

QUARTERLY RESULTS

First quarter 2003

FINMECCANICA

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Finmeccanica

Report on Operations at 31 March 2003

Directors' Report

The climate of uncertainty that characterised 2002 continued to hold sway in the first quarter of 2003: the global economy, and particularly European markets, showed no significant signs of life, making any substantial increase in government spending unlikely. Meanwhile, the emergence of phenomena such as SARS led to forecast downgrades in several industries, which had a knock-on effect on financial and equity markets.

Against this rather difficult backdrop, Finmeccanica's performance may be considered satisfactory, compared to both forecasts and the same period in 2002. Figures for the quarter, however, give a limited indication of full-year performance, especially as over half of growth in production is traditionally recorded in the second half of the year.

EUR million Sector	1st Quarter 2003				1st Quarter 2002			
	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	284	30	21	21	288	40	30	30
Helicopters	292	33	28	26	312	35	30	28
Space	162	2	(8)	(10)	90	1	(1)	(1)
Defence								
electronics	372	23	13	4	226	6	1	(3)
Defence systems	199	9	5	0	194	14	11	6
Transport	301	18	12	11	268	12	4	3
Energy, IT and								
Other activities	300	13	2	2	306	(3)	(19)	(19)
Eliminations	(36)				(24)			
	1,874	128	73	54	1,660	105	56	44

Note that figures for the first quarters of 2002 and 2003 are not wholly comparable owing to the inclusion of Marconi Selenia and Telespazio in the consolidation base. Value of

production rose by around 13% on the same period last year, while EBITDA for the first quarter of 2003 was EUR 128 million—of which new acquisitions contributed EUR 13 million, compared to EUR 105 million in the same quarter in 2002. Excluding new acquisitions, the improved operating results were due to a combination of: increased profitability of some activities (avionics, energy and transport); the expected decline in profitability in other areas (as discussed below, the costs of a major but necessary restructuring programme and problems in certain projects continue to weigh heavily on the space division); the satisfactory situation of the aeronautics business despite the downturn in the civil market; and stable margins at helicopter company AgustaWestland. Lastly, the improved EBITDA performance was partly due to the restructuring of receivables and payables between subsidiary Elsacom and a foreign partner through an agreement that generated income of EUR 12 million.

All this led to growth in EBITA from EUR 56 million in the first quarter of 2002 to EUR 73 million in the same period of 2003. EBITA was 3.9% of value of production, compared to 3.3% in the same period last year. Excluding higher goodwill amortisation resulting from the acquisitions of Marconi Selenia and Telespazio, the EBIT margin grew from 2.6% to 2.9%.

Business performance in the quarter was in line with—and in some ways, better than—the same 2002 period. Although debt increased, at the same time the group achieved significant improvements in financial management. Exchange rate gains for the period came to EUR 1 million, compared to losses of EUR 3 million in the same quarter of 2002, thanks to more cautious management of forex and interest rate risks in 2003 and the difference between dollar and euro interest rates.

The growth outlined above was partially offset by net restructuring charges of EUR 9 million, mainly attributable to the space, aeronautics and IT businesses; while tax charges (mainly IRAP) were EUR 5 million higher than in the first quarter of 2002, owing to the inclusion of Marconi Selenia and Telespazio in the consolidation base.

Finmeccanica's performance in the quarter was also boosted by EUR 13.6 million from the group's stake (consolidated at equity) in STMicroelectronics Holding NV (STM), almost

double the figure of EUR 6.9 million registered in the same period last year, but still lower than company forecasts. This result contributed to a consolidated net profit of EUR 14.4 million, up EUR 1.5 million on the first quarter of 2002. Excluding STM's contribution, net profit for the period comes to around EUR 1 million, the result of better business and financial management and higher restructuring and tax charges.

Finmeccanica's consolidated financial position for the first quarter of 2003 appears in line with 2002 and forecasts. Working capital rose moderately, while net invested capital remained largely unchanged on last year. At 21.9%, return on investment was broadly in line with the figure for the full-year 2002 (22.1%), as was the ratio of shareholders' equity to net invested capital, which stood at 90.4% in the first quarter of 2003, compared to 93% in 2002.

The financial structure also appears to be under control. Net debt at 31.03.2003 was EUR 346 million, versus a cash positive position of EUR 346 million at 31.03.2002—but this was after the acquisition of Marconi Selenia, Telespazio and OTE for almost EUR 90 million. However, the ratio of this debt to equity and income (debt coverage ratios) satisfies cautious estimates as to what constitutes financial stability. It should also be noted that the 31.03.2003 debt figure was helped by several group companies generating slightly better than expected cash flow, particularly those in the energy, aeronautics and avionics businesses, and the MBDA joint venture.

The group acquired orders worth EUR 1,584 million in the first quarter of 2003, in line with last year's figure of EUR 1,579 million that included a one-off order of around EUR 500 million in the helicopters business. The order backlog was EUR 21,340 million (EUR 21,708 million at 31.12.2002 and EUR 19,718 million at 31.03.2002), in line with expectations and forecasts.

The headcount at 31.03.2003 was 44,526 compared to 40,532 at 31.03.2002 and 44,963 at 31.12.2002.

First quarter highlights, important developments since 31.03.2003 and outlook

During the first quarter, Finmeccanica continued with the strategic growth plan that led to a number of significant investments last year.

To this end, on 4 March 2003, it acquired 100% of OTE SpA, Italian leader in the sector of private radiomobile communications for the police, carabinieri (military police) and other public sector bodies. The company is also at the forefront in the development of Tetra, a new digital radiomobile communications system for public utilities, transport and law enforcement agencies. In 2001, OTE posted revenues of EUR 79 million and gross profit of EUR 19 million. Its order backlog is currently worth around EUR 100 million.

In early April, Finmeccanica reached an agreement to partner investment fund Carlyle in the takeover of Fiat Avio SpA (which makes engines and transmission systems for military and civil aircraft), taking a stake of 30%. The due diligence process is currently under way, while talks are taking place over the drafting of the purchase contract.

On 29 March 2003, certain operational difficulties were reported in relation to the Atlantic Bird satellite. Subsidiary Alenia Spazio immediately launched an investigation to ascertain the extent of the problem, in order to resolve it quickly and assess any related charges.

At present, there is no reason to believe that Finmeccanica's performance and results will differ significantly from current forecasts.

Uncertainty over the economic downturn and continuing government spending cuts are however a cause for concern, as they may make it more difficult to secure new orders and contracts or lead to delays in filling and invoicing existing orders, which may also be subject to renegotiation of financial conditions.

Financial position

To provide further information on the group's financial position, the following tables—Consolidated profit and loss account (restated), Consolidated balance sheet (restated), Consolidated cash flow statement and Consolidated net debt—have been drawn up using the same formats as in the previous year.

For a better understanding of the results, please note that:

- Finmeccanica acquired OTE SpA for EUR 3 million on 4 March 2003. Pending the integration of OTE into the Finmeccanica accounts, this acquisition is not included in the consolidation base in this report;
- Marconi Selenia and Telespazio were acquired in 2002 (on 2 August and 29 November respectively). The consolidated profit and loss account (restated) for the first quarter of 2002 does not include the figures for these groups as a result.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
(EUR THOUSAND)**

	<i>1st quarter 2003</i>	<i>1st quarter 2002</i>	<i>2002</i>
A. - <u>REVENUES</u>	1,845,020	1,607,710	7,810,847
Changes in work in progress, semi-finished goods and finished goods	25,066	49,915	(100,332)
Capitalisation of internal costs on fixed and intangible assets	3,473	2,592	47,350
B. - <u>VALUE OF PRODUCTION</u>	1,873,559	1,660,217	7,757,865
Costs of goods and services	(1,186,355)	(1,041,700)	(4,966,545)
C. - <u>VALUE ADDED</u>	687,204	618,517	2,791,320
Personnel costs	(573,269)	(505,269)	(2,084,340)
Other provisions	(1,037)	(2,002)	(19,817)
Provisions for risks and charges	(10,180)	(7,638)	(83,513)
Other income (charges)	25,676	1,793	94,694
D. - <u>EBITDA</u>	128,394	105,401	698,344
Depreciation	(60,031)	(57,387)	(216,087)
Deferred revenue from capital grants	4,917	7,670	19,437
E. - <u>EBITA</u>	73,280	55,684	501,694
Goodwill amortisation	(19,534)	(12,088)	(61,157)
F. - <u>EBIT</u>	53,746	43,596	440,537
Financial income (expenses)	(4,432)	(1,374)	(20,711)
Exchange rate gains (losses)	1,334	(3,389)	2,690
Increase/decrease in the value of investments	13,279	12,650	103,046
G. - <u>EARNINGS BEFORE EXTRAORDINARY ITEMS AND TAX</u>	63,927	51,483	525,562
Extraordinary income (charges)	(8,638)	(3,133)	(119,568)
H. - <u>PRE-TAX PROFIT</u>	55,289	48,350	405,994
Tax	(40,859)	(35,431)	(203,293)
I. - <u>NET PROFIT</u>	14,430	12,919	202,701
. group share	10,054	13,891	199,357
. minorities	4,376	(972)	3,344
	<u>14,430</u>	<u>12,919</u>	<u>202,701</u>

- Value of production was EUR 1,874 million, 12.9 % ahead of the same period last year (EUR 1,660 million). This increase was chiefly attributable to the inclusion of Marconi Selenia and Telespazio in the consolidation base, and a substantial rise in the contribution from the transport division.
- The cost of goods and services rose 13.8% from EUR 1,042 million in the first quarter of 2001 to EUR 1,186 million in the first quarter of 2002. The inclusion of Marconi Selenia and Telespazio in the consolidation base and the progress of the transport business were also largely responsible for this increase.
- Personnel costs were EUR 573 million compared to EUR 505 million in the same period of 2002. The average number of employees for the quarter was 43,738, compared to 40,166 in the first quarter of 2002, a net increase of 3,572 (the average figure for the whole of 2002 was 39,798). The increases in employee numbers and personnel costs are chiefly due to the inclusion in the consolidation base of Marconi Selenia and Telespazio.

The headcount at 31.03.2003 was 44,526, a net decrease of 437 on the 31.12.2002 figure of 44,963 (40,532 at 31.03.2002). This decrease is attributable to staff turnover and the ongoing restructuring of some group companies.

- Provisions for risks and charges stood at EUR 11 million, compared with EUR 10 million in the same period last year. These provisions relate to ordinary operating activities (product guarantees, receivables, fines, contractual risks, financial guarantees and miscellaneous).
- The Other income and charges item was positive to the tune of EUR 25 million, up from EUR 2 million in the same period last year. The income component included gains on real estate investments, insurance payouts of EUR 5 million (EUR 1 million in the same quarter of 2002), the use of provisions (risks, disputes, product guarantees, contractual risks and other) totalling EUR 9 million (EUR 3 million in the same period last year) set aside in previous years and made available in connection with ordinary operations and costs incurred over the year, and the recovery of receivables from

insolvent countries (fully written off as ordinary losses in previous years). The income component also included around EUR 12 million from the renegotiation of receivables/payables agreed between Elsacom and Globalstar Lp as part of the sale of the satellite gateway in Karkkila (Finland). Charges included indirect and direct taxes of EUR 4 million compared to EUR 2 million in the same period of 2002, fines and contributions to social funds.

- EBITDA came in at EUR 128 million, an increase of EUR 23 million (or 22%) on the same 2002 period (EUR 105 million).
- Depreciation and revenue from capital grants, excluding the attributable shares of capital grants, increased in comparison with the same period the previous year. Depreciation stood at EUR 60 million (versus EUR 57 million last time), of which EUR 48 million related to tangible fixed assets (EUR 45 million) and EUR 12 million related to intangible fixed assets (EUR 12 million).
- EBITA came in at EUR 73 million, an advance of EUR 17 million (or 30%) on the same period last year (EUR 56 million). This increase was largely driven by defence electronics (including the addition of Marconi Selenia to the consolidation base) and growth in the transport, energy, IT and other activities divisions, particularly in the energy companies and Elsacom; but it was partly offset by a decline in the aeronautics (mainly due to higher research and development costs in the period), defence systems and space businesses (the latter being affected by the inclusion of Telespazio in the consolidation base).
- Goodwill amortisation rose to EUR 19 million, compared to EUR 12 million in the first quarter of 2002. This figure relates to helicopters (EUR 2 million, the same figure as last year), space (EUR 2 million compared to EUR million in the first quarter of 2002), defence electronics (EUR 9 million compared to EUR 4 million last time), defence systems (EUR 5 million, as in the first quarter of 2002) and transport (EUR 1 million, unchanged on 2002).

- Despite the rise in depreciation and goodwill amortisation, EBIT rose EUR 10 million (23%) from EUR 44 million in the first quarter of 2002 to EUR 54 million this time, boosting the EBIT margin from 2.6% in 2002 to 2.9% in 2003. The improvement was due to the same reasons outlined under EBITA.
- Net financial expenses increased substantially to EUR 4 million from EUR 1 million in the same period last year. The main financial expenses related to interest payments and provisions for adjustments on bond loans (EUR 11 million, the same figure as recorded in the first quarter of 2002).
- Net exchange rate gains, arising mainly from hedging operations, stood at EUR 1 million, compared to EUR 3 million in losses in the first quarter of 2002. The improvement was due to the lower hedging costs that resulted mainly from the difference in dollar and euro interest rates.
- The increase in the value of investments was EUR 13 million, the same figure for the first quarter of 2002. This item includes:
 - Finmeccanica's EUR 14 million share of earnings from STMicroelectronics Holding NV (EUR 7 million in the first quarter of 2002), which, like all significant non-consolidated holdings, is valued at equity;
 - net losses of EUR 1 million from other investments valued at equity and at cost, compared to EUR 6 million in the same period of 2002.
- Net extraordinary costs totalled EUR 9 million (EUR 3 million in the first quarter of 2002). The most significant item of this component was redundancy payments and other restructuring costs, net of provisions previously earmarked on 31.12.2002.
- Tax, at EUR 41 million (EUR 35 million in the first quarter of 2002), is the estimated sum payable for IRAP and other income taxes, excluding deferred net tax assets.

The table below shows the consolidated balance sheet at 31 March 2003.

**CONSOLIDATED BALANCE SHEET
(EUR THOUSAND)**

	<u>31.03.2003</u>	<u>31.12.2002</u>	<u>31.03.2002</u>
A. - <u>NON-CURRENT ASSETS</u>			
Intangible assets	1,179,641	1,219,631	944,229
Tangible assets	1,546,843	1,564,822	1,365,824
Long-term investments	1,426,269	1,447,683	1,337,930
	<u>4,152,753</u>	<u>4,232,136</u>	<u>3,647,983</u>
B. - <u>WORKING CAPITAL</u>			
Inventory and work in progress	13,949,138	13,306,061	12,699,074
Trade receivables	3,063,675	3,379,066	2,322,251
Other assets	1,336,225	1,354,103	1,529,290
Trade payables	(2,548,526)	(2,658,331)	(2,179,814)
Customer advances and progress billings	(12,045,630)	(11,796,756)	(11,403,800)
Provisions for risks and charges	(1,176,529)	(1,181,462)	(1,240,041)
Other liabilities	(2,458,525)	(2,416,652)	(1,950,736)
	<u>119,828</u>	<u>(13,971)</u>	<u>(223,776)</u>
C. - <u>INVESTED CAPITAL</u> minus liabilities	4,272,581	4,218,165	3,424,207
D. - <u>STAFF SEVERANCE FUND</u>	<u>(658,772)</u>	<u>(664,086)</u>	<u>(585,099)</u>
E. - <u>INVESTED CAPITAL</u> minus liabilities and staff severance fund	<u>3,613,809</u>	<u>3,554,079</u>	<u>2,839,108</u>
<i>covered by :</i>			
F. - <u>SHAREHOLDERS' EQUITY</u>			
Group capital and reserves	3,255,083	3,105,136	3,185,315
Net profit attributable to group	10,054	199,357	13,891
Minorities' capital and reserves	(1,220)	(2,287)	(12,634)
Net profit attributable to minorities	4,376	3,344	(972)
	<u>3,268,293</u>	<u>3,305,550</u>	<u>3,185,600</u>
G. - <u>NET DEBT</u>			
i) Medium- to long-term bank debt	<u>1,470,823</u>	<u>1,469,494</u>	<u>1,230,883</u>
ii) Short-term debt:			
. bank debt	530,971	671,930	801,387
. cash and financial receivables	<u>(1,504,140)</u>	<u>(1,742,853)</u>	<u>(2,277,947)</u>
	(973.169)	(1,070,923)	(1,476,560)
iii) restated items (*)	<u>(152,138)</u>	<u>(150,042)</u>	<u>(100,815)</u>
	<u>345,516</u>	<u>248,529</u>	<u>(346,492)</u>
H. - <u>NET INVESTED CAPITAL AS IN E</u>	<u>3,613,809</u>	<u>3,554,079</u>	<u>2,839,108</u>
(*) Includes:			
. marketable securities	(172,236)	(169,947)	(165,263)
. portion of provisions for risks and charges in respect of liabilities of non-consolidated subsidiaries	20,098	19,905	64,448
	<u>(152,138)</u>	<u>(150,042)</u>	<u>(100,815)</u>

The value of fixed assets fell by EUR 79 million, from EUR 4,232 million at 31.12.2002 to EUR 4,153 million at 31.03.2003, mainly due to:

- A EUR 17 million reduction in medium- to long-term receivables;
- The valuation at equity of the stake in STMicroelectronics Holding NV, which dropped from EUR 1,234 million at 31.12.2002 to EUR 1,219 million;
- ordinary investment and depreciation activities for the period, plus a fall in values due to exchange rate differences following the conversion of balance sheets into foreign currency (mainly dollars and sterling)

Working capital stood at EUR 120 million at 31.03.2003, compared to EUR -14 million at the end of 2002. Specifically:

- inventory and work in progress (net of progress billings, which were EUR 7,797 million at 31.03.2003 and EUR 7,608 million at 31.12.2002, recorded under the item “customer advances and progress billings”) increased by EUR 454 million, mostly relating to the aeronautics, defence electronics and defence systems businesses;
- trade receivables net of trade payables fell by a total of EUR 206 million, partly due to receipts from customers of the aeronautics, defence electronics and energy businesses;
- the value of other assets declined by EUR 18 million, mainly due to the net effect of an increase in receivables from the Italian Treasury, and a decrease in prepayments and accrued income and miscellaneous receivables. Receivables from the Treasury (VAT, tax credits and related interest etc) totalled EUR 724 million, compared to EUR 665 million at 31.12.2002;
- customer advances (recorded under the item “customer advances and progress billings”) rose by EUR 60 million, from EUR 4,189 million at 31.12.2002 to EUR

4,249 million at 31.12.2003. This rise was chiefly due to the defence systems and energy divisions;

- provisions for risks and charges showed a net decrease of EUR 5 million, falling from EUR 1,181 million at 31.12.2002 to EUR 1,176 million at 31.03.2003. Provisions and their use originated from current assets for the period. Note that taxes for the period, included under the “other liabilities” item (payables due to tax authorities) in the annual accounts, are recorded under provisions for risks and charges in the quarterly and half-yearly accounts;
- other liabilities increased by EUR 41 million, from EUR 2,417 million at 31.12.2002 to EUR 2,458 at 31.03.2003. This increase mainly relates to payables to staff and to the industry ministry (pursuant to art. 3a of law 808/85) with respect to research and design activities, which totalled EUR 1,163 million at 31.03.2003 (EUR 1,150 million at 31.12.2002);
- a decrease in the staff severance fund from EUR 664 million at 31.12.2002 to EUR 659 million, mainly related to the energy, space and aeronautics divisions.

Invested capital, at EUR 3,614 million (from EUR 3,554 million at 31.12.2002), comprised shareholders' equity of EUR 3,268 million and net debt of EUR 346 million (compared with EUR 249 million at 31.12.2002).

Assets held under financial leasing contracts are valued at equity in line with national accounting practices. Applying this valuation method, as recommended by international accounting principles, would lead to an increase of EUR 81 million in fixed assets and a EUR 70 million rise in financial charges, as well as additional profit of EUR 1 million and an increase in shareholders' equity of EUR 4 million, net of tax.

In line with the previous year, financial receivables from non-consolidated companies in liquidation have been offset with the related provisions for risks and charges (which cover the relevant negative net assets) to provide a clearer picture of the group's debt.

The table below shows consolidated net debt at 31.03.2003, together with the figures for 31.12.2002 and 31.03.2002 for ease of comparison.

	31/03/03 (EUR m.)	31/12/02 (EUR m.)	31/03/02 (EUR m.)
Short-term bank debt	121	215	345
Current portion of medium- to long-term bank debt	73	48	160
Medium- to long-term bank debt (excl. current portion)	1,350	1,370	1,034
Cash or cash equivalents	(745)	(956)	(1,339)
Net bank debt	799	677	200
<u>Other financial receivables and payables</u>			
Marketable securities	(40)	(29)	(55)
Government bonds	(66)	(71)	(73)
Loans to third parties	(517)	(557)	(640)
Loans to subsidiaries and affiliated companies	(277)	(276)	(272)
Loans from subsidiaries and affiliated companies	326	371	360
Liabilities to industry ministry (MAP)	48	51	50
Other financial liabilities	73	83	84
NET DEBT	346	249	(346)

During the quarter, net debt rose from EUR 249 million at 31.12.2002 to EUR 346 million. The EUR 97 million increase was chiefly due to the pattern of the group's operating cash flow, which typically falls in the first few months of the year and causes debt to rise. The decrease in cash and cash equivalents was also affected by the cash flow performance, and by the repayment of a proportion of short-term debt.

AgustaWestland has a 50% stake (with Boeing) in Aviation Training International Ltd (ATIL).

ATIL was set up as a special purpose company, mainly dealing with project financing. A large part of its debt is guaranteed by the principals and part of the risk has been taken on by the banks providing the financing.

The company has yet to make a financial impact, and as in the previous year, was not consolidated at 31.03.2003.

A summary of the key figures relating to Finmeccanica's 25% of the company according to the available information is as follows:

- ATIL revenues increased by EUR 71 million, bank debt rose by EUR 69 million, and shareholders' equity stood at EUR 2 million.

Sales breakdown by region

Total revenues for the first quarter of 2003 (EUR 1,845 million) include sales (EUR 1,234 million), grants (EUR 7 million) and work in progress on orders (EUR 604 million). The sales figure of EUR 1,234 million breaks down as follows:

	<u>EUR m</u>	<u>%</u>
Italy	361	29.3
Rest of Europe	677	54.9
North America	109	8.8
Rest of the world	87	7.0

Performance by sector

AERONAUTICS

	EUR million	31.03.2003	31.03.2002
New orders		106	65
Order backlog		3,538	3,606
Value of production		284	288
EBITDA		30	40
EBITA		21	30
EBIT		21	30
EBIT margin		7.4%	10.4%
Personnel		8,802	9,134

The first quarter of the year was hit by the same uncertainties and instability that marked 2002. Following faint signs of an upturn towards the end of last year, the civil aviation industry suffered a further drop in passenger numbers in early 2003 as the war in Iraq began and fears over the SARS epidemic took hold. As traffic volumes are now expected to recover in 2004, orders are unlikely to begin rising before 2005, when airlines should be back in the black.

Against this backdrop, Alenia Aeronautica continued implementing the initiatives begun last year, aimed at maintaining operating flexibility and curbing costs, strengthening and rationalising its product range and seeking greater market opportunities via partnerships with other leading players in the sector. To this end, in January 2003 Finmeccanica and Boeing signed an agreement aimed at strengthening industrial and commercial co-operation in aerospace and defence.

Successes during the quarter included the signing on 29 January of an agreement for the sale of 12 C27-J tactical transport aircraft to the Hellenic Air Force. The contract includes logistics support and training programmes.

Military activities related mainly to production and logistics work on the EFA (the first Italian production aircraft made its maiden flight on 14 February), retrofit and development work for the mid-life upgrade of the Tornado aircraft, and modifications to the AMX aircraft to reduce fatigue.

The civil sector was hit by the drop in production by big manufacturers as they adjusted their activity to lower market demand. In this climate, Alenia Aeronautica continued to supply the world's biggest aircraft manufacturers, specifically:

- Boeing—producing the fuselage of the B717 aircraft, and fuselage components and control surfaces for the B767 and B777. The first series of superpanels for the B757 fuselage was completed in April.
- Airbus—manufacturing the tail cone and mechanical wing components for the A340 aircraft and a fuselage section for the A321. Delivery of the first series of the central fuselage section of the A380 is scheduled for the end of August this year.
- GIE ATR, in partnership with EADS-ATR: producing the ATR 42/72 turboprop aircraft.
- Dassault Aviation—producing the central-rear fuselage section of the new Falcon 2000 Extended Range, and nacelles for the Falcon 900EX.

Activity by Officine Aeronavali Venezia SpA during the quarter included aircraft conversion work, and continued development and industrialisation of the new B767 tanker aircraft.

Orders acquired in the quarter were worth EUR 106 million (EUR 65 million in the same 2002 period), and included the first part of the contract to develop the B767 tanker aircraft, and those relating to the EFA, Tornado and B707 tanker programmes. The order backlog stood at EUR 3,538 million, of which the EFA accounted for some 59%.

Value of production was EUR 284 million, in line with the first quarter of 2002, thanks to growth in the military segment due to production and logistics work on the EFA and the

upgrade of the Tornado aircraft, which mostly offset the drop in production on the civil market.

EBITA for the first quarter of 2003 was EUR 21 million, or 7.4% of value of production. The reduction from the EUR 30 million (10.4% of value of production) posted in the first quarter of last year was due to higher research and development spending of EUR 13 million (mostly relating to the A380) versus EUR 6 million last year, a changed production mix due to increased work on new projects (B757 and A380), and a larger contribution from equipment.

The headcount at 31 March 2003 was 8,802, a fall of 332 on 31 March 2002, and of 253 on 31 December 2002. The reduction was due to state-sponsored layoffs, redundancies and a partial freeze on hiring as part of measures taken to weather the crisis in the civil market.

HELICOPTERS

EUR million	31.03.2003	31.03.2003	31.03.2002	31.03.2002
	100%	50%	100%	50%
New orders	304	152	1,116	558
Order backlog	6,663	3,332	8,024	4,012
Value of production	584	292	624	312
EBITDA	66	33	70	35
EBITA	56	28	60	30
EBIT	51	26	55	28
EBIT margin	8.7%	8.7%	8.8%	8.8%
Personnel	8,862	4,430	9,500	4,750

Finmeccanica is a leading player in the global helicopter industry with AgustaWestland, a 50-50 joint venture with the British group GKN. To convey the true extent of the business, total figures for AgustaWestland are given, and the comments that follow refer to 100% of the company. To complete the picture, figures are also given for Finmeccanica's 50% share, which is consolidated proportionally.

In line with the trend of recent years, the military sector remains the main market for the helicopter business. The helicopter has proved to be the ideal instrument for the types of military mission now demanded by the changed international environment. On the civil market, global events, the economic downturn and plummeting stock markets have caused many companies to tighten their belts. But despite these difficulties, AgustaWestland once again saw its sales hold firm, and was able to maintain its competitive position.

In the first quarter, AgustaWestland generated orders worth EUR 304 million. This is a significant decline on the same period of last year, which benefited from orders for twelve EH 101 helicopters for the Portuguese government and 16 Super Lynxes for the Omani air force, worth a total of around EUR 800 million. Important contracts this year so far include the order, received in February from the New York Police Department's Aviation Unit, for four A119 Koala helicopters, for use in a wide range of missions including patrolling,

medical evacuation, and the transport of special forces and VIPs. This order follows one from the Pennsylvania police for two of the helicopters at the start of the year. This double success opens up excellent future prospects for AgustaWestland on the difficult US market.

The order backlog, 16.9% down on last year, nevertheless stood at a healthy EUR 6,663 million. This is approximately three years' value of production.

Value of production was in line with the latest forecasts, falling by 6.4% on the same period of last year.

Programmes during the quarter included:

- the EH 101 for the Italian navy; here, work continued on installing the MK2/s missile system;
- the Apache combat helicopter for the British armed forces, of which 22 are scheduled for delivery this year;
- the A129 combat helicopter, and the conversion of the A129 Mangusta used by the Italian army to combat use;
- pre-production for the NH 90 helicopter;
- development of the A109E Power helicopter, which AgustaWestland is to supply to the South African air force and the Swedish military. For Sweden, the company will develop two separate versions of the helicopter: one for land-based and the other for ship-based operations (LBO and SBO). The main difference between these two helicopters and the South African model lies in their avionics equipment and specialised kits installed to take account of the different operating environments. Note also that the Swedish helicopters are to receive civil certification, a process which has already begun through Italy's civil aviation authority ENAC, while the South African model will receive certification from Agusta in conjunction with ARMSCOR (armaments corporation of South Africa).

EBITA declined by EUR 4 million, but remained in line with the same period as last year as a percentage of value of production.

The headcount was around 640 lower than in the first quarter of 2002, following the completion of the restructuring programme last year.

SPACE

	EUR million	31.03.2003	31.03.2002
New orders		317	94
Order backlog		1,431	539
Value of production		162	90
EBITDA		2	1
EBITA		(8)	(1)
EBIT		(10)	(1)
EBIT margin		(6.2%)	(1.1%)
Personnel		3,903	2,847

Finmeccanica operates in the space industry through Alenia Spazio (which produces space infrastructure and scientific, telecommunications, remote sensing and payload satellites) and Telespazio (earth stations, space operations and satellite systems and services).

Telespazio was consolidated in December 2002; therefore, since values at 31 March 2002 refer only to Alenia Spazio, a comparison cannot be made between the first quarter of last year and the first quarter of 2003.

Uncertainty remains over the short- and medium-term prospects for the space industry, owing to stagnating demand in the commercial market, where orders for new satellites continue to fall and delays in implementing broadband systems for multimedia applications are still ongoing. Public sector demand, however, has begun to show signs of an upturn in recent months. At European level, Italy and Germany recently reached an agreement that should finally give the green light to the Galileo programme.

On the domestic market, the group won a significant share of the Cosmo-Skymed contract in March 2003. Negotiations on the entire system are expected to be concluded by the end of the year.

Over the quarter, the group continued with the restructuring and rationalisation of the space division, involving the reorganisation of production and support facilities and the rationalisation of external costs to restore efficiency and profitability. It also continued to cut staff numbers through a programme of government-subsidised layoffs and a partial freeze on hiring.

Orders worth EUR 317 million were secured in the quarter, taking the order backlog to EUR 1,431 million, a rise of 12% on 31.12.2002. The main orders included:

- work on the Cosmo-Skymed programme and development of Sharad radar;
- renewal of the contract for the Geodinamica and PAF remote sensing services;
- further work on the space station nodes and the ATV (Automated Transfer Vehicle);
- in scientific satellites, further work on GOCE and the Gaia contract;
- contracts with the defence ministry for military telephone systems;
- sale of television services via the Hot Bird digital platform.

Value of production stood at EUR 162 million and included:

- in remote sensing and telecommunications: further work on the C/D phase of Cosmo-Skymed; antennas and electronic components for Yamal; phase C of the PRIMA platform and work on the Radarsat2 satellite; the operation in orbit of the Sicral, Artemis and Atlantic Bird 1 satellites; and services to the Italian Space Agency ASI, Telecom Italia, the armed forces and major international satellite operators;
- in television: providing satellite capacity to the major domestic broadcasters;
- in satellite navigation: preparatory work for the Galileo system;
- in scientific satellites, work continued on GOCE and Herschel-Planck, while integration was completed on Mars Express;
- in infrastructure, work continued on programmes for the International Space Station (Nodes 2 and 3, Columbus Pica and Cupola).

EBITA was negative to the tune of EUR 8 million, owing to the increased costs involved in certain orders, a situation which the group has taken measures to improve.

The headcount at 31 March 2003 was 3,903, broadly in line with 31 December 2002.

DEFENCE ELECTRONICS

EUR million	31.03.2003	31.03.2002
New orders	420	203
Order backlog	3,281	2,563
Value of production	372	226
EBITDA	23	6
EBITA	13	1
EBIT	4	(3)
EBIT margin	1.1%	(1.3%)
Personnel	11,074	7,072

Finmeccanica operates in defence electronics through Galileo Avionica (100%-owned), Alenia Marconi Systems, a 50-50 joint venture with BAE Systems (consolidated proportionally) and the newly-acquired Marconi Selenia, consolidated with effect from 2 August 2002.

The defence electronics sector comprises production of avionics equipment, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, and integrated communications networks for land, naval, satellite and avionic applications.

The figures in the table are not like-for-like, owing to the change in the consolidation base between 2002 and 2003 following the acquisition of Marconi Selenia. Any comparison with the first quarter of last year is therefore not significant.

The group secured orders worth EUR 420 million in the first quarter, including:

- five PAR air traffic control radars for installation at Indian airports, and an order from NATO to provide band D, 3D radar to Poland,
- a turnkey high-frequency communications system for the Swedish military,
- manufacturing and testing of electronic equipment for BAE's Stingray programme for the UK Ministry of Defence, and customer support activities.

First-quarter value of production totalled EUR 372 million, an increase of 65% on the same period of last year, thanks mainly to Marconi Selenia, and to a lesser extent, to increased avionics activity.

The division's value of production came from:

- in radar and command and control systems: air traffic control programmes, work on the Horizon and Type 45 shipborne systems, PAAMS/FSAF shipborne missile systems, long-range ground-based 3D radar systems and customer support activities;
- in avionics systems: equipment for the EFA and the NH90, and work on training drones;
- in integrated communications systems and networks: producing personal radio systems for the UK Ministry of Defence (currently being used in Iraq), and a tactical network of shelters equipped with CD145 and ATM devices, radio links and supervision systems for Teledife (the Italian defence ministry's IT and telecommunications division).

EBITA stood at EUR 13 million, up EUR 12 million on March 2002, thanks to the consolidation of Marconi Selenia, and a rise in avionics production that led to an increased use of manufacturing capacity.

The headcount at 31 March 2003 was 11,074, an increase of around 4,000 on the same period of last year, mainly relating to Marconi Selenia. Continuing implementation of the business plan, especially at Alenia Marconi Systems, led to a reduction in staff numbers of 248 compared with March 2002, and of around 160 compared with 31 December 2002 (figures refer to 100% of the joint venture).

DEFENCE SYSTEMS

EUR million	31.03.2003	31.03.2002
New orders	119	191
Order backlog	4,321	3,804
Value of production	199	194
EBITDA	9	14
EBITA	5	11
EBIT	-	6
EBIT margin	-	3.1%
Personnel	4,215	4,186

Defence systems comprises missiles company MBDA (a joint venture with BAE Systems and EADS in which Finmeccanica has a 25% stake, consolidated using the proportional method), OTO Melara SpA in land, naval and airborne weapons systems, WASS SpA which makes underwater weapons (torpedoes and countermeasures) and sonar systems, and the International Naval Systems division, which manages relations with Horizon SAS as part of the contract to produce four Horizon (Orizzonte) frigates for the Italian and French navies.

Orders totalled EUR 119 million in the first quarter of 2003, a fall of EUR 72 million on the same period last year. The most important orders related to the FSAF missile system, three 76/62 naval cannons (two for Romania, one for Mexico) and customer support.

Value of production at 31.03.2003 was EUR 199 million, compared to EUR 194 million at 31.03.2002, with significant contributions from the following:

- in missile systems: work on the ASRAAM short-range air-to-air missiles for the UK ministry of defence, the PAAMS surface-to-air ship-launched missile system and the FSAF ground-based missile, the Storm Shadow air-to-surface missile

systems for the UK ministry of defence ministry and the SCALP EG air-to-surface missile systems for the French DGA, as well as customer support.

- in land, naval, and air weapons systems, supply of the Dardo armoured vehicle to the Italian army, production of guided bombs for the Italian air force, and production of 76/62 naval cannons and KBA 25 mm naval automatic cannons;
- in underwater weapons systems, production of MU 90 light torpedoes.

EBITA fell EUR 6 million in the first quarter compared to the same period last year, chiefly as a result of lower volumes and a less profitable revenue mix at MBDA.

The headcount at 31.03.2003 was 4,215, an increase of 29 on the same period last year.

TRANSPORT

EUR million	31.03.2003	31.03.2002
New orders	279	194
Order backlog	3,103	2,921
Value of production	301	268
EBITDA	18	12
EBITA	12	4
EBIT	11	3
EBIT margin	3.7%	1.1%
Personnel	5,762	5,620

Transport includes the 100%-owned subsidiaries AnsaldoBreda (vehicles), Ansaldo Trasporti Sistemi Ferroviari (systems) and Ansaldo Signal (signalling).

Orders received in the first quarter of 2003 totalled EUR 279m, compared to EUR 194 million in the same period last year. This increase was chiefly attributable to the signalling business. Vehicles orders remained largely unchanged, while the systems business saw a slight decline as certain orders were put on hold.

The main orders included:

- Vehicles: revamping of carriages for the Paris metro (RATP)
- Systems: various orders for the Italian high-speed train system
- Signalling: phase two of the Channel Tunnel Rail Link contract, orders relating to SCMT (wayside) and ACS

Value of production for the first quarter of 2003 was EUR 301 million, compared to EUR 268 million in the same period in 2002. This increase was chiefly attributable to larger volumes in the vehicles business.

The transport business focused on the following orders during the quarter:

- Vehicles: the Madrid metro, DMU trains for Danish railways, upgrading of ETR500 trains for Trenitalia;
- Systems: orders relating to the Italian high-speed rail network, the Copenhagen, Genoa and Dublin metros;
- Signalling: Railtrack Route Planner and orders for high-speed rail links in Italy, China and Spain.

EBITA for the first quarter of 2003 was EUR 12m, a distinct improvement on the figure of EUR 4 million registered in the first quarter of 2002. The EBIT margin widened from 1.1% to 3.7%.

The headcount at 31.03.2003 stood at 5,762, an increase of 142 compared to 31.03.2002. The biggest changes were in the signalling business, where staff numbers increased in line with higher production, and in the vehicles business, where numbers fell as a result of the ongoing restructuring plan.

ENERGY, INFORMATION TECHNOLOGY and OTHER ACTIVITIES

EUR million	31.03.2003	31.03.2002
New orders	258	324
Order backlog	2,334	2,273
Value of production	300	306
EBITDA	13	(3)
EBITA	2	(19)
EBIT	2	(19)
EBIT margin	1.0%	-6.2%
Personnel	6,340	6,923

These activities comprise Ansaldo Energia (plant and components for the production of combined and simple cycle energy, services and nuclear plants); Elsag (IT services); BredaMenarinibus (urban and long-distance buses); Elsacom (satellite telephone services); Otto (which is expected to be wound up shortly once contractual disputes have been settled); Mecfin (real estate management and services); Iritech (which has completed the disposal of minor shareholdings and has acquired a stake in Ansaldo Ricerche with the aim of selling off its divisions to be managed in co-operation with other companies); Finmeccanica Finance (providing financial support to the group as a whole), and other smaller companies.

In the first quarter of 2002, Ansaldo Energia also included Ansaldo Energia Trasmissione e Distribuzione Srl, which was sold at the end of the year.

- The main energy orders in the first quarter included a further tranche of the contract to build a reactor for Unit 2 of the Cernavoda nuclear plant in Romania, along with service activities. Value of production at 31.03.2003 was in line with that of 31.03.2002. Construction work on gas and steam turbines, alternators and associated plant accounted for 85% of the value of production, while services contributed 12% and the remainder came from nuclear contracts.

- The IT market continued to feel the effects of an economic slowdown, which reduced profitability in the sector. Faced with this situation, Elsag—which traditionally operates in postal services, industry, banking and public and private services—began refocusing its product portfolio towards higher value-added activities such as security and defence services. The company is also continuing its rationalisation programme aimed at increasing efficiency. Sales were hit by a reduction in orders for postal automation systems, but held up in other markets, where the order backlog was significantly healthier than in the first quarter of 2002.

STMICROELECTRONICS

USD million	31.03.2003	31.03.2002
Revenues	1,618	1,355
EBIT	124	60
EBIT margin	7.7 %	4.4 %

STMicroelectronics is the world's third-biggest semiconductor manufacturer, and the global leader in developing and selling semiconductors and solutions for all microelectronic applications.

The company designs, develops, produces and sells a wide range of integrated semiconductor circuits and discrete devices for use in telecommunications, IT, consumer electronics, auto electronics and control and automation systems for industry.

The company's shares are listed on the New York stock exchange, Euronext Paris and the Milan stock exchange.

At 31 March 2003, Finmeccanica held an indirect stake in STMicroelectronics of around 18%, unchanged from 31.12.2002. The company was valued at equity in Finmeccanica's 2002 accounts, as in the previous year.

Difficult market conditions continued in the first quarter of 2003. However, despite increased pressure on prices and the weakness of the dollar, the company performed far better than in the same quarter last year, with revenues up 19.4% and the EBIT margin expanding from 4.4% to 7.7%.

For the Board of Directors
Chairman and Chief Executive
(Pier Francesco Guarguaglini)

Disclaimer

The Three-Month Report 2003 issued in Italian has been translated into English solely for the convenience of international readers.