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DEFENCE An interview with CEO Pier Francesco Guarguaglini

Finmeccanica seeks broader partnership with Thales

After dissolving its ties with Alcatel to team up with Thales in the space sector, Italian group Finmeccanica is seeking a broader partnership in defence electronics, as long as it is treated on equal terms as the French group's shareholders, explains Finmeccanica CEO, Pier Francesco Guarguaglini, in an interview with Les Echos. Such a move, he says, would create a defence electronics player to rival US companies. However, he is also exploring other partnerships

in the sector, with EADS and its subsidiary Airbus. Finmeccanica is keen to acquire the 50% stake held by EADS in regional aircraft maker ATR to help achieve its goals in this area alongside Sukhoi of Russia. However, Mr Guarguaglini has ruled out purchasing a stake in Airbus or any of its industrial sites. The Finmeccanica CEO is ready to discuss these hoped-for partnerships after the French presidential elections.

“With Thales, Finmeccanica could rival the US in defence electronics”

“My intentions have not changed [regarding defence electronics]but only if Finmeccanica has the same position in Thales' capital as its French reference shareholder.”

“We would like to combine ATR's resources and our participation in the Superjet 100 programme with Sukhoi. To do that, we need control of ATR”

The Italian Group Finmeccanica, which has now formed an alliance with Thales in space activities, aims to broaden the scope of the partnership to include defence electronics, on condition that it is treated on equal terms as the French group's shareholders. This would create a player to rival the Americans, says Finmeccanica CEO Pier Francesco Guarguaglini, in an interview with *Les Echos*. However, this will not prevent the group from exploring other partnerships in the sector, with EADS and its subsidiary Airbus, possibly via an exchange of key assets. Finmeccanica could take over EADS' 50% shareholding in ATR to further its goals in regional transport aircraft, alongside the Russian company Sukhoi. However, the purchase of a stake in the European aircraft maker or of any of its industrial sites is not on the agenda.

Last week, Finmeccanica sealed its partnership with Thales, ending its tie-up with Alcatel. How can this alliance succeed when you so often compete with each other?

It is true that Thales has a strong presence in defence electronics, like Finmeccanica, while Alcatel Lucent focuses on civil communications. We have already been discussing for some time how to create a 'Chinese wall' between our joint-ventures, Thales Alenia Space and Telespazio, and our other competing businesses. But this alliance will give us greater strength in the space arena. I think that Denis Ranque (CEO of Thales) and I will meet in a month's time to discuss how to strengthen the links between

Are you still in favour of an alliance with Thales in defence electronics ?

My intentions have not changed, but only if Finmeccanica has the same position in Thales' capital as the French reference shareholder, whether it be Alcatel, the government, EADS or anyone else our two joint-ventures. This was not on the agenda with Alcatel.

Two partners in a company's capital are enough. I am prepared to discuss this again after the French elections.

Safran is also seeking partners in defence electronics. Are you interested?

For historical reasons I am well-acquainted with some parts of Sagem. A link-up with Safran could make sense for Finmeccanica. But I haven't met with Francis Mer since he was appointed chairman of the supervisory board.

Not forgetting EADS...

If Finmeccanica and Thales were to form a partnership in defence electronics we could rival the best US players. A tie-up between Finmeccanica and EADS would also make us stronger, but not to the same extent. And Thales and EADS could always form an alliance...

More generally, what sort of partnership do you envisage with EADS? We are having very open discussions with Louis Gallois and Thomas Enders. In recent meetings we have reviewed our businesses to see where we could join forces, sector by sector, rather than at global level. But it isn't easy to find joint-venture opportunities. We want a fair exchange where we would have control over some sectors and EADS control over others. But EADS managers have been very involved in implementing the Power 8 plan in the past few months. Things will become clearer after the French elections.

Have you come to an agreement with Airbus over your participation in the A350 programme? We are still in talks for a risk investment of about 5-6% in the programme. But we are not interested in acquiring any of the industrial sites for which Airbus is seeking partners.

You are already one of Boeing's biggest partners in the 787 programme. Does this create difficulties in terms of your relationship with Airbus? As Mr Andreotti (Italian prime minister in the 1970s and 1980s) used to say, you should always have two irons in the fire. For us this means having the technological know-how to work equally with Boeing as with Airbus. This is the case in composites, which we can sell equally well to both companies.

Is the purchase of a stake in EADS or Airbus possible? We will not acquire a stake in Airbus. What would be the point, if we only had 4-5% of the workload? That would mean paying a lot of money for virtually no influence.

As for EADS, we would only acquire a stake within the framework of a general industrial agreement, because we are competitors in some areas, such as helicopters.

In regional aviation, how would you manage your 50-50 alliance with EADS in ATR

and your new partnership with the Russian group Sukhoi in the Superjet 100 programme? We would like to combine ATR's resources and our participation in the Superjet 100 programme with Sukhoi. In order to do that, we need to have control of ATR and must therefore reach an agreement with EADS. EADS has already told us that it does not

plan to sell its interest in the company, so we will have to find another solution.

This question also affects the location of the joint-venture with Sukhoi, because if it goes ahead it could lead to the installation of a second assembly line for regional aircraft, in Italy or at Toulouse, if we reach an agreement with EADS.

Could the solution be an exchange of assets with EADS in other areas, such as space launchers? In Italy, the launchers business is controlled by Avio, in which Cinven holds an 85% stake and Finmeccanica the remainder.

We could take it back. But if we and EADS were to combine our launcher activities, we would be a minority shareholder, which would not suit us. In that case, why not sell them our space launcher business in exchange for other activities over which we would have control, such as ATR's regional aircraft or defence electronics? That was my suggestion.

Are you confident that you will be able to convince EADS? I was, but I am less confident now. EADS's defence electronics business is mainly located in Germany, while ATR is in France. The fact that the various governments hold their own opinions is an added complication. For the time being, there is no solution.

INTERVIEW CONDUCTED BY BRUNO TREVIDIC AND ALAIN RUELLO