

Plan of attack

Finmeccanica eyes expansion
INTERVIEW Page 12

An engineer's plan of attack

'I would prefer to have more non-Italians in Finmeccanica in the headquarters, but at present we still have only a few people'

The Monday Interview

PIER FRANCESCO GUARGUAGLINI

Finmeccanica's CEO will be savouring his latest US deal at the Paris Air Show. James Boxell reports on the turnaround at the Italian defence group

Seeing Pier Francesco Guarguaglini in his dressing gown, it is easy to forget for a few moments that he has presided over one of Italy's most notable industrial turnarounds in recent years. The unusual choice of attire arises from the fact that the Finmeccanica chief executive is feeling unwell and has switched an interview with the Financial Times to his Rome flat.

The rearranged venue does, however, reflect something of the man who is in charge of a company that has emerged as a leading European player in defence and aerospace manufacturing.

Giorgio Zappa, Finmeccanica's second-in-command, says both he and his boss were "born on the shop floor", reflecting a straightforward approach to business fostered by their engineering backgrounds.

Mr Guarguaglini's Rome apartment in the leafy, but decidedly modest, suburb of Montesacro is suitably unostentatious. In a cosy sitting room, with a clutter of figurines and miniature teapots that suggest the influence of his wife, also an engineer, the 70-year-old Mr Guarguaglini outlines his plans for Finmeccanica.

"We must enlarge our activities," he says, "especially in defence electronics. This means we are looking to acquire in Europe and the US. It is not easy to find opportunities because it is clear defence electron-

ics companies are strategic for all governments.

"In the US, it is difficult to be allowed to shift control of large defence companies overseas. BAE Systems [the British defence company] was able to buy, but for others it may not be so easy."

Ahead of this week's Paris Air Show, Finmeccanica's victory in a \$6bn competition to build transport aircraft for the US military is a welcome success as it pursues UK and US expansion. It will also help Mr Guarguaglini if, as seems likely, he wants to remain head of Finmeccanica when his term expires next year.

"The Italian government is very, very happy we have won the joint cargo aircraft bid," he says.

After years of political interference in top-level appointments at Finmeccanica, he is recognised as having made the group more shareholder focused and having delivered on much of his strategy since rejoining the group at the helm in 2002 after a brief stint turning round Fincantieri, the state-owned shipbuilder.

Before that, he had headed Finmeccanica's defence business after working his way up through senior roles in radar and electronics.

The Italian government still owns 33 per cent of Finmeccanica - which brings its own particular challenges of managing political expectations (see below) - but the number of institutional investors has doubled since 2004, when Mr Guarguaglini moved from joint chief executive to sole chief executive. About 40 per cent of the company is now held by institutions, largely in the US and UK.

His predecessor, Alberto Lina, had planted the seeds of recovery after the company was left in essence bankrupt in the late 1990s. Mr Guarguaglini has since unwound a series of joint ventures, helping to make a mixed bag of industrial activities more focused

and letting the company take greater control of its destiny.

He brought a greater focus on defence electronics and spent almost €2bn (\$2.7bn) buying outright ownership of the Agusta-Westland helicopter group and BAE's avionics business. This established Finmeccanica as a large presence in the UK and thereby opened the door a little to the huge US defence market.

Also, Mr Zappa persuaded him to take the controversial step of becoming an aerostructure supplier to both Airbus and Boeing, the fierce passenger-jet rivals. Given recent travails at Airbus, and the fact that Finmeccanica now expects a far smaller role on the proposed A350 passenger jet, the decision to court Boeing appears sensible. Finmeccanica has a large role to play on Boeing's new 787 aircraft.

In spite of successes in the UK and US and growing ties with Russia on railways and regional jets, the next stage in the company's development looks challenging.

As well as US reluctance over the sale of sensitive assets, Mr Guarguaglini's ambition to form a European defence electronics powerhouse through a joint venture with Thales of France is stymied.

"In France they have a new government so I think we have to wait and see. I'm not sure a Thales-Finmeccanica tie-up is their first priority. In the past, Denis [Ranque, Thales's chief executive] was keen on exploring opportunities. Now it seems he is interested in Safran [the French aeroengines and telecoms group]."

Against a backdrop of the constant scheming that characterises the European defence industry, Mr Guarguaglini certainly appears closer to Mr Ranque than any of his other peers.

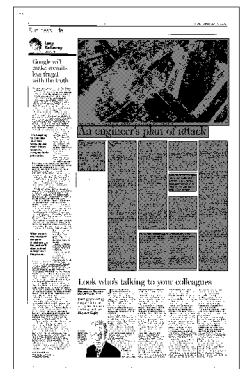
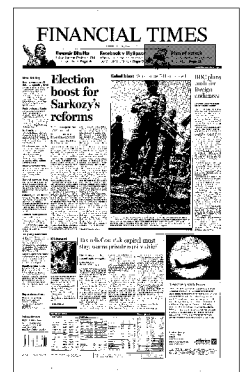
A clear dismissiveness remains among some rivals about whether Finmeccanica is a company of real

substance, notably from within EADS, parent group of Airbus.

Senior people at Finmeccanica who are close to Mr Guarguaglini firmly reject such a view, saying such disdain reflects the fact that the company has emerged from nowhere in the past few years to join the top table in European aerospace and defence.

Mr Zappa is mooted as most likely to take over if Mr Guarguaglini does decide to move on or the Italian government wants change. Alessandro Pansa, Finmeccanica's finance chief, is also a contender for the top job and politically well-connected, even though relatively youthful in his mid-40s.

Mr Zappa and Mr Guarguaglini display respect for each other and are described as "cut from the same cloth". But there is also personal rivalry going back to when Mr Zappa ran the aerospace busi-



ness and Mr Guarguaglini ran defence electronics.

"Our relationship in the past was not as good," Mr Zappa says, "although this was natural as we were competitors." Mr Zappa still insists that building aircraft and helicopters is central to growth, but concedes that electronics is important as the military buys fewer of these "platforms".

Should Mr Guarguaglini step down, he will be able to spend more time at his home in the Tuscan village where he was born or watching his beloved Juventus on the giant flat-screen television that dominates the living room of his Rome apartment.

He spent much of a recent meeting with John Elkann, new head of the Fiat clan, discussing the importance of Gianluigi Buffon, the Juve goalkeeper.

Mr Guarguaglini says his biggest achievement is being able to "fulfil my strategy, more than I was expecting". But, echoing concerns that the company retains too much of a national flavour, he concedes: "I would prefer to have more non-Italians in Finmeccanica, in the headquarters, but at present we still have only a few people."

Fine line: Guarguaglini's balancing act

In spite of an avowed industrial focus, Pier Francesco Guarguaglini has been canny enough to keep on the right side of his political masters, who ultimately control senior management appointments at Finmeccanica.

Unlike Vittorio Mincato, who was ousted from the oil group Eni after displeasing Silvio Berlusconi even though it was performing well, he has maintained good relations with Mr Berlusconi, when he was premier, and Romano Prodi, the current prime minister.

Mr Berlusconi was particularly

happy about the boost to national prestige when Finmeccanica was chosen to build the US presidential helicopter.

"You have to explain your strategy to the prime minister," Mr Guarguaglini says, "and then the Treasury and the ministers for industry, defence and foreign affairs. And really, apart from some misunderstandings in the beginning with [Giulio] Tremonti [former finance minister], they agreed. I had the green light many times over. Luckily the results were good."



Taking control: Pier Francesco Guarguaglini, Finmeccanica's chief executive, is pursuing expansion in the US and the UK