CONSOLIDATED ANNUAL REPORT 2007

FINCANTIERI

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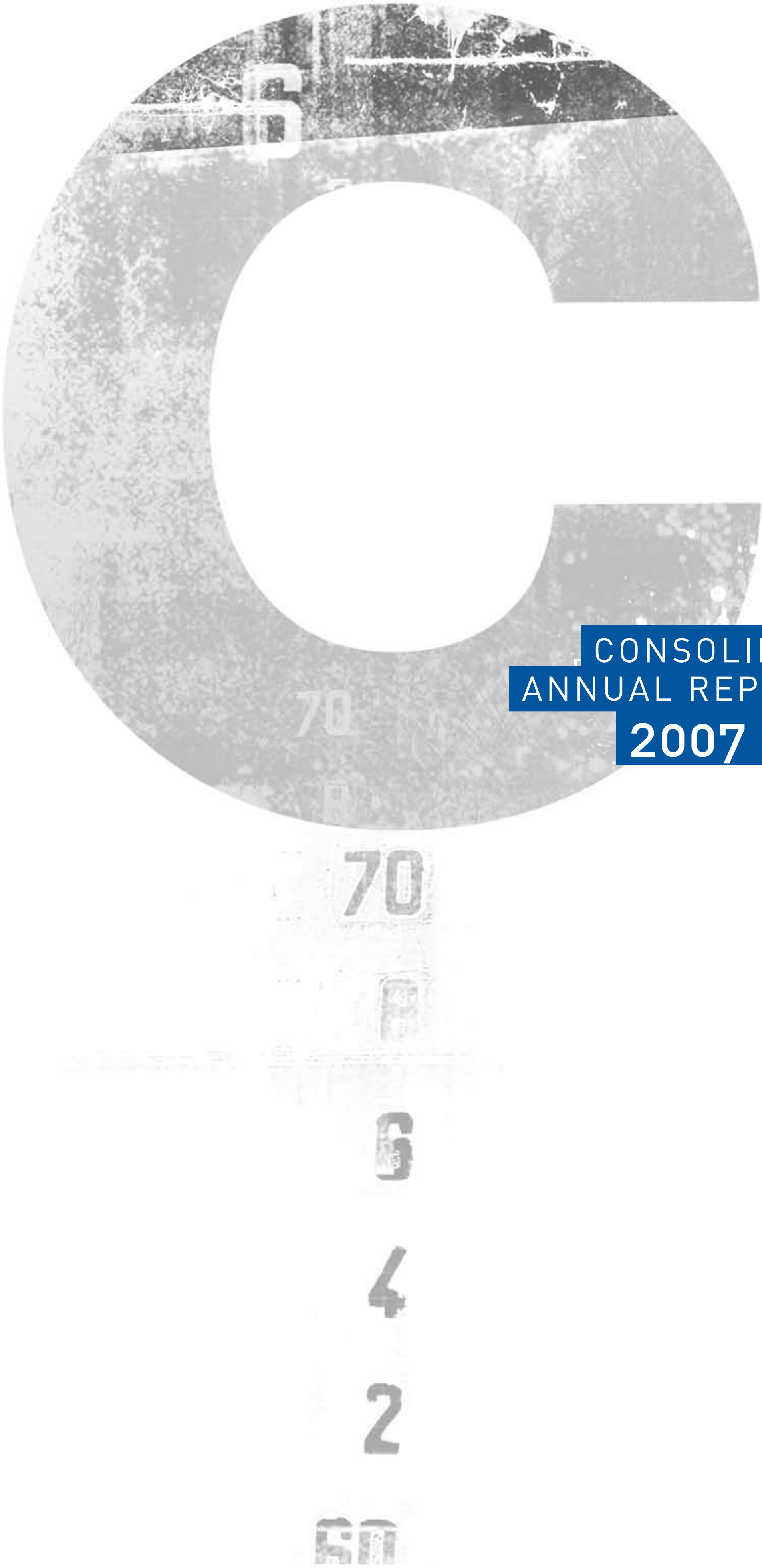
Cantieri Navali Italiani S.p.A.
Parent Company
Registered office 34121 Trieste - Via Genova n.1
Phone +39 040 3193111 - Fax +39 040 3192305
http://www.fincantieri.com

Share capital € 337,111,530.00

Trieste Register of Companies and Tax Code 00397130584
Vat code 00629440322



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CORRADO ANTONINI

CHAIRMAN, FINCANTIERI

For the maritime and shipbuilding industry, 2007 exceeded the most optimistic expectations: driven mainly by the growth of Asian economies, global traffic continued to increase, and, with it, charters, while demand for new ships reached a completely unanticipated high of 86 million compensated gross tons, up 55% from the previous year.

While in 2006 the increase in orders was attributable primarily to demand for tankers, the main drivers in 2007 were bulk and container carriers.

The European and Japanese shipbuilding industries saw their market shares decrease in 2007 (from 10% to 7% and from 19% to 12%, respectively) due to more aggressive policies – also in terms of increased production capacity – by Korea and China.

Europe continues to lead the passenger ship industry (cruise ships and ferries), while retaining a healthy presence in the small-medium specialised ship industry, primarily the offshore segment.

Accounting for 34% of total orders, China secured a position as a leading shipbuilding country. It gained ground on Korea (which remained the leader with 38% of total orders), surpassed Korea in orders for standard ships and became the second-largest builder of high-tech ships. China could be poised to become the new market leader; this, however, depends on its ability to complete, in a timely manner, the sizeable number of orders outstanding, the majority of which are awaiting financing.

Turning to Fincantieri's target markets, the cruise ship industry continued to thrive in 2007, recording 16 million passengers, an average annual growth rate estimated at 8% until 2014 and, as a result, investments by ship owners in 16 new ships. As for the future, it is important to stress that the entry into force of more stringent safety and environmental regulations could affect the prices of new vessels, in addition to the impact of increasing cost trends.

Growth forecasts for the segment are attracting the attention of private equity funds, which have already invested in a number of cruise-ship companies during their relaunch phase to provide them with the capital necessary for additional investments in the construction of new vessels.

Against this backdrop, Fincantieri is ready to serve new customers with innovative, customised products; this is demonstrated by the contracts finalised with Oceania Cruises, Silversea Cruises and Compagnie des Iles du Ponant, companies that have enlarged Fincantieri's traditional client base, - the Carnival Group - which continues to account for the largest portion of the company's sizeable orders backlog.

The large-ferry segment also performed well in 2007, counting 15 new ferries ordered; the limited availability of shipbuilding slots among consolidated shipbuilders has allowed the entry of new companies, as well as the return of Korea after several years of absence. However, due to Europe's increasing awareness of problems relating to pollution and congested roadways, the development of the so - called "Highways of the seas" can no longer be postponed, a situation that translates into optimistic forecasts of future demand. The new vessels Fincantieri is currently building for Grimaldi are ideal for meeting this need.

The ship repairs and conversions area continues to perform well, mainly in terms of refurbishment and refitting of high-technology ships, where Fincantieri's know-how can be best applied.

In a global scenario characterised by sharp increases in energy requirements and oil prices, demand for offshore vessels is on the rise. In this area, Indian and Chinese shipyards are gaining ground on Europe, which is often at the forefront of technology and design.

In terms of naval ships, 2007 saw the conclusion of important programmes by Europe's main navies: at the beginning of 2008, the approval procedure for the second tranche of Italian frigates (as part of the Italian-French FREMM programme) was completed, further increasing our company's backlog.

In Europe, initiatives sponsored by the European Defence Agency (EDA) aimed at increasing the integration of Europe's defence industries continued; at the same time, the EU is in the process of fine tuning two directives (called the "Defence Package"), one of which is aimed at facilitating the exchange of defence-related items among European countries (Intra-Community Transfer Directive) and the other of which is aimed at limiting the exemptions allowed under the European Treaty when awarding public contracts in the fields of defence and security (Public Procurement Directive), the latter of which could be of particular interest for the marine segment.

Growing interest in luxury goods has driven the demand for mega yachts, as can be seen by the 29 new orders globally for vessels over 70 meters. The majority of competitors are European, as these companies have a long-standing reputation built on elements such as design, skilled labour and specialized suppliers. With a backorder consisting of three vessels, Fincantieri Yachts has become part of the select circle of builders of large luxury vessels.

With regard to the competitive scenario, the most significant occurrence in 2007 was the acquisition by Korean Group STX of Aker Yard, an initiative which has certainly changed the European picture in a manner never considered before.

Against this backdrop, the European industry must — now more than ever — think about its future and commit itself unequivocally to retaining its leadership position over competitors. The most effective defence strategy is to distance itself from competitors from a technology standpoint by engaging in increasingly intense and effective research and development activities. But to ensure the company's success in the future, the EU must provide additional, solid support based on appropriate industrial policy objectives.

From our side, we are ready to face any and all challenges, provided that competition is fair and in compliance with the laws by which all must abide.

CORRADO ANTONINI
Chairman Fincantieri


CP901

GIUSEPPE BONO

CHIEF EXECUTIVE OFFICER, FINCANTIERI

Strong balance sheet and financial position, recognition on an international level and success in all core markets are some of the factors that state the excellent health of Fincantieri.

2007 balance sheet has confirmed positive results, in line with recent years, with a record level of 2.6 Euro/billion of value of production, a net income of 45 Euro/million and a dividend distribution of 10.1 Euro/million for the fourth year in a row.

Our market strength is showed by our 12 Euro/million orders backlog, which will keep Fincantieri busy in the coming years with the construction of many prototypes.

In 2007, the Company worked to further expand its customer portfolio and develop new products, both within its core business areas and in those recently started.

In the merchant vessels segment, in addition to being able to rely on the continuity of investments by the Carnival Group, Fincantieri was also able to acquire new customers in the luxury cruise ship segment: Oceania Cruises, Silversea Cruises and, early this year, Compagnie des Iles du Ponant. This

has pushed the Company to start using the Ancona yard for the construction of small-medium cruise ships, a change that confirm the flexibility of the Company's production system.
Results were good also in the ship repairs and conversions segment; Fincantieri strengthened its presence not only in the passenger ship area, by offering a worldwide service, but also in other areas in which the Company's can compete successfully thanks to its skills and facilities (e.g. order from Saipem for over 200 Euro/million).
In naval ships, in addition to the approval of the second part of the FREMM programme for the Italian Navy, important orders were secured in Turkey, Iraq and India.
Fincantieri's high level of flexibility has led in operating in new markets, and therefore in seizing the best emerging opportunities, to strong results in both the mega yacht and offshore segments.
Fincantieri's product niches, characterised by a high level of technological content and customisation, require – and will require in the future – initiatives aimed at supporting sustainable growth while proposing state-of-the-art products to an increasingly demanding clientele.
As stated in the Company's Business Plan, these goals require significant investments both on the design side (implementation of a new CAD/CAM system) and on the production side (shipyard systems and logistics).
It is also important to stress the close link between these investments and R&D activities, for which the Company has set aside approximately 50 Euro/million (in line with past years).
We are aware of the strategic importance that these activities have in a competitive market, where competition is constantly pushing technological boundaries to new heights.
Our commitment is shown by our participation in many national and international R&D Programmes; Fincantieri is involved in all phases of the projects, also in the hope of ensuring the continued attention of institutions to these initiatives and their funding.
In 2007, many initiatives were addressed to human resources, which are the pillar for achieving and exceeding our goals. One of the most important ones, involving employee's safety, led to the signing of a Safety Protocol with the Minister of Health, thus requiring the transfer of knowledge and technologies through intensive training. Last but not least, to increase Company's focus on meritocracy in setting compensation, bonuses were awarded to salaried employees who stood out in terms of merit and commitment.
The Group will face many challenges in the future.
Despite Fincantieri's position as one of the world's leading shipbuilders, the exceptional results we have achieved to date cannot let us forget the increasingly intense global competition that is closing in on Europe; Fincantieri must therefore constantly improve its competitiveness in all business areas. The acquisition of a stake in our largest European competitor by the Korean Group STX is a clear indication of the dangerous reduction in technological gap.

Against this backdrop, the need to implement the initiatives (especially the capital increase) set out in the 2007-2011 Business Plan, approved by the Shareholders in 2007, becomes even more pressing. We cannot be unprepared to face the challenges that await us: in the competitive arena in which we operate, where the risk of being marginalised continues to escalate, everyone must be committed to defending the technological excellence achieved and developed through years of intense work — ours as well as that of our partners.

Giuseppe Bono

GIUSEPPE BONO
Chief executive officer Fincantieri

Contents

The Consolidated Annual Report issued in Italian has been translated into English solely for the convenience of international readers.

Corporate Boards Of The Parent Company

BOARD OF DIRECTORS

(2006-2008)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	GIORGI Giorgio
	OSTILLIO Massimo
	PARLATO Francesco
	PRATO Maurizio (*)
	REBULLA Luciano
	DOMINEDÒ Pierpaolo (**)
Secretary	CASTALDO Maurizio

(*) until 7 February 2008

(**) as of 28 March 2008

BOARD OF STATUTORY AUDITORS

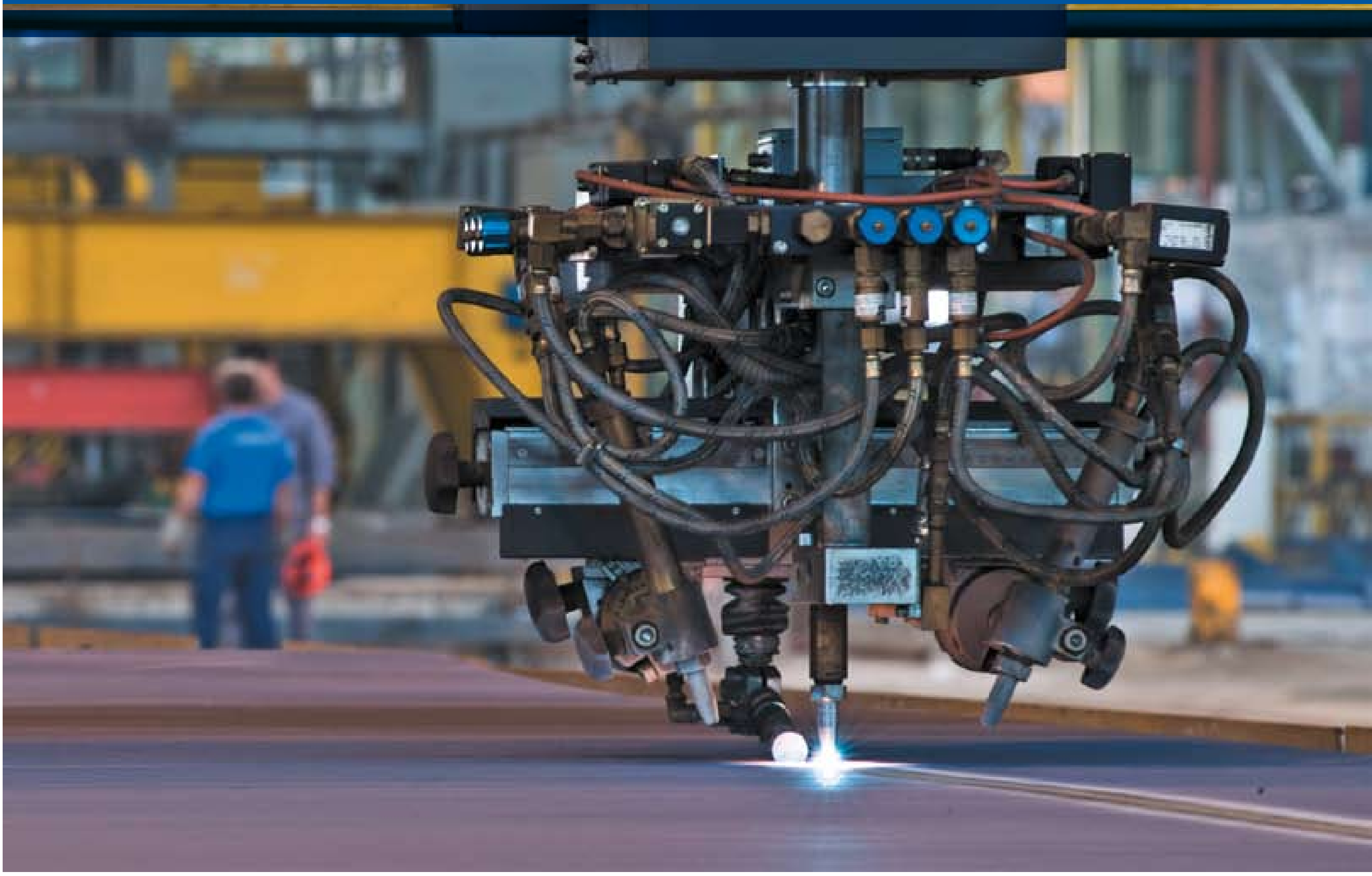
(2005-2007)

Chairman	PUCCI Bruno
Auditors	ALEMANNI Pierluigi
	TRAUNER Sergio
Alternate Auditors	GENTILE Giancarlo
	MANCINI Alberto

INDEPENDENT AUDITORS

(2006-2008)

PricewaterhouseCoopers S.p.A.



Report on operations

THE YEAR IN REVIEW

FOREWORD

The 2007 consolidated financial statements were prepared in accordance with International Reporting Standards (IFRS); therefore, the 2005 and 2006 financial statements have been restated in accordance with the same standards.
A section in the Notes to the Financial Statements describes the procedures used upon transition from Italian GAAP to IFRS and specifies all changes made.

RESULTS

Net income exceeded 36 Euro/million in 2007, despite the negative currency effects of the depreciation of the US dollar.
Upward trends were also recorded for the key income statement and balance sheet items:
- at 2,714 Euro/million, the value of production increased by nearly 9% compared to 2006, a new record for the Group;
- excluding non-recurring items, operating income amounted to over 129 Euro/million, up more than 15% compared to 2006;
- net financial position maintained a positive balance of 123 Euro/million.

ORDERS AND BACKLOG

At 4,238 Euro/million, total orders exceeded the record achieved in 2006: 8 cruise vessels plus 2 on options; 4 patrol vessels for Iraq; 8 supply vessels; 1 mega yacht; fitting out of one offshore platform; refitting of cruise vessels; 80 Euro/million in engines and other mechanical components (with Isotta Fraschini Motori showing signs of a comeback). Numerous negotiations are currently underway, some of which are in the final phase.
At 12,013 Euro/million, the Group's backlog, which is challenging from a design and production standpoint due to the number of prototypes involved, is sufficient to fill production capacity for the next three-four years.

INVESTMENTS – R & D AND INNOVATION

Fincantieri's investment plan (which, at 116 Euro/million, is considerably higher than in past years, in line with the 2007-2011 business plan) is aimed at increasing the efficiency of its production facilities mainly by increasing production volumes and the related economic benefits.
The Group realises that research and innovation are fundamental to its success and future competitiveness. For this reason, it invested a total of 51 Euro/million in 2007, and multiple projects focusing on production innovation and process are underway.

DIVIDENDS

For the fourth year in a row, the Parent Company proposed to distribute dividends that, together with those approved from 2004 on, would amount to more than 40 Euro/million in dividends paid to shareholders, equivalent to 3% of share capital per year.

MARKET SCENARIO

The Group has laid the groundwork for expansion with the goal of increasing its customer portfolio and developing products to meet the constantly changing needs of the market, both in relation to its traditional businesses as well as those started in recent years.
The Group will face numerous challenges in the future. With intense global competition moving closer to Europe, the Group must constantly increase its competitiveness in all business areas.
The recent acquisition by Korean shipbuilding group STX of an interest in Aker Yards – one of the Group's main competitors in the area of cruise ships – demonstrates the attractiveness of our markets to companies in the Far East.
It is imperative, therefore, that we, as well as the numerous other shipbuilders in Europe, defend the technological excellence achieved through years of intense work. Against this backdrop, the need to implement the 2007-2011 plan approved by the Parent Company's shareholders in 2007, along with the related capital increase, becomes even more evident.

OPERATING HIGHLIGHTS

		2007	2006	2005
Orders (*)	in millions of Euro	4,238	4,173	1,192
Order portfolio (*)	in millions of Euro	12,013	10,270	7,804
Order backlog (*)	in millions of Euro	8,067	6,222	4,495
Capital expenditure	in millions of Euro	116	72	71
R & D	in millions of Euro	51	48	50
Employees at year-end	No.	9,358	9,159	9,383
Revenues	in millions of Euro	2,714	2,495	2,321
Operating income (EBIT)	in millions of Euro	129	115	107
Adjusted operating income (**) (EBIT adjusted)	in millions of Euro	134	116	117
Net income before income tax expenses	in millions of Euro	87	107	119
Net income	in millions of Euro	36	38	63
Net invested capital	in millions of Euro	712	633	683
Equity	in millions of Euro	835	810	803
Net financial position	in millions of Euro	(+)123	(+)177	(+)119
Free cash flow	in millions of Euro	-22	76	-265
Ships delivered	No.	11	8	6

(*) Net of eliminations and consolidation; (**) Excluding non-recurring income and expenses.

With reference to the information provided in the Foreword section on the accounting standards used, the following section includes the Group's income statement and balance sheet prepared in accordance with Italian GAAP (the 2005 and 2006 figures were taken from the approved annual reports, while the 2007 figures were prepared pro-forma).

		2007	2006	2005
Value of production	in millions of Euro	2,673	2,467	2,269
Operating income	in millions of Euro	125	125	111
Net income before income tax expenses	in millions of Euro	78	111	105
Net income	in millions of Euro	45	52	51
Net invested capital	in millions of Euro	689	636	621
Equity	in millions of Euro	813	779	747
Net financial position	in millions of Euro	(+) 124	(+) 143	(+) 126

On the following page, the main differences between IFRS and Italian GAAP that impacted the key income statement and balance sheet figures are shown with brief explanations.
A more detailed analysis of the transition is provided in Note 30 of the Notes to the Financial Statements.

RECONCILIATION BETWEEN IFRS AND ITALIAN GAAP

in millions of Euro		2007	2006	2005	Total	
INCOME STATEMENT						
Net income before income tax expense	IFRS	86.9	107.3	118.8		
	ITA (*)	77.6	111.2	104.7		
	Difference	9.3	-3.9	14.1	19.5	Note A
Income tax expense	IFRS	50.6	69.0	56.0		
	ITA (*)	32.9	58.7	53.6		
	Difference	17.7	10.3	2.4	-30.4	Note B
Net income	IFRS	36.3	38.3	62.8		
	ITA (*)	44.7	52.5	51.1		
	Difference	-8.4	-14.2	11.7	-10.9	
SHAREHOLDERS' EQUITY						
Shareholders' equity	IFRS	835.0	809.7	803.4		
	ITA (*)	812.6	778.8	747.4		
	Difference	22.4	30.9	56.0		Note C

(*) See the previous page for an explanation of the figures provided for 2005, 2006 and 2007.

Note A

The total difference for the three years is mainly due to a reduction in allocations to the employee benefit liability (15.2 Euro/million) calculated using the actuarial method (IFRS) for calculation as opposed to the contract-based method (Italian GAAP). Other factors included the capitalisation of development costs (IFRS), which were expensed under Italian GAAP, and other items that are not individually material (foreign currency hedges; separation of land from related buildings, etc.).

Note B

The entire amount of the difference is attributable to deferred taxes, most of which (23.4 Euro/million) were recorded on the transition date (1 January 2005) and recognised in equity and regards changes not expressed in accordance with Italian GAAP. Deferred taxes were also recorded in relation to items that improved net income before income tax expense (specified in Note A).

Note C

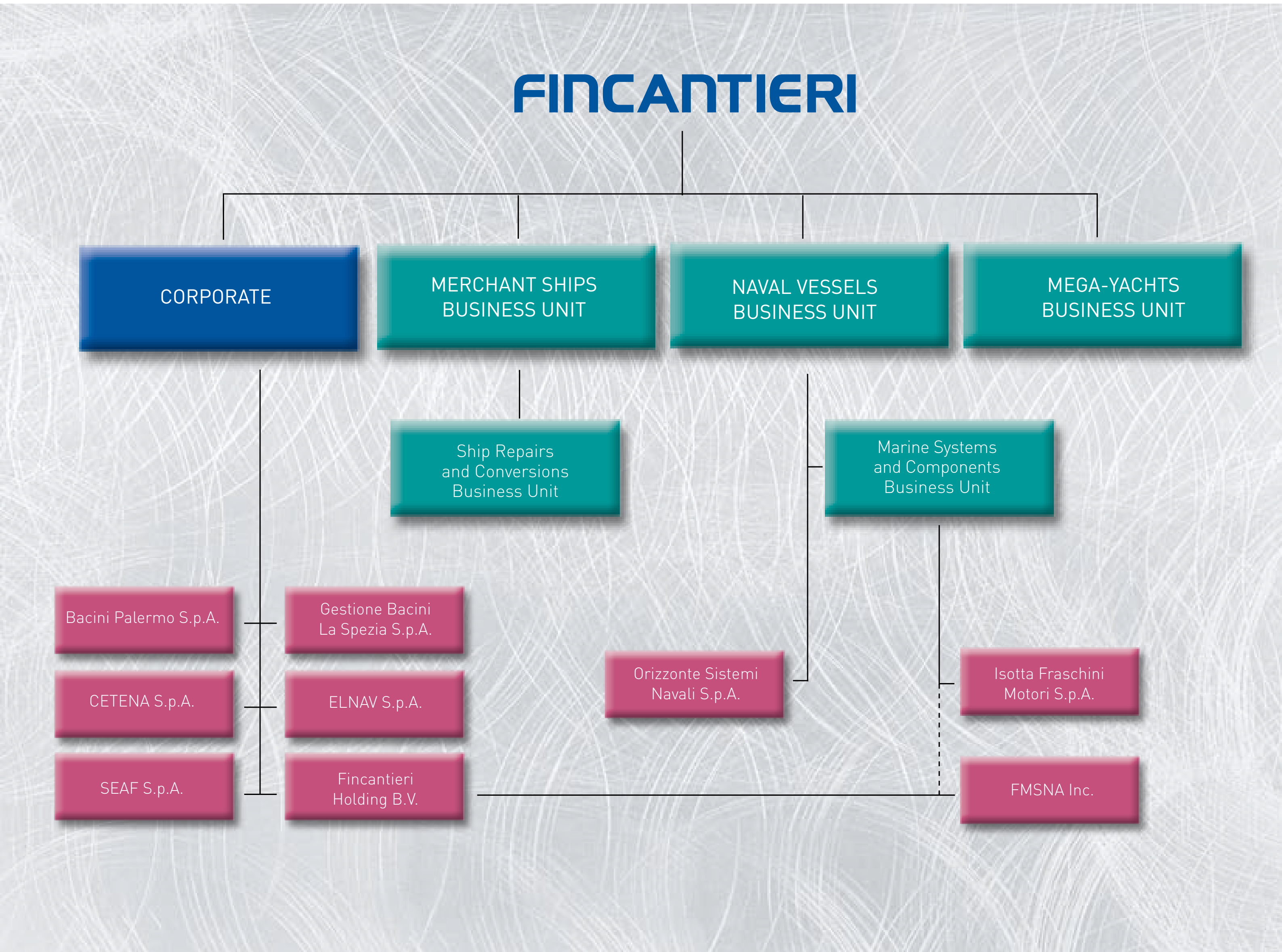
Annual differences are attributable to the Reserve for the First-Time Adoption of IFRS (32.4 Euro/million), the Fair Value Reserve (which had a significant balance at 31 December 2005 only), changes in consolidation area and differences (cumulative) in net result.

It is important to note that the Reserve for the First-Time Adoption of IFRS becomes available as the items for which it was established are absorbed (provided that the Parent Company's separate financial statements are also prepared in accordance with IFRS). In that case, at 31 December 2007, 16 Euro/million would have been available.

GROUP PROFILE

The Parent Company, Fincantieri Cantieri Navali Italiani S.p.A., has maintained its current structure since 1984.
At the end of 2007, 98.789% of the company's share capital (337.1 Euro/million) was held by Fintecna - Finanziaria per i Settori Industriale e dei Servizi S.p.A. The rest of the company's capital was held by various private investors, including a financial institution that held 1.210%.
No changes in ownership occurred up to the time this report was prepared.

The Group's structure and a brief summary of the companies included in the consolidated financial statements are provided below.



WORKING TOGHETHER AS ONE LARGE, FLEXIBLE SHIPYARD

- BUSINESS UNITS
- SHIPYARDS
- SUBSIDIARIES
- DOCKS

TRIESTE
- HEAD OFFICE
- MERCHANT SHIPS

GENOVA
- NAVAL VESSEL
- MARINE SYSTEMS
- CETENA
- ORIZZONTE SISTEMI NAVALI

MUGGIANO
- MEGA-YACHTS

PALERMO
- SHIP REPAIRS AND CONVERSIONS

BARI
- ISOTTA FRASCHINI MOTORI

USA
- FINCANTIERI MARINE SYSTEMS NORTH AMERICA INC.

BREMERHAVEN
- LLOYD WERFT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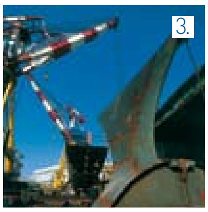
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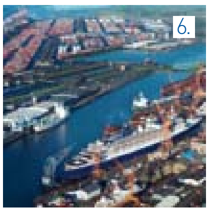
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1. Sestri Ponente
2. Palermo
3. Marghera
4. Monfalcone
5. Ancona
6. Lloyd Werft
7. Riva Trigoso
8. Muggiano
9. Castellammare di Stabia

CONSOLIDATED COMPANIES

Company name /Main activity	Registered office		Share capital	% held	
Companies consolidated using the line-by-line method					
BACINI DI PALERMO S.p.A. Dry-dock management	Palermo	Euro	1,032,000.00	100.00	Fincantieri
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA S.p.A. Naval research and testing	Genova	Euro	1,000,000.00	71.10 15.00 86.10	Fincantieri SEAF
ELNAV ESERCIZIO E LOCAZIONE NAVI S.p.A. Ship-owning company	Trieste	Euro	2,580,000.00 (paid up € 1,135,200.00)	49.00	Fincantieri
FINCANTIERI HOLDING B.V. Management of investments in foreign companies	Amsterdam (NL)	Euro	9,529,387.54	100.00	Fincantieri
FINCANTIERI MARINE SYSTEMS NORTH AMERICA INC. Sales and assistance services of mechanical constructions	Delaware Corporation based in Chesapeake (USA)	USD	501,000.00	100.00	Fincantieri Holding
GESTIONE BACINI LA SPEZIA S.p.A. Dry-dock management	Muggiano (La Spezia)	Euro	260,000.00	99.90	Fincantieri
ISOTTA FRASCHINI MOTORI S.p.A. Design, construction, sale and assistance services for fast medium-power diesel engines	Bari	Euro	12,546,000.00	100.00	Fincantieri
SOCIETÀ PER L'ESERCIZIO DI ATTIVITÀ FINANZIARIE SEAF p.A. Financial support to Group companies	Roma	Euro	1,032,000.00	100.00	Fincantieri
Company consolidated using the equity method (*)					
ORIZZONTE SISTEMI NAVALI S.p.A. Management of contracts for the supply of large naval vessels	Genova	Euro	20,000,000.00	51.00 (49%	Fincantieri Finmeccanica)

(*) Orizzonte was consolidated using the line-by-line method until 2005.

MERCHANT VESSELS

MARKETS

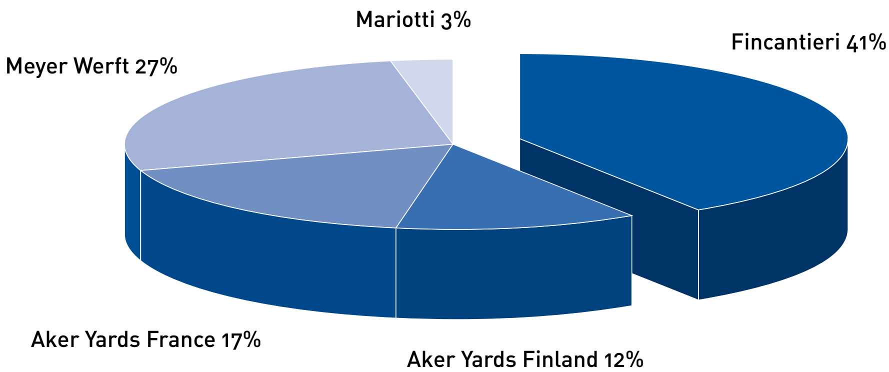
General Shipping

Again in 2007, market globalisation and the expansion of Asian economies were the driving forces behind global maritime traffic, which increased by 4% compared to 2006. For the shipping industry, this has translated into an increase in charters, mainly for dry bulk freight.
Preliminary figures for 2007 indicate new record levels of demand for merchant vessels: 86 million compensated gross tons (CGT) – a 55% increase from 2006.
The increase was mainly attributable to standard ship orders (63 million CGT; +80%), which were fuelled by an increase in demand for bulk and container carriers that more than compensated the decrease in the tanker and product carrier segment.
Orders in the high-tech segment, on the other hand, saw little change, due to the combined effect of a slowdown in demand for gas tankers (LNG and LPG) and the positive performance of other types of vessels.
The demand for cruise ships increased as well, reaching 1.7 million CGT (+14% compared to 2006).

Against this backdrop, while the European shipbuilding industry recorded an order volume in line with last year's (5.7 million CGT), its market share decreased from 10% to 7%. Europe upheld its leading position in passenger ships (cruise ships and ferries), while maintaining a good position in the working vessels and small to medium-sized vessels segment and a marginal presence in the standard ship construction segment.
The Japanese shipbuilding industry, which also recorded order volumes similar to last year's, saw its market share decrease from 19% to 12%. This was the result of Japan's use of more prudent policies on increasing production capacity compared to those of its Korean and Chinese competitors. In Japan as well, however, initiatives aimed at consolidating large shipbuilding groups are on the rise, as expansion is considered an essential tool for increasing competitiveness in that it allows companies to take advantages of the synergies between them. Specifically, discussions are underway concerning a merger between Japan's two leading shipbuilders, IHI Marine United and Universal Shipbuilding.
With a 38% market share, South Korea is the market leader, followed by China (34% of global demand). China surpassed Korea in orders for standard ships and doubled its market share in the high-tech segment to become the world's second-largest shipbuilder.
Moreover, China has been investing massive sums in its fleet and is able to support national shipbuilders with domestic orders, which tripled compared to last year (from 2.2 million CGT to 7.1 million CGT). Another important consideration is the volume of orders secured by Chinese shipbuilders that have foreign investors (Daewoo, Tsuneishi and Damen).

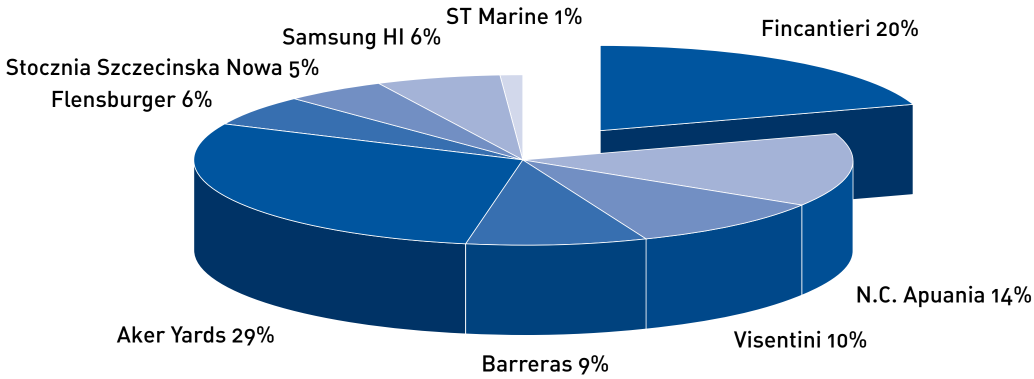
Cruise Ships

The cruise ship market continues to exhibit considerable vitality: preliminary 2007 figures show a continuation of the growth trend in the number of passengers transported, which is expected to stand at about 16 million.
Europe, and in particular the Mediterranean, is attracting increasing interest from ship owners, which, to capture a market fragmented by different nationalities, lifestyles and disposable income, are continuing to offer new ships under brands aimed at the different national markets (25% increase in the number of ships offered compared to 2006).
Private equity funds, which have acquired stakes in a number of cruise-ship companies, are gaining interest in this segment. In a brief time period, the Apollo Management Fund acquired Oceania Cruises, Regent Seven Seas Cruises and 50% of Norwegian Cruise Lines.
An increase in the number of cruise passengers and the entry into force of regulations that will require a certain number of ships to be removed from the current fleets are the drivers behind the growth forecasts for the segment in the medium to long term.
The most significant event in terms of competition was the acquisition by Korea's STX Group of 39.2% of Aker Yards; the final decision on the acquisition is being reviewed by the European Commission.
With global orders totalling 16 new ships, Fincantieri has finalised eight orders from the Carnival Group and other ship owners operating in the luxury cruise ship segment.
This secured the Group a market share of over 40% (in terms of CGT) at the end of December 2007, as shown in the following chart.


Mariotti 3%
Fincantieri 41%
Meyer Werft 27%
Aker Yards France 17%
Aker Yards Finland 12%

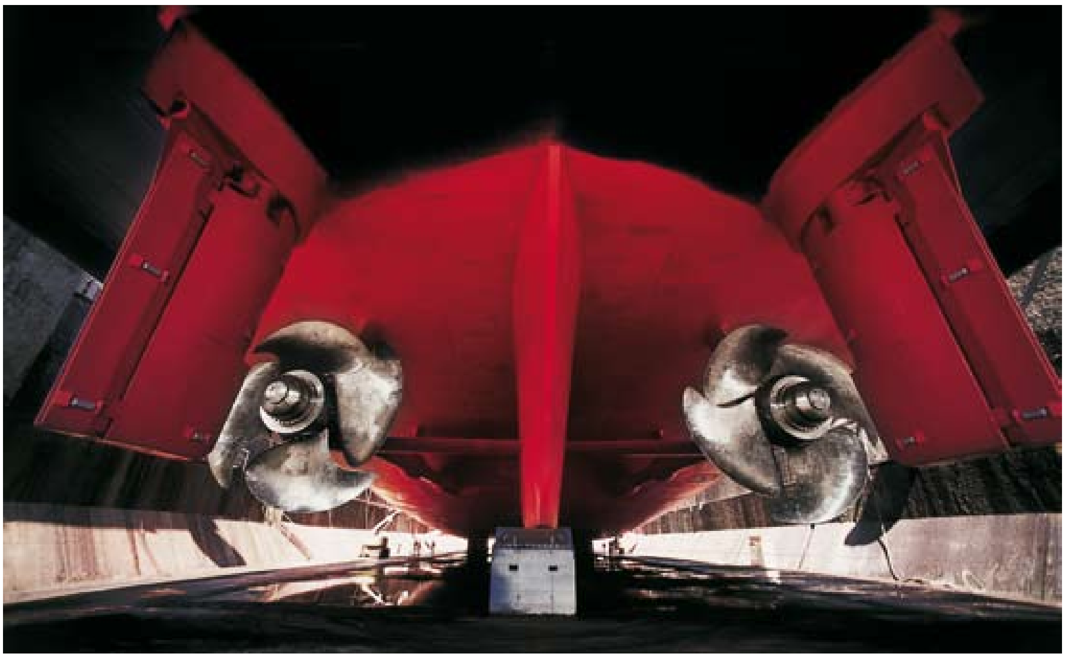
Ferries

The large-ferry segment (length of over 150 metres) regained momentum in 2007, recording 15 orders compared to eight in 2006.
The slump seen in 2006 was, however, caused mainly by the consolidation of ship owners (which is still underway).
The traditional demand drivers – advanced fleet age, increased volume of passengers and merchandise transported, expansion of coastal shipping and intensification of safety and environmental protection regulations – continue to support a favourable outlook for the segment.
Ship owners preferences are continuing to shift towards highly versatile vessels designed to transport both merchandise and passengers that can meet the needs of the "Motorways of the sea".
In terms of competition, the bulk of business is divided among a small number of large shipbuilders offering broad product ranges and a group of smaller shipbuilders that build standardised ships with a low level of customisation.
The low availability of shipbuilding slots among established shipbuilders has allowed new companies to enter the segment.
At the end of 2007, orders for large ferries stood at 35, with an overall CGT of 1.1 million, as shown in the following chart (broken down by percentage of total CGT).



Repairs and Conversions

The demand for repairs and conversions continued to rise, particularly in the markets targeted by Fincantieri: cruise ships, ferries and offshore vessels.
The increase in repair and conversion orders for cruise ships is linked to fleet expansion and restyling needs (both for older and new-generation ships) aimed at meeting standards for comfort, safety and entertainment.
Now more than ever, the market requires the availability of a worldwide service, which Fincantieri can offer either directly through its shipyards in Trieste (currently being renovated) and Palermo, through its subsidiary Lloyd Werft or, if necessary, through third-party facilities, as was recently the case with an order for Celebrity Cruises that was completed at a shipyard in the US.
Prospects for the offshore segment are likewise favourable in terms of intensifying research and the use of hydrocarbon deposits.



OPERATIONS

(Millions of Euro)	2007	2006	2005
Orders	3,691	3,049	1,074
Order portfolio	8,009	6,301	4,801
Order backlog	6,226	4,358	3,211
Capital expenditure	88	45	31
Ships Delivered (No.)	8	6	5

Orders

In the cruise ship segment, five new ships were purchased in 2007 for the Carnival Group's various brands. Also in 2007, important negotiations were completed with Oceania Cruises and Silversea Cruises – two new additions to Fincantieri's customer portfolio – for building five luxury cruise ships (including two on option). Orders included:

- two 114,500 GT "Concordia" class vessels for Costa Crociere;
- one extra-luxury, 92,000 GT cruise ship, the Queen Elizabeth (commissioned by Carnival PLC), which, for the Cunard brand, will be the second largest ship after the Queen Mary 2;
- one 86,000 GT vessel for the new "Signature of Excellence" class, sister vessel of the Eurodam, for the HAL Antillen brand;
- one 113,500 GT vessel similar to the Ventura for British brand P&O Cruises;
- two 65,000 GT vessels for Oceania Cruise Lines (commissioned by Marina Newbuilding and Riviera Newbuilding), plus an option for a third ship;
- one 540 passenger, 36,000 GT cruise ship for Silversea Cruises, leader in the extra-luxury segment; the agreement includes an option for a sister ship.

During the year, the Grimaldi Group contract was modified to allow for an increase in the sizes of two ferries that had been previously ordered to make them "sisters" of two ships already under construction.

Fincantieri has also strengthened its presence in the offshore and refitting areas; the attainment of an important order from Saipem for the completion and fitting of the drilling rig Scarabeo 8 marks the Group's re-entry into the offshore vessel market.
Ship repair and refitting orders, most of which involved renovations of the cruise ships Westerdam, Zuiderdam and Oosterdam, totalled 60 Euro/million in 2007.

Backlog

At the end of the year, Fincantieri's workload (6,226 Euro/million, against 4,358 Euro/million at the end of 2006) was sufficient to satisfy the production capacity of some shipyards for all of 2010 and, in some cases, even beyond.
In addition to these orders, the Direzione Navi Militari (Naval VesselBusiness Unit) commissioned the Palermo shipyard to build four supply (AHTS) vessels.
To capitalise on opportunities offered by the market and take advantage of the flexibility of the company's production system, the Ancona yard is used for building small-medium cruise ships.
Backlog (total value of undelivered orders) at the end of 2007 was 8,009 Euro/million, compared to 6,301 Euro/million at the end of 2006.

Capital Expenditure

The most significant initiatives included:

- at the Marghera yard, the completion of covered and uncovered hull outfitting areas and the reorganisation of the outfitting areas of the new dock (from a logistics and production standpoint); the continuation of work to improve the safety of outfitting areas;
- at the Monfalcone yard, the start of construction of two robotised stations in the new flat-block line, the upgrading of the robotised sub-assembly line and a third plasma cutting system;
- at the Sestri yard, the completion of restructuring work on the administrative offices, outfitting departments and cafeteria; the continuation of renovations to systems and other production-related areas;
- at the Ancona yard, the start of a programme aimed at restructuring the yard's logistics and the completion of the new sandblasting/block painting workshops;
- at the Castellammare yard, the completion of production and service systems (restructuring of the profile yard and replacement of the old plasma cutting system) and the continuation of safety-improvement programmes;
- at the Palermo yard, the continuation of upgrades to the operating infrastructure for ship repairs.

Production

The highlights of 2007 production are provided below:

(number)	Keel laying	Launches	Deliveries
Cruise Ships	4	4	4
Ferries	2	3	4
Repairs and Conversions			56 (a)

(a) completions

The following ships were delivered:

- Carnival Freedom – 110,300 GT cruise ship delivered to Carnival,
- Emerald Princess - 113,500 GT cruise ship delivered to Princess Cruise Lines,
- Costa Serena – 114,500 GT cruise ship delivered to Costa Crociere,
- Queen Victoria - 89,500 GT cruise ship delivered to Carnival for the Cunard brand,
- Europalink – 42,100 GT ferry delivered to Finnlines,
- Finn Lady – 42,100 GT ferry delivered to Finnlines,
- Nordlink – 42,100 GT ferry delivered to Finnlines,
- Fram – 12,000 GT ro-pax ferry (more appropriately defined as an expedition cruise vessel), delivered to Hurtigruten Group.

The Palermo yard managed the repairs of 53 ships, in some cases working with other shipyards in Italy and the US. Major refitting projects involving three cruise ships were also completed.

NAVAL VESSELS, SPECIAL VESSELS AND MEGA-YACHTS

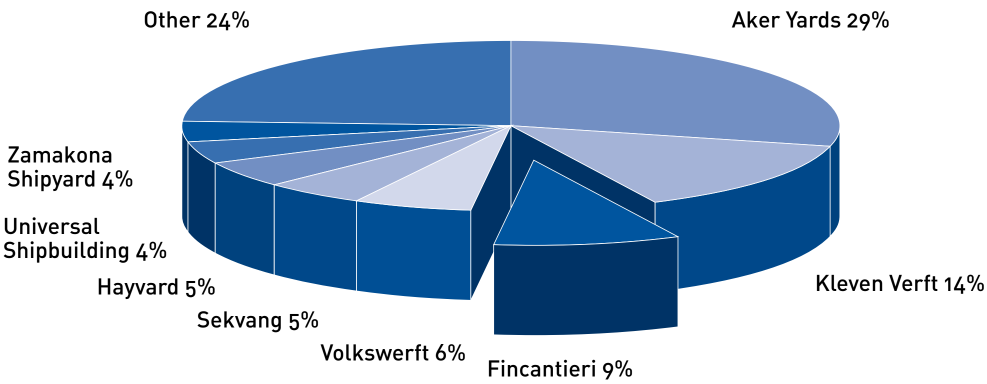
MARKETS

Naval Vessels

On a global level, in 2007 12 military programs involving 56 ships amounting to over 16 Euro/billion were confirmed (+40% compared to 2006, in terms of value).
Nearly all orders were related to programmes conducted by ship-building countries such as Great Britain and Germany that have begun renovating their fleets of high-technology ships, aircraft carriers and frigates.
Demand from countries unable to meet their shipbuilding needs through the domestic industry was relatively moderate in 2007. Now more than ever, however, these countries are requesting the local construction of vessels and the transfer of project know-how – especially for less high-tech vessels.
As for Italy, in 2007, the Group intensified its efforts to successfully conclude the second phase of the FREMM (Multi-mission frigates) programme.
At the European level, the consolidation process continued with the merger of two UK leaders, BAE Systems and VT Group, as did initiatives sponsored by the European Defence Agency (EDA) aimed at increasing the integration of Europe's defence industries and increasing its autonomy in defence procurement.

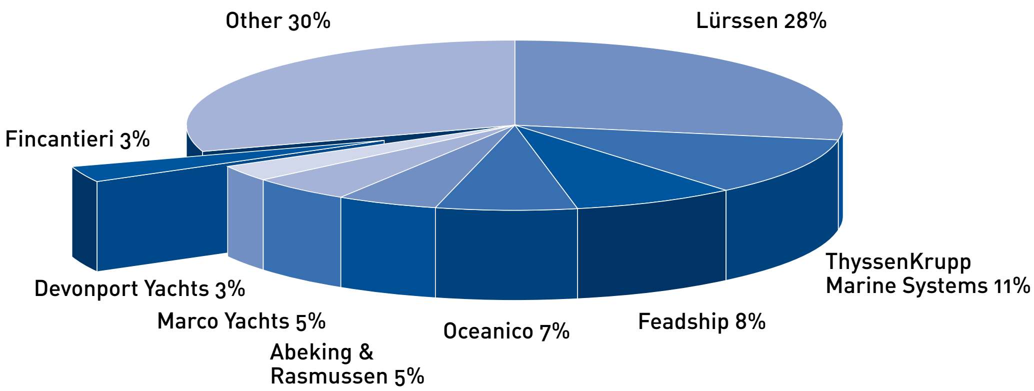
Special Vessels

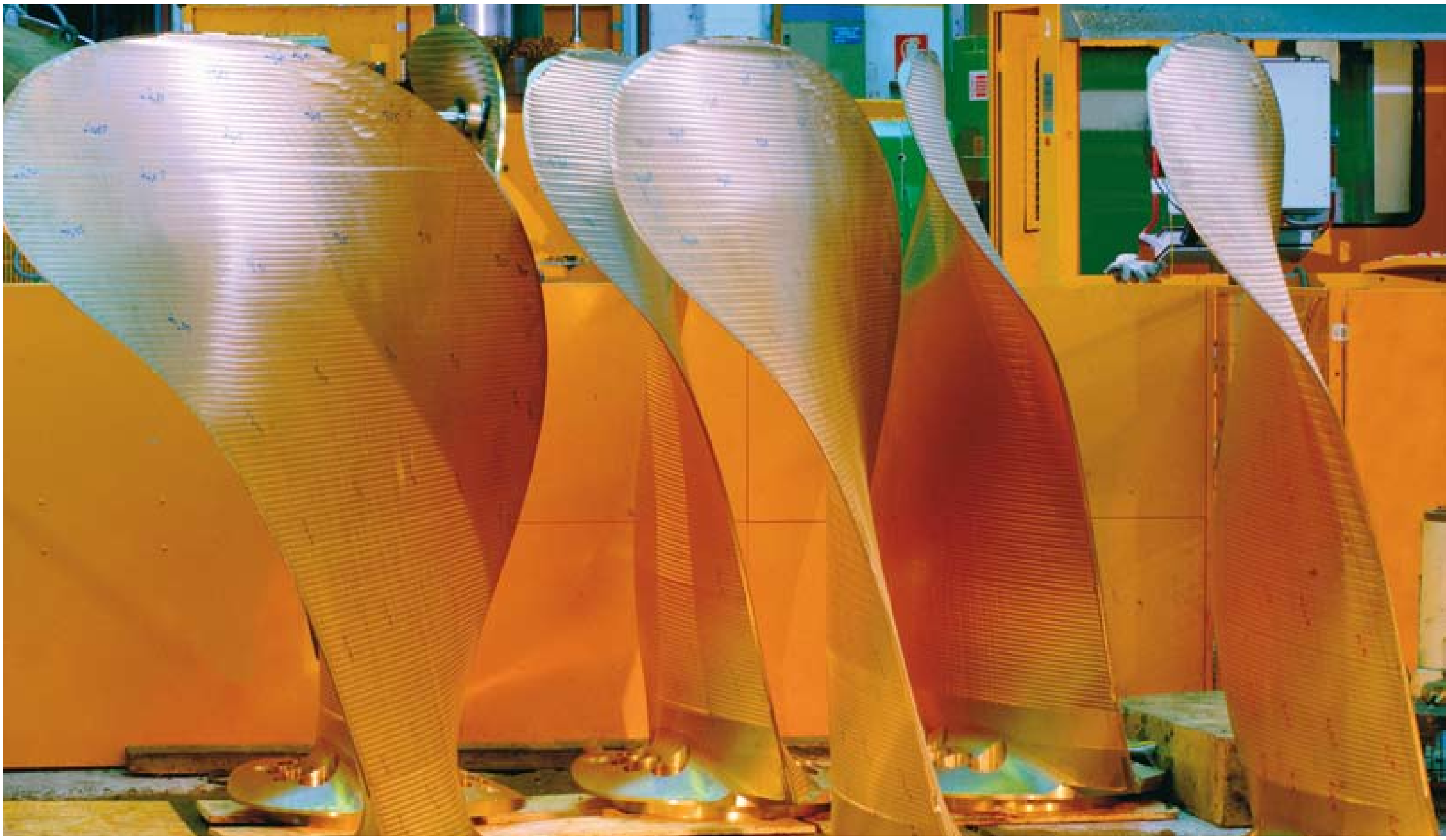
High oil prices and the intensification of deep-water exploration and drilling activities have bolstered demand for offshore support vessels.
In 2007, orders for Anchor-Handling Tug Supply (AHTS) vessels remained at the same level as 2006 (68 vessels, compared to 65 in 2006).
Norway leads the sector with more than half of the total orders backlog. Traditional Northern European shipyards are being joined by those in China and India, which, however, build smaller and less technologically advanced vessels.
The Group's commercial success has prompted it to monitor new opportunities involving similar special vessels designed for offshore work.
Fincantieri's backlog at the end of December 2007 was 14 vessels (equivalent to a 9% market share in terms of value).



Mega-yachts

The global mega-yacht market continues to perform exceptionally well.
As for Fincantieri's target segment (vessels longer than 70 metres), after the record high of 25 mega-yacht orders recorded in 2006 (compared to 14 in 2005), the upward trend continued in 2007, reaching 29 orders.
Given the limited number of companies able to build large vessels, robust demand resulted in lengthy waiting lists, making it impossible to guarantee delivery times (which could extend past 2015).
The leading mega-yacht builders are Germany's Lürssen and ThyssenKrupp Marine Systems and the Netherlands' Feadship and Oceanco, while another share of the market is accounted for by builders with single orders and whose presence in the market cannot yet be considered permanent.
The market is showing a strong interest in Fincantieri, as evidenced by the numerous negotiations currently underway.
Globally, the backlog (as of the beginning of 2008) is 74 mega yachts with a length of over 70 metres, equivalent to 6,500 linear meters; market shares, measured in number of vessels, are shown below:





Marine Systems and Components

Due to their close link to the demand for merchant vessels (mainly cruise ships, ferries and certain types of naval vessels), favourable market prospects continue for marine systems and components.
Given the strong global energy demand, the outlook for products for the terrestrial market, such as steam turbines and diesel engines for plants, is favourable. Both are easy to use with alternative energy sources, such as biomass, making them more attractive choices given the high prices of traditional fuels.
The majority of the business area's activities are concentrated in turbines; as for engines, the first plant with diesel engines fuelled by vegetable oils (a market that Isotta Fraschini Motori is attempting to enter, in addition to the pleasure boat market) began operating.

OPERATIONS

(Millions of Euro)	2007	2006	2005
Orders	546	1,120	103
Order portfolio	4,003	3,968	3,002
Order backlog	1,841	1,863	1,283
Capital expenditure	18	16	13
Ships delivered	3	2	1

Orders

The naval vessels, special vessels and mega-yachts business area secured a number of important orders:

- four "Saettia" class patrol vessels for the Iraqi Navy; all vessels will be built at Fincantieri's shipyards;
- eight offshore supply (AHTS) vessels commissioned by German shipowner Hartmann Logistik GmbH (in addition to four ships ordered by the company in 2006). This sizeable order reinforced the Group's decision to diversify its products within a highly selective technical area to capitalise on the opportunities offered by a rapidly growing segment;
- one 80-metre mega yacht. Negotiations intensified during the year; one negotiation has reached the final phase (see the section below on Group performance in the first months of 2008);
- in the marine mechanical components, orders amounting to 80 Euro/million were obtained, plus 55 Euro/million relating to other business areas, confirming the positive trend seen in the past two years. Isotta Fraschini Motori showed signs of improvement, with orders increasing by 8% from 2006.

The lengthy process required to finalise an agreement involving the supply of components and know-how signed with Turkish shipyard RMK Marine for the local construction of four patrol vessels for the National Coastguard has not yet been completed.

Backlog

Fincantieri's workload at the end of 2007 was sufficient to fill production capacity for an extended period (1,841 Euro/million compared to 1,863 Euro/million at the end of 2006, not including the second tranche of FREMM vessels.
Order portfolio (total value of undelivered orders) at the end of 2007 was 4,003 Euro/million, compared to 3,968 Euro/million at the end of 2006.

Capital Expenditure

The most significant initiatives included:

- at the Muggiano yard — continuation of construction on the new workshops and offices for the mega-yacht line;
- at the Riva Trigoso yard — start of construction on a new testing station for offshore support vessels, expansion of the assembly workshop and improvements to mechanical area infrastructures;
- at Isotta Fraschini Motori's yard in Bari — continuation of construction on a new shed and generator-testing rooms;
- at Fincantieri Marine Systems — purchase of office equipment.

Production

The highlights of 2007 production are provided below.

(number)	Keel laying	Launches	Deliveries
Naval Vessels		1	2 (a)
Special Vessels	3	2	1
Mega-Yachts	1		
Motors			49 (b)
After-Sale Support (millions of Euro)			66 (c)

(a) The vessels were made available to the Italian Navy; their acceptance has not yet been formalised. (b) Number of engines produced on-site. (c) Invoiced to third parties.

The following ships were delivered:

- the second U212 submarine, Scirè, made available to the Italian Navy; the acceptance has not yet been formalised,
- the frigate Andrea Doria, the first vessel of the Orizzonte programme (under the same type of agreement as for Scirè),
- the oceanographic vessel Sagar Nidhi, delivered to India's National Institute of Ocean Technology (NIOT).

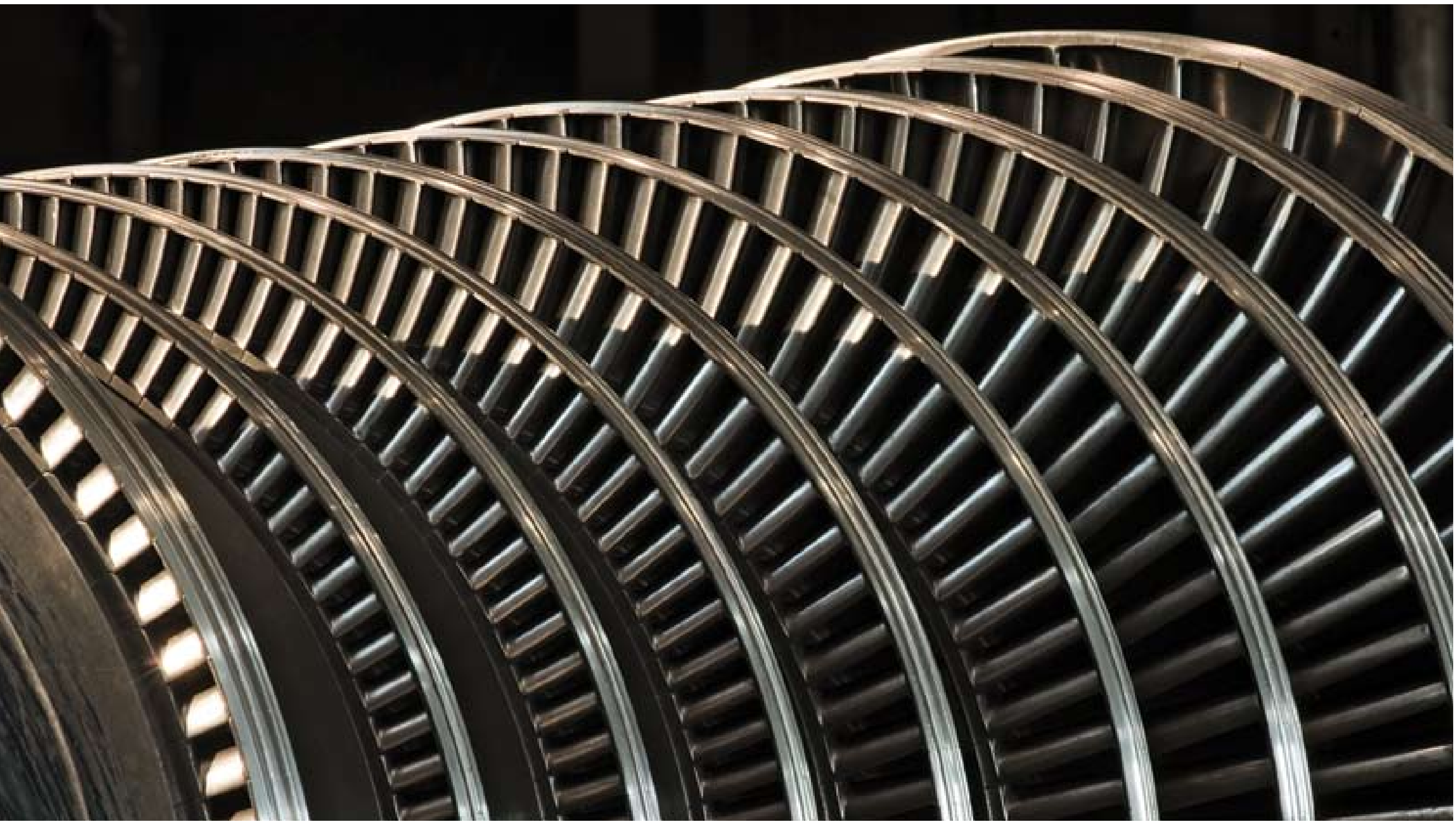
More than 60% of the 49 engines produced by Isotta Fraschini Motori (80% 1300 series and 20% 1700 series) were for use in marine applications.

Fincantieri Marine Systems significantly strengthened its components sales (mainly turbines) in the US market.

Highlights for 2007 include:

- keel laying of the first mega yacht,
- launch (by transfer) of the Caio Duilio (second Orizzonte vessel),
- formalisation of acceptance by the Italian Navy of submarine Todaro, made available in 2006,
- conclusion of petition filed with the Cassa Integrazione Guadagni (Italy's state unemployment compensation fund) by Isotta Fraschini Motori in October 2006 and lasting for a year.

THE "THIRD" SEGMENT



In addition to its two business areas – "Merchant Vessels" and "Naval Vessels, Special Vessels and Mega-Yachts" – the Group's third unit comprises companies that perform group-wide activities:

- CETENA research centre,
- dry-dock management companies Bacini di Palermo and Gestione Bacini La Spezia,
- ship-owning company ELNAV,
- Fincantieri Holding, which manages investments in foreign companies,
- investment company SEAF.

OPERATIONS

(Millions of Euro)	2007	2006	2005
Orders	12	11	6
Order portfolio	1		1
Order backlog	1		1
Capital expenditure	9	10	24

Capital Expenditure

The most significant initiatives included:

- at CETENA – technical upgrades of EDP equipment and laboratory instruments,
- at Bacini di Palermo – completion of five-year program (2003-2007) amounting to 5.3 Euro/million (1.3 Euro/million spent in 2007),
- at Gestione Bacini La Spezia – completion of structural work on hull.

Investments were also made to support group-wide initiatives implemented by the Parent Company, Fincantieri. The amount for 2005 includes the value of the building where the Parent Company's offices are located, which was purchased through a financial lease.

Production

- CETENA performs and sponsors (mainly on behalf of Fincantieri) basic and applied research in the area of ship construction and propulsion and the marine sector in general. It operates as coordinator or partner within European research consortia, also in collaboration with Italian and foreign universities, scientific institutions and research centres.
  The company also performs testing on vessels under construction and lab testing (as authorised by Italy's Ministry of Research) for small and medium enterprises.
  CETENA has increased its focus on applied research and pre-competitive development and on offering a wide range of services to the marine and maritime industry.
  The Naples and Palermo offices, along with the new Muggiano office and newly expanded Trieste office, guarantee CETENA's participation in activities initiated by the "Technology Districts".
- The two dry-dock management companies have recorded consistent rises in production due to an increased workload at the Palermo yard (mainly in the area of conversions) and the numerous naval vessels being fitted out at the Muggiano yard.
- ELNAV continued managing a fleet comprising two bulk carriers under a bareboat charter agreement with ship owner Bottiglieri.
- Fincantieri Holding continued managing investments in Fincantieri Marine Systems (100%) and Lloyd Werft (21.05%, including shares and other rights), a German company specialising in ship repairs and conversions.
- SEAF was adversely affected by the decreased financial needs of the Group.

FINANCIAL RESULTS

(Millions of Euro)	2007	2006	2005
Revenues	2,714	2,495	2,321
Net income	36	38	63
Net invested capital	712	633	683
Free cash flow	(22)	76	(265)

The US dollar continued to weaken against the euro throughout the year; at year-end the exchange rate stood at 1.4721 (12% lower than the already low amount of 1.3170 at 31 December 2006).
In line with the strategy adopted in 2006 (described in the 2006 Annual Report), the Group continued to avoid shipbuilding contracts denominated in USD.
As a result, the value of production is stated in the 2007 income statement net of the impact of the EUR/USD exchange rate (which can be considered entirely unusual and unpredictable) in order to exclude from operations the effects that are more appropriately reflected in financial income and expense.

CONSOLIDATED INCOME STATEMENT

(Millions of Euro)	2007	2006	2005
Revenues	**2,714**	**2,495**	**2,321**
Materials and services costs	(2,074)	(1,892)	(1,698)
Personnel costs	(431)	(423)	(414)
Accruals and impairments	(17)	(16)	(40)
Capitalisation of internal costs	2	10	5
EBITDA	**194**	**174**	**173**
Depreciation and amortisation	(60)	(58)	(56)
Adjusted operating income	**135**	**116**	**117**
Non-recurring income and expense	(5)	(1)	(10)
Operating income	**129**	**115**	**107**
Finance income and expense	(43)	(8)	6
Income and expense on investments	1	1	6
Net income before income tax expense	**87**	**107**	**119**
Income tax expense	(51)	(69)	(56)
NET INCOME	**36**	**38**	**63**

Bearing in mind that the consolidated financial statements were prepared in accordance with IFRS, the following comments refer to comparisons between 2007 and 2006 figures.

- **Revenues:** including revenues from operations and other revenues and income, amounted to 2,714 Euro/million, up 8.8% compared to 2006 due to increased production activities in all the Group's business areas. The effects of the depreciation of the US dollar against the euro (considered unpredictable, as explained above) amounted to 49 Euro/million.
- **EBITDA:** at 194 Euro/million, the ratio to revenues was essentially the same as in 2006 (7.1% in 2007, 7% in 2006) due to continued upward pressure on materials and services prices.
  It should also be noted that the 2% increase in personnel costs would have been 4% (only partially due to an increase in the number of employees) had the allocations to the employee benefit liability been calculated using the contract-based method (which shows the Group's actual liability) instead of the actuarial method.
- **Operating income (EBIT):** at 129 Euro/million against 115 Euro/million in 2006, the ratio to revenues improved in this case as well. Adjusted operating income (adjusted EBIT), which excludes non-recurring income and expenses to reflect income from ordinary operations, amounted to 134 Euro/million, up 18 Euro/million (similar to the prior two years).
- **Finance income and expense:** amounted to - 42 Euro/million in 2007 compared to - 7 Euro/million in 2006. Net of the previously mentioned effect of the EUR/USD exchange rate, the balance would have been 7 Euro/million in 2007 (compared to - 7 Euro/million in 2006). The change was mainly due to increased income resulting from higher average liquidity levels and the related interest rates as well as income generated from the sale of the equity interest in Tecnomare. Other financial items also improved, including expenses relating to exchange-rate hedges on items denominated in foreign currencies that have not yet been collected. The exchange-rate effect, caused by the valuation of revenues from orders denominated in USD, had a strong negative impact (49 Euro/million) in 2007 (the exchange rate used in 2006 financial statements was 1.32 compared to 1.47 in 2007).
- **Income tax expense:** at 51 Euro/million for 2007, includes current and deferred taxes and reflects the company's lower taxable income.
- **Net income,** due to the aforementioned results, at 36 Euro/million, net income was substantially in line with the 2006 figure.

The reclassified income statement provided above is reconciled with the income statement (mandatory layout) provided hereinafter to show:

- the different method of recording the effects of the EUR/USD exchange rate (mentioned above);
- non-recurring income and expenses, the balance of which is stated separately instead of being included in revenues (income) and costs (expenses).

CONSOLIDATED BALANCE SHEET

(Millions of Euro)	Note	**31.12.2007**	**31.12.2006**	**31.12.2005**
Intangible assets	A	18	18	17
Property, plant and equipment	B	437	382	371
Financial assets	C	106	122	98
Invested capital		**561**	**522**	**486**
Inventories	D	274	206	205
Construction contracs - assets	E	521	426	432
Trade receivables	F	290	442	440
Other assets	G	450	417	415
Deposits - advances from customers	H	(39)	(69)	(31)
Trade payables	I	(799)	(732)	(679)
Provisions for risks and charges	L	(106)	(112)	(110)
Other liabilities	M	(350)	(359)	(364)
Working capital		**241**	**219**	**308**
Employee benefit liability	**N**	**(90)**	**(108)**	**(111)**
NET INVESTED CAPITAL		**712**	**633**	**683**
Total shareholders' equity	**O**	**835**	**810**	**803**
Net financial position	**P**	**(123)**	**(177)**	**(119)**
Net (assets)/liabilities held for sale	Q	-	-	(1)

The amount of net invested capital reported in the consolidated balance sheet increased by 79 Euro/million; the increase is attributable to the company's increased need for fixed capital (39 Euro/million) and working capital (22 Euro/million), as well as a reduction in the employee benefit liability (18 Euro/million).

In detail:

- the increase in property, plant and equipment (55 Euro/million) reflects new investments made to satisfy requirements (significantly greater than depreciation and proceeds from disposals);
- the decrease in financial assets (16 Euro/million) is due to the normal flow of collections associated with financial receivables held as fixed assets as well as the impact of the writedown of the equity investment in Ansaldo Fuel Cells (Euro/4 million);
- the increase in working capital (22 Euro/million) is mainly attributable to an increase in construction contracts (94 Euro/million), which was largely offset by changes in other working capital items;
- the decrease in the employee benefit liability (18 Euro/million) is mainly attributable to the writedown following entry into force of new regulations concerning the funding of supplementary pension schemes.

The foregoing items resulted in a decrease in Fincantieri's net financial position (54 Euro/million) to 123 Euro/million, as shown in the table below.

CONSOLIDATED NET FINANCIAL POSITION

(Millions of Euro)	2007	2006	2005
Cash and cash equivalents	199	177	185
Liquidity	**199**	**177**	**185**
Current financial receivables	**20**	**41**	**83**
Current payables to banks	(2)	(5)	(2)
Current portion of bank loans	(10)	(9)	(5)
Other current borrowings	(54)	(3)	(97)
Current borrowings	**(66)**	**(17)**	**(104)**
Net current borrowings	**153**	**201**	**164**
Non-current financial receivables	**73**	**79**	**84**
Loans from banks	(96)	(95)	(97)
Other long-term borrowings	(7)	(8)	(32)
Long-term borrowings	**(103)**	**(103)**	**(129)**
NET LONG-TERM BORROWINGS	**(30)**	**(24)**	**(45)**
Net financial position	**123**	**177**	**119**

A reconciliation between the reclassified balance sheet and the balance sheet is included at the end of this report; the notes explain the correlation between the groups of items in the reclassified balance sheet and the individual items of the balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

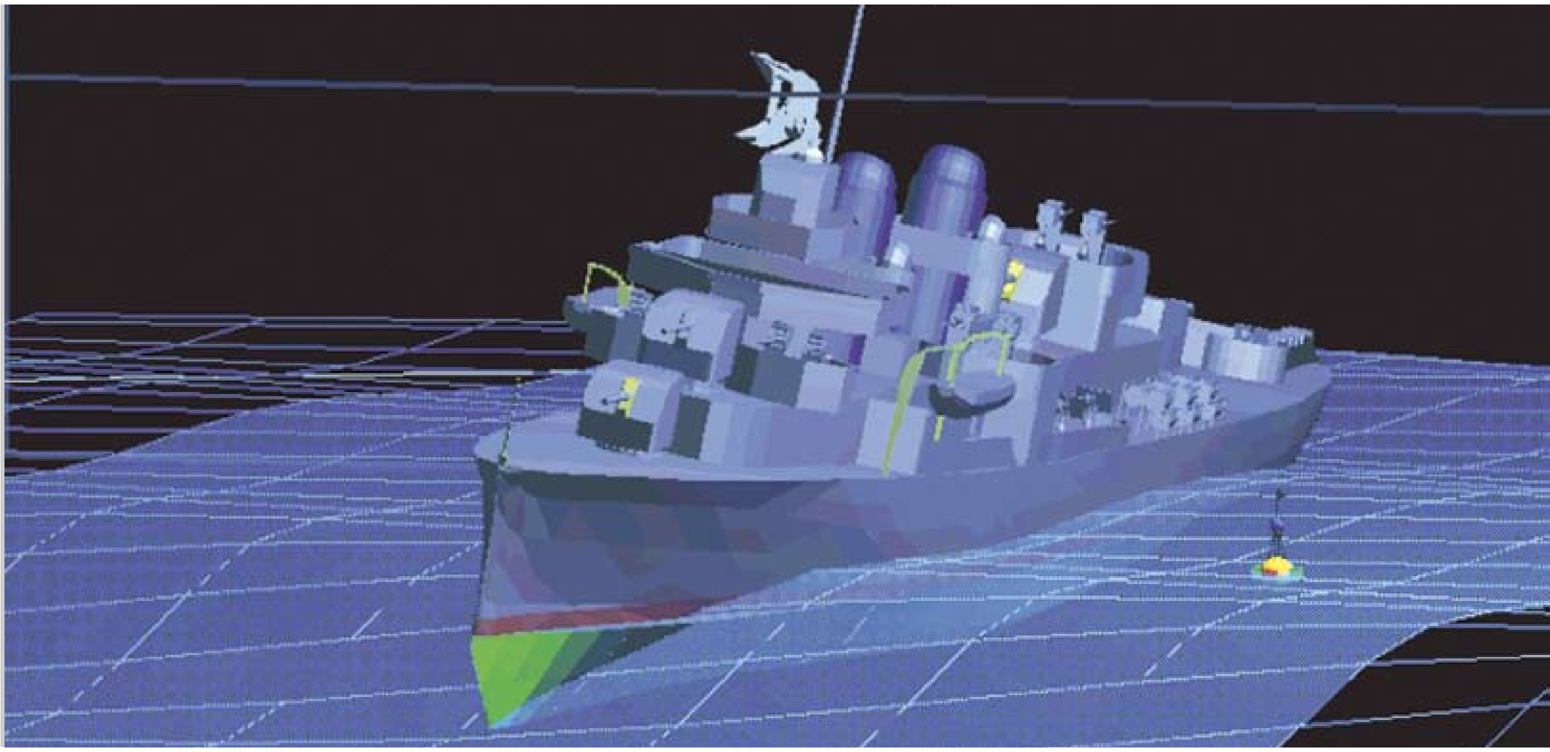
(Millions of Euro)	31.12.2007	31.12.2006	31.12.2005
Net income	36	38	63
Depreciation, amortisation and other non-monetary items	57	88	104
Gains losses, impairments and revaluations	(1)	(5)	--
Dividends, interest, income taxes and other changes	57	54	102
Cash flows from operating activities before change in net working capital	**149**	**175**	**269**
Cash flow related to operating income for the year	(3)	39	(478)
Dividend income, taxes, interest (paid) received	(51)	(21)	(4)
Utilisation of provision for risks and charges and provision for employee benefit liability	(22)	(29)	(35)
Cash flow provided by / (used in) operating activities	**73**	**164**	**(248)**
Cash flows provided by (used in) intangible assets	(9)	(11)	(13)
Intangible assets	(106)	(55)	(44)
Equity investments	4	(6)	(1)
Financial receivables	16	(16)	41
Free cash flow	**(22)**	**76**	**(265)**
Dividends paid	(10)	(10)	(10)
Net cash provided by (used in) financing activities	54	(74)	(46)
Net cash and cash equivalents for the year	**22**	**(8)**	**(321)**
Cash and cash equivalents at the beginning of the year	**177**	**185**	**506**
Cash and cash equivalents at the end of the year	**199**	**177**	**185**

Free cash flow stated in the cash flow statement amounted to - 22 Euro/million.

The change compared to the previous year is mainly attributable to an increase in the amount invested in property, plant and equipment (106 Euro/million compared to 55 Euro/million in 2006); the increase was not offset by funds generated by ordinary operations (73 Euro/million), which decreased from 2006 (165 Euro/million) due to the advancement of orders under construction at the reporting date.

It should be noted that the amount of cash and cash equivalents increased, mainly due to cash flows provided by financing activities (54 Euro/million), which increased compared to the resources used in 2006 (74 Euro/million).

RESEARCH, DEVELOPMENT AND INNOVATION



R&D and Innovation is a notably strategic area for maintaining and improving the Group's competitiveness within a challenging market, which constantly obliges companies to keep up with state-of-the-art technology.
The Group companies most heavily committed to such activities invested 51 Euro/million (against 48 Euro/million in 2006). The major projects, developed by the Parent Company and by its subsidiaries CETENA and Isotta Fraschini Motori, which in some cases received European and domestic funding, are described below.

R&D AT EUROPEAN LEVEL

- InterSHIP, developed by Fincantieri with the other Euroyards shipyards, concluded its technical activities, achieving significant results in the various phases of the production process for complex ships.
- SAFEDOR, a framework of international rules based on risk analysis, and MC/WAP, molten carbonate fuel cell technology for auxiliary generators, included in the 6th Framework Programme of the EU, are continuing with their activities.
- Also within the context of Euroyards, a proposal for a "collaborative project" ("BESST", Breakthrough in European Ship and Shipbuilding Technologies) is being defined and is to be included within the 7th European Framework Project.

R&D AT NATIONAL LEVEL

- EOLON, relating to "Advanced criteria for extending and optimising ship maintenance operations", which is still in progress and for which a financing contract has been signed.

- ECOMOS, for the development of an innovative treatment system for merchant vessel exhaust gases, which has received preliminary approval from the Italian Ministry of Universities and Research (MUR).
- SIS-PRECODE, for the development of new anti-corrosion, protective products, which has received final approval from the MUR.

Within Italy, the Parent Company was involved in the definition of a new reference framework to support competitive industrial growth, outlined in the 2007 Finance Law, which provides for a concentration of public funding on a number of strategic themes through the implementation of Industrial Innovation Projects (IIPs) directed by the Ministry of Economic Development.
Fincantieri has thus defined themes relating to the maritime component of the IIPs on "sustainable mobility", aiming at competitive growth of products. Its actions translated into the inclusion the scope of the Ministry's programme documents of 2 credit lines (out of 7) devoted to ship and yacht building, to be followed by the launching of tenders for the execution of projects.

INNOVATION

In 2007, the Finance Law implemented European community provisions on support for innovation activities, assigning the funding to meet 20% of costs. The Ministry of Transport was thus able to settle part of the many pending requests submitted by the Parent Company from 2004 onwards, as well as to allow the submission of further applications relating to new technically challenging acquisitions.
The activity carried out in 2007 resulted in 7 projects which have already been approved and defined, with costs of a further 41 Euro/million, 20% of which are covered by incentives, as well as the submission of a further 26 projects which are still under way.

TECHNOLOGY DISTRICTS

Serving the growth of the entire shipbuilding chain is the tool of technological districts, already established or in the process of establishment in a number of regions (Friuli Venezia Giulia, Campania, Liguria and Sicily), in which Fincantieri has its own production facilities.
The Group takes an active role in initiatives supported by the districts, a "network" which can aid the transfer of knowledge and technologies and spread the culture of innovation which, together with research and training, are the three drivers involving industry, scientific centres (universities and centres of research and excellence, including CETENA) and funders in a synergic way, with the support of the regional authorities.
Specifically:

- The naval technology district of Friuli Venezia Giulia, scheduled to be established during the first months of 2008.
- The Sicily technology district for naval and commercial transport and sporting craft, for which Fincantieri is interested in developing refitting and the construction of offshore vessels.
- The Campania technology district for the engineering of polymer materials, composite and structures, which in the field of shipbuilding is concentrating research on non-metallic structures.
- Lastly, in Liguria:
  - The Liguria technology district for intelligent integrated systems, in which CETENA is concentrating on advanced automation and on-board control systems.
  - The technological centre of La Spezia and Liguria district for marine technologies, of possible interest for yachts.

The Parent Company, whether directly or through Assonave and CETENA, supports the setting up of a "National maritime technology platform", as a meeting point between industry, the research system and government authorities, to define specific actions in marine research, likely to be formalised during 2008.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

EMPLOYMENT

(No.)	2007	2006	2005
Employees at year-end:			
- Managers	208	206	216
- Middle managers	275	239	267
- White collars	3,618	3,448	3,519
- Blue collars	5,257	5,266	5,381
Total employees at year-end	9,358	9,159	9,383
Average workforce employed	9,115	9,113	9,221

During the year, 527 new employees were recruited, of which 208 workers and 319 white collars, executives and managers; there were 328 departures.

INDUSTRIAL RELATIONS

During the year, industrial relations were characterised by the expiry of the National Collective Contract, renewed on 20 January 2008, in addition to union positions which were not uniform regarding the plans to list the Parent Company.
Operations were affected accordingly, with an increase of stoppages due to strikes compared to 2006. This was nevertheless mitigated by the improvement in absenteeism, confirming a positive trend which began last year and which should be consolidated from 2008 onwards.
The saturation of productive capacity for the whole of 2007 and the investments made, actually in excess of what was scheduled, the amount of which had raised doubts within the trade union, avoided territorial contrasts and contributed to a positive environment in the shipyards.

TRAINING AND DEVELOPMENT

The main training initiatives for 2007, aimed at all the Group companies, in addition to the Parent Company, included:

- the two series of the Ac@demy course, aimed at facilitating young graduates' entry and their knowledge of the Company System;
- three Master's courses, high-level internship programmes;
- "à la carte" training.

In 2007, over 450 training courses involving some 4,300 participants were organised and carried out directly, for a total of over 100,000 hours.
Great attention was given to technical training, through the realisation of 413 intiatives with 3,974 participants. The target audience for these initiatives was both clerical and managerial staff, with 2,773 participants in 300 courses, and workers, with 1,201 participants overall in the context of 113 specific initiatives.
29 courses were dedicated to the development of management skills for current and future executives, with a total of 329 participants.
Activities aimed at workers also included an average of 25 hours per capita of on-the-job training, carried out directly at the facilities.

2007 witnessed the revision of the "professional skills model", initially aimed at engineering, IT systems and finance, with the aim of updating profiles in the light of changes in organisation and context, specifically as regards the reorganisation of the engineering process.
Among other development activities, the "Alti Potenziali" (High Potential) project was particularly significant: the first part of the year was devoted to evaluating the potential of young graduates, while from September onwards a High Potential group was involved in a pilot course for the development of managerial skills, as preparation for holding positions with greater responsibility within an accelerated timeframe.

SAFETY

For Italian industry, and for the engineering sector in particular, 2007 was a particularly difficult year due to the accidents which occurred in Italy towards the end of the year, followed by legislative measures.
Against this backdrop, the signing last July of the Security Protocol with the Ministry of Health becomes significant. With its experimental nature, the protocol undoubtedly placed Fincantieri in the vanguard of Italian industry.

The correct implementation of this agreement will allow the Parent Company not only to disseminate a correct image but also to reduce insurance costs following the improvement in working conditions of its own employees and of the whole productive system.
During the year, improvement actions were developed at all the facilities, allowing a 16% reduction in accidents.
Initiatives were taken in fire prevention as well, protecting staff working on board and safeguarding ships.

DISPUTES AND PRIVACY

During the year, disputes linked to the asbestos problem were defined both judicially and extrajudicially. In this context, precautionary provisions were made for pending cases.
With regard to specific regulations on privacy, IT actions were taken in order to guarantee adequate levels of safety for all processes relating to the processing of personal data.

RELATIONSHIPS WITH THE CONTROLLING COMPANY AND WITH OTHER GROUP COMPANIES

During 2007, the Group maintained relations with Fintecna, the company controlling the Parent Company, as well as a number of companies in the Fintecna group.

Relations were also maintained with affiliated companies which, in accordance with the consolidation criterion adopted, are not subject to eliminations.

All of the above relationships, indicated in detail in the "Notes to the financial statements", are always carried out at arm's length.

RESULTS OF FINCANTIERI GROUP COMPANIES

(In millions of Euro)	2007	2006	2005
Fincantieri	37.0	43.1	60.9
Bacini Palermo	-	-	0.1
CETENA	0.1	-	-0.1
ELNAV	-0.1	-0.2	-0.3
Fincantieri Holding	-	2.4	-
Fincantieri Marine Systems	0.4	1.2	0.9
Isotta Fraschini motori	-7.4	-8.4	0.2
Orizzonte Sistemi Navali (*)	-	-	0.4
Consolidations and cancellations	6.3	0.2	0.7
CONSOLIDATED	**36.3**	**38.3**	**62.8**

(*) Consolidated until 2005 using the line-by-line method; from 2006 onwards, using the equity method; net income was 1.4 Euro/million in 2007 and 0.4 Euro/million in 2006.

CORPORATE RISK MANAGEMENT

The industrial context in which the Group operates, like all industrial sectors, presents risk exposures which may be grouped as follows:

- financial risks,
- operating risks,
- legal and compliance risks.

Management policies are illustrated below, with particular reference to article 2428 of the Italian Civil Code.

FINANCIAL RISKS

Currency Risk

Exposure to currency risk arises in connection with the signing of shipbuilding contracts denominated in foreign currencies, and to a lesser degree, by procurement of supplies in currencies other than the Euro.
In the past, the Group has entered contracts nominated in USD exclusively for commercial reasons and to a limited extent with regard to all orders acquired.
Please refer to the "Notes to the financial statements", Note 4 for a detailed description of the policy and figures.

Interest Rate Risk

Please refer to the "Notes to the financial statements", Note 4 for a detailed description of the policy and figures.

Liquidity Risk

Please refer to the "Notes to the financial statements", Note 4 for a detailed description of the policy and figures.

Credit Risk

Please refer to the "Notes to the financial statements", Note 4 for a detailed description of the policy and figures.

Client Risk

This represents Group exposure to potential losses deriving from default on the obligations assumed by customers.
The standing of individual customers is evaluated by the business units which operate in the relevant markets.
Sales contracts relating to the construction of ships always provide for the payment of instalments prior to delivery, which coincides with the balance of the price. For military orders and mega yachts, contracts are usually self financing.

OPERATING RISKS

External Supplies

Shipbuilding makes extensive use of supplies and service provision. The Group is thus exposed to the risk that the obligations assumed by suppliers will not be met within the expected times and to the expected quality standards.
The Group has been implementing protection procedures for some time, which may be summarised as follows:

- exclusive use of formalised contracts;
- increasingly rigorous qualification of suppliers through the management and monitoring of a "supplier register";
- system of guarantees of both bank and other kinds: i) in the event of payment of advances on the price; ii) to guarantee the quality of performance/supplies; iii) to protect itself from any defaults on the payment of salaries and contributions by contractors.

Industrial System

The lifecycle management of shipbuilding is characterised by a particular time sequence: first the contract is stipulated, then the product is realised.
The Group has structured its own organisation, in accordance with the above distinctive characteristic, entrusting management of the contract to a Project Manager, who is responsible for the industrial result.
Based on experiences gained in specific areas of the Company, the mapping of risks of loss during the execution of the contract is being completed. These risks derive from planning aspects, calculation of estimates, procurement and time planning; countermeasures are identified, including the availability of adequate reporting, different for each group of addressees.

LEGAL AND COMPLIANCE RISKS

This represents the exposure of the Group to risks of unsuitability of the procedures intended to guarantee observance of the principal regulations governing companies, as well as the issues of safety, privacy, environmental protection and competition.
Through permanent monitoring of internal regulations, the Group updates, incorporates and extends its own procedures to adapt them to the external regulatory system.

RESPECT FOR THE ENVIRONMENT

Protection of the environment is an unequivocal value for Fincantieri: in its production process and products, the Parent Company takes the greatest possible account of the requirements for safeguarding the environment.

INITIATIVES REGARDING THE INDUSTRIAL CYCLE

Environmental issues linked to activities carried out inside facilities regard mainly the observance of regulations on smoke emissions, noise emissions, collection and disposal of refuse and water discharges. Problems may also arise in connection with the management of previous situations, not deriving from the current production cycle.

During 2007, these issues, which have a direct impact on the health of workers and the communities adjacent to production facilities, lead to investments aiming to safeguard the environment, and falling within the policy of adjustment and continuous improvement of environmental standards.

Within the various production facilities, the following have been executed, as need be:

- works to replace extraction installations and smoke extractors,
- soundproofing actions,
- upgrading of sewage systems,
- maintenance and modernisation of thermal substations,
- recycling of obsolete material.

PRODUCT-RELATED INITIATIVES

Issues relating to noise pollution and the level of air/water emissions are continuously monitored. The Group builds state-of-the-art ships, in full observance of current regulations, also considering the attention which the cruise ship industry has paid over time to developing a strong sense of responsibility regarding environmental themes. The largest operators, which are clients of Fincantieri, request standards in terms of polluting emissions and waste management, which even exceed those imposed by the MARPOL regulations.
Some of these requirements, among other things, impact the passenger's perception of comfort, as in the case of smoke emissions or noise, in addition to influencing the opinion of the community, which receives or experiences tourist traffic, significantly influencing the image of the sector.
Accordingly, the ability to develop products, which include solutions suitable for guaranteeing and improving environmental protection, constitutes a pre-requisite for competing. Indeed, it is the ship owner which receives the requirements of its own stakeholders, and the more the shipyard is able to satisfy it with products corresponding to its expectations, the more convincing its offer shall be.
In particular, last year, with regard to the acquisitions carried out, a new class of small luxury ships was launched, anticipating environmental protection regulations due to enter into effect (Green Star 3 Design by RINA). The Green Star class notation confirms that the ship has been designed, built and managed according to standards which guarantee maximum respect for the environment, and which hence is compatible with deployment, even in areas with particular natural attractions.
Continuous study to improve propulsion performance and the quality of smoke emissions, has led to the concentration of many actions on such aspects; in particular, the Ministry of Universities and Research has supported the ECOMOS project and other projects relating to energy saving, which were received with full satisfaction by the relevant committees.
Also in the naval area, in the context of an order for the fitting out of an oil platform, the Group monitored the problems connected with the cleaning and storage of drilling tubes. Lastly, for the mechanical area, the first generator groups were built, for cogeneration systems using vegetable oil-fuelled engines, and installed in the Alpine area of Stelvio.

PERFORMANCE DURING THE FIRST MONTHS OF 2008 AND OUTLOOK

During the first months of 2008, some of the many commercial negotiations developed during the previous year were formalised. In detail, these related to:

- the contract with France's Compagnie des Iles du Ponant, for the construction of 2 small/medium-sized cruise ships, in the high-end luxury segment.
  The Group thus consolidated its strategy aiming to add to its historic client base, consisting of the various brands of the Carnival Group, other operators in the ultra-luxury sector;
- the exercise of the option for the construction of a further 4 units of the FREMM programme, for which the subsidiary Orizzonte Sistemi Navali is finalising financing mechanisms;
- the final phases for the stipulation of the contract with the Indian Navy for the construction of a supply vessel;
- the contract for a 90 meter mega-yacht.

The production programme recorded 2 deliveries (the cruise ship Ventura to P&O Cruises, and the ferry Roma to the Grimaldi group), to which may be added the imminent delivery of the Superstar ferry to the Estonian ship owner, Tallink. The flagship Cavour was made available to the Italian Navy, in accordance with the contractual formula already adopted for submarines, and for the first unit of the Orizzonte programme.

The persistent negative trend in the US dollar led the group to complete its hedges for the remaining instalments receivable in US dollars, guaranteeing a limit in the event of the further appreciation of the Euro.

The Group's workload, its considerable investments in new installations, research and innovation, as well as ever greater attention to the professional growth of its employees and the permanent activity of improving efficiency in production processes and the entire "Fincantieri system", allow for a favourable outlook of industrial management for 2008.

RECONCILIATION OF THE RESTATED BALANCE SHEET STRUCTURE WITH THE BALANCE SHEET

(in millions of Euro)	31.12.2007		31.12.2006		31.12.2005	
	Partial amounts as per mandatory layout	Amounts as per restated balance sheet	Partial amounts as per mandatory layout	Restated amounts	Partial amounts as per mandatory layout	Restated amounts
A) Intangible assets		17,560		17,750		16,706
Note 6 - Intangible assets	17,560		17,750		16,706	
B) Property, plant and equipment		437,352		381,824		371,000
Note 7 - Property, plant and equipment	437,352		381,824		371,000	
C) Equity investments		105,681		122,082		97,887
Note 8 - Investments valued at equity, financial assets and other investments	388,927		411,357		391,744	
Restated to P) Financial receivables restated to net financial position	(73,403)		(78,650)		(84,007)	
Restated to G) Non/current receivables (restated to other assets)	(209,843)		(209,843)		(209,843)	
Restated to P) Non-current derivative assets	0		(782)		(7)	
D) Inventories		273,349		205,802		205,293
Note 10 - Inventories and advances	273,349		205,802		205,293	
E) Construction contracts		520,560		426.499		432,181
Note 11 - Construction contracts - assets	1,157,322		1,359,245		1,027,094	
Restated to H) Invoices for work in progress	(617,497)		(789,100)		(496,814)	
Restated to H) Risks and charges for construction contracts	(19,265)		(143,646)		(98,099)	
F) Trade receivables		289,887		442,128		440,269
Note 12 - Trade receivables and other current assets	444,339		561,898		549,683	
Restated to G) Receivables from companies under common control (e.g. prepayments)	(52,961)		(19,229)			
Restated to G) Other receivables	(54,938)		(51,497)		(42,602)	
Restated to G) Receivables from other funders and grants receivable from state and public bodies	(11,627)					
Restated to G) Other accruals	(34,926)		(49,044)		(65,622)	
Restated to G) Receivables from subsidiaries	0				0	
Restated to G) Receivables from associates	0		0		(1,190)	
Restated to G) Receivables from parent companies	0		0		0	
G) Other assets		450,224		417,331		415,424
Note 9 - Deferred tax assets	31,483		72,580		73,849	
Restated from C) Receivables from non-current assets (restated to other assets)	209,843		209,843		209,843	
Restated from G) Receivables from other funders and grants receivable from state and other public bodies	11,627					
Restated from F) Receivables from subsidiaries	0				0	
Restated from F) Receivables from associates	0		0		1,190	
Restated from F) Receivables from parent companies	0		0		0	
Restated from Note 12) Current tax receivables from tax authorities	41,414		1,236		12,010	
Restated from F) Receivables from companies under common control (e.g. Accruals)	52,961		19,134			
Restated from F) Other receivables	54,938		51,497		42,602	

(in millions of Euro)		31.12.2007 Partial amounts as per mandatory layout	31.12.2007 Amounts as per restated balance sheet	31.12.2006 Partial amounts as per mandatory layout	31.12.2006 Restated amounts	31.12.2005 Partial amounts as per mandatory layout	31.12.2005 Restated amounts
	Restated from F) Other prepayments	34,926		49,044		65,622	
	Restated from Note 13) Financial assets (Current portion of non-current receivables)	12,940		21,944		15,280	
	Restated to P) Long-term financial receivables, current portion			(7,511)		(4,871)	
	Restated from Note 13) Receivables for current leases	2,101		2,056		2,014	
	Restated from Note 13) Financial assets (Accruals)	(2,009)		(2,492)		(2,115)	
H)	**Advances - prepayments from customers (-)**		(38,546)		(69,254)		(31,469)
	Note 22 - Construction contracts - liabilities	(675,308)		(1,002,000)		(626,382)	
	Restated from E) Invoices for construction contracts	617,497		789,100		496,814	
	Restated from E) Risks and charges for construction contracts	19,265		143,646		98,099	
I)	**Trade payables**		(798,833)		(731,295)		(679,491)
	Note 21 - Trade payables and other current liabilities	(919,252)		(841,567)		(817,490)	
	Restated to M) Balance of other liabilities	120,419		110,272		137,999	
L)	**Provision for risks and charges**		(105,519)		(112,372)		(109,860)
	Note 17 - Provision for risks and charges	(105,519)		(112,372)		(109,860)	
M)	**Other liabilities**		(349,800)		(359,311)		(364,171)
	Restated from I) Balance of other liabilities	(120,419)		(110,272)		(137,999)	
	Restated from Note 21) Tax liabilities	(45)		(20,249)		(540)	
	Restated from Note 19) Other payables	(229,336)		(228,790)		(225,632)	
	Restated from deferred taxes	0		0		0	
N)	**Employee benefit liability**		(90,330)		(108,474)		(110,607)
	Note 18 - Employee benefit liability	(90,330)		(108,474)		(110,607)	
	NET INVESTED CAPITAL		711,585		632,710		683,162
O)	**Shareholders' equity**		834,951		809,687		803,405
P)	**Net financial position**		(123,366)		(176,977)		(119,084)
	HEDGES		711,585		632,710		684,321
Q)	**Net (Assets)/Liabilities held for sale**		0		0		(1,159)

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CONSOLIDATED BALANCE SHEET

		As of December 31, 2007		
(Euro/000)	Note	2007	2006	2005
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	6	17,560	17,750	16,706
Property, plant and equipment	7	437,352	381,824	371,000
Equity investments	8	22,247	21,331	7,571
Other investments	8	2,882	6,932	7,519
Financial assets – receivables	8	363,798	383,094	376,654
Deferred tax assets	9	31,483	72,580	73,849
Total non-current assets		**875,322**	**883,511**	**853,299**
CURRENT ASSETS				
Inventories	10	273,349	205,802	205,293
Construction contracts – assets	11	1,157,322	1,359,245	1,027,094
Trade receivables and other current assets	12	444,339	561,898	549,683
Current tax receivables	12	41,414	1,236	12,010
Current financial assets	13	32,565	54,488	93,804
Cash and cash equivalents	14	199,106	176,785	184,595
Total current assets		**2,148,095**	**2,359,454**	**2,072,479**
ASSETS HELD FOR SALE	15		**0**	**1,159**
TOTAL ASSETS		**3,023,417**	**3,242,965**	**2,926,937**
LIABILITIES AND SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY				
Attributable to the Company	16			
Share capital		337,112	337,112	337,112
Reserves and retained earnings		461,410	434,081	393,445
Net income for the period		36,264	38,340	62,603
		834,786	809,533	793,160
Minority interest	16	165	154	10,245
Total shareholders' equity		**834,951**	**809,687**	**803,405**
NON-CURRENT LIABILITIES				
Provision for risks and charges	17	105,519	112,372	109,860
Employee benefit liability	18	90,330	108,474	110,607
Non-current financial liabilities	19	103,192	103,105	128,906
Other non-current liabilities	19	229,336	228,790	225,632
Total non-current liabilities		**528,377**	**552,741**	**575,005**
CURRENT LIABILITIES				
Current financial liabilities	20	65,484	16,721	104,115
Trade payables and other current liabilities	21	919,252	841,567	817,493
Current tax liabilities	21	45	20,249	537
Construction contracts – liabilities	22	675,308	1,002,000	626,382
Total current liabilities		**1,660,089**	**1,880,537**	**1,548,527**
LIABILITIES HELD FOR SALE			**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,023,417**	**3,242,965**	**2,926,937**

CONSOLIDATED INCOME STATEMENT

		Year ended December 31		
(Euro/000)	Note	2007	2006	2005
INCOME	23			
Revenues		2,572,870	2,426,469	2,266,959
Other income		105,693	78,781	59,378
		2,678,563	2,505,250	2,326,337
OPERATING COSTS	24			
Operating costs		2,073,879	1,892,398	1,698,276
Personnel costs		431,290	422,901	414,255
Depreciation and amortization		59,930	57,526	56,189
Accruals and impairments		16,758	15,997	40,012
Capitalization of internal costs		-2,387	-10,057	-4,722
Other costs		18,361	11,708	15,583
		2,597,831	2,390,473	2,219,593
Operating income		**80,732**	**114,777**	**106,744**
FINANCE INCOME AND EXPENSE	25			
Finance income		98,236	119,520	106,711
Finance expense		-93,077	-127,668	-100,371
		5,159	**-8,148**	**6,340**
INCOME AND EXPENSE ON INVESTMENTS	26			
Income		3,580	116	384
Expense		-3,506	-2,197	-4
Share of profit / (loss) from equity investments		916	2,764	5,329
		990	**683**	**5,709**
Net income before income tax expense		**86,881**	**107,312**	**118,793**
Income tax expense	27	-50,606	-68,968	-56,004
NET INCOME		**36,275**	**38,344**	**62,789**
Attributable to the Company		36,264	38,340	62,603
Attributable to minority interest		11	4	186
Earnings per share – basic and diluted (in Euro)	28	0.05486	0.05800	0.09471

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER' EQUITY

(Euro/000)	Share capital	Retained earnings	Net income	Total Group Equity	Minority interest	Total
AS OF DECEMBER 31, 2004	**337,112**	**257,106**	**101,039**	**695,257**	**4,649**	**699,906**
Transition to IFRS effects (*)	0	116,938	0	116,938	-10	116,928
AS OF JANUARY 1, 2005	**337,112**	**374,044**	**101,039**	**812,195**	**4,639**	**816,834**
Transfer of previous year net income		101,039	-101,039	0		0
Dividend allocation		-10,113		-10,113		-10,113
Currency translation adjustments (*)		888		888		888
Change in cash flow hedge reserve (*)		-72,428		-72,428		-72,428
Capital increase minority interest				0	5,431	5,431
Change in minority interest		15		15	-11	4
Net income for the period attributable to the Group			62,603	62,603		62,603
Net income for the period attributable to minority interest				0	186	186
AS OF DECEMBER 31, 2005	**337,112**	**393,445**	**62,603**	**793,160**	**10,245**	**803,405**
Transfer of previous year net income		62,603	-62,603	0		0
Dividend allocation		-10,113		-10,113		-10,113
Currency translation adjustments (*)		-809		-809		-809
Change in cash flow hedge reserve (*)		-11,036		-11,036		-11,036
Capital increase minority interest				0	56	56
Change in the scope of consolidation Orizzonte				0	-10,151	-10,151
Other movements		-9		-9		-9
Net income for the period attributable to the Group			38,340	38,340		38,340
Net income for the period attributable to minority interest				0	4	4
AS OF DECEMBER 31, 2006	**337,112**	**434,081**	**38,340**	**809,533**	**154**	**809,687**
Transfer of previous year net income		38,340	-38,340	0		0
Dividend allocation		-10,113		-10,113		-10,113
Currency translation adjustments (*)		-826		-826		-826
Change in cash flow hedge reserve (*)		-74		-74		-74
Other movements		2		2		2
Net income for the period attributable to the Group			36,264	36,264		36,264
Net income for the period attributable to minority interest				0	11	11
AS OF DECEMBER 31, 2007	**337,112**	**461,410**	**36,264**	**834,786**	**165**	**834,951**

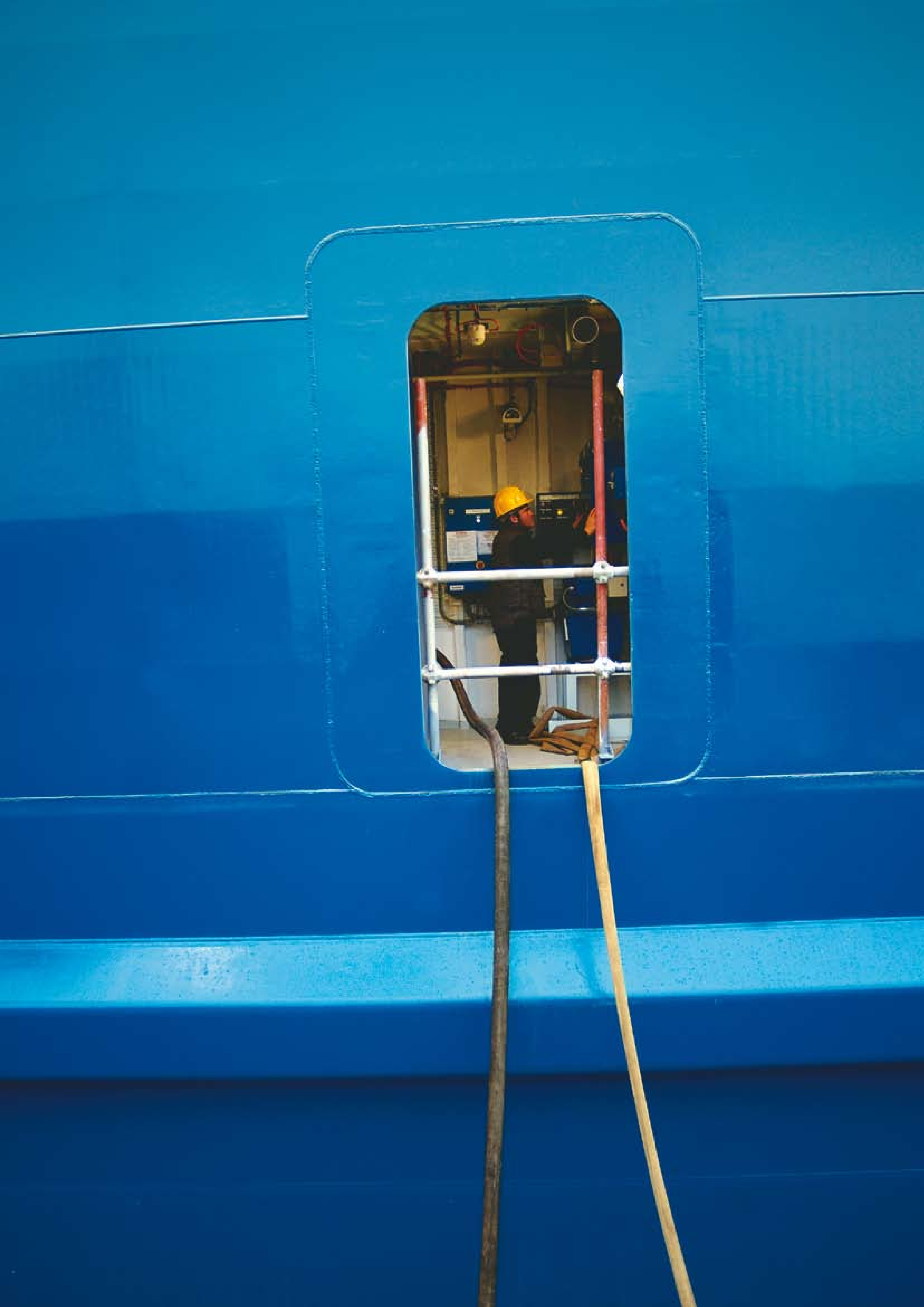
(*) movements not related to the income statement

CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31		
(Euro/000)	2007	2006	2005
Net income	36,275	38,344	62,789
Depreciation and amortization	59,930	57,526	56,189
(Gains)/ losses from the disposal of non-current assets	(3,420)	(4,798)	-
(Revaluation)/ impairment of financial assets	2,589	(567)	208
Accruals for provisions for risks and charges	4,124	20,166	27,776
Accruals for employee benefit liabilities	(7,489)	10,303	20,207
Interest income	(23,570)	(14,249)	(19,728)
Interest expense	5,205	4,599	4,864
Income tax expense	50,606	68,968	56,004
Impact of changes in exchange rates on construction contracts	40,508	(17,966)	52,309
Financial income and expenses from financial derivatives operations	(15,456)	12,422	8,521
Cash flows from operating activities before change in net working capital	**149,302**	**174,748**	**269,139**
CHANGE IN NET WORKING CAPITAL			
• inventories	(68,670)	(1,514)	(4,438)
• construction contracts	(94,061)	(2,484)	(599,175)
• trade receivables	151,831	(3,442)	(27,969)
• other current assets	(37,341)	(13,031)	(23,377)
• advances from customers	(30,708)	37,785	25,857
• trade payables	68,380	54,196	128,885
• other current liabilities	9,729	(28,163)	23,480
• other non-current liabilities	546	(197)	(1,903)
• receivables from hedging instruments	(3,190)	(3,953)	-
• payables due to hedging instruments	-	432	-
Cash flow related to operating income for the year	**145,818**	**214,377**	**(209,501)**
Dividend income	160	116	5,952
Interest received	23,445	14,252	20,161
Interest paid	(5,165)	(5,086)	(5,934)
Income tax paid	(69,444)	(29,647)	(24,483)
Utilization of provision for risks and charges	(10,977)	(17,652)	(26,623)
Utilization of provision for employee benefit liability	(10,655)	(11,668)	(8,018)
NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES	**73,182**	**164,692**	**(248,446)**
INVESTMENTS			
• intangible assets	(9,238)	(12,038)	(13,767)
• property, plant and equipment	(106,516)	(61,210)	(44,553)
• financial receivables	(8,623)	(34,111)	(90)
• equity investments	(196)	(6,254)	(1,462)
DISPOSALS			
• intangible assets	-	773	312
• property, plant and equipment	424	6,234	1,023
• financial receivables	25,408	17,934	41,549
• equity investments	4.001	-	6
NET CASH USED IN INVESTING ACTIVITIES	**(94.740)**	**(88.672)**	**(16.982)**

	Year ended December 31		
(Euro/000)	**2007**	**2006**	**2005**
CHANGE IN MEDIUM/LONG TERM BORROWINGS			
• proceeds	8.454	4.797	4.915
• repayments	(1.050)	(1.062)	(48.259)
CHANGE IN FINANCE LEASE OBLIGATIONS			
• repayments	(1.328)	(1.277)	(1.900)
Change in other financial payables/receivables	38.683	(76.185)	(6.410)
Movement in assets for derivative instruments held for trading	3.953	-	-
Movement in liabilities for derivative instruments held for trading	5.340	-	-
Dividends paid	(10.113)	(10.113)	(10.113)
Change in minority interest	2	51	5.435
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	**43.941**	**(83.789)**	**(56.332)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**22.383**	**(7.769)**	**(321.760)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**176.785**	**184.575**	**506.348**
Exchange rate movements	(62)	(21)	7
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**199.106**	**176.785**	**184.595**

Opening cash and cash equivalents as of January 1, 2006 is lower than closing cash and cash equivalents as of December 31, 2005 by 20 Euro/thousands following deconsolidation of Orizzonte Sistemi Navali S.p.A., as described in more details in Note 8. Orizzonte Sistemi Navali S.p.A. has been recorded using the equity method starting from 2006.



Notes to the consolidated financial statements

NOTE 1 - GENERAL INFORMATION

THE COMPANY

Fincantieri – Cantieri Navali Italiani SpA (the "Company") is an Italian legal entity with its head office at via Genova, 1, Trieste (Italy).
As of December 31, 2007 the share capital of the Company amounted to 337,111,530 Euro/thousands, of which 98.789% was held by Fintecna – Finanziaria per i Settori Industriali e dei Servizi SpA ("Fintecna") and 1.21% by Citibank International Plc.
Appendix 1 includes a summary of the financial statements of Fintecna as of and for the years ended December 31, 2006 and 2005.

PRINCIPAL ACTIVITIES OF THE GROUP

The Company and its subsidiaries (together the "Group") operate in the shipbuilding industry, primarily designing and constructing merchant and military vessels as well as providing ship repair and conversion services of mechanical systems and components. The Group is a global leader in cruise shipbuilding with a market share of over 40% and recently entered the mega yachts market.
The Group's activities are performed from 9 locations in Italy, as well as a presence in the United States of America relating to trading and after sale services. The Group also has an investment in a German shipyard.

BASIS OF PREPARATION

The Company has exercised its right under a law directive enforced in Italy (D. Lgs 28 February 2005, n.38), which sets forth the guidelines for exercising the options set aside in article 5 of the European Regulation No 1606/2002 regarding international accounting principles.
The consolidated financial statements of the Group have been prepared in conformity with the International Financial Reporting Standards ("IFRS"), as adopted by the European Commission for use in the European Union.
Within the initiative exercised by Fintenca to prepare financial statements in accordance with IFRS as detailed in the Notes to the 2006 financial statements, the financial statements as of and for the years ended December 31, 2006 and 2005 have been re-elaborated based on the transition date to IFRS of January 1, 2005 by applying the rules and options for first time adoption as described in further detail in Note 30.
These consolidated financial statements of the Group as of and for the years ended December 31, 2007, 2006 and 2005 have been audited by PricewaterhouseCoopers S.p.A., independent accountants who were engaged in the periodic review and audit of the financial statements of the Company and of the principal subsidiaries of the Group.

APPLICATION OF IFRS

IFRS refers to the International Financial Reporting Standards, the International Accounting Standards ("IAS"), the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") and the interpretations of the Standing Interpretations Committee ("SIC"), as adopted by the European Commission for use in the European Union and stated in the corresponding Directives published as of December 31, 2007.
The policies set out below have been consistently applied to all of the years presented in this document. The IFRS has recently been applied for the first time in Italy and in other countries. There have been several new IFRS publications and updates, for which there are no precedents, and consequently no references can be made when interpreting the standards. The consolidated financial statements have been prepared by the Directors of the Company based on their best knowledge of the standards and of their interpretations and in view of the fact that these accounting practices are constantly being updated.

ACCOUNTING STANDARDS APPLIED FROM JANUARY 1, 2006

In August 2005, IASB issued IFRS 7 *Financial instruments*: Disclosures – and amended IAS 1 *Presentation of Financial Statements*.
IFRS 7 requires entities to provide disclosures regarding the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. Further, it incorporates the disclosure requirements previously contained in IAS 32 *Financial Instruments: Presentation*.
The revision to IAS 1 is related to the information to be provided in financial statements.
The Group has applied IFRS 7 and the amendments to IAS 1 from January 1, 2007. Comparative information has been disclosed for accounting period beginning on January 1, 2006 in accordance with IFRS 7.

INTERPRETATIONS APPLICABLE FROM JANUARY 1, 2007 WHICH HAVE NOT BEEN APPLIED

The following interpretations which have effect from January 1, 2007 have not been applied as they are not applicable to the Group:

- *IFRIC 9 – Reassessment of embedded derivatives;*
- *IFRIC 8 – Scope of IFRS 2;*
- *IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial reporting in Hyperinflationary Economies;*
- *IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions.*

RECENT ACCOUNTING PRONOUNCEMENTS

On November 30, 2006 IASB issued IFRS 8 *Operating Segments* to replace IAS 14 *Segment Reporting*. The Standard will be effective from January 1, 2009. IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that which management uses internally for evaluating segment performance deciding how to allocate resources to operating segments. The Group does not apply neither IAS 14 nor IFRS 8.

On March 29, 2007 IASB issued the revised IAS 23 *Borrowing costs*. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Standard will be effective from January 1, 2009 with prospective application of a change in accounting policy of the borrowing costs attributable to the fixed assets. As of the reporting date, the European Commission has not yet completed the procedures for the adoption of the Standard for use in the European Union.

On July 5, 2007 IFRIC issued interpretation on IAS 19 IFRIC 14 *The limit on a defined benefit assets, minimum funding requirements and their interaction*. The Standard will be applied from January 1, 2008. The Interpretation provides general guidance on how to assess the limit in IAS 19 *Employee Benefits* on the amount of the surplus that can be recognized as an asset. It also explains how the pension assets or liability may be affected when there are statutory or contractual minimum funding requirements. As of the reporting date, the European Commission has not yet completed the procedures for the adoption of the Standard for use in the European Union.

On September 6, 2007 IASB issued the revised IAS 1 *Presentation of Financial Statements*. The Standard will be effective from January 1, 2009. The revised Standard requires to present changes in a company's equity resulting from the transactions with owners in their capacity as owners separately from "non-owner" changes (resulting from transactions with third parties). All "non-owner" changes in equity (comprehensive income) to be presented either in single statement of comprehensive income or in two separate statements (a separate income statement followed by a statement of comprehensive income). As of the reporting date, the European Commission has not yet completed the procedures for the adoption of the Standard for use in the European Union.

On November 30, 2006 IFRIC issued the Interpretation - IFRIC 12 *Service Concession Arrangements*. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services - such as roads, airports, energy and water supply and distribution facilities - to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. Following the nature of the

arrangements the operator recognizes a financial asset and/or an intangible asset. As of the reporting date, the European Commission has not yet completed the procedures for the adoption of the Standard for use in the European Union.
IFRIC 13 *Customer Loyalty Programmes* has been issued and will be effective from January 1, 2009. The European Commission has not yet completed the procedures for the adoption of the Standard for use in the European Union.

BALANCE SHEET PRESENTATION

The Group has elected the "non-current/current" presentation for the balance sheet, the presentation of costs by nature for the income statement and the indirect method for the preparation of the statement of cash flows.

CURRENCY OF PREPARATION

The financial statements of the Company and the other group entities are prepared in Euro, with the exception of one subsidiary, located in the United States of America, which prepares its financial statements in US dollars.
The consolidated financial statements, including the notes thereto, are prepared and presented in Euro, the currency of the primary economic environment in which the Group operates.
In specific instances where amounts are stated in currencies other than Euro, this is expressly stated.

NOTE 2 - BASIS OF CONSOLIDATION

SCOPE OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and the subsidiaries over which the Company exercises direct or indirect control. Subsidiaries are consolidated from the date that control is obtained until the date control ceases. Control is determined when the Company directly or indirectly owns the majority of the voting rights or the ability to exercise dominant influence, which is the power to determine, also indirectly, by virtue of contractual or legal agreements, the financial and operating decisions of the entity, and to profit from the resulting benefits, regardless of shareholding. When assessing whether the Group controls another entity, the existence of potential exercisable voting rights at the balance sheet date is considered.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are consolidated on a line-by-line basis as follows:

- Purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition, in accordance with IFRS 3. Acquired non-current assets (or disposal group), that are classified as held for sale at the acquisition date, are stated at fair value less costs to sell in accordance with IFRS 5.
- Goodwill resulting from an acquisition is recorded as an asset and initially valued at cost, representing the excess of acquisition consideration over the Group's share of net identifiable assets acquired and liabilities assumed at the date of acquisition. If, after the reassessment, the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. Any minority in an acquisition of a subsidiary is measured initially at the minority interest's proportionate share of the acquired subsidiary's net indefinable assets. IFRS 3 does not permit the recognition of negative goodwill, therefore, the excess of the acquirer's interest in the fair value of the acquired net identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized directly in the income statement, after the reassessment of the fair value of the acquired identifiable assets, liabilities and contingent liabilities.
- Inter-company transactions, balances and unrealized gains are eliminated.
- The portion of shareholders' equity and income/loss attributable to any minority shareholders are stated under specific consolidated balance sheet and income statement headings.

"The list of subsidiaries with the details of its business activities, legal office location, share capital, and shareholding percentage is presented in the Report on Operation (Section "Consolidated Companies")."

ELNAV Esercizio e Locazione Navi SpA has been consolidated on a line-by-line basis as a result of an agreement to acquire an additional 35% shareholding in the entity, which is currently held by Friulia SpA. The Group currently holds a shareholding of 49%.

Associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are initially recorded at cost and subsequently accounted for using the equity method of accounting as follows:

- The Group's investments in associates reflect the Group's share of the shareholders' equity of the associate, adjusted, if necessary, to reflect the application of IFRS, as well as goodwill identified on acquisition, net of any accumulated impairment loss.
- The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, from the date significant influence is acquired until the date it is no longer present. Investments in associates with negative shareholders' equity are impaired and a provision for its losses is accrued only if the Group has a legal or constructive obligation to cover such losses. The changes in the shareholders' equity of the associate which are not related to the income statement are recognized as an adjustment to shareholder's equity reserves.
- Unrealised gains and losses arising from the transactions between associates and the Company/subsidiaries are eliminated to the extent of the Group's interest in the associate. Unrealised losses are not eliminated if they present an impairment of the asset transferred.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are consolidated using the equity method.

Translation of the financial statements of foreign subsidiaries, associates and joint ventures

The financial statements of the entities included in the consolidation are prepared in the currency of the primary economic environment in which they operate (the "functional currency"). The consolidated financial statements are presented in Euro which is the functional currency of the Company and the presentation currency of the Group.
The financial statements of foreign entities included in the scope of consolidation which are presented in foreign currencies are translated into Euro as follows:

- Assets and liabilities are translated into Euro using the year-end exchange rate;
- Income and expenses are translated using the average exchange rate of the period;

- The difference between the exchange rate applied to the income statement items and the balance sheet items as well as the differences from the different exchange rate applied to the opening balance sheet versus the closing balance sheet are recorded in the currency translation reserve;
- Goodwill and fair value adjustments arising from an acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

The exchange rates applied for the translation of the financial statements of foreign entities which are presented in currencies other than Euro are as follows:

	2007		2006		2005	
	Average for the year ended December 31	As of December 31	Average for the year ended December 31	Year ended December 31	Average for the year ended December 31	As of December 31
US Dollar	1.37048	1.4721	1.2556	1.3170	1.24409	1.1797

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. INTANGIBLE ASSETS

Intangible assets are non monetary assets which are distinctly identifiable and able to generate future economic benefits. These items are recognized at purchase cost and/or internal production costs to bring assets available for use, net of accumulated amortization and impairment, if any. Any borrowing costs, such as interest expense, directly associated with the intangible asset are expensed as incurred. Amortization starts when the asset is available for use and is calculated on a straight-line basis over its estimated useful life.

1.1 Research and development

Research costs are recognized as an expense as incurred. Costs incurred on development projects are recognized when the following criteria are met:

- the project is clearly identifiable and the costs can be reliably identified and measured;
- the technical feasibility of the project can be demonstrated;
- the intention to complete the intangible asset and sell it can be demonstrated;
- the existence of a market for the output of the intangible asset, or in case of internal use, the use of the asset can be demonstrated;
- the availability of adequate technical and financial resources to complete the project;

Development costs that have been capitalized are amortized from the commencement of the commercial production of the product.

1.2 Industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights

Amortization is calculated using the straight-line method to allocate the cost of acquisition over the lesser of the estimated useful live and the duration of the underlying contract. Amortization is calculated from the moment the patents and rights acquired become effective.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost of acquisition or production less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including, where applicable, an initial estimate of the costs of dismantling and removing the asset and of restoring the site where the asset is located. Any borrowing costs, such as interest expense, directly associated with the construction of property, plant and equipment are expensed as incurred.
Assets under concession are stated at cost, including estimated restoration costs, arising as a consequence of contractual obligations to restore an asset to the original condition before it is returned to the grantor, net of accumulated depreciation related to the duration of each separate concession arrangement, and net of removal costs of an asset.

Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Expenses relating to improvements, modernization or enlargement of property owned or used by third parties is only included in the carrying amount of the asset if it can be recognized as a separate asset or part of an asset using the component approach. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The recognition of subsequent costs as a separate asset is part of the "component approach" where each component is subject to separate valuation of useful life and value.
Depreciation is charged to each component on a straight-line basis over the estimated useful life from the date of initial recognition. When assets are composed of different identifiable components whose useful life of each component is significantly different, each component is depreciated separately applying the component approach.
Depreciation is charged on a straight-line basis over the useful life of the assets as follows:

Industrial buildings and dry docks	33 years
Plant and machinery	7 - 10 years
Equipment	4 years
Assets under concession	Duration of the concession arrangements
Improvements on leased assets	Duration of the lease contracts
Other assets	4 - 33 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.
Property, plant and equipment acquired through finance lease where the benefits and risks of the assets are substantially transferred to the Group are recorded in financial liabilities and accounted for at the lower of the asset's fair value or the present value of the minimum lease payments based on market interest rates, including any purchase option cost. The corresponding lease liability is included in financial liabilities. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the asset's useful life and the lease term, unless there is reasonable certainty that the Company will obtain ownership at the end of the lease term, in which case the asset is depreciated over the useful life of the asset. Gains on sale of assets sold and subsequently acquired through finance lease are recognized among deferred income and released to the income statement over the period of the lease contract.
Leases where the lessor retains substantially all the risks and rewards of ownership are recorded as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.
Property, plant and equipment leased out under finance lease agreements (or under a contract with the same treatment as a finance lease) where all the risks and rewards of ownership are substantially transferred from the Group are recorded in financial assets. At the moment of the transfer of the property, plant and equipment to the lessee, the Group recognizes a gain on disposal of the relevant asset which is determined as the difference between i) the fair value of the asset at the date of signing the contract or, if lower, the present value of the minimum lease payments, calculated at the market interest rate, and ii) costs of the assets subject to lease including legal expenses and other expenses directly associated with the stipulation of the finance lease contract. Subsequent to the recognition of the financial asset, finance income is recognized based on a pattern reflecting the constant periodic rate of return on the lessors net investment outstanding and is released in the income statement over the period of the lease contract.

3. IMPAIRMENT OF ASSETS

At each balance sheet date property, plant and equipment and intangible assets are reviewed in order to identify indicators for reduction of their value. If such indicators are identified, an estimate of the recoverable value is made and impairment is charged to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows that the asset is expected to generate.
The value in use of an asset which does not generate independent cash flows is determined in relation to the cash generating unit to which the asset belongs. In calculating an asset's value in use, the expected cash flows are discounted using a discount rate reflecting the current market value of the investments and the specific risks associated with the asset.
An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. When circumstances causing impairment cease to exist, the Group reverses, in full or in part, the previously recorded impairment charges, net of amortization.

4. OTHER INVESTMENTS

Investments, other than investments in subsidiaries, associates and joint ventures (generally where the Group has less than 20% shareholding) are classified within non-current financial assets.

5. INVENTORIES AND ADVANCE PAYMENTS

Inventories are recorded at the lower of cost of acquisition or production and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs. Cost of raw materials, supplies and consumables, and finished products and goods is determined using the weighted average cost method. The cost of production includes raw materials, direct labour costs and other costs of production (attributed on the basis of normal operating capacity). Borrowing costs are not included in the value of inventories.
Slow moving and obsolete inventories are recorded at their realizable value through an allowance for obsolescence.

6. CONSTRUCTION CONTRACTS

Construction contracts are recorded at contract value increased by the amount of the grants provided for by the specific government decree according to the particular contract using the percentage of completion method, taking into account the stage of the project and expected risks. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Construction contracts are reported net of an allowance for future losses and progress billings issued. This analysis is performed on a contract by contract basis.
When the work in progress relating to the construction contract is greater than the progress billings, the difference is shown as an asset within "construction contracts – assets". Where progress billings are greater than the work in progress relating to the construction contract, the difference is shown as a liability within "construction contracts – liabilities".
Naval construction contracts are closed three months after delivery of the vessel. The delivery of military vessels is recognized upon release of the acceptance report, if later.

7. DERIVATIVES

The Group uses derivative instruments to minimize the foreign currency risk exposure, which primarily derives from sales contracts, and to a lesser extent, certain procurements that are denominated in currencies other than Euro.
Derivative instruments are initially recognized at fair value on the date a derivative contract is entered into. Changes in the fair value of derivative instruments that cannot be recognized as hedging instruments are recognized in the income statement. For instruments that meet the criteria to be classified as hedging instruments, any subsequent variations to fair value are accounted according to the specific criteria identified below.
The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedging transaction is considered effective if the change in fair value, in the case of fair value hedge, and the expected future cash flows, in the cash flow hedge, are substantially compensated by the change in fair value of the hedging instrument.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the non-effective portion of hedges is recognized in the income statement within ''finance income and costs".
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized as reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

8. RECEIVABLES AND OTHER CURRENT ASSETS

Receivables are non-derivative financial assets, that mainly include receivables from clients, with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Receivables are valued at amortized cost using the effective interest rate basis.
Receivables are written down to the recoverable amount when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable Any losses arising as a result of impairment reviews are recognized in the income statement. If in subsequent periods the motives for such impairments are no longer valid, the value of the asset is reinstated up to its amortized cost as if the impairment had never occurred.

9. GRANTS FROM THE GOVERNMENT AND OTHER PUBLIC AUTHORITIES

Government grants are recognized over the period necessary to match them with the costs that they are intended to compensate when there is reasonable certainty that the Group will comply with all attached conditions and there is reasonable certainty that the grant will be received.

9.1 Capital grants

Grants on property, plant and equipment are recorded in the balance sheet as deferred income within "other payables" in non-current liabilities and "trade and other payables" in current liabilities according to the maturity. Government grants are recognized as income in the income statement in relation to the useful life of the asset for which the grant is received to match them with the related depreciation of the asset.

9.2 Grants related to income

Grants related to income are recorded in "Other income" in the income statement.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and at banks, deposits held at call with banks and other highly liquid short term investments which do not have significant risk of variation in value. Cash and cash equivalents are stated net of bank overdrafts which are utilized to manage liquidity rather than for financing.

11. EMPLOYEE BENEFIT LIABILITY

The companies of the Group operate various defined contribution pension plans and defined benefit pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund managed by a third party. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly and privately administered pension insurance plans on a mandatory contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized in personnel costs on an accrual basis.
A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans include the employee indemnity benefit, as defined by Article 2120 of the Civil Code.
The defined benefit plans are based, among other things, on both the period of employment and the remuneration of the employee. The defined benefit obligation is calculated by independent actuaries using the Projected Unit Credit Method. The costs relating to the increase in actual obligation, which represent both the remuneration of the employee for the services rendered during the year and the financial obligation of benefit payments, are included in personnel costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the income statement.

12. PROVISIONS FOR RISKS AND CHARGES

Provisions are recognized for losses and liabilities whose existence is certain or probable but the timing or amount of the obligation is uncertain as of the balance sheet date. A provision is recognized only upon the existence of a present legal or constructive obligation as a result of past events that is expected to result in a future outflow of resources. The amount of provision accrued represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in provision due to the passing of time is recognized in finance costs.
An obligation is a contingent liability when it is possible but not probable. In such case, no provision is recognized for the amount, but it is disclosed in the financial statements.

13. REVENUES

Revenues from construction contracts are recognized using the percentage of completion method. When it is probable that the total contract costs will exceed total contract revenue, the expected loss on the construction contract is immediately recognized in the income statement.
Revenues arising from contracts denominated in foreign currencies are translated into Euro using the spot exchange rate of the derivative for revenues hedged using forward contracts and intrinsic value component for hedging techniques through complex derivative instruments.
Retentions or other amounts which can be reclaimed by the customer based on contractual conditions are not considered as they are conditional on performance of obligations subsequent to delivery.

14. INCOME TAX

Current income taxes are accounted for on basis of taxable income. The rates applied are those in force at the balance sheet date.

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax on temporary differences arising on investments in subsidiaries and associates is not provided, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets, including those relating to previous tax losses, not offset by deferred tax liabilities are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Current and deferred income taxes are recognized in the income statement with the exception of the items which are recognized directly in shareholders' equity, in which case the tax effect is accounted for in the relevant equity reserve.

Deferred tax assets and liabilities are offset when income tax is applied by the same fiscal authorities, there is a legal entitlement to offset and the outstanding net balance is expected to be settled.

Taxes not related to income, such as property tax, are included in other costs.

15.EARNINGS PER SHARE

15.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net income attributable to the Company by the weighted average number of ordinary shares outstanding during the year.

15.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, whilst the Company's net income is adjusted to account for the effect of the conversion, net of taxes.

16. CRITICAL ACCOUNTING ESTIMATE AND JUDGMENTS

The preparation of the financial statements requires the application of principles and accounting methodologies that require the use of estimates and judgments based on historical experience and other assumptions, including expectations of future events, that are believed to be reasonable under the circumstances.

The application of these estimates and assumptions impact the amounts included in the balance sheet, income statement, the statements of cash flows and the notes to the consolidated finan-

cial statements. The resulting accounting estimates could differ from the related actual results because of the uncertainty influencing the assumptions.
The estimates and assumptions that have a significant risk of causing material adjustments to the financial statements within the next financial years are discussed below.

Revenue recognition for construction contracts

Almost all of the finalization dates of the vessel construction contracts precede, by a long period, the commencement of the work. In accordance with the actual market practice, amendments to the contracts, such as changing the value/price of the contract seldom occurs, unless the scope of work is changed, in which case adjustments relating to those changes can be made.
The margin recognized in the income statement for construction contracts is based on the progress of the contract. The correct recognition of construction contracts in progress and margin of construction contracts in progress requires reliable estimates by management of costs to complete, probable incremental costs to complete following delays, additional costs and penalties that could impact expected margin. To support the estimations, management applied a system of risk analysis to monitor and quantify the risks related to the completed contracts.
The amounts included in the financial statements represent managements best estimate based on detailed supporting procedures.

Provisions for risks and charges

The Group accrues provisions for legal and tax risks. The accrued amounts are estimated on the basis of assumptions based on current knowledge of factors which could change with time, and could result in different outflows from those provided for as of the date of these consolidated financial statements.

Deferred taxes

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available. The valuation of future taxable profit depends on assumptions that can change through time with the possibility of causing significant differences on the recoverability of the deferred tax assets.

NOTE 4 - FINANCIAL RISK MANAGEMENT

Financial risk management is performed at the Group level by the Finance department, which identifies, evaluates and implements risk management strategies for the financial risks in close collaboration with the operating units of the Group, and in compliance with the adopted guidelines.

CREDIT RISK

Financial receivables are essentially related to receivables due from corporate customers and agencies of the Italian Government.

The Group constantly monitors its commercial exposure to corporate customers and ensures that receivables are collected in due time. Financial receivables relating to receivables due from corporate customers are short-term in nature and collection terms on outstanding balances are subject to settlement prior to the delivery of vessels.

The following tables provide a breakdown of ageing of receivables by category as of December 31, 2007 and 2006 based on the nominal value of the receivable prior to considering any writedown of the receivable for amounts which are not considered recoverable:

	As of December 31, 2007					
		Overdue (days)				
(Euro/000)	Current	0 - 30	31 - 60	61 to 90	over 90	Total
Trade receivables:						
– due from government agencies	206,952	1,573	173	174	2,029	210,901
– due from corporate customers	69,852	5,463	2,085	1,136	32,582	111,118
TOTAL TRADE RECEIVABLES	**276,804**	**7,036**	**2,258**	**1,310**	**34,611**	**322,019**
Government grants financed by Banca OPI	81,200					81,200
Government grants others	64,698					64,698
Finance lease receivables	36,614					36,614
Receivables due from joint venture	52,961					52,961
Other receivables	80,195				6,284	86,479
TOTAL GROSS	**592,472**	**7,036**	**2,258**	**1,310**	**40,895**	**643,971**
Allowance for doubtful receivables					-37,303	-37,303
TOTAL NET					**3,592**	**606,668**
Receivable from the Iraq Ministry of Defence						209,843
Prepayments						54,214
TOTAL						**870,725**

(Euro/000)	As of December 31, 2006 Current	Overdue (days) 0 - 30	31 - 60	61 to 90	over 90	Total
TRADE RECEIVABLES:						
– due from government agencies	337,321	448	669	305	1,663	340,406
– due from corporate customers	90,906	7,393	899	1,127	35,604	135,929
TOTAL TRADE RECEIVABLES	**428,227**	**7,841**	**1,568**	**1,432**	**37,267**	**476,335**
Government grants financed by Banca OPI	86,161					86,161
Government grants others	63,213					63,213
Finance lease receivables	38,094					38,094
Receivables due from joint venture	19,134					19,134
Other receivables	39,751				6,971	46,722
TOTAL GROSS	**674,580**	**7,841**	**1,568**	**1,432**	**44,238**	**729,659**
Allowance for doubtful receivables					-37,724	-37,724
TOTAL NET					**6,514**	**691,935**
Receivable from the Iraq Ministry of Defence						209,843
Prepayments						65,375
TOTAL						**967,153**

Allowance for doubtful receivables amounted to 37,303 Euro/thousands and 37,724 Euro/thousands as of December 31, 2007 and 2006. No allowance for doubtful receivables was provided for the remaining overdue receivables as there is no objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Refer to Note 28 for further information on receivables from the Iraq Ministry of Defence.

LIQUIDITY RISK

The liquidity risk is associated with the ability to fulfill the commitments deriving from financial liabilities. The activities of the Group, despite the unfavourable payment conditions in the shipping industry, provide sufficient liquid resources for self-financing. Most of the medium and long-term financial commitments are offset with corresponding receivables from the Government. Under the treasury policy, excess liquidity, originating from advances from customers, is invested in short-term instruments with leading financial institutions at the best available rates in the monetary market. In order to ensure flexibility, the Group maintains some credit lines which, considering the present self-financing capacity, as of December 31, 2007 and 2006, have been drawn down only to a limited extent and utilized only for temporary liquidity necessities.
Most of the medium and long-term financial commitments are offset with corresponding receivables due from the Government relating to government grants. In particular they refer to construction grants recognized pursuant to a law enforced in Italy (Law 431/91) under which the grants were given in the form of loans from Banca OPI (see Note 19). The repayment of the loan is made directly by the Government.
The following tables provide a breakdown of ageing of financial liabilities other than derivative instruments, gross of interest accrued. Interest was calculated based on either the variable interest rate plus spread, or on the fixed interest rate, in compliance with the contract terms:

(Euro/000)	As of December 31, 2007 Current	Within 1 Month	Between 2 and 3 Months	Between 4 and 12 Months	Between 1 and 5 Years	Beyond 5 Years	Financial Payables Including interest	Financial Payables Excluding interest
Payables to Parent Company	-225						-225	-225
Payables to joint venture		-39,048					-39,048	-39,048
Bank debt	-1,500	-532		-1,843	-15,341	-9,774	-28,990	-26,182
Bank debt to Banca OPI		-4,072		-8,147	-32,590	-57,827	-102,636	-81,200
Payables to suppliers		-156,285	-478,088	-164,460			-798,833	-798,833
Finance lease obligations		-140	-280	-1,260	-6,720	-827	-9,227	-8,294
Other debt	-8,468	-74,420		-15,501		-73	-98,462	-98,462
TOTAL	**-10,193**	**-274,497**	**-478,368**	**-191,211**	**-54,651**	**-68,501**	**-1,077,421**	**-1,052,244**
Payables to the Iraq Ministry of Defence								-209,843
Accrued liabilities and deferred income								-45,550
TOTAL								**-1,307,637**

(Euro/000)	December 31, 2006 Current	Within 1 Month	Between 2 and 3 Months	Between 4 and 12 Months	Between 1 and 5 Years	Beyond 5 Years	Financial Payables Including interest	Financial Payables Excluding interest
Payables to Parent Company	-178						-178	-178
Payables to joint venture	-57						-57	-57
Bank debt	-4,775	-13		-1,315	-12,329	-4,478	-22,910	-22,053
Bank debt to Banca OPI		-4,072		-8,147	-32,589	-65,975	-110,783	-86,161
Payables to suppliers		-131,848	-412,990	-186,457			-731,295	-731,295
Finance lease obligations		-140	-280	-1,260	-6,720	-2,507	-10,907	-9,622
Other debt	-50,591	-36,732	-2,884	-26,353			-116,560	-116,560
TOTAL	**-55,601**	**-172,805**	**-416,154**	**-223,532**	**-51,638**	**-72,960**	**-992,690**	**-965,926**
Payables to the Iraq Ministry of Defence								-209,843
Accrued liabilities and deferred income								-33,828
TOTAL								**-1,209,597**

MARKET RISK

Exchange rate risk

The exchange rate risk exposure relates to the execution of shipbuilding contracts denominated in foreign currency and, to a lesser extent, exposure to suppliers denominated in currencies other than the Euro.
With regard to the construction contracts, the exposure as of December 31, 2007 and 2006 is almost totally denominated in US dollars, whereas exposure for purchase transactions is mainly denominated in GBP sterling and Norwegian krone.
The Group establishes policies to minimize the impact of exchange rate fluctuations on the economic and financial performance. The transactions for the management of exchange rate risk, for which forward contracts or options are used, are entered into depending on the currency market

performance and depending on when the foreign currency flows are expected to occur. Where possible, receivables and payables denominated in the same currency are offset.
The objective of management policy is to fully hedge revenues subject to current market conditions and depending on when the foreign currency flows are expected to occur. Expenses are only hedged if significant. The Group is currently establishing a management policy, with an objective to formalize pre-defined criteria for the management of exchange rate risks and the utilization of derivative instruments, together with permissible derivative instruments for hedging and efficiency technique purposes.

Interest rate risk

The Group has financial liabilities whose value is subject to fluctuations linked to changes in interest rates. Changes in interest rates financial liabilities are largely matched by changes in interest rates financial assets. Other changes in interest rates on the value of the remaining medium/long-term financial liabilities not matched by the corresponding change in interest rates on the value of financial assets are however expected to have a positive impact due to the fact that current interest rates are higher than that contractually negotiated. With regard to short-term liabilities, the Group makes limited use of the significant credit lines available to minimize short term exposure risks.

Other market risks

The Group production costs are affected by movement in the prices of the raw materials used, such as steel. The Group adopts policies, where possible, to control exposure to movements in price of cost of services and other-related costs mainly by entering into long-term contracts, and by adding specific clauses providing for an increase in the price of the ship in the event of an increase in the prices of the related raw materials.

DERIVATIVE INSTRUMENTS AT FAIR VALUE

Other current and non-current financial assets and other current and non-current financial liabilities include the measurement of derivative financial instruments at fair value. As follows:

	Asset		Liability	
in thousands	Fair Value in Euro	Amount in reported currency	Fair Value in Euro	Amount in reported currency
	As of December 31, 2007			
CASH FLOW HEDGE				
Option (revenue, USD)	6,539	55,621		
Forward (revenue, CAD)	1,655	14,700		
Forward (revenue, USD)			16	477
Forward (purchase, USD)	7	2,424	107	27,840
DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Option (USD)	3,190	25,500		
DERIVATIVE HELD FOR TRADING				
Option (USD)			9,549	831,673
	As of December, 31 2006			
CASH FLOW HEDGE				
Forward (revenue, USD)	30,113	741,111	80	5,861
Forward (revenue, CAD)	53	2,377		
Forward (purchase, USD)	0	237	73	2,653
Forward (purchase, GBP)			1	610
Forward (purchase, NOK)			0	2,176
DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Option (USD)	3,171	137,000	432	137,000
DERIVATIVE HELD FOR TRADING				
Option (USD)	225	56,898		
	As of December, 31 2005			
CASH FLOW HEDGE				
Forward (revenue, USD)	76,474	280,500	34,494	975,915
Forward (revenue, CAD)			208	5,022
Forward (purchase, USD)	434	13,052	11	1,140
Forward (purchase, CAD)	35	396		
Forward (purchase, GBP)	1	710	43	477
DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Option (USD)	404	125,000	1,074	125,000

The following table provides a breakdown of the expiry of the fair value of derivative contracts as of December 31, 2007 and 2006. The amounts included in the tables represent gross future cash flow. The table below represents non-discounted intrinsic value.

(Euro/000)	Within 1 Month	Between 2 and 3 Months	Between 4 and 12 Months	Between 1 and 2 years	Between 2 and 5 years	Beyond 5 years	Total
	As of December, 31 2007						
EURO CALL (REVENUE)							
Outflow			37,783				**37,783**
Inflow			44,524				**44,524**
FORWARD PURCHASED (REVENUE)							
Outflow			9,986				**9,986**
Inflow			11,691				**11,691**
KI FORWARD PURCHASED (REVENUE)							
Outflow			17,322				**17,322**
Inflow			20,515				**20,515**

(Euro/000)	Within 1 Month	Between 2 and 3 Months	Between 4 and 12 Months	Between 1 and 2 years	Between 2 and 5 years	Beyond 5 years	Total
	As of December, 31 2006						
FORWARD BOUGHT (REVENUE)							
Outflow		292,141	266,329	8,706			**567,177**
Inflow		303,298	283,799	9,158			**596,255**
KI FORWARD PURCHASED (REVENUE)							
Outflow			104,024				**104,024**
Inflow			105,385				**105,385**
FORWARD SOLD (PURCHASES)							
Outflow	949	414	895				**2,259**
Inflow	944	388	862				**2,194**

	As of December 31, 2005							
	Maturity 2006				Maturity 2007			
	Asset		Liability		Asset		Liability	
	Fair value	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value	Nominal value
CASH FLOW HEDGE								
Exchange risk-Forward contract	76,936	249,553	12,460	208,137	7	607	22,296	624,153
Derivatives held for trading	404	105,959	1,074	105,959				
	77,340		**13,534**		**7**		**22,296**	

The fair value of derivative financial instruments was calculated considering the market parameters at the reporting date and using commonly applied measurement models. Specifically:

- the fair value of forward contracts was calculated considering exchange and interest rates in the two currencies at the reporting date;
- the fair value of currency options was provided by the counter-party banks and verified by applying the Black-Scholes method and the market parameters at the reporting date (specifically: exchange rates, interest rates and volatility).

MOVEMENTS IN CASH FLOW HEDGES

The following table provides the reconciliation of the movement in cash flow hedges:

(Euro/000)	Shareholders' equity			Income statement
	Gross	Taxes	Net	
As of January 1, 2005	**133,074**	**-49,650**	**83,424**	
Change in Fair Value	-67,472			-4,681
Utilizations	-48,061			46,581
Financial income / expenses related to derivatives held for trading and time value portion of the fair value of hedging derivatives				1,034
As of December 31, 2005	**17,541**	**-6,545**	**10,996**	**42,934**
Change in Fair Value	26,483			-928
Utilizations	-44,088			45,503
Other expenses/(income) related to hedging derivatives				1,610
Financial income / expenses related to derivatives held for trading and time value portion of the fair value of hedging derivatives				-14,322
As of December 31, 2006	**-64**	**24**	**-40**	**31,863**
Change in Fair Value	-4,903			22
Utilizations	4,800			-4,737
Other expenses/(income) related to hedging derivatives				6,441
Financial income / expenses related to derivatives held for trading and time value portion of the fair value of hedging derivatives				-10,119
As of December 31, 2007	**-167**	**53**	**-114**	**-8,393**

FINANCIAL ASSETS AND LIABILITIES PER CATEGORY

The following table provides a breakdown of financial assets and liabilities per category together with the fair value:

(Euro/000)	A	B	C	D	E	F	G	TOTAL	Fair value
	As of December 31, 2007								
Financial receivables – Derivatives	3,190	8,194	7					11,391	11,391
Financial receivables – Others					384,972			384,972	380,063
Trade receivables and other current receivables					444,339			444,339	444,339
Current income tax receivables					41,414			41,414	41,414
Cash and cash equivalents					199,106			199,106	199,106
Financial payables – Derivatives	-9,549		-123					-9,672	-9,672
Financial payables – Others							-159,004	-159,004	-153,296
Other non-current payables							-229,336	-229,336	-229,336
Trade payables and other current payables							-924,734	-924,734	-924,734
Income tax payables							-45	-45	-45
Total	**-6,359**	**8,194**	**-116**		**1,069,831**		**-1,313,119**	**-241,569**	**-240,770**
	As of December 31, 2006								
Financial receivables – Derivatives	3,953	29,379	231					33,563	33,563
Financial receivables – Others					404,019			404,019	396,448
Trade receivables and other current receivables					561,898			561,898	561,898
Current income tax receivables					1,236			1,236	1,236
Cash and cash equivalents					176,785			176,785	176,785
Financial payables – Derivatives	-586							-586	-586
Financial payables – Others							-119,240	-119,240	-110,581
Other non-current payables							-228,790	-228,790	-228,790
Trade payables and other current payables							-841,567	-841,567	-841,567
Income tax payables							-20,249	-20,249	-20,249
Total	**3,367**	**29,379**	**231**		**1,143,938**		**-1,209,846**	**-32,931**	**-31,843**
	As of December 31, 2005								
Financial receivables – Derivatives	404	55,561	21,382					77,347	77,347
Financial receivables – Others					393,111			393,111	386,100
Trade receivables and other current receivables					549,683			549,683	549,683
Current income tax receivables					12,010			12,010	12,010
Cash and cash equivalents					184,595			184,595	184,595
Financial payables – Derivatives	-1,074	-31,529	-3,227					-35,830	-35,830
Financial payables – Others							-197,191	-197,191	-189,034
Other non-current payables							-225,632	-225,632	-225,632
Trade payables and other current payables							-817,493	-817,493	-817,493
Income tax payables							-537	-537	-537
Total	**-670**	**24,032**	**18,155**		**1,139,399**		**-1,240,853**	**-59,937**	**-58,791**

A = Financial assets and liabilities at fair value recognized directly in income statement (including derivatives held for trading and derivatives that do not qualify for hedge accounting)
B = Financial assets and liabilities at fair value recognized directly in income statement after initial recognition in equity (including hedging derivatives)
C = Financial assets and liabilities at fair value recognized in net equity (including hedging derivatives)
D = Financial investment held until maturity
E = Financial receivables (including cash and cash equivalents)
F = Assets held for sale
G = Financial liabilities at amortized cost

NOTE 5 - SENSITIVITY ANALYSIS ON EXCHANGE RATE RISK

The following information illustrates the effect on the net assets as of December 31, 2006 and 2007 and net income for the years ended December 31, 2006 and 2007 of a negative (the appreciation of the US dollar relative to the Euro) and a positive (the depreciation of the US dollar relative to the Euro) 10% change in the exchange rates of the US dollar against the Euro. In particular, in performing the scenario analysis, the exchange rate of the Central European Bank of 1.4721 Euro/US dollar and 1.3170 Euro/US dollar as of December 31, 2007 and 2006 respectively was considered.
The analysis does not consider changes in other exchange rate fluctuations, in particular, the GBP and Norwegian Krone, on the basis that such movements would not have a significant impact on the Group's net assets and net income.

	As of December 31							
	2007				2006			
	Exchange rate risk				Exchange rate risk			
	+10%		-10%		+10%		-10%	
(Euro/000)	Income Statement	Other movements Net Equity	Income Statement	Other movements Net Equity	Income Statement	Other movements Net Equity	Income Statement	Other movements Net Equity
ASSETS								
Construction contracts - assets	-37,282		46,493		-55,653		68,020	
Derivatives	5,770		-6,682		59,117	226	-75,599	-276
Total Assets	**-31,512**		**39,811**		**3,464**	**226**	**-7,579**	**-276**
LIABILITIES								
Construction contracts - liabilities					-45,247		55,302	
Derivatives	1,798		-19,435		-301		368	
Total Liabilities	**1,798**		**-19,435**		**-45,548**		**55,670**	
Net assets, net of tax effect	**-22,851**		**13,978**		**-26,408**	**142**	**30,177**	**-173**

Hedging transactions executed at the beginning of 2008 are disclosed in Note 29.

NOTE 6 - INTANGIBLE ASSETS

(Euro/000)	As of December 31, 2006	Increases	Amortization	Disposals	Reclassifications /other	As of December 31, 2007
Development costs	5,671	516	1,566		204	4,825
Industrial patents and intellectual property rights	10,649	6,131	7,607		13	9,186
Concessions, licenses, trademarks and similar rights	416		216			200
Other intangibles	216		22			194
Intangibles in progress and advances with suppliers	798	2,578			-221	3,155
TOTAL INTANGIBLE ASSETS	**17,750**	**9,225**	**9,411**		**-4**	**17,560**
Historical cost of acquisition	60,832					70,017
Accumulated amortization	43,082					52,457
NET BOOK VALUE	**17,750**					**17,560**

(Euro/000)	As of December 31, 2005	Increases	Amortization	Disposals	Reclassifications /other	As of December 31, 2006
Development costs	25	3,123	1,437		3,960	5,671
Industrial patents and intellectual property rights	10,515	7,538	7,395		-9	10,649
Concessions, licenses, trademarks and similar rights	778	82	284		-160	416
Other intangibles		241	25			216
Goodwill	897				-897	
Intangibles in progress and advances with suppliers	4,491	566		274	-3,985	798
TOTAL INTANGIBLE ASSETS	**16,706**	**11,550**	**9,141**	**274**	**-1,091**	**17,750**
Historical cost of acquisition	51,214					60,832
Accumulated amortization	34,508					43,082
NET BOOK VALUE	**16,706**					**17,750**

(Euro/000)	As of December 31, 2004	Increases	Amortization	Disposals	Reclassifications /other	As of December 31, 2005
Development costs	164		139			25
Industrial patents and intellectual property rights	9,137	7,409	7,193	2	1,164	10,515
Concessions, licenses, trademarks and similar rights	832	509	563			778
Goodwill		987	90			897
Intangibles in progress and advances with suppliers	1,085	4,636			-1,230	4,491
TOTAL INTANGIBLE ASSETS	**11,218**	**13,541**	**7,985**	**2**	**-66**	**16,706**
Historical cost of acquisition	37,412					51,214
Accumulated amortization	26,194					34,508
NET BOOK VALUE	**11,218**					**16,706**

Year ended December 31, 2007

Investments, which include capitalization of internal costs, amounting to 778 Euro/thousands, mainly relate to:

- development costs for new applications of diesel engines of the Isotta Fraschini Motori Group (516 Euro/thousands);
- software costs (6,131 Euro/thousands) mainly relating to the license for the office automation, the launch of new technical programmes and the completion of various SAP/R3 modules.

Reclassifications/other include the effects of transfers from intangibles in progress to the relevant asset category and currency translation differences relating to foreign subsidiaries.

Year ended December 31, 2006

Investments, which include capitalization of internal costs, amounting to 6,355 Euro/thousands, mainly relate to:

- development costs for new naval applications: prototypes of ships intended for specific market niches (1,637 Euro/thousands) and diesel engines of the Isotta Fraschini Motori Groups (1,486 Euro/thousands);
- software costs (7,538 Euro/thousands) mainly relating to the project for a "Stealth Ship", the completion of various SAP/R3 modules and the enhancement of new applications.

Reclassifications/other include the effects of: i) change in the consolidation method of Orizzonte

Sistemi Navali S.p.A. amounting to 1,057 Euro/thousands, of which 897 Euro/thousands relates to goodwill and 160 Euro/thousands relates to concessions, licenses, trademarks and similar rights; ii) currency translation differences of 9 Euro/thousands relating to foreign subsidiaries; and iii) transfers from intangibles in progress to the relevant asset category.

Year ended December 31, 2005

Investments, which include capitalization of internal costs amounting to 4,134 Euro/thousands, mainly relate to:
- the purchase of licenses and software amounting to 7,409 Euro/thousands;
- intangibles in progress amounting to 4,636 Euro/thousands mainly relating to development projects.

Reclassifications mostly relate to the transfer from intangibles in progress to the relevant asset category.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

(Euro/000)	As of December 31, 2006	Additions	Depreciation	Disposals	Reclassifications /other	As of December 31, 2007
Land and buildings	96,968	27,082	4,912	322	5,217	124,033
Plant and equipment	148,758	30,610	28,756	163	1,781	152,230
Industrial and commercial equipment	9,875	4,011	4,526	1	402	9,761
Assets under concession	42,528	4,574	3,447	-4	7,016	50,675
Leasehold	15,833	307	411			15,729
Other assets	39,596	6,509	5,795	37	1,561	41,834
Work performed on third party assets	7,139	2,495	2,672		732	7,694
Assets under construction	17,274	27,555			-15,135	29,694
Advances with suppliers	3,853	3,463			-1,614	5,702
TOTAL PROPERTY, PLANT AND EQUIPMENT	**381,824**	**106,606**	**50,519**	**519**	**-40**	**437,352**
Historical cost of acquisition	1,079,437					1,172,360
Accumulated depreciation	697,613					735,008
NET BOOK VALUE	**381,824**					**437,352**

(Euro/000)	As of December 31, 2005	Additions	Depreciation	Disposals	Reclassifications /other	As of December 31, 2006
Land and buildings	96,130	2,838	4,533	40	2,573	96,968
Plant and equipment	152,223	19,767	27,971	156	4,895	148,758
Industrial and commercial equipment	8,276	5,778	4,357	5	183	9,875
Assets under concession	43,576	1,583	2,834		203	42,528
Leasehold	12,946	3,245	358			15,833
Other assets	40,856	5,016	6,167	171	62	39,596
Work performed on third party assets	7,508	2,734	2,165		-938	7,139
Assets under construction	8,991	19,544			-11,261	17,274
Advances with suppliers	494				3,359	3,853
TOTAL PROPERTY, PLANT AND EQUIPMENT	**371,000**	**60,505**	**48,385**	**372**	**-924**	**381,824**
Historical cost of acquisition	1,029,894					1,079,437
Accumulated depreciation	658,894					697,613
NET BOOK VALUE	**371,000**					**381,824**

(Euro/000)	As of December 31, 2004	Additions	Depreciation	Disposals	Reclassifications /other	As of December 31, 2005
Land and buildings	95,524	3,143	4,590	121	2,174	96,130
Plant and equipment	151,377	17,476	27,922	410	11,702	152,223
Industrial and commercial equipment	8,593	3,779	4,343	36	283	8,276
Assets under concession	41,053	3,445	2,284		1,362	43,576
Leasehold		12,945	154		155	12,946
Other assets	39,957	6,261	6,592	27	1,257	40,856
Work performed on third party assets	7,804	1,476	2,319		547	7,508
Assets under construction	17,584	7,979			-17,509	8,054
Advances with suppliers	922	509				1,431
TOTAL PROPERTY, PLANT AND EQUIPMENT	**362,814**	**57,013**	**48,204**	**594**	**-29**	**371,000**
Historical cost of acquisition	984,738					1,029,894
Accumulated depreciation	621,924					658,894
NET BOOK VALUE	**362,814**					**371,000**

Year ended December 31, 2007

The main additions to property, plant and equipment in the Group's shipyards during the year were as follows:

- Marghera shipyard – additions amounting to 15,580 Euro/thousands relating to: completion of the indoor and outdoor hull construction facilities and the logistic and production reorganization of the outfitting areas for the new quay, including those for the enhancement of security in outfitting areas;
- Monfalcone shipyard – additions amounting to 44,857 Euro/thousands relating to: commencement of construction of two robotic stations in the new panel line and the enhancement of the robot line, and the third plasma cutting plant;
- Sestri shipyard – additions amounting to 3,952 Euro/thousands relating to: completion of the restructuring of the administrative offices and outfitting departments, refitting of the canteen; continuation of the works for the upgrading of production and service plant;
- Ancona shipyard – additions amounting to 8,887 Euro/thousands relating to: commencement of the logistic reorganization programme and the completion of the new sandblasting/coating workshops;
- Castellammare shipyard – additions amounting to 6,635 Euro/thousands relating to: completion of the production and service plant (reconfiguration of profiles and replacement of the plasma cutting plant) and the continuation of the enhancement of security programme;
- Palermo shipyard – additions amounting to 4,491 Euro/thousands relating to: continuation of renovation of the operating infrastructure for naval repairs;
- Muggiano shipyard – additions amounting to 9,856 Euro/thousands relating to: continuation of the construction of new offices and workshops for the mega yacht line;
- Riva Trigoso shipyard – additions amounting to 4,616 Euro/thousands relating to: commencement of the construction of the new testing station for offshore supporting units, the reinforcement of the assembly workshop and the improvement of infrastructures in the mechanical area;
- Bari shipyard (owned by the subsidiary Isotta Fraschini Motori) – additions amounting to 2,079 Euro/thousands relating to: the commencement of the enhancement of plants and areas in order to meet legislation requirements and the continuation of the construction of plants for the completion of engines and groups and testing rooms for motor-generators.

Reclassifications include the effects of: i) currency translation differences of 40 Euro/thousands relating to foreign subsidiaries and ii) transfers from assets under construction to the relevant property, plant and equipment category.
Included in property, plant and equipment are assets amounting to 429 Euro/thousands, owned by the Company, that do not qualify as assets under concession, but – under the deed of concession for the area where they are located -, they will be relinquished to the concessionaire on the expiry of the term of concession. These assets are recorded as: i) land and buildings (314 Euro/thousands); ii) other assets (115 Euro/thousands).
Investments include capitalization of internal costs amounting to 1,609 Euro/thousands.

Year ended December 31, 2006

The main additions to property, plant and equipment in each shipyard during the year were as follows:

- Marghera shipyard - additions amounting to 7,776 Euro/thousands relating to: continuation of the upgrading of hull areas, the logistic and production reorganization of the outfitting areas for the new quay, including those for the enhancement of security in outfitting areas;
- Monfalcone shipyard - additions amounting to 18,249 Euro/thousands relating to: commencement of the construction of the second panel line; completion of energy saving works (methanation) and the automated control of the distribution of technical gases; electrical revamping of the gantry crane; works for the concentration of dressing rooms and upgrade of the canteen;
- Sestri shipyard - additions amounting to 4,196 Euro/thousands relating to: restructuring of administrative offices and outfitting departments, renovation of the canteen, renovation of the dressing rooms, implementation of a new shipyard access control system;
- Ancona shipyard - additions amounting to 6,630 Euro/thousands relating to: works for the modernization and renewal of hull construction plants; building of new sandblasting/coating workshops; extension of the pre-fabrication areas; re-conditioning of watertight doors;
- Castellammare shipyard - additions amounting to 3,582 Euro/thousands relating to: continuation of the upgrading of production and service plant, such as plasma cutting plant, electrical revamping of hull assembly crane, modernization of assembly workshop, enhancement of the sub-assembly handling systems; works for security enhancement, especially outfitting security;
- Palermo shipyard - additions amounting to 2,858 Euro/thousands relating to: commencement of the re-construction of the watertight door to the dock; continuation of renovation and upgrading also with a view to expanding the operating infrastructure for naval repairs and conversions;
- Muggiano shipyard - additions amounting to 4,436 Euro/thousands relating to: commencement of construction of new offices and workshops for the mega yacht line; renovation of guest buildings for Navy personnel; renewal of quayside power supply systems and improvement of security;
- Riva Trigoso shipyard - additions amounting to 4,672 Euro/thousands relating to: building the new sandblasting/coating plant; continuation of work on the new launch system; improvements to logistics and services; purchase and installation of new computerized machine tools in the mechanical area.

Reclassifications include the effects of: i) change in the consolidation method for Orizzonte Sistemi Navali S.p.A. amounting to 1,575 Euro/thousands; ii) currency translation differences of 257 Euro/thousands relating to foreign subsidiaries; and iii) transfers from assets under construction to the relevant property, plant and equipment category.
Included in property, plant and equipment are assets amounting to 461 Euro/thousands, owned by the Company, that do not qualify as assets under concession, but - under the deed of concession for the area where they are located -, they will be relinquished to the concessionaire on the expiry of the term of concession. These assets are recorded as: i) land and buildings (336 Euro/thousands); ii) other assets (125 Euro/thousands).
Investments include capitalization of internal costs amounting to 3,702 Euro/thousands.

Year ended December 31, 2005

The main property, plant and equipment additions in each shipyard during the year were as follows:

- Marghera shipyard - additions amounting to 11,318 Euro/thousands relating to: plants and indoor and outdoor hull construction facilities improvement, also in order to put them in line with the greater performances of the new panel line; upgrading of service infrastructures for the new outfitting pier;
- Monfalcone shipyard - additions amounting to 3,873 Euro/thousands relating to: development of an innovative robot line for sub-assembly production as part of the European project Euroship; energy-saving measures (specifically with the replacement of expensive acetylene with methane) and continuation of the programmes for the technological upgrading of cutting and welding plants;
- Sestri shipyard - additions amounting to 2,947 Euro/thousands relating to: almost total completion of plant re-organization in the hull construction area and upgrading of plant and services to improve efficiency and safety of outfitting operations;
- Ancona shipyard - additions amounting to 4,054 Euro/thousands relating to: replacement of the dock service crane (destroyed by a storm) and continuation of improvements to plant infrastructures and workplace environment and safety;
- Castellammare shipyard - additions amounting to 2,690 Euro/thousands relating to: general renovation and upgrading of production and service plant and safety improvements, especially in the outfitting area;
- Palermo shipyard - additions amounting to 4,502 Euro/thousands relating to: renovation and upgrading of workshop and service plant and scaffolding systems, as part of a significant programme to improve efficiency and safety of production activities, both ashore and on board; continuation of further upgrading of operating infrastructure for ship repairs;
- Muggiano shipyard - additions amounting to 3,451 Euro/thousands relating to: completion of installation of a new panel line; extension of warehouses; re-building of the canteen; replacement of a wharf crane; preliminary surveying for new mega yacht construction workshops;
- Riva Trigoso shipyard - additions amounting to 5,067 Euro/thousands relating to: completion of a new launch system plant and changes to entrances to the yard; in the mechanical products workshop, replacement of a large boring machine, installation of a spark erosion plant and acquisition of a large vertical lathe.

Reclassifications almost exclusively relate to transfers from assets under construction to the relevant property, plant and equipment category.
Investments include capitalization of internal costs amounting to 588 Euro/thousands.

Finance lease obligations

The reconciliation of total future minimum finance lease payments and the relevant finance lease obligations as of December 31, 2006 and 2007 is as follows:

(Euro/000)	As of December 31		
1) Present value of the future minimum lease payments	**2007**	**2006**	**2005**
Total minimum finance lease payments	9,227	10,907	12,586
Future finance charges	-933	-1,285	-1,686
Present value of the future minimum lease payments	8,294	9,622	10,900

	As of December 31								
2) Due date of the future minimum lease payments	**2007**			**2006**			**2005**		
	Within 1 year	From 1 to 5 years	After 5 years	Within 1 year	From 1 to 5 years	After 5 years	Within 1 year	From 1 to 5 years	After 5 years
Minimum finance lease payments	1,680	6,720	827	1,680	6,720	2,507	1,680	6,720	4,186
Present value of the future minimum lease payments	1,381	6,095	818	1,328	5,862	2,432	1,277	5,638	3,985

The present value of minimum finance lease payments as of December 31, 2007 is 8,294 Euro/thousands (9,622 Euro/thousands as of December 31, 2006, 10,900 Euro/thousands as of December 31, 2005), which represents 1,381 Euro/thousands (1,328 Euro/thousands as of December 31, 2006, 1,277 Euro/thousands as of December 31, 2005) included in current financial liabilities and 6,913 Euro/thousands (8,294 Euro/thousands as of December 31, 2006, 9,623 Euro/thousands as of December 31, 2005) included in non-current financial liabilities. At January 1, 2005 the contracts in place at December 31, 2005 were not yet in place, therefore; no liabilities were recorded.

NOTE 8 - FINANCIAL ASSETS

INVESTMENTS

The following table provides a breakdown of investments:

(Euro/000)	As of December 31, 2006	Additions	Revaluations (+) impairments (-)	Disposals	Reclassifications / other	As of December 31, 2007
EQUITY ACCOUNTED INVESTMENTS						
Associates	10,499		253			10,752
Joint ventures	10,832		663			11,495
	21,331		**916**			**22,247**
OTHER INVESTMENTS						
Subsidiaries	1			1		
Other companies	6,931	4	-3,473	580		2,882
	6,932	**4**	**-3,473**	**581**		**2,882**
TOTAL INVESTMENTS	**28,263**	**4**	**-2,557**	**581**		**25,129**

(Euro/000)	As of December 31, 2005	Additions	Revaluations (+) impairments (-)	Disposals	Reclassifications / other	As of December 31, 2006
EQUITY ACCOUNTED INVESTMENTS						
Associates	7,571	10,692	-193		-7,571	10,499
Joint ventures					10,832	10,832
	7,571	**10,692**	**-193**		**3,261**	**21,331**
OTHER INVESTMENTS						
Subsidiaries	3		-2			1
Other companies	7,516	1,612	-2,197			6,931
	7,519	**1,612**	**-2,199**			**6,932**
TOTAL INVESTMENTS	**15,090**	**12,304**	**-2,392**		**3,261**	**28,263**

(Euro/000)	As of December 31, 2004	Additions	Revaluations (+) impairments (-)	Disposals	Reclassifications / other	As of December 31, 2005
EQUITY ACCOUNTED INVESTMENTS						
Associates	8,194		-623			7,571
	8,194		**-623**			**7,571**
OTHER INVESTMENTS						
Subsidiaries	6		-3			3
Other companies	6,061	1,462		7		7,516
	6,067	**1,462**	**-3**	**7**		**7,519**
TOTAL INVESTMENTS	**14,261**	**1,462**	**-626**	**7**		**15,090**

All investments are in companies which are not quoted on an active market.

Investments as of December 31, 2007

Legal name	Office	% ownership	Carrying value
EQUITY ACCOUNTED INVESTMENTS			
Lloyd Werft Bremerhaven GmbH	Bremerhaven	21.05	10,752
Orizzonte Sistemi Navali SpA	Genoa	51.00	11,495
			22,247
OTHER INVESTMENTS			
Ansaldo Fuel Cells SpA	Genoa	16.10	1,336
Centro Sviluppo Materiali SpA	Rome	8.33	698
EEIG Euroyards	Brussels	16.67	11
CRIV Scarl	Venice	3.45	3
CUAI SpA in liq.	Venice	2.00	2
Accademia Italiana Marina Mercantile Scarl	Genoa	4.00	4
Consorzio La Spezia Energia	La Spezia	(*)	2
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR	Copenhagen	9.10	6
Consorzio IMAST Scarl	Napoli	3.50	22
Polo Tecnologico Ligure Scpa	Genoa	25.00	14
Consorzio Cals Italia	Rome	6.67	10
Consorzio Formazione Internazionale	Rome	5.26	10
Consorzio MIB	Trieste	(*)	3
Consorzio Rinave	Trieste	20.00	4
Venezia Logistics Scarl	Venice	7.14	2
Consorzio Aeroporto FVG SpA	Ronchi	1.89	10
Consorzio ISICT	Genoa	(*)	2
Friulia SpA	Trieste	0.57	740
EOS European Organization for Security Scrl	Brussels	(*)	2
			2,882

(*) % of ownership not shown as subject to continuous changes

Additions amounting to 4 Euro/thousands in the year ended December 31, 2007 include:

- acquisition of share in European Organization for Security Scrl, limited liability partnership under Belgian law, amounting to 2 Euro/thousands, aimed at the consolidation and coordination of the industrial skills in the field of security;
- increase in investment of Consorzio per l'Aeroporto del Friuli Venezia Giulia SpA amounting to 2 Euro/thousands.

Revaluations/ (Impairments) represent the adjustment to the carrying value to reflect the net equity value of the investments, and mainly relates to:

- revaluation of 663 Euro/thousands relating to investments in Orizzonte Sistemi Navali S.p.A. and revaluation of 253 Euro/thousands relating to investments in Lloyd Werft Bremerhaven GmbH;
- an impairment of investments in Ansaldo Fuel Cells S.p.A. amounting to 3,467 Euro/thousands.

Disposals relate to the disposal of the investment in Tecnomare S.p.A.

Investments as of December 31, 2006

Legal name	Office	% ownership	Carrying value
EQUITY ACCOUNTED INVESTMENTS			
Lloyd Werft Bremerhaven GmbH	Bremerhaven	21.05	10,499
Orizzonte Sistemi Navali SpA	Genoa	51.00	10,832
			21,331
OTHER INVESTMENTS			
Ansaldo Fuel Cells SpA	Genoa	16.10	4,803
Centro Sviluppo Materiali SpA	Rome	8.33	698
Tecnomare SpA	Venice	5.00	580
EEIG Euroyards	Brussels	16.67	11
CRIV Scarl	Venice	3.45	3
CUAI SpA in liq.	Venice	2.00	2
Accademia Italiana Marina Mercantile Scarl	Genoa	4.00	8
Consorzio La Spezia Energia	La Spezia	(*)	2
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR	Copenhagen	9.10	6
Consorzio IMAST Scarl	Naples	3.50	22
Polo Tecnologico Ligure Scpa	Genoa	25.00	14
Consorzio Cals Italia	Rome	6.67	10
Consorzio Formazione Internazionale	Rome	5.26	10
Consorzio MIB	Trieste	(*)	3
Consorzio Rinave	Trieste	20.00	4
Venezia Logistics Scarl	Venice	7.14	5
Consorzio Aeroporto FVG SpA	Ronchi	1.89	7
Consorzio ISICT	Genoa	(*)	2
Friulia SpA	Trieste	0.57	740
Shipdevelopment GEIE in liq.	Trieste	96.00	1
			6,932

(*) I% of ownership not shown, because subject to continuous changes

As of December 31, 2005 Orizzonte Sistemi Navali S.p.A. was consolidated using the line-by-line method, as it was not fully operative and the application of the shareholders' agreement providing for joint control was not applicable. During 2006, Orizzonte Sistemi Navali S.p.A. commenced operations and it has been considered as a joint venture. Therefore, consistently with the relevant accounting standard, from 2006 Orizzonte Sistemi Navali has been deconsolidated and recorded using the equity method. As a result, the investment in Horizon SAS, held by Orizzonte Sistemi Navali S.p.A., is no longer shown as an equity accounted investment.

Additions amounting to 12,304 Euro/thousands in the year ended December 31, 2006 include:

- the acquisition, through the subsidiary Fincantieri Holding B.V., of 14.26% of the share capital of Lloyd Werft Bremerhaven GmbH, a shipyard where ships are repaired, amounting to 4,640 Euro/thousands. Under the existing agreements, rights are attached to these shares for a further 6.79%, totaling 3,360 Euro/thousands. The investment amounts to 10,692 Euro/thousands, which represents the investment of the Group of 21.05%;
- the subscription to the share capital increase of Ansaldo Fuel Cells SpA amounting to 1,594 Euro/thousands;
- investment in Consorzio per l'Aeroporto del Friuli Venezia Giulia SpA amounting to 7 Euro/thousands;
- investment in Venezia Logistics Scarl, (previously "Consorzio portualità intermodalità e logistica Venezia-Treviso"), amounting to 5 Euro/thousands;
- investment in the ISICT consortium amounting to 2 Euro/thousands; the Institute works with the University of Genoa and performs ICT studies;
- investment in RINAVE consortium amounting to 4 Euro/thousands; the consortium is located in Trieste and is active in the high naval research business.

The breakdown of revaluations and impairments is as follows:

- an impairment of 2,197 Euro/thousands relating to Ansaldo Fuel Cells S.p.A.. The impairment considers the permanent loss in this investment as a result of the revised industrial plans for that company;
- an impairment of 193 Euro/thousands relating to Lloyd Werft Bremerhaven GmbH representing the loss attributable to the Company from the date of acquisition;
- an impairment of 2 Euro/thousands to Shipdevelopment GEIE which is in liquidation.

The column reclassifications/other in the table above represents the effects of the change in the method of consolidation of Orizzonte Sistemi Navali S.p.A. As previously explained, in the year ended December 31, 2005, this entity was consolidated on a line-by-line basis, but in the year ended December 31, 2006, it was stated using the equity method. The effects of this change included:

- elimination of the equity investment of Orizzonte Sistemi Navali S.p.A. in Horizon SAS amounting to 7,571 Euro/thousands;
- recognition of Orizzonte Sistemi Navali S.p.A. as an equity investment as of December 31, 2006 amounting to 10,832 Euro/thousands.

Investments as of December 31, 2005

Legal name	Office	% ownership	Carrying value
EQUITY ACCOUNTED INVESTMENTS			
Horizon SAS	Paris	50.00	7,571
			7,571
OTHER INVESTMENTS			
Ansaldo Fuel Cells SpA	Genoa	13.47	5,406
Centro Sviluppo Materiali SpA	Rome	8.33	698
Tecnomare SpA	Venice	5.00	580
EEIG Euroyards	Bruxelles	16.67	11
CRIV Scarl	Venice	3.33	3
CUAI SpA in liq.	Venice	2.00	2
Accademia Italiana Marina Mercantile Scarl	Genoa	4.00	8
Consorzio La Spezia Energia	La Spezia	(*)	2
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR	Copenhagen	9.10	6
Consorzio IMAST Scarl	Napoli	3.50	22
Polo Tecnologico Ligure Scpa	Genoa	25.00	14
Consorzio Cals Italia	Rome	6.67	10
Consorzio Formazione Internazionale	Rome	5.88	10
Consorzio MIB	Trieste	(*)	3
Friulia SpA	Trieste	1.44	740
Shipdevelopment GEIE in liq.	Trieste	96.00	3
			7,519

(*) I% of ownership not shown, because subject to continuous changes

Additions amounting to 1,462 Euro/thousands in the year ended December 31, 2005 include:

- subscription to the share capital increase of Ansaldo Fuel Cells SpA amounting to 1,439 Euro/thousands;
- investment in Accademia Italiana Marina Mercantile Scarl amounting to 8 Euro/thousands;
- acquisition, through the subsidiary CETENA, of an investment in the consortium company that was set up within the Ligurian Technological District amounting to 15 Euro/thousands.

Impairments in the year ended December 31, 2005 include an amount of 623 Euro/thousands relating to the investment of Orizzonte Sistemi Navali S.p.A. in Horizon SAS (France). The amount represents the change in equity attributable to the Company as of December 31, 2005, net of dividend received.

Equity accounted investments

The following table provides summary financial information relating to equity accounted investments as of and for the year ended December 31, 2007:

(Euro/000)	Assets	Liabilities	Revenues	Net income / (Loss) for the period
Lloyd Werft Bremerhaven Gmbh	100,619	54,998	280,961	1,202
Orizzonte Sistemi Navali SpA	420,727	398,187	128,069	1,300

The following table provides summary of financial information relating to equity accounted investments as of and for the year ended December 31, 2006:

(Euro/000)	Assets	Liabilities	Revenues	Net income / (Loss) for the period
Lloyd Werft Bremerhaven Gmbh	101,252	56,833	162,524	(1,220)
Orizzonte Sistemi Navali SpA	241,748	220,508	145,844	520

FINANCIAL ASSETS - RECEIVABLES

The following table provides a breakdown of financial assets - receivables:

(Euro/000)	**As of December 31**		
	2007	**2006**	**2005**
Finance leases	34,513	36,038	37,499
Government grants	117,341	131,720	122,196
Derivatives		782	7
Other receivables	211,944	214,554	216,952
TOTAL FINANCIAL ASSETS - RECEIVABLES	**363,798**	**383,094**	**376,654**

Finance leases amounting to 34,513 Euro/thousands as of December 31, 2007 (36,038 Euro/thousands as of December 31, 2006, 37,499 Euro/thousands as of December 31, 2005) represents the amounts due after one year from customers for bareboat charters with an Italian ship-owner. Such bareboat charters are considered similar to finance leases. The movements in each period are due to the repayment of these receivables in accordance with the repayment plan.
The reconciliation of the total future minimum lease payments due to the lessor and the relevant finance lease receivable as of December 31, 2007, 2006 and 2005 is as follows:

(Euro/000)	**As of December 31**		
1) Present value of the future minimum lease payments receivable	**2007**	**2006**	**2005**
Total future minimum lease payments receivable	42,107	45,035	47,963
Future final charges (-)	-5,493	-6,941	-8,450
Present value of the future minimum lease payments receivable	36,614	38,094	39,513

	As of December 31								
2) Due date of the future minimum lease payment	**2007**			**2006**			**2005**		
	Within 1 year	From 1 to 5 years	After 5 years	Within 1 year	From 1 to 5 years	After 5 years	Within 1 year	From 1 to 5 years	After 5 years
Minimum lease payments	2,928	39,179		2,928	11,380	30,727	2,928	11,712	33,323
Present value of the future minimum lease payment	2,101	34,513		2,056	6,172	29,866	2,014	6,235	31,264

Government grants amounting to 117,341 Euro/thousands (131,720 Euro/thousands as of December 31, 2006, 122,196 Euro/thousands as of December 31, 2005) include:

- the grants due to shipyards which are due after more than one year. These receivables are stated at nominal value, as interest is collected on maturity;
- grants assigned by the ship-owner to the Company as part of the contract price and currently in the process of being collected. These grants are stated at present value, discounted by a fixed rate of 4.15%.

Financial assets include an amount of 73,403 Euro/thousands (78,649 Euro/thousands as of December 31, 2006, 84,311 Euro/thousands as of December 31, 2005) due after one year relating to grants due to the Group in relation to certain borrowings which are repaid directly by the Government. Changes during each of the periods mainly relate to the repayment of these receivables according to the repayment plans which has resulted in the reclassification of the current portion of receivables to current assets amounting to 7,797 Euro/thousands (7,512 Euro/thousands as of December 31, 2006 and 7,160 Euro/thousands as of December 31, 2005). Receivables increased by 25,054 Euro/thousands in the year ended December 31, 2006 and 14,056 Euro/thousands in the year ended December 31, 2005. Also, during 2005 an amount of 4,618 Euro/thousands was written off as it was no longer considered receivable.

The maturity profile of the government grants receivable is as follows:

	As of December 31								
	2007			2006			2005		
Due date	Fixed Rate	Floating rate	Total	Fixed Rate	Floating rate	Total	Fixed Rate	Floating rate	Total
between one and two years	14,254		14,254	14,379		14,379	13,298		13,298
between two and three years	14,854		14,854	14,254		14,254	12,389		12,389
between three and four years	15,468		15,468	14,854		14,854	12,168		12,168
between four and five years	16,096		15,619	15,468		15,468	12,667		12,667
after five years	56,669		57,146	72,765		72,765	71,674		71,674
TOTAL	**117,341**	**0**	**117,341**	**131,720**	**0**	**131,720**	**122,196**		**122,196**

Derivatives in 2007 are nil. In 2005 derivatives decreased from 105,560 Euro/thousands as of January 1, 2005 to 7 Euro/thousands as of December 31, 2005. The change is due to the change in fair value of the derivatives and to their maturity dates.

Other receivables amounting to 211,944 Euro/thousands (214,554 Euro/thousands as of December 31, 2006, 216,952 Euro/thousands as of 31 December 2005) includes a receivable of 209,843 Euro/thousands due from the Iraq Ministry of Defence which remained stable in the course of the reporting periods. The receivable relates to the recognition – in 1998 within "advances" under non-current payables – of a claim for damages, associated to the "former Iraq contract". After favorable awards in 2006, in the course of 2007, the ruling of the Court of Genoa was appealed. As a consequence, the sentence imposed in 2006 was upheld. The amount was maintained as an advance. Note 28 provides more details on this dispute.

Other receivables also includes 2,101 Euro/thousands (4,711 Euro/thousands as of December 31, 2006, 7,109 Euro/thousands as of December 31, 2005) of receivables relating to the tax advance on the employee leaving indemnity, caution guarantees and other sundry receivables.

Other receivables decreased from 253,156 Euro/thousands as of January 1, 2005 to 216,952 Euro/thousands as of December 31, 2005 due to the early collection during the year of an amount due from Finaval S.p.A.

Other receivables is shown net of the allowance for doubtful receivables amounting to 13,229 Euro/thousands. The allowance for doubtful receivables did not change in the year ended December 31, 2007, 2006 and 2005.

NOTE 9 - DEFERRED TAX ASSETS

The following table provides a breakdown of deferred tax assets:

(Euro/000)	Allowance for obsolescence of inventories and provision for future losses	Construction contracts	Product warranty	Other risks and charges	Fair value derivatives	Losses carried forward	Other temporary differences	Total
As of January 1,2005	**92,280**		**8,549**	**12,106**	**-49,650**		**-2,041**	**61,244**
Movements								
– Charged / (credited) to income statement	-22,600	-14,445	-50	1,145			5,384	**-30,566**
– Charged / (credited) to equity					43,105		66	**43,171**
As of December 31, 2005	**69,680**	**-14,445**	**8,499**	**13,251**	**-6,545**	**0**	**3,409**	**73,849**
Movements								
– Charged / (credited) to income statement	-6,569	6,580	1,175	-631		2,409	-8,831	**-5,867**
– Impairments						-2,109		**-2,109**
– Charged / (credited) to equity					6,569		138	**6,707**
As of December 31, 2006	**63,111**	**-7,865**	**9,674**	**12,620**	**24**	**300**	**-5,284**	**72,580**
Movements								
– Charged / (credited) to income statement	-34,131	-369	-2,421	-4,469		2,932	-2,641	**-41,099**
– Impairments								**0**
– Charged / (credited) to income statement					29		-27	**2**
As of December 31, 2007	**28,980**	**-8,234**	**7,253**	**8,151**	**53**	**3,232**	**-7,952**	**31,483**

Deferred tax assets amounting to 2,109 Euro/thousands as of December 31, 2005 relating to tax loss carry forwards of 6,390 Euro/thousands of the subsidiary Isotta Fraschini Motori have not been recognized. Additionally, deferred tax assets amounting to 19,234 Euro/thousands as of December 31, 2007, 21,546 Euro/thousands as of December 31, 2006 and 20,087 Euro/thousands as of December 31, 2005 have not been recognized with respect to receivables written down and legal disputes amounting to 69,631 Euro/thousands as of December 31, 2007, 65,290 Euro/thousands as of December 31, 2006 and 60,870 Euro/thousands as of December 31, 2005. These deferred tax assets were not recognized as their recovery is not considered probable.

NOTE 10 - INVENTORIES

The following table provides a breakdown of inventories:

(Euro/000)	As of December 31		
	2007	**2006**	**2006**
Raw materials, ancillary materials and consumables	142,290	125,547	131,740
Work in progress and semi-finished goods	452	1,019	1,346
Finished goods	8,577	10,065	8,629
Total	**151,319**	**136,631**	**141,715**
Advances with suppliers	122,030	69,171	63,578
TOTAL INVENTORIES	**273,349**	**205,802**	**205,293**

Raw materials, ancillary materials and consumables relate to the amount of inventory considered to be sufficient for normal production activities.

Work in progress and semi-finished goods and finished goods mainly relate to motor manufacturing and spare parts of Isotta Fraschini Motori and Fincantieri Marine Systems.
Slow-moving and obsolete inventory is written down to the estimated realizable value through the allowance for obsolescence. The movement in the allowance for obsolescence is as follows:

(Euro/000)		Accruals	Utilization	
	As of December 31, 2006			**As of December 31, 2007**
Allowance for obsolescence – raw materials	8,873	3,414	-5,744	6,543
Allowance for obsolescence – finished goods	247		-26	221
	As of December 31, 2005			**As of December 31, 2006**
Allowance for obsolescence – raw materials	10,653	1,451	-3,231	8,873
Allowance for obsolescence – finished goods	276		-29	247
	As of December 31, 2004			**As of December 31, 2004**
Allowance for obsolescence – raw materials	11,510	1,112	-1,969	10,653
Allowance for obsolescence – finished goods	239	37		276

NOTE 11 - CONSTRUCTION CONTRACTS

The following table provides a breakdown of inventories:

	As of December 31								
	31.12.2007			**31.12.2006**			**31.12.2005**		
(Euro/000)	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net
Contracts for ships	2,263,909	1,133,400	1,130,509	1,819,797	477,522	1,342,275	1,882,850	881,643	1,001,207
Other contracts for third parties	84,936	58,123	26,813	29,743	12,773	16,970	105,439	79,552	25,887
TOTAL	**2,348,845**	**1,191,523**	**1,157,322**	**1,849,540**	**490,295**	**1,359,245**	**1,988,289**	**961,195**	**1,027,094**

Construction contracts - net includes contracts where the value of the percentage of completion of the contract is higher than the invoices issued.
Construction contracts - gross reflects the recognition of the percentage of completion of each contract. The increase between 2006 and 2007 of both the gross amount of construction contracts related to contracts for ships and invoices issued is attributable to the vessels delivered during the last quarter of the year. The accounting closure of the respective contracts will take place during 2008. Construction contracts gross did not change significantly in 2005 and 2006. The increase of both the gross and net amount of other contracts for third parties is attributable to the business area "mechanical production", in relation to which construction contracts – liabilities were recognized as of December 31, 2006, where the percentage of completion was lower than the invoices issued.
Construction contracts - net is stated net of a provision for future losses. This includes losses resulting from currency issues, and technical and contractual production risks, based on current valuations.
The provision for future losses, including provision for expected losses attributable to contracts included in Construction contracts – liabilities, amounted to 89,261 Euro/thousands as of December 31, 2007 (212,147 Euro/thousands as of December 31, 2006 and 213,493 Euro/thousands as of December 31, 2005).
The reduction related to the completed contracts and/or progress made on some loss making contracts and other contracts in relation to which final expenses will be determined at the time of the delivery.

NOTE 12 - TRADE RECEIVABLES, OTHER CURRENT ASSETS AND CURRENT TAX RECEIVABLES

The following table provides a breakdown of inventories:

(Euro/000)	As of December 31		
	2007	2006	2005
Trade receivables	289,887	442,223	440,269
Receivables due from joint ventures	52,961	19,134	
Receivables due from associates			1,190
Government grants receivable	11,627		
Other receivables	54,938	51,497	42,602
Prepayments	34,926	49,044	65,622
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**444,339**	**561,898**	**549,683**
Current tax receivables	41,414	1,236	12,010

Trade receivables and other current assets are shown net of the allowance for doubtful receivables. The allowance for doubtful receivables relates to receivables that are no longer considered fully recoverable, including those under legal dispute, judicial and out of court proceedings and where the customer is subject to insolvency. The allowance for overdue interest relates to the provision for interest charged on the late payment of trade receivables.
The movement in the allowances for doubtful receivables is as follows:

(Euro/000)		Direct and other movements	Accruals / (utilizations)	
	As of December 31, 2006			**As of December 31, 2007**
Allowance for doubtful trade receivables	17,338	-1,183	906	17,061
Allowance for overdue interest	63			63
Allowance for tax receivables	39			39
Allowance for other doubtful receivables	7,055	-269	125	6,911
TOTAL	**24,495**	**-1,452**	**1,031**	**24,074**
	As of December 31, 2004			**As of December 31, 2005**
Allowance for doubtful trade receivables	19,908	-2,310	-260	17,338
Allowance for overdue interest	92	-23	-6	63
Allowance for tax receivables	42	-3		39
Allowance for other doubtful receivables	22,071	35	-15,051	7,055
TOTAL	**42,113**	**-2,301**	**-15,317**	**24,495**
	As of December 31, 2004			**As of December 31, 2005**
Allowance for doubtful trade receivables	20,433	-218	-307	19,908
Allowance for overdue interest	92			92
Allowance for tax receivables			42	42
Allowance for other doubtful receivables	1,779	28	20,264	22,071
TOTAL	**22,304**	**-190**	**19,999**	**42,113**

Trade receivables, net of the allowance for doubtful receivables, decreased by 152,336 Euro/thousands as of December 31, 2007 compared to December 31, 2006. The decrease is attributable to the collection of receivables related to completed contracts with the Italian Navy. As of December 31, 2007, 2006 and 2005 a significant part of trade receivables related to amounts due from the Government.

Trade receivables from joint ventures relate to amounts due from Orizzonte Sistemi Navali S.p.A.. The increase is due to the progress made on the programme FREMM. There is no equivalent amount as of December 31, 2005 as Orizzonte Sistemi Navali S.p.A. was fully consolidated in 2005. Thus the related receivable of 145 Euro/thousands was eliminated on consolidation.

Government grants receivables as of December 31, 2007 relates to technological innovation assistance provided pursuant to Law 296 of December 27, 2006.

Other receivables amounting to 34,926 Euro/thousands as of December 31, 2007 (49,044 Euro/thousands as of December 31, 2006 and 65,622 Euro/thousands as of December 31, 2005) include the following:

- VAT amounting to 9,827 Euro/thousands (5,255 Euro/thousands as of December 31, 2006, 2,247 Euro/thousands as of December 31, 2005) for which reimbursement or offset is being claimed during 2008;
- stamp duty amounting to 3,399 Euro/thousands (3,128 Euro/thousands as of December 31, 2006, 3,236 Euro/thousands as of December 31, 2005) for which reimbursement was claimed and challenged by the Tax Authority;
- excise duties amounting to 4,788 Euro/thousands (3,649 Euro/thousands as of December 31, 2006, 1,691 Euro/thousands as of December 31, 2005) that the Customs Office must return to the Company, regardless of the outcome of suits that are already pending or that are about to commence;
- sundry receivables of 341 Euro/thousands (345 Euro/thousands as of December 31, 2006, 419 Euro/thousands as of December 31,2005);
- sundry advances and reimbursements from INAIL amounting to 2,937 Euro/thousands (2,630 Euro/thousands as of December 31, 2006, 2,318 Euro/thousands as of December 31, 2005);
- sundry advances to staff amounting to 1,294 Euro/thousands (1,331 Euro/thousands as of December 31, 2006, 1,261 Euro/thousands as of December 31, 2005);
- insurance compensation claims amounting to 2,139 Euro/thousands (11,121 Euro/thousands as of December 31, 2006, 4,694 Euro/thousands as of December 31, 2005);
- research grants amounting to 14,085 Euro/thousands (11,243 Euro/thousands as of December 31, 2006, 11,791 Euro/thousands as of December 31, 2005);
- advances to suppliers amounting to 3,570 Euro/thousands (4,991 Euro/thousands as of December 31, 2006, 2,646 Euro/thousands as of December 31, 2005);
- other receivables amounting to 12,558 Euro/thousands (7,804 Euro/thousands as of December 31, 2006, 12,296 Euro/thousands as of December 31, 2005).

Prepaid expenses mainly include insurance premiums relating to future years.

Current tax receivables, gross of allowance for doubtful tax receivables amounting to 39 Euro/thousands (39 Euro/thousands as of December 31, 2006, 42 Euro/thousands as of December 31, 2005) relate to:

- IRPEG amounting to 55 Euro/thousands for outstanding refunds claimed;
- IRES amounting to 34,966 Euro/thousands relating to excess payments (566 Euro/thousands as of December 31, 2006 and 8,984 Euro/thousands as of December 31, 2005 and mostly related to the unused tax asset that the Company acquired from the holding company Fintecna);
- IRAP amounting to 6,152 Euro/thousands relating to excess payments (457 Euro/thousands as of December 31, 2006 and 2,788 Euro/thousands as of December 31, 2005);
- sundry taxes and dues amounting to 241 Euro/thousands, less the allowance for doubtful tax receivables detailed above amounting to 39 Euro/thousands

In relation to the amounts as of December 31, 2006:

- trade receivables (amounting to 442,223 Euro/thousands, representing an increase of 1,954 Euro/thousands from January 1, 2006) mainly relate to receivables from the Italian Navy in accordance with the delivery terms;
- other receivables (amounting to 51,497 Euro/thousands), mainly including VAT, excise duties, insurance compensation claims and smaller items, increased by 8,895 Euro/thousands;
- prepayments (amounting to 49,044 Euro/thousands), mainly comprising insurance premiums, decreased by 16,578 Euro/thousands compared to January 1, 2006.

In relation to the amounts as of December 31, 2005:

- trade receivables amounting to 440,269 Euro/thousands (representing an increase of 28,455 Euro/thousands from January 1, 2005) mainly relate to receivables from the Italian Navy in accordance with the delivery terms;
- other receivables amounting to 42,602 Euro/thousands, did not change significantly compared to January 1, 2005 and represent several smaller receivables mainly including VAT, excise duties, insurance compensation claims and smaller items;
- prepayments amounting to 65,622 Euro/thousands (representing an increase of 23,435 Euro/thousands from January 1, 2005) mainly relate to insurance premiums. Prepayments subsequently decreased during 2006 as explained previously.

NOTE 13 - CURRENT FINANCIAL ASSETS

The following table provides a breakdown of current financial assets:

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
Derivatives	11,391	32,781	77,340
Finance leases	2,101	2,056	2,014
Other receivables	18,878	19,554	14,118
Accrued interest	195	70	73
Prepayments for interests and others		27	259
TOTAL CURRENT FINANCIAL ASSETS	**32,565**	**54,488**	**93,804**

Derivatives relate to the fair value of foreign currency derivatives which mainly relate to shipbuilding contracts in which the revenues are denominated in US dollars. Derivatives expiring within one year are stated in current financial assets and those expiring after one year are stated in non-current financial assets.
Derivatives decreased by 21,390 Euro/thousands as of December 31, 2007 compared to December 31, 2006, decreased by 44,559 Euro/thousands as of December 31, 2006 compared to December 31, 2005 and decreased by 38,950 Euro/thousands as of December 31, 2005 compared to January 1, 2005 mainly due to changes in the relevant fair values.
Other receivables include amounts due from the Government and other public authorities representing the receivables for shipbuilder's grants and ship-owner's grants paid as a price advance which are due within one year. Note 8 provides explanation of the movement in this item.

NOTE 14 - CASH AND CASH EQUIVALENTS

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
Bank and postal deposits	203,664	181,553	189,203
Less bank overdrafts	-5,323	-5,321	-4,838
Cheques	632	380	108
Cash in hand	133	173	122
TOTAL CASH AND CASH EQUIVALENTS	**199,106**	**176,785**	**184,595**

NOTE 15 - ASSETS HELD FOR SALE

(Euro/000)	As of December 31		
	2007	2006	2005
Property, plant and equipment			1,159
TOTAL ASSETS HELD FOR SALE			**1,159**

Assets held for sale include the estimated realizable value of the property, plant and equipment relating to the Taranto shipyard. This shipyard was used for repairs until the mid 1990s, when production activities ceased and a sale process commenced. The sale process was completed in 2006.

NOTE 16 - SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE COMPANY

During 2007, the Ordinary Shareholders' Meeting of the Company resolved the following distribution of the net income under Italian GAAP amounting to 58,739 Euro/thousands for the year ended December 31, 2006: i) an amount of 2,937 Euro/thousands, representing 5% of the net income under Italian GAAP to the legal reserve; ii) dividend of 0.0153 Euro/thousands per share, totaling 10,113 Euro/thousands; iii) the remaining net income, amounting to 45,689 Euro/thousands, to be allocated to the extraordinary reserve. Comments on the movements in the other reserves and non-distributable earnings are provided further below.
The following table provides a breakdown of Shareholders' equity

(Euro/000)	As of December 31		
	2007	2006	2005
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE COMPANY			
Share capital	337,112	337,112	337,112
Share premium reserve	71	71	71
Legal reserve	25,822	22,885	20,462
Cash flow hedge reserve	-114	-40	10,996
Currency translation reserve	-2,710	-1,884	-1,075
IFRS transition	32,386	32,386	32,394
Other reserves and non-distributable earnings	405,955	380,663	330,597
Net income for the period	36,264	38,340	62,603
	834,786	**809,533**	**793,160**
MINORITY INTEREST			
Capital and reserves	154	150	10,059
Net income for the period	11	4	186
	165	**154**	**10,245**
TOTAL MINORITY INTEREST	**834,951**	**809,687**	**803,405**

SHARE CAPITAL

The share capital of the Company as of December 31, 2007, totally subscribed and paid, amounts to 337,112 Euro/thousands, divided into 661,003,000 ordinary shares. Following the resolution passed by the Extraordinary Shareholders' Meeting of 30 April 2004, the shares have no nominal value. There were no changes in the share capital compared to December 31, 2006 or December 31, 2005.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve includes the change in the effective portion of derivative hedging instruments. The movements in the cash flow hedge reserve are shown in Note 4.

CURRENCY TRANSLATION RESERVE

The currency translation reserve relates to the translation of the Company's investment in Fincantieri Marine Systems. The currency translation reserve increased by 826 Euro/thousands (decreased by 809 Euro/thousands in 2006 and 888 Euro/thousands in 2005) due to the differences in the translation of the investment at year end exchange rates.

IFRS TRANSITION RESERVE

The IFRS transition reserve relates to the adjustments on the transition to IFRS on January 1, 2005, as detailed in Note 30.

OTHER RESERVES AND NON-DISTRIBUTABLE EARNINGS

Other reserves and non-distributable earnings mainly relate to the extraordinary reserve. The remaining net income, after appropriation of net income to the legal reserve and dividends to shareholders*, is allocated to the extraordinary reserve.

	Accounting principles	Amount	Euro/000	Note
As of December 31, 2005	IFRS		330,597	
Net income of the Company in 2005	ITA	48,462		
Allocations:				
– legal reserve		-2,423		
– dividends		-10,113		
– extraordinary reserve		35,926	35,926	
Other adjustments:				
– Company	ITA/IFRS		12,410	Note A
– other group entities	IFRS		1,730	Note B
As of December 31, 2006	IFRS		380,663	
Net income of the Company in 2005	ITA	58,739		
Allocations:				
– legal reserve		-2,937		
– dividends		-10,113		
– extraordinary reserve		45,689	45,689	
Other adjustments:				
– Company	ITA/IFRS		-15,684	Note A
– other group entities	IFRS		-4,713	Note B
As of December 31, 2007	IFRS		405,955	

Note A: difference between net income of the period under Italian GAAP compared to IFRS
Note B: results of the other group entities in accordance with IFRS and consolidation adjustments

MINORITY INTEREST

Minority interest did not change significantly compared to December 31, 2006.
The change in minority interest as of December 31, 2006 compared to December 31, 2005 is due to the change in the method of consolidation of Orizzonte Sistemi Navali S.p.A., in which the Company holds an investment of 51%. As further described in Note 2, this entity was fully consolidated in 2005 but consolidated under the equity method in 2006.

NOTE 17 - PROVISION FOR RISKS AND CHARGES

The following tables provide a breakdown of provision for risks and charges:

(Euro/000)		Accruals	Utilization	Release	
	As of December 31, 2006				**As of December 31, 2007**
Legal provision	47,480	1,903	1,338	800	47,245
Warranty provision	29,936	12,890	6,730	9,477	26,619
Client indemnity	76	221	11		286
Other provisions	34,880	2,809	2,488	3,832	31,369
TOTAL PROVISION FOR RISKS AND CHARGES	**112,372**	**17,823**	**10,567**	**14,109**	**105,519**
	As of December 31, 2005				**As of December 31, 2006**
Legal provision	43,567	6,617	2,704		47,480
Warranty provision	25,832	14,029	9,282	643	29,936
Client indemnity	74	12	10		76
Other provisions	40,387	2,667	5,658	2,516	34,880
TOTAL PROVISION FOR RISKS AND CHARGES	**109,860**	**23,325**	**17,654**	**3,159**	**112,372**
	As of December 31, 2004				**As of December 31, 2005**
Legal provision	44,900	8,077	9,410		43,567
Warranty provision	25,789	17,101	15,438	1,620	25,832
Client indemnity	78	11	15		74
Other provisions	37,933	4,207	1,753		40,387
TOTAL PROVISION FOR RISKS AND CHARGES	**108,700**	**29,396**	**26,616**	**1,620**	**109,860**

During 2007 the movement in the provision for risks and charges is as follows:

- moderate net decrease in the legal provision of 235 Euro/thousands following the maintenance of the assessments of provisions made in the previous periods. The legal provision mainly includes provisions for specific labour, contractual and non-contractual disputes that are still ongoing at the year-end;
- net decrease in the warranty provision related to contractual guarantees for delivered vessels of 3,317 Euro/thousands resulting from utilizations and releases amounting to 16,207 Euro/thousands which were partially offset by accruals to the provision of 12,890 Euro/thousands;
- net decrease in other provisions of 3,511 Euro/thousands as a result of utilizations and releases of 6,320 Euro/thousands partially offset by accruals of 2,809 Euro/thousands. Other provisions relates to sundry risks and charges covering various disputes which are mainly contractual, technical and financial in nature, for which the Company may be required to make a settlement (for both court and out-of-court settlements).

During 2006 the movement in the provision for risks and charges is as follows:

- net increase in the legal provision of 3,913 Euro/thousands (relating to accruals of 6,617 Euro/thousands, net of utilizations of 2,704 Euro/thousands) due to the reassessment of provisions for certain proceedings. The legal provision mainly includes provisions for specific labour, contractual and non-contractual disputes that are still ongoing at the year-end;
- net increase in the warranty provision related to contractual guarantees for delivered vessels of 4,104 Euro/thousands resulting from accruals to the provision of 14,029 Euro/thousands partially offset by utilizations and releases amounting to 9,925 Euro/thousands. The utilization / release of the provision was lower than in the past due to the customers' tendency to spread the maintenance over longer periods;
- net decrease in other provisions of 5,507 Euro/thousands as a result of utilizations / release of 8,174 Euro/thousands partially offset by accruals of 2,667 Euro/thousands. Other provisions relates to sundry risks and charges covering various disputes which are mainly contractual, technical and financial in nature, for which the Company may be required to make a settlement (for both court and out-of-court settlements).

During the year ended December 31, 2005 the total amount of provision for risks and charges was substantially unchanged due to the following:

- accruals to the legal provision were offset by utilization of the provision;
- accruals to the warranty provision relating to guarantees for delivered vessels amounting to 17,101 Euro/thousands was offset by the utilization / release of the provision in the year;
- accruals to other provisions were only partially offset by utilizations/releases.

NOTE 18 - EMPLOYEE BENEFIT LIABILITY

The following table provides a breakdown of the employee benefit liability:

(Euro/000)	2005	2006	2007
As of January 1,	**98,418**	**110,607**	**108,474**
Employee leaving indemnity Orizzonte as of January 1		-768	
Current service cost	9,292	10,036	1,678
Interest cost	4,429	4,394	4,538
Actuarial gains (losses)	5,044	-5,647	-5,577
New legislation effect			-9,805
Other	1,442	1,520	1,677
Utilizations	-7,628	-10,444	-8,983
Transferred personnel	753		
Deductions according to law 297/1982	-1,143	-1,224	-1,672
As of December 31,	**110,607**	**108,474**	**90,330**

Employee benefit liability relates to the Italian Group companies and decreased by 18,144 Euro/thousands in 2007 following the new legislation which came into force starting from January 1, 2007. As of December 31, 2007, 2006 and 2005 there are no other defined benefit pension plans.

The defined benefit obligation relating to the employee benefit liability is calculated with the assistance of the actuary, using the projected unit credit method as follows:

- based on financial assumptions (increase in the cost of living, salary increases, etc.) the future benefits that may possibly be provided to each employee in the case of retirement, death, invalidity, termination, etc. have been estimated. The estimated future benefits take account of possible increases due to seniority of service and in relation to 2005 and 2006 increased salary at the date of the valuation;
- the average present value of future benefits has been determined at the date of the valuation based on the annual interest rate adopted and on the probability that each benefit may actually be provided;

- the liability has been calculated for each relevant company, identifying the portion of average present value of future benefits that relates to the services already rendered by the employee to the company at the date of the valuation.

It is noted that due to the effect of the new legislation which came into force in 2007, the fund managed by INPS or by others in 2007 experienced decrease in the benefits matured since 2007.

The main actuarial assumptions used to determine the liability are as follows:

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
ECONOMIC ASSUMPTIONS			
Inflation rate (annual)	2.0%	2.0%	2.0%
Discount rate (annual)	5.45%	4.60%	4.0%
Future salary increase (annual)	N.A.	3.0%	3.0%
Annual increase of employee leaving indemnity	3.0%	3.0%	3.0%
DEMOGRAPHIC ASSUMPTIONS			
Expected mortality rate	2002 ISTAT data on Italian population split by gender	2002 ISTAT data on Italian population split by gender	2002 ISTAT data on Italian population split by gender
Expected invalidity rate	Data driven by the INPS model and projected to 2010	Data driven by the INPS model and projected to 2010	Data driven by the INPS model and projected to 2010
Expected termination rate (annual)	3.0%	3.0%	3.0%
Expected early repayment rate (annual)	3.0%	3.0%	3.0%

The pension plans of the foreign subsidiary, Fincantieri Marine Systems North America Inc (USA), are considered as defined contribution plans.

The total amount paid in 2005, 2006 and 2007 to these plans amounted to 36 Euro/thousands, 43 Euro/thousands and 40 Euro/thousands respectively.

Regarding Italian companies, during 2005, 2006 and 2007 payments of 5,604 Euro/thousands, 6,451 Euro/thousands and 17,659 Euro/thousands were made in respect of defined contribution plans. The significant increase in 2007 is due to the new legislation which came into force in 2007.

NOTE 19 - NON-CURRENT FINANCIAL LIABILITIES AND OTHER NON-CURRENT LIABILITIES

The following table provides a breakdown of non-current financial liabilities and other non-current liabilities:

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
Bank borrowings	96,226	94,811	96,988
Finance lease obligations	6,913	8,294	9,622
Derivatives	53		22,296
Non-current financial liabilities	**103,192**	**103,105**	**128,906**
Other non-current liabilities	229,336	228,790	225,632
TOTAL	**332,528**	**331,895**	**354,538**

The following tables provide a breakdown of non-current bank borrowings:

As of December 31,2007								
				Repayment profile				
Financial Institution	Date drawn down	Amount drawn down	Interest rate	Due in more than one year	Due within one year	Outstanding borrowing	Maturity	Company
Intesa San Paolo	23/12/2003	10,130	1.012%.	10,130		10,130	05/05/2013	Fincantieri
M C C	15/01/2004	4,747	1.012%	2,409	787	3,196	05/08/2011	Fincantieri
Medio Credito Friuli-Venezia Giulia	20/09/2006	5600	3.50% Floating rate	5,040	560	5,600	01/07/2017	Fincantieri
Banca OPI C. 6077	31/12/2004	11,744	3.808%.	9,225	989	10,214	31/12/2019	Fincantieri
Banca OPI C. 6078 - 1ª tranche	31/12/2004	25,302	3.808%.	19,875	2,131	22,006	31/12/2019	Fincantieri
Banca OPI C. 6078 - 2ª tranche	25/07/2005	2,972	3.518%	2,494	245	2,739	31/12/2020	Fincantieri
Banca OPI C. 6078 - 3ª tranche	17/11/2005	124	3.768%	105	10	115	31/12/2020	Fincantieri
Banca OPI C. 6082 - 1ª tranche	31/12/2004	40,620	3.808%	31,907	3,421	35,328	31/12/2019	Fincantieri
Banca OPI C. 6082 - 2ª tranche	28/04/2005	12,051	3.719%	9,798	1,001	10,799	30/06/2020	Fincantieri
Intesa San Paolo	24/12/2004	1,246	0.886%	1,246		1,246	27/05/2013	Fincantieri
Banca Carispe	21/05/2007	3,000	4.75%	2,837	163	3,000	31/12/2020	Gestione Bacini SP
Banca Carige	28/06/2000	2,479	5.30% Floating rate	453	286	739	30/06/2010	CETENA
M C C	10/03/2005	413	0.5%	379	34	413	01/01/2014	Isotta Fraschini Motori
M C C	28/05/2007	106	0.5%	97	9	106	01/01/2014	Isotta Fraschini Motori
M C C	14/05/2007	158	0.5%	145	13	158	01/01/2014	Isotta Fraschini Motori
M C C	05/07/2006	93	0.5%	86	7	93	01/01/2014	Isotta Fraschini Motori
TOTAL				**96.226**	**9.656**	**105.882**		
As of December 31,2006								
San Paolo IMI	23/12/2003	10,130	1.012%	10,130	0	10,130	05/05/2013	Fincantieri
M C C	15/01/2004	4,747	1.012%	3,196	779	3,975	05/08/2011	Fincantieri
Medio Credito Friuli-Venezia Giulia	20/09/2006	859	2.50%	859	0	859	01/07/2017	Fincantieri
Banca OPI C. 6077	31/12/2004	11,744	3.808%	9,890	953	10,843	31/12/2019	Fincantieri
Banca OPI C. 6078 - 1ª tranche	31/12/2004	25,302	3.808%	21,309	2.053	23,362	31/12/2019	Fincantieri
Banca OPI C. 6078 - 2ª tranche	25/07/2005	2,972	3.518%	2,659	237	2,896	31/12/2020	Fincantieri
Banca OPI C. 6078 - 3ª tranche	17/11/2005	124	3.768%	111	10	121	31/12/2020	Fincantieri
Banca OPI C. 6082 - 1ª tranche	31/12/2004	40,620	3.808%	34,208	3.295	37,503	31/12/2019	Fincantieri
Banca OPI C. 6082 - 2ª tranche	28/04/2005	12,051	3.719%	10,472	965	11,437	30/06/2020	Fincantieri
San Paolo IMI	24/12/2004	831	0.886%	831	0	831	27/05/2013	Fincantieri
Banca Carige	28/06/2000	2,479	4.10% Floating rate	739	271	1,010	30/06/2010	CETENA
M C C	10/03/2005	413	0.5%	332	53	385	01/01/2014	Isotta Fraschini Motori
M C C	05/07/2006	93	0.5%	75	12	87	01/01/2014	Isotta Fraschini Motori
TOTAL				**94,811**	**8,628**	**103,439**		
As of December 31,2005								
San Paolo IMI	23/12/2003	10,130	1.012%	7,316	0	7,316	05/05/2013	Fincantieri
M C C	15/01/2004	4,747	1.012%	3,714	0	3,714	05/08/2011	Fincantieri
Banca OPI C. 6077	31/12/2004	11,744	3.808%	10,532	618	11,150	31/12/2019	Fincantieri
Banca OPI C. 6078 - 1ª tranche	31/12/2004	25,302	3.808%	22,690	1,330	24,020	31/12/2019	Fincantieri
Banca OPI C. 6078 - 2ª tranche	25/07/2005	2,972	3.518%	2,818	154	2,972	31/12/2020	Fincantieri
Banca OPI C. 6078 - 3ª tranche	17/11/2005	124	3.768%	118	6	124	31/12/2020	Fincantieri
Banca OPI C. 6082 - 1ª tranche	31/12/2004	40,620	3.808%	36,426	2,136	38,562	31/12/2019	Fincantieri
Banca OPI C. 6082 - 2ª tranche	28/04/2005	12,051	3.719%	11,120	931	12,051	30/06/2020	Fincantieri
San Paolo IMI	24/12/2004	831	0.886%	831	0	831	27/05/2013	Fincantieri
Banca Carige	28/06/2000	2,479	4.10% Floating rate	1,010	258	1,268	30/06/2010	CETENA
M C C	10/03/2005	413	0.5%	413	0	413	01/01/2014	Isotta Fraschini Motori
TOTAL				**96,988**	**5,433**	**102,421**		

With the exception of the borrowing from Banca Carige, all borrowings bear fixed rate interest.
Borrowings which have been provided to the Company are mostly associated with the payment of construction grants through the drawdown of loans which, although formally repaid by the Company, are actually repaid by the Government (See Note 8). The movement in the period is consistent with the relevant amount recognized as a receivable.
Non-current bank borrowings of 5,600 Euro/thousands as of December 31, 2007 are secured against two cranes in the Monfalcone shipyard and 739 Euro/thousands is mortgaged against the property located in Genoa where CETENA is based.
Other non-current liabilities mainly relate to advances received with respect to the Iraq order amounting to 209,843 Euro/thousands, as discussed in Note 8 "Non-current assets", and capital grants recognized as deferred income, to be released to the income statement in future years in line with the depreciation / amortization of the related asset.

NOTE 20 - CURRENT FINANCIAL LIABILITIES

The following table provides a breakdown of current financial liabilities:

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
Payables to shareholders	225	178	80,172
Bank borrowings	11,156	13,403	7,385
Finance lease obligations	1,381	1,328	1,279
Payables to joint ventures	38,708		
Payables to subsidiaries		249	
Other payables	4,122	717	766
Derivatives	9,619	586	13,534
Accrued interest	273	260	979
TOTAL CURRENT FINANCIAL LIABILITIES	**65,484**	**16,721**	**104,115**

Payables to shareholders relate to amounts due to Fintecna and did not change substantially compared to December 31, 2006. The liability decreased as of December 31, 2006 due to repayment, on 30 April 2006, as envisaged by the contract, of the liability for the tax asset acquired by the Company in 2005 and used to pay taxes due. As of January 1, 2005 payables to shareholders amounted to 4,841 Euro/thousands and increased during 2005 due to the previously mentioned transaction.
Bank borrowings decreased by 2,247 Euro/thousands compared to December 31, 2006, and mainly relate to the current portions of medium/long-term payables described in Note 19. Bank borrowings decreased from 55,025 Euro/thousands as of January 1, 2005 to 7,385 Euro/thousands as of December 31, 2005 due to changes in the structure of net debt.
Current derivatives represent the fair value of derivatives with maturity dates within one year as of the balance sheet date.
Payables to joint ventures relate to amounts due to the Company from Orizzonte Sistemi Navali S.p.A.
Other payables mainly include 3,360 Euro/thousands relating to the commitment to acquire further investment in Lloyd Werft (see Note 28), which as of December 31, 2006 was included in non-current payables.

NOTE 21 - TRADE PAYABLES AND OTHER CURRENT LIABILITIES

The following table provides a breakdown of trade payables and other current liabilities:

(Euro/000)	As of December 31		
	2007	**2006**	**2005**
Trade payables	798,833	731,295	679,491
Payables to joint venture	340	57	
Social security payables	25,125	22,694	22,794
Other payables	90,962	84,111	111,539
Accruals	478	513	469
Deferred income	8	275	624
Capital grants	3,506	2,622	2,576
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**919,252**	**841,567**	**817,493**
Total tax liabilities	45	20,249	537

In relation to the amounts as of December 31, 2007:

Trade payables increased by 67,538 Euro/thousands compared to the previous period due to ordinary production dynamics. Trade payables include invoices received but not yet paid as of December 31, and invoices not yet received but accrued on an accrual basis.

Social security payables include: i) the amounts due by the Group and the employees to INPS for remuneration paid in December; ii) the amounts due to INAIL as an adjustment for the entire year to be paid in February; iii) adjustment to the year-end accruals.

Other payables mainly include:

- 25,403 Euro/thousands (21,321 Euro/thousands as of December 31, 2006, 22,010 Euro/thousands as of December 31, 2005)due to employees for fees and accrued unused holidays;
- 54,836 Euro/thousands (52,326 Euro/thousands as of December 31, 2006, 80,105 Euro/thousands as of December 31, 2005) to sundry creditors, as follows:
  - insurance premiums amounting to 20,394 Euro/thousands (29,791 Euro/thousands as of December 31, 2006, 54,162 Euro/thousands as of December 31, 2005);
  - advances received on research grants amounting to 10,218 Euro/thousands (8,620 Euro/thousands as of December 31, 2006, 9,291 Euro/thousands as of December 31, 2005);
  - guarantee deposits related to contracts not yet signed amounting to 7,885 Euro/thousands;
  - advances received on capital grants amounting to 3,762 Euro/thousands (6,033 Euro/thousands as of December 31, 2006, 9,619 Euro/thousands as of December 31, 2005); year-end accruals; and
  - other payables amounting to 12,577 Euro/thousands (7,882 Euro/thousands as of December 31, 2006, 7,033 Euro/thousands as of December 31, 2005);
- 10,267 Euro/thousands (9,849 Euro/thousands as of December 31, 2006, 9,072 Euro/thousands as of December 31, 2005) of IRPEF withholdings to be paid.

Capital grants include the deferred income which will be released to the income statement in the next year in line with the depreciation / amortization of the associated asset.

- Tax liabilities include estimated IRAP attributable to Isotta Fraschini Motori. For details in relation to the other subsidiaries included in the Group refer to Note 12 (comments on Current tax receivables).

In relation to the amounts as of December 31, 2006:

- trade payables increased by 51,804 Euro/thousands to 731,295 Euro/thousands mainly due to increased levels of production;
- social security payables amounted to 22,694 Euro/thousands and were substantially unchanged;
- other payables decreased by 27,428 Euro/thousands compared to December 31, 2005 to 84,111 Euro/thousands due to the temporary recognition in 2005 of significant insurance premiums;
- deferred income on capital grants, relates to the annual amount to be released to the income statement;
- tax liabilities relate to the estimated amount of IRES (16,631 Euro/thousands) and IRAP (3,618 Euro/thousands).

In relation to the amounts as of December 31, 2005:

- trade payables increased by 129,520 Euro/thousands to 679,491 Euro/thousands mainly due to increased levels of production;
- social security payables amounted to 22,794 Euro/thousands and were substantially unchanged;
- other payables increased to 111,539 Euro/thousands due to the temporary recognition of significant insurance premiums;
- deferred income on capital grants relates to the annual amount to be released to the income statement;
- as a result of the acquisition of tax credits from the parent company, Fintecna, tax liabilities remained substantially unchanged.

NOTE 22 - CONSTRUCTION CONTRACTS - LIABILITIES

The following table provides a breakdown of construction contracts – liabilities:

	As of December 31								
	2007			2006			2005		
(Euro/000)	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net	Construction contracts-gross	Invoices issued and provision for future losses	Construction contracts-net
Contracts for ships	2,078,663	2,708,088	629,425	2,053,390	2,979,877	926,487	1,301,856	1,892,893	591,037
Other contracts for third parties	8,247	15,584	7,337	58,598	64,857	6,259	6,929	10,805	3,876
Advances from customers		38,546	38,546		69,254	69,254	0	31,469	31,469
TOTAL	**2,086,910**	**2,762,218**	**675,308**	**2,111,988**	**3,113,988**	**1,002,000**	**1,308,785**	**1,935,167**	**626,382**

Liabilities for construction contracts include contracts where the percentage of completion is lower than the amount invoiced.

Construction contracts -net as of December 31, 2007, 2006 and 2005 are shown net of advances invoiced to the customers and net of provision for future losses related to certain contracts. Details on the provision for future losses is included in Note 11.

Construction liabilities – gross did not change significantly. Invoices issued decreased due to the accounting closure of some loss making contracts.

Advances from customers decreased in comparison to 2006 due to the contracts on which no progress was made.

NOTE 23 - REVENUES AND INCOME

The following table provides a breakdown of revenues and other income:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
Revenues	**2,572,870**	**2,426,469**	**2,266,959**
Gains on disposal	153	306	325
Provision release	11,017	15,961	2,629
Others	81,342	52,270	51,295
Non-recurring income	13,181	10,244	5,129
Total other income	**105,693**	**78,781**	**59,378**
TOTAL INCOME	**2,678,563**	**2,505,250**	**2,326,337**

Revenues increased by 6% due to the increased production levels of the Company.
Other income includes:

- provision release, mainly relating to the release of warranty provision;
- other sundry income amounting to 81,342 Euro/thousands (52,270 Euro/thousands in 2006, 51,295 Euro/thousands in 2005) as follows:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
Reimbursement of expenses	15,751	15,538	9,463
Grant relating to a contract completed in previous period		14,239	
Capital grants, income related grants and research grants	31,713	8,207	12,338
Penalties	9,745	1,549	566
Insurance indemnities	11,352	2,097	23,802
Others	12,781	10,640	5,126
TOTAL	**81,342**	**52,270**	**51,295**

- non-recurring income, mainly includes insurance indemnity of 7,566 Euro/thousands and release of legal provision and provision for other risks and charges amounting to 3,412 Euro/thousands.

NOTE 24 - OPERATING COSTS

The following table provides a breakdown of operating costs:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
Raw materials and consumables	1,460,372	1,305,543	1,232,617
Services costs	597,825	552,212	463,683
Rental and leasing costs	21,650	20,245	17,278
Changes in raw materials and consumables	-16,743	6,193	-20,030
Changes in work in progress	1,355	-1,880	-2,925
Other costs	9,420	10,085	7,653
Total materials and services costs	**2,073,879**	**1,892,398**	**1,698,276**
Personnel costs			
Wages and salaries	304,506	291,933	280,653
Social security	109,832	107,094	102,393
Employee benefit liability	-7,489	10,304	20,207
Defined contribution plan costs	17,739	6,451	5,605
Other personnel costs	6,702	7,119	5,397
Total personnel costs	**431,290**	**422,901**	**414,255**
Amortization and depreciation			
Amortization of intangible assets	9,410	9,141	7,985
Depreciation of property, plant and equipment	50,520	48,385	48,204
Total depreciation and amortization	**59,930**	**57,526**	**56,189**
Allowance for doubtful receivables	1,351	17	20,328
Accruals for risks and charges	15,407	15,980	19,684
Total accruals and impairments	**16,758**	**15,997**	**40,012**
Capitalization of internal costs	**-2,387**	**-10,057**	**-4,722**
Other costs			
Taxes related to previous periods	130		96
Extraordinary expenses	18,231	11,708	15,487
Total other costs	**18,361**	**11,708**	**15,583**
TOTAL OPERATING COSTS	**2,597,831**	**2,390,473**	**2,219,593**

The following table provides a breakdown of raw materials and consumables:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
Materials costs	790,415	696,415	701,892
Components	645,049	586,542	510,988
Utilities	**24,908**	22,586	19,737
Total	**1,460,372**	**1,305,543**	**1,232,617**

The following table provides a breakdown of services costs:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
Outsourced services	298,461	294,505	232,743
Insurance	58,734	58,299	44,675
Other personal costs	21,172	20,629	21,144
Maintenance costs	18,788	18,472	17,761
Testing	5,055	3,573	2,598
Projecting	14,593	15,325	12,340
Licenses	928	854	214
Transportation and logistics	11,977	11,594	10,765
Technical services	10,789	13,040	14,616
Cleaning services	27,966	26,148	21,705
Other services	136,694	103,006	101,427
Utilization of warranty provisions and others	**-7,332**	-13,233	-16,305
Totale	**597,825**	**552,212**	**463,683**

Rental and leasing costs amounting to 21,650 Euro/thousands (20,245 Euro/thousands in the year ended December 31, 2006 and 17,278 Euro/thousands in the year ended December 31, 2005) include rental and operating lease costs (15,301 Euro/thousands, 14,825 Euro/thousands and 11,786 Euro/thousands in 2007, 2006 and 2005 respectively), lease costs (4,715 Euro/thousands, 3,796 Euro/thousands and 4,183 Euro/thousands in 2007, 2006 and 2005 respectively), concession and similar fees (1,634 Euro/thousands, 1,624 Euro/thousands and 1,309 Euro/thousands in 2007, 2006 and 2005 respectively).

Changes in raw materials and consumables relate to the quantities of the inventories held in the warehouses.

Changes in work in progress relate to lot productions of Isotta Fraschini Motori.

Other operating costs mainly relate to membership fees, sundry taxes and duties and directors' and statutory auditors' fees.

Personnel cost represent the total cost of employees, including remunerations, social security contributions paid by the Group, leaving indemnity for the period, donations and travel allowances. In relation to the year ended December 31, 2007 personnel cost includes accrual of the one-off payment related to the renewal of national collective labour contract at the beginning of 2008.

A breakdown of depreciation and amortization expense is provided in Notes 6 and 7.

Allowance for doubtful receivables relates to the adjustment to state the receivables at expected realizable value.

Provisions for risks and charges substantially includes the warranty provisions accrued by the Company of 12,738 Euro/thousands (13,536 Euro/thousands in 2006 and 16,253 Euro/thousands in 2005) and Isotta Fraschini Motori of 154 Euro/thousands (493 Euro/thousands in 2006 and 848 Euro/thousands in 2005).

Extraordinary expenses include:

- accruals to the provision for risks and charges amounting to 2,417 Euro/thousands (7,313 Euro/thousands in 2006, 8,077 Euro/thousands in 2005) to cover additional financial and legal risks;
- repair costs incurred in relation to the equipment damaged following an accident amounting to 9,168 Euro/thousands;
- sundry personnel costs amounting to 4,676 Euro/thousands (3,273 Euro/thousands in 2006, 1,912 Euro/thousands in 2005) and under-accruals in addition to charges for amounts not accrued or under accrued amounting to 1,970 Euro/thousands (1,122 Euro/thousands in 2006, 5,498 Euro/thousands in 2005).

NOTE 25 - FINANCE INCOME AND EXPENSE

The following table provides a breakdown of financial income and expense:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
FINANCE INCOME			
Other clients	4,472	3,921	5,170
Others	3,126	3,329	3,328
Interest and commissions from Parent Company			8
Income from financial derivatives operations	22,970		5,801
Other interest and commissions	16,401	7,412	11,687
Exchange rate gains	51,267	104,858	80,717
Total finance income	**98,236**	**119,520**	**106,711**
FINANCE EXPENSE			
Interest and commissions to subsidiaries	-845	-36	
Interest and commissions to Parent Company	-10	-229	-119
Expenses from financial derivatives operations	-33,089	-14,322	-4,767
Other interest and commissions	-7,398	-8,597	-14,668
Exchange rate losses	-51,735	-104,484	-80,817
Total finance expense	**-93,077**	**-127,668**	**-100,371**
NET FINANCE INCOME/(EXPENSE)	**5,159**	**-8,148**	**6,340**

Financial income includes income received by the Company from the Government, but actually paid to Banca OPI (an equal amount is recognized as financial expense), related to the payment of Government grants in 2004 and 2005.
Financial income and expense mainly includes exchange gains and losses and income and expense on derivative transactions connected with foreign currency hedges.

NOTE 26 - INCOME AND EXPENSE ON INVESTMENTS

The following table provides a breakdown of income and expense on investments:

(Euro/000)	Year ended December 31		
	2007	**2006**	**2005**
INCOME			
Dividends from other companies	160	116	103
Other income from investments	3,420		281
Total income	**3,580**	**116**	**384**
Impairment of investments	**-3,506**	**-2,197**	**-4**
PROFIT/LOSS FROM EQUITY INVESTMENTS			
Profit	916	2,764	5,329
Loss			
Share of profit / (loss) from equity investments	**916**	**2,764**	**5,329**
TOTAL INCOME AND EXPENSE ON INVESTMENTS	**990**	**683**	**5,709**

Other income from investments in 2007 relates to the gain on disposal of the investment in Tecnomare. Other income from investments in 2005 includes the adjustment for the disposal in 2004 of the investment in LIPS Italiana.

Impairment of investments in 2007 and 2006 relates to the impairment of the investment in Ansaldo Fuel Cells (See Note 8).
Note 8 provides details on equity accounted investments. Share of profit from equity investments in 2007 relates to: i) increase in the Group's net share of Lloyd Werft compared to the cost of acquisition (253 Euro/thousands) ii) the share of profit attributable to the Group of Orizzonte Sistemi Navali S.p.A. (663 Euro/thousands).

NOTE 27 - INCOME TAX EXPENSE

The following table provides a breakdown of income tax expense:

	Year ended December 31					
(Euro/000)	2007		2006		2005	
Current tax expenses		**9,507**		**60,992**		**25,438**
Deferred tax assets:						
Allowance for obsolescence of inventories and work in progress	34,131		6,569		22,600	
Product warranties	2,421		-1,175		50	
Other risks and charges	4,469		631		-1,145	
Losses carried forward	-2,932		-300			
Other	70	**38,159**	6,500	**12,225**	-5,775	**15,730**
Deferred tax liabilities:						
Construction contracts	369		-6,580		14,445	
Other	2,571	**2,940**	2,331	**-4,249**	391	**14,836**
Total deferred taxes		**41,099**		**7,976**		**30,566**
TOTAL INCOME TAX EXPENSE		**50,606**		**68,968**		**56,004**

Note:
"+" indicates allowance for deferred tax liabilities or release for deferred tax assets;
"-" indicates utilization of deferred tax liabilities or allowance for deferred tax assets.

The following table provides a reconciliation of the theoretical and effective tax rates:

(Euro/000)	Year ended December 31		
	2007	2006	2005
Theoretical tax rate – corporate income tax (IRES)	33%	33%	33%
Net income before income tax expense	86,881	107,312	118,793
Theoretical tax – corporate income tax (IRES)	**28,671**	**35,413**	**39,202**
Impact of current year tax losses (Note A)	*40*	*2,812*	*96*
Effect from permanent differences and unrecorded temporary differences (Note B)	*6,055*	*7,780*	*-4,330*
Effect of tax rate applicable to foreign entities other than 33%	*44*	*93*	*73*
IRAP effect	**15,796**	**22,870**	**20,963**
Total income tax expense	**50,606**	**68,968**	**56,004**
Effective tax rate	58%	64%	47%
Current taxes	9,507	60,992	25,438
Deferred taxes	41,099	7,976	30,566

Note A: The 2006 effect includes the unrecorded deferred tax assets on Isotta Fraschini Motori losses carried forward.
Note B: The 2005 effect is mainly due to the reversal of a prior year unrecorded deferred tax effect from temporary differences. The 2007 expense includes an amount of approximately 6 Euro/million relating to the changes in IRES and IRAP which will be effective from January 1, 2008.

NOTA 28 - ALTRE INFORMAZIONI

NET FINANCIAL POSITION

(Euro/000)	As of December 31,		
	2007	2006	2005
Cash and cash equivalents	199,106	176,785	184,595
Liquidity	**199,106**	**176,785**	**184,595**
Current financial receivables	**19,533**	**40,586**	**83,496**
Current bank borrowings	(1,500)	(4,775)	(1,952)
Current portion of non-current bank loans	(9,656)	(8,628)	(5,433)
Other current financial debt	(54,328)	(3,318)	(96,730)
Current financial debt	**(65,484)**	**(16,721)**	**(104,115)**
Net current financial position	**153,155**	**200,650**	**163,976**
Non-current financial receivables	**73,403**	**79,432**	**84,014**
Non-current bank loans	(96,226)	(94,811)	(96,988)
Other non-current loans	(6,966)	(8,294)	(31,918)
Non-current financial debt	**(103,192)**	**(103,105)**	**(128,906)**
Non-current financial indebtedness	**(29,789)**	**(23,673)**	**(44,892)**
Net financial position	**123,366**	**176,977**	**119,084**

RELATED PARTY TRANSACTIONS

Transactions with related parties and with Fintecna and its subsidiaries are not considered atypical or unusual, as they fall within the Group's normal course of business and are conducted at arm's length.
The following table provides a summary of the related party transactions with associates and joint ventures which in accordance with accounting criteria are not eliminated on consolidation:

(Euro/000)	As of December 31					
	2007		2006		2005	
Balance Sheet	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
ORIZZONTE SISTEMI NAVALI (*)	52,961	39,048	19,136	303	0	0
HORIZON (**)	141,619	184	206,679		161,929	0
LLOYD WERFT (***)					0	0
Total	**194,580**	**39,232**	**225,815**	**303**	**161,929**	**0**

	Year ended December 31					
	2007		2006		2005	
Conto economico	**Expenses**	**Revenues**	**Expenses**	**Revenues**	**Expenses**	**Revenues**
ORIZZONTE SISTEMI NAVALI (*)	1,106	60,813	96	75,311	0	0
HORIZON (**)	14	81,684	356	234,552	2,188	125,574
LLOYD WERFT (***)	116		4	3,468	0	0
Total	**1,236**	**142,497**	**456**	**313,331**	**2,188**	**125,574**

(*) In 2005 Orizzonte was fully consolidated but in 2006 it was recorded using the equity method (**) Investment held by Orizzonte Sistemi Navali (***) Investment acquired during 2006

The following table provides a summary of the related party transactions between the Fincantieri Group and Fintecna, and the Fintecna Group:

(Euro/000)	As of December 31					
	2007		2006		2005	
Balance Sheet	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
FINTECNA		225		178	0	80,172
TIRRENIA	80		27	3	40	0
SIREMAR	315		18		0	0
TOREMAR			8		9	0
SAREMAR	7		5		0	0
Total	**402**	**225**	**58**	**181**	**49**	**80,172**

	Year ended December 31					
	2007		2006		2005	
Income Statement	Expenses	Revenues	Expenses	Revenues	Expenses	Revenues
FINTECNA	10		229		119	0
TIRRENIA	389	141	3	280	131	13,296
SIREMAR		1,144		1,035	0	362
TOREMAR		53		62	0	33
SAREMAR		43		34	0	21
Total	**399**	**1,381**	**232**	**1,411**	**250**	**13,712**

The principal related party transactions include:

The Fincantieri Group

The most significant related party transactions relate to:
- financial payables as of December 31, 2007 to Orizzonte Sistemi Navali S.p.A. relating to a financial borrowing;
- trade receivables from Orizzonte Sistemi Navali S.p.A. as of December 31, 2007 and 2006 relating to amounts due under an agreement signed in 2006 with MMI for the production of the first tranche (two vessels) of the Rinascimento programme (also known as FREMM). The programme relates to the construction of ten vessels for the Italian Navy;
- trade receivables from Horizon as of December 31, 2006 and 2005 relating to amounts due under an agreement to construct 2 Orizzonte class freights for the Italian Navy. The agreement was signed between Horizon and supranational agency acting on behalf of the French Navy and the Italian Navy. The work, related to the construction, was performed by Italian companies, including Fincantieri.

The transactions recognized in the income statement originate from those described above.
Revenues invoiced to Lloyd Werft relate to renovation work performed in the German shipyard with support and coordination from Fincantieri on a ship of the Carnival Group that was destroyed by a fire.

The Fintecna Group

The most significant related party transactions are as follows:

- in the year ended December 31, 2007 transactions mainly relate to ship repair works on vessels of Tirrenia and its regional companies;
- financial payables to Fintenca as of December 31, 2005 relating to tax credits which were acquired and used by the Company to pay taxes due. The debt was settled during 2006;
- revenues in the year ended December 31, 2005 in respect of the construction of a ferry boat ordered by Tirrenia that was completed during the year.

Other transactions in the year ended December 31, 2005 mainly relate to ship repair works on vessels of Tirrenia and its regional companies.

COMPENSATION OF THE BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT OF THE COMPANY

	As of December 31			
(Euro/000)	Remuneration (1)	Non-monetary benefits	Bonus and other incentives	Other remunerations
	2007			
Board of Directors	510	17	380	649
Board of Statutory Auditors	128			35
General Directors and Key Managers (2)		39	834	2,439
	2006			
Board of Directors of the Parent Company	544	17	830	663
Audit Committee of the Parent Company	128			24
General Directors and Key Managers (2)		39	724	2,304
	2005			
Board of Directors of the Parent Company	640	14	380	681
Audit Committee of the Parent Company	128			21
General Directors and Key Managers (2)		33	569	1,989

(1) Excluding the amounts paid on behalf of subsidiaries
(2) The 2005 and 2006 information are consistent and based on the same composition of key managers

Directors, Statutory Auditors, General Directors and key management with strategic responsibilities do not have any equity interest in Fincantieri Cantieri Navali Italiani S.p.A. or in any Group companies.

Earnings per share

Basic and diluted earnings per share is calculated as follows:

		Year ended December 31		
		2007	**2006**	**2005**
Consolidated net income	Euro/000	36,275	38,344	62,789
Consolidated net income attributable to the Company	Euro/000	36,264	38,340	62,603
Weighted average number of ordinary shares	Number	661,003,000	661,003,000	661,003,000
Earnings per share – basic and diluted	Euro	**0,05486**	**0,05800**	**0,09471**

There were no differences between basic and diluted earnings per share as there were no potential shares having a dilutive effect.

OPERATING LEASES

The following table provides a breakdown of future minimum lease payments under operating leases as of December 31, 2007, 2006 and 2005:

(Euro/000)	As of December 31		
	2007	2006	2005
FUTURE AGGREGATE MINIMUM LEASE PAYMENTS:			
Less than one year	13,585	8,107	7,566
Between one and five years	37,394	19,583	19,450
More than five years	9,559	12,147	10,598
TOTAL	**60,538**	**39,837**	**37,614**

GUARANTEES

Guarantees relate to those provided by the Company only as follows:

(Euro/000)	As of December 31		
	2007	2006	2005
Bank guarantees	10	206	586
Other guarantees	28,620	42,858	56,384
TOTAL	**28,630**	**43,064**	**56,970**

Bank guarantees as of December 31, 2007 relate to a guarantee provided to Intesa San Paolo on behalf of Consorzio CALS Italia, in which the Company holds an investment.
Bank guarantees as of December 2006 and 2005 have been provided to San Paolo IMI on behalf of Wartsila.
Other guarantees relate to a release issued on behalf of Horizon to the French Ministry of Defense.

INVESTMENT COMMITMENTS

Lloyd Werft Bremerhaven (LWB)

The investment in the German shipyard was acquired in April 2006, as described in further detail in Note 8. Total investment comprises the shares purchased as well as the value of commitment to purchase.
In addition, Fincantieri has the right to acquire, from majority shareholders, more than 51% of shares in LWB. The option could be exercised by Fincantieri, by irrevocable decision, between January 1, 2008 and December 31, 2008. If this option is not exercised, the existing investment would have to be sold to another minority shareholder in the first priority (or, in the second priority, to majority shareholders).
The Directors have not yet decided on the exercise of this option.

LEGAL DISPUTES

As of December 31, 2007 the Group has accrued provisions for legal disputes amounting to 47,245 Euro/thousands (47,480 Euro/thousands as of December 31, 2006, 43,567 Euro/thousands as of December 31, 2005) relating to the expected costs arising from such disputes which are mostly related to the Company. Receivables which are related to disputes are written down to the amount that is expected to be recovered. The most important disputes are as follow:

Iraq dispute

The Iraq dispute is a complicated and longstanding issue regarding contracts concluded with the Iraq Government that were only partially executed following customer default. In addition, the UN, through specific EU regulations, imposed an embargo on Iraq.
Fincantieri together with the other co-suppliers brought a case before the Court of Genoa to obtain compensation for the incurred damages. The first-instance sentence regarding the merit for compensation and, the ruling in 2006 regarding the amount of the damages, were both in favour of the Company. The contracts were terminated as a result of the default of the counterparty. The counterparty was ordered to pay 17.9 US$/million, plus legal fees, being the compensation calculated by the Court as the difference between the damages incurred of 576.3 US$/million and advances paid by the customer of 558.4 US$/million.
In 2006 the arbitration proceeding initiated by Iraq before the International Chamber of Commerce in Paris was concluded. The arbitration award condemned the Iraq claims for recognition of Italian suppliers' responsibility as inadmissible.
In 2007 some co-suppliers filed an appeal against the sentence of the Court of Genoa.
Consequently, as of December 31, 2007, as well as in the previous reporting period, the receivable and liability previously recognized, of 209.8 Euro/million within receivables and advance received respectively were not derecognized and were not adjusted, as the original requirements and conditions for the recognition were still met, supported by legal opinions of leading law firms, taking into consideration the fact that both sentences were contestable.

Collection of customer receivables and insolvency proceedings

These disputes comprise pending suits against insolvent customers, customers under bankruptcy or other insolvency proceedings.
The recoverability of each receivable has been considered and, if necessary, the receivable has been adjusted to recoverable value through the provision for doubtful receivables.

Disputes with suppliers

These are disputes regarding suppliers' claims that the Group considers as unjustified, or concerning the recovery of the significant costs incurred by the Group following defaults by suppliers.
A provision for risks and charges is accrued where the Group believes that they may be required to make a settlement.

Labour disputes

During the year some labour disputes have been settled, regarding contractual issues and the "asbestos problem". Both court and out-of-court settlements by mutual agreement were reached.
A provision has been accrued for any potential liabilities relating to litigations which have not yet been settled.

Other disputes

Other disputes include disputes: i) against factoring companies; ii) against arbitration awards; iii) revocation suits; iv) joint responsibilities with insurance companies; v) claims arising from indirect damages from painting; etc.
A provision for risks and charges is accrued where the Group believes that they may be required to make a settlement.
The Company is engaged in the dispute with the Ministry of Environment in participation with the other authorities attributable to the shipyard Marghera, located in Venice Lagoon. The dispute concerns the accusation for the environment pollution which is absolutely contested by Fincantieri.
The Company filed an appeal and took some other local initiatives.
There are also claims from customers which are mainly technical claims associated with product performance requirements, for which provision for possible future settlements were accrued. In the course of 2007 claims from customers have been defined and resolved.

TAX DISPUTES AND TAX CLAIMS

- Fincantieri
  The Company has some pending disputes at various levels of instance. They mainly relate to claims for reimbursement of taxes, excise duties and other rights, attribution of catastral income and local taxes. During 2007 some disputes regarding reimbursement of excise duties and other rights were settled principally in favour of the Company.
- CETENA
  The subsidiary CETENA has a pending dispute on tax year 1987; rulings in the first two degrees of jurisdiction found in favour of the Company.
- Isotta Fraschini Motori
  Isotta Fraschini Motori has been subject to tax inspection for 2004. The tax audit commenced in 2007 and the formal notification was served. Briefings will be filed against this formal notification.
- Other Companies have no pending disputes or litigation, and are not currently being inspected or audited.

RESEARCH AND DEVELOPMENT

Group research and development activities are mainly performed by the Company, CETENA, which is the excellence naval and thrust research and test centre, and Isotta Fraschini, regarding the necessary improvements to manufactured engines.
Total expenditure in 2007 amounted to 51 Euro/million (48 Euro/million in 2006), of which 47 Euro/million (44 Euro/million in 2006) was financed by the Company.

EMPLOYEES

As of December 31, 2007 the Group had 9,358 employees compared to 9,159 and 9,383 employees as of December 31, 2006 and 2005 respectively as follows:

(Euro/000)	As of December 31					
	2007		2006		2005	
		Average		Average		Average
Top level management	208	213	206	208	216	210
Medium level management	275	261	239	232	267	245
Employees	3,618	3,469	3,448	3,425	3,519	3,439
Manual laborers	5,257	5,172	5,266	5,248	5,381	5,327
TOTAL	**9,358**	**9,115**	**9,159**	**9,113**	**9,383**	**9,221**
Fincantieri (Parent company)	9,055		8,853		8,981	
CETENA	73		77		84	
Fincantieri Marine Systems	55		47		47	
Isotta Fraschini Motori	175		182		182	
Orizzonte Sistemi Navali (*)					89	
TOTAL	**9,358**		**9,159**		**9,383**	

(*) As of December 31, 2006 and 2007 consolidated with the equity method

Orizzonte Sistemi Navali S.p.A. had 92 employees as of December 31, 2007 and 94 employees as of December 31, 2006, representing an increase of 5 compared to December 31, 2005.
As of December 31, 2007 Lloyd Werft had 486 employees, unchanged compared to December 31, 2006.
The other companies do not have any employees.

NOTE 29 - EVENTS SUBSEQUENT TO DECEMBER 31, 2007

At the beginning of 2008 some negotiations which had commenced in the previous period were finalized as follows:

- contract with French company Compagnie des Iles du Ponant for the construction of two delux class cruise vessels of small-medium size. Therefore, the Group pursues the strategy aimed at developing the "historical" customer base which comprises different brands of the Carnival Group by adding other customers operating in the delux sector;
- the exercise of the option for the construction of an additional four vessels under the FREMM programme, in relation to which Orizzonte Sistemi Navali S.p.A. is making arrangements for the financing;
- definitive stage in the course of stipulation of the contract with the Indian Navy for the construction of a squadron carrier;
- contract of a 90 meter mega yacht.

In relation to the production activity, the cruise vessel Ventura for P&O Cruises and the ferry vessel Roma for the Grimaldi Group were delivered and the ferry vessel Superstar for the Estonian ship-owner Tallink is shortly due for delivery. In addition, the Cavour, for the Italian Navy, was delivered in compliance with the contractual scheme adopted for the submarines and vessels under programme Orizzonte.
Due to the persistent negative trend of the US dollar exchange rate, the Company has taken the decision to enter into derivative contracts for the portion of unhedged revenues at December 31, 2007 in order to limit further exposure.
The investments in new machinery and equipment, research and innovation, professional development of the personnel, continuous production process development and development of internal "Fincantieri system" is contributing to the good performance of the Group in 2008.

NOTE 30 - IFRS TRANSITION

GENERAL PRINCIPLES

The Group has retrospectively applied IFRS, as adopted by the European Commission for use in the European Union, to all periods included in the first IFRS financial statements and to the opening balance sheet (January 1, 2005), with the exception of some of the exemptions which have been applied in compliance with IFRS 1, as described below.
The opening balance sheet as of January 1, 2005 reflects the following differences from the balance sheet as of December 31, 2004 prepared under Italian GAAP:

- all of the balance sheet items have been recognized and valued as required under IFRS, including items that were held off-balance sheet under Italian GAAP;
- any balance sheet items that have been recognized under Italian GAAP, but which are not recognized under IFRS have been eliminated; and
- certain balance sheet items have been reclassified according to the requirements of the relevant IFRS.

The effect of the above transactions has been recognized directly in the opening balance sheet as of the date of application. The adjustments have been determined on the basis of the accounting principles disclosed in the following notes.

OPTIONAL EXEMPTIONS FROM THE FULL RETROSPECTIVE APPLICATION OF IFRS

IFRS 1 allows a number of exemptions to be taken in preparing the opening balance sheet as of January 1, 2005. The Group has elected the following exemptions:

- where revaluations of property, plant and equipment as required by law or on a voluntary basis have been performed, the Group has chosen to use these values as deemed cost as of the date of transition.
- the Group has chosen to account for all the cumulative actuarial gains and losses existing as of January 1, 2005, that would have arisen on the retrospective application of IAS 19.

OBLIGATORY EXEMPTION FROM THE FULL RETROSPECTIVE APPLICATION OF IFRS

IFRS 1 stipulates certain obligatory exemptions from applying IFRS retrospectively. The obligatory exemptions applicable to the Group are described below:

Derecognition of financial assets and liabilities

Financial assets and liabilities other than derivatives, relating to transaction that occurred prior to January 1, 2005, and were written off the balance sheet prepared under Italian GAAP are re-recognized under IFRS.

Accounting for hedging operations

Un derivato non può essere trattato come operazione di copertura se la relazione di copertura non esisteva alla data di transizione.

Estimates

Estimates made at the date of transition must be consistent with those estimated under Italian GAAP (after the necessary adjustments due to the differences in accounting principles).

ACCOUNTING TREATMENT ADOPTED WITHIN THE OPTIONS PROVIDED BY IFRS

Inventories

IAS 2 *Inventory* allows the cost of inventory to be determined using either the FIFO or weighted average method. The weighted average method has been adopted by the Company.

Valuation of property, plant and equipment and intangible assets

IAS 16 *Property, Plant and Equipment and IAS 38 – Intangible Assets* state that such assets can be carried at either their cost, less any accumulated depreciation and any accumulated impairment losses, or at revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment loses. The Group decided to account for its property, plant and equipment and intangible assets on a cost basis.

Borrowing costs

IAS 23 *Borrowing Costs* states that borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset can be either recognized as an expense in the period in which they are incurred or can be capitalized as part of the cost of that asset. The Group has decided to account for such costs directly to the income statement as incurred.

Actuarial differences

IAS 19 *Employee Benefits* states that actuarial gains and losses arising on changes to the underlying assumptions that are incorporated into the calculation of defined benefit plans, such as the termination indemnity liability, can be accounted for using the "corridor method", directly in equity or they can be accounted for in the income statement immediately upon realization. The Company decided to account for actuarial gains and losses in the income statement.

Government grants

IAS 20 *Accounting for government grant and disclosure of public assistance*, states that government grants related to assets shall be presented in the balance sheet either by recording the grant as deferred income or by deducting the grant in determining the carrying amount of the asset. The Company has chosen to recognize the grant as deferred income amongst its liabilities and as revenue over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

Joint Ventures

IAS 31 *Interests in Joint Ventures* states that the investment in a joint venture can be recognized using proportional consolidation or using the equity method. The Group has chosen to recognize the joint venture using the equity method.

PRESENTATION OF FINANCIAL STATEMENTS

For the consolidated balance sheet, the group has adopted the "non-current/current" format, whilst for the consolidated income statement, the format is based on the classification of costs by "nature" as this is considered to be more representative than classification by "function".

DESCRIPTION OF THE MATERIAL EFFECTS OF THE TRANSITION TO IFRS

The following tables disclose the effects of adopting IFRS on the balance sheet as at the date of transition, January 1, 2005, and as of December 31, 2006. The information discloses both adjustments and reclassifications.

Reconciliation of the consolidated balance sheet as of January 1, 2005

(Euro/000)	Italian GAAP As of January 1, 2005	Change in the scope of consolidation	Adjustments	Reclassifications	IFRS As of January 1, 2005	Note
ASSETS						
NON-CURRENT ASSETS						
Intangible assets	11,467	-	(5)	(244)	11,218	2
Property, plant and equipment	362,935	50,102	(49,308)	(915)	362,814	3·4·11
Equity investments	-	-	-	8,194	8,194	
Other investments	16,194	(1,933)	-	(8,194)	6,067	
Financial assets – receivables	242,688	(48,459)	143,723	183,006	520,958	4·6·8
Deferred tax assets	87,524	-	(26,280)		61,244	10
Total non-current assets	**720,808**	**(290)**	**68,130**	**181,847**	**970,495**	
CURRENT ASSETS						
Inventories	199,911	-	-	-	199,911	
Construction contracts – assets	3,129,539	-	(78,231)	(2,426,553)	624,755	6
Trade receivables and other current assets	695,346	1,092	-	(197,811)	498,627	
Current tax receivables	12,696	164	-	(12,240)	620	
Current financial assets	11,984	560	107,613	15,269	135,426	4·6
Cash and cash equivalents	517,306	13	-	(10,971)	506,348	
Total current assets	**4,566,782**	**1,829**	**29,382**	**(2,632,306)**	**1,965,687**	
Assets held for sale	-	-	-	1,159	1,159	
TOTAL ASSETS	**5,287,590**	**1,539**	**97,512**	**(2,449,300)**	**2,937,341**	
LIABILITIES AND SHAREHOLDERS' EQUITY						
Share capital	337,112	-	-	-	337,112	
Reserves and retained earnings	257,106	1,128	116,479	100,370	475,083	
Net income for the period	101,039	(555)	-	(100,484)	-	
Shareholders equity attributable to the Company	**695,257**	**573**	**116,479**	**(114)**	**812,195**	
Minority interest	4,649	1,830	(1,954)	114	4,639	
TOTAL SHAREHOLDERS' EQUITY	**699,906**	**2,403**	**114,525**	**-**	**816,834**	
LIABILITIES						
NON-CURRENT LIABILITIES						
Provision for risks and charges	137,629	5,387	(5,951)	(28,365)	108,700	4·7
Employee benefit liability	105,219	-	(6,801)	-	98,418	9
Non-current financial liabilities	136,538	-	326	(54,247)	82,617	6·11
Other non-current liabilities	-	-	-	233,401	233,401	
Total non-current liabilities	**379,386**	**5,387**	**(12,426)**	**150,789**	**523,136**	
CURRENT LIABILITIES						
Current financial liabilities	131,115	(95,068)	(156)	31,541	67,432	6·8·11
Trade payables and other current liabilities	603,395	88,811	(3,751)	(23,597)	664,858	4
Current tax liabilities	67,714	6	-	-	67,720	
Construction contracts – liabilities	3,406,074	-	(680)	(2,608,033)	797,361	6
Total current liabilities	**4,208,298**	**(6,251)**	**(4,587)**	**(2,600,089)**	**1,597,371**	
Liabilities held for sale	-	-	-	-	-	
TOTAL LIABILITIES	**4,587,684**	**(864)**	**(17,013)**	**(2,449,300)**	**2,120,507**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,287,590**	**1,539**	**97,512**	**(2,449,300)**	**2,937,341**	

Reconciliation of the consolidated balance sheet as of January 1, 2006

(Euro/000)	Italian GAAP As of December 31, 2006	Change in the scope of consolidation	Adjustments	Reclassifications	IFRS As of December 31, 2006	Note
ASSETS						
NON-CURRENT ASSETS						
Intangible assets	14,316	-	4,207	(773)	17,750	2
Property, plant and equipment	380,280	44,186	(43,415)	773	381,824	3 · 4
Equity investments	-	-	5,947	15,384	21,331	5
Other investments	24,218	(1,902)		(15,384)	6,932	
Financial assets – receivables	208,207	(42,976)	36,083	181,780	383,094	4 · 6 · 8
Deferred tax assets	61,833	-	10,760	(13)	72,580	10
Total non-current assets	**688,854**	**(692)**	**13,582**	**181,767**	**883,511**	
CURRENT ASSETS						
Inventories	205,802	-	-	-	205,802	
Construction contracts – assets	3,802,744	-	(25,834)	(2,417,665)	1,359,245	6
Trade receivables and other current assets	764,575	(12)	2,056	(204,721)	561,898	4
Current tax receivables	13,293	141	-	(12,198)	1,236	
Current financial assets	5,890	35	27,123	21,440	54,488	6
Cash and cash equivalents	182,069	37	-	(5,321)	176,785	
Total current assets	**4,974,373**	**201**	**3,345**	**(2,618,465)**	**2,359,454**	
TOTAL ASSETS	**5,663,227**	**(491)**	**16,927**	**(2,436,698)**	**3,242,965**	
LIABILITIES AND SHAREHOLDERS' EQUITY						
Share capital	337,112	-	-	-	337,112	
Reserves and retained earnings	388,969	244	45,218	(350)	434,081	
Net income for the period	52,462	(189)	(13,855)	(78)	38,340	
Shareholders equity attributable to the Company	778,543	55	31,363	(428)	809,533	
Minority interest	282	1,267	(1,823)	428	154	
TOTAL SHAREHOLDERS' EQUITY	**778,825**	**1,322**	**29,540**	**-**	**809,687**	
LIABILITIES						
NON-CURRENT LIABILITIES						
Provision for risks and charges	127,884	3,822	(4,385)	(14,949)	112,372	4 · 7
Employee benefit liability	116,317	-	(7,843)	-	108,474	9
Non-current financial liabilities	113,062	-	-	(9,957)	103,105	
Deferred tax liabilities	13	-	-	(13)	-	
Other non-current liabilities	-	-	3,360	225,430	228,790	5
Total non-current liabilities	**357,276**	**3,822**	**(8,868)**	**200,511**	**552,741**	
Current liabilities						
Current financial liabilities	47,853	(8,454)	(18,553)	(4,125)	16,721	6 · 8
Trade payables and other current liabilities	857,045	2,819	(2,720)	(15,577)	841,567	4
Current tax liabilities	20,249	-			20,249	
Construction contracts – liabilities	3,601,979	-	17,528	(2,617,507)	1,002,000	6
Total current liabilities	4,527,126	(5,635)	(3,745)	(2,637,209)	1,880,537	
Liabilities held for sale	-	-	-	-	-	
Total liabilities	**4,884,402**	**(1,813)**	**(12,613)**	**(2,436,698)**	**2,433,278**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,663,227**	**(491)**	**16,927**	**(2,436,698)**	**3,242,965**	

The following table discloses the effects of adopting IFRS on the income statement for the year ended December 31, 2006. The information discloses both adjustments and reclassifications.

(Euro/000)	Italian GAAP Year ended December 31, 2006	Change in the scope of consolidation	Adjustments	Reclassifications	IFRS Year ended December 31, 2006	Note
Income						
Revenues	2,434,911	3,330	(14,712)	2,940	2,426,469	4 · 6
Other income	102,857	807	802	(25,685)	78,781	4 · 6
Total income	**2,537,768**	**4,137**	**(13,910)**	**(22,745)**	**2,505,250**	
Operating costs						
Materials and services costs	1,905,591	195	-	(13,388)	1,892,398	
Personnel costs	428,459	-	(5,558)	-	422,901	9
Depreciation and amortization	56,530	2,958	(1,962)	-	57,526	2 · 3 · 4
Impairments	15,997	-	-	-	15,997	
Capitalization of internal costs	(8,421)	-	(1,636)	-	(10,057)	2
Other costs	20,681	-	-	(8,973)	11,708	
Total operating costs	**2,418,837**	**3,153**	**(9,156)**	**(22,361)**	**2,390,473**	
OPERATING INCOME	**118,931**	**984**	**(4,754)**	**(384)**	**114,777**	
Finance income and expense						
Finance income	119,833	(1,491)	999	179	119,520	4
Financial expense	(125,696)	88	(2,304)	244	(127,668)	6 · 8
Total finance income and expense	**(5,863)**	**(1,403)**	**(1,305)**	**423**	**(8,148)**	
Income and expense on investments						
Income	333	13	-	(230)	116	
Expense	(2,234)	37	-	-	(2,197)	
Share of profit / (loss) from equity investments	-	-	2,534	230	2,764	5
Total income and expense on investments	**(1,901)**	**50**	**2,534**	**-**	**683**	
NET INCOME BEFORE INCOME TAX EXPENSE	**111,167**	**(369)**	**(3,525)**	**39**	**107,312**	
Income Taxes						
Income tax expense	(60,952)	(1)	-	(39)	(60,992)	
Net income / (loss) from discontinued operations	2,233	-	(10,209)	-	(7,976)	10
NET INCOME	**52,448**	**(370)**	**(13,734)**	**-**	**38,344**	
Attributable to the Company	52,462	(189)	(13,855)	(78)	38,340	
Attributable to minority interest	(14)	(181)	121	78	4	

The following table discloses the reconciliation of total shareholders' equity as reported under Italian GAAP to IFRS:

(Euro/000)	As of January 1, 2005	As of December 31, 2006	Note
Shareholders' equity under Italian GAAP	**699,906**	**778,825**	
Change in the scope of consolidation	2,403	1,322	1
Intangible assets	(5)	4,207	2
Property, plant and equipment	654	770	3
Leases	(92)	450	4
Adjustment to equity investments	-	2,587	5
Construction contracts and hedging derivatives	134,280	3,812	6
Provision for risks and charges	564	564	7
Adjustment to equity attributable to minority interest	(1,412)	(1,453)	8
Employee benefit liability	6,801	7,843	9
Deferred tax	(26,280)	10,760	10
Others	15	-	11
Shareholders' equity under IFRS	**816,834**	**809,687**	

The following table discloses the reconciliation of net income for the year ended December 31, 2006 as reported under Italian GAAP to IFRS:

(Euro/000)	For the year ended December, 31 2006	Note
Net income under Italian GAAP	**52,448**	
Change in the scope of consolidation	(370)	1
Intangible assets	583	2
Property plant and equipment	57	3
Leases	214	4
Adjustment to equity investments	2,534	5
Construction contracts and hedging derivatives	(12,450)	6
Adjustment to equity attributable to minority interest	(21)	8
Employee benefit liability	5,558	9
Deferred tax	(10,209)	10
Net income under IFRS	**38,344**	

The following is a description of the adjustments to the balance sheet as of January 1, 2005 and as of December 31, 2006 and to the income statement for the year ended December 31, 2006:

1. Change in the scope of consolidation

The adjustment refers to the different methods of consolidation of the investments in Seaf (100% owned) and Elnav (49% owned). Under Italian GAAP, the investment in Seaf was stated in accordance with the equity method and the investment in Elnav S.p.A. was stated at cost, net of any accumulated impairment loss. In accordance with IAS 27 – *Consolidated and Separate Financial Statements*, investments in subsidiaries, even if they have dissimilar activities, must be fully consolidated. In addition, IAS 27 states that when assessing whether an entity has the power to govern the financial and operating policies of another company, the existence of options to purchase shares that could give such power to govern, as is the case of Elnav (as further described in Note 8), should be considered.

The following table discloses the balance sheet and income statement adjustments following the consolidation of these companies:

	As of January 1, 2005				
(Euro/000)	Elnav	Seaf	Intercompany elimination	Investments elimination	Change in the scope of consolidation
ASSETS					
NON-CURRENT ASSETS					
Intangible assets					
Property, plant and equipment	50,102				50,102
Other investments		784		(2,717)	(1,933)
Financial assets – receivables	1,446		(49,905)		(48,459)
Deferred tax assets					-
Total non-current assets	**51,548**	**784**	**-49,905**	**-2,717**	**-290**
CURRENT ASSETS					
Construction contracts – assets					
Trade receivables and other current assets	101	2,542	(1,551)		1,092
Current tax receivables	158	6			164
Current financial assets	10,496	85,354	(95,290)		560
Cash and cash equivalents	12	1			13
Total current assets	**10,767**	**87,903**	**-96,841**	**-**	**1,829**
Assets held for sale	-	-	-	-	-
TOTAL ASSETS	**62,315**	**88,687**	**-146,746**	**(2,717)**	**1,539**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Share capital	2,580	1,032		(3,612)	
Reserves and retained earnings	2,234	370		(1,476)	1,128
Net income for the period	(1,107)	11		541	(555)
SHAREHOLDERS EQUITY ATTRIBUTABLE TO THE COMPANY	**3,707**	**1,413**	**-**	**(4,547)**	**573**
Minority interest				1,830	1,830
TOTAL SHAREHOLDERS' EQUITY	**3,707**	**1,413**	**-**	**-2,717**	**2,403**
LIABILITIES					
NON-CURRENT LIABILITIES					
Provision for risks and charges	5,387				5,387
Total non-current liabilities	**5,387**	**-**	**-**	**-**	**5,387**
CURRENT LIABILITIES					
Current financial liabilities	58	873	(95,999)		(95,068)
Trade liabilities and other current liabilities	53,163	86,394	(50,747)		88,810
Current tax liabilities		7			7
Construction contracts - liabilities					-
Total current liabilities	**53,221**	**87,274**	**(146,746)**	**-**	**(6,251)**
Liabilities held for sale	-	-	-	-	-
TOTAL LIABILITIES	**58,608**	**87,274**	**(146,746)**	**-**	**(864)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**62,315**	**88,687**	**(146,746)**	**(2,717)**	**1,539**

	As of January 1, 2006				
(Euro/000)	Elnav	Seaf	Intercompany elimination	Investments elimination	Change in the scope of consolidation
ASSETS					
Non-current assets					
Property, plant and equipment	44,186				44,186
Other investments		891		(2,793)	(1,902)
Financial assets – receivables	1,446		(44,422)		(42,976)
Total non-current assets	**45,632**	**891**	**(44,422)**	**(2,793)**	**(692)**
Current assets					
Trade receivables and other current assets	37	19	(68)		(12)
Current tax receivables	131	10			141
Current financial assets	7,285	794	(8,044)		35
Cash and cash equivalents	36	1			37
Total current assets	**7,489**	**824**	**(8,112)**	**-**	**201**
TOTAL ASSETS	**53,121**	**1,715**	**(52,534)**	**(2,793)**	**(491)**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Share capital	2,580	1,032		(3,612)	
Reserves and retained earnings	526	383		(665)	244
Net income for the period	(369)	(37)		217	(189)
SHAREHOLDERS EQUITY ATTRIBUTABLE TO THE COMPANY	**2,737**	**1,378**	**-**	**(4,060)**	**55**
Minority interest				1,267	1,267
TOTAL SHAREHOLDERS' EQUITY	**2,737**	**1,378**	**-**	**-2,793**	**1,322**
PASSIVO					
Non-current liabilities					
Provision for risks and charges	3,822				3,822
Total non-current liabilities	3,822	-	-	-	3,822
Current liabilities					
Financial liabilities	35	264	(8,753)		(8,454)
Trade payables and other current liabilities	46,527	73	(43,781)		2,819
Total current liabilities	**46,562**	**337**	**(52,534)**	**-**	**(5,635)**
Liabilities held for sale	-	-	-	-	-
TOTAL LIABILITIES	**50,384**	**337**	**(52,534)**	**-**	**(1,813)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**53,121**	**1,715**	**(52,534)**	**(2,793)**	**(491)**

	Year ended December 31, 2006				
(Euro/000)	Elnav	Seaf	Intercompany elimination	Investments elimination	Change in the scope of consolidation
Income					
Revenues	3,358		(28)		3,330
Other income	807				807
Total income	**4,165**	**-**	**(28)**	**-**	**4,137**
Operating costs					
Materials and services costs	(103)	(120)	(28)		(195)
Depreciation and amortization	(2,958)				(2,958)
Total operating costs	**(3,061)**	**(120)**	**28**	**-**	**(3,153)**
OPERATING INCOME	**1,104**	**(120)**	**-**	**-**	**984**
Finance income and expense					
Finance income	48	216	(1,755)		(1,491)
Finance expense	(1,521)	(145)	1,755		88
Total finance income and expense	**(1,473)**	**71**	**-**	**-**	**(1,403)**
Income and expense on investments					
Income		13			13
Expense				37	37
Total income and expense on investments	**-**	**13**	**-**	**37**	**50**
NET INCOME BEFORE INCOME TAX EXPENSE	**(369)**	**(36)**	**-**	**37**	**(369)**
Income Taxes					
Income tax expense		(1)			(1)
NET INCOME	**(369)**	**(37)**	**-**	**37**	**(370)**

It is noted that:

- the amounts included in the columns "Elnav" and "Seaf" have been derived from the financial statements of these entities, prepared in accordance with Italian GAAP. The following notes provide an explanation of the adjustments to these amounts to meet the evaluation and measurement criteria of IFRS;
- the column "Intercompany elimination" represents the amounts included in the financial statements of the Company, representing the transactions with Elnav and Seaf, eliminated on consolidation.

2. Intangible assets

The adjustment refers to:

- the different recognition criteria of research and development costs under Italian GAAP compared to IFRS. Under Italian GAAP, the Group research and development costs were not capitalized but were expensed in the period incurred. In accordance with IAS 38 *Intangible assets*, development costs shall be capitalized when certain criteria are satisfied. The costs that meet those criteria were capitalized as development costs. As a result of this adjustment, intangible assets increased by 4,212 Euro/thousands. Depreciation and amortization and capitalization of internal costs increased by 1,053 Euro/thousands and 1,636 Euro/thousands respectively for the year ended December 31, 2006.

- the different recognition criteria of certain costs under Italian GAAP compared to IFRS. In particular, under Italian GAAP, the Group capitalized some costs of future economic benefits, capitalized as intangible assets. In accordance with IAS 38 *Intangible assets*, a cost can be capitalized only if it meets certain requirements. Certain costs which were capitalized under Italian GAAP do not meet the requirements to be capitalized under IFRS. For this reason, the balance sheet as of January 1, 2005 was adjusted to write-off these intangible assets. As a result of these adjustments, intangible assets decreased by 5 Euro/thousands as of January 1, 2005 and as of December 31, 2006. There was no significant change to depreciation and amortization.

The following table discloses the impact of the above adjustments on the balance sheet:

(Euro/000)	As of January 1, 2005	As of December 31, 2006
Capitalization of development costs	-	4,212
Intangible assets	(5)	(5)
Total	**(5)**	**4,207**

The following table discloses the impact of the above adjustments on the income statement:

(Euro/000)	Year ended December 31, 2006
Capitalization of internal costs	1,636
Depreciation and amortization	(1,053)
Total	**583**

3. Property, plant and equipment

The adjustment relates to the application of IAS 16 *Property, plant and equipment*, regarding the separation of land and buildings. IAS 16 states that land has an unlimited useful life and therefore is not depreciated. The adjustment reflects this principle as if it had always been applied.
As a result of this adjustment, property, plant and equipment increased by 654 Euro/thousands as of January 1, 2005 and 770 Euro/thousands as of December 31, 2005 and depreciation and amortization decreased by 57 Euro/thousands for the year ended December 31, 2006.

4. Leases

The adjustment relates to the different accounting treatment for leases under IFRS compared to Italian GAAP. Under Italian GAAP, Elnav – accounted a "bareboat charter" contract as an operating lease in the stand alone financial statements. Accordingly, the asset of the contract was stated in the balance sheet of the lessor, and the income from the rent and the depreciation/amortization were recorded in the income statement. In accordance with IAS 17 – *Leases*, lessor should:

- at the commencement of the lease term eliminate from the balance sheet the value of an asset under a finance lease and simultaneously, recognize, financial receivable at an amount equal to the value of the asset;
- allocate finance income over the lease term on a systematic and rational basis;
- periodically apply lease payments relating to the accounting period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The adjustment refers to:

- elimination of two ships owned by the Group and leased to a ship-owner, amounting to 50,101 Euro/thousands and 44,185 Euro/thousands as of January 1, 2005 and as of December 31, 2006 respectively;
- the recognition of the remaining amount to be received under the lease amounting to 40,871 Euro/thousands and 38,094 Euro/thousands as of January 1, 2005 and as of December 31, 2006 respectively. These amounts were recorded in non-current financial assets and current financial assets according to the maturity of the receivable;
- the reversal of the prepayment relating to the down payment on the first installment, amounting to 3,751 Euro/thousands as of January 1, 2005 and 2,720 Euro/thousands as of December 31, 2006;
- the decrease in provision for risks and charges amounting to 5,387 Euro/thousands and 3,821 Euro/thousands as of January 1, 2005 and as of December 31, 2006 respectively following the effects of the exchange rate options exercized by the lessee on US dollars related to the payments of installments.

The following table discloses the details of the impact of the adjustments on the balance sheet:

(Euro/000)	As of January 1, 2005	As of December 31, 2006
Property, plant and equipment	(50,101)	(44,185)
Non-current financial assets	38,899	36,038
Current financial assets	1,972	2,056
Provision for risks and charges	5,387	3,821
Trade payables and other current liabilities	3,751	2,720
Total	**(92)**	**450**

The following table discloses the impact of the above adjustments on the income statement:

(Euro/000)	Year ended December 31, 2006
Revenues	(2,935)
Other income	(808)
Depreciation and amortization	2,958
Finance income	999
Total	**214**

5. Adjustment to equity investments

The adjustment refers to:

a. the different evaluation criteria of the investment in Lloyd Werft Bremerhaven (LWB), which was acquired by the Group during 2006. Under Italian GAAP, the Group recorded the investments in associates based on the percentage of shares actually owned, which was equal to 14.26%. In accordance with IAS 28 *Accounting for investments in associates*, the existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, should be considered when assessing whether an entity is associated. The Company received as guarantee shares with voting rights representing 6.79% of LWB equity and, additionally, the Company will have the obligation to purchase these shares in 2008 at a contractually agreed price. Under IFRS, the Company recognize an investment of 21.05% in LWB as of the date of the financial statements and a liability representing the purchase price obligation for the additional shares;

b. adjustments to the investment in Orizzonte Sistemi Navali S.p.A. In particular, the financial statements of Orizzonti Sistemi Navali S.p.A. were prepared in accordance with Italian GAAP and some adjustments were required to determine the net equity and the net income for the year ended December 31, 2006 under IFRS.

As a result of these adjustments, equity investments increased by 5,947 Euro/thousands, other non-current liabilities increased by 3,360 Euro/thousands and shareholder's equity decreased by 2,587 Euro/thousands as of December 31, 2006. Income and expense on investments increased by 2,534 Euro/thousands due to the increase in the net assets of the investments compared to the cost of acquisition amounting to 2,692 Euro/thousands for LWB and 34 Euro/thousands for Orizzonte Sistemi Navali S.p.A. which were offset by the Group's share of losses of LWB amounting to 192 Euro/thousands for the year ended December 31, 2006.

6. Construction contracts – assets and hedging derivatives

The adjustment refers to the different criteria for recording construction contracts which have been hedged. In accordance with Italian GAAP, the construction contract is recorded in the balance sheet at the spot rate of the hedging instrument. The hedging instrument is held off balance sheet and the premium of the hedging instrument is released over the duration of the hedging contract. Under IFRS, construction contracts are recorded in the balance sheet using the exchange rate as of the balance sheet date. Furthermore, the underlying derivative contract is measured at fair value as of the balance sheet date of the balance sheet and changes in the fair value are recognized as follows:

- the ineffective portion of the hedge relating to the exchange rates: the movement in the exchange rate is adjusted against construction contracts and recognized in the income statement and the change in the fair value is recognized in the income statement in financial income and expense;
- changes in the fair value of derivatives qualifying as effective instruments are recognized in the cash flow hedge reserve.

The following table discloses the details of the impact of the adjustment mentioned above:

(Euro/000)	As of January 1, 2005	As of December 31, 2006
Adjustment of construction contracts at the spot exchange rate as the balance sheet date	(78,231)	(25,834)
Non-current financial assets (1)	105,560	781
Current financial assets (1)	105,641	27,123
Non-current financial liabilities (1)	(258)	-
Current financial liabilities (1)	888	19,270
Construction contracts – liabilities (2)	680	(17,528)
Totale	**134,280**	**3,812**

(1) The adjustment reflects the fair value of the derivatives; (2) The adjustment related to the impact of the changes in the percentage of completion of construction contracts due to the adjustment mentioned above.

The adjustments detailed above amounting to 134,280 Euro/thousands as of January, 1 2005 and 3,812 Euro/thousands as of December 31, 2006, include the effective portion of the fair value of the derivates – net of the related tax effect, which has been recorded in the cash flow hedge reserve, amounting to 83,424 Euro/thousands and 40 Euro/thousands as of January 1, 2005 and as of December 31, 2006 respectively.
As a result of these adjustments, revenues decreased by 11,777 Euro/thousands other income and finance expense increased by 1,610 Euro/thousands and 2,283 Euro/thousands respectively.

7. Provision for risks and charges

The adjustment relates to the different criteria applied for the provision for risks and charges in accordance with IFRS compared to Italian GAAP. Under Italian GAAP, the provision for risks included provisions which were not able to be quantified but for which estimates were provided based on objective evidence. In the absence of objective evidence a prudent approach was adopted. In accordance with IAS 37 – *Provisions, contingent liabilities and contingent assets, Paragraph 14*, provisions for risks and charges shall be recognized only when they meet specific requirements. Certain provisions recognized under Italian GAAP do not meet the necessary recognition criteria under IFRS.
As a result of this adjustment, provision for risks and charges decreased by 564 Euro/thousands as of January 1, 2005 and as of December 31, 2006. The adjustment did not impact the income statement for the year ended December 31, 2006.

8. Adjustment to equity attributable to minority interest

The adjustment relates to the application of IAS 32 – *Financial Instruments: Presentation* and in particular to the criteria to be applied to contracts that contain obligations to buy shares of associates owned by minority interest. In particular, the Company had put and call options and other agreements to buy shares amounting to 51% of Elnav share capital. This gives rise to a financial liability for the present value of the acquisition price of the shares.
The following table discloses the effect of this adjustment on the balance sheet:

(Euro/000)	As of January 1, 2005	As of December 31, 2006
Financial assets – receivables	(736)	(736)
Current financial liabilities	(676)	(717)
Total	**(1,412)**	**(1,453)**

In addition, financial expense increased by 21 Euro/thousands due to the interest on this financial liability.

9. Employee Benefit Liability

The adjustment relates to the different accounting treatment for the employee benefit liability of certain Italian companies of the Group in accordance with IFRS compared to Italian GAAP. Under Italian GAAP, the Group determined the employee benefit liability in accordance with Italian law.

In accordance with IAS 19 – *Employee Benefits*, the liability is calculated based on actuarial assumptions and also considering statistical and demographic variables.
As a result of this adjustment, the employee benefit liability decreased by 6,801 Euro/thousands as of January 1, 2005 and by 7,843 Euro/thousands as of December 31, 2006. Personnel costs decreased by 5,558 Euro/thousands for the year ended December 31, 2006.

10. Deferred tax

The adjustment reflects the tax effects on the reconciling adjustments detailed above in addition to deferred tax assets which had not been recognized under IFRS. In accordance with IAS 12 – *Income taxes*, an entity may recognize a deferred tax asset to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized. Under Italian GAAP, there needs to be the absolute certainty to recognize a deferred tax asset.

11. Others

The following table discloses other adjustments:

(Euro/000)	As of January 1, 2005	As of December 31,2006
Property, plant and equipment	139	-
Other investments	-	-
Non-current financial liabilities	(68)	-
Current financial liabilities	(56)	-
Total	**15**	**-**

The following table provides details of the balance sheet reclassifications as of January 1, 2005 and as of December 31, 2006.

Balance sheet

(Euro/000)	Reclassifications As of January 1, 2005	Reclassifications As of December 31, 2006	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	(244)	(773)	
Property, plant and equipment	(915)	773	
Equity investments	8,194	15,384	1
Other investments	(8,194)	(15,384)	1
Financial assets – receivables	183,006	181,780	2
Deferred tax assets		(13)	
Total non-current assets	**181,847**	**181,767**	
CURRENT ASSETS			
Inventories	-	-	
Construction contracts – assets	(2,426,553)	(2,417,665)	3
Trade receivables and other current assets	(197,811)	(204,721)	4
Current tax receivables	(12,240)	(12,198)	5
Current financial assets	15,269	21,440	6
Cash and cash equivalents	(10,971)	(5,321)	7
Total current assets	**(2,632,306)**	**(2,618,465)**	
Assets held for sale	1,159	-	
TOTAL ASSETS	**(2,449,300)**	**(2,436,698)**	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	-	-	
Reserves and retained earnings	100,370	(350)	
Net income for the period	(100,484)	(78)	
Shareholders equity attributable to the company	**(114)**	**(428)**	
Minority interest	114	428	
TOTAL SHAREHOLDERS' EQUITY	**0**	**0**	
LIABILITIES			
NON-CURRENT LIABILITY			
Provision for risks and charges	(28,365)	(14,949)	8
Employee benefit liability	-	-	
Non-current financial liabilities	(54,247)	(9,957)	9
Deferred tax liabilities		(13)	
Other non-current liabilities	233,401	225,430	10
Total non-current liabilities	**150,789**	**200,511**	
CURRENT LIABILITIES			
Current financial liabilities	31,541	(4,125)	11
Trade payables and other current liabilities	(23,597)	(15,577)	12
Current tax liabilities	-		
Construction contracts – liabilities	(2,608,033)	(2,617,507)	13
Total current liabilities	**(2,600,089)**	**(2,637,209)**	
Liabilities held for sale	-	-	
TOTAL LIABILITIES	**(2,449,300)**	**(2,436,698)**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**(2,449,300)**	**(2,436,698)**	

1. Equity investments

The reclassification of 8,194 Euro/thousands as of January 1, 2005 and 15,384 Euro/thousands as of December 31, 2006 was made in accordance with IAS 1, in order to show separately the amounts related to the investments accounted for using the equity method from other investments.

2. Financial assets - receivables

Financial assets – receivables increased by 183,006 Euro/thousands as of January 1, 2005 and 181,780 Euro/thousands as of December 31, 2006, as follows:

a. reclassification of short term portion of receivables accounted in non-current financial assets amounting to 18,524 Euro/thousands as of January 1, 2005 and 21,944 Euro/thousands as of December 31, 2006. The amounts were reclassified to current financial assets;
b. reclassification of a receivable amounting to 209,943 Euro/thousands as of January 1, 2005 and 209,923 Euro/thousands as of December 31, 2006 with maturity greater than 12 months after the balance sheet date. The amounts were reclassified to financial assets - receivables from trade receivables and other current assets;
c. reclassification in order to present receivables net of deferred interest income amounting to 8,413 Euro/thousands as of January 1, 2005 and 6,199 Euro/thousands as of December 31, 2006. The amounts were reclassified to financial assets - receivables from current financial liabilities.

3. Construction contracts – assets

The amounts related to construction contracts – assets, are shown net of the amounts that have already been invoiced to clients and net of the provisions related to the allowance for expected future losses, risks related to contracts denominated in foreign currencies and risks related to complex projects which amounted to 2,426,553 Euro/thousands as of January 1, 2005 and 2,417,665 Euro/thousands as of December 31, 2006. These amounts were reclassified from construction contracts - liabilities

4. Trade receivables and other current assets

Trade receivables and other current assets decreased by 197,811 Euro/thousands as of January 1, 2005 and 204,721 Euro/thousands as of December 31, 2006 as follows:

a. reclassification in order to present a receivable amounting to 209,943 Euro/thousands as of January 1, 2005 and 209,923 Euro/thousands as of December 31, 2006 within non-current assets as described in Note 2b;
b. reclassification of current tax receivables that are not directly related to income taxes amounting to 12,240 Euro/thousands and 12,198 Euro/thousands as of January 1, 2005 and as of December 31, 2006, respectively;
c. reclassification in order to present trade receivables and other current assets net of deferred income amounting to 104 Euro/thousands as of January 1, 2005. The amount was reclassified from trade payables and other current liabilities;
d. reclassification in order to present within financial assets, finance leases amounting to 2,056 Euro/thousands as of December 31, 2006. The amount was reclassified from trade receivables and other current assets to financial assets;

e. reclassification in order to deduct from the relevant asset the provisions for doubtful receivables amounting to 4,949 Euro/thousands as of December 31, 2006. The amounts was reclassified from provision for risks and charges to trade receivables and other current assets;
f. other minor reclassifications that increased trade receivables and other current assets by 4 Euro/thousands as of January 1, 2005 and 9 Euro/thousands as of December 31, 2006.

5. Current tax receivables

Current tax receivables decreased by 12,240 Euro/thousands as of January 1, 2005 and 12,198 Euro/thousands as of December 31, 2006 due to the reclassification, as described in Note 4b, of tax receivables which are not related to income taxes.

6. Current financial assets

Current financial assets increased by 15,269 Euro/thousands as of January 1, 2005 and 21,440 Euro/thousands as of December 31, 2006, as follows:
a. reclassification in order to re-allocate from non-current financial assets, the current portion of receivables amounting to 18,524 Euro/thousands as of January 1, 2005 and 21,944 Euro/thousands as of December 31, 2006 (see Note 2a);
b. reclassification in order to present receivables net of deferred interest income amounting to 3,255 Euro/thousands as of January 1, 2005 and 2,587 Euro/thousands as of December 31, 2006. The amounts were reclassified from current financial liabilities;
c. reclassification in order to present within current financial assets, finance leases amounting to 2,056 Euro/thousands as of December 31, 2006 (see Note 4d);
d. other minor reclassification that increased current financial assets by 27 Euro/thousands as of December 31, 2006.

7. Cash and cash equivalents

Overdrafts, amounting to 10,971 Euro/thousands as of January 1, 2005 and 5,321 Euro/thousands as of December 31, 2006, were deducted from cash and cash equivalents. The amounts were reclassified from current financial liabilities to cash and cash equivalents.

8. Provision for risks and charges

Reclassifications were made in order to:
a. present separately provision for risks and charges relating specifically to ships construction amounting to 28,365 Euro/thousands as of January 1, 2005 and 10,000 Euro/thousands as of December 31, 2006 from other provisions for risks and charges. The amounts were reclassified from provision for risks and charges to construction contracts – liabilities;
b. deduct from assets the allowance for doubtful receivables amounting to 4,949 Euro/thousands as of December 31, 2006 related to amounts included in trade receivables and other current assets (see Note 4e).

9. Non-current financial liabilities

Non-current financial liabilities decreased by 54,247 Euro/thousands as of January 1, 2005 and 9,957 Euro/thousands as of December 31, 2006 in order to:

a. include in current-financial liabilities, bank borrowings due within 12 months amounting to 54,179 Euro/thousands as of January 1, 2005 and 9,957 Euro/thousands as of December 31, 2006. The amounts were reclassified from non-current financial liabilities to current financial liabilities;
b. other minor reclassifications that increased non-current financial liabilities by 68 Euro/thousands as of January 1, 2005.

10. Other non-current liabilities

Other non-current liabilities increased by 233,401 Euro/thousands as of January 1, 2005 and by 225,430 Euro/thousands as of December 31, 2006 in order to:

a. present within non-current liabilities, a long term liability amounting to 209,843 Euro/thousands as of January 1, 2005 and as of December 31, 2006 that was previously included in construction contracts - liabilities. The amount was reclassified from construction contracts – liabilities to other non-current liabilities;
b. present within other non-current liabilities, the long term portion of deferred income on capital grants amounting to 17,021 Euro/thousands as of January 1, 2005 and 15,506 Euro/thousands as of December 31, 2006. The amounts were reclassified from trade payables and other current liabilities to other non-current liabilities;
c. present within other non-current liabilities, long term liability amounting to 6,370 Euro/thousands as of January 1, 2005. The amount was reclassified from trade payables and other current liabilities;
d. other minor reclassifications resulting in an increase of other non-current liabilities by 167 Euro/thousands as of January 1, 2005 and 81 Euro/thousands as of December 31, 2006.

11. Current financial liabilities

Current financial liabilities increased by 31,541 Euro/thousands as of January 1, 2005 and decreased by 4,125 Euro/thousands as of 31 December 2006 as follows:

a. reclassification of bank overdrafts amounting to 10,971 Euro/thousands as of January 1, 2005 and 5,321 Euro/thousands as of December 31, 2006 to cash and cash equivalents (see Note 7);
b. reclassification from non-current financial liabilities of the financial liabilities due within twelve months amounting to 54,179 Euro/thousands as of January 1, 2005 and 9,957 Euro/thousands as of December 31, 2006 (see Note 9a);
c. reclassification in order to deduct from receivables (current and non-current), deferred interest income amounting to 11,668 Euro/thousands as of January 1, 2005 and 8,786 Euro/thousands as of December 31, 2006 (see Note 2c and Note 6b);
d. other minor reclassifications that increased current financial liabilities by 1 Euro/thousands as of January 1, 2005 and decreased by 25 Euro/thousands as of December 31, 2006.

12. Trade payables and other current liabilities

Trade payables and other current liabilities decreased by 23,597 Euro/thousands as of January 1, 2005 and by 15,577 Euro/thousands as of December 31, 2006 as follows:

a. reclassification in order to present within non-current liabilities some long term borrowings amounting to 6,370 Euro/thousands as of January 1, 2005 (see Note 10c);

b. reclassification in order to present within non-current liabilities, the long term portion of deferred income on capital grants amounting to 17,021 Euro/thousands as of January 1, 2005 and 15,506 Euro/thousands as of December 31, 2006 (see Note 10b);
c. reclassification of deferred income to trade receivables and other current assets amounting to 104 Euro/thousands as of January 1, 2005 (see Note 4c);
d. other minor reclassifications that decreased trade payables and other current liabilities by 102 Euro/thousands as of January 1, 2005 and by 71 Euro/thousands as of December 31, 2006.

13. Construction contract – liabilities

Construction contract – liabilities decreased by 2,608,033 Euro/thousands as of January 1, 2005 and by 2,617,507 Euro/thousands as of December 31, 2006 as follows:

a. reclassifications amounting to 2,426,553 Euro/thousands as of January 1, 2005 and 2,417,665 Euro/thousands as of December 31, 2006 as a result of which construction contract - assets is shown net of the amounts that have already been invoiced and net of the provisions relating to the allowance for expected future losses, risks related to contracts denominated in foreign currencies and risks related to complex projects (see Note 3);
b. reclassification to other non-current financial liabilities of a long-term borrowing amounting to 209,843 Euro/thousands as of January 1, 2005 and December 31, 2006 (see Note 10a);
c. reclassification to present separately the provisions for risks and charges related to ships construction from other provisions for risks and charges, amounting to 28,365 Euro/thousands as of January 1, 2005 and 10,000 Euro/thousands as of December 31, 2006; (see Note 8a)
d. other minor reclassifications resulting in a decrease to construction contracts – liabilities of 2 Euro/thousands as of January 1, 2005 and an increase of 1 Euro/thousands as of December 31, 2006.

Income statement

(Euro/000)	Reclassifications
Income	
Revenues	2,940
Other income	(25,685)
Total income	**(22,745)**
Operating costs	
Materials and services costs	(13,388)
Other costs	(8,973)
Total Operating costs	**(22,361)**
OPERATING INCOME	**(384)**
Finance income and expense	
Finance income	179
Finance expense	244
Total Finance income and expense	**423**
Income and expense on investments	
Income	(230)
Share of profit / (loss) from equity investments	230
Total Income and expense on investments	**0**
NET INCOME BEFORE INCOME TAX EXPENSE	**39**
Income taxes	
Income tax expense	(39)
NET INCOME	**0**

The most significant amounts referred to a different presentation of accruals and utilizations of provisions for risks and charges following the reclassification of these provisions in the balance sheet.
In accordance with IAS 7, the cash flow statement prepared in accordance with Italian GAAP was revised to exclude intra-group current accounts to non-consolidated companies, to parent company and other financial payables and receivables. The result is that the cash and cash equivalents includes only liquid cash.

Cash flow statement for the year ended December 31, 2006

(Euro/000)	Italian GAAP (1)	Application of. IAS 7 (2)	Italian GAAP modified	IFRS	Difference
Net cash provided by operating activities	112,530	-	112,530	159,648	47,118
Net cash used in investing activities	(85,690)	-	(85,690)	(88,672)	(2,982)
Net cash used in financing activities	(8,326)	(26,737)	(35,063)	(78,745)	(43,682)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**18,514**	**(26,737)**	**(8,223)**	**(7,769)**	**454**
Cash and cash equivalents at the beginning of the year	**151,116**	**33,855**	**184,971**	**184,575**	**(396)**
Exchange rate movements	-	-	-	(21)	(21)
Cash and cash equivalents at the end of the year	**169,630**	**7,118**	**176,748**	**176,785**	**37**

(1) Derived from 2006 financial statements (2) Effects from the application of IAS 7

Appendix 1

FINTECNA - FINANZIARIA PER I SETTORI INDUSTRIALE E DEI SERVIZI S.P.A.

The financial statements of Fintecna as of and for the years ended December 31, 2005 and 2006 have been prepared in accordance with the Italian Civil Code, adopting Italian GAAP.
The following table presents the balance sheet and the Income statement of Fintecna.

BALANCE SHEET	As of December 31, 2006	As of December 31, 2005
ASSETS		
Unpaid capital		-
Fixed assets	1,609,583	1,752,186
Current assets	5,803,167	5,110,549
Accrued income and prepaid expenses	16,085	7,426
TOTAL ASSETS	**7,428,835**	**6,870,161**
LIABILITIES		
SHAREHOLDERS' EQUITY		
Share Capital	240,080	240,080
Reserves	3,749,979	3,572,264
Profit for the period	200,940	225,947
Total Shareholders' Equity	**4,190,999**	**4,038,291**
Provision for risks and charges	2,128,693	2,169,154
Employee benefit liability	9,618	11,012
Payables	1,090,051	649,543
Accrued liabilities and deferred income	9,474	2,161
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**7,428,835**	**6,870,161**
MEMORANDUM ACCOUNTS	**9,953,690**	**9,504,269**
INCOME STATEMENT	**2006**	**2005**
Value of production	127,563	232,340
Cost of production	-79,820	-157,234
Difference between value and cost of production	**47,743**	**75,106**
Finance income and expenses	153,951	159,449
Adjustment to financial assets	2,392	-21,368
Extraordinary income and expenses	40,830	64,518
Earnings before income tax	**244,916**	**277,705**
Income tax expense	-43,976	-51,758
PROFIT FOR THE YEAR	**200,940**	**225,947**

Report of the board of Statutory Auditors

Dear Shareholders,

The Fincantieri Group's Consolidated Financial Statements has been controlled by the Statutory Auditors in accordance with the principles of conducts which control our function and with explicit reference to the regulations which dispose the consolidated financial statements.
The PricewaterhouseCoopers company, which has the accounting control, has audited the Fincantieri's Financial Statements. The subsidiaries' Financial Statements have been controlled both by their respective Statutory Auditors and by the Auditing companies to whom the specific task has been demanded.
Therefore the Board Statutory Auditors has not performed a direct control activity on the subsidiaries.
The company, availing of the faculty provided for by Article 3 of Italian Legislative Decree no. 38/2005, has prepared the consolidated financial statements in accordance with the IAS IFRS accounting standards.
The result of our control on the Fincantieri Group's Consolidated Financial Statements points out that:

- The companies included in the consolidation area have been properly and analytically identified.
- The information delivered by the companies included in the consolidation area are consistent with the evaluation criteria, the structure and the contents defined by the consolidating company: this is certified by the legal representative of each company included in the consolidation area.
- With regard to the issue of the consolidated financial statements, the consolidating company has appropriately used the data received, as well as those resulting from its booking entries.
- The evaluation criteria and the consolidation principles comply with the reference regulation.

The assets and liabilities elements, the costs and revenues of the consolidated companies have been totally included in the consolidated financial statements except for the company "Orizzonte Sistemi Navali" for which has been adopted the equity method.
The debt and credit entries and the economic operations carried out among the consolidated companies have been sterilized.
The assets acquired by operations of financial leasing, as provided for by the financial method, have been included in the fixed assets.
The Notes to the consolidated financial statements contain the information required by the reference regulation.
In the opinion of The Board of Statutory Auditors the financial statements give a true and fair view of the assets and liabilities, the financial position, the results of operations of Fincantieri Group for the financial year ended at December 31st , 2007.
The Board of Statutory Auditors has also verified that the Report on operations corresponds in substance to what showed in the consolidated financial statements.

Trieste 28 March 2008

THE BOARD OF STATUTORY AUDITORS


GRIMALDI LINES
CRUISE ROMA

Auditors report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE CIVIL CODE

To the Shareholders of
FINCANTIERI – Cantieri Navali Italiani SpA

1 We have audited the consolidated financial statements of FINCANTIERI – Cantieri Navali Italiani SpA and its subsidiaries ("FINCANTIERI Group"), which comprise the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes as of 31 December 2007. These financial statements are the responsibility of FINCANTIERI – Cantieri Navali Italiani SpA's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.

2 We conducted our audit in accordance with Italian standards on auditing. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the 31 December 2006 and 31 December 2005 corresponding figures prepared in accordance with the same accounting principles. Furthermore, note n° 30 explains the effects of the transition to IFRS as adopted by the European Union. The information presented in the above note has been examined by us to provide a reasonable basis for our opinion on the consolidated financial statements at 31 December 2007.

3 In our opinion, the consolidated financial statements of FINCANTIERI – Cantieri Navali Italiani SpA as of 31 December 2007 comply with IFRS as adopted by the European Union; accordingly, they give a true and fair view

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PRICEWATERHOUSECOOPERS

of the financial position, the results of operations, the changes in shareholders' equity and cash flows of FINCANTIERI Group for the year then ended.

Trieste, 11 April 2008

PricewaterhouseCoopers SpA
Signed by Maria Cristina Landro
(Partner)

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

New Corporate Boards Of The Parent Company

Following the resolutions of the Shareholders' Meeting

BOARD OF DIRECTORS

(2006-2008)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	DOMINEDÒ Pierpaolo
	GIORGI Giorgio
	OSTILLIO Massimo
	PARLATO Francesco
	REBULLA Luciano
Secretary	CASTALDO Maurizio

BOARD OF STATUTORY AUDITORS

(2008-2010)

Chairman	PUCCI Bruno
Auditors	ALEMANNI Pierluigi
	TRAUNER Sergio
Alternate Auditors	GENTILE Giancarlo
	MANCINI Alberto

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FINCANTIERI