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“We have beaten our targets for 2007”

EBIT increases to EUR 1.1 billion – Boeing delays have no impact on figure

Guarguaglini speaks : “Finmeccanica: EUR 3 billion earmarked for acquisitions”

“Ansaldo Breda will be turned round sooner than anticipated: it will break even as early as 2008”

By Marigia Mangano - Milan

What impact will the Boeing 787 delays have on **Finmeccanica**'s accounts? “There will be no impact at all. When we embark on complex projects, which is the case with the Boeing 787, we always prepare a risk assessment plan. So we have already factored in any slippages. I would go even further: not only have the delays had no impact on our results for 2007, but we also expect to close the deal earlier than anticipated”.

Pierfrancesco Guarguaglini, Chairman and CEO of Finmeccanica, has just got back to Piazza Monte Grappa, the Group's main headquarters, after five days of business meetings in the US. In the middle of his schedule, he took a short break in Milan, during which he found time to give this interview to *Il Sole 24 Ore*. With a surprise announcement: Finmeccanica is preparing to close out 2007 with figures that exceed the targets originally advised.

“By the nature of the sectors in which we operate, we have to be cautious in our estimates. But today, now that we are nearing the end of 2007 and our programme of events is complete, we can expect better results than anticipated”, explained Guarguaglini. For the year-end, the group had forecast revenue growth of between EUR 13.1 billion and EUR 13.7 billion, an improvement in EBIT of between EUR 950 million and EUR 1 billion and Free Operating Cash Flow at break-even. But according to the Finmeccanica chief, “On the basis of revenues that will amount to some EUR 13.5 billion, as forecast, the group will post a higher EBIT figure, of around EUR 1.1 billion, and positive cash flow”. Mr Guarguaglini was keen to point out that all group companies and sectors in which the group is active contributed to these results in various ways, especially Ansaldo Energia. Mr Guarguaglini further explained that these results would enable the group to “bring forward restructuring operations under way, starting with the recovery of Ansaldo Breda”. According to the estimates of one of the major investment banks, the subsidiary that designs and manufactures railway and vehicles will continue to make a loss until 2009. “We are already looking to break even generally by the end of next year, accelerating the

restructuring.” Guarguaglini continued. And once break-even point has been reached, what will the future hold for Ansaldo Breda? “The objective, as you have stressed on many occasions, is that the company will create value”. In reply, Guarguaglini said that there were no plans to sell it, but undoubtedly the group would “find the right solution in time”. Besides, Finmeccanica currently has other priorities with much tighter deadlines, such as the listing of Ansaldo Energia (“a final decision will be taken in the next few months, but in any case, the objective is for the company to become increasingly more independent from Finmeccanica”) or the future strategy of Augusta Westland (“we have never considered listing the company - it will continue to operate by creating partnerships for joint programmes rather than structural partnerships).

In the background, there is the acquisition issue. Less than a week ago, Finmeccanica launched a public purchase offer for British aerospace group Vega – a deal worth EUR 90 million that would considerably consolidate Finmeccanica’s UK presence, in the key defence electronics sector, where the group strengthened its position last year with the acquisition of Datamat. But this is only a "first step", clarifies Guarguaglini. This is partly because the group has around EUR 3 billion to spend on acquisitions. The obvious alternatives are to strengthen ties with the US and the UK or to focus on Europe, especially France. What will Finmeccanica do? “I’ve always maintained, and will continue to do so, that acquisitions should represent opportunities. The US and UK markets are the most interesting, but that doesn’t mean that we can’t look at other opportunities in Europe”. With reference to dealings with French giant Thales and a possible partnership in defence electronic systems, Guarguaglini repeated his “willingness”, pointing out that co-operation between the two groups is also proceeding in other sectors. Alliances between Finmeccanica and the group headed by Denis Ranque are already in place in the space sector, which in turn have launched other joint initiatives, such as the integrated maritime safety and security project for European maritime areas, SEASAME, and another joint venture to design, manufacture and market torpedoes. The “opening” for Finmeccanica to create a large integrated company in defence electronic systems with Thales certainly does not mean that “we only have one strategy” as Guarguaglini explains. So, in the absence of any reply from Thales, Finmeccanica is keeping its options open.

NEW OBJECTIVES

EUR 1.1 billion

EBIT for 2007

The Finmeccanica group forecasts it will close out 2007 with better results than originally advised in its guidance. EBIT will come in at EUR 1.1 billion, higher than the original range of between EUR 950 million and EUR 1 billion. Cash flow will be positive as opposed to an estimated break-even.

EUR 13.5 billion

Revenues

Finmeccanica's revenues, however, are in line with the forecasts, coming in at EUR 13.5 billion, within the estimated range of between EUR 13.1 billion and EUR 13.7 billion. It is also forecast that Ansaldo Breda will break even as early as end-2008.