

EDISON MISSION ENERGY  
Form 10-K/A  
June 23, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

**AMENDMENT NO. 1**

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

**For the fiscal year ended December 31, 2003**

**Commission File Number 000-24890**

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**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)

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

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

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**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 payments on liquidation or redemption are guaranteed by Edison Mission Energy.**

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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  No

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. Yes  No

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

Aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 27, 2003: \$0. Number of shares outstanding of the registrant's Common Stock as of March 10, 2004: 100 shares (all shares held by an affiliate of the registrant).

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**EXPLANATORY NOTE**

This annual report on Form 10-K/A for the fiscal year ended December 31, 2003 is being filed to include in Part IV, Item 15, financial statements with respect to ISAB Energy S.r.l. which were omitted from the annual report on Form 10-K for the year ended December 31, 2003 filed on March 15, 2004.

This Amendment No. 1 does not update any other disclosures to reflect developments since the original date of filing.

The following item of the original filing is amended by this Amendment No. 1:

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Unaffected items have not been repeated in this Amendment No. 1.

**PART IV**

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

- (a) (2) List of Financial Statement Schedules

The following item is filed as a part of this report pursuant to Item 15(d) of Form 10-K:

	<b>Page</b>
<b>Investment in Unconsolidated Affiliates Financial Statements:</b>	
<b><u>ISAB Energy S.r.l. Financial Statements as of December 31, 2003, 2002 and 2001</u></b>	<b><u>3</u></b>

- (d) Financial Statement Schedules

Financial statements with respect to ISAB Energy S.r.l. which meets the definition of a foreign business as defined in Rule 1-02(1) of Regulation S-X are being filed in this report pursuant to Rule 3-09 of Regulation S-X. These statements are prepared in accordance with generally accepted accounting principles in Italy which differ from generally accepted accounting principles in the United States. See Note 7 to the financial statements on page 50.

**ISAB Energy S.r.l.**

**Annual report for the year ended December 31st 2003**

**Directors Report on Operations**

**Board of Directors**

**Domenico D Arpizio**

Chairman

**Daniel Melita**

Vice Chairman

**Filippo Bifulco**

**Marco Ferrando**

**Jonathan Gibson**

**Board of Statutory Auditors**

**Maria Sarno**

Chairman

**Antonio Ippoliti**

Standing Auditor

**Mario Pacciani**

Standing Auditor

**External Auditors**

**Reconta Ernst & Young S.p.A.**

**ISAB Energy Structure**

ISAB Energy is 51% owned by ERG Power and Gas S.r.l. 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, Sicily), located near to the refinery owned by ERG Raffinerie Mediterranee (ERG Med).

The plant has a guaranteed net capacity of 507 MW and in 2003 net electricity production was 4,000 GWh.

**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.

	2003	2002	2001
	(million Euro)		
<b>Total revenues</b>	<b>427</b>	<b>444</b>	<b>396</b>
<b>EBITDA</b>	<b>179</b>	<b>208</b>	<b>160</b>
<b>EBIT</b>	<b>132</b>	<b>162</b>	<b>115</b>
<b>Income from ordinary operations</b>	<b>93</b>	<b>115</b>	<b>62</b>
<b>Extraordinary net income (loss)</b>			
<b>Net income for the year</b>	<b>81</b>	<b>107</b>	<b>57</b>
Cash flow from operations	174	124	133
Investments/divestments	(13)	(12)	(15)
Changes in shareholders' equity	(18)	(34)	
<b>Changes in net financial debt</b>	<b>142</b>	<b>79</b>	<b>118</b>
Total shareholders' equity	206	144	71
Net financial debt	550	692	770
<b>Net invested capital</b>	<b>756</b>	<b>836</b>	<b>841</b>
<b>Number of employees at year-end</b>	<b>20</b>	<b>19</b>	<b>22</b>
<b>Electrical power generation (GWh)</b>	<b>4,000</b>	<b>4,197</b>	<b>3,621</b>

## 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 ERG Med 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 1<sup>st</sup> 2001, in accordance with the Bersani Decree (legislative decree of March 16<sup>th</sup> 1999) enforced by the Ministry for Industry).

## Comments on the results for the year

### Economic and financial results

The financial statements for 2003 show a profit of Euro 80.5 (compared to Euro 106.9 million in 2002), after depreciation and amortisation amounting to Euro 46.6 million (Euro 45.7 million in 2002).

The year's result is a reflection of the considerable reliability shown by the plant during the course of the year which, despite a general maintenance shutdown of 24 days, operated at 88% 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 2003 were:

net production amounted to 4,000 GWh, 93% of which was produced from the gasification of refining residues. Compared to the previous year there was an improvement in the reliability of the plants, even though the amount of electricity produced was lower than the amount produced in 2002, due to the general maintenance shutdown;

the electricity was sold at a provisional price of 98.5 €/MWh (CIP 6/92 tariff) except for a small part (1.33%) sold as surplus. On the basis of the trend of methane prices, which are expected to rise by 5.7% in 2003 (compared to 2002), the definitive value for 2003 is estimated at 101.6 €/MWh (1.5% more 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;

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the GRTN failed to collect an equivalent number of 226.5 hours (the annual exemption allowed to the GRTN is a maximum of 320 hours, for a total of 2,400 hours in the first eight years of the plant's operative life);

the plant's improved efficiency 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 and on the basis of production in 2002, the Antitrust Authority for Electricity and Gas recognised the ISAB Energy plant as being cogenerative for the year 2003,



according to resolution 42/02. The company is therefore not subject to the purchase of green certificates, according to the Bersani Decree;

At the end of March 2003 the general maintenance shutdown of the plants began, which lasted the equivalent of 24 days. The work carried out involved minor intervention work to Train 1, a major intervention to Train 2 and to the parts in common. The total cost of the work was Euro 12.1 million Euro, Euro 7.8 of which came from the appropriate provision;

During April the company renewed its insurance policies. Even though the insurance market is still under strain due to considerable losses recorded in the energy sector and to the general international climate, the company managed to obtain better coverage than the previous year, but which was nevertheless still not in line with the cover specified in the Project Credit Facility Agreement (PCFA). Furthermore, following specific requests from the banks, the company took out an insurance policy to cover damage deriving from acts of terrorism. The total cost of the policy renewals was in line with those of the previous year;

During the year insurance reimbursements for Euro 5.4 million were quantified, relating to damage subsequent to the taking over of the plants. The final instalment regarding these reimbursements, of Euro 1.5 million, was received in 2004.

In June, as per contract, the company restored Euro 13.5 million to the financing institutions. This amount corresponded to the agreed percentage of the Euro 15 million received from the plant construction company, arising from the litigation settlement of December 31<sup>st</sup> 2002;

The shareholders' meeting of September 29<sup>th</sup> 2003 approved, following a specific authorisation from the Financing Institutions, the distribution of dividends for Euro 18.3 million, corresponding to the share of the profit for 2001 brought forward. Furthermore, amounts owing to shareholders totalling Euro 25 million, relating to already-approved profit for 2001, were paid. Subordinated debt amounting to Euro 1.7 million was repaid to the associated company ISAB Energy Services. The company proceeded, following an amendment of the PCFA, to set up a limited reserve denominated Insurance Reserve, of Euro 23.9 million, and to partially extinguish in advance the amount payable to the Banks of Euro 18.9 million, to be recorded amongst the B and C tranches;

During December the company renewed the hedging contracts to cover the risk of interest rate changes, by underwriting two Swap and two Cap contracts for a total duration of five years, relating to the exposure on tranches B and C and to the periodicity of interest accrual;

On October 31<sup>st</sup> 2003 the stake in the company ISAB Energy was transferred from ERG Petroli to ERG Power & Gas. The subordinated debt relating to the surrendering shareholder was subsequently transferred.

At the end of the year the company obtained ISO 14001 certification from Det Norske Veritas for its environmental management system;

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Following the tax assessment notices served by the Revenue Authorities following investigation into the years 1998 and 1999, a risk provision amounting to Euro 0.3 million had already been set up at 31.12.2002. Following the outcome regarding the year 1998, Euro 0.1 million of that amount was used. The remaining Euro 0.2 million should be sufficient to cover the possible expense for 1999; the company is awaiting to receive the adjustment notices for that year.

### **Relations with the financing institutions**

As previously mentioned, in April the company renewed the plant's insurance policies, according to the Project Credit Facility Agreement (PCFA). The lasting crisis situation in the insurance sector, and in the energy sector in particular, meant that the company was not able, as previously stated, to obtain the cover requested by the banks. A request was therefore made to the company to freeze the payment of dividends and other subordinated payments, according to the PCFA.

During the year an agreement was reached between the company and the financial institutions, according to which ISAB Energy was granted a derogation from the freeze on dividends and subordinated debts for a total of Euro 45.0 million, against the setting-up of an inaccessible restricted reserve amounting to Euro 23.9 million called "Insurance Reserve". This reserve has the aim of giving the financing institutions a guarantee against the risk arising from the extension of the exemption days within the "business interruption" cover, which is a greater risk than the one detailed in the Project Credit Facility Agreement provisions. Furthermore, the company carried out a partial advance payment of the debt for a total of Euro 18.9 million and this led to an improvement of the liquidity indexes laid down in the economic and financial model. Finally, a new plan regarding the amortisation of the debt in line with the financial flows of the company has been agreed, in line with the new maintenance plan.

During 2003, following the agreement reached with the construction consortium Snam Progetti - Foster Wheeler Energy, a credit line amounting to Euro 57.3 million, to cover the company possibly losing the lawsuit, was cancelled.

### **Contract management**

#### **Hot Oil Plant**

On July 16<sup>th</sup> 2003 an agreement was drawn up with ERG Med to establish the criteria regarding repaying ISAB Energy for the replenishment of diathermic oil (65 t/h) and the settlement of the previous litigation, with the company being recognised the amount it had charged to ERG Petroli for the year 2001. As from the year 2002 the fixed limit of the agreement is therefore valid, confirming the amount of Euro 0.1 million recorded in the balance sheets for 2002. At the end of the year ERG Petroli proceeded with the payment of the above-mentioned settlement (Euro 0.5 million) and ISAB Energy has consequently issued an invoice for the years 2002 and 2003.

### **Information and Telecommunications Systems**

During 2003 investments were carried out to improve the performance and management of all systems, replacing the servers with new systems which perform better and are more serviceable. For the more critical applications, electronic mail and the I.T. production system, cluster systems have been used, ie two servers which work in parallel and balance the load and are capable of standing alone, each one is able to replace the other if there is some kind of failure. The ever greater attention to security has made it necessary to apply a more restrictive management policy regarding all personal computers, using the characteristics of the new operating system Microsoft XP. All the access profiles for SAP of all the suppliers have also been entirely revised.



With a view to further integrating the applications and exchanging information with suppliers various projects have been carried out:

the sending of and request for production data via cell-phone SMS messages;

the planning and carrying out of all maintenance work by third-party companies via a SAP interface on the Internet;

the integration of the plant supervisory systems with the technical documentation;

the first phase of the integrated management of the procedure regarding the planning and realisation of new projects (GEPAD system);

the first phase of the integrated management of the extraordinary plant shutdowns (GEFER system).

In support of the quality system the following have become completely operative: the system to draw-up, manage and check comprehension of company procedures, the system to manage the minutes of all meetings and the system for HSE notifications. As part of the company's aim to reduce all incidents to a minimum, an application for the completely automated management of work permits has been created.

#### **Staff**

The company staff consists of 20 people, as the company avails itself of ISAB Energy Services for the actual management of the plant, in accordance with the Operation & Maintenance contract signed between the two companies.

## Financial Statements

### Income Statement

	2003	2002	2001
	(thousand Euro)		
Revenues from ordinary operations	417,791	421,319	377,207
Other revenues and income	8,118	22,413	18,872
<b>Total revenues</b>	<b>425,909</b>	<b>443,732</b>	<b>396,079</b>
Purchase expenses	(170,884)	(164,249)	(169,230)
Changes in inventories	(843)	1,075	1,485
Services and other operating expenses	(74,148)	(71,521)	(66,775)
Personnel expenses	(1,250)	(1,316)	(1,204)
<b>EBITDA</b>	<b>178,784</b>	<b>207,721</b>	<b>160,356</b>
Amortisation and depreciation	(46,575)	(45,776)	(45,258)
<b>EBIT</b>	<b>132,209</b>	<b>161,945</b>	<b>115,098</b>
Net financial income (expenses)	(39,636)	(47,232)	(52,826)
Net income (expenses) from equity investments			
<b>Revenues from ordinary operations</b>	<b>92,573</b>	<b>114,713</b>	<b>62,272</b>
Net extraordinary income (expenses)	(332)	(391)	(161)
<b>Income before taxes</b>	<b>92,242</b>	<b>114,321</b>	<b>62,111</b>
Income taxes	(11,694)	(7,362)	(5,152)
<b>Income (loss) for the year</b>	<b>80,548</b>	<b>106,959</b>	<b>56,959</b>

### Revenues from ordinary operations

These revenues consist of the sale of electrical power to the GRTN (Euro 405 million) and the sale of minor products and utilities (around Euro 12 million).

### Other revenues and income

The other revenues and income include the insurance reimbursements for Euro 4,5 million, rents receivable and ordinary surpluses. In 2002 this item included Euro 21 million received from the plant construction consortium to cover the claim for compensation.

### 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 18<sup>th</sup> 2000.

**Net financial income (expenses)**

The financial expenses incurred during 2003 consist mainly of interest payable on the financing of Euro 21 million and additional bank charges and brokerage margins for Euro 5 million.

The financial income refers to current account deposits, which earn an average rate of 1.46%. The rate differential paid as a result of the Swap contract in existence in 2003 amounts to Euro 13.6 million.

**Income taxes**

The taxes for 2003 include IRAP taxation and also IRPEG taxation, given the fact that the 10-year IRPEG exemption the company had been granted expired on October 5th.

The assessment of the income subject to IRPEG taxation was carried out taking into account that an income equivalent to 278 days of exemption was not subject to tax. Current IRPEG taxation amounts to Euro 2,4 million as a result of the carrying forward of past losses, which were put down to a decrease in income. Deferred IRPEG assets on those losses were fully used.

Current IRAP taxation was calculated to be Euro 5,6 million



**Balance Sheet**

The following table shows reclassified balance sheet figures for 2003 and 2002.

	31.12.03 (thousand Euro)	31.12.02
Fixed assets	731,627	766,565
Net working capital	15,461	50,361
Staff leaving indemnities	(168)	(161)
Other assets	20,835	37,154
Other liabilities	(11,727)	(17,897)
<b>NET INVESTED CAPITAL</b>	<b>756,029</b>	<b>836,022</b>
Shareholders' equity	206,371	144,083
Medium/long-term financial debt	567,403	657,618
Short-term financial debt	(17,745)	34,322
<b>SHAREHOLDERS' EQUITY AND FINANCIAL DEBT</b>	<b>756,029</b>	<b>836,022</b>

At December 31<sup>st</sup> 2003 the net invested capital amounted to approximately Euro 756 million, a decrease of around Euro 80 million.

The most significant variations between the situation at December 31<sup>st</sup> 2002 and December 31<sup>st</sup> 2003 are analysed below.

**Fixed assets**

	31.12.03 (thousand Euro)	31.12.02
Intangible fixed assets	48,063	56,331
Tangible fixed assets	683,555	710,225
Investments and other financial assets	9	9
<b>Total</b>	<b>731,627</b>	<b>766,565</b>

**Net working capital**

31.12.03	31.12.02
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	(thousand Euro)	
Leftovers	14,698	15,615
Trade receivables	43,534	76,528
Trade payables	(42,771)	(41,783)
<b>Total</b>	<b>15,461</b>	<b>50,361</b>

The figure regarding leftovers included the write-down of spare parts for Euro 0.9 million

Short-term tax receivables decreased mainly due to the use of deferred tax assets for Euro 6.0 million. The other short-term receivables highlight the amount due from the plant construction consortium following the settlement of litigation.

Short-term trade payables dropped due to the lower value of the services and supplies received.

#### Other assets

	31.12.03	31.12.02
	(thousand Euro)	
Short-term tax receivables	1,511	5,950
Other short-term receivables	4,189	17,955
Short-term pre-paid expenses and accrued income	4,274	3,989
Receivables from tax authorities long/medium-term	5,705	3,231
Other medium/long-term receivables	5,156	6,030
<b>Total</b>	<b>20,835</b>	<b>37,154</b>

#### Other liabilities

	31.12.03	31.12.02
	(thousand Euro)	
Short-term tax payables	(2,477)	(2,497)
Other short-term tax payables	(1,294)	(4,790)
Short-term deferred income and accrued expenses	(369)	(543)
Other provisions for risks and charges	(7,587)	(10,068)
<b>Total</b>	<b>(11,727)</b>	<b>(17,897)</b>

The other short-term payables fell as a result of the decrease of the amount payable for VAT, due to ERG S.p.A. The other provisions include the provision for cyclical plant maintenance, which recorded a use of Euro 7.8 million and a provision for the year of Euro 5.4 million.

#### Net financial debt

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

31.12.03	31.12.02
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	(thousand Euro)	
Medium/long-term bank borrowings	593,811	700,142
Other medium/long-term financial debt	57,654	81,425
Current portion of loans	(84,063)	(123,949)
<b>Total</b>	<b>567,403</b>	<b>657,618</b>

**Short-term financial debt:**

	31.12.03 (thousand Euro)	31.12.02
Short-term bank borrowings	77,011	97,598
Other short-term financial debt	7,051	26,351
<b>Short-term financial liabilities</b>	<b>84,063</b>	<b>123,949</b>
Cash and cash equivalents	(101,761)	(85,101)
Other short-term financial receivables	(47)	(4,526)
<b>Short-term financial assets</b>	<b>(101,807)</b>	<b>(89,627)</b>
<b>TOTAL</b>	<b>(17,745)</b>	<b>34,322</b>

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

	2003 (thousand Euro)	2002	2001
<b>CASH FLOW FROM OPERATIONS:</b>			
Cash flow from operations	130,710	159,391	104,434
Change in operating assets and liabilities	43,112	(35,284)	28,252
<b>Total</b>	<b>173,822</b>	<b>124,107</b>	<b>132,686</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES:</b>			
Investments	(13,378)	(12,059)	(16,242)
Divestments	97		1,351
<b>Total</b>	<b>(13,280)</b>	<b>(12,059)</b>	<b>(14,891)</b>
<b>CASH FLOW FROM SHAREHOLDERS EQUITY:</b>			
Capital increase			
Capital subsidies			
Dividends paid	(18,260)	(25,000)	
Other changes to shareholders equity		(8,534)	
<b>Total</b>	<b>(18,260)</b>	<b>(33,534)</b>	
<b>CHANGE IN NET FINANCIAL DEBT</b>	<b>142,281</b>	<b>78,514</b>	<b>117,795</b>
<b>INITIAL NET FINANCIAL DEBT</b>	<b>691,939</b>	<b>770,454</b>	<b>888,250</b>
<b>CHANGE FOR THE YEAR</b>	<b>(142,281)</b>	<b>(78,514)</b>	<b>(117,795)</b>
<b>FINAL NET FINANCIAL DEBT</b>	<b>549,658</b>	<b>691,939</b>	<b>770,454</b>



**Shareholdings in other companies**

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 also has contracts for services supplied by Edison Mission Italia and ErgS.p.A. as part of the Sponsor Support Agreements .

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.

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

### **Events subsequent to the close of the year**

The TAR (regional administrative court) of Lombardy upheld the appeal presented by ISAB Energy regarding the charges incurred for the carriage of the electrical power produced, overturning the note of the Autorità dell' Energia Elettrica e del Gas (Electricity and Gas Board), which stated which producers were held to the payment of charges. As a result of this decision, the Income Statement was corrected for a total of Euro 2.0 million, of which Euro 1.0 was for the cancelling of carriage service charges for the year 2003 and Euro 1.0 million was a contingent asset arising from the charges incurred in 2002.



In February the company received the remaining Euro 1.5 million relating to insurance reimbursements.

### **Operations expectations**

The company expects its performance in 2004 to be similar to that of the last few years. It is estimated that investments totalling Euro 6.4 million will be made, Euro 2.3 million of which will be for Health, Safety and Environment. During 2004 the plant for the packing of vanadium concentrate (currently outsourced) will be completed.

A maintenance shutdown is planned for October, it should last approximately 13 days.

During 2004 the transfer of 3 executives and 7 employees from ISAB Energy to the parent company ERG Power & Gas is expected to take place. ISAB Energy will receive from ERG Power & Gas the following services: Management Control, Plant and Commercial Management and Production Planning.

### **Privacy the programmatic document on security**

The ERG group had already issued on April 30<sup>th</sup> 2000 the Programmatic document on security, as required by the Privacy code.

The obligation to update this document will come into force on July 1<sup>st</sup> 2004.

Our Group is currently finishing this update, and it will be completed at the latest before the end of the June 2004.

### **Board of Directors Proposal**

Shareholders,

We close this report by inviting you to:

approve the financial statements of your company as at December 31<sup>st</sup> 2003;

to allocate the net income for the year of Euro 80,548,132.00

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

Roma, March 27<sup>th</sup> 2004

On behalf of the Board of Directors

The Chairman

Domenico D Arpizio

**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, 2003 and 2002, and the related statements of income for each of the three years in the period ended December 31, 2003. 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 statements. 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, 2003 and 2002 and the results of its operations for each of the three years in the period ended December 31, 2003, 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 in the United States of America. The application of the latter would have affected the determination of net income for each of the three years ended December 31, 2003 and the determination of shareholder's equity as of December 31, 2003 and 2002 to the extent summarized in Note 7.

Reconta Ernst & Young S.p.A.

Genoa, Italy

May 5, 2004

ISAB Energy S.r.l.

Annual report for the year ended December 31st 2003

Financial statements

ISAB ENERGY S.r.l. - Financial Statement

Amount expressed in Thousands of Euro

## BALANCE SHEET

## ASSETS

		31.12.03	31.12.02
<b>A)</b>	<b>Subscribed capital unpaid</b>		
<b>B)</b>	<b>Fixed assets</b>		
<b>I.</b>	<b>Intangible assets</b>		
1)	Start up and expansion expenses	6,784	12,017
2)	Costs of research, development and advertising		
3)	Patents and right to use patents of others		
4)	Concessions, licenses, trade marks and similar rights	4,990	5,490
5)	Goodwill		
6)	Intangible assets in progress and payments on account	159	111
7)	Other	36,131	38,714
	<b>Total</b>	<b>48,063</b>	<b>56,331</b>
<b>II.</b>	<b>Tangible assets</b>		
1)	Land and buildings	15,768	16,266
2)	Plants and machinery	661,257	684,552
3)	Other fixture, tools and equipment	202	196
4)	Other	770	843
5)	Tangible assets in course of construction and payments on	5,558	8,370

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		account	
	<b>Total</b>	<b>683,555</b>	<b>710,225</b>
<b>III.</b>	<b>Investments</b>		
1)	Equity investments in		
	a) subsidiary companies		
	b) associated company		
	c) parent companies		
	e) other entities	5	5
		5	5
		<b>Beyond 12 months:</b>	<b>Beyond 12 months:</b>
2)	Loans		
	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		
	<b>Total</b>	<b>9</b>	<b>9</b>
<b>Total fixed assets</b>		<b>731,627</b>	<b>766,565</b>

**BALANCE SHEET****ASSETS**

			31.12.03	31.12.02
<b>C)</b>	<b>Current assets</b>			
<b>I.</b>	<b>Stocks</b>			
	1)	Raw materials and consumables	14,346	15,370
	2)	work in progress and components		
	3)	contract in progress		
	4)	finished goods and goods for resale	294	113
	5)	payments on account	58	132
	<b>Total</b>		<b>14,698</b>	<b>15,615</b>
			<b>Beyond 12 months:</b>	<b>Beyond 12 months:</b>
<b>II.</b>	<b>Debtors</b>			
	1)	trade debtors	39,766	66,084
	2)	amounts owed by subsidiary companies		
	3)	amounts owed by associated companies		
	4)	amounts owed by parent companies		8,284
	4bis)	amounts owed by other associated companies	3,814	6,686
	5)	others debtors	10,861	9,261
	<b>Total</b>		<b>60,141</b>	<b>114,219</b>
<b>III.</b>	<b>Investment which are not permanent</b>			
	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		

<b>Total</b>				
<b>IV.</b>	<b>Cash at bank and in hand</b>			
	1)	Banks and postal current account	101,756	85,099
	2)	Bank cheques		
	3)	Cash on hand	5	2
	<b>Total</b>		<b>101,761</b>	<b>85,101</b>
<b>Total current assetsC)</b>			<b>176,600</b>	<b>214,936</b>
<b>D)</b>	<b>Prepayments and accrued income</b>			
		accrued income		
		prepayments	4,274	3,989
	<b>Total prepayments and accrued income</b>		<b>4,274</b>	<b>3,989</b>
<b>Total Assets</b>			<b>912,502</b>	<b>985,490</b>

**BALANCE SHEET****LIABILITIES**

		31.12.03	31.12.02
<b>A)</b>	<b>Capital and reserves</b>		
I.	Share capital	5,165	5,165
II.	Share premium		
III.	Revaluation reserves		
IV.	Legal reserves	1,033	1,033
V.	Reserve for own shares		
VI.	Reserve provided by the article of association		
VII.	Other reserves		
1)	Additional paid in capital		
VIII.	Profit (Loss) brought forward	119,625	30,926
IX.	Profit (Loss) for the financial period		
1)	Coverage losses		
2)	Profit (Loss) for the financial period	80,548	106,959
<b>TOTAL CAPITAL AND RESERVES</b>		<b>206,371</b>	<b>144,083</b>
<b>B)</b>	<b>Provisions for risks and charges</b>		
1)	Provision for pension and similar obligation		
2)	Provision for taxation	203	305
3)	Other provision	7,384	9,763
<b>TOTAL PROVISION FOR RISKS AND CHARGES</b>		<b>7,587</b>	<b>10,068</b>
<b>C)</b>	<b>Employee severance indemnity</b>	<b>168</b>	<b>161</b>
<b>D)</b>	<b>Creditors</b>		
1)	Debenture loans		
2)	Convertible debenture loans		
3)	Amounts own to banks	516,800	593,811
4)	Amounts own to other finansor	22,367	25,361
5)	Advanced received		602,544
			700,142



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6)	Amounts owed to suppliers		21,395		24,429
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	23,281	27,632	49,218	78,767
10bis)	Amounts owed to other associated companies	4,955	26,925	5,856	24,400
11)	Amounts owed to tax administration		2,477		2,497
12)	Amounts owed to social security institutions		79		83
13)	Other creditors		327		317
<b>Total Creditors</b>			<b>698,007</b>		<b>830,635</b>
<b>E) Accruals and deferred income</b>					
	accrued income		369		543
	prepayments				
<b>Total accruals and deferred income</b>			<b>369</b>		<b>543</b>
<b>Total liabilities</b>			<b>706,131</b>		<b>841,407</b>
<b>Total liabilities, capital and deferred income</b>			<b>912,502</b>		<b>985,490</b>
<b>Memorandum accounts</b>					
Other personal guarantees					
	In favour of related parties				
	In favour of third parties				
Other memorandum accounts					
	Others		3,137		3,651
			3,137		3,651
<b>Total memorandum accounts</b>			<b>3,137</b>		<b>3,651</b>

## ISAB ENERGY S.r.l. - Financial Statement

Amount expressed in Thousands of Euro

## INCOME STATEMENTS

		2003	2002	2001
<b>A)</b>	<b>VALUE OF PRODUCTION</b>			
1)	Net turnover from sales and services	417,791	421,319	377,207
2)	variation in stocks of finished goods and in work in progress	181	(137)	65
3)	Variance in contracts in progress			
4)	work performed for own purposes and capitalized	1,421	824	37
5)	Other revenues and income			
	other	8,118	22,413	18,872
	contributions received			
		8,118	22,413	18,872
	<b>TOTAL VALUE OF PRODUCTION</b>	<b>427,512</b>	<b>444,419</b>	<b>396,181</b>
<b>B)</b>	<b>COST OF PRODUCTION</b>			
6)	For raw materials, consumable and goods for sale	(172,305)	(165,073)	(169,267)
7)	For services	(60,413)	(58,123)	(59,349)
8)	For use of assets owned by other	(1,594)	(1,964)	(989)
9)	For staff costs			
	a) wages and salaries	(887)	(952)	(906)
	b) social security costs	(285)	(281)	(242)
	c) provision for severance indemnity	(62)	(65)	(55)
	d) pension costs			
	e) other costs relating to staff	(16)	(19)	(1)
		(1,250)	(1,316)	(1,204)
10)	Value adjustments			

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	a) Amortization of intangible assets	(8,741)	(8,795)	(9,011)
	b) Amortization of tangible assets	(37,834)	(36,981)	(36,247)
	c) Reduction in value of fixed assets			
	d) Allowance for doubtful debtors included in current assets			
		(46,575)	(45,776)	(45,258)
11)	Variation in stocks of raw materials, consumables and good for resale	(1,024)	1,212	1,420
12)	Amounts provided for risks provisions			
13)	Other accruals	(5,479)	(6,459)	(1,931)
14)	Other operating charges	(6,661)	(4,975)	(4,506)
<b>TOTAL COSTS OF PRODUCTION</b>		<b>(295,302)</b>	<b>(282,474)</b>	<b>(281,084)</b>
<b>DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)</b>		<b>132,209</b>	<b>161,945</b>	<b>115,097</b>

<b>C)</b>	<b>FINANCIAL INCOME AND CHARGES</b>			
15)	Income from equity investments			
	subsidiary companies			
	associated companies			
	other companies			
	other			
16)	Other financial income			
	a)	from loans forming part of fixed assets		
		subsidiary companies		
		associated companies		
		parent companies		
		other companies		
	b)	from other permanent investments other than equity ones		
	c)	from other investments which are not permanent		
	d)	other income not included above		
		subsidiary companies		
		associated companies		
		parent companies	52	237
		other associated companies	177	26
		other companies	2,292	2,487
			2,468	2,837
			2,566	3,074
17)	Interest payable			
		subsidiary companies		
		associated companies		
		parent companies	(1,655)	(2,804)
		other associated companies	(105)	(115)
		other companies	(40,345)	(46,879)
			(42,104)	(49,797)
			(52,400)	(55,900)
			(52,825)	
	<b>TOTAL FINANCIAL INCOME AND CHARGES</b>		(39,636)	(47,232)
			(52,825)	