net of cash acquired	(423)	(206)
Investments in property, plant and equipment and intangible assets	(922)	(430)
Disposals of property, plant and equipment and intangible assets	24	60
Ansaldo STS initial public offering	-	458
Other investment activity	36	112
Cash flow generated from (used in) investing activities	**(1,285)**	**(6)**
Cash flow from financing activities:		
Increases in share capital	8	20
Dividends paid	(151)	(214)
Net change in other financing activities	407	303
Cash flow generated from (used in) financing activities	**264**	**109**
Net increase/(decrease) in cash and cash equivalents	(1582)	(637)
Translation differences	(17)	(2)
Cash and cash equivalents at 1 January	2,003	1,061
Cash and cash equivalents at 30 September	**404**	**422**

Statement of changes in shareholders' equity

€mil	Share Capital	Retained Earnings (Losses)	Other Reserves	Total Shareholders' Equity	Minority Interests	Total Shareholders ' Equity and Minority Interests
Shareholders' equity at 31 December 2005	**1,858**	**2,173**	**413**	**4,444**	**154**	**4,598**
Change in the fair value of assets available for sale and transfers to the income statement			(90)	(90)		(90)
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			77	77		77
Repurchase of own shares, net of own shares sold	(19)			(19)		(19)
Allocation for stock grant plans			10	10		10
Translation differences			22	22	(3)	19
Dividends		(211)		(211)	(3)	(214)
Subscriptions				-	2	2
Capital increases for exercise of stock options	6	16	(2)	20		20
Change in area of consolidation and other minor amounts		27		27	(93)	(66)
Profit at 30 September 2006		594		594	18	612
Shareholders' equity at 30 September 2006	**1,845**	**2,599**	**430**	**4,874**	**75**	**4,949**
Shareholders' equity at 31 December 2006	**1,858**	**2,933**	**485**	**5,276**	**81**	**5,357**
Change in the fair value of assets available for sale and transfers to the income statement			(136)	(136)		(136)
Change in the fair value of cash-flow hedge instruments and transfers to the income statement			44	44	(2)	42
Repurchase of own shares, net of own shares sold	(5)			(5)		(5)
Allocation for stock grant plans			24	24	1	25
Translation differences			(76)	(76)		(76)
Dividends		(149)		(149)	(2)	(151)
Capital increases for exercise of stock options	3	5		8		8
Change in area of consolidation and other minor amounts		4		4	(4)	-
Profit at 30 September 2007		269		269	25	294
Shareholders' equity at 30 September 2007	**1,856**	**3,062**	**341**	**5,259**	**99**	**5,358**

II. 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 S.p.A., the holding company responsible for guiding and controlling industrial and strategic operations, coordinates its subsidiaries (the Finmeccanica Group or, simply, the Group), which are especially concentrated in the fields of helicopters, defence, aeronautics, space, energy and transportation.

III. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

Pursuant to Article 82 of the Issuers Regulation no. 11971/99 as amended and integrated, the consolidated quarterly report of the Finmeccanica Group at 30 September 2007 has been prepared in accordance with IAS 34 'Interim Financial Reporting' issued by the International Accounting Standards Board (IASB), as ratified at the date of presentation of this quarterly report.

In application of Regulation (EC) No. 1606/2002 of 19 July 2002, the consolidated quarterly report of the Finmeccanica Group at 30 September 2007 was prepared in accordance with the international accounting standards (IFRS) ratified 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).

The accounting principles used in the preparation of this quarterly report and the basis for preparation are the same as the accounting principles and basis for preparation used in the preparation of the consolidated annual financial statements at 31 December 2006 and the quarterly financial statements at 30 September 2006, with the exception of the changes described in Note 3.2.

Preparation of the consolidated quarterly report 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 3.

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

This consolidated quarterly report prepared in accordance with IFRS has not been audited.

III.1 Treatment of income taxes applied in the preparation of interim reports and the seasonality of operations

Treatment of taxes

In the interim financial statements, income taxes are estimated by applying the expected effective tax rate to the interim pre-tax result.

Cash flows relating to operations

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

III.2 Effects of changes in accounting principles adopted

Non-recurring costs

Non-recurring costs were previously classified by the Group among inventories. In 2006, the regulations implementing Law 808/1985 underwent profound changes. Specifically, special rules were carved out for programmes involving national security or of European interest. As a consequence, non-recurring costs reported as intangible assets are offset by subsidies received, whereas royalties are paid to the funding agency based on sales of goods that use technologies developed under these programmes. In contrast,

the obligation to repay the amount without interest is still valid for programmes other than the aforementioned.
The related payable has been classified among other current or non-current liabilities based on the assumed date of repayment.

The primary changes compared with balance sheet and income statement at 30 September 2006 are:

- the reclassification of non-recurring costs among intangible assets, due to the overall redefinition of the accounting treatment of these items and in adherence with the practices developed following the introduction of the IFRS;

- the reclassification of payables pursuant to Law 808 for "civil" programmes that were classified among other current or non-current liabilities, based on the assumed date of repayment, while funds relating to national security programmes were offset against the related non-recurring costs, recognised among intangible assets. In the event where funds exceed capitalised costs, the difference has been classified among other liabilities;

- the recognition of non-current receivables from the Ministry of Economic Development (MED) with regard to the current value of funds pursuant to Law 808 relating to national security projects where receipt of payment is deferred;

- the recognition of payments for royalties relating to sales already made but not yet paid to the funding agency;

- the increase in non-current assets and liabilities. In the past, these items where entirely classified within working capital.

In order to provide a better comparison of the income statement and the statement of cash flows for the same period of 2006, it should be noted that:

- the capitalisation of non-recurring costs was recognised in the first nine months of 2007 as a reduction of costs in the income statement. In the first nine months of 2006, this value was treated as a separate component of revenue, within the value of production (change in work in progress, semi-finished and finished goods);

- the cash flows relating to these expenses were recognised among investments in the statement of cash flows for first nine months of 2007. In the first half of 2006, these figures where treated as a "change in other operating assets and liabilities", within the cash flow generated by operating assets.

Participation of the MBDA joint venture in the BAE Systems pension funds

The British employees of the MBDA joint venture, consolidated proportionally at 25% by the Group, participate in pension plans in the UK, in which the primary employer is BAE Systems Plc.

Under IAS 19, these funds are treated as "multi-employer plans". Although under the shareholders' agreement, MBDA's contribution to the fund is capped through 31 December 2007, with any difference to be contributed by BAE, IAS 19 provides that any plan deficit is to be allocated to all the companies that participate in the plan in a role other than sponsor. Starting from 1 January 2005, as a result of the transition to IFRS, BAE revealed a deficit in its plans calculated under IAS 19. However, the information provided was not deemed sufficient by the Group to permit it to allocate properly a share of the deficit to its assets held in MBDA and, as a result, the participation in the fund was accounted for using the rules provided for defined-contribution plans by recognising the contribution paid in the income statement without any recognition of the actuarial deficit attributable to the fund. In 2006, greater information concerning the methods for determining the total deficit and possible allocations to individual entities that participate in the plan was obtained. Therefore, the Group estimated its share of the deficit for MBDA at €mil 75. The change in the accounting method for representing the participation of MBDA in BAE's pension fund was recognised in accordance with IAS 8 ("*Accounting policies, changes in estimates and errors*") adjusting the opening shareholders' equity at 1 January 2006.

As a result, costs related to this plan are reported as defined-benefit plan costs in 2007 and calculated in accordance with the actuarial rules set out by IAS 19, whereas they were accounted for as defined-contribution plan costs in 2006.

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

In respect of the severance pay contributions (TFR), recognised as a defined-benefit plan through 31 December 2006, Law 296 of 27 December 2006 ("2007 Finance Law") and the subsequent decrees and regulations issued in 2007 introduced significant changes concerning the destination of the accrued severance pay contributions within the context of the reform of the pension system.

Specifically, employees may direct new funds allocated as severance pay towards supplementary pension plans or they may elect to have the funds remain with the company (for companies with 50 or fewer employees), or be transferred to INPS, the national social security institute (in the case of companies with more than 50 employees). Based on these rules and on the generally agreed interpretation of them, the Group has decided that:

- severance pay contributions accrued as of 31 December 2006 shall be treated as a defined-benefit plan, measured using actuarial rules without, however, including the component relating to future salary increases. The resulting difference between the new calculation and the previous amount recognised is treated as a curtailment in accordance with IAS 19, paragraph 109, and is recognised in the income statement along with the actuarial profits and losses not previously recognised under the corridor method. The estimated effects of this curtailment are reported the account "Costs for purchases and personnel";

- subsequent severance pay contributions, whether paid towards the supplementary pension plan or paid into a treasury account held with INPS, are to be treated as contributions to defined-contribution plans. The estimated actuarial component has been excluded from the calculation of the accrued cost.

IV. SIGNIFICANT ISSUES

IV.1 Non-recurring costs

The costs incurred for design activities, prototype development and customisation to technical and operating specifications if clearly identified - if financed by Law 808/1985, which governs state support to promote the competitiveness of companies operating in the aeronautics and defence industries - are classified by the Group as intangible assets. Such costs are stated net of benefits received or to be received under Law 808/1985 for programmes qualifying as important for national security or similar purposes. For these programmes, the Law 808/1985 benefits are recognised as a decrease in capitalised costs, while the royalties due to the funding agency are recognised in the accounts upon verification of satisfaction of the requirements of the applicable law (sale of products incorporating technology eligible for legal subsidies).

As to "Other programmes", non-recurring costs are reported as part of "non-recurring costs", while financing received is reported among "other liabilities" at the nominal value, with a distinction being made between the current and non-current portions based on the expected date of repayment. In both cases, non-recurring costs are suspended between intangible assets and amortisation on the basis of units manufactured in relation to those expected to be produced. Such costs are subject to impairment tests performed at least annually until development is completed, and thereafter if the outlook of the obtaining of contracts changes due to the absence of or delay in expected orders. The test is performed on the basis of the projected sale plans, generally over five years, in consideration of the especially long life-cycle of the products being developed.

IV.2 Financing for GIE ATR aircraft

In order to enhance its competitive position, GIE ATR facilitates customer financing by providing specific guarantees to third parties (an approach taken by its direct competitors); in the past, this activity has also been 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 financial statements. Rather, the entire transaction is recognised as a lease, postponing the recognition of profits (until such time as the risks are eliminated through the recognition of deferred income) and carrying the aircraft among the Group's assets, undergoing normal depreciation. If, however, the transaction 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 financial lease, with the sale being recognised upon delivery and the financial component being recognised under financial income on an accruals basis. If contracts envisage a buy-back clause or a residual value guarantee, the transaction is booked 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 as a Group asset and depreciated. All likely risks associated with transactions carried out by GIE ATR are measured on the basis of a prudent valuation conducted by management and are either deducted directly from the carrying value of the asset or are recognised under provisions for risks and charges.

IV.3 Hedging long-term contracts against foreign-exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are effected when 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, the Group has entered into more structured transactions that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In such cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are booked immediately to the income statement as financial income (charges), while the underlying instrument is valued as if it were exposed to exchange-rate fluctuation. Hedges in the former case are treated as cash-flow hedges, considering as ineffective the part relating to the premium or to the discount in the case of forwards or to the time value in the case of options, which is booked among financial income (charges).

IV.4 Recognition of the equity investment in STMicroelectronics NV (STM)

The equity investment indirectly held in STM was designated as 'available for sale'. Accordingly, the carrying value is adjusted at each balance-sheet or interim balance-sheet date to market value (bid price), recognising 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.

IV.5 Provisions for risks and estimates of final costs of long-term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins reported in the income statement are a function of both the state of completion of the contracts and the margins that are expected to be recognised for the completed contract. Accordingly, the correct reporting of work in progress and of the margins on contracts not yet 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. To provide better support for this activity, the Group has equipped itself with contract-management and risk-analysis instruments designed to identify, monitor, and quantify the risks associated with such contracts. The amounts reported in the financial statements and in the interim reports represent management's best estimate at the reporting date using such supports.

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 further below.

V. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

On 30 March 2007 Finmeccanica completed the purchase of 25% of Selex Sensors and Airborne Systems S.p.A. from BAE Systems for an outlay of about €mil 400. The value of the investment was already reflected in the net financial indebtedness at the end of 2006, and thus, the transaction had no impact on the financial position for the first nine months of 2007.

It should be noted that in the first nine months of 2006 a project was finalised for listing **Ansaldo STS S.p.A**. on the Italian Stock Exchange; the company is the head of a group which incorporates the system and railway signalling activity of Finmeccanica's transportation segment. On 24 March 2006 52.17% (52,174,000 shares) of the company's share capital was placed with institutional and retail investors at a price of €7.80 per share. During the days thereafter, the banks heading the placement consortium exercised the greenshoe option to purchase another 7,826,000 shares (7.83% of the share capital) at a price of €7.80 per share, bringing the placement to 60%. The shares are listed on the STAR segment of the Mercato Telematico Azionario of the Italian Stock Exchange.

Following is a summary of the transaction at 30 September 2006:

	€mil
Proceeds from the offering	458
Realised capital gain	417
Tax effect	(12)

The company is currently consolidated on a line-by-line basis, with 60% of the company's net income and equity allocated to minority interests.

VI. SEGMENT INFORMATION

Primary basis

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

For a more detailed analysis of the main programmes, prospects and operating indicators for each segment, see the section of this report discussing performance by division. The table below shows the results for each segment at 30 September 2007, compared with those of the same period of the previous year:

30 September 2007

	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other	Elimin-ations	Total
Revenue from external customers	2,066	2,086	1,077	553	611	749	1,017	180		8,339
Revenue from other segments	18	376	419	40	108	2	37	34	(256)	778
Operating profit (loss)	213	119	106	23	30	46	15	(68)		484
Net financial income (charges)										(44)
Share of earnings of companies in which investments are held	1	1	8		(1)					9
Taxes										(155)
Profit (loss) associated with discontinued operations										
Profit (loss) for the period										294
Group										269
Minority interests										25
Investments	115	159	573	18	34	13	17	15		944

30 September 2006

	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Trans-portation	Other	Elimin-ations	Total
Revenue from external customers	1,940	2,097	1,089	503	620	630	978	135		7,992
Revenue from other segments	9	347	240	16	108	1	21	23	(233)	532
Operating profit (loss)	183	125	115	22	38	38	39	(88)		472
Net financial income (charges)										324
Share of earnings of companies in which investments are held	1	(1)	(2)		(1)			(6)		(9)
Taxes										(174)
Profit (loss) associated with discontinued operations										(1)
Profit (loss) for the period										612
Group										594
Minority interests										18
Investments	44	446	246	55	89	9	15	6		910

The assets and liabilities booked to the segments at 30 September 2007 and at 31 December 2006 are reported in the tables below:

	30 September 2007									
	Helicopters	**Defence Electronics**	**Aeronautics**	**Space**	**Defence Systems**	**Energy**	**Transportat ion**	**Other**	**Eliminations**	**Total**
Assets	5,424	6,772	4,784	1,016	2,270	1,203	1,908	3,433	(3,490)	23,320
Liabilities	3,331	4,020	4,410	548	1,639	1,149	1,578	4,913	(3,626)	17,962

	31 December 2006									
	Helicopters	**Defence Electronics**	**Aeronautics**	**Space**	**Defence Systems**	**Energy**	**Transportat ion**	**Other**	**Eliminations**	**Total**
Assets	5,142	6,398	4,551	1,090	2,289	1,108	1,837	4,303	(3,447)	23,271
Liabilities	3,086	3,732	4,257	639	1,666	1,056	1,729	5,572	(3,796)	17,941

<u>Secondary basis</u>

The Group revenues are broken down geographically as follows (based on the customer's country of reference):

	30 September 2007	***30 September 2006***
Europe	6,788	6,570
North America	1,000	924
Other	1,329	1,030
	9,117	8,524

Assets are geographically distributed as follows:

	30 September 2007	***31 December 2006***
Europe	22,909	22,819
North America	349	351
Other	62	101
	23,320	23,271

The investments are allocated on the basis of the locations where they are actually made:

	30 September 2007	*30 September 2006*
Europe	907	895
North America	34	13
Other	3	2
	944	910

VII. NOTES TO THE QUARTERLY FINANCIAL STATEMENTS AT 30 SEPTEMBER 2007

To give additional information on the Group state of affairs, statements of reclassification for the 'Income Statement', the 'Balance Sheet', the 'Net debt' and 'Cash flow statement' have been prepared.

For ease of understanding and comparability, below are the main changes in the scope of consolidation:

- Alenia North America-Canada Co and Global Military Aircraft Systems LLC, accounted for during the same period of last year using the equity method, were consolidated on a line-by-line and proportional basis, respectively;
- Lmatts LLC and Global Aeronautica LLC, accounted for during the same period of last year using the equity method, were consolidated using the proportional method;
- Alenia Composite S.p.A., accounted for during the same period of last year using the equity method, was consolidated on a line-by-line basis;
- on 30 March 2007, under agreements with BAE Systems, Finmeccanica purchased control of the remaining 25% of Selex Sensors and Airborne Systems S.p.A.;

- Seicos S.p.A, accounted for during the same period of last year using the equity method, was consolidated on a line-by-line basis starting from the 2006 financial statements;
- Energy Service Group Ltd was consolidated on a line-by-line basis starting from 28 July 2006, following the purchase of the remaining 55% of the share capital;
- Thomassen Turbine Systems BV was consolidated on a line-by-line basis, starting from the 2006 financial statements, after its purchase;
- the LFK GmbH group, purchased on 1 March 2006 from the joint venture MBDA, was consolidated using the proportional method (25%) as from that date;
- AgustaWestland Australia Pty Ltd, formed on 14 February 2007, was consolidated on a line-by-line basis;
- Alenia Improvement S.p.A., formed in December 2006, was consolidated on a line-by-line basis starting from 1 January 2007;
- AgustaWestland Malaysia SDH BHD, formed on 14 August 2007, was consolidated on a line-by-line basis starting from that date;
- starting from 1 January 2007, BredaMenarinibus S.p.A. was once again consolidated on a line-by-line basis. The company had been classified among discontinued operations;
- BayemChernie & Protac, purchased in August 2007 from MBDA SAS, was consolidated on a proportional basis (25%) starting from that date;
- Alkan SA was deconsolidated starting from May 2007 following its sale by MBDA SAS;
- Westland Technologies Canada Ltd was deconsolidated following its closure starting from 14 June 2006;
- HR Gest S.p.A., of which 70% was sold in December 2006, was consolidated using the equity method as from that period;
- the following merger was carried out last year:
  - with date of efficacy 1 July 2006 Westland do Brasil - Commercio e Representacoes Ltda was merged into Sobrahel - Societade Brasileira Ltda, which changed its corporate name to AgustaWestland do Brasil Ltda;

- the following mergers were carried out this year:
  - Securteam S.r.l. was merged into Amtec S.p.A. with date of efficacy 1 January 2007;
  - Ote S.p.A. and Prod-El S.p.A. were merged into Selex Communications S.p.A. with date of efficacy 1 January 2007;
  - Datamat S.p.A., Elsag Domino S.p.A. and Keycab S.p.A. were merged into Elsag S.p.A. (which changed its corporate name to Elsag Datamat S.p.A.) with date of efficacy of 1 August 2007.

The ‘Income Statement’ includes figures for the periods 1 January through 30 September 2007 and 1 July through 30 September 2007 and for the comparative periods as well, but only from the date of purchase and until the date of sale (or date of efficacy of the deed).

The ‘Balance Sheet’ at 31 December 2006 does not include figures for the Groups and companies which were consolidated starting from 2007.

Always with reference to data comparability, the first nine months of 2007 have been marked by changes in the euro against the main currencies of interest for the Group. Specifically, the currency exchange rates at 30 September 2007 and the average exchange rates for the period showed, for the main currencies, these changes from 2006: final exchange rates for the period (euro/US dollar +7.12% and euro/pound sterling +3.63%); average exchange rates for the period (euro/US dollar +7.46% and euro/sterling pound – 1.21%).

Below are the exchange rates adopted for the currencies that are most significant for the Group:

	At 30 September 2007		At 31 December 2006	At 30 September 2006	
	average exchange rate for the period	closing exchange rate for the period	closing exchange rate for the year	average exchange rate for the period	closing exchange rate for the period
US Dollar	1.34439	1.41790	1.31700	1.24416	1.266
Pound Sterling	0.67654	0.69680	0.67150	0.68472	0.6777

The table below shows the consolidated results for the first nine months and the third quarter of 2007.

€mil.	*Note*	*For the 9 months at 30 September*		*For the 3 months at 30 September*	
		2007	*2006*	*2007*	*2006*
Revenue	*(*)*	**9,117**	**8,524**	**3,047**	**2,818**
Purchases and personnel costs	*(**)*	(8,403)	(8,218)	(2,819)	(2,708)
Depreciation and amortisation		(310)	(279)	(107)	(97)
Write-downs		(17)	(9)	(1)	(3)
Restructuring costs	*(***)*	(27)	(15)	(15)	-
Other net operating income (costs)	*(****)*	46	86	14	33
Change in work in progress, semi-finished and finished goods		96	383	59	124
EBITA*		**502**	**472**	**178**	**167**
Amortisation of assets valued within the scope of business combinations		(18)	-	(6)	-
EBIT		**484**	**472**	**172**	**167**
Net financial income (expense)	*(*****)*	(35)	315	7	(61)
Income taxes		(155)	(174)	(62)	(69)
NET RESULT BEFORE DISCONTINUED OPERATIONS		**294**	**613**	**117**	**37**
Net result from discontinued operations		-	(1)	-	-
NET RESULT		**294**	**612**	**117**	**37**
of which:					
. Group		*269*	*594*	*110*	*30*
.minority interests		*25*	*18*	*7*	*7*

Notes on the income statement reclassification:

(*) Includes "revenues" and "revenues from related parties"

(**) Includes "costs from related parties", "costs for goods", "costs for services", and "personnel costs" (net of restructuring costs), net of "capitalized costs for internal production".

(***) Includes the restructuring costs classified as "personnel costs" and "other operating costs".

(****) Includes the net amount of the item "other operating revenues", "other operating revenues from related parties" and "other operating costs" (less restructuring costs).

(*****) Includes "financial income and expense from related parties" and "effect of accounting for equity investments with the equity method".

- "revenue" of €mil. 9,117 rose by 7% from the year-earlier period (€mil. 8,524). This increase is mainly due to: Helicopters, Aeronautics, Energy, Space and Transportation. Defence Systems and Defence Electronics were substantially in line with the previous period. Third-quarter revenues came to €mil. 3,047 (€mil. 2,818 over the year-earlier period), an increase largely attributable to the Aeronautics, Space, Energy, Transportation and Defence Electronics sectors;

- “purchases and personnel costs” fell from €mil. 8,218 of the same period in 2006 to €mil. 8,403 in 2007. In particular, these include:

	30 September 2007	*30 September 2006*
Purchase of materials	3,895	3,383
Change in inventories	(243)	(129)
Total costs of purchases	**3,652**	**3,254**
Purchase of services	2,433	2,315
Costs of purchasing satellite capacity	52	61
Costs of leasing airplanes	8	10
Costs of rents and operating leases	117	104
Total costs of services	**2,610**	**2,490**
Costs for purchases and services from related parties	**56**	**46**
Wages and salaries	1,967	1,809
Social security contributions	515	478
Costs for staff severance pay	39	65
Costs related to other defined-benefit plans	57	58
Costs related to defined-contribution plans	67	23
Employee disputes	2	9
Other costs	39	36
Total personnel costs	**2,686**	**2,478**
Capitalisation of internal construction costs	(601)	(50)
Total	**8,403**	**8,218**

The performance of “costs of purchases and services” (about +9%), like “revenues”, is attributable to the aforementioned performance of the segment activities. Specifically, the costs of purchasing satellite capacity relates to the satellite capacity trading activity conducted by the Telespazio joint venture with a counter-item in revenues from sales. The costs of leasing airplanes relates to leasing and sub-leasing transactions entered into by GIE-ATR.

"Costs for purchases" for the quarter came to €mil. 2,150 compared with €mil. 1,950 for 2006.

The increase in "personnel costs" from €mil. 2,686 to the €mil. 2,686 in the same period of 2006 is due to the change in the scope of consolidation, especially for foreign companies, to medium/long-term incentive policies for management, to the increase in social security liabilities payable by enterprises in connection with the pension benefits due legally and contractually to UK employees and to the impact of the increase in the average pound sterling/euro exchange rate. The item also includes costs relating to the estimated impact, based on information currently available, of the curtailment on severance pay (roughly €mil. 6). In should also be noted that the considerable change in items relating to severance pay and to defined-contribution plans is the result of the effects of the application of severance pay reform.

"Personnel costs" for the third quarter came to €mil. 859 compared with €mil. 772 for the same quarter of 2006. Costs for personnel reorganisation/restructuring are reported as restructuring costs.

The average workforce was 58,476, from 56,398 in the year-earlier period, a net increase due to positive turnover in certain segments, including through the use of new forms of contract, such as Aeronautics (as the result of the development of new programmes), Helicopters, Transportation and Energy, in addition to changes in the scope of the consolidation area, offset by a decrease in Defence Electronics and Defence Systems.

The workforce at 30 September 2007 was 59,882, up 1,823 from 58,059 at 31 December 2006.

The sharp increase in "capitalisation of internal construction costs" is attributable to the different accounting treatment of "non-recurring costs" with respect to the third quarter ended 30 September 2006 (Note 3.2). Inclusion of these costs among intangible assets is recognised as "capitalisation of costs" (under the item "increases in capitalisation of internal construction costs”) and no longer as a separate revenue item (under “change in work in progress, semi-finished goods and finished products”), which decreased from a positive change of €mil. 383 in the same period of 2006 to a positive change of €mil. 96 in 2007.

- “depreciation and amortisation” rose over the same period of last year mainly due to the different accounting treatment of “non-recurring costs” starting from the 2006 financial statements, as described above. Depreciation and amortisation for the period of €mil. 310 (€mil. 279 in the same period of 2006), include €mil. 217 of depreciation for property, plant and equipment (€mil. 228 in the same period of 2006) and €mil. 93 of amortisation of intangible assets (€mil. 51 in the same period of 2006). Depreciation and amortisation for the third quarter came to €mil. 107 (€mil. 97 for the same period of 2006);

- “writedowns” of receivables came to €mil. 17 (€mil. 9 for the same period of 2006). Writedowns for the quarter amounted to €mil. 1 compared with €mil. 3 for the same quarter of 2006;

- “restructuring costs” came to €mil. 27 (€mil. 15 for the same period of 2006) of which €mil. 22 (€mil. 5 for the same period of 2006) relate to the reorganisation of personnel, especially in the Transportation, Defence Electronics and Defence Systems segments. The third quarter figure came to €mil. 15 compared with €mil. 0 for the third quarter of 2006;

- “Other net operating income and costs” includes net income of €mil. 46 (€mil. 86 of net income in same period of 2006) and breaks down as follows:

	30 September 2007		30 September 2006	
	Income	Costs	Income	Costs
Grants for training, research and development	27	-	25	
Net exchange rate differences on operating items	88	30	43	35
Indirect taxes	-	29	-	24
Net adjustment of receivables and payables in foreign currency at the end-of-period exchange rate	18	69	18	15
Gains (losses) from the sale of non-current assets	8	4	25	1
Insurance reimbursements	5	-	10	-
Gains (losses) on disposal of operating receivables	-	8	13	1
Reversal of impairment of receivables	11	-	9	-
Transfers (accruals) of provisions	83	79	104	69
Other operating income (costs)	81	56	61	77
Total	321	275	308	222

"Gains from the sale of non-current assets" refers primarily to the sale of assets by the Defence Systems division (€mil. 4). In the third quarter of 2006, the amount essentially related to the sale of buildings by Selex Communications Ltd (€mil. 21). Losses (€mil. 4 from €mil. 1 in the same period of 2006) specifically regarded the MBDA group.

"Other operating income (costs)" includes interest income and expense on commercial transactions of €mil. 9 and €mil. 4, respectively (€mil. 22 and €mil. 17 for the same period of 2006), gains on receivables from insolvent countries that had been previously written down amounting to €mil. 3 (€mil. 1 for the same period of 2006) and compensation for damages from asbestos received by the Energy sector of €mil. 11 (which corresponds to the provisions amounting to €mil. 10 to cover the risks for damages from asbestos). Other costs include contractual penalties of €mil. 13 (€mil. 25 for the same period of 2006).

"Other net operating income (cost)" came to €mil. 14 compared with €mil. 33 in the same quarter of 2006;

- the "change in work in progress, semi-finished goods and finished products" came to €mil. 96 (€mil. 383 for the same period of last year). The change is mainly attributable to the different method of recognising “non-recurring costs” as explained in the section on “capitalisation of internal construction costs”;

- the “operating result before the amortisation of non-current assets valued within the scope of business combinations” (EBITA*) came to €mil. 502, an increase of €mil. 30 (+ 6.3%) over the same period of last year (€mil. 472). This increase was caused by growth in the Helicopters and Energy segments specifically. Conversely, the following segments posted declines: Aeronautics, Defence Systems and Transportation. EBITA* for the quarter came to €mil. 178 compared with €mil. 167 for the third quarter of 2006. The most significant increases related to Helicopters and Defence Electronics;

- “amortisation of assets valued within the scope of business combinations” came to €mil. 18 (€mil. 0 for the same period of 2006), referring to that portion of amortisation for the period relating to the residual value of the intangible assets identified in creating business combinations, as provided by IFRS 3, and relates essentially to the Helicopters and Defence Electronics segments;

- EBIT stood at €mil. 484, an increase of €mil. 12 (approximately +3%) over the same period of 2006 (€mil. 472). Third quarter EBIT came to €mil. 172 compared with €mil. 167 for the third quarter of 2006;

- “net financial income and expense” of €mil. 35 of net financial expense represents a worsening of €mil. 350 from the year-earlier period (€mil. 315 of net financial income). The 2006 figure reflects the significant impact (€mil. 417) of the gain realized on the stock market placement of the shares of the subsidiary Ansaldo STS, and a €mil. 68 improvement during the quarter from a net expense of €mil. 61 in 2006 to net income of €mil. 7 in 2007.

Specifically:

	30 September 2007			30 September 2006		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Dividends	22	-	22	8	-	8
Income from equity investments and securities	1	-	1	418	-	418
Discounting of receivables, payables and provisions	7	(4)	3	-	(2)	(2)
Interest (*)	64	(139)	(75)	52	(126)	(74)
Commission income/expense (including commissions on non-recourse items)	-	(11)	(11)	-	(10)	(10)
Fair value adjustments through profit or loss	76	(43)	33	78	(51)	27
Premiums paid/received on forwards	15	(26)	(11)	6	(13)	(7)
Exchange rate differences	162	(164)	(2)	142	(158)	(16)
Value adjustments of equity investments	-	(12)	(12)	-	(1)	(1)
Income/expense from related parties	2	(15)	(13)	1	(10)	(9)
Other financial income and expense	33	(12)	21	4	(14)	(10)
Financial income and expense	**382**	**(426)**	**(44)**	**709**	**(385)**	**324**
Value of Eurofighter J.GmbH	8	-	8	2	-	2
Value of Itisa. SA	-	(6)	(6)	-	-	-
Result of Aero Invest 1 S.p.A.	-	-	-	-	(7)	(7)
Net values of other equity investments	7	-	7	-	(4)	(4)
Value of equity investments using equity method	**15**	**(6)**	**9**	**2**	**(11)**	**(9)**
Total net financial income and expense	**397**	**(432)**	**(35)**	**711**	**(396)**	**315**

(*) of which financial expense arising from the application of the effective (not liquidated) interest rate on bonds for €mil. 23 (€mil. 32 at 30 September 2006).

Significant items include the following:

- during the period, dividends were recognised from associates and other companies in the amount of €mil. 22 (€mil. 8 in the year-earlier period) relating primarily to the investments in STM (€mil. 13) and Vitrociset S.p.A. (€mil. 7).

- "income from equity investments", in the same period of 2006, included €mil. 417 for the aforementioned capital gain from the stock market placement of the Ansaldo STS Group.

- "income arising from the measurement of fair value through profit or loss" is as follows:

	30 September 2007			***30 September 2006***		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Swaps	14	(5)	9	2	-	2
Forex options	-	-	-	-	-	-
Interest rate swaps	18	(15)	3	15	(3)	12
Ineffective portion of hedging swaps	12	(15)	(3)	13	(24)	(11)
Options on STM	21	-	21	24	-	24
Option embedded in the exchangeable bond	8	(8)	-	24	(24)	-
Other equity derivatives	3	-	3	-	-	-
	76	(43)	33	78	(51)	27

Income from options on STM derive from the decrease in value of the underlying position.

Income and expense from the option embedded in the exchangeable bonds relate to the fluctuations in the fair value of the embedded option with underlying STM shares and the offsetting option acquired in 2005 with the same underlying and same key parameters as that embedded in the exchangeable bonds issued. As a result of this latter transaction, the Group is in an essentially neutral position with regard to further variations in the fair value of the call option sold;

- the effect of "exchange rate differences" is essentially nil in the first nine months of 2007 (negative by €mil. 2 compared with negative €mil. 16 in the same period of 2006). The income statement for 2006 was affected by the realignment with the current exchange rates of the foreign currency current accounts held by the GIE-ATR consortium (of which the subsidiary Alenia Aeronautica is a participant) with regard to the other shareholders, 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" primarily includes the writedown of Consorzio Trevi, held by AnsaldoBreda (€mil. 12).

- "other financial income" includes €mil. 24 in income arising from the advance closing of 30 million options hedging STM shares in August.

• "income tax expense" came to €mil. 155 compared with €mil. 174 for the same period of 2006. The quarterly income tax expense came to €mil. 62 compared with €mil. 69 for the third quarter of 2006.

In particular, this is the algebraic sum of:

	30 September 2007	***30 September 2006***
Corporate income tax (IRES)	135	123
Regional business tax (IRAP)	84	83
Benefit under consolidated tax mechanism	(110)	(77)
Other income taxes	55	46
Tax related to previous periods	(13)	(6)
Provisions for tax disputes	4	6
Deferred tax (assets) liabilities - net	-	(1)
	155	174

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 quarterly report includes the benefit resulting from the tax losses for the period up to the limit of the taxable income included in the consolidated tax base. This income was then allocated to all the consolidated companies reporting a fiscal loss.

With regard to the Group Parent, the consolidated income statement includes neither current taxes (as there was no taxable income during the period at issue) nor net deferred tax assets, as there is a lack of the prerequisites established by the applicable accounting standard.

- Group assets are classified as discontinued operations when they are about to be sold. Therefore, the balance sheet includes 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.

During the period, “net (assets) liabilities held for sale” included, among other things, Group assets and liabilities attributable to the manufacture of trucking systems through the subsidiary BredaMenarinibus S.p.A.. Similarly, the income statement components were separately indicated in the item “net result from discontinued operations”. These components had been classified under discontinued operations in preparation for a subsequent sale. 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 considered highly probably, as required by IFRS 5, if there are no advanced negotiations. Therefore, the assets of BredaMenarinibus have been reclassified as “continuing operations”.

The table below shows an analysis of the consolidated balance sheet at 30 September 2007.

€mil.	*Note*	***30 September 2007***	***31 December 2006***
Non-current assets	*(*)*	10,282	9,897
Non-current liabilities	*(**)*	(3,203)	(3,275)
		7,079	**6,622**
Inventories		3,530	3,095
Contract work in progress		3,341	2,823
Trade receivables	*(*)*	4,089	3,856
Trade payables	*(*)*	(3,580)	(3,561)
Advances from customers		(5,640)	(5,529)
Provisions for short-term risks and charges		(545)	(571)
Other net current assets (liabilities)	*(***)*	(431)	(547)
Net working capital		**764**	**(434)**
Net invested capital		**7,843**	**6,188**
Group shareholders' equity		5,259	5,276
Shareholders' equity of minority interests		99	81
Shareholders' equity		**5,358**	**5,357**
Net debt (cash)	*(*)*	**2,485**	**858**
Net (assets) liabilities held for sale	*(****)*	**-**	**(27)**

Notes on the reclassified balance sheet:

(*) Also includes transactions with related parties

(**) 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"), "other current assets", net of "tax payables", "other payables to related parties" (included among "current liabilities to related parties"),"other current liabilities" and asset and liability "derivatives"".

(****) Includes the net of "non-current assets held for sales" and "liabilities directly related to assets held for sale".

'Non-current assets' (€mil. 10,282 at 30 September 2007 from €mil. 9,897 at 31 December 2006) show a net increase of €mil. 385:

	30 September 2007	31 December 2006
Intangible assets	5,691	5,317
Property, plant and equipment	2,829	2,660
Investment properties	1	2
Equity investments	143	140
Financial assets at fair value	704	857
Securities held to maturity	12	16
Receivables	416	426
Deferred taxes	480	470
Other assets	6	9
	10,282	9,897

This rise is specifically due to:

- the recognition of additional goodwill arising from the actual exercise of the call option over 25% of the Selex Sensors and Airborne Systems group, previously held by BAE Systems Ltd (€mil. 13);

- the acquisition of the shares held by minority shareholders in Datamat S.p.A. (€mil. 7) and Ansaldo STS S.p.A. (€mil. 3);

- the capitalisation of "non-recurring costs" (€mil. 328) mainly relating to Aeronautics (€mil. 277), Helicopters (€mil. 18) and Defence Electronics (€mil. 33) programmes and development costs (€mil. 121);

- the valuation of the interest held indirectly in STMicroelectronics NV (STM) (6.6% at 30 September 2007) as "financial assets held at fair value", which broke down as follows:

31 December 2006	840
Fair value adjustment at 30 September 2007	(136)
30 September 2007	704

The decrease due to the fair value adjustment had a specific shareholders' equity reserve as a contra-item;

- for investing activities (specifically Aeronautics, Helicopters and Defence Electronics) and opening of receivables, repayments and depreciation and amortisation for the period;

- for a net decrease stemming from exchange rate differences due to the translation of financial statements in foreign currency (mainly pound sterling and US dollars).

"Non-current liabilities" (€mil. 3,203 at 30 September 2007 from €mil. 3,275 at 31 December 2006) show a net decrease of €mil. 72.

	30 September 2007	***31 December 2006***
Severance pay and other employee liabilities	1,199	1,238
Provisions for risks and charges	398	365
Deferred taxes	379	340
Payables to the Min. Econ. Dev. pursuant to Law 808/1985	535	564
Payables to the Min. Econ Dev. for royalties pursuant to Law 808/1985	54	46
Other Law 808/1985 liabilities	395	425
Other liabilities	243	297
	3,203	3,275

This change is specifically due to:

- the net decrease in "severance pay and other employee liabilities" (€mil. 39) resulting from the significant use of payments made into the treasury account held with INPS (the national social security institute) and towards supplementary pension plans following changes made to the legislation governing severance pay by the 2007 Finance Law;

- the net increase of €mil. 33 in “provisions for risks and charges” attributable to total accruals of €mil. 68 relating specifically to the provision for product guarantees, the provision for future losses on orders, the provision for contractual risks and charges and the provision for penalties, net total reversals and uses of €mil. 79. These figures relate specifically to the provision for disputes with third parties, the provision for product guarantees and other provisions. The net increase also incorporates the change in the scope of consolidation;

- the increase in deferred tax liabilities of €mil. 39, resulting from normal fluctuation for the period, relate primarily to the Aeronautics segment;

- The net decrease of €mil. 21 in payables to the Ministry of Economic Development (MED) pursuant to Law 808/1985, reimbursed on the basis of the scheduled repayment plan, without the incurment of financial expense. It should be noted that transactions with the MED include payables for royalties accrued pursuant to Law 808/1985 for “national security” and similar projects, in addition to payables for disbursements received from the Ministry of Economic Development supporting the development of non-national security and similar programmes eligible for incentives under Law 808/85. The item “other Law 808/1985 liabilities”, which declined by €mil. 30, includes the difference between the interventions received or to be received pursuant to Law 808/1985, relating to programmes qualifying as “national security and similar”, 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 above programmes and the effective payable accrued based on the established reimbursement ratio;

- the net decrease of €mil. 54 in “other liabilities” relates specifically to deferred income;

“Net working capital” shows a net value of €mil. 764 compared with a negative net value at 31 December 2006 of €mil. 434. More specifically:

- “inventories” came to €mil. 3,530 compared with €mil. 3,095 in the prior year:

	30 September 2007	***31 December 2006***
Raw materials, supplies and consumables	1,764	1,543
Work in progress and semi-finished goods	839	800
Finished products and merchandise	159	134
Advances to suppliers	768	618
	3,530	3,095

Inventories are shown net of impairment charges of €mil. 401 (€mil. 418 at 31 December 2006);

- “contract work in progress” amounted to €mil. 3,341 as compared with €mil. 2,823 at 31 December 2006; “advances from customers” were €mil. 5,640 from €mil. 5,529 at 31 December 2006:

	30 September 2007	***31 December 2006***
Contract work in progress (gross)	6,839	6,184
Advances from customers	(3,498)	(3,361)
Contract work in progress (net)	3,341	2,823
Advances from customers (gross)	13,382	12,996
Contract work in progress	(7,742)	(7,467)
Advances from customers (net)	5,640	5,529

- “trade receivables and payables” of €mil. 4,089 and €mil. 3,580, respectively, as compared with €mil. 3,856 and €mil. 3,561, respectively, at 31 December 2006 relate to:

	30 September 2007		31 December 2006	
	Receivab les	Payables	Receivab les	Payables
Related parties	366	52	377	75
Other third parties	3,723	3,528	3,479	3,486
	4,089	3,580	3,856	3,561

- “provisions for short-term risks and charges” of €mil. 545 decreased by €mil. 26 as compared with €mil. 571 at 31 December 2006. The reduction relates to reversals and uses totalling €mil. 78 relating specifically to the conversion and restructuring provision, the provision for product guarantees, the provision for disputes with third parties, the provision for penalties, the provision for future losses on orders and other provisions. The increase relates to total allocations of €mil. 76 relating specifically to the provision for product guarantees, the conversion and restructuring provisions and other provisions.

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 results.
The situations below are mentioned here solely for the purposes of full disclosure.

Of particular note:

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

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

- the dispute resulting from the notice to settle the registry fee of about €mil. 10, which was received by Finmeccanica in July 2001 and due on the capital increase approved in 1998. Although the tax liability had already been recognized in the related financial year, the company felt it was unnecessary to meet the tax demand because it was unjustified both in law and in fact. In fact, in addition to being received after statutory deadline, the notice contained a request for a tax related to a tax base that was partially inconsistent with applicable laws. The Tax Commission for the Province of Rome upheld the company’s dispute in its ruling filed in December 2002. The ruling was appealed by the company in relation to the failure to order the tax authorities to reimburse costs. In the first half of 2004, the tax authorities in turn filed a cross-appeal of the same ruling, but only with regard to the decision that confirmed the termination of the office’s assessment power in the matter. No objection was raised, however, with regard to the substance of the original ruling establishing the partial lack of justification of the amount requested by the revenue office. In a ruling filed in October 2004, the appeal court rejected the company’s primary appeal regarding the lack of reimbursement of costs, but at the same time declared that the cross appeal filed by the tax authorities was inadmissible in that it was filed after the ordinary statutory deadlines. In particular, the Regional Tax Commission in Rome upheld the complaint filed by the company regarding the fact that the tax authorities had erroneously deemed the suspension of the procedural deadlines defined by Article 16 of Law 289/02 (facilitated settlement of pending disputes) to be applicable, given that the case did not fall within the scope of this law. The sentence of the court of second instance has been appealed to the Court of Cassation by the tax authorities;

- the dispute initiated by Telespazio S.p.A 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 S.p.A. within the context of the non-recourse sale of the receivables arguing that sale per sé 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;

- the dispute initiated by Telespazio S.p.A 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 S.p.A.'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 for the purposes of direct income taxation

(IIDD) and regional business taxation (IRAP) for the year 2001 containing a demand for a total of €mil. 18 in additional taxes, penalties and interest. The tax claim, served on 27 December 2006, traces back to a tax audit completed in 2004 against ALS S.p.A., 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 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 timebarring and the statute of limitation on the action and the lack of jurisdiction of the Court of Delaware;

- on 1 October 2003, the European Commission notified the Ministry of Foreign Affairs of the formal proceedings initiated for an investigation against the Italian State, pursuant to Article 11 of the EU Treaty, in relation to subsidies granted by the Italian Government to the companies Alenia Aeronautica S.p.A., Aermacchi S.p.A., and Agusta S.p.A., based on Law 808/85, for six research and development projects. The Commission considers these subsidies to be 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) set at the end of 2006 and subsequently increased to ECU 25 million. On 22 January 2004, the decision to open proceedings was published in the EU Official Journal.

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

In response to requests of third parties, the Commission requested further information from the Italian Government, which was provided in the latter part of May 2004. Further exchanges of requests and information between the Commission and the Italian Government continued in the second half of the year. With its letter of 22 June 2005 C(2005)1813, received by the Permanent Representation of Italy in the EU on 24 June, the European Commission informed the Italian Government of its decision to extend the scope of the current proceedings to additional projects of the aforementioned companies that had initially been excluded by the Commission itself. The Italian Authorities submitted their reply to the Commission on 29 November 2005. On 19 December 2005 the Commission served on the Italian Government further considerations filed by a third anonymous party, and the Government replied accordingly on 24 February 2006. In addition to a meeting held on 3 May 2006 between the Italian Government and the Commission, further written inquiries and information were subsequently exchanged. At the moment, this procedure deeply affects the application principles of Law no. 808/85; Finmeccanica will follow the issue with special attention with the assistance of local counsel. At present, information is being exchanged between the Italian Government and the Commission before the latter issues its final decision. For this dispute and for the “Enea” dispute (as described in another part of the report on operations), the Italian Government established a process for reaching settlement of both disputes by issuing Decree Law 259(32) of 1 October 2007;

- 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 Rico 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

US$mil. 125, in favour of Prepa which Ansaldo Energia, as a supplier, counter-guaranteed for US$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 finding, 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 AIP 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.

- "other net current assets (liabilities)" totalled €mil. 431 of net current liabilities, up €mil. 116 from the prior year (€mil. 547 of net current liabilities at 31 December 2006):

	30 September 2007		***31 December 2006***	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Employees	34	346	26	337
Prepaid expenses and deferred income	78	98	80	100
Direct taxes and others to the Tax Office	461	242	469	322
Social security	14	241	7	201
Payable to Min. of Econ. Dev. Law 808/1985	36	89	38	58
Payable to Min. of Econ. Dev. for monopoly rights Law 808/1985	-	16	-	15
Related parties	37	11	35	19
Receivables for government grants	64	-	83	-

Derivatives	174	98	147	104
Other	257	445	213	489
	1,155	1,586	1,098	1,645

"Other assets" (€mil. 257 compared with €mil. 213 at 31 December 2006) include:

- receivables for default interest of the Group Parent for €mil. 28 (€mil. 28 at 31 December 2006);
- receivables from the Camozzi group of €mil. 14 (€mil. 14 at 31 December 2006);
- receivables for sundry advances of €mil. 26 (€mil. 21 at 31 December 2006);
- the receivable for a fixed deposit account for €mil. 40 established in favour of the Ministry of Economic Development by a Group company.

"Other liabilities" of €mil. 445 (from €mil. 489 at 31 December 2006) also include:

- €mil. 35 (€mil. 33 at 31 December 2006) due to EADS NV from the GIE-ATR - consortium owned by Alenia Aeronautica S.p.A. and EADS NV;
- €mil. 35 (€mil 36 at 31 December 2006) due for the repurchase of a G222 aircraft;
- €mil. 25 (€mil. 41 at 31 December 2006) due in respect of contractual penalties;
- €mil. 19 (€mil. 38 at 31 December 2006) due for commissions;
- €mil. 23 (€mil. 24 at 31 December 2006) due for royalties.

The table below sets out the asset and liability positions related to derivative instruments:

	30 September 2007		*31 December 2006*	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward forex instruments	146	78	115	69
Forex options	1	-	1	-
Interest rate swaps	8	16	7	21
Options on STM	15	-	13	-
Exchangeable bond option	4	4	11	11
Other equity derivatives	-	-	-	3
	174	98	147	104

The comment concerning the performance of derivatives can be found in the “Financial Risk Management” section.

“Net invested capital” and “net assets held for sale” of €mil. 7,843 (€mil. 6,188 at 31 December 2006) and €mil. 0 (€mil. 27 at 31 December 2006), respectively, are covered by shareholders’ equity (€mil. 5,358 as compared with €mil. 5,357 at 31 December 2006) and net debt (€mil. 2,483 as compared with €mil. 858 at 31 December 2006).

Below is the consolidated net debt at 30 September 2007, as compared with that for 30 September 2006 and 31 December 2006.

	30 September 2007	*31 December 2006*	*30 September 2006*
Short-term financial payables	688	159	536
Medium/long-term financial payables	1,858	1,865	1,880
Cash and cash equivalents	(404)	(2,003)	(422)
BANK DEBT AND BONDS	**2,142**	**21**	**1,994**
Securities	(13)	(21)	(20)
Financial receivables from Group companies	(34)	(26)	(35)
Other financial receivables	(473)	(452)	(303)
FINANCIAL RECEIVABLES AND SECURITIES	**(520)**	**(499)**	**(358)**
Financial payables to Group companies	453	500	334
Other short-term financial payables	304	722	109
Other medium/long-term financial payables	106	114	105
OTHER FINANCIAL PAYABLES	**863**	**1,336**	**548**
NET DEBT (CASH AND CASH EQUIVALENTS)	**2,485**	**858**	**2,184**
Net debt (cash and cash equivalents) of discontinued operations	-	6	9

Net Group debt at 30 September 2007 was €mil. 2,485, as compared with net Group debt at 31 December 2006 of €mil. 858, and net Group debt of €mil. 2,184 at 30 September 2006.

With particular regard to the application of IAS 32 and 39, payables include the following effects:

- for the €mil. 500 Finmeccanica Finance S.A. bond issue, bearing a 0.375% coupon, due August 2010, exchangeable for STM shares, IAS 39 requires splitting the liabilities between the financial debt component and the embedded call option component. 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 30 September 2007 this valuation method led to posting a debt €mil. 56 less than the face value of the bond; this differential will gradually come down as the maturity date draws near;

- inclusion in the financial position of liabilities in respect of the unpaid portion (€mil. 4) of part of the trade receivables assigned without recourse to factoring companies in such a way as to make it prudent to recognise them as financial debt under IAS/IFRS.

Consistent with the approach adopted in the presentation of the accounts for 2006, at 30 September 2007 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 balance entries resulting from the fair value measurement of the derivatives on the date that the accounts were closed: at 30 September 2007 these contra-items showed a positive balance of €mil. 76.

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. 2,495 at 30 September 2007.

The figure at 30 September 2007 deteriorated by €mil. 1,627 compared to 31 December 2006 and confirms the traditional performance of inflows and outflows, that, during the period examined, showed great sums of cash used, thus ending the third quarter with the higher debt. This performance was also affected by the investment activity carried out during the period and offsets advance receipt of trade receivables on several contracts entered into by Group companies during the last few days of December 2006.

Free Operating Cash Flow (FOCF) for the period came to negative €mil. 1,432. The use of cash in the period is attributable, as mentioned above, to considerable investment activities, mainly in the Aeronautics, Helicopters and Defence Electronics segments, in addition to higher production volumes. It is expected that the FOCF and related debt figures will significantly improve in the final quarter of the year.

The indebtedness figure recognised at 30 September includes:

- the payment of a total of around €mil. 11 in the first few months of the year to complete the obligatory public offering on the remaining shares of Datamat launched in the final months of last year which resulted in its delisting;

- the payment of €mil. 149 relating to the ordinary dividends paid out by the Group Parent for 2006;

- the receipt of €mil. 13 in dividends received from STMicroelectronics Holding NV;

- the receipt of €mil. 9 in dividends from Elettronica S.p.A. (€mil. 2) and Vitrociset S.p.A. (€mil. 7);

- the receipt of €mil. 43 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 provided for in agreements with BAE Systems (BAE) to purchase the remaining 25% of Selex Sensors and Airborne Systems S.p.A. (Selex). It paid €mil. 400 to BAE and as a result now owns 100% of Selex. The transaction only reduced the Group's cash and cash equivalents without having any impact on Group net financial debt, since the effects on debt were already included in the figures for 2006 and recognised among "other financial payables".

As with last year, the debt figure benefited from the offsetting effect of the consolidated tax mechanism, with lower outlays of about €mil. 155 for the first nine months of 2007.

Finally, it should be noted that the Group made non-recourse assignments of receivables totalling €mil. 223 for the period.

As regards the composition of debt, bank debt changed from €mil. 2,024 at 31 December 2006 to €mil. 2,546 at 30 September 2007, mainly due to an increase in short-term debt. However, there was a very significant decrease in cash and cash equivalents which fell from €mil. 2,003 at December 2006 to €mil. 404 at 30 September 2007. This liquidity was used to finance ordinary operations and investment and other strategic areas, especially the acquisition of the remaining shares of Selex Sensors and Airborne Systems S.p.A., which was reflected in a decrease in the item "other financial payables" which went from €mil. 1,336 at 31 December 2006 to €mil. 863 at 30 September 2007.

The item "financial receivables and securities" totalled €mil. 520, in line with the €mil. 499 at 31 December 2006, and includes about €mil. 445 in respect of the portion of financial receivables that the joint ventures MBDA and Thales Alenia Space hold vis-à-vis the other partners in pursuance of cash pooling agreements made previously. In accordance with the consolidation method used, these receivables, like all the other items, are included in the Group's scope of consolidation on a proportional basis.

The item "financial payables to related parties" includes the debt of €mil. 435 of Group companies toward the joint ventures for the unconsolidated portion.

	For the 9 months ended 30 September			
	2007		*2006*	
Cash and cash equivalents at 1 January	2,003		1,061	
Gross cash flow from operating activities	943		811	
Changes in working capital	(1,040)		(1,221)	
Changes in other operating assets and liabilities	(464)		(330)	
Cash flow generated from (used in) operating activities	(561)		(740)	
Cash flow from ordinary investing activities	(871)		(409)	
Free operating cash-flow		**(1,432)**		**(1,149)**
Strategic transactions	(420)		280	
Changes in other financial assets	6		123	
Cash flow generated from (used in) investing activities	(1,285)		(6)	
Cash increases and contributions from shareholders	8		20	
Dividends paid to shareholders	(151)		(214)	
Cash flow from financing activities	407		517	
Cash flow generated from (used in) financing activities	264		323	
Translation differences	(17)		(2)	
Cash and cash equivalents at 30 September	404		636	

The first nine months of 2007 closed with a net decrease in cash and cash equivalents of €mil. 1,599. This can be attributed to the following factors:

- cash flow from operations was a negative €mil. 561, an improvement over the corresponding year-earlier period (which registered a negative cash flow of €mil. 740). For the purpose of analysing comparative figures, note should be made of the different classification of investments among non-recurring costs and development costs (€mil. 449 in the first nine months of 2007), now included under investment activities and no longer under cash flow generated from operating activities.

The negative cash flow operations is attributable mainly to the Aeronautics, Defence Sector and Transportation divisions and is only partially offset by considerable cash flow generation attributable to the Helicopters and Energy divisions.

A break down of gross cash flow from operations is provided below:

	30 September 2007	***30 September 2006***
Net profit	294	612
Depreciation, amortisation and impairment	345	288
Income tax	155	174
Accrued (transferred) to provisions (including restructuring provision)	(9)	(44)
Loss associated with discontinued activities	-	1
Cost of staff severance pay, defined-benefit plans and stock grants	127	132
(Gains)/losses from the sale of non-current assets	(4)	(24)
Gains from realisation of operating receivables	-	(13)
Gain from Ansaldo STS IPO	-	(417)
Financial (income)/expense, net of gain from Ansaldo STS IPO	35	102
	943	**811**

- negative cash flow from investing activities equal to €mil. 1,285 (compared with a negative €mil. 6 at 30 September 2006), which includes considerable ordinary investment activities, mainly for programmes in the Aeronautics, Defence Electronics and Helicopter divisions, and the effect of the strategic operations for the period, mainly attributable to the call option on the 25% stake of Selex Sensors & Airborne Systems (€mil. 400). Specifically, the first nine months of 2006 included the outflow of €mil. 458 arising from the Ansaldo STS IPO and the outflow of €mil. 89 required for the closing of the obligatory public offering on Datamat shares. Comparison with the corresponding period of 2006 was significantly affected by the aforementioned reclassification of investments among non-recurring costs and development costs;

- cash flow from financing activities was positive €mil. 264 (as compared to positive €mil. 323 at 30 September 2006). Compared with the corresponding period of last year, there has been a decrease in recourse to foreign sources of financing, partially offset by lower dividends paid to shareholders.

VIII. FINANCIAL RISK MANAGEMENT

This section describes the operating criteria adopted to manage foreign exchange risk, interest rate risk and equity risk relating to listed shares held.

The application of IFRSs by Finmeccanica involves the adoption of fair value to measure the total portfolio of derivatives. In this respect, the IFRS and related interpretations effectively make a distinction between derivatives considered to be for hedging purposes, for which it is possible to apply hedge accounting, with changes in fair value recognized in the balance sheet, and those for which hedge accounting is not possible and which must be recognized at fair value in the income statement as well as in the balance sheet.

Exchange rate risk management is governed by the directive issued by Finmeccanica in December 2002. The goal of the directive remains that of creating uniformity in management criteria based on industrial - not speculative -strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments of a specific nature as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralizing the effects of exchange rate fluctuations. Therefore, at the moment of receiving payment from a customer (or making payment to a vendor), which takes place at the current exchange rate on that day, the related hedging transactions are extinguished in order to offset the effects of the difference between the current exchange rate and the rate of the hedging instrument. 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.

These transactions are carried out almost exclusively with banks by Finmeccanica's Group Finance Department and then matched with the companies of the Group. The companies that have the greatest need for such hedging transactions are: Alenia Aeronautica and its subsidiaries; Ansaldo Energia; Oto Melara; Selex Sensors Airborne Systems and its subsidiaries; Thales Alenia Space Italia; Ansaldobreda; AgustaWestland and its subsidiaries, Selex Communications and its subsidiaries; and Selex Sistemi Integrati. At 30 September 2007 Finmeccanica had outstanding foreign exchange transactions with highly-rated financial counterparties in the interest of other Group companies totalling €mil. 3,526 (for an increase of approximately 20% from 31 December 2006), of which €mil. 3,093 for swap and forward transactions (divided between those sold for €mil. 1,932 and those purchased for €mil. 1,161) and €mil. 433 for foreign exchange options.

As a result, the Finmeccanica group recognises the fair value of foreign exchange derivatives as follows:

- forward instruments qualifying for hedge accounting, the fair value of which totalled a positive €mil. 68 at 30 September 2007;
- options not qualifying for hedge accounting, the overall fair value of which came to positive €mil. 1.

The fair value of forward instruments represents the change in the value of instruments hedging commercial risks and was mainly affected by the great volatility of the euro/US dollar exchange rate, which was 1.4179 at 30 September 2007 from 1.3170 at 31 December 2006, indicating a depreciation of the dollar against the euro. The change in the dollar during the first nine months of 2007 had a significant impact on the net fair value of the instruments in the portfolio, which went from a positive €mil. 46 at 31 December 2006 to a positive €mil. 68 at 30 September 2007. This change is not adequately expressed through trading activities since hedging is carried out for the entire life-cycle and on the total amount of the contracts underlying the derivatives transactions while the contracts themselves are recognised in the financial statements only with regard to work in progress and trade receivables and/or payables. As a result, there is inevitable volatility that impacts equity.

Given their nature and the particularly restrictive requirements of IAS 39, the options carried out by the Group Parent on behalf of its subsidiaries in past periods do not qualify for hedge accounting. The fair value adjustment had no impact on profit and loss at 30 September 2007 (positive fair value of €mil. 1 at 31 December 2006 and at 30 September 2007).

Another significant case is that of premium points which represent the expression of the difference in the interest rate between the currency being hedged (e.g. US dollar) and the currency used in the financial statements. This difference, added to the spot rate, provides the forward value of a swap or forward operation and, in the case of currency sales, generates a cost (pay the US dollar interest rate and receive the euro interest rate). In applying international accounting standards, this component is ineffective and therefore fair value changes are recognized in income statement.

The depreciation of the dollar since 2006 and the risks of further weakening led to an increase in the level of attention from Finmeccanica and the Group companies on new expected orders and the participation in new tenders where the reporting currency is the dollar. Under IASs/IFRSs, any hedging transaction would be recognised using hedge accounting in respect of orders that are deemed highly likely, not in respect of all the potential orders. The Group is currently considering possible hedges for highly-probable orders, perhaps even using non-IAS compliant instruments.

Therefore, the Finmeccanica Group does not have any financial transactions of a speculative nature, in the sense that none of its transactions add risk to that which is already implicit to its business. On the contrary, in compliance with the Group directive, all existing financial transactions have the specific objective of eliminating or minimizing exchange risks related to operations.

The *management of interest rate risk* is consistent with the long-standing practice of reducing the impact of fluctuations in interest rates while seeking to minimise related financial expense. To that end, at 30 September 2007 Finmeccanica had outstanding interest rate swaps for medium and long-term financing with highly rated financial counterparties totalling €mil. 830.

The main instruments are as follows:

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

(a) The transaction was carried out to benefit from low short-term interest rates without, however, exposing the Group to the risk of any subsequent increases. As such, the exposure was converted to a floating rate through 19 December 2005 and back to fixed (5.80% average) after that date.
The transaction was measured at fair value through profit or loss, thereby generating a profit of €mil. 15. At 30 September 2007, the fair value of the instrument was a positive €mil. 4 (negative €mil.11 at 31 December 2006).

(b) The transaction was carried out during 2005 in order to earn short-term benefits from low interest rates. The instruments purchased also include a number of interest rate options that enable the company to protect a portion of the debt portfolio exposed to floating rates and to switch to floating for additional portions of the debt.
The transaction was measured at fair value through profit or loss, thereby generating a net loss of €mil. 13 (income of €mil.2 and expense of €mil. 15). At 30 September 2007 the fair value of the instrument was a negative €mil. 8 (positive €mil. 5 at 31 December 2006).

(c) The transaction makes it possible to limit exposure to future changes in the reference interest rate (6-month Euribor) and has been recognised as a cash-flow hedge. At 30 September 2007, the fair value of the instrument was a positive €mil. 2 (positive €mil. 1 at 31 December 2006).

Thanks to these transactions, it was possible to benefit from the low costs of floating rates, especially in 2004-2005, with the debt structure mainly including fixed rates starting from 2006. This policy shields the company from possible increases in interest rates.

This item also includes other minor transactions with a total negative fair value of €mil. 5 (negative €mil. 5 at 31 December 2006, with no material effect on profit and loss in the first nine months) and a floating/fixed interest rate swap carried out by the helicopter-related joint venture ATIL, the fair value of which was a negative €mil. 1 at 30 September 2007 (negative €mil. 4 at 31 December 2006), and recognised as a cash-flow hedge. The ineffective portion of this instrument nevertheless resulted in the recognition of income of €mil. 1.

Therefore, at 30 September 2007, the total fair value of the interest rate derivatives portfolio came to a negative net balance of €mil. 8 as compared with the negative €mil. 14 of 31 December 2006. The transactions designated as a hedge had a positive change in fair value for the period of €mil. 4 (from a negative €mil. 3 to a positive €mil. 1). At the same date, transactions not eligible for hedge accounting had a positive change in fair value for the period of €mil. 2 (from a negative €mil. 11 at 31 December 2006 to a negative €mil. 9).

The restrictive IFRS standards and related interpretations make it necessary to consider certain transactions as speculative even when they are essentially intended to contain finance costs by adding a percentage of variable interest to the composition of the debt. The European Central Bank adopted, starting in 2006, an anti-inflationary stance, raising official rates by a total of 1.25%. This fostered market expectations for additional increases, which have already been partially discounted in current rates (6-month Euribor at 4.759% from 3.569% 12 months ago).

The *management of price risk on equity* concerns hedges with derivative instruments of the indirect investment held in STMicroelectronics NV (STM). At 30 September 2007 options were in place for an underlying position of about 20 million of STM shares, following the early closing in August of 30 million hedging instruments. These hedges are classified as trading operations, with changes in fair value recognized in the income statement: the recognition of the fair value during the period resulted in net income of €mil. 2. The changes in these transactions during the period were as follows:

31 December 2006	Closed transactions	Fair value delta	30 September 2007
13	(19)	21	15

It should be noted that the August closing of a portion of the instrument hedging the STM shares (30 million) resulted in the recognition of income in the amount of €mil. 24. The intrinsic value of the derivatives in being at the same date, i.e. the value calculated as if it were the maturity date of the derivatives, was a positive €mil. 24.

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 Company to potential costs/lost revenues in the event this limit is exceeded. The equity investment is treated as an asset held for sale and therefore the change in value between the start and end of the period (from € 14.064 to €11.781 per share) was a negative €mil. 136 and only had impact on the balance sheet.

It should also be noted that the management of derivatives on STM shares has permitted the Group to receive about €mil. 114 between 2004 and 2007, improving its portfolio position.

Under IFRS, the option sold to bondholders on exchangeable STM bonds with a maturity of August 2010 is accounted for separately from the underlying bonds. It should also be noted that, in 2005, Finmeccanica acquired a virtually identical option on the open market to hedge the option sold to bondholders thereby neutralising the effects while at the same time freeing up the 20 million underlying STM shares. At 30 September 2007, the change in the fair value of these options was €mil. 8, negative for one, positive for the other, and therefore there was no net impact on the income statement.

Finally, following the stock exchange placement of 60% of the shares of the 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 amounted to €mil. 3. During the period, the obligation was discharged as the shares were delivered to those entitled to them.

IX. 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. The following table summarises the situation:

(millions of euros) *RECEIVABLES at 30 September 2007*	**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
Finmeccanica UK Ltd			2			2
Finmeccanica Inc.			2			2
Wing Ned B.V.			2			2
Alifana Due S.c.r.l.				2		2
Ansaldo Argentina S.A.				1		1
IGS S.p.A. (in liq.)			1			1
Remington Elsag Law Enforcement Systems LLC				4		4
Ansaldo Electric Drives S.p.A.			1			1
Oto Melara North America Inc..			1	1		2
Associates						
Eurofighter Jagdflugzeug GmbH				99		99
Iveco Fiat/Oto Melara S.c.a.r.l.				42		42
Eurosysnav SAS				26		26
Orizzonte - Sistemi Navali S.p.A.				20		20
Galileo Vacuum Systems S.p.A.			12	1		13
Macchi Hurel Dubois SAS				9		9
NH Industries S.a.r.l.				15		15
Euromids SAS				4		4
HR Gest S.p.A.				2		2
Elettronica S.p.A.				2		2
Nahuelsat S.A.	2			1		3
Nicco Communications SAS				2		2
I.M. Intermetro S.p.A.				2		2
Metro 5 S.p.A.				7		7
Consorzio Start S.p.A.				2		2
Advanced Air Traffic Systems Sdn Bhd				2		2
Contact S.r.l.				1		1
Industrie Aeronautiche e Meccaniche Rinaldo Piaggio S.p.A. (Amm. Str.)				1		1
Eurofighter Simulation Systems GmbH				2		2
Comlenia Sendirian Berhad				1		1
Sostar GmbH				1		1
Thomassen Service Gulf LLC				1		1
Abu Dhabi Systems Integration LLC				1		1
Bell Agusta Aerospace Company LLC				1		1
Other companies with unit amount of less that €mil. 1			1		1	2

(millions of euros) ***RECEIVABLES at 30 September 2007***	**Non-current financial receivables**	**Other non-current receivables**	**Current financial receivables**	**Trade receivables**	**Other current receivables**	**Total**
Joint ventures(*)						
MBDA SAS				54		54
GIE ATR					35	35
Thales Alenia Space SAS (+)			1	28		29
Aviation Training International Ltd	10		1			11
Telespazio S.p.A.				1	1	2
Telbios S.p.A.				1		1
Consortiums (**)						
Trevi - Treno Veloce Italiano				9		9
C.I.S. DEG				9		9
Saturno				4		4
Filobus Vesuvio				3		3
Thamus			3			3
Telaer				2		2
CREO - Centro Ricerche Elettroniche			2			2
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			2			2
Ferroviario Vesuviano				1		1
Sistemi Navali Selenia-Elsag				1		1
Total	12	0	**34**	**366**	**37**	**449**

(millions of euros) ***PAYABLES at 30 September 2007***	**Non-current borrowings**	**Other non-current payables**	**Current borrowings**	**Trade payables**	**Other current payables**	**Total**
Subsidiaries						
Alifana Due S.c.r.l.				2		2
Finmeccanica UK Ltd				2		2
Finmeccanica Inc				1		1
Selex Sensors and Airborne Systems Electro Optics (overseas) Ltd				1		1
Oto Melara North America Inc				1		1
Other companies with unit amount of less that €mil. 1				1		1
Associates						
Eurosysnav SAS			13			13
Iveco Fiat/Oto Melara S.c.a.r.l.					5	5
Metro 5 S.p.A.					5	5
Consorzio Start S.p.A.				5		5
Eurofighter Jagdflugzeug GmbH				3		3
HR Gest S.p.A.				3		3
Advanced Air Traffic Systems Sdn Bhd				1		1
Pegaso S.c.r.l.				1		1
Europea Microfusioni Aerospaziali S.p.A.			1			1
Macchi Hurel Dubois SAS				1		1
Libyan Italian Advanced Technology Company			1			1
Bell Agusta Aerospace Company LLC				2		2
Sistemi Dinamici S.p.A				1		1
Eurofighter International Ltd			1			1
Joint ventures (*)						
MBDA SAS			422	11		433
Telespazio S.p.A.			13	1		14
Thales Alenia Space SAS (+)				5		5
GIE ATR				4		4
***Consortiums** (**)*						
SESM - Soluzioni Evolute per la Sistemistica e i Modelli				2		2
Sistemi Navali Selenia - Elsag			1			1
Saturno				1		1
Thamus				1		1
C.I.S. DEG				1		1
Other consortiums with unit amount of less than €mil. 1			1	1	1	3
Total	**-**	**-**	**453**	**52**	**11**	**516**

(*) Amounts refer to the portion not eliminated in consolidation
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control
(+) formerly Alcatel Alenia Space SAS

(millions of euros) *RECEIVABLES at 31 December 2006*	**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 S.c.r.l.				3		3
Finmeccanica UK Ltd			2			2
Ansaldo Argentina S.A.				1		1
Finmeccanica Inc.			1			1
IGS S.p.A. (in liq.)			1			1
Alenia Improvement S.p.A.				1		1
Ansaldo Do Brasil Equipamentos Eletromecanicos Ltda					1	1
Ansaldo Electric Drives S.p.A.			1			1
Other companies with unit amount of less that €mil. 1				1		1
Associates						
Eurofighter Jagdflugzeug GmbH				79		79
Iveco Fiat/Oto Melara S.c.a.r.l.				58		58
NH Industries S.a.r.l.				14		14
Eurosysnav S.A.S.				11		11
Galileo Vacuum Systems S.p.A.			9	1		10
Orizzonte - Sistemi Navali S.p.A.				9		9
Macchi Hurel Dubois S.A.S.				8		8
Ansaldo Trasmissione e Distribuzione S.p.A.	5			1		6
Elettronica S.p.A.				5		5
Remington Elsag Law Enforcement Systems LLC				4		4
Euromids S.A.S.				4		4
I.M. Intermetro S.p.A.				3		3
Consorzio Start S.p.A.				2		2
Eurofighter Simulation Systems GmbH				2		2
Comlenia Sendirian Berhard				2		2
Nicco Communications S.A.S.				1		1
Eurofighter Aircraft Management GmbH				1		1
Advanced Air Traffic Systems Sdn Bhd				1		1
Industrie Aeronautiche Rinaldo Piaggio S.p.A. (Amm. Str.)				1		1
Thomassen Service Gulf LLC				1		1
Other companies with unit amount of less that €mil. 1				2		2
Joint ventures (*)						
Gie - ATR					33	33
MBDA S.A.S.				45		45
Alcatel Alenia Space S.A.S.			2	23		25
Aviation Training International Ltd	11		1			12
Telespazio S.p.A.				1	1	2

(millions of euros) ***RECEIVABLES at 31 December 2006***	**Non-current financial receivables**	**Other non-current receivables**	**Current financial receivables**	**Trade receivables**	**Other current receivables**	**Total**
Consortiums (**)						
Saturno				35		35
Trevi - Treno Veloce Italiano				24		24
CMS Italia				14		14
C.I.S. DEG				6		6
Filobus Vesuvio				3		3
Telaer				2		2
CREO - Centro Ricerche Elettroniche			2			2
Thamus			2			2
S3Log				2		2
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			2			2
Ferroviario Vesuviano				2		2
Ferroviario S. Giorgio Volla				2		2
Contact				1		1
Sistemi Navali Selenia-Elsag				1		1
Total	**16**	**-**	**26**	**377**	**35**	**454**

(millions of euros) *PAYABLES at 31 December 2006*	**Non current borrowings**	**Other non current payables**	**Current borrowings**	**Trade payables**	**Other current payables**	**Total**
Subsidiaries						
Alifana Due S.c.r.l.				5		5
Oto Melara North America Inc.				1	2	3
Finmeccanica UK Ltd				2		2
Finmeccanica Inc.				1		1
Alenia Hellas S.A.				1		1
Alifana S.c.r.l.				1		1
Selex Sensors and Airborne Systems Electro Optics (overseas) Ltd				1		1
Other companies with unit amount of less that €mil. 1			1			1
Associates						
Eurofighter Jagdflugzeug GmbH			78	9		87
Eurosysnav S.A.S.			20			20
Ansaldo Trasmissione & Distribuzione S.p.A.			10		1	11
Iveco Fiat/Oto Melara S.c.a.r.l.					9	9
Metro 5 S.p.A.					6	6
Pegaso S.c.r.l.				4		4
Advanced Air Traffic Systems Sdn Bhd				3		3
Orizzonte - Sistemi Navali S.p.A.					1	1
Europea Microfusioni Aerospaziali S.p.A.			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 of less that €mil. 1				1		1
Joint ventures (*)						
MBDA S.A.S.			358	15		373
Telespazio S.p.A.			28			28
GIE ATR				4		4
Alcatel Alenia Space S.A.S.				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**

(millions of euros) At 30 September 2007	**Revenues**	**Other operating revenues**	**Costs**	**Financial income**	**Financial expense**
Subsidiaries					
Alifana Due S.c.r.l.	6		6		
Remington Elsag Law Enforcement Systems LLC	3				
Finmeccanica UK Ltd			4		
Finmeccanica Inc.			2		
Oto Melara North America Inc.	2		1		
Other companies with unit amount of less that €mil. 1	1	1	1	1	
Associates					
Eurofighter Jagdflugzeug GmbH	338				
Iveco Fiat/Oro Melara S.c.a.r.l.	80		1		3
Eurosysnav SAS	32				1
Orizzonti - Sistemi Navali S.p.A.	23				
Macchi Hurel Dubois SAS	23				
NH Industries S.a.r.l.	17				
Euromids SAS	12				
Eurofighter Simulation Systems GmbH	9				
Nicco Communications SAS	4				
Pegaso S.c.r.l			3		
Thomassen Service Gulf LLC	2				
Metro 5 S.p.A.	2				
Elettronica S.p.A.	1				
Consorzio Start S.p.A.	1		9		
HR Gest S.p.A.	1	1	9		
Advanced Air Traffic Systems Sdn Bhd	1				
Sostar GmbH	1				
Comlenia Sendrian Berhad	1				
Other companies with unit amount of less that €mil. 1	2		2		
Joint ventures(*).					
GIE ATR	65				
Thales Alenia Space SAS	40		6		
MBDA SAS	36				10
Telespazio S.p.A.	1				1
Aviation Training international Ltd.	1			1	
Telbios S.p.A.	1				
Other companies with unit amount of less that €mil. 1	1		1		
Consortiums(**)					
Saturno	48		2		
CMS Italia	13		6		
C.I.S.DEG	5		1		
Trevi - Treno Veloce Italiano	2				
S3LOG	1				
Ferroviario Vesuviano	1				
SESM - Soluzioni Evolute per la Sistemistica e i Modelli			1		
Ferroviario S.Giorgio Volla 2		1			
Other consortiums with unit amount of less than €mil. 1	1		1		
Total	778	3	56	2	15

(*) Amounts refer to the portion not eliminated in consolidation

(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control

(millions of euros) At 30 September 2006	**Revenues**	**Other operating revenues**	**Costs**	**Financial income**	**Financial expense**
Subsidiaries					
Finmeccanica UK Ltd			3		
Dataspazio S.p.A			1		
IGS S.p.A. (in liq.)			1		
Associates					
Eurofighter Jagdflugzeug GmbH	214				
Iveco Fiat/Oro Melara S.c.a.r.l.	93		3		4
Eurosysnav SAS	33				
Eurofighter Simulation Systems GmbH	9				
Euromids SAS	7				
NH Industries S.a.r.l.	7				
Orizzonti - Sistemi Navali S.p.A.	5		1		
Elettronica S.p.A.	2		1		
Remington Elsag Low Enforc.Systems LLC	2				
Nahuelsat S.A.		2			
Advanced Air Traffic Syst.SDN BHD	1		1		
Sostar GMBH	1				
Eurofighter Aircraft Management GmbH	3				
Comlenia Sendrian berhard	1				
Ansaldo Trasm. e Distrib. S.p.A.	1				
Consorzio Start S.p.A.	1				
Other companies with unit amount of less that €mil. 1		1			
Joint ventures (*).					
MBDA SAS	45				6
GIE ATR	36				
Alcatel Alenia Space SAS	30		5		
Telespazio S.p.A.	2		1		
Aviation Training International Ltd.				1	
Other companies with unit amount of less that €mil. 1		1			
Consortiums					
Trevi - Treno Veloce Italiano	17		2		
C.I.S.DEG	6		12		
CMS Italia	3		13		
Elmac	7				
Contact	2				
Optel	1				
Consorzio Saturno	1		2		
San Giorgio Volla 2	2				
Total	532	4	46	1	10

(*) Amounts refer to the portion not eliminated

Performance by division

HELICOPTERS

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	2,084	3,328	614	507	4,088
Order backlog	8,290	8,638	n.a.	n.a.	8,572
Revenues	2,084	1,949	610	616	2,727
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	219	183	65	48	299
R.O.S.	10.5%	9.4%	10.7%	7.8%	11.0%
EBIT	213	183	63	48	290
Working capital	493	398	n.a.	n.a.	392
Net invested capital	2,163	2,108	n.a.	n.a.	2,085
R.O.I. (*)	15.4%	13.3%	n.a.	n.a.	13.9%
Research and Development	213	256	66	76	356
Employees (no.)	9,363	8,806	n.a.	n.a.	8,899

(*) calculated on invested capital at period-end

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).

The first nine months of the year saw a number of particularly significant commercial developments in the military segment, including:

- 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 fifty-one 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 contract is expected to be signed by the end of this year.

- 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 further 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.
- the signing of the agreement with the UK Ministry of Defence to upgrade six 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 six new EH101 Merlin helicopters that will be delivered by the UK Ministry of Defence to the Royal Danish Air Force to replace the original helicopters. The contract is valued at €mil. 270 (Q2).
- the contract for the supply of eight AW109 Power helicopters for the Libyan government (Q2);
- the contract for the supply of seven helicopters for the Nigerian navy, of which two were AW109 Power helicopters (Q2) and five were AW109 light utility helicopters (LUH) (Q3).

On 31 August 2007, for the second time, the U.S. Government Accountability Office (GAO) asked the U.S. Air Force to reconsider its decision in November 2006 to award Boeing Ltd. the contract for 141 search and rescue helicopters. In response to this request, the assignment of the contract was withdrawn, and a new tender was opened in which the consortium comprised of Finmeccanica (AgustaWestland Bell) and Lockheed Martin will be participating in accordance with the related requirements.

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 the first nine months of 2007, it recorded orders for 165 helicopters worth €mil. 944. Of note in that regard are the following:

- orders for an additional sixty-one AW139 helicopters, totalling €mil. 560, including the provision of 14 helicopters to the off-shore operator Saudi Arabian Oil Company (Q1), two helicopters for the Los Angeles Fire Department (Q2), and 12 for the off-shore operator Hawker Pacific (Q3). The order backlog for the AW139 continues to grow, with 161 machines ordered to date.

Within the segment, orders were also obtained for a further 104 helicopters, of which 48 Grand, five of which were purchased by Sloane Helicopters (Q1), thirty-one AW109 Power, including the contract for six helicopters for the Spanish Fire Brigade (Q2) and twenty-five AW119 helicopters, for a total of €mil. 384. With regard to the AW119 helicopters, contracts were concluded with the Spanish aeronautics group FAASA for six helicopters (Q1) and with the Libyan Red Crescent for five helicopters (Q1).

Total volume of **new orders** at 30 September 2007 came to €mil. 2,084, a decline from the same period of the previous year (€mil. 3,328) when several important orders were received from the UK Ministry of Defence worth a total of about €mil. 1,740 (Integrated Merlin Operational Support (IMOS) contract to provide logistics support for the fleet of EH 101 in service with the Royal Air Force and Navy for €mil. 640, the Merlin Capability Sustainment Plus (MCSP) contract upgrading thirty EH 101 Merlin Mk1 helicopters in service with the British Royal Navy with a value of €mil. 550, and the first lot of the Future Lynx contract for 70 helicopters for the British armed forces worth €mil. 550).

As a result of the high volume of new orders for the first nine months of the year, the value of the **order backlog** at 30 September 2007 came to €mil. 8,290, for a slight decline (3%) from 30 December 2006 (€mil. 8,572).
The orders at 30 September 2007 can be broken down into 73% for helicopters, 24% for support activities, and 3% for engineering. The order backlog guarantees coverage of over 3 years of production.

Revenues at 30 September 2007 amounted to €mil. 2,084, with an increase of 7% over 30 September 2006 (€mi1. 1,949). This improvement is attributable to greater volumes in the civil-government sector (A109, AW139, A119), to the start of full production on the helicopter contract for the President of the United States, for which the first test flight of the TV2 prototype occurred on 5 July 2007, and support activities primarily related to the integrated support contracts (IOS) with the UK Ministry of Defence.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) at 30 September 2007 came to €mil. 219, an increase of €mil. 36 (20%) over the same period of the previous year (€mil. 183).
The improvement is in line with the change in and composition of revenues and is correlated with the growth in volumes mentioned above and 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 10.5% from the 9.4% of 30 September 2006.

Net invested capital reached €mil. 2,163 at 30 September 2007 from €mil. 2,085 at 31 December 2006, an increase of €mil. 78 due entirely to the decrease in current liabilities as a result of higher outlays connected with the increase in production noted earlier; this is reflected in the figure for working capital, which came to €mil. 493 at 30 September 2007, from €mil. 392 at 31 December 2006.
Return on investment (**ROI**) reached 15.4% at 30 September 2007, increasing both over the figure at 30 September 2006 (13.3%) and that at 31 December 2006 (13.9%), owing primarily to the increase in EBIT.

Research and development costs at 30 September 2007, amounting to €mil. 213 (€mil. 267 at 30 September 2006) primarily concerned:

- research as part of funded programmes, which include the development of technologies for a new helicopter of the 6/7-tonne class named the A149 and development of multi-role versions of BA 609 convertiplane for national security;
- research into upgrading products, where activities continued on the customisation of the AW139 and Agusta Grand helicopters;
- research and development into variants of base models in connection with government/military and civil contracts.

AgustaWestland had 9,363 **employees** at 30 September 2007, a 5.2% increase from 31 December 2006 (8,899 employees). The increase was necessary in order to meet the technical/production needs related to the increase in business volumes.

DEFENCE ELECTRONICS

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	2,336	2,195	542	541	4,197
Order backlog	7,420	6,745	n.a.	n.a.	7,676
Revenues	2,462	2,444	857	776	3,747
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	129	125	45	26	313
R.O.S.	5.2%	5.1%	5.3%	3.4%	8.4%
EBIT	119	125	42	26	300
Working capital	1,209	1,284	n.a	n.a.	734
Net invested capital	3,389	2,991	n.a	n.a.	2,778
R.O.I. (*)	4.7%	5.6%	n.a	n.a.	10.8%
Research and Development	386	378	120	97	541
Employees (no.)	19,052	19,489	n.a	n.a.	19,185

(*) calculated on invested capital at period-end

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

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.

New orders at 30 September 2007 came to €mil. 2,336, a slight improvement (+6%) over the same period of 2006 mainly due to higher orders in the information technology and security segment as well as the completion of the order for the second lot of the contract with the Ministry of the Interior for the programme to create the Tetra secure interforce digital communications network. The main new orders during the period include the following:

- avionics: additional orders for the EFA programme and related logistics (Q1-Q2-Q3), various orders for systems for countermeasure (Q1-Q2-Q3), and orders for devices for space programmes (Q1-Q2-Q3);
- land and naval command and control systems: orders of air-traffic control and management from Trinidad and Tobago (Q2) and logistics (Q1-Q2);
- integrated communication systems and networks: in addition to the order for the second lot of the TETRA secure interforce digital communications network contract (Q2), additional orders for communication systems of the EFA (Q1-Q2-Q3) and the NH90 (Q3), the order by BAE Systems for the datalink and communication systems for a Middle Eastern programme (Q2), as well as for activities within the scope of the European programme to supply Multifunctional Information Distribution System (MIDS) interface units (Q1-Q2);
- information technology and security: the extension of automation and sorting services for the hybrid mail service in Russia (Q3), the signing of the 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 by Datamat, Elsag, 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).

The **order backlog** came to €mil. 7,420, as compared to €mil. 7,676 at 31 December 2006. The composition of the backlog is attributable for 50% to the avionics segments, while the communications field contributes about 20% and the radar and command and control systems and the information technology and security segments both contribute about 15% each.

Revenues at 30 September 2007, amounting to €mil. 2.462, are essentially in line with the previous year (€mil. 2,444). This situation, which was also caused by difficulties in obtaining new orders in specific segments, could have an impact on the reaching of year-end revenue growth targets for the segment.

Revenues resulted from the following:

- avionics: 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, avionics for the helicopter and space programmes, Tornado upgrades, 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, FADR land-based radar, as well as air traffic control programmes both in Italy and 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 TETRA national network, and the provision of MIDS units and communication systems for the military;

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

Operating result before the amortisation of non-current assets valued within the scope of business combinations (**EBITA*)** came to €mil. 129 at 30 September 2007, a €mil. 4 increase over the same figure posted at 30 September 2006 thanks to an improvement in the avionics segment, which confirmed related expectations for growth. This improvement was partially offset by difficulties in the saturation of production facilities in the communications segment and by costs related to the start of the industrial reorganisation plan, as well as by a less profitable mix of activities than in the past in the command and control systems segment. As a result, **ROS** remained at the same levels of September 2006, settling at 5.2%.

Net invested capital at 30 September 2007 came to €mil. 3,389, up €mil. 611 compared with 31 December 2006 (€mil. 2,778) mainly owning to an increase in **working capital** (up €mil. 475 over the figure posted at the end of 2006), which was affected by postponements in the collection of trade receivables to the latter part of the year, as well as by delays in invoicing for certain programmes.

Research and development costs at 30 September 2007 came to €mil. 386 compared with €mil. 378 at 30 September 2006 and include, in particular: for avionics, the continuation of the development for the EFA programme and its new electronic-scan radar systems, both for surveillance and combat, the fine-tuning of the Falco UAV system, activities for the JANUS electronic optics system for the new VBC armoured vehicle and test flights of the Grifo S prototypes for JF-17 Thunder; for command and control systems, the development of naval and land-based command and control systems and the completion of development of radar systems for air traffic control; for communications, the continuation of development of the TETRA network and of portfolio products, and activities on new product families, such as ad hoc networks, WiMAX, software radio, and switch all IP.

At 30 September 2007, there were 19,052 **employees**, a decrease of 133 employees from 31 December 2006, mainly related to the rationalisation of the Italian portion of the avionics segment.

AERONAUTICS

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	1,532	1,427	384	256	2,634
Order backlog	7,572	6,965	n.a.	n.a.	7,538
Revenues	1,496	1,329	545	496	1,908
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	106	115	42	54	203
R.O.S.	7.1%	8.7%	7.7%	10.9%	10.6%
EBIT	106	115	42	54	203
Working capital	(678)	(159)	n.a	n.a.	(1,034)
Net invested capital	592	483	n.a.	n.a.	(249)
R.O.I. (*)	23.9%	insig.	n.a.	n.a.	insig.
Research and Development	393	342	129	117	486
Employees (no.)	13,000	11,826	n.a.	n.a.	12,135

(*) calculated on invested capital at period-end

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

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

During the first nine months of 2007, the principal activities in the military division were as follows:

- Alenia Aeronautica: Eurofighter (EFA) production and logistics and the continuation of development; production of the C27J aircraft, particularly production for the Italian air force, to which the first two aircrafts have been delivered, and for Greece, to which six aircrafts have been delivered (of the 12 ordered by the Greek Air Force, a total of eight been delivered as at 30 September 2007), production for Lithuania and Bulgaria; the continuation of upgrades to the Tornado aircraft and the modernisation of avionics (ACOL) 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 harbour office; and, in the unmanned aerial vehicles (UAV) segment, activities for the Neuron programme and new testing of the Sky-Y prototype;
- Alenia Aermacchi: the production and logistical support for the MB339 and SF260 training aircraft, production for the EFA and AMX programmes, and further development and test flights of the new M346 training aircraft;
- Alenia Aeronavali: development and production for the B767 tanker programme; the overhaul and logistical support for the B707 Tanker and AWACS; and return to airworthiness of the G222 aircraft.

In the military transport aircraft segment, Alenia Aeronautica, through its subsidiary Alenia North America Inc. and in partnership with L-3 Communications and Boeing, achieved significant commercial success in the US market. 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 C27J team was awarded an initial contract in the amount of $2 billion to supply seventy-eight C27J aircrafts (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 aircrafts, of which 75 for the Army and 70 for the Air Force, with orders that could total of 207 aircrafts.

The civil activities of Alenia Aeronautica for the first nine months of 2007 mainly involved the following orders:

- Boeing: production of components for fuselages and control surfaces for the B767 and B777 aircraft. Specifically, development and sales activities continued for the new B787, the manufacturing of which started at the end of 2006 in the new facilities at Grottaglie (central sections of the fuselage) and Foggia (horizontal tail wings). During 2007, delivery was made the first four sections of the fuselage and the first two series of horizontal tail wings for B787 aircrafts, which were subsequently transported to the South Carolina (USA) facilities of Global Aeronautica LLC (a joint venture between Alenia North America Inc and Vought Aircraft Industries Inc.) to be assembled with the other sections of the fuselage manufactured.
- Airbus: the design 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.

The activities of Alenia Aeronavali involved the transformation from passenger to cargo craft of the MD10, MD11, B767-200, and ATR aircraft and related maintenance; those of Alenia Aermacchi concerned the production of engine nacelles, and those of the GIE-ATR consortium concerned the assembly and sale of the ATR craft.

With regard to the Superjet 100 programme, in June 2007, the agreement between Alenia Aeronautica S.p.A 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. Furthermore, on 23 July 2007, the company Superjet International S.p.A. was established. The company is owned by Wing Ned B.V. (a Dutch company which is wholly owned by Alenia Aeronautica S.p.A.), which has a 51% interest, and Aviation Holding Company

Sukoi, 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. Certain contractual aspects remain to be defined with the other partner before being able to begin industrial and commercial operations.

New orders as at 30 September 2007 came to €mil. 1,532, for an increase of €mil. 105 from the €mil. 1,427 of 30 September 2006 due to a higher level of orders received during the third quarter of 2007. The main orders received during the first nine months of 2007 include the following:

- the military segment: the EFA Future Enhancements order (Q1) to further develop the weapons system to improve the performance and operational capacity of the craft, logistics for the second EFA lot (Q2 and Q3), the contract for the provision of two ATR 42 MP patrol boats 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 the GIE-ATR consortium, which received orders for 75 aircraft (24 in Q1, 27 in Q2, and 24 in Q3), of which 14 from Malaysian airlines, 13 from the Indian airline Jet Airways, 11 from Spanish airlines, 6 from the Philippine company Cebu Air, 5 on the Russian market, and 5 on the Brazilian market; the order for the aerostructures of the B767 (Q1) and B777 (Q2); and the additional lots (Q1, Q2 and Q3) for the A321, Falcon programmes, engine nacelles, and the transformation of cargo craft.

The **order backlog** at the end of September 2007 came to €mil. 7,572 with a significant portion for the EFA (46%), B767 (21%), and C27J (4%) programmes. The backlog is essentially in line with that of the end of 2006 (€mil. 7,538), and is expected to grow over the medium/long term.

Revenues at 30 September 2007 totalled €mil. 1,496m an increase of €mil. 167 (+13%) over the same period of 2006 (€mil. 1,329). 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 the production of the B787. In the military segment, there was a growth in revenues from the EFA programme due to increased development and production for the second lot.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) at 30 September 2007 came to €mil. 106, a decrease of €mil. 9 from the first nine months of the previous year (€mil. 115), which included the significant benefits of the release of provisions and the close of negotiations (ROS of 7.1% as compared with 8.7% at 30 September 2006). It should be noted that EBITA* at 30 September 2006 benefited from the release of a portion of the provision for risks related to the ATR programme (Q2) and amounts paid by Boeing for the closure of the B717 programme (Q3).

EBITA* at 30 September 2007 mainly reflects the positive performance in civil production by Alenia Aeronautica and the GIE-ATR Consortium mentioned previously, as well as the greater contribution of the EFA programme. The performance of Alenia Aeronavali during the period under review reflects the negative effects of higher charges and allocations for risks related to production for the B767 Tanker and B767 Cargo programmes which are still in the prototype phase. Given this performance trend, activities under the plan for reorganisation and efficiency improvements, begun at the end of 2006, continued.

Working capital at 30 September 2007 came to negative €mil. 678, a worsening of €mil. 356 compared with 31 December 2006 (negative €mil. 1,034). The growth, which was physiological in the first half of the year and is expected to decline by the end of the year, is mainly due to the increase in net inventories, which were affected by an increase in work in progress due to an increase in activities for the B787, ATR and EFA programmes and higher advances to suppliers for the second lot of the EFA programme and for the C27J programme.

Net invested capital at 30 September 2007 came to €mil. 592, an increase of €mil. 841 over the negative €mil. 249 at 31 December 2006, due to the developments in working capital, as noted above, and the increase in capital assets as a result of considerable investments in plant and equipment for B787 production and in non-recurrent activities conducted during the period concerning programmes being developed.

Research and development costs for the first nine months of 2007 came to €mil. 393, up from the €mil. 342 of the same period of 2006. This result reflects the significant commitment to activities of programmes such as B787, the second lot of EFA activities, C27J, M346, Tornado, AMX, JSF, ATR, ASW, Unmanned Air Vehicles (UAVs), A380, engine nacelles, and B767 cargo craft. Research and development into technologies for aerostructures and system integration also continued.

The number of **employees** at 30 September 2007 stood at 13,000, representing an increase of 865 over the 12,135 employees at 31 December 2006. This increase was mainly due to new hires by Alenia Aeronautica (+454 employees) in order to meet the needs of higher workloads, and its subsidiary Alenia Composite (+260 employees) with regard to rising production of the B787 at the Grottaglie facility.

SPACE

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	545	515	220	184	851
Order backlog	1,286	1,191	n.a.	n.a.	1,264
Revenues	593	519	216	172	764
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	23	22	11	6	44
R.O.S.	3.9%	4.2%	5.1%	3.5%	5.8%
EBIT	23	22	11	6	44
Working capital	3	32	n.a.	n.a.	(66)
Net invested capital	399	389	n.a.	n.a.	318
R.O.I. (*)	7.7%	7.5%	n.a.	n.a.	13.8%
Research and Development	38	39	12	9	64
Employees (no.)	3,339	3,199	n.a.	n.a.	3,221

(*) calculated on invested capital at period-end

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

Finmeccanica S.p.A. has been operating in the space industry through the Space Alliance between Finmeccanica and Thales since 6 April 2007, following the transfer of the interests held by Alcatel Participations in the two joint ventures in the space industry. One of these joint ventures is dedicated to satellite services (Telespazio Holding S.r.l., headquartered in Italy and with its main production facilities in Italy, France and Germany, and in which Finmeccanica S.p.A. holds a 67% stake and Thales the remaining 33% stake) and the other to manufacturing (Thales Alenia Space S.A.S., headquartered in France and with it main production facilities in France, Italy, Belgium,

and Spain, and in which Finmeccanica S.p.A. holds a 33% stake and Thales holds a 67% stake).
More specifically, Telespazio Holding S.r.l. 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 S.A.S. focuses on the design, development and production of space systems, satellites, orbital infrastructures, space transport systems, equipment, instruments, and terrestrial systems for civil and military applications.

From a commercial perspective, during the first nine months of 2007, the group acquired **new orders** of €mil. 545, up €mil. 30 from the same period of 2006 (€mil. 515), due to an increase in orders in the satellite services segment. The most significant new orders for the period were:

- in the commercial segment: the contract for the provision, jointly with EADS Astrium, of the Arabsat 5A/5B satellite (Q3) and the Indonesian Palapa D satellite (Q2); the order by the Norwegian company Telenor for the Thor 6 satellite (Q2); the supply contract for the Russian Sadko altimeter (Q2); an additional lot of the order for the Rascom Programme (Q2); the first four lots in the provision of 48 low-earth orbit (LEO) satellites for the second-generation Globalstar constellation (Q1, Q2 and Q3); the order for the Russian Loutch payload (Q3); the renewal of the multi-year contracts for TV services, particularly for Sky (Q1); and new orders for the provision of telecommunications satellite services (Q1, Q2 and Q3);
- in the institutional segment: new orders for satellite orbit management, especially for the Artemis satellite by ESA, and terrestrial centre management (Q1);
- in the military segment: the order for the completion, launch and management of the Sicral 1B telecommunications satellite (Q3) and the first two lots of the order related to the Armasat programme (Q1 and Q2);
- in the earth observation segment: the contracts related to the Cosmo programme for the launch of the fourth satellite (Q1); the first lot of the Sentinel 1 order for the Global Monitoring for Environment and Security (GMES) programme for territorial

control and security (Q2); and new orders for the provision of monitoring and territorial management services (Q1 and Q3);

- in the navigation and infomobility segment: additional orders related to the Galileo (the in-orbit validation phase) and EGNOS programmes (Q1 and Q2);
- 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 pursuant to the “bridge” contract (Q2);
- infrastructures and transportation segment: new orders for onboard equipment and transportation infrastructures (Q1, Q2 and Q3).

The **order backlog** at 30 September 2007 came to €mil. 1,286, an increase of €mil. 22 over the same figure at 31 December 2006 (€mil. 1,264). The order backlog, based on the amount of work ready to begin, guarantees almost full coverage of the expected production for the next three months of the year. The backlog at 30 September 2007 breaks down into manufacturing activities for 65% (55% satellites and payload, 10% infrastructure and equipment) and satellite services for the remaining 35%.

Revenues for the first nine months of 2007 came to €mil. 593, up €mil. 74 from the same period of the previous year (€mil. 519) due essentially to higher production levels in the manufacturing segment. The principle sources of production revenues were:

- initiation of project activities related to the Arabsat 5A/5B, Palapa D and Thor 6 telecommunications satellites; 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 activities relating to:
  - earth observation programmes, in particular the Cosmo-SkyMed (the first of four constellation satellites was successfully launched on 8 June from the Vandenberg air base in California) and second-generation Meteosat programmes;

- commercial satellites, including the StarOne C1/C2, Turksat 3A, Chinasat 9 and 6B (successfully launched on 5 July from the Xichang Space Center in China), Ciel 2, Alphabus, and Rascom satellites;
- Sicral 1B, BWSatcom and Syracuse III military telecommunications satellites;
- Herschel/Plank, Bepi Colombo, Alma and Goce science programmes;
- Galileo and EGNOS navigation programmes;

- the continuation of the programmes connected with the International Space Station (ATV);
- the development of equipment and devices, in particular for the Koreasat 5 satellite, and the payloads for the Arabsat 4R, Express AM33/34 and AMC21 satellites, and radar for the Kompsat satellite;
- 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.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (**EBITA*)** at 30 September 2007 came to €mil. 23, an improvement of €mil. 1 over 30 September 2006 (€mil. 22). Nonetheless, **ROS** worsened from the 4.2% of the first nine months of 2006 to 3.9% as of September 2007, due in particular to increased costs in the manufacturing segment for a number of commercial telecommunications programmes.

Net invested capital at 30 September 2007 came to €mil. 399, for an increase over 31 December 2006 of €mil. 81, attributable primarily to **working capital** of €mil. 3 at 30 September 2007, posting an increase for the first nine months of the year of €mil. 69 over 31 December 2006 (a negative €mil. 66) due primarily to higher payments to suppliers during the period.

Research and development costs for the first nine months of the year came to €mil. 38, down €mil. 1 from the same period in 2006 (€mil. 39).

Key activities in this area included:

- research and development phases for programmes such as:
    - Syracuse 3, Satcom BW and Sicral 1B programmes (SAR radar, altimeter and radiometer);
    - dual-use civil and military navigation systems (Cosmo);
    - science programmes (Alma, Bepi-Colombo, Goce, and Herschel/Plank);
- development of:
    - platforms and solutions for satellite navigation /infomobility (Galileo);
    - GIS platforms (Geodatabase);
    - platforms for LEO applications;
    - production technology for mobile and/or broadband applications;
    - architectures and technologies for radar and optical instrumentation;
- studies relating to:
    - future experiments on board the International Space Station;
    - capsules, orbital infrastructure and manned re-entry craft.

The number of **employees** at 30 September 2007 came to 3,339, with an increase of 118 employees over the 3,221 at 31 December 2006 due to higher production in the manufacturing segment and the development of satellite services.

DEFENCE SYSTEMS

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	446	496	180	158	1,111
Order backlog	4,030	4,070	n.a.	n.a.	4,252
Revenues	719	728	222	234	1,127
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	32	38	7	16	93
R.O.S.	4.5%	5.2%	3.2%	6.8%	8.3%
EBIT	30	38	6	16	91
Working capital	(363)	(245)	n.a.	n.a.	(374)
Net invested capital	112	244	n.a.	n.a.	104
R.O.I. (*)	insig.	20.8%	n.a.	n.a.	insig.
Research and Development	149	141	39	15	279
Employees (no.)	4,164	4,289	n.a.	n.a.	4,275

(*) calculated on invested capital at period-end

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

New orders for the first nine months of 2007 came to €mil 446, a decrease over the figure for the same period of 2006 (€mil 496), when there was a significant level of new orders for naval weapons for the FREMM programme. The main new orders for the period included the following:

- in missile systems: the contract with the UK Ministry of Defence for the Rapier anti-air defence system (Q3), orders to upgrade the German Patriot systems (Q1) and Rolling Airframe Missiles (RAMs) (Q2), refurbishment of the batteries of Aspide anti-air defence missiles (Q1) and the Exocet systems (Q2) abroad;
- in the land, sea, and air weapons segment: the orders for four 76/62 SR cannons and for machine guns from Malaysia (Q1), for three 76/62 SR cannons from Oman (Q2), the provision of 70 Pintle Mounts for the NH90 for the Italian Army (Q2), the order for the provision of sixteen 40mm twin-compact weapons systems to the Turkish navy (Q3), additional Hitfist turret kits to Poland (Q3), and numerous logistics orders (Q1, Q2 and Q3);
- in the underwater systems segment: orders for 22 launch systems for Lynx helicopters from Germany (Q2), for additional activities relating to MU90 light torpedoes from Australia (Q2), and for FREMM logistics activities (Q1) and for export (Q1).

The **order backlog** at 30 September 2007 came to €mil. 4,030 (€mil 4,252 at 31 December 2006), corresponding roughly four years of activities, more than two-thirds of which related to missile systems.

Revenues for the first nine months of 2007 came to €mil 719, which is slightly lower than the figure for the same period of 2006.

Revenues benefited from the following activities:

- in missile systems: activities relating to the production of Aster missiles for PAAMS surface-to-air systems and of Storm Shadow and SCALP EG cruise missile systems; the production of MICA air-to-air missiles and Brimstone anti-tank missiles, as well as customer support activities;
- land, naval and air weapons systems: the provision of PZH 2000 howitzers to the Italian Army, the production of Hitfist turrets, the phase-three SAMP/T launchers for MBDA Italia, 76/62 SR cannons, and development activities related to the Vulcano guided munitions programme;

- in underwater systems: activities relating to the Black Shark heavy torpedo and the MU90 and A244 light torpedoes, to Indian countermeasures, and activities related to logistics.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) at 30 September 2007 totalled €mil 32, a decrease of €mil 6 from the same period of 2006. This decline was due to lower volumes, additional activities concerning the MU90 light torpedo, and greater costs for the missile segment reorganisation. These decreases were partially offset by improved operating profits for land, naval and air weapons systems. As a result, **ROS** amounted to 4.5%, down 0.7% from the same period of 2006.

Working capital came to a negative €mil. 363 at 30 September 2007 due principally to advances from MBDA customers, remaining essentially in line with the same figure of 31 December 2006, given that the improvement in the missiles segment was offset by delays in collections on certain programmes in the land, naval and underwater weapons systems as a result of delays in invoicing. As a result, **net invested capital** at 30 September 2007 came to €mil 112 (from €mil 104 at 31 December 2006).

Research and development spending for the first nine months of 2007 came to €mil 149 (from €mil. 141 for the same period of 2006). The key activities included the continuation of the development of the Meteor air-to-air missile, for which important technical milestones provided in the contract were reached, guided munitions programmes and the development of the 127/64 LW cannon in the land and naval systems segment, and those relating to the Black Shark heavy torpedo and the A244 light torpedo in the underwater systems segment.

The number of **employees** at 30 September 2007 came to 4,164, a decrease of 111 from 31 December 2006 mainly due to the continuation of restructuring activities in the missile segment.

ENERGY

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	1,351	741	752	65	1,050
Order backlog	3,062	2,455	n.a.	n.a.	2,468
Revenues	751	631	274	220	978
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	46	38	16	20	63
R.O.S.	6.1%	6.0%	5.8%	9.1%	6.4%
EBIT	46	38	16	20	63
Working capital	(318)	(355)	n.a.	n.a.	(282)
Net invested capital	(335)	(320)	n.a.	n.a.	(254)
R.O.I. (*)	insig.	insig.	n.a.	n.a.	insig.
Research and Development	14	11	6	4	17
Employees (no.)	2,929	2,692	n.a.	n.a.	2,856

(*) calculated on invested capital at period-end

Ansaldo Energia and its subsidiaries are specialised in the provision of energy production plants and components (conventional thermal plants, simple and combined-cycle plants, co-generation and geothermal plants), as well as in the design of "nuclear" plants and the provision of related services.

Commercially, the third quarter of 2007 closed with **new orders** totalling €mil. 1,351, for an improvement of more than 80% over the same period of 2006 (€mil. 741). This performance was primarily due to the increase in new orders for plant and components during the period. At 30 September 2007, of all new orders, 76% related to work on

plants and components, 22% came from service activities, and 2% from nuclear work processes.
The geographic distribution of new orders was also significantly different from the same period of the previous year, with the breakdown at the end of the third quarter of 2007 being as follows: 87% abroad and 13% in Italy (at 30 September 2006, foreign orders accounted for only 18% of the total). These results serve to strengthen Ansaldo Energia’s international presence as both an original equipment manufacturer and an independent service provider.

The most significant orders for the period were:

- in the systems and components segment: orders for the Algeciras (lot 2) and Vlore plants (Q1) (both for a model V94.3A gas turbine and related alternator); the order from Finland for a gas turbine (model V94.2 *plus*) and related alternator (Q2); two contracts with Algeria (Batna and Larbaa) for the customer Sonelgaz for the construction of two 300 MW electrical plants, each outfitted with two V94.2 open cycle gas turbines (both in Q2); the contract with Iran for three alternators (Q2); the doubling at the Larbaa site in Algeria for the construction of an additional 300MW plant equipped with two V94.2 open-cycle gas turbines (Q3); a 400MW plant at the M’Sila site in Algeria (Q3); two important contracts in Russia with Power Machines (the leading Russian manufacturer of power generation systems) for the provision of five V64 3.A gas turbines with related generators and auxiliary systems for the Tyumen combined-cycle plants, the centre of western Siberia and Pervomaiskaya in the St. Petersburg area (Q3); a new order in South Africa for the provision of two 170MW V94.2 gas turbines with generators and auxiliary systems for the open-cycle peak-load plant in Port Elizabeth (Q3); and orders for plant and component alterations in both Italy and abroad (Q1, Q2 and Q3);
- in the service segment: new orders in Italy in the renewables segment regarding the refurbishment of four hydroelectric assemblies, two hydroelectric generators, a hydroelectric plant, and revamping a steam turbine (all in Q1). The latter type of order is indicative of the current market where there is growing awareness of

alternative energy sources. Also in the service segment, the following orders were obtained: a contract with Iran for fives sets of blades (Q2); the revamping of a steam turbine for the Algeciras plant (Q2); a maintenance contract for the Batna and Larbaa plants (Q2) and spare parts for the new M'Sila plant (Q3), all in Algeria; various flow orders in Italy and abroad (Q1, Q2 and Q3); and changes to long-term service agreements (LTSAs) in Italy and abroad (Q1, Q2 and Q3).

The **order backlog** at 30 September 2007 came to €mil. 3,062, as compared to €mil. 2,468 at 31 December 2006. As a result of this increase, the size of the orders backlog, defined based on its workability, is such as to guarantee coverage of expected production for the next 2.8 years. The composition of the backlog at 30 September 2007 is attributable for 50% to plant and components, 49% to service activities, and the remaining 1% to nuclear work processes.

Revenues came to €mil. 751 at 30 September 2007, an improvement of €mil. 120 (19%) over the same period of the previous year (€mil. 631), due to higher production in the service segment.
Specifically, production for the third quarter of the year mainly regarded:

- in the systems and components segment: continued development of work on the new Algerian orders (Batna, Larbaa and M'Sila), progress made on orders received during the first half of the year (Algeciras, Vlore and Finland), in addition to continued work on the combined-cycle plants for Rizziconi, Sparanise, Rosignano and Napoli Levante. Finally, with regard to the Enipower contract, the Final Acceptance Certificate (FAC) was received for units 1 and 2 of the Mantua site and the "proof of warranty" for unit 3 of the Brindisi site (issuance of the certificate was tied to return of the performance bond);
- in the service segment: of particular note were the intensive maintenance activities for the Enipower contract, as well as the significant growth in production both for long-term service agreements (LTSAs) and current service contracts (spare parts, revampings, repowerings, upgrades, and other technical support and maintenance) and flow agreements.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) at 30 September 2007 totalled €mil. 46, an improvement of €mil. 8 from the same period of the previous year (€mil. 38), attributable in part to the increase in production volumes and in part to the higher profitability of certain orders in the foreign (Algeria, Escatron, Amman East) and domestic (Enipower, Rizziconi, Rosignano, Sparanise) plants and components segment.
Given the above, **ROS** at 30 September 2007 came to 6.1%, for an increase of 0.1 percentage points over 30 September 2006.

Net invested capital at 30 September 2007 came to €mil. 335, for a further reduction from 31 December 2006 of €mil. 254, attributable entirely to the drop in **working capital**, which came to a negative €mil. 318 at the end of the third quarter of 2007, as compared with a negative €mil. 282 at 31 December 2006. This effect is due in part to higher invoicing of contract milestones achieved during the period (in particular, for the new contracts in Algeria and Russia, as well as for the Sparanise, Ferrara, Rizziconi, and Napoli Levante orders), and in part to advances received (particularly, the Larbaa and Batna orders in Algeria and the Italian Tavazzano contract).

Research and development costs came to €mil. 14, a €mil. 3 increase for the same period of the previous year.
During the third quarter of 2007, the main activities carried out included the following:

- development of strategic technologies for gas turbines and other critical projects connected with the technological autonomy of the blades;
- rationalisation of development activities for steam turbines, especially alternators.

The number of **employees** at 30 September 2007 came to 2,929, a net increase of 73 employees as compared with the 2,856 of 31 December 2006 due to the hiring of employees required to meet the increased production described above.

TRANSPORTATION

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	1,329	1,738	734	595	2,127
Order backlog	4,928	4,673	n.a.	n.a.	4,703
Revenues	1,054	999	329	315	1,368
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	15	39	(1)	12	15
R.O.S.	1.4%	3.9%	insig.	3.8%	1.1%
EBIT	15	39	(1)	12	15
Working capital	177	194	n.a.	n.a.	61
Net invested capital	407	399	n.a.	n.a.	283
R.O.I. (*)	4.9%	13.0%	n.a.	n.a.	5.3%
Research and Development	36	32	9	9	40
Employees (no.)	6,924	6,619	n.a.	n.a.	6,677

(*) calculated on invested capital at period-end

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

As at 30 September 2007, the three business divisions showed the following performance:

- Systems: order volumes increased over 30 September 2006 due, in particular, to new orders concerning the line 6 of the Naples subway system (€mil. 426) and line C of the Rome subway system (€mil. 205), whereas new orders for the same period of the previous year included those related to the automated subway system in Thessaloniki (€mil. 166) and line 5 in Milan (€mil. 118), as well as the extension of the operation and maintenance contract for the automated subway system in Copenhagen (€mil. 127) and the Piscinola-Capodichino line of the Campania regional transit system (€mil. 83). EBIT was also slightly higher than the year-ago period (with ROS at 9.0%);

- Signalling: orders lower than for the same period of 2006 due primarily to a slowdown in the Italian market and to the particularly strong performance in India during 2006. EBIT was higher than the year-ago period (with ROS at 10.8%);
- Vehicles: volumes ordered fell from the same period of the previous year, which benefited from a contract for the maintenance of vehicles for the Madrid subway system and a high number of orders in the mass transit area. Financial performance was characterised by operating losses, and was affected by difficulties in stabilising the configuration of certain products, production inefficiencies and, in general, by industrial problems addressed in the intervention plan that has been introduced affecting the main corporate processes, as well as the launch of the optimisation and development plan for shared human resources in 2007, involving the national and regional trade unions and the company-level union representatives.

  The goal of the plan is to make the company's productive structures more efficient while maintaining its productive capacity by:

  - rebalancing the direct/indirect ratio;
  - raising the level of technical and professional skills;
  - accelerating the process of updating employees' professional skills.

  Specifically, under the legislative decree of 2 May 2007, which permits the use of long-term mobility, an action to reduce the workforce through the voluntary leaving of about 300 employees (180 with long-term mobility) was agreed as a supplement to the previous agreement. As of 30 September 2007, this process has been applied for roughly 50% of the employees involved. As a result of these leavings, a plan to hire 200 employees between 2007-2009, following the implementation of a programmed targeted at professional development, was prepared and communicated to the unions.

New orders acquired as of 30 September 2007 totalled €mil. 1,329, a decrease of €mil. 409 from the same period of the previous year (€mil. 1,738), reflecting, in particular, a decrease in orders in the Vehicles segment, which was partially offset by gains in the Systems segment. The key orders during the period included the following:

- Systems: the order related to the Alifana Inferiore programme (Q1); new orders related to line C of Rome's automated subway system (Q2 and Q3); the order concerning line 6 of the Naples subway system (Q3); a change in the order related to line 5 of Milan's automated subway system (Q3); and changes to the high-speed railway in Italy (Q2 and Q3);
- Signalling: orders placed by the mining firm Rio Tinto (Q1, Q2 and Q3) and by Fortescue Metals Group in Australia (Q1); orders relating to the Chambers Street station of the New York subway (Q2); the order in Italy for SCMT on-board equipment to complete Step 3 of the double rail lines which were partially equipped under previous Step 2 contracts (Q2); the order by ERGA-OSE, the Greek railway agency, for the supply of onboard equipment (Q2 and Q3); the order for building the Communications Based Train Control (CBTC) signalling system for the Shenyang Line 1 metro (Q2); a change in the Korean high-speed railway order (Q2); the order related to ACS Torino Rebaudengo (Q3); a change to phase 2 of the Channel Tunnel Rail Link contract (Q3); contracts as part of the agreement signed with the Australian Rail Track Corporation (ARTC) in Australia (Q1, Q2 and Q3); and orders for components (Q1, Q2 and Q3);
- Vehicles: the options for the supply of 8 further regional service trains to Ferrovie Nord Milano (Q2); vehicles for line C of Rome's subway system (Q3); and service orders (Q1, Q2 and Q3).

At 30 September 2007, the **order backlog** for the division totalled €mil. 4,928, an increase of €mil. 225 over the same figure as at 31 December 2006 (€mil. 4,703). The order backlog for the division at 30 September 2007 breaks down as follows: 43% for Vehicles; 36% for Systems; and 21% for Signalling.

Revenues at 30 September 2007 came to €mil. 1.054, an increase of €mil. 55 over 30 September 2006 (€mil. 999), mainly attributable to the Signalling and Vehicles divisions. Among the noteworthy orders in the Transportation division were the following:

- 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 on-board, for Italy; second phase of the Channel Tunnel Rail Link; the project for the realisation of the Optimizing 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; various Sirio orders; and service and revamping activities.

Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*) at 30 September 2007 came to €mil. 15, a decrease of €mil. 24 from 30 September 2006 (€mil. 39), due to the industrial problems mentioned concerning the Vehicles division and the launch of the human resources optimisation and development plan, which were partially offset by an improvement in Signalling as a result of higher volumes and growth in operating profitability. **ROS** for the sector fell as a result, reaching 1.4% as compared with the 3.9% recorded for the same period of the previous year.

Working capital at 30 September 2007 came to €mil. 177, up €mil. 116 over the figure at 31 December 2006 (€mil. 61), mainly attributable to the increase in net inventories for the Vehicles division.

Net invested capital at 30 September 2007 came to €mil. 407, up €mil. 124 from 31 December 2006 (€mil. 283), resulting primarily from the aforementioned increase in working capital.

Research and development costs at 30 September 2007 totalled €mil. 36, a €mil. 4 increase over the figure posted at 30 September 2006 (€mil. 32), mainly attributable to the Signalling division. In particular, these activities concerned Signalling projects, aimed primarily at alignment with the new requirements emerging both in the railway segment (level 2 of the European Rail Traffic Management System, or ERTMS rbc) and the mass transit segment (Communications Based Train Control, or CBTC), as well as the development of certain on-board equipment (the next-generation cab).

The number of **employees** at 30 September 2007 stood at 6,924, representing an increase of 247 compared with 31 December 2006 (6,677 employees), principally due to hiring in the Signalling division, particularly in Australia, India, and the US.

OTHER ACTIVITIES

€ millions	30.09.2007	30.09.2006	Q3 2007	Q3 2006	31.12.2006
New orders	453	42	37	3	99
Order backlog	665	353	n.a.	n.a.	346
Revenues	214	158	79	54	229
Operating result before the amortisation of non-current assets valued within the scope of business combinations (EBITA*)	(68)	(88)	(7)	(15)	(128)
R.O.S.	insig.	insig.	insig.	insig.	insig.
EBIT	(68)	(88)	(7)	(15)	(128)
Working capital	241	(255)	n.a.	n.a.	135
Net invested capital	1,063	747	n.a.	n.a.	774
R.O.I. (*)	insig.	insig.	n.a.	n.a.	insig.
Research and Development	4	-	1	-	-
Employees (no.)	1,111	785	n.a.	n.a.	811

(*) calculated on invested capital at period-end

The division includes: the Elsacom N.V. group, which manages satellite telephony services; Finmeccanica Group Services S.p.A., the Group service management company; Ansaldo Fuel Cells S.p.A. which develops a product based on fuel cells for distributed electricity generation; Finmeccanica Finance S.A. and Aeromeccanica S.A., which provide financial support to the Group; and So.Ge.Pa. - Società Generale di Partecipazioni S.p.A., 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. it can use natural gas, gas oil, syngas and biomass derived fuels therefore leading to access to markets for the management of urban and industrial waste and the use of fuel logistics for military applications. During the previous period, Ansaldo Fuel Cells built its first fully hybrid plant.

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

With regard to Fata S.p.A., from a commercial standpoint, the company received **new orders** totalling €mil. 419 at 30 September 2007, mainly attributable to the significant new contract for Qatar (received during the first half of the year) and the execution of two separate packages (Qatalum Casthouse and Qatalum Baking Kiln) for the construction of an aluminium smelter worth in total about €mil. 370. **Revenues** at 30 September 2007 came to €mil. 118 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 S.p.A., primarily for Finmeccanica Group companies. Its **workforce** at 30 September 2007 totalled 248 employees.

As of the first half of 2007, BredaMenarinibus S.p.A., 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.

BredaMenarinibus S.p.A. acquired **new orders** amounting to €mil. 29 at 30 September 2007, of which €mil. 20 related to the bus business segment and corresponding to 92 units, and €mil. 8 related to post-sale services. **Revenues** at 30 September 2007 came to €mil. 55, of which 85% was due to the bus segment and 15% to post-sale services. The number of **employees** at 30 September 2007 came to 304.

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

In order to ensure that the financial objectives set by the Group would be met, the corporate division has 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 **operating result before the amortisation of non-current assets valued within the scope of business combinations (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 maximizing 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 Corporate Affairs department was further strengthened in its goal of reaching these objectives over the medium term with a broad-based management-by-objectives (MBO) policy, which involved top management and key resources from all companies within the Group. The correct application and monitoring of the promotion of these objectives will represent one of the principal aims in achieving the goals.

Outlook

Performance in the third quarter of 2007 improved with respect to the performance in the same period of the previous year and to the forecasts made at that time.
In the light of developments to date, there would appear to be no circumstances that would alter the forecasts made for all of 2007 and announced along with the publication of the results for 2006. The level of order backlog at 30 September 2007, roughly 12% of which represents work that can be done during the last three months of the year, will also contribute to reaching the performance objectives that have been set.

As a result, during 2007 we expect overall growth in Group revenues of between 4% and 10% with an increase in EBIT of between 8% and 14% over 2006.

We also expect Group Free Operating Cash Flow (FOCF) to remain substantially the same, given the significant investments in the development of products and communications, necessary to sustain Group growth, that will focus especially on Aeronautics, Helicopters and Defence Electronics.

for the Board of Directors
Pier Francesco Guarguaglini

Chairman and Chief Executive Officer

Declaration of the officer responsible for the quarterly report at 30 September 2007 in compliance with Article 154-*bis*(2) of the Consolidated Finance Act (TUF)

I, Alessandro Pansa, as joint General Manager for Finmeccanica S.p.A. and the officer in charge of preparing the company's accounting documents, hereby declare, in accordance with the provisions of Article 154-*bis*, paragraph 2, of the Consolidated Finance Act (TUF, *Testo Unico della Finanza*), that the quarterly report for the period ended 30 September 2007 corresponds to the related accounting records and supporting documentation.

Alessandro Pansa
Officer in charge of preparing
company accounting documents

Rome, 13 November 2007