

# Strategic Overview

Pier Francesco Guarguaglini,  
Chairman and  
Chief Executive Officer

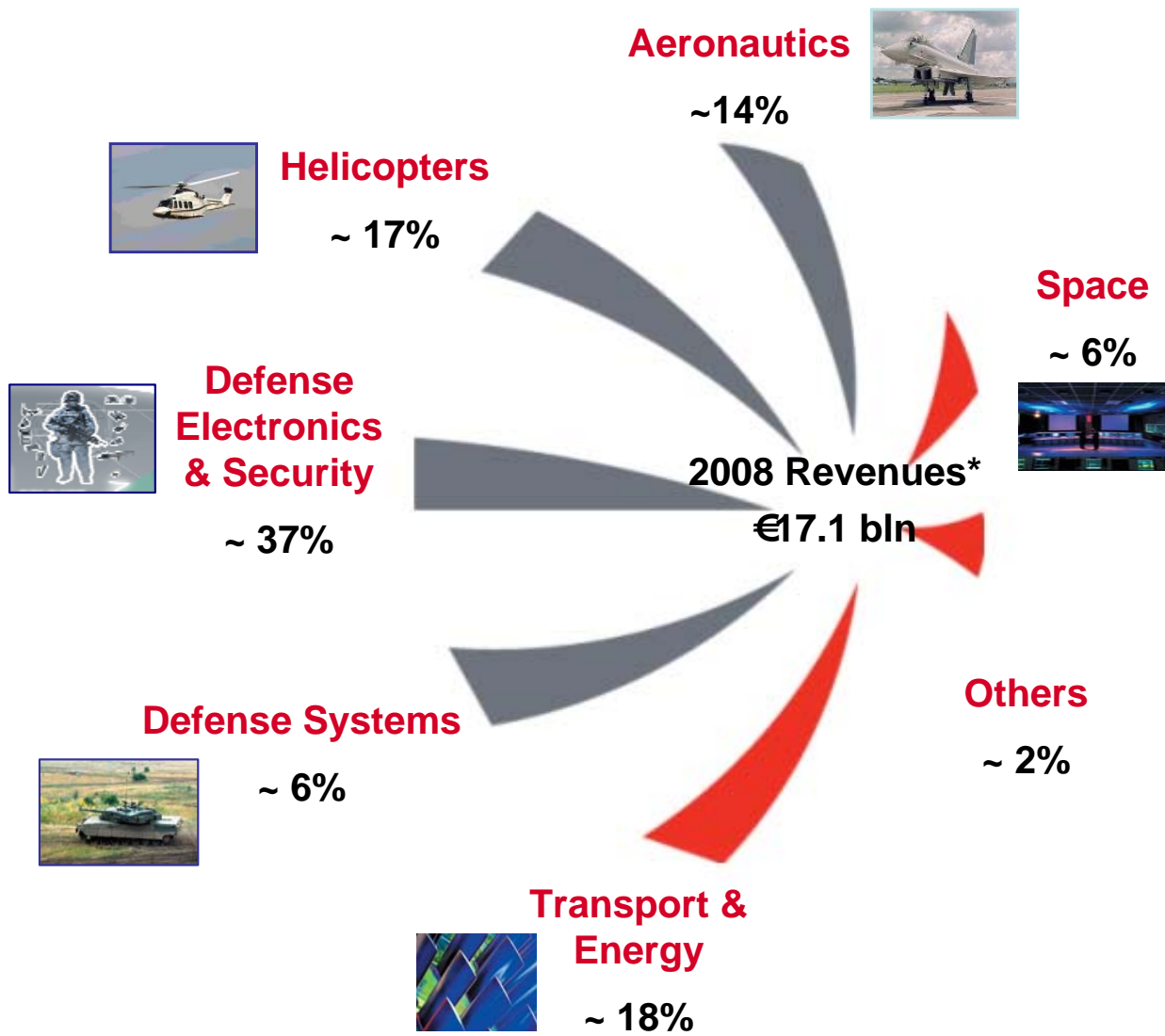
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## To reveal:

- ✦ **A clear understanding of the resilience of our businesses in the current turbulent economic environment**
- ✦ **A good visibility on expected economic/financial performance over the near and the medium term**
- ✦ **A level of granularity on our order intake over 2009 – 2011**

# Finmeccanica: a leading A,D&S international player...



- ...focused on 3 Strategic Pillars (Helicopters, Aeronautics, Defense Electronics & Security ca. 70% of Revenues), with local industrial presence in 3 domestic markets (USA, UK, Italy 60% of Revenues)
- With outstanding positions in other Defense segments (Missile, Underwater, Land & Naval Armament)
- Reference partner in the Space Alliance, with control over Value Added Services (VAS) and Ground Operations
- Strong niche capabilities in Transport and Energy: tactical assets for value creation

\* Pro Forma Revenues including 12months of DRS Technologies

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# Consistently delivered on our strategy from 2002...



- ⇒ Accomplished our strategic objective of building an international Group rooted in three domestic markets:
  - ✓ Italy, our home market
  - ✓ UK, the most relevant European Defense market
  - ✓ USA, the biggest worldwide Defense marketand geographically diversified in key selected countries in the rest of the world
  
- ⇒ Delivered on financial targets
  - ✓ Group Revenues grown since 2002 from €7.8 bln to €15 bln (CAGR 12%)
  - ✓ Group profitability (EBITA margin) increased since 2002 from 6.5% to 8.7% (CAGR EBITA 17%)
  - ✓ EPS (net of extraordinary) increased since 2002 from €0.30 to €1.39 p.s. (CAGR EPS 29%)
  
- ⇒ Entered the Top Ten Defense world ranking after the acquisition of DRS in USA

**...and we will continue to deliver**

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# Our strategic focus for 2009 - 2011



- ☼ **Extract value from the integration of newly acquired DRS**
  - ✓ by products and technology sharing
  - ✓ by opening export markets to DRS through Finmeccanica international network
  - ✓ by leveraging DRS to increase presence of Italian and UK products into the US market
  - ✓ by strengthening the Group domestic identity in the US market
  
- ☼ **Strengthen positioning in selected markets with growing Defence spending**
  - ✓ In order to offset weaknesses in domestic market spending
  
- ☼ **Rationalize business portfolio**
  - ✓ Complete Aeronautics restructuring: conversion & maintenance / SuperJet international
  - ✓ Complete rationalization and specialization of Rolling Stock production sites
  - ✓ Further integrate Defence Electronic activities
  
- ☼ **Short and long term profitable growth**
  - ✓ Increase margin through operational leverage and cost cutting
  
- ☼ **Cash Flow generation**
  - ✓ by improving operational efficiency, working capital control and investment prioritization and flexibility

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## ☼ **Resilience and flexibility**

- ✓ Availability of adaptable, affordable and high performing off-the-shelf products: helicopters (*AW139, EH101*); aircrafts (*C27J, M346*); Defense Electronics (*E-scan/Grifo radars, ATM, Homeland Security Systems, Electrooptics, Tetra, Car plate readers*); satellites (*Cosmo and Sicral*); naval guns (*76, 127*); gas turbines; signalling and transportation Systems (*ERTMS, European Rail Traffic Management System*)

## ☼ **Capability**

- ✓ Of playing major role in large international programs: e.g. B787, Eurofighter
- ✓ Of exploiting niche positioning: e.g. trainer/light combat aircraft, small gas turbines, E-scan radar, car plate reader

## ☼ **Technology**

- ✓ Affordable key enabling technologies: aeronautic carbon fibre structures, sensor and real time processing for homeland security, tilt rotor, ER components

## ☼ **Strong diversification**

- ✓ Of businesses, geographies and programs
- ✓ No dependency on one single region or program

- ✦ Top Management will now give you an overview of our operational and industrial strategy, followed by our economic and financial outlook
- ✦ The Company CEOs will then provide you with concrete examples of how our strategic objectives are being and will be implemented throughout 2009-2011 throughout the businesses and within our different markets

**My purpose for today is to show you  
how Finmeccanica has used, and will use,  
its excellent, adaptable and affordable technology  
to drive profitable growth**



# Commercial and Industrial Outlook

Giorgio Zappa,  
Chief Operating Officer

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# Playing in a more demanding field

**INCREASINGLY  
COMPETITIVE  
ENVIRONMENT**

**INCREASING  
DEMAND FOR  
INNOVATIVE  
SOLUTIONS**

**FINANCIAL CRISIS  
AND SLOWDOWN  
IN THE REAL  
ECONOMY**

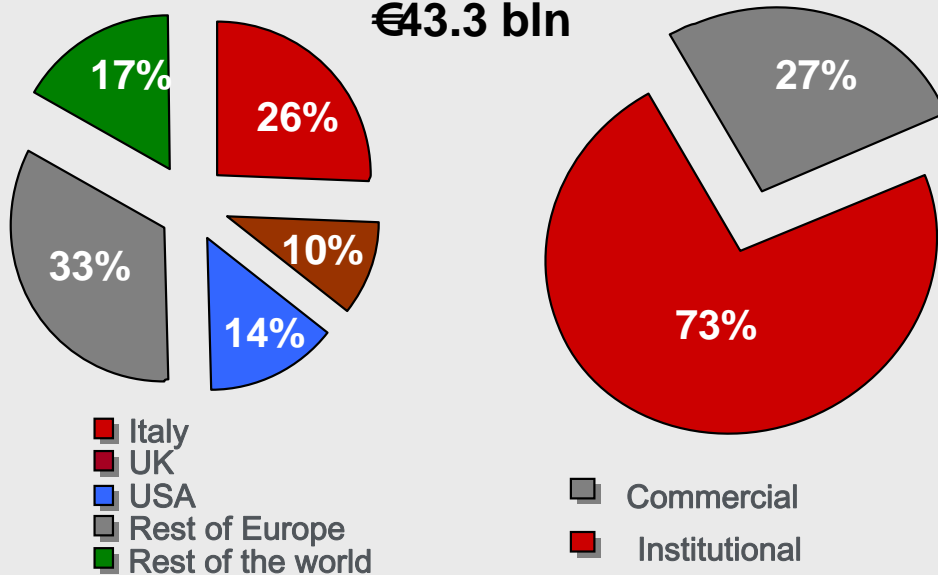
- ✓ **Strong focus on cost reduction through optimization and rationalization activities**
- ✓ **Continue our investment in technology and innovation on a more selective basis, prioritizing time to market and payback**
  - ✓ **Growth of business internationalization and diversification (also to mitigate exposure to crisis)**

**Good visibility through robust backlog**

# Clear visibility of Order Book and Pipeline

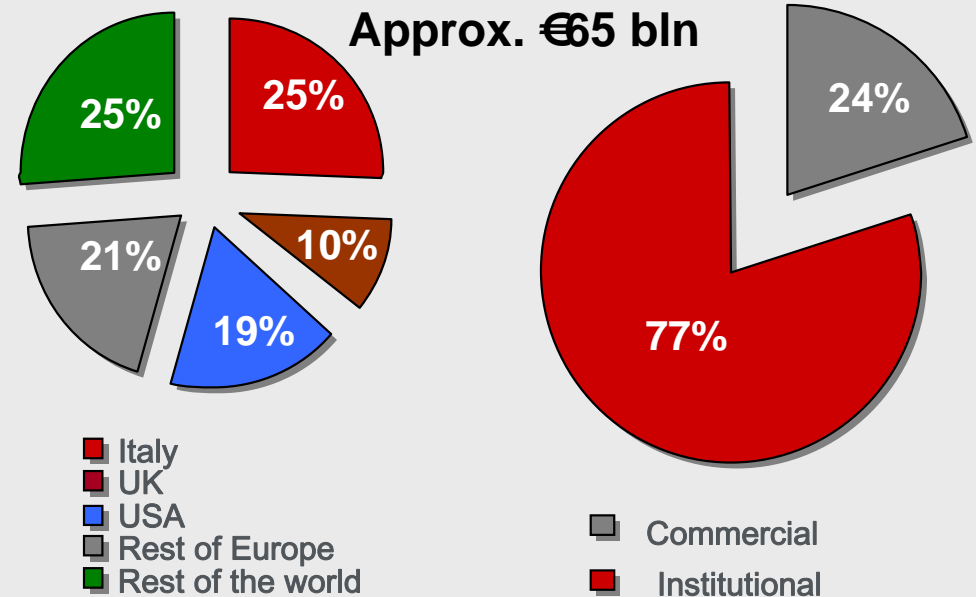
**Backlog at 03/31/2009**

€43.3 bln



**Cumulated Orders 2009 – 2011**

Approx. €65 bln



- Maintain good visibility through robust backlog
- No dependency on any one large single program

# Comprehensive action plan



## **BUSINESS**

- ✓ Country presence and proactive direct relationship with Customers
- ✓ Optimal product portfolio with strong in-house capabilities in
  - Systems and integrated solutions
  - Platforms
  - Strategic technology sensors and equipment

## **INDUSTRIAL ACTIVITIES**

- ✓ Reinforced industrial plan with focus on quality and timely delivery
- ✓ Leverage DRS
- ✓ Structure (lean G&A)
- ✓ Product portfolio optimization
- ✓ Reinforced assessment process to select new investments
- ✓ Industrial competitiveness organizational structure in each OPCo

## **HUMAN RESOURCES**

- ✓ Foster Human Capital development, internationalization and integration
- ✓ Right sizing
- ✓ Quality & innovation award initiatives
- ✓ Management accountability

- ✓ **Diversified market presence**
- ✓ **Modular capabilities and Solutions vertically integrated**

- ✓ **Strengthen industrial operations and program control**
- ✓ **Edge of technologies through selective innovation**

- ✓ **Quality of our deliveries**
- ✓ **Quality of our execution**

**Customer satisfaction and value creation to our shareholders**

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**Focused country strategies**

- ✓ **USA: expansion in Defence & Security through DRS**
- ✓ **Increased presence in large and high growth selected markets (Russia, Turkey, India, Japan) now extended to UAE, Malaysia...**
- ✓ **...with specific strategies being developed and implemented in Brazil, Saudi Arabia and Algeria**

**Key products commercial accomplishments**

- ✓ **M346 Trainer significant achievement in United Arab Emirates (UAE)**
- ✓ **AW139 successful world wide, AW129 in Turkey**
- ✓ **ATC/ATM worldwide**
- ✓ **Gokturk Satellite in Turkey**
- ✓ **Signalling in Far East**

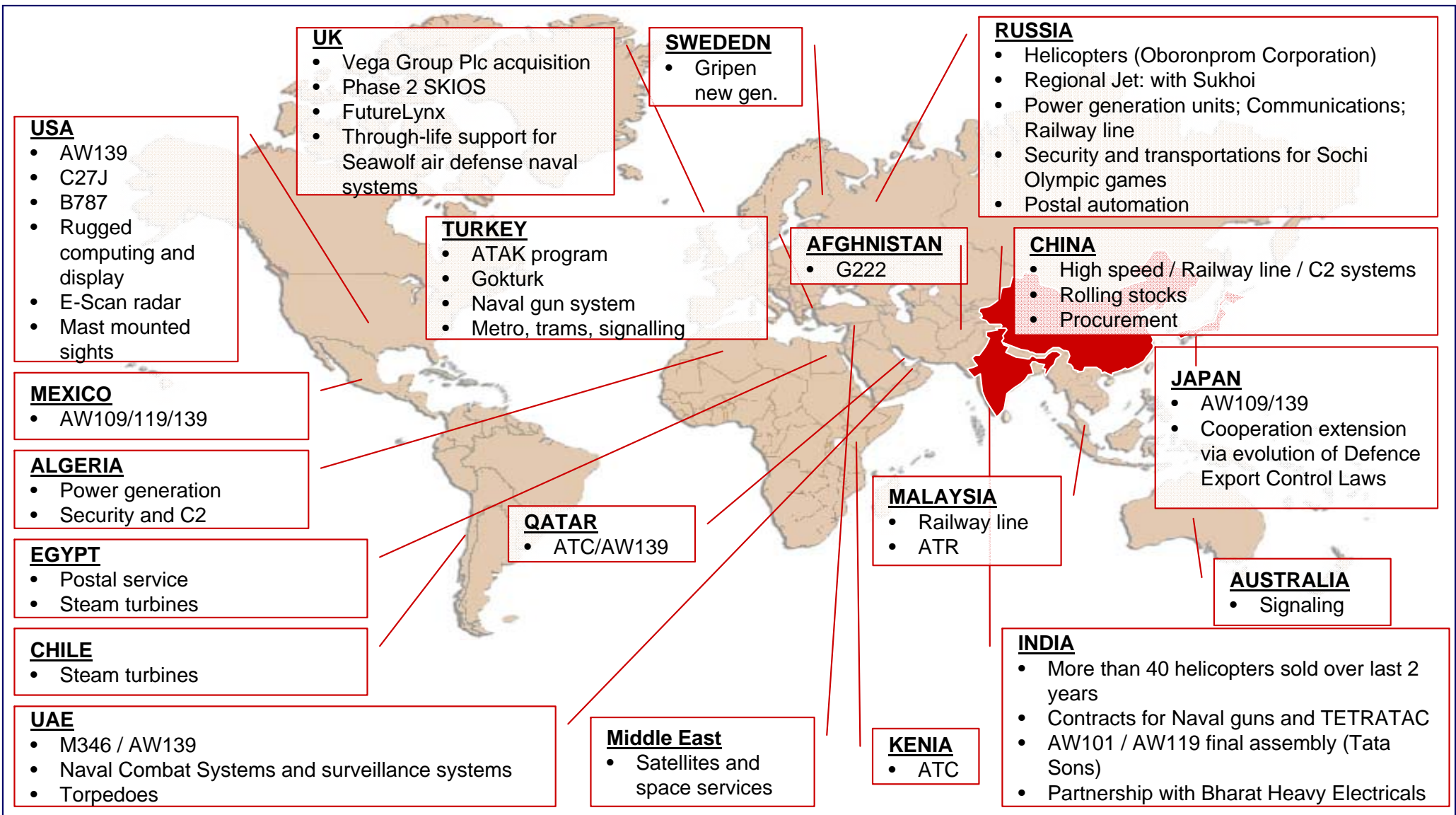
**Industr. & Program. partnerships accomplishments**

- ✓ **Ground radar and other technologies with the Indian firm Bharat Heavy Electricals**
- ✓ **Regional Jet with Sukhoi**
- ✓ **AESA radar for Gripen with SAAB**
- ✓ **New high-speed train joint development with Bombardier**

**Localisation of production sites**

- ✓ **JV in Russia for the assembly of AW139 with Oboronprom**
- ✓ **MoU with Tata Sons for AW119 final assembly**

**In 2008, international orders, excluding Italy and UK, accounted for 60% of total order intake**



Beside the C27J and B787, the above mentioned achievements are related to 2008

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## EXECUTION

**Committed to delivering contracts on time and improving quality and competitiveness**

## INTEGRATION

**Leverage DRS throughout the Group**

## PRODUCTION CYCLE

**Improve internal processes to optimize capital employed**

## PERFORMANCE

**Improve cash generation consistent with profitability**

## **Achieved**

## **New initiatives +**

### ***follow-on from previous ones***

**Integration & restructuring programs**

- ✓ Integration of UK and IT Operations of AgustaWestland
- ✓ Integration of Business and Operations in SELEX Galileo
- ✓ SELEX Comms and Aircraft conversion restructuring

- ✓ Further cost reduction in SELEX Comms
- ✓ Complete aircraft conversion restructuring

**Direct / indirect cost efficiency**

- ✓ Procurement savings
- ✓ Purchase of materials and components in low cost countries
- ✓ G&A expense reduction
- ✓ Industrial Logistics
- ✓ Optimization of In service Logistics activities

- ✓ Group wide Procurement Savings
- ✓ Group wide Production efficiency programs
- ✓ Lean manufacturing initiative in Aeronautics and Helicopters
- ✓ CMMI implementation in SELEX SI
- ✓ Overheads efficiency (across the Group)
- ✓ G&A expenses reduction (across the Group)

**Total**

**€80 mln**

annual average savings already achieved

**Additional €100 mln**

annual average savings '09 –'11

**CAPEX and R&D**

- ✓ Selective optimization of investments (CAPEX and net R&D) to €1.2 bln per year (2009-2011)

## Objectives

- ✓ Grow Finmeccanica Group in USA through DRS as channel for electronics supply to DoD and US Agencies
- ✓ Support DRS growth in international markets
- ✓ Consolidate Finmeccanica positioning as Tier 1 for Defense & Security solutions



### Benefits

#### IN TERMS OF REVENUES

Commercial integration, higher sales  
Wider products/service offering

#### IN TERMS OF COSTS

Processes (R&D, manufacturing)  
Economy of scale (procurement)



# DRS: opportunities and benefits progress status

## Early Achievements

- Egypt – comms radios with SELEX Comms
- C2 software in Jordan with SELEX SI
- New generation detector with SELEX Galileo under DARPA funding
- Delivered military satellite [Sicral] and first teleport use in place with Telespazio
- Postal Automation with ElsigDatamat

## Major initiatives under development

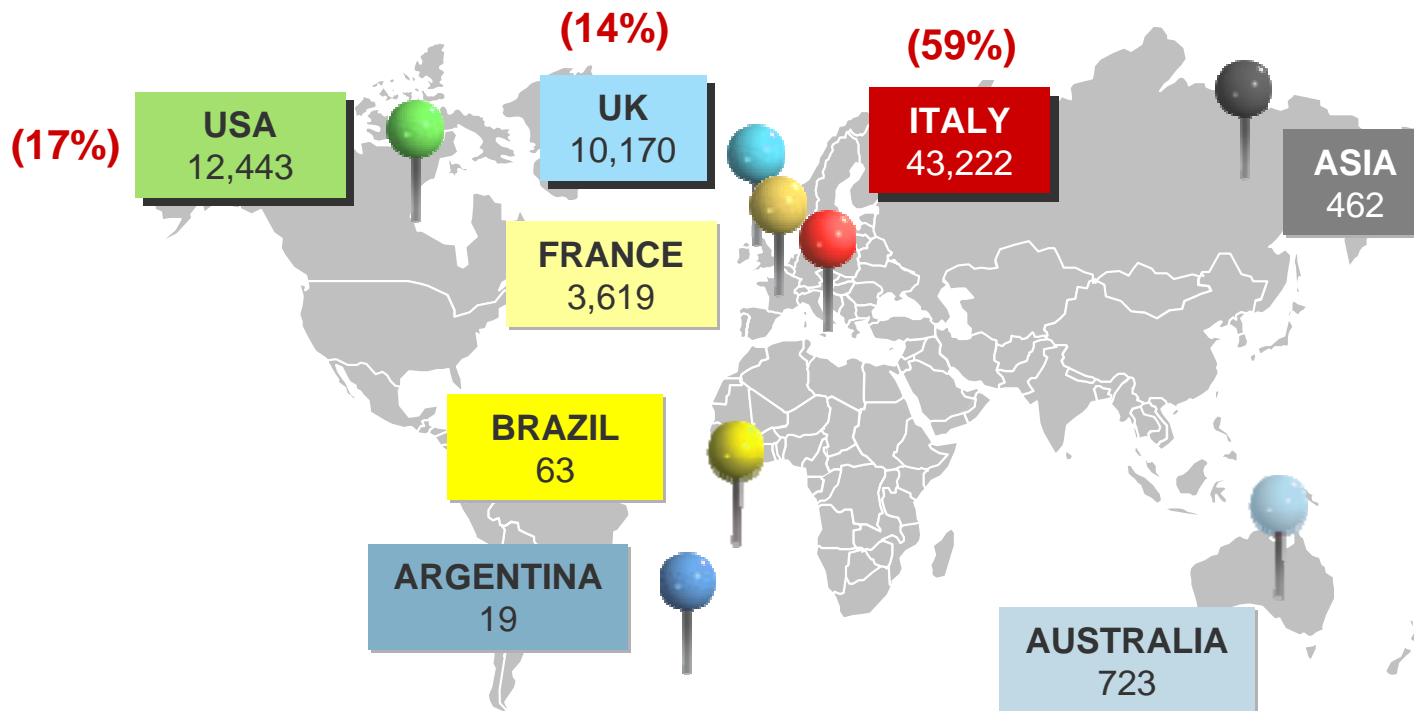
- SBInet and Saudi ARAMCO with SELEX SI
- NAVAIR Subsonic Aerial Target (SSAT) with SELEX Galileo
- Weaponization of land vehicles into US Forces with Oto Melara
- Torpedoes with WASS for USN and export
- U.S. Customs and Border Protection License Plate Reader with ElsigDatamat

## Other areas being addressed

- Collaboration on technology and related products in the areas of EO/IR Combined portfolio for soldier systems (situation awareness and comms), CIED, electronics warfare for Comint / Sigint
- Technology development & manufacture of airborne, ground and naval radar
- Bring DRS logistic expertise into other Finmeccanica companies and markets
- Initiatives launched to cross-fertilize and improve industrial effectiveness across the Group focused on best practices sharing

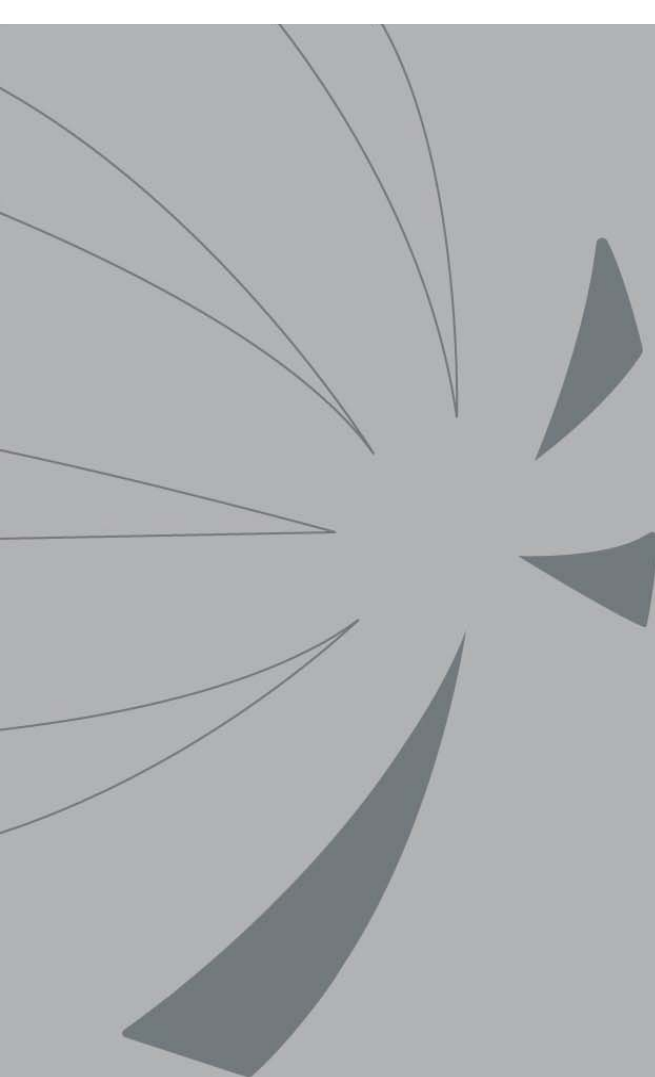
**Benefits from commercial integration, combined products / service offering, process optimization, economy of scale**

**Total Finmeccanica Headcount in 2008: 73,146**



- ✓ More than 40% of total Group Employees are based outside Italy
- ✓ International workforce almost tripled in the last five years
- ✓ Revenues per employee increased by 29% since 2003 and around five years since last year

**✓ Addressing the international business through the creation of local capabilities**



# Financial Strategy and Outlook

Alessandro Pansa  
Co-General Manager / CFO

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**1** Generate an adequate and competitive return on capital thanks to...

- Geographical diversification
- Diversified investment portfolio

...which reduces risk premium and supports Finmeccanica in the down-cycle and prepares it for market recovery

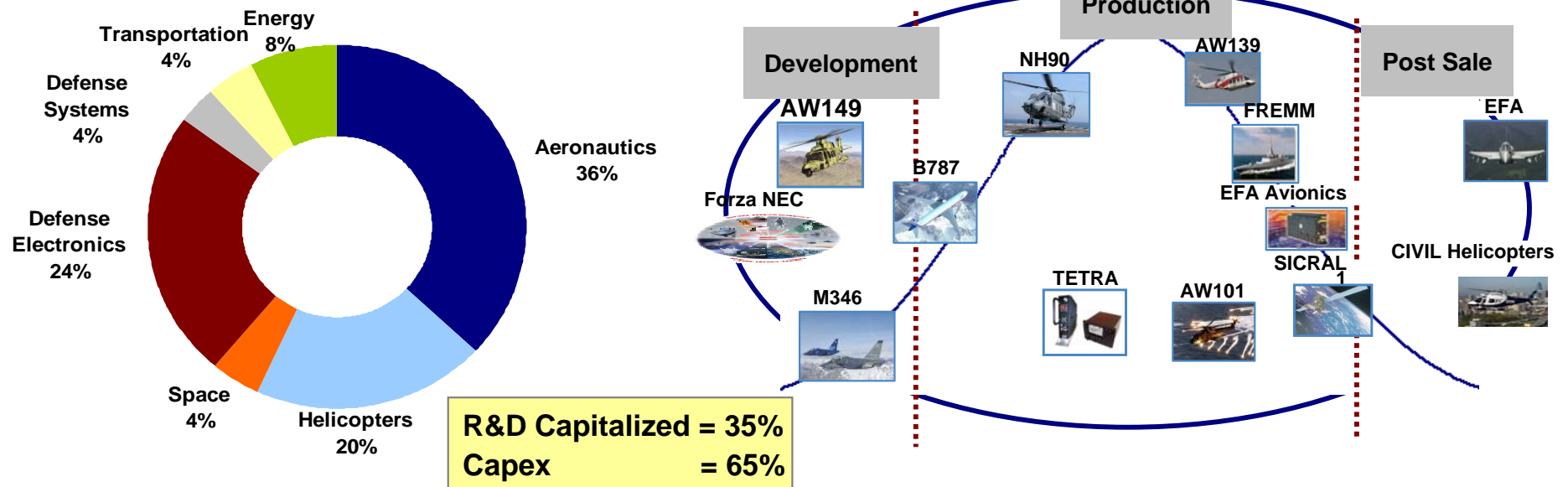
**2** Ensure refinancing of existing debt thanks to a stronger capital structure

**3** Enhance cash flow generation and reduce debt to preserve current credit rating (BBB/A3)

# Diversified and flexible Investments Portfolio

- Net Investments amount to approximately €3.5 bln in 2009-2011 concentrated in our Strategic Pillars
- Investments present different life cycles guaranteeing stability and portfolio diversification Resulting product portfolio limits effects of downturn and exploits market recovery
- Higher cost of debt leading towards a stronger selection of investments
- Guarantee adequate and competitive return on capital

## Net Investments



**Preparing for market recovery**

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# Leveraging different investment life cycles across the strategic pillars



## Helicopters

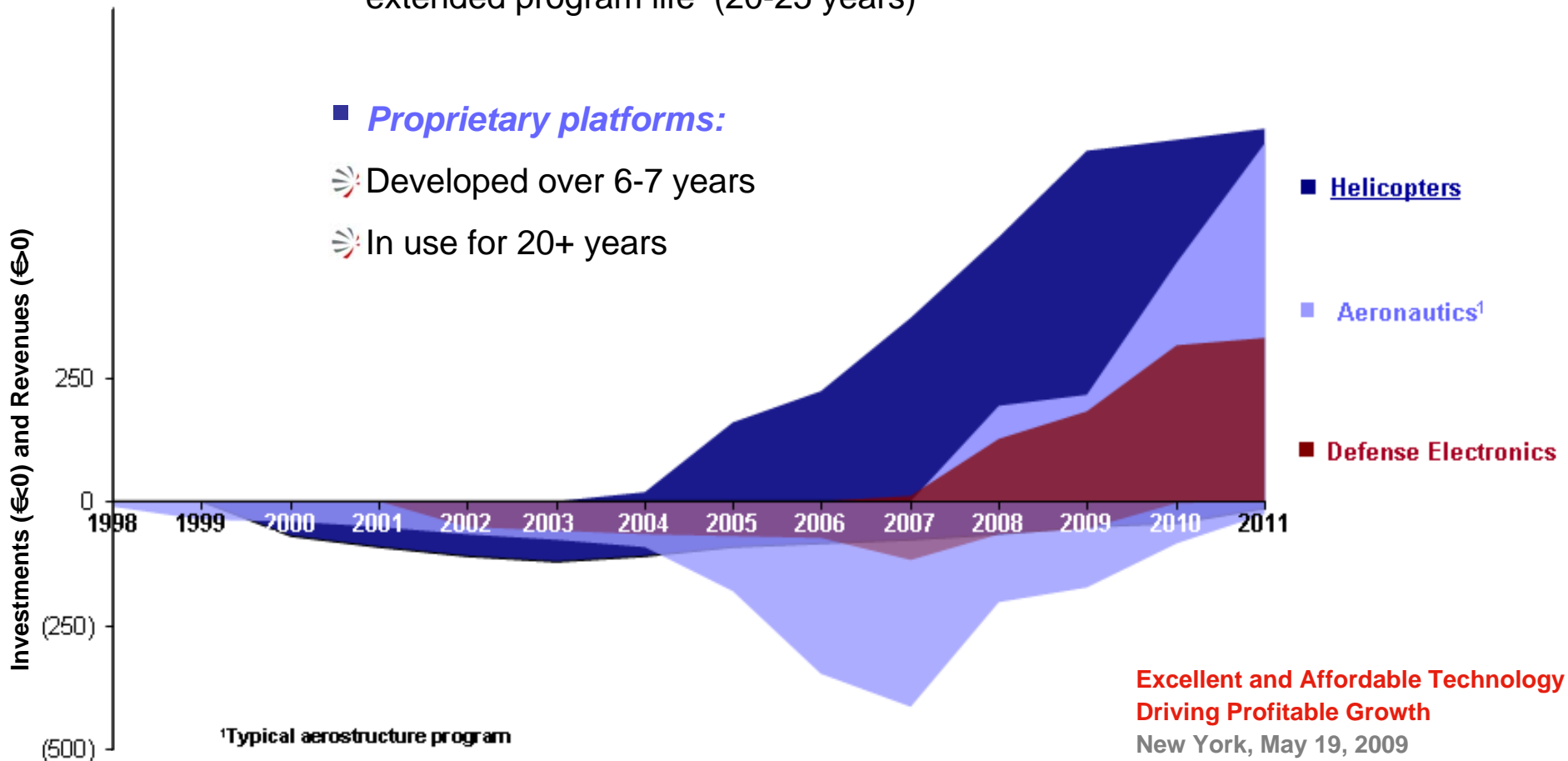
- ⇒ Proprietary platforms developed over 5-6 years
- ⇒ Revenues with solid margins over 15 years

## Aeronautics

- **Aerostructures:**
  - ☼ Large investments spread out over several years time
  - ☼ Return on investment based on extended program life (20-25 years)

## Defence Electronics

- ⇒ Small investment size programs
- ⇒ Faster pay-back period (4-5 years for revenue generation)



## Strengthened Capital Structure ensures refinancing of existing debt

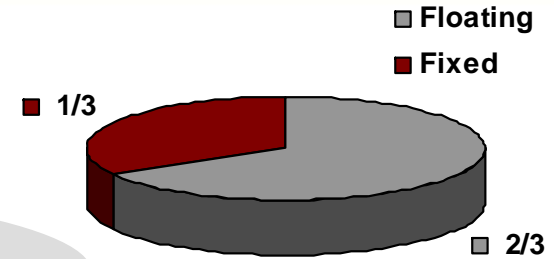
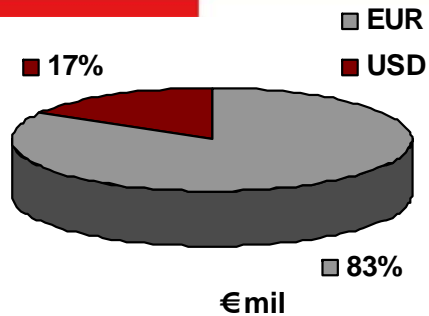
- Improved quality of enlarged Group capital structure, thanks to a €1.2 bln Capital Increase and approx. €1.4 bln of bond issuance
- 50% (€1.6 bln) of DRS acquisition Bridge Loan reimbursed in only 7 months via €1.2 bln Capital Increase and £400 mln sterling bond
- No refinancing needs before mid 2010



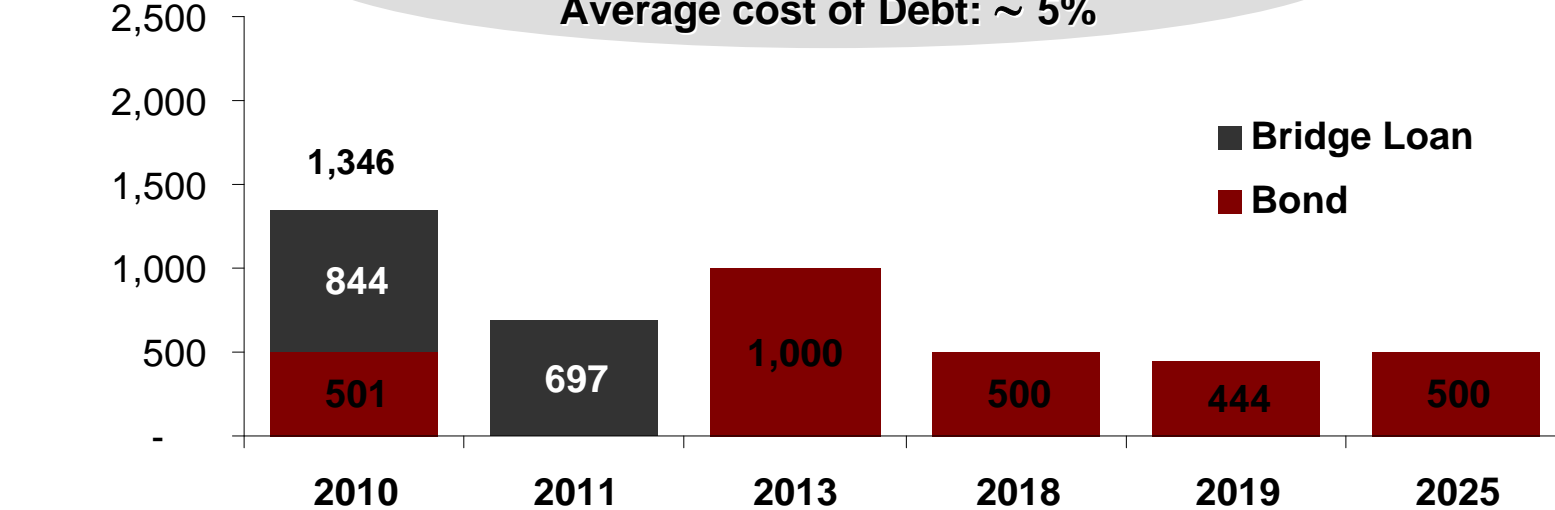
Banks and financial market are keen to support our financial needs

2

# Diversification of long term debt by currency and maturity



Average Life: ~ 5.7 years  
 Targeting an average life of 7-8 years  
 Average cost of Debt: ~ 5%



- ✦ Successfully completed bond issuances for €1 bln in December 2008-January 2009 and £400 mln in April 2009
- ✦ Dynamic management of interest rates: benefiting from low short-term interest rates on swapped floating rate debt
- ✦ Liquidity ensured by €1.2 bln revolver and available credit lines (~ €1 bln)

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# Enhance cash flow generation and reduce debt

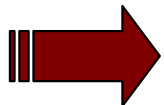
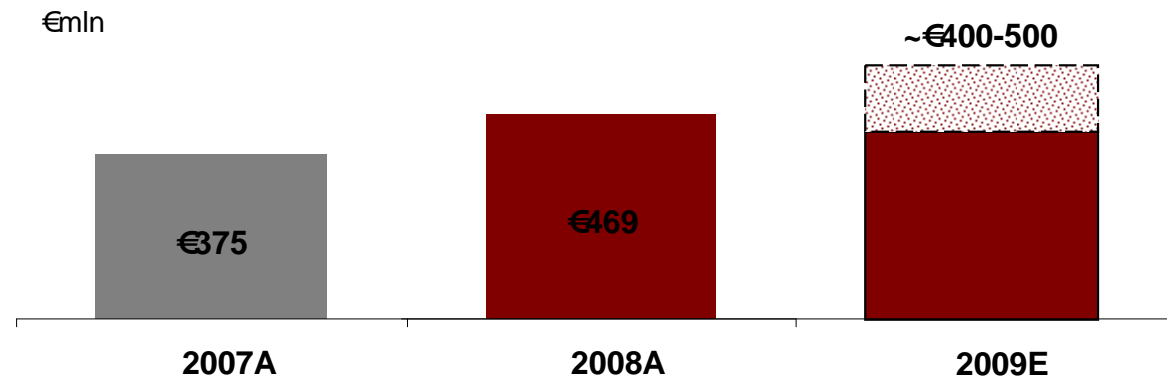
## Enhance Cash Flow

- Improve quality and increase gross cash flow generation from operating activities (FFO\*)
- Optimize Working Capital management
- Prioritize investments and maintain flexibility in capital spending (FOCF\*\*)

## Reduce Debt

- Organic reduction through cash flows
- Opportunities for divestitures as markets allow

### Free Operating Cash Flow



**Preserve current credit rating BBB/A3 stable outlook**

\* Funds From Operations: before changes in working capital

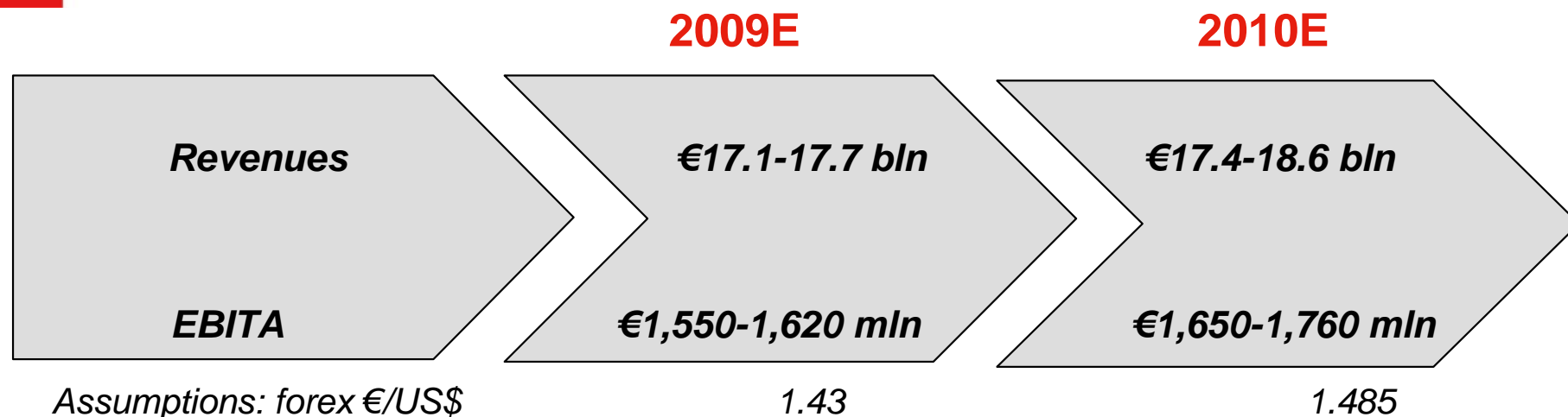
\*\* Operating Cash Flow after investments, net financial charges and taxes

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- ✦ Finmeccanica showing a good track record in executing properly big contracts
  
- ✦ We acknowledge there are cancellation risks and we manage possible effects on our forecasts:
  - ✓ Contracts under cancellation risk are not included in the Budget Plan
  - ✓ We are used to playing in a competitive environment and also able to “weather the storm”
  
- ✦ Strict working capital management
  - ✓ Orders to suppliers placed just-in-time with production cycle

- ✦ Finmeccanica Q1 2009 results above market consensus and internal expectations, with a strong contribution from DRS
- ✦ As stated in March this year, for FY2009 and FY2010:
  - a) We confirm a prudent approach, factoring in some areas of risk
  - b) Nonetheless we are committed to delivering a further two years of Revenue and Operating Profitability growth, in a tough environment

# Firmly reiterating our guidance for 2009 and 2010 (DRS Included)



- Cumulative FOCF(\*) 2008-2010, including DRS, €1.3 – 1.5 bln, of which ca. €400 – 500 mln expected in 2009
- Dividend policy: increase together with profits
- Net bank debt/EBITDA  $\leq 1.8x$

**Guidance achieved for each of last six years.  
Management still fully committed to setting and pursuing targets  
for both 2009 and 2010.**

(\*) Free Operating Cash Flow: Operating Cash after investments, net financial charges and taxes