

## INTERVIEW

**Pierfrancesco Guarguaglini**

Finmeccanica's chairman and chief executive discusses possible defense electronics cooperation with Thales, the future of European industrial consolidation and the importance of political lobbying to international sales. *Page 22*



# Interview

NEWSMAKERS ON THE RECORD

## PIERFRANCESCO GUARGUAGLINI

CEO and Chairman,  
Finmeccanica

**S**ince his appointment in 2002, Finmeccanica's Pierfrancesco Guarguaglini has become synonymous with the Italian group's ascent to the big league of global defense firms.

Through a focus on saleable technologies and a series of acquisitions, the 70-year-old Tuscan has turned the group from a struggling supplier to the Italian military into a major player that considers the United Kingdom a second home market.

As a sign of its international ambitions, Finmeccanica this month appointed BAE Systems' Steve Mogford to run its Anglo-Italian electronics unit Selex Sensors & Airborne Systems (S&AS) after concluding the buyout of BAE's 25 percent stake in Selex. The European Union this month signed off on a merger with Thales of Finmeccanica's space activities, previously merged with Alcatel.

Guarguaglini is an engineer first and foremost, and has worked his way around all corners of the sprawling group and beyond. He took the helm at Finmeccanica after a three-year stint running state shipbuilder Fincantieri, prior to which he managed Finmeccanica's defense activities, worked at Oto Melara, Officine Galileo — later to become Galileo Avionica — and from 1963 to 1983 at Selenia, the missiles and radar company that later folded into Finmeccanica.

**“Customers no longer view Finmeccanica as a second choice, but as a candidate on par with companies from countries that are politically more important than Italy.”**

**Q. The Italian government added 1.7 billion euros (\$2.28 billion) to defense procurement in 2007. Most of that went to pay for, and bring back on schedule, existing programs. What percentage boost will that give to Finmeccanica's sales?**

**A.** Around 70 percent of that funding concerns Finmeccanica programs, and over the course of about four years the increase could boost turnover by 2 to 3 percent. But it

depends on whether funding is cut back or not in years to come.

One of the reasons the Italian Army has not had great success in procurement is because those multiyear programs that

are harder to cut are mainly Air Force and Navy, while Army vehicle programs can be trimmed more easily.

**Q. Steve Mogford from BAE has been appointed to run Selex S&AS, while Lord Bach, another Englishman, is now chairman and former U.K. Royal Air Force commander Brian Burridge is a senior adviser to Finmeccanica. What change will this bring to management of your defense electronics business? Will it speed up integration with Italian units?**

**A.** Mogford will run the Italian and U.K. units within Selex S&AS from May. We wanted a stronger British representation in Selex S&AS given its U.K. presence, and we are also looking to integrate the U.K. and Italian parts of Selex S&AS, as has already happened at AgustaWestland.

I consider people to be Finmeccanica people rather than being of a particular nationality, but they do hail from different cultures, and I will, for example, ask Steve to take into account the Italian culture at Galileo Avionica, just as I ask Giuseppe Orsi to take into account the U.K. culture within AgustaWestland.

**Q. Apart from Selex S&AS, Finmeccanica also runs Selex Communications, Selex Sistemi Integrati and the jointly managed information technology units Elsag and Datamat. Do you aim to merge them — or even into Selex S&AS?**

**A.** Don't forget Selex Communications is also a combination of U.K. and Italian units, while Elsag and Datamat are still working to become integrated, so they are now pushing to create internal synergies. Then we will see.

**Q. A few years ago, Finmeccanica appeared set to leave the energy and transport sectors. Was that your intention?**

**A.** No. A few years ago, we decided to focus on aerospace and defense, but also give value to our energy and transport businesses. Today, Ansaldo STS is listed and showing excellent results, Ansaldo Energia will also be listed, and we hope to bring Ansaldo Breda back to the black within a few years.

**Q. You have said that you have been talking to Thales about defense work in the course of the space negotiations. What ideas do you have about the future direction of defense electronics cooperation?**

**A.** We have been talking about defense work with Thales because Alcatel was a telecommunications company, while Thales has defense and security work similar to ours. Therefore, while discussing space activity, we envisaged occasions when we may compete to sell defense products which both use space data we share. So we needed to establish rules with Chinese walls for certain tenders.

For the future, little has changed since 2005, when we first envisaged defense electronics cooperation, involving all Finmeccanica's defense electronics activity, as well as Finmeccanica unit WASS, which makes torpedoes. But nothing will happen until after the French elections.

**Q. Four years ago, you said Italian firms wanted three things from the United States: better market access, better offset on U.S. products bought by Italy and better technology trans-**

**fer on those products. Have these situations improved? And if so, thanks to which programs?**

**A.** On the Joint Strike Fighter program, the Finmeccanica group — rather than just its aeronautics unit, Alenia — held talks with Lockheed Martin, and as such we have obtained work for Selex S&AS and Selex Communications, involving more technology share. Our share of avionics work has grown.

As for U.S. market access, we are present — sometimes we win, sometimes not.

**Q. In terms of industrial consolidation and unification of demand, what are the best-case and the worst-case scenarios for Europe in the next 20 years?**

**A.** The best-case scenario is that there is a real Europe from a political, economic and military point of view, with national militaries that are able to integrate to form a European defense system.

The worst-case scenario is that everything remains as it is today.

**Q. Finmeccanica has picked up technology and work through offset deals on U.S. products purchased by Italy. Has that shaped your strategy of doing business abroad?**

**A.** No. When we go overseas, we seek to sign industrial deals to work with local firms, as we have done in India for transport and in Russia for Tetra standard radio. We do have the idea of signing contracts in the country, but go in before that happens. The Americans work along the classic offset lines.

**Q. The AgustaWestland Mangusta**

helicopter has been selected by Turkey. Is the technology you offered going to ensure this deal does not stall for years, like talks Turkey held with U.S. helicopter firms?

**A.** Turkey has been discussing the possibility of buying the Mangusta for years also. The Mangusta is an excellent helicopter, which is now being sent to Afghanistan with the Italian forces.

The Turkish industry is happy with the deal it has struck with AgustaWestland and could have the chance to export the helicopter itself.

**Q.** Italian defense industry officials say they sometimes lose contracts abroad because they lack the political lobbying support present in Germany, France or the United Kingdom. Do you agree?

**A.** The political support that U.S. and U.K. industry receive reflects the political weight of those countries, obviously. That said, the support Italian industry has received from governments recently has increased, with assistance from embassies growing.

But on the other hand, customers no longer view Finmeccanica as a second choice, but

as a candidate on par with companies from countries that are politically more important than Italy. By buying the C-27J cargo aircraft or the EH101 helicopter, a customer is only doing itself favors.

**Q.** Do you have a long-term interest in maintaining a stake in MBDA? And are you interested in taking a stake in EADS?

**A.** We want to retain our stake in MBDA.

As for taking a stake in EADS, you would need to forge a global deal first, since Finmeccanica and EADS compete on various fronts such as helicopters, where Finmeccanica is present with AgustaWestland and EADS is present with Eurocopter.

**Q.** What are your plans for Oto Melara?

**A.** The land industry is unconsolidated in Europe, and we are interested in finding a partner for Oto Melara, most likely a German partner. But it's too early to say if we would seek a minority or a majority stake. ■

By **Tom Kington** in Rome.



FINMECCANICA PHOTO



## COMPANY PROFILE

- **2006 net profit:** 1.02 billion euros (\$1.37 billion).
- **Revenue:** 12.47 billion euros total; 10 billion euros from aerospace, space and defense.
- **Staff:** 58,059.
- **Ownership:** The Italian Treasury holds a majority 33.8 percent stake in Finmeccanica and 'golden share' powers.
- **Aerospace and defense units (full- and part-owned):** Alenia Aermacchi, GIE ATR, Alenia SIA, Alenia Aeronautica, Alenia Aeronavali, Thales Alenia Space, Telespazio, Oto Melara, WASS, AgustaWestland, Selex Sensors & Airborne Systems, Selex Communications, Selex Sistemi Integrati, Elsag, Datamat, MBDA Italia.

Source: Finmeccanica