Finmeccanica First Half 2006 Results Presentation

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London, 13 September 2006

FINMECCANICA

Safe Harbor Statement

- NOTE: Some of the statements included in this document are not historical facts but rather statements of future expectations, also related to future economic and financial performance, to be considered forward-looking statements. These forward-looking statements are based on Company’s views and assumptions as of the date of the statements and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Given these uncertainties, you should not rely on forward-looking statements.
- The following factors could affect our forward-looking statements: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); difficulties in developing and producing operationally advanced technology systems; the competitive environment; economic business and political conditions domestically and internationally; program performance and the timing of contract payments; the timing and customer acceptance of product deliveries and launches; our ability to achieve or realize savings for our customers or ourselves through our global cost-cutting program and other financial management programs; and the outcome of contingencies (including completion of any acquisitions and divestitures, litigation and environmental remediation efforts).
- These are only some of the numerous factors that may affect the forward-looking statements contained in this document.

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Pier Francesco Guarguaglini

Introduction

One new single Brand for the whole Group

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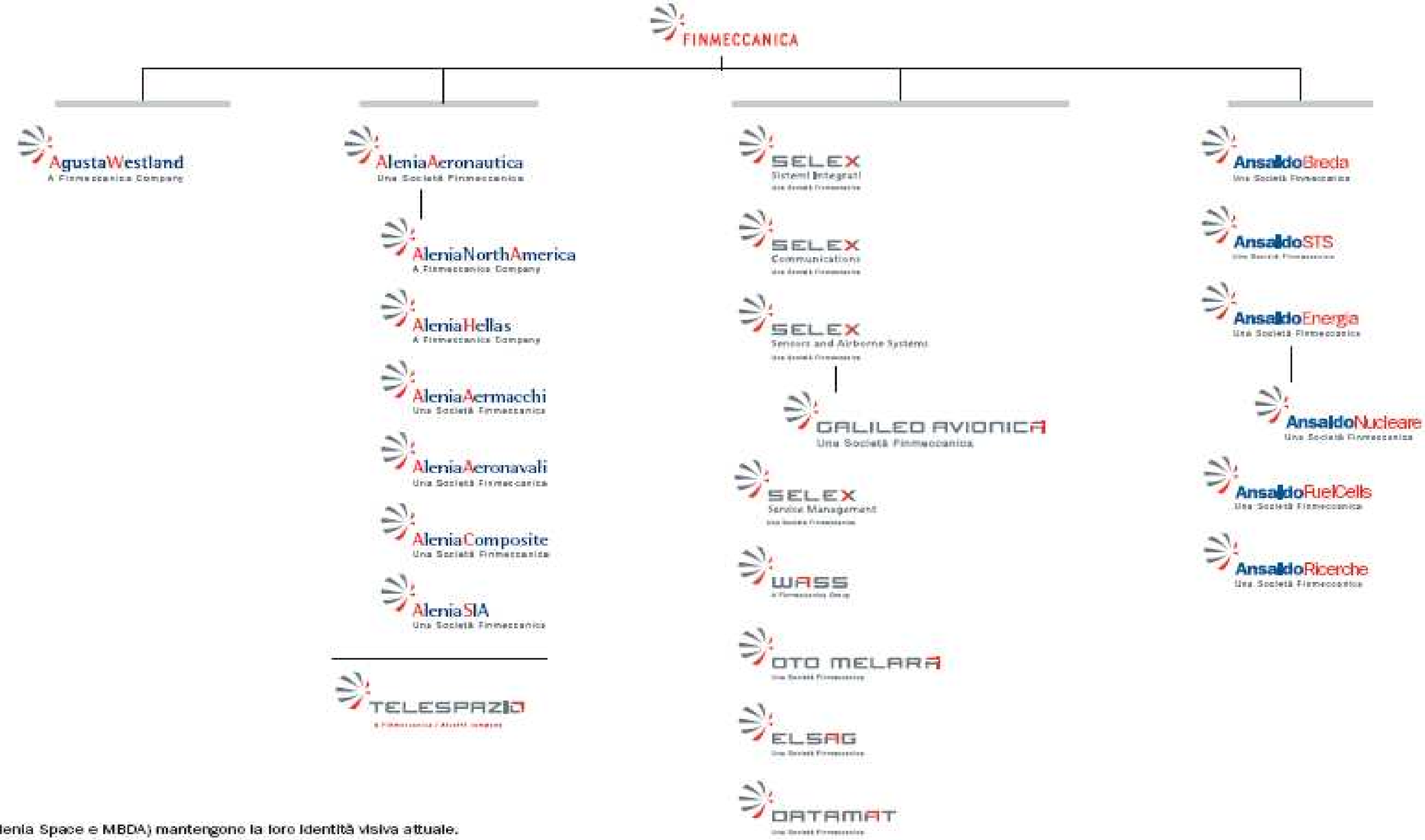

Le
(come AlcatelAlenia Space e MBDA) mantengono la loro identità visiva attuale.

One integrated systems solutions provider,
leveraging multiple specific competencies in Aerospace, Defence & Security

1H Results and current initiatives…

Growth

Focus on A,D&S

Internationalisation

Increase Profitability

Further extract Value from Civil Activities

… in line with our strategic commitments

Pursuing consistently our strategic commitments… (1/2)

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Growth

- Organic
- External

1H06/1H05 revenues up:

- ✓ 9% like for like
- ✓ 11% from external acquisitions

Focus on A,D&S

- 1H06 A,D&S
  - ✓ c.80% of order intake more than 80% of revenues

Internationalisation

- Agreement with Alcatel/Thales in Space about to be reached
- Development of RRJ with Russian Sukhoi
- New strategic partnership with Boeing for US JCA programme

…as confirmed by this year's achievements

Pursuing consistently our strategic commitments… (2/2)

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Increase profitability

- Enhancing efficiency
  - ✓ 1H06/1H05 Ebit up 22%
  - ✓ AgustaWestland integration process on track: c.Eur 30mln of savings achieved by end of June 06

Extract Value from Civil Activities

- **Ansaldo STS**: 1H06 results in line with flotation plan (Revenues and Ebit up 19% and c.27% respectively); 80 mnl Eur of extraordinary dividends paid out of 458 mln Eur flotation proceeds

- **Energy**: growth driven by highly profitable *Service* business (c.44% of 1H06 order intake vs 22% in 1H05)

…as confirmed by this year's achievements

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Alessandro Pansa

Financial Review

1H 2006 Financial Highlights

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- Value of production up 20% to Eur 6.0 bn (+9% like for like)
- Ebit up 22% to Eur 305 mln (+15% like for like) driven by Aeronautics, Helicopters, Defence Electronic, Energy and by cost cutting measures
- Net profit, excluding Ansaldo capital gain, increases to Eur 170 mln (+62%)
- Negative FOCF (Eur -508 m) impacted by seasonal increase in working capital and higher capex
- Net debt rises to Eur 1.46 bn due to seasonal factors
- Order intake of Eur 8.0 bn driven by Helicopters, Aeronautics and Energy
- Backlog of Eur 35.2 bn covers almost 3 years of production

1H 2006 Main Financial Results

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(Eur mln)	H1 06	H1 05	%change	FY 05
Value of Production	5,965	4,958	+20	11,469
EBIT	305	251	+22	735
EBIT Margin	5.1%	5.1%		6.4%
Net income	575	105	n.s.	396
FOCF	(508)	(361)	- 41	501
New orders	7,973	7,872	+1	15,383
Working Capital	249	1,102	n.s.	17
Net financial debt	1,462	1,952	n.s.	1,100
Debt/Equity	30%	43%		24%
ROI	14,2%	12,2%	2 p.p	17,5%
EVA	6	(8)		217
Order Backlog	35,185	30,897	n.s	32,114

Resizing our stake in Avio… to unlock hidden value…

- **August 2006**: agreement reached with the Carlyle Group to sell both the stakes to Cinven private equity, based on an enterprise value - for 100% of Avio - of €2.57Bn.

- **Under the agreement Finmeccanica**
  - will sell its 30% stake to the Cinven investment funds for a gross sum of around €430 million; triple the original investment, with an annual return of more than 50% and record a significant capital gain;
  - at the same time, will buy back a 15% stake in Avio for a sum currently estimated at around €150 million;
  - will have the same corporate governance rights as before, including the option to acquire Avio's Space BU;
  - completion expected by year-end, once received the go-ahead from the regulatory authorities.

… and further exploit its profitable growth

Pursuing our medium term financial objectives

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- Deliver higher returns on capital employed (ROI: 14.2% in 1H06 vs. 12.2% in 1H05; ROE: 18.5% vs 15.0%)
- Align NOPAT and Free Operating Cash Flow
- Achieve steady increase in distributable net income (Ordinary Dividend + 19% in 2005 vs. 2004)
- IRR on new investments = WACC (7.6%) + min hurdle 3%

To be achieved by :

- ✓ winning higher margin orders
- ✓ integrating new businesses
- ✓ cost cutting throughout the group in SG&A
- ✓ maintaining working capital under tight control
- ✓ reducing capex in line with depreciation*

Capex expected to peak in 06-07 due to B787 programme ramp up

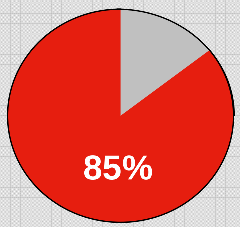
Alessandro Pansa

Business Review

Helicopters – Performing well

(€mln)	1H 06	1H05	FY05
Revenues	1,348	1,168	2,490
EBIT	135	127	272
Margin	10.0%	10.9%	10.9%
Orders	2,821	2,420	3,712
Backlog	8,661	7,155	7,397

Defence Revenues



H1 2006

- Strong order intake for military in UK and civil (128 a/c vs 70 in 1H05) worldwide
- Increased production due to AW139 ramp-up and UK support.

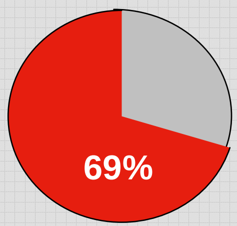
Outlook 2006 – 08

- Positive prospects confirmed due to high demand for AW139, strong franchise in UK, important exposure to growing Far East and significant increase in worldwide demand for civil.

Defence Electronics – Good prospects in UK

(€mln)	1H 06	1H05	FY05
Revenues	1,737	1,209	3,324
EBIT	99	81	269
Margin	5.7%	6.7%	8.1%
Orders	1,654	2,850	4,627
Backlog	7,714	7,337	6,946

Defence Revenues



H1 2006

- Increased Value of Production and Ebit come substantially from consolidation impact of British avionics and Datamat.
- Improved operating performance by radar command & control and IT security businesses offset by delays for military comms in acquiring TETRA order.

Outlook 2006- 08

- Strong volume growth and margin expansion confirmed but some order delays could lead to lower than expected improvement.

*** New Defence Electronics activities acquired from BAE are consolidated starting from 1 May 2005**

Aeronautics – Prospects improving for Eurofighter export

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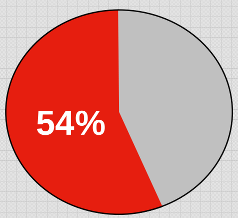
(€mln)	1H 06	1H05	FY05
Revenues	968	944	2,046
EBIT	61	49	166
Margin	6.3%	5.2%	8.1%
Orders	1,171	1,066	3,230
Backlog	7,189	5,674	6,865

Defence Revenues



H1 2006

- Order increase (+10%) due to higher civil intake. Further orders for 29 ATR in Q2 brought 1H total intake to 47.
- Strong performance by ATR offsets operating weakness of cargo conversion activity.

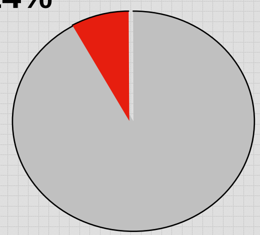
Outlook 2006- 08

- Positive prospects confirmed due to higher than expected ATR and B787 activity.
- Military orders could improve substantially due to improved export potential for Eurofighter (e.g. Saudi Arabia and Turkey) and C-27J (USA).

Space – Outlook improving for services

(€mln)	1H 06	1H05	FY05
Revenues	349	373	736
EBIT	16	21	26
Margin	4.6%	5.6%	3.5%
Orders	331	267	599
Backlog	1,166	1,306	1,154

Defence Revenues



H1 2006

- Orders improve due to higher civil TLC intake, production down due to weaker manufacturing.
- Synergies from combined Alcatel and Finmeccanica businesses still insufficient to offset higher labour costs.

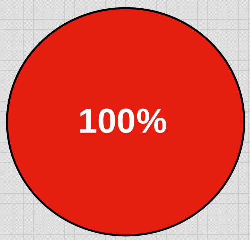
Outlook 2006- 08

- Combined manufacturing synergies and improved service business prospects expected to drive volume and margin improvement.

Defence Systems – Missile performance improves

(€mln)	1H 06	1H05	FY05
Revenues	512	469	1,154
EBIT	22	20	112
Margin	4.3%	4.3%	9.7%
Orders	338	332	763
Backlog	4,087	4,124	3,869

Defence Revenues



H1 2006

- Missiles drive volumes and improvement in operating profits offsetting lower profits in armaments.

Outlook 2006- 08

- Missile prospects improving due to good programme performance and integration of LFK.

Civil Activities – Signalling and Energy performing well

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Transport

(€mln)	1H 06	1H05	FY05
Revenues	689	586	1,230
EBIT	27	(13)	(48)
Margin	3.9%	(2.2%)	(3.9%)
Orders	1,143	836	1,615
Backlog	4,401	3,921	3,956

H1 2006 & Outlook

- **Vehicles**: H1 operating performance improves, outlook remains challenging.
- **Signalling and Systems**: domestic business performing particularly well in H1 with high order intake in driverless and strong cash flow.
  - ✓ High quality order book underpins positive outlook

Energy

(€mln)	1H 06	1H05	FY05
Revenues	426	338	772
EBIT	18	12	39
Margin	4.2%	3.6%	5.1%
Orders	676	436	1,032
Backlog	2,587	2,181	2,329

H1 2006 & Outlook

- **H1 2006**: significant increase in orders, with half coming from high margin services, and in operating profits despite higher R&D spend.
- **Outlook 2006-2008**: high profitable growth above all in services confirmed.

High quality international order acquisition underpins…

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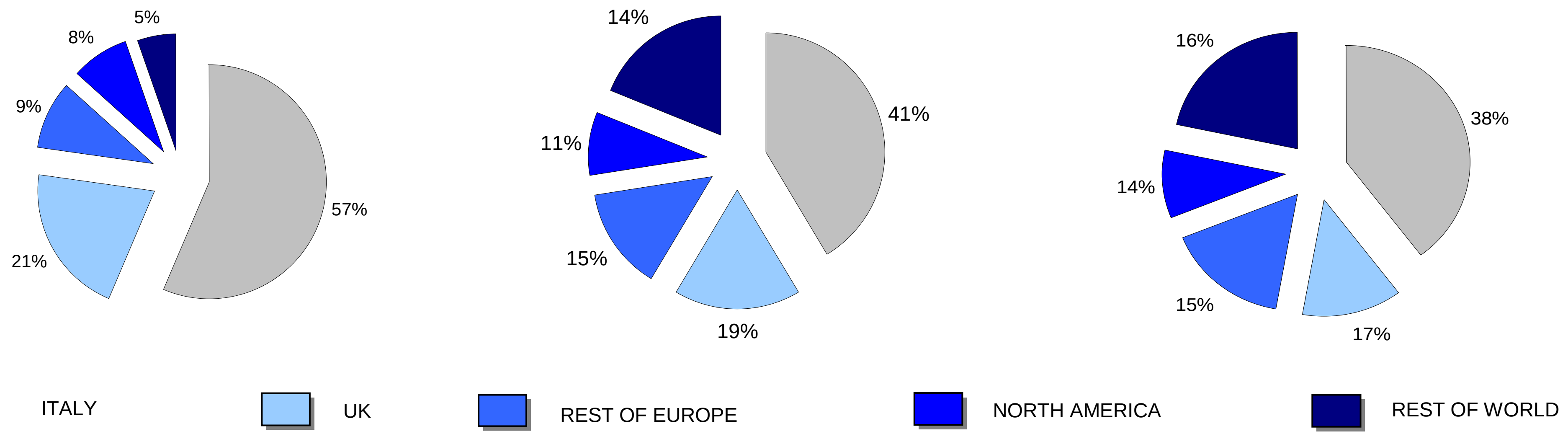
2005A: Avg gross Margin 19.3% | **2006E: Avg gross Margin 19.5%** | **2008E: Avg gross Margin 20.3%**



- **Helicopters**: Orders expected from UK MoD over 2006-08 ca. €5bn, including €1.4bn for Future Lynx signed in June 2006. Additional upside from large tenders in USA (i.e. US101 for CSAR-X), AW139 and A129 in Turkey.
- **Defence Electronics**: Eurofighter expected contracts worth €3bn in the forthcoming years including Aeronautics and export (i.e. Saudi Arabia). ATC: €800mln; Large integrated systems: €850mln. Tetra Russia: potential target market for us worth €2bn over next 10 years.
- **Aeronautics:** North America C27J: €800mln (met entry gate criteria for the JCA program – 3 Aug 2006); B787: €900mln; ATR: €350mln; Eurofighter Tr2: €800mln (excluding S. Arabia); Trainers €600mln.

…solid organic growth…

…offsetting a weak domestic defence budget

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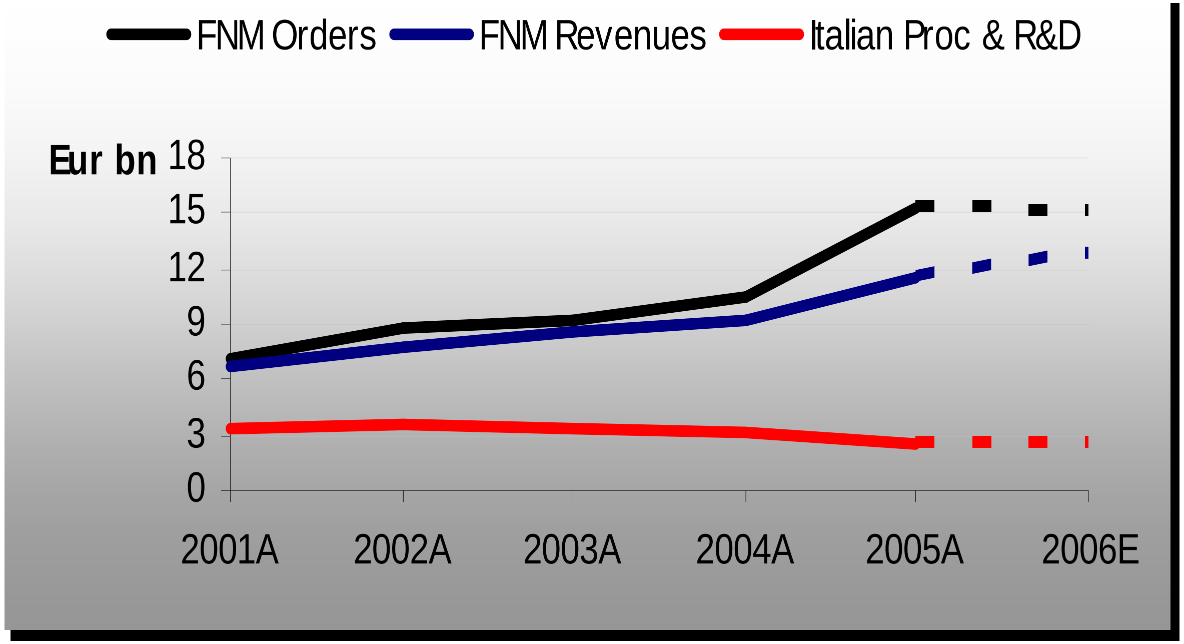
2005 Defence Budget (US$ bn)*

	Budget	Procurement	R&D
France	**41.6**	**11.1**	**4.1**
Germany	**30.2**	**5.0**	**1.0**
UK	**54.8**	**11.7**	**3.8**
Italy	**17.0**	**2.6**	**0.4**
Sweden	**5.6**	**2.0**	**0.1**
Spain	**8.8**	**2.0**	**0.2**
USA	**400.1**	**78.1**	**68.8**
Total	**558.1**	**112.5**	**78.4**



***Source: Finmeccanica Strategy Dept.; The Military Balance 2005/2006"**

- Growth has been and will continue to be driven by exports
- Maintaining annual order intake/revenue ratio above 1

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%	✓✓✓
EBIT	6-6,5% low end	6,4%	€>550mln	€614 mln	ca.€700mln	€735mln	✓✓✓
Net Debt/Equity	<35-40%	8%	<35-40%%	10%	<35-40%	24%	✓✓✓
Operating Cash Flow	€> 0	€496 mln	€> 0	€364 mln		€501 mln	✓✓✓

Cumulative free operating cash flow 2005-2007 : €600mln

Confirming our Guidance for 2006 and 2007

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	2006	2007
Revenues	***€12.7-13bn***	***€13.6-14bn***
EBIT	***€840-860mln***	***€960-1,000mln***

- 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

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Business Strategy

Implementation of our strategic commitments: Growth & Focus on A,D&S

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GROWTH & FOCUS on A,D&S

Organic Growth

- Upcoming opportunities for key products in key markets
- Addressing requirements of UK MoD *Defence Industrial Strategy*
- Confirming R&D investments to further improve Large Systems applications for Defence and Security

External Growth

- Screening additional acquisition targets in Europe and in US

Growth accompained by greater focus in A,D&S

International commercial success of our key products…

Organic Growth

Upcoming opportunities for key products in key markets

- **C-27J** ✓ Usa JCA, Canada, Eastern Europe, Middle East & Australia
- **US101** ✓ Usa CSAR-X, Europe, Middle East, Japan & Malaysia
- **A129** ✓ Turkey
- **Eurofighter** ✓ Turkey, Greece, Denmark
- **VTMS** ✓ Middle East, Eastern Europe & Malaysia
- **Tetra** ✓ Italy -Police Forces- , Russia & CIS area, Turkey, Bulgaria, South America & Asia Pacific

… depends on commitment to improve continously their competitiveness

UK MoD Defence Industrial Strategy: an outstanding opportunity for organic growth…

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Addressing requirements of UK MoD *Defence Industrial Strategy*

- AgustaWestland confirmed as the MoD Strategic Partner
- Selex S&AS is pursuing also this role, due to other key technologies acknowledged as strategic for UK Defence Capabilities (sensors, electronic warfare, IR countermeasures, etc)
- Other Selex and Finmeccanica Companies set to be involved in some technologically challenging MoD programmes

Programme	Technology	Company
FRES	Vehicles, and Guns, Thermal Sights & Fire Control Systems	SELEX Sensors and Airborne Systems
Warrior	Turrets	OTO MELARA Una Società Finmeccanica / OTO MELARA Una Società Finmeccanica
Watchkeeper	UAV	SELEX Sensors and Airborne Systems
Falcon	Communication Networks	SELEX Communications

… in our second domestic market

Strengthened position as integrated Large Systems provider will strongly support our organic growth and focus in A,D&S

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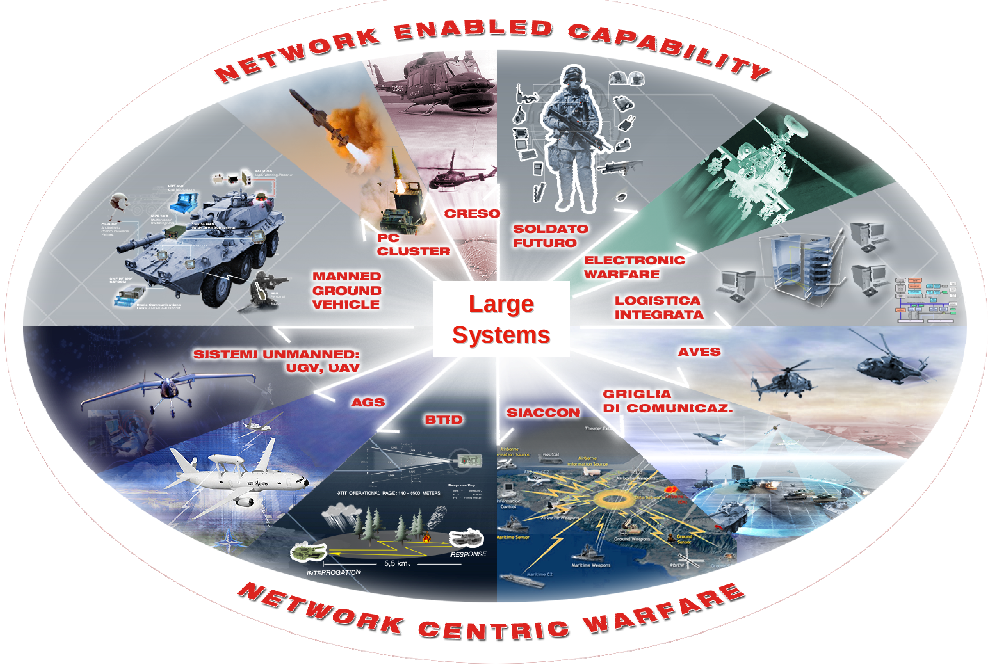
1.Establishing a competitive offering of integrated Large Systems for Homeland Protection

2. Aimed at satisfying urgent and sophisticated needs of our customers (military and civil)

3. Extensively endowing Group's wide range of products and technological know-how, with the requested "net-centricity"



4. Using a structural approach, with Selex Sistemi Integrati as Group prime contactor and integrator

A two-way process

Our success in Large Systems depends on track-record of our stand alone products, while the further commercial success of these products will be boosted by an effective Large Systems strategy

A,D&S selected acquisitions will drive external growth

Bolt-on investments in core A,D&S necessary to further strengthen:

- product range and technological competencies
- exposure to international markets
- relationships with US and UK defence ministries

All this while respecting strict financial return criteria

While maintaining our financial solidity

Screening potential targets in Europe and in US

Our internationalisation strategy in attractive growth markets relies on

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- Long term commercial and industrial commitment
- Local investments aimed at exploiting domestic skills
- Partnerships with domestic industries
- Contribution of our know how and technologies

➔ Some current initiatives of manufacturing localisation:

- USA: Boeing 787 – Charleston, inauguration by year end
- Russia:
  - Tetra Mobile Comms Network for Security Applications, first laboratory opened
  - RRJ regional jet with Sukhoi, industrial cooperation in advanced materials

➔ 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

In order to enlarge our international presence and reduce costs

Increasing profitability through integration of cross border acquisitions

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- **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 confirmed of Eur 50 mln of additional EBIT annually by 2008, through
  - ✓ commercial synergies
  - ✓ shared R&D in selected programmes
  - ✓ cost savings
  - ✓ reorganisation of Basildon (UK) site expected by end 2006.

- **Elsag:** industrial plan guidelines for the integration of Datamat and Elsag approved.

Increasing profitability through enhancement of process expertise and efficiency

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Objectives confirmed

- 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. Eur35 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**

- Align more closely economic and financial flows:
- Simplify Group structure and reduce number of subsidiaries by at least one third

➔ **Higher EBIT margins and increased volumes, through improved competitiveness**

Further enhancing value of civil activities

- **Ansaldo STS** (signalling and transport systems)**:** a good showcase of our ability to extract value from civil activities in the interest of our shareholders.
  - ✓ Performance increasing in line with floatation plan
  - ✓ Good performance and successful flotation underpin further strategic developments through possible acquisitions and/or alliances

- **Energy:** successfully pursuing Independent Service Provider strategy
  - ✓ strong *Service* order intake (from c.Eur432 to c.520mln annually over 2006-12)
  - ✓ forecast robust *Service* organic growth (revenues from c.Eur190 to c.450mln over 2006-12), reinforced by small bolt-on acquisitions

- **Vehicles:** ongoing implementation of restructuring and development plan, aimed at:
  - ✓ revising industrial programmes and processes
  - ✓ creating conditions for productivity growth and economic equilibrium.

Growth

Focus on A,D&S

Internationalisation

Increase Profitability

Further extract Value from Civil Activities

Appendix

1H 2006 Results – Profit & Loss

€mil.	1H 2006	1H 2005	*Change %*
Revenues	**5.706**	**4.721**	*21%*
Value of production	**5.965**	**4.958**	*20%*
Cost of goods, services and labour	(5.508)	(4.578)	
Depreciation and amortization	(182)	(155)	
Provisions for risks and charges	(5)	(10)	
Restructuring costs	(15)	(10)	
Other operating revenues (costs)	50	46	
EBIT	**305**	**251**	*22%*
EBIT Margin	*5,1%*	*5,1%*	
Financial income (expenses)	375	(64)	
Income taxes	(105)	(82)	
Profit before discontinued operations	**575**	**105**	*448%*
Profit of *discontinued operations*	-	-	
Net profit	**575**	**105**	*448%*
of which Group	*564*	*101*	
of which Minority interests	*11*	*4*	

Balance Sheet

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€mil.	30/06/2006	31/12/2005
Non-current assets	8.082	7.671
Non-current liabilities	(2.100)	(2.018)
	5.982	5.653
Inventories	5.910	5.511
Construction contracts	2.756	2.538
Receivables	3.711	3.600
Trade payables	(3.226)	(3.431)
Customer advances	(4.581)	(4.389)
Provisions for risks and charges S/T	(496)	(523)
Other net current assets (liabilities)	(3.825)	(3.289)
Net working capital	**249**	**17**
Net invested capital	**6.231**	**5.670**
Group's equity	4.748	4.444
Minorities interests	67	154
Shareholders' equity	**4.815**	**4.598**
Net debt	**1.462**	**1.100**
Net (assets) liabilities held for sale	**(46)**	**(28)**

Cash Flow Analysis

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€mil.	1H 2006	1H 2005
CASH AND EQUIVALENTS AT 1 JANUARY	**1.061**	**2.055**
CASH FLOW FROM OPERATING ACTIVITIES	626	527
Changes in working capital	(710)	(402)
Changes in other operating assets and liabilities	(145)	(267)
CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES	**(229)**	**(142)**
Net CAPEX	(241)	(134)
Other financial investments	(38)	(85)
Free operating cash-flow	**(508)**	**(361)**
Investments for acquisitions	355	(528)
Changes in other financial assets	64	-
CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES	140	(747)
Dividends paid	(214)	(111)
CASH FLOW FROM FINANCING ACTIVITIES	(73)	(476)
CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES	**(287)**	**(587)**
Exchange differences on cash and equivalents	**(5)**	**9**
CASH AND EQUIVALENTS AT 30 JUNE	**680**	**588**

Divisions

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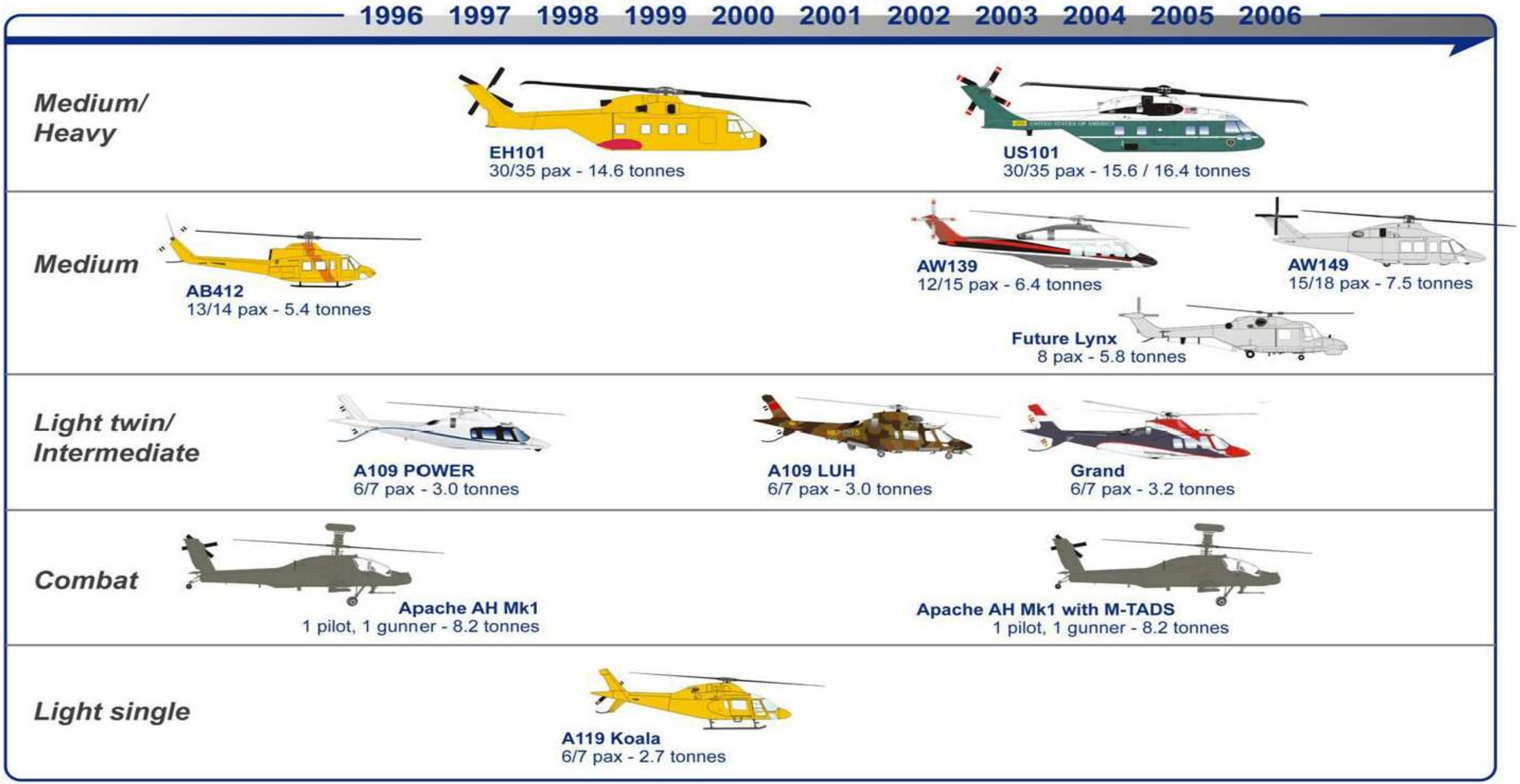
H1 2006 (in Eur mln)	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Value of production	1.348	1.737	968	349	512	426	689	104	(168)	**5.965**
EBIT	135	99	61	16	22	18	27	(73)		**305**
EBIT margin (%)	10,0%	5,7%	6,3%	4,6%	4,3%	4,2%	3,9%	n.s		5,1%
Depreciation and amortisation	33	45	56	14	13	6	9	6		**182**
Investment in fixed assets	32	427	161	10	76	5	10	4		**725**
R&D costs	180	281	225	30	126	7	23	0		**872**
New orders	2.821	1.654	1.171	331	338	676	1.143	39	(200)	**7.973**
Order backlog	8.661	7.714	7.189	1.166	4.087	2.587	4.401	402	(1.022)	**35.185**
Headcount	8.807	19.588	11.594	3.218	4.304	2.550	6.525	893		**57.479**

H1 2005 (in Eur mln)	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Value of production	1.168	1.209	944	373	469	338	586	68	(197)	**4.958**
EBIT	127	81	49	21	20	12	(13)	(46)		**251**
EBIT margin (%)	10,9%	6,7%	5,2%	5,6%	4,3%	3,6%	-2,2%	n.s		5,1%
Depreciation and amortisation	27	33	46	14	13	6	10	6		**155**
Investment in fixed assets	22	934	68	9	16	4	13	5		**1.071**
R&D costs	186	185	191	54	73	5	17	0		**711**
New orders	2.420	2.850	1.066	267	332	436	836	84	(419)	**7.872**
Order backlog	7.155	7.337	5.674	1.306	4.124	2.181	3.921	185	(986)	**30.897**
Headcount	8.531	19.786	11.198	3.194	4.104	2.529	6.321	940		**56.603**

AgustaWestland’s comprehensive up-to-date product range



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