

FINMECCANICA

NINE – MONTH REPORT 2003

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The Finmeccanica Group

Management report for the period ended 30 September 2003

Results for the first nine months of the year

Finmeccanica's financial position and results for the first nine months of 2003 were broadly in line with forecasts. Although lower than the figures posted for the same period last year, the results are satisfactory given the economic and market difficulties currently experienced by several of the group's core sectors. The group also succeeded in maintaining the financial solidity essential to secure the day-to-day operation of its industrial activities and ongoing development of its strategic initiatives.

Despite significant growth in value of production (up 12% on the first nine months of 2002), reflecting not only organic growth in the business but also the first-time consolidation of Marconi, Aeronautica Macchi, Telespazio and a number of smaller acquisitions, the group suffered a slight dip in its EBITA margin, from 4.8% to 4.1%. This decline was for the most part attributable to the weaker (but still positive) performance of the Aeronautics business, which is having to contend with both fragility in the civil sector and the continuing crisis in the Space industry—a crisis to blame for the losses suffered by group companies active in this sector. Improvements in other sectors more directly linked with the defence industry (helicopters, avionics and land and underwater defence in particular) were insufficient to fully offset these declines and losses.

The nine-month figures of Finmeccanica subsidiary STMicroelectronics NV (STM) were also weaker than the results posted for the same period last year. The group's share in the subsidiary's earnings was therefore also lower, falling from EUR 53 million to EUR 19 million and affecting the bottom line accordingly.

To counter an increase in net financial expenses (albeit an increase considerably less severe than anticipated) linked to investments in strategic holdings concluded in the period, Finmeccanica

sold four million of its shares in STM when equity market conditions were favourable, realising a capital gain of EUR 59 million. With extraordinary expenses —linked mainly to restructuring operations—coming out in line with figures for the first nine months of 2002 (EUR 53 million compared with EUR 55 million last year), Finmeccanica was able to post a pre-tax profit of EUR 198 million, of which EUR 19 million came from its share in the earnings of STM and EUR 179 million was generated by the group's other businesses (outstripping the EUR 165 million, net of STM's EUR 53 million contribution, recorded in the same period in 2002). However, tax provisions were particularly high, at EUR 129 million, during the period, since under current law, the group is not permitted to offset the profits of one company against the losses of another for tax purposes. As a result, the group's net profit for the first nine months came out at EUR 69 million, down from EUR 107 million in the same period last year.

EUR m	1.1 - 30.9.2003				1.1 - 30.9.2002			
Sectors	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	860	76	44	42	880	116	96	96
Helicopters	937	103	88	81	898	107	90	83
Space	486	(8)	(37)	(44)	350		(8)	(8)
Defence electronics	1,246	99	70	44	759	52	32	22
Defence systems	705	54	42	27	630	46	35	20
Transport	917	56	38	35	900	52	33	29
Energy, IT and other activities	947	28	(4)	(5)	992	17	(24)	(26)
Eliminations	(175)				(121)			
	5,923	408	241	180	5,288	390	254	216

Orders taken by the group in the nine months under review were worth a total of EUR 5,604 million (versus EUR 5,132 million in the first nine months of 2002). The increase in orders is attributable not only to the contribution of companies acquired since September 2002 but also to a greater number of military contracts and less civil sector contracts. The new contracts won give the group a significant order backlog of EUR 21,452 million at 30 September 2003, compared with EUR 21,708 million at 31 December 2002, equivalent to almost three years' activity. The difference between the size of the order backlog at 30 September 2002 (EUR 19,393 million) and that at 30 September 2003 is partly attributable to the first-time consolidation of the companies mentioned above.

At 30 September 2003 the group had a total headcount of 46,920, an increase of 1,957 on the end-2002 figure of 44,963 (39,993 at 30 September 2002).

Third-quarter results

In the third quarter of 2003 the group posted figures in line with, and in some cases higher than, figures posted for the first half, although they were lower than those recorded for the third quarter of 2002.

There was no rise in the EBITA margin to match the 7.6% increase in value of production. The margin stood at 4.5%, down from 4.9% in the third quarter of 2002. The third-quarter figure nonetheless marks an improvement on the first half of the year, when operating profit was just 3.9% of value of production.

EUR m	Third quarter 2003				Third quarter 2002			
Sectors	Value of production	EBITDA	EBITA	EBIT	Value of production	EBITDA	EBITA	EBIT
Aeronautics	284	23	9	7	289	31	25	25
Helicopters	277	28	23	21	272	27	21	19
Space	150	7	(2)	(4)	128	1	(2)	(2)
Defence electronics	393	28	20	11	248	21	15	11
Defence systems	225	17	12	7	215	18	13	8
Transport	298	25	20	18	300	20	14	13
Energy, IT and other activities	293	12	2	2	323	13	(1)	(1)
Eliminations	(52)				(40)			
	1,868	140	84	62	1,735	131	85	73

The third quarter also brought an increase in net financial expenses, attributable to investments concluded in the period, in particular the acquisition of 67.2% of Aeronautica Macchi and 30% of Aero Invest 1 SA (the company holding Finmeccanica's stake in Avio SpA). During the quarter Finmeccanica also sold four million indirectly owned STM shares, for a capital gain of EUR 59 million. STM itself registered a net loss, trimming EUR 8 million from the group's bottom line. The third quarter also accounted for a sizeable proportion of the EUR 21 million in total net ordinary expenses incurred in the first nine months (due partly to restructuring operations); this figure was considerably higher than the EUR 2 million recorded in the same period last year.

Tax provisions posted in the period came to EUR 34 million, in line with provisions recorded in the third quarter last year. Net profit for the quarter was therefore EUR 41 million, down from EUR 63 million in the third quarter of 2002.

Asset and financial structure

Careful management of financial flows and assets has enabled Finmeccanica to keep a tight rein on net invested capital despite its considerable commitment to strategic and operational development. In the third quarter invested capital rose by less than the value of production, edging up 5% between September 2002 and September 2003. The significant rise in inventory, due in part to the contribution of newly acquired companies, pushed working capital to EUR 313 million at 30 September 2003, although this was still lower than forecast levels. Net debt, at EUR 724 million, therefore remains higher than at 30 September 2002 (EUR 504 million) and 30 June 2003 (EUR 528 million), following the acquisition of a number of new strategic holdings, but is still below forecast. Gearing (debt/equity) remains around 23%, a level consistent with the financial solidity objectives Finmeccanica has set itself.

By keeping a tight rein on increases in invested capital, the group was able to limit deterioration in its profitability ratios, although these still declined owing to slightly thinner operating profitability. ROI (EBIT as a percentage of net invested capital) was 16.3%, lower than the 22.6% recorded in the first nine months of 2002 but still far higher than the group's weighted average cost of capital.

Consolidated economic and financial situation

To provide further information on the group's financial position, the following tables: "consolidated profit and loss account (restated)", "consolidated balance sheet (restated)", and "consolidated net debt", have been drawn up using the same formats as in previous years.

The table below shows the company's profit and loss for January-September 2003 and July-September 2003.

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

- Marconi and Telespazio were acquired in the second half of 2002 (2 August and 29 November respectively); Marconi was not consolidated at 30 September 2002, as the final price had not been fixed.
- OTE was acquired on 4 March 2003;
- Telespazio Hungary Satellite Telecommunications Ltd (Telespazio Hungary) was valued at equity on 31.12.2002, but has been consolidated on a line-by-line basis in the first half of 2003.
- Aeronautica Macchi was acquired on 1 July 2003;
- Marconi Mobile Access SpA (Marconi Mobile Access) was acquired on 17 July 2003;
- Electron Italia Srl (Electron Italia) was acquired on 19 September 2003;
- Elsag Supernet SpA has been deconsolidated, pending its liquidation.

The consolidated profit and loss accounts (restated) for January-September 2002 and July-September 2002 therefore do not include the figures for Telespazio Hungary, Marconi Mobile Access and Electron Italia.

The consolidated balance sheet (restated) for the year to 31.12.2002 does not include the figures for OTE, Aeronautica Macchi, Telespazio Hungary, Marconi Mobile Access or Electron Italia.

Comments on the Defence Electronics sector include Finmeccanica SpA's International Naval Systems Division, previously included under Defence Systems. Results have been restated to take account of this.

The first nine months of 2003 were marked by a constant appreciation of the euro against the group's other main operating currencies. Specifically, between 31 December 2002 and 30 September 2003 the euro rose 10% against the dollar and 6.9% against the pound, with average differences (compared to 30 September 2002) of 16.8% against the dollar and 9.23% against the pound.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
(EUR THOUSAND)

	<u>1.1 - 30.9.03</u>	<u>1.7 - 30.9.03</u>	<u>1.1. - 30.9.02</u>	<u>1.7 - 30.9.02</u>	<u>1H 03</u>
A) <u>REVENUES</u>	5,724,269	1,805,978	5,313,117	1,763,669	3,913,747
Changes in work in progress, semi-finished goods and finished goods	181,887	58,310	(33,637)	(30,693)	123,550
Increases in assets produced internally	16,869	3620	8,101	2,412	13,249
B) <u>VALUE OF PRODUCTION</u>	5,923,025	1,867,908	5,287,581	1,735,388	4,050,546
Cost of goods and services	(3,793,650)	(1,177,354)	(3,413,882)	(1,160,967)	(2,613,374)
C) <u>VALUE ADDED</u>	2,129,375	690,554	1,873,699	574,421	1,437,172
Personnel costs	(1,713,277)	(558,476)	(1,492,749)	(464,992)	(1,153,590)
Other provisions	(22,939)	(1,662)	(6,921)	(795)	(21,277)
Provisions for risks and charges	(49,583)	(4,898)	(20,526)	(2,876)	(44,652)
Other income (charges)	64,151	14,846	36,216	25,478	49,186
D) <u>EBITDA</u>	407,727	140,364	389,719	131,236	266,839
Depreciation	(187,096)	(65,030)	(149,407)	(50,499)	(121,533)
Revenue from capital grants	20,711	8,438	13,687	4,441	12,273
E) <u>EBITA</u>	241,342	83,772	253,999	85,178	157,579
Goodwill amortisation	(61,395)	(21,715)	(37,681)	(12,559)	(39,564)
F) <u>EBIT</u>	179,947	62,057	216,318	72,619	118,015
Financial income (expenses)	(30,082)	(15,767)	(14,888)	(3,358)	(14,339)
Exchange rate gains (losses)	705	(555)	5,012	3,060	1,263
Increase/decrease in the value of investments	100,973	50,644	66,333	26,850	49,758
G) <u>EARNINGS BEFORE EXTRAORDINARY ITEMS AND TAX</u>	251,543	96,379	272,775	99,171	154,697
Extraordinary income (expenses)	(53,223)	(21,129)	(55,131)	(1,711)	(31,808)
H) <u>PRE-TAX PROFIT</u>	198,320	75,250	217,644	97,460	122,889
Tax	(128,893)	(34,093)	(110,500)	(34,081)	(94,708)
I) <u>NET PROFIT</u>	69,427	41,157	107,144	63,379	28,181
<i>of which:</i>					
. group share	62,004	39,929	107,161	63,180	21,704
. Minority interests	7,423	1,228	(17)	199	6,477

- “Value of production” was EUR 5,923 million, an increase of 12% on the same period last year (EUR 5,288 million). This increase was the combined effect of the acquisition of Marconi, Telespazio, Aeronautica Macchi and OTE, and an increased contribution from Defence Systems, offset by a decline in the Space division and a broadly flat performance from the other businesses. Value of production for the third quarter was EUR 1,868 million, a EUR 133 million increase on the same period last year (EUR 1,735 million).
- The “costs of goods and services” rose 11.1% from EUR 3,414 million in the same period in 2002 to EUR 3,794 million in 2003. Like “value of production”, this increase was chiefly driven by the inclusion in the consolidation base of the newly-acquired companies and the bigger contribution of Defence Systems mentioned above. The costs of goods and services for the quarter was EUR 1,177 million compared to EUR 1,161 million in the same quarter in 2002.
- “Personnel costs” were EUR 1,713 million, compared with EUR 1,493 million in the same period in 2002, owing to increased staff numbers and a rise in the average unit cost per employee.

The average headcount was 44,514, a net increase on the figure of 39,693 for the same period last year and 39,798 at the end of 2002. This result was due to the combined effect of the inclusion of Marconi, Telespazio, OTE and Aeronautica Macchi in the consolidation base and staff turnover.

At 30.09.2003, the group had 46,920 staff, up 1,957 on the end-2002 figure of 44,963 and from 39,993 at 30.09.2002. This result was due to the combined effect of disposals of business units and acquisitions of companies over the year (+2,631) and to normal turnover (-674).

The average unit cost per employee increased in Italy, mainly owing to changes in the breakdown of job categories and the consolidation base, the renewal of national work contracts and changes in the law regarding contributions. Abroad, this cost fell, owing to the combined effect of changes in the breakdown of job categories and the consolidation base, and the fall of sterling and the dollar against the euro, as described above.

Personnel costs for the quarter stood at EUR 558 million, compared with EUR 465 million for the same period in 2002.

- “Other provisions” and “provisions for risks and charges” stood at EUR 72 million, compared with EUR 27 million in the same period in 2002 and EUR 7 million for the quarter compared to EUR 3 million in the same quarter last year. These related to product guarantees, receivables, fines, outstanding disputes, financial guarantees, contractual charges and miscellaneous. Specifically, provisions related to trade receivables from Space Systems Loral Inc.—which filed for Chapter 11 bankruptcy in July—and contractual risks following recent technical difficulties of the Atlantic Bird satellite.
- Other income and charges were positive to the tune of EUR 64 million, up from EUR 36 million in 2002. The figure was also positive for the quarter at EUR 15 million compared to EUR 25 million in the same quarter in 2002. The income component included gains on real estate investments of EUR 5 million (the same figure as in 2002), insurance refunds of EUR 8 million (EUR 8 million in 2002), the use of funds totalling EUR 50 million (from EUR 26 million in 2002) for contractual risks, disputes, product guarantees and other, established in previous years and made available following ordinary operations and costs incurred over the year, as well as the recovery of receivables from insolvent countries (fully written off as ordinary losses in previous years). Another EUR 12 million was received following the renegotiation of receivables and payables between Elsacom and Globalstar LP as part of the sale of the satellite gateway in Karkkila, Finland. Charges included indirect and direct taxes of EUR 13 million (from EUR 12 million in the same period of 2002), fines of EUR 15 million (EUR 8 million) and contributions to severance funds of EUR 4 million (EUR 2 million).
- EBITDA came in at EUR 408 million, an increase of EUR 18 million (or +4.6%) on the same period in 2002. Over the quarter, EBITDA rose 6.9% from EUR 131 million in the same period in 2002 to EUR 140 million this year.
- “Depreciation” and attributable capital grants increased in comparison to the same period last year owing to changes in the consolidation base. Depreciation totalled EUR 187

million (from EUR 149 million in 2002); EUR 150 million of this related to tangible assets (from EUR 115 million in 2002), and EUR 37 million to in tangible assets (EUR 34 million in 2002).

- EBITA came in at EUR 241 million, a decrease of EUR 13 million (or -5%) on the same period last year (EUR 254 million). This fall was the combined effect of growth in Defence Electronics (including Marconi), Defence Systems, Energy, IT and Other Activities (especially Ansaldo Energia and Elsacom given its agreement with Globalstar LP), and a decline in Aeronautics (partly due to increased spending on the A380 and C27J programmes) and Space (affected by the provisions outlined above).
- “Goodwill amortisation” rose to EUR 61 million, from EUR 38 million in the first nine months of 2002, owing to the consolidation of Marconi, Telespazio, Aeronautica Macchi and OTE.
- Following the rise in depreciation and goodwill amortisation, EBIT fell EUR 36 million (or 16.7%) from EUR 216 million in the first nine months of 2002 to EUR 180 million. This result was due to the same reasons outlined under EBITA. For the quarter, EBIT fell EUR 11 million from EUR 73 million to EUR 62 million 2003.
- “Net financial expenses” were EUR 30 million, an increase of EUR 15 million on the EUR 15 million recorded in the same period last year. For the quarter, they rose from EUR 3 million to EUR 16 million. Debt was higher than last year mainly due investments made in the second half of 2002 and the third quarter of 2003 and to a fall in interest receivable on tax credits, although the company benefited from a favourable trend in interest payable. The main financial charges related to interest payments and provisions for adjustments on bond loans (EUR 34 million in the first nine months of 2003 compared to EUR 28 million in the same period last year).
- Exchange rate gains, arising mainly from hedging operations, stood at EUR 1 million (from EUR 5 million in the same period in 2002). In the third quarter, the group made an exchange rate loss of EUR 1 million, compared with net gains of EUR 3 million in 3Q02.

This decrease was due mainly to higher hedging costs resulting from the alignment of euro and dollar rate spreads.

- The increase in the value of investments was EUR 101 million, from EUR 66 million in the first nine months of 2002. This figure includes:
 - Finmeccanica's share of STMicroelectronics Holding NV (EUR 79 million, from EUR 53 million in the first half of 2002), which, like all the group's important non-consolidated holdings, is valued at equity. In 3Q03 the figure also included a capital gain of around EUR 59 million made by STMicroelectronics Holding NV from the sale of 4 million shares in its subsidiary STMicroelectronics NV.
 - net increases from other investment holdings valued at equity (EUR 4 million);
 - net provisions for holdings valued at cost (EUR 4 million);
 - tax credits on dividends (EUR 22 million).

- "Net extraordinary costs" totalled EUR 53 million, compared to EUR 55 million in the same period in 2002. The main cost items related to redundancy payments and other restructuring costs net of previously earmarked provisions of EUR 32 million (EUR 15 million in the same period in 2002); taxes from previous years of EUR 15 million (EUR 1 million), including the effects of the tax amnesty pursuant to law 289/2002 and previously earmarked extraordinary provisions made available.

- "Tax" totalled EUR 129 million, compared to EUR 110 million in the same period of 2002. The increase was chiefly due to changes in the consolidation base. These consisted of IRAP (EUR 63 million, compared to EUR 48 million in the first nine months of 2002), IRPEG and other direct taxes (EUR 67 million, compared to EUR 47 million in the same period of 2002) and net deferred tax credits of EUR 1 million (EUR 15 million). The consolidated and parent company income statements do not include current taxes, given that there was no taxable income in the first nine months of 2003, nor do they include net deferred tax credits relating to the parent company, given the lack of reasonable certainty that these benefits will be realised in future, and—with respect to previous tax losses—since the conditions imposed by the generally accepted accounting principles are not in place. Moreover, it should be noted that the taxable base is different for IRPEG than for

IRAP. As mentioned in the comment on debt, the tax burden should be eased at consolidated level, as the group plans to offset the tax credits on dividends accrued by some subsidiaries against IRPEG payments, in full compliance with Italian law and regulations.

The table below shows the consolidated balance sheet at 30 September 2003.

CONSOLIDATED BALANCE SHEET

(EUR THOUSAND)

	<u>30.09.2003</u>	<u>31.12.2002</u>	<u>30.09.2002</u>	<u>30.06.2003</u>
A) <u>TOTAL FIXED ASSETS</u>				
Intangible assets	1,221,594	1,219,631	938,358	1,167,100
Tangible assets	1,625,516	1,564,822	1,353,418	1,560,655
Investments	1,486,018	1,447,683	1,989,397	1,434,930
	<u>4,333,128</u>	<u>4,232,136</u>	<u>4,281,173</u>	<u>4,162,685</u>
B) <u>WORKING CAPITAL</u>				
Inventory	15,180,609	13,306,061	13,552,545	14,209,459
Trade receivables	3,030,290	3,379,066	2,544,323	3,142,940
Other assets	1,399,558	1,354,103	1,584,478	1,347,805
Trade payables	(2,577,455)	(2,658,331)	(2,177,944)	(2,614,186)
Customer advances and progress billings	(12,575,626)	(11,796,756)	(12,259,261)	(12,233,074)
Provisions for risks and charges	(1,233,959)	(1,181,462)	(1,240,518)	(1,192,877)
Other liabilities	(2,910,631)	(2,416,652)	(1,955,743)	(2,450,116)
	<u>312,786</u>	<u>(13,971)</u>	<u>47,880</u>	<u>209,951</u>
C) <u>INVESTED CAPITAL</u>, minus liabilities	4,645,914	4,218,165	4,329,053	4,372,636
D) <u>STAFF SEVERANCE FUND</u>	(712,203)	(664,086)	(587,301)	(664,175)
E) <u>INVESTED CAPITAL</u>, minus liabilities and staff severance fund	<u>3,933,711</u>	<u>3,554,079</u>	<u>3,741,752</u>	<u>3,708,461</u>
<i>made up of:</i>				
F) <u>SHAREHOLDERS' EQUITY</u>				
Group capital and reserves	3,133,700	3,105,136	3,142,123	3,154,177
Net profit attributable to group	62,004	199,357	107,161	21,704
Minorities' capital and reserves	6,992	(2,287)	(11,615)	(2,065)
Net profit attributable to minorities	7,423	3,344	(17)	6,477
	<u>3,210,119</u>	<u>3,305,550</u>	<u>3,237,652</u>	<u>3,180,293</u>
G) <u>NET DEBT</u>				
i) Medium- to long-term bank debt	1,965,476	1,469,494	1,209,333	1,450,554

ii) Short-term debt:				
. bank debt	585,744	671,930	811,076	537,412
. cash and financial receivables	<u>(1,767,511)</u>	<u>(1,742,853)</u>	<u>(1,401,226)</u>	<u>(1,380,669)</u>
	(1,181,767)	(1,070,923)	(590,150)	(843,257)
iii) restated items (*)	<u>(60,117)</u>	<u>(150,042)</u>	<u>(115,083)</u>	<u>(79,129)</u>
	<u>723,592</u>	<u>248,529</u>	<u>504,100</u>	<u>528,168</u>
I) <u>NET INVESTED CAPITAL AS IN POINT E</u>	<u>3,933,711</u>	<u>3,554,079</u>	<u>3,741,752</u>	<u>3,708,461</u>
(*) Includes:				
. marketable securities	(80,504)	(169,947)	(135,645)	(101,283)
. portion of provisions for risks and charges in respect of liabilities of non-consolidated subsidiaries	<u>20,387</u>	<u>19,905</u>	<u>20,562</u>	<u>22,154</u>
	<u>(60,117)</u>	<u>(150,042)</u>	<u>(115,083)</u>	<u>(79,129)</u>

Total fixed assets increased by EUR 101 million, from EUR 4,232 million at 31.12.2002 to EUR 4,333 million at 30.09.2003, thanks mainly to:

- the fixed assets of the OTE Group (EUR 16 million) and goodwill (EUR 6 million) taken on following the groups acquisition;
- the fixed assets of Aeronautica Macchi (EUR 102 million) and goodwill (EUR 47 million) taken on following its acquisition;
- the valuation at equity of the stake in STMicroelectronics Holding NV, which fell from EUR 1,234 million at 31.12.2002 to EUR 1,154 million at 30.09.2003;
- the EUR 142 million purchase cost (recorded under investments) of affiliate Aero Invest 1 SA, which received Finmeccanica's shareholding in Avio Holding SpA;
- investment and amortisation over the period;
- exchange rate losses following the conversion of balance sheets in foreign currency (mainly dollars and sterling) into euro.

Working capital was positive to the tune of EUR 313 million, compared with a negative figure of EUR 14 million at 31.12.2002.

- "inventory and work in progress" (net of progress billings of EUR 8,086 million at 30.09.2003 and EUR 7,608 million at 31.12.2002 recorded under the item "customer advances and progress billings") increased by EUR 1,397 million. This increase is mainly due to higher spending in the Aeronautics division for the start-up of the A380 and C27J programmes, increased volumes in Defence Systems and Electronics and the inclusion in the consolidation base of OTE (EUR 41 million) and Aeronautica Macchi (EUR 496 million);

- “Trade receivables net of trade payables” decreased by EUR 268 million compared with last year, owing to higher receipts from customers and to increased payments to suppliers. Receipts from customers increased particularly in the Aeronautics, Defence Systems, Energy, IT and Other Activities businesses, while higher payments to suppliers mainly related to the Defence Systems and Transport businesses;
- The value of “other assets” rose by EUR 46 million compared to the end of 2002. Receivables from the GIE ATR increased, while receivables from the Italian Treasury fell, partly as a result of the use of 2002 tax credits by group companies, which will be offset by taxes owed by other companies (as outlined above) in accordance with the laws in force.
- “advance payments from customers” (recorded under the item “customer advances and progress billings”) rose by EUR 301 million from EUR 4,189 million at 31.12.2002 to EUR 4,490 million, thanks to increased missile production in the Defence Systems division, avionics activities in Defence Electronics and receipts in the Aeronautics division, offset by a reduction in Helicopters due to billing.
- “provisions for risks and charges” showed a net increase of EUR 53 million. The biggest provisions related to contractual risks in the space business, fines, the reorganisation and restructuring of some sectors and product guarantees. The most significant use of funds was for the settlement of disputes and contractual risks, for the cost of restructuring begun in previous years, for tax provisions and to cover the past losses of subsidiaries. Note that taxes for the period, included under “other liabilities” (payables due to tax authorities) are recorded under provisions for risks and charges in the quarterly and half-yearly accounts;
- “other liabilities” of Eur 2,911 rose EUR 494 million from EUR 2,417 million at 31.12.2002 to EUR 2,911 million, owing to increased payables to the industry ministry (pursuant to article 3a of law 808/85) mainly due to the combined effect of the inclusion of Aeronautica Macchi in the consolidation base (EUR 411 million), payables with respect to research and design activities relating to aeronautic and helicopter products,

and a fall in social security and tax contributions. As already noted in the comment on provisions, taxes for the period are recorded under “provisions for risks and charges”.

- the “staff severance fund” rose EUR 48 million from EUR 664 million at 31.12.2002 to EUR 712 million. Of this, EUR 47 million related to Aeronautica Macchi and OTE, while the amounts paid out were covered by provisions.

Invested capital, at EUR 3,934 million (from EUR 3,554 million at 31.12.2002), comprised net shareholders’ equity of EUR 3,210 million (EUR 3,305 million at 31.12.2002), and net debt of EUR 724 million (compared with EUR 249 million at 31.12.2002).

Assets held under financial leasing contracts are valued at equity, in accordance with national accounting principles. An equity valuation, following international accounting principles, would lead to an increase of EUR 92 million in fixed assets, a EUR 64 million rise in financial charges, a EUR 15 million drop in working capital as well as higher profits and an increase in shareholders’ equity of EUR 3 million and EUR 9 million respectively, net of tax.

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

The table below shows consolidated net debt at 30 September 2003, together with figures at 31 December 2002, 30 September 2002 and 30 June 2003 for ease of comparison.

	30.09.03 EUR mil	30.06.03 EUR mil	31.12.02 EUR mil	30.09.02 EUR mil
Short-term debt	112	114	215	402
Current portion of medium- to long-term debt	86	76	48	110
Medium- to long-term debt (net of current portion)	1,816	1,313	1,370	1,051
Cash on hand or equivalent	(1,022)	(672)	(956)	(502)
Net bank debt	992	831	677	1,061
<u>Other financial receivables and payables</u>				
Interest-bearing securities	(17)	(31)	(29)	(25)
Government bonds	(68)	(68)	(71)	(68)
Loans to third parties	(498)	(469)	(557)	(608)
Loans to subsidiaries and affiliated companies	(223)	(221)	(276)	(314)
Loans from subsidiaries and affiliated companies	429	382	371	319
Liabilities to industry ministry (MAP)	64	61	51	48
Other financial liabilities	45	43	83	91
NET DEBT	724	528	249	504

Net debt was EUR 724 million at 30.09.2003, from EUR 528 million at 30.06.2003 and EUR 249 million at 31.12.2002.

This figure confirms the typical trend—albeit less apparent than previously—in which receipts are concentrated in the second half of the year, especially those from the Italian public administration.

The change in the figure was due to:

- dividend payments for 2002 of EUR 84 million made by Finmeccanica SpA in June;
- the acquisition on 04.03.2003 of OTE SpA and its subsidiaries for EUR 3 million.
- the acquisition of Aeronautica Macchi SpA and its subsidiaries for around EUR 155 million on 01.07.2003;
- the acquisition on 29.09.2003 of Aero Invest 1 SA (which received Finmeccanica's stake in Avio Holding SpA) for around EUR 142 million;
- the receipt of dividends from subsidiary STMicroelectronics Holding NV totalling EUR 101 million, of which EUR 89 million related to an extraordinary dividend following the sale of four million STMicroelectronics NV shares on the market in September;
- the cashing in of some tax credits relating to 2002 by group companies including Finmeccanica SpA, which will be offset by taxes owed by other companies (around EUR 69 million);

As explained in the 2003 half-year report, the second tranche of the new EUR 501 million bond issue launched by Luxembourg subsidiary Finmeccanica Finance SA was completed on 01.09.2003 through the exercise of the EUR 63 million overallotment option. The first tranche was issued on 08.08.2003. The seven-year bond was directed at institutional investors and offers an annual coupon of 0.375%. The issue due in seven years, is fully guaranteed by Finmeccanica SpA and is listed on the Luxembourg stock exchange. From 2 January 2004, holders will be able to convert the bonds into a maximum of 20 million STMicroelectronics (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 issue provides the company with a medium-term loan at extremely low cost, and extends the average life and cuts the average cost of its debt, as well as capitalising on the volatility of the STM share price and potentially reducing Finmeccanica's indirect stake in the company. All the proceeds from the issue went to Finmeccanica SpA.

Bank debt went from EUR 677 million at 31 December 2002 to EUR 992 million at 30 September 2003, owing to the combined effect of:

- a further reduction in short-term debt from EUR 215 million to EUR 112 million, due mainly to the repayment of the most expensive loans by group companies, following the introduction of a new system in which cash reserves are centralised at the parent company. This has further rationalised the use of cash generated by the group.
- medium- and long-term debt rose from EUR 1,418 million at 31.12.2002 to EUR 1,902 million at 30.09.2003, mainly due to the new bond issue described above.
- Cash or cash equivalents rose slightly from EUR 956 million at 31.12.2002 to EUR 1,022 million at 30.09.2003.

Breakdown of revenues by region

The total revenues included in the profit and loss account for the period (EUR 5,724 million) comprise sales of EUR 4,516 million, grant income of EUR 28 million and changes to contract work in progress of EUR 1,180 million. The sales figure of EUR 4,516 million breaks down by market as follows:

	<u>EUR mil</u>	<u>%</u>
Italy	1,562	34.6
Rest of Europe	2,191	48.5
North America	345	7.6
Rest of the World	418	9.3

Performance by sector

AERONAUTICS

EUR million	30.09.2003	30.09.2002	3Q03	3Q02
New orders	775	809	425	375
Order backlog	3,712	3,753	n.a.	n.a.
Value of production	860	880	284	289
EBITDA	76	116	23	31
EBITA	44	96	9	25
EBIT	42	96	7	25
ROS	4.9%	10.9%	2.5%	8.7%
Personnel (no.)	10,468	9,086	n.a.	n.a.

Finmeccanica operates in the aeronautics industry via Alenia Aeronautica and its subsidiaries, and Aeronautica Macchi. Alenia Aeronautica produces military combat, transport, and special mission aircraft, and in the civil segment, manufactures aerostructures and regional turboprop aircraft, as well as converting aircraft for cargo use. Aeronautica Macchi builds military training aircraft and nacelles in the civilian segment.

Figures to 9M02 and 9M03 were broadly in line, bearing in mind that Aeronautica Macchi was only consolidated in the third quarter.

Third quarter figures were worse than those for the same period last year. The downturn that began in the first half of 2003 continued and particularly affected civil programmes, which continued to suffer as a result of the uncertainty and instability affecting the aviation market. The group expects sales to stage a strong recovery from 2005, with a knock-on effect on production from 2006.

Against this backdrop, Alenia Aeronautica continued implementing the initiatives begun last year, aimed at maintaining operating flexibility and curbing costs, strengthening and rationalising its product range and seeking greater market opportunities via partnerships with other leading players in the sector. In the third quarter, Alenia Aeronautica continued to negotiate with Vought, a US company specialising in civil and military aerostructures, to form a joint venture for the new Boeing 7E7 Dreamliner aircraft. Alenia Aeronautica's wholly-owned subsidiary Officine Aeronavali Venezia reached an agreement with Boeing Corporation, which gives the Italian company the exclusive licence to convert the B767-200 into a cargo aircraft.

A restructuring programme was launched for the Aeronautica Macchi group which, by the end of the year, will see the wholly-owned subsidiary Aermacchi merged into parent company Aeronautica Macchi; the latter will become the operating company and will be renamed Aermacchi.

Work in the military segment during the quarter consisted chiefly of production and logistics on the EFA, upgrading the Tornado (retrofit and development work for the mid-life upgrade) and AMX aircraft (mid-life update on the first aircraft for the Italian air force), manufacture of the C27J aircraft and MB 339 training aircraft, and continued development work on the new M346 training aircraft and the B767 new tanker programme.

Production in the civil segment continued to feel the effects of the reduction in output by the main aircraft manufacturers in the face of the market downturn. Against this background, the group continued to supply the world's biggest aircraft manufacturers. For Boeing, this consisted of the B717, B767, and B777 programmes, and superpanels for the B757; for EADS, the A340, A321, and A380 programmes; The first series of central fuselage sections of the A380 was delivered in early September. Other work included the ATR regional turboprop aircraft in partnership with EADS-ATR, the Falcon Dassault (business jet) programmes, cargo aircraft conversion at Officine Aeronavali Venezia, and production of nacelles at Aermacchi.

Value of production at 30 September 2003 was EUR 860 million, of which EUR 284 million related to the third quarter. The drop in production was due to the downturn in the civil segment (notably in the Boeing and ATR programmes), though this was partly offset by growth in the

military sector, especially work on EFA equipment. Note that, although the military segment as a whole is continuing to grow, some areas have recently seen a slowdown.

EBITA at 30 September 2003 was EUR 44 million, significantly lower than the EUR 96 million recorded for the same period last year, which was boosted by a one-off price variation on the B717 programme. This drop was due to reduced activity, a changed production mix, and higher costs to be transferred for equipment for the EFA programme.

The company was able to curb the significant drop in profitability by restructuring and improving its production processes, which will become even more effective when the civil market picks up.

New orders at 30 September 2003 totalled EUR 775 million. Orders worth EUR 425 million were secured during the third quarter, compared to EUR 375 million in the same period the previous year. These included a contract—signed in January 2003 and effective since August—to supply 12 C27Js, logistic support and training to the Greek air force, and further work on the EFA, AMX, and Tornado programmes.

The **order backlog** at 30 September 2003 stood at EUR 3,712 million, of which the EFA programme accounted for 57%.

The **headcount** at 30 September 2003 was 10,468. Of these, 8,677 related to Alenia Aeronautica, a reduction of 378 as contracted to 31 December 2003 due to state-sponsored layoffs, redundancies, and a partial freeze on hiring. 1,791 related to the acquisition of Aermacchi.

HELICOPTERS

	30.09	30.09	30.09	30.09	3Q	3Q	3Q	3Q
EUR million	2003	2003	2002	2002	2003	2003	2002	2002
	at 100%	at 50%	at 100%	at 50%	at 100%	At 50%	at 100%	at 50%
Orders	990	495	1,964	982	476	238	588	294
Order backlog	6,142	3,071	7,400	3,700	n.a.	n.a.	n.a.	n.a.
Value of production	1,874	937	1,796	898	554	277	544	272
EBITDA	206	103	214	107	56	28	54	27
EBITA	176	88	180	90	46	23	42	21
EBIT	163	81	166	83	42	21	38	19
ROS	8.6%	8.6%	9.2%	9.2%	7.6%	7.6%	7.0%	7.0%
Personnel (no.)	8,855	4,427	8,950	4,475	n.a.	n.a.	n.a.	n.a.

Finmeccanica is a leading player in the global helicopter industry through AgustaWestland, a joint venture with the British group GKN.

To convey the true extent of the business, total figures for AgustaWestland are given, and the comments that follow refer to 100% of the company. To complete the picture, figures are also given for Finmeccanica's 50% share, which is consolidated proportionally.

World economic stagnation continues and with rare and limited exceptions, has affected almost all developed economies. The world's stock markets remain unstable, and the euro has continued to rise against the main currencies (the dollar and sterling), leading to uncertainty over exchange rates. Despite these difficulties, AgustaWestland posted positive results over the first nine months of 2003, though these were heavily affected by the conversion of results in foreign currencies into euro.

Value of production was slightly up (+4%) on the same period last year.

AgustaWestland's main programmes include:

- The EH 101 for the Italian navy;
- The Apache combat helicopter for the British armed forces. 19 of the 22 aircraft scheduled for delivery this year were delivered during the first nine months, bringing the number so far to 55, out of a total 67 ordered;

- The Super Lynx 300 helicopter for the Malaysian navy, for which preparations for final delivery are continuing;
- The A129 combat helicopter, and the conversion of the A129 Mangusta helicopters used by the Italian army to combat use;
- Pre-production for the NH90 helicopter;
- Development of the A109E Power helicopter, for supply contracts with the South African air force and Swedish military.

EBITA fell by EUR 4 million from the same period the previous year, though this was partly due to the conversion of results into euro. Despite this, the EBITA margin remained fairly high at 8.6%.

New orders acquired by AgustaWestland over the first nine months of the year totalled EUR 990 million, a significant drop from the previous year when the figure was boosted by large contracts to supply 12 EH101 helicopters to the Portuguese government, and 16 Super Lynxes to the Omani air force, worth a total of around EUR 800 million. The main order in the quarter was for four Super Lynx 300 naval helicopters for South Africa's National Defence Force, which enabled AgustaWestland to gain a further foothold in the country following the air force's acquisition of 30 A109 light utility helicopters. This important contract is another chapter in the Lynx success story, after orders from Malaysia, Oman, and Thailand.

The **order backlog** was 14% lower than the 31 December 2002 figure of EUR 7,146 million, mainly because of the rise of the euro against sterling. Nevertheless, it was worth a significant EUR 6,142 million, equivalent to about three years' value of production.

The **headcount** was 8,855 at 30 September 2003, a fall of 87 from 31 December 2002.

SPACE

EUR million	30.09.2003	30.09.2002	3Q03	3Q02
New orders	492	283	133	139
Order backlog	1,286	476	n.a.	n.a.
Value of production	486	350	150	128
EBITDA	(8)	0	7	1
EBITA	(37)	(8)	(2)	(2)
EBIT	(44)	(8)	(4)	(2)
ROS	(9.1%)	(2.3%)	(2.7%)	(1.6%)
Personnel (no.)	3,754	2,761	n.a.	n.a.

Finmeccanica operates in the space industry through Alenia Spazio (which produces space infrastructure and scientific, telecommunication, remote sensing, and payload satellites) and its subsidiaries, and Telespazio (which produces earth stations, satellite services, and connective and networking services for television and telecommunications applications).

Telespazio was consolidated in December 2002; therefore, since figures at 30 September 2002 refer only to Alenia Spazio, a comparison cannot be made between the first nine months of 2002 and the same period this year.

The space market's short- and medium-term prospects remain uncertain, chiefly because of stagnating demand in the commercial market, where orders for new satellites continue to fall and there is a reluctance to embark on, or invest in, broadband system projects for multimedia applications. Government and institutional demand, however, has shown signs of recovery in recent months.

At European level, the European Space Agency agreed to give the green light to the development phase of the Galileo programme, which will be run jointly with the European Commission. On

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

During the first nine months of 2003, the group continued to restructure and rationalise the space division, and to make plans to strengthen its activities in the sector with a view to forging links with foreign partners. This involves the reorganisation of production and support facilities and the rationalisation of external costs to increase efficiency and profitability. To bring staff numbers in line with workload, the division continued with its programme of state-subsidised lay-offs, redundancies and a partial freeze on hiring. It also made one-off provisions to meet any future losses on high-risk balance sheet items.

Value of production at 30 September 2003 was EUR 486 million. The increase on the same period last year is due to Telespazio, which was not included in the 9M02 figures; this was partially offset by lower revenues from Alenia Spazio. Value of production in the third quarter was EUR 150 million. Production in the quarter consisted chiefly of:

- in remote sensing and telecommunications: further work on the C/D phase of Cosmo-Skymed; work on antennas and electronic components; phase C of the Prima platform and work on the Radarsat2 satellite; the operation in orbit of the Sicral and Artemis satellites; and services to the Italian Space Agency (ASI), Telecom Italia, the armed forces, and major international satellite operators.
Following recent technical problems of the Atlantic Bird telecommunications satellite, which caused service interruption, the group has had to make adjustments to improve its performance, particularly since April;
- in television: providing satellite capacity to the major domestic broadcasters;
- in satellite navigation: preparatory for the Galileo system;
- in scientific satellites: work continued on GOCE and Herschel-Planck, as did support work on the operative phase of the Integral and Mars Express satellites and feasibility studies on the Gaia satellite;
- in infrastructure: work continued on programmes for the International Space Station (Nodes 2 and 3, ATV and Columbus Pica).

EBITA at 30 September 2003 was negative to the tune of EUR 37 million, and was hit by the write-down of trade receivables from Space Systems Loral, which filed for Chapter XI bankruptcy in mid-July, provisions for charges and extra costs on certain contracts. The company is taking action as regards this last.

The difficulties of the Atlantic Bird satellite mentioned above have caused problems in relations with Eutelsat (which uses the satellite's capacity), Cofinvest (which owns the satellite), and insurance companies (which cover the group against malfunction). The group is currently seeking solutions to these problems.

Orders worth EUR 492 million were acquired during the first nine months of 2003, of which EUR 133 million relates to the third quarter. The main ones included further work on the GOCE and Venus Express scientific satellites, the Galileo programme, and space station nodes.

The **order backlog** at 30 September 2003 was worth EUR 1,286 million, broadly in line with the figure at 31 December 2002.

The **headcount** at 30 September 2003 stood at 3,754, of which 1,162 related to Telespazio. This is a drop of 166 compared to 31 December 2003, and is chiefly due to the restructuring programme.

DEFENCE ELECTRONICS

EUR million	30.09.2003	30.09.2002	3Q03	3Q03
New orders	1,182	759	314	216
Order backlog	3,457	2,722	n.a.	n.a.
Value of production	1,246	759	393	248
EBITDA	99	52	28	21
EBITA	70	32	20	15
EBIT	44	22	11	11
ROS	3.5%	2.9%	2.8%	4.4%
Personnel (no.)	11,988	7,119	n.a.	n.a.

This sector comprises the production of avionics equipment, unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, and communications systems and integrated communications networks for land, naval, satellite and avionic applications. This business includes the International Naval Systems division, previously included under Defence Systems, which manages relations with Horizon SAS as part of the contract to produce four Horizon/Orizzonte frigates for the Italian and French navies. Results have been restated to take account of this.

Note that the figures in the table are not like-for-like owing to changes in the consolidation base between 9M02 and 9M03. These differences are due to:

- the acquisition of Marconi in August 2002;
- the acquisition on 4 March 2003 of OTE, which operates in the sector of private mobile radio communications, and is at the forefront in the development of the Tetra digital radiomobile communications system.

Value of production at 30 September 2003 was EUR 1,246 million, a 64% increase on the previous year, chiefly due to the contribution made by Marconi.

The chief contributors to revenues were:

- in radar and command and control systems, work undertaken for the Horizon and Type 45 naval systems, the PAAMS/FSAF naval missile systems, long-range 3D land radar systems, and customer support;
- in avionics, work on equipment for the EFA, the NH90 and training drones;
- in integrated communications networks, supplying personal role radios for the British ministry of defence (used in the Iraq war), the tactical network of shelters equipped with CD145 and ATM devices, and radio links and supervision systems for Teledife (the Italian defence ministry's IT and telecommunications division).

EBITA for the first nine months of 2003 was EUR 70 million, compared to EUR 32 million at 30 September 2002. The figure was boosted by the inclusion of Marconi in the consolidation base, and significant improvements in avionics systems, due to increased production for the EFA and NH90 programmes and greater industrial efficiency.

New orders worth EUR 1,182 million were secured during the first nine months of 2003.

The main orders in the third quarter related to: 46 Grifo radar systems, with equipment, spare parts and servicing, for Pakistan; Commander land radar for Greece; air traffic control systems for Cyprus; and, in communications systems, the fourth part of the tactical network of shelters equipped with CD145 and ATM devices, and radio links and supervision systems for Teledife.

The **order backlog** stood at EUR 3,457 million, broadly in line with 31 December 2002, and equivalent to around three years' value of production.

The **headcount** at 30 September 2003 was 11,988, an increase of 821 compared to 31 December 2002, chiefly due to the acquisition of OTE, Marconi Mobile Access and Electron Italia.

DEFENCE SYSTEMS

EUR million	30.09.2003	30.09.2002	3Q03	3Q02
New orders	752	442	319	156
Order backlog	4,254	3,510	n.a.	n.a.
Value of production	705	630	225	215
EBITDA	54	46	17	18
EBITA	42	35	12	13
EBIT	27	20	7	8
ROS	3.8%	3.2%	3.1%	3.7%
Personnel (no.)	4,162	4,223	n.a.	n.a.

Defence systems comprises missiles company MBDA (a joint venture with BAE Systems and EADS in which Finmeccanica has a 25% stake), OTO Melara SpA in land, naval and airborne weapons systems, WASS SpA which makes underwater weapons (torpedoes and countermeasures) and sonar systems.

Value of production at 30 September 2003 was EUR 705 million, compared to EUR 630 million at 30 September 2002, with significant contributions from the following:

- in missile systems: work on the ASRAAM short-range air-to-air missiles for the UK ministry of defence; the MICA multimission missile for the French and United Arab Emirates defence ministries; the PAAMS surface-to-air ship-launched missile system and the FSAF ground-based missile; the Storm Shadow air-to-surface missile systems for the UK ministry of defence and SCALP EG air-to-surface missile systems for the French DGA, as well as customer support;
- in land, naval, and air weapons systems, supply of the Dardo armoured vehicle to the Italian army, production of guided bombs for the Italian air force, and production of 76/62 naval cannons;

- in underwater weapons systems, production of MU90 light torpedoes.

At 30 September 2003, **EBITA** stood at EUR 42 million, an increase of EUR 7 million on September 2002.

OTO Melara in particular showed a marked improvement on the same period last year, thanks to more profitable activities than in the past and better use of resources at the Brescia plant.

New orders totalled EUR 752 million in the first nine months of 2003, an increase of EUR 310 million on the figure posted in the same period in 2002.

The main orders secured during the third quarter related to the PAAMS and MICA missile systems, the development of the ASMPA air-to-surface missile for the French DGA and the supply of Exocet anti-ship missiles to Malaysia.

The **order backlog** was EUR 4,254 million, in line with the figure at 31 December 2002; this is equivalent to around four years' work.

The **headcount** at 30 September 2003 was 4,162, a drop of 44 from the figure posted at 31 December 2002.

TRANSPORTATION

EUR million	30.09.2003	30.09.2002	3Q03	3Q02
New orders	1,334	928	162	539
Order backlog	3,544	2,922	n.a.	n.a.
Value of production	917	900	298	300
EBITDA	56	52	25	20
EBITA	38	33	20	14
EBIT	35	29	18	13
ROS	3.8%	3.2%	6.0%	4.3%
Personnel (no.)	5,811	5,641	n.a.	n.a.

The transport sector comprises the 100%-owned subsidiary Ansaldo Trasporti Sistemi Ferroviari SpA (systems), Ansaldo Signal (signalling) and AnsaldoBreda (vehicles).

In the first nine months of 2003, the world transport systems market saw moderate growth worldwide, continuing the trend observed in 2002. Europe was the most important region by size. Recent orders secured in Italy bear witness to an upturn in investment. In its recently -approved economic and financial planning document, the government placed great emphasis on large strategic infrastructure projects of vital national interest.

Value of production at 30 September 2003 was in line with the same period of 2002. The main contributors included:

- vehicles: the Madrid metro, DMU trains for Danish railways, upgrading of the ETR500 trains and new multi-voltage ETR locomotives for Trenitalia, and the Sirio tram for Athens and Milan;
- systems: orders relating to the Italian high-speed rail network, and the Copenhagen, Genoa and Dublin metros;

- signalling: the Railtrack Route Planner order in the UK, orders relating to the high-speed rail networks in Italy, Spain, China and Korea, and the production of components.

EBITA for the first nine months of 2003 was up on the same period last year, chiefly thanks to higher profitability in the signalling business, which was due in part to measures taken to improve efficiency.

New orders acquired during the first nine months of 2003 totalled EUR 1,334 million, an increase of EUR 406 million on the same period of 2002.

The main ones included:

- vehicles: revamping of coaches for the Paris metro (RATP) and Trenitalia, vehicles for the Brescia driverless metro, trams for Los Angeles and Florence (Sirio), and trains for Ferrovie Nord di Milano's regional service;
- systems: various orders for the Italian high-speed train system, and the Copenhagen and Brescia driverless metros;
- signalling: the second phase of the Channel Tunnel Rail Link in the UK, orders relating to SCMT automatic train control systems and ACS equipment in Italy, the order for a centralised traffic control system from CSX in the US and the order from STM relating to the Montreal-Laval line in Canada;

Thanks to this sharp rise in new orders, the **order backlog** shot up from EUR 3,138 million at 30 September 2002 to EUR 3,544 million.

The **headcount** at 30 September 2003 was 61 up on the figure at 31 December 2002.

ENERGY, INFORMATION TECHNOLOGY and OTHER ACTIVITIES

EUR million	30.09.2003	30.09.2002	3Q03	3Q02
New orders	753	1.089	177	375
Order backlog	2,128	2,310	n.a.	n.a.
Value of production	947	992	293	323
EBITDA	28	17	12	13
EBITA	(4)	(24)	2	(1)
EBIT	(5)	(26)	2	(1)
EBITA margin	(0.5%)	(2.6%)	0.7%	(0.3%)
Personnel (no.)	6,310	6,688	n.a.	n.a.

The sector includes **Ansaldo Energia** (equipment and components for combined and simple energy cycle power generation, services and nuclear power plants), which in the first nine months of 2002 included Ansaldo Energia Trasmissione e Distribuzione Srl, sold at the end of the year 2002. The energy market continues to be affected by a downturn compared to 2000-2001, with demand for new plants falling. This trend has been offset by growth in services, as the number of combined cycle plants in use increases. While the domestic market is beset with problems in gaining authorisation for new plants on environmental grounds, some greenfield projects, including two initiatives developed by Ansaldo Energia and International Power, look set to be approved in the near future.

The main orders secured over the first nine months of the year related to the third tranche of the contract to supply gas turbines, alternators and services to Iran's electricity company, and services and engineering work for the second nuclear reactor at Cernavoda, Romania.

Construction work and associated plant for the contracts relating to Enipower, Iran, Ballylumford, Electrabel for the Voghera and Rosignano sites and others accounted for 81% of value of production, and services for 16%, while the remainder came from nuclear contracts.

Elsag (IT services) continued to be affected by the slowdown in the IT market witnessed the previous year, and there are no signs of a recovery as yet. This increased competitive pressures

and reduced average profitability in the sector. The company is therefore continuing its rationalisation programme aimed at increasing efficiency, and is gradually refocusing its product portfolio towards higher value-added areas with a view to improving its competitive position.

During the first nine months of 2003, Elsag was active in :

- ? designing, integrating and supplying IT systems for improving production processes and providing logistic solutions for companies chiefly operating in industry, banking, public and private services, postal services, security, and defence;
- ? supplying long-term services such as outsourced information systems, management and maintenance of equipment and systems, and administrative and personnel management services;
- ? the manufacture of and technical assistance for automates postal systems.

Other activities include: BredaMenarinibus (urban and long-distance buses); Elsacom (satellite telephone services); Otto (which is expected to be wound up shortly once contractual disputes have been settled); Mecfin (real estate management and services); Iritech (which has completed the disposal of minor shareholdings and has acquired a stake in Ansaldo Ricerche with the aim of spinning off its divisions and managing them in co-operation with other companies); Finmeccanica Finance (providing financial support to the group as a whole), and other smaller companies.

STMICROELECTRONICS

USD million	30.09.2003	30.09.2002	3Q 2003	3Q 2002
Value of production	5,125	4,531	1,804	1,645
EBIT (*)	374	422	129	197
Net profit	109	269	(49)	131
ROS	7.3%	9.3%	7.1%	12%

(*) Before restructuring charges of USD 193 million at 30 September 2003 and USD 30 million at 30 September 2002.

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

It designs, develops, produces and sells a wide range of integrated semiconductor circuits and discrete devices for use in numerous micro electronic applications including telecommunications, IT, consumer electronics, auto electronics and industrial control and automation systems.

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

At 30 September 2003, Finmeccanica held an indirect stake in STMicroelectronics of about 18.09%.

The company is valued at equity in Finmeccanica's balance sheet.

Difficult market conditions continued in the first nine months of the year, with heavy pressure on prices caused by overcapacity.

Costs relating to the restructuring programme and related changes to production—which should be completed in the next 18 months—have been estimated at a total of around USD 350 million, of which USD 193 million was booked in the third quarter of 2003. Excluding these costs, the company posted a 13% rise in revenues on the same period in 2002. Profitability was broadly in line with the first half of 2003, with the EBITA margin at 7.3%.

Third-quarter highlights and significant events since 30.09.2003

Industrial operations

As described in the half-year report, on 1 July 2003, the company completed the purchase of 67.2% of **Aeronautica Macchi SpA**—which owns 100% of **Aermacchi SpA**—for EUR 155 million.

Following the operation, as part of the programme to rationalise the group's shareholdings and simplify its control structure, the extraordinary Shareholders' meetings of the two companies approved, on 13 October, the merger of Aermacchi SpA into Aeronautica Macchi SpA, which will be renamed Aermacchi SpA.

An offer for the remaining 5% of Aeronautica Macchi SpA shares was also launched in October. The operation is nearing conclusion based on the acceptances received.

On 3 July, Finmeccanica signed a memorandum of understanding with BAE Systems to form a partnership known as **Eurosystems**; the two groups have since been working towards defining and evaluating the scope of activities involved.

On 17 July, the acquisition of **Marconi Mobile Access SpA** was completed at a token price, after the company was recapitalised by its previous owner.

On 29 September, the company acquired 30% of **Aero Invest 1 SA**. On 1 July, Finmeccanica signed an agreement with investment fund the Carlyle Group—which owns the remaining 70%—and Fiat SpA to take over the activities of Avio SpA, which were subsequently transferred to Aero Invest 1SA via Avio Holding SpA. Finmeccanica funded the operation to the tune of EUR 142 million.

Lastly, as part of its policy to keep invested capital under control, the company began an assessment of its non-consolidated investments with a view to greater rationalisation.

Financial operations

As explained in the half-year report and as outlined above, on 1 September 2003, the group completed the issue of a EUR 501 million bond loan, convertible into STM shares.

The group also sold four million STM shares on the market in September. In the first half of November, taking account of the performance of the stock market and STM shares in particular, Finmeccanica sold a further 1.5 million STM shares on the market, generating proceeds of EUR 34.9 million.

Other significant events

On 1 October 2003, the European Commission notified the Italian foreign ministry that it had begun a formal investigation under article 88 of the EC treaty into government grants relating to six research and development projects awarded to Alenia Aeronautica, Aermacchi and Agusta under law 808/85. The Commission believes that these grants constitute state aid. It stated that it was not notified of these grants, even though they were all in excess of the ECU 20 million ceiling. The Italian authorities are currently preparing their response to present to the Commission.

Outlook

The current unsatisfactory national and international economic situation, the highly volatile financial markets and related investor unease, continuing public spending cuts and greater difficulties in gaining the green light for investments, all confirm the concerns over the group's outlook expressed in the half-year report.

In light of these factors, the group expects its 2003 EBITA margin to be lower than the 2002 figure, despite the fact that EBITA itself is likely to be broadly in line with last year.

Value of production is however expected to rise strongly, thanks partly to the acquisitions made during 2003 and in the second half of 2002.

It may be necessary to earmark further extraordinary provisions in the last quarter of the year to cover the restructuring process and the changed market situation—especially in the divisions hardest hit by the economic downturn. This will naturally have a negative effect on net profit.

Note that payments, particularly those from the Italian public administration, may be delayed. This situation will require careful and constant monitoring to ensure the group remains financially sound.

For the board of directors
The Chairman and Chief Executive
Pier Francesco Guarguaglini