

07

ANNUAL REPORT



AnsaldoEnergia

A Finmeccanica Company



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Boards and Committees

BOARD OF DIRECTORS

in office for the period 2007/2009
appointed by the Shareholders' Meeting
of 20 April 2007

Giuseppe Veredice
Chairman

Roberto Tana
Vice Chairman

Giuseppe Zampini
Managing Director

Gianpiero Cutillo
Director

Alberto De Benedictis
Director

Roberto Maglione
Director

Mario Margini
Director

**BOARD OF STATUTORY
AUDITORS**

in office for the period 2005/2007
appointed by the Shareholders'
Meeting of 7 April 2005

Giorgio Cumin
Chairman

Mario Vincenzo Calandro
Standing auditor

Giorgio Camboni
Standing auditor

Enrico Casanova
Alternate auditor

Aldo Parodi
Alternate auditor

**INDEPENDENT
AUDIT FIRM**

engaged for the period
2006/2008

Deloitte & Touche S.p.A.



Report on operations





Significant events in 2007 and events subsequent to the closure of the accounts

Shareholders,

2007 was a very positive year for your Company. Better financial results, benefiting from favourable market conditions, were accompanied by rising new order volumes, worth EUR 1.7 billion at year end, which means that the Company begins 2008 with an order backlog of more than EUR 3 billion, sufficient for about three years' operations.

The strategic plan approved the previous year was fully implemented during 2007, particularly as regards technology and service development activities, which are considered to be the drivers of results growth. After the acquisitions in recent years, your Company moved carefully on the market, ready to seize new and interesting acquisition opportunities, consistently with the strategies defined, at the same time as consolidating synergy with Group companies.

The launch of the OSP - Original Service Provider trademark was one such initiative, combining the qualities and experience of your Company as OEM (Original Equipment Manufacturer) with the ISP (Independent Service Provider) activities that the Energy Group intends to offer.

Turning to technology development, which provides vital support for volume and results growth, work in your Company's traditional sectors of operation, as well as in the booming renewable sources segment, focused on improving existing products, on scouting for new opportunities and alliances, and on focusing the research work of subsidiary Ansaldo Ricerche S.p.A. on the main projects pursued by the Group.

The key objective last year was, and in the future will continue to be, investing a considerable portion of human and financial resources to innovate products and keep them in line with market demand.

In parallel a plan was launched to renew plant and reorganise production activities, improving process efficiency in order to meet order deadlines and seize the opportunities offered by a constantly expanding market.

Your Company has already taken the initiative on expanding international markets and the results achieved both in new countries for Ansaldo Energia, such as Russia, or consolidated ones like Algeria, have increased our share of the world gas turbine market from 5% to 5.5%.

The growth reported during the year is expected to accelerate still further in the future, requiring careful human resources management, which represents a strategic lever to pursue and consolidate change. Initiatives have therefore been undertaken to improve the professional mix of resources, with new hirings partly to compensate for the probable departure of personnel who, from the end of 2007, no longer receive the bonus recognised by current legislation, but most importantly with training initiatives designed to increase the technical and management skills of resources at all corporate levels. Your Company has confirmed its position as local job development leader, with a turnover of almost 80% in the last five years.

Another priority during the year was the application of new legislation on health and safety in the workplace and the protection of the environment, with the organisation of training initiatives for both blue collar workers and workshop/work site managers, as well as more generally in all areas of operation.

The company adopts an extremely prudent policy with regard to the coverage of risks of a financial nature. Significant operations in currencies other than the Euro subject to exchange risk are hedged by means of specific forward contracts. To eliminate or minimise the credit risk, deriving in particular from work in foreign countries, the company adopts a policy of attentive analysis of commercial operations right from the outset, carefully examining the terms and conditions of payment to propose in offers and subsequently contracts of sale.

Specifically, according to the value of the contract, the type of customer and the importing country, all the necessary precautions are taken to limit risk in terms of both payment and the financial instruments used, with recourse in the most complicated cases to insurance coverage or providing assistance to help the Customer obtain supply financing.

On the liquidity risk front, the results achieved in recent years are the best demonstration of careful monitoring of all items under working capital. Specifically, the adoption of the EVA methodology right from the bidding stage and throughout the entire life of work orders, makes it possible to optimise financial management and to correct, where possible from the negotiation phase, elements affecting liquidity.

2007 results confirm the positive trend of recent years.

Net profit for the year stands at Euro 50 million, up 50% on last year's figure after taxation of Euro 54 million (Euro 37 million in 2006).

The operating result was particularly significant at Euro 96.4 million, up 61% on the previous year, with ROS standing at 9.8% (6.7% in 2006), attributable in part to good management of the closing stages of contracts.

The results reported were affected by increases in research and development costs (up Euro 1.7 million to a total of Euro 18.3 million) and the cost of sales and marketing efforts to close the important new contracts signed during the year, as well as about Euro 10 million negative items relating to provisions for litigation, risks and outgoing employees. In absolute terms costs for overheads and administration remained virtually unchanged, while as a percentage of revenues they fell from 3.7% to 3.3%, confirming that despite growth in all sectors, cost containment has remained a constant priority.

New orders were booked worth Euro 1,705 million (984 in 2006), with distinctly higher margins due to the favourable market situation. Of the Euro 3,086 million order backlog at year end, 45% refers to service segment activities, mainly consisting of scheduled maintenance contracts signed concurrently with plant contracts.

The net financial position improved significantly again in 2007, with positive cash flow of Euro 177 million after paying out a dividend of Euro 24 million to the Shareholder.

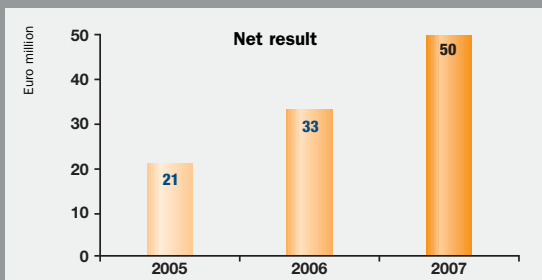
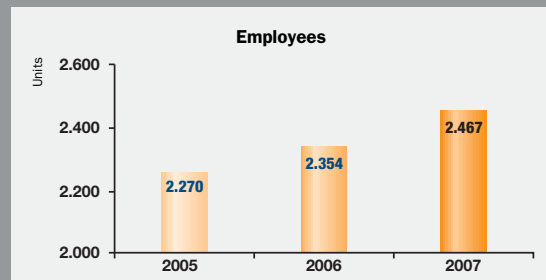
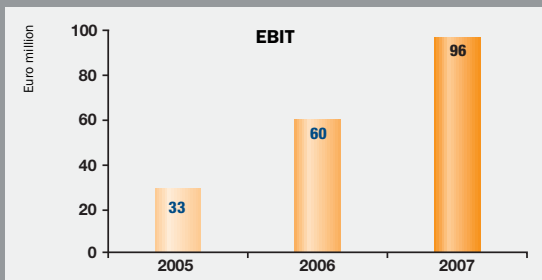
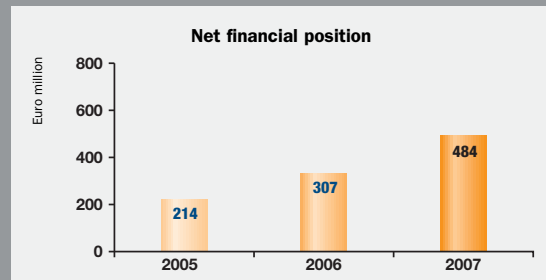
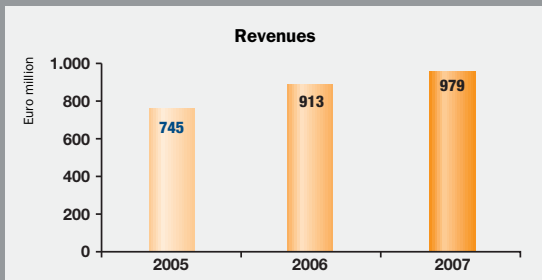
It is therefore reasonable to forecast further growth in results and new orders in coming years, which may also translate into an improvement in the net financial position if advances on new orders more than offset expenses deriving from contracts in progress.

Finally, there were no significant events after the closure of the accounts such as to require comment on their possible financial effects.

Below are some highlights from the past three years (2005 values have been reclassified according to IAS/IFRS principles).



Ansaldo Energia results in the three-year period 2005-2007





Analysis of performance and
financial position

The financial statements of Ansaldo Energia S.p.A. at 31 December 2007 have been prepared in accordance with the international accounting standards (IFRSs) endorsed by the European Commission and supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting

Interpretations Committee – IFRIC) issued by the International Accounting Standard Board (IASB).

In order to provide further information on the performance and financial position of Ansaldo Energia S.p.A., reclassified statements have been prepared.

Euro/thousand	2007	2006
Revenues	979,001	913,193
Costs for purchases and personnel	(854,922)	(837,409)
Amortisation and depreciation	(13,650)	(12,617)
Write-downs	(2,000)	(1,500)
Other net operating revenues (costs)	(4,187)	16,407
Changes in work in progress, semi-finished goods and finished products	(7,870)	(16,760)
EBIT	96,372	61,314
Net financial income (charges)	7,936	9,263
Income taxes	(53,850)	(37,041)
NET PROFIT BEFORE DISCONTINUED OPERATIONS	50,458	33,536
Result of discontinued operations		
NET PROFIT	50,458	33,536

2007 closed reporting higher revenues in all business areas of about 8.3%. So far as machinery and plant are concerned, this rise is attributable to an increase both in factory production and the percentage of plant engineering work, while in the service segment the rise on 2006 is mainly attributable to current service activities, because the contribution made by scheduled maintenance contracts was fairly stable.

Service business represents about 23% of revenues and about 32% of the gross margin produced in the year.

Ebit increased Euro 35 million, standing at 9.8% of revenues (6.7% in 2006). This result was made possible by the fact that, in addition to the normal profitability of plant engineering and service orders, the Enipower contract was concluded during the year and the F.A.C. (Final Acceptance Certificate) received, making a non-recurrent contribution to the margin reported.

It should also be pointed out that research and

development expenditure rose to Euro 18.3 million (16.6 in 2006) and that the balance of other net operating revenues (costs) was a negative Euro 4 million, as opposed to a positive Euro 16 million in 2006. Contributing to this result were a provision for a dispute in arbitration, the asbestos risk provision following the termination of insurance coverage in February 2007, and charges relating to several disputes with employees, net of the collection from Sace of receivables from defaulting countries which had previously been written off. Vice versa, fiscal 2006 benefited from the settlement of an old dispute and the assignment to third parties of a receivable from a defaulting country, totalling Euro 17 million.

Amortisation and depreciation rose by about Euro 1 million, attributable to the rise in tangible fixed assets as a result of investments in upgrading production capacity to meet higher production volumes.

Net financial income, standing at a positive Euro 8 million, breaks down Euro 11 million deriving from financial management, which benefited from higher interest rates and good net financial position performance, and Euro -3 million attributable to the management of shareholdings. The main items were the dividends resolved by subsidiaries Ansaldo Nucleare S.p.A. and ESG, amounting to a total Euro 2.4 million, and the permanent loss of value posted by Ansaldo Ricerche S.p.A., mainly deriving from radical restructuring during the year to focus company operations on the core business of the Energy Group.

Income tax amounting to Euro 54 million (Euro 37

million in 2006) increased due to the improved result and includes, in addition to IRES (corporate income tax), IRAP (regional business tax) and deferred taxation, Euro 5 million taxation payable in foreign countries.

The table below breaks down the balance sheet at 31 December 2007, with comparative information at 31 December 2006:

Non-current assets basically refer to Euro 106.4 million property, plant and equipment, Euro 19.1 million equity investments and Euro 4.7 million deferred tax assets. Deferred tax assets fell Euro 20.5 million following the reclassification to current

Euro/thousand	31.12.2007	31.12.2006
Non current assets	132,260	154,375
Non current liabilities	123,460	115,383
	8,800	38,992
Inventories	146,349	133,753
Contract work in progress	48,859	67,309
Trade receivables	335,523	359,593
Trade payables	318,259	332,514
Advances from customers	566,535	454,450
Provisions for short term risks and charges	55,754	51,610
Other net current assets (liabilities)	(8,909)	(19,516)
Net working capital	(418,726)	(297,435)
Shareholders' equity	74,601	48,350
Net financial debt (cash and cash equivalents)	(484,527)	(306,793)

assets of deferred IRES (corporate income tax) assets. The overall reduction in equity investments of Euro 3.9 million is attributable to the permanent loss in value of the investment in Ansaldo Ricerche.

Non-current liabilities include severance pay and other defined benefit plans for employees amounting to Euro 39.2 million, and provisions for risks of Euro 80.6 million. The increase in this item amounting to Euro 14 million is the result of provisions made during the year in connection with the asbestos risk and a dispute with a customer in arbitration.

Net working capital fell Euro 121.3 million, mainly attributable to the contribution made by advances

received from customers as a natural consequence of the large volume of new orders. Shareholders' equity is represented by share capital amounting to Euro 12 million, reserves generated by conversion to IAS/IFRS, retained earnings and other reserves amounting to Euro 6.7 million, in addition to profit for the year of Euro 50.5 million.

Cash and cash equivalents at year end increased by 58%, with positive cash flow net of dividends paid amounting to Euro 20.6 million, basically attributable to the positive collections/disbursements ratio of plant engineering contracts and service activities.

Euro/thousand	2007	2006
Cash and cash equivalents at 1 January	10,694	10,184
Cash flow from operating activities	127,497	96,982
Change in working capital	125,405	50,731
Changes in other operating assets and liabilities	(34,400)	(8,585)
Cash flow generated by (used in) operations	218,502	139,128
Cash flow from investing activities	(17,856)	(40,777)
Free operating cash-flow	200,646	98,351
Changes in other financial assets	532	0
Cash flow generated by (used in) investing activities	(17,324)	(40,777)
Dividends paid	(24,173)	(16,668)
Cash flow from financing activities	(164,708)	(81,173)
Cash flow generated by (used in) investing activities	(188,881)	(97,841)
Cash and cash equivalents at 31 December	22,991	10,694



Financial Position

Net cash and cash equivalents at 31 December 2007 are reported in the following table, with comparative information at 31 December 2006.

The net financial position improved significantly, reflecting careful management of the order backlog, good terms of payment stipulated in contracts and increased new order volumes resulting in larger advance payments. Of financial receivables from related parties, Euro 446 million refers to cash and cash equivalents deposited according to Group policy with Finmeccanica, using a cash pooling scheme which benefits all group companies by rationalising and optimising recourse to the banking system. The increase is therefore attributable to the cash and cash equivalents generated during the year. Cash and cash equivalents are remunerated at the

best market conditions, also by means of recourse to temporary investments.

Ansaldo Energia also pools the treasury management of its subsidiaries, applying the same rates.

This justifies the presence of financial payables to related parties, basically attributable to the cash and cash equivalents of Ansaldo Nucleare and Sagem Italia, while the receivables include financing for the activities of Thomassen, Ansaldo Ricerche and Indian subsidiary ASPL.

Receivables and payables from/to the banking system should therefore be considered as residual and, so far as payables are concerned, attributable for the most part to term deposits or foreign currency which cannot be transferred to the relative local activities.

Euro/thousand	31.12.2007	31.12.2006
Short term financial payables	1,134	1,029
Medium/long term financial payables		833
Cash or cash equivalents	22,991	10,694
BANK DEBT AND BONDS	(21,857)	(8,832)
Securities		
Financial receivables from related parties	(476,668)	(320,300)
Other financial receivables	(1,836)	(1,135)
FINANCIAL RECEIVABLES AND SECURITIES	(478,504)	(321,435)
Financial payables to related parties	12,731	19,416
Other short term financial payables	993	954
Other medium/long term financial payables	2,110	3,104
OTHER FINANCIAL PAYABLES	15,834	23,474
NET FINANCIAL DEBT (CASH AND CASH EQUIVALENTS)	(484,527)	(306,793)
Net financial debt (cash and cash equivalents) attributable to discontinued operations	-	-



Information on the direction and coordination activities of the company and relations with related parties

In accordance with the provisions of Article 2497 bis of the Italian Civil Code, it should be noted that the Company is subject to the direction and coordination of the Group Parent Finmeccanica S.p.A. The highlights of the latest financial statements approved by Finmeccanica S.p.A. are shown in Appendix no. 12.

Below are the figures for relations with related

parties in 2007 and in the previous year (details by Company are provided in Notes). Related parties include not only the Group Parent and the companies in which Ansaldo Energia S.p.A. has direct or indirect interests, but also the other related parties as defined in the International Accounting Standards.

	Parent companies	Subsidiaries	Associates (*)	Consortia (**)	Total
Current receivables					
– financial	445,763,414	30,904,503			476,667,917
– trade	207,000	2,044,321	738,584		2,989,905
– other	37,144,676		283,000		37,427,676
Current payables					
– financial		12,730,671			12,730,671
– trade	842,000	4,174,731	4,724,176		9,740,907
– other	37,153,003				37,153,003
Revenues					
Other operating revenues		31,362	18,515		49,877
Purchases and costs	5,029,000	9,178,401	31,349,349		45,556,750
Financial income	12,200,238	830,136			13,030,374
Financial charges	38,319	626,178			664,497

(*) Companies subject to the control and coordination of Finmeccanica S.p.A.

(**) Subsidiary, related, associated and jointly-controlled consortia



Performance

Market prospects and competitive positioning

2007 confirmed the growth trend that has been a feature of the electric power generation market for the last three years. The escalating prices of primary energy sources, oil and natural gas in particular, has not slowed order growth for thermoelectric power generation machinery. In fact, global orders for gas and steam turbines rose twofold in 2007, from 105 GW in 2006 to 220 GW. There was an even sharper rise in steam turbine orders, which accounted for 70% of all turbine orders in 2007, a rise of 61% on the 2006 figure. In the medium to long term, high oil and natural gas prices are expected to fuel this trend still further, encouraging the use of other cheaper fossil fuels, including coal. However, the huge environmental footprint of coal-fired power generation products will encourage research and development into technology to reduce their negative effects.

Despite growing global interest in environmental issues, it is expected that most power generation will continue to be fossil fuel based until at least 2030, as was confirmed during the World Energy Council held in Rome in November 2007. The European Union, which is particularly sensitive to environmental issues, has set itself the target of increasing the proportion of renewable energy sources in its generating mix to 20% by 2020. Wind power is regarded as the renewable technology sector with the best short to medium term growth prospects. In the period 2000-2006, the sector expanded at an average annual rate of 24%, benefiting significantly from the successful implementation of government regulations to encourage the installation of renewable energy source generation plants, particularly in northern European countries. Europe, with an installed capacity of 50 GW, accounts for almost 70% of the world market. However India and China have the highest annual growth rates, reporting increases of more than 25%.

2007 was also the year in which Russian power sector privatisation got underway, and in which

India and China consolidated their economic growth.

In Russia, the former monopoly operator RAO UES has been split into about 25 generating companies, which entered the market last year and represent acquisition targets for international players including Enel, E.On, Fortun and EdF, as well as for domestic operators including Gazprom and industrial group Renova.

This deregulation, combined with strong Russian economic growth (7.7% of per capita GDP in 2007), has induced power generation market analysts to forecast 25% annual growth for the next 5 years, levelling off above USD 15 bn for the entire subsequent five-year period(3).

The market in Russia is made even more attractive by the weakness of local manufacturers, Engineering Procurement and Construction (EPC) companies and service providers. However, the presence of the major international manufacturers was also weak throughout 2007. Ansaldo Energia received orders representing a market share of 25%.

China and India continue to show strong growth, increasing their per capita GDPs by 10.7% and 6.5% respectively. To meet this demand, average annual power generation market growth of about 8% and 7% respectively is expected over the next 10 years.

Both countries, because of plentiful local coal and high oil and natural gas prices, are investing heavily in steam turbines, driving orders worth 75 GW and 27 GW respectively in 2007, corresponding to 99% and 94% of total thermoelectric power generating turbine orders for the year. Most Chinese demand is satisfied by local manufacturers.

The largest market for gas turbines in 2007 was Northern Africa and the Middle East, where per capita GDP growth of about 3% was reported in 2007, with orders for 15 GW of gas turbines (10% from Ansaldo Energia) and almost 5 GW of steam turbines (80% of which for use in combined cycles).

The flourishing market for generation plant, deregulation in Eastern Europe and ageing

installed capacity is also driving growth in the service sector. In 2007 this market increased globally by almost 10% on the previous year, encouraged by a greater focus across the board on production efficiency, mainly for environmental reasons.

Turning to the positioning of Ansaldo Energia in the global arena, 2007 shifted the company's centre of gravity significantly out of its traditional markets in Italy and Iran. In 2007, Ansaldo Energia won a 5.5% share of the world gas turbine market for electric power generation at 50 Hz (General Electric maintained its position of leadership with a share of 36%, but lost much of the advantage it had accumulated in 2006, followed by Siemens with 21%, Alstom with 18% and Mitsubishi with 6.8%). Alstom reported the best performance improvement in this market segment in 2007. In specific regions in the same period, Ansaldo Energia won 60% of the North African market, 25%

of the Russian market and 8% of the European market, excluding Italy.

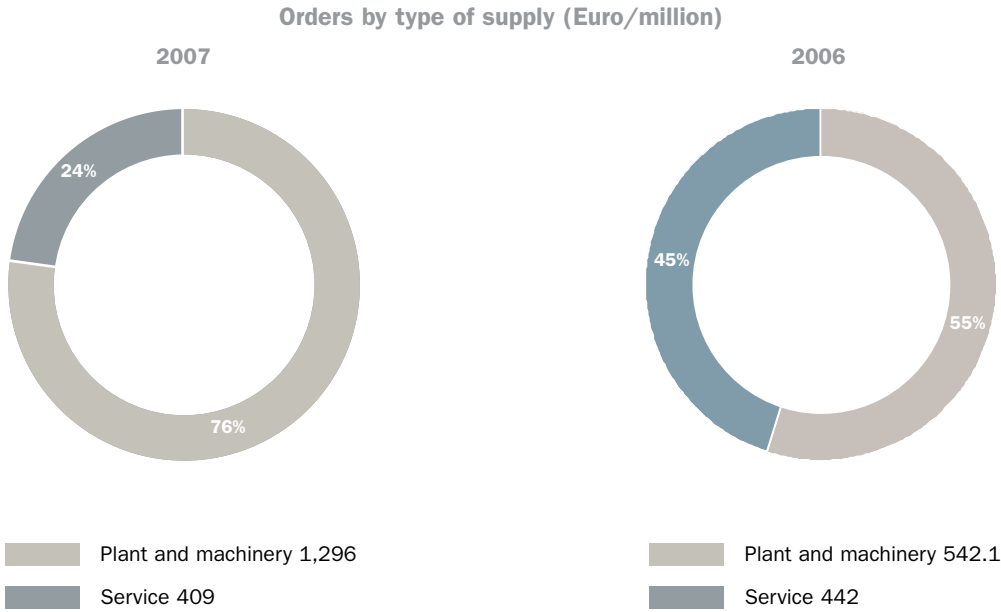
Finally, Ansaldo Energia is not yet present on the renewable sources market, but will be in the near future with the acquisition from another Finmeccanica Group company of fuel cell developer Ansaldo Fuel Cells S.p.A.

Sales

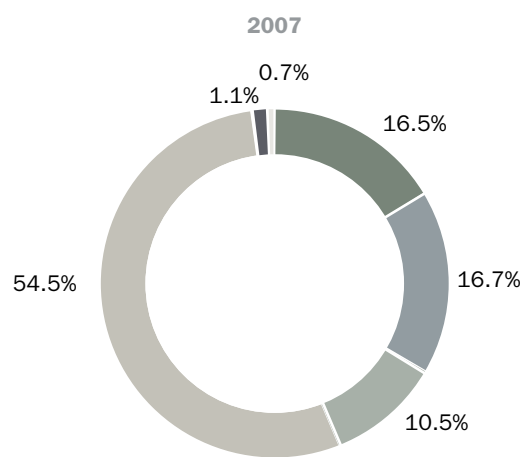
In 2007 Ansaldo Energia S.p.A. received orders worth Euro 1,705 million.

This represents an increase of about 73.2% on the previous year, almost entirely attributable to the exceptional performance of the plant and components division.

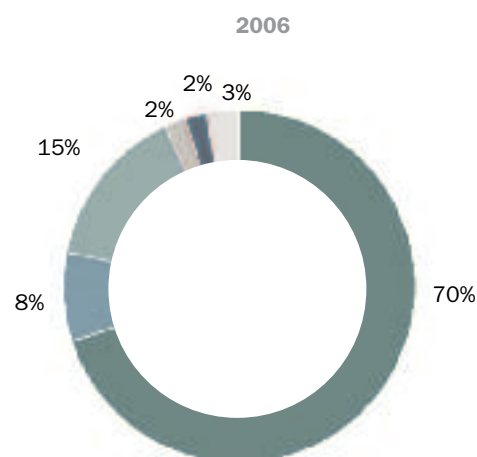
Orders break down as follows by product and geographical area:



Orders by geographical area (Euro/million)



Italy	282
Europe	286
Middle East	179
Africa	929
Asia	18
Americas	11
Total	1,705



Italy	685.1
Europe	77.7
Middle East	145.2
Africa	21.1
Asia	22.6
Americas	32.4
Total	984.1

The breakdown of orders for new plants and components by type of product is as follows:

Product	2007	2006
Gas turbines	23	9
Steam turbines	5	4
Generators	29	12
Total	57	25

The sharp rise in new plant and component orders, which more than doubled against the previous year, is attributable on one hand to the particularly favourable market situation, and on the other to a consolidation of the confidence shown by traditional and new customers in Ansaldo Energia, also in new areas for the company.

The Company is particularly well-positioned in high potential geographical areas, including Russia and North Africa.

The drop in service orders (-7%) was due to a fall in scheduled maintenance volumes on the back of

last year's results, particularly in connection with the order for the Rizziconi power station. There was however a considerable increase in new orders for routine maintenance, spare parts and refurbishments, which rose more than twofold on the previous year.

When potential orders for scheduled maintenance in 2008 are taken into account, these figures demonstrate continuing growth in this segment.

Plants and components

In 2007 Ansaldo Energia reported a sharp increase in orders for machinery and turnkey plants compared with 2006. Even more importantly, this increase is distinctly higher than the increase reported by the main competitors.

In coming years the international power generation market is expected to remain at a sustained level,

enabling Ansaldo Energia to continue growing, especially in emerging markets. On the domestic front the forecast increase is less pronounced, although several important contract awards are planned in 2008-2009.

On international markets Ansaldo Energia focused on its targets of Europe, the Middle East, Africa and Russia. Strong growth is expected in Russia in coming years as the country plans to increase power generating capacity by about 40,000 MW to support economic growth and replace obsolete plant.

The strategy will therefore be to focus on the target markets and customers which delivered such good results in 2007.

The most important new orders were:

Albania:

- Supply of a V64.3A gas turbine generator set with steam turbine for the first combined cycle in Albania.

Finland:

- Supply of a V94.2 gas turbine generator set to Fortum for the ESPOO power station.

Greece:

- Supply of a V94.3A4 gas turbine generator set with steam turbine to Enel for the Livadia power station.

Spain

- Supply of a V94.3A4 gas turbine generator set to Enel for the Algeciras power station.

Algeria:

- Supply of a 300 MW single cycle to Sonelgaz for the Larbaa power station.
- Supply of a 300 MW single cycle to Sonelgaz for the Batna power station;
- Supply of a 300 MW single cycle to Sonelgaz for the Larbaa power station extension;
- Supply of a 400 MW single cycle to Sonelgaz for the M'Sila power station.

Egypt:

- Supply of two 300 MW steam turbines to EEHC for the Sidi Krir and El Atf power stations.

South Africa:

- Supply of two V94.2 gas turbine generator sets to AES for the Avon power station.

Russia:

- Supply of four V64.3A gas turbine generator sets to Power Machines for the Prvomaskaia power station near St. Petersburg.
- Supply of a V64.3A gas turbine generator set to Power Machines for the Tyumen power station.
- Supply of five V64.3A turbine generator sets to Stroytransgaz for the St. Petersburg power station.

The results reported in 2007 demonstrate Ansaldo Energia's ability to compete on international markets and, even more importantly, confirm customer confidence in the company's products..

Service work

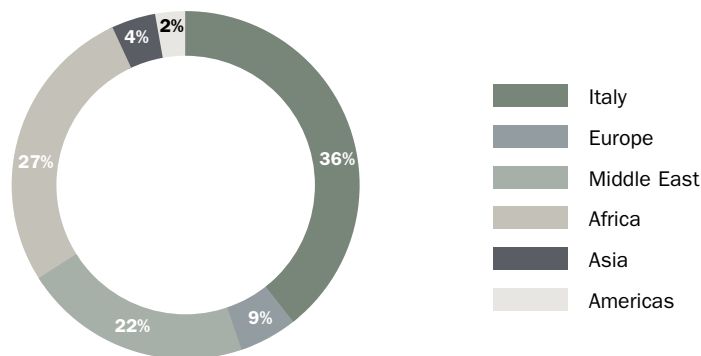
In 2007 a new commercial approach, one that is more consistent with customer needs in terms of plant optimisation and performance improvement, consolidated service growth in routine maintenance activities.

Interestingly, the product mix reflects the market trend to look for innovative solutions that enable Ansaldo Energia's customers to stand out from the competition. While on one hand long term agreements have fallen off, mainly because of the mix of new plant orders, on the other contracts for plant refurbishments and improvements have increased fourfold on the 2006 figure, representing more than 20% of total new orders. If solid double-digit growth is then factored in in spare parts and maintenance, the overall result reported by the so-called service flow totalled Euro 390 million, more than four times the previous year's figure.

Attention also needs to be drawn to the contribution of the Energy Group in terms of work on machinery manufactured by third party OEMs, as a direct result of the launch of the OSP - Original Service Provider strategy, which applies Ansaldo Energia's OEM skills to the Independent Service Provider (ISP) business model. The recent company acquisitions of ESG and Thomassen

Turbine System (TTS) were pivotal in this sense. New order volumes are broken down by geographical area in the chart below:

2007 service orders by geographical area



Production

2007 was a year of strong manufacturing and plant engineering growth.

In the plant engineering segment, 4 EPC plants were delivered, while planning, construction and start up work continues on 7 other plants both in Italy and on international markets.

All the main milestones were achieved and profitability and cash flow targets equalled or bettered.

The main contracts in progress for machinery and power blocks are in Russia (15 machines), Europe as a whole (Finland, Spain, Albania, Belgium) and the Middle East (Oman, Jordan), with more than 30 turbine generators to deliver and commission in 2008/2009.

• Manufacturing

In 2007 the following complete machines were produced at the Campi works for new power stations:

- 4 V94.3A gas turbines
- 5 V94.2 gas turbines
- 1 V64.3 gas turbine
- 23 turbine generators

7 steam turbines and strategic components for service activities.

Manufacturing activities on service contracts included a stator for Iran, a hydro-generator and some major steam turbine components.

About 25% of manufacturing hours were devoted to spare parts production and on-site assembly support work.

• Work sites and plant start-ups

In 2007 erection work was mainly for the domestic market. Erection and start-up work has been completed or delivery work is in progress on the following plants:

- Rizzicone
- Sparanise
- Rosignano
- Vado
- Leini
- Moncalieri
- Ferrara
- Escatron (Spain)

In 2008 there will be a further increase of erection and start-up work on three turnkey plants in Algeria.

• Service work

In 2007 spare parts manufacture and on-site work for service contracts continued to grow, with an almost identical mix to the previous year.

The increase in the number of products in the offering also generated new work, specifically:

- the complete overhaul of the Sparanise power stations has begun under the terms of the first total guarantee of operation contract;
- in the framework of revamping work, which was extended from just the steam turbine to the entire power station in 2007, refurbishment got under way at the Mers power station in Algeria;
- the acquisition of numerous contracts for complete hydrogenerator refurbishment generated a significant amount of factory work (complete manufacture of the stator) and Field Services (on-site erection and start-up).

The recent acquisitions of Dutch company TTS and Switzerland-based ESG have also enabled the Energy Group to perform OSP work on machinery produced by the competition, creating engineering synergies and increasing production at Ansaldo Energia too.

• Contract management

The following four plants were delivered and obtained provisional acceptance certificates:

- Rosignano
- Sparanise
- Vado Ligure
- Leini

The Enipower contract was also completed and Final Acceptance Certificates (FAC) obtained for all seven supplies, with the return of all the relative performance bonds.

Also nearing completion are other important contracts with Iranian customers on which the company has been working in recent years. The PACs and FACs obtained for these contracts have significantly reduced exposure to guarantees. The successful closure of numerous contracts in progress, also as EPC contractor, demonstrates that Ansaldo Energia has regained the ability to manage this type of contract and that the strategy should be continued.

Organisation and process/product developments

2007, like 2006, was a year of volume growth characterised by the need to manage EPC contracts, power blocks and service orders to increasingly competitive delivery schedules.

The fulfilment of orders already booked, as well as those forecast in coming years, has required the definition of a completely new business plan, from the design stage right through to production, to improve productivity while maintaining product quality high.

• Manufacturing

All production processes are now being examined in order on one hand to increase production of machinery and work for service activities, delivered on schedule and to budget, and on the other to maintain the flexibility needed to achieve profitability targets even in less favourable market conditions.

Some initiatives have already been implemented, improving the effectiveness of hours worked and increasing the number of production hours, including:

- extending stock production to other standard gas turbine components;
- concentrating in-house production on the most highly qualified core processes and outsourcing less technology-oriented ones;
- a review of material management policies and procurement planning and authorisation procedures. The initiatives taken have secured the availability of materials, notwithstanding rising supply market tension, without being a burden on financial management;
- the launch of the Total Production Maintenance (TPM) project addressed to the organisation of factory services, from maintenance to tool and equipment management.

These initiatives will be supported by a major investment plan in production machinery and systems, launched in 2007, and through a special focus on training young professional resources at all levels. Specifically, the training programme for 300 young blue collar workers on technical and management issues represents an innovative initiative in the framework of factory training.

In the electric machine area, construction work began on the first TRY 56 alternator, following investments for this purpose in the 2007 plan. In the blading area, the qualification of pressure cast product suppliers was completed and a carefully prepared plan introduced to manage post casting. Collaboration agreements were also entered into with external suppliers and an investment plan set in motion to support the volume growth predicted in coming years. The reduction in the time required to produce products, attributable to constant upgrading of manufacturing processes, has made it possible to meet production targets and prepared the ground for growth next year.

Technology skills have been strengthened by recruiting qualified resources, who will receive increasing support in the form of IT tool development. The first stage of the PLM project is consolidating CAD/CAM integration, with interesting results in terms of collaboration with product engineering and greater CAM programming efficiency. The second stage, entailing the development of an integrated production data management structure will be completed in 2008. On the logistics front, efforts were focused on materials planning, the scheduling of outsourced activities and upgrading the structure to handle growing service volumes. Warehouse logistics reorganisation was also completed to improve service flexibility and quality. Available space was also used more efficiently and similar activities concentrated in specific areas.

• Service work

The broader scope of service provision contracts has made it necessary to recruit new specialised resources, mainly in connection with erection and start-up activities.

The increase in spare parts volumes has required a new management structure at process, planning and production levels.

So far as materials planning is concerned, the Demand Planning Management (DPM) project was fully implemented to plan finished materials requirements and entry into production based on past orders, on the order backlog and on current and future bids.

During the year so-called strategic spare parts

entered production, with a view to creating a stock of finished materials that have long procurement times. These stocks will be used on one hand to cater for emergencies, and on the other to offer shorter delivery times and so make it easier to seize interesting market opportunities.

• Contract management

Consistently with the Shareholder's guidelines, the company has consolidated its contract management and control mechanisms, applying the "Valcom", "Life cycle management & project control", "Risk management" and "Phase review" methods to all major projects.

In 2007, these mechanisms covered 2/3 of plant engineering costs incurred during the year, affecting the life cycle of more than half the active portfolio.

• Engineering

Volume growth has also increased the product and plant engineering workload, from bidding to final design.

Research and development activities, which until the end of 2006 focused on the acquisition of design process skills and only marginally on product improvement, were re-addressed in 2007 to improving product performance in terms not only of power output and efficiency, but of environmental impact and operating flexibility as well.

The first research projects on General Electric components also got under way to support the business development of subsidiary Thomassen Turbine System.

Investments

Investments in plant, equipment and machinery in 2007 were mainly addressed to the new 350/400 MVA air-cooled turbine generator and the hot blading line for gas turbines. For steam turbines, a plant to produce welded rotors was installed at the Genoa Campi works, which will increase production capacity and make it possible to fulfil service orders for higher power units more efficiently than is at present possible.

The growing commitment to service segment activities is also reflected in investments in diagnostics, reverse engineering and work site equipment.

The following initiatives were launched and in part completed:

- the production of moulds and models for qualified suppliers to manufacture hot gas turbine blades;
- investments in technical equipment for and the rationalisation of the gas and steam turbine blade production department;
- the installation of a stator packing plant for the new model 350 MVA power generator (air-cooled), designed for coupling with the new V94.3A4 gas turbine;
- the installation of the plant mentioned previously to produce welded low pressure rotors for steam turbines;
- the purchase of a modular unit for water demineralisation at work sites.

Finally, work continued on the overhaul and replacement of machinery (vertical boring machines and lathes) used to machine large components for steam and gas turbines, in order to upgrade capacity in line with production demand. This work will be completed in the first half of 2008.





Research, Development and
Innovation

Intensive development work continued in 2007 across all product lines.

Several indicators demonstrate the extent of the commitment:

- the rise in the number of patents registered, from 17 in 2005 to 26 in 2007;
- the total number of hours devoted to research and development has increased from 106,000 in 2005 to more than 175,000 in 2007. This figure is reflected in the number of human resources who work in R&D, which rose from 2.6% of the total Ansaldo Energia workforce in 2005 to 3.6% in 2007.
- research and development expenditure has risen from Euro 12.5 million in 2005 to Euro 18.3 million in 2007. This is also reflected in the increase of R&D as a percentage of revenue from 1.7% in 2005 to 1.9% in 2007.

Research and development work will increase in percentage terms at an even more sustained rate in the period 2008-2010, when Ansaldo Energia will be able to offer products that provide an even better response to market demand, particularly in the gas turbine, combined cycle plant and service segments.

These developments will be backed by a plan to increase the number of resources working on R&D, by increasing integration with subsidiary Ansaldo Ricerche S.p.A., by cooperation with excellent technology partners and by reorganising the development engineering office.

Gas turbines

In 2007 development projects got under way on the V94.3A and V94.2 turbines, which will allow Ansaldo Energia to maintain and improve its competitive position.

Completing projects begun in 2006 to develop combustion systems with very low emissions, work was begun and completed on improving the idling level and loading ramp in order to improve machine flexibility.

As a result of the programmes completed in 2007, in 2008 it will be possible to offer customers solutions which can deliver theoretical power levels even in unusual environmental conditions.

Projects to optimise fuel oil feeding/combustion were also completed in 2007.

Steam turbines

Following successful trials, the new 48" exhaust blading was introduced during the year.

In 2008 new performance improvement solutions will be applied to the entire range of steam turbines sold by Ansaldo Energia.

International research projects were launched in 2007 to study the behaviour of special materials, with a view to the development of turbines operating at temperatures in excess of 620° (ultrasupercritical).

Turbine generators

Work continues on the development of the new 400 MVA air-cooled model in the high output, high performance range of gas turbines.

The main lines of development in this area in 2007 were: new auxiliary systems for hydrogen-cooled turbine generators, new design systems, and hydrogen-cooled turbine generators rated in excess of 600 MVA.

Combined cycles

Flexibility, reliability, plant availability and safety have already been identified as key success factors on the market for plants.

Focusing on these goals, in 2007 development work got under way to allow plants to be started up rapidly and repeatedly, as well as to reduce idling speed and parking load. These improvements will be available in new plants (and as upgrades to existing plants to the extent this is possible) starting in the second quarter of 2008. Finally, in process control, a plant safety system has been perfected and further developments are expected in 2008.

Service work

R&D work in the service business area in 2007 was addressed to two main issues:

Original Equipment Manufacturer (OEM)

The main research and development programmes

focused on advanced remote diagnostics, non-destructive testing, the extension of the maintenance cycle for V94.3A gas turbines and life cycle extension for the main V94.2 gas turbine components.

During 2008 it will also be possible to offer retrofit packages for the installed fleet of Ansaldo Energia steam turbines.

Original Service Provider (OSP)

In line with the growing strategic importance of service activities on third party equipment, 2007

saw the launch of two major projects to extend the range of service capabilities to cover General Electric Fr9E and Fr9FA units.

These initiatives are joined by development programmes pursued by subsidiary Thomassen Turbine Systems, which has applied proprietary reverse engineered technology to the General Electric fleet for years now. The programmes are addressed to the development of burners, control systems and re-engineering the blading of Fr6 and Fr5 gas turbines.





Human resources

Your Company's growth prospects depend on the careful management and development of its human resources, who represent a strategic lever to introduce and consolidate change.

Initiatives in 2007 were therefore addressed to improving the professional mix of resources and increasing the level of technical and management skills.

In 2007, in addition to hiring highly qualified young recruits with the skills and education needed to perform the work assigned to them, attention was also focused on enhancing the value of existing personnel, with numerous job posting initiatives to fill critical roles, particularly in sales and project management.

The recruitment drive was also a response to the need to prepare for the replacement of expert resources who enjoyed the compensation bonus paid by the Government to delay retirement. The scheme came to an end in December 2007. One of the most important external recruitment tools was the "Alta Formazione" (higher training) project, with 19 young graduates hired on so-called "Alta Via" (higher training path) apprenticeship contracts, selected from more than 800 candidates with the necessary requisites, demonstrating once again strong interest in Ansaldo Energia S.p.A. on the job market. In the programme, work performed at the company, carried on in parallel with extensive classroom work and a final project, is recognised for the purposes of both professional and university Master's course qualification. This introduces integration between the various training structures - company, sector experts, university - and between on-the-job and classroom training activities. The volume of new recruits represented by this project is in addition to the more standard recruitment level that has characterised the Company in recent years, amounting to more than 500 new operatives and office staff.

Early in 2007 an important initiative was launched to involve all human resources in an issue of crucial importance for your Company: Quality. Quality is a decisive factor to compete successfully and consolidate the image of Ansaldo Energia on

markets as a reliable, innovative company.

The "Quality to compete" initiative was addressed to all human resources, who were asked to propose "improvement projects" through their department managers that deliver concrete, measurable economic benefits (reduced cost and time, better performance).

Response to the project was extremely positive, with 48 of the ideas presented selected, subsequently developed into "improvement plans" by individual work groups and gradually applied to operations.

In 2007 there was also a significant consolidation of the organisation structure. The main projects were the splitting of the Risk management and Project management roles, the latter of which now reports directly to the General Manager, and of Legal affairs from Human Resources and Systems, reporting directly to the managing director.

At year end an External Relations structure was set up and Commercial Communication (split from the Resources and Systems Unit at the start of the year), finance scouting and institutional relations transferred to it.

Responsibilities in Sales (new units, service, Marketing and Business Development and Industrial competitiveness) were defined and assigned.

A review of company procedures and processes was set in motion to realign them in view of changes in organisation structure, regulations and consistency with Corporate Directives. The review will be completed during next year.

In 2007 Human Resources policy coordination activities were consolidated at both Italian and foreign subsidiaries.

Industrial relations

In 2007 the Metalworkers' National Labour Contract was renewed (the agreement was signed on 29 January 2008) and trade union relations within the company were in part conditioned by this. In the second half of 2007 and in early 2008 the

Trade Unions called 36 hours of strikes in support of their claims, using forms of protest not seen for some time, such as the occupation of company reception areas and the disruption of local traffic, demonstrating the increasing malaise of blue collar workers in particular.

In 2007 more than 28,000 hours were lost as a result of strikes.

A series of critical issues had to be overcome as a result of this, but it should be emphasised that the atmosphere at the company has not been significantly affected.

In fact, in the second half of 2007, discussions were entered into with the trade unions regarding the actions to take to increase production and productivity to the levels required to meet the company's objectives.

At the end of 2007 an agreement was also stipulated to align the human resources policies of subsidiary Ansaldo Ricerche S.p.A. with those of Ansaldo Energia, representing an important step forward towards the integration of the Company acquired in 2006.

Another event which demonstrated the positive atmosphere in the company was the second "Get to know our Company" initiative held on 15 September, when a factory open day was organised for employees and their families. More than three thousand people visited the Genoa Campi works to have a look at the workshops and spend an evening getting to know each other better and talking about future projects.

Health and safety in the workplace

For some time now Ansaldo Energia S.p.A. has been devoting special attention to protecting the environment and health and safety in the workplace.

In 2007 this commitment continued, with training initiatives launched both for blue collar workers and workshop/work site managers, in addition to the planning of organisational and technical improvements, preceded by safety status check-ups on workshop production lines.

All initiatives were introduced in liaison with the trade unions, who monitored the situation using

their own internal resources.

In 2007, ISO 14001 certification of "Environmental Management System" compliance with international standards was confirmed, while the Provincial Fire Service issued the workshop system with the "Fire Prevention Certificate" of compliance with requirements.

Special attention was focused on the introduction of the new requirements established by Law 123, which entered force in August 2007.

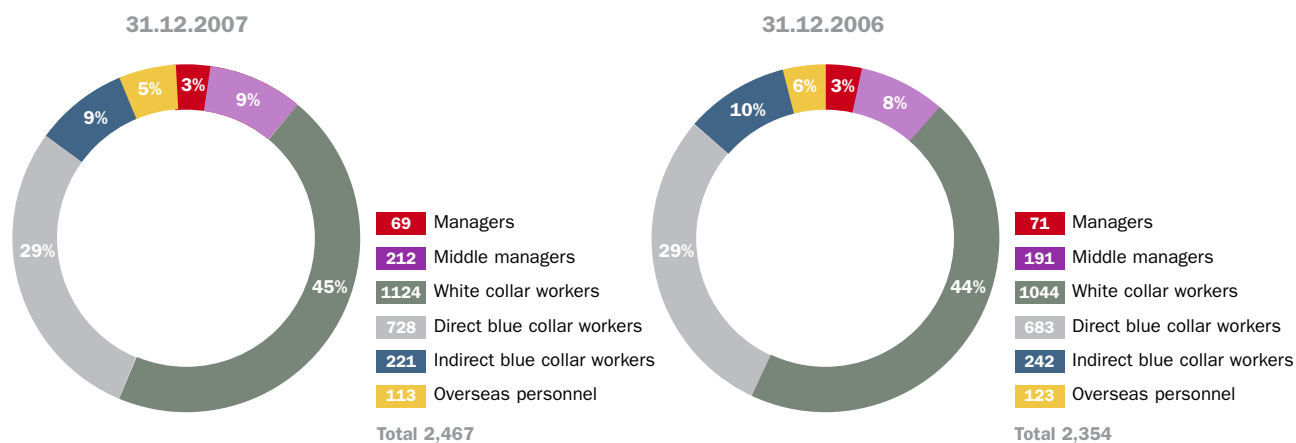
For this purpose documentation for contractors was revised (and presented to them at a special meeting), while activities also got under way to supplement the "organisation model" pursuant to law 231/2001 with issues regarding health and safety in the workplace.

At the start of 2007 an initiative involving all company departments was launched to improve safety levels. In fact, in consideration of the complexity of the company's activities and the number of parties operating in both a formal and informal capacity in the safety area, it was decided to convene these operators to periodic meetings to share information, examine the problems raised together and identify preventive and corrective action from various different standpoints.

Seven meetings were held during the year, one of which devoted to examining the new legislation introduced at the end of August. Starting in the second half of 2007, periodical meetings have also been attended by the health and safety operators at subsidiary companies, in order to encourage the diffusion of a shared safety culture.

Personnel

The number of personnel increased 113 to 2,467 at the end of 2007.



New recruits and outgoing employees are given below:

Outgoing employees	
terminations of open-ended contracts	107
terminations of fixed term contracts:	
• "induction" contracts	1
• Italian law 398 (foreign contract workers), foreign fixed term contracts	46
New recruits	
new open-ended contracts	118
new fixed term contracts:	
• "induction" contracts	16
• "professional apprenticeship" contracts	55
• Italian law 398 (foreign contract workers), foreign fixed term contracts	48
transfers from Group Companies	30

There were a total of 189 new open-ended, induction and professional apprenticeship contracts in 2007, of which 103 middle

managers/white collars and 86 blue collar workers.

55 white collar resources, of whom 19 new graduates, were hired under the terms of special "higher training" professional apprenticeship contracts.

Consolidating generational renewal, in 2007 more than 50% of resources hired were under 30 years old.

At the same time the level of education increased, with 85% of white collar staff holding degrees and 55% of blue collar workers holding diplomas.

Development, training, internal communication

In this area "Development Center" activities addressed to white collar workers under 45 years old in top level positions were consolidated. New workshops on the development of abilities observed using innovative methodologies were also initiated.

Development-oriented diagnostic tools were also activated for two groups of line managers in key positions, adopting an approach that is consistent

with the existing Developmental Assessment Center (DAC).

Manager incentive systems involved a much broader use of MBO (Management By Objectives) tools than in the past. In 2007 the system was extended to almost the entire corporate population and, for the first time, it was also applied to several line managers in important organisational positions, in order to involve the management team more completely in the pursuit of company objectives.

From the standpoint of internal communication, there was a consolidation of the practise of top management organising meetings with all managers and line managers to share information about strategy, budget and results achieved.

On the subject of training, courses for young blue collar workers continued (attended by 121 resources during the year).

Following on from training programmes addressed to collaborator management, a new initiative was launched for workshop resources identified as

future department managers, in order to support their preparation for this role.

To spread the company's business culture, multiple training sessions were organised for a hundred or so resources who are not professional administrators, in the framework of a programme developed on a joint basis with the Group Parent. On the subject of induction training for young recruits, in 2007 a course for "Mechanical Assembly Workers" qualified 20 young people, most of them hired to perform workshop or work site activities.

As mentioned above, there was a special focus on safety at work courses. Specifically, during 2007 there was a training course for workshop department heads, while courses for work site personnel continued.

During the year 67,068 man-hours of training were provided.

56.6% of activities received grants from the European Social Fund or Fondoimpresa.





Security Policy Statement

Pursuant to Section 26 of the Technical Regulations on minimum data security measures, in 2007 the Security Policy Statement on the handling of personal information was revised and supplemented with respect to the 2004 edition. The Security Policy Statement contains the information referred to in Section 19 of the Technical Regulations and describes the security

measures adopted by the Company to minimise the risk of even the accidental destruction or loss of personal data, unauthorised access, unauthorised handling of information or use for any purpose other than that for which it was gathered. The Company Data Controller (Mr. Zampini) appointed the various Function managers based on the current organisation structure.



Performance and highlights of
the main Group Companies

ANSALDO NUCLEARE S.p.A.

Ansaldo Nucleare S.p.A., which became an independent company as opposed to a division of Ansaldo Energia in late 2005, performs and supplies projects and services to the nuclear power electricity generation and related industries. The main operations in recent years have been for the Cernavoda (Romania) contract, which has now been completed. Future initiatives will focus on the Chinese market and consolidating the company's position in Eastern European countries.

Company highlights:

- Result for the year: Euro 1.4 million
- Production revenues: Euro 28 million
- Shareholders' equity: Euro 2 million
- Net financial position: Euro +8 million
- Workforce: 160 employees.

ANSALDO RICERCHE S.p.A.

Ansaldo Ricerche S.p.A. has a mission in Italy and internationally to research, experiment, promote, produce, market and sell innovative products and services for thermal and electric power production and distribution plants and machinery, for energy saving and environmental protection, and in connection industrial plants, research and capital assets of any nature.

After its acquisition in August 2006 by Ansaldo Energia, a reorganisation and review process was set in motion to shift the focus to activities that support the technological development of the holding company, and to wind up those no longer held to be "core" or which were unable to guarantee adequate profitability in the future. In view of the new strategic mission, in 2007 the company's resources and projects were strongly refocused on Ansaldo Energia.

Company highlights:

- Result for the year: Euro -4 million
- Production revenues: Euro 7.2 million
- Shareholders' equity: Euro 1.9 million

- Net financial position: Euro -9.4 million
- Workforce: 85 employees.

SAGEM ITALIA S.r.l.

The Company has a mission to operate and maintain waste treatment and disposal plants, co-generation and district heating plants, and renewable source power plants, mainly to support the operations of Ansaldo Energia S.p.A.

In recent years Sagem Italia has been working on several projects to diversify its business activities. These include:

- the management and maintenance of the Holding Company's production site in Genoa Campi, regulated by a Facility Management contract;
- the Elettrogrozzia power station contract, which represents a milestone for the Company as it covers not only the maintenance, but also the operation of the plant, with results that make it extremely probable that the contract will be renewed for two more years, enabling the experience gained in this field to be capitalised on.

Company highlights:

- Result for the year: Euro 0.3 million
- Production revenues: Euro 9.2 million
- Shareholders' equity: Euro 0.6 million
- Net financial position: Euro +1.7 million
- Workforce: 63 employees.

ASIA POWER PROJECTS PRIVATE LTD

Asia Power Projects Private Ltd., with headquarters in Madras in India, manages the on-shore portion of contracts acquired by Ansaldo Energia in this region, as well as performing service and spare parts work as a local unit.

The Company is working on several contracts for plants which are nearing completion, including the lignite fired Neyveli power station built by Ansaldo

Energia, which was the company's main order. The Company is also working on a long term operation & maintenance project for the Samalkot power station, and has provided support for an Ansaldo Energia service project at the Paguthan power station.

Company highlights:

- Result for the year: basically break even
- Production revenues: Euro 1 million
- Shareholders' equity: Euro 11 million
- Net financial position: Euro -8.7 million
- Workforce: 16 employees.

ENERGY SERVICE GROUP AG

The Company specialises in on-site service work on steam turbines and generators, which it performs by sending highly qualified professionals and/or portable equipment to power generation plants.

The Company has headquarters in Switzerland, in Wurenlingen (Aarau canton), where engineering and administrative staff are based. Technical personnel are usually hired on a contract basis as needed.

2007 was a year of renewal in terms of personnel, administrative technologies and, primarily, corporate strategy to enable the Company to provide its customers with a "total service" offering for power stations.

Company highlights:

- Result for the year: Euro 0.3 million
- Production revenues: Euro 5.9 million
- Shareholders' equity: Euro 1.6 million
- Net financial position: Euro + 1 million
- Workforce: 14 employees.

THOMASSEN TURBINE SYSTEMS BV

The Company, which was acquired by Ansaldo Energia in September 2006 from the American Calpine European Finance LLC, specialises in servicing General Electric heavy duty gas turbines,

for which it supplies parts, repairs, maintenance and upgrades.

The acquisition of TTS is part of the development process undertaken by Ansaldo Energia to achieve full technological independence in the construction of power generation machinery, as well as to significantly strengthen its service area technology skills.

For Ansaldo Energia this opens up the possibility of major commercial synergies in Italy and internationally, contributing to raise the company's international visibility and value. TTS has its headquarters in The Netherlands in Rheden, where it also has a workshop, but operates worldwide through a network of commercial offices.

Company highlights:

- Result for the year: Euro -2 million
- Production revenues: Euro 30.6 million
- Shareholders' equity: Euro 5.5 million
- Net financial position: Euro -9.5 million
- Workforce: 140 employees.

THOMASSEN SERVICE GULF LLC

This company, wholly owned by Tomassen Turbine Systems B.V., specialises in service work on General Electric technology heavy duty gas turbines, for which the company supplies, parts, repairs and maintenance.

TSG has a workshop in Abu Dhabi with 27 employees.

Given the strategic position of the site, which is located in an excellent market, the company has good development prospects.

Ansaldo Energia is planning to invest to develop the company, also in connection with the Group's traditional service activities.

Company highlights:

- Result for the year: Euro 0.3 million
- Production revenues: Euro 4.6 million
- Shareholders' equity: Euro 0.8 million
- Net financial position: Euro + 0.3 million
- Workforce: 27 employees.





Registered offices
of the Company

Genoa	Via N. Lorenzi, 8 Registered office and factory
Milan	Via P. Lomazzo, 60 Secondary registered office
Rome	Via G. Carducci, 10 Local office

So far as concerns its foreign business, Ansaldo Energia S.p.A. operates through work sites and branch offices on activities linked to orders, and through commercial offices in the areas of greatest interest.

in addition to sites opened for specific work on orders.



Outlook

The results reported in 2007 are not isolated, but the natural consequence of a growth path that your Company embarked on several years ago and which it is reasonable to presume will continue and be consolidated in 2008.

The reasons for believing that this growth is lasting and sustainable are:

- an order book at 31 December 2007 worth about Euro 3,086 million, which provides a definite and certain horizon for the next two years;
- a solid financial position and the availability of resources for future investments;
- numerous commercial initiatives at advanced stages, concluding at year end with the stipulation of agreements with some leading customers for the joint pursuit of several interesting initiatives; in several cases earnest money has also been received;
- technology renewal programmes under way, to innovate your Company's products and keep them in line with market demand;
- investments addressed to increasing production capacity and recovering efficiency, making it possible to deliver volume and profitability growth.

Despite these excellent premises, the challenges facing the Company in 2008 require a strong commitment across the board. Specifically, we will need to carry on pursuing growth in the service sector, which continues to be the most profitable and least risky of the Company's activities, to manage carefully the main plant orders to minimise risks and to monitor cost factors constantly with a view to optimisation.

Based on these premises, 2008 will be a year of significant production volume growth, with a positive effect on the overall profitability of your Company and its ability to generate positive cash flows, net of planned investments.



Report of the Board of
Directors and proposals to
the shareholders' meeting

Shareholders,

the 2007 Financial Statements submitted for your approval closed reporting net profit of Euro 50,458,468.00, which we propose be allocated as follows:

- Euro 45,000,000.00 as dividend to the sole Shareholder
- and the remaining amount of Euro 5,458,468.00 to carry forward.

We advise you that the Financial Statements for the year ended 31 December 2007 were audited by Deloitte & Touche, appointed at the Ordinary Shareholders' Meeting of 24 March 2006. We also remind you that with this General Meeting

the three-year mandate of the Board of Statutory Auditors expires.

Therefore, as indicated in the agenda contained in the notice of General Meeting, you are invited to:

- vote on the approval of the Financial Statements at 31 December 2007, after taking note of the Board of Statutory Auditors' Report;
- appoint the Board of Statutory Auditors for the three-year period 2008-2010 and designate the Chairman.

For THE BOARD OF DIRECTORS
THE PRESIDENT
Prof. Giuseppe Veredice



Accounting statements
and notes to the report at
31 December 2007

Profit and Loss

Euro

	Notes	2007	2006
Revenues	27	979,001,601	910,852,963
Revenues from related parties	26		2,340,178
Other operating income	28	19,847,282	29,811,768
Other operating revenues from related parties	26	49,877	169,562
Costs for goods	29	440,596,521	478,814,842
Costs for services	29	230,074,957	184,619,962
Costs to related parties	26	45,556,750	50,253,666
Personnel costs	30	138,784,906	123,871,886
Amortisation, depreciation and impairment	32	15,650,625	14,115,825
Other operating costs	28	24,083,535	13,573,583
Changes in inventories of work in progress, semi-finished and finished goods	31	(7,869,726)	(16,760,529)
(-) Capitalisation of internal construction costs	33	90,838	152,431
EBIT		96,372,578	61,316,609
Financial income	34	3,768,737	3,670,391
Financial income from related parties	26	13,030,374	9,186,576
Financial charges	34	8,198,545	2,926,361
Financial charges from related parties	26	664,497	669,730
Profit before taxes and the effect of discontinued operations		104,308,647	70,577,485
Income tax expense	35	53,850,179	37,041,347
Net profit		50,458,468	33,536,138

Balance Sheet

Euro

	<i>Notes</i>	31.12.2007	31.12.2006
Non-current assets			
Intangible assets	7	180,000	270,000
Property, plant and equipment	8	106,389,593	102,461,246
Equity investments	9	19,135,389	22,991,175
Receivables	11	1,865,625	3,477,703
Deferred tax assets	35	4,690,851	25,175,937
		132,261,458	154,376,061
Current Assets			
Inventories	12	146,349,352	133,753,156
Due from customers from contract work	13	48,858,611	56,809,021
Current receivables from related parties	10	517,085,498	333,470,341
Trade receivables	14	332,533,393	356,238,163
Tax receivables	15	17,808,810	20,358,243
Financial receivables	14	1,836,000	1,134,734
Total derivatives	24	199,868	2,044,983
Other assets	16	41,453,359	34,458,864
Cash and cash equivalents	17	22,991,265	10,693,747
		1,129,116,156	948,961,252
Total assets		1,261,377,614	1,103,337,313

Balance Sheet

Euro

	Note	31.12.2007	31.12.2006
Shareholders' equity			
Share capital		11,966,812	11,966,812
Other reserves		62,634,375	36,383,829
Total shareholders' equity	18	74,601,187	48,350,641
Non-current liabilities			
Borrowings	19	2,110,574	3,937,001
Severance pay and other employee liabilities	21	39,220,751	44,704,564
Provisions for risks and charges	20	80,594,203	66,644,819
Deferred tax liabilities	35	1,251,254	1,552,744
Other liabilities	22	2,393,972	2,480,592
		125,570,754	119,319,720
Current liabilities			
Due to customers for contract work	13	566,534,804	443,950,006
Current payables to related parties	10	59,624,581	30,801,901
Trade payables	23	308,517,827	321,224,166
Borrowings	19	2,126,819	1,982,762
Tax payables	15	5,638,174	42,555,178
Provisions for risks and charges	20	55,754,529	51,610,427
Totale derivati	24	764,197	
Other liabilities	22	62,244,742	43,542,512
		1,061,205,673	935,666,952
Total liabilities		1,186,776,427	1,054,986,672
Total liabilities and shareholders' equity		1,261,377,614	1,103,337,313

Cash Flow

Euro/thousand

	Note	2007	2006
Cash flow from operating activities:			
Gross cash flow from operating activities	36	127,497	90,770
Change in working capital	36	125,405	50,731
Changes in other operating assets and liabilities	36	3,609	8,606
Financial charges paid		12,573	2,089
Income taxes paid		(50,582)	(10,979)
Cash flow generated by (used in) operations		218,502	141,217
Cash flow from investing activities:			
Acquisitions of companies, net of cash acquired	9	(1,556)	(19,451)
Investments in property, plant and equipment and intangible assets		(17,626)	(14,095)
Disposals of property, plant and equipment and intangible assets		174	1,167
Dividends received		1,600	
Other investing activities		84	(10,487)
Cash flow generated by (used in) investing activities		(17,324)	(42,866)
Cash flow from financing activities:			
Repayment of bonds issued		(1,437)	(1,744)
Net change in other financial payables	19	(163,271)	(79,429)
Dividends paid		(24,173)	(16,668)
Cash flow used in investing activities		(188,881)	(97,841)
Net decrease in cash and cash equivalents		12,297	510
Cash and cash equivalents at 1 January		10,694	10,184
Cash and cash equivalents at 31 December		22,991	10,694

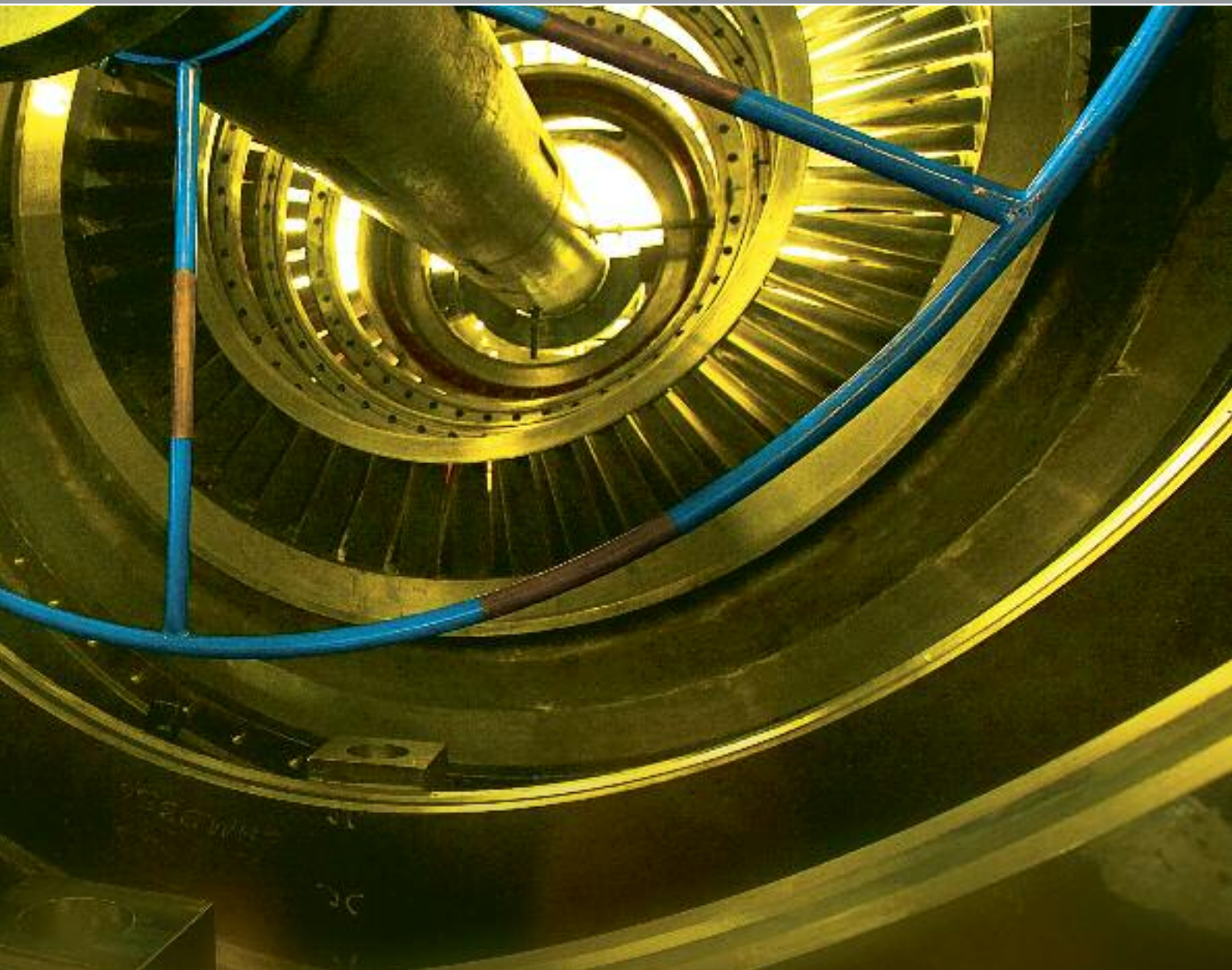
Statement of Recognised Income and Expenses (SORIE)

Euro/thousand

	31.12.2007	31.12.2006
Reserves for income (charges) recognised in equity		
- Actuarial gains (losses) on defined benefit plans	297,371	(5,773,000)
- Cash flow hedge changes	758,743	(356,156)
Tax effect of charges (income) recognised in Shareholders Equity	137,213	1,076,000
Income (charges) recognised in Shareholders Equity	1,193,327	(5,053,156)
Result for the year	50,458,468	33,536,138
Total income and charges for the year	51,651,795	28,482,982



Notes to the financial
statements at
31 December 2007



1. General information

Ansaldo Energia S.p.A. is a Finmeccanica Group company with headquarters in Genoa. Pursuant to section 27, sub-section 3 of Legislative Decree 127, 1991, the Company, being a sub-group, does not prepare Consolidated Financial Statements, which are prepared by the Controlling Company Finmeccanica S.p.A. The mission of the Company is to perform, in Italy and internationally, industrial, commercial, design, supply, erection, start up and service activities in the power generation plant and component sector, as well as in similar sectors, in addition to performing all works connected with the aforementioned activities. Advanced technology, high professional standards, extensive production capacity and competitive projects and products have been constant features of the company from the outset and will drive it forward into the future.

2. Basis of preparation and accounting standards used

The 2007 financial statements have been prepared in accordance with the international accounting standards (IAS/IFRSs) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standard Board (IASB). The IFRSs used to prepare the financial statements have been supplemented by the interpretations of the IFRIC in being at the time of preparation of the financial statements. Specifically, the standards used are those that have been endorsed by the European Union and which are contained in the following EU regulations: nos. 1725/2003, 707/2004, 2236/2004, 2237/2004, 2238/2004, 2086/2004, 211/2005, 1751/2005, 1864/2005, 1910/2005, 2106/2005, 108/2006, 708/2006, 1329/2006, 610/2007 and 611/2007.

The general principle used in preparing these consolidated financial statements is the cost method, except for derivative instruments and some financial assets, which must or – exclusively in relation to financial assets – can be recognised at fair value under IAS 39.

All figures are shown in Euros unless otherwise indicated.

These financial statements prepared in accordance with IFRSs were audited by Deloitte & Touche S.p.A. Preparation of the accounts at 31 December 2006 required management to make certain estimates.

3. Accounting standards adopted

3.1 Segment information

The Company considers the organisation by industry to be 'primary', as company risks and benefits are influenced significantly by differences in the products and services provided, with the organisation by geographic area being 'secondary', as company risks and benefits are also significantly influenced by operating in different countries or different geographic areas.

3.2 Currency translation

3-2.1 Identification of the functional currency

This report is presented in Euros (EUR) which is the currency of Ansaldo Energia S.p.A.

Translation of transactions denominated in a foreign currency

Items expressed in a currency other than the functional currency, whether monetary (cash and cash equivalents, receivables or payables due in pre-set or measurable amounts, etc.) or non-monetary (advances to suppliers of goods and services, goodwill, intangible assets, etc.), are initially recognised at the exchange rate prevailing at the date on which the transaction takes place. Subsequently, the monetary items are translated into the functional currency based on the exchange rate at the reporting date, and any differences resulting from this conversion are recognised in the income statement. Non-monetary items continue to be carried at the exchange rate on the date of the transaction, except in situations where there is a persistent unfavourable

trend in the exchange rate concerned. If this is the case, exchange differences are recognised in the income statement.

3.3 Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate future economic benefits for the company. They are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any impairments of value.

Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset is recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

3.3.1 Development costs and recurring charges

Development costs are related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised over the entire period in which the future earnings are expected to be realised for the project itself, and in any case for no longer than 10 years.

“Non recurring costs” as defined by Finmeccanica Group are separately classified (see Note 4.1). Research costs, on the other hand, are expensed in the period in which they are incurred.

3.3.2 Industrial patent and intellectual property rights

Patents and intellectual property rights are carried at acquisition cost net of amortisation and accumulated impairment losses. Amortisation begins in the period in which the rights acquired are available for use and is calculated based on the shorter of the period of expected use and that of ownership of the rights.

3.3.3 Concessions, licences and trademarks

This category includes: concessions, i.e. government measures that grant private parties the right to exclusive use of public assets or to manage public services under regulated conditions; licences that grant the right to use patents or other intangible assets for a determinate or determinable period of time; trademarks that establish the origin of the products of a given company; and licences for the know-how or software owned by others. The costs, including the direct and indirect costs incurred to obtain such rights, can be capitalised after receiving title to the rights themselves and are amortised systematically over the shorter of the period of expected use and that of ownership of the rights.

3.4 Tangible assets

Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition.

Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public capital grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the period of actual use of the asset.

The estimated useful lives adopted by the Company for the various asset classes are as follows:

	Years
Land	indefinite useful life
Industrial buildings	33
Plant and equipment	20-5
Minor equipment	8-2.5
Furniture	8-5
Vehicles	5-4

In the event the asset to be depreciated is composed of distinct elements with useful lives that are significantly different from those of the other constituent parts, each individual part that makes up the asset is depreciated separately, in application of the component approach to depreciation.

The item also comprises equipment for specific projects (tooling), although they are depreciated, like the other "non recurring charges", according to the method of units produced vs. the total planned.

The gains and losses from the sale of assets or groups of assets are calculated by comparing the sales price with the related net book value.

3.5 Equity investments

The Company classifies its equity investments as follows:

- 'subsidiaries' in which the owner of the interest has the power to determine the financial and operating decisions and to receive the related benefits;
- 'associated companies' in which the owner of the interest exercises significant influence (which is assumed to exist when the owner can exercise at least 20% of the votes in the ordinary shareholders' meeting). This also includes companies subject to joint control (joint ventures);
- 'other companies' that do not fall under any of the categories above.

Subsidiaries (including those subject to joint control), associates and other companies, with the exception of those that are held for sale, are recognised at the cost of purchase or start-up. The cost value is maintained in subsequent financial statements except in the event of a loss of value, or any write-back, following a change in its economic use or capital transactions. Equity investments held for sale are carried at the lower of cost and fair value net of sales costs.

The Appendix to these notes provides a summary of investee companies. Figures for subsidiaries are taken from the relevant financial statements at 31 December 2007 approved by the Board of Directors; for associates and other companies, the carrying values of the equity investments were matched against the equities of the investee companies, as appearing in the latest available financial statements approved. Any value losses in excess of book value are recorded in the provision for risks on equity investments. Should the reasons for write-downs cease to obtain, the value of equity investments is restored up to the original cost.

3.6 Inventories

Inventories are recorded at the lower of cost and net realisable value. The Group used the weighted average cost method. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale. Any write-downs are eliminated in future periods if the reason for the write-down should cease to obtain.

The Company classifies inventories as follows:

- Raw materials, supplies and consumables
- Work in progress and semi-finished goods
- Advances.

Work in progress is recognised at production cost using the weighted average cost, excluding financial charges and general overheads.

3.7 Contract work in progress

Work in progress is recognised on the basis of progress (or percentage of completion), whereby costs, revenues and margins are recognised based on the progress of production. The state of completion is determined on the basis of the ratio between costs incurred at the measurement date and the total expected costs for the programme.

The valuation reflects the best estimate of the schedules prepared at the reporting date. The assumptions upon which the valuations are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable.

Contract work in progress is recorded net of any write-downs, as well as pre-payments and advances related to the contract being performed.

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under 'due to customers for contract work'. If it has not been collected at the date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a direct contra-item in trade receivables.

Contracts with payments in a currency other than the functional currency (the Euro for the Company) are measured by converting the portion of payments due, calculated using the percentage-of-completion method, at the exchange rate prevailing at the close of the period in question. However, the Company's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically. In such cases, the recognition methods described in paragraph 3.1 are applied.

3.8 Receivables and financial assets

The Company classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity financial assets;
- available-for-sale financial assets.

Management classifies assets at the time they are first recognised.

3.8.1 Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If the reasons for the write-down should cease to obtain, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

These assets are classified as current assets, with the exception of portions expiring beyond 12 months, which are classified under non current assets.

3.8.2 Financial assets held to maturity

These are non-derivative assets with fixed maturities that the Company has the intention and ability to hold to maturity. Those maturing within 12 months are carried as current assets. Should objective evidence of impairment emerge, the cumulative loss – measured as the difference between the acquisition cost and the

current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

3.9 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit and loss, unless they are deemed eligible for hedge accounting and effective in offsetting the risk in respect of underlying assets, liabilities or commitments undertaken by the Company.

In particular, the Company uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash flow hedges). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see Note 3.1.

The effectiveness of hedges is documented both at the start of the operation and periodically thereafter (at least every time an annual or interim report is published) and measured by comparing changes in the fair value of the hedging instrument against changes in the hedged item ('dollar offset ratio'). For more complex instruments, the measurement involves statistical analysis based on the variation of the risk.

3.9.1 Fair Value Hedge

Changes in the value of derivatives that have been designated and qualify as fair value hedges are recognised in profit or loss, similarly to the treatment of changes in the fair value of the hedged assets or liabilities that are attributable to the risk that has been offset with the hedge.

3.9.2 Cash Flow Hedge

Changes in the fair value of derivatives that have been designated and qualify as cash flow hedges are recognised – with reference to the 'effective' component of the hedge only – in a specific equity reserve ('cash flow hedge reserve'), which is subsequently recognised in profit or loss when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in profit or loss for the period. If the derivative is sold, or ceases to function as an effective hedge against the risk for which it was originated, or the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the cash flow hedge reserve is immediately recognised in the income statement.

3.9.3 Determining fair value

The fair value of instruments quoted on public markets is determined with reference to the bid price for the instrument in question at the reference date.

The fair value of unquoted instruments is determined with financial valuation techniques. Specifically, the fair value of interest rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the rate differentials among the currencies involved.

3.10 Cash and cash equivalents

The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents, as well as investments maturing in less than three months from the date of acquisition. Cash and cash equivalents are recognised at their fair value.

3.11 Shareholders' equity

3.11.1 Share capital

Share capital consists of the capital subscribed and paid up by the Company.

Costs directly associated with the issue of shares are recognised as a decrease in share capital, less deferred taxes, if any, when they are directly attributable to capital operations.

3.11.2 Profits (losses) carried forward

These include net profits or losses for the period and for previous years that are not distributed or allocated to reserves (for profits) or covered (for losses). The item also includes transfers from other equity reserves when the restrictions on their release cease to apply, as well as the effects of changes in accounting policies and significant errors.

3.11.3 Other reserves

They include the fair value reserve relating to items accounted for using the fair value method recognised in equity, the cash flow hedge reserve in respect of the effective portion of such hedges, and the stock option/grant reserve.

3.12 Payables and other liabilities

Payables and other liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest rate method (see Note 3.20). Payables and other liabilities are defined as current liabilities unless the Company has the contractual right to settle its debts at least 12 months after the reporting date.

3.13 Deferred tax assets

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are calculated by applying the tax rate in force at the time the temporary differences will be reversed. Deferred tax assets are recognised to the extent that it is probable the company will post taxable income at least equal to the temporary differences in the financial periods in which such assets will be reversed.

3.14 Employee benefits

3.14.1 Post-employment benefit plans

The Company uses several types of pension and supplementary benefit plans, which can be classified as follows:

- Defined contribution plans in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;
- Defined benefit plans in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method.

The company recognises the costs of defined benefit plans using the so-called 'equity method', which involves recognising actuarial losses and gains relating to all defined benefit plans directly in shareholders' equity in the year in which they occur.

So far as concerns the classification of costs relating to defined benefit plans, labour costs (current and previous), as well as costs relating to the recognition of curtailment (where applicable) are recognised in "Personnel costs". Vice versa, interest costs, net of the expected performance of assets serving the plan, are classified under "financial interest expense".

3.14.2 Other long-term benefits and post-employment benefit plans

The Company grants employees other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined benefit plans, using the projected unit credit method. However, the corridor approach cannot be used for 'other long-term benefits'. Consequently, net actuarial gains and losses are recognised both immediately and in full as they occur, including related social charges.

3.14.3 Equity compensation benefits

The Company uses stock option plans as part of its compensation of senior management. In these cases, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring the fair value of the assigned instrument using financial valuation techniques that take account of market conditions and, at the date of each annual or interim report, an updated estimate of the number of instruments expected to be distributed.

3.15 Provisions for risks and charges

Provisions for risks and charges cover certain or probable losses and charges whose timing or amount was uncertain at the reporting date.

The provision is recognised only when a current obligation (legal or constructive) exists as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation. The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

3.16 Leasing

3.16.1 Operating leasing

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract.

3.17 Revenue

Revenues generated by an operation are recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions.

Revenues also include changes in work in process, the accounting policies for which were described in Note 2.7 above.

Revenues generated from the sale of goods are recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined.

Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

3.18 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred.

Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense.

3.19 Costs

Costs are recorded in compliance with the inherence principle and the matching principle.

3.20 Financial income and expense

Interest is recognised on an accruals basis using the effective interest rate method, i.e. the interest rate that results in the financial equivalence of all inflows and outflows (including any premiums, discounts, commissions etc.) that make up a given operation.

Financial expense is never capitalised.

3.21 Dividends

Dividends are recognised as soon as shareholders obtain the right to receive payment, which is normally when the shareholders' meeting approves the distribution of dividends.

Dividends distributed to Ansaldo Energia S.p.A. shareholders are recognised as liabilities for the period in which their distribution is approved by the shareholders' meeting.

3.22 Related party transactions

Related party transactions are made at arm's length.

4. Significant non recurring events or transactions

4.1 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Company enters into specific hedges for the expected individual cash flows in respect of the contract. The hedges are entered into at the moment the commercial contracts are finalised. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying asset is valued as if it were exposed to exchange rate variations. The effects of this recognition policy are reported in Note 28. Hedges in the former case are carried as cash flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

4.2 Provisions for risks and estimates of final costs of long-term contracts

The Company operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases, as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Company has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements and in the interim reports represent management's best estimate at the reporting date using said procedures.

In addition, the Company's operations regard sectors and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity, making it necessary for management to estimate the outcome of such disputes. The main potential loss situations classified as 'probable' or 'possible' (no provision is recognised for the latter) are reported in Note 20.

5. Effects of changes in the accounting standards

5.1 Use of the equity method to recognise defined benefit plans

Until the closure of the accounts at 31 December 2006, the Company recognised actuarial gains and losses using the corridor approach. As of 1 January 2006, the revised version of IAS 19 permits the recognition of these actuarial items directly and in their entirety in shareholders' equity, net of the relative deferred tax effect (so-called "equity option"). As a result, actuarial gains and losses are no longer reflected in the income statement of future years. This approach seems to better satisfy the need to state the real value of the liability than the corridor approach, at the same time as protecting the income statement from recognising variations in high volatile actuarial items.

The Company has therefore adopted the "equity option" as of these financial statements. The comparative periods presented according to the retrospective method requirements of IAS 8 have been revised to take account of the new standard. The application of the new standard has also made it necessary to include the "Statement of recognised income and expenses" (SORIE) among the Appendices. Finally, while reviewing the overall treatment of defined benefit plans, the Company changed the classification criteria for the individual cost items in the income statement, including those close to the date of liquidation of the liability under financial charges and no longer under personnel costs.

The effects of this change on the comparative situation are given below:

BALANCE SHEET			
Euro	2006	Effect of changes	2006 "Restated"
Non current assets			
Intangible assets	270,000		270,000
Property, plant and equipment	102,461,246		102,461,246
Equity investments	22,991,175		22,991,175
Receivables	3,477,703		3,477,703
Deferred tax assets	23,248,937	1,927,000	25,175,937
	152,449,061	1,927,000	154,376,061
Current assets			
Inventories	133,753,156		133,753,156
Due from customers for contract work	56,809,021		56,809,021
Current receivables to related parties	333,470,341		333,470,341
Trade receivables	356,238,163		356,238,163
Tax receivables	20,358,243		20,358,243
Financial receivables	1,134,734		1,134,734
Total derivatives	2,044,983		2,044,983
Other assets	34,458,864		34,458,864
Cash and cash equivalents	10,693,747		10,693,747
	948,961,252		948,961,252
Total assets	1,101,410,313	1,927,000	1,103,337,313
Shareholders' equity			
Share capital	11,966,812		11,966,812
Reserves	40,229,829	(3,846,000)	36,383,829
Total shareholders' equity	52,196,641	(3,846,000)	48,350,641
Non current liabilities			
Borrowing	3,937,001		3,937,001
Severance pay and other employee liabilities	38,931,564	5,773,000	44,704,564
Provisions for risks and charges	66,644,819		66,644,819
Deferred tax assets	1,552,744		1,552,744
Other liabilities	2,480,592		2,480,592
	113,546,720	5,773,000	119,319,720
Current assets			
Due to customers for contract work	443,950,006		443,950,006
Current liabilities to related parties	30,801,901		30,801,901
Trade payables	321,224,166		321,224,166
Borrowings	1,982,762		1,982,762
Tax payables	42,555,178		42,555,178
Provisions for risks and charges	51,610,427		51,610,427
Other liabilities	43,542,512		43,542,512
	935,666,952		935,666,952
Total liabilities	1,049,213,672	5,773,000	1,054,986,672
Total liabilities and shareholders' equity	1,101,410,313	1,927,000	1,103,337,313

Income statement Euro	2006	Effect of changes	2006 "Restated"
Revenue	910,852,963		910,852,963
Revenue from related parties	2,340,178		2,340,178
Changes in inventories of work in progress, semi-finished and finished goods	(16,760,529)		(16,760,529)
Other operating revenue	29,811,768		29,811,768
Other operating revenue from related parties	169,562		169,562
Costs for purchases	478,814,842		478,814,842
Costs for services	184,619,962		184,619,962
Costs to related parties	50,253,666		50,253,666
Personnel costs	125,278,886	(1,407,000)	123,871,886
Depreciation, amortisation and impairment	14,115,825		14,115,825
Other operating costs	13,573,583		13,573,583
(-) Capitalisation of internal construction costs	152,431		152,431
EBIT	59,909,609	1,407,000	61,316,609
Financial income	3,670,391		3,670,391
Financial income from related parties	9,186,576		9,186,576
Financial expense	1,583,361	1,343,000	2,926,361
Financial expense to related parties	669,730		669,730
Profit (loss) before taxes and the effect of discontinued operations	70,513,485	64,000	70,577,485
Income taxes	37,041,347		37,041,347
Net profit	33,472,138	64,000	33,536,138

5.2 Effects of TFR (severance pay reserve) (2007 Budget and implementation decrees)

Until 31 December 2006 the severance pay reserve (TFR) was recognised as a defined benefit plan. Law no. 296, 27 December 2006 ("2007 Budget"), and the subsequent Decrees and Regulations issued during 2007, introduced significant amendments in the framework of the reform of the pension system with regard to maturing portions of the severance pay reserve.

Specifically, new severance pay flows can be directed by employees to complementary pension plans or kept in companies (for companies with less than 50 employees), or transferred to INPS (for companies with more than 50 employees). Based on these rules, the Company, adopting the generally accepted interpretation, has decided that:

- for severance pay maturing until 31 December 2006, the reserve constitutes a defined benefit plan, to assess according to actuarial rules, but without including the portion regarding future salary increases in the calculation. The difference between the new and old calculations has been treated as a curtailment in accordance with the definitions of section 109 of IAS19 and, therefore, stated in the income statement under actuarial gains and losses;
- subsequent severance pay instalments, whether employees opt for complementary pensions or INPS, are treated as defined benefit plans and therefore actuarial estimates are excluded from the calculation of the cost.

The effects of this curtailment are reported in Note 21.

6. Segment information

The Company operates exclusively in the energy sector.

Company revenue can be broken down geographically as follows (based on the customer's home country):

Euro/thousand	31.12.2007	31.12.2006
Italy	720,486	719,607
EU	19,358	23,500
Rest of Europe	4,251	998
Africa	84,793	13,742
North America	3,659	4,871
South America	5,585	5,175
Middle East	43,528	107,519
Asia	97,324	37,775
Other	17	6
	979,001	913,193

Assets are geographically distributed as follows:

Euro/thousand	31.12.2007	31.12.2006
Europe	777,254	693,903
North America	5,029	3,502
Other	135,193	77,027
	917,476	774,432

Capital expenditure is distributed as follows:

Euro/thousand	31.12.2007	31.12.2006
Europe	17,626	14,095
North America		
Other		
	17,626	14,095

7. Intangible assets

Euro/thousand	Goodwill	Development costs and similar	Patents and similar rights	Concessions, licenses and trademarks	Other	Total
1° January 2006						
Cost				450		450
Carrying amount				450		450
Amortisation				180		
31 December 2006 broken down as follows:						
Cost				450		450
Depreciation and impairment				180		180
Carrying amount				270		270
Amortisation				90		90
31 December 2007 broken down as follows:						
Cost				180		180
Depreciation and impairment				270		270
Carrying amount				180		180

Intangible assets amounting to Euro 180 thousand refer to licence rights, acquired from Siemens in 2004, for the most advanced version of the V94 3A gas turbine. The amortisation of Euro 90 thousand is based on an assessment of the assets' ability to produce revenue.

8. Property, plant and equipment

Euro/thousand	Land and buildings	Plant and machinery	Equipment	Other	Capitalisation of plant under construction and advances	Total
1° January 2006						
Cost	67,635	155,047	25,424	14,475	6,977	269,558
Revaluations	15,708	840				16,548
Depreciation and impairment	34,470	113,399	23,006	13,169		184,044
Carrying amount	48,873	42,488	2,418	1,306	6,977	102,062
Investments	356	7,258	2,255	453	3,773	14,095
Sales	10	98	8	2	1,050	1,168
Amortisation	2,391	8,135	1,491	510		12,527
Carrying amount	46,828	41,513	3,174	1,247	9,700	102,462
31 December 2006 broken down as follows:						
Cost	67,973	161,349	27,576	14,834	9,700	281,432
Revaluations	15,708	840				16,548
Depreciation and impairment	36,853	120,676	24,402	13,587		195,518
	46,828	41,513	3,174	1,247	9,700	102,462
Investments (**)	1,746	5,208	9,870	332	470	17,626
Sales		138				138
Amortisation	2,422	7,720	2,979	439		13,560
	46,152	38,863	10,065	1,140	10,170	106,390
31 December 2007 broken down as follows:						
Cost	69,719	165,244	37,334	15,096	10,170	297,563
Revaluations	15,708	840				16,548
Depreciation and impairment	39,275	127,221	27,269	13,956		207,721
Carrying amount	46,152	38,863	10,065	1,140	10,170	106,390

(**) which capitalisation of internal construction costs

Property, plant and equipment are stated net of accumulated depreciation.

Land and buildings refer to the industrial sites at Genoa-Campi (Euro 35,835 thousand), Legnano (Euro 10,176 thousand) and the Teheran property in which the Iranian branch has its headquarters (Euro 141 thousand).

The net increase of Euro 3,928 thousand compared to the previous year is determined by:

- purchases and capitalisation of new plant (Euro 17,156 thousand) relate to lathes, grinding machines and general machinery used in production, including the installation of a complete new plant to manufacture welded rotors for steam turbines;
- capitalisation of plant under construction (expected to enter service in 2008) totalling Euro 470 thousand;
- depreciation in the year of Euro 13,560 thousand, calculated based on the useful life of the assets at the following rates:

Industrial buildings	3-5%
Plant and machinery	5-20%
Minor equipment	12-5-40%
Furniture	12-20%
Vehicles	20-25%

- decreases of Euro 138 thousand deriving from disposals net of depreciation.

9. Equity investments

Euro/thousand	31.12.2007	31.12.2006
Opening balance	22,991	3,551
Acquisitions/subscriptions and capital increases	1,556	19,440
Revaluations/ impairment	(5,328)	
Sales	84	
Closing balance	19,135	22,991

The changes in the year relate mainly to subsidiary Ansaldo Ricerche S.p.A., with subscriptions amounting to Euro 1,556 thousand and write downs to reflect permanent losses of value occurring during the year amounting to Euro 5,360 thousand.

List of equity investments at 31.12.2007 (Euro/thousand)

Name	Ownership %	Carrying amount	Total assets	Total liabilities
Subsidiaries and associates				
Ansaldo Nucleare S.p.A.	100%	107	26,889	24,876
Ansaldo Ricerche S.p.A.	100%	1,861	18,255	16,394
Ansaldo Energy Inc.	100%	1	133,482	96,059
ESG Energy Service Group AG	100%	4,201	3,820	2,201
Thomassen Turbine Systems B.V.	100%	11,953	31,020	25,530
Sagem Italia Srl	100%	138	5,083	4.486
Dayalistri Pratama in liq.	45%	47	not applicable	
Polaris Srl	50%	50	212	112
Asia Power Projects Private LTD	100%	11,350	4,761	15,831
- Write-down provisions		(11,350)		
			223,522	185,489
Other participations and Consortia				
SIET S.p.A.	3.58%	107		
Euroimpresa Legnano	9.917%	155		
SIIT Distretto Tecnologico Ligure	2.30%	13		
Libian Italian Joint Co.	0.33%	9		
SOGEA	0.10%	9		
Consorzio SIRE	29.41%	13		
Consorzio CRIS	15.80%	380		
Consorzio CISA	6.6%	68		
Consorzio SET	0.01%	4		
Consorzio CORIBA	5%	3		
Cosorzio Quinn	8.33%	0		
Consorzio Chiara	50%	16		
Total equity investments (net of write-down provisions)		19,135		

The Appendices include a Statement for investee companies providing the information required by the Italian Civil Code.

10. Financial transactions with related parties

Commercial relations with related parties are carried out at arm's length, as is settlement of interest bearing receivables and payables when not governed by specific contractual conditions. Below are the amounts:

Receivables at 31.12.2007	Current financial receivables	Trade receivables	Other current receivables	Total
Euro				
Parent companies				
Finmeccanica S.p.A.	445,763,414	207,000	37,144,676	483,115,090
Subsidiaries				
Asia Power Projects LTD	9,700,580			9,700,580
Sagem Italia Srl		362,962		362,962
Thomassen Turbine Systems B.V.	10,676,717	450,816		11,127,533
Ansaldo Ricerche S.p.A.	9,564,276	124,248		9,688,524
E.S.G. Energy Service Group AG		420,704		420,704
Ansaldo Electric Drives S.p.A.	962,930	10,998		973,928
Ansaldo Nucleare S.p.A.		674,593		674,593
	30,904,503	2,044,321	0	32,948,824
Affiliated (*)				
Ansaldo Industria in liq.		103,103		103,103
HR Gest		1,615		1,615
Ansaldo Fuel Cells S.p.A.		429,999		429,999
Ansaldo STS		120,284		120,284
SO.GE.PA.			283,000	283,000
Elsag Datamat		6,517		6,517
Fata S.p.A.		77,066		77,066
	0	738,584	283,000	1,021,584
Total	476,667,917	2,989,905	37,427,676	517,085,498

Payables at 31.12.2007	Current financial payables	Trade payables	Other current payables	Total
Euro				
Parent companies				
Finmeccanica S.p.A.		842,000	37,153,003	37,995,003
Subsidiaries				
Ansaldo Nucleare S.p.A.	9,674,953	1,337		9,676,290
Ansaldo Ricerche S.p.A.		1,226,941		1,226,941
E.S.G. Energy Service Group AG	1,331,617	447,103		1,778,720
Sagem Italia Srl	1,724,101	2,266,350		3,990,451
Thomassen Turbine Systems B.V.		233,000		233,000
	12,730,671	4,174,731	0	16,905,402
Affiliated (*)				
Ansaldo STS		1,055		1,055
Elsag Datamat		117,118		117,118
Fata Logistic Systems		959,763		959,763
Fata SpA		3,537,376		3,537,376
Finmeccanica Group Services		24,086		24,086
HR Gest		84,778		84,778
		4,724,176		4,724,176
Total	12,730,671	9,740,907	37,153,003	59,624,581

Receivables at 31.12.2006	Current financial receivables	Trade receivables	Other current receivables	Total
Euro				
Parent companies				
Finmeccanica S.p.A.	297,637,300	145,300	9,532,478	307,315,078
Subsidiaries				
Asia Power Projects LTD	10,600,580			10,600,580
Sagem Italia S.r.l.		229,162		229,162
Thomassen Turbine Systems B.V.	4,935,532			4,935,532
Ansaldo Ricerche S.p.A.	6,287,038	113,655		6,400,693
ESG Energy Service Group AG		36,912		36,912
Ansaldo Electric Drives S.p.A.	839,728			839,728
Ansaldo Nucleare S.p.A.		1,531,652		1,531,652
	22,662,878	1,911,381	0	24,574,259
Affiliated (*)				
Ansaldo Industria in liq.		380,000		380,000
Elsag Gest		886		886
Ansaldo T & D		870,755		870,755
SO.GE.PA.			283,000	283,000
Elsag		7,174		7,174
Ansaldo Fuel Cells S.p.A.		39,189		39,189
		1,298,004	283,000	1,581,004
Total	320,300,178	3,354,685	9,815,478	333,470,341
Payables at 31.12.2006				
Euro	Current financial payables	Trade payables	Other current payables	Total
Parent companies				
Finmeccanica S.p.A.		1,199,169	96,487	1,295,656
Subsidiaries				
Sagem Italia S.r.l.	1,468,300	2,359,592		3,827,892
Ansaldo Ricerche S.p.A.		878,779		878,779
ESG Energy Service Group AG	300,243	1,209,520		1,509,763
Ansaldo Nucleare S.p.A.	17,510,709	39,331		17,550,040
	19,279,252	4,487,222	0	23,766,474
Affiliated (*)				
Elsag Gest		44,953		44,953
Fata Zust		464,000		464,000
Fata		1,621,030		1,621,030
Elsag		3,467,000		3,467,000
Ansaldo T & D		4,100		4,100
SELEX Sistemi integrati		2,000		2,000
	0	5,603,083	0	5,603,083
Consortia (**)				
CIC	136,688			136,688
Total	19,415,940	11,289,474	96,487	30,801,901

(*) companies subject to the control and coordination of Finmeccanica S.p.A.

(**) subsidiary, related, associated and jointly-controlled consortia

The various payables and receivables with the Parent Company include receivables deriving from advance taxation due to temporary differences of Euro 25,119 thousand and deferred tax payables of Euro 5,742 thousand transferred to the Finmeccanica tax consolidation scheme, in addition to taxation payable for the year of Euro 31,319 thousand. Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendices 3, 4, 5 and 6 to these Notes.

11. Receivables and other non-current assets

Euro/thousand	31.12.2007	31.12.2006
Receivables from SACE	507	1,702
Security deposits	332	305
Severance pay receivable	921	1,306
Other	105	164
Non current receivables	1,865	3,477
Other non current assets	4,691	25,175

The main changes in non-current assets relate to: the reclassification of the current portion of receivables from SACE, which were the subject of specific restructuring agreements; the drop in TFR receivable as a result of applications; and the recognition of deferred tax assets (IRAP, Euro 3,272 thousand) and taxation under shareholders' equity (Euro 1,419 thousand). Under non-current assets, following your Company's endorsement of the Finmeccanica tax consolidation scheme, there was a fall of Euro 23,249 thousand as a result of the reclassification of receivables from related parties. Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendices 3, 4, 5 and 6 to these Notes.

12. Inventories

Euro/thousand	31.12.2007	31.12.2006
Raw materials, supplies and consumables	79,699	59,641
Work in progress and semi-finished goods	35,334	43,204
Advances to suppliers	31,316	30,908
	146,349	133,753

Raw materials, supplies and consumables

These items are recorded net of provision for depreciation amounting to Euro 9,607 thousand. They are assessed at average weighted cost, which is certainly below the net realisation value.

The increase for the year amounted to Euro 20,058 thousand, mainly due to the rise in production volumes.

Work in progress and semi-finished products

Semi-finished products are assessed at production cost and refer to highly standardised parts that are associated to sales orders only when specific projects are identified. The decrease of Euro 7,870 thousand is due to the association with sales orders of semi-finished products produced during the previous period.

Advances to suppliers

This item, which mainly relates to contract work for plant orders, rose by Euro 408 thousand.

13. Contract work in progress and advances received

Euro/thousand	31.12.2007	31.12.2006
Due from customers for contract work (gross)	244,309	162,123
Advances from customers	195,450	105,314
Contract work in progress (net)	48,859	56,809
Advances from customers (gross)	3,557,424	3,685,894
Contract work in progress	2,990,889	3,241,944
Advances from customers (net)	566,535	443,950

New work in progress fell Euro 7,950 thousand compared with the previous year and basically refers to component sales orders. The decrease is mainly attributable to the Barka order (Oman), which last year included invoices relating to advances, while the components were delivered in 2007.

The main orders are given below (Euro/thousand):

Description of plant	Gross WIP at 31.12.2007	Advances at 31.12.2007	Net WIP at 31.12.2007
ALGECIRAS SPAGNA - N.2 TG+N.2 ALT.+AUX	34,080	(20,016)	14,064
AEM MONCALIERI - REPOWERING GR.2	49,501	(45,257)	4,244
SERVOLA-GAR.TOTALE DI FUNZIONAMENTO	40,165	(37,707)	2,458
MAPNA ITALIA - SET PALETTE IRAN	12,450	(10,025)	2,425
PUENTE NUEVO SPAGNA - RICAMBI TV+PREST.	3,785	(1,565)	2,220
AMERCOEUR BELGIO - FORNITURA TV DA 150MW	8,790	(6,633)	2,157
ENEL PROD.FUSINA - RICAMBI TURB.A VAPORE	9,244	(7,395)	1,849
ENEL PROD. C.LI VARIE - RICAMBI T/GAS	13,794	(11,947)	1,847
NUEVA VENTANAS CILE - 240MW	8,054	(6,449)	1,605
ENEL PROD.CTE TORREVALD.NORD-RICAMBI ALT	1,548	0	1,548

Net advances from customers rose Euro 122,585 thousand, basically due to the fact that most of the orders in progress are for plant engineering, where invoicing is not strictly correlated with production progress.

The main orders are given below (Euro/thousand):

Description of plant	Gross WIP at 31.12.2007	Advances at 31.12.2007	Net WIP at 31.12.2007	Receivables at 31.12.2007
TIRRENO POWER NAPOLI LEV. - C.C.	82,208	(138,703)	(56,495)	16,384
ENIPOWER-MANUT.+RIC. A DISP	79,693	(122,246)	(42,553)	16,562
S.E.F. - FERRARA - TG+TT+AT	117,022	(155,727)	(38,705)	27,314
RIZZICONI - C.C. 800 MW	222,521	(260,700)	(38,179)	7,920
ALGERIA M'SILA-C.A. TG 2X215 MW	20,611	(50,375)	(29,764)	15,504
CALENIA EN./SPARANISE-C.C. 800 MW	288,796	(312,726)	(23,930)	
ALGERIA LARBAA - 4TG + 4AT	29,037	(51,292)	(22,255)	20,211
LEINI' (TO) - C.C. MULTISHAFT 400 MW	142,131	(162,538)	(20,407)	835
IRAN FASE 3 - N.8 TG+N.8 AT	180,340	(198,488)	(18,148)	355
TIRRENO POWER - VADO LIGURE 1	179,361	(197,199)	(17,838)	217
PERVOMAISKAYA RUSSIA-4 TG+4 AT	467	(15,789)	(15,322)	
IRAN 3000 MW - N.6 TG+N.6 AT	83,732	(94,605)	(10,873)	1,365

For orders considered to be complete, costs still to incur after the end of work were assessed and a special reserve under risks and charges established.

Long-term orders, pursuant to IAS 11, are assessed using the cost to cost method, which involves establishing the percentage progress, as a ratio between costs incurred and the planned totals, and applying them to contract revenues to obtain the value to state under contract work in progress at the end of the period.

14. Trade and financial receivables

Euro/thousand	31.12.2007		31.12.2006	
	Trade	Financial	Trade	Financial
Receivables	354,821	1,836	376,542	1,135
(Impairment)	(22,288)		(20,304)	
	332,533	1,836	356,238	1,135

Receivables are stated at their fair value at 31 December 2007.

Receivables which are disputed, or if there is any doubt over their recovery with regard to legal disputes, judicial proceedings or insolvency, are recorded at their nominal value and written down in a special reserve for doubtful receivables to reflect the effects of the impairment test performed, as a result of which a further provision was made of Euro 2,000 thousand.

The receivables recorded are not represented by bills of exchange or similar securities.

The net fall of Euro 21,721 thousand is basically due to the gradual reduction of receivables from customer PPL for the Ballylumford contract (Euro 51,754 thousand), from ENEL for the Escatron contract (Euro 45,331 thousand), from Rizziconi Energia for Rizziconi power station and from Tirreno Power for Vado Ligure (Euro 24,000 thousand), offset by increases due basically to Algerian contracts (Euro 47,317 thousand), SEF Ferrara (Euro 22,878 thousand) and Amman East (Euro 20,040 thousand).

Financial receivables refer to the current portion of receivables from SACE, relating to restructuring agreements with defaulting countries, less collections in the year.

Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendices 3, 4, 5 and 6 to these Notes.

15. Tax receivables and payables

Euro/thousand	31.12.2007		31.12.2006	
	Receivables	Payables	Receivables	Payables
Direct taxes	11,397	2,291	11,253	39,513
Other taxes	6,412	3,348	9,105	3,042
	17,809	5,639	20,358	42,555

Receivables

Of tax receivables, Euro 11,397 thousand refers to direct tax reimbursements claimed in relation to previous years and the relative interest income.

The other tax receivables relate to receivables for foreign taxes paid in India (Euro 5,723 thousand) and in other countries (Euro 689 thousand). Provision for the amounts paid to the Indian revenue service as advances on the Neyveli contract, over which a dispute is in progress, has been made to a special tax fund, because it is thought highly probable that they will be assessed as payable.

Payables

Of tax payables, Euro 2,291 thousand refer to provisions for IRAP (Euro 10,000 thousand), net of the advance payment of Euro 7,709 thousand.

The other payables to the Tax Authorities include Irpef withholdings from payments to employees and third parties in the month of December amounting to Euro 3,348 thousand.

The changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendices 3, 4, 5 and 6 to these Notes.

16. Other current assets

Euro/thousand	31.12.2007	31.12.2006
Accrued income - current portion	17,962	5,545
Derivatives	200	2,045
Receivables from employees and social security	2,112	2,292
Other assets	21,383	26,623
	41,657	36,505

Other current assets include:

- accrued income, mainly relating to the future year portion of insurance costs for erection coverage, attributed to orders according to their state of completion.
- The significant increase of Euro 12,417 thousand is basically due to the acquisition of new contracts with a significant plant engineering component;
- receivables from Camozzi Group of Euro 13,875 thousand deriving from the sale of the "Componenti Speciali Milano" business division, over which a legal dispute is pending, for which provision to cover the relative risk has been paid into a special reserve;
- a receivable from customer NLC Neyveli for interest on the late payment of Withholding Tax amounting to Euro 3,005 thousand, improperly withheld, for which a formal dispute is pending in India. The risks relating to this receivable, and likewise the entire dispute with the Indian tax authorities, have been accounted for by means of an overall payment into the taxation reserve;
- a residual receivable from Italmobiliare amounting to Euro 2,000 thousand referring to the last instalment of a settlement stipulated last year.

Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendices 3, 4, 5 and 6 to these Notes.

17. Cash and cash equivalents

Euro/thousand	31.12.2007	31.12.2006
Cash	57	67
Bank deposits	22,934	10,627
	22,991	10,694

Of bank deposits, Euro 16,294 relates basically to cash and cash equivalents in the local currency deriving from advance payments on Algerian contracts for on-site work, Euro 850 thousand to foreign currency accounts in Italian and foreign banks, Euro 4,733 thousand to deposit accounts and Euro 1,057 thousand to ordinary current accounts.

We remind you that in accordance with Group treasury policy, the company's cash and cash equivalents are deposited with Finmeccanica S.p.A. and remunerated at arm's length. The amounts deposited in bank accounts at year end should therefore be considered as residual assets.

18. Shareholders' equity

Shareholders' equity at 31 December 2007 was Euro 74,601 thousand, a net increase of Euro 26,250 thousand.

A breakdown of shareholders' equity with regard to cash and cash equivalents and availability is provided in Appendix 7 to these Notes. Changes during the year are detailed in the "other reserves" item.

Share Capital

	Number of ordinary shares	Par value	Treasury shares	Total
Outstanding shares	11,966,812	€ 1	-	11,966,812
Treasury shares	-		-	-
31 December 2006	11,966,812		-	11,966,812
Outstanding shares	11,966,812	€ 1	-	11,966,812
Treasury shares	-		-	-
31 December 2007	11,966,812		-	11,966,812

The share capital is divided into 11,966,812 ordinary shares with a par value of Euro 1 each.

The entire share capital is held by Finmeccanica S.p.A., Rome.

The Company does not possess any treasury shares.

Other reserves

Euro/thousand	Retained earnings	Cash flow hedge reserve	Reserve for stock-option/grant plans	Reserve for actuarial gains (losses) recognised in equity	Other reserve	Total
31 december 2005	21,377	1,889	388			23,654
Dividends paid	(16,668)					(16,668)
Profits (losses) actuarial	64			(5,837)		(5,773)
Other changes (Net profit for the year)	33,472					33,472
Stock option/grant plans:						
- issue of new shares					(68)	(68)
Fair value adjustment		1,046				1,046
Recognition in the income statement		(356)				(356)
Deferred taxation		(850)		1,926		1,076
31 december 2006	38,245	1,729	388	(3,911)	(68)	36,383
Dividends paid	(24,173)					(24,173)
Riclassifica da Riserva per imposte differite a Patrimonio netto	1,926			(1,926)		0
Profits (losses) actuarial				297		297
Other changes	50,458					50,458
Stock option/grant plans:						
- services rendered			(388)			(388)
- issue of new shares			1,820		(82)	1,738
Fair value adjustment		(2,576)				(2,576)
Recognition in the income statement		758				758
Deferred taxation		644		(507)		137
31 december 2007	66,456	555	1,820	(6,047)	(150)	62,634

Cash Flow hedge reserve

This reserve has been created in compliance with IAS 39 to recognise changes in the derivative and swap contracts entered into by the Company to hedge exposure to exchange risk on cash flows in foreign currencies. The reserve is stated net of the related deferred tax liabilities.

Reserve for stock option and stock grant plans

This reserve records the cost of Finmeccanica shares to grant to Key Management Personnel on achieving the targets set in the stock grant plan for fiscal 2007.

The "Stock grant plan share consignment reserve" records the differential between the carrying and transfer values of shares in the plan.

19. Borrowings

Euro/thousand	31.12.2007			31.12.2006		
	Current	Non current	Total	current	Non Current	Total
Bank borrowings	1,134		1,134	1,029	833	1,862
Other borrowings	993	2,111	3,104	954	3,104	4,058
	2,127	2,111	4,238	1,983	3,937	5,920

Changes in borrowings are given below (Euro/thousand):

	31.12.2006	Repayments	31.12.2007
Bank borrowings	1,862	728	1,134
Other borrowings	4,058	954	3,104
	5,920	1,682	4,238

Bank borrowings

Bank borrowing basically refers to medium/long-term loans from Italian banks (IMI) in connection with facilitated research funding. This item decreased against the previous year as a result of the repayment of instalments falling due.

Other borrowings

This item refers to a medium/long-term loan from the Italian Ministry of Production Activities for facilitated research funding, which decreased following repayment of the amount falling due in the year.

Net financial position

Financial information is given below in the form suggested by CONSOB in circular no. DEM/6064293, 28 July 2006:

Euro/thousand	31.12.2007	31.12.2006
Cash	57	67
Bank deposits	22,934	10,627
Liquidity	22,991	10,694
Current financial receivables	478,504	321,435
Current bank payables	301	116
Current portion of non-current borrowings	833	1,744
Other current borrowings	13,723	19,539
Current net debt	14,857	21,399
Current net debt (cash)	(486,638)	(310,730)
Non-current bank payables		833
Other non-current payables	2,111	3,104
Non-current net debt	2,111	3,937
Net debt (cash)	(484,527)	(306,793)

20. Provisions for risks and charges and contingent liabilities

Euro/thousand	Restructuring	Provision for equity investment risks	Product guarantees	Penalties	Taxation reserve	Other	Total
<i>1 January 2006</i>							
Current	12,278	11,350		24,549			48,177
Non-current			19,699		13,377	19,056	52,132
	12,278	11,350	19,699	24,549	13,377	19,056	100,309
Allocations				5,221	9,391	29,282	43,894
Uses	400	520		867		24,163	25,950
Other changes	(5,030)			5,030	2		2
31 December 2006	6,848	10,830	19,699	33,933	22,770	24,175	118,255
<i>Broken down as follows:</i>							
Current	6,848	10,830		33,933			51,611
Non-current			19,699		22,770	24,175	66,644
	6,848	10,830	19,699	33,933	22,770	24,175	118,255
Allocations		240	5,000		5,749	56,651	67,640
Uses	103			995	103	48,347	49,548
Other changes			5,000	(5,000)			0
31 December 2007	6,745	11,070	29,699	27,938	28,416	32,479	136,347
<i>Broken down as follows:</i>							
Current	6,745	11,070		27,938		10,000	55,753
Non-current			29,699		28,416	22,479	80,594
	6,745	11,070	29,699	27,938	28,416	32,479	136,347

Restructuring charges

This item contains prior year provisions against asset disposal risks. During the year Euro 103 thousand was used.

Provisions for equity investment risks

In 2007 subsidiary ASPL reported a positive net result, allowing the prior year provision for equity investment write-down to be reduced to align it with the new shareholders' equity value.

Product guarantees

This reserve makes provision against direct and indirect risks deriving from performance guarantees pledged. Specifically, during the year a position against which a negative arbitration award was made, amounting to Euro 5,000 thousand, was reclassified from the reserve for pending disputes. In order to adjust the reserve in line with the new estimated risk, a further provision of Euro 5,000 was made into the reserve.

Pending disputes

This reserve makes provision for the best estimate of arbitration proceedings and legal disputes with employees (Euro 1,277 thousand) and third parties (Euro 26,662 thousand). As commented above, part of

the reserve accumulated in previous years, amounting to Euro 5,000 thousand, was reclassified to the reserve for product guarantees. The reserve for pending disputes/disputes with third parties makes provision for legal and arbitration disputes in Italy and internationally deriving from contracts and assignments of business performed in previous years. Because of uncertainty over the time needed to reach a final judgement in the aforementioned disputes, it is impossible to establish when the disbursement may take place.

Taxation

This reserve makes provision for the best estimate of exposure to Italian and foreign tax risks. The allocation during the year of Euro 5,645 thousand refers to taxes in Iran (Euro 1,000 thousand), India (Euro 2,000 thousand), UK (Euro 1,200 thousand), Italy (Euro 1,200 thousand) and other countries (Euro 245 thousand).

Overall, of allocations to the reserve for taxation for the year and previous years:

- Euro 12,712 thousand, in part already paid out, refers to a dispute with the Indian tax office regarding the taxability of materials sold FOB to Indian customers. The Company considers said materials to be exempt from local taxes by virtue of the treaty against dual taxation in force between the two countries and, to strengthen its position has, in addition to pursuing its defence at all levels in India, also activated the procedure envisaged by the treaty for the amicable settlement of the dispute;
- Euro 9,077 thousand refers to the estimate of tax payable to the Iranian tax authorities, with whom the amount has not yet been defined;
- Euro 1,880 thousand refers to Italian income tax, in part already paid out, regarding both an old dispute awaiting the decision of the Court of Cassation, as well as an estimate of the charge resulting from the verification performed by the Revenue Office on fiscal 2004 and, to a certain extent, on 2005. The Company is pursuing an amicable settlement of this latter verification with the Revenue Office;
- Euro 2,747 thousand refers to taxation not yet defined with the competent authorities of various countries in which Ansaldo Energia has performed local activities.

Other provisions

Other provisions refer to costs to incur after the completion of contracts relating to guarantees or other contract undertakings (Euro 22,479 thousand) and the allocation during the year of Euro 10,000 thousand to offset the asbestos risk. This allocation was made necessary by the non-renewal of the insurance policy covering "professional illnesses deriving from the use of or the exposition to asbestos", which expired in January 2007. The amount of the allocation represents the best estimate based on historical data available and now consolidated scientific doctrine regarding the "latency" period of the illness even beyond 15-20 years. Past events basically refer to the Legnano production facility, which has been disposed of. We remind you that same was acquired by Ansaldo Energia in 1991 and that, already at the end of the 1980s, asbestos had been almost entirely eliminated from work processes, and therefore well before the legal prohibition introduced in 1992. Based on this consideration, during the year the Company reached a settlement with the previous owners, who compensated the damage with an all-inclusive amount of Euro 11,000 thousand, of which Euro 3,000 thousand subsequently paid by Ansaldo Energia to the insurance company which covered the risk until January 2007, in total compensation for a waiver of any future counter-claims.

In application of the relative accounting standards, provisions have been made for any obligations related to probable and quantifiable risks. The situation below does not fall under this category, but is mentioned here solely for the purposes of full disclosure.

On 20 November 1997 the company Abengoa, in connection with a contract commissioned by the Porto Rico Electricity Authority ("Prepa"), signed a sub-supply contract with Ansaldo Energia for repowering work on the San Juan power station in Porto Rico.

With regard to the contract between Abengoa and Prepa, American International Insurance Company of Puerto Rico ("AIIP"), an AIG Group company, issued a Performance Bond and a Payment Bond, each worth

US\$ 125 million, for which Ansaldo Energia provided counter-guarantees of US\$ 36 million each with reference to its scope of supply.

In 2000 Abengoa, without informing Ansaldo Energia, unilaterally terminated its contract and filed suit against the customer with the Court of Porto Rico to terminate the contract and claim for damages.

Prepa, in turn, claimed US\$ 500 million damages from Albengoa and the guarantor AIIP

In order to prevent the discussion of the aforementioned bonds, Ansaldo Energia filed suit with the Court of Milan to declare its bonds ineffective and subordinately to apply for Albengoa to hold it harmless.

AIIP and Albengoa opposed this stance, and in particular AIIP requested that Ansaldo Energia be obliged jointly to hold AIIP harmless from any claim by Prepa and the sub-suppliers of Abengoa.

Even if the judge does not uphold the applications for the counter-bonds posted by Ansaldo Energia to be declared void and ineffective, it is not thought that the Company will suffer damages, because:

1. with regard to the Performance Bond, Ansaldo Energia holds no responsibility, as it was unable to complete the scope of its supply due to the fault of Abengoa, as established by the award of March 2003, which upheld the applications of Ansaldo Energia regarding the breach of contract of Abengoa in unilaterally terminating the contract with Prepa, without informing Ansaldo Energia;
2. so far as concerns the payment bond, there have as yet been no applications for payment from sub-suppliers of Ansaldo Energia. Indeed, the only applications made so far have been to Abengoa by its sub-contractors. Furthermore, if any joint liability were to be established, Ansaldo Energia could have recourse to Abengoa, also pursuant to the aforementioned award.

In 2004, in the framework of a Court investigation into contracts awarded by Enipower S.p.A., Ansaldo Energia S.p.A., as supplier of same, received notice of investigation pursuant to the law on the administrative liability of corporations ex D.Lgs. 231, 8 June 2001, for alleged supervisory failings in connection with an employee of the company, who subsequently resigned, who is alleged to have committed illegalities.

The proceedings are now pending following the preliminary hearing, awaiting a sentence of acquittal or committal for trial.

The parties who filed suit against Ansaldo Energia have not yet quantified their application for damages, which could be presented at the end of the proceedings.

Ansaldo Energia has always disputed the charges, believing itself to be completely free of liability.

In consideration of this the Company, continuing its line of determination and transparency, will continue to pursue its defence, where necessary, at every level to demonstrate without doubt that it has nothing to do with the facts in question.

21. Severance pay and other employee liabilities

Euro/thousand	31.12.2007	31.12.2006
Severance obligations	37,778	43,552
Defined-benefit retirement plans	493	498
Other employee obligations	951	654
	39,222	44,704

The statutory severance pay obligation is specific to Italy and calls for the payment of the entitlement accumulated by employees until the time they leave the company. This provision is calculated in accordance with Article 2120 of the Italian Civil Code, by dividing the fixed components of an employee's compensation by 13.5.

Italian law 296, 27 December 2006, and subsequent Decrees and Regulations issued in early 2007, in the framework of complementary pension reform, have significantly modified the operation of this mechanism, establishing that severance pay maturing after the date of the Reform be transferred to the complementary pension fund or the Treasury fund managed by INPS. The effects of these changes are described below.

With defined-benefit plans, the Company assumes the obligation to ensure a specific retirement benefit level for employees participating in the plan, guaranteeing to make good any negative difference between the value of plan assets and the agreed-upon benefit level.

Defined-benefit retirement plans break down as follows (Euro/thousand):

Euro/thousand	31.12.2007	Net liability defined-benefit plans
	Present value of the obligation	
Opening balance	498	498
Costs of benefits paid	107	107
Benefits paid	112	112
Closing balance	493	493

Euro/thousand	31.12.2006	Net liability defined-benefit plans
	Present value of the obligation	
Opening balance	479	479
Costs of benefits paid	127	127
Benefits paid	108	108
Closing balance	498	498

Changes in severance obligations are shown below:

Euro/thousand	31.12.2007	31.12.2006
Opening balance	43,552	39,928
Costs of benefits paid	-	2,548
Interest expense	1,434	1,343
Actuarial losses (profits)	(297)	5,837
Decreases for sales	3,807	6,104
Closing balance	37,778	43,552

The amounts recognised in the income statement were calculated as follows:

Euro/thousand	2007	2006
Curtailement	(3,489)	
Personnel costs	385	2,549
Interest expense	1,434	1,343
Total cost	(1,670)	3,892

In fiscal 2007 the accounting effects deriving from the amendments to the severance pay reserve introduced by the 2007 budget were recognised. Specifically, the reserve at 31 December 2006 (which continues to be recognised as a defined benefit plan) was recalculated without the item regarding future salary increases, and the consequent effect on curtailment, reflected in the income statement pursuant to paragraph 109 of IAS19. In addition, the competent cost quota relative to amounts transferred to pension

funds or the fund managed by INPS, was recognised according to the rules defined for defined contribution plans, without any actuarial evaluation.

The main actuarial assumptions made in assessing defined benefit plans are the following:

	Severance obligations	
	31.12.2007	31.12.2006
Discount rate	4.28%	3.48%
Expected return on plan assets	3.60%	3.414%
Rate of salary increase	n.a.	2.14%
Rate of turnover	3.40%	3.3%

Other reserves for personnel amounting to Euro 951 thousand represent the portion regarding Complementary Pension Funds which will be paid in in the month of January.

22. Other current and non current liabilities

Euro/thousand	Non current		Current	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Employee obligations	2.394	2.481	20.762	18.833
Social security payable			15.426	14.683
Other payables			26.057	10.026
	2.394	2.481	62.245	43.542

Non current employee obligations

This item refers to provision for seniority premiums, assessed at fair value, less uses in the period.

Current employee obligations

This item refers to obligations to employees for: holidays not taken (Euro 8,208 thousand), workforce remuneration paid in the subsequent month (Euro 1,689 thousand), incentives, one-off payments, MBO and overtime attributable to the year (Euro 8,463 thousand), and early retirements already agreed (Euro 2,132 thousand).

Pension and social security liabilities

This item refers to amounts payable to these entities for contributions owed by the Company and its employees regarding December salaries paid in January and to remuneration for the year on which contributions are paid quarterly or annually.

Other liabilities

This item contains payables to insurance companies (Euro 15,670 thousand), to consultants (Euro 552 thousand), to licensors for royalties accruing (Euro 4,975 thousand), to permanent foreign establishments (Euro 640 thousand), to VAT in foreign countries (Euro 2,299 thousand) and other minor liabilities (Euro 1,921 thousand).

23. Trade payables

Trade payables fell Euro 12,705 thousand, basically due to a penalty agreed definitively with a supplier resulting in the complete cancellation of the payable.

A breakdown of liabilities by maturity in foreign currency and by geographical area is provided in Appendices 8, 9 and 10 to these Notes.

24. Derivatives

The table below provides a detail of the asset and liability positions relating to derivative instruments. The portion of changes recognised in the income statement is shown in Note 28.

Euro/thousand	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	200	764	2,045	
	200	764	2,045	

25. Guarantees and other commitments**Leasing**

The Company holds a number of operating leases primarily for the purposes of acquiring the use of multi-purpose digital office photocopiers (Euro 412 thousand), civil facility management equipment (Euro 458 thousand) and the property in Via Lomazzo in Milan (Euro 2,700 thousand), where the company has its secondary head office. Below are the non-cancellable minimum future payments relating to operating lease contracts and the commitments for contracts that may be considered as operating lease contracts:

Euro/thousand	Operating lease contract
Within 1 year	1,660
2 to 5 years	1,827
Beyond 5 years	83
	3,570

The Company has no current contracts that may be considered as capital lease contracts.

Guarantees

At 31 December 2007 the Company had the following outstanding guarantees:

Euro/thousand	31.12.2007	31.12.2006
Guarantees in favour of third parties	916,784	691,399
Other unsecured guarantees given to third parties	505	381
Unsecured guarantees given	917,289	691,780

Guarantees in favour of third parties

This item relates to guarantees issued by banks and insurance companies to:

- customers to bid for tenders (Euro 34,425 thousand);
- customers for advances received and good performance (Euro 848,233 thousand);
- suppliers for letters of credit issued to secure payments (Euro 2,817 thousand);
- others: lenders, customs and excise offices, lessors (Euro 31,309 thousand).

Other unsecured guarantees given to third parties

These guarantees are mainly issued by the Company in favour of consortium members to provide guarantees for their assets (Euro 505 thousand).

Unsecured guarantees received

Euro/thousand	31.12.2007	31.12.2006
Guarantees given by third parties	199,423	242,988
Holding harmless	31,309	32,404
Other	729,541	59,972
Unsecured guarantees received	960,273	335,364

These items refer to:

- guarantees received from suppliers for good performance of work orders (Euro 199,423 thousand);
- the undertaking by Otto SpA to honour the guarantees given by Ansaldo Energia S.p.A. to customers for the good performance of transferred work orders (Euro 15,644 thousand);
- the undertaking by Ansaldo Nucleare S.p.A. to honour the guarantees given by Ansaldo Energia S.p.A. to customers for the good performance of transferred work orders (Euro 4,098 thousand);
- the undertaking by Thomassen Turbine System BV to honour guarantees given by Ansaldo Energia S.p.A. to customers for the good performance of transferred work orders (Euro 10,809 thousand);
- the undertaking by Ansaldo Ricerche to honour guarantees given by Ansaldo Energia S.p.A. to customers for the good performance of transferred work orders (Euro 758 thousand);
- letters of credit in our favour given by customers to guarantee collection (Euro 729,541 thousand).

26. Economic transactions with related parties

Below are all the costs and revenues of the Company with related parties for the years 2007 and 2006:

Euro					
Year 2007	Revenues	Other operating revenues	Costs	Financial income	Financial charges
Parent companies					
Finmeccanica S.p.A.	0	0	5,029,000	12,200,238	38,319
Subsidiaries					
Ansaldo Nucleare S.p.A.			(2,186,199)	321	569,250
Thomassen Turbine Systems B.V.			(230,742)	381,401	
Ansaldo ELeetric Drives S.p.A.			(10,000)	42,347	154
ESG Energy Service Group AG			450,115		23,155
Ansaldo Ricerche S.p.A.			3,066,314	406,029	42
Sagem Italia S.r.l.		31,362	8,088,913	38	33,577
	0	31,362	9,178,401	830,136	626,178
Affiliated (*)					
Ansaldo Ind. in liq.			(704,675)		
Ansaldo Fuel Cells		18,515	(341,700)		
Finmeccanica Group Service			113,494		
SELEX Sistemi integrati			2,000		
Ansaldo STS			3,784		
Ansaldo Signal N.V.			9,973		
HR Gest			588,647		
Elsag Datamat			10,598,350		
Fata			18,829,759		
Fata Logistic System			2,249,717		
	0	18,515	31,349,349	0	0
	0	49,877	45,556,750	13,030,374	664,497

(*) companies subject to the control and coordination of Finmeccanica S.p.A.

Euro					
Year 2006	Revenues	Other operating revenues	Costs	Financial income	Financial charges
Parent companies					
Finmeccanica S.p.A.	0	0	3,477,277	9,048,551	176,358
Subsidiaries					
Ansaldo Nucleare S.p.A.			(4,088,351)	2	464,293
Thomassen Turbine Systems B.V.				49,458	
Ansaldo ELeCtric Drives S.p.A.				6,919	
ESG Energy Service Group AG	105,152		1,269,520		244
Ansaldo Ricerche S.p.A.			1,102,047	81,194	
Sagem Italia S.r.l.	505,026	31,096	8,836,571		28,830
	610,178	31,096	7,119,787	137,573	493,367
Affiliated (*)					
Ansaldo Ind. in liq.	1,730,000		(66,000)		
Ansaldo Fuel Cells			(51,601)		
Mecfin			163,406		
SELEX Sistemi integrati			2,000		
Ansaldo T & D		138,466	(685,664)		
Elsag Gest			716,545		
Elsag			11,103,000		
Fata			26,562,916		
Fata Logistic			1,912,000		
	1,730,000	138,466	39,656,602	0	0
	2,340,178	169,562	50,253,666	9,186,124	669,725

(*) companies subject to the control and coordination of Finmeccanica S.p.A.

Economic transactions with parent company Finmeccanica refer to charge-backs in connection with the cost of seconded personnel and expenses incurred by the Holding company with regard to common activities.

The financial income refers to the investment of cash and cash equivalents during the year, also with recourse to temporary restrictions and always consistently with the best market conditions. Financial charges refer to commission on bank guarantees.

Economic transactions with subsidiaries refer to the cost of services received net of recovered expenses for services rendered. Financial income and charges refer to financial transactions at the market rates applied by the Group.

Economic transactions with associates refer mainly to supplies of materials and services for specific orders or for general services.

27. Revenue

Euro/thousand	2007	2006
Revenue from sales	1,147,871	523,741
Change in contract work in progress	(168,870)	387,111
Total revenue	979,001	910,852

Revenue from sales and services is detailed pursuant to article 2427 of the Italian civil code in the table in the report on operations.

Below are the main contracts contributing to revenue for the year:

Euro/thousand		
Customer	Power plant	Revenue
Rizziconi Energia	Rizziconi	137,182
Tirreno Power	Napoli Levante	66,022
Calenia Energia	Sparanise	63,906
Enipower	Power plants	56,289
Acea Electrabel Prod,	Leiní	44,376
Tirreno Power	Vado Ligure	36,827
Iride Energia Torino	Aem Moncalieri	35,566

Revenue, in addition to the value of production in the period, also comprises definitive payments on contract work in progress.

28. Other operating income (costs)

Euro/thousand	2007		2006	
	Income	Costs	Income	Costs
Other subsidies	127		238	
Gains on the sale of intangible assets and property, plant and equipment	151	115	73	
Income from property investments	243			
Accruals to/Reversals of provisions for risks and charges		15,000		4,322
Exchange rate difference on operating items	1,120	1,087	1,822	2,278
Adjustment of receivables and liabilities in a foreign currency at the end-of-period exchange rate	1,092	1,823	1,860	2,367
Insurance reimbursements	1,729		4,973	
Indirect taxes		1,753		1,300
Other operating income (costs)	15,385	4,306	20,846	3,306
	19,847	24,084	29,812	13,573

The provision of Euro 15,000 thousand was made: to cover a legal dispute for which developments during the year required an adjustment (Euro 5,000 thousand), and to cover the asbestos risks already commented on above (Euro 10,000 thousand).

Of indirect taxes of Euro 1,753 thousand, Euro 820 thousand refers to ICI property tax. Other subsidies derive from funding for human resource training.

Other operating income (Euro 15,385 thousand) basically refers to: previously written-down receivables from insolvent countries collected through SACE (Euro 3,886 thousand), net income from the settlement of the asbestos dispute (Euro 8,000 thousand) and interest on trade receivables (Euro 499). The other costs (Euro 4,306 thousand) refer to membership fees (Euro 530 thousand), donations (Euro 409 thousand), non deductible costs (Euro 168 thousand), interest expense (Euro 43 thousand) and others (Euro 36 thousand).

29. Cost of goods and services

Euro/thousand	2007	2006
Purchase of materials from third parties	460,655	487,167
Change in inventories	(20,058)	(8,352)
Total cost of goods	440,597	478,815
Services rendered by third parties	226,930	181,870
Costs of rents and operating leases	3,144	2,750
Total cost of services	230,074	184,620

The cost of materials purchased amounted to Euro 460,655 thousand, of which Euro 5,679 thousand for electricity, water and gas.

Costs for services rendered by third parties include costs for external work and services (Euro 185,297 thousand), directors' and auditors' emoluments (Euro 2,409 thousand), customs charges and transport costs (Euro 10,276 thousand), personnel travel and transfer (Euro 11,245 thousand), outsourced services (Euro 11,749 thousand), costs for routine maintenance (Euro 6,245 thousand) and catering (Euro 2,672 thousand), net of cost recoveries from third parties (Euro 2,963 thousand).

The cost of materials and services is basically in line with the previous year. The changes in the breakdown are a direct consequence of the production mix, which also contributed to the fall in the cost of materials. Costs of rents and operating leases amount to Euro 3,144 thousand and include rent for the Milan and Rome offices (Euro 2,687 thousand), photocopier and IT equipment hire (Euro 284 thousand), and other rents (Euro 173 thousand).

30. Personnel costs

Euro/thousand	2007	2006
Wages and salaries	101,012	91,449
Costs of stock option/grant plans	1,820	526
Social security contributions	30,182	26,855
Severance pay costs	(3,104)	2,549
Costs related to other defined-benefit plans	107	127
Costs related to defined-benefit plans	5,130	545
Employee disputes	464	905
Other costs	3,173	916
	138,784	123,872

The average workforce at 31 December 2007 numbered 2,400, compared with 2,276 at 31 December 2006.

Below is a breakdown of average workforce by category:

	2007	2006	Changes
Managers	69	70	(1)
Middle managers	204	184	20
White collar workers	1,199	1,130	69
Blue collar workers	928	892	36
Total	2,400	2,276	124

The cost (Euro 138,784 thousand) represents all liabilities for salaries and deferred remuneration, social security contributions and severance pay maturing at 31 December 2007. The cost of personnel in permanent foreign establishments amounted to Euro 5,117 thousand.

The increase of Euro 14,912 thousand is attributable to a series of phenomena including: the larger average operating workforce (+124), more outgoing employees than in the previous year, the cost of severance pay for the year, which is no longer discounted back, because the entire amount accruing in the year is paid to pension funds.

Cost recoveries on loans to personnel stood at Euro 1,370 thousand. A provision of Euro 900 thousand was made to adjust the reserve to reflect the risks connected with pending disputes.

31. Changes in inventories of finished products, products in progress and semi-finished products

Euro/thousand	2007	2006
Changes in inventories of finished products, products under process and semi-finished goods	(7,870)	(16,760)

The change of Euro -8,890 thousand compared with the previous year is due basically to the greater volume of semi-finished products for which the contract of sale was formalised, so allowing the start of personalisation and therefore association with orders.

32. Depreciation, amortisation and impairment

Euro/thousand	2007	2006
Depreciation and amortisation:		
Intangible assets	90	90
Property, plant and equipment	13,560	12,526
	13,650	12,616
Write-downs:		
operating receivables	2,000	1,500
Total depreciation, amortisation and impairment	15,650	14,116

The amortisation of fixed-life intangible assets refers to the Siemens licence for the most advanced version of the V94 3A gas turbine.

Depreciation of property, plant and equipment breaks down as follows:

Euro/thousand	2007	2006
Land and buildings	2,422	2,396
Plant and machinery	7,720	8,025
Industrial and commercial equipment	2,979	1,489
Other assets	439	616
	13,560	12,526

The write-down of operating receivables represents the result of the impairment test conducted and corresponds to the amount of the adjustment to bring the reserve in line with the aforementioned assessment.

33. Capitalisation of internal construction costs

Gli incrementi di immobilizzazioni per lavori interni sono relativi al costo del lavoro e afferiscono interamente alle immobilizzazioni materiali.

34. Financial income and charges

Euro/thousand	2007			2006		
	Income	Charges	Net	Income	Charges	Net
Dividends	2,329		2,329			0
Discounting of receivables, liabilities and provisions	36		36	121		121
Interest and commission income	1,030	761	269	2,574	980	1,594
Exchange rate differences	279	225	54	174	292	(118)
Value adjustments of equity investments	32	5,600	(5,568)	520	11	509
Other financial income and charges	62	1,612	(1,550)	281	1,643	(1,362)
	3,768	8,198	(4,430)	3,670	2,926	744

Dividends in 2007 break down Euro 1,600 thousand collected from subsidiary Ansaldo Nucleare and Euro 729 thousand resolved by subsidiary ESG S.p.A. Interest and commission income basically refer to the reimbursement during the year of interest on stamp duty receivable (Euro 195 thousand), to interest collected from defaulting countries through SACE (Euro 494 thousand), to differentials on the rates applied by Mediobanca to mortgages (Euro 209 thousand) and other income (Euro 132 thousand).

The charges basically relate to currency exchange and bank guarantee commission (Euro 345 thousand), in addition to interest expense payable to other lenders with regard to research work (Euro 204 thousand).

The other financial income and charges refer to Euro 1,434 thousand interest cost on severance pay and income on swaps in connection with changes in the fair value of hedging operations which, as they have not passed the effectiveness test, are immediately recognised in profit and loss.

35. Income taxes

Income tax expense can be broken down as follows (Euro/thousand):

Euro/thousand	2007	2006
Corporate income tax (IRES)	52,156	38,361
Regional business tax (IRAP)	10,000	9,632
Other income taxes		1,547
Tax related to previous periods	(14,779)	218
Provisions for tax disputes	5,645	9,390
Deferred tax - net	828	(22,107)
	53,850	37,041

The table shows the reconciliation between the average effective tax rate and the applicable tax rate:

Euro/thousand	2007		2006	
	amount	%	amount	%
Result before taxation	104,309	51.62	70,513	52.53
Taxes at current fiscal rate	34,422		23,269	
Foreign tax credit			(1,400)	
Previous year fiscal losses considered not recoverable recovered in the current year			(3,672)	
Permanent differences:				
- non deductible costs	2,432		(1,942)	
IRAP and other taxes calculated on a different basis than the pre-tax result	16,996		20,786	
Actual taxes	53,850		37,041	

The income tax expense for the year, in addition to IRES and IRAP, also includes a substantial provision against claims by the Indian tax authorities regarding the activities of Ansaldo Energia and its subsidiary ASPL in connection with on and off shore contracts (Euro 2,000 thousand), and a provision for taxes matured but not yet claimed by the Iranian tax authorities (Euro 1,000 thousand), the UK tax authorities (Euro 1,200 thousand), the Italian tax police verification regarding 2004 (Euro 1,249 thousand), currently being endorsed, and others (Euro 196 thousand).

Deferred tax liabilities and the relative receivables and payables at 31 December 2007 derive from the following temporary differences:

Euro/thousand	Income statement		Balance sheet	
	Profit	Loss	Assets	Liabilities
Write-down of contract work in progress	173	6,088	25,119	
Reserves for risks and charges	4,906			5,741
Severance pay, pension funds and seniority bonuses	14	442	3,271	
Others	610			1,079
Valuation Allowance	5,703	6,530	28,390	6,820

Net provisions for deferred taxes break down Euro 511 thousand for IRES and Euro 316 thousand for IRAP. Of receivables deriving from advance taxation, Euro 25,119 thousand was transferred to the Finmeccanica tax consolidation scheme, and of deferred tax liabilities Euro 5,741 thousand was transferred to the Finmeccanica tax consolidation scheme.

Provision has been made for advance taxation on all temporary differences arising during the year as follows:

Advance taxes on:	Taxable amount	Taxes
Provisions for work contract risks	45,035	14,141
Other taxed provisions for risks	80,494	25,171
Receivables write-down reserve	16,095	4,426
Other temporary differences	4,905	1,377
TOTAL	146,529	45,115
Assets which will probably not be recovered	85,615	(23,544)
Provision for advance taxes	78,444	21,572

The provision for advance taxation was made after a careful assessment of the possibility of recovering said assets in the future based on the business plans approved by the Board of Directors. For these reasons, the theoretical future tax benefit of Euro 45,115 thousand (equal to the total taxes advanced on all the temporary differences) was the subject of valuation allowance amounting to a total of Euro 23,544 thousand, in consideration of the fact that the year of expiry of some tax-deductible temporary differences is without limit or impossible to predict.

Deferred taxes and the relative receivables and payables at 31 December 2007, with a contra-item under shareholders' equity, are detailed below:

Euro/thousand	31 December 2006	Transfer to income statement	31 December 2007
Deferred tax liabilities recognised directly in equity for cash flow hedge costs	850	678	172
	31 December 2006	Transfer to income statement	31 December 2006
Deferred tax assets recognised directly in equity for actuarial losses/gains	1,926	507	1,419

The negative effect on profit and loss deriving from the change in the tax rate following amendments to legislation stands at Euro 3,959 thousand.

36. Cash flow from operating activities

Euro/thousand	For the 12 months to 31 December	
	2007	2006
Net profit (loss)	50,458	33,472
Depreciation, amortisation and impairment	15,650	14,117
Income taxes	53,850	37,041
Provisions	16,106	9,821
Cost of severance pay	(3,104)	3,956
Cost of defined-benefit plans	2,509	772
Gains from the sale of assets	(36)	2
Financial charges and income, net of value adjustments of equity investments carried at cost	(7,936)	(2,199)
	127,497	96,982

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and translation differences, are as follows:

Euro/thousand	2007	2006
Inventories	(12,596)	14,968
Contract work in progress and advances received	129,429	15,992
Trade receivables and payables	8,572	19,771
Changes in working capital	125,405	50,731

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of companies and translation differences, are as follows:

Euro/thousand		
Payment of severance pay and other defined-benefit plans	(4,092)	(6,212)
Changes in provisions for risks	(2,794)	(1,264)
Changes in other operating items	10,495	980
	3,609	(6,496)

37. Financial risk management

The Company is exposed to financial risks in connection with its operations, and particularly to risks of the following types:

- market risks, regarding exposure to positions which generate interest (interest rate risk) and operations in currency areas other than the functional currency (exchange risk);
- credit risks, deriving from ordinary commercial operations or financing activities.

The Company monitors each of the aforementioned risks individually, taking prompt action to minimize same, also through the use of derivative hedging instruments.

The paragraphs below, also through the use of sensitivity analysis, examine the potential impact on results reported deriving from hypothetical fluctuations in the reference parameters. In accordance with IFRS 7, the

analysis is based on simplified scenarios applied to actual figures for the reference periods and, due to their nature, cannot be considered as indicative of the real effects of future changes in the reference parameters if the equity and financial structure and the market conditions change, nor can they reflect the interrelations existing between and complexity of reference markets.

Interest rate risk management

The Company, which has a stable, positive, financial position, is exposed to interest rate changes in connection with the use of liquidity, which is for the most part used by parent company Finmeccanica S.p.A. in accordance with Group policy.

Interest rate risks are measured by means of sensitivity analysis, in accordance with IFRS 7. If the reference rates were 50 basis points higher (lower) at 31 December 2007, the result and shareholders' equity would have been Euro 2,424 thousand higher (lower).

Exchange risk management

On contract acquisitions, company procedures require the hedging of all revenues in foreign currencies subject to exchange risk. On the cost side, the company adopts the policy of stipulating procurement contracts prevalently in Euros. Any purchases in local currencies are usually covered by a corresponding amount of revenue in the same currency.

The Parent Company performs hedging operations in the form of forward currency purchases/sales. At the end of 2007 the total domestic value in Euros of items covered by derivative instruments stood at Euro 1,520 thousand.

The sensitivity of exchange rate changes, while not significant, is given in the table below, which highlights the effects of exchange rate fluctuations of 5% in both directions:

Euro/thousand	5% increase in EUR GBP exchange rate	5% decrease in EUR GBP exchange rate	5% increase in EUR USD exchange rate	5% decrease in EUR USD exchange rate
Non current receivables			(16)	18
Trade receivables	(3)	3	(6)	7
Financial receivables			(33)	36
Derivatives	(1)	1	(4)	4
Cash and cash equivalents	(2)	2	(28)	31
Assets	(6)	6	(87)	96
Trade payables	(65)	72	(80)	89
Derivatives			(25)	27
Liabilities	(65)	72	(105)	116
Result	59	(66)	18	(20)
Shareholders' equity	59	(66)	18	(20)

Credit risk management

The Company is exposed to credit risks in connection both with the counterparties of its commercial operations, as well as by financing and investment activities, in addition to guarantees pledged on third party payables or commitments.

In order to eliminate or minimise the credit risk deriving from commercial operations, and overseas commercial operations in particular, the company adopts the policy of hedging the risk from the outset of the commercial operation, carefully examining the conditions and means of payment to propose in bids, for subsequent ratification in contracts of sale.

Specifically, according to the contract amount, the type of customer and the importing country, the necessary precautions are taken to limit the credit risk both in terms of payment and the financial means planned, such as stand-by L/C or irrevocable and confirmed letter of credit or, in cases in which this is not possible and if the country / customer is particularly at risk, the opportunity is assessed of applying for adequate insurance coverage through Export Credit Agencies such as SACE or through international banks for contracts for which supply financing is required.

To better explain the concentration and ageing of receivables recognised in the financial statements, the table below has been prepared:

	State institutions			Other customers			Total
	Europe	America	Other	Europe	America	Other	
- Guarantee withholdings						22.466	22.466
- Unexpired receivables				183,243	691	18,889	202,823
- Receivables expired for less than 1 year				53,720	1,154	162	55,036
- Receivables expired for between 1 and 5 years				42,212	5,670	4,326	52,208
Total				279,175	7,515	45,843	332,533

Liquidity risk

In consideration of the stable, positive, financial position of the Company, there is no liquidity risk.

Derivatives

The table below gives the fair value of the various derivatives in the portfolio:

	Fair Value at 31 December 2007	Fair Value at 31 December 2006
Assets		
Currency forward/swap/option		
Cash flow hedge	200	2,045
Liabilities		
Currency forward/swap/option		
Fair value hedge	764	

38. Key management personnel compensation

The compensation due to persons who have the power of and the responsibility for planning, directing and controlling the Company, including executive Directors, is as follows:

Euro/thousand	2007	2006
Compensation	2,025	1,664
Stock grant	207	191
Total	2,232	1,855

The fees due to Directors amounted to Euro 1,992 thousand and Euro 1,631 thousand for the years 2007 and 2006 respectively. The fees due to Statutory Auditors were Euro 33 thousand for the years 2007 and 2006.

These fees include emoluments and any other sum paid as compensation and social security for the exercise of the office of Director or Statutory Auditor of the Company.

The parent company Finmeccanica S.p.A. has established a stock grant plan under which shares in Finmeccanica S.p.A. are granted to Group employees and consultants if targets are achieved, to provide incentives and encourage loyalty.

At 31 December 2007 free stock grants were still outstanding to Ansaldo Energia S.p.A. employees and consultants of no. 136,214 ordinary Finmeccanica shares of par value Euro 15.90 each. Movements in the number of shares granted are as follows:

Euro/thousand	2006 <i>(no. shares)</i>	2007 <i>(no. shares)</i>
Options outstanding at the beginning of the period	193,930	164,839
Options granted during the period		6,340
Options exercised during the period	29,091	27,832
Options expired during the period		7,133
Options outstanding at the end of the period	164,839	136,214

For the BOARD OF DIRECTORS
The CHAIRMAN
Prof. Giuseppe Veredice





Details



Schedule 1 - Equity investments

Euro/thousand

		31.12.2006		
		Cost	Write-downs	Book value
%				
31.12.07 Equity investments in subsidiary companies				
100	Sagem Italia S.r.l.	138		138
100	Ansaldo Nucleare S.p.A.	107		107
100	ESG Energy Ser. Group AG	4,201		4,201
100	Ansaldo Ricerche S.p.A.	5,678		5,678
100	Thomassen Turbine Systems B.V.	11,953		11,953
100	Ansaldo Energy Inc.	1		1
		22,078	0	22,078
Equity investments in associated companies				
45	Dayalistri Pratama in liq.	4,462	(4,415)	47
50	Polaris S.r.l.	50		50
		4,512	(4,415)	97
Consortia				
25	CIC	52		52
15.8	CRIS	380		380
6.6	CISA	68		68
0.01	SET	4		4
29	SIRE			
8.33	QUINN	0		0
5	CORIBA	3		3
50	CHIARA	16		16
		523		523
Other ventures				
3.58	SIET S.p.A.	107		107
9.917	EUROIMPRESA LEGNANO	155		155
0.33	LIBIAN ITALIAN JOINT CO.	9		9
0.1	SOGEA	9		9
2.3	SIIT Distr.Tecn.Lig.	13		13
		293		293
Total equity investments		27,406	(4,415)	22,991

Acquisitions/ Capitalisations	Disposals	Reclass- ifications	31.12.2007		
			Cost	Write- downs	Book value
			138		138
			107		107
			4,201		4,201
1,543		(5,360)	7,221	(5,360)	1,861
			11,953		11,953
			1		1
1,543	0	(5,360)	23,621	(5,360)	18,261
			4,462	(4,415)	47
			50		50
0	0	0	4,512	(4,415)	97
	84	32	0		0
			380		380
			68		68
			4		4
13			13		13
			0		0
			3		3
			16		16
13	84	32	484		484
			107		107
			155		155
			9		9
			9		9
			13		13
			293		293
1,556	84	(5,328)	28,910	(9,775)	19,135

Schedule 2 - List of equity investments

Euro/thousand

Name	Head Office	Reference financial statements	Share capital
Equity investments in subsidiary companies			
Sagem Italia S.r.l.	Genoa	31-12-2007	50
Asia Power Projects Private LTD	India	31-12-2007	54
Ansaldo Nucleare S.p.A.	Genoa	31-12-2007	500
ESG Energy Service Group AG	Switzerland	31-12-2007	242
Ansaldo Ricerche S.p.A.	Genoa	31-12-2007	3,000
Thomassen Turbine Systems B.V.	The Netherlands	31-12-2007	91
Ansaldo Energy Inc.	USA	31-12-2006	
Equity investments in associated companies			
Dayalistri Pratama in liq.			
Polaris S.r.l.			
Equity investments in jointly controlled companies			
Consortia			
SIRE			
CRIS			
CISA			
SET			
QUINN			
CORIBA			
CHIARA			
Other ventures			
SIET S.p.A.			
Euroimpresa Legnano			
Libian Italian Joint Co.			
SOGEA			
SIIT Distretto Tecnologico Ligure			
Total equity investments			

Currency	Shareholders' equity	Profit (loss)	Ownership %	Net equity in financial statements	Carrying value
EUR	597	255	100	597	138
RUPIE	(11,070)	(194)	100	(11,070)	
EUR	2,013	1,403	100	2,013	107
FRSV	1,619	267	100	1,619	4,201
EUR	1,861	(4,058)	100	1,861	1,861
EUR	5,490	(2,075)	100	5,490	11,953
USD	37		100	37	1
					18,261
			45		47
			50		50
					97
			29.41		13
			15.8		380
			6.6		68
			0.01		4
			8.33		0
			5		3
			50		16
					484
			3.58		107
			9.917		155
			15		9
			0.47		9
			2.3		13
					293
					19,135

Schedule 3 - Non current receivables

Euro/thousand

	31.12.2006							31.12.2007			
	Residual nominal value	Impairment	Book value	Outpayments	Riclassification	Refunds	Other changes	Impairment (-) Reversal (+)	Residual nominal value	Impairment	Book value
Other receivables	3,477		3,477	29	(385)	1,256			1,865		1,865
	3,477	0	3,477	29	(385)	1,256	0	0	1,865	0	1,865

Schedule 4 - Assets by due date

Euro/thousand

	31.12.2007			31.12.2006		
	Amounts falling due			Amounts falling due		
	between 2 and 5 years	beyond 5 years	Total	between 2 and 5 years	beyond 5 years	Total
Receivables						
Financial receivables	507		507	1,702		1,702
Other receivables	1,358		1,358	1,775		1,775
	1,865	0	1,865	3,477	0	3,477
Tax receivables	4,691		4,691	23,249		23,249
Total non current assets	6,556	0	6,556	26,726	0	26,726

Schedule 5 - Assets in foreign currencies

Euro/thousands

	31.12.2007			31.12.2006		
	In foreign currency	In Euros	Total	In foreign currency	In Euros	Total
Non current receivables						
Financial receivables	507		507	1,702		1,702
Other receivables		1,358	1,358		1,775	1,775
	507	1,358	1,865	1,702	1,775	3,477
Other non current assets		4,691	4,691		23,249	23,249
Total non current assets	507	6,049	6,556	1,702	25,024	26,726
Current receivables from related parties						
Financial receivables	9,701	466,967	476,668	10,601	309,699	320,300
Trade receivables	421	2,569	2,990		3,355	3,355
Other receivables		37,427	37,427		9,815	9,815
	10,122	506,963	517,085	10,601	322,869	333,470
Trade receivables	17,489	315,044	332,533	58,526	297,712	356,238
Tax receivables		17,809	17,809		20,358	20,358
Financial receivables	1,836		1,836	1,134	1	1,135
Other assets	1,121	40,536	41,657	2,717	33,788	36,505
Cash and cash equivalents	17,201	5,790	22,991	3,765	6,929	10,694
Total current assets	47,769	886,142	933,911	76,743	681,657	758,400
	48,276	892,191	940,467	78,445	706,681	785,126

Schedule 6 - Assets by geographical area

Euro/thousand

	31.12.2007					31.12.2006				
	Italy	Rest of Europe	North America	Rest of world	Total	Italy	Rest of Europe	North America	Rest of world	Total
Non current receivables										
Financial receivables	507				507	1,702				1,702
Other receivables	1,358				1,358	1,775				1,775
	1,865	0	0	0	1,865	3,477	0	0	0	3,477
Tax receivables	4,691				4,691	23,249				23,249
Total non current assets	6,556	0	0	0	6,556	26,726	0	0	0	26,726
Current receivables from related parties										
Financial receivables	456,290	10,677		9,701	476,668	309,699			10,601	320,300
Trade receivables	2,118	872			2,990	3,355				3,355
Other receivables	37,427				37,427	9,815				9,815
	495,835	11,549	0	9,701	517,085	322,869	0	0	10,601	333,470
Trade receivables	191,098	18,136	5,029	118,270	332,533	234,782	62,930	3,502	55,024	356,238
Tax receivables	11,708			6,101	17,809	11,673			8,685	20,358
Financial receivables	1,836				1,836	1,135				1,135
Other assets	40,536			1,121	41,657	33,788			2,717	36,505
Total current assets	741,013	29,685	5,029	135,193	910,920	604,247	62,930	3,502	77,027	747,706
	747,569	29,685	5,029	135,193	917,476	630,973	62,930	3,502	77,027	774,432

Schedule 7 - Reserves and portion available for allocation

Euro/thousand

Type/description	Amount	Possible use	Available portion	Summary of uses in previous three years	
				to cover losses	for other purposes
Share capital (*)	11,967	B C	11,967		
Legal reserve:					
Accumulated earnings	2,392	B	2,392		
Cash Flow Hedge reserve	727	B	727		
Reserve for stock option/grant	1,670	B	1,670		
Reserve for actuarial gains (losses) recognised in equity	297		297		
Deferred taxation referring to shareholders' equity items	(679)	B	(679)		
Retained earnings	7,769	A B C	7,769		
Total	12,176		12,176		
Portion not available for allocation			12,176		
Remaining portion available for allocation			0		

Key:

(*) net of treasury shares

A for capital increase

B to cover losses

C to allocate to shareholders

Schedule 8 - Liabilities by due date

Euro/thousand

	31.12.2007			31.12.2006		
	Amounts falling due			Amounts falling due		
	between 2 and 5 years	beyond 5 years	Total	between 2 and 5 years	beyond 5 years	Total
Non current financial payables	2.111		2.111	3.937		3.937
Other non current liabilities	2.394		2.394	2.481		2.481
Total non current liabilities	4.505		4.505	6.418		6.418

Schedule 9 - Liabilities in foreign currencies

Euro/thousand

	31.12.2007			31.12.2006		
	In foreign currency	In Euros	Total	In foreign currency	In Euros	Total
Non current financial payables		2,111	2,111		3,937	3,937
Other non current liabilities		2,394	2,394		2,481	2,481
Total non current liabilities	0	4,505	4,505	0	6,418	6,418
Current payables to related parties						
Financial payables	1,331	11,399	12,730		19,416	19,416
Trade payables	447	9,293	9,740	551	10,739	11,290
Other payables		37,154	37,154		96	96
	1,778	57,846	59,624	551	30,251	30,802
Trade payables	8,348	300,171	308,519	17,168	304,057	321,225
Financial payables		2,127	2,127		1,983	1,983
Tax payables		5,639	5,639		42,555	42,555
Other liabilities	1,411	61,598	63,009		43,542	43,542
Total current liabilities	11,537	427,381	438,918	17,719	422,388	440,107

Schedule 10 - Liabilities by geographical area

Euro/thousand

	31.12.2007					31.12.2006				
	Italy	Rest of Europe	North America	Rest of world	Total	Italy	Rest of Europe	North America	Rest of world	Total
Non current financial payables	2,111				2,111	3,937				3,937
Other non current liabilities	2,394				2,394	2,481				2,481
Total non current liabilities	4,505	0	0	0	4,505	6,418	0	0	0	6,418
Current payables to related parties										
Financial payables	11,399	1,331			12,730	19,416				19,416
Trade payables	9,293	447			9,740	9,587	1,270		433	11,290
Other payables	37,154				37,154	96				96
	57,846	1,778	0	0	59,624	29,099	1,270	0	433	30,802
Trade payables	265,649	32,585	934	9,351	308,519	236,939	67,000	1,032	16,254	321,225
Financial payables	2,127				2,127	1,983				1,983
Tax payables	5,639				5,639	42,555				42,555
Other liabilities	62,362			647	63,009	42,380			1,162	43,542
Total current liabilities	393,623	34,363	934	9,998	438,918	352,956	68,270	1,032	17,849	440,107
	398,128	34,363	934	9,998	443,423	359,374	68,270	1,032	17,849	446,525

Schedule 11 - List of engagements pursuant to article 149 of the issuer rules

Euro/thousand

Type of engagement	Audit firm/other entity engaged	Consideration for year to perform engagement	Total
Auditing services	DELOITTE	357	357
Tax consulting services	DELOITTE PRICE WATERHOUSE		109 8
Administrative services	DELOITTE		48
Foreign branches	PRICE WATERHOUSE		4
		Total considerations	526

Schedule no. 12 - Highlights of most recent financial statements approved by the company exercising direction and coordination (article 2497-bis of the Italian civil code)

FINMECCANICA SPA**STATO PATRIMONIALE****ATTIVO**

ATTIVITÀ NON CORRENTI	861.421
ATTIVITÀ CORRENTI	3.063.722
ATTIVITÀ NON CORRENTI POSSIBILI DI RIVENDITA	4.300
TOTALE ATTIVO	11.661.443

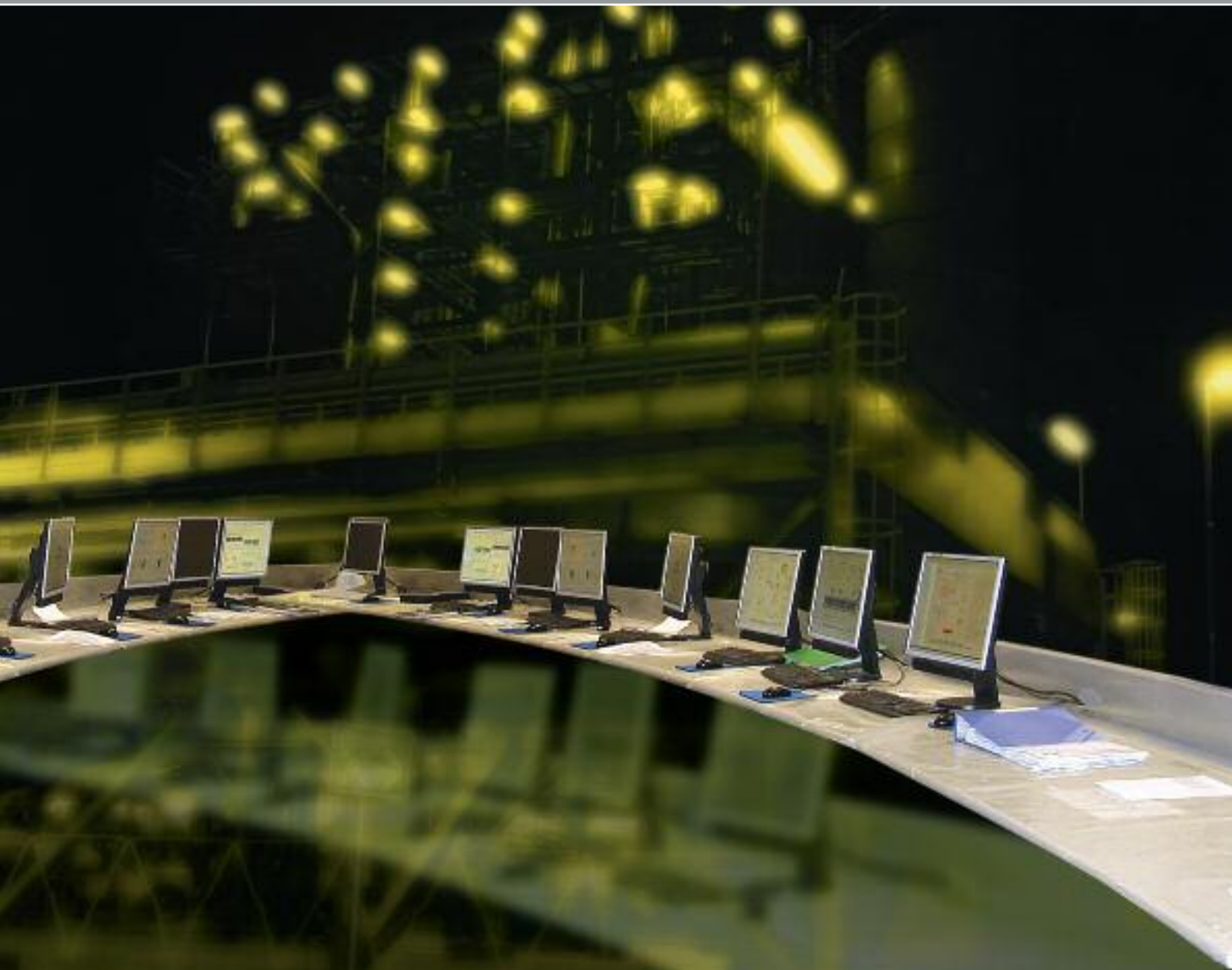
PASSIVO

PATRIMONIO NETTO	
Capitale	1.856.342
Riserva di valutazione	350.812
- Utile dell'esercizio	719.236
	<u>2.926.390</u>
PASSIVITÀ NON CORRENTI	1.249.596
PASSIVITÀ CORRENTI	3.072.906
PASSIVITÀ NON CORRENTI CORRELATE AD ATTIVITÀ NON CORRENTI PER LA VENDITA	
TOTALE PASSIVO	11.661.443

CONTO ECONOMICO

RECUPERO	45.260
ESERCIZIO	2.16.000
PROFITTO O PERDITA SU VENDITA	2.19.610
ESERCIZIO SU RENDIMENTO DELL'ESERCIZIO	58.424
ESERCIZIO SU RENDIMENTO ATTIVITÀ CORRENTI	7.400
UTILE DELL'ESERCIZIO	719.236

LA FINMECCANICA SPA REDIGE IL BILANCIO CONSOLIDATO.



Report of the board of statutory auditors to the financial statements

Dear Shareholders,

during the year ended 31 December 2007 we performed our supervision duties in accordance with the law, the company by-laws and the principles of conduct for Statutory Auditors as recommended by the Italian Accounting Profession (Consigli nazionali dei Dottori Commercialisti e dei Ragionieri).

In particular we:

- a) attended, after the approval of the financial statements relating to the year 2006, the Board meetings held on 23 April 2007, 8 May 2007, 5 September 2007, 8 October 2007, 6 November 2007, 19 December 2007, 28 January 2008 and 22 February 2008;
- b) we held our meetings, after the approval of the financial statements relating to the year 2006 up to the present date, on 8 May 2007, 17 July 2007, 5 September 2007, 6 November 2007, 28 January 2008 and 22 February 2008, in which the supervision activities carried out in accordance with our mandate were recorded in board minutes;
- c) did not receive any requests from shareholders pursuant to article 2408 of the Civil Code;
- d) did not receive any notifications from the Board of Statutory Auditors of subsidiary companies;
- e) had a frequent and useful exchange of information with the Audit Firm appointed in accordance with articles 2409 bis, as amended, of the Italian civil code, with special reference to the application of IAS/IFRS accounting standards, as amended and supplemented, which were introduced for the first time during the preparation of the 2006 financial statements and were also applied to the 2007 statements;
- f) had a frequent and useful exchange of information with the internal audit body, which was completed and the number of its members subsequently increased to four.

At the Board of Directors' meetings, we obtained, also pursuant to article 2381, paragraph 5 of the Italian civil code, detailed and up-to-date information on the activities carried out and on the most important economic and financial operations

undertaken by the company. In accordance with our appointment we had the opportunity, including through meetings with the directors or executives responsible for the different company divisions, that the actions undertaken were always in compliance with the deliberations made, with the law and the by-laws, and were not in potential conflict of interest. Based on this constant supervision work, we can testify that the managerial choices made by the directors, and the consequent actions, were always governed by the principles of prudence and economic rationality and addressed to maximising the expected benefits and safeguarding the assets of the company.

We have acquired knowledge and supervised, in relation to our specific responsibilities, with regard to authorisations to carry out the activities of the company, the adequacy of the organisational, administrative and accounting systems, and also in accordance with article 2403 paragraph 1 of the Civil Code.

Particular attention was addressed to their suitability to perform the tasks assigned and the objectives set, and also to verify, during the year, whether any amendments or changes that have taken place have reduced or modified their operational and managerial efficiency in any manner.

We performed constant controls to verify that the principles of correct administration were respected, by means of direct observation and the gathering of information from the various department managers and through meetings with the Audit Firm.

We assessed and reviewed the adequacy of the company's internal audit, administration and accounting procedures. In the latter case, we also assessed the accounting system for the purposes of ensuring that it accurately represents data on operations, by obtaining information from department managers, and through the results of the work carried out by the independent auditors. We continued to review the activities of the various boards set up by the company in accordance with Legislative Decree No. 231/2001. In particular, we had regular meetings with the company managers

responsible for verifying matters of a critical nature in the Organisational Model or any significant events.

We were not informed of any significant events to report upon but verified that the studies performed by the aforementioned boards resulted in suggestions, whose implementation is and will go on improving the level of procedures, consistently with the principles of the Code of Ethics, administrative practices and the rules issued by the parent company with regard to the company's organisation.

During supervision activities, as described above, no significant events arose such as to warrant mention in this report. We are not aware of any instances where the directors have not complied with the law in the preparation of the financial statements in accordance with article 2423 of the Italian civil code and in the preparation of the directors' report and the notes to the financial statements. The directors provided us with detailed

information on significant events relating to ordinary business operations in 2006 and on the business outlook for 2007.

In view of the matters already reported upon above, and having been informed that the audit firm Deloitte e Touche s.p.a. has completed its work and will issue an unqualified audit report, in accordance with article 2429 of the Civil Code, we express a favourable opinion on the approval of the financial statements for the year ended 31 December 2006, consisting of the Balance Sheet, Income Statement and notes thereto, reporting a profit of Euro 50,458,4638 after income taxes of Euro 53,850,179, and the directors' report as presented by the Board of Directors.

THE BOARD OF STATUTORY AUDITORS

Dott. Giorgio Cumin

Dott. Giorgio Camboni



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**AUDITORS' REPORT PURSUANT TO ART. 156 AND 165
OF ITALIAN LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998**

**To the Shareholders of
ANSALDO ENERGIA S.p.A.**

1. We have audited the financial statements of Ansaldo Energia S.p.A. (the Company), which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. 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 the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For comparative purposes the financial statements present the corresponding data of the prior year. As discussed in the explanatory notes, the Directors have retrospectively adjusted the comparative data related to the audited financial statements of the prior year, on which we issued our auditors' report on March 14, 2007. The methods used for the retrospective adjustment of the corresponding data of the prior period and the information presented in the explanatory notes, with regard to changes made to such data, have been audited by us for the purpose of expressing our opinion on the financial statements as of December 31, 2007.

3. In our opinion, the financial statements present fairly the financial position of Ansaldo Energia S.p.A. as of December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Rovato Torino Trieste Venezia

Member of
Deloitte Touche Tohmatsu

SpAe legale: Via Torino, 25 - 20144 Milano - Capital Sociale: Euro 10.220.200,00 i.v.
Partita IVA/Number for tax purposes: 01209040150 - R.I.A. Milano n. 1/08799

4. The Company, though in the presence of subsidiaries, pursuant to the exemption granted by currently prevailing laws in Italy, did not prepare consolidated financial statements as these are prepared and published by its parent company, Finmeccanica S.p.A.
5. Pursuant to Art. 2497-bis, first paragraph, of the Italian Civil Code, the Company has stated that it is subject to direction and coordination by Finmeccanica S.p.A. and therefore, has included summary financial data from the latest financial statements of Finmeccanica S.p.A. in the explanatory notes. Our opinion on Ansaldo Energia S.p.A. financial statements does not cover this summary financial data.

DELOITTE & TOUCHE S.p.A.

Signed by
Carlo Laganà
Partner

Genoa, Italy,
March 7, 2008

This report has been translated into the English language solely for the convenience of international readers.

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