

# Interview

## PIERFRANCESCO GUARGUAGLINI CEO, Finmeccanica

**A**fter years of rapid revenue growth and a stream of acquisitions in Italy and the United Kingdom, Italy's **Finmeccanica** confirmed its arrival in the big league of global defense firms in 2008 with the purchase of U.S. electronics firm DRS Technologies for \$5.2 billion.

DRS joined a stable of Finmeccanica units including Alenia Aeronautica, builder of the C-27J transport plane; Alenia Aermacchi, producer of the M-346 jet trainer; helicopter firm AgustaWestland; and Anglo-Italian electronics unit Selex Galileo.

The North American acquisition marked the step into the U.S. market that CEO Pierfrancesco Guarguaglini, 72, has sought since taking the helm at Finmeccanica in 2002, following a spell running Italian shipyard Fincantieri.

Before that, the Tuscan engineer worked his way around the Italian companies that now make up Finmeccanica — first at missiles and radar company Selenia from 1963-83, and then at land systems company Oto Melara and at Officine Galileo, which is now part of Selex Galileo.

DRS apart, the shine was taken off Finmeccanica's successful touch-down in the U.S. market when two of its platforms purchased by the Pentagon fell victim to budget cuts this year. Orders for the C-27J look set to be reduced, while the AgustaWestland AW101, customized for the White House fleet and renamed the VH-71, will be canceled if Defense Secretary Robert Gates gets his way.

**Q. In the United States, the VH-71 and Joint Cargo Aircraft programs, which both use Italian platforms, have suffered of late. Are foreign platforms being singled out for cuts?**

**A.** No. When Sen. John McCain raised issues about the VH-71 it was about rising costs and not related to the acquisition of foreign platforms. President Barack Obama said he did not want a costly platform. That said, the cost depends on what you want. I believe the increment-one helicopter is an excellent platform, unlike any other in existence in the world, and is suitable for the role.

**Q. The VH-71 team says the increment-one helicopters are on budget and will fly for up to 30 years. Robert Gates says they are over budget and will fly for 10 years. Who is right?**

**A.** I am convinced that Gates was given partially inaccurate numbers. Tests concluded in Europe showed they would fly for over 30 years. The tests in the U.S. had not been concluded, and when they are, I believe they will confirm it.

The figures supplied on cost overruns and delays to Gates were also partially inaccurate. Let me do some rough calculations. The green helicopter costs around \$30 [million] to \$40 million and rises to about \$120 million with systems. Excluding the test helicopters and taking the five helicopters which are already delivered, and which are close to final configuration, you would need 18 more to reach 23. This would mean a further cost of something in the area of \$2.1 billion. Add \$1.2 billion to complete development, plus \$3.8 billion already spent for the first five helicopters plus test models, and the

fleet would cost approximately \$7.2 billion, around the original price.

**Q. Has the VH-71 become a sacrificial lamb as the White House cleans up U.S. procurement practices?**

**A.** Partly, yes. The U.S. government decided to reduce spending, and the first person who must save is the president, in this case by giving up the helicopter.

The problem is that the current fleet is sufficiently old to make maintenance costs very high. The helicopters need replacing. Robert Gates' suggestion that two models could be adopted seems difficult to realize, but that is not my decision.

**Q. It has been hinted that Finmeccanica could scrap its plan to build a C-27J final assembly line in Florida if the Pentagon cuts its order to 38 aircraft.**

INTERVIEW

**Pierfrancesco Guarguaglini**

Finmeccanica CEO discusses the VH-71, C-27J and his company's other moves in the U.S. market. *Page 22*



FINMECCANICA PHOTO



### COMPANY PROFILE

■ **2008 revenue:** 15.04 billion euros (\$21 billion)

■ **Employees:** 73,398

■ **Headquarters:** Rome

■ **Products:** Aircraft, helicopters, electronics, space, land and naval systems, civil transport and energy.

Source: Defense News research

**A.** The number of 38 aircraft is a floor, not a ceiling. Then there is the National Guard, which is interested in buying over 70 aircraft, and to that you can add [Pentagon] Foreign Military Sales. The program is in good shape.

Our investment in the assembly line depends on how many planes we must produce a year. Twelve a year is a good rhythm; otherwise, we would need to start evaluating the situation. We want to build the line. The question is when.

**Q. What have you learned about U.S. politics and business during the last few months? And what is the difference between the way you have been received in the United Kingdom and in the United States?**

**A.** In the U.S., continuous lobbying is required and domestic jobs are very important — which means our purchase of DRS, which has increased our presence in the U.S., makes us stronger. There is also an interest in European technology to help create jobs, and Finmeccanica can play its part in this.

I have not been surprised by recent events in the U.S. They derive from the change of government and the current crisis, which has forced the new president to take decisions faster than he might have done in a healthier economic climate.

Compared to the U.K., the Americans are more concerned about jobs. The U.K. government also treated Finmeccanica in the U.K. from the start as if it were a British firm. In America, we are making progress with DRS, but before that, we were considered a European firm.

**Q. BAE Systems has left its U.S. units to operate independently. Finmeccanica wants to integrate DRS and profit from synergies. Why the different approach?**

**A.** DRS is focused on the U.S. market, while 60 percent of Finmeccanica's sales are outside Italy and the U.K., so there is an opportunity for us to market DRS products.

We also have an overlap in defense electronics, so mixing the portfolio is logical. BAE invested in armored vehicle manufacturing in the U.S., yet this is a market where many countries, particularly in Europe, nurture their own industries because the lower [research and development] costs compared to naval

or aeronautical programs allow it. There is no single European tank program, for example. So for BAE, there is less chance to create an overlap with its European operations.

**Q. After your purchase of DRS, how much of the company's activity was placed under a so-called proxy agreement, which fences off sensitive operations with a separate management structure?**

**A.** We reached an agreement with the U.S. government under which two companies were created. One is DRS, which is subject to a standard special security agreement, with Mark Newman as CEO. The other entity, 100 percent controlled by DRS, is DRS Defense Solutions, led by CEO Richard Danforth, which is under a proxy agreement and contains around one-third of DRS activity, as calculated at the time of the division.

The proxy agreement activity includes nuclear programs and support programs for the U.S. armed forces. DRS Defense Solutions has an all-American, three-man board, while DRS has a majority American board.

**Q. The Italian government is now saying the Italian Ministry of Industry pays for about 40 percent of Italian defense development and procurement. That money can only be spent on domestic products, meaning mainly Finmeccanica products. How important is that to your bottom line, and does it cut down on open tendering in Italy?**

**A.** The main programs supported are Eurofighter, FREMM frigates, armored vehicles, the M-346 jet trainer and the Army's net-centric program. The funding is important and helps export programs. But I don't believe Finmeccanica is overly favored. Eurofighter and FREMM are international programs, while armored vehicles, as

I pointed out, are generally domestically manufactured.

**Q. Is there any hope for a truly open European defense market? What is your view of the EU law number 296, which allows defense purchases without tender?**

**A.** On the one hand, it would be a good thing if 296 was discarded, although it would fully open the market to U.S. exports. Unless there is first a single European defense market for European firms, getting rid of 296 remains a dream, but also potentially suicidal. When people talk about opening the market, I believe they are talking about opening to European industries, and that is not easy.

**Q. Finmeccanica is notable because so many senior executives are engineers. Why is that? What difference does it make to the way the company is run, and just how good are Italian engineers?**

**A.** Many, although not all, executives are engineers because we promote internally. The heads of AgustaWestland, Selex Sistemi Integrati, Alenia Aeronautica and other units came up through the company.

In a technological company, the engineers have a notable influence on the programs and on relations with customers, and it is natural to choose them when making senior appointments. It makes Finmeccanica more innovative, but it is true that engineers need to pick up the financial aspects of the job as they go along, and may sacrifice that aspect for the technical side of the job. We need to keep an eye on that.

As for Italian engineering talent, the overall level might be higher globally, but here, when engineers are brilliant, they are really brilliant. ■

By Tom Kington in Rome.