SACE GROUP | ANNUAL REPORT 2007

Empower Your Business

SACE GROUP

The **SACE Group** is Italy's leading provider of credit insurance, investment protection and surety, covering political and commercial risk in over 150 countries around the world. With its wide range of innovative solutions for commercial and financial transactions and project & structured finance, SACE boosts the competitiveness of banks and enterprises in Italy and abroad by transforming risks into opportunities of growth.

	€ million	
Insured business in the year	23,614.3	+36.0%
Outstanding commitments[1]	37,054.6	+15.9%
Gross written premiums	311.8	+29.6%
Profit before tax	589.9	+43.7%
Shareholder's equity[2]	5,772.2	-37.5%
Employees	511	+10.4%
Rating[3] (Moody's)	Aa2	stable outlook

(1) Outstanding commitments as at 31 December 2007

(2) In February 2007 capital was reduced by €3,5 billion

(3) Rating assigned to the Parent Company

Making business less risky and more competitive. **For over 30 years.**

1977

SACE was set up as a special department of the State insurance institution, *Istituto Nazionale Assicurazioni* (INA).

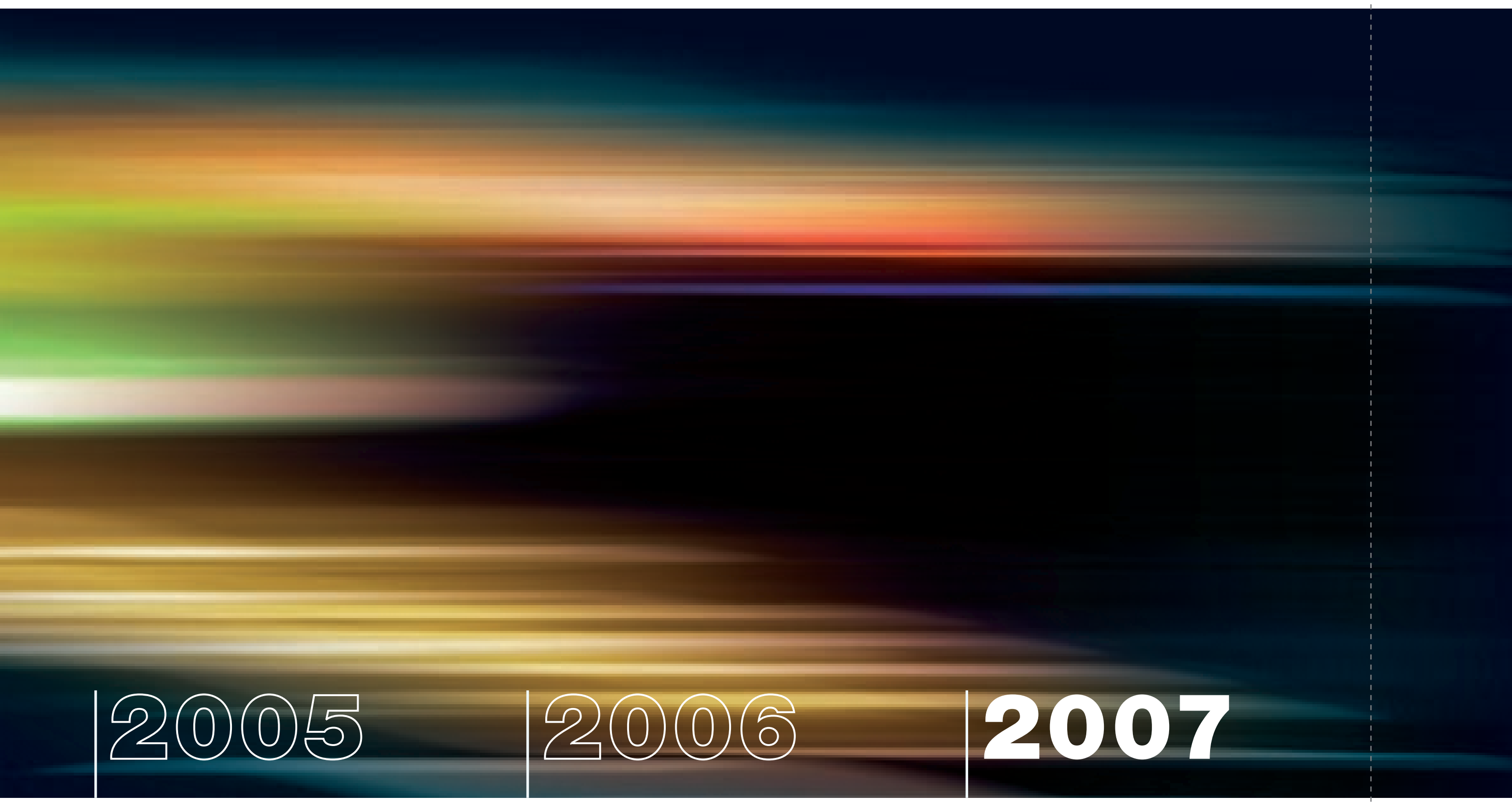
1998

SACE became an Institution in its own right (*Istituto per i Servizi Assicurativi del Commercio Estero*).

2004

SACE became a joint stock company, wholly owned by the Economy and Finance Ministry.

SACE entered the short-term credit insurance market, through the creation of SACE BT.



2005

Competitiveness Decree broadened the scope of SACE's business and the range of insurable parties.

SACE BT acquired a 70% stake in ASSEDILE, one of the leading surety providers in Italy.

Moody's awarded SACE an Aa2 rating, with a stable outlook.

2006

The 2007 Finance Act extended SACE's business to transactions of strategic interest for Italy's economy.

2007

SACE's capital was reduced by €3.5 billion.

Jointly with Ducroire Delcredere, SACE BT acquired a 66% stake in KUP, the Czech Republic's leading credit insurer.

SACE won the *Oscar di Bilancio* - the Italian annual report award - for the insurance sector's best annual report.

CHAIRMAN'S MESSAGE

"A year of success and achievement"

2007 was SACE's 30th year of operation. It was a year of success and great change for the company and the Group as a whole.

We have broadened the scope of our business operations. In 1999 we had begun insuring direct investment and foreign shareholdings, in 2005 we had introduced products to support the internationalisation of Italy's SMEs and in 2007 the Finance Act gave the SACE Group a new mission, that of guaranteeing projects of strategic importance for Italy's economy in areas like infrastructure, transportation and energy. The SACE Group has thus become an even stronger driver in the process of increasing our country's competitiveness.

2007 was also the year in which SACE took its first concrete step towards the internationalisation of the Group by acquiring a 66% stake in KUP, a Czech concern. This is a joint venture with ONDD of Belgium under an alliance which aims to set up a world-wide network of credit insurers.

Our 2007 results, presented in the CEO's letter and more in detail in the rest of this report, once again demonstrate the effectiveness of the strategy we have followed in recent years. The figures show that there was a significant improvement in the results of our core business and a reduction in extraordinary items such as recoveries. This is further proof that the Group's ability to operate successfully in an increasingly competitive market has been enhanced.

Looking to the future: at end 2007 the Industrial Plan for the years 2008-2010 was approved. Much faster growth in market business is foreseen and, in the segment supported by Government guarantee, traditional business will be consolidated and new business (under the recent legislation) developed.

The Shareholder's Meeting of 2007 also approved SACE's new By-Laws and the new corporate governance bodies were nominated. After eight years in which he made a decisive contribution to the Company's rebirth, Giorgio Tellini stepped down as CEO while remaining a Director. Alessandro Castellano is the new CEO. The former is to be congratulated and thanked for his contribution and we wish the latter every success in meeting the challenges that lie before us in the coming years.

IGNAZIO ANGELONI
Chairman

CEO'S LETTER

Competition in international trade is so intense that efficient risk management is vital and therefore essential for businesses intending to grow in world markets – even more so today, with the pronounced volatility of the financial markets and a sharper general perception of risk.

In this scenario the SACE Group was once again a reliable partner for banks and enterprises in 2007. We covered political and commercial risk in over 150 countries, providing credit insurance, surety guarantees, foreign investment protection, export credit and financial guarantees. The Group insured transactions worth €23 billion – an increase of 36% over 2006. Our customer base also increased in 2007 and now includes a growing number of SMEs, which are the backbone of Italy's industry.

Our new business model, which was adopted after SACE became a joint stock company and is built around product companies, has been the key to value creation for the Shareholder and our customers as well. Our report shows how much our business has progressed and our product quality has been enhanced. In 2007 we achieved consolidated profit before tax of €589.9 million – an increase of 43.7% over 2006. Our insurance business grew in

“Risk management, a key-factor for growth”

line with the targets set in our business plan and all our business lines made a positive contribution to this result.

In 2007 we extended the range of financial and insurance guarantees that we offer to our clients: SACE can now insure loans in support of trade relations with countries and sectors of notable strategic interest.

Thanks to active risk management we also achieved greater portfolio diversification, enabling us to offer increased protection in ever more markets. The overall improvement of our capital structure was the result of a restructuring begun in prior years, and this, together with debt repayments by many emerging economies on the back of improved conditions, enabled us to return €3.5 billion of SACE's capital to the Shareholder in 2007.

In 2007 SACE won the "Oscar di Bilancio" (the Italian annual report award) for insurance companies – a tangible reward for the financial communication strategy we have adopted in recent years, leveraging on accounting transparency, completeness of information, user-friendly reports and accounts.

The Group's results are mainly due to the expansion of its market business: in just three years since its launch, this area now generates one-third of consolidated premiums. Our plans for further growth will concentrate on strengthening our distribution network, extending our offering (including entry to new market segments) and business development outside Italy.

In 2007 the Group entered the credit insurance market in central-eastern Europe by acquiring the Czech market leader. In the coming years we will continue to expand our international presence through acquisitions and partnerships in countries with high growth potential and strong trade relations with Europe, since we are aware that our enterprises' competitive challenges will increasingly involve an orientation towards emerging markets.

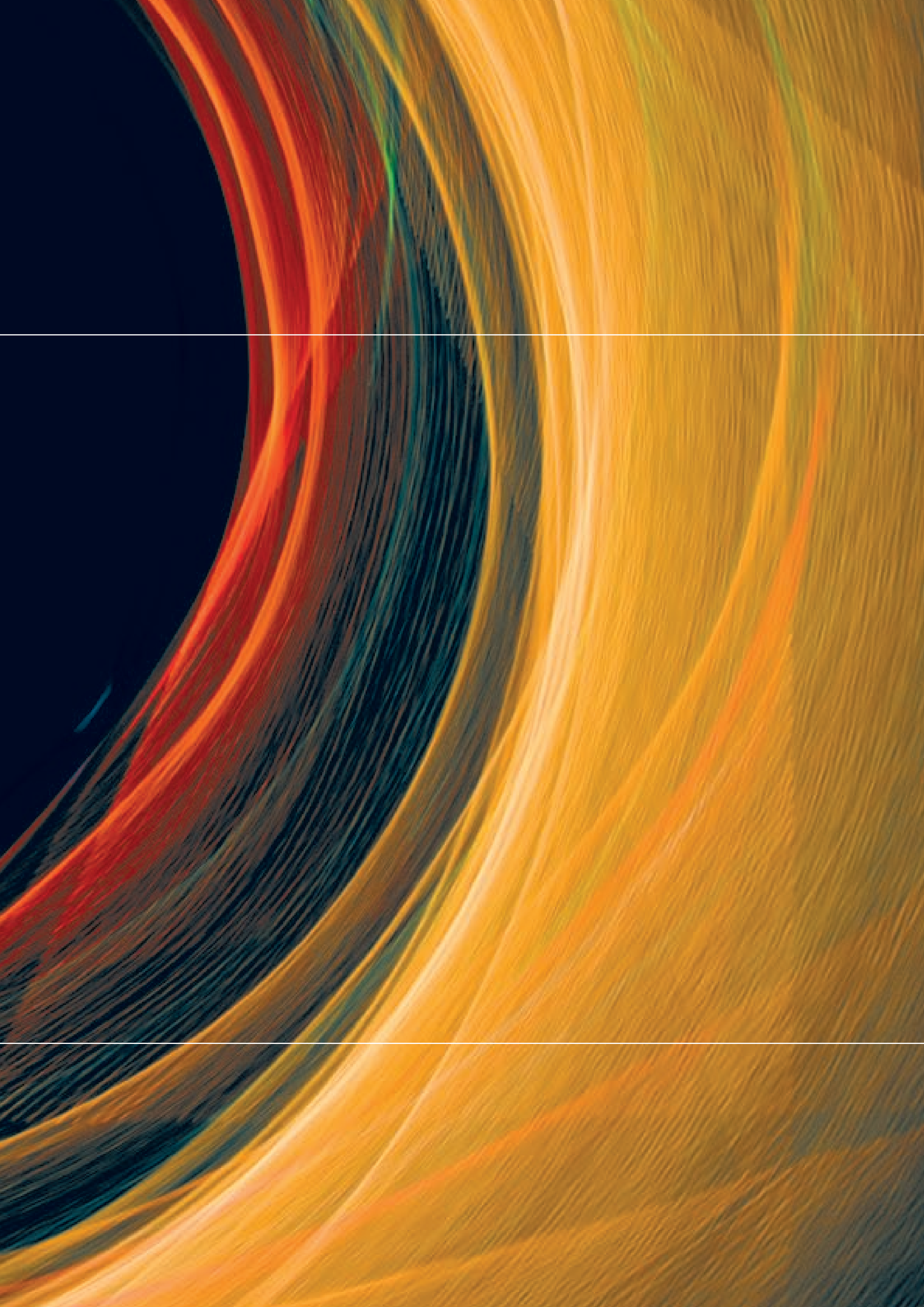
We believe that our strategy and our business should be guided by principles of responsibility, as this is indispensable if we are to enjoy sustainable growth. This is why the Group has a long-standing aim of promoting a corporate culture based on ethically and socially responsible behaviour and values shared by all stakeholders, especially our staff. These principles will form the basis of the effort to achieve our ambitious growth targets. The success of the Group's business is measured according to its clients' satisfaction; to them we give thanks for having rewarded us with their custom.

ALESSANDRO CASTELLANO
CEO

CONTENTS

THE MACROECONOMIC PICTURE

OUR EXPERIENCE
AT YOUR SERVICE



THE GLOBAL ECONOMY AND FINANCIAL MARKETS IN 2007

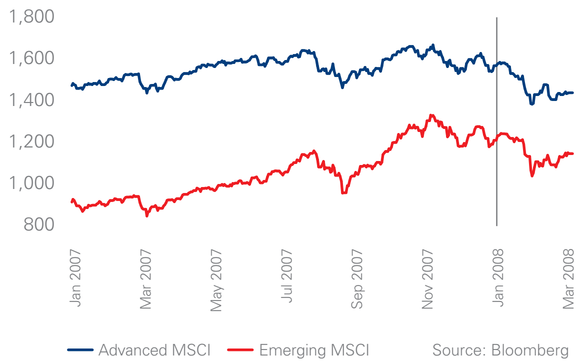
CREDIT RISKS DETERIORATE

In 2007 there was a marked worsening of credit risks together with a notable increase in the markets' volatility and uncertainty. The anticipated stock market correction began at the end of July due to an increase in US sub-prime mortgage delinquencies. This caused accelerating problems for the major finance houses given their exposure to structured financial products with these assets as collaterals.

Despite numerous attempts by the monetary authorities to restore investor confidence, interbank interest rates increased to record levels, which made access to liquidity difficult for some financial firms. World stock markets were affected, to a greater extent in the advanced economies, but latterly also in emerging countries. The main share indexes initially fell, then partly recovered until the beginning of November only to close the year down overall due to continuing intense uncertainty as to the size and distribution of losses in the global financial system. This caused an intensification of market players' risk aversion and they turned towards instruments with a lower risk/return profile.

The credit markets were the most severely affected. The crisis caused considerable repricing, seen in the widening of Credit Default Swap spreads. A sharp increase in the cost of credit risk protection in the advanced economies was reflected in the iTRAXX indexes in Europe and CDX in North America.

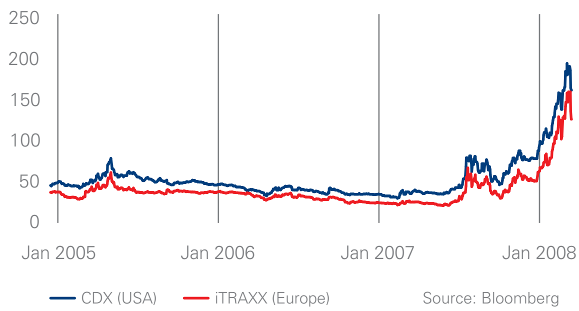
Stock market performances



These indexes, which include the 125 most liquid investment-grade companies, reached historically high levels at end 2007. In the early months of 2008, there was a further marked deterioration as spreads doubled compared to end 2007.

Due to the worsening of the economic climate and higher borrowing costs, global non-performing corporate debt was 11.5% of total debt at end 2007, a sharp increase over the 2006 figure of 4.2%. Higher non-performing loans did not however result in an increase in insolvencies in 2007 (but will take effect mainly in 2008).

Credit risk premiums for the major European and North American companies (in basis points)



At end 2007 the insolvency rate among companies with speculative ratings was 0.9%, an extremely low level not seen since 1981.

ECONOMIC GROWTH CONTINUES AT HIGH RATES ESPECIALLY IN EMERGING MARKETS

Global economic activity remained solid in 2007, despite deteriorating conditions in the financial markets in the second half of the year. World GDP in real terms and at purchasing power parity recorded growth of 5%, one of the highest rates in recent decades. Growth was strong in emerging economies, but slowed somewhat in advanced economies due to the cooling of the US economic cycle. In 2007 foreign direct investment also grew and passed the record level of $1.5 trillion, an increase of 18% over 2006. These capital inflows concerned both high-income and emerging countries, which now account for about one-third of global FDI.

In the US economic growth slowed and fell below its potential growth rate. Investment by companies – driven by a fall in the construction component – and an inventory reduction had an adverse effect on growth, while household consumption remained robust and net export demand made a positive contribution. The sharp fall in the dollar exchange rate supported exports and cooled imports to the US.

Exports were also an important factor in Japan's economic performance, where GDP grew by 2%

SACE guaranteed a €4 million loan to the Tecnica Group to finance the investment in a single distribution centre for its ski-boots in Hungary. Tecnica - with turnover of over €400 million and a portfolio of internationally established brands such as Tecnica, Nordica, Dolomite, Blizzard and Lowa - is world leader in the production and distribution of skiing equipment.

In Hungary with the **TECNICA GROUP**

in line with the favourable result achieved in 2006. Though slightly down on 2006, eurozone GDP growth was significant at 2.5%, due both to increased domestic demand and the contribution of net exports. Germany reported an excellent result thanks to the energy of its exporters who also increase domestic demand for machinery and equipment. By contrast, growth in France was mainly driven by consumption and investment, while export demand made a negative contribution.

Emerging and developing countries, which generate about half of global growth, recorded a GDP increase of a little over 8% in real terms. The marked growth of these economies was once more driven by Asian countries, especially China and India. This growth was not without inflationary pressure, which central banks began to combat through various restrictive measures. The countries of the Gulf Cooperation Council, whose currencies are tied to the dollar, were also affected by inflation since the weak dollar caused import prices to rise. These countries' economies continued to benefit from high oil prices and launched some large infrastructure investment plans. In the other emerging areas GDP grew faster than 5% - with even better outturns, besides Asia, in the CIS countries, too. This growth caused a sharp rise of 12.5% in emerging economies' demand for goods and services, which made up for the slowdown in total demand in the advanced economies.

SACE guaranteed Pirelli Tyre's obligations under multiyear exclusive supply contracts for international sporting competitions. Pirelli Tyre is the fifth-largest tyre producer in the world in terms of turnover in the tyre markets. It is a multinational with 24 production units and five R&D centres, in 12 different countries, and a sales network that covers more than 160 countries. Taking part in these events renews - one hundred years since the Beijing-Paris victory - an historic commitment to sporting competition, which has come to put Pirelli in the role of leader in the *high performance* segment.

THE ITALIAN ECONOMIC PERFORMANCE

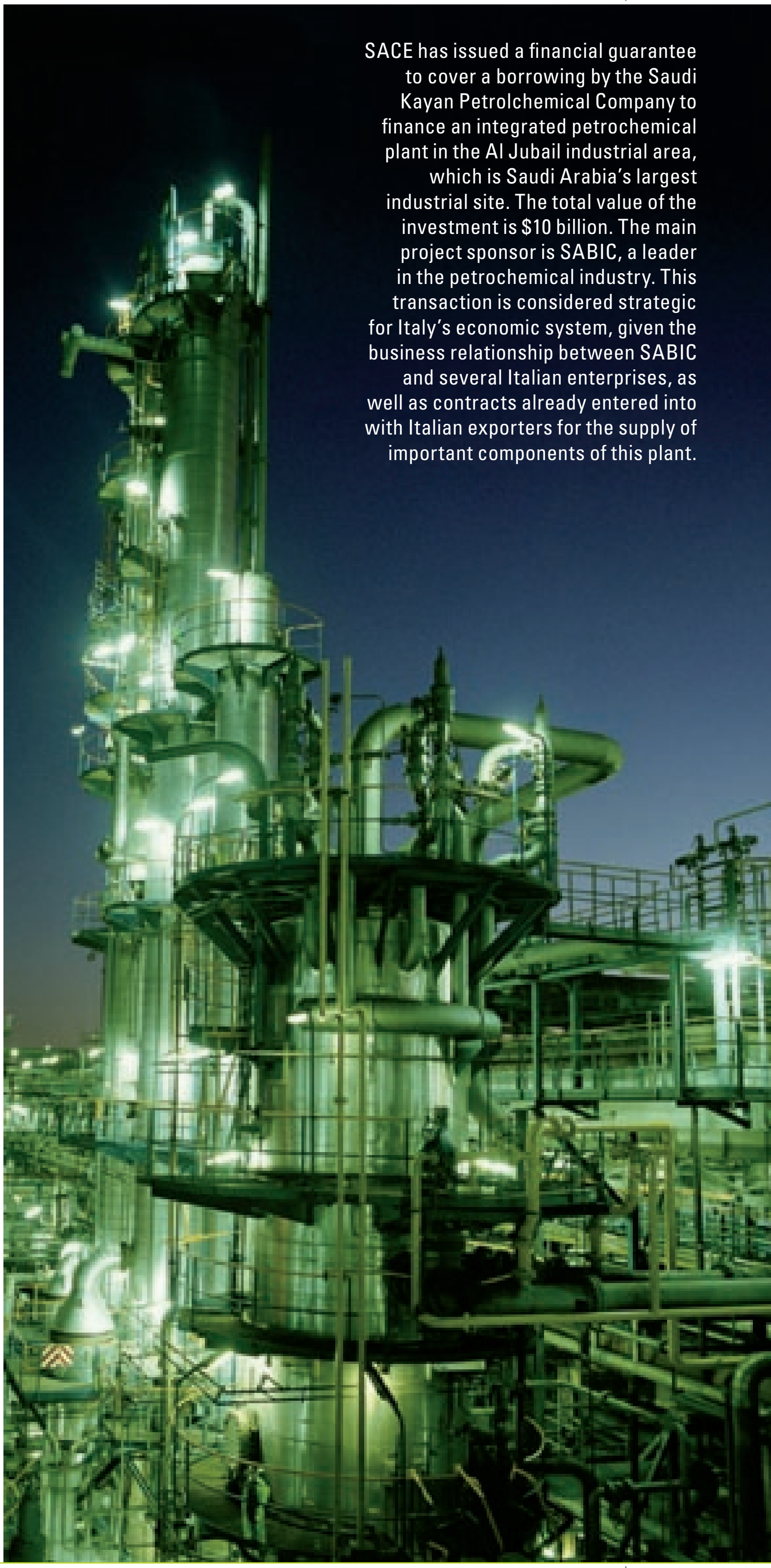
AFTER A BRILLIANT START TO THE YEAR, ITALY HAS SEEN A RETURN TO SLACK INDUSTRIAL ACTIVITY

The Italian economy grew by 1.5% in 2007 and thus lagged behind the other larger eurozone economies once more. Despite a good performance, there was a sharp slowdown in industrial production in the closing months of 2007 and thus the year's total growth in output was close to zero. The number of sectors that recorded a fall in production in 2007 equalled those that expanded. Among the former footwear, electronics and electrical engineering and wood products had an especially poor year. These sectors also saw an increase in insolvency rates in the second half of the year.

Domestic demand sustained economic growth in 2007. Households' consumption boosted GDP, though it gradually tapered off.

Fixed investment by enterprises on the other hand made only a modest contribution to increased demand, growth being half that of the previous year. Reduced capital accumulation affected almost all sectors and most acutely machinery and equipment and transportation, and somewhat less intangibles.

Against the trend investment in construction grew by 2.2%, the faster expansion here contributing to more than a tenth of GDP growth. Exports of goods and services recorded a notable improvement, which was partly due to quality improvements in the products sold abroad.



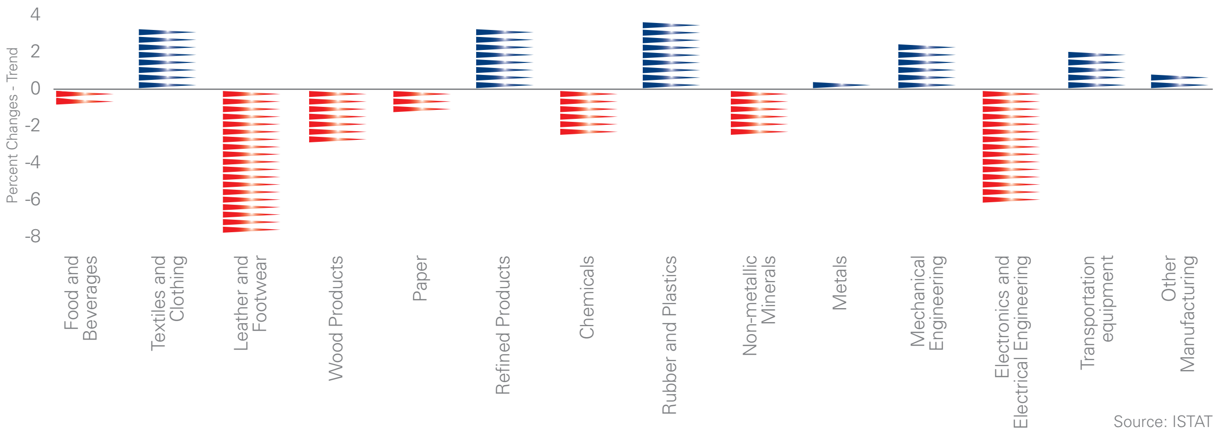
SACE has issued a financial guarantee to cover a borrowing by the Saudi Kayan Petrolchemical Company to finance an integrated petrochemical plant in the Al Jubail industrial area, which is Saudi Arabia's largest industrial site. The total value of the investment is $10 billion. The main project sponsor is SABIC, a leader in the petrochemical industry. This transaction is considered strategic for Italy's economic system, given the business relationship between SABIC and several Italian enterprises, as well as contracts already entered into with Italian exporters for the supply of important components of this plant.

SACE guaranteed a €10 million loan granted to Stefanel to finance the development of a network of shops both directly managed and franchised, for advertising campaigns and the brand, with the aim of increasing market penetration in Europe and Asia. Founded in Ponte di Piave (Treviso Province) in 1959, Stefanel is one of Italy's most important producers and distributors of clothing.

In Europe and Asia with **STEFANEL**

Italy's exports did well in both advanced and emerging markets. Our aggregate market share rose slightly. In emerging markets our exporters successfully intercepted the strong demand coming from fast-growing economies. Exports to Russia and the OPEC countries increased by more than 20% year on year.

The uneven performance of Italian manufacturing in 2007



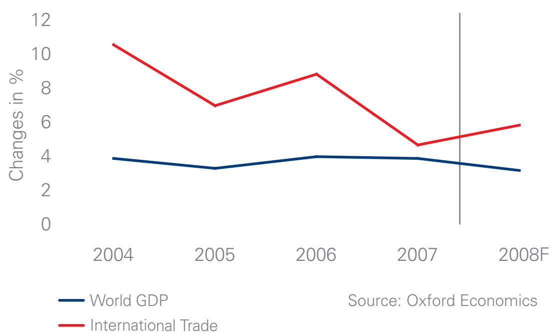
Source: ISTAT

2008 OUTLOOK

GROWTH WILL SLOW DUE TO CONTINUING UNCERTAINTY IN THE MARKETS

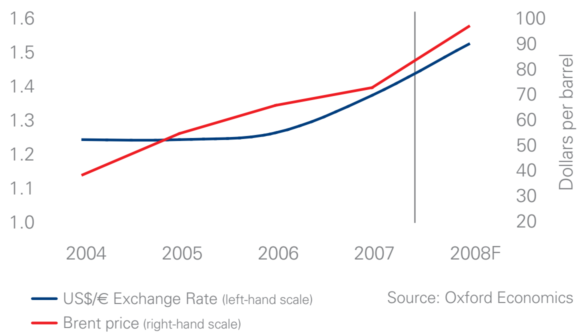
The turmoil that marked 2007 not only failed to subside in 2008, but spread to other segments of the markets than that of financial instruments backed by mortgages. Volatility affected the stock markets of emerging countries as well as certain sectors of the financial markets that till now were relatively sheltered, such as consumer credit and corporate bonds. The expectations for 2008 therefore point to marked volatility in the prices of financial instruments and continuing pressure on the credit markets. This situation is causing negative repercussions on the real economy, too – a significant impact on corporate insolvency rates. We estimate that growth in the US will be under 1.5% in 2008, which could have a knock-on effect in other areas of the world, despite the relative solidity of many emerging economies. Slower growth globally is matched by inflationary pressures due to rises in the international commodity prices, producer cost increases in emerging markets, strong growth of global liquidity and the weakness of the US dollar. In advanced markets investment in infrastructure and logistics, investment goods and non-financial services will continue to perform well, while lower-value-added products will suffer more from the global slowdown. Against this background Italy's growth is projected to go below 1%. Our forecast is that the worsening of international economic and financial conditions will have significant effects on industrial production in our domestic market and on exports especially sales to advanced markets. This impact will however be less felt on direct investment in and exports to the middle-income emerging economies including Russia, Turkey, South Africa, Romania, Bulgaria, Croatia and Argentina.

Forecasts for 2008: slower world growth and a slight recovery in international trade



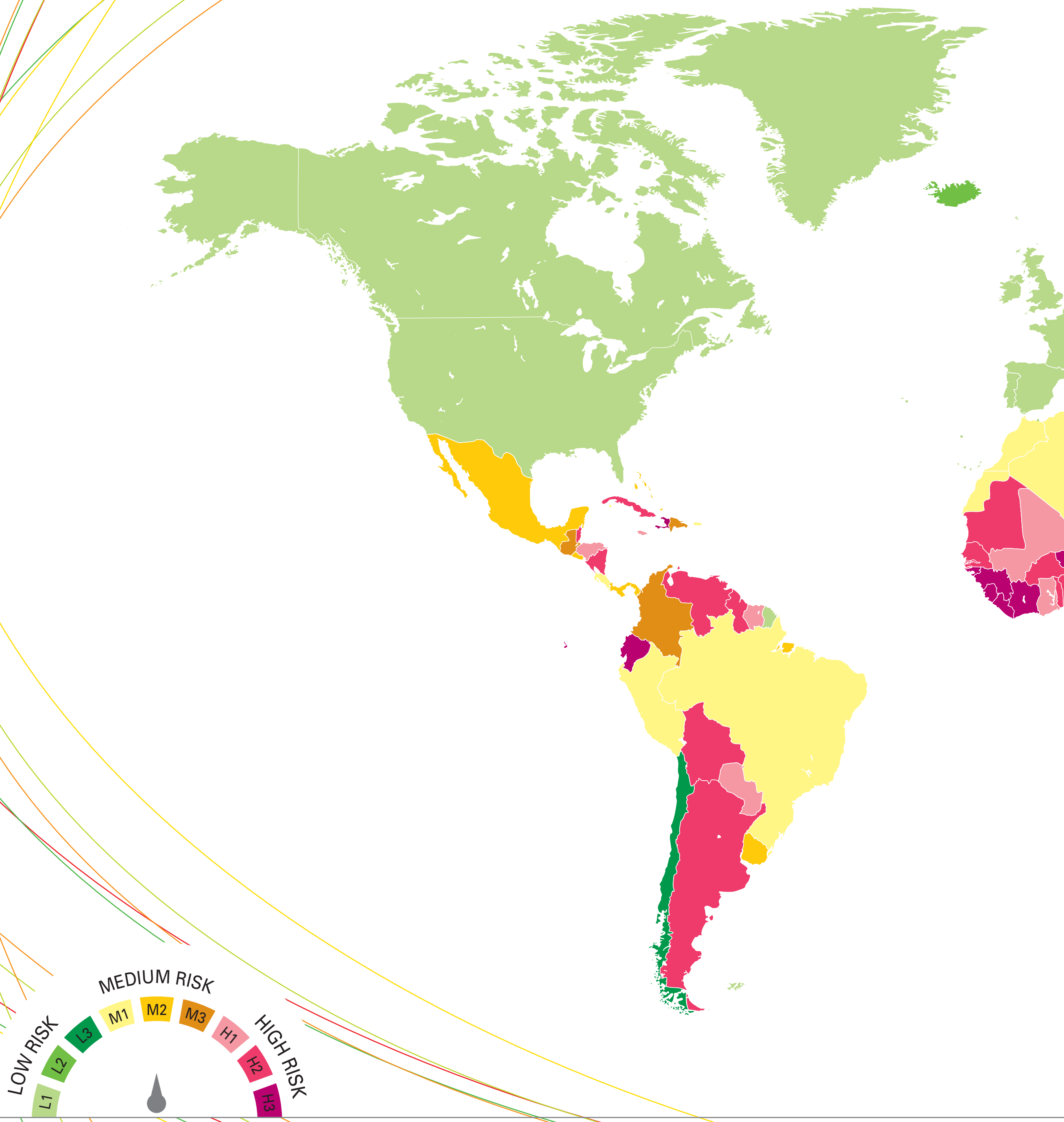
Source: Oxford Economics

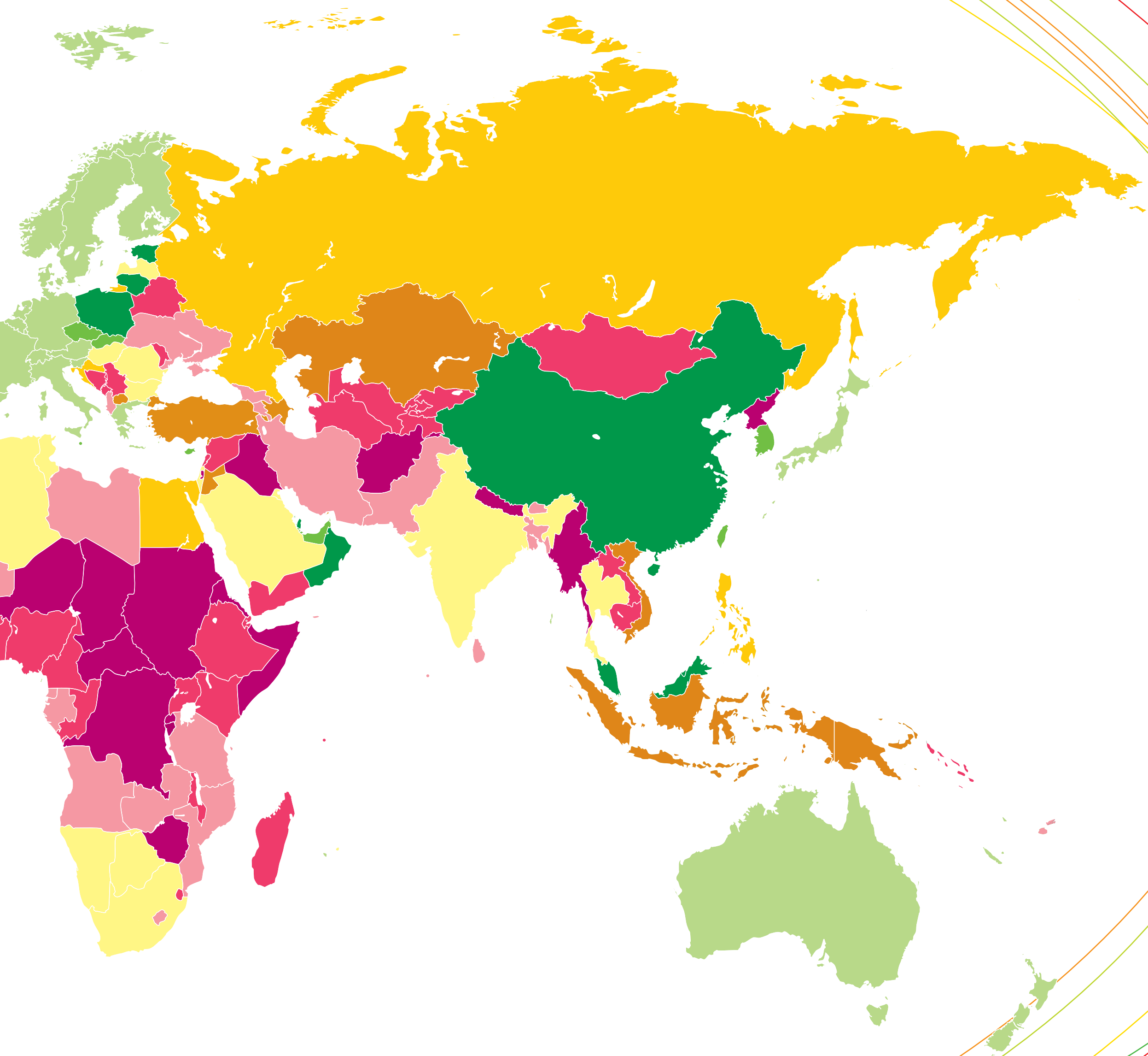
Forecasts for 2008: a falling dollar and rising oil prices



Source: Oxford Economics

RISK MAP





Update: May 2008

INDUSTRY FOCUS

OIL AND GAS: EVER-HIGHER PRICES

Oil demand continues to grow. In 2007 crude oil consumption reached 85.8 million barrels a day, one million more than in 2006. The emerging markets' thirst for energy is the main factor underlying the increase in demand. The thirstiest markets are the Asian countries, increasingly followed by those of Latin America and Africa.

Thanks to investment in this industry, production is forecast to increase. The additional capacity is mainly due by production increases in non-OPEC countries. The search for new sources of supply has led – besides renewed interest in central Asia – to the discovery and exploitation of reserves in Sub-Saharan Africa, in countries such as Gabon, Equatorial Guinea and Angola.

Oil prices reached record levels. In recent months the oil prices passed the psychological threshold of $100 a barrel. The recent volatility of hydrocarbon prices is not only caused by the structure of demand and supply, but also by geopolitical tension in certain areas of the world.

The natural gas market follows the same trends as the oil market. There is growing interest in the construction of new gas pipelines

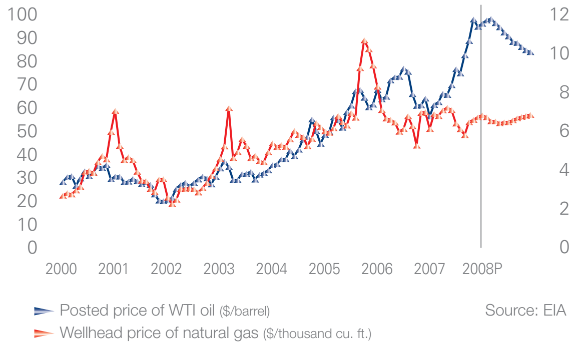
SACE guaranteed a loan to Reliance Petroleum in respect of an insured amount of $275 million for the construction in India of the sixth-largest refinery in the world, with a capacity of 580,000 barrels a day. The main shareholder in the project is Reliance Industries, India's leading industrial group. The project involves 36 Italian enterprises, most of which are small or medium in size. The refinery – whose production will mainly be exported to the US and Europe – is already under construction and will be completed by the end of 2008.

In India with **ITALIAN SMES**

to connect producers and consumers directly, but above all in the construction of LNG plant (liquefaction/regasification) which will enable producer countries that are geographically distant from consumer countries to increase their exports and penetrate markets formerly closed to them.

Italian industry benefited from the dynamism of this sector. In particular producers of oil industry machinery and plant saw their turnover increase by more than 10% in 2007, and about 80% came from exports. This trend is forecast to continue in 2008.

WTI oil and natural gas prices – actual and forecast



Source: EIA

INFRASTRUCTURE: A SECTOR DRIVEN BY THE EMERGING ECONOMIES

Advanced countries and emerging countries: diverging paths? The performance of infrastructure in 2007 reflects the different macroeconomic dynamics driving the trends in advanced and emerging economies, and similar differences look likely in 2008. The correlation between economic growth and the performance of the construction industry points to difficulties in the advanced countries and advantageous opportunities in emerging countries in the short and medium term.

Problems gather in the advanced countries. The subprime mortgage crisis and the difficulties experienced by the US economy in the second half of 2007 slowed growth in the advanced economies. The signs of weakness already evident in the early months of 2008 and a further predictable worsening of the macroeconomic situation during the year will impact adversely on demand for infrastructure in these countries, above all in residential and commercial construction; this vulnerability will be less evident in civil engineering. Construction companies will succeed in cushioning the adverse consequences of this slowdown to the extent that they have adopted an appropriate risk diversification strategy, both in business terms (by undertaking new lines of business alongside traditional construction, for example infrastructure concessions, energy, telecommunications and services) and in geographical location (reducing their involvement in advanced economies in favour of emerging countries).

In Pakistan and Morocco with **PIVATO**

Emerging countries drive the industry. Emerging countries in the Middle East, central and eastern Europe and Latin America again grew considerably in 2007, thanks to the favourable commodities cycle . Their huge liquidity due to good macroeconomic fundamentals and inflows of foreign capital was partly reinvested in infrastructure and construction, thus increasing the demand for construction services. The situation in the Middle East was emblematic: here the construction industry is expanding as never before, not least on the back of demand caused by high birth rates and mass immigration. The United Arab Emirates, Kuwait, Qatar and Bahrain have all undertaken enormous infrastructure projects in several segments of their economies (oil and gas, tourism, port infrastructure, and desalination plants). The geopolitical and operational risks that still persist in some of these areas should not however be underestimated, as also the adverse effects of the advanced economies' slowdown and local risks of an excess of supply causing dangerous property bubbles.

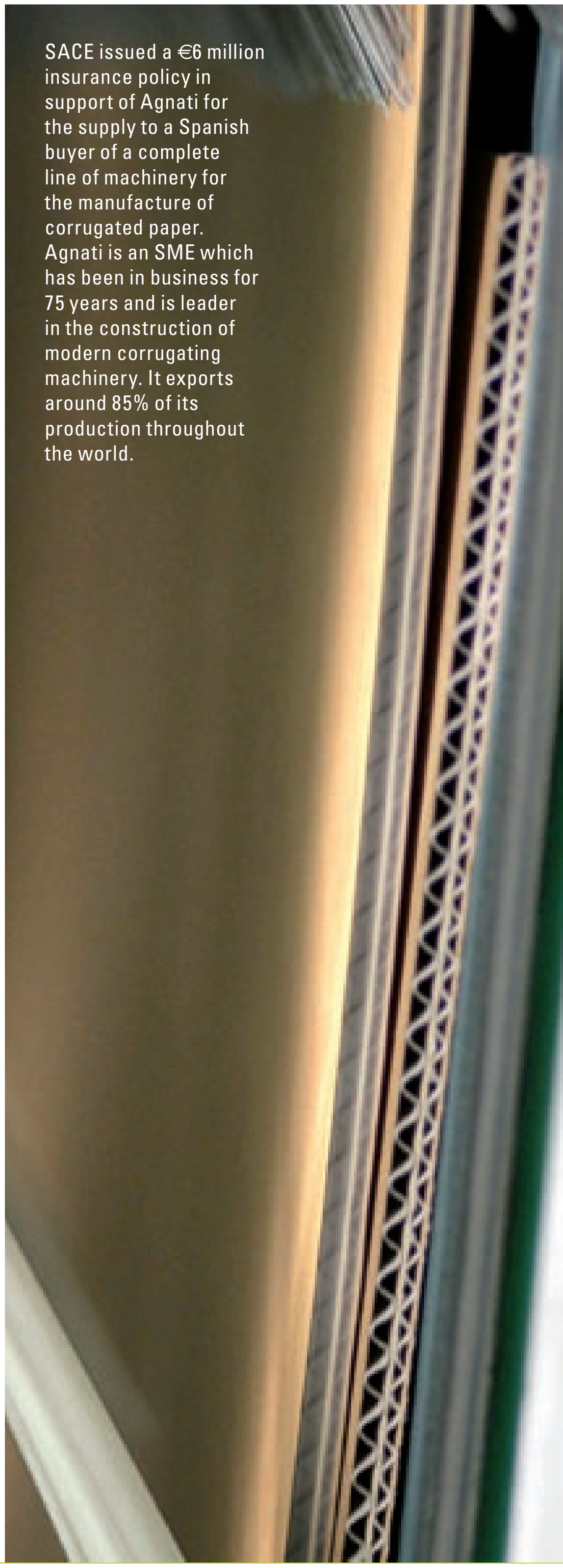
Italian enterprises continue to concentrate on niche areas. In 2007 the larger Italian construction companies increased the proportion of work carried out outside Italy. Their strategy tends not to focus on the advanced countries, which are already served by the giants of Europe and local companies, but on the contrary prefer the developing economies. The areas of the Maghreb (Algeria and Libya), the Middle East (the United Arab Emirates, Qatar and Kuwait), sub-Saharan Africa (Uganda), central and eastern Europe (Romania, Poland, Kazakhstan, Azerbaijan and Armenia) and South America (Venezuela, Argentina, Brazil and Panama) gave Italian companies excellent opportunities in 2007 and are potentially strategic markets for the next two years as well.

MECHANICAL ENGINEERING: MODERATE GROWTH

Output increased again in 2007. In the wake for five years' steady growth, in 2007 world output in the mechanical engineering industry increased by about 8% over 2006 reaching total turnover of €8.5 trillion. Western Europe accounts for 40% of total output - Germany, Italy, France and the UK are all among the top ten in the world - and counts some of the main producers in the industry, followed by Asia and the US.

Demand sees moderate growth. Heavy investment in the energy sector, construction and infrastructure in general, raised demand for mechanical engineering goods, which soared in recent years especially in Asia (+40% in the last five years) and increased rather less rapidly in Western Europe and the Middle East (both +10%). Starting in 2006, however, world demand began to decelerate somewhat, reaching more moderate growth rates after the boom of the preceding years.

Demand profiles for mechanical engineering will be variable according to the sector of origin for the next few years. Construction and manufacturing (and related sectors such as agricultural machinery and industrial plant and equipment) are more exposed to the global slowdown, and thus more cautious in the purchase of machinery and equipment.
Demand from the hydrocarbons industry (extraction, processing and distribution) and power equipment is forecast to be stable, thanks to high energy commodity prices.



SACE issued a €6 million insurance policy in support of Agnati for the supply to a Spanish buyer of a complete line of machinery for the manufacture of corrugated paper. Agnati is an SME which has been in business for 75 years and is leader in the construction of modern corrugating machinery. It exports around 85% of its production throughout the world.

In Spain with **AGNATI**

Italian companies benefited from the favourable performance. In 2007 Italian mechanical engineering exports grew by 13%, assisted by heavy demand from the regions of the Middle East, central and eastern Europe and North Africa.

STEEL: THE INCREASING ROLE OF THE CHINESE MARKET

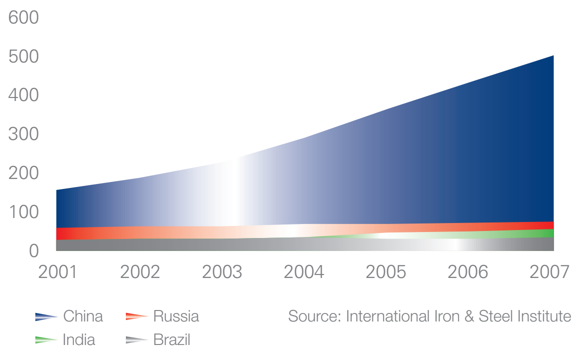
The first signs of a slowdown are beginning to show. 2007 was the sixth consecutive year of strong demand and supply growth in the steel market as raw material prices soared. The outlook for 2008 is less dazzling due to uncertain international growth prospects and the increase in raw material prices. In this context industries that are close to their supply sources and are selling into dynamic markets will be favoured.

Raw material prices have soared. The first contract of 2008 to supply iron ore used in steel production, entered into by the Brazilian mining giant Vale and the Asian Nippon Steel and POSCO marked an increase of more than 50% over 2007 prices. This is the consequence of limited supply due to infrastructure problems and export restrictions. Supply is also concentrated: the three main players – BHP Billiton, Rio Tinto and Vale – have a combined market share of 70%. BHP Billiton's offer to buy Rio Tinto, should it materialise, would further reinforce this trend. Considering also the rise in coal prices, and transport and energy costs, steel producers more distant from supply sources will undergo margin compression.

World steel output accelerates thanks to the emerging countries. Crude steel production continues to grow at a fast rate, although the 2007 increase of 7.5% was slightly down from the 2006 figure. Excluding China, which accounts for 34% of world output, growth in the other areas of the world was less dynamic - a more modest 3.3%, due to stagnating business in the US and Europe. The latest news is that production is falling in China as well, an effect of the restrictive measures introduced by the Government, which will also help to put a brake on exports, which *inter alia* were the subject of numerous disputes within the WTO.

Consumption also grows, but more slowly. Emerging markets also have a leading role in demand for steel: in 2007 half of world steel output was absorbed by BRIC (Brazil, Russia,

Crude steel production (millions of tons)

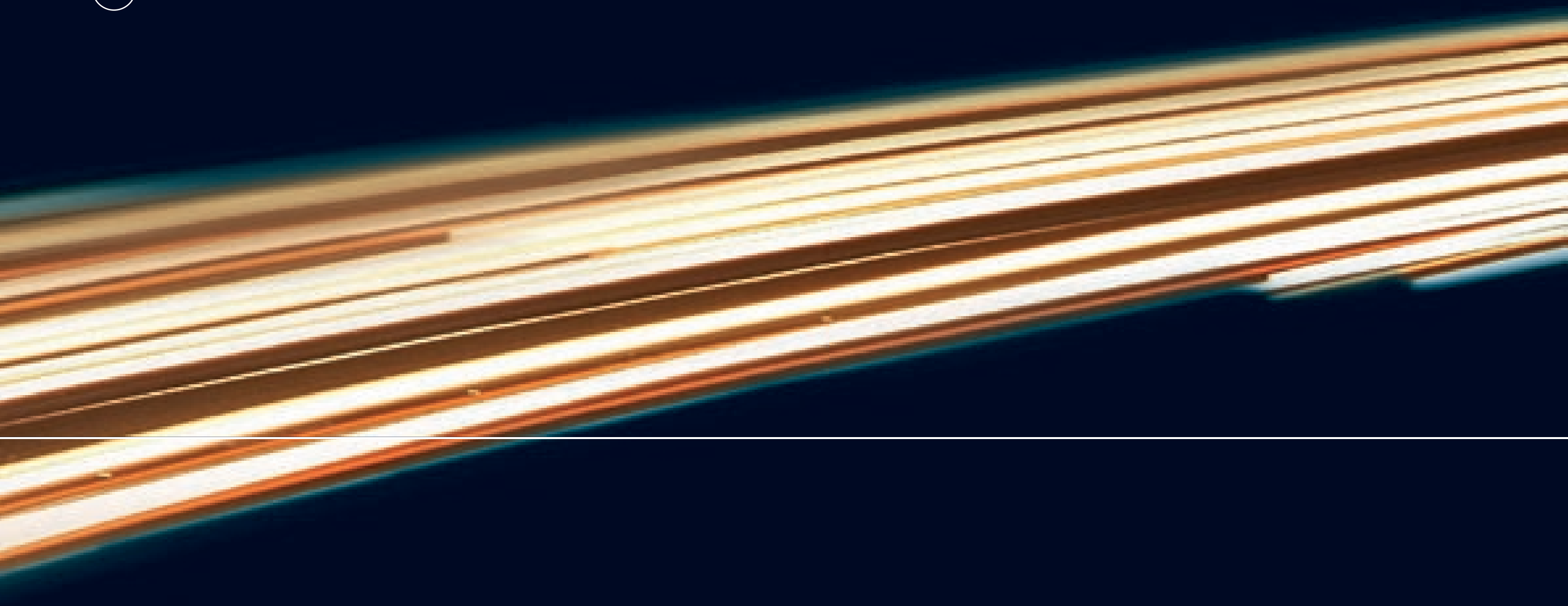


Source: International Iron & Steel Institute

India and China). The Middle Eastern countries have also increased their consumption in response to the intense activity in construction and infrastructure projects.

Italy retains its leading role in this sector. Among the main steel producers Italy is tenth, second in Europe after Germany. Metal and metal products export figures confirm this trend. In 2007 they recorded an excellent performance, especially in emerging Europe and the Middle East. Italian companies are also competitive in the manufacture of plant and machinery for steel processing.

In Ukraine with **DANIELI**



WE PROVIDE VALUE

PRODUCTS AND SERVICES

CREDIT INSURANCE & SURETY

By means a transaction that was unique of its kind, SACE BT insured Italtel's deferred-payment exports to foreign buyers in an amount in excess of €100 million. The Italtel Group is a market leader for the supply of value-added solutions in the telecommunications industry (fixed-line, mobile and internet). It employs 2,300 people in Italy, the UK, France, Germany, Belgium, Spain, Greece, Poland, Russia, the Middle East (United Arab Emirates and Saudi Arabia) and several countries in Latin America.

CREDIT INSURANCE

Credit insurance is an instrument that makes it possible to reduce or transfer insolvency risk and transform it into new development opportunities.

Under credit insurance an entrepreneur can cover:

- total or partial loss on credits, due to declared or undeclared insolvency on the part of the debtor (commercial risk);
- losses due to events of a political nature.

Credit insurance is very advantageous for the enterprise:

- support in the process of assessment and management of commercial credits;
- prior assessment of the customer's solvency;
- indemnity for loss whether due to political risk or commercial risk;
- debt recovery.

The **Multiexport Online** policy enables companies that carry out repeated transactions with one or more foreign customers, to insure exports of goods and services with deferred payments of up to 12 months, against commercial risk or political and commercial risks combined. This policy can be taken out simply by filling in a proposal form online and the exporter can insure exports to single buyer or selected buyers.

The **Whole Turnover** policy is a flexible instrument designed to satisfy the needs of Italian companies wishing to insure turnover with deferred payment of up to 12 months the buyers being both Italian and foreign. The policy provides combined cover against both political and commercial risk or isolated cover of commercial risk. This policy provides inclusive cover, under the principle of limited inclusivity on the basis of limits on each risk category, within which the buyers may not be selected.

The **Whole Turnover Contractor** policy is for large industrial groups or banks. The former may insure the turnover of all their group companies on special terms and conditions that meet the needs of the individual company as well as those of the group. Banks are enabled to broaden the range of services provided to their customers, thus increasing their loyalty, by managing and monitoring the policy. In addition, the possibility of obtaining assignment of the policy rights enables the banks to enjoy further credit risk protection.

SURETY

SACE Group's **Surety Bonds** enable firms and private individuals to ensure due performance of their contractual or legal obligations without freezing funds, impacting their liquidity management or using up their credit facilities.

The Group's offering includes policies guaranteeing:

- bid and performance bonds;
- legal obligations;
- protection for buyers of new property.

Contractual guarantees **for the performance of works** make it possible to bid for civil works, supply, services and maintenance contracts, by guaranteeing to the principal the winning contractor's undertaking to enter into the contract and perform all its obligations under the contract. **Building concession** guarantees of performance of all urban infrastructure obligations, whether in terms of carrying out the works or paying concession dues, are included in this group of guarantees.

Guarantees of **legal obligations**, including payment of tax and customs duty, originate in a regulation which usually requires compliance in order to enable the main obligor to use certain services or concessions.

Guarantees offering **protection for buyers of new property** (under Law 210/04) make it possible to manage the characteristic risks of a building project and protect all involved parties. They take the form of a controlled insurance plan made up of a rational, coordianted, synergic and modular series of insurance policies.

The SACE Group's offering includes **guarantees** of exporters' contractual or legal obligations when supplying goods, services, or performing works or job orders abroad.

CONSTRUCTION RISK

The SACE Group insures risks associated with the construction of plant and civil works. This enables construction companies to take part in tenders in compliance with current legislation, whether in Italy or abroad.

SACE issued surety bonds totalling €1.5 million in the interest of Pama for the supply of boring and milling machines to Chinese buyers. Founded in 1926, Pama is known throughout the world as a quality name in the field of boring and milling machines for large mechanical components to be used by advanced high-tech industries, including shipbuilding, aerospace, energy, mechanical engineering and machine tool manufacturing.

In China with **PAMA**

The **CAR** (contractors' all risks) policy insures the company against material and direct damage to the works during construction or to pre-existing structures, including damage caused involuntarily to third parties (death or injury).

The **EAR** (equipment all risks) policy insures against all risks arising from the construction and installation of machinery, plant and steel structures. Cover extends to inspections, tests and post-delivery damage during the guarantee or maintenance periods.

The **Ten-Year Post-Completion** Policy covers the policyholder and third parties against material direct damage caused by collapse, falls or serious structural defects in the building for ten years after the completion of the building work.

LIFE INSURANCE

The Group offers simple, economical and non-linked life insurance policies, which can be taken out by individuals or by companies. The offering includes temporary cover against death, disability and serious illness.

EXPORT CREDIT

The SACE Group offers a wide range of export credit insurance products contributing to Italian companies' competitiveness in international markets.

The **Basic** policy insures Italian companies against non-payment by a single foreign buyer for export contracts of up to €250,000 with deferred payment of up to 24 months towards non-OECD countries. Basic policy involves no front-end fee and requires fewer administrative formalities during the life of the policy as well as offering the option to amend the commercial contract within preset limits. This policy may also be endorsed to a financial institution for the purpose of discounting the underlying credit without recourse (forfaiting).

The **Supplier Credit** policy insures Italian exporters' exports with payment deferral of over 12 months, against the risks of non-payment due to political or commercial events. Additionally the policy's benefits can be transferred to a financial institution for the purpose of discounting the underlying credit without recourse (forfaiting), once SACE insurance cover of the credit risk has been obtained. The Supplier Credit policy can also cover contract cancellation, unfair calling of guarantees and destruction or sequestration of exported goods.

The **Plus One** policy, available only online, covers up to 100% of the risk of non-payment due to debtor insolvency for export credits with

SACE guaranteed a $26.3 million loan relating to the purchase of three AugustaWestland AW139 helicopters by the Synergy Group, which operates in South America in the aerospace, energy and marine sectors. These new-generation helicopters will be used to carry passengers to the off-shore platforms Petrobras, Brazil's giant oil & gas concern. For SACE this was the first instance of providing direct support for the sale of helicopters for commercial use manufactured by AugustaWestland, which belongs to the Finmeccanica Group and leads the world rankings of helicopter manufacturers.

In South America with **AGUSTAWESTLAND** payment deferral of over 12 months up to five years, and additionally permits without-recourse discounting (forfaiting).

The **Civil Works** policy insures construction companies or plant engineers involved in civil works or turnkey projects requiring stage payments or 'milestones', against risks due to political or commercial events occurring during the works or the payment period. 'Civil Works policy' covers the risks of non-payment, non-recovery of production cost, unfair calling of guarantees and destruction, damage or sequestration of temporarily exported goods, up to a limit set by the enterprise on the basis of its independent assessment of project cash flow.

The **Buyer Credit** policy enables a bank to insure itself against credit risk on foreign debtors under export contracts for goods and services or civil works abroad entered into by Italian enterprises or their foreign subsidiaries. SACE covers political and commercial risk, i.e., the risk that the foreign debtor fails to repay the loan granted by the bank as per the terms of the loan agreement. SACE also guarantees loans to finance cash payments already made by the debtor or to refinance a bridge loan. This instrument is used for transactions where the borrower is sovereign, industrial or a bank and may also guarantee limited and non-recourse structured financings or project finance.

The **Documentary Credit Confirmation** policy insures Italian and foreign banks against non-reimbursement of documentary credits arising out of confirmations (whether open or silent confirmations or 'del credere') of letters of credit opened by a foreign bank established in a country other than that of the confirming bank, connected with the supply of goods and services or civil works carried out by Italian concerns.
Banks can obtain cover for documentary credits or similar engagements, online through **Credoc Online**. This policy enables banks to insure transactions with a repayment period of up to five years and a maximum amount of €5 million, by-passing the usual dossier opening stage and reducing the time and cost involved, given the existence of over 2,000 foreign banks that have already been approved for this facility.

Framework Agreements enable banks to insure letter of credit confirmations and buyer credits with a term of up to five years, involving pre-approved countries and within pre-agreed ceilings.

Banks insured under a Framework Agreement

- Intesa Sanpaolo
- Banca Monte dei Paschi di Siena
- Banca Nazionale del Lavoro
- Gruppo Banco Popolare
- Fortis Bank
- Banca Popolare dell'Emilia Romagna
- Unione Banche Italiane

INVESTMENT PROTECTION

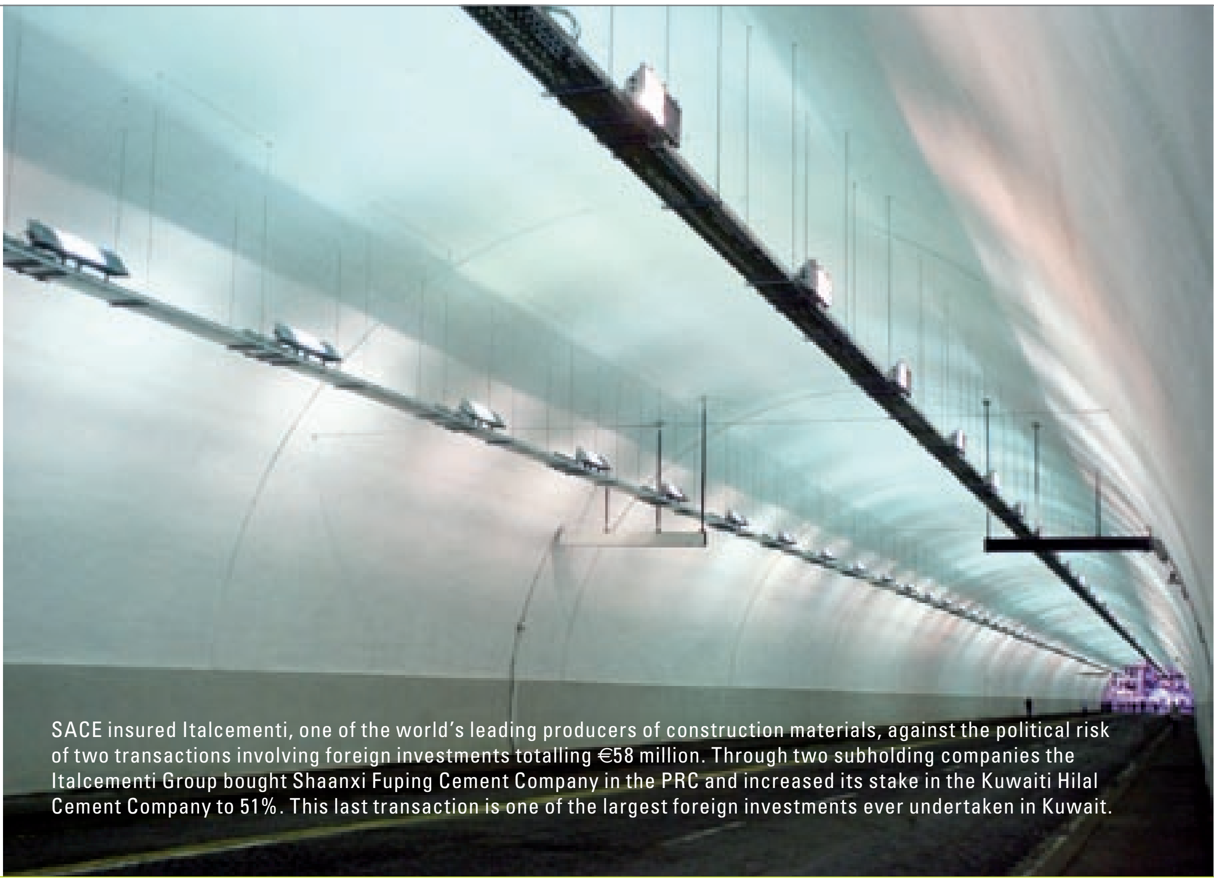
The **Investments** policy (Political Risk Insurance) protects investments made by Italian enterprises and banks in markets where there are political problems or an uncertain legal framework.

The policy enables enterprises investing abroad to concentrate on business risk and the development of their business by protecting them against political risk.

Additionally, for banks this cover has zero impact on their capital absorption and, thanks to freeing up their credit lines, means that there is greater room within their country limits.

An enterprise using this policy may prevent, limit or offset capital losses abroad, and also losses relating to default on shareholders' loans to the foreign company due to:

- war and civil disorders;
- currency restrictions;
- expropriation whether direct or indirect;
- breach of contract.



SACE insured Italcementi, one of the world's leading producers of construction materials, against the political risk of two transactions involving foreign investments totalling €58 million. Through two subholding companies the Italcementi Group bought Shaanxi Fuping Cement Company in the PRC and increased its stake in the Kuwaiti Hilal Cement Company to 51%. This last transaction is one of the largest foreign investments ever undertaken in Kuwait.

In China and Kuwait with **ITALCEMENTI**

FINANCIAL GUARANTEES

Alongside its traditional export credit guarantee business, SACE offers a wide range of financial guarantees which may be direct or in support of another party. SACE guarantees banks' loans or bond issues in support of exports or internationalisation undertaken by Italian enterprises or relating to transactions of strategic interest for the Italian economy.

EXPORT CREDIT GUARANTEES

SACE guarantees loans financing the purchase by foreign buyers of Italian goods and services in respect of up to 100% of the purchase amount, in compliance with OECD rules on export credits. Financial guarantees may be granted in connection with structured finance or project finance transactions.

SACE issued a financial guarantee covering 62.5% of an $80 million loan granted by Intesa Sanpaolo to the Pietro Barbaro Group, a company with a 150 year history in the international maritime business. The purpose of the transaction was the acquisition, in part accomplished, of a fleet of 11 tankers to be sued to transport petroleum products on the River Volga and the Caspian Sea. The loan was asset-based and supported by a SACE Investment Policy covering the insured against expropriation, war, civil disorder and money transfer restrictions.

In Russia with the **PIETRO BARBARO GROUP**

INVESTMENT AND PRE-SHIPMENT FINANCE GUARANTEES

SACE covers non-payment of loans made by banks to Italian enterprises, their foreign subsidiaries or associates, to cover foreign investment or working capital for the preparation of supplies to be exported or used in the execution of civil works abroad. The guarantee is issued at market conditions for a maximum of 80% of the loan.

Investments that are related to or connected with the internationalisation of Italian enterprises are eligible, including:

- acquisition of 100% or a stake in a foreign company, mergers, joint ventures and capital increases in foreign companies;
- construction of industrial establishments abroad, purchases of machinery, goods or equipment by Italian enterprises' foreign subsidiaries or associates.

INTERNATIONALISATION FINANCE GUARANTEES FOR SMEs

Under agreements with the principal Italian banking groups, SACE guarantees loans (for up to 70% of the loan amount) generally granted to SMEs and companies with maximum turnover of €250 million. Loans are eligible for guarantee if they finance direct or indirect investment in:

- joint ventures, acquisitions or partnerships in foreign countries;
- plant, machinery, licences, protection of brands and patents, and research and development;
- promotion, marketing and distribution abroad;
- increasing the competitiveness of the enterprise in international markets.

In 2007 new transactions were initiated in co-operation with UniCredit, Banca Monte dei Paschi di Siena, Banca Sella, Banca Popolare di Sondrio, Banca Monteparma, Banca Popolare Friuladria (Crédit Agricole), Banca del Piemonte e Unionfidi. Co-operation continues with Banca Popolare dell'Emilia Romagna and Banco Popolare and further transactions are currently being finalised with other leading Italian banking groups.

FINANCIAL GUARANTEES FOR TRANSACTIONS OF SIGNIFICANT NATIONAL INTEREST

Under the 2007 Finance Act, SACE may guarantee loans made by the banking system to Italian or foreign enterprises in relation to transactions of strategic interest for the Italian economic system, in terms of competitiveness, internationalisation, economic security and creating productive and employment processes within the country.

Accordingly SACE guarantees loans:

- to finance the procurement abroad of raw materials and semi-finished goods to be used for later export or to make Italian manufacturers' production processes more efficient;

- to finance infrastructure, including domestic infrastructure, which assists the internationalisation of the Italian economy, such as the infrastructure that is necessary to make foreign trade more efficient or enables rationalisation and diversification of the use of Italy's sources of energy (gas pipelines, oil pipelines, regassification plant, etc.);
- to support strategically important sectors in relation to the internationalisation of the Italian economic system, such as logistics, renewable energy, tourism and sectors of significant technological innovation.

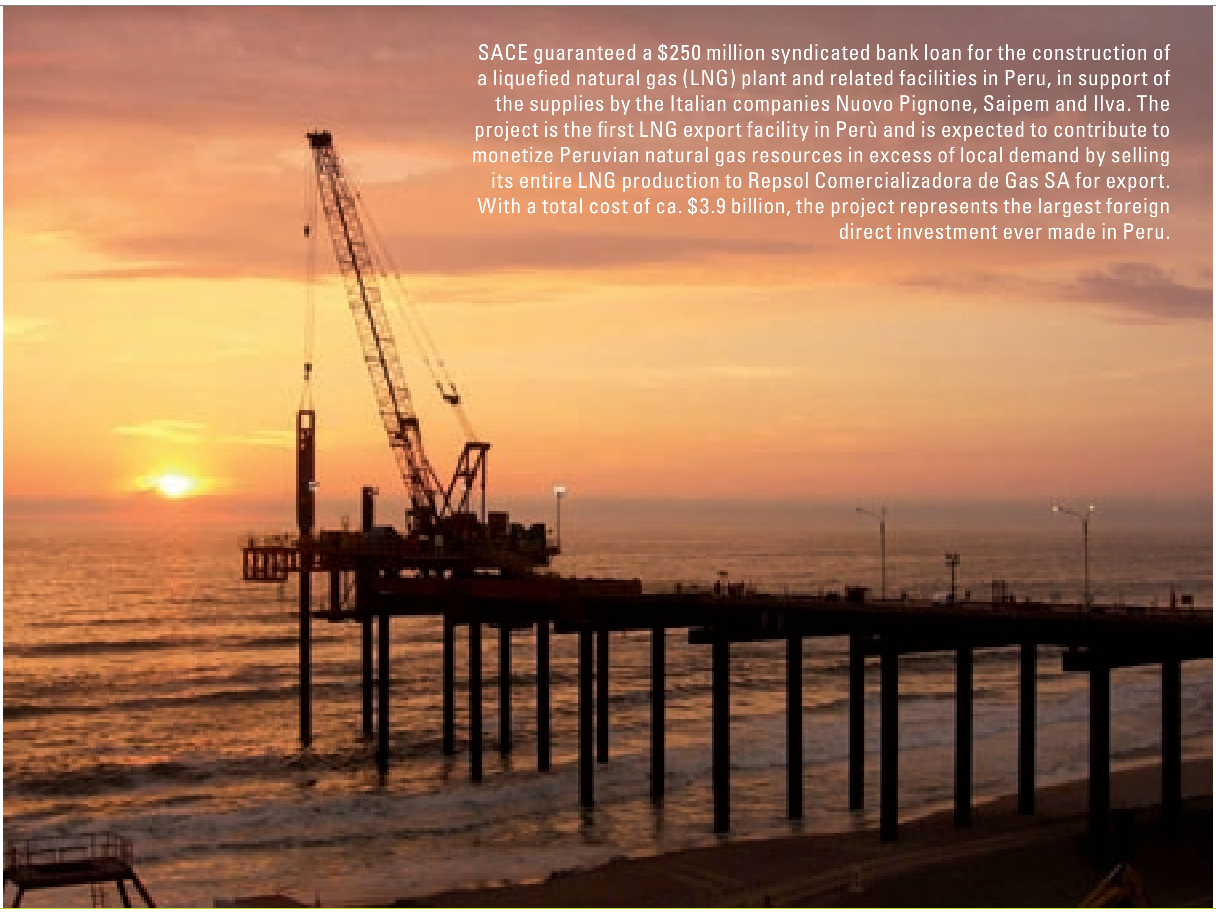
SACE guaranteed a €300,000 loan granted to I Pinco Pallino to finance investment in communication and advertising campaigns and taking part in the Pitti Bimbo international trade fair, with the aim of increasing promotion and market penetration in the UK, Germany, France and the Middle East. Founded in 1980, I Pinco Pallino is a leader in the children's luxury product sector, with a product range that includes clothing, footwear, bags and accessories.

PROJECT & STRUCTURED FINANCE

Project finance is typically used by sponsors that wish to develop 'off-balance-sheet' capital projects. SACE guarantees loans without recourse or with limited recourse to the promoters, whose commitment is generally limited to their portion of the equity that is one of the sources of finance for the investment project and to other possible forms of support, e.g., completion guarantees, stand-by equity, subordinated debt, technical and operational assistance and marketing support).

The scope of project finance is therefore limited to those projects that self-sustainable, i.e., able to generate cash flow sufficient to cover operating cost, repay the loan and provide adequate remuneration of the shareholders.

Structured finance is generally used to finance investments by enterprises whose balance sheet is not strong enough to support them without a package of additional security.
SACE has long-standing experience in multi-



SACE guaranteed a $250 million syndicated bank loan for the construction of a liquefied natural gas (LNG) plant and related facilities in Peru, in support of the supplies by the Italian companies Nuovo Pignone, Saipem and Ilva. The project is the first LNG export facility in Perù and is expected to contribute to monetize Peruvian natural gas resources in excess of local demand by selling its entire LNG production to Repsol Comercializadora de Gas SA for export. With a total cost of ca. $3.9 billion, the project represents the largest foreign direct investment ever made in Peru.

In Peru with **NUOVO PIGNONE, SAIPEM AND ILVA**

SACE guaranteed a €250 million portion of a loan made by Standard Chartered Bank to Sonangol to finance the purchase of capital goods for various petroleum-related projects in Angola. SACE's support of this loan reflects the will to further relationships between Italian enterprises and Sonangol, which is an important international oil company.

In Angola for **ITALIAN ENTERPRISES**

sourced projects and structured finance involving OTHER ECAs, commercial banks and international and local financial institutions. Since the mid-1990s SACE has built up a significant track record of transactions completed for capital projects with limited or zero recourse to the promoters. The annual average volume of new guarantees issued is around €1.5 billion. The range of sectors receiving this support has included oil and gas, petrochemicals, fertilisers, power, metallurgy and telecommunications.

Project and structured finance transactions are dealt with by a dedicated team of professionals with skills in various industrial sectors, who are involved in the project from the early stages of structuring the finance in order to accelerate the due diligence and negotiation process by providing efficient and timely support to the various parties involved.

ONLINE SERVICES

With the SACE Group's online services, companies have access to an increasingly wide range of services and insurance products covering credit risk. The application process is simplified, costs are lower and response times are shorter than when using traditional channels.

The **SACEBTonline** platform enables enterprises to open the information stage simply and quickly when applying for a Multiexport Online policy to be issued. They can also manage their Whole Turnover policy through all stages – record consultation, new applications and increasing or cancelling ceilings.

Using SACE's online platform **ExportPlus**, exporters and banks with foreign markets and counterparties can access a Preliminary Assessment service and apply for the Basic, Plus One and Credoc Online policies.

The **Preliminary Credit Assessment** service provides an indication as to the insurability of a transaction against political and commercial risk and as to the reliability of foreign buyers, as well as an estimated insurance premium. The service is of two types:

- Preliminary Credit Assessment – Banks, which offers insurance cover availability assessments where the borrower or guarantor is one of the 3000 banks monitored by SACE;
- Preliminary Credit Assessment – Corporates, which offers insurance cover availability assessments for foreign corporates, which enables the exporter to agree deferred payments with greater confidence.

ADVISORY AND PROFESSIONAL TRAINING

ADVISORY

SACE provides advisory services to Italian enterprises and their foreign subsidiaries to help them identify opportunities to grow in the international markets, also supporting them in negotiations. These advisory services aim to promote the development of new undertakings and investment opportunities in emerging countries with high growth potential and at the same time a high level of risk, by offering enterprises the opportunity to use special programmes such as the Africa and Balkans Programmes. When issuing guarantees to low-income countries, SACE also pays special attention to their delicate economic situation and indebtedness and acts in full compliance with the limits on sovereign debt imposed by the IMF and within the framework of sustainable lending negotiated within the OECD and other international forums.

Through its **Africa Programme** SACE has extended its operations to the sub-Saharan region to enable enterprises and banks to invest safely in a growth area which however is subject to high risk. The aim of the programme is to adopt and attitude of greater openness to keep pace with the social, political and economic progress made by individual countries, where they are able to take on foreign debt without causing excessive imbalances or macro-economic problems. Under this programme guarantees totalling

€284 million were issued in 2007. In 2008 a representative office is expected to be opened in Johannesburg.

Through its **Balkans Programme** SACE has boosted its operations in a strategic area for Italian interests, in terms of both trade and direct investment. The aim is to further spur the participation of Italian enterprises and banks and their subsidiaries in the economic development of Balkan countries, by mitigating the risk arising from any political stability that may eventuate. The Programme includes a €300 million facility for transactions carried out in this region.

SACE BUSINESS SCHOOL

The SACE Business School makes available its technical, financial and legal skills – acquired in over 30 years of operations – with the support of its Economics Department, the company's economic analysis and research centre.
The school offers **training programmes** aimed at businessmen involved in the internationalisation process: companies, banks, legal firms and accountants, and industrial and commercial associations. The main areas of training are assessment of credit risk in all its components, international legal and regulatory issues, and the study of insurance and financial instruments which enterprises may have recourse to, in their internationalisation process.
The SACE Business School also organises workshops for staff training and works with the main Italian universities in second-level master's degree courses.

The SACE Business School's courses also include **technical assistance** for emerging countries' ECAs. In 2007 the SACE Business School provided technical assistance to China Eximbank, the Russian bank Vnesheconombank and MEDR (Ministry of Economic Development and Trade of the Russian Federation). Two international workshops were also organised to compare the various approaches adopted by ECAs to credit recovery, international surety and commercial debt restructurings.

EVERY ACHIEVEMENT IS A NEW BEGINNING

RESULTS

RESULTS

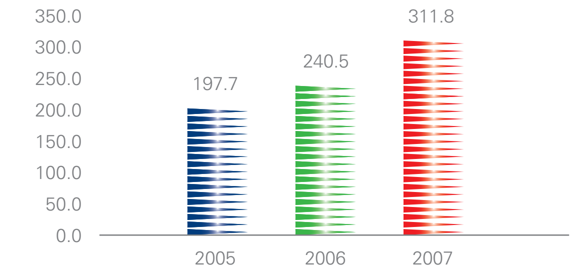
RESULTS FOR THE YEAR

In 2007 the Group recorded a net profit after tax of €377.3 million, an increase of 43.7% over 2006 net profit adjusted for tax components. This result was due to a significant improvement of the results of our core business, in line with the Group's business plan objectives.

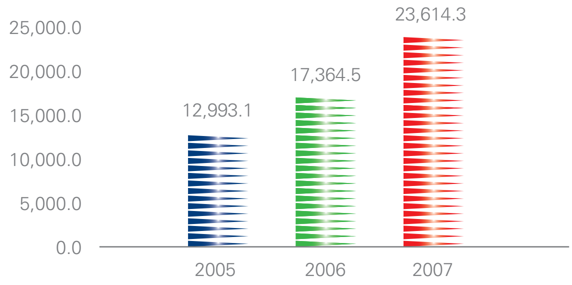
The Parent Company SACE closed 2007 with profit before tax of €507.2 million and net profit of €320.4 million.

SACE's subsidiaries achieved combined net profit of €2.3 million on consolidation, more than double the 2006 result. Specifically: following a change in the transfer method as prescribed in the reinsurance treaties which reduced its 2007 revenue by €1.7 million, SACE BT recorded a loss of €1.1 million; ASSEDILE achieved net profit of €1.1 million in line with the previous year, while SACE Servizi, which began operations on 1 October 2007, recorded a net profit of €0.4 million. The Czech company KUP, a joint venture as to 66% by SACE BT and Ducroire Delcredere, made a net loss of €1.3 million, mainly due to €3 million goodwill amortisation.

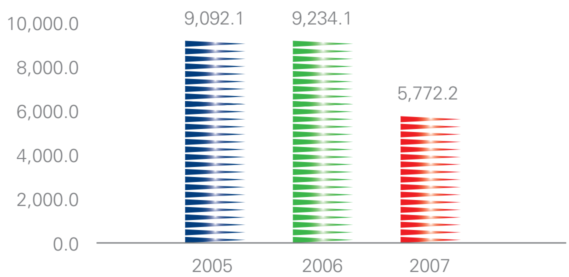
Gross written premiums (€ million)



Insurance business in the year (€ million)



Shareholder's equity (€ million)



SHAREHOLDER'S EQUITY AND TECHNICAL PROVISIONS

At 31 December 2007 shareholder's equity was €5.8 billion, a reduction of 37.5% from 2006 following return of €3.5 billion of the Parent Company's capital to the Shareholder in February 2007. Despite this capital reduction, Moody's confirmed its Aa2 rating of the Parent Company's creditworthiness with a stable outlook; this once again attests to its financial solidity.

Left to right: Tullio Ferrucci (General Director, Credit Insurance), Antoine Ninu (General Director, Surety), Roberto Taricco (Chief Financial Officer) and Raoul Ascari (Chief Operating Officer).

Technical provisions were €1,952.9 million, a fall of 2.4% from 2006.

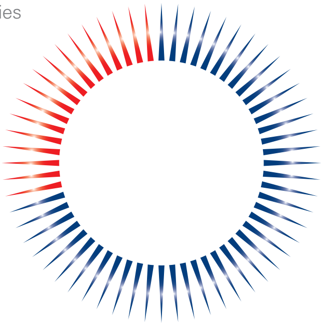
PREMIUMS

Consolidated gross written premiums were €311.8 million, an increase of 29.6% over 2006. Direct business premiums were €307.4 million, while indirect business premiums (i.e., on reinsurance underwritten) were €4.4 million. Of gross premiums from direct business 72.2% were written by SACE, the remaining 27.8% by subsidiaries.
Export credit products generated €171.3 million of the gross premiums, or 55.7% of direct business premiums, followed by surety (12.5%), credit insurance (9.7%), investment protection (8.5%), financial guarantees (5.7%), the other property damage (4.2%) and life insurance products (3.1%).

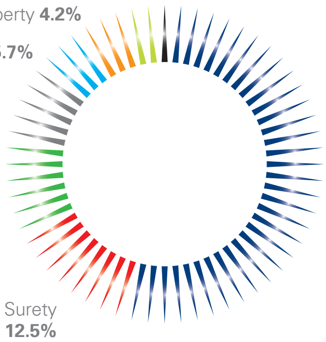
Gross premiums accounted for by the Parent Company were €225.2 million, of which €221.9 million were direct business and €3.3 million indirect business (reinsurance underwritten). Compared to 2006 there was an increase of 28.4%. The industrial sectors that contributed most to premiums generated in 2007 were metallurgy (24.2%), oil and gas (18.0%) and banks (13.1%).

Gross premiums contributed by the subsidiaries on consolidation were €86.6 million, an increase of 33.4% over 2006, in addition to which SACE Servizi contributed revenue of €1.7 million in its first three months of operation. The credit insurance business increased its direct business premiums by 68.8%, mainly due to an upgrading of the distribution network, which took place during 2007. The surety business increased its premiums by 28.6%, as did the other property damage business (+8.4%) and life business (+9.7%), whereas the general third-party liability business had lower premiums by 11.5%, in line with the more selective underwriting policy adopted in recent years.

Distribution of consolidated gross written premiums by Group company (direct business, 2007)



Distribution of consolidated gross written premiums by product (direct business, 2007)



INSURANCE BUSINESS VOLUME

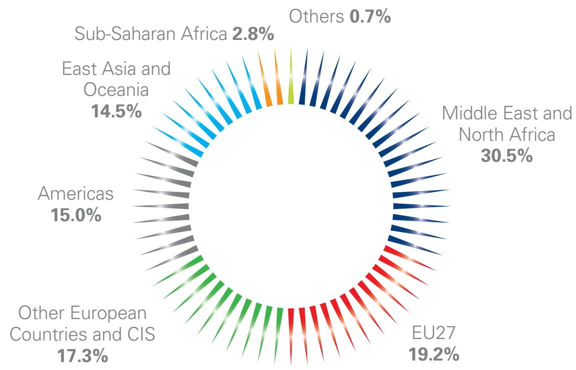
In 2007 the Group insured transactions for €23.6 billion*, an increase of 36.0% over 2006.

New guarantees issued by the Parent Company amounted to €10.1 billion, an increase of 22.5% over 2006.
These new commitments chiefly concerned the Middle East and North Africa (30.5%), the European Union (19.2%) and non-EU and CIS countries (17.3%).
The industrial sectors most involved were banks (16.5%), metallurgy (12.9%), the aviation and marine (12.9%) and oil and gas (11.5%).
Distribution by product showed a high proportion of Buyer Credit policies (43.9%), followed by Investment Protection (16.5%) and financial guarantees (14.9%).

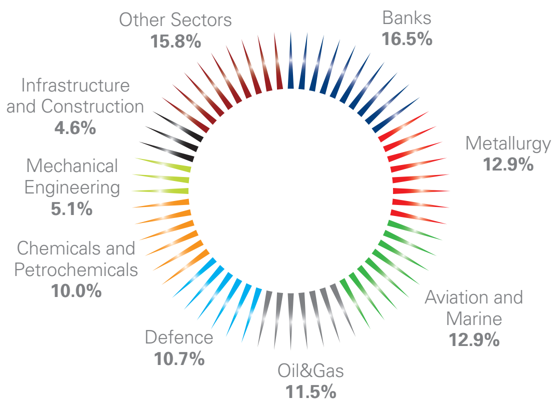
The subsidiaries' business volume also grew: commitments underwritten in 2007 in the surety business were €3.8 billion, an increase of 34.4% over 2006, while credit insurance volume was €9.7 billion, an increase of 46.6%. New commitments underwritten in the credit insurance business were mainly generated by the Whole Turnover policy, which accounted for 81% of new business.

* The figure does not include volumes to the Other damage to property and Life businesses.

New guarantees approved by the Parent Company, by geo-economic area (2007)



New guarantees approved by the Parent Company, by industrial sector (2007)



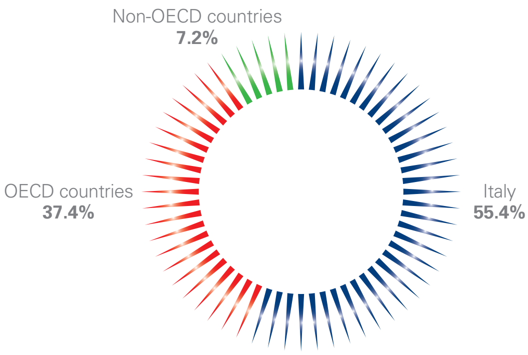
CLAIMS

In 2007 as in the previous two years, the positive trend in the portfolio's claims experience continued: claims were at the same modest level as that recorded in 2006. Claims paid were €50.4 million.

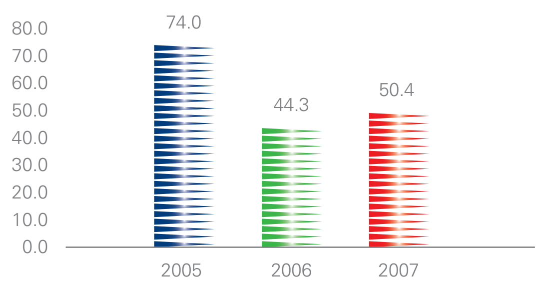
Claims paid by the Parent Company, gross of the related costs, were €37.5 million, an increase of 22% over the record minimum of 2006. There were no new defaults relating to political risks underwritten, whereas there was an increase in claims under financial guarantees in support of SME internationalisation.

Subsidiaries' claims increased by 34.8% over 2006. In particular, there was an increase in claims in the credit insurance business, due to the marked growth of the credit insurance portfolio and the deterioration of the economy towards the end of 2007.

Business underwritten by SACE BT (credit insurance), by geo-economic area (2007)



Claims paid (€ million)



RECOVERIES

SACE's total cash flow from political recoveries was €568.5 million, principally from credit recoveries received from Poland (€187.1 million), Peru (€135.8 million) and Angola (€99.6 million). In 2007 new bilateral agreements were signed with Cambodia, Macedonia and Lebanon.

SACE's total commercial recoveries of claim payment were €1.7 million. The portfolio of commercial credits under workout has shrunk markedly over the last three years, owing to modest claims and restructuring agreements entered into with debtors.

Subsidiaries' management of credit insurance claims was very active in terms of recovery before claims payment, by means of amicable recovery and, where the company received a mandate, using an external provider. This activity made it possible to achieve a high number of claims closed without further action, of which there were 539 in 2007. Recoveries on claims relating to surety and construction risk business were €2.7 million and improved the claims/premium ratio by 6.1%.

Main political recoveries – SACE's share (2007)

Country	€ million
Poland	187.1
Peru	135.8
Angola	99.6
Ecuador	32.0
Egypt	22.7
Gabon	18.4
Serbia	10.8
Macedonia	10.2

REINSURANCE

The Group's reinsurance policy specifies highly-rated international market players as counterparties.
The technical characteristics of medium-long term credit insurance, which is managed by the Parent Company, reduce the scope for reinsurance, which is however significant for short-term credit insurance, surety and the other non-life businesses. In the case of SACE BT this need is further intensified by the fact that it is a single-business company and thus not able to offset one business against another.
The subsidiaries have entered into quota-share reinsurance treaties with prime international reinsurers, for cover of between 40% and 80%. These companies also have cover under excess of loss treaties, to protect against larger claims.

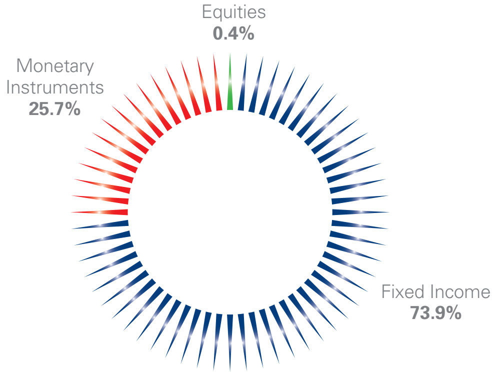
INTERNATIONAL AGREEMENTS

With regard to relations with other ECAs, the Parent Company entered into a cooperation agreement with the South Korean ECA, KEIC (Korea Export Insurance Corporation) and a memorandum of understanding for cooperation with the South African ECA, ECIC (Export Credit Insurance Corporation).

FINANCIAL INVESTMENTS

The Group's consolidated financial investments amounted to €6,613.7 million, a reduction of 32.1% from 2006, due to the return to the Shareholder of €3.5 billion as a repayment of capital. These investments are highly liquid, as required by the general strategic lines, which are designed to maintain capital in balance and to optimise the exposure present in the insurance guarantee portfolio. 73.8% of the investment portfolio comprised bonds, 25.7% monetary instruments and 0.5% equities. The investment portfolio's duration was contained.

Financial investments (2007)



Financial investments (€ million)

Type of instrument	2007	2006	Change
Fixed income	4,884.8	4,865.7	0.4%
Monetary	1,700.5	4,858.2	-65.0%
Equities	28.4	11.5	>100%
Total	**6,613.7**	**9,735.5**	**-32.1%**

CONSOLIDATED BALANCE SHEET

ASSETS - € thousands	2007	2006
Intangible Assets	18,731	15,679
Tangible Assets	80,550	79,843
Technical Provisions – Reinsurers' portion	77,768	88,726
Investments	5,910,512	9,767,825
Receivables	1,273,751	1,748,911
Other Asset Items	157,922	213,848
Cash and Cash Equivalents	750,136	74,879
Total Assets	**8,269,371**	**11,989,711**

LIABILITIES - € thousands	2007	2006
Shareholder's Equity	5,772,175	9,234,099
Provisions	107,620	119,537
Technical Provisions	1,952,917	2,001,147
Financial Liabilities	139,213	297,922
Payables	112,492	290,727
Other Liability Items	184,954	46,278
Total Shareholder's Equity and Liabilities	**8,269,371**	**11,989,711**

CONSOLIDATED INCOME STATEMENT

€ thousands	2007	2006
Gross Written Premiums	*310,511*	*240,519*
Premiums ceded to reinsurers	*(32,760)*	*(32,076)*
Change in the Premium Provision	*1,263*	*(311,093)*
Net Premiums	279,014	(102,650)
Gains and losses from financial instruments at fair value through profit and loss	209,071	299,136
Gains from other financial instruments and investment property	291,611	650,459
Other revenue	51,005	33,688
TOTAL REVENUE	**830,702**	**880,632**
Net charges relating to claims	(1,688)	(4,815)
Charges arising from financial instruments and investment property	20,099	28,825
Administrative Expense	77,217	66,812
Other costs	145,219	379,208
TOTAL COSTS AND CHARGES	**240,847**	**470,031**
PROFIT FOR THE YEAR BEFORE TAX	**589,855**	**410,601**
Tax	212,542	(99,516)
PROFIT FOR THE YEAR AFTER TAX	**377,312**	**510,117**
o/w attributable to the Group	**377,312**	**510,117**
o/w attributable to Minorities	**0**	**0**

RISK MANAGEMENT

In times of profound and rapid change, risk control and risk measurement are vital factors. The risk management process identifies, measures and controls exposure to risk on the basis of quantitative and qualitative measurement.

Risk management aims to optimize capital structure and the management of Group reserves and liquidity by averting the danger of damaging events generated by the risks inherent in the business preventing attainment of its objectives. It is involved in two distinct stages:

- **underwriting:** identification, assessment and measurement of transaction risk, using counterparty or project scoring models and the definition of pricing models;
- **risk management:** portfolio and provision valuation by monitoring exposure to the counterparty or project, the country and industrial sector, as well as the need for reinsurance, if any, and/or for cover to mitigate risks relating to individual exposures.

Risk Management provides effective and efficient reports on both the operational structure and staff functions, with direct benefits to the client and the shareholder. Clients are afforded the certainty arising from a solid capital base, managed efficiently in order to contain the cost of the guarantees, and at the same time the shareholder benefits from appropriate profitability levels and the sustainability of its mission to support the Italian economy.

SACE periodically defines Group-wide insurance policy to be followed by all subsidiaries, regarding especially:

- the portfolio risk control system;
- monitoring Group exposure to individual counterparties;
- how premiums are calculated;
- reinsurance and coinsurance business.

Types of risk

MARKET RISK ► share prices ► interest rates ► exchange rates ► commodity prices	Risk Management processes check that trading of the investment portfolio is properly conducted and the concentration of asset allocation.
CREDIT RISK ► counterparty risk ► transaction risk ► portfolio risk	Credit risk is a specific feature of the SACE Group's portfolio in terms both of the risk downgrading of the counterparty and the risk of default. Special attention is paid to portfolio concentration: risk is analyzed on the basis of the individual transaction, but also in terms of the risk that the transaction adds to the portfolio as a whole.
OPERATIONAL RISK ► processes ► information systems ► human resources ► exogenous factors	As provided by ISVAP Circular 577 (and considering the work being done under Solvency II), the SACE Group has decided to adopt a system for identifying, assessing, monitoring and managing operational risk. Operational risk assessment has been introduced with the aim inter alia of identifying and locating the main types of operational risk within each organizational unit, on the one hand, and, on the other, of raising staff awareness of the risk culture and specifically the management of events that could damage the Group.

THE MANAGEMENT OF SACE RISKS

In order to assess the Parent's overall capital adequacy in relation to its risk profile, a Value-at-Risk system is applied using SAS®, a portfolio risk management platform. The system was implemented starting from a widely-consolidated methodology in the market, adapted to the special characteristics of SACE's portfolio. The allocation of gains and losses for the whole portfolio or for individual transactions is calculated over a specific time horizon and with a set percent of probability. The system calculates the main risk measurements (Expected Loss, Value-at-Risk and Expected Shortfall) both on the guarantee portfolio (regarding credit risk) and on the investment portfolio (market risk). As well as supplying aggregate measurement for the whole portfolio, the system can detail the information on the main analytical dimensions right down to individual contracts. In this way it is possible to identify the countries, geographical areas, industries and counterparties towards which the company is most exposed, as well as the portfolio's sensitivity to macroeconomic and financial variables, thus guaranteeing the long-term sustainability of the business model.

Capital and reserves have to be supplemented to cover the risks that are underwritten, since these are not subject to the liquidity and price mechanisms that are typical of capital markets.

Exposure

Total exposure comprised, as to 95.6%, outstanding guarantees – an increase of 2.9% over 2006. The most noteworthy result was the reduction of performing credits, which fell by 32.1% from 2006, mainly due to prepayments received during 2007 and an effective recovery process.

Total exposure – principal and interest
(€ million)

Portfolio	2007	2006	Change
Outstanding guarantees	22,086.5	21,464.4	+2.9%
Performing credits	1,014.6	1,494.0	-32.1%
Total	**23,101.1**	**22,958.4**	**+0.6%**

The outstanding guarantees portfolio was €22.1 billion and comprised principal of €18.6 billion and €3.5 billion in interest. SACE's diversification policy, which was launched in prior years, showed a first consolidation of results in 2007 in that the composition of the portfolio changed.
In terms of risk type, the reduction in sovereign risk continued and that of the private sector increased. But the most significant growth was in ancillary risks (up by 49.9% o ver 2006), mainly due to sureties which amounted to €1,259.3 million.

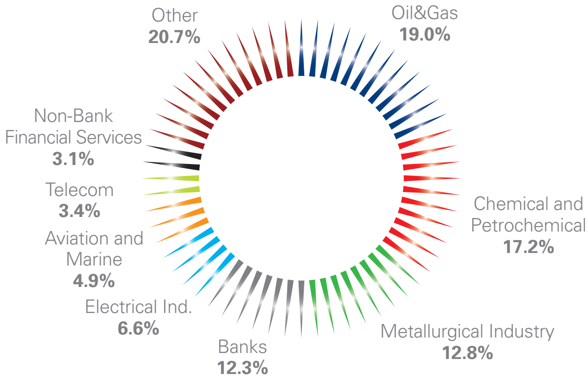
Guarantee portfolio – principal
(€ million)

Risk Type	2007	2006	Change
Political	3,623.5	3,746.0	-3.3%
Sovereign	2,912.9	3,566.3	-18.3%
Private	9,830.2	9,253.4	+6.2%
Ancillary	2,265.0	1,511.4	+49.9%
Total	**18,631.6**	**18,077.1**	**3.1%**

The industrial sector with the largest exposure remained oil and gas (19% of the total), followed by chemicals and petrochemicals (17%). Compared to 2006 the first three industries retained their 50% share of total exposure, metallurgy being the new third with 13% of the total.

As compared to 2006, in terms of geographical concentration there was a 10% reduction of Middle East and North Africa risk, though this area remained in first place, and a 23%

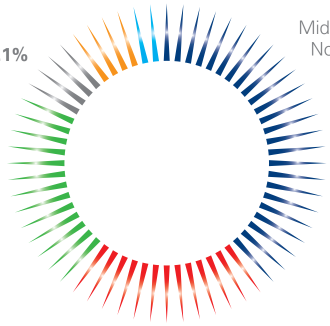
SACE's guarantee portfolio by industrial sector (2007)



reduction in the Americas, as against increased diversification due to growth in EU 27 risk (+24%), Other Europe and CSI (+10%) and Sub-Saharan Africa (+10%).

In terms of Value-at-Risk the highest risk is in the most highly concentrated countries and geographical areas, with the exception of some countries of the EU 27 zone.

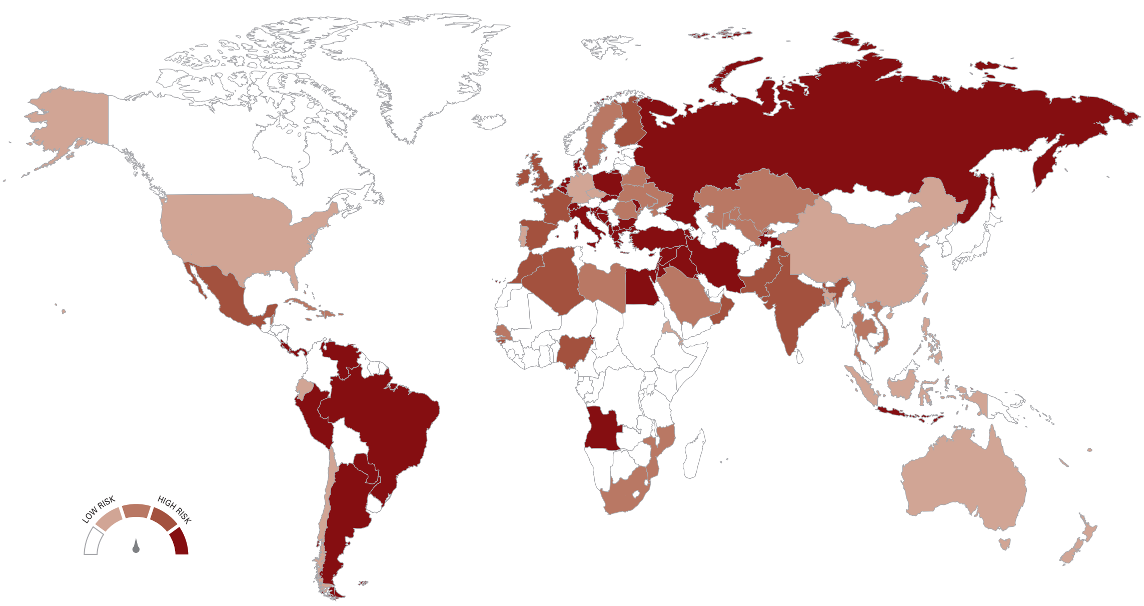
SACE's total exposure by geo-economic area (2007)



RISK MANAGEMENT AT SACE BT AND ASSEDILE

SACE BT's Risk Management has developed Value-at-Risk calculation models to provide an estimate of the economic capital absorbed by outstanding exposures, in respect of both the investment portfolio and the guarantee portfolio. With regard to the investment portfolio the internal model is still under production for both market and credit risk; the guarantee portfolio model is at the testing stage

Value-at-Risk of SACE's guarantee portfolio by geographical area (2007)



for both credit and life insurance, and under development for the other risks.

Exposure

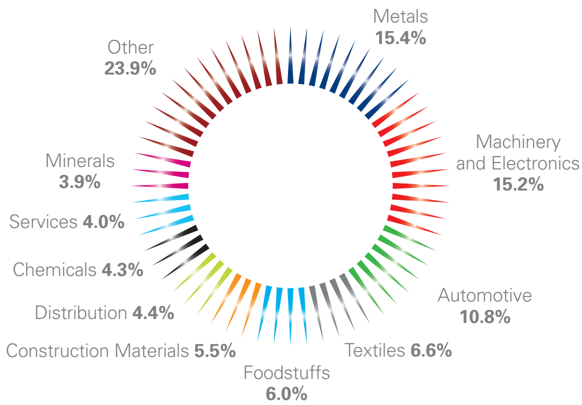
With regard to the most significant portfolios of SACE BT (credit insurance) and ASSEDILE (surety), total exposure was nearly €15 billion – an increase of 42.3% over 2006.

Guarantee portfolios of SACE BT and ASSEDILE
(€ million)

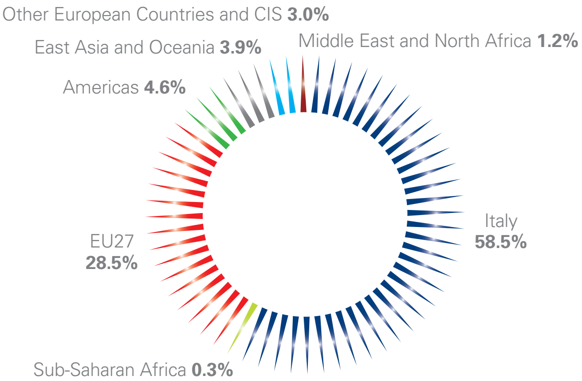
Portfolio	2007	2006	Change
Credit insurance	7,193.7	4,082.5	76.2%
Surety	7,774.4	6,433.0	20.9%
Total	**14,968.1**	**10,515.5**	**42.3%**

Both portfolios saw a sharp rise in their respective exposures: credit insurance business rose by 76.2%, and surety by 20.9%.
The performance of the credit insurance business also sharply improved portfolio diversification while reducing the concentration by debtor. An analysis of the distribution by industry shows that the share of the sector with the highest exposure reduced in terms of total exposure: the metals sector was the largest in 2007 with a 15.4% share of the portfolio, a sharp fall from the 27% share recorded by the auto industry in 2006. The first ten sectors in terms of exposure accounted for 76.1% of outstanding risks.
The distribution of credit risk exposure by geographical macro-areas saw Italy still in first place, with an increase of 23.2% over 2006.
These subsidiaries' operations was extended to the provision of cover for other risks, which accounted for a smaller share of the total portfolio. These were: Other Damage to Property, Life, Third-Party Liability, Fire, Sickness and Accident.

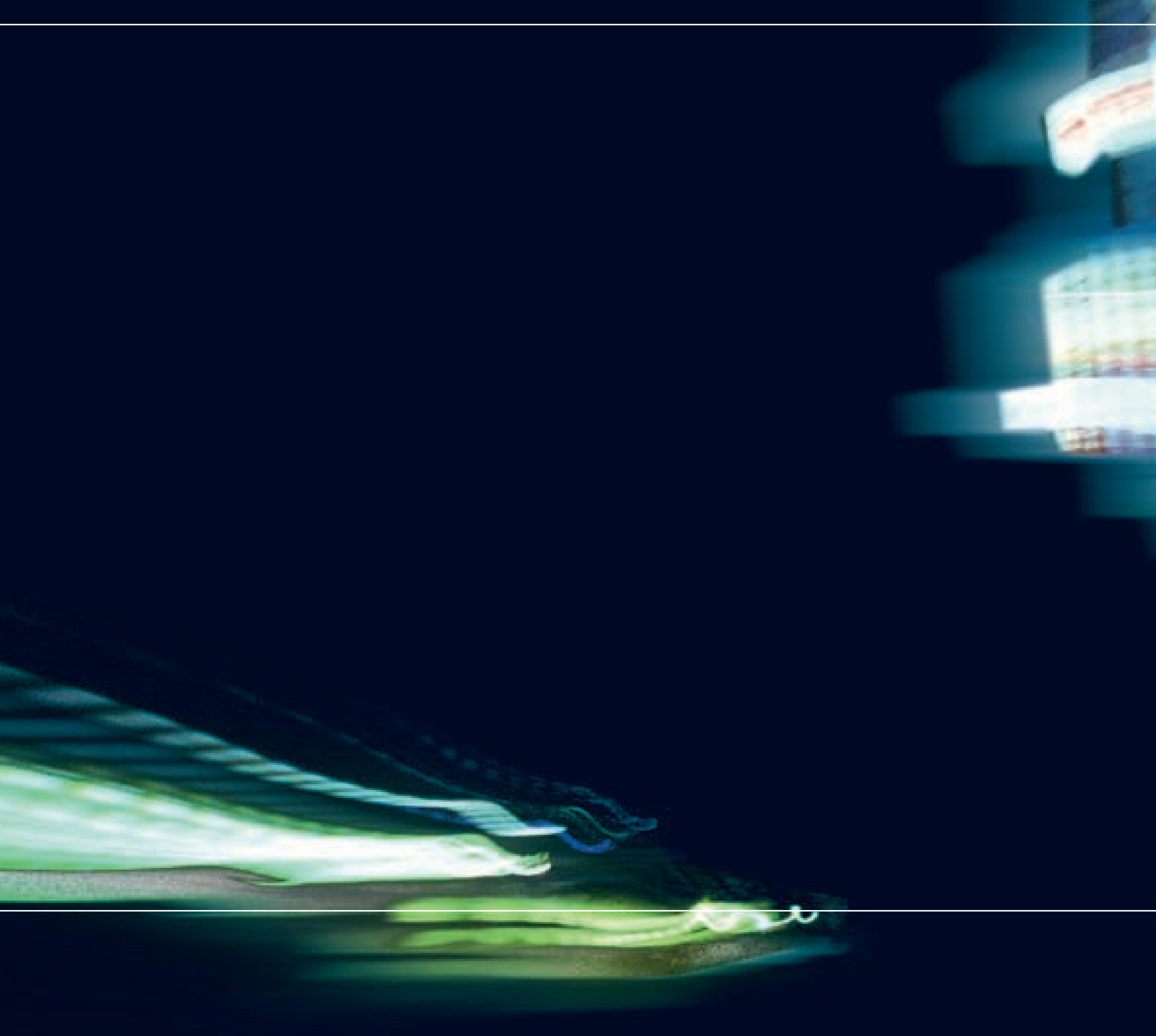
Guarantee portfolio of SACE BT (credit insurance) by industrial sector (2007)



Guarantee portfolio of SACE BT (credit insurance) by geo-economic area (2007)



CORPORATE SOCIAL RESPONSIBILITY



A SOLID BASIS FOR FUTURE PROGRESS

SACE'S VALUES

OUR PEOPLE – Our strength

PROFESSIONALISM – A distinctive quality

TEAMWORK – Sharing success

CUSTOMER SATISFACTION – Constant commitment

TRANSPARENCY – The basic condition

The SACE Group has chosen to develop a management system based on Corporate Social Responsibility: a set of shared values which places people and the environment at the centre of the enterprise's attention by developing behaviours that can be judged ethically.

With the aim of informing its stakeholders of its commitment to ensuring the sustainability of its business, SACE has begun a process of aligning its social responsibility system with the Sustainability Reporting Guidelines[1] as defined by the Global Reporting Initiative, in order to organise the information in a format used by many companies around the world.

Through its Corporate Social Responsibility system SACE will measure its performance, inform and discuss with its stakeholders: its staff and union representatives, the shareholder, its customers, national and international institutions, trade associations, its suppliers, NGOs, other ECAs, business partners and the community in general.

The Group carries out its corporate mission along three axes of sustainability:

- ► **responsibility for ethical growth of the business**, expressed by:
  - supporting the development of Italy's economy,
  - creating value for the shareholder,
  - valuing its employees,
  - choosing suppliers transparently,
  - requiring staff, suppliers and customers to adopt the principles defined in its Code of Conduct;
- ► **responsibility for the environment**, through:
  - careful analysis of the environmental risk of the main transactions guaranteed,
  - a plan to reduce consumption and contain impacts on the environment,
  - energy saving;
- ► **social responsibility**, aiming to contribute to the well-being of the community through:
  - positive interaction with the institutions and international organisations,
  - supporting culture,
  - supporting social development initiatives.

[1] G3 version, October 2006

SACE's main principles are contained in the *Values Charter*, the Code of Conduct and the *Organisational, Management and Control Model*. These three documents aim to contribute to guiding people's behaviour, whatever their role within the Group or their relationship with Group companies, so that the concept of sustainability becomes a reality within the business.

The **Code of Conduct** enunciates the rules of moral behaviour that its recipients – staff, managers, professionals, Directors, consultants, partners and suppliers – are required to comply with in their daily work. The main inspiring principles of the Code are:

- legality, i.e., respect for the law;
- morality, i.e., the good reputation of the Company;
- dignity, equality and professionalism, i.e., respect for the individual as a person and work colleague.

The **Values Charter** sets out the founding principles on which SACE bases the management of the business and relations with its stakeholders, consistent with its institutional mission and in accordance with the social, cultural and environmental context in which it operates.

The **Organisational, Management and Control Model** identifies the areas in which the risk that an offence may be committed in the course of business is the greatest and introduces control procedures, including preventive measures, designed to:

- raise the awareness of staff and management of the areas and the respective areas of the business which require the greatest attention;
- monitor these areas through a system of constant control, enabling immediate action should an offence be committed;
- stigmatise all conduct that may be construed as an offence.

HUMAN RESOURCES

The SACE Group values its human capital by providing management, training, information, incentives and equality of opportunity, together with unflagging attention to health and safety in the workplace.

The Group's success is owed to the people who day by day work to make its companies more competitive, with passion, commitment and professionalism.

Individuals' skills are constantly supplemented and enhanced by teamwork, which – together with a sense of belonging – is a decisive factor for the attainment of the Group's objectives.

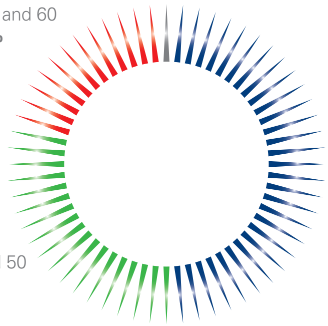
At 31 December 2007, the Group's employees totalled 511 of whom 70.6% were employed by the Parent Company and the remaining 29.4% by its subsidiaries. The Group's human resources grew by 10.4% over 2006. In 2007 a total of 70 people were recruited and 20 left the Group.

The average age of staff is low and the level of education is high. Staff of under 40 years of age are 48.2% of the total - an increase of 20.6% over 2006 - while graduates are now 51.1% of total staff - an increase of 26.7% over 2006.
In terms of grades: senior managers are some 6.7% of total staff, managers 30.3%, assistant

managers 5.9%, clerical staff 56.2%, and sales staff 1%. Women are 55.8% of employees and well represented in the higher grades: 49.0% of managers are women and 35.3% of senior managers.

The Group promotes every initiative aiming to overcome possible discrimination of staff on the basis of gender, age, sexual orientation or faith when recruiting and selecting, training and fostering professional development.

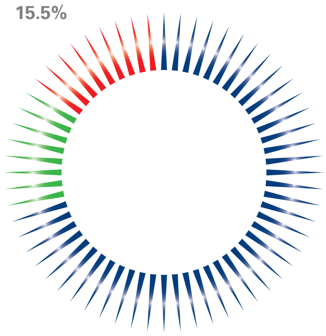
Distribution of staff by age-group (2007)



RECRUITMENT AND SELECTION

The Group's policies of personnel recruitment and selection are designed to promote talent and attract the best candidates available, by rewarding merit and offering opportunities of professional growth. In 2006 cooperation continued with Italy's main universities, post-graduate schools and those awarding master's degrees including the Master of Business Administration of the SDA Bocconi Business School in Milan and the Stanford School of Business, California, and the Master in Economics and International Finance of Rome's Università degli Studi Tor Vergata.

Distribution of staff in Group companies (2007)



Employees by gender and grade

Grade	Women	%	Men	%	Total	%
SENIOR MANAGERS	12	35.3%	22	64.7%	34	6.7%
MANAGERS	76	49.0%	79	51.0%	155	30.3%
ASSISTANT MANAGERS	16	53.3%	14	46.7%	30	5.9%
CLERICAL STAFF	181	63.1%	106	36.9%	287	56.2%
SALES STAFF	0	0.0%	5	100.0%	5	1.0%
Total	**285**	**55.8%**	**226**	**44.2%**	**511**	**100 %**

TRAINING AND PROFESSIONAL DEVELOPMENT

The development of individual and collective skills is promoted by organising training courses and mid-career professional education with the following aims:

- to strengthen the specific technical skills required by the various business areas;
- to develop the managerial ability and leadership qualities needed to manage complexity and change;
- to support knowledge creation and sharing.

In 2007 staff training involved some 7,911 hours of instruction spread over 224 courses, including technical and specialist subjects, language training, IT training and management training. A role of growing importance is played by the SACE Business School which SACE uses to provide its staff with the thorough-going technical, financial and legal know-how accumulated in 30 years of activity.

PERFORMANCE EVALUATION AND INCENTIVES

With the aim of creating a performance-oriented corporate culture, the SACE Group evaluates its staff by means of a Management by Objectives (MBO) system, which provides monetary rewards for the attainment of collective and individual objectives, both qualitative and quantitative. The MBO system makes it possible:

- to translate corporate objectives into individual objectives;

- to support the development of a performance- and skills-oriented corporate culture;
- to foster a leadership style based on shared values throughout the organisation;
- to align objectives and behaviours to corporate strategy.

INTERNAL COMMUNICATION

The Group promotes the circulation of information and knowledge at all levels of the organisation by means of a series of internal communication tools, which aim to ensure the greatest possible transparency and to strengthen the sense of belonging of all the employees of Group companies.

THE WORKPLACE

Corporate responsibility also means paying unflagging attention to the quality of the workplace, while complying scrupulously with current regulations on health and safety at work (Law 626/94 as amended and supplemented) and through undertaking additional initiatives in the spirit of the legislation.
In 2007 we continued to upgrade our offices to comply with new regulations concerning safety, fire prevention and reclassification of seismic-risk areas. These changes brought modern and efficient work areas and created new spaces, including a fitness area which all staff are free to use.

EMPLOYEE HEALTH

Employees' state of health is constantly monitored from recruitment throughout the period of employment. All staff have access to a medical consultation service.
As agreed with the trades unions, health insurance, and accident and life insurance policies have been taken out on behalf of staff.

SACE AND THE ENVIRONMENT

SACE pays particular attention to the impacts on the environment of the transactions it guarantees. These are indirect impacts, i.e., over which SACE has only limited influence since they are filtered by the investment decisions of the project sponsor. However, SACE recognises that proper assessment of these impacts is of fundamental importance for economic and responsible conduct of its business.

For this reason since 2001 SACE has carried out an environmental assessment of all its export credit transactions on the basis of the principles of the OECD Recommendation *Common Approaches on Environmental and Officially Supported Export Credits*, in the initial drafting and recent revision of which SACE took an active role.

The OECD Recommendation is a guide to environmental assessment for export credit agencies and includes the classification criteria and assessment tools for potential environmental impact requiring compliance with local and international environmental standards

and specifying the obligations in respect of environmental information transparency.

In light of the continuous evolution of its business, SACE also considers the need to extend the principles of environmental protection already applied to export credits to other insurance products, which means going beyond its obligation under the OECD guidelines and adapting to each concrete situation the best available solutions.

SACE's environmental procedures and access to information are available in two languages in its website, where there are also quarterly figures on guaranteed transactions. In 2007 two transactions in the A category, i.e. with potentially serious environmental impact, and eleven in the B category, with potentially medium impact, were guaranteed. The remainder were classified in the C category, with negligible or no environmental impact.

SACE does not limit itself to prior assessment of a transaction's environmental impact, but where it believes that the complexity of the project requires it, it closely follows realisation and bring into use by actively monitoring continuing compliance with international standards. Monitoring makes it possible to intervene promptly where there is any divergence from the agreed standards and to promote and assist with the solution of the problem.

The Group has also begun to calculate the future CO2 emissions generated by the more complex installations, those in the A category, obtaining a total figure of ten million tons. This is an estimate based on average emissions aiming to establish a cognitive basis, however approximate, of data and calculation methods that could be useful for possible future developments in the relevant international policies.

ENERGY SAVING AND PROTECTION OF THE ENVIRONMENT

SACE has initiated a raft of energy-saving and environmental protection initiatives.

In 2007 an external advisor was asked to make a study of energy efficiency. On the basis of an analysis of the expense of electricity, gas and other fuels, this study made it possible to identify the main opportunities to save energy, relating to plant, contracts and procedures.

Acting on the advisor's recommendations, improvements such as the replacement of the heating and air-conditioning plant, the introduction of new highly efficient lighting systems and other changes to reduce water consumption and ensure efficient use of IT equipment, were made. The separation of refuse – already operational for paper, metal, wood and IT equipment – was intensified and staff awareness of the need to use energy and water rationally was raised by a specific campaign.

SACE AND THE COMMUNITY

SUSTAINABLE LENDING

As part of its Social Responsibility programme, SACE has also given attention to external financing of low-income countries' economic growth and on the risks arising from unsustainable debt.

This commitment takes the form of compliance with specific principles governing concession of insurance guarantees, in accordance with prudent risk management criteria and the practice agreed between official lenders.
Under sustainable lending principles, lending is considered sustainable if it can:

- generate positive economic and social returns;
- prevent unproductive expenditure, not in line with the objectives of the PRSPs (Poverty Reduction Strategy Papers) approved by individual governments;
- preserve debt sustainability;
- promote good governance and transparency.

SACE is committed to sharing information on the low-income country transactions it guarantees with the other ECAs and the IFIs (International Financial Institutions) and to taking an active role in the definition of operational matters relating to sustainable lending practices.

In compliance with what is laid down and codified by the OECD in its *Principles and Guidelines to Promote Lending Practices in the Provision of Official Export Credits to Low-Income Countries*, SACE carries out due diligence on all low-income country transactions with the aim of checking that:

- the insured loan is in line with the Concessionality Requirements of the IMF and the International Development Agency or, if these requisites are lacking, with the specifications of the Debt Sustainability Analysis carried out by them;
- the government of the borrower country has issued an assurance that the project is consistent with current debt and development programmes;
- the procedures required by the relevant local legislation have been fully satisfied.

SOLIDARITY

In 2007 SACE supported a humanitarian initiative dedicated to the protection of young children. Out of a number of proposals submitted by humanitarian organisations having international operations, certified accounts and proven expertise in the protection of children, a project of Save the Children to supply clean water and improved sanitary conditions to children in the Woliso district in Ethiopia was chosen.

More than two thousand inhabitants of this district, including over one thousand children, will benefit from this project, which involves the provision of a network of wells and clean water points to guarantee drinking water. SACE will constantly monitor the progress of this project.

SACE AND ART

The SACE Group is active in social promotion also through initiatives designed to value and support culture.

Since 2004 the "SACE and Art" project aims to promote Italian contemporary art and its major exponents around the world, the idea being that dialogue between different nationalities should be based not only on economic and financial matters, but also on cultural exchanges. Under this project five art books have so far been created on the occasion of foreign exhibitions by the following contemporary artists: Jannis Kounellis, Enrico Castellani, Marco Gastini, Nunzio and Bizhan Bassiri.

CORPORATE GOVERNANCE

THE ORGANIZATION, REGULATION AND CONTROL

CORPORATE GOVERNANCE

GROUP MANAGEMENT GUIDELINES

The SACE Group management guidelines, in the new wording approved by the Board of Directors on 23 November 2007, define the principles and general rules that govern relations between the subsidiaries and the Parent Company with the aim of guaranteeing a single entrepreneurial objective, cohesion and consistent conduct. These rules maintain on the one hand the managerial independence of the subsidiaries, which retain business and managerial discretion, and, on the other, the directing and coordinating role of SACE, to ensure that the whole Group is soundly and prudently managed. This document was approved by the Boards of Directors of all Group companies.

THE ORGANISATIONAL MODEL

The management of SACE is based on principles of legality and transparency, which are met by means inter alia of the adoption of a prevention and control structure consisting - as well as the Code of Conduct - of the Organisation, Management and Control Model.
This document complies with the provisions of Law 231/2001 on corporate liability.
The Model identifies the areas in which the offences specified in Law 231/2001 could in theory be committed and thus makes it possible to raise the awareness of all those that transact business for and on behalf of SACE or under its direction and supervision, such that they ensure that their business conduct is correct and commission of the offences foreseen by the Law is prevented.
The Organisation, Management and Control Model has the following aims:

- to make it possible to exempt SACE from corporate liability in the event that an offence is committed;
- to improve the corporate governance system;
- to set up a structured and complete system of prevention and control with the aim of reducing the risk that an offence may be committed in connection with the business of the company, with special attention to the reduction of any illegal conduct;
- to emphasize that the Company does not tolerate illegal conduct of any kind and in any case contrary to the ethical principles the Company has adhered to;
- to deal with conduct that violates the Model by the provision of disciplinary sanctions and/or en forcing contractual remedies.

INTERNAL AUDIT

SACE has also adhered to the basic principles underlying ISVAP Circular 577/D dated 30 December 2005 containing rules for internal controls and risk management, in line with best practice in the market. It has accordingly laid down series of rules, procedures and organisational structures designed to recognise, measure and control the risks inherent in its business activity, in order to determine a suitable level of governance, effective and efficient internal control systems and a risk assessment and control system.

The Parent Company carries out internal audits on its own behalf and, under an outsourcing contract, also on behalf of SACE BT. This auditing activity assists the Directors and the Company's management to ensure that there is an effective system of process control, with specific focus on the achievement of a balance between the internal control system and the mitigation of risk by risk management. The internal auditing process is in compliance with ISVAP Circular 577/D and the professional standards commonly accepted in Italy and abroad.

CORPORATE BODIES

SACE operates under a traditional administration and control model, which is put into effect by the Board of Directors and the Board of Statutory Auditors. The extraordinary general meeting held on 28 May 2007 resolved to reduce the number of Directors from ten to seven and that of the Statutory Auditors from five to three, and to insert into the organization the figure of the **Nominated Official** in charge of preparing the Company's accounting documents as provided by §154-bis of the consolidated finance act (Law 58/1998 as amended).

The **Board of Directors** ("Board") has seven members and is vested with the widest powers for the administration of the Company, except as provided by law or the by-laws. The Board is charged with managing the company and accomplishing all necessary acts for the realization of the company object. Il Board assesses the adequacy of the organizational, administrative and accounting structures of the Company, oversees its actual performance and reviews its strategic, industrial and financial plans. The Board plays a fundamental role in respect of the internal control system, for which it has ultimate responsibility, making sure that the most significant corporate risks are identified, measured and controlled.

The **Board of Statutory Auditors** oversees compliance with the law and the by-laws, the principles of proper management, the adequacy of the organizational, administrative and accounting structures and their concrete workings.

The **Chairman** of the Board of Directors is the Company's legal representative and, as well as the functions prescribed by the law and the by-laws, is responsible for external and institutional relations.

The **Chief Executive Officer** supervises the management of the Company and is its legal representative, including signing powers towards outside parties, within the limits of delegated authority. The Chief Executive Officer is also responsible for maintaining and monitoring the system of internal controls and risk management, as instructed by the Board.

The **Executive Committee** is made up of four Board members. Its duty is to approve individual insurance, reinsurance and guarantee transactions.

CORPORATE BODIES[1]

Board of Directors

Chairman:	Ignazio Angeloni (*)
Vice Chairman:	Massimo Carraro (*)
Chief Executive Officer[2]:	Alessandro Castellano (*)
Directors:	Giorgio Giovagnoli Giandomenico Magliano (*) Fabrizio Pagani Giorgio Tellini

(*) Members of the Executive Committee

Board of Statutory Auditors

Chairman:	Marcello Cosconati
Standing auditors:	Cecilia Maria Angioletti Ruggero Campi
Alternates:	Gianfranco Tanzi Carlo Pontesilli

Delegate to the State Auditors[3]: Raffaele De Dominicis

External Auditors[4]: PricewaterhouseCoopers

(1) Corporate Bodies elected by the Shareholder's Meeting of 28 May 2007 to hold office for three years.
(2) Appointed by the Board of Directors on 29 May 2007.
(3) SACE is subject to the control of the Court of Accounts (State Auditor) pursuant to Law 259/1958.
(4) Appointed for 2007-2009 by the Shareholder's Meeting of 28 May 2007.

GLOSSARY

Ancillary risks: risks unrelated to the credit, such as production, guarantee or destruction risk.

Approved guarantee: in relation to the Parent Company, an insurance policy approved by the competent bodies.

Bank risk: the risk inherent in a transaction supported by a bank guarantee.

Claim: an amount to be paid by the insurer to compensate for the loss sustained by the policyholder following a claim event.

Claims reserve: a technical reserve which must be set up and recognised in its accounts by an insurance company against possible claims by its policyholders, being the total of the sums which – under a prudent valuation carried out on the basis of objective elements – are necessary to adjust claims incurred in the year or in previous years and not yet adjusted, as well as claim adjustment expenses.

Combined ratio: sum of the *cost ratio* and the *loss ratio*.

Cost ratio: ratio of operating expenses to gross premiums earned.

Country limit: the limit (cumulative and/or by product/risk) on the risk the insurer is willing to underwrite on an individual country.

Debtor: the entity that assumes the obligation to pay the policyholder under an agreement.

ECA: an Export Credit Agency.

Gross written premium: total amount due to the insurer in respect of an outstanding guarantee for the whole period of cover.

Guarantor: a third party that in the insurance policy assumes the obligation to satisfy the credit in the interest of the policyholder, should the debtor default.

Insured business (in the year): sum of guarantees approved by the Parent Company and business volumes insured by the subsidiaries (credit insurance and surety), during the year under consideration.

Inward reinsurance: transaction whereby an insurer (the cedent) cedes part of its insured risk to another insurance company (the reinsurer).

Loss ratio: ratio of cost of claims to gross premiums earned.

Marketable risks: according to OECD rules, political and commercial risk relating to credits with a term of less than 24 months towards debtors not established in EU member countries and other OECD area first-category countries.

Medium/Long-term transaction: a transaction with a term exceeding 24 months, as prescribed by OECD export credit rules.

New guarantees: guarantees approved by the competent bodies of the Parent Company during the year under consideration.

Non-marketable risks: according to OECD rules, political and commercial risk relating to credits with a term exceeding 24 months or towards debtors not established in EU member countries or other OECD area first-category countries.

Outstanding commitment: total amount of principal insured under the Parent Company's oustanding guarantees and credit limits approved by the subsidiaries, as at the date specified.

Outstanding guarantee: in relation to the Parent Company, an insurance policy approved by the competent bodies for which the first premium instalment has been received.

Outward reinsurance: transaction whereby an insurer (the reinsurer) assumes part of the risk of another insurance company (the cedent).

Performing credit: an amount previously paid out under a claim in respect of which the debtor repays on time and in full.

Premium reserve: a technical reserve which must be set up and recognised in its accounts by an insurance company against possible claims by its policyholders.

Private or corporate risk: a risk on a bank or corporate counterparty.

Recovery: a sum previously paid out under a claim which has been wholly or in part collected following recovery steps taken in respect of the debtor/guarantor.

Short-term transaction: a transaction with a term of less than two years, as prescribed by OECD export credit rules.

Sovereign risk: risk arising on transactions supported by a sovereign guarantee (i.e., one issued by the Ministry of the Economy and Finance or another entity able to commit the responsibility of the State).

Technical reserves: sums which insurers are required to set aside and recognise in their accounts to meet possible claims by policyholders.

Total exposure: total outstanding commitments of principal and interest (net of reinsurance and hedging) and performing credits.

Value at Risk: the maximum potential loss in a set temporal horizon at a certain confidence level (usually 95%-99%) which the value of a portfolio could incur.

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