Press release

September 13, 2004

Board of directors approves half-year 2004 report: consolidated net profit jumps 43% to EUR 40 million, while value of production rises 6.4% to EUR 4,310 million

Operating profits improve (EBITA + 29% to EUR 203 million), as do margins (EBITA margin up from 3.9% to 4.7%)

Finmeccanica posted better-than-expected results for the first half of 2004, which were also an improvement on the same period of last year. In addition to a rise in value of production, pre-tax profit and net profit, there was also a sharp increase in operating profitability compared with 1H03. This bears out the group's ability to remain profitable while maintaining a strong capital and financial base, at the same time as pursuing a growth strategy entailing a significant increase in spending on new acquisitions and R&D. During the period, Finmeccanica reached an agreement to acquire the remaining 50% stake in AgustaWestland. It also signed a memorandum of understanding with Alcatel Space for a joint venture to create Europe's biggest space company, as well as making progress on defining the new EuroSystems alliance.

Key 1H04 figures

- **Value of production** rose by EUR 259 million (or 6.4%), from EUR 4,051 million in 1H03 to EUR 4,310 million in 1H04.
- **Net profit** rose by 43%, from EUR 28 million in 1H03 to EUR 40 million in 1H04. The figure includes Finmeccanica's share of STMicroelectronics (EUR 32 million, up from EUR 27 million in the same period of last year) and Avio, (EUR –9 million). **Net profit** from Finmeccanica's core activities was EUR 17 million, from EUR 1 million in 1H03.
- **EBITDA** jumped by EUR 63 million, from 267 million in 1H03 to EUR 329 million (+23%). **EBITA** increased by 46 million to EUR 203 million, from EUR 158 million last year (+29%). The EBITA margin also improved, from 3.9% to 4.7%. **EBIT** rose by EUR 42 million, from EUR 118 million in 1H03 to EUR 160 million in 1H04 (+35%).
- The group secured **new orders** worth EUR 3,447 million, compared with EUR 3,858 million in the same period of last year. The drop of EUR 411 million was due to poor performances from the Energy and Defence Systems businesses. The **order backlog** at 30.06.04 was worth EUR 21,731 million, down EUR 545 million on 31.12.03; this is equivalent to around 2.5 years' production.
- **Net debt** was EUR 717 million, from EUR 256 million at 31.12.03, due to the seasonal nature of the group's business, in which payments to suppliers are concentrated into the first half of the year, while receipts from customers come mostly in the second half
- The group invested EUR 625 million in **Research and Development** in the period, equivalent to about 14.5% of value of production. This compares with EUR 559 million in the same period of 2003.

During the period Finmeccanica posted a 6.4% rise in value of production, which increased from EUR 4,051 million in 1H03 to EUR 4,310 million in 1H04, thanks to an upturn in volumes and especially to Aeronautics (+15% not including the contribution from the newly-acquired Aermacchi), following a good performance from military aircraft and from increased activities in Defence Electronics (+14%); Defence Systems (+12%); Space (+7%) and Transport (+12%). This offset the drop in activity in the Helicopters and Energy businesses (as foreseen). Consolidated net profit stood at EUR 40 million, from EUR 28 million in 1H03. Stripping out Finmeccanica's share of the profit of STMicroelectronics (EUR 32 million, up from EUR 27 million last year) and its share of the net loss posted by Avio, (EUR –9 million), consolidated net profit generated by the group's consolidated businesses stood at EUR 17 million, compared with EUR 1 million in 1H03. This growth was due to an improvement in operating profits as a whole: EBITDA jumped by 23%, from EUR 267 million in 1H03 to EUR 329 million in 1H04 accompanied by an improvement in the margin from 6.6% to 7.6%; EBITA rose from EUR 158 million to EUR 203 million; and EBIT went up from EUR 118 million to EUR 160 million in the same period.

Consolidated net debt at 30 June 2004 was EUR 717 million, compared with EUR 256 million at end-2003. This large increase was due to the seasonal nature of the group's business, in which payments to suppliers are concentrated into the first half of the year, while receipts from customers come mostly in the second half. However, Finmeccanica's debt remains at only 21.8% of consolidated net equity, well below the sector average and well within the limits of a conservative financial management policy.

Research and development

Finmeccanica is Italy's leading high-tech company, and in the first half of the year all its subsidiaries, co-ordinated by the parent company, continued to update their respective technology programmes. In Aerospace and Defence, the group is working on developing technologies that can be applied to a whole range of different systems. The results of this were seen recently in the production by the group of radar antennae for the Cosmo-SkyMed satellite. In the field of materials and structures too—key factors in the development of modern UAV and UCAV systems—the group continued developing low-signature and high-resistance equipment using composite materials and advanced welding techniques. Finmeccanica also continued to focus on product R&D in areas such as radar; multi-functional surveillance systems via both aircraft and satellite using state-of-the-art SAR (Synthetic Aperture Radar) techniques; missile systems; electro-optics for battlefield applications, for use in integrated land and naval defence systems, and for applications on fixed-wing aircraft and helicopters; secure communications; orbiting structures and scientific and telecommunications payload satellites; orbital and space services management; command and control systems (C2-C4); and aeronautic platforms. In the area of homeland security, the group has began research into television, biometric and encryption technology and registration plate readers.

First-half highlights and significant events since June 2004

In the first half of 2004 and afterwards, Finmeccanica has launched a number of strategic and financial initiatives that involved some of the group's main subsidiaries. Following the memorandum of understanding signed last year, on 18 March 2004 Finmeccanica and BAE Systems reached a preliminary agreement on the value of the respective assets to be transferred to the new EuroSystems joint venture, and on the scope of the various businesses. The due diligence process is currently under way. The Space division also took an important step forward with the signing on 17 June of a memorandum of understanding with Alcatel SA relating to a possible partnership with Alenia Spazio SpA and Telespazio SpA. The due diligence procedures are expected to be completed by September 2004, while the final agreements should be drawn up by the end of the year. On 26 May 2004 Finmeccanica signed a letter of intent with GKN plc to buy its 50% stake in AgustaWestland, based on a value of around EUR 1.5 billion, plus EUR 93 million for the production plants owned by GKN but already used by AgustaWestland. On 27 July 2004 the final purchase agreement was signed, and the operation is expected to be concluded by the end of the year.

Outlook

The crisis in the civil aviation market appears to have stabilised, and an upturn is expected from 2006. Meanwhile, in helicopters, Finmeccanica intends to pursue its strategy of increasing its presence in the UK and US defence markets. Uncertainty remains over the short- and medium-term prospects for the commercial space market, although demand from the EU is increasing, and is likely to be the source of most activity over the next few years. Defence Electronics has seen significant growth across the board, but especially in communications, while the Defence Systems division is also doing well, with missile activities posting the best performance. Investment in heavy and light rail systems in Europe is looking up, and the group is therefore moderately upbeat on the prospects of a recovery in its Transport division. In the Information Technology and Energy divisions, the ongoing price pressures that have depressed profitability over the last two and a half years look set to continue. Overall the Group expects to increase its revenues further in the second half of the year, thanks to a solid order backlog that can guarantee stable results at least in the short to medium term. Full-year EBITA is forecast to come in at slightly higher than the figure for 2003.

Group value of production is therefore expected to rise by some 7% this year, and by around 4% in 2005. EBITA is forecast to total more than EUR 550 million in 2004 and more than EUR 600 million in 2005. As already clearly stated in the 2003 Annual Report, investments planned for this year necessary for developing new production models (in part already implemented), will require an increase in net debt—although debt ratios will nevertheless remain within the group's conservative targets.

The effects of the recently announced cuts in public spending on Italy's defence budget (particularly investment) remain a cause for concern. Finmeccanica—like other large industrial groups exposed to government spending in Europe—therefore risks seeing a contraction in orders in the medium term.

Consolidated profit & loss and balance sheet

Note that a further 67.31% of Aermacchi SpA (of which Alenia Aeronautica SpA already owned 25.46%) was acquired on 1 July 2003.

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CONSOLIDATED PROFIT AND LOSS ACCOUNT				
(In EUR thousand)	**1H 2004**	**1H 2003**	**Change %**	**2003**
REVENUES	**4.109.055**	**3.913.747**		**8.279.420**
VALUE OF PRODUCTION	**4.310.018**	**4.050.546**	***6%***	**8.646.211**
Cost of goods and services	(2.699.269)	(2.613.374)		(5.560.718)
VALUE ADDED	**1.610.749**	**1.437.172**		**3.085.493**
Labour cost	(1.268.253)	(1.153.590)		(2.339.691)
Other provisions	(12.348)	(21.277)		(33.909)
Provisions for risks and charges	(39.451)	(44.652)		(79.611)
Other income (charges)	38.697	49.186		157.850
EBITDA	**329.394**	**266.839**	***23%***	**790.132**
Depreciation	(137.901)	(121.533)		(267.156)
Revenue from capital grants	11.931	12.273		26.074
EBITA	**203.424**	**157.579**	***29%***	**549.050**
EBITA margin (%)	*4,7%*	*3,9%*		*6,4%*
Goodwill amortisation	(43.815)	(39.564)		(82.007)
EBIT	**159.609**	**118.015**	***35%***	**467.043**
EBIT margin (%)	*3,7%*	*2,9%*		*5,4%*
Financial income (expenses)	(24.025)	(14.339)		(39.080)
Exchange rate gains (losses)	470	1.263		(6.257)
Increase/decrease in the value of investments	48.783	49.758		162.058
of which STMicroelectronics	32.000	27.000		41.000
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX	**184.837**	**154.697**	***19%***	**583.764**
Extraordinary income (expenses)	(49.586)	(31.808)		(173.091)
PRE-TAX PROFIT	**135.251**	**122.889**	***10%***	**410.673**
Tax	(95.017)	(94.708)		(211.416)
NET PROFIT	**40.234**	**28.181**	***43%***	**199.257**
Minority interests	(1.853)	(6.477)		(10.592)
NET ATTRIBUTABLE PROFIT	**38.381**	**21.704**	***77%***	**188.665**

Value of production rose by more than 6% on 1H03, from EUR 4,051 million to EUR 4,310 million. The most significant increases came in Aeronautics (+15% without taking account of Aermacchi in order to provide a like-for-like comparison), due to a higher contribution from military orders and especially the one-off supply of equipment for the Eurofighter; Defence Electronics (up by around 14% across the board); Transport (+12%); Defence Systems (+12%) and Space (+7%).
The Helicopters and Energy divisions both saw their sales drop by around 15%, however. For the former, this was due mainly to the completion of some domestic contracts, while Energy's drop in sales was due to reduced activity for the Enipower project.

Personnel costs stood at EUR 1,268 million, from EUR 1,154 million in 1H03, owing, mainly, to increased staff numbers.
The average headcount was 46,007, up from 44,006 in 1H03—the combined effect of an increase following the changed basis of consolidation and a reduction due to normal staff turnover.
The headcount at 30.06.04 stood at 46,780, a fall of 81 on the 46,861 registered at 31.12.03, again owing to the changed basis of consolidation and normal turnover.

Other income and charges were positive to the tune of EUR 38 million, a decline on the income of EUR 49 million generated in 1H03. The income component includes gains on real estate investments, insurance refunds, the recovery of costs, the recovery of receivables from insolvent countries and the use of provisions (EUR 21 million, from EUR 37 million in 1H03) relative to contract risks and risks on aeronautics activities, guarantees and other provisions earmarked in previous years and made available following ordinary operations to offset costs incurred during the period. EUR 6 million of the income component came from the cancellation of payables following the renegotiation by some companies of receivables and payables with suppliers. Charges included direct and indirect taxes, fines and contributions to severance funds.

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EBITDA rose by EUR 62 million (+23%) to EUR 329 million, from EUR 267 million in 1H03. This was due partly to an improved order mix and partly to the wider basis of consolidation. As regards the better order mix, Defence Electronics saw its EBITDA jump by around 41%, thanks to good performances across the board; Transport posted a rise of 39% thanks to signalling and systems; and Defence Systems registered a 19% rise in EBITDA as a result of higher production volumes and the increased profitability of missile systems.
The growth generated by Aeronautica (around 39%) was almost entirely due to the consolidation of Aermacchi. The Space business also saw an improvement, since in the same period of last year it was hit by high risk provisions earmarked as part of the restructuring plan completed at the end of 2003, which at 30.06.03 had not yet been recorded under extraordinary charges.
These increases were partly offset: by a 16% contraction in the Helicopters business due to the acquisition of new export contracts under very competitive conditions and to the above-mentioned drop in volumes; by a 32% drop in Energy, which suffered not only from reduced production volumes, but also from a shift in activity towards less profitable orders from overseas; and by a 50% slide in Information Technology due to lower volumes and fierce competition on the wider market.

Depreciation was up year on year, mainly because of the changed basis of consolidation. The figure totalled EUR 138 million (from EUR 122 million in 1H03); EUR 109 million of this related to tangible assets (from EUR 98 million in 1H03), and EUR 29 million to intangible assets (EUR 24 million in 1H03).

EBITA came in at EUR 203 million, an increase of EUR 45 million (around 29%) on the EUR 158 million posted in 1H03. The rise in operating profit was due to the Aeronautics division, which benefited from the contribution of Aermacchi (which accounted for around 5% of the increase); an increase in Defence Electronics, Defence Systems and Transport; and to a significantly improved performance from the Space division, which last year set aside large sums to cover the planned restructuring programme, especially with respect to Alenia Spazio. These increases were offset by a contraction in the Helicopters business for the reasons outlined above, and by declines in the Energy and IT divisions, caused mainly by a fall in production and by the reduced profitability of activities during the period.

Goodwill amortisation rose from EUR 40 million in 1H03 to EUR 43 million, owing mainly to the acquisition of Aermacchi.

For the reasons mentioned above, **EBIT** shot up by EUR 42 million (or 35.5%), from EUR 118 million in 1H03 to EUR 160 million in 1H04.

Financial income and expenses came out negative at EUR 24 million, with costs up EUR 10 million on the EUR 14 million generated in 1H03. The rise was due mainly to an increase in average debt (since the group invested heavily in acquiring new companies in 2003); to a narrowing of the spread between interest charges and interest income (due to the long-term fixed-rate bonds issued in 2H03); and to a reduction in the interest rate paid on tax credits, which generated lower income than previously.

The **increase in the value of investments** was EUR 49 million (from EUR 50 million in 1H03). The figure includes Finmeccanica's share of STMicroelectronics Holding NV (EUR 62 million, from EUR 27 million in the same period of 2003)—valued, like all the group's non-consolidated holdings, at equity. The group benefited in particular from the sale by STMicroelectronics Holding of 3 million STMicroelectronics NV shares, which generated a capital gain of EUR 30 million. The item also includes a reduction in the value of other investments valued at equity, of which EUR 9 million relates to the subsidiary Aero Invest 1 SA.

Net extraordinary expenses totalled EUR 50 million, from EUR 32 million in the same period of 2003, and related mainly to redundancy payments and other restructuring costs (EUR 42 million, from EUR 30 million in 1H03), net of provisions already earmarked in previous years.

Tax was in line with the figure for 1H03, and consisted of IRAP (EUR 48 million, from EUR 42 million in 1H03), IRES (corporate income tax) and other direct taxes (EUR 28 million and EUR 19 million respectively, compared with IRPEG payments of EUR 32 million and other taxes of EUR 32 million in 1H03), and net deferred tax credits of EUR 0.3 million (from EUR 11 million in 1H03).
IRES tax was reduced by some EUR 11 million thanks to the inclusion of some group companies in the new system of consolidated tax calculation.

BALANCE SHEET			
(Eur 000)	**30/06/2004**	**31/12/2003**	**30/06/2003**
Intangible assets	1.187.619	1.198.243	1.167.100

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Tangible assets	1.696.911	1.692.357	1.560.655
Long-term investments	1.406.326	1.418.997	1.434.930
TOTAL NON-CURRENT ASSETS	**4.290.856**	**4.309.597**	**4.162.685**
Inventory (net of progress billings)	7.382.876	6.719.753	6.209.459
Trade receivables	3.205.955	3.327.889	3.142.940
Other assets	1.047.123	1.136.784	1.347.805
Trade payables	(2.343.047)	(2.564.344)	(2.614.186)
Customer advances	(4.425.163)	(4.231.639)	(4.233.074)
Provisions for risks and charges	(1.222.777)	(1.107.606)	(1.192.877)
Other liabilities	(3.216.947)	(3.317.692)	(2.450.116)
WORKING CAPITAL	428.020	(36.855)	209.951
of which operating working capital	3.820.621	3.251.659	2.505.139
STAFF SEVERANCE FUND	**(718.792)**	**(714.089)**	**(664.175)**
NET INVESTED CAPITAL	**4.000.084**	**3.558.653**	**3.708.461**
covered by:			
SHAREHOLDERS' EQUITY	**3.283.148**	**3.302.169**	**3.180.293**
NET DEBT	**716.936**	**256.484**	**528.168**
TOTAL	**4.000.084**	**3.558.653**	**3.708.461**

Working capital was positive to the tune of EUR 428 million, compared with a negative figure of EUR 37 million at 31.12.03.

In the same period, **operating working capital**, consisting of inventory and work in progress, trade receivables, trade payables, advances from customers and progress billings, increased by around EUR 569 million. This was the combined effect of:

- an increase in “inventory and work in progress” (net of progress billings of EUR 8,661 al 30.06.04, from EUR 8,138 million at 31.12.03, recorded under the item “customer advances and progress billings”), due mainly to higher spending in the Aeronautics division for the start-up of new programmes and the production of prototypes, and to increased volumes in Defence Systems, Defence Electronics and Transport;
- an increase of EUR 99 million in “trade receivables net of trade payables” compared with 31.12.03. The reduction in trade receivables in the Space division was due mainly to an optimisation of receivables and payables, while the decline in trade payables related mainly to Aeronautics, Space, Defence Systems and Transport;
- advance payments from customers (recorded under the item “customer advances and progress billings”), which rose by EUR 193 million, from EUR 4,232 million at 31.12.03 to EUR 4,425 million at 30.06.04, thanks chiefly to missile activities in the Defence Systems division, and to the Helicopters and Transport businesses.

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Cash flow statement

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

DEBT *(in EUR million)*	**30/06/2004**	**31/12/2003**	**30/06/2003**
Short-term financial debt	65	86	114
Current portion of medium- to long-term financial debt	64	84	76
Medium- to long-term financial debt (net of current portion)	2.268	2.304	1.313
Cash on hand or equivalent	(1.617)	(2.234)	(672)
NET BANK DEBT	**780**	**240**	**831**
Interest-bearing securities owned	(18)	(20)	(31)
Government bonds	(22)	(63)	(68)
Loans to third parties	(458)	(504)	(469)
Loans to subsidiary and affiliated companies	(119)	(116)	(221)
Loans from subsidiary and affiliated companies	381	440	382
Liabilities to industry ministry (MAP)	62	65	61
Other financial liabilities	111	214	43
NET DEBT	**717**	**256**	**528**
(*) of which equivalent€mil.:	1	4	-

The group's **net debt** rose from EUR 256 million at 31.12.03 to EUR 717 million at 30.06.04. The increase of EUR 461 was partly due to the typical situation whereby the group's outgoings are concentrated in the first half of the year, but was also due to the early receipt of payments for some contracts, which were recorded in 2003 instead of 2004, and thus benefited last year's results.

The imbalance in operating cash flows is likely to intensify over the next few months, but will then ease off towards the end of the year, although there is a possibility that difficulties in receiving payments from the Italian Public Administration could partially offset this expected seasonal improvement.

Aside from the situation outlined above, group debt was also affected by the payment in June of a 2003 dividend of EUR 84 million by Finmeccanica SpA, and of EUR 4 million by other group companies to minority shareholders; by income from the non-recourse factoring of EUR 106 million of tax credits by Finmeccanica SpA in June; by the receipt of EUR 18 million in ordinary dividends from STMicroelectronics (STM) and STMicroelectronics Holding (STH) in June; and by the receipt of an extraordinary dividend of EUR 52 million paid by STH following its sale of 3 million STM shares in June at a price of around EUR 17.46 per share.

SHARE DATA	***1H04***	***1H03***	**% Chg. Y/Y**
Average number of shares issued	8.435.175.083	8.430.602.119	0,1%
Average number of fully-diluted shares*	9.055.718.773	8.921.909.224	1,5%
EPS issued incl. STM (Euro cents)	0,48	0,33	42,7%
Fully-diluted EPS incl. STM (Euro cents)	0,44	0,32	40,7%
EPS issued excl. STM (Euro cents)	0,10	0,01	n.s
Fully-diluted EPS excl. STM (Euro cents)	0,09	0,01	n.s

* The average number of fully-diluted shares includes:

- the bond convertible into 468,254,250 ordinary Finmeccanica shares, issued at a face value of EUR 1.875 and convertible at a rate of one bond per Finmeccanica share between 08/06/2000 and 08/06/2005;
- Note that the shareholders' meeting of 23/11/1999 authorised the board of directors to increase the share capital, as part of a stock option plan, via the issue of up to 35,000,000 ordinary shares with nominal value of EUR 0.22 each, to be reserved for senior managers of Finmeccanica SpA and its subsidiaries.

The plan concluded with the awarding of options for 17,287,755 Finmeccanica shares, of which 16,737,339 had been exercised by the expiry date, and for which the relative capital increase has already been carried out.

The ordinary and extraordinary shareholders' meetings of 16/05/2003 voted to implement a new long-term incentive plan (LTIP) for key employees of Finmeccanica SpA and its subsidiaries. The new plan will give staff options on Finmeccanica SpA ordinary shares, subject to the achievement of performance targets. Each option will give the right to buy one Finmeccanica share at a price not lower than its "normal" value—agreed at EUR 0.70—in order to render the plan efficient for tax purposes. As a result of this decision, on 12/11/2003 Finmeccanica's board of directors voted to replace the previous long-term incentive plan (also for senior managers and key employees of Finmeccanica SpA and its subsidiaries), approved on 14/11/2002, with the new plan.

Up to 150,000,000 shares have been reserved for the new plan; these may be made available via the issue of new shares and/or via the buy-back of Finmeccanica's own shares. The board of directors shall decide which method to use depending on the share's performance at the time and its expected future prospects.

Results by sector of activity

AERONAUTICS—Alenia Aeronautica, Aermacchi*
Value of production: EUR 781 million (+36% vs. 1H03); EBITA: EUR 41 million (+17%)

Against a backdrop of growth in the military business (which includes the Eurofighter, C-27J, M346, SF260, AMX, Tornado and MB 339 projects), and stagnation in the civil sector (including production for Airbus, Boeing, ATR and Dassault), the group secured orders worth EUR 482 million in the first half, an increase of EUR 132 million on 1H03. The total order backlog was worth EUR 3,884 million (from EUR 4,075 million at 31 December 2003), of which 48% relates to the Eurofighter programme. First-half value of production was EUR 781 million, up from EUR 575 million in 1H03. This was mainly thanks to Aermacchi and a greater contribution from the military business—especially the Eurofighter—which made up for the fall in production in the civil sector. EBITA came in at EUR 41 million, up from EUR 35 million in 1H03, thanks to production at Aermacchi and a positive trend in the second quarter of the year. The division spent EUR 138 million on research and development in the period, some EUR 57 million more than in 1H03. Again, this was due to the consolidation of Aermacchi, as well as to the start-up of innovative programmes such as UCAV (Unmanned Combat Air Vehicles), M346, A380 and B7E7. The headcount at 30 June 2004 was 10,669, a rise of 226 compared with end-2003.

(*) Aermacchi was acquired on 1 July 2003; figures for the two quarters are therefore not directly comparable.

Helicopters—AgustaWestland*
Value of production: EUR 1,122 million (-15% on the EUR 1,315 million posted in 1H03); EBITA: EUR 110 million (-15%).

AgustaWestland secured a number of important orders in the first half: the Japanese navy ordered another two EH101 helicopters, eight orders were received for the AB139, while 20 A109 and A119 helicopters were sold. Total new orders in 1H04 stood at EUR 544 million, an increase of EUR 31 million on 1H03. The division's product support activity did extremely well. The order backlog was worth EUR 5,744 million, down 7% on the figure at 31 December 2003, and equivalent to around 2.5 years' value of production. First-half value of production totalled EUR 1,122 million, a drop of around 15% on the same period of last year, owing mainly to the completion of a number of important orders for Italy and the UK, which was partly offset by new export agreements. EBITA came in at EUR 110 million, a fall of EUR 20 million on the same period of 2003 due to the different order mix and the reduction in volumes, partially offset by higher product support and retrofit activities Research & development expenditure came to EUR 218 million up from EUR 195 million in 1H03. At 30.06.04 the headcount totalled 8,864.

* figures and comments refer to 100% of the company

Space—Alenia Spazio, Telespazio
Value of production: EUR 358 million (+7 % on the EUR 336 million generated at 30.06.03); EBITA: EUR 1 million (from EUR–35 million in 1H03)

The commercial space market continues to suffer from the difficulties experienced by telecommunications companies, which are hampering demand for new telecoms systems (this market is only now showing the first signs of an upturn) and further delaying the launch of new broadband systems for multimedia applications. However, the whole European space sector will benefit in the short to medium term from the Galileo programme, which will see the launch of 30 satellites by 2010. Alenia Spazio, together with Alcatel, EADS and a number of other partners, through the company Galileo Industries, will be responsible for developing the manufacturing phase of the programme. In the area of services, Telespazio is bidding jointly with other companies for the concession to complete the satellite constellation and to work on signal transmission management.
The Finmeccanica space sector secured orders worth EUR 249 million in 1H04, while the order backlog totalled EUR 1,081 million, a dip of around 9% on the figure at 31.12.03. Value of production rose to EUR 358 million during the period. EBITA stood at EUR 1 million, a sharp improvement compared to the loss of EUR 35 million posted in the same period of 2003 (which incorporated significant risk provisions). The division also benefited from the continued rationalisation and restructuring process, and from an improved mix of activities. Research and development costs came in at EUR 51 million from EUR 45 million in 1H03. The headcount at 30.06.04 was 3,679.

Defence electronics—Galileo Avionica, OTE, Marconi Selenia Communications, AMS, International Naval Systems division *

Value of production: EUR 982 million (+14% on the EUR 858 million posted in 1H03); EBITA: EUR 76 million (+49%)

The defence electronics sector recorded a good performance in the first half of the year, especially in terms of profit margins. Once again, this was partly due to cost-cutting efforts and increased production efficiency. Orders secured in the first half amounted to EUR 858 million, compared with EUR 857 million in 1H03. The order backlog was worth EUR 3,549 million, down EUR 39 million on 31.12.03. The division generated EUR 982 million of value of production during the period, an increase of around 14% on 1H03, thanks chiefly to increased volumes at the joint venture AMS, and to the complete consolidation of the communications activities. EBITA rose sharply year on year—jumping EUR 25 million to EUR 76 million—thanks especially to the contributions of avionics and AMS. This all led to an improvement in the EBITA margin, which stood at 7.7% in 1H04, approximately two percentage points higher than in the same period of last year. The division spent EUR 206 million on R&D, a rise of 5% on 1H03. The headcount at 30 June was 11,819.

*The figures shown are not like-for-like owing to the acquisition of OTE in March 2003

Defence Systems—OTO Melara, WASS, MBDA
Value of production: EUR 519 million (+12% on the EUR 463 million posted in 1H03); EBITA: EUR 33 million (+14%)

Despite sluggish demand, in the first half of 2004 the defence systems business continued the positive trend seen in 2003, with an improvement in both revenues and profitability, thanks partly to the results of several rationalisation and efficiency programmes carried out in previous years. The division acquired orders worth a total of EUR 283 million in the period, compared with EUR 432 million in 1H03. The order backlog stood at EUR 4,432 million, a reduction of 253 million compared to the figure at 31 December 2003. First-half value of production came in at 519 million, a jump of 12% on the same period of last year thanks to growth at MBDA, and, to a lesser extent, increased activity in land and naval defence systems. EBITA rose by EUR 4 million year on year, to EUR 33 million, thanks especially to the improved performance of MBDA, which benefited from greater volumes and more profitable activities than in previous years, as well as from a cut in personnel costs. Research and development costs totalled EUR 97 million, while the headcount at 30 June 2004 was 4,130.

Transport—Ansaldo Trasporti Sistemi Ferroviari, Ansaldo Signal, AnsaldoBreda
Value of production: EUR 697 million (+12% from EUR 620 million in 1H03); EBITA: EUR 31 million (+63%)

The rail and tram systems and components market continued to perform in a similar way to previous years, with modest growth worldwide and a positive investment trend in Europe. The division secured orders totalling around EUR 1,087 million during the period. This was a slight dip on the EUR 1,172 million generated in the same period of last year. The order backlog was up EUR 411 million on 31.12.03 to EUR 3,901 million. Value of production also rose, from EUR 620 million to EUR 697 million. EBITA totalled EUR 31 million, a rise of EUR 12 million on the same period of last year, thanks to a good performance from all three companies.

Energy—Ansaldo Energia
Value of production: EUR 345 million (-16% from EUR 409 million in 1H03); EBITA: EUR 9 million (-44%)

The power generation market continued the trend seen in 2003 and the first quarter of 2004. Growth continued, while demand from Asia remained strong, with the Middle East remaining broadly flat: following the peak seen in 2003, however, demand for power plants in these is expected to increase further this year. The Italian market has been looking more dynamic recently, although demand for new power plants remains lower than potential owing to the difficulty of obtaining authorisation for the setting up of new sites from local authorities. As for the technological capacities of the division, a new plan has been implemented since the beginning of the year to acquire complete technological autonomy in steam turbines and in the design and production of gas turbines. New orders stood at EUR 91 million in the first half, down from EUR 296 million in the same period of last year, when the company generated EUR 200 million from the start-up of the third phase of the contract to provide machinery to MAPNA (Iran). Value of production was in line with forecasts, at EUR 345 million, although it was 15% lower than in 1H03 owing to reduced business with Enipower, which has not yet been offset by expected new contracts in Italy. EBITA stood at EUR 9 million, a decline on the EUR 16 million generated in the same period of last year, owing to lower production volumes and a shift in activity towards less profitable orders from overseas.

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Information Technology—Elsag

Value of production: EUR 176 million (-8% from EUR 191 million in 1H03); EBITA: EUR 3 million (-75%).

The IT sector (in which Elsag operates), showed no signs of a recovery in the first half of 2004 with competitive pressure increasing across the sector. The company won new orders worth EUR 227 million in the period, a fall of EUR 24 million compared with the same period of last year. Although the order backlog rose to EUR 301 million, from EUR 246 million at 31 December 2003, value of production declined by EUR 15 million to EUR 176 million. EBITA came in at EUR 3 million, a fall of EUR 9 million on the same period of 2003.

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Results by sector of activity (EUR million)

1H 2004	Aeronautics	Helicopters	Space	Defence electronics	Defence systems	Transport	Energy	I.T	Other Activities and Corporate	Eliminations	Total
Value of production	781	561	358	982	519	697	345	176	69	(178)	**4.310**
EBITA	41	55	1	76	33	31	9	3	(46)		**203**
EBITA margin (%)	5,2%	9,8%	0,3%	7,7%	6,4%	4,4%	2,6%	1,7%	n.s		**4,7%**
EBIT	37	51	(3)	59	23	28	9	2	(46)		**160**
Depreciation and amortisation*	41	13	21	47	22	15	6	6	10		**181**
Investment in fixed assets	46	9	8	33	15	7	5	28	16		**167**
R&D costs	138	109	51	206	97	16	3	4	1		**625**
New orders	482	272	249	858	283	1.087	91	227	46	(148)	**3.447**
Order backlog	3.884	2.872	1.081	3.549	4.432	3.901	1.598	301	113		**21.731**
Headcount	10.669	4.432	3.679	11.819	4.130	5.934	2.523	2.751	843		**46.780**

1H 2003	Aeronautics	Helicopters	Space	Defence electronics	Defence systems	Transport	Energy	I.T	Other Activities and Corporate	Eliminations	Total
Value of production	575	657	336	858	463	620	409	191	77	(135)	**4.051**
EBITA	35	65	(35)	51	29	19	16	12	(34)		**158**
EBITA margin (%)	6,1%	9,9%	(10,4%)	5,9%	6,3%	3,1%	3,9%	6,3%	(44,2%)		**3,9%**
EBIT	35	61	(40)	33	19	17	16	11	(34)		**118**
Depreciation and amortisation*	21	15	25	42	20	15	7	7	10		**162**
Investment in fixed assets	36	4	6	32	17	8	6	4	6		**119**
R&D costs	81	98	45	196	115	14	2	7	1		**559**
New orders	350	257	359	857	432	1.172	296	251	46	(162)	**3.858**
Order backlog	3.553	3.087	1.295	3.508	4.174	3.701	1.812	364	72		**21.566**
Headcount	8.746	4.422	3.784	11.691	4.167	5.761	2.635	2.821	868		**44.895**

*Including goodwill amortisation

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CONSOLIDATED CASH FLOWS	1H 2004	1H 2003	2003
(in EUR million)			
CASH FLOW FROM OPERATING ACTIVITIES			
NET PROFIT (LOSS)	**38**	**22**	**199**
Reconciliation of net profit (loss) with cash flow generated by (utilised in) operating activities			
Minority interests	2	6	7
Extraordinary and restructuring charges, net of cash	44	7	134
Depreciation and amortisation	170	150	375
Provisions for staff severance fund	50	48	100
Valuation of STMicroelectronics at equity	(62)	(27)	(185)
Net write-downs of shareholdings, securities and other	67	32	64
(Profit) loss on disposal of other assets	(2)	-	1
Staff severance payments	(45)	(49)	(82)
Changes in operating assts and liabilities			
Customer receivables	171	201	203
Inventory and contract work in progress	(666)	(932)	(672)
Trade payables	(223)	(66)	(52)
Customer advances	140	503	68
Other, net	(11)	5	336
CASH FLOW GENERATED BY (UTILISED IN) OPERATING ACTIVITIES	**(327)**	**(100)**	**496**
CASH FLOW FROM INVESTMENTS			
Increases in tangible and intangible fixed assets	(138)	(112)	(279)
Acquisition of Aermacchi and Aero Invest 1, net of cash	-	-	(281)
Acquisition of other assets net of cash, amounts covering losses of non-consolidated companies and other changes in consolidation area	(29)	(17)	(22)
Proceeds from the sale of tangible and intangible assets and investments	3	4	18
Dividends from STM	70	12	217
Net change in other investments	108	54	259
Government grants and subsidies	24	46	62
CASH FLOW GENERATED BY (UTILISED IN) INVESTMENT ACTIVITIES	**38**	**(13)**	**(23)**
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital increase	-	0	1
Dividends paid	(88)	(84)	(84)
Bonds issued	0	-	1.001
Proceeds from medium- to long-term debt issued	6	19	21
Repayment of medium- to long-term debt	(180)	(44)	(70)
Net change in short-term financial debt and other financial debt	(66)	(62)	(64)
CASH FLOW GENERATED BY (UTILISED IN) FINANCING ACTIVITIES	**(328)**	**(171)**	**805**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	**(617)**	**(284)**	**1.278**
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	2.234	956	956
CASH AND EQUIVALENTS AT END OF PERIOD	1.617	672	2.234

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