



Finmeccanica Investor Day 2006



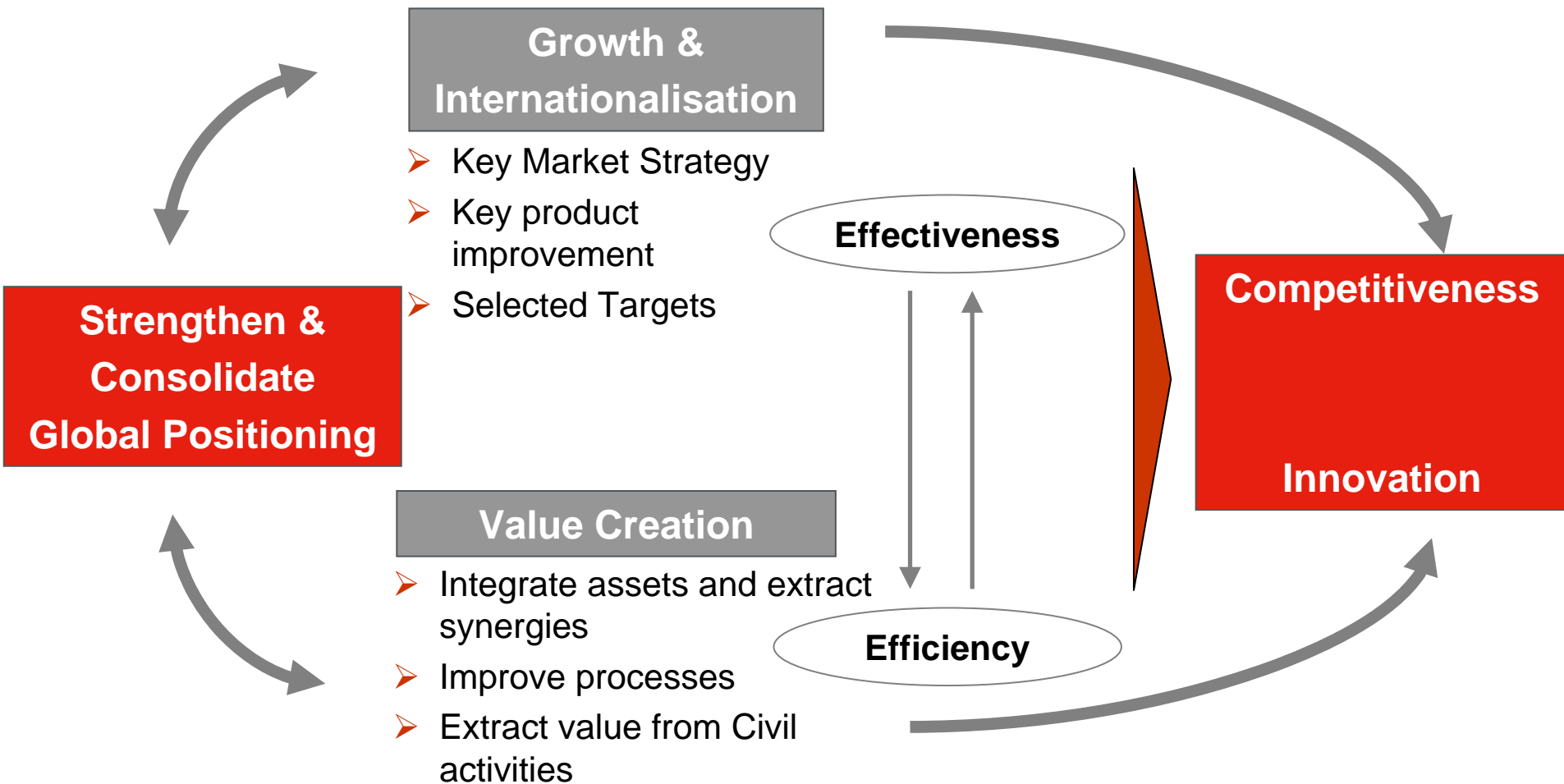
Finmeccanica Investor Day 2006

Pier Francesco Guarguaglini

Chairman and Chief Executive Officer

Strategic Overview

Finmeccanica's strategic priorities



... not separate and independent objectives, but a virtuous cycle

Selected growth: market size and market share



Finmeccanica is now perceived as a key player in the global A,D&S arena, in a strong position to participate in possible international industry consolidation... but a market leader in some segments

	World Market (€bn)	Finmeccanica's Market Share
Defence Electronics	56.4	6.9%
Missiles	14.3	22.4%
Armoured Systems	10.6	2.8%
Civil Aerostructures (<i>outsourcing</i>)	3.3	12.0%
Air Force	25.0	4.8%
Civil Helicopters	2.2	18.0%
Military Helicopters	8.8	30.0%
Space Manufacturing Satellites	13.0	11.5%
Space Services	9.6	3.1%
Transport (Vehicles)	23.5	1.7%
Transport (Systems & Signalling)	7.3	11.0%
Energy (Plants)	40.0	2.0%
Energy (addressable <i>Service</i>)	4.4	4.5%

**Pursuing growth and strengthening objectives,
addressing our areas of excellence**

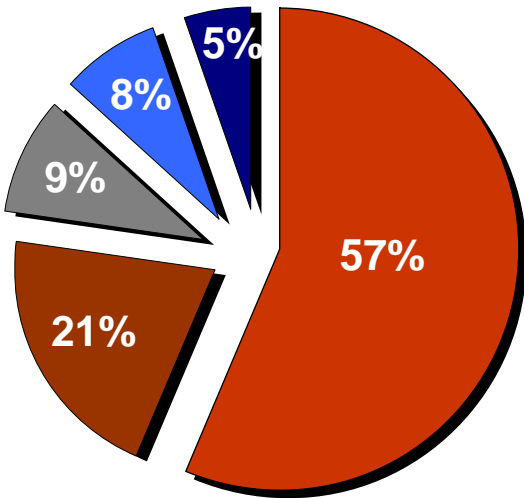
The scope of our ambition...

Orders

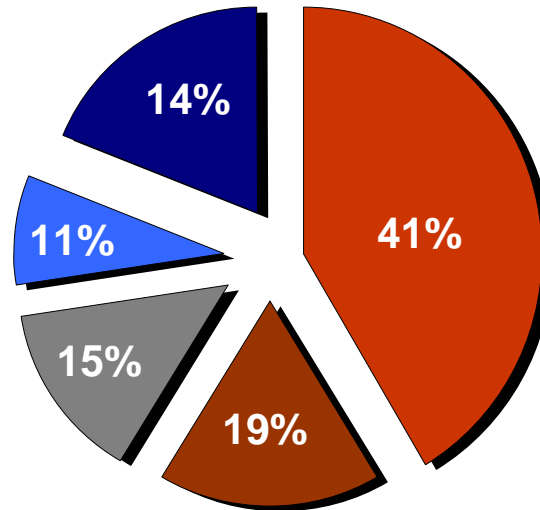
2005A: Eur 15.4 Bn
Avg gross Margin 19.3%

2006E: Eur 13.8 bn
Avg gross Margin 19.3%

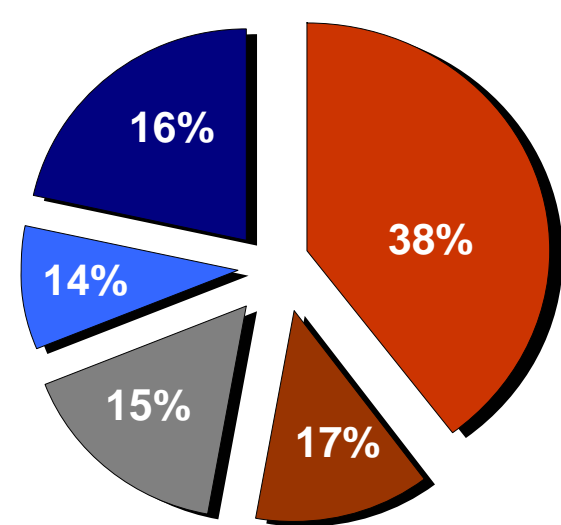
2008E: > Eur 16.0 bn
Avg gross Margin 20.3%



Revenues: Eur 11.5 Bn



**Revenues guidance:
Eur 12.7-13.0 Bn**



**Revenues guidance:
> Eur 14 Bn**



...and of our challenge

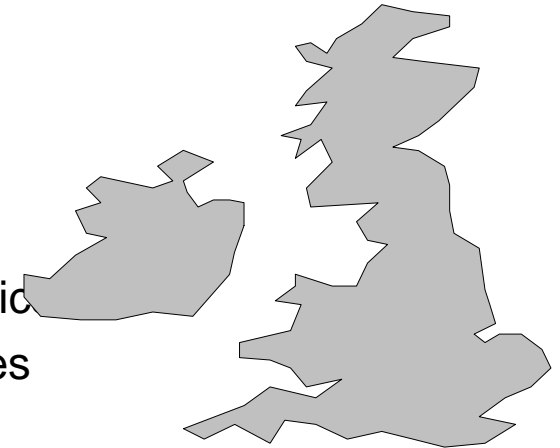
➤ Italy:

- ✓ Enlargement of customer base
(Ministry of Transport, Interior, Industry)
- ✓ Leveraging on domestic state of the art factories and National Champion status



➤ UK:

- ✓ Active participation in the evolution of *Defence Industrial Strategy* and *Defence Technology Strategy*
- ✓ Move up the value chain also in Defence Electronic
- ✓ Exploit additional opportunities in land programmes





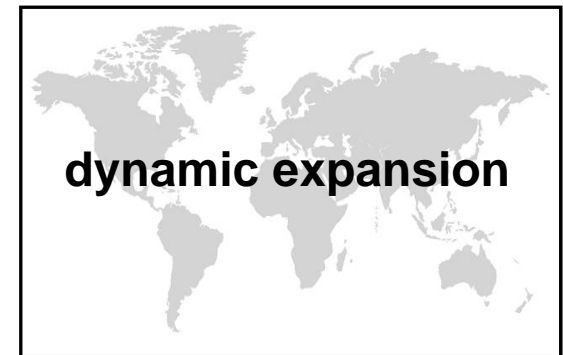
USA:

- ✓ Building up respectable industrial presence
- ✓ Active role in tightening commercial, industrial and technology transfer relationships



RoW

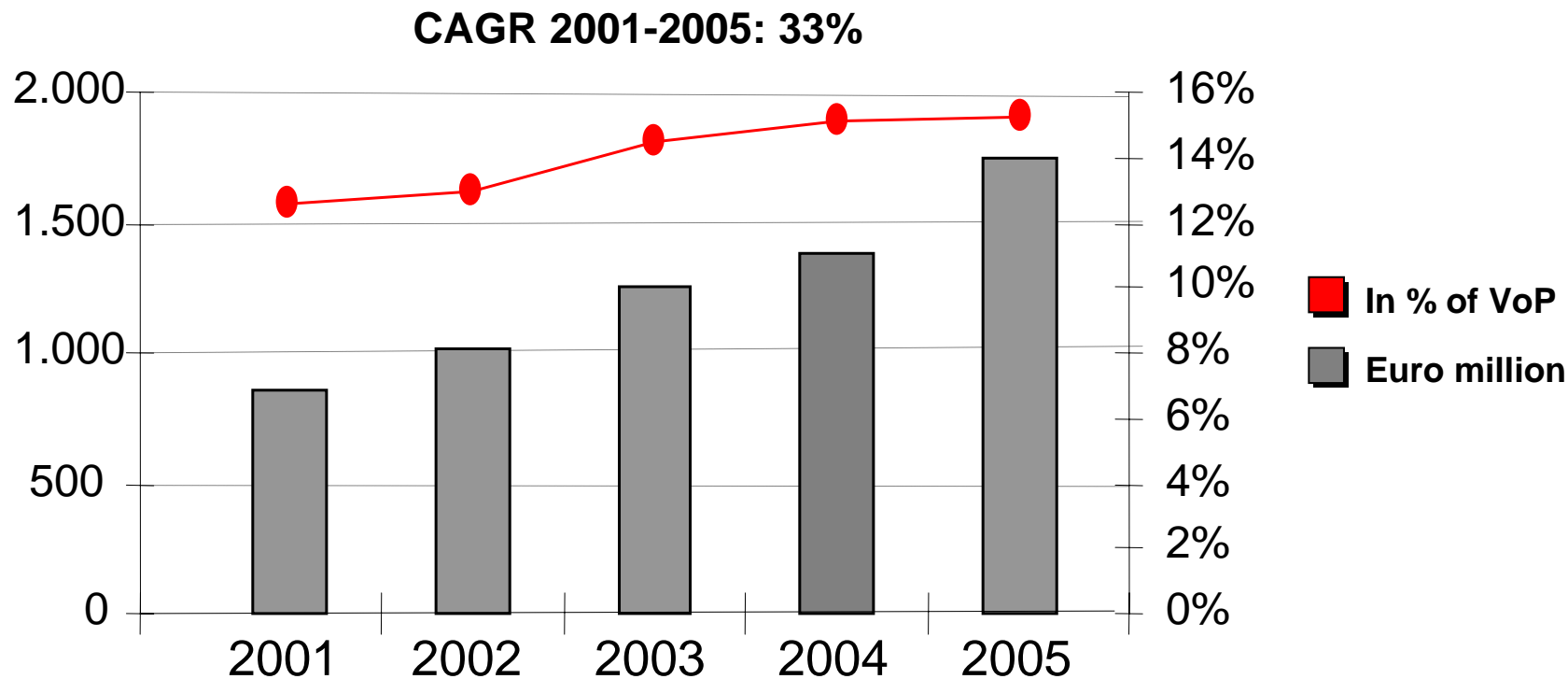
- ✓ State-of-the-art commercial offering
- ✓ Long term commercial and industrial commitment
- ✓ Local investments aimed at exploiting domestic skills



- **Targeting bolt-on acquisitions, aimed at strengthening**
 - ✓ technological capability endowment
 - ✓ product range
 - ✓ international market access
 - ✓ relationships with US and UK military customer

Innovation: continuous efforts towards cutting edge enabling technologies...

- About 15% of Finmeccanica 2005 revenues devoted to R&D
- According to EU Industrial R&D Investment Scoreboard
 - ✓ We are the only Italian company among the world's "TOP 50" for R&D expenditure
 - ✓ We rank fifth worldwide in terms of last year R&D growth rate



... and improved quality of our R&D

Sustainable value creation through long term growth

Using our Operating Cash-flow to invest in increasing :

- ✓ R&D = New Products
- ✓ Capex = New Processes in Equipment
- ✓ Capex = New Infrastructures in Plants

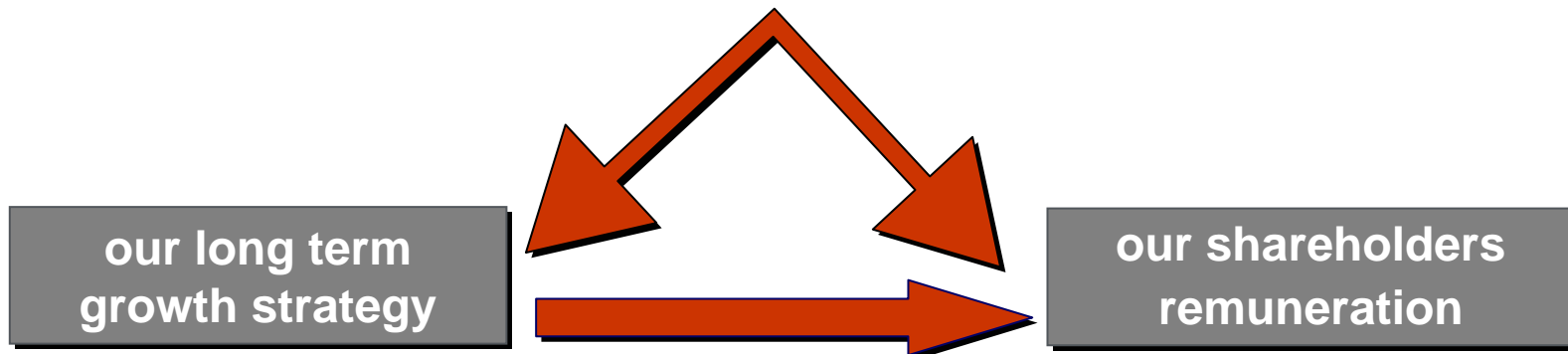


In order to strengthen our presence in key markets and penetrate new markets through innovative products

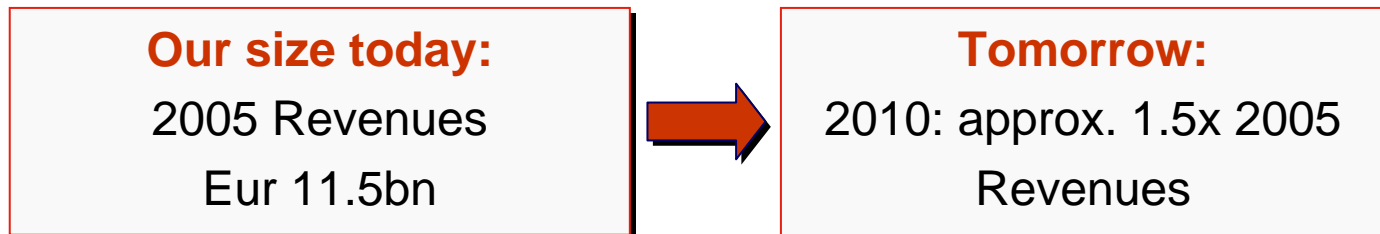
R&D and **CAPEX** investments mainly concentrated in some key programmes driving future growth, profitability and cash flow generation:

- ✓ i.e. B787 (Aeronautics) → advanced technology and a new site in Grottaglie
- ✓ i.e. BA609 (Helicopters) → new flight concept / new product

Investing in:



- We have already achieved a significant presence in some sectors, but we are still small among the big players.
- Our L/T growth objectives go beyond Eur 14 bn of Revenues by 2007:



➤ **Integrating asset and extract synergies**

- ✓ Focus on integrating cross-border and domestic acquired assets, increasing cross-fertilisation within the Group and extracting economic and industrial synergies
- ✓ Manage main programmes through adequate operating levers to maintain delivery timing and costs under control and reduce risks

➤ **Improve processes**

- ✓ Continuously reduce product costs
- ✓ Increase quality of order intake
- ✓ Offer integrated solutions leveraging on synergies internal to the Group
- ✓ Introduce innovative technologies into the products, assessing and managing innovation risks

VEHICLES
(Ansaldo Breda)

- ✓ Restructuring and production reorganisation plan started. Pursuing a clear focalisation strategy on higher growth activities, based on distinctive capabilities

SIGNALING+SYSTEMS
(Ansaldo STS)

- ✓ Signaling and System activities integrated and floated. Exploiting technological, industrial and commercial synergies

ENERGY
(Ansaldo Energia)

- ✓ Pursuing worldwide leadership as Independent Service Provider, through a clear organic and external growth strategy



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Giorgio Zappa

Chief Operating Officer



New international commercial challenges for our key products...



- ✓ **US101** (all-weather, medium-lift helicopter)
- ✓ **AW 139** (New generation twin-turbine helicopter)
- ✓ **SeaSpray** (Electronically scanning multi-role radar)
- ✓ **Tetra** (Terrestrial Trunked Radio for professional mobile radio communications - Secure Wireless)
- ✓ **RAT** (Fixed or Deployable air defence radar)
- ✓ **VTMS** (Vessel Traffic Management System)
- ✓ **Naval Turrets**

- ✓ **C-27J** (Military tactical transport aircraft)
- ✓ **Eurofighter** (Advanced Multirole Fighter)
- ✓ **M346** (New generation Advanced/LIF Trainer)
- ✓ **JSF** (F35-Joint Strike Fighter)
- ✓ **Sicral & Cosmo** (Satellites & Services)
- ✓ **Signaling systems**
- ✓ **Tram & Driverless Metro**
- ✓ **Energy service**

... relies on our commitment to constantly improve their competitiveness¹⁶

Localisation of industrial sites and specific country-focused strategies are the basis for the penetration and expansion into new markets

- ➔ Present Finmeccanica as industrial and commercial partner, rather than a “pure seller”, through
 - Long term commercial and industrial commitment
 - Local investments aimed at exploiting domestic skills
 - Partnerships with domestic industries
 - Contribution of our know-how and technologies
 - Use of the offsets as a “Business Generator”

➤ **Main initiatives of manufacturing localisation:**

✓ **USA:**

- Pennsylvania (Helicopters, Defence Systems and Transportation)
- North Carolina (Aeronautics B787)

✓ **Russia:**

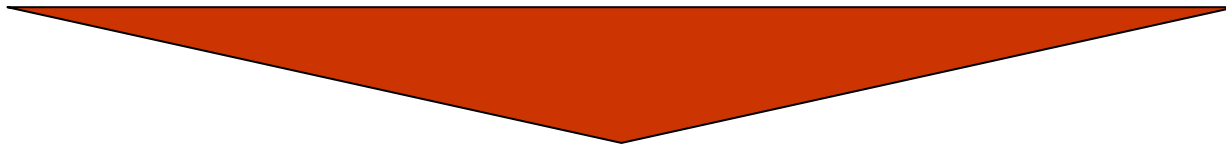
- Tetra Mobile Comms Network for Security Applications, first laboratory opened
- RRJ regional jet with Sukhoi, industrial cooperation in advanced materials
- Engineering activity (Russia, Greece, India)

➤ **Initiatives to come :**

- ✓ USA: C27J Florida (if JCA outcome positive)
- ✓ Helicopters for military programmes (Turkey and US)
- ✓ Naval Defence Systems (UAE)
- ✓ Tetra: new plant in Russia if contract awarded
- ✓ China and USA: small purpose companies for Procurement
- ✓ Turkey: communications equipment systems for defence and civil applications

... through localisation of production sites

Another major effect of the internationalisation process
accomplished by Finmeccanica



Access to a new competitive system,
where the price flexibility is more and more limited,
while it is crucial to master the cost structure
in order to

Be competitive

A constant attention to costs is becoming crucial to:

- Address markets with competitive prices**
- Win orders of adequate profitability**
- Reduce risks of our activities
within acceptable limits**
- Try to be a “price maker”
rather than a “price taker”**

Reduce and monitor the product costs

Decrease overhead costs

Rationalise and improve our offer catalogue

Attention to costs means

Optimise the use of human resources

Optimise the use of capital

Optimise the R&D investments

Restless attention to costs equals to continuous improvement

“Day by day” operations

- ✓ Overhead costs
- ✓ Product costs
- ✓ Inventory
- ✓ Stock optimisation
- ✓ HR costs
- ✓ Review of competencies

Structural Change

- ✓ Control of Project costs
- ✓ Efficient re-use of existing technologies
- ✓ Control of manufacturing processes
- ✓ Supply chain optimisation
- ✓ Rationalisation of production assets
- ✓ Specialisation / Centres of excellence

Continuous improvement through a comprehensive process optimisation

Commercial initiatives

- ✓ Critical customers
- ✓ Priority markets
- ✓ Commercial strategies

Enhanced Industrial efficiency by:

- ✓ integrating acquired assets
- ✓ SG&A saving plans
- ✓ improving the competitiveness of the “offer proposition”
- ✓ strengthening product and process competencies
- ✓ increasing “good quality” order intake
- ✓ faster product development cycles and lead times

**Improved
Competitiveness**

**Increased
Profitability**

... for best in class performance

- **AgustaWestland:** target of Eur 50 mln of additional EBIT by 2006 well on track. Italian and UK operations reorganised with greater focus on:
 - ✓ creation of one single company
 - ✓ concentration of operations under one single responsibility
 - ✓ set up of BU highly focussed on specific market segments.

- **Selex S&AS:** target of Eur 50 mln of additional EBIT annually by 2008, through
 - ✓ Increasing focus onto optimisation initiatives
 - ✓ commercial integration
 - ✓ shared R&D in selected programmes
 - ✓ cost savings
 - ✓ reorganisation of Basildon (UK) site expected by beginning of 2007.

- **Elsag:** industrial plan guidelines for the integration of Datamat and Elsag approved. Target of more than Eur 20 mln of additional EBIT by 2009, through:
 - ✓ reorganisation of company structure
 - ✓ integration of defence and space activities
 - ✓ more integrated and selected investments

- ✓ Achieve efficiencies through more effective contract management. New team set up in March has surveyed the strategic programmes of the first five companies, **highlighting approx. Eur 40 mln of potential EBIT improvement within 2 years**

Reduce industrial costs in manufacturing and in SG&A

- **Targeted 1%-1.5% reduction in impact of SG&A on Value of Production by 2008 from current 10%**
- **Targeted reduction of IT spend across Group of 10-15% by 2008, currently ~€350mln**

- ✓ Simplify Group structure and reduce number of subsidiaries by at least one third

... confirmed

Continuous improvement can only be achieved in presence of a coherent set of

CORE-COMPETENCIES

FHINK
FINMECCANICA MASTER in
INTERNATIONAL BUSINESS
ENGINEERING



Mindsh@re communities -
Permanent design centres of intelligence and knowledge: the clearest and most tangible expression of the industrial holding size of Finmeccanica.

Finmeccanica Innovation Award

2006 – 3° edition: **625** projects were presented in the various Group Companies worldwide.

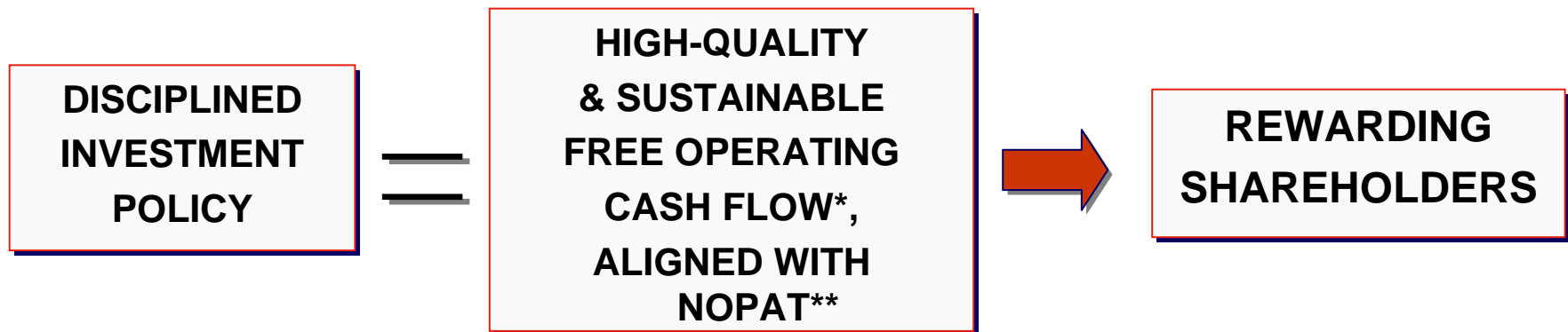


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Alessandro Pansa

Co-General Manager

- Finmeccanica operates in L/T businesses, characterised by multiyear investment cycles, which bear fruit after some years
- We are currently at the peak of an investment cycle, aimed at sustaining growth, profitability and cash flow generation beyond the end of the decade
- Improved Cash Flow generation is a key tool in order to fund our investments in L/T growth

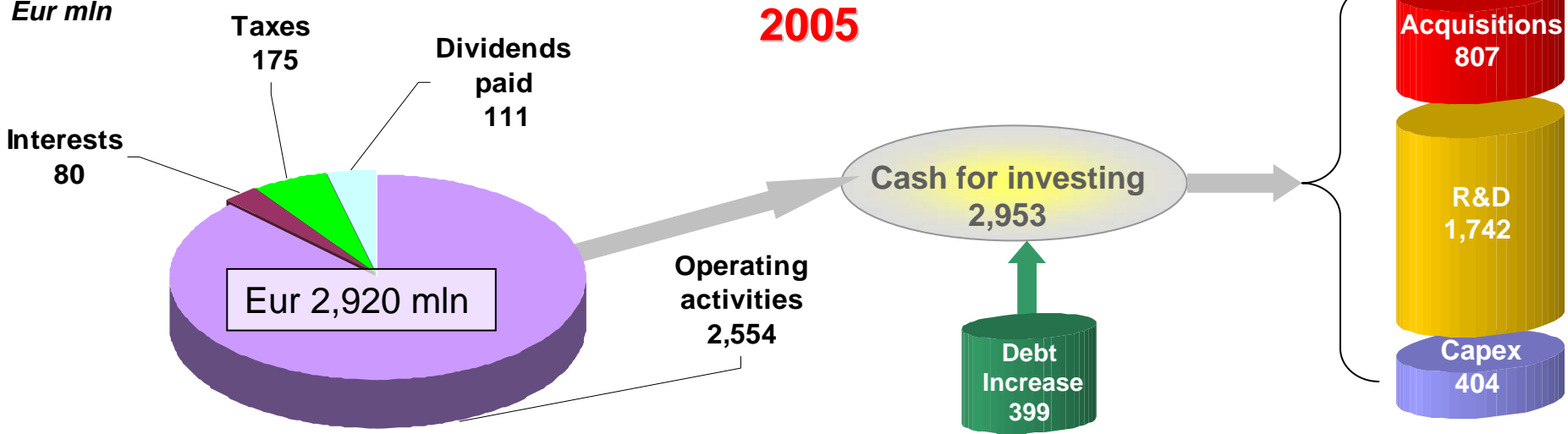


* After capex

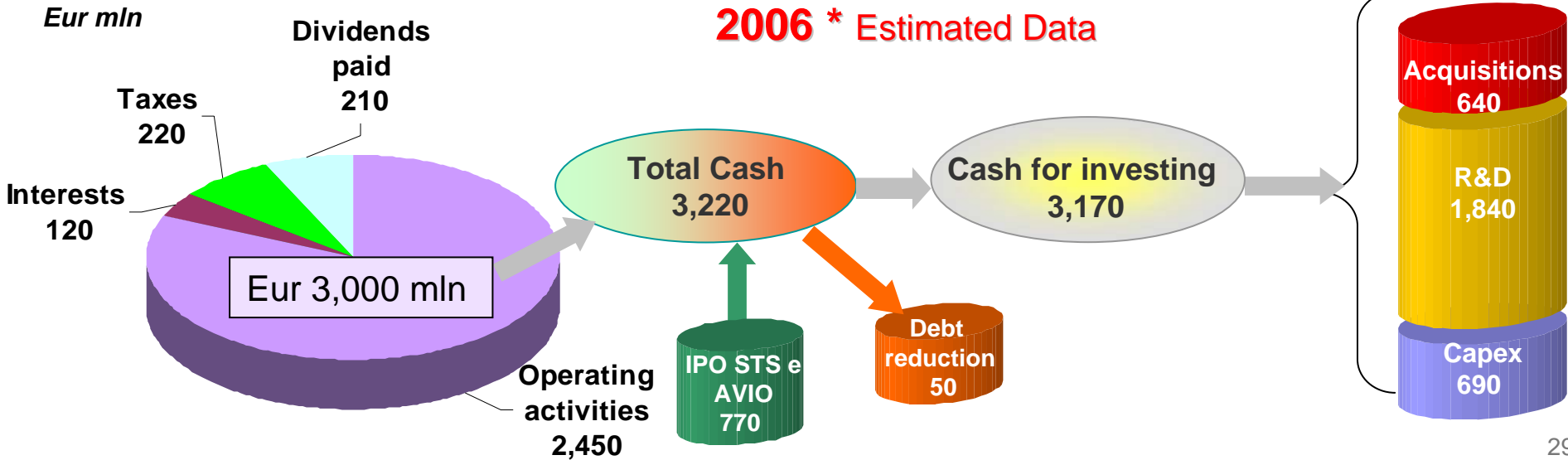
** Net Operating Profit after Taxes

Using our Operating Cash-flow to grow

Eur mln



Eur mln



High quality and sustainable Operating Cash Flow generation, for our L/T growth, relies on:

- 1) Focus on gross margin in new order intake and in backlog execution
- 2) Maintaining working capital under tight control from the bidding phase over the entire life-cycle
 - ✓ through detailed planning of inventories and disciplined management of project milestones, aimed at turnover maximisation
 - ✓ by strongly linking Management's MBOs to working capital targets
- 3) Improving payment terms from institutional clients
- 4) Bringing Capex in line with depreciation by the end of the investment cycle; by 2008 for the current cycle.

Portfolio optimisation based on Risk-Return Assessment

- A L/T Invested Capital Risk-Return Analysis (for ex. adjusted FFO* and adjusted FOCF** over Net Invested Capital) has been developed both at Group and Sector level:
 - ✓ to identify the main risk and value drivers (demand volatility, order acquisition, margin management, etc.);
 - ✓ to measure historical and projected risk return performance;

- a Risk-Return Portfolio Analysis has been developed to evaluate Capital Allocation Solutions with the aim of:
 - ✓ moving along the efficient frontier;
 - ✓ improving strategic positioning and delivering synergy potential

Focus on Invested Capital Optimisation and Risk-Adjusted Return delivers the appropriate spending pattern to maximise shareholders' value

* Funds from operations

** After Capex

- **IRR on new investments = Group WACC (7.8%) + min hurdle 3%**

- **“WACC RISK ADJUSTED”** by sector and for the Group
 - ✓ in order to factor in the volatility of sector expected cash flows
 - ✓ applied also at level of main programmes and strategic investments

- **Positive EVA from year 1**

- **Preserve optimal capital structure and related financial ratios within the “Investment grade” parameters set by Rating Agencies, in order to maintain and possibly improve our rating**
 - ✓ Net Debt/Equity < 35-40%
 - ✓ Net bank debt/EBITDA < 2.0

➤ **Potential resources available for further investments of approx. 2 bn, through:**

- ✓ Additional debt capacity
- ✓ STMicroelectronics stake (Eur approx 800-850 mln)*
- ✓ Proceeds from Ansaldo STS flotation (March 2006)
- ✓ Proceeds from the resizing of Avio stake (Q4 2006)

*Approx 60 mln shares, of which approx 45 mln hedged

Delivering on results: 9 months 2006 highlights

- Value of production up 18% to Eur 8.9 bn (+9% like for like)
- Ebit up 16% to Eur 472 mln (+12% like for like) driven by Helicopters, Aeronautics and Energy
- Net profit, excluding Ansaldo capital gain, increases to Eur 207 mln (+15%)
- Negative FOCF (Eur -1,149 m) impacted by seasonal increase in working capital, higher capex and temporary payments delay
- Net debt rises to Eur 2.18 bn due to seasonal factors
- Order intake of Eur 10.2 bn driven by Helicopters, Space, Defence Systems, Energy and Transport
- Backlog of Eur 34.1 bn covers almost 3 years of production

9M 2006 Main Financial Results

(Eur mln)	9M 06	9M 05	%change	FY 05
Value of Production	8,907	7,554	+18	11,469
EBIT	472	406	+16	735
EBIT Margin	5.3%	5.4%		6.4%
Net income	612	180	n.s.	396
FOCF	(1,149)	(650)	- 77	501
New orders	10,231	10,606	-4	15,383
Working Capital	877	894	n.s.	17
Net financial debt	2,184	2,245	n.s.	1,100
Debt/Equity	44%	48%		24%
ROI	13.1%	12.7%	0,4p.p	17.5%
EVA	(15)	(7)		217
Order Backlog	34,084	31,139	n.s	32,114

Delivering on our financial commitments

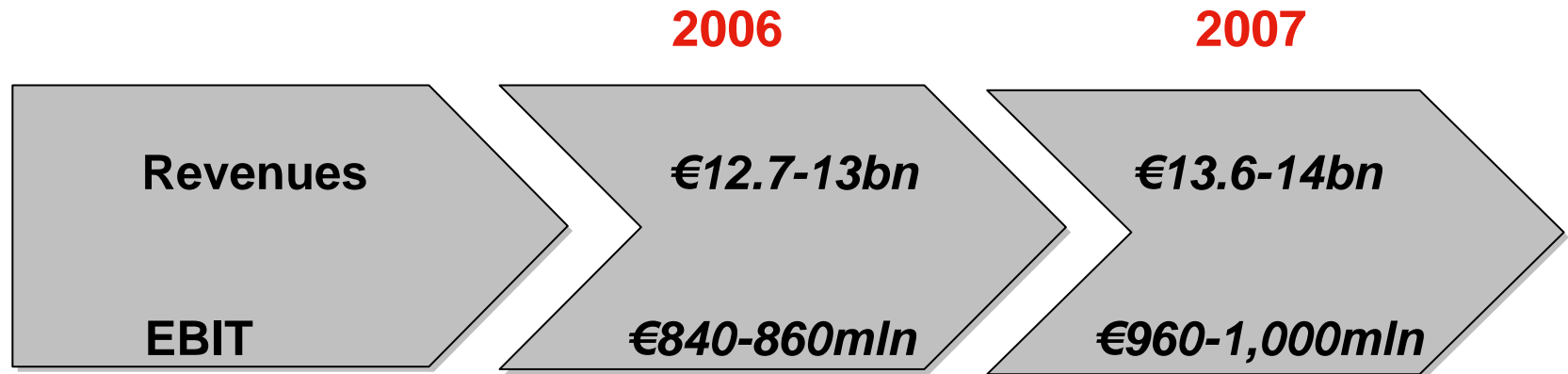


	2003 (ITALIAN GAAP)		2004 (ITALIAN GAAP)		2005 (IAS)		Outcome
	Guidance	Reported	Guidance	Reported	Guidance	Reported	
Revenue growth YoY	9-10%	11%	7%	9%	20%	25%	ü ✓ ✓
EBIT	6-6,5% low end	6,4%	€>550m ln	€614 m ln	ca.€700m ln	€735m ln	ü ✓ ✓
Net Debt/Equity	<35-40%	8%	<35-40% %	10%	<35-40%	23% 24%	ü ✓ ✓
Operating Cash Flow	€> 0	€496 m ln	€> 0	€364 m ln		€501* m ln	ü ✓ ✓ ✓

Cumulative Free Operating Cash Flow 2005-2007: €600mln

*Free Operating Cash flow (after Capex)

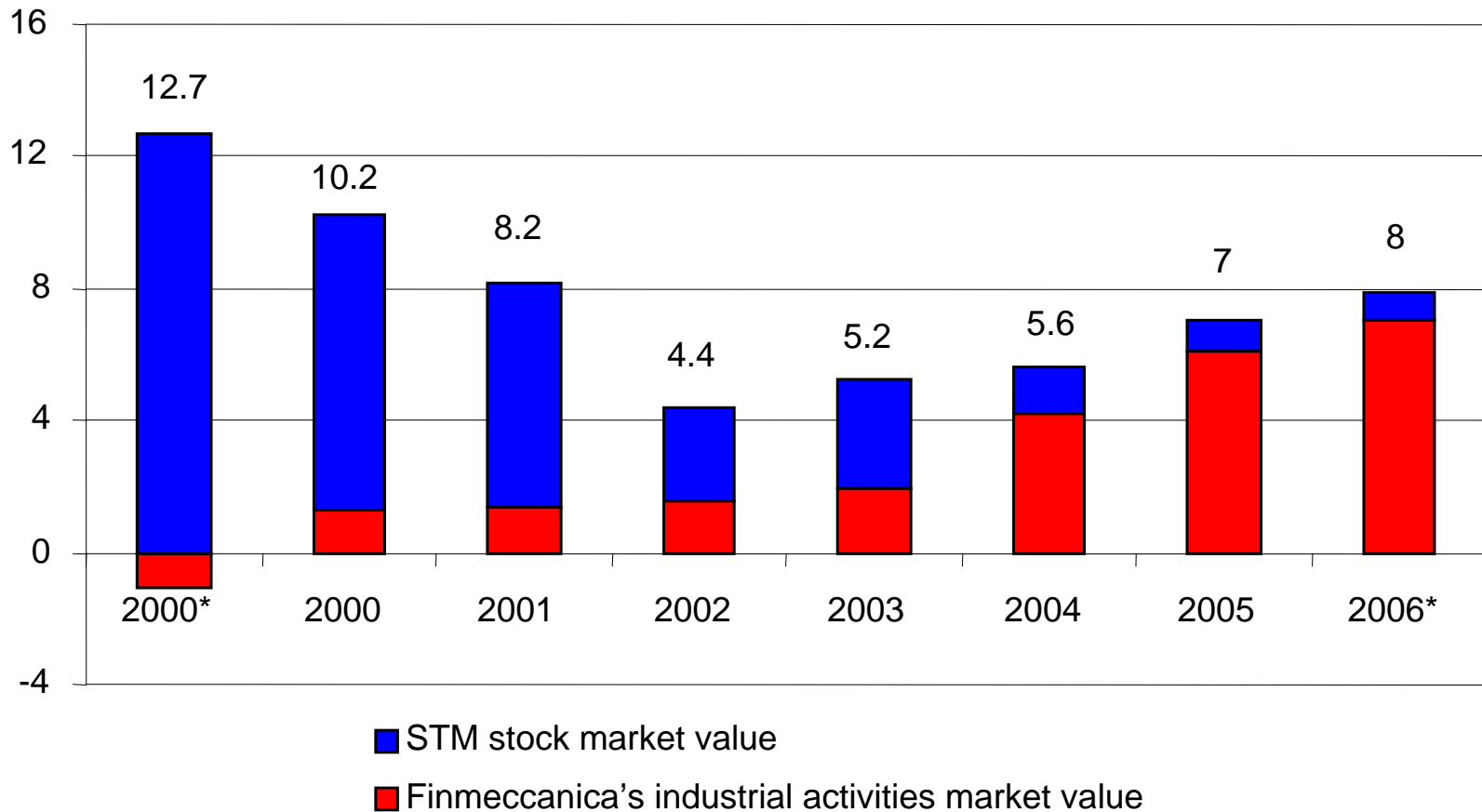
Confirming our Guidance for 2006 and 2007



- Average Free Operating Cash Flow per year (2006-08) of ca. €300mln
- Dividend policy: increase together with profits
- Optimal capital structure: Net debt/Equity < 35-40%
- Net bank debt/EBITDA <2.0

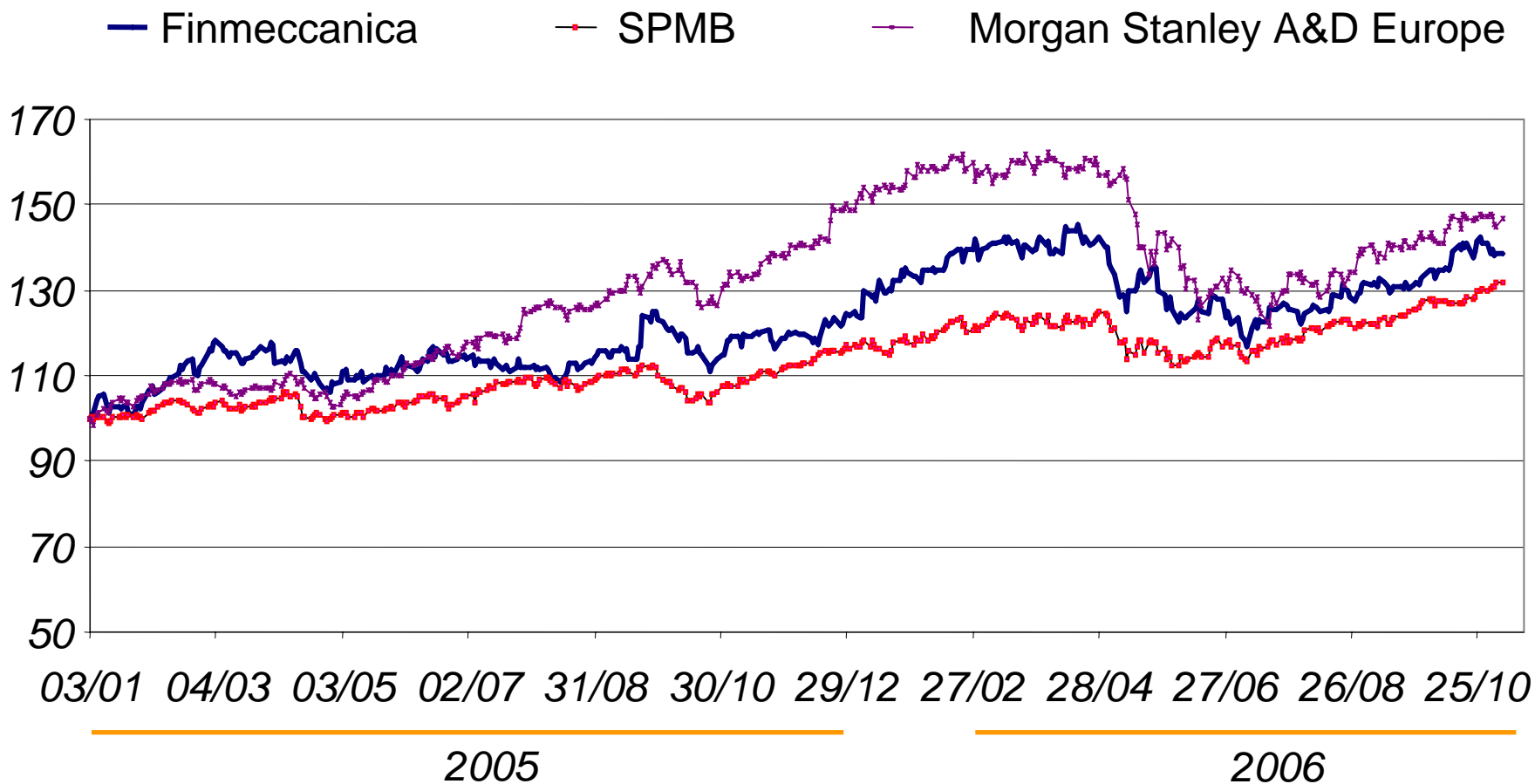
Euro bn

Finmeccanica's Market Capitalisation



Values at 31.12 of every year

* Values at 2 June 2000 and at 16 November 2006



... for our shareholders