

## Finmeccanica signs EuroSystems agreement to become a European leader in defence electronics

---

Finmeccanica and BAE Systems today signed the final agreement for EuroSystems in the Defence Electronic sector. The agreement is of great strategic and economic value for Finmeccanica in terms both of the group's competitive position and of its objectives to achieve strategic and operational autonomy.

"Thanks to this operation, Finmeccanica will rank second in Europe and sixth worldwide in defence electronics", said Chairman and CEO Pier Francesco Guarguaglini, "generating revenues of more than EUR 3 billion in the sector. EuroSystems will make a huge contribution to the group's objectives of growth and increased focus on aerospace and defence".

Under the agreement, Finmeccanica will acquire a number of important UK-based assets in the sectors of avionics, military and secure communications and air traffic control. Since AMS will now operate independently, synergies will be created with other group companies, making Finmeccanica a leading systems integrator in the electronics field.

Under the agreement:

- a new avionics company will be set up, controlled 75% by Finmeccanica and 25% by BAE Systems;
- Finmeccanica will acquire BAE's military and secure communications assets;
- the Italian assets of AMS NV will come back under the full control of Finmeccanica. AMS SpA will now head up the air traffic management and air traffic control assets acquired from BAE Systems in the UK, Germany (Gematronik) and the USA (ASI).

Revenues from the defence electronics assets controlled by Finmeccanica are expected to grow at least as fast as the sector as a whole over the next five years (+8% per year). Moreover, a preliminary analysis of possible synergies with the UK assets shows that their operating margins should also increase over the same period, reaching the same level as Finmeccanica's existing defence electronics assets. Preliminary estimates show that the full implementation of these synergies should lead to a 25% improvement in operating profits (Ebita) by 2008 compared to what these companies would have been able to achieve on a stand-alone basis.

At closing the total net cash consideration to be paid by Finmeccanica is EUR 516 million (£360m). In order to maintain the financial solidity and stability of the group Finmeccanica will fund this consideration through an appropriate combination between the disposal of portfolio assets, available cash and debt instruments.

At end-2004, Finmeccanica's net debt stood at around EUR 400 million, which was better than expected. It includes the EUR 1,441.5 million generated from the sale of 93 million shares in STMicroelectronics NV (equal to 10.3% of the share capital of STM) to CDP, at a price of EUR 15.50 per share as well as the consideration paid to GKN for the acquisition of 50% of AgustaWestland (EUR 1,588 million).

EuroSystems (together with AgustaWestland and Space Alliance), is one of the three cornerstones of the group's strategy of growth, international expansion and consolidation in its main areas of excellence: helicopters, defence electronics and aerospace.

---

**Finmeccanica** is Italy's leading high-tech company, operating in the design and manufacture of aerostructures, helicopters, satellites, space infrastructure, missiles and defence electronics. It plays a leading role in the European aerospace and defence industry, and participates in some of the biggest international programmes in the sector through well-established alliances with European and American partners. Finmeccanica also boasts significant manufacturing assets and skills in the transport, energy and IT sectors. The group is listed on the Milan stock exchange, and operates in Italy and abroad through 16 companies and 6 joint ventures. It employs around 46,000 staff in total. As part of its drive to maintain and build on its technological expertise, Finmeccanica spends the equivalent of over 12% of its revenues on research and development.

The new agreement is particularly important from an industrial standpoint for the avionics business, since it completes Finmeccanica's range of skills and products, especially in the sector of electronic warfare self-protection systems. The group's existing know-how and technologies will be further enhanced by BAE's state-of-the-art systems and skills, for example in the field of active radar and electro-optics. The acquisition of BAE Avionics will enable Finmeccanica to speed up its strategy of penetrating the US market, thanks to BAE Avionics' participation in a number of important military programmes that are expected to see strong growth in the next few years.

As for the aeronautics programmes in which the avionics systems will be used, Finmeccanica and BAE Systems are both closely involved in the Eurofighter programme, while the systems themselves are used in a large number of European and American platforms. In particular, the recent awarding of contracts for the second tranche of the Eurofighter will have a significant impact on the new avionics company, with orders of about EUR 3 billion expected in 2005. Added to this are the benefits that will come from the synergies created between the new avionics company and Finmeccanica's aeronautics subsidiaries AgustaWestland, Alenia Aeronautica and Aermacchi.

In the field of military and secure communications, Selenia Communications has strengthened its presence in the UK, at a time when the MoD is ploughing large sums into leading-edge communications systems.

Finmeccanica's decision to launch a strategy of aggressive growth in a crucial market segment like government electronics, and at the same time consolidate its presence in the most important European market in the sector, has enabled the group to become one of the leading players in the aerospace and defence industry.

### **Avionics**

The new Avionics business will comprise Galileo Avionica SpA, Finmeccanica's Avionics business, together with BAE Systems Avionics Limited, BAE Systems' UK avionics businesses operating in the fields of electro-optics, airborne radar and electronic warfare ("BAE Systems UK Avionics").

The EuroSystems transaction agreement incorporates certain option arrangements whereby Finmeccanica may require BAE Systems to sell its 25 per cent. interest in the new Avionics business to Finmeccanica at any time following completion and BAE Systems may require Finmeccanica to purchase its 25 per cent. interest after 25 months following completion. The consideration for BAE Systems' 25 per cent. interest payable on exercise of either option will be £269 million in cash (EUR 385m). The net cash payable to BAE Systems and the option exercise price are subject to reduction, depending, in relation to BAE Systems UK Avionics, upon the profit achieved for the year ended 31 December 2004 and the achievement of targets for certain contracts within a period of two years from completion.

Finmeccanica intends to fully consolidate 100% its 75% stake in the new Avionics business.

During the year to 31 December 2003, BAE Systems UK Avionics generated £677.9 million of turnover (EUR 972m) and £17.4 million of Ebita (EUR 25m) with the latter estimated to have almost doubled by end 2004. During the year to 31 December 2003, Galileo Avionica generated Euro 517.5 million of turnover and Euro 49.8 million of Ebita.

### **AMS**

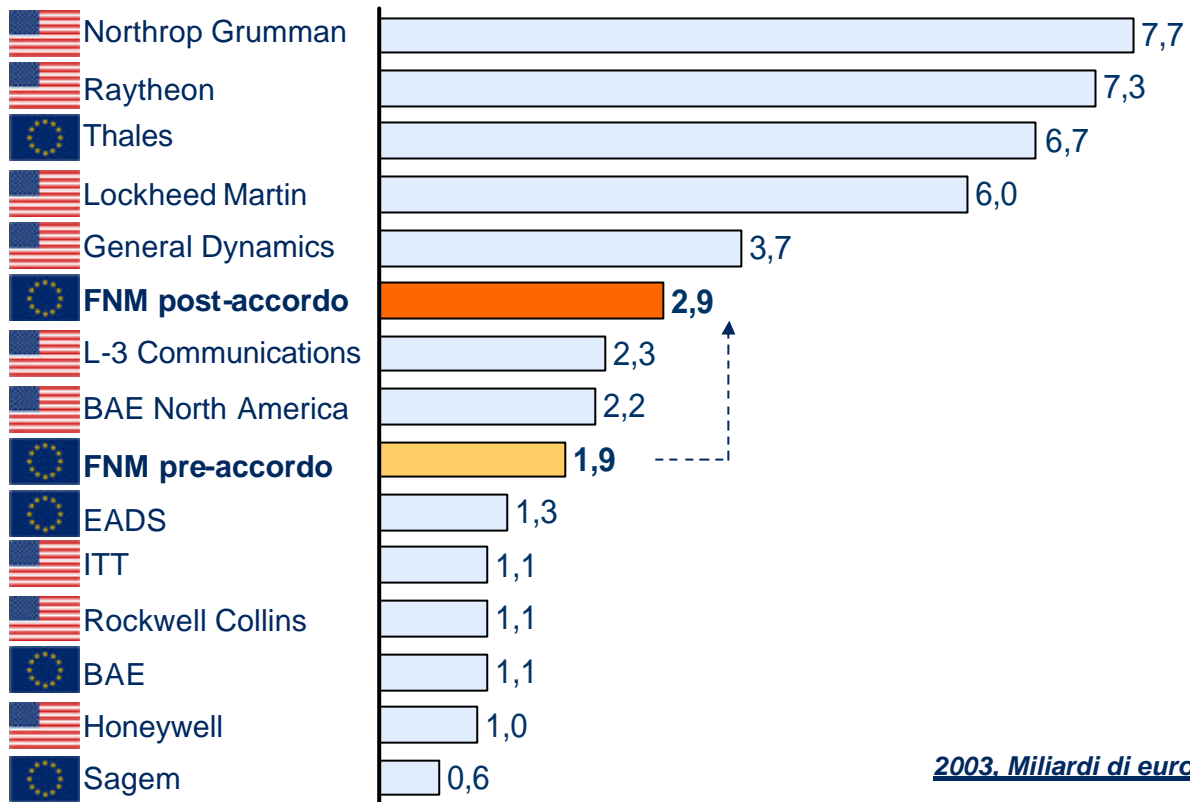
The AMS joint venture will be dissolved, with Finmeccanica and BAE Systems acquiring the Italian and UK operations of AMS respectively.

During the year to 31 December 2003, AMS generated £811.8 million of turnover (EUR 1,176m) - of which its Italian operations accounted for EUR 479.8m (£331.2 million) and its UK operations accounted for £491.4 million (EUR 711.9m) and £64.9 million of Ebita (EUR 94m) of which its Italian operations accounted for EUR 22.3 million (£15.4m) and its UK operations accounted for £49.5 million (EUR 71.7m). Sales of the Italian AMS business, including ATC activities in UK, Germany and USA are estimated to have risen by more than 10% in 2004 with Ebita of close to EUR 50m.

### **Communications**

During the year to 31 December 2003, the BAE Systems' UK military and secure communications business generated £46.7 million of turnover (EUR 67m) and an Ebita of £3.8 million (EUR 5.4m).

Finmeccanica's financial advisors for the transaction were Vitali e Associati Spa whereas its legal and due diligence advisors were Allen & Overy and Ernst & Young respectively.



2003. Miliardi di euro