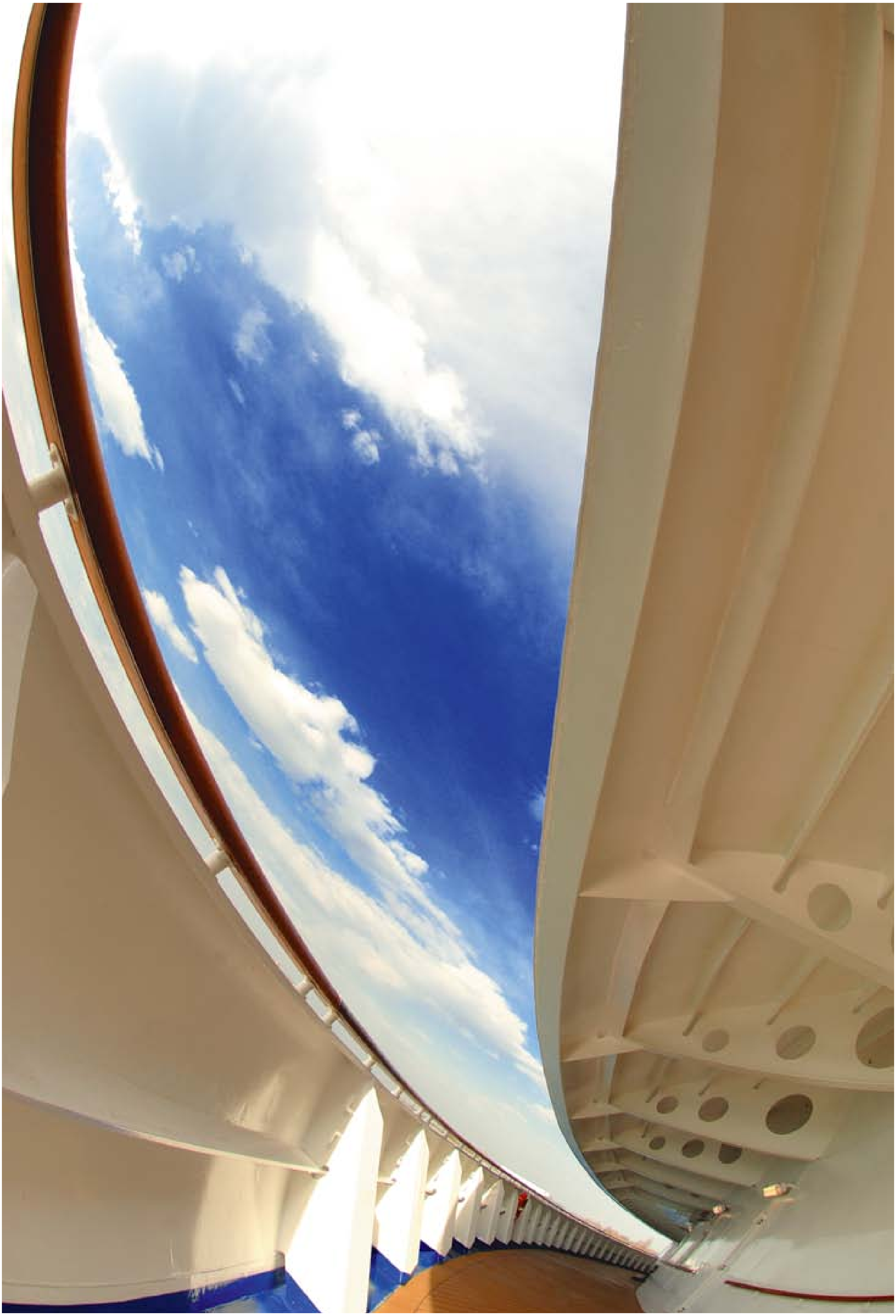
ANNUAL REPORT **2010**

FINCANTIERI

The sea ahead

ANNUAL REPORT 2010

FINCANTIERI



CORRADO ANTONINI
CHAIRMAN OF FINCANTIERI

Demand for new build started to recover in 2010 from the all-time low reported in 2009, reaching around 39 million in compensated gross tonnage (CGT) for the year. However, this level of orders still falls well short of fully utilizing global production capacity, which has grown disproportionately in recent years following the arrival of new players, especially but not only in the Far East.

The Chinese shipyards are market leaders (42%), followed by the Koreans (30%), while European yards occupy a marginal position (6%) in which new orders are concentrated on high value-added vessels, especially passenger ships, but also specialized working vessels (particularly in the offshore sector) or medium-small ships for local traffic. In Europe the effects of the crisis are having a hard impact, as reflected in the number of direct job losses and consequent recourse to social buffers. By the end of the year more than 20% of the workforce, or around 40,000 workers, had been laid off, in addition to an even larger number of jobs lost by subcontractors and component industries. As far as Fincantieri's particular sectors of interest were concerned, the cruise industry has displayed positive fundamentals. The CLIA (Cruise Lines International Association) reports that its ships carried 15 million passengers in 2010, compared with 13.4 million the year before, with a further increase expected in 2011.

The sector's healthy state is confirmed by the improved financial results of some of the largest cruise lines in 2010, accompanied by a return of their share prices to pre-2008-crisis levels. All this has translated into the placement of 7 new cruise ship orders (compared with 4 in the two years 2008-2009), even if two of these orders have been secured under atypical market conditions and only thanks to government assistance. Unfortunately, even in this sector, the amount of orders is not sufficient to fully utilize shipyard production capacity; this situation is likely to continue because shipowners intend to pursue a more prudent investment policy than in the past, and to focus on improving profitability. However, Fincantieri aims to consolidate its primacy in this field despite the lower volumes.

In the large cruise ferries sector, demand in the past two years has been virtually zero: in fact, only two orders have been placed. There is also growing environmental awareness where this particular type of vessel is concerned: in fact, tighter limits on emissions as well as an extension of the number of protected areas are soon due to come into force. Accordingly, the use of gas, rightly considered the most ecological fuel, could offer new opportunities, although currently limited to mid-size ferries serving short routes in North Europe. In fact, shipowners do not currently view the renewal of obsolete vessels operating in other areas as an attractive proposition, meaning that their replacement with greener alternatives will require suitable incentives.

The ship repairs and conversions sector has experienced a slowing in activity. However, the sector of cruise ship maintenance and refitting has offered and continues to offer good prospects not only thanks to the growth in fleet size but also because of the fact that many ships are reaching mid-life.

The sector of yachts over 70 meters long reported five new-build orders in 2010, compared with two the year before, indicating a modest recovery in demand but far short of levels seen in the recent past. In fact, the large number of pre-owned yachts on the market, mainly in the smaller categories, is making potential customers less inclined to order new ones. Fincantieri remains committed to operating in this top-end, high-value sector of the market.

The outlook for the Oil & Gas industry continues to be very positive, as reflected in the growth in investment in exploration and production by oil companies and the start of exploration and extraction programs even in new offshore areas like Russia and Brazil. The experience gained by Fincantieri with the contract to complete the Scarabeo 8 semi-submersible drilling rig gives us good reason to be optimistic about the future.

The naval sector continues to see fewer new-build orders, which fell by 55% in value on 2009. Only demand by the navies of self-producing nations was more or less unchanged on the prior year, largely thanks to orders by the US Navy. Consequently, Fincantieri's decision to enter the US market by acquiring local shipyards is proving a success.

Nations that are not yet self-producers but that are determined to develop a naval capability for a wide variety of situations, represent an interesting market but where demand is not merely satisfied by exports.

For Fincantieri this signifies a major undertaking in terms of planning and willingness to build vessels with local partners to whom technology is transferred.
The market context is tough and demands ability to change and flexibility to adapt in order to achieve challenging objectives in terms of efficiency, quality and innovation. But the strategy adopted by Fincantieri and the commitment of its management, workers and outside contractors, are key factors for allowing it - irrespective of the present difficulties - to consolidate its competitive position in the near future and its excellence in high-tech segments of the shipbuilding industry.

CORRADO ANTONINI
Chairman of Fincantieri

GIUSEPPE BONO
CHIEF EXECUTIVE OFFICER OF FINCANTIERI

2010 displayed a few faint signs of recovery in Fincantieri's markets; however, demand for ships continues to be well below past levels and is insufficient to allow the global production system to operate at continuous full capacity. The issue of capacity and matching supply with demand has always been crucial in a sector like ours and, unfortunately, due to a series of contributory factors, this has become the case not only in standard production, but also in niche production where Fincantieri has long been positioned.

For Fincantieri this means becoming more competitive by offering attractive, high quality prototypes abounding in innovations; these are key factors not only for keeping pace with competitors who, in some cases, are assisted by individual national governments prepared to offer guarantees and finance at well below-market rates, but are also essential for closing high value contracts.

Fincantieri has long been diversifying its business in order to reduce its dependency on individual products by becoming more international and particularly by penetrating high-potential protected markets such as the US defense market. This strategy bore its first fruits in 2010, making a contribution to both revenues and operating profit.

In fact, as part of its Littoral Combat Ship (LCS) program, the US Government has awarded Fincantieri Marine Group – in a consortium with Lockheed Martin – an order for the first LCS as part a contract under which the US Navy has the option to order 10 such ships by 2015. As required by US legislation, the ships will be built at local yards, although part of the mechanical supplies will be produced by the Fincantieri Systems and Components business unit.

Partly thanks to the contribution of US orders, the order portfolio amounted to euro 8.8 billion at the end of 2010. This is a significant figure but unfortunately not enough to ensure full absorption of production capacity.

Fincantieri has reported a profit from ordinary operations of euro 53 million, which is a major improvement on the prior year, also thanks to an increasingly important contribution by the US subsidiaries.
However, like in the previous year, the Company's results have been affected not only by a large amount of extraordinary expenses, but also by the emergence of significant non-recurring expenses. Extraordinary expenses of euro 52 million mostly relate to additional provisions for risks, for events falling outside the normal course of business, including euro 29 million in additions to the provision for the biological effects of asbestos exposure. Non-recurring expenses originate from reduction in the order backlog and from price pressure on new orders caused by a significant growth in competition. Such non-recurring expenses had an after-tax impact of euro 125 million on the 2010 results, which, combined with the impact of extraordinary items on operating profit, have produced a loss for the year of euro 124 million.
In terms of the statement of financial position, such expenses have been covered by equity reserves formed from undistributed profits in prior years. After absorbing the losses for 2009 and 2010, the remaining equity reserves at 31 December 2010 amounted to more than euro 288 million. The statement of financial position also contains euro 118 million in provisions for specific risks and charges, compared with euro 89 million at the end of the prior year.
Also of note was the positive net financial position at 31 December 2010, which reported euro 100 million in net cash.
The next few years will be neither easy nor comforting with current volumes of work and detailed future forecasts failing to indicate a sufficient level of orders to absorb full production capacity.
Concentrating once more on more traditional market sectors, such as standard technology merchant vessels, is not an option for utilizing such capacity. The market does not afford such an option since this sector is experiencing a sharp drop in demand, combined with a worldwide surplus of production capacity. Such an option is also not viable because of the major cost differential with the Far East and the structure of our production model and facilities. In fact, following major recent customization of our facilities, we have been able to achieve positive results in the construction of prototype vessels, but such facilities are not suited to mass production, nor can they be, also because of lack of space.
Given the competitive scenario and our assets, we are convinced that the only option is to focus on high-value niche production, even if this sector is also suffering from the crisis.

The cruise ship market has resisted the international economic crisis better than others, showing good signs of recovery in the past year. The financial results of some of the largest cruise lines in 2010 also confirm the healthy state of this sector, with improvements on 2009 and share prices almost back to pre-crisis levels.

However, the amount of these orders is not enough to utilize full production capacity at the European shipyards specializing in construction of this kind of ship; this situation is likely to continue because shipowners have said that they want to pursue a more modest investment policy than in the past, also because of the greater difficulty and cost they are facing in financing such investments.

This confirms that Fincantieri's core market will offer lower volumes than in the past, at least in the immediate short-to-medium term. However, I would like to stress that, within a smaller, more difficult market, our Company has retained a 45% market share, securing 5 out of the total 11 orders placed worldwide in the three years 2008 – 2010, the same percentage as in the four-year boom period (22 ships out of 50). Of particular note is the contract for two cruise ships finalized in 2010 for the Princess Cruises line; these are a new class of ship that we hope will become the forerunners of a family of similar vessels for Carnival Corporation.

The ferries sector is at a virtual standstill; emission and environmental standards applied in Northern Europe are a long way from becoming a reality in the Mediterranean, where port infrastructure and the logistics chain, particularly in support of gas-powered vessels, are still underdeveloped. This is undoubtedly a business to monitor that will develop in the medium to long term, but that does not offer any short-term prospects.

One strategy being pursued by the Company in response to the drop in orders in its core business is diversification into civilian products such as mega-yachts and offshore vessels; although these are interesting markets, current opportunities are only one-off and certainly do not offer the prospect of continuous work.

The biggest naval orders, meaning from the United States, but also other orders secured abroad, ensure an essential contribution to the Company's financial and economic performance, but they only marginally increase the order backlog in Italy because it is now standard practice to demand that ships be built entirely or partly in the local country.

This is therefore creating a structural deficit that is making it impossible to absorb all of our production capacity. Fincantieri cannot avoid addressing this issue, while nonetheless evaluating every aspect of safeguarding and defending employment.

These considerations indicate how high the stakes are. Once again the Company must be prepared to change by closing ranks with all the players concerned, from management, workers and suppliers to institutions and trade unions, with the goal of regaining efficiency and not wasting limited resources. Such change is now synonymous with business flexibility, a fundamental requirement for adapting to the new demands imposed by the global market.

Such an attitude must become a common principle and underlie a greater commitment by the institutions to putting the Company in the conditions to construct its future on a commercial basis and not as a state-assisted enterprise.

The key issue now for Fincantieri is to succeed in coming through this period of market crisis. No one can say with certainly how long it will last, although I believe that we must accept that the world economy will not grow at past rates for a good many years; we must be ready for this new scenario.

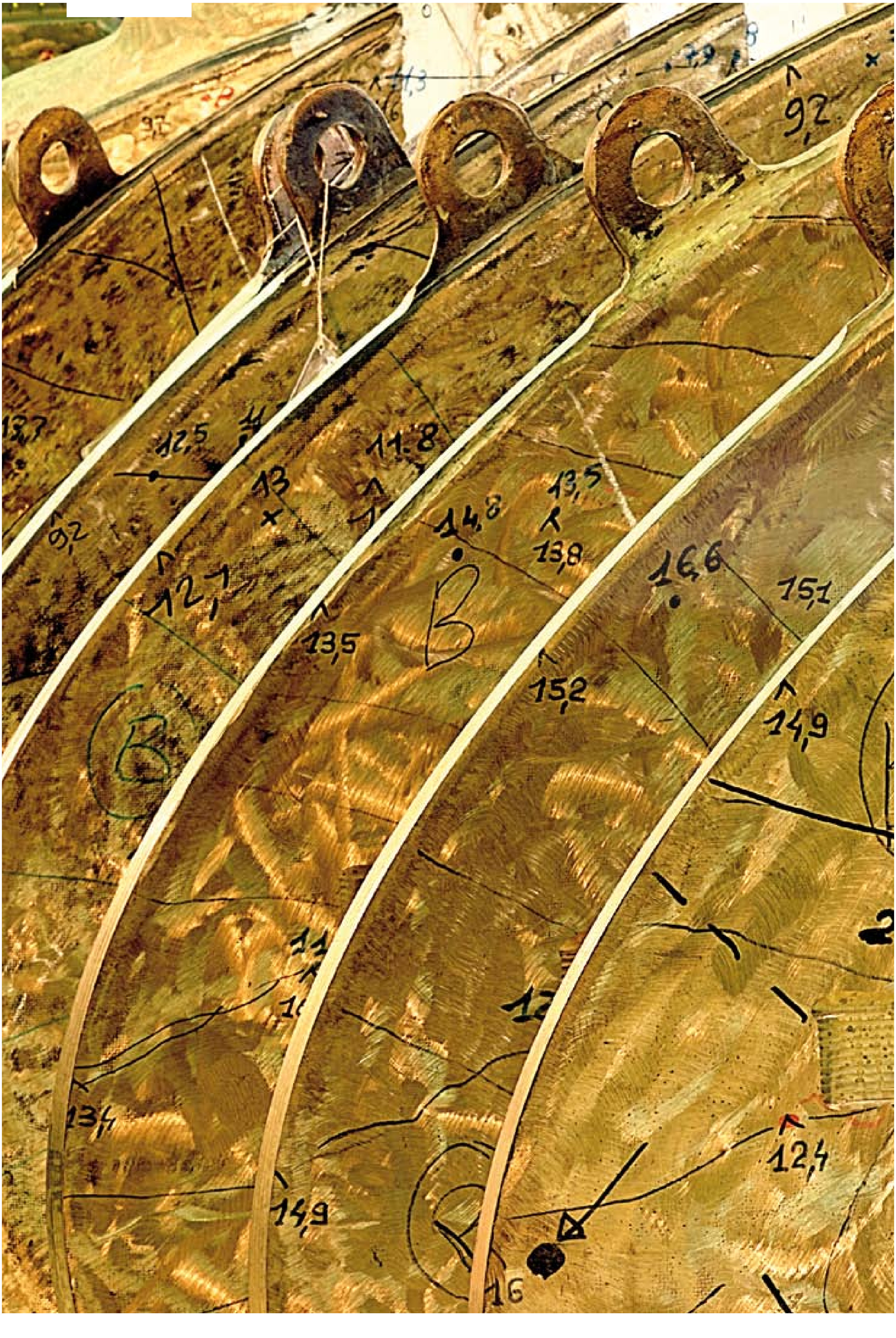
The collapse in demand by established markets does not mean losing opportunities in emerging ones with still unexpressed high potential. The competitive context has changed radically and the playing field can no longer be our own backyard: business internationalization, which means putting down roots in the most promising foreign markets, is therefore a must and not an option.

For its part, Fincantieri is ready to take up every market opportunity, also being able to rely on a solid balance sheet, sufficient reserves and a positive net financial position. Staying in the market today means finding new solutions, at times even difficult to adopt or accept, but that must be taken forward with the collaboration of everyone and with the foresight and support of institutions and trade unions.

Only in this way will Fincantieri be able to continue to exist as a player that creates value not only for its shareholders but also for its employees and all the numerous businesses allied to it.

Giuseppe Bono

GIUSEPPE BONO
Chief Executive Officer of Fincantieri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PARENT COMPANY DIRECTORS AND OFFICERS

Board of Directors

(2009-2011)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	BELSITO Francesco (**)
	CUCCURULLO Olga (*)
	DOMINEDO' Pierpaolo (*)
	WALKER MEGHNAGI Alfonso
	VIO Giovanni (*)
Secretary	CASTALDO Maurizio

(*) Members of the Compensation Committee

(**)Following his appointment as "Undersecretary for Legislative Simplification", Francesco Belsito vacated office as a Director with effect from 20 December 2010 due to incompatibility under art. 2 of Law 215/2004.

Board of Statutory Auditors

(2008-2010)

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

Manager responsible for preparing financial reports

GAINELLI Carlo

Independent auditors

(2009-2011)

PricewaterhouseCoopers S.p.A.

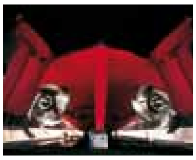
Oversight board

(Legislative Decree 231/01)

Chairman	ZANARDI Guido
Members	DENTILLI Stefano
	SARDINA Giacomo
	TADDEO Anna Maria

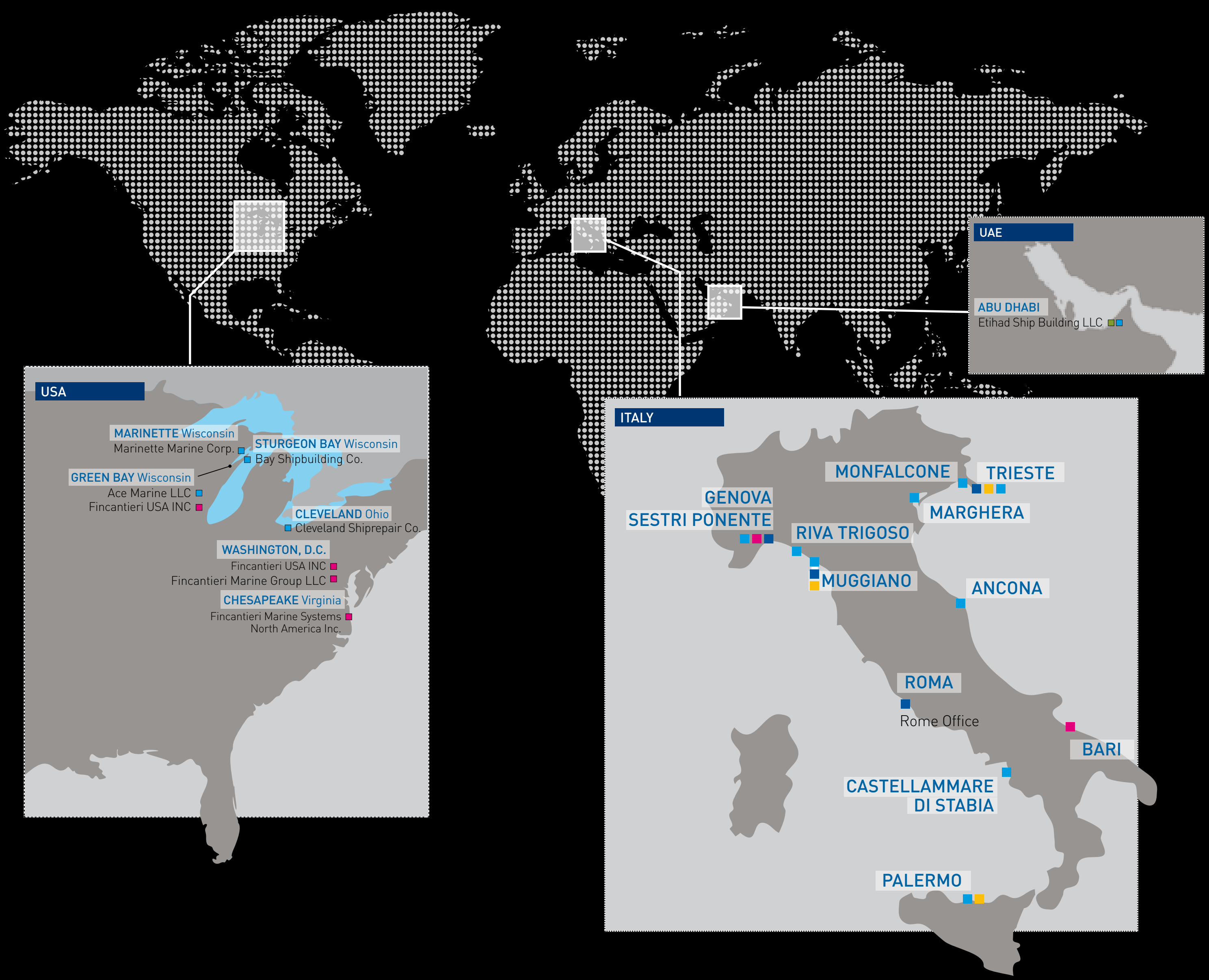
The group in review

At the close of the 2010 financial year, 99.355% of the Company's share capital (euro 633.48 million) was held by Fintecna – Finanziaria per i Settori Industriali e dei Servizi S.p.A. The remainder of share capital was held by various private investors including Citibank, which held 0.644%.
The structure of the Fincantieri Group and brief description of the companies included in its consolidation will now be presented.

	MERCHANT VESSELS			NAVAL VESSELS AND MEGA-YACHT			
	MERCHANT VESSELS		**SHIP REPAIRS AND CONVERSIONS**	**NAVAL VESSELS**		**MEGA-YACHTS**	**OTHER ACTIVITIES**
BUSINESS AREAS							
	Cruise ships	**Ferries**	**Ship repairs**	**Naval Vessels**	**Marine Systems**	**Mega-Yachts**	**Other Activities**
PRODUCT PORTFOLIO	▪ Post Panamax ▪ Panamax ▪ Mini cruise	▪ Fast ferries ▪ Cruise ferries ▪ Ro-Pax	▪ Dry-docking ▪ Special surveys ▪ Refurbishment ▪ Refitting	▪ Aircraft carrier ▪ Submarines ▪ Frigates ▪ Corvettes ▪ Patrol vessels ▪ Auxiliary vessels ▪ Destroyers ▪ Special vessels: - Oceanografics - Barges[1] - AHTS	▪ Systems - Propulsion - Stabilization - Dinamic positioning - Power generation ▪ Components - Steam turbines - Diesel engines	▪ Luxury yachts >70m	▪ Research ▪ Technical logistic engineering ▪ Naval location ▪ Equity investment holding ▪ Financial support to group companies ▪ Coordination
COMPANIES AND OPERATING UNITS	Fincantieri S.p.A. ▪ Monfalcone ▪ Marghera ▪ Sestri Ponente ▪ Ancona	Fincantieri S.p.A. ▪ Castellammare di Stabia ▪ Ancona	Fincantieri S.p.A. ▪ Palermo ▪ Bacini di Trieste Bacini La Spezia S.p.A. Bacini Palermo S.p.A.	Fincantieri S.p.A. ▪ Muggiano ▪ Riva Trigoso FMG LLC ▪ Sturgeon Bay ▪ Cleveland Marinette Marine Corporation LLC ACE Marine LLC Delfi S.r.l. Orizzonte Sistemi Navali Etihad Ship Building LLC EAU	Fincantieri S.p.A. ▪ Riva Trigoso Isotta Fraschini Motori S.p.A. FMSNA Inc. Seastema S.p.A.	Fincantieri S.p.A. ▪ Muggiano	Fincantieri S.p.A. ▪ Corporate Fincantieri USA Inc. Fincantieri Marine Group Holdings Inc. Fincantieri Holding BV Cetena S.p.A. Seaf S.p.A. Enlav S.p.A.

(1) Includes production and repair of barges at Great Lakes region of USA

WORKING TOGETHER AS ONE, LARGE, FLEXIBLE SHIPYARD



ITALY

TRIESTE
- HEAD OFFICE
- MERCHANT SHIPS
- SHIP REPAIRS AND CONVERSIONS
- ATSM SHIPYARD - DOCK

GENOVA
- NAVAL VESSELS
- MARINE SYSTEMS
- CETENA
- ORIZZONTE SISTEMI NAVALI
- DELFI
- SEASTEMA

MONFALCONE
- SHIPYARD

MARGHERA
- SHIPYARD

ANCONA
- SHIPYARD

BARI
- ISOTTA FRASCHINI MOTORI

PALERMO
- SHIPYARD - DOCK

CASTELLAMMARE DI STABIA
- SHIPYARD

MUGGIANO
- MEGA YACHTS
- SHIPYARD - DOCK

RIVA TRIGOSO
- SHIPYARD

SESTRI PONENTE
- SHIPYARD

USA
- FINCANTIERI USA INC.
- FINCANTIERI MARINE SYSTEMS NORTH AMERICA INC.
- FINCANTIERI MARINE GROUP LLC
- MMC MARINETTE MARINE CORP.
- ACE MARINE LLC
- BSC BAY SHIPBUILDING CO.
- CSC CLEVELAND SHIPREPAIR CO.

UAE
- ETIHAD SHIP BUILDING LLC


MARINETTE MARINE CORP.


TRIESTE (ATSM)


MUGGIANO


ACE MARINE LLC


MONFALCONE


ANCONA

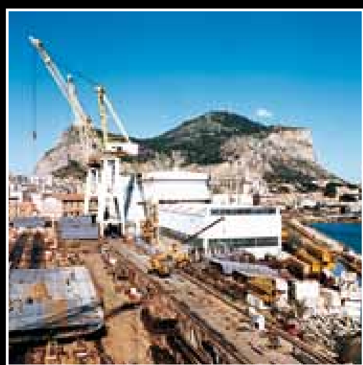

BAY SHIPBUILDING CO.

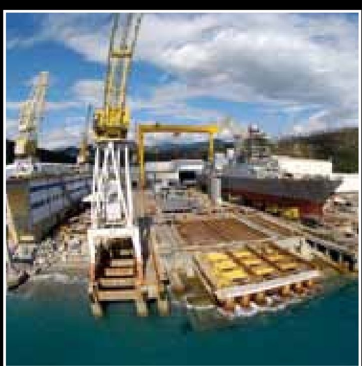

MARGHERA


CASTELLAMMARE DI STABIA


CLEVELAND SHIPREPAIR CO.


SESTRI PONENTE


PALERMO


RIVA TRIGOSO

- subsidiaries
- shipyards
- business units
- docks
- joint venture

FINCANTIERI

FINCANTIERI GROUP
REPORT ON OPERATIONS

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Operating performance

Dear Shareholders,

Despite the first timid signs of recovery, the shipbuilding industry continued to experience severe problems in 2010 due to the world economic crisis; in such a context, your Company managed to report a profit from ordinary operations of euro 53 million; this was a major improvement on the prior year profit of euro 24 million, also thanks to an increasingly important contribution by the US subsidiaries and to positive effects from the Euro/Dollar exchange rate.

However, like in the previous year, the Company's results were affected not only by a large amount of extraordinary expenses, but also by the emergence of significant non-recurring expenses.

Extraordinary expenses of euro 52 million mostly relate to additional provisions for risks, for events falling outside the normal course of business, including euro 29 million in additions to the provision for the biological effects of asbestos exposure.

Non-recurring expenses originate from reduction in the order backlog and from price pressure on new orders caused by a significant growth in competition. Such non-recurring expenses had an after-tax impact of euro 125 million on the 2010 results, which, combined with the impact of extraordinary items on operating profit, have produced a loss for the year of euro 124 million.

In terms of the statement of financial position, such expenses have been covered by equity reserves formed from undistributed profits in prior years. After absorbing the losses for 2009 and 2010, the remaining equity reserves at 31 December 2010 amount to more than euro 288 million. The statement of financial position also contains euro 118 million in provisions for specific risks and charges, compared with euro 89 million at the end of the prior year.

Also of note was the positive net financial position at 31 December 2010, which reported euro 100 million in net cash.

Lastly, the international economic crisis is lasting longer than expected, with lower demand being forecast for new ships than in the past, making it impossible for us to utilize full production capacity in coming years. In fact, Fincantieri had to face voids in its order backlog once again in 2010 and so is deciding suitable measures to address a situation that is increasingly assuming structural overtones.

Key financial highlights

		2010	2009
New orders (*)	Euro/million	1,912	1,758
Order portfolio (*)	Euro/million	8,888	10,069
Order backlog (*)	Euro/million	5,937	6,615
Capital expenditure	Euro/million	58	83
R&D	Euro/million	44	47
Employees at year end	Number	10,210	10,530
Revenues	Euro/million	2,876	3,269
EBITDA	Euro/million	179	125
Operating profit (EBIT)	Euro/million	111	57
Profit/loss (+/-) before non-recurring and extraordinary expenses (**)	Euro/million	53	24
Non-recurring expenses net of tax effect	Euro/million	-125	-75
Profit/loss for the year (+/-)	Euro/million	-124	-64
Net invested capital	Euro/million	838	1,206
Equity	Euro/million	938	1,055
Net financial position	Euro/million	100	-151
Free cash flow	Euro/million	244	-372
Ships delivered (***)	Number	16	15

(*) Net of eliminations and consolidations
(**) Non-recurring expenses net of related tax effect
(***) Number of ships over 40 meters long

Results

The main financial results are as follows:

- **Revenues**: were 12.0% down on 2009 at euro 2,876 million; this reduction was the result of less production activity than in the prior year;
- **EBITDA**: came to euro 179 million, with a margin of 6.2% (versus 3.8% in 2009). This reflects positive performance by the core business as well as the positive effects of trends in the Euro/USD exchange rate;
- **Profit/loss before non-recurring and extraordinary expenses**: was a profit of euro 53 million, up from the prior year figure of euro 24 million, also thanks to a significant contribution from the US subsidiaries;
- **Profit/loss for the year**: was a loss of euro 124 million, reporting a deterioration on the loss of euro 64 million in 2009 due to the increase in non-recurring and extraordinary expenses mentioned earlier;
- **Net financial position**: was a positive euro 100 million, an improvement on 2009 (negative euro 151 million) thanks, above all to cash collected at year end for ships under delivery and to fewer outlays because of the reduction in production activity.

New orders and the order portfolio

During 2010 Fincantieri secured euro 1,912 million in new orders, which, although slightly higher than the 2009 figure of euro 1,758 million, is well below the 2008 amount of euro 2,528 million and even further below the record euro 4,238 million in 2007. This decrease is a consequence of the continued international crisis, which, since its emergence in 2009, has significantly depressed demand for new ships in all the Group's sectors of operation.

Among the new orders were two 141,000 GT cruise ships for the Carnival Group's Princess Cruise Line, two Falaj 2 stealth patrol vessels for the United Arab Emirates and two military vessels for the Italian Coast Guard. The US subsidiary Fincantieri Marine Group secured, in partnership with Lockheed Martin Corporation, an order for the first LCS (Littoral Combat Ship) as part of a contract under which the US Navy has the option to order another 10 such ships by 2015 (the overall program aims to build 55 such ships by 2020, two of which already awarded to Fincantieri Marine Group in previous years). During the year Fincantieri Marine Group also won contracts to build a fisheries survey vessel for the National Oceanic and Atmospheric Administration, a US federal agency, and to build 39 RB-Ms (Response Boats-Medium) for the US Coast Guard. Lastly, the repairs and conversion business received euro 44 million in orders, while euro 72 million in orders were placed for systems and components.

At the year-end reporting date, the Fincantieri Group's order portfolio was worth euro 8,888 million (euro 10,069 million at the end of the prior year). The associated order backlog, amounting to euro 5,937 million (down from euro 6,615 million a year earlier), is insufficient to fill the production capacity of all the Group's shipyards.

Capital expenditure – R&D and innovation

Capital expenditure of euro 58 million related to completion of projects started in the past for enhancing production efficiency and to improvements in safety and environmental standards. This amount also includes continued investment in the US shipyards for the purposes of satisfying the Littoral Combat Ship orders.

Despite the present economic difficulties the Group is well aware of how research and innovation are the foundations for success and future competitiveness. This is why it invested euro 44 million in 2010 to develop various projects relating to product and process innovation.

Dividends

In view of the year's results that, as described earlier, have been affected by significant non-recurring expenses, we propose not to distribute a dividend for 2010 in order to better preserve the Company's capital structure.

Market scenario

The shipbuilding industry around the world has continued to experience great difficulty. There were slight signs of an upturn in 2010 from the prior year's record lows, with indications of a medium-term recovery although far short of pre-crisis values.

The volume of orders, at 60% below those in 2007, is totally incapable of satisfying global production capacity, still well in surplus despite progressive reduction in the year after closure of a number of shipyards and downsizing measures by the major competitors.

In Europe, the drastic reduction in order backlogs resulting from collapse in demand, combined with requests by shipowners to postpone deliveries, has produced an underutilization of production capacity, forcing shipbuilders to make heavy cuts both in direct jobs and in its allied industries and to leave less profitable market segments, where competition from the Far East is fiercest. Shipbuilders have also had to face strong price pressure on new orders.

In particular, the STX Europe Group has started extensive restructuring at its STX Finland subsidiary with the involvement of a Russian state shipbuilder in its Helsinki yard.

In this difficult market, Fincantieri is focusing not only on continuous growth in business competitiveness through improved productivity, on continuous technological innovation and on opportunities presented by certain new markets, but is also examining suitable measures for addressing a situation that is increasingly assuming structural overtones.

Business Units

Merchant vessels

Markets

Shipping in general

Demand for new ships amounted to around 39 million CGT (USD 76 billion), compared with 15.9 million CGT in 2009 (USD 30 billion).
This indicates a recovery in demand from the all-time low reached in 2009, even if the level still falls well short of satisfying current world production capacity of more than 60 million CGT.
The growth in shipbuilding capacity has been fuelled by the entry of new players, beneficiaries of policies by national governments well aware of this industry's capacity to drive economic development (in particular in China, Brazil, India and Vietnam).
The imbalance between supply and demand has given rise to production voids and pressure on prices which, although higher than in the previous year, still have a long way to go before recouping the slump in 2009.
In this market context, China confirmed its international leadership with an overall market share of 42% (41% in the prior year).
Japan's shipbuilding industry appears even more distressed with a modest 14% (27% in 2009), while Korea's seems to have recovered, with market share climbing to 30% from 21% in 2009.
The European shipbuilding industry achieved a 6% market share (3% in 2009), confirming its prime position at the high value-added end of the market. In fact, cruise ships and working vessels account for 75% of the orders placed.
However, in Europe the crisis is affecting the survival of small and large shipyards alike. In fact, the past 3 years have seen the disappearance of important historic production sites. Shipbuilding is therefore increasingly emerging as an industry with only a few players capable of having any weight on the international market.
Equally critical are job cuts and recourse to social buffers, with exceeded 20% in 2010 affecting 40,000 people, as well as the associated impact on the entire supply chain.

QUEEN ELIZABETH
Cunard Line
2010
Monfalcone shipyard

Cruise ships

The cruise ship market has held up better than others to the international economic crisis, showing good signs of recovery in the past year. The CLIA (Cruise Lines International Association) reports that its member cruise lines carried 15 million passengers in 2010, compared with 13.4 million the year before, and expect to reach 16 million in 2011 (a year-on-year increase of 6.7%).

The financial results of some of the largest cruise lines in 2010 also confirm the healthy state of this sector, with improvements on 2009 and share prices almost back to pre-crisis levels.

These results are the response to a tough challenge, won by the cruise lines, who have had to face and manage strong, sudden market upheaval abruptly interrupting the past period of growth. Most of the increase in capacity, following delivery of new ships ordered in the past, has occurred at a time of lower market expectations for growth, which had originally justified such investments.

The long-term forecasts continue be encouraging and cruise lines are seeing a good level of bookings for 2011 along with a recovery in cruise prices.
Orders for seven cruise ships were placed in 2010, of which six over-panamax weighing around 140,000 GT. This was more than in 2008-2009 when only four ships were ordered, even if, looking at the contracts in detail, two were secured under “atypical” market conditions. This refers to the French government’s financial support of STX France, allowing it to obtain the orders from Libya and MSC.
In this context, Fincantieri won orders for two new class ships for Princess Cruises, a brand of the Carnival Corporation, world leader of this sector.
However, the amount of these orders is not enough to utilize full production capacity at the European shipyards specializing in construction of this kind of ship; this situation is likely to continue because shipowners have said that they want to pursue a more modest investment policy than in the past (6/8 ships per annum versus an average of 12 in the pre-crisis period), also because of the greater difficulty and cost they are facing in financing these investments. In fact, the offer of a suitable financial package in support of new projects has become a key factor in investment decisions and hence in contract finalization.
In practice, shipbuilders are now competing on a smaller and hence more competitive market, focused on larger vessels in view of the new possibilities offered by a wider Panama Canal, or, on smaller, highly customized one-off vessels, all of which nonetheless with a strong green content.
Fincantieri’s cruise ship order portfolio contained nine ships in December 2010, which are being mainly built at the yards in Monfalcone, Marghera and Sestri.

CRUISE ROMA
Grimaldi Lines
2007
Castellammare di Stabia shipyard

Ferries

Global demand for ferries recovered in 2010, with the completion of contracts for 466,000 CGT versus 84,000 CGT in 2009.

Within this segment, the market targeted by Fincantieri is that of large cruise ferries (more than 170 meters in length), which combine efficient transport of passengers with cars or of commercial vehicles, with the high standards offered by cruise ships.

In the past two years, demand in this sector has been virtually zero, with just two orders placed, of which one is still uncertain because awaiting European Union approval of the government aid due to be received.

In view of the forthcoming introduction of tighter limits on emissions and of extension of the Emission Control Areas, the maritime industry, particularly the passenger ship sector, is committed to finding new more eco-friendly solutions. Numerous projects indicate gas as the new maritime fuel and North European countries seem more decided than others in embracing this solution. For the time being, gas propulsion is applicable mainly in medium-small ferries serving short routes.

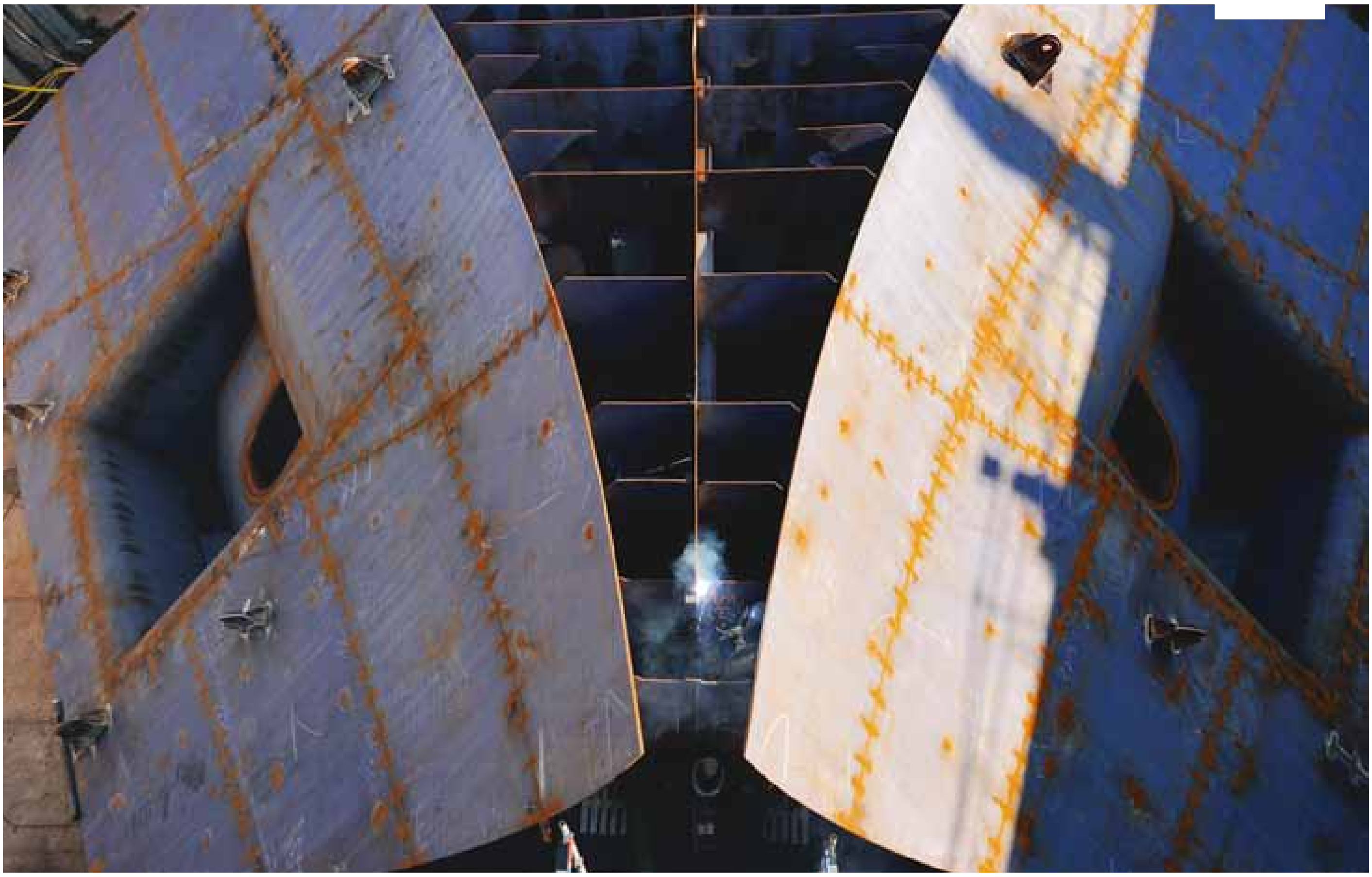
Fierce competitive pressure and ferry capacity underutilization, combined with a lack of sufficient financial resources, are persuading shipowners that renewal of obsolete vessels is an unattractive proposition. This means that any replacement with greener vessels will require suitable incentives.

Fincantieri currently has no orders in its portfolio in this segment.

Repairs and conversions

The ship repairs and conversions sector has not experienced the sharp downturn in demand triggered by the economic and financial crisis in other sectors, although it has seen a slowing in activity. In fact, a persistently unsatisfactory level of charters has influenced shipowner fleet maintenance decisions, with budgets reduced and upgrade work postponed.
However, the outlook is still good for cruise ships in terms of repairs and refitting thanks to the growth in fleet size and the fact that a large number of ships have reached mid-life, making extensive refurbishment no longer deferrable.
In addition, the offer of cruises in Europe has grown considerably, with the Mediterranean confirmed as one of the most sought-after destinations: the 2011 cruising season will see a further increase in the offer on 2010, involving 52 cruise lines and 149 cruise ships. The presence of Fincantieri sites in strategic locations for this sector should therefore foster prospective growth in this business.
In fact, the Trieste dry-docks are working at full capacity thanks to their location and the fact of being one of the few large dry-docks in the Mediterranean.
Lastly, the Palermo yard has started to refurbish the two dry-docks of 52,000 and 19,000 tonnes.

CARNIVAL DREAM
Carnival Cruise Lines
2009
Monfalcone shipyard



Operations

(Euro/million)	2010	2009
New orders	1,107	629
Order portfolio	3,926	5,065
Order backlog	2,394	2,983
Capital expenditure	30	54
Ships delivered (no.)	7	5

New orders

During 2010, the Fincantieri Group was engaged in long and complex negotiations with the Carnival Group to secure new orders for the construction of various ships for its different cruise lines.
These negotiations lasted far longer than expected and were eventually finalized in May with an agreement to build two prototype 141,000 GT cruise ship for Princess Cruises.
Orders placed for ship repairs and conversions came to euro 44 million.

Order portfolio

The order backlog of the Merchant Vessels business unit stood at euro 2,394 million at the end of 2010 against euro 2,983 million at the end of 2009, and was insufficient to fully utilize production capacity at all Fincantieri's shipyards.
The order portfolio amounted to euro 3,926 million at the end of 2010, compared with euro 5,065 million at the end of 2009.

Capital expenditure

The most significant expenditure, apart from that relating to safety at work and environmental protection, was carried out at the following yards:

- Monfalcone (euro 7.2 million): completion of a new hull preassembly area, equipped with innovative lifting systems, and work on upgrading and modernizing production-related infrastructure;
- Marghera (euro 7.7 million): continuation of work on converting workshops to gas to save energy and improve product quality;
- Sestri (euro 3.3 million): replacement of the plate-lifting crane, refitting of the wharf crane and refurbishment of the workshop roof coverings;
- Ancona (euro 2.4 million): progressive completion of activities for the structural improvement of production areas, buildings, plant and docks, to permit efficient construction of small-medium size cruise ships, and start of refitting program for the yard's cranes;
- Castellammare (euro 3.3 million): completion of work on building the seventh mobile structure in support of the assembly workshop, continuation of modernization and upgrading of production and service plant to regulatory standards;

- Palermo (euro 1.8 million): continued upgrading of production and service plant to satisfy required regulatory standards and obtain fire-prevention certification;
- Trieste dry-docks (euro 0.7 million): completion of dry-docks upgrade to required regulatory standards and extraordinary maintenance activity;
- Bacini di Palermo S.p.A. (euro 2.6 million): continued work on refurbishing the 400,000 tonne dry-dock.

Production

Production in 2010 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Cruise ships	4	5	5
Cruise ferries			1
Offshore			1
Repairs and conversions			61 (*)

(*) Number of completed orders for repairs and conversions

The following ships were delivered:

- Costa Deliziosa, a 92,600 GT cruise ship, delivered to Costa Crociere (Carnival Group) by the Marghera shipyard;
- P&O Azura, a 116,000 GT cruise ship, delivered to P&O Cruises (Carnival Group) by the Monfalcone shipyard;
- Le Boreal, a luxury 10,700 GT cruise ship, delivered to Compagnie des Iles du Ponant by the Ancona shipyard;
- Cruise Olympia, a 54,310 GT cruise ferry, delivered to the Grimaldi Group by the Castellammare shipyard;
- Scarabeo 8, a 54,000 tonne drilling platform, delivered to Saipem by the Palermo yard;
- Queen Elizabeth, a 90,400 GT cruise ship, delivered to Cunard Line (Carnival Group) by the Monfalcone shipyard;
- Nieuw Amsterdam, a 87,000 GT cruise ship, delivered to Holland America Line (Carnival Group) by the Marghera shipyard;
- The Palermo yard managed the repair of 28 ships and 12 conversions;
- The Trieste dry-docks managed the repair of 21 ships.

Naval vessels, special vessels and Mega-Yachts

LCS - Littoral Combat Ship - FREEDOM
Marine USA
2008
Marinette shipyard, Wisconsin (USA)

Markets

Naval vessels

Global orders for naval vessels amounted to just over euro 4 billion in 2010, reporting a decline for a second year running (55% in 2010 on 2009, 30% in 2009 on 2008).

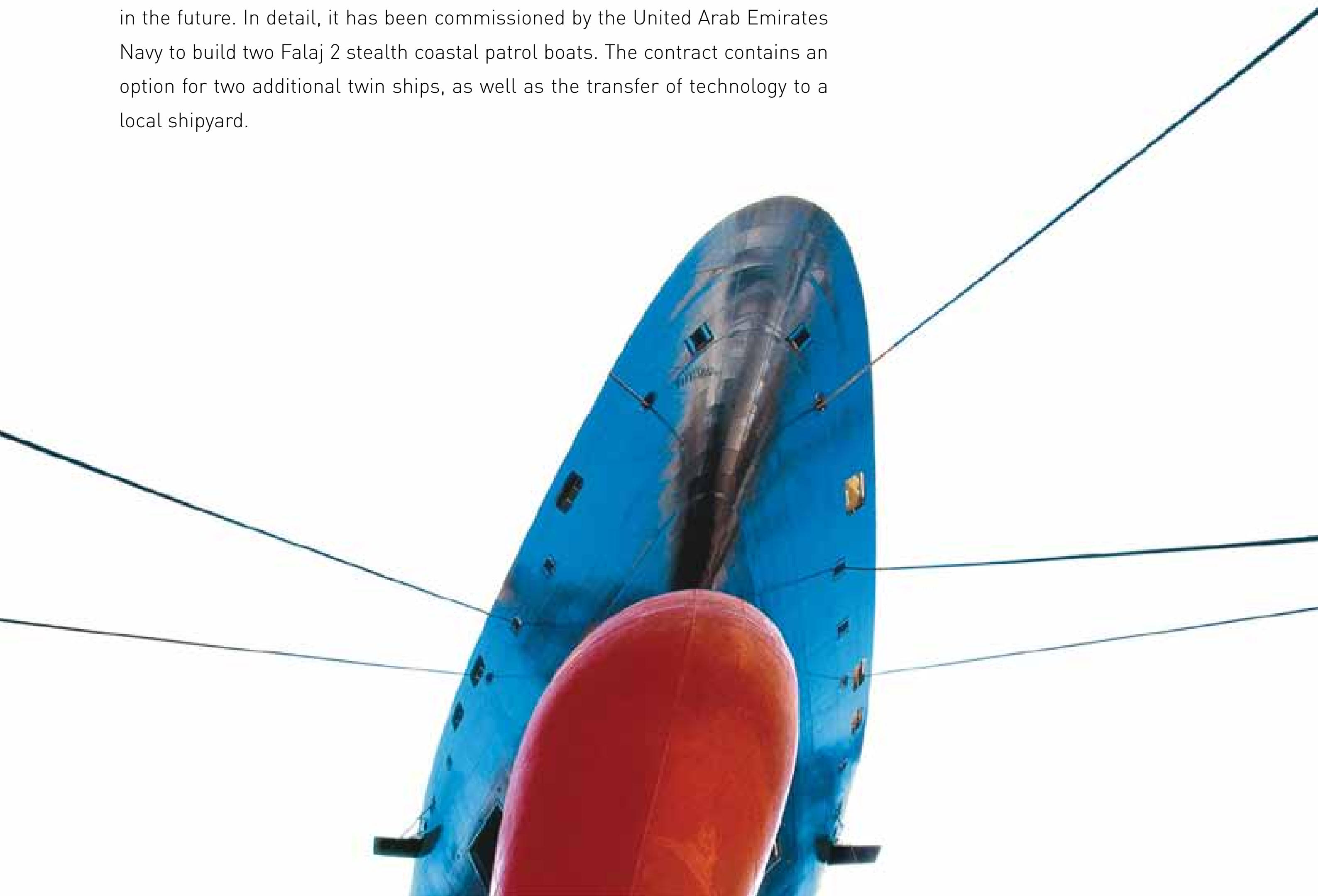
New orders by the navies of nations with their own domestic shipbuilding industry and related know-how amounted to around euro 3.1 billion, unchanged on 2009, particularly thanks to demand by the US Navy. Orders placed by not fully autonomous shipbuilding nations plunged to under euro 1 billion from euro 5.5 billion in 2009.

In the naval sector, almost every country requires, as a condition of awarding new contracts, that the ships be built partly or entirely in their own country. This means that entry to this market involves on the one hand, making partnerships with local shipyards and supplying the related technology, and on the other, in view of the inevitable difficulties in transferring adequate standards of quality and speed to the production process, special attention to implementation of this transfer.

In the current strategic scenario, with its instability and conflicts of varying intensity, customers are demanding flexible, readily available solutions that can be deployed in the various theatres of conflict to face a wide range of situations, ranging from protection of national interests to crisis resolution, including humanitarian and disaster aid missions.

In the competitive European market, defense budget cuts by the major nations are causing the principal national programs already started and the placement of new orders to be delayed or cut back. Consequently, as the programs of these national navies gradually complete, capacity underutilization is emerging along with attempts to acquire alternative work in the civilian field. Examples are DCNS in France which, under its diversification strategy, is focusing on the civil nuclear and renewable energy sectors, BAE Systems in the United Kingdom, which is developing turbines for offshore wind farms, and Kockums in Sweden, which has entered a partnership with an engineering company to design and build support vessels for offshore wind farms.

Despite the decline in the international market, Fincantieri has been awarded important contracts in the USA and Middle East, demonstrating the success of its recent moves to expand abroad which will be pursued all the more actively in the future. In detail, it has been commissioned by the United Arab Emirates Navy to build two Falaj 2 stealth coastal patrol boats. The contract contains an option for two additional twin ships, as well as the transfer of technology to a local shipyard.



Confirming the strategic importance of the Middle Eastern market, Fincantieri has formed the company Etihad Ship Building in the United Arab Emirates as a joint venture with Al Fattan Ship Industries and Melara Middle East; this company will design, produce and sell military and civilian ships, as well as carrying out maintenance and refitting activities.

US market

The strategic decision to enter the US market by acquiring shipyards, as required by US law, has proved a winning one, allowing Fincantieri to further diversify its business in formerly inaccessible markets. At the end of 2010, as part of its Littoral Combat Ship program, the US Government decided to commission another 20 ships worth a total of more than USD 8 billion, split equally between the two bidding consortia, which both adopted the proposed designs: the mono-hull design of the Lockheed Martin – Fincantieri consortium and the trimaran design of Austal. The initial order for the first two ships was issued in December, one of which will be built by the Fincantieri Marine Group's Marinette Marine shipyard and the other by Austal USA; options to build the other 18 ships can be exercised by 2015.

In fact, the US defense budget has confirmed funds to continue programs relating to mid-size vessels, but does not foresee any programs for large ships (destroyers, cruisers). Consequently, shipyards specializing in larger ships do not have enough work. One of these is the Northrop Grumman Group, one of the major players in US defense; in 2010 it announced a major restructuring of its ship engineering division, involving a reduction in the number of production sites or even the possibility of selling this business.

As for small specialized naval defense ships, the capability of our ACE Marine yard to build aluminum ships has allowed the Company to secure orders from the US Coast Guard for other RB-Ms (Response Boats-Medium), which are high-performance boats about 14 meters long with maximum speeds in excess of 40 knots. Marinette Marine Corporation is involved in this multi-year project in the role of prime contractor and coordinator.

In the market for oceanographic vessels, during 2010 Fincantieri won an order from NOAA (National Oceanic and Atmospheric Administration), following on from the order placed last year for an Arctic ocean research vessel.

Fincantieri Marine Group is also currently involved in preparing a bid for the SSC (Sea Base-to-Shore Connector) program to build a new fleet of hovercraft for the US Navy (80 vessels worth more than USD 4 billion). Fincantieri and Boeing, the aerospace giant, had already signed a cooperation agreement in 2009, which was also entered by Oceaneering International, a US company, in spring 2010.

Special vessels

UOS COLUMBIA
Hartmann Logistik
2009
Palermo shipyard

The steep increase in the oil price is keeping up investment in exploration and production by Oil & Gas companies, giving fresh impetus to research and extraction programs, especially in "emerging", high-potential regions like Brazil and Russia.

This is an important driver of demand both for offshore platforms (drilling rigs etc) and for support vessels.

Both markets are demanding sophisticated, versatile solutions capable of operating in harsh environments, and which therefore have higher technological and value content.

In this context, Fincantieri has already had an initial successful experience with the contract to complete the Scarabeo 8 semi-submersible drilling rig, in which the Company displayed its organizational and management skills as the project's main contractor.

Work continued in the year on building a special ship, commissioned by the Ministry of Economic Development under a cooperation agreement between Italy and Russia; this ship will transport spent nuclear fuel and radioactive waste from the demolition of Russian nuclear submarines.

The delivery of 9 AHTS (Anchor Handling Tug & Supply Vessels) during the year to the Hartmann Group completed this program for a total of 12 such vessels.

Mega-Yachts

SERENE
2011
Muggiano shipyard

Two years since the crisis hitting the mega-yachts sector, 2010 reported a slow recovery in demand that nonetheless fell well short of that in the boom years.
There was some improvement in the sector of yachts over 70 meters, which closed 2010 with five new-build orders, compared with two in 2009.
The mood following the sector's principal trade shows was moderately optimistic; however, there is still a certain reluctance by potential customers to order new ships in view of the large number of pre-owned yachts still available on the market at competitive prices, especially smaller ones.
At the end of December 2010, the global order portfolio for yachts over 70 meters long contained 65 ships (for a total of 5,606 meters), of which two were being built by Fincantieri (one of 140 meters and another of 134 meters), representing 5% of total meters under construction.

Operations

(Euro/million)	2010	2009
New orders	812	1,132
Order portfolio	4,962	5,003
Order backlog	3,543	3,631
Capital expenditure	23	21
Ships delivered (no.) (*)	9	10

(*) Ships over 40 meters long

New orders

The Naval Vessels, Special Vessels and Mega-yachts business units secured a number of important orders in 2010, amongst which:

- the subsidiary Fincantieri Marine Group secured another important order under the LCS (Littoral Combat Ship) program for the US Navy; the new ship will be built in the Marinette Marine shipyard. This is the third ship awarded to the consortium headed by Lockheed Martin Corporation of which Fincantieri is a member, and the first under a contract to build 10 such ships, options for which will be exercised by the US Navy by 2015. Orders were also secured for another 39 new RB-M (Response Boat-Medium) for the US Coast Guard, under a multi-year construction program being taken forward by Fincantieri Marine Group at the ACE Marine yard in partnership with Kvichak Marine Industries, and for one Fisheries Survey Vessel commissioned by the National Oceanic and Atmospheric Administration;
- the Naval Vessels business unit was commissioned to build two Falaj 2 stealth patrol boats for the United Arab Emirates Navy and two coast guard patrol boats for the Italian Port Authority's General Headquarters;
- the Systems and Components business unit secured new orders worth euro 72 million;
- the subsidiary Delfi secured orders worth euro 25 million for logistical engineering services and the supply of technical documentation, mainly for customers in the Naval Vessels business unit of Fincantieri S.p.A., its parent company;
- the subsidiary SEASTEMA secured orders worth euro 12 million, mostly for automation systems relating to the frigates for the United Arab Emirates Navy, to contract variants under the FREMM program, to refitting of Kenyan frigates, to ships in the Fincantieri Mega-yachts business unit, and to a number of orders in the Merchant business unit.

Order portfolio

At the end of 2010, the total value of undelivered orders in the order portfolio amounted to euro 4,962 million (euro 5,003 million at the end of 2009); the order backlog of euro 3,543 million at the end of 2010 (euro 3,631 million at the end of 2009) was insufficient to fully utilize shipyard production capacity in 2011, also because of the long duration of some of the orders in the portfolio.

Capital expenditure

The most significant expenditure was carried out at the following yards and production facilities:

- shipyards of the subsidiary Fincantieri Marine Group (euro 15.2 million): continued equipment and logistical modernization at the Marinette and Sturgeon Bay yards in Wisconsin, to support development of the LCS program and the new build program, including replacement of the floating dock at the Sturgeon Bay yard (partly financed by the State of Wisconsin and due to be completed in coming years);
- Riva Trigoso shipyard (euro 2.3 million): continued work in the logistics and services area and on improving safety, plus improvement of infrastructure serving the mechanics area;
- Muggiano shipyard (euro 2.5 million): completion of work on renewing plant infrastructure of workshops that produce submersibles and continuation of work on the buildings serving the yard;
- shipyard of the subsidiary Isotta Fraschini Motori (euro 2.7 million): installation and start up of production of blocks for 1700-series engines, completion of systems to dissipate electrical charges in the "FREMM" testing area, as well as work to comply with safety standards.

Production

Production in 2010 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Naval vessels	4	5	
Mega-yachts	1		
Special vessels > 40 m long		3	9
Special vessels < 40 m long	34	26	26
Engines			78 (*)

(*) Number of engines produced on site

The following ships were delivered:

- 9 multi-purpose AHTS vessels (Anchor Handling Tug & Supply), commissioned by the German shipowner Hartmann Logistik GmbH (Hartmann Reederei Group), and built at the Riva Trigoso, Muggiano and Palermo shipyards;
- 26 RB-Ms (Response Boats-Medium), commissioned by the US Coast Guard, and built at the Fincantieri Marine Group's ACE Marine shipyard.

The acceptance report was issued for the "Caio Duilio", the second destroyer under the "Orizzonte" program, built at the Riva Trigoso and Muggiano shipyards and released to the Italian Navy during the year.

Other activities

MUGGIANO SHIPYARD

In addition to its "Merchant Vessels" and "Naval Vessels, Special Vessels and Mega-yachts" business sectors, the Fincantieri Group has a third sector, comprising companies that operate on a groupwide basis:

- CETENA research center;
- ELNAV, a shipping company that has operated a bareboat agreement since 1999 that is due to terminate in 2011;
- Fincantieri Holding BV, a company that manages certain investments in foreign companies;
- SEAF, a company that provides financial and treasury services;
- institutional, management and coordination activities by the Parent Company.

Capital expenditure

The most significant expenditure included:

- at CETENA: modernization and technological upgrading of EDP equipment, purchase of laboratory equipment for technical analysis and/or experiments and hardware needed to develop operations in "virtual reality";
- expenditure connected with groupwide, institutional activities by the group parent Fincantieri S.p.A.

Production

CETENA carried out and promoted basic and applied research activities in the shipbuilding, propulsion and marine sectors, primarily on behalf of the group parent Fincantieri. It acted as a coordinator and partner within European research consortia and cooperated with both Italian and international universities, scientific institutes and research centers. It also performed testing on ships under construction as well as laboratory tests for small and medium enterprises. Activities were also carried out aimed at developing applied and pre-competitive research and providing the shipping and maritime industries with a wide range of services. The Naples, Palermo, Muggiano and Trieste offices also ensured CETENA's participation in activities organized by Italy's so-called "Technology Clusters".

ELNAV continued to operate its fleet of two bulk carriers under a bareboat charter agreement with the shipowner Bottiglieri.

Fincantieri Holding continued managing the 100% equity interest in Fincantieri Marine Systems North America, while it sold, at year end, its 21.05% equity interest in Lloyd Werft Bremerhaven, a German company which performed repairs and conversions.

SEAF provided technical and financial support services in the exclusive interest of the Parent Company.

Financial results

Consolidated income statement

(Euro/million)	2010			2009		
	Before non-recurring items	Non-recurring items	Total	Before non-recurring items	Non-recurring items	**Total**
Revenues	**2,876**		**2,876**	**3,269**		**3,269**
Materials and services costs	-2,149		-2,149	-2,597		-2,597
Personnel costs	-504		-504	-520		-520
Provisions and impairment losses	-46		-46	-29		-29
Capitalization of internal costs	2		2	2		2
EBITDA	**179**		**179**	**125**		**125**
Depreciation and amortization	-68		-68	-68		-68
Operating profit (EBIT)	**111**		**111**	**57**		**57**
Finance income/costs (+/-)	-19		-19	-14		-14
Income/expense (+/-) from investments	-2		-2			
Income taxes	-37		-37	-19		-19
Profit/loss (+/-) before non-recurring and extraordinary expenses	**53**		**53**	**24**		**24**
Extraordinary income/expenses (+/-)	-52		-52	-13		-13
Non-recurring income/expenses (+/-), net of tax effect		-125	-125		-75	-75
Profit/loss for the year (+/-)	**1**	**-125**	**-124**	**11**	**-75**	**-64**

The consolidated financial statements have been drawn up in compliance with IAS/ IFRS and present non-recurring items separately, the amount of which has been significant in the past two years.

The principal contents of the income statement will now be discussed:

- **Revenues**: are 12.0% down on 2009 at euro 2,876 million; this reduction is the result of less production activity than in the prior year;
- **EBITDA**: amounts to euro 179 million, with a margin of 6.2% (versus 3.8% in 2009). This reflects positive performance by the core business as well as the positive effects of trends in the Euro/USD exchange rate;
- **Finance income and costs and income and expenses from investments**: report a net negative euro 21 million, comprising net finance costs of euro 19 million and the loss of around euro 3 million arising on disposal of the investment in the associate LWB. This loss was due to the partial write-down in previous years - under IAS/IFRS – of the carrying amount of the investment in LWB to reflect Fincantieri's share of its equity. Finance income and costs mainly comprise net costs from derivative instruments (euro 16 million) and the interest cost of employee indemnity benefit (euro 2 million);
- **Income taxes**: present a charge of euro 37 million in 2010, of which euro 28 million in national current and deferred taxes and euro 9 million in income taxes relating to foreign subsidiaries. The 2010 tax charge does not include

any tax relating to non-recurring items, which are stated net of the related tax effect;

- **Profit/loss before non-recurring and extraordinary expenses**: reports a profit of euro 53 million, up from the prior year figure of euro 24 million;
- **Extraordinary expenses**: amount to euro 52 million, most of which relating to additional provision for risks, for events falling outside the normal course of business, including euro 29 million in additions to the provision for the biological effects of asbestos exposure;
- **Non-recurring expenses**: for euro 125 million, originate from the reduction in the order backlog and price pressure on new orders resulting from greater competition.

Consolidated statement of financial position

(Euro/million)	31.12.2010	31.12.2009	Change
Intangible assets	111	107	4
Property, plant and equipment	537	542	-5
Equity investments and other financial assets	32	80	-48
Invested capital	**680**	**729**	**-49**
Inventories and advances	286	304	-18
Construction contracts – assets	233	971	-738
Trade receivables	400	285	115
Other assets	365	226	139
Advances from customers	-4	-41	37
Trade payables	-731	-893	162
Provisions for risks and charges	-118	-89	-29
Other liabilities	-201	-205	4
Working capital	**230**	**558**	**-328**
Employee indemnity benefit	**-72**	**-81**	**9**
Net invested capital	**838**	**1,206**	**-368**
Equity	**938**	**1,055**	**-117**
Net financial position	**-100**	**151**	**-251**

The **consolidated statement of financial position** reports a considerable decrease in net invested capital (euro 368 million), mainly due to the following factors:

- **Equity investments and other financial assets:** decreased by euro 48 million, as a result of reclassifying to current assets lease receivables and grants close to maturity (euro 41 million) and as a result of selling the investment in LWB (euro 7 million), an associate involved in repairs and conversions. Fincantieri decided to sell this investment because the outlook for Germany and for LWB is particularly negative and this was why already in 2008 the Fincantieri Board of Directors had decided not to exercise the option to purchase a majority interest in this company.
- **Working capital:** decreased by euro 328 million, reflecting a reduction in construction contracts (euro 738 million) that was only partly offset by an increase in trade receivables (euro 115 million) mainly due to a payment

extension granted to one shipowner, and by a decrease in trade payables (euro 162 million) associated with the contraction in production volumes, and by an increase in other assets (euro 139 million), partly attributable to reclassifying the current portion of non-current financial assets.

The decrease of euro 117 million in equity reflects the loss for the year (euro 124 million), as partly offset by an increase in the currency translation reserve (euro 7 million) following dollar appreciation against the euro.

All the above factors caused the net financial position to improve, with euro 100 million in net cash reported at year end.

Consolidated net financial position

(Euro/million)	2010	2009
Cash and cash equivalents	**329**	**86**
Current financial receivables	**11**	**8**
Bank overdrafts	-5	-115
Current portion of bank loans	-19	-18
Other current financial liabilities	-178	-61
Current debt	**-202**	**-194**
Net current debt	**138**	**-100**
Non-current financial receivables	**129**	**104**
Bank loans	-135	-150
Other non-current financial liabilities	-32	-5
Non-current debt	**-167**	**-155**
Net non-current debt	**-38**	**-51**
NET FINANCIAL POSITION	**100**	**-151**

Consolidated statement of cash flows

(Euro/million)	2010	2009
EBITDA	**179**	**125**
Income taxes paid	-22	-26
Dividends received and interest received and paid	-1	-3
Utilization of provision for risks and charges and of provision for employee indemnity benefit	-37	-30
Changes in working capital	182	-361
Other changes	-14	-10
Net cash flow from operating activities	**287**	**-305**
Expenditure on intangible assets	-6	-10
Expenditure on property, plant and equipment	-50	-69
Proceeds from (expenditure on) equity investments	4	
Cash flow from other financial receivables and assets	9	12
Free cash flow	**244**	**-372**
Dividends paid		-10
Net cash flow from financing activities	-1	411
Net cash flows for the year	**243**	**29**
Cash and cash equivalents at beginning of the year	**86**	**57**
Cash and cash equivalents at end of the year	**329**	**86**

The statement of cash flows reports positive free cash flow of euro 244 million, a major improvement on 2009 (euro -372 million). This is primarily attributable to the huge volume of resources generated by the reduction in working capital (euro 543 million) following the large number of deliveries in the year, accompanied by a contraction in the order backlog and an increase in EBITDA (euro 54 million).

In completion of the Company's principal investment programs, net capital expenditure on intangible assets and property, plant and equipment amounted to around euro 56 million.

Research, development and innovation

SHEET METAL CUTTING
Monfalcone shipyard

In difficult times like the present, the role of strategic activities in the field of research, innovation and development has been important for maintaining high standards of product and process know-how. Group companies invested a total of euro 44 million in research, innovation and development in 2010.
Fincantieri took part during the year in several regional, national and European research programs, benefiting from grants under the related legislation. These grants represent a small proportion of the overall research, innovation and development costs incurred each year by Fincantieri. It should also be noted that Italian Law 296/06, which introduced the European legislation on grants for shipbuilding research, has not yet been refinanced for 2011-2013 and that Italian Law 46/82 for technological innovation has not yet been fully financed. This means that in the future Fincantieri will no longer be able to benefit even from this limited form of support.

Reference framework

Within Europe, the 7th Framework Program for Research and Technological Development has been in operation since 2007 and will end in 2013. The European Commission published once again in 2010 several calls for proposals. Fincantieri constantly monitors such calls, identifying possible projects each time and forming partnerships for making new research project proposals.
Domestically, the new National Research Program aims to develop two-tier governance over research, development and innovation for each of the country's strategic sectors:

- strategic governance, exercised by a national technology platform, which acts as a focal point for the demands of all the players and thus allows the definition of an industry-wide strategy;
- operational governance, organized locally, including through Technology Clusters, which can optimize the use of resources by topping up national and regional funds.

Fincantieri is present in both the Shipbuilding Clusters and the "National Marine Technology Platform". Such participation is important for closely monitoring special regional and national calls for proposals. In fact, throughout the year the National Marine Technology Platform continued to support an extension to marine technology of an Institutional Memorandum of Understanding between Ministries and Regions.

European programs

European research projects in which Fincantieri is involved include BESST (Breakthrough in European Ship and Shipbuilding Technologies), GOALDS (Goal Based Damage Stability) and MC-WAP (Molten-carbonate fuel Cells for Waterborne Application).

Fincantieri is coordinating the activities of the joint BESST project involving 64 partners, amongst which the main European shipyards, a wide range of technological and scientific suppliers and European universities. The mission is to develop a more competitive type of ship in terms of technology, operating costs, efficiency, safety and environmental impact, based on common solutions produced by research, as further developed and customized by each individual shipyard. The project concluded its first year of activity on 31 August 2010, after completing activities to identify technical solutions and starting up the engineering development phase. The BESST project, which will end on 28 February 2013, has a total budget of euro 29 million and one of euro 4.8 million for the Fincantieri Group.

The GOALDS project involves a partnership between the principal European shipyards, including Fincantieri, and shipowners, classification bureaux, research centers and universities, with the objective of making cruise ships and ferries safer by evaluating new "Formal Safety Assessment" methods using models and formulae.

Fincantieri is one of the partners in the MC-WAP project, being coordinated by Cetena. Financed by the 6th Framework Program for Research and Technological Development, it will end in 2011.

Two projects involving Cetena and financed by the 7th Framework Program were started during 2010: CO-PATCH, research into composite patch repair for large structures and SILENV (ship oriented innovative solutions to reduce noise and vibrations); during the year Fincantieri, along with other European partners, submitted two proposals in response to calls for proposals: ALFA-SHIP (retrofitting existing ships with dual-fuel gas systems) and GRIP (hull and propulsion interaction).

Cetena also continued work on 3 projects financed by the European Defense Agency.

National projects

Work on the following projects continued in 2010:

- the ECOMOS project, whose goal is to develop advanced solutions to reduce exhaust fumes from ships for the "motorways of the sea"; a prototype system has been assembled and is undergoing the last experiments, which should be completed early in 2011;
- the SUPERPANAMAX project, which will continue until 2013, involves designing a new cruise ship that takes account of rapid changes in international regulations and increase of the existing size limits of the Panama Canal;
- the "New Generation Naval Systems" program, as part of the "Sustainable Mobility" project, which should complete its work by September 2012, and involves several members of the Fincantieri Group as well as its suppliers, with the common goal of innovating various on-board components and systems;
- the SIS-PRECODE project, to develop new materials and methods for application in finishing and painting processes, was completed in December 2010.

Regional projects

Financing was approved for 2010, through the Ship and Nautical Technology Cluster in the Friulia Venezia Giulia region, for three programs relating to the regional call for proposals concerning shipbuilding and ships and to the regional call for proposals on domotics.

Self-financed projects

Among the self-financed projects, of particular importance is Fincantieri's participation in the "Cooperative Research Ships" project run by the Maritime Research Institute Netherlands for specific research into naval architecture and structural issues. The progress achieved by this research results in continuous innovation of new ships in the form of energy efficiency and intrinsic safety.

Human resources and industrial relations

MONFALCONE SHIPYARD

Headcount

(number)	2010	2009
Employees at year end:		
- Senior managers	221	227
- Middle managers	358	348
- White collars	3,818	3,903
- Blue collars	5,813	6,052
Total at year end	10,210	10,530
- of whom in Italy	8,582	8,878
- of whom in Parent Company	8,311	8,609
Average number of employees	9,979	10,399
- of whom in Italy	8,632	8,942
- of whom in Parent Company	8,365	8,674

The Fincantieri Group had 10,210 employees at the end of 2010, a 3.0% decrease of 320 on a year earlier; this decrease was entirely due to the Parent Company, which, with 298 fewer staff, reported a 3.5% reduction on 2009.
A similar trend also applied to the average workforce employed, which decreased by 4.0% for the Group as a whole and by 3.6% for the Parent Company.
In terms of turnover, a total of 235 new employees were recruited in 2010, while 555 employees left the Group. Most of this turnover was concentrated in the subsidiary Fincantieri Marine Group, while the Parent Company reported 37 joiners and 335 leavers.

Industrial relations

Industrial relations during the year saw the application of the renewed supplementary employment agreement for the Group and involved, above all, consultations regarding temporary lay-offs.

In fact, as 2010 progressed further capacity underutilization emerged, in varying degrees, at all the Parent Company's production facilities and head offices, with the sole exception of the Marghera shipyard.

As far as subsidiaries were concerned, Isotta Fraschini Motori S.p.A. also experienced production voids in 2010.

All these facilities needed to start procedures for making temporary lay-offs and to hold associated talks with the unions.

An average of about 734 people were temporarily laid off during 2010, of whom 713 by the Parent Company.

Training and development

The staff training and development plan for 2010 paid particular attention to participant selection and course content, with a view to cost efficiency and saving.

In addition to a number of previously identified and planned activities, such as institutional training in technical know-how, knowledge of building rules and regulations and refresher courses on the use of "technical" information systems, the goal of training was to respond to current transformation in the various sectors: in particular, the Quality and Procurement offices received targeted refresher courses and retraining in specific, detailed know-how and skills.

Training therefore acted as the driver of all those actions aimed at supporting change and product and process improvement.

Managerial training primarily focused on targeted courses, such as "Training and development for design managers, training and actions in support of the Specialist Area Manager".

Recently recruited graduates were able to take part in the Academy project, while young talents had the opportunity to participate in the second edition of the High Flyer program.

As usual, safety was a priority topic of training, with numerous activities arranged at every production site.

Technical training focused on activities to improve product and process efficiency, with many courses provided on this topic for Quality certification purposes.

Lastly, temporarily laid-off staff were able to attend retraining and refresher courses thanks to finance from special state-funded programs.

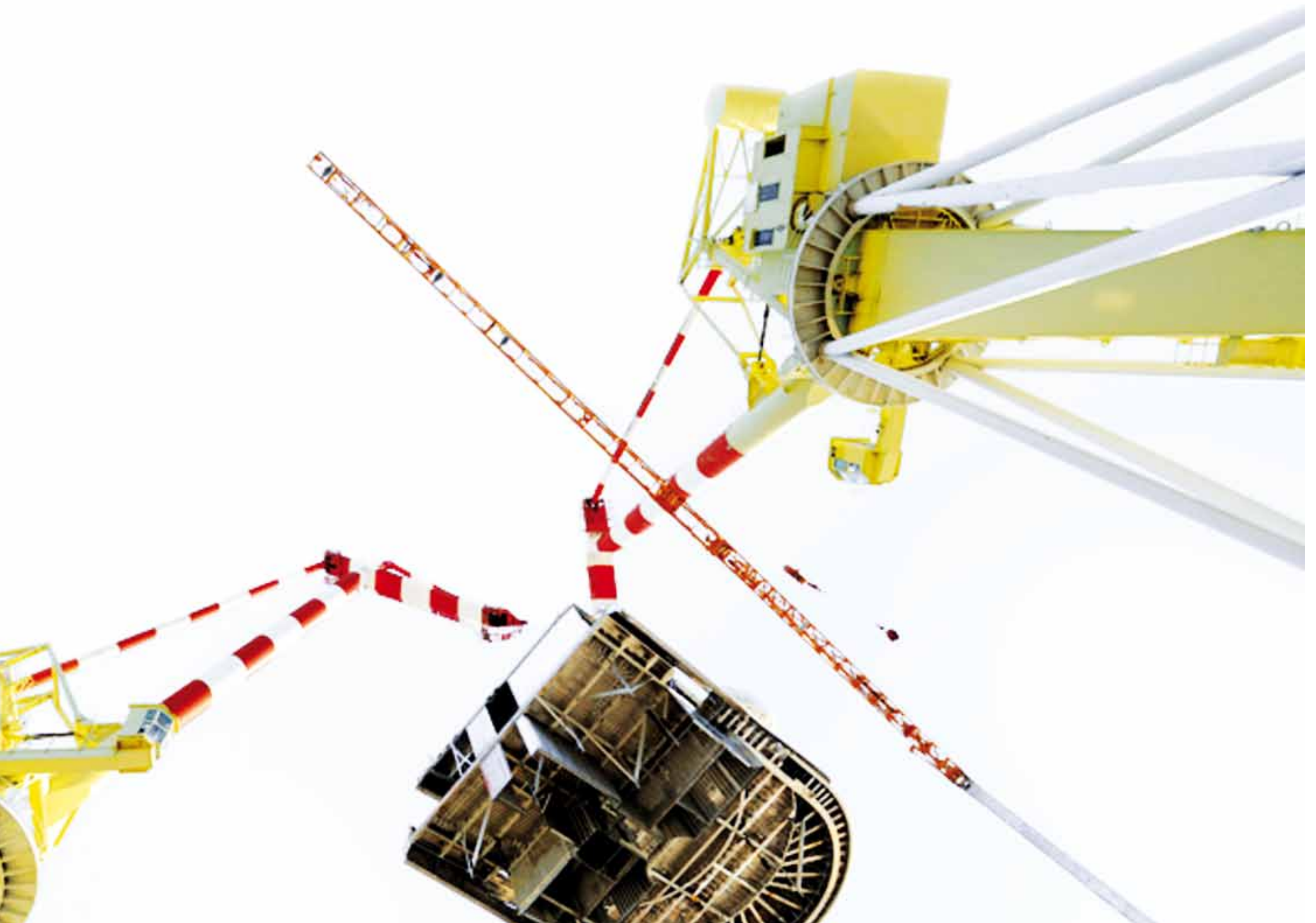
Another type of instruction provided in the form of eLearning concerned "Ethics and Legislative Decree 231/01" and involved almost all the Group's senior and middle managers and white collar staff.

A total of 581 training courses were organized within the Fincantieri Group during 2010, involving 11,528 participants, for a total of 137,704 hours.

Litigation and privacy

Litigation relating to the biological effects of asbestos exposure continued to be settled both in and out of court in 2010. In view of the way this litigation has evolved, the Company has made prudential provisions against unsettled actions.

As far as privacy regulations are concerned, the Regulator's requirements dated 25 June 2009 concerning the duties of the system administrator were fully implemented. The Personal Data Protection Document was revised and updated.



Respect for the environment

ADVERTISING
Green

Once again in 2010 Fincantieri devoted extensive efforts and resources to ensuring that all production activities were carried out in compliance with applicable environmental legislation and with the principles contained in its Code of Conduct.
Its work in this sense has related to the protection of surface, sea and groundwater, with the adoption of measures for constantly controlling discharges, emissions and compliance with permitted upper limits and permits received, to the monitoring of activities through special surveys and regular analysis, the adoption of new, improved technology by seeking new, more eco-friendly products and raw materials or the replacement of existing machinery, involving the replacement of potential pollutants with eco-sustainable solutions.
Particular attention was given during 2010 to the creation of new, more functional areas for the collection of production residues and subsequent identification of immediately recyclable products.
The changes to plant and machinery were accompanied by a complete revision of company procedures for managing this entire area, with specific persons identified within each production unit to take responsibility for managing the collection and selection of process waste, and for identifying and classifying waste for disposal.
The changes in machinery and organization aimed at fostering effective recycling of waste produced represent a genuine contribution by the Group to improving the quality of the environment with a view to sustainable development. These initiatives have also given rise to improved process cost management.

Ethics and safety at work

Ethics and social responsibility

The size and importance of its activities mean that Fincantieri plays a significant role in the economic development and wellbeing of the communities where it is present.
Fincantieri is well aware of the importance of this role and so bases its every action on strict compliance with the law and international conventions, protection of its workers' health and safety, defense of the environment, and protection of the interests of its stakeholders, from shareholders, employees and customers to financial and trading partners and the local community in general.
As a result, Fincantieri has adopted organizational models, and specific instruments and policies able to provide both responsible and rigorous support to such commitments.

Code of conduct

The complexity of the circumstances in which Fincantieri operates means that it is important to clearly reaffirm the set of values the Group recognizes, accepts and shares, and the series of responsibilities it assumes both internally and externally. This is why Fincantieri has drawn up a Code of Conduct, compliance with which by every member of the business is essential for the Group's smooth operation, reliability and reputation, all of which factors representing a key asset for the enterprise's success.
Fincantieri employees must not only fulfill the general duties of loyalty, fidelity and honesty and of performing the terms of their employment in good faith, but they must also refrain from competing with the Group, respect company rules and comply with the requirements of the Code. Employee relationships at every level must be inspired by transparency, honesty, loyalty and mutual respect.
The directors and everyone working for Fincantieri must be familiar with the contents of the Code, must actively contribute to its implementation and report any weaknesses and breaches of the Code. Fincantieri undertakes to facilitate and promote knowledge of the Code among employees and their constructive contribution to its contents; accordingly, the Code of Conduct can be consulted on the Company's internet and intranet sites, is publicly displayed in all its offices, has been distributed to every employee and is given to every new recruit.

Safety at work

Fincantieri has always attached the utmost importance to the need to protect the health and safety of its employees, being a key strategic goal and generally a factor for economic success and development, as well as a qualitative and competitive tool for production process management.
The Group's policies reflect its awareness that protection of its workers and the environment cannot be achieved by merely abiding by the law, but must be experienced

and widespread at all levels, within a corporate culture that treats safety at work and environmental protection as key factors for the business's success and growth.
In order to implement these principles, in addition to the detailed system of prevention and the individual specific measures taken, Fincantieri believes it fundamental to involve and have the individual commitment of every member of the organization concerned, from foremen to workers, from outside contractors to the trade unions, in the belief that safety cannot ignore the conscious assumption of individual responsibility. Fincantieri has therefore made continuous appeals to the unions and workmen to have greater individual responsibility for safety at work. Fincantieri's safety management procedures also contain provision for disciplinary measures in the event of failure to comply with legal requirements and company procedures. By way of example, Fincantieri has issued more than 1,428 disciplinary actions against outside contractors for failure to observe safety standards and as many as 179 similar actions against its own employees.

Once again in 2010 the Group devoted extensive efforts and resources to ensuring that all production activities are carried out in compliance with applicable safety legislation. Nor could this be otherwise: the occurrence of accidents or even just non-compliance with safety standards not only goes heavily against Fincantieri's ethic, focused on prevention, legality and protection of the health of its workers, but also carries severe financial and legal repercussions; Fincantieri's endeavors in this field therefore stretch across several fronts: from continuous education in technical and regulatory matters for those in charge of shipyard prevention and protection services, to the continuous examination of working environments, plant and machinery in the different locations used, to the publication of specific instructions on how to use equipment, on the use of communal areas, on collective prevention and devices for individual protection.
The special attention given to applying company safety policy had a positive impact on the number of accidents once again in 2010.
In fact, the number of accidents causing workers to be less than 3 days off work and the number of hours lost due to accidents both came down in 2010.
The number of accidents involving an absence of less than 3 days was 240, a 32% decrease on 2009.
A total of 531 indemnities were paid out during 2010, 31% down on the prior year.
A total of 106,624 hours were taken off work due to accidents, a 31% reduction on the prior year.
In keeping with Fincantieri's prevention-centric policy, during the year it arranged training courses at all shipyards in order to update those in charge of safety about the latest laws currently applying in Italy and to focus their attention and that of all senior managers on raising worker awareness about these issues so that the Company's guiding principles and philosophy could be translated into day by day work.
Specific training courses relating to safety involved 2,200 participants for a total of almost 18,500 hours.
The presence of contractors within shipyards represents another important source of action and examination by the Company, including where safety is concerned. The choice of contractors, the access of workers to shipyards, the verification that social security contributions and safety documents with which they must be provided are in order, the monitoring of accidents, and the organization of work to avoid interference between the different processes, represent only some of the issues faced on a daily

basis in 2010 by all those involved, primarily by those in charge of prevention and protection services. Accordingly, employees of contractors working on Fincantieri premises were once again involved in information and training exercises, that also took due account of the presence of foreign workers; this activity was carried out using a multimedia support - available in six languages - and involved about 9,000 contractor staff, from foremen to technicians and workers.

Enterprise risk management

Risk management policy

A crucial factor for achieving the Fincantieri Group's objectives is effective management of risks and opportunities, both inside and outside the Group.
Identification, analysis and assessment of the main risks is accompanied by the pursuit of actions able to mitigate the impact or emergence of such risk.
Fincantieri adopts a systematic approach to managing strategic, operational and financial risks with particular attention to production contract life cycle, representing the essence of its business. The contract risk management process has been in place for several years and operates throughout a contract's life cycle, from acquisition through to the end of the warranty period; this process encompasses every structure involved in contract-related activity, depending on the nature of the risks identified and the actions needed to address them.
More recently Fincantieri has developed instruments and procedures for managing reporting and compliance risks, which complement contract risk management and aim:

- to guarantee the adequacy and reliability of data and information that enter the company reporting system and, particularly that entering the consolidated financial statements, and which form the basis for decision-making by management and shareholders;
- to monitor company processes and conduct for legal compliance, fairness in business dealings, and respect for regulations concerning prevention (from safety at work to corporate crimes).

These risk management processes, according to best practice in this field, operate in the following stages:

- identification;
- analysis;
- assessment;
- mitigation;
- control and monitoring,

and translate into plans to mitigate the "inherent risk" identified and/or into testing of the operation of controls that reduce risks to an acceptable level ("residual risk").

Risk relating to general economic conditions

Description

The Fincantieri Group's results of operations, assets and liabilities and cash flows are influenced by the various macroeconomic variables in Europe and North America – where the Group and its main customer operate – such as the GNP growth rate, the level of consumer and business confidence, the state of credit markets and the cost of raw materials.

Impact

The economic difficulties emerging worldwide have also affected the shipbuilding industry, with shipowners slowing down their fleet renewal programs. This has repercussions for production capacity and a consequently negative impact on the Group's results, assets and liabilities and cash flows.

Mitigation

Governments and monetary authorities have intervened with actions aimed at overcoming the crisis in due course. In these circumstances, the Fincantieri Group has taken steps to reduce its costs and regain efficiency, while at the same time making use of those mechanisms permitted under employment agreements and Italian law to operate on a flexible basis.

Risks relating to knowledge management

Description

As one of Italy's historic shipbuilders, the Fincantieri Group has a vast accumulation of experience, know-how and business knowledge. As far as the workforce is concerned, the domestic labor market is not always able to satisfy the needs of production, either in terms of numbers or skills.

Impact

The inadequacy of the domestic labor market to meet the Group's needs, and the failure to transfer specific knowledge particularly in the technical sphere could have a negative impact on product quality and on the Group's overall future performance.

Mitigation

The HR Department constantly monitors the labor market and maintains frequent contact with universities, professional schools and vocational training institutes.
The Group also makes a significant investment in training its staff, not only in technical-specialist and managerial-relational skills, but also regarding safety and quality. As already reported, the Fincantieri Group organized 581 training courses in 2010 with more than 11,528 participants for a total of 137,704 hours.
Lastly, specific training is provided to ensure that key management positions are covered in the event of staff changes.

Risks relating to market structure

Description

The Fincantieri Group has many years of experience of building cruise ships for Carnival, a US shipowner and key player in the cruise sector, which operates not only through the Carnival line but also through other prestigious lines such as P&O Princess, Holland America Line, Cunard and Costa Crociere. The special relationship with the Carnival Group is an undoubted strength for Fincantieri.
In the Naval Vessels business unit, the bulk of revenue has traditionally come from the Italian Navy, whose demand for new ships is heavily dependent on defense spending policy.

Impact

Postponement of fleet renewal programs or other events affecting the order backlog with Fincantieri's principal customer could impact capacity utilization and business profitability.
The lack of resources earmarked by the State for defense spending to modernize the fleet is a variable that could influence the Group's financial performance and results.

Mitigation

The policy of diversifying cruise ship customers practiced by Fincantieri, together with optimum joint planning of Carnival's requirements, has made it possible to enlarge the customer portfolio.
In the Naval Vessels business, participation in international projects like the FREMM program between Italy and France, is of undoubted importance, as is the Group's expansion into the USA aimed at taking up new opportunities to expand defense output in wider foreign markets.

Risks relating to maintenance of competitiveness in core markets

Description

The production of standard vessels is now dominated by Asian shipyards, meaning that competitiveness can only be maintained by specializing in high added-value market segments. As far as civilian vessels are concerned, Fincantieri has for some years focused on the cruise ship and cruise ferry segments, in which it has been historically active. As far as naval vessels are concerned, the Group has an established relationship with the Italian Navy, representing a strategic asset for the business.
Maintenance of a strong position in core markets depends on the ability to perform well not only in terms of quality and on-time delivery but also at a lower price than the competition.

Mitigation

The Group endeavors to maintain competitive position in its core markets by ensuring a high quality product, and by seeking optimal costs as well as flexible technical and financial solutions in order to be able to propose more attractive offers than the competition.

As far as naval vessels are concerned, efforts are being made to develop international business through an active presence in the defense markets of the USA and other countries that lack domestic shipbuilders or, if they do, do not have the right technical skills, know-how or infrastructure for vessels of this kind.

Risks relating to production outsourcing and supplier relationships

Description

The Fincantieri Group's decision to outsource some of its activities is dictated by strategic considerations based on two factors: a) outsource activities for which there are insufficient in-house skilled resources; b) outsource activities for which there are no in-house skilled resources and which would be too expensive and inefficient to develop.

Impact

A negative contribution by suppliers in terms of quality, timing or costs causes production costs to rise, and the customer's perception of the quality of the Fincantieri product to deteriorate.

Mitigation

The Group has specific personnel in charge of coordinating the assembly of ship internal systems and managing specific areas of outsourced production. In addition, the Fincantieri Group selects its "strategic suppliers" carefully: they must meet the highest standards of performance and have a strategically large network offering an excellent fit with the Group's business.

Risks relating to exchange rates

Description

Currency risk is defined as the uncertainty over income and expenses and receipts/outlays caused by fluctuations in the value of ship contracts or of purchase orders following a change in exchange rates.

Exposure to currency risk arises when shipbuilding contracts are denominated in foreign currencies and, to a lesser extent, when goods and materials are purchased in currencies other than the Euro.

Impact

The absence of adequate currency risk management could erode profit margins, particularly if currencies in which shipbuilding contracts are denominated were to weaken, or if the currencies in which procurement contracts are denominated were to strengthen.

Mitigation

The Fincantieri Group's exposure to currency risk at 31 December 2010 primarily relates to a shipbuilding contract acquired at the end of 2009, whose price is expressed in US dollars, and partly to procurement contracts denominated in US and Canadian dollars. As far as the contract denominated in US dollars is concerned, the Fincantieri Group has taken out hedges against almost all of this exposure.

With reference to foreign currency procurement contracts, the Group has eliminated any variability in costs and related payments by fixing the exchange rate under hedge agreements.

Risks relating to legal framework

Description

The Fincantieri Group must abide by the rules, regulations and laws in force in the countries where it operates. Any breaches of such rules and regulations could result in civil, administrative or criminal sanctions, as well as the obligation to comply with such regulations, the costs and liability for which could have a negative impact on the Group's business and results. The Group's activities must also comply with regulations governing the environment and health and safety at work.

Impact

Any change in safety standards or environmental regulations, as well as the occurrence of exceptional or unforeseen events could cause the Fincantieri Group to incur extraordinary costs in relation to the environment and health and safety at work and in relation to the biological effects of asbestos exposure.

Mitigation

The Group promotes compliance with all rules, regulations and laws that apply to it and implements and updates suitable prevention control systems for mitigating the risks associated with breach of such rules, regulations and laws. In particular, it has fully implemented the provisions of Italian Legislative Decree 81/2009 – "Revised rules governing health and safety at work" (known as the "Safety at Work Act").

Fincantieri has therefore adopted suitable organizational models for preventing breach of these regulations, and sees that such models are continuously reviewed and updated.

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As Parent Company of the Group, Fincantieri-Cantieri Navali S.p.A. is basically exposed to the same risks and uncertainties described above for the Group.

Corporate governance

FINCANTIERI HEAD OFFICE
Trieste

Profile, structure and values

Profile

Fincantieri is well aware of how important an efficient system of corporate governance is for achieving its value creation objectives, and so ensures that its own system of corporate governance is constantly in line with best national and international practice.

Organizational structure

Fincantieri's organizational structure follows the traditional model, whereby it is administered by a Board of Directors, which acts as the central governing body of both the Company and the Group, while a Board of Statutory Auditors oversees the work of the directors, and a firm of independent auditors, appointed by the Shareholders' Meeting, is responsible for the statutory audit of the accounts.

Direction and coordination

Fincantieri S.p.A. is subject to direction and coordination by Fintecna S.p.A., its principal shareholder.
In accordance with art. 2497-bis of the Italian Civil Code, Fincantieri's direct and indirect subsidiaries, except for a few specific cases, have identified Fincantieri S.p.A. as the entity which exercises direction and coordination over them. This activity involves setting general and operating strategy and policy for the Group as a whole; in the case of the larger subsidiaries, it also involves defining and adapting

internal controls, their model of governance and corporate structure, and drawing up general policies for management, human resources, finance and procurement. Although subsidiaries retain managerial and operational autonomy, they are thus able to achieve economies of scale by being able to call on the services of highly qualified specialists and experts and to concentrate their own resources on managing the core business.

Board of directors of Fincantieri S.p.A.

Composition

Art. 23 of Fincantieri's by-laws sets the size of the Board of Directors at a minimum of five and a maximum of seven members. The Shareholders' Meeting held on 17 July 2009 decided that the Board should have seven directors; it then appointed these directors and a Chairman of the Board to serve for three financial years and, in any case, until the date of the Shareholders' Meeting called to approve the financial statements for 2011. At its first meeting on 23 July 2009, the Board of Directors appointed Giuseppe Bono as the Company's Chief Executive Officer.

Independence and integrity requirements, reasons for ineligibility and incompatibility

Further to the request by the majority shareholder to introduce specific rules for qualifications to serve as a director, the Shareholders' Meeting on 17 July 2009 introduced the same requirements of independence and integrity as those applied to statutory auditors of listed companies by art. 148 of the Financial Markets Consolidation Act and by the Regulation adopted under Ministry of Justice Decree 162 dated 30 March 2000. The directors have provided declarations in which they state that they satisfy these requirements and the Board has assessed whether this is the case.

Role

The Board of Directors has the widest powers for the Company's ordinary and extraordinary administration in relation to its business purpose.
As the Company's top officer, the Chief Executive Officer is responsible for administering and managing the Company on the basis of guidelines decided by the Board of Directors.
The Board of Directors is also responsible for:

- defining business strategy and organizational structure, including the entering of agreements with strategically important sector operators;
- acquiring and selling equity investments, companies or business divisions;
- entering agreements relating to major orders;
- buying and selling property.

Within the scope of the powers of ordinary and extraordinary administration granted by the Board of Directors, the Chief Executive Officer is responsible for:

- carrying out every act for administering and managing the business;

- making proposals to the Board concerning the Company's business strategy and organizational structure;
- executing the resolutions adopted by the Board;
- defining how the Company should be organized operationally based on the guidelines decided by the Board of Directors;
- delegating to company employees or to third parties, within the scope of his own powers, the authority deemed necessary for performing their duties and functions.

It is practice for the Chief Executive Officer to inform the Board about actions taken under the authority delegated to him that have a significant impact on the business.
The Chairman is the Company's legal representative and is also responsible for:

- supervising the correct execution of decisions by the Board of Directors and its committees;
- representing the Company before public and private, national and international entities, organizations and operators.

Compensation Committee

The Board of Directors of Fincantieri S.p.A. has formed a Compensation Committee, to make proposals and provide advice concerning the compensation of directors with executive powers. This committee is responsible for making proposals regarding the compensation packages of top managers and their terms of employment.
The committee, consisting of three directors, presents the Board of Directors with proposals concerning both fixed and variable remuneration, and the targets on which any variable remuneration might depend and how the achievement of such targets should be verified.

Board of statutory auditors

Composition

Fincantieri's by-laws establish that the Board of Statutory Auditors shall have three standing members and two alternates, all of whom nominated by the Shareholders' Meeting for three financial years and who are eligible for re-election at the end of their mandate.

Duties

The Board of Statutory Auditors oversees compliance with the law and the Company's by-laws, the application of honest management practices and the adequacy of the organizational, administrative and accounting structure adopted by the Company and its correct operation.
The Board of Statutory Auditors is required to express an opinion concerning the appointment of the Manager responsible for preparing financial reports and, under art.13 of Legislative Decree 39 dated 27 January 2010, has the duty of presenting the Shareholders' Meeting with a justified proposal for conferral of the statutory audit engagement.

Internal controls

Manager responsible for preparing financial reports

The Ministry of the Economy and Finance (MEF) has requested that, as a company under its control, Fintecna – Finanziaria per i Settori Industriale e dei Servizi S.p.A. amend its by-laws to include the office of Manager responsible for preparing financial reports, and the related governance requirements set out in Law 262/2005. As a direct consequence, Fintecna has instructed its subsidiary Fincantieri to do the same. Fincantieri has responded to this request by amending art. 30 of its by-laws and then appointing a Manager responsible for preparing financial reports.

As a result, although Fincantieri is not directly subject to Law 262/2005 because it is not quoted on a regulated market, it has adopted a form of governance that is broadly similar to that of companies that are legally obliged to do so, with only a few differences from the law in question. In particular, the mandate granted by the Board of Directors to the Manager responsible for preparing financial reports excludes interim financial reports, price-sensitive disclosures and the contents of the report on operations from certification, in compliance with the instructions issued by MEF and reiterated by Fintecna.

Compliance model under Law 262/2005

Fincantieri has introduced a Compliance Model in accordance with Law 262/2005 to analyze the more important items within its consolidated financial statements and the internal procedures involved in the preparation of financial reports. The Model also defines the specific components of the financial reporting process and requires a system of specific Procedures, supported and integrated by "Risk and Control Matrices" where appropriate; lastly, the model defines how and when financial reporting risk should be assessed and the tests that should be applied to the key controls identified during the risk assessment process.

Independent auditors

In accordance with law, the statutory audit of the financial statements must be performed by a firm of independent auditors listed in the special CONSOB register; these auditors must be appointed by the Shareholders' Meeting, having consulted the Board of Statutory Auditors.

The Shareholders' Meeting of 17th July 2009 appointed PriceWaterhouseCoopers S.p.A. as independent auditors for 2009-2011.

Internal audit

The Internal Audit function reports to the Board of Directors and its main duty is to monitor the adequacy of the internal controls adopted by the Parent Company and its subsidiaries.

When performing this duty, the internal auditors maintain regular contact with other persons involved in and responsible for the system of internal controls.

Oversight Board

As far as Fincantieri's organizational structure is concerned and in compliance with art. 6-b) of Legislative Decree 231/2001, Fincantieri's Oversight Board has been set up as a collective body that is able to ensure a suitable level of independence, professional experience and continuity of action.

The Company can expand the Oversight Board's membership if it believes that the Board requires the presence of particular specialist expertise. Operationally, the Oversight Board uses the services of the Legal and Internal Audit functions and, if necessary, of external consultants. The Oversight Board reports to the Board of Directors and the Board of Statutory Auditors in the manner established by the Organizational Model.

The Board's activities are as follows:

- to oversee the effectiveness and adequacy of the Organizational Model, and update its operational requirements over time;
- to monitor the effectiveness of internal procedures and rules relating to corporate governance;
- to examine any reports from the statutory auditors or any employee, and to investigate such reports and request that appropriate action be taken.

In addition, the Oversight Board can assist the relevant company functions in promoting initiatives to raise awareness of the Organizational Model and in reporting the need for disciplinary action in the event of breach of either the Model or the Code of Conduct.

Organizational Model (Legislative Decree 231/2001)

Since 2002 the Company has decided to adopt an organizational, management and control model under Legislative Decree 231/2001, the latest version of which was approved by the Board of Directors on 18 September 2009.

When developing the model, the first step was to identify the "risks" which the Company should monitor, in other words those offences (among those listed by Legislative Decree 231/2001 and subsequent revisions) that might be committed within the Company's sphere of activities.

At the same time, the individual business areas potentially concerned by such offences were mapped. A link was therefore drawn between the offences listed in the Decree and the company sectors and those people who, because of their work, jobs performed and authority, could be in a position to commit a particular unlawful offence.

Once the "risks" and areas at risk were identified, the possible ways of committing an offence were mapped for the areas concerned. This analysis and classification was evaluated against the Company's systems of preventive controls.

One of the duties of the Oversight Board is to maintain and regularly update the model, including for new types of offence falling within the scope of Legislative Decree 231/2001.

Relationships with the ultimate parent company and with other group companies

During 2010 Fincantieri had relationships with Fintecna, its ultimate parent company, and with certain companies in the Fintecna Group.
Fincantieri also had dealings with associates, for which the related transactions and balances are not eliminated upon consolidation in accordance with the consolidation method adopted.
All the above relationships – disclosed in detail in the "Notes to the financial statements" – are always conducted on an arm's length basis.

Other information

Significant events subsequent to the end of the financial year

January 2011 saw delivery of the Marina, a luxury cruise ship built at the Sestri Ponente yard, to Oceania Lines of the USA, and of Deepak, the first of two fleet tankers ordered by the Indian Navy and built at the Palermo, Riva Trigoso and Muggiano yards.
Fincantieri do Brasil Participações S.A. was formed on 3 February 2011, with Fincantieri subscribing to 10% of its share capital of 5,000 reals.
In March 2011, the Fincantieri – Lockheed Martin team received confirmation of the option for a second Littoral Combat Ship out of the package of 10 awarded by the US Navy to the same team in December 2010. This ship, the fourth awarded to Fincantieri, will be built at the Marinette yard in Wisconsin, USA. Also in March 2011, Fincantieri won a contract to build two Platform Supply Vessels for Tidewater, one of the top US providers of support services to the oil industry. These vessels, the first of which due to be delivered at the end of 2012 and the second by mid-2013, will be built at the Sturgeon Bay yard in Wisconsin, USA.

Business outlook

The international economic crisis is lasting longer than expected, with lower demand for new ships than in the past, making it impossible to fully utilize production capacity in the future. In fact, the order backlog originating from the order portfolio at the end of 2010 will force Fincantieri to face voids in its order backlog once again in 2011. Fincantieri is therefore deciding suitable measures for addressing this situation which is increasingly assuming structural overtones.
In such a context it is even more important to carry on the policy already adopted by the Group of continuous efficiency improvements in company processes with the objective of reducing costs at every level, and above all of constantly improving productivity. In addition, there must be continued action to increase revenues by establishing positions in non-core business sectors and by making the business more and more international.
In this way, Fincantieri will be optimally placed for taking up all the opportunities offered once the market starts to recover.

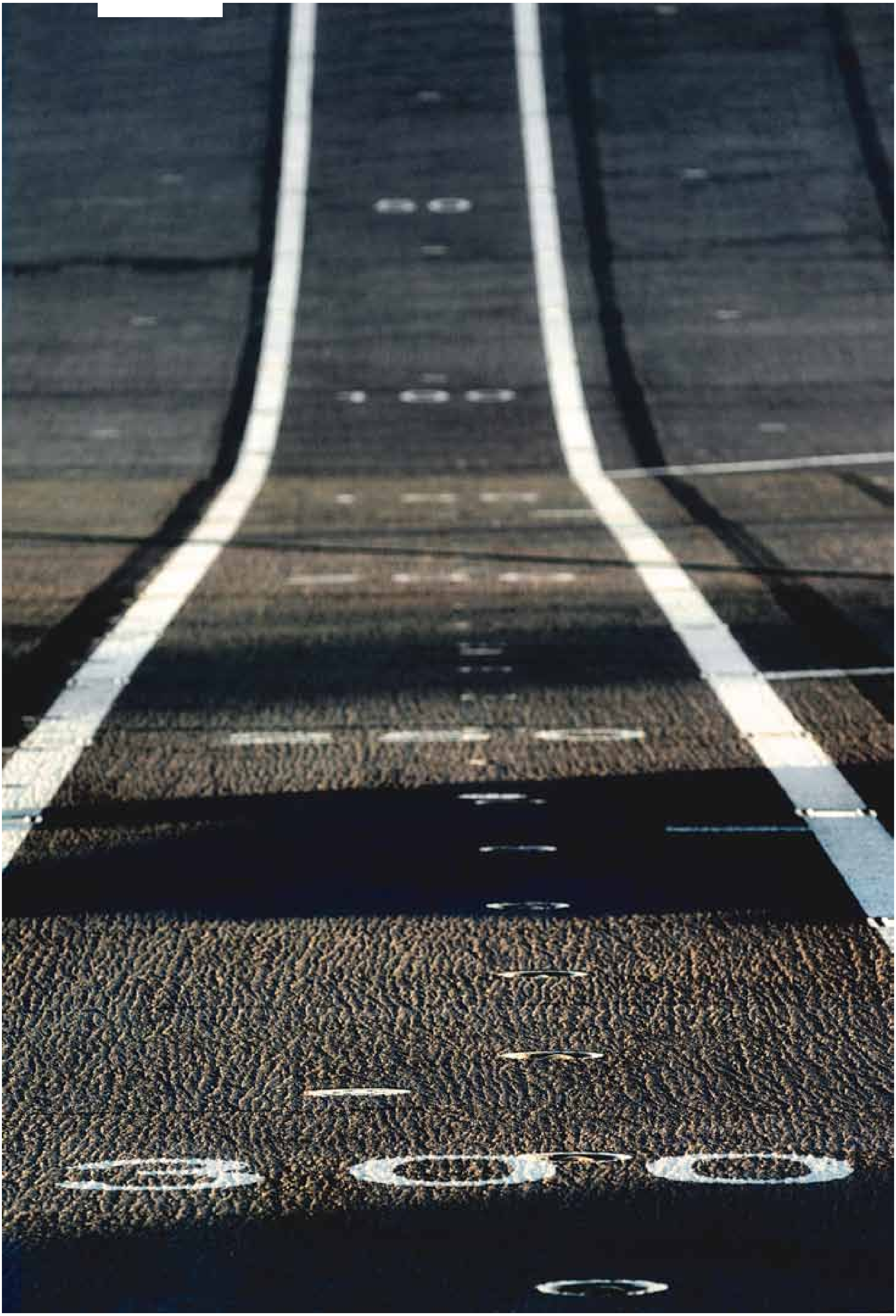
Reconciliation of the reclassified financial statements with the mandatory financial statements

Consolidated income statement

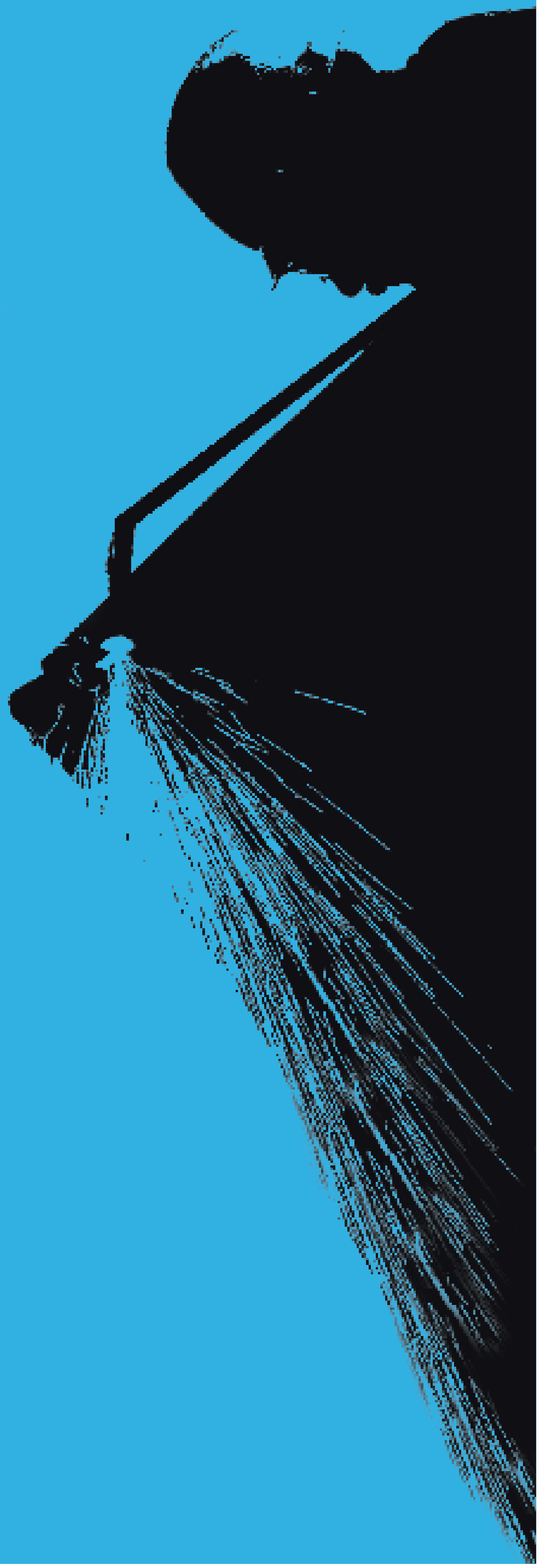
	2010		2009	
(Euro/million)	Mandatory financial statements	Reclassified financial statements	Mandatory financial statements	Reclassified financial statements
A – Revenues		**2,876**		**3,269**
Operating revenues	**2,611**		**3,065**	
Reclassified to N) – Non-recurring income/(expenses) net of tax effect	183		110	
Other revenues and income	**86**		**106**	
Reclassified to M) – Extraordinary income/(expenses)	-4		-12	
B - Materials and services costs		**-2,149**		**-2,597**
Materials and services costs	**-2,166**		**-2,612**	
Reclassified to M) – Extraordinary income/(expenses)	17		15	
C - Personnel costs		**-504**		**-520**
Personnel costs	**-514**		**-522**	
Reclassified to M) – Extraordinary income/(expenses)	10		2	
D - Provisions and impairment losses		**-46**		**-29**
Provisions and impairment losses	**-75**		**-37**	
Reclassified to M) – Extraordinary income/(expenses)	29		8	
E - Capitalization of internal costs		**2**		**2**
Capitalization of internal costs	**2**		**2**	
G - Depreciation and amortization		**-68**		**-68**
Depreciation and amortization	**-68**		**-68**	
H – Finance income/costs (+/-)		**-19**		**-14**
Finance income/costs (+/-)	**-19**		**-14**	
I – Income/expense (+/-) from investments		**-2**		
Income/expense (+/-) from investments	**-2**			
L – Income taxes for the year		**-37**		**-19**
Income taxes	**21**		**16**	
Reclassified to N) – Non-recurring income/(expenses) net of tax effect	-58		-35	
M - Extraordinary income/expenses (+/-)		**-52**		**-13**
Reclassified from A - Revenues	4		12	
Reclassified from B) - Materials and services costs	-17		-15	
Reclassified from C - Personnel costs	-10		-2	
Reclassified from D) - Provisions and impairment losses	-29		-8	
N - Non-recurring income/expenses (+/-) net of tax effect		**-125**		**-75**
Reclassified from A – Revenues	-183		-110	
Reclassified from L - Income taxes for the year	58		35	
Profit/loss for the year (+/-)	**-124**	**-124**	**-64**	**-64**

Consolidated statement of financial position

(Euro/million)	31.12.2010 Mandatory financial statements	31.12.2010 Reclassified financial statements	31.12.2009 Mandatory financial statements	31.12.2009 Reclassified financial statements
A) Intangible assets		**111**		**107**
Note 6 - Intangible assets	111		107	
B) Property, plant and equipment		**537**		**542**
Note 7 - Property, plant and equipment	537		542	
C) Equity investments and other financial assets		**32**		**80**
Notes 8 and 9 – Financial assets	166		189	
Reclassified to P) Net financial position	-129		-104	
Reclassified to G) Other assets	-5		-5	
D) Inventories and advances		**286**		**304**
Note 11 - Inventories and advances	286		304	
E) Construction contracts – assets		**233**		**971**
Note 12 - Construction contracts - assets	1,062		1,664	
Note 20 - Construction contracts - liabilities	-833		-734	
Reclassified to H) Advances from customers	4		41	
F) Trade receivables		**400**		**285**
Note 13 - Trade receivables and other current assets	607		398	
Reclassified to G) Other assets	-207		-113	
G) Other assets		**365**		**226**
Note 10 - Deferred tax assets	115		69	
Note 13 - Tax receivables	38		39	
Reclassified from C) Equity investments and other financial assets	5		5	
Reclassified from F) Trade receivables	207		113	
H) Advances from customers		**-4**		**-41**
Reclassified from E) Construction contracts	-4		-41	
I) Trade payables		**-731**		**-893**
Note 21 - Trade payables and other current liabilities	-826		-1,007	
Reclassified to M) Other liabilities	95		114	
L) Provisions for risks and charges		**-118**		**-89**
Note 17 - Provisions for risks and charges	-118		-89	
M) Other liabilities		**-201**		**-205**
Note 10 - Deferred tax liabilities	-28		-24	
Note 21 - Current tax liabilities	-6		-2	
Note 19 - Other liabilities	-72		-65	
Reclassified from I) Trade payables	-95		-114	
N) Employee indemnity benefit		**-72**		**-81**
Note 18 - Employee indemnity benefit	-72		-81	
NET INVESTED CAPITAL		**838**		**1,206**
O) Equity		**938**		**1,055**
P) Net financial position		**-100**		**151**
HEDGES		**838**		**1,206**



FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS



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Consolidated statement of financial position

(Euro/000)	Note	31.12.2010	31.12.2009
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6	110,795	106,519
Property, plant and equipment	7	536,808	542,092
Equity-accounted investments	8	13,656	20,403
Other investments	8	1,683	1,685
Financial receivables	9	128,929	103,909
Other receivables	9	21,973	62,957
Deferred tax assets	10	115,179	69,485
Total non-current assets		**929,023**	**907,050**
CURRENT ASSETS			
Inventories and advances	11	286,163	303,877
Construction contracts - assets	12	1,061,187	1,663,996
Trade receivables and other assets	13	607,255	398,376
Tax receivables	13	37,195	38,501
Financial receivables	14	11,417	7,550
Cash and cash equivalents	15	329,201	86,421
Total current assets		**2,332,418**	**2,498,721**
TOTAL ASSETS		**3,261,441**	**3,405,771**
LIABILITIES AND EQUITY			
EQUITY	16		
Attributable to owners of the parent			
Share capital		633,481	633,481
Reserves and earnings		288,347	408,721
		921,828	1,042,202
Non-controlling interests		15,723	12,438
Total equity		**937,551**	**1,054,640**
NON-CURRENT LIABILITIES			
Provisions for risks and charges	17	118,079	88,995
Employee indemnity benefit	18	72,479	80,819
Financial liabilities	19	167,247	156,105
Other liabilities	19	71,474	64,841
Deferred tax liabilities	10	28,243	24,259
Total non-current liabilities		**457,522**	**415,019**
CURRENT LIABILITIES			
Construction contracts – liabilities	20	832,526	734,117
Trade payables and other current liabilities	21	826,210	1,007,279
Current tax liabilities	21	4,805	1,824
Financial liabilities	22	202,827	192,892
Total current liabilities		**1,866,368**	**1,936,112**
TOTAL LIABILITIES AND EQUITY		**3,261,441**	**3,405,771**

Consolidated statement of comprehensive income

(Euro/000)	Note	2010 Before non-recurring items	2010 Non-recurring items (Note 24)	2010 Total	2009 Before non-recurring items	2009 Non-recurring items	2009 Total
Operating revenues	23	2,794,476	-183,163	2,611,313	3,175,128	-109,659	3,065,469
Other revenues and income	23	85,470		85,470	106,331		106,331
Materials and services costs	25	-2,165,872		-2,165,872	-2,612,181		-2,612,181
Personnel costs	25	-513,778		-513,778	-521,963		-521,963
Depreciation and amortization	25	-67,625		-67,625	-67,930		-67,930
Provisions and impairment losses	25	-75,387		-75,387	-36,930		-36,930
Capitalization of internal costs	25	2,548		2,548	1,754		1,754
Finance income	26	50,740		50,740	11,006		11,006
Finance costs	26	-70,209		-70,209	-25,559		-25,559
Income/expense (+/-) from investments	27	-2,731		-2,731	4		4
Share of profit/loss (+/-) from equity-accounted investments	27	467		467	313		313
Income taxes	28	-36,902	57,843	20,941	-19,033	34,612	15,579
PROFIT/LOSS FOR THE YEAR (+/-) (A)		**1,197**	**-125,320**	**-124,123**	**10,940**	**-75,047**	**-64,107**
Attributable to owners of the parent		-1,156	-125,320	-126,476	9,448	-75,047	-65,599
Attributable to non-controlling interests		2,353		2,353	1,492		1,492
Basic earnings/loss (+/-) per share (Euro)	29			-0.10182			-0.07936
Other comprehensive income/losses (+/-) net of tax effect							
Effective portion of profits/losses (+/-) on cash flow hedging instruments	4-16	-360		-360	286		286
Gains/losses (+/-) arising on translation of foreign companies' financial statements	16	7,394		7,394	-3,253		-3,253
Attributable to non-controlling interests		932		932	-417		-417
Total other comprehensive income/losses (+/-) net of tax effect (B)	16	**7,034**		**7,034**	**-2,967**		**-2,967**
Attributable to non-controlling interests		932		932	-417		-417
TOTAL COMPREHENSIVE INCOME/LOSS (+/-) (A) + (B)		**8,231**	**-125,320**	**-117,089**	**7,973**	**-75,047**	**-67,074**
Attributable to owners of the parent		4,946	-125,320	-120,374	6,898	-75,047	-68,149
Attributable to non-controlling interests		3,285		3,285	1,075		1,075

Consolidated statement of changes in equity

(Euro/000)	Note	Share capital	Reserves and earnings (+/-)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total
1. 1.2009		**337,112**	**486,984**	**824,096**	**10,995**	**835,091**
Share capital increase	16	296,369		296,369		296,369
Dividend payment			-10,113	-10,113		-10,113
Change in non-controlling interests	16				367	367
Total comprehensive income (loss) for the year			-68,149	-68,149	1,075	-67,074
Other changes/roundings			-1	-1	1	
31.12.2009		**633,481**	**408,721**	**1,042,202**	**12,438**	**1,054,640**
Share capital increase	16					
Dividend payment	16					
Change in non-controlling interests						
Total comprehensive income (loss) for the year			-120,374	-120,374	3,285	-117,089
Other changes/roundings						
31.12.2010		**633,481**	**288,347**	**921,828**	**15,723**	**937,551**

Consolidated statement of cash flows

(Euro/000)	Note	31.12.2010	31.12.2009
NET CASH FLOWS FROM OPERATING ACTIVITIES	30	**286,937**	**-305,070**
Expenditure on:			
- intangible assets		-6,434	-10,332
- property, plant and equipment		-51,519	-72,192
- equity investments		-190	-128
- financial receivables and other assets		-2,667	-5
Disposals of:			
- intangible assets		1	
- property, plant and equipment		1,893	3,689
- equity investments		4,644	5
- financial receivables and other assets		11,105	12,106
CASH FLOWS FROM INVESTING ACTIVITIES		**-43,167**	**-66,857**
Changes in medium/long-term loans:			
- proceeds		5,056	76,823
- repayments		-12,977	-4,225
Change in finance lease obligation:			
- repayments		-1,700	-1,621
Change in short-term bank loans and overdrafts		-109,637	26,042
Change in short-term loans from shareholders		37	-265
Change in payables/receivables due to/from associates			53,139
Change in other financial liabilities/receivables		99,012	-38,495
Change in receivables for financial instruments held for trading		-1,567	4,953
Change in payables for financial instruments held for trading		21,163	-1,609
Dividends paid			-10,113
Contribution by shareholders			296,369
Change in non-controlling interests in equity			367
CASH FLOWS FROM FINANCING ACTIVITIES		**-613**	**401,365**
NET CASH FLOWS FOR THE YEAR		**243,157**	**29,438**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**86,421**	**56,983**
Effect of exchange rate changes on cash and cash equivalents		-377	
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**329,201**	**86,421**

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Note 1 - form, contents and other general information

The parent company

The Parent Company Fincantieri – Cantieri Navali Italiani S.p.A. is an Italian legal entity.

At the close of the 2010 financial year, 99.355% of the Company's share capital (euro 633,480,725.7) was held by Fintecna– Finanziaria per i Settori Industriali e dei Servizi S.p.A.; the remainder of share capital was held by various private investors including Citibank, which held 0.644%.

Fincantieri's registered office is in Trieste (Italy) in Via Genova no. 1.

Appendix 2 includes a summary of the 2009 financial statements of Fintecna.

Principal activities of the Group

The Fincantieri Group operates primarily in the design and construction of merchant and naval vessels.

Fincantieri also operates in ship repair and large ship conversion services, the production of mechanical systems and components as well as in the construction of mega-yachts.

The Group's activities are performed from 9 locations in Italy and 4 in the United States, resulting from the acquisition of the Manitowoc Marine Group (renamed Fincantieri Marine Group), plus another US site which carries out trading activities and after sale services.

Characteristics of consolidated financial statements prepared under international accounting standards (IFRS)

Fincantieri has taken up the option permitted by Italian Legislative Decree 38 dated 28 February 2005, governing the exercise of options contained in article 5 of European Regulation no.1606/2002 concerning international accounting standards.

Starting from 2007, the consolidated financial statements of the Fincantieri Group have therefore been prepared in compliance with the International Financial Reporting Standards ("IFRSs") adopted by the European Union.

The consolidated financial statements are audited by PricewaterhouseCoopers S.p.A., the firm appointed to perform the statutory audit of the separate financial statements of the Parent Company and its main subsidiaries.

Application of IFRSs

"IFRSs" refer to all the International Financial Reporting Standards, all the International Accounting Standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC"), as endorsed by the European Union and contained in the corresponding Regulations published as of 31 December 2010.

The IFRSs have been consistently applied to all of the years presented in this document. IFRSs have been applied in Italy and in other countries for the first time only recently; there have been several new IFRS publications and updates, for which there are no precedents, and consequently no references can be made when interpreting and applying the standards. The consolidated financial statements have therefore been prepared on the basis of the best knowledge of the standards and their interpretations. Any future guidance and new interpretations will be reflected in subsequent financial years, in the manner indicated by the accounting standards concerned.

Amendments, improvements and interpretations applicable from 1 january 2010 that are not relevant to the Group

The following amendments, improvements and interpretations, which became effective from 1 January 2010, govern circumstances not present within the Group at the current reporting date, but that could have an impact on the accounting treatment of future transactions or agreements:

- Improvement (2008) to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.
- Amendments to IAS 28 – Investments in Associates and to IAS 31 – Interests in Joint Ventures, as a result of amendments to IAS 27.
- Improvements to IFRSs (2009).
- Amendment to IFRS 2 – Share-based Payment: group cash-settled share-based payment transactions.
- IFRIC 17 – Distributions of Non-cash Assets to Owners.
- IFRIC 18 – Transfers of Assets from Customers.
- Amendment to IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged items.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Group

On 8 October 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation, addressing the classification of rights issues (rights, options or warrants) in a currency other than the issuer's functional currency. In the past such rights were accounted for as derivative financial liabilities; the amendment establishes that, under certain conditions, such rights are classified as equity regardless of the currency in which the exercise price is denominated. This amendment must be applied retrospectively from 1 January 2011. It is considered that this amendment will not have a material impact on the Group's financial statements.

On 4 November 2009, the IASB issued a revised version of IAS 24 – Related Party Disclosures, that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This standard must be applied from 1 January 2011. Adoption of this amendment will not have any effect on the measurement of the contents of the financial statements.

On 12 November 2009, the IASB issued IFRS 9 – Financial Instruments, which was later amended on 28 October 2010. This standard, which applies from 1 January 2013, is the first part of project aimed at completely replacing IAS 39 and introducing new requirements for classifying and measuring financial assets and liabilities and for the derecognition of financial assets. In particular, the new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. In the case of financial liabilities, the main change relates to the accounting treatment of changes in fair value of a financial liability designated as at fair value through profit or loss if such changes are due to a change in the credit rating of the liability itself. Under the new standard, such changes must be recognized in other comprehensive income and no longer through profit or loss. At the current year-end reporting date the European Union had not yet completed the endorsement process needed for the new standard's application.

On 26 November 2009, the IASB issued a minor amendment to IFRIC 14 with respect to prepayments of minimum funding requirements, allowing entities to recognize as an asset some voluntary prepayments for minimum funding contributions. This amendment must be applied from 1 January 2011. It is considered that this amendment will not have a material impact on the Group's financial statements.

On 26 November 2009, the IFRIC issued IFRIC Interpretation 19 – Extinguishing Financial Liabilities with Equity Instruments, which provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares to settle the financial liability, then the entity's shares issued become part of the consideration paid to extinguish the financial liability and must be measured at fair value; the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued must be included in the entity's profit or loss for the period. This interpretation must be applied from 1 January 2011. It is considered that adoption of this interpretation will not have a material impact on the Group's financial statements.

On 6 May 2010, the IASB issued a series of Improvements to IFRSs, which will apply from 1 January 2011; those improvements involving changes in the presentation, recognition and measurement of items in the financial statements will now be discussed, while those involving just changes in terminology or wording with no accounting impact will be ignored, as will those changes relating to standards or interpretations that do not apply to the Group:

– IFRS 3 (2008) – Business Combinations: the Improvement clarifies that components of non-controlling interests that do not entitle their holders to a proportionate share of an acquiree's net assets in the event of liquidation must be measured at their acquisition-date fair value, unless another measurement basis is required by IFRSs. This means, for example, that in business combinations, an employee stock option plan must be measured in accordance with IFRS 2 and the equity portion of a convertible debt instrument must be measured in accordance with IAS 32. In addition, the IASB has provided further guidance on the accounting treatment of share-based payment plans that are replaced following a business combination.

– IFRS 7 – Financial Instruments: Disclosures: the Improvement emphasizes the interaction between qualitative and quantitative disclosures and the nature and extent of risks associated with financial instruments. This should allow users of financial statements to form an overall picture of the nature and extent of risks arising from financial instruments. The improvement also eliminates disclosure requirements relating to financial assets renegotiated to avoid becoming past due or impaired and disclosures relating to the fair value of collateral.

– IAS 1 – Presentation of Financial Statements: the Improvement requires that changes in every component of equity be presented either in the statement of changes in equity or in the notes to the financial statements.

– IAS 34 – Interim Financial Reporting: a number of examples have been included to clarify what disclosures must be made in interim financial reports.

It is considered that these Improvements will not have a material impact on the Group's financial statements.

On 7 October 2010, the IASB published a number of amendments to IFRS 7 – Financial Instruments: Disclosures, applicable to accounting periods beginning on or after 1 July 2011. These amendments have been made to allow users of financial statements to improve their understanding of transfer transactions involving financial assets and the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. At the current year-end reporting date the European Union had not yet completed the endorsement process needed for the application of these amendments.

On 20 December 2010, the IASB issued a minor amendment to IFRS 1 – First-time Adoption of International Financial Reporting Standards, to eliminate the reference to the date of 1 January 2004, described as the IFRS transition date, and to provide guidance on presenting financial statements in accordance with IFRS after a period of severe hyperinflation. These amendments will be applicable from 1 July 2011. At the current year-end reporting date the European Union had not yet completed the endorsement process needed for the application of these amendments.

On 20 December 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of this amendment, SIC-21 – Income Taxes: Recovery of Revalued Non-depreciable Assets will no longer be applicable. This amendment is applicable from 1 January 2012. At the current year-end reporting date the European Union had not yet completed the endorsement process needed for the application of this amendment.

Presentation of financial statements

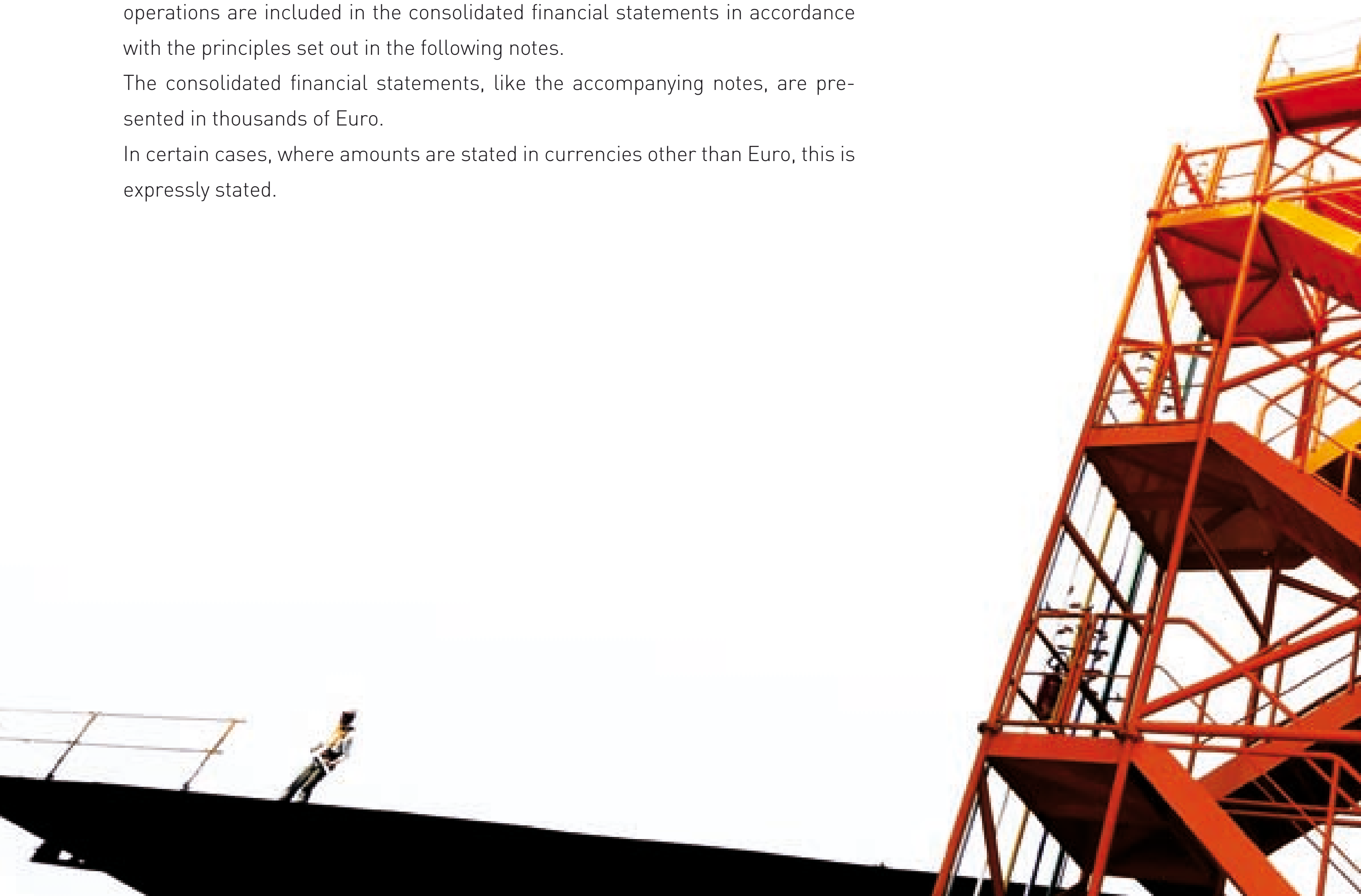
The Group presents its statement of financial position using a "non-current/current" distinction, its statement of comprehensive income using a classification based on the nature of expenses, and its statement of cash flows using the indirect method.

Functional and presentation currency

These financial statements are presented in Euro since this is the currency of the primary economic environment in which the Fincantieri Group operates. Foreign operations are included in the consolidated financial statements in accordance with the principles set out in the following notes.

The consolidated financial statements, like the accompanying notes, are presented in thousands of Euro.

In certain cases, where amounts are stated in currencies other than Euro, this is expressly stated.



Note 2 - scope and basis of consolidation

Scope of consolidation

Appendix 1 presents a list of the consolidated companies, including information about the nature of their business, location of their registered offices, amount of share capital, and their ownership structure.

Basis of consolidation

Subsidiaries

These are companies over which the Group has control, as defined by IAS 27 – Consolidated and Separate Financial Statements. Such control exists when the Group has the power to govern, directly or indirectly, the financial and operational policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date that control is obtained until the date control ceases. The portion of capital and reserves attributable to non-controlling interests in consolidated subsidiaries and the portion of their profit or loss for the year attributable to non-controlling interests are presented separately within the financial statements. Losses attributable to non-controlling interests that exceed their interest in an investee's capital are allocated to equity attributable to non-controlling interests. Changes in a parent's ownership interest in a subsidiary that do not result in acquisition/loss of control are accounted for as equity transactions.

Associates

Associates are those entities over which the Group has significant influence, which is usually presumed to exist when it holds between 20% and 50% of the investee's voting power. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method described below.
The carrying amount of these investments reflects the Group's share of the associate's equity, adjusted, if necessary, to reflect the application of IFRS, as well as the higher values attributed to assets and liabilities and any goodwill identified on acquisition.
The Group's share of profits or losses is recognized from the date significant influence is acquired until the date such influence ceases. If, as a result of losses, an associate reports negative equity, the carrying amount of the investment is reduced to zero and the Group recognizes a liability for the additional losses only to the extent that it has incurred legal or constructive obligations or made payments on behalf of the associate. Changes in the equity of an equity-accounted company which are not represented by profits or losses reported through its income statement, are recognized as an adjustment to consolidated equity.

Unrealized profits and losses arising from the transactions between equity-accounted associates and the Parent Company or its subsidiaries are eliminated to the extent of the Group's interest in the associate. Unrealized losses are not eliminated if they represent an impairment loss.

Joint ventures

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

Translation of the financial statements of foreign operations

The financial statements of subsidiaries, associates and joint ventures are prepared in their "functional currency", being the currency of the primary economic environment in which they operate. For consolidation purposes, the financial statements of each foreign company are expressed in Euro, which is the Group's functional currency and the presentation currency for its consolidated financial statements.

The rules for translating foreign company financial statements from a foreign currency into Euro are as follows:

- assets and liabilities are translated using the closing exchange rate at the date of the statement of financial position;
- income and expenses are translated using the average exchange rate for the reporting period/year;
- the "currency translation reserve" reports the differences arising on the income statement's translation at an average rate as opposed to a closing rate, as well as the differences arising on the translation of opening equity at a different rate to that applied to closing equity;
- goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

The exchange rates used to translate the financial statements of companies with a "functional currency" other than the Euro are as follows:

	2010		2009	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar	1.32572	1.3362	1.39478	1.4406

Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities assumed by the Group and the equity interests issued in exchange for control of the acquired business. Acquisition-related costs are generally accounted for as expenses in the period incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at their acquisition-date fair values; the following items are exceptions, which are measured in accordance with the specific accounting standard relating to them:

- deferred tax assets and liabilities;
- assets and liabilities for employee benefits;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group;
- Assets held for sale and discontinued operations.

Goodwill is determined as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously-held equity interest in the acquiree, over the acquisition-date fair value of the net assets acquired and liabilities assumed. If the acquisition-date amounts of the net assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any previously-held equity interest in the acquiree, this excess is immediately recognized in profit or loss as a gain on a bargain purchase.

Acquisition-date non-controlling interests can be measured at fair value or at the proportionate share in the recognized amounts of the acquiree's identifiable net assets. The measurement method is selected on a transaction-by-transaction basis.

Any contingent consideration is measured at its acquisition-date fair value and recognized as part of the consideration transferred for the purposes of calculating goodwill. Any subsequent changes in this fair value qualifying as measurement period adjustments are included in goodwill retrospectively. Fair value changes qualifying as measurement period adjustments are those that arise from new information about facts and circumstances that existed at the acquisition date, obtained during the measurement period (which cannot exceed one year from the acquisition date).

In a business combination achieved in stages, the equity interest previously held by the Group in the acquiree is remeasured at fair value on the date control is acquired and any resulting gain or loss is recognized in profit or loss. Any changes in the value of a previously-held equity interest recognized in prior reporting periods in other comprehensive income are reclassified to profit or loss as if the equity interest had been sold.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Such provisional amounts are adjusted in the measurement period to take account of new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the value of assets and liabilities recognized as of that date.

Business combinations occurring before 1 January 2010 have been accounted for in accordance with the previous version of IFRS 3.

Note 3 - accounting policies

1. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, that are controllable and able to generate future economic benefits. Such assets are carried at purchase cost and/or internal production cost, including expenses directly attributable to preparing assets for their intended use, less accumulated amortization and any accumulated impairment losses. Any borrowing costs incurred during and for the development of an intangible asset are capitalized as part of the asset's cost. Assets qualifying as "assets acquired in a business combination" are separately recognized only if their fair value can be measured reliably. Intangible assets are amortized unless they have an indefinite useful life. Amortization commences when the asset is available for use and is allocated on a systematic basis over its useful life.

1.1 Goodwill

Goodwill acquired in a business combination is recognized at its acquisition-date cost, as defined in the paragraph on Business Combinations. Goodwill is not amortized but is tested annually for impairment, or whenever specific events or changed circumstances indicate that it might be impaired. No impairment losses recognized for goodwill can be reversed in a subsequent period. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

1.2 Concessions, licenses, trademarks and similar rights

Concessions, licenses, trademarks and similar rights, acquired in a business combination, are recognized at their acquisition-date fair values and amortized over their expected useful lives. However, trademarks are not amortized, but are tested annually for impairment, or whenever specific events or changed circumstances indicate that they might be impaired.

1.3 Customer relationships

Customer relationships, acquired in a business combination, are recognized at their acquisition-date fair values. Customer relationships are amortized over the expected life of such relationships.

1.4 Research and development costs

Expenditure on research is recognized as an expense when it is incurred. Expenditure on developing new products and processes is capitalized and recognized as an intangible asset only if all the following conditions are satisfied:

- the development project is clearly identifiable and the related costs are identifiable and can be measured reliably;
- the technical feasibility of the project can be demonstrated;
- the intention to complete the project and sell the intangible assets generated can be demonstrated;
- the existence of a potential market for the intangible asset or, if it is used internally, the usefulness of the asset can be demonstrated;
- adequate technical and financial resources are available to complete the project.

Capitalized development costs are amortized on a straight-line basis over 5 years from the date the project's output can be marketed and sold.

1.5 Industrial patents and intellectual property rights

Amortization is calculated on a straight-line basis so as to allocate the cost incurred for acquiring the rights over their estimated useful life or the term of the related contracts, if shorter. Amortization begins when the acquired rights become effective. The cost of software licenses is amortized on a straight-line basis over 3 years.

2. Property, plant and equipment

Items of property, plant and equipment are stated at their historical purchase or production cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to preparing the assets for their intended use, as well as any costs of dismantling and removing the assets which will be incurred as a result of contractual obligations to restore assets to their original condition. Any borrowing costs incurred during and for the development of an item of property, plant and equipment are capitalized as part of the asset's cost.

Assets under concession are stated at cost, including estimated dismantling and removal costs, arising as a consequence of contractual obligations to restore an asset to its original condition, less accumulated depreciation calculated over the shorter of the asset's estimated useful life and the term of the individual concessions, and less any dismantling and removal costs.

Expenditure incurred after acquiring an asset and the cost of replacing certain parts is capitalized only if such expenditure increases the asset's future economic benefits. Routine repair and maintenance costs are recognized as expenses in the period incurred. If the costs of replacing certain parts of an asset are capitalized, the residual value of the parts replaced is charged to profit or loss.

Property, plant and equipment acquired under finance lease, where the risks and rewards incidental to ownership of an asset are substantially transferred to the Group, are recognized as assets at the lower of their fair value or the present value of the minimum lease payments, including any purchase option cost. The corresponding lease liability is reported in financial liabilities. Leased assets are depreciated using the same criteria and useful lives as indicated below for owned assets.

Leases where the lessor substantially retains all the risks and rewards of ownership are reported as operating leases. Payments made under operating leases are recognized as expenses on a straight-line basis over the lease term.

Depreciation is charged on a straight-line basis so as to depreciate assets over their useful lives. If a depreciable asset consists of separately identifiable parts, whose useful lives differ significantly from other parts of that asset, each part is depreciated separately in accordance with the component approach. The Group has estimated the following useful lives for its various categories of property, plant and equipment:

CATEGORIES	USEFUL LIFE (years)
Industrial buildings and dry docks	33
Plant and machinery	7 - 10
Equipment	4
Assets under concession	Useful life or term of concession, if shorter
Improvements to leased assets	Useful life or term of lease, if shorter
Other assets	4 - 33

Land is not depreciated. The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at least at every financial year-end.

Property, plant and equipment leased out by the Fincantieri Group under finance lease agreements (or under a contract with the same treatment as a finance lease) where all the risks and rewards of ownership are substantially transferred to the lessee are recognized as financial receivables in the statement of financial position. Revenue from the sale of the leased asset is recognized when the asset is transferred to the lessee. Such profit is determined as the difference between: i) the fair value of the asset at the commencement of the lease term, or, if lower, the present value of the minimum lease payments accruing to the Group, computed at a market rate of interest; and ii) the leased asset's production costs plus any legal costs and internal costs directly attributable to negotiating and arranging the lease. After recognizing the financial receivable, the finance income is recognized on a basis reflecting a constant periodic rate of return on the outstanding receivable and is released to profit or loss over the lease term on a systematic and rational basis.

3. Impairment of non-financial assets

Property, plant and equipment and intangible assets are reviewed at the end of each reporting period to identify any indication of impairment. If such indications are identified, the recoverable amount of such assets is estimated and if this is lower than the carrying amount, the difference is recognized in profit or loss as an impairment loss. Intangible assets with indefinite useful lives, such as goodwill, are not amortized but are tested annually for impairment, or whenever there are signs that such assets might be impaired.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, defined as the present value of the future cash flows expected to be derived from that asset. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, its value in use is determined with reference to the cash-generating unit to which the asset belongs. When calculating an asset's value in use, its expected cash flows are discounted using a discount rate reflecting current market assessments of the time value of money for the period of investment and risks specific to that asset. An impairment loss is recognized in profit or loss when an asset's carrying amount is higher than its recoverable amount. If the reasons for an impairment loss cease to exist, it may be reversed in whole or in part through profit or loss, except in the case of goodwill, whose impairment can never be reversed; if an impairment loss is reversed, the asset's new carrying amount may not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the past.

4. Other investments

Investments other than those in subsidiaries, associates and joint ventures (generally where the Group's interest is less than 20%) are classified as non-current financial assets and represent available-for-sale financial assets that are carried at fair value, if determinable, changes in which are recognized in equity until these assets are sold or suffer an impairment loss; at such time, the cumulative gains or losses previously recognized in equity are reclassified to profit or loss. Investments in other smaller companies, whose fair value cannot be determined, are stated at cost less any impairment losses.

5. Inventories and advances

Inventories are recorded at the lower of purchase or production cost and net realizable value, defined as the estimated selling price in the ordinary course of business less selling costs. The cost of inventories of raw, ancillary and consumable materials and finished products and goods is determined using the weighted average cost method.

The cost of production includes raw materials, direct labor costs and other costs of production (allocated on the basis of normal operating capacity). Borrowing costs are not included in the value of inventories.

Slow-moving and obsolete inventories are suitably written down to align their value with the net realizable amount.

6. Construction Contracts

Construction contracts are recognized at the value of the agreed contractual consideration plus the amount of any grants available under specific laws which have reasonably accrued at the period-end reporting date, using the percentage of completion method, taking into account the stage of the project and expected contractual risks. The stage of completion is measured by calculating the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

Construction contracts are reported as the costs incurred plus profit earned to date, less an allowance for any estimated future losses and progress billings issued. This analysis is performed on a contract-by-contract basis. When this difference is positive, it is classified as an asset under "construction contracts – assets" and when it is negative, the difference is classified as a liability under "construction contracts – liabilities".

Any borrowing costs incurred during the progress of construction contracts are treated as expenses of the specific job.

Shipbuilding contracts are closed for accounting purposes three months after a vessel's delivery; in the case of naval vessels, the delivery date is the date the acceptance report is issued.

7. Financial assets and liabilities

Non-derivative financial assets are measured at amortized cost using the effective interest method. If there is objective evidence that a financial asset is impaired, the carrying amount of the asset is reduced accordingly. Impairment losses identified by impairment tests are recognized in profit or loss.

These assets are classified as current assets, except for assets maturing after more than twelve months which are therefore classified as non-current assets.

Most of the Group's receivables are trade receivables representing non-derivative financial assets that are not quoted in an active market and have fixed or determinable payments. They are classified as current assets, except for those maturing after more than 12 months from the reporting date, which are classified as non-current assets. These assets are measured at amortized cost using the effective interest method.

If there is objective evidence of impairment, the amount of these assets is reduced to the present value of estimated future cash flows. Any such impairment losses are recognized in profit or loss. If, in a subsequent period, the reasons for such impairment losses no longer apply, the value of the asset is reinstated up to its amortized cost as if the impairment loss had never been recognized.

Financial liabilities relating to loans and other obligations payable other than derivatives are measured at amortized cost, less principal already repaid.

Payables and other liabilities are classified as current liabilities, unless the Group has a contractual right to extinguish its obligations more than twelve months from the reporting date.
The derivatives used by the Fincantieri Group are designed to hedge its exposure to currency risk primarily on sale contracts and, to a lesser extent, on procurement contracts denominated in currencies other than the Euro, to interest rate risk on loans and to price risk relating to certain commodities.
Derivative instruments are initially recognized at fair value on the derivative contract's inception date. Following initial recognition, changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized as finance income or costs for the period. If derivative instruments do qualify for hedge accounting, any subsequent changes in their fair value are treated in accordance with the specific rules set out below. In order for a derivative financial instrument to qualify as a hedging instrument, the Group must formally document the relationship between hedging instruments and hedged items, as well as its risk management objectives, hedging strategy and methods for verifying hedge effectiveness. The Group assesses the effectiveness of each hedge, both at hedge inception and on an ongoing basis. A hedging transaction is usually regarded as highly "effective" if at inception and during its life, the change in the hedged item's fair value, in the case of fair value hedges, and in the expected future cash flows, in the case of cash flow hedges, substantially offsets the change in fair value of the hedging instrument.
Changes in the fair value of derivative assets or liabilities that qualify as fair value hedges are recognized in profit or loss, along with any changes in the fair value of the hedged item.
In a cash flow hedge designed to offset the cash flow risks relating to a highly probable forecast transaction, after initial recognition the fair value changes in the effective portion of the derivative hedging instrument are accounted for in an equity reserve. This reserve is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedge is not perfectly effective, the fair value change in the ineffective portion of the hedging instrument is immediately recognized in profit or loss. If, during the life of a derivative hedging instrument, a highly probable forecast transaction is no longer expected to occur, the portion of the "reserves" relating to this instrument is immediately reclassified to profit or loss for the period. Conversely, if the derivative instrument is sold or no longer qualifies as an effective hedging instrument, the portion of the "reserves" representing changes in the instrument's fair value recognized up until then, remains separately in equity until the originally hedged transaction occurs, at which point the reserve is also reclassified to profit or loss. If a hedged transaction is no longer regarded as probable, the unrealized gains or losses recognized in equity are immediately reclassified to profit or loss.

8. Grants from government and other public entities

Government grants are recognized in the financial statements when there is reasonable assurance that the recipient will comply with the conditions attaching to them and that the grants will be received. Grants are recognized in profit or loss over the periods in which the recipient recognizes as expenses the related costs for which the grants are intended to compensate.

8.1 Grants related to assets

Government grants related to property, plant and equipment are classified as "deferred income" in the statement of financial position, forming part of other non-current liabilities. This deferred income is then recognized as income in the income statement on a straight-line basis over the useful life of the asset for which the grant was received.

8.2 Grants related to income

Grants other than grants related to assets are credited to the income statement as "Other revenues and income".

9. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts and demand deposits with banks and other highly liquid short-term investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value.

10. Employee benefits

The Fincantieri Group operates both defined contribution plans and defined benefit plans.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a fund managed by a third party. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. In the case of defined contribution plans, the Group pays contributions into publicly and privately administered pension insurance plans on a mandatory contractual or voluntary basis. The contributions are recognized as an expense in personnel costs in the accounting period to which they refer.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Defined benefit plans include the employee indemnity benefit, payable to Italian employees under article 2120 of the Italian Civil Code, as amended for the 2007 reform of this benefit.

The amount recognized in the financial statements is calculated on an actuarial basis using the projected unit credit method; the discount rate used by this method to calculate the present value of the defined benefit obligation reflects the market yield on bonds with the same maturity as that expected for the obligation. The calculation relates to the employee indemnity benefit already accrued for past service and, in the case of Italian subsidiaries with less than 50 employees, incorporates assumptions concerning future salary levels. Further to the reform of employee indemnity benefit under Law 296 dated 27 December 2006, the actuarial assumptions no longer need to consider future salary levels for Italian subsidiaries with more than 50 employees. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

11. Provisions for risks and charges

Provisions for risks are recognized only when there is a present obligation (legal or constructive) as a result of past events that is expected to result in an outflow of resources embodying economic benefits to settle the obligation. The amount recognized as a provision represents the best estimate of the expenditure required to settle the obligation.
Where the effect of the time value of money is material, and the obligation settlement date can be reliably estimated, provisions are measured at the present value of the expected expenditure using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Any increase in the amount of a provision due to changes in the time value of money is recognized as interest expense.
Contingent liabilities, meaning those relating to obligations that are only possible, are not recognized but are disclosed in the section of the notes to the financial statements reporting commitments and risks.

12. Revenues

Revenues from construction contracts are recognized using the percentage of completion method. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense in the income statement.
Revenues earned up to the reporting date from contracts denominated in foreign currency are translated into Euro using the hedged exchange rate, if the contract is hedged, or at the actual or future exchange rate used for invoicing if the contract is not hedged.
Retentions or other amounts which can be contractually reclaimed by customers are not recognized until any post-delivery obligations have been fully satisfied.

13. Income taxes

Income taxes for the year represent the sum of current and deferred taxes.
Current income taxes are calculated on taxable profit for the year, using tax rates that apply at the end of the reporting period.

Deferred income taxes are income taxes that are expected to be paid or recovered on temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax liabilities are usually recognized for all taxable temporary differences, while deferred tax assets, including those for carryforward tax losses, are recognized to the extent that it is probable that taxable profit will be available against which the temporary differences can be recovered. No deferred tax liabilities are recognized for temporary differences relating to goodwill.
Deferred tax liabilities are recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in cases when both the following conditions are satisfied: (i) the Group is able to control the timing of the reversal of such temporary differences and (ii) the temporary differences are unlikely to reverse in the foreseeable future.
Deferred income taxes are determined using tax rates that are expected to apply to the period when the related differences are realized or settled.
Current and deferred income taxes are recognized in the income statement with the exception of taxes relating to items which are directly debited or credited to equity, in which case the tax effect is also recognized directly in equity. Deferred tax assets and liabilities are offset if, and only if, income tax is levied by the same taxation authority, there is a legally enforceable right of offset and the outstanding net balance is expected to be settled.
Taxes not related to income, such as property tax, are reported in "other costs".

14. Earnings per share

14.1 Basic earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period.

14.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing profit or loss attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the weighted average number of ordinary shares is adjusted for the assumed conversion of all dilutive potential ordinary shares into ordinary shares, while profit attributable to owners of the parent is adjusted to take account of any after-tax effect of such a conversion.

15. Statement of cash flows

In accordance with IAS 7, the statement of cash flows prepared using the indirect method reports the Group's ability to generate "cash and cash equivalents". Cash equivalents are short-term, highly liquid investments that are readily convert-

ible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less. Bank overdrafts are generally considered to be financial activities, unless they are repayable on demand and form an integral part of an entity's cash management or its cash and cash equivalents; in these circumstances, such overdrafts are classified as a reduction in cash and cash equivalents. The components of cash and cash equivalents reported in the statement of cash flows reflect the equivalent items presented in the statement of financial position. Cash flows relating to interest income and expense, dividend receipts and income taxes are classified as cash flows from operating activities.
The format used by the Group presents separately:
– **cash flows from operating activities**: cash flows from operating activities are primarily derived from an entity's revenue-producing activities and are presented using the indirect method. Under this method, profit or loss for the year is adjusted for the effects of non-cash transactions, meaning those that have not generated cash and cash equivalents;
– **cash flows from investing activities**: investing activities are presented separately because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows;
– **cash flows from financing activities:** financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity.

16. Subjective accounting estimates and judgments

Preparation of financial statements requires management to apply accounting policies and principles that, in some circumstances, are based on difficult, subjective estimates and judgments based on past experience and other assumptions deemed to be reasonable and realistic under the related circumstances. The application of such estimates and assumptions affects the amounts reported in the financial statements, such as the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows and the related disclosures. The final amount of items derived using such estimates and assumptions could differ from that reported in the financial statements because of the inherently uncertain nature of the assumptions and conditions on which the estimates were based.
The specific characteristics of the Fincantieri Group's sectors of activity result in an extensive use of estimates and assumptions, meaning that changes in the conditions underlying such assumptions could have a material impact on the consolidated financial results; the principal sources of estimation uncertainty affecting the Fincantieri Group are briefly discussed below.

16.1 Revenue recognition for construction contracts

Like with other large, long-term contracts, shipbuilding contracts are dated well before product completion, sometimes even a long time before. In accordance with current market practice, contract price revisions or the possibility of receiving additional estimates for additions or variations seldom occur, unless the scope of work is significantly modified.

The margins expected to be achieved on the entire project upon completion are recognized in profit or loss according to the stage of contract completion. Accordingly, correct recognition of construction contracts and margins relating to work in progress requires management to estimate correctly the costs of completion, any incremental costs, as well as delays, additional costs and penalties that could reduce the expected margin. In support of such estimates, management uses a system of contract risk management and analysis to monitor and quantify the risks relating to these contracts. The amounts recognized in the financial statements represent management's best estimate using these systems and procedures.

16.2 Provisions for risks and charges

The Group recognizes provisions for legal and tax risks where the outcome is expected to be negative. The amount of the provisions relating to such risks represents management's best estimate at the current date. This estimate is derived by adopting assumptions that depend on factors that may change over time and could therefore materially differ from the estimates made when preparing the consolidated financial statements.

16.3 Deferred tax assets

Deferred tax assets are recognized on the basis of assumptions concerning future taxable profit. The assessment of future taxable profit for the purposes of recognizing deferred tax assets depends on factors that can change over time and have a material impact on the recoverability of deferred tax assets.

17. Reclassifications

The statement of comprehensive income and statement of financial position for 2009, presented for comparative purposes in the present consolidated financial statements, contain a number of reclassifications relative to the previously published version in order to make the presentation of these two statements clearer.

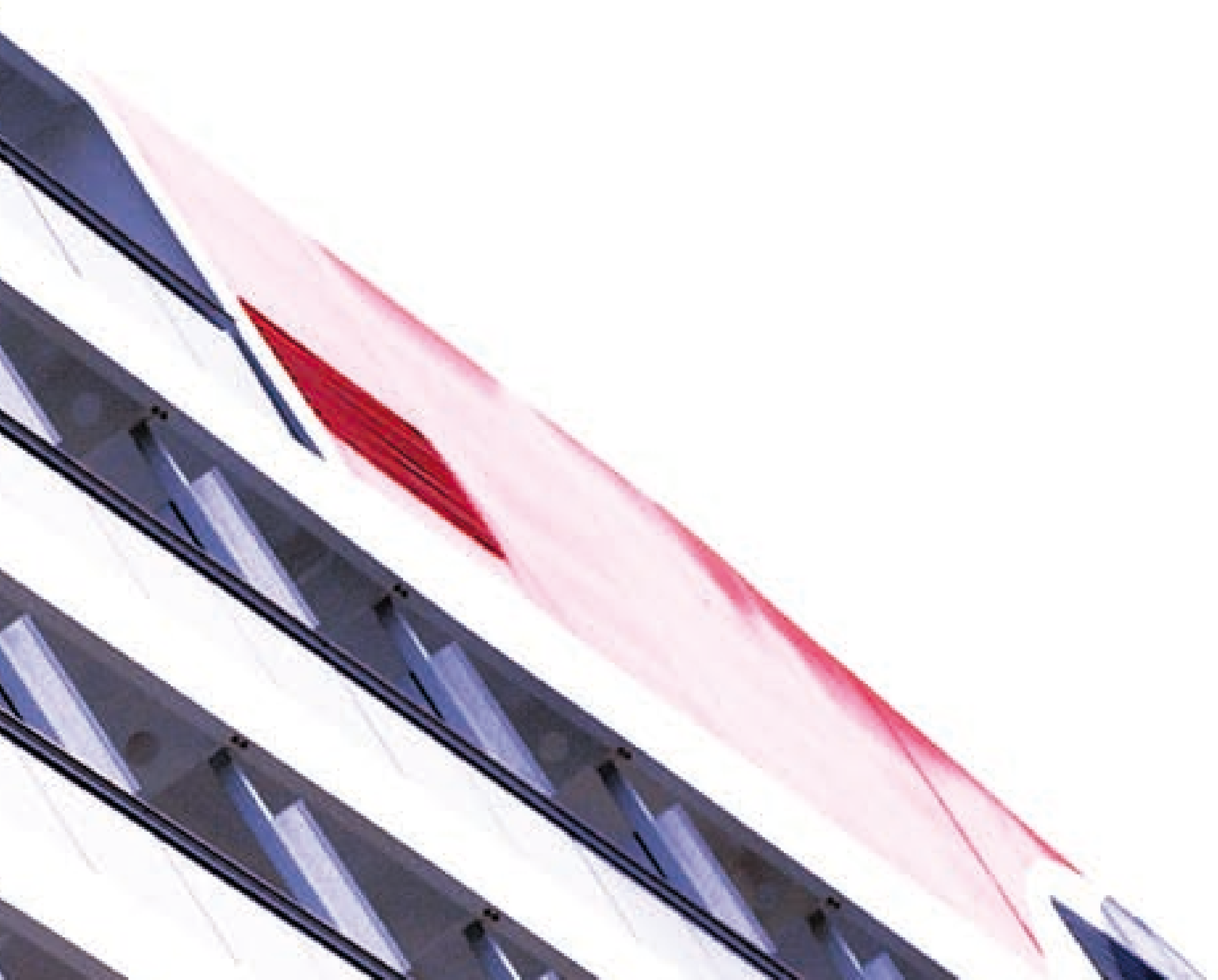
Note 4 - financial risk management

Financial risk management is primarily performed by the Parent Company, which identifies, assesses and implements financial risk management strategies in close collaboration with the operating units and other companies of the Fincantieri Group and in compliance with the guidelines established by top management.

Credit risk

The Fincantieri Group's receivables basically relate to amounts due from private shipowners for construction contracts, from the Italian government both for grants receivable and for supplies to the country's military corps, and from the US Navy and US Coast Guard for vessels being built by the subsidiary Fincantieri Marine Group LLC.

With specific regard to trade receivables due from private shipowners, Fincantieri constantly monitors customer creditworthiness, its credit exposure and the speed of credit collection. Receivables due from private shipowners represent a limited exposure because payment terms are very short and require the entire purchase price to be settled before a ship can be delivered. The amount of such receivables has nonetheless increased since 2009. This increase is due to the international economic crisis which has put some of Fincantieri's customers into financial difficulty and caused them to take longer with their payments than before. Fincantieri took every necessary step in 2010 to minimize the risk of not collecting these receivables.



The following tables provide a breakdown of the maximum exposure by risk class as of 31 December 2010 and 31 December 2009 based on the nominal value of receivables prior to any allowance against doubtful accounts:

	31.12.2010					
		Past due (days)				
(Euro/000)	Current	0 - 30	31 - 60	61 - 90	Over 90	Total
Trade receivables:						
- due from public entities	2,141	4,830	12	47	14,792	21,822
- due indirectly from public entities (*)	2,102	2,293			6,501	10,896
- due from private customers	268,658	42,213	8,850	23,955	46,987	390,663
TOTAL TRADE RECEIVABLES	**272,901**	**49,336**	**8,862**	**24,002**	**68,280**	**423,381**
Government grants financed by BIIS	65,159					65,159
Government grants from others	30,326				964	31,290
Finance lease receivables	31,763					31,763
Receivables from joint ventures	63,764					63,764
Receivables from Fintecna Group companies	3,300					3,300
Other receivables	71,529	17			34,084	105,630
Other financial receivables	56,804					56,804
GROSS TOTAL	**595,546**	**49,353**	**8,862**	**24,002**	**103,328**	**781,091**
Allowance for doubtful receivables						-55,926
NET TOTAL						**725,165**
Advances, prepayments and accrued income						66,256
TOTAL						**791,421**

	31.12.2009					
		Past due (days)				
(Euro/000)	Current	0 - 30	31 - 60	61 a 90	Over 90	Total
Trade receivables:						
- due from public entities	12,254	17,879	915	405	7,724	39,177
- due indirectly from public entities (*)	16,594	6,022	121		1,034	23,771
- due from private customers	64,935	60,223	48,069	11,424	84,235	268,886
TOTAL TRADE RECEIVABLES	**93,783**	**84,124**	**49,105**	**11,829**	**92,993**	**331,834**
Government grants financed by BIIS	70,706					70,706
Government grants from others	48,465					48,465
Finance lease receivables	33,455					33,455
Receivables from joint ventures	153					153
Receivables from Fintecna Group companies	5,070					5,070
Other receivables	91,035			257	15,462	106,754
GROSS TOTAL	**342,667**	**84,124**	**49,105**	**12,086**	**108,455**	**596,437**
Allowance for doubtful receivables						-47,324
NET TOTAL						**549,113**
Advances, prepayments and accrued income						61,238
TOTAL						**610,351**

(*) This reports receivables due from companies at the head of contracts for work commissioned by public entities, which are therefore the effective debtors.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Cash receipts from operations in 2010 provided the necessary funds to finance expected outlays, which were lower than in 2009 due to a slowdown in the pace of production.

Surplus cash arising in the year was invested in short-term instruments offering the best money market rates and issued by major financial institutions, taking due account of counterparty credit rating.

In terms of medium/long-term debt, most of these commitments are covered by corresponding receivables from the State for government grants. In particular, these include production grants under Law 431/91, received in the form of loans from Banca BIIS, (see Note 19), which are repaid directly by the State under an irrevocable payment order to Banca BIIS.

The following tables analyze the maturity of non-derivative financial liabilities, inclusive of interest owing at each maturity date. Interest has been calculated at either the floating rate plus spread applying at the reporting date, or at the fixed rate, in compliance with contract terms.

	31.12.2010							
(Euro/000)	On demand	Within 1 month	Between 2 and 3 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	Contractual cash flows	Carrying amount
Payables to Fintecna	47						47	47
Payables to joint ventures	171,274	36					171,310	171,310
Bank loans and overdrafts	4,969	5,164		10,947	56,579	26,753	104,412	94,404
BIIS loans		4,073		4,073	32,589	37,457	78,192	65,159
Payables to suppliers	66,028	140,393	150,409	373,868	20		730,718	730,718
Finance lease obligations		168	336	1,514	3,981		5,999	5,487
Other liabilities	20,606	38,434	39,834	9,262	21,813	2,320	132,269	132,269
TOTAL	**262,924**	**188,268**	**190,579**	**399,664**	**114,982**	**66,530**	**1,222,947**	**1,199,394**
Advances, accrued expenses and deferred income								42,819
TOTAL								**1,242,213**

(Euro/000)	31.12.2009 On demand	Within 1 month	Between 2 and 3 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	Contractual cash flows	Carrying amount
Payables to Fintecna	10						10	10
Payables to joint ventures	54,924			69			54,993	54,993
Bank loans and overdrafts	114,605	5,993		8,997	58,457	36,803	224,855	212,103
BIIS loans		4,074		4,073	32,590	45,605	86,342	70,706
Payables to suppliers		192,101	416,484	284,161			892,746	892,746
Finance lease obligations		166	331	1,493	5,741		7,731	7,062
Other liabilities	9,989	36,765	23,184	34,714	30,417		135,069	135,069
TOTAL	**179,528**	**239,099**	**439,999**	**333,507**	**127,205**	**82,408**	**1,401,746**	**1,372,689**
Advances, accrued expenses and deferred income								48,771
TOTAL								**1,421,460**

Market risk

Currency risk

Exposure to currency risk primarily arises when shipbuilding contracts are denominated in foreign currencies and, to a lesser extent, when goods and materials are purchased in currencies other than the Euro.
Currency risk is managed using forward contracts or currency options, which are taken out depending on currency market trends and the expected timing of foreign currency cash inflows and outflows. Where possible, payments and receipts in the same currency are matched.
Currency risk management seeks to hedge all of the Group's foreign currency inflows, but only the largest foreign currency outflows.
At 31 December 2010 the Fincantieri Group was exposed to transactional currency risk on the Parent Company's contract to build the Carnival Dream III; this contract, signed on 30 November 2009, is denominated in US dollars. At year end, there were derivative instruments hedging the currency risk relating to this contract for a notional amount corresponding to almost all of the outstanding amount receivable. Hedges of purchase transactions mostly refer to procurement contracts denominated in US and Canadian dollars.

Interest rate risk

Interest rate risk is defined as follows:

- uncertainty in the cash flows relating to the Group's assets and liabilities because of changes in interest rates; this risk is hedged using cash flow hedging instruments;
- fluctuations in the fair value of the Group's assets and liabilities because of changes in market interest rates; this risk is hedged using fair value hedging instruments.

Floating-rate assets and liabilities are exposed to the first of these risks, while fixed-rate assets and liabilities are exposed to the second risk.

The Group arranged a cash flow hedge in 2009 against a long-term floating-rate loan taken out for refinancing purposes following the acquisition of Fincantieri Marine Group LLC. This cash flow hedge took the form of an interest rate swap that converted the floating rate into a fixed one.

Other market risks

The Group's production costs are affected by movements in the price of the main raw materials used, such as steel, copper and fuel used for tests at sea and powering ships when in dock. The Fincantieri Group endeavors, wherever possible, to enter long-term contracts, which provide short-term mitigation against the risk of rising costs of goods and services. As for the risk of fuel price inflation, the Group decided to take advantage of the low oil price in 2009 and 2010 by taking out futures to fix the price of fuel expected to be purchased through until 2014 for at-sea testing or for use during ship construction.

Capital management

The objective of the Fincantieri Group is to create value for shareholders and to support future development by maintaining an adequate level of capitalization that allows it to access external sources of financing at acceptable rates.

Derivatives at fair value

Other current and non-current financial assets and other current and non-current financial liabilities include the following derivative financial instruments measured at fair value:

(Euro/000)	31.12.2010				31.12.2009			
	Positive fair value (Euro)	Notional amount (in currency)	Negative fair value (Euro)	Notional amount (in currency)	Positive fair value (Euro)	Notional amount (in currency)	Negative fair value (Euro)	Notional amount (in currency)
CASH FLOW HEDGES								
Interest rate swaps (payables)			1,561	52,000			1,176	60,000
Forward contracts (revenues, USD)	1,485	30,000	9,947	251,500				
Euro Call / USD Put (revenues, USD)	11,853	315,500						
Forward contracts (purchases, USD)	364	23,112						
Forward contracts (purchases, CAD)	289	7,787			129	3,726		
Forward contracts (purchases, NOK)					26	4,640	15	4,640
Forward contracts (purchases, SEK)					55	32,513		
INEFFECTIVE HEDGING DERIVATIVES								
Commodities futures	1,357	12,005			256	7,175	83	3,132
DERIVATIVES HELD FOR TRADING								
Options (USD)			18,449	426,500				

The following tables provide an analysis of the maturity of derivative contracts. The amounts included in these tables represent undiscounted future cash flows, which refer to just the intrinsic value.

(Euro/000)	31.12.2010						
	Within 1 month	Between 2 and 3 months	Between 4 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
FORWARD CONTRACTS SOLD (PURCHASES)							
Outflow	1,186	2,254	7,075	1,330	10,675	103	**22,623**
Inflow	1,210	2,325	7,398	1,383	10,718	107	**23,141**
INTEREST RATE SWAPS							
Outflow	792		719	1,273	2,358	364	**5,506**
Inflow	304		325	736	2,114	459	**3,938**
FUEL FUTURES							
Outflow	1,010	1,223	2,511	3,370	3,891		**12,005**
Inflow	1,146	1,417	2,904	3,842	4,053		**13,362**
CURRENCY OPTIONS (SALES)							
Outflow			21,329	3,368			**24,697**
Inflow			21,780	3,430			**25,210**
FORWARD CONTRACTS PURCHASED (SALES)							
Outflow				188,223			**188,223**
Inflow				179,641			**179,641**

(Euro/000)	Within 1 month	Between 2 and 3 months	Between 4 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	31.12.2009						
FORWARD CONTRACTS SOLD (PURCHASES)							
Outflow		1,175	4,288	867	218		**6,548**
Inflow		1,190	4,409	908	227		**6,734**
INTEREST RATE SWAPS							
Outflow	914		839	1,511	3,087	908	**7,259**
Inflow	353		317	977	3,269	1,229	**6,145**
FUEL FUTURES							
Outflow	1,488	999	2,808	2,753	2,258		**10,306**
Inflow	1,434	1,020	2,868	2,826	2,331		**10,479**

The fair value of derivative financial instruments has been calculated considering the market parameters at the year-end reporting date and using widely adopted measurement techniques. In particular, the fair value of forward contracts has been calculated with reference to exchange rates and interest rates of the different currencies at the year-end reporting date.

Movements in the cash flow hedge reserve

The following table reconciles movements in the cash flow hedge reserve:

(Euro/000)	Patrimonio Netto			Income statement
	Gross	Taxes	Net	
01.01.2009	**-880**	**278**	**-602**	
Change in fair value	-419	103	-316	
Utilization	880	-278	602	-602
Other income/expenses (+/-) relating to intrinsic component of hedging derivatives				76
Finance income/expenses (+/-) relating to trading derivatives and time-value component of hedging derivatives				-108
31.12.2009	**-419**	**103**	**-316**	**-634**
Change in fair value	-919	243	-676	
Utilization	419	-103	316	-316
Other income/expenses (+/-) relating to intrinsic component of hedging derivatives				2,064
Finance income/expenses (+/-) relating to trading derivatives and time-value component of hedging derivatives				-16,748
31.12.2010	**-919**	**243**	**-676**	**-15,000**

Financial assets and liabilities by category

The following table analyzes financial assets and liabilities by category together with their fair value at the year-end reporting date:

(Euro/000)	A	B	C	D	E	F	G	Total	Fair value
31.12.2010									
Derivative financial assets	1,357	13,991						**15,348**	**15,348**
Other financial assets					146,971			**146,971**	**147,747**
Trade receivables and other current assets					607,256			**607,256**	**607,256**
Current tax receivables					37,195			**37,195**	**37,195**
Cash and cash equivalents					329,201			**329,201**	**329,201**
Derivative financial liabilities	-18,449		-11,508					**-29,957**	**-29,957**
Other financial liabilities							-340,117	**-340,117**	**-344,126**
Other non-current liabilities							-71,474	**-71,474**	**-71,474**
Trade payables and other current liabilities							-826,210	**-826,210**	**-826,210**
Current tax liabilities							-4,805	**-4,805**	**-4,805**
Total	**-17,092**	**13,991**	**-11,508**		**1,087,185**		**-1,242,606**	**-136,592**	**-135,816**
31.12.2009									
Derivative financial assets	256	211						**467**	**467**
Other financial assets					173,949			**173,949**	**173,795**
Trade receivables and other current assets					398,376			**398,376**	**398,376**
Current tax receivables					38,501			**38,501**	**38,501**
Cash and cash equivalents					86,421			**86,421**	**86,421**
Derivative financial liabilities	-83		-1,191					**-1,274**	**-1,274**
Other financial liabilities							-347,723	**-347,723**	**-348,312**
Other non-current liabilities							-64,841	**-64,841**	**-64,841**
Trade payables and other current liabilities							-1,007,547	**-1,007,547**	**-1,007,547**
Current tax liabilities							-1,824	**-1,824**	**-1,824**
Total	**173**	**211**	**-1,191**		**697,247**		**-1,421,935**	**-725,495**	**-726,238**

Key
A = Financial assets and liabilities at fair value through profit or loss (including derivatives held for trading and derivatives that do not qualify for hedge accounting)
B = Financial assets and liabilities at fair value through profit or loss designated as such after initial recognition through equity (including hedging derivatives)
C = Financial assets and liabilities at fair value through equity (including hedging derivatives)
D = Held-to-maturity investments
E = Loans and receivables (including cash and cash equivalents)
F = Available-for-sale financial assets
G = Financial liabilities carried at amortized cost

Note 5 - sensitivity analysis

The Group has analyzed the sensitivity of its currency risk to a 10% increase and a 10% decrease in the dollar exchange rate against the euro. In both cases, the effects on the income statement and equity were not material.

Note 6 - intangible assets

Movements in this item are as follows:

(Euro/000)	Goodwill	Customer relationships	Develop-ment costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangibles	Intangibles in progress and advances to suppliers	Total
- historical cost			10,906	64,043	215		3,808	78,972
- accumulated amortization and impairment losses			-6,984	-54,541	-45			-61,570
Net carrying amount at 1.1.2009			**3,922**	**9,502**	**170**		**3,808**	**17,402**
Movements in 2009								
- change in scope of consolidation	57,334	22,167			13,293	3,162		95,956
- additions			157	6,235			3,940	10,332
- reclassifications/ other			216	131	-156		-293	-102
- amortization		-1,377	-1,799	-6,273	-14	-315		-9,778
- impairment losses		-4,259						-4,259
- exchange rate differences	-1,910	-573			-451	-98		-3,032
Closing net carrying amount	**55,424**	**15,958**	**2,496**	**9,595**	**12,842**	**2,749**	**7,455**	**106,519**
- historical cost	55,424	21,414	11,279	70,404	12,842	3,054	7,455	181,872
- accumulated amortization and impairment losses		-5,456	-8,783	-60,809		-305		-75,353
Net carrying amount at 31.12.2009	**55,424**	**15,958**	**2,496**	**9,595**	**12,842**	**2,749**	**7,455**	**106,519**
Movements in 2010								
- additions			367	3,487	120		2,460	6,434
- reclassifications/other			888	2,545			-3,433	
- amortization		-906	-2,050	-5,569	-14	-329		-8,868
- exchange rate differences	4,246	1,247			1,003	214		6,710
Closing net carrying amount	**59,670**	**16,299**	**1,701**	**10,058**	**13,951**	**2,634**	**6,482**	**110,795**
- historical cost	59,670	23,087	12,534	76,447	13,965	3,293	6,482	195,478
- accumulated amortization and impairment losses		-6,788	-10,833	-66,389	-14	-659		-84,683
Net carrying amount at 31.12.2010	**59,670**	**16,299**	**1,701**	**10,058**	**13,951**	**2,634**	**6,482**	**110,795**

The change in the scope of consolidation in 2009 solely reflected the line-by-line consolidation of the Fincantieri Marine Group from 1 January 2009.
The additions of euro 6,434 thousand made in 2010 (euro 10,332 thousand in 2009) mostly refer to costs for renewing software licenses and developing software.
The positive exchange rate differences of euro 6,710 thousand in 2010 reflect movements in the US dollar/Euro exchange rate.

Goodwill is allocated to the cash-generating unit (CGU) corresponding to the "Naval vessels, special vessels and mega-yachts" segment. Trademarks with indefinite useful lives refer to the names of the US shipyards acquired (namely Marinette, Bay and Cleveland) and are allocated to the CGU representing the group acquired. All these assets have been allocated to their respective cash-generating units for the purposes of impairment testing, which has not revealed any evidence of impairment.

Note 7 - property, plant and equipment

Movements in this item are as follows:

(Euro/000)	Land and buildings	Leased buildings	Industrial plant, machinery and equipment	Assets under concession	Extraordinary maintenance on leased assets	Other assets	Assets under construction and advances to suppliers	Total
- historical cost	221,347	16,911	658,266	158,330	22,277	133,520	45,710	1,256,361
- accumulated depreciation and impairment losses	-86,185	-1,342	-473,756	-100,361	-15,991	-89,900		-767,535
Net carrying amount at 1.1.2009	**135,162**	**15,569**	**184,510**	**57,969**	**6,286**	**43,620**	**45,710**	**488,826**
Movements in 2009								
- change in scope of consolidation	25,988	1,815	11,197			1,105	437	40,542
- additions	4,191	37	36,425	1,314	1,440	8,357	20,428	72,192
- disposals	-33		-90			-19	-9	-151
- other changes/reclassifications	4,097		19,522	759	14	5,844	-30,134	102
- depreciation	-6,594	-692	-40,392	-2,973	-1,611	-5,890		-58,152
- exchange rate differences	-855	-53	-325		-1	-19	-14	-1,267
Closing net carrying amount	**161,956**	**16,676**	**210,847**	**57,069**	**6,128**	**52,998**	**36,418**	**542,092**
- historical cost	254,390	18,767	722,531	161,278	23,957	147,522	36,418	1,364,863
- accumulated depreciation and impairment losses	-92,434	-2,091	-511,684	-104,209	-17,829	-94,524		-822,771
Net carrying amount at 31.12.2009	**161,956**	**16,676**	**210,847**	**57,069**	**6,128**	**52,998**	**36,418**	**542,092**
Movements in 2010								
- additions	3,770	62	9,896	2,093	330	1,544	33,824	51,519
- disposals	-660		-368			-5		-1,033
- other changes/reclassifications	3,057		15,035	1,984	312	1,547	-21,956	-21
- depreciation	-6,699	-706	-41,329	-3,131	-1,520	-5,372		-58,757
- impairment losses					-509			-509
- exchange rate differences	1,996	117	840		2	68	494	3,517
Closing net carrying amount	**163,420**	**16,149**	**194,921**	**58,015**	**4,743**	**50,780**	**48,780**	**536,808**
- historical cost	262,614	18,971	746,170	165,355	24,628	150,595	48,780	1,417,113
- accumulated depreciation and impairment losses	-99,194	-2,822	-551,249	-107,340	-19,885	-99,815		-880,305
Net carrying amount at 31.12.2010	**163,420**	**16,149**	**194,921**	**58,015**	**4,743**	**50,780**	**48,780**	**536,808**

The change in the scope of consolidation in 2009 solely reflected the line-by-line consolidation of the Fincantieri Marine Group from 1 January 2009.

The additions of euro 51,519 thousand made in 2010 (euro 72,192 thousand in 2009) mostly relate to production facilities. More information about capital expenditure can be found in the Report on Operations.
Impairment losses refer to the impairment recognized against the residual depreciable amount of extraordinary maintenance costs relating to a floating drydock not used in 2010.
The other changes include the reclassification of amounts reported at the end of the previous year in "Assets under construction and advances to suppliers" to the relevant asset categories upon final acquisition and utilization of such assets.
The exchange rate differences of euro 3,517 thousand in 2010 reflect movements in the US dollar/Euro exchange rate.
At 31 December 2010, the Group did not have any mortgages over its land and buildings (compared with a mortgage for euro 4,958 thousand at 31 December 2009), while there was a mortgage for euro 68,320 thousand over its plant and machinery (the same as at 31 December 2009) as security against loans received.

Note 8 - investments

Investments

These are analyzed as follows:

(Euro/000)	Associates	Joint ventures	Total equity-accounted investments	Other companies	Payments for investments	Total other investments	Total
1.1.2009	7,392	12,698	**20,090**	1,578	89,875	**91,453**	**111,543**
Additions				128		**128**	**128**
Revaluations (+) Impairment losses (-)		313	**313**	-16		**-16**	**297**
Disposals				5		**5**	**5**
Reclassifications/Other					-89,875	**-89,875**	**-89,875**
31.12.2009	7,392	13,011	**20,403**	1,685		**1,685**	**22,088**
Additions		178	**178**	12		**12**	**190**
Revaluations (+) Impairment losses (-)		467	**467**	-10		**-10**	**457**
Disposals	-7,392		**-7,392**	-4		**-4**	**-7,396**
31.12.2010		13,656	**13,656**	1,683		**1,683**	**15,339**

None of the investments is in companies listed on an active market.
"Payments for investments" relating to advances against the acquisition of the Manitowoc Marine Group (now renamed Fincantieri Marine Group) in the USA were reclassified in 2009 to the cost of the business combination. This acquisition was formally completed on 1 January 2009, since when it has been consolidated

on a line-by-line basis with a consequent elimination of the related cost of investment.

Additions of euro 190 thousand in 2010 include euro 178 thousand for forming ETIHAD SHIP BUILDING in the United Arab Emirates, a joint venture whose shareholders are Fincantieri (35%), Al Fattan Ship Industries (51%) and Melara Middle East (14%), and whose purpose is to design, produce and sell various kinds of military and civilian ships, as well as to carry out maintenance and refitting activities.

"Revaluations/impairment losses" of euro 457 thousand in 2010 mainly reflect (like in 2009) recognition of the Group's share of the profit for the year reported by the joint venture Orizzonte Sistemi Navali. With reference to "Other companies", a number of impairment losses were recognized in both 2010 and 2009 against investments held in consortia.

"Disposals" in 2010 refer to the disposal of the investment in the German company Lloyd Werft Bremerhaven (LWB) to third parties, which gave rise to the recognition of a loss of euro 2,752 thousand.

Investments at 31 December 2010

Company name	Registered office	% owned	Carrying amount
Equity-accounted investments			
Etihad Ship Building Llc	Emirati Arabi	35.00	178
Orizzonte Sistemi Navali S.p.A.	Genova	51.00	13,478
			13,656
Other investments			
Centro Sviluppo Materiali S.p.A.	Roma	8.33	698
Friulia S.p.A.	Trieste	0.52	740
EEIG Euroyards	Bruxelles	16.67	10
Accademia Italiana Marina Mercantile Scarl	Genova	4.26	12
Consorzio CONAI	Roma	(*)	1
Consorzio EVIMAR A/S	Copenhagen	9.10	6
Consorzio IMAST Scarl	Napoli	3.67	22
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genova	2.80	14
Consorzio Cals Italia	Roma	7.69	0
Consorzio Formazione Internazionale	Roma	4.76	11
Consorzio MIB	Trieste	(*)	2
Consorzio Rinave	Trieste	20.00	4
Cons. Ric. Innov. Tec.Sicilia Trasp. Navali Scarl	Messina	6.00	28
Distretto Ligure delle Tecnologie Marine Scarl	La Spezia	11.76	120
International Business Science Company Scarl	Trieste	18.18	10
Consorzio F.S.B.	Trieste	0.60	5
			1,683

(*) % owned not shown, as consortium membership is subject to continuous change.

Disclosures relating to equity-accounted investments

The following table reports financial highlights relating to equity-accounted investments as of and for the year ended 31 December 2010:

(Euro/000)	Total assets	Total liabilities	Operating revenues	Profit/loss (+/-) for the year
Etihad Ship Building Llc	509			
Orizzonte Sistemi Navali S.p.A.	1,334,197	1,307,767	328,344	919

The corresponding information at 31 December 2009 is as follows:

(Euro/000)	Total assets	Total liabilities	Operating revenues	Profit/loss (+/-) for the year
Lloyd Werft Bremerhaven Gmbh	104,085	47,771	178,165	2,188
Orizzonte Sistemi Navali S.p.A.	1,038,072	1,012,559	305,291	614

Note 9 - non-current receivables

Financial receivables

These are analyzed as follows:

(Euro/000)	**31.12.2010**	**31.12.2009**
Grants financed by Banca BIIS	59,402	65,159
Derivative assets	12,723	205
Other non-current financial receivables	56,804	38,545
NON-CURRENT FINANCIAL RECEIVABLES	**128,929**	**103,909**

The receivables for grants relate to production grants under Law 431/91, received in the form of loans from Banca BIIS, which are repaid directly by the State under an irrevocable payment order to Banca BIIS.

Derivative assets represent the reporting-date fair value of derivatives with a maturity of more than 12 months. The increase is due to hedges taken out in the year for the Carnival Dream III contract acquired by the Parent Company and denominated in US dollars.

The other non-current financial receivables report loans to third parties carry interest at market rates.

Other receivables

(Euro/000)	31.12.2010	31.12.2009
Finance lease receivables		31,264
Government grants receivable	16,322	25,926
Other	5,651	5,767
OTHER NON-CURRENT RECEIVABLES	**21,973**	**62,957**

"Finance lease receivables" represented the non-current portion of receivables due from customers for bare boat charters by an Italian shipowner. All of these receivables have been reclassified as current assets in 2010 because the contract expires in 2011.

Government grants receivable are stated at present value and report the non-current portion of grants due to shipyards and those due to shipowners, that have been assigned to Fincantieri as part of the contract price.

The receivables represented by government grants receivable carry a fixed yield and mature as follows:

(Euro/000)	31.12.2010	31.12.2009
- between one and two years	10,009	9,604
- between two and three years	5,517	10,009
- between three and four years	796	5,517
- between four and five years		796
Total	**16,322**	**25.926**

More details about receivables for grants financed by Banca BIIS can be found in Note 4.

Other receivables, presented net of the related allowance for doubtful receivables, amount to euro 5,651 thousand (euro 5,767 thousand at 31 December 2009), of which euro 4,693 thousand refers to sums owed by the Iraqi Ministry of Defense, unchanged since the end of 2009. A detailed discussion of this case can be found in the specific section on litigation in Note 29. The remaining balance of euro 958 thousand (euro 1,074 thousand 31 December 2009) refers to security deposits and other minor amounts.

The following table presents the amount of the allowance for doubtful other non-current receivables and its movements:

(Euro/000)	Allowance for doubtful other receivables
Balance at 1.1.2009	**20,488**
Total at 31.12.2009	**20,488**
Direct movements and other changes	-121
Total at 31.12.2010	**20,367**

Note 10 - deferred tax assets and liabilities

Deferred tax assets are analyzed as follows:

(Euro/000)	Sundry impairment losses	Product warranty	Other risks and charges	Fair value derivatives	Carryforward tax losses	Other temporary differences	Total
1.1.2009	**25,679**	**7,020**	**7,952**	**278**	**237**	**-6,717**	**34,449**
Movements in 2009							
- change in scope of consolidation	154	204			1,005	2,521	3,884
- through income statement	27,625	2,205	-6,174		5,701	2,133	31,490
- through equity and other reasons				-175			-175
- exchange rate differences	-6	-22			-26	-109	-163
31.12.2009	**53,452**	**9,407**	**1,778**	**103**	**6,917**	**-2,172**	**69,485**
Movements in 2010							
- through income statement	28,299	2,915	1,407		6,747	5,901	45,269
- through equity and other reasons				140			140
- other changes						-72	-72
- exchange rate differences	12	51			55	239	357
31.12.2010	**81,763**	**12,373**	**3,185**	**243**	**13,719**	**3,896**	**115,179**

Deferred tax assets have been recognized on items for which the tax is likely to be recovered against forecast future taxable profits of Group companies.

The change in the scope of consolidation in 2009 reflected the line-by-line consolidation of the Fincantieri Marine Group from 1 January 2009.

No deferred tax assets have been recognized for provisions for litigation or for certain deductible temporary differences relating to the impairment of receivables, or for carryforward tax losses that will not be recovered within the specified time limit; unrecognized deferred tax assets amount to euro 32,100 thousand (euro 27,914 thousand at 31 December 2009).

Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combination	Other temporary differences	Total
31.12.2008			
Movements in 2009			
- change in scope of consolidation	23,651	2,555	26,206
- through income statement	-2,289	1,197	-1,092
- exchange rate differences	-729	-126	-855
31.12.2009	**20,633**	**3,626**	**24,259**
Movements in 2010			
- through income statement	-494	2,584	2,090
- exchange rate differences	1,611	283	1,894
31.12.2010	**21,750**	**6,493**	**28,243**

The change in the scope of consolidation in 2009 mostly reflected the recognition of deferred tax liabilities upon purchase price allocation of the Fincantieri Marine Group.

No deferred tax liabilities have been recognized on earnings reserves of subsidiaries in view of the fact that the Group is able to control when such reserves may be distributed and also that these reserves are unlikely to be distributed in the foreseeable future.

Note 11 - inventories and advances

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Raw, ancillary and consumable materials	116,408	146,498
Work in progress and semi-finished goods	739	840
Finished products	9,350	7,511
Total inventories	**126,497**	**154,849**
Advances to suppliers	159,666	149,028
TOTAL INVENTORIES AND ADVANCES	**286,163**	**303,877**

Raw, ancillary and consumable materials represent the amount of stock considered to be sufficient for normal production activities.

Work in progress and semi-finished goods and finished products mainly refer to the manufacture of engines and spare parts.

Slow-moving and obsolete inventories still in stock at year end have been written down to their estimated realizable value. The amount of the associated allowance for obsolescence and its movements are as follows:

(Euro/000)	Allowance for obsolescence - raw materials	Allowance for obsolescence - finished products
1.1.2009	**8,486**	**234**
Change in scope of consolidation	59	
Increases in allowance	8,119	560
Utilizations	-1,661	
Exchange rate differences	-3	-8
31.12.2009	**15,000**	**786**
Increases in allowance	11,070	563
Utilizations	-4,193	-159
Exchange rate differences	8	17
31.12.2010	**21,885**	**1,207**

Note 12 - construction contracts - assets

These are analyzed as follows:

(Euro/000)	31.12.2010			31.12.2009		
	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts - net	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts - net
Shipbuilding contracts	2,211,205	1,184,774	1,026,431	2,949,145	1,297,429	1,651,716
Other contracts for third parties	166,964	132,208	34,756	138,595	126,315	12,280
Total	**2,378,169**	**1,316,982**	**1,061,187**	**3,087,740**	**1,423,744**	**1,663,996**

"Construction contracts - assets" report those contracts where the value of the percentage of completion of the contract is higher than the amount invoiced to the customer. The stage of completion is determined as the costs incurred to date plus recognized margins less any expected losses.
Construction contracts – gross reflect the valuation of construction contracts in progress; the decrease on the previous year reflects the completion of a number of contracts and the lower volume of work in the year.

Note 13 - trade receivables and other current assets

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Trade receivables	400,317	284,765
Receivables from joint ventures	63,460	153
Finance lease receivables	31,763	2,191
Receivables from ultimate parent companies	158	
Government grants receivable	5,365	13,336
Other receivables	86,730	71,044
Prepayments	19,462	26,887
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**607,255**	**398,376**
Tax receivables	**37,195**	**38,501**

The above receivables are shown net of an allowance for doubtful receivables. The allowance for doubtful receivables relates to receivables that are no longer considered fully recoverable, including those involving legal action and judicial and out-of-court proceedings when the customer is insolvent. The allowance for past due interest relates to interest charged on the late payment of trade receivables. The amounts and movements in the allowances for doubtful receivables are as follows:

(Euro/000)	Allowance for doubtful trade receivables	Allowance for past due interest	Allowance for doubtful other and tax receivables	Total
1.1.2009	**34,412**	**63**	**6,208**	**40,683**
Changes in the scope of consolidation	108			108
Direct movements and other changes	-18,486		-77	-18,563
Increases in allowance (+) Utilizations (-)	4,416		201	4,617
Exchange rate differences	-9			-9
31.12.2009	**20,441**	**63**	**6,332**	**26,836**
Direct movements and other changes	-485		-63	-548
Increases in allowance (+) Utilizations (-)	6,384		2,865	9,249
Exchange rate differences	22			22
31.12.2010	**26,362**	**63**	**9,134**	**35,559**

Receivables from joint ventures relate to trade balances with Orizzonte Sistemi Navali.

"Finance lease receivables" represent receivables due from customers for bare boat charters by an Italian shipowner, under a contract that expires in 2011. The financial statements treat "bare boat charters" like finance leases.

The following table reconciles the Fincantieri Group's finance lease receivables in respect of such charters with the amount of future lease payments owed by customers:

(Euro/000)

1) Present value of future minimum lease payments receivable	**31.12.2010**	**31.12.2009**
Total future minimum lease payments receivable	33,088	36,251
Future finance charges	-1,325	-2,796
Present value of future minimum lease payments receivable	31,763	33,455

(Euro/000)

2) Maturity of future minimum lease payments receivable	**31.12.2010**			**31.12.2009**		
	Within 1 year	Between 1 and 5 years	Over 5 years	Within 1 year	Between 1 and 5 years	Over 5 years
Future minimum lease payments receivable	33,088			3,608	32,643	
Present value of future minimum lease payments receivable	31,763			2,191	31,264	

Government grants receivable are euro 7,971 thousand lower than at 31 December 2009 thanks to receipts during the year, primarily for technological innovation grants to the Parent Company under Law 296 dated 27 December 2006.

Other receivables, net of the related allowance for doubtful receivables, comprise:

- euro 54,323 thousand for research grants, insurance claims and advances to suppliers, mostly relating to the Parent Company (euro 40,805 thousand at 31 December 2009);
- euro 26,304 thousand for the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of contract price (euro 25,838 thousand at 31 December 2009);
- euro 6,103 thousand for receivables from social security institutions (euro 4,401 thousand at 31 December 2009), most of which an advance paid to INAIL (Italy's national institution for industrial accident insurance) for contributions that will mature during the year.

Prepayments mainly refer to insurance premiums relating to future periods.

Tax receivables comprise:

- euro 11,465 thousand in indirect tax credits (euro 12,321 thousand at 31 December 2009), mainly relating to VAT (Italian sales tax) to be reimbursed or offset, as well as to requests for excise duty refunds from the Italian customs authorities;
- euro 25,730 thousand in direct tax credits, net of the related allowance, (euro 26,180 thousand at 31 December 2009), mainly relating to IRES-IRAP (Italian corporate income taxes) either paid on account (and stated net of the related tax charge for the year) or requested for refund/offset (and inclusive of the various withholding taxes incurred).

Note 14 - financial receivables

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Derivative assets	2,625	262
Other receivables	73	51
Government grants financed by Banca BIIS	5,757	5,547
Accrued interest income	2,883	1,690
Prepaid interest and other financial expense	79	
TOTAL FINANCIAL RECEIVABLES	**11,417**	**7,550**

Derivative assets represent the reporting-date fair value of derivatives with a maturity of less than 12 months. The increase of euro 2,363 thousand since 31 December 2009 is due to new hedging transactions against foreign currency exposures.

Government grants financed by Banca BIIS refer to the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of contract price. Note 9 contains information about the non-current portion of these grants.

Note 15 - cash and cash equivalents

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Bank and postal deposits	329,062	86,281
Checks	9	40
Cash on hand	130	100
TOTAL CASH AND CASH EQUIVALENTS	**329,201**	**86,421**

Almost all of the balance of cash and cash equivalents refers to the year-end balance on current accounts held with various banks.

Note 16 - equity

Equity attributable to owners of the parent

The Ordinary Shareholders' Meeting held on 27 May 2010 adopted a resolution to cover the Parent Company's loss for 2009 of euro 74,914 thousand with a corresponding amount from the extraordinary reserve.
The composition of equity is analyzed in the following table:

(Euro/000)	31.12.2010	31.12.2009
Attributable to owners of the parent		
Share capital	633,481	633,481
Share premium reserve	71	71
Legal reserve	28,453	28,453
Cash flow hedge reserve	-676	-316
Currency translation reserve	1,717	-4,748
Other reserves and retained earnings	385,257	450,860
Profit/loss (+/-) for the year	-126,475	-65,599
	921,828	**1,042,202**
Attributable to non-controlling interests		
Capital and reserves	12,856	11,362
Currency translation reserve	514	-416
Profit/loss (+/-) for the year	2,353	1,492
	15,723	**12,438**
TOTAL EQUITY	**937,551**	**1,054,640**

Share capital

The Parent Company's share capital amounts to euro 633,481 thousand at 31 December 2010, all of which fully paid-in and comprising 1,242,119,070 ordinary shares. Following the resolution adopted by the Extraordinary Shareholders' Meeting of 30 April 2004, the shares have no nominal value.

Cash flow hedge reserve

The cash flow hedge reserve reports the change in the effective portion of derivative hedging instruments measured at fair value. Movements in the cash flow hedge reserve are shown in Note 4.

Currency translation reserve

This reserve reports the effect of translating the equity of foreign subsidiaries in the US dollar zone at closing exchange rates for 2010. This reserve has increased by euro 6,465 thousand in 2010 compared with 2009, reflecting the positive trend in the US dollar/Euro exchange rate.

IFRS transition reserve

The IFRS transition reserve reflects all the adjustments needed relative to Italian GAAP upon first-time adoption of IFRS on 1 January 2005. It also contains the differences in the Parent Company's Italian GAAP and IFRS results arising between the IFRS transition date for the consolidated financial statements and that for the separate financial statements.

Other reserves and retained earnings

These mainly comprise the extraordinary reserve to which any remaining profit for the year is allocated after first making appropriations to the legal reserve and for shareholder dividends.

Non-controlling interests

The change since 31 December 2009 is due to non-controlling interests in profit for the year and to the change in the currency translation reserve.

Other comprehensive income/losses

The amount of other comprehensive income/losses, presented in the statement of comprehensive income, is as follows:

	31.12.2010			31.12.2009		
(Euro/000)	Gross amount	Tax expense/ benefit (+/-)	Net amount	Gross amount	Tax expense/ benefit (+/-)	Net amount
Effective portion of profits/losses (+/-) on cash flow hedging instruments	-500	140	-360	461	-175	286
Gains/losses (+/-) arising on translation of foreign companies' financial statements	7,394		7,394	-3,253		-3,253
Total other comprehensive income/losses (+/-)	**6,894**	**140**	**7,034**	**-2,792**	**-175**	**-2,967**

(Euro/000)	31.12.2010	31.12.2009
Effective portion of profits/losses (+/-) arising in period on cash flow hedging instruments	-919	-419
Effective portion of profits/losses (+/-) on cash flow hedging instruments reclassified to income statement	419	880
Effective portion of profits/losses (+/-) on cash flow hedging instruments	**-500**	**461**
Gains/losses (+/-) arising in period on translation of foreign companies' financial statements	**7,394**	**-3,253**
Tax effect of other components of comprehensive income	**140**	**-175**
TOTAL OTHER COMPREHENSIVE INCOME/LOSSES (+/-), NET OF TAX EFFECT	**7,034**	**-2,967**

Note 17 - provisions for risks and charges

These are analyzed as follows:

(Euro/000)	Litigation	Product warranty	Agent indemnity benefit	Other risks and charges	Total
1.1.2009	**45,255**	**25,819**	**178**	**30,876**	**102,128**
Change in scope of consolidation		525			525
Increases	7,572	18,845	1	4,010	30,428
Utilizations	-3,186	-9,459	-31	-7,571	-20,247
Releases	-3,796	-2,925		-17,053	-23,774
Exchange rate differences		-19		-46	-65
31.12.2009	**45,845**	**32,786**	**148**	**10,216**	**88,995**
Increases	29,609	28,520	5	6,903	65,037
Utilizations	-13,775	-10,845		-2,089	-26,709
Releases	-1,290	-7,265	-17	-800	-9,372
Other movements				-18	-18
Exchange rate differences		36		110	146
31.12.2010	**60,389**	**43,232**	**136**	**14,322**	**118,079**

The litigation provision includes provisions for specific employment, contractual and non-contractual disputes that had not yet been settled at year end.
The product warranty provision covers the cost of carrying out work under contractual guarantee after vessel delivery.
The provision for other risks and charges relates to various disputes, mostly of a contractual, technical or fiscal nature, which might be settled at the Group's expense either in or out of court. All the above provisions are separate from the allowances relating to receivables and construction contracts.

Note 18 - employee indemnity benefit

Movements in this item are as follows:

(Euro/000)	2010	2009
Opening balance	**80,819**	**84,452**
Interest cost	3,388	4,063
Actuarial gains/losses (+/-)	-1,040	2,053
Utilizations for benefits and advances paid	-10,755	-10,034
Staff transfers and other movements	67	285
Closing balance	**72,479**	**80,819**

Employee indemnity benefit relates to only the Group's Italian companies. At 31 December 2010, there were no other post-employment benefits qualifying as defined benefit plans.
The amount recognized in the financial statements is calculated on an actuarial basis using the projected unit credit method; the discount rate used by this method to calculate the present value of the defined benefit obligation reflects the market yield on bonds with the same maturity as that expected for the obligation.
The assumptions adopted were as follows:

	31.12.2010	31.12.2009
ECONOMIC ASSUMPTIONS		
Cost of living increase	2.0% per annum	2.0% per annum
Discount rate	4.7% per annum	4.5% per annum
Increase in employee indemnity benefit	3.0% per annum	3.0% per annum
DEMOGRAPHIC ASSUMPTIONS		
Expected mortality rate	RG48 mortality tables published by the State Accounting Office	2002 ISTAT data on Italian population split by gender
Expected invalidity rate	INPS tables split by age and gender	INPS tables projected to 2010
Expected termination rate	3.0% per annum	3.0% per annum
Expected rate of advances on employee indemnity benefit	2.0% per annum	2.0% per annum

The Group paid a total of euro 24,760 thousand into defined contribution plans in 2010 (euro 23,607 thousand in 2009).

Note 19 - non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Bank loans - non-current portion	75,942	85,473
Loans from Banca BIIS - non-current portion	59,402	65,159
Finance lease obligations	3,710	5,372
Derivative liabilities	28,193	101
Total financial liabilities	**167,247**	**156,105**
Options on equity investments	28,239	24,425
Other non-current liabilities	43,235	40,416
TOTAL NON-CURRENT LIABILITIES	**238,721**	**220,946**

The non-current portion of bank loans reports the installments due beyond one year of loans obtained from financial institutions, analyzed by maturity as follows:

	31.12.2010			31.12.2009		
(Euro/000)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	11,306	2,960	14,266	11,208	2,592	13,800
- between two and three years	10,352	2,960	13,312	10,305	2,592	12,897
- between three and four years	8,444	2,960	11,404	10,328	2,592	12,920
- between four and five years	8,243	2,960	11,203	8,418	2,592	11,010
- over five years	13,327	12,430	25,757	21,671	13,175	34,846
Total	**51,672**	**24,270**	**75,942**	**61,930**	**23,543**	**85,473**

The bank loans are repayable in installments through until 2021, and carry an annual average interest rate of 2.186% (2.36% in 2009).

The non-current portion of loans from Banca BIIS reflects the payment of production grants through the drawdown of loans by Fincantieri, which are then repaid by the government (see Note 4). The movement in the period is consistent with the corresponding amount recognized as a receivable.

Bank loans amounting to euro 26,485 thousand (of which euro 2,215 thousand classified as current) are secured by mortgages on plant and machinery in the Monfalcone shipyard, as already disclosed in Note 7.

Derivative liabilities represent the reporting-date fair value of derivatives with a maturity of more than 12 months. The increase of euro 28,092 thousand since 31 December 2009 is due to new hedging transactions against foreign currency exposures.

Other non-current liabilities mainly relate to grants for property, plant and equipment and grants for innovation (euro 34,220 thousand) which will be released to the income statement in future years to match the related depreciation/amortization of these assets. Other non-current liabilities also include euro 4,694 thousand in payables to other recipients in respect of the receivable from the Iraqi Ministry of Defense (see Note 9).

Disclosures relating to finance leases

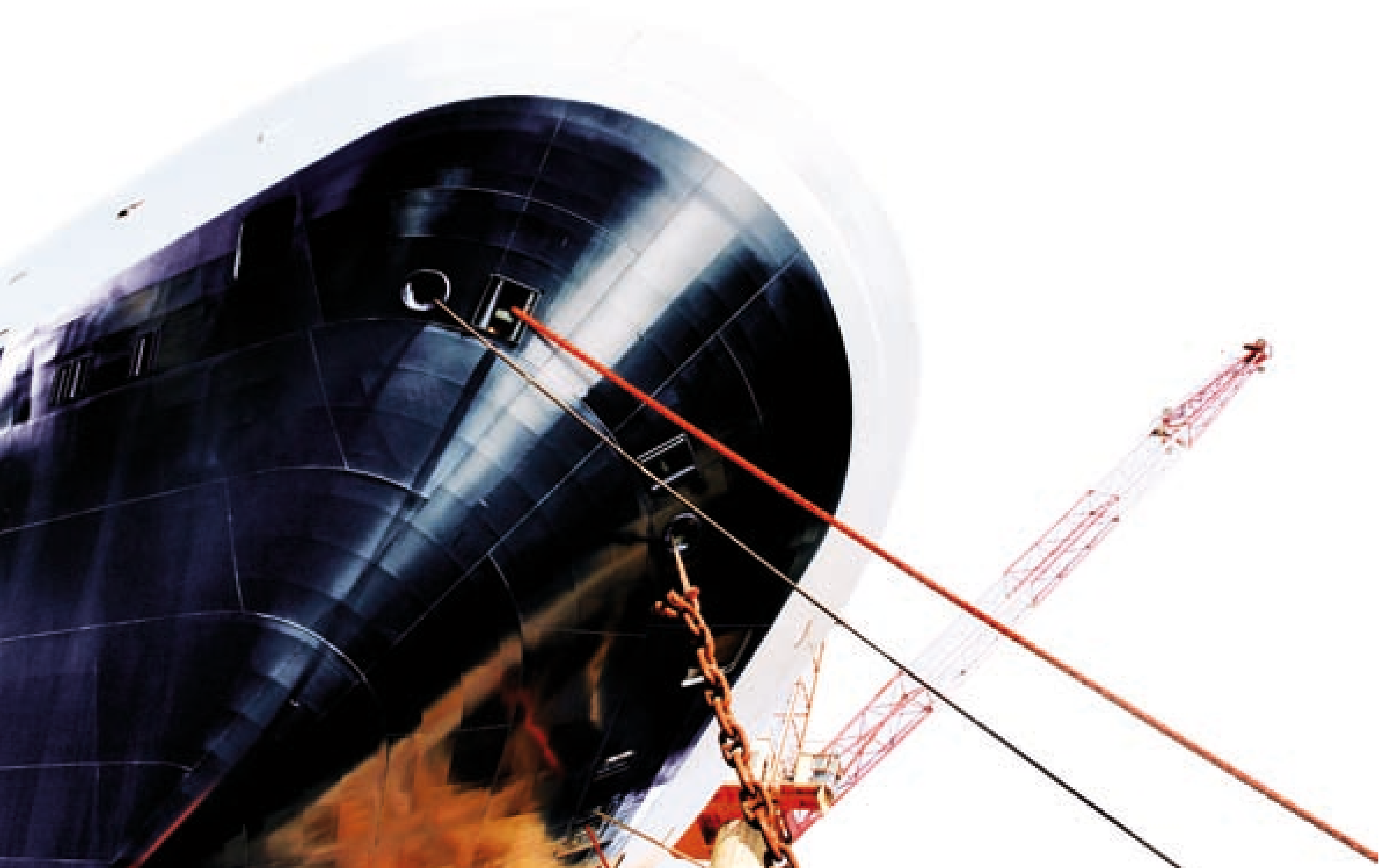
The following table reconciles the Fincantieri Group's finance lease obligations with the amount of future lease payments owed:

(Euro/000)

1) Present value of future minimum lease payments	31.12.2010	31.12.2009
Total future minimum lease payments	6,000	7,858
Future finance charges	-513	-796
Present value of future minimum lease payments	5,487	7,062

(Euro/000)

2) Maturity of future minimum lease payments	31.12.2010			31.12.2009		
	Within 1 year	Between 1 and 5 years	Over 5 years	Within 1 year	Between 1 and 5 years	Over 5 years
Future minimum lease payments	2,018	3,982		1,990	5,868	
Present value of future minimum lease payments	1,777	3,710		1,690	5,372	



Note 20 - construction contracts - liabilities

These are analyzed as follows:

	31.12.2010			31.12.2009		
(Euro/000)	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts - net	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts - net
Shipbuilding contracts	1,701,836	2,497,653	795,817	1,587,211	2,271,289	684,078
Other contracts for third parties	50,282	82,548	32,266	24,485	32,916	8,431
Advances from customers		4,443	4,443		41,608	41,608
Total	**1,752,118**	**2,584,644**	**832,526**	**1,611,696**	**2,345,813**	**734,117**

"Construction contracts - liabilities" report those contracts where the value of the percentage of completion of the contract is lower than the amount invoiced to the customer. The stage of completion is determined as the costs incurred to date plus recognized margins less any expected losses.

Construction contracts – gross are slightly higher than at 31 December 2009. Further comments can be found in Note 12.

Advances from customers refer to contracts on which work had not started at the year-end reporting date.

Note 21 - trade payables and other current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Payables to suppliers	731,140	892,731
Payables to joint ventures	58	69
Payables to ultimate parent companies	7	2
Social security payables	26,591	26,953
Other liabilities	64,396	87,440
Accrued expenses	3,681	75
Deferred income	337	9
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**826,210**	**1,007,279**
Current tax liabilities	**4,805**	**1,824**

With reference to the amounts reported at 31 December 2010:

Payables to suppliers have decreased by euro 161,591 thousand on the previous year, reflecting the drop in production.

Social security payables include employer and employee contributions due to the Italian social security authorities on December's wages and salaries, contributions resulting from end-of-year adjustments, and amounts due to INAIL (Italy's national institution for industrial accident insurance) as a final payment for the entire year to be settled in February 2011.

Other liabilities include amounts due to employees for wages, salaries and unused vacation entitlement, employee income tax withheld payable to the Italian tax authorities, sundry payables for insurance premiums, advances received against research grants, amounts payable to employee supplementary pension funds and security deposits. Other liabilities have decreased because of lower insurance payables, following the reduction in construction contracts resulting from a slowdown in production.
Current tax liabilities include euro 285 thousand in IRES (Italian corporate income tax), euro 2,334 thousand in IRAP (Italian regional business tax) and euro 2,129 thousand in tax relating to foreign companies.

Note 22 - current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Loans from shareholders	53	10
Bank overdrafts repayable on demand	4,969	114,606
Bank loans - current portion	13,493	12,024
Loans from Banca BIIS - current portion	5,757	5,547
Finance lease obligations - current portion	1,777	1,690
Payables to joint ventures	171,216	54,924
Other financial liabilities	1,912	778
Derivative liabilities	1,764	1,173
Accrued interest expense	1,886	2,140
TOTAL CURRENT FINANCIAL LIABILITIES	**202,827**	**192,892**

"Loans from shareholders" report the exposure to Fintecna on an intercompany current account.
"Bank overdrafts repayable on demand", which have decreased by euro 109,637 thousand since 31 December 2009, mostly refer to drawdowns of current account credit lines.
Payables to joint ventures relate to the balance on the intercompany current account with Orizzonte Sistemi Navali.
Derivative liabilities represent the reporting-date fair value of current derivatives.

Note 23 - revenues and income

These are analyzed as follows:

(Euro/000)	2010	2009
Operating revenues	**2,611,313**	**3,065,469**
Other revenues and income		
Gains on disposal	1,115	3,595
Release of provisions	9,926	23,857
Sundry revenues and income	64,021	54,204
Government grants	10,408	24,675
Total other revenues and income	**85,470**	**106,331**
TOTAL REVENUES AND INCOME	**2,696,783**	**3,171,800**

The decrease in operating revenues is attributable to the Group's lower level of output. Non-recurring items included in revenues are discussed in Note 24.
Sundry revenues and income comprise:

(Euro/000)	2010	2009
Penalties charged to suppliers	268	737
Rental income	71	172
Insurance claims	21,881	17,051
Recharged costs	16,262	11,573
Income for personnel training	395	401
Third-party income relating to personnel	594	277
Other sundry income	22,583	18,963
Out-of-period income and other revenues	25	125
Income from ineffective hedging instruments		256
Other income	1,942	4,649
Total	**64,021**	**54,204**

Other sundry income mainly refers to out-of-period amounts and adjustments to the value of recognized assets.

Note 24 - non-recurring items

Non-recurring expenses originate from the current situation with the order backlog and from price pressure on new orders caused by a significant growth in competition. For the sake of clarity, the expected charges, together with the related tax effect, have been presented in a separate column of the statement of comprehensive income.
Non-recurring items are defined for this purpose as income and expenses arising from events or transactions whose occurrence is not recurring or from those transactions or events that are not frequently repeated in the ordinary course of business.

Note 25 - operating costs

These are analyzed as follows:

(Euro/000)	2010	2009
Raw, ancillary and consumable materials	-1,478,605	-1,843,551
Services	-605,284	-686,231
Leases and rentals	-28,609	-29,707
Change in inventories of raw, ancillary and consumable materials	-29,946	-39,616
Change in work in progress	1,219	3,717
Other operating costs	-24,647	-16,793
Total materials, services and other costs	**-2,165,872**	**-2,612,181**
Personnel costs:		
- wages and salaries	-352,447	-363,176
- social security	-129,463	-128,948
- costs for defined contribution plans	-24,760	-23,607
- other costs	-7,108	-6,232
Total personnel costs	**- 513,778**	**-521,963**
Depreciation and amortization:		
- amortization of intangible assets	-8,875	-9,778
- depreciation of property, plant and equipment	-58,750	-58,152
Total depreciation and amortization	**-67,625**	**-67,930**
Provisions and impairment losses:		
- other impairment losses	-509	-4,259
- receivables write-down	-9,841	-4,570
- increases in provisions for risks and charges	-65,037	-28,101
Total provisions and impairment losses	**-75,387**	**-36,930**
Capitalization of internal costs	**2,548**	**1,754**
TOTAL OPERATING COSTS	**-2,820,114**	**-3,237,250**

The cost of services is analyzed as follows:

(Euro/000)	2010	2009
Subcontractors and outsourced services	-333,542	-355,222
Insurance	-38,269	-46,856
Other personnel costs	-18,027	-17,749
Maintenance costs	-20,886	-24,881
Testing	-5,844	-4,691
Outsourced design	-13,076	-18,745
Licenses	-262	-487
Transportation and logistics	-9,797	-16,586
Technical services	-16,644	-25,294
Cleaning services	-32,467	-31,436
Other services	-127,428	-158,270
Utilization of product warranty and other provisions	10,958	13,986
Total	**-605,284**	**-686,231**

Leases and rentals amounting to euro 28,609 thousand (euro 29,707 thousand in 2009), include lease and rental costs of euro 20,807 thousand (euro 22,022 thousand in 2009), sundry lease costs of euro 5,769 thousand (euro 5,703 thousand in 2009), and concession and similar fees of euro 2,033 thousand (euro 1,982 thousand in 2009).

Other operating costs mainly relate to membership fees, indirect taxes and sundry duties.

Personnel costs represent the total cost incurred for employees, including remuneration, social security contributions paid by the Group, gifts and travel allowances. In 2010, like in 2009, the actuarial and interest components of employee indemnity benefit have been reclassified from personnel costs to finance costs (see Note 26).

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

Increases in provisions for risks and charges mostly refer to provisions for contractual guarantees (euro 28,520 thousand versus euro 20,028 thousand in 2009), to provisions for litigation (euro 29,609 thousand versus euro 7,572 thousand in 2009) and other provisions for future charges (euro 6,903 thousand versus euro 4,010 thousand in 2009).

Note 26 - finance income and costs

These are analyzed as follows:

(Euro/000)	2010	2009
FINANCE INCOME		
Interest from customers (non-current receivables)	3,522	2,841
Interest from others (non-current receivables)	2,528	2,675
Income from derivative financial instruments	32,545	1,536
Other interest and commission income	7,302	943
Exchange rate gains	4,843	3,011
Total finance income	**50,740**	**11,006**
FINANCE COSTS		
Interest and commissions payable to joint ventures	-623	-793
Interest and commissions payable to ultimate parent companies	-3	-1,492
Expenses from derivative financial instruments	-52,288	-1,644
Interest/actuarial losses on employee indemnity benefit	-2,344	-6,116
Other interest and commission expense	-11,477	-12,560
Exchange rate losses	-3,474	-2,954
Total finance costs	**-70,209**	**-25,559**
TOTAL FINANCE INCOME AND COSTS	**-19,469**	**-14,553**

Finance income includes euro 2,528 thousand in income officially received by the Parent Company from the government, but actually paid to Banca BIIS (an equal amount is recognized as finance expense), in connection with transactions through which government grants are settled (see Note 4).
There has been a net increase in 2010 in income and expense from financial derivative instruments, associated with an increase in the Group's exposure to currency risks, and associated hedges taken out against a major contract acquired by the Parent Company in US dollars.

Note 27 - income and expense from investments

These are analyzed as follows:

(Euro/000)	2010	2009
INCOME		
Dividends from other companies	22	20
Other income from investments	9	
Total income	**31**	**20**
EXPENSE		
Impairment of investments	-10	-16
Losses on disposal of investments	-2,752	
Total expense	**-2,762**	**-16**
INCOME/EXPENSE (+/-) FROM INVESTMENTS	**-2,731**	**4**
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS		
Profit	467	313
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS	**467**	**313**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**-2,264**	**317**

The losses on disposal of investments refer to the consolidated loss arising on disposal of the interest in the German associate Lloyd Werft Bremerhaven to third parties.
Note 8 provides details about equity-accounted investments. The share of profit from equity-accounted investments in 2010 relates to the share of profit of Orizzonte Sistemi Navali that is attributable to the Group of euro 467 thousand (euro 313 thousand in 2009).

Note 28 - income taxes

These are analyzed as follows:

(Euro/000)	2010		2009	
Current taxes		**-22,238**		**-17,003**
Deferred tax assets:				
– sundry impairment losses	28,299		27,625	
– product warranty	2,915		2,205	
– other risks and charges	1,407		-6,174	
– carryforward tax losses	6,747		5,701	
– other	5,901		336	
		45,269		**29,693**
Deferred tax liabilities:				
– tax deductions for construction contracts	-2,584			
– other	494		2,889	
		-2,090		**2,889**
Total deferred taxes		**43,179**		**32,582**
TOTAL INCOME TAXES		**20,941**		**15,579**

Notes:
A "-" sign indicates the recognition of deferred tax liabilities or reversal of deferred tax assets.
A "+" sign indicates the reversal of deferred tax liabilities or recognition of deferred tax assets.

The theoretical tax rate is reconciled to the effective tax rate as follows:

(Euro/000)	2010	2009
Theoretical corporate income tax rate (IRES)	**27.5%**	**27.5%**
Profit/loss (+/-) before tax	-145,064	-79,686
Theoretical corporate income tax (IRES)	**39,893**	**21,914**
Impact of taxes relating to prior periods	508	4,098
Impact of tax losses	55	175
Effect of permanent differences and unrecognized temporary differences	-7,934	-1,202
Net impact of franking non-accounting tax deductions		117
Effect of different tax rate applicable to foreign entities	-1990	-2,357
IRAP charged to income statement	**-9,591**	**-7,166**
Total income taxes through income statement	**20,941**	**15,579**
Current taxes	-22,238	-17,003
Deferred taxes	43,179	32,582

Note 29 - other information

Net financial position

(Euro/000)	31.12.2010	31.12.2009
Cash and cash equivalents	**329,201**	**86,421**
Current financial receivables	**11,417**	**7,550**
Bank overdrafts	-4,969	-114,606
Current portion of bank loans	-19,250	-17,694
Other current financial liabilities	-178,608	-60,715
Current debt	**-202,827**	**-193,015**
Net current debt	**137,791**	**-99,044**
Non-current financial receivables	**128,929**	**103,891**
Bank loans	-135,344	-150,509
Other non-current financial liabilities	-31,903	-5,473
Non-current debt	**-167,247**	**-155,982**
Net non-current debt	**-38,318**	**-52,091**
Net financial position	**99,473**	**-151,135**

Related party transactions

Intragroup transactions and transactions with Fintecna and its subsidiaries, and with other related parties in general, do not qualify as either atypical or unusual, since they fall within the normal course of business of the Fincantieri Group and are conducted on an arm's length basis.

The following table provides a summary of the Fincantieri Group's transactions with Fintecna and its subsidiaries, with the Parent Company's associates and joint ventures, which are not eliminated on consolidation in accordance with the stated consolidation principles, and with other related parties:

STATEMENT OF FINANCIAL POSITION	31.12.2010						
(Euro/000)	Total 2010	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Financial assets - receivables	140,346						0%
Advances	159,666						0%
Trade receivables and other assets	629,229	3,300	74,661			77,961	12%
Financial liabilities	-370,074	-47	-171,038			-171,085	46%
Trade payables and other liabilities	-897,684	-36	-95			-131	0%
	31.12.2009						
	Total 2009	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Financial assets - receivables	202,445						0%
Advances	149,028						0%
Trade receivables and other assets	382,186	5,070	13,465			18,535	5%
Financial liabilities	-348,997	-10	-54,924			-54,934	16%
Trade payables and other liabilities	-1,071,937		-70			-70	0%

INCOME STATEMENT	2010						
(Euro/000)	Total 2010	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Operating revenues	2,611,313		2,902			2,902	0%
Other revenues and income	85.470		1,521			1,521	2%
Materials and services costs	-2,165,872	-36	-298			-334	0%
Finance income	50,740						0%
Finance costs	-70,209	-1	-623			-624	1%
	2009						
(Euro/000)	Total 2009	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Operating revenues	3,065,469	1,815	507,088	47		508,950	17%
Other revenues and income	106,353	7,267	2,679	7		9,953	9%
Materials and services costs	-2,612,181		-118			-118	0%
Finance income	11,005		3			3	0%
Finance costs	-25,557	-1,492	-793			-2,285	9%

Remuneration of the board of directors, board of statutory auditors and key management personnel

(Euro/000)	Emoluments of office(1)	Non-monetary benefits	Bonuses and other incentives	Other remuneration
	2010			
Parent Company Board of Directors	409	8	380	650
Parent Company Board of Statutory Auditors	89			
General Managers and Key Management Personnel		44	852	2,561
Parent Company Independent Auditors	308			24
	2009			
Parent Company Board of Directors	395	18	980	662
Parent Company Board of Statutory Auditors	96			46
General Managers and Key Management Personnel		45	783	2,634
Parent Company Independent Auditors	268			

(1) Esclusi i compensi reversibili

No directors, statutory auditors, general managers or key management personnel hold any equity interests in Fincantieri Cantieri Navali Italiani S.p.A. or in any Group company.

Basic earnings/loss per share

Basic earnings/loss per share, which is the same as diluted earnings/loss per share, are calculated as follows:

		31.12.2010	31.12.2009
Consolidated profit/loss (+/-)	Euro/000	-124,123	-64,107
Profit/loss (+/-) attributable to owners of the parent	Euro/000	-126,476	-65,599
Weighted average shares outstanding	Number	1,242,119,070	826,581,277
Basic earnings/loss (+/-) per share	Euro	**-0.10182**	**-0.07936**

There are no differences between basic and diluted earnings per share as there were no potential dilutive shares at the year-end reporting date.

Operating leases

The following table analyzes future minimum lease payments under operating leases:

(Euro/000)	2010	2009
Maturity of future minimum operating lease payments:		
Within 1 year	10,015	9,643
Between 1 and 5 years	30,123	31,388
Over 5 years	16,214	23,898
Total	**56,352**	**64,929**

Guarantees

Guarantees relate exclusively to those provided by the Parent Company, broken down as follows:

(Euro/000)	2010	2009
Other guarantees	28,569	28,569
Total	**28,569**	**28,569**

There were no bank guarantees at 31 December 2010 that had been given by the Group to third parties.
Other guarantees relate to releases issued on behalf of Horizon to the French Ministry of Defense.

Litigation

The most important types of dispute are described below.

Iraq dispute

This is a complicated, long-running dispute involving contracts with the Iraq government that were only partially performed as a result of customer breach of contract, including because of the UN embargo of Iraq implemented through specific EU legislation.

As reported in prior year financial statements, Fincantieri's defense counsel in the case brought for the two contracts in which Fincantieri was the main contractor, considers that the first-instance ruling by the Genoa Courts in the Parent Company's favor on the merit and amount of damages can be reasonably considered as final because it has not been appealed by either the Iraqis or by the Parent Company.

The hearing for the case brought by Armamenti & Aerospazio (the main contractor in the third contract), initially set for 4 November 2010, has been postponed to 7 July 2011 at the request of Iraqi counsel due to the impossibility of receiving instructions from their client.

It is also reported that the international measures preventing any enforcement actions against Iraq, even when the disputed receivable is the subject of a court ruling, have been extended to 30 June 2011.

In view of the above, the prudent approach adopted in the 2009 financial statements remains unchanged. In France, the Iraqi appeal to the Paris Court against the arbitration ruling in Fincantieri's favor was suspended in May 2010 at counsel's request, again because of the impossibility of receiving instructions from the Iraqi government. As a result, the hearing for the verbal discussion originally scheduled for 23 September 2010 did not take place. The suspension will be lifted only once Iraq applies to the Court.

Lastly, once a new Iraqi government has taken up office, the talks started some time ago to try and reach an out-of-court settlement to this dispute will be able to resume.

Customer credit recovery

This type of litigation involves legal action against customers that are insolvent, bankrupt or the subject of other reorganization measures.

With reference to the more significant positions, during 2010 Tirrenia and SIREMAR were placed under special management on 5 August and 17 September respectively, while the two OBI companies, in default on a substantial part of the payment for two fast ferries already delivered, were declared bankrupt towards year end.

The recoverability of the various debtor positions has been carefully evaluated, and where necessary they have been duly written down.

Litigation with suppliers

These are disputes regarding claims by suppliers and contractors that the Parent Company considers unjustified, or concerning the recovery of the higher costs incurred by the Parent Company because of failings by suppliers/contractors.

A provision for risks and charges has been recognized when it is thought that a dispute will not be settled in the Group's favor.

Employment litigation

Like in the previous year, there were still a large number of cases brought by employees and former employees of contractors and subcontractors, which involve Group companies under the "customer co-liability" principle. Fincantieri has continued to take steps to prevent, or at least limit, these legal actions from resulting in costs for the Group.
Litigation relating to asbestos continued to be settled both in and out of court in 2010. Suitably prudential provisions have been recognized in respect of such actions.

Other litigation

Other litigation includes action: i) against factoring companies; ii) involving appeals against claims by social security authorities; iii) for revocation suits; iv) for joint liability with insurance companies; v) for indirect claims arising from stages of production; vi) for cases concerning trademarks and patents; and vii) for compensation claims; etc.
The Group has made suitable provisions for risks and charges also for this type of litigation where it believes the outcome might result in an outflow of economic resources.
The Parent Company is also engaged in managing disputes with the Ministry of the Environment concerning the Castellammare di Stabia and Muggiano shipyards. The claims are fiercely contested by Fincantieri, which has recently presented solutions to the Ministry which, if approved, would annul the appeals to the respective regional courts.
In the case of the complex environmental dispute involving the Marghera shipyard, a settlement has been agreed and the related rulings, by the Council of State and Venice Civil Court, will be declared void.
The Parent Company has appealed against a measure issued by the Ministry of Economic Development which has suspended the presentation of applications for government assistance in support of technological innovation projects. The Lazio regional administrative court - in one of the first applications of art. 55 of the Code of Administrative Procedure – held a hearing on 10 February 2011 to discuss the merits of the case, for which a decision is still awaited.

Tax position

National group tax filing

The group tax election, made in 2007 with the subsidiaries Cetena S.p.A., Isotta Fraschini Motori S.p.A. and Seaf. S.p.A., was renewed in 2010 for the three-year period 2010/2012. The subsidiary Bacini di Palermo S.p.A. is also filing for tax with the same group under an election made for the three-years 2009/2011.

Assessments

Fincantieri

The Company – which, because of its size, is subject to regular inspection by the Regional Revenue Service – has undergone a general inspection for tax period 2007. The inspection, which started in mid September, was completed in the last few days of the year with notification of the report of findings.

These findings are currently being examined to decide the most appropriate defense.

Orizzonte Sistemi Navali

Further to inspections for the 2007 and 2008 tax periods by the Italian Tax Police, a report of findings has been recently notified. Like in the above case, these findings are also being examined.

Tax litigation and other information

Fincantieri

The Company has a number of pending disputes at various levels of court; the more important cases refer to:

- the restitution of import/export duties: following the ruling by the United Sections of the High Court, proceedings have started for obtaining guidance from Customs and Excise on providing the evidence;
- the excise duty dispute: the Supreme Court has confirmed the obligation to pay excise duties on petroleum products, even at the lower rate. The Company is deciding what to do for cases identical to those covered by the Supreme Court decision. As for the Customs and Excise claim to recover excise duties for the five years prior to 2005 (when the authority adopted a different interpretation), litigation is continuing, bearing in mind the provisions of the Taxpayer's Statute and generally favorable precedent;

- the "IRES on IRAP" dispute: the hearing by the Trieste Provincial Tax Commission has been postponed to 22 June 2011; the Constitutional Court is also due to issue a pronouncement on this subject.

The Company has ruled out that there will be any costs affecting future years.

Isotta Fraschini Motori

The Provincial Tax Commission has accepted the Company's appeal against the 2004 assessment, against which the Italian Revenue Service has now appealed with a ruling still pending. Another assessment relating to 2005 and connected with the 2004 one was notified in the last few days of the year; an appeal against this assessment is currently being examined.

Headcount

The Fincantieri Group had 10,210 employees at 31 December 2010 compared with 10,530 employees at 31 December 2009, broken down as follows:

	2010		2009	
	31.12	Average	31.12	Average
Senior managers	221	219	227	228
Middle managers	358	359	348	365
White collars	3,818	3,784	3,903	3,874
Blue collars	5,813	5,617	6,052	5,932
Total	**10,210**	**9,979**	**10,530**	**10,399**

	31.12.2010	31.12.2009
Fincantieri (Parent Company)	8,311	8,609
Fincantieri Marine Group	1,594	1,617
CETENA	69	72
Fincantieri Marine Systems	34	35
Isotta Fraschini Motori	148	154
Seastema	23	21
Delfi	31	22
Total	**10,210**	**10,530**

Orizzonte Sistemi Navali had 89 employees at 31 December 2010, compared with 88 at 31 December 2009.

Note 30 - cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2010	31.12.2009
Profit/loss (+/-) for the year	-124,122	-64,107
Depreciation and amortization	67,625	67,930
Gains/losses (-/+) from disposal of property, plant and machinery	-839	-3,539
Revaluation/impairment (-/+) of intangible assets and equity investments	2,804	3,962
Increases/releases of provisions for risks and charges	55,665	6,377
Interest and actuarial gains/losses on employee indemnity benefit	2,414	6,402
Interest income	-12,726	-2,872
Interest expense	12,103	6,050
Income taxes for the year	-20,941	-15,579
Non-recurring income/expenses (-/+)	183,200	109,659
Finance income and costs from derivative financial instruments		126
Gross cash flows from operating activities	**165,183**	**114,409**
CHANGES IN WORKING CAPITAL		
- inventories	18,249	45,879
- construction contracts	549,297	-382,179
- trade receivables	-113,803	-90,853
- other current assets	-57,668	12,791
- other non-current assets	-932	
- advances from customers	-37,241	-45,302
- trade payables	-160,554	96,376
- other current liabilities	-22,034	-8,142
- other non-current liabilities	6,318	10,743
Cash flows from working capital	**346,815**	**-246,278**
Dividend receipts		20
Interest received	11,454	1,329
Interest paid	-12,357	-4,321
Income taxes paid	-21,511	-25,538
Utilization of provisions for risks and charges	-26,709	-20,247
Utilization of provision for employee indemnity benefit	-10,755	-10,035
NET CASH FLOWS FROM OPERATING ACTIVITIES	**286,937**	**-305,070**

Note 31 - events subsequent to 31 december 2010

The principal events occurring after the end of the reporting period are as follows:

- January 2011: delivery of the Marina, a luxury cruise ship built at the Sestri Ponente yard, to Oceania Lines of the USA;
- January 2011: delivery of Deepak, the first of two fleet tankers ordered by the Indian Navy and built at the Palermo, Riva Trigoso and Muggiano yards;
- 3 February 2011: formation of Fincantieri do Brasil Participações S.A., as a wholly-owned subsidiary of the Group with 10% of its share capital of 5,000 reals already paid in.

VENTURA
P&O Cruises
2008
Monfalcone shipyard

Appendix 1

Consolidated companies

COMPANY NAME Principal activity	Registered office	Share capital		% held		% consolidated by Group
Companies consolidated line-by-line						
BACINI DI PALERMO S.p.A. Dry-dock management	Palermo ITALY	Euro	1,032,000.00	100.00	Fincantieri	100.00
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA S.p.A. Ship research and experimentation	Genoa ITALY	Euro	1,000,000.00	71.10 15.00	Fincantieri Seaf	86.10
ELNAV ESERCIZIO E LOCAZIONE NAVI S.p.A. Ship operator	Trieste ITALY	Euro (paid in	2,580,000.00 1,135,200.00)	65.00	Fincantieri	100.00
FINCANTIERI HOLDING B.V. Holding company for foreign investments	Amsterdam (NL)	Euro	9,529,384.54	100.00	Fincantieri	100.00
FINCANTIERI MARINE SYSTEMS NORTH AMERICA INC. Sale and after-sale services relating to mechanical products	Delaware Corporation based in Chesapeake (VI - USA)	USD	501,000.00	100.00	Fincantieri Holding BV	100.00
GESTIONE BACINI LA SPEZIA S.p.A. Dry-dock management	Muggiano (La Spezia) ITALY	Euro	260,000.00	99.89	Fincantieri	99.89
ISOTTA FRASCHINI MOTORI S.p.A. Design, construction, sale and after-sale services relating to fast medium-duty diesel engines	Bari ITALY	Euro	12,546,000.00	100.00	Fincantieri	100.00
SOCIETÀ PER L'ESERCIZIO DI ATTIVITÀ FINANZIARIE SEAF S.p.A. Financial support for Group companies	Rome ITALY	Euro	1,032,000.00	100.00	Fincantieri	100.00
DELFI S.r.l. Technical and logistics engineering	Follo (La Spezia) ITALY	Euro (paid in	400,000.00 100,000.00)	49.00	Fincantieri	49.00
SEASTEMA S.p.A. Design and development of integrated automation systems	Genoa ITALY	Euro	300,000.00	50.00	Fincantieri	50.00
FINCANTIERI USA INC. Investment holding company	Delaware Corporation based in Wilmington (DE - USA)	USD	1,029.75	86.02	Fincantieri	100.00
FINCANTIERI MARINE GROUP HOLDINGS INC. Investment holding company	Delaware Corporation based in Green Bay (WI - USA)	USD	1,027.97	87.44	Fincantieri USA Inc.	87.44
FINCANTIERI MARINE GROUP LLC. Ship building and repair	Nevada LLC based in Marinette (WI – USA)	USD	1,000.00	100.00	FMGHs Inc.	87.44
MARINETTE MARINE CORPORATION LLC. Ship building and repair	Wisconsin (WI – USA)	USD	400,000.00	100.00	FMG LLC	87.44
ACE MARINE LLC. Building of small aluminum ships	Wisconsin (WI – USA)	USD	1,000.00	100.00	FMG LLC	87.44
Joint ventures consolidated using the equity method						
ORIZZONTE SISTEMI NAVALI S.p.A. Management of contracts for the supply of large naval vessels	Genoa ITALY	Euro	20,000,000.00	51.00	Fincantieri	51.00
ETIHAD SHIP BUILDING LLC Design, production and sale of civilian and naval ships	Arab Emirates	AED	2,500,000.00	35.00	Fincantieri	35.00

Appendix 2

Key figures from the financial statements of fintecna
Finanziaria per i Settori Industriale e dei Servizi S.p.A.

The key figures for the ultimate parent company FINTECNA – Finanziaria per i Settori Industriale e dei Servizi S.p.A. presented in the condensed format required by article 2497-bis of the Italian Civil Code, have been taken from the financial statements for the year ended 31 December 2009. For an adequate and complete understanding of FINTECNA's assets and liabilities and financial position at 31 December 2009, as well as of its results of operations for the year then ended, reference should be made to the financial statements which are published in the format and manner required by law and accompanied by an independent auditors' report.

(Euro/000)

STATEMENT OF FINANCIAL POSITION	31.12.2009
ASSETS	
Fixed assets	1,692,407
Current assets	2,633,723
Accrued income and prepayments	2,299
TOTAL ASSETS	**4,328,429**
LIABILITIES	
Equity	2,535,559
Provisions for risks and charges	1,651,386
Employee indemnity benefit	7,252
Payables	133,933
Accrued expenses and deferred income	299
TOTAL EQUITY AND LIABILITIES	**4,328,429**
MEMORANDUM ACCOUNTS	**7,568,299**
INCOME STATEMENT	
Value of production	39,892
Cost of production	-51,600
Finance income and costs	59,438
Adjustments to financial assets	471
Extraordinary income and expenses	19,825
PROFIT BEFORE TAX	**68,026**
Income taxes	-4,309
PROFIT FOR THE YEAR	**63,717**

REPORT BY THE BOARD OF STATUTORY AUDITORS

Dear Shareholders,

We have examined the Fincantieri Group's consolidated financial statements at 31 December 2010 drawn up in accordance with International Financial Reporting Standards and the accompanying Report on Operations.
Our examination has been conducted in accordance with the standards of conduct for the Board of Statutory Auditors dictated by the Italian Civil Code and with reference to the regulatory framework governing consolidated financial statements.
The separate financial statements of Fincantieri – Cantieri Navali Italiani S.p.A., the Parent Company, have been audited by PricewaterhouseCoopers, and the financial statements of individual subsidiaries have been examined by their respective Boards of Statutory Auditors and Independent Auditors and not directly examined by the Parent Company's statutory auditors.
Fincantieri's subsidiaries have been consolidated on a line-by-line basis, except for Orizzonte – Sistemi Navali S.p.A. and Etihad Ship Building Llc, both of which have been equity accounted.
The consolidated financial statements, taken as a whole, give a fair view of the assets and liabilities, financial position, and results of operations of the Fincantieri Group for the year ended 31 December 2010.
The Board of Statutory Auditors has also examined the Report on Operations and checked that it reflects clearly and consistently the contents of the consolidated financial statements.

Trieste, 11 April 2011

THE BOARD OF STATUTORY AUDITORS

MANAGEMENT REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Management representation on the consolidated financial statements pursuant to art. 81-ter of Consob Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.

1. The undersigned Giuseppe Bono, in his capacity as Chief Executive Officer, and Carlo Gainelli, as Manager responsible for preparing financial reports of FINCANTIERI – Cantieri Navali Italiani S.p.A. ("Fincantieri"), taking account of art. 30 of Fincantieri's by-laws as amended following the request of the majority shareholder Fintecna S.p.A. in letter no. 0003848 dated 19 March 2007, hereby represent:
   - the suitability in relation to the Company's organization and,
   - the effective application,

   of the reporting and accounting procedures for the preparation of the consolidated financial statements, during financial year 2010.
2. The adequacy of the accounting and administrative processes for preparing the consolidated financial statements at 31 December 2010 has been evaluated on the basis of a procedure established by Fincantieri in compliance with the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, which represents the generally accepted standard model internationally. This evaluation has been confirmed in the tests of key controls relating to the more important processes involved in the preparation of financial reports. If the tests revealed any exceptions, solutions were promptly agreed with the process owners concerned and have already been or are in the process of being implemented.
3. The undersigned also represent that the consolidated financial statements:
   - have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002;
   - correspond to the underlying accounting records and books of account;
   - are able to provide a true and fair view of the Company's assets and liabilities, financial position and results of operations and of the group of companies included in the consolidation.

25 March 2011

Chief Executive Officer	Manager Responsible For Preparing Financial Reports
Giuseppe Bono	Carlo Gainelli

REPORT BY THE INDEPENDENT AUDITORS

pwc

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the shareholders of
FINCANTIERI – Cantieri Navali Italiani SpA

1 We have audited the consolidated financial statements of FINCANTIERI – Cantieri Navali Italiani SpA and its subsidiaries ("FINCANTIERI Group") as of 31 December 2010 which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and related notes. The directors of FINCANTIERI – Cantieri Navali Italiani SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 7 May 2010.

3 In our opinion, the consolidated financial statements of the FINCANTIERI Group as of 31 December 2010 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been prepared clearly and give a true and fair view of the financial position, results of operations and cash flows of the FINCANTIERI Group for the period then ended.

4 The directors of FINCANTIERI – Cantieri Navali Italiani SpA are responsible for the preparation of the Report on Operations in compliance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and recommended by Consob. In our opinion, the Report on Operations is consistent with the consolidated financial statements of the FINCANTIERI Group as of 31 December 2010.

Trieste, 14 April 2011

PricewaterhouseCoopers SpA

Signed by
Maria Cristina Landro
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.

Glossary

1 - Operating activities

Shipowner

The entity that operates the ship, irrespective of whether it is the owner or not.

Dry-dock

Basin-like structure in which ships are built or repaired.

Order backlog

Residual value of orders not yet completed. This is calculated as the difference between the total value of an order (including any additions and amendments) and the value reported as "Work in progress" at the period-end date.

Mega-yachts

This business unit builds motor yachts that are at least 70 meters long (230 feet).

Merchant vessels

This business unit builds new ships for commercial purposes, mostly involving passenger transportation. Examples are cruise ships, ferries (either for transporting just vehicles or cruise ferries which carry both passengers and vehicles), container ships, oil tankers, chemical tankers, gas tankers etc.

Naval vessels

This business unit builds (as well as repairs, refits and refurbishes) naval ships destined for the defense of territorial waters, such as surface craft, aircraft carriers, frigates, corvettes, patrol ships, as well as support craft and submarines.

Special vessels

This activity refers to the building of ships destined for various kinds of special tasks. A typical example is offshore support craft like AHTS vessels (Anchor Handling Tug Supply).

New orders

Value of new ship orders, including additions and amendments to such orders, awarded to the Company in each financial year.

Order portfolio

Value of orders relating to principal contracts for undelivered ships, including order additions and amendments.

Refitting/refurbishment

Activity to refit ships that are obsolete or can no longer be used after changes in the law and/or regulations.

Ship repairs and conversions

This activity includes routine and non-routine maintenance work, as well as conversions of merchant ships from one use to another.

Fincantieri system

The "Fincantieri system" refers to the company's capability to realize the "ship product" by drawing on technology and skills possessed by its nationwide network of suppliers and subcontractors.

Ship systems and components

This activity involves the production and sale of ship systems and components, such as propellers, shafts, stabilizing fins, small/medium engines etc.

GT - Gross Tonnage

A unit that measures a ship's total internal volume, including its engine rooms, fuel tanks and crew quarters. Its measurement is based on the external area of the bulkheads.

CGT - Compensated Gross Tonnage

An international unit of measurement that provides a common way of measuring the amount of work needed to build a given ship. It is calculated by multiplying the GT of a ship by a coefficient determined according to the ship's type and size.

2 - Accounting and Finance

Impairment testing

This is the work performed by the Group to assess, at every reporting date, whether there is evidence that an asset might be impaired by estimating its recoverable amount.

Business combination

This is the aggregation of entities or businesses into a single entity that is required to prepare financial statements.

Invested capital

This indicates the fixed capital employed in a company's operations and includes intangible assets, property, plant and equipment, equity investments and other non-current financial assets.

Working capital

This indicates the capital employed in a company's ordinary operations and includes trade receivables, inventories, and other receivables/payables net of trade payables and provisions for risks and charges.

Net invested capital

This represents all the resources invested and includes invested and working capital, net of the employee indemnity benefit.

CGU

Acronym for Cash-Generating Unit, defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

EBIT (and Adjusted EBIT)

Acronym for Earnings Before Interest and Taxes. EBIT reports earnings before finance costs and taxes, and reflects a company's operating profit/loss. EBIT expresses the income that a business is capable of generating before remunerating capital, defined in this case as the sum of third-party capital (debt) and own capital (equity). Adjusted EBIT is defined as EBIT before any non-recurring or extraordinary income or expenses.

EBITDA

Acronym for Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is a measure of profitability from ordinary operations and is calculated as the sum of EBIT, amortization, depreciation and non-recurring and extraordinary income and expenses.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Free cash flow

This is what remains after the company has satisfied its working capital requirements and capital expenditure on routine replacement and upgrade of fixed assets. It is calculated as net cash flow for the period, minus cash flow generated/absorbed by the company's investing activities.

IAS/IFRS

Acronyms for the International Accounting Standards and International Financial Reporting Standards, adopted by the Fincantieri Group.

Net expenditure/disposals

These represent investments and disinvestments in property, plant and equipment, intangible assets, equity investments and other net non-operating assets.

Operating capex

This represents investments in property, plant and equipment and intangible assets other than those acquired in a business combination and allocated to property, plant and equipment or intangible assets.

Net financial position

A line in the statement of financial position that summarizes the Group's financial position and includes:

- *net current debt*: cash and cash equivalents, bank overdrafts, current portion of long-term loans and finance leases, other current financial liabilities;
- *net non-current debt*: non-current financial receivables, non-current portion of long-term loans and finance leases, other non-current financial liabilities.

Statement of cash flows

This examines all the cash flows that caused changes in cash and cash equivalents, in order to determine "Net cash flows for the period", as the difference between cash inflows and outflows in the period.

Revenues

This line in the income statement reports revenues earned on contracts and revenues from the sale of various products and services.

ROE

Acronym for Return On Equity, representing the ratio between profit/loss for the year and equity. It measures the return on capital once other sources of financing have been repaid and represents the return for shareholders.

Basic or diluted earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.
Diluted earnings per share are calculated in the same way as for basic earnings per share, but take account of all dilutive potential ordinary shares as follows:

- profit or loss attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

WACC

Acronym for Weighted Average Cost of Capital. This represents the average cost of the various sources of company financing, both in the form of debt and of capital.

PARENT COMPANY DIRECTORS AND OFFICERS

after the assembly of September, 22 2011

Board of Directors

(2009-2011)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	CUCCURULLO Olga (*)
	DOMINEDO' Pierpaolo (*)
	WALKER MEGHNAGI Alfonso
	VIO Giovanni (*)
Secretary	CASTALDO Maurizio

(*) Members of the Compensation Committee

Board of Statutory Auditors

(2011-2013)

Chairman	ORLANDO Luigi
Auditors	D'AMICO Mauro
	D'ONOFRIO Giovanna
Alternate auditors	DELLA CHIARA Giuseppe
	LEGGERI Costantino

Manager responsible for preparing financial reports

GAINELLI Carlo

Independent auditors

(2009-2011)

PricewaterhouseCoopers S.p.A.

Oversight board

(Legislative Decree 231/01)

Chairman	ZANARDI Guido
Members	DENTILLI Stefano
	SARDINA Giacomo
	TADDEO Anna Maria

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