EDISON MISSION ENERGY
Form 10-K/A
August 18, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 2

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File Number 000-24890

Edison Mission Energy

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4031807** (I.R.S. Employer Identification No.)
18101 Von Karman Avenue **Irvine, California** (Address of principal executive offices)	**92612** (Zip Code)

(949) 752-5588
(Registrant's telephone number, including area code)

Securities registered pursuant to Secion 12(b) of the Act:

9-7/8% Cumulative Monthly Income Preferred Securities, Series A* (Title of Class)	**New York Stock Exchange** (Name of each exchange on which registered)
8-1/2% Cumulative Monthly Income Preferred Securities, Series B* (Title of Class)	**New York Stock Exchange** (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

* Issued by Mission Capital, L.P., a limited partnership in which Edison Mission Energy is the sole general partner. The payments of distributions on the preferred securities and certain payments on liquidation or redemption are guaranteed by Edison Mission Energy.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ý

Aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 28, 2002: $0. Number of shares outstanding of the registrant's Common Stock as of March 27, 2003: 100 shares (all shares held by an affiliate of the registrant).

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A for the fiscal year ended December 31, 2002 is being filed to include revised financial statements of Four Star Oil & Gas Company and ISAB Energy S.r.l., equity affiliates of Edison Mission Energy, included in Part IV, Item 15 of Edison Mission Energy's annual report on Form 10-K for the fiscal year ended December 31, 2002 filed on March 28, 2003 and Edison Mission Energy's annual report on Form 10-K/A Amendment No. 1 filed on June 30, 2003, respectively.

The financial statements with respect to Four Star Oil & Gas Company are being filed solely for the purpose of revising the "Future production and development costs," which are included in the standardized measure information in Note 11 to the financial statements.

The financial statements with respect to ISAB Energy S.r.l. are being filed for the purpose of revising the reconciliation of net income (loss) and net equity (deficit) for each of the three years ended December 31, 2002 included in Note 9 "Reconciliation to Generally Accepted Accounting Principles in the United States" to the financial statements, which provides for a reconciliation of net income (loss) and net equity (deficit) from Italian generally accepted accounting principles to United States generally accepted accounting principles. The revision in the reconciliation is the result of a clerical error in the computation of the net deferred tax asset at the end of each year for the three years ended December 31, 2002.

This Amendment No 2 does not update any other disclosures to reflect developments since the original date of filing.

The aforementioned revisions to the financial statements of Four Star Oil & Gas Company and ISAB Energy S.r.l. had no impact on Edison Mission Energy's consolidated financial statements included in Part II, Item 8 of Edison Mission Energy's annual report on Form 10-K for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission on March 28, 2003. Unaffected items, including Edison Mission Energy's consolidated financial statements, have not been repeated in this Amendment No 2.

2

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)
(2) List of Financial Statement Schedules

The following items are filed as a part of this report pursuant to Item 14(d) of Form 10-K:

Page

(d)

Financial Statement Schedules

The financial statements referred to in (a)(2) above represent the entities that are Investments in Unconsolidated Affiliates, which were 50% or less owned by Edison Mission Energy and met the requirements of Rule 3-09 of Regulation S-X. The statements with respect to ISAB Energy S.r.l. are prepared in accordance with generally accepted accounting principles in Italy which differ from generally accepted accounting principles in the United States. See Note 9 to the financial statements on page 64.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of
Four Star Oil & Gas Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Four Star Oil & Gas Company (the Company) and its subsidiary at December 31, 2002 and 2001 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2000 and for the year then ended were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those statements in their report dated March 2, 2001.

As described in Note 3 to the financial statements, the Company has significant transactions with affiliated companies. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly-unrelated parties.

/S/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 7, 2003

FOUR STAR OIL & GAS COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001

	2002	2001
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 21	$ 23
Accounts receivable:		
Trade	3	6
Related parties and affiliates	46	35
Other receivables	7	22
Other current assets	4	2
Total current assets	81	88
Properties, plant and equipment (successful-efforts method)	955	934
Less accumulated depreciation, depletion and amortization	(673)	(629)
Net properties, plant and equipment	282	305
Deferred charges and other assets	1	4
Total	$ 364	$ 397
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7	$ 5
Related party and affiliate payables	54	31
Taxes payable	10	8
Total current liabilities	71	44
Note payable to affiliate	169	239
Deferred income taxes	54	57
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value. 400 Class A shares authorized, 96 shares and 230 shares issued and outstanding at December 31, 2002 and 2001, respectively; 400 Class B authorized, 300 shares issued and outstanding at December 31, 2002 and 2001		
Common stock, $1.00 par value, 1,000 Class A shares authorized, issued and outstanding; 2,000 Class B shares authorized, 373 shares and 239 shares issued and outstanding at December 31, 2002 and 2001, respectively; 1,000 Class C shares authorized, 25 shares issued and outstanding at December 31, 2002 and 2001		
Additional paid-in capital	29	57
Retained earnings	41	
Total stockholders' equity	70	57
Total	$ 364	$ 397

	2002	2001

The accompanying notes are an integral part of these consolidated financial statements.

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
		(in millions)	
Revenues:			
Crude oil	$ 45	$ 46	$ 63
Natural gas	139	219	252
Natural gas liquids	24	38	7
Other	27	14	18
	235	317	340
Costs and expenses:			
Operating expenses	47	38	35
General and administrative expenses	14	13	10
Depreciation, depletion and amortization	44	38	42
Impairment of oil and gas properties	7	7	25
Taxes other than income taxes	19	25	28
	131	121	140
Operating income	104	196	200
Other income (expense):			
Interest expense	(7)	(13)	(18)
Interest income and other	6	1	1
Income before income taxes	103	184	183
Provision (benefit) for income taxes:			
Federal:			
Current	36	45	46
Deferred	(4)	3	6
State and local:			
Current	(1)	6	4
	31	54	56
Net income	$ 72	$ 130	$ 127

The accompanying notes are an integral part of these consolidated financial statements.

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Common shares			Preferred shares						
	Class A	**Class B**	**Class C**	**Class A**	**Class B**	**Common stock**	**Preferred stock**	**Paid-in capital**	**Retained earnings**	**Total stockholders' equity**
						(in millions, except share amounts)				
Balance, December 31, 1999	1,000	159	25	310	300	$	$	$ 90	$ 25	$ 115
Dividends paid									(144)	(144)
Stock conversion		80		(80)						
Net income									127	127
Balance, December 31, 2000	1,000	239	25	230	300			90	8	98
Dividends paid								(33)	(138)	(171)
Stock conversion		134		(134)						
Net income									130	130
Balance, December 31, 2001	1,000	373	25	96	300			57		57
Dividends paid								(28)	(31)	(59)
Net income									72	72
Balance, December 31, 2002	1,000	373	25	96	300	$	$	$ 29	$ 41	$ 70

The accompanying notes are an integral part of these consolidated financial statements.

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	**2001**	**2000**
		(in millions)	
Cash flows from operating activities:			
Net income	$ 72	$ 130	$ 127
Reconciliation of net income to net cash provided by operating activities:			
Reversal of provision for plug and abandonment		(2)	
Depreciation, depletion and amortization	44	38	42
Impairment of oil and gas properties	7	7	25
Deferred income taxes and other	(3)	3	4
Changes in assets and liabilities:			
Accounts receivable trade, net	3	8	(9)
Accounts receivable related parties and affiliates	(11)	28	(46)
Other receivables	15	(15)	
Other current assets	(2)		

	2002	2001	2000
Deferred charges and other assets	3		
Accounts payable and accrued liabilities	2	(10)	3
Related party and affiliate payables	23	14	10
Taxes payable	2		7
Net cash provided by operating activities	155	201	163
Cash flows from investing activities:			
Capital expenditures	(28)	(25)	(21)
Proceeds from property sales			6
Net cash used in investing activities	(28)	(25)	(15)
Cash flows from financing activities:			
Dividends paid	(59)	(171)	(144)
Loan principal repayment to affiliate	(70)		
Net cash used in financing activities	(129)	(171)	(144)
Increase (decrease) in cash and cash equivalents	(2)	5	4
Cash and cash equivalents, beginning of year	23	18	14
Cash and cash equivalents, end of year	$ 21	$ 23	$ 18
Supplemental disclosure of cash flow information:			
Cash flows from operating activities include the following cash payments:			
Income taxes	$ 15	$ 62	$ 41
Interest	7	13	18

The accompanying notes are an integral part of these consolidated financial statements.

FOUR STAR OIL & GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

1. Basis of Presentation and Description of the Company

Four Star Oil and Gas Company is a subsidiary of ChevronTexaco that explores for and produces crude oil, natural gas and natural gas liquids. The use in this report of the term "Texaco" refers solely to Texaco Inc., a Delaware corporation, and its consolidated subsidiaries or to subsidiaries and affiliates either individually or collectively.

In 1984, Texaco acquired all of the outstanding common stock of Four Star Oil & Gas Company (Four Star or the Company) for $10.2 billion. At the time of acquisition, Four Star was an integrated petroleum and natural gas company involved in the exploration for and production, transportation, refining and marketing of crude oil and petroleum products. The acquisition was accounted for as a purchase, and the Four Star assets and liabilities were recorded at fair market value. In 1989, Texaco sold 20 percent of its interest in Four Star to Edison Mission Energy (Mission Energy). Four Star was an 80 percent owned subsidiary of Texaco from December 31, 1989 through December 31, 1991. As a result of a series of stock transactions occurring between January 1, 1992 and December 31, 2002, Texaco's ownership interest in Four Star was reduced to 71%.

In October 2001, the merger between Texaco and Chevron Corporation was approved and ChevronTexaco Corporation (ChevronTexaco) became the ultimate parent of Texaco Inc. Texaco Inc.'s investment in Four Star was transferred to ChevronTexaco Global Energy Inc. as part of a restructuring agreement dated November 1, 2001. Texaco Exploration and Production Inc. (TEPI), a wholly-owned subsidiary of Texaco Inc., was absorbed into Chevron U.S.A. (CUSA), a wholly-owned subsidiary of ChevronTexaco, as part of a legal restructuring in May 2002. CUSA operates and manages the majority of Four Star's operations under the terms of a service agreement.

As of December 31, 2002 and 2001, the ownership interests in Four Star were as follows:

	2002	2001
Chevron U.S.A. (CUSA)	36.6%	36.6%
ChevronTexaco Global Energy Inc. (CTGEI)	24.3%	24.3%
Edison Mission Energy (Mission Energy)	19.0%	19.0%
Four Star Oil & Gas Holdings Company (owned jointly by CTGEI and Mission Energy)	20.1%	20.1%
	100.0%	100.0%

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Four Star Oil & Gas Company (Four Star or the Company) and Mission Energy Methane, a wholly-owned subsidiary of Four Star. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Revenues associated with sales of crude oil, natural gas and other sources are recorded when title passes to the customer, net of royalties, discounts and allowances, as applicable. Revenues from natural gas production from properties in which ChevronTexaco has an interest with other producers are generally recognized on the basis of delivery (sales method).

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are generally considered to be cash equivalents.

Properties, Plant and Equipment and Depreciation, Depletion and Amortization

The Company follows the successful efforts method of accounting for its oil and gas exploration and production operations.

Lease acquisition costs related to properties held for oil and gas production are capitalized when incurred. Unproved properties with acquisition costs which are individually significant are assessed on a property-by-property basis, and a loss is recognized, by provision of a valuation allowance, when the assessment indicates an impairment in value. Unproved properties with acquisition costs which are not individually significant are generally aggregated, and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized on an average holding period basis.

Exploratory costs, excluding the costs of exploratory wells, are charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination of whether the wells have found proved reserves which justify commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs related to the development of oil and gas reserves, are capitalized.

The costs of productive leaseholds and other capitalized costs related to production activities, including tangible and intangible costs, are amortized principally by field on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable total proved oil and gas reserves. Estimated future restoration and abandonment costs are taken into account in determining amortization and depreciation rates.

Depreciation of properties, plant and equipment related to operations other than production is provided using the straight-line method, with depreciation rates based upon estimated useful lives applied to the cost of each class of property. The useful lives of such assets range from 3 to 20 years.

Normal maintenance and repairs of properties, plant and equipment are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the life of properties are capitalized, and the assets replaced, if any, are retired.

When fixed capital assets representing complete units of property are disposed of, any profit or loss after accumulated depreciation and amortization is credited or charged to income.

Long-lived assets, including proved oil and gas properties, are assessed for possible impairment by comparing their carrying values with the undiscounted future net before-tax cash flows. Events which can trigger assessments for possible impairments include write-downs of proved reserves based on field performance, significant decreases in the market value of an asset, and significant change in an asset. Impaired assets are written down to their estimated fair values, generally their discounted future net before-tax cash flows. As a result, the Company recorded impairment charges of $7 million, $7 million and $25 million in 2002, 2001 and 2000, respectively, due to downward reserve revisions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil, NGL and gas reserve volumes and plug and abandonment costs as well as estimates relating to the calculation of impairments under SFAS No. 144. Actual results could differ from those estimates.

Reclassifications

Certain previously reported amounts have been reclassified to conform to current-year presentation. Such reclassification had no effect on reported net income or shareholders' equity.

Income Taxes

Deferred taxes result from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes and are calculated based upon cumulative book and tax differences in the balance sheet.

Derivatives

The adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," did not have a material effect on the Company's financial position as the Company has no derivatives as of December 31, 2002 and 2001, except for its physical sale contracts, which qualify as normal sales. The Company adopted SFAS 133 as of January 1, 2001.

New Accounting Pronouncements

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement obligations" (SFAS 143). This new standard was adopted effective January 1, 2003, and applies to legal obligations associated with the retirement of tangible long-lived assets. Adoption of SFAS 143 primarily affects the Company's accounting for oil and gas producing assets. SFAS 143 differs in several significant respects from current accounting under SFAS 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." Adoption of SFAS 143 affects future accounting and reporting of the assets, liabilities and expenses related to these obligations. In the first quarter 2003, the Company will report an after-tax loss of approximately $9.2 million for the cumulative effect of this change in accounting principle. The effect of adoption will also include an increase of total assets and total liabilities of $16.8 million and $26 million, respectively. Besides the cumulative-effect adjustment, the effect of the new accounting standard on net income in 2003 is not expected to be materially different from what the result would have been under SFAS 19 accounting.

In April 2002, the FASB issued SFAS No. 145, *Recession of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Application of the statement will be required in 2003. The Company does not expect adoption of SFAS No. 145 to have a significant impact on its financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 address the recognition, measurement and reporting costs associated with exit and disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued Interpretation No. 45 (FIN No. 45), *Guarantor's Accounting and Disclosure Requirements*. FIN No. 45 expands required disclosures for certain types of guarantees and recognition of a liability at fair value of such guarantees at the time of issuance. The disclosure requirements are effective for the Company's December 31, 2002 financial statements, while the fair value accounting requirements apply prospectively to guarantees issued or modified after December 31, 2002. The Company does not expect FIN No. 45 to have a significant effect on its financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 amended ARB 51, "Consolidated Financial Statements," and established standards for determining under what circumstances a variable interest entity (VIE) should be consolidated with its primary beneficiary. FIN No. 46 also requires disclosures about VIEs that the Company is not required to consolidate but in which it has a significant variable interest. The Company

does not expect that adoption of FIN No. 46 will have a significant impact on the results of operations, financial position or liquidity.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

3. Related Party Transactions

Four Star has various business transactions with ChevronTexaco and other ChevronTexaco subsidiaries and affiliates. These transactions principally involve sales by Four Star of crude oil, natural gas and natural gas liquids. In addition, ChevronTexaco charges Four Star for management, professional, technical and administrative services, as well as direct charges for exploration and production-related activities.

Effective December 1, 1999, Four Star entered into a service agreement with TEPI for management, administrative, professional and technical services through November 1, 2004. During 2001, Four Star paid TEPI a monthly fixed fee of $579,785 through November 30, 2001. Four Star paid TEPI a monthly fixed fee of $597,634 from December 1, 2001 through April 30, 2002, and CUSA a monthly fixed fee of $597,634 from May 1, 2002 through November 30, 2002. Beginning December 1, 2002, the rate was adjusted to $603,034 and this rate will remain in effect until November 30, 2003. An aggregate amount of $7.2 million, $7.0 million and $6.8 million in service fees was included as a component of general and administrative and other operating expenses in the accompanying consolidated statement of income for the years ended December 31, 2002, 2001 and 2000, respectively.

In addition, Four Star paid TEPI a monthly unit fee of $645,015 during the period from December 1, 2000 to November 30, 2001. On December 1, 2001, Four Star commenced payment of a monthly unit fee of $607,041. On May 1, 2002, TEPI was absorbed into CUSA as part of a legal restructuring agreement dated May 1, 2002. Total unit fees of $6.8 million, $7.7 million and $7.3 million are included as a component of general and administrative and other operating expenses in the accompanying consolidated statements of income for the years ended December 31, 2002, 2001 and 2000, respectively. The unit fee is adjusted to actual production within 90 days after contract period ending November 30, 2002.

Pursuant to the contractual agreement described in Note 10, certain tax benefits and liabilities are assumed by ChevronTexaco.

The following table summarizes sales to affiliates during 2002, 2001 and 2000. The Company makes no purchases from its affiliates.

	2002	2001	2000
		(in millions)	
Dynegy	$ 87.6	$	$
Texaco Natural Gas Inc.	70.6	252.2	214.7
CUSA	39.6		.8
Bridgeline LLC Texaco Pipeline			.5
Equilon Enterprises LLC(1)		46.3	70.7
Total	$ 197.8	$ 298.5	$ 286.7

(1) Equilon Enterprise LLC was no longer considered as a related party to Four Star effective October 19, 2001.

12

4. Properties, Plant and Equipment

In 2000, Four Star sold $5.9 million of its properties for $6.3 million, resulting in an approximate $400,000 pretax gain on the sale. In 2002, Four Star purchased the San Juan LLC 1999 property for $11.6 million.

5. Note Payable to Affiliate

In September 1999, Four Star retired its loan facility with Chase Bank of Texas, N.A. and entered into a loan agreement with Texaco Inc. The outstanding balance on the loan agreement was $169 million and $239 million at December 31, 2002 and 2001. The loan bears interest at LIBOR plus one percent and matures on December 31, 2005. The interest rate was 2.4%, 3.4% and 7.0% at December 31, 2002, 2001 and 2000, respectively. Interest expense during 2002, 2001 and 1999, was $7 million, $13 million and $18 million, respectively. Four Star pays Texaco Inc. an annual facility fee and administrative fee of $50,000.

The Company's borrowing base is redetermined annually each September 30 as set forth in the Four Star Oil & Gas Credit Agreement dated September 30, 1999. If the outstanding aggregate principal amount of the loan, excluding the amount of any debt permitted by the loan agreement, exceeds the amount of the revised borrowing base, Four Star must repay such excess to Texaco Inc. in four equal quarterly installments. Throughout 2002 and 2001, Four Star's borrowing base exceeded the outstanding loan balance, thus no principal payments were due. As of December 31, 2002, the Company's borrowing base under the agreement was $268 million.

Four Star elected to pre-pay $70 million of the note on December 31, 2002. Four Star has the right, subject to certain conditions, to prepay the note in whole or in part prior to the maturity date.

6. Concentration of Credit Risk

Substantially all of the Company's accounts receivable at December 31, 2002, result from sales to the Company's three largest customers, all of which are ChevronTexaco affiliates, as discussed in Note 3. The Company's credit policy and relatively short duration of receivables mitigate the risk of uncollected receivables. During each of the three years in the period ended December 31, 2002, the Company did not incur any credit losses on receivables.

7. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with utilization of energy tax credits and differences between financial accounting and tax bases of assets and liabilities. Such differences relate mainly to depreciable and depletable properties, intangible drilling costs and nonproductive leases.

The composition of deferred tax assets and liabilities and the related tax effects at December 31, 2002, 2001 and 2000, were as follows (in millions):

	2002	2001	2000
Deferred tax assets related to energy tax credits	$	$	$ 4
Deferred tax liabilities related to oil and gas properties	(54)	(57)	(58)
Net deferred tax liability	$ (54)	$ (57)	$ (54)

There are differences between income taxes computed using the statutory rate of 35 percent and the Company's effective income tax rates (29 percent in 2002, 29 percent in 2001 and 31 percent in

2000), primarily as a result of certain tax credits available to the Company. Reconciliations of income taxes computed using the statutory rate to the Company's effective tax rates are as follows (in millions):

	2002	2001	2000
Income taxes computed at the statutory rate	$ 36	$ 64	$ 64
Section 29 tax credits	(7)	(7)	(8)
Other, net	2	(3)	
Provision for income taxes	$ 31	$ 54	$ 56

8. Stockholders' Equity

In 1995, Four Star created four additional classes of stock: Class A common (voting), Class B common (voting), Class C common (nonvoting) and preferred (Class A preferred and Class B preferred).

In 1999, Texaco, TEPI, and Mission Energy entered into an agreement granting Mission Energy the option to purchase shares of Class A common stock or Class B common stock of Four Star (class determined by ChevronTexaco), provided that ChevronTexaco's aggregate ownership interest in the common stock at time of purchase shall not be reduced to less than 51 percent of all common stock outstanding at the time of purchase. The option expires on December 23, 2006. In 2001, the agreement was amended to replace Texaco with CTGEI. In 2002, TEPI was replaced by CUSA as part of a legal restructure agreement. As of December 31, 2002 and 2001, Mission Energy owned 23 percent of all voting common stock outstanding. Four Star Oil and Gas Holdings Company (owned jointly by CTGEI and Mission Energy) owned 26 percent of all voting common stock in the Company as of December 31, 2002.

Each share of Class A preferred stock is entitled to receive cumulative cash dividends of $5,112 per share per annum, payable semiannually. Each share of Class B preferred stock is entitled to receive cumulative cash dividends of $2,250 per annum, payable semiannually.

9. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term receivables and payables and long-term debt. The carrying amounts of such instruments approximate their fair market values due to the highly liquid nature of the short-term instruments and the floating interest rates associated with the long-term debt, which reflect market rates.

10. Commitments and Contingencies

ChevronTexaco has assumed any and all liabilities of Four Star incurred or attributable to periods prior to January 1, 1990, for state and federal income, windfall profit ad valorem or franchise taxes, and legal proceedings. In addition, ChevronTexaco has assumed certain of the tax liabilities of Four Star arising from January 1, 1990, to March 1, 1990, attributable to Four Star's status as a member of the Texaco tax consolidated group.

In the opinion of the Company, while it is impossible to ascertain the ultimate legal and financial liability with respect to the above or other contingent liabilities, including lawsuits, claims, guarantees, federal taxes and federal regulations, the aggregate amount of any such liability is not anticipated to be material in relation to the financial position, cash flows or results of operations of the Company.

11. Supplemental Information on Oil and Gas Producing Activities (Unaudited) Revised

The following unaudited information has been revised to correct the "Future production and development costs" included in Table VI-Standardized measure of discounted future cash flows related

to proved oil and gas reserves. The correction results in a change from the previously reported value of $97 million, to the revised value of $743 million. The revision also impacts the "Net changes in prices, development and production costs" included in Table VII-Changes in standardized measure of discounted future net cash flows from proved reserves.

In accordance with Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities" (FAS 69), this section provides supplemental information on oil and gas exploration and producing activities of the Company in seven separate tables. Tables I through IV provide historical cost information pertaining to costs incurred in exploration, property acquisitions and development; capitalized costs; and results of operations. Tables V through VII present information on the Company's estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows.

Table I Costs incurred in exploration, property acquisitions and development(1)

	2002	2001
	(millions of dollars)	
Exploration	$ 2	$
Property acquisitions	12	
Development	13	42
Total costs incurred	$ 27	$ 42

(1) Includes cost incurred whether capitalized or expensed. Excludes support equipment expenditures.

Table II Capitalized costs related to oil and gas producing activities

	2002	2001
	(millions of dollars)	
Unproved properties	$ 1	$ 1
Proved properties and related producing assets	939	906
Other uncompleted projects	15	27
Gross capitalized costs	955	934
Unproved properties valuation		1
Proved producing properties	662	618
Future abandonment and restoration	11	10

	2002	2001
Accumulated provisions	673	629
Net capitalized costs	$ 282	$ 305

15

Table III Results of operations for oil and gas producing activities

The Company's results of operations from oil and gas producing activities for the years 2002 and 2001 are shown in the following table. In accordance with FAS No. 69, income taxes in Table III are based on statutory tax rates, reflecting allowable deductions and tax credits. Interest income and expense are excluded from the results reported in Table III.

	2002	2001
	(millions of dollars)	
Revenues from net production:		
Sales	$ 203	$ 304
Total	203	304
Production expenses	(75)	(48)
Proved producing properties: depreciation, depletion and abandonment provision	(44)	(38)
Other income (expense)	20	(10)
Results before income taxes	104	208
Income tax expense	(31)	(61)
Results of producing operations	$ 73	$ 147

Table IV Results of operations for oil and gas producing activities unit prices and costs

	2002	2001
Average sales prices:		
Liquids, per barrel	$ 19.72	$ 21.61
Natural gas, per thousand cubic feet	2.43	3.59
Average production costs, per barrel	5.93	3.31

Table V Reserve quantity information

The Company's estimated net proved underground oil and gas reserves and changes thereto for the years 2002 and 2001 are shown in the following table. Proved reserves are estimated by Company asset teams composed of earth scientists and reservoir engineers. These proved reserve estimates are reviewed annually by the Company's Reserves Advisory Committee to ensure that rigorous professional standards and the reserves definitions prescribed by the U.S. Securities and Exchange Commission are consistently applied throughout the Company.

Proved reserves are the estimated quantities that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the lease or concession agreement or that may result from extensions of currently proved areas or from applying secondary or tertiary recovery processes not yet tested and determined to be economic.

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

16

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements and royalty obligations in effect at the time of the estimate.

	Net proved reserves of crude oil condensate and natural gas liquids(1)	Net proved reserves of natural gas(1)
	(millions of barrels)	(millions of cubic feet)
Reserves at December 31, 2000	28	503,855
Changes attributable to:		
Revisions	(3)	51,827
Extensions and discoveries		17,320
Sales		(21)
Production	(3)	(61,611)
Reserves at December 31, 2001	22	511,370
Changes attributable to:		
Revisions	3	5,772
Extensions and discoveries		2,756
Sales		
Purchases		24,072
Production	(4)	(56,057)
Reserves at December 31, 2002	21	487,913

(1) Proved reserves of oil condensate, natural gas liquids and natural gas are located entirely within the United States.

Table VI Standardized measure of discounted future net cash flows related to proved oil and gas reserves

The standardized measure of discounted future net cash flows, related to the preceding proved oil and gas reserves, is calculated in accordance with the requirements of FAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pretax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using ten percent midperiod discount factors. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided does not represent management's estimate of the Company's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under FAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and

should not be relied upon as an indication of the Company's future cash flows or value of its oil and gas reserves.

	2002	2001
	(millions of dollars)	
Future cash inflows from production	$ 2,088	$ 1,454
Future production and development costs	(743)	(655)
Future income taxes	(463)	(273)
Undiscounted future net cash flows	882	526
Ten percent midyear annual discount for timing of estimated cash flows	(332)	(190)
Standardized measure of discounted future net cash flows	$ 550	$ 336

Table VII Changes in the standardized measure of discounted future net cash flows from proved reserves

	2002	2001
	(millions of dollars)	
Present value at January 1	$ 336	$ 1,679
Sales and transfers of oil and gas produced, net of production costs	(130)	(256)
Development costs incurred	13	42
Purchases of reserves	20	
Extensions, discoveries and improved recovery, less related costs	4	9
Revisions of previous quantity estimates	45	27
Net changes in prices, development and production costs	344	(2,147)
Accretion of discount	45	257
Net change in income tax	(127)	725
Net change for the year	214	(1,343)
Present value at December 31	$ 550	$ 336

The changes in present values between years, which can be significant, reflect changes in estimated proved reserve quantities and prices and assumptions used in forecasting production volumes and costs. Changes in the timing of production are included with "Revisions of previous quantity estimates."

ISAB Energy S.r.l.
Annual report for the year ended December 31st 2002
Directors' Report on Operations

Board of Directors	
Domenico D'Arpizio	Chairman
Daniel Melita	Vice Chairman
Filippo Bifulco	
Marco Ferrando	
Pierantonio Nebuloni	

Board of Statutory Auditors	
Maria Sarno	Chairman
Antonio Ippoliti	Standing Auditor
Mario Pacciani	Standing Auditor

External Auditors
Reconta Ernst & Young S.p.A.

19

ISAB Energy Structure

ISAB Energy is 51% owned by ERG Petroli S.p.A. and 49% owned by MEC Priolo B.V. (a wholly-owned subsidiary of Edison Mission Energy). It is the proprietor of the Gasification and Cogeneration plant at Priolo Gargallo (Syracuse), located near to the ISAB refinery owned by ERG Raffinerie Mediterranee.

The plant has a guaranteed net capacity of 507 MW and in 2002 net electricity production was 4,197 GWh.

20

Main economic and financial data

The currency used for the following figures is the Euro; the sum of figures that have been rounded to the nearest million may differ from the actual total displayed.

	2002	2001	2000
	(million Euro)		
Total revenues	444	396	295
EBITDA	208	160	53
EBIT	162	115	21
Income from ordinary operations	115	62	(16)
Extraordinary net income (loss)			2
Net income for the year	107	57	(12)
Cash flow from operations	124	133	(36)
Investments/divestments	(12)	(15)	(23)
Changes in shareholders' equity	(34)		24

	2002	2001	2000
Changes in net financial debt	79	118	(35)
Total shareholders' equity	144	71	14
Net financial debt	692	770	888
Net invested capital	836	841	902
Number of employees at year-end	19	22	21
Electrical power generation (GWh)	4,197	3,621	3,079

21

Report on Operations

Financing for the construction of the plant was in the form of non-recourse Project Financing for the sum of Euro 971 million.

ISAB Energy produces electrical power generated by the gasification of heavy residues resulting from crude oil processing at the nearby ISAB refinery. The electrical power produced is sold to the "Gestore della Rete di Trasmissione Nazionale", or "GRTN" (National Grid) at the CIP/6 tariff. (The rights and obligations regarding the purchase of energy from national third party companies were transferred from ENEL S.p.A. to the GRTN as from January 1st 2001, in accordance with the Bersani Decree (legislative decree of March 16th 1999) enforced by the Ministry for Industry).

Comments on the results for the year

Economic and financial results

The financial statements for 2002 show a profit of Euro 107.0 million (compared to Euro 57.0 million in 2001), after depreciation and amortisation amounting to Euro 45.7 million (Euro 45.2 million in 2001).

This result is a reflection of the plant's remarkable reliability over the year, which saw it operating at 94% of its potential.

These financial statements have been audited by Reconta Ernst & Young S.p.A.

Major events during the year

The major events of 2002 were:

net production amounted to 4,197 GWh, 94% of which was produced from the gasification of refining residues, an improvement on the previous year as a result of the plant's improved reliability and the subsequently fewer start-up and shutdown situations. In 2001 net production was 3,621 GWh and 89% of it was produced from refining residues.

the electricity was sold at a provisional price of 102.3€/MWh (CIP 6/92 tariff), except for a small part (0.51%) sold as surplus. On the basis of the trend of methane prices, which are expected to drop by 11.4% in 2002 (compared to 2001), the definitive value for 2002 of the CIP 6/92 tariff is 97.2€/MWh (5% less than the provisional price). It should nevertheless be reminded that the definitive value will be published by the "Cassa Conguaglio per il Settore Elettrico" at the end of April 2003;

the GRTN failed to collect an equivalent number of 385 hours. The power restrictions without doubt led to a reduction in production, which was partly offset by the compensation (approximately Euro 1.9 million) paid as a result of the annual allowance (320 hours) being exceeded, and partly by the fact that it overlapped with maintenance interventions to the plant;

the plant's improved efficiency and the higher number of operational hours meant that during the year ISAB Energy was able to collect a larger amount of raw materials compared to the guaranteed minimum and there were therefore no "Purchaser Shortfall" expenses;

Given the company's declaration and the supply of the proper documentation to the GRTN, the Antitrust Authority for Electricity and Gas, on the basis of production in 2001, recognised the ISAB Energy plant as being "cogenerative," according to resolution 42/02.

the company is therefore not subject to the purchase of 'green certificates', according to the Bersani Decree;

With regard to the arbitration procedures between ISAB Energy and the plant construction consortium, on December 30th 2002 an agreement was reached which compensated ISAB Energy with a sum of Euro 21 million;

as far as financial matters are concerned, during the year the company agreed on a short-term loan of Euro 4.5 million in favour of ISAB Energy Services, due to mature in November 2003, to be repaid at the ECB intervention rate plus 1%. This loan became necessary after the Financing blocked the subordinated payments to ISAB Energy Services by ISAB Energy;

the decreasing trend in interest rates recorded during the year brought about for the company a third-party capital cost at an average rate, including Margin, Additional Margin, Additional Margin and Guarantee Fee, of 4.7%. This positive effect was in part counterbalanced by the higher Interest Rate Swap expenses;

following the revenue inspection carried out by the competent Revenue Authority in 2001, in 2002 assessment notices were presented for the years 1998 and 1999. As far as 1998 is concerned the preliminary stage has been defined and the relevant procedure completed;

following the transfer of the company division made up of the ISAB refinery from ERG Petroli to ERG Raffinerie Mediterranee, during the year the supply contracts for raw materials and services between ISAB Energy and the group companies were transferred. In particular, the following contracts were transferred from ERG Petroli to ERG Raffinerie Mediterranee: feedstock supply, minor products and several industrial and general services such as: Health Care, Personnel Administration, Fire-fighting/prevention Services and Internal Mail. The service contracts regarding Public Relations and I.T. services were transferred from ERG Petroli to ERG S.p.A..

Relations with the financing institutions

As previously mentioned, during 2002 there were events of significant economic/financial impact both in terms of the present and the future. They are summarised below:

Settlement of the litigation with the Snam Progetti Foster Wheeler Energy consortium, whose positive economic effect was more than Euro 21 million.

Exemption from the purchase of Green Certificates

Excess availability of more than Euro 6 million, which was made available by the financing institutions when construction of the plant was finished, to cover any unexpected investments necessary to guarantee the regular running of the plant, and was not used.

The renewal of the insurance policies for direct and indirect damage was significantly more expensive than the estimated cost, yet the insurance cover was still not in line with the Project Financing contract requirements.

In order to be able to evaluate the future effects that the above-mentioned events will have and enable the banks to carry out a more precise check of the risk profile accepted under the new insurance cover, a comparison of information is underway between the company and the banks themselves, which, with the support of the plurennial economic/financial model that is currently being updated, will allow for the evaluation of the possible steps to be taken to ensure the economic and financial optimisation of the company. Amongst the hypotheses considered there is that of a re-elaboration of the plan to amortise the debt with the advance repayment of capital shares.

Whilst waiting for the most appropriate decisions to be reached, due within the next few months, the financing institutions have asked the company to refrain from distributing dividends.

Agreements with the Snam Progetti Foster-Wheeler Energy consortium and with Texaco Development Corporation

The agreement reached on December 30th 2002 between ISAB Energy and the Snam Progetti Foster-Wheeler Energy consortium as a whole provides for:

The definitive end to all the requests presented by each party and the "Final Acceptance" of the plant according to the LSTK contract;

The payment on behalf of the Consortium to ISAB Energy of the sum of more than Euro 21 million, of which:

Euro 15 million via direct payment, already carried out;

Approximately Euro 6 million via the transfer to ISAB Energy by the consortium of all receivables, which were in turn transferred to Texaco Development Corporation, against the royalties due on the basis of the License Agreement of June 1st 1992 between ISAB Energy and Texaco;

The reciprocal statement of discharge between ISAB Energy and Texaco regarding any dispute, damage and responsibility up until December 30th 2002; the guarantee made by Texaco regarding the patent does however remain in force, as laid down in the Licence Agreement between ISAB Energy and Texaco ("Patent Indemnity" art. 9).

The notification to the Arbitration Tribunal to settle the arbitration.

Contract management

Vanadium Concentrate

The agreement with GfE has been formalised, completely settling the existing dispute. According to the agreement ISAB Energy may annul the contract in force, with the payment of a penalty of 263 thousand Dollars.

The financing institutions gave their approval in January 2003, the payment was made and the contract therefore annulled.

Oxygen

The dispute has been settled regarding the interpretation of the commercial conditions to be applied in the case of operational arrangements during which one or two trains of the oxygen plant are kept on standby.

As compensation for the events recorded up until December 31st 2001, a lump-sum payment of Euro 170 thousand was agreed upon (against a request of Euro 2.1 million); for 2002 the cost of missing collections of oxygen, for reasons attributable to ISAB Energy is, on the basis of the agreement reached, Euro 100 thousand.

Electrical energy

In 2001 the entry into the "free market" had allowed significant savings to be achieved, thanks not only to the price of so-called modulation energy (at more advantageous economic conditions compared to the "restricted market") but also thanks to purchases of the "take or pay" type.

In 2002, the contract regarding the purchase of so-called modulation energy was settled at a price, in a similar scenario, lower than that of 2001, but the higher level of participation in the requests to allocate bands did not allow the purchase of imported energy to reach the levels of 2001.

Insurance

The renewal of the insurance policy "All Risks Property Damage and Business Interruption" brought about a considerable increase in premiums and a worsening of the insurance conditions (increase in excess franchises and exclusion of the risk of terrorism).

The reasons for this can be traced to the particular context of a tighter insurance market as a result of both the sharp losses recorded in the Energy sector and the international economic and political situation.

The scarce availability of insurance cover has reduced the negotiating power, as far as premiums are concerned, to a minimum.

Information and Telecommunications Systems

During 2002 further SAP modules were implemented, as part of the policy to cover the majority of company procedures. They included:

- Quality Management (QM), for the management of materials testing;
- Internet Transaction Server (ITS), for the management of the online purchase of the services carried out by the plant maintenance company;
- WEB-doc, for the drafting and approval of the corporate procedures of ISAB Energy Services;
- Management Information System (MIS) WEB, for access to the production information system via the Internet;
- Business Warehouse (BW), to have reports of studies into plant maintenance costs and central warehouse movements.

Furthermore, the CED was relocated to more suitable premises, and a DECT cordless telephone network was set up for the plant operators, ensuring that they are always immediately available.

Staff

The company staff is made up of 19 people, as the company avails itself of ISAB Energy Services for the actual management of the plant, according to the "Operation & Maintenance" contract signed between the two companies.

Summary of financial information

Income Statement

	2002	2001	2000
	(thousand Euro)		
Revenues from ordinary operations	**421,319**	**377,207**	**229,416**
Other revenues and income	**22,413**	**18,872**	**65,374**
Total	443,732	396,079	294,790
Purchase expenses	**(164,249)**	**(169,230)**	**(187,262)**
Changes in inventories	**1,075**	**1,485**	**3,303**
Services and other operating expenses	**(71,521)**	**(66,775)**	**(57,130)**
Personnel expenses	**(1,316)**	**(1,204)**	**(1,013)**
EBITDA	207,721	160,356	52,688
Amortisation and depreciation	**(45,776)**	**(45,258)**	**(31,733)**
EBIT	161,945	115,098	20,955
Net financial income (expenses)	**(47,232)**	**(52,826)**	**(36,934)**
Net income (expenses) from equity investments			
Revenues from ordinary operations	114,713	62,272	(15,979)
Net extraordinary income (expenses)	**(391)**	**(161)**	**2,025**
Income before taxes	114,321	62,111	(13,954)
Income taxes	**(7,362)**	**(5,152)**	**2,437**
Income (loss) for the year	106,959	56,959	(11,517)

When comparing figures for previous years it should be noted that the figures for the year 2000 reflect values which were produced during the plant construction and technical trial stages. The income statement only took on the typical characteristics of an active company (without the capitalisation of financial expenses relating to the Project Financing, with the recording of revenues from ordinary operations and the beginning of the depreciation of the plant) after April 18th 2000, the date when the construction consortium handed over the plant to ISAB Energy.

Revenues from ordinary operations

These revenues consist of the sale of electrical power to the GRTN (Euro 409 million) and the sale of minor products and utilities (around Euro 12 million).

Other revenues and income

The other revenues and income include the Euro 21 million compensation from the Snamprogetti Foster Wheeler Energy consortium (following the settlement of the litigation arising from the delayed handing over of the IGCC plant and the subsequent loss of profit), rents receivable and ordinary surpluses.

Purchase expenses

Purchase expenses relate mainly to supplies of feedstock, diesel, other fuel oils, oxygen and nitrogen.

Services and other operating expenses

The services received were maintenance services, insurance, commercial, technical and general services and consultancy services.

Amortisation and depreciation

This item includes the economic and technical amortisation and depreciation of tangible fixed assets (Euro 37 million) and intangible fixed assets (Euro 9 million).

The average useful life of the plants was estimated in 23.4 years from April 18th 2000.

Net financial income (expenses)

The financial expenses incurred during 2002 consist mainly of interest payable on the financing of Euro 31 million and additional bank charges and brokerage margins for Euro 6 million.

The financial income refers to current account deposits, which earn an average rate of 2.1%.

Income taxes

The taxes for 2002 do not include current IRPEG taxation since the company was given 10-year exemption from IRPEG, which will expire in October 2003. The figures refer mainly to IRAP taxation, both as the tax expense of the year and as the net effect of the deferred tax assets.

Balance Sheet

The following table shows reclassified balance sheet figures for 2002 and 2001.

	31.12.02	31.12.01
	(thousand Euro)	
Fixed assets	**766,565**	**800,421**
Net working capital	**50,361**	**17,965**
Staff leaving indemnities	**(161)**	**(144)**
Other assets	**37,154**	**31,222**
Other liabilities	**(17,897)**	**(8,353)**
NET INVESTED CAPITAL	836,022	841,111
Shareholders' equity	**144,083**	**70,657**
Medium/long-term financial debt	**657,618**	**742,658**
Short-term financial debt	**34,322**	**27,796**
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	836,022	841,111

At December 31st 2002 the net invested capital amounted to approximately Euro 836 million, a decrease of around Euro 5 million.

The most significant variations between the situation at December 31st 2001 and December 31st 2002 are analysed below.

Fixed assets

	31.12.02	31.12.01
	(thousand Euro)	
Intangible fixed assets	**56,331**	**64,858**
Tangible fixed assets	**710,225**	**735,554**
Investments and other financial assets	**9**	**9**
Total	766,565	800,421

Net working capital

	31.12.02	31.12.01
	(thousand Euro)	
Leftovers	**15,615**	**14,636**
Trade receivables	**76,528**	**52,890**
Trade payables	**(41,783)**	**(49,561)**
Total	50,361	17,965

Trade receivables increased largely as a result of the higher quantity of electricity sold to the GRTN.

Trade payables decreased due to the lower amount of services and supplies received.

28

Other assets

	31.12.02	31.12.01
	(thousand Euro)	
Short-term tax receivables	**5,950**	**819**
Other short-term receivables	**17,955**	**19,304**
Short-term pre-paid expenses and accrued income	**3,989**	**2,086**
Receivables from tax authorities long/medium-term	**3,231**	**9,013**
Other medium/long-term receivables	**6,030**	
Total	37,154	31,222

Other liabilities

	31.12.02	31.12.01
	(thousand Euro)	
Short-term tax payables	**(2,497)**	**(3,720)**
Other short-term payables	**(4,790)**	**(427)**
Short-term deferred income and accrued expenses	**(543)**	**(479)**
Other provisions for risks and charges	**(10,068)**	**(3,727)**
Total	(17,897)	(8,353)

The other provisions include the provision for the plant maintenance cycles for Euro 10 million.

Net financial debt

The table below outlines the medium/long-term financial debt for ISAB Energy S.r.l.

	31.12.02	31.12.01
	(thousand Euro)	
Medium/long-term bank borrowings	**700,142**	**783,234**
Other medium/long-term financial debt	**81,425**	**45,540**
Current portion of loans	**(123,949)**	**(86,116)**
Total	657,618	742,658

Short-term financial debt:

	31.12.02	31.12.01
	(thousand Euro)	
Short-term bank borrowings	**97,598**	**84,448**
Other short-term financial debt	**26,351**	**1,668**
Short-term financial liabilities	123,949	86,116
Cash and cash equivalents	**(85,101)**	**(58,320)**
Other short-term financial receivables	**(4,526)**	**0**
Short-term financial assets	(89,627)	(58,320)
TOTAL	34,322	27,796

Set out below is a breakdown of the change in net financial debt for the last three years:

	2002	2001	2000
	(thousand Euro)		
CASH FLOW FROM OPERATIONS:			
Cash flow from operations	**159,391**	**104,434**	**15,675**
Change in operating assets and liabilities	**(35,284)**	**28,252**	**(51,766)**
Total	124,107	132,686	(36,091)
CASH FLOW FROM INVESTMENT ACTIVITIES:			
Investments	**(12,059)**	**(16,242)**	**(23,966)**
Divestments		**1,351**	**1,320**
Total	(12,059)	(14,891)	(22,646)
CASH FLOW FROM SHAREHOLDERS' EQUITY:			
Capital increase			**8,808**
Capital subsidies			
Dividends paid	**(25,000)**		
Other changes to shareholders' equity	**(8,534)**		**15,494**
Total	(33,534)		24,302

	2002	2001	2000
CHANGE IN NET FINANCIAL DEBT	78,514	117,795	(34,434)
INITIAL NET FINANCIAL DEBT	770,454	888,250	853,815
CHANGE FOR THE YEAR	(78,514)	(117,795)	34,434
FINAL NET FINANCIAL DEBT	691,939	770,454	888,250

Equity investments

ISAB Energy S.r.l. does not own shares in the parent companies nor in the associated company ISAB Energy Services S.r.l.; it holds a share of 5% of the share capital of the company Industria Acqua Siracusana S.p.A., a co-operative company managing industrial waste water.

Relations with parent companies, associated companies and other related parties

ISAB Energy S.r.l. purchases the main raw materials necessary for production from ERG Raffinerie Mediterranee. At the same time it sells some raw materials and auxiliary services to ERG Raffinerie Mediterranee. Relations between the two companies also entail several contracts regarding the supply of industrial and general services, such as:

- Health care;
- Personnel administration;
- Internal mail;
- Fire-fighting/prevention.

ISAB Energy also receives other general services from ERG S.p.A.:

- Public relations service;
- I.T. services.

The amounts paid for these services are detailed in the Notes to the financial statements.

The company has, furthermore, contracts for services supplied by Edison Mission Italia and Erg S.p.A. as part of the "Sponsor Support Agreements."

30

The relationship which links ISAB Energy with ISAB Energy Services is regulated by the Operation and Maintenance contract, which assigns to ISAB Energy Services the role of plant operation and maintenance.

As far as relations with related parties are concerned, as defined by the CONSOB recommendation dated February 20th 1997, recalled by the CONSOB recommendation dated February 27th 1998, there are not any relations which come under that definition and which have significant operations as their subject.

Subsequent events

During February the Financing Institutions gave their approval to cancel the line of credit of Euro 57.3 million made available to ISAB Energy to cover any compensation should the arbitration tribunal have given judgement against the company in the litigation with the plant construction consortium. They have, furthermore, "de-subordinated" for the period 2002-2004 several components of the payment relating to the "Operation and Maintenance" contract made from ISAB Energy to ISAB Energy Services, binding them however to check the financial ratios, calculated on a six-monthly basis, which must be in line with those indicated in the Project Credit Facility Agreement.

On March 5th 2003, following the settlement with the consortium, meetings were held by the Executive Committee and the Board of Directors, during which it was decided that the corporate organisation would be altered. Such an amendment would be decreed during an extraordinary shareholders' meeting called to alter the company Statute. The annulment of the Executive Committee is expected, together with the nomination of a Chief Executive Officer or General Manager.

Operations expectations

For 2003 the company expects a trend similar to that of 2002, with a slightly lower economic result due to the carrying out of the general shutdown for an equivalent of 28 days, which will affect train 2 and the parts in common. The general shutdown planned for the fourth quarter 2002 will in fact take place starting from March 29th 2003, in the light of the results of the inspection analysis carried out in June, which allowed the maintenance cycle to be revised. The complete maintenance cycle will now last 8 years rather than the current 6 years. This revision was decided after checks and technical were studies carried out, together with the licensees Ansaldo and Texaco.

In October 2003 the ten-year exemption from IRPEG taxation, from which the company has benefited, will end.

Regarding the revenue inspection for 1999 it is believed that within the first half of the current year the assessment will be concluded, as occurred for 1998.

For 2003 the company has planned investments to improve plant reliability amounting to Euro 2 million, and investments amounting to Euro 5 million for Health, Safety and Environment.

Furthermore, investments are planned to automate several company procedures and boost the I.T. infrastructures.

Of particular importance are: the creation of software in the safety at work area; the improvement of internal communication and work permit processes; a revision of the Plant Management (PM) SAP maintenance module for managing statistics and preventive/predictive activities; the replacement of all Personal Computers, as they need to be technologically updated or are obsolete, and a large part of the servers, with a strengthening of the plant network.

31

Board of Directors' Proposal

Shareholders,

We close this report by inviting you to:

approve the financial statements of your company as at December 31st 2002;

to allocate the net income for the year of Euro 106,959,145.72

Taking into account the limitations previously mentioned in the paragraph "Relations with the Financing Institutions" contained in the present report.

Rome, March 27th 2003

On behalf of the Board of Directors

The Chairman

Domenico D'Arpizio

32

Independent Auditor's Report

To the Shareholders' of
Isab Energy S.r.l.

We have audited the accompanying balance sheets of Isab Energy S.r.l. as of December 31, 2002 and 2001, and the related statements of income for the each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Isab Energy S.r.l. at December 31, 2002 and 2001, and the results of its operations for each of the three years in the period December 31, 2002, in conformity with accounting principles generally accepted in Italy.

Accounting principles generally accepted in Italy vary in certain significant respects from accounting principles generally accepted the United States of America. The application of the latter, after the restatement referred to in Note 9, would have affected the determination of net income (loss) and shareholders' equity (deficit) for each of the three years in the period ended December 31, 2002, to the extent summarized in Note 9.

Reconta Ernst & Young S.p.A.

Genoa, Italy
May 5, 2003, except for Note 9,
as to which the date is August 5, 2003

33

ISAB ENERGY S.r.l.
Annual report for the year ended December 31st 2002
Financial Statements

[LOGO]

ISAB ENERGY S.r.l. Financial Statements

Amounts expressed in Thousands of Euro
Financial Statements

BALANCE SHEET

ASSETS		31.12.02	31:12:01
		(Euro/000)	(Euro/000)
A)	Subscribed capita unpaid		

ASSETS			31.12.02		31:12:01
B)	**Fixed assets**				
I.	**Intangible assets**				
	1) Start up and expansion expenses		12,017		17,250
	2) Costs of research, development and advertising				
	3) Patents and right to use patents of others				
	4) Concessions, licenses, trade marks and similar rights		5,490		6,303
	5) Goodwill				
	6) Intangible assets in progress and payments on account		111		8
	7) Other		38,714		41,296
	Total		56,331		64,858
II.	**Tangible assets**				
	1) Land and buildings		16,266		15,936
	2) Plants and machinery		684,552		711,403
	3) Other fixture, tools and equipment		196		173
	4) Other		843		931
	5) Tangible assets in course of construction and payments on account		8,370		7,112
	Total		**710,225**		**735,554**
III.	**Investments**				
	1) Equity investments in				
	a) subsidiary companies				
	b) associated company				
	c) parent companies				
	e) other entities		5		5
			5		5
		Beyond		Beyond	
	2) Loans	12 months:		12 months:	
	a) subsidiary companies				
	b) associated company				
	c) parent companies				
	e) other entities		4		4
			4		4
	3) Other investments				
	4) Own shares, with indication of their aggregate nominal value				
	Total		9		9
Total fixed assets			766,565		800,422

34

[LOGO]

ISAB ENERGY S.r.l. Financial Statements

Amounts expressed in Thousands of Euro

BALANCE SHEET

ASSETS			31.12.02		31:12:01
		(Euro/000)		(Euro/000)	
C)	**Current assets**				
I.	**Stocks**				
	1) Raw materials and consumables		15,370		14,158
	2) work in progress and components				

ASSETS			31.12.02		31:12:01
	3) contract in progress				
	4) finisched goods and goods for resale		113		250
	5) payments on account		132		228
	Total		**15,615**		**14,636**
II.	**Debtors**	Beyond 12 months:		Beyond 12 months:	
	1) trade debtors		66,084		49,897
	2) amounts owed by subsidiary companies				
	3) amounts owed by associated companies				
	4) amounts owed by parent companies		8,284		3,777
	4bis amounts owed by other associated companies		6,686		242
	5) others debtors	9,261	33,165	9,013	28,110
	Total		**114,219**		**82,026**
III.	**Investment which are not permanent**				
	1) subsidiary companies				
	2) associate companies				
	3) parent companies				
	4) other companies				
	5) own shares, with indication of their aggregate nominal value				
	6) other investments				
	Total				
IV.	**Cash at bank and in hand**				
	1) Banks and postal current account		85,099		58,318
	2) Banque cheques				
	3) Cash on hand		2		3
	Total		**85,101**		**58,321**
Total currents assets C)			**214,936**		**154,982**
D)	**Prepayments and accrued income**				
	accrued income				
	prepayments		3,989		2,086
Total Prepayments and accrued income			**3,989**		**2,086**
Total Assets			**985,490**		**957,490**

35

[LOGO]

ISAB ENERGY S.r.l. Financial Statements

Amounts expressed in Thousands of Euro

BALANCE SHEET

LIABILITIES

			31.12.02		31:12:01
		(Euro/000)		(Euro/000)	
A)	**Capital and reserves**				
I.	Share capital		5,165		5,165
II.	Share premium account				
III.	Revaluation reserves				
IV.	Legal reserves		1,033		

			31.12.02		31:12:01
V.	Reserve for own shares				
VI.	Reserve provided by the article of association				
VII.	Others reserves				
1)	Additional paid in capital				15,493
VIII.	Profit (Loss) brought forward		30,926		(6,960)
IX.	Profit (Loss) for the finacial period				
1)	Coverage losses				
2)	Profit (Loss) for the financial period		106,959		56,959
TOTAL CAPITAL AND RESERVES			**144,083**		**70,657**
B)	**Provisions for risks and charges**				
1)	Provision for pension and similar obbligation				
2)	Provision for taxation		305		
3)	Other provision		9,762		3,727
TOTAL PROVISION FOR RISKS AND CHARGES			**10,068**		**3,727**
C)	**Employee severance indemnity**		161		144
		Beyond 12 months:		Beyond 12 months:	
D)	**Creditors**				
1)	Deberture loans				
2)	Convertible debenture loans				
3)	Amounts own to banks	698,786	700,142	698,786	783,234
4)	Amounts own to other finansor				
5)	Advanced received				
6)	Amounts owed to suppliers		24,429		30,629
7)	Debts represented by bill of exchange				
8)	Amounts owed to subsidiary companies				
9)	Amounts owed to associated companies				
10)	Amounts owed to parent companies	43,871	78,767	43,871	57,693
10bis	Amounts owed to other associated companies		24,400		6,779
11)	Amounts owed to tax administration		2,497		3,720
12)	Amounts owed to social security intitutions		83		65
13)	Other creditors		317		362
Total Creditors			**830,635**		**882,482**
E)	**Accruals and deferred income**				
	accrued income		543		476
	prepayments				4
Total accruals and deferred income			**543**		**479**
Total liabilities			**841,407**		**886,832**
Total liabilities, capital and deferred income			**985,490**		**957,489**
	Memorandum accounts				
	Other personal guarantees				
	In favour of related parties				
	In favour of third parties				
	Other memorandum accounts				
	Others		3,651	0	3,057
			3,651		3,057
Total memorandum accounts			**3,651**		**3,057**

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ISAB ENERGY S.r.l. Financial Statements

Amounts expressed in Thousands of Euro

INCOME STATEMENTS

	2002	2001	2000
A) VALUE OF PRODUCTION			
1) Net turnover from sales and services	421,319	377,207	229,416
2) variation in stocks of finisched goods and in work in progress	(137)	65	151
3) Variance in contracts in progress	0	0	0
4) work performed for own purposes and capitalized	824	37	12,506
5) Other revenues and income	0	0	0
other	22,413	18,872	65,374
	22,413	18,872	65,374
TOTAL VALUE OF PRODUCTION	**444,419**	**396,181**	**307,447**
B) COST OF PRODUCTION			
6) For raw materials, consumable and goods for sale	(165,073)	(169,267)	(187,262)
7) For services	(58,123)	(59,349)	(49,281)
8) For use of assets owned by other	(1,964)	(989)	(1,296)
9) For staff costs	0	0	0
a) wages and salaries	(952)	(906)	(995)
b) social security costs	(281)	(242)	(283)
c) provision for severance indemnity	(65)	(55)	(69)
d) pension costs	0	0	0
e) other costs relating to staff	(19)	(1)	(0)
	(1,316)	(1,204)	(1,347)
10) Value adjustments			
a) Amortization of intangible assets	(8,795)	(9,011)	(6,629)
b) Amortization of tangible assets	(36,981)	(36,247)	(25,001)
c) Reduction in value of fixed assets	0	0	0
d) Allowance for doubtful debtors included	0	0	0
in current assets	0	0	(102)
	(45,776)	(45,258)	(31,733)
11) Variation in stocks of raw materials, consumables and good for reseals	1,212	1,420	3,152
12) Amounts provided for risk provisions	0	0	0
13) Other accruals	(6,459)	(1,931)	(1,889)
14) Other operating charges	(4,975)	(4,506)	(4,663)
TOTAL COSTS OF PRODUCTION	**(282,474)**	**(281,084)**	**(274,319)**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	**161,945**	**115,097**	**33,128**

37

[LOGO]

ISAB ENERGY S.r.l. Financial Statements

Amounts expressed in Thousands of Euro

INCOME STATEMENTS

	2002	2001	2000
C) FINANCIAL INCOME AND CHARGES			

			2002	2001	2000
15)	Income from equity investments		0	0	0
16)	Other financial income		0	0	0
	a)	from loans forming part of fixed assets			
	b)	from other permanent investments other than equity ones	0	0	0
	c)	from other investments which are not permanent	0	0	0
	d)	other income not included above			
		subsidiary companies	0	0	0
		associated companies	0	0	0
		parent companies	52	237	29
		other associated companies	26	0	0
		other companies	2,487	2,837	868
			2,566	3,074	897
17)	interest payable				
		subsidiary companies	0	0	0
		associated companies	0	0	0
		parent companies	(2,804)	(3,455)	(660)
		other associated companies	(115)	(45)	(634)
		other companies	(46,879)	(52,400)	(48,709)
			(49,797)	(55,900)	(50,003)
T TOTAL FINANCIAL INCOME AND CHARGES			**(47,232)**	**(52,825)**	**(49,106)**
D)	**VALUE ADJUSTMENT OF INVESTMENT**		0	0	0
18)	Revalutation		0	0	0
19)	Devaluation		0	0	0
TOTAL VALUE ADJUSTMENT OF INVESTMENT			0	0	0
E)	**EXTRAORDINARY INCOME AND CHARGES**				
20)	Income				
		from disposal of assets	0	34	0
		extraordinary income	0	0	2,404
		other	0	0	0
			0	34	2,404
21)	Charges				
		from disposal of assets	0	(195)	(1)
		incomes taxes from previous year	(305)	0	0
		contingent liabilities	0	(0)	(378)
		other	(86)	0	0
			(391)	(195)	(379)
TOTAL EXTRAORDINARY INCOME TAXES			**(391)**	**(161)**	**2,025**
Profit (Loss) before income taxes			**114,321**	**62,111**	**(13,954)**
22)	**Income taxes**		**(7,362)**	**(5,152)**	**2,437**
23)	**Profit (Loss) for the financial period**		**106,959**	**56,959**	**(11,517)**

38

ISAB Energy S.r.l.
Annual report for the year ended December 31st 2002
Notes to the financial statements

1. The company

Isab Energy is the owner of the industrial gasification and cogeneration complex denominated "IGCC Integrated Gasification Combined Cycle", situated in Priolo Gargallo, Sicily, designed for the production of electrical power.

The plant, which became operational on April 18th 2000 following the "provisional acceptance" issued to the plant construction consortium Snamprogetti Foster Wheeler Energy (the "Consortium"), on December 30th 2002 completed the guarantee period with regard to regular functioning and productive capacity, leading to the definitive and conclusive declaration of "final acceptance".

2. Criteria for the preparation of the financial statements

The financial statements have been prepared in compliance with the laws which govern their preparation, interpreted and integrated using the accounting principles issued by the "Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri"

The financial statements include the Balance Sheets, Income Statement and the Notes to the financial statements.

Every item on the Balance Sheets is accompanied by the corresponding financial statement amounts for 2001 and 2002, while in the Income Statements the figures for 2000, 2001 and 2002 are provided.

For the sake of clarity the figures in the Notes to the financial statements have been rounded to the nearest thousand Euro, in line with past practices; as a result some of the total amounts may vary slightly from the sum of their components.

3. Accounting policies and evaluation criteria

The accounting policies and evaluation criteria adopted are set out below. They conform entirely to articles 2423 bis and 2426 of the Italian Civil Code.

The evaluation criteria adopted for the drawing up of the financial statements at December 31st 2002 are the same as those adopted the previous year.

3.1 Intangible fixed assets

Intangible fixed assets are recorded at their purchase price or production cost, including related capitalization interest, incurred at the date of completion, and are amortised on a straight line basis, according to their useful life, also considering their residual value.

More specifically, the figures result from the application of the following criteria:

- plant and improvement expenses are amortised in five years;
- the industrial process licenses in relation to the contractual duration agreed with the licensee;
- licensed software in three years;
- the contribution to ENEL for the period of use of the power lines connected to the IGCC plant, indicated in the contract of the sale of electricity;
- the expenses linked to the project financing for the duration of the financing obtained from the banks.

3.2 Tangible fixed assets

Tangible fixed assets are recorded at purchase or production price and are displayed net of amortisation and depreciation provisions.

The figures shown have not undergone any revaluation.

The cost of assets includes capitalization interest incurred during the period of construction.

Improvement, modernisation, transformation and maintenance costs are capital in nature and are thus capitalised and depreciated in relation to the useful life of the asset they relate to.

Non-capital maintenance and repair costs are expensed in the periods in which they are incurred.

The depreciation rates, determined on a prudent basis, which are the same as those used in prior years and follow a depreciation schedule which takes account of the estimated residual value of each asset, are listed below according to the type of asset in question:

	%	**Degree of depreciation at 31.12.02**
Industrial buildings	3-4	10%
Light buildings	10	24%
IGCC complex buildings	3.5-7.5	12%
Industrial equipment	10	25%
Office equipment and furniture	12	40%
Sundry and minor equipment	10	36%
Electronic equipment	20	53%
Vehicles	25	89%

With regard to the IGCC plant, the rates shown refer exclusively to the values arising from an independent survey on the single technical units of the plant.

3.3 Equity investments

Shareholdings are recorded at their purchase price or subscription price and adjusted if there has been a permanent loss of value.

3.4 Inventories

Raw materials are accounted for at the lower of cost, using the LIFO (Last In First Out) method on an annual basis, and the current market value.

Finished products are accounted for on the basis of the current market value.

Inventories of ancillary and consumer goods are accounted for at the lower of their weighted average cost and the current market value.

3.5 Receivables and payables

Receivables and payables are recorded at their nominal value reduced where necessary by a provision for doubtful accounts.

Transactions in foreign currency during the year are converted into Euro at the exchange rate on the day of the transaction and the difference between this value and the amount actually paid or received is recorded in the income statement under financial income and expenses.

The foreign exchange differences, resulting from the conversion of foreign exchange receivables and payables at the year-end are included in the income statement.

3.6 Current and deferred income taxes

The current income taxes have been accrued to cover estimated tax charges. Deferred tax liabilities and assets are accrued to reflect the timing differences between the financial reporting basis and tax basis of assets and liabilities and tax losses carried forward.

The deferred tax assets are included in the statements only if there is a reasonable chance of recovering them; deferred taxes are not accounted for if the liability is considered remote. These taxes have been calculated on the basis of estimated tax rates expected for the periods in which the taxable timing differences will be concentrated.

3.7 Accruals and payables

Accrued income and liabilities and deferred income and expenses are accounted for on an accrual basis, with reference to the provisions of article 2424 bis of the Italian Civil Code.

3.8 Provisions for risks and charges

The provisions for risks and charges cover specific, definite or possible liabilities, but whose amount or date of payment is not certain at the end of the year.

3.9 Maintenance cycles

The provision for the extraordinary periodical maintenance is carried out pro rata temporis for each financial year on the basis of the estimate of costs to be sustained and the multi-year maintenance cycle programmes of the IGCC plant.

3.10 Provision for staff leaving indemnities

This item represents all the liabilities to personnel, calculated according to current legislation and collective labour contracts in force at the close of the year.

3.11 Memorandum accounts

Memorandum accounts are accounted for at the value of the commitment taken or received and the potential value of the risk objectively estimated.

In relation to the accounting principle number 22 issued by the "Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri", the guarantees issued against the payables recorded in the balance sheet are not recorded amongst the memorandum accounts but are shown in the Notes to the financial statements, where necessary, in the comments to the relevant payable items.

3.12 Financial expenses

The interest payable and the financial expenses incurred by the financing obtained from the parent company and subsequently by the financing received from the Project financing, until the date the plant started operations (April 18th 2000), have been capitalised amongst the various asset items.

The interest payable and financial expenses subsequent to that date contributed to the formation of the economic result.

3.13 Income Statement

Income and expenses are accounted for in the income statement on an accrual basis.

Up until the date when the plant was accepted, the costs pertaining to technical studies, legal and financial services, permits and licenses, internal work, directly or indirectly attributable to the start-up and development of the project and the building of the plant, as well as its trial run, were capitalised amongst the fixed assets, whereas the expenses not directly pertaining to the project's progress and its implementation were recorded in the financial year.

3.14 Extraordinary income and expenses

This item consists exclusively of the effects resulting from changes in the application of accounting principles, from extraordinary events not in any way connected to ordinary operations, taxes pertaining to previous years and litigation underway with the tax authorities.

4. Related party transactions

The company engages in commercial relations and service-linked and financial relations both with its direct parent companies and with the companies of the same Groups, regulated by contracts fixed at market conditions, with the exception of financing, which is paid back at zero rate in 10 years and matures in 2010.

During 2002, most of the activity previously done with ERG Petroli were transferred to ERG Raffinerie Mediterranee S.r.l.

The most significant are:

the supplies of "feedstock", the raw material for the IGCC plant, in relation to the "Feedstock Supply Agreement" of June 20th 1996. This material comes from the processing residues from the ISAB refinery, which until September 30th 2002 was owned by the parent company ERG Petroli and since October 1st 2002 is under the ownership of the associated company ERG Raffinerie Mediterranee;

the reciprocal supplies of minor products between the companies, ERG Petroli until September 30th 2002, and subsequently ERG Raffinerie Mediterranee, by virtue of the "Minor Products Agreement" of April 5th 1996. These supplies include, but are not limited to, supplies of diesel, gas, fuel oil, steam and heat;

the allotment of two loans linked to the Project financing operation and denominated "sub-debt", on the basis of the agreements drawn up between the financing banks and the sponsors ERG Petroli and MEC Priolo B.V.;

the services carried out by the associated company ISAB Energy Services S.r.l., under the "Operation & Maintenance" contract of April 5th 1996, concerning the running and maintenance of the IGCC plant.

Isab Energy Services S.r.l. belongs to the same groups of the associated companies ERG Petroli and MEC Priolo.

ERG S.p.A. performs other services with regard to legal, corporate, tax and administrative assistance and public relations. ERG Petroli, up until September 30th 2002, performed certain public relations, personnel administration, organisation and management of human resources. As of October 1st 2002, ERG Raffinerie Mediterranee began performing certain services related to personnel administration, organisation and management of human resources. Mission Energy Italia S.r.l. and Edison Mission Energy Ldt. provide services by staff at headquarters and advice in the financing, insurance and commercial sectors.

The figures regarding inter-group operations are detailed further on in these Notes.

5. Project financing

Supplied below is a general outline of the guarantees and relations arising from the Project financing operation which was concluded in 1996 with the signing of the Contract of Project Credit, which was subjected to its last change on September 15th, 2000 as a conclusion to the re-financing operation:

the setting up of a first mortgage in favour of San Paolo IMI S.p.A. as a security for the payment of amounts and the satisfying of all obligations laid down in the Contract of Project Credit. The mortgage relates to the land and entire I.G.C.C. plant at Priolo Gargallo;

the setting up of a special lien in favour of San Paolo IMI S.p.A. as a security for the payment of amounts and the satisfying of all obligations resulting from the Contract of Project Credit. The lien relates to plants, machinery, capital goods, raw materials, goods in progress, finished products, warehouse reserves and receivables resulting from the sale of the above goods;

the transfer of all rights of a financial nature and sums received or to be received in relation to those rights according to or in relation to the Project Contracts as detailed in the introduction to the deed of assignment in favour of San Paolo IMI S.p.A. The transfer is a security for all the obligations assumed according to or in relation to the Contract of Project Credit;

the transfer to San Paolo IMI S.p.A. of all the insurance reimbursements to be paid or received in relation to the insurance as laid down in the Contract of Project Credit (with the exception of the reimbursements pertaining to the accidents of employees or the compensation of third-party civil liability damages).

The duration of the obligations after the re-financing operation was extended from eight to fourteen years from the payment of the first instalment, which occurred on December 15th 2000, and therefore until December 15th 2014.

Furthermore, the financial management of the Company, in particular its cash flow, is monitored very closely by the banks.

6. Notes to Balance Sheet

Assets

Fixed assets (Euro 766,565 thousand)

6.1 Intangible fixed assets

	Start-up and expansion expenses	Licenses and trademarks	Assets under construction & advances	Other intangible fixed assets	Total
Historical cost	26,166	8,900	8	45,761	80,835
Amortisation	(8,916)	(2,597)		(4,464)	(15,977)
Balance at 31.12.01	**17,250**	**6,303**	**8**	**41,296**	**64,858**
Movements during the year:					
Acquisitions			268		268
Reclassification		166	(166)		
Amortisation	(5,233)	(980)		(2,583)	(8,795)
Historical cost	26,166	9,066	111	45,761	81,103
Amortisation	(14,149)	(3,576)		(7,047)	(24,772)
Balance at 31.12.02	**12,017**	**5,490**	**111**	**38,714**	**56,331**

The start-up and expansion expenses include the cost of forming the company, amounting to Euro 5 thousand, and Euro 12,012 thousand of start-up expenses, valued as recoupable and directly attributed to the start-up of operations. They include financial expenses amounting to Euro 872 thousand consisting of:

Euro 8,987 thousand, from the services carried out by the associated company ISAB Energy Services S.r.l., on our behalf and in our interest, aimed at the training and organisation of the qualified personnel.

Euro 3,026 thousand, from the technical and legal advice and services necessary to develop the project.

The licenses and trademarks and similar rights include Euro 5,221 thousand pertaining to the cost of the licenses to use the "Texaco" gasification processes and the "Lurgi" sulphur recovery processes. The amortisation applied amounts to Euro 1,709 thousand.

The assets under construction amounting to Euro 111 thousand relate to the development of software (Euro 42 thousand) and to advances to suppliers (Euro 69 thousand).

The other intangible fixed assets include the contribution paid to Enel for the connection of the I.G.C.C. plant to the National power grid for a total of Euro 22,405 thousand, and the deferred financing expenses (Euro 16,308 thousand). These amounts are shown after amortisation amounting to Euro 3,576 thousand and Euro 3,471 respectively.

6.2 Tangible fixed assets

	Land and Buildings	Plant and machinery	Indust and Comm. equipment	Other Assets	Fixed assets under costr. Advances	Total
Historical cost	17,031	771,046	211	1,516	7,111	796,915
Revaluations						
	17,031	**771,046**	**211**	**1,516**	**7,111**	**796,915**
Depreciation	(1,096)	(59,643)	(38)	(585)		(61,361)
Excess amortisation						
Write-downs						
Balance at 31.12.01	**15,936**	**711,403**	**173**	**931**	**7,111**	**735,554**
Movements during the year:						
Acquisitions					11,791	11,791
Capitalization/reclassification	956	9,318	49	210	(10,533)	
Disposal and divestment		(136)		(4)		(140)
Depreciation	(627)	(36,034)	(26)	(294)		(36,981)
Excess amortisation						
Write-downs						
Historical cost	17,988	780,208	260	1,707	8,370	808,532
Revaluations						
	17,988	**780,208**	**260**	**1,707**	**8,370**	**808,532**
Depreciation	(1,722)	(95,656)	(64)	(865)		(98,307)
Excess amortisation						
Write-downs						
Balance at 31.12.02	**16,266**	**684,552**	**196**	**843**	**8,370**	**710,225**

The tangible fixed assets include the capitalized interest expenses incurred during the construction period that remained capitalised to the individual assets. The figure at December 31st 2002 was Euro 100,794 thousand.

All of the buildings destined for industrial use, for Euro 13,541 thousand, include the set of buildings made up of the entrance and porter's lodge, the offices, the canteen, the warehouse, the control room, the laboratory, the cabins and roads, parking lots and the other respective infrastructures. The item includes Euro 505 thousand relating to light constructions.

The depreciation for Euro 1,722 thousand relates to buildings for Euro 1,561 thousand, and to light constructions for Euro 161 thousand.

The item plant and machinery refers to the I.G.C.C. industrial gasification and cogeneration plant. The sum of Euro 780,208 thousand refers to the plants making up the electrical power plant for Euro 717,101 thousand, the transformer substations for Euro 57.188 thousand and Euro 5,919 thousand for the auxiliary treatment and purification stations.

The depreciation amounting to Euro 95,656 thousand was applied with exclusive reference to the economic and technical life valued in a weighted average residual time of 21 years. The increases in the year are due to the capitalisation on the electrical power plant (Euro 9,209 thousand Euro 4,586 thousand of which is for new investments in strategic reserves), new metallurgical developments, adapting to safety regulations and other improvements and the coming on stream of a plant component called the "turbo expander" (Euro 4,623 thousand). The "turbo expander" could not be activated on April 18th 2000, when the IGCC plant was accepted, because of design alterations which needed to be made. This technical unit increases the electrical power production capacity by around 6 MWh.

The item "fixed assets under construction and advances" refers to investments not yet concluded (Euro 8,230 thousand), and advances to suppliers (Euro 140 thousand).

6.3 Financial fixed assets

The value of equity investments in other companies relates to the purchase cost at the nominal value of 100 shares, equal to 5% of the share capital, of the company Industria Acqua Siracusana S.p.A., with registered headquarters in Syracuse, Sicily.

Current Assets (Euro 214,936 thousand)

6.4 Inventories

	31.12.02	**31.12.01**
Raw materials	3,417	3,702
Ancillary and consumable materials	11,953	10,456
Finished products and goods	113	250
Advances	132	228
TOTAL	**15,615**	**14,636**

Inventories of raw materials fell due to the lower quantities of diesel in stock at the end of the year.

The increase in the inventory value of ancillary and consumable goods can be attributed to the higher level of spare reserves, whose effect amounted to Euro 1,455 thousand.

The inventories of products refer to the quantities of sulphur and vanadium concentrate**.**

The advances refer to receivables for advances to suppliers on purchase orders for spare parts and consumable goods, which are due to be delivered in the first few months of the following year.

6.5 Receivables

	31.12.02	**31.12.01**
Trade receivables	66,084	49,897
Receivables from parent companies	8,284	3,777

	31.12.02	31.12.01
Receivables from associated companies	6,686	242
Other receivables	33,165	28,110
TOTAL	**114,219**	**82,026**

Trade receivables

	31.12.02	31.12.01
Receivables due form the sale of electrical power	65,698	49,336
Sundry trade receivables	386	561
TOTAL	**66,084**	**49,897**

The receivables refer mainly to the sale of electricity in the months of November and December 2002. The figure shown at the end of the year is higher than that of the previous year due to greater electricity production in the last two months of the year.

The receivables for the sale of electrical power were collected in the months of January and February 2003.

Receivables from parent companies

	31.12.02	31.12.01
Trade receivables:		
ERG Petroli S.p.A.	8,284	2,751
ERG S.p.A.		1,026
TOTAL	**8,284**	**3,777**

These receivables relate only to ERG Petroli and arose mainly from the sale of minor products and valuation adjustments to feedstock supplies in 2002.

Receivables from associated companies

	31.12.02	31.12.01
Trade receivables:		
ERG Raffinerie Mediterranee S.r.l.	2,053	
ISAB Energy Services S,r,l,	107	242
	2,160	**242**
Financial receivables:		
ISAB Energy Services S.r.l.	4,526	
TOTAL	**6,686**	**242**

Receivables from ERG Raffinerie Mediterranee refer to the sale of minor products in the months of November and December 2002.

Receivables from ISAB Energy Services relate to charges for general service.

Other receivables

	31.12.02	31.12.01
Receivables due from Tax Authorities		494

	31.12.02	31.12.01
Receivables due from public bodies		2
Receivables from employees	11	5
Receivables for damage compensation	21,030	
Receivables for insurance reimbursements	2,421	16,941
Receivables for advance taxes	9,180	9,338
Sundry receivables	134	1,289
Advances to suppliers	389	42
TOTAL	**33,165**	**28,111**

The sum of Euro 21,030 thousand relates to the settlement of the litigation with the Consortium signed on December 30th 2002, according to which the company is to be compensated for the breaches of the construction contract (Turnkey Construction Contract of June 21st 1996) pertaining to the industrial IGCC plant.

The agreement provides for the payment of the compensation in the following way: Euro 15 million by February 2003 and Euro 6 million in the following periods for waived royalty expenses.

The item "Receivables for insurance reimbursements", already recorded in 2001 following the damage incurred during the construction of the IGCC plant and during its operation, was reduced by Euro 14,469 thousand following the settlement and payment of the damages; there is a sum of Euro 2,421 thousand outstanding, which should be collected during 2003.

The tax credit for advance taxes relates for Euro 5,603 thousand to IRPEG taxation and Euro 3,577 thousand to IRAP taxation.

The IRPEG taxation reflects the effect of lower taxation from losses carried forward to the end of ten-year exemption period (October 2003).

The IRAP taxation refers for Euro 3,133 thousand to the payments made during the previous tax periods on the capitalised expenses up until the moment the plant became operational, and which will be absorbed in future years in relation and proportion to the depreciation of the costs which generated it and for Euro 444 thousand to the timing differences generated in 2000, 2001 and 2002, which will arise in the coming years.

The recording of deferred taxes was carried out in compliance with the accounting principle number 25 issued by the "Consigli nazionali dei dottori commercialisti e dei ragionieri".

The receivables collectable beyond twelve months relate mainly to IRAP calculated on capitalised expenses and the receivable from the Consortium.

6.6 Cash and cash equivalents

	31.12.02	31.12.01
Bank and postal deposits:		
ordinary current accounts	42	13
Project Financing	85,057	58,304
	85,099	58,318
Cash on hand	2	3
TOTAL	**85,101**	**58,321**

The item is generated by the existing availability at the end of the year of cash in hand and in bank accounts.

6.7 Accrued income and pre-paid expenses

Pre-paid expenses

	31.12.02	31.12.01
Premiums for sureties	178	385
Fees for services and other fees	390	442
Insurance	3,420	1,259
TOTAL	**3,989**	**2,086**

The premiums for sureties refer to amounts paid to the banks as securities issued for the VAT credit for the years 1998 and 1999.

The insurance deferrals relate to premiums on policies to cover property and civil responsibility risks, which expire after the year in question.

The other deferrals arose mainly from the payments for diagnostic activities to the turbines for Euro 214 thousand made to the parent company ERG Petroli.

The following table shows the receivables, accrued income, and pre-paid expenses broken down by maturity:

	within 12 months	within 5 years	beyond 5 years	Total
Receivables included as financial assets				
from others		4		4
Receivables included as current assets				
advances to suppliers (inventories)	132			132
from customers	66,084			66,084
from parent companies	8,284			8,284
from associated companies	6,686			6,686
from others	23,905	5,674	3,586	33,165
	105,091	**5,674**	**3,586**	**114,351**
Accrued income and pre-paid expenses				
pre-paid expenses	3,980	9		3,989
TOTAL	**109,071**	**5,687**	**3,586**	**118,344**

Liabilities and Equity

6.8 Shareholders' Equity

Share capital

The fully paid-up share capital is as follows:

	Share of capital	%
ERG Petroli S.p.A. Siracusa	2,634,150	51
MEC Priolo BV Olanda	2,530,850	49
TOTAL	**5,165,000**	**100**

Although ERG Petroli S.p.A. possesses the majority share, these statements show both shareholders to be the parent companies, in consideration of the fact that the Shareholders agreements define the joint control of the company by both shareholders.

Legal reserve (Euro 1,033 thousand)

The legal reserve corresponds to one fifth of the share capital.

Income (Loss) carried forward (Euro 30,926 thousand)

The item refers to the share carried forward of the income for 2001.

Changes in Shareholders' Equity

	Share Capital	Share Premium Reserve	Legal Reserve	other Reserve	Retained earnings (loss)	Income (Loss) for the year	Total Shareholders Equity
Balance at 31.12.2000	**5,165**			**15,494**		**(6,960)**	**13,699**
Loss for 2000 brought forward					(6,960)	6,960	
Result for 2001						56,959	56,959
Balance at 31.12.2001	**5,165**			**15,493**	**(6,960)**	**56,959**	**70,657**
Cover of losses for 1999 and 2000				(6,960)	6,960		
Appropiation of residual reserve in capital account to financial payable				(8,533)			(8,533)
Appropriation of income for 2001			1,033		30,926	(31,959)	
Distribution of income for 2002						(25,000)	(25,000)
Result for 2002						106,959	106,959
Balance at 31.12.2002	**5,165**		**1,033**		**30,926**	**106,959**	**144,083**

6.9 Provisions for risks and charges

	31.12.02	31.12.01	Changes Increases	Changes Decreases
Provision for back taxes	305		305	
Provision for maintenance cycles	9,716	3,304	6,412	
Provision for finished product expenses	47	424	47	(424)
TOTAL	**10,067**	**3,727**	**6,764**	**(424)**

The provision for back taxes was made in anticipation of higher tax charges for the years 1998 and 1999, after the presentation of notices of assessment and adjustment for direct taxes and VAT.

Following these notices the company has presented assessment petitions, which will be defined in the first few months 2003.

The maintenance cycle provision has been adjusted with the competent share for the year of the shutdown of plants for extraordinary maintenance which, originally planned for 2002, was re-scheduled for the first six months of 2003 following the revision of the maintenance plan to four-year cycles for each train and bi-annual for the parts in common.

The provision is stated net of the costs incurred to that end during the year.

The expenses provision for finished products has been utilized within the limits of the provision set up in 2001 to cover both the costs arising from the conclusion of the sales negotiations for the sale of off-specification vanadium concentrate and those incurred against the quantities of vanadium concentrate in stock at December 31st 2001, sold in the first few months of 2002.

6.10 Staff leaving indemnities

	31.12.02	31.12.01	Changes	
			Increases	Decreases
Staff leaving indemnities	161	144	34	(16)

This fund fully covers the leaving indemnities of all the employees up to December 31st 2002, in compliance with current legal and contractual requirements.

The decrease is largely due to the resignation of some employees.

6.11 Payables

	31.12.02	31.12.01
Bank borrowings	700,142	783,234
Trade payables	24,429	30,629
Payables to parent companies	78,767	57,693
Payables to associated companies	24,400	6,779
Due to tax authorities	2,497	3,720
Due to social security institutions	83	65
Other payables	317	362
TOTAL	**830,635**	**882,482**

Bank borrowings

	31.12.02	31.12.01
Loans and financing:		
Project financing San Paolo IMI S.p.A.	700,142	783,234
TOTAL	**700,142**	**783,234**

The bank borrowings related to the Project financing operation, which was accompanied by special liens and a mortgage on the land, as previously mentioned in the introduction to this document.

The financing agreed with the company via the "Project Credit Facility Agreement" contract, dated April 5th 1996, was re-negotiated on September 15th 2000 with a "Refinancing" operation whose main outcome was the extension of the expiry terms to December 15th 2014.

At the date of this report, several of the conditions (insurance cover and projected financial and economic ratios), which were laid out in the Project Financing contract, have not been fulfilled; for this reason the financing banks, exercising their contractual right, did not authorise either the payments of the subordinate debts to the shareholders and their subsidiaries or the payment of the 2001 profits as decreed.

The financing is of the "non recourse" type, is to be repaid in 29 instalments (the first on December 15th 2000), at variable rates linked to the Euribor at six months on tranche "B" and to the EIB at three months BEI on tranche "C".

At December 31st 2002, given the current debt, hedging operations on the interest rate (Interest Rate Swap) were in existence, for notional values equal to Euro 567 million, fixing the effective interest rate at 4.925%.

During 2002, the debt was reduced through 4 payments for Euro 48,389 thousand on tranche "B" and Euro 34,473 thousand on tranche "C".

The residual capital of the various tranches is displayed below and includes the interest payable accrued at December 31st 2002:

	31.12.02	**31.12.01**
Tranche "B"	384,264	432,653
Tranche "C"	314,522	348,996
Interest payable on financing	1,356	1,586
TOTAL	**700,142**	**783,234**

According to year-end commitments, to the changes being defined with the financing banks regarding the structure of the debt, to the subsequent expected re-formation of the depreciation plan and to the advance reimbursement contractually provided for regarding a share of the compensation to be paid by the construction consortium as part of the litigation settlement, the expiry dates for repayment per year are estimated thus:

2003	97,598
2004	75,211
2005	78,630
2006	88,886
2007	91,450
beyond 2008	268,367
TOTAL	**700,142**

Payables due to suppliers

	31.12.02	**31.12.01**
Italian suppliers	19,976	28,417
E.U. suppliers	1,001	1,087
Suppliers outside E.U	3,451	1,125
TOTAL	**24,429**	**30,630**

The payables due to suppliers were lower than in 2001 because of the fewer services and supplies received at the end of the year.

Payables due to parent companies

	31.12.02	**31.12.01**
Trade payables:		
ERG S.p.A.	87	2
ERG Petroli S.p.A.	74	12,151
	161	**12,153**
Financial payables:		
ERG Petroli S.p.A.	37,851	26,978
Edison Mission Energy (USA)	19,744	18,562
MEC Priolo B.V. (Olanda)	16,623	

	31.12.02	31.12.01
	74,218	**45,540**
Other payables:		
ERG S.p.A.	4,389	
	4,389	
TOTAL	**78,767**	**57,693**

The trade payables due to ERG S.p.A. relate to services received, while the other payables relate to the payment of VAT for the month of December 2002, transferred to the Group's centralised account.

The financial payables due to ERG Petroli S.p.A. refer to the subordinated loan (sub-debt) and the Project financing loan amounting to Euro 23,281 thousand, as well as the interest accrued for Euro 1,820 thousand and the income for 2001 determined at Euro 12,750 thousand, suspended and awaiting payment after the approval from the financing banks.

The repayment plan and the conditions of the disbursement of the subordinated loan provide for 34 semi-annual instalments of the same amount, starting from the moment in which the settlement of the litigation with the Consortium was effective. There was an increase of Euro 4,352 thousand on this debt during 2002, arising from the partial use of the capital account reserve to be reimbursed to the Shareholders.

Comparisons with the previous year highlight the transfer of the financing arising from the "Loan agreement" of April 5th 1996 (Euro 7,207 thousand) to the company ERG Raffinerie Mediterranee.

The financial payables due to Edison Mission Energy represent the subordinate loan (sub-debt) and the Project financing loan, which was raised in the interest of the parent company MEC Priolo B.V. for Euro 18,186 thousand. The figure shown in the balance sheet includes accrued interest for Euro 1,558 thousand.

The conditions of collectability and repayment are the same as those of the same debt due to ERG Petroli.

The financing for Euro 4,181 thousand from MEC Priolo B.V. also consists of the subordinate loan and Project financing loan. It is recorded following the destination of the capital account reserve and is shown in the balance sheet inclusive of the accrued interest payable for Euro 191 thousand.

With regard to the conditions of collectability and repayment, the same clauses of the same above-mentioned debts are valid.

The amount includes for Euro 12,250 thousand the income from 2001, awaiting payment after approval from the financing banks.

53

Payables due to associate companies

	31.12.02	31.12.01
Trade payables:		
ERG Raffinerie Mediterranee S.r.l.	6,308	
ISAB Energy Services S.r.l.	10,780	6,628
Mission Energy Italia S.r.l.	20	106
Edison Mission Energy Ltd. (UK)	85	45
	17,193	**6,779**
Financial payables:		
ERG Raffinerie Mediterranee S.r.l.	7,207	
TOTAL	**24,400**	**6,779**

The payables due to ERG Raffinerie Mediterranee relate to business relations for supplies for December and services carried out in the final quarter, for a value of Euro 6,308 thousand, and the financing subordinate to the "Loan agreement" contract of April 5th 1996 for Euro 7,207 thousand. This debt, without accrued interest, is repaid at six-monthly rates of the same amount and expires on April 1st 2010.

As far as ISAB Energy Services S.r.l. is concerned, the figure shown relates to services received on the basis of the previously mentioned "Operation & Maintenance" contract.

Trade payables due to the companies Mission Energy Italia S.r.l. and Edison Mission Energy Limited consist of consultancy expenses, services and emoluments for directors' social appointments.

Due to tax authorities

	31.12.02	31.12.01
Income tax for the year	2,300	3,570
Due to tax authorities for deductions	73	60
Other tax payables	123	91
TOTAL	**2,497**	**3,720**

The item is due for Euro 2,300 thousand to IRAP taxation for the year, net of the advances paid during the year as well as the deductions from the income of employees and independent workers and the taxes on emissions and waste disposal.

During the year, the company was still exempt from IRPEG taxation, an exemption which will expire in October 2003.

Due to Social Security Institutions (Euro 83 thousand)

This item (Euro 65 thousand at December 31st 2001) includes Euro 49 thousand due to the various institutions for social security and national insurance contributions relating to salaries and wages for the months of December 2002 and the allocation of Euro 34 thousand for contributions due from the pay accrued by employees on holidays and paid days off not taken, productivity premiums and overtime not yet paid.

Other payables

	31.12.02	31.12.01
Payables due to employees	202	140
Other sundry payables	115	221
TOTAL	**317**	**362**

"Payables due to employees" refers to sums not yet paid and includes holidays and paid days off not yet taken, overtime and productivity premiums.

The item "other sundry payables" relates to expenses for 2001 paid to the Antitrust Authority for electricity and gas.

6.12 Accrued expenses and deferred income

	31.12.02	31.12.01
Accrued expenses:		
Additional salary expenses and contributions	33	29
Expenses from swap operations (IRS)	510	446
	543	**476**
Rents payable		4

	31.12.02	31.12.01
TOTAL	**543**	**479**

The accrued expenses include the expense of Euro 510 thousand of the hedging operation on the interest rates (IRS) of the financial debt obtained via Project financing.

Payables and Accrued expenses are broken down by maturity as follows:

	within 12 months	within 5 years	beyond 5 years	Total
Payables				
bank borrowings	97,598	334,177	268,367	700,142
due to suppliers	24,429			24,429
due to parent companies	29,550	15,653	33,565	78,767
due to associated companies	18,544	3,603	2,252	24,400
due to tax authorities	2,497			2,497
due to social security institutions	83			83
other payables	317			317
Accrued expenses and deferred income				
accrued expenses	543			543
deferred income				
TOTAL	**173,561**	**353,433**	**304,184**	**831,178**

6.13 Memorandum accounts (Euro 3,651 thousand)

Memorandum accounts are open on the raw materials deposited at the ISAB refinery belonging to ERG Raffinerie Mediterranee S.r.l. for Euro 3,631 thousand, and to company goods on consignment to third parties for Euro 20 thousand, as they were goods in transit at December 31st 2002.

Reference is made to previous descriptions regarding the Project Financing restrictions, to which the financial flows produced by the company are subject, and to the commitments accepted via the Interest Rate Swap operation, which was activated in order to cover the interest rates on the Project Financing debt.

7. Notes to the Income Statement

7.1 Production Value (Euro 444,419 thousand)

Revenues from sales and services

	2002	2001	2000
Sales and services to customers:			
Electricity	409,329	366,760	221,380
Other services and sales	2,437	1,975	1,292
	411,765	**368,736**	**222,672**
Sales and services to parent companies:			
Heat	4,886	5,943	4,214
Steam	1,066	1,364	
Fluxing product (oil)	176	228	1,521

	2002	2001	2000
Other services and sales	909	937	1,009
	7,038	**8,471**	**6,745**
Sales and services to associated companies:			
Heat	1,966		
Steam	302		
Other services and sales	248		
	2,516		
TOTAL	**421,319**	**377,207**	**229,416**

Sales revenues are mainly made up of sales of electrical power at the incentive price of CIP/6, inclusive of the adjustment to the sales tariff for 2002, estimated to be minus Euro 21,293 thousand. Net production sold amounted to 4,197 thousand MWh (3,621 thousand in 2001).

Sales and services include revenues for the supply of steam, air, water and various supplies of minor products.

The revenues from parent companies relate to ERG Petroli for just the first nine months of the year and those from associated company ERG Raffinerie Mediterranee for the last three months of the year.

Changes in the inventor