

Pier Francesco Guarguaglini. Finmeccanica's plans for 2007

BIG GROUPS: INTERVIEW WITH PIER FRANCESCO GUARGUAGLINI, CEO OF FINMECCANICA

NEXT STOP, RUSSIA

Russia to account for 10% of revenues in two years' time. STM stake could be used for M&A operations. Results under the spotlight.

Marco Santarelli

In a few days, Pier Francesco Guarguaglini will be celebrating his 70th birthday with all the energy of a 40-year-old. Shortly after that, he will be marking his fifth anniversary as Chairman and CEO of Italy's leading high-tech group. Finmeccanica is a listed company majority-owned by the government, which has a 32.5% stake. It operates in the aerospace and defence sectors, with products that include radar and other early warning systems, aircraft for peacetime and wartime, state-of-the-art helicopters, machine guns and heavy artillery. On the markets, the group's shares have soared to a five-year high, and analysts have been raising their target prices for months. After Finmeccanica's global success in the helicopter sector with its UK subsidiary AgustaWestland, what are the group's plans for achieving further growth? In his south Tuscan accent (he was born in Donoratico), unsoftened after 45 years of living in Rome, Guarguaglini tells *Il Mondo* of Finmeccanica's expansion plans for 2007, which will be focused abroad. Where exactly can be seen in the collection of photos of himself with various heads of state that adorns his bookshelf. There is one picture of him with Carlo Azeglio Ciampi, and one with Tony Blair, while Vladimir Putin is distinguished with two photos. The focus is clearly on Russia, then.

Q. You have said that Finmeccanica will increase its share of revenues generated abroad from 20% in 2004 to 60% in 2008. How will you do that?

A. Defence spending in Italy has been declining for a long time now, although we have seen a significant upturn this year. In this situation, growth overseas has become a necessity. Given the success we have achieved to date and the quality of our products, we are confident that we can continue to do this. However, we need to remember that, in the defence and high technology sectors in particular, success depends on having an important domestic client. In Italy, I am thinking chiefly of the armed forces and large-scale infrastructure. But we are diversifying, starting with the helicopters business: in the case of AgustaWestland, for example, the UK has already become our second-biggest customer.

Q. It seems that you're devoting a lot of energy to Russia, too.

A. In Russia we have launched numerous operations, although, of course, turning good intentions into results takes time. We have already signed an agreement with Russian Railways, and are currently forging another, which will also include the Italian rail operator. We met in Moscow in early December, and talks will continue in Rome in the next few days.

Q. Will you be acting as a supplier under the agreement?

A. Our role will be twofold: we will supply the technology, and we have also expressed our willingness to set up public-private rolling stock and signalling companies.

Q. Then there's the agreement between your subsidiary Alenia Aeronautica and Sukhoi to produce the new Superjet 100, a regional 75-95 seater aircraft that will be sold all over the world. It's an historic agreement. How far have you progressed with the negotiations?

A. We are waiting for the details of the agreement between the two governments. Vladimir Putin will be visiting Italy in March, and I am sure that we will see a successful conclusion then. This will mean investment of 250 million euro for us.

Q. So we can expect it in the next few weeks, then.

A. Yes, I think so. Industrially speaking, we are ready now.

Q. But is Russia a reliable partner? Or are the long-standing concerns of the western nations well-founded?

A. I started working with what was then the USSR in 1972. When I worked for Selenia I went to Armenia to present a satellite project. Subsequently, in the late 1970s, Selenia won a contract to supply three air traffic control centres in Moscow, Kiev and Mineral Vody. It was a complicated operation; I remember, for example, that the Soviet authorities were reluctant to let us know the geographical co-ordinates of the Moscow centre. Of course, each contract needs to be assessed on a case-by-case basis, but I believe that Russia is a worthwhile partner.

Q. You have other projects in Russia too, such as TETRA, the digital mobile radio communications system that you supplied for the G8 meeting in St Petersburg.

A. Yes. I'd also like to point out that Elsag supplies Moscow's postal automation systems, and we are in the running for a contract to supply new air traffic control systems. We have also secured new orders for four satellites.

Q. Are you planning to work with Russia in the field of nuclear energy?

A. There are excellent prospects in the plant decommissioning business, an area in which we are very interested. But again, it's difficult to proceed without first having a similar major programme in Italy.

Q. What proportion of group revenues do you expect to generate in Russia in the long term? Five, ten, 15%?

A. By our reckoning, Italy will account for 40%, while the UK, Europe, the US and the rest of the world will share the remaining 60% in equal measures. We expect Russia to generate just under 10% of the total.

Q. That's the future. Let's look at the present now, and your 2006 results. Analysts are forecasting revenues of 13 billion euro and EBIT of 850 million. Will these figures be confirmed?

A. I think so, yes.

Q. Although much of it is unavoidable, your debt appears to be increasing, from 256 million euro in 2003 to 701 million in 2004, 1.1 billion in 2005 and 2.2 billion at the end of September 2006.

A. We have been making acquisitions. To buy the remaining shares of AgustaWestland, we sold part of our stake in STM, while for subsequent deals we used our cash flow. Then we ploughed funds into Grottaglie in Puglia and Charleston in the US, both for the Boeing 787 programme, in which we are a major partner. Overall, investment in this programme totals 700 million euro, but the return in terms of orders and revenues will be significant. The 787 is in demand by dozens of airlines, and more than 500 orders have already been received.

Q. In recent months many analysts have revised up their estimates on the share price, which is already at its highest point since 2001. Some, however, are also expecting higher profitability.

A. If we compare our results with those of our main competitors, we can see that the EBIT margin in our aerospace business is in line with theirs, at 8%.

Q. Is your remaining 6.5% stake in STM strategic, or do you expect to use it for further acquisitions?

A. We have about 2 billion euro earmarked for investment, which includes our shareholding in STM. Finmeccanica will make acquisitions when it finds the right companies at the right price.

Q. So you have an acquisition in the pipeline.

A. We always have acquisitions in the pipeline.

Q. You now own 100% of AgustaWestland. In the past you have talked of listing the company. Why haven't you done so?

A. Having total control allows us to tap synergies with other group companies as efficiently as possible. Today, the company can grow autonomously, without needing to float in order to finance itself.

Q. Despite your success in the United States in the helicopters business over the past two years, during which you won the contract to supply equipment to the Pentagon, you were recently beaten in a major tender. Some observers are saying that the policies of the current Italian government, which are cooler towards the US, are partly to blame. Do you agree?

A. Finmeccanica is well known in the United States, and we operate there via a number of important manufacturing partnerships. Of course political relationships count, but technical capabilities are more important, and that's what we have.

Q. Many big Italian banks are refusing to lend money to defence and weapons companies such as Finmeccanica. Unicredit was one of the first. Does this kind of attitude harm you?

A. We operate in the defence sector in full compliance with Italian law. Despite this, some big banks refuse to finance our export activities, even those to NATO countries. Finmeccanica is not seriously affected by this, as thanks to our size we can obtain financing from foreign banks. However, small and medium-sized businesses in the sector do suffer quite significantly. I think that is a disgrace.

Q. A disgrace?

A. Yes, absolutely, a disgrace.

Q. Finmeccanica's headquarters is only three kilometres from the Vatican City. Has the Church ever shown signs of distancing itself from Finmeccanica's activities?

A. No, never. I've had several meetings with the Vatican over the years, and the issue has never been raised.

Box: Aermacchi

A driving school in the sky

By the end of the year, Finmeccanica subsidiary Alenia Aermacchi will begin pre-series production of the M-346, a state-of-the-art training aircraft, following the completion of the prototype stage. The company, based in Venegono near Varese, will then test the first pre-series version of the plane, which has a world-leading technical specification, and will subsequently be ready for series production and market launch. The M-346 was developed in accordance with the stringent technical requirements of ten European air forces. It is currently the top-end model of the company's range of next-generation training aircraft, and is recognised as the best aircraft in its category, unique in Europe. It can simulate the performance, operational scenarios and cockpit of all the latest generation of fighter planes. This means its target market is not only air forces using the Eurofighter, but also those using the Gripen, the Rafale, the F-16, the F-22 and even the future JSF. **Pietro Romano**

Box: Selex Sistemi Integrati

From Naples to NATO

Now that the cold war is over, the requirements of NATO are changing, and so therefore are those of its suppliers. Selex Sistemi Integrati is rising to the new air defence challenges with particular success. Its radar systems—particularly the RAT-31/DL (pictured)—are set to be used as major components in NATO forces' air defence, after earning their stripes in the field over the last five years. The systems are now those most favoured by NATO. The main strength of this next-generation radar system, manufactured at Selex's facility in Fusaro near Naples, is its high degree of mobility: only one truck is needed to transport the whole apparatus. Moreover, since it is completely autonomous in deployment and withdrawal operations, it does not require a crane, and has a time into action of only a quarter of an hour from being placed, even in unprepared positions. **P.R.**

Box: Alenia Aeronautica

Pilotless flight

The sector of unmanned aerial vehicles is considered by analysts to be one of the most promising segments of the aircraft business. The European market is expected to be worth around 2 billion euro by 2012, while the global market looks set to generate revenues of 40 billion euro by 2030. As a result, Alenia Aeronautica has stepped up its efforts to gain a foothold in this attractive business. Recently, the Sky-X (pictured), a UAV technology demonstrator, took its first flight in Italy following an earlier trial stage at a base near the Arctic circle. Capable of carrying out a huge range of civil and security missions, the Sky-X is the first European UAV weighing more than a tonne. It also constitutes an

excellent showcase of Alenia's expertise in view of the nEUROn programme (the other countries participating in the programme are France, Greece, Spain, Sweden and Switzerland). **P.R.**

Chart:

SHARES REACH A HIGH

Finmeccanica' share price performance over the last five years

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