

Finmeccanica's "twin engines"

"We are on the look-out in Europe and no longer an outsider in the United States".

Finmeccanica has a two-engine strategy; Europe and the United States are equally important growth markets, while Alenia's sales will continue to be driven by both Boeing and Airbus; the US market is being prioritised because it is the biggest global market for military expenditure; the group is looking to expand in defence electronics, with further acquisitions of up to two billion euro possible. In an interview with *Il Sole-24 Ore*, this was how Pier Francesco Guarguaglini, Chairman and CEO of Finmeccanica, described the aerospace group's plans in light of the new foreign policy of the Prodi government, which is more eurocentric than Silvio Berlusconi's. The group's leader is optimistic and sees no reason to change the group's current strategy, which, he explains, "is not pro-American" but simply the result of "a realistic assessment of all world markets and possible alliances". Mr Guarguaglini sees Ansaldo Energia going down the same route as Ansaldo STS—that is, stock market flotation. "Our energy business is beginning to pick up, thanks to a tighter focus on support services, which are far more profitable than manufacturing."

Mr Guarguaglini, who has led Finmeccanica since 24 April 2002, also has plans to establish a committee of overseas consultants. "Within the next couple of months I plan to establish an international advisory board for defence and aerospace consisting of between eight and 12 experts in the field. There will be one or two Italians, a few Americans, perhaps some English, French and Indian experts. They will be able to make a significant contribution to our strategies and market knowledge." The board of directors meets today to approve the 2005 accounts.

BY GIANNI DRAGONI

The new Prodi government has a eurocentric bias. Mr Berlusconi, on the other hand, prioritised Italy's links with the United States. Will this have any effect on your alliances?

I am optimistic. I don't think our strategy has been pro-American: we made a realistic assessment of all world markets and possible alliances. We acquired 100% of AugustaWestland because we expected the White House contract to be awarded to the EH 101 helicopter. We have also renegotiated our defence electronics agreements with BAE systems. Our third alliance in the space sector is with the French company Alcatel. This reflects the fact that in the defence sector it is easier to forge alliances with UK companies than with French companies. The US defence market is worth USD 150 billion, the UK market is worth USD 15 billion, the French market USD 14 billion, and the Italian market USD 3.3 billion. Our policy has not been to enter into structural alliances in the United States but rather to gain a foothold in the world's largest defence market. This is also a target market for many of our rivals including Thales and EADS. If being successful on this market is something we should feel guilty about, I hope we will have more reasons to feel guilty in the future.

How influential was the "you scratch my back, I'll scratch yours" brand of commercial diplomacy practised by Presidents Bush and Putin and so frequently cited by Mr Berlusconi?

It is not a question of scratching anyone's back. The support of the British Government has been equally important to our global expansion as the support of Mr Berlusconi's. So it's mainly in the aerospace sector that Alenia appears to prefer Boeing or a US partner...The

notion that we are more pro-American than Eurocentric I think originates from Italy's withdrawal from the A400M programme. This decision was taken by the Italian Government before my arrival. Others decisions, including those relating to the JSF fighter plans, tankers, and C130J transport aircraft, are down to the Italian air force. Alenia would have liked to collaborate in these programmes Then there is the civilian market There were attempts to forge European alliances, including EMAC's agreement with EADS, prior to my arrival. I am not in position to say where the responsibility for their failure lies – only that by 11 September 2001 events were such that the agreement had broken down. I believe this particular agreement guaranteed EADS a certain volume of work if Boeing backed out. The solution adopted by Alenia is, as Mr Andreotti used to say, to have “two engines”, that is to have technology advanced enough to be able to supply both Boeing and Airbus. Boeing's policy is to outsource as much as possible. EADS outsources a much lower volume; accordingly, the volume of work we can win from Boeing is considerably greater.

What if the Government asked you to get involved in the Airbus programme?

It would be very damaging to Finmeccanica to have to change our strategy, which is to focus on aerospace technologies, and to have to choose who we supply, especially bearing in mind the investments we have made in Grottaglie and in Charleston in the United States for the Boeing 787.

If I must give an opinion today, then I agree with Tom Enders of EADS. In other words, if Italy had joined the Airbus programme 25 years ago, we could have played a significant part, like BAE, which today owns 20% and has a key role. But the situation is completely different now. Airbus has launched its products. It sees Italy as a market rather than an industrial partner. The stake Italy could acquire would be no greater than the 5% obtained by Spain, and the volume of work would also be limited. I don't think it would be worth investing too much, even if we had the resources, for so little reward.

Have the attempts to get Alenia involved in the A350 programme been unsuccessful?

Airbus is currently reviewing the project, the product and the market. We are ready to be a risk-sharing partner, as we were with Boeing for the 787, an aircraft that has met with considerable commercial success and therefore generates numerous contracts for Alenia.

Has there been a “White House effect” on helicopter orders after President Bush chose yours?

The biggest impact is likely to be felt in the United States, at AgustaWestland. Finmeccanica is now very well known, whereas three years ago it was an outsider. There is great potential. The tender for up to 300 light utility helicopters is also due soon. In addition to our US139, Eurocopter and Bell will bid for the contract.

Why was the agreement with Bell for the A139 terminated?

We terminated the US distribution agreement for the A139 due to conflicting interests. We thought Bell had made insufficient effort to penetrate the US market.

You also terminated your long-standing alliance with Lockheed for the C27J military aircraft. Why was that?

Once again the termination was due to conflicting interests. Lockheed was looking to persuade clients that its C130J was the right solution for their transport requirements and this was making it difficult to promote our C27J. We decided to look for a group that would be interested in promoting our product and we found L3. We will take part in the US tender for 200 aircraft along with L3 and Boeing, which has significant clout with the US Government and gives us invaluable know-how in aeronautics. The avionics of the C27J will be

considerably improved. Lockheed will be our rival with a smaller version of the C130, and we will also be up against EADS- CASA.

How are the talks with Thales going following the transfer of the satellite business of your existing partner Alcatel?

The first step is to precisely define the assets to be transferred and the new perimeters of the two

joint ventures, because Thales is already active in the space sector. Thales has ground-based operations that will have to be transferred either to the Alcatel Alenia Space joint venture or to Telespazio. The next step is purely hypothetical at the moment. We are interested in extending the agreements to include defence electronics, once we have concluded our alliance with Thales.

Finmeccanica still operates a large number of different business lines. Do you plan to exit any of these businesses?

Defence electronics and helicopters are the fastest-growing sectors. We are looking to become more streamlined and more focused, but we have no plans to withdraw from the defence sector. In the transport business we have already concluded the floatation of Ansaldo STS.

And what about Ansaldo Energia?

If the energy business continues to improve, we may take the same route as we did with STS, that is, floatation, but not this year. The company has been restructured to focus more on global services and support both for our own equipment and for equipment manufactured by third parties. This sector is far more profitable than manufacturing.

EADS wants to buy your holdings in BAE and your 25% interest in missiles company, MBDA.

I don't know what BAE is up to. We have no intention of selling unless it was an extremely attractive offer.

Why hasn't the agreement with Sukhoi for regional jets been successful?

What is happening is that the Russian Parliament is changing the law that sets a 25% ceiling on foreign holdings in aeronautical companies. President Putin has indicated that he is willing. The former minister Scajola has signed an intergovernmental agreement that should result in an operating agreement. Boeing is acting as advisor to the programme.

Why do you want to acquire the 50% of ATR currently owned by EADS?

In the agreements with Moscow it is envisaged that a joint venture between Finmeccanica and SCAC, a subsidiary of Sukhoi, would assume responsibility for the entire market, excluding the Russian market. ATR could take on this role but only on condition that we are the majority shareholder. If the agreement were to come to fruition, we could perhaps set up a second assembly line in either France or Italy.

Do you have the resources for further acquisitions?

We own 6.6% of STM, which is worth around 900 million euro. The main sector in which we are looking to expand is defence electronics and we could invest up to two billion either in Europe or in the United States.

How much have the cuts in Italian defence spending affected you?

We have been able to combat them to some extent thanks to grants from the Industry Ministry

for the Freccia and Eurofighter But what's clear is that Italy's armed forces have had to take cuts of 50% in both operating and capital expenditure. If this situation were to continue, I think the defence sector will have to come up with a new model for the armed forces. We could say that if it was an industry, some jobs in the army would be under threat. Any further cuts in the future would cause problems for our industrial activities in Italy. Therefore we are investing overseas because this is what the countries in question request when they buy our products.

Why is it that seven former heads of the armed forces have become chairmen of Finmeccanica group companies? And that their boards of directors also include ambassadors?

We do not hire managers for the purchasing of weapons systems. We believe that a person with experience of military operations can contribute to the development of our products. For example, the most recently appointed director, General Fraticelli, can considerably enhance OtoMelara's ability to interpret client requirements. We can also take advantage of their international contacts. It is a practice that has also been adopted in other countries.