

**FINMECCANICA - Stars on the board
(Dossier F&M -SDA Bocconi - How Finmeccanica broke
the government's dual chairmanship tradition)**

By SIBILLA DI RENZO

Pier Francesco Guarguaglini has taken Finmeccanica up the rankings of the biggest global players in the aerospace and defence industry. The figures say it all: group revenues rose from EUR 7.8 billion in 2002 to EUR 11.5 billion in 2005. Less obvious are the CEO's efforts to improve corporate governance rules. As in many other former state-owned companies, the basic framework of these has gradually been honed since they were established in 2000, when Finmeccanica was privatised. Today the group has a strong network of internal checks and controls that go beyond the provisions of the code of conduct for listed companies. As well as an internal control committee and a remuneration committee, a strategy committee has also been set up, tasked with the preliminary assessment of options to be put to the board. There is no appointments committee, but a statutory provision for list voting and the participation of smaller shareholders make up for this absence. Minority shareholders presented two lists the last time the board of directors and board of auditors were renewed, which was almost unique in Italy. It might seem strange that Guarguaglini was the manager who brought to an end the dual-chairmanship system that had always been in place at Finmeccanica, and which more than once led to serious disputes. After Roberto Testore left to join FS, Guarguaglini, with the backing of the Treasury, which holds a 33.82% stake in Finmeccanica, took the helm alone with the double mandate of chairman and CEO. At the same time, however, he gave more power to second-line executives, appointing a strong general manager (Giorgio Zappa), as well as two co-general managers Alessandro Pansa and Remo Pertica. Looking at what has happened at the Franco-German group EADS, which is also based on a system of dual chairmanship and two CEOs, this seems to have been a good decision. The European aerospace giant has suffered internecine battles, accusations of insider trading and problems with industrial management that over time have undermined the flagship programme (A380) of the group's subsidiary Airbus. Noël Forgeard, accused of insider trading along with his family, was forced to resign. The French government, a shareholder in the EADS consortium with a 15% stake, immediately appointed a replacement, but nevertheless aims to get rid of a model that has delivered poor results.

Mr Guarguaglini, what has been the outcome of the decision to unite the top jobs at Finmeccanica, a move that bucked the trend among companies in which the government holds shares?

Combining the posts of chairman and CEO in a single mandate responds to the need for strong leadership, which also means that complex relationships with our foreign

partners can be better managed. The change was backed by the group's majority shareholder and also supported by the broader consensus of shareholders.

Including subsidiaries, affiliates and other companies in which Finmeccanica holds shares, the holding company heads more than 400 companies. Furthermore, 5% of Finmeccanica's capital is held in the US and 10% in the UK. Do you believe that the corporate governance regulations are adequate?

The system we have put in place complies with international best practice. The articles of association were changed when the group was privatised: amongst other things, the minimum shareholding required to submit lists was set at 1%. This percentage is in line with the minimum provided for by the privatisation law. The law on savings protection set the upper limit at 2.5%. The board also carries out periodic assessments of the independence of its non-executive members, using criteria from the code of conduct and information provided by the directors themselves. Following the assessments carried out in March 2006, eight of the ten non-executive directors were considered independent. Regarding internal dealing, the board of directors has replaced the old code with the new reporting threshold (EUR 5,000) and set out those defined as "key individuals".

The company operates in a particular business requiring specific expertise. Don't you think that the independent directors, who in the Italian tradition are above all financial and legal experts, might not have the skills needed to make the fullest assessment and might therefore not be able to make the right strategic decisions?

The people on the board have great expertise. However, I try to facilitate decisions by sending out appropriate documentation and giving a very detailed, simplified presentation of the issue or the operations to be implemented. The members of the board are not reluctant to ask detailed questions. Furthermore, every one of them operates at the highest level.

How have you managed to combine the functions of company head with those relating to investor relations?

I have tried to understand the problems that tend to occur in this area, and above all I have tried to take part personally in road shows for foreign investors. I have noticed that they prefer to discuss future strategy and market forecasts with the person who is really responsible for the group's business.

Does the fact that Finmeccanica has one powerful shareholder with a golden share and that no other shareholder can hold more than 3% of the voting capital cause problems?

So far, no. Some directors on our board were appointed by the Treasury, including one with a direct role at the finance ministry. Our business means that we have a lot of contact with other ministries, as well as with our majority shareholder, obviously. However, this does not make for weightier procedures than those of our European competitors in which government does not have an interest.

Do you ever have problems with banks in relation to ethical funding because you operate in the defence sector?

Problems with banks have more of an effect on small companies. We find solutions one way or another. However, I believe that in some cases, lending institutions behave

somewhat hypocritically. They will not finance our exports, but they do take part in other operations, such as bond issues or acquisitions.

Other state-owned companies are listed on foreign markets. What are your plans in this regard?

Every now and then we are tempted. For example, to float a wholly-owned subsidiary. Someone on the board suggested AgustaWestland. If this happened, it would definitely not be on the Milan market. As for Finmeccanica, a foreign listing could take place when the group is more internationalised. Now it is too soon.

What action are you taking to comply with the law on savings?

Our company's articles of association are already largely in line with laws on savings. As soon as the final form of the legislation is clear, we will include the method for appointing the director responsible for preparing the documents relating to the company accounts.