

# Defence and Security Electronics and Systems

**Driving success  
by executing our goals**





# Radars and Integrated Systems

Marina Grossi  
CEO

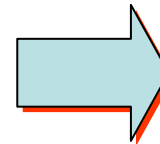
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# 2010 targets and main achievements

- **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)



## 2010 Target Confirmed

**Revenues ~ €1,300 m**

**RoS > 10%**

- **Last year main achievements**

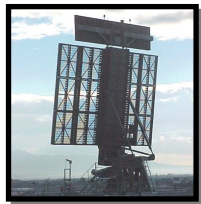
- New credentials as Large System Designer and Integrator recognised by world wide customers
- Consolidation of synergistic relationships with the other Finmeccanica companies for system activities
- Realised a Centre of Excellence for architectural design, systems data-fusion, simulation and test, validation

# 2006 - 2010 Growth and business evolution

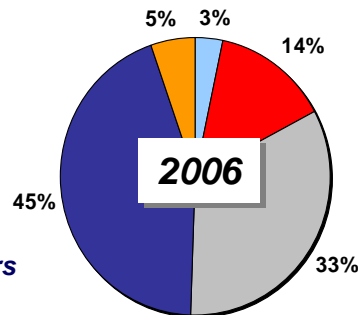
From stand alone products and "verticalised" systems



To large scale, cross-domain solutions



Land & Naval Radars



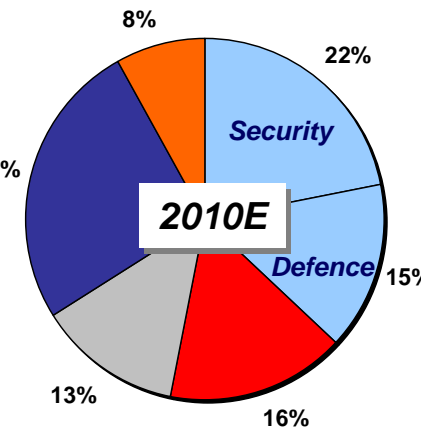
- ATMAS
- Logistics
- Large Systems
- Land Systems
- Naval Systems



Air Traffic Radars & Centers

**€673m**  
**8.8% RoS**

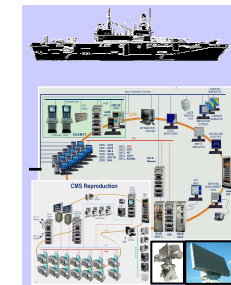
Focus on...  
internationalisation  
balanced portfolio  
stable profitability



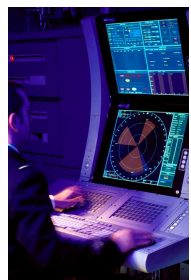
**ca.€1,300m**  
**> 10% RoS**



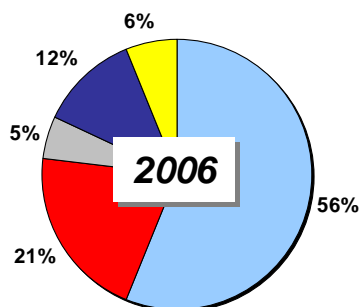
Border & Territory Control



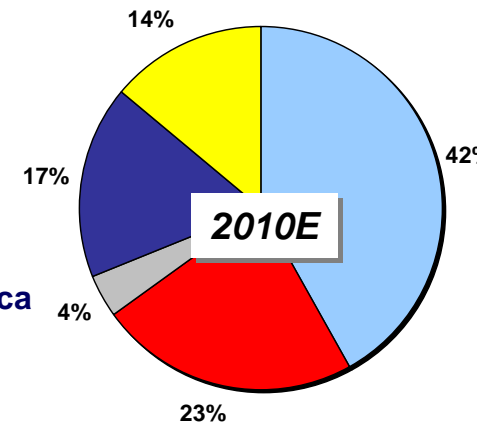
Combat Systems Integration



Naval Combat Management Systems



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



Strategic C4I & Air Defence Systems

# Revenues growth

**Air Traffic Management**

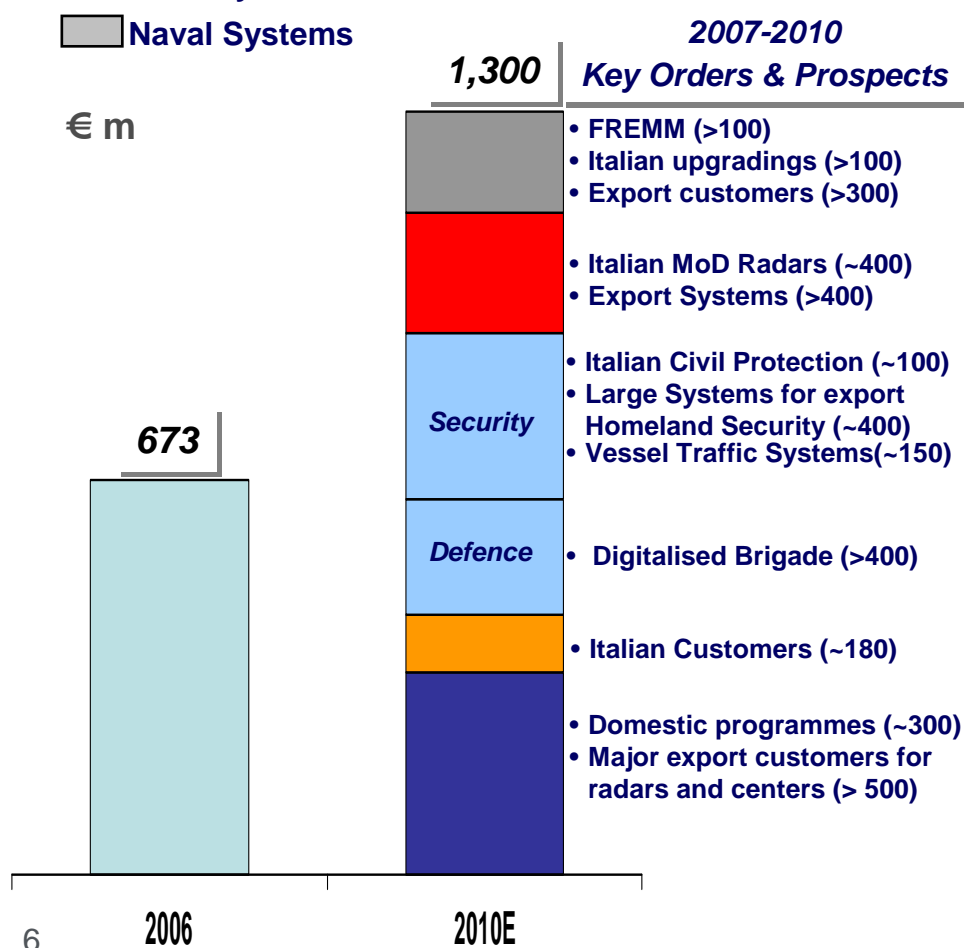
**Logistics**

**Large Systems**

**Land Systems**

**Naval Systems**

€ m



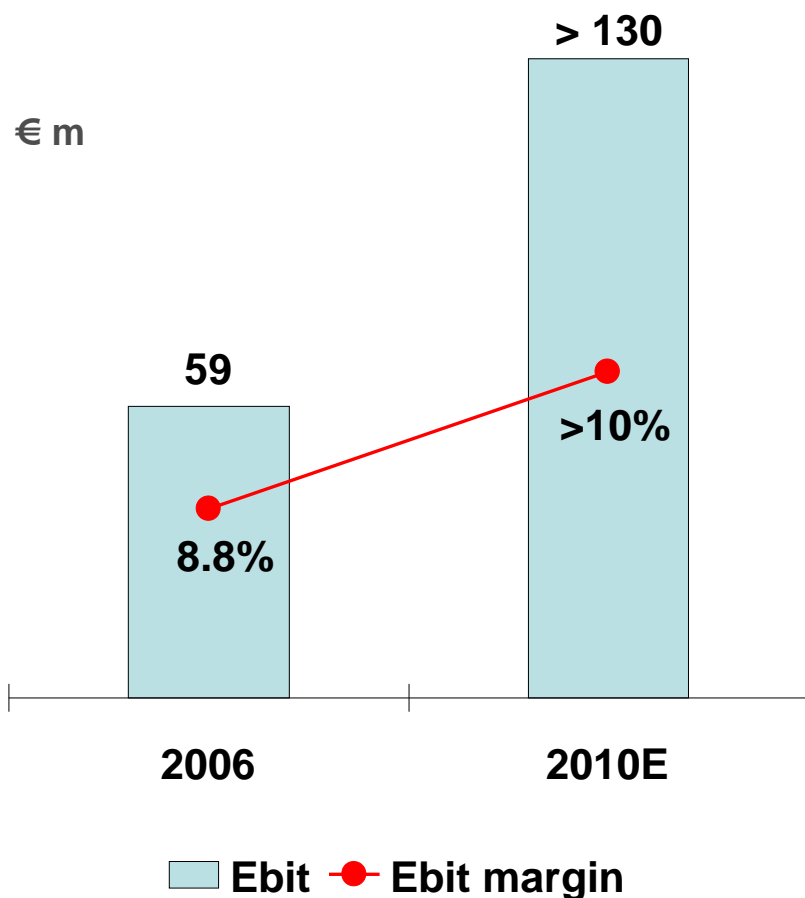
## GROWTH DRIVERS

- **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

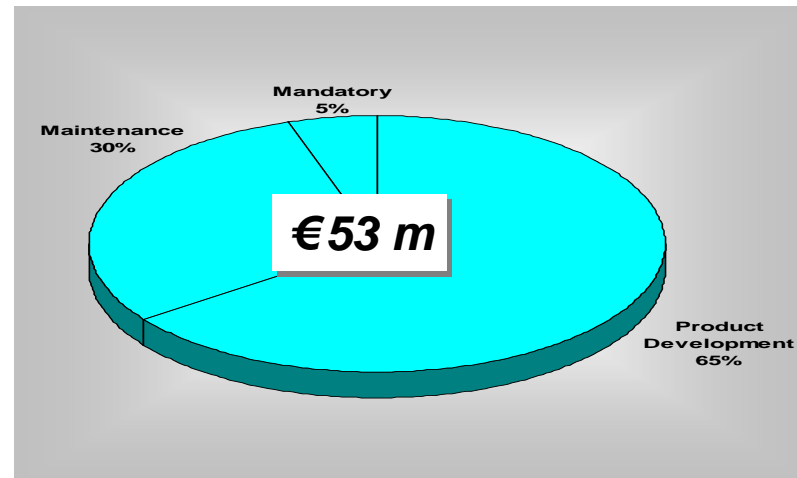


## KEY DRIVERS AND SUPPORTING ACTIONS

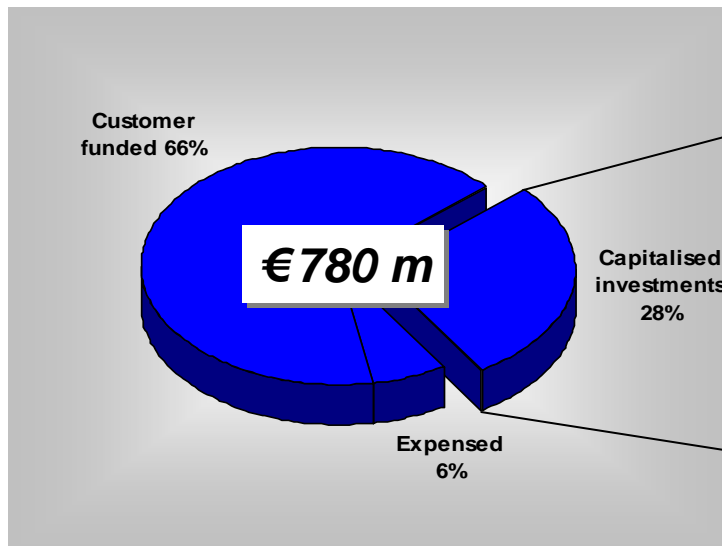
- **Business mix change**
  - Increase amount of high value activities with significant system integration content and service oriented solutions (from ~20% to ~45% of Revenues)
  - Pursue customers with a more favorable spending attitude (*high wealth countries*)
  - Consolidate *legacy* activities, 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

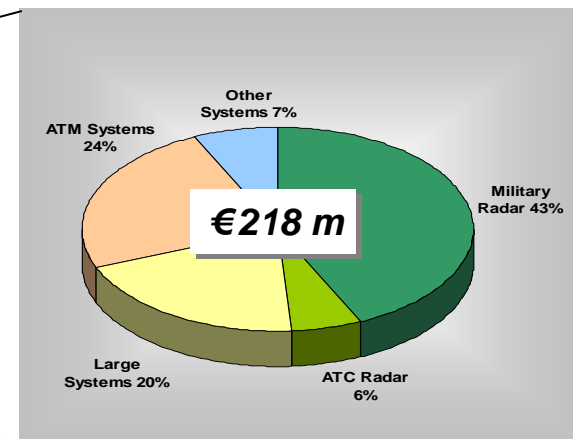
## CAPEX (Accumulated 2007-2010)

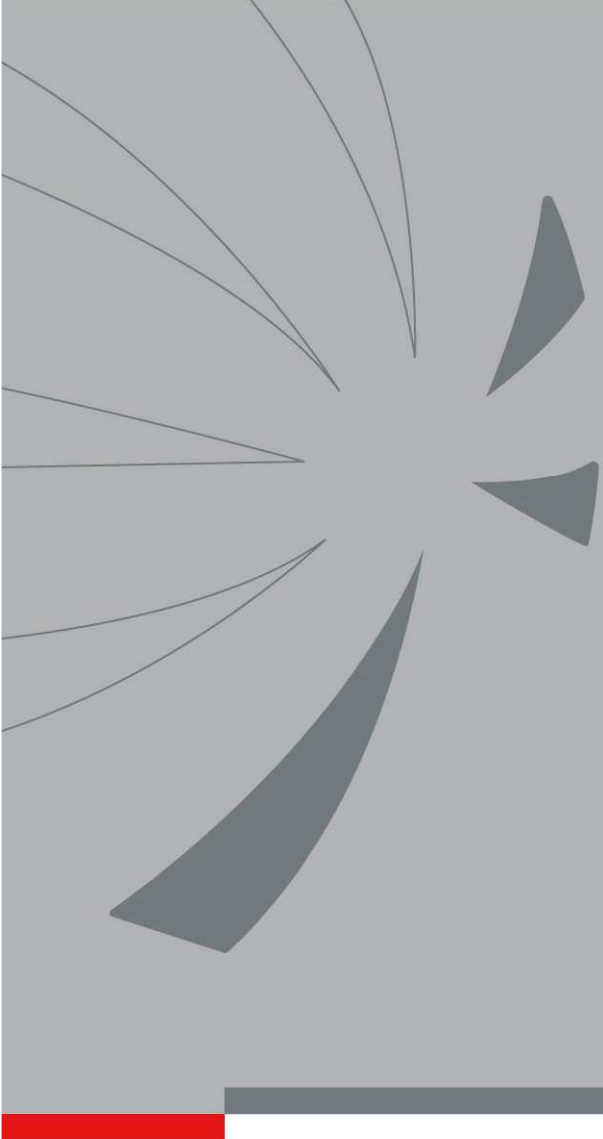


## Total Gross R&D (Accumulated 2007-2010)



## Capitalised R&D 2007-2010



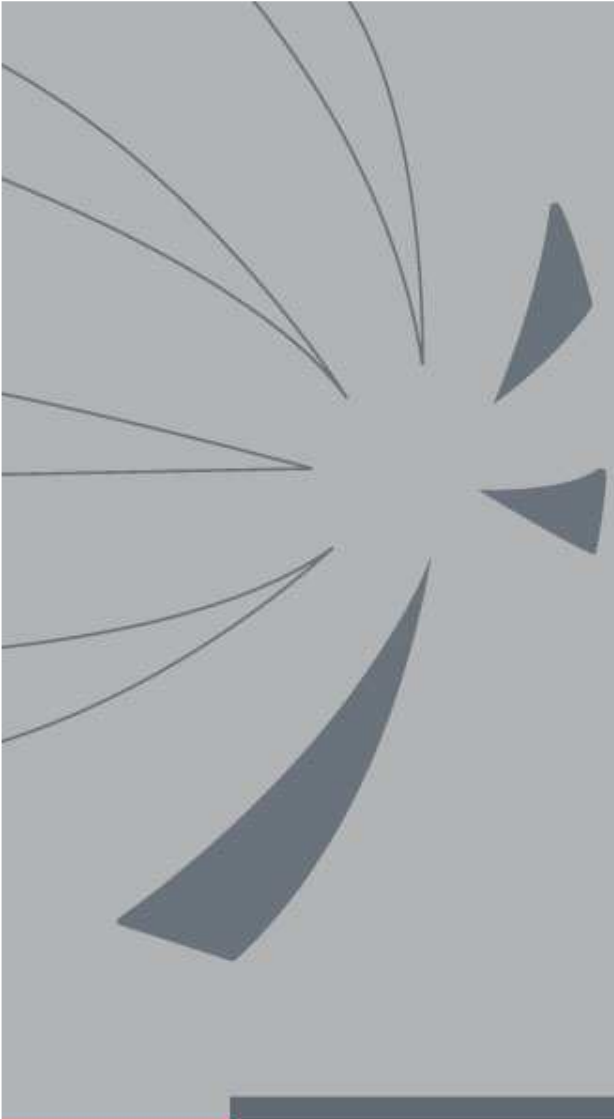


# Defence and Security Electronics and Systems

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# Sensors and Airborne Systems

Steve Mogford  
CEO

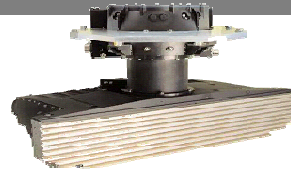
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# Products and programmes

## Product Lines

Airborne  
Radar



Electronic Warfare  
& Battlespace



Space



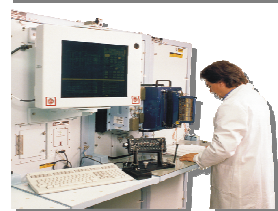
Avionics & UAS



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

## Investor Day Presentation 2007

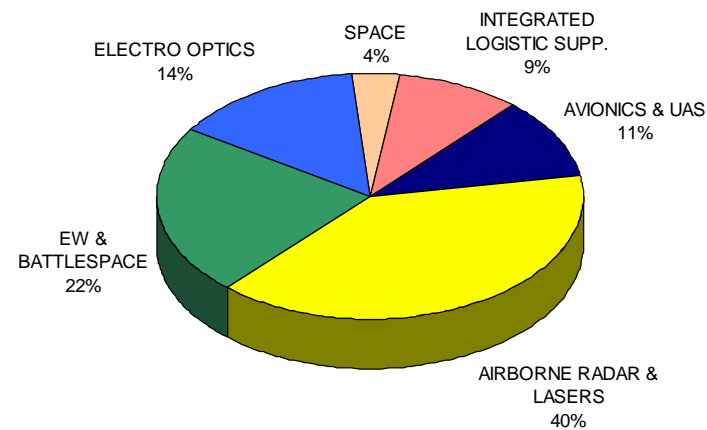
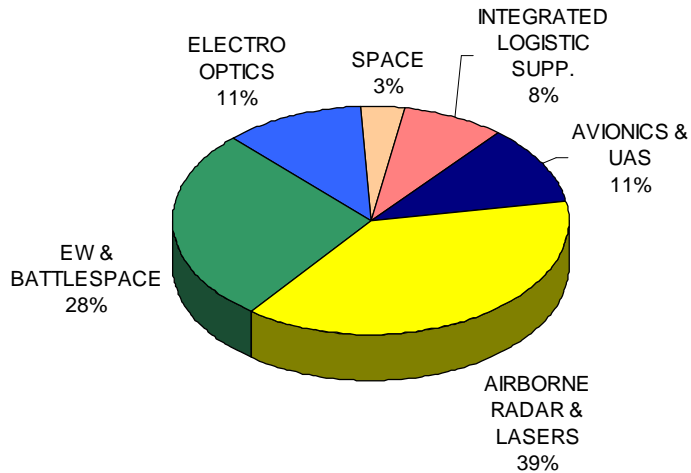
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|                              |                  |                  |
|------------------------------|------------------|------------------|
| <b>Revenue targets 2010:</b> | <b>€2.4 bn E</b> | <b>€2.2 bn E</b> |
|------------------------------|------------------|------------------|

### Reasons for difference:

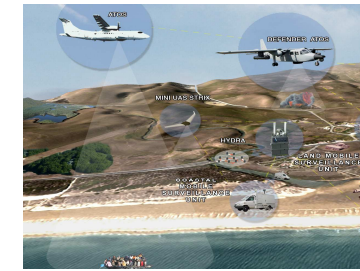
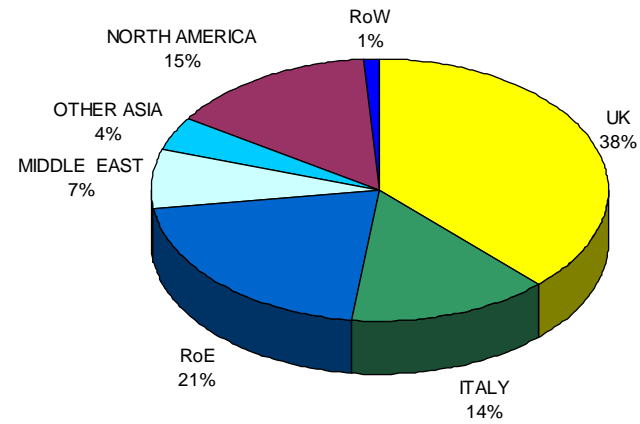
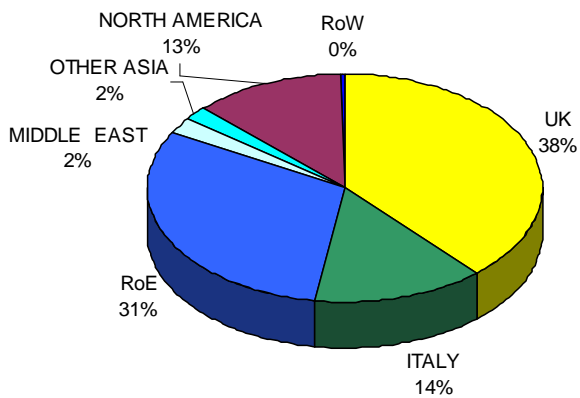
- Re-definition of NATO AGS Ground Surveillance Programme
- Re-scheduling of NH-90 deliveries
- Re-scheduling of ATOS Surveillance sales
- Grifo & Vixen combat radar export

# Revenues: by sector and by geographical region



Year 2006 : €1.7 bn

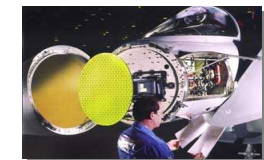
Year 2010 : €2.2 bnE



**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



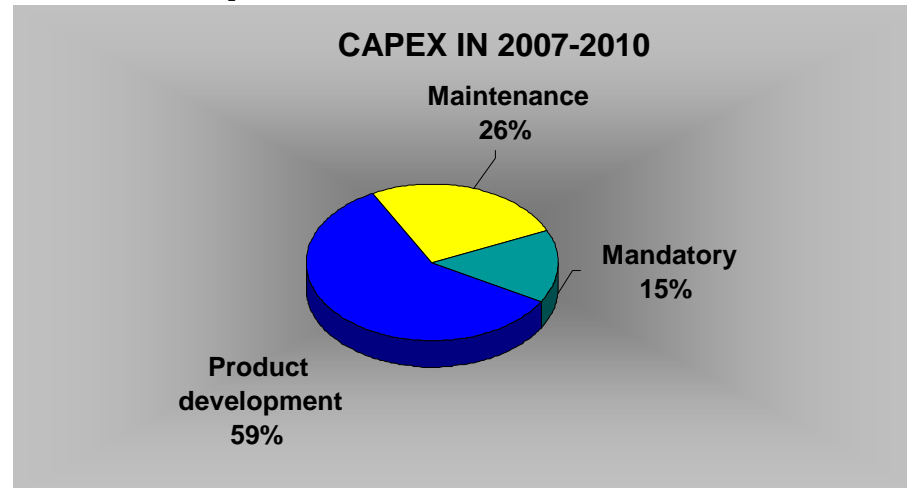
**2006 - 2010 CAGR: 5.8%**

- 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***

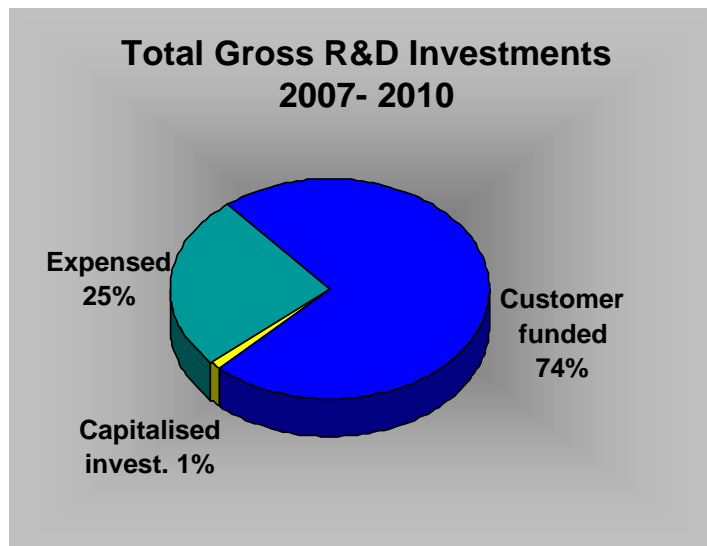
# Investments: R&D and CAPEX

## Capex 2007- 2010: €250 m



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

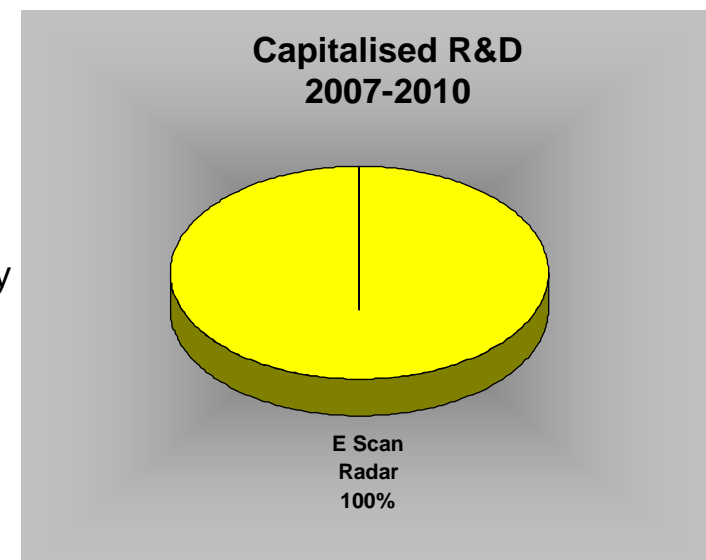
## Total R&D 2007- 2010: €1,150 m



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



- 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 TLMCM Support market
- Focussing Land - Battlespace product portfolio
- Systems approach to business opportunities

***Positioned for the future***





# Communication systems

Maurizio Tucci  
CEO

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## Consolidate in multidomestic market Growth in selected foreign market

### Investor Day 2006

#### Targets 2010

Revenues: €1,112 m

ROS: 12%

### Investor Day 2007

#### Targets 2010

Revenues: €1,100 m

ROS: 12%

**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:**

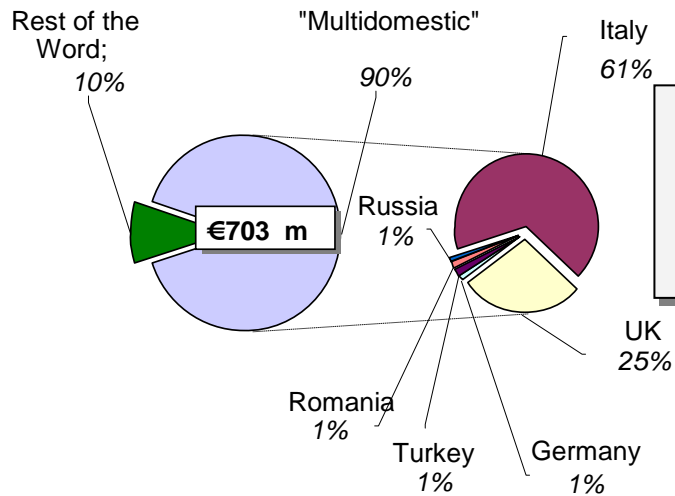
- Progetto Interpolizie: €250 m

➤ **Naval: €47 m**

➤ **Prof & Civil: €46 m**

➤ **Telcos & Rail €18 m**

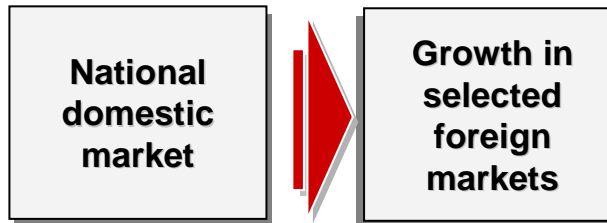
2006 revenues



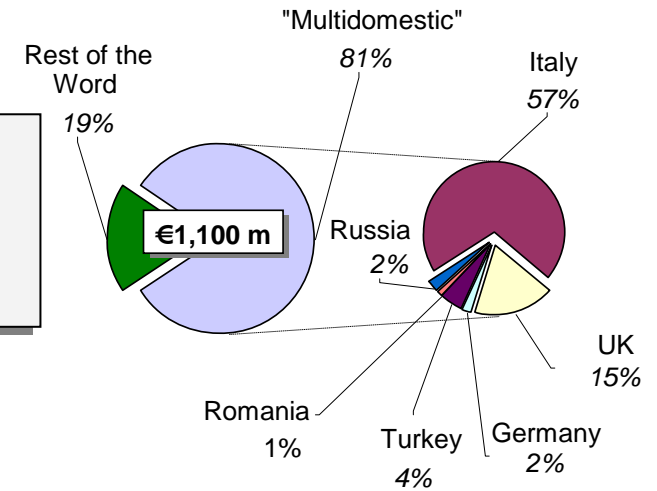
From...

...To

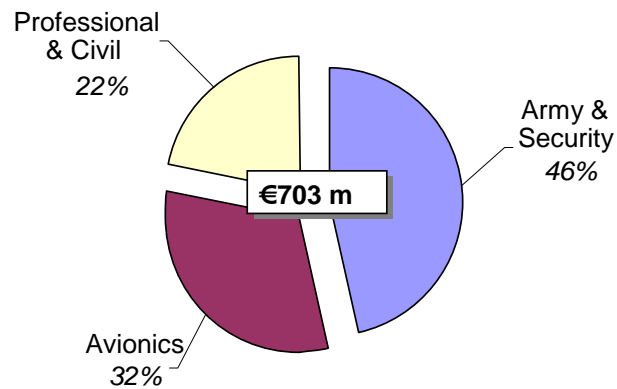
## By Geography



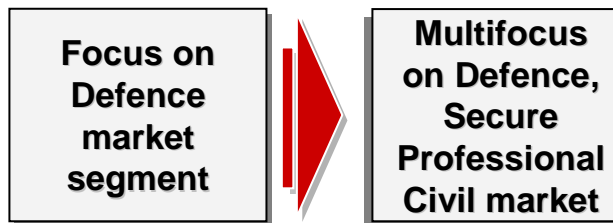
2010 revenues



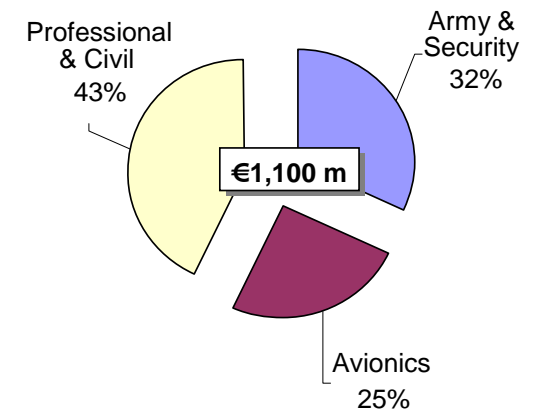
2006 revenues



## By Market Segment



2010 revenues



## Revenue Growth

From...

2006

€703 m



...To

2010

€1,100 m

## HOW

- 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)

## ROS Growth

From...

**2006**  
**8%**



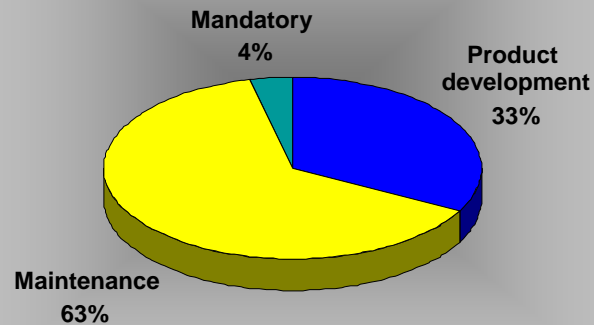
...To

**2010**  
**12%**

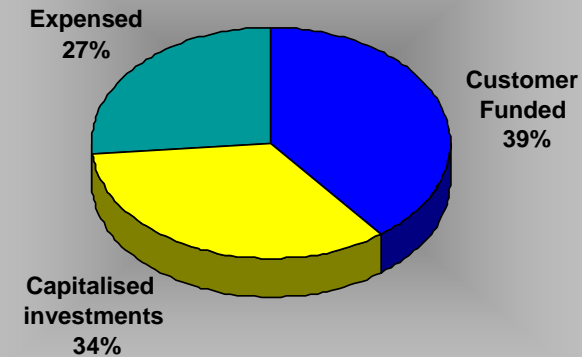
## HOW

- 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

**CAPEX IN 2007 - 2010**  
€166 m



**Gross R&D Investments 2007 - 2010**  
€630 m



## HOW

- Strong focus on selected key technological products/systems development (with high IRR)
  - Software Defined Radio (SDR)
  - 2<sup>nd</sup> 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

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# Revenue growth 2006 - 2010

## Consolidate the domestic market and grow internationally:

- During the Investor Day 2006 Elsas 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

| Investor Day 2006                                |
|--|
| <i>Forecast for security business<br/>(2010)</i> |
| €327 m   |

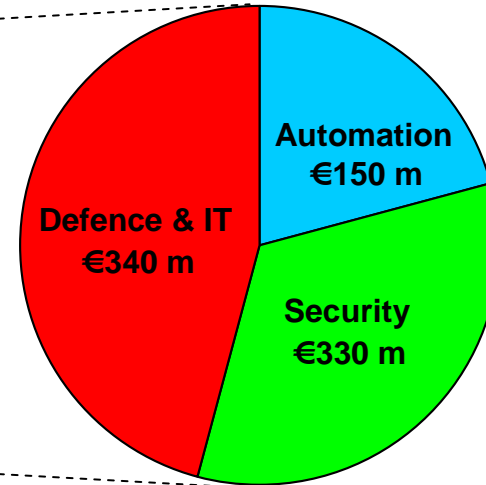
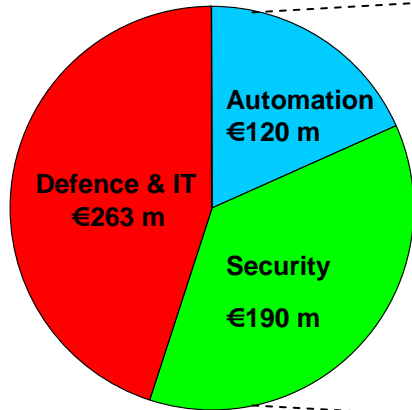
| Investor Day 2007                                |
|--|
| <i>Forecast for security business<br/>(2010)</i> |
| €330 m   |

### 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



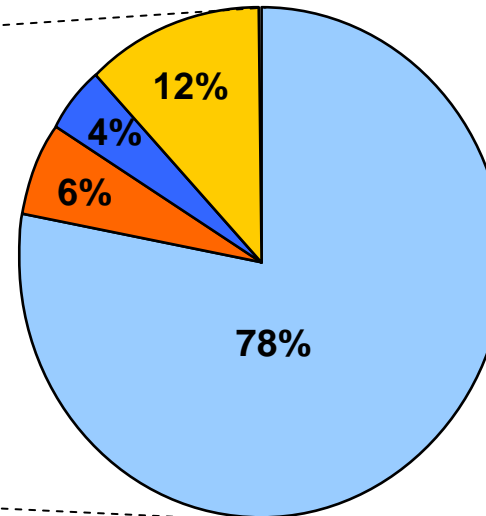
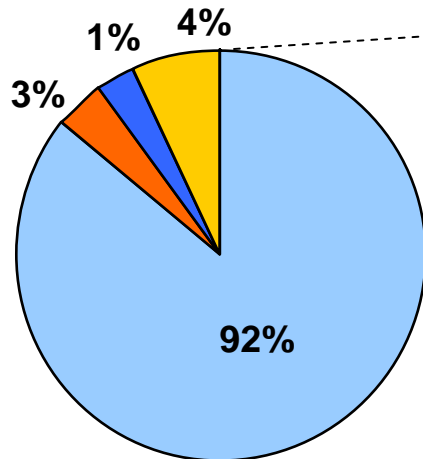
# Revenue growth 2006 - 2010



€573 m

CAGR 2006-2010  
9.4%

€820 m



# Main drivers for growth

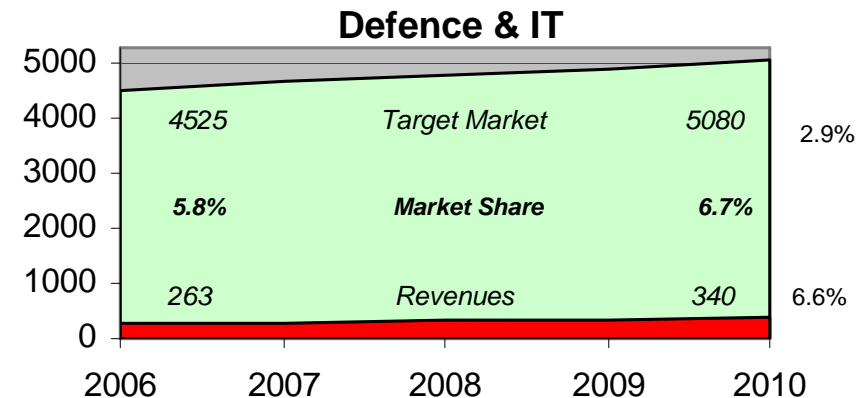
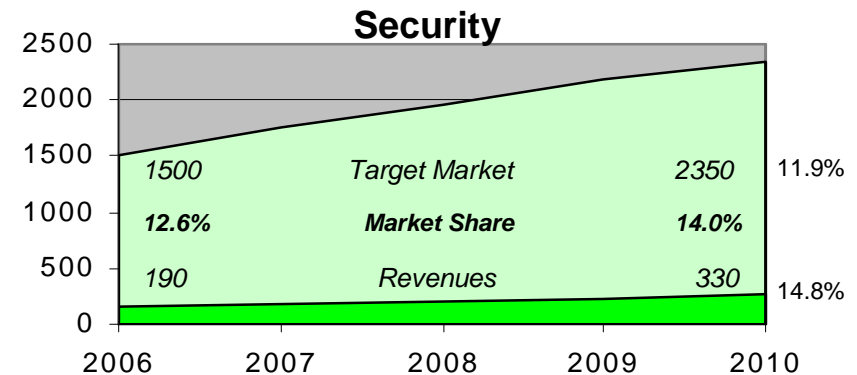
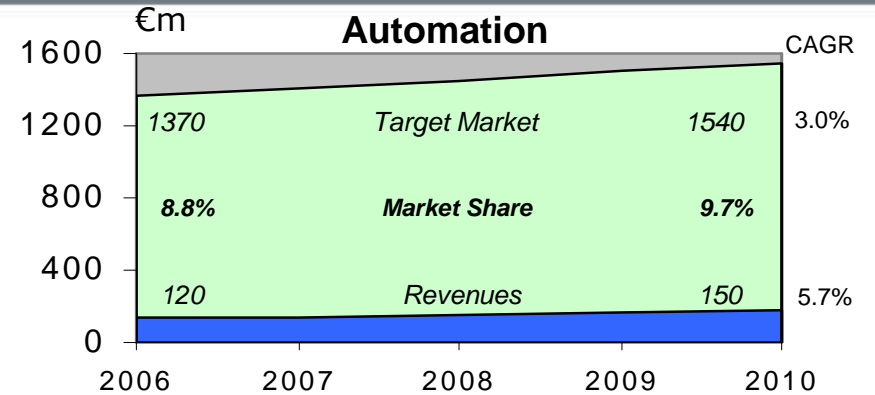
## Consolidate the domestic market and grow internationally:

### 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



## Profitability trend

| EBIT MARGIN |       |
|-------------|-------|
| 2006        | 2010  |
| 8.0%        | 12.5% |

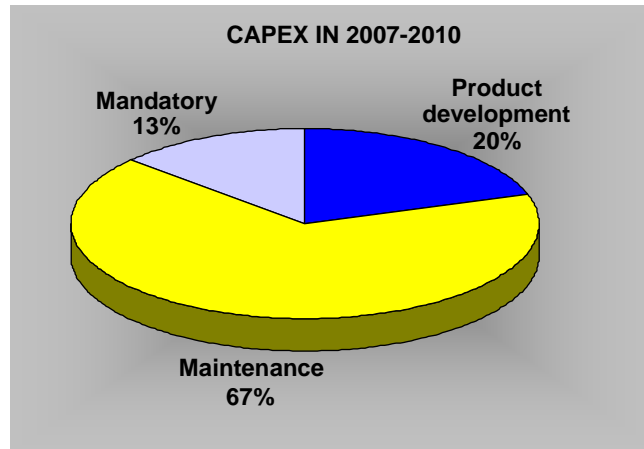
**EBIT CAGR 2006 - 2010: 22%**

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

|  | Accumulated 2007-2010 |
|--|-----------------------|
| <b>Business synergies:</b> integrated and cost effective Defence and IT business | €22 m                 |
| <b>Cost savings:</b> savings for G&A reduction and purchasing optimisation       | €58 m                 |

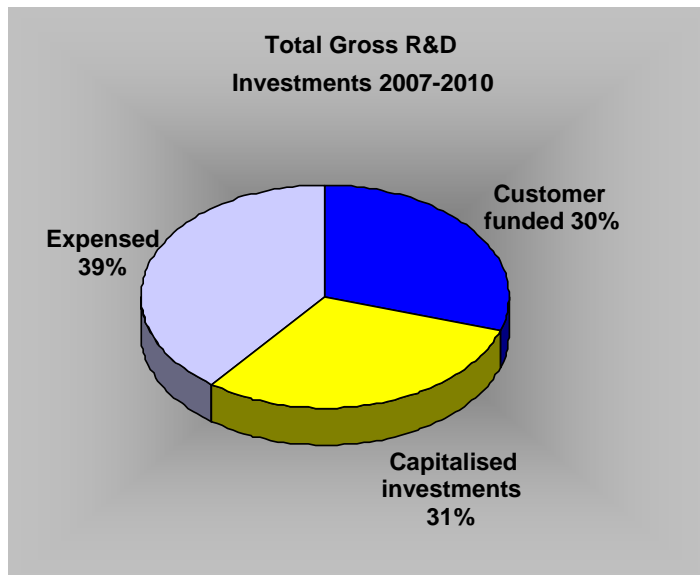
# Investments: R&D and CAPEX

## Capex (Accumulated 2007-2010: €60 m)

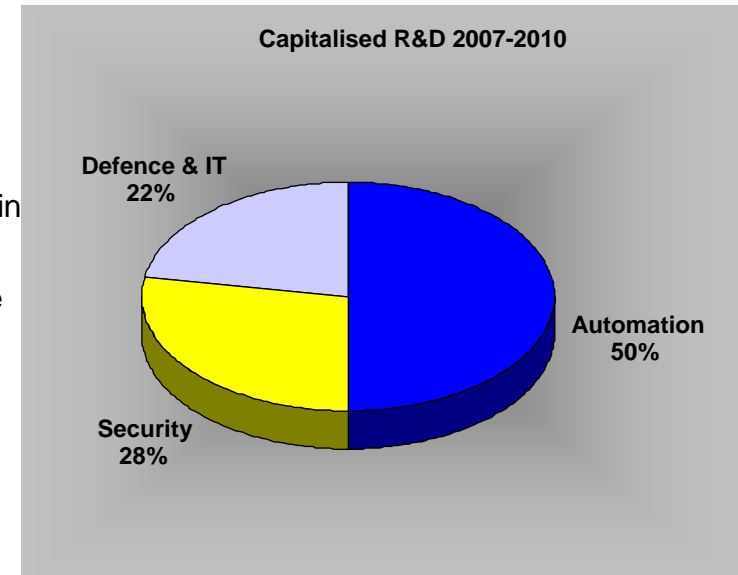


- €10 m investment in a new assembly facility in the US (Reles) to boost the Law Enforcement market penetration

## 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

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# Finmeccanica Investor Day, 2007 vs 2006



## Investor Day

*London November 20th, 2006*

### *Disclosed Targets*

- 2010 Revenues €420 m
- 2010 Ebit Margin > 10%

## Investor Day

*Cascina Costa November 26th, 2007*

### *Disclosed Targets*

- 2010 Revenues €420 m
- 2010 Ebit Margin > 10%

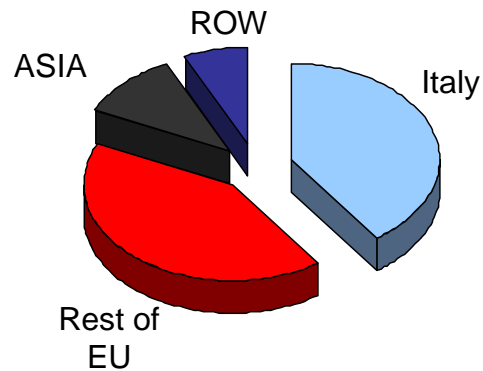
## One Year After:

- ▶ 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

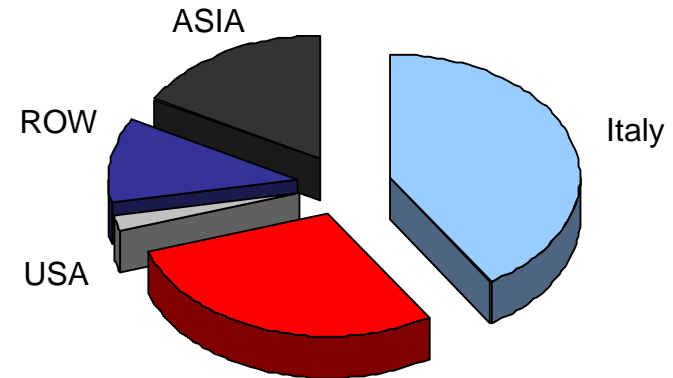
# Revenues, EBIT and ROS evolution

**2006 Total Revenues: €325 m**

**2010 Total Revenues: €420 m**

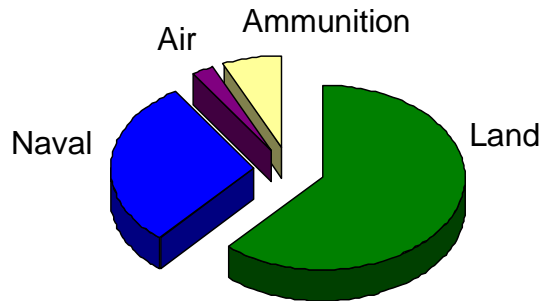


By Country

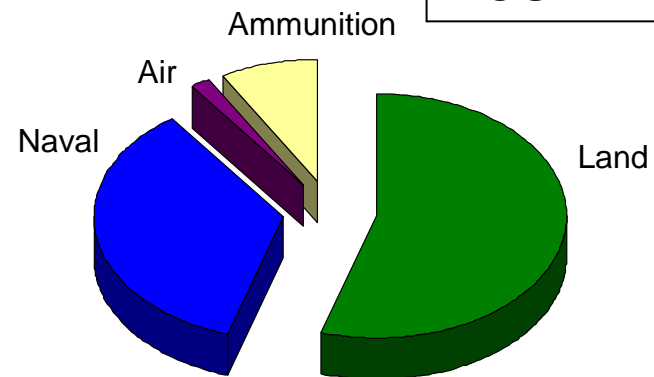


EBIT €30 m  
ROS 9.1%

EBIT €42 m  
ROS > 10%



By Product Segment

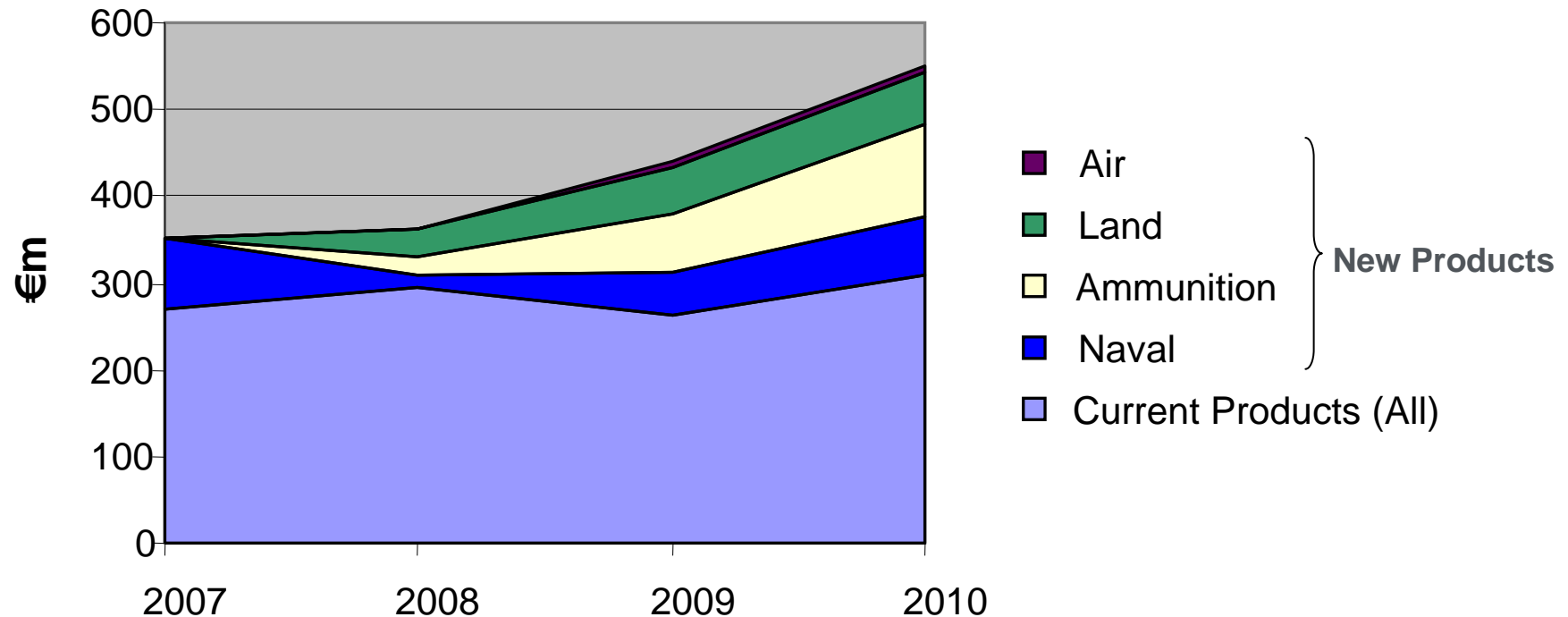


CAGR 2006 – 2010 5%

# Rationale for volume increase



## New products sales will boost acquisitions and then revenues



## Contract acquisition, new products/current products

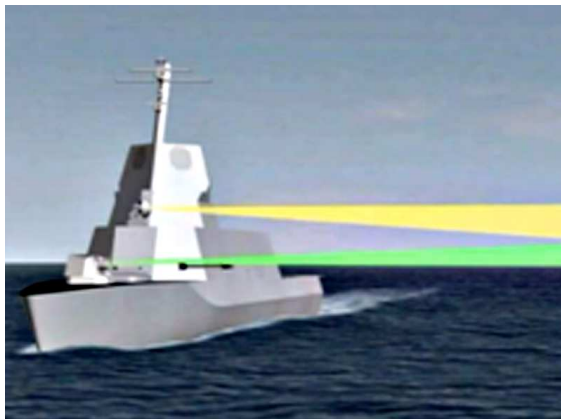


# Main new products (1/4): Guided ammunitions

**DART**



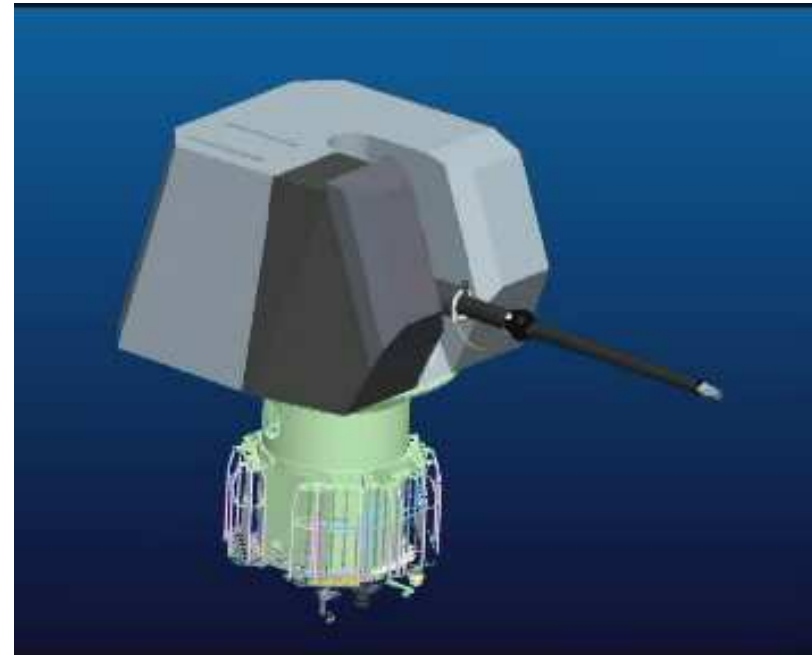
**VULCANO**



# 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)



## Brescia site rationalisation

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

## La Spezia Site Improved efficiency

- Average manpower age reduction and competencies enhancement
- Focus on core activities
- Product and process reengineering

## Subsidiaries:

OTO MELARA IBERICA  
OTO MELARA NORTH AMERICA

VALENCIA – SPAIN  
WASHINGTON DC - USA

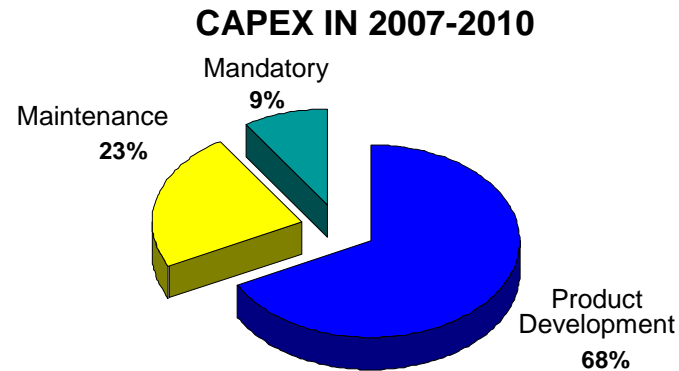


**New products with higher attractiveness  
and lower market competition**

***Means increase in sales, then higher volumes  
with higher margins***

# Investments: R&D and CAPEX

**Capex Accumulated 2007-2010 : €39.8 m**



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

