

QUARTERLY REPORT

First quarter 2004

FINMECCANICA

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MANAGEMENT REPORT AS AT 31 MARCH 2004

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Finmeccanica Group

Management Report as at 31 March 2004

Directors' report

The climate marking the first quarter of 2004 somewhat resembles the scenario closing 2003. The unstable international geopolitical scenario was accompanied by the frail upswing of major world economies, in particular of European countries, which still appear unable “to catch up” with the fledgling recovery of the US economy.

In this frame of uncertainty, the Finmeccanica Group's consolidated results for the first quarter of 2004 - which, as is widely known, give a partial view of the full year, since more than half of the Group's business is squeezed into the second half of the year - showed an increase in the value of production, despite the drop in profits compared to the same period of 2003; still, results looked brighter than expected and enable the Group - *prima facie* - to confirm the outlook regarding overall performance for the current year.

€million Sectors	Value of Production	1 st Quarter 2004			1 st Quarter 2003 (*)			
		EBITDA	EBITA	EBIT	Value of Production	EBITDA	EBITA	EBIT
Aeronautics	369	13	(3)	(5)	284	30	21	21
Helicopters	266	17	13	11	292	33	28	26
Space Defence	166	13	4	2	162	2	(8)	(10)
Electronics	422	33	21	12	370	22	12	4
Defence Systems	259	14	9	4	198	9	5	
Transportation	305	15	9	8	301	18	12	11
Energy, I.T. and Other Activities	265	(8)	(17)	(18)	304	14	3	2
Eliminations	(52)				(37)			
	2,000	97	36	14	1,874	128	73	54

(*) figures restated for comparison reasons

Although the figures for the two quarters are not fully comparable (due particularly to the inclusion in the scope of consolidation of the OTE group and of AerMacchi not present in the first quarter of 2003), the value of production grew by 6.7% in the first quarter of 2004, while operating results before amortization of goodwill (EBITA), as at March 2004, came to €mil. 36, compared to €mil. 73 of the first quarter of 2003, which included the renegotiation of debt/credit relations agreed between the Elsacom group and Globastar LP, totalling about €mil. 12.

On a comparative basis, the lower EBITA is the combination of the sharp rise in profits in several lines of business, such as Defence Electronics and Defence Systems, of the forecasted drop in the Helicopters sector - due basically to the provisional different mix of programmes in progress, most of them acquired in highly competitive markets with respect to the programmes in the backlog - and of the rocky situation in Aeronautics, still bruised by the bad trend in the civil segment and further burdened by the difficulty of a number of military orders, particularly by the slowdown of the EFA programme, due to delays in defining the second tranche of the contract.

Repercussions of the foregoing situation were seen in the drop in the Group's EBITA/"value of production" ratio, equivalent to 1.8% as at 31 March 2004, compared to 3.9% of the first quarter of 2003.

This drop, given the higher goodwill amortization due to the acquisition of AerMacchi and OTE, reflected in the decline in the ratio between operating results (EBIT) and value of production, falling from 2.9% to 0.7%.

The effects of the industrial trend in the first quarter of 2004, compared to the same period of the previous year, slammed on financial performance. Financial requirements for the first quarter of 2004 came to €mil. 426, significantly lower than expected, but higher than €mil. 97 of the first quarter of 2003, while the €mil. 2 net foreign exchange gains, basically in line with the figure for the first quarter of 2003, were the result of a constant and careful management of exchange risks started by Finmeccanica in 2003.

The negative results were due to the recording of net charges for redundancies in a number of Group companies, the total value of which was approximately €mil. 5, while tax liabilities, mainly regarding IRAP (Local Tax on Production Activities), were about €mil. 11 less than the first quarter of 2003, since they also included the abatement of IRES (Corporate Tax) as the effect of a preliminary consolidated tax base.

The income statement included the results per quota of equity investments valued at equity: STMicroelectronics Holding NV (STM), with profit for the period standing at €mil. 11, broadly in line with the first quarter of 2003; and Aero Invest 1 SA (parent company of Avio S.p.A.), with a loss of €mil. 9, basically relating to the financial structure of the acquisition. Note that Aero Invest 1 SA was acquired on 30 September 2003 and was, therefore, not taken over in the first quarter of 2003.

The limited industrial contribution, plus the weaker financial performance caused by higher financial requirements, the drop in the results of the unconsolidated equity investments as described above and the higher impact of IRAP (Local Tax on Production Activities), reckoned on the net value of production, led to a loss for the period of €mil. 35 compared to a profit of €mil. 14 in the first quarter of 2003. Excluding the results of STM and Aero Invest 1, loss for the period amounted to €mil. 36 compared to a substantial balance as at 31 March 2003.

Net financial debt, as at 31 March 2004, amounted to €mil. 682, considerably lower than expected, owing to improvements spread across every Group component and also to the constant control of each sector's needs and to the varied activity towards clients and suppliers.

Financial requirements for the first quarter of 2004 - €mil. 426 - are comparable to the figure for the first quarter of 2003 - €mil. 97 - only if one considers that the latter benefited from approximately €mil. 300 of advances for non-recurring income especially in the Energy, Defence Electronics and Aeronautics sectors.

Nonetheless, this debt figure, given its seasonal nature, presents a ratio with respect to shareholders' equity and income indicators (reimbursement capacity ratios) that satisfies every prudential parameter of financial solidity applied by Finmeccanica.

The consolidated balance sheet of the first quarter of 2004, as a result of the foregoing net financial debt, showed an increase in invested capital compared to the previous period, due solely to the working capital component. The solid financial position was corroborated by the good return of invested capital, which (although falling from 21.9% of the first quarter of 2003 to 16.8% of the first quarter of 2004) remained rather higher than the weighted average cost of Group capital, and by the continuity of the ratio between the shareholders' equity and the net invested capital, equivalent to 83% in the first quarter of 2004 versus 90% of 2003.

As far as trade policy is concerned, note that orders acquired in the first quarter of 2004 were worth €nil. 1,252, slightly lower than the situation as at 31 March 2003, when the figure was €nil. 1,584.

About 50% of the main orders acquired for the period regarded the military segment, and about 20% involved customer support activities.

The order backlog, excluding work in progress relating to developing business, came to €nil. 21,791 compared to €nil. 22,276 as at 31 December 2003, and €nil. 21,340 as at 31 March 2003, in line with forecasts.

Staff as at 31 March 2004 was 46,773 compared to 46,861 as at 31 December 2003 and 44,526 as at 31 March 2003.

Main events during and after quarter

In the opening months of 2004, the Group continued the activities developed in the previous year, the notes of which are attached to the 2003 Financial Statements. Specifically:

Following the Memorandum of Agreement signed on 16 June 2003 between **Alenia Aeronautica S.p.A.** and Vought Aircraft Industries Inc., a US company specialized in civil and military aerostructures, the Group continued activities aimed at establishing a joint venture offering its expertise as partner with Boeing for the new 7E7 Dreamliner aircraft.

As for relations between Finmeccanica and BAE Systems, after the agreement signed on 18 March 2004 (which followed the Memorandum of Understanding of July 2003), to create a partnership named **Eurosystems**, which will group their respective European defence electronics businesses together, the due diligence process relating to the activities included in the joint venture is currently underway, and the parties are discussing the corporate procedures to implement the project.

An important aspect to bear in mind, in this connection, is that the partnership envisages the establishment of two unequal joint ventures and the transfer of activities in the Military Communications and Air Traffic Control Systems sectors from BAE Systems to Finmeccanica.

The two unequal joint ventures will enjoy broad strategic and management autonomy and will be engaged in the following areas:

- Radars and Electronic Defence Systems: controlled by BAE Systems, operating in land and naval radar and command, control and information systems;
- Avionics: controlled by Finmeccanica, operating in the areas of airborne radars, mission systems, electro-optics and electronic warfare.

On the contrary, BAE Systems will transfer the following businesses to Finmeccanica:

- Communication Systems are activities similar to those of Marconi Selenia Communications, Finmeccanica Group company, into which they will be absorbed;
- Radars and Air Traffic Control Systems are activities falling within the current sphere of Alenia Marconi Systems (AMS), which Finmeccanica will re-acquire for their strategic value in developing control activities and for the streamlining of air traffic.

The agreement signed on 18 March also entails that a Strategic Coordination Board will be formed to simultaneously supervise the joint ventures' activities and the overall joint interests of BAE Systems and Finmeccanica in the Aerospace and Defence sectors, coordinating the strategic and market policies of the two Groups.

During the previous year, the Group launched a feasibility study to enhance the value of the Finmeccanica Group's **real estate**.

The study will be concluded by June 2004 and will determine times and procedures to implement any future transaction. An independent expert is currently placing the finishing touches to the assessment of the various property units. Given the strategic nature of most of the Group's real estate, mainly composed of industrial property, one of the possibilities could be to group real estate together into one single company and then possibly monetising income from them.

During the closing months of the previous year, the Group started talks with Alcatel on an alliance in the space sector; such an alliance would be based on the establishment of two companies:

- Manufacturing company, formed by merging the manufacturing activities of **Alenia Spazio S.p.A.** and of Alcatel Space S.A., which would be majority held by Alcatel. Governance rules will be determined within this new company to define how leadership is divided among the various business areas and criteria to allocate and protect the interest of domestic institutional customers.

- Service company, formed by merging satellite service activities, and will channel the business of **Telespazio S.p.A** as well as Alcatel's satellite service activities into a company under Finmeccanica's control. This company will act as a preferred supplier of the manufacturing company, and will act as a vehicle for participating in development of the Galileo services.

The parties are currently working to define a Memorandum of Understanding to lay down the basic terms of the alliance regarding equity investments, governance rules and areas of industrial leadership.

Finally, in the framework of a broader plan to enhance the value of those businesses outside the Aerospace and Defence Division, the Group continued the activities related to a project conceived some time ago, which envisages, as a possible means to achieve this target, the “bulk” transfer of these activities by combining them with Fincantieri S.p.A..

To this end, an Industrial Plan was developed in the first quarter of 2004 by combining **Ansaldo S.p.A**, **Ansaldo Signal N.V.**, **Ansaldo Trasporti Sistemi Ferroviari S.p.A.** and **Ansaldo Energia S.p.A.** activities with the shipbuilding business of Fincantieri S.p.A..

This project was initially presented to the Board of Directors of Finmeccanica S.p.A. on 20 April 2004 and, on this occasion, a number of financial consultants were tasked with evaluating the single activities and identifying the practicable paths and operation limits.

We have received expressions of interest by third parties in purchasing a controlling interest in the Transportation business area.

Again on 20 April 2004, the Board of Directors of Finmeccanica S.p.A. also resolved to supplement the agenda of the next Shareholders' Meeting, already convened in ordinary session - on 25 May 2004 on first call, and on 26 May 2004 on second call - to approve the financial statements as at 31 December 2003. The Shareholders' Meeting of Finmeccanica will be convened to resolve - in extraordinary session - upon the harmonization of the company by-laws to the Company Law Reform referred to in Legislative Decree No. 6/2003, as well as to the new regulations on “special powers”

currently held by the Ministry of Economy and Finance, in agreement with the Ministry of Production Activities, contained in Law No. 350/2003 (2004 Finance Law).

Outlook

As mentioned above, in connection to developments in the Group's performance, to date, there appear to be no such circumstances as to foresee trends and results substantially contradicting forecasts. In 2004 the Group will generate a further growth in volumes of production compared to 2003. This should allow it to post operating results before goodwill amortization (EBITA) slightly higher than that achieved in the whole 2003 year. Accordingly, the operating profit percentage (ratio of the EBITA to the value of production) should not be significantly different from the figure recorded in 2003, representing, in any case, a remarkable result, given the current uncertainty in the reference market. Careful control of financial variables and income items should enable the Group to maintain fair levels of profitability of group capital. Broadly speaking, the limited growth, if not the decrease, in the funds available for Defence investments, not to mention the stringent and binding regulations regarding their use, continue to limit the Group's growth prospects.

Analysis of consolidated income statement and balance sheet

To provide further information on the Group's economic and financial position, the following reclassification prospects, "Reclassified Consolidated Income Statement", "Reclassified Consolidated Balance Sheet" and "Reclassified Net Financial Debt", have been drawn up in accordance with the accounting principles and criteria adopted for the preparation of annual accounts, and in accordance with the schemes used in the previous years.

To have a clearer view of the figures below, please note that:

- OTE group was acquired on 4 March 2003 and was consolidated as from June 2003;
- GAF group was acquired on 16 June 2003;
- an additional 67.31% in Aermacchi S.p.A. (of which 25.46% was already held by Alenia Aeronautica S.p.A.) was acquired on 1 July 2003;
- Marconi Mobile Access S.p.A. (Marconi Mobile Access) was acquired on 17 July 2003;
- Electron Italia S.r.l. (Electron Italia) 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 (total after acquisition 92.8%);
- Sobrahel - Sociedade Brasileira de Helicopteros Ltda (Sobrahel) valued at cost in 2003 was consolidated on a proportional basis in 2004 as it became operative;
- Eltag Supernet S.p.A. was deconsolidated as from the 2003 financial statements following the liquidation process.

The "Reclassified Consolidated Income Statement" includes, in the values compared in the first quarter of 2003, the figures of Eltag Supernet S.p.A. which was not consolidated in 2004. The figures for the first quarter of 2004 include all the economic values of the foregoing groups/companies which were not consolidated during the compared period of 2003.

The "Reclassified Consolidated Balance Sheet" in the balances compared as at 31 December 2003 does not include the values of Sobrahel.

For a more appropriate classification, the notes relating to the Defence Electronics sector include the International Naval Systems operating division of Finmeccanica S.p.A., previously included in the Defence Systems, and do not comprise Alelco S.p.A. and SO.GE.PA. - Società Generale di Partecipazioni, included in the Energy, Information Technology and Other Activities sector. The compared figures have been appropriately reclassified.

Also in reference to comparing figures, note that the period under assessment was marked by the revaluation of the main currencies concerning the Group against the Euro, with respect to the exchange rates prevailing at year-end 2003 (although the exchange rates remained lower than those recorded as at 31 March 2003). In particular, the translation rates as at 31 March 2004 and the averages of the quarter showed, for the major currencies, the following changes compared to 2003: closing exchange rates of the period (Euro/US Dollar - 3.3% and Euro/Pound Sterling - 5.8%); average exchange rates of the period (Euro/US Dollar + 13.7% and Euro/Pound Sterling + 1.6%).

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

	<u>1st quarter 2004</u>	<u>1st quarter 2003</u>	<u>2003 Financial Statements</u>
A. - <u>REVENUES</u>	1,896,874	1,845,020	8,279,420
Changes in inventories of work in progress, semi-finished and finished goods	97,152	25,066	324,856
Capitalisation of internal construction costs	6,274	3,473	41,935
B. - <u>VALUE OF PRODUCTION</u>	2,000,300	1,873,559	8,646,211
Costs of goods and services	(1,278,056)	(1,186,355)	(5,560,718)
C. - <u>VALUE ADDED</u>	722,244	687,204	3,085,493
Personnel costs	(628,560)	(573,269)	(2,339,691)
Other adjustments	(959)	(1,037)	(33,909)
Provisions for risks and charges	(9,842)	(10,180)	(79,611)
Balance of other income (charges)	14,131	25,676	157,850
D. - <u>EBITDA</u>	97,014	128,394	790,132
Industrial depreciation and amortization	(66,772)	(60,031)	(267,156)
Set-up grants for the period	5,890	4,917	26,074
E. - <u>EBITA</u>	36,132	73,280	549,050
Goodwill amortization	(21,689)	(19,534)	(82,007)
F. - <u>EBIT</u>	14,443	53,746	467,043
Financial revenues (charges)	(11,167)	(4,432)	(39,080)
Foreign Exchange gains (losses)	1,748	1,334	(6,257)
Shares and adjustments to financing activities	1,128	13,279	162,058
G. - <u>INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES</u>	6,152	63,927	583,764
Extraordinary revenues (charges)	(11,464)	(8,638)	(173,091)
H. - <u>INCOME BEFORE TAXES</u>	(5,312)	55,289	410,673
Income taxes for the period	(29,503)	(40,859)	(211,416)
I. - <u>NET PROFIT</u>	(34,815)	14,430	199,257
. Parent company share	(35,341)	10,054	188,665
. Minority interests	526	4,376	10,592
	<u>(34,815)</u>	<u>14,430</u>	<u>199,257</u>

- The “value of production”, equal to €mil. 2,000, showed a 6.7% rise on the previous period’s figure (€mil. 1,874), mainly owing to the growth in Aeronautics (and to the consolidation of Aermacchi, equivalent to about 2.5% of the value of production of 2004), Defence Systems and Defence Electronics sectors, contrasted by a drop in the Energy sector.
- “Costs of goods and services” rose from €mil. 1,186 of the first quarter of 2003 to €mil. 1,278 of the first quarter of 2004 (+7.8%). This trend, as the “value of production”, is mainly attributable to the consolidation of Aermacchi, to the foregoing growth of Defence Systems and Aeronautics, and to the drop in the Energy sector.
- “Personnel costs” amounted to €mil. 628 compared to €mil. 573 of the same period of 2003. Average staff during the first quarter of 2004 stood at 45,784 against 43,738 of the first quarter of 2003 (44,958 in the 2003 year), up by 2,046. Increase in staff and in relating costs refers mainly to the change in the scope of consolidation owing to the inclusion of the OTE and GAF groups, of Aermacchi, Marconi Mobile Access and other smaller companies.

Regular staff as at 31 March 2004 was 46,773, down by 88 compared to 46,861 as at 31 December 2003 (44,526 as at 31 March 2003). The net decline was mainly due to turnover. The average staff cost per unit for Italy showed an increase relating to the change in the mix of contractual categories and to the renewal of collective agreements in the second half of 2003, while, for activities abroad, basically to the change in the mix of contractual categories.

- “Other adjustments” and “provisions for risks and charges” (€mil. 11 during the period, in line with the €mil. 11 relating to the same period of the previous year) refer to allocations regarding product warranties (€mil. 3 in the 2004 quarter compared to €mil. 1 in the 2003 quarter), bad and doubtful receivables (€mil. 1 in the 2004 quarter compared to €mil. 1 in the 2003 quarter), penalties (€mil. 3 in the 2004 quarter compared to €mil. 2 in the 2003 quarter) and other.

- “Other income and charges”, which resulted in €nil. 14 of net income, was lower than the figure for the same period of the previous year (€nil. 25). Income also included income from real-estate investments, amounting to €nil. 1, the same figure recorded during the same period of 2003 (€nil. 1), renegotiation of debt/credit relations for about €nil. 6 (€nil. 12 in the 2003 quarter), insurance reimbursements for €nil. 1 (€nil. 5 in the 2003 quarter), use of provisions for €nil. 5 compared to €nil. 9 in the 2003 quarter (disputes, product warranties, contractual and other risks) allocated in previous years and made available following ordinary transactions and in consideration of costs incurred over the period. Charges also included indirect taxes and income taxes for the year amounting to €nil. 4, in line with the €nil. 4 of the 2003 quarter, penalties and membership fees.
- “EBITDA” came to €nil. 97, a €nil. 31 drop (approx. -24%) compared to the same period of 2003 (€nil. 128).
- “Industrial depreciation and amortization”, excluding the portions of set-up grants for the period, showed an increase with respect to the same quarter of the previous year. Amortization/depreciation for the period, amounting to €nil. 67 (€nil. 60 in the 2003 quarter), related for €nil. 53 to tangible fixed assets (€nil. 48 in the 2003 quarter) and for €nil. 14 to intangible fixed assets (€nil. 12 in the 2003 quarter).
- “EBITA” was €nil. 36, showing a decline of €nil. 37 (approx.-50%) compared to the same period of the previous year (€nil. 73). This drop was due to the combination of an improved performance mostly in the Defence Electronics sector, of a growth in volumes, of greater profitability from avionics and of benefits deriving from the integration and rationalization plan of Italian and English activities of the AMS JV; in Defence Systems, of growth especially of the MBDA JV; in Space, of benefits from actions to improve production efficiency and to restructure adopted in the previous year, contrasted by a drop in Aeronautics, owing to less business and lower profits from the civil sector and to the slowdown of the EFA military programme; in Helicopters, of lower profits from on-going programmes acquired in highly competitive markets; and in Energy, Information Technology and Other Activities, of

benefits, during the 2003 quarter, from approximately €mill. 12 arising from the renegotiation of debt/credit relations agreed by the Elsam Group and Globalstar Lp in the framework of the sale of the satellite interconnection systems in Karkila (Finland), compared to €mil. 4 relating to the renegotiation of debt/credit relations made in the 2004 quarter.

- “Goodwill amortization” was €mil. 22 compared to €mil. 19 of the same period of 2003. These figures refer to the following sectors: Aeronautics for €mil. 3 (€mil. - in the 2003 quarter), Helicopters for €mil. 2 (€mil. 2 in the 2003 quarter), Space for €mil. 2 (€mil. 2 in the 2003 quarter), Defence Electronics for €mil. 9 (€mil. 9 in the 2003 quarter), Defence Systems for €mil. 5 (€mil. 5 in the 2003 quarter), Transportation for €mil. 1 (€mil. 1 in the 2003 quarter).
- “EBIT”, which is affected by the increase in industrial depreciation and amortization and goodwill, fell by €mil. 40, from €mil. 54 of the 2003 quarter to €mil. 14 of the 2004 quarter. As for EBIT, the same observations made for EBITA apply.
- Net “financial revenues and charges”, amounting to €mil. (11), showed an increase compared to €mil. 4 of net charges relating to the same period of the previous year. The major items in financial charges regarded interest and provisions for adjustments on debenture loans (€mil. 19 in the 2004 quarter and €mil. 11 in the 2003 quarter).
- Net “foreign exchange gains and losses”, mainly deriving from hedging costs, resulted in €mil. 2 of net gains (€mil. 1 in the first quarter of 2003), with figures basically in line with the same period of the previous year. In regard to this item, a point worth mentioning is that the steady decrease in the spread between the euro and dollar interest rates (the essential element to calculate “forward” exchange rates) may in the future cause higher hedging costs.
- The positive economic component deriving from “shares and adjustments to financing activities” amounted to €mil. 1 compared to €mil. 13 recorded in the same period of 2003. This amount mainly included:

- Finmeccanica's net result (€mil. 11) of STMicroelectronics Holding NV (€mil. 14 in the first quarter of 2003) valued at equity, as for all major unconsolidated equity investments;
 - the net results of other equity investments valued at equity and at cost for €mil. (10), compared to €mil. (1) in the same period of 2003. In particular, €mil. (9) refer to the investee company Aero Invest 1 SA, which controls Avio S.p.A. through Avio Holding S.p.A..
- Net "extraordinary revenues and charges" resulted in €mill. 11 in net charges (€mil. 9 in net charges in the 2003 quarter). The major component of this item referred to €mil. 5 in personnel redundancy payments, excluding the use of provisions already allocated as at 31 December 2003 (€mil. 9 relating to redundancies and other net restructuring charges in the 2003 quarter).
 - "Income taxes for the period" amounted to €mil. 30 (€mil. 41 in the 2003 quarter). This item represents the estimated sum payable for IRAP (Local Tax on Production Activities) amounting to €mil. 20 (€mil. 24 in the 2003 quarter), for IRES (Corporate Tax) amounting to €mil. 5 (€mil. 13 for IRPEG (Corporate Income Tax) in the 2003 quarter) and other income taxes amounting to €mil. 5 (€mil. 4 in the 2003 quarter). Note that 2004 saw the introduction of the new Tax Reform, which gives companies the option to be taxed at consolidated level. In particular, given the law as it is today, and pending a number of implementing measures, the Parent Company estimated a single taxable base for the group companies that will reasonably be included in the national fiscal consolidation starting from the 2004 taxable period. Tax relating to the 2004 quarter comprised the effect of this option, which entailed a drop in the value of the estimated consolidated IRES (Corporate Tax).

The Table below shows the Reclassified Consolidated Balance Sheet as at 31 March 2004.

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

	<u>31 Mar 2004</u>	<u>31 Dec 2003</u>	<u>31 Mar 2003</u>
A. - <u>FIXED ASSETS</u>			
Intangible fixed assets	1,187,141	1,198,243	1,179,641
Tangible fixed assets	1,691,328	1,692,357	1,546,843
Investments	<u>1,429,020</u>	<u>1,418,997</u>	<u>1,426,269</u>
	<u>4,307,489</u>	<u>4,309,597</u>	<u>4,152,753</u>
B. - <u>WORKING CAPITAL</u>			
Inventories	15,678,027	14,857,753	13,949,138
Trade receivables	3,180,143	3,327,889	3,063,675
Other assets	1,194,070	1,136,784	1,336,225
Trade payables	(2,428,098)	(2,564,344)	(2,548,526)
Advances and on-account billings	(12,768,253)	(12,369,639)	(12,045,630)
Provisions for risks and charges	(1,140,698)	(1,107,606)	(1,176,529)
Other liabilities	<u>(3,327,821)</u>	<u>(3,317,692)</u>	<u>(2,458,525)</u>
	<u>387,370</u>	<u>(36,855)</u>	<u>119,828</u>
C. - <u>INVESTED CAPITAL</u> minus liabilities for the period	<u>4,694,859</u>	<u>4,272,742</u>	<u>4,272,581</u>
D. - <u>STAFF SEVERANCE PROVISION</u>	<u>(713,716)</u>	<u>(714,089)</u>	<u>(658,772)</u>
E. - <u>INVESTED CAPITAL</u>, minus liabilities for the period and staff severance provision	<u>3,981,143</u>	<u>3,558,653</u>	<u>3,613,809</u>
<i>covered by :</i>			
F. - <u>SHAREHOLDERS' EQUITY</u>			
Capital and reserves attributable to the Group	3,326,906	3,105,966	3,255,083
Net profit attributable to the Group	(35,341)	188,665	10,054
Capital and reserves attributable to minority interests	7,177	(3,054)	(1,220)
Net profit attributable to minority interests	<u>526</u>	<u>10,592</u>	<u>4,376</u>
	<u>3,299,268</u>	<u>3,302,169</u>	<u>3,268,293</u>
G. - <u>NET FINANCIAL DEBT</u>			
i) medium-to long-term financial debt	<u>2,493,903</u>	<u>2,582,492</u>	<u>1,470,823</u>
ii) short-term debt :			
. financial debt	511,326	623,001	530,971
. cash and financial credit	<u>(2,298,958)</u>	<u>(2,923,555)</u>	<u>(1,504,140)</u>
	(1,787,632)	(2,300,554)	(973,169)
iii) restated items (*)	<u>(24,396)</u>	<u>(25,454)</u>	<u>(152,138)</u>
	<u>681,875</u>	<u>256,484</u>	<u>345,516</u>
H. - <u>TOTAL INVESTED CAPITAL AS IN E.-</u>	<u>3,981,143</u>	<u>3,558,653</u>	<u>3,613,809</u>
(*) Including:			
. interest-bearing receivables from financial brokerage activities	(24,396)	(25,454)	(172,236)
. portion of risks provisions compensating liabilities of unconsolidated subsidiaries			20,098
	<u>(24,396)</u>	<u>(25,454)</u>	<u>(152,138)</u>

Fixed assets (€nil. 4,307 as at 31.03.2004 compared to €nil. 4,309 as at 31 December 2003) fell by €nil. 2, owing mainly to:

- the €nil.10 increase in medium- to long-term receivables;
- the valuation at equity of the investees STMicroelectronics Holding NV, showing a value of €nil. 1,142, compared to €nil. 1,123 as at 31 December 2003, and Aero Invest 1 SA, with a value of €nil. 130 compared to €nil. 138 as at 31 December 2003;
- the net effect of ordinary investment and amortization activities for the period, showing a net decrease, and the slight increase in values deriving from exchange rate differences consequent to the translation of the financial statements in foreign currency (mainly dollars and sterling).

The working capital as at 31 March 2004 amounted to €nil. 387 compared to a negative figure of €nil. 37 at 2003 year-end. Specifically:

- “Inventories”, equal to €nil. 7,248 as at 31 March 2004 compared to €nil. 6,720 as at 31 December 2003 (excluding net of on-account billings equal respectively to €nil. 8,430 and to €nil. 8,138, recorded under “advances from customers and on-account billings”) showed a €nil. 528 rise, relating mainly to Aeronautics, owing in particular to greater operating commitments on programmes about to start (A380 and other programmes in the civil sector), Space, Defence Electronics and Defence Systems;
- “Trade receivables”, net of “trade payables”, amounting to to €nil. 3,180 and €nil. 2,428 as at 31 March 2004 respectively and to €nil. 3,328 and €nil. 2,564 as at 31 December 2003, recorded a net €nil. 12 drop, owing also to receipts from customers relating mostly to Defence Systems and Space;
- “Other assets” totalled €nil. 1,194 as at 31 March 2004 compared to €nil. 1,137 as at 31 December 2003, increasing by €nil. 57, due mainly to the net effect of a drop in receivables from the Italian Tax Office and to an increase in accruals and deferrals

and in other receivables. In particular, receivables from the Italian Tax Office (VAT, tax credits, relating interest, etc.) amounted to €nil. 478 compared to €nil. 504 as at 31 December 2003, and receivables for tax advances amounted to €nil. 122 compared to €nil. 115 as at 31 December 2003.

- “Advances from customers” (recorded under “Advances from customers and on-account billings”) went up from €nil. 4,232 as at 31 December 2003 to €nil. 4,338 as at 31 March 2004, with a net increase of €nil. 106, referring mainly to Defence Systems, Helicopters and Defence Electronics, contrasted by a fall in Aeronautics;
- “Provisions for risks and charges”, equal to €nil. 1,141 as at 31 March 2004, showed a net increase of €nil. 33 compared to €nil. 1,108 as at 31 December 2003. Provisions and uses originated in current assets for the period. Note that income taxes for the period, recorded under “other liabilities” (tax liabilities) at year-end, are recorded in the mid-year accounts under the liabilities provisions;
- “Other liabilities” showed a net increase of €nil. 10 (from €nil. 3,318 as at 31 December 2003 to €nil. 3,328 as at 31 March 2004). This net increase also regarded payables to staff and relations with the Ministry of Production Activities in consideration of the research and planning activity pursuant to Article 3a of Law No. 808/85, which amounted, as at 31 March 2004, to €nil. 1,952 (€nil. 1,944 as at 31 December 2003);
- “Staff severance provision” was equal to €nil. 714, in line with the figure recorded as at 31 December 2003 (€nil. 714), since the provisions for the period were offset by the uses;

Invested capital, amounting to €nil. 3,981 (€nil. 3,558 as at 31 December 2003), was covered by shareholders’ equity for €nil. 3,299 (€nil. 3,302 as at 31 December 2003), and by net financial debt for €nil. 682 compared to €nil. 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 practice. The adoption of the financial method would have meant higher net tangible fixed assets of €mil. 87, higher financial debts of €mil. 59, a €mil. 15 decline in working capital, a higher profit for the year and an increase in shareholders' equity respectively of €mil. 1 and €mil. 12.

The Table below shows the consolidated net financial debt as at 31 March 2004, together with the corresponding figure as at 31 December 2003 and as at 31 March 2003 for comparison purposes.

	31 Mar 2004 (€mil.)	31 Dec 2003 (€mil.)	31 Mar 2003 (€mil.)
Short-term financial debts	41	86	121
Current portion of medium- to long-term financial debts	59	84	73
Medium- to long-term financial debts (excluding current portion)	2,311	2,304	1,350
Cash or cash equivalents	(1,712)	(2,234)	(745)
Net bank debt	699	240	799
<u>Other financial receivables and payables:</u>			
Interest-bearing receivables from financial brokerage activities (excluding relations with subsidiary and associated companies)	(20)	(20)	(40)
Securities	(51)	(63)	(66)
Financial receivables from third parties	(421)	(504)	(517)
Financial receivables form subsidiary , associated and related companies	(119)	(116)	(277)
Financial payables to subsidiary , associated and related companies	370	440	326
Liabilities to the Ministry of Production Activities	63	65	48
Other financial liabilities	161	214	73
NET FINANCIAL DEBT (CASH ON HAND)	682	256	346

During the first quarter of 2004, net financial debt increased from €mil. 256 as at 31 December 2003 to €mil. 682.

The €mil. 426 increase, mainly due to the performance of the Group's receipts and payments, with payments usually concentrated in the first half of the year, was affected, with respect to expectations, by the early receipts of a number of contracts initially forecasted for 2004, but performed in 2003 with the consequent benefit on the year-end result.

The imbalance in the operating cash flow should intensify in the second quarter and then partly recover by the end of the current year.

This situation also impacted on the composition of debt which, referring in particular to bank and bonds, recorded a drop in cash on hand from €mil. 2,234 to €mil. 1,712. Overall cash on hand related directly to the Parent Company and to subsidiaries for €mil. 1,541 and for about €mil. 171 to the three joint ventures MBDA, AMS and AgustaWestland for their own specific operational requirements.

The changes in the gross bank debt, compared to the 31 December 2003 figures, were not particularly noteworthy, both in the short-term - what's more, further dropping - and in the medium/long term, since no funding operation in the period had still been concluded.

Breakdown of turnover by market

Total revenues in the income statement for the period in question (€mil. 1,897) were the sum of turnover (€mil. 1,275), operating grants (€mil. 5) and changes in contract work in progress (€mil. 617). Turnover, amounting to €mil. 1,275, is split up by the following areas:

	<u>€mil.</u>	<u>%</u>
Italy	389	30.5
Rest of Europe	681	53.4
North America	103	8.1
Rest of the world	102	8.0

Performance by sector

AERONAUTICS

EUR millions	31 Mar 2004	31 Mar 2003
Orders	166	106
Order backlog	3,912	3,538
Value of production	369	284
EBITDA	13	30
EBITA	(3)	21
EBIT	(5)	21
ROS	(1.4%)	7.4%
Employees (no.)	10,491	8,802

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.

It is significant to compare the two years, keeping in mind that Aermacchi was included in the consolidation area only in the latter half of 2003.

The figures relating to the first quarter showed a lower result, although in line with forecasts, compared to the same period of the previous year, particularly for lower volumes and lower profits from civil programmes.

The world's civil aeronautics industry continued to suffer from weak demand on the reference market in the first quarter 2004. This trend in production and deliveries is expected to be reversed beginning in 2006.

In this context, Alenia Aeronautica has continued to implement a series of initiatives launched the year before, aimed at maintaining operating flexibility, containing costs and streamlining production capacity.

In the first quarter of 2004, activities in the military sector mainly involved production, logistics and equipment for the EFA (during the quarter, three aircraft were delivered to the Italian Air Force), production of the C27J aircraft, retrofitting and developing the Mid Life Upgrade for Tornado aircraft, and upgrading the AMX aircraft, introducing modifications on the first aircraft of the Italian Air Force. For Aermacchi, production of the MB339 and SF260 training aircraft and continuation of the development of the new M346 advanced training aircraft, whose maiden flight is expected for the current mid-year.

In the civil sector, production continued to suffer from reduced demand by the leading producers to adapt supplies to what the market is able to absorb. In this framework, Alenia Aeronautica continued its co-supply activities for the world's leading aircraft manufacturers, specifically:

- Boeing: producing the fuselage components and control surfaces for the B767 and B777 aircraft, the super-panels for the B757 and the fuselage for the B717;
- Airbus: producing 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, producing the turboprop ATR 42/72 aircraft;
- Dassault Aviation: fuselage section for the Falcon 2000 Extended Range, and the nacelles for the Falcon 900EX.

As for Officine Aeronavali di Venezia (a company controlled by Alenia Aeronautica), activities worth mentioning regard the passenger-to-cargo aircraft conversions, and for Aermacchi, the production of engine nacelles for civil aeronautics.

Orders as at 31 March 2004 stood at €mil. 166, €mil. 60 more than €mil. 106 recorded in the first quarter of 2003, mainly due to the contribution of Aermacchi. Some of the major orders for the period were: the supply of an ATR 42 MP aircraft for maritime patrol missions and logistical support to the Italian Finance Police, those relating to the EFA and AMX programmes and to the SF-260 training aircraft acquired from Aermacchi by the Italian Air Force.

The **order backlog** stood at €mil. 3,912, €mil. 4,075 as at 31 December 2003, 49% of which involving the EFA programme.

The **value of production**, equal to €mil. 369, up on the first quarter of 2003 (€mil. 284), owing to Aermacchi production and to higher contribution of the military sector, showed significant changes in the mix of activities, both for the considerable rise in “transition supplies” for EFA aircraft equipment delivered to the Italian Air Force, and for the greater “non recurring” activities for developments. This was contrasted by the further decline of civil production and lower activities on the EFA programme for developments and industrialization.

EBITA as at 31 March 2004, showed a negative figure of €mil. 3 (**ROS** -1.4%). Compared to €mil. 21 (**ROS** 7.4%) referring to the first quarter of the previous period, the €mil. 24 loss was attributable, in addition to the foregoing “transition supplies”, the nature of which entails poor profitability, also to lower activity and profitability of civil production due to the drop in volumes on the ATR, Falcon and Boeing programmes.

In particular, note that the unsatisfactory sales trend of the B757 caused Boeing, in October 2003, to announce the termination of the programme by the end of the current year, thus activating the phasing out stage (end of programme) which, after only one year of supply, in April 2004, led to termination of activity with the delivery of the last series of super-panels. Finally, note that the first quarter of 2003, compared to the 2004 quarter, had benefited from the increase in volumes of highly profitable engineering activities relating to the industrialization of the B757.

As for the military sector, the EFA programme was affected by a series of postponements relating to the development of the second tranche, and referable to delays in the definition

of the points of this second tranche and the steady completion of the industrialization stages.

As at 31 March 2004, there were 10,491 **employees**, up by 48 units compared to 10,443 as at 31 December 2003.

HELICOPTERS

	31 Mar	31 Mar	31 Mar	31 Mar
EUR millions	2004	2004	2003	2003
	100%	50%	100%	50%
Orders	194	97	304	152
Order backlog	6,014	3,007	6,663	3,332
Value of production	532	266	584	292
EBITDA	34	17	66	33
EBITA	27	13	56	28
EBIT	22	11	51	26
ROS	4.1%	4.1%	8.7%	8.7%
Employees (no.)	8,917	4,458	8,862	4,430

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.

The uncertainty and instability marking the previous year also continued to affect the first quarter of the current period. Despite this climate, the helicopter market is expected to recover, especially following the positive growth trend of military helicopters, both in terms of value and of units produced.

The helicopter market for civil and public safety purposes kept basically stable, although the latter shows a positive growth trend.

The stronger competitive levels of AgustaWestland continued also in the opening months of the year against an evolving demand regarding not only helicopters, but also the quality of client assistance.

In this framework, one of the hallmarks of the quarter was the expansion of the production line for A119 Koala helicopters already operating in Philadelphia, in service with the police forces of the States of Pennsylvania and Texas and with the New York Police Department.

The expansion of operations in the US bears further witness to the joint venture's medium/long-term targets: winning the bid for supply to the US Administration of the new presidential helicopters named US101, a special version of the EH101.

Plans are to supply the presidential helicopter through Bell Helicopter, a company belonging to the US group Textron, with which a joint venture was set up in May 2003 to design the helicopter for the whole US military market. The joint venture will act as sub-supplier of Lockheed Martin, which, as prime contractor, will maintain overall responsibility over the programme and over the delivery of the US101 helicopter to end customers.

The total volume of **orders** acquired in the first quarter came to €nil. 194; among the acquisitions for the period, note that approximately 62% of the total volume came from customer/product support, which proves the constant evolution of demand.

The value of **order backlog** inched back by 3% compared to the figure as at 31 December 2003, although the latter remained rather high, €nil. 6,014, thus securing about 2.5 years' value of production.

The **value of production** dropped by about 9% compared to the same period of the previous year.

Some of AgustaWestland's main programmes include:

- EH 101 for the Italian Navy and for the Danish and Portuguese governments;
- Apache combat helicopter for the British Armed Forces, whose supply is expected to be completed by the end of the year;
- Super Lynx 300 helicopter for the Oman Air Force;
- A129 helicopter in the CBT (Combat) configuration and upgrade in this configuration of the A129 Mangusta, currently in service with the Italian Army;
- AB412 helicopter for Italian government agencies and foreign military agencies;

- A109 helicopter for the civil market;
- development work on the A109E Power variant under the supply contracts for the South African Air Force and for the Swedish Armed Forces;
- industrialization programmes for the NH90 helicopter.

EBITA fell in absolute terms by €mil. 29 against the figure as at 31 March 2003. This drop is attributable to the provisional different mix of programmes in progress, where most of the programmes are those acquired in highly competitive markets with respect to the backlog. By comparing the two quarters, note the reduced contribution of a number of important programmes, such as the Apache, EH101 RAF, RN and MMI, which had greatly contributed to the results of last year's quarter. There is, however, a significant recovery of profitability already forecasted for the second part of the year.

The **employees** for AgustaWestland as at 31 March 2004 were 8,917, down by 75 as at 31 December 2003.

SPACE

	31 Mar	31 Mar
EUR millions	2004	2003
Orders	88	317
Order backlog	1,134	1,431
Value of production	166	162
EBITDA	13	2
EBITA	4	(8)
EBIT	2	(10)
ROS	1.2%	(6.2%)
Employees (no.)	3,762	3,903

Finmeccanica operates in the space industry through its subsidiaries Alenia Spazio and investee companies, which produce space infrastructures, scientific satellites for telecommunications, remote sensing and payloads satellites, and Telespazio and investee companies, which produce earth stations, telecommunication services, television (TV) and earth observation.

The commercial space market was still affected by uncertainty in the short/medium term, owing to the persistent difficulty of telecommunication operators and to the excess in production capacity, elements that restrained the demand of new telecommunication systems and delayed the start of the development of broadband systems for multimedia applications.

The institutional demand, instead, though signs in EU countries still remain virtually stagnant in the short term, due to public spending constraints, showed signs of recovery in prospect; for the next few years, it is expected to become the engine of space industrial activity. In this connection, mention must be made of the recent important programme guidelines which assign a strategic role to space investments (EU white paper and ESA Agenda 2007), and of the 6th Framework Programme of the European Union which envisages, for the first time ever, the allocation of funds especially earmarked for space

research. Moreover, the geopolitical situation consequent to the recent events of war should give fresh impetus to military programmes.

The first quarter of 2004 saw continuation of the reorganization of the sector's structure and production, aimed at strengthening and consolidating the industrial and financial structure, with a view also to agreements being negotiated with Alcatel. The project entails the transfer of Alenia Spazio S.p.A., with the exception of activities deemed non-instrumental, to the subsidiary (100%) Laben S.p.A., and the implementation of the reorganization plan based on long-range mobility schemes.

The effects of this plan are expected to show starting from the current year and, together with the reorganization actions already carried out both in Alenia Spazio and in Telespazio, should allow steady economic improvement in the short/medium term.

On the commercial side, in the first quarter of 2004, the Group acquired **orders** worth €mil. 88, less than in the same period of 2003, which included the acquisition of a significant portion of the Cosmo-SkyMed Programme. The major acquisitions of the quarter included:

- further tranches of the GSTB-V2, in the frame of the Galileo programme, and of the GOCE scientific satellite, as well as the AGILE and Plank orders;
- the collection of new TV services on the Satellite Digital Platforms (hot bird);
- the renewal of satellite telecommunication services.

The **order backlog** as at 31 March 2004 came to €mil. 1,134, down by about 5%, compared to €mil 1,189 as at 31 December 2003.

The **value of production**, amounting to €mil. 166, mainly regarded:

- for remote sensing and telecommunications, furtherance of the C/D phase (design and start of development) of the Cosmo-SkyMed programme, study of the new Sicral 1-b telecommunications satellite, activities relating to the Sharad radar, devices for the Koreasat satellite, supply of satellite telecommunication services, remote sensing operating services and orbital management of satellites;

- for Television, continuation of resale activities of satellite capabilities and of the supply of DTH broadcasting services;
- for satellite navigation, continuation of the preliminary activities on the Galileo system;
- in the frame of scientific satellites, continuation of activities relating to GOCE and Erschel-Plank;
- in regard to the infrastructure business, continuation of activities regarding the programmes associated with the International Space Station (Columbus Pica and ATV).

“**EBITA**” amounted to €nil. 4, up against the negative figure of the same period of 2003, due to continuation of actions to improve production efficiency, the effects of restructuring actions, increase in in-house activities for the in-sourcing of a number of engineering activities and, finally, improvement of the mix of activities on satellite communication services.

Employees as at 31 March 2004 were 3,762, dropping against 3,792 as at 31 December 2003, owing to the continuation of measures to adjust resources to work loads.

DEFENCE ELECTRONICS

	EUR millions	31 Mar 2004	31 Mar 2003
Orders		309	414
Order backlog		3,553	3,480
Value of production		422	370
EBITDA		33	22
EBITA		21	12
EBIT		12	4
ROS		2.8%	1.1%
Employees (no.)		11,864	10,968

Finmeccanica operates in Defence Electronics through Galileo Avionica, the Marconi Selenia Communications group, the OTE group and Alenia Marconi Systems (AMS) as a 50% equal joint venture with BAE Systems (consolidated on a proportional basis).

Activities include 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 Eurosystay 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, previously under the Defence Systems division. The period data have been appropriately reclassified for comparison.

Note that the figures compared, referring to 31 March 2004 and the same period of 2003, do not include the figures of the OTE group, which was acquired on 4 March 2003. The group specializes in private mobile radio communications and is a major player in the development of new digital radio mobile communication systems (TETRA). Moreover, the figures compared do not include, for 2004, the figures relating to SO.GE.PA - Società Generale di Partecipazioni (ex Marconi Selenia Communications Holding S.p.A.), which,

after changing its trade name and mission in 2003, was duly classified in the Energy, Information Technology and Other Activities sector. The latter sector also includes the 2004 figures of Alelco.

In the first quarter of 2004, Defence Electronics, although affected by the substantial stagnation of demand, affecting in turn the award of new orders, posted positive results, benefiting, as in the last year, from the measures aimed at curbing costs and improving production effectiveness.

Orders, as at 31 March 31 2004, amounted to €mil. 309. The main acquisitions included:

- avionics: orders relating to the laser transmitter for the ALADIN (Atmospheric Laser Doppler Instrument) system, to be installed on ESA's ADM-Aeolus, the satellite for climate and meteorological observation, the second tranche of the supply contract for the PAR radar to France, the supply of avionic equipment for the EFA and the development phase of the fire control radar GRIFO S7 for China;
- for land and naval command and control systems, orders for air traffic control systems in Romania, Algeria and China, and activities for the Korean Navy on the command and control system of the KDX destroyers;
- for systems and integrated communication networks, supply of TSM 305/SS tri-band satellite terminals for VM90 motor vehicles, construction of catchment area centres and relating link to the RNI for the Italian Defence Administration (Teledife) and the production of IFF devices for NATO AWACS;
- for private mobile communications, supply of the TETRA system for PAMR (Public Access Mobile Radio) of the Arab Emirates, for the Emergency Relief Unit of South Korea and for Milan's city police force.

The **order backlog** came to €mil. 3,553, falling by approximately €mil. 35 compared to the figure as at 31 December 2003.

The **value of production** amounted to €mil. 422 (€mil. 370 as at 31 March 2003), a large portion relating in particular:

- to avionics, activities regarding international cooperation programmes, chiefly EFA and EH 101, and logistics activities;
- to radar and command and control systems, activities regarding Orizzonte and Type 45 naval systems, to the development of the Sampson radar, to 3D long range land radar systems, to programmes regarding national and international Air Traffic Control and to customer support;
- to systems and integrated communication networks, the supply and study of the communications system for the Orizzonte latest-generation frigates, and the tactical network formed by shelters equipped with digital switching stations and ATM (Air Traffic Management), and radio links and planning and control system for Teledife;
- to private mobile communications, the supply of an ATC (Air Traffic Control) system for Shanghai airport and the technological upgrading of the analogue devices of vehicle and portable radio systems for the Ministry of Home Affairs.

EBITA showed a significant improvement of €mil. 9 compared to the same period of the previous year, and amounted to €mil. 21, thanks to the contribution of avionic activities, where, besides increasing volumes, there was a more profitable mix of activities than in the past, and of the AMS JV, which benefited from the synergies deriving from continuation of the integration and rationalization plan of Italian and British businesses.

This caused the improvement of **ROS**, amounting to 2.8% as at 31 March 2004, over 1.5 percentage points higher than the figure posted in the first quarter of 2003.

Employees as at 31 March 2004 were 11,864, 40 units less than as at 31 December 2003, regarding Galileo Avionica and AMS.

DEFENCE SYSTEMS

EUR millions	31 Mar 2004	31 Mar 2003
Orders	196	119
Order backlog	4,622	4,122
Value of production	259	198
EBITDA	14	9
EBITA	9	5
EBIT	4	Zero
ROS	1.5%	n.a.
Employees (no.)	4,121	4,186

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.

During the first quarter of 2004, Defence Systems basically confirmed 2003's trend and continued posting positive results both in terms of higher production volumes and higher profitability, thanks also to the benefits deriving from several plans for improving production efficiency and optimisation plans commenced in the previous years.

As at 31 March 2004, the **orders** were worth €nil. 196, up by €nil. 77 compared to the figure recorded in the same period of the previous year.

The major orders involved surface-to-air missile systems for PAAMS (Principal Anti Air Missile Systems) naval platforms, the further development of Exocet anti-ship missiles, the supply of surface-to-air Mistral short-range missile systems to Oman, and for land, naval and air weapons systems, the order for the supply to the Italian Army of Siccona command, control and navigation systems and the order for the supply to Greece of two 76/62 SR cannons and four 30 mm machine guns.

The **order backlog** came to €nil. 4,622, dropping by approximately €nil. 63 compared to the figure as at 31 December 2003.

The **value of production** reached €nil. 259, up by 30% compared to the same period of the previous year, thanks to higher volumes of the MBDA JV.

The figures for the quarter mainly related to activities regarding:

- surface-to-air missile systems for PAAMS naval platforms and FSAF land platforms, the development of the new air-to-air Meteor missile, the *Storm Shadow* air-to-surface missile systems for the British Ministry of Defence and customer support activities;
- in land, naval and air weapons systems, the supply programmes to the Italian Army of the Dardo armoured vehicle, as well as production of 76/62 mm ship cannons;
- in underwater systems, activities relating to the production of the MU90 light torpedoes and to the development of the Black Shark heavy torpedo.

EBITA, which amounted to €nil. 9, was up by €nil. 4 compared to the same period of the previous year, thanks particularly to the significant improvement posted by the MBDA JV, which benefited from both higher volumes and lower staff costs.

ROS, as at 31 March 2004, was 1.5% versus a substantial balance as at 31 March 2003, and was the result of the contribution by the MBDA JV which, despite a much better result compared to 2003, still showed lower profits than sector average.

Employees, as at 31 March 2004, were 4,121, down by 19 compared to the figure as at 31 December 2003.

TRANSPORTATION

	EUR millions	31 Mar 2004	31 Mar 2003
Orders		238	279
Order backlog		3,430	3,103
Value of production		305	301
EBITDA		15	18
EBITA		9	12
EBIT		8	11
ROS		2.6%	3.7%
Employees (no.)		5,891	5,762

The Transportation sector comprises the 100% controlled subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A. (Systems) and the Ansaldo Signal (Signalling) and AnsaldoBreda (Vehicles) groups.

In 2004 the rail and tram systems and components market confirmed the same trend as in the past few years, marked by weak growth on a global scale and by a positive investment trend on the Italian market.

The **orders** acquired in the first quarter of 2004 were worth €mil. 238 against €mil. 279 of the same period of the previous year, down by €mil. 41 due especially to Vehicles.

The period's main acquisitions included:

- for Vehicles: various service orders;
- Systems: changes to order for the Italian High-Speed train system;
- Signalling: automatic train control systems (SCMT) and central static devices in Italy and the second tranche of the *Ouragan* contract for the Paris underground railway relating to the development of the ground signalling system.

As at 31 March 2004, the **order backlog** was worth €mil. 3,430, down €mil. 60 compared to the figure as at 31 December 2003.

The **value of production** of the first quarter of 2004, amounting to €mil. 305, was basically in line with the value of the first quarter of 2003.

The main orders in the Transportation sector included:

- for Vehicles: DMU trains for the Danish Railways, enhancement of the ETR500 trains and the ETR500 multi-voltage locomotives for Trenitalia, various orders of the Sirio Tram;
- Systems: orders relating to the Italian High-Speed train system, the Copenhagen, Genoa, Brescia, Naples and Dublin underground railways;
- Signalling: the High Speed orders in Italy and Spain, central static devices in Great Britain, automatic train control systems in Italy, and the production of components.

EBITA of the quarter came to €mil. 9, falling by €mil. 3 compared to the same period of 2003 and attributable to Vehicles, with **ROS** down from 3.7% to 2.6%.

Employees at the end of the period amounted to 5,891, up by 55 compared to the figure as at 31 December 2003.

ENERGY, INFORMATION TECHNOLOGY and OTHER ACTIVITIES

EUR millions	31 Mar 2004	31 Mar 2003
Orders	229	262
Order backlog	2,133	2,334
Value of production	265	304
EBITDA	(8)	14
EBITA	(17)	3
EBIT	(18)	2
ROS	(6.7%)	0.6%
Employees (no.)	6,186	6,475

The segment includes Ansaldo Energia and investee companies (plants and components for the production of combined and simple cycle power, services and nuclear plants); Eltag and investee companies (Information Technology services); BredaMenarinibus (city and suburban buses); Eltagcom (satellite telephone services); Otto (company for which a final corporate solution is expected in the short term following the settlement of the last contractual disputes); Mecfin (real estate and services management); Iritech (holding an equity investment in Ansaldo Ricerche to carry out the spin-off of branches of business to manage with other synergical partners, such as, for instance, the production of energy through fuel cells with the subsidiary Ansaldo Fuel Cell); Finmeccanica Finance providing financial support to the Group as a whole); "SO.GE.PA. - Società Generale di Partecipazioni", with the centralized management of the pre-liquidation/liquidation processes and streamlining of companies outside the business sectors through transfer/reinvesting operations, and other small companies

As far as the two main production sectors are concerned, note that:

ENERGY

	EUR millions	31 Mar 2004	31 Mar 2003
Orders		52	57
Order backlog		1,706	1,858
Value of production		152	189
EBITDA		5	9
EBITA		2	6
EBIT		2	6
ROS		1.3%	3.2%
Employees (no.)		2,532	2,622

The world power generation market was still affected by a weak trend, with demand expected to stay low also in the following period, with the exception, as seen in the previous year, of China, a market to which Ansaldo Energia has no access, while projects regarding Iraq were postponed due to the war events. The climate was further burdened by the current euro-dollar trend which is detrimental to European companies (like Siemens, ABB, Ansaldo Energia) with respect to strong competition from the US (General Electric). On the Italian market, the Group is awaiting the go-ahead for a number of projects involving the construction of new power plants.

Orders for the quarter were worth €nil. 52, compared to €nil. 57 of the first quarter of 2003, and mainly involved current service acquisitions.

The **order backlog** came to €nil. 1,706 compared to €nil. 1,806 as at 31 December 2003; this will enable the Genoa plant to work at full capacity over the entire year.

The **value of production** amounted to €nil. 152 compared to €nil. 189 of the first quarter of 2003, in line with forecasts; the figure is 20% lower than the previous quarter, due to the steady advancement of order backlog, in particular involving work for Enipower, still not offset by the new Italian contracts, expected as early as the previous

year, for the aforementioned delays in authorization. The quarter's production mainly involved manufacturing work for the Iranian client Mapna, the continuation of Enipower and Tractebel orders, and service and nuclear activities.

EBITA was €mil. 4 lower than the first quarter of 2003 (€mil. 2 compared to €mil. 6), owing to a drop in production volumes and to the different mix where low-profit foreign orders stand out. The year confirms the different seasonal nature of profitability in the Energy sector, with higher margins posted in the second half of the year, due to both the higher incidence of service in the summer period and to external production with more deliveries by suppliers recorded in this period. **ROS**, as at 31 March 2004, amounted to 1.3% compared to 3.2% of the 2003 quarter.

Employees continued to decline (2,532 as at 31 March and 2,573 as at year-end 2003), 41 less than the figure as at 31 December 2003, due to the expected completion of the efficiency plans such as: closing the Legnano unit with the transfer of residual resources to Milan and the staff cuts in the ASPL (Asia Power Projects Private) subsidiary in India, which manages the final phases of work of the Neyveli power plant.

INFORMATION TECHNOLOGY

	EUR millions	31 Mar 2004	31 Mar 2003
Orders		173	189
Order backlog		335	401
Value of production		85	90
EBITDA		4	7
EBITA		1	4
EBIT		1	4
ROS		1.2%	4.4%
Employees (no.)		2,770	2,850

The Information Technology division includes Eltag S.p.A. (100% wholly owned by Finmeccanica 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 quarter of 2004, the **orders** acquired were worth a total of €nil. 173, down by €nil. 16 compared to the same period of the previous year.

As at 31 March 2004, the **order backlog** amounted to €nil. 335, up €nil. 89 compared to the figure as at 31 December 2003.

The **value of production**, amounting to €mil. 85, was €mil. 5 lower than the figure of the first quarter of the previous year.

EBITA for the quarter was €mil. 1, dropping by €mil 3 compared to the figure of the same period of the previous year.

Profitability showed modest results (**ROS** at 1.2% compared to 4.4% of the 2003 quarter), due to persisting difficulty in the IT market.

Employees at the end of the period amounted to 2,770, down by 23 compared to the figure as at 31 December 2003.

STMICROELECTRONICS

Millions of Dollars	31 Mar 2004	31 Mar 2003
Revenues	2,029	1,618
EBIT	80	124
Net profit	77	80
ROS (%) (*)	5.6 %	7.7 %

(*) Before restructuring charges amounting to 33 million dollars as at 31 March 2004 and to zero as at 31 March 2003

STMicroelectronics is one of the world's major manufacturers of semiconductors, and is also a global leader, from development to delivery of devices, in semiconductor solutions for the whole range of microelectronic applications.

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

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

As at 31 March 2004, Finmeccanica held an indirect interest in STMicroelectronics of about 17.47%, valued at equity.

STMicroelectronics showed a strong rise in revenues (+ 25.4% compared to the first quarter of 2003), fuelled by the demand of supplies - by both consolidated strategic partners and by an upsurge in key clients - owing to growth in several segments of reference markets, in particular wireless, automotive and audio, TV decoders, smart cards and flash memories.

The first quarter of 2004 was affected, although not so badly, by the traditional seasonal nature of sales, balanced by an overall higher demand and by a more stable performance of prices in several segments of products, and by stronger impetus to research, whose costs for the period came to 363 million dollars (283 in the same period of 2003, + 28.2%)

and by the persisting competitive pressure on prices, which had already affected the whole of 2003.

Profitability kept high: **Gross profit** in fact was 35.4% (35% in the first quarter of 2003), virtually in line with the results of the 2003 year. **ROS**, due also to the major efforts devoted to research, came to 5.6%.

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