

**MANAGEMENT PRIORITIES AND 9 MONTH RESULTS**  
**LONDON, 15 NOVEMBER 2011**

**[1] Title slide**

Good morning everyone. Thank you for being here today.

I am pleased to be talking to you today from our Finmeccanica UK Headquarter in London. We have said many times that this is a domestic market for us.

This is our British home and a launchpad into important export markets.

As part of Finmeccanica's internationalization process we intend to be more present here than before.

Investor Relations has already been hosting meetings here and this will start to become a more regular meeting place with all of you.

- [2] **Safe harbour**
- [3] **Agenda**
- [4] **Product slide**

As I'm sure you'll agree, we are all living through extraordinary times. These call for extraordinary measures. At Finmeccanica not only do we understand this but we see it as **an opportunity**. An opportunity to clarify our mission, our structure and our ambitions. In doing so we are addressing those areas of our business that have underperformed, **restructuring, reorganising and re-launching them to create a new Finmeccanica that is fit for the future.**

As you will have seen from our statement released at the opening of the market, we are also moving to put the Group on a **sounder financial footing** to move forward. In doing so the objective has been to be thoroughly realistic while also applying our strong conviction that the new more focused Finmeccanica has **huge potential**, potential that we are determined to convert into **materially improved profitability and cash flow.**

While internally we have made good progress in the last months, as I talk to you today this is still very much 'work in progress'. We are setting ourselves **tough but what I consider to be realistic** deadlines to deliver on our turnaround plans. Today I will be sharing with you my vision after a long first 6 months as CEO, but of course the proof will be in the execution, particularly over the next year.

We will keep you updated as we progress but as much as possible I want to base our communication with you **on facts** rather than hopes, on achievements rather than promises. So when there is something to say we will say it. When there is nothing to say, we will get on with our work until we have news to report.

## [5] Introduction

So let's get down to business.

At the Q2 stage, we talked about:

- an increasingly negative external climate;
- internal industrial issues in Aeronautics and Rolling Stock; and
- some good performances in our other sectors.

We said we were drawing up change programmes for Aeronautics and Rolling Stock, and would also be undertaking an analysis in Defence Electronics and Security.

We also withdrew guidance on Group EBITA for 2011. Today we will talk about the expected outcome for the year and also the expected financial impact of our change programmes. We will not be making a forecast for 2012, **but we will give you some important objectives** related to operating profits, cash flow and debt reduction.

We have been conducting this Business review against a deteriorating macro-economic background and this has led us to focus **even more sharply** on actions to remedy the shortfalls in Finmeccanica.

The review confirms that we have **some excellent businesses** around which we will build the future of the Group. But we have also arrived at some conclusions that are significantly tougher than we were expecting would be necessary back in July when I withdrew EBITA guidance.

In particular, we have identified four key shortfalls that require remedies. As a result, in order to guarantee the Group's financial strength and growth prospects, we are working on the strategic repositioning of some activities in the Group portfolio. We have reached some important decisions.

## **[6] Finmeccanica strengths and shortfalls as confirmed by the business review**

I already said in July that I saw some of our main activities as strong and resilient despite the worsening climate. These are businesses where we either have already strong market positions or are leaders in our field, – or are on a clear path to gain leadership through innovation.

Just to give you three examples of the type of activities here:

- 1) The Eurofighter where we have 36% of the entire programme and more than 50% of the electronics aboard;
- 2) The AW 139 which is now the world's benchmark for transport to oil & gas offshore together with other new helicopters.
- 3) Air Traffic Control radars, Intelligence Surveillance and Reconnaissance sensors and a world leadership position in optronics particularly in infrared lasers.

However, I also acknowledged in July that Finmeccanica has **some critical shortfalls** that must be addressed. Today I will talk about our shortfalls under four headings, shown here:

- 1) We have some loss making activities in Rolling Stock and Buses because of deep-rooted issues. We will both restructure and at the same time work to deconsolidate these businesses
- 2) Space Services has already been restructured and its profitability is expected to improve next year
- 3) Our cash flow is too low, particularly since our revenues are under pressure and we are now taking action to cut costs and investments
- 4) Our net debt is too high, particularly given the deteriorating climate and we are going to address this in the short term through asset disposals

## **[7] Management Priorities**

So here is what my management team and I intend to do.

Above all we want to further focus on our key mission which is to further strengthen our position as an international player in Aerospace, Defence Electronics and Security.

We will first address our strategic priorities for the businesses.

**First, we are absolutely committed to deconsolidate Rolling Stock.**

**Second**, we are implementing a wide sweeping industrial restructuring plan in Aeronautics.

**Third**, we are pushing ahead with further consolidation in our Defence Electronics and Security companies as the next step on the path to becoming a single entity.

**Fourth**, we want all our Defence Systems businesses to have the right size to compete on world markets. To do this we need to work harder to find international partnerships for our land and underwater activities.

Now turning to our economic and financial priorities. Cash flow and profitability have been hit hard in 2011 and we intend to take action to improve this already in 2012.

We will reduce investment and G&A **throughout the entire Group including Headquarters** costs.

With the specific goal of reducing net debt, assets disposals are being examined and will be implemented. A list of disposable assets is being prepared.

So now we are repositioning into a New Finmeccanica ...

## **[8] The new Finmeccanica**

Our ambition is to transform Finmeccanica into a much more **focused world leading group in Aerospace, Defence Electronics and Security** and I am **proud and privileged** to have the task of further strengthening and internationalising the business.

We will focus above all on those businesses that either already have, or can realistically achieve, international leadership.

We need to make sure that our businesses are **self sustaining and capable of generating cash flow** which can be used to fund profitable growth and at the same remunerate our shareholders. This is not a short term fix and the external environment is very tough, **but I intend to use my mandate** to make the CEOs in the operating companies put more emphasis on these aspects in how they run their businesses.

### **[9] The new Finmeccanica: 3 business areas**

I confirm our strategic intent to build on our world leading business in Aeronautics, Helicopters and Defence Electronics and Security. We have important competitive advantages which will underpin long-term growth in these activities. These are what we call our “**Strategic Sectors**”.

Space and Defence Systems sit in a different category in this slide, “International Partnerships”. These are businesses where a partnership approach is the optimal way for us – and of course for our partners as well – to get the **critical mass** necessary for leadership in robust businesses which are adjacent and complimentary to our strategic markets.

We are currently evaluating whether Space should be included in the Strategic sectors. We believe we could further leverage some of the capabilities and technologies in satellite manufacturing and space services to enhance our overall offering to the customer. Before we take a decision on this, we need to analyse how strategic Space policy really is for European governments and whether they are going to maintain their commitment to invest in the sector.

“Manage for Value” means sectors where we focus on cash generation and optimising the invested capital. It does not mean they will be sold tomorrow, but over time you can expect to see us take opportunities to reduce our exposure – **as long as that realizes the right value for shareholders.**

Clearly, Transportation comes under this heading, and so too does Energy.

## **[10] Loss making activity remedies: Vehicles**

These are activities in Finmeccanica which are loss-making due a combination of legacy contracts and an industrial base with fundamentally embedded inefficiencies.

We are of course referring above all to Rolling Stock and to a lesser extent Buses.

In Rolling Stock, previously you have heard Finmeccanica management talk about improving the business first and then, second, reducing our involvement.

This time we are taking a different, “twin track” approach. We are **actively pursuing** a plan to deconsolidate Rolling Stock and are in discussions with a number of potential partners capable of providing the business with the scale to compete profitably on international markets. **At the same time**, while Rolling Stock is under our ownership we are radically restructuring it, so increasing its value. This is on three fronts.

We believe that previously the company was excessively, perhaps understandably, focused on solving contractual problems with large foreign clients in terms of meeting the milestone obligations in order not to incur further penalties and extra costs.

The overrun costs and exceptional charges taken in the 9M results relate to a contract to supply Danish railways with 106 trains in two different configurations. This is the contract which has incurred the largest losses over the last few years. So far 52 trains have been delivered and the others should all be delivered by the end of 2012. The Danish Transportation Minister engaged Atkins to conduct a technical and commercial review of the train and the results anticipated on 27 October were positive. This is encouraging and we seem to be moving in the right direction.

The other large export contract which has recently been causing us problems in terms of quality, performance and delivery is for 19 high speed trains which should all be delivered to the Belgian and Dutch railways by the end of 2012. So far we have built 10 for Holland. For both of these contracts we are carrying out a further analysis of how much they will cost to complete and we may have to take further and final provisions on these by the end of Q4.

For BredaMenarinibus we are in touch with potential buyers and we will deconsolidate it by 2012.

### **[11] Loss making activity remedies: Rolling stock**

As well as the financial restructuring, we have the operational restructuring which will be led by Maurizio Manfellotto, CEO of Ansaldo Breda. In his previous role as head of production at Ansaldo STS, he successfully implemented a new industrial structure and organization. **He is the right man** to lead this larger challenge at Rolling Stock.

Maurizio has launched two programmes to address the roots of the problems of manufacturing inefficiency and quality control that have afflicted some of our largest train programmes in the past. This should prevent these problems from impacting our latest largest and most prestigious contract, worth almost € 1 billion, with Italian railways for the delivery of 50 High Speed trains by 2017.

The first operational programme is about manufacturing efficiency. This will reorganise production and procurement processes, with a particular emphasis on the productivity of the factory work flow. There is scope for major improvement to reach international benchmarks in terms of absenteeism but also of misallocation of resources on the work floor.

The second programme is called Total Cost of Quality. Over a 3 year period, it **will initially contain and eventually eliminate** all the issues with quality control. The new management team has already identified the three phases of product design, procurement and production which need to be urgently addressed in terms of Design to Cost and Concurrent Costs to bring the company up to international standards.

We expect the combined net benefits of these two plans to reduce costs annually by about €40 million in 2012 and €90m from 2014 onwards. We expect the costs for implementation of these plans to be around €20 million.

**[12] Underperforming activities remedies: Aeronautics (1/3)**

The two sectors in the underperforming category are, first, Aeronautics and, second, Defence Electronics and Security. Yes, some activities within Aeronautics are currently loss-making, but they are not as structurally challenged as Rolling Stock. We can see a **realistic path** to re-establish profitability.

The restructuring of Aeronautics, as with Rolling Stock, is **both financial and operational**.

On the operational side, Giuseppe Giordo, CEO of Alenia Aeronautica and his team have launched a programme we call "3R" that will modernize our industrial base in Aeronautics in Italy.

We intend to take restructuring charges in Q4, which relate principally to redundancies. These were not expensed in Q3 since they are part of a plan just signed with the Trade Unions. Following the signed current plan, the full year (FY2011) charge will be approximately 200 million Euros, including about 40m of costs related to the previous restructuring plan announced in November 2010 at our Investor Day. We do not expect to incur any further material costs for this plan from 2012 onwards.

The full annual run rate of benefits on EBITA will come through for about € 200mln by 2013 and about € 270mln from 2015 with respect to the baseline of 2011.

**[13] Aeronautics: Focus on B787 program (2/3)**

On the financial side, we have taken provisions in the third quarter for a total of €753 bill. of non-recurring cost for Aeronautics. These figures are associated with recent events, described as follows, that have changed the conditions of the existing scenario:

Until the first-half 2011 report, the B787 program was valued considering Boeing "firm" orders, equal to 300 series (the framework agreement totalled 1022 series) and given the following assumptions:

- At the time, there was a tangible risk that Boeing cancelled the program due to a prominent increase in development and industrialisation costs and to severe issues in the production line which led in many cases to a stop in the certification process;
- the cash-advance on the price of the first 200 series, received by Aeronautics, was not meant to be returned in case of early termination of the program;
- A joint working plan between Aeronautica and Boeing, The Working Together Agreement (WTA), was started to reach a final agreement on the contract price.

In August 2011 the scenario radically changed, as Boeing received the certification for the B787, followed by the delivery of the first aircraft, in September, to Japanese airways ANA.

In the light of the above mentioned events, the risks for an early termination of the program are, today, quite unlikely.

Changes in contract and programme expectations required Aeronautica to adjust the original assumptions for the evaluation of the contract, accounting for about 592 € mill. of extra costs against those risks, given the following assumptions:

- a high probability that Boeing will re-establish all residual orders (the value of the contract is calculated on a total of 1022 series);
- unreturned cash-advance was no longer an option;
- deterioration of cost to completion of the program (both internal and external costs).

At the same time, in August 2011, Boeing provided Aeronautics with initial reports and evidences over non-compliance issues of the 27 horizontal stabilizers delivered by Aeronautica.

A financial claim will be issued for a maximum of 300 USD mln, distributed in a period of seven years, from 2014 to 2020.

This said, there is a high probability to be charged with the maximum liability, therefore Aeronautics has booked a provision of € 161 mill.

**Having said all this, we are prudentially assuming a low single digit margin in the early stage of the plan.**

#### **[14] Underperforming activities remedies: Aeronautics (3/3)**

While we are firmly addressing the inefficiencies of our industrial and engineering base in Italy, we **fully expect that there will be good growth in orders** over the medium to long term.

To position the sector to take advantage of these opportunities, we are **redefining** the core business we target for future investments. We will narrow our product portfolio overall, and **intensify** our drive in key areas. This is what we call the “relaunch” phase of 3R.

We will **leverage** our current military collaboration programmes in order to pursue new international partnerships such as the European MALE UCAV. In this area the Aeronautics platform can also exploit complementary key sensor payload capabilities in our Defence Electronics business (in SELEX Galileo).

We will dedicate particular attention to enhancing the capabilities and the applications of our military proprietary planes which have been designed and built by us. Examples are a gunship version of the C27J and a Light Combat Aircraft version of the M346. As for Aerostructures, it is clear that the B787 is a **hugely innovative** plane built with extremely advanced single barrel production processes and incorporating new carbon fibre materials representing a step change for the industry. We believe that in the long term the B787 will be profitable for us **and** we can also apply the know-how to **other new generation planes**. In the regional turboprop and regional jet segments, new initiatives will depend not only on an adequate return on capital but also on technological and industrial benefits which we could extract.

### **[15] Underperforming activities: Consolidation of DEandS**

In Defence Electronics and Security, we have finished consolidating into four companies each with a specific focus. Now, since the Summer we have been evaluating how the businesses can be more co-ordinated in how they interact with the market.

My management team and I feel that what has been done is not enough. The external environment is increasingly competitive and other companies are already organized as single entities. With domestic markets under pressure we need to further target the new growth markets of the Middle East, Asia and Latin America to increase our market share. Internally, we need to drive costs down by creating manufacturing centres of excellence and eradicating overlaps in R&D. We also need to further exploit procurement synergies and of course reduce G&A.

For this reason **we have now decided to take a decisive step forward** and today we are announcing our intention to start down the path towards establishing one single entity for all three of our European companies which will then coordinate with our DRS business in the USA. The benefits should be significant but I would highlight the advantages of being able to further rationalize our investments and approach our customers as a “one face” group under a single leadership.

## **[16] Inadequate Cash flow generation: remedies**

I am of course very aware of the urgent need to improve our cash generation profile.

Our remedies include various new programmes.

First we need to improve the cash conversion of our operating performance by monitoring closely and improve contract execution by delivering our products in a more timely fashion.

Second, we have ordered the operating companies to **tighten up** their supply chains and **right-size** their inventories.

Thanks to just in time design to build initiatives in AgustaWestland in 2010 **we succeeded in reducing working capital by 90 million Euros on just one programme**, the AW 139, by cutting by more than one month the inventories and work in progress production cycle. We now **need to introduce more lean production initiatives across the group** and this will be one of my next priorities which I will update you on in March.

Third, **we have made a hard choice** to drive down our G&A costs. I have set a goal to reduce our G&A costs by 5-6% from 2013, equal to approximately €100 million. That figure includes a targeted reduction of corporate costs by €30 million. [A good part of these reduced costs should translate into higher cash flow.]

Not only should this directly improve our cash flow and of course our profitability, **but it also goes with my drive to embed more accountability at the OpCo CEOs**, making them less dependent on centralized decision-making.

In 2010 we invested a total of 1.24 billion Euros in capex and R&D in line with our previous three year plan to invest 3.6 billion Euros over a 3 year period (2010-2012). I am already reducing total investments this year to 1.15 billion Euros and have capped investments at around 1.06 billion Euros in 2012. This represents an approximately 14% reduction since 2010. This is **only a first step** and I plan to further **reassess our investment plans over the next few months**.

I am sure you would all agree that we would be ill advised to slash investments indiscriminately since this would endanger our long term future as a group which needs technological innovation to perform successfully on international markets.

But **what is clear** is that our operating companies **have to be** self financing and be structurally capable of generating enough cash to fund their own investments as well as generate surplus cash more in line with sector standards.

Furthermore they need to invest in products and programmes which can give us returns in a **shorter time frame** compared to the past.

In addition to making our operating companies self funding, we will authorize them to exploit their Intellectual Property as contribution to joint programmes. As a corporate centre, we will assist them to find partners outside the Group with financial resources that can be used to support their investments in new programmes. Finally **if this is not possible**, they will have to divest assets which are unable to demonstrate a positive NPV.

### **[17] Net debt high relative to Cash Flow generation**

Our net debt as at the end of September was €4.665 billion.

Finmeccanica confirms its strong commitment to maintain its investment grade credit rating through actions aimed at increasing profitability, cash flow generation and debt reduction.

We are currently rated as investment grade by all the three major ratings agencies. **We aim to reduce net debt to below €2.5 billion by the end of 2012.**

We aim to realize cash proceeds from asset sale of at least €1 billion by the end of next year, 2012. These disposals will be from our civil activities and from non-strategic partnerships. We will not rush to make sales, **but we will be decisive in striking deals that create acceptable value as well as raising cash.**

We will also save approximately 230m Euros in 2012 from the elimination of any dividend payment for 2011.

## **[18] Progress since July 2011**

So, let me summarise where we are now.

Completed the business review started in May soon after the appointment as CEO

Initiated “3R” - Restructure, Reorganize, Re-launch - plan in Aeronautics: negotiations with the Unions finalised

Ongoing negotiations aimed at deconsolidating Rolling Stock and Bus business

Initiated restructuring plan of Rolling Stock under the new Management, aimed at improving performances

Starting to establish a single entity in Defence Electronics and Security

HQ mission repositioning and rightsizing started

Enforced management accountability leveraging on incentive schemes

Removed from duty all executives allegedly behaving not according the company ethical standard

New more rigorous budget procedures implemented, with approval process accelerated by 2 months; realigning Group investment priorities with sharper focus on capital returns

Intensified our drive for greater internationalisation of the Group

And now Alessandro will take you briefly through the 9-month numbers.

## **[19] Dividing slide – 9M 2011 Results**

**[20] Exceptional items**

As Giuseppe mentioned earlier on 28 July, we did not yet know that we would have to take exceptional adjustments above the EBITA line amounting to €753 million, all relating to the Boeing 787 programme. The impact of these charges on our 9M results is also shown. Adjusted EBITA was negative for €188 million compared with positive €856 million in the first nine months of 2010. The bottom line was a net loss of €324 million compared with a profit of €321 million in the comparable period last year.

## **[21] Group Results: 9M 2011 vs 9M 2010**

I will now quickly discuss the key Group numbers for the nine months and their variances since the same period last year.

Please note that Ansaldo Energia was consolidated 100% until 30 June 2011. Since then, it has been consolidated 55% on a proportional basis

Revenues for the nine months 30 September 2011 came to €12,252 million, compared with €12,924 million for the same period of 2010, a decrease of 5%. The fall came in two sectors:

- Defence Electronics and Security, mainly due to the completion of important programmes for the US military at DRS, and also the loss of sales in Libya; and
- Energy, in the plants and components segment.

All the other sectors remained substantially stable

Adjusted EBITA was negative €mil. 188, compared with positive €mil. 856 for the same period of the previous year. The decline is mainly attributable to the following sectors:

- Aeronautics, due to lower industrial efficiency, affected by problems in certain production processes and of course the exceptional provisions of €753 million;
- Transportation, mainly Rolling Stock, due largely to cost overruns for certain overseas orders as described already by Giuseppe, particularly foreign orders;
- Defence Electronics and Security, due to lower revenues at DRS ; lower profits in some other segment (ITC) ; and lower than forecasted activity in Libya;
- Energy, lower revenues and lower industrial profitability on some orders in the plant engineering and service segments.

On the other hand, adjusted EBITA was up in Helicopters, Space and Defence Systems due to favourable mix factors and better manufacturing profitability.

All of that left the Group return on sales in negative territory for the nine months.

The Group's net result for the first nine months of 2011 amounted to negative €324 million.

The main numbers to note below adjusted EBITA were:

- the exceptional one off adjustments totaling €310 million; and
- the restructuring charges for €44 million;
- this was partially offset by the gain on the partial sale of Ansaldo Energia and also by a positive effect of €349 million on the income statement line for income taxes.

There was a decrease in new orders, to €10.6 billion in the first nine months of 2011 compared with €13.5 billion for the same period of 2010. There were falls in the order books at Helicopters, Defence Electronics and Security, Space, Defence Systems and Transportation, partially offset by improvements in Aeronautics and Energy.

The order backlog, based on workability, guarantees coverage of about 2.5 equivalent years of production.

## **[22] Cash flow & financial position**

The Free Operating Cash Flow was negative €1,567 million compared with negative €1,325 at 30 September 2010, a deterioration of €242 million. This decrease was due to lower trading volumes and certain specific delays in cash collections in Defence Electronics.

Group net financial debt at 30 September 2011 was €4.7 billion, down from €4.9 billion at the end of 30 September 2010. The most significant movement this year has been the negative free operating cash flow. The net proceeds from the partial sale of Ansaldo Energia had a positive impact of €344 million, while €237 million was paid in dividends in the second quarter.

The revolving credit facility for €2.4 billion, which we obtained in September 2010, remained entirely unused at 30 September 2011. The maturity profile of our debt is balanced and long-term, as you can see in the Appendix. The average maturity is over 10 years.

## **[23] 9M 2011 Sector Results**

I will just say a few words on each of the sectors now

Starting with **Helicopters**, Revenues in the nine months were €2,750 million, up 7.5% from 2010, due to advantageous mix developments. Adjusted EBITA came to €287 million, up 14%, due to the different revenue mix.

Order intake was lower in the nine months at just over €2 billion, down from nearly €3 billion a year earlier. The new orders split into 57% for new helicopters and upgrading and 43% for product support, that is spare parts and inspections, engineering and manufacturing. The decline in orders was due to some important government contracts being deferred until next year, and also reflecting the absence of the large Indian Air Force order in 2010.

On the military side, the important orders included one for 10 AW139 helicopters from Italy in Q1. Altogether, there were new orders for 90 helicopters from civil / government customers in the first nine months of the year, including an order in Q3 for 11 AW139 helicopters for the Russian market; this order brings the total number of AW139 helicopters sold to Russia and the CIS over the last two years to more than 20.

The value of the order backlog at 30 September 2011 was € 11.3 billion, equivalent to about 3 years of production.

Research and development costs for the first nine months came to € 293 million, up slightly on last year.

## **Defence Electronics and Security**

As Giuseppe reminded you, earlier this year we completed consolidating the old structure in this sector into four more focused OpCos - SELEX Galileo, SELEX Sistemi Integrati, SELEX Elsag and DRS. The space-related activities of the SELEX Sistemi Integrati and the Elsag Datamat group were transferred to the Telespazio group as from 1 January 2011, and, as from 1 June 2011, Elsag Datamat, SELEX Communications, SELEX Service Management SpA and Seicos SpA were merged into the newly-formed SELEX Elsag.

Revenues in the nine months at 30 September 2011 were €4.3 billion, down by 14% mainly due to the projected decline in production volumes of DRS and deriving from the completion of important programmes, as well as disruption in Libya.

Adjusted EBITA reached €267 million, down from the €426 million reported at 30 September 2010 as a result of the decline in revenues of DRS and lower profits in the IT and security segment and command and control systems segments. As a result, ROS came to 6.2%, (8.6% at 30 September 2010).

New orders in the nine months were €3.4 billion, down from the €5.2 billion posted for the same period of the previous year. The orders for the third tranche of the Eurofighter programme were received, as well as significant orders from the US Army by DRS. However, delays in the approval of the US defence budget are starting to have an effect on DRS.

Security has become one of the priority issues of governments and decision makers. That agenda includes protection against unauthorised use of digital information and communications systems – “cybersecurity” – which centres on the security of the telecoms networks and IT systems that are critical to the modern digital economy. Our Defence and Security companies are leveraging their distinctive expertise, developing products and services for government and civil security operators to protect critical and strategic infrastructures and locations.

## **Aeronautics**

Revenues at 30 September 2011 was €1.9 billion, in line with the figure reported at 30 September 2010 (€mil. 1,857). In terms of individual programmes, there was an upturn in work on the M346, ATR and JSF programmes, which offset reduced revenues from the Eurofighter and B767.

You have already heard about the major negative adjustments that were responsible for the Adjusted EBITA coming in at minus €768 million.

New orders at 30 September 2011 were €2.2 billion, up significantly from the €1.6 billion reported at 30 September 2010. This was due mainly to more civil orders, on the ATR aircraft and the B787 and A380 programmes.

The order backlog at 30 September 2011 was €8.9 billion, up from €8.6 billion at the start of the year. Within that, 37% relates to the Eurofighter, 17% to the B787 and 18% to the ATR. We expect this backlog to continue to grow over the medium to long term.

## **Space & Defence Systems**

I will run through the smaller segments, starting with Space.

Revenues in the first three quarters of 2011 came to just under €700 million, up by 14%. This good increase was due largely to higher production in both the manufacturing and satellite services segments.

Adjusted EBITA for the nine months of €27 million was up from the €15 million figure reported at 30 September 2010 due to higher production volumes and the higher profitability of both segments.

However, new orders were down significantly, to €514million, down 32.6% from the same period of 2010. This was mainly attributable to the manufacturing segment.

The order backlog at 30 September 2011 was down by 5% at €2.4 billion. The split was two thirds manufacturing activities and one third satellite services.

R&D of €43 million was up by €4m year on year, including the important work we are doing on to focused on security, navigation/infomobility (the Galileo programme), aerial communications solutions (SESAR) and processing systems for earth observation SAR data

Turning to Defence Systems.

Revenues in the nine months were €811 million, nearly in line with the prior year.

Adjusted EBITA was €65, up on the €61 million reported for 30 September 2010, mainly due to a mix improvement.

New orders at 30 September 2011 were down sharply at €483 million versus the €661 million posted at 30 September 2010. This fall reflected mainly the absence of two large orders in 2010 – one from the Italian Ministry of Defence in land weapon systems, and another from the UK Ministry of Defence in missile systems.

R&D costs in this sector at 30 September 2011 totaled €186 million, in line with last year.

## Energy & Transportation

In the Energy sector, I have already mentioned the deconsolidation effect for Ansaldo Energia in Q3.

Nine-month revenues were €720 million, a decrease of €274 million as reported. Adjusting for the deconsolidation effect, the fall was €131 million, mainly attributable to lower production volumes in the plants and components segment.

Adjusted EBITA was €54 million, down from €92 million reported last year. Again, adjusting to make a like-for-like comparison, the decrease was €27 million, mainly due to lower revenues and the impact of the profitability of certain orders in the plant engineering and service segments, as a result of a different production mix as compared with the same period of the previous year.

New orders in the first nine months of 2011 were a little over €1 billion. Using a uniform basis of accounting, that was a doubling – in precise terms, a rise of €543 million - mainly due to important new orders in the plants and components segment. The order backlog of just over €2 billion was on a same accounting basis. Half is attributable to plants and components, 45% to service activities and the rest to nuclear and renewables.

Completing this sector review, in Transportation, revenues in the first nine months of 2011 were €1.4 billion, in line with the same period of 2010 (€mil. 1,373). The improved activity in the Vehicles and Bus segments, though still below expectations, largely offset the decline in production volumes in the Signalling and Transportation solutions segment, mainly due to the completion of several Italian signalling projects, which in part reflect the lack of progress on orders for Libya.

Adjusted EBITA stood at negative €10 million, a decrease of €67 million compared with the same period of the previous year. As already discussed, this decrease is mainly attributable to Vehicles, mainly due the cost overruns incurred for certain orders, particularly foreign orders.

Research and Development costs at 30 September 2011 were down sharply at €33 million from €55 million last year, and mainly related to projects in Signalling and Transportation solutions.

New orders were €1.1 billion, down from €2 billion in the same period of 2010 due mainly to the absence of the Q3 2010 order from Trenitalia for 50 High Speed trains as part of the temporary joint venture with Bombardier.

The order backlog at 30 September 2011 amounted to €7.2 billion down slightly on a year earlier. The backlog breaks down approximately two thirds for Signalling and Transportation solutions and one third for Vehicles.

## **[24] Outlook & Summary**

### **[25] Guidance for full year 2011**

Thank you Alessandro.

We are now approaching the end of the year and we are issuing the following guidance for 2011.

Order intake is now expected to be around €18bn a little lower than our guidance of 19 bn in July.

Revenues are now expected to be between €17.0 and €17.5 billion.

Adjusted EBITA for the full year will be negative, at about €200 million, substantially in line with 9M.

This loss is caused largely by the non-recurring adjustments taken “above the line” and included in adjusted EBITA, which are likely to be around 900 million for the full year compared with 750 million in the first nine months. The €750 million relates to Aeronautics but we will probably also take a number of further one off provisions relating to Aeronautics and a few other divisions in Q4.

Free operating cash flow will be negative for about 400 million Euros compared to our previous forecast that it would be positive. This is partially due to lower trading volumes, to a lower amount of EBITA due to a further deterioration in the trading environment particularly in Aeronautics and the Transportation sector, delays in cash collections in Defence Electronics and Security. This negative cash flow estimate includes lower than expected launch aid compared to 2010.

Net income for the full financial year will be significantly lower than in the first nine months following the final definition of the additional write-offs expected in Q4 which are likely to include goodwill impairment for DRS, other costs of an exceptional nature above all in Aeronautics and Rolling Stock and the restructuring costs in Aeronautics already mentioned for 200 million Euros.

Year end net debt is expected to be about 3.4 billion Euros.

As agreed yesterday with the Board, no dividend will be proposed to be paid for 2011.

In terms of divisional performance in 2011 Q4, we expect Helicopters and Defence Electronics and Security to perform well. These will be the big contributors. Aeronautics and Transport are expected to continue to experience difficult conditions with Space struggling a little due to one poorly performing programme.

**[26] Outlook for 2012 and beyond**

Looking ahead is difficult in the current uncertain economic environment and we are not providing much quantitative guidance on 2012 at this stage.

However, we do expect that book-to-bill will remain above one.

We also expect adjusted EBITA before non recurring costs to recover significantly in 2012 and 2013 as the benefits of the restructuring plans are felt. Both Aeronautics and Rolling Stock are expected to record materially improved performance in 2012. Helicopters are expected to continue to show good progress and Defence Electronics and Security to achieve steady results overall. Space is forecast to recover strongly and Defence Systems to be usefully ahead.

**I would stress that the exceptional costs recorded in 2011 are one shot. They will not have any significant cash impact in 2012**, with the exception of restructuring costs. These mainly relate to Aeronautics and partially to Rolling Stock and will be funded mainly by savings on income tax and dividend payments .

As for cash flow clearly the cuts in Italian Defence investments in 2012 will impact on us. I believe that it is unlikely that any important national programme will be cancelled. Instead some programmes could be delayed and pushed out to the right. At the moment the good news is that **funding for all our important international programmes** (above all Eurofighter but also the FREMM multi frigates) have been **confirmed** in the government's three year plan. Also in their three year plan **total defence investments will be restored to 2010 levels in 2013 and 2014**.

Finally I would also mention that **2012 is the last year** we are factoring in government launch aid.

Overall, and assuming a neutral change in working capital, we nevertheless expect a recovery in cash flow in 2012 due to better operating performance, lower investments, a first reduction in G&A as part of the plan described earlier and tax benefits.

Further improvements in both operating performance and cash flow should be seen in 2013 as we make progress with our plans.

## **[27] Product slide conclusions**

Shortly after I was appointed CEO in May, I initiated a comprehensive review of the Group, including manufacturing and engineering sites, processes, products and people. I have taken a **hands-on approach** throughout. This initial review has now been completed.

Our strengths and shortfalls have been carefully assessed and I have set clear priorities for the Group. Restructuring and optimisation plans have been devised and are already being implemented.

The Management team I need to meet our objectives is now largely in place and I have established clear responsibilities and accountabilities throughout the Group

The **radical changes** I intend to make are fully endorsed by the Board of Directors which is fully committed to these plans.

Finmeccanica is a great company with outstanding people, excellent products superb technologies and world leading positions which I am proud to lead.

We are facing difficult times and have **much work to do** but **I am confident** that we have the capability to achieve the performance improvement that all our shareholders require.