Strategic Overview

Pier Francesco Guarguaglini
Chairman and Chief Executive Officer

Driving success by executing our goals
Creating a virtuous circle…

**Strengthened Global Positioning**
- Acquisitions

**Internationalisation**
- Markets
- Products

**Investments**
- Technologies
- Processes

**Innovation**
- Integration and Synergies
- Efficiency

**Competitiveness**

**Profitability**

**Value Creation**

... from our strategic priorities
Delivering on our strategy for last five years

Strengthened Global Positioning
Almost doubled revenues in Helicopters, Aeronautics and Defence Electronics, with full control of our core assets

Internationalisation
Export orders more than doubled to > €11 bn

Competitiveness Profitability
Avg. profitability of all orders improved by >30%

Innovation
Enabling technologies incorporated in products have secured major programme wins in open market

Value Creation
EVA increased by > 50%, with > €4 bn invested in selective A,D&S acquisitions
Finmeccanica today a focussed A&D Group

Three Strategic Pillars:
- Helicopters
- Aeronautics
- Defence and Security Electronics

Outstanding positions in other defence segments (Missile, Underwater, Land and Naval Armament)

Reference partner in the Space Alliance, with majority control of Value Added Services (VAS)

Niche capabilities in Transport and Energy as tactical assets for value extraction
Pursuing seven main goals

1. Drive further the growth of three Strategic Pillars, both organically and through acquisitions particularly in UK and US
2. Exploit niche excellences to conclude wider strategic alliances
3. Establish new local partnerships to achieve strong footprint in selected growing markets
4. Continue to develop new enabling technologies and rationalise / innovate product portfolio
5. Address residual criticalities through restructuring and industrial partnerships
6. Strengthen the Industrial Plan ‘08 – ‘10 to secure profitability targets achievement through additional efficiency measures
7. Enhance management accountability by increasing performance related remuneration

Value creation for our shareholders
High order intake continues to drive long term organic growth...

...thus increasing our market share

<table>
<thead>
<tr>
<th>Market share 2006</th>
<th>Market share expected in 2010</th>
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<tbody>
<tr>
<td>The three Strategic Pillars</td>
<td>6.5 %</td>
</tr>
<tr>
<td>Space and Defence Systems</td>
<td>11 %</td>
</tr>
<tr>
<td>Transport and Energy</td>
<td>3 %</td>
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</tbody>
</table>
Reinforce core competencies as Defence and Security system integrator in UK ➔ further acquisitions in our second domestic market

Expand in US ➔ build up our industrial presence to increase market share in Aerospace together with further acquisitions in Defence Electronics and Security

Potential resources available for further investments of approx. €3 bn
Achieve leading positioning in Defence Systems (land and naval armaments and underwater systems) through strategic alliances

Ongoing discussions already at advanced stage with European recognised players

The envisaged framework agreements will be structural, similar to the Space Alliance model, i.e. exploiting respective technological excellence and product capabilities in a complementary way
Achieving strong footprint in selected growing markets

- **USA**: production capacity for transport signalling, helicopters, aerostructures and, shortly, for final assembly of C27 JCA

- **Russia**: JVs for regional commercial aviation and for railway transportation

- **India**: partnership for radar systems and prospects for aeronautics and defence electronics

- **China**: production localisation for signalling and prospects for civil activities partnership with local governments

- **UAE**: prospects for trainer aircraft and other aeronautic activities

- **France**: transport signalling

- **Turkey**: production facility for communications
Investing in key enabling technologies to fulfil market needs through innovative products 1/4

Testing Wind Tunnel

Noise Analysis

Delivering highest level of onboard comfort with top class performance for commercial helicopter aviation

AW139
Investing in key enabling technologies to fulfil market needs through innovative products 2/4

Carbon fibre structures

Offering a longer life, enhanced performance, reduced operational costs for new generation commercial aircrafts

Boeing 787
Investing in key enabling technologies to fulfil market needs through innovative products 3/4

Integrated Systems for Homeland Security

Satisfying ever increasing needs of Homeland Security

- Sensor Nanotechnologies
- WiMax
- Biometric ID
- Real time Processing for C2
- Image Processing for Earth Observation
Investing in key enabling technologies to fulfil market needs through innovative products 4/4

Defence Systems

Matching new operational requirements

AESA
Sensor Fusion
NEC
Secure Comms
Criticalities successfully addressed in the last years:

- Restructuring programmes including strategic reorientation and valorisation of core competences now completed for:
  - Space manufacturing and services (Telespazio)
  - Security and Automation (ElsagDatamat)
  - Military Communications (Selex Comms)
Residual criticalities currently under recovery concern:

- Business reorganisation of *Aircraft Modification and Maintenance* (Alenia Aeronavali) through
  - retention of remunerative activities
  - workforce rightsizing
  - production sites rationalisation

- Return to profitability for *Transport Vehicles* (Ansaldo Breda) through a set of actions for
  - production sites optimisation
  - rationalisation of products portfolio
  - process improvement
  - international partnerships
Securing the achievement of our profitability targets for 2010 (10% ROS) implies the implementation of additional efficiency measures to make the Industrial Plan ‘08 – ‘10 more robust, including contingencies to mitigate external risks beyond our control.

The plan assigns specific actions to Companies, accountable for their implementation, and concerns targets for:

- Production cost reduction
- Industrial sites optimisation
- G&A costs
- Investments and R&D costs

Enhance Direct Cost Efficiency
Enhance Indirect Cost Efficiency
Management Rewarding Policy

The Four Cardinal points

- Guarantee alignment between Strategy and Management
- Enhance Management accountability
- Commit to both short and long term objectives
- Increase motivation to deliver superior performance
Growth driven by Helicopters, Aeronautics and Defence Electronics and Security

Clearly recognised identity as major UK defence company

Larger industrial footprint in USA for Helicopters and Aeronautics with bridgehead established for Defence Electronics

Space Alliance model extended to other niche segments in Defence Systems

Strategic local partnerships well established in fast growing markets (Russia, East Europe, Turkey, India, UAE)

Revenues at €16.5 bn through organic growth

Aiming for 10% EBIT Margin

ROI above 20%

Free Operating Cash Flow increasingly aligned with NOPAT*

*Net Operating Profit After Tax
Three Strategic Pillars

- Revenues above €25 bn
- Double digit EBIT
A comprehensive market and product strategy…

… to be a world leader in A,D&S
Industrial Strategy

Giorgio Zappa
Chief Operating Officer

Driving success by executing our goals
Internationalisation: achievements since 2006

- Localisation of production sites
  - Grottaglie
  - USA facilities

- Commercial goals for key products; accomplishments
  - C27J
  - AW139
  - TETRA

- Industr.& Program. partnerships; accomplishments
  - B787
  - SUKHOI

- Focused Country Strategies
  - Turkey
  - India
  - Russia
  - Japan

> Revenues, > EBIT
Expanding our global footprint: main achievements

- Targets Accomplished since 2006

 USA
- VH71
- C27J (GMAS; L3)
- B787 (Global Aeron.)
- Elsag Datamat acquisition of Reles

 RUSSIA
1. Tetra Mobile Comms: first laboratory opened;
2. Regional Jet: 2 Companies incorporated

 TURKEY
: AТАК; ATC

 CHINA
AW139 Olympic Games

 UAE

- Next Targets

 POLONIA

 BULGARIA
C2TJ

 TURKEY
ATAK; ATC

 ALGERIA
1. New Energy Unit;
2. AW101

 LIBIA
A109/A119

 JAPAN
AW139

 TOMASSEN

 OMAN
1. Energy Unit in Barka;
2. Naval Turrets.

 MALESIA
ATR; ATC

 BULGARIA
C2TJ

 AZERBAIJAN
ATR

 JAPAN
1. ATR
2. Airport radars.

 INDIA
1. ATR
2. Airport radars.

 LIBIA
A109/A119

 MALESIA
ATR; ATC

 BRAZIL
ATR

 SVERIGE
Tomassen

 POLONIA

 UAE
Playing on a new field

- INCREASINGLY COMPETITIVE ENVIRONMENT
- FOREX AND STRONG MARKET VOLATILITY
- MORE SOPHISTICATED DEMANDS FROM CLIENTS

REDUCTION OF INDUSTRIAL AND MANAGEMENT COSTS BECOMES A PRIORITY
How we are reducing our costs?

- **HUMAN RESOURCES**
  1. Quality
  2. Revenues per employee
  3. Right sizing

- **INDUSTRIAL ACTIVITIES**
  1. Structure optimisation
  2. Reinforced industrial plan

- **COMMERCIAL ACTIVITIES**
  1. Product portfolio rationalisation
  2. Commercial optimisation
Change in skills and capabilities pattern
• Programme to reshape and fine tune industrial requirements in a high advanced technology sector
• New Resourcing requirements.

Revenues per employee
• 10% increase since 2005.

Retirements
• Total: 5,800 since 2005
  • Government incentive plan: up to 2,000 since 2005.
Bolstering industrial activities

**INDUSTRIAL ACTION**

- **Structure optimisation**
  - Aircraft conversion:
    - Review of the industrial mission for plants of Capodichino, Brindisi and Venice

- **Rolling stock:**
  - Strong focus on reengineering
  - Company reorganisation by product line
  - Specialisation of manufacturing plants
  - Restructuring plan
  - Cost Reduction
  - Expected breakeven in 2009

- **New Procurement Saving Project:**
  - Global Sourcing on € 700 mil purchase material with an expected 10% savings 36 months after start up together with ongoing purchase reduction activities.

- **Redesign-to-cost activities:**
  - Cost reduction of an average 20% (C27J, M346, AW139, 76”)

- **Goal to maintain G&A expenses stable at 2007 level**
- **R&D spending:** reach stable € 2 billion by 2010
Strengthening of commercial activities

NEW COMMERCIAL APPROACH

➢ Product portfolio rationalisation
  • First integrated product catalogue of the Group.

➢ Integrated solution proposals

➢ Commercial optimisation
  • Focus on specific strategic markets
  • New Representative Office location strategy.
Integration targets and new industrial plan

Integration Plan

- **AW:**
  - → 2007: €50 m accomplished
  - ✦ 2010: €65 m target

- **Selex S&AS:**
  - → 2007: €23 m accomplished
  - ✦ 2010: €60 m target

- **ELSAG:**
  - → 2007: €10 m accomplished
  - ✦ 2010: €20 m target

Reinforced Industrial Plan

- **Reduction on product costs: through Global Sourcing:**
  - ✦ 2010: €60 m target

- **Production sites restructuring to eliminate overlaps**
  - ✦ 2010: €60 m target reduction

- **SG&A**
  - ✦ 2010: €40 m target reduction
Commitment to growth

We are committed to:

✓ Reducing industrial costs
✓ Improving delivery and customer satisfaction.

We are focused on:

✓ Cost reduction
✓ Improving capability to tailor our offer in international markets.
Driving success by executing our goals

Financial Strategy

Alessandro Pansa
Co-General Manager
Driving success. Achieving results

As a sign of confidence in our ability to reach our targets

Industrial Plan

Bolster Profitability and Cash Flow generation Targets

Expected benefits on Finmeccanica valuation

Buy Back launched
### Guidance 2010

<table>
<thead>
<tr>
<th>(€ m)</th>
<th>2006A</th>
<th></th>
<th>Stretch 2010 Targets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>Ebit</td>
<td>Ebit margin</td>
<td>Revenues</td>
</tr>
<tr>
<td><strong>Strategic Pillars</strong>*</td>
<td>8,382</td>
<td>793</td>
<td>9.5%</td>
<td>11,960</td>
</tr>
<tr>
<td><strong>Space &amp; Defence Systems</strong></td>
<td>1,891</td>
<td>135</td>
<td>7.1%</td>
<td>2,350</td>
</tr>
<tr>
<td><strong>Transport, Energy and Others</strong></td>
<td>2,575</td>
<td>(50)</td>
<td>n.s.</td>
<td>3,090</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>12,848</td>
<td>878</td>
<td>-</td>
<td>17,400</td>
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<tr>
<td><strong>Eliminations</strong></td>
<td>(376)</td>
<td>-</td>
<td>-</td>
<td>(900)**</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>12,472</td>
<td>878</td>
<td>7.0%</td>
<td>16,500</td>
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*Strategic Pillars: Helicopters; Aeronautics; Defence and Security Electronics.

** Estimated
Disciplined evaluation of our portfolio

All businesses described above and the associated investments required are evaluated to measure how they translate into value. The main metrics we use are:

<table>
<thead>
<tr>
<th>Return on invested capital and IRR</th>
<th>Value Creation for our shareholders</th>
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<tbody>
<tr>
<td>Risks</td>
<td>WACC</td>
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All metrics are integrated in the Evaluation of our Portfolio to:

1. evaluate businesses in absolute and relative terms
2. decide how to allocate our capital

We drive our business towards opportunities that create the highest value for our shareholders
Portfolio evaluation is engrained in our DNA

Company 10-year Plan
Business Unit, BU,

Investment Plans

Identify and Quantify key Risks by BU

Risk – Adjusted Plan

Risk – Return Profile:
- Return on Invested Capital
- Risk

Value Creation = Equity Value_{t, n} – Equity Value_{t}

Risk- Adjusted WACC

- Revenues
- EBIT
- FOCF
- Invested Capital

Efficient Frontier

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9,1%
12,4%
8,8%
8,3%
8,0%
9,3%
8,9%
9,9%
0,0%
2,5%
5,0%
7,5%
10,0%
12,5%
15,0%
17,5%

Group Energy Helicopters Space Aeronautics Defence Electronics Transportation Defence Systems
A balanced portfolio of businesses
Risk-Return profile

We evaluate the return and risk profile of each business

We identify the Net Invested Capital of our performing assets

20 Risk factors considered:
- Market demand
- Commercial effectiveness
- Product development/execution
- Financial management

Net Invested Capital
required to fund our fixed and current performing assets

$$\frac{\text{EBIT}_{\text{RiskAdjusted}}}{\text{Net Invested Capital}} = \frac{\text{Return}}{\text{E}(r)}$$

$$\frac{\text{EBIT}_{\text{RiskAdjusted}} - \text{EBIT}_{\text{WorstCase}}}{\text{Net Invested Capital}} = \text{Risk}$$

2008 Expected Risk–Return Profile

Return $E(r)$

<table>
<thead>
<tr>
<th>Return (%)</th>
<th>EBIT Risk Adjusted</th>
<th>EBIT worst case</th>
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<tbody>
<tr>
<td>0%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3%</td>
<td>3</td>
<td>3</td>
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<tr>
<td>5%</td>
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<td>65%</td>
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<tr>
<td>70%</td>
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<td>70</td>
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</tbody>
</table>
The Group portfolio, over time, increases its return on capital, while decreasing its risk profile. This allows our Group to move towards higher efficient frontiers and ensures optimal capital allocation.

2008 → 2010: Higher Profitability
- Efficiency gains in product development across the entire portfolio
- Structured efficiency plan enhances profitability, maintaining control on invested capital

2010 → 2016: Lower Risk and Limited Increasing Profitability
- Moving from development to full production phase for key programmes (B787, C27J, M346)
- Completed development and achieved market penetration for key new products (BA609, AW149, XX9)

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(1) Return = EBIT Risk Adjusted / Net Invested Capital
(2) Risk = (EBIT Risk Adjusted – EBIT worst case) / Net Invested Capital
Creating value for our shareholders

Value creation

- We look at our portfolio of businesses as an investor does.
- We calculate the Equity Value of our portfolio today (2007) and at a later date (2010), using the Discounted Cash Flow method.
- We define Value Creation as the increase in the Equity Value over the period considered:

\[
\text{Value Creation} = \frac{\text{Equity Value}_{2010} - \text{Equity Value}_{2007}}{\text{Equity Value}_{2007}} \times \text{CAGR}
\]

- Over this time period FNM portfolio has value creation of 12% per year.
- This is an un-levered return that does not take into account dividends paid to shareholders and the effect of investor leverage.

Equity Value

- Transportation
- Energy
- Space
- Defence Systems
- Defence Electronics
- Helicopters
- Aeronautics
Our businesses are characterised by long-term value creation drivers:

- Strong cash flow generation
- Increasing margins on both New Units and Service
- Leading market position
- High free cash flow, after self-funding investments for new products
- Prime top line growth
- High visibility of platforms (B787, EFA, JSF, C27J, Regional jets)
- Synergistic with aeronautics platforms
- Low capital intensity
- Increasing profitability

Value Creation is the approach we use to make capital allocation decisions.
The value creation that all of our businesses are going to generate over the coming years should be reflected in the share value.

The share value should, therefore, increase over time.

Maximising value creation for our shareholders.

WACC = 8.9%

CAGR 12%
On 21 November our Board proposed a share buy back programme for up to 8% of share capital.

The programme is driven by the gap we believe exists between the Group’s growth prospects and the extent to which these prospects are reflected in the current stock price.

Given Group WACC of 8.9% and cost of equity of 10.5%, the buy back is financially attractive. The share buy back programme will accompany the Group’s investment plans in order to maximise shareholder value creation.

Purchased shares will not limit our ability to take advantage of future investment opportunities since they will be held in the form of treasury shares.

The share buy back will be submitted to the shareholders’ meeting on 15 January and will be carried out over the 18 months following approval. It will be funded mainly with our free operating cash flow.
Disciplined approach to evaluate investments
Risk-Adjusted WACC

Individual investments undertaken in each business are evaluated with the same risk-return approach previously shown.

A risk-adjusted weighted average cost of capital (WACC) is calculated for each sector.

⇒ Investment IRR > Risk-adjusted WACC\text{\_sector} + \text{min hurdle}
⇒ Return on Capital\text{\_sector} > Risk-adjusted WACC\text{\_sector}
Finmeccanica has a significant investment programme in place, to build long-term value and guarantee a sustainable growth path in the long run.

Total Investments for the 2007-2010 period are expected to be around €5 bn, of which approximately 70% are allocated on programmes with a 10+ year life.

Funded by operating cash flow and working capital decrease.
Targeting investments in three strategic pillars with a priority for Defence and Security Electronics

Investments must be consistent with our internal portfolio evaluation model

All investments must be capable of delivering returns compatible with our model before synergy savings
Potential resources available for further investments

- Additional debt capacity
- STMicroelectronics stake
- Proceeds from extraordinary transactions
- Share Capital increase approved in 2007

Safeguarding capital structure and financial ratios

Approx. €3 bn
Dollar impact

- Current backlog contracts hedged

- Estimated forex revenues in 2008 fully hedged

- Dollar denominated revenues estimated at 20% of group total for 2007-2010

- About 70% of dollar denominated revenues naturally hedged through our cost structure
Guidance for 2007 and 2008 on track

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

*Free Operating Cash Flow: Operating Cash after investments, net financial charges and tax
Our Goals… by 2010

- ...achieve Revenues of €16.5 bn through organic growth...

- ...aiming for 10% EBIT margin...

- ROI > 20%

- ...Free Operating Cash Flow increasingly aligned with NOPAT*

*Net Operating Profit after Tax