

**QUARTERLY REPORT**

**Third Quarter 2004**

**FINMECCANICA**

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# Finmeccanica Group

## Report on operations as at 30 September 2004

### 1. Results for the first nine months of the year

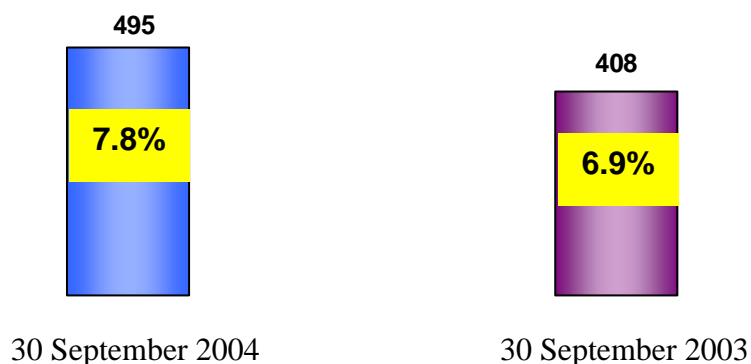
Report on operations of the Finmeccanica Group over the first nine months of 2004 shows an increase compared to the same period of the previous financial year and budget forecasts. In line with the Group's growth objectives, there has been an increase in **value of production** in absolute terms amounting to €nil. 465 million (approximately +8%) rising from €nil. 5,923 as at 30 September 2003 to €nil. 6,388 as at 30 September 2004. The most significant improvement was in the Aeronautics sector with an increase of approximately 23% (calculated with the exclusion of the difference in the contribution from Aermacchi - nine months in the 2004 financial year as against three months in 2003) and is due to the increased contribution from military business, particularly with reference to EFA aircraft; next was Defence Electronics with approximately 13% in all areas, Transportation and Space (8%) and Defence Systems (6%).

The Helicopters (7%) and Energy (13%) sectors in contrast suffered from a down-turn, the former following the conclusion of important domestic contracts involving high volumes and the second as a result of reductions of business with Enipower.

€nil.	1.1 - 30.9.2004				1.1 - 30.9.2003			
Sectors	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	1,200	126	75	69	860	76	44	42
Helicopters	867	87	75	68	937	103	88	81
Space	523	34	9	4	486	(8)	(37)	(44)
Defence								
Electronics	1,408	134	97	69	1,242	98	70	44
Defence Systems	748	56	42	27	705	54	42	27
Transportation	987	59	41	37	917	56	38	35
Energy	515	28	19	19	590	35	25	25
I.T.	267	17	9	7	282	24	16	15
Other Activities	96	(46)	(60)	(60)	106	(30)	(45)	(45)
Eliminations	(223)				(202)			
	<b>6,388</b>	<b>495</b>	<b>307</b>	<b>240</b>	<b>5,923</b>	<b>408</b>	<b>241</b>	<b>180</b>

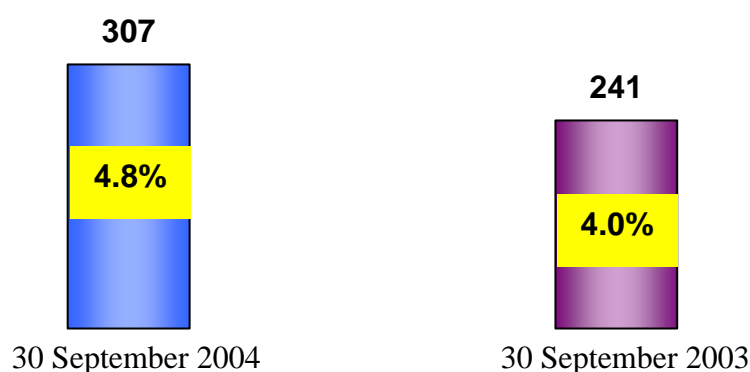
The **operating profit before depreciation (EBITDA, earnings before interest, taxes, depreciation and amortization)** as at 30 September 2004 was €mil. 495 compared to €mil. 408 for the same period of 2003, with an absolute increase in value of €mil. 87. Percentage income also saw an increase from 6.9% in 2003 to 7.8% in 2004. The percentage increase in EBITDA over the nine months of 2004, equal to approximately 21% compared to the same period in 2003, is substantially due to the following sectors: Aeronautics, with approximately 40% (calculated excluding the effects of the change in the perimeter for Aermacchi for the period). This was due to the positive trends in the military sector, seeing the benefits of the conclusion of negotiations with consequential recognition of income; Defence Electronics, with approximately 37% following a significant improvement in all business areas; Transportation, with 5% in the signalling and systems components; Defence Systems with 4% following greater profitability in the missiles systems component and finally Space, which was affected in the previous period by provisions made to counter profits deemed doubtful which, as at 30 September 2003, in the frame of the reorganisation of the sector completed at year-end, had still not been classified under extraordinary charges. These positive figures were partly chewed up by the decline (about 16%) in the Helicopters sector, resulting from new export contracts won on highly-challenging markets, and from the foregoing drop in volumes; the Energy sector, with roughly 20%, hit by lower production volumes and by the different mix of low-profit foreign orders; finally, Information Technology, with 29%, following lower volumes and higher pressure from competition on reference markets.

**EBITDA 30 September 2004 - 2003 (€mil.)**



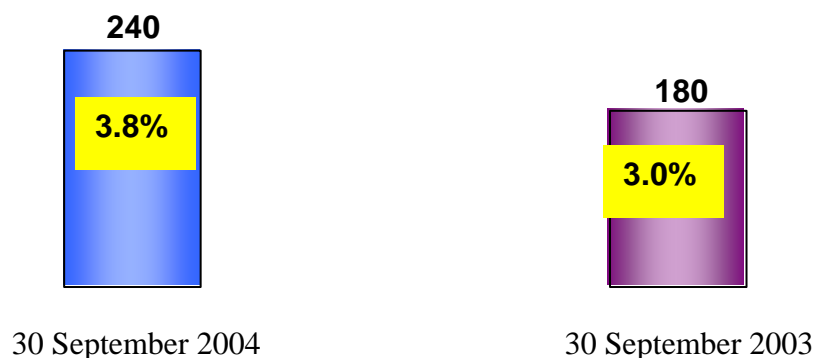
The **operating profit before goodwill amortization (EBITA, earnings before interest, taxes and amortization)**, equal to €mil. 307 as at 30 September 2004, compared to €mil. 241 in the same period of the previous financial year, increased in absolute value by €mil. 66 and recorded, with respect to EBITDA, €mil. 21 of additional amortization owing to the changed consolidation area following the new acquisitions of OTE in the first half of 2003 (€mil. 2) and of Aermacchi in the second half of 2003 (€mil. 11).

**EBITA 30 September 2004 - 2003 (€mil.)**



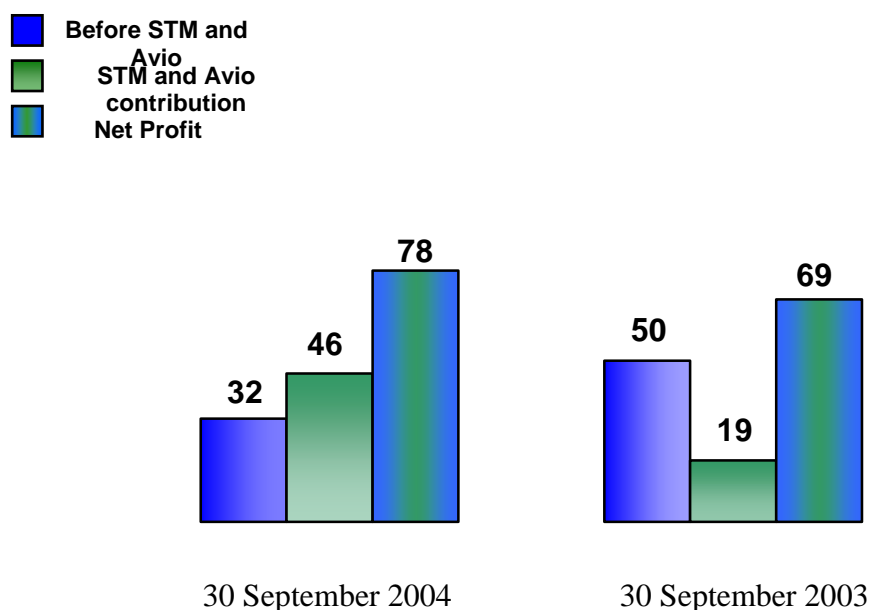
The **operating income (EBIT, earnings before interest and taxes)** came to €mil. 240 compared to €mil. 180 as at 30 September 2003, up by €mil. 60. Compared to the increase in the EBITA, the rise is ascribable to the higher goodwill amortization from the different weight given to Aermacchi and from new acquisitions.

**EBIT 30 September 2004 - 2003 (€mil.)**



**Taxes**, amounting to €nil. 129, appeared to be in line with the burden over the nine-month period of the previous year, and included €nil. 66 for IRAP (Local Tax on Production Activities) (€nil. 63 as at 30 September). If this value is excluded, the theoretical Group tax rate, calculated with respect to profit before taxes, showed a downturn of approximately 30% compared to the same period of the previous financial year (approximately 32%). This is partially attributable to the reduction of the IRES/IRPEG (Corporate Income Tax) (1 percentage point) and partially to the decision previously taken when drawing up the first quarter and half-year reports for 2004, to adopt Group taxation (consolidated tax base), in accordance with the provisions of the new Tax Reform.

#### Net Profit as at 30 September 2004 - 2003 (€nil.)



The accounts show a consolidated **net profit** of €nil. 78, compared to €nil. 69 as at 30 September 2003. These figures included the results per quota of STMicroelectronics NV (equal to €nil. 58 and growing compared to €nil. 19 in the same period of 2003) and Avio S.p.A. (owned by Aero Invest 1 S.A., a company (30%) acquired by Finmeccanica S.p.A. on 30 September 2003) (equal to a loss of €nil. 12) as at 30 September 2004. Both companies are valued at equity.

Therefore, net consolidated profits as at 30 September 2004, excluding the net effect of STMicroelectronics NV and Avio S.p.A., are equal to €nil. 32 compared to €nil. 50 as at 30 September 2003, with a reduction of €nil 18.

In order to ensure a correct comparison between the net profit for the two periods, it should be recalled that 3 million STM shares were sold on 30 September 2004, previously indirectly held by Finmeccanica giving rise to a capital gain of €nil. 30 while 4 million were sold on 30 September 2003, with a capital gain of €nil. 59.

From an analysis of the main reasons for the reduction of €nil. 18 between the two periods under comparison, it is clear that the increase of €nil. 60 in the operating profit with respect to the nine months of 2003 has been absorbed to the extent of €nil. 65 by the negative trends in equity investments, to a lesser extent, by greater net financial charges of €nil. 6 (deriving, as will be seen further below, from greater financial exposure as at 30 September 2004) and by the increase in extraordinary charges by €nil. 7. €nil. 29 of the reduction in profits from equity investments can be attributed, as already mentioned above, to the smaller capital gain realised on the transfer of STM shares, €nil. 22 derives from a reduction of dividend tax credits (lost as a result of the new IRES reform) while €nil. 13 is attributable to the lower net balance deriving from the valuation of the equity investments, mainly due to the negative trends experienced by the Fata Group over the first nine months of 2004.

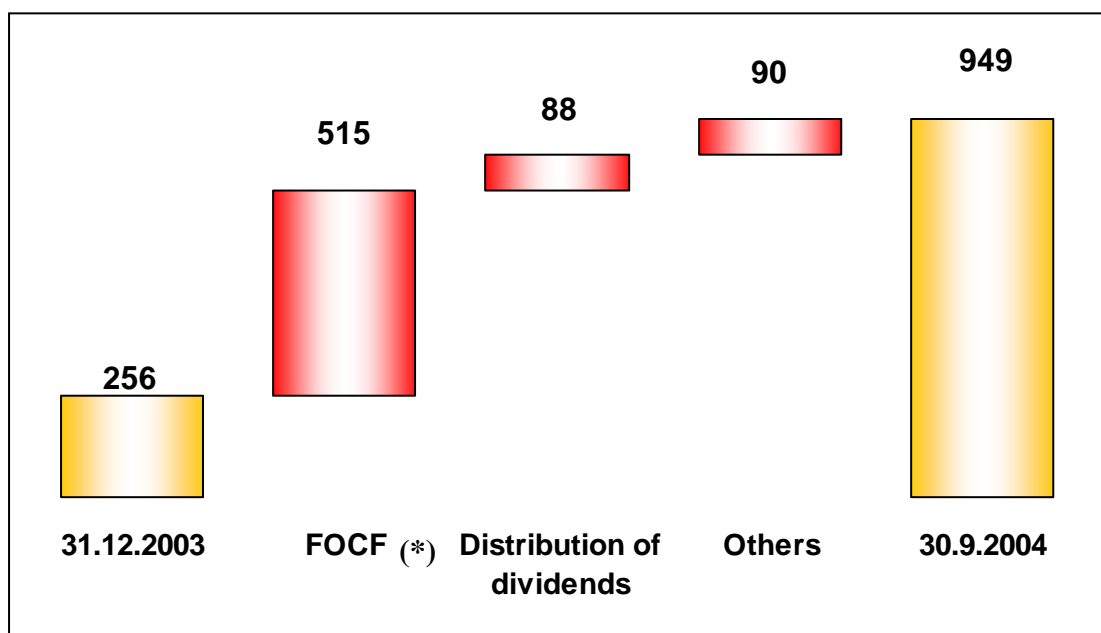
The Group's **net financial debt** (financial debt in excess of financial credit and cash), as at 30 September 2004, stood at €nil. 949, up by €nil. 693 on the net debt of €nil. 256 as at 31 December 2003. This growth is ascribable to business for this specific period usually concentrated on payments to suppliers, with respect to customer receipts relating to the final part of the year.

This debt level (in any case better than forecast) which accounted for approximately 29% of the consolidated shareholders' equity, was considerably lower than the sector average and in the limits set by a careful and prudent financial management.

This policy, which constantly aims at minimising average cost of debt and extending the average residual life (from 2.9 years to 5.5 years), also helped maintain the soundness of the Group's financial structure. This was achieved by constantly controlling the

companies' financial requirements and through effective activities towards customers and suppliers.

**Net financial position as at 30 September 2004 (€mil.)**



(\*) Free operating cash-flow

As at 30 September 2004, consolidated **net invested capital** totalled €mil. 4,242, compared to €mil. 3,558 at the end of 2003; the resulting increase of €mil. 684 was mainly ascribable to the growth in **circulating capital** (negatively affected by a rise in net inventories), although the aforementioned prudent financial management helped strongly curb the consequences against forecasts for the period.

New **orders** acquired as at 30 September 2004 totalled €mil. 4,430, compared to €mil. 5,604 over the same period of the previous year. The drop of €mil. 1,174 was a consequence of a limited but wide-spread diminution in all sectors, with the exception of a more marked down-turn in the Defence Systems, Aeronautics and Energy sectors and involved relatively small contracts, but did not regard the loss of major forecasted orders. These results, which kept in line with expectations, showed a substantial alignment with the same period of the previous financial year, equal to 43%.

The **order backlog**, as at 30 September 2004, stood at €mil. 20,613, down by €mil. 1,663 compared to 31 December 2003 (€mil. 22,276), though guaranteeing the Group work for approximately two and a half years of production.

The **number of employees** in the Group at the end of the period in question came to 46,685, down by 176 units compared to 46,861 as at 31 December 2003. This drop was attributable to the net effect of the acquisition of companies and to the negative balance of turnover.

## 2. Results for the quarter

In the third quarter of the 2004 financial year, the Finmeccanica Group recorded production volumes of €mil. 2,078 (+11% compared to the third quarter in 2003), with an operating profit of €mil. 83.

This positive trend in turn led to the achievement of an extremely positive 4.0% growth in ROS (ratio between operating profit and value of production) for this quarter compared both to 3.3% of the third quarter in 2003 and 3.7% of the first half of 2004.

€mil.	Third Quarter 2004				Third Quarter 2003			
Sectors	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	419	51	35	32	284	23	9	7
Helicopters	306	24	20	18	277	28	23	21
Space	165	16	9	7	150	7	(2)	(4)
Defence								
Electronics	425	33	20	11	393	28	20	11
Defence Systems	229	13	9	4	225	17	12	7
Transportation	289	16	10	9	298	25	20	18
Energy	171	13	10	10	181	13	10	10
I.T.	91	8	6	5	91	6	3	3
Other Activities	32	(6)	(13)	(13)	28	(7)	(11)	(11)
Eliminations	(49)				(59)			
	<b>2,078</b>	<b>168</b>	<b>106</b>	<b>83</b>	<b>1,868</b>	<b>140</b>	<b>84</b>	<b>62</b>

The third quarter of 2004 was also characterised by an increase of €mil. 12 in financial charges as the result of the increased investment and financial requirements of the Group companies.

Taxes for the period amounted to €mil. 34, in line with those of the third quarter of 2003. Net profits for the period were thus €mil. 41, also in line with the third quarter of 2003 (€mil. 41).

### **3. Main events during and after quarter**

The first nine months of 2004 and the months following the end of the period were packed with initiatives. These initiatives were accompanied by agreements and financial transactions aimed both at identifying the resources required to accomplish the strategic plan, and at making this plan consistent with maintaining and reinforcing the Group's economic soundness and financial flexibility.

#### **Industrial Transactions**

During the first nine months of 2004, the following main industrial transactions were either completed, started or pursued.

On 3 July 2003, Finmeccanica and BAE Systems signed a Memorandum of Understanding to create a partnership called **Eurosystems**, to group their respective European Defence Electronics businesses together.

The Memorandum of Understanding was followed by another agreement, signed on 18 March 2004, leading to a further understanding signed on 13 October 2004, establishing a new contractual configuration in relation to business perimeters and the shareholdings of the two shareholders. Respective contributions are currently being agreed with a further examination of the situation conducted by means of an extension of the due diligence process.

The preliminary contractual documentation is currently being prepared for the completion of the agreement once authorisation has been obtained from the competent national and European antitrust authorities.

The new agreement envisages the following significant amendments with respect to the contractual content discussed up to the present:

- the AMS NV Joint Venture will be dissolved. The domestic components Alenia Marconi Systems S.p.A. (AMS) and AMS Ltd. will return under the control of their respective shareholders;

- it has been decided not to set up the Integrated Systems Joint Venture (C4ISR) under English control which had envisaged the involvement of AMS with matching activities from BAE Systems;
- Finmeccanica's controlling interest in the Avionica joint venture, including Galileo Avionica and the English assets currently held by BAE Systems, will change from 60% to a percentage equal to or higher than 75%;
- the length of the transition period after which BAE Systems will be able to exit from the JV Avionica has been reduced from 4 years to 25 months (put option and related call option for the benefit of Finmeccanica);
- BAE Systems will transfer the Air Traffic Control (ATC) business assets to Finmeccanica currently within the AMS Ltd. perimeter;
- BAE Systems will transfer the Communication business assets to Finmeccanica.

The new contractual contents have positive implications for Finmeccanica and derive from specific strategic agreements:

- the determination to continue with the Integrated Electronics Systems business autonomously and through Finmeccanica's full strategic control, including by the forging of much stronger links of co-ordination and synergy between AMS, Marconi Selenia Communications and Avionica;
- the importance of developing the Group's skills in Integrated Systems (C4ISR) through control over the specific skills available in AMS;
- the possibility of consolidating a wider business perimeter in Finmeccanica's accounts;
- further strengthening of ATC's business with the contribution of English businesses.

On 17 June 2004, the Group signed a Memorandum of Understanding with **Alcatel S.A.**, which lays down the main elements of a possible alliance in the space sector between the two companies. The main cornerstones of this alliance rest on the formation of two companies:

- Manufacturing company. This will be the result of merging the manufacturing business of **Alenia Spazio S.p.A.** and Alcatel Space S.A., and the majority stake will be held by Alcatel. Governance rules will be determined within this new company to define how leadership is divided among the various business areas and allocation criteria to protect the interest of domestic institutional customers.
- Service company. This will be the result of merging satellite service activities, and will channel the business of **Telespazio S.p.A.** and Alcatel Space S.A. and majority owned by Finmeccanica. This company will act as a preferred supplier of the manufacturing company, and will act as a vehicle for participating in the development of Galileo services.

Following the signing of the Memorandum, the due diligence phase launched on the companies being transferred was completed by September. The parties also started negotiating the final agreements, which are expected to be completed by the end of the year.

The first half of the year also saw the continuation of the feasibility study on how to enhance the value of the Finmeccanica Group's **real estate**.

The feasibility study will determine times and procedures for the project. Considering the strategic nature of most of the Group's real estate, mainly composed of industrial buildings, the project may be finalised by grouping the real estate into a single company and then possibly monetising the income produced. An independent expert is currently completing the assessment of the various building units.

In the frame of a broader plan to bring value to business outside the Aerospace and Defence segment, a project was launched to explore the possibility of transferring the Transportation and Energy businesses by aggregating them with Fincantieri S.p.A.

An Industrial Plan was thus developed during the first quarter of 2004, by combining **AnsaldoBreda S.p.A., Ansaldo Signal N.V., Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Energia S.p.A.** with the shipbuilding activities of Fincantieri S.p.A. We have received expressions of interest in purchasing a controlling interest in the Transportation business.

This project was initially submitted to the Finmeccanica Board of Directors on 20 April 2004, and, on this occasion, a number of financial consultants were tasked with reviewing the single businesses and identifying viable courses and operation limits. These activities are still in progress at this time.

A series of analyses and evaluations are currently underway to set a strategic course that will allow the Information Technology sector (concentrated in **Elsag**) to reach such a size and structural stability as to enable it to successfully weather the severe conditions currently affecting the industry.

Finally, on 26 May 2004, Finmeccanica, together with GKN plc (GKN), signed a letter of intent on the possible acquisition of 50% of **AgustaWestland NV**, held by GKN itself, based on the equivalent of 1,001.5 million pounds (equal to about 1,500 million Euro). Under these agreements, Finmeccanica will take over the industrial real estate currently owned by GKN and previously exploited by AgustaWestland, for the equivalent of 62 million pounds (equal to about 93 million Euro).

On 27 July 2004, the Group executed the final 50% acquisition contract, in accordance with the terms and conditions consistent with the preliminary agreement. The final contract, following approval by GKN shareholders, is currently obtaining the required regulatory authorisations, to be completed by the end of 2004. The cost of the transaction also includes 35 million pounds (about 53 million Euro), as a guarantee deposit which will be returned to Finmeccanica by 31 May 2008, should the contract named Future Lynx not be granted by the British Ministry of Defence to AgustaWestland.

The transaction, to be completed by the end of the year, will be funded through long-term credit and through the monetisation of STMMicroelectronics NV (STM) shares. A

considerable number of STM shares is expected to be monetised in accordance with the shareholders' agreements in force, to assure equal management of the equity investment in STM by Italian and French partners.

### **Financial transactions**

During the first nine months of 2004, no new significant financial transactions were implemented. The financial structure is, therefore, basically the structure recognised in the preparation of the 2003 financial statements and of the notes to the 2004 half-year report, and is based on the convertible debenture loan of Finmeccanica, expiring on 8 June 2005, and on transactions placed on the market by the investee company Finmeccanica Finance S.A., through guarantee of the Parent Company, the last two of which, with a respectively 7 and 15 year maturity, besides being an important novelty for the Group, usually accustomed to shorter maturities, have allowed for a considerable extension of the average residual life of the loan (from 2.9 years in 2002 to the current 5.5).

The table below summarises outstanding debenture loans as at 30 September 2004 which, compared to the corresponding chart as at 31 December 2003, and as already emphasised in the half-year report, no longer includes two issues placed on the Japanese institutional market, which matured normally and were redeemed in January and March 2004:

<b>Issuer</b>		<b>Year of Issue</b>	<b>Deadline</b>	<b>Counter-value Amount (€000)</b>	<b>Annual coupon</b>	<b>Type of offering</b>
Finmeccanica SpA	(1)	2000	8 June 2005	877,977	2%	European institutional
Finmeccanica Finance S.A.		1997	16 January 2007	6,664	3.30%	Japanese institutional
Finmeccanica Finance S.A.	(2)	2002	30 December 2008	297,000	variable	Italian Retail
Finmeccanica Finance S.A.	(3)	2003	8 August	501,400	0.375%	European institutional

			2010			
Finmeccanica Finance S.A.	(4)	2003	12 December 2018	500,000	5.75%	European institutional

- (1) Bonds convertible into Finmeccanica shares at a conversion price of €1.875 per share (p.s.), plus a premium calculated on an annual basis that the investor receives upon expiration, raising the compounded annual return to 3.25% p.s. The bonds are listed on the Luxembourg Stock Exchange. Upon expiration, Finmeccanica may refund the loans by cash or, upon receiving a prior notice of no less than 50 days, with a combination of Finmeccanica shares valued at the mean price recorded for the 20 previous business days and of cash for the difference.
- (2) Bonds offered solely to the mass public in Italy and listed on the TLX market, managed by Trading Lab Banca S.p.A. - Gruppo Unicredito Italiano. Although they were issued within the framework of an Euro Medium Term Notes programme (“EMTN”), the bonds are governed by specific regulations of Italian law. Transaction authorised pursuant to Article 129 of Legislative Decree No. 385/93. Offering Circular filed with CONSOB on 4 December 2002 (authorisation notified with note No. 2079342 of 3 December 2002).
- (3) Bonds may be traded for a maximum number of 20,000,000 shares of STMicroelectronics N.V. (STM) at a conversion price of €25.07 per share. Beginning three years after issue, Finmeccanica Finance may require that the loan be converted if the mean price recorded for the 30 business days prior to the date bondholders were notified is more than 125% of the conversion price. Upon expiration, Finmeccanica Finance may refund the loans by cash or, upon receiving a prior notice of no less than 15 business days, for a combination of STM shares valued at the mean price recorded for the 5 previous business days and of cash for the difference. Transaction authorised pursuant to Article 129 of the Legislative Decree No. 385/93.

The bonds are listed on the Luxembourg Stock Exchange.

- (4) Bonds issued within the EMTN programme for maximum €2 billion. The entire issue was transformed from fixed rate to variable rate for the first two years of the loan term. Transaction authorised pursuant to Article 129 of Legislative Decree No. 385/93. The bonds are listed on the Luxembourg Stock Exchange.

All Finmeccanica Finance S.A. bond issues are irrevocably backed by Finmeccanica S.p.A.

All of the above debenture loans are governed by regulations containing standard law provisions for these kinds of transactions implemented by corporate subjects. The aforementioned Finmeccanica issues contain clauses that do not require any commitment

regarding specific financial covenants, while they do include the so-called negative pledge and cross default clauses.

All bonds issued by Finmeccanica S.p.A and Finmeccanica Finance S.A. have been assigned a medium-term credit rating by the two international rating agencies, Moody's Investors Service and Fitch. Specifically, as at 30 September 2004, the Moody's credit rating was Baa2, while Fitch was BBB, both indicating stable prospects. In July 2004, the Standard & Poor's rating agency assigned a medium-term BBB credit rating, again with stable prospects.

In terms of financial planning to refund the bonds in a timely manner as they expire, it should be emphasised that the bonds issued in 2003 were also aimed at procuring funds for the upcoming repayment of the Finmeccanica S.p.A. debenture loan, which expires in June 2005. The financial commitments arising from the acquisition of 50% of Agusta Westland NV, owned by GKN plc., required additional financing sources, which mainly included the possibility of selling shares of the equity investment in STM to new qualified Italian partners (see the following paragraph). In this regard, between June and July 2004, the Group effected appropriate hedging on the price of the share. Furthermore, again in July, the Group renewed and extended the EMTN programme, which went up from €bil. 1.1 to €bil. 2. On 27 July 2004, Finmeccanica S.p.A., together with a pool of national and international banks, signed a revolving credit of €bil. 1, with a five-year life, to bring financial flexibility in the management of the Group. The transaction, organised according to Euro-zone clauses, does not entail financial covenants, replaced by a returns grid for banks according to the credit rating applicable for each reference period. During the "syndication" stage, in consideration, *inter alia*, of the demand generated on the bank market, the operation was increased to €bil. 1.2. As at 30 September 2004 no drawings had been made on the credit line. These new transactions, together with available funds, will guarantee balanced support to operations, and the accomplishment of expected investment activities.

Finmeccanica has also continued its own active management of its indirect equity investment held in **STMicroelectronics N.V.** (STM), owned by STMicroelectronics Holding (STH) which, in June 2004, transferred 3,000,000 STM shares to the market, with an average price of €17.46, thus obtaining a capital gain of about €nil. 30.

It must also be remembered that, during 2004, Finmeccanica, together with its French partners from STMicroelectronics Holding N.V. (STH), Areva and France Telecom, signed an agreement aimed at renewing and reorganising the shareholders' agreements in force for the management of the STH holding, controlling the relative majority of the share capital of STM. Following this agreement, Finmeccanica further increased the liquid nature of its equity investment, equal to roughly 17.13% of the outstanding share capital of STM as at the end of the period under examination (2.24% of which used for the foregoing bond issue), an aspect which could mean much from a financial point of view in the frame of the Group's strategic development policy, continuing to guarantee the stability of the governing structure of STM also with the entry of other qualified Italian partners in the body of shareholders, also in accordance with the shareholders' agreements signed with the French partner. Negotiations to such effect are in progress with the Cassa Depositi e Prestiti (Deposits and Loans Office - CDP) for the transfer of a shareholding in STH corresponding to the STM shares forming part of the controlling interest of the company in accordance with structures and procedures still to be defined.

### **Other reorganisation operations**

The first nine months of 2004 saw the consolidation of several reorganisation plans started in 2003, with the aim of paving the way for better conditions to strategic projects regarding reorganisation of the industrial portfolio.

On 1 June, the business unit of Alenia Spazio (with the subsequent change of the name of the transferee company in Alenia Spazio S.p.A.) was transferred to Laben S.p.A.. Several contracts and activities deemed no longer functional to the future growth of the transferee company remained with the transferor, which changed its name to ALS S.p.A..

During the third quarter of 2004, the liquidation procedure of Otto S.p.A. was also started.

The reorganisation of the industrial portfolio also included the continuation of interventions related to the Fata Group, affecting the Fata Group S.p.A. in particular, in addition to the beginning of the Fata Automation S.p.A. liquidation procedure on 16 July 2004. Within the framework of the reorganisation and restructuring plan begun during 2003 and continued over the period under consideration, Finmeccanica, initially holding 42.97% of the share capital, subscribed to the remaining 57.03% of the shares on 10 September 2004, becoming the sole shareholder with fully subscribed and paid up share capital of €mil. 10. In the context of the restructuring process, Fata's managerial team was supplemented by the identification and appointment of a Managing Director.

#### 4. Group's economic and financial position

To provide further information on the Group's financial position, the following prospects, "Reclassified Consolidated Income Statement", "Reclassified Consolidated Balance Sheet" and "Reclassified Net Financial Debt", have been drawn up in accordance with the schemes used in the previous years.

For a better understanding of the data below, please note that:

- Sobrahel - Sociedade Brasileira de Helicopteros Ltda (JV Agusta Westland), valued at cost in 2003, was consolidated on a proportional basis starting from 2004 as it became operative;
- Marconi Selenia Communications Romania S.r.l., valued at cost in 2003, was consolidated on a line-by-line basis starting from 2004 as it became operative;
- Domino Fin S.r.l. was acquired on 15 April 2004;
- S.C. Electra Communications SA was established on 5 May 2004;
- Sistemi Radiomobili S.r.l. was established on 1 June 2004;
- on 1 July and during October 2003, further equity investments in Aermacchi S.p.A. were acquired (total after acquisition 99.998%);
- Marconi Mobile Access S.p.A. was acquired on 17 July 2003;
- Electron Italia S.r.l. was acquired on 19 September 2003;
- an additional 87.1% of the capital of Sistemi e Telematica S.p.A. was acquired on 15 September 2003 (bringing the total stake after the purchase to 92.8%);
- Marconi Selenia Communications do Brasil Ltda was consolidated on an equity basis in 2003 and on a line-by-line basis starting from 2004, as it became operative;
- E-Security S.r.l., operative after changing the legal status from consortium to limited liability company, was consolidated on a line-by-line basis starting from the third quarter of 2004;
- Otto S.p.A. was deconsolidated starting from 1 January 2004, following the liquidation procedure;
- Elsag Supernet S.p.A. was deconsolidated from the 2003 financial statements following the liquidation procedure.

It will also be recalled that on 10 September a further 57.03% of the company Fata Group S.p.A. was purchased, bringing up ownership percentage to 100%. The company and its subsidiaries were valued on an equity basis and will be consolidated on a line-by-line basis starting from the 2004 financial statements.

The “Reclassified Consolidated Income Statement” thus contains the values for both the periods 1 January - 30 September and 1 July - 30 September 2004 and the compared periods, only from the acquisition (or effective) date.

The “Reclassified Consolidated Balance Sheet” as of 31 December 2003 does not include values for the groups and companies consolidated starting from 2004.

Also in reference to comparing figures, note that the Euro was constantly reassessed against the main foreign currencies of interest to the Group, throughout the first nine months of 2004. The conversion rates as at 30 September 2004 and the average ones showed the following changes in the most important currencies, compared to 2003: final exchange rates for the period (Euro - US Dollar – 1.8% and Euro - Pound Sterling – 2.6%); average exchange rates for the period (Euro - US Dollar + 9.1% and Euro - Pound Sterling – 2.5%).

The Table below shows the Reclassified Consolidated Income Statement in the first nine months and in the third quarter of the 2004 financial year.

**RECLASSIFIED CONSOLIDATED INCOME STATEMENT**  
(IN THOUSANDS OF EUROS)

	<i>1.1 - 30.9.04</i>	<i>1.7 - 30.9.04</i>	<i>1.1 - 30.9.03</i>	<i>1.7 - 30.9.03</i>	<i>1<sup>th</sup> half of 2004</i>
<b>A. - <u>REVENUES</u></b>	<b>6,088,019</b>	<b>1,978,987</b>	<b>5,724,269</b>	<b>1,805,978</b>	<b>4,109,055</b>
Change in inventories of work in progress, semi-finished and finished goods	271,513	91,911	181,887	58,310	179,622
Capitalisation of internal construction costs	28,035	6,694	16,869	3,620	21,341
<b>B. - <u>VALUE OF PRODUCTION</u></b>	<b>6,387,567</b>	<b>2,077,592</b>	<b>5,923,025</b>	<b>1,867,908</b>	<b>4,310,018</b>
Costs of goods and services	(4,057,382)	(1,358,318)	(3,793,650)	(1,177,354)	(2,699,269)
<b>C. - <u>VALUE ADDED</u></b>	<b>2,330,185</b>	<b>719,274</b>	<b>2,129,375</b>	<b>690,554</b>	<b>1,610,749</b>
Personnel costs	(1,849,156)	(581,011)	(1,713,277)	(558,476)	(1,268,253)
Other adjusting provisions	(13,278)	(930)	(22,939)	(1,662)	(12,348)
Provisions for risks and charges	(44,334)	(2,298)	(49,583)	(4,898)	(39,451)
Balance of other income (charges)	71,640	32,974	64,151	14,846	38,697
<b>D. - <u>EBITDA</u></b>	<b>495,057</b>	<b>168,009</b>	<b>407,727</b>	<b>140,364</b>	<b>329,394</b>
Depreciation and amortization	(206,360)	(68,452)	(187,096)	(65,030)	(137,901)
Set-up grants for the period	18,344	6,413	20,711	8,438	11,931
<b>E. - <u>EBITA</u></b>	<b>307,041</b>	<b>105,970</b>	<b>241,342</b>	<b>83,772</b>	<b>203,424</b>
Goodwill amortization	(66,892)	(23,072)	(61,395)	(21,715)	(43,815)
<b>F. - <u>EBIT</u></b>	<b>240,149</b>	<b>82,898</b>	<b>179,947</b>	<b>62,057</b>	<b>159,609</b>
Financial revenues (charges)	(32,731)	(8,758)	(30,082)	(15,767)	(24,025)
Foreign Exchange gains (losses)	(2,991)	(3,420)	705	(555)	470
Shares and adjustments to financing activities	63,091	14,400	100,973	50,644	48,783
<b>G. - <u>INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES</u></b>	<b>267,518</b>	<b>85,120</b>	<b>251,543</b>	<b>96,379</b>	<b>184,837</b>
Extraordinary revenues (charges)	(60,116)	(10,531)	(53,223)	(21,129)	(49,586)
<b>H. - <u>INCOME BEFORE TAXES</u></b>	<b>207,402</b>	<b>74,589</b>	<b>198,320</b>	<b>75,250</b>	<b>135,251</b>
Income taxes for the period	(129,028)	(34,005)	(128,893)	(34,093)	(95,017)
<b>I. - <u>NET PROFIT</u></b>	<b>78,374</b>	<b>40,584</b>	<b>69,427</b>	<b>41,157</b>	<b>40,234</b>
<i>of which:</i>					
. parent company share	77,079	40,123	62,004	39,929	38,381
. minority interests	1,295	461	7,423	1,228	1,853

- “Value of production” amounted to €nil. 6,388, representing an increase of about 8% with respect to the value for the corresponding period of the previous financial year. This increase is explained by reference to the difference in Aermacchi’s contribution (nine months of the 2004 financial year compared to three months in 2003 following the purchase of the company on 1 July), and by the growth in Aeronautics, Defence Electronics, Transportation, Defence Systems and Space, contrasted by a drop in the Helicopters and Energy sector. “Value of production” for the third quarter of 2004 amounts to €nil. 2,078 compared to €nil. 1,868 for the same quarter in 2003, with an increase of €nil. 210;
- “Costs of goods and services” rose from €nil. 3,794 in the corresponding period of 2003 to €nil. 4,058 in 2004 (approximately +7%). This trend, as the “value of production”, is mainly attributable to the different contribution by Aermacchi in the scope of consolidation and to the foregoing trend in the sector business. With reference to the quarter, “costs of goods and services” are equal to €nil. 1,359 compared to €nil. 1,177 of the 2003 quarter;
- “Personnel costs” of €nil. 1,849, compared to €nil. 1,713 in the corresponding period of 2003, reflect the increase in both the number of employees and the average cost per employee.

The average headcount was 45,926, compared to 44,514 in the corresponding period of the previous year, with a net increase caused by changes in the consolidation area and negative turnover.

The final headcount at 30 September 2004 was 46,685, 176 less than the 46,861 at 31 December 2003, due to the acquisitions of companies and negative turnover.

Average unit cost per employee showed an increase for Italy, owing to changes in the breakdown of job categories and the variation in the consolidation area, renewed collective agreements, remuneration policies and ancillary elements in wages and salaries (such as paid holidays). Increases abroad resulted from the effect of an increase due to changes in the breakdown of job categories and from the dual effect of the appreciation of the pound and of the drop of the Dollar against the Euro, as previously stated in the foreword.

“Personnel costs” in the quarter were equal to €nil. 581 compared to €nil. 558 in 2003;

- Adjusting provisions” and provisions “for risks and charges” (€nil. 57 in the nine months of the financial year compared to €nil. 72 in the corresponding period of 2003 and €nil. 3 in the 2004 quarter compared to €nil. 7 in the 2003 quarter) are allocations (product warranties, doubtful accounts, penalties, pending litigation, contractual charges and others). The main risk provisions mainly involved products warranties (€nil. 10 compared to €nil. 11 in the corresponding period of 2003), penalties (€nil. 2 compared to €nil.7 in the corresponding period of 2003), contractual charges (€nil. 9 compared to €nil. 19 in the corresponding period of 2003) and pending litigation (€nil. 10 compared to €nil. 4 in the corresponding period of 2003). Provisions for bad debts are equal to €nil. 13 compared to €nil. 23 in the corresponding period of 2003;
- “Other income and charges”, equal to €nil. 71 (€nil. 33 in the quarter) of net income, showed an increase compared to the corresponding period in the previous financial year (€nil. 64 and €nil. 15 in the quarter). The income item also included income from real investments (€nil. 9 compared to €nil. 5 in the corresponding period of 2003), insurance reimbursements (€nil. 9 compared to €nil. 8 in the corresponding period of 2003), costs recovery (€nil. 12 compared to €nil. 10 in the corresponding period of 2003), collection of receivables from insolvent Countries (fully written off in previous years) and use of provisions (€nil. 40 compared to €nil. 50 in the corresponding period of 2003) for contractual risks (€nil. 3 compared to €nil. 16 in the corresponding period of 2003), risks for aeronautics activities (€nil 9 compared to a balance equal to zero in the corresponding period of 2003), guarantees (€nil. 8 compared to €nil. 4 in the corresponding period of 2003), disputes (€nil. 2 compared to €nil. 7 in the corresponding period of 2003) and others established in previous years and made available following ordinary operations and costs incurred over the period. Revenues for the period include €nil. 6 (€nil. 12 relating to revised credit/debt relations in the corresponding period of 2003) from the write-off of debts as a result of revised relations between some

companies and their suppliers. Charges also include indirect taxes and taxes for the period (€nil. 15 compared to €nil. 13 in the corresponding period of 2003), penalties (€nil. 17 compared to €nil. 15 in the corresponding period of 2003), membership fees (€nil. 5 compared to €nil. 4 in the corresponding period of 2003);

- “EBITDA” was equal to €nil. 495, with an increase of €nil. 87 (approximately +21%) compared to the corresponding period in the previous financial year (€nil. 408). EBITDA for the quarter was equal to €nil. 168 compared to €nil. 140 in the 2003 quarter, with an increase of €nil. 28 (approximately +20%);
- “Depreciation and amortization” showed an increase with respect to the same period of the previous year due to the change in the contribution by Aermacchi in the scope of consolidation, while the set-up grants show a decrease due to the completed amortization of some assets. Amortization for the period, amounting to €nil. 206 (€nil. 187 in the 2003 quarter), related for €nil. 163 to tangible fixed assets (€nil. 150 in the 2003 quarter) and for €nil. 43 to intangible fixed assets (€nil. 37 in the 2003 quarter). Depreciation and amortization for the period totalled €nil. 68 compared to €nil. 65 in the 2003 quarter;
- “EBITA” was €nil. 307, showing an increase of €nil. 66 (+27%) compared to the same period in the previous year (€nil. 241). This increase was due to the net effect of a rise in the Aeronautics sector which, *inter alia*, benefited from the contribution of Aermacchi, to the upswing of business in the Defence Electronics and Transportation sectors and to a substantial improvement in the Space sector, which had been affected in the corresponding period of the previous year by considerable provisions made to implement organisational and productive reorganisation, basically of Alenia Spazio (now ALS S.p.A.). This growth is offset by a drop in the Helicopters division for less profitable contracts acquired under highly competitive market conditions. The Energy and Information Technology sectors also showed a decline, largely due to a fall in volumes of production and to lower profits for activities developed during the period. As to the quarter, EBITA totalled €nil. 106

compared to €nil. 84 in the 2003 quarter, with an increase of €nil. 22 (approximately +26%);

- “Goodwill amortization” was €nil. 67 compared to €nil. 61 in the corresponding period of 2003. This increase is largely owing to the different contribution of Aermacchi in the scope of consolidation and to the acquisition of Domino Fin. Amortization for the quarter totalled €nil. 23 compared to €nil. 22 in the 2003 quarter;
- “EBIT”, which discounts, *inter alia*, the increase in depreciation and amortization, increased by €nil. 60 (approximately +33%), from €nil. 180 in the nine months of 2003 and €nil. 240 in the corresponding period of 2004 for the reasons already mentioned. The quarter showed an increase of €nil. 21 passing from €nil. 62 in 2003 to €nil. 83 in 2004;
- Net “financial revenues and charges” amounted to €nil. 33 of net charges, with a €nil. 3 increase compared to the same period in the previous year (€nil. 30 of net charges) and a decrease of €nil. 7 over the quarter, reducing from €nil. 16 in 2003 to €nil. 9 in 2004. The increase in net charges over the first 9 months is essentially attributable to the increased average financial exposure compared with the corresponding period for the previous year. This figure has been influenced by the effect of transactions effected by Finmeccanica to guarantee the financing required for the acquisition of a further 50% of the AgustaWestland Joint Venture planned in the near future, to be paid in pounds sterling. The effect of the transaction on the third quarter of 2004 amounted to €nil. 6 and it will be concluded during the last quarter;
- Net “foreign exchange gains (losses)” totalled €nil. 3 of net losses (€nil. 0.7 of net gains in the nine months of 2003). As already noted in the notes to the performance in the first half of 2004, this figure has been affected by the negative results from the upward trend of the United States dollar interest rates (increased by 0.75% from June). This has led to an inversion in forward points (representing the differential

between euro and dollar interest rates), which, for dollar sellers who deliver on a specified future date or period carries a loss rather than a gain, as was the case up to the end of the 2003 financial year, in terms of “premium points” for transactions of more than three months. Prospects for the near future would appear to confirm this trend. There were net losses of €mil. 3 over the 2004 quarter compared with net losses of €mil. 0,5 million over the same period of 2003;

- The positive economic component deriving from “Shares and adjustments to financing activities” was €mil. 63 (€mil. 14 in the 2004 quarter), against €mil. 101 in the nine months of 2003 (€mil. 51 in the 2003 quarter). This net balance mainly includes:
  - Finmeccanica’s share of STMicroelectronics Holding NV (€mil. 88, compared to €mil. 79 in the corresponding period of 2003), which, like all the Group’s significant unconsolidated equity investments, is valued at equity. Note that the figure for the period included a capital gain (€mil. 30) from the disposal of 3,000,000 STMicroelectronics NV (STM) shares owned by STH. In 2003, the capital gain from the disposal of 4,000,000 shares of the same company was €mil. 59;
  - net decreases from other equity investments valued at equity (€mil. 26 compared to €mil. 4 positive result in the nine months of 2003), €mil. 12 of which are referred to the investee company Aero Invest 1 SA;
  - net provisions for equity investments valued at cost ( €mil. 5 compared to €mil. 4 in the nine months of 2003);
  - dividends from minority interests and other income (€mil. 3 compared to €mil. 22 of other income from equity investments in the corresponding period of 2003, particularly relating to tax credits on dividends);
- “Extraordinary revenues and charges”, either net or extraordinary, showed a negative balance of €mil. 60 (compared to €mil. 10 in the 2004 quarter) compared to €mil. 53 (compared to €mil. 21 in the 2003 quarter) of net charges recorded in the nine months of the previous year. The main items involve personnel redundancy payments and restructuring provisions, net of the €mil. 48 earmarked for this purpose

in previous years (€nil. 32 in the corresponding period of 2003). Specifically, the restructuring process involved the Space (€nil. 8), Defence Electronics (€nil. 7), Energy (€nil. 5), Aeronautics (€nil. 5), Defence Systems (€nil. 4) sectors, and the reorganisation of the industrial automation business (Fata group, €nil. 18). Other charges include taxes from previous years (€nil. 5 compared to €nil. 15 in the corresponding period of 2003), including tax amnesty provisions pursuant to Law no. 289/2002 and Law no. 350/2003, complied with by the Group companies;

- “Income taxes for the period”, as for the corresponding period of 2003, amounted to €nil. 129. In particular, this item was the algebraic sum of:
  - IRAP (Local Tax on Production Activities), amounting to €nil. 66 (€nil. 63 in the corresponding period of 2003);
  - IRES (Corporate Income Tax), amounting to €nil. 38 and of other direct taxes amounting to €nil. 31, thus totalling €nil. 69 (€nil. 42 for IRPEG and €nil. 25 of other direct taxes in the corresponding period of 2003);
  - net deferred taxes, amounting to €nil. 6 (€nil. 1 in the corresponding period of 2003).

More in detail, note that IRES, amounting to €nil. 38, benefited from the effects of the estimate made on the basis of benefits arising from the adoption of the national consolidated tax base by some of the Group companies, amounting to €nil. 16.6.

The consolidated income statement does not include current taxes (since the period under examination produced no taxable income) or net deferred tax assets relating to the Parent Company, if there is no reasonable certainty that taxable income will be generated in future allowing their actual recognition, and, with particular reference to previous tax losses incurred, in the absence of the conditions laid down by the reference accounting principle. As mentioned above, the figure of €nil. 16.6 is fully ascribable to the estimate of benefits arising from the adoption of the national consolidated tax base.

The Table below shows the Reclassified Consolidated Balance Sheet at 30 September 2004.

**RECLASSIFIED CONSOLIDATED BALANCE SHEET**  
(IN THOUSANDS OF EUROS)

	<u>30.09.2004</u>	<u>31.12.2003</u>	<u>30.09.2003</u>	<u>30.06.2004</u>
<b>A. - <u>FIXED ASSETS</u></b>				
Intangible fixed assets	1,193,570	1,198,243	1,221,594	1,187,619
Tangible fixed assets	1,690,374	1,692,357	1,625,516	1,696,911
Investments	1,419,821	1,418,997	1,486,018	1,406,326
	<u><b>4,303,765</b></u>	<u><b>4,309,597</b></u>	<u><b>4,333,128</b></u>	<u><b>4,290,856</b></u>
<b>B. - <u>WORKING CAPITAL</u></b>				
Inventories	15,369,116	14,857,753	15,180,609	16,043,876
Trade receivables	3,070,069	3,327,889	3,030,290	3,205,955
Other assets	1,091,148	1,136,784	1,399,558	1,047,123
Trade payables	(2,390,122)	(2,564,344)	(2,577,455)	(2,343,047)
Advances from customers and on-account billings	(11,935,649)	(12,369,639)	(12,575,626)	(13,086,163)
Provisions for risks and charges	(1,099,583)	(1,107,606)	(1,233,959)	(1,222,777)
Other liabilities	(3,441,573)	(3,317,692)	(2,910,631)	(3,216,947)
	<u><b>663,406</b></u>	<u><b>(36,855)</b></u>	<u><b>312,786</b></u>	<u><b>428,020</b></u>
<b>C. - <u>INVESTED CAPITAL</u>, minus liabilities for the period</b>	<b>4,967,171</b>	<b>4,272,742</b>	<b>4,645,914</b>	<b>4,718,876</b>
<b>D. - <u>STAFF SEVERANCE FUND</u></b>	(724,981)	(714,089)	(712,203)	(718,792)
<b>E. - <u>INVESTED CAPITAL</u>, minus liabilities for the period and the staff severance fund</b>	<u><b>4,242,190</b></u>	<u><b>3,558,653</b></u>	<u><b>3,933,711</b></u>	<u><b>4,000,084</b></u>
<i>covered by :</i>				
<b>F. - <u>SHAREHOLDERS' EQUITY</u></b>				
Group capital and reserves	3,217,185	3,105,966	3,133,700	3,242,057
Group's net profit	77,079	188,665	62,004	38,381
Minority interests' capital and reserves	(2,286)	(3,054)	6,992	857
Minority interests' profit	1,295	10,592	7,423	1,853
	<u><b>3,293,273</b></u>	<u><b>3,302,169</b></u>	<u><b>3,210,119</b></u>	<u><b>3,283,148</b></u>
<b>G. - <u>NET FINANCIAL DEBT</u></b>				
i) medium- to long-term financial debt	2,386,412	2,582,492	1,965,476	2,393,901
ii) short-term :				
. financial debt	491,368	623,001	585,744	556,773
. cash and financial credit	(1,912,039)	(2,923,555)	(1,767,511)	(2,215,427)
	(1,420,671)	(2,300,554)	(1,181,767)	(1,658,654)
iii) restated items (*)	(16,824)	(25,454)	(60,117)	(18,311)
	<u><b>948,917</b></u>	<u><b>256,484</b></u>	<u><b>723,592</b></u>	<u><b>716,936</b></u>
<b>I. - <u>TOTAL AS IN E</u></b>	<u><b>4,242,190</b></u>	<u><b>3,558,653</b></u>	<u><b>3,933,711</b></u>	<u><b>4,000,084</b></u>
(*) Including:				
. interest-bearing receivables from financial brokerage activities	(16,824)	(25,454)	(80,504)	(18,311)
. portion of risks provisions compensating liabilities of unconsolidated subsidiaries			20,387	
	(16,824)	(25,454)	(60,117)	(18,311)

Fixed assets (€nil. 4,304 as at 30 September 2004 compared to €nil. 4,309 as at 31 December 2003) fell by €nil. 5, owing mainly to:

- the €nil. 4 reduction, following re-examination of the purchase price of Telespazio S.p.A., of goodwill recorded in 2002;
- the net effect of the increase of equity investments valued at equity, amounting to €nil. 4;
- activities concerning investment and borrowing loans, refunded credits and amortization;
- the net increase of figures deriving from exchange rate losses following the conversion of financial statements in foreign currency (mainly dollars dollar and sterling).

The working capital showed a net value of €nil. 663 compared to a negative figure of €nil. 37 at 31 December 2003. Specifically:

- “Inventories” (net of on-account billings, which were €nil. 7,604 as at 30 September 2004 and €nil. 8,138 as at 31 December 2003, recorded under the item “Advances from customers and on-account billings”) increased to €nil. 7,765 from €nil. 6,720 in the previous year. This increase related to growth in the Aeronautics business, largely due to increased efforts on new programmes being started and production of prototypes; increased volume in Helicopters, Defence Systems, Defence Electronics and Transportation;
- “Trade receivables net of trade payables” (respectively equal to €nil. 3,070 and €nil. 2,390 as at 30 September 2004, compared to €nil. 3,328 and €nil. 2,564 as at 31 December 2003, respectively) showed a net decrease of €nil. 84 compared to the previous year. In particular, the drop in trade receivables in the Space sector was mainly ascribable to optimisation in the management of commercial flows. The

lower trade payables related especially to Space, Defence Systems and Transportation;

- “Other assets” showed a balance of €nil. 1,091, down €nil. 46 compared to €nil. 1,137 as at 31 December 2003. Specifically, receivables from the Tax Office decreased not only due to refunds, but also due to the assignment of 2002 tax credits without recourse made by the Parent Company and a partial use by the Group’s Companies of the 2003 tax credits against the tax liabilities by other Groups’ Companies (as described in the notes to the financial performance), in accordance with the current regulations;
- “Advances from customers” (recorded under the item “Advances from customers and on-account billings”) went up by €nil. 100, from €nil. 4,232 as at 31 December 2003 to €nil. 4,332 as at 30 September 2004. This increase largely refers to the missile business under Defence Systems, and Transportation sector;
- “Provisions for risks and charges”, equal to €nil. 1,099, went down €nil. 9 compared to €nil. 1,108 as at 31 December 2003. The most significant allocations were for contractual risks, product warranties, pending litigation and reorganisation/restructuring processes in some areas. The most significant use of funds was for the settlement of disputes and contractual risks, guarantees given, for the cost of reorganisations begun in previous years and to cover the past losses of unconsolidated subsidiaries. Furthermore, note that taxes for the period, entered under “other liabilities” (tax liabilities) at the period-end, are recorded in the middle periods under the appropriate liabilities fund;
- “Other liabilities”, equal to €nil. 3,441, showed an increase of €nil. 123 compared to €nil. 3,318 as at 31 December 2003. This was due to the extension of relations with (and hence payments from) the Ministry of Production Activities (pursuant to Article 3a of Law No. 808/85), in consideration of the research and design activities involving aircraft and helicopter products, to an increase in staff payables and to a reduction in taxes payable. It will be recalled, as already mentioned in the comments

on “Provisions for risks and charges” in relation to these latter, that taxes for the period have been recorded in a special reserve under liabilities;

- “Staff severance fund”, equal to €mil. 725, showed a net increase of €mil. 11 compared to €mil. 714 as at 31 December 2003.

Invested Capital, equal to €mil. 4,242 (€mil. 3,558 as at 31 December 2003), is covered by the shareholders’ equity for €mil. 3,293 (€mil. 3,302 as at 31 December 2003), and by the net financial debt for the remaining part (€mil. 949 compared to €mil. 256 as at 31 December 2003).

Capital goods held under financial lease contracts are valued at equity in the Group’s accounts, in accordance with national accounting practices. The adoption of the financial method would have meant higher net fixed assets of €mil. 87, higher financial debts of €mil. 52, a €mil. 19 decline in working capital, a higher operating profit and an increase in shareholders’ equity respectively of €mil. 3 and €mil. 13, net of the relevant fiscal effects.

The Table below shows consolidated net financial debt as at 30 September 2004, together with figures as at 30 June 2004, 31 December 2003 and 30 September 2003 for the sake of completeness.

	30.09.04 (€mil.)	30.06.04 (€mil.)	31.12.03 (€mil.)	30.09.03 (€mil.)
Short-term financial debts	47	65	86	112
Current portion of medium- to long-term financial debts	920	64	84	86
Medium- to long-term financial debts (excluding current portion)	1,404	2,268	2,304	1,816
Cash or cash equivalents (*)	(1,399)	(1,617)	(2,234)	(1,022)
Net bank and bonded debt	972	780	240	992
<u>Other financial receivables and payables:</u>				
Interest-bearing receivables from financial brokerage activities	(16)	(18)	(20)	(17)
Government bonds	(22)	(22)	(63)	(68)
Financial receivables from third parties	(393)	(458)	(504)	(498)
Financial receivables from subsidiary and associated companies	(98)	(119)	(116)	(223)
Financial payables to subsidiary and associated companies	335	381	440	429
Liabilities to the Ministry of Production Activities	62	62	65	64
Other financial liabilities	109	111	214	45
NET FINANCIAL DEBT	949	717	256	724
(*) of which "cash equivalents" €mil.:	-	1	4	-

The Group's net financial debt as at 30 September 2004 showed a balance of €mil. 949 compared to €mil. 256 as at 31 December 2003, after recording a position equal to €mil. 717 as at 30 June.

The figures once again confirm, from a structural point of view, the typical cyclical flow of the Group's payments and receipts, with the latter normally concentrated in the last part of the financial year, above all those coming from the Public Administration.

Indeed there is considerable doubt at the accounts date on the collection of a part of these latter. It is in this context that a number of companies of the Group have initiated a process of selling without recourse their payables which are due but not paid, a process which may lead to a further operation over the next few months.

Besides the aforementioned performance of receipts and payments, it must be stressed that debt was affected by:

- the distribution of dividends for the 2003 financial year made in June by Finmeccanica, worth €mil. 84, and by other Group companies to minority interests worth €mil. 4;
- the payment of €mil. 30 for the purchase of Domino Fin equity investment by Elsag over May and June;
- the payment of €mil. 40 relating to the purchase of the Prod-el equity investment by Marconi Selenia Communications effected in July;
- the consequences of operations on capital carried out in July and September for the benefit of the Fata Group of a total of €mil. 35 within the framework of the Group's restructuring;
- the profits from the assignment of tax credits without recourse, made by Finmeccanica S.p.A. in June, amounting to €mil. 106;
- the collection of the ordinary dividend of STMicroelectronics N.V. (STM) and STMicroelectronics Holding N.V. (STH) made in June and totalling €mil. 18;
- the collection by Finmeccanica of an extraordinary dividend worth €mil. 52 distributed by STH, following the transfer of 3,000,000 STM shares effected in June at an average price of approximately €17.46 per share.

Important financial benefits were also gained by compensating tax liabilities with 2003 tax credits for some companies in the Group, including Finmeccanica S.p.A., which generated lower financial requirements for a total of around €mil. 47.

This situation also impacted on the composition of debt which, relating in particular to bank debt, recorded a drop in cash from €mil. 2,234 in December 2003 to €mil. 1,399 in September 2004, after recording a balance of €mil. 1,617 in June. As for overall cash as

at 30 September 2004, €mil. 686 related directly to Finmeccanica, €mil. 608 to subsidiaries, €mil. 449 of which, in particular, to Finmeccanica Finance, and approximately €mil. 105 to the three joint ventures MBDA, AMS and AgustaWestland for their own specific operational requirements.

The changes in gross bank debt, compared to figures as at 31 December 2003, were not particularly noteworthy, both in the short term, further dropping, and in the medium/long term. As far as the resort to the credit market is concerned, one must bear in mind, as previously emphasised in the section regarding Group “financial transactions”, that Finmeccanica, while not having launched new financial transactions, subscribed a credit line last July of €bil. 1 which, following the “syndication” stage was then extended to €bil. 1.2 following favourable market reaction. As at 30 September the line had not been drawn on.

In regard to the composition of the remaining net debt items, take note that “financial receivables from third parties” included roughly €mil. 356, relating to financial receivables claimed by the joint ventures from their partners, in pursuance of specific treasury management agreements. In accordance with the adoption of the proportional consolidation method, the item is recorded under “financial payables to subsidiary and associated companies”, which included the €mil. 321 liability of Group companies to joint ventures for the non-cancelled portion.

## Breakdown of turnover by market

Total revenues in the income statement for the period in question (€mil. 6,088) were the sum of turnover (€mil. 4,529), of operating grants (€mil. 18) and of changes in contract work in progress (€mil. 1,541). Turnover, amounting to €mil. 4,529, is split up into the following areas:

	<u>€mil.</u>	<u>%</u>
Italy	1,431	31.6
Rest of Europe	2,269	50.1
North America	379	8.4
Rest of the World	450	9.9

## 5. Performance by sector

### AERONAUTICS

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup>	3 <sup>rd</sup>
			Quarter 2004	Quarter 2003
Orders	586	775	104	425
Order backlog	3,611	3,712	n.a.	n.a.
Value of production	1,200	860	419	284
EBITDA	126	76	51	23
EBITA	75	44	35	9
EBIT	69	42	32	7
R.O.S	5.8%	4.9%	7.6%	2.5%
Employees (n.)	10,619	10,468	n.a.	n.a.

Finmeccanica operates in the Aeronautics industry through Alenia Aeronautica and its own subsidiaries (production of military combat, transport and special mission aircraft, and in the civil sector the production of aerostructures, regional turboprop aircraft and cargo aircraft conversions), and through Aermacchi (production of military training aircraft and engine nacelles in the civil sector) acquired as from 1 July 2003 and consolidated in the latter half of 2003. The figures as to 30 September of the two periods are not fully comparable.

Finally, on 24 June 2004, Alenia Aeronautica acquired from ALS S.p.A. (former Alenia Spazio S.p.A.) the total equity investment in Quadrics Limited, a British company specialised in supercomputers, with the consequent consolidation of balance sheet and financial figures.

In the military aeronautics market, the main programme in Europe regards the Eurofighter Typhoon (EFA), managed by an international consortium in which Alenia Aeronautica participates with a 21% share. In the first nine months of 2004, 20 aircraft were delivered to the four Air Forces of the customer countries (Germany, England, Italy and Spain), 6 of which to the

Italian Air Force. The signatures of the governments of the four nations involved in the contract are expected before the end of the year relating to the second *tranche* of 236 aircraft.

A collaboration agreement with Honeywell and Caterpillar Logistics Services - two United States companies chosen by Lockheed Martin for the organisation of the JSF (Joint Strike Fighter) programme logistics worldwide. Alenia Aeronautica will acquire, through this, responsibility in Europe for the management of the logistics chain for components in the production and maintenance of the F-35/JSF aircraft for European Armed Forces.

Furthermore, Alenia Aeronautica is intensifying talks with potential partners in the UAV/UCAV (Unmanned Aerial Vehicle / Unmanned Combat Aerial Vehicle) sector for the development of new products.

In the civil sector, air transport, following three severe years, seemed to be gradually, although slowly, winning back positions. For 2004, despite the expected growth, profits by the main airlines appear to be unlikely; the persistent financial malaise has bruised the recovery in the demand for commercial aircraft. A reversal in the production and delivery trend is expected as from 2006.

With reference to the new B7E7 Dreamliner aircraft, negotiations have continued with Boeing for the production of important fuselage segments in composite materials.

Activities between Alenia Aeronautica and US company Vought Aircraft Industries Inc. continued to be aimed at the establishment of an agreement to develop a joint venture offering their expertise as partners with Boeing for the new B7E7 Dreamliner aircraft.

So far as Airbus is concerned, negotiations are underway aimed at increasing the related industrial partnership through research into new collaboration opportunities on current and future programmes (cargo versions of the A380 and A330 aircraft, together with additional work loads on aircraft currently in service).

In the first nine months of 2004, activities in the military sector mainly involved production, logistics and equipment for the EFA, production of the C27J aircraft, upgrades to the Tornado aircraft (retrofit and development for Pre-Mid Life Upgrade), introduction of the “fatigue

change” on the first AMXs of the Italian Air Force; for Aermacchi, production and logistical support for the MB339 and SF260 training aircraft, further development of the new advanced M346 training aircraft, and the test flights on the first prototype; for Officine Aeronavali Venezia, development and production for the B767 Tanker programme, overhaul and logistical support for the Atlantic, B707 and G222 aircraft.

As to the civil segment, production continued to suffer from reduced demand to adapt supplies to what the market is able to absorb. In this frame, Alenia Aeronautica continued its co-supply activities for the leading world producers, which specifically regarded:

- Boeing: production of fuselage components and of control surfaces for the B767 and B777 aircraft and the fuselage for the B717;
- Airbus, with the design of the components of the central section of the fuselage of the A380, of the Tail Cone for the A300, of mechanical wing components for the A340 aircraft and of a fuselage section for the A321;
- GIE ATR, in partnership with EADS-ATR, with the production of the ATR 42/72 turboprop;
- Dassault Aviation, with the fuselage section for the Falcon 2000 Extended Range, and the nacelles for the Falcon 900EX.

As for Officine Aeronavali Venezia, activities worth mentioning regarded passenger-to-cargo aircraft conversions, and for Aermacchi, the civil production of engine nacelles.

**Orders** at 30 September 2004 totalled €nil. 586. Orders have been acquired over the last quarter for €nil. 104, a reduction in comparison with the €nil. 425 of the same period in 2003, a figure which had benefited from the order for 12 C27J aircraft from the Hellenic Air Force. Among the main orders in the third quarter there are the AMX and Tornado military programmes and, in the civil sector, the ATR and nacelles programmes.

**Order backlog**, as at 30 September 2004, stood at €nil. 3,611, 46% of which involving the EFA programme.

**Value of production** as at 30 September 2004 totalled €mil. 1,200, of which €mil. 419 related to the third quarter, growing with respect to the previous year (€mil. 860 as at 30 September 2003, of which €mil. 284 in the third quarter). This growth can be attributed to Aermacchi production and to the increased military contribution, particularly from the EFA, including as a result of the increased supplies of equipment and C27J for the productions relating to the Greece contract, representing a counter-balance to the downturn in civil production.

As for the EFA programme, production was affected by a slowdown, against forecasts, due to delays in the stipulation of the contract for the second *tranche*, which led to the new plan currently being approved and the reshaping of production and logistical activities.

It should be noted that B757 unsatisfactory sales trends lead Boeing to close down the programme in April 2004 with the delivery of the last series of super-panels, after only one year of business.

**EBITA** at 30 September 2004 was €mil. 75, representing a significant growth with respect to €mil. 44 over the same quarter of the preceding year. This result was assisted by the increase in Aermacchi production, the positive developments in the military sector with the completion of negotiations and the recognition of proceeds, received in recent months, relating to activities already partially completed, counter-balancing the drop in civil programmes.

This is all reflected in the improved ROS of 5.8% as at 30 September 2004 compared to 4.9% as at 30 September 2003.

The implementation of initiatives already begun in previous financial years were continued over 2004, aiming at the maintenance of operational flexibility, cost control and the exploitation of supply capacity.

As at 30 September 2004, there were 10,619 **employees**, up by 176 compared to 10,443 as at 31 December 2003, due mainly to recruitments associated with higher engineering work loads for programmes undergoing development, net of the exits.

## HELICOPTERS

	30.09	30.09	30.09	30.09	3 <sup>rd</sup> Quarter	3 <sup>rd</sup> Quarter	3 <sup>rd</sup> Quarter	3 <sup>rd</sup> Quarter
EUR millions	2004	2004	2003	2003	2004	2004	2003	2003
	at 100%	at 50%	at 100%	at 50%	at 100%	at 50%	at 100%	at 50%
Orders	788	394	990	495	244	122	476	238
Order backlog	5,420	2,710	6,142	3,071	n.a.	n.a.	n.a.	n.a.
Value of production	1,734	867	1,874	937	612	306	554	277
EBITDA	174	87	206	103	48	24	56	28
EBITA	150	75	176	88	40	20	46	23
EBIT	136	68	163	81	36	18	42	21
R.O.S	7.8%	7.8%	8.6%	8.6%	5.9%	5.9%	7.6%	7.6%
Employees (n.)	8,926	4,463	8,855	4,427	n.a.	n.a.	n.a.	n.a.

Finmeccanica is one of the world leaders in the helicopter industry with the AgustaWestland JV, in partnership with British group GKN.

To convey the true extent of the business jointly controlled by Finmeccanica, total figures for AgustaWestland JV are given, and the notes below refer to 100% of the joint venture; to complete the picture, figures are also given for Finmeccanica's 50% share, which is consolidated on a proportional basis.

Following the signing of the final contract on 27 July 2004, on 1 September 2004 the Shareholders' Meeting of GKN Plc. gave its favourable opinion in relation to the sale of the 50% shareholding in AgustaWestland to Finmeccanica. On 20 September 2004, the European Union Competition Commission also expressed a favourable view with respect to the acquisition of complete control over AgustaWestland by Finmeccanica. The obtaining of this regulatory authorisation, considered necessary for the execution of the agreement, will permit the finalisation of the transaction by the end of the year.

The quarter as a whole has produced positive results even though less than those of the same period in the previous financial year. Among significant events we would draw attention to the following: the new Agusta "Grand" light bi-turbine helicopter was unveiled at the Farnborough Air Show, a further refinement of the A109. The "Grand" is at the higher limits of the light bi-turbine category, with as much useful internal space as that found in helicopters of a higher

category. It is mainly aimed at the EMS (Emerging Medical Services) and VIP/Corporate markets.

A co-operation agreement was executed in September between Agusta and Jiangxi Changhe Aviation Industry, the second Chinese aeronautic industry, providing for the sale, marketing production and after-sales support of the A109E helicopter for the Chinese market. This agreement will allow AgustaWestland to continue with its strategy of acquiring important competitive advantages such as the penetration of markets currently considered difficult to break into.

The total volumes of **orders** acquired over the first nine months of the year, amounted to €mil. 788, representing a reduction of €mil. 202 with respect to 30 September 2003 (€mil. 990). This reduction can be attributed for the most part to the loss of the competitive award procedure for the supply of 28 new naval helicopters for the Canadian Navy. The Ottawa government stated last July that it had awarded the order to an industrial group headed by the United States company Sikorsky, whose bid was preferred to that presented by AgustaWestland, proposing the EH101 model. The company considered itself to have been damaged by this choice in that the competing model was still in its initial development stage and started a legal action at the beginning of September, the first results of which will become known over the next few months. Among the acquisitions of the period, we would note the excellent trends experienced by product support, the value of which representing about 62% of total orders obtained to the present, covering both integrated support services and spare parts for civil and military/government fleets.

The value of the **order backlog** has suffered a decrease of about 13% with respect to the value at 31 December 2003 (€mil. 6,206), due for the most part, to the failure of a number of important orders to materialise, not counter-balancing volumes produced to the present. The order backlog value has nonetheless been maintained at a significant level of €mil. 5,420.

**Value of Production** amounted to €mil. 1,734, representing a slight reduction (about 7%) with respect to the same period of the previous financial year (€mil. 1,874). This reduction can be

attributed to the ending of important domestic contracts entailing high unit production volumes (Apache, EH101 RAF and RN, MMI), partly compensated by the new export contracts.

The main programmes relating to AgustaWestland's production in these first nine months of the year included:

- EH 101 for the Italian Navy, Danish and Portuguese governments;
- Apache combat helicopter for the British Armed Forces, whose supply was concluded with the delivery of the 67<sup>th</sup> unit in June;
- Super Lynx 300 helicopter, which gained excellent results, with four units delivered to the Oman Air Force, while the supply to the Malaysian government was completed; it is expected that tests will be completed on the two units for the Thai government before the end of the year;
- A129 helicopter in the CBT (Combat) configuration and upgrade in this configuration of the A129 Mangusta, currently in service with the Italian Army; ;
- the first deliveries of AB139 helicopter are planned for before the end of the year;
- AB412 helicopter for Italian government agencies and foreign military agencies;
- A109 helicopter for the civil market;
- development and industrialisation work on the A109E Power variant for the supply contracts with the South African Air Force and Swedish Armed Forces;
- industrialisation programmes for the NH 90 helicopter.

**EBITA**, amounting to €mil. 150 dropped in absolute terms by €mil. 26 compared to 30 September 2003 (€mil. 176). This fall was ascribable to the different mix of programmes in progress, where main activities involved programmes acquired in highly competitive market conditions with respect to the previous backlog of programmes, and to the expected drop in volumes ascribable to the conclusion of a number of important domestic programmes, among which Apache, EH 101 RAF, RN and MMI, which had greatly contributed to the results of the same period of the previous year; these lower volumes were partly offset by more product support activities relating to the RAD (Retrofit After Delivery) programmes on Apache helicopters and to the EH101 RAF and RN.

It should in any case be noted that profitability, ROS, expressed as the operating profit/value of production ratio, remains at a high level, 7.8%, compared to 8.6% of 30 September 2003.

**Employees** for AgustaWestland as at 30 September 2004 came to 8,926, down by 66 compared to the figure as at 31 December 2003, mainly due to the lack of turnover.

## SPACE

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	354	492	105	133
Order backlog	1,006	1,286	n.a.	n.a.
Value of production	523	486	165	150
EBITDA	34	(8)	16	7
EBITA	9	(37)	9	(2)
EBIT	4	(44)	7	(4)
R.O.S	0.8%	(9.1%)	4.2%	(2.7%)
Employees (no.)	3,630	3,754	n.a.	n.a.

Finmeccanica operates in the space industry through Alenia Spazio and its subsidiaries by producing space infrastructure and scientific satellites for telecommunication, remote sensing and payload satellites, and through Telespazio and its subsidiaries in the earth stations, telecommunications services, TV, satellite navigation and Earth observation.

Effective as from 1 June 2004, in pursuance of the organisational and productive reorganisation plan aimed at strengthening and consolidating Alenia Spazio's industrial and economic structure, the business unit of Alenia Spazio S.p.A. was transferred to the (100%) subsidiary Laben S.p.A., except for a number of activities deemed not instrumental to the project itself; as from the same date, Laben S.p.A. changed its name to Alenia Spazio S.p.A.. Moreover, on 24 June 2004, Alenia Aeronautica S.p.A. acquired the total equity investment in Quadrics Limited: given the transfer date, the economic values were kept in the sector.

The commercial market was still affected by persistent uncertainty in the short and medium-term, suffering from the global economic trend and a geopolitical scenario that appears, to date, still shaky. These elements contribute to the persisting difficulties affecting telecommunications operators, restraining the demand for new telecommunication systems, a market which has only

lately shown signs of recovery, and further delaying the start of the development of broadband systems for multimedia applications.

Despite the substantial sluggishness in the short term in EU countries, owing to budget constraints, signs of a reversal in the medium term are emerging in the institutional demand. This may truly fuel space industry activities in the coming years. In this connection, mention must be made of the recent guidelines granting a strategic role to space investment (EU white paper of November 2003 and 2007 ESA Agenda of January 2004), and of the VI EU Framework Programme which, for the first time ever, envisages the allocation of resources specifically earmarked to space research. One of the applications themes considered as a high priority over the next few years is that of Security/Defence.

The whole sector will benefit from the effects of the Galileo programme (30 satellites in M.E.O.- Medium Earth Orbit designed for both civil and military applications, to be fully launched by 2010); the funds required for the sending into orbit of the first four satellites and the design of the relevant land segment are available at E.S.A. (European Space Agency).

As part of the Galileo programme, in the manufacturing business, Alenia Spazio participates, together with Alcatel, EADS and other partners, in Galileo Industries GmbH, based in Germany and Italy, responsible for the development of the opening stage of the programme infrastructure. In particular, Alenia Spazio is in charge of the whole system, including satellite assembly and testing.

In the frame of service activities, Telespazio took part in organising the proposal to participate in the tender granting the authorisation for the completion of the constellation and signal and system management. The tender in which Finmeccanica is participating through the Eurely Consortium is due to conclude in 2005.

On a domestic level, the Ministry of Defence is appearing to show an increasingly keen interest in the use of space systems. Following contribution to the Cosmo-SkyMed programme, a noteworthy point was the start of the design of the Sicral 1-b satellite designed to supply satellite communication services to NATO (in fact, the Italian Ministry of Defence, in cooperation with France and England, was recently granted the relevant international tender Satcom Post 2000).

On 17 June 2004, Finmeccanica and Alcatel announced the signing of the Memorandum of Understanding for the integration of their activities and the creation of a partnership in the space sector with the establishment of two companies which will receive their respective industrial production and satellite service activities.

The first company, in which Alcatel will hold approximately 67% and Finmeccanica approximately 33%, will group together the industrial activities of Alcatel Space and Alenia Spazio specialising in the design, development and production of space systems, satellites, equipment, instruments, payloads and the relevant land systems.

The second company, in which Finmeccanica will hold approximately 67% and Alcatel approximately 33%, will group together the operating activities and services of Telespazio and Alcatel Space. The new company will specialise in activities and services for satellite solutions, which include the control and exploitation of space systems, the supply of networks, high value-added services, multimedia applications and Earth observation.

As far as the Galileo programme is concerned, the management of participation, related to both manufacturing activities and to services, will be respectively entrusted, under the foregoing agreements, to the two Italian companies.

In the first nine months of 2004, in the frame of the implementation of the sector's organisational and productive reorganisation plan, in addition to the foregoing transfer, the Group continued implementing efficiency and restructuring measures, such as those relating to long-range mobility and personnel redundancy schemes.

The effects of this plan are noticeable as early as the current financial year. Along with consolidating the restructuring already begun at both Alenia Spazio and Telespazio, it should produce gradual economic improvement in the short-to-medium term.

On the commercial side, in the first nine months of 2004, the Group acquired **new orders** worth €mil. 354, less than in the same period of 2003, which included the acquisition of a significant portion of the Cosmo-SkyMed Programme. During the third quarter of 2004, acquisitions mainly regarded further *tranches* of the Columbus Pica, ATV and GOCE programmes.

The major acquisitions of the first nine months included:

- the first contract for extraordinary activities of Sicral 1-b and the Express MD Kazakhstan and AGILE orders;

- further *tranches* of the GSTB-V2 in the frame of the Galileo programme, of the GOCE and Herschel/Plank scientific satellites, of the Columbus Pica and ATV programmes related to the International Space Station, and of the Diana order;
- the renewal of satellite communication and Earth observation services;
- the collection of new TV services on Satellite Digital Platforms;

**Order backlog**, as at 30 September 2004, amounted to €nil. 1,006, falling by approximately 15% compared to the figure as at 31 December 2003, which amounted to €nil. 1,189.

**Value of production** in the first nine months of 2004 was equal to €nil. 523, of which €nil. 165 related to the third quarter; the production mainly regarded:

- for remote sensing and telecommunications, furtherance of the design and development stages of the Cosmo-Skymed programme, study of the new Sicral 1-b telecommunications satellite, activities regarding the Sharad radar, devices for the Koreasat satellite, supply of satellite telecommunication services, remote sensing operating services and orbital management of satellites;
- for the TV sector, continuation of resale activities of satellite capabilities and of the supply of DTH broadcasting services;
- in the frame of scientific satellites, continuation of activities relating to GOCE and to Herschel-Plank;
- for the infrastructure business, continuation of activities regarding programmes associated with the International Space Station (Columbus Pica and ATV);
- for satellite navigation, continuation of the preliminary activities on the Galileo system.

**EBITA** as at 30 September 2004 stood at €nil. 9, up by €nil. 46 compared to the negative figure of €nil. 37 recorded in the same period of 2003, which included substantial provisions for doubtful assets. These provisions, which, as at 31 December 2003 only, had been classified under restructuring costs, with a view to ongoing international agreements, do not allow for a substantial comparability of the value at issue. The first nine months of the year also benefited from the continuation of efficiency and restructuring measures and from the improvement in the mix of activities.

As of 30 September 2004, there were 3,630 **employees**, down from the 3,792 as at 31 December 2003, owing to the continuation of measures to adjust human resources to work loads.

## DEFENCE ELECTRONICS

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup>	3 <sup>rd</sup>
			Quarter 2004	Quarter 2003
Orders	1,063	1,182	205	321
Order backlog	3,319	3,457	n.a.	n.a.
Value of production	1,408	1,246	425	393
EBITDA	134	99	33	28
EBITA	97	70	20	20
EBIT	69	44	11	11
R.O.S	4.9%	3.5%	2.6%	2.8%
Employees (no.)	11,819	11,988	n.a.	n.a.

Finmeccanica operates in Defence Electronics through Galileo Avionica, the Marconi Selenia Communications group, the OTE group and the joint venture AMS, with activities regarding the manufacture of avionic equipment, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communications systems and networks for land, naval, satellite and avionic applications and private mobile radio communication systems. This division includes the Finmeccanica operative division International Naval Systems, which manages relations with Eurosystnav SAS to develop the combat system within the framework of the contract with Horizon SAS to build 4 Orizzonte class frigates for the Italian and French Navies.

Note that the figures in the table are not like-for-like, owing to a change in the consolidation area between 30 September 2004 and the corresponding period in 2003, due to the acquisition on 4 March 2003 of OTE, operating in the field of private mobile radio communications and a leading developer of the new digital radio mobile communication systems (TETRA).

In the first nine months of 2004, Defence Electronics posted positive results, in particular from the viewpoint of improving profitability, benefiting, as in the last year, from the measures aimed at curbing costs and improving production effectiveness.

**Orders**, as at 30 September 2004, amounted to €mil. 1,063 compared to €mil. 1,182 of September 2003. The main acquisitions included:

- avionics: orders relating to the supply of avionic equipment and radars for the EFA and NH90, for the laser transmitter for the ALADIN (Atmospheric Laser Doppler Instrument) system, for the second *tranche* of the supply contract for the PAR radar to France and for the development phase of the fire control radar GRIFO S7 for China;
- for land and naval command and control systems, the extension of training activities for the crews on board the Astute class submarines of the British Navy, supply of the Integrated Combat System (4 radars and command and control system) and relevant logistical support for the UAE Navy and orders for the air traffic control systems for various countries, among which those related to Roma Ciampino, Maldive Islands and Pakistan;
- for systems and integrated communication networks, contracts with Boeing for the production of UHF/VHF systems and IFF interrogators for 17 NATO AWACS, for the fourth *tranche* of the Teledife (Defence Telecommunications) tactical network and an order for strategic telecommunication devices and material for the extension of the telecommunications network of the Dominican Republic Armed Forces;
- for private mobile communications, supply and activation of a TETRA-based digital mobile radio network for Emirates Telecommunications Corporation and supply and activation of a private digital mobile radio network infrastructure for the Emilia Romagna region.

The **order backlog** came to €mil. 3,319, falling by approximately €mil. 269 compared to the figure as at 31 December 2003 (€mil. 3,588).

With reference to the first nine months of 2004, the **value of production** amounted to €nil. 1,408, with an increase of 13% compared to September 2003 (€nil. 1,246), essentially due to the growth of the volumes of AMS and Marconi Selenia Communications, and to the full consolidation of OTE. A large portion of this is relating in particular:

- to avionics, with activities relating to the EFA programme, NH90, to the production of Grifo radars, to the Cosmo space programme, to the supply of Mirach 100/5 targets and to logistical activities;
- radar and command and control systems, with activities regarding PAAMS/FSAF naval missile systems, Orizzonte and Type 45 naval systems, 3D long range land radar systems, the Sampson radar, Air Traffic Control programmes and customer support;
- systems and integrated communication networks, with activities regarding the third *tranche* of the Teledife tactical network, supply of the integrated telecommunications system on board the Cavour aircraft carrier, supply and study of the communications system on board the Orizzonte frigates and the production of communication and CNI devices on NATO AWACS;
- private mobile communications, with activities regarding the supply and activation of a TETRA-based digital mobile radio network for the Russian Volga region, the technological upgrading of the full set of analogue devices for the State Police and the supply of ATM devices for several Italian airports.

**EBITA** showed a significant improvement compared to the same period of the previous year, and amounted to €nil. 97, with an increase of €nil. 27 compared to 30 September 2003, due in particular to the contribution from the JV AMS and, to a lesser extent, the avionic activities, both benefiting from higher volumes and from the synergies arising from the continuation of the respective rationalisation and efficiency plans.

This was reflected back on the improvement of ROS, amounting as at 30 September 2004 to 4.9%, approximately 1.5 percentage points higher than the value recorded in the first nine months of 2003.

As at 30 September 2004, there were 11,819 **employees**, down by 85 compared to the figure as at 31 December 2003, basically ascribable to Galileo Avionica and AMS' rationalisation

plans underway and partially mitigated by the increase in the staff of Marconi Selenia Communications and OTE.

## DEFENCE SYSTEMS

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	382	752	99	320
Order backlog	4,303	4,254	n.a.	n.a.
Value of production	748	705	229	225
EBITDA	56	54	13	17
EBITA	42	42	9	12
EBIT	27	27	4	7
R.O.S	3.6%	3.8%	1.7%	3.1%
Employees (no.)	4,140	4,162	n.a.	n.a.

Defence Systems include MBDA for missile systems, the JV with BAE Systems and EADS, of which Finmeccanica holds an equity investment equal to 25%, Oto Melara S.p.A. for land, naval and air weapons systems, and WASS S.p.A. for underwater weapons (torpedoes and countermeasures) and sonar systems.

Over the first nine months of 2004 the Defence Systems sector has experienced a growth in production volumes together with results in line with the previous financial year, encountering a drop in profitability in the third quarter due to contingent factors which will be completely recouped before the end of the year, so confirming the growth trends already visible in 2003 and the first half of the year.

It should nonetheless be emphasised that there is a continuing stagnation in demand both in the captive and the export markets. This has had an influence on the obtaining of new orders.

As at 30 September 2004, the Group acquired new **orders** worth a total of €mil. 382. The major acquisitions regarded:

- missile systems: orders for PAAMS surface-to-air missile systems for naval platforms, for the supply of Mica air-to-air missiles to Greece, for the further development of Exocet anti-ship missiles, for the supply of Mistral short range

surface-to-air missile systems to Oman. It is also worth noting orders obtained in the third quarter for further activities on ASRAAM air-to-air systems for Australia and the supply of Exocet anti-ship missiles to Oman;

- in the land, naval and aeronautical weapon systems segment, the orders obtained over the third quarter included the supply of four 76/62 cannons and eight 30 mm machine guns to the Navy of the United Arab Emirates, the supply of two 76/62 SR cannons for Thailand and the orders for the supply to the Italian Armed Forces of Siccona command, control and navigation systems as well as for the supply of two 76/62 SR cannons and four 30mm machine guns to Greece.

**Order backlog** came to €nil. 4,303, falling by approximately €nil. 382 compared to the figure as at 31 December 2003 (€nil. 4,685).

**Value of production** stood at €nil. 748, showing an upward trend, with a 6% increase compared to the same period of the previous year, thanks to the higher volumes recorded by MBDA. Most of the revenues during the nine-month period of 2004 came from:

- activities regarding the PAAMS surface-to-air missile systems for naval platforms and FSAF ground-based platforms, the Storm Shadow air-to-surface missile systems, the production of ASRAAM and Mica missiles, the development of the new Meteor air-to-air missile and customer support;
- in the land, naval and aeronautical weapons systems, the supply programmes for the Italian Armed Forces of the Dardo armoured vehicle and of the self-propelled PZH2000, of the Centauro wheeled vehicles to Spain, of guided bombs to the Italian Air Force, as well as the production of 76/62 naval cannons;
- in underwater systems, activities relating to the production of MU90 light torpedoes and to the development of the Black Shark heavy torpedo.

**EBITA**, which amounted to €nil. 42 as at 30 September, recorded the same value recorded in the corresponding period of the previous financial year.

Despite the improvement obtained thanks to higher volumes and to the synergies emerging from the industrial restructuring plan, JV MBDA still gained lower profits than the segment average, thus affecting the sector's ROS, which reached 3.6%.

**Employees**, as at 30 September 2004, came to 4,140, stable compared to the figure as at 31 December 2003.

## TRANSPORTATION

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	1,332	1,334	245	162
Order backlog	3,840	3,544	n.a.	n.a.
Value of production	987	917	289	298
EBITDA	59	56	16	25
EBITA	41	38	10	20
EBIT	37	35	9	18
R.O.S	3.7%	3.8%	3.1%	6.0%
Employees (no.)	5,955	5,811	n.a.	n.a.

The Transportation division includes Ansaldo Trasporti Sistemi Ferroviari S.p.A. (Systems) and Ansaldo Signal (Signalling) and their subsidiaries, and AnsaldoBreda (Vehicles) and its subsidiaries.

The rail and tram systems and components market is confirming, in 2004, the trend recorded over the past few years, marked by a slight increase on a global scale and by the positive trend of sector investments on the European market.

The third quarter of 2004 was characterised by a reduction of profitability compared with the same period of 2003, attributable to the vehicle business with ROS over the period dropping from 6.0% to 3.1%.

New **orders** acquired as at 30 September 2004 were worth €nil. 1,332, substantially in line with the same period of the previous accounting period thanks to improvement in trends over the third quarter of 2004 as compared with the third quarter of 2003.

The major orders for the period included:

- for Vehicles: Belgium - Holland High-Speed trains, Madrid subway;

- for Systems: phase 3 Copenhagen automated subway and changes to order for the Italian High-Speed system;
- for Signalling: automatic train control systems (SCMT) and central static devices (ACS) and command and control systems (SCC) in Italy, 2<sup>nd</sup> lot of the Ouragan contract for the Paris subway and eastern France High-Speed corridor.

As at 30 September 2004, the sector's **order backlog** amounted to €mil. 3,840, up by €mil. 350 compared to the figure as at 31 December 2003.

**Value of production**, which stood at €mil. 987 in the first nine months of 2004, was up by €mil. 70 compared to the corresponding period of 2003.

The main orders for the Transportation division were as follows:

- Vehicles: DMU trains for the Danish railways, enhanced ETR500 trains and new ETR500 Multi-voltage locomotives for Trenitalia, various orders for Sirio trams, Madrid subway and LRV Los Angeles;
- Systems: High-Speed contracts for Italy, and the Copenhagen, Genoa, Brescia and Naples and LRT Dublin subways;
- Signalling: High-Speed contracts for Italy, Spain, China and Korea, central static apparatus (ACS) for the UK and train control systems (SCMT) for Italy.

**EBITA** in the first nine months of 2004 reached €mil. 41, with a 3 €mil. improvement compared to the corresponding period of 2003, thanks to the improvement of the Signalling and Systems divisions.

**Employees** as at 30 September 2004 came to 5,955, up by 119 compared to the figure recorded as at 31 December 2003.

## ENERGY

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	128	336	37	40
Order backlog	1,454	1,674	n.a.	n.a.
Value of production	515	590	171	181
EBITDA	28	35	13	13
EBITA	19	25	10	10
EBIT	19	25	10	10
R.O.S	3.7%	4.2%	5.8%	5.5%
Employees (no.)	2,492	2,650	n.a.	n.a.

The Energy sector includes Ansaldo Energia S.p.A. and its subsidiaries.

The sector includes engineering and manufacture of plant and machinery for the production of electrical power with related services, together with engineering and services for nuclear plants. The sector market continues to be effected by a downturn in the economic cycle in the industrialised countries sector with the market substantially holding its own in the Middle East together with strong demand from China. The Italian market has been characterised by environmental difficulties and the local prohibition against the installation of new power stations which have been partially resolved only in the past few months.

New **orders** as at 30 September 2004 were worth €mil. 128, compared to €mil. 336 in the same period of the previous year. Acquisitions in the third quarter amounted to €mil. 37, relating for the most part, to service activities. The reduced orders volume at 30 September (it will be recalled moreover, that the 2003 figures were assisted by the third *tranche* of the contract concluded in 1999 for the supply of machinery to MAPNA, Iran) is linked with the delays in the allocation of important orders in the internal market consequential to the difficulties referred to above concerned with the authorisation procedure for new power stations. Nonetheless, the agreements already in place with important clients for the

allocation of Engineering, Procurement and Construction (EPC) Contracts lead us to believe that it may be possible to finalise important order acquisitions by the end of this financial year. In this context we would draw attention to the agreement with Calenia Energia (in the Swiss Group EGL) for the construction of an 800 MW combined cycle power station with related services in Campania, subject to a condition precedent up to the completion of the financing operations. Engineering activities have been initiated under that agreement as a preliminary step against a first order of €mil. 5 formalised in June. Other acquisitions relate to current service activities and nuclear based works consequential to contract changes in the Cernavoda order in Rumania.

The **order backlog** came to €mil. 1,454 compared to €mil. 1,806 at the end of 2003.

**Value of production**, amounting to €mil. 515, was in line with forecasts, although dropping by 13% compared to the first nine months of 2003, both because of reduced commitments to Enipower and the completion of orders involving high risk and low profitability. 75% of productive activities are concentrated in the plant-manufacturing area and were particularly concentrated on works for Iran and Enipower for Ferrara and Brindisi sites. Service activities remained steady on 20% while the remaining 5% is related to orders for foreign nuclear plants.

**EBITA** amounted to €19 million as against €25 million for the same period of the previous year. The reduction follows from the change in business activities, with less activities on orders (Enipower) obtained in years where the market's economic cycle was more favourable and with more profitable prices, replaced in part, by works for Iran at reduced margins. It should also be noted that the figures for the preceding period included the influence of a one-off event connected to an indemnity obtained for the early closure of a foreign order. The results have also absorbed costs incurred in the initiation of activities on the project for the reinforcement and renewal of design capacities designed to achieve complete technological autonomy in the steam turbine sector and for the models of the current gas turbines.

**Employees**, as at 30 September 2004, stood at 2,492, down by 81 units against 31 December 2003, owing to the closure of the Legnano plant, with the transfer of the remaining resources in a new office in Milan, and to the cut in staff of the subsidiary ASPL in India.

## INFORMATION TECHNOLOGY

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	277	331	50	80
Order backlog	262	354	n.a.	n.a.
Value of production	267	282	91	91
EBITDA	17	24	8	6
EBITA	9	16	6	3
EBIT	7	15	5	3
R.O.S	2.6%	5.3%	5.5%	3.3%
Employees (no.)	2,728	2,770	n.a.	n.a.

The Information Technology division includes Elsas S.p.A. and its subsidiaries, operating mainly in:

- designing, integrating and supplying Information Technology systems for improving production processes and solving logistic problems for companies mainly operating in industry, banking, public and private services, postal services, as well as in the security and defence areas;
- supplying on-going services such as outsourcing of information systems, management and evolutionary maintenance of equipment and systems, and administrative and personnel management services;
- manufacture of and technical assistance for automated postal systems.

In the first nine months of 2004, the **orders** acquired were worth a total of €nil. 277, down by €nil. 54 compared to the same period of the previous year, to be explained by the modest value of acquisitions over the third quarter in 2004.

As at 30 September 2004, the **order backlog** amounted to €nil. 262, up €nil. 16 compared to the figure as at 31 December 2003.

The **value of production** in the first nine months of 2004, amounting to €mil. 267, was €mil. 15 lower than the figure of the corresponding period in 2003.

**EBITA** for the first nine months of 2004 was €mil. 9, dropping by €mil. 7 compared to the corresponding period of the previous year, due to lower volumes and to fierce competition on the reference markets which affected all the sector components.

**Employees** as at 30 September 2004 amounted to 2,728, down by 65 compared to the figure as at 31 December 2003.

## OTHER ACTIVITIES

EUR millions	30.09.2004	30.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Orders	86	99	40	57
Order backlog	108	100	n.a.	n.a.
Value of production	96	102	32	28
EBITDA	(46)	(31)	(6)	(7)
EBITA	(60)	(45)	(13)	(11)
EBIT	(60)	(45)	(13)	(11)
R.O.S	n.a.	n.a.	n.a.	n.a.
Employees (n.)	839	890	n.a.	n.a.

The sector includes: BredaMenarinibus S.p.A., which produces urban and suburban buses; the Elsacom NV Group, which manages satellite telephony services; Mecfin - Meccanica Finanziaria S.p.A., a real-estate and service management company; Iritech S.p.A., holding the equity investment in Ansaldo Ricerche, to carry out spin-offs of branches of business to be managed with other synergic partners, such as, for example, the production of energy through fuel cells with the Ansaldo Fuel Cells S.p.A. subsidiary; Finmeccanica Finance SA, responsible for financially supporting the Group; SO.GE.PA. S.p.A., responsible for directly managing the pre-winding-up/winding-up and rationalisation processes of companies falling outside the business sectors through transfer/replacement transactions, and other smaller companies. As already mentioned in the Space sector, take note that, as at 1 June 2004, the sector in question also included the economic and financial elements of ALS S.p.A., a company transferring the branch of business to the Space sector. This company left a number of doubtful assets, deemed no longer functional to the development of the Space sector. These included the credit position towards the Loral Group (in Chapter XI), for which provisions had already been made in the 2003 financial year. The situation, which appeared worked out up to a few months ago, with the separate exit of the parent company Space System Loral Inc., from the insolvency procedure with respect to other Group companies, to date, according to available information, seems to have lost pace.

This sector's figures include those of the Corporate division of Finmeccanica S.p.A..

The Corporate division, whose activities mainly involve policy, control and support to Group companies, also includes the following departments: Business Development, Chief Financial Officer, Communication and Institutional Relations, Human Resources, Legal & Corporate Affairs, Logistic Services, Marketing & Commercial Affairs and Chief Technology Officer.

Some of the Group's major strategic projects undertaken by Corporate departments include:

- continuation of the development of the **Group Purchasing Programme ("P-180")**, which aims at achieving important benefits from purchases by exploiting innovative computing tools such as e-procurement;
- the **Life Cycle Management Project and Project Control** initiative, conceived for the adoption, at Group-wide level, of a common model on project management, planning and control applied to the entire life cycle of an order.

## STMICROELECTRONICS

Millions of Dollars	25.09.2004	27.09.2003	3 <sup>rd</sup> Quarter 2004	3 <sup>rd</sup> Quarter 2003
Value of production	6,432	5,125	2,231	1,804
EBIT	473	181	214	(64)
Net profit (*)	414	109	189	(49)
R.O.S	8.2%	7.3%	10.1%	7.1%

(\*) Including restructuring charges for \$mil. 57 as at 30 September 2004 and for \$mil. 193 as at 30 September 2003

STMicroelectronics is one of the world's largest semiconductor manufacturers, 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 various microelectronics applications, telecommunications, IT, automotive electronics and control and industrial automation systems.

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

At 30 September 2004 Finmeccanica held an indirect equity investment in STMicroelectronics of about 17.13% and is valued at equity.

The Company has been able to continue the improvement in its profitability levels over the third quarter. In spite of a progressive slowdown in market demand, characterised by shorter delivery times and changes in the orders portfolio, it succeeded in maintaining income within the values indicated at the end of the second quarter of 2004.

The company showed solid growth in revenues (approximately 25.5%), compared to the same period of the previous year, with the profitability level up by roughly 42%, excluding charges for write-downs and restructuring activities, and the other related closing expenses.

The segments that contributed more to the revenues in the third quarter of 2004 were consumer electronics, PCs and telecommunications, while the car and industrial sectors suffered a reduction with respect to the levels of the previous quarter.

The effective allocation of resources and the control of costs allowed the company to record an increase, compared to the same period in the previous year, also in net profit, without forgetting investments in technology and product development, totalling \$mil. 1,131 compared to \$mil. 883 in the corresponding period of 2003.

In consideration of the current situation and the forecast of a \$/€rate of 1.23, the company believes that growth in earnings and consequently profitability, over the fourth quarter of 2004 will slow down with respect to the third quarter of 2004, deriving from a slower-than-forecast growth in demand in the Company's end markets.

In the light of these forecasts, the Company is seeking to rationalise its product portfolio and organisational structure in order to obtain the best possible results from its position of ST product leadership and to expand the range of its platform and application solutions.

## 6. Outlook

In addition to the well-known conditions of uncertainty characterising the international political and economic scenario, the stagnation of the Italian economy and the consequential restrictions on the financial resources of the Public Administration represent significant risks for the prospects of the Finmeccanica Group.

In this frame, Finmeccanica, whose companies have enough order backlogs to guarantee stable results in the short-medium term, expects to raise production volumes further in the fourth quarter of 2004. As already mentioned in the 2003 financial statements, the step-up of volumes should allow the Group to post an “EBITA” slightly higher than that achieved in the 2003 financial year. The Group’s constant attention to tax planning, together with the reform of corporate income tax (IRES), should pave the way towards higher income capacities for the Finmeccanica Group.

As already mentioned in the Management Report of the 2003 financial statements, the investments planned for 2004, partly made, and requested to develop new production, need such financial resources as to entail an increase in the Group’s financial debt, although within the established control parameters.

The repercussions of the recent correction of the national budget on the Defence Administration budget (especially on investments) and the steps forecast in the context of the Finance Act currently under discussion are a cause for concern. The risk of a decline in the demand for defence and security systems, which are recognised as being vital elements in the current precarious international political scenario, lies in the dual effect of a faint economic growth rate and the need to comply with the Stability and Growth Pact Parameters. This scenario affects other European countries, some of which are strongly committed to financially supporting important international missions.

Finmeccanica, as other industrial groups greatly exposed to European budgets, might face a medium-term contraction in order backlogs and a squeeze in the financial conditions of new contracts acquired. To this risk of a possible contraction in orders must also be added the risk deriving from the change in conditions for the payment of funds set aside for investment in Finmeccanica’s business sectors which may lead to the Group taking on unforeseen economic risks and financial burdens. Activities are

underway for the management of such a scenario in the context of collaboration with the responsible bodies of the Public Administration.

For the Board of Directors  
The Chairman and Managing Director  
(Mr. Pier Francesco Guarguaglini)

