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Finmeccanica: interview with Pier Francesco Guarguaglini

### “Our helicopters will fly in Russian skies”

Growing profits for Finmeccanica which, encouraged by its Sukhoi experience, is aiming at the civil market

BY CLAUDIO ANTONELLI

Pier Francesco Guarguaglini is not afraid of General Winter. As early as next year, we could see him, complete with padded gloves and a warm bearskin, lowering himself on a rope like a commando from a blazing AgustaWestland helicopter right in the middle of Red Square. The Russia of Vladimir Putin, after more than a decade of quiescence is growing exponentially, and thanks to its gas and oil resources has a really well-stocked portfolio (...)

(...) Russia's internal transport is evolving. Finmeccanica is already present in railways, post office, automation and air traffic control. According to experts at Rasbank, with the Sukhoi joint venture, “the Finmeccanica group could attain global market leadership in regional aircraft with a range of up to 5,000 km. A glorious season for the civil helicopters business is opening up, and the Rome-based company does not intend to let the opportunity to obtain pole position pass them by.

**According to some analysts, it is becoming increasingly difficult to assess investment risk in Russia. The political situation is becoming increasingly centred on the figure of Putin. The assets of large energy companies have been expropriated and ENI in Kazakhstan, which is very close to Moscow, is feeling the pinch. Do you think there are risks for Finmeccanica or are you going ahead with the investment?**

“First of all, we need to distinguish between internal transactions and those that are open to the free market. We have secured some large orders in Russia. I'm referring to the railways, the postal system and hopefully automated air traffic control. I don't see any risks at all for us here. Finmeccanica supplies the technical capability, which is exactly what the Russians need. So we will continue to fill the gaps that are gradually opening up. The joint venture with Sukhoi, however, is completely different. Alenia Aeronautica and the Russian aeronautics company have signed a memorandum of cooperation to develop a new family of regional transport helicopters for civil use (Russian Regional Jet, ed.). Another three smaller agreements involve Aermacchi. The Joint Venture has started. Finmeccanica is not interested as much in the manufacturing side of things as in the engineering, design, client assistance, technology and materials. Production will be mainly done in Russia, although it could involve Italian manufacturers. But what I really

must stress is that the Superjet 100 represents a new development; for the first time we are working with the Russians on a joint project to conquer new markets and find new niches in other continents. It's a challenge that we believe in and we're going to invest heavily in it. Furthermore, we are convinced that at the same time we can grow further in the internal market and increase sales."

**When you talk about the internal market, which one are you referring to? Helicopters?**

"I'm talking about our helicopters and the expanding Russian market for civil use. I'd just like to flag up that at the moment we haven't got the exact figures on civilian helicopter growth. We are doing the sums as we go. But what's certain is that big new opportunities are opening up. And I think our products are good for Moscow. As a result, I see our company continuing to invest in Russia in the near future."

**As part of your growth strategy in this region, do you have acquisitions in mind?**

"At the moment, I would say 'no'. However, Finmeccanica hasn't called a halt on acquisitions. The company continues to be alert to the possibility of making acquisitions around the world, but the important thing is to have demonstrated that we can grow and expand by ourselves, without having to do this. Speaking of share prices, I think that after the latest falls on the stock market, defence and energy are the sectors that lost the least, in negative terms. Given that some defence companies are valued at very high prices, an acquisition to justify the investment must involve significant synergies of scale."

**The Superjet 100 project is going full steam ahead. The European military arena, however, in the form of the Eurofighter, seems to be breaking down, so will you make up for this with the Saudi Arabia contract?**

"Finmeccanica estimates it will obtain EUR 2 billion in revenues from the order in Saudi Arabia for 72 Eurofighter aircraft, but we mustn't think this contract will make up for the third tranche of aircraft in the pan-European project. Each country is reassessing it, taking into account their budget requirements. In the case of the UK, it is clear that supply orders are being reappraised. Certainly Saudi Arabia wants the aircraft quickly. Following the order there will be an in-depth debate for all countries, as reducing the order quantity will also lead to a hike in the price. The order received from Arabia for 72 Eurofighter Typhoon fighter planes, should be secured within a year, but for Finmeccanica this will not be a replacement for the UK order".

**Going back to Europe, the exact percentage of Finmeccanica's involvement in the Airbus A350 project will be determined by the end of 2007 or early 2008 at the latest. Is there any news on the Thales dossier?**

"Finmeccanica senior management hasn't received any word from the French government on the deal with Thales (the publicly-controlled French defence electronics leader – ed). The next opportunity to take stock of the situation will be at the next

meeting in Nice, scheduled for the end of November, when we can review industrial strategies, including the defence strategy. However, if the Thales option is returned to the table, this does not rule out possible acquisitions.”

## **On the Stock Market**

### **Ansaldo Energia IPO**

Finmeccanica senior management confirm their intention to list subsidiary Ansaldo Energia on the stock market. But they will consider this option only when the markets have stabilised. The transaction, therefore, looks likely to take place from early summer to autumn 2008. So says Finmeccanica Co-General Manager Alessandro Pansa, who met the press for the presentation of the half-yearly results. “I believe in listing a company at the right price without squeezing investors; it also guarantees the share has some upside potential”, explained Mr Pansa, adding that “Ansaldo Energia’s prospects confirm the possibility that the company will be ripe for listing”. Therefore, the top manager went on, “if the markets stabilise, we could be having this conversation again in two months’ time.” As for timescale, Mr Pansa pointed out that “a company IPO could take around five to six months”.