



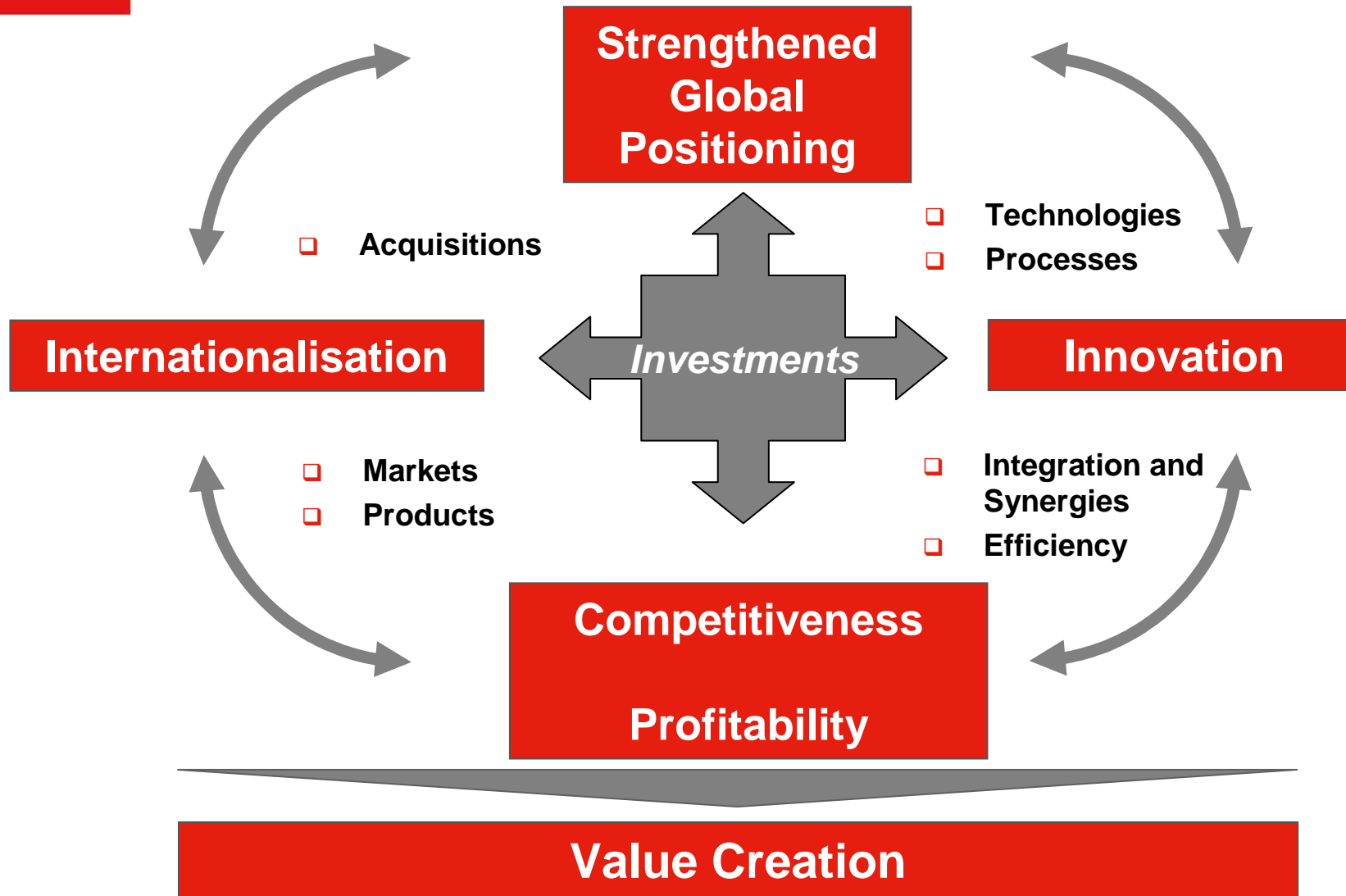
# Strategic Overview

Pier Francesco Guarguaglini  
Chairman and Chief Executive Officer

**Driving success  
by executing our goals**



# Creating a virtuous circle...



... from our strategic priorities

# Delivering on our strategy for last five years



**Strengthened Global Positioning**

Almost doubled revenues in Helicopters, Aeronautics and Defence Electronics, with full control of our core assets

**Internationalisation**

Export orders more than doubled to > €11 bn

**Competitiveness Profitability**

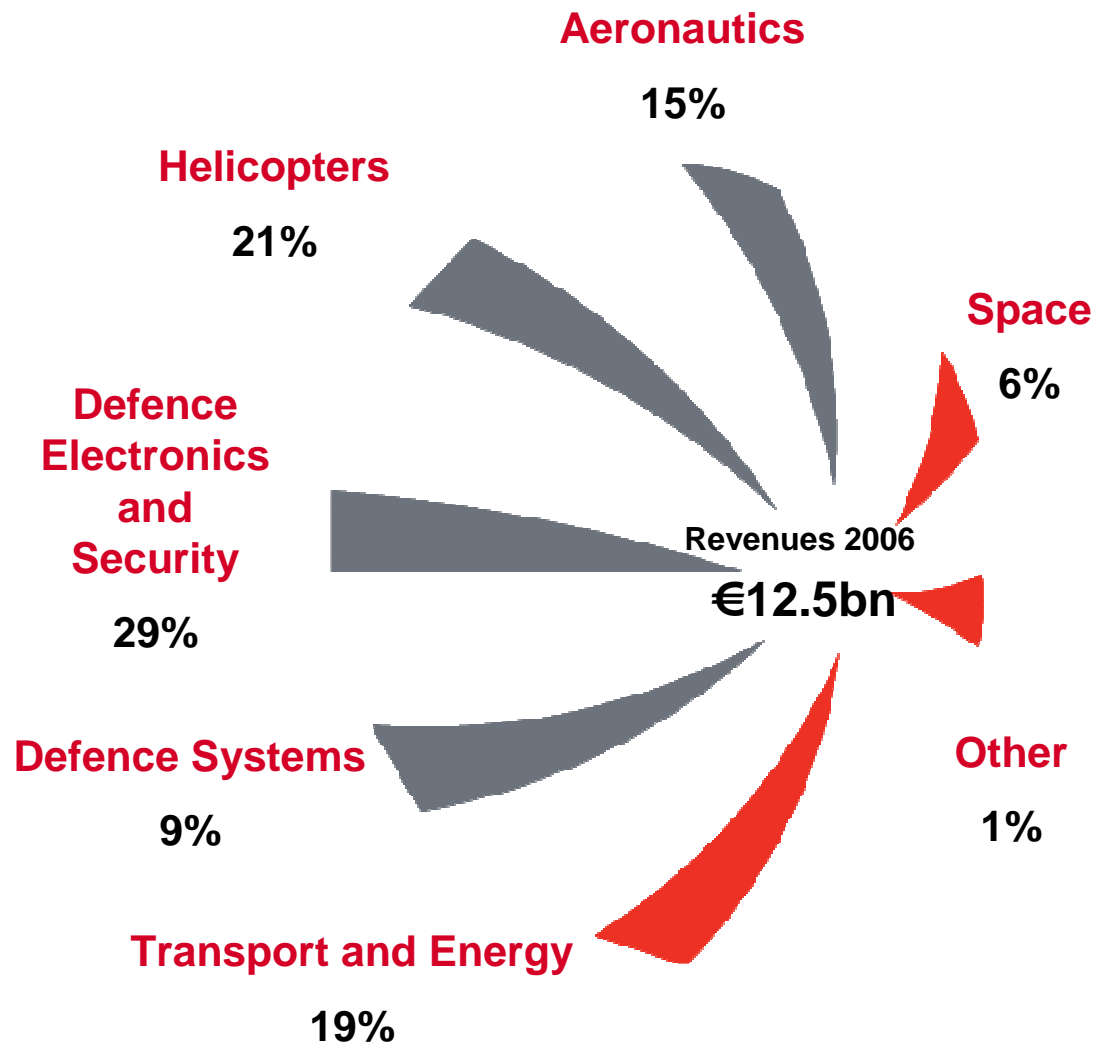
Avg. profitability of all orders improved by >30%

**Innovation**

Enabling technologies incorporated in products have secured major programme wins in open market

**Value Creation**

EVA increased by > 50%, with > €4 bn invested in selective A,D&S acquisitions



## Three Strategic Pillars:

- ✓ Helicopters
- ✓ Aeronautics
- ✓ Defence and Security Electronics

Outstanding positions in other defence segments (Missile, Underwater, Land and Naval Armament)

Reference partner in the Space Alliance, with majority control of Value Added Services (VAS)

Niche capabilities in Transport and Energy as tactical assets for value extraction

# Pursuing seven main goals

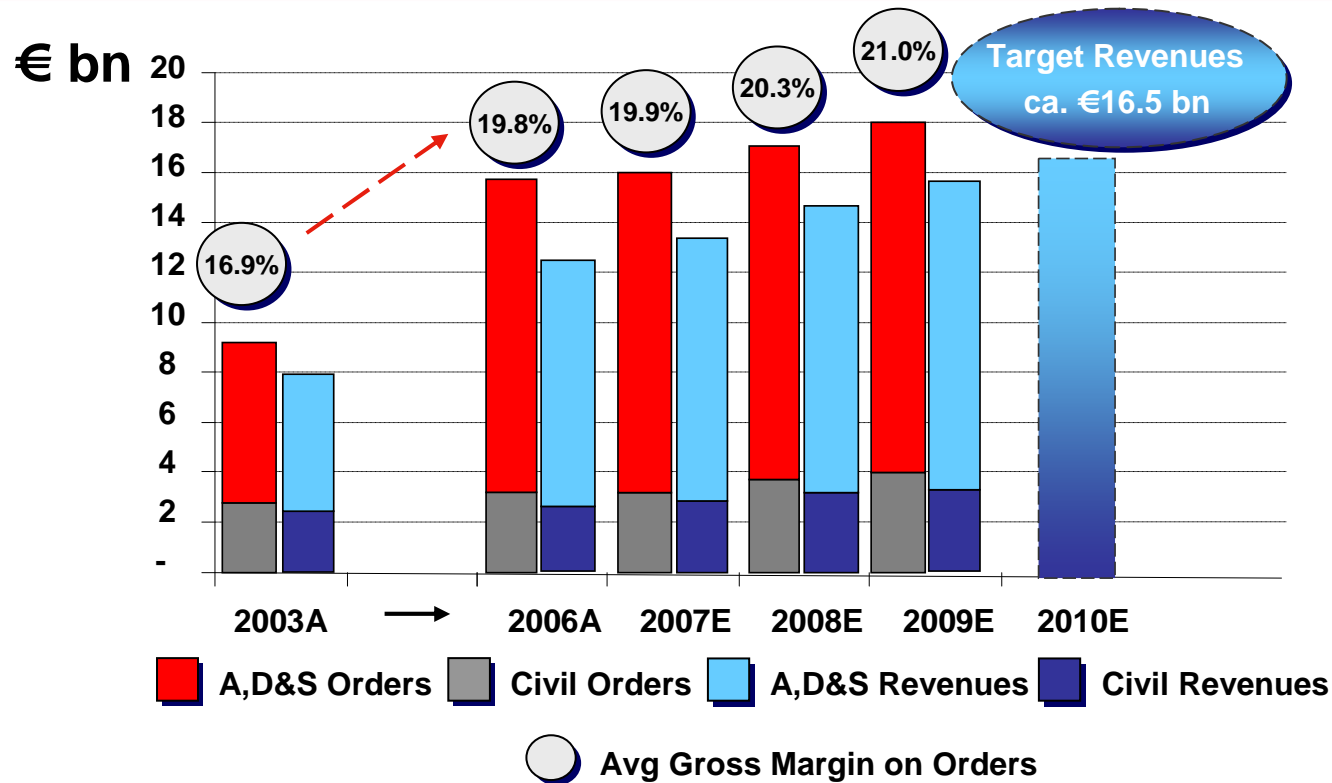


- 1 Drive further the growth of three Strategic Pillars, both organically and through acquisitions particularly in UK and US**
- 2 Exploit niche excellences to conclude wider strategic alliances**
- 3 Establish new local partnerships to achieve strong footprint in selected growing markets**
- 4 Continue to develop new enabling technologies and rationalise / innovate product portfolio**
- 5 Address residual criticalities through restructuring and industrial partnerships**
- 6 Strengthen the Industrial Plan '08 – '10 to secure profitability targets achievement through additional efficiency measures**
- 7 Enhance management accountability by increasing performance related remuneration**

**Value creation for our shareholders**

**Organic Growth**

High order intake continues to drive long term organic growth...



**...thus increasing our market share**

	<i>Market share 2006</i>	<i>Market share expected in 2010</i>
The three Strategic Pillars	6.5 %	8 %
Space and Defence Systems	11 %	12 %
Transport and Energy	3 %	3.5%

- ✓ **Reinforce core competencies as Defence and Security system integrator in UK →** further acquisitions in our second domestic market
- ✓ **Expand in US →** build up our industrial presence to increase market share in Aerospace together with further acquisitions in Defence Electronics and Security

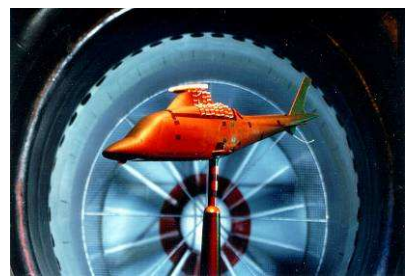
**Potential  
resources  
available for  
further  
investments of  
approx. €3 bn**

- ✓ Achieve leading positioning in Defence Systems (land and naval armaments and underwater systems) through strategic alliances
- ✓ Ongoing discussions already at advanced stage with European recognised players
- ✓ The envisaged framework agreements will be structural, similar to the Space Alliance model, i.e. exploiting respective technological excellence and product capabilities in a complementary way

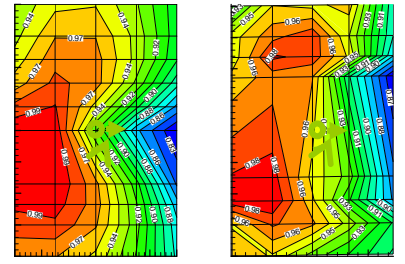


- ✓ **USA** : production capacity for transport signalling, helicopters, aerostructures and, shortly, for final assembly of C27 JCA
- ✓ **Russia** : JVs for regional commercial aviation and for railway transportation
- ✓ **India** : partnership for radar systems and prospects for aeronautics and defence electronics
- ✓ **China** : production localisation for signalling and prospects for civil activities partnership with local governments
- ✓ **UAE** : prospects for trainer aircraft and other aeronautic activities
- ✓ **France** : transport signalling
- ✓ **Turkey** : production facility for communications

**Testing Wind Tunnel**

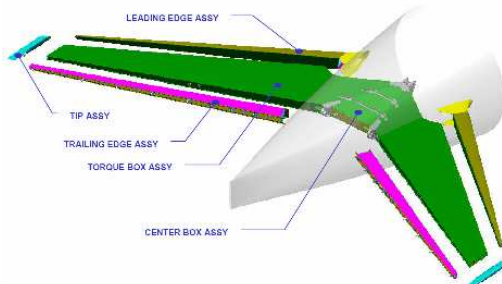


**Noise Analysis**



**Delivering highest level of onboard comfort with top class performance for commercial helicopter aviation**





## Carbon fibre structures



**Offering a longer life, enhanced performance, reduced operational costs for new generation commercial aircrafts**

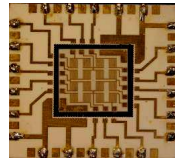


**Innovation**

# Investing in key enabling technologies to fulfil market needs through innovative products 3/4



**Sensor Nanotechnologies**



**WiMax**



**Biometric ID**



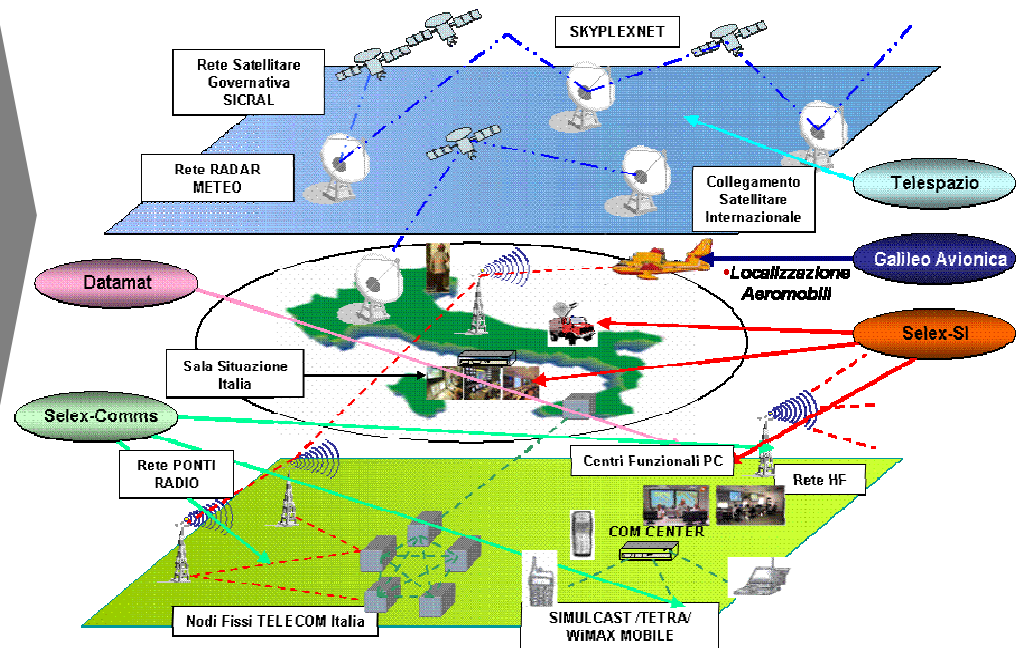
**Real time Processing for C2**



**Image Processing for Earth Observation**

**Satisfying ever increasing needs of Homeland Security**

## Integrated Systems for Homeland Security



**Innovation**

# Investing in key enabling technologies to fulfil market needs through innovative products 4/4



**AESA**



**Sensor Fusion**



**Matching new operational requirements**



**NEC**



**Secure Comms**

## Defence Systems



Criticalities successfully addressed in the last years :

- ❑ Restructuring programmes including strategic reorientation and valorisation of core competences now completed for :
  - ✓ Space manufacturing and services (Telespazio)
  - ✓ Security and Automation (ElsagDatamat)
  - ✓ Military Communications (Selex Comms)

Residual criticalities currently under recovery concern :

- ❑ Business reorganisation of *Aircraft Modification and Maintenance* (Alenia Aeronavali) through
  - retention of remunerative activities
  - workforce rightsizing
  - production sites rationalisation
  
- ❑ Return to profitability for *Transport Vehicles* (Ansaldo Breda) through a set of actions for
  - production sites optimisation
  - rationalisation of products portfolio
  - process improvement
  - international partnerships

- ❑ Securing the achievement of our profitability targets for 2010 (10% ROS) implies the implementation of additional efficiency measures to make the Industrial Plan '08 – '10 more robust, including contingencies to mitigate external risks beyond our control

- ❑ The plan assigns specific actions to Companies, accountable for their implementation, and concerns targets for :
    - ❑ Production cost reduction
    - ❑ Industrial sites optimisation
    - ❑ G&A costs
    - ❑ Investments and R&D costs
- Enhance Direct Cost Efficiency**
- Enhance Indirect Cost Efficiency**



## The Four Cardinal points

- ❑ Guarantee alignment between Strategy and Management
- ❑ Enhance Management accountability
- ❑ Commit to both short and long term objectives
- ❑ Increase motivation to deliver superior performance

- ❑ **Growth driven by Helicopters, Aeronautics and Defence Electronics and Security**
- ❑ **Clearly recognised identity as major UK defence company**
- ❑ **Larger industrial footprint in USA for Helicopters and Aeronautics with bridgehead established for Defence Electronics**
- ❑ **Space Alliance model extended to other niche segments in Defence Systems**
- ❑ **Strategic local partnerships well established in fast growing markets (Russia, East Europe, Turkey, India, UAE)**
- ❑ **Revenues at €16.5 bn through organic growth**
- ❑ **Aiming for 10% EBIT Margin**
- ❑ **ROI above 20%**
- ❑ **Free Operating Cash Flow increasingly aligned with NOPAT\***

**\*Net Operating Profit After Tax**

- **Three Strategic Pillars**
- **Revenues above €25 bn**
- **Double digit EBIT**

# A comprehensive market and product strategy...



... to be a world leader in A,D&S



# Industrial Strategy

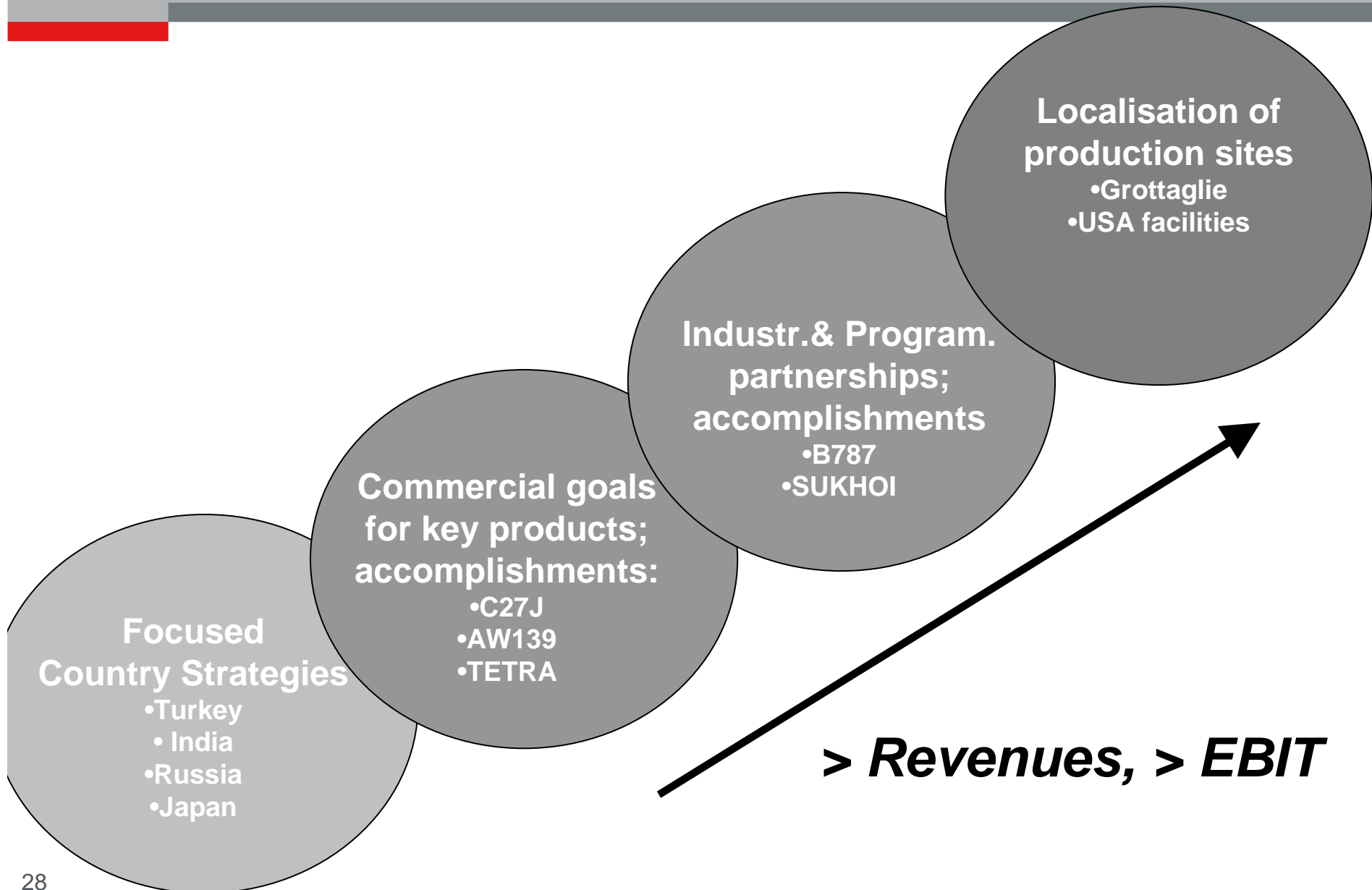
Giorgio Zappa

Chief Operating Officer

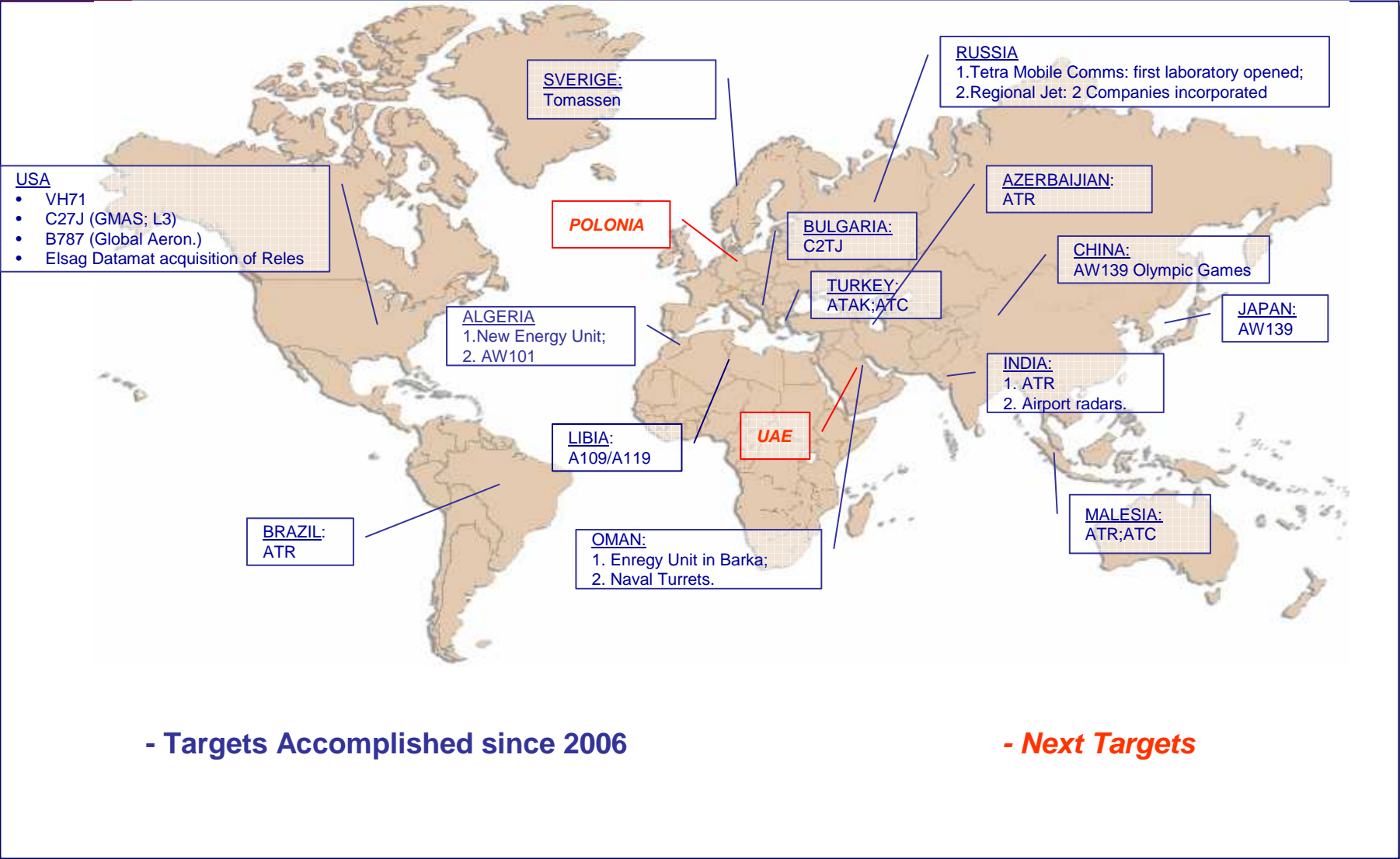
**Driving success  
by executing our goals**



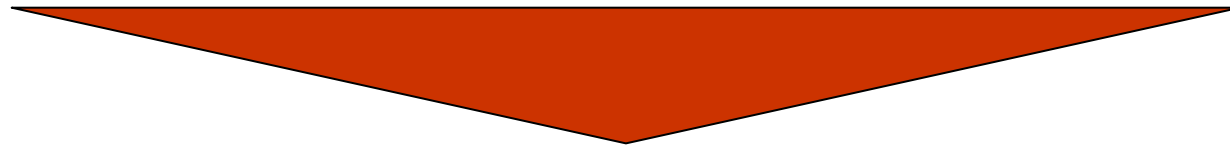
# Internationalisation: achievements since 2006



# Expanding our global footprint: main achievements



- **INCREASINGLY COMPETITIVE ENVIRONMENT**
- **FOREX AND STRONG MARKET VOLATILITY**
- **MORE SOPHISTICATED DEMANDS FROM CLIENTS**




**REDUCTION OF INDUSTRIAL AND MANAGEMENT COSTS  
BECOMES A PRIORITY**




# How we are reducing our costs ?




- **HUMAN RESOURCES**

- 
1. *Quality*
  2. *Revenues per employee*
  3. *Right sizing*

- **INDUSTRIAL ACTIVITIES**

- 
1. *Structure optimisation*
  2. *Reinforced industrial plan*

- **COMMERCIAL ACTIVITIES**

- 
1. *Product portfolio rationalisation*
  2. *Commercial optimisation*

## HUMAN RESOURCES



### ➤ Change in skills and capabilities pattern

- Programme to reshape and fine tune industrial requirements in a high advanced technology sector
- New Resourcing requirements.

### ➤ Revenues per employee

- 10% increase since 2005.

### ➤ Retirements

- Total: 5,800 since 2005
  - Government incentive plan: up to 2,000 since 2005.

## INDUSTRIAL ACTION

### ➤ Structure optimisation

#### • Aircraft conversion:

Review of the industrial mission for plants of Capodichino, Brindisi and Venice

### ➤ Rolling stock:

#### • Strong focus on reengineering

#### • Company reorganisation by product line

#### • Specialisation of manufacturing plants

#### • Restructuring plan

#### • Cost Reduction

#### • Expected breakeven in 2009

### ➤ New Procurement Saving Project:

• Global Sourcing on € 700 mil purchase material with an expected 10% savings 36 months after start up together with ongoing purchase reduction activities.

### ➤ Redesign-to-cost activities:

• Cost reduction of an average 20% (C27J, M346, AW139, 76")

### ➤ Goal to maintain G&A expenses stable at 2007 level

### ➤ R&D spending: reach stable € 2 billion by 2010

## NEW COMMERCIAL APPROACH

➤ Product portfolio rationalisation

- First integrated product catalogue of the Group.

➤ Integrated solution proposals

➤ Commercial optimisation

- Focus on specific strategic markets
- New Representative Office location strategy.

## **Integration Plan**

- **AW:**
  - 2007: €50 m accomplished
  - ⊕ 2010: €65 m target
- **Selex S&AS:**
  - 2007: €23 m accomplished
  - ⊕ 2010: €60 m target
- **ELSAG:**
  - 2007: €10 m accomplished
  - ⊕ 2010: €20 m target

## **Reinforced Industrial Plan**

- **Reduction on product costs: through Global Sourcing:**
  - ⊕ 2010: €60 m target
- **Production sites restructuring to eliminate overlaps**
  - ⊕ 2010: €60 m target reduction
- **SG&A**
  - ⊕ 2010: €40 m target reduction

- ☀ We are committed to:
  - ✓ Reducing industrial costs
  - ✓ Improving delivery and customer satisfaction.
  
- ☀ We are focused on:
  - ✓ Cost reduction
  - ✓ Improving capability to tailor our offer in international markets.

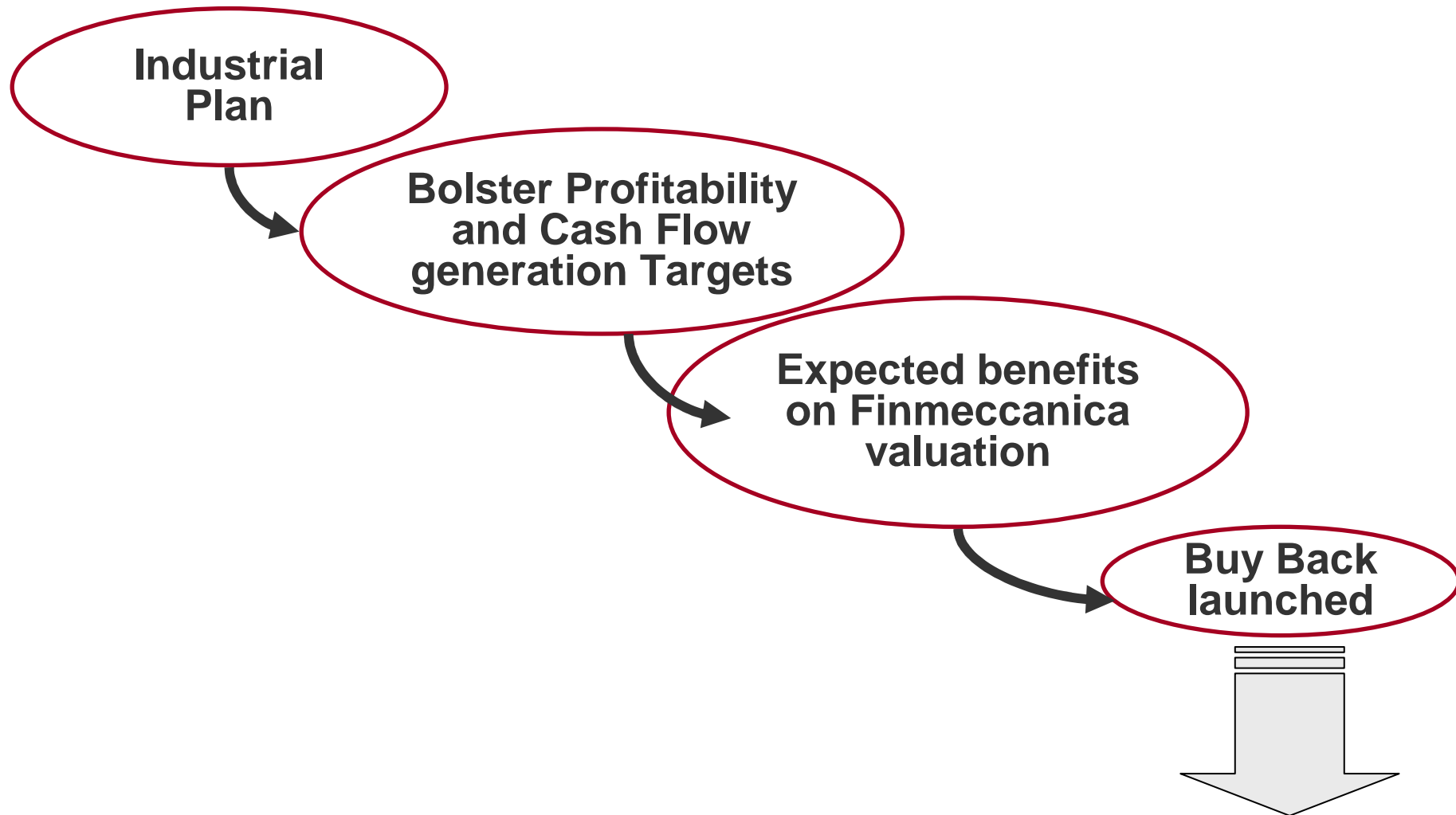


# Financial Strategy

Alessandro Pansa  
Co-General Manager

**Driving success  
by executing our goals**





**As a sign of confidence in our ability to reach our targets**



# Guidance 2010



(€ m)	2006A			<i>Stretch 2010 Targets</i>		
	Revenues	Ebit	Ebit margin	Revenues	Ebit	Ebit margin
<b>Strategic Pillars*</b>	8,382	793	9.5%	11,960	1,280	10.7%
<b>Space &amp; Defence Systems</b>	1,891	135	7.1%	2,350	230	9.8%
<b>Transport, Energy and Others</b>	2,575	(50)	n.s.	3,090	140	4.5%
<b>TOTAL</b>	12,848	878	-	17,400	1,650	-
<b>Eliminations</b>	(376)	-	-	(900)**	-	-
<b>TOTAL</b>	12,472	878	7.0%	16,500	1,650	10.0%

\*Strategic Pillars: Helicopters; Aeronautics; Defence and Security Electronics.

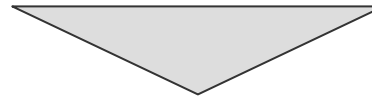
\*\* Estimated



# Disciplined evaluation of our portfolio

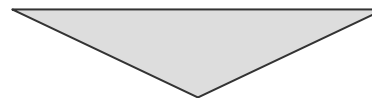


- ✓ All businesses described above and the associated investments required are evaluated to measure how they translate into value. The main metrics we use are:



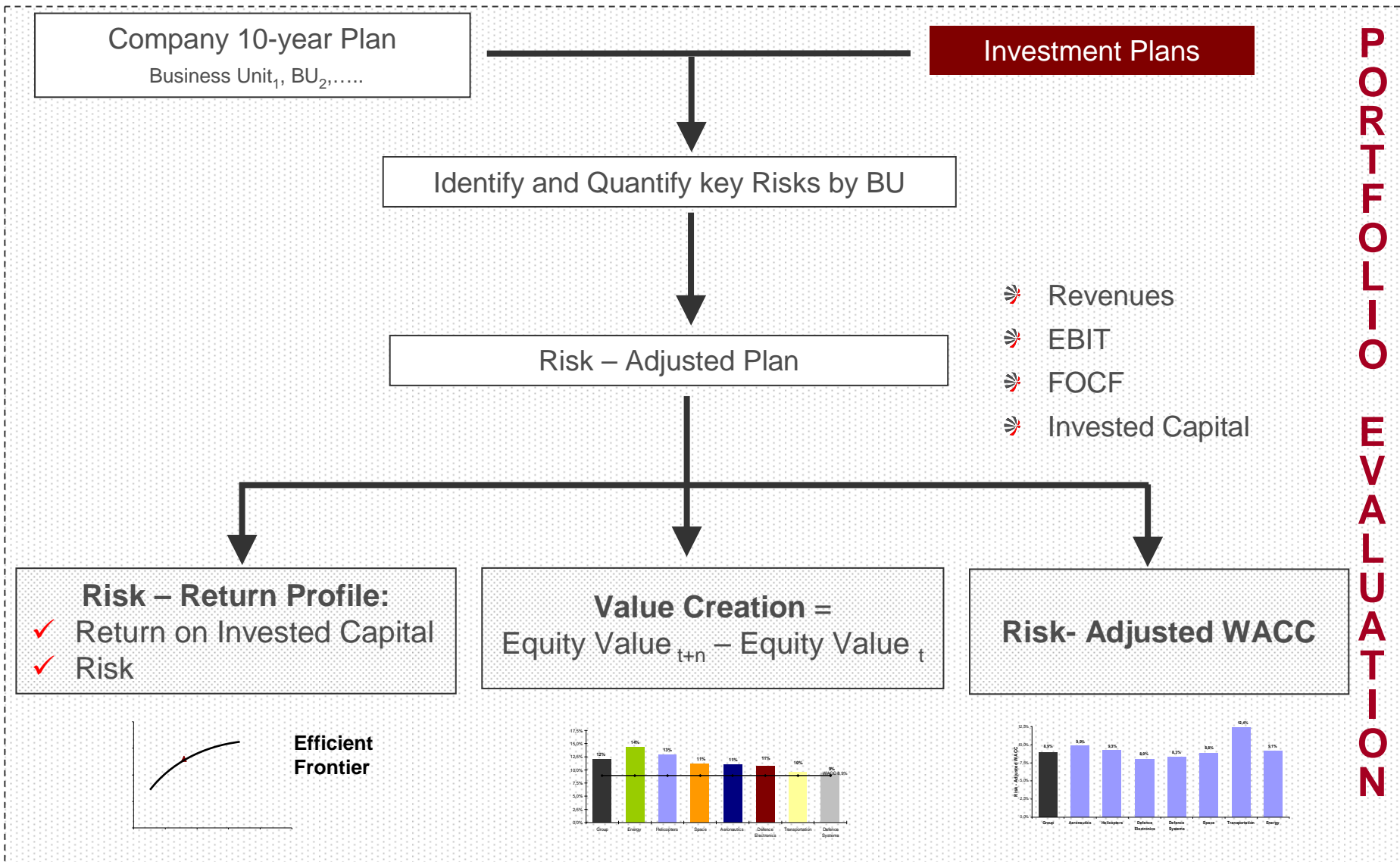
All metrics are integrated in the **Evaluation of our Portfolio** to:

1. evaluate businesses in absolute and relative terms
2. decide how to allocate our capital



**We drive our business towards opportunities that create the highest value for our shareholders**

# Portfolio evaluation is engrained in our DNA



PORTFOLIO EVALUATION

# A balanced portfolio of businesses

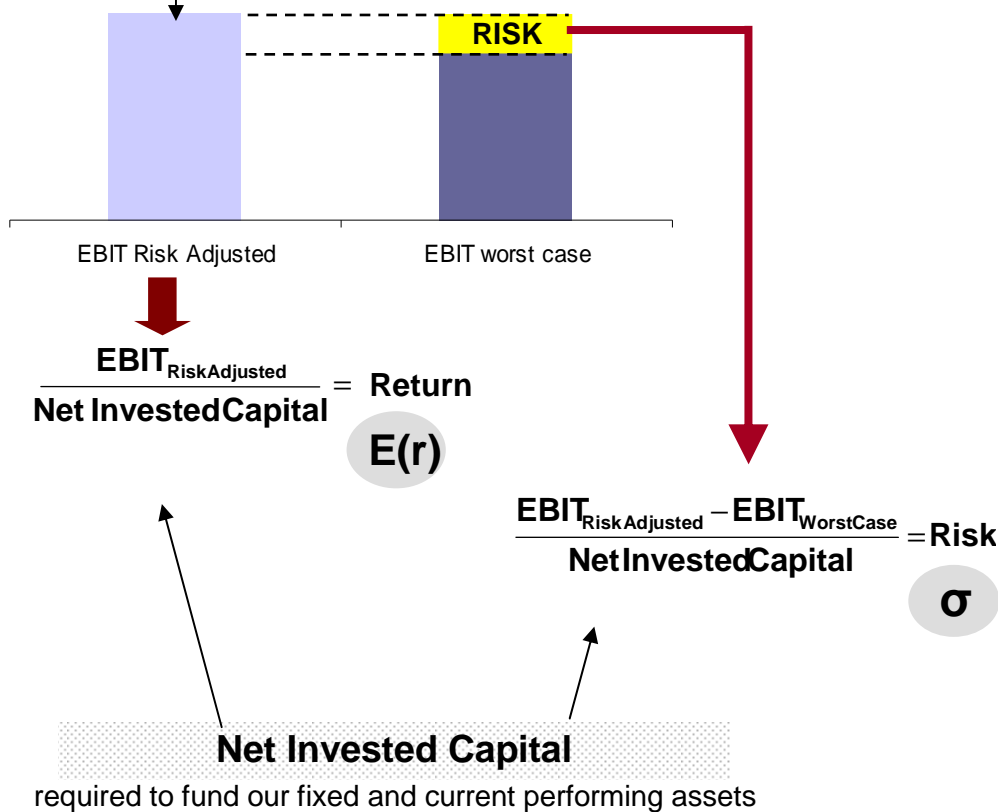
## Risk-Return profile



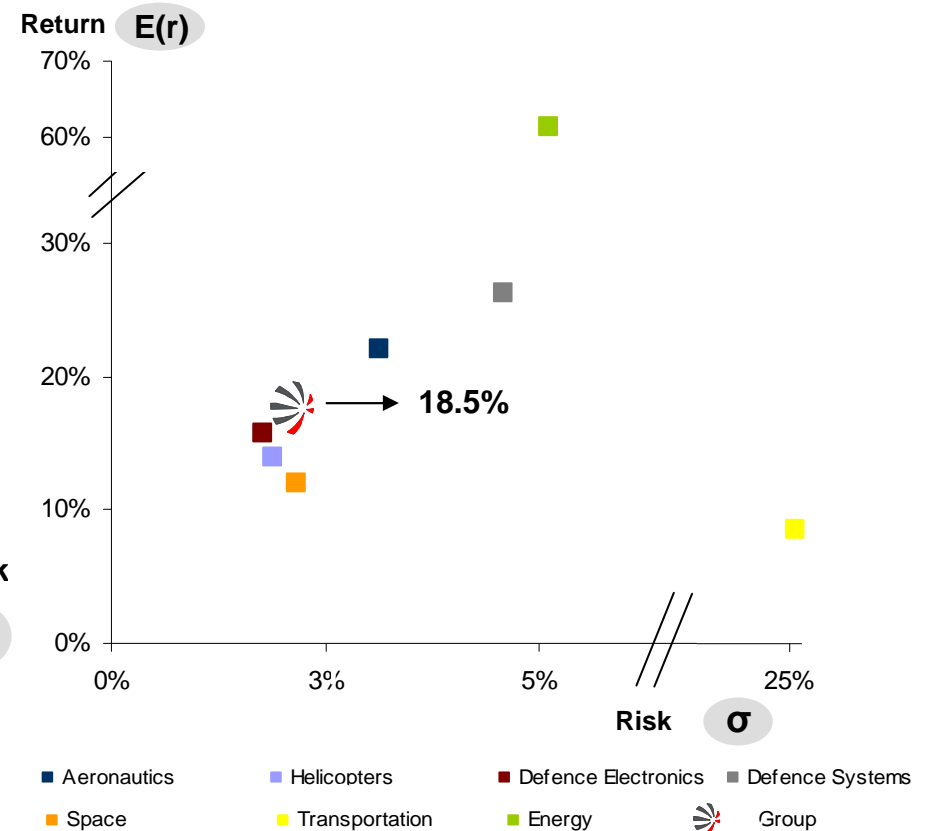
**20 Risk factors considered:**

- Market demand
- Commercial effectiveness
- Product development/execution
- Financial management

- ✓ We evaluate the return and risk profile of each business
- ✓ We identify the Net Invested Capital of our performing assets



### 2008 Expected Risk-Return Profile



# Increasing return and lowering risk

## Risk-Return profile



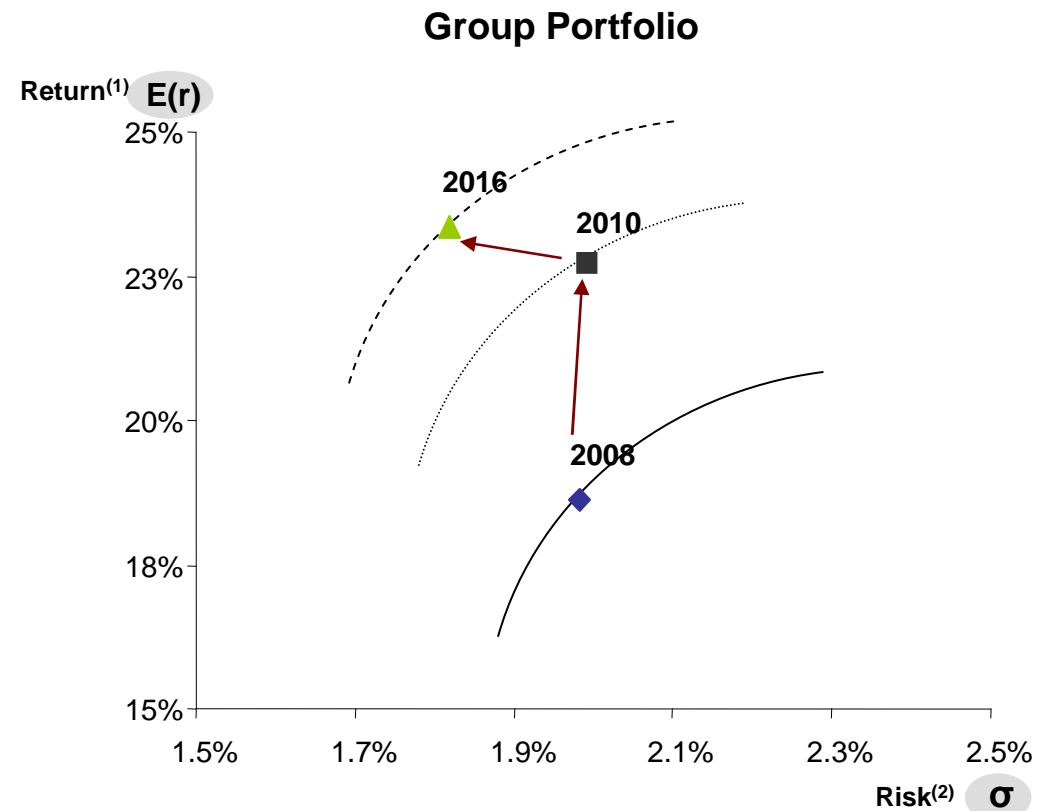
- ✓ The Group portfolio, over time, increases its return on capital, while decreasing its risk profile
- ✓ This allows our Group to move towards higher efficient frontiers and ensures optimal capital allocation

### 2008 → 2010: Higher Profitability

- Efficiency gains in product development across the entire portfolio
- Structured efficiency plan enhances profitability, maintaining control on invested capital

### 2010 → 2016: Lower Risk and Limited Increasing Profitability

- Moving from development to full production phase for key programmes (B787, C27J, M346)
- Completed development and achieved market penetration for key new products (BA609, AW149, XX9)



(1) Return = EBIT Risk Adjusted/ Net Invested Capital

(2) Risk = (EBIT Risk Adjusted – EBIT worst case) /Net Invested Capital

# Creating value for our shareholders

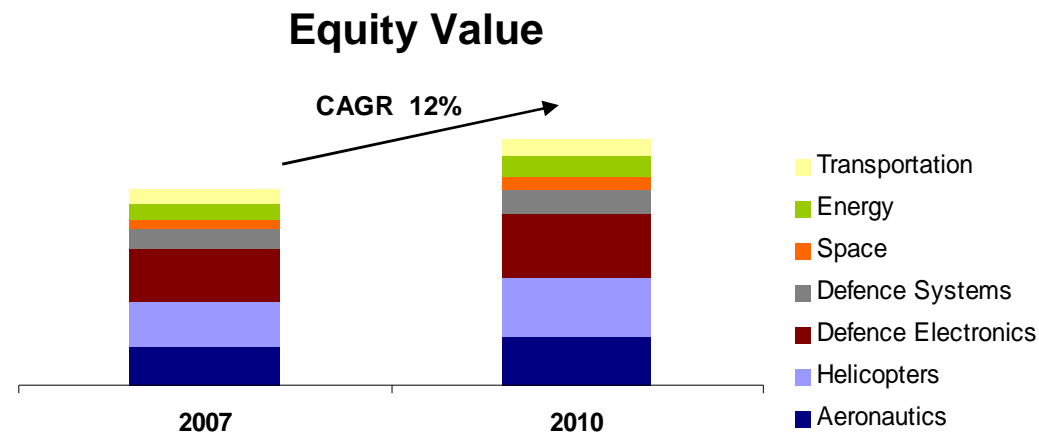
## Value creation



- ✓ We look at our portfolio of businesses as an investor does
- ✓ We calculate the Equity Value of our portfolio today (2007) and at a later date (2010), using the Discounted Cash Flow method
- ✓ We define Value Creation as the increase in the Equity Value over the period considered:

$$\text{Value Creation} = \frac{\text{Equity Value}_{2010} - \text{Equity Value}_{2007}}{\text{Equity Value}_{2007}} \text{ CAGR}$$

- ✓ Over this time period FNM portfolio has value creation of 12% per year
- ✓ This is an un-levered return that does not take into account dividends paid to shareholders and the effect of investor leverage

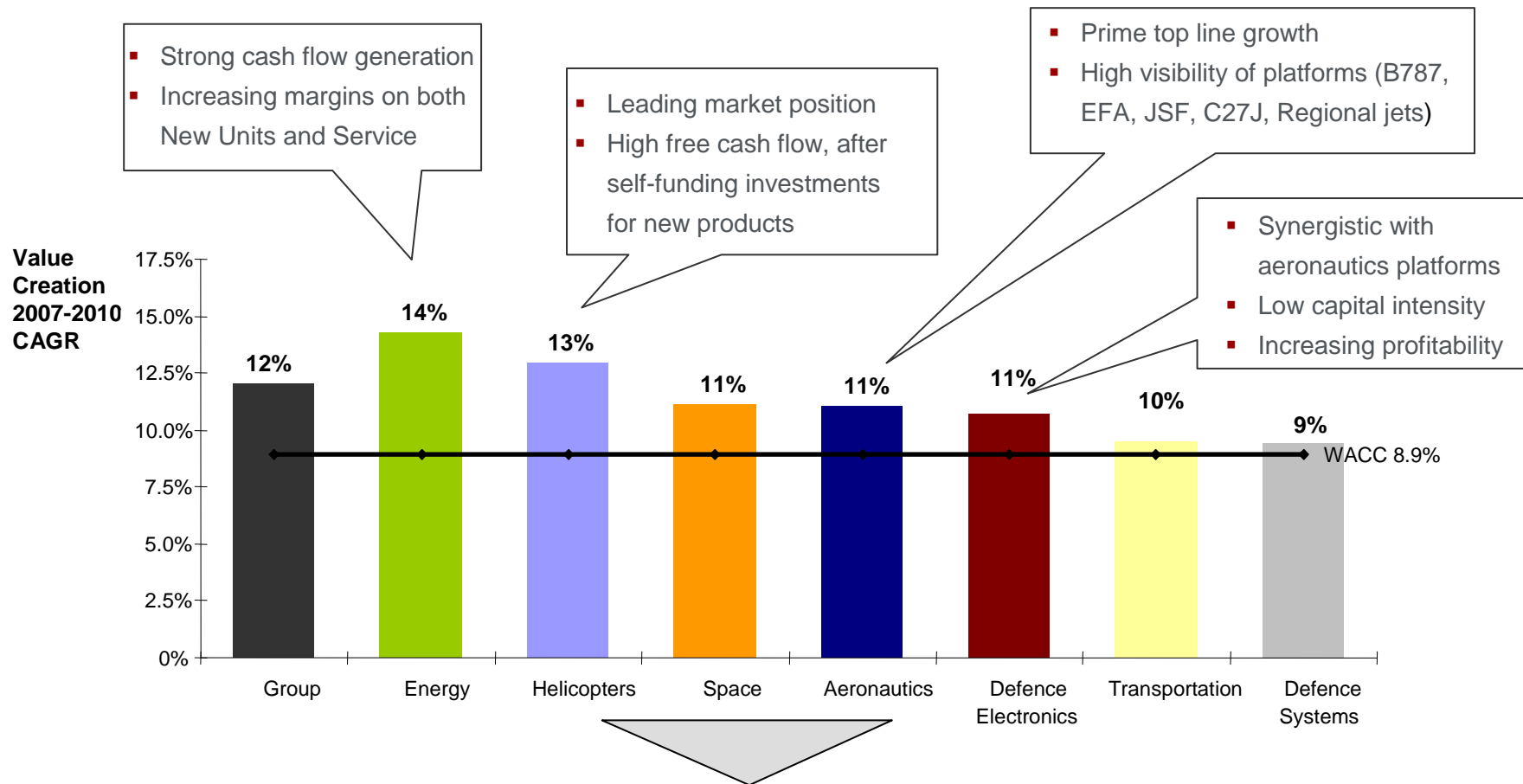


# Built to last: Value creation drivers

## Value creation (2007-2010 CAGR)



✓ Our businesses are characterised by long-term value creation drivers

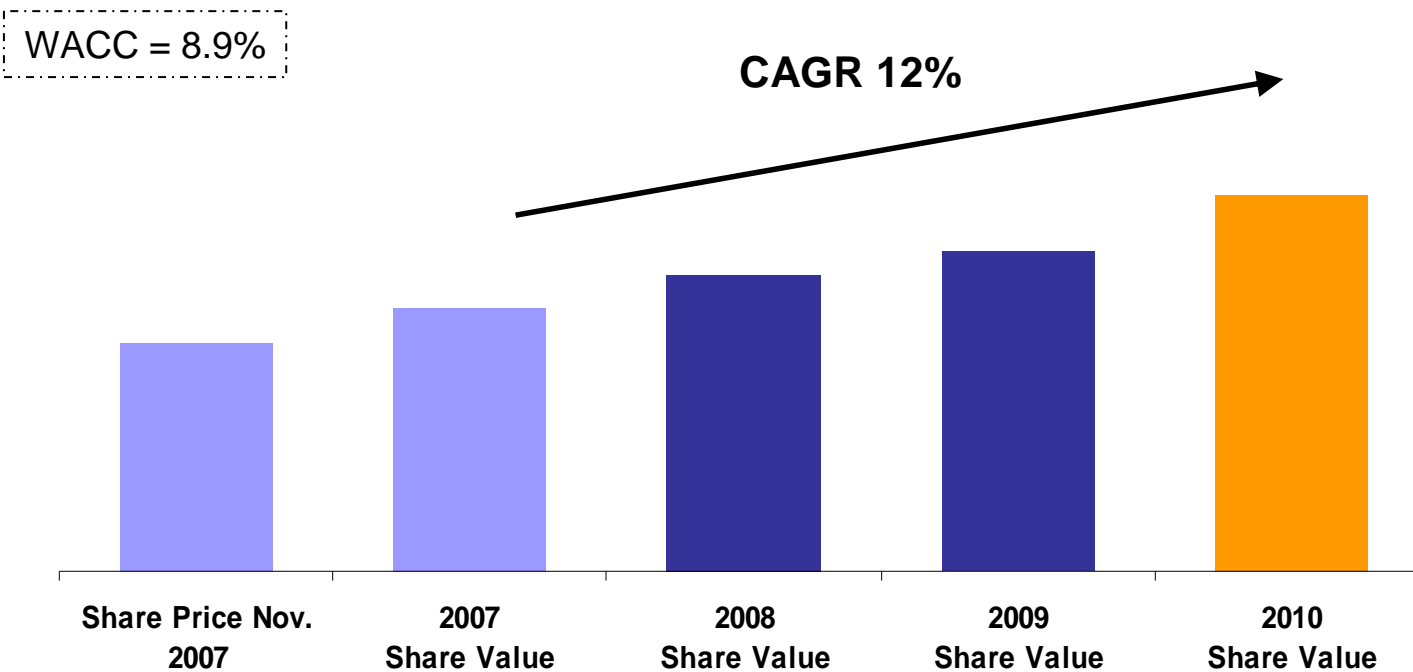


**Value Creation is the approach we use to make capital allocation decisions**

# Value creation should be reflected in the share value



- ✓ The value creation that all of our businesses are going to generate over the coming years should be reflected in the share value
- ✓ The share value should, therefore, increase over time
- ✓ Maximising value creation for our shareholders





# Share buy back programme



- ✓ On 21 November our Board proposed a share buy back programme for up to 8% of share capital
- ✓ The programme is driven by the gap we believe exists between the Group's growth prospects and the extent to which these prospects are reflected in the current stock price
- ✓ Given Group WACC of 8.9% and cost of equity of 10.5%, the buy back is financially attractive. The share buy back programme will accompany the Group's investment plans in order to maximise shareholder value creation
- ✓ Purchased shares will not limit our ability to take advantage of future investment opportunities since they will be held in the form of treasury shares
- ✓ The share buy back will be submitted to the shareholders' meeting on 15 January and will be carried out over the 18 months following approval. It will be funded mainly with our free operating cash flow

# Disciplined approach to evaluate investments

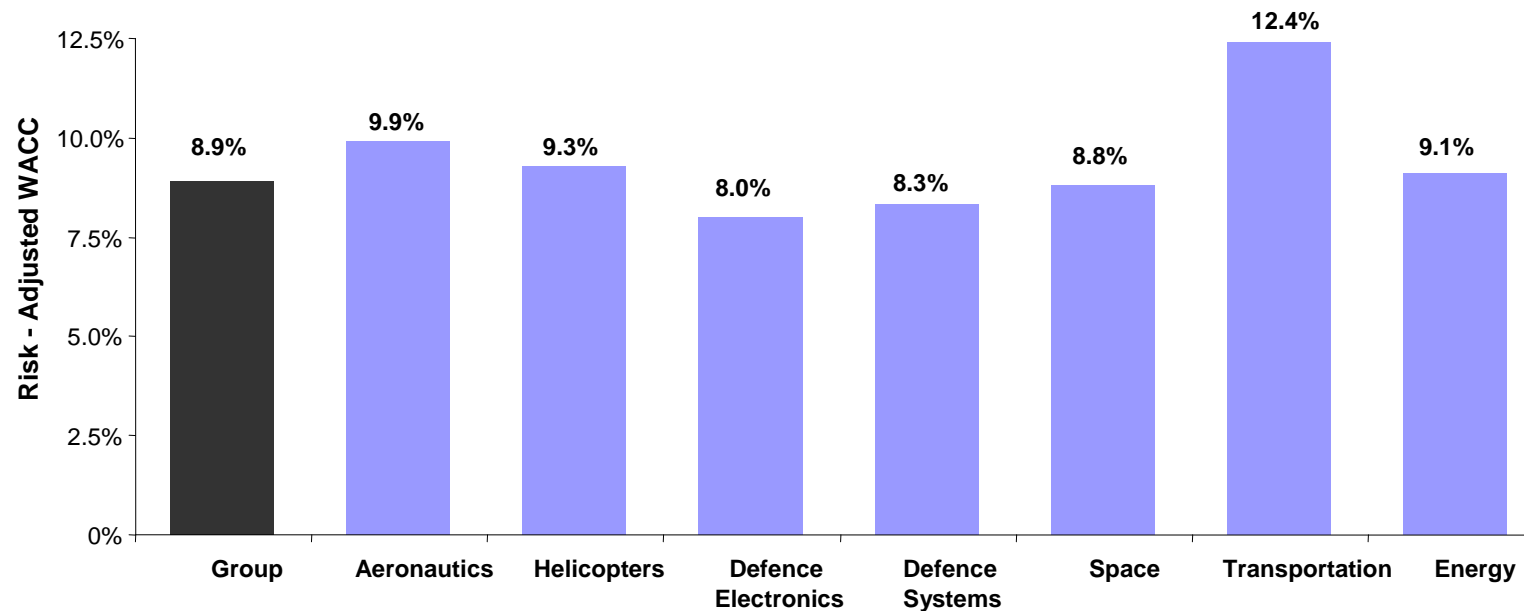
## Risk-Adjusted WACC



- ✓ Individual investments undertaken in each business are evaluated with the same risk-return approach previously shown
- ✓ A risk-adjusted weighted average cost of capital (WACC) is calculated for each sector

⇒ **Investment IRR** > **Risk-adjusted WACC** <sub>Sector</sub> + min hurdle

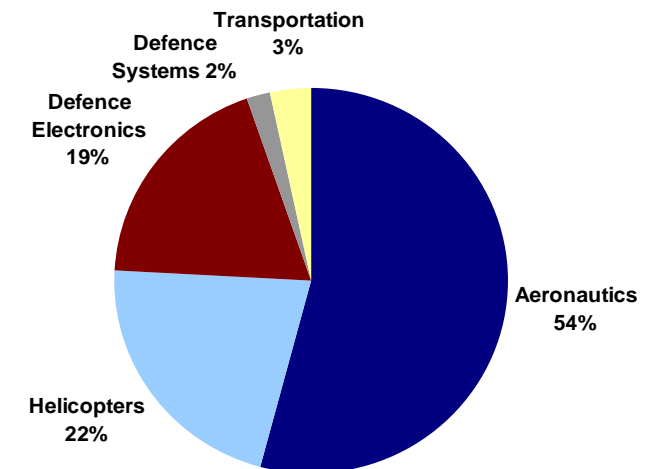
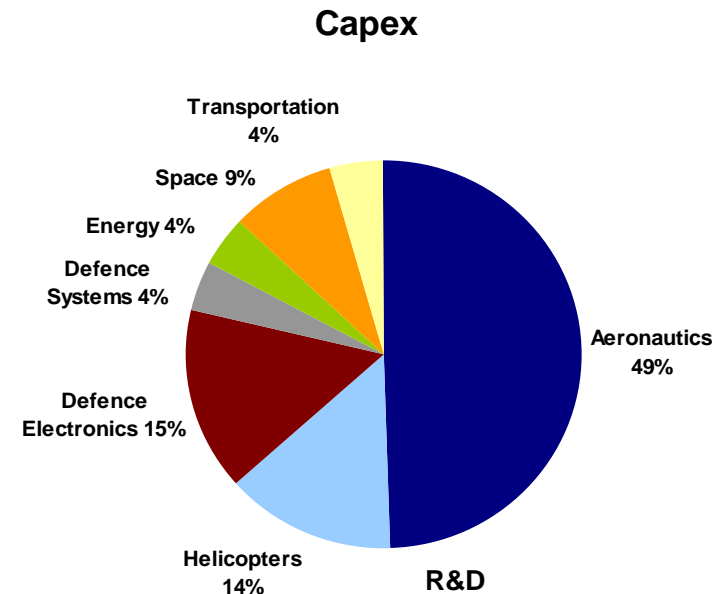
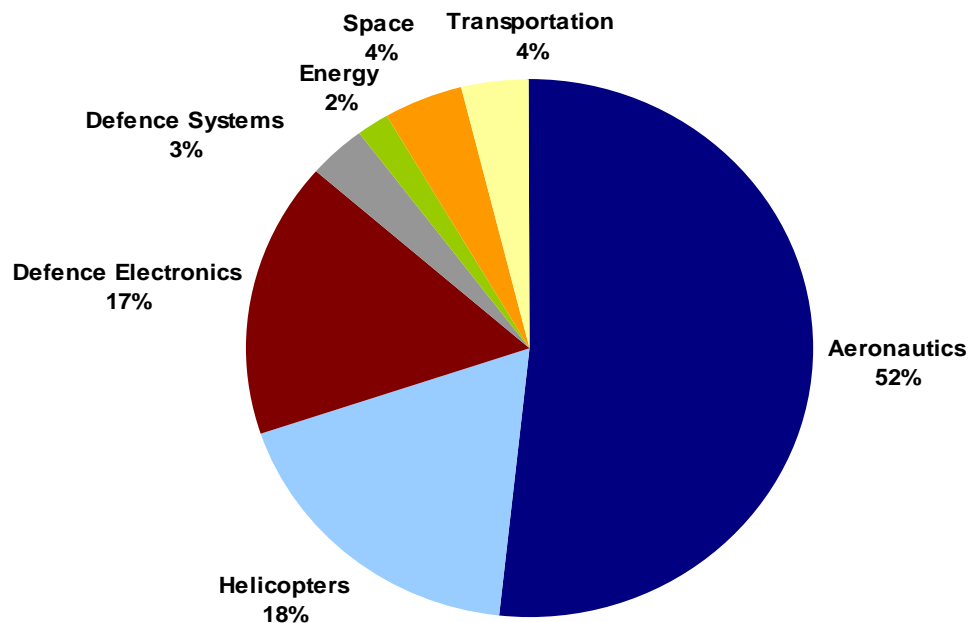
⇒ **Return on Capital** <sub>Sector</sub> > **Risk-adjusted WACC** <sub>Sector</sub>



# Investments to build long-term value



- ✓ Finmeccanica has a significant investment programme in place, to build long-term value and guarantee a sustainable growth path in the long run
- ✓ Total Investments for the 2007-2010 period are expected to be around €5 bn, of which approximately 70% are allocated on programmes with a 10+ year life



*Funded by operating cash flow and working capital decrease*

- ✓ **Targeting investments in three strategic pillars with a priority for Defence and Security Electronics**
- ✓ **Investments must be consistent with our internal portfolio evaluation model**
- ✓ **All investments must be capable of delivering returns compatible with our model before synergy savings**

## Potential resources available for further investments

- ✓ Additional debt capacity
- ✓ STMicroelectronics stake
- ✓ Proceeds from extraordinary transactions
- ✓ Share Capital increase approved in 2007

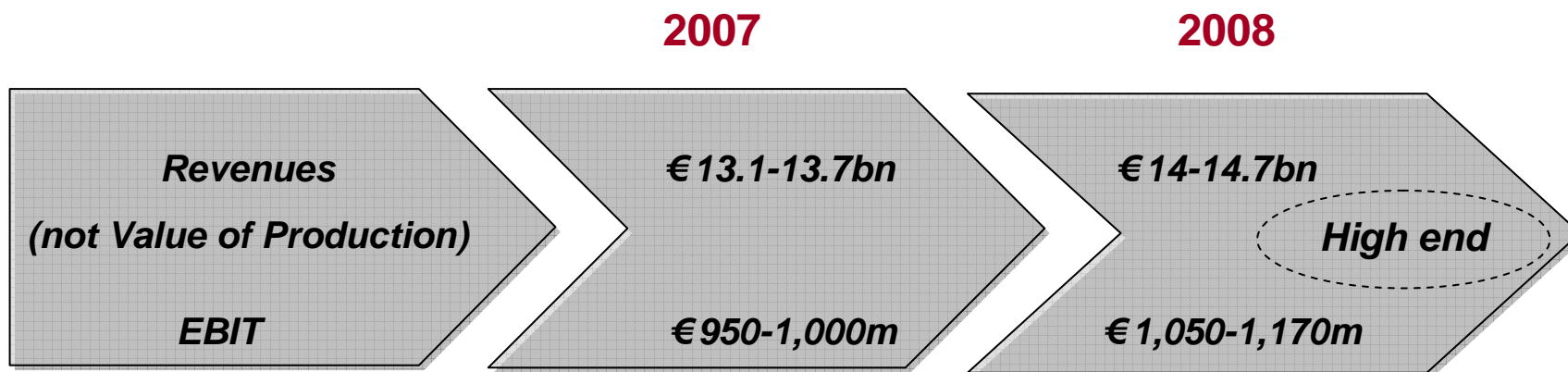


Approx.  
€3 bn

**Safeguarding capital structure and  
financial ratios**

- ✓ **Current backlog contracts hedged**
- ✓ **Estimated forex revenues in 2008 fully hedged**
- ✓ **Dollar denominated revenues estimated at 20% of group total for 2007-2010**
- ✓ **About 70% of dollar denominated revenues naturally hedged through our cost structure**

# Guidance for 2007 and 2008 on track



- Dividend policy: increase together with profits
- Optimal capital structure: Net debt/Equity < 35-40%
- Net bank debt/EBITDA < 2.0
- Average Free Operating Cash Flow\* per Year (2006-08) of ca. €300 m

\*Free Operating Cash Flow: Operating Cash after investments, net financial charges and tax

# Our Goals... by 2010



- ✦ **...achieve Revenues of €16.5 bn through organic growth..**
- ✦ **...aiming for 10% EBIT margin...**
- ✦ **ROI > 20%**
- ✦ **...Free Operating Cash Flow increasingly aligned with NOPAT\***

\*Net Operating Profit after Tax