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.

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.

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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.

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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.

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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.

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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

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.

"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.

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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.

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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

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;

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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.

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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)**