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PIER FRANCESCO
GUARGUAGLINI
The flight of Finmeccanica

LEADING COMPANIES: CHAIRMAN AND CEO PIER FRANCESCO GUARGUAGLINI SETS OUT THE GROUP'S NEXT STEPS

Finmeccanica – in for the long-haul

Interview by Pietro Romano

Pier Francesco Guarguaglini was recently reconfirmed as Chairman and CEO of Finmeccanica. Together with his colleagues, he has transformed a small public entity with no particular focus, thought to be on the verge of bankruptcy, into a leading company and one of the key global players in aerospace, defence, security, energy and transport: an innovation giant and Italy's leading high-tech group. On the eve of the Farnborough Air Show, this year's most important event in the aerospace sector, Guarguaglini tells *Il Mondo* about Finmeccanica's key strengths and its development potential in the sector.

Question. Mr Guarguaglini, how will Finmeccanica present itself at Farnborough? And what are its objectives?

Answer. This show will give us the opportunity of providing a complete overview of the solutions and advanced technologies offered by the group companies. And let's not forget that the UK represents a second domestic market for Finmeccanica. A great deal of our helicopter and defence electronics production is located there. In this regard, our main objective is to demonstrate our capacity to offer advanced solutions at all levels. Finmeccanica is a highly integrated group with a state-of-the-art technology base that can provide solutions for many complex scenarios. Each of our products is a complete system in itself, which can be sold separately or as an integrated part of more advanced solutions.

Q. What do you think of the fact that Farnborough opens the day after the announcement of cuts in the Italian defence budget?

A. For some time now, Finmeccanica has been following an international expansion strategy, which enables us to look to the future with justifiable optimism. Of course we are worried by the cuts, but bear in mind that a large portion of the group's revenues comes from abroad, not only from Europe but also from the emerging markets, and once we have got the go-ahead to acquire DRS, we should also be able to strengthen our presence in the US. Thanks to our focus on our core sectors and the international expansion embarked on in recent years, we are no longer strictly dependent on Italy, although, in our line of business, our domestic market has particular strategic value that

goes beyond the numbers: counting your national government among clients is always an excellent reference when approaching the international market.

Q. What's happening with the trainer aircraft manufactured by Alenia Aermacchi? It's the only company in the world that can provide a complete training system for military pilots, but the orders are not taking off...

A. We are extremely satisfied with the technical and technological qualities of the M346, the only next-generation advanced trainer aircraft on the market. Alenia Aermacchi is still working on refinements to the model, e.g. using composite materials and improving flight autonomy. As regards orders, we are awaiting finalisation of the contract with the Italian air force. Once we've secured this order, we are confident that other international orders will follow, e.g. from Singapore, the United Arab Emirates and perhaps the US. This is an excellent product and we are sure customers will be completely happy with it.

Q. Turning from Italy to abroad: Airbus chief Thomas Enders has indicated that we could soon have the results of the negotiations with Alenia Aeronautica on Italy's participation in the programme to build long-distance aircraft. How much of this is true?

A. We are still discussing and assessing Alenia Aeronautica's participation in the Airbus 350 project and expect to be able to settle this matter in the next few months.

Q. And from Europe to the US: will Boeing's acquisition of Vought's stake in Global Aeronautica speed up the B787 project? And what will the consequences be?

A. There won't be any particular consequences for the group following the change of partner: our stake will stay the same and the governance rules haven't changed. As for Global Aeronautica, nothing will change in terms of the corporate mission and workforce. We will still be committed to our support of the B787 programme, and there won't be any particular impact or changes affecting the supply chain.

Q. Still in the US, are you involved in the contest to build refuelling tankers, which was re-opened by the US Government Accountability Office (GAO) after Boeing appealed against the decision to award the contract to EADS?

A. In the competition between Boeing and EADS for the USD 35 billion order for aircraft refuelling tankers for the Pentagon, it would be good news for Alenia Aeronautica if Boeing - its partner in the 2002 agreement to supply the US air force with conversion kits for a tanker version of the 767 model - were to win.

Q. Again in the US, the delays in the delivery of the presidential helicopter fleet are causing controversy over there, including in the political arena. Could you tell us what's really happening?

A. The White House, the US navy and the Lockheed Martin-AgustaWestland industrial partnership are heavily involved in the development of the VH71, which is considered the only helicopter that can meet the required standards for transporting the president of the United States. Significant progress has been made with the programme. Since last November, four helicopters have been delivered for testing, and another five, part of the first phase of the programme, will be delivered by the end of the year. The White House

needs to obtain the new helicopters as soon as possible and we are working hard to meet that requirement.

Q. In short, the other reasons are political. But you have a significant presence in the US with a high degree of autonomy. Was the recent creation of Alenia North America a one-off or do you have other similar operations in mind for the US?

A. The mission of Alenia North America, a subsidiary of Alenia Aeronautica headquartered in Washington, is to expand the industrial and commercial presence of Alenia Aeronautica and its subsidiaries in North America. In the US, we recently created Alenia Defense Company, a wholly-owned subsidiary of Alenia North America, to strengthen defence activities. It will operate under a Special Security Agreement (SSA) to facilitate the management of classified information with the US Department of State.

Q. The US defence market has for a long time been the largest in the world and it's natural that we would want to get involved. But let's move to an issue that affects the entire aeronautics sector. High oil prices mean that low-consumption aircraft, such as the regional models manufactured by ATR (50%-controlled by Finmeccanica) will thrive. What stage are you at with the new ATR projects? Do you still intend to acquire control of the joint venture?

A. Owing to rocketing oil costs, we are seeing exponential growth in demand for fuel-efficient aircraft. To ensure we maintain our dominance of the turboprop transport market, together with ATR, we are stepping up the pace of our research on a new family of 50- and 90-seat regional commercial aircraft using new technology that will reduce harmful emissions, fuel consumption and operating costs. We are very pleased with the ATR results so far: revenues could increase from USD 1.1 billion in 2007 to around USD 1.4 billion this year and USD 1.7 or 1.8 billion in 2010. Moreover, we are expecting 50 new orders by the end of the year, which will bring our total up to an incredible 1,000 aircraft. As for increasing our stake in ATR, I don't think EADS is interested in selling its holding at the moment.

Q. Speaking of holdings, Avio – in which Finmeccanica has a 15% stake - , increased its revenues and operating profits in 2007 despite the strong euro. Do you regret the decision not to exercise your option when the Carlyle fund decided to sell, paving the way for the Cinven fund to acquire the stake?

A. No, we don't regret it. At that time we preferred to focus on, and invest in, other business sectors, and we can honestly say that we have been very pleased with them. I'm thinking of the acquisition of Westland, which pushed us into a leadership position in the international helicopters market, and of the acquisitions in defence electronics, which enabled us to consolidate and rationalise this sector in a crucial phase of its development.

Q. Mr Guarguaglini, Finmeccanica is one of the most global and well-regarded Italian companies abroad. With the recent Italian decree announcing the creation of a strategic committee for the development and protection of national economic interests abroad, is there not a risk that more bureaucracy will hamper the work of companies that have to compete globally and need to operate without too many constraints? In the meantime, does the Italian system support the group's international expansion enough and as it deserves?

A. I'm not worried about the creation of this committee, as this type of structure can only be of benefit to us. In recent years we've obtained concrete support from successive governments for the development of our international expansion policy, and I'm sure this support will continue in the future. In this respect, Italy has changed radically from how it used to be.