



ANNUAL REPORT

2004

Ansaldo

Energia

A Finmeccanica Company

ANNUAL REPORT 2004





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A Finmeccanica Company

CONTENTS

CORPORATE BOARDS	4
DIRECTOR'S REPORT	5
Results of Ansaldo Energia Spa	6
Commercial activity analysis	8
Corporate events and organisational structure	12
Manufacturing activity performance	13
Human resources	17
Quality	20
Investments	21
Research, development, technical innovation and licensing	22
Results of the main companies of the group	25
Transactions with subsidiary, associate and holding companies	26
Analysis of the results and financial position	28
Market prospects and competitive positioning	33
Significant events after the year end	35
Forecast evolution of the operations	36
FINANCIAL STATEMENTS	
Balance sheet	38
Memorandum accounts	39
Income statement	40
Notes to the financial statements	42
PROPOSAL TO THE SHAREHOLDERS' MEETING	81
REPORT OF THE STATUTORY AUDITORS	82
REPORT OF THE INDEPENDENT AUDIT FIRM	83

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.

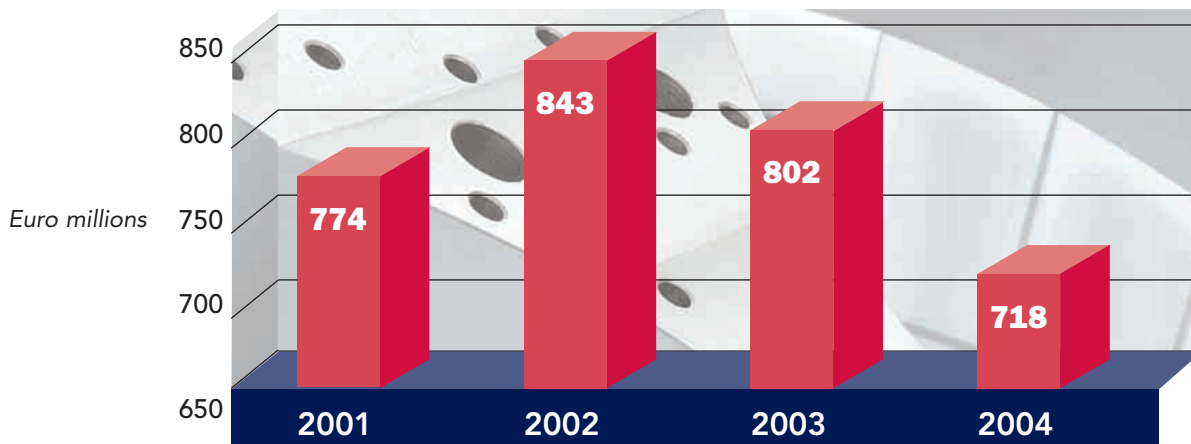
An ambitious objective of the plan is the achievement of a complete autonomy in the manufacturing of its products, and improvements in performance, reliability and environmental impact.

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.

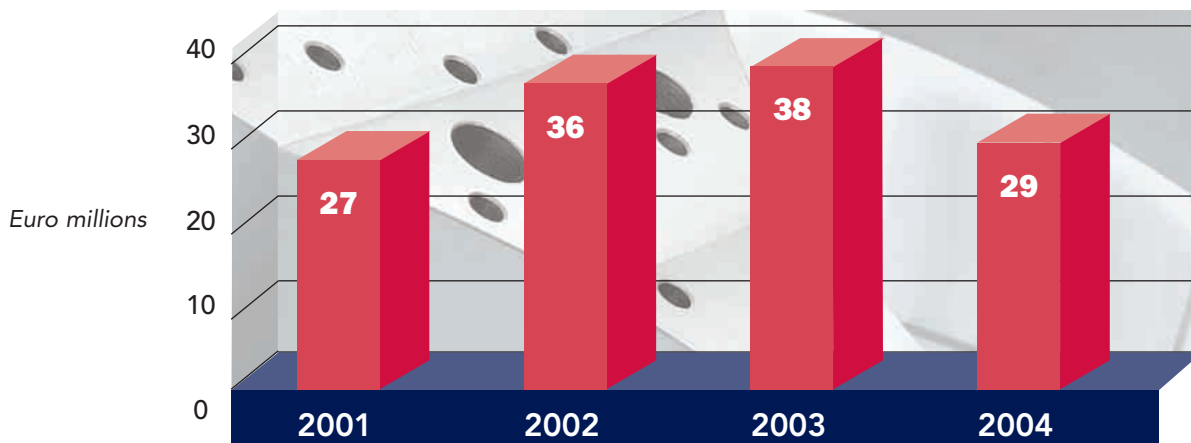
Here below is a summary of the most significant data for the past three years, in Euro/millions:

RESULTS OF ANSALDO ENERGIA

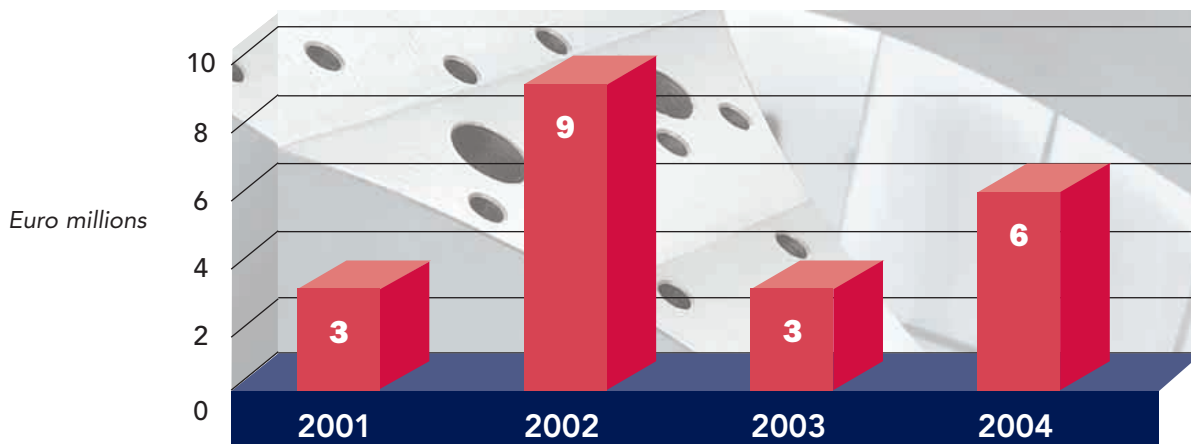
REVENUES



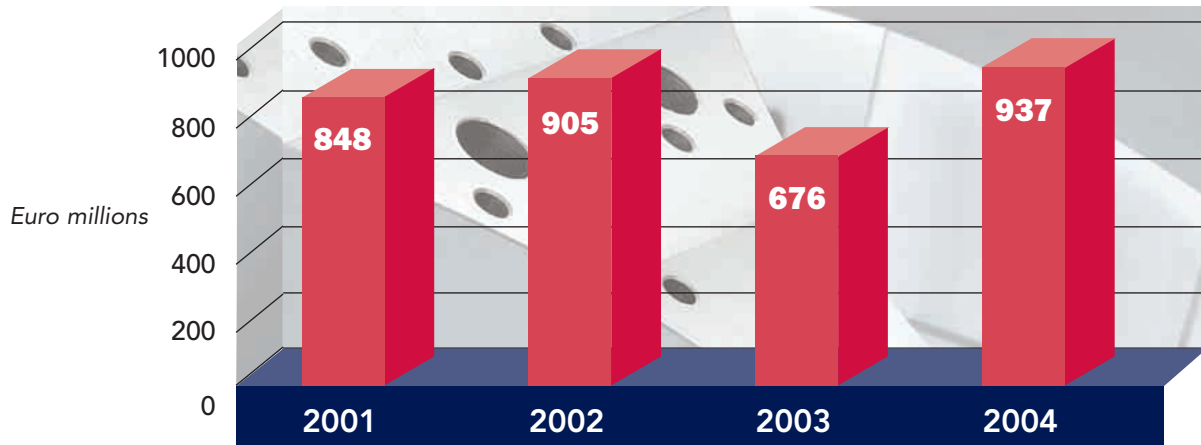
OPERATING INCOME



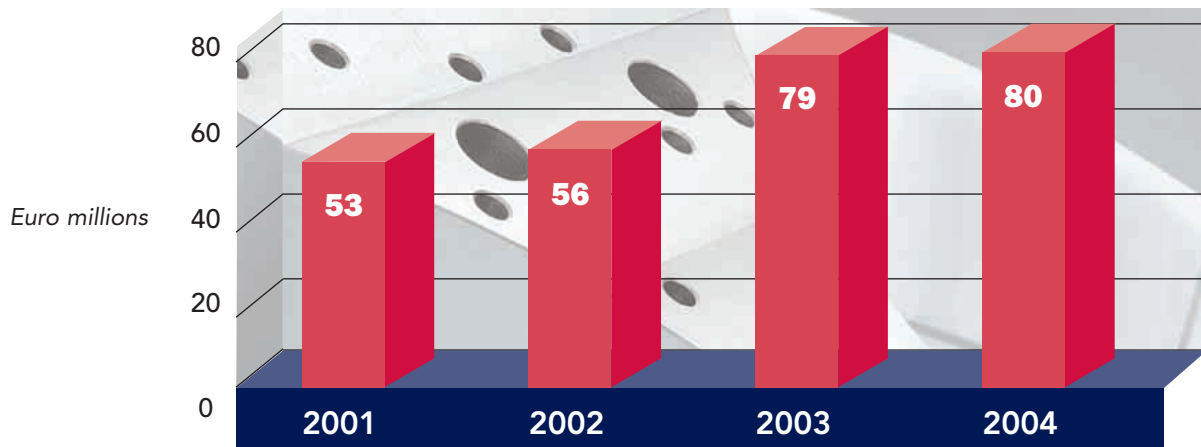
NET INCOME



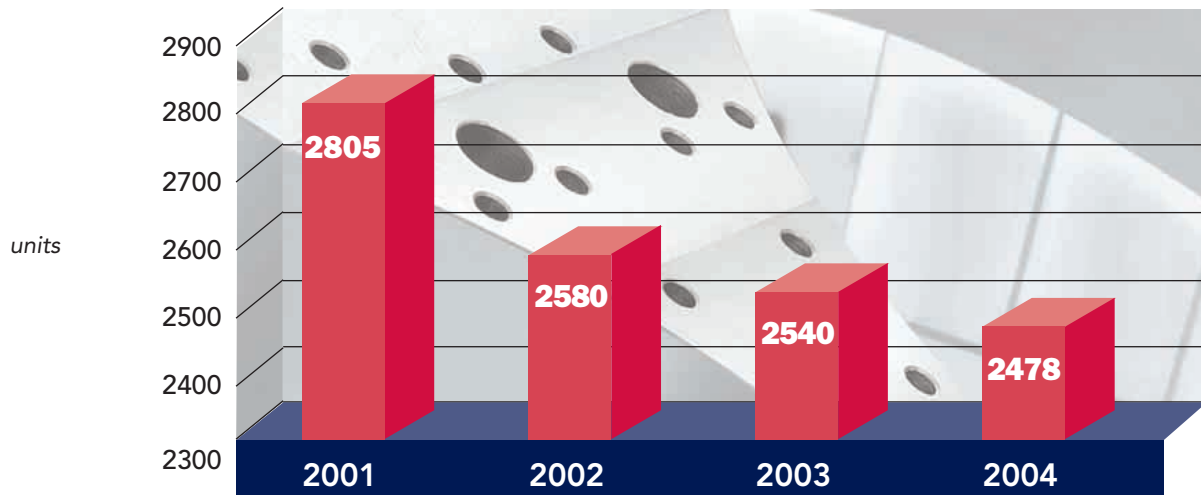
ORDERS ACQUIRED



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.

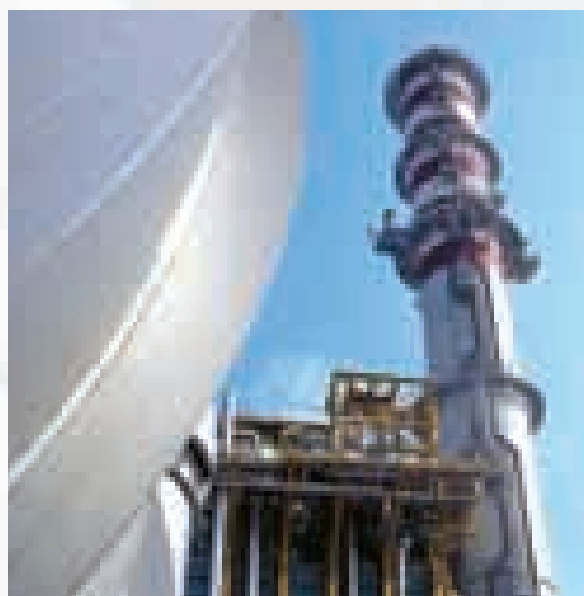
company, similarly there was a prevalent renewal of other managers (Operations, Purchasing, Cost Control, Risk Management) with younger but internal resources, and with the exception of only one external individual in the Service Unit that was recruited from a competitor. The new structure also takes 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:

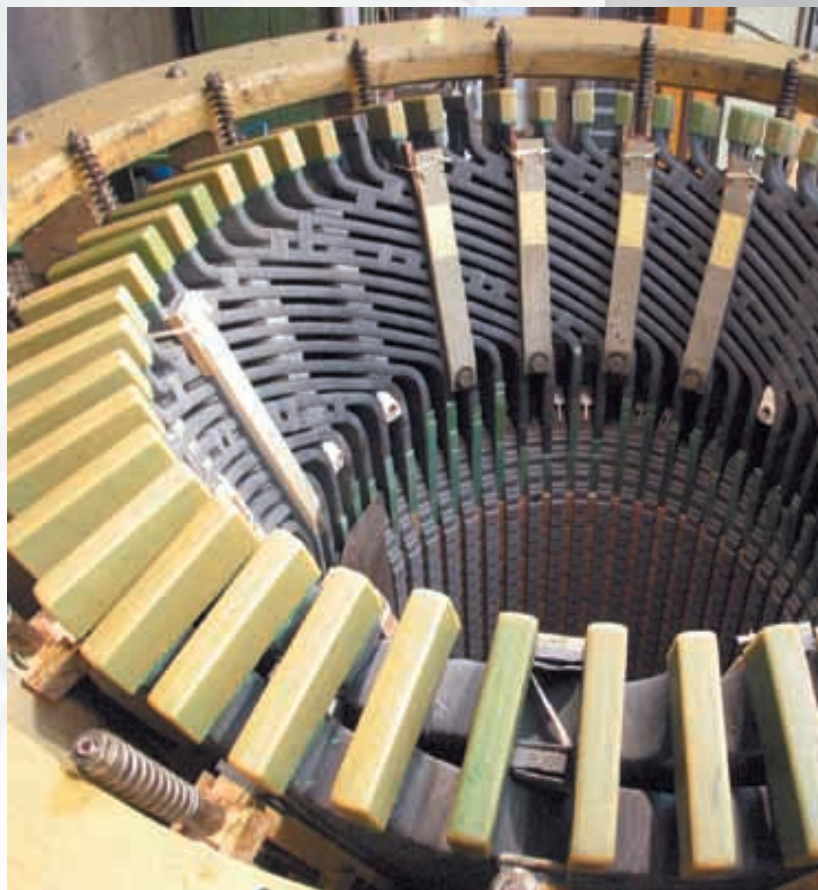
- generator line
- gas and steam turbine line
- gas and steam turbine blading line

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, Ferrara, 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 to 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

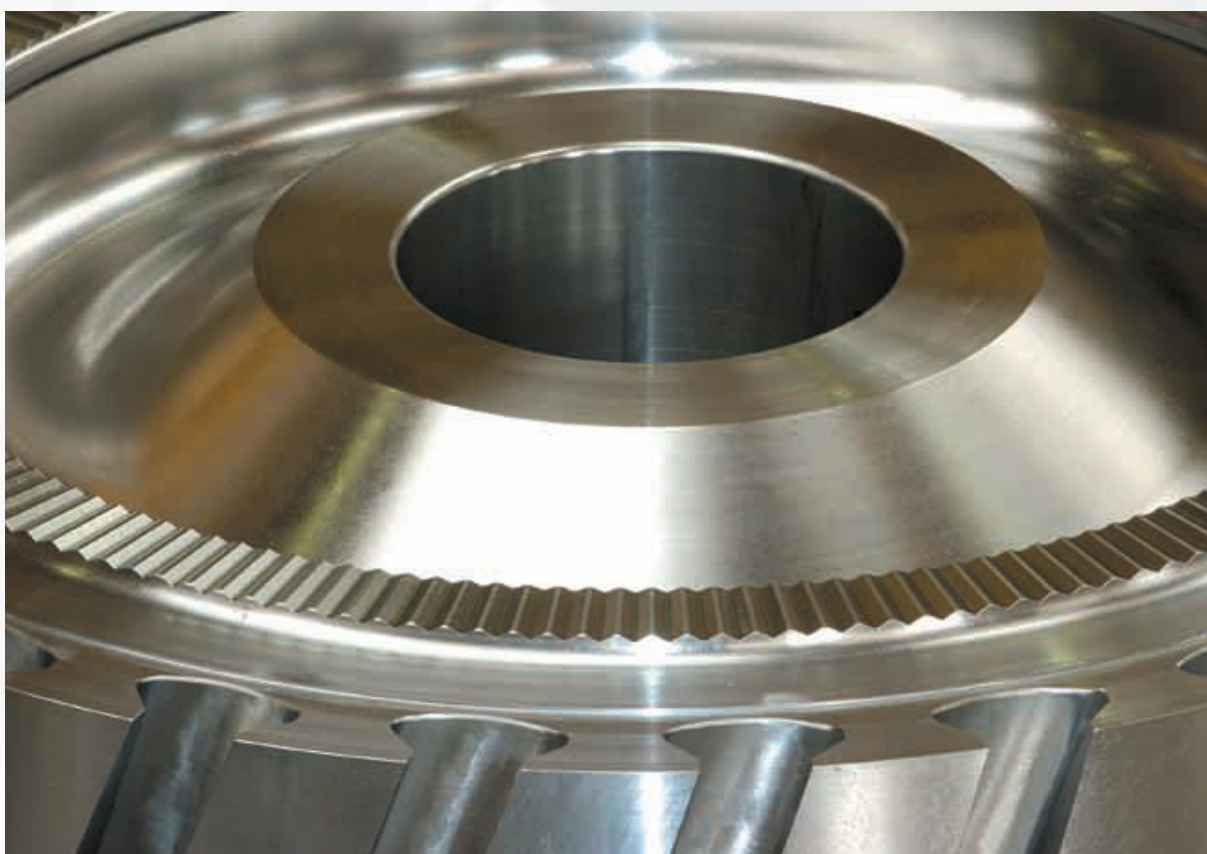
Ansaldo Energia Spa operates with the Companies in which it has holdings as an industrial partner, providing adequate commercial and financial support.

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	720,422	746,962
Changes in work in progress and finished semi-finished and finished	(2,839)	55,374
Increases of internally constructed assets	329	139
B. - VALUE OF PRODUCTION "NORMAL"	717,912	802,475
Consumption of materials and external services	(550,151)	(627,731)
C. - OPERATING EXPENSES	167,761	174,744
Cost of labour	(128,798)	(126,169)
D. - GROSS OPERATING MARGIN	38,963	48,575
Amortisation and depreciation	12,771	13,027
Other adjustments	2,485	1,325
Provisions for risks and charges	4,750	8,933
Other income (charges)	10,206	12,966
E. - INCOME FROM OPERATIONS	29,163	38,256
Financial income and charges	1,052	(1,173)
Adjustment of financial assets	2,072	(16,346)
F. - INCOME BEFORE EXTRAORDINARY ITEMS	32,287	20,737
Extraordinary income and expenses	(16,816)	(11,845)
G. - INCOME BEFORE TAXES	15,471	8,892
Taxes - current and deferred	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 indemnity provision	(217)	(4,543)
	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

31/12/2004	31/12/2003
0	133,651
450,000	0
450,000	133,651

TANGIBLE ASSETS

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

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

FINANCIAL ASSETS

Holdings in
subsidiary companies
associated companies
other companies

613,678	1,242,698
77,608	30,490
854,945	853,691
1,546,231	2,126,879

Transfer for increase in capital
other companies

0	40,244
0	40,244

Receivables (*)
others

14,609,667	16,687,568
14,609,667	16,687,568

Other securities

16,155,898	18,854,691
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TOTAL FIXED ASSETS

123,261,787	126,147,219
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WORKING CAPITAL

INVENTORY

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

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

RECEIVABLES

customers
subsidiary companies
associated companies
parent companies
tax receivables
others

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

CASH AND BANKS

Bank and postal accounts
Cash and cash equivalents

12,110,266	13,044,739
99,404	115,539
12,209,670	13,160,278

TOTAL WORKING CAPITAL

4,096,577,078	3,727,955,774
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PREPAYMENTS AND ACCRUED INCOME

prepayments and accrued income

11,638,622	17,049,874
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TOTAL ASSETS

4,231,477,487	3,871,152,867
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2,698,000	1,820,000
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(*) Amounts due within one year of which others

BALANCE SHEET LIABILITIES (in Euro)

	31/12/2004	31/12/2003
NET EQUITY		
<i>SHARE CAPITAL</i>	11,966,812	11,966,812
<i>LEGAL RESERVE</i>	615,923	461,217
<i>PROFIT (LOSS) CARRIED FORWARD</i>	11,702,513	8,763,097
<i>PROFIT (LOSS) FOR THE YEAR</i>	6,484,334	3,094,122
	30,769,582	24,285,248
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
	74,973,164	66,481,483
PROVISION FOR STAFF LEAVING INDEMNITIES	50,056,856	50,274,124
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
	4,062,156,783	3,708,935,409
ACCRUED LIABILITIES AND DEFERRED INCOME		
accrued liabilities and deferred income	13,521,102	21,176,603
TOTAL LIABILITIES	4,231,477,487	3,871,152,867
(*) Amounts due over one year of which others	10,480,000	13,580,000
	10,480,000	13,580,000
MEMORANDUM ACCOUNTS (in Euro)		
Unsecured guarantees		
Guarantees		
- in favour of third parties	485,000	1,000,000
Purchase and sales commitments	3,215,266,000	2,920,901,000
Others	1,274,831,997	1,546,470,000
	4,490,582,997	4,468,371,000

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	5,204,625	2,516,070
Provision for risks	4,750,000	8,933,963
Other provisions	2,029,857	2,028,812
Other operating costs		
<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)
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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)
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Pre tax result

15,471,690	8,892,149
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Current and deferred taxes

8,987,356	5,798,027
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PROFIT (LOSS) FOR THE YEAR

6,484,334	3,094,122
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