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# ANNUAL REPORT 2003

**Ansaldo Energia**

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A Finmeccanica Company

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## **CORPORATE BOARDS**

### **BOARD OF DIRECTORS**

(In office until April 15, 2004)

ANGELO AIRAGHI

President

GIUSEPPE ZAMPINI

Managing Director

Directors

ALBERTO DE BENEDICTIS

MARIO ORLANDO

ALBERTO PIANTA

ALBERTO ROSANIA

UGO VINTI

For the three-year period 2004-2006

GIUSEPPE VEREDICE

President

GIUSEPPE ZAMPINI

Managing Director

Directors

SIMONE BEMPORAD

GIANPIERO CUTILLO

ALBERTO DE BENEDICTIS

ROBERTO MAGLIONE

MARIO ORLANDO

### **STATUTORY AUDITORS**

(For the three-year period 2002-2004)

GIORGIO CUMIN

President

Standing members

MARIA GABRIELLA ATTARDI

PAOLO MARIANI

Alternate members

ENRICO CASANOVA

ALDO PARODI

### **INDEPENDENT AUDIT FIRM**

(For the three-year period 2003-2005)

DELOITTE & TOUCHE S.p.A.

# DIRECTORS' REPORT

## Dear Shareholders

The year 2003 closed with an operating profit of Euro 38 million that resulted in ROS of 4.8% (4.3% in 2002), confirming the positive results of the past two years. The net profit, however, was approximately Euro 3 million due to extraordinary costs (Euro 28 million) for severance incentives to personnel related to the completion of the restructuring process and the result of the Indian subsidiary APPL (Euro 16 million) for further provisions made on the Neyveli contract, now in the final stage of completion.

The personnel costs reduced by 6.5%, a consequence of the lower average headcount following the departures at the end of 2002 and during 2003.

The net financial position, which continued to be positive during 2003, amounted to Euro 79 million at the end of the year, increasing with respect to the previous year (Euro 56 million).

The Added Value (AV) amounted to Euro 37 million, increasing compared to the previous year (Euro 34 million). The positive performance of the EVA confirms the importance given by management, not only to profitability, but also to cash flow, achieved as a result of improved contractual conditions for payments and close control on the management of the contracts. Also of note is the balanced rapport established with suppliers, whose payment conditions are now substantially in line with market conditions.

Thus, it is a confirmation of the positive trend that began in 2001 and achieved thanks to the restructuring and the favourable market situation in the years 2000 – 2001 which permitted greater selectivity in the acquisition of contracts.

During this period Ansaldo Energia has also set new strategic objectives and a new and smaller internal structure.

With the completion of the closure of the considered "non-core" activities, management concentrated its efforts in the power generation business, most of all on restructuring and improving the service segment - in order to exploit the expected potential in the coming years.

During the same period the following actions continued:

- concentration of production activities at Genova Campi facility;
- rationalisation and optimisation of the production processes, made possible by the standardisation of the product;
- strengthening of the technological capabilities with the approval of important investments in a research and development plan to be implemented by 2006.

Concerning the acquisitions, the decrease in orders in 2003 (Euro 676 million), compared to the average of the previous two years, was due to a difficult period in the Italian market, which although aware of the need for new power plants, did not provide the anticipated or expected contribution to Ansaldo Energia. The difficulties resulted from the bureaucratic process and the time needed to complete the authorisation formalities for the new sites. In this context and despite the international economic crisis, which has for some time experienced a downturn in demand and an increase in competition and pressure on prices, an important contribution of the year acquisitions came from the foreign market, representing 80% of the acquisitions.

In the future it is hoped that new power plants will be authorised in Italy, allowing the company to acquire important business on the Italian market. The persisting weakness of the US Dollar against the European currency in the international front could generate an increase in competitiveness from competitors in the US Dollar area.

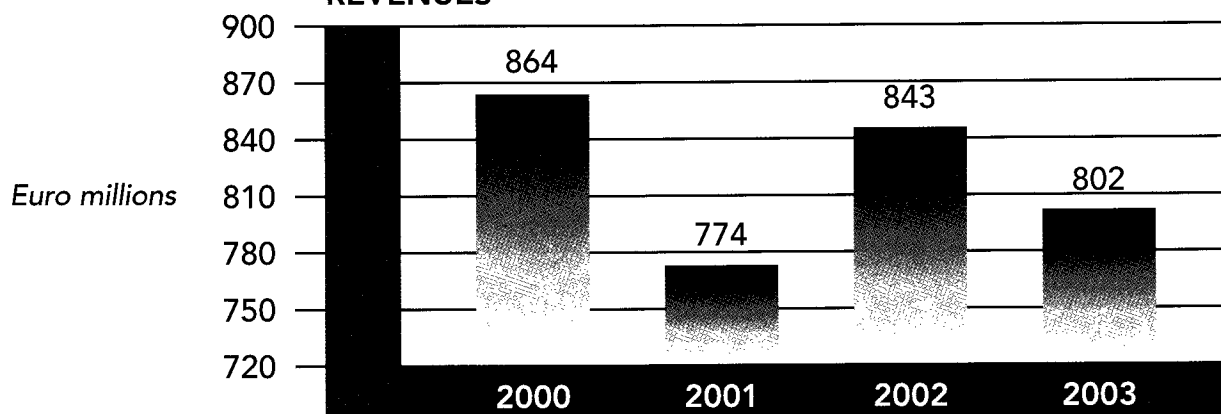
In the coming years the service market will be increasing, as a result of the sales of gas turbines in the years 2000-2001. In particular Ansaldo Energia has seen the market expand due to the increase in its installed capacity.

It is possible to forecast, even in this difficult environment, that the order portfolio at the end of 2003, standing at Euro 1,801 million, together with the initiatives underway, (a part of which the company has already stipulated collaboration agreements) will allow also in the year 2004 for the saturation of Ansaldo Energia production capacity and a positive net result.

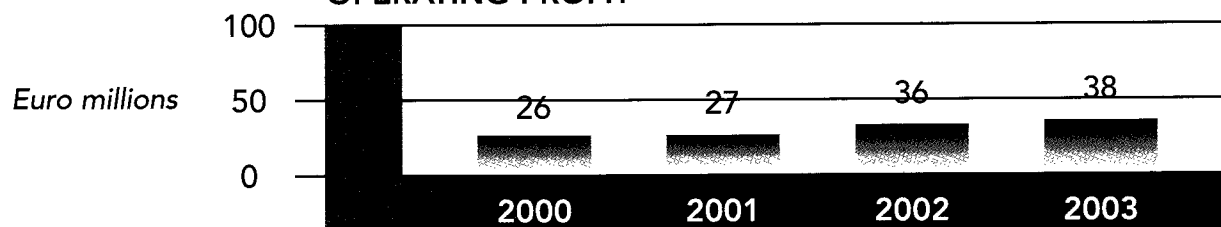
Below are summarised the most significant data for the past three years, in Euro/millions:

# RESULTS OF ANSALDO ENERGIA

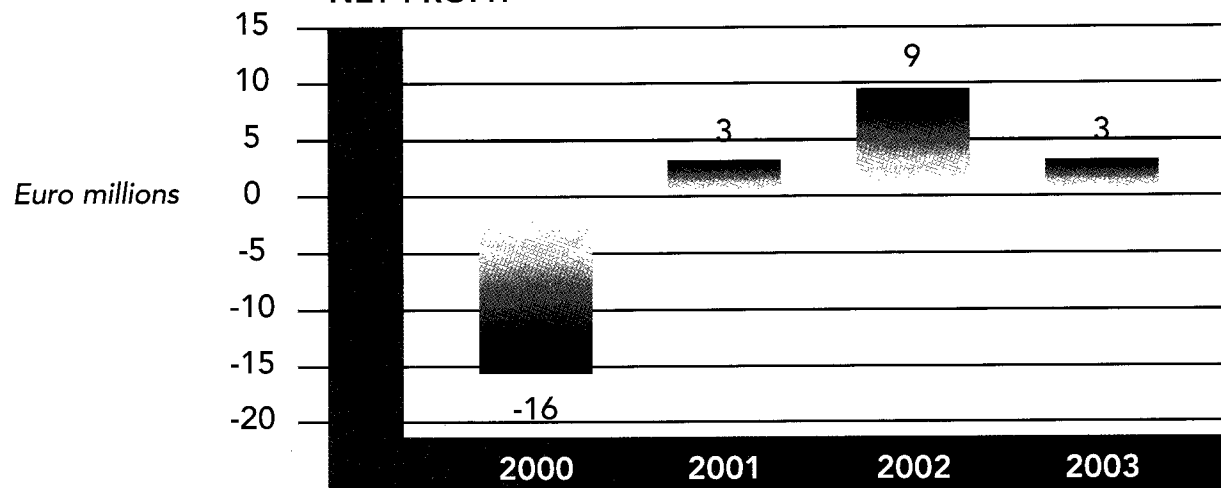
## REVENUES

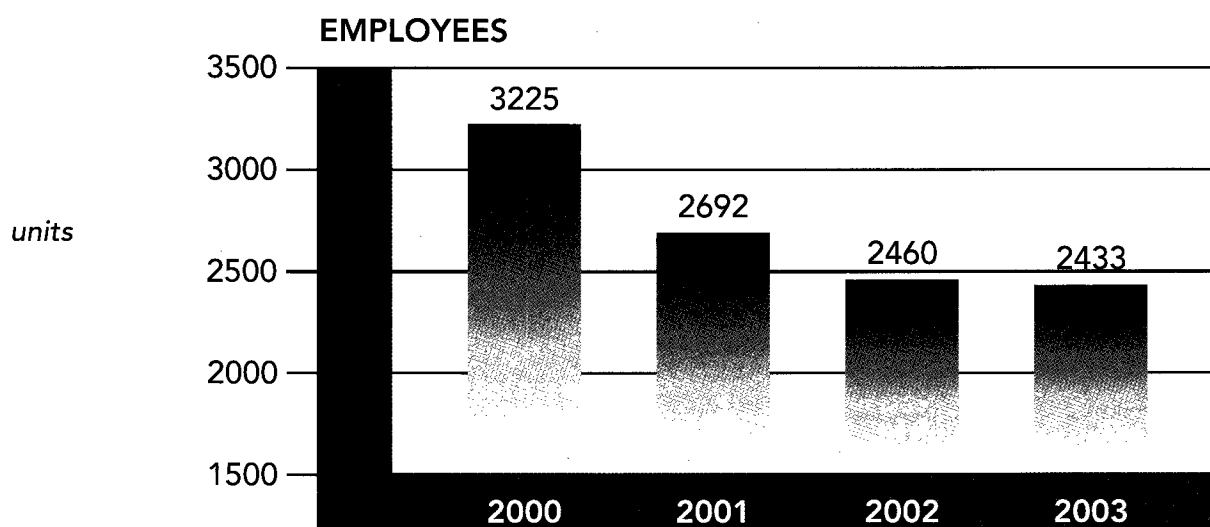
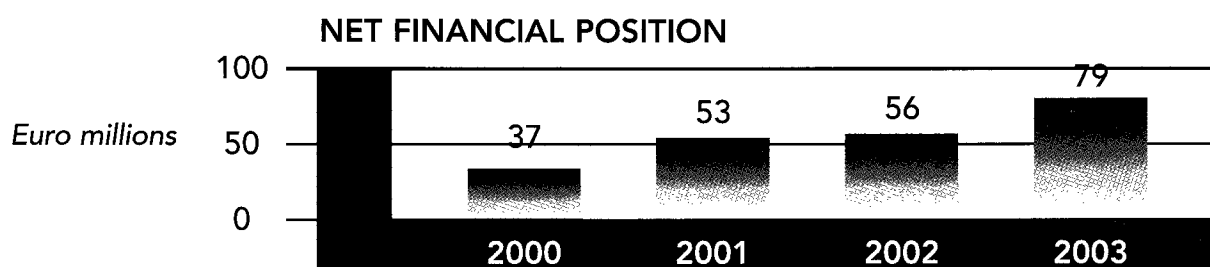
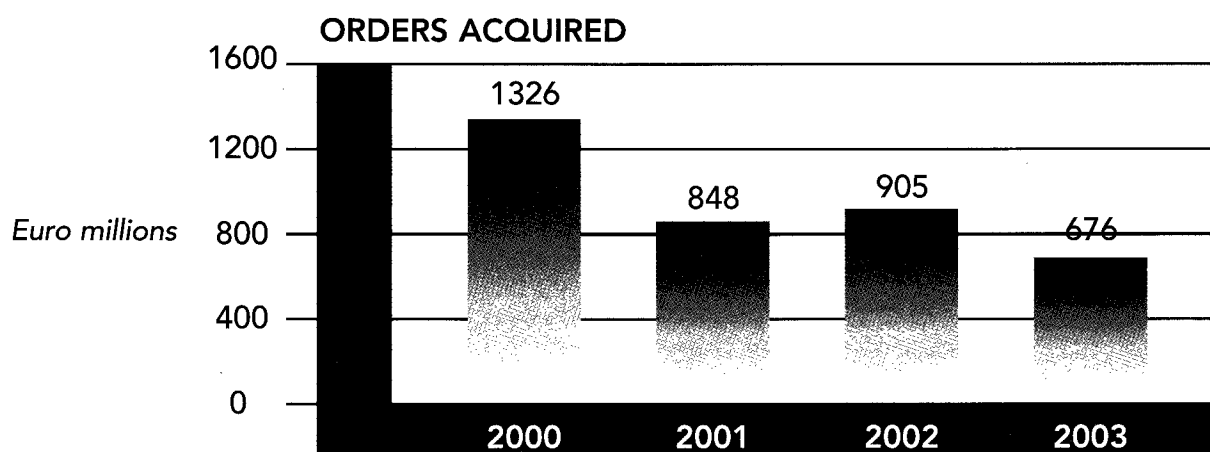


## OPERATING PROFIT



## NET PROFIT





# COMMERCIAL ACTIVITY ANALYSIS

**I**n the year 2003 Ansaldo Energia acquired orders amounting to Euro 676 million.

The division of orders by geographical area, compared to the previous year, is as follows:

New orders by geographical area (Euro/Millions)	2003	%	2002	%
Italy	142,5	21	759,3	84
Overseas	533,5	79	145,4	16
<b>Total</b>	<b>676,0</b>		<b>904,7</b>	

The predominant role of the international market is mainly due to the orders acquired from Iran, relative to the third part of the 30 gas turbines and to the development of the "3000 MW" project.

The breakdown of the orders by supply is as follows:

New orders by supply (Euro/Millions)	2003	%	2002	%
Plant and equipment	519,2	77	571,5	63
Service	115,8	17	302,4	33
Nuclear Division	41,0	6	30,8	4
<b>Total</b>	<b>676,0</b>		<b>904,7</b>	

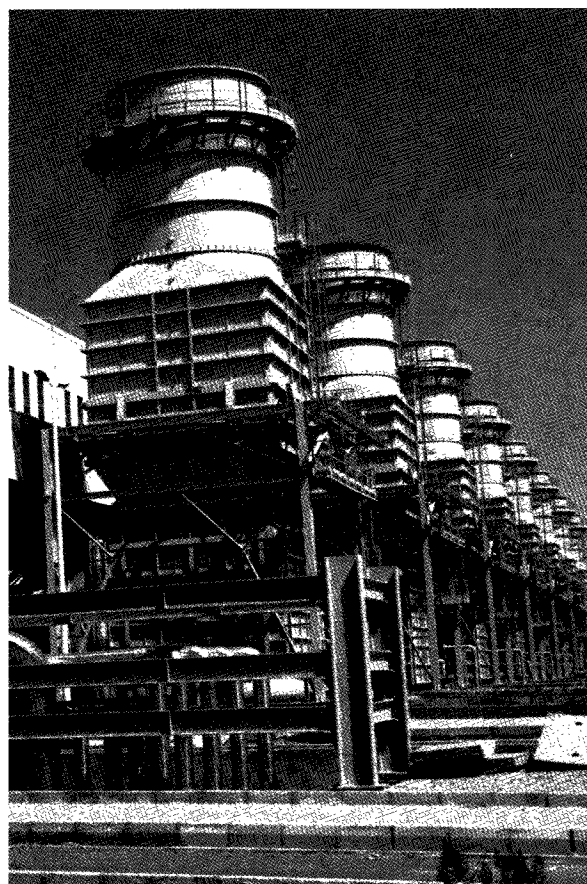
In terms of product type the acquisitions are as follows:

Product	Number of units
Gas turbines	6
Generators	6

to which should be added, the components of 20 additional gas turbines and 20 generators, part of the "3000 MW" projects and third tranche of the 30 turbogas for Iran.

## Plants and equipments

The Italian market in 2003 recorded a heavy decline in volume of orders compared to the previous years: this decrease is due to difficulty in obtaining the necessary construction authorisation for new



power plants and to problems of a financial nature that some investors have had to face.

This situation was aggravated by the country general economic situation, which did not stimulate new investments in power plants for the production of energy.

Ansaldo Energia continued business with the aim of preserving its position in the domestic market, which even with the previously stated difficulties remains an essential milestone of the commercial strategy of the company. Furthermore in 2004, with the hope for economic recovery and the unfreezing of certain initiatives whose authorisation procedures are in the process of completion, the company expects to obtain a significant volume of acquisitions, validating the work of the previous months.



Concerning the international market, the strategic approach was confirmed which calls for a careful selection of opportunities based on maximisation of profitability, on risk containment and on optimisation of financial aspects.

Special attention was given to the monitoring of the Mediterranean and Middle East countries, which represent the priority markets for Ansaldo Energia: such an approach was validated by the purchase orders from Iran in 2003.

The consolidated relationships with the main clients in these areas and the various initiatives presently in the development phase indicate the possibility of significant order acquisitions in the future.

Eastern Europe remains characterised by uncertainty, therefore although it is necessary to continue monitoring countries with the greatest potential, interesting opportunities can only be foreseen in the medium term.

Continued monitoring of the Indian subcontinent which registered numerous initiatives: the problem of financial reliability of some clients, together with uncertainty in the timing of some projects resulted in a strict selection of the initiatives to be undertaken, some of which should be realised in 2004.

Finally, concerning South America and the Far East, less attention was paid to these markets due to the presence of well placed competitors and to the still low investment capacity of these markets, without ignoring single initiatives which Ansaldo Energia considers of interest.

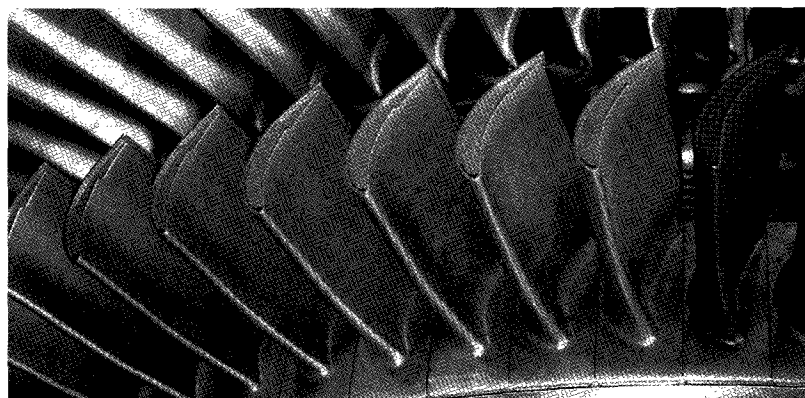
The main orders acquired in 2003, by area and product, are as follows:

## Italy

- An EPC contract relative to a single shaft of 400 MW, located in Rosignano Marittima, the order for the supply of major equipment for the project was already received in 2002.

## Middle East

- The third tranche of the contract related to the 30 turbogas turbines for Iran, which includes the supply of the components for 8 V94.2 gas turbines and the related generators.
- The order of the "3000 MW" project, which includes the supply of 6 V94.2 gas turbines and the related generators, as well as the supply of the components for 12 V94.2 gas turbines and related generators, to be assembled at the factory of the client MAPNA.

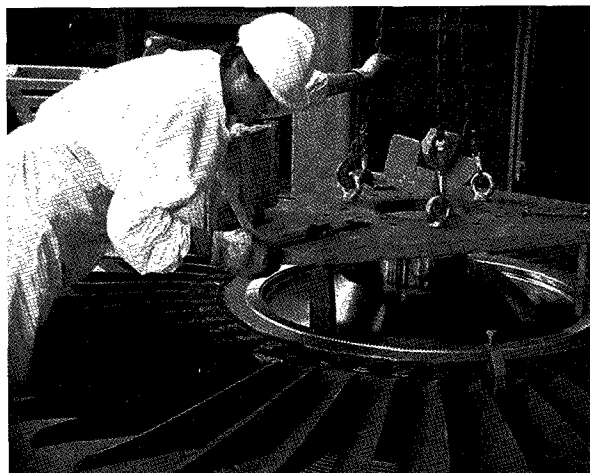


## Service

### Italy

During 2003 the Italian market continued to maintain a very high level of competitiveness due to the presence of large manufacturers (Siemens, General Electric and Alstom) whom although with different objectives, the first two in the thermal gas and steam sector, and the third in the electromechanical sector, have attempted to increase their respective market share.

## COMMERCIAL ACTIVITY ANALYSIS



Furthermore, non-European companies are more frequently emerging in this sector, especially the major Japanese manufacturers, with Mitsubishi leading in the gas sector.

The Italian clients have shown a strong interest to have high quality maintenance service through master service agreements with the machinery constructor or with the licensor of the technology. Good relationships have been established with the main clients, resulting in the signing of master services agreements for spare parts and maintenance services which will be implemented in 2004.

Among the contracts acquired were:

- AEM MI - Cassano Plant - Maintenance programmed for 6 years turbogas V94.2
- Enipower - Ravenna Plant - Maintenance programmed for 6 years steam turbine
- Enelpower - Termini Imerese Plant - General overhall Gr. 5
- Acea - Tordivalle Plant - General review 80 MW
- Enelprod - R.P. - Brindisi Sud Plant 1x660 MW Steam turbine
- ASM Brescia - Brescia Plant - R.P. 84 MW

### Middle and Far East

In 2003 the commercial activities in the Far East were consolidated, with the acquisition of contracts for the supply of spare parts and maintenance services in Pakistan, Indonesia and Malaysia, with beneficial prices and margins.

In Iran promotional actions were undertaken relating to Tavanir, in order to recover market share of steam turbosets spare parts, previously dominated by second level competitors, with the acquisition of the first contracts with acceptable margins given the consistent price decrease of competitors.

In India and similarly in Saudi Arabia, the company's traditional presence allowed the consolidation of previous years results, both in terms of sales and margins.

The economic recession persists in Lebanon; whilst in the United Arab Emirates the national electric public body has started to transfer some plants to private companies, causing a slowdown in the service activity programmed.

The Mediterranean markets have seen economic and financial difficulties, with many maintenance interventions on generator plants being delayed. In 2004 commercial efforts will be made to expand the Saudi Arabian, Iranian, Indian and Far Eastern market share, even combining non Ansaldo machinery fleets, in order to compensate for sales and margins which might decrease in other countries in this area.

### Europe, North Africa and America

In 2003 the three macro areas provided important and new interesting signals.

The adoption of a wide marketing spectrum on the European market and the reappearance in our field of some clients (Croatia, Belgium) has resulted in a good performance. The year 2004 will reap the benefits of previous actions, with orders from markets in which we have been historically absent

such as the Service area (Poland, Denmark and Ireland) and the consolidation and enlargement of other important markets such as Greece and U.K., with a significant contribution coming from LTSA contracts and from services on equipment installed by other OEM.

The North Africa area in 2003 saw a commercial standstill with new orders lower than Euro million, however action has been taken in the three most interesting countries (Tunisia, Algeria and Morocco), which should shortly result in important developments in relation to the acquisition of large new LTSA contracts and significant high added value current Service orders.

Finally the South American area, for which the commercial objectives were limited due to the continuing economic crisis concerning the principle countries in the area, and the absence of an important Ansaldo Energia presence locally, saw new orders of Euro 5 million.

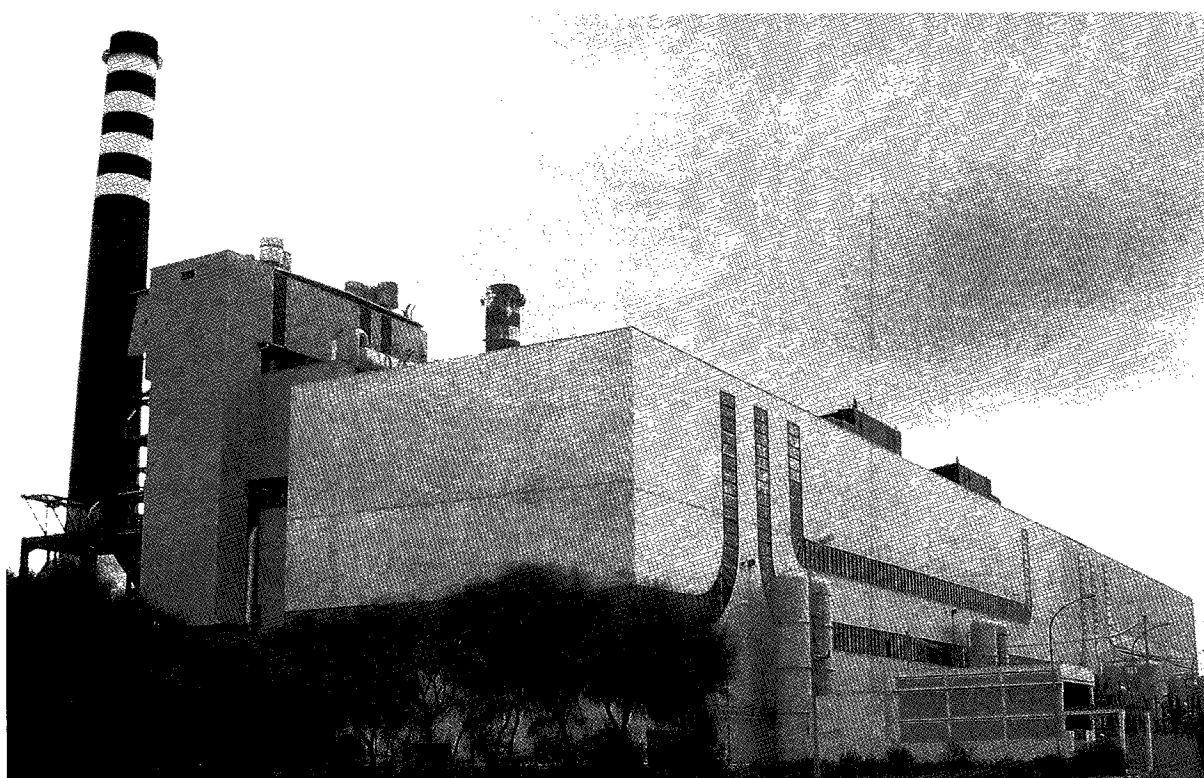
## Nuclear Division

The acquisitions in the year (Euro 41.5 million) are in line with the best forecasts.

In 2003 90% of the new contracts were acquired abroad, in contrast to the previous years which saw the domestic market as the dominant market. The commercial activities, in the three segments in which the nuclear division operates, was as follows.

## New Plants

In March the financial closure of the contract of the Completion of the Second Unit of the Cernavoda plant (Romania) was completed. The contract includes a quota of engineering and supplies amounting to Euro 32 million, completely registered as portfolio, and a service quota amounting to Euro 79 million, which will be recorded based on the annual sales figure. The delivery of the plant is scheduled in March 2007.



In relation to the design for the Innovative Reactors, the activities concerning the European Passive Plant continue, conducted together with Westinghouse on behalf of three European utilities. A new technical and commercial agreement was signed with Westinghouse for the promotion and the production of type AP1000 reactors in the United States and Europe. The expected acquisitions of the Accelerator Driver System (ADS) line, from ENEA and the European Union, were postponed to 2004.

### Waste Treatment / Decommissioning

The business for the decommissioning of the SOGIN plants were again slowed down mainly due to the delays accumulated by the client due to authorisation formalities.

The transfer of the dismantling responsibility of the plants for the combustible cycle from ENEA to SOGIN, which also caused delays in the first part of the year, was completed. It was therefore possible to obtain from SOGIN a contract of Euro 2.5 million for the supply of new waste liquid storage tanks at the Saluggia Centre.

Abroad, important changes were made on the contract of the Liquid Radwaste Treatment Plant in Chernobyl.

### Service

The volumes acquired in the service segment (Euro 10 million) were slightly higher than forecast, following the awarding of the European tender for the Integrated Environmental Monitoring System for the sarcophagus of Chernobyl; the new order allows Ansaldo to strengthen its presence in the Ukrainian market which, in the coming years, will be characterised by significant service business aimed at extending the life of the plants and increase reliability. The other European tender won by Ansaldo was the "Leak before break" for



the testing of the pipes under pressure of the reactor at Mezamor (Armenia). In this specific niche market, important for plant refurbishment, Ansaldo has been awarded all of the European tenders in the past few years.

The result for the service of the Superphenix plant was also good, whilst the service for the Cernavoda 1 plant registered a lower result due to the Client's temporary financial limitations.

## CORPORATE EVENTS AND ORGANISATIONAL STRUCTURE

**A**fter a number of years which saw the company take significant and wide reaching organisational changes, necessary to achieve strategic evolution, 2003 was a year of substantial stability.

For this reason the attention of the board and management was concentrated on the revision and up-dating of the operating processes, in order to obtain the best reliability and the maximum efficiency in the business operations.

Particular attention was paid to the following:

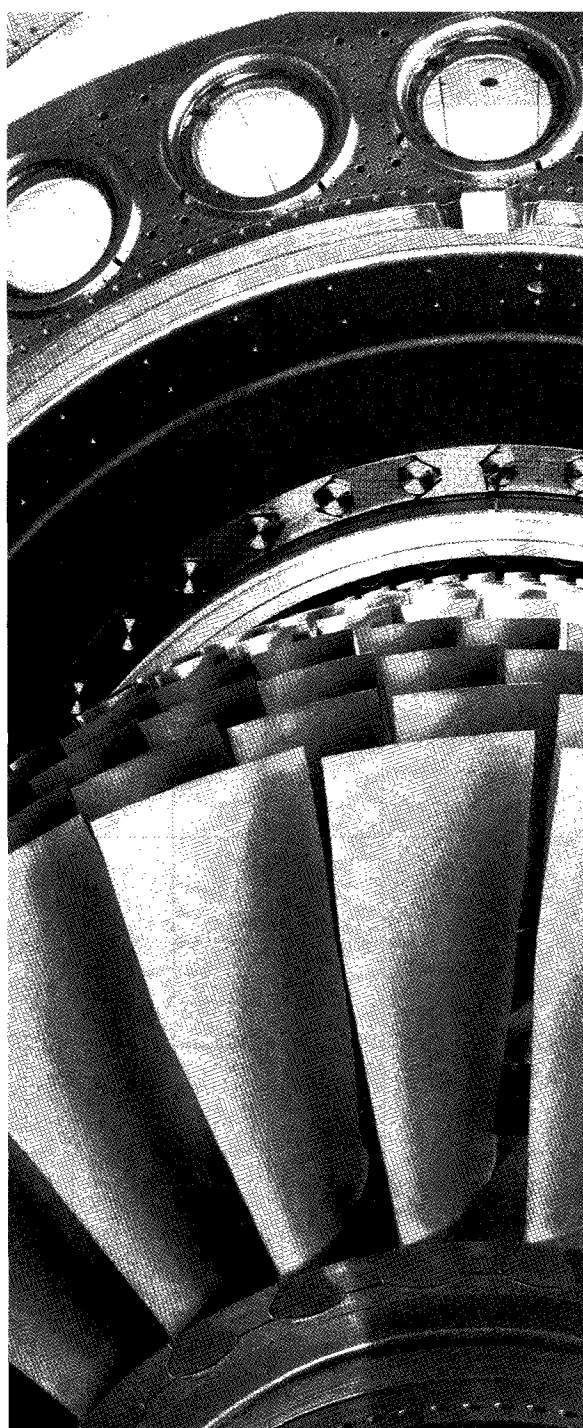
- revision of the planning processes and programming of the production activities, both in general and for contract orders;
- revision of the risk analysis systems in order to make them more effective;
- improvement of the erection processes of equipment in international sites;
- material management, for both in house manufacturing and project site activity.

The integration of the SAP permitted the efficient implementation of these interventions.

Furthermore, during the year, the human resources management and development were redefined and made operational for the attainment of greater professionalism and competences in line with the Group policy.

In order to improve the company's internal and external communication a company web site was launched.

Finally the company in compliance with the Legislative Decree N° 196/2003, is drawing up a "Data security guideline document" to be adopted by June 30, 2004 with appropriate measures to guarantee, in a period no longer than 7 days, the re-establishment of data access - should these or the electronic instruments be damaged.



# PRODUCTION ACTIVITY PERFORMANCE

## Production

The effects of the restructuring which commenced in the previous years and continued in 2003 were seen in the year.

First of all, the emergency relating to the law on anticipated pensions for workers at risk of "asbestos" exposure, although on the one hand resulted in a significant replacement of resources, often of key importance, on the other hand permitted a significant turn over and generation change, with the injection in the production cycle of young workers who after their training period are now giving a new boost to the production.

The standardisation policy started in 2001 has allowed the concentration of the production activities mainly in the following products:

### Gas turbines

- V94.2 maximum power 159 MW
- V94.3.A2 maximum power 258 MW

### Generators

- Air series from 200 - 300 MVA
- Hydrogen series from 500 - 300 MVA

### Steam turbines

The combined effect of the standardised production from the greater know how of the latest model developed (V94.3A.2) and the generation change now completed, has permitted a complete reassessment of the production cycles, with reductions in time/costs and a significant efficiency recovery.

This was made possible in the year by the delivery of the following 36 machines:

- N.10 94.2
- N. 6 94.3.A2
- N.13 generators
- N. 7 steam turbines

and other related components such as rotors and steam turbine components used for spare parts and revamping of the plants.



Notice, that one of the generator's delivered is a hydrogen-cooling model with 500 MVA from the THRL range, which was completely designed, manufactured and tested by Ansaldo Energia.

At the same time significant organisational changes were made to the blades production line that will allow the spare parts essential for the "service" to be available faster and thus respond in a timely manner to the needs of the clients in the after sale business.

As always great attention was placed on the quality of the product and in this context the activities containing higher technological content are centralised and will continue to be centred in the Genova Campi plant, due also to the implementation plan of new plant and the renewal of existing plant.

Concerning the manufacturing logistic support,



efforts were concentrated on the improvements with external suppliers/usage with a view to optimising inventory and reduce working capital.

### Site works and start-up

In 2003 the following projects were completed and commenced:

- 12 Gas turbine groups
- 5 Steam turbine groups

new plants for a total of 3170 MW;

the above include the plant at Ballylumford (Ireland) and Barka (Oman) as well as the new plant for Enipower (Ferrera Bergognone and Ravenna).

In addition other sites were opened in Italy (Mantova - Brindisi - Voghera - Chivasso) which will require full commitment for the next two years.

In addition to the operational activity particular attention was paid to the organisational structure and logistical support. In the new construction sites a professional and high quality technical presence was assured coherent with the construction

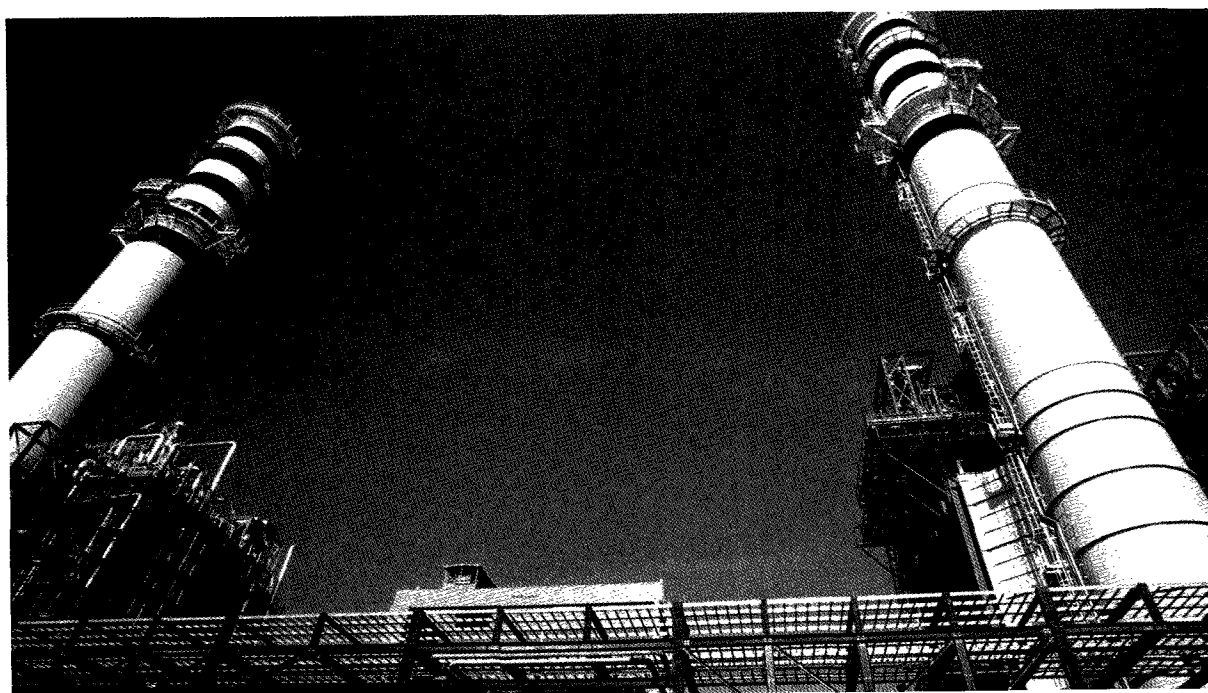
programmes. The construction sites were optimised due to the centralisation of competencies in the PRD construction site and logistics division, permitting the company to guarantee that plants are operational in a period of around 28 months, in line with the most qualified competitors.

### Engineering

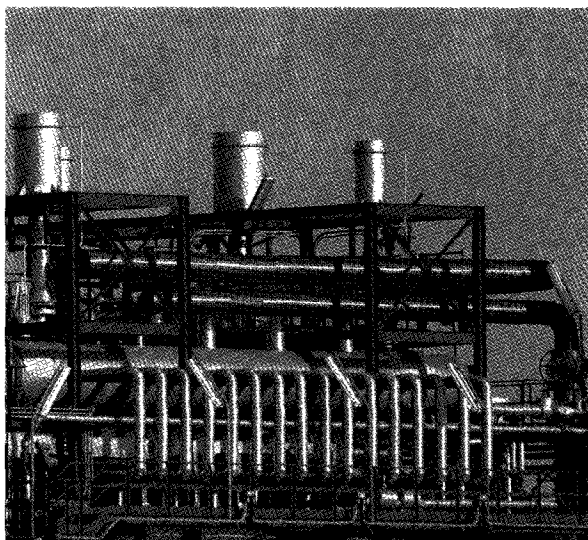
Parallel to the normal operation, the standard products have been consolidated in terms of plant, defining and optimising the details, the "power block" of 400 MW in the "single shaft" (Voghera type) version and "1+1" (ENI type): the two versions fully satisfy the current domestic and international market trends.

On the engineering side a large impulse was given to the patent activity and 10 applications have been submitted in various disciplines covering from automation to combustion.

The implementation of a technical structure based on "centres of excellence" (fluid dynamic - materials - heat transfer - structural analysis) commenced with special reference to gas and



## PRODUCTION ACTIVITY PERFORMANCE



steam turbines providing the Company with greater expertise in the technical management of the product.

The development of remote control systems continues to move from the study to implementation phase with the connection of the first Enipower plant in Ferrera and Ravenna, following the one already connected at ISAB a Priolo.

### Service

The service activities in 2003 performed better than expectations.

After the restructuring which commenced in 2001 and continued in 2002 the service was reinforced to face the potential foreseen in this sector for the coming years. A plan was approved for the intake of qualified university graduates and professionals. The plan commenced during 2003 and should be completed by the next year.

In order to face the increasing requests from customers for non-programmed urgent interventions, special stocks were set up, mainly of turbogas spare parts for the service activity.

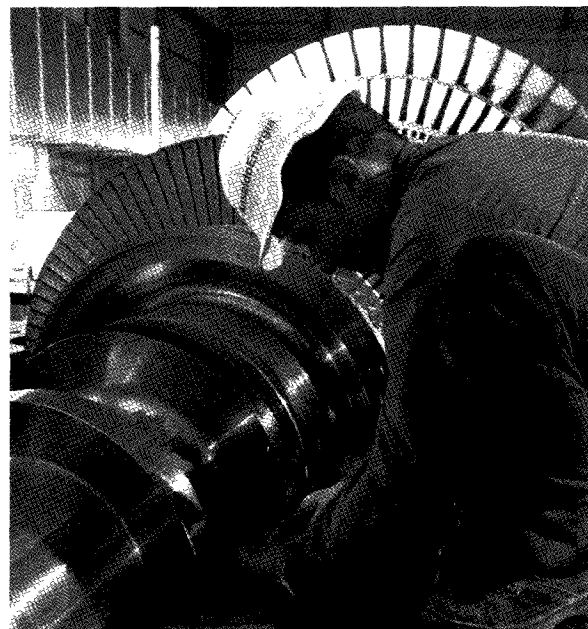
Furthermore, the entire company process is now completely operational on SAP, integrating all the company activities, from the client order to the completion of the work on-site.

The combined effect of a greater availability of technical qualified resources, of spare parts and information systems should allow a faster and more effective customer service.

Concerning the actual figures for the year it should be pointed out that the service activities are divided 70% for Italy and 30% abroad, particularly in the Middle East and in the Mediterranean Area.

As in the past the interventions related mainly to steam turbines and generators and marginally the gas turbines even though the activities for this product has doubled since the previous year. In the future, this percentage is expected to change substantially due to the progressive increase of installed turbogas fleet.

The activity of programmed maintenance that is requested more frequently by customers together with the equipment supply continues to take on growing importance. In particular in 2003 the contract agreed with Enipower became operational for the seven large size combined cycles (V943.A2 of 260 MW) supplied by Ansaldo Energia S.p.A.; this activity will continue for a period of 8 years.





During 2004, the other contract agreed with Tractebel for the programmed maintenance of the Voghera plant will become operational which is added to the plant initiated in previous years.

In 2003 significant management efforts were made together with experts in the sector to reorganise and improve efficiency in the service activities in order to be ready for the new commitments requested from customers and the market in this sector considered strategic for the future development of Ansaldo Energia S.p.A.

## Management of contracts

The activity related to the management of the orders that includes both the direct customer contact and the monitoring and optimisation of the economic and financial variables in terms of costs, time and risks provided significant results in 2003. Important milestones were reached allowing the company to firstly confirm the proven ability to respect contractual deadlines and secondly to resolve complex problems with cost and risk limitations. Amongst these was the agreement with the Algerian customer Sonelgaz for the resolution of disputes in relation to the Hamma and Orano plants, permitting the finalisation of the operational and programmed maintenance of the Hamma plant in the first months of 2004.

The financial aspect and the balance of income/expenses was as always at the centre of attention and permitted the maintenance of a positive financial position for the entire 2003 and improve the position at the year end compared to the previous years.

Concerning the objective relating to the reduction of the work in progress and the consequent reduction of the contractual guarantees particular attention was placed in the provisional acceptance documents for the entering into service of important plants such as Ballylumford, Komotini, Barka, Hamma and Pietrafitta. The Neyveli order, which as noted presented many complexities in the construction phase, overcame the performance test for the

acceptance of the plant.

The activity of Ansaldo Energia in Iran continues, without any critical issues, for the second phase of the Mapna order, which includes assistance to local production and the transfer of technological competence.

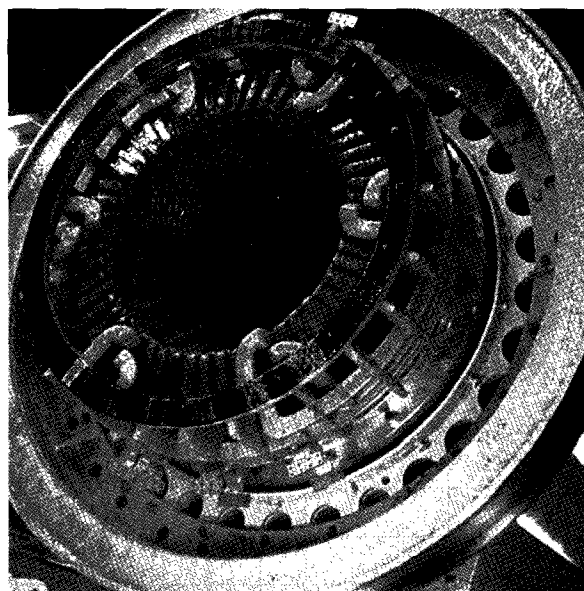
Finally, the results were more than satisfactory for the management of the Enipower order, with the commencement of the first units in compliance with the contractual objectives and the acceptance of the Ferrera Erbognone plant.

## Nuclear Division

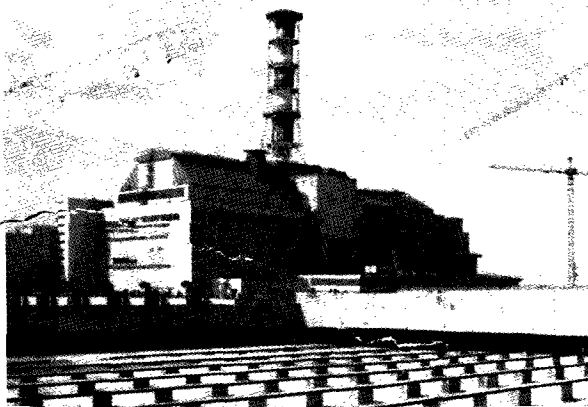
The year 2003 was marked by a significant production increase (approx. 55%) that reached Euro 36 million even allowing for the delay of activities at Cernavoda of 2 to 3 months.

### New Plant

The principal activities related to the supplies to Cernavoda 2 which required a significant effort in the re-qualification of Italian subcontractors in order to meet the nuclear quality standards. The activities on the construction site meant the presence of 45 expatriates in 2003 and that will increase in 2004.



## PRODUCTION ACTIVITY PERFORMANCE



### Waste Treatment / Decommissioning

The most significant objectives achieved in 2003 were:

- the completion of the Building Plan and of the relative Security Report of the vitrification plant of CORA in Saluggia;
- the provisional acceptance of the equipment of high activity wastes removal for the COVRA (Holland) plant;
- the delivery of the radioactive wastes trituration plant for the CISAM centre belonging to the Ministry of Defence.

### Service

The most significant objectives achieved in 2003 were:

- Delivery of the automation systems for the combustible transportation machinery of the VVER 1000 plants in Volgodonsk (Russia) and Quinshan (China);
- Assistance with the cooling system components at Cernavoda 1, with the removal of the hydraulic ram stroke and the balancing problems;
- Preparation of the Sodium Processing System for the Superphenix plant.

# HUMAN RESOURCES



## Industrial relations

Throughout 2003 the process of progressive termination of the activities of the Legnano Unit was the central point of attention in industrial relations.

The decrease of the plant engineering activities resulting from market forces determined the progressive necessity in maintaining the Legnano offices.

As a result of the above circumstances talks opened at the beginning of 2003 with the Trade Unions in the offices of the Ministry of Productive Activities who acted as guarantor for the previous Trade Union agreements in relation to the presence of Ansaldo Energia in the Legnano region.

The agreement reached in June 2003 stipulated that the activities of the Legnano Unit will terminate in April 2004 and defines the social measures and redundancy terms.

The Trade Union agreement confirms the intention of the Company to maintain a representative office in Milan for the purpose of favouring contacts with operators in the energy generation sector, largely present in the Lombardy region.

In October 2003, with the final sentence of the Brescia Tribunal, eighteen workers of the Legnano area, at the time transferred to the Manital Consortium in relation to the sale of the general services department, won the right to be reinstated in Ansaldo Energia.

The staff at the Legnano Unit decreased from 149 at end 2002 to 114 (24 redundancies) at the end of 2003, to which should be added the 18 workers who will be formally reinstated at the beginning of 2004 in compliance with the Court judgment.

# HUMAN RESOURCES

Concerning the Genova area, the direct actions for improving operational and production flexibility continued.

The Trade Union climate in the company only partially felt the general national industrial relations situation in relation to the political economical choices on welfare.

During the year 22,000 hours were lost on strike action, a significant decrease compared to the previous year.

## Personnel

In 2003 there was a slight reduction in personnel from 2,460 in 2002 to 2,433 in 2003.

	31.12.2003	31.12.2002
Senior managers	104	115
Managers	245	247
White-collar	1142	1141
Blue-collar direct	728	753
Blue-collar indirect	214	204
<b>Total</b>	<b>2433</b>	<b>2460</b>

The movements in departures and arrivals are shown below.

Departures	
termination contracts for indefinite period	203
of which benefiting Law 223/92	128
termination contracts for definite periods	44
transfer to group companies	1

## New employment

indefinite period contracts	66
definite period contracts	154
of which:	
• training contracts	68
• Law 398 (external contractors)	3
• Contracts for definite periods	83
transfer from group companies	1

In relation to departures it should be noted that the legislation relating to "asbestos" contributed to the departure of 128 employees of which 52 blue-collar.

The company hiring policy is focused on the employment of staff with "critical" competences under fixed-term contracts in order to accompany the insertion of the new hires and guarantee appropriate operational levels.

A total of 134 new employees were hired under long-term or training contracts, of which 73 were white-collar staff and 61 blue-collar. In relation to educational background, 38 of the white-collar staff have university degrees and 35 have diplomas; of the blue-collar staff 31 (half of the new hires) have diplomas.

## Training

The training activity for the year 2003 amounted to a total of 34,020 man/hours, of which approximately 82% from FSE contributions.

In relation to the covering of persons departing as a result of the "welfare scheme" and with the objective of improving the professional mix, a course on "Mechanical Assemblers" was completed for young graduates - with 15 students achieving the qualification - a new course for Operators of

Numeric Controlled Work Centres started. Both training schemes were co-financed by FSE.

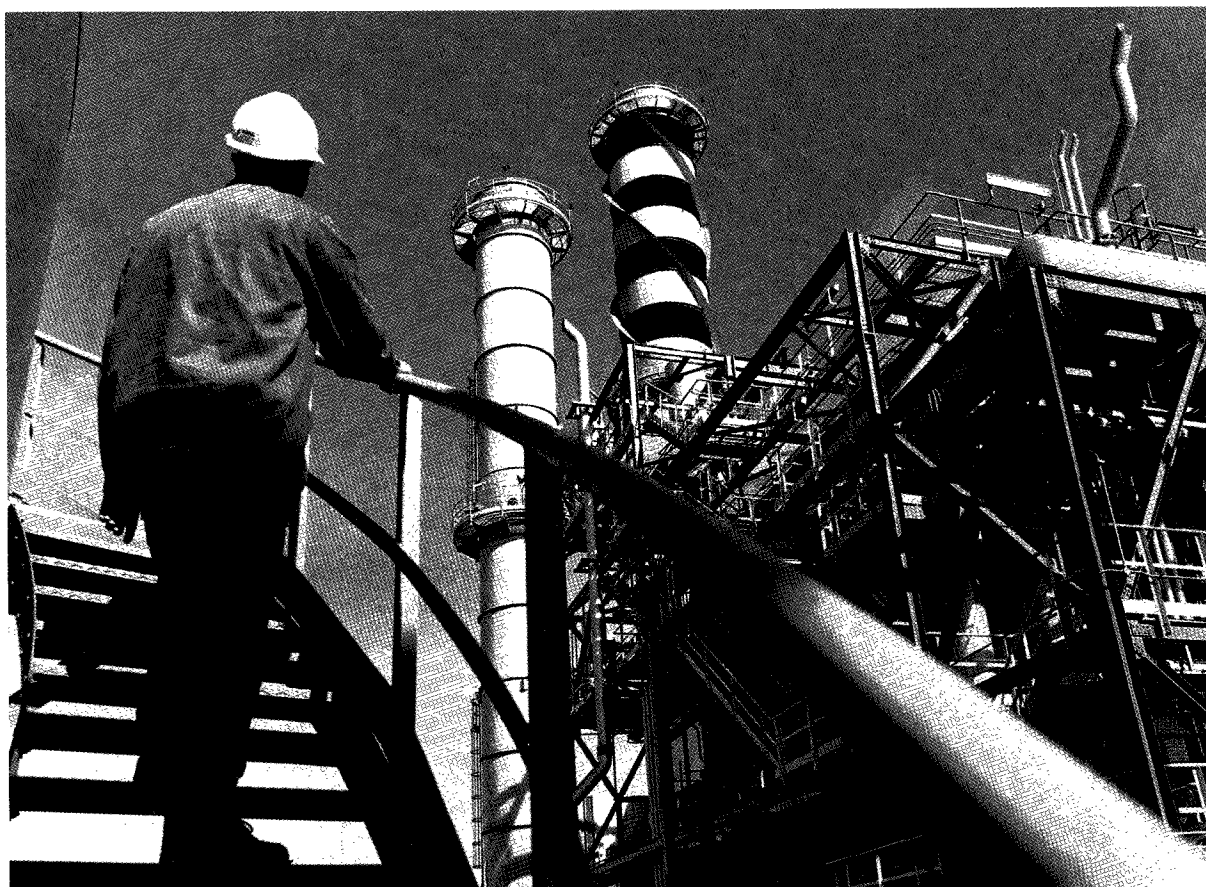
For the training programmes of employees the project dedicated to the production line Foremen continued and that during the year dealt with the subjects of specific interest, such as work security and the co-ordination and management of personnel.

Specific training was planned for new employees in Service in order to improve the professional knowledge necessary for assistance and maintenance activity.

Particular mention is given to the course dedicated to the insertion in the company of new young recruits that saw the active participation of all company functions in the planning and running of the course as testimony to the objectives of integration and communication.

A significant part of the training also consisted of specialised technical activities and the implementation of the SAP project.

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



## QUALITY

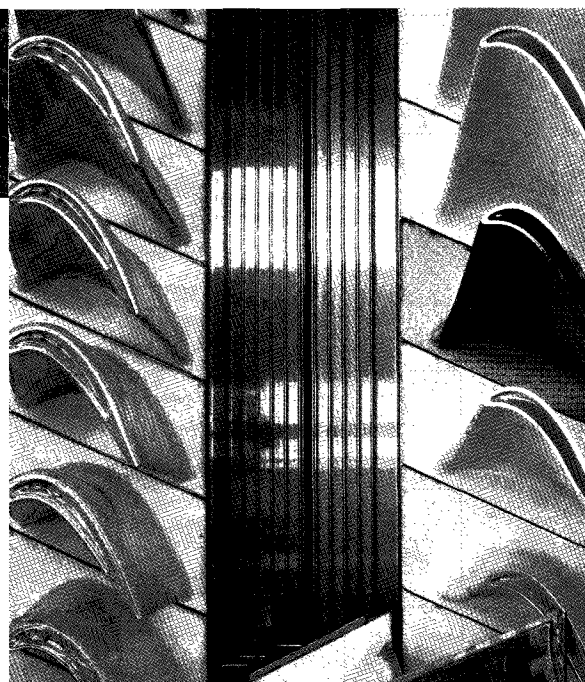
**D**uring 2003 the institutional control activity continued:

- internally, aimed at verifying the correct application in all of the business areas (both head office and on site) of the Company Management Systems with the objective of the continual improvement of the processes and products.
- externally, aimed at the evaluation and supervision of suppliers, 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.

To this was added the preparatory activity in order to obtain a positive outcome on the verifications connected to the numerous expiration dates on the various certifications with particular attention to the renewal in accordance with UNI EN ISO 9001 edition 2000. This required a considerable commitment in terms of preparing the new documentation (Manual, Procedures, Instructions) in relation to the processes and with the objective of achieving increased synergy.

It is worth noting that the Company Manual lost its classical name of Quality Manual to a more embracing name of Business Management System Manual including environment and security aspects and introducing the concepts of "objective", "continuous improvement" and "measurements" for the various activities carried out in the primary business processes such as:

- offer, order acquisition and management
- planning
- procurement
- production/manufacturing
- assembly and start-up



monitored by appropriate efficiency and effectiveness performance indicators that were also carefully reassessed.

The overall result of the activities was satisfactory. As a whole the company operated in a manner that consolidated the belief and knowledge that the capacity to offer and produce products capable of guaranteeing, time and costs, technical quality and reliable services, is the key of success and the continuity of the Company.

Therefore the activities of training, communication and awareness are of fundamental importance through appropriate plans aimed at continual improvement of the technical competences in all of the resources of the company that only operating in an organised and coordinated manner within the regulations of the Business Management System can guarantee the positive outcome of the results.

The attention given to after-sales assistance must be maintained in terms of efficiency and effectiveness and in terms of proposed technical/performance improvements in order to deliver a product which fully satisfies the expectations of the Customer.

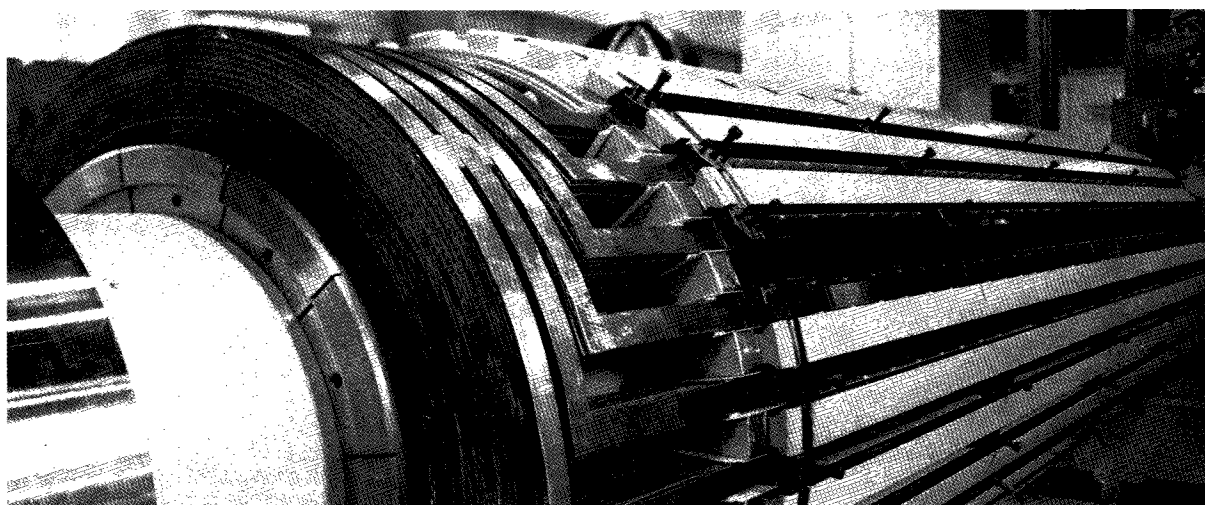
It is thus that the Company can succeed in a market of powerful and fierce competitors.

# INVESTMENTS

**I**n relation to tangible fixed asset investments, the year 2003 is characterised by continuing technological improvements that commenced in the previous years with the introduction of new machinery and renovation of others for continuous improvement of the production system.

The most significant initiatives were:

- The beginning of the modernisation of the Generator Test Room with the objective of renewing the Rotors Centrifugal tunnel to adapt the machinery to newer and more sophisticated technological requirements, tests and current regulations on security. The renovation plan which will finish in 2004 resulted in significant work in addition to that on the machinery concerning civil works.
- Specific interventions aimed at the Recovery of Productive Efficiency with the objective of improving the efficiency level and an increase in the production potential installed in the
- Genova Campi plant. The aim was to ensure that the working conditions of the production system were sufficient to guarantee the expected volumes with the machinery at their optimal operating conditions. The initiative mainly concerned interventions in the large mechanical and generators area with priority to the critical machinery/plants for the production where the level of performance was no longer acceptable.
- The commencement of a programme on the buildings structure (buildings, workshops and offices) in order to maintain the value of the assets.
- The replacement of lifting equipments with new advanced technology improved internal movements considerably.
- The acquisition, for the Service department, of equipment to improve the on-site and office diagnostic capacity, guaranteeing an increasing efficient intervention service.



# RESEARCH, DEVELOPMENT, TECHNICAL INNOVATION AND LICENSING

**T**he R&D activities of Ansaldo Energia divided by the different product categories are as follows:

## Gas turbines

The R&D activity for the turbogas line in the combustion programme remained intensive through the active participation in two European projects financed by the 5th F.P. to which Siemens and other European manufacturers also participated. The objectives are the control of acoustics (humming) functioning with very low emission levels and the use of non-conventional fuel (syngas) with the V94.3A2

## Steam turbines

Also this year, 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. The determining element, which was able to give this activity the contribution and the final direction, was the availability of the codes from the old ABB programmes, which were previously only held in the executable version.

Research continued, with a significant contribution from Ansaldo Ricerche, on the projects "Development of materials at high temperature" and "Advanced Power Plant" for the technologies of the most advanced machines, in partnership with the major European manufacturers.

## Turbogenerators

The most important R&D activity in this field is represented by the development of the base project, together with the necessary analysis to validate the design choice of an air cooled generator of 250 MVA, adapted to the needs of the combined cycles based on our gas turbines. Based on the Alstom technology (which presently is out of stock for this size) the project

has completely autonomous construction and technological solutions and it is already available to be sold on the market.

Thus the isolation activities continued both with the system of the Licensors (MICADUR) and autonomously (4675 N) and systematisation and internalisation of the Alstom technology.

## Combined Cycle Plant

The activity in plant engineering was concentrated on cost reduction projects of the Combined Cycle "single shaft" plant configuration with the V94.3A2 in particular, with cooperation of suppliers.

Finally preparatory activity was carried out for the start up of the ambitious project of a plant simulator (with the objective of project verification, start up support and diagnostics) which will be developed together with ENEA, University and other industrial partners with funding from the Ministry of Research (L. 297).

## Nuclear

The activities relating to the "Accelerator Driven System" project continued in 2003, mainly centred on the existing Research Agreement with the European Commission (Fifth Case Program) as it was not possible to stipulate the MIUR "TRASCO 3" agreement due to the lack of funding from the Ministry. In the thermal reactors service field an international initiative commenced in order to improve Ansaldo capacity to carry out security analysis on VVER-1000 reactors. Finally, in relation to the decommission of plant no longer in service, in 2003 the orbital cutting of cylindrical components at elevated thickness was further analysed using the conduction and analysis of tests of thermal and mechanical cutting which represent the basis of the detailed plan. The feasibility study for a radioactive waste processing system (Plasma Enhanced Melter) for the Italian market was finalised.



## Licences Reports

### Gas turbines

Ansaldo Energia S.p.A. works under Siemens licence since 1991 and which expires in July 2006.

### Steam turbines

The turbines of 50 and 100 MW are Ansaldo technology. Those above 100 MW are produced under Alstom licence which expired on December 31, 2003. Today Ansaldo Energia is capable of designing and producing these models independently. However, in order to facilitate the transition from a licence system to the present form, a technical assistance agreement was signed with Alstom.

### Generators

The alternators with the hydrogen cooling system are of Ansaldo technology, those with air and hydrogen/water cooling system were produced under licence which expired on December 31, 2003. Also for this product, as an alternative to the licence that was not renewed, the option of producing independently was chosen and a technical assistance agreement was signed with Alstom similar to that for steam turbines.

## Future perspectives

With the aim to consolidate and improve its competitive position, the Company has launched a development and renewal programme of its own design capacity aimed at achieving complete independence in the steam turbines and generators field and in the planning and production of all the present range of products.



For this latter product the plan includes two important phases. The first phase includes:

- the strengthening of the Engineering structure with the creation of Centres of Excellence common to all products;
- the creation of a technological and scientific partner network;
- the adoption of 3D mechanical planning systems and the validation of the calculation codes used;
- the qualifying of suppliers and alternative critical processes for various typology of semi finished goods.

The insertion, in the company of some thirty recently graduated engineers and an active cooperation with universities and research centres is expected to accomplish this first phase which started in 2003 and which will be in full development starting from next year.

The second phase, which can only start after the first one, expects the development and the accomplishment of innovative solutions for the main equipment components and their validation on test beds.

## PERFORMANCE OF THE MAIN 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 district heating and renewal energy plants.

The production in 2003 remains characterised by this activity and in addition the Company continued its diversification policy in order to render its activities less dependant on Ansaldo Energia.

The results for 2003 closed with a loss of Euro 0.1 million. This loss is prevalently attributed to costs related to the fiscal amnesty and foreign exchange costs related to the activity in Saudi Arabia.

The performance of the company can be summarised as follows:

- Revenues from production: Euro 9.8 million;
- Sales: Euro 6.5 million;
- The acquisition of new orders amounted to Euro 19.1 million of which Euro 9.1 million from Ansaldo Energia, while the portfolio of orders amounts to Euro 8.6 million
- Net equity Euro 0.4 million;
- The financial position is positive for Euro 1.7 million;
- The number of employees at the end of the year was 44 units.

### Asia Power Projects Private LTD

The company with head office 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 2003 the company was involved in the following projects:

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

The result for the year is a loss of Euro 15.8 million. The significant losses in the year are entirely attributable to the provisions on the Neyveli order in relation to contentious issues with the client and local suppliers. The cause of these charges are attributable to the complexity and the uniqueness of the plant that caused delays in construction. The performance of the company can be summarised as follows:

- Revenues from production: Euro 8.2 million;
- Net equity: Euro 15.7 million;
- Order portfolio at 31.12.03 amounts to Euro 8.5 million;
- Financial indebtedness was equal to Euro 12.8 million, of which Euro 10.6 million with Ansaldo Energia;
- The number of employees at the end of the year was 96 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 in the Income Statement, Balance Sheet and Memorandum Accounts include both transactions of a commercial and financial nature under normal market conditions. An exception to this is the loan with the Indian subsidiary APPL, non-interest bearing in line with Indian legislation.

## Holding company

Finmeccanica SpA's relationship with the Company is essentially that of a 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, for residual activity, 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 WITH HOLDING, SUBSIDIARY & ASSOCIATED COMPANIES (in Euro/thousands)

	Balance Sheet						Income Statement			
	Assets			Liabilities			Costs		Revenues	
Holding Companies:	Financial	Trade	Others	Financial	Trade	Others	Trade	Trade	Financial	Trade
Finmeccanica (Group VAT)	50,839	1,127				1,385	238	435	1,569	12,495
<b>TOTAL HOLDING COMPANIES</b>	<b>50,839</b>	<b>1,127</b>				<b>1,385</b>	<b>238</b>	<b>435</b>	<b>1,569</b>	<b>12,495</b>
Subsidiary Companies:										
Sagem		199		1,273	2,144		6		21	
APPL	10,601	68			1,927					
Ansaldo Malesia	57				48					
Sicom				7						
Tramonte Holding	3									
FTI				404			8			
Sopren				196	32		5			
Ansaldo Middle East		67			51					
<b>TOTAL SUBSIDIARY COMPANIES</b>	<b>10,661</b>	<b>334</b>		<b>1,880</b>	<b>4,202</b>		<b>19</b>		<b>21</b>	
Associated Companies:										
Dayalistri Pratama N.N.S.		411	119							
<b>TOTAL ASSOCIATED</b>		<b>411</b>	<b>119</b>							
<b>TOTAL</b>	<b>61,500</b>	<b>1,872</b>	<b>119</b>	<b>1,880</b>	<b>4,202</b>	<b>1,385</b>	<b>257</b>	<b>435</b>	<b>1,590</b>	<b>12,495</b>

## ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

### Results

The income statement for 2003 shows a decrease in production revenues as a result of the gradual completion of contracts prevalently at a low contribution margin.

In fact, this latter increased compared to the previous year, both in absolute value and percentage terms, confirming both the good profitability of the orders secured in the period 2000-2001 in market conditions which were particularly favourable and the rationalisation of internal procedures, productive and non-productive, which enabled a containment on costs and risks.

Furthermore, the steady growth in service operations is expected to continue with increased progress in forthcoming years.

The plant area appears to be more critical in view of the current market competitiveness. This may undergo a reduction in the imminent future if not supported by the Italian market that still responds sluggishly in starting up new initiatives.

Personnel costs (Euro 126 million) have decreased notably compared to the previous year as a consequence of departures connected to the introduction of legislation on asbestos and the gradual withdrawal from the Legnano site, along with the change in the mix of resources brought about by the redundancies at the end of 2002. Overall, in two years, personnel decreased by 259 units while labour costs showed a 12% reduction. The restructuring phase and concentration on core business operations have thus been completed and the next financial year will see the company committed to consolidating and strengthening the current structure, alongside an injection of a new work force, especially in areas of high potential such as the service sector.

Amortisation and depreciation (Euro 13 million) has shown a slight decrease due to the completion of expenditure on research and development costs capitalised in previous years, before the adoption

of a prudent policy of fully charging the costs to the income statement at the time of carrying out the activities to avoid difficult correlation with future revenues. Therefore, they represent only tangible fixed assets with an adequate balance between new assets and those where the amortisation period has been completed.

The adjustments and provisions for risks and charges amounting to Euro 10 million support the policy adopted by the company over the last few years of maintaining provisions to adequately cover the characteristic risks in the business. Moreover during the year, besides the aforementioned provisions, write-downs of a various nature were made, reserves for risks or closing of litigation cases, recorded in difference account items in the income statement for a further Euro 9 million.

Other income (Euro 13 million) relate to receipts and the restoration of receivables previously written down in which SACE (Foreign Trade Insurance Board) has agreed the repayment programme. As this latter index shows, an increase of 41% over two years has been recorded, showing the results of good managerial control.

The financial income and charges, despite having benefited from net proceeds of more than Euro 2 million consequent of the position financial position for the whole year, shows a negative amount due to commissions and charges (Euro 1.4 million) and foreign exchange charges (Euro 2 million). These latter, principally due to overseas operations traded in local currency which suffered adverse short term variations in exchange rates, could have been more devastating if the company had not implemented a hedging policy against the risk in exchange rates, in cases where it is not yet possible to close contracts in the European Currency.

The write-down of subsidiaries and associated companies to net equity values was significant (Euro 16 million), essentially due to the write-down for the Indian subsidiary ASPL for the closing of the local operations on the Neyveli order.

It is recalled that this order was taken in 1997, during a particularly delicate moment for Ansaldo

Energia SpA, and that over the last few years it has absorbed both economic and financial resources. The satisfactory conclusion of the performance trials and important initiatives brought into effect locally will hopefully soon lead to the acceptance of the plant, without further deterioration.

The extraordinary costs include the redundancy costs for personnel already underway or to be implemented in adherence to agreements connected to the closure of the Legnano site, amounting to Euro 8 million, and further costs for the closure of a legal litigation concerning business activities sold in previous years.

Finally income taxes, as well as marginal foreign taxes, relate only to IRAP regional tax as the company still benefits from fiscal losses carried forward.

### Financial position

Fixed assets totalling Euro 113 million include tangible assets of Euro 107 million which decreased by Euro 2 million for depreciation and sales. The most significant variation concerns the financial fixed assets that reduced by Euro 12 million essentially because of the receipt of extended credit given and quotas of investments relating to activities sold in previous financial years.

The working capital has reduced by a further Euro 9 million reflecting the good financial management of the company. The negative figure of Euro 118 million is essentially related to the value of the advances from clients net of inventory that represents the activity already produced. This positive position is still viable for payment conditions on certain contracts more closely related

to plant engineering operations rather than manufacturing. Over 2004, this figure could effectively be reduced to zero as a consequence of variation in the operations mix whereby production on the Iranian orders will prevail with an emphasis on manufacturing.

An analysis of the single items shows a recovery in trade receivables (Euro 54million) and a reduction in other assets (Euro 33 million) substantially following the reduction in prepayments originating from the hedging of foreign exchange risks, due to the drawing up, where possible of contracts in Euro and the depreciation of the US dollar.

In relation to trade payables the increase of Euro 26 million does not reflect a change in payment terms, in line with market conditions, but reflects withholdings against specific responsibilities of a supplier that sees a similar counter-party in trade receivables.

Employee leaving indemnity reduced by a further Euro 4 million, as a result of departures and the generation change that has affected the whole company.

Against a negative net capital employed of Euro 55 million the net equity is Euro 24 million and the net financial funds available is Euro 79 million. This latter figures consequently increases compared to the previous year by Euro 23 million confirming the positive results achieved. The forecast for the initial months of next year confirm the continuation of the positive financial position, while the second half of 2004 will see an absorption of funds, determined as already stated, by the temporary predominance of manufacturing business operations.

# ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

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

31/12/2003

31/12/2002

### A. - REVENUES

Changes in inventory in working progress  
semi-finished and finished  
Increase of internally constructed assets

746,962

842,847

55,374

139

137

### B. - VALUE OF PRODUCTION "NORMAL"

Consumption of materials and external services

802,475

842,984

(627,731)

(660,509)

### C. - ADDED VALUE

Cost of labour

174,744

182,475

(126,169)

(134,878)

### D. - GROSS OPERATING MARGIN

Amortisation & depreciation  
Other adjustments  
Provisions for risks and charges  
Other income (charges)

48,575

47,597

13,027

1,325

8,933

12,966

13,489

4,580

6,085

### E. - OPERATING RESULT

Financial income and charges  
Adjustment to financial assets

38,256

35,613

(1,173)

(16,346)

(3,608)

(913)

### F. - RESULT BEFORE

#### EXTRAORDINARY ITEMS

Extraordinary income and (charges)

20,737

31,092

(11,845)

(16,237)

### G. - RESULT BEFORE TAXES

Taxes

8,892

14,855

5,798

5,631

### H. - RESULT FROM ORDINARY ACTIVITIES

3,094

9,224

### I. - PROFIT (LOSS) FOR THE YEAR

3,094

9,224

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

**31/12/2003**

**31/12/2002**

**A. - FIXED ASSET**

Intangible assets	134	1,365
Tangible assets	107,159	109,317
Financial assets	6,249	18,246
	<b>113,542</b>	<b>128,928</b>

**B. - WORKING CAPITAL**

Inventory	3,244,646	2,913,232
Trade receivables	362,934	416,494
Other receivables	52,311	85,164
Trade payables	(277,966)	(251,407)
Payments on account	(3,369,610)	(3,127,034)
Provision for risk and charges	(66,482)	(70,708)
Other liabilities	(63,967)	(74,903)
	<b>(118,134)</b>	<b>(109,162)</b>

**C. - CAPITAL INVESTED**

Deduct liabilities (A+B)	<b>(4,592)</b>	<b>19,766</b>
--------------------------	----------------	---------------

**D. - EMPLOYEE LEAVING  
INDEMNITY**

	<b>(50,274)</b>	<b>(54,817)</b>
--	-----------------	-----------------

**E. - CAPITAL INVESTED**

deduct (C-D) liabilities and staff leaving indemnity covered by:	<b>(54,866)</b>	<b>(35,051)</b>
--	-----------------	-----------------

**F. - OWN CAPITAL**

Share Capital paid in	11,967	11,967
Profits brought forward	9,224	
Profits/(losses) for the year net of losses covered	3,094	9,224
	<b>24,285</b>	<b>21,191</b>

**G. - FINANCIAL INDEBTEDNESS  
MEDIUM/LONG TERM**

Medium/long term loans	15,996	17,872
Financial asset receivables	(12,606)	(6,475)
	<b>3,390</b>	<b>11,397</b>

**H. - FINANCIAL INDEBTEDNESS  
SHORT TERM (NET AVAILABLE CASH)**

Short term loans	2,572	10,824
Cash and short term	(85,113)	(78,463)
	<b>(82,541)</b>	<b>(67,639)</b>

**I. - TOTAL, AS IN E (F+G+H)**

	<b>(54,866)</b>	<b>(35,051)</b>
--	-----------------	-----------------

# ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

## CASH FLOW STATEMENT (in Euro/thousands)

31/12/2003

31/12/2002

### A. - BEGINNING CASH AVAILABLE (BEGINNING INDEBTEDNESS)

67,639

64,549

### B. - CASH FLOW FROM OPERATING ACTIVITY

Profit (loss) for the year	3,094	9,224
Amortisation and depreciation	13,028	13,489
(Gains) losses on fixed assets	(53)	(2,356)
(Revaluations) write-downs on fixed assets	54	44
Change in the capital	8,971	(22,720)
Change in staff leaving indemnity provision	(4,543)	(2,203)

20,551

(4,522)

### C. - CASH FLOW FROM INVESTMENT IN FIXED ASSETS

Investments in fixed assets:		
Tangibles	(9,648)	(14,250)
Financial	(4,522)	(217)
Realizable price or reimbursement of fixed assets	16,528	21,862

2,358

7,395

### D. - CASH FLOW FROM FINANCIAL ACTIVITIES

New financing		1,771
Net decrease in financial assets	(6,131)	177
Loan repayments	(1,876)	(1,731)

(8,007)

217

### E. - DISTRIBUTION OF PROFITS

### F. - CASH FLOW FOR THE PERIOD (B+C+D+E)

14,902

3,090

### F1 - EFFECT OF CORPORATE OPERATIONS ON CASH FLOW

### G. - ENDING CASH AVAILABLE (ENDING INDEBTEDNESS) (A+F)

82,541

67,639



# MARKET PROSPECTS AND COMPETITIVE POSITIONING

## Evolution of the energy generation plant market

The figures for the 2003 trend appear to confirm the forecast of all the manufactures: demand on the open market remains dull, around 50-60 GW (a poorer figure to what was already a low level in 2002) and a shift towards Asia.

The total orders for the first nine months of the year show an exceptional volume of orders of gas turbines, equivalent to 99 GW: nevertheless, 80% of these orders (79 GW) relate to the closed Chinese market, which is only accessible to local constructors.

Given that the American growth of 1998-2001 has now depleted, we are faced with the Chinese growth which should have saturated the local production capacity for a considerable number of years: the 2003 demand was in fact equivalent to five times average orders of the previous 10 years.

As far as gas turbines are concerned, demand in the period was slightly higher than forecasted and the figure at the end of the year should stabilize to around 30 GW. The fact that gas turbine orders dominate over steam turbines in the open market is a significant fact.

As noted, the greatest volume of machine orders took place in the Asiatic area, which covered over 50% of the open market demand; this excludes figures for domestic Chinese orders.

From the figures, Europe is shown to be in decline, with less than 8 GW in the period (against a total of 14GW in 2002) and a 17% share in the open market, where only Spain ordered a significant volume, and as expected, demand in the Americas collapsed, both in Naphtha and Latina (4% of world orders) . However, demand in the Middle East increased, totalling 25% of orders (Arab Emirates, Saudi Arabia, Kuwait, Egypt).

For the forthcoming years, a gradual rise of up to 80 GW per year is expected in open market orders, with an increase in energy installed in Asia (for the most part steam), the Middle East, North Africa and Latin America (combined cycles); Repowering and substitution with combined cycles in USA and Europe (eg. a recent survey which was carried out by utilities and operators predict for Germany a forecast of 1500-2000 MW/yr for the next 15 years, especially combined cycles for replacing old plant sites).

The forecast in the recovery of turbine gas turbine sales at high levels from 2006 can be confirmed.

## Competition and positioning of Ansaldo Energia

In terms of orders in 2003, General Electric is still the leader in turbine gas, taking into consideration the entire energy sector; however Mitsubishi moves into second place with a 30% share, thanks to the Asiatic orders; Siemens maintains its position while Alstom continues not to be capable of placing large machines.

In the open market, steam turbines have been dominated by the Japanese Mitsubishi and Toshiba groups and the Korean Doosan, with an order of four 1,000 MW turbines for nuclear power stations. General Electric has almost a zero direct share, but Toshiba and Doosan use its technology and support.

Siemens and Alstom Power both have a share of less than 10%. The performance of Alstom is particularly negative, in crisis where it was once leader.

Japanese supremacy is more evident in respect of the machinery market above 50 MW: Mitsubishi, with a 35% share, has become leader also in gas turbines.

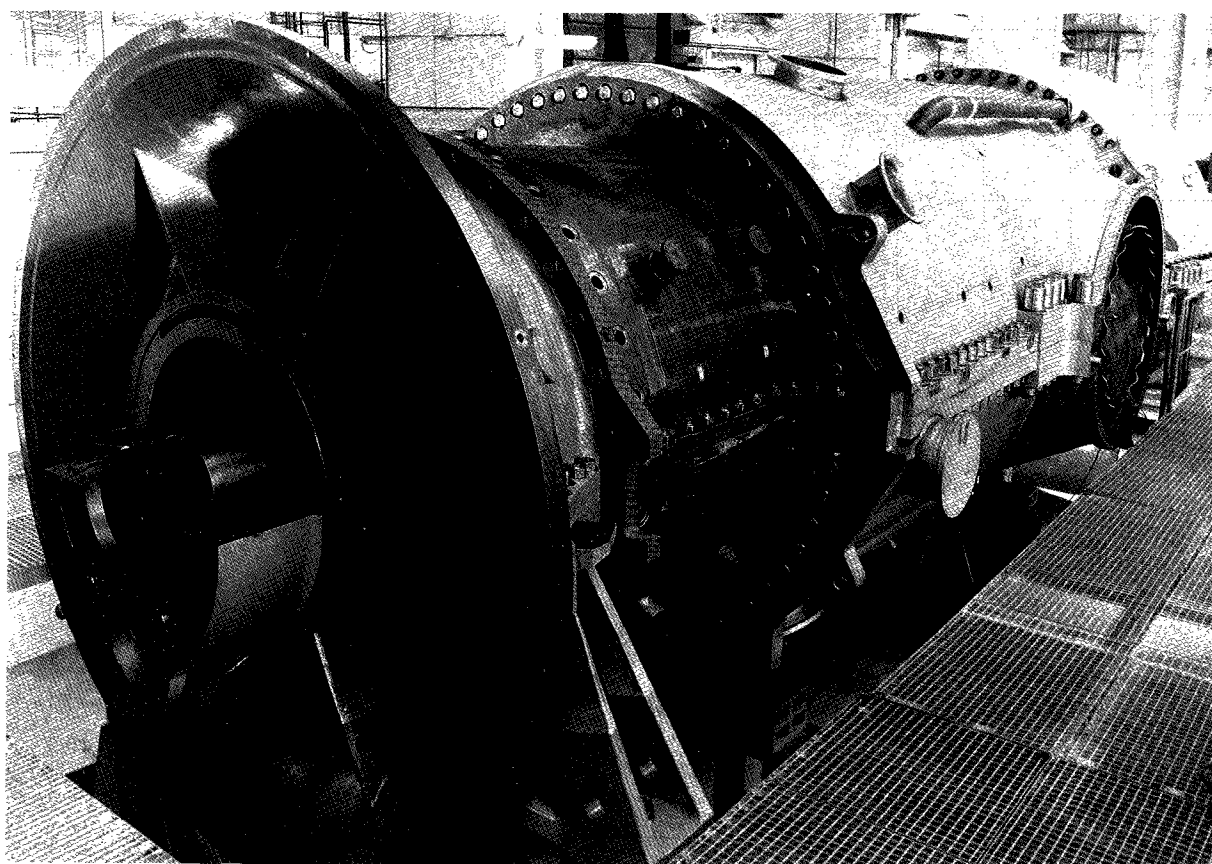
Finally, an important noteworthy event concerns Siemens, following the acquisition of Westinghouse

## MARKET PROSPECTS AND COMPETITIVE POSITIONING

towards the end of the 1990's, is further widening its product portfolio with its entry into the industrial turbines sector, purchased from Alstom.

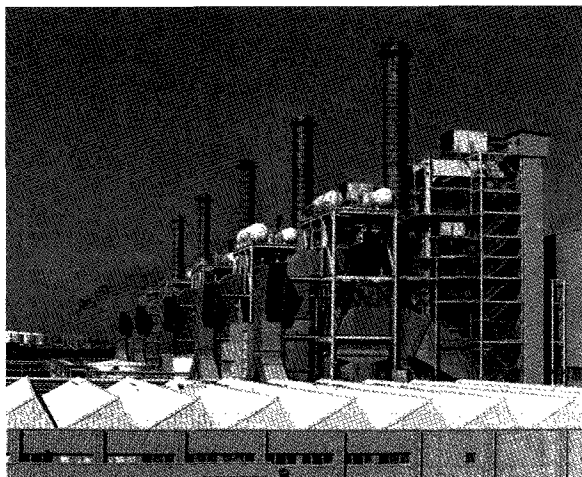
As for Ansaldo Energia, in 2003 the company acquired its target share of gas turbines (around 2000 MW), thanks to the Iranian orders, while its future potential on the Italian market remains unaltered.

In future years, it will be increasingly necessary to turn to the overseas market to secure the amount orders required to cover production capacity: this will entail an increase in the plant engineering component of the business operations, even if the demand will always be motivated by the technical-economical competitiveness of the machines produced.



## SIGNIFICANT EVENTS AFTER THE YEAR END

**T**here are no significant events after the year end to report.



## FORECAST EVOLUTION OF THE OPERATIONS

**T**he inversion of the generation systems market, registered in the second half of 2002, continued in 2003 with a slow down in demand and an increase in competition and price tensions.

Parallel to this, as already commented upon in detail, the Italian market felt the effects of difficulties and length of time in completing authorisations for new sites. This did not allow your company to obtain those acquisitions that would have assisted it in overcoming the weakness in the international market, without a reduction in revenues in 2003 and without requiring a re-examination of the growth forecasts for 2004.

The year 2004 will therefore be a difficult year from a commercial view point during which emphasis must be placed on following the initiatives related to the construction of new plant in Italy for the above reasons.

The combined effect of the prevalence of acquisitions on foreign markets in 2003 at penalising prices and conditions will result in a

significant reduction in profitability and cash flow in 2004.

However, thanks to the growth forecast in the service segment, the order portfolio and the numerous commercial initiatives in course is still a reason to expect a saturation of the production capacity of the Company and a positive net result. The commitment and the efforts of the entire structure must be concentrated on the one hand to the reinforcement of the technological plan, which can be achieved from the programme recently implemented, and on the other to the strengthening of the service that has development capacity in a growing market, at least in terms of volumes.

In particular the improvement of the planning and technological capacity, the budgeting of costs and the forecasting and management of risks can permit Ansaldo Energia to confront new commitments in the plant engineering field ready to take advantage of the opportunities that may be presented also in other sectors such as nuclear or alternative energy.



# FINANCIAL STATEMENTS AS AT 31.12.03

# FINANCIAL STATEMENTS AS AT 31.12.03

## BALANCE SHEET – ASSETS (in Euro)

31/12/2003

31/12/2002

### FIXED ASSETS

#### INTANGIBLE ASSETS

Research, development and advertising costs

133,651

1,364,849

**133,651**

**1,364,849**

#### TANGIBLE ASSETS

Land and buildings

57,148,203

59,443,265

Plant and machinery

39,752,414

30,082,627

Industrial and commercial equipment

4,646,891

5,809,080

Other assets

1,667,691

1,776,199

Assets under construction and advances

3,943,678

12,205,814

**107,158,877**

**109,316,985**

#### FINANCIAL ASSETS

Holdings in:

Subsidiary companies

1,242,698

1,149,850

Associated companies

30,490

4,368,766

Other companies

853,691

918,132

**2,126,879**

**6,436,748**

Transfer for increase in capital  
other companies

40,244

32,372

**40,244**

**32,372**

Receivables  
others

16,687,568

18,252,631

**16,687,568**

**18,252,631**

### Total financial assets

**18,854,691**

**24,721,751**

### TOTAL FIXED ASSETS

**126,147,219**

**135,403,585**

### CURRENT ASSETS

#### INVENTORY

Raw, ancillary and consumables

53,681,087

58,225,968

Work in progress and semi-finished

55,374,319

Work in progress on job orders

3,128,137,449

2,833,033,824

Payments on account

7,452,829

21,972,812

**3,244,645,684**

**2,913,232,604**

#### RECEIVABLES (\*)

Customers

361,062,456

411,079,129

Subsidiary companies

10,994,436

18,435,023

Associated companies

529,824

3,719,874

Holding companies

51,965,831

896,625

Others

45,597,265

71,962,883

**470,149,812**

**506,093,534**

#### CASH AND BANKS

Bank and postal accounts

13,044,739

49,588,499

Cash and equivalents

115,539

110,760

**13,160,278**

**49,699,259**

### TOTAL CURRENT ASSETS

**3,727,955,774**

**3,469,025,397**

### PREPAYMENTS AND ACCRUED INCOME

PREPAYMENTS AND ACCRUED INCOME

17,049,874

24,327,858

### TOTAL ASSETS

**3,871,152,867**

**3,628,756,840**

(\*) Amounts due within one year of which others

1,820,000

6,808,000

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

	31/12/2003	31/12/2002
<b>NET EQUITY</b>		
CAPITAL	11,966,812	11,966,812
LEGAL RESERVES	461,217	1
PROFIT (LOSS) CARRIED FORWARD	8,763,097	0
PROFIT FOR YEAR	3,094,122	9,224,313
	<b>24,285,248</b>	<b>21,191,126</b>
<b>PROVISION FOR RISK AND CHARGES</b>		
- pension and similar	375,555	405,172
- taxes	1,806,661	3,957,731
- others	64,299,267	66,344,599
	<b>66,481,483</b>	<b>70,707,502</b>
<b>PROVISION FOR STAFF LEAVING INDEMNITY</b>		
	<b>50,274,124</b>	<b>54,817,102</b>
<b>PAYABLES (*)</b>		
- Banks	9,302,294	16,550,813
- Payments on account	3,369,610,316	3,127,033,713
- Trade payables	273,763,471	235,068,795
- Subsidiary companies	6,082,440	10,439,429
- Associated companies	0	6,222,407
- Holding companies	1,385,218	13,123,664
- Tax authorities	3,669,446	4,213,463
- Social security institutions	14,666,271	13,194,585
- Other payables	30,455,953	34,411,959
	<b>3,708,935,409</b>	<b>3,460,258,828</b>
<b>ACCRUED LIABILITIES AND DEFERRED INCOME</b>		
- accrued liabilities and deferred income	21,176,603	21,782,282
	<b>21,176,603</b>	<b>21,782,282</b>
<b>TOTAL LIABILITIES</b>	<b>3,871,152,867</b>	<b>3,628,756,840</b>
 (*) Amounts due over one year of which		
- others	13,580,000	15,255,000
	<b>13,580,000</b>	<b>15,255,000</b>
<b>MEMORANDUM ACCOUNT</b> (In Euro)		
<b>Personal guarantees given</b>		
Guarantees		
- in favour of third parties	1,000,000	4,136,865
Other		14,460,793
- in favour of third parties		
	<b>1,000,000</b>	<b>18,597,658</b>
<b>Purchase and sales commitments</b>		
Other	2,920,901,000	3,251,136,000
	1,546,470,000	1,688,389,000
	<b>4,468,371,000</b>	<b>4,958,122,658</b>

# FINANCIAL STATEMENTS AS AT 31.12.03

## INCOME STATEMENT (in Euro)

31/12/2003

31/12/2002

### VALUE OF PRODUCTION

Revenues from sales and services	451,384,701	549,833,396
Change in inventory of work in progress semi-finished and finished goods	55,374,319	
Change in contract work in progress	295,103,624	290,951,598
Increase of internally constructed assets	139,161	137,126
Other income:		
contributions in the year	473,288	2,063,776
recovery of expenses	21,139,105	6,792,459
gains on asset disposals	57,407	551,028
other income	16,810,775	8,635,770
	<b>840,482,380</b>	<b>858,965,153</b>

### COSTS OF PRODUCTION

raw, ancillary and consumables	<b>379,348,685</b>	<b>404,084,661</b>
services	<b>260,228,730</b>	<b>268,085,070</b>
use of third party assets	<b>2,906,583</b>	<b>3,655,370</b>
personnel		
wages and salaries	92,014,274	98,730,069
social security charges	26,671,609	28,554,629
staff leaving indemnity	6,835,261	7,150,884
pension costs	92,349	250,151
other costs	555,877	191,950
	<b>126,169,370</b>	<b>134,877,683</b>

### Amortization, depreciation and write-downs

amortization of intangible assets	1,231,198	2,497,754
depreciation of tangible assets	11,796,260	10,991,463
write-down of amounts in current assets	1,324,582	0
	<b>14,352,040</b>	<b>13,489,217</b>

### Change in inventory of raw, ancillary and consumable goods

	2,516,070	(9,411,383)
Provision for risks	8,933,963	4,580,000
Other provisions	<b>2,028,812</b>	

### Other operating charges

loss on asset sales	4,705	178,474
other taxes	2,002,670	1,999,147
others	3,733,901	1,813,029
	<b>5,741,276</b>	<b>3,990,650</b>

### TOTAL COST OF PRODUCTION

	<b>802,225,529</b>	<b>823,351,268</b>
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### DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION

	<b>38,256,851</b>	<b>35,613,885</b>
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INCOME STATEMENT (in Euro)

31/12/2003

31/12/2002

FINANCIAL INCOME AND CHARGES

Income from equity investments  
from associated companies

118,627	82,265
<b>118,627</b>	<b>82,265</b>

Other financial income  
from receivables in non-current assets  
other

808,048	1,553,215
<b>808,048</b>	<b>1,553,215</b>

income other than above

interest and commissions from subsidiaries  
interest and commissions from parent companies  
interest and commissions from others

21,180	130,322
1,569,038	652,600
17,473,007	29,503,808
<b>19,063,225</b>	<b>30,286,730</b>

Interest and other financial charges

interest and commissions from subsidiaries  
interest and commissions from parent companies  
interest and commissions from others

19,057	17,344
238,480	226,556
20,905,436	35,287,039
<b>21,162,973</b>	<b>35,530,939</b>
<b>(1,173,073)</b>	<b>(3,608,729)</b>

TOTAL FINANCIAL INCOME AND CHARGES

ADJUSTMENT TO FINANCIAL ASSETS

Revaluations  
of investments

Write-downs  
of investments

138,999	8,870
(16,485,204)	(921,852)

TOTAL ADJUSTMENTS TO FINANCIAL ASSETS

<b>(16,346,205)</b>	<b>(912,982)</b>
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EXTRAORDINARY INCOME AND CHARGES

Income

gain on asset disposals  
over-accruals and other in prior years

52	1,805,350
3,196,670	1,467,629
<b>3,196,722</b>	<b>3,272,979</b>

Charges

personnel departures  
taxes from prior years  
under-accruals and other in prior years  
extraordinary provisions

5,217,014	9,019,398
682,086	763,575
3,449,249	2,997,922
5,693,797	6,729,181
<b>15,042,146</b>	<b>19,510,076</b>
<b>(11,845,424)</b>	<b>(16,237,097)</b>

TOTAL EXTRAORDINARY ITEMS

Pre-tax result

Income taxes

PROFIT (LOSS) FOR THE YEAR

<b>8,892,149</b>	<b>14,855,077</b>
<b>5,798,027</b>	<b>5,630,764</b>
<b>3,094,122</b>	<b>9,224,313</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year 2003 have been prepared in accordance with the statutory requirements as required by articles 2424, 2424 bis, 2425, and 2425 bis of the Civil Code for the income statement and balance sheet and as required by articles 2427 of the Civil Code for the notes to the financial statements. In addition, all of the complementary information considered necessary in order to provide a true and fair view is included, even if not required by specific provisions in the legislation. In relation to the Balance Sheet and Income Statement no re-groupings have been made of account items. All of the amounts are expressed in Euro.

No departures have been made in the preparation of the financial statements as permitted by the 4th paragraph of article 2423 of the Civil Code.

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 which are considered as an integral part of the Notes. For a better understanding 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 Montegrappa 4.

The Company avails of the faculty not to prepare Consolidated Financial Statements in accordance with Legislative Decree 127 of 1991. A copy of the consolidated Financial Statements of Finmeccanica S.p.A., of the directors' report and the statutory and independent auditors' reports are made public in accordance with statutory requirements.

## 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 in the preparation of the financial statements are those as required by article 2426 of the Civil Code and the accounting principles of the Italian Accounting Profession (Dottori Commercialisti e dei Ragionieri).

The most significant accounting policies adopted in the preparation of the financial statements are those as shown below, with any significant variations from the previous years 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 which are amortised over three years.

The costs of set-up and expansion, and research and development 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 deriving from the application, in the past, of legal monetary revaluations.

Some assets have been revalued to market value following operations of an extraordinary nature such as mergers by incorporation.

The depreciation is charged to the income statement on a straight line basis on rates taking into consideration the asset's estimated useful life.

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

The Company Ansaldo Componenti S.r.l. has made accelerated depreciation to take advantage of fiscal relief in the years 1989, 1990, 1991, 1992 and 1993.

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

Extraordinary maintenance costs are capitalized in the year in which they are incurred.

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

## **Equity investments**

Equity investments are valued at cost or under the net equity method. 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 holdings the cost method is applied being the purchase price or subscription paid. 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-down no longer exist. If the losses are greater than the subscription value the difference is recorded in a "provision for losses on investments" within "Other Provisions for risks and charges" under 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 and finished products***

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.

# NOTES TO THE FINANCIAL STATEMENTS

## *Semi-finished*

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

## *Job orders 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 percentage of completion method. This method provides for the valuation of the contract based on the total compensation agreed upon 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.

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 contracts;
- 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 on the completion of the work.

The job order is considered finalised on the obtaining of a provisional acceptance certificate or equivalent document which, normally, coincides with the transfer of ownership 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 incurred after the completion of the work are provided for in a specific reserve under liabilities.

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

The work in progress on short-term job orders are valued at the lower of cost and realisable value.

## **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 quota of the interest included in medium/long term receivables not matured at the year-end is deferred 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 reported 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.

### **Provision 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.

### **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, national collective and integrated company agreements, net of advances paid. This liability is subject to revaluation in accordance with pre-determined indices.

### **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.

## NOTES TO THE FINANCIAL STATEMENTS

Deferred tax assets and liabilities are calculated on temporary differences between the values recorded in the financial statements and the corresponding values recognised for fiscal purposes. The deferred tax asset is only recorded if there exists reasonable certainty of their recovery.

### **Departures in accordance with paragraph 4 of article 2423 of the Civil Code**

No exceptional events arose requiring departures in the preparation of the financial statements as permitted by the 4th paragraph of article 2423 of the Civil Code.

## COMMENTS ON THE BALANCE SHEET ACCOUNTS

### ASSETS

#### Fixed assets

For the three classes of fixed assets, intangibles, tangibles and financial assets, detailed schedules have been prepared as attachments no.1-2-3, which 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 costs relating to specific projects in which it is currently considered will result in the commercialisation of new products and a consequent recovery of the costs incurred. The balance has decreased by Euro 1,231 thousand compared to the previous year due to the amortisation for the period.

#### *Tangible assets*

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

Land and buildings relate to the industrial sites at Genoa-Campi (Euro 38,775 thousand), Legnano (Euro 18,206 thousand) and overseas sites (Euro 167 thousand).

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

The net increase of Euro 2,158 thousand compared to the previous year results from:

- Acquisition and capitalisation of new plant (Euro 17,911 thousand) relating principally to increasing the production capacity on the gas turbine production line (turbine blades and disks for rotaries). In relation to this, of note is the entry into service of a HOFFMANN broaching machine (Euro 4,762 thousand) and 4 MAGERLE adjustors (Euro 6,728 thousand).
- Capitalisation of plant in construction, which is expected to enter into service during 2004 amounting to Euro 3,905 thousand.
- Depreciation in the period for Euro 11,796 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 10 thousand derive from disposals net of depreciation.

# NOTES TO THE FINANCIAL STATEMENTS

## *Financial assets*

### HOLDINGS

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

Schedule no. 3 shows the amounts recorded in the financial statements and the movements in the year.

### Subsidiary companies

The principle changes relate to:

- The acquisition of 49% of Anserv (Euro 83 thousand) and 10% in the company Sopren S.p.A. (Euro 22 thousand).
- The payment to cover the losses in Sicom in liquidation (Euro 3,530 thousand) and the relative utilisation of the write-down reserve.
- The payment to cover the losses in ASIA Power Project (Euro 869 thousand) and the relative utilisation of the write-down reserve.
- The net equity valuation at December 31, 2003 of the subsidiary companies with charges of Euro 15,921 thousand and income of Euro 139 thousand. The most significant amount relates to the Indian subsidiary ASIA Power Project Private Ltd resulting in charges of Euro 15,770 thousand.

### Associated companies

The principle changes relate to:

- The sale of the residual 40% held in Ansaldo Caldaie S.p.A. (Euro 4,339 thousand).
- The net equity valuation of Dayalistri Pratama Ltd with a provision for charges of Euro 511 thousand.

### Other companies

The change relates principally to acquisitions, sales and closing of consortiums to which reference should be made to the attached schedules for further information.

### PAYMENT OF SHARE CAPITAL

- The change of Euro 8 thousand relates to the payment for share capital in the company Hydropastaza.



## RECEIVABLES

	31/12/2002	Variations in period		31/12/2003
(Euro/thousand)	Value in fin stat.	Paid	Reimburse- ment	Value in fin stat.
From others:				
- customers	6,607		6,521	86
- State and public bodies for subsidies and contributions	223		23	200
- other receivables	6,614	6,506	424	12,696
- Employee indemnity tax credit	4,809		1,103	3,706
	18,253	6,506	8,071	16,688

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

The other receivables relate to the advance tax on the employee leaving indemnity in accordance with legislation 79/97 (Euro 3,706 thousand), a deferred interest bearing credit from an Algerian customer, subject to the SACE restructuring agreement (Euro 5,847 thousand) and from an Arabian customer (Euro 6,506 thousand), deposits (Euro 214 thousand) and CCNL advances and others (Euro 129 thousand). The most significant amount relates to the write back of the receivable from the client Sharjah subject to the SACE restructuring agreement (Euro 6,506 thousand) and the receipt of the final instalment from CASTI (Euro 6,521 thousand) for the sale of the production site at Legnano.

# NOTES TO THE FINANCIAL STATEMENTS

## Current assets

### Inventory

#### RAW MATERIAL AND CONSUMABLES

Raw materials and consumables are recorded net of a provision for obsolete and slow moving inventory equal to Euro 4,077 thousand. The decrease in inventory is principally related to the changes made in the year and also a consequence of the sale of the production site at Legnano. In relation to this, obsolete material or material that could no longer be used was sold, with a utilisation of the obsolescence provision for a total amount of Euro 2,521 thousand. Parallel to this, a detailed analysis of the utilisation of inventory resulted in the recording of a further provision of Euro 2,028 thousand to counter the risks of obsolescence.

#### PRODUCTS IN WORK IN PROGRESS AND SEMI-FINISHED

Amount to Euro 55,375 thousand and relate to work in progress with characteristics of high standardisation that will be associated to the sales order only at the moment of identification of the project. The recording for the first time of products of this nature originates from the production reorganisation which, in improving the production efficiencies, rendered the processing of the Turbogas blade line and body machines (the latter in the initial phase) compatible with all orders. It should be noted that the order portfolio of the company consents a coverage of over 50% of these products in work in progress which are valued at production cost.

#### 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:

Order		Gross at 31/12/2003	On account 31/12/2003	Net 31/12/2003
0241	ENIPOWER - VARIOUS PLANT	488,387	(639,301)	(150,914)
0208	IRAN PHASE 1-N.12 TG+AT	359,429	(359,770)	(341)
0219	BALLYLUMFORD/IRELAND -COM. CYCLE	260,623	(267,558)	(6,935)
0257	IRAN PHASE 2-N.12 TG+AT	167,863	(149,434)	18,429
0153	NEYVELI/INDIA-2 X 210 MW	118,374	(119,594)	(1,220)
M0510	MEDINA & YAMBU II S.A. - DESAL. 2x80 MW	99,749	(100,845)	(1,096)
0181	SONELGAZ/HAMMA II-C. OPEN 2x209 MW	98,074	(109,000)	(10,926)
0140	MEJILLONES III/CILE-IMP.COM. CYCLE	92,307	(99,732)	(7,425)
0159	KOMOTINI/GRECIA-COMBINED CYCLE	61,522	(69,408)	(7,886)
0194	JEBEL ALI/U.A.E. - REPOWERING FASE 2	56,893	(61,511)	(4,618)
0213	LA CASELLA N. 2 T G V94.3.A2+ ACCESS.	51,920	(61,167)	(9,247)
0195	SAMALKOT/INDIA-COM. CYCLE OF 230MW	45,658	(40,486)	5,172
0237	BARKA OMAN-N. 2 TGAS+N. 2 ALT.	45,130	(50,785)	(5,655)
0184	MILMERRAN/AUSTRALIA - N. 2 GR 420 MW	41,368	(42,127)	(759)
	SERVICE ORDERS	428,453	(414,500)	13,953

The movements in the period of Euro 295,104 thousand can be summarised as follows:

<b>Work in progress 31/12/2002</b>	<b>2,833,033</b>
Work in progress at 31/12/2002	746,565
Work commenced in the period	(451,385)
Write-down utilization	2,635
Write-down provision	(2,711)
<b>Work in progress at 31/12/2003</b>	<b>3,128,137</b>

The works completed relate to the jobs which have received the provisional acceptance certificate or equivalent document.

For these jobs, the costs still to be incurred after the closing of the work have been identified and recorded as reserves under "risk and charges" amounting to Euro 5,347 thousand.

#### PAYMENTS ON ACCOUNT

The payments on account to suppliers principally relate to long-term orders.

#### Receivables

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

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

The receivables recorded are not represented by bills of exchange or similar.

The movements in the period were as follows (in Euro/thousand):

VARIATIONS IN PERIOD				
	31/12/2002	Increase (+) Repay (-)	Provision (-) Write baack of value (+)	31/12/2003
Customers	430,128	(49,126)		381,002
less:				
- Prov. doubtful debts	18,682	(67)	1,325	19,940
- Prov. doubtful debts for interest	367	(367)		
Subsidiary companies	18,435	(7,440)		10,995
Associated companies	3,720	(3,190)		530
Holding companies	897	51,069		51,966
Others	72,172	(26,575)		45,597
less:				
- Prov. doubtful debts	209	(209)		
<b>TOTAL</b>	<b>506,094</b>	<b>(34,619)</b>	<b>(1,325)</b>	<b>470,150</b>

# NOTES TO THE FINANCIAL STATEMENTS

The decrease in trade receivables is principally related to the quicker receipt on the Enipower and Tractebel orders.

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

- financial receivables of Euro 61,500 thousand of which Euro 50,839 thousand from Finmeccanica SpA, and Euro 10,601 thousand from the Indian subsidiary APPL. The receivable from Finmeccanica originate from the centralised treasury procedures which were fully activated during the year;
- trade receivables of Euro 1,872 thousand.

The other receivables amount to Euro 45,597 thousand and are comprised of:

- receivables from tax authorities of Euro 14,013 thousand for reimbursements requested;
- receivables from overseas tax authorities for VAT (Euro 2,958 thousand);
- receivables from personnel and social security institutions for Euro 1,923 thousand;
- receivables from the Camozzi Group for Euro 13,875 thousand deriving from the sale of the business unit "Componenti Speciali Milano";
- receivables from insurance company (Euro 283 thousand), deposits (Euro 426 thousand);
- financial receivables from third parties (Euro 10,453 thousand) of which Euro 7,719 thousand from AETD, sold in the previous year. A specific repayment plan was agreed in relation to this latter receivable, with the payment of interest at market rates.

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

## *Cash and banks*

Bank deposits relate to Euro 3,342 thousand in local currencies in the overseas locations, Euro 1,243 thousand in foreign currency accounts in foreign and Italian banks, Euro 6,368 thousand on blocked accounts and Euro 2,207 thousand in ordinary current accounts.

## **Prepayments and Accrued Income**

The account relates to the following:

- Accrued income

They are comprised of interest on SWAP operations (Euro 40 thousand).

- Prepayments

The most significant item (Euro 13,116 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 prepayments also include insurance premiums (Euro 2,565 thousand) and commissions on loans (Euro 1,288 thousand).

## LIABILITIES

### Net Equity

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

VARIATION IN PERIOD				
	31/12/2002	Allocation of profits/ cover. of losses	Profit/loss for the year	31/12/2003
Share capital	11,967			11,967
Legal reserve		461		461
Profit (loss) carried forward		8,763		8,763
Profit (loss) for the year	9,224	(9,224)	3,094	3,094
	21,191		3,094	24,285

On April 29, 2003 the Ordinary Shareholders' Meeting approved the financial statements for the year 2002, with a profit for the year of Euro 9,224 thousand and approved the allocation to the legal reserve of Euro 461 thousand and the carry forward of Euro 8,763 thousand.

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

# NOTES TO THE FINANCIAL STATEMENTS

## Provision for risks and charges

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

CHANGES IN PERIOD					
	31/12/2002	Reclass.	Provision to Income Statement	Direct Utilisation	31/12/2003
Pension rights and Similar obligations	405		92	122	375
Taxes	3,958		37	2,188	1,807
Other					
- Charges for contentious	11,740	(5,000)		407	6,333
- Charges for guarantees	16,573		8,934	7,807	17,700
- Restructuring charges	11,369	5,000	5,694	16,625	5,438
- Write down of participations	869		16,292	869	16,292
- Cost to completion	21,765		5,347	8,673	18,439
- Other charges and risks	4,028			3,930	98
	70,707		36,396	40,621	66,482

The provision for taxes was principally utilised against the amnesty tax for the closing of the contentious claim initiated in the years 1991/1993 which had not yet reached a final conclusion.

The other provisions are analysed as follows:

- **Charges for contentious disputes** – The provision represents the best estimate relating to the arbitration and disputes of a judicial nature with personnel (Euro 2,352 thousand) and third parties (Euro 3,981 thousand).
- **Charges for guarantees** – The provision is to cover risks related to the contractual performances of the orders in the course of completion. The provision was utilised for Euro 7,807 thousand and subsequently adjusted for future requirements with a provision of Euro 8,934 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 as a consequence of the company restructuring. The provision decreased in the year following the closing of the claim with Mitsubishi relating to the boiler activity, sold in previous years and increased for provisions relating to redundancy costs following the departure from the site at Legnano.
- **Write-down of investments** – The amount is related to the losses of the subsidiary ASPL (Euro 15,770 thousand), of the associated company Dayalistri Pratama (Euro 511 thousand) and the Chiara Consortium (Euro 11 thousand). The provision decreased by 869 as utilisation for the covering of the losses in the subsidiary APPL.
- **Costs to completion** – They are costs to be incurred after the closing of orders for guarantees and completion of pending points.
- **Other charges and risks** – Relate to charges provided against expected costs for the liquidation of the company Ansaldo Middle East.

## 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, 2003.

The amount has decreased by a net amount of Euro 4,543 thousand compared to the previous year, connected to the numerous departures of employees some of whom benefited from assisted pre-pension schemes.

<b>Balance 31/12/2002</b>		<b>54,817</b>
Change in year:	- provisions	6,835
	- utilisation	(11,210)
	- tax revaluation	(168)
		<b>(4,543)</b>
<b>Balance 31/12/2003</b>		<b>50,274</b>

## Payables

For an analysis of payables by expiry date, nature, currency or exchange risk reference should be made to schedules no. 8 and 9. The payables are not subject to liens on the company assets.

CHANGES IN PERIOD			
(Euro/thousand )			
	31/12/2002	Increase (+) Decrease (-)	31/12/2003
Banks	16,551	(7,249)	9,302
Payments on account	3,127,034	242,576	3,369,610
Trade payables	235,069	38,695	273,764
Subsidiaries	10,439	(4,357)	6,082
Associated companies	6,222	(6,222)	0
Holding companies	13,124	(11,739)	1,385
Tax authorities	4,213	(543)	3,670
Social security Institutions	13,194	1,472	14,666
Other payables	34,412	(3,956)	30,456
	<b>3,460,258</b>	<b>248,677</b>	<b>3,708,935</b>

## Payables to bank

They are comprised of medium/long term loans to Italian banks. They have decreased by Euro 7,249 thousand compared to the previous year, principally relating to temporary short-term positions, which reversed in the first days of the year.

# NOTES TO THE FINANCIAL STATEMENTS

## *Payments on account*

This account represents the amounts invoiced against work in progress on the basis of contractual conditions and is comprised of:

- Advance from customers            95,244        Euro/thousand
- Pro-rata invoicing                    3,274,366    Euro/thousand

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

## *Trade payables*

Relate to contracts for the acquisition of goods and services principally relating to job orders and include the costs for the period not yet invoiced for materials delivered and services performed as at December 31, 2003.

They have increased by Euro 38,695 thousand compared to the previous year, relating essentially to withholdings made against specific responsibilities of a sub-contractor.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2003.

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

For a detailed analysis reference should be made to the schedule contained in the directors' report.

The financial payables amount to Euro 1,880 thousand and show a decrease (Euro 1,232 thousand).

The trade payables (Euro 4,202 thousand) relate prevalently to the supply agreements with Sagem (Euro 2,144 thousand) and with APPL (Euro 1,927 thousand).

Other payables (Euro 1,385 thousand) relate to the Group VAT payable.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2003.

## *Payables to tax authorities*

Amount to Euro 3,670 thousand and relate to IRAP net of payments on account paid of Euro 5,481 thousand and, to Irpef withholding tax of Euro 2,893 thousand in December as substitute tax.

## *Payables to Social Security Institutions*

This account equal to Euro 14,666 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 account includes payables to personnel for salaries and vacation days not taken (Euro 14,417 thousand), royalties matured (Euro 5,737 thousand), consultants (Euro 587 thousand) and overseas sites (Euro 564 thousand). The item also includes short-term financial payables (Euro 686 thousand), a medium/long term loan from the Ministry of Production Activity (Euro 6,700 thousand) and others (Euro 1,765 thousand).



### **Accrued liabilities and deferred income**

They have been recorded in accordance with the accruals concept and have decreased by Euro 606 thousand.

Includes the quota of interest for future years (Euro 373 thousand) and suspension of Swap charges (Euro 20,804 thousand).

## **COMMENTS ON THE MEMORANDUM ACCOUNTS**

### **Personal guarantees given**

#### *Guarantees given to third parties*

They relate to guarantees given by the Company in favour of consortiums guaranteeing the work performed (Euro 1,000 thousand).

### **Sales and purchase commitments**

#### *Sales commitments*

They amount to Euro 1,801,000 thousand relative to the contractual value of work in progress net of the amount already produced.

The sales commitments of foreign currencies for swap contracts agreed with credit institutions to cover the exchange risks of contractual revenues in foreign currencies, amount to Euro 33,739 thousand.

#### *Purchase commitments*

The irrevocable commitments of orders for the supply of goods and services relating to the company's activity amounts to Euro 1,080,000 thousand.

The purchase commitments of foreign currencies for Swap contracts covering costs in foreign currencies amount to Euro 6,162 thousand.

### **Other**

#### *Personal guarantees received*

They relate to:

- guarantees received from suppliers for the correct execution of orders (Euro 204,652 thousand);
- guarantee given by MEIE against the guarantees given by Ansaldo Energia in favour of AETD (Euro 577 thousand);
- letters of credit given in our favour by customers guaranteeing payment (Euro 475,969 thousand);

# NOTES TO THE FINANCIAL STATEMENTS

- the commitment by Otto SpA to honour the guarantees given by Ansaldo Energia SpA to customers for the correct execution of orders transferred to Otto (Euro 40,227 thousand).

## *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 correct execution of the work (Euro 707,193 thousand), participation for tenders (Euro 6,295 thousand) and in favour of suppliers for letters of credit issued to guarantee payment (Euro 109,247 thousand);
- guarantees given by financial institutions (Euro 275 thousand) in favour of the VAT offices of Genoa and Milan, guaranteeing the reimbursement requested.

## *Third party assets on deposit*

- Amount to Euro 2,035 thousand and relate to materials owned by Enipower, provided as an initial stock for the maintenance work programmed on seven combined cycles supplied by Ansaldo Energia.

## COMMENTS ON THE INCOME STATEMENT

### Value of production

(Euro/thousand)	31.12.2003	31.12.2002	Variation
Revenues from sales/services	451,385	549,833	(98,448)
Variation of product inventory	55,374		55,374
Changes in work in progress	295,104	290,951	4,153
Increase internally constructed assets	139	137	2
Other income	38,480	18,044	20,436
	840,482	858,965	(18,483)

The revenues from sales and services are shown in accordance with article 2427 of the Civil Code in attachment no.10.

The increase in assets internally constructed relates to the cost of labour for Euro 139 thousand and relate to tangible fixed assets.

Other income includes grants received for training (Euro 473 thousand), gains on asset disposals (Euro 57 thousand), other revenues (Euro 16,811 thousand) and recovery of expenses (Euro 21,139 thousand). The gains on disposals refer to the sale of plant and machinery relating to normal substitutions in Italy and overseas.

Other revenues include the write-back and receipt from SACE of receivables previously written-down (Euro 10,860 thousand), insurance reimbursement (Euro 4,043 thousand) relating essentially to claims on damages incurred on orders, recovery of expense for materials (Euro 7,096 thousand), personnel expenses (Euro 1,548 thousand) and rent (Euro 551 thousand). They also include the reimbursement from Finmeccanica (Euro 12,495 thousand) as a consequence of the resolution of the concession with the Sulcis Committee, in relation to the guarantees given in previous years.

The revenues from sales and services principally relate to the completion of orders (Euro 451,385 thousand). The most significant projects in the year, considered as completed having obtained the PAC, related to the supply of steam generators for Kewaunee (Euro 21,662 thousand), 2 turbo gas and 2 alternators for Meghanaghat (Euro 46,470 thousand) and service for the rehabilitation of the Costanera station (Euro 61,710) thousand.

## Costs of production

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

They are comprised of purchases of materials (Euro 374,423 thousand), electric energy, water, gas (Euro 4,925 thousand). The amount has decreased Euro 24,736 thousand compared to the previous year due principally to lower volumes in the year.

### *Costs for services*

This account includes the costs for external work and services (Euro 198,164 thousand), insurance (Euro 7,155 thousand), emoluments for directors and statutory auditors (Euro 103 thousand), custom charges and transport (Euro 13,257 thousand), royalties (Euro 8,369 thousand), travel and transfer of personnel (Euro 9,646 thousand), decentralised services (Euro 15,785 thousand) and commissions on guarantees of a commercial nature (Euro 7,750 thousand).

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

This account includes the amounts paid for the rent of buildings (Euro 2,082 thousand), photocopying and data processing (Euro 426 thousand) and other rents (Euro 399 thousand).

### *Personnel costs*

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

	2003	2002
Sen. Managers	108	115
Managers	238	247
White collars	1,106	1,141
Blue collars	937	957
<b>TOTAL</b>	<b>2,389</b>	<b>2,460</b>

# NOTES TO THE FINANCIAL STATEMENTS

The cost (Euro 126,169 thousand) represents all amounts for the year including deferred, social charges and leaving indemnity matured as at December 31, 2003.

The personnel costs for overseas locations amounted to Euro 11,490 thousand.

The reduction in personnel costs continued in the current year principally due to the decrease in the number of employees from leaving incentive or pre-pension schemes.

## *Amortisation, 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 under "Intangible and tangible fixed assets".

The amortisation and their correlation to the assets in the Balance Sheet are shown in the schedule below (Euro/thousand).

### *Amortisation of intangible assets*

	2003	2002
Research and development costs	1,231	2,498

They relate to costs capitalised in previous years.

### *Amortisation of tangible assets*

	2003	2002
Land and buildings	2,572	2,572
Plant & machinery	6,165	5,775
Ind. & comm. equip.	2,403	2,062
Other	656	582
<b>TOTAL</b>	<b>11,796</b>	<b>10,991</b>

### *Provisions made of amounts in current assets*

Relates to the provision for doubtful debt in relation to the risk of insolvency.

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

In relation to this reference should be made to the account "Inventory" in the Balance Sheet and the schedule no. 5.

### *Provisions for risks*

Relates to the provision for guarantees in relation to the risks of the orders in course.

### *Other operating costs*

This item includes: losses on the sale of assets (Euro 5 thousand), indirect taxes and Italian and overseas taxes (Euro 2,003 thousand of which Euro 709 thousand for ICI), contributions to associations (Euro 358 thousand), losses on receivables (Euro 3,038 thousand) and others (Euro 337 thousand).

## Financial income and charges

### Income from investments

They relate to dividends received in the year from the foreign associated company NNS (Euro 119 thousand).

### Other financial income

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

Refers to interest on receivables from SACE (Euro 679 thousand) and tax credits (Euro 129 thousand).

#### OTHER INCOME (in Euro thousands)

	2003	2002
Interest on current a/c's:		
– Subsidiary companies	21	130
– Holding companies	1,569	652
– Bank and credit institutions	1,099	1,204
Other interest:		
– State		354
– Other	10	125
Foreign exchange gains:		
– Realised	13,589	22,969
– To be realised	2,272	3,181
Gains on Swap operations	503	1,671
<b>TOTAL</b>	<b>19,063</b>	<b>30,286</b>

The "interest and commissions from others", relate to bank interest (Euro 1,099 thousand), income from exchange difference on Swap contracts (Euro 13,589 thousand), and foreign currency adjustment at year end (Euro 2,272 thousand), as well as premiums on Swap contracts (Euro 503 thousand) and others (Euro 10 thousand).

### Financial interest and charges

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

	2003	2002
Interest payable:		
– Subsidiary companies	19	17
– Holding companies	238	227
– Bank and credit institutions	961	1,282
– Suppliers	383	590
Commissions and bank charges	1,120	1,956
Foreign exchange losses		
– Realised	15,313	24,659
– To be realised	2,912	6,295
Losses on Swap operations	217	505
<b>TOTAL</b>	<b>21,163</b>	<b>35,531</b>

The "commissions and interest from subsidiary companies" (Euro 19 thousand) relate to transactions of a financial nature with FTI S.p.A. in liquidation (Euro 8 thousand), SOPREN S.p.A. (Euro 5 thousand) and SAGEM S.r.l. (Euro 6 thousand).

# NOTES TO THE FINANCIAL STATEMENTS

The commissions and interest from holding companies (Euro 238 thousand) relate to transactions with Finmeccanica S.p.A. for commissions and expenses on guarantees.

The commissions and interest from others and other charges (Euro 20,905 thousand) relate to interest from credit institutions (Euro 250 thousand), medium/long terms loans from financial institutions (Euro 711 thousand), and trade payables (Euro 383 thousand). Also included are bank commissions and charges (Euro 1,120 thousand), differentials on SWAP (Euro 15,313 thousand), foreign exchange losses (Euro 2,912 thousand), as well as charges on SWAP contracts (Euro 217 thousand).

## Adjustments to financial assets

### *Revaluations*

The amount of Euro 139 thousand relates to the net equity valuation of the subsidiary FTI S.p.A.

### *Write-downs*

The amount of Euro 16,485 thousand relates to the losses in the Indian subsidiary ASPL (Euro 15,770 thousand), in Tramonte Holding (Euro 15 thousand), in Sopren S.p.A. (Euro 6 thousand) and SAGEM S.r.l. (Euro 129 thousand), in Anserv S.r.l. (Euro 1 thousand), in the associated company Dayalistri Pratama (Euro 511 thousand), in the Chiara Consortium (Euro 21 thousand) and the Ansaldo Energia Consortium (Euro 32 thousand).

## Extraordinary income and charges

### *Income*

The gains from disposals of an extraordinary nature, amounting to Euro 52 thousand, relate to the sale of the holding in the company Astra Immobiliare. Also included are over-accruals from previous years and other income not relating to ordinary business operations for a total amount of Euro 3,197 thousand.

### *Charges*

This account includes provisions for costs related to the extraordinary sales operations and in particular adjustment of the provision made for the Mitsubishi claim (Euro 2,500 thousand), costs for redundancies already agreed upon (Euro 5,217 thousand) or future redundancies (Euro 3,193 thousand), under-accruals from prior years and other costs not relating to ordinary business operations (Euro 3,449 thousand) and overseas taxes of previous years (Euro 682 thousand).

### *Taxes for the year*

The taxes for the year relate to Euro 5,536 thousand for IRAP and Euro 262 thousand for taxes paid overseas.

# NOTES TO THE FINANCIAL STATEMENTS SCHEDULES

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 1

### INTANGIBLE ASSETS (Euro/thousand)

	31/12/2002					Acquisition / Capitalisation
	Cost	Revaluations	Writedown	Amortisation fund	Value in Fin Stat	
Research, development and advertising	62,621			61,256	1,365	
	<b>62,621</b>			<b>61,256</b>	<b>1,365</b>	

## Schedule n. 2

### TANGIBLE ASSETS AND ACCUMULATED DEPRECIATION (Euro/thousand)

	31/12/2002					Acquisition / Capitalisation
	Cost	Revaluations	Writedown	Amortisation fund	Value in Fin Stat	
Land and buildings:						
- civil industrial	65,021	25,010		30,588	59,443	277
Plant and machinery	125,059	996		95,972	30,083	15,839
Industrial & comm. equipment	24,265			18,456	5,809	1,242
Other assets	18,150			16,374	1,776	553
Assets under construction and advances	12,206				12,206	9,954
	<b>244,701</b>	<b>26,006</b>		<b>161,390</b>	<b>109,317</b>	<b>27,865</b>



Variation in the period				31/12/2003				
Reclassification	Disposals	Write-downs Write-backs	Amortisation	Cost	Revaluations	Writedown	Amortisation fund	Value in Fin. Stat.
			1,231	62,621			62,487	134
			<b>1,231</b>	<b>62,621</b>			<b>62,487</b>	<b>134</b>

Variation in the period			31/12/2003				
Reclassification (1)	Disposals (2)	Amortisation	Cost	Revaluations	Writedown	Amortisation	Value in Fin. Stat.
		2,572	65,298	25,010		33,160	57,148
	(5)	6,165	138,912	996		100,156	39,752
	0	2,403	23,359			18,711	4,648
	(5)	656	14,369			12,701	1,668
	(18,216)		3,944				3,944
	(18,226)	11,796	245,882	26,006		164,728	107,160

(1) Relates to the use of depreciation made in previous years

(2) Of which:

Cost	26,684
Revaluations	
Write-downs	
Amortisations	8,458
	<u>18,226</u>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 3

### HOLDINGS (Euro/thousand)

#### Holdings in subsidiary companies

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

#### Holdings in associated companies:

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

#### Holdings in other companies:

- Ansaldo Superconduttori
- Astra Immobiliare Srl
- Siet Spa
- Cons. Ansaldo Energia El.
- Consorzio CIC
- Euroimpresa Legnano
- Libian Italian Joint CO.
- Consortiums and others
- Genesi Consortium
- Chiara Consortium

#### TOTAL HOLDINGS

#### ADVANCES (FOR FUTURE CAPITAL INCREASES)

- Other

31/12/2002				
Cost	Revaluations	Writedown	Value in Fin Stat	Aquisition
7,618		7,618		3,530
4			4	
492	2,198	2,323	367	
37			37	
3,361		3,361		869
138	327		465	
60		45	15	
1			1	
90			90	83
206		35	171	22
(162)	162			
<b>11,845</b>	<b>2,687</b>	<b>13,382</b>	<b>1,150</b>	<b>4,504</b>
93		93		
4,856		4,856		
30			30	
12,375		8,036	4,339	
<b>17,354</b>		<b>12,985</b>	<b>4,369</b>	
154		154		
8			8	
107			107	
32			32	
52			52	
155			155	
9			9	
679		148	531	
24			24	
				10
<b>1,220</b>		<b>302</b>	<b>918</b>	<b>10</b>
<b>30,419</b>	<b>2,687</b>	<b>26,669</b>	<b>6,437</b>	<b>4,514</b>
32			32	8
<b>32</b>			<b>32</b>	<b>8</b>

Variation in the period					31/12/2003			
Reclassification	Disposals	Utilisation reserve	Rival. ex art.2426	Write-downs Write-backs values (+)	Cost	Revaluations	Writedown	Value in Fin Stat
		3,530			11,148		11,148	
					4			4
			139		492	2,337	2,323	506
					37			37
		869			4,230		4,230	
				(128)	138	327	128	337
				(15)	60		60	
					1			1
				(2)	173		2	171
				(6)	228		41	187
					(162)	162		
		<b>4,399</b>	<b>139</b>	<b>(151)</b>	<b>16,349</b>	<b>2,826</b>	<b>17,932</b>	<b>1,243</b>
					93		93	
					4,856		4,856	
					30			30
	4,339				8,036		8,036	
	<b>4,339</b>				<b>13,015</b>		<b>12,985</b>	<b>30</b>
					154		154	
	8				107			107
				(32)	32		32	
					52			52
					155			155
					9			9
					679		148	531
	24			(10)	10		10	
	<b>32</b>			<b>(42)</b>	<b>1,198</b>		<b>344</b>	<b>854</b>
	<b>4,371</b>	<b>4,399</b>	<b>139</b>	<b>(193)</b>	<b>30,562</b>	<b>2,826</b>	<b>31,261</b>	<b>2,127</b>
					40			40
					<b>40</b>			<b>40</b>

**Reserve for write-down in holdings**

Subsidiaries - Asia Service Private Ltd	(15,770)
Collegate - P.T. Dayalistri Pratama	(511)
Other - Consorzio Chiara	(11)

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 4

### LIST OF HOLDINGS IN SUBSIDIARY AND ASSOCIATED COMPANIES (Euro/thousand)

	Head office	Share capital	Net equity at 31 dicembre 2003	Profit (loss)
<b>Subsidiary companies</b>				
- F T I S.p.A in liq.	LEGNANO	183	506	139
- SICOM S.p.A. in liq.	MILAN	2,582		
(*)- ANSALDO MIDDLE EAST LTD	EGYPT	10	31	
	LE	50,000		
(*)- ANSALDO MALESIA	MALAYSIA	2	20	
	RM	10,000		
- ASIA POWER PROJECTS PRIVATE LTD	INDIA	55	(15,769)	(15,823)
	RS	3,140,300	(908,036,600)	(911,176,900)
- SAGEM S.r.l.	GENOA	50	337	(128)
(*)- ANSALDO ENERGY INC.	USA	1	26	25
	\$	1,000	22,947	
- ANSERV S.r.l.	ROMANIA	40	180	
	M/Lei	1,408	7,188	
- SOPREN S.p.A.	GENOA	176	196	(6)
<b>Associated companies</b>				
- DAYALISTRI PRATAMA	INDONESIA	9,303	(1,137)	(10,440)
- NNS Snc	FRANCE	76	373	296

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

(\*) last financial statements available 31.12.2002

Share held %	Net equity value (A)	Carryng value (B)	Valuation law 2426 (C)	Excess	
				B-A	B-C
100	506	506	506		
100					
99	31	37	31	6	6
100	20	4	20		
100	(15,769)		(15,769)	15,769	15,769 <sup>(1)</sup>
100	337	337	337		
100	26	1	26		
100	180	171	180	(9)	(9)
100	196	187	196	(9)	(9)
		<b>1,243</b>			
45	(511)		(511)	511	511
40	149	30	149	(119)	(119)
		<b>30</b>			

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 5

### INVENTORY (Euro/thousand)

	31/12/2002	Variations in the period		31/12/2003
		Increase (+) Decreases (-)	Provision	
Raw, ancillary and consumables	62,795	(5,037)		57,758
- provision for depreciation	4,570	(2,521)	2,028	4,077
	<b>58,225</b>	<b>(2,516)</b>	<b>(2,028)</b>	<b>53,681</b>
Products in work in progress and semi-finished		55,375		55,375
Work in progress	2,841,205	295,180		3,136,385
- provision for depreciation	8,172	(2,635)	2,711	8,248
	<b>2,833,033</b>	<b>353,190</b>	<b>(2,711)</b>	<b>3,183,512</b>
Advances	21,972	(14,520)		7,452
<b>TOTAL INVENTORY</b>	<b>2,913,230</b>	<b>336,154</b>	<b>(4,739)</b>	<b>3,244,645</b>

Schedule n. 6

RECEIVABLES AND ACCRUED INCOME BY EXPIRY AND NATURE (Euro/thousand)

	31/12/2003				31/12/2002			
	within one year	amount between 2 and 5 years	expiry over 5 years	Total	within one year	amount between 2 and 5 years	expiry over 5 years	Total
<b>Non-current receivables</b>								
holding companies								
- Customers	86			86	6,607			6,607
- Others	1,734	14,868		16,602	201	11,445		11,646
	<b>1,820</b>	<b>14,868</b>		<b>16,688</b>	<b>6,808</b>	<b>11,445</b>		<b>18,253</b>
<b>Current receivables</b>								
Other financial receivables								
Subsidiary companies	10,661			10,661	17,556			17,556
Holding companies	50,839			50,839				
Others	10,453			10,453	11,208			11,208
	<b>71,953</b>			<b>71,953</b>	<b>28,764</b>			<b>28,764</b>
<b>Trade Receivables</b>								
Customers	361,062			361,062	411,079			411,079
Subsidiary Companies	334			334	879			879
Associated Companies	411			411	3,638			3,638
Holding Companies	1,127			1,127	897			897
	<b>362,934</b>			<b>362,934</b>	<b>416,493</b>			<b>416,493</b>
<b>Various Receivables</b>								
from others:								
- Associated Companies	119			119	82			82
- Foreign VAT	2,958			2,958	4,150			4,150
- Tax Authorities	14,013			14,013	18,941			18,941
- Personnel	1,923			1,923	2,053			2,053
- Camozzi for CSM	13,875			13,875	13,875			13,875
- Others	2,375			2,375	21,736			21,736
	<b>35,263</b>			<b>35,263</b>	<b>60,837</b>			<b>60,837</b>
<b>Accrued Income</b>	<b>42</b>			<b>42</b>	<b>225</b>			<b>225</b>
<b>TOTAL</b>	<b>472,012</b>	<b>14,868</b>		<b>486,880</b>	<b>513,127</b>	<b>11,445</b>		<b>524,572</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 7

### RECEIVABLES, CASH AND ACCRUED INCOME WITH IN FOREIGN CURRENCIES OR EXCHANGE RISK (Euro/thousand)

	31/12/2003			31/12/2002		
	with foreign exchange risk	In Euro	Total	with foreign exchange risk	In Euro	Total
<b>Non-current receivables</b>						
from others						
- Customers		86	86		6,607	6,607
- Others	12,352	4,250	16,602	6,104	5,542	11,646
	<b>12,352</b>	<b>4,336</b>	<b>16,688</b>	<b>6,104</b>	<b>12,149</b>	<b>18,253</b>
<b>Current receivables</b>						
Customer	59,211	301,851	361,062	75,394	335,685	411,079
Subsidiary companies	73	10,922	10,995	73	18,362	18,435
Associated companies		530	530	92	3,628	3,720
Holding companies	97	51,869	51,966	151	746	897
Others		45,597	45,597		71,963	71,963
	<b>59,381</b>	<b>410,769</b>	<b>470,150</b>	<b>75,710</b>	<b>430,384</b>	<b>506,094</b>
<b>Liquid assets:</b>						
Bank and postal deposits	4,469	8,576	13,045	11,246	38,343	49,589
Cash and equivalents	115		115	110		110
	<b>4,584</b>	<b>8,576</b>	<b>13,160</b>	<b>11,356</b>	<b>38,343</b>	<b>49,699</b>
<b>Accrued income</b>		<b>42</b>	<b>42</b>		<b>225</b>	<b>225</b>
<b>TOTAL</b>	<b>76,317</b>	<b>423,723</b>	<b>500,040</b>	<b>93,170</b>	<b>481,101</b>	<b>574,271</b>



**Schedule n. 8**

**PAYABLES AND ACCRUAL BY EXPIRY AND NATURE (Euro/thousand)**

	31/12/2003				31/12/2002			
	within one years	amount between 2 and 5 years	expiry over 5 years	Total	within one years	amount between 2 and 5 years	expiry over 5 years	Total
<b>Medium/Long Term Payables</b>								
Banks	1,571	7,725		9,296	1,805	8,555		10,360
Other Payables	845	5,855		6,700	812	6,700		7,512
	<b>2,416</b>	<b>13,580</b>		<b>15,996</b>	<b>2,617</b>	<b>15,255</b>		<b>17,872</b>
<b>Current liabilities</b>								
Banks	6			6	6,190			6,190
Subsidiary Companies	1,880			1,880	578			578
Holding Companies					2,534			2,534
Other Payables	686			686	1,522			1,522
	<b>2,572</b>			<b>2,572</b>	<b>10,824</b>			<b>10,824</b>
<b>Trade payables</b>								
To suppliers	273,764			273,764	235,069			235,069
Subsidiary Companies	4,202			4,202	9,861			9,861
Associated Companies					6,222			6,222
Holding Companies					255			255
	<b>277,966</b>			<b>277,966</b>	<b>251,407</b>			<b>251,407</b>
<b>Various payables:</b>								
Tax authorities	3,670			3,670	4,213			4,213
Social security institutions	14,666			14,666	13,195			13,195
Other payables								
- holding companies	1,385			1,385	10,335			10,335
- others	23,070			23,070	25,378			25,378
	<b>42,791</b>			<b>42,791</b>	<b>53,121</b>			<b>53,121</b>
<b>Total payables</b>	<b>325,745</b>	<b>13,580</b>		<b>339,325</b>	<b>317,969</b>	<b>15,255</b>		<b>333,224</b> <sup>(1)</sup>
<b>Accrued liabilities</b>	<b>661</b>			<b>661</b>	<b>555</b>			<b>555</b>
<b>TOTAL</b>	<b>326,406</b>	<b>13,580</b>		<b>339,986</b>	<b>318,524</b>	<b>15,255</b>		<b>333,779</b>

(1) Does not include the account advances

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 9

### PAYABLES AND ACCRUED LIABILITIES IN FOREIGN CURRENCIES OR EXCHANGE RISKS (Euro/thousand)

	31/12/2003			31/12/2002		
	With foreing exchange risk	In Euro	Total	With foreing exchange risk	Euro	In Total
<b>Payables</b>						
Banks		9,302	9,302		16,550	16,550
Suppliers	20,903	252,861	273,764	37,376	197,693	235,069
Subsidiary Companies	732	5,350	6,082	800	9,639	10,439
Associated Companies					6,222	6,222
Holding Companies		1,385	1,385		13,124	13,124
Tax authorities		3,670	3,670		4,213	4,213
Social security institutions		14,666	14,666		13,195	13,195
Other payables - other		30,456	30,456		34,412	34,412
<b>Total payables</b>	<b>21,635</b>	<b>317,690</b>	<b>339,325</b>	<b>38,176</b>	<b>295,048</b>	<b>333,224</b>
<b>Accrued liabilities</b>		<b>661</b>	<b>661</b>		<b>555</b>	<b>555</b>
<b>TOTAL</b>	<b>21,635</b>	<b>318,351</b>	<b>339,986</b>	<b>38,176</b>	<b>295,603</b>	<b>333,779</b>

**Schedule n.10**  
**REVENUES** (Euro/thousand)

	31/12/2003			31/12/2002		
	Italy	Overseas	Total	Italy	Overseas	Total
<b>'Revenues from sales</b>						
- Italy	201,648			280,498		
- Europe CEE		10,477			19,077	
- Europe extra CEE		21,455			63,748	
- Africa		3,132			88,342	
- North America		22,128			3,197	
- Latin America		72,237			12,641	
- Middle East		57,893			77,503	
- Far East		61,853			3,374	
- Other countries		562			1,453	
<b>TOTAL REVENUES</b>	<b>201,648</b>	<b>249,737</b>	<b>451,385</b>	<b>280,498</b>	<b>269,335</b>	<b>549,833</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Schedule n. 11 PURCHASE AND SALES COMMITMENTS (Euro/thousand)

	31/12/2003	31/12/2002
<b>Commitments to purchase</b>		
Purchase orders:		
- third parties	1,080,000	1,220,000
Foreign exchange contracts	6,162	10,738
	<b>1,086,162</b>	<b>1,230,738</b>
<b>Commitments to sell</b>		
Sales orders	1,801,000	1,957,400
Foreign exchange contracts	33,739	62,998
<b>TOTAL</b>	<b>1,834,739</b>	<b>2,020,398</b>

## Schedule n. 12 OTHER MEMORANDUM ACCOUNT (Euro/thousand)

	Against Receivables	obligations of others	Total at 31/12/2003	Total at 31/12/2002
<b>Personal guarantees received</b>				
- Sureties		205,229	205,229	213,026
- Guarantees		40,227	40,227	101,078
- Others		475,969	475,969	494,880
		<b>721,425</b>	<b>721,425</b>	<b>808,984</b>
<b>Third party assets held</b>		<b>2,035</b>	<b>2,035</b>	
<b>Guarantees of others given for obligations of the company</b>				
- Against other obligations		823,010	823,010	879,405
<b>TOTAL OTHER MEMORANDUM ACCOUNTS</b>		<b>1,546,470</b>	<b>1,546,470</b>	<b>1,688,389</b>

# PROPOSAL TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

The Financial Statements for the year 2003, presented for your approval, closed with a profit of Euro 3,094,122, which we propose is allocated as follows:

- for 5%, equal to Euro 154,706, to the legal reserve
- for the residual, equal to Euro 2,939,416, carried forward.

The Financial Statements for the year ended December 31, 2003 were audited by Deloitte & Touche, appointed in the Ordinary Shareholders' meeting of April 4, 2003.

Finally, we recall, that with the present Shareholders' Meeting, our mandate expires.

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 2003 as well as the directors' report, after the presentation of the report by the Statutory Auditors
- 2) nominate the Board of Directors for the three-year period 2004/2006, determining the number of members the Board will contain.

for THE BOARD OF DIRECTORS  
THE PRESIDENT

# REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

Dear Shareholders,

The financial statements for the year ended December 31, 2003, that the Board of Directors present for your approval, consisting of a balance sheet, income statements and notes thereto have been presented to us together with the directors' report and attachments thereto.

The notes illustrate the accounting policies which do not differentiate from those utilised in the previous The notes also include detailed information on the balance sheet and income statement and information required by law.

The directors' report illustrates the business and performance of the company and includes information relating to subsequent events after the year-end and the future outlook for the current year.

We attended all of the board of directors' meetings in the year.

We ascertained that the meetings were conducted in accordance with corporate law and the statutes of the company, noting the existence of conflicts of interest and contrary to shareholder meeting resolutions, and we received from the Directors periodic information on the business and the most important financial operations of the company and its holdings; on the basis of this information the Board considers that the

resolutions and conduct of the Board of Directors were in conformity with corporate law and the statutes of the company.

We requested information and verified the respecting of the principles of correct administration and we had frequent contact with personnel of the Audit functions and the administration department; we also had periodic meetings with the independent audit firm Deloitte & Touche S.p.A for the reciprocal exchange of information.

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. Based on the above and that the independent audit firm have confirmed there will be no exceptions to report on in their audit report, we express our favourable opinion on the financial statements and the allocation of the result as proposed by the Board of Director's.

Finally, we recall, that with the present Shareholders' Meeting, our mandate expires. The Board of Director's therefore requests the shareholders' meeting to elect the Board of statutory auditors.

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

**AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 156 AND 165 OF  
LEGISLATIVE DECREE OF FEBRUARY 24, 1998, N. 58 AND IN ACCORDANCE WITH  
ARTICLE 14 OF LAW OF AUGUST 12, 1977, N. 675**

**To the Shareholders of  
Ansaldo Energia S.p.A.:**

We have audited the financial statements of Ansaldo Energia S.p.A. (the Company) as of December 31, 2003. 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 recommended by Consob, the Italian Stock Exchange Commission. 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, presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by Deloitte & Touche S.p.A. (now DT S.p.A.) on March 18, 2003.

In our opinion, the financial statements present fairly the financial position of Ansaldo Energia S.p.A. as of December 31, 2003, 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.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
Corrado Toscano  
Partner

Genoa, Italy  
March 26, 2004

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

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