ASTALDI

CONSOLIDATED THIRD QUARTER REPORT AS AT 30 SEPTEMBER 2004

ASTALDI

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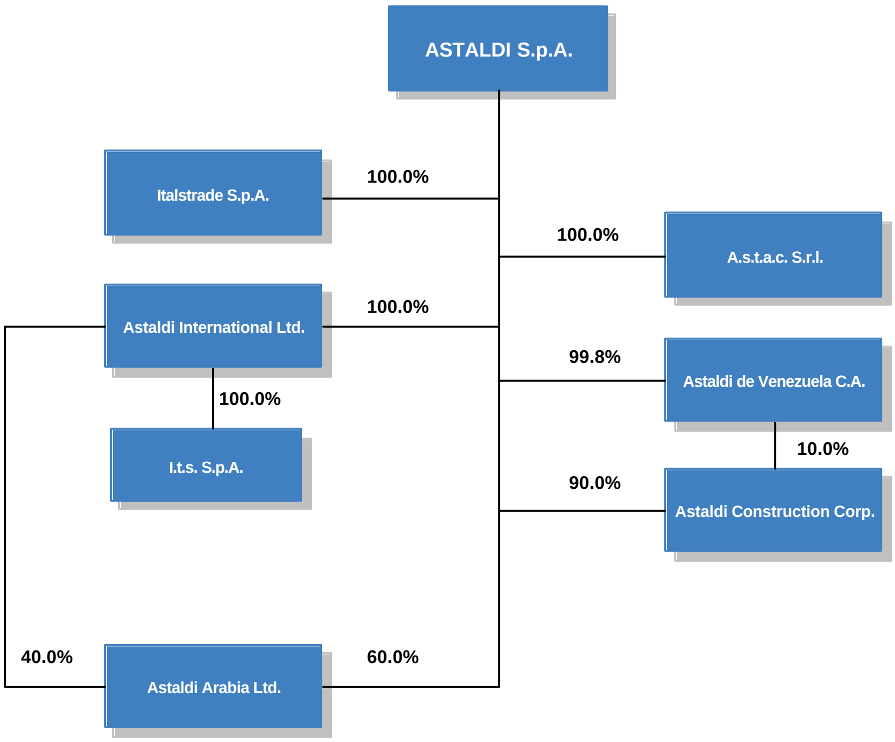
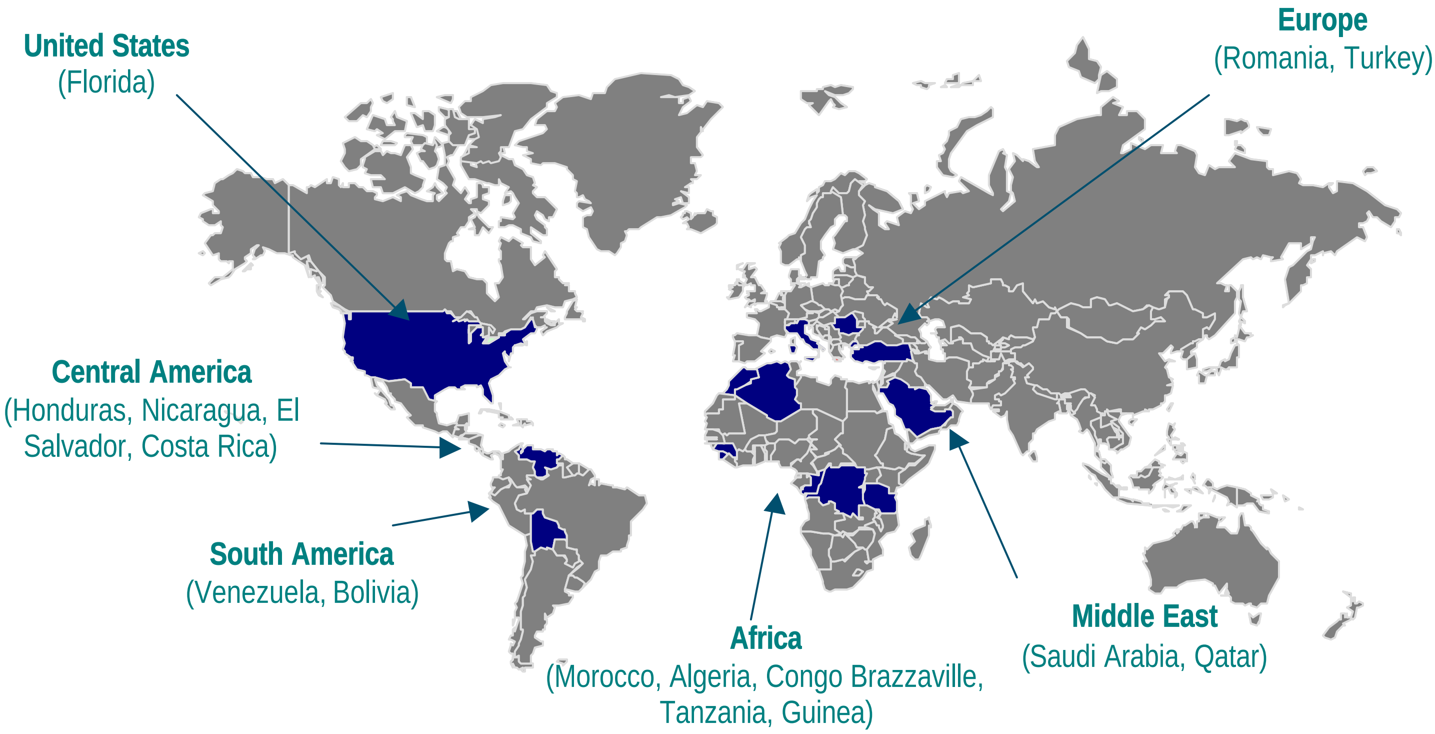
GROUP STRUCTURE

The table below shows the Group corporate structure in relation to its main operating companies.



Group operations, carried out in 17 countries, moreover include 67 associate and consortium companies operating mainly in Italy and four special purpose companies for concession activities.

GEOGRAPHICAL AREAS



COMPANY OFFICERS

Board of Directors

Chairman of the Board	Ernesto Monti
Deputy Chairman	Paolo Astaldi
Executive Deputy Chairman and Chief Executive Officer	Vittorio Di Paola
Board Members	Caterina Astaldi
	Pietro Astaldi
	(*) Giuseppe Cafiero
	Luigi Guidobono Cavalchini
	Stefano Cerri
	Franco A. Grassini
	Mario Lupo
	Vittorio Mele
	(*) Nicola Oliva
	Maurizio Poloni

Board of Statutory Auditors

Chairman	Eugenio Pinto
Acting Members	Pierpaolo Singer
	Pierumberto Spanò
Alternate Members	Maurizio Lauri
	Antonio Sisca
	Marco Zampano

General Management

General Manager for International Activities	Giuseppe Cafiero
General Manager for Finance – Chief Financial Officer	Stefano Cerri
General Manager for Domestic Activities	Nicola Oliva

Deputy General Manager

Deputy General Manager for Finance	Paolo Citterio

Audit Company

	Reconta Ernst & Young S.p.A.

(*) Nominated by the Ordinary Shareholders Meeting of 9 November 2004.

SCOPE OF CONSOLIDATION

	Subsidiaries	%	Other companies	%
?	1 Assistenza Sviluppo e Tecnologie Ausiliarie alle Costruzioni (A.S.T.A.C.) S.r.l.	100.00%	15 Consorcio Metro Los Teques	30.00%
?	2 Italstrade S.p.A.	100.00%		
?	3 Astaldi International Ltd.	100.00%		
?	4 Astaldi de Venezuela C.A.	99.80%		
?	5 Astaldi Construction Corporation	99.80%		
?	6 Italstrade CCCF JV Romis S.r.l.	51.00%		
?	7 Romstrade S.r.l.	51.00%		
?	8 Servizi Tecnici Internazionali - I.T.S. S.p.A.	100.00%		
?	9 Italstrade Somet JV Rometro S.r.l.	55.00%		
?	10 S.U.G.C.T. S.A. Calarasi	50.53%		
?	11 Astaldi Arabia ltd	100.00%		
?	12 Astaldi Finance S.A.	99.96%		
?	13 Romairport S.r.l.	99.26%		
?	14 Astaldi-Max Bogl-CCCF JV S.r.l.	50.00%		

Change in the scope of consolidation

Equity interest leaving the consolidation scope	%		Equity interest entering the consolidation scope	%	
1 Copenhagen Metro Construction Group J.V. (COMET)	15.00%		1 Astaldi-Max Bogl-CCCF JV Srl	50.00%	*
2 R.I.C. - Railway International Construction S.p.A.	100.00%	*			
3 Legnami Pasotti Italia I.C. S.r.l.	80.00%	*			

NB: The Companies marked with ? are consolidated using the line by line method; the others with the propor.
The Companies marked with * are the object of changes during the quarter

** Equity interest changed in the quarter from 63.89% to 99.26%
*** R.I.C. S.p.A. leaved the consolidation scope due to the merge into Italstrade S.p.A..
This event has no effect on consolidated accounts

ACCOUNTING PRINCIPLES AND EVALUATION CRITERIA

The Astaldi consolidated quarterly report as at 30 September 2004 has been drawn up in accordance with CONSOB ruling no. 11971 of 14 May 1999, art. 82.

The third quarter financial statements are presented in a reclassified form consistent with the contents of the financial statements as at 31 December 2003 and 30 September 2003. They have been drawn up on the basis of the accounting ledgers as at the same date prepared by the Parent Company and the companies included in the scope of consolidation.

The income statement data shown are attributable to the period under examination and to the period from the beginning of the financial year to the close of the third quarter. The data are likewise shown in comparison with those for the same periods in the previous financial year.

The most important accounting principles adopted by the Group are summarized below.

Intangible fixed assets

Intangible fixed assets represent costs and expenses having multi-year application. They have been recorded and entered on the basis of effective cost, including directly-attributable accessory charges.

The amounts shown in the financial statements are net of amortization, calculated on the basis of the potential residual use of the assets.

Charges in connection with the listing procedure have been capitalized and are amortized over a five-year period.

Tangible fixed assets

Tangible fixed assets, including those acquired through leasing, consist of real estate assets, plant, machinery and equipment. They are shown on the basis of acquisition price and construction costs, including directly-attributable accessory charges.

Depreciation is calculated at a constant rate based on potential residual use, within the limits of the allowable rates considered representative of the estimated useful life of the assets.

Both tangible and intangible fixed assets originally denominated in a currency other than the euro are shown at the exchange rate prevailing at the time of acquisition or at a lower rate as at the period-ending date if the difference is deemed permanent.

Equity investments

Equity investments in subsidiary and affiliated companies outside the scope of consolidation are valued according to the net equity method, if relevant.

The other equity investments are valued according to the cost method, including directly-attributable accessory charges, written down to reflect any permanent losses in value.

Companies in liquidation are valued at cost, written down to take liquidation charges into account.

Losses on equity investments exceeding book value and for which there is a balancing commitment are recorded in the equity investment risk reserve (after having annulled the book value).

Receivables, payables and other assets and liabilities in foreign currency

Receivables, payables and other assets and liabilities originally denominated in currencies other than the unit of account are shown at the spot exchange rate as at the end of the reporting period. Any exchange rate gains or losses are ascribed to the income statement and any net gains are allocated to a non-distributable reserve set up for the purpose until they are realized.

Currency translation of foreign company and foreign stable organization financial statements

The financial statements of the foreign companies and foreign stable organizations (the accounts are held according to the multi-currency accounting system) are translated according to the following criteria: assets and liabilities at the exchange rate prevailing at the end of the reporting period; income statement items, applying the average exchange rate for the financial period; net equity items are linked to the exchange rate prevailing at the time of formation.

Work-in-progress on order

The valuation of work-in-progress on order is determined with specific reference to the actual physical progress of work not yet audited as at the period-ending date (according to the physical measurement method), but identified with reasonable certainty and through the application of contractually agreed compensation.

Income statement

The revenue and expense components of the income statement are shown according to the accrual accounting method.

Revenues from the sale of goods are recorded upon delivery of the good, while revenues from services are recorded upon effective performance of the service and in accordance with the corresponding contracts.

It is pointed out that in order to provide a better representation of the income statement data, the use of the contract risks reserve is shown among the self-financing components (depreciation and amortization, provisions and draw-downs); amounts for previous periods have been reclassified accordingly.

The major exchange rates used in translating financial statements drawn up in foreign currencies are listed in the following table:

Exchange rates applied for the conversion of accounts in foreign currencies (source: U.I.C.)

COUNTRY	*CURRENCY*		**exchange** ***30.09.2004***	**average exchange 2004**	**exchange** ***30.09.2003***	**average exchange 2003**
Algeria	Algerian Dinaro	DZD	87.264	86.061	85.912	85.951
Saudi Arabia	Saudi Riyal	SAR	4.576	4.590	4.203	4.162
Bolivia	Boliviano	BOB	9.795	9.718	8.639	8.459
Central Africa, CFA Republic	CFA Franc	XAF	655.957	655.957	655.957	655.957
Colombia	Colombian Peso	COP	3,196.350	3,308.620	3,295.330	3,228.817
Democratic Republic of Congo	Congolese Franc	CDF	482.606	463.665	443.537	453.029
Costa Rica	Costa Rica Colon	CRC	532.309	523.690	449.498	430.596
Croatia	Kuna	HRK	7.428	7.472	7.496	7.537
Denmark	Danish Crown	DKK	7.438	7.442	7.427	7.429
El Salvador	Salvadorian Colon	SVC	10.691	10.724	9.819	9.725
Japan	Japanese Yen	JPY	134.505	133.509	128.944	131.464
Guatemala	Quetzal	GTQ	9.745	9.907	9.091	8.827
Guinea	Guinean Franc (*)	GNF	3,146.923	3,146.923	2,232.510	2,197.331
Honduras	Lempira	HNL	22.521	22.156	19.829	19.247
Libya	Libyan Dinaro	LYD	1.528	1.605	1.560	1.381
Morocco	Moroccan Dirham	MAD	10.981	10.984	10.794	10.773
Nicaragua	Cordoba Oro	NIO	19.756	19.382	17.014	16.612
Norwey	Norwegian Crown	NOK	8.360	8.430	8.195	7.925
Qatar	Qatar Riyal	QAR	4.447	4.461	4.085	4.045
United Kingdom	British Pound	GBP	0.681	0.673	0.697	0.690
Rumania	Leu	ROL	41,074.500	40,741.100	37,918.000	36,807.344
USA	US Dollar	USD	1.222	1.226	1.122	1.111
South Africa	Rand	ZAR	7.994	8.075	8.214	8.705
Switzerland	Swiss Franc	CHF	1.543	1.548	1.547	1.510
Tanzania	Tanzania Shilling	TZS	1,282.250	1,322.308	1,171.850	1,144.248
Tunisia	Tunisinian Dinar	TND	1.542	1.530	1.451	1.440
Turkey	Turkish Lira	TRL	1,838,497.000	1,743,777.889	1,546,627.000	1,688,161.444
EuropMonetary Union	Euro	EUR	1.000	1.000	1.000	1.000
Venezuela	Bolivar	VEB	2,339.950	2,284.762	1,790.980	1,806.763

It should be noted that the exchange rate shown above represents the quantity of foreign currency to purchase 1 Euro
(*) Source: Banque Centrale - Republique de Guinee

CONSOLIDATED BALANCE SHEET

Euro/000	September 30 2004	June 30 2004	December 31 2003	September 30 2003
Net intangible fixed assets	46,119	50,875	52,191	51,059
Net tangible fixed assets	106,441	106,634	106,318	106,902
Equity investments	29,290	28,622	28,361	31,831
Other net fixed assets	16,602	15,525	16,296	16,837
Total net fixed assets (A)	**198,452**	**201,656**	**203,166**	**206,629**
Inventories	35,574	33,437	41,316	43,367
Works in progress	244,467	223,142	187,373	251,005
Trade receivables	260,055	253,501	217,355	256,995
Other assets	225,477	223,720	207,542	204,727
Advances	(100,439)	(93,690)	(84,919)	(116,320)
Sub total	***665,134***	***640,110***	***568,667***	***639,774***
Suppliers' payables	(238,550)	(215,981)	(196,399)	(221,653)
Other liabilities	(146,705)	(130,638)	(142,832)	(153,923)
Sub total	***(385,255)***	***(346,619)***	***(339,231)***	***(375,576)***
Working capital (B)	**279,879**	**293,491**	**229,436**	**264,198**
Employees' severance indemnity	(12,177)	(12,483)	(12,189)	(12,101)
Contractual risks fund	(44,329)	(63,034)	(51,599)	(53,796)
Other funds	(29,563)	(29,575)	(13,220)	(14,258)
Total funds (C)	**(86,069)**	**(105,092)**	**(77,008)**	**(80,155)**
Net invested capital (D)=(A)+(B)+(C)	**392,262**	**390,055**	**355,594**	**390,672**
Liquidity and current financial receivables	129,629	125,908	149,983	133,713
Non current financial receivables	77,069	85,662	73,021	105,531
Medium/long term indebtedness	(80,027)	(83,187)	(96,099)	(111,851)
Short term indebtedness	(144,025)	(140,755)	(105,219)	(142,539)
Eurobond	(150,000)	(150,000)	(150,000)	(150,000)
Own bonds	9,936	8,715	--	--
Net indebtedness (E)	**(157,418)**	**(153,657)**	**(128,314)**	**(165,146)**
Group net equity	**233,978**	**235,672**	**227,122**	**224,718**
Minority interests	866	726	158	808
NET EQUITY (G)=(D)-(E)-(F)	**234,844**	**236,398**	**227,280**	**225,526**
Personal guarantees	1,525,007	1,592,067	1,695,806	1,743,078
Risk of recourse from factors	89,006	92,337	86,168	84,244
Other memorandum items	29,660	29,660	29,660	27,452
Collateral security	--	--	--	43,969
Third party guarantees in our favor	25,255	25,170	22,189	22,226
Total commitments and guarantees	**1,668,928**	**1,739,234**	**1,833,823**	**1,920,969**

The definitive financial statements for the period ending 30 September 2004 show that one of the strong points in the company's business development plan is the Group's solid capital and financial structure.

Examining the main balance sheet items, net fixed assets decreased slightly compared to year-end 2003, attributable to the natural depreciation and amortization process. In accordance with the business plan and consistent with the development of an orders backlog concentrated mainly in the Americas and Romania, the Group invested around 20 million euro in its operations.

Addressing the impact of operations in Italy, it is important to point out that start-up investments in project financing operations are included among equity investments and intangible fixed assets: e.g. the setting up of a new project-finance company for the construction and operation of a new Hospital in Mestre (province of Venice) and start-up investments for the construction of infrastructure for utilities operations in Cologno Monzese (province of Milan). Concerning the new Hospital in Mestre project, we point out that the financial closing procedures are at an advanced stage, with the definitive closure expected in 2004. In detail, the parties involved have agreed the due diligence definitions (legal, technical, insurance and tax), and they likewise agreed on the financial structure with the financing banks and the European Investment Bank (E.I.B.).

More generally, the consolidated capital and financial situation shows an increase in net invested capital since year-end 2003, largely attributable to the significant increase in business volume as well as the normal work certification process, their invoicing and collection.
As for the current year, it's important to notice that, though the trend for invested capital is along the same lines as in the previous year, the ratio to business volume (up around 17.1%) has improved significantly. This improvement confirms the appreciable results achieved by the Group in terms of capital and financial discipline, a consequence of the Group's careful planning together will greater political and economic stability in the foreign markets where the Group operates.

In this regard, it is also important to point out that the improved performance was likewise attributable to the financial stabilization achieved in the management of some major work-in-progress being executed in Turkey and Venezuela.
In fact, concerning Group operations in Turkey, we remind readers that after the coming into effect of export financing in December 2003, making fully available the financial resources necessary for completing the work, Astaldi has achieved a high level of efficiency in its production cycle, stabilizing the job certification and collections process.

In addition, after SACE re-opened the credit line to Venezuela in the latter part of 2003 at the end of the year the parties signed the financing contract for export and trade credits, managed by Société Générale and Banca Intesa, for the Puerto Cabello-La Encrucijada railway project in the process of construction in Venezuela. This contract, which, according to a ruling by the SACE Executive Committee, received definitive insurance coverage in respect of the execution of the work, will guarantee the regular progress of the work and the flow of financing to back it up.

The item “Other assets” includes, among others, amounts due from the company Nuovo Polo Fieristico S.c.r.l. currently engaged in the construction of the New Expo Fair in Milan (Rho-Pero) in which Astaldi has the leading stake with 50%. In fact these amounts correspond to the amount of cash temporarily in the accounts of the consortium company for the purpose of better supporting the operations in compliance with the tight deadlines for completing the work. If this company had been consolidated, it would have made a significant contribution to improving the Group’s net financial position.

The table below provides a detailed summary of the net financial position.

(Euro/000)	**30/09/2004**	**30/06/2004**	**31/12/2003**	**30/09/2003**
Short-term financial indebtedness	(139,262)	(136,026)	(100,347)	(137,406)
Medium/Long-term financial indebtedness	(61,703)	(63,668)	(75,072)	(87,962)
Cash and short term financial receivables	129,629	125,908	149,983	133,713
Financial receivables and securities	77,069	85,662	73,021	105,531
Total ordinary financial position	**5,733**	**11,876**	**47,585**	**13,876**
Eurobond	*(150,000)*	*(150,000)*	*(150,000)*	*(150,000)*
Eurobond buy-back	*9,936*	*8,715*	--	--
Net Eurobond	(140,064)	(141,285)	(150,000)	(150,000)
Leasing	(23,087)	(24,248)	(25,898)	(29,022)
Total net financial position	**(157,418)**	**(153,657)**	**(128,313)**	**(165,146)**

As illustrated previously concerning the growth in invested capital, the financial position reflects the Group’s solid financial structure, confirmed by a debt/equity ratio which is far below unity, despite being exposed to the cyclical need to sustain production during the period, typical of the seasonal performance based on the business cycle. This result is particularly significant since the Group is going through a period of intense productive and commercial effort in support of new initiatives, especially in project financing, and significant investment into improving the quality of human resources.

It should be pointed out that net indebtedness includes financing for three parking lot operations in Italy and other project-finance initiatives for a total of more than 23 million euro. Resources for the repayment of these loans will be generated by future operating cash flows.

As for the overall debt structure, in line with the targets set in the business plan, the Group has begun to formulate a new financial policy calling for the repositioning of its medium/long-term debt. It is worth reiterating that the Group has not only bought back a total of 12.45 million euro of the 150 million euro bond coming due in February 2005 (including 9.9 million euro in 3Q04), on 30 June 2004 Astaldi signed a 100 million euro bank loan contract, syndicated on the Italian and European banking markets with excellent success. The loan is repayable in five years with semi-annual installments, a first step in reaching the targets set.

Financial receivables and securities include treasury shares amounting to 3.3 million euro acquired as part of the buy-back plan approved by the Shareholders Meeting of 5 March 2003 for a period of eighteen months.

Net equity amounted to 235 million euro. The change during the period was largely attributable to net income for the period and to the 6.3 million euro dividend pay-out deliberated by the Shareholders Meeting of 30 April 2004.

RECLASSIFIED INCOME STATEMENT

(Euro/000)	3Q 2004	%	3Q 2003	%	9M 2004	%	9M 2003	%
Contract revenues	243,757	94.5%	224,487	93.0%	739,670	94.4%	623,887	93.3%
Other revenues	14,314	5.5%	16,979	7.0%	43,503	5.6%	44,878	6.7%
Total revenues	**258,071**	**100.0%**	**241,466**	**100.0%**	**783,173**	**100.0%**	**668,765**	**100.0%**
Costs of production	(213,187)	(82.6%)	(182,942)	(75.8%)	(592,139)	(75.6%)	(477,512)	(71.4%)
Added value	**44,884**	**17.4%**	**58,524**	**24.2%**	**191,034**	**24.4%**	**191,253**	**28.6%**
Labour costs	(31,813)	(12.3%)	(30,054)	(12.4%)	(97,831)	(12.5%)	(89,247)	(13.3%)
Gross operating profit	**13,071**	**5.1%**	**28,470**	**11.8%**	**93,203**	**11.9%**	**102,006**	**15.3%**
Other charges	(4,638)	(1.8%)	(6,474)	(2.7%)	(13,824)	(1.8%)	(14,541)	(2.2%)
Ebitda	**8,433**	**3.3%**	**21,996**	**9.1%**	**79,379**	**10.1%**	**87,465**	**13.1%**
D&A	(11,577)	(4.5%)	(8,336)	(3.5%)	(30,936)	(4.0%)	(33,988)	(5.1%)
Provisions, write-downs and uses of risk funds	18,775	7.3%	1,970	0.8%	7,274	0.9%	(5,978)	(0.9%)
Ebit	**15,631**	**6.1%**	**15,630**	**6.5%**	**55,717**	**7.1%**	**47,499**	**7.1%**
Interest charges	(6,243)	(2.4%)	(6,565)	(2.7%)	(18,941)	(2.4%)	(17,942)	(2.7%)
Equity write-downs	2,253	0.9%	(411)	(0.2%)	(109)	(0.0%)	(1,902)	(0.3%)
Extraordinary income (charges)	(1,601)	(0.6%)	(994)	(0.4%)	(2,890)	(0.4%)	(2,801)	(0.4%)
Profit before taxes	**10,040**	**3.9%**	**7,660**	**3.2%**	**33,777**	**4.3%**	**24,854**	**3.7%**
Income taxes	(5,687)	(2.2%)	(6,713)	(2.8%)	(9,792)	(1.3%)	(8,987)	(1.3%)
Prepaid taxes	335	0.1%	3,242	1.3%	(806)	(0.1%)	3,732	0.6%
Net income for the period	**4,688**	**1.8%**	**4,189**	**1.7%**	**23,179**	**3.0%**	**19,599**	**2.9%**
Net (profit) loss of minorities	(284)	(0.1%)	(767)	(0.3%)	(1,093)	(0.1%)	(415)	(0.1%)
Group net income	**4,404**	**1.7%**	**3,422**	**1.4%**	**22,086**	**2.8%**	**19,184**	**2.9%**

The operating performance in the first nine months of 2004 achieved the business plan targets set for the entire year. The sharp focus on high-value, high-technology content, and legally and managerially complex contracts was the driving force behind the significant increase in business volume.

Total revenues amounted to around 258 million euro in the third quarter 2004. Contract revenues reached 244 million euro; operations in Italy contributed 47.5% of this total and foreign operations the remaining 52.5%.

The table below summarizes the contribution of the various operating sectors to the total Astaldi Group turnover in the third quarter 2004.

Euro/Million	Q3 04	%	Q3 03	%	September 30, 2004	%	September 30, 2003	%
Transport infrastructures	157	64.3%	153	68.0%	468	63.2%	452	72.4%
Hydraulic works and hydroelectric power plants	36	14.8%	29	12.9%	102	13.8%	78	12.5%
Civil and industrial buildings	51	20.9%	43	19.1%	170	23.0%	94	15.1%
Total	**244**	100.0%	**225**	100.0%	**740**	100.0%	**624**	100.0%

As the figures set out in the table above show, transport infrastructures continue to be Astaldi leading sector of operations, both in terms of business volume and in terms of sector specialization.

The share of construction increased as a result of the sizable contribution from the New Milan Expo Fair contract. Begun in October 2002, as at end-September 2004 around 80% of the contract has already been fulfilled. In addition, in the first part of the year the Company began construction work on the civil building for the new Hospital in Mestre.

The table below shows the geographical breakdown of revenues:

Euro/Million	Q3 04	%	Q3 03	%	September 30, 2004	%	September 30, 2003	%
Italy	**116**	**47.5%**	**102**	**45.3%**	**359**	**48.5%**	**296**	**47.4%**
Abroad	**128**	**52.5%**	**123**	**54.7%**	**381**	**51.5%**	**328**	**52.6%**
Europe	58	23.8%	33	14.7%	145	19.6%	57	9.1%
America	45	18.4%	71	31.6%	156	21.1%	215	34.5%
Asia	7	2.9%	1	0.4%	22	3.0%	3	0.5%
Africa	18	7.4%	18	8.0%	58	7.8%	53	8.5%
Total	**244**	**100.0%**	**225**	**100.0%**	**740**	**100.0%**	**624**	**100.0%**

An analysis of the data set out in the table above shows that in the third quarter 2004 contract revenues increased 8.6% as compared to the same period in the previous year.

As shown in the breakdown by geographical area, total revenues in Europe increased noticeably as compared to the third quarter 2003, attributable to both the resumption of operations at full throttle in Turkey and the operations in Romania; in fact, this eastern European country has proven to be one of the fastest growing areas in terms of revenues and operating results, vindicating the Group's commitment to the region over the past several years in which its managerial organization and technical capabilities have been steadily strengthened.

In Turkey, work-in-progress has been advancing at regular speed as both the technical operating and financial aspects of the contract have once again been normalized. The importance of the work being done by Astaldi is reflected in the upward revision to the spending budget that the Turkish Government has allocated for 2004. The noticeable pick-up in the pace of work being executed by Astaldi during the third quarter in Turkey brings the target conclusion of 2006 closer to reality.

In the Americas, the Group continues to stabilize its operations, with particular reference to Venezuela. Orders in the process of being executed in the United States, in the Miami area, should receive a further boost from the major contracts awarded during the year. In this regard, it is important to point out that, after two years since Astaldi resumed its operations in the United States, ongoing orders in the country's transport infrastructure and utilities industries are being supported by a wide-ranging program to strengthen the Company's management and control structure.

As expected, the pace of operations slowed in Central America. In this region, the Group has almost completed the important "Paquete III" road contract in El Salvador, while Astaldi is awaiting the start-up of likewise major initiatives for which the Group is formalizing the award procedures with the client. As a result, Astaldi's operations in the region will return to full capacity by early 2005.

Finally, mention should be made of Astaldi's operations in Asia where for around two years the Group has been present in Saudi Arabia and Qatar. In this latter country the Group is executing the civil construction of a gas liquefaction plant ("SASOL GTL Plant") on behalf of a major international company operating in the petroleum plant engineering field. Revenues from this project are expected to surpass 30 million dollars in 2004; it is the first major step forward in the region, backed by the support of a high-level managerial structure with deep roots and specialized in large petroleum-industry plant construction. Attention has been sharply focused on the operating and security aspects in the country in view of the tension which is a feature of the entire Persian Gulf region.

The focus on containing general costs is reflected in the decrease in the ratio of personnel costs to total revenues as compared to the first nine months of 2003.

Turning now to the operating performance, the income statement shows a significant increase in EBIT in absolute terms as compared to the third quarter 2003. Net income for the third quarter amounted to 4.4 million euro, a significant 28.7% increase compared to the year-before period. Net income in the first nine months of 2004 amounted to around 22.1 million euro, 15.1% higher than in the same period 2003 (19.2 million euro).

Income before taxes for the third quarter increased 31.1% compared to the same period a year before (up 35.9% in the first nine months).

It is important to note that the 2004 result is even more appreciable when taking into account that the tax rate is higher than in the same period a year ago, in the wake of the prudent policy adopted for the allocation of advance tax payments charged to the period. Following the comprehensive revision of future targets, the effects will presumably be attributable to the short-term.

ORDERS BACKLOG BY OPERATING SECTOR AND GEOGRAPHICAL AREA

During the first nine months of 2004, the Company acquired new orders worth a combined 885 million euro, bringing the value of the total orders backlog to over 4.5 billion euro as at 30 September 2004, higher than at the beginning of the year. Italy accounts for 73% of the orders backlog as at 30 September 2004 mainly in the railway infrastructure sector, while foreign countries account for the remaining 27%, mainly in the Americas, plus Romania and Turkey. It is important to emphasize that the objective of stabilizing the orders backlog at the exceptional levels reached in 2003 appears to have been achieved, allowing the Group to confirm its growth targets in the current three-year business plan based on a contracts policy focused on profitability.

In July, Astaldi led a group of companies winning the tender offer to come up with a contractor for the construction and later operation of a new hospital in Naples (the so-called "Ospedale del mare"). The construction work is worth a total of 187 million euro, of which around 64% is allocated by the Azienda Sanitaria Locale (ASL – local health agency), the purchasers of the hospital, and the rest will be provided by the contractor who will proceed to manage non-health operations for twenty-five years, for an additional total payment of more than 660 million euro. In addition to the 500-bed hospital, the project also includes a 100-bed accommodation center and a shopping mall with around 3,500 square meters of space. Astaldi's bid won the tender offer because of the superior technical and esthetic value of its design and its superior operations management for the services. Construction is expected to take 42 months after which the operations contract period will begin. Astaldi's stake in the project is 60% for the construction and 52% for the operation.

It is again emphasized that a signed contract with financial coverage is the criterion adopted by the Company to include a project in its orders backlog. On that basis, then, as at 30 September 2004, the orders backlog includes neither those contracts for which Astaldi has been nominated sponsor pursuant to art. 37 bis of the Merloni Law, nor projects in Venezuela for which as of yet there is no financial coverage.

Bearing this in mind, we again point out that the Group has been nominated sponsor for the construction of Line 5 of the Milan underground system and the construction of the Appia Antica Underpass in Rome in project financing.

The Milan Line 5 underground project is worth around 504 million euro, of which 193 million euro put up by the contractor and the lending banks, while government agencies will put up the remaining 311 million euro. The operations contract will be signed once the tender and the negotiated procedure are completed for which Astaldi, as sponsor, will have pre-emption rights. The construction work, including the design phase, is scheduled to last five years, followed by 27 years of operation.

Speaking of the project financing initiative for the construction and later operation of the Appia Antica Underpass, in June 2004 the Municipality of Rome formally nominated Astaldi as sponsor. The total value of the contract is around 390 million euro, of which 190 million euro put up by the contractor and the remaining by the local government. Meanwhile, the winner of the thirty-year operation contract will receive in excess of 800 million euro, before operation costs. Again in this case, the operations contract will be signed after the tender and the negotiated procedure are completed for which Astaldi, as sponsor, will enjoy pre-emption rights. The completed construction and its delivery are scheduled by 2009. The project calls for the construction of a four-lane road (two in each direction) connecting the southern and eastern quadrants of the city; the road will be 9 kilometers long, including 7 kilometers of tunnel. For the city of Rome, this is the first project-finance transport project, a sector in which Astaldi is the leader in Italy, and it will prove to be extremely useful in relieving the city's traffic problems.

Concerning the construction-cum-operation project for a four-hospital integrated system in Tuscany, the parties are awaiting the outcome of an appeal to the Council of State brought by Astaldi against the regional administrative court of Tuscany ruling that the sponsor selection process must be repeated.

The table below shows changes in the orders backlog during the course of 2004 by major line of business, not taking into account the initiatives cited above for which Astaldi acts as sponsor:

Euro/Million	01/01/2004	New orders	Production	30/09/2004
Railwys and subways	2,013	99	(187)	1,925
Roads and highways	723	250	(259)	714
Airports and ports	89	23	(22)	90
Hydraulic works and hydroelectric power plants	313	43	(102)	254
Civil and industrial buildings	399	127	(170)	356
Operations	870	343	0	1,213
Total	**4,407**	**885**	**(740)**	**4,552**

Euro/Million	01/01/2004	New orders	Production	30/09/2004
Italy	3,200	24	(243)	2,981
Abroad	1,207	385	(253)	1,339
Total	**4,407**	**409**	**(496)**	**4,320**

Focusing on current project-financing operations in the transport infrastructure sector, we also point out that Astaldi submitted further project-financing proposals for the completion and operation of a section of the Salerno-Reggio Calabria highway, and the construction and operation of Line 4 of the Milan underground system for which decisions by the respective assignors are awaited. In addition Astaldi is also examining further project-financing initiatives in the health construction sector in which the Group has demonstrated its notable operating capabilities.

At the same time, general contracting and traditional contract operations continue in Italy; in the first nine months of 2004 the Company submitted various proposals, including several in connection with large transport infrastructure works envisaged by the so-called Legge Obiettivo for which the prequalification, audit, and awarding processes are still ongoing.

More specifically, we again point out that in June 2004 a group of companies was selected, led by Astaldi, that will participate in the tender offer for the construction of the Straits of Messina Bridge.

The consortium, accepted for the pre-qualification stage in late October, expects to have the majority stake in the project among Italian builders: in addition to Astaldi as group leader, Pizzarotti, Vianini, Consorzio Cooperative Costruzioni di Bologna, Grandi Lavori Fincosit, Maire Engineering, and Ghella will participate. In addition to these domestic companies, several foreigners are participating, including the Spanish companies Ferrovial Agroman S.A. and Necso Entrecanales Cubiertas, and the Japanese company Nippon Steel Corporation (NSC). The total investment for the project is around 4.4 billion euro, requiring pre-financing put up by the General Contractor of 10%-20%.

As for operations abroad, we point out that the Venezuelan government has provided financial coverage for the third stage of the Puerto Cabello-La Encrucijada railway construction project, increasing the value of Astaldi's orders backlog by around 47 million euro against a signed contract that calls for a further, not yet financed, amount of around 135 million euro that will be included in the orders backlog in future financial years.

Finally, we point to new contracts awarded to the Group in Romania and the United States. In Romania, the Company was awarded a contract for the construction of the Pitesti ring road, worth more than 66 million euro. Meanwhile in the US, the Subsidiary Astaldi Construction Corporation was awarded new contracts worth a total of around 100 million dollars, including construction work for the SR9 highway in the Miami area, worth around 60 million dollars.

COMMENTS ON THE THIRD QUARTER OPERATING PERFORMANCE

In the third quarter 2004, contract revenues amounted to around 244 million euro, an 8.6% increase as compared to the same period in the previous year. The growth was attributable to both positive developments in the construction work at the New Milan Expo Fair and the good performances reported by the foreign operations (especially Venezuela, Turkey and Romania).
Total revenues in the quarter under review amounted to more than 258 million euro, a 6.9% increase over the same period in the previous year.
Boosted by these quarterly results, contract revenues in the first nine months 2004 amounted to around 740 million euro, an 18.6% increase as compared to the same period in 2003. Total revenues for the period exceed 783 million euro, a 17.1% increase over the same period last year.
Consolidated net income for the third quarter amounts to around 4.4 million euro, up 28.7% on the same period in 2003. Consolidated net income in the first nine months of 2004 amounts to 22.1 million euro, a 15.1% increase over the year-before period.
Net indebtedness as at 30 September 2004 amounted to 157.4 million euro, reduced from 165.1 million euro a year before, despite the 17.1% increase in business volume, achieved through efforts to contain capital invested in contracts.
The debt/equity ratio is 0.67 as at 30 September 2004, down markedly from 0.73 a year before.

During the first nine months of 2004 the Company was awarded new contracts worth a total of 885 million euro, lifting the total value of the Group orders backlog to 4,552 million euro.

Addressing the project-financing initiative for the construction of the Zagabria-Gorican motorway in Croatia, under construction during the 1997-1999 period and later interrupted because of financial problems due to the country's economic situation, an arbitration procedure was initiated with the Chamber of Commerce of Vienna. On 18 June 2004, the arbitration panel unanimously awarded Astaldi the right to compensation for the work and operations undertaken, the loss of revenues, and accrued interest. The award also neutralizes any effects of actions taken by the Croatian tax authorities concerning presumed amounts due for VAT. It should again be mentioned that the risks in connection with this dispute were considered remote and so no provision was set aside for them. In the financial statements as at 30 September 2004, the equivalent value of the award was conservatively allocated to the "Contract risks reserve" and the "Accrued interest write-off reserve" in view of the Croatian court's award recognition procedure, the significant amount of the award, and the country's economic situation. As expected, for the reasons cited above, the Republic of Croatia has undertaken action aimed at preventing, or at least delaying, the specific performance of the award, contesting it before the Vienna Tribunal (the arbitration court). So as at the end of the reporting period, these provisions have been confirmed.

EVENTS AFTER THE CLOSE OF THE PERIOD

In October, Astaldi was awarded new contracts in Italy worth around 50 million euro. Standing out among these is the project-financing contract for the construction-cum-operation of a 750-space parking lot located in the Verona city center. The contract calls for an investment of around 17 million euro and an operation period of around 30 years as of the completion of the construction period (around 15 months). With this contract, the number of car parks in Astaldi's orders backlog climbs to five, including three already in service.

Finally, as already mentioned above, in October a group of companies, for which Astaldi acts as group leader, has prequalified for the general contracting bid competition for the construction of the Straits of Messina Bridge. The next stage for the presentation of bids is scheduled to conclude in April 2005.