

Rome, 29 March 2004

**Finmeccanica's board of directors has approved the results for 2003: net profit excluding STM advanced 27% to EUR 158 million, value of production rose by 11% to EUR 8.6 billion and new orders were up 5% at EUR 9.1 billion.**

**The group continued to pursue its business expansion strategy without harming profitability.**

**Sound financial structure consolidated, with ample financial flexibility to support expansion of the core business.**

**Restructuring of the Space division completed with a view to potential alliances.**

2003 results were very encouraging and matched Finmeccanica's forecasts, with net profit for the year excluding STM up 27% to EUR 158 million versus EUR 124 million in 2002. This was a highly satisfactory result given the difficult conditions in the aerospace & defence sector. Good performances in defence electronics, defence systems and the transport business were able to carry the company forward, despite the ongoing crisis in the space sector and the faltering recovery in the commercial aircraft industry.

Through sound business and financial management, the group has once again succeeded in expanding, while preserving satisfactory levels of profitability and substantially increasing investment—including R&D (EUR 1,251 million, or 14% of value of production)—confirming the group as Italian market leader in the high-tech industry. This combination of factors, together with growth in new orders (+5%), mean that the company can look to the future and its industrial and strategic development with optimism.

Over the year, Finmeccanica has devised and put into practice an industrial strategy aimed at meeting the challenges posed by the changes under way in the international aerospace and defence market, which will enable it to become an integrator of complex systems together with its role as a supplier of products and systems. These changes have altered the face of the national and international markets: integrated systems are now the order of the day, in areas such as land and sea border control, satellite communication services and air traffic control and security.

Such changes in the competitive environment have naturally benefited Finmeccanica in light of the refocusing strategy introduced by the group in 2002. Finmeccanica has increased industrial integration within the group, exploiting synergies and economies of scale and scope throughout its business by strengthening its organisational structure and stepping up the process of centralising and co-ordinating important functions such as sales and marketing, logistics, product and systems development strategies, finance, process efficiency management, purchasing and services used by all group companies, and financial and industrial contract management systems.

## Key 2003 figures

- **Value of production** climbed by 11% (or EUR 888 million) versus the previous year, from EUR 7,758 million to EUR 8,646 million, boosted by both organic and external growth;
- **Pre-tax profit** came in at EUR 411 million, slightly higher than the 2002 figure (EUR 406 million), despite restructuring provisions totalling EUR 173 million (of which EUR 92 million will be spent on the Space division) and redundancy expenses of around EUR 49 million. These charges were partially offset, however, by capital gains of EUR 140 million from the sale of 9 million shares in STMicroelectronics in the last few months of 2003.
- **Net profit generated by Finmeccanica activities** jumped 27% to EUR 158 million, from EUR 124 million in 2002. Net profit (EUR 199 million versus EUR 203 million in 2002) was in line with the previous year notwithstanding the reduction in the contribution from STMicroelectronics ( EUR 41 million versus EUR 79 million in 2002).
- The increase in net profit was achieved thanks to a major improvement at operating level: group **EBIT** increased from EUR 441 million in 2002 to EUR 467 million in 2003 (+6%), **EBITDA** was up from EUR 698 million in 2002 to EUR 790 million in 2003 (+13%, or EUR 92 million) and **EBITA** advanced from EUR 502 million in 2002 to EUR 549 million in 2003 (+9%, or EUR 47 million).
- **ROI** was 20.2% in 2003, compared to 22.1% in 2002.
- **New orders** were up 5% to EUR 9,136 million, from EUR 8,694 million in 2002. The increase of EUR 442 million is attributable to the positive trend that appeared towards the end of the year in the aeronautics, space and transport sectors, and to the new companies included in the basis of consolidation. The **order backlog** was worth some EUR 22,276 million, an increase of 3% or EUR 568 million from 2002. This is equivalent to around 2.5 years of production.
- **Net debt** totalled EUR 256 million, broadly in line with the 2002 figure (EUR 249 million).
- **R&D spending** increased by 24% in 2003 to EUR 1,251 million (EUR 1,009 million in 2002), or around 14% of value of production

In light of the 2003 results, Finmeccanica's board of directors is to propose a dividend payment of EUR 1 cent per share, unchanged from the previous year.

## Results by sector of activity

- **Aeronautics** (Alenia Aeronautica, Aermacchi)—value of production: EUR 1,318 million (+5%); EBITA: EUR 137 million (-1%);
- **Helicopters** (AgustaWestland)—value of production: EUR 2,594 million (+5%); EBITA: EUR 275 million (-14%). Figures refer to 100% of the joint venture;
- **Space** (Alenia Spazio, Telespazio)—value of production: EUR 767 million (+45%); EBITA: EUR 14 million (EUR 2million);
- **Defence electronics** (Galileo Avionica, Marconi Selenia Communications, AMS, International Naval Systems)— value of production: EUR 1,858 million (37%); EBITA: EUR 160 million (+78%);
- **Defence Systems** (OTO Melara, WASS, MBDA)—value of production: EUR 1,102 million (16%); EBITA: EUR 88 million (+13%);
- **Transport** (AnsaldoBreda, Ansaldo Signal, Ansaldo Trasporti Segnalamento Ferroviario): value of production—EUR 1,320 million (+2%); EBITA: EUR 66 million (+14%)
- **Energy** — value of production: EUR 796 million (-9%), EBITA EUR 23 million (EUR 37 million);
- **Information Technology** — value of production: EUR 401 million (-7%), EBITA EUR 24 million (EUR 27 million);

## The year 2003

During 2003 Finmeccanica consolidated the structure of the group by completing a number of important acquisitions, launching restructuring and rationalisation programmes, and continuing to closely monitor the group's operations in the context of their ability to generate a profit and create value. As part of this process, the group identified several sectors in which it plans to invest, with the twofold aim of making Finmeccanica a leader on the European market (in terms of both technology and market share), and giving the group a more solid presence outside Europe, especially in the US. These activities comprise avionics, military and security communications, air traffic control, underwater systems, helicopters and training aircraft.

As part of this strategic consolidation, the group carried out a number of acquisitions in its core businesses in 2003:

- acquisition of 100% of OTE, which operates in the sector of private radiomobile communications for institutional clients, and in the development of the new TETRA (Terrestrial Trunked Radio) digital standard;
- acquisition of 99.998% of Aeronautica Macchi and, via Marconi Selenia Communications SpA, acquisition of Marconi Mobile Access. This last operation was carried out at a token price following the recapitalisation of the company by its previous owner;
- acquisition of 30% of Avio SpA via the creation of Aero Invest 1 SA in partnership with the Carlyle Group, which owns the other 70%. The total cost for Finmeccanica was EUR 142 million. The assets are worth a total of around EUR 1.5 billion.
- On 3 July Finmeccanica and BAE Systems signed a memorandum of understanding for the creation of a partnership named Eurosystems, which will bring together their respective European activities in the field of defence electronics. The memorandum of understanding was followed by an agreement, signed on 18 March 2004, which sets out the preliminary values of the respective shares and specifies which activities are included in the joint venture.

Finmeccanica implemented a number of operations aimed at strengthening the financial structure of the group. These included two bond issues, one of EUR 501 million convertible into STMicroelectronics shares, and another fixed-rate issue of almost the same value and duration of 15 years. This is a significant new departure for the group, which in the past has concentrated on shorter-term debt: the average life of its debt has now been extended from 2.9 years in 2002 to 6.2 years in 2003. The group's financial structure has thus improved, as the average debt taken on to finance contracts has gradually moved into line with the length of the contracts of themselves (and the life of the underlying assets).

In addition, the group launched a feasibility study last year, to look into the possibility of exploiting the value its real estate, which will conclude in June. The aim is to group together the assets into a single company and generate income from them.

## Outlook

This year Finmeccanica expects to see its revenues increase further. The rationalisation measures already launched in all divisions, together with cross-division initiatives aimed at curbing production costs, should allow the group to generate a higher EBITA result than in 2003. The EBITA margin (EBITA over value

of production) is likely to remain flat versus 2003, but this will still be a positive result given the current uncertain market situation.

Value of production is expected to grow by around 7% in 2004 and 4% in 2005. EBITA is forecast at over EUR 550 million this year and more than EUR 600 million in 2005.

Finmeccanica's constant monitoring of its tax policy, together with the recent reform of corporate income tax (IRES), should provide a boost to the group's profit margins. Capital investment, which is crucial for the development of new products, will be particularly high, and financing this may lead to a rise in Finmeccanica's net debt, although not to unreasonable levels.

Finally, to enable it to implement its current strategic initiatives, the group may need to make selective asset disposals and obtain external financing in order to ensure that its current financial structure does not change significantly.

## **Research and development**

For Finmeccanica and its subsidiaries, research and development is the key to ensuring the constant evolution of all products and strengthening the group's competitive position on the market. In 2003 Finmeccanica spent some EUR 1.2 billion on R&D, of which a large part was aimed at maintaining and advancing the "technology readiness" of the various business units and developing highly strategic "standard" technologies and transversal applications that can be used in many different contexts. In 2003, Finmeccanica's R&D spending played an important role in the group's decision to concentrate on developing its know-how in the area of integrated multi-system architectures, which have much greater added value and respond to recent increased demand for products and services in the fields of "network enabling capability" and "network-centric warfare".

## Consolidated economic and financial situation

Note that Marconi and Telespazio were acquired on 02.08.2002 and 29.11.2002 respectively, while OTE was acquired on 04.03.2003. On 01.07.2003 the group acquired a further 67.31% in Aermacchi SpA (in which Alenia Aeronautica SpA already held 25.46%).

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>			
(EUR 000)	<b>2003</b>	<b>2002</b>	<b>Change %</b>
<b>REVENUES</b>	<b>8.279.420</b>	<b>7.810.847</b>	
<b>VALUE OF PRODUCTION</b>	<b>8.646.211</b>	<b>7.757.865</b>	<b>11%</b>
Costs of goods and services	(5.560.718)	(4.966.545)	
<b>VALUE ADDED</b>	<b>3.085.493</b>	<b>2.791.320</b>	
Labour cost	(2.339.691)	(2.084.340)	
Other provisions	(33.909)	(19.817)	
Provisions for risks and charges	(79.611)	(83.513)	
Other income (charges)	157.850	94.694	
<b>EBITDA</b>	<b>790.132</b>	<b>698.344</b>	<b>13%</b>
Depreciation	(267.156)	(216.087)	
Revenue from capital grants	26.074	19.437	
<b>EBITA</b>	<b>549.050</b>	<b>501.694</b>	<b>9%</b>
<i>EBITA margin (%)</i>	<i>6,4%</i>	<i>6,5%</i>	
Goodwill amortisation	(82.007)	(61.157)	
<b>EBIT</b>	<b>467.043</b>	<b>440.537</b>	<b>6%</b>
<i>EBIT margin (%)</i>	<i>5,4%</i>	<i>5,7%</i>	
Financial income (expenses)	(39.080)	(20.711)	
Exchange rate gains (losses)	(6.257)	2.690	
Increase/decrease in the value of investments	162.058	103.046	
<i>of which STMicroelectronics</i>	<i>41.000</i>	<i>79.000</i>	
<b>PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX</b>	<b>583.764</b>	<b>525.562</b>	<b>11%</b>
Extraordinary income (expenses)	(173.091)	(119.568)	
<b>PRE-TAX PROFIT</b>	<b>410.673</b>	<b>405.994</b>	<b>1%</b>
Tax	(211.416)	(203.293)	
<b>NET PROFIT</b>	<b>199.257</b>	<b>202.701</b>	<b>-2%</b>
<i>Minority interests</i>	<i>(10.592)</i>	<i>(3.344)</i>	
<b>NET ATTRIBUTABLE PROFIT</b>	<b>188.665</b>	<b>199.357</b>	<b>-5%</b>

The 11% rise in **value of production** compared to 2002 was attributable to the consolidation of Marconi and Telespazio for the whole of 2003, when they accounted for around 11% of total value of production. In 2002, the companies were consolidated for five months and one month respectively, and accounted for around 3.5% of value of production. It also included the consolidation of OTE from March 2003 and Aermacchi in the second half of the year (contributing around 2%); and an increased contribution from defence systems, offset by a decline in energy and information technology.

**Personnel costs** rose 12%, owing to an increase in headcount and their average unit cost. The average headcount in the period was 44,958, compared to 41,201 in 2002. This increase was due to the combined effect of a change in the consolidation base and lay-offs.

**Other provisions and provisions for risks and charges**—at EUR 113 million compared to EUR 103 million in 2002—related mainly to trade receivables from Space

Systems Loral Inc, after Loral group companies filed for Chapter 11 bankruptcy in July 2003. Note however that towards the end of the year, the situation changed and was more favourable than initially expected: the company may emerge from the bankruptcy proceedings earlier than other Loral group companies. Provisions have therefore been adjusted to take account of this.

**Other income and charges** were positive, and up on the previous year. They included gains on real estate investments, insurance refunds, use of provisions (EUR 102 million from EUR 74 million in 2002) for contractual, dispute, product, guarantee, fine and other risks, established in previous years and made available as a result of ordinary operations, set against costs incurred over the year, as well as the recovery of receivables from insolvent countries (fully written off in previous years). The income component includes around EUR 12 million received following the renegotiation of receivables and payables between Elsacom and Globalstar LP for the sale of the satellite gateway in Karkkila, Finland. Charges included indirect and direct taxes, fines, contributions to severance funds, and losses on the disposal of assets and on receivables.

**Depreciation** rose following the change in the consolidation base. EUR 205 million related to tangible assets (compared to EUR 163 million in 2002) and EUR 62 million to intangible assets (EUR 53 million in 2002).

**EBITA** increased by over 9% as a result of growth in all companies operating in the defence electronics business, the change in the consolidation base (Marconi accounted for 12% of the EBITA figure in 2003, compared to around 4% in 2002) and growth in the defence systems and transport businesses. This was partially offset by a decline in the helicopters business, due to the lower profitability of work in progress in a highly competitive market, and to the conversion of results of the UK companies in the joint venture from sterling into euro. The energy business declined mainly as a result of provisions made to cover risks relating to activities abroad. Aeronautics was boosted by the consolidation of Aermacchi (around 3% of EBITA) from the second half of 2003.

Note that the significant improvement in full-year operating profit in the space division in 2003—compared to an operating loss of EUR 37 million for the first nine months—is attributable to both the normal seasonal improvement in EBITA (due to the concentration of co and sub-supply contracts in the last quarter of the year) and the reduction in write-down provisions relating to receivables from Loral (which increased EBITA by EUR 8 million), for the reasons referred to in the section on other provisions and provisions for risk and charges. The nine-month figure also included provisions relating to a EUR 10 million contract, which, following the reorganisation of the core business with a view to possible agreements with foreign partners, were restated as extraordinary charges.

The rise in **goodwill amortisation** was mainly due to the inclusion of Aermacchi and OTE in the consolidation base, and the consolidation of Marconi and Telespazio for the whole year instead of just part.

**Financial income and expenses** rose by EUR 18 million, mainly as a result of greater average debt in 2003 (in 2002, the group was cash positive in the first half, but then made significant investments in 2H02 and in 2003); the narrowing of the spread between the rate of interest earned and interest paid due to medium to long-term fixed-rate financing operations carried out in 2003 and declining market rates on current account deposits.

**Net exchange rate losses** (EUR 6 million compared to net gains of EUR 3 million in 2002) were due to the higher hedging costs resulting from the difference between euro and dollar interest rates, and from the acquisition of new companies, which had to be adapted to the group's hedging policy.

The **increase in the value of investments** mainly includes Finmeccanica's share of profit from STMicroelectronics Holding NV (EUR 185 million, from EUR 79 million in 2002), valued, like all the group's non-consolidated holdings, at equity. The 2003 result includes the capital gain of EUR 140 million from the disposal of STMicroelectronics NV shares held by STMicroelectronics NV.

**Net extraordinary income and expenses** included redundancy payments and other restructuring costs net of previously earmarked provisions of EUR 175 million (EUR 74 million in 2002). In particular, restructuring provisions amount to Eur 92m for the Space sectors, following the reorganisation of the core activities with a view to possible alliances with foreign partners; and extraordinary group lay-off charges for about Eur 49m.

**Tax** rose, mainly due to the change in the consolidation base, and included IRAP (EUR 89 million), IRPEG and other direct taxes (EUR 153 million) and deferred tax credits (EUR 30 million). Note that the taxable base is different for IRPEG than for IRAP. According to current estimates there may be some attenuation of the tax burden at the consolidated level, since the group plans to offset current tax credits on distributed profit against infragroup IRPEG tax liabilities, in full compliance with Italian law and regulations.

<b>BALANCE SHEET</b>				
	(Eur 000)	<b>31.12.2003</b>	<b>31.12.2002</b>	<b>Change</b>
Intangible assets		1.198.243	1.219.631	(21.388)
Tangible assets		1.692.357	1.564.822	127.535
Long-term investments		1.418.997	1.447.683	(28.686)
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4.309.597</b>	<b>4.232.136</b>	<b>77.461</b>
Inventory (net of progress billings)		6.719.753	5.698.061	1.021.692
Trade receivables		3.327.889	3.379.066	(51.177)
Other assets		1.136.784	1.354.103	(217.319)
Trade payables		(2.564.344)	(2.658.331)	93.987
Customer advances		(4.231.639)	(4.188.756)	(42.883)
Provisions for risks and charges		(1.107.606)	(1.181.462)	73.856
Other liabilities		(3.317.692)	(2.416.652)	(901.040)
<b>WORKING CAPITAL</b>		<b>(36.855)</b>	<b>(13.971)</b>	<b>(22.884)</b>
<i>of which operating working capital</i>		3.251.659	2.230.040	1.021.619
<b>STAFF SEVERANCE FUND</b>		<b>(714.089)</b>	<b>(664.086)</b>	<b>(50.003)</b>
<b>NET INVESTED CAPITAL</b>		<b>3.558.653</b>	<b>3.554.079</b>	<b>4.574</b>
<i>covered by:</i>				
<b>SHAREHOLDERS' EQUITY</b>		<b>3.302.169</b>	<b>3.305.550</b>	<b>(3.381)</b>
<b>NET DEBT</b>		<b>256.484</b>	<b>248.529</b>	<b>7.955</b>
<b>TOTAL</b>		<b>3.558.653</b>	<b>3.554.079</b>	<b>4.574</b>

**Fixed assets** increased by EUR 77 million, and were the combined result of: a EUR 25 million increase due to OTE's fixed assets, plus EUR 6 million in goodwill; a EUR 138 million increase for Aermacchi SpA's assets plus EUR 51 million in goodwill; a EUR 22 million reduction in goodwill recorded in 2002 following the adjustment of the acquisition price of Telespazio SpA; the investment in Avio SpA via the acquisition of Aero Invest 1 SA for EUR 142 million; the valuation at equity of STMicroelectronics Holding NV (worth EUR 1,123 million at end-2003, from EUR 1,234 million at end-

2002; EUR 179 million of credit reimbursements; and exchange rate losses following the conversion of results in foreign currency (mainly dollars and sterling) into euro.

**Working capital** was negative for EUR 37 million, compared with a negative figure of EUR 14 million at end-2002. **Operating working capital**—consisting of inventory and work in progress, trade receivables, trade payables, customer advances and progress billings, increased by more than EUR 1 billion. This was the combined effect of:

- a EUR 1 billion increase in inventory and work in progress (excluding progress billings of EUR 8,138 million at end-2003, from EUR 7,608 million at end-2002, recorded under the item “customer advances and progress billings”), due to increased spending in the aeronautics division for the start-up of the B757 and A380 programmes; a EUR 435 million contribution from AerMacchi; the consolidation of OTE (EUR 32 million); and higher volumes in defence systems and defence electronics;
- a rise of EUR 43 million in trade receivables net of trade payables, the combined result of higher receipts from customers in the aeronautics, helicopters and energy divisions, and of increased payments to suppliers by the space and transport divisions;
- a EUR 43 million increase in advance payments from customers (recorded under the item “customer advances and progress billings”), due to increased missile production in the defence systems division and receipts in the aeronautics division (Eurofighter GmbH), offset by a reduction in helicopters due to billing.

### Cash flow statement

For the cash flow statement please see the international tables at the end of this press release.

<b>DEBT</b>			
	(EUR million)	<b>31/12/2003</b>	<b>31/12/2002</b>
Short-term debt		86	215
Current portion of medium- to long-term debt		84	48
Medium- to long-term debt (net of current portion)		2.304	1.370
Cash on hand or equivalent		(2.234)	(956)
<b>NET BANK DEBT</b>		<b>240</b>	<b>677</b>
Interest-bearing securities		(20)	(29)
Government bonds		(63)	(71)
Loans to third parties		(504)	(557)
Loans to subsidiaries and affiliated companies		(116)	(276)
Loans from subsidiaries and affiliated companies		440	371
Liabilities to industry ministry (MAP)		65	51
Other financial liabilities		214	83
<b>NET DEBT</b>		<b>256</b>	<b>249</b>

**Net debt** in 2003 followed its typical “seasonal” trend, in which spending is generally concentrated in the first half of the year (the figure at 30 June was EUR 528 million), while receipts—especially those from the Italian public administration—come mainly in the second half. The group also recorded early receipts, which had been expected in 2004. This could have an impact on the debt figure for 2004.

Last year a series of events had a significant effect on year-end debt. These were: the payment of EUR 3 million in March for the acquisition of OTE SpA; payment of an ordinary dividend of EUR 84 million to shareholders in June; payment of a total of EUR 168 million for the acquisition of AerMacchi SpA; payment of EUR 142 million in September for a stake in Avio SpA

(via the acquisition of Aero Invest 1 SA); receipt of an ordinary dividend of EUR 12 million from STMicroelectronics Holding NV in April; extraordinary dividends received from STMicroelectronics Holding NV when 9,000,000 shares in STMicroelectronics NV were sold between September and December 2003 (over EUR 205 million); and EUR 22 million received from Telecom Italia SpA as an adjustment to the acquisition price of Telespazio SpA, bought in November 2002.

Finmeccanica also benefited from the offsetting of tax payables against 2002 tax credits by some group companies, including Finmeccanica SpA, which caused debt to fall by a total of around EUR 79 million.

In 2003 the group's Luxembourg-based subsidiary, Finmeccanica Finance SA, issued two bond loans, backed by Finmeccanica SpA. Between August and December, these issues brought in financial resources of more than EUR 1 billion, extending the average life of the group's debt, and providing it with the means to redeem the Finmeccanica SpA bond issue maturing in June 2005. The two operations had different features. Specifically:

- in August and September 2003 a first issue of EUR 501 million was launched in two tranches. The issue was offered exclusively to institutional investors and was listed on the Luxembourg bond market. It pays a 0.375% coupon, payable annually in arrears, and has a duration of seven years. From 2 January 2004, holders will be able to convert the bonds into a maximum of 20 million STMicroelectronics NV (STM) shares, indirectly owned by Finmeccanica SpA, at a price of EUR 25.07 per share. They may alternatively redeem their bonds at par in cash upon maturity. If holders choose not to convert their bonds, Finmeccanica Finance SA will have the right to repay the loan upon maturity in cash, or with 20 million STM shares valued at market prices and the remainder in cash. The operation has enabled the company to capitalise on the volatility of the STM share price and potentially reduce its indirect stake in the company. All the proceeds from the issue went to Finmeccanica SpA.
- The second issue of EUR 500 million was launched in December 2003 as part of the Euro Medium Term Notes (EMTN) programme already listed on the Luxembourg bond market. It too was placed with institutional investors. It pays a fixed coupon of 5.75%, payable annually in arrears, and has a duration of 15 years. The coupon was set at the Euribor rate on the issue date plus 93 basis points. The entire issue was converted from a fixed rate to a variable rate for the first two years. In this case too, all the proceeds went to Finmeccanica SpA

In 2003 the group introduced a new system in which cash reserves are centralised at the parent company (implementation began in 2002), enabling it to manage the financial resources (euro-denominated transactions only at the moment) of all its wholly-owned subsidiaries, as well as to optimise treasury management and reduce costs. In addition, the group signed agreements with the Alenia Marconi Systems (AMS) and AgustaWestland joint ventures (following that already signed with MBDA) under which these companies will also deposit their surplus cash (after deducting operational requirements) with their shareholders in proportion to their respective stakes, enabling Finmeccanica to use these resources in its financial transactions. Note that at 31 December 2003, almost all group debt was owed by the parent company and Finmeccanica Finance SA.

The process of centralising the group's treasury management system also involves the issue of guarantees and exchange rate operations.

As part of the new system, group companies have harmonised their forex risk management criteria, which are solely concerned with hedging, rather than speculative transactions. This is to minimise risks through a cautious and ongoing review of all foreign currency positions. The process involves systematic hedging of

financial flows relating to receivables and payables in respect of contractual commitments of a certain nature, so that exchange rates in force on the date a multi-year contract is signed can be fixed. These hedging transactions are taken out with banks by Finmeccanica's central cash management department, and then transferred to the group's subsidiaries.

**Net bank debt and bonds** fell from EUR 677 million at 31 December 2002 to EUR 240 million at 31 December 2003 owing to a further drop in short-term debt, as the company paid off large bank loans, partly as a result of the reorganisation of its cash management system; an increase in medium/long-term debt, mainly because of the bonds issued in 2003 by Finmeccanica Finance SA after the group decided to extend the average term of its debt; an increase in cash reserves, largely due to the proceeds of the two bond issues, as well as cash flow generated from operations. A large proportion of the group's cash reserves (EUR 1,552 million) is managed by the parent company, and is currently deposited with Italy's leading banks. Some EUR 290 million is managed by Finmeccanica Finance SA, and EUR 172 million represents cash held by the three joint ventures AgustaWestland, AMS and MBDA for their short-term operational requirements, excluding the amounts already paid to shareholders under the respective agreements. The balance chiefly comprises the cash reserves of each group company in currencies other than euro.

Lastly, please note that the item **loans to third parties** includes around EUR 450 million of loans owed by the other shareholders to the joint ventures, which—in accordance with the accounting policy adopted—are consolidated in proportion to the percentage owned.

The item **loans from subsidiary and affiliated companies** includes a loan of EUR 418 million to group companies from the joint ventures (proportion not eliminated in the proportional consolidation of the joint venture).

The organisation of the group into parent company, subsidiaries and joint ventures, in individual industrial sectors, principally aims to ensure that all activities are run as efficiently as possible both in Italy and abroad. The organisational structure therefore comprises a large number of operating companies based in the countries where their activities are carried out, as well as some service companies that are waiting for official notification that their entry on the companies' register in the country in which they are based has been cancelled. These are not covered by the regulations set out in the Economic and Finance Ministry decrees of 21 November 2001 and 23 January 2002, relating to privileged tax regimes.

<b>SHARE DATA</b>	<b>2003</b>	<b>2002</b>	<b>Change %</b>
Average number of shares issued	8.434.411.773	8.426.650.986	
Average number of "fully diluted" shares**	8.988.053.102	8.919.411.717	
EPS issued incl. STM (euro cents)	2,36	2,36	0%
Fully diluted EPS incl. STM (euro cents)	2,22	2,23	-1%
EPS issued excl. STM (euro cents)	1,88	1,43	32%
Fully diluted EPS excl. STM (euro cents)	1,76	1,35	31%
Dividend per share (euro cents)	1,0*	1,0	0%

\* proposed dividend subject to approval of shareholders' meeting.

\*\* Includes:

- the bond convertible into 468,254,250 ordinary Finmeccanica shares, issued at a face value of EUR 1.875 and convertible at the rate of one bond per share, between 08.06.2000 and 08.06.2005;

- please note that an incentive scheme under which a maximum of 35,000,000 ordinary shares with face value of EUR 0.22 each are reserved for subscription by senior managers of Finmeccanica SpA or its subsidiaries was approved at the shareholders' meeting held on 23.11.1999, when the appropriate powers were delegated to the board of directors.

When the scheme was closed, a total of 17,287,755 options had been reserved for subscription to Finmeccanica shares, of which 13,657,004 had been exercised. The capital increase relating to these shares has already been carried out, and there are 3,630,751 options remaining to be exercised by 6 July 2004.

At the ordinary and extraordinary shareholders' meetings held on 16.05.2003, a new long-term incentive plan (LTIP) was approved for key personnel of Finmeccanica SpA and its subsidiaries, under which subscription rights (options) for ordinary shares in Finmeccanica SpA will be awarded on condition that certain objectives are met. Each option will give the right to buy one Finmeccanica share at a price of not less than the Normal Value (established at EUR 0.70), in order to ensure the efficiency of the scheme for tax purposes. In relation to this resolution, on 12/11/2003 the board of directors converted the original long-term incentive scheme approved on 14/11/2002 (also offered to top management and key personnel of Finmeccanica SpA and its subsidiaries) to the new one. The new plan will include up to 150,000,000 shares, which may be made available via the issue of new shares and/or the buy-back of own shares. The board of directors will have the option to choose which method to use depending on the stock's performance and growth prospects at the time the shares are awarded.

## Results by sector of activity

### Aeronautics—Alenia Aeronautica, Aermacchi

Value of production: EUR 1,318 million (+5%); EBITA: EUR 137 million (-1%)

Finmeccanica is present in the sector via Alenia Aeronautica and Aermacchi, which became part of the group on 1 July 2003. During the year, Alenia Aeronautica continued to implement measures aimed at maintaining operating flexibility and keeping down costs. In 2003 Alenia Aeronautica, as well as signing important industrial agreements with Vought for the new 7E7 Dreamliner aircraft and with Boeing for the exclusive licence to convert the B767-200 from a passenger to a cargo version, also achieved major commercial success in the military sector: 12 C-27J tactical transport aircraft plus three options for the Greek air force, and the confirmation of seven options for the same aircraft for the Italian air force, taking the total number of aircraft ordered by Italy to 12. At the end of 2003 a total of 24 C-27J aircraft had been ordered. As regards the AMX, a contract was signed in December 2003 with the Italian air force for the modernisation of 55 aircraft. Lastly, Officine Aeronavali Venezia signed a contract with Boeing to convert four B767s to tanker versions destined for the Italian air force.

In 2003 activities in the military segment mainly involved EFA production and logistics (at the end of the year three aircraft were presented to the Italian air force for testing), upgrades of Tornado and AMX aircraft, production of C-27Js and the MB339 training aircraft and development of the new advanced M346 aircraft. In addition, Alenia Aeronautica engineers began work at Lockheed Martin for the development phase of the F-35 Joint Strike Fighter. In May 2003 the demonstrator model for a newUCAV (Unmanned Combat Air Vehicle) was rolled out. Production in the civil segment was again hit by a reduction in output by the major aircraft manufacturers. The division continued to supply the world's main manufacturers of commercial aircraft with the production of components for Boeing B717, B757, B767 and B777 models and Airbus A300, A340, A321 and A380 models. In the area of regional transport aircraft, the activities of ATR Integrated, a partnership with EADS for the production of the ATR 42/72 are still ongoing, as is the project with Dassault Aviation for the production of Falcon 2000ER and Falcon 900EX components.

The division secured orders worth EUR 1,401 million in 2003 (EUR 1,142 million in 2002). The order backlog at 31 December 2003 was worth EUR 4,075 million, from EUR 3,688 in 2002. Value of production also increased, thanks to activities relating to the Eurofighter programme and in Aermacchi's defence business. **EBITA** was broadly flat on the previous year, at EUR 139 million. Research and development spending came to EUR 241 million, and was mainly used in the areas of aerostructures and systems integration. The headcount at 31 December 2003 was 10,443, including 8,681 employees at Alenia Aeronautica and 1,762 at Aermacchi. This represents a reduction of 374 compared with 31 December 2002.

### Helicopters—AgustaWestland

Value of production: EUR 2,594 million (+5%); EBITA: EUR 275 million (-14%). Figures refer to 100% of the joint venture.

Finmeccanica is a leading player in the global helicopter industry through AgustaWestland, a joint venture with the British group GKN. In 2003 AgustaWestland continued its strategy of penetrating markets in which it was previously considered difficult to build a presence. These include the US market, in which an agreement was reached with Bell Helicopter for the production of the EH101 for that market. In Japan an agreement was reached with Kawasaki Heavy Industries for a total of 14 EH101s for the country's navy. In 2003, the A109 Power helicopter, with 73 units ordered, acquired the record for the highest number of units sold in a single year in the Light Twin category. The year's other main orders included four Super Lynx 300 navy helicopters for the National Defence Force of South Africa, 11 A109 Power helicopters for the Malaysian army and 20 NH90 helicopters for Greece.

New orders totalled EUR 1,794 million, down from EUR 2,536 million the previous year, when the figure was boosted by two large contracts to supply 12 EH101 aircraft to the Portuguese government and 16 Super Lynxes to the Omani air force, worth a total of around EUR 800 million. The size of these two orders and negative movements in the EUR/GBP exchange rate were the main reasons for the 13% drop in the value of orders compared to 31 December 2002; nevertheless, the order backlog was worth a significant EUR 6,206 million, equivalent to around

2.5 years' value of production. 2003 EBITA suffered, compared to the 2002 figure, from the impact of the conversion of results in foreign currency into euro. Research and development spending of EUR 446 million was largely used on the development of the new AB139 and the BA609 tiltrotor (during the year AgustaWestland increased its contribution to the programme, which to date has accumulated 15 flight hours, with the aim of developing multi-purpose versions for government use). The headcount at AgustaWestland was 8,992 at 31 December 2003, an increase of 50 on the end-2002 figure.

### **Space—Alenia Spazio, Telespazio**

Value of production: EUR 767 million (+45%); EBITA: EUR 14 million (EUR 2 million in 2002).

Finmeccanica operates in the space industry through Alenia Spazio (which produces space infrastructure and scientific telecommunication, remote sensing and payload satellites) and Telespazio (earth stations, telecommunications services, TV and earth observation). The latter became part of Finmeccanica at the end of 2002, and its results were consolidated only for December of that year. Comparisons with 2002 are therefore not meaningful.

As the commercial space sector is still in the middle of a slump, government and institutional demand is expected to be the main driver of the recovery in the space business as a whole over the next few years. Following the EU's decision to give the go-ahead for the development phase of the Galileo programme, Finmeccanica joined Alcatel and Vinci Concessions in preliminary bidding for the Galileo concession; the results are expected to be announced this year. In March 2003 the Italian Space Agency awarded another tranche of work on the Cosmo-SkyMed system to Finmeccanica; negotiations for the rest of the system should be concluded this year. The group also signed a preliminary contract with the Italian defence ministry for the development of a new SICRAL defence telecommunications satellite.

As well as suffering the effects of the difficult market situation, the division was also hit by extraordinary restructuring provisions and write-downs totalling EUR 81 million by all companies, especially Alenia Spazio and its subsidiaries. In the second half of 2003 the group set out a restructuring and rationalisation plan aimed at strengthening and consolidating the industrial and financial aspects of the business with a view to possible future partnerships with foreign companies. The plan involves transferring the whole of one division (excluding non-core activities) from Alenia Spazio SpA to its wholly-owned subsidiary Laben SpA, and implementing a restructuring plan of temporary staff layoffs. In this way, the two companies' production activities and processes will be integrated and rationalised so as to create significant synergies. The plan should begin to bear fruit in 2004, and together with the restructuring already carried out at Alenia Spazio and Telespazio, should lead to a gradual improvement in the division's finances in the short to medium term.

In 2003 the division secured orders worth EUR 672 million relating to the Cosmo-SkyMed, Goce, Koreasat 5, Sharad (NASA's "Mars Reconnaissance Orbiter" mission), SICRAL 1-b, ATV and Meteosat Second Generation programmes. At end-2003 the order backlog was worth some EUR 1,189 million, compared with EUR 1,277 million at end-2002 (when, moreover, a number of multi-year contracts to sell space capacity were renewed). EBITA was positive but unsatisfactory. Profitability was impacted by risk provisions relating to trade receivables from Space Systems Loral, which filed for Chapter 11 bankruptcy in July 2003, although these were partly offset by the positive effects of the restructuring and rationalisation plan. Research and development spending totalled EUR 105 million. The headcount stood at 3,792 at end-2003, down 128 on the previous year.

### **Defence electronics—Galileo Avionica, Marconi Selenia Communications, AMS, Horizon Naval Systems**

Value of production: EUR 1,858 million (+37%); EBITA: EUR 160 million (+78%)

Defence electronics activities include the production of avionics equipment, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communications networks for land, naval, satellite and avionic applications, and private radiomobile communications. A like-for-like comparison with 2002 is not possible, owing to the

change in the consolidation base following the acquisition of Marconi Mobile (subsequently renamed Marconi Selenia Communications) in August 2002, and of OTE.

Companies operating in this division are increasingly dealing with the need to adapt their products to governments' requirements for ever more integrated solutions. This market is expected to grow at some 5% a year between 2003 and 2008.

Last year the division received orders totalling EUR 1,940 million. Orders included those to provide radar systems to Poland, Greece, Pakistan, France and India; work on the Eurofighter; orders for various space programmes of the Italian Space Agency and the European Space Agency; the contract to supply Mirach 100/5 target simulators to the UK; and the order to make infrared binoculars for the Italian army. In the naval field, a contract was signed to supply the first Sampson radar for the British Royal Navy's Type 45 fighter aircraft, and another for work on the Italian navy's new aircraft carrier (NUM). In the area of air traffic control, the division also secured an order to supply radar systems to Indian airports, while in communications systems it won contracts relating to the Eurofighter and Horizon programmes, and to the Teledife tactical network. In private mobile communications, orders included providing TETRA systems to Russia and the Italian interior ministry.

The order backlog was worth some EUR 3,588 million, compared with EUR 3,451 million in 2002. This is equivalent to around two years of production. The 37% increase in value of production was due to the contribution from Marconi Selenia Communications and OTE, and to increased avionics activity. EBITA was EUR 160 million (compared with EUR 90 million in 2002). The figure benefited from the change in the consolidation base, and from a significantly improved performance from all companies in the division, including the AMS joint venture, whose EBITA margin jumped by around 2 percentage points. Research and development costs went up by EUR 110 million to EUR 402 million. The headcount at end-2003 was 11,904, an increase of 872 on the end-2002 figure.

#### **Defence Systems—OTO Melara, WASS, MBDA**

Value of production: EUR 1,102 million (16%); EBITA: EUR 88 million (+13%).

The defence systems business includes missile systems (MBDA, a joint venture with BAE Systems and EADS), land, naval, air, underwater and sonar systems.

The defence systems market has been the hardest hit by new operational requirements, which means that projects to develop new products have been downsized and/or delayed for both the national and international markets. New orders in 2003 totalled EUR 1,594 million. A particularly big order (especially given its value: EUR 2.3 billion) was the FSAF Phase 3 contract secured by MBDA to supply the Italian, French and UK defence ministries with land and naval air defence missile systems (1,400 Aster missiles, of which 400 are for Italy, and 18 SAMP-T land-based anti-aircraft batteries).

The order backlog, excluding work in progress, came to EUR 4,685 million, up EUR 486 million on the figure at end-2002. This is equivalent to around four years' value of production. EBITA was up EUR 10 million on the previous year, mainly due to a markedly improved performance from OTO Melara, thanks to more profitable activities than in the past and greater efficiency. As in 2002, WASS continued to show excellent profitability, with an EBITA margin stabilising above 20%.

Research and development spending rose EUR 34 million, from EUR 194 million in 2002 to EUR 228 million. The headcount at 31 December 2003 was 4,140, a fall of 66 on the end-2002 figure.

#### **Transports—AnsaldoBreda, Ansaldo Signal, Ansaldo Trasporti Segnalamento Ferroviario**

Value of production: EUR 1,320 million (+2%); EBITA: EUR 66 million (+14%).

The transport business comprises companies operating in rail signalling systems, vehicles and the supply of complete transport systems.

During 2003, the global market for rail and tram systems and components continued the moderate growth of recent years, with Europe the most important region by size and in terms of growth prospects. In Italy, recent orders bear witness to an upturn in investment. New orders in 2003 totalled EUR 1,717 million, a rise of EUR 227 million in 2002, mainly because of higher vehicles orders. The main orders included double-decker electric trains for Moroccan Railways, trams for Los Angeles, trains for Ferrovie Nord regional and airport services in Milan, vehicles for the Brescia driverless metro and the revamping of coaches for Trenitalia and the Paris metro (RATP). Contracts

in the systems business included those for the Brescia driverless metro, the Florence tram network and upgrade orders for the Copenhagen driverless metro and the Italian high-speed train system. The group also secured major orders in the UK, Italy, France and the US in the signalling business. At end-2003, the order backlog totalled EUR 3,490 million, up EUR 352 million (11%) on the figure for 2002. EBITA also rose, as did the EBITA margin (from 4.5% to 5%), thanks to an improved performance from signalling and systems. Research and development costs rose EUR 4 million to EUR 31 million owing to increased activity in signalling. The headcount at end-2003 was 5,836, an increase of 86 on 2002.

### **Energy**

Value of production: EUR 796 million (-9%), EBITA EUR 23 million (EUR 37 million);

The electricity generation market remains weak, but the services market is growing. Against this backdrop, the energy division focused on increasing the value of its power generation business and strengthening its services segment, which accounted for 17% of total orders in 2003. Orders in 2003 were down on the previous year due to difficulties on the Italian market. However, 80% of total orders were generated abroad, a figure that rises to over 90% for the nuclear division. Value of production was 10% lower than in 2002. EBITA came out at EUR 23 million (EUR 37 million in 2002), and included provisions of EUR 16 million for the Indian subsidiary ASPL to cover risks relating to the completion of a contract. Excluding these provisions, profitability improved on the previous year, thanks partly to a strategic reorganisation process. The headcount was down 87 on the previous year.

### **Information Technology**

Value of production: EUR 401 million (-7%), EBITA EUR 24 million (EUR 27 million);

As in 2002, the IT market continued to be affected by a slowdown in 2003 and there are no signs of a recovery as yet. This has increased competitive pressures and reduced average profitability in the sector. The division secured orders worth EUR 382 million in 2003, compared to EUR 599 million in 2002; the difference of EUR 217 million compared to the previous year was mainly due to an important postal automation contract secured in 2002. At 31 December 2003, the order backlog was EUR 246 million, down EUR 54 million on the previous year. Value of production totalled EUR 401 million, down EUR 30 million on the figure for 2002. EBITA declined EUR 3 million to EUR 24 million, while the EBITA margin fell from 6% to 5.7%. The headcount at 31 December 2003 was 2,793, a decrease of 76 on the end-2002 figure.

Results by sector of activity for 2003 and 2002 (tables)

2003 RESULTS (EUR million)	Aeronautics	Helicopters	Space	Defence Electronics	Defence Systems	Transport	Energy, IT and other activities	Eliminations	TOTAL	of which Energy	o/w IT
Value of production	1.318	1.297	767	1.858	1.102	1.320	1.276	(292)	<b>8.646</b>	796	401
EBITA	137	137	14	160	88	66	(53)		<b>549</b>	23	24
EBITA margin (%)	10,4%	10,6%	1,8%	8,6%	8,0%	5,0%	-4,2%		<b>6,4%</b>	2,9%	6,0%
EBIT	133	128	5	127	68	61	(55)		<b>467</b>	23	23
Depreciation and amortisation*	59	30	46	92	41	31	50		<b>349</b>	13	15
Investments in non-current assets	144	16	20	73	37	19	37		<b>346</b>	10	8
Research and development costs	241	223	105	402	228	31	21		<b>1.251</b>	5	12
New orders	1.401	897	672	1.940	1.594	1.717	1.170	(255)	<b>9.136</b>	676	382
Order backlog	4.075	3.103	1.189	3.588	4.685	3.490	2.146		<b>22.276</b>	1.806	246
Headcount	10.443	4.496	3.792	11.904	4.140	5.836	6.250		<b>46.861</b>	2.573	2793

2002 RESULTS	Aeronautica	Elicotteri	Spazio	Defence Electronics	Defence Systems	Transport	Energy, IT and other activities	Eliminations	TOTAL	of which Energy	o/w IT
EUR million											
Value of production	1.261	1.238	528	1357	952	1.289	1.384	(251)	<b>7.758</b>	879	431
EBITA	139	159	2	90	78	58	(24)		<b>502</b>	37	27
EBITA margin (%)	11,0%	12,8%	0,4%	6,6%	8,2%	4,5%	-1,7%		<b>6,5%</b>	4,2%	6,3%
EBIT	139	150	(2)	68	58	53	(25)		<b>441</b>	37	26
Depreciation and amortisation*	37	31	17	65	38	32	57		<b>277</b>	14	15
Investments in non-current assets**	103	15	127	237	42	21	36		<b>581</b>	15	10
Research and development costs	135	236	104	292	194	27	21		<b>1.009</b>	3	14
New orders	1.142	1268	371	1.567	1.565	1.490	1.593	(302)	<b>8.694</b>	905	599
Order backlog	3.688	3.573	1.277	3.451	4.199	3.138	2.382		<b>21.708</b>	1.991	300
Headcount	9.055	4.471	3.920	11.032	4.206	5.750	6.529		<b>44.963</b>	2.660	2869

\*Including goodwill amortisation

\*\*Including any goodwill relating to group companies. In 2002, investment totalled EUR 186 million for Marconi and EUR 92 million for Telespazio

<b>CONSOLIDATED CASH FLOWS</b>	<b>2003</b>	<b>2002</b>
	(in EUR million)	
CASH FLOW FROM OPERATING ACTIVITIES		
<b>NET PROFIT (LOSS)</b>	<b>199</b>	<b>200</b>
<i>Reconciliation of net profit (loss) with cash flow generated by (utilised in) operating activities</i>		
Minority interests	7	3
Extraordinary and restructuring charges, net of cash	134	46
Depreciation and amortisation	375	258
Provisions for staff severance fund	100	87
Valuation of STMicroelectronics at equity	(185)	(79)
Net write-downs of inventories, shareholdings, securities and other	64	27
(Profit) loss on disposal of other assets	1	-6
Staff severance payments	(82)	(68)
<i>Changes in operating assts and liabilities</i>		
Customer receivables	203	(346)
Inventory and contract work in progress	(672)	(386)
Trade payables	(52)	28
Customer advances	68	282
Other, net	336	383
<b>CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES</b>	<b>496</b>	<b>429</b>
CASH FLOW FROM INVESTMENTS		
Increases in tangible and intangible fixed assets	(279)	(304)
Acquisition of Marconi e Telespazio, net of cash	0	(632)
Acquisition of Aermacchi e Avio Invest 1, net of cash	(281)	0
Acquisition of other assets net of cash, amounts covering losses of non-consolidated companies and other changes in consolidation area	(22)	(8)
Proceeds from the sale of tangible and intangible assets and investments	18	75
Dividends from STM	217	8
Dividends from other shareholdings	3	0
Net change in other investments	259	(39)
Government grants and subsidies	62	39
<b>CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES</b>	<b>(23)</b>	<b>(861)</b>
CASH FLOW FROM FINANCING ACTIVITIES		
Share capital increase	1	1
Dividends paid	(84)	(84)
Bonds issued	1.001	297
Proceeds from medium- to long-term debt issued	21	22
Repayment of medium- to long-term debt	(70)	(559)
Net change in short-term financial debt and other financial debt	(64)	(487)
<b>CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES</b>	<b>805</b>	<b>(810)</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>1278</b>	<b>(1.242)</b>
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	956	2.198
CASH AND EQUIVALENTS AT END OF PERIOD	2.234	956