



Finmeccanica's strategy: the courage to make decisions

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HAVING A STRATEGY

To implement a strategy, a company must:

- understand the external scenario in which it operates;
- have an in-depth knowledge of its strengths and weaknesses;
- make decisions.

The first two points require experience, expertise and long-term vision, all of which can be acquired in time, and with good teachers.

The third point, however, demands a quality that cannot be taught: as Manzoni said: “one can’t give oneself courage.”

When you make decisions, you always run risks. You can’t think of developing a strategy without taking risks. The important thing is that these risks are understood, commensurate with the results expected, and not greater than the strength of the company running them.

Jack Welch said that: “if General Electric’s strategy of investment in China is wrong, it represents the loss of a billion dollars, perhaps a couple of billion dollars. If it is right, it is the future of this company for the next century”.

AT FINMECCANICA

When I took on my present role four years ago, Finmeccanica had just been listed on the stock market, but was still a smaller group than its international competitors, and therefore unable to invest sufficiently in technology and innovation, which meant it was not very competitive.

Furthermore, its attempts to play a part in the reorganisation of the aerospace and defence industry in Europe, which was beginning during this period, were rather ineffective.

The group had formed some international joint ventures, in which although it had an equal share, it was always in a position of weakness, either because the overseas end client was stronger than its Italian counterpart, or because its industrial partners were stronger and relegated it to a subordinate role.

One of my first decisions was to dissolve the 50-50 joint ventures, and focus for the future on alliances in which there was clearly a leader and follower: Finmeccanica could then decide which role to take.

HELICOPTERS

First, we tackled helicopters.

The helicopter market was one of the most promising in the aerospace and defence sector, and Finmeccanica was very well-positioned: at the time, we had a 50% stake in AgustaWestland, one of the world leaders in the business.

In addition, it had some excellent products, including the EH101, which played an excellent role in the development of the strategy.

Knowing that the tender for the contract to supply helicopters for the US president would be launched in the near future, we took the courageous decision to negotiate with GKN to buy the other half of AgustaWestland, and agreed to pay a slightly higher price than was due, convinced that winning this contract would repay us handsomely. Which it did.

DEFENCE ELECTRONICS

Our second challenge concerned defence electronics, and was much more complex.

This too was a high-growth sector, in which Finmeccanica boasted some world-renowned areas of excellence.

Finmeccanica had a 50-50 joint venture with BAE Systems in land and naval systems called AMS. Based on this, we started the Eurosystems

negotiations, with a view to extending the alliance to avionics, communications and air traffic control systems.

The negotiations were lengthy, and our objectives changed slightly, but in the end we got a very positive result.

We created two companies fully owned by Finmeccanica: Selex Communications, which included BAE's secure military communications business, and Selex Sistemi Integrati, with which we took control of the Italian part of AMS in addition to the air traffic control systems. And in avionics, we formed Selex Sensors and Airborne Systems, a joint venture in which Finmeccanica has a 75% share.

As a result, Finmeccanica became Europe's second largest defence electronics company, and also taking AgustaWestland into account, the second most important supplier to the UK ministry of defence, after BAE.

We now consider the UK as our second domestic market.

SPACE

We were faced with different choices in the space sector.

The market outlook in this business was more uncertain, although satellite services could count in the medium term on the development

of large European (Galileo, GMES) and national (Cosmo SkyMed) programmes.

Finmeccanica, which had acquired Telespazio shortly before, therefore decided to focus on the services sector.

Everyone knows that France is the leading country in Europe in the space business. The two largest European players are EADS, a Franco-German alliance, whose centre of gravity nevertheless is more towards Paris, and Alcatel.

To avoid being squeezed out by a possible agreement between these two giants, we decided to take the initiative, and began negotiations with Alcatel.

The decision in this case was to create two majority-owned joint ventures. We recognised that Alcatel was dominant in manufacturing, so ceded it the position of leader in Alcatel Alenia Space, while we focused on satellite services where we had a greater tradition, and therefore took a majority share in Telespazio.

This shareholding structure, together with rules on corporate governance that protect national interests in terms of security, know-how and employment, also put Finmeccanica centre-stage in the space sector.

IN CONCLUSION...

Our policy of having the courage to make careful decisions, to give up on something in order to improve in another area and to take risks to strengthen our position, has paid off.

Since 2001, we have doubled our revenues, from EUR 6.8 billion to EUR 11.5 billion, and the Finmeccanica stock has registered significant gains on the market.

Finmeccanica has become the second most important supplier of the UK ministry of defence, the sixth largest defence electronics group in the world and a European leader in space.

AgustaWestland's helicopters have been adopted not only by the US president, but also by the UK's Royal Squadron, and are in demand all over the world.

Today, Finmeccanica can talk to other European companies on an equal footing and lay claim to a widely-respected role for itself and Italy. It can also put itself forward as a reliable partner to the big US systems players and successfully compete on the main international markets.

After having earned the epithet of "rising star" in the European defence industry from the *Financial Times*, Finmeccanica is now faced with the perhaps even more difficult task of confirming its new position.

There is only one way to do this, and that is to continue to make

courageous decisions.