ANNUAL REPORT 2011

FINCANTIERI
The sea ahead

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FINCANTIERI

CORRADO ANTONINI
CHAIRMAN OF FINCANTIERI

The crisis gripping the worldwide shipbuilding industry since 2008 has not eased; in fact, demand for new build continues to be very low, amounting to 32 million in compensated gross tonnage (CGT) in 2011 compared with 39 million in CGT the previous year, despite an apparently more promising start to the year.

The more standardized categories of merchant ships have experienced a sharp decline, which has particularly hurt Chinese shipbuilders.

The credit crunch, investment restraint and uncertainty about macroeconomic trends are the factors influencing the markets; but the reasons for the crisis in the shipbuilding industry also have their roots in the deep imbalance between demand and supply of transport, and therefore of new vessels.

In our industry this imbalance can now be regarded as structural; the realignment of supply with demand is driving industry players to restructure and switch production in ways that are not always as quick and incisive as the situation demands.

Back in the first half of the 1980s the global shipbuilding industry already went through a similar phase to that of today. A contraction in traffic combined with surplus freight capacity originating in the previous decade led to a collapse in demand for ships, a price war and heavy restructuring, with the industry workforce halved in Japan and Europe in the space of a few years.

Similarly, the European shipbuilding industry is now in deep distress and has already seen the loss of 50,000 jobs: neither product specialization, nor home country system have generally defended the different players, while, in contrast, in the Far East, especially in Korea, China and more recently Japan, governments have propped up demand, including through programs aimed at encouraging green shipping.

In Europe, for the time being it has been possible to achieve a new Shipbuilding Framework for State aid for innovation, applicable until the end of 2013 and which is hoped will receive prompt funding from the Italian government; it has also been possible to secure a favorable rewriting of the European Investment Bank's Transport Lending Policy, which should provide better protection to European shipyards against unfair practices by non-European competitors.

There are strong expectations surrounding the definition of a "new" industrial policy to tackle the industry crisis, which should incorporate the lines behind the LeaderSHIP 2015 program and materialize by the end of 2012, with the involvement of institutional, social and industrial stakeholders.

However, it should be emphasized that the intensity and duration of the crisis are making it necessary to prepare to face a genuine watershed.

The competitive geometry is also undergoing a profound change: niche markets are becoming more attractive because relatively more resilient to the crisis, with new entrants willing to accept risks and economic sacrifices, like in the case of cruise ships. Although the cruise industry is holding up better than other sectors during this difficult period and despite the existence of good potential demand linked to the development of new markets (such as Asia), shipowners have announced a slowdown in investment plans and are focused on boosting profitability rather than growth.

This is resulting in a significant shortfall in demand relative to the capacity of European specialist producers in this sector. Although this market is smaller than in the past, it is still considered attractive by Asian competition, as confirmed by the reappearance of Japan's Mitsubishi Heavy Industries in this sector with the acquisition of two new ship contracts. The challenges in the next few years will not be simple: more competition and less potential demand are inevitably putting pressure on new ship prices.

But now other shipping sectors are also in a stand-by, almost stationary mode.

The ferries market is proving to be increasingly complex. Environmental drivers could reignite some demand but adopting incentives is difficult, as is the financial commitment required of shipowners to invest in innovative vessels or upgrade old ones.

Low freight rates and the resulting contraction in shipowner income have also led to a slowdown in ship repairs; shipyards must now face declining demand and growing competition, including by those players seeking to make up for at least part of the decline in their shipbuilding activities by re-entering the repairs market.

However, positive drivers of demand continue to come from higher value, more complex work, such as the conversion and refurbishment of cruise ships and offshore vessels.

The latter sector is still proving to be lively despite the crisis. The growing demand for energy and intensified deep-water exploration and production by the oil companies is driving demand for new vessels, particularly large drilling ships and, selectively, bigger and more expensive support craft.

The highly uncertain economic climate is also affecting luxury goods sectors such as that of mega-yachts, where there are nonetheless a few positive signs.

As for the military sector, despite the substantial increase in orders on the previous year, the major shipbuilders continue to face a general reduction in defense budgets and an increasing demand, in the case of contracts with foreign navies, for local construction.

These now established ground rules are making it difficult to fully utilize production capacity and are forcing firms to seek opportunities to diversify into other sectors, particularly renewable energy.
Despite budget cuts, the US Navy is one of the few to have continued its investment programs in 2011; our Group's US shipyards have benefited as a result, confirming it as one of the key players in meeting the country's defense needs.
The market scenario outlined above indicates how difficult it is to operate today in international markets where price has become the key variable, where production efficiency and product quality are indispensable conditions and competition is spreading into the area of financing schemes.
The list of problems faced has stimulated Fincantieri to identify and undertake new courses of action aimed at improving efficiency and competitiveness and at expanding its product range to include new high-tech products.
This is a far from easy task in the face of epochal changes, but we have gone through complicated times in the past and have never shown a lack of commitment and courage in facing them. The road ahead is now particularly complex: we must reshape our business for a new and different future starting from an old and solid tradition, while making the changes and breaks that changing market conditions, now and in the future, require us to make.
This is an unavoidable path, but one we are facing with great determination by focusing on the necessary involvement of the many people inside and outside the business who contribute to making our outstanding products.

CORRADO ANTONINI
Chairman of Fincantieri

GIUSEPPE BONO
CHIEF EXECUTIVE OFFICER OF FINCANTIERI

Dear Shareholders,

For the shipbuilding industry, 2011 appears to be the fourth year of crisis. International financial instability has triggered a dramatic watershed even in the real economy; for our industry this has meant a sudden collapse in demand for ships and a subsequent stabilization at levels insufficient to satisfy the global production system. Unfortunately, this impasse is destined to last in the future, along with the conversion and closure of many yards in the face of 50% overcapacity worldwide. In Europe alone, the last three years have seen direct employment fall by 50,000, without counting jobs lost in allied industries.
Positions of privilege now no longer exist: only consistency and cogency of strategic direction pay, unavoidably dictated by greater competitiveness, production efficiency and price aggression.
The management decisions taken by Fincantieri from 2002 until the onset of the crisis meant that in 2008 our Group was prepared to face the market adversities.
In fact, between 2002 and 2008, Fincantieri grew by over 50% in revenue terms, with the same workforce, and posted excellent financial results. These results reflect important decisions not only to strengthen and diversify our business portfolio, but also actions in support of our industrial structure.
With respect to the business portfolio, Fincantieri has vigorously pursued its leadership of the cruise market by consolidating its relationship with its main client and by diversifying towards smaller customers.
Also in the civilian sector, Fincantieri has continued to diversify its products, by entering the super-luxury market with the offer of high-end mega-yachts.
In the military sector, after years of absence, Fincantieri's foreign presence has gained new vitality, by securing important contracts in certain markets requiring turnkey suppliers because they lack a domestic producer and by entering the US market, the world's biggest defense market, through the purchase of local shipyards.

All these initiatives have been successfully pursued by making a large investment in developing new products, in strengthening in-house expertise with the recruitment of many graduates, and in boosting efficiency.

Fincantieri has had to face a complex frame of reference: growth in all production inputs, an unfavorable trend in the euro-dollar exchange rate, the elimination of support for the European shipbuilding industry, a sharp reduction in orders from the Italian Navy, the shortcomings of the Italian export finance system compared with those of other countries and the elimination of long-term funding for research institutions, resulting in a competitive disadvantage against other European companies and other industrial companies operating in sectors like aviation.

In brief, Fincantieri has achieved not easy results and has evolved within a disrupted but still growing market; however, 2008 triggered an epochal break, marking the start of a downturn for most sectors of the economy, including shipbuilding.

From the outset, Fincantieri has understood the magnitude of the crisis and the need to adopt extraordinary measures, by resorting as early as 2008 to temporary lay-offs and gradually accelerating them by signing agreements with all the trade unions to quantify the maximum number of employees to lay off, fixed at 2,900 in June 2011 and about 3,230 at the end of 2011.

Moreover, the increasingly evident structural nature of the crisis, combined with the exhaustion of ordinary income-support funding for temporarily laid-off personnel, has led the Group to draw up a reorganization plan which, given the outlook for order backlog, will allow production capacity to be gradually reduced to match the lower demand without making any dismissals, by using extraordinary income-support funding.

In fact, the widespread, lasting collapse in orders has caused output to fall at all the Group's shipyards and particularly those worst off in terms of infrastructure.

Securing the agreement and acceptance of the reorganization plan by all the social partners, and by national and local institutions has not been simple: it has taken time - more than a year - and a lot of effort to convince everyone of the need and urgency to implement actions that call for sacrifices, but at the same time, safeguard the very future of the Group and its workers.

Ultimately, tenacity and consistency have been rewarded, leading to the signing of a national agreement on 21 December 2011 by the Ministry of Labor, Fincantieri and the principal unions representing the majority of workers.

To sum up, the agreement establishes that no site will be closed and that no workers will be dismissed; it quantifies the employee surplus, excluding Castellammare di Stabia and Sestri, at 1,243 which will be managed using a structured series of measures (selective block on new hires, voluntary transfers, etc.) and extraordinary income-support funding, suitably supported by Fincantieri.

In the case of the Castellammare di Stabia and Sestri yards, with their serious infrastructure deficiencies, the size of the surplus is subject to structural work whose implementation depends on decisions by the public entities concerned.

With regard to the use of extraordinary income-support funding, it was agreed to adopt this measure for a maximum of 3,670 employees in the period 2012-2013.

The restructuring of the organizational and production system aims to achieve a new balance for an order backlog that, even making allowance for every possible new order attainable in a smaller, more difficult market, does not guarantee the same levels of production as in the past. It is therefore essential and pressing to rationalize production capacity while at the same time exploiting synergies between the various sites.

Accordingly, the Reorganization plan focuses on:

- creation of two specialized centers to be achieved by greater integration between the Adriatic yards (Monfalcone, Marghera and Ancona) which build passenger ships and by greater integration of the defense sector structures working on design, strategy and control and the industrial structures of Riva and Muggiano which in turn will start to become a truly integrated yard;
- consolidation of the mega-yacht and mechanical construction sectors;
- revitalization of the ship repair and conversion business at the Palermo yard, while still remaining a site for new builds;
- use of the Sestri and Castellammare sites to produce vessels whose construction is possible even in the presence of the cited structural deficiencies, pending the remediation work set out in the agreements signed by the Ministry of Economic Development, and only in conditions of the utmost safety, adequate logistics and quality.

Agreements with the unions have been made yard by yard, in some of which all the various unions have given their support.

Management rigor over these past years has kept Fincantieri strong and dynamic in a very difficult environment, with an unrivalled financial structure in Italian industry in a sector that demands huge resources to meet long-term high-value contractual commitments.

The most recent financial year has closed with a profit of more than euro 10 million on revenues of euro 2.4 billion, EBITDA of euro 138 million and a cash surplus of euro 166 million. This result leaves the Group free from financial pressures in the conduct of its business.

However, the results for 2011 and agreements signed with the government and trade unions should be treated as a first step only.

Reorganization of the production base alone is not enough; in fact, the Group is committed to creating a new growth path through actions to safeguard and revitalize our core businesses and through product diversification.

In particular, Fincantieri is acting in continuity with the past, by confirming the centrality of markets for cruise ships, mega-yachts, ship repairs and conversions, and military ships for the Italian and US markets and for foreign navies without their own domestic producers.
However, to compensate for lower volumes offered by traditional segments, Fincantieri intends to pursue a strategy of diversifying into promising markets and products that can make the most of its special expertise.
This is behind the intent of entering those foreign military markets with major long-term building programs, but which can be accessed only through partnership arrangements because all or part of the order must be built locally.
Similarly, the growing demand for energy and the massive investments in the oil & gas sector are prompting the Group to enter the market for high-value, sophisticated offshore vessels. This is a field in which Fincantieri can make the most of its marine engineering and construction capabilities, as well as the knowledge gained as a system integrator for complex, highly customized products. It was on this basis that the Group signed an agreement in 2011 with the industry's leading Italian suppliers to create a specialized supply chain.
Lastly, Fincantieri's experience in product innovation and implementation of major engineering projects has allowed it to develop new concepts aimed at providing solutions to some of the country's major structural problems.
I refer to the PLASMARE project, involving the construction of platforms for the disposal of solid municipal waste in port areas. The Sestri and Castellammare yards are suitable for the manufacture of these vessels and the project has attracted the interest of local and regional institutions.
Fincantieri has also developed a proposal for floating prisons, successfully presented to the competent government authorities, and the PERMARE project for the disposal of sludge from sewage and landfill leachates.
Another opportunity for diversification involves renewable energy. The particular area of interest is the design and construction of deep-water wind farms; this initiative will be pursued through partnerships with other companies in the sector, with the hope that the Italian government will also make some commitment towards promoting this clean energy source.
Fincantieri is having to face a scenario with more unknowns than in the past which is consequently not simple; however, it is nonetheless looking confidently to a future that it is already building, certain of preserving a healthy business capable of assailing new challenges in terms of both products and markets.
Implementation of the Reorganization plan, in particular, will allow the Group to address problems in a structured manner and so strengthen its position.
On this basis, our actions, often heavily opposed but pursued with great determination, must be seen as the only possible ones to address and overcome an epochal crisis. This is fully reflected in our 2011 results that allow us to look to

the future with a reasonable chance of being able to compete successfully even in a smaller market than in the past.
It is time, then, to muster every available internal and external resource, so that this virtuous path is achieved.

GIUSEPPE BONO
Chief Executive Officer of Fincantieri


CARNIVAL DREAM

PARENT COMPANY DIRECTORS AND OFFICERS

Board of directors
(2009-2011)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	TADDEI Riccardo (**)
	CUCCURULLO Olga (*)
	DOMINEDÒ Pierpaolo (*)
	MEGHNAGI Alfonso Walker
	VIO Giovanni (*)
Secretary	CASTALDO Maurizio

(*) Members of the Compensation Committee
(**) Appointed as a Director on 28 November 2011

Board of statutory auditors
(2011-2013)

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

Manager responsible for preparing financial reports
GAINELLI Carlo

Independent auditors
(2009-2011)

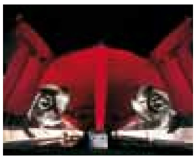
PricewaterhouseCoopers S.p.A.

Oversight board
(Italian Legislative Decree 231/01)

Chairman	ZANARDI Guido
Members	DENTILLI Stefano
	SARDINA Giacomo
	TADDEO Anna Maria

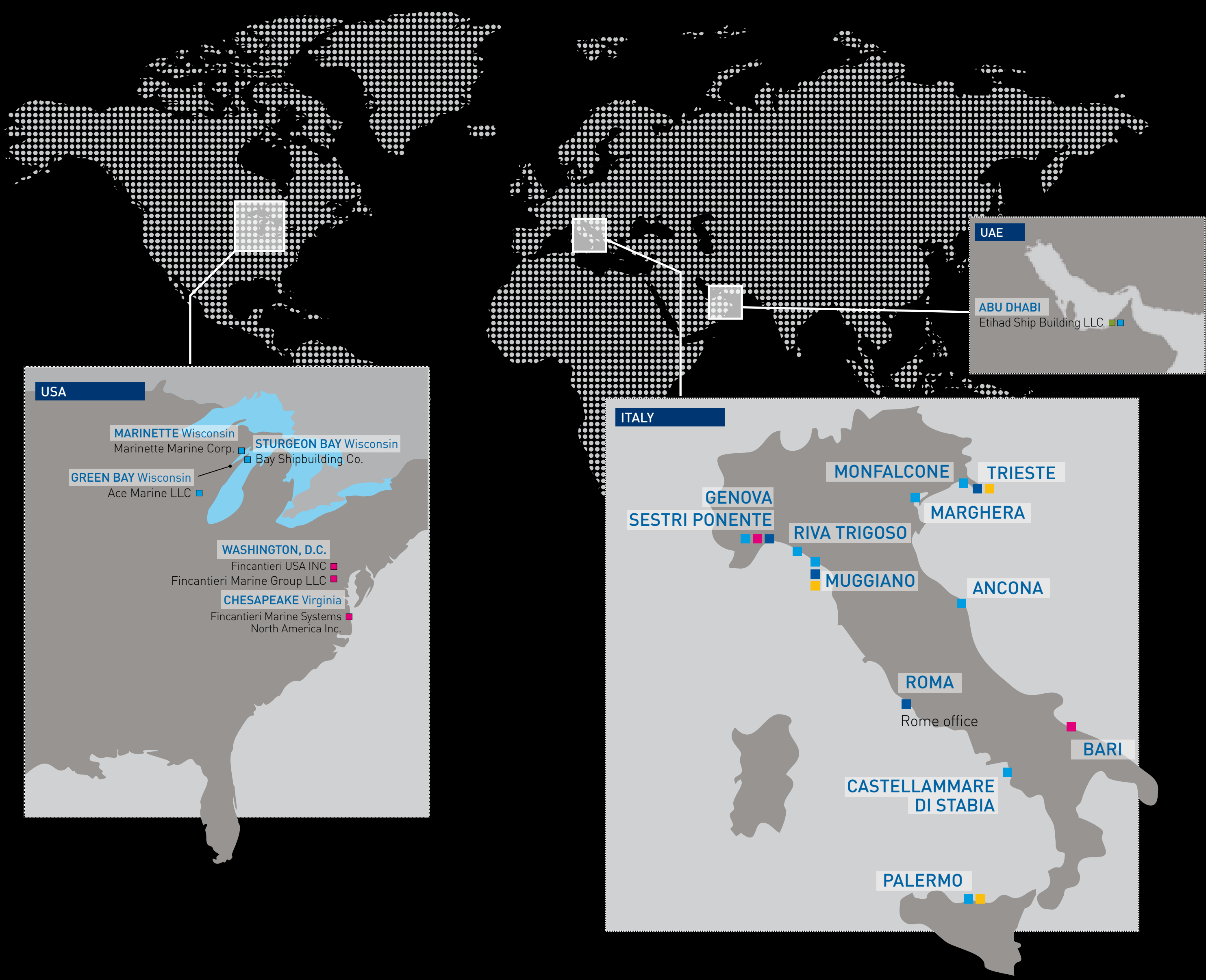
The group in review

At the close of the 2011 financial year, 99.355% of the Company's share capital of euro 633.48 million was held by Fintecna S.p.A. The remainder of share capital was owned by a number of 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 SHIPS			NAVAL VESSELS AND MEGA-YACHT			
	MERCHANT SHIPS		**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 ▪ ATSM Bacini La Spezia S.p.A. Bacini Palermo S.p.A.	Fincantieri S.p.A. ▪ Muggiano ▪ Riva Trigoso FMG LLC ▪ Sturgeon Bay Marinette Marine Corporation LLC ACE Marine LLC Delfi S.r.l. Orizzonte Sistemi Navali Etihad Ship Building LLC	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. Elnav 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

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.

UAE
- ETIHAD SHIP BUILDING LLC


MARINETTE MARINE CORP.


ATSM


MUGGIANO


ACE MARINE LLC


MONFALCONE


ANCONA


BAY SHIPBUILDING CO.


MARGHERA


CASTELLAMMARE DI STABIA


RIVA TRIGOSO

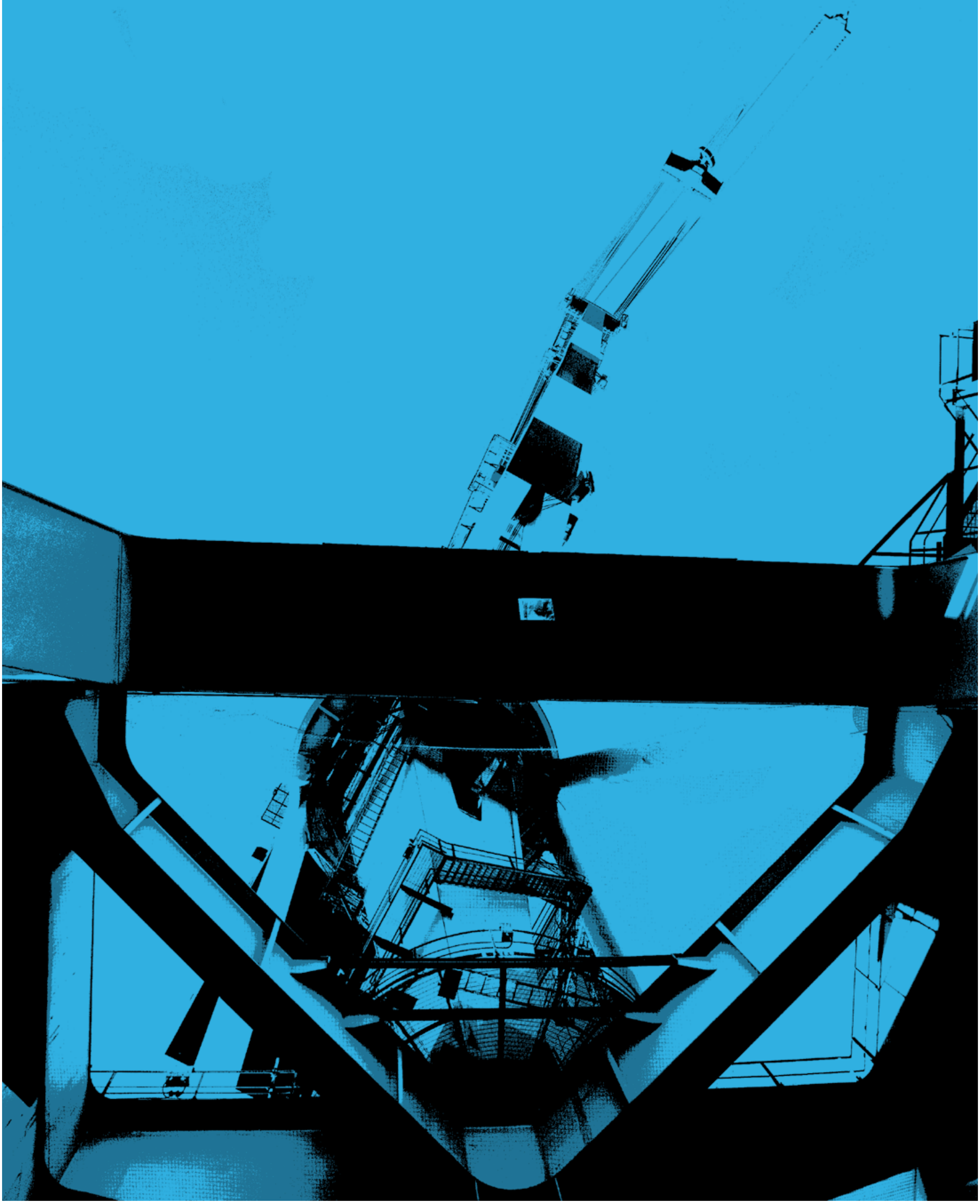

SESTRI PONENTE


PALERMO

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

FINCANTIERI

FINCANTIERI GROUP
REPORT ON OPERATIONS



Operating performance

Dear Shareholders,

Your company has confirmed that it is a world leader with an impressive set of financial results, despite having had to operate in a market still heavily penalized by the international economic crisis. As explained later, Fincantieri has closed the year with a return to profit (of more than euro 10 million) and a cash surplus (with its net financial position reporting euro 166 million in net cash). During the year, the company Reorganization Plan was agreed after lengthy negotiations with the unions; as detailed later on, this will allow the Group to resize production capacity to current market demand and generally make all its processes more efficient.

However, the path before Fincantieri is complex and still full of major strategic challenges. This scenario therefore requires a highly stable and competent strategic and management function that will allow the Group to implement the restructuring measures needed for it to fully express its market strength. In order to maintain its market leadership, the Group will have to become ever more competitive in order to be able to exploit the market opportunities.

The managerial challenges lying ahead in future years are similar to those successfully overcome by Fincantieri following the events of 11 September 2001. In fact, during this period the Group made a significant contribution to the recovery of the entire cruise industry, which had fallen into deep crisis, becoming one of its undisputed leaders.

Results

Despite a major collapse in the market, Fincantieri has closed 2011 with approximately euro 2.4 billion in annual revenues, of which more than 80% from exports, and over euro 1.8 billion in new order wins during the year.

After two years of significant non-recurring expenses, financial year 2011 is closing with a net profit of more than euro 10 million, EBITDA of euro 138 million and a surplus of euro 166 million in cash over debt (net financial position), allowing the Group to carry on its business without financial pressures of any kind.

The solidity of the Group's capital and financial structure is demonstrated by the fact that equity amounts to euro 951 million, of which euro 300 million in predominantly undistributable earnings reserves. In addition, the financial statements also contain some euro 114 million in provisions that are more than sufficient in relation to the specific risks and charges.

Fincantieri, whose intangible assets amount to some euro 110 million at the end of 2011 most of which relating to goodwill arising on the acquisition of the North American shipyards at a price well below the current market value, has always expensed to income all its business development costs and has always accounted for its construction contracts in accordance with the prudence principle, with a sufficient level of contingencies recognized to cope with any future extraordinary events relating to the business.

Business Positioning

Fincantieri was once again confirmed in 2011 as one of Italy's leading manufacturing groups, with its considerable workforce of nearly 10,000 employees (of whom about 8,400 in Italy) and over 30,000 people in related businesses, in addition to its significant impact on GDP and exports, including through its network of some 5,000 suppliers operating in multiple industries.
Having delivered 8 new ships in the course of the year within agreed deadlines and with market leading quality standards, Fincantieri continues to be an example of absolute excellence in terms of design and construction know-how in all its specialist markets.
As far as the cruise ship industry is concerned, Fincantieri is a world leader in terms of market share, construction times, number of deliveries per year and product innovation capabilities.
In the defense sector, the Group is not only an exclusive supplier to the Italian Navy, but has also shown itself to be a global champion with a strong international presence. In fact, Fincantieri can boast a highly diversified product portfolio and the ability to deliver even military products on time and on budget.
The Group also maintains a broad foothold at the highly sophisticated end of the market, with a presence in high-potential segments such as mega-yachts, offshore, refitting and marine systems. Furthermore, if any of these new businesses were to be spun off, they would generate substantial gains.
Lastly, during the year Fincantieri has confirmed its leadership in product innovation, as demonstrated by its use of shipbuilding know-how to develop different solutions, such as the PLASMARE and PERMARE prototypes, to some of the country's major infrastructure problems.
These results have been achieved despite a sharp market downturn, which since 2008 has gradually assumed a structural nature with ever greater pressure on prices, also due to the arrival of Far Eastern competition in the cruise ship sector. Unfortunately, the crisis has hit the entire world shipbuilding industry hard, with employment in Europe shrinking by some 30% (about 50,000 jobs have been lost in the last three years alone), in a market in which shipbuilding overcapacity is estimated to stay at around 50% until 2020. Consequently, there has been a significant reduction in production volumes and activity at all the Group's shipyards, and particularly those most deficient in terms of infrastructure.

Reorganization Plan

After already starting to place workers temporarily on income-support benefits in 2008 in swift reaction to the shortfall in order backlog, Fincantieri has recognized the structural nature of the crisis and drawn up and launched a Reorganization Plan which, in view of the current situation and future outlook, will enable it to resize production capacity to demand and generally make all the Group's processes more efficient in order to face an increasingly competitive market, by making use of the available social safety nets to avoid having to dismiss staff.
During the year Fincantieri therefore pursued a dialogue with every level of the trade unions, leading to the signing of local agreements, then approved in plebiscites by the Workers' Assemblies, for the Monfalcone yard, for the Merchant

Vessels business and for the entire Navy Vessels business. As reported in the section on significant subsequent events, local agreements were later signed at the start of 2012 for the Sestri Ponente, Palermo and Ancona sites. In the case of the Sestri Ponente and Castellammare di Stabia sites, whose infrastructure deficiencies are well known, specific agreements have also been made with the Ministry of Economic Development and with local institutions under which Fincantieri has confirmed its commitment, in exchange for completion of the necessary infrastructural work at the expense of the State and local entities as set out in these agreements, to use its facilities to build vessels that are compatible with the continued existence of such inefficiencies and only in conditions of the utmost safety, adequate logistics and quality.
This dialogue led to a national agreement being signed on 21 December 2011 by the Ministry of Employment, the Company and the principal trade unions (FIM-CISL, UILM-UIL, UGL Metal engineering, FAILMS and FAILMS CISAL), who also represent the majority of workers.
The Plan does not envisage any site closures and identifies 1,243 surplus employees, except at the Castellammare di Stabia and Sestri Ponente sites, where the number could not yet be quantified. This surplus will be managed using a structured array of measures (selective block on new hires, transformation of full-time employment into part-time, voluntary transfers within the company and outsourcing of activities) as well as resorting to the available social safety nets (extraordinary income-support benefits and voluntary redundancy procedures that favor employee repositioning in the jobs market), without making any dismissals. In particular, with reference to the use of extraordinary income-support benefits, the signed agreements establish that this instrument will be used for up to a maximum of 3,670 employees in the period 2012-2013.
With the completion of its Reorganization Plan, Fincantieri will probably be the first shipbuilding company in the world to have tackled its structural problems, by achieving an expected improvement in its competitive position.

Key financial highlights

		2011	2010
New orders (*)	Euro/million	1,863	1,912
Order portfolio (*)	Euro/million	8,361	8,888
Order backlog (*)	Euro/million	5,373	5,937
Capital expenditure	Euro/million	78	58
R&D	Euro/million	55	44
Employees at year end	Number	9,994	10,210
Revenues	Euro/million	2,382	2,876
EBITDA	Euro/million	138	179
EBIT	Euro/million	72	111
Profit/loss (+/-) before non-recurring and extraordinary expenses	Euro/million	61	53
Extraordinary income and expenses (+/-)	Euro/million	-51	-52
Profit/loss for the year (+/-)	Euro/million	10	-124
Net invested capital	Euro/million	785	838
Equity	Euro/million	951	938
Net financial position	Euro/million	166	100
Free cash flow	Euro/million	82	244
Ships delivered (**)	Number	8	16

(*) Net of eliminations and consolidations.
(**) Number of ships over 40 meters long.

Results

The main financial results are as follows:

- **Revenues**: are 17% down on 2010 at euro 2,382 million; this reduction is the result of less production activity than in the prior year;
- **EBITDA**: amounts to euro 138 million, with a margin of 5.8%; this reflects positive performance by the core business, also thanks to the streamlining measures taken and the positive effects of trends in the Euro/USD exchange rate;
- **Profit/loss before non-recurring and extraordinary expenses**: reports a profit of euro 61 million, up from the prior year figure of euro 53 million;
- **Extraordinary income and expenses**: report euro 51 million in net expenses, most of which relate to additional provisions for risks concerning events falling outside the normal course of business, including euro 13 million in provisions associated with the company reorganization plan, in addition to employer costs for income-support benefit;
- **Profit/loss for the year**: is a profit of euro 10 million, reporting a major improvement on the loss of euro 124 million in 2010;
- **Net financial position**: reports euro 166 million in net cash, an improvement on the net cash position of euro 100 million in 2010, reflecting the positive balance between cash receipts for ships under delivery and production activity outlays.

New orders and the order portfolio

Fincantieri won euro 1,863 million in new orders during 2011, down from euro 1,912 million in 2010, and well below the figures reported in the years preceding the international crisis, which has significantly depressed demand for new ships in all the Group's market segments.

Among the new orders were those for:

- the construction of a 141,000 GT cruise ship (with an option for a second) for the Carnival Group's P&O Cruises brand in the UK. This ship, the largest ever built for the British market, will enter service in March 2015 as the flagship of the P&O Cruises fleet;
- the construction of a new 132,500 GT cruise ship (with an option for a second) for Costa Crociere (Carnival Group). This will be the largest Italian cruise ship and the tenth ordered by Costa Crociere from Fincantieri in the last 10 years. The new flagship of the Costa fleet will be built at Fincantieri's Marghera shipyard for delivery in October 2014;
- the construction, by the Orizzonte subsidiary, of a landing platform dock vessel for the National Navy of the Democratic and Popular Republic of Algeria;
- the construction of a small super-luxury cruise ship for Compagnie du Ponant, a French cruise line. The new ship, whose delivery is scheduled for June 2013, will have a gross tonnage of approximately 10,700 tons;
- the construction of two vessels ordered by Tidewater, the world's largest provider of services for the offshore energy industry. These are Platform Supply Vessels used to provide assistance to oil rigs and offshore support services. These vessels are currently under construction at the Sturgeon Bay yard in Wisconsin, USA, owned by Fincantieri Marine Group;
- the construction of another LCS (Littoral Combat Ship) for the US Navy, by Fincantieri Marine Group, the US subsidiary. This is the second ship under a contract to build 10 such ships, for which the US Navy can exercise the remaining options by 2015. The overall program currently envisages the construction of 55 ships by 2020, three of which already awarded to Fincantieri Marine Group in previous years;
- in the Repairs and Conversions business, the main job acquired was the refurbishment, recently commissioned by Saga Cruising, of the 37,000 GT "Bleu de France". Work began in November 2011 at the Palermo shipyard.

At the year-end reporting date, the Fincantieri Group's order portfolio was worth euro 8,361 million (euro 8,888 million at the end of the prior year). The associated order backlog, amounting to euro 5,373 million, was down from euro 5,937 million a year earlier.

Capital expenditure – R&D and innovation

Total capital expenditure of euro 78 million in the year related to completion of projects started in the past for enhancing production efficiency, to improvements in safety and environmental standards and to work at the US shipyards for the purposes of satisfying the Littoral Combat Ship orders.
Despite the current economic difficulties, the Group is well aware that research and innovation are the foundations for success and future competitiveness. This is why it invested euro 55 million in 2011 to develop several projects relating to product and process innovation.

Dividends

Despite reporting a profit for the year, given the critical market situation faced by Fincantieri now and in the future, it is proposed not to distribute a dividend for 2011 in order to better defend the Company's capital structure.

Market scenario

The shipbuilding industry around the world has continued to experience immense difficulty. Industry studies confirm that, in the face of potential global production of 60 million CGT per year, the volume of demand up until 2020 is expected in the region of 35 to 40 million CGT, creating an imbalance of a clearly structural nature that is likely to last for a long time.
The unsatisfactory level of freight rates and the credit crunch are still having a negative impact on investment in new ships, which in 2011 amounted to one-third of the record highs recorded in 2007.
Even shipyards in the Far East, the industry leader, are suffering from the cancellation of major contracts or from renegotiation of contracts made in the past in order to postpone deliveries. China, which until recently had aggressively expanded its production capacity, is planning a massive consolidation of the shipbuilding industry to create a nucleus of ten large groups able to control 70% of the national market, thus dictating the exit of smaller players.
Even the European shipbuilding industry is undergoing dramatic restructuring involving the loss of 50,000 jobs in three years (since 2008) - about 30% of those employed in the sector - and the closure or conversion to other activities of historic shipyards such as Odense in Denmark, or the ThyssenKrupp yards in Germany.
All this is producing growing competitive and price pressure, even in those niche markets for high-tech and high-value products, such as cruise ships, which have been more resistant to the crisis because not affected by speculation and which until now have been the preserve of European shipbuilders.

Business Units

Merchant ships

Markets

Shipping in general

Demand for new ships in 2011 has been provisionally estimated at around 32 million CGT, compared with 39 million CGT the previous year. The year began with a sustained pace of orders, that lost momentum over the summer. The value of investments in ships amounted to more than USD 95 billion, of which one-third in projects in the offshore sector (Semisubs and drillships).

Demand for ships has been "selective" and has focused mainly on drilling vessels for the offshore industry, LNG carriers and very large container ships, all of which by size, complexity and value have seen the Korean shipyards better placed than other competitors.

In fact, South Korea has regained its market leadership at the expense of China, which has suffered from the sharp slowdown in demand for tankers and bulk carriers.

The position of Japan seems to be getting ever weaker and less significant, like that of the European shipbuilding industry where volumes continued to decrease on 2010.

The shipbuilding industry is in deep trouble, caused not only by the decline in orders due to the international financial and economic crisis, but also by the serious imbalance between demand and supply produced by resurgence of the Korean industry and rapid expansion of the Chinese one, both of which have invested in new production capacity well in excess of the estimated growth in demand.

This imbalance can now be regarded as structural; the realignment of supply with demand is a slow and gradual process that will require several years and is already leading to closure, restructuring and switches in production by the weaker players.

Within this scenario of a clearly unsatisfactory level of demand, the European shipbuilding industry is in deep distress: in June 2011 about 70% of shipyards had a ratio of less than one between order portfolio and production capacity, offering the prospect of work for less than one year, a time horizon that, for an industry characterized by long production cycles, signifies being at risk of survival.

In fact, neither larger size, nor product specialization, nor home country system have provided shelter from this generalized crisis; in this context, the market is rewarding those players that have been able to improve production efficiency, by increasing their competitiveness and ability to adopt more aggressive commercial policies.

The crisis is profoundly changing the competitive geometry and forcing some players to try entering niche markets which, although not immune, have nevertheless proved more resilient to the crisis, like in the case of cruise ships.

NIEUW AMSTERDAM
Holland America Line
2010
Marghera shipyard

Cruise ships

The cruise market continued to confirm in 2011 its ability to react better than others to the effects of the international economic and financial crisis, as demonstrated in a recent study by the US association CLIA (Cruise Lines International Association) which continues to stress this sector's growth potential in coming years. Out of a total US population of 304 million, only 24% - or about 73 million - has experienced this type of vacation and 36 million consumers have stated they intend taking a cruise within the next three years in view of the excellent price-quality ratio offered by cruises.

Even in the face of recent political events affecting North African countries, cruise lines have reacted fast by exploiting the inherent flexibility of their vessels and redirecting them to different routes.

There are high expectations for the Asian market: the next two years will provide more meaningful indications on the growth rate of this potential market that compares in size to the US one.

The total number of passengers transported in 2011 was about 19 million, which analysts estimate could increase by 5% to reach 20 million in 2012.
During the year, orders were placed for 10 cruise ships (of which 6 with a post-panamax tonnage averaging about 130,000 CGT and 4 smaller ships of between 10,000 and 40,000 CGT), which was still well below the production capacity of European specialist shipbuilders and the pre-crisis levels.
During the year Japan's Mitsubishi Heavy Industries also re-entered the sector after winning a contract for two ships for AIDA Cruises of the Carnival Group.
The key factors in securing this contract were a very aggressive pricing policy and the strong contribution of the country's entire economic system, including the JBIC (Japan Bank for International Cooperation), able to offer newly eligible export credit.
The imbalance between supply and demand and the entry of new players are therefore generating inevitable pressure on new-build prices.
In this context, Fincantieri managed to win orders for three cruise ships in 2011, of which two over-panamax ships for the Carnival Group's Costa Crociere and P&O Cruises, and one 10,700 GT ship for France's Compagnie du Ponant, a sister ship to the two ships already built by Fincantieri and delivered in 2010 and 2011 respectively.
Fincantieri's cruise ship order portfolio contained 8 ships at the end of December 2011, confirming its position as market leader.

CRUISE EUROPA
Minoan Lines
2009
Castellammare di Stabia shipyard

Ferries

The market for ferries in 2011 confirmed the marked decline of the recent past. Most of the orders placed referred to small ships (under 100 meters in length), almost all of which built by medium-small shipbuilders.

In the segment of interest to Fincantieri, namely cruise ferries measuring more than 170 meters, not one order was placed compared with two in 2010.

The market is proving increasingly difficult, with episodes of order cancellations and contract terminations causing serious trouble for some shipyards, with some even permanently leaving the industry.

The need to renew ferry fleets to comply with stricter emissions regulations and the wider emission control areas could provide some stimulation to the market but this is being hampered by the shipping industry which at the moment is not only unwilling to invest in new vessels, but is also expressing great concern about the new emission reduction rules, because they require the use of more expensive fuel or ship refits, the cost of which could jeopardize the survival of the businesses themselves.

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

Repairs and Conversions

The ship repairs and conversions sector has experienced a downturn after initially weathering the impact of the crisis better than other sectors of the marine industry. In fact, due to the unsatisfactory level of freight rates and the need to reduce operating costs, ship owners are tending to postpone work on upgrading existing fleets.

In addition, due to the shortage of work, certain shipyards that usually operate in the new-build sector are trying to enter this market segment. In the Mediterranean, in particular, there is growing competition from Croatian and Turkish shipyards.

However, opportunities are still broadly positive for maintenance and repair of ships involved in local traffic and for conversion and refurbishment of cruise ships and offshore vessels.

During 2011 Fincantieri had to operate without two dry-docks of 19,000 tons and 52,000 tons respectively at its Palermo yard, on which major maintenance will be carried out at the expense of local institutions and for which public tenders to award the work are currently in progress.

OVERHEAD TRAVELLING CRANE
Monfalcone shipyard

Operations

(Euro/million)	2011	2010
New orders	1,187	1,107
Order portfolio	3,539	3,926
Order backlog	2,327	2,394
Capital expenditure	38	30
Ships delivered (no.)	4	7

New orders

During 2011 the Fincantieri Group secured orders for two new ships, plus options for two more, from the Carnival Group, confirming its special relationship with the industry's leading shipping company.

In fact, in May a contract was finalized to build a 141,000 GT cruise ship for P&O Cruises, while in August a contract was finalized to build a 132,500 GT cruise ship for Costa Crociere.

In November, a contract was signed with Compagnie du Ponant, a French cruise line, to build a small super-luxury cruise ship. The new ship, whose delivery is scheduled for June 2013, will have a gross tonnage of approximately 10,700 tons.

A total of euro 62 million in orders were placed for ship Repairs and Conversions.

Order portfolio

The order backlog of the Merchant Ships business unit stood at euro 2,327 million at the end of 2011 against euro 2,394 million at the end of 2010; this is not sufficient to fully utilize production capacity at all Fincantieri's shipyards, meaning it will be necessary to lay off workers on extraordinary income-support benefits.

The order portfolio amounted to euro 3,539 million at the end of 2011, compared with euro 3,926 million at the end of 2010.

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 11.6 million): start of construction of a new robotic line for welding sub-assemblies with hybrid laser technology designed to optimize process productivity and product quality, and the start of construction of a new area for sorting processing residue;
- Marghera (euro 17.8 million): modernization of sheet coating and sanding workshops, replacement and modernization of the electrical system in the main production areas, and the start of upgrading of workshop lifting equipment;
- Sestri (euro 2.2 million): continued work on site safety;
- Ancona (euro 1.2 million): completion of the upgrade program for the yard's crane fleet and modernization and compliance upgrading of the gas distribution network;

- Castellammare (euro 1.5 million): continued work on site safety;
- Palermo (euro 1.6 million): continued upgrading of production and service plant to satisfy required regulatory standards and obtain fire-prevention certification;
- head office of the Naval Vessels business unit (euro 0.2 million): work to maintain building efficiency and safety and to update work station equipment;
- ATSM (euro 0.3 million): completion of upgrade of dry-dock systems to required regulatory standards and extraordinary maintenance activity;
- Bacini di Palermo S.p.A. (euro 1.7 million): continued work on refurbishing the 400,000 ton dry-dock and modernization of electrical systems aimed at augmenting continuity of service for production activity.

Production

Production activities in 2011 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Cruise ships	1	3	4
Cruise ferries			
Offshore			
Repairs and conversions			55 (*)

(*) Number of completed orders for repairs and conversions.

The following ships were delivered:

- Carnival Magic, a 130,000 GT cruise ship, delivered to Carnival Cruise Lines by the Monfalcone shipyard;
- Costa Favolosa, a 114,500 GT cruise ship, delivered to Costa Crociere by the Marghera shipyard;
- Oceania Marina, a 65,000 GT super-luxury cruise ship, delivered to Oceania Cruises by the Sestri Ponente shipyard;
- Austral, a 10,400 GT super-luxury cruise ship, delivered to Compagnie des Iles du Ponant by the Ancona shipyard;
- The Palermo yard managed the repair of 23 ships and 6 conversions;
- ATSM managed the repair of 26 ships.

Naval vessels, Special vessels and Mega-Yachts

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

Markets

Naval vessels

Global orders for naval vessels amounted to euro 20.7 billion in 2011, a sharp increase on 2010 (+216%), involving contracts to build more than 80 ships.

This increase is mainly attributable to orders by the navies of nations with their own domestic shipbuilding industry, which at some 73% of total order value continued to account for a dominant share of the total. In particular these refer to contracts signed by the US Navy and the largest Asian navies, first and foremost those of China and India.

Even demand by countries not entirely independent in production terms reported a marked increase, reaching euro 5.5 billion compared with just under euro 1 billion in the prior year. Within this market sector Fincantieri was awarded, through Orizzonte Sistemi Navali, a contract by the Ministry of Defense of the

Democratic and Popular Republic of Algeria to build one landing platform dock vessel at the Group's shipyards.

Apart from orders for armed ships, during 2011 some European governments - Germany and Finland - issued contracts for "civilian" vessels (special vessels, research vessels and RoRo) to domestic shipyards in order to ease the crisis in merchant shipbuilding.

With reference to the competitive context, the generalized reduction in defense budgets and common demands for local construction in the case of contracts for foreign navies, are making it difficult to fully utilize available production capacity, leading many shipbuilders to seek greater product diversification or to reduce their production capacity.

Fincantieri Participações do Brasil S.A. was formed during the year in order to gain a foothold in the Brazilian market, which is presenting significant growth opportunities.

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US market

The Fincantieri Group has enjoyed continued success in the US markets in its sectors of interest. During 2011 orders for the third and fourth Littoral Combat Ships (LCS) were placed with the Lockheed Martin-Marinette Marine and Austal USA consortia under a contract signed at the end of 2010 for the construction of 20 additional ships, split equally between the two consortia, as part of a wider LCS program under which 8 ships have been already commissioned, of which 4 from Fincantieri Marine Group.
As for smaller naval vessels, Fincantieri secured an order from the US Coast Guard for another 21 vessels under its long-term Response Boats-Medium program in which Fincantieri Marine Group's Marinette Marine Corporation is involved as prime contractor and coordinator.
As for the civilian market, the Fincantieri Group has won a contract to build two Platform Supply Vessels for Tidewater, a US company that is one of the world's largest providers of services for the offshore energy industry. The two vessels are state-of-the-art in technical terms, being able to operate both in artic conditions and in deep water, and are being built at the Sturgeon Bay yard.

Special vessels

UOS COLUMBIA
Hartmann Logistik
2009
Palermo shipyard

In the offshore sector, intensified exploration and production by oil companies is driving demand for new vessels, in particular large drilling vessels and, selectively, bigger and more expensive support vessels.
As regards the more complex and sophisticated drilling vessels (drillships and semi-submersibles), the market trend is for latest generation models capable of deep-sea operation.
In volume terms, after the stagnation in 2009 and slight recovery in 2010, the past year saw a spike in demand for such vessels, with orders worth about USD 24 billion placed for 40 drillships and semi-submersibles, most of which won by competitors in the Far East.
With regard to support vessels, the market is moving towards new-generation vessels used in the construction and installation of production platforms or wind farms. These multi-purpose vessels boast high lifting capacity, dynamic positioning systems, and diving and deep-water pipe-laying capabilities.
The increasing demand for energy, from both traditional oil & gas sources and renewable energy, is continuing to offer attractive opportunities for both product and market diversification.
Having already successfully completed major projects in recent years, including 14 AHTS vessels (Anchor Handling Tug & Supply Vessels) and the Scarabeo semi-submersible platform for Saipem, Fincantieri is working to achieve further growth in this sector. In particular, it has started to create a cluster of highly specialized suppliers already operating in the sector by signing the first agreements in July 2011 with a view to developing the market for high value, highly sophisticated offshore vessels for deep-water drilling.

Mega-Yachts

SERENE
2011
Muggiano shipyard

There has been renewed buyer interest in the mega-yachts sector (ships over 70 meters long) although this is struggling to materialize in the shape of signed orders due to the continued climate of immense economic uncertainty. In 2011 new orders were nonetheless finalized for 7 ships compared with 5 the year before, although this was still well short of pre-crisis levels.

In contrast, the sector for ships under 70 meters appears to be in distress. The UCINA association representing the Italian industry, the sector leader, reports that the sector has lost 50% of its value in three years: total revenue from shipbuilding, refitting and sales of fittings and engines fell from euro 6.2 billion in 2008 to euro 3.4 billion in 2010.

Industry players are seeing high future potential in certain markets, such as Brazil and China. However, China is also seen as a possible competitor, with its huge amounts of capital allowing it to take advantage of the crisis to acquire established companies/brands currently in distress.

Lastly, in late 2011, the ThyssenKrupp group of Germany announced the sale of Blohm & Voss, its historic shipbuilder of super-yachts, to Star Capital Partners, a British investment fund, after the sale to the Abu Dhabi Mar Group fell through.

Operations

(Euro/million)	2011	2010
New orders	680	812
Order portfolio	4,822	4,962
Order backlog	3,046	3,543
Capital expenditure	38	23
Ships delivered (no.) (*)	4	9

(*) Ships over 40 meters long.

New orders

The Naval Vessels, Special Vessels and Mega-yachts business units secured a number of important orders in 2011, amongst which:

- the Naval Vessels business secured a new order to build a LPD (Landing Platform Dock) ship for the National Navy of the Democratic and Popular Republic of Algeria;
- Fincantieri Marine Group, the US subsidiary, secured an order for one LCS (Littoral Combat Ship) for the US Navy (the second under a contract for 10 ships signed at the end of 2010), an order for two PSVs (Platform Supply Vessels) for Tidewater and an order for another 21 RB-M small patrol boats (Response Boat-Medium) for the US Coast Guard;
- the Systems and Components business secured new orders worth euro 136 million in relation to:
  - marine components and engines, including the sale of 54 engines to refit boats in the Italian Coast Guard fleet, and the sale of 24 engines to the US market for the LCS, JHSV and US Coast Guard programs; marine component sales mainly related to the Algerian LPD program, Italian Coast Guard ships, U212A submarines and stabilizing fins for LCS;
  - the sale of 12 steam turbines, about half of which abroad;
  - logistics associated with the supply of on-board and on-shore parts for the FREMM program;
  - automation linked to the development of the LPD and Italian Coast Guard programs as well as further updates to the FREMM program.

Order portfolio

At the end of 2011, the total value of undelivered orders in the order portfolio amounted to euro 4,822 million (euro 4,962 million at the end of 2010), while the order backlog stood at euro 3,046 million (euro 3,543 million at the end of 2010). Partly because of the long duration of some of the orders in the portfolio, there will be some, albeit limited, voids in production.

Capital expenditure

The most significant expenditure referred to the following yards and production facilities:

- Riva Trigoso shipyard (euro 6.4 million): in the marine area, a new mobile crane was purchased for the preassembly sector, while in the engineering area, a system was created for testing the functionality of turbines produced;
- Muggiano shipyard (euro 4.9 million): the renewal was completed of plant infrastructure in workshops that produce submersibles and work continued on the buildings serving the yard;
- head office of the Naval Vessels business unit (euro 0.3 million): work was carried out to maintain building efficiency and safety and to update work station equipment;
- shipyards in the Fincantieri Marine Group (euro 23.4 million): equipment and logistics continued to be modernized at the Marinette yards to support development of the LCS program;
- shipyard of the subsidiary Isotta Fraschini Motori (euro 3.0 million): investments were completed to update the product range and improve quality.

Production

Production activities in 2011 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Naval vessels	4	2	3
Mega-Yachts			1
Special vessels > 40 m long	2		
Special vessels < 40 m long	33	33	33
Engines			113 (*)

(*) Number of engines produced on site.

The following ships were delivered:

- "Rossita" was delivered through SOGIN, the project's general coordinator, by the Muggiano yard; this ship is designed for the transport of radioactive material from dismantled Russian nuclear submarines. It will be used by Atomflot, a Russian company owned by Rosatom, the Russian Federation's atomic energy corporation, to transport spent nuclear fuel from various sites in north-west Russia;
- "Shakti" and "Deepak", both fleet tankers, were delivered to the Indian Navy by the Sestri and Muggiano yards respectively;
- "Serene", the first mega-yacht built by Fincantieri, which at 134 meters is one of the ten largest yachts ever built and one of the best in terms of complexity and technology;
- 33 RB-M small patrol boats, commissioned by the US Coast Guard and built at the ACE Marine shipyard of the US subsidiary Fincantieri Marine Group.

Other activities

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

- CETENA research center;
- ELNAV, a shipping company that operated a bareboat charter agreement from 1999 until 2011;
- Fincantieri Holding BV, a company that manages certain equity interests in foreign companies;
- SEAF, a company that provides financial and treasury services solely in the interests of the ultimate Parent Company;
- institutional, management and coordination activities by the Parent Company.

Capital expenditure

The most significant expenditure included:

- improvement of the computer systems used by the subsidiary Cetena;
- expenditure mainly for developing computer systems in support of the Group's business.

Production

CETENA carried out and promoted basic and applied research activities in the shipbuilding, propulsion and marine sectors, on behalf of the group parent Fincantieri and others. It acted as a coordinator and partner within European research consortia and cooperated with both Italian and international universities, scientific institutes and research centers.

ELNAV terminated its fleet management operations after ownership of the two bulk carriers chartered under a bareboat agreement with the shipowner Bottiglieri was transferred to the latter.

Fincantieri Holding continued managing its 100% equity interest in Fincantieri Marine Systems North America, whose business is the sale of engineering products and provision of related after-sale service, and its 20% interest in Fincantieri Do Brasil Participações S.A.

Financial results

The Fincantieri Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IAS/IFRS). For the purposes of analyzing its assets and liabilities, and financial and economic results in the years ended 31 December 2011 and 2010, the reclassified versions of the income statement, statement of financial position and statement of cash flows, used by management to monitor company performance, are presented below, along with a breakdown of net financial position.

Reclassified consolidated income statement

(Euro/million)	2011			2010		
	Before non-recurring items	Non-recurring items	Total	Before non-recurring items	Non-recurring items	**Total**
Revenues	**2,382**		**2,382**	**2,876**		**2,876**
Materials, services and other costs	-1,767		-1,767	-2,149		-2,149
Personnel costs	-458		-458	-504		-504
Provisions and impairment losses	-21		-21	-46		-46
Capitalization of internal costs	2		2	2		2
EBITDA	**138**		**138**	**179**		**179**
Depreciation and amortization	-66		-66	-68		-68
Operating profit (EBIT)	**72**		**72**	**111**		**111**
Finance income/costs (+/-)	2		2	-19		-19
Income/expense (+/-) from investments	1		1	-2		-2
Income taxes	-14		-14	-37		-37
Profit/loss (+/-) before non-recurring and extraordinary expenses	**61**		**61**	**53**		**53**
Extraordinary income/expenses (+/-)	-51		-51	-52		-52
Non-recurring income/expenses (+/-), net of tax effect					-125	-125
Profit/loss for the year (+/-)	**10**		**10**	**1**	**-125**	**-124**

There were no non-recurring expenses during the year ended 31 December 2011, unlike in 2010 following launch of the company Reorganization Plan.

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

- **Revenues**: are 17% down on 2010 at euro 2,382 million; this reduction is the result of less production activity than in the prior year;
- **EBITDA**: amounts to euro 138 million, with a margin of 5.8%; this reflects positive performance by the core business, also thanks to the streamlining measures taken and the positive effects of trends in the Euro/USD exchange rate;
- **Finance income and costs and income and expense from investments**: report a net positive euro 3 million, comprising euro 2 million in net finance income and euro 1 million from the revaluation of a joint venture;

- **Income taxes**: report a charge of euro 14 million in 2011, which comprises national current and deferred taxes as well as income taxes relating to foreign subsidiaries;
- **Profit/loss before non-recurring and extraordinary expenses**: reports a profit of euro 61 million, up from the prior year figure of euro 53 million;
- **Extraordinary income and expenses**: report euro 51 million in net expenses, most of which relate to additional provisions for risks concerning events falling outside the normal course of business, including euro 13 million in provisions associated with the company reorganization plan, in addition to employer costs for income-support benefit;
- **Profit (loss) for the year**: is a profit of euro 10 million, reporting a major improvement on the loss of euro 124 million in 2010.

Reclassified consolidated statement of financial position

(Euro/million)	31.12.2011	31.12.2010	Change
Intangible assets	110	111	-1
Property, plant and equipment	555	537	18
Equity investments and other financial assets	23	32	-9
Invested capital	**688**	**680**	**8**
Inventories and advances	276	286	-10
Construction contracts – assets	153	233	-80
Trade receivables	272	400	-128
Other assets	378	365	13
Advances from customers	-4	-4	
Trade payables	-576	-731	155
Provisions for risks and charges	-114	-118	4
Other liabilities	-223	-201	-22
Working capital	**162**	**230**	**-68**
Employee indemnity benefit	**-65**	**-72**	**7**
Net invested capital	**785**	**838**	**-53**
Equity	**951**	**938**	**13**
Net financial position	**-166**	**-100**	**-66**

The **consolidated statement of financial position** reports a decrease of euro 53 million in net invested capital, mainly due to the following factors:

- **Invested capital:** has increased by euro 8 million, mostly due to expenditure on property, plant and equipment primarily by foreign subsidiaries;
- **Working capital:** has decreased by euro 68 million, reflecting a reduction in construction contracts (euro 80 million) and trade receivables (euro 128 million), as partly offset by a decrease in trade payables (euro 155 million) associated with the contraction in production volumes.

The increase of euro 13 million in equity reflects the profit for the year (euro 10 million) and the increase in the currency translation reserve (euro 3 million) following dollar appreciation against the euro.

All the above factors have caused the **net financial position** to improve, with euro 166 million in net cash reported at year end.

Consolidated net financial position

(Euro/million)	2011	2010
Cash and cash equivalents	**387**	**329**
Current financial receivables	**55**	**11**
Bank overdrafts	-6	-5
Current portion of bank loans	-22	-19
Other current financial liabilities	-196	-178
Current cash/debt (+/-)	**-224**	**-202**
Net current cash/ debt (+/-)	**218**	**138**
Non-current financial receivables	**72**	**129**
Bank loans	-121	-135
Other non-current financial liabilities	-3	-32
Non-current debt (-)	**-124**	**-167**
Net non-current debt (-)	**-52**	**-38**
NET FINANCIAL POSITION	**166**	**100**

Reclassified consolidated statement of cash flows

(Euro/million)	2011	2010
EBITDA	**138**	179
Income taxes paid	-19	-22
Dividends received and interest received and paid	16	-1
Utilization of provision for risks and charges and of provision for employee indemnity benefit	-40	-37
Changes in working capital	88	182
Other changes	-33	-14
Net cash flow from operating activities	**150**	**287**
Cash flow from intangible assets	-4	-6
Cash flow from property, plant and equipment	-74	-50
Cash flow from equity investments		4
Cash flow from other financial receivables and assets	10	9
Free cash flow	**82**	**244**
Net cash flow from financing activities	-24	-1
Net cash flows for the year	**58**	**243**
Cash and cash equivalents at beginning of year	**329**	**86**
Cash and cash equivalents at end of year	**387**	**329**

The statement of cash flows reports positive **free cash flow** of euro 82 million, down from euro 244 million in 2010. This is primarily attributable to the reduction of euro 94 million in resources generated by working capital and to completion of the Group's investment programs, particularly at its foreign subsidiaries, resulting in an increase of euro 24 million in net expenditure on intangible assets and property, plant and equipment.

Research, development and innovation

PROPELLERS

In the current difficult market, activities in the field of research, innovation and development are important for maintaining and improving standards of product and process know-how. Group companies invested a total of euro 55 million in research, innovation and development in 2011.

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 by Fincantieri every year.

Reference framework

Within Europe, the 7th Framework Program for Research and Technological Development has been in operation since 2007 and will end in 2013.

Once again in 2011, the European Commission published several calls for proposals; amongst those approved by the Commission was the three-year project "GRIP - Green Retrofitting through Improved Propulsion" coordinated by the Maritime Research Institute Netherlands and one of whose partners is Fincantieri along with 11 others. The Fincantieri Group constantly monitors such calls, identifying possible projects each time and forming partnerships to present proposed new research projects.

In the meantime, work has continued on defining the HORIZON 2020 program, the European Commission's future funding program for the period 2014/2020.

In December the European Commission adopted revised rules for assessing State aid for shipbuilding, which will apply from 1 January 2012 to 31 December 2013.

After this date such aid will be governed by Horizon 2020. The revised rules include increasing the share of aid for "green" ships from 20% to 30% of the total. However, if such aid is to be provided in Italy, the Italian government must allocate sufficient funds for it, also so as not to create competitive asymmetries with other European competitors, like in the case of the failure to refinance Law 296/2006.

Domestically, the National Research Program has continued with its aim of developing for each of the country's strategic sectors a two-tier system of governance over research, development and innovation through a national technology platform and operationally at a local level through the Regional Technology Clusters.

On 11 November, a strategic partnership agreement was signed in this regard by Fincantieri, under the aegis of the Ministry of Education, with CNR (Italy's National Research Council). The purpose of the agreement is to identify and promote joint research projects in the shipbuilding sector, foremost of which the Ritmare project ("La Ricerca Italiana per il Mare" or Italian Maritime Research), one of the flagship projects of the National Research Program 2011-2013.

European programs

Among the European research projects in which Fincantieri is involved, the BESST project (Breakthrough in European Ship and Shipbuilding Technologies) remains pivotal; Fincantieri is project coordinator as well as an active research partner along with 64 other entities, which include leading European shipyards, a wide array of technology and scientific suppliers and universities across Europe. The project concluded its second year of activity on 31 August 2011, and is due to end on 28 February 2013.

Fincantieri continued to take part in the GOALDS project (Goal Based Damage Stability), which entered its third year of research into improving cruise ship and ferry safety by evaluating new "Formal Safety Assessment" methods using models and formulae; Cetena also continued to work on the CO-PATCH research into composite adhesive patches for large structures and on the SILENV project (Ship oriented innovative solutions to reduce noise & vibrations).

National projects

Work continued in 2011 on the *SUPERPANAMAX* project, which will carry on until 2013, to develop a new cruise ship design that takes account of the rapid changes in international regulations and overcomes the current size constraints of the Panama Canal.

Regional projects

During the year numerous applications for finance were presented through the various Regional Technology Clusters now in operation.

Self-financed projects

Among the numerous self-financed projects, Fincantieri supports "Cooperative Research Ships", an organization run by the Maritime Research Institute Netherlands for specific research into naval architecture and structural issues. The results of this research produce continuous innovations in the form of improved energy efficiency and safety of new ships.

Human resources and industrial relations

CAVOUR
Italian Navy
2008
Muggiano and
Riva Trigoso shipyards

Headcount

(number)	2011	2010
Employees at year end:		
- Senior managers	211	221
- Middle managers	379	358
- White collars	3,847	3,818
- Blue collars	5,557	5,813
Total at year end	9,994	10,210
- of whom in Italy	8,367	8,582
- of whom in Parent Company	8,082	8,311
Average number of employees	9,809	9,979
- of whom in Italy	8,390	8,632
- of whom in Parent Company	8,110	8,365

The Fincantieri Group had 9,994 employees at 31 December 2011, a groupwide reduction of 216 on a year earlier. Most of this reduction was at the Parent Company, which, with 229 fewer staff, reported a 2.8% decrease on 2010.
The average workforce employed decreased by 1.7% for the Group as a whole, most of which attributable to the Parent Company where the decline was 3.0%.
In terms of turnover, a total of 523 new employees joined the Group in 2011, while 739 employees left. Most of this turnover was concentrated in the subsidiary Fincantieri Marine Group, while the Parent Company reported 33 joiners and 262 leavers.

Industrial relations

Apart from managing the supplementary employment agreement and consultations over redundancies, during the year industrial relations activities particularly focused on negotiations concerning the treatment of the employee surplus identified in the Company Reorganization Plan; these negotiations led to the signature of an agreement on 21 December 2011 at the Ministry of Labor and Social Policy for a joint examination of employee placement on extraordinary income-support benefits as a result of company reorganization.

The agreement, which entails placing employees at all the Group's locations on extraordinary income-support benefits for the years 2012 – 2013 and initiating procedures to reposition redundant employees in the jobs market, was signed by Fincantieri and the main trade unions (FIM-CISL, UILM-UIL, UGL, FAILMS, FAILMS-CISAL), which also represent the majority of workers.

The Reorganization Plan underlying the agreement states that no company sites will be closed nor will there be any employee dismissals. The number of surplus employees has been quantified at 1,243 (excluding the Castellammare and Sestri Ponente sites, where the number could not be determined at the time). This surplus will be managed using (i) extraordinary income-support benefits with appropriate measures guaranteed by the Company, (ii) voluntary redundancy procedures based on the principle of non-opposition to dismissal that favor employee repositioning in the jobs market, (iii) incentivized voluntary redundancies and (iv) selective blocks on new hires.

As regards the management of production voids, situations of underutilized capacity emerged in 2011 in varying degrees at all the Parent Company's production sites and offices.

The above measures affected an average of 1,587 people over the year, of whom 1,563 in the Parent Company and 23 in Isotta Fraschini Motori S.p.A.

Training and development

The staff training and development plan for 2011 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 standard instruction in technical know-how and knowledge of shipbuilding rules and regulations and refresher courses on the use of "technical" information systems, the aim of Training was to manage current needs linked to the transformations in progress, involving targeted courses to update and retrain staff in the more specific, detailed know-how and expertise required.

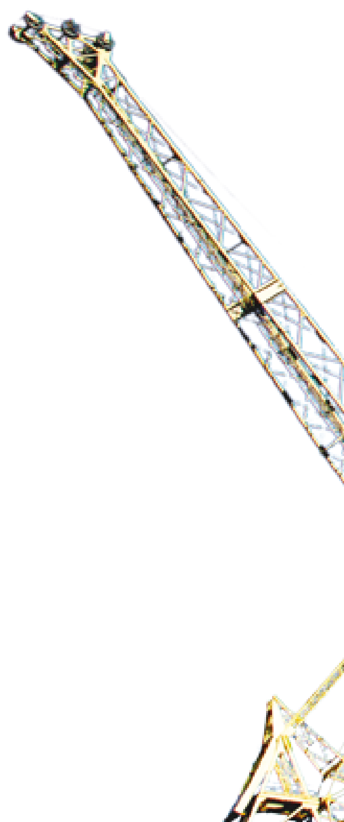
Training therefore acted as the driver of all those actions aimed at supporting change and product and process improvement.

The investment in training on "Product Quality" issues was of particular importance and involved many employees, mainly in the production sector.

As regards recently recruited graduates, the second edition of the "High Flyer" program for young talents entered its second year.

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

Technical training focused on activities to improve product and process efficiency.



Lastly, laid-off staff were able to attend retraining and refresher courses thanks to finance from special state-funded programs.
A total of 895 training courses were organized within the Fincantieri Group during 2011, involving the participation of 10,806 employees, for a total of 205,925 hours.

Litigation and privacy

Litigation relating to asbestos continued to be settled both in and out of court in 2011. In view of the way this litigation has evolved over the past three years, Fincantieri can be expected to continue to be affected in coming years on a similar scale.
As far as privacy regulations are concerned, the Regulator's requirements dated 25 June 2009 concerning the duties of the system administrator have continued to be put into practical effect. The Personal Data Protection Document was also revised and updated.

Respect for the environment

Fincantieri's long-standing attention to environmental issues found fresh stimuli and new targets for improvement in 2011 following application of Italian Legislative Decree 121/2011 that implemented Directives 2009/123/EC and 2005/35/EC on environmental protection and extended to legal persons, and thus also to businesses, liability for offences under Italian Legislation Decree 152/2006 (the Environment Code), such as unauthorized waste management, industrial discharges, illegal trafficking of waste and ship-source pollution.

Fincantieri has accordingly initiated a pilot project to obtain ISO 14000 certification for its Naval Vessels sites (Muggiano and Riva Trigoso) by 2012.

During 2011 work continued as planned on a state-of-the-art upgrade to the coating systems used at all the production sites, and to the areas used for process waste collection and temporary waste storage.

In particular, as regards process and other waste management, the actions already taken have led to a significant increase in materials sent for recycling (iron - wood - plastic - paper/cardboard), resulting in a significant reduction in costs associated with these activities.

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 crucial factors for enterprise 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, observe company rules and abide by the precepts of the Code. Employee relationships at every level must be inspired by transparency, honesty, loyalty and mutual respect.
The directors and every member of the business 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 is committed to facilitating and promoting awareness 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 employee.

Safety at work

Fincantieri has always attached the utmost importance to the need to preserve and protect the health and safety of its employees, as a key strategic goal and generally a factor for economic success and development, as well as a tool for qualitative and competitive management of the production processes.
The special attention to the application of company safety policy has, once again in 2011, had a positive impact on the accident record.
In fact, the number of accidents causing workers to lose less than 3 days of work decreased by 31% on 2010 to 109.

A total of 355 accident compensation claims were paid out during 2011, 33% down on the prior year.
A total of 76,802 hours were taken off work due to accidents, a 27% reduction on the prior year.
Given the nature of the business, a more accurate assessment of workplace accidents is provided using indicators such as injury Frequency and Severity indices:

	2011	2010	% Reduction
Frequency index	54.05	71.77	-25%
Severity index	1.48	1.67	-11%

Despite the efforts made in recent years and the resulting reduction in accident rates, the occurrence of certain particularly serious episodes made Fincantieri decide in 2011 to launch two wide-impact operational and educational initiatives with the short and medium-term goal of completely eliminating workplace accidents.
The first initiative concerned the Monfalcone shipyard, where a pilot action plan of a predominantly operational nature was launched, involving the following main elements:

- changing the organizational reporting lines of the Prevention Service to report directly to the Plant Manager;
- stricter management of safety of activities performed by contractors, through direct involvement of contractors and targeted management of their coordination;
- introduction of new working procedures for workplace monitoring by Fincantieri supervisors and contractor companies operating on site.

The pilot scheme is currently being extended to Fincantieri's other sites.
The second initiative, inspired by the pilot project launched at the Monfalcone site, has entailed a much broader program called "Towards Zero Accidents" that will involve every single area of the business.
This plan intends to promote a deep cultural change about safety issues, and aims to have safety viewed as essential at every stage of work, by eliminating serious accidents and reducing minor ones with a radical improvement in injury statistics.
Achievement of these goals would then improve the Company's image with stakeholders, by making safety at work a part of business excellence.
The project, which has been agreed with the national trade unions, will involve training and operational activities over the next three years and will be implemented using grants for training activities provided by various public entities, including Fondirigenti and Fondimpresa.

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 included in 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).

In accordance with best practice in this field, these risk management processes 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 a slowdown in fleet renewal programs by shipowners. This has repercussions for employment of the Group's production capacity.

Mitigation

The world crisis, with its serious repercussions in the EU in particular, has been met with exceptional measures at national and European level, with the goal of realigning the main macroeconomic indicators. In this situation, the Fincantieri Group has continued its actions to reduce internal costs and improve efficiency, by making use of those mechanisms allowing operational flexibility permitted by employment agreements and Italian law and by initiating a reorganization plan to resize its corporate structure for the changing market conditions.

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.

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 895 training courses in 2011 with 10,806 participants for a total of 205,925 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 the Fincantieri Group.

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 line 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 capturing 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, for several years Fincantieri has 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 leading position in core markets depends on the ability to perform well in terms of quality and on-time delivery.

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 without their own domestic shipbuilding industry or, even if they do, lack 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 2011 relates primarily to the installment payable upon delivery of the Carnival Breeze, under a shipbuilding contract acquired at the end of 2009, whose price is expressed in US dollars, and secondarily 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 in 2010 and 2011 against almost all of this exposure.
Even 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 relating to the environment and health and safety at work and in relation to biological damage caused at the time by 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

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 Unified Financial Act and by the Regulation adopted under Italian 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;
- concluding 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 remuneration of directors with operational responsibilities. 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 Italian 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 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 Italian 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 from certification interim financial reports, price-sensitive disclosures and the contents of the report on operations, in compliance with the instructions issued by MEF and reiterated by Fintecna.

Compliance model under Italian Law 262/2005

Fincantieri has introduced a Compliance Model in accordance with Italian 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 17 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 Italian 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 (Italian Legislative Decree 231/2001)

Since 2002 the Company has decided to adopt an organizational, management and control model under Italian 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 under the scope of Legislative Decree 231/2001.

Relationships with the ultimate Parent Company and with other group companies

During 2011 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

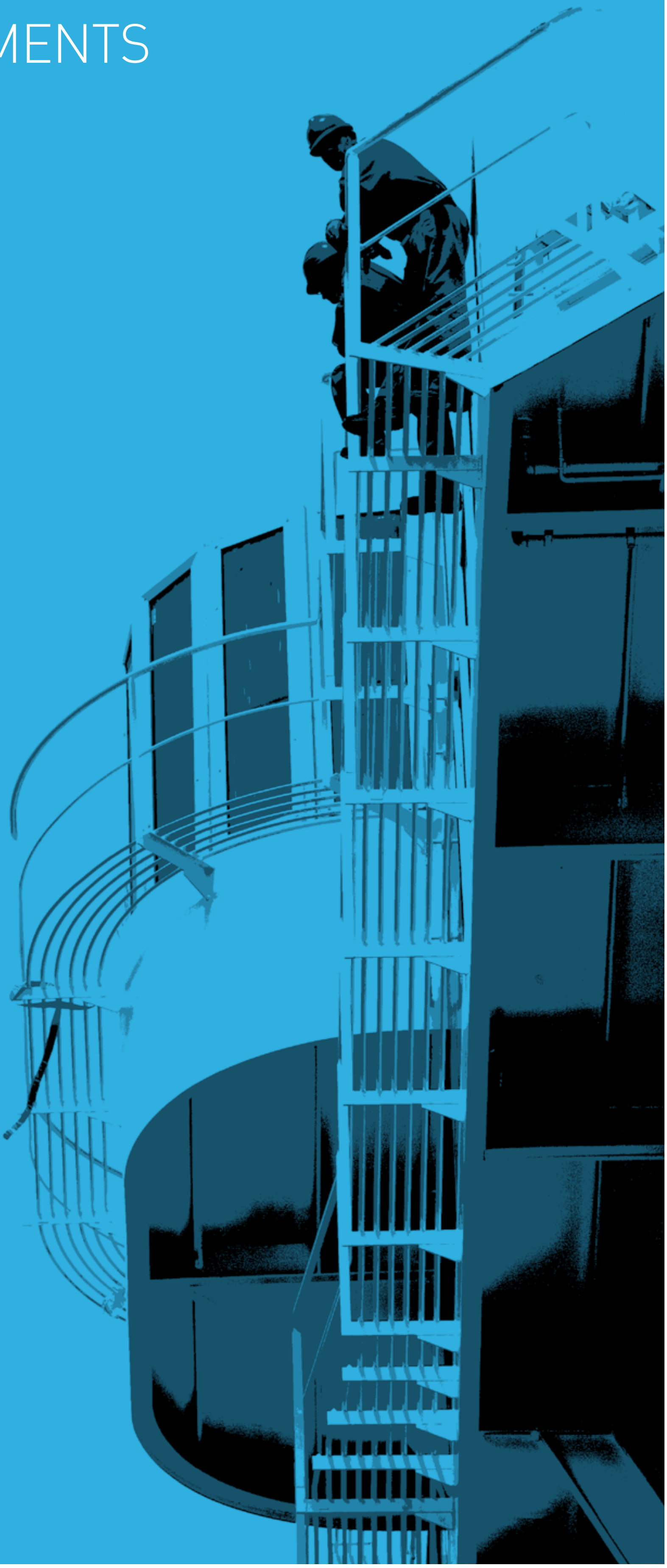
Significant events subsequent to the end of the financial year

During January 2012 work started at the Muggiano shipyard on the first of two stealth patrol boats for the UAE Navy. This vessel will be delivered in the second half of the year.
In the same month, work also started at the Riva Trigoso shipyard on building a logistics support vessel for the Algerian Navy.
Local agreements were signed with all the trade union bodies, confirming and supplementing the national agreement made on 21 December 2011, in January 2012 for the Palermo and Ancona sites and on 15 February 2012 for the Sestri Ponente site.

Business outlook

In a market environment that remains particularly critical, Fincantieri will pursue the implementation of the reorganization measures contained in the Plan and in the signed agreements made with the unions to ensure the necessary increase in competitiveness that will allow it to consolidate and strengthen its market position.
In this context, special effort will be devoted those actions already initiated in recent months to diversify production, with the aim of developing new projects and entering new markets.
As for the cruise market, the tragic accident of the Costa Concordia in January, should not, according to the most accredited views of shipowners and experts, have a significant impact on industry trends, which are nonetheless confirmed as positive in the medium-long term.

FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS



Consolidated statement of financial position

(Euro/000)	Note	31.12.2011	31.12.2010
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6	110,247	110,795
Property, plant and equipment	7	554,805	536,808
Equity-accounted investments	8	14,076	13,656
Other investments	8	1,671	1,683
Financial receivables	9	71,985	128,929
Other receivables	9	11,957	21,973
Deferred tax assets	10	120,685	115,179
Total non-current assets		**885,426**	**929,023**
CURRENT ASSETS			
Inventories and advances	11	276,241	286,163
Construction contracts - assets	12	977,696	1,061,187
Trade receivables and other assets	13	428,821	607,255
Tax receivables	13	49,676	37,195
Financial receivables	14	99,677	11,417
Cash and cash equivalents	15	387,170	329,201
Total current assets		**2,219,281**	**2,332,418**
TOTAL ASSETS		**3,104,707**	**3,261,441**
LIABILITIES AND EQUITY			
EQUITY	16		
Attributable to owners of the parent			
Share capital		633,481	633,481
Reserves and earnings		300,034	288,347
		933,515	921,828
Non-controlling interests		17,425	15,723
Total equity		**950,940**	**937,551**
NON-CURRENT LIABILITIES			
Provisions for risks and charges	17	113,978	118,079
Employee indemnity benefit	18	65,043	72,479
Financial liabilities	19	123,511	167,247
Other liabilities	19	73,897	71,474
Deferred tax liabilities	10	33,081	28,243
Total non-current liabilities		**409,510**	**457,522**
CURRENT LIABILITIES			
Construction contracts – liabilities	20	828,755	832,526
Trade payables and other current liabilities	21	685,494	826,210
Current tax liabilities	21	6,303	4,805
Financial liabilities	22	223,705	202,827
Total current liabilities		**1,744,257**	**1,866,368**
TOTAL LIABILITIES AND EQUITY		**3,104,707**	**3,261,441**

Consolidated statement of comprehensive income

(Euro/000)	Note	2011 Before non-recurring items	2011 Non-recurring items (Note 24)	2011 Total	2010 Before non-recurring items	2010 Non-recurring items	2010 Total
Operating revenues	23	2,316,624		2,316,624	2,794,476	-183,163	2,611,313
Other revenues and income	23	64,000		64,000	85,470		85,470
Materials, services and other costs	25	-1,776,844		-1,776,844	-2,165,872		-2,165,872
Personnel costs	25	-477,586		-477,586	-513,778		-513,778
Depreciation and amortization	25	-65,768		-65,768	-67,625		-67,625
Provisions and impairment losses	25	-45,572		-45,572	-75,387		-75,387
Capitalization of internal costs	25	1,601		1,601	2,548		2,548
Finance income	26	34,412		34,412	50,740		50,740
Finance costs	26	-26,626		-26,626	-70,209		-70,209
Income/expense (+/-) from investments	27	-12		-12	-2,731		-2,731
Share of profit/loss (+/-) from equity-accounted investments	27	420		420	467		467
Income taxes	28	-14,578		-14,578	-36,902	57,843	20,941
PROFIT/LOSS FOR THE YEAR (+/-) (A)		**10,071**		**10,071**	**1,197**	**-125,320**	**-124,123**
Attributable to owners of the parent		8,853		8,853	-1,156	-125,320	-126,476
Attributable to non-controlling interests		1,218		1,218	2,353		2,353
Basic earnings/loss (+/-) per share (Euro)	29			0.00713			-0.10182
Other comprehensive income/losses (+/-) net of tax effect							
Effective portion of profits/losses (+/-) on cash flow hedging instruments	4-16	-889		-889	-360		-360
Gains/losses (+/-) arising on translation of foreign companies' financial statements	16	4,257		4,257	7,394		7,394
Attributable to non-controlling interests		536		536	932		932
Total other comprehensive income/losses (+/-) net of tax effect (B)	16	**3,368**		**3,368**	**7,034**		**7,034**
Attributable to non-controlling interests		536		536	932		932
TOTAL COMPREHENSIVE INCOME/LOSS (+/-) (A) + (B)		**13,439**		**13,439**	**8,231**	**-125,320**	**-117,089**
Attributable to owners of the parent		11,685		11,685	4,946	-125,320	-120,374
Attributable to non-controlling interests		1,754		1,754	3,285		3,285

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
1.1.2010		**633,481**	**408,721**	**1,042,202**	**12,438**	**1,054,640**
Share capital increase						
Dividend payment						
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	16	**633,481**	**288,347**	**921,828**	**15,723**	**937,551**
Share capital increase					153	153
Dividend payment					-204	-204
Change in non-controlling interests						
Total comprehensive income (loss) for the year			11,685	11,685	1,754	13,439
Other changes/roundings			2	2	-1	1
31.12.2011	16	**633,481**	**300,034**	**933,515**	**17,425**	**950,940**

Consolidated statement of cash flows

(Euro/000)	Note	31.12.2011	31.12.2010
NET CASH FLOWS FROM OPERATING ACTIVITIES	30	**149,882**	**286,937**
Expenditure on:			
- intangible assets		-3,670	-6,434
- property, plant and equipment		-74,379	-51,519
- equity investments			-190
- financial receivables and other assets		-16	-2,667
Disposals of:			
- intangible assets			1
- property, plant and equipment		432	1,893
- equity investments			4,644
- financial receivables and other assets		10,033	11,105
CASH FLOWS FROM INVESTING ACTIVITIES		**-67,600**	**-43,167**
Changes in medium/long-term loans:			
- proceeds		6,304	5,056
- repayments		-12,748	-12,977
Change in finance lease obligation:			
- repayments		-1,684	-1,700
Change in short-term bank loans and overdrafts		792	-109,637
Change in short-term loans from shareholders		37	37
Change in other financial liabilities/receivables		-13,286	99,012
Change in receivables for financial instruments held for trading		-30	-1,567
Change in payables for financial instruments held for trading		-4,067	21,163
Dividends paid		-204	
Change in non-controlling interests in equity		153	
CASH FLOWS FROM FINANCING ACTIVITIES		**-24,733**	**-613**
NET CASH FLOWS FOR THE YEAR		**57,549**	**243,157**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**329,201**	**86,421**
Effect of exchange rate changes on cash and cash equivalents		420	-377
CASH AND CASH EQUIVALENTS AT END OF YEAR		**387,170**	**329,201**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2011 financial year, 99.355% of the Company's share capital of euro 633,480,725.70 was held by Fintecna S.p.A.; the remainder of share capital was owned by a number of private investors including Citibank, which held 0.644%.
Fincantieri's registered office is in Via Genova no. 1, Trieste (Italy).
Appendix 2 includes a summary of the 2010 financial statements of Fintecna.

Principal activities of the Group

The Fincantieri Group's principal business is the construction of both 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 operates from 9 shipyards in Italy and 4 in the United States, following acquisition of the Manitowoc Marine Group (renamed Fincantieri Marine Group), plus another US site which carries out trading activities and after-sale services.

IFRS consolidated financial statements

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"), which, at the date of approving the consolidated financial statements, have been endorsed by the European Union in accordance with the procedure laid down in Regulation (EC) no. 1606/2002 of the European Parliament and European Council dated 19 July 2002.

The IFRSs have been consistently applied to all of the years presented in the current document. IFRSs have been applied in Italy and other countries for the first time only recently; a number of standards recently published or revised lack any precedents to which to refer when interpreting and applying them. The consolidated financial statements have therefore been prepared on the basis of the best knowledge of the IFRSs and taking account of best associated practice; any future guidance and new interpretations will be reflected in subsequent financial years, in the manner indicated by the accounting standards concerned.

Accounting standards, amendments and interpretations applicable from 1 January 2011

The amendments, improvements and interpretations applicable from 1 January 2011 are briefly outlined below. The application of such revisions, where applicable, has not had a material impact on the present consolidated 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.

On 8 October 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation and Classification of Rights Issues, 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.

On 26 November 2009, the IASB issued a minor amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirements, allowing entities to recognize as an asset some voluntary prepayments for minimum funding contributions.

On 26 November 2009, the IFRIC issued IFRIC 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.

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.

On 6 May 2010, the IASB issued a series of Improvements to IFRSs, which 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 a different measurement basis is required by another IFRS. This means, for example, that in business combinations, an employee stock option plan must be accounted for in accordance with IFRS 2 and the equity portion of a convertible debt instrument must be accounted for 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.

Accounting standards not yet applicable because not endorsed by the european union

On 12 November 2009, the IASB published 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 a project aimed at completely replacing IAS 39 - *Financial Instruments: Recognition and Measurement*, and introducing new principles for the classification and measurement of 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 themselves. 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 therefore no longer through profit or loss.

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 IFRS financial statements after a period of severe hyperinflation. These amendments are applicable from 1 July 2011.

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.

On 12 May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*, which will supersede SIC-12 – *Consolidation – Special Purpose Entities*, and parts of IAS 27 – *Consolidated and Separate Financial Statements*, which has been renamed "Separate Financial Statements" and addresses the accounting and disclosure requirements for investments in subsidiaries when an entity prepares separate financial statements. The new standard moves from the existing standards, identifying the concept of control as the key factor for the determining whether or not a company is consolidated in its parent's consolidated financial statements. It also provides guidance on determining the existence of control when this is difficult to ascertain. The new standard applies from 1 January 2013.

On 12 May 2011, the IASB issued IFRS 11 – *Joint Arrangements*, which will supersede IAS 31 – *Interests in Joint Venture* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The new standard provides principles for identifying joint arrangements based on the rights and obligations under such arrangements rather than on their legal form and establishes the equity method as the only method for accounting for investments in joint operations or joint ventures in the consolidated financial statements of a party to a joint arrangement. The new standard applies from 1 January 2013. Following the issue of this standard, IAS 28 – *Investments in Associates*, has been amended to include investments in joint ventures in its scope of application.

On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*, which is a new and complete standard on the disclosures relating to interests of every kind, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities. The new standard applies from 1 January 2013.

On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which explains how fair value should be determined for financial reporting purposes and applies to all standards which require or permit fair value measurement or disclosures about fair value. The new standard applies from 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 – *Presentation of Financial Statements*, that requires companies preparing financial statements in accordance with IFRSs to group together all items presented in "Other comprehensive income" on the basis of whether or not they can be subsequently reclassified to profit or loss. This amendment is applicable to annual accounting periods beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amended IAS 19 – *Employee Benefits*, which eliminates the option to defer the recognition of actuarial gains and losses under the "corridor method", and requires the presentation of a defined benefit plan's deficit or surplus in the statement of financial position, the recognition of service costs and net interest expense in profit or loss, and the recognition of actuarial gains and losses from remeasuring defined benefit assets and liabilities in *"Other comprehensive income"*. In addition, interest income calculated on defined benefit assets and classified in net interest expense must be calculated using the discount rate applying to defined benefit liabilities and no longer the expected return on defined benefit assets. The amendment has also introduced new disclosures in the notes to the financial statements. This amendment is applicable from 1 January 2013.

On 19 October 2011, the IASB published the Interpretation *"Stripping Costs in the Production Phase of a Surface Mine"*, which applies to all types of natural resources extracted from surface mines. The Interpretation is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

On 16 December 2011, the IASB published *"Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)"*, which defers the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 (previously the mandatory effective date was for annual periods beginning on or after 1 January 2013), and leaves unchanged the possibility of earlier application.

On 16 December 2011, the IASB published amendments to IAS 32 - *Financial Instruments: Presentation* and to IFRS 7 - *Financial Instruments: Disclosures* relating to the offsetting of financial assets and financial liabilities and to disclosures about derivative financial instruments subject to master netting arrangements and similar agreements, even if not offset under IAS 32. The amendments to the disclosures about the offsetting of financial instruments are effective for annual periods beginning on or after 1 January 2013 (with retrospective application to comparative disclosures).

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 (Euro/000).

If in certain cases amounts are required to be reported in a unit other than Euro/000, the monetary unit of presentation is clearly specified.

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 entity'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 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 eliminated unless 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 year-end reporting date;
- 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:

	2011		2010	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.3920	1.2939	1.3257	1.3362
UAE Dirham (AED)	5.1126	4.7524		
Brazilian Real (BRL)	2.3265	2.4159		

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 instruments 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 relevant accounting standard:

- 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 exceed 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, obtained during the measurement period (which cannot exceed one year from the acquisition date), about facts and circumstances that existed at 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 recognized separately 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;
- a potential market exists for the intangible asset or, if it is used internally, the asset is of demonstrable utility;
- 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.

Revertible assets 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
Revertible assets	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 treated the same 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. Income from the sale of a leased asset is recognized when the asset is transferred to the lessee. Such income 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, using the percentage of completion method, taking into account the stage of the project and expected contractual risks, 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. 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 process 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 those maturing after more than twelve months which are 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 effectiveness of each hedge must be assessed, 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.

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 Italian 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 time value of money has a material effect, 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 convertible 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 part of financing 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 which case 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 particular 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 consideration for additions or variations seldom occur, unless the scope of work is significantly modified.

The margins expected to be achieved upon the entire project's 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 at the time of 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.

Note 4 - financial risk management

Financial risk management is primarily carried out 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 owed by private shipowners for construction contracts, by the Italian government both for grants receivable and for supplies to the country's military services, and by 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, the Fincantieri Group constantly monitors customer creditworthiness, credit exposure and 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 decreased since 2010.

The following tables provide a breakdown of the maximum exposure by risk class as of 31 December 2011 and 31 December 2010 based on the nominal value of receivables prior to any allowance against doubtful accounts:

	31.12.2011					
		Past due (days)				
(Euro/000)	Current	0 - 30	31 - 60	61 - 90	Over 90	Total
Trade receivables:						
- due from public entities	40,056	3,924	830	376	6,989	52,175
- due indirectly from public entities (*)	22,405				10,232	32,637
- due from private customers	96,602	11,551	15,193	920	95,969	220,235
TOTAL TRADE RECEIVABLES	**159,063**	**15,475**	**16,023**	**1,296**	**113,190**	**305,047**
Government grants financed by BIIS	59,402					59,402
Government grants from others	21,270					21,270
Finance lease receivables						
Receivables from joint ventures	46,071					46,071
Receivables from Fintecna Group companies	3,250					3,250
Other receivables	171,855				33,542	205,397
Other financial receivables	17,484					17,484
GROSS TOTAL	**478,395**	**15,475**	**16,023**	**1,296**	**146,732**	**657,921**
Allowance for doubtful receivables						-65,423
NET TOTAL						**592,498**
Advances, prepayments and accrued income						63,533
TOTAL						**656,031**

	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**

(*) 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 2011 provided the necessary funds to finance expected outlays, which were lower than in 2010 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 Italian Law 431/91, received in the form of loans from Banca Infrastrutture Innovazione e Sviluppo (BIIS), (see Note 19), which are repaid directly by the State under an irrevocable payment order to BIIS.

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

	31.12.2011							
(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	84						84	84
Payables to joint ventures	161,883		678	40			162,601	162,601
Bank loans and overdrafts	5,761	4,995		13,161	56,769	16,343	97,029	88,759
BIIS loans		4,073		4,073	32,589	29,310	70,045	59,402
Payables to suppliers	63,634	87,789	64,749	350,567	694	9,119	576,552	576,552
Finance lease obligations		140	280	1,620	1,849		3,889	3,621
Other liabilities	2,576	28,941	38,786	24,161	37,735	3,174	135,373	135,373
TOTAL	**233,938**	**125,938**	**104,493**	**393,622**	**129,636**	**57,946**	**1,045,573**	**1,026,392**
Advances, accrued expenses and deferred income								55,844
TOTAL	**233,938**	**125,938**	**104,493**	**393,622**	**129,636**	**57,946**	**1,045,573**	**1,082,236**

(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
	31.12.2010							
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**

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.

The Fincantieri Group is exposed to transactional currency risk on the US dollar receipt of the installment due upon delivery of the Carnival Breeze, almost all of which was hedged at 31 December 2011 with forwards and options.

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 principal raw materials used, such as steel, copper and fuel for sea trials and for 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 sea trials or for use during ship construction. In 2011, the Group took out hedges against fuel consumption relating to the Costa and P&O contracts won during the year.
Also in 2011, the Group hedged part of its copper requirements for the Princess ship being built at the Monfalcone shipyard.

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:

	31.12.2011				31.12.2010			
(Euro/000)	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 HEDGE								
Interest rate swap (payables)			1,693	44,000			1,561	52,000
Forward (revenues, USD)			13,989	244,400	1,485	30,000	9,947	251,500
Forwards Euro Call / USD Put (revenues, USD)	3,145	317,400			11,853	315,500		
Forwards (purchases, USD	527	14,521			364	23,112		
Forwards (purchases, CAD)	215	4,918			289	7,787		
INEFFECTIVE HEDGING DERIVATIVES								
Commodities futures	2,169	11,154	50	214	1,357	12,005		
Options (USD)			659	15,000				
DERIVATIVES HELD FOR TRADING								
Options (USD)			14,381	358,800			18,449	426,500
Forwards (USD)	30	2,200						

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)	31.12.2011 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
FORWARDS SOLD (PURCHASES)							
Outflow	371	1,107	2,092	7,327	3,451		**14,348**
Inflow	405	1,208	2,232	7,556	3,593		**14,994**
INTEREST RATE SWAPS							
Outflow	670		603	1,028	1,633	61	**3,995**
Inflow	410		238	500	1,062	55	**2,265**
FUEL FUTURES							
Outflow	656	788	2,691	2,245	4,433		**10,813**
Inflow	902	1,074	3,593	2,594	4,713		**12,876**
COPPER FUTURES							
Outflow	148	116	291				**555**
Inflow	162	129	321				**612**
FORWARDS PURCHASED (SALES)							
Outflow			188,887				**188,887**
Inflow			174,426				**174,426**

(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
FORWARDS 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**
FORWARDS PURCHASED (SALES)							
Outflow				188,223			**188,223**
Inflow				179,641			**179,641**

The fair value of derivative financial instruments has been calculated considering the market parameters at the year-end reporting date and using widely accepted 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:

	Equity			
(Euro/000)	Gross	Taxes	Net	Income statement
01.01.2010	**-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**
Change in fair value	-2,199	634	-1,565	
Utilization	919	-243	676	-676
Other income/expenses (+/-) relating to intrinsic component of hedging derivatives				2,013
Finance income/expenses (+/-) relating to trading derivatives and time-value component of hedging derivatives				-4,602
31.12.2011	**-2,199**	**634**	**-1,565**	**-3,265**

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
					31.12.2011				
Derivative financial assets	2,199	3,887						**6,086**	**6,086**
Other financial assets					177,533			**177,533**	**184,438**
Trade receivables and other current assets					428,822			**428,822**	**428,822**
Current tax receivables					49,676			**49,676**	**49,676**
Cash and cash equivalents					387,170			**387,170**	**387,170**
Derivative financial liabilities	-15,090		-15,682					**-30,772**	**-30,772**
Other financial liabilities							-316,444	**-316,444**	**-325,511**
Other non-current liabilities							-73,897	**-73,897**	**-73,897**
Trade payables and other current liabilities							-685,494	**-685,494**	**-685,494**
Current tax liabilities							-6,303	**-6,303**	**-6,303**
Total	**-12,891**	**3,887**	**-15,682**		**1,043,201**		**-1,082,138**	**-63,623**	**-65,785**
					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**

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	Development 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	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 1.1.2010	**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
- net disposals								
- 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**
Movements in 2011								
- additions			77	496	382		2,715	3,670
- net disposals				-1				-1
- reclassifications/other	1	1	1,557	230		1	-1,808	-18
- amortization		-869	-961	-4,853	-121	-316		-7,120
- exchange rate differences	1,915	467			477	62		2,921
Closing net carrying amount	**61,586**	**15,898**	**2,374**	**5,930**	**14,689**	**2,381**	**7,389**	**110,247**
- historical cost	61,586	23,843	14,168	77,157	14,833	3,401	7,389	202,377
- accumulated amortization and impairment losses		-7,945	-11,794	-71,227	-144	-1,020		-92,130
Net carrying amount at 31.12.2011	**61,586**	**15,898**	**2,374**	**5,930**	**14,689**	**2,381**	**7,389**	**110,247**

Additions made in 2011 amount to euro 3,670 thousand (euro 6,434 thousand in 2010).

The positive exchange rate differences of euro 2,921 thousand in 2011 reflect movements in the US dollar/Euro exchange rate.

Goodwill is allocated to the cash-generating unit (CGU) representing 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 and Bay) and are allocated to the CGU representing the group acquired. All such assets have nonetheless 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	Revertible assets	Extraordinary maintenance on leased assets	Other assets	Assets under construction and advances to suppliers	Total
- 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 1.1.2010	**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
- net 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**
Movements in 2011								
- additions	2,237	177	11,949	1,509	402	1,892	56,229	74,395
- net disposals	-251		-650		-1	-83		-985
- other changes/reclassifications	19,111	1	23,099	-95	513	1,786	-44,397	18
- depreciation	-7,121	-701	-41,797	-2,730	-1,334	-4,965		-58,648
- impairment losses					-115			-115
- exchange rate differences	2,037	23	1,094			122	56	3,332
Closing net carrying amount	**179,433**	**15,649**	**188,616**	**56,699**	**4,208**	**49,532**	**60,668**	**554,805**
- historical cost	285,639	19,212	772,580	166,664	25,514	145,386	60,668	1,475,663
- accumulated depreciation and impairment losses	-106,206	-3,563	-583,964	-109,965	-21,306	-95,854		-920,858
Net carrying amount at 31.12.2011	**179,433**	**15,649**	**188,616**	**56,699**	**4,208**	**49,532**	**60,668**	**554,805**

The additions of euro 74,395 thousand made in 2011 (euro 51,519 thousand in 2010) 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 dry-dock that has been unused since the second half of 2011.

The other changes include 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 3,332 thousand in 2011 reflect movements in the US dollar/Euro exchange rate.

At 31 December 2011, the Group owns plant and machinery carrying mortgages of euro 68,320 thousand against loans received (the same as at 31 December 2010).

Note 8 - investments

Investments

These are analyzed as follows:

(Euro/000)	Associates	Joint ventures	Total equity-accounted investments	Other companies	Total other investments	Total
1.1.2010	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**
Additions						
Revaluations(+) Impairment losses(-)		420	**420**	-12	**-12**	**408**
Disposals						
31.12.2011		14,076	**14,076**	1,671	**1,671**	**15,747**

All of the investments are in unlisted companies.
"Revaluations/impairment losses" of euro 420 thousand in 2011 mainly reflect (like in 2010) 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", an impairment loss has been recognized against the investment in Accademia Italiana della Marina Mercantile (the Italian Merchant Navy Academy).

Investments at 31 December 2011

Company name	Registered office	% owned	Carrying amount
Equity-accounted investments			
Etihad Ship Building LLC.	Arab Emirates	35.00	178
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	13,898
			14,076
Other investments			
Centro Sviluppo Materiali S.p.A.	Roma	8.33	698
Friulia S.p.A.	Trieste	0.52	740
EEIG Euroyards	Brussels	14.28	10
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR A/S	Copenaghen	9.10	6
Consorzio IMAST Scarl	Naples	3.67	22
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.80	14
Consorzio Cals Italia	Rome	7.69	
Consorzio Formazione Internazionale	Rome	5.26	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	11.11	120
International Business Science Company Scarl	Trieste	18.18	10
Consorzio F.S.B.	Trieste	0.60	5
			1,671

(*) % 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 2011:

(Euro/000)	Total assets	Total liabilities	Operating revenues	Profit/loss (+/-) for the year
Etihad Ship Building LLC.	509			
Orizzonte Sistemi Navali S.p.A.	1,772,941	1,745,243	324,258	819

The corresponding information at 31 December 2010 is as follows:

(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

Note 9 - non-current receivables

Financial receivables

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Grants financed by BIIS	53,427	59,402
Derivative assets	1,074	12,723
Other non-current financial receivables	17,484	56,804
NON-CURRENT FINANCIAL RECEIVABLES	**71,985**	**128,929**

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

"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of more than 12 months. The decrease since 2010 is due to the reclassification to current assets of the hedge relating to the Carnival Breeze contract, denominated in US dollars.

"Other non-current financial receivables" of euro 17,484 thousand (euro 56,804 thousand at 31 December 2010), which report loans to third parties carrying market rates of interest, have decreased after reclassifying the portion due within 12 months to current assets.

Other receivables

Non-current non-financial receivables are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Government grants receivable	6,313	16,322
Other	5,644	5,651
OTHER NON-CURRENT RECEIVABLES	**11,957**	**21,973**

"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)	31.12.2011	31.12.2010
- between one and two years	5,517	10,009
- between two and three years	796	5,517
- between three and four years		796
Total	**6,313**	**16,322**

"Other receivables" of euro 5,644 thousand (euro 5,651 thousand at 31 December 2010) mostly refer to euro 4,693 thousand in sums owed by the Iraqi Ministry of Defense. A detailed discussion of this case can be found in the specific section on litigation in Note 29. The remaining balance of euro 951 thousand (euro 958 thousand 31 December 2010) refers to security deposits and other minor amounts.

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

(Euro/000)	Allowance for doubtful other receivables
Balance at 1.1.2010	**20,488**
Direct movements and other changes	-121
Total at 31.12.2010	**20,367**
Direct movements and other changes	
Total at 31.12.2011	**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
1.1.2010	**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**
Movements in 2011							
- through income statement	9,579	-1,159	3,859		-8,544	908	4,643
- through equity and other reasons				391			391
- other changes							
- exchange rate differences		25			15	432	472
31.12.2011	**91,342**	**11,239**	**7,044**	**634**	**5,190**	**5,236**	**120,685**

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.

No deferred tax assets have been recognized for litigation provisions or for certain deductible temporary differences relating to the impairment of receivables, due to the difficulty in planning the related reversals. The Parent Company's unrecognized deferred tax assets amount to euro 28,251 thousand (euro 30,708 thousand at 31 December 2010).

Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combination	Other temporary differences	Total
31.12.2009	**20,633**	**3,626**	**24,259**
Movements in 2010			
- through income statement	-494	2,584	2,090
- through equity and other reasons			
- exchange rate differences	1,611	283	1,894
31.12.2010	**21,750**	**6,493**	**28,243**
Movements in 2011			
- through income statement	-474	4,071	3,597
- through equity and other reasons		46	46
- exchange rate differences	675	520	1,195
31.12.2011	**21,951**	**11,130**	**33,081**

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)	31.12.2011	31.12.2010
Raw, ancillary and consumable materials	122,836	116,408
Work in progress and semi-finished goods	3,442	739
Finished products	6,314	9,350
Total inventories	**132,592**	**126,497**
Advances to suppliers	143,649	159,666
TOTAL INVENTORIES AND ADVANCES	**276,241**	**286,163**

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 following table presents the amount of and movements in the associated allowance for obsolescence:

(Euro/000)	Allowance for obsolescence – raw materials	Allowance for obsolescence - finished products
1.1.2010	**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**
Increases in allowance	2,553	220
Utilizations	-3,687	-17
Exchange rate differences	2	8
31.12.2011	**20,753**	**1,418**

Note 12 - construction contracts - assets

These are analyzed as follows:

	31.12.2011			**31.12.2010**		
(Euro/000)	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts – net assets	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts – net assets
Shipbuilding contracts	2,410,282	1,435,854	974,428	2,211,205	1,184,774	1,026,431
Other contracts for third parties	44,713	41,445	3,268	166,964	132,208	34,756
Total	**2,454,995**	**1,477,299**	**977,696**	**2,378,169**	**1,316,982**	**1,061,187**

"Construction contracts - assets" report those contracts where the value of the percentage of completion of the contract is more 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 and report a broadly similar balance to the previous year due to the completion of certain 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)	31.12.2011	31.12.2010
Trade receivables	271,645	400,317
Receivables from joint ventures	46,071	63,460
Finance lease receivables		31,763
Receivables from ultimate parent companies		158
Government grants receivable	4,948	5,365
Other receivables	83,980	86,730
Prepayments	22,177	19,462
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**428,821**	**607,255**
Tax receivables	**49,676**	**37,195**

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 a 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 receivables	Total
1.1.2010	**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**
Direct movements and other changes	-920		-283	-1,203
Increases in allowance (+) Utilizations (-)	7,449	3,713	-447	10,715
Exchange rate differences	-15			-15
31.12.2011	**32,876**	**3,776**	**8,404**	**45,056**

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

"Finance lease receivables" (euro 31,763 thousand in 2010) used to represent amounts due for a bareboat charter by an Italian shipowner, under a contract that expired in 2011. This bareboat charter was treated like a finance lease in the financial statements.

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 lessees:

(Euro/000)

1) Present value of future minimum lease payments receivable	31.12.2011	31.12.2010
Total future minimum lease payments receivable		33,088
Future finance charges		-1,325
Present value of future minimum lease payments receivable		31,763

(Euro/000)

2) Maturity of future minimum lease payments receivable	31.12.2011			31.12.2010		
	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		
Present value of future minimum lease payments receivable				31,763		

"Other receivables" of euro 83,980 thousand mainly include:

- euro 47,358 thousand for research grants, insurance claims and advances to suppliers, mostly relating to the Parent Company (euro 54,323 thousand at 31 December 2010);
- euro 26,710 thousand for the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of contract price (euro 26,304 thousand at 31 December 2010);
- euro 9,912 thousand for receivables from social security institutions (euro 6,103 thousand at 31 December 2010), most of which an advance paid to INAIL (Italy's national institution for industrial accident insurance) for contributions that will mature during the subsequent year.

"Prepayments" mainly refer to insurance premiums relating to future periods.

"Tax receivables" comprise:

- euro 16,634 thousand in indirect tax credits (euro 11,465 thousand at 31 December 2010), mainly relating to VAT (Italian sales tax) to be reimbursed or offset, as well as to requests for duty refunds from the Italian customs authorities;
- euro 33,042 thousand (euro 25,730 thousand at 31 December 2010) in direct tax credits, 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 - current financial assets

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Derivative assets	5,012	2,625
Other receivables	86,077	73
Government grants financed by BIIS	5,975	5,757
Accrued interest income	2,612	2,883
Prepaid interest and other financial expense	1	79
TOTAL FINANCIAL RECEIVABLES	**99,677**	**11,417**

"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of less than 12 months.

"Government grants financed by Banca Infrastrutture Innovazione e Sviluppo (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.

The increase in "Other receivables" is mainly due to a low-risk investment of euro 45 million made during the year.

Note 15 - cash and cash equivalents

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Bank and postal deposits	387,022	329,062
Checks	41	9
Cash on hand	107	130
TOTAL CASH AND CASH EQUIVALENTS	**387,170**	**329,201**

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 29 April 2011 adopted a resolution to cover the Parent Company's loss for 2010 of euro 134,507,224.44 with a corresponding amount from the extraordinary reserve.
The composition of equity is analyzed in the following table:

(Euro/000)	31.12.2011	31.12.2010
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	-1,565	-676
Currency translation reserve	5,438	1,717
Other reserves and retained earnings	258,784	385,257
Profit/loss (+/-) for the year	8,853	-126,475
	933,515	**921,828**
Attributable to non-controlling interests		
Capital and reserves	15,157	12,856
Currency translation reserve	1,050	514
Profit/loss (+/-) for the year	1,218	2,353
	17,425	**15,723**
TOTAL EQUITY	**950,940**	**937,551**

Share capital

The Parent Company's share capital amounts to euro 633,481 thousand at 31 December 2011, 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 2011. This reserve has increased by euro 3,721 thousand in 2011 compared with 2010, 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 2010 is due primarily to non-controlling interests in comprehensive income for the year and secondarily to the change in the currency translation reserve and to the net balance of transactions with shareholders.

Other comprehensive income/losses

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

	31.12.2011			31.12.2010		
(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	-1,280	391	-889	-500	140	-360
Gains/losses (+/-) arising on translation of foreign companies' financial statements	4,257		4,257	7,394		7,394
Total other comprehensive income/losses (+/-)	**2,977**	**391**	**3,368**	**6,894**	**140**	**7,034**

(Euro/000)	31.12.2011	31.12.2010
Effective portion of profits/losses (+/-) arising in period on cash flow hedging instruments	-2,199	-919
Effective portion of profits/losses (+/-) on cash flow hedging instruments reclassified to income statement	919	419
Effective portion of profits/losses (+/-) on cash flow hedging instruments	**-1,280**	**-500**
Gains/losses (+/-) arising in period on translation of foreign companies' financial statements	**4,257**	**7,394**
Tax effect of other components of comprehensive income	**391**	**140**
TOTAL OTHER COMPREHENSIVE INCOME/LOSSES (+/-), NET OF TAX EFFECT	**3,368**	**7,034**

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**
1.1.2010	**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**
Increases	2,163	17,325	1	14,311	33,800
Utilizations	-16,046	-13,982		-602	-30,630
Releases	-127	-7,191	-16		-7,334
Other movements					
Exchange rate differences		43		20	63
31.12.2011	**46,379**	**39,427**	**121**	**28,051**	**113,978**

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. The increase in this provision during the year particularly reflects the amount of euro 13 million recognized as a result of initiating the reorganization plan, which is expected to be utilized over the course of the next two years.

Note 18 - employee indemnity benefit

Movements in this item are as follows:

(Euro/000)	2011	2010
Opening balance	**72,479**	**80,819**
Interest cost	3,276	3,388
Actuarial gains/losses (+/-)	-1,641	-1,040
Utilizations for benefits and advances paid	-9,067	-10,755
Staff transfers and other movements	-4	67
Closing balance	**65,043**	**72,479**

Employee indemnity benefit relates only to the Group's Italian companies. At 31 December 2011, 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:

	31.12.2011	31.12.2010
ECONOMIC ASSUMPTIONS		
Cost of living increase	2.0% per annum	2.0% per annum
Discount rate	4.7% per annum	4.7% 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	RG48 mortality tables published by the State Accounting Office
Expected invalidity rate	INPS tables split by age and gender	INPS tables split by age and gender
Expected resignation 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 24,085 thousand into defined contribution plans in 2011 (euro 24,760 thousand in 2010).

Note 19 - non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Bank loans - non-current portion	67,262	75,942
Loans from BIIS - non-current portion	53,427	59,402
Finance lease obligations	1,751	3,710
Derivative liabilities	1,071	28,193
Total financial liabilities	**123,511**	**167,247**
Options on equity investments	28,619	28,239
Other non-current liabilities	45,278	43,235
TOTAL NON-CURRENT LIABILITIES	**197,408**	**238,721**

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:

	31.12.2011			31.12.2010		
(Euro/000)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	11,417	3,389	14,806	11,306	2,960	14,266
- between two and three years	8,948	3,411	12,359	10,352	2,960	13,312
- between three and four years	8,702	3,434	12,136	8,444	2,960	11,404
- between four and five years	8,705	3,458	12,163	8,243	2,960	11,203
- over five years	5,326	10,472	15,798	13,327	12,430	25,757
Total	**43,098**	**24,164**	**67,262**	**51,672**	**24,270**	**75,942**

The bank loans are repayable in installments through until 2021, and carry an annual average interest rate of 2.33% (2.19% in 2010).

The non-current portion of "Loans from BIIS" reflects the payment of production grants in the form of loans to Fincantieri, which are then effectively repaid by the State (see Note 4). The movement in the period is consistent with the corresponding amount recognized as a receivable.

"Bank loans" include euro 25,015 thousand in exposures to certain banks (of which euro 2,960 thousand classified as current) that are secured by mortgages on plant and machinery at 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 decrease of euro 27,122 thousand in this balance since 31 December 2010 is due to the reclassification of outstanding hedges at the reporting date as current liabilities.

"Other non-current liabilities" mainly relate to deferred income from grants for property, plant and equipment and grants for innovation (euro 33,467 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 4,693 thousand in payables to other recipients in respect of the amount owed by 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	**31.12.2011**	**31.12.2010**
Total future minimum lease payments	3,888	6,000
Future finance charges (-)	-267	-513
Present value of future minimum lease payments	3,621	5,487

(Euro/000)

2) Maturity of future minimum lease payments	**31.12.2011**			**31.12.2010**		
	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	2,026	1,862		2,018	3,982	
Present value of future minimum lease payments	1,870	1,751		1,777	3,710	

Note 20 - construction contracts - liabilities

These are analyzed as follows:

	31.12.2011			**31.12.2010**		
(Euro/000)	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts – net liabilities	Construction contracts - gross	Invoices issued and allowance for future losses	Construction contracts – net liabilities
Shipbuilding contracts	1,618,558	2,411,401	792,843	1,701,836	2,497,653	795,817
Other contracts for third parties	208,698	240,595	31,897	50,282	82,548	32,266
Advances from customers		4,015	4,015		4,443	4,443
Total	**1,827,256**	**2,656,011**	**828,755**	**1,752,118**	**2,584,644**	**832,526**

"Construction contracts - liabilities" report those contracts where the value of the percentage of completion of the contract is less 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 2010. 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)	31.12.2011	31.12.2010
Payables to suppliers	576,552	731,140
Payables to joint ventures	720	58
Payables to ultimate parent companies		7
Social security payables	23,146	26,591
Other liabilities	78,916	64,396
Accrued expenses	6,151	3,681
Deferred income	9	337
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**685,494**	**826,210**
Current tax liabilities	**6,303**	**4,805**

With reference to the amounts reported at 31 December 2011:

"Payables to suppliers" have decreased by euro 154,588 thousand on the previous year, reflecting the reduction in production activity.

"Social security payables" include amounts due to INPS (the Italian social security authorities) for employer and employee contributions on December's wages and salaries and contributions on end-of-year wage 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 2012.

"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. The increase over the year is primarily due to payments on account of insurance claims.

"Current tax liabilities" include euro 2,511 thousand in IRES (Italian corporate income tax), euro 3,654 thousand in IRAP (Italian regional business tax) and euro 138 thousand in tax relating to foreign companies.

Note 22 - current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Loans from shareholders	84	53
Bank overdrafts repayable on demand	5,761	4,969
Bank loans - current portion	15,736	13,493
Loans from BIIS - current portion	5,975	5,757
Finance lease obligations - current portion	1,870	1,777
Payables to joint ventures	161,881	171,216
Other financial liabilities	985	1,912
Derivative liabilities	29,701	1,764
Accrued interest expense	1,712	1,886
TOTAL CURRENT FINANCIAL LIABILITIES	**223,705**	**202,827**

"Loans from shareholders" report the position with Fintecna on an intercompany current account.

"Bank overdrafts repayable on demand", which have increased by euro 792 thousand since 31 December 2010, 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)	2011	2010
Operating revenues	**2,316,624**	**2,611,313**
Other revenues and income		
Gains on disposal	762	1,115
Release of provisions	8,201	9,926
Sundry revenues and income	44,687	64,021
Government grants	10,350	10,408
Total other revenues and income	**64,000**	**85,470**
TOTAL REVENUES AND INCOME	**2,380,624**	**2,696,783**

The decrease in "Operating revenues" is attributable to the Group's lower level of output.
Sundry revenues and income comprise:

(Euro/000)	2011	2010
Penalties charged to suppliers	897	268
Rental income	129	71
Insurance claims	14,101	21,881
Recharged costs	15,919	16,262
Income for personnel training	10	395
Third-party income relating to personnel	284	594
Other sundry income	12,644	22,583
Out-of-period income and other revenues	11	25
Other income	692	1,942
Total	**44,687**	**64,021**

"Other sundry income" of euro 12,644 thousand primarily refers to out-of-period amounts and adjustments to the value of recognized assets.

Note 24 - non-recurring items

Non-recurring items are defined as income and expenses arising from transactions or events whose occurrence is not recurring or from those transactions or events that are not frequently repeated in the ordinary course of business.
There were no non-recurring expenses during the year ended 31 December 2011, unlike in 2010.

Note 25 - operating costs

These are analyzed as follows:

(Euro/000)	2011	2010
Raw, ancillary and consumable materials	-1,244,701	-1,478,605
Services	-495,536	-605,284
Leases and rentals	-22,650	-28,609
Change in inventories of raw, ancillary and consumable materials	6,397	-29,946
Change in work in progress	635	1,219
Other operating costs	-20,989	-24,647
Total materials, services and other costs	**-1,776,844**	**-2,165,872**
Personnel costs:		
- wages and salaries	-324,822	-352,447
- social security	-118,725	-129,463
- costs for defined contribution plans	-24,085	-24,760
- other costs	-9,954	-7,108
Total personnel costs	**-477,586**	**- 513,778**
Depreciation and amortization:		
- amortization of intangible assets	-7,120	-8,875
- depreciation of property, plant and equipment	-58,648	-58,750
Total depreciation and amortization	**-65,768**	**-67,625**
Provisions and impairment losses:		
- other impairment losses	-115	-509
- receivables write-down	-11,658	-9,841
- increases in provisions for risks and charges	-33,799	-65,037
Total provisions and impairment losses	**-45,572**	**-75,387**
Capitalization of internal costs	**1,601**	**2,548**
TOTAL OPERATING COSTS	**-2,364,169**	**-2,820,114**

The cost of services is analyzed as follows:

(Euro/000)	2011	2010
Subcontractors and outsourced services	-250,540	-333,542
Insurance	-32,781	-38,269
Other personnel costs	-17,806	-18,027
Maintenance costs	-14,554	-20,886
Tests and trials	-5,487	-5,844
Outsourced design	-25,298	-13,076
Licenses	-243	-262
Transportation and logistics	-9,121	-9,797
Technical and other services	-134,208	-144,072
Cleaning services	-20,158	-32,467
Utilization of product warranty and other provisions	14,660	10,958
Total	**-495,536**	**-605,284**

"Leases and rentals" amounting to euro 22,650 thousand (euro 28,609 thousand in 2010), include lease and rental costs of euro 14,713 thousand (euro 20,807 thousand in 2010), sundry lease costs of euro 5,719 thousand (euro 5,769 thousand in 2010), and concession and similar fees of euro 2,218 thousand (euro 2,033 thousand in 2010).

"Personnel costs" represent the total cost incurred for employees, including wages and salaries, employer social security contributions, gifts and travel allowances. In 2011, like in 2010, 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.

The "Receivables write-down" relates to prudent appropriations to align the nominal value of receivables with estimated realizable value.

"Increases in provisions for risks and charges" mostly refer to provisions for contractual warranties (euro 17,325 thousand versus euro 28,520 thousand in 2010), to provisions for litigation (euro 2,163 thousand versus euro 29,609 thousand in 2010) and other provisions for future charges (euro 14,311 thousand versus euro 6,903 thousand in 2010).

Note 26 - finance income and costs

These are analyzed as follows:

(Euro/000)	2011	2010
FINANCE INCOME		
Interest from customers (non-current receivables)	3,953	3,522
Interest from others (non-current receivables)	2,283	2,528
Income from derivative financial instruments	5,475	32,545
Other interest and commission income	20,018	7,302
Exchange rate gains	2,683	4,843
Total finance income	**34,412**	**50,740**
FINANCE COSTS		
Interest and commissions payable to joint ventures	-1,282	-623
Interest and commissions payable to ultimate parent companies	-2	-3
Expenses from derivative financial instruments	-10,077	-52,288
Interest/actuarial losses on employee indemnity benefit	-1,539	-2,344
Other interest and commission expense	-11,318	-11,477
Exchange rate losses	-2,408	-3,474
Total finance costs	**-26,626**	**-70,209**
TOTAL FINANCE INCOME AND COSTS	**7,786**	**-19,469**

"Finance income" includes euro 2,283 thousand in income officially received by the Parent Company from the State, but effectively paid to Banca Infrastrutture Innovazione e Sviluppo (with an equal amount recognized as finance expense), in connection with transactions involving the settlement of government grants (see Note 4).

The net balance of "Income and expenses from derivative financial instruments" has improved in 2011, while the balance of "Exchange rate gains and losses" has slightly worsened.

The increase in "Other interest and commission income" is due to liquidity investment operations undertaken during the year.

Note 27 - income and expense from investments

These are analyzed as follows::

(Euro/000)	2011	2010
INCOME		
Dividends from other companies		22
Other income from investments		9
Total income		**31**
EXPENSE		
Impairment of investments	-12	-10
Losses on disposal of investments		-2,752
Total expense	**-12**	**-2,762**
INCOME/EXPENSE (+/-) FROM INVESTMENTS	**-12**	**-2,731**
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS		
Profit	420	467
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS	**420**	**467**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**408**	**-2,264**

Note 8 provides details about equity-accounted investments. The "Share of profit from equity-accounted investments" reflects the share of profit of Orizzonte Sistemi Navali attributable to the Group (euro 420 thousand versus euro 467 thousand in 2010).

Note 28 - income taxes

These are analyzed as follows:

(Euro/000)	2011		2010	
Current taxes		**-15,624**		**-22,238**
Deferred tax assets:				
– sundry impairment losses	9,579		28,299	
– product warranty	-1,159		2,915	
– other risks and charges	3,859		1,407	
– carryforward tax losses	-8,544		6,747	
– other	908		5,901	
		4,643		**45,269**
Deferred tax liabilities:				
– tax deductions for construction contracts			-2,584	
– other	-3,597		494	
		-3,597		**-2,090**
Total deferred taxes		**1,046**		**43,179**
TOTAL INCOME TAXES		**-14,578**		**20,941**

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)	2011	2010
Theoretical corporate income tax rate (IRES)	**27.5%**	**27.5%**
Profit/loss (+/-) before tax	24,649	-145,064
Theoretical corporate income tax (IRES)	**-6,778**	**39,893**
Impact of taxes relating to prior periods	24	508
Impact of tax losses	-450	55
Impact of permanent differences and unrecognized temporary differences	5,919	-7,934
Impact of different tax rate applicable to foreign entities	-817	-1,990
IRAP charged to income statement	**-12,476**	**-9,591**
Total income taxes through income statement	**-14,578**	**20,941**
Current taxes	-15,624	-22,238
Deferred taxes	1,046	43,179

Note 29 - other information

Net financial position

(Euro/000)	31.12.2011	31.12.2010
Cash and cash equivalents	**387,170**	**329,201**
Current financial receivables	**54,677**	**11,417**
Bank overdrafts	-5,761	-4,969
Current portion of bank loans	-21,711	-19,250
Other current financial liabilities	-196,233	-178,608
Current debt	**-223,705**	**-202,827**
Net current debt	**218,142**	**137,791**
Non-current financial receivables	**71,985**	**128,929**
Bank loans	-120,689	-135,344
Other non-current financial liabilities	-2,822	-31,903
Non-current debt	**-123,511**	**-167,247**
Net non-current debt	**-51,526**	**-38,318**
Net financial position	**166,616**	**99,473**

CAVOUR
Italian Navy
2008
Muggiano and Riva Trigoso shipyards

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.

As a result of the application of IAS 24 (revised), the information disclosed in 2011 now includes companies under the control of the Ministry of the Economy and Finance and the Group's Senior Management Supplementary Pension Fund.

Related party transactions are reported in the following tables.

STATEMENT OF FINANCIAL POSITION	31.12.2011						
(Euro/000)	Total 2011	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Financial assets - receivables	171,662						0%
Advances	143,649						0%
Trade receivables and other assets	440,779	17,158	55,988		221	73,367	17%
Financial liabilities	-347,216	-84	-161,881			-161,965	47%
Trade payables and other liabilities	-759,391	-36	-721		-958	-1,715	0%

	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		251	78,212	12%
Financial liabilities	-370,074	-47	-171,038			-171,085	46%
Trade payables and other liabilities	-897,684	-36	-95		-850	-981	0%

INCOME STATEMENT	2011						
(Euro/000)	Total 2011	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Operating revenues	2,316,624	39,420	870		559	40,849	2%
Other revenues and income	64,000		3,674			3,674	6%
Materials, services and other costs	-1,776,844	-36	-735		-4,317	-5,088	0%
Finance income	34,412						0%
Finance costs	-26,626	-2	-1,282			-1,284	5%

	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		377	3,279	0%
Other revenues and income	85,470		1,521			1,521	2%
Materials, services and other costs	-2,165,872	-36	-298		-3,690	-4,024	0%
Finance income	50,740						0%
Finance costs	-70,209	-1	-623			-624	1%

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
			2011	
Parent Company Board of Directors	394	8	380	635
Parent Company Board of Statutory Auditors	70			
General Managers and Key Management Personnel		66	812	2,549
Parent Company Independent Auditors	264			124
			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

(1) Excluding amounts paid on behalf of subsidiaries.

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.
The fees of the independent auditors cover the statutory audit of the separate financial statements and the audit of the IFRS consolidated financial statements and the reporting package for Fintecna S.p.A., the ultimate Parent 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:

		31.12.2011	31.12.2010
Consolidated profit/loss (+/-)	Euro/000	10,071	-124,123
Profit/loss (+/-) attributable to owners of the parent	Euro/000	8,853	-126,476
Weighted average shares outstanding	Number	1,242,119,070	1,242,119,070
Basic earnings/loss (+/-) per share	Euro	**0.00713**	**-0.10182**

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)	2011	2010
Maturity of future minimum operating lease payments:		
Within 1 year	8,908	10,015
Between 1 and 5 years	26,789	30,123
Over 5 years	19,208	16,214
Total	**54,905**	**56,352**

GUARANTEES

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

(Euro/000)	2011	2010
Other guarantees	28,569	28,569
Total	**28,569**	**28,569**

There were no bank guarantees at 31 December 2011 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

Prior year financial statements have contained extensive disclosure about this complex, long-running dispute involving contracts with the Iraqi government that were only partially performed following the customer's breach of contract, after being affected by an embargo implemented through specific bans under UN Security Council resolutions and European Union legislation.
The current status of the dispute is summarized below:

- Fincantieri's defense lawyers - in the case involving the two contracts in which Fincantieri was the main contractor – are of the opinion that the ruling by the Genoa Courts in the Parent Company's favor on the merit and amount of damages can be reasonably treated as final because it has not been appealed by either the Iraqis or by Fincantieri. For the record it should be noted that the Court's ruling on the amount of damages has been appealed by Armamenti & Aerospazio (the main contractor in a third contract) and counter-appealed by Iraq. This judgment has been informally suspended at the request of the Iraqi lawyers;
- as for the Iraqi appeal to the Paris Court against the arbitration ruling in Fincantieri's favor, even this ruling has been pending since May 2010 at the appellant's request;

- towards the end of the year, the Iraqi government initiated legal proceedings in the Baghdad Commercial Court, to secure repayment of advances and other amounts in respect of the three contracts. The proceedings are at a preliminary stage because of notification difficulties and the Fincantieri defense team is developing the case strategy with the assistance of a prestigious local law firm.

Although the international legal mechanisms preventing any enforcement actions against Iraq, even for disputed receivables that were the subject of court rulings, expired on 30 June 2011, discussions have recently resumed to find an out-of-court settlement to the dispute.

In view of the above, the prudent approach adopted in the 2009 financial statements remains unchanged.

Customer credit recovery

This type of litigation involves legal action against customers that are insolvent, bankrupt or the subject of other reorganization measures, or with whom disputes have arisen that could not be resolved at a commercial level.

With reference to the more significant positions, during 2011 legal proceedings were initiated, in view of the liquidator's opposition, to have the receivables owed by Tirrenia and SIREMAR, both of whom under special administration since 2010, paid in advance of the final liquidation distribution. It was also necessary to bring legal action against the SAIPEM Group concerning a dispute over the payment of part of the consideration for major work on the Scarabeo 8 drilling rig carried out in the Palermo yard.

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 involving claims by suppliers and contractors that the Parent Company considers unjustified, or concerning the recovery of extra costs incurred by the Parent Company due to supplier/contractor breaches of contract.

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 2011. 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 damages arising from the production process; vi) in connection with trademarks and patents; and vii) for compensation claims and so on.
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.

Tax position

National group tax filing

During 2011 the subsidiary Elnav S.p.A. entered the Parent Company's tax group, joining company with Cetena S.p.A., Isotta Fraschini Motori S.p.A., Seaf S.p.A. and Bacini di Palermo S.p.A.

Audits and Assessments

Fincantieri
The Company was the subject of tax mentoring by the Revenue Service for tax period 2007, ending in 2010 with a notification of findings; the findings were examined during the course of 2011 and the next stages of the process will be initiated in coming months.

Orizzonte Sistemi Navali
Following audits of the 2007 and 2008 tax periods by the Italian Tax Police, a report of findings was notified in 2010; like in the case above, these findings are being examined, with the aim of reaching a settlement in coming months.

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 refund of import/export duties, with reference to which in 2011 the Friuli Venezia Giulia Regional Tax Commission ordered a technical consultation, still in progress;
- the excise duty dispute, with reference to which in 2011 the Liguria Regional Tax Commission expressed a favorable ruling, which confirmed the exemption instead of a reduction in duty; Italy's Supreme Court will issue a fresh ruling in 2012;
- the well-known "IRES on IRAP" dispute, for which the judges have recognized the right to a 10% flat-rate refund.

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

Isotta Fraschini Motori

In the dispute against the assessment for 2004, the Italian Revenue Service has challenged the favorable ruling issued by the Regional Tax Commission; the Company has appeared before the court.

Headcount

The Fincantieri Group had 9,994 employees at 31 December 2011 compared with 10,210 employees at 31 December 2010, broken down as follows:

	2011		2010	
	31.12	Average	31.12	Average
Senior managers	211	220	221	219
Middle managers	379	372	358	359
White collars	3,847	3,787	3,818	3,784
Blue collars	5,557	5,430	5,813	5,617
Total	**9,994**	**9,809**	**10,210**	**9,979**

	31.12.2011	31.12.2010
Fincantieri (Parent Company)	8,082	8,311
Fincantieri Marine Group	1,587	1,594
CETENA	65	69
Fincantieri Marine Systems	40	34
Isotta Fraschini Motori	145	148
Seastema	36	23
Delfi	39	31
Total	**9,994**	**10,210**

Orizzonte Sistemi Navali had 83 employees at 31 December 2011, compared with 89 at 31 December 2010.

Note 30 - cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2011	31.12.2010
Profit/loss (+/-) for the year	10,071	-124,122
Depreciation and amortization	65,768	67,625
Gains/losses (-/+) from disposal of property, plant and machinery	540	-839
Revaluation/impairment (-/+) of intangible assets and equity investments	-292	2,804
Increases/releases of provisions for risks and charges	26,466	55,665
Interest and actuarial gains/losses on employee indemnity benefit	1,635	2,414
Interest income	-26,254	-12,726
Interest expense	12,602	12,103
Income taxes for the year	14,578	-20,941
Non-recurring income/expenses (-/+)		183,200
Gross cash flows from operating activities	**105,114**	**165,183**
CHANGES IN WORKING CAPITAL		
- inventories	10,149	18,249
- construction contracts	94,346	549,297
- trade receivables	129,206	-113,803
- other current assets	-916	-57,668
- other non-current assets	295	-932
- advances from customers	-305	-37,241
- trade payables	-155,371	-160,554
- other current liabilities	9,815	-22,034
- other non-current liabilities	415	6,318
Cash flows from working capital	**192,748**	**346,815**
Interest received	26,603	11,454
Interest paid	-10,460	-12,357
Income taxes paid	-19,308	-21,511
Utilization of provisions for risks and charges	-30,630	-26,709
Utilization of provision for employee indemnity benefit	-9,071	-10,755
NET CASH FLOWS FROM OPERATING ACTIVITIES	**149,882**	**286,937**

Note 31 - events subsequent to 31 december 2011

During January 2012 work started at the Muggiano shipyard on the first of two stealth patrol boats for the UAE Navy. This vessel will be delivered in the second half of the year.

In the same month, work also started at the Riva Trigoso shipyard on building a logistics support vessel for the Algerian Navy.

Local agreements were signed with all the trade union bodies, confirming and supplementing the national agreement made on 21 December 2011, in January 2012 for the Palermo and Ancona sites and on 15 February 2012 for the Sestri Ponente site.

Appendix 1

Consolidated companies

COMPANY NAME Principal activity	Registered office	Share capital	% held		% consolidated by Group
Subsidiaries 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 2,580,000.00 (versato 1,135,200.00)	100.00	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 400,000.00	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
FINCANTIERI DO BRASIL PARTICIPAÇÕES S.A Investment holding company	Brazil	Reais 5,000.00	80.00 20.00	Fincantieri F.Holding BV	100.00
Joint ventures consolidated using the equity method					
ORIZZONTE SISTEMI NAVALI S.p.A. Management of contracts to supply 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 S.p.A.

The key figures for the ultimate Parent Company FINTECNA 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 2010. For an adequate and complete understanding of FINTECNA's assets and liabilities and financial position at 31 December 2011, 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	**31.12.2010**
ASSETS	
Fixed assets	1,578,133
Current assets	2,310,673
Accrued income and prepayments	2,385
TOTAL ASSETS	**3,891,191**
LIABILITIES	
Equity	2,297,022
Provisions for risks and charges	1,476,630
Employee indemnity benefit	6,770
Payables	110,501
Accrued expenses and deferred income	268
TOTAL EQUITY AND LIABILITIES	**3,891,191**
MEMORANDUM ACCOUNTS	**7,152,416**
INCOME STATEMENT	
Value of production	141,965
Cost of production	-50,870
Finance income and costs	42,688
Adjustments to financial assets	-346,122
Extraordinary income and expenses	17,500
PROFIT BEFORE TAX	**-194,839**
Income taxes	-1,545
PROFIT/LOSS (+/-) FOR THE YEAR	**-196,384**

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 Ships

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 business unit builds 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 shipbuilding orders, including additions and amendments to such orders, secured by 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

The business of refitting ships that are obsolete or no longer fit for use after changes in the law and/or regulations.

Ship repairs and conversions

The business of 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 the technology and expertise in its nationwide network of suppliers and subcontractors.

Marine systems and components

The business of producing and selling marine 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.

REPORT BY THE BOARD OF STATUTORY AUDITORS

Dear Shareholders,

We have examined the Fincantieri Group's consolidated financial statements at 31 December 2011 drawn up in accordance with IFRS (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 2011.
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.

Rome, 16 February 2012

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 2011.
2. The adequacy of the accounting and administrative processes for preparing the consolidated financial statements at 31 December 2011 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 is 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.

15 February 2012

Chief Executive Officer	Manager responsible for preparing financial reports
Giuseppe Bono	Carlo Gainelli

REPORT BY THE INDEPENDENT AUDITORS

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 2011 which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, 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 consolidated 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 14 April 2011.

3 In our opinion, the consolidated financial statements of the FINCANTIERI Group as of 31 December 2011 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 2011.

Trieste, 23 February 2012

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.

PricewaterhouseCoopers SpA

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CORPORATE BOARDS

FOLLOWING THE RESOLUTIONS OF THE SHAREHOLDERS' MEETING

Board of directors

(2012-2014)

Chairman	ANTONINI Corrado
Chief Executive Officer	BONO Giuseppe
	CUCCURULLO Olga
	DOMINEDÒ Pierpaolo
	VARAZZANI Massimo
Secretary	CASTALDO Maurizio

Remuneration committee

Chairman	VARAZZANI Massimo
	CUCCURULLO Olga
	DOMINEDÒ Pierpaolo

Board of statutory auditors

(2011-2013)

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

Manager responsible for preparing financial reports

GAINELLI Carlo

Independent auditors

(2012-2014)

PricewaterhouseCoopers S.p.A.

FINCANTIERI
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