



FINMECCANICA

Strategy and Action Plans

Strategic Goals

Pier Francesco Guarguaglini
Chairman and CEO

Why we are here today

- ✦ To renew our commitment to the market
- ✦ To give you details and clear information on our actions
- ✦ To answer your questions and address your concerns
- ✦ To reaffirm our strong commercial track record and to substantiate the opportunities underlying our growth potential

Our Current Strategic Guidance

- ⇒ Market leadership in **3 robust strategic pillars** (Helicopters, Aeronautics, Defence Electronics & Security)
- ⇒ Resilience and opportunities in **domestic markets**, despite pressure on defence budgets; reinforcing our positioning, mainly in UK and in US, by enlarging our offering and moving up the value chain
- ⇒ Rich opportunities in **our target growth market** leveraging on industrial and commercial footprint
- ⇒ Wide range of decisive actions creating platform for **performance improvement**
- ⇒ **Profitable and selective investments** in technology and products to support organic growth
- ⇒ Building the future: **new frontiers** provide dynamic growth opportunities

Agenda of the Day: Actions to Improve Profitability and Cash Flow Generation



Our 9M 2010 robust results put us on track to achieve our FY2010 Guidance

- Revenues €17.8bn-18.6bn
 - EBITA €1,520-1,600mln
 - Cumulative FOCF* 2008-2010 equal to €1.2-1.3bn
- In July we announced target of 190-210 through efficiency improvements, site rationalisations and cost savings across the Group
 - In our new 3 year budget plans currently being finalised, we are sharpening our focus on actions which will increase further the efficiency and market penetration of our businesses with a new 3 year net savings target of ca €360mln in order to



Strengthen our competitiveness, cash flow and profitability

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

Assumptions: forex €/US\$ 1.45 €/GBP 0.88

Agenda of the Day: Resilience in Domestic Markets and Opportunities in Target Growth Markets



- ✦ Growth in the 3 Strategic Pillars maintaining our solid positioning and meeting targets

- ✦ Domestic markets (Italy, UK, USA)
 - ✦ Notwithstanding downturn, resilient performance with stable spending

- ✦ Key growth markets
 - ✦ Target markets include: Central and South America, India, Russia, Turkey, North Africa, Middle East

 - ✦ We expect growth thanks to increase spending
 - ✦ Focus on Libya, Brazil, India

- ✦ Capitalising on our history we are building our future and we are already working on that
- ✦ Traditional reference market is driving Group offer also towards adjacent markets
- ✦ We are leveraging not only on cutting edge technologies and a strong product portfolio available today, but also on our system integration capabilities to grasp new opportunities along the next business frontiers
- ✦ Our focus today is on the next frontiers of:
 - ✦ Cyber Security
 - ✦ Unmanned systems
 - ✦ Nuclear (and renewables)



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Strategy and Action Plans

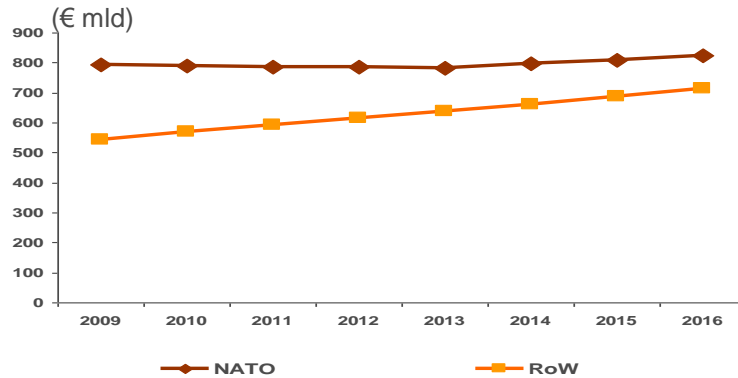
Operational Plans and Goals

Giorgio Zappa

Chief Operating Officer

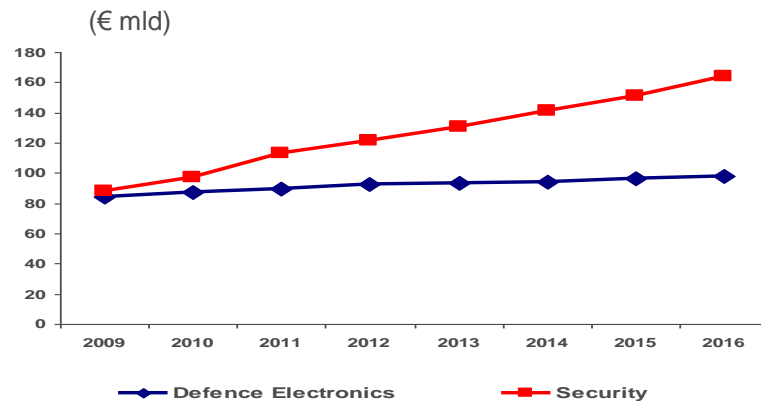
World Defence Budget Trends

**World Defence Budget Trend (NATO vs RoW)
2009 - 2016**



➔ Strengthening our presence in Emerging/ROW countries

**World Defence and Security Electronics Market Trend
2009 - 2016**



➔ Growing our Security business

Defence and Governmental Budgets

Three Domestic Markets



UNITED STATES: Finmeccanica well-positioned within these areas of DoD spending priorities: outlook remains positive



- ✓ Aeronautics: Additional B787; additional 8 C27J-JCA funded in FY2011; M346 (RFP expected shortly) ; JSF program
- ✓ Helicopters: Presidential Helicopter (ca. \$7-10bn); Common Vertical Lift - AW139 (c.a \$2bn); Armed Aerial Scout – AW119 (ca. \$2.5bn)
- ✓ D&SE : Through DRS :Support to US Army and Tactical systems for Army; Solutions, equipment & electro-optic systems for Army&Navy
- ✓ Transportation: Infrastructure investments; High speed trains & railway corridors (i.e. “Desert express” California-Nevada)

UNITED KINGDOM : Finmeccanica well positioned in Customer support (helicopters and Avionics) less affected by fund reduction



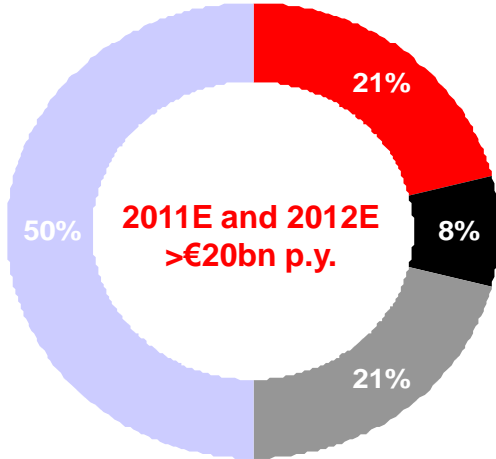
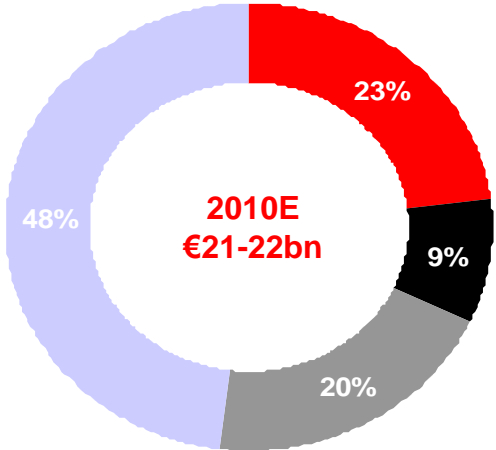
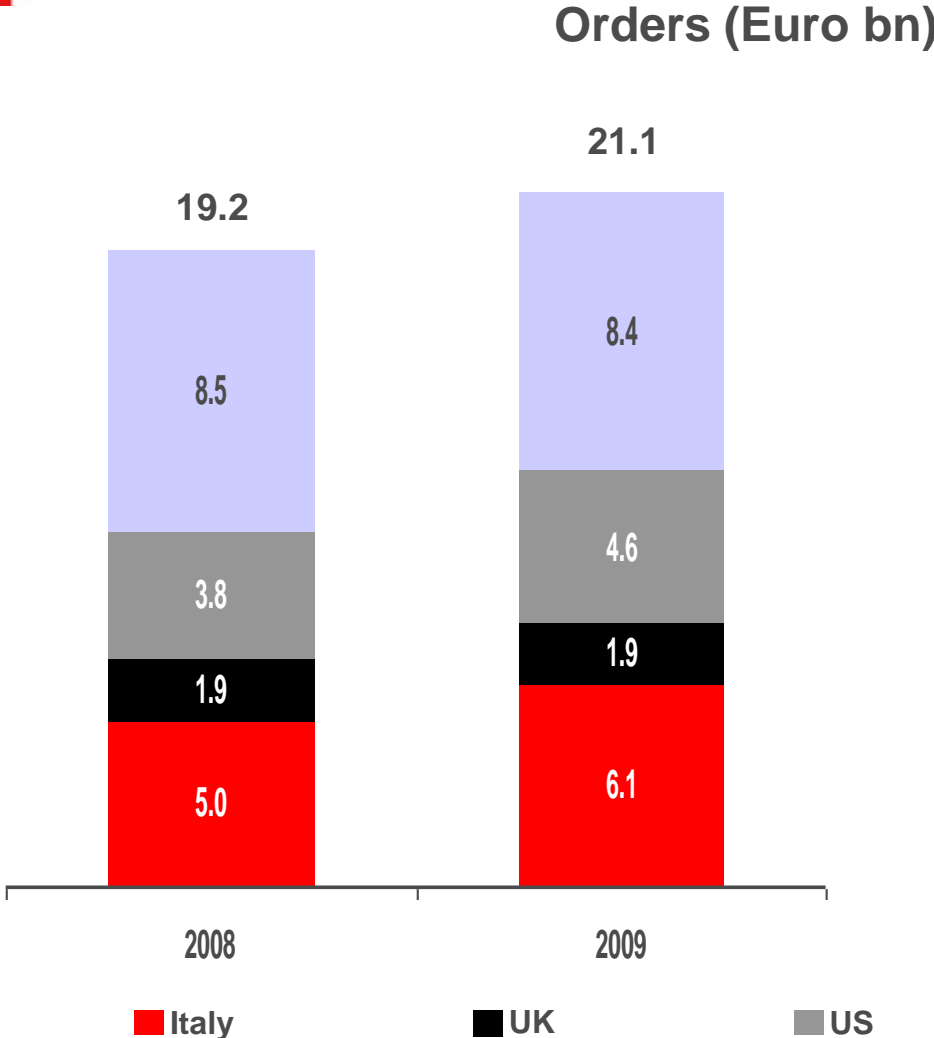
- ✓ Good visibility on UK MoD revenue streams over the next 12-18 months with booked revenues accounted for by IOS, AW159-Wildcat, Eurofighter, Promoting e-scan radar on EFA
- ✓ Continued urgent operational requirements activities in support of Afghanistan operations
- ✓ Increased UK export business into the US and other major markets (laser assemblies, radar)
- ✓ Opportunities in Space, Security&Intelligence, Transport&Energy

ITALY: Increasing opportunities for Finmeccanica moving from Defence to Security

- ✓ Security: growing funding opportunities, with particular reference to Civil Protection, Italian Ministries, Info-mobility
- ✓ Military: relying on multiple sources of funds (i.e. VBM Land Systems for Army); Forza NEC
- ✓ Robust Transportation Infrastructure multiyear investment plan



Redrawing Our Geographical Footprint Enables us to be Resilient

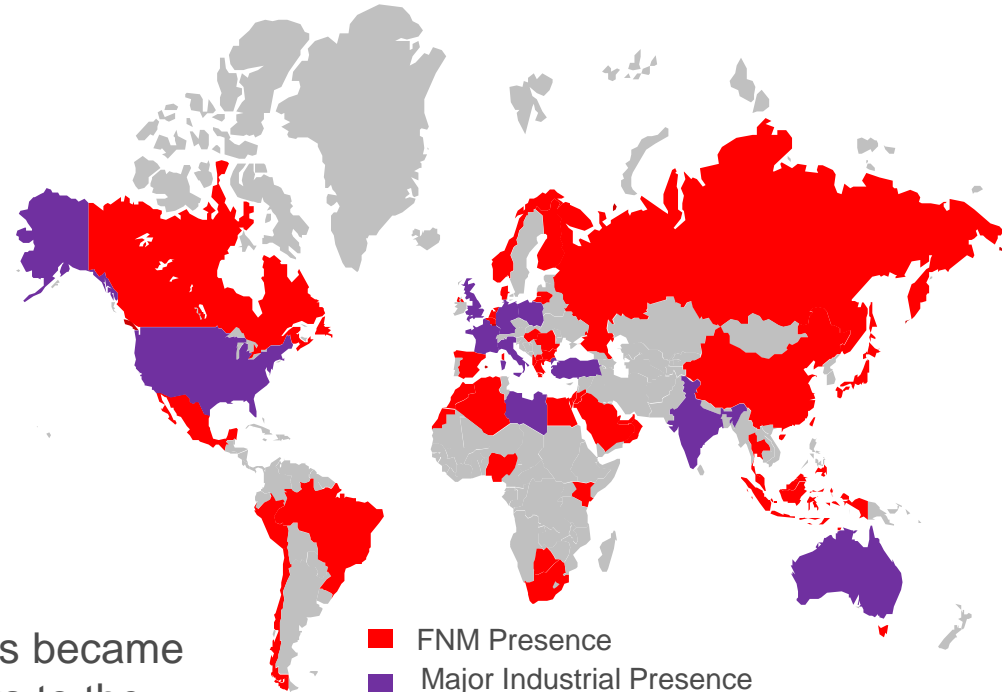


Maintain a book to bill solidly above 1

Ongoing Finmeccanica Strategy



- Finmeccanica orders 2010-12 will grow about 45% in “Rest of the World”
- Finmeccanica strategy of penetrating new markets and areas is based on deepening the knowledge of customer’s peculiar needs and on granting *Stakeholders’* satisfaction
- Finmeccanica’s presence in these markets became stronger and gradually more stable, thanks to the partnerships and JVs that have been established with local Companies.
- In those countries where our position was already well established, GtoG initiatives played a major role.



- In many cases a commercial achievement can become at the same time the first step to create an industrial success (and maybe to add more countries to the list of Finmeccanica's "domestic markets"). We will see the cases of Libya, Brazil and India but other markets are already becoming part of our strategy, such as Turkey, Russia, Sub-Saharan Africa and Middle East.
- Finmeccanica established several successful cooperation agreements and partnerships all around the world. Just to cite some examples:
 - Turkey

ATAK Program (Tactical Reconnaissance and Attack Helicopter) between Agusta Westland and two important Turkish Aerospace Groups : TAI (Turkish Aviation Industry) and Aselsan for the production of T129 helicopters.
 - Russia

Agusta Westland and Russian Helicopters (company owned by Oboronprom, that belongs to Russian Technologies State Corporation) jointly established a new site to produce and assemble the civil version of AW139 helicopter, and, at the same time, create a commercial JV, Helivert, for the market of Russia, CIS countries and the rest of the world

Some Opportunities in Target Growth Markets



- We think that our major strength is the ability of combining various high tech products portfolio with a proactive approach to our customer, to their needs and possibilities.
- Always looking at the evolution of the demand, and at the constant pressure on the Defence Budgets of several countries, we believe there always will be opportunities from new “key markets” like Poland, Japan, South Korea, Colombia, Mexico, China for commercial activities and many others.
 - ✓ In Brazil we have Commercial Offers for a value of approximately 1 €/BN excluding Fremm Programme
 - ✓ In Libya we have Commercial Offers for a value of approximately 1.6 €/BN.
 - ✓ In India we have Commercial Offers for a value of approximately 8.6 €/BN. Which is the future scenario if the Consortium will win the bid for 126 Eurofighter aircraft to be produced with the involvement of local industries

A Stronger Effort on Efficiency Improvement

- The world has changed, markets are becoming more competitive and challenging.
- We already announced during the first half of this year a number of efficiency measures, especially for the most critical parts of our businesses, focussed on actions such as: site rationalisation, overhead reduction, SG&A improvement and real estate consolidation.
- Within the new 5 year budget plan, that is currently being developed, we asked all the operating companies, not only the ones with less-than-optimal performance, to produce an effort in terms of cost reduction, cash flow improvement and rightsizing of activities portfolio.
- Today we show the results of such activities, implemented by all companies of the Group.

	€ mln	2010	2011	2012	2013
Transport					
costs		7	8	0	2
gross benefits		12	27	40	44
Aeronautics					
costs		85	34	25	20
gross benefits		0	54	115	135
Defence Electronics					
costs		21	10	2	1
gross benefits		15	81	103	122
Space (TPZ 67%)					
costs		0	10	1	13
gross benefits		0	7	16	24
Helicopters					
costs		18	0	0	0
gross benefits		3	10	11	11
Defence Systems					
costs		3	6	7	9
gross benefits		12	20	28	31
Energy					
costs		1	3	2	1
gross benefits		0	18	35	43
Total costs		134	72	36	47
Total Gross Benefits		42	217	348	410

- ❖ **Rolling Stock:** restructuring/reengineering process in progress, both internally and externally (with regards to specific critical customers)
 - ❖ Today production still affected by legacy contracts; from 2H2012 we expect a better mix with most of the production coming from new contracts

- ❖ **Aeronautics:** change in production mix in the business is driving to a deep review of the industrial plan: Industrial rationalisation (i.e. reduction of facilities); Engineering rationalisation; Operating cost reduction and more lay-offs vs temporary lay-offs, as previously planned

- ❖ **D&SE, in particular:** Eltag Datamat heavy plan, mainly based on portfolio rationalisation and early retirement plan launched by the new CEO recently appointed

- ❖ **Space:** towards a new Telespazio, through dismissal of non profitable activities in Network and Connectivity, optimised management of satellite capability

We are Committed to Achieving the Following Cost Reduction at Group Level



Full deployment throughout the operating companies has been declined in the following areas of action:

Total Gross EBIT benefits	€mln	2010	2011	2012	2013
Optimisation of Production Processes		23	66	116	142
Restructuring and Site Rationalisation		15	113	175	186
Rationalisation of Supply Chain		5	30	40	59
SG&A Efficiency Improvement Plan		0	9	18	23
Total Annual Gross EBITA benefits		43	217	348	410
Total Annual Costs		-134	-72	-36	-47
Tot benefits		-92	146	312	363

Worldwide headcount reduction approx 3,000 cumulated over 2010-2013

**cost reduction benefits will be partially shared with our customers
in order to strengthen our overall competitiveness**



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Strategy and Action Plans

Financial Plans and Goals

Alessandro Pansa

Co-General Manager / CFO

Against a background of increased competitiveness and softer spending, mostly in our home markets, the wide range of initiatives aimed at improving efficiency will serve the purpose of:

1. Countering performance deterioration in some critical businesses (Rolling Stock and Aeronautics)
2. Strengthening the most profitable businesses in our portfolio (Helicopters and Defence & Security Electronics)

Part of cost reductions achieved will be shared with our customers in order to reinforce our overall competitiveness

Industrial improvement plans now being put in place by our operating companies to build a more solid platform for future growth

→ we expect to achieve a sustainable 9% EBITA margin by 2013

In addition we are defining a clear set of initiatives aimed at improving Cash Flow generation by way of:

- Substantial reduction in gross investments
- Improved working capital management (i.e.: Aeronautics, Helicopters)

Disciplined Investments, Selective Reductions

Flexibility in Spending

- State-of-the-art product portfolio resulting from prior investments
- Identified Priority Programmes key to achieving strategic objectives and in line with return requirements
 - Aeronautics: M346, JSF, C27J, UAV, B787
 - Helicopters: AW149, AW 169, BA-609
 - Defence & Security Electronics: E-scan, Forza NEC, UAV
- R&D core products focus

Investments

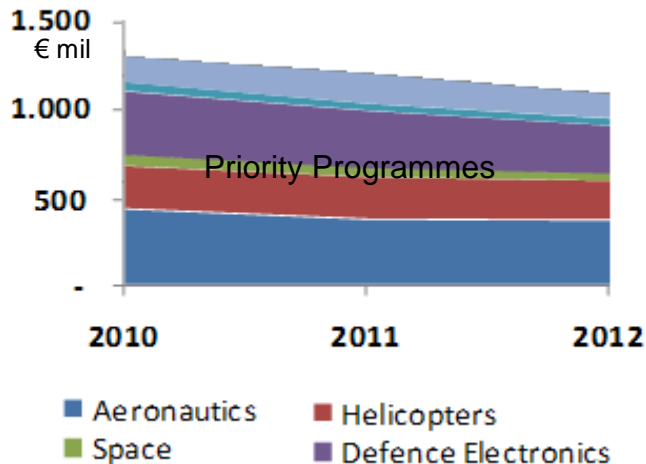
Old plan 2010-12 cumulated gross investments



2010-12 Target of cumulated gross investments: €3.6bn



16% targeted reduction vs. old plan



- In the past, Finmeccanica has managed to limit Working Capital changes, containing the effects of the economic crisis
- Over the next few years, assuming a book-to-bill >1, Working Capital is expected to remain ~ stable
- Working Capital efficiency measures include:
 1. Reduction of inventory through
 - Comprehensive mapping of products and components
 - Standardisation of building blocks and processes
 - Lean manufacturing (AW139)
 - Optimisation of global supply chain and implementation of “strategic purchasing”
 - Reduction in number of suppliers (Aeronautics)
 - Selective offer process (Elsag Datamat)
 2. Optimise cash collection through timely invoicing
 3. Support client advances through growing order intake
 4. Improve contract payment terms and conditions (Selex Galileo)

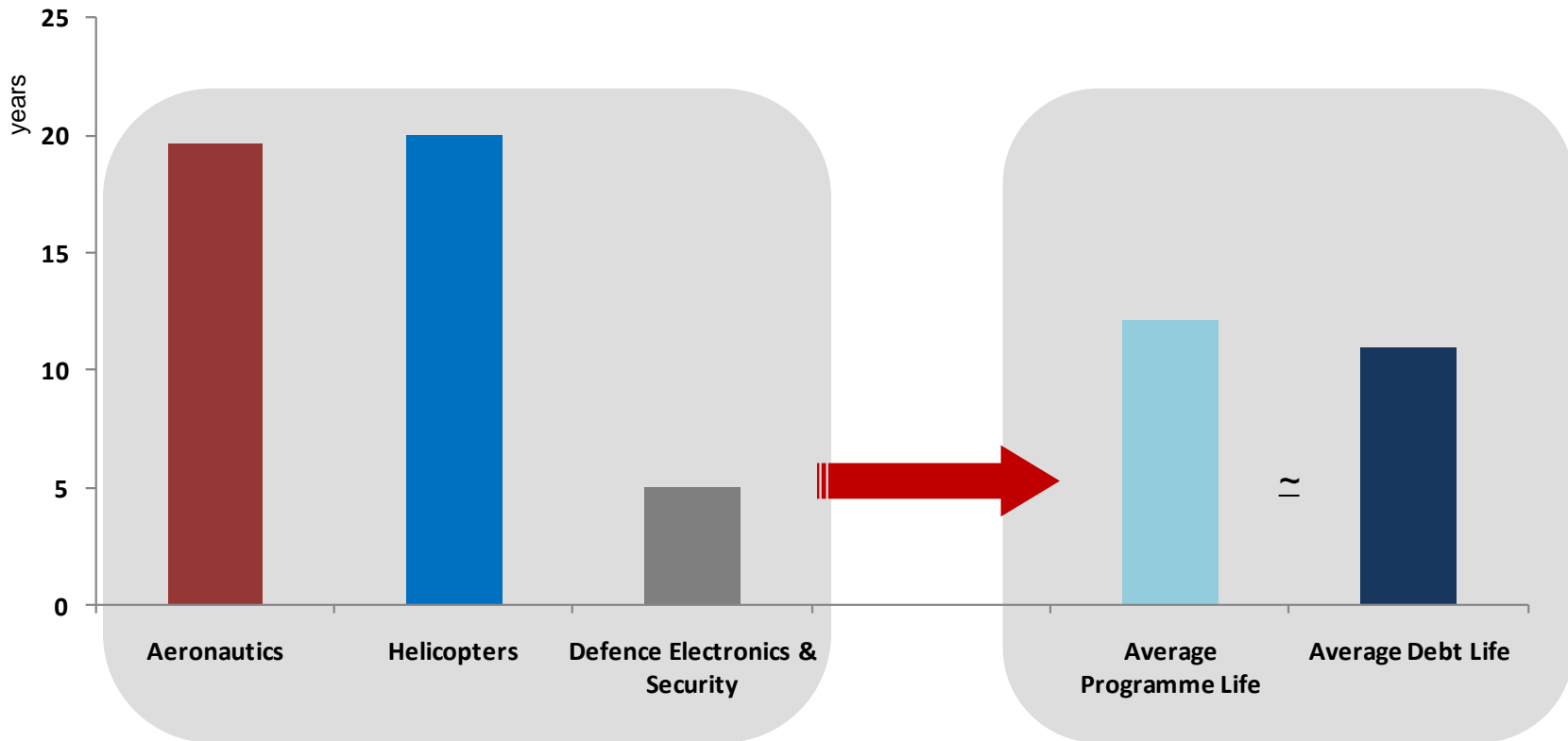
Some examples:

- Helicopters: FOCF benefit achieved already in 2010 additional target benefit set for 2011

Convergence of Programme Life and Debt Life

Average Programme Life by Sector⁽¹⁾

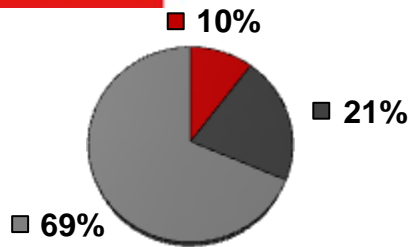
Programme Life \approx Debt Life



➡ Matched maturity of assets and liabilities ensures financial stability

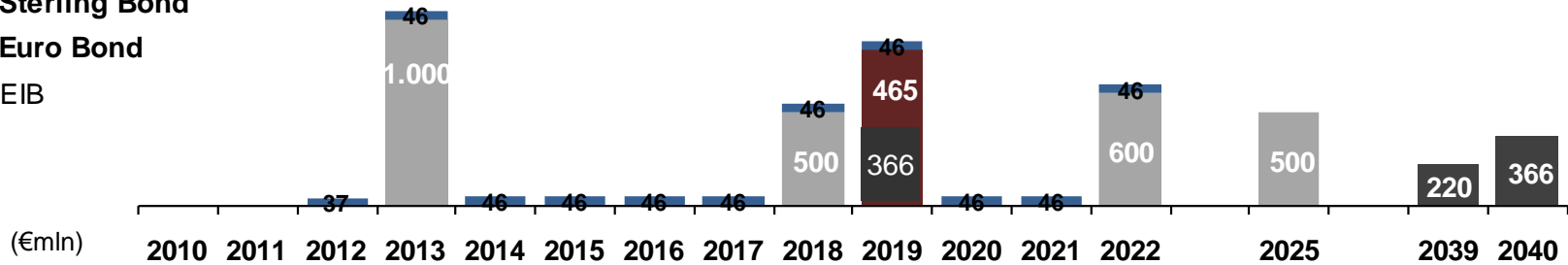
⁽¹⁾ Includes major programmes.

Sustainable and Manageable Capital Structure



Average Life: ~ 11 years
Average cost of Debt: ~ 5.0 - 5.5%

- Dollar Bond
- Sterling Bond
- Euro Bond
- EIB



- ✦ No refinancing needs for the next three years
- ✦ 12-year amortizing EIB Loan drawn in August
- ✦ New €2.4bn 5-year Revolving Credit Facility signed in September 2010 provides for liquidity to meet business needs