



ANNUAL REPORT 2003

**Ansaldo Energia**

Ansaldo Energia S.p.A.  
16152 Genova - Italia - Via N. Lorenzi, 8  
Tel. +39 010 6551 - fax +39 010 6556209  
ansaldoenergia@aen.ansaldo.it  
www.ansaldoenergia.it

A Finmeccanica Company

# CONTENTS

CORPORATE BOARDS	5
DIRECTORS' REPORT	
Results of Ansaldo Energia Spa	6
Commercial activity analysis	8
Corporate events and organisational structure	12
Production activity	
– Products	13
– Service	15
– Management of contracts	15
– Nuclear Division	16
Human resources	7
Quality	20
Investments	21
Research, development, technical innovation and licensing	22
Performance of the main companies of the group	25
Transactions with subsidiary, associate and holding companies	26
Analysis of the results and financial position	27
Market prospects and competitive positioning	33
Significant events arising after the year-end	35
Future outlook	36
FINANCIAL STATEMENTS	37
Balance sheet	38
Memorandum account	40
Income statement	41
Notes to the financial statements	43
PROPOSAL TO THE SHAREHOLDERS' MEETING	66
REPORT OF THE STATUTORY AUDITORS	67
REPORT OF THE INDEPENDENT AUDIT FIRM	69

## CORPORATE BOARDS

### BOARD OF DIRECTORS

(In office until April 15, 2004)

ANGELO AIRAGHI  
President

GIUSEPPE ZAMPINI  
Managing Director

Directors

ALBERTO DE BENEDICTIS

MARIO ORLANDO

ALBERTO PIANTA

ALBERTO ROSANIA

UGO VINTI

For the three-year period 2004-2006

GIUSEPPE VEREDICE  
President

GIUSEPPE ZAMPINI  
Managing Director

Directors

SIMONE BEMPORAD

GIANPIERO CUTILLO

ALBERTO DE BENEDICTIS

ROBERTO MAGLIONE

MARIO ORLANDO

### STATUTORY AUDITORS

(For the three-year period 2002-2004)

GIORGIO CUMIN  
President

Standing members

MARIA GABRIELLA ATTARDI

PAOLO MARIANI

Alternate members

ENRICO CASANOVA

ALDO PARODI

### INDEPENDENT AUDIT FIRM

(For the three-year period 2003-2005)

DELOITTE & TOUCHE S.p.A.

# DIRECTORS' REPORT

## Dear Shareholders

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

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

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

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

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

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

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

During the same period the following actions continued:

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

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

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

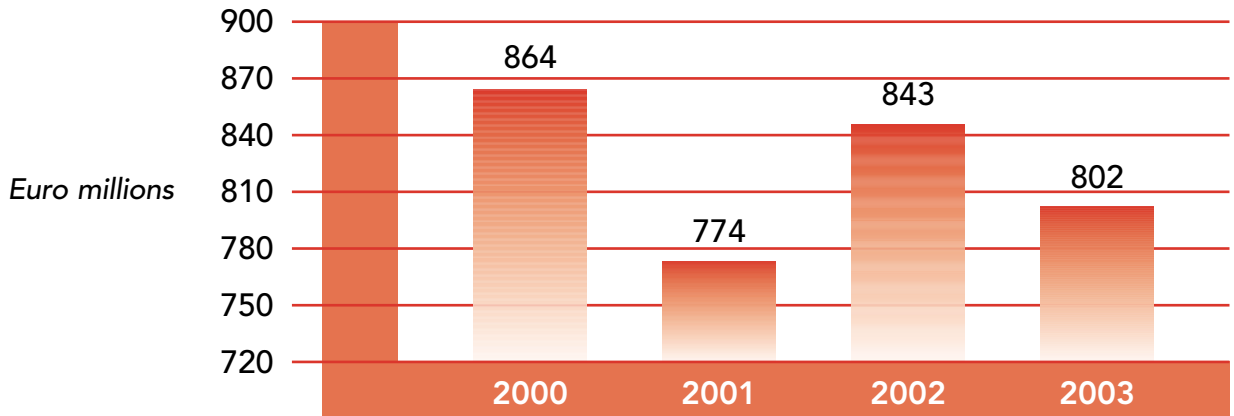
In the coming years the service market will be increasing, as a result of the sales of gas turbines in the years 2000-2001. In particular Ansaldo Energia has seen the market expand due to the increase in its installed capacity.

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

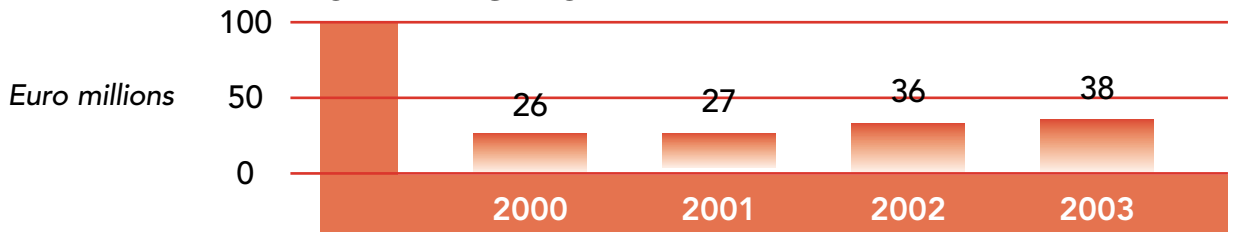
Below are summarised the most significant data for the past three years, in Euro/millions:

# RESULTS OF ANSALDO ENERGIA

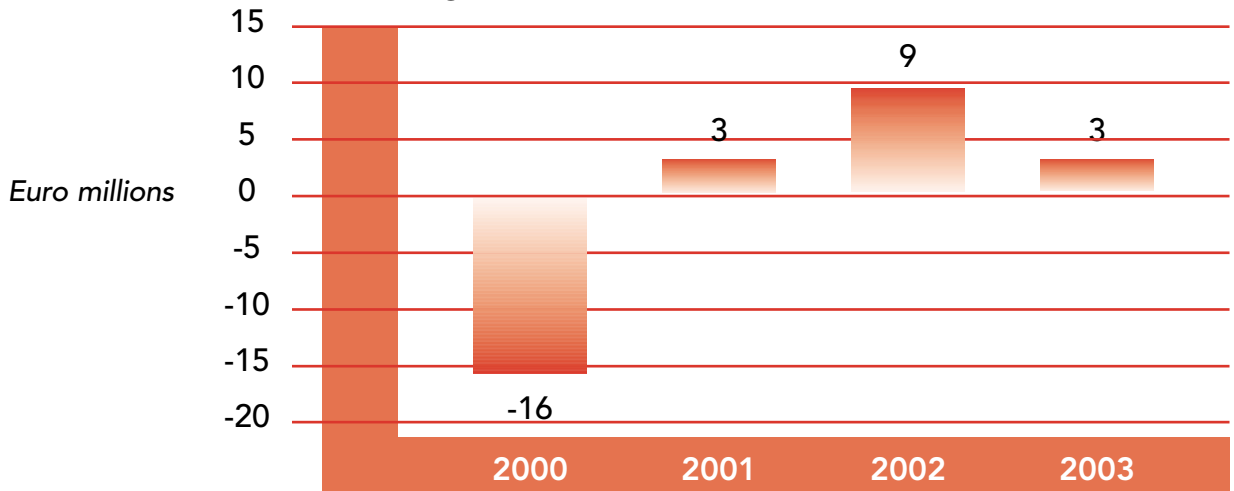
## REVENUES



## OPERATING PROFIT

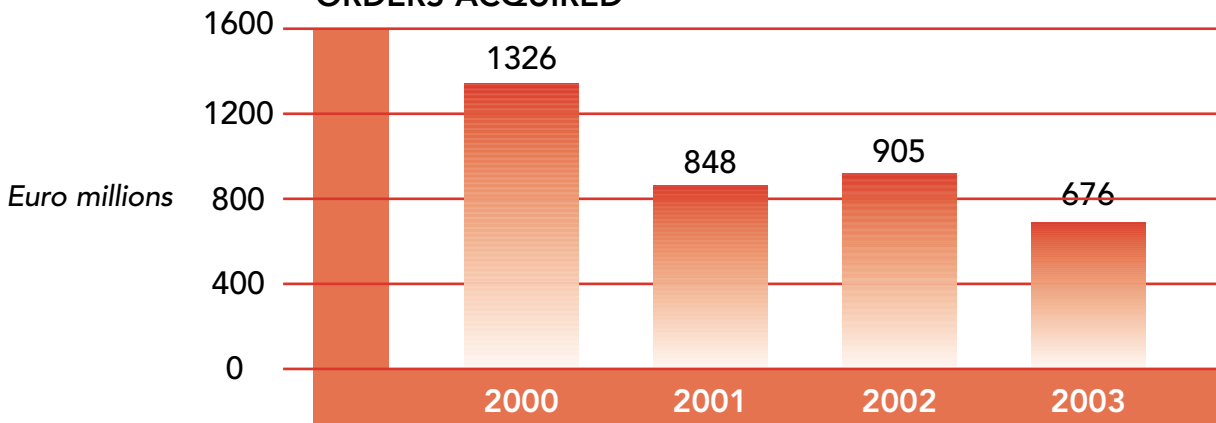


## NET PROFIT

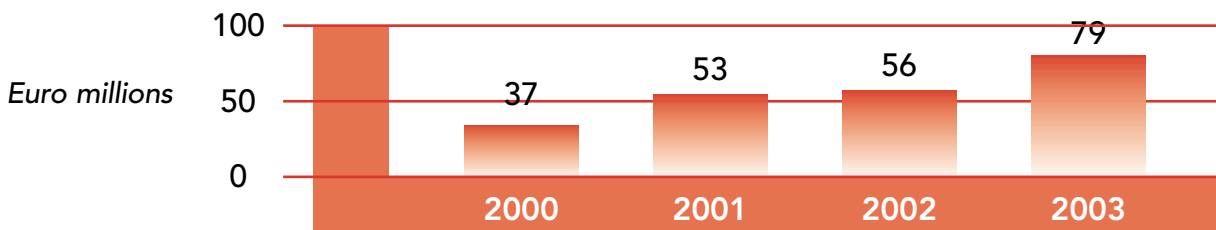




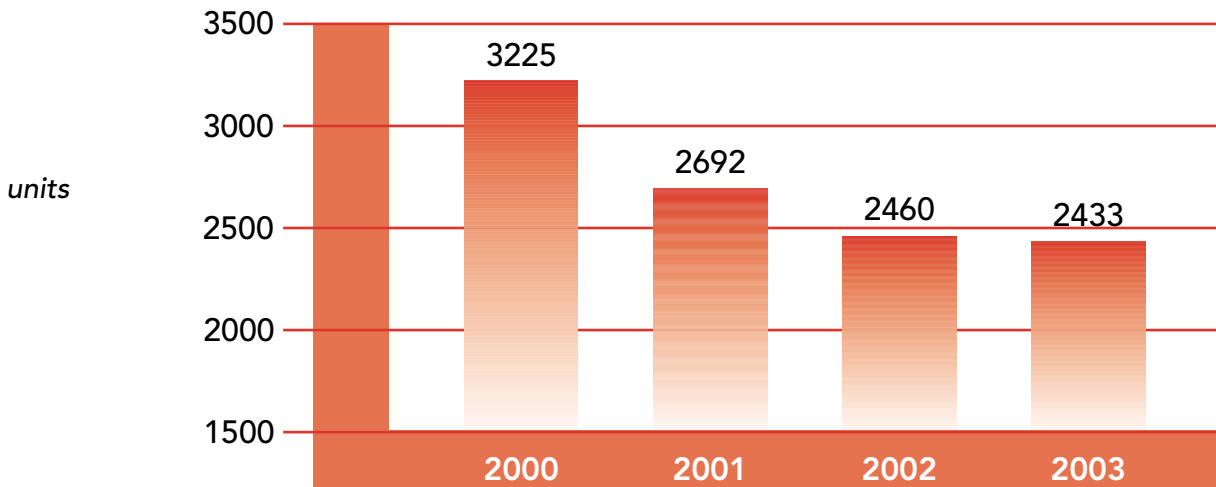
**ORDERS ACQUIRED**



**NET FINANCIAL POSITION**



**EMPLOYEES**



# COMMERCIAL ACTIVITY ANALYSIS

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

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

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

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

The breakdown of the orders by supply is as follows:

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

In terms of product type the acquisitions are as follows:

Product	Number of units
Gas turbines	6
Generators	6

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

## Plants and equipments

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



the necessary construction authorisation for new power plants and to problems of a financial nature that some investors have had to face.

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

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

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

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

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

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

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

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

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

## Italy

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

## Middle East

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



## Service

### Italy

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

# COMMERCIAL ACTIVITY ANALYSIS



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

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

Among the contracts acquired were:

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

## Middle and Far East

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

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

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

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

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

## Europe, North Africa and America

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

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

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

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

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

## Nuclear Division

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

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

### New Plants

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



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

### Waste Treatment / Decommissioning

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

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

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

### Service

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



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

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

## CORPORATE EVENTS AND ORGANISATIONAL STRUCTURE

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

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

Particular attention was paid to the following:

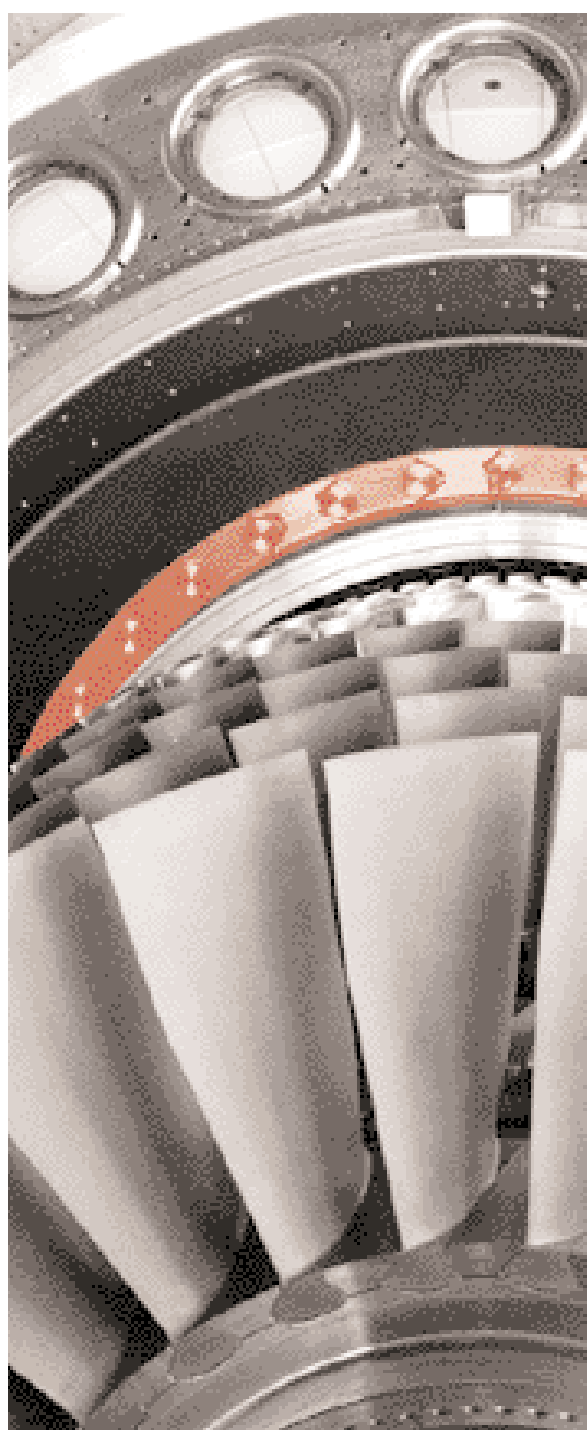
- revision of the planning processes and programming of the production activities, both in general and for contract orders;
- revision of the risk analysis systems in order to make them more effective;
- improvement of the erection processes of equipment in overseas or international sites;
- material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

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

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

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

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



# PRODUCTION ACTIVITY PERFORMANCE

## Production

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

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

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

### Gas turbines

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

### Generators

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

### Steam turbines

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

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

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

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



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

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

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

Concerning the manufacturing logistic support,

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

### Site works and start-up

In 2003 the following projects were completed and commenced:

- 12 Gas turbine groups
- 5 Steam turbine groups

new plants for a total of 3170 MW;

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

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

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

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

### Engineering

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

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

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



## PRODUCTION ACTIVITY PERFORMANCE



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

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

### Service

The service activities in 2003 performed better than expectations.

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

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

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

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

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

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

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



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

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

## Management of contracts

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

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

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

acceptance of the plant.

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

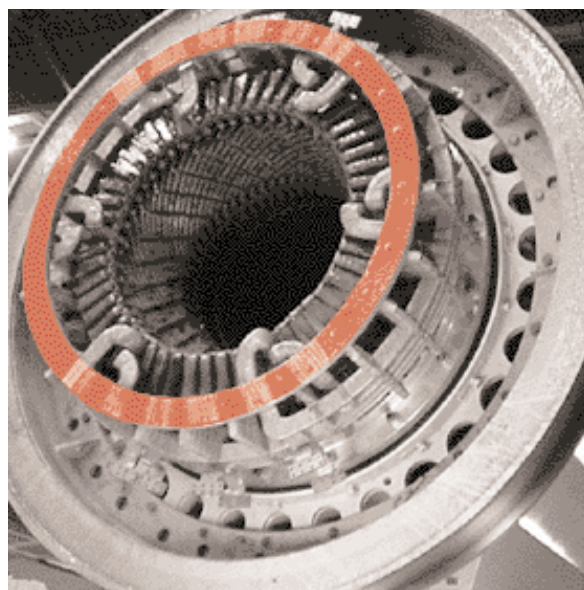
Finally, the results were more than satisfactory for the management of the Enipower order, with the commencement of the first units in compliance with the contractual objectives and the acceptance of the Ferrera Erbognone plant.

## Nuclear Division

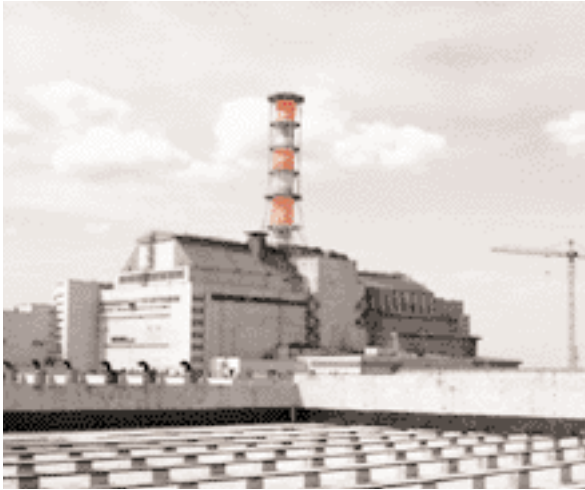
The year 2003 was marked by a significant production increase (approx. 55%) that reached Euro 36 million even allowing for the delay of activities at Cernavoda of 2 to 3 months.

### New Plant

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



## PRODUCTION ACTIVITY PERFORMANCE



### Waste Treatment / Decommissioning

The most significant objectives achieved in 2003 were:

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

### Service

The most significant objectives achieved in 2003 were:

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

## HUMAN RESOURCES



### Industrial relations

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

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

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

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

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

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

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

## HUMAN RESOURCES

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

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

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

### Personnel

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

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

The movements in departures and arrivals are shown below.

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

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

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

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

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

### Training

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

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

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

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

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

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

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

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



## QUALITY

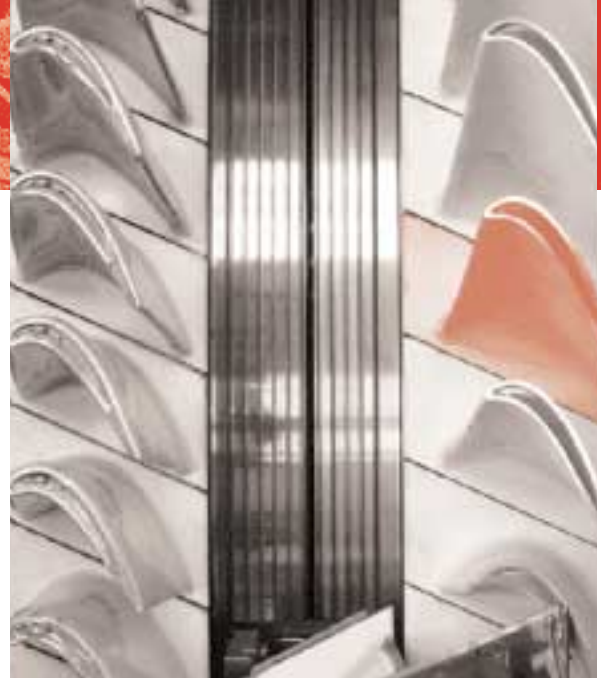
**D**uring 2003 the institutional control activity continued:

- internally, aimed at verifying the correct application in all of the business areas (both head office and on site) of the Company Management Systems with the objective of the continual improvement of the processes and products.
- externally, aimed at the evaluation and supervision of suppliers, monitoring the level of "performance" with the objective of contributing effectively to their technical development in order to - in the respecting of time and costs - continually improve the quality of service.

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

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

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



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

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

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

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

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

## INVESTMENTS

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

The most significant initiatives were:

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



## RESEARCH, DEVELOPMENT, TECHNICAL INNOVATION AND LICENSING

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

### Gas turbines

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

### Steam turbines

Also this year, the most important activity on this product line was that relating to the autonomous calculation programs, derived from those of the Licensor, for the design and for the development of reaction machines. The determining element, which was able to give this activity the contribution and the final direction, was the availability of the codes from the old ABB programmes, which were previously only held in the executable version.

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

### Turbogenerators

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

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

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

### Combined Cycle Plant

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

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

### Nuclear

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

## Licences Reports

### Gas turbines

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

### Steam turbines

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

### Generators

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

## Future perspectives

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



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

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

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

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

## PERFORMANCE OF THE MAIN COMPANIES OF THE GROUP

### Sagem S.r.l.

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

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

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

The performance of the company can be summarised as follows:

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

### Asia Power Projects Private LTD

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

In 2003 the company was involved in the following projects:

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

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

- Revenues from production: Euro 8.2 million;
- Net equity: Euro 15.7 million;
- Order portfolio at 31.12.03 amounts to Euro 8.5 million;
- Financial indebtedness was equal to Euro 12.8 million, of which Euro 10.6 million with Ansaldo Energia;
- The number of employees at the end of the year was 96 units.

## TRANSACTIONS WITH SUBSIDIARY, ASSOCIATE AND HOLDING COMPANIES

### Subsidiary and associated companies

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

The amounts shown in the Income Statement, Balance Sheet and Memorandum Accounts include both transactions of a commercial and financial nature under normal market conditions. An exception to this is the loan with the Indian subsidiary APPL, non-interest bearing in line with Indian legislation.

### Holding company

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

The transactions of both a short and medium/long term nature are regulated at market conditions. The Company has also a mandate, for residual activity, from Finmeccanica SpA for the management of several overseas contracts. The receivables/payables, costs and revenues of the above-mentioned companies are summarised as follows.

### TRANSACTIONS WITH HOLDING, SUBSIDIARY & ASSOCIATED COMPANIES (in Euro/thousands)

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

## ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

### Results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Financial position**

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

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

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

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

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

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

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

# ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

SCHEDULE FOR ANALYSIS OF RESULT (in Euro/thousands)	31/12/2003	31/12/2002
<b>A. - REVENUES</b>	<b>746,962</b>	<b>842,847</b>
Changes in inventory in working progress semi-finished and finished	55,374	
Increase of internally constructed assets	139	137
<b>B. - VALUE OF PRODUCTION "NORMAL"</b>	<b>802,475</b>	<b>842,984</b>
Consumption of materials and external services	(627,731)	(660,509)
<b>C. - ADDED VALUE</b>	<b>174,744</b>	<b>182,475</b>
Cost of labour	(126,169)	(134,878)
<b>D. - GROSS OPERATING MARGIN</b>	<b>48,575</b>	<b>47,597</b>
Amortisation & depreciation	13,027	13,489
Other adjustments	1,325	4,580
Provisions for risks and charges	8,933	
Other income (charges)	12,966	6,085
<b>E. - OPERATING RESULT</b>	<b>38,256</b>	<b>35,613</b>
Financial income and charges	(1,173)	(3,608)
Adjustment to financial assets	(16,346)	(913)
<b>F. - RESULT BEFORE EXTRAORDINARY ITEMS</b>	<b>20,737</b>	<b>31,092</b>
Extraordinary income and (charges)	(11,845)	(16,237)
<b>G. - RESULT BEFORE TAXES</b>	<b>8,892</b>	<b>14,855</b>
Taxes	5,798	5,631
<b>H. - RESULT FROM ORDINARY ACTIVITIES</b>	<b>3,094</b>	<b>9,224</b>
<b>I. - PROFIT (LOSS) FOR THE YEAR</b>	<b>3,094</b>	<b>9,224</b>

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

	31/12/2003	31/12/2002
<b>A. - FIXED ASSET</b>		
Intangible assets	134	1,365
Tangible assets	107,159	109,317
Financial assets	6,249	18,246
	<b>113,542</b>	<b>128,928</b>
<b>B. - WORKING CAPITAL</b>		
Inventory	3,244,646	2,913,232
Trade receivables	362,934	416,494
Other receivables	52,311	85,164
Trade payables	(277,966)	(251,407)
Payments on account	(3,369,610)	(3,127,034)
Provision for risk and charges	(66,482)	(70,708)
Other liabilities	(63,967)	(74,903)
	<b>(118,134)</b>	<b>(109,162)</b>
<b>C. - CAPITAL INVESTED</b>		
Deduct liabilities (A+B)	<b>(4,592)</b>	<b>19,766</b>
<b>D. - EMPLOYEE LEAVING INDEMNITY</b>		
	<b>(50,274)</b>	<b>(54,817)</b>
<b>E. - CAPITAL INVESTED</b>		
deduct (C-D) liabilities and staff leaving indemnity covered by:	<b>(54,866)</b>	<b>(35,051)</b>
<b>F. - OWN CAPITAL</b>		
Share Capital paid in	11,967	11,967
Profits brought forward	9,224	
Profits/(losses) for the year net of losses covered	3,094	9,224
	<b>24,285</b>	<b>21,191</b>
<b>G. - FINANCIAL INDEBTEDNESS MEDIUM/LONG TERM</b>		
Medium/long term loans	15,996	17,872
Financial asset receivables	(12,606)	(6,475)
	<b>3,390</b>	<b>11,397</b>
<b>H. - FINANCIAL INDEBTEDNESS SHORT TERM (NET AVAILABLE CASH)</b>		
Short term loans	2,572	10,824
Cash and short term	(85,113)	(78,463)
	<b>(82,541)</b>	<b>(67,639)</b>
<b>I. - TOTAL, AS IN E (F+G+H)</b>	<b>(54,866)</b>	<b>(35,051)</b>

# ANALYSIS OF THE RESULTS AND FINANCIAL POSITION

CASH FLOW STATEMENT (in Euro/thousands)	31/12/2003	31/12/2002
<b>A. - BEGINNING CASH AVAILABLE (BEGINNING INDEBTEDNESS)</b>	<b>67,639</b>	<b>64,549</b>
<b>B. - CASH FLOW FROM OPERATING ACTIVITY</b>		
Profit (loss) for the year	3,094	9,224
Amortisation and depreciation	13,028	13,489
(Gains) losses on fixed assets	(53)	(2,356)
(Revaluations) write-downs on fixed assets	54	44
Change in the capital	8,971	(22,720)
Change in staff leaving indemnity provision	(4,543)	(2,203)
	<b>20,551</b>	<b>(4,522)</b>
<b>C. - CASH FLOW FROM INVESTMENT IN FIXED ASSETS</b>		
Investments in fixed assets:		
Tangibles	(9,648)	(14,250)
Financial	(4,522)	(217)
Realizable price or reimbursement of fixed assets	16,528	21,862
	<b>2,358</b>	<b>7,395</b>
<b>D. - CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
New financing		1,771
Net decrease in financial assets	(6,131)	177
Loan repayments	(1,876)	(1,731)
	<b>(8,007)</b>	<b>217</b>
<b>E. - DISTRIBUTION OF PROFITS</b>		
<b>F. - CASH FLOW FOR THE PERIOD (B+C+D+E)</b>	<b>14,902</b>	<b>3,090</b>
<b>F1 - EFFECT OF CORPORATE OPERATIONS ON CASH FLOW</b>		
<b>G. - ENDING CASH AVAILABLE (ENDING INDEBTEDNESS) (A+F)</b>	<b>82,541</b>	<b>67,639</b>

## MARKET PROSPECTS AND COMPETITIVE POSITIONING

### Evolution of the energy generation plant market

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

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

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

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

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

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

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

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

### Competition and positioning of Ansaldo Energia

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

In the open market, steam turbines have been dominated by the Japanese Mitsubishi and Toshiba groups and the Korean Doosan, with an order of four 1,000 MW turbines for nuclear power stations. General Electric has almost a zero direct share, but Toshiba and Doosan use its technology and support. Siemens and Alstom Power both have a share of less than 10%. The performance of Alstom is particularly negative, in crisis where it was once leader.

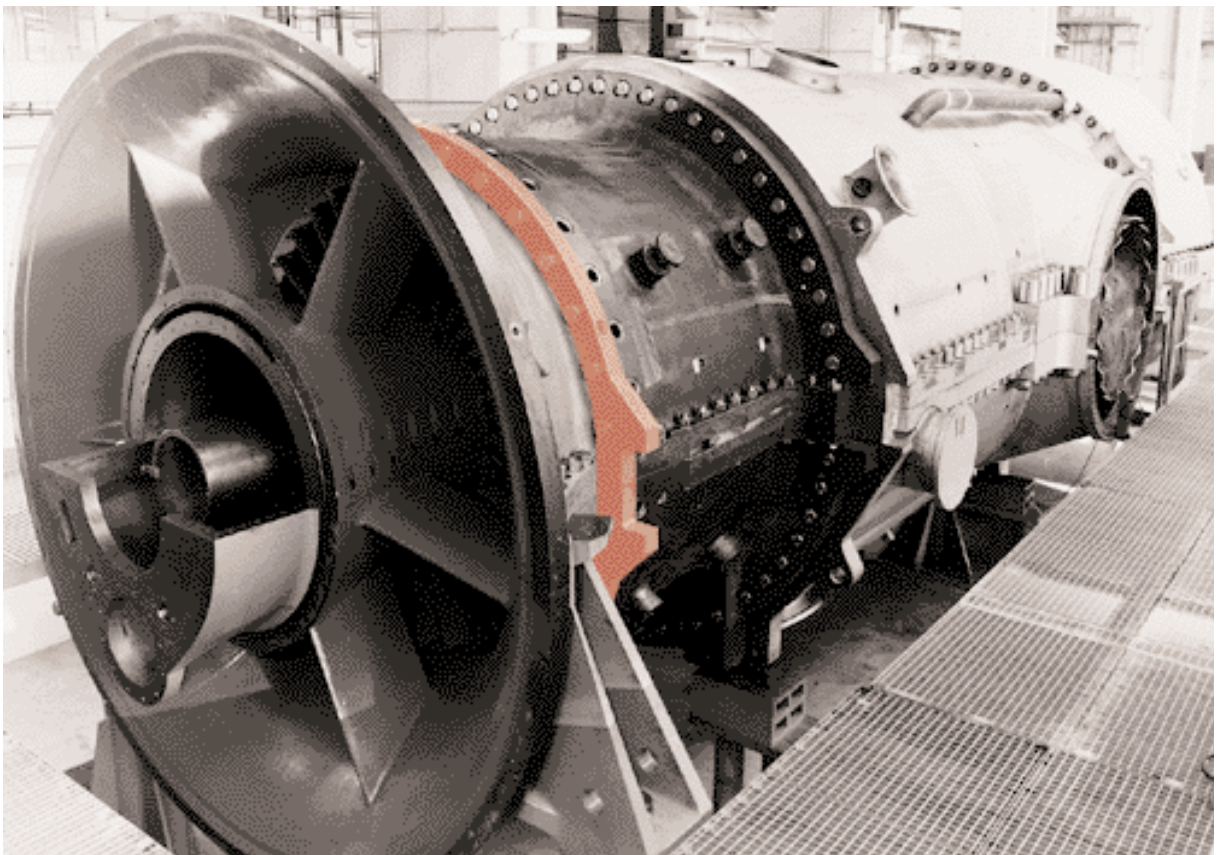
Japanese supremacy is more evident in respect of the machinery market above 50 MW: Mitsubishi, with a 35% share, has become leader also in gas turbines.

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

## MARKET PROSPECTS AND COMPETITIVE POSITIONING

towards the end of the 1990's, is further widening its product portfolio with its entry into the industrial turbines sector, purchased from Alstom. As for Ansaldo Energia, in 2003 the company acquired its target share of gas turbines (around 2000 MW), thanks to the Iranian orders, while its future potential on the Italian market remains unaltered.

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



## SIGNIFICANT EVENTS AFTER THE YEAR END

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



## FORECAST EVOLUTION OF THE OPERATIONS

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

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

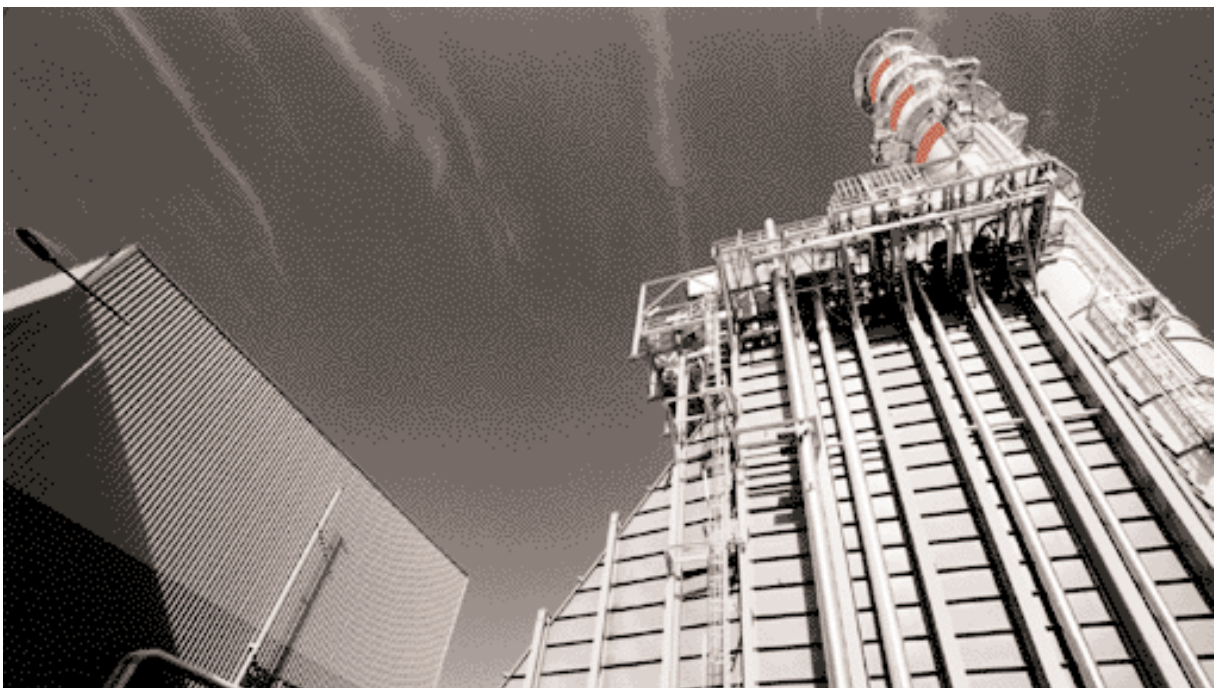
The year 2004 will therefore be a difficult year from a commercial view point during which emphasis must be placed on following the initiatives related to the construction of new plant in Italy for the above reasons.

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

significant reduction in profitability and cash flow in 2004.

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

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





FINANCIAL STATEMENTS AS AT 31.12.03

# FINANCIAL STATEMENTS AS AT 31.12.03

## BALANCE SHEET – ASSETS (in Euro)

### FIXED ASSETS

#### INTANGIBLE ASSETS

Research, development and advertising costs

133,651 1,364,849

**133,651 1,364,849**

#### TANGIBLE ASSETS

Land and buildings

57,148,203 59,443,265

Plant and machinery

39,752,414 30,082,627

Industrial and commercial equipment

4,646,891 5,809,080

Other assets

1,667,691 1,776,199

Assets under construction and advances

3,943,678 12,205,814

**107,158,877 109,316,985**

#### FINANCIAL ASSETS

Holdings in:

Subsidiary companies

1,242,698 1,149,850

Associated companies

30,490 4,368,766

Other companies

853,691 918,132

**2,126,879 6,436,748**

Transfer for increase in capital  
other companies

40,244 32,372

**40,244 32,372**

Receivables  
others

16,687,568 18,252,631

**16,687,568 18,252,631**

### Total financial assets

**18,854,691 24,721,751**

### TOTAL FIXED ASSETS

**126,147,219 135,403,585**

### CURRENT ASSETS

#### INVENTORY

Raw, ancillary and consumables

53,681,087 58,225,968

Work in progress and semi-finished

55,374,319

Work in progress on job orders

3,128,137,449 2,833,033,824

Payments on account

7,452,829 21,972,812

**3,244,645,684 2,913,232,604**

#### RECEIVABLES (\*)

Customers

361,062,456 411,079,129

Subsidiary companies

10,994,436 18,435,023

Associated companies

529,824 3,719,874

Holding companies

51,965,831 896,625

Others

45,597,265 71,962,883

**470,149,812 506,093,534**

#### CASH AND BANKS

Bank and postal accounts

13,044,739 49,588,499

Cash and equivalents

115,539 110,760

**13,160,278 49,699,259**

### TOTAL CURRENT ASSETS

**3,727,955,774 3,469,025,397**

### PREPAYMENTS AND ACCRUED INCOME

PREPAYMENTS AND ACCRUED INCOME

17,049,874 24,327,858

### TOTAL ASSETS

**3,871,152,867 3,628,756,840**

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

1,820,000 6,808,000

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

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

# FINANCIAL STATEMENTS AS AT 31.12.03

INCOME STATEMENT (in Euro)	31/12/2003	31/12/2002
<b>VALUE OF PRODUCTION</b>		
Revenues from sales and services	451,384,701	549,833,396
Change in inventory of work in progress semi-finished and finished goods	55,374,319	
Change in contract work in progress	295,103,624	290,951,598
Increase of internally constructed assets	139,161	137,126
Other income:		
<i>contributions in the year</i>	473,288	2,063,776
<i>recovery of expenses</i>	21,139,105	6,792,459
<i>gains on asset disposals</i>	57,407	551,028
<i>other income</i>	16,810,775	8,635,770
	<b>840,482,380</b>	<b>858,965,153</b>
<b>COSTS OF PRODUCTION</b>		
raw, ancillary and consumables	<b>379,348,685</b>	<b>404,084,661</b>
services	<b>260,228,730</b>	<b>268,085,070</b>
use of third party assets	<b>2,906,583</b>	<b>3,655,370</b>
personnel		
<i>wages and salaries</i>	92,014,274	98,730,069
<i>social security charges</i>	26,671,609	28,554,629
<i>staff leaving indemnity</i>	6,835,261	7,150,884
<i>pension costs</i>	92,349	250,151
<i>other costs</i>	555,877	191,950
	<b>126,169,370</b>	<b>134,877,683</b>
Amortization, depreciation and write-downs		
<i>amortization of intangible assets</i>	1,231,198	2,497,754
<i>depreciation of tangible assets</i>	11,796,260	10,991,463
<i>write-down of amounts   in current assets</i>	1,324,582	0
	<b>14,352,040</b>	<b>13,489,217</b>
Change in inventory of raw, ancillary and consumable goods	2,516,070	(9,411,383)
Provision for risks	8,933,963	4,580,000
Other provisions	<b>2,028,812</b>	
Other operating charges		
<i>loss on asset sales</i>	4,705	178,474
<i>other taxes</i>	2,002,670	1,999,147
<i>others</i>	3,733,901	1,813,029
	<b>5,741,276</b>	<b>3,990,650</b>
<b>TOTAL COST OF PRODUCTION</b>	<b>802,225,529</b>	<b>823,351,268</b>
<b>DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION</b>	<b>38,256,851</b>	<b>35,613,885</b>