Becoming who we truly are

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For Finmeccanica, 2008 will be the year in which we made a leap forward in quality.

As you know, this year we launched the acquisition of DRS Technologies, which is extremely significant for us both in terms of the investment required as well as in its objective: to become a prime contractor to the US defence industry.

This transaction has not yet been completed, as we are waiting for clearance from various bodies. However, we are confident that it will be concluded successfully and these comments are made on this basis.

This does not mean, however, that we have reached the finish line, or that the Group has now taken its final shape with no room for further development.

Rather, it means we believe an important phase in the life of Finmeccanica is drawing to an end, during which we defined what the Group would be going forward. And with the acquisition of DRS, we believe we have equipped ourselves with the expertise and technological and organisational tools necessary to make this vision a reality.

We also believe that a new phase is beginning, one in which Finmeccanica must “become what it truly is”. That means putting to good use the expertise and tools that I mentioned and maximising their potential.

The fact that this transition is taking place just as we celebrate the 60th anniversary of Finmeccanica is clearly a coincidence, but at the same time is rather symbolic.

Today, Finmeccanica is a truly international group, with more than 150 locations overseas, of which more than a third are production facilities.

The geographical origin of the Group’s orders also provides a significant barometer of its internationalisation.

In 2004, only 20% of orders originated outside the domestic market, which then consisted solely of Italy.

1948 - 2008

Today, 58% of orders come from outside our domestic market, which now includes the UK as well as Italy.

Despite this progressive internationalisation, however, we have maintained a distinct multi-domestic nature, in that we promote a sense of belonging to the Group while respecting and giving value to different national identities.

In 2007, Group revenues totalled 13.4 billion euro (+8% compared to 2006), while EBIT exceeded 1 billion euro (+19%), with a margin of 8.1%.

If we add the pro-forma revenues of DRS, the total for Finmeccanica comes to 15.7 billion euro.

Finmeccanica's activities are built on three strategic pillars: aeronautics, helicopters, and defence and security electronics.

We chose these three pillars in order to focus on the sectors in which we are most competitive and to put our long-term investment in research to good use, as well as to exploit what we see as global market opportunities.

Furthermore, we should not forget that the helicopters and defence electronics sectors are particularly highly valued in light of increasing security requirements.

The choice of these three strategic pillars has guided the Group's investment policy in the past and continues to determine that planned for the future: around 80% of our investments, whether in technological research, new facilities or acquisitions, relates to these sectors. This percentage is significantly higher if we take into account the acquisition of DRS.

Thanks to these decisions and these efforts, Finmeccanica has established itself firmly among the global *élite* of aerospace and defence, as demonstrated by the results it has achieved in the last few years worldwide, and particularly in the US market.

Alongside these three pillars, we have maintained control and improved the competitiveness of our activities in strategic sectors such as space, defence systems, transports and energy.

This choice was made to capitalise on the technological excellence and expertise that exists not only in Finmeccanica, but in Italy as a whole, and to give us a further competitive advantage based on the breadth and completeness of product portfolio.

In fact, the capacity to offer solutions and systems in a variety of sectors, together with the constant efforts of the parent company to harmonise the activities of the different operating companies, means we can offer integrated solutions to complex operational problems that increasingly meet the new needs of institutional and corporate clients.

This unique feature of Finmeccanica also allows us to meet new and increasingly diverse security needs in effective and creative ways.

Security is no longer a simple adjunct to defence activities. It now constitutes a business sector in its own right, with well-defined characteristics that draw on numerous elements from the defence sector. It has also become an added dimension to all systems and infrastructures.

More generally, alongside our systems capabilities, which allow us to compete on international markets as systems integrators, we have added increasing service and training capabilities, which enable us to provide our clients with whole-life solution management.

The know-how acquired with DRS in this area will allow us to consolidate our activities, taking them to a more mature level.

With regard to our internal skills base, we believe that we have invested adequately, both in terms of quantity and quality.

Our investment in research and development over the past few years has remained at between 14% and 16% of revenues, and in absolute terms we have invested around 9 billion euro in research since 2002.

The other area in which we have invested is in the ongoing training of Group staff, from new recruits to senior managers. Last year, we spent more than 10 million euro on over 750,000 hours of training, with an average pro capita investment of 250 euro for almost 20 hours of training.

We have a clear idea of what we have to do to “become who we truly are”.

First of all, having acquired the expertise and the tools needed to compete, we must integrate them optimally, at both the individual company and Group level.

The benefits of successful integration can be measured first of all in terms of our effectiveness in international competition, since it allows us to present ourselves as a company belonging to the national industrial base of our domestic markets: Italy, the UK and in the future, the US.

Furthermore, integration generates significant advantages in organisation and production, as it eliminates wasteful overlaps and prevents dangerous gaps.

Finally, only by properly integrating the Group across the board can we offer the end-to-end solutions I spoke about earlier.

The second path that we will continue to pursue is that of strategic alliances, both in specific business sectors – as in the case of space, a mature industry entering a phase of renewal, where a joint venture with DCNS and Thales could be created by the end of the year – and in specific markets, such as the Gulf region or in India.

Projecting itself onto the international stage is no longer a conscious requirement for Finmeccanica as internationalisation has become a natural part of our business dynamic, one with which we will continue to develop our commercial strategies and, where necessary, make long-term investments or form project alliances with local partners.

In 2007, we achieved significant global market shares:

- 7% for activities relating to the three strategic pillars – rising to 8.5% with the inclusion of DRS
- 10.5% for space and defence systems
- 2% for energy and transports.

In 2010, we hope to reach:

- 8% for the strategic pillars – 10% including DRS
- 11% for space and defence systems
- 2.5% for energy and transport.

To sustain the Group's growth, we must improve its organisational and production efficiency so as to guarantee sufficient cash flow.

Where we think it is necessary and useful for business development, we will raise capital on the equity market.

The ultimate objective of our strategy is to constantly improve our ability to create value, in order to ensure an adequate return on invested capital.

From 2002 to today, EBIT has more than doubled and the EBIT margin has risen from 5.7% to 8.1%.

Our target is to reach 10% in 2010.

Since 2003, Finmeccanica has increased the dividends paid to shareholders by 20% per year, while the value of the shares has grown 60%. We intend to maintain this trend.

In closing, let me say that the road for Finmeccanica has been mapped out: now we just need to push ahead, without hesitation and with the determination that has brought us this far.