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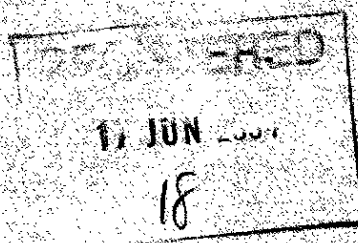
Ansaldo Energia

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## ADMINISTRATIVE BODIES

### ADMINISTRATIVE BODIES

ANGELO AIRAGHI

President

GIUSEPPE ZAMPINI

Managing Director

Directors

ALBERTO DE BENEDICTIS

UGO VINTI

MARIO ORLANDO

ALBERTO PIANTA

ALBERTO ROSANIA

### STATUTORY AUDITORS

GIORGIO CUMIN

President

Standing members

MARIA GABRIELLA ATTARDI

PAOLO MARIANI

Substitute members

ALDO PARODI

ENRICO CASANOVA

### AUDITING FIRM

DELOITTE & TOUCHE SPA

# DIRECTORS' REPORT ON THE OPERATIONS

## Dear Shareholders

The year 2002 closed with a net profit of Euro 9 million improving on the year 2001 (Euro 2.5 million), the first positive after years of negative economic results.

The positive performance registered in the last two years, where it is forecasted can continue also in 2003, is attributable to the combined actions of restructuring, the favourable market in the years 2000-2001 and the consideration attention paid by management to the containment of risks, already in the acquisition of order phase, to greater efficiency in the production cycle and to the reduction of the cost structure.

Ansaldo Energia was re-launched through a restructuring programme that commenced in 1998 with the following objectives:

- Focus on the core business of power generation
- Rationalisation of the production process, standardisation of the product and reorganisation of the business
- Concentration of production in one single production site
- Exploitation of the service activities.

In completion of the concentration in core activities, on December 20, 2002 the subsidiary Ansaldo Energia Trasmissione e Distribuzione S.r.l operating in the realisation of electrical substations was sold.

The positive effects of the combination of these actions are reflected in all the economic indicators: growth in acquisitions (Euro 905 million +7%), revenues (Euro 843 million +9%) and operating result (Euro 36 million +33%).

The ROS trend was also positive passing from 3.5% to 4.3%.

The financial position was positive for the full year, confirming the overall improvement in the contractual conditions of new orders acquired and the constant attention to the management of the orders, closing at Euro 56 million compared to Euro 53 million in the previous year which had

benefited from significant quotas of contractual advances.

The combined effect of the improvement in profitability and contractual payment conditions permitted the achievement of an Economic Value Added (EVA) of Euro 34 million, increasing compared to the previous year.

The order portfolio of Euro 1,957 million substantially in line with the previous year, will consent the saturation of the productive capacity of the factory at Genoa Campi and the other operating facilities for the whole of 2003 and maintain current profitability margins also for the coming year, despite a market that already in the second half of 2002 demonstrated significant signs of decline.

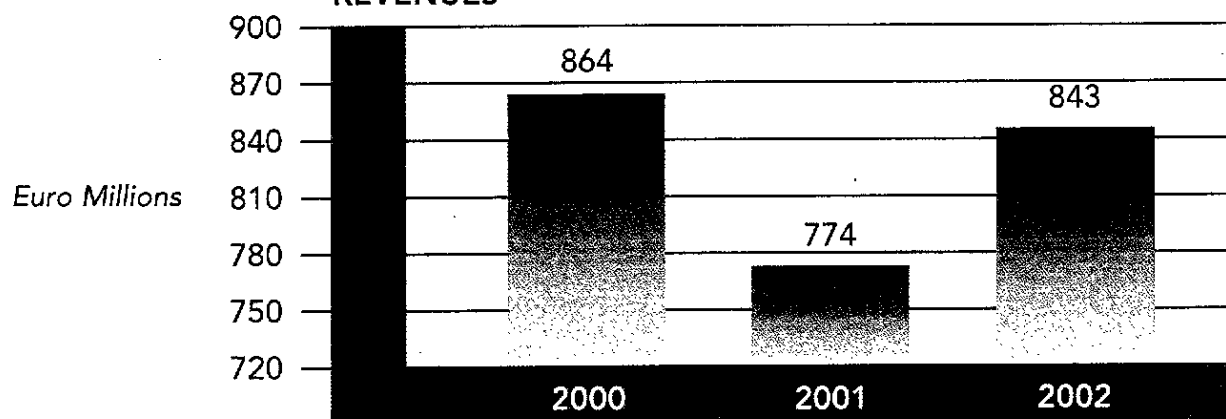
The cost of personnel has reduced by approximately 5% due to a reduced number of average employees compared to the previous year following the departure of personnel at Genoa and Legnano which also permitted the entry of new younger workers.

The significant change in the exposure towards suppliers has allowed the establishment of more equilibrated relationships and progressive alignment to normal market conditions.

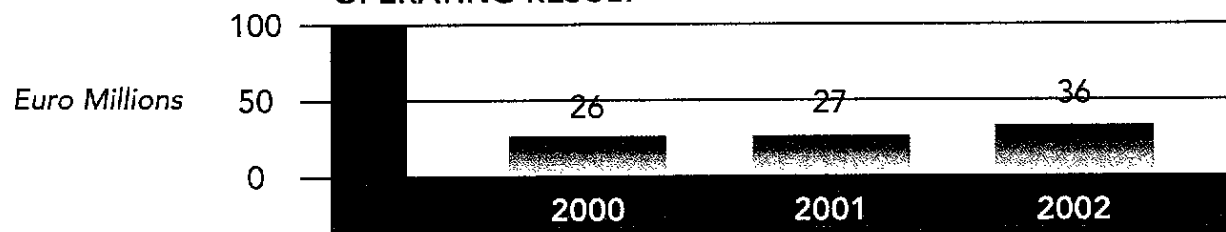
Below are summarised the most significant data for the past three years, in Euro/millions:

# ANSALDO ENERGIA RESULTS

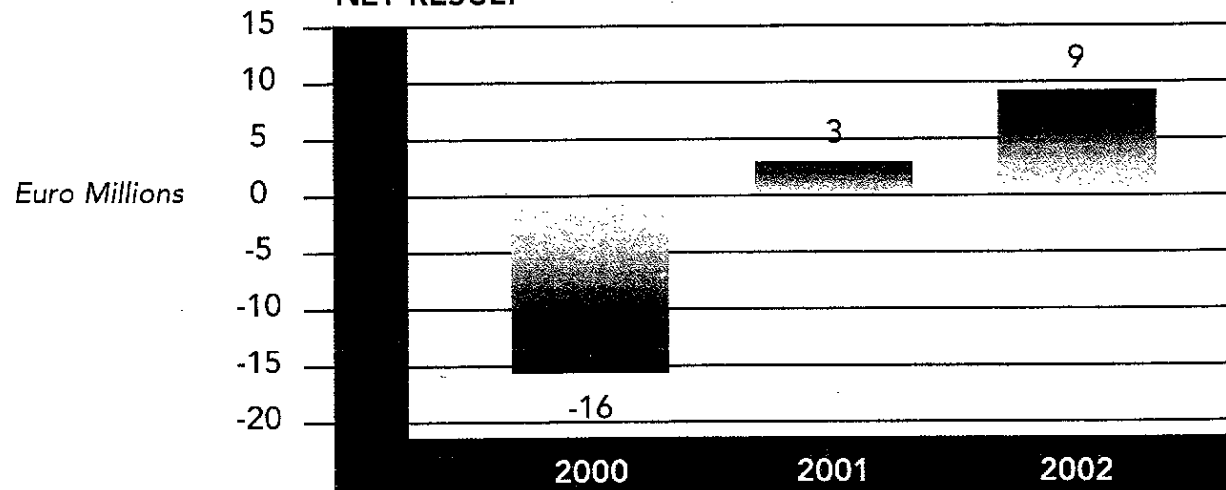
## REVENUES

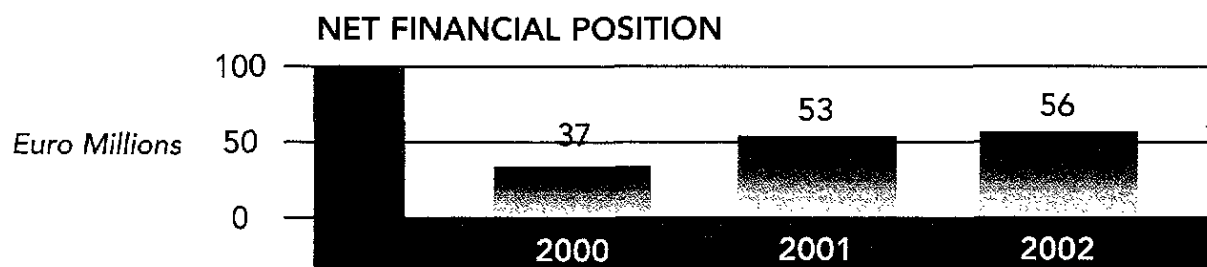
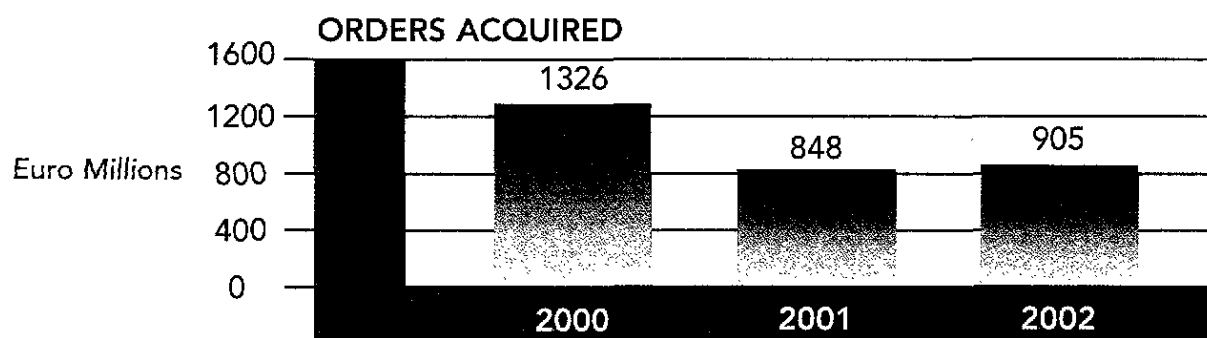
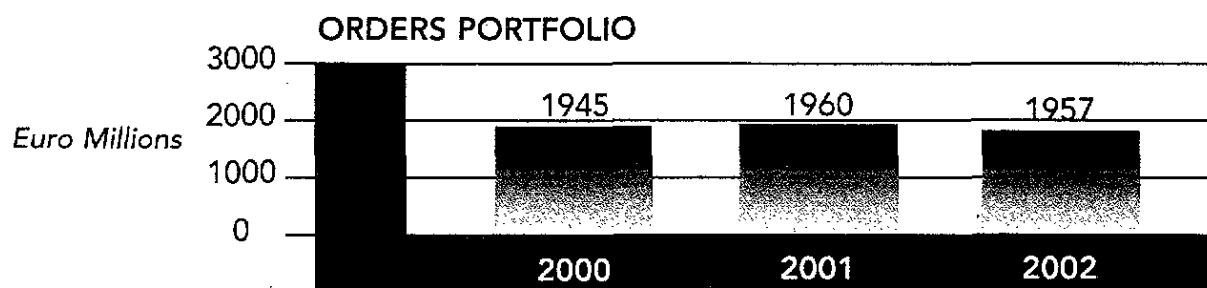


## OPERATING RESULT



## NET RESULT





# ANALYSIS OF THE COMMERCIAL ACTIVITY

## Introduction

The total orders acquired in 2002 by Ansaldo Energia amount to 904.7 Euro million.

The division of orders, compared to 2001, is as follows (Euro millions):

New orders by location (€ Millions)	2002	%	2001	%
Export	145.4	16	509.2	60
Italy	759.3	84	339.3	40
<b>Total</b>	<b>904.7</b>		<b>848.5</b>	

In relation to the total value obtained in the Italian market particular attention will be placed on the confirmation of the ENIPOWER options amounting to Euro 320 million.

The division of the orders by type of suppliers is as follows (Euro millions):

New orders by type of suppliers (€ Millions)	2002	%	2001	%
Plant and components	571.5	63	520.6	61
Service	302.4	33	309.3	36
Nuclear Division	30.8	4	18.6	3
<b>Total</b>	<b>904.7</b>		<b>848.5</b>	

In terms of products, the acquisitions in 2002, ready to enter into production, excluding the orders of machines connected to the receipt of booking fees, are shown in the table below:

Product	Number of units	MW
Gas turbines	10	2,100
Steam turbines	8	1,500
Alternators	14	3,000

## Plants and components

In 2002 the Italian market remained an essential reference for the Company even though the results could have been undoubtedly better if delays related to authorization procedures and



financing problems in connection with some clients had not arisen.

Some of the acquisitions, which could have been realized in the year, are thus still being pursued and could be realised during 2003.

This confirms that Ansaldo Energia can continue to benefit from a still important domestic market, although reduced growth compared to the recent past, consolidating the trend in improving profitability on the orders and controlling in an effective manner the contractual risks in virtue of an in-depth knowledge within the sector.

At the same time the Company has maintained its commercial presence abroad, proceeding with selectivity in the research for initiatives that respond to the criteria of profitability, reduction of contractual risks and improvement in cash flow in conformity with a clearly defined "commercial policy".

The strategic profile of the Company, given the approach as previously outlined to the various

opportunities, is to continue the consolidation of its business exploiting the national market, while also re-launching the Company in the international field with a progressive recovery of image and credibility.

Strong attention has been dedicated to the non-European market where contracts have been acquired for the supply of rotating machines providing the basis, through specific agreements, for further acquisitions in the Middle East. This area and that of the countries of the Mediterranean, North Africa and Southern Europe figure as concrete possibilities of obtaining orders from well-known customers. Eastern Europe also presents a potentially interesting market in the medium term.

Less emphasis has been placed however on the markets of South America and the Far East due to reduced investment capacity and the presence of strong well organised competitors. A special mention relates to the Indian subcontinent with several significant projects in the course of completion, where any further initiatives will be carefully pursued.

The principal orders acquired in 2002, divided by type of product and area, were:

#### Italy

- *A single shaft relating to a combined cycle, situated at Voghera, for the client TRACTEBEL.*
- *A single shaft similar to the previous for a combined cycle situated at Rosignano Solvay, for the client TRACTEBEL.*
- *N°2+2 power stations of 400 MW for a combined cycle plant, for the client ENIPOWER, situated at Brindisi (N.2) and Ferrara (N.2).*
- *N°2 steam turbines, between 285 MW and 340 MW respectively, for the stations at Chivasso and Sulcis for the client ENELPOWER.*



#### Middle East

- *4 gas turbines type V94.2 of 160 MW with relative alternators for combined cycle plant at Pareh Sar (IRAN) for the client MAPNA.*

#### Nuclear Division

The principal acquisitions in 2002 of the Nuclear Division, which develops its activity principally abroad were:

##### • CERNAVODA UNIT 2

The client, in the completion of the financial details of the contract, acquired last year, directly financed the most urgent activities consenting acquisitions for Euro 16.6 million. In December the variation to the Completion Contract was negotiated, made necessary by the delay on the commencement of activities: the total value in the contracts increased



## ANALYSIS OF THE COMMERCIAL ACTIVITY

(Interim plus Completion) by approximately Euro 6 million.

- **WASTE TREATMENT / DECOMMISSIONING**

The activities for the client SOGIN, after the acquisition at the beginning of the year of the PHADEC plant for the decontamination of metal materials at Caorso, suffered significant slowdown, principally related to the accumulated delays by the Client in the authorization processes relating to the individual interventions. The acquisitions not acquired from SOGIN were compensated by the unblocking of the CORA-Saluggia project, which permitted a recommencement of the activities based on a variation of the order signed by ENEA and by the Consortium Techint-SGN-GENESI-Nucleco: at the same time the agreement was completed for the sub-entry of Ansaldo Energia into the activities previously performed by Techint; the total value of the order variation for Ansaldo Energia was Euro 3.7 million.

- **NEW REACTORS**

The activities relating to the European Passive Plant continue (conducted with Westinghouse on behalf of three European utilities), as well as the activities relating to the certifications in the USA of the new passive reactor AP1000 model,

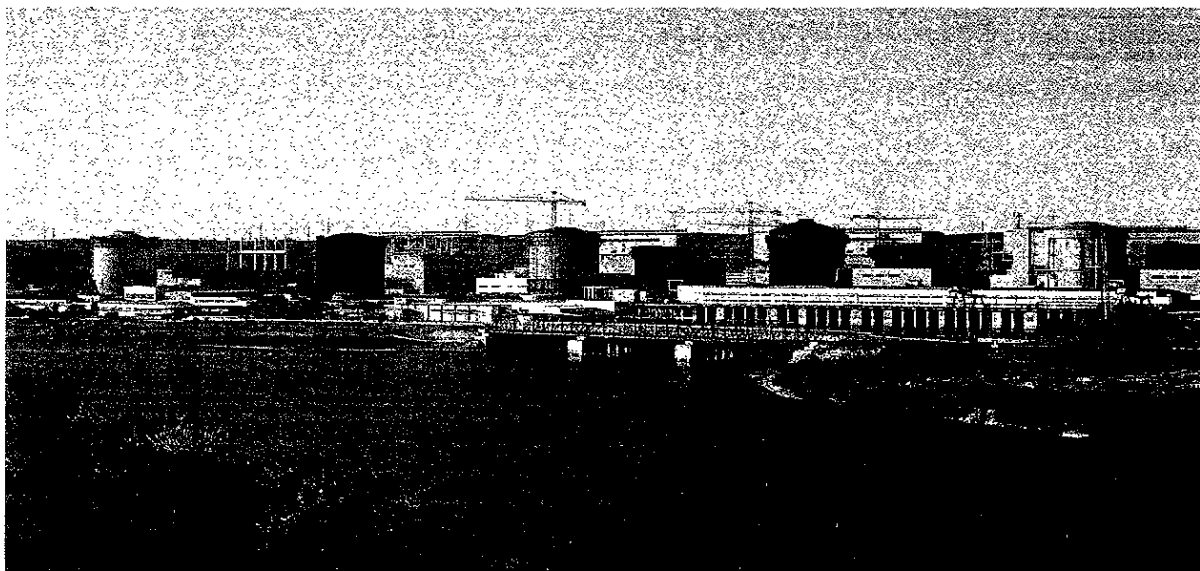
considered one of the strongest candidates for the realisation of new plants in the USA and in Great Britain. In relation to the activities connected to the Accelerator Driver System, European financing was acquired on the V program; a new proposal is in preparation in view of the launch of the VI program. Significant the acquisition of studies and supplies for the Megapie experimental circuit (supporting the ADS concept) at PSI Zurich.

### Service

The Italian market during 2002 was extremely competitive due to the strong presence of large constructors (in particular Siemens and General Electric) who moved to gain greater market volumes; this strategy together with the attack of second level competitors has contributed to significant tension resulting in a decrease in tender prices.

Also for 2003 and 2004 the market is forecast to be characterized by significant levels of competition with a reduction of margins.

In relation to the overseas market the trend has not changed significantly compared to 2001 in the traditional areas, for Ansaldo Energia, of Middle East and Mediterranean remaining at





stable levels, while the shortage of investments in the Americas and Far East continues.

The marketing efforts have increased in some countries such as Pakistan, Oman, Iran, Algeria and Egypt to offset the activities lost in other areas such as Lebanon and Arab Emirates.

Some recovery signs in 2003 seem to be coming from the Far East countries such as Indonesia and Malaysia.

The activity of penetration in Europe will be strengthened in 2003 in a number of countries such as Greece, Poland, and Spain in which market space has been identified.

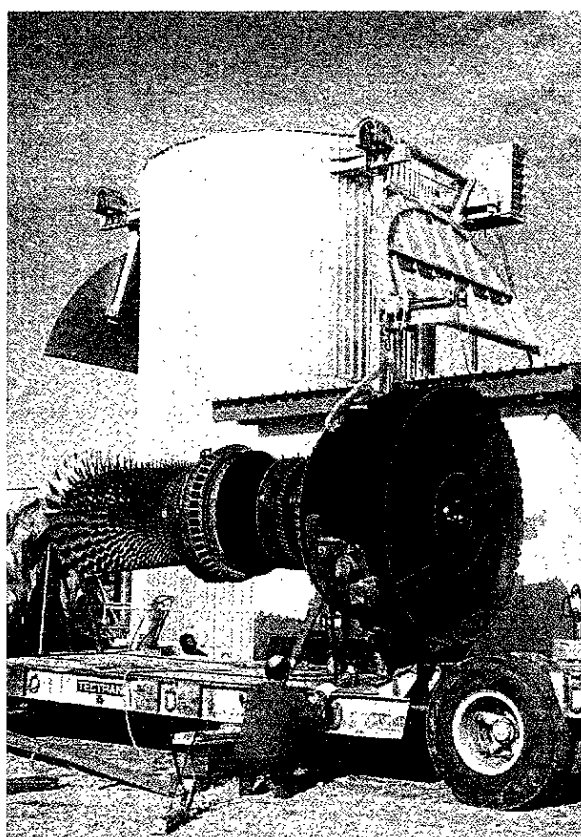
In 2002 the volume of the new acquisitions was Euro 302 million, divided by product type into Euro 58 million current service and Euro 244 million Operation & Maintenance.

In terms of market, the Italian contribution was Euro 252 million (15 for current service and 237 for O&M); the overseas commercial activity produced Euro 51 million (43 for current service and 8 for O&M).

The significant result was achieved principally with the acquisition of 4 long-term maintenance contracts for combined cycles in Italy for the 2 principal Italian customers in the turbogas field (ENIPOWER and TRACTEBEL).

In particular with the latest acquisitions the orders with ENIPOWER for Ansaldo Energia Service

amounts to approximately Euro 500 million, while with TRACTEBEL an "historical" relationship is confirmed commencing with the first O&M contract (1995) for the Rosignano Solvay plant.



## EVOLUTION OF THE COMPANY AND ORGANISATIONAL STRUCTURE

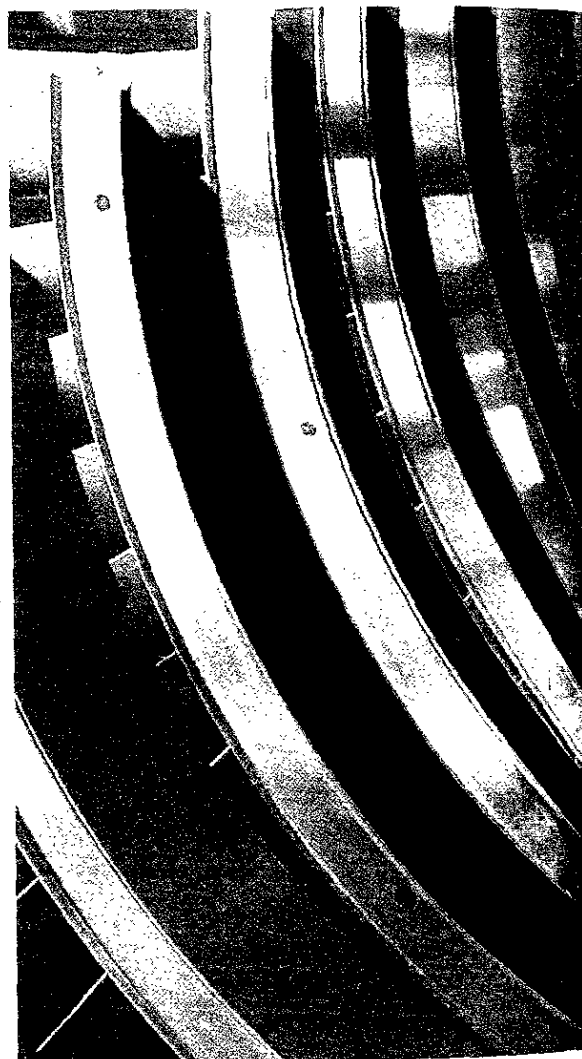
**T**he evolution continued in 2002, which commenced in the previous year, of a functional organisation structure replacing that by business area.

This solution, is more coherent, considering the present dimensions, in that it permits the exploitation and improvement of operating flexibility and renders the internal decision making process faster and more decisive.

Therefore, on these lines, in the second part of the year a new organisational structure was defined in which the principal change consisted of the creation of a unitary responsibility in the areas of production, engineering, products, assembly and start-up and in the parallel unification of the responsibilities in the management of projects.

Other interventions related to the integration of the administration responsibilities with the financial planning and programming and control of investments.

Finally the sales structure was strengthened, in view of an increased overseas presence, and a unit was created for the maintenance of relationships with the licensors and the public energy administration institutions.



# PRODUCTION ACTIVITY PERFORMANCE

## PRODUCTS

The unit was created from the unification in one single entity of the activities for the realisation of contracts, from the design phase up to the testing of the individual machines and/or "turnkey" plants.

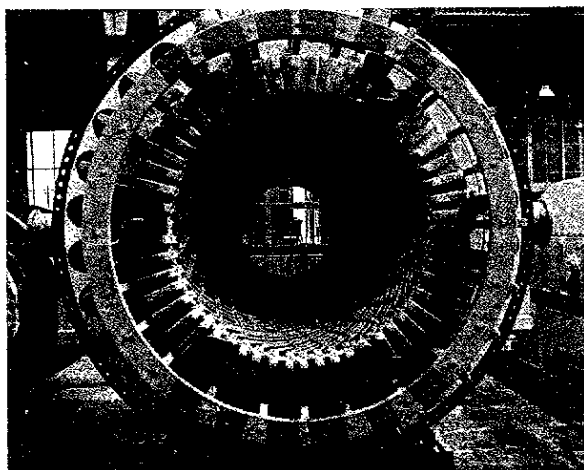
This unit was assigned the objective of optimising the industrial cost and the turnaround time of the order, as results from the integration of the technical expertise present in the Company and from the rationalisation of the interface in the various executive processes.

The first effects of this imposition were expressed in an increase of 4.5% in the per capita performance compared to the previous year.

## Production

The policy of standardisation of the product and saturation of the factory with repetitive work, implemented in the previous year, confirmed its validity consenting the realisation of the budgeted objectives in terms of machines delivered (41 in total) and hours worked (approximately 1,000,000).

	Deliveries 2002	Deliveries 2001
Alternators	21	26
Gas turbines	13	11
Steam turbines	7	8
<b>Total</b>	<b>41</b>	<b>45</b>



The result was certainly assisted by the entry in function of new machines and the good result of extraordinary maintenance programmes on existing machines.

The turbogas production line 94.3A.2 (250 MW) is now fully operational and three units were delivered to ENIPOWER and ENEL within the agreed time periods, overcoming difficulties deriving from some key supplies. Similarly the alternators of the series TOP AIR (200 MVA) and the steam turbines were delivered.

The backlog at the year-end guarantees the covering of the production capacity for at least all of 2003 and the work advancement indicates that the Company is capable of completing a similar number of machines in the coming year in respecting the contractual dates agreed.

## Sites work and start-up

During 2002 new plants were completed and put in operation for a total of 4,100 MW, comprising 17 gas turbo-groups and 7 steam turbo-groups.

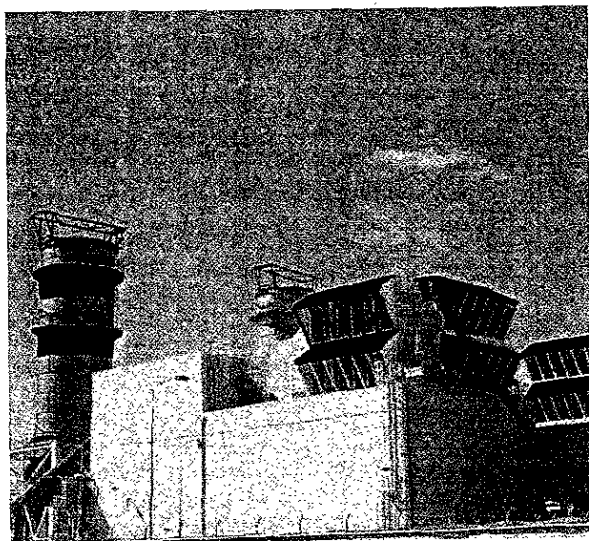
Ansaldo Energia hydrogen alternators were completed with success at Hamma (Algeria) and Neyveli (India) as well as the first new generation turbogas of 250 MW at the ENEL plant at Pietrafitta.

In addition the activities during the year on the two principal orders are noted below:

## IRAN

Phase 1: 2 Turbogas V94.2 were delivered to the sites for assembly and commencement of activities with the relative alternators and 6 units were synchronized on the Iranian network; the remaining 3 units will be delivered during the course of 2003. In December 2002 the first gas turbine was produced at Tuga (Iran).

## PRODUCTION ACTIVITY PERFORMANCE



### ENIPOWER

Lot 1: 8 Power Blocks (PB) for the sites of Ferrara Erbognone (3 PB), Mantova (2 PB), Ravenna (2 PB), Brindisi (1 PB).

8 machines were delivered to the Ferrara Erbognone site (Pavia): 2 gas turbines (V94.3A2) with the relative alternators and 2 steam turbines with the relative alternators.

At the Ravenna site a gas turbine and a steam turbine were delivered with relative alternators. The assembly activities are currently being completed in the Ferrara Erbognone and Ravenna sites while the activities for the construction of the machines for the Brindisi and Mantova sites continue in the Genoa workshop.

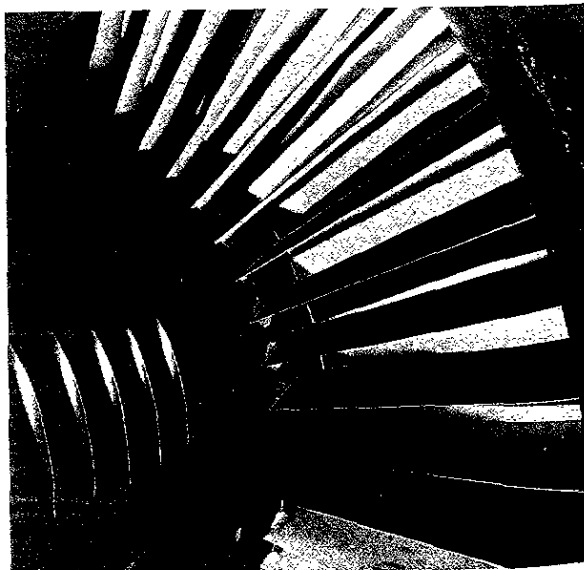
### Engineering

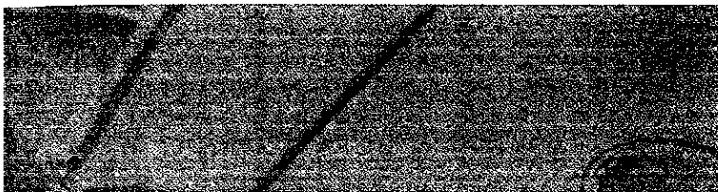
The greatest impact of the reorganisation is visible in the design area with the merger of the expertise in the automation and regulation systems, concentrating the resources that were allocated by product lines, and increasing the disciplinary synergies historically present in the two engineering plant and machines departments.

During the course of the year the following activities were developed for the implementation of the machinery component for the orders in portfolio:

- The complete definition of the "single shaft" groups of 400 MW
- The "standardisation" of electrical machinery and control systems, that, on the one hand, reduce civil works and assembly time and, on the other, ensures a higher quality of the system as it is pre-cabled and tested before consignment
- The development of remote control systems, already sold to ENIPOWER, through which it is possible to receive the functioning parameters of the plant in real time, with the consequent possibility of intervention in case of abnormalities.

In addition, within the context of consolidating an "Ansaldo Energia machined product", machinery optimisation activity has been undertaken, of standardisation and development of subsystems aimed at reducing assembly and start-up times.





## Service

In the restructuring implemented during the year Service assumes a decidedly commercial/managerial character and utilizes in the carrying out of its activities the various centralised functions and services of the Company.

Particular attention was dedicated to two principal aspects: the optimisation of the spare parts production cycle with a view to a significant improvement in delivery time and focus on the Project Management and on the Client Assistance.

The unit operated prevalently in Italy, the Middle East and the Mediterranean area, and marginally in America and the Far East.

In 2002 approximately 100 interventions were carried out of programmed maintenance or due to failures (of which 2/3 in Italy) on rotary machinery of Ansaldo Energia production.

In relation to the type of product, the steam turbines represent the most significant segment; in this field, to the traditional activity of maintenance is added and assumes particular importance retrofit innovation aimed at improving the efficiency of the existing plant (the two-year period 2002-2003 saw the realisation of 9 projects of this type on machines with Tosi/Westinghouse and General Electric technology on various plants in Italy).

Also of note is the progressive growth of the turbogas activity in relation to long term maintenance contracts for new plant and machines: the unit has currently 20 contracts of this type under management, with various levels of responsibility and guarantees, up to the total guarantee of its functioning.

Service interventions in 2002	%
Export	34
Italy	66

Service interventions in 2002	%
Gas turbines	7
Steam turbines	62
Alternators	31

## Management of the orders

The unit manages the economic and financial variables of the orders in course and is also responsible for the monitoring and optimisation of the connected risk factors. In addition it ensures constant dialogue with the client, which is particularly important in the case of significant clients such as ENIPOWER or with complex issues such as MAPNA (IRAN), where besides the typical activity of Ansaldo Energia, are added the transfer of technological expertise and assistance to the local production.

The efficient coordination of the activities relating to the ENIPOWER order has permitted the company to respect the contractual milestones and optimise the management of the receipts/payments. In addition the total commitment in the resolution of problems arising especially in the final phase of some orders in Italy and in particular abroad, has permitted the completion of contracts or ensured that they will be completed within a short time period.

The reduction of work in progress and the re-entry of guarantees given to clients is evidence of the efficiency of the operations.

Particular commitment was reserved for some overseas orders (Ballylumford, Hamma and Neyveli) requiring careful monitoring due to complex local and technical problems, and delays caused by partners.

## PRODUCTION ACTIVITY PERFORMANCE

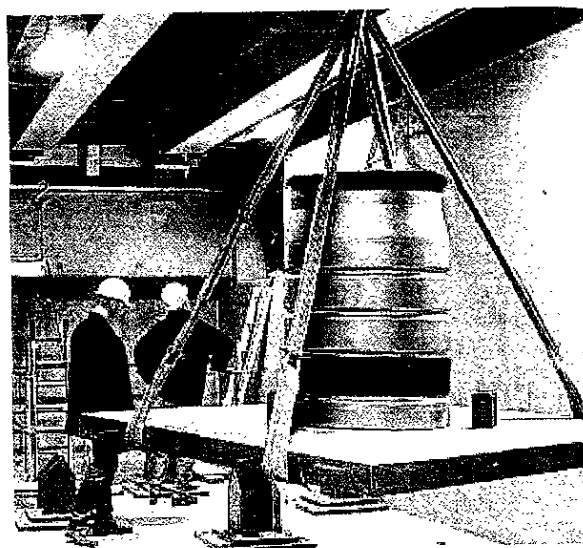
### Nuclear Division

The Nuclear Division has operated principally in the activity of service of the plants at Cernavoda 1 and Superphoenix.

In relation to this latter, technical and engineering assistance was provided in relation to the final conservation of the plant.

In relation to the product line for combustible spare part machines the activity in relation to the control systems continued for the two machines destined for the VVER plant in China.

In addition the activity continues for the waste liquid plant for Chernobyl.



## HUMAN RESOURCES

### Industrial relations

Industrial relations in the first part of the year were characterised by the activation of a new collective incentive scheme ("Bonus on Results") agreed in the previous year and which entered into force in July 2002, after a period of testing in order to verify the correct functioning of the measurement instrument adopted.

Initially the "Bonus on Results" related only to employees in the Genoa area; during the year an agreement was signed that – commencing from 2003 – extends the application of the new measurement and incentive system to the employees of the Legnano area.

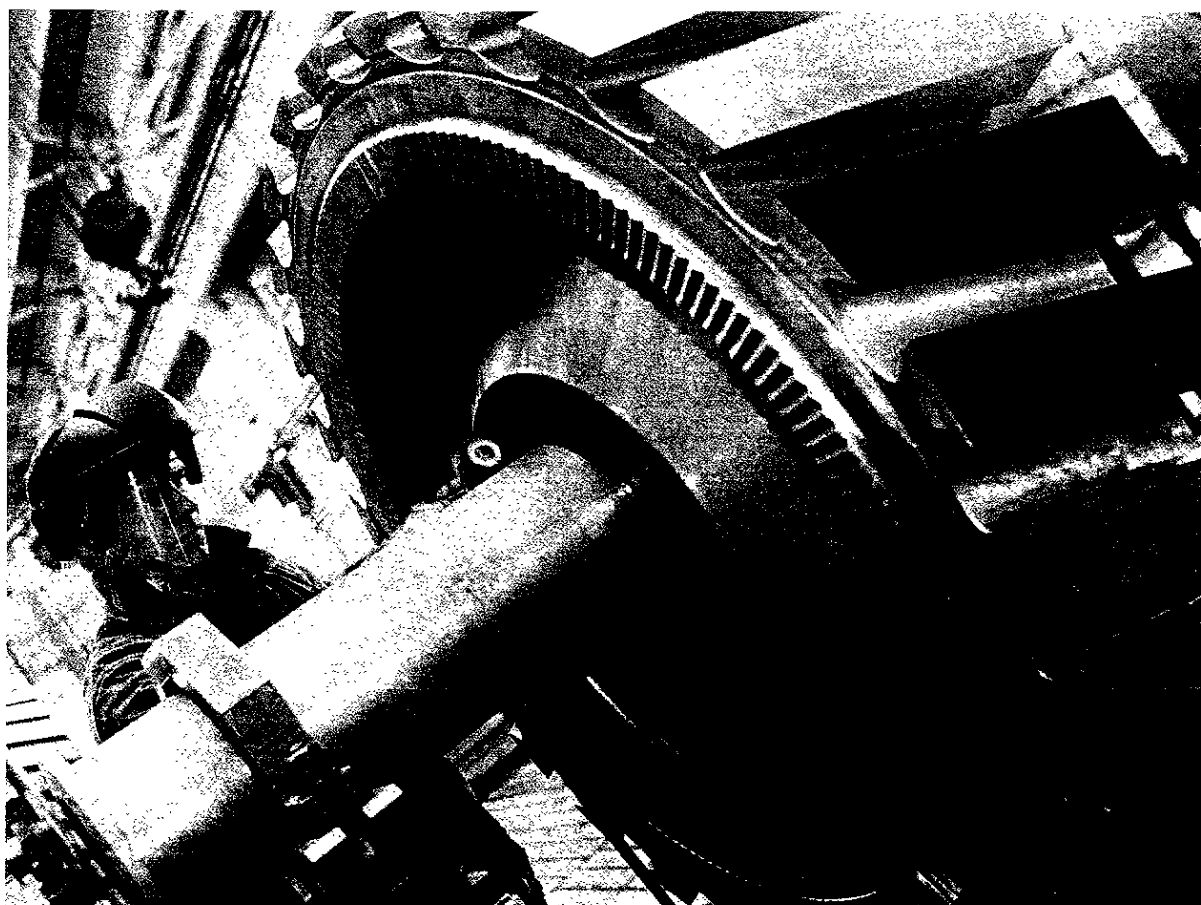
In April 2002 an understanding was reached with the Trade Union that unifies the economic and

regulatory institutions in the Genoa area. Thus after a lengthy period the process of harmonization was completed which unites the various treatment deriving from the different corporate origins of the employees of the Company. The unification results in evident advantages under the profile of equality and administration simplification.

In the second half of the year the Trade Union attention moved to the Legnano area.

In fact, after the sale of the production activity during the course of 2001, the Ansaldo Energia Unit at Legnano at the end of 2001 employed 225 persons, prevalently in machinery, management, commercial and service activities.

The evolution of the market towards a decrease in orders relating to machinery activities as well as the Company requirement to simplify the operational processes and eliminate redundant activities in





## HUMAN RESOURCES

order to remain competitive made it necessary to confront the Trade Union with the problem of optimising the workforce in the Legnano area.

In September 2002 an agreement was signed with the Trade Union for recourse to the Ordinary Redundancy Fund for an initial period of three months. At December 31, 2002 the number of employees at Legnano was equal to 149 persons. The attention for the management of the workforce in this area, continued during the whole year, will continue also in the coming year.

It should be noted that, also during the year 2002, the regulation in relation to social security benefits to workers exposed to asbestos showed its effects. The number of departures deriving from this was less than in the previous year, but it required the continuation of the initiatives for the reintegration of the positions indispensable for the functioning of the Company.

A final figure, relating to a phenomenon which in recent years has had little importance, relates to the level of Trade Union conflicts that caused the loss in the year, due to strikes, of 29,000 hours – largely of a general character and not referring to the Company situation – with an increase of 60% compared to the previous year.

### Employee trend

The number of employees between the end of 2001 and the end of 2002 has seen a reduction of 232 units, as shown in the table below:

Category	31.12.2001	31.12.2002
Senior management	122	115
Managers	253	247
White-collar	1,264	1,141
Blue-collar direct	814	753
Blue-collar indirect	239	204
<b>Total</b>	<b>2,692</b>	<b>2,460</b>

The trend in the organisation was affected by the following matters:

Leaving	
ending of contracts for indefinite periods	295
of which related to "asbestos" pre-pension	114
sale of business	62

New employment	
with contracts for indefinite periods	31
with contracts for definite periods	89
of which:	
• training contracts	46
• Law 398 (extended contracts)	7
• contracts for definite periods	36
transfer from group companies	5

In 2002 the Company was again able to benefit from the redundancy accompanying retirement scheme (so-called "long-term redundancy"), due to the authorization received from the Minister for Labour to substitute, with new redundancies the workers who, initially were placed in long-term redundancies, are now placed in pension due to the recognition of the asbestos social security benefits.

A total of 105 persons availed of the redundancy.

To confront the departure related to asbestos and redundancies, 31 new indefinite contracts and 46 young workers with training contracts were made. In addition, in order to ensure the correct insertion of new employees and guarantee adequate operational levels, 33 contracts were agreed – with normal duration of one year – with former employees (mainly white-collar workers) who benefited from the so-called facilitation.

### Training

The training activity for the year 2002 involved 684 participants for a total of 58,000 man/hours

and was realised for approximately 90% with contributions from F.S.E.

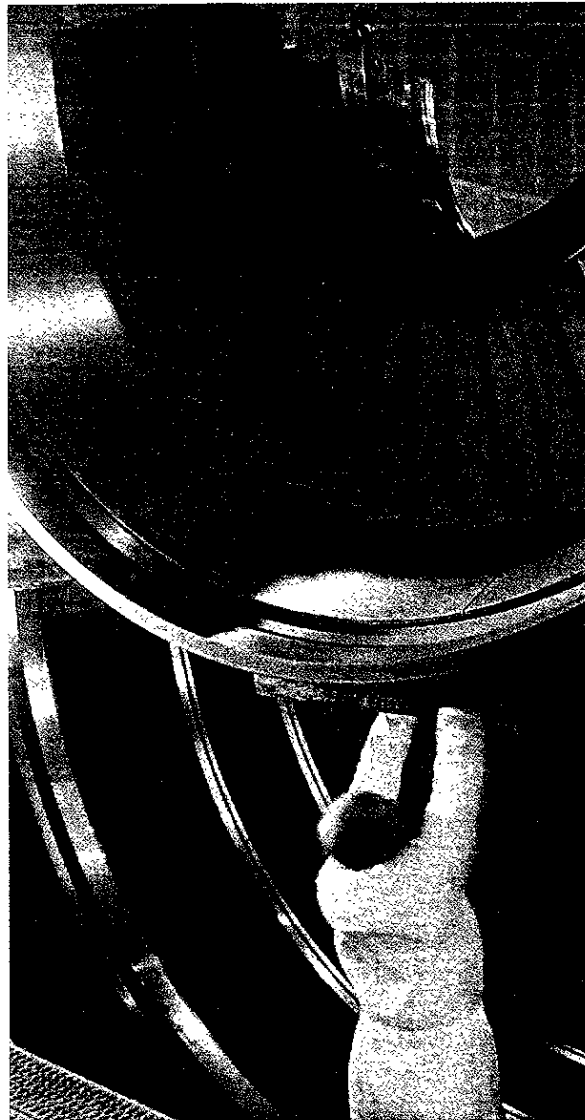
In 2002 two courses were completed which commenced in 2001 for young graduates for "mechanical assemblers" and "starters of ADV plants" and two courses were completed for "Operators for number control centres" (blue-collar workers) and "Power plant assistant" (white-collar workers). A total of 73 students finished the courses.

In November a course commenced, with 22 students, for "mechanical assemblers" that will terminate in the first quarter of 2003.

This activity is part of the initiatives to cover the "asbestos departures" and to improve the professional mix.

Among the activities for personnel already in the Company the following courses took place: the course for the management of the order for the decommissioning of nuclear stations; the course dedicated to the "Service" personnel in relation to the introduction of SAP; the course directed at all "division managers" of the production lines in order to improve the technical/operational capacities.

Attention was also paid to language training, with classes and individual lessons, as well as the commencement of training on line "Global English".



## QUALITY

**D**uring the year 2002 the institutional supervisory activities continued in the verification of the correct application in all of the areas of activity (in head office or on site) of all of the Company Management Systems.

Maintaining fixed the objective of continuing improvement of the processes and products, the activity was conducted in a particular intensive manner given the numerous deadlines of different certificates.

In the last two months of 2002 the supervision/ renewal of the certificates relating to welding activity, environment and quality by the related agencies were made, with satisfactory overall results.

The objective is achieve "quality" which passes from a purely systematic event to one of technical/qualitative excellence within the entire Company efficiently assisted by the new edition 2000 of the Regulation UNI EN ISO 9001 that, confronting the Company activities by "processes", will undoubtedly orientate towards a more synergic operating reality and less divisional.

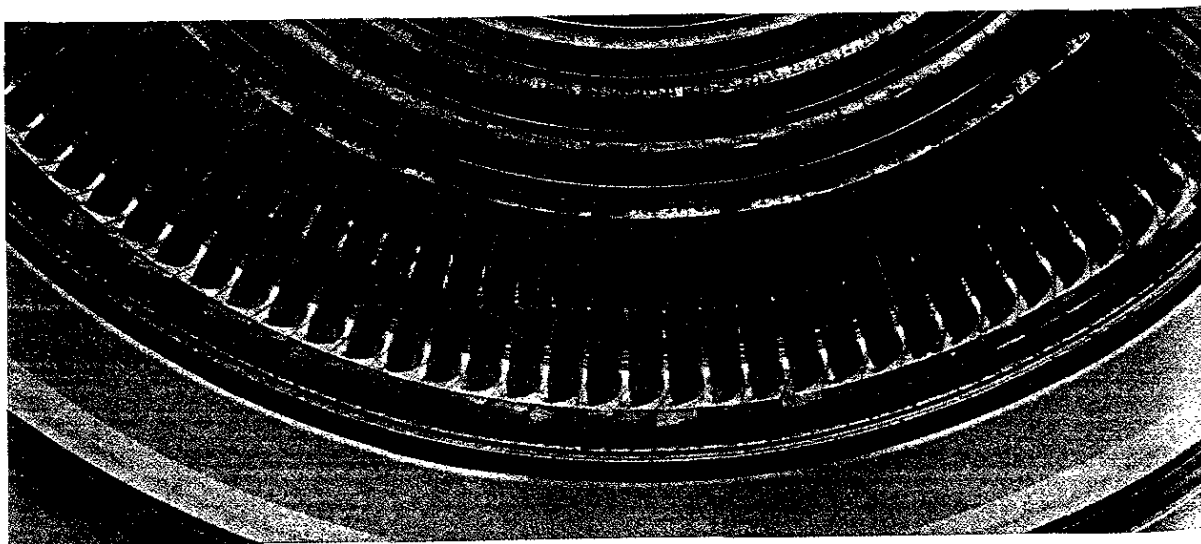
The Company, in order to be successful in a

market where it is continually confronted against powerful and tough "competitors", must propose and realise products that, in consideration of time and costs, provide certainty of technical quality, in terms of services and reliability, as well as consider post-sales assistance either in terms of efficiency and effectiveness of the interventions or of proposal of technical/service improvements.

Therefore all of the resources of the Company were involved and made responsible for the achievement of a common objective constituting the supply of a product that fully satisfies the expectations of the Client.

In addition, the evaluation and supervision activity of suppliers continued monitoring the level of "performance" with the objective of contributing effectively to their technical development in order to, in the respecting of time and costs, continually improve the quality of service.

The training program continued, at the Company training school, of personnel selected for potential employment illustrating the importance and the problems of the Company Management Systems.



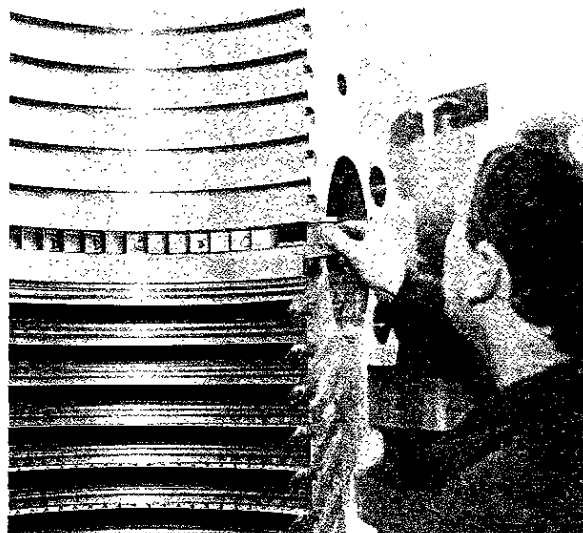
## INVESTMENTS

**I**n 2002 the investments in tangible assets were given priority to the technological improvement of the production lines coherent with the evolution of gas turbine, steam turbine and alternator products, and the improvement in the efficiency of the Company production system.

In addition the interventions continued with the aim of respecting the regulations and security conditions in the working environment.

Among the most significant initiatives to note are:

- the realisation of the project relating to the adequacy of the production capacity of the gas turbine production line (turbine blades and disks for rotors). The trend in the market of plant generation affirms plants based on gas turbines (simple cycle and combined cycle), in this context the intervention permits the Company an improvement in terms of production volumes and delivery times, through greater management between the lines;
- the interventions of technological adjustment to the production lines, in particular those of large and medium mechanics, and optimisation of the production flow through specific substitutions on plant and improvement interventions on existing plant;
- the completion of the interventions on the alternator production line (project "Rotor 96");
- the intervention of adaptation of the Company structures to the current legislation in terms of environmental and work place security and the measures relating to fire prevention;



## RESEARCH, DEVELOPMENT AND TECHNOLOGICAL INNOVATIONS

**A**s has been the case for a number of years due to the dominant position in the market, the R&D activity of Ansaldo Energia was again prevalently centred on the turbogas line; important results were also achieved however for the alternators and steam turbines, in view of the conclusion of the License with ALSTOM, and the Nuclear Division confirmed its high level of innovation and connection to the most important national research centres.

It is noted that since the year 1999, the Company policy is not to capitalise research and development expenses which are expensed directly to the income statement in the year in which they occur. The total costs for this account in the year was equal to Euro 5.4 million and Euro 2.3 million of residual amortization substantially in line with the previous year.

In detail the activities divided by products are as follows:

### Gas turbines

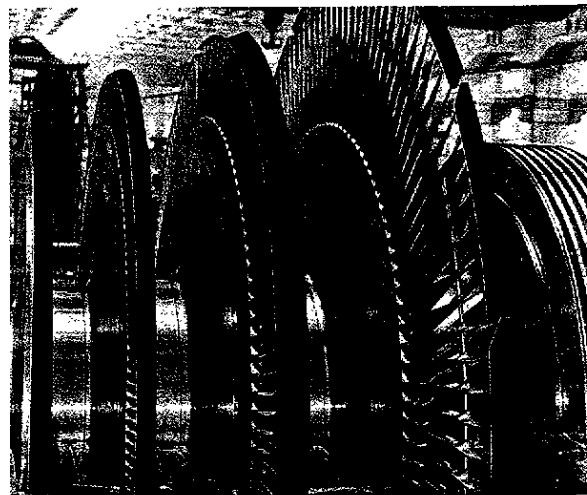
The R&D activity for the turbogas line has related above all to the consolidation and the improvement of the present catalogue products, either through the participation, together with Siemens and with other European constructors, to projects financed by the 5th Program of the European Union and relative especially to combustion, or through autonomous activities that have permitted the identification of the possible areas of improvement of the machines (in particular V64.3A) that will constitute a large part of the R&D in 2003. Intense activity in the metallurgical field was also performed, aimed at the know-how development of the repair from usage and especially for new suppliers of critical parts. Significant in this field was EMA, for the supply of precision cast blades for the V94.2, and

of ATLA for the special processes on the blades of the V94.3A2. Finally the automation system has been developed (completion expected in the first months of 2003), completely autonomous, for the V94.3A2.

### Steam turbines

The most important activity on this product line was that relating to the autonomous calculation programs, derived from those of the Licensor, for the design and for the development of reaction machines, with the double advantage of a more in-depth technology internalisation and the availability of instruments susceptible to future improvements.

The projects "Development of materials at high temperature" and "Advanced Power Plant" continued, for the technologies of the most advanced machines, in partnership with the major European constructors, this being the most promising technological development line for the division. This activity is performed with a substantial contribution from Ansaldo Ricerche. Finally the development of the steam turbine to be combined with the gas turbine V94.3A2 in the configuration "Single shaft 400 MW" was completed, the first of which have entered into production.



## Turbogenerators

Also this year the most important R&D activity has been that relative to technology development, completely autonomous, of the hydrogen cooling machines. Thanks also to the experiences in the field with the Hamma machine (300 MVA), the development of the superior size of 500 MVA was completed, in which the trial production test began, destined for Combined Cycle plant at Voghera (Tractebel).

Thus the insulation activities continued, principally by the laboratories, with the system of the Licensors (MICADUR), and autonomously (4675 N), and those of systematisation and internalisation of the ALSTOM technology, in view of the expiry of the License contract.

## Nuclear

In 2002 the work for the pilot plant "Accelerator Driven System" continued in Italy with the first commencement of the activity denominated TRASCO-3 candidate in the coming years for MIUR funding and in the European context of the project PDS-XADS financed by the European Union. In the thermal reactor service field some specialized methodologies for the analysis of pipes and components for the lifetime of the plant have been optimised. Finally in relation to Decommissioning a development program commenced of two innovative machines for large contaminated components, having as a first possible application the plant at Caorso and Garigliano.

## PERFORMANCE AND SIGNIFICANT DATA OF THE PRINCIPAL COMPANIES OF THE GROUP

### Sagem S.r.l.

The Company's business is the management and maintenance of treatment and waste disposal plants, co-generation and/or district heating and renewal energy plants.

The production in 2002 was characterised by this activity and in addition the Company continued its diversification policy in order to render its activities less dependant on Ansaldo Energia. In relation to this an order was acquired of Euro 2.1 million for mechanical maintenance on desalination roofs at Al Jobail.

The financial statements for 2002 closed with a net profit of Euro 8,860.

The performance of the Company can be summarised as follows:

- Revenues from production: Euro 12.0 million;
- Sales: Euro 14.8 million;
- The acquisition of new orders was equal to Euro 16.1 million of which Euro 13.9 million from Ansaldo Energia, while the portfolio of orders amounts to Euro 0.4 million;
- Net equity Euro 0.5 million;
- Financial indebtedness was equal to Euro 2.8 million;
- The number of employees at the end of the year 2002 was 51 units.

### Ansaldo Service Private LTD

The Company based in India, in the Bangalore district, manages the on shore part of the contracts that Ansaldo Energia has acquired in the area, and performs service/spare parts activity for the local unit.

In 2002 it operated for the following projects:

- Neyveli: lignite plant 2 x 210 MW whose delivery is planned for the end of the next year;
- Samalkot: combined cycle of 230 MW with the work in the completion phase;
- Akrimota: lignite plant 2 x 125 MW (steam lot) delivery planned in 2003.

The result for the year shows a loss equal to Euro 0.9 million and the performance of the company can be summarised as follows:

- Revenues from production: Euro 29.8 million;
- Net equity: Euro 0.9 million;
- Order portfolio at 31/12/2002 amounts to Euro 15.9 million;
- Financial indebtedness was equal to Euro 13.2 million, of which Euro 10.6 million with Ansaldo Energia;
- The number of employees at the end of the year 2002 was 149 units.



# TRANSACTIONS WITH SUBSIDIARY, ASSOCIATE AND HOLDING COMPANIES

## Subsidiary and associated Companies

Ansaldo Energia SpA operates with the Companies in which it has holdings as an industrial partner, providing adequate commercial and financial support.

The amounts shown within the Income Statement, Balance Sheet and Memorandum Accounts include both transactions of a commercial and financial nature under normal market conditions.

## Parent Company

Finmeccanica SpA's relationship with the Company is essentially that of Holding Company providing support of a financial nature.

The transactions of both a short and medium/long term nature are regulated at market conditions.

The Company has also a mandate from Finmeccanica SpA for the management of several overseas contracts.

The receivables/payables, costs and revenues of the above-mentioned Companies are summarised as follows:

## TRANSACTIONS AND BALANCES WITH SUBSIDIARY, ASSOCIATE AND HOLDING COMPANIES (in Euro/thousands)

Holding companies:	Balance sheet				Income statement				
	Assets			Liabilities		Costs		Revenues	
	Financial	Trade	Others	Financial	Trade	Financial	Trade	Financial	Trade
Finmeccanica (Group VAT)		897		2,534 10,335	255	226	455	653	4
TOTAL HOLDING COMPANIES		897		12,869	255	226	455	653	4
Subsidiary companies:									
Sagem	3,149	782			9,035		13,229	130	410
ASPL	10,601	31			3				
Ansaldo Malesia	57				48				
Sicom	3,749								
Tramonte Holding				16					
FTI Spa in Liq.				345	1	11			
Sopren				217	25	7			
Ansaldo Middle East		67			51				
Ansaldo Energy					697				
TOTAL SUB. COMPANIES	17,556	880		578	9,860	18	13,229	130	410
Associated companies:									
Ansaldo Caldaie		3,143			6,222		2,367		849
Dayalistri Pratama		92							
N.N.S.		403	82						
TOTAL ASSOCIATED COMPANIES		3,638	82		6,222		2,367		849
TOTAL	17,556	5,415	82	13,447	16,337	244	16,051	783	1,263

## ANALYSIS OF THE RESULT AND FINANCIAL POSITION

**B**elow is set out, as in previous years, in addition to the Financial Statements prepared for statutory purposes, summary prospectuses of the economic and financial situation of the Company.

### Results

The income statement shows, compared to the previous year, an increase in the typical value of production equal to approximately 9%, attributable to the significant contribution from the ENIPOWER order (Euro 220 million) and an increase in service activities.

The Gross Operating Margin (Euro 48 million) has increased 38% compared to the previous year as a consequence of an improvement in the profitability of orders in portfolio due to the rigorous commercial policy imposed, favourable market conditions and the rationalisation of the production processes that permitted the containment of costs and risks.

It is forecast, at least for the next year, the confirmation of this positive trend, in that the orders in portfolio permit the covering of the production for 2003. Only commencing from 2004, with the changes in the market conditions for turbogas, could a slowdown of growth be seen in this segment.

The cost of personnel (Euro 135 million) have decreased by 5% compared to the previous year (Euro 142 million) attributable to a significant reduction in the workforce, connected to the application of the law on asbestos and to the departures at Legnano, which permitted a change in the mix of resources and a containment of costs.

Amortization and depreciation (Euro 13 million) are in line with the previous year and refer

principally to tangible assets. The policy adopted in the last few years provides for the total expensing of research and development expenses in the year with the consequent absence of new capitalisation and progressive reduction of the amortization.

The operating result (Euro 36 million) has increased 33% compared to the previous year and consents a ROS of 4.3% against 3.5% in 2001.

The financial operations show net charges of Euro 3.6 million, including Euro 3 million for foreign exchange charges, commissions and bank charges for Euro 2 million and interest income of Euro 2 million. It should be noted that the net financial position was maintained positive for the entire year, thanks to careful attention paid to the management of receipts that permitted a significant reduction in the exposition towards suppliers. The foreign exchange losses derive from the significant devaluation of the Argentina and Chilean pesos, as well as the inversion of the American Dollar in the second part of the year.

The charges not related to the ordinary activities of the Company, totalling Euro 16 million, that continue to heavily influence the net result, are substantially attributable to the departures of personnel (Euro 9 million) and to the provision of the closing of a contentious matter as a consequence of the sale of businesses in previous years (Euro 6 million).

The taxes for the year relate to IRAP regional taxes (Euro 5.3 million) and income taxes paid abroad (Euro 0.3 million).

## Financial structure

Non-current assets reduced by Euro 19 million, essentially due to the receipt of delayed financial receivables of Euro 14 million and the amortization of intangible assets of Euro 2.3 million. Tangible assets remain substantially unchanged with capitalisations in the year of Euro 14 million, depreciation of Euro 11 million and disposals of Euro 3 million.

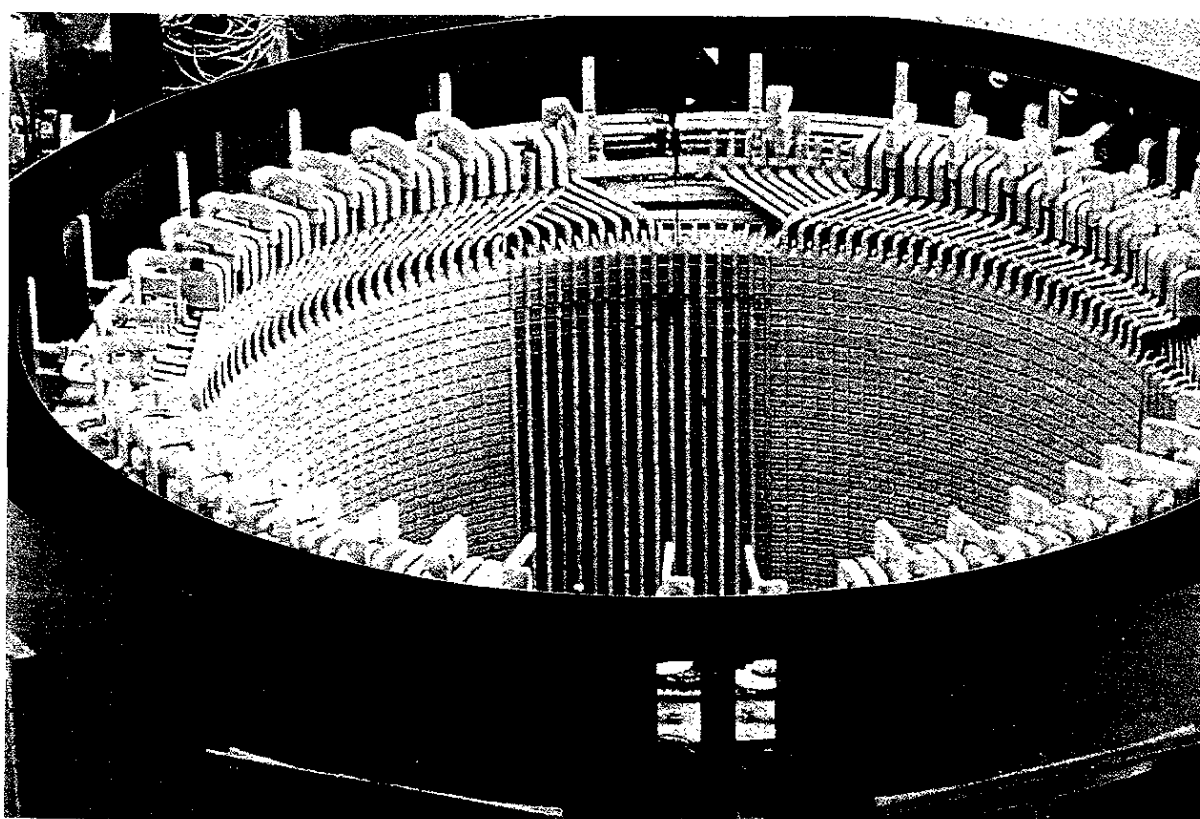
Working capital shows a decrease in trade payables (Euro 54 million) for the effect of the reduction in the average payment period connected to the improved financial position of the Company, while trade receivables increase (Euro 93 million) as a result of the invoicing at the end of the year, received in January 2003 and the temporary slowing down in receipts from the Iranian order, connected to bureaucratic problems in the course of resolution.

The net inventory reduced by Euro 82 million as a result of acquisitions made in the last two years of orders with a significant advance that permits the maintaining of a positive financial exposure for the duration of the order.

The reduction of other assets (Euro 41 million) is attributable to the receipt of the VAT credit and the reduction of differential on swaps against their correlated receipt and the new contracts prevalently agreed in Euro.

The negative net capital invested of Euro 35 million is against own capital of Euro 21 million and liquid assets of Euro 56 million.

Overall the financial structure as at December 31, 2002 confirms how the careful policy of the management of cash flow, together with that of the risks, has permitted the improvement in the economic and financial position of the Company.



# ANALYSIS OF THE RESULT AND FINANCIAL POSITION

## SCHEDULE FOR ANALYSIS OF RESULT (in Euro/thousands)

	31/12/2002	31/12/2001
<b>A. - REVENUES</b>	<b>842,847</b>	<b>774,208</b>
Increase of internally constructed assets	137	946
<b>B. - VALUE OF PRODUCTION "NORMAL"</b>	<b>842,984</b>	<b>775,154</b>
Consumption of materials and external services	(660,509)	(597,506)
<b>C. - ADDED VALUE</b>	<b>182,475</b>	<b>177,648</b>
Cost of labour	(134,878)	(142,483)
<b>D. - GROSS OPERATING MARGIN</b>	<b>47,597</b>	<b>35,165</b>
Amortization	13,489	13,956
Other adjusting provisions		517
Provisions for risks and charges	4,580	7,230
Balance other income and (charges)	6,085	13,361
<b>E. - OPERATING RESULT</b>	<b>35,613</b>	<b>26,823</b>
Financial income and charges	(3,608)	(4,073)
Adjustment to financial assets	(913)	(2,060)
<b>F. - RESULT BEFORE EXTRAORDINARY ITEMS</b>	<b>31,092</b>	<b>20,690</b>
Extraordinary income and (charges)	(16,237)	(11,157)
<b>G. - RESULT BEFORE TAXES</b>	<b>14,855</b>	<b>9,533</b>
Taxes	5,631	7,026
<b>H. - RESULT FROM ORDINARY ACTIVITIES</b>	<b>9,224</b>	<b>2,507</b>
<b>I. - PROFIT (LOSS) FOR THE YEAR</b>	<b>9,224</b>	<b>2,507</b>

**SCHEDULE FOR THE ANALYSIS OF THE  
BALANCE SHEET** (in Euro/thousands)

	31/12/2002	31/12/2001
<b>A. - Fixed asset</b>		
Intangible assets	1,365	3,863
Tangible assets	109,317	109,067
Financial assets	18,246	34,570
	<b>128,928</b>	<b>147,500</b>
<b>B. - WORKING CAPITAL</b>		
Inventory	2,913,232	2,605,398
Trade receivables	416,494	323,073
Other receivables	85,164	125,889
Trade payables	(251,407)	(304,801)
Payments on account	(3,127,034)	(2,737,977)
Provision for risk and charges	(70,708)	(71,304)
Other liabilities	(74,903)	(72,160)
	<b>(109,162)</b>	<b>(131,882)</b>
<b>C. - CAPITAL INVESTED</b>		
deduct liabilities (A+B)	<b>19,766</b>	<b>15,618</b>
<b>D. - EMPLOYEES LEAVING INDEMNITY</b>	<b>(54,817)</b>	<b>(57,020)</b>
<b>E. - CAPITAL INVESTED</b>		
deduct (C-D) liabilities and staff leaving indemnity covered by:	<b>(35,051)</b>	<b>(41,402)</b>
<b>F. - OWN CAPITAL</b>		
Share capital paid in	11,967	25,800
Profits brought forward		(16,340)
Profits (losses) for the year net of losses covered	9,224	2,507
	<b>21,191</b>	<b>11,967</b>
<b>G. - FINANCIAL INDEBTEDNESS MEDIUM/LONG TERM</b>		
Medium/long term loans	17,872	17,832
Financial asset receivables	(6,475)	(6,652)
	<b>11,397</b>	<b>11,180</b>
<b>H. - FINANCIAL INDEBTEDNESS SHORT TERM (NET AVAILABLE CASH)</b>		
Short term loans	10,824	9,489
Cash and short term	(78,463)	(74,038)
	<b>(67,639)</b>	<b>(64,549)</b>
<b>I. - TOTAL, AS IN E (F+G+H)</b>	<b>(35,051)</b>	<b>(41,402)</b>

# ANALYSIS OF THE RESULT AND FINANCIAL POSITION

## CASH FLOW STATEMENT (in Euro/thourands)

	31/12/2002	31/12/2001
<b>A. - BEGINNING CASH AVAILABLE (BEGINNING INDEBTEDNESS)</b>	<b>64,549</b>	<b>46,912</b>
<b>B. - CASH FLOW FROM OPERATING ACTIVITY</b>		
Profit (loss) for the year	9,224	2,507
Amortisation and depreciation	13,489	13,956
(Gains) losses on fixed assets	(2,356)	72
(Revaluations) write-downs on fixed assets	44	2,060
Change in the capital	(22,720)	13,615
Change in staff leaving indemnity provision	(2,203)	(8,206)
	<b>(4,522)</b>	<b>24,004</b>
<b>C. - CASH FLOW FROM INVESTMENT IN FIXED ASSETS</b>		
Investments in fixed assets:		
intangibles		(114)
tangibles	(14,250)	(10,536)
financial	(217)	(21,109)
Realizable price or reimbursement of fixed assets	21,862	19,956
	<b>7,395</b>	<b>(11,803)</b>
<b>D. - CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
New financing	1,771	
Net decrease in financial assets	177	11,125
Re-payment of loans	(1,731)	(10,122)
	<b>217</b>	<b>1,003</b>
<b>E. - ALLOCATION OF PROFITS</b>		
<b>F. - CASH FLOW FOR THE PERIOD (B+C+D+F)</b>	<b>3,090</b>	<b>13,204</b>
<b>F1 - EFFECT OF COMPANIES LEAVING THE GROUP ON CASH FLOW</b>		<b>4,433</b>
<b>G. - ENDING CASH AVAILABLE (ENDING INDEBTEDNESS) (A+F)</b>	<b>67,639</b>	<b>64,549</b>

## MARKET PROSPECTS AND COMPETITIVE POSITIONING

### Evolution of the market of power generation plants

After four years of growth, the market of generation plants registered a sudden stop in 2002: the partial data concerning the first 9 months show, in fact, a fall in the orders of gas turbines of about 70% compared to the same period in 2001.

The orders of steam turbines also decreased (~50%) even if less than that of gas turbines, thanks to the Chinese market holding substantially firm, returning after four years to overtake that of gas turbines (27GW against 21GW, in the first 9 months).

The fall in orders was especially strong in the United States, where it passed from about 62,000 MW ordered in the first 9 months of 2001 to less than 9,000 MW in the same period as last year.

The decline of the American demand, expected, but faster than forecast, was caused by the change in the climate following the noted Enron case and continuing slow-down of the economy.

Also in Italy there was a reduction in orders (2,000 MW against 5,400 MW), caused by long lead times in authorizations for new sites, from the "overcrowding" of the requests (new and re-powering) and the reorganization of the groups interested in the electrical market (Italenergia, Edison, Sondel and FW, Merloni, EON). This is a process which will dilute the "Italian bubble" and turn it into a constant flow of requests, diluted over a longer time period.

This phase of decrease in the demand is expected to last for a few years and will permit the principal constructors to process the volume of orders in production.

An upturn in the demand of gas turbines to levels comparable with the average period of 1998-

2001 (90-100 GW) is expected starting from 2006.

A limited return to coal is expected in the United States and other countries that have this internal resource.

The increase of the installed power will be located above all in Asia, where an economic recovery has been expected for some time.

Also in some Latin American countries (Brazil, Mexico) there exist plans to increase generation to support the foreseen economic recovery.

In the United States and Western Europe the demand should, however, relate in particular to the replacement and/or the re-powering of the old stations.

In the European market, apart from Italy which has already been mentioned, there is growth in the demand for the production of plants in Spain (current requests for authorization totalling 25,000 MW) and the United Kingdom (orders foreseen of 6,000 MW in the next 5-6 years).

Russia and the other Eastern European countries will become the future interesting market, however at the moment there is no certainty on the time frame and the manner of their development.

In the Middle East/North Africa there are programs for electric energy production projects, some combined with desalination plants in the Gulf Countries. In Algeria there are private study projects for the production of electric energy for export to Spain (plan "2000 MW"); tenders are also planned for Egypt (2,000 MW) and Libya (1,000 MW).

Parallel to the market of the supply of new plant and machinery, the growth in the number of gas turbines in operation has produced the development of an even more promising market



## MARKET PROSPECTS AND COMPETITIVE POSITIONING

segment on which all of the constructors rely: that of the post sales service, characterized by margins higher than those for new machinery; scarce competition, at least for the most technology advance models (each constructor tends to maintain the service of who provided the machines); reduced levels of uncertainty (the Operation & Maintenance contracts or Full Service normally assigned with the order of the machine, permitting the planning of the interventions and the production of spare parts).

### Competitive positioning of Ansaldo Energia

Ansaldo Energia has benefited in recent years from some contributory factors:

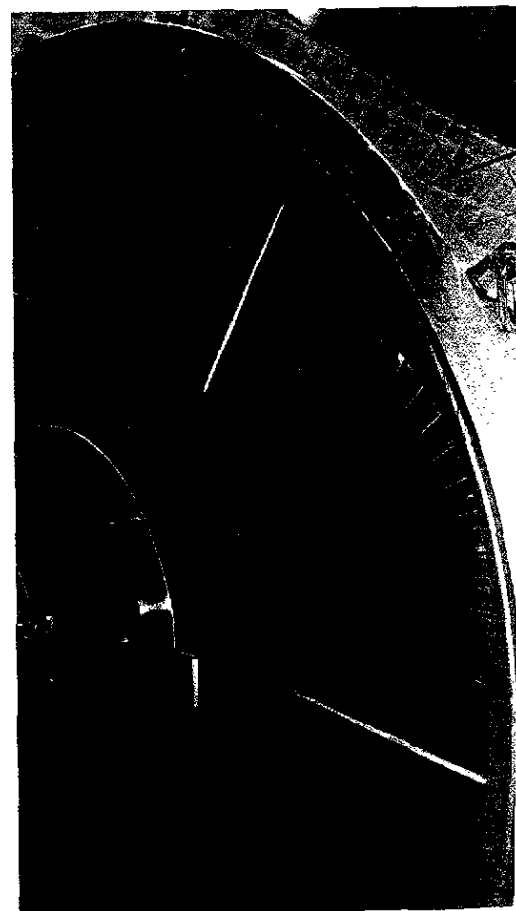
- the opening up of the Italian market and the good relationship with Enipower, Enel Power (including collaboration abroad), Electrabel and International Power, have permitted the acquisition of a large number of gas turbines V94.3A2 (15 machines sold /optioned)
- the order by "tranches" of gas turbines for the Iranian market contributed to constant work for the workshop.

This combination of factors has permitted the Company to consolidate its market share at around 3% on a worldwide scale in the turbogas and steam sector, and increase significantly the machines on which it can provide post sales service.

More significant is the presence in the domestic market reaching a market share of 60% on turbogas in the past year.

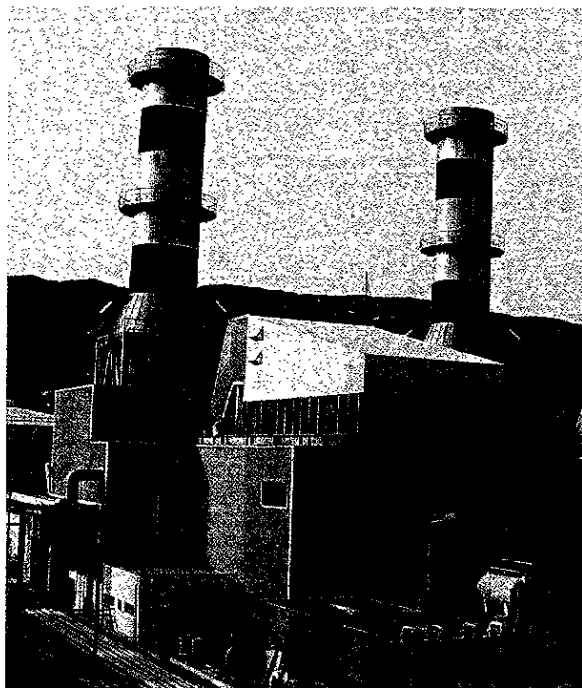
The reduction of activities in the "turnkey contract" field is the consequence of a greater selectivity by the company, of projects and of areas in which to operate, related to a greater attention to the risks.

The recognized capacity of Ansaldo Energia "main contractor" has permitted the acquisition of orders and the signing of letters of intent with important customers (Electrabel) and to see with International Power the development of new projects in Italy, based on "pre-financing", in which Ansaldo Energia will have the role of constructor and service provider. In 2003 the first of these projects should allow the financial closing and become operational, allowing the re-launch of Ansaldo Energia in the plant field, which constitutes one of the fundamental aspects of the business.



## SIGNIFICANT EVENTS AFTER THE YEAR END

**O**n February 28, 2003 an agreement was completed between Ansaldo Energia S.p.A. and Casti S.p.A. for the definition of various contentious issues as a consequence of the sale of the production area at Legnano. The economic effects of the agreement have already been reflected in the financial statements of 2002.



## FORECAST EVOLUTION OF THE OPERATIONS

**I**n 2003 the Company will be engaged in the consolidation of the results achieved.

The order portfolio of Euro 1,957 million allows the confirmation of the substantial saturation of the productive areas and to be able to forecast production volumes and margins in line with those in 2002.

However, the market inversion registered in the second half of 2002 and which has been widely reported on, will not fail to have an effect on the acquisitions and above all on the margins.

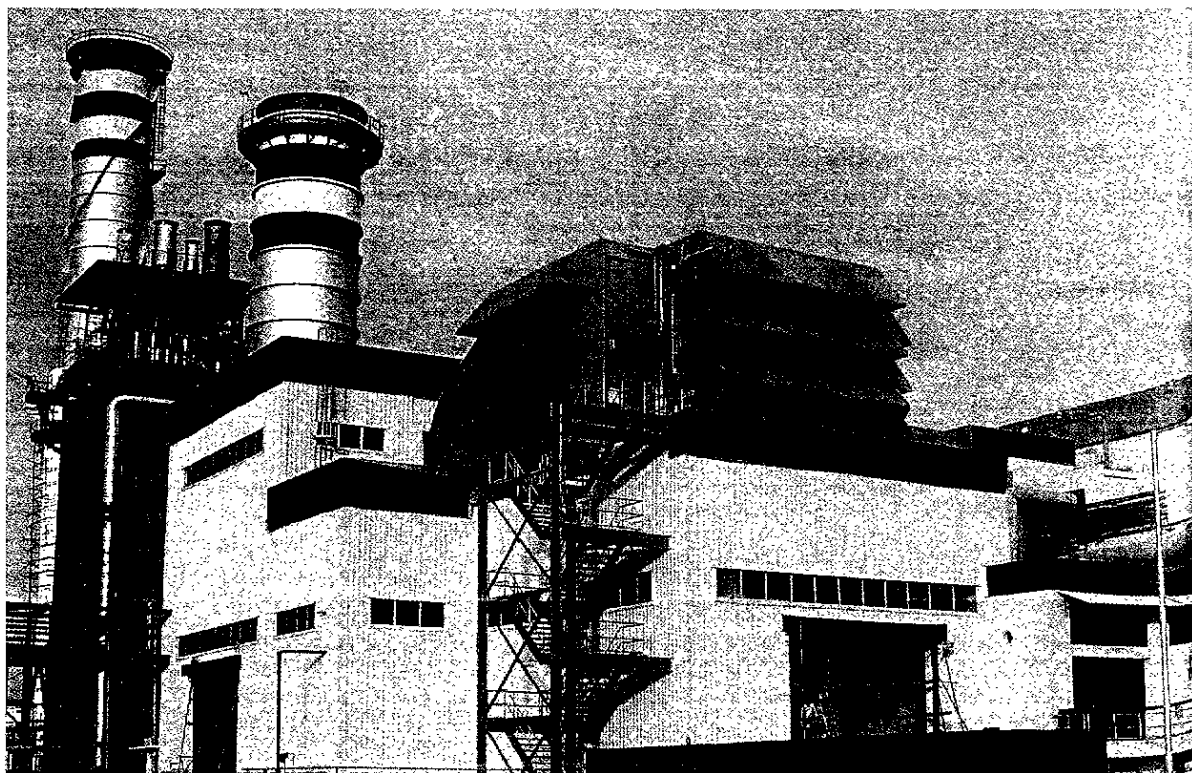
The relative impact could emerge starting from 2005 when, completed the orders in portfolio and those for which negotiations are in course, production will commence of orders acquired under less favourable market conditions.

The commitment and the efforts of the entire

structure must be directed at, on the one hand to the strengthening of the commercial activity for the consolidation of major clients and the search of new markets, and on the other to the optimisation of the internal processes with consequent cost savings and increase of competitiveness.

In particular the strengths of Ansaldo Energia must be exploited, historically constituted by the capacity to integrate various technologies, either on new or on service, by the realisation flexibility of product adaptability to the customers' needs, together with the experience matured in the main contracting sector.

Parallel to this, greater importance must be given to technological development in order to consent the Company to strengthen its expertise on models currently in production, with the aim of better serving the market.



# FINANCIAL STATEMENTS DECEMBER 31, 2002

# FINANCIAL STATEMENTS

## DECEMBER 31, 2002

### BALANCE SHEET - ASSETS (in Euro)

#### FIXED ASSETS

##### INTANGIBLE ASSETS

- Research, development and advertising

##### TANGIBLE ASSETS

- Land and buildings
- Plant and machinery
- Industrial and commercial equipment
- Other assets
- Assets under construction

##### FINANCIAL ASSETS

- Participations in:  
*Subsidiary companies*  
*Associated companies*  
*Other companies*

- Transfer for increase in capital:  
*Other companies*

- Receivables (\*)  
*Others*

#### Total financial assets

#### TOTAL FIXED ASSETS

#### CURRENT ASSETS

##### INVENTORY

- Raw, ancillary and consumables
- Work in progress and semi-finished
- Work in progress on job orders
- Payments on account

##### RECEIVABLES (\*)

- Customers
- Subsidiary companies
- Associated companies
- Holding companies
- Others

##### CASH AND BANKS

- Bank and postal accounts
- Cash and equivalents

#### TOTAL CURRENT ASSETS

#### PREPAYMENTS AND ACCRUED INCOME

- Prepayments and accrued income

#### TOTAL ASSETS

- (\*) Amounts receivable within one year of which:
- other

31/12/2002

31/12/2001

1,364,849	3,862,603
<b>1,364,849</b>	<b>3,862,603</b>
59,443,265	64,606,335
30,082,627	31,204,722
5,809,080	5,258,046
1,776,199	1,544,475
12,205,814	6,453,856
<b>109,316,985</b>	<b>109,067,434</b>
1,149,850	1,459,190
4,368,766	4,368,766
918,132	1,388,150
<b>6,436,748</b>	<b>7,216,106</b>
32,372	29,314
<b>32,372</b>	<b>29,314</b>
18,252,631	33,977,603
<b>18,252,631</b>	<b>33,977,603</b>
<b>24,721,751</b>	<b>41,223,023</b>
<b>135,403,585</b>	<b>154,153,060</b>
58,225,968	44,557,810
	4,635,788
2,833,033,824	2,541,703,216
21,972,812	14,500,751
<b>2,913,232,604</b>	<b>2,605,397,565</b>
411,079,129	318,520,322
18,435,023	12,185,374
3,719,874	2,832,097
896,625	40,625,619
71,962,883	67,147,000
<b>506,093,534</b>	<b>441,310,412</b>
49,588,499	35,697,188
110,760	146,746
<b>49,699,259</b>	<b>35,843,934</b>
<b>3,469,025,397</b>	<b>3,082,551,911</b>
<b>24,327,858</b>	<b>45,844,374</b>
<b>3,628,756,840</b>	<b>3,282,549,345</b>
6,808,000	21,988,000

# **BALANCE SHEET - LIABILITIES** (in Euro)

**31/12/2002**

**31/12/2001**

## **NET EQUITY**

CAPITAL	11,966,812	25,800,000
LEGAL RESERVES	1	22,845
PROFIT (LOSS) CARRIED FORWARD		(16,362,949)
PROFIT FOR YEAR	9,224,313	2,506,916
	<b>21,191,126</b>	<b>11,966,812</b>

## **PROVISION FOR RISK AND CHARGES**

- pension and similar	405,172	710,785
- taxes	3,957,731	4,087,062
- other	66,344,599	66,506,046
	<b>70,707,502</b>	<b>71,303,893</b>

## **PROVISION FOR STAFF**

### **LEAVING INDEMNITY**

<b>54,817,102</b>	<b>57,020,187</b>
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## **PAYABLES (\*)**

- banks	16,550,813	17,739,960
- payments on account	3,127,033,713	2,737,976,538
- trade payables	235,068,795	277,663,290
- subsidiary companies	10,439,429	6,409,852
- associated companies	6,222,407	20,715,869
- holding companies	13,123,664	572,445
- tax authorities	4,213,463	3,486,178
- social security institutions	13,194,585	14,280,680
- other payables	34,411,959	36,485,648
	<b>3,460,258,828</b>	<b>3,115,330,460</b>

## **ACCRUED LIABILITIES AND DEFERRED INCOME**

accrued liabilities and deferred income

<b>21,782,282</b>	<b>26,927,993</b>
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## **TOTAL LIABILITIES**

<b>3,628,756,840</b>	<b>3,282,549,345</b>
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(\*) Amounts receivable over one year of which  
others

15,255,000	16,619,000
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## **MEMORANDUM ACCOUNT** (in Euro)

### **Personal guarantees given**

Guarantees

- in favour of third parties

4,136,865	4,136,865
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Other

- in favour of third parties

14,460,793	14,460,793
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<b>18,597,658</b>	<b>18,597,658</b>
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### **Purchase and sales commitments**

Others

3,251,136,000	3,148,982,227
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1,688,389,000	2,061,757,577
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<b>4,958,122,658</b>	<b>5,229,337,462</b>
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# FINANCIAL STATEMENTS

## DECEMBER 31, 2002

### INCOME STATEMENT (in Euro)

	31/12/2002	31/12/2001
<b>VALUE OF PRODUCTION</b>		
- Revenues from sales and services	549,833,396	456,714,804
- Change in work in progress of job orders	290,951,598	316,649,864
- Increase of internally constructed assets	137,126	945,517
- Other income		
<i>contributions in the year</i>	2,063,776	842,911
<i>recovery of expenses</i>	6,792,459	11,947,691
<i>gains on asset disposals</i>	551,028	116,922
<i>other income</i>	8,635,770	15,052,044
	<b>858,965,153</b>	<b>802,269,753</b>
<b>COSTS OF PRODUCTION</b>		
- raw, ancillary and consumables	404,084,661	366,780,450
- services	268,085,070	246,717,169
- use of third party assets	3,655,370	4,019,000
- personnel		
<i>wages and salaries</i>	98,730,069	102,850,820
<i>social security charges</i>	28,554,629	31,448,673
<i>staff leaving indemnity</i>	7,150,884	7,697,676
<i>pension costs</i>	250,151	250,165
<i>other costs</i>	191,950	235,944
	<b>134,877,683</b>	<b>142,483,278</b>
- Amortization, depreciation and write-downs		
<i>amortization of intangible assets</i>	2,497,754	3,805,078
<i>depreciation of tangible assets</i>	10,991,463	10,151,099
<i>write-down of amounts in current assets</i>		516,457
	<b>13,489,217</b>	<b>14,472,634</b>
- Change in inventory of raw, ancillary and consumable goods	(9,411,383)	(9,424,482)
- Provision for risks	4,580,000	7,230,396
- Other operating charges		
<i>loss on asset sales</i>	178,474	189,171
<i>other taxes</i>	1,999,147	1,828,435
<i>others</i>	1,813,029	1,149,919
	<b>3,990,650</b>	<b>3,167,525</b>
<b>TOTAL COST OF PRODUCTION</b>	<b>823,351,269</b>	<b>775,445,970</b>
<b>DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION</b>	<b>35,613,885</b>	<b>26,823,783</b>



# INCOME STATEMENT (in Euro)

31/12/2002

31/12/2001

## FINANCIAL INCOME AND CHARGES

- Income from participations
  - dividends from associated companies*
  - other income from participations*

82,265	61,025
	1,306,657
<b>82,265</b>	<b>1,367,682</b>

- Other financial income
  - receivables in fixed assets*
  - holding companies*
  - others*

	104,850
1,553,215	1,560,777
<b>1,553,215</b>	<b>1,665,627</b>

### income other than above

- interest and commissions from subsidiary companies*
- interest and commissions from holding companies*
- interest and commissions from associated companies*
- interest and comm. from others, other income*

130,322	174,783
652,600	729,044
	268,702
29,503,808	37,888,173
<b>30,286,730</b>	<b>39,060,702</b>

- Interest and other financial charges
  - interest and commissions subsidiary companies*
  - interest and commissions holding companies*
  - interest and comm. from others, other income*

17,344	171,080
226,556	669,940
35,287,039	45,325,781
<b>35,530,939</b>	<b>46,166,801</b>

## TOTAL FINANCIAL INCOME AND CHARGES

<b>(3,608,729)</b>	<b>(4,072,790)</b>
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## ADJUSTMENT TO FINANCIAL ASSETS

- Revaluations
  - of participations*
- Write-downs
  - of participations*

8,870	239,128
(921,852)	(2,427,018)

## TOTAL ADJUSTMENT TO FINANCIAL ASSETS

<b>(912,982)</b>	<b>(2,187,890)</b>
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## EXTRAORDINARY INCOME AND CHARGES

- Income
  - gain on asset disposals*
  - over accruals in prior years*

1,805,350	7,912,120
1,467,629	2,621,842

- Charges
  - re-structuring costs*
  - tax for prior years*
  - under accruals in prior years*
  - extraordinary part of provision*

<b>3,272,979</b>	<b>10,533,962</b>
9,019,398	6,417,602
763,575	
2,997,922	8,398,034
6,729,181	6,748,523

## TOTAL EXTRAORDINARY ITEMS

<b>19,510,076</b>	<b>21,564,159</b>
<b>(16,237,097)</b>	<b>(11,030,197)</b>

## Result before taxes

<b>14,855,077</b>	<b>9,532,906</b>
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- Taxes

<b>5,630,764</b>	<b>7,025,990</b>
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## PROFIT FOR THE YEAR

<b>9,224,313</b>	<b>2,506,916</b>
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# NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year 2002 have been prepared in accordance with the statutory requirements as per articles 2424, 2424 bis, 2425, and 2425 bis of the Civil Code.

In relation to the Balance Sheet and Income Statement no re-groupings have been made of items, and the amounts are expressed in Euro.

It is noted that in the attachment to the financial statements no departures as permitted by the 4th paragraph of article 2423 have been made.

The notes to the financial statements are expressed in thousands of Euro; the information required by the Civil Code are in some cases supplemented by detailed schedules, that are considered as an integral part of the Notes. For a better reading of the financial statements these schedules are provided as attachments.

The Share Capital of the Company is held 100% by Finmeccanica S.p.A. with head office in Rome, Piazza Monte Grappa 4.

The Company avails of the faculty as per Legislative Decree 127 of 1991, not to prepare Consolidated Financial Statements. A copy of the consolidated Financial Statements of Finmeccanica S.p.A. and of the directors' report and the administrative control bodies are made public in accordance with legislation.

## ACCOUNTING PRINCIPLES

The valuation of the individual items in the financial statements are based on the general principles of prudence and accruals, and on a going concern basis.

The accounting policies adopted for the preparation of the financial statements are in line with article 26, of the civil code and the accounting principles of the C.N.D.C..

The most significant accounting policies adopted for the preparation of the financial statements are those shown below, with any significant variations from the previous year shown in the individual comments to the notes in the financial statements.

### Intangible assets

They relate to the acquisition costs, if external, or production, if internal, that do not exhaust their utility in the year they are incurred but demonstrate a capacity to produce future economic benefits. Amortisation is made over the period of their future economic utility, normally over five years, except for software and know-how that are amortised over three years.

The costs of set-up and expansion costs, and research and development costs are recorded with the approval of the Statutory Auditors.

Where during the year there is a permanent impairment in the future utility, the amount is written down.

### Tangible assets and depreciation

They relate to the acquisition costs, if external, or production, if internal, increased for the effect of legal monetary revaluations in the past.

Some assets have been revalued within the market value limits due to operations of an extraordinary nature such as mergers.

The depreciation charged to the income statement is calculated on the basis of the asset's estimated useful life.

For the first year of use, the depreciation rates used are reduced of 50%.

The Company Ansaldo Componenti Srl, has in addition in the years 1989, 1990, 1991, 1992, 1993 made accelerated depreciation to take advantage of fiscal deductions.

On-going maintenance costs are charged completely to the income statement in the year in which they are sustained.

The costs of extraordinary maintenance are capitalized in the year the costs are incurred.

Assets whose value at the balance sheet date have suffered permanent impairment in value are written down to their economic value and the original value is written back in successive years when the conditions for their write-off no longer exist.

## Participations

Participations are valued with the net equity method or at cost. The net equity method is applied when the results from the participation are significant in order to give a fairer representation of the result and net equity of the Company, considering the fact that Ansaldo Energia avails of the faculty provided to sub-groups not to prepare consolidated financial statements. For the other participations the cost method is applied being the purchase price or subscription paid in. The cost is reduced for permanent impairment in values where any losses are not expected to be covered by profits in the immediate future; the original value is written back in successive years when the conditions for their write-off no longer exist. If the losses are greater than the subscription value the difference is recorded in a "provision for charges on participations" under "Other Provisions for risks and charges" in liabilities.

The financial statements used are those approved in the Shareholders' meeting or prepared by the Board of Director's for approval.

## Inventory

### *Raw material, semi-finished and finished*

They are valued at the lower of cost and market value. The cost is determined with reference to the average cost method.

The inventories of obsolete or slow moving articles are written down through the recording in a specific provision account.

### *Work in progress*

Work in progress on job orders with a duration of a number of years are valued as per the contractual revenues in accordance with the method of percentage of completion. This method provides for the valuation of the contract based on the total compensation negotiated and the advancement of the work determined by comparing the costs incurred to-date to the total costs forecast.

The losses on job orders, forecast based on objective and reasonable valuations, are fully charged to the income statement in the year in which they are noted and recorded in a specific work in progress provision account.

## NOTES TO THE FINANCIAL STATEMENTS

For the contracts that are stipulated in foreign currencies, the conversion of revenues in Euro is made:

- At the exchange rate at the date of invoicing, for the part invoiced and not covered by specific exchange risk cover contracts;
- at the spot exchange rate for the amounts covered with a specific exchange risk cover contract;
- at the exchange rate at the year-end for the part not invoiced and not covered by exchange risk cover contracts.

The costs at the year-end still to be incurred in foreign currencies are converted to Euro at the current exchange rate.

The costs sustained in the offer phase are charged directly to the income statement in the year in which they are incurred.

The invoices issued to customers during the execution of the work are recorded in the account Payments on account under liabilities and recorded as revenues at the end of the work.

The job order is considered finalised on the obtaining of a provisional acceptance certificate or equivalent documentation at the moment that, normally, coincides with the transfer of property of the plant; all the relative invoices are recorded in the income statement, in the account Revenues from sales and services, while the costs to be sustained after the completion of the work are provided for in a specific account in liabilities.

The possible risks arising on a part of the contractual revenues, generally represented by guarantees given to the customer, are shown in the memorandum accounts.

The work on progress on job orders of short cycles are valued at the lower of costs and realisable value.

The production to be completed of a definite sale or made for inventory is valued at production cost.

### Trade and financial payables and receivables

Payables and receivables are valued at their nominal value. The receivables are reduced directly for losses that are certain, while consideration is taken of further risks of non-payment with specific reserves. The part of the interest included in medium/long term receivables not matured at the year-end is accrued to future years.

The receivables subject to factoring are no longer included under receivables following receipt from the factoring Company, the amount of the recourse risk is shown in the memorandum account; the interest due to the factor on the amounts received are recorded in the income statement in accordance with the accruals concept.

The payables and receivables in foreign currencies not covered by exchange risk contracts are converted to Euro at the exchange rate at the balance sheet date.

### Provisions for risks and charges

Provisions for risks and charges are recorded in respect of certain or probable losses or liabilities, the amount or due date of which could not be determined at year-end in relation to disputes in course, contentious matters, re-structuring costs and various other risks.

### **Provision for employee leaving indemnity**

The provision is accrued at the end of the year to cover the full liability to all employees in accordance with current legislation, and national and integrated Company agreements made, net of advances paid.

### **Prepayments and accruals**

They are recorded in accordance with the accruals concept.

### **Operations in foreign currencies**

The receivables and payables originally expressed in foreign currencies are converted to Euro at the historical rate of the relative operation, adjusted to the spot rate when there is a specific exchange rate cover contract. The differences arising on the receipt and payment in foreign currencies are recorded in the income statement.

At the end of the year the amounts in foreign currency still open are adjusted to the exchange rate ruling at the balance sheet date. The adjustment relative to amounts of a short term nature are recorded in the income statement and those of a medium/long term nature are recorded in the income statement if the net difference is a loss, while profits are deferred in the Provision for deferred gains on foreign exchange in liabilities.

### **Taxes**

Taxes have been calculated based on an estimate of the fiscal charge for the period in accordance with current fiscal legislation, taking into account exemptions and tax credits received.

Deferred tax assets and liabilities, particularly tax assets, are recorded only in the case where there is a reasonable possibility that the amount will be recovered or paid.

# NOTES TO THE FINANCIAL STATEMENTS

## COMMENTS ON THE ITEMS IN THE BALANCE SHEET

### ASSETS

#### Fixed assets

For the three classes of fixed assets, intangibles, tangibles and financial assets, detailed prospectuses have been prepared as attachments no.1-2-3, that indicate for each item, the historical cost, accumulated amortisation and previous revaluations/write-downs, the movements in the year and the closing balances.

#### *Intangible assets*

The intangible assets consist of research and development relating to specific projects where it is currently considered will result in the realisation of new products and a recovery of the costs sustained. They have decreased Euro 2,498 thousand compared to the previous year due to the effect of the amortization for the period.

#### *Tangible assets*

Tangible assets are shown net of depreciation. The revaluations made in previous years relate essentially to the application of law 413/91.

Land and buildings relate to the industrial installations at Genoa-Campi (Euro 40,340 thousand), Legnano (Euro 18,930 thousand) and overseas installations (Euro 173 thousand).

The movements in the period are shown in the attachment no. 2.

The net increase of Euro 250 thousand compared to the previous year is determined by:

Acquisition and capitalization of new plant (Euro 8,498 thousand) which includes electrical discharge machine (Euro 1,200 thousand), grinders for broaching machine (Euro 427 thousand) and relaying of the local network cables (Euro 609 thousand);

Capitalization of plant in construction, which is expected to enter in service during 2003 for Euro 5,752 thousand;

Depreciation in the period for Euro 10,991 thousand calculated taking into account the useful life of the asset. The rates applied are as follows:

- Industrial buildings	3-5 %
- Plant and machinery	5-20 %
- Equipment	12.50-40 %
- Furniture	12-20 %
- Automobiles	20-25 %

Decreases of Euro 3,010 thousand derive from disposals net of depreciation. During the year, in completion of the sales operation of the Magnet Unit the related buildings were sold (Euro 1,910 thousand). In addition a part of the cast iron Foundry in the Legnano area was sold (Euro 896 thousand).

### *Financial assets*

#### PARTICIPATIONS

The list of investments held, the head office, share capital, the amount of the net equity, the profit and loss in the period, the percentage held and the value attributed in the financial statements are included in schedule no. 4.

Schedule no. 3 shows the composition of the values recorded in the financial statements and the movements in the year.

#### Subsidiary companies

The principal changes relate to:

- The acquisition by FTI S.p.A. in Liquidation of 10% of the participation in AETD S.r.l. (Euro 15 thousand).
- The sale of all of the shares held in AETD to the group Graistone of Brussels (Euro 1,100 thousand) with the recording of a gain of Euro 783 thousand.
- The payment for the covering of losses to Tramonte Holding for Euro 36 thousand.
- The net equity valuations as at 31.12.2002 of the subsidiary companies resulting in the recording of charges for Euro 922 thousand (ASPL Euro 869 thousand, Sopren Euro 17 thousand, Tramonte Holding Euro 36 thousand) and income for Euro 9 thousand generated by Sagem. The quota relating to the write-down in ASPL, exceeding the carrying value, was recorded in the "provision for other charges and risks".

#### Associated companies

No movements took place during the year. It should be noted that the 40% held in Ansaldo Caldaie S.p.A. is subject to a sales/purchase option in favour of Sofinter S.p.A., the company which holds the majority share of 60%, and the carrying value has been adjusted to the pre-fixed contractual price.

#### Other companies

- The movement is due to the sale of the residual 10% held in Ansaldo Superconduttori for Euro 469 thousand.

#### PAYMENT OF SHARE CAPITAL

- The change of Euro 3 thousand relates to the payment for the increase in share capital of the company Hydropastaza.

## NOTES TO THE FINANCIAL STATEMENTS

## RECEIVABLES

This item relates to receivables which are payable over one year, interest bearing or subject to revaluation.

Customers comprise principally the receivable from CASTI S.p.A. (Euro 6,458 thousand). The other receivables relate to the employee leaving indemnity receivable in accordance with legislation 79/97 (Euro 4,809 thousand), a deferred interest bearing credit from an Algerian customer, subject to the SACE restructuring agreement (Euro 6,104 thousand), deposits (Euro 210 thousand) and CCNL advances and others (Euro 300 thousand).

The most significant variations relate to the receipt (Euro 14,980 thousand) of the first two deferred amounts from CASTI S.p.A., originating from the sale of the production facilities at Legnano.

RECEIVABLES	31/12/2001	Variations in period		31/12/2002
(in Euro/thousand)	Value in Fin. Stat.	Paid	Reimbursement	Value in Fin. Stat.
From others:				
- customers	21,587		14,980	6,607
- State and public bodies for subsidies and contributions	245		22	223
- other receivables	6,451	163		6,614
- Employee indemnity tax credit	5,694		885	4,809
	33,977	163	15,887	18,253

## Current Assets

## Inventory

## RAW MATERIAL AND CONSUMABLES

Raw materials and consumables are net of a provision for obsolete and slow moving inventory equal to Euro 4,570 thousand. The increase of Euro 9,411 thousand is attributable to the significant increase in production activities.

## PRODUCTS IN WORK IN PROGRESS AND SEMI-FINISHED

The work in progress and semi-finished goods recorded last year for Euro 4,636 thousand were completed in the year and there are no new products in work in progress.

## JOB ORDERS WORK IN PROGRESS

The job orders work in progress are recorded in the financial statements gross of advances received and pro-rata invoicing, recorded under liabilities, and net of inventory provision.

The net positions per job orders are as follows:



DESCRIPTION OF PLANT	Gross at 31/12/2002	On account 31/12/2002	Net 31/12/2002
Iran Phase 1 - N.12 TG+AT	334,283	(325,263)	9,020
Enipower - Various Plant	244,961	(395,144)	(150,183)
Ballylumford / Ireland - Com. cycle	215,487	(211,768)	3,719
Liberty 1 Pakistan - Com. cycle T.K.	128,787	(129,281)	(494)
Neyveli / India - 2 X 210 MW	107,118	(113,761)	(6,643)
Medina & Yambu II S.A. - Desal.2x80 MW	99,778	(100,848)	(1,070)
Sonelgaz / Hamma II - Open Cycle 2x209 MW	100,358	(108,625)	(8,267)
Mejillones III / Chile - Com. cycle plant	91,073	(99,097)	(8,024)
Iran Phase 2 - N.10 GT+Generator	61,909	(23,707)	38,202
Komotini / Greece - Com. cycle	59,197	(66,621)	(7,424)
Jebel Ali / U.A.E. - Repowering Phase 2	55,810	(61,236)	(5,426)
La Casella - N.2 GT V94.3A2+ Access.	49,018	(46,932)	2,086
Samalkot / India - Com. cycle of 230 MW	44,996	(40,104)	4,892
Meghnaghat Bangladesh - N.2 GT+ N.2 GEN	43,743	(46,470)	(2,727)
Millmerran / Australia - 2x420 MW	38,352	(42,127)	(3,775)
Service orders	569,826	(552,425)	17,401

The movements in the period of Euro 291,330 thousand can be summarised as follows:

Work in progress 31/12/2001	2,541,703
Work performed in the period	837,972
Work completed in the period	(547,844)
Utilization of provision	5,459
Reclassifications	(4,257)
Work in progress 31/12/2002	2,833,033

The work completed relates to the jobs closed that have received the provisional acceptance certificate or equivalent document. For these jobs the costs still to be incurred after the end of the year have been calculated, included in the provision "risk and charges" amounting to Euro 7,430 thousand.

#### PAYMENTS ON ACCOUNT

The payments on account to suppliers essentially relate to orders of a long duration.

#### Receivables

They are recorded at their nominal value. Those not in Euro are adjusted to the spot rate in the specific contracts or in absence of this, at the current rate at the year-end.

For contentious receivables or doubt over recovery, in relation to disputes, judicial procedure or insolvency, a provision has been made for doubtful receivables.

Against the interest for the late payment on receivables a "Provision for interest on doubtful receivables" has been created. The receivables recorded do not represent bills of exchange or similar.

The following movements occurred in the year in Euro/thousand:

# NOTES TO THE FINANCIAL STATEMENTS

RECEIVABLES				
	31/12/2001	VARIATIONS IN PERIOD		31/12/2002
		Increase (+) Repayment (-)	Provision (-) Write-back of value (+)	
Customers	339,965	90,163		430,128
less:				
- Prov. doubtful debts	20,323	(1,641)		18,682
- Prov. doubtful debts for interest	1,122		(755)	367
Subsidiary companies	12,185	6,250		18,435
Associated companies	2,832	888		3,720
Holding companies	40,626	(39,729)		897
Others	67,356	4,816		72,172
less:				
- Prov. doubtful debts	209			209
<b>TOTAL</b>	<b>441,310</b>	<b>64,029</b>	<b>755</b>	<b>506,094</b>

The increase in receivables is essentially attributable to the increase in sales and in particular the increase in December, with receipt in January 2003.

It should be noted that the receivable from the Iranian client MAPNA (Euro 57,790 thousand) has suffered some delays in payment for bureaucratic reasons, in course of resolution.

The receivables from holding, subsidiary and associated companies, whose details are included in the directors' report on operations, are comprised of:

- financial receivables of Euro 17,556 thousand relating to positive current accounts. The financial receivables are interest bearing at market rates and decreased 18,118 thousand due to the discontinuation of the current account with Finmeccanica;
- trade receivables of Euro 5,414 thousand;
- other receivables of Euro 82 thousand from associated companies.

The other receivables amount to Euro 71,963 thousand and are comprised of:

- receivables from tax authorities of Euro 18,941 thousand for reimbursements requested;
- receivables from overseas tax authorities for VAT (Euro 4,150 thousand);
- receivables from personnel and social security institutions for 2,053 thousand;
- receivables from the Camozzi Group for 13,875 thousand deriving from the sale of the business "Componenti Speciali Milano";

- other receivables from Belleli (Euro 14,757 thousand), CIMI (Euro 2,319 thousand), insurance (Euro 1,213 thousand), deposits (Euro 649 thousand) and overseas sites (Euro 1,827 thousand);
- financial receivables from third parties (Euro 11,208 thousand) of which Euro 8,983 thousand from AETD.

For an analysis of receivables by expiry date, nature, currency and exchange risk reference should be made to schedules no. 6 and n. 7.

### *Cash and banks*

Bank deposits relate to Euro 6,225 thousand in local currencies in the overseas establishments, Euro 5,242 thousand in foreign currency accounts in foreign and Italian banks, Euro 8,412 thousand on blocked accounts and Euro 29,819 thousand in ordinary current accounts.

### **Prepayments and accrued income**

The item is analysed as follows:

- Deferred income
- They are comprised of interest on SWAP operations (Euro 166 thousand), and others (Euro 60 thousand).
- Prepayments

The amounts are recorded taking into account the period in which they relate to.

The most significant item (Euro 19,103 thousand) relates to the suspension of the differential, already charged by the financial institutions, for SWAP contracts which are deferred, and which will be recovered on the receipt of the receivable to which they are correlated. The decrease of Euro 21,685 thousand is essentially due to the closing of the exchange risk cover operations.

The prepayments also include insurance premiums (Euro 3,735 thousand) and commissions on loans (Euro 1,234 thousand).

# NOTES TO THE FINANCIAL STATEMENTS

## LIABILITIES

### Net equity

The changes in the net equity can be summarised as follows (in Euro thousands):

	31/12/2001	VARIATION IN THE PERIOD		31/12/2002
		Allocation of profits/covering-of losses	Profit/loss for the year	
Share Capital	25,800	(13,833)		11,967
Legal Reserve	23	(23)		
Profit (loss) carried forward	(16,363)	16,363		
Profit (loss) for the year	2,507	(2,507)	9,224	9,224
	11,967		9,224	21,191

On April 29, 2002 the Ordinary Shareholders' Meeting approved the financial statements for the year 2001 with a profit of Euro 2,507 thousand.

In the same meeting the shareholders deliberated to cover the losses for the year 2000 of Euro 16, 363 thousand through:

- utilization of the profits for 2001 of Euro 2,507 thousand;
- utilization of the legal reserve of Euro 23 thousand;
- reduction of the share capital by Euro 13,833 thousand cancelling 13,833,188 shares of Euro 1 each.

The Share Capital of the Company, composed of 11,966,812 shares with a nominal value of Euro 1 each, is fully held by Finmeccanica SpA - Roma.

## Provision for risk and charges

The details of the provision for risk and charges is as follows (Euro thousands):

	31/12/2001	VARIATION IN PERIOD		31/12/2002
		Provision to income statement	Direct Utilisation	
Pension rights and similar obligations	711	250	555	406
Taxes	4,087	292	421	3,958
Other				
- Charges for contentious	12,210		470	11,740
- Charges for guarantees	21,433	4,580	9,440	16,573
- Restructuring charges	5,198	6,636	465	11,369
- Write-down of participations	3,308	869	3,308	869
- Costs to completion	19,905	7,430	5,570	21,765
- Other charges and risks	4,451	93	516	4,028
	71,303	20,150	20,745	70,708

The other provisions are analysed as follows:

- **Charges for contentious matters** - The provision represents the best estimate relating to the arbitration and disputes of a judicial nature with personnel (Euro 2,759 thousand) and third parties (Euro 8,981 thousand).
- **Charges for guarantees** - The provision is to cover risks related to the contractual performances of the orders in course of execution. In the year the provision was utilized against charges deriving from an order (Euro 9,440 thousand) and subsequently adjusted for future requirements with a provision of Euro 4,580 thousand. The Company considers that with this adjustment the provision is adequate to cover existing risks.
- **Restructuring charges** - Relates to the amounts provided against the risks connected to the sale of the activities following the Company restructuring. The provision was increased in the year by Euro 5,853 thousand for charges deriving from the completion of a contentious matter and Euro 783 thousand for risks connected to sales in the year.
- **Write-down of participations** - The amount is related to the losses of the subsidiary ASPL, exceeding the carrying value (Euro 869 thousand).
- **Costs to completion** - They are costs to be sustained after the closing of orders for guarantees and definition of pending points.
- **Other charges and risks** - Relate to charges provided against expected costs for the liquidation of the companies Sicom and Ansaldo Middle East.

# NOTES TO THE FINANCIAL STATEMENTS

## Employee leaving indemnity

The provision at the end of the year reflects the payable to employees in accordance with current legislation and contracts with personnel matured to December 31, 2002.

The amount has decreased by Euro 2,203 thousand compared to the previous year connected to the numerous departures of employees some of which were able to benefit from assisted pre-pension measures.

Balance at 31/12/2001	57,020
Changes in the period:	
- charge to income statement	7,151
- utilisation for indemnities paid/advances	(9,191)
- transfer of personnel	33
- taxes on revaluation	(196)
	(2,203)
Balance at 31/12/2002	54,817

## Payables

For the analysis of payables by expiry date, nature, currency and exchange risk reference should be made to schedules no. 8 and n. 9. The payables are not subject to real guarantees on Company assets.

PAYABLES			
(in Euro/thousand)	VARIATIONS IN PERIOD		
	31/12/2001	Increase (+) Decrease (-)	31/12/2002
Banks	17,739	(1,188)	16,551
Payments on account	2,737,977	389,057	3,127,034
Trade payables	277,663	(42,594)	235,069
Subsidiary companies	6,410	4,029	10,439
Associated companies	20,716	(14,494)	6,222
Holding companies	572	12,552	13,124
Tax authorities	3,486	727	4,213
Social security institutions	14,281	(1,086)	13,195
Other payables	36,486	(2,074)	34,412
	3,115,330	344,929	3,460,259

## Payables to bank

They are comprised of Euro 6,191 thousand of short-term loans from Italian banks (Euro 5,758 thousand) and foreign banks (Euro 433 thousand) and medium/long term loans (Euro 10,360 thousand). They have decreased by Euro 1,188 thousand compared to the previous year, relating essentially to the short-term loans.

### *Payments on account*

This item represents the amounts invoiced against work in progress on the basis of contractual conditions and is divided as follows:

- Advance from customers   Euro/thousand   75,126
- Pro-rata invoicing           Euro/thousand   3,051,907

For the movements reference should be made to the comments in the item "Inventory".

### *Trade payables*

Relate to contracts for the acquisition of goods and services relating fundamentally to the activities of orders and include the costs for the period not yet invoiced for materials delivered and services performed as at December 31, 2002.

The amount has decreased by Euro 42,594 thousand compared to the previous year as a consequence of the improved payment policy made possible by the positive financial position.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2002.

### *Payables to subsidiary, associated and holding companies*

For a detailed analysis reference should be made to the schedule in the directors' report on operations. The financial payables amount to Euro 3,112 thousand and show an increase (Euro 2,551 thousand) as a consequence of the current account with the parent company, becoming a payable in the period (Euro 2,534 thousand).

The trade payables (Euro 16,338 thousand) relate prevalently to the supply relationship with Ansaldo Caldaie (Euro 6,223 thousand) and Sagem (Euro 9,035 thousand).

Other payables (Euro 10,335 thousand) relate to the Group VAT payable.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2002.

### *Payables to tax authorities*

They amount to Euro 4,213 thousand and relate to IRAP for Euro 666 thousand, net of payments on account paid of Euro 5,334 thousand and, to Irpef of Euro 3,547 thousand in December as substitute tax.

### *Payables to Social Security Institutions*

This item equal to Euro 13,195 thousand relates to the social security contributions due by the personnel and the Company for the December salaries and paid in January and other contributions which are paid annually and quarterly.

### *Other payables*

This item includes payables to personnel for the period and vacation days not taken (Euro 16,078 thousand), insurance (Euro 3,463 thousand), royalties (Euro 677 thousand) and overseas sites (Euro 3,022 thousand). The item also includes short-term financial payables (Euro 1,521 thousand), a medium/long term loan from the Ministry of Production Activity (Euro 7,512 thousand) and others (Euro 2,141 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

### Accrual liabilities and deferred income

They have been determined taking into account the period to which the amounts relate to and have decreased by Euro 5,146 thousand.

Included are the quota of interest for future years (Euro 176 thousand) and suspension of Swap charges (Euro 21,605 thousand).

### COMMENTS ON THE MEMORANDUM ACCOUNTS

#### Personal guarantees given

##### *Guarantees given to third parties*

They relate to guarantees given in relation to consortiums guaranteeing execution of the work (Euro 4,136 thousand).

##### *Other*

They represent the risk for the transfer of tax credits in the 1994 tax declaration to the Company RAI Radio Televisione Italiana (Euro 14,461 thousand).

#### Sales and purchase commitments

##### *Sales commitments*

They are Euro 1,957,400 thousand relative to the contractual value of work in progress net of the amount already produced.

The sales commitments in foreign currencies with Swap contracts agreed with credit institutions to cover the exchange risks of receivables in foreign currencies, amount to Euro 62,998 thousand.

##### *Purchase commitments*

The irrevocable commitments of orders for the supply of goods and services relating to the Company's activity amounts to Euro 1,220,000 thousand.

The purchase commitments in foreign currencies with Swap contracts covering these risks amount to Euro 10,738 thousand.

#### Other

##### *Personnel guarantees received*

They relate to:

- Guarantees given for the correct execution of orders (Euro 208,835 thousand);
- MEIE guarantee against the guarantee given by Ansaldo Energia in favour of AETD (Euro 4,191 thousand);



- Letters of credit given in our favour by customers guaranteeing payment (Euro 494,880 thousand);
- The commitment by Otto SpA to honour the guarantees given by Ansaldo Energia SpA to customers for the proper execution of orders transferred to Otto (Euro 88,583 thousand).
- The guarantee by Finmeccanica Spa against the costs capitalised in previous years included in "work in progress " for the Sulcis order (Euro 12,495 thousand). The guarantee could be activated on completion of the formalities in relation to the resolution of the concession, already deliberated by the Sulcis Committee.

#### *Other Guarantees given for Company obligations*

They relate to:

- guarantees given by financial institutions and insurance companies on behalf of customers of Ansaldo Energia guaranteeing the proper execution of the work (Euro 778,849 thousand) and participation for tenders (Euro 9,451 thousand);
- guarantees given by financial institutions and insurance companies (Euro 13,200 thousand) on behalf of the VAT, customs and other public entity offices.
- Letters of credit issued in favour of suppliers guaranteeing payment (Euro 77,905 thousand).

## COMMENTS ON THE ITEMS IN THE INCOME STATEMENT

### Value of production

(in Euro/thousand)	31.12.2002	31.12.2001	Variations
Revenues from sales/services	549,833	456,714	(93,119)
Changes work in progress	290,951	316,650	25,699
Increase internally constructed assets	137	945	808
Other income	18,044	27,960	9,916
	858,965	802,269	(56,696)

The revenues from sales and services are detailed in accordance with article 2427 of the civil code in the attachment no.10.

The increase in assets internally constructed relates to the cost of labour for Euro 137 thousand and relate to tangible fixed assets.

Other income includes contributions paid in for training (Euro 1,265 thousand) and for research (Euro

## NOTES TO THE FINANCIAL STATEMENTS

798 thousand) gains on disposals (Euro 551 thousand), other revenues (Euro 9,298 thousand) and recovery of expenses Euro 6,132 thousand.

The gains on disposals relates to the sale of plant and machinery relating to normal substitutions in Italy and overseas.

Other revenues includes the receipt from SACE of receivables previously written-down (Euro 3,044 thousand), insurance reimbursement (Euro 5,309 thousand) relating essentially to claims on damages on the orders of Cassano, Farakka and Hub River, recovery of expense for materials (Euro 5,905 thousand) recovery of personnel expenses (Euro 790 thousand) and rent (Euro 381 thousand).

The revenues from sales and services essentially relate to the closing of orders (Euro 548,543 thousand). The most significant projects in the period, having obtained the PAC, were considered finalised, relating to the supply of two turbo-groups barges for the Public Electric Board of Ghana for Euro 78,416 thousand and a combined cycle at Lublino (Poland) for Euro 33,963 thousand.

### Costs of Production

#### *Costs for acquisition of raw materials, ancillary and consumables*

They are comprised of purchases of materials (Euro 398,499 thousand), electric energy, water, gas (Euro 5,586 thousand). They register an increase of Euro 37,304 thousand compared to the previous year due essentially to the greater level of activity and the purchase from Siemens of finished products previously produced internally.

#### *Costs for services*

This item comprises the cost for external work and different services (Euro 189,697 thousand), insurance (Euro 7,871 thousand), emoluments for directors and statutory auditors (Euro 91 thousand), customs charges and transport (Euro 17,250 thousand), royalties (Euro 7,826 thousand), travel and transfer of personnel (Euro 14,973 thousand), decentralised services (Euro 15,874 thousand), as well as commissions on guarantees of a commercial nature (Euro 8,223 thousand) and various other services (Euro 6,280 thousand).

#### *Costs for the use of third party assets*

This item comprises the amounts paid for the rent of buildings (Euro 2,473 thousand), photocopying and data processing (Euro 928 thousand) and other rents (Euro 254 thousand).

### *Personnel costs*

Below is shown the average number of employees divided by category:

	2002	2001
Senior Managers	115	121
Managers	247	267
White-collars	1,141	1,306
Blue-collars	957	1,123
TOTAL	2,460	2,817

The cost (Euro 134,878 thousand) represents all amounts for the period including those deferred, which have been matured as at December 31, 2002, social charges and leaving indemnity. The personnel costs for overseas establishments amounted to Euro 10,636 thousand. The reduction in personnel costs continued in the current year due essentially to the decrease in the number of employees from leaving incentive or pre-pension schemes.

### *Amortization, depreciation and write-downs*

The division of the three sub accounts are shown in the Income Statement, while the economic-technical rates applied are shown in the accounting policies applied. The amortisation and their correlation to the Balance Sheet are detailed in the prospectuses below (Euro/thousand).

#### *Amortization of intangible assets*

	2002	2001
Research and development costs	2,498	3,805

They relate to costs capitalized in previous years.

#### *Depreciation of tangible assets*

	2002	2001
Land and buildings	2,572	2,641
Plant and machinery	5,775	5,378
Industrial and commercial equipment	2,062	1,362
Other assets	582	770
<b>TOTAL</b>	<b>10,991</b>	<b>10,151</b>

### *Change in inventory of raw materials, consumables and goods*

In relation to this reference should be made to the item "Inventory" in the Balance Sheet and the prospectus n. 5.

### *Provisions for risks*

Relates to the provision for guarantees in order to render it adequate in relation to the risks of the orders in course.

### *Other operating costs*

This item includes: losses on the sale of assets (Euro 178 thousand), indirect taxes and Italian and overseas taxes (Euro 1,999 thousand of which Euro 714 thousand for ICI), contributions to associations (Euro 320 thousand), losses on receivables (Euro 905 thousand) and others (Euro 588 thousand).

# NOTES TO THE FINANCIAL STATEMENTS

## Financial income and charges

### *Income from participations*

They relate to dividends received in the year from the foreign associated company NNS (Euro 82 thousand).

### *Other financial income*

#### INCOME FROM RECEIVABLES IN NON-CURRENT ASSETS

Refers to interest on receivables from SACE (Euro 535 thousand), tax credits (Euro 165 thousand) and receivables from Casti (Euro 853 thousand).

#### OTHER INCOME (in Euro/thousands)

		2002	2001
Interest on current accounts:	- Subsidiary companies	130	174
	- Holding companies	652	729
	- Associated companies		269
	- Bank & credit institutions	1,204	1,854
Other interest	- State	354	437
	- Others	125	15
Foreign exchange gains	- Realized	22,969	33,214
	- For adjustment	3,181	413
Gains on Swap operations		1,671	1,955
<b>TOTAL</b>		<b>30,286</b>	<b>39,060</b>

The interest and commissions from others, relate to bank interest (Euro 1,204 thousand) and State interest (Euro 354 thousand); income from exchange difference on Swap contracts (Euro 22,969 thousand), and for adjustment (Euro 3,181 thousand), as well as premiums on Swap contracts (Euro 1,671 thousand) and others (Euro 125 thousand).

## Financial interest and charges

Financial interest and charges are analysed as follows (in Euro thousands):

	2002	2001
Interest payable:		
- Subsidiary companies	17	171
- Holding companies	227	220
- Bank & credit institutions	1,282	2,453
- Factoring companies		768
- Suppliers	590	969
- Others		280
Commissions and banks charges	1,956	2,078
Foreign exchange losses:		
- Realized	24,659	36,841
- For adjustment	6,295	747
Losses on Swap operations	505	1,639
<b>TOTAL</b>	<b>35,531</b>	<b>46,166</b>

The commissions and interest to subsidiary companies (Euro 17 thousand) relate to transactions of a financial nature with FTI (Euro 10 thousand) and SOPREN (Euro 7 thousand).

The commissions and interest to holding companies (Euro 227 thousand) relate to transactions with Finmeccanica S.p.A. for commissions and expenses on guarantees (Euro 450 thousand).

The commissions and interest to others and other charges (Euro 35,287 thousand) relate to interest to credit institutions (Euro 550 thousand), medium/long terms loans to financial institutions (Euro 732 thousand), and trade payables (Euro 590 thousand).

Included also are bank commissions and charges (Euro 1,956 thousand), differentials on Swap (Euro 21,990 thousand), foreign exchange losses realized on trade receivables (Euro 2,669 thousand) and for adjustment (Euro 6,295 thousand), as well as charges on Swap contracts (Euro 505 thousand).

## Adjustment to financial assets

### Revaluations

The amount of Euro 9 thousand relates to the net equity valuation of the subsidiary SAGEM S.p.A.

### Write-downs

The amount of Euro 922 thousand relates to the losses in the Indian subsidiary ASPL (Euro 869 thousand), in Tramonte Holding (Euro 37 thousand) and in Sopren (Euro 16 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

**Extraordinary income and charges***Income*

The gains on disposals of an extraordinary nature, for a total of Euro 1,805 thousand, relate to the sale to Ansaldo Superconduttori S.p.A. of the building in Genoa (Euro 656 thousand), to the sale to Euroimmobiliare of the foundry at Legnano (Euro 366 thousand) and to the sale of the investment in AETD (Euro 783 thousand). Also included are over-accruals from previous years and other income not relating to ordinary business operations for a total amount of Euro 1,467 thousand.

*Charges*

This item includes: provisions for costs and expenses related to the extraordinary sales operations (Euro 6,636 thousand); costs to cover future liquidation costs of Ansaldo Middle East (Euro 93 thousand); costs for departure of personnel (Euro 9,019 thousand); under-accruals from prior years and other costs not relating to ordinary business operations (Euro 2,998 thousand), overseas taxes of previous years (Euro 763 thousand).

*Taxes for the year*

The taxes for the year relate to Euro 5,281 thousand for IRAP and Euro 350 thousand for taxes paid overseas.

# NOTES TO THE FINANCIAL STATEMENTS SCHEDULES

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 1 INTANGIBLE ASSETS (in Euro/thousands)

	31/12/2001					Acquisition, Capitalisation
	Cost	Revaluations	Write-down	Amortization	Value in Fin. Stat.	
Research, development and advertising	62,621			58,758	3,863	
	<b>62,621</b>			<b>58,758</b>	<b>3,863</b>	

## Schedule 2 TANGIBLE ASSETS AND ACCUMULATED DEPRECIATION (in Euro/thousands)

	31/12/2001					Acquisition, Capitalisation
	Cost	Revaluations	Write-down	Amortization	Value in Fin. Stat.	
Land and building:						
- Industrial	69,157	25,010		29,561	64,606	
Plant and machinery	123,741	996		93,532	31,205	
Industrial and comm. Equipment	21,744			16,486	5,258	
Other assets	17,752			16,208	1,544	
Under construction and advances	6,454				6,454	
	<b>238,848</b>	<b>26,006</b>		<b>155,787</b>	<b>109,067</b>	



Variations in the period				31/12/2002				
Reclassification	Disposals	Write-downs (-) Write-backs (+)	Amortization	Cost	Revaluations	Write-down	Amortization	Value in Fin. Stat.
			2,498	62,621			61,256	1,365
			<b>2,498</b>	<b>62,621</b>			<b>61,256</b>	<b>1,365</b>

Variations in the period				31/12/2002				
Reclassification	Disposals (1)	Amortization		Cost	Revaluations	Write-down	Amortization	Value in Fin. Stat.
218		2,809	2,572	65,021	25,010		30,588	59,443
4,810		157	5,775	125,059	996		95,972	30,083
2,614		1	2,062	24,265			18,456	5,809
856		42	582	18,150			16,374	1,776
14,287		8,535		12,206				12,206
<b>22,785</b>		<b>11,544</b>	<b>10,991</b>	<b>244,701</b>	<b>26,006</b>		<b>161,390</b>	<b>109,317</b>

(1) of which	Cost	16,932
	Amortizations	5,388
		<u>11,544</u>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 3 PARTICIPATIONS (in Euro/thousands)

### Participations in subsidiary companies:

- Sicom Spa in Liq.
- Ansaldo Malesia SDN BAD
- F. Tosi Ing. Spa in Liq.
- Ansaldo Middle East
- Ansaldo Service Private Ltd
- Sagem Srl
- Tramonte Holding BV
- Ansaldo Energy INC
- Anserv
- Sopren Spa
- Ansaldo Energia A.T.D.

### Participations in associated companies:

- Derna
- Ruths SpA
- PT. Dayalistri Pratama
- NNS Snc
- Ansaldo Caldaie

### Participations in other companies:

- Ansaldo Superconduttori
- Astra Immobiliare Srl
- Siet Spa
- Cons. Ansaldo Energia El.
- Consorzio CIC
- Simcm S.A. in Liq.
- Euroimpresa Legnano
- Libian Italian Joint CO.
- Consortiums and others
- Genesi consortium

### TOTAL PARTICIPATIONS ADVANCES (FOR FUTURE CAPITAL INCREASES) - other

31/12/2001				
Cost	Revaluation	Write-downs	Value Fin. Stat.	Acquisitions
7,618		7,618		
4			4	
492	2,198	2,323	367	
37			37	
52		52		3,309
138	318		456	
24		9	15	36
1			1	
90			90	
206		18	187	
140	162		302	15
8,802	2,678	10,020	1,459	3,360
93		93		
4,856		4,856		
30			30	
12,375		8,036	4,339	
17,354		12,985	4,369	
624		154	470	
8			8	
107			107	
32			32	
52			52	
155			155	
9			9	
678		148	530	
24			24	
1,690		302	1,388	
27,846	2,678	23,307	7,216	3,360
29			29	3

(1) Of which:	Subsidiaries	Other companies
Cost	155	624
Revaluations	162	
Write-downs		154
	317	470

Variations in the period					31/12/2002			
Reclassification	Disposals (1)	Utilisation reserve	Reval law art.2426	Write-down (-) Write-back values (+)	Cost	Revaluation	Write-downs	Value Fin. Stat.
					7,618		7,618	
					4			4
					492	2,198	2,323	367
					37			37
		3,309			3,361		3,361	
			9		138	327		465
				(36)	60		45	15
					1			1
					90			90
				(17)	206		35	171
	317				(162)	162		
	317	3,309	9	(53)	11,845	2,687	13,382	1,150
					93		93	
					4,856		4,856	
					30			30
					12,375		8,036	4,339
					17,354		12,985	4,369
	470				154		154	
					8			8
					107			107
					32			32
					52			52
					155			155
					9			9
					678		148	530
					24			24
	470				1,220		302	918
	787	3,309	9	(53)	30,419	2,687	26,669	6,437
					32			32

Reserve for write-down participations

- Asia Service Private Ltd (869)

(922)

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 4

### LIST OF PARTICIPATIONS IN SUBSIDIARY AND ASSOCIATED COMPANIES (in Euro/thousands)

	Head office	Share Capital	Net equity at 31/12/2002	Profit (loss)
<b>Subsidiary companies</b>				
- F T I S.p.A in liq.	LEGNANO	183	367	
- SICOM S.p.A. in liq.	MILAN	2,582	(4,376)	(6)
- ANSALDO MIDDLE EAST LTD	EGYPT	10	31	
		LE 50,000		
(*)- ANSALDO MALESIA SDN	MALAYSIA	2	20	
		RM 10,000		
- ASIA SERVICE PRIVATE LTD	INDIA	62	(869)	(933)
		RS 3,140,300	(43,878,014)	(47,157,482)
- SAGEM S.r.l.	GENOA	50	465	9
(*)- TRAMONTE HOLDING B.V.	HOLLAND	18	(18)	
		NGL 40,000	(40,443)	
- ANSALDO ENERGY INC.	USA	1	26	25
		\$ 1,000	22,947	
- ANSERV S.r.l.	ROMANIA	40	204	
		M/Lei 1,408	7,184	
- SOPREN S.p.A.	GENOA	176	202	(17)
<b>Associated companies</b>				
(*)- ANSALDO CALDAIE	BARI	13,900	9,726	(3,300)
- DAYALISTRI PRATAMA	INDONESIA	13,332	13,023	(54)
- NNS Snc	FRANCE	76	282	205

(1) The quota of losses exceeding the carrying value is recorded in the Provision for risk and charges

(2) The participation has not suffered permanent impairment in that the carrying value is in line with the price agreed

(\*) last financial statements available 31.12.2001

Share held %	net equity value (A)	Carrying value (B)	Valuation law 2426 (C)	B-A	Excess B-C
100	367	367	367		
100					
99	31	37	31	6	6
100	20	4	20		
100	(869)		(869)	869	869 (1)
100	465	465	465		
100	(18)	15	(18)	33	33
100	26	1	26		
51	104	90	104		
90	182	171	182	(11)	(11)
		<b>1,150</b>			
40	3,890	4,339	3,890	449	449 (2)
45	5,860		5,860		
40	113	30	91		
		<b>4,369</b>			

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 5

### INVENTORY (in Euro/thousands)

	31/12/2001	Variations in the period		31/12/2002
		Increase (+) Decreases (-)	Write-back values (+) Reclassification	
Raw, ancillary and consumables	53,384	9,411		62,795
- provision	8,827		(4,257)	4,570
	<b>44,557</b>	<b>9,411</b>	<b>(4,257)</b>	<b>58,225</b>
Products in work in progress and semi-finished	4,636	(4,636)		
Contract job orders	2,551,077	290,128		2,841,205
- provision	9,374	(5,459)	4,257	8,172
	<b>2,546,339</b>	<b>290,951</b>	<b>(4,257)</b>	<b>2,833,033</b>
Advances	14,502	7,470		21,972
<b>TOTAL INVENTORY</b>	<b>2,605,398</b>	<b>307,832</b>		<b>2,913,230</b>

**Schedule 6**

**RECEIVABLES AND ACCRUED INCOME BY EXPIRY AND NATURE** (in Euro/thousands)

	31/12/2002				31/12/2001			
	within one year	Amounts between 2 and 5 years	Expiry over 5 years	Total	within one year	Amounts between 2 and 5 years	Expiry over 5 years	Total
<b>Non-current receivables</b>								
- Customers	6,607			6,607	21,587			21,587
- Others	201	11,445		11,646	401	11,989		12,390
	<b>6,808</b>	<b>11,445</b>		<b>18,253</b>	<b>21,988</b>	<b>11,989</b>		<b>33,977</b>
<b>Current receivables</b>								
Other financial receivables								
Subsidiary companies	17,556			17,556	10,816			10,816
Associated companies					494			494
Holding companies					24,364			24,364
Others	11,208			11,208	2,521			2,521
	<b>28,764</b>			<b>28,764</b>	<b>38,195</b>			<b>38,195</b>
<b>Trade receivables</b>								
Customers	411,079			411,079	318,520			318,520
Subsidiary companies	879			879	1,369			1,369
Associated companies	3,638			3,638	2,277			2,277
Holding companies	897			897	906			906
	<b>416,493</b>			<b>416,493</b>	<b>323,072</b>			<b>323,072</b>
<b>Various receivables:</b>								
from others								
. Holding companies					15,356			15,356
. Associated companies	82			82	61			61
. Foreign VAT	4,150			4,150	3,946			3,946
. Tax authorities	18,941			18,941	19,228			19,228
. Personnel	2,053			2,053	1,100			1,100
. Camozzi for CSM	13,875			13,875	17,297			17,297
. Others	21,736			21,736	23,055			23,055
	<b>60,837</b>			<b>60,837</b>	<b>80,043</b>			<b>80,043</b>
<b>Accrued income</b>	<b>225</b>			<b>225</b>	<b>2,110</b>			<b>2,110</b>
<b>TOTAL</b>	<b>513,127</b>	<b>11,445</b>		<b>524,572</b>	<b>465,408</b>	<b>11,989</b>		<b>477,397</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 7

### RECEIVABLES, CASH AND ACCRUED INCOME WITH FOREIGN EXCHANGE RISK (in Euro/thousands)

	31/12/2002			31/12/2001		
	with foreign exchange risk	In Euro	Total	with foreign exchange risk	In Euro	Total
<b>Non-current receivables</b>						
from others						
- Customers		6,607	6,607		21,587	21,587
- Others	6,104	5,542	11,646	6,296	6,094	12,390
	<b>6,104</b>	<b>12,149</b>	<b>18,253</b>	<b>6,296</b>	<b>27,681</b>	<b>33,977</b>
<b>Current receivables</b>						
Other financial receivables	75,394	335,685	411,079	58,821	259,699	318,520
Subsidiary companies	73	18,362	18,435		12,185	12,185
Associated companies	92	3,628	3,720		2,832	2,832
Holding companies	151	746	897		40,626	40,626
Others		71,963	71,963		67,147	67,147
	<b>75,710</b>	<b>430,384</b>	<b>506,094</b>	<b>58,821</b>	<b>382,489</b>	<b>441,310</b>
<b>Liquid assets:</b>						
Bank and postal deposits	11,246	38,343	49,589	11,845	23,852	35,697
Cash and equivalents		110	110	147		147
	<b>11,246</b>	<b>38,453</b>	<b>49,699</b>	<b>11,992</b>	<b>23,852</b>	<b>35,844</b>
<b>Accrued income</b>		<b>225</b>	<b>225</b>		<b>2,110</b>	<b>2,110</b>
<b>TOTAL</b>	<b>93,060</b>	<b>481,211</b>	<b>574,271</b>	<b>77,109</b>	<b>436,132</b>	<b>513,241</b>



**Schedule 8**  
**PAYABLES AND ACCRUALS BY EXPIRY AND NATURE** (in Euro/thousands)

	31/12/2002				31/12/2001			
	within one year	Amounts between 2 and 5 years	Expiry over 5 years	Total	within one year	Amounts between 2 and 5 years	Expiry over 5 years	Total
<b>Medium/long term payables:</b>								
Banks	1,805	8,555		10,360	633	8,907		9,540
Other payables	812	6,700		7,512	580	7,712		8,292
	<b>2,617</b>	<b>15,255</b>		<b>17,872</b>	<b>1,213</b>	<b>16,619</b>		<b>17,832</b>
<b>Financial payables</b>								
Banks	6,190			6,190	8,199			8,199
Subsidiary companies	578			578	561			561
Holding companies	2,534			2,534				
Others	1,522			1,522	728			728
	<b>10,824</b>			<b>10,824</b>	<b>9,488</b>			<b>9,488</b>
<b>Trade payables</b>								
Suppliers	235,069			235,069	277,663			277,663
Subsidiary companies	9,861			9,861	5,849			5,849
Associated companies	6,222			6,222	20,716			20,716
Parent companies	255			255	572			572
	<b>251,407</b>			<b>251,407</b>	<b>304,800</b>			<b>304,800</b>
<b>Various payables:</b>								
Tax authorities	4,213			4,213	3,486			3,486
Social security institutions	13,195			13,195	14,281			14,281
Other payables								
- holding companies	10,335			10,335				
- others	25,378			25,378	27,466			27,466
	<b>53,121</b>			<b>53,121</b>	<b>45,233</b>			<b>45,233</b>
<b>Total payables</b>	<b>317,969</b>	<b>15,255</b>		<b>333,224</b>	<b>360,734</b>	<b>16,619</b>		<b>377,353</b> <sup>(1)</sup>
<b>Accrued liabilities</b>	<b>555</b>			<b>555</b>	<b>380</b>			<b>380</b>
<b>TOTAL</b>	<b>318,524</b>	<b>15,255</b>		<b>333,779</b>	<b>361,114</b>	<b>16,619</b>		<b>377,733</b>

(1) Does not include the account advances.

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 9

### PAYABLES AND ACCRUED LIABILITIES IN FOREIGN CURRENCIES OR EXCHANGE RISKS

(in Euro/thousands)

	31/12/2002			31/12/2001		
	with foreign exchange risk	In Euro	Total	with foreign exchange risk	In Euro	Total
<b>Payables</b>						
Banks		16,550	16,550	4,041	13,698	17,739
Trade suppliers	37,376	197,693	235,069	38,987	238,676	277,663
Subsidiary companies	800	9,639	10,439	652	5,758	6,410
Associated companies		6,222	6,222	68	20,648	20,716
Holding companies		13,124	13,124		572	572
Tax authorities		4,213	4,213		3,486	3,486
Social security institutions		13,195	13,195		14,281	14,281
Other payables						
- other		34,412	34,412		36,486	36,486
<b>Total payables</b>	<b>38,176</b>	<b>295,048</b>	<b>333,224</b>	<b>43,748</b>	<b>333,605</b>	<b>377,353</b>
<b>Accrued liabilities</b>		<b>555</b>	<b>555</b>		<b>380</b>	<b>380</b>
<b>TOTAL</b>	<b>38,176</b>	<b>295,603</b>	<b>333,779</b>	<b>43,748</b>	<b>333,985</b>	<b>377,733</b>

**Schedule 10**  
**REVENUES** (in Euro/thousands)

	31/12/2002		31/12/2001	
	Italy	Overseas	Italy	Overseas
Revenues from sales				
- Italy	280,498		358,172	
- Europe CEE		19,077		27,701
- Europe extra CEE		63,748		29,216
- Africa		88,342		8,873
- North America		3,197		10,672
- Latin America		12,641		4,640
- Middle East		77,503		15,308
- Far East		3,374		2,127
- Other countries		1,453		5
<b>TOTAL REVENUES</b>	<b>280,498</b>	<b>269,335</b>	<b>358,172</b>	<b>98,542</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule 11 PURCHASE AND SALES COMMITMENTS (in Euro/thousands)

	31/12/2002	31/12/2001
<b>Commitments to purchase</b>		
Purchase orders:		
- third parties	1,220,000	1,100,000
Foreign exchange contracts	10,738	37,417
	<u>1,230,738</u>	<u>1,137,417</u>
<b>Commitments to sell</b>		
Sales orders	1,957,400	1,892,998
Foreign exchange contracts	62,998	118,567
	<u>2,020,398</u>	<u>2,206,723</u>

## Schedule 12 OTHER MEMORANDUM ACCOUNT (in Euro/thousands)

	Against obligations of others	Total at 31/12/2002	Total at 31/12/2001
<b>Real guarantees received</b>			
- Sureties	213,026	213,026	207,020
- Guarantees	101,078	101,078	135,323
- Client letters of credit	494,880	494,880	617,412
	<u>808,984</u>	<u>808,984</u>	<u>959,755</u>
<b>Guarantees of others given for obligations of the company</b>			
- Against other obligations		879,405	1,106,130
<b>TOTAL OTHER MEMORANDUM ACCOUNTS</b>		<u>1,688,389</u>	<u>2,065,885</u>

# PROPOSAL TO THE ORDINARY SHAREHOLDERS' MEETING

## Dear Shareholders

The Financial Statements for the year 2002, presented for your approval, closed with a profit of Euro 9,224,313, which we propose is allocated as follows:

- for 5%, equal to Euro 461,216, to the legal reserve
- for the residual, equal to Euro 8,763,097, carried forward.

We note, that the Financial Statements for the year ended December 31, 2002 were certified by Deloitte & Touche, appointed in the Ordinary Shareholders' meeting of April 10, 2000 and that with the signing of the report the term of their three year appointment expires.

It is therefore necessary to appoint the audit firm for the three-year period 2003-2005.

We propose the appointment of the same audit firm, DELOITTE & TOUCHE, for the audit of the financial statements and the controls on the accounting system in accordance with article 155 paragraph 1 of the legislative degree 58/98 relating to the three-year period 2003-2005 with the intent of maximum economy in relation to the quality of the service offered.

The total amount of the remuneration requested by

the Auditing Firm, including the six-month limited audit, amounts to Euro 290,000 for each of the years 2003, 2004 and 2005.

We also recall the necessity to nominate a member to the Board of Statutory Auditors due to the impossibility of the Substitute Member Francesco Basile to accept the position.

Therefore, in conformity with the Agenda contained in the notice to the shareholders' meeting, you are called to:

- 1) approve the Financial Statements for the year 2002 as well as the Report of the Board of Directors', after the presentation of the report by the Statutory auditors
- 2) integrate the Board of Statutory Auditors
- 3) confer the audit appointment of the financial statements for the period 2003-2005 as well as the relative compensation.

for THE BOARD OF DIRECTORS  
THE PRESIDENT

# REPORT OF THE STATUTORY AUDITORS DECEMBER 31, 2002

## Dear Shareholders

The financial statements for the year ended December 31, 2002 that is presented for your examination and approval, represents, in our opinion, in a fair and correct manner, the balance sheet, economic and financial position of the Company, as required by article 2423 of the Civil Code.

They have been prepared in a clear and complete manner, in continuance of the accounting principles adopted for the year 2001, in respecting the EC

directive 78/680 and 83/349, as per D. Lgs. 09.04.91 n° 127 civil code and in conformity with fiscal regulations. We certify, finally, that it has not been necessary to exercise the right of exemption as per article 2423, paragraph 4 of the Civil Code.

The financial statements show a profit of Euro 9,224,313 after taxes of Euro 5,630,764 and comprise the balance sheet, income statement and notes thereto together with the directors' report on operations.

The balance sheet is summarised as follows.

ASSETS	Euro
NET FIXED ASSETS	135,403,585
CURRENT ASSETS	3,469,025,397
PREPAYMENTS AND ACCRUED INCOME	24,327,858
<b>Total ASSETS</b>	<b>3,628,756,840</b>

LIABILITIES	Euro
NET EQUITY (of which profit for year Euro 9,224,313)	21,191,126
PROVISION FOR RISKS AND CHARGES	70,707,502
EMPLOYEE LEAVING INDEMNITY	54,817,102
PAYABLES	3,460,258,828
ACCRUED LIABILITIES/DEFERRED INCOME	21,782,282
<b>Total LIABILITIES</b>	<b>3,628,756,840</b>

The memorandum accounts total Euro 4,958,122,658 and relate to the situation at the end of the year for risks and commitments:

The Income Statement prepared in accordance with article 2425 of the Civil Code is summarised as follows:

	Euro
VALUE OF PRODUCTION	858,965,153
COSTS OF PRODUCTION	823,351,269
<b>DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION</b>	<b>35,613,885</b>
FINANCIAL INCOME AND CHARGES	-3,608,729
ADJUSTMENTS TO FINANCIAL VALUES	-912,982
EXTRAORDINARY INCOME AND CHARGES	-16,237,097
<b>RESULT BEFORE TAXES</b>	<b>14,885,077</b>
TAXES	5,630,764
<b>PROFIT FOR THE YEAR</b>	<b>9,224,313</b>

This result agrees with the amount reported in the Net Equity.

The notes to the financial statements constitute an integral part of the financial statements, which have been prepared in accordance with article 2427 of the Civil Code, and where the accounting principles utilised for the assets, liabilities and income statement are described. The Statutory Auditors, for the part relating to their responsible, have verified the conformity of these criteria with article 2426 of the Civil Code and are in agreement with them.

As required by article 2428 of the Civil Code, the Directors illustrated in the report on the operations in a clear and full manner: the situation of the Company, the trend of the operations in the year, noting the significant events which arose and the future for the operations. The report also contains, the additional information requested by the above-mentioned regulations, and in particular, the re-structuring programme which has the objective of rationalising the production process and the reduction of structural costs.

In this regard, in merit also to actions taken in recent years, the Statutory Auditors note the positive results achieved in the past two years after many years of losses.

Your Board of Directors, have also illustrated that the financial position has remained positive for the entire year resulting from the improvement of contractual conditions on new orders acquired.

The statutory auditors confirm that the periodic controls were made, in accordance with article 2403 of the Civil Code. During these controls, the statutory auditors as per the Civil Code, verified the administration of the Company, and controlled, for those matters to which were within its responsibility, the adequacy of the organisation structure, verifying

on the correct administration through direct observation and control of information and data obtained from the persons responsible and also through periodic meetings with the auditing firm "DELOITTE & TOUCHE S.p.A.", who provided a reciprocal useful exchange of information and data.

The Board also verified over the year the adequacy of the internal controls and administration and accounting function and the adequacy of this latter to correctly represent the underlying transactions. From this examination and from the information received from the Auditing Firm no events arose on which to report on.

The statutory auditors also verified that the obligations of the Company in accordance with legislation were carried out. In particular, the withholding taxes and other amounts due to the tax authorities were paid as per the tax declarations. The statutory auditors confirm that they participated at the meetings of the Board of Directors, having the possibility in these circumstances to verify the conformity of the operational decisions taken in accordance with the general economic principles to which the Board has always being in conformity. In conclusion, the Board of Statutory Auditors, for the part relating to its competences, expresses a favourable opinion on the approval of the financial statements for the year ended December 31, 2002 in all its parts: Balance Sheet, Income Statement, Notes thereto and Directors' Report on Operations, as proposed to you by the Board of Directors and, we are also favourable to the proposal for the allocation of the result for the year.

THE STATUTORY AUDITORS  
(Dott. Giorgio CUMIN)  
(Dott.ssa Maria Gabriella ATTARDI)  
(Rag. Paolo MARIANI)

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**Deloitte  
& Touche**

## AUDITOR'S REPORT

To the Shareholder of  
Ansaldo Energia S.p.A.

We have audited the financial statements of the Ansaldo Energia S.p.A. as of December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. For the opinion on the financial statements of the prior year, the data of which are presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by us on March 25, 2002.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ansaldo Energia S.p.A. as of December 31, 2002, and the results of its operations for the year then ended and comply with the principles which regulate the preparation of financial statements in Italy.

This report has been translated into the English language solely for the convenience of international readers.

DELOITTE & TOUCHE S.p.A.  
Signed in original by  
Corrado Toscano  
Partner

Genoa, March 18, 2003