Defence and Security Electronics and Systems

Driving success by executing our goals
Radars and Integrated Systems

Marina Grossi
CEO

Driving success by executing our goals
2010 targets and main achievements

• **Growth and business evolution are confirmed**
  – growth drivers are based on the confirmation of our “dual mission” and market expansion:
    • New, state of art radars (Long Range Radars, C-Band KRONOS Family, X-Band radar for Homeland Security)
    • Large Systems for Defence and Security
    • Export markets, new institutional customers for security
    • Extended footprint in key markets (UK, US)

• **Last year main achievements**
  – New credentials as Large System Designer and Integrator recognised by world wide customers
  – Consolidation of synergistic relationships with the other Finmeccanica companies for system activities
  – Realised a Centre of Excellence for architectural design, systems data-fusion, simulation and test, validation

2010 Target Confirmed
Revenues ~ €1,300 m
RoS > 10%
2006 - 2010 Growth and business evolution

From stand alone products and “verticalised” systems

To large scale, cross-domain solutions

Focus on... internationalisation balanced portfolio stable profitability

- Land & Naval Radars
- Air Traffic Radars & Centers
- Naval Combat Management Systems

€673m 8.8% RoS

c.€1,300m > 10% RoS

- Italy
- Rest of Europe
- America
- Far East
- Middle East & Africa

- ATMAS
- Logistics
- Large Systems
- Land Systems
- Naval Systems

- Border & Territory Control
- Combat Systems Integration
- Strategic C4I & Air Defence Systems
GROWTH DRIVERS

• Major programmes in the Italian market, for key military and institutional customers:
  - Digitalised Brigade
  - New Frigates (FREMM) and Upgradings
  - Integrated Systems for Italian Civil Protection

• Relevant opportunities in legacy business, both in Italy and worldwide:
  - Long Range Radars (Italy, Algeria, Morocco)
  - Air Traffic Radars and Centers (Russia, China, Malaysia, Syria)
  - Naval Radar and Systems for export markets (UAE, Algeria, Turkey, India, Indonesia)

• Strong demand in the area of Homeland Security, with some major opportunities close to materialise:
  - Border and Territory Control (Algeria, Saudi, Turkey)
  - VTS and Maritime Awareness (Italy, Malaysia, Greece, Yemen)
  - Critical Infrastructure Protection (Saudi, Turkey, UAE, Italy, Russia)

SUPPORTING ACTIONS

• Increasing commercial efforts in the most attractive areas
• Selective external growth and local and programme-focused alliances
• Continuous improvement of system-oriented capabilities
Ebit margin improvement

KEY DRIVERS AND SUPPORTING ACTIONS

• Business mix change
  – Increase amount of high value activities with significant system integration content and service oriented solutions (from ~20% to ~45% of Revenues)
  – Pursue customers with a more favorable spending attitude (high wealth countries)
  – Consolidate legacy activities, with mature technologies and market proven products
  – Innovative turn-key logistics with high value added activities

• Continuous review of industrial processes and operations, in order to obtain efficiency gains in procurement, production and logistics
  – Process and product standardisation
  – Product modularity and building block approach
  – Component re-use
  – COTS utilisation
  – Advanced Product and Knowledge management procedures
  – SG&A effectiveness to reduce % of revenues
  – Increased R&D investment returns
Investments: R&D and CAPEX

CAPEX (Accumulated 2007-2010)

Total Gross R&D (Accumulated 2007-2010)

Capitalised R&D 2007-2010

- Military Radar 43%
- ATM Systems 24%
- Large Systems 20%
- ATC Radar 6%
- Other Systems 7%
- Mandatory investments 9%
- Product Development 65%
- Maintenance 30%
- Military 43%
- Other Systems 6%
- Expensed 6%

$\text{€53 m}$
$\text{€780 m}$
$\text{€218 m}$
Defence and Security Electronics and Systems

Driving success by executing our goals
Products and programmes

Product Lines

Airborne Radar

Electronic Warfare & Battlespace

Space

Avionics & UAS

Electro Optics

Integrated Logistic Support

Major Achievements of 2007

• EFA Typhoon Salam

• Countermeasures particularly in US

• Seaspray E-Scan Radar - US Coast Guard - flight qualification - opportunity for follow-on sales

• Coast Watch Australia - ATOS Surveillance systems

• Storm Shadow - Naval Scalp

• UK Tornado support programme

• Falco UAV in service with export Customer a leading EU Tactical UAV Company
## Year 2010 target

### Investor Day Presentation 2006

| Revenue targets 2010: | €2.4 bn E |

### Investor Day Presentation 2007

| Revenue targets 2010: | €2.2 bn E |

### Reasons for difference:

- Re-definition of NATO AGS Ground Surveillance Programme
- Re-scheduling of NH-90 deliveries
- Re-scheduling of ATOS Surveillance sales
- Grifo & Vixen combat radar export
Revenues: by sector and by geographical region

Year 2006: €1.7 bn
- AIRBORNE RADAR & LASERS 39%
- ELECTRO OPTICS 11%
- SPACE 3%
- INTEGRATED LOGISTIC SUPP. 8%
- EW & BATTLESPACE 28%
- OTHER ASIA 2%
- MIDDLE EAST 2%
- NORTH AMERICA 13%
- UK 38%
- RoE 31%
- ITALY 14%

Year 2010: €2.2 bnE
- AIRBORNE RADAR & LASERS 40%
- ELECTRO OPTICS 14%
- SPACE 4%
- INTEGRATED LOGISTIC SUPP. 9%
- EW & BATTLESPACE 22%
- OTHER ASIA 4%
- MIDDLE EAST 7%
- NORTH AMERICA 15%
- UK 38%
- RoE 21%
- ITALY 14%

Continued shift towards complete capability solutions
Drivers of revenue growth

• Production orders for mature products

• Exploitation of E-scan radar technology

• Tactical UAVs, UAV payloads and Support

• Exploitation of Situational Awareness Capability in Land Sector

• Maritime and Border Surveillance

• Through Life Support Capability of in-service Inventory

2006 - 2010 CAGR: 5.8%
Increasing profitability

- Quality of new order intake
- Acceleration of integration process and simplifying and rationalising group structure
- SG&A costs growing slower than revenues
  - SG&A Growth 2006-10 ~ 5%, Revenue Growth 2006-10 ~ 25%
- Investment levels growing yet absorbing a lower percentage of revenues
  - Capex 3.2% of revenues in 2006 - 2.8% in 2010

RoS growth from under 7% in 2005 to over 10% in 2010
Investments: R&D and CAPEX

Capex 2007-2010: €250 m

Balance of spend moving from major infrastructure projects to support specific product launches.

Total R&D 2007-2010: €1,150 m

Total R&D stable at 16% throughout plan

Self funded R&D (4% of Revenues) is almost entirely expensed in P&L

Costs currently being Capitalised (1%) refer to E-Scan radar.
Key messages

- Order book quality improving because of product maturity
- Attention being placed on margins - not on revenues
- Driving underlying performance to improve margins
- Working Key Markets: North America, Middle East, Asia
- A leading player in the UAV market in European tactical UAS
- Servicing the TLCM Support market
- Focussing Land - Battlespace product portfolio
- Systems approach to business opportunities
Communication systems

Maurizio Tucci
CEO

Driving success by executing our goals
### Revenue growth 2006 - 2010

#### Consolidate in multidomestic market

Growth in selected foreign market

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Targets 2010</td>
<td>Targets 2010</td>
</tr>
<tr>
<td>Revenues: €1,112 m</td>
<td>Revenues: €1,100 m</td>
</tr>
<tr>
<td>ROS: 12%</td>
<td>ROS: 12%</td>
</tr>
</tbody>
</table>

#### On the basis of 2007 expected results, these targets confirmed

Last year achievements (orders):

- **Army & Security**: €120 m; of which:
  - Saudi C4I: €28 m
  - Armasat: €36 m

- **Avionics**: €175 m; of which:
  - EFA: €42 m
  - NH90: €35 m
  - MIDS: €12 m
  - IFF: €10 m

- **Inter Police Force Project**: €280 m; of which:
  - Progetto Interpolizie: €250 m

- **Naval**: €47 m

- **Prof & Civil**: €46 m

- **Telcos & Rail**: €18 m
Company evolution 2006 - 2010

2006 revenues

From...

By Geography

National domestic market

Growth in selected foreign markets

2010 revenues

...To

By Market Segment

Focus on Defence market segment

Multifocus on Defence, Secure Professional Civil market

2006 revenues

2010 revenues

Rest of the Word; 10%

"Multidomestic" 90%

Italy 61%

UK 25%

Romania 1%

Turkey 1%

Growth in selected foreign markets

"Multidomestic" 81%

Italy 57%

Rest of the Word 19%

Russia 2%

Germany 2%

Turkey 4%

UK 15%

Romania 1%

2006 revenues

2010 revenues

Army & Security 46%

Avionics 32%

Professional & Civil 22%

Focus on Defence market segment

Multifocus on Defence, Secure Professional Civil market

Rest of the Word; 10%

"Multidomestic" 90%

Italy 61%

UK 25%

Romania 1%

Turkey 1%

2006 revenues

2010 revenues

Army & Security 32%

Avionics 25%

Professional & Civil 43%
Focus on key activity projects
- Battlefield digitalisation (B-NEC)
- Avionics will leverage on FNM platform companies growth (Aeronautic and Helicopter)
- “Interpolizie Project” (TETRA System)

Internationalisation
- Capitalisation of the acquired experience in the major national projects (in particular TETRA, B-NEC) in order to reinforce presence on multi-domestic target markets (UK, Romania, Turkey) and other specific selected foreign countries (Russia, Brazil, India)
Profitability growth

**ROS Growth**

From...

- **2006**
  - 8%

...To

- **2010**
  - 12%

**HOW**

- Reorganisation under process for
  - Rationalisation and simplification of Company structure
  - Extraordinary measure to downsize work force (selecting skills in line with Communication Systems core business)
    - 570 employees involved
    - €32 m - Cost in 2007 - 2009
    - €53 m - Benefits 2007-2009
    - €18 m/year after 2009
- Industrial processes optimisation
  - Redesign-to-cost investments relevant to Communication Systems main key products
  - Savings obtained by means of optimisation of procurement processes and G&A structure reduction
Investments: R&D and CAPEX

HOW

➢ Strong focus on selected key technological products/systems development (with high IRR)
  ▪ Software Defined Radio (SDR)
  ▪ 2nd generation TETRA
  ▪ Integrated Avionics
  ▪ IP based equipments for military application

➢ Investment rationalisation by means of integration of internally developed equipment with third party technology without starting new developments from scratch
Security and Automation

Carlo Gualdaroni
CEO

Driving success by executing our goals
Consolidate the domestic market and grow internationally:

- During the Investor Day 2006 Elsag Datamat presented its result and forecast for the security business only: €327 m in 2010
- On the basis of 2007 Expected results and of the updated Business Plan, this challenging target is today confirmed

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>€327 m</td>
<td>€330 m</td>
</tr>
</tbody>
</table>

Last year's achievements (orders):
- Italian Postal System, sorting systems & ICT: €90 m
- Telecom Italia, secure communication solutions: €25 m
- Russian post hybrid mail: €65 m
- IT Service for Italian Government (Cnipa): €70 m
- USA Law Enforcement (including Lower Manhattan Security Project): €7 m
- Mission Planning NH 90: €7 m
- Frame contract ESA/Esrin Phase n. €4 m
- Minesweepers for Finish Navy: €4 m
Revenue growth 2006 - 2010

- **Automation** €120 m
- **Defence & IT** €263 m
- **Security** €190 m

- **Automation** €150 m
- **Defence & IT** €340 m
- **Security** €330 m

- **Total** €573 m
- **Total** €820 m

- CAGR 2006-2010: 9.4%

- **Italy** 92%
- **Usa** 12%
- **Rest of the World** 6%
- **Other Europe** 4%

- **Italy** 78%
- **Usa** 12%
- **Rest of the World** 6%
- **Other Europe** 4%
Main drivers for growth

Consolidate the domestic market and grow internationally:

**Automation & Security**
- Replicate the US success story and leverage on it to develop the international market, also through new international subsidiaries
- Continue investing in Security Solutions and Law Enforcement Products to present to international operators
- Complete “plurisorter” development, presenting it to operators to demonstrate the technological advantage delivered with our Automation business

**Defence & IT**
- Implement the mission of “Group Software Architect” and play an active role in all main Finmeccanica programmes
- Leverage being the new Group Center of Excellence for Logistic and Ground Support Solutions to enlarge the domestic and international market
- Increase efficiency through further business consolidation
### EBIT MARGIN

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>8.0%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

### EBIT CAGR 2006 - 2010: 22%

The Elsag Datamat merger has provided significant business synergies and cost savings:

<table>
<thead>
<tr>
<th></th>
<th>Accumulated 2007-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business synergies:</strong></td>
<td>€22 m</td>
</tr>
<tr>
<td>integrated and cost effective</td>
<td></td>
</tr>
<tr>
<td>Defence and IT business</td>
<td></td>
</tr>
<tr>
<td><strong>Cost savings:</strong></td>
<td>€58 m</td>
</tr>
<tr>
<td>savings for G&amp;A reduction</td>
<td></td>
</tr>
<tr>
<td>and purchasing optimisation</td>
<td></td>
</tr>
</tbody>
</table>
Investments: R&D and CAPEX

Capex (Accumulated 2007-2010: €60 m)

- €10 m investment in a new assembly facility in the US (Reles) to boost the Law Enforcement market penetration

Total R&D (Accumulated 2007-2010: €117 m)

- The main capitalised R&D programme in Automation is the development of the new Multisorter Product Suite, which will enable us, starting in the second half 2008, to penetrate the parcel market, with a forecasted order intake of about €120 m in 2008-2010
- Continuous upgrading of Law Enforcement Suite, to gain international market share
Armament Business

Carlo Alberto Iardella
CEO

Driving success by executing our goals
## Disclosed Targets

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>€420 m</td>
<td>&gt; 10%</td>
</tr>
</tbody>
</table>

### One Year After:

- Market success in Germany for 127/64 LW Vulcano Naval Gun
- Guided Ammunitions Development Programmes on Track
- Portfolio of orders expected larger than 2006 and largely from abroad
- Final set up of OTO Melara North America production facilities in USA
Revenues, EBIT and ROS evolution

2006 Total Revenues: €325 m
- EBIT €30 m
- ROS 9.1%

By Country:
- ASIA
- Rest of EU
- Italy
- ROW

2010 Total Revenues: €420 m
- EBIT €42 m
- ROS > 10%

By Country:
- ASIA
- Rest of EU
- Italy
- ROW

By Product Segment:
- Naval
- Air
- Ammunition
- Land

CAGR 2006 – 2010 5%
Rationale for volume increase

New products sales will boost acquisitions and then revenues

Contract acquisition, new products/current products
Main new products (1/4): Guided ammunitions

DART

VULCANO
Main new products (2/4): Naval

127/64 LW Vulcano Naval Gun

STRALES for 76/62 SR
Main new products (3/4): Land

FULL RANGE OF TURRETS FOR VEHICLES

VBM

Warrior
Lethality Improvement Program
Main new products (4/4): Air

Vulcan gun for JSF

SDB
(Small Diameter Bombs)
Rationale for profitability increase (1/2)

Subsidiaries:

OTO MELARA IBERICA
OTO MELARA NORTH AMERICA

La Spezia Site Improved efficiency
- Average manpower age reduction and competencies enhancement
- Focus on core activities
- Product and process reengineering

Brescia site rationalisation
- Transfer of conventional manufacturing activities to subcontractors
- Layout and plant optimisation

Brescia
La Spezia
Roma
New products with higher attractiveness and lower market competition

Means increase in sales, then higher volumes with higher margins
Investments: R&D and CAPEX

Capex Accumulated 2007-2010: €39.8 m

- Mandatory: 9%
- Maintenance: 23%
- Product Development: 68%

Total R&D Accumulated 2007-2010: €174.4 m

- Capitalised R&D 2007-2010:
  - Siccona (BM S): 6%
  - New Turrets: 16%
  - Others: 12%
- Self funded: 8%
- Customer Funded: 84%