Finmeccanica Full Year 2006 Results Presentation

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Milan, 28 March 2007

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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Introduction

Finmeccanica's strategic objectives

Growth and

Focus on A,D&S

Strengthen & Consolidate Global Positioning

Innovation

Value Creation

Not separate and independent objectives…

FINMECCANICA

Growth & Focus on A,D&S

- Key Markets
- Key products
- Key Technologies
- Selected acquisitions

Strengthen & Consolidate Global Positioning

Investment

Effectiveness

Efficiency

Innovation to compete

- Integrate assets and extract synergies
- Improve processes
- Extract value from Civil activities

Value Creation

… but a virtuous cycle

2006: delivering on our commitments (1/2)

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Growth

- Total Revenues up from €10.9bn in 2005 to €12.5bn in 2006 (+14% YoY, 8% like for like)

Focus on A,D&S

- A,D&S Revenues from ca.€9bn in 2005 to €10bn in 2006
- A,D&S Ebit represents more than 90% of total Group Ebit

Strengthen & Consolidate Global Positioning

- International orders up from €8.3bn in 2005 to €11.2bn in 2006

2006: delivering on our commitments (2/2)

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Innovation

- R&D investment up from €1.7bn in 2005 to €1.8bn in 2006 (14% of Revenues)
- Capex and R&D investments up from €940mln (pro forma) in 2005 to €1,192mln in 2006

Value Creation

- Ebit from €735mln in 2005 to €878mln in 2006 (+19%)
  - ✓ of which A,D&S up from €760mln in 2005 to €817mln in 2006 (+8%)
  - ✓ of which civil up from negative €25mln in 2005 (due to AnsaldoBreda operating loss) to €61mln in 2006
- Free Operating Cash flow - post capex, interest and tax - from €501mln in 2005 to €506mln in 2006

Financial & Business Review

FY 2006 Financial Highlights

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2006 Results vs 2005

- Revenues up 14% to Eur 12.472 bn (+8% organic)
- Ebit up 19% to Eur 878 mln (+17% organic)
- Net profit up to Eur 1,020 mln, from Eur 396 mln in 2005, including capital gains from Ansaldo STS and Avio operations, respectively Eur 405 mln and Eur 291 mln
- Dividend proposed of 35 Eurocents (+13% vs 2005)
- Positive FOCF (Eur 506 mln) generated by strict monitoring of financial requirements of businesses and careful customer and supplier management
- Net debt down to Eur 858 mln, from Eur 1.1 bn at the end of 2005. Debt to Equity down to 16% from 24% at the end of 2005
- High order intake at Eur 15.7 bn, 56% military
- Backlog at Eur 35.8 bn, equivalent to approx. 3 years of production

FY 2006 Main Financial Results

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(Eur mln)	FY 06	FY 05	% change
Revenues	12,472	10,952	14%
EBIT	878	735	19%
EBIT Margin	7%	6.7%	n.s.
Net income	1,020	396	n.s.
FOCF	506	501	1%
New orders	15,725	15,383	2%
Working Capital	(424)	17	n.s.
Net financial debt	858	1,100	(22%)
Debt/Equity	16%	24 %	n.s.
ROI	17.7%	17.5 %	n.s.
EVA	257	217	19%
Order Backlog	35,810	32,114	12%

High cash generation from extraordinary operations in 2006

- **Ansaldo STS:** floated 60% on Italian Stock Exchange (including the exercise of greenshoe option) between March and April, generating Eur 458 mln of cash, of which Eur 80 mln paid out in June as extraordinary dividend to Finmeccanica shareholders and a capital gain of Eur 405 mln

- **Avio Group:** sale of ca. 30% stake to Cinven investment funds for Eur 432 mln - in December – together with the sale by Carlyle, Finmeccanica's partner, of its own stake to Cinven. At the same time, Finmeccanica bought back 15% of Avio for about Eur 130 mln, generating net cash of Eur 302 mln and a capital gain of Eur 291 mln

➔ These operations helped finance the Group's investment activity, including the completion of

- Datamat acquisition, started in 2005. In 2006 Finmeccanica paid Eur 109 mln, raising its stake to 98.5% of Datamat's share capital

New Directive on R&D state incentives

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- *The Italian government passed a new directive on 26 March 2006 whereby state incentives for projects aiming to “enhance the state’s technological endowment for national security purposes” will be reimbursed by the payment of royalties every time products incorporating these technologies are sold.*

- *The new directive furthermore establishes that national projects aimed at realising a project of “European Common interest” will no longer be reimbursed through financial “reimbursements” but through the payment of royalties. Projects qualifying for such treatment have been subsequently identified by the government with appropriate measures.*

- *Non-recurring R&D costs for “National Security or European Common interest” programmes are no longer recorded in working capital under “Work in Progress” and in “Other Liabilities”. These costs are now capitalised in Intangible Assets and netted off against the equivalent amount of incentives received (with no impact on balance sheet). Royalties on these advances are payable to the Italian Ministry of Economic Development once the final products, incorporating the technology funded by these incentives are sold (Eur 61 mln liability recorded on the balance sheet at end 2006).*

- *Non-recurring R&D costs for programmes not qualifying as of “National Security” or “European Common interest, previously recorded in working capital under Work in Progress and in Other Liabilities, are also capitalised in Intangible Assets whereas the advances received are recorded under Other Liabilities at nominal value (Eur 622m).*

- **Under the new accounting treatment, total balance sheet liabilities for R&D incentives therefore totalled Eur 683m at end 2006 compared to Eur 2,767m at end 2005.**

- *Furthermore, previously all R&D costs funded by state incentives accrued as non-recurring costs to “work in progress and semi-finished goods” whereas under the new treatment these costs are now capitalised. The annual variation in these costs was previously recorded as a change in the Value of Production. For this reason Finmeccanica’s market guidance for 2007 and 2008 now refers to Revenues and no longer Value of Production.*

Significantly reduces R&D incentive liabilities on Finmeccanica balance sheet

See appendix for more detailed explanation.

Helicopters: streamlined industrial base and state-of-art product range..

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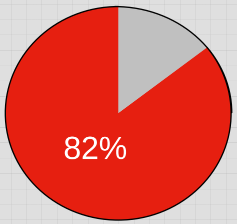
(€mln)	FY 06	FY05	%change
Revenues	2,727	2,413	13%
EBIT	290	272	7%
Margin	10.6%	11.3%	n.s
Orders	4,088	3,712	10%
Backlog	8,572	7,397	16%

Defence Revenues



FY 2006

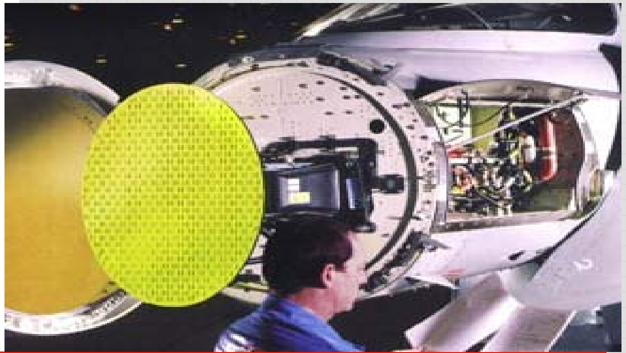
- Revenues increase due to contribution of US president programme, AW139 ramp up and product support in UK.
- Extremely strong book to bill for second successive year due to high UK orders; civil intake almost doubled vs 2005 with 210 a/c ordered (AW139, A109 and A119).
- Profitability remains high due to operational leverage and integration effficiency benefits.

Outlook 2007 – 2009

- High order backlog together with further strong order intake expected for up-to-date product range underpin strong growth in both military and civil.
- Industrial footprint increasing in USA to feed growing domestic demand (new production line for A139 in Philadelphia by end 07). Good progress on US Presidential programme.
- Further integrated product support contracts expected for Apache, Sea King and EH101 fleets.
- High level of profitability to be maintained together with strong cash flow generation.

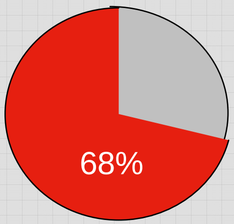
..ready to leverage strong cyclical upturn in world markets

Defence Electronics: key security programmes now starting



(€mln)	FY 06	FY05	%change
Revenues	3,747	3,164	18%
EBIT	300	269	10%
Margin	7.9%	8.5%	n.s
Orders	4.197	4.627	(9%)
Backlog	7,676	6.946	10.5%

Defence Revenues



FY 2006

- Revenue increase due to acquisition of UK Avionics and Datamat in Defence IT business.
- Improvement in profitability of Radar, Command & Control and IT Security offset by lower Communications and full year contribution of UK avionics.
- First key tranche of TETRA for Italian security forces awarded for Eur 240m (total programme worth ca. Eur 3bn); important FALCON contract awarded to supply comms from major UK MoD information infrastructure programme.
- Further orders booked for Eurofighter Tranche 2, and Falcon in UK, Tornado avionics upgrade in Saudi and UK, FREMM and Air Traffic Management.

Outlook 2007 – 2009

- Growing requirements for homeland protection & secure comms, border control and electronic security drive higher revenues together with increasing demand for avionics (Eurofighter Uk upgrade and Saudi, US military programmes), and Air Traffic Management.
- Profitability to increase due to higher volumes, integration benefits for both Avionics and IT Security business together with efficiency programmes and cost savings.

Opportunities increasing for large integrated systems

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

Aeronautics: strong growth prospects with increasing exposure to USA

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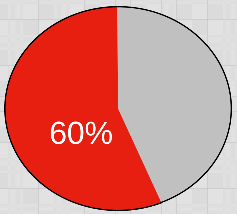
(€mln)	FY 06	FY05	%change
Revenues	1,908	1,789	6.7%
EBIT	203	166	22%
Margin	10.6%	9.3%	n.s
Orders	2,634	3,230	(18%)
Backlog	7,538	6,865	10%

Defence Revenues



FY 2006

- ATR drives revenue growth and margin improvement.
- Further 100 B787 orders booked in Q4. Orders for 300 shipsets now received from Boeing out of total orders of 448.
- First B787 fuselage shipsets successfully delivered to Boeing in March 07.

Outlook 2007 – 2009

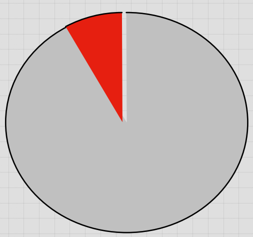
- ATR currently driving growth in civil with B787 starting to ramp up in 2008. Eurofighter, C27J and military trainers to deliver sustained growth in military.
- Underlying profitability to improve further due to operational leverage in civil and cost cutting.
- Italian govt joins second development phase for JSF. Saudi order for 72 Eurofighters expected by end 2007. C27J competing for Joint Cargo Aircraft in USA with outcome expected on 2 May.

B787 programme on track with first shipset successfully delivered in March 07

Space: strong performance and improving outlook for Services

(€mln)	FY 06	FY05	%change
Revenues	764	735	3.9%
EBIT	44	26	69%
Margin	5.8%	3.5%	n.s
Orders	851	599	42%
Backlog	1,264	1,154	9.5%

Defence Revenues



FY 2006

- Margins improve due to efficiency gains, lower restructuring costs and R&D synergy savings.
- Revenue growth due to satellite manufacturing ramp-up and good performance by Services.
- Order growth due to commercial TLC satellites and services for Defence, Security and Earth Observation.

Outlook 2007 – 2009

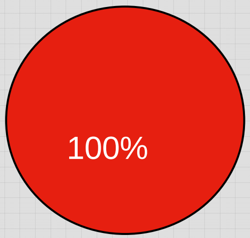
- Services: strong increase in demand for services leveraging on new requirements in Defence, Security, Navigation, Infomobility and Earth Observation.
- Margins to improve significantly due to:
  - benefits from lower procurement,R&D and SG&A costs and increased production efficiencies;
  - acquisition of proprietary satellite and terrestrial infrastructures.
- Manufacturing: increased government agency orders drive top line growth.
- Margins set to improve due to:
  - cost savings from synergies and increased operational gearing;
  - higher margins on government agency orders.

Manufacturing to benefit from higher civil and military government orders

Defence Systems: export markets improving

(€mln)	FY 06	FY05	%change
Revenues	1,127	1,143	(1.4%)
EBIT	91	112	(19%)
Margin	8.1%	9.8%	n.s
Orders	1,111	763	46%
Backlog	4,252	3,869	10%

Defence Revenues



FY 2006

- Good performance in Missiles due to the newly acquired German company and offset by lower profitablity and volumes in Underwater.
- Improved export order intake for Missiles expected to continue.
- Important orders for FREMM naval guns and armoured gun vehicles booked by Armaments.

Outlook 2007 – 2009

- Revenues stable in 07 then increasing driven by export sales in Missiles, naval guns and land turrets for Armaments and heavy torpedoes for Underwater.
- Profitability impacted by further restructuring in Missiles with improvement starting from 08 due to higher volumes, efficiency gains and cost savings.

Temporary impact of restructuring costs on profitability in Missiles

Civil Activities

Transport

(€mln)	FY 06	Y05	%change
Revenues	1,368	1,226	12%
EBIT	15	(48)	129%
Margin	1.1%	(3.9%)	n.s
Orders	2,127	1,615	32%
Backlog	4,703	3,956	19%

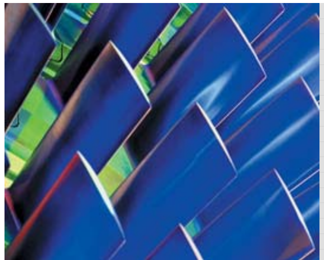
Transport: to benefit from expansion into new markets

FY 2006

- Strong revenue and Ebit growth by Signalling & Systems offset by operating loss in Vehicles. Important driverless metro orders in Italy and Greece boost order intake for both businesses.

Outlook 2007- 2009

- Sustainable and profitable growth for Signalling & Systems by leveraging new opportunities based on new products and export market expansion. New more vigorous recovery plan for Vehicles now approved; new MOU with Russian railways offers long term growth opportunities in one of world's largest markets.



Energy

Revenues	978	764	28%
EBIT	63	39	62%
Margin	6.4%	5.1%	n.s
Orders	1,050	1,032	2%
Backlog	2,468	2,329	6%

Energy: excellent performance and service growth plan on track

FY 2006

- Profitability improves due to higher volumes, improved mix and efficiency gains and despite higher R&D spend. High order intake for Services (44% of total) and acquired access to GE and Alstholm gas turbine fleets support business plan to become independent and full service provider.

Outlook 2007- 2009

- Current backlog saturates production plans for next 2 years. High growth in service revenues and diminishing impact of SG&A costs drive further margin expansion more than offsetting weaker manufacturing mix.

Optimisation of risk-return frontier for new investment projects

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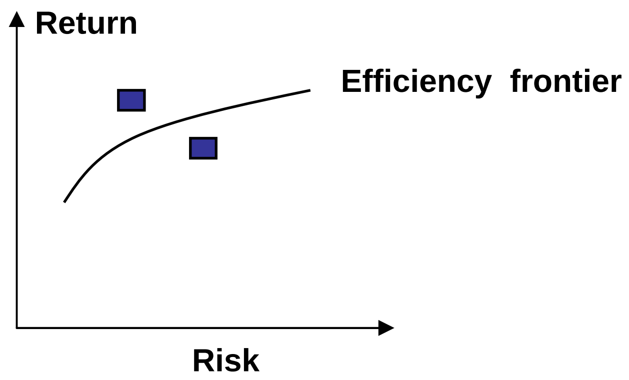
- Investment opportunities are now evaluated not only on the basis of minimum threshold for return on investment but also considering the maximum level of tolerable risk
- Each project competes within an internal capital market place for the allocation of a limited pool of financial resources
- Having identified an efficient frontier in terms of optimisation of risk and return objectives we seek to identify an appropriate set of investments for our resources
- In 2006-09 total funds from operations will be sufficient to fund all major capex programmes which match our expected optimised risk-return profile
- Opportunities to enhance the value of our business porfolio through external growth will be funded primarily with other sources of cash (ie leverage and disposals)



…accompanied by rigorous investment policy

- **IRR on new investments = Group WACC* (8.9%) + min hurdle**
- **"WACC RISK ADJUSTED"** by business and for the Group: to factor in volatility of cash flows expected from different businesses; applied also to each major programme and portfolio investment
- **EVA > 2% revenues over entire life of each programme contract**
- **Preserve optimal capital structure within the "Investment grade" parameters set by Rating Agencies:** Net Debt/Equity < 35-40%; Net bank debt/EBITDA < 2.0

➔Available financial resources for investments:

✓Additional debt capacity

✓ STMicroelectronics stake (approx 60mln shares, of which approx 45mln hedged)

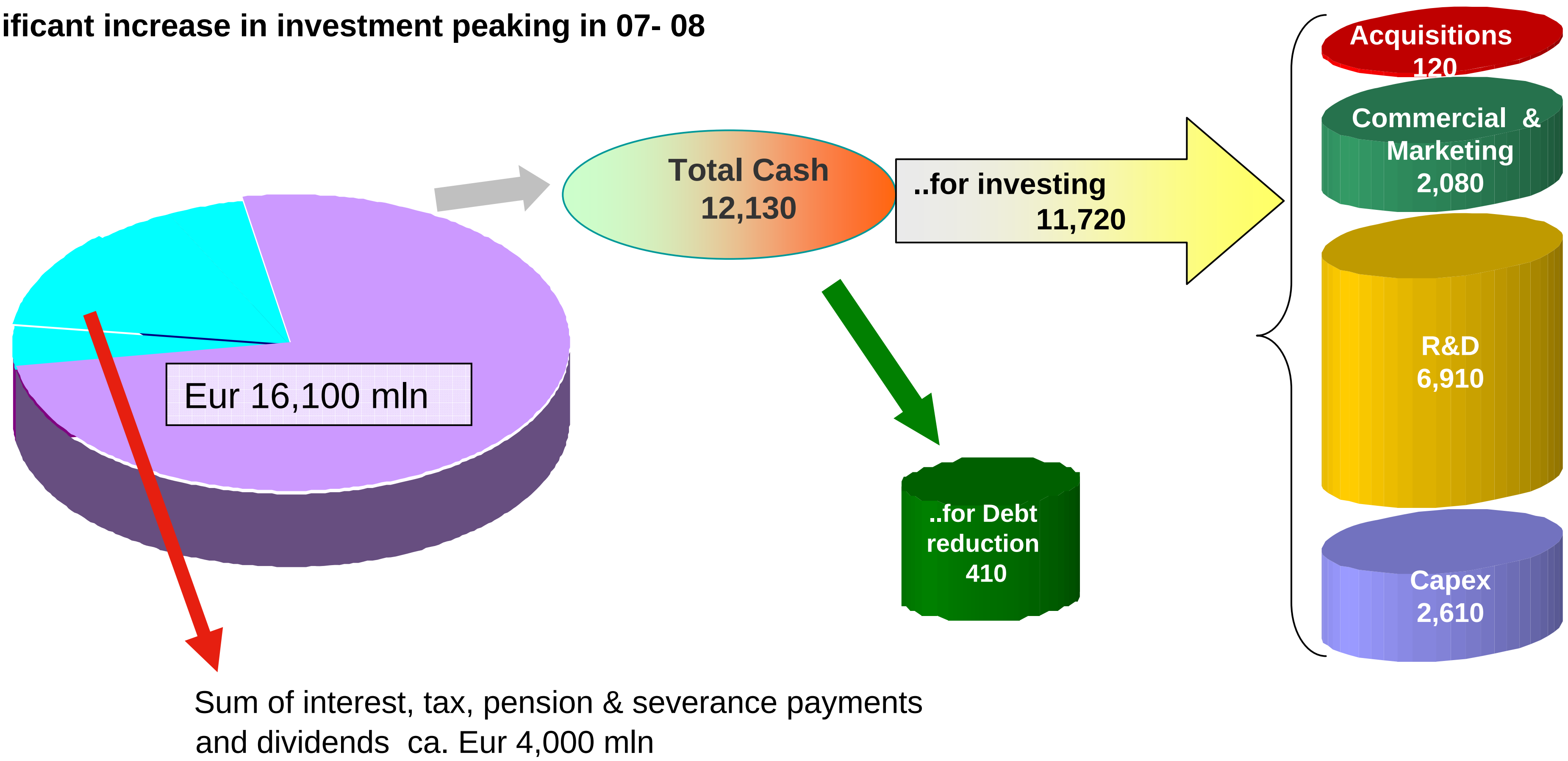
✓ Unutilised proceeds from 2006 extraordinary operations

✓Other and various sources of finance being considered to fund external growth

***** Group WACC: revised up to 8.9%,in 2007-09 budget plan from previous 7.6%***

2006-2009 Operating Cash-flow utilisation*

- **Significant increase in investment peaking in 07- 08**



*2007-2009 estimated
Data in Eur mln

Roadmap for achieving improved performance

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Complete review of industrial processes and launch detailed efficiency programmes for procurement, production & logistics

Complete integration plans

Further reductions in G&A, IT, commercial costs etc

Increase profitability	Reduce industrial and SG&A costs
Reduce working capital	**Self–fund product investment**

Simplify Group structure and review G&A processes

Focus on winning high margin orders

Reduce industrial and G&A costs and maximise sales to consolidate gross margins and cash flows

Extend procedures to cover entire life cycle of contract

Cost efficiencies to drive MBO remuneration across Group

Integration targets …

Integration targets

- **AgustaWestland**: target of Eur 50 mln of additional EBIT by 2006 fully achieved and further benefits expected in next 2-3 years
- **Selex S&AS**: target of Eur 50 mln of additional EBIT annually by 2009
- **Elsag**: target of more than Eur 20 mln of additional EBIT by 2009, through integration of Datamat and Elsag businesses

Cost reduction targets

- Targeted 1%-1.5% reduction in impact of SG&A on Value of Production by 2008/09 from current 10%
- Targeted reduction of IT spend across Group of 10 -15% by 2008, currently ~€350 mln
- Reduce number of subsidiaries by at least one third

… and cost reduction targets confirmed

Delivering on our financial commitments

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	2003 (ITALIAN GAAP)		2004 (ITALIAN GAAP)		
	Guidance	Reported	Guidance	Reported	Outcome
Value of Production YoY	9-10%	11%	7%	9%	✓✓
EBIT	6-6.5% low end	6.4%	€>550mln	€614 mln	✓✓
Net Debt/Equity	<35-40%	8%	<35-40%	10%	✓✓
Operating Cash Flow	€> 0	€496 mln	€> 0	€364 mln	✓✓

	2005 (IAS)		2006(IAS)		
	Guidance	Reported	Guidance	Reported	Outcome
Value of Production YoY	20%	25%	€12.7-13bn	€12.5bn	✓✓
EBIT	Ca. .€700mln	€750mln	€840-860 mln	€ 878 mln	✓✓
Net Debt/Equity	<35-40%	24%	<35-40%	16%	✓✓
Free Operating Cash Flow		€501 mln	€300mln	€506 mln	✓✓

Guidance given in terms of Value of Production

Actual figure reported as Revenues

Cumulative FOCF 2005-2007: €600 mln

Avg FOCF p.y. 2006-2008

New Guidance for 2007 and 2008

	2007	2008
Revenues (not Value of Production)	***€13.1-13.7bn***	***€14-14.7bn***
EBIT	***€950-1,000mln***	***€1,050-1,170mln***

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

Business Strategy

Finmeccanica's strategic objectives

Growth and

Focus on A,D&S

Strengthen &
Consolidate
Global Positioning

Innovation

Value Creation

Robust Organic Growth

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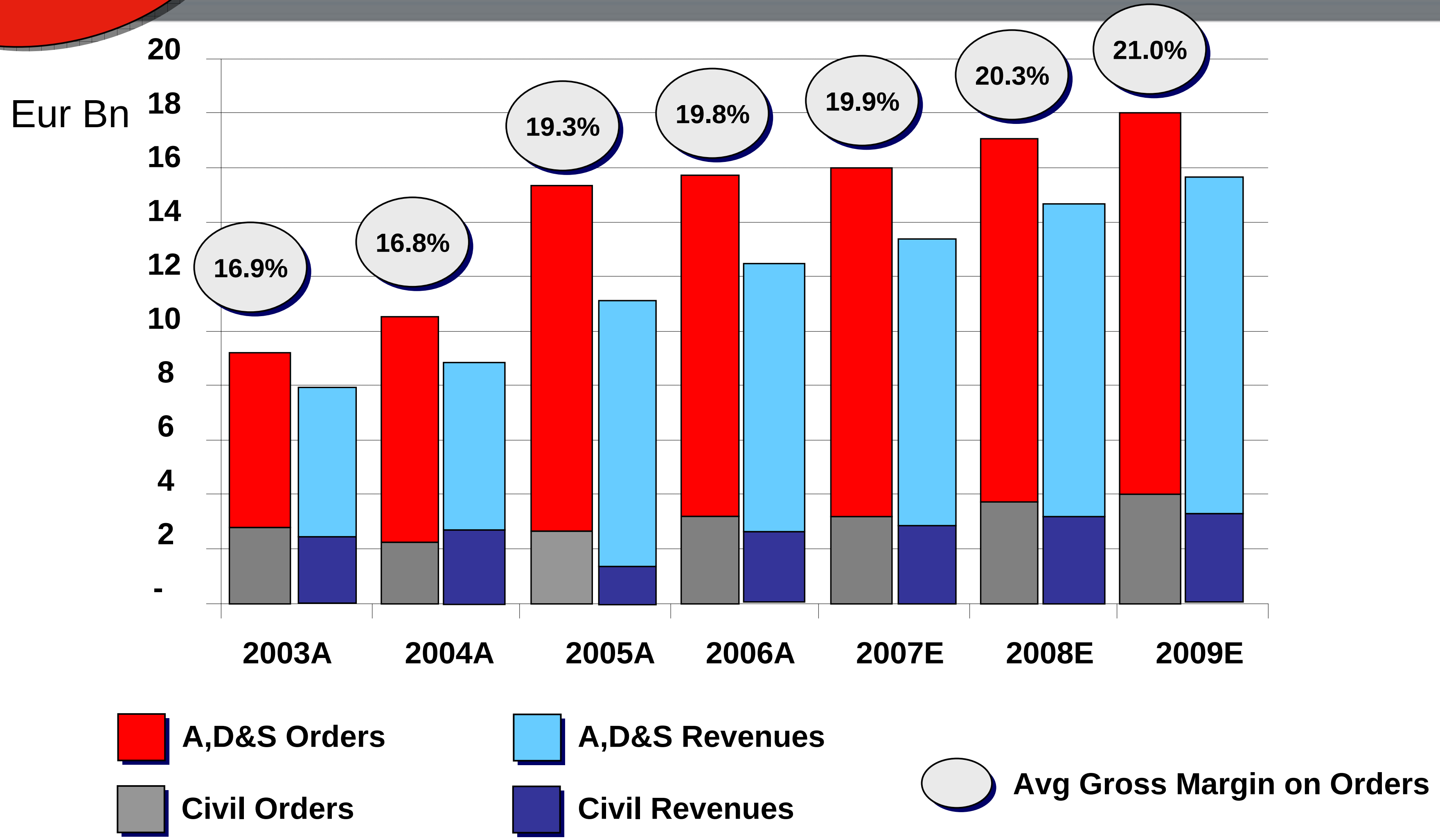

Revenue growth accompanied by backlog growth, maintaining an average visibility of 3 years of production

Leadership achieved in some businesses

Growth

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	World Market (€ bn)	Finmeccanica Market Share
Defence Electronics	56.4	6.9%
Missiles	14.3	22.4%
Armoured Systems	10.6	2.8%
Civil Aerostructures (*outsourcing*)	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 *Service*)	4.4	4.5%

Our critical mass needs to increase further

Strengthen & Consolidate Global Positioning

Our internationalisation strategy…

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- **Consolidation of Domestic Markets (more than 40% of 2009 orders to come from Italy & UK).**
- **USA: pursuing multiple strategic approaches according to different opportunities**
- **Intensification of commercial actions and promotion of Group commercial offers in RoW markets by expanding in**:
  - ✓ **"Large" Markets**: Russia, India and China.
    - Pursuing cooperation agreements with local partners to facilitate our access
  - ✓ **Consolidating markets**: Greece, Malaysia, Turkey, East Europe.
    - Leveraging on commercial achievements to further consolidate our presence
  - ✓ **High potential growth markets**: UAE, Japan, South Korea, Saudi Arabia, Singapore, Algeria
    - Exploiting opportunities in medium/large markets under development/evolution

Strengthen & Consolidate Global Positioning

…driven by international commercial success of our key products

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- **AW139** (180 helicopters expected over 2007-09)
- **A109 Power**
- **A129**
- **EH101** (all-weather, medium-lift helicopter)
- **C-27J** (military tactical transport aircraft)
- **M311** and **M346** trainers
- **Civil programmes: B787** additional orders, **ATR** (60 a/c expected p.y.), new **A350XWB** initial order
- **Eurofighter** (Aerostructure, DASS radar, Avionics & Communications System), additional T2 developments + T3 initial orders in 2009
- **SeaSpray** (Electronically scanning multi-role radar)

- **Tetra** (Terrestrial Trunked Radio for professional mobile radio communications - Secure Wireless)
- **ATCR 33S-44S, SIR–S** (ATC/ATM)
- **Large Systems** for Homeland Security & Protection, Network Centric Warfare, VTS/VTMS: **Border Control Systems** (one significant contract expected in 2007)
- **Sicral, Cosmo & Galileo** (Satellites & Services)
- **ERTMS** (European Rail Traffic Management system)
- **High Speed Transportation**
- **LTSA** and **Flow Service** (Energy)

Innovation…

… to improve competitiveness…

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✓ **R&D Investment** → <u>New Technologies/New Products</u>

(i.e. Single barrel composites for B787, BA609 Tiltrotor,)

✓ **Capex Investment** → <u>New Processes/ New Infrastructures</u>

(i.e. new Italian site in Grottaglie for B787)

… and increase profitability and Cash flow generation

Distinctive core competencies: composite technologies and relative applications

Innovation

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B787 (51%)

Fuselage "one piece barrel fuselage"

Co-cured horizontal stabilizer

A350

Super-Jet 100

Future Narrow Bodies

New composite-metal hybrid solutions

Eurofighter Prototype (15%)

Wing panel co-bonded spars

Eurofighter (40%)

Extended composite application

AMX (3%)

Tailplane co-cured multi spar box

ATR 42/72 (19%)

Tailplane extended co-bonding

Neuron - Advanced UAV

Advanced design technologies and tools

B767 (3%)

Moving surfaces composite application

JSF F-35

Wingbox composite-titanium integral design

1980 | 1983 | 1989 | 1995 | 2000 | 2005

YESTERDAY | TODAY | TOMORROW

Innovation

Investing with high expected returns in three connected areas

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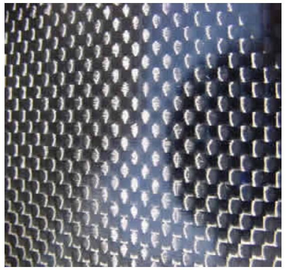
- ✓ New technologies → carbon fiber →



- ✓ New processes → one piece barrel →

- ✓ New products → Sections 44 and 46 of B787 →

Innovation

Delivery of first 2 B787 sections (44 - 46) to Boeing at Italian Grottaglie site (22 March 2007)

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Investing in people

- ✓ **HR Investment** → <u>More Advanced Core Competencies</u>

MindSh@re©

Unconventional Engine for Value Innovation

- ✓ Permanent communities aimed at developing competitive advantage from knowledge and technological competencies inside the Group

FHINK

Master in *International Business Engineering*

- ✓ 29 students selected among international talented graduates (17 from foreign countries)

Finmeccanica Innovation Award

- ✓ projects presented by Group Companies worldwide; number of proposals doubled over 3 programmes

Value Creation

Core competencies to perform

FINMECCANICA

Capability to:

- ✓ manage large contracts through appropriate operating levers, to keep delivery timing, costs and quality under control and reduce risks
- ✓ continuously reduce product costs

Growth

- ✓ offer integrated solutions leveraging on Group synergies

Internationalisation

- ✓ penetrate new markets through local industrial initiatives and domestic partnerships

Innovation

- ✓ apply innovative technologies to products; manage innovation risks

Value Creation

Extracting value from civil activities

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VEHICLES

(Ansaldo Breda)

- ✓ Critical situation slowly improving due to restructuring plan started in 2005
- ✓ Moving along 3 strategic lines: S/T crash programme, M/T process programme, transformation of 4 production sites in specific centres of excellence

SIGNALING+SYSTEMS

(Ansaldo STS)

- ✓ 2006 satisfactory performance and increased market cap (+23% versus IPO price) confirm flotation as the best option for enhancing value
- ✓ Upside for signalling technology and systems from growing Security demand

ENERGY

(Ansaldo Energia)

- ✓ Double digit growth plan, based on strong organic order intake in manufacturing (mainly abroad) and in Service
- ✓ Strengthening role as Independent Service Provider through selected international acquisitions, opening new export markets

Our roadmap for the near future

- ✓ Continue growing organically, both in Revenues and Profitability
- ✓ Pursue external growth through the acquisition of selected core assets
- ✓ Further enhance value extraction from civil activities,
  with particular reference to Energy

Growth and

Focus on A,D&S

Strengthen &
Consolidate
Global Positioning

Innovation

Value Creation

Appendix

New Directive on State Incentives for Research & Development

FINMECCANICA

- The Italian Government, through Directive N 28 of the Interministerial Committee for Economic Planning, on 22 March 2006 (Gazzetta Ufficiale n.146 of 26 June 2006) ruled that projects “aiming to enhance the technological endowment necessary to maintain national security” form part of long term strategies to develop the industrial base guaranteeing the security of the State. The Directive states furthermore that the State’s intervention in order to develop the industrial base – through financial aid – must be reimbursed through the payment of royalties each time tangible or intangible goods incorporating these technologies are sold.
- Under the same Directive N. 28/2006 the Government also established – at point 4.8 in combination with point 4.5 – that national programmes, aimed at realising a project of “European common interest” under art. 87, comma 3, letter b) of the “Treaty establishing the European Community” are subject – in place of financial “reimbursements” - to the same specific regulations for “National Security” programmes. These regulations require the payment to the State of ”royalties” on the sale of products that utilise technologies funded by the State and developed during the implementation of the projects.
- These “European Common interest” projects, as specified under points 4.5 and 4.8 of Directive 28/2006, have been subsequently identified by the Government with appropriate dispositions.
- The result is that companies are only obliged to pay royalties to the State when they actually sell tangible or intangible goods which derive from projects that utilise technologies funded by state incentives. These royalties are calculated according to when cash is received for sale of the products, and to reimbursement ratios which increase progressively together with the advancement of cash receipt milestones.

FY 2006 Results – Profit & Loss

FINMECCANICA

€mil.	FY 2006	FY 2005	*Change %*
Revenues	**12,472**	**10,952**	***14%***
Change in work in progress, semi-finished goods and finished products	**(24)**	**517**	
Cost of goods, services and labour	(11,121)	(10,330)	
Depreciation and amortization	(482)	(347)	
Provisions for risks and charges	(23)	(18)	
Restructuring costs	(10)	(32)	
Other operating revenues (costs)	66	(7)	
EBIT	**878**	**735**	***19%***
EBIT Margin	*7.0%*	*6.7%*	
Financial income (expenses)	394	(149)	
Income taxes	(243)	(200)	
Profit before discontinued operations	**1,029**	**386**	***167%***
Profit of *discontinued operations*	(9)	10	
Net profit	**1,020**	**396**	***158%***

Balance Sheet

FINMECCANICA

€mil.	31/12/2006	31/12/2005
Non-current assets	9,897	7,671
Non-current liabilities	(3,275)	(2,018)
	6,622	5,653
Inventories	3,095	5,511
Construction contracts	2,823	2,538
Receivables	3,856	3,600
Trade payables	(3,561)	(3,431)
Customer advances	(5,529)	(4,389)
Provisions for risks and charges S/T	(571)	(523)
Other net current assets (liabilities)	(547)	(3,289)
Net working capital	**(434)**	**17**
Net invested capital	**6,188**	**5,670**
Group's equity	5,276	4,444
Minorities interests	81	154
Shareholders' equity	**5,357**	**4,598**
Net debt	**858**	**1,100**
Net (assets) liabilities held for sale	**(27)**	**(28)**

Cash Flow Analysis

FINMECCANICA

€mil.	2006	2005
CASH AND EQUIVALENTS AT 1 JANUARY 2005	**1,061**	**2,055**
CASH FLOW FROM OPERATING ACTIVITIES	1,565	1,413
Changes in working capital	347	204
Changes in other operating assets and liabilities	(594)	(662)
CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES	**1,318**	**955**
Net CAPEX	(779)	(385)
Other financial investments	(33)	(69)
Free operating cash-flow	**506**	**501**
Investments for acquisitions	580	(769)
Changes in other financial assets	(30)	18
CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES	**(262)**	**(1,205)**
Dividends paid	(214)	(111)
CASH FLOW FROM FINANCING ACTIVITIES	102	(640)
CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES	**(112)**	**(751)**
Exchange differences on cash and equivalents	**(2)**	**7**
CASH AND EQUIVALENTS AT 30 JUNE 2005	**2,003**	**1,061**

Divisions

2006	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Revenues	2,727	3,747	1,908	764	1,127	978	1,368	229	(376)	**12,472**
EBIT	290	300	203	44	91	63	15	(128)		**878**
EBIT margin (%)	10.6%	8.0%	10.6%	5.8%	8.1%	6.4%	1.1%	n.s		7.0%
Depreciation and amortisation	131	117	136	25	29	13	20	11		**482**
Investment in fixed assets	89	150	554	16	51	15	22	17		**914**
R&D costs	356	541	486	64	279	17	40	0		**1,783**
New orders	4,088	4,197	2,634	851	1,111	1,050	2,127	99	(432)	**15,725**
Order backlog	8,572	7,676	7,538	1,264	4,252	2,468	4,703	346	(1,009)	**35,810**
Headcount	8,899	19,185	12,135	3,221	4,275	2,856	6,677	811		**58,059**

2005	Helicopters	Defence Electronics	Aeronautics	Space	Defence Systems	Energy	Transport	Other Activities and Corporate	Eliminations	Total
Revenues	2,413	3,164	1,789	735	1,143	764	1,226	175	(457)	**10,952**
EBIT	272	269	166	26	112	39	(48)	(101)		**735**
EBIT margin (%)	11.3%	8.5%	9.3%	3.5%	9.8%	5.1%	-3.9%	n.s		6.7%
Depreciation and amortisation	53	79	106	34	30	12	19	13		**346**
Investment in fixed assets	142	1,020***	165	41	45	14	26	12		**1,465**
R&D costs	436	501	405	79	268	13	40	0		**1,742**
New orders	3,712	4,627	3,230	599	763	1,032	1,615	465	(660)	**15,383**
Order backlog	7,397	6,946	6,865	1,154	3,869	2,329	3,956	487	(889)	**32,114**
Headcount	8,531	19,786	11,198	3,194	4,104	2,529	6,321	940		**56,603**

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FINMECCANICA

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