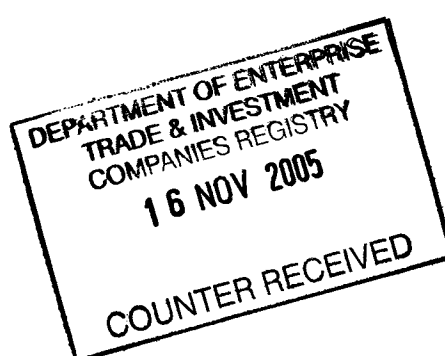




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ANNUAL REPORT 2004



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CORPORATE BOARDS

BOARD OF DIRECTORS

(For the three-year period 2004-2006)

GIUSEPPE VEREDICE
Chairman

GIUSEPPE ZAMPINI
Managing Director

Directors

SIMONE BEMPORAD
GIANPIERO CUTILLO
ALBERTO DE BENEDICTIS
ROBERTO MAGLIONE
MARIO ORLANDO

BOARD OF STATUTORY AUDITORS

(For the three-year period 2002-2004)

GIORGIO CUMIN
Chairman

Standing members
MARIA GABRIELLA ATTARDI
PAOLO MARIANI

Alternate members
ENRICO CASANOVA
ALDO PARODI

(For the three-year period 2002-2004)

GIORGIO CUMIN
Chairman

Standing members
MARIA GABRIELLA ATTARDI
GIORGIO CAMBONI

Alternate members
ENRICO CASANOVA
ALDO PARODI

INDEPENDENT AUDIT FIRM

(For the three-year period 2003-2005)
DELOITTE & TOUCHE SpA

DIRECTOR'S REPORT

Dear Shareholders

Ansaldo Energia ended the year 2004 with a net profit of Euro 6.5 million, an increase compared to the previous year, despite the ever increasingly competitive and difficult market and provisions for extraordinary charges for layoffs and risks relating to closures in previous years.

Also noticeable was the operating income of Euro 29 million, better than budget, that resulted in a ROS of 4.1% despite the presence of a significant increase in development costs from the technological plan and more contained production volumes compared to previous years, as a consequence of delays on some important acquisitions at the end of the year.

The most encouraging result, in light of future developments, was obtained in terms of acquisitions of new orders worth Euro 937 million, including two important ones, for the construction of an 800 MW combined cycle plant at Sparanise in Campania and the conversion of the Vado plant in the province of Savona to natural gas fired combined cycle, including scheduled maintenance for 12 years.

For the fifth consecutive year, the financial position at the end of the year was positive (Euro 80 million), which in addition to the operating income, resulted in an Economic Value Added of Euro 24 million.

The positive financial position, which was maintained for the entire period, confirms the importance placed by the company, not only in maintaining profitability, but also cash flow, through careful management of contracts and optimisation of working capital, without straining its relationship with suppliers, that has significantly improved thanks to payment conditions in line with the market.

Furthermore, during 2004 an important company reorganisation was completed that resulted in the promotion of a young generation of managers and qualified resources from within Ansaldo Energia with international experience and skills.

The reorganisation, centralizes all of the production and management activities for plants, equipment and service areas under the Director General, thus harnessing new synergies and optimisations, coupled with those of previous years, would make Ansaldo Energia more competitive and ready to face a continuously challenging energy market.

In this respect, it is worth noting on one hand, the positive year-end development in the authorisation process for the new Italian plants and on the other hand the increase in competition and pressure on pricing. In fact the slowdown of the demand in the American market has resulted in a concentration of the major competitors in Italy and in the markets where Ansaldo

Energia has been traditionally strong.

The continual depreciation of the US dollar has also favoured Dollar-area-based producers and contributed to create significant pressure on pricing.

In this difficult context Ansaldo Energia was able, although with some compromises in terms of profitability, to secure the important acquisitions mentioned above and is expected, thanks to agreements already signed, to achieve further significant results in 2005.

In addition, to confront the difficulties in both the domestic and international markets, management is currently studying, and has in part already undertaken, important projects with the aim of reducing internal and external costs and rendering the company more competitive for the future.

In this respect, an important and innovative agreement was signed with the trade unions at the end of the year, which concluded after a short negotiation period and without any protest.

The agreement introduces important innovative elements in relation to productivity, as it includes a premium based on the company performance and reduction of operating costs.

The full satisfaction of the Company and of the Trade Unions is the most important testimony of the current constructive and intelligent relationship while also respecting the reciprocal roles.

The service segment, thanks to the contribution of the scheduled maintenance contracts acquired together with the plants, recorded a backlog significantly better than the previous year and it is confirmed as highly strategic for Ansaldo Energia, which has invested and will continue to invest more in the future on the growth of this business.

The area in which Ansaldo Energia is today most involved, is in the technology development field, as a consequence of the proximity of the expiration of the Siemens' licence.

The autonomy plan, approved in 2003, and successfully started in 2004, has required and will require significant efforts in terms of both qualified resources and financial requirements, in line with the company plans for the coming years.

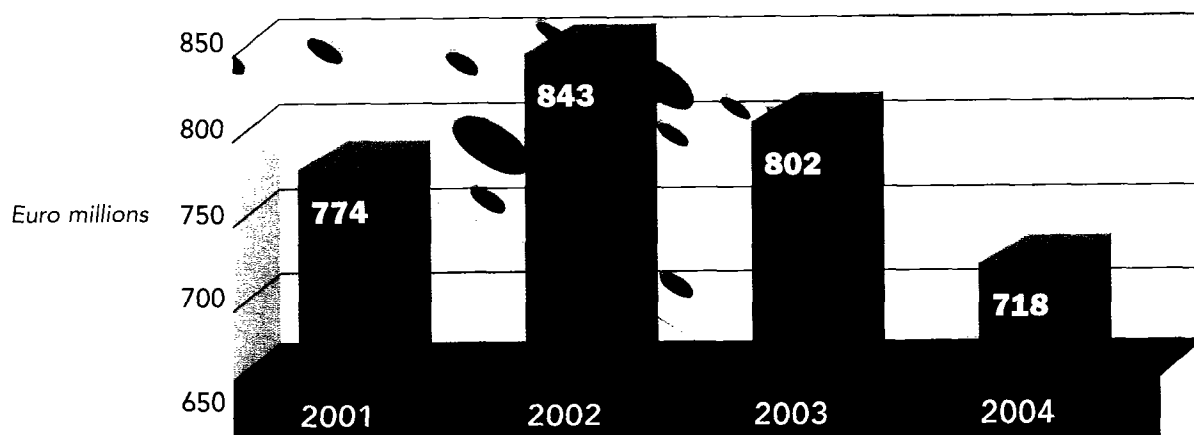
An ambitious objective of the plan is the achievement of a complete autonomy in the manufacturing of its products, and improvements in performance, reliability and environmental impact.

Now, it is possible to forecast 2005 as another positive year in terms of results and cash flow and, thanks to last 2004 quarter acquisitions, it is estimated that the manufacturing capacity in all sectors will be saturated for the entire year.

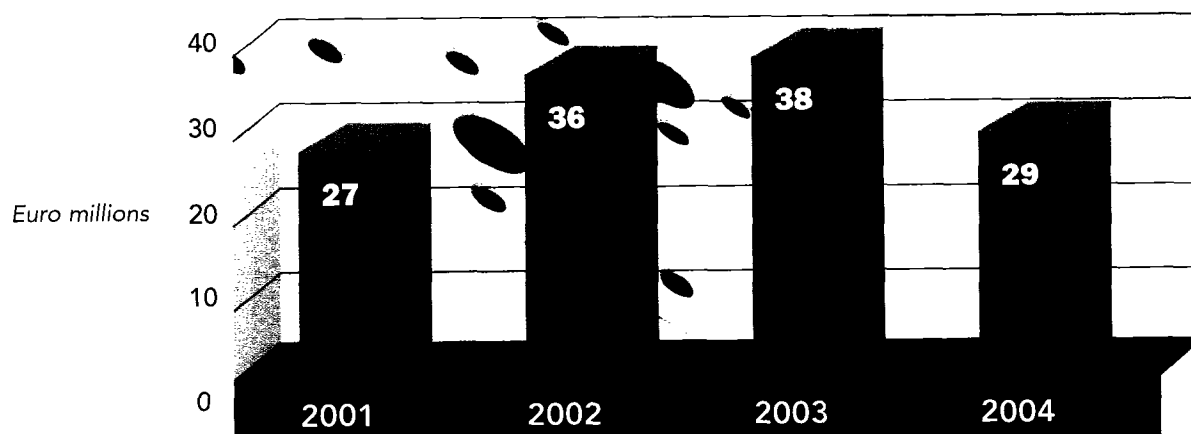
Here below is a summary of the most significant data for the past three years, in Euro/millions:

RESULTS OF ANSALDO ENERGIA

REVENUES



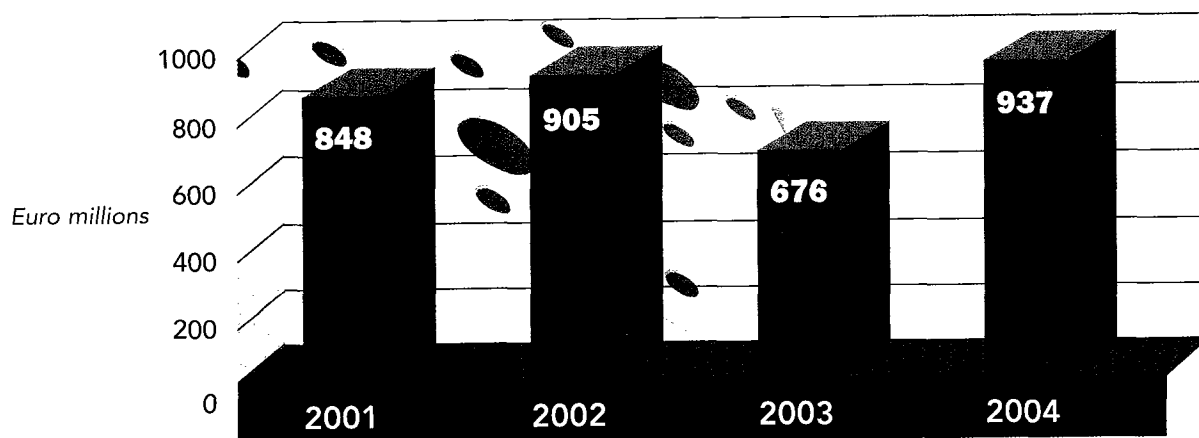
OPERATING INCOME



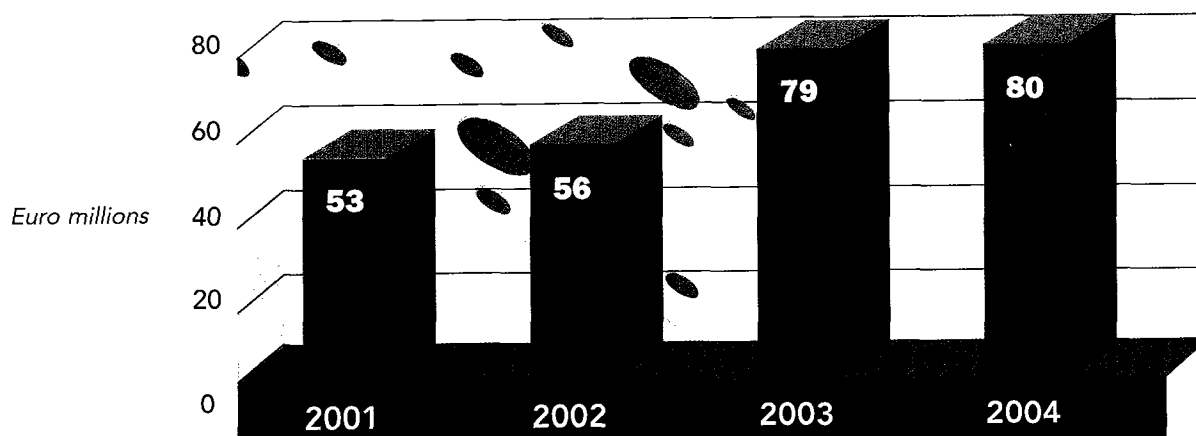
NET INCOME



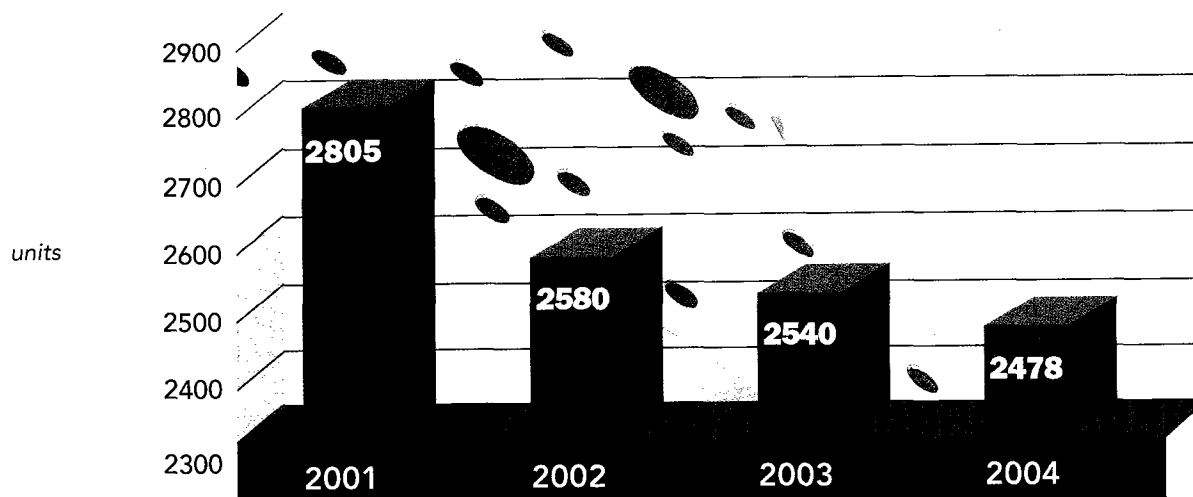
ORDERS ACQUIRED



NET FINANCIAL POSITION



EMPLOYEES



COMMERCIAL ACTIVITY ANALYSIS

In 2004, Ansaldo Energia secured orders amounting to Euro 936.6 million.

New orders by supply and geographical area:

New orders by supply (Euro/millions)	2004	%	2003	%
Plant and equipment	534,1	57	519,2	77
Service	373,0	40	115,8	17
Nuclear Division	29,5	3	41,0	6
Total	936,6		676,0	

New orders by geographical area (Euro/millions)	2004	%	2003	%
Italy	845,2	90	142,5	21
International	91,4	10	533,5	79
Total	936,6		676,0	

In terms of product type the acquisitions are as follows:

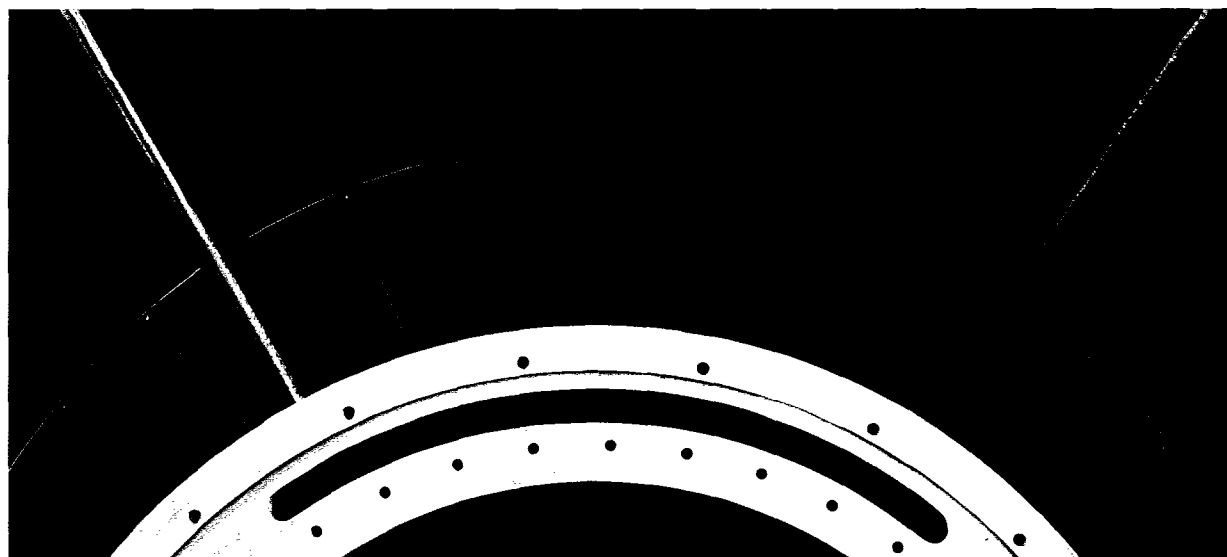
Product	2004	2003
Gas turbines	4	6
Steam turbines	4	0
Generators	7	6
Total	15	12

In comparison to the previous year the increase in orders, equals to approximately Euro 260 million, and is principally attributable to the Service sector. It should be noted that the orders for Plant and equipment in the year, were quantitatively in line with 2003, but have a qualitative composition decisively better compared to the previous year in terms of products, as it is clearly illustrated in the above table, as it permitted the sale of Service contracts associated to new plants for approximately Euro 265 million.

There are some difficulties with clients, in regards to the possible future shareholding structure of Ansaldo Energia SpA.

Plant and equipment

During 2004, Ansaldo Energia continued its strong presence in the domestic market, both as an essential reference for the commercial strategy of the Company and also due to the fact that the Italian market remains one of the most interesting in Europe for suppliers of plant and equipment for the production of energy. The principal reason for the interest in the domestic market is the well known fact that the price of electricity in Italy



is the most expensive in the European Community, principally due to the combination of the wide use of fossil fuel and plants with relatively low energy efficiency. Therefore, there exists a need for the revamping of these plants, in order to render them more competitive, which would result in a higher potential demand for plant and equipment in Europe.

To this potential, however, there is the constant difficulty in passing to the construction stage due to multiple factors that render the authorisation process difficult and temporarily uncertain.

In this difficult context however, it should be noted that from 2002 to January 2005 requests were presented for the authorisation of a total 58,000 MW of new plants and re-powering of existing plants, of which approximately 20,000 MW have already obtained authorisation.

With regards to plants already authorised, orders have been awarded for approximately 10,700 MW of which 6,200 MW went to Ansaldo Energia.

In line with company strategy of risk containment and profit optimisation the main actions undertaken in the international market were:

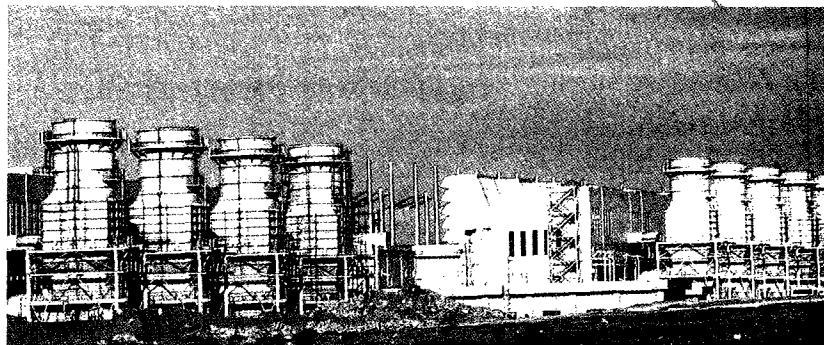
- commercial actions towards main contractors in their reference market to position our company as supplier of gas and steam turbosets;
- continuation of the activity in IRAN where the consolidated presence of Ansaldo Energia as supplier of plant and equipment, while employing the necessary caution given the current political situation of the country, could give rise to further contracts in the country and to the agreement of commercial collaboration contracts with Iranian operators for activities in neighbouring countries;
- marketing actions in Eastern European countries to examine the real potential of these markets.

Main Awards

- An EPC Contract for 800 MW combined cycle consisting of 2 blocks of 400 MW each, acquired from

Calenia Energia (project company controlled by EGL and Hera) for the plant at Sparanise (CE).

- An EPC contract for the conversion to combined cycle of an 800 MW of 2 units of the Vado Ligure (SV) plant acquired from Tirreno Power.
- On-site supply of steam turbosets of 150 MW for the ENEL plant at Santa Barbara.



Service

Italy

In 2004, the Italian market was characterised by a high level of competition that resulted in tremendous pressure on pricing, notwithstanding this difficult context, Ansaldo Energia recorded important results for the year as follows:

- the long-term service and maintenance contract (LTSA), strictly related to the acquisition of plants, for the V94.3A2 gas turbines of the combined cycles at Sparanise and at Vado Ligure;
- master agreement with Enel for the supply of spare parts and the maintenance relating to 12;
- V94.3A2 gas turbines of which 2 were constructed by Ansaldo and 10 by Siemens.

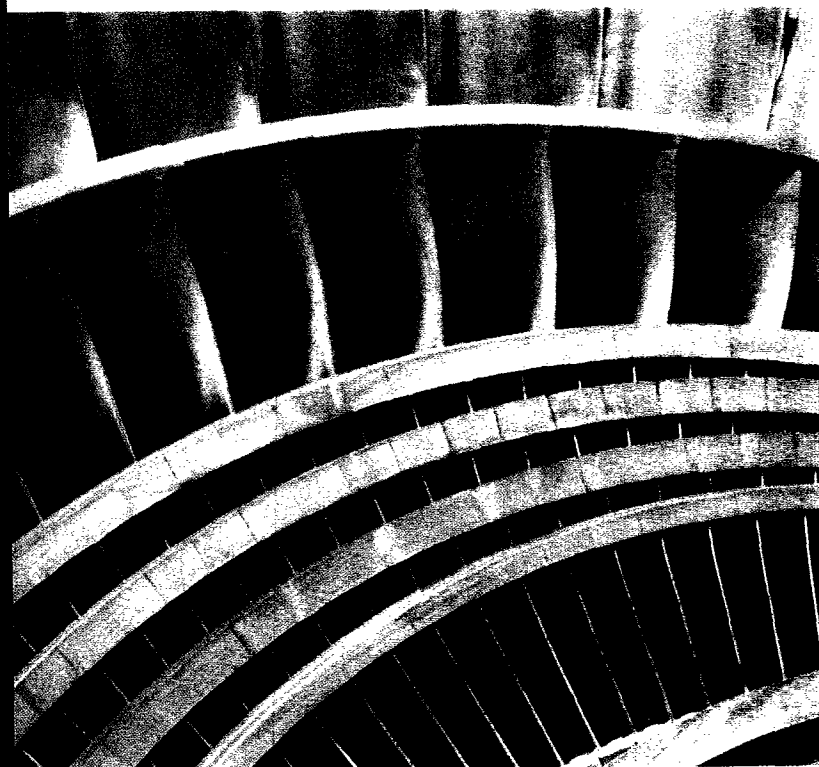
Important contracts were also secured for ongoing maintenance, spare parts and technical assistance for the main Italian producers of electricity.

Among the main contracts acquired were:

- Enel Green Power – Supply of n. 1 of spare rotor for

the 60 MW *steam turbine* plant at Larderello

- Enel Power - General overhaul of 320 MW *steam turbine*
- General review of generator and overhaul of auxiliary machinery for the Plant at Torrevaldaliga Sud



- Enel Production - Supply of n. 1 spare rotor for AMP *steam turbine* plant at La Casella
- Enipower - 60 MW Ravenna plant general overhaul *steam turbine*
- Rosen - Overhaul on the 150 MW V94.2 *gas turbine* at the Rosignano plant
- Centro Energia Ferrara - Centro Energia Teverola - Maintenance and supply of spare parts on the 60 MW V64.3 *turbogas*
- Enel Production - HGPI and supply of full *turbogas* compressor blades set on V94.3A for the La Casella plant
- Enel Production - General review and 70 MW *steam turbine* overhaul and Mercure plant generator.

International

2004 was characterised by two main factors: a Euro/dollar exchange rate that penalized the European currency and increased competition in the Service area from both the so-called "original equipment manufacturer" and specialised companies in this sector. Against these critical factors Ansaldo Energia reacted with a policy of greater loyalty to existing clients while attempting to technically characterise its own offer in a better manner. The result was an increase in orders compared to the previous year.

Following are countries in which significant commercial actions were undertaken:

- Saudi Arabia where the historical presence on the western coast was maintained - the plant at Al Jobail, and consolidation on the eastern coast, - the plant of Yanbu and Jeddah, including interventions on the fleet of third parties.
- Iran where the sale of spare parts continues thanks to the affirmed quality of our supplies and despite the presence of stiff competition from second tier operators.
- Dubai, the client DEWA awarded to Ansaldo Energia important orders of strategic spare parts for *turbogas*, that will be used on our local fleet and on that of Siemens, and for modifications to *steam turbines*.
- India orders were lower than expectations, but strategic alliances were consolidated with local primary operators, participating at tenders for the rehabilitation of plants with non Ansaldo *steam turbines*.
- In Pakistan, the maintenance activity continued on the Hub River plant, both for scheduled maintenance and for a generator emergency which concluded with the full satisfaction of the client. The promotional actions undertaken and the results accomplished on the field during 2004 will permit a consolidated presence of the Company in Pakistan for 2005.
- In Egypt the first order for spare parts was secured, after many years of commercial efforts, and a similar result is expected in 2005.

- Europe and South America recorded interesting orders in terms of volumes but also permitted the establishment of interesting contacts with new clients.

Nuclear Division

The commercial performance of the Nuclear Division was substantially in line with expectations, at around Euro 29.5 million. The percentage of orders in international market increased further by 94%, principally due to the general slowdown of the decommissioning activity in Italy.

Analysing the three segments of activities, the following can be noted:

New Plants

The activities continued for the completion of the 2nd Unit at Cernavoda, that resulted in total new orders of Euro 24.8 million, largely related to the quota of services for reimbursement contained in the original contract, but also significant new supplies (approximately Euro 7 million).

However the acquisitions planned from ENEA for the development of the ADS project were delayed.

Waste Treatment / Decommissioning

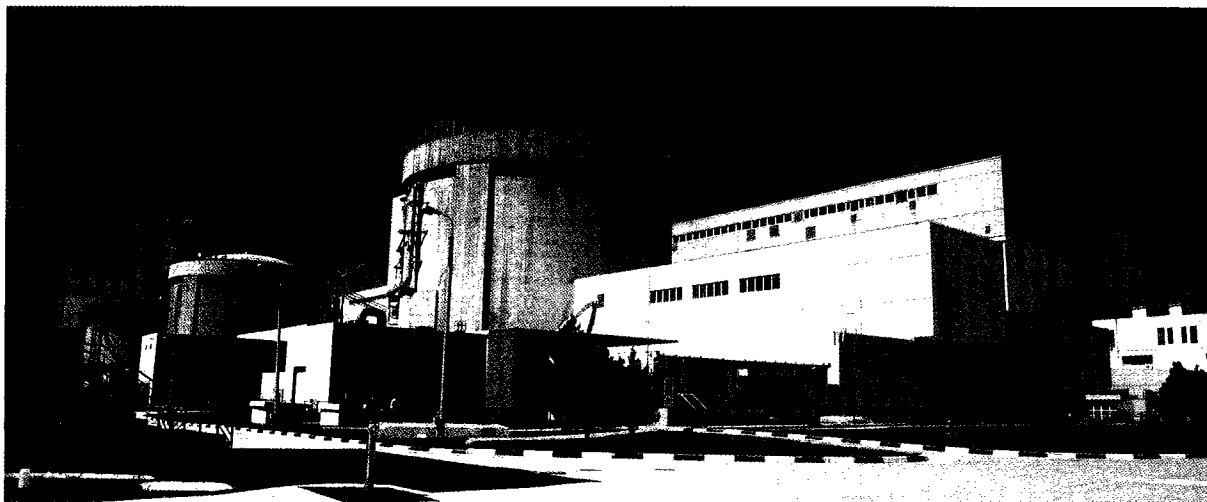
The activities for the decommissioning of the SOGIN plants saw further delays, largely attributable to the Client continued delays in the processing of authorisation. This resulted in a much lower income than expected at approximately Euro 2 million.

The transfer of responsibility from ENEA to SOGIN for the dismantling of the fuel cycle plants resulted in a revision of the technical options used for the solidification of the liquid waste of the CORA plant at Saluggia: as a consequence the order of the consortium AEN-SGN-Nucleco for the construction of the EUREX vitrification plant was cancelled.

At the end of the year, together with ANSALDO Camozzi and Cogema, an order was acquired from SOGIN for a first tranche of storage containers for low activity waste.

Service

The volumes acquired in the Service segment (Euro 6.2 million) are in line with previous years: the slowdown of EBRD tenders in course (Lithuania, Ukraine) did not permit the increase in volumes in 2004 as anticipated; however, the objective is confirmed for next year. A good result was achieved in Service for the Superphoenix plant, while the Service for the Cernavoda 1 plant recorded a result in line with expectations.



CORPORATE EVENTS AND ORGANISATIONAL STRUCTURE

In relation to the corporate structure of the group, there were no important changes in 2004, while there was a significant structural reorganisation in the second half of the year.



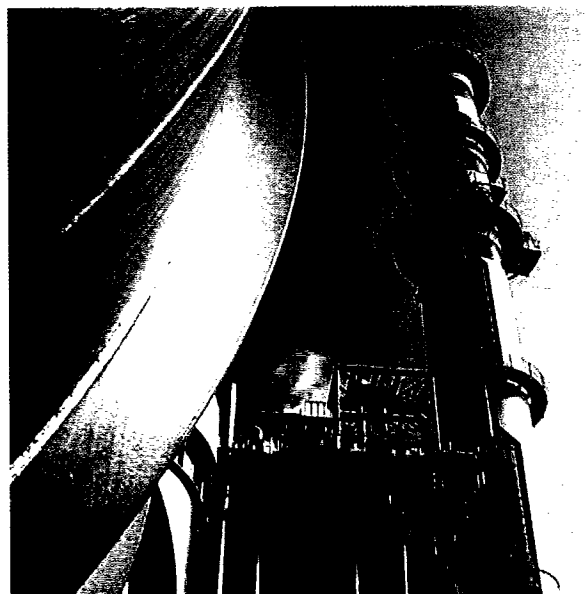
company, similarly there was a prevalent renewal of other managers (Operations, Purchasing, Cost Control, Risk Management) with younger but internal resources, and with the exception of only one external individual in the Service Unit that was recruited from a competitor. The new structure also takes into "account" the increased importance of product automation, separating it from plant engineering, and consolidating the technical development of the lines through the creation of ad hoc centres of excellence. On the other hand, the external site activities were integrated with equipment and plants start-up in order to achieve greater operational management integration.

During the year the company, in compliance with the provisions of Legislative Decree 196/2003, elaborated an "Electronic document on security" and adopted all of the measures appropriate to guarantee its functioning, in the event of loss or damage the data can be accessed in times certain and in any case in a period no greater than seven days.

With regards to the management of the company, responsibilities were separated through the creation of a General Director post which oversees all of the operating activities. The functions that continue to report directly to the Managing Director are those dealing with business strategy, commercial activities, and general staff (internal control, finance, legal, human resources and organisation), while the functions reporting to the General Director are related to the project management, manufacturing and customer support.

All of the above have the objective of obtaining a greater and more efficient operation management system that is more responsive to the demands of the ever changing power generation market.

The General Director was appointed from within the



MANUFACTURING ACTIVITY PERFORMANCE

Manufacturing

During 2004 the evolving restructuring that commenced in previous years was completed with a radical reorganisation of all of the company structure.

Production was organised by product lines and this reorganisation permitted the completion of a process of generational change in the roles of greatest responsibility that was completed after a transition period with experienced personnel.

The product lines identified are:

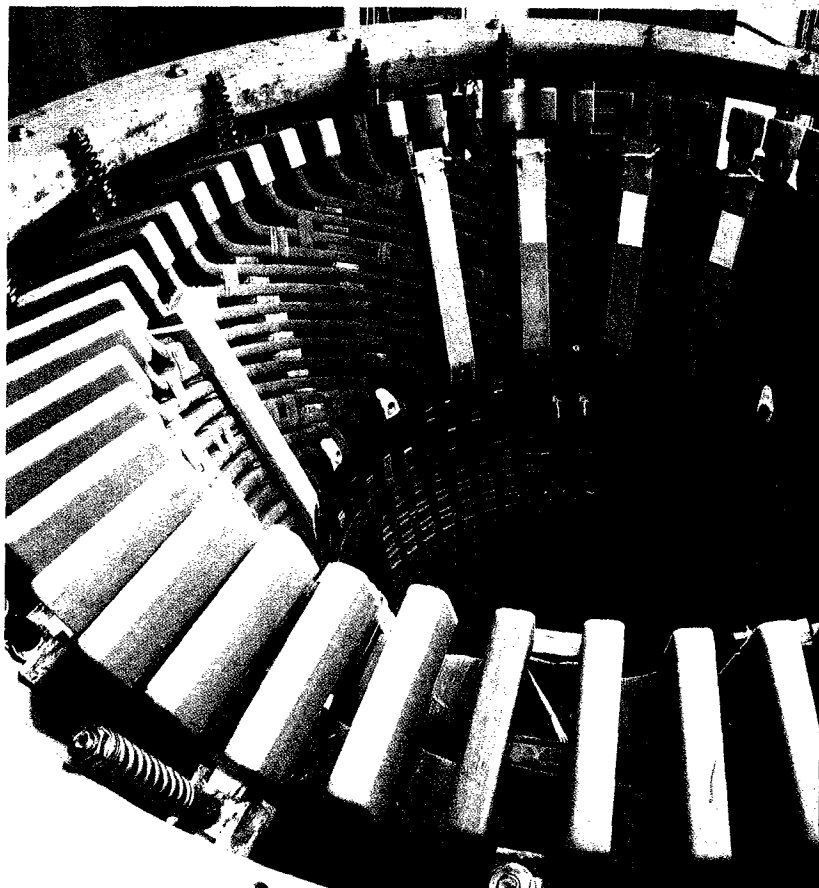
- generator line
- gas and steam turbine line
- gas and steam turbine blading line

In order to permit the maximum visibility of the production process, the logistics and manufacturing engineering were integrated into the production lines.

The turnover created by the departures due to asbestos and the consequent generational change allowed for the introduction in the production cycle of young workers who had completed the necessary training and were totally integrated into the production.

The investment plan of the past few years has begun to reap the expected benefits contributing to the improvement in the manufacturing processes, in terms of reduced manufacturing times and creating more flexibility in the production system.

Important attention was given to the quality of the product and in this regard, the activities with the highest technological content were concentrated within the factory at Genoa, thanks to the investment plan in new machine tools and the modernisation of existing ones.



The conclusion and the consolidation of the standardisation process has allowed for the launch of a cost reduction program in 2005 on all products and the results of which are expected in part in 2005 and in part in 2006.

During the year 2004 a total of 30 complete machines were delivered as follows:

- 9 V94.2 gas turbines
- 4 V94.3A2 gas turbines
- 11 generators
- 6 steam turbines

in addition to spare parts for service activities and revamping of plants.



Site works and start-up

In 2004 the following projects were completed and started-up:

- 8 gas and steam turbosets
- 6 gas turbosets
- 4 steam turbosets

for a total of 4890 MW; among these are the plant at ENIPOWER (Ferrera Erbognone, Ravenna, Mantova, Brindisi) and TRACTEBEL (Voghera).

It is worth emphasis that all delivery times for the various plants were respected and in some cases completed ahead of schedule.

Engineering

On the occasion of the organisational changes in 2004, a technical structure was implemented that, alongside the various company products engineering : *gas turbine, steam turbine, generator, automation, plant and*

customer support, that allows for the introduction of Centres of Excellence for disciplines that crossed all product lines.

In this manner all of the expertise within the company is concentrated in a way as to allow for a critical mass to undertake activities from current products development and from field support.

The Centres of Excellence are:

- materials (including laboratories)
- fluid mechanics
- heat transfer
- combustion
- mechanical integrity

Thanks to this new structure numerous collaborations were launched in 2004 with Italian universities (Genoa, Florence, Bari, etc.), with Italian and international primary research centres (CSM, CESI, Ansaldo Ricerche, Von Karman Inst., etc.) and with engineering companies.

One of the results of this endeavour is the number of technical patents (13) registered in the year, bringing the total to 44 Ansaldo patents in three (3) years.

During 2004 the so-called technological autonomy plan was launched for all the products with particular focus on equipment (*steam turbines, gas turbines and generators*). In order to start the development activities with an adequate mix of resources, the first action was to place in the technical structure around 20 engineers and technicians all of them with experience and university degrees.

Service

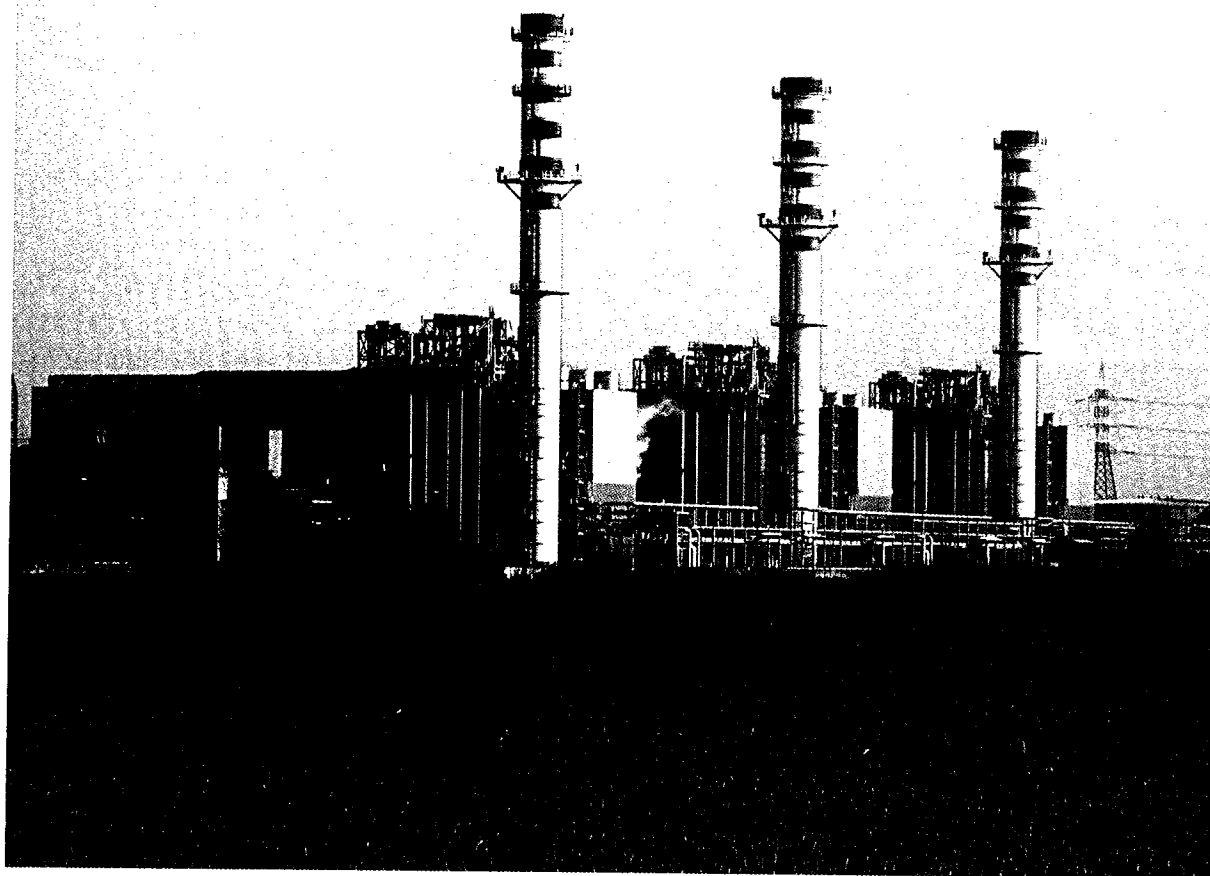
For the Service activities, 2004 can be considered the year of consolidation of some important initiatives that commenced in previous years in order to improve the overall competitiveness of this sector.

In relation to resources, the generational change was managed with the placement of the younger personnel with more experienced ones, in order to achieve a better training process through transfer of know-how and providing continuity to the relationship with the client.

Greater emphasis was given to the management of strategic spare parts (blades) in order to reduce to the minimum possible, the working capital employed and thus optimising the return for clients. These projects will also see the involvement of Ansaldo Energia in the coming years when the programmed maintenance contracts for the turbogas will become fully operational.

Regarding the results for the year, it should be noted that for the first year the manufacturing for scheduled maintenance was greater than for the current service. This phenomenon will be consolidated in the future, due to the nature of the scheduled maintenance contracts associated with the turbogas orders, whose effects on manufacturing are seen some years after the acquisition of the contract. The main contracts in the year were as follows:

- Enipower 10 turbines V94.3A2 for four sites (Mantova, Ferrera, Ravenna, Brindisi)
- Tractebel 1 turbine V94.3A2 for Voghera project.



Contract Management

During 2004 contract management rendered important results both in economical and financial terms.

In particular it should be noted that all of the main contractual milestones for the year were met thus avoiding any disputes and achieving budgeted cash flows.

The principal projects that the company worked on in the year were: Iranian orders, that reached important acceptance milestones on the units completed at Kerman, Kazeroun and Damavand; Enipower contract, that obtained the acceptance certificate (PAC) of 4 power blocks at Ferrera and Ravenna, some ahead of schedule; Tractebel Voghera contract, where the provisional acceptance certificate is expected in early 2005.

The activity also continued with regards to the resolution of critical matters on some important international projects; among the positive progress is the Final Taking Over of Neyveli and the return of significant contractual guarantees.

In addition to specific projects coordinated by the Corporate, new progress monitoring control techniques were implemented with regards to "life-cycle management" and contract risks, in order to provide management of the company with more timely information.

Nuclear Division

The year 2004 recorded the consolidation of production levels reached in previous years despite the slowdown of the activity relating to decommissioning.

New Plants

The main activity related to the completion of the supply to Cernavoda 2, that resulted in a significant re-

qualification of the Italian sub suppliers in order to respect the nuclear quality standards. The staff at the site progressively increased to over 80 expatriates, that will be maintained during the entire year 2005, a critical year for the assembly activity.

Waste Treatment / Decommissioning

The activities continued for the construction of the New Waste Liquid Storage Tanks at the Saluggia Centre: the new security requirements of the installation imposed by the Client have given rise to a significant change in the contract.

The other activities in Italy on behalf of SOGIN have seen a general slowdown, due to the slowness in the authorisation process, or modifications in the technical choice by the Buyer. In October, in order to create an industrial player with high capacity on the entire range of decommissioning activity, a Consortium was created between Ansaldo Energia, Ansaldo Camozzi and Techint, called Consortium ACTEC, that intends to propose itself to SOGIN as a contractor responsible for the decommissioning of single sites, and not just as supplier of components and/or services.

Service

Among the most important objectives achieved during the year were:

- a. Analysis of structural integrity of the primary tubes of the plant at Medzamor in Armenia, with application of the Leak-before-Break methodology;
- b. Intervention on the system of refrigeration components at Cernavoda 1, with elimination of the draught and balancing problems.

The activities continued for the construction of the Assembly System at Chernobyl 1, which is expected to be completed by the beginning of 2006.

HUMAN RESOURCES

Industrial relations

In 2004 the trade union agreement signed in 2001 expired and therefore the past year was characterised by contract renewal negotiations.

The year 2004 was also the year in which the management of the excess labour force was completed as a result of the sale of the activities at the Legnano site and the parallel transfer of 70 resources to the new offices at Milan in Via Lomazzo.

The structural excess resources were managed utilising instruments such as pensions and transfers to other operators that resulted in the completion of the project by the end of 2004.

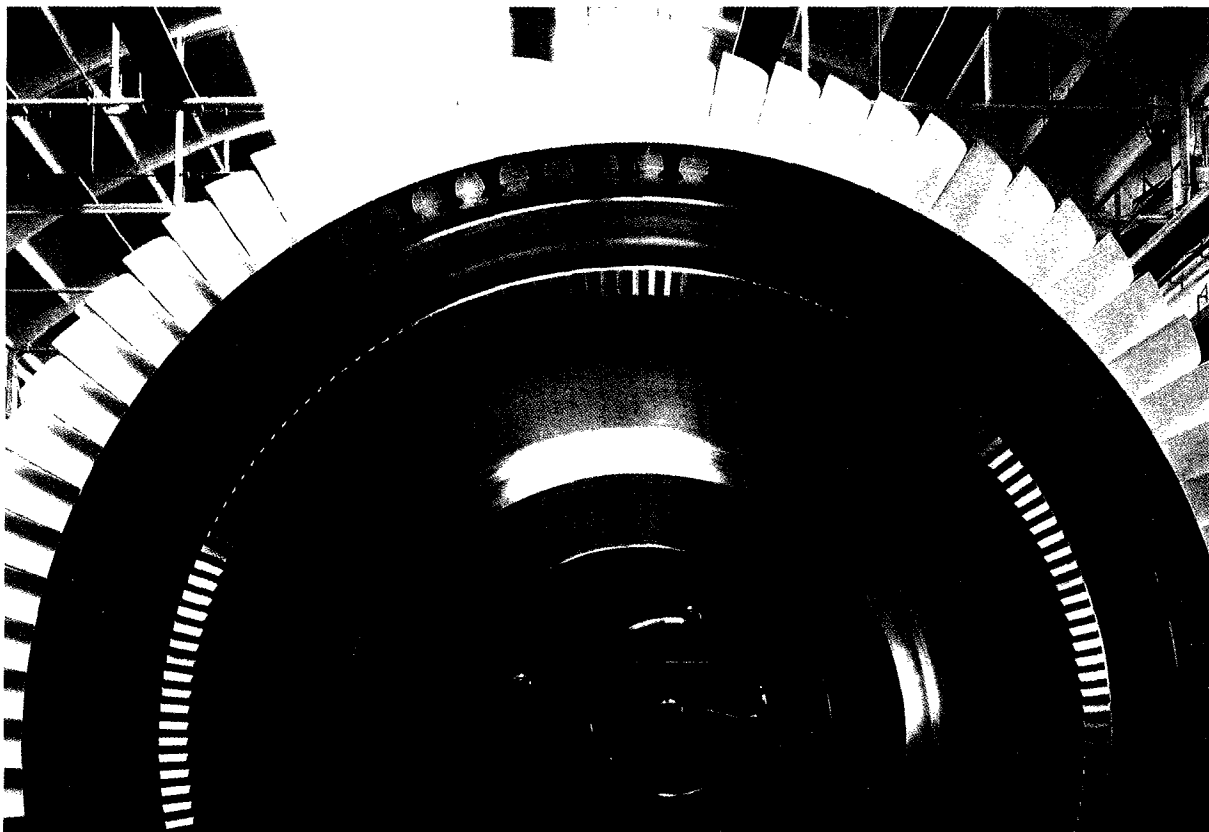
With regard to the Genoa area, at the beginning of

October the Trade Union presented its conditions for the contract that would expire on December 31, 2004.

In addition to aspects of industrial policy (investments) and legislative (training, environment and security, type of contract), the trade union addressed the requests for increases of an economic nature based on three areas:

- Increase of the value of the Result on Premium (PdR)
- Transformation into retribution "fixed" of a "significant quota" of the PdR "matured" up to 2004
- Increase of the amounts for the treatment of transfers.

Although within a more complex market than previous years, Ansaldo Energia decided not to concede to the requests of the trade unions but to verify if the trade



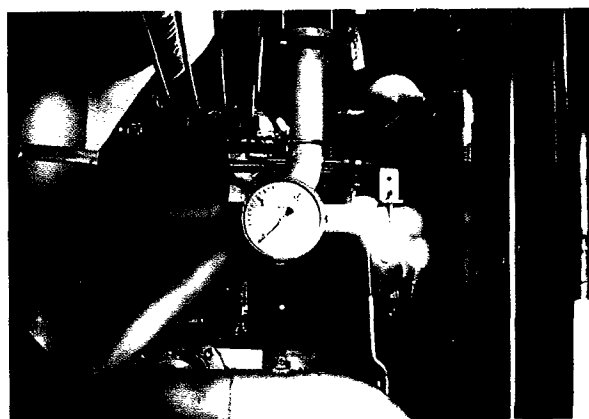
unions would close the negotiations with an exchange that permitted the strengthening of the Company through the identification of instruments that would favour an increase in productivity and the containment of structural, external and labour costs.

The main negotiations took place at the beginning of December and were concentrated substantially on the redefinition of the Premium result in accordance with the lines proposed by the company.

In addition to the two indices related to the results of the company (EVA) and to the production performances, a new "operational" index was introduced for company projects containing operating costs (5% in 2005).

The issue of the "consolidation" of a part of the PdR – in principle not negotiable – was not avoided, but confronted and resolved – in compliance with all current obligations – with an original solution, with regard to content and method of payment, that recognises a quota of the PdR on a monthly basis against achieving and maintaining of specific production objectives (in the manufacturing areas) and containment of labour costs (in other areas).

However, the company did not accept the review of the regulations for transfers.



Overall the negotiations took place over a period of 20 days, without resorting to any strike action. The trade unions (Fim / Fiom / Uilm) continued to maintain a united position and in a climate of close cooperation towards the needs of the company.

In this very positive climate, the problems related to the recognition of pension benefits from asbestos was also addressed in the year without particular strains.

As proof of the intelligent relationship between the trade unions and the company in their respective roles, is the number of lost hours in the year due to strike actions (less than 15,000) and almost exclusively due to national issues, a decrease in comparison to the previous year.

Personnel

During the year 2004, there was a slight decrease in the number of personnel from 2,540 at the end of 2003 to 2,478 on December 31, 2004. Actually, the year 2004 was also a year that, in line with the previous three-year period (2001-2003), was characterised by a clear focus of the company on the turnover of the personnel with the placement of top professionals. Overall, in recent years, approximately 500 new resources have joined the company, of which approximately one hundred hold university degrees.

PERSONNEL	31/12/2004	31/12/2003
Senior Managers	104	104
Managers	226	245
White-collar	1122	1142
Blue-collar direct	692	728
Blue-collar indirect	212	214
Overseas employees	122	107
Total	2478	2540

The changes in hiring and terminations are shown below.

Terminations	
termination contracts for indefinite period	189
termination contracts for definite periods	64
termination contracts for definite periods overseas	49

One of the reasons for termination continues to be, albeit at a reduced rate, is the legislation related to "asbestos" pension rights.

New recruits	
indefinite period contracts	63
adefinite period contracts:	
• training contracts	41
• Law 398 (external contractors)	11
• contracts for definite periods	38
• contracts for definite periods overseas	64
transfer from group companies	1

To the new recruits mentioned above, another 22 reinsertions should be added following the Court sentence, relating to personnel transferred to the consortium Manital in 1997.

Indefinite or with "training contracts" amounted to 104 resources - of which 48 are white-collar and 55 blue-collar. With reference to the level of education, 38 white-collar workers have university degrees and the remaining 10

have diplomas; among the blue-collar workers half of these have diplomas.

Training

In 2004, there were 40,308 man-hours of training, an increase of more than 15 % compared to previous year of which approximately 62% was the contribution from FSE. The total number of resources involved in the training initiatives amounted to 758.

In relation to the training for the insertion of young employees, 2 initiatives commenced for first-time employees by professional area (Technicians for Field and Service).

Both of these activities obtained excellent results and were co-financed through FSE.



QUALITY

With the objective of correctly implementing the Company Management System (Quality-Environment-Security), during 2004 supervision activities were carried out in all areas, both at offices and on site. This action was also extended outside the company to include performance measurements for suppliers whose orders closed in the year.

In summary, the objective of this extended supervision action was easily obtained by meeting the verifications conducted by the Certification Organisations for the supervision/renewal of the certifications:

UNI EN ISO 14001 (Environment – offices and sites);
UNI EN ISO 9001 edition 2000 (Quality – offices and site);
UNI EN ISO 729-2 (Welding – offices).

For the first year the ISO 9001-2000 norms were applied that particularly emphasised the attention to company processes that were identified and monitored through indicators, defining improvement actions, where necessary.

The main Clients were consulted, in a spirit of "Customer Satisfaction", through questionnaires obtaining interesting feedback that will support the actions for improvement.

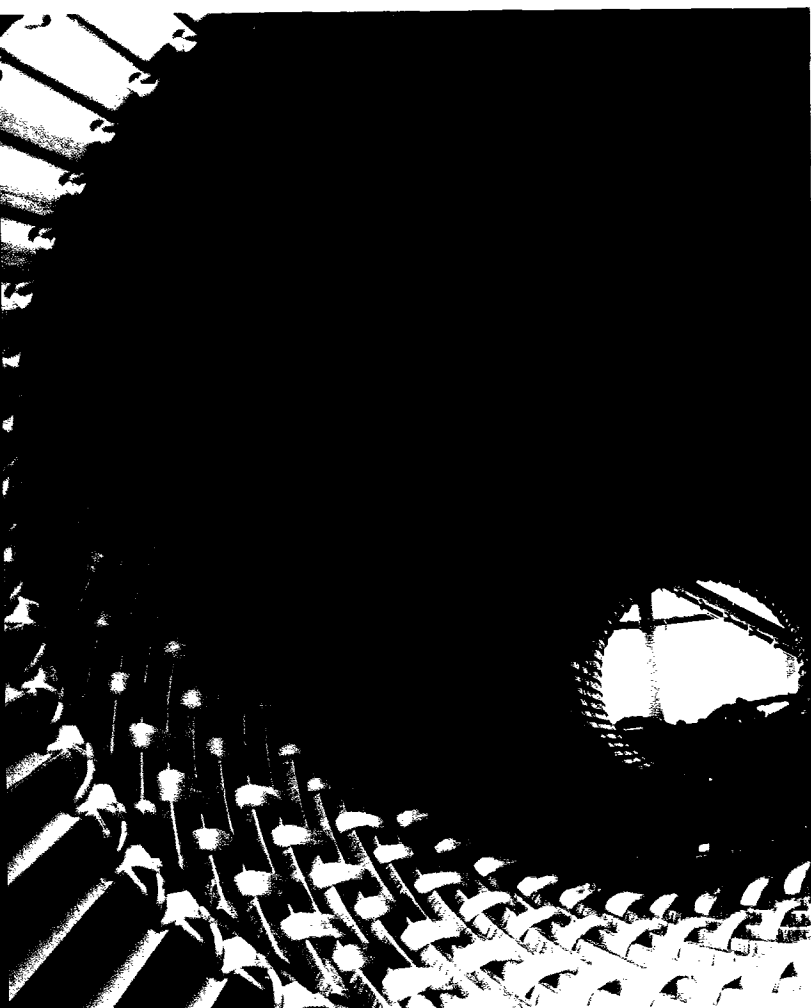
In addition the activities have continued for System support (Quality, Environment and Security) and for the process of "Offer, Acquisition Order, Contract Management".

Against the organisational changes in the second half of 2004 the tasks and the responsibilities of the "Quality" were defined with particular attention towards the prevention and recording of the "non" quality.

This new structure was discussed with the Company Departments and appropriately communicated.

During the year the commitment was re-emphasised:

- to satisfy the requirements of the clients in terms of quality and reliability of the products in full respect of technical specifications, legislation, environment and security;
- to involve company personnel, encouraging a sense of responsibility and constructive dialogue in relation to environment, quality and security;
- to contemplate the periodic re-examination of the Company Management System in order to assure its efficiency and effectiveness;
- to maintain the objective of continuous improvement.

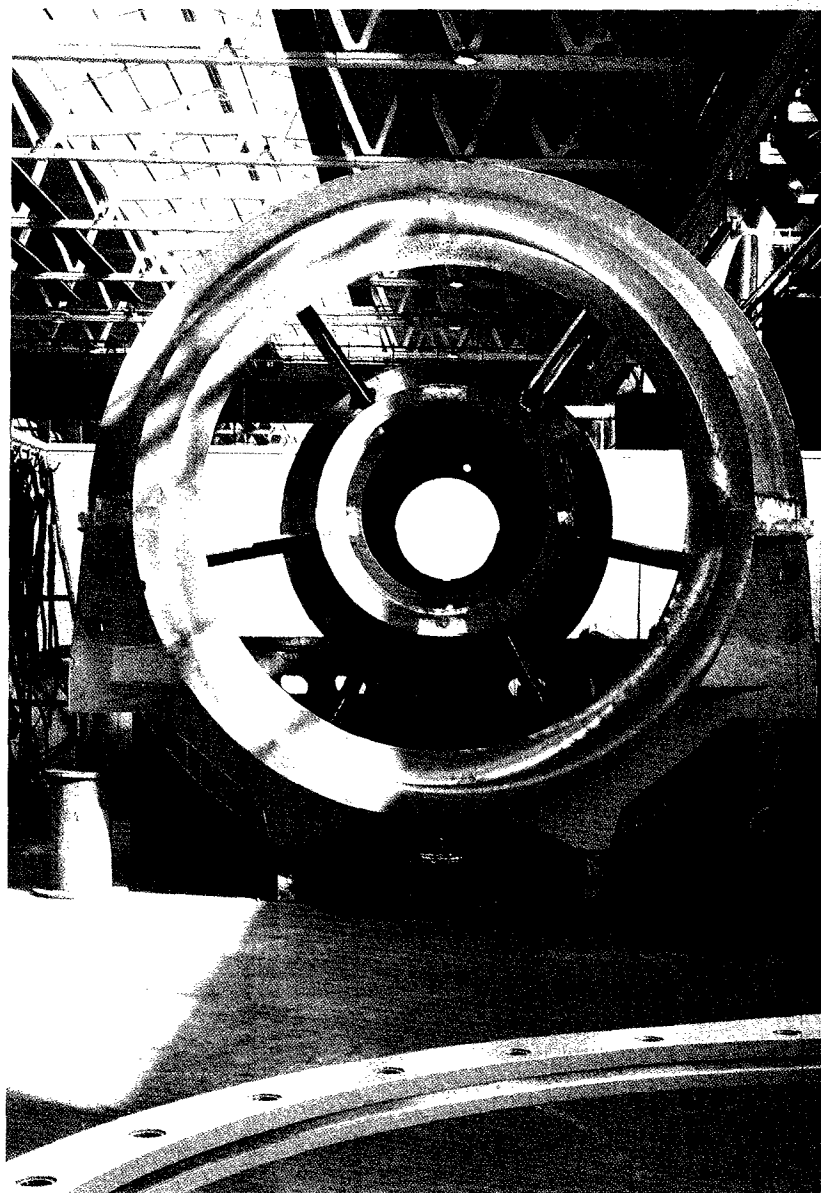


INVESTMENTS

The investments in tangible fixed assets, during 2004, principally were related to the technological improvements of the machine tools for the machining of the blades for turbogas and steam turbines. At the same time, the maintenance programme and technological improvement of production plants continued, what had began in previous years, to allow a constant improvement of quality and production efficiency.

In particular the following initiatives are noted:

- The commencement of an improvement project of the manufacturing capacity for the steam turbines blades and the gas turbines compressor blades, with the objective to re-balance the mix between blades processed by third parties and blades processed internally, with interventions directed towards the processes that produce the greatest value, with consequent increase in company margins.
- Interventions aimed at the maintaining of the factory manufacturing capacity, with the objective to guarantee quality, level of efficiency and availability of the potential production installed in the Genoa - Campi factory; simultaneous to these objectives, in particular it is noted the extraordinary maintenance of large plant and machinery on the vertical boring machine towers and adjustments. We also note the acquisition of a new numerically controlled tapping machine for the isolation of the stator-blades on the electric generators, that will allow a significant improvement in the qualitative parameters, reduce waste and lower manufacturing times.
- The adjustment of the equipment for Service and the plant commissioning, in order to guarantee the efficiency of the revision of the installed machinery and acquire new diagnostic capacity on-site and at head office to guarantee an efficient and immediate intervention service.



It is also noted, in relation to the interventions on the buildings in the Campi area, the important improvements to a factory for the better housing of technicians and logistics in the factory area.

RESEARCH, DEVELOPMENT, TECHNICAL INNOVATION AND LICENCING

The year 2004 saw the commencement and full operation of the Extraordinary Plan that has as its objective of reaching full technological autonomy of the Company. This Plan is in fact centred on the products that are still or have recently been subject to licences from third parties.

agreements, in large part already established, with external research Bodies and Universities.

As far as the details of the single product, the activities carried out were as follows:

Gas turbines

This is the product line on which the largest part of the resources for the Development Plan were concentrated.

The main activities were:


- The qualification of suppliers and relative manufacturing processes of highly technological machine parts (such as precision casting of blades), in order to create an autonomous supply chain.
- The development of the project, the production of the prototype and the relative qualified experiment of a new burner with low emissions for the V94.3.
- The production and plant simplification with increased reliability of auxiliary systems for all turbogas models.

Finally, the study commenced in complete autonomy, of a series of actions for improvements on the V64.3A, with the objective of improving performances in line with leading competitor's models in this power range.

The activities already carried out have allowed for the filing of 5 patents.

Steam turbines

In this product line whose technology, as for turbo generators, is sufficiently consolidated within the Company, the largest part of the resources was dedicated to the development of new blades with improved performances.



Overall, research and development activities undertaken to support the above mentioned technology plan incurred a total cost of Euro 8.5 million including personnel and external costs.

An initiative was implemented for all the different product lines of the company, consisting of the creation of five Centres of Excellence (Fluid mechanics, Heat transfer, Structural, Combustion and Materials) that will consolidate and develop further expertise already present in the Company. The initiative will also ensure a high technological level and a base know-how necessary for the development of all of the turbo machines. To this extent, all of the necessary hardware and software instruments were acquired including

Of particular importance is the project of a new large sized last stage blade (48") in steel. The project, based on state of the art technology, provides for commercial availability of the new blade by 2006. A particularly innovative aspect of this initiative derives from the fact that it is undertaken in equal partnership with SKODA POWER (Czech Republic), that allows for the exploitation of synergetic expertise and production capacity of the two companies.

The activities for the improvement of the autonomous calculation programmes also continued, deriving from those of the ex-licensor, for the design and development of the reaction machines and those relating to the use of innovative materials for applications on advanced machines functioning with high temperature steam.

2 patents were filed for innovative solutions.

Turbogenerators

On this product line the activity was principally dedicated to the development of new machine sizes and improvement, based on the first feedback from the field, of the most recent sizes.

▲ In the *air cooled generators sector* (ex ALSTOM technology) the largest part of the detailed project of the 250 MVA machines was developed, and a feasibility study was made for a 350 MVA, that will accompany the new version of the V94.3A(4) gas turbine.

In the *hydrogen cooling generators field* (Ansaldo original technology), the most recent models developed, based on experience in the field, were revised.

Finally, regarding to the isolation systems, activities commenced with the qualification of alternative suppliers for the ex licence system and improvement of the thermal characteristics of the autonomous system.

Also for this product line 2 patents were filed for innovative solutions.

Combined Cycle Plants

Significant development activity relating to this line was the study of a method and an autonomous control function that permits the entire combined cycle to rapidly change the power provided in relation to frequency variations of the grid, in accordance with the regulations imposed by the national "Grid Codes", and at the same time maintaining the reliability of the machinery.

The development activity for a dynamic plant simulator have also commenced, although the authorisation process has not yet allowed the signing of the finance contract, that is hoped will occur in 2005.

Also for this product line 2 patents were filed for innovative solutions.





Nuclear Division

In 2004, the activities were concluded for the "Accelerator Drive System" Project centred on the existing Research Contracts with the European Community (Fifth Programme); the activities will continue in 2005 principally in relation to a new European Research Contract (Sixth Program).

In the service field for thermal reactors the international collaboration continued for optimising the capacity of security analysis for the VVER-1000 reactors.

With regard to the Decommissioning of the plants the principal research and development activity during 2004 was the integration of the dedicated software packages for specific decommissioning operations with the 3D model of the plant (realised both in Intergraph and Autocad), with emphasis on the unification of development programmes (from Excel to SQL) and of the Data Banks. In addition, in the waste treatment

field, the know-how was consolidated on decontamination processes, transferring the accumulated experience on the plant at Caorso to the development of similar specific applications for the plants of Garigliano and Trino.

Licences

Siemens Power Generation, Licensor of the gas turbine, the last Ansaldo Energia product still under licence, has indicated, as already announced, its intention not to proceed with the license agreement renewal which was signed some 15 years ago.

A series of meetings have taken place in order to agree the procedures for the termination of the licence and Ansaldo Energia contractual rights to continue to utilise information and patents whose knowledge was obtained during the period of the licence. This latter provides that Ansaldo Energia has the right, after the expiry of the license, to produce without any royalty payment all current turbogas models in its portfolio, as well as autonomously develop further improvements. We recall that in order to position the Company in the best conditions to operate after the licence termination, an Autonomy Plan was implemented, that provides for an extraordinary provision to strengthen the design capacity of Ansaldo Energia and create a network of independent suppliers from the Licensor.

The plan provides for a total investment of Euro 46 million over a 4 year period.

Taking into consideration that the current supply contract of the blades for the V94.3A2 from Siemens to Ansaldo Energia SpA is connected to the expiry of the technological licence, the request of the Licensor to consider an advanced termination date at the end of October (instead of July 2006) should be considered a positive development, in that this is of reciprocal interest.

RESULTS OF THE MAIN COMPANIES OF THE GROUP

Sagem Italia Srl

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

On September 30, 2004 the Company changed its name from the previous "Sagem S.r.l." to "Sagem Italia S.r.l." in line with the continuation of the diversification policies in order to independently operate on foreign markets where there existed a case of a similar named company that made the possibility to operate locally difficult. The accounts for 2004 closed substantially at breakeven, in terms of both operating results and net profit. The performance of the company can be summarised as follows:

- Revenues from production: Euro 7.9 million;
- Sales: Euro 8.2 million;
- The acquisition of new orders was equal to Euro 8.7 million of which Euro 8.0 million from Ansaldo Energia, while the portfolio of orders amounts to Euro 1.5 million;
- Net equity Euro 0.4 million;
- The financial position is positive for Euro 0.1 million;
- The number of employees at the end of the year was 53 units.

Asia Power Projects Private LTD

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

In 2004 the company was involved in the following projects:

- Neyveli: lignite plant 2 x 210 MW completed with the end of the guarantee period at 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 profit of Euro 0.8 million. The positive result is a consequence of the re-entry of funds on the Amarkantak project for Euro 1.6 million.

- Revenues from production: Euro 5.3 million;
- Net equity: Euro -14.6 million;
- Debt amounted to Euro 10.5 million, principally with Ansaldo Energia;
- The number of employees at the end of the year was 57 units.

TRANSACTIONS WITH SUBSIDIARY, ASSOCIATE AND HOLDING COMPANIES

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.

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 ASPL, non-interest bearing in line with Indian legislation.

Related companies

Ansaldo Energia S.p.A undertakes transactions with Companies of the Finmeccanica Group, exclusively of a commercial nature for the reciprocal supply of goods and services at normal market conditions.

With Ansaldo Industria in liquidation there remains reciprocal mandates for the management of contracts. The receivables/payables, costs and revenues of the above-mentioned companies are summarised as follows:



TRANSACTIONS WITH HOLDING, SUBSIDIARY AND ASSOCIATED COMPANIESE (in Euro/thousands)

	Balance Sheet						Income Statement			
	Assets			Liabilities			Costs		Revenues	
	Financial	Trade	Others	Financial	Trade	Others	Financial	Trade	Financial	Trade
Holding companies:										
Finmeccanica (Group VAT)	55,826	69			18	4,115	236	543	819	33
TOTAL HOLDING COMPANIES	55,826	69			18	4,115	236	543	819	33
Subsidiary companies:										
Sagem Italia S.p.A.	236	319			3,730		8	1,674	1	78
ASPL	10,601	71			46					
Sopren S.p.A.				189	29		3			
Ansaldo Middle East		66			25					
TOTAL SUBSIDIARY COMPANIES	10,837	456		189	3,830		11	1,674	1	78
Associated companies:										
N.N.S. Snc		497	84							
TOTAL ASSOCIATED COMPANIES		497	84							
Related companies:										
Elsag SpA		6			240			12,458		
Ansaldo Ricerche		378						203		424
Alenia Spazio ex Laben					433			505		
Ansaldo Industria in liq.		199			7,667			55		
Ansaldo T & D S.p.A.		503			814			678		347
Ansaldo Argentina		855			142					
Fata Züst					532			443		
TOTAL RELATED COMPANIES		1,941			9,828			14,342		771
TOTAL	66,663	2,963	84	189	13,676	4,115	247	16,559	820	882

ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

SCHEDULE FOR THE ANALYSIS OF RESULTS (in Euro/thousands)

31/12/2004
31/12/2003

A. - REVENUES

Changes in work in progress and finished semi-finished and finished
Increases of internally constructed assets

720,422
746,962

(2,839)

55,374

329

139

B. - VALUE OF PRODUCTION "NORMAL"

Consumption of materials and external services

717,912
802,475

(550,151)

(627,731)

C. - OPERATING EXPENSES

Cost of labour

167,761
174,744

(128,798)

(126,169)

D. - GROSS OPERATING MARGIN

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

38,963
48,575

12,771

13,027

2,485

1,325

4,750

8,933

10,206

12,966

E. - INCOME FROM OPERATIONS

Financial income and charges
Adjustment of financial assets

29,163
38,256

1,052

(1,173)

2,072

(16,346)

F. - INCOME BEFORE EXTRAORDINARY ITEMS

Extraordinary income and expenses

32,287
20,737

(16,816)

(11,845)

G. - INCOME BEFORE TAXES

Taxes - current and deferred

15,471
8,892

8,987

5,798

H. - NET INCOME (LOSS) FOR THE YEAR

6,484
3,094

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

31/12/2004

31/12/2003

A. - FIXED ASSETS

Intangible assets	450	134
Tangible assets	106,656	107,159
Financial assets	4,926	6,249
	112,032	113,542

B. - WORKING CAPITAL

Inventory	3,582,797	3,244,646
Trade receivables	396,560	362,934
Other receivables	45,472	52,311
Trade payables	(249,027)	(277,966)
Payments on account	(3,751,066)	(3,369,610)
Provision for risks and charges	(74,973)	(66,482)
Other liabilities	(61,329)	(63,967)
	(111,566)	(118,134)

C. - CAPITAL INVESTED

deducted current liabilities	466	(4,592)
------------------------------	------------	----------------

**D. - PROVISION FOR STAFF
SEVERANCE INDEMNITIES**

	(50,057)	(50,274)
--	-----------------	-----------------

E. - CAPITAL INVESTED

deducted current liabilities and staff severance indemnity covered by:	(49,591)	(54,866)
------------------------------------------------------------------------	-----------------	-----------------

F. - OWN CAPITAL

Share capital paid in	11,967	11,967
Profits brought forward	12,318	9,224
Profit (loss) for the year	6,484	3,094
	30,769	24,285

G. - FINANCIAL INDEBTEDNESS MEDIUM/LONG TERM

medium/long term loans	13,308	15,996
financial asset receivables	(11,230)	(12,606)
	2,078	3,390

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

short term loans	949	2,572
cash and short term	(83,387)	(85,113)
	(82,438)	(82,541)

I. - TOTAL

	(49,591)	(54,866)
--	-----------------	-----------------

CASH FLOW STATEMENT

(in Euro/thousands)

31/12/2004**31/12/2003****A. - BEGINNING CASH AVAILABLE
(BEGINNING INDEBTEDNESS)****82,541****67,639****B. - CASH FLOW FROM OPERATING ACTIVITY**

Profit (loss) for the year

6,484

3,094

Amortisation and depreciation

12,771

13,028

(Gains) losses on fixed assets

(1)

(53)

(Revaluations) Write-downs on fixed assets

(280)

54

Change in the capital

(6,568)

8,971

Changes in staff leaving

(217)

(4,543)

indemnity provision

12,189**20,551****C. - CASH FLOW FROM INVESTMENT IN FIXED ASSETS**

Investments in fixed assets:

intangibles

(450)

tangibles

(12,331)

(9,648)

financial

(263)

(4,522)

Realisable price or reimbursement of fixed assets

2,064

16,528

(10,980)**2,358****D. - CASH FLOW FROM FINANCIAL ACTIVITIES**

Net decrease in financial assets

1,376

(6,131)

Loans repayments

(2,688)

(1,876)

(1,312)**(8,007)****E. - DISTRIBUTION OF PROFITS****F. - CASH FLOW FOR THE PERIOD****(103)****14,902****G. - ENDING CASH AVAILABLE
(ENDING INDEBTEDNESS)****82,438****82,541**

ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

Results

The income statement for the year 2004 shows a significant decrease in revenues from manufacturing (-10%), due to the progressive completion of the backlog, not yet compensated by the activities for the new orders acquired in 2004 last quarter due to delays in the authorisation processes and the financing of new power stations in Italy.

As a consequence of the above-mentioned factors, materials and external services decreased and in particular the industrial margin (Euro -9.6 million), also affected by the different production mix and by the decrease of activities on the contracts acquired in the period 2000/2001, in market conditions significantly more favourable compared to current conditions.

Parallel to this, the service area continues to grow (Euro 145 million), that is destined in future to compensate, in terms of profitability, the lower remuneration of the plant contracts, also thanks to scheduled maintenance contracts acquired together with the plant contracts, the effects of which will be seen in the coming years.

The contribution of the Nuclear Division remains constant, while awaiting future developments of the decommissioning activity of nuclear plants in Italy and overseas.

The personnel costs (Euro 129 million) increased by 2% compared to previous year, although in the presence of reduced personnel numbers, essentially due to salary increases and greater pro capita contributions related to the higher number of paid vacation holidays in 2004. It should be recalled that, parallel to the reduction of the resources, related also to the abandonment of the Legnano site and the "asbestos" problem, there has been the hiring of approximately 500 white and blue collar workers in recent years, of which 20% held university degrees.

The year 2004 was characterised by the consolidation activity and the strengthening of the organisation

structure, especially in the areas with the greatest potential, such as engineering and service.

In addition, the income statement for 2004 and for future years (Euro 8.5 million) was and will be significantly impacted by charges as a consequence of the implementation of the technological plan, with the objective of achieving production autonomy on all product lines. The plan, to be implemented in three phases, the first of which began in this year, provides for a total cost of Euro 46 million over four years, to meet internal and external costs, for acquisition of know-how, qualification of strategic suppliers, development projects and production of prototypes.

The depreciation relating to intangible fixed assets has increased by 8% as a result of the completion of the project for the renewal of machine tools of the *gas line* (turbine blades and rotor disks).

The provisions for contingency and charges totalling Euro 7.2 million confirms the policy implemented by the company in recent years, to provide appropriate provisions against the risks arising in the business.

The other income (Euro 10 million) relates to the receipt of insurance reimbursements and indirect taxes.

The operating profit (Euro 29 million) results in a ROS equal to 4.1% and includes, as already commented upon, the decrease in production volumes as a consequence of the delay in the commencement of projects on new Italian plants and higher charges deriving from the technological plan.

The results from financial income and charges have improved, confirming the positive trend in the financial position for the entire year. The income was Euro 1.5 million against commissions and expenses of Euro 1 million while the exchange component was a positive result of Euro 0.6 million.

Therefore, confirmation that the policy of rigorously

covering exchange risks, adopted by the company for some time, permitted the avoidance of significant losses in a period of considerable turbulence in the foreign exchange markets is provided.

The alignment to net equity value of investments in subsidiary and associate companies, that in the previous year had a particularly negative effect on the net profit, resulted in a positive result of Euro 2 million in 2004 essentially due to the result of the Indian subsidiary ASPL.

The extraordinary charges (Euro 17 million) also include termination incentives to personnel (Euro 6 million), already made or to be made, and other charges connected to the completion of the company reorganisation and to the concentration on the core business with consequent abandonment of secondary production centres.

Finally, income taxes are represented by foreign taxes of Euro 2.5 million and IRAP of Euro 6.5 million, in that respect the company can still benefit from the use of losses carried forward.

Balance sheet and financial position

Fixed assets, totalling Euro 112 million, remained substantially unchanged compared to the previous year, and include tangible fixed assets of Euro 107 million, of which Euro 56 million relate to property. The recording of Euro 0.5 million under intangible assets is a consequence of the investments made in the technological plan.

The capital invested is substantially in line with the previous year, confirming the good financial

management of the company, committed to optimising the working capital, also in the presence of reduced production volumes. In absolute terms the negative value of Euro 112 million is principally related to payments on account from clients net of inventory, that represents the activities already produced. This ratio has further improved, compared to the previous year, despite the change of production mix, centred more on the Iranian contracts with a higher manufacturing component, thanks also to the acquisitions in the latter part of the year and contractual advances received.

Analysing the single components, there is an increase in trade receivables (Euro 34 million), related to an increase in sales at the end of the year, and a reduction in other assets (Euro 7 million), substantially due to the decrease in prepayments originating from the exchange risk coverage operations.

The provision for contingencies and charges contains significant provisions of an ordinary and extraordinary nature and taxes, totalling Euro 19 million in order that, in line with the policy of the company in recent years, the provisions are as appropriate as possible in order to meet all risks. The utilisations amount to Euro 11 million. The trade payables decreased by Euro 29 million as a consequence of the decrease of the volumes produced and the progressive alignment of the payment policy to market conditions.

The employee severance indemnity is unchanged due to the balancing of the provisions for the year (Euro 7 million) and the payments in relation to the departure of personnel.

Against a negative net capital employed of Euro 49 million is own capital of Euro 31 million and net liquid assets of Euro 80 million. The forecasts for next year confirm the possibility of maintaining a positive financial position for the entire year.

MARKET PROSPECTS AND COMPETITIVE POSITIONING

Evolution of the energy generation plant market

The data on the market for the first 9 months of 2004 confirm the trend in the previous year. There is in fact a further decrease in the open market, with a demand of around 40 GW compared to 50-60 in 2003, while there is confirmation of the market moving towards the East.

The size of the Chinese "bubble" has decreased considerably in relation to the *steam turbine* orders that, with approximately 27 GW, although still comprising almost 60% of the foreign market, is considerably contained compared to the same period in the previous year.

The *gas turbine* market appears to have the same results as the previous year with a value of just over 30 GW.

Compared to the same period in 2003, 2004 *steam turbine* orders were greater, if only to a small degree, those relating to *Turbogas*: however, this must be considered an effect of the explosion in the demand in 2003 in China, even if there continues to be signs of an important increase in the fossil fuel markets. In relation to this the situation in India is interesting, that alone covers over 30% of the open market of *steam turbines*.

Also considering only the open market - thus excluding the data relating to the Chinese domestic market - the Asian area maintains, although marginally, the number one market with 32% of the total orders of machines - *steam turbines* and *gas turbines* - against 30% in the Middle East area, while Europe and North America are respectively around 11% and 15% of the total.

The decrease continues in the European area, while the North American market is in recovery and the growth continues in the Middle East area, where the open markets of Saudi Arabia and Iran have respectively

14% of the total orders of *turbogas* and 17.4% of the *steam turbine* orders.

Again excluding China - that in the global market in addition to the number one market for the orders of *steam turbines* (58%) is also the leader in the *turbogas* (18%) - the Asian countries remain the first market for the *steam turbine* orders, with India and South Korea that together cover 45% of the world orders.

For the next period, a gradual recovery of the orders in the open market is forecast, that could reach around 80 GW per year over 2 - 4 years, with a *turbogas* demand that could increase significantly around 2007.



The areas with the greatest increase of installed power will continue to be the continental Asian region, principally *steam cycles*, and those of the Eastern Mediterranean, principally with combined cycle plants.

In Europe and North America however, re-powering initiatives and replacement of old combined cycle plants will have a primary role.



Competition and positioning of Ansaldo Energia

General Electric is the confirmed leader in the market for *gas turbines* at all levels (55% global orders, almost 60% for the sizes above 50 MW). Siemens is in second place with a market share above 20% while the weakness of Alstom continues, with around 5% of this partial classification.

The position of Ansaldo Energia SpA is extremely good, just behind Mitsubishi, with 3.5% thanks also to the domestic contracts.

In the open market of the *steam turbines* Siemens is the

leader with a quota just under 23%, ahead of BHEL with 22% that owes this position to its considerable development in the internal market of steam cycles.

General Electric is fourth behind Hitachi, thanks to the supply of combined cycle steam parts that it was awarded on the Chinese market.

Ansaldo Energia SpA., maintained a market share in this sector of 2.5% in the year.

Ansaldo Energia SpA., as of July 1st, 2005, on the expiry of the exclusive rights granted to FTM SpA, will re-propose itself as supplier of industrial *steam turbines* below 50 MW.

SIGNIFICANT EVENTS AFTER THE YEAR END

There were no significant events after the year end to report.



FORECAST EVOLUTION OF THE OPERATIONS

With regard to the slowdown in demand on the world market of generation systems, recorded in previous years, with an increase of competition and pressure on pricing, a new factor had an effect on competition in 2004: the continuing weakness of the dollar that has undoubtedly favoured the producers in this area, including in the domestic market.

The year 2005 will therefore be a very difficult year, from a commercial viewpoint, during which your company must consolidate the synergies and the partnerships developed particularly during 2004, with the acquisition of further contracts in Italy for new plants already authorised.

At the same time, the commercial initiatives overseas must continue in order to lay the foundations before future acquisitions, especially when the Italian bubble begins to inevitably deflate.

Important attention will also be given to the diversification of the activities, with particular attention to alternative energy and nuclear decommissioning, of which much has been talked about in recent times, and for which your Company proposes itself as one of the very few players in the domestic market.

To win against the competition in the dollar area, new sources of procurement will be identified, including

through alliances with the network of historical suppliers, and the implementation of rationalisation projects of the structure of internal costs, aimed at eliminating inefficiencies.

In this context, thanks also to the important acquisitions in the final part of the year, the order portfolio will permit the saturation for the next year, of the production capacity of the company and it is reasonable to forecast an increase in volumes and, consequently in margins.

In relation to profitability, the lower remuneration offered by the market for plant contracts must be compensated for by the increase in the service segment, which your company has invested and will invest significantly in the coming years, especially in terms of renewal of resources and quality of the services offered to the clientele.

The constant attention placed on the optimisation of working capital and cash flow, as well as the structure of the new contracts acquired, also permits the forecasting of the maintainability of a positive financial position in the next year for the entire period, guaranteeing your Company the ability to face, with sufficient tranquillity, the commitments related to the development of the technological plan.

FINANCIAL STATEMENTS AS AT 31.12.04

FINANCIAL STATEMENTS AS AT 31.12.2004

BALANCE SHEET ASSETS (in Euro)

FIXED ASSETS

INTANGIBLE FIXED ASSETS

Research, development and advertising costs
Concessions, licenses, trademarks and similar

TANGIBLE ASSETS

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

FINANCIAL ASSETS

Holdings in
subsidiary companies
associated companies
other companies

Transfer for increase in capital
other companies

Receivables (*)
others

Other securities

TOTAL FIXED ASSETS

WORKING CAPITAL

INVENTORY

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

RECEIVABLES

customers
subsidiary companies
associated companies
parent companies
tax receivables
others

CASH AND BANKS

Bank and postal accounts
Cash and cash equivalents

TOTAL WORKING CAPITAL

PREPAYMENTS AND ACCRUED INCOME

prepayments and accrued income

TOTAL ASSETS

31/12/2004

31/12/2003

0	133,651
450,000	0
450,000	133,651
55,773,981	57,148,203
40,968,360	39,752,414
3,677,060	4,646,891
1,633,363	1,667,691
4,603,125	3,943,678
106,655,889	107,158,877
613,678	1,242,698
77,608	30,490
854,945	853,691
1,546,231	2,126,879
0	40,244
0	40,244
14,609,667	16,687,568
14,609,667	16,687,568
16,155,898	18,854,691
123,261,787	126,147,219
46,446,604	53,681,087
52,535,353	55,374,319
3,457,259,921	3,128,137,449
26,554,881	7,452,829
3,582,796,759	3,244,645,684
395,537,659	361,062,456
11,292,417	10,994,436
581,934	529,824
55,894,313	51,965,831
12,841,827	14,012,942
25,422,499	31,584,323
501,570,649	470,149,812
12,110,266	13,044,739
99,404	115,539
12,209,670	13,160,278
4,096,577,078	3,727,955,774
11,638,622	17,049,874
4,231,477,487	3,871,152,867
2,698,000	1,820,000

(*) Amounts due within one year of which others

BALANCE SHEET LIABILITIES (in Euro)**31/12/2004****31/12/2003****NET EQUITY**

SHARE CAPITAL	11,966,812	11,966,812
LEGAL RESERVE	615,923	461,217
PROFIT (LOSS) CARRIED FORWARD	11,702,513	8,763,097
PROFIT (LOSS) FOR THE YEAR	6,484,334	3,094,122
	<u>30,769,582</u>	<u>24,285,248</u>

PROVISIONS FOR RISKS CHARGES

pensions and similar	772,477	375,555
taxes, including deferred	5,041,242	1,806,661
others	69,159,445	64,299,267
	<u>74,973,164</u>	<u>66,481,483</u>

**PROVISION FOR STAFF
LEAVING INDEMNITIES**

<u>50,056,856</u>	<u>50,274,124</u>
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PAYABLES (*)

Banks	7,518,384	9,302,294
Other lenders	6,549,254	7,385,967
Payments on account	3,751,065,559	3,369,610,316
Trade payables	245,179,589	273,763,471
Subsidiary companies	4,018,118	6,082,440
Parent companies	4,132,715	1,385,218
Tax authorities	3,686,460	3,669,446
Social security		
institutions	15,204,578	14,666,271
Other payables	24,802,126	23,069,986
	<u>4,062,156,783</u>	<u>3,708,935,409</u>

ACCRUED LIABILITIES AND DEFERRED INCOME

accrued liabilities and deferred income	<u>13,521,102</u>	<u>21,176,603</u>
-----------------------------------------	-------------------	-------------------

TOTAL LIABILITIES

<u>4,231,477,487</u>	<u>3,871,152,867</u>
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(*) Amounts due over one year of which
others

10,480,000	13,580,000
<u>10,480,000</u>	<u>13,580,000</u>

MEMORANDUM ACCOUNTS (in Euro)**Unsecured guarantees**

Guarantees		
- in favour of third parties	<u>485,000</u>	<u>1,000,000</u>

Purchase and sales commitments	3,215,266,000	2,920,901,000
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Others	1,274,831,997	1,546,470,000
	<u>4,490,582,997</u>	<u>4,468,371,000</u>

FINANCIAL STATEMENTS AS AT 31.12.2004

INCOME STATEMENT (in Euro)

31/12/2004
31/12/2003

VALUE OF PRODUCTION

Revenues from sales and services	390,708,876	451,384,701
Changes in inventory of work in progress semi finished and finished goods	(2,838,966)	55,374,319
Changes in contract work in progress	329,122,473	295,103,624
Increases in internally constructed assets	329,115	139,161
Other income		
<i>contributions in the year</i>	590,274	473,288
<i>recovery of expenses</i>	6,846,167	21,139,105
<i>gains on asset disposals</i>	64,419	57,407
<i>other income</i>	11,716,718	16,810,775
	736,539,076	840,482,380

COSTS OF PRODUCTION

raw, ancillary and consumables	313,197,409	379,348,685
services	232,448,309	260,228,730
use of third party assets	2,578,684	2,906,583
personnel costs		
<i>wages and salaries</i>	92,285,280	92,014,274
<i>social security charges</i>	28,450,244	26,671,609
<i>staff severance indemnities</i>	6,612,886	6,835,261
<i>pension and similar costs</i>	628,265	92,349
<i>other costs</i>	821,661	555,877
	128,798,336	126,169,370

Amortisation, depreciation and write-downs

<i>depreciation of intangible fixed assets</i>	0	1,231,198
<i>depreciation of tangible fixed assets</i>	12,771,410	11,796,260
<i>in current assets</i>	2,484,606	1,324,582
	15,256,016	14,352,040

Change in inventory of raw, ancillary and consumable goods

Provision for risks	5,204,625	2,516,070
Other provisions	4,750,000	8,933,963
Other operating costs	2,029,857	2,028,812
<i>losses on asset sales</i>	63,295	4,705
<i>Other taxes</i>	1,668,800	2,002,670
<i>others</i>	1,380,813	3,733,901
	3,112,908	5,741,276
	707,376,144	802,225,529

DIFFERENCE BETWEEN THE VALUE AND COST OF PRODUCTION

	29,162,932	38,256,851
--	-------------------	-------------------

INCOME STATEMENT (in Euro)

31/12/2004

31/12/2003

FINANCIAL INCOME AND CHARGES

Income from equity investments
dividends from associated companies

84,381	118,627
84,381	118,627

Other financial income
receivables classified under non-current assets
others

736,342	808,048
736,342	808,048

income other than the above

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

1,361	21,180
818,650	1,569,038
17,012,192	15,201,007
17,832,203	16,791,225

Interest and other financial charges

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

11,218	19,057
235,870	238,480
16,694,221	17,993,436
16,941,309	18,250,973

Profits (losses) on exchange differences

(659,490)	(640,000)
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TOTAL FINANCIAL INCOME AND CHARGES

1,052,127	(1,173,073)
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ADJUSTMENT TO FINANCIAL ASSETS

Revaluations
of investments

2,124,478	138,999
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Write-downs
of investments

(51,825)	(16,485,204)
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TOTAL ADJUSTMENT TO FINANCIAL ASSETS

2,072,653	(16,346,205)
------------------	---------------------

EXTRAORDINARY INCOME AND CHARGES

Income

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

336	52
2,628,789	3,196,670
2,629,125	3,196,722

Charges

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

5,921,460	5,217,014
2,113,605	682,086
1,010,082	3,449,249
10,400,000	5,693,797
19,445,147	15,042,146

TOTAL EXTRAORDINARY ITEM

(16,816,022)	(11,845,424)
---------------------	---------------------

Pre tax result

15,471,690	8,892,149
-------------------	------------------

Current and deferred taxes

8,987,356	5,798,027
------------------	------------------

PROFIT (LOSS) FOR THE YEAR

6,484,334	3,094,122
------------------	------------------

NOTES TO THE FINANCIAL STATEMENTS

FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year 2004 have been prepared in accordance with the statutory requirements, updated in accordance with the provisions of the company law reform contained in the Legislative Decree no. 6 of January 17, 2003 and subsequent amendments and integrations, 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 and 2497 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 they 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 director's report and the statutory and independent auditors' reports are made public in accordance with statutory requirements.

FINMECCANICA

DATI ESSENZIALI DEL BILANCIO AL 31.12.2003 DELLA SOCIETA' CHE ESERCITA
L'ATTIVITA' DI DIREZIONE E COORDINAMENTO:

(in euro migl.)

FINMECCANICA SPA

STATO PATRIMONIALE

ATTIVO

IMMOBILIZZAZIONI	5.520.104
ATTIVO CIRCOLANTE	3.383.309
RATEI E RISCONTI	36.549
TOTALE ATTIVO	8.939.962

PASSIVO

PATRIMONIO NETTO:	
- Capitale	1.855.571
- Riserve e risultati a nuovo	1.248.327
- Utile dell'esercizio	188.425
	3.292.323
FONDI PER RISCHI E ONERI	602.142
TRATTAMENTO DI FINE RAPPORTO DI LAVORO SUBORDINATO	6.704
DEBITI	3.558.518
RATEI E RISCONTI	1.480.275
TOTALE PASSIVO	8.939.962

GARANZIE, IMPEGNI E ALTRI RISCHI

16.774.621

CONTO ECONOMICO

VALORE DELLA PRODUZIONE	95.935
COSTI DELLA PRODUZIONE	-197.932
PROVENTI E ONERI FINANZIARI	13.750
RETTIFICHE DI VALORE DI ATTIVITA' FINANZIARIE	72.025
PROVENTI E ONERI STRAORDINARI	204.647
IMPOSTE SUL REDDITO DELL'ESERCIZIO	---
UTILE DELL'ESERCIZIO	188.425

LA FINMECCANICA SPA REDIGE IL BILANCIO CONSOLIDATO.

NOTES TO THE FINANCIAL STATEMENTS

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 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri e dall'Organismo Italiano di Contabilità).

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.

The Company, in compliance with the second paragraph of article 2426 of the civil code has not made any "fiscal adjustment" in the financial statement.

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%.

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.

Financial assets

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.

Receivables

Long-term receivables are recorded at realisable value and adjusted for the exchange rate as at December 31, 2004.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

The valuation of contract work in progress reflects the current best estimate of the future programmes on the individual long term contracts made by the Company at the date of the preparation of the financial statements. Periodically the assumptions underlying the valuations are updated. The economic effects relating to prior periods are made in the period in which the updates are made.

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.

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, restructuring 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 and recorded in the income statement. In the case where a net profit derives from the conversion of single accounts in foreign currencies, for the part not absorbed by any losses in the year, a non-distributable reserve will be made at the end of the year.

Based on the applicable accounting principles the financial derivative operations, qualified as hedging operations, are valued in line with each asset – liability to which the cover refers, attributing the income and expenses matured to the income statement based on the accruals principle for the duration of the contract.

Taxes

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

Deferred tax assets and liabilities 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.

NOTES TO THE FINANCIAL STATEMENTS

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

CONCESSIONS AND LICENSES

They amount to Euro 450 thousand and relate to the acquisition from Siemens of licences for the most recent version of the V94.3A gas turbine. The licence, acquired at the end of the year, will be amortised commencing from the next year when the commercialisation of the product will begin.

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 for Euro 9,302 thousand after depreciation of Euro 3,393 thousand. Land and buildings relate to the industrial sites at Genoa-Campi (Euro 38,130 thousand), Legnano (Euro 17,483 thousand) and overseas sites (Euro 160 thousand).

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

The net decrease of Euro 503 thousand compared to the previous year results from:

- Acquisition and capitalisation of new plant (Euro 11,670 thousand) relating principally to increasing the production capacity on the gas turbine production line (Euro 2,800 thousand), the purchase of lathes, bridge cranes and extraordinary maintenance on machine equipment (Euro 2,000 thousand), and the complete restructuring of a building at the Genoa Campi site for office purposes (Euro 1,100 thousand).
- Capitalisation of plant in construction, which is expected to enter into service during 2005 amounting to Euro 930 thousand.
- Depreciation in the period for Euro 12,771 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 332 thousand derive from disposals net of depreciation.

Equity investments

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 principal changes relate to:

- The sale of FTI S.p.A in liquidation to Sogepa S.p.A. for Euro 506 thousand
- The closure of Ansaldo Malaysia in liquidation with a surplus of Euro 4 thousand
- The reimbursement due to the reduction of share capital of Anserv of Euro 123 thousand
- The net equity valuation at December 31, 2004 of the subsidiary companies with charges of Euro 6 thousand relating to Sopren S.p.A. and income of Euro 9 thousand relating to Sagem Italia and Euro 1,136 thousand relating to the Indian subsidiary ASIA Power Project Private Ltd with adjustment of the relative write down fund recorded in the provision for contingencies and charges.

ASSOCIATED COMPANIES

The change relates to the company Dayalistri Pratama Ltd, in the closing stage, deriving from the reimbursement of part of the share capital (Euro 394 thousand), previously written down, and the adjustment of the residual value of the net equity (Euro 441 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 40 thousand relates to the sale of the quota in the company Hydropastaza.

Receivables

	31/12/2003	Variations in period		31/12/2004
(in Euro/migliaia)	Value in fin stat.	Paid	Rembourse- ment	Value in fin stat.
From others:				
- customers	86		1	85
- State and public bodies for subsidies and contributions	200		23	177
- other receivables	12,696		1,356	11,340
- Employee indemnity tax credit	3,706	213	911	3,008
	16,688	213	2,291	14,610

NOTES TO THE FINANCIAL STATEMENTS

This account 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 3,008 thousand), a deferred interest bearing credit from an Algerian customer, subject to the SACE restructuring agreement (Euro 5,515 thousand) and from an Arabian customer (Euro 5,484 thousand), deposits (Euro 220 thousand) and CCNL advances and others (Euro 98 thousand).

The most significant change relates to the reimbursement by SACE, of the expired quota of the above-mentioned receivables. The receivables in foreign currencies are adjusted to the exchange rate as at December 31, 2004.

Current assets

Inventory

RAW MATERIAL AND CONSUMABLES

The inventories held relate to:

Stock provisions	Euro 15,884 thousand
Stock for specific job orders	Euro 36,670 thousand

Raw materials and consumables are recorded net of a provision for obsolete and slow moving inventory equal to Euro 6,107 thousand.

In the year the decrease amounted to Euro 5,204 thousand.

PRODUCTS IN WORK IN PROGRESS AND SEMI-FINISHED

Amount to Euro 52,536 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 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 substantial coverage 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 31/12/2004	On account 31/12/2004	Net 31/12/2004
0241	ENIPOWER - VARIOUS PLANTS	610,241	(755,510)	(145,269)
0208	IRAN PHASE 1 - N. 12 TG+GEN.	365,116	(370,478)	(5,362)
0219	BALLYLUMFORD IRELAND - COMB. CYCLE.	261,200	(264,468)	(3,268)
0257	IRAN PHASE 2 - N.10 TG+GEN.	248,570	(262,983)	(14,413)
0153	NEYVELI INDIA - 2X210MW	121,072	(123,178)	(2,106)
0286	IRAN PHASE 3 - N.8 TG+ N.8 GEN.	65,902	(73,987)	(8,085)
0250	VOGHERA-COSTR.ISOLA (EX ELECTRABEL)	52,133	(64,506)	(12,373)
0311	S.E.F. FERRARA - TG + TT + GEN.	51,695	(67,405)	(15,710)
0249	ELECTRABEL ROSIGNANO - COMB. CYCLE.	41,905	(85,336)	(43,431)
0307	IRAN 3000 MW NR.6 TG + NR.6 GEN.	54,662	(22,604)	32,058
0292	ENIPOWER - MAN + SPARE PARTS	25,192	(9,687)	15,505
0224	SERVOLA GAR. MAINTENANCE	27,637	(20,093)	7,544
0114	ISE CET 3 TARANTO	34,139	(30,989)	3,150
0284	SULCIS NR.1 TT 350 MW + AUXILIARY	15,332	(12,882)	2,450
0314	CALENIA EN/SPARANISE COMB. CYCLE 800 MW	32,432	(31,094)	1,338
	VARIOUS SERVICE	417,664	(414,547)	3,117

NOTES TO THE FINANCIAL STATEMENTS

The movements in the period of Euro 329,123 thousand can be summarised as follows:

Work in progress 31/12/2003	3,128,137
Work commenced in the period	711,299
Work completed in the period	(383,042)
Utilization of provision	2,608
Write-down provision	(1,742)
Work in progress at 31/12/2004	3,457,260

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 3,369 thousand.

PAYMENTS ON ACCOUNT

The payments on account represent the advances given to suppliers for orders on long-term contracts and increased by Euro 19,103 thousand due to the recent commencement of the Iranian contract "3000 MW" and of the new Italian contracts.

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				
	31/12/2003	Increase (+) Repay (-)	Provision (-) Write back of value (+)	31/12/2004
Customers	381,002	34,380		415,382
less:				
- Prov. doubtful debts	19,940		195	19,745
- Prov. doubtful debts for interest		99		99
Subsidiary companies	10,995	298		11,293
Associated companies	530	51		581
Holding companies	51,966	3,929		55,895
Tax receivables	14,013	(1,171)		12,842
Others	31,584	(6,162)		25,422
TOTAL	470,150	31,226	(195)	501,571

The increase in trade receivables is principally due to the increased level of invoicing in the final quarter of the year.

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

- financial receivables of Euro 66,663 thousand, of which Euro 55,826 thousand from Finmeccanica S.p.A., and Euro 10,601 thousand from the Indian subsidiary ASPL and Euro 236 thousand from the subsidiary SAGEMI srl. The receivable from Finmeccanica originate from the centralised treasury procedures which were fully activated during the year.
- trade receivables of Euro 1,022 thousand.

The receivables from tax authorities of Euro 12,842 thousand relate to reimbursements requested.

The other receivables amount to Euro 25,422 thousand and are comprised of:

- receivables from overseas tax authorities for VAT (Euro 1,279 thousand);
- receivables from personnel and social security institutions for Euro 2,079 thousand;
- receivables from the Camozzi Group for Euro 13,875 thousand deriving from the sale of the business unit "Componenti Speciali Milano";
- receivables from the insurance company Società Generali (Euro 1,253 thousand) and deposits (Euro 309 thousand);
- amounts held on site in Italy and overseas (Euro 1,039 thousand);
- financial receivables from third parties (Euro 4,515 thousand) of which Euro 4,503 thousand from AETD, sold in previous years. 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, 7 and 10.

Cash and banks

Bank deposits relate to Euro 4,189 thousand in local currencies in the overseas locations, Euro 236 thousand in foreign currency accounts in foreign and Italian banks, Euro 6,068 thousand on blocked accounts, Euro 1,617 thousand in ordinary current accounts and Euro 99 thousand cash held in foreign branches.

Prepayments and Accrued Income

The account relates to the following:

- Accrued income
They are comprised of interest on SWAP operations (Euro 23 thousand).
- Prepayments
The most significant item (Euro 7,817 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 3,015 thousand), commissions on loans (Euro 620 thousand) and rent (Euro 164 thousand).
The important reduction in this account, compared to the previous year, for Euro 5,299 thousand relates to the progressive re-entry of the SWAP differentials.

NOTES TO THE FINANCIAL STATEMENTS

LIABILITIES

Net Equity

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

VARIATION IN PERIOD				
	31/12/2003	Allocation of profits/cover of losses	Profits/loss for the year	31/12/2004
Share capital	11,967			11,967
Legal reserve	461	155		616
Profit (loss) carried forward	8,763	2,939		11,702
Profit (loss) for the year	3,094	(3,094)	6,484	6,484
	24,285	0	6,484	30,769

On April 15, 2004 the Ordinary Shareholders' Meeting approved the financial statements for the year 2003, with a profit for the year of Euro 3,094 thousand and approved the allocation to the legal reserve of Euro 155 thousand and the carry forward of Euro 2,939 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.

	Amount	Possibility of utilisation	Disponable amount	Summary of the utilisations realized in the tree previous year	
				for losses covering	for other reasons
Share capital	11,967		11,967		
Legal reserve	616	B	616		
Profit (loss) brought forward	11,702	A, B, C	11,702		
Profit (loss) for the year	6,484		6,484		
	30,769		30,769		

Legend:

- A: for share capital increase
- B: to cover losses
- C: for distribution to shareholders

Provision for risks and charges

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

VARIATION IN PERIOD				
	31/12/2003	Provision to income statement	Direct utilisation	31/12/2004
Pension rights and Similar obligations	375	519	122	772
Taxes	1,807	3,358	124	5,041
Others				
- Charges for contentious	6,333	2,950	1,455	7,828
- Charges for guarantees	17,700	2,000		19,700
- Restructuring charges	5,438	10,400	2,867	12,971
- Write-down on investments	16,292		1,658	14,634
- Cost to completion	18,439		4,472	13,967
- Other charges and risks	98		38	60
	66,482	19,227	10,736	74,973

The provision for taxes represents the best estimate relating to the risks for Italian and overseas taxes and increased in the year by Euro 3,358 thousand.

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 1,667 thousand) and third parties (Euro 6,161 thousand).
- **Charges for guarantees** – The provision is to cover risks related to the contractual performances of the orders in the course of completion. In the year the provision increased by Euro 2,000 thousand and 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 by Euro 2,867 thousand for the release of some charges and increased by Euro 10,400 thousand for risks connected to the sale of secondary production sites.
- **Write-down on investments** – The provision relates for Euro 14,634 thousand to the subsidiary ASPL and permits an alignment to the net equity of the company as at December 31, 2004.
- **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.

NOTES TO THE FINANCIAL STATEMENTS

Employee leaving indemnity

The provision at the end of the year reflects the payable to employees in accordance with current legislation and contracts with personnel matured to December 31, 2004.

The amount has decreased by a net amount of Euro 217 thousand compared to the previous year connected to the numerous departures of employees some of whom benefited from assisted pre-pension schemes.

Balance 31/12/2003	50.274
Changes in the year:	
- provisions	6,613
- utilisation	(7,135)
- trasfer of personnel	450
- tax revaluation	(145)
	(217)

Payables

For the analysis of payables by expiry date, nature, currency and exchange risk reference should be made to schedules no. 8,9 and 10. The payables are not subject to secured guarantees on company assets.

CHANGES IN PERIOD			
(Euro/thousand)			
	31/12/2003	Increase (+) Decrease (-)	31/12/2004
Amounts owed to banks	9,302	(1,784)	7,518
Payments on account	7,386	(837)	6,549
Advances received	3,369,610	381,455	3,751,065
Amounts owed to suppliers	273,764	(28,585)	245,179
Amounts owed to subsidiary companies	6,082	(2,063)	4,019
Amounts owed to parent companies	1,385	2,748	4,133
Amounts owed to tax administration	3,670	16	3,686
Amounts owed to social security institution	14,666	539	15,205
Other payables	23,070	1,732	24,802
	3,706,435	353,221	4,062,156

Payables to bank

They relate to medium/long term payables to Italian banks (IMI) for Euro 7,453 thousand and to a temporary short-term position for Euro 65 thousand. They decreased by Euro 1,843 thousand compared to the previous year, due to the repayment made in the year.

Payables to other lenders

Includes a medium/long term loan received from the Productivity Ministry (Euro 5,854 thousand) and decreased by Euro 846 thousand due to the instalment paid in the year. Also includes short-term financial payables (Euro 695 thousand).

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	87,066	Euro/thousand
• Pro-rata invoicing	3,663,999	Euro/thousand

The sales in the year amount to Euro 764,497 thousand, the work completed in the year was equal to Euro 383,042 thousand.

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, 2004.

The decrease is Euro 28,585 thousand compared to the previous year, principally due to the decrease in production volumes and to the change in payments that, once recovered the abnormal progressive situation, is currently in line with normal market conditions.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2004.

Payables to subsidiary, associate and holding companies

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

The financial payables amount to Euro 189 thousand and show a decrease (Euro 1,691 thousand).

The trade payables (Euro 3,830 thousand) relate prevalently to the supply agreements with Sagem Italia (Euro 3,730 thousand), with ASPL (Euro 46 thousand), with Sopren S.p.A. (Euro 29 thousand) and with Ansaldo Middle East (Euro 25 thousand).

Other payables (Euro 4,115 thousand) relate to the Group VAT payable.

The payables not in Euro are adjusted to the exchange rate as at December 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS

Payables to tax authorities

They amount to Euro 3,686 thousand and relate to IRAP for Euro 6,500 thousand, net of payments on account paid of Euro 5,972 thousand and, to Irpef of Euro 3,158 thousand in December as substitute tax.

Payables to Social Security Institutions

This account equal to Euro 15,205 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 (Euro 17,551 thousand) of which vacation days due Euro 7,436 thousand, retribution Euro 1,781 thousand, incentives Euro 3,080 thousand, leaving incentives Euro 4,754 thousand; royalties matured (Euro 1,925 thousand), consultants (Euro 807 thousand), insurance for assembly policies (Euro 2,558 thousand) and towards overseas organisations (Euro 1,147 thousand).

Accrued liabilities and deferred income

The amounts are recorded taking into account the accruals principle.

Includes the quota of interest for future years (Euro 330 thousand) and suspension of Swap charges (Euro 13,191 thousand) which have decreased significantly, as has the asset value, on the progressive re-entry of the SWAP differential (Euro 6,006 thousand).

COMMENTS ON THE MEMORANDUM ACCOUNTS

Unsecured guarantees given

Guarantees given to third parties

They relate to guarantees given in relation to consortiums guaranteeing execution of the work (Euro 485 thousand).

Sales and purchase commitments

Sales commitments

They amount to Euro 2,088,300 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 17,135 thousand.

Purchase commitments

The irrevocable commitments of orders for the supply of goods and services relating to the company's activity amount to Euro 1,106,800 thousand.

The purchase commitments of foreign currencies for SWAP contracts covering costs in foreign currencies amount to Euro 3,031 thousand.

Other

Unsecured guarantees received

They relate to:

- guarantees received from suppliers for the correct execution of orders (Euro 200,500 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 229,865 thousand);
- 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 28,501 thousand).

NOTES TO THE FINANCIAL STATEMENTS

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 718,921 thousand), participation for tenders (Euro 18,195 thousand) and in favour of suppliers for letters of credit issued to guarantee payment (Euro 76,238 thousand).

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)	31.12.2004	31.12.2003	Changes
Revenues from sales/services	390,709	451,385	60,676
Variation of product inventory	(2,839)	55,374	58,213
Changes of work in progress	329,122	295,104	(34,018)
Increase internally constructed assets	329	139	(190)
Other income	19,218	38,480	19,262
	736,539	840,482	103,943

The revenues from sales and services are detailed in accordance with article 2427 of the civil code in the attachment no.11.

The increase in assets internally constructed relates to the cost of labour for Euro 329 thousand and relate to tangible fixed assets.

Other income includes grants received for training (Euro 590 thousand), gains on asset disposals (Euro 65 thousand), other revenues (Euro 11,717 thousand) and recovery of expenses (Euro 6,846 thousand).

The gains on disposals refer to the sale of plant and machinery relating to normal substitutions in Italy and overseas. Other revenues and recovery of expenses include the receipt from SACE of receivables previously written-down (Euro 1,169 thousand), registry tax following a Court ruling in our favour (Euro 3,062 thousand) insurance reimbursement (Euro 7,106 thousand) relating essentially to claims on damages incurred on orders, recovery of expense for materials (Euro 5,307 thousand), personnel expenses (Euro 1,538 thousand) and rent (Euro 379 thousand).

The revenues from sales and services principally relate to the completion of orders. The most important contracts in the year, having obtained the PAC, and considered completed relate to the supply of steam generators for Mejllones (Euro 93,720 thousand), 1 combined cycle at Terni (Euro 29,960 thousand), 5 diesel units and relative auxiliary for the Dhaban Yemen plant (Euro 16,823 thousand), 1 steam turbine for the plant at Khrami, Georgia (Euro 20,086 thousand) and the Desox river revamping for the Fiume Santo plant (Euro 36,348 thousand).

Costs of production

Costs for acquisition of raw, ancillary and consumables

They are comprised of purchases of materials (Euro 308,239 thousand), electric energy, water, gas (Euro 4,958 thousand). The amount has decreased Euro 66,152 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 176,395 thousand), insurance (Euro 8,750 thousand), emoluments for directors and statutory auditors (Euro 104 thousand), custom charges and transport (Euro 8,336 thousand), royalties (Euro 6,799 thousand), travel and transfer of personnel (Euro 9,895 thousand), decentralised services (Euro 12,648 thousand) and commissions on guarantees of a commercial nature (Euro 8,779 thousand).

Costs for the use of third party assets

This account includes the amounts paid for the rent of buildings (Euro 2,176 thousand), photocopying and data processing (Euro 275 thousand) and other rents (Euro 127 thousand).

Personnel costs

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

	2004	2003
Senior managers	105	108
Managers	232	238
White collar	1,098	1,106
Blue collar	912	937
Overseas	114	107
TOTAL	2,461	2,496

The cost (Euro 128,798 thousand) represents all amounts for the year including deferred, social charges and leaving indemnity matured as at December 31, 2004.

The personnel costs for overseas locations amounted to Euro 3,241 thousand.

NOTES TO THE FINANCIAL STATEMENTS

The increase in personnel costs, despite the average reduced employee numbers, is attributable in addition to the normal salary increases, to the greater number of pro capita vacation days paid in 2004.

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 tangible assets

(Euro/thousand)	2004	2003
Land and buildings	2,594	2,572
Plant and machinery	7,118	6,165
Industrial and commercial equipment	2,462	2,403
Other assets	597	656

Provisions made of amounts in current assets

Relates to the write-down of foreign VAT receivables due to the high risk ascertained in these countries.

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 guarantee provision for Euro 2,000 thousand made to adequately cover risks relating to contracts in course and the provision for disputes of Euro 2,750 thousand against the updating of current disputes in course.

Other provisions

Relates to the obsolescence provision so that it is in line with the obsolescence of some materials.

Other operating costs

This item includes: losses on the sale of assets (Euro 64 thousand), indirect taxes and Italian and overseas taxes (Euro 1,669 thousand of which Euro 725 thousand for property tax), contributions to associations (Euro 369 thousand), losses on receivables (Euro 369 thousand), subscriptions (Euro 261 thousand) and others (Euro 261 thousand).

Financial income and charges

Income from equity investments

They relate to dividends received in the year from the foreign associated company NNS (Euro 84 thousand).

Other financial income

INCOME FROM RECEIVABLES IN NON-CURRENT ASSETS

Refers to interest on receivables from SACE (Euro 462 thousand) and tax credits (Euro 274 thousand).

OTHER INCOME (Euro thousands)

	2004	2003
Interest on current accounts:		
– Subsidiary companies	1	21
– Holding companies	819	1,569
– Bank and credit institutions	623	1,099
Other interest		
– Others	99	10
Foreign exchange gains:		
– realised	16,125	13,589
Gains on SWAP operations	165	503
TOTAL	17,832	16,791

The "interest and commissions from others" (Euro 17,012 thousand) relate to bank interest (Euro 623 thousand), income from exchange difference on SWAP contracts (Euro 16,125 thousand) as well as premiums on SWAP contracts (Euro 165 thousand) and others (Euro 99 thousand).

Financial income and charges

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

	2004	2003
Interest payable:		
– Subsidiary companies	11	19
– Holding companies	236	238
– Bank and credit institutions	764	961
– Suppliers	54	383
– Reversal int. overdue receivables	99	
Commissions an bank charges	767	1,120
Foreign exchange losses		
– To be realised	14,939	15,313
Losses on SWAP operations	71	217
TOTAL	16,941	18,251

The commissions and interest from subsidiary companies (Euro 11 thousand) relate to transactions of a financial nature with SOPREN S.p.A. (Euro 3 thousand) and Sagem Italia S.r.l. (Euro 8 thousand).

NOTES TO THE FINANCIAL STATEMENTS

The commissions and interest from parent companies (Euro 236 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 16,694 thousand) relate to interest from credit institutions (Euro 133 thousand), medium/long terms loans from financial institutions (Euro 631 thousand) and trade payables (Euro 54 thousand). Also included are bank commissions and charges (Euro 767 thousand), differentials on SWAP (Euro 14,939 thousand) as well as charges on SWAP contracts (Euro 71 thousand).

Gains and losses in exchange differences

The adjustment of amounts valued in foreign currencies resulted in foreign exchange charges of Euro 659 thousand.

Adjustments to financial assets

Revaluations

The amount of Euro 2,124 thousand relates to the net equity valuation of the subsidiary ASPL for Euro 1,136 thousand, of Sagam Italia S.r.l. for Euro 9 thousand, of Dayalistri Pratama for Euro 952 thousand, and of the Chiara Consortium for Euro 27 thousand.

Write-downs

The write-downs relate to the closure of the Eurialo Consortium (Euro 26 thousand), Service Consortium (Euro 3 thousand), Set Consortium (Euro 1 thousand), Hydropastaza (Euro 16 thousand) and to the net equity valuation of the subsidiary Sopren S.p.A. (Euro 6 thousand).

Extraordinary income and charges

Income

This account includes the over-accruals and similar from prior years and other income not relating to ordinary business operations for a total amount of Euro 2,628 thousand and principally relate to tax credits (Euro 1,586 thousand) resulting from a favourable Court decision and over-accruals (Euro 556 thousand) and other.

Charges

This account includes charges for leaving incentives to personnel (Euro 5,921 thousand), taxes in relation to previous years already paid or at risk (Euro 2,114 thousand), provisions relating to the disposal of activities in previous years (Euro 10,400 thousand). Also included are under-accruals and similar from prior years (Euro 810 thousand) and disputes arising abroad (Euro 200 thousand).

Taxes for the year

The taxes for the year relate to Euro 6,635 thousand for IRAP and income taxes in India (Euro 430 thousand) Iran (Euro 1,812 thousand) and France (Euro 110 thousand).

Reconciliation between theoretical and effective rate:

	previous year	current year
Ordinary applicable rate	33%	33%
Effect of increase (decrease) to ordinary rate		
Losses carried forward	-33%	-33%
Effective rate	0%	0%

As at December 31, 2004, the deferred tax assets not recorded amount to Euro 22,758 thousand of which Euro 14,930 thousand relates to losses carried forward (up to 2006) and Euro 7,830 thousand relates to the non allowable part of the doubtful debt provision.

Although the future results are forecasts to be positive, the directors of the Company did not consider there existed the requisites of certainty beyond all reasonable doubt, required by accounting standard 25 for the recording of a deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS SCHEDULES

NOTES TO THE FINANCIAL STATEMENTS

Schedule n. 1

INTANGIBLE ASSETS (Euro/thousand)

	31/12/2003				
	Cost	Revaluations	Write-downs	Amortisation fund	Value in Fin. Stat.
Research, development and advertising costs	62,621			62,487	134
Concessions, licenses, trademarks and similar					450
	62,621			62,487	134
					450

Schedule n. 2

TANGIBLE ASSETS AND ACCUMULATED DEPRECIATION (Euro/thousand)

	31/12/2003				
	Cost	Revaluations	Write-down	Depreciation fund	Value in Fin. Stat.
Land and buildings					
– industrial	65,298	25,010		33,160	57,148
Plant and machinery	138,912	996		100,156	39,752
Industrial and comm. equipment	23,359			18,711	4,648
Other assets	14,369			12,701	1,668
Assets under construction and payments on account	3,944				3,944
	245,882	26,006		164,728	107,160

Variation in the period				31/12/2004				
Reclassification	Disposals	Write-downs Write-backs	Amortisation	Cost	Revaluation	Write-downs	Amortisation fund	Value in Fin. Stat.
		(134)		62,621		134	62,487	
				450				450
		(134)		63,071		134	62,487	450

Variation in the period				31/12/2004				
Acquisition/ Capitalisation	Reclassification	Disposals (1)	Depreciation Radiazioni (2)	Cost	Revaluations	Write-downs	Depreciation fund	Value in Fin. Stat.
1,220			2,594	66,518	25,010		35,754	55,774
8,348		(14)	7,118	146,772	840		106,644	40,968
1,492			2,462	24,650			20,972	3,678
611		(48)	597	14,812			13,178	1,634
12,601		(11,942)		4,603				4,603
24,272		(12,004)	12,771	257,355	25,850		176,548	106,657

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

(2) Of which:

Cost	12,799
Revaluations	156
Depreciation	951
	<u>12,004</u>

NOTES TO THE FINANCIAL STATEMENTS

Schedule n. 3

HOLDINGS (Euro/thousand)

Holdings in subsidiary companies

- Ansaldo Malesia SDN BAD
- F T I Spa in Liq.
- Ansaldo Middle East in Liq.
- Asia Power Projects Private Ltd
- Sagem Italia Srl
- Ansaldo Energy INC
- Anserv Srl
- Sopren SpA

Holdings in associated companies

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

Holdings in other companies

- Siet SpA
- Cons.Ansaldo Energia El.
- Consorzio CIC
- Euroimpresa Legnano
- Libian Italian Joint Co.
- Consorzi and others
- Actec consortium
- Chiara consortium

TOTAL HOLDINGS

ADVANCES (FOR FUTURE CAPITAL INCREASES)

- others

31/12/2003				
Cost	Revaluations	Write-downs	Value in Fin. Stat.	Acquisition
4			4	
492	2,337	2,323	506	
37			37	
4,230		4,230		
138	327	128	337	
1			1	
173		2	171	
228		41	187	
5,303	2,664	6,724	1,243	
93		93		
4,856		4,856		
30			30	
8,036		8,036		
13,015		12,985	30	
107			107	
32		32		
52			52	
155			155	
9			9	
679		148	531	
10		10		50
1,044		190	854	50
19,362	2,664	19,899	2,127	50
40			40	
40			40	

Variation in the period					31/12/2004			
Classification	Disposals	Utilisation reserve	Reval. ex art.2426	Write-downs Write-backs value	Cost	Revaluation	Write-downs	Value in Fin. Stat.
	4							
	506				(14)	2,337	2,323	37
					37			
					4,230		4,230	
				9	138	327	119	346
					1			1
	123				50		2	48
				(6)	228		47	181
	633			3	4,670	2,664	6,721	613
					93		93	
	394			441	4,462		4,415	47
					30			30
					8,036		8,036	
	394			441	12,621		12,544	77
					107			107
					32		32	
					52			52
					155			155
					9			9
	34			(30)	645		178	467
					50			50
				16	10		(6)	16
	34			(14)	1,060		204	856
	1,061			430	18,351	2,664	19,469	1,546
	24			(16)	16		16	
	24			(16)	16		16	

Reserve for write-downs in holdings

Subsidiaries - Asia Power Projects Private Ltd

1,136

Associated - P.T. Dayalistri Pratama

511

Other - Consorzio Chiara

11

1,658

Total write - backs value

2,072

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 december 31 2004	Profit (loss)
Subsidiary companies				
- ANSALDO MIDDLE EAST in Liq.	EGYPT	10	31	
	LE	50,000		
- ASIA POWER PROJECTS PRIVATE Ltd	INDIA	53	(14,633)	705
		RS 3,140,300	(868,299,167)	39,737,433
- SAGEM ITALIA S.r.l.	GENOA	50	346	9
(*) - ANSALDO ENERGY INC.	USA	1	26	25
		\$ 1,000	22,947	
- ANSERV Srl	ROMANIA	37	70	
		M/Lei 1,453	2,771	
- SOPREN SpA	GENOA	176	181	(6)
Associated companies				
- P.T. DAYALISTRI PRATAMA	INDONESIA		104	
- NNS Snc	FRANCE	76	287	211

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

(*) Last financial charges available 31.12.2003

Share held %	Net equity value (A)	Carrying value (B)	Valuation law 2426 (C)	Excess	
				B-A	B-C
99	31	37	31	6	6
100	(14,633)		(14,633)	14,633	14,633 ⁽¹⁾
100	346	346	346		
100	26	1	26		
100	70	48	70	(22)	(22)
100	181	181	196		(15)
613					
45	47		47	(47)	(47)
40	114	30	114	(84)	(84)
30					

NOTES TO THE FINANCIAL STATEMENTS

Schedule n. 5

INVENTORY (Euro/thousand)

	31/12/2003	Variation in the period		31/12/2004
		Increases (+) Decreases (-)	Provision	
Raw, ancillary and consumables	57,758	(5,204)		52,554
obsolescence provision	4,077		2,030	6,107
	53,681	(5,204)	(2,030)	46,447
Products in work in progress and semi-finished	55,375	(2,839)		52,536
Work in progress	3,136,385	328,257		3,464,642
obsolescence provision	8,248	(2,608)	1,742	7,382
	3,128,137	330,865	(1,742)	3,457,260
Advances	7,452	19,103		26,555
TOTAL INVENTORY	3,244,645	341,925	(3,772)	3,582,798

Schedule n. 6

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

	31/12/2004				31/12/2003			
	within one year	amounts between 2 and 5 years	over 5 years	Total	within one year	amounts between 2 and 5 years	over 5 years	Total
Non-current receivables								
others:								
– customers	85			85	86			86
– others	2,613	11,912		14,525	1,734	14,868		16,602
	2,698	11,912		14,610	1,820	14,868		16,688
Current receivables								
Other financial receivables								
subsidiary companies	10,837			10,837	10,661			10,661
associated companies	55,826			55,826	50,839			50,839
others	4,515			4,515	10,453			10,453
	71,178			71,178	71,953			71,953
Trade receivables								
customers	395,538			395,538	361,062			361,062
subsidiary companies	456			456	334			334
associated companies	497			497	411			411
parent companies	69			69	1,127			1,127
	396,560			396,560	362,934			362,934
Various receivables:								
associated companies	84			84	119			119
tax receivables	12,842			12,842	14,013			14,013
personnel	2,079			2,079	1,923			1,923
others								
– Foreign VAT	1,279			1,279	2,958			2,958
– CSM sale	13,875			13,875	13,875			13,875
– Others	3,674			3,674	2,375			2,375
	33,833			33,833	35,263			35,263
Accrued income	23			23	42			42
Total	504,292	11,912		516,204	472,012	14,868		486,880

NOTES TO THE FINANCIAL STATEMENTS

Schedule n. 7

RECEIVABLES, CASH AND ACCRUED INCOME

WITH FOREIGN EXCHANGE RISK (Euro/thousand)

	31/12/2004			31/12/2003		
	with foreign exchange risk	In Euro	Total	with foreign exchange risk	In Euro	Total
Non-current receivables:						
others:						
– customers		85	85		86	86
– others	10,999	3,526	14,525	12,352	4,250	16,602
	10,999	3,611	14,610	12,352	4,336	16,688
Current receivables						
customers	55,624	339,914	395,538	59,211	301,851	361,062
subsidiary companies	75	11,218	11,293	73	10,922	10,995
associated companies		581	581		530	530
parent companies	62	55,833	55,895	97	51,869	51,966
tax receivables		12,842	12,842		14,013	14,013
others:						
– others	2,409	23,013	25,422	4,141	27,443	31,584
	58,170	443,401	501,571	63,522	406,628	470,150
Liquid assets:						
Bank and postal deposits	4,434	7,676	12,110	4,469	8,576	13,045
Cash and cash equivalents	99		99	115		115
	4,533	7,676	12,209	4,584	8,576	13,160
Accrued income	23		23		42	42
Total	73,725	454,688	528,413	80,458	419,582	500,040

Schedule n. 8
PAYABLES AND ACCRUALS BY EXPIRY AND NATURE (Euro/thousand)

	31/12/2004				31/12/2003			
	within one year	amounts between 2 and 5 years	over 5 years	Total	within one year	amounts between 2 and 5 years	over 5 years	Total
Medium/long term payables:								
Banks	1,947	5,506		7,453	1,571	7,725		9,296
Other lenders	880	4,974		5,854	845	5,855		6,700
	2,827	10,480		13,307	2,416	13,580		15,996
Current liabilities								
Other financial payables								
Banks	65			65	6			6
Other lenders	695			695	686			686
Subsidiary companies	189			189	1,880			1,880
	949			949	2,572			2,572
Trade payables								
Trade payables	245,179			245,179	273,764			273,764
Subsidiary companies	3,830			3,830	4,202			4,202
Parent companies	18			18				
	249,027			249,027	277,966			277,966
Various payables:								
Tax authorities	3,686			3,686	3,670			3,670
Payables to social security institutions	15,205			15,205	14,666			14,666
Other payables:								
- parent companies	4,115			4,115	1,385			1,385
- others	24,802			24,802	23,070			23,070
	47,808			47,808	42,791			42,791
Total payables	300,611	10,480		311,091	325,745	13,580		339,325 ⁽¹⁾
Accrued expenses	330			330	661			661
Total	300,941	10,480		311,421	326,406	13,580		339,986

(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)

	31/12/2004			31/12/2003		
	with foreign exchange risk	In Euro	Total	with foreign exchange risk	In Euro	Total
Payables						
Banks		7,518	7,518		9,302	9,302
Other lenders		6,549	6,549		7,386	7,386
Trade payables	36,995	208,184	245,179	20,903	252,861	273,764
Subsidiary companies	795	3,224	4,019	732	5,350	6,082
Parent companies		4,133	4,133		1,385	1,385
Tax authorities		3,686	3,686		3,670	3,670
Payables to social security institutions		15,205	15,205		14,666	14,666
Other payables						
- others	757	24,045	24,802	565	22,505	23,070
Total payables	38,547	272,544	311,091	22,200	317,125	339,325
Accrued expenses	330		330		661	661
TOTAL	38,877	272,544	311,421	22,200	317,786	339,986

Schedule n. 10

(Euro/thousand)

	From acc. 2004	Italy	Rest of Europe	North America	Rest of the world	Total
RECEIVABLES						
Third party customers	392,912	184,548	78,693	157	129,514	392,912
Group customers	2,626	2,626				2,626
TOTAL CUSTOMERS	395,538	187,174	78,693	157	129,514	395,538
Subsidiaries	11,293	11,156			137	11,293
Associated companies	581		581			581
Parent companies	55,895	55,895				55,895
Tax authorities	12,842	12,842				12,842
Others- third parties	25,422	23,229	103		2,090	25,422
TOTAL RECEIVABLES	501,571	290,296	79,377	157	131,741	501,571
PAYABLES						
Bonds						
Banks	7,518	7,518				7,518
Other lenders	6,549	6,549				6,549
Third party suppliers	239,829	176,170	50,158	1,488	12,013	239,829
Group suppliers	5,350	5,350				5,350
TOTAL SUPPLIERS	245,179	181,520	50,158	1,488	12,013	245,179
Subsidiaries	4,019	3,948			71	4,019
Parent companies	4,133	4,133				4,133
Tax authorities	3,686	3,686				3,686
Social security institutions	15,205	15,205				15,205
Others - third parties	24,802	24,045			757	24,802
TOTAL PAYABLES	311,091	246,604	50,158	1,488	12,841	311,091

Schedule n. 11

REVENUES (Euro/thousand)

	31/12/2004			31/12/2003		
	Italy	Overseas	Total	Italy	Overseas	Total
Revenues from sales						
- Italy	145,484			201,648		
- EU		38,389			10,477	
- Europe (outside EU)		1,096			21,455	
- Africa		7,738			3,132	
- North America		172			22,128	
- Latin America		99,103			72,237	
- Middle east		72,246			57,893	
- Far east		26,480			61,853	
- Other countries		1			562	
TOTAL REVENUES	145,484	245,225	390,709	201,648	249,737	451,385

NOTES TO THE FINANCIAL STATEMENTS

Schedule n. 12 PURCHASE AND SALES COMMITMENTS

(Euro/thousand)

	31/12/2004	31/12/2003
Commitments to purchase		
Purchase orders:		
- third parties	1,106,800	1,080,000
Foreign exchange contracts	3,031	6,162
	1,109,831	1,086,162
Commitments to sell		
Sales orders	2,088,300	1,801,000
Foreign exchange contracts	17,135	33,739
TOTAL	2,105,435	1,834,739

Schedule n. 13 OTHER MEMORANDUM ACCOUNT (Euro/thousand)

	Against obligations of others	Total as at 31/12/2004	Total as at 31/12/2003
Unsecured guarantees received			
Sureties	201,077	201,077	205,229
Guarantees	28,501	28,501	40,227
Others	229,865	229,865	475,969
	459,443	459,443	721,425
Third party assets held	2,035	2,035	2,035
Guarantees of others given for obligations of the company			
- Against others obligations	813,354	813,354	823,010
TOTAL OTHER MEMORANDUM ACCOUNTS	1,274,832	1,274,832	1,546,470

PROPOSAL TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

The Financial Statements for the year 2004, presented for your approval, ended with a net profit of Euro 6,484,334, which, after the deduction of 5% to be allocated to the legal reserve, is available for distribution to the Shareholders' Meeting in accordance with article 31, point b) of the Company By-Laws.

The Financial Statements for the year ended December 31, 2004 were audited by Deloitte & Touche, appointed in the Ordinary Shareholders' meeting of April 4, 2003. Finally, we recall, that with the present Shareholders' Meeting, the three-year mandate of the Board of Statutory Auditors expires.

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

1. deliberate on the Financial Statements for the year 2004 as well as the director's report, after the presentation of the report by the Statutory Auditors
2. appoint members of the Board of Statutory Auditors for the three-year period 2005/2007 designating a Chairman
3. determine the remuneration of the Board of Directors
4. determine the emoluments of the Board of Statutory Auditors'
5. confirm the appointment of the Independent Audit Firm

for the BOARD OF DIRECTORS
THE PRESIDENT

REPORT OF THE STATUTORY AUDITORS

Dear Shareholders

for the year ended December 31, 2004 we have performed verifications in compliance with the requirements of law and in accordance with the principles of conduct for Statutory Auditors as recommended by the Italian Accounting Profession (Consigli nazionali dei Dottori Commercialisti e dei Ragionieri).

In particular, in compliance with the provisions of article 149 of the Legislative Decree 58/98:

- We attended the meetings of the Board of Directors and Shareholders' Meetings, obtaining from the Directors detailed and updated information on the activities carried out and on the most important economic and financial operations undertaken by the company. In accordance with the role assigned to us we had the possibility to verify that the actions undertaken were always in compliance with the deliberations made, with law and the by-laws, and were not in potential conflict of interests. Based on this constant updating, we can testify that the managerial choices made by the Directors and the consequent actions were always governed by the principles of prudence and economic rationality directed at maximising the expected benefits and safeguarding the assets of the company.
- We have acquired knowledge and supervised, in relation to our specific responsibilities, the licenses for the carrying out of the activities of the company, the adequacy of the organisational structure of the company to confront the tasks assigned and the objectives of the company, verifying, during the year, whether any amendments or changes made reduced or modified the operational/managerial efficiency in any manner. We have undertaken constant verifications, with the purpose of verifying the respecting of the principles of correct administration, by means of direct observation and the gathering of information from department managers and through meetings with the Audit Firm, with whom there were numerous valuable exchanges of information.
- We have evaluated the effectiveness of the company's internal audit, administration and accounting procedures. In the latter case, we also assessed the accounting system for the purposes of ensuring that it accurately represents data on operations, by obtaining information from the managers of the respective corporate departments and analysing the results of the work carried out by the independent auditors "DELOITTE & TOUCHE S.p.A.

- We continued the activity of monitoring the project that commenced in the previous year, in compliance with Legislative Decree 231. During the meetings undertaken, we were able to ascertain that, also based on suggestions provided by the certification company, that there were improvements, in accordance with the Ethical Code, of the existing procedures, extending them also to the administration-financial sector, where consolidated principles, on the basis of good administration and the rules suggested by the Parent Company, already guaranteed an adequate level of completeness and correctness. In this field, the analysis was particularly directed on a precise definition of the responsibilities, with the purpose of obtaining data, not only to support adequate documentation, but also and especially of a uniform behaviour in their formulation.

During the verifications, as described above, there were no significant facts meriting mention in this report. In as far as we are aware, your Directors, in the financial statements, did not make recourse to any exceptions as permitted by article 2423, paragraph 4 of the civil code. In the Director's Report and notes to the financial statements, your Directors reported in detail on the most significant aspects, in particular on the operations that characterised the operations during the year 2004 as well as the future outlook of the operations.

On our part, therefore, there is nothing to report.

In view of the matters reported on above and to the fact that the Audit Firm have completed and provided, as confirmed to us by Mr. CORRADO TOSCANO of "DELOITTE & TOUCHE S.p.A.", the auditors' report without qualification, we express a favourable opinion on the approval of the draft financial statements for the year ended December 31, 2004 (balance sheet, income statement and notes thereto), that reports a profit of Euro 6,484,334, after taxes of Euro 8,987,356, as well as the Director's Report, as presented to you by the Board of Directors.

We recall that, with the year 2004, our three year mandate comes to an end and the Board of Statutory Auditors must be appointed for the three year period 2005/2007.

THE BOARD OF STATUTORY AUDITORS
Giorgio CUMIN
Maria Gabriella ATTARDI
Paolo MARIANI

**RELAZIONE DELLA SOCIETA' DI REVISIONE AI SENSI DEGLI ART. 156 E 165 DEL
D. LGS. 24.2.1998, N. 58 E AI SENSI DELL'ART. 14 DELLA LEGGE 12.8.77, N. 675**

**All'Azionista della
Ansaldo Energia S.p.A.**

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio della società Ansaldo Energia S.p.A. (la Società) chiuso al 31 dicembre 2004. La responsabilità della redazione del bilancio compete agli amministratori della Società. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla CONSOB. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale. Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi secondo quanto richiesto dalla legge, si fa riferimento alla relazione da noi emessa in data 26 marzo 2004.
3. A nostro giudizio, il bilancio d'esercizio della Ansaldo Energia S.p.A. al 31 dicembre 2004 è conforme alle norme che ne disciplinano i criteri di redazione; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria e il risultato economico della Società.
4. La Società, come richiesto dalla legge, ha inserito nella nota integrativa i dati essenziali dell'ultimo bilancio della società che esercita su di essa l'attività di direzione e coordinamento. Il nostro giudizio sul bilancio della Ansaldo Energia S.p.A. non si estende a tali dati.

DELOITTE & TOUCHE S.p.A.


Corrado Toscano
Socio

Genova, 14 marzo 2005

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma
Torino Treviso Verona Vicenza

Sede Legale: Via Tortona, 25 - 20144 Milano
Capitale Sociale: versato Euro 10.275.030,00 - sottoscritto Euro 10.327.590,00 - deliberato Euro 10.850.000,00
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

Member of
Deloitte Touche Tohmatsu