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INTERVIEW

Pier Francesco Guarguaglini

Chairman of Finmeccanica

"Cuts to the US budget? Essentially they work in our favour"

Gianni Dragoni

For a group that has made growth in the United States and Great Britain a priority, with acquisitions to the tune of EUR 6 billion in recent years, the verdict of Goldman Sachs is a hard blow to parry.

Pier Francesco Guarguaglini, Finmeccanica chief, insists that the stock is undervalued. Yet on 8 June, the date that the American bank released its report advocating the "sale" of Finmeccanica shares, thereby lowering the 12-month target price from EUR 11 to 10, Guarguaglini could barely keep his eyes off the monitors displaying Finmeccanica's nosedive (benchmark price of -3.6%). It is the only negative report of the 10 issued by banks after 20 May, among which are recommendations to buy by Morgan Stanley (target price EUR 15) and by Citigroup (EUR 12).

"The actions of the United States and British Governments in the past two months confirm their desire to cut defence investments and to reform military procurement contracts. These two markets account for some 30% of Finmeccanica sales and the Italian defence budget is also under pressure", according to Goldman, adding that "in May, US President Obama announced much lower than expected defence investment costs for

2009 and 2010, especially in the Army which is Finmeccanica's biggest customer in the United States".

Guarguaglini dismisses pessimism. **"The fact that the USA wants to reduce its technological commitment to cutting-edge technology and purchase inexpensive and ready-developed products works in our favour. The DRS Group is close to the Armed Forces, working chiefly with the Army and Navy, and is well versed in upgrading existing products and coming up with new ones"**, according to Finmeccanica's Chairman. **"I think the prospects for the sale of Alenia's C-27J despite the announced reduction in the requirements of America's Armed Forces from 78 to 38 aircraft remain good. This was stated as the minimum quantity and not the upper limit"**. Guarguaglini is due to meet in Paris this week with Ronald Sugar, CEO of Northrop Grumman, with which Finmeccanica is seeking a partnership to build the C27J for the US Armed Forces, following the failed agreement with Boeing.

The aircraft is still being produced in Italy and together with its American partner and prime contractor L-3, at a rate of six aircraft per year, set to rise to eight in 2010. **"We are momentarily shelving our plan to build a facility in the United States, as we had originally thought to do. There is no need for it unless we are called on to deliver one a month. We'll wait and see whether new business comes our way"**.

The contract for the US Presidential helicopter was declared "closed" by Defence Secretary Robert Gates following delivery of nine machines. The contract provides for payment of a penalty to Agusta - Finmeccanica in the Lockheed-led consortium, but Guarguaglini maintains that **"there is still everything to play for because there's always a need for helicopters; the cutback was decided mainly for political reasons, to show that the President is the first to make savings"**.

Relations with Boeing in the USA are still ongoing for supplies of parts for the new Boeing 787, the "plastic plane", as its detractors call it, whose maiden flight is already more than two years overdue. Problems have also arisen with supplies of the first fuselages produced in Italy. A team of Alenia engineers has been sent to the United States to remedy some of the errors in the fasteners inside the fuselages. **"Alenia is putting right glitches affecting seven fuselages"** said Mr Guarguaglini.

In Europe, corporate merger plans have been sidelined. **"We are partners with Eads in the ATR programme, which is moving forward. We have a 25% stake in MBDA which we do not intend to sell. We did not get involved in the Airbus 350 project because we wanted to tie in our partnership with the purchase of their facilities. We're not heavily engaged in discussions with Eads"**.

The prospects of a merger between Finmeccanica's and Thales' defence electronics businesses have faded. The 21% owned by Alcatel was recently sold to Dassault, which previously owned 5% and is now Thales' key industrial shareholder, alongside the French State which has a 27% stake. **"I'm due to meet the new Chairman of Thales and the**

CEO of Dassault. I look forward to our continued partnerships in space and in international programmes", said Mr Guarguaglini.

A shopping moratorium. **"I don't think we'll be making further acquisitions. If we want to control our debt ... a further capital increase is out of the question"**. The aim of the Group is to dispose of assets in order to raise between 500 million and one billion this year. What will Guarguaglini sell? **"The residual 3.2% in STM. Once things are sorted out, we can divest stakes in AnsaldoBreda and in Bredamenarinibus, which is receiving orders. Our model is to replicate transactions such as Ansaldo Sts, which we floated whilst retaining 40%: floating shares on the stock market, if possible, or transferring them to partners, which we're thinking of doing with Ansaldo Energia as well. Sts has greater autonomy, but also the support of Finmeccanica"**.

Guarguaglini rules out any interest in the proposed 300 million recapitalisation plan for Fincantieri. **"No one has approached me with proposals. Right now we want to contain our debt - he clarifies - I've given no consideration to anything"**.