

ON THE RECORD— Pier Francesco Guarguaglini, chairman and CEO of Finmeccanica

## Finmeccanica's Growing Global Impact

Finmeccanica has dramatically changed its U.S. footprint over the past year or so with the acquisition of DRS Technologies, its Boeing 787 aerostructures joint venture (now with Boeing), the C-27J (with L-3 Communications but now without Boeing), and the expansion of AgustaWestland helicopter production in Philadelphia. Andy Nativi of AVIATION WEEK Show News interviewed Pier Francesco Guarguaglini, chairman and CEO of Finmeccanica, about his plans for the conglomerate — in the U.S. and beyond.

**Q** Considering the current low market value of some U.S. aerospace and defense companies, are you considering any further buy or major agreement? Are you considering Bell Helicopters?

**A** After having completed the DRS Technologies acquisition, it is time for Finmeccanica to consolidate its U.S. industrial presence. More than looking at new acquisitions, we need to realize deeper integration between the group companies and the “newcomer” DRS to be able to offer, not only on the U.S. market, a complete range of Finmeccanica solutions. At this point, the U.S. is yet another “domestic” market for us (alongside Italy and the UK), but this is not to understate the effort needed to be perceived fully as a “U.S. domestic company.” There is some parallel with the UK after we acquired Westland and some BAE Systems activities.

**Q** Are you targeting companies outside the U.S.? Do you have large enough financial shoulders for such a move, or do you still need to “digest” the DRS acquisition?

**A** I think our course over the last few years, aimed at penetrating the UK and U.S. markets, can be considered...a satisfactory one. Now our goal is to consolidate, not only in the “domestic” countries, but also in other emerging markets that represent opportunities due also to the wide range of products and solutions that we are able to offer. On the financial side, our strategy is to keep the debt level (such that we have enough cash) to continue heavily investing in technology, something that is very important for a group like Finmeccanica.

**Q** A few years ago, you proposed to EADS that you acquire their



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50% stake in the joint venture ATR. Now, after an extraordinary growth rate, ATR is throttling back, and this should have an impact on its market value. A second try, perhaps? **A** We had made clear our interest in acquiring their 50%, but they... did not want [to sell] it. As you know...to close a deal, both sides need to agree!

**Q** Did you ever wonder what price you could have paid to acquire DRS now, had you a crystal ball to anticipate the financial meltdown?

**A** The DRS acquisition is key for Finmeccanica, because it has allowed us to enter with a full U.S. pedigree into the U.S. defense market. The evaluations cannot be assessed as if it were done now. I'm happy with what we have done and I think this acquisition has been

achieved with tight (quick) timing. Today a similar acquisition would probably be much more difficult.

**Q** For first quarter '09, you said that thanks in particular to DRS, the U.S. market drove the results of the whole group. How do you see the future?

**A** DRS Technologies is strongly contributing to Finmeccanica in financial terms. I think this will continue in the future, considering the new strategic directions of the U.S. DoD. U.S. Army efficiency depends on upgrading many systems already in service as well as on continued maintenance, and DRS is exactly capable of making this happen.

**Q** Are setbacks suffered on the C-27J (reduced buy) and VH-71 (canceled) affecting your strategy?

**A** No matter what, the U.S. is and will remain a strategic and highly important market for Finmeccanica. On the C-27J tactical transport aircraft, it is important to point out that the current planned 38 aircraft are only a floor, not a ceiling, not the maximum number of C-27Js that will be acquired. Then there's a National Guard requirement for more than 70 aircraft, and there are plenty of opportunities for the C-27J around the globe.

**Q** If a new presidential helicopter competition were started in



2010, would you consider participating again?

**A** Sure, we're fully convinced that the US 101 represents the best helicopter in its class, and in the VH-71 variant, it's a very good solution to meet the requirement for a new U.S. presidential helicopter. The White House needs a new helicopter, a safe and secure one.

**Q** Will Finmeccanica become increasingly U.S.-centric, or is it becoming more global?

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**Q** The U.S. Air Force could acquire a new advanced jet trainer to replace the aging T-38, with entry into service as soon as 2017. That means that product and teaming choices are to be made pretty soon. What do you intend to do for the U.S. competition? Go alone as a prime, maybe using DRS as a prime, expand the agreement you have with Boeing on the M-346, or choose somebody else, like L-3 or Northrop Grumman?

**A** The M-346 Master is attracting strong interest worldwide, partly due to its recent win in the UAE. The U.S. has issued an RFI to proceed toward the replacement of the T-38, and we consider our M-346 as the best aircraft for this requirement. We are still studying potential alliances/teaming, including also DRS. In Singapore, for instance, we are teamed with Boeing to compete for the local advanced trainer requirements.

**Q** You frequently stated that Finmeccanica's growth strategy is based on three domestic markets (Italy, UK and the U.S.). Nevertheless, your company has built a number of wide-ranging agreements in other countries as well: For instance, in Russia (Alenia Aeronautica and AgustaWestland) and the Middle East (in the UAE, with Mubadala). Does this mean that you are now considering more "centers"?

**A** Our strategy in other countries is aimed at establishing technological and industrial cooperation agreements, because we think that it is important to establish a strong presence locally, instead of simply trying to "sell and run" on a single product. This is what we are doing in Russia, in the UAE, in Turkey, in Libya and in those countries where we want to expand our role.

**Q** Can you describe what you foresee for Finmeccanica in Russia, and how you could evolve the cooperation with Mubadala in the UAE?

**A** As for Russia, we have several

interests in the civil/commercial domain (railways, energy, postal automation, ATC), and we are forecasting substantial developments, starting with the Sukhoi Superjet 100 regional jet that is debuting at the Paris Air Show. We must not forget the important agreements that AgustaWestland has signed to establish a joint venture in Russia to locally assemble the AW-139 helicopters aimed for the Russian market and some other markets, while there are also growing opportunities for homeland security.

In the UAE, after the selection of the M-346, we are continuing to cooperate with Mubadala in the area of composite materials and structures for commercial aeronautical applications. And we think this cooperation could expand to other areas as soon as Mubadala and Finmeccanica get to know each other better.

**Q** Many big players are buying or creating joint companies in India. Finmeccanica seems less industrially aggressive there despite having substantial interests in that country. Why?

**A** Our companies have been operating in India for many years, and we have opened a Finmeccanica office in New Delhi. We consider India a strategic country, and we are working to develop our business and operations there, as confirmed by the recently signed agreement between AgustaWestland and TATA to create a joint venture for the local assembly of the AW-119 helicopter, or the new plant recently opened by Ansaldo STS.

**Q** Eighteen months ago, Finmeccanica laid out its organic growth plans through 2010 (when it aims to achieve €16.5 billion of revenues from organic growth), an EBIT

margin of 10% and Free Operating Cash Flow after investments, net financial charges and tax increasingly aligned with Net Operating Profit after Tax. Where does this stand now? What's the target for beyond 2010? And how will it be achieved?

**A** Given the world's very difficult economic situation, I consider noteworthy that Finmeccanica is the only European aerospace and defense company that has made public its 2009-2010 financial guidance, forecasting for 2010 revenues between €17.4 and €18.6 billion, and an EBITA margin of around 9.5%. I think this is giving enough light on our predictions for the future. And we are going to achieve these results through organic growth of all the key businesses: helicopters, aeronautics, and defense and homeland security electronics.

**Q** Finmeccanica has repeatedly stated that it is considering selling, before the year-end, assets, stakes and activities worth EUR500 million to 1 billion in order to reduce financial debts. Where do you stand?

**A** Within the assets we are considering there is Ansaldo Energia, a company that is scoring incredibly well and that could be floated in the stock exchange, if and when the

markets will be back to more normal conditions, and, anyway, continuing to keep the company control in our hands, as we have already done with Ansaldo STS.

**Q** Is the Italian government's temptation to consider Finmeccanica as a sort of "Red Cross" to save troubled industrial entities beyond economic or industrial rationale — as it is now suggested for the 10-14% stake that your company could take in the former Alitalia Atitech MRO company at a time when you were scaling down your own MRO activity — affecting your strategies and performances, or is it a price than can be paid?

**A** I can guarantee you that all our decisions are following a clear strategy and have delivered overall advantages for the Finmeccanica group. This has satisfied all our shareholders — including the Italian Treasury, which is our controlling shareholder — which over the years have received a positive financial result due to the dividends payout, which we have increased over the years. I would like to point out that from 2004 to 2008, we more than doubled the dividend per share, and we plan a further growth in the next years. As for Atitech, our position is known: We could consider only a minority stake.



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