



**FINMECCANICA**

**Action Plan to Improve Profitability and Cash Flow**

**Alessandro Pansa**  
**Co-General Manager and CFO**

## ✦ Defence & Security Electronics

- ✦ Successful reorganisation producing a streamlined, integrated and cost efficient division

## ✦ Space

- ✦ Space Services: asset restructuring, portfolio management initiatives, mission-specific operational centres and organisational simplification. Margin improvement and focus on programme execution at Manufacturing.

## ✦ Aeronautics

- ✦ Wide range of industrial and organisational initiatives being undertaken to drive operational performance improvement

## ✦ Helicopters

- ✦ Mature performance, further improvement with actions on newly acquired PZL

## ✦ Rolling stock

- ✦ Manufacturing restructuring well advanced with consolidated product range



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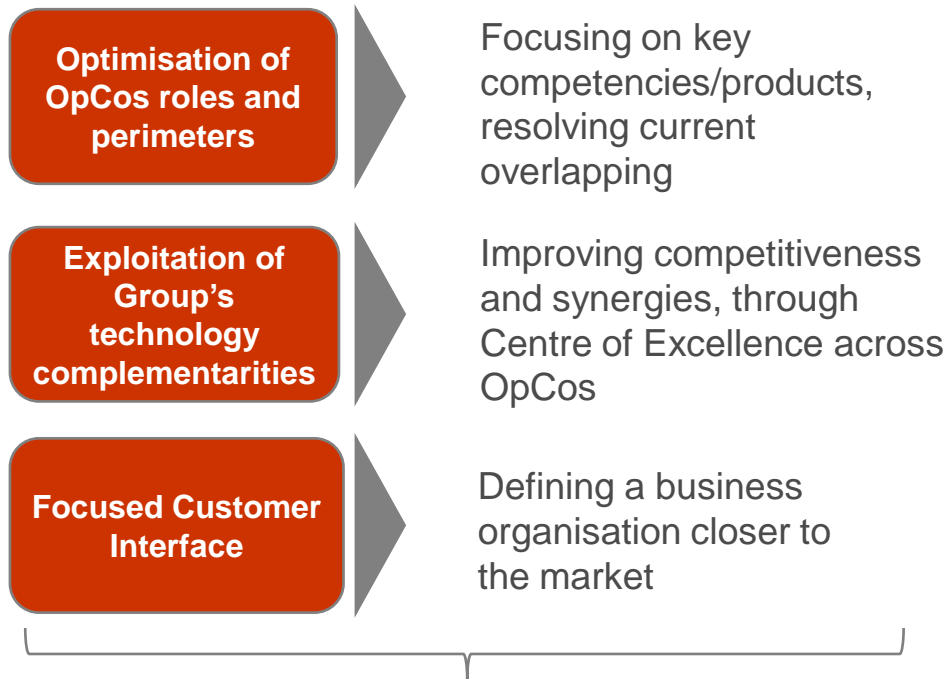
**Action Plan to Improve Profitability and Cash Flow**

**Defence & Security Electronics**

**Marina Grossi**

**CEO Selex Sistemi Integrati**

## Ongoing re-organisation process of selected business lines in the DE&S



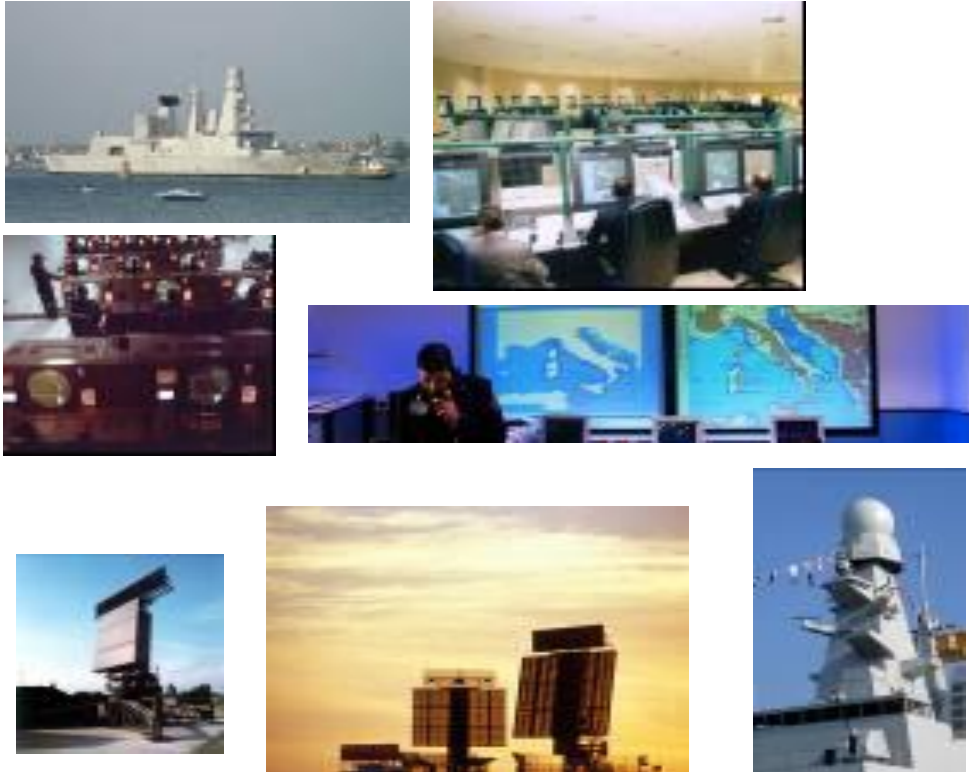
## **Value Creation / Customer Satisfaction**

1st stage involving organisational rationalisation of Defence and Security Systems, Battlespace Systems and Law Enforcement and Automation effective from 1st July 2010

## Implementation at Selex SI

- Transfer of command & control, mission support, weather and land/ship borne radar from various OpCos.
- New organisation put in place, transfer of 744 employees and product capabilities and expertise for about 15 new products and several new markets
- Enables SELEX Sistemi Integrati and the Group to:
  - take full advantage of technological complementarity
  - define clear responsibilities to end customers
  - rationalise sites
  - focus on products/competence portfolio
  - improve system integration synergy and competitiveness

# A New Shape for Finmeccanica Defence & Security Electronics



Defence & Security Electronics efficiency and effectiveness increased:  
in product portfolio (optimisation & competitiveness),  
access to market (closer to Customers),  
R&T investments (synergies),  
coherently  
with the Net-centric and Cyber challenging evolution

- Market share increase
- Investment savings
- Benefits transferable to the whole Group

# Security and Cyber Market: Achievements and Opportunities

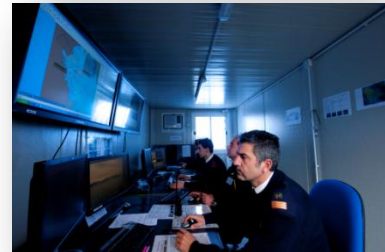
Worldwide Defence & Security Electronics  
Security and Cyber Market 2009 – 2016

2009  
> €75bn



2016  
> €160bn

- **SOC** (Security Operation Centre)
- **Emergency and Large Events management** (G8, Civil Protection)
- **DII** (Defence Information Infrastructure)
- **COI** (Joint Forces Command)
- **Forza NEC System**
- **Multi Level Security solutions for** C4I and Intelligence
- **SICOTE** (Territory Control System)
- **Border Control Systems**
- **Vessel Traffic Management System**
- **CPI (Critical Infrastructure protection) systems**



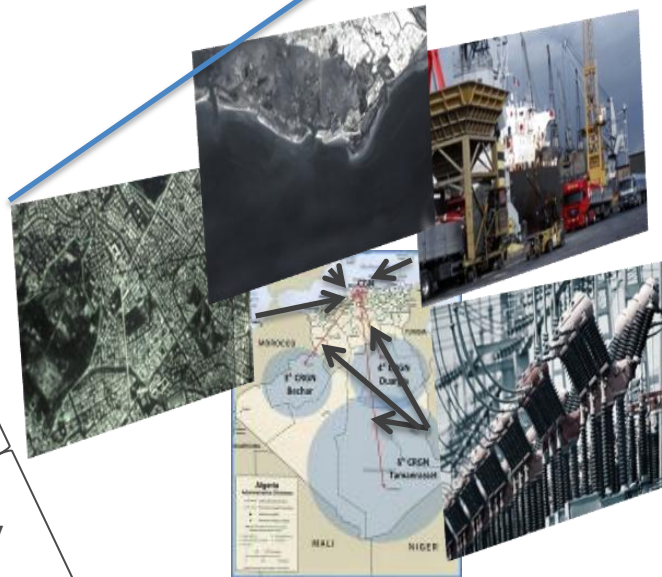
# Selex Sistemi Integrati: Integrated Protection Offering



An integrated Cyber + Homeland Security offering:

- Openness to integrate legacy assets and provide new applications and services
- Flexibility to reconfigure according to operational need
- Growth Potential to respond to future requirements or add new capabilities

## Integrated Monitoring Centres



Border, Land &  
Maritime Security

# A Comprehensive Market & Product Portfolio...



**... and an integrated strategic vision for security & protection**



## Radar Systems Line of Business: Cost Reduction

- Optimisation of production processes
- Reduction of procurement cost

## Large System Software Programme

- Software design optimisation
- Adoption of best practices and innovative approaches
- Actions on Large Systems Software Architecture

<b>Selex Sistemi Integrati €mln</b>	2010	2011	2012	2013
Gross benefits	0	16	28	39

# An Example: Radar Systems Line of Business Cost Reduction



## Deployable Air Defence Radar

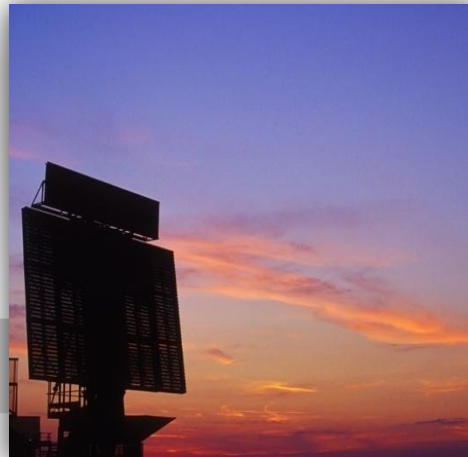
**Target: -28%**  
Cost reduction target reached  
within 2011



**Contracted to NATO Countries**

## Fixed Air Defence Radar

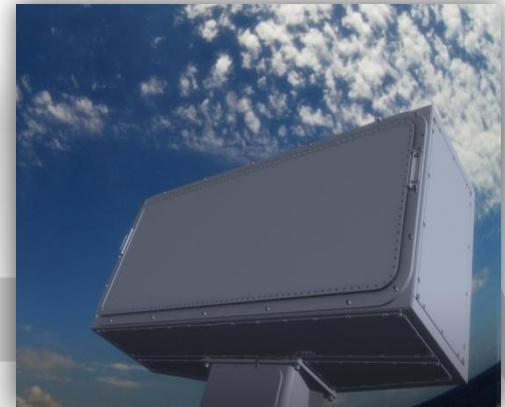
**Target: -29%**  
Cost reduction target reached  
within 2011



**Contracted to Nato, Europe, Far  
East Countries**

## KRONOS Multifunction Radar

**Target: -40%**  
Cost reduction of -28% already  
achieved, target reached in 2011



**Contracted to NATO, Middle East  
Countries**

# Defence & Security Electronics: Current Actions Under Implementation



- **Selex Galileo**

- Single trans-national mgmt team, headcount reduction
- Working capital management
  - Improved planning, cash management processes and contract terms and conditions

<b>Selex Galileo</b>		2010	2011	2012	2013
<b>€mln</b>					
	costs	0	8	0	0
	Gross benefits	0	3	5	7

- **Selex Communications**

- Headcount reduction
  - G&A staff optimisation, reduction in engineering headcount, sales force re-focusing
- Cost saving initiatives and rationalisation of investments
  - Rationalisation of production sites, legal entities and suppliers, outsourcing of non-core activities
  -

<b>Selex Communications</b>		2010	2011	2012	2013
<b>€mln</b>					
	costs	0	1	0	1
	Gross benefits	6	12	14	17

- **Elsag Datamat**

- Cost saving initiatives
  - Laboratories, technologies and product/service portfolio rationalisation
- Improved working capital management
  - Selective offer process
- Early retirement plan

<b>Elsag Datamat</b>		2010	2011	2012	2013
<b>€mln</b>					
	costs	11	1	1	1
	Gross benefits	1	13	17	19

# Decisive Actions Will Lead to Expected Advantages

The combination of re-organisation efforts and targeted optimisation and rationalisation initiatives at DE&S businesses (excluding DRS) yields:



Despite market pressures and increased competitiveness, we are set to maintain our solid positioning and leverage our diversified product portfolio to support Growth



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**Action Plan to Improve Profitability and Cash Flow**

**Defence & Security Electronics**

**Mark Newman**

**DRS CEO**



**More than €36 million in recurring cost has been taken out of the business through focused and proactive initiatives**

# Strategic Initiatives are Aligned with DoD Priorities



		DRS Strategic Initiative Area			
		Border & Force Protection	EO Payloads	Airborne ISR	On-board Vehicle Power
U.S. DoD Priority	Counter-insurgency (COIN) and counter-terrorism (CT)	✓		✓	
	Force Modernization		✓	✓	✓
	Diplomacy and security cooperation - "Smart Power"	✓			
	Increased energy efficiency				✓
	Homeland Defence	✓	✓		

## Market Drivers

- Homeland defence and security for protecting sovereign borders and critical infrastructure
- Global addressable market is greater than \$2.5 billion over the next five years

## Products / Capabilities

- Integrated C2 and situational awareness system
- Diverse family of organic and merchant market sensors: radar, EO, unattended ground (UGS)
- Complete systems integration

## Competitive Advantage

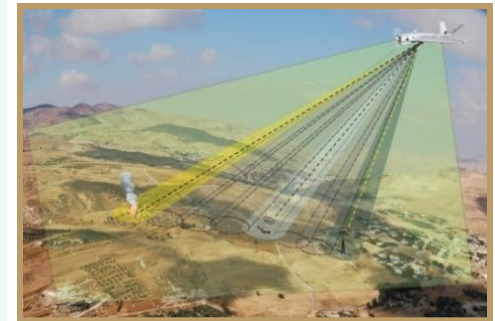
- Domestic and international experience
- Proven system performance in the most challenging environments
- Scalable capabilities from stand-alone surveillance to national systems
- Customer-focused team





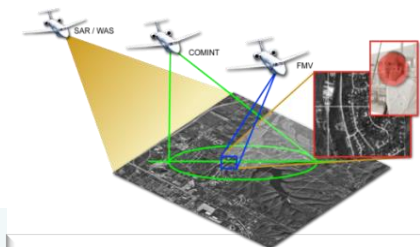
## Market Drivers

- Counter-insurgency and counter-terrorism driving demand for ISR systems across the world
- Emphasis on special operations support, special mission aircraft, and unmanned aerial systems
- Quick-reaction applications vs. large-scale development efforts
- Estimated \$10 billion addressable market over the next five years



## Products / Capabilities

- Multiple sensor intelligence analysis
- Wireless intercept, direction-finding and geolocation
- Integrated SIGINT systems
- ISR services



Airborne Find, Fix, Finish

## Competitive Advantage

- RF design and miniaturization
- Signal geolocation
- Advanced sensor processing

# Electro-Optical (EO) Payloads

## Market Drivers

- Longer-range infrared (IR) sensing and laser designation in small, affordable gimbals
- Special emphasis on UAS
- Total addressable market is greater than \$2 billion over the next five years.

## Product / Capability

- 3" to 10" diameter stabilized gimbals with customizable payloads

## Competitive Advantage

- Leader in high-resolution cooled and uncooled IR sensors
- Highly miniaturized sensors and systems with unmatched size, weight, power, and performance



# On-board Vehicle Power (OBVP)

## Market Drivers

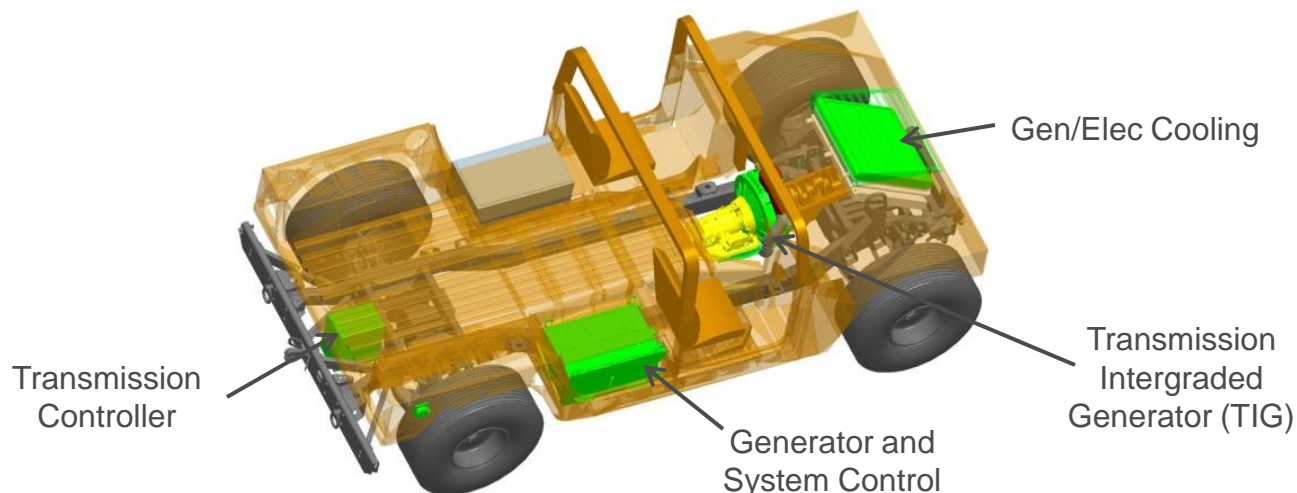
- Electric power generation integrated into tactical and combat vehicles
- Addressable market is approximately \$300 million over the next five years

## Product / Capability

- Transmission in-line generator and power electronics providing 10-125+ kW of usable DC & AC power

## Competitive Advantage

- Can be retrofit into existing vehicles
- Joint venture with Allison Transmission, the premier supplier of transmissions to the U.S. DoD, to market and produce the DRS OBVP solution



- Aligned business with customer priorities and expected levels of demand
- Executing on current contracts
- Expanding footprint on programs
- Investing prudently in M&A and R&D to expand core competencies and win new programs

**Performance Equals Opportunity**



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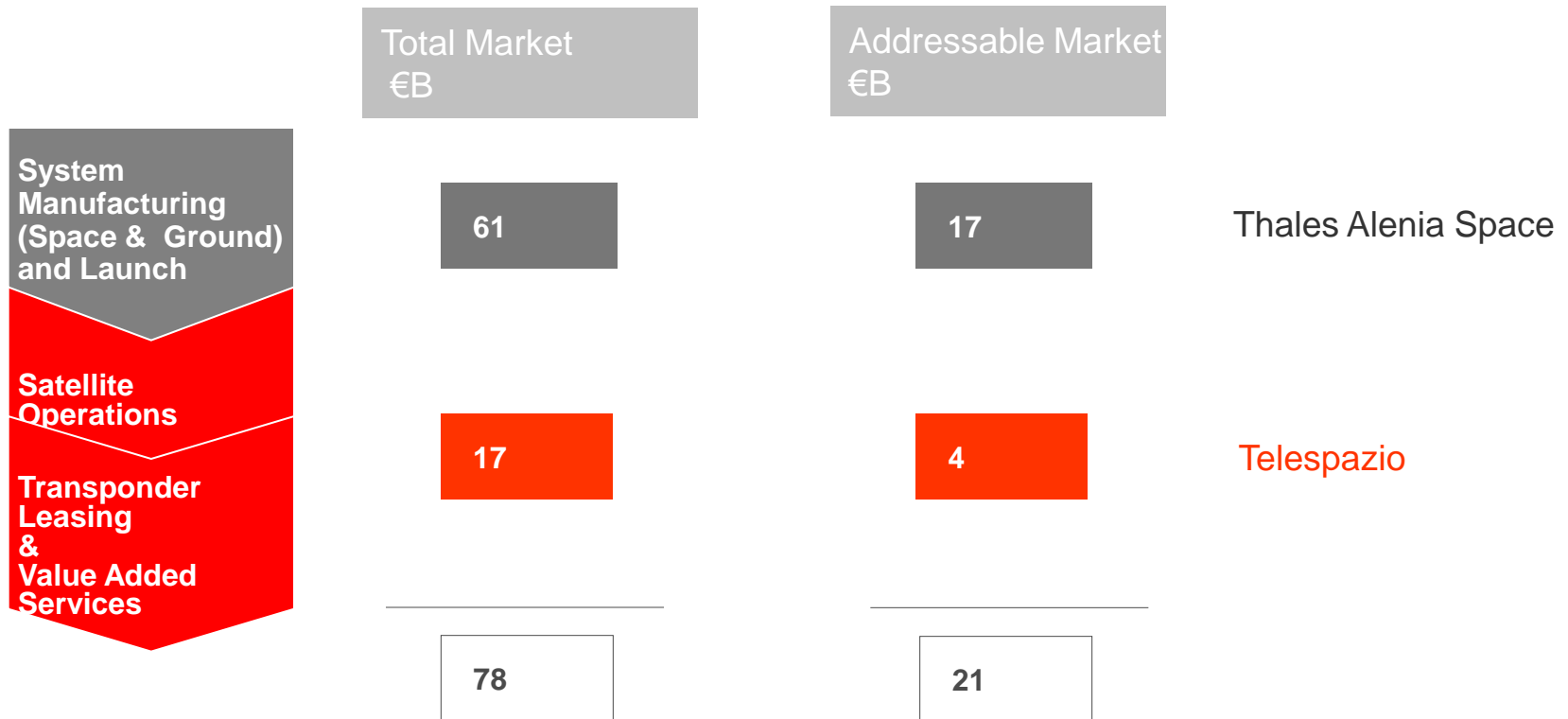
Action Plan to Improve Profitability and Cash Flow

**Space: Towards a...New Telespazio**

**Carlo Gualdaroni**  
CEO Telespazio

# Space Market ..... Growing and Changing

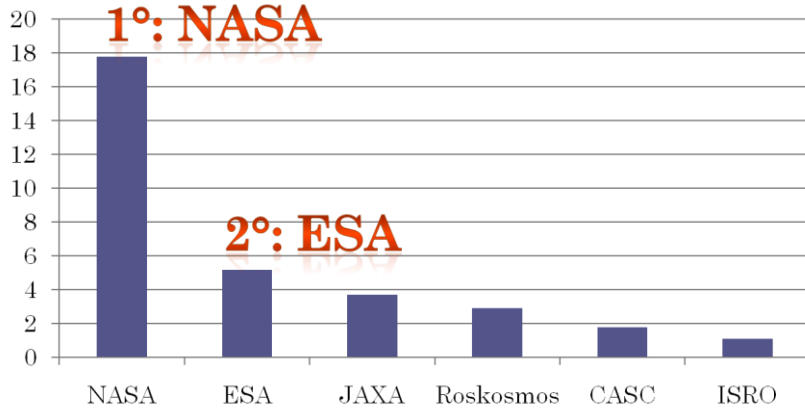
(data 2009, B€)



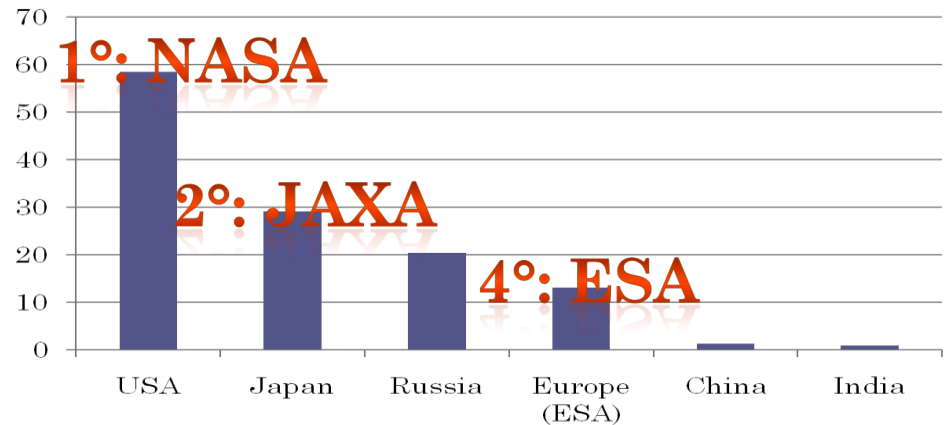
Satellite Services grant 7,1% CAGR over 2009-2019 timeframe

# Space Market Geography and Rankings Are Changing

2009 Civil space budget (B\$)

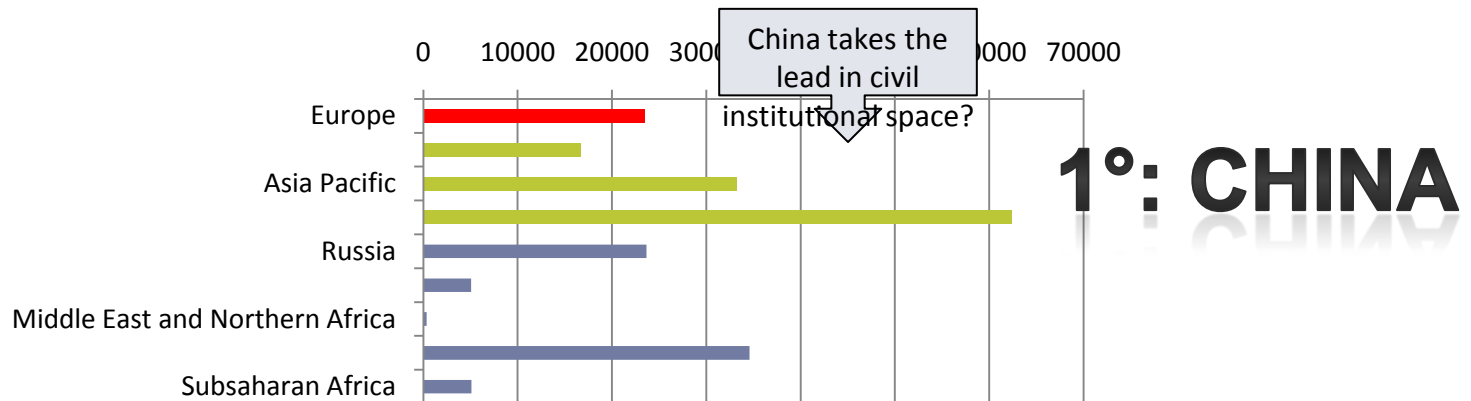


\$ spent per capita



Data Source: The Space Report 2010 - The Space Foundation  
Population figures: World Bank - Table: Eurospace

Spacecraft (mass, kg) launched by civil public customers worldwide 2004-2008 (human activity excluded)



# The New Telespazio: A Transnational Space Service Company



Transforming a “federation” of almost independent companies, strong in domestic markets and focused on legacy business, into .....

	Italy	France	Germany	Spain	UK	Romania	Brazil	Argentina	Global
Geo-localization	✓	+	✓	✓	+	+	+	+	+
Network and Connectivity	✓	✓	+	+	+	✓	✓	✓	+
Satellite Operations	✓	+	✓						+
Satellite Systems	✓	✓	✓	✓	✓				+

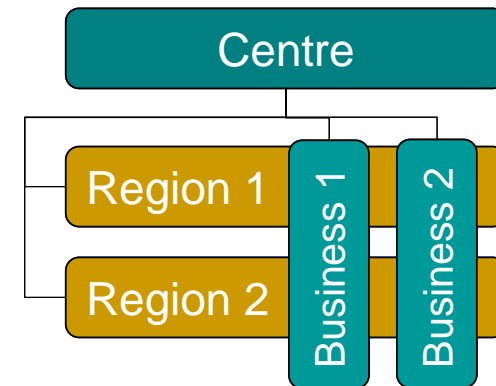
1 EXTEND OFFER IN CURRENT CORE MARKETS

2 PENETRATE NEW MARKETS

3 SMOOTH THE INTEGRATION OF INCOMING ASSETS

## TRANSNATIONAL ORGANISATION

Focus on geographic markets as well as on business lines, with a matrix approach



..... a Transnational Group that shall steer global business by enforcing a lean strategic center and establishing a strong transnational, simplified and divisional organization capable of sustaining value creation



# New Telespazio 2011-2013 Growth Drivers

## EFFICIENCY

Rationalisation and restructuring of current assets, infrastructures and resources:

- Restructuring current operations of Network and Connectivity BL
  - dismissal of not profitable activities and assets
  - optimized management of satellite capacity
    - renegotiation of current capacity procurement contracts
    - optimisation of fill factor of available capacity
- Focusing each Operation Center on a specific mission (Fucino – Space Missions, TLC; Lario – TV; Matera – EO; Scanzano – Geo-Localisation and services for the Mediterranean region)
- New products volume increase

- Reducing controllable costs and rationalising headcount
- Simplifying Telespazio group's legal organisational structure, by reducing number of legal entities

### BENEFITS (€M)

2011	2012	2013
8.0	20.0	33.0

2011	2012	2013
3.0	4.0	3.0

**With a positive impact on cash flow**

### TOTAL BENEFITS (€M)

2011	2012	2013
11.0	24.0	36.0



## Product Development

Rationalisation and renovation of current Product Portfolio by

- Defining a detailed R&D plan to support Key Products evolution
- Updating and enhancing service platforms and tools for Geo-Localisation, Network & Connectivity, Satellite Operations
- Selecting investment in new products, with priority on higher margin activities, including services based on proprietary capacity

**...supporting the growth with a long term positive impact on cash flow**

- **Telecoms**
- **Observation, Exploration, Navigation**
- **Satellite Equipment**
- **Major orders & programs won in 2010 that structure & comfort the business baseline over the next three years**
  - **Telecoms: Iridium Next (1.7 B€), O3B (0.3 B€)**
  - **Observation : Meteosat 3 (1.3 B€), CSO & Cosmo 2nd Generation (1 B€), Gokturk**

## **A margin improvement with new orders in backlog**

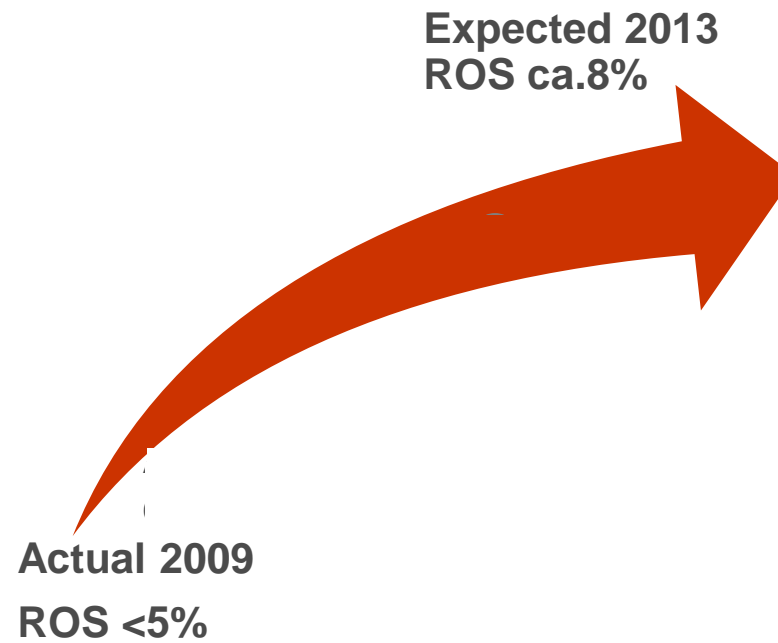
- More selective & improved contract mix
- Higher volumes

**A strong focus on the execution of major programmes over the next three years (*Iridium Next, Meteosat, Sicral 2/ Athena Fidus, Goktürk, CSO, Cosmo Skymed...*)**

## **A plan to pursue internal transformations & optimise the cost-base through :**

- Stronger industrial convergence with improved industrial efficiency and quality
- Stronger leveraging of supply chain purchasing practices & partnerships
- Enhance product competitiveness through focused R&D and innovations in view of the US/ Euro foreign exchange rate volatility

The combined actions on services and manufacturing will.....





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**Aeronautics: Key Restructuring  
Activities**

**Giuseppe Giordo**  
CEO Alenia Aeronautica

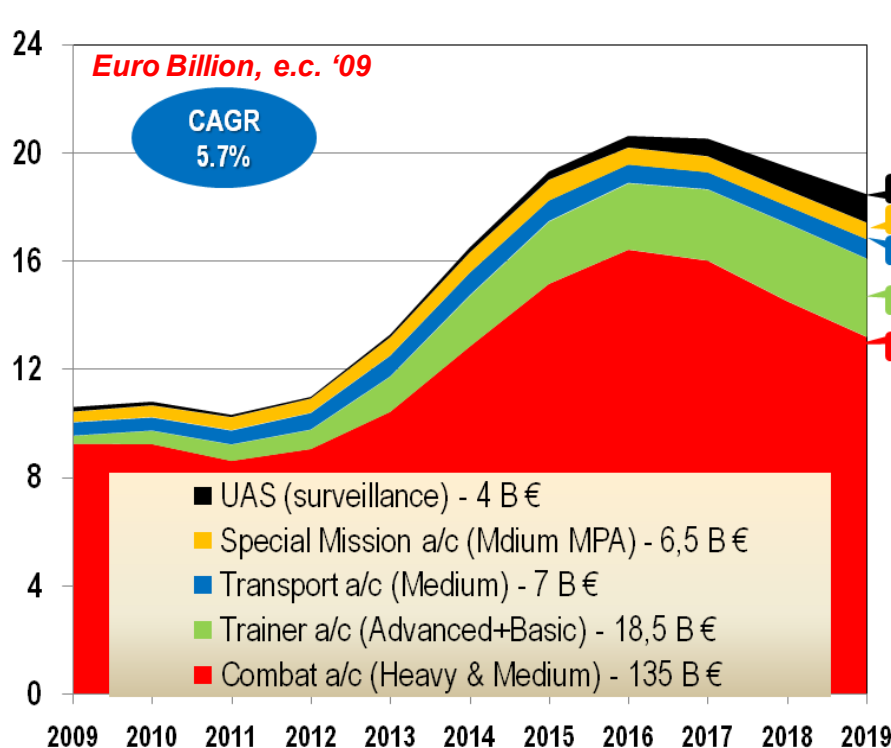
# A 360° Set of Efficiency Measures launched in 2010 to bring benefits over 2011 and 2012



- **Newly appointed management** of the Aeronautics Sector: thoroughly committed to “performing on quality, on time, on cost”.
- **Product strategy vs market trend:**
  - capitalize on existing proprietary products and investments;
  - focusing on company’s high technology edge in the aero structure market; and,
  - exploiting existing know-how to reduce future investment needs
- **Major restructuring Actions :**
  - **New Organizational model** implemented at the **Aeronautics Sector** level with Alenia and AerMACchi **full integration**
  - **Industrial and Engineering** rationalization
  - Aggressive **cost reduction** policy across the Sector:
    - **Redundancy** plan for approximately 1.000 headcount over two years
    - Reduction of **unabsorbed labour** and **overhead** costs

# Market Trends: Target Military Market

## DELIVERIES (Values)



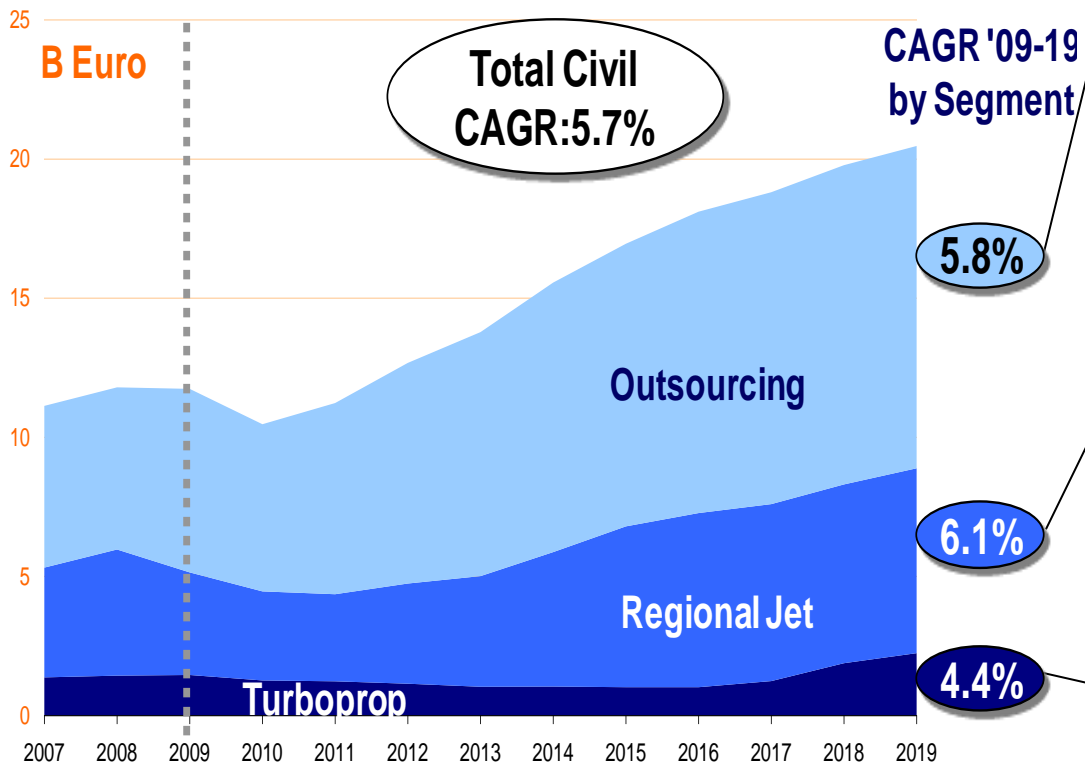
## OUTLOOK





# Market Trends: Target Civil Market

## DELIVERIES (Values)



## OUTLOOK

### OUTSOURCING



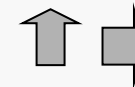
The aero structures market for outsourcing is driven by tendency on the part of primes to assign more and more complex packages of work to subcontractors. The growth of the market is still influenced by Boeing's recent more cautious policy of subcontracting on the 787 program

### REGIONAL JET



The growth of the Regional Jet segment is attributable to the shift in demand towards higher capacity aircraft

### TURBOPROP

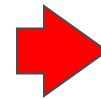


The possible offer of a new advanced turboprop aircraft will be the main driver for growth in demand

# A 360° Set of Efficiency Measures Launched in 2010 to Bring Benefits Over 2011 and 2012

## New Organizational Model: Acting as a Sector

- Simplified organization
- Focus on responsibility & accountability
- Improve efficiency
- Centralized staff functions
- Alenia and AerMACchi Integration
- Retain AerMACchi brand
- Capitalize on processes integration
- Minimize overhead and central costs
- Enhance engineering and production
- Centre of excellence



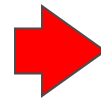
- **New organization** implemented
- **Reduced by 50%** number of **SVPs**
- Implemented a **coherent incentive system** aligned with functional responsibilities and authority
- **Full integration of organizational structure** and responsibilities completed by end of 2010
- **1° wave of SAP** integration go live January 2011 (common chart of accounts and customer/supplier data base)

# A 360° Set of Efficiency Measures Launched in 2010 to Bring Benefits Over 2011 and 2012



## Industrial rationalization

- Facilities rationalization
- Focus on industrial efficiency & performance
- Reduction of unabsorbed operating costs
  
- Restructuring of Supply Chain
- Optimization of Working Capital
- Cost saving



- **Closure of 1 site** (Brindisi) in 2010. New industrial plan under evaluation
- New **“Product Units”** assigned specific supply chain management, product and industrial engineering
- Implementation of a common analytical **industrial accounting system** sector wide
- **2011 bonus system** for Product Units based on synergy and facility efficiency targets
  
- 30% reduction of **first tier suppliers** and rationalization of WPs
- Establishment of **raw material service provider**
- Activation of **U.S. procurement center** in Alenia North America

**TOTAL BENEFIT OF €40-50 MILLION BY 2012**

# A 360° Set of Efficiency Measures Launched in 2010 to Bring Benefits Over 2011 and 2012

## Engineering rationalization

- ALENET
- CTO performance improvement
- Competitive make or buy
- Logistic support
- Prioritization of development projects



- **Share key competencies** across Alenia, AEM and SIA, maximizing the utilization of Alenet
- Critical analysis of internal processes and external **benchmarking of CORE technology**
- Focus on **low cost countries for NON CORE** engineering activities
- Establishment of a **web based technical database** for logistic support
- Review of product business plans for **potential partner involvement**

**TOTAL BENEFIT OF €5-10 MILLION BY 2012**

# A 360° Set of Efficiency Measures Launched in 2010 to Bring Benefits Over 2011 and 2012



## HR Plan and operating costs

- Reduce Executives by 20% in two years (40 people)
- Reduce senior advisers by 70% by the end of 2011 (100 people)
- Redundancy plan for **over 850 headcount** by the end of 2012
- Aggressive reduction of overhead & operating costs by 10% by 2011



- **HR plan** agreed with national unions.
- **Stop new recruitment/turnover** in staff positions through 2012.
- **2 week mandatory closure** in December for Indirect & staff not strictly connected to production
- Reduce Rome Headquarters personnel and fixed costs within 2010.
- Cost reduction **negotiations with major suppliers**: maintenance, site services, infrastructures.
- New **policy for travel and authorization** of external costs

**TOTAL BENEFIT OF € 85 MILLION BY 2012**

# Key restructuring initiatives : Costs and Benefits



( Amounts in M€ )	2010	2011	2012	2013-on		
<b><u>Industrial rationalization</u></b>						
<i>Costs</i>	-	30	20	20		
<i>Benefits</i>	-	8	20	40	-	50
<b><u>Engineering rationalization</u></b>						
<i>Costs</i>		2	3			
<i>Benefits</i>		6	10	5	-	10
<b><u>HR Plan and operating costs</u></b>						
<i>Costs (*)</i>	85	2	2			
<i>Benefits</i>		40	85	85		
<b><u>TOTAL NET BENEFITS</u></b>						
<i>EBIT Impact</i>	<u>-85</u>	<u>20</u>	<u>90</u>	<u>110</u>	-	<u>125</u>

(\*) HR Plan cost will be accrued in 2010



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**Helicopters**

**Giuseppe Orsi**  
CEO AgustaWestland

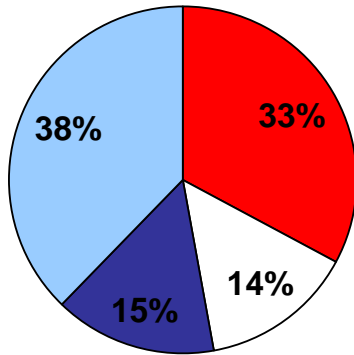
# Helicopter Market Trends (Forecast Int'l Data)

Recent and Projected Value of Revenues per Sector

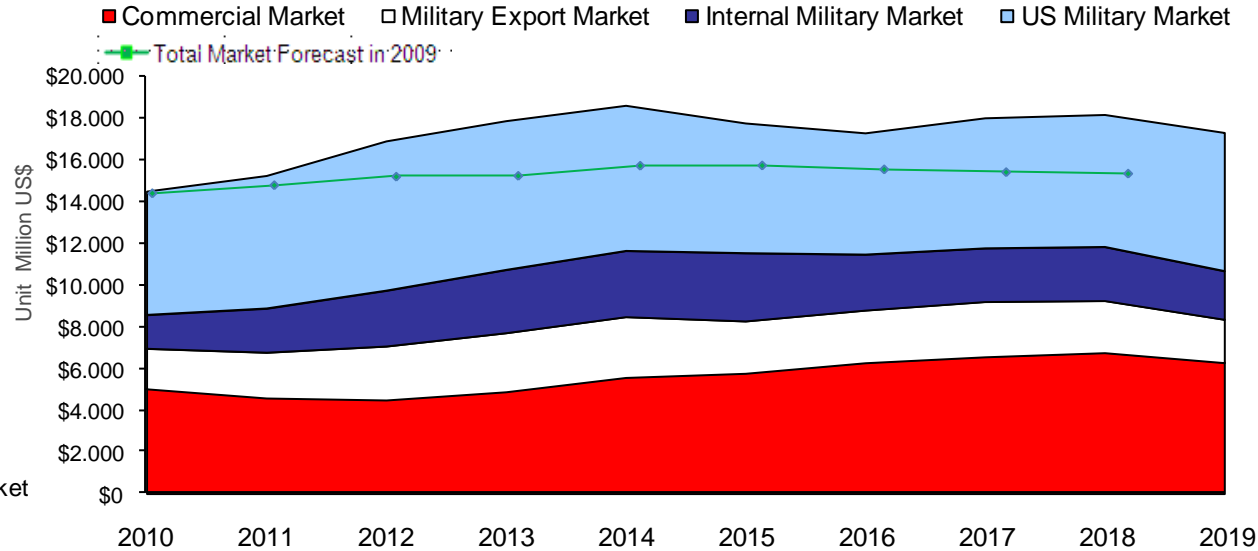


## Total Market Forecast 2010-2019

US\$ 17,2 Bn ( CAGR +2%)



■ Commercial Market      □ Military Export Market  
■ Internal Military Market      □ US Military Market



Forecast International April 2010 rev  
(Forecast International Values)

## Highlights & Main Drivers

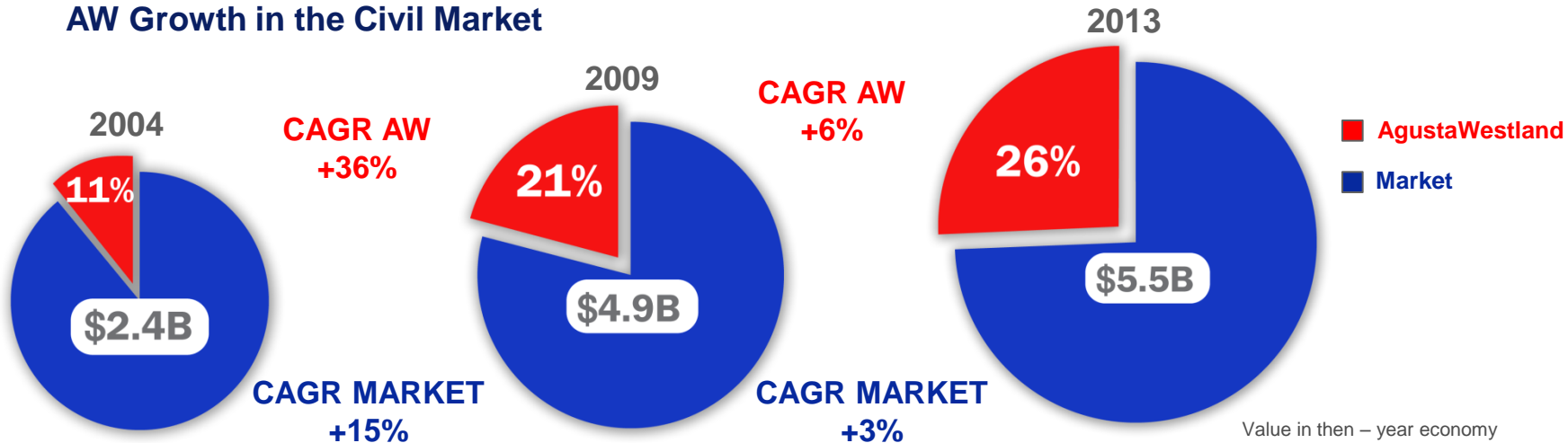
- Forecast of global rotorcraft market in 2010/19 has increased by almost 15% since 2009
- Commercial** : Oil & Gas robust, “deepwater” increases; Parapublic/Utility: high growth in emerging markets; Corporate/VIP: to grow as economy strengthens (2/3 years)
- International Military**: Higher demand from emerging players in global scenario (Asia/M East, L America)
- Italy & UK Military**: despite budget cuts, helicopter programmes remain unaffected priorities
- USA Military**: fleet renewal cycle to continue; some high profile opportunities open to international competition

**Fundamental drivers of helicopter demand remain strong**



# AW in the Global Civil Market : Growth<sup>2</sup>

## AW Growth in the Civil Market

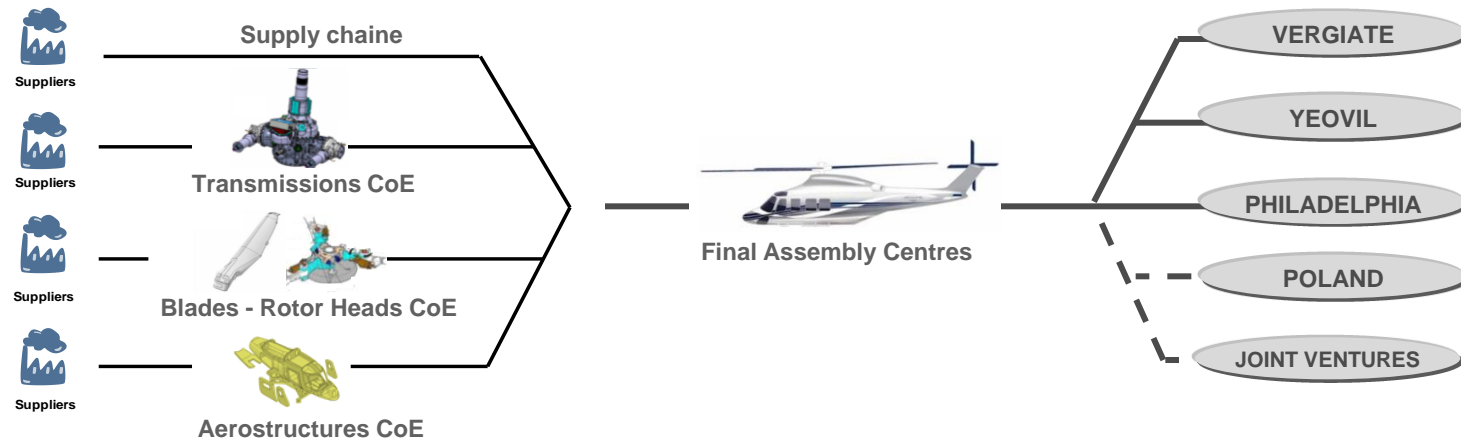


- **AW has consistently and profitably grown** since 2004 (4-fold growth in value)
- **AW139** now the reference Intermediate a/c in the market, in demanding roles such as Offshore and SAR
- **AW169** presented in July 2010 as the ideal complement of the product range
  - only new Light Intermediate helicopter in >20 years, mainly aimed at utility market
  - **AW109** series, including the GrandNew introduced in 2010, remain the platform of choice for several light-twin applications, with unique performance capabilities
- **Growth in emerging markets**, through industrial partnerships (e.g. Russia, India)

**AW is a key player in the global civil helicopter market**

# AW Industrial Competitiveness Improvement

**Pursue the highest levels of Industrial Competitiveness in all the streams of our Industrial Network, capitalising on the Centre of Excellence concept**  
(High Specialisation and Process Control)



## Internal Industrial Competitiveness

- Lead Time Improvement
- Quality Improvement
- Cost reduction (labour, logistics, ...)

## Suppliers Competitiveness

- Material Cost Reduction
- Suppliers Performance Improvement

## Working Capital Management

- Inventory Levels
- WIP Levels
- Excess Inventory

The efficiency already achieved in the past years has brought the company to the current level of EBIT, R.O.S. (>10%) and G&A (~5%) confirming the plan issued in 2007.

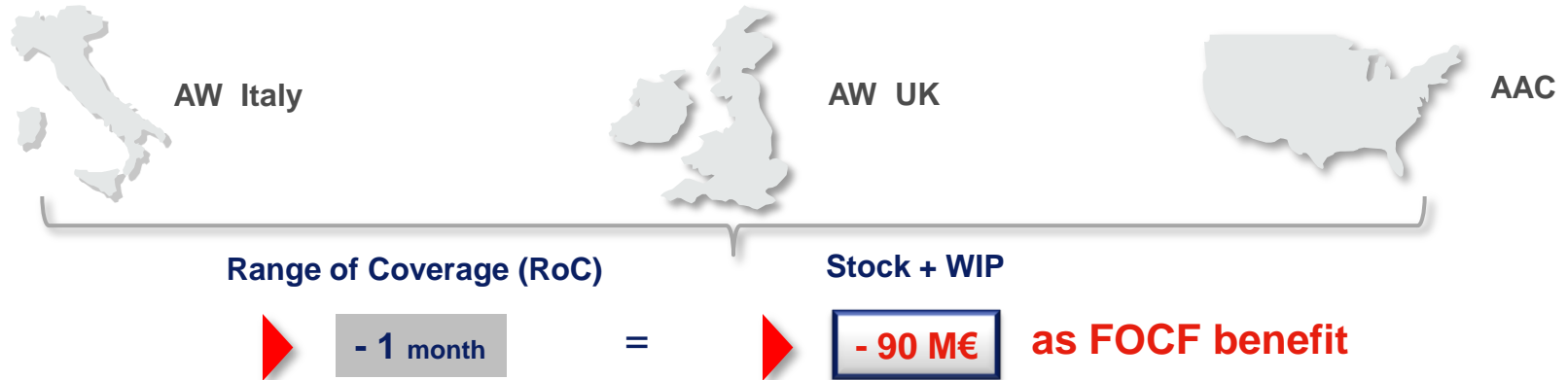
The new Budget Plan includes the results of the “*continuous improvement plan*” which AW adopts to ensure future growth

# AW Working Capital Reduction Programme

## Results so far and next steps



In the first ten months of 2010 solid performance has been already delivered across the whole WCR Programme perimeter, so confirming:



Which exceeds our initial objectives for 2010 of 80M€ and 1 month RoC reduction

### 2011 Focus

- Customer Services & Support Network
- Lean Manufacturing companywide adoption
- Cost of poor quality further reduction
- Lean and Concurrent Engineering
- Extension to other WC components (payables receivables,...)

By the end of 2011 achieve a further **inventory reduction of 30M€** which takes the total FOCF benefit of the project up to **120 M€ (= 1.3 months reduction range of coverage)**

## **The original Plan considered efficiency improvement through:**

- Gradual workforce reduction versus better direct / indirect ratio
- Investments in key technologies and Company re-layout

## **In order to improve Company Profitability and Business Control, AW decided to:**


- Accelerate the Efficiency Plan implementation, in coherence with the production volumes modified by different market requirements, by an immediate realignment of the workforce to the workload parameters (25% work force reduction by 2010 year end)
- Immediately rationalise and sell off PZL Swidnik Subsidiaries



Net operating margin expected to increase from negative in 2010 ( due to the cost of layoff) to >13% in 2013 on revenue doubling from 90 M€ to 180 M€

**PZL will become an efficient cost competitive manufacturing asset  
for all the Finmeccanica Companies**

# Successful Stories / Delivery of our Promises




<b>AW139</b>	Business Plan - 2005 version	ACTUALS
<b>BREAKEVEN</b>	450 <sup>th</sup> A/C (year 2014)	300 <sup>th</sup> A/C (year 2009)
<b>350<sup>th</sup> A/C DELIVERY</b>	Expected in 2012	2010
<b>IRR</b>	17%	25%

<b>IMPERO PROJECT *</b>	Target 2005 - 2008	ACTUALS	△
Cumulative <b>REVENUE (M€)</b>	9790	11155	1365
Cumulative <b>EBIT (M€)</b>	1155 60 M€/year increase from the original plan	1274	119
<b>CAGR - REVENUE</b>	2.1%	5.9%	
<b>- EBIT</b>	5.9%	6.7%	

\*Finmeccanica acquisition of GKN 50% shares in AgustaWestland

# Successful Stories / Delivery of our Promises

**AW139** 

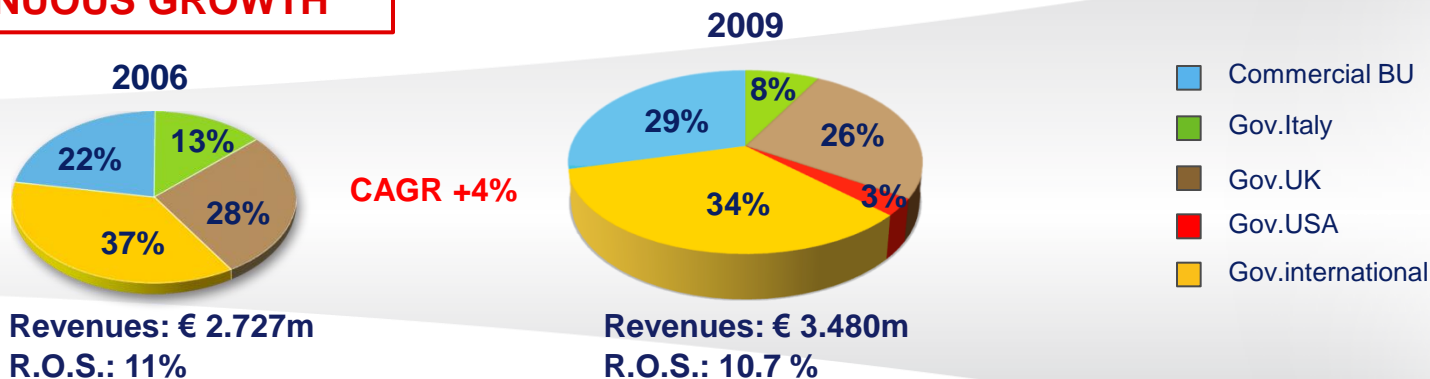
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**CONTINUOUS GROWTH**



## Backlog of more than Euro 11 bn sustainable over next few years

### Top Programs in Backlog

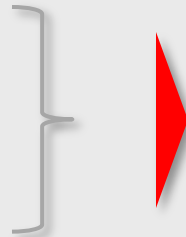
- NH90
- T129 Atak Turkey
- Integrated Operational Support
- Wild Cat (Aw159)
- CH47 Italy
- 139/109 LUH Algeria
- AW101 India

### Top Programs in Cumulative Orders 2011 - 13

- AW101/139/109LUH Algeria
- AW149 Turkey
- Integrated Operational Support
- AW101 CSAR Italy
- AW139 Gulf Countries

In addition to **Italy, UK, Poland** - Countries considered by AgustaWestland as domestic markets, and the **USA**, there are **4 Countries** that have been **deemed of particular significance to AgustaWestland global strategy**:

- **India**
- **Turkey**
- **Russia**
- **Algeria**



AgustaWestland plans to become **the indigenous helicopter manufacturer or preferred partner in these countries**, exploiting the huge market opportunities offered and leveraging on powerful and reliable partnerships.