ANNUAL REPORT **2012**

FINCANTIERI
The sea ahead

ANNUAL REPORT 2012

FINCANTIERI

GIUSEPPE BONO
CHIEF EXECUTIVE OFFICER OF FINCANTIERI

Dear Shareholders,

The year 2012 was a challenging one for Fincantieri in the face of a complex global environment, marked by increased competitive pressure and continued market depression but with opportunities of growing strategic importance in the area of high-value new generation ships. This trend is confirmed by the fact that the merchant shipping industry's investments in new vessels amounted to approximately USD 100 billion, in line with the 2011 figure, while reporting a 20% decrease in compensated gross tonnage. Unfortunately, the level of orders is still insufficient to ensure proper utilization of worldwide production capacity, with consequent pressure on prices. Fincantieri faces a shipping industry that is cautious about investment and wary of depressing fleet profitability, already under pressure due to the growth in operating costs, primarily sparked by the growth in bunker fuel price. The absence of speculative behavior, at least, is helping accelerate the process of industry rebalancing, in readiness for a medium-term recovery in demand.
In the military field, defense budget cuts, especially in Europe and the United States, are heightening the strategic importance of export markets that more and more often are demanding the transfer of technology or local construction.
With regard to Fincantieri's sectors of operation, the cruise industry has once again demonstrated flexibility and responsiveness to the crisis. Analysts are forecasting 3.8% average annual growth in cruise passenger numbers, an estimate that nonetheless reflects very prudent assumptions about expected growth in the Asian tourist market.
The number of negotiations finalized or whose financial aspects are in the process of being settled, together with demand for new generation ships and the entrance of a new player into this sector, reflect a relative improvement in the market and renewed confidence in its potential. It remains true, however, that the number of orders is still below pre-crisis levels, and, above all, that the conclusion of every contract depends on the intervention of export credit agencies.
Within this context, the agreements signed by Fincantieri, which include all the new orders for prototype ships, reward its ability to innovate and demonstrate the effectiveness of its commercial endeavors. In fact, Fincantieri has not only confirmed its relationship with the Carnival Group, but has also diversified its customer base with the acquisition of Viking Ocean Cruises, a leader in river cruises but a newcomer to ocean cruising.
In the ferries segment, still characterized by stagnant demand despite an increasingly old fleet, Fincantieri's highly innovative product range has had success: in fact, it has secured an order for a 130-meter vessel from Société des traversiers du Québec, a Canadian company.

The vessel is equipped with dual fuel propulsion and meets the highest standards in terms of energy saving and low environmental impact; in other words, it incorporates the requirements of tomorrow's market.
In the recovering mega yachts market, Fincantieri has received a prestigious award: the "Serene", delivered in 2012 as its first ship for this market and one of the world's ten largest yachts at 134 meters long, won the award for best boat of the year in its category at the seventh edition of the World Superyacht Awards.
In the military field, the need to secure foreign contracts, including through technology transfer, requires careful market selection; Fincantieri has accordingly given priority to the Middle East, forming Etihad Ship Building, a joint venture that became operational and secured its first orders in 2012. The US market, for its part, has confirmed expectations with the steady continuation of the Littoral Combat Ship program, assured with the allocation of funds for the construction of two more ships by the subsidiary Fincantieri Marine Group.
The results in the traditional market segments reflect a major commercial effort along with the implementation of the industrial Reorganization Plan, covered by a national agreement signed with the Ministry of Labor and the majority of trade unions in late 2011, and later extended to each individual shipyard and all the other trade unions.
The Plan, which focuses on bringing production capacity into line with reduced market demand, including through the creation of specialist centers, is helping make the business more efficient and competitive. It is therefore an indispensable device in an improving market that nonetheless continues to offer an insufficient volume of orders to saturate shipyard capacity and that is characterized by an inevitable tightening in competition.
Also in implementation of the Reorganization Plan, on 1 February 2013 Fincantieri completed another important step with the signing of a local agreement with the unions at the Castellammare di Stabia shipyard, the last of its eight Italian shipyards to do so. This agreement is of great significance since it ensures, on the one hand, a rebalancing of the workforce for the reduced order backlog and, on the other, increased competitiveness in production thanks to more flexible working practices.
In the Plan, Fincantieri had announced its intention of pursuing a strategy of growth through diversification, identifying offshore oil & gas as its target sector because of its promising development prospects.
In fact, the growth in energy demand and the rise in oil prices are fostering investment in exploration, drilling and production. As far as the shipbuilding industry is concerned, this translates into demand for very diverse products, from drilling and production platforms, to ever higher performance support vessels as exploration, drilling and production move into deeper water with difficult seas and weather.
Fincantieri has thus created a specialist Offshore business unit for the marketing and production of high-end vessels, such as deepwater drillships and other support vessels for offshore activities.
However, it would be virtually impossible for Fincantieri to establish itself in this sector by internal lines alone because of the need to acquire new skills and technical resources, to develop a comprehensive product range, to establish relationships with a specialized market and to compete with large players or those who enjoy a competitive advantage due to their geographical location near the major oil fields.

In other words, an internal route would require not only large investments but above all a long time.

Fincantieri has therefore decided to implement its offshore entry strategy by acquiring a leading player. This decision has been realized with the completion on 23 January 2013 of the acquisition of 50.75% of STX OSV, a Norwegian company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels.

This acquisition satisfies the diversification objectives and doubles the Group's size to more than euro 4 billion in revenues and nearly 20,000 employees, spread across 21 yards in 3 different continents, positioning it as one of the top five shipbuilders in the world, preceded by four Korean players, but unique for its product diversification, and as the leading producer in all the shipbuilding industry's high value-added, high-potential segments.

Finally, Fincantieri is convinced that the energy sector can provide wide-ranging opportunities, for example in renewable energy, the exploitation of which requires specialist vessels, such as those for the construction and maintenance of offshore wind farms and offshore structures to exploit marine current or tidal energy.

In line with this strategy, the Systems and Components business unit has signed a partnership agreement with ABB to develop turnkey systems for power generation from renewable sources, such as concentrated solar power and biomass, as well as cogeneration plants.

All the operational and strategic actions taken have been dictated by the will to address the current market complexity and create the conditions to reap the available opportunities for growth.

Confirming the validity of the choices made, Fincantieri has closed 2012 with revenues of approximately euro 2.4 billion, in line with the previous year and with more than 70% coming from exports.

In addition, the year 2012 has delivered a net profit of more than euro 15 million, EBITDA of euro 137 million and a net financial position of euro 480 million, with euro 692 million in available cash.

As testimony to its commercial strength and in guarantee of its operations in the years ahead, Fincantieri has been able to reap almost every available opportunity by entering into agreements for new orders, including options, for a total of euro 6.5 billion, of which euro 1.4 billion in finalized contracts, while the remainder are subject to the conclusion of the related financial packages, involving public and private financial institutions.

In the face of a crisis triggering epochal watersheds in all economic sectors, Fincantieri has had the courage to change, confident of being able to serve the most demanding markets that reward excellence and innovation.

The path towards growth, involving great technical and competitive complexity, has been marked out; once again, therefore, this will require the commitment and creativity of all, from our workforce, whom I thank for the inevitable sacrifices of the past year, to our suppliers who are jointly responsible for the success of our projects, to the financial and political institutions whose support is needed to operate on global markets.

Giuseppe Bono

GIUSEPPE BONO
Chief Executive Officer of Fincantieri

PARENT COMPANY DIRECTORS AND OFFICERS

Board of Directors

(2012-2014)

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

(*) Resigned as Chairman and Director with effect from 31 December 2012
(**) Members of the Compensation Committee

Board of Statutory auditors

(2011-2013)

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

Manager responsible for preparing Financial Reports

GAINELLI Carlo

Independent auditors

(2012-2014)

PricewaterhouseCoopers S.p.A.

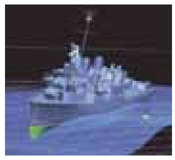
Oversight Board

Italian Legislative Decree 231/01

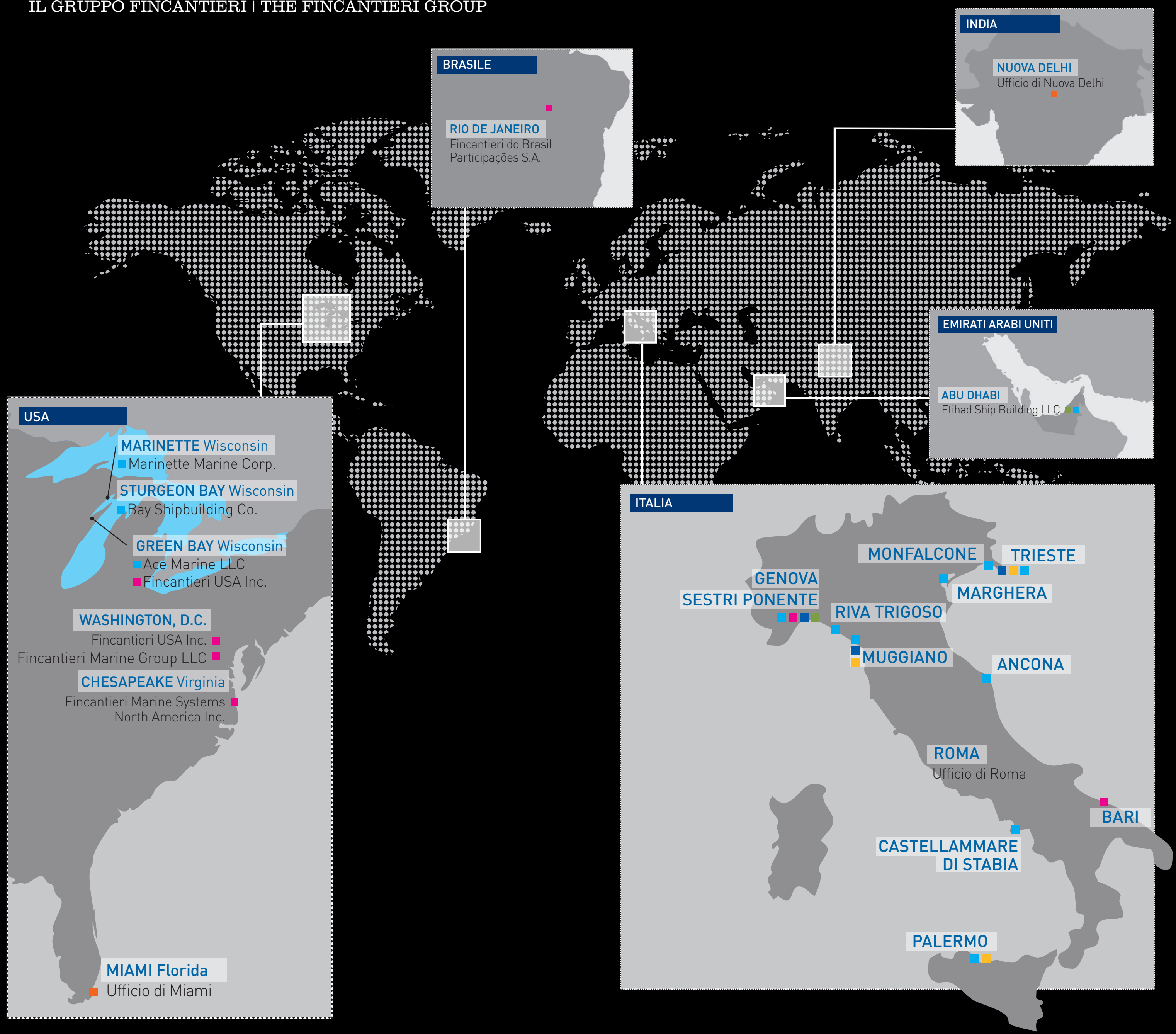
Chairman	ZANARDI Guido
Members	DENTILLI Stefano
	PANI Giorgio

The Group in review

At the close of financial year 2012, 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 YACHTS					
	MERCHANT SHIPS		**SHIP REPAIRS AND CONVERSIONS**	**NAVAL VESSELS**		**MEGA YACHTS**	**OFFSHORE UNITS**	**OTHER ACTIVITIES**
BUSINESS AREAS	 **Cruise ships**	 **Ferries**	 **Ship repairs**	 **Naval Vessels**	 **Marine Systems**	 **Mega Yachts**	 **Offshore**	 **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 - Oceanographic vessels - Barges[1] - AHTS	▪ Systems - Propulsion - Stabilization - Dinamic positioning - Power generation ▪ Components - Steam turbines - Diesel engines	▪ Luxury yachts >70m	▪ Semi-Sub ▪ Drillships ▪ Pipelayers ▪ Multipurpose vessels ▪ Oceanographic vessels ▪ LPG/LNG ▪ FPO/FPSO ▪ Crane/Derrik vessels	▪ 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 ▪ Gestione Bacini La Spezia S.p.A. ▪ Bacini Palermo S.p.A.	▪ Fincantieri S.p.A. – Integrated shipyard Riva Trigoso e Muggiano ▪ FMG LLC – Sturgeon Bay ▪ Marinette Marine Corporation LLC ▪ ACE Marine LLC ▪ Delfi S.r.l. ▪ Orizzonte Sistemi Navali S.p.A. ▪ 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 Oil&Gas S.p.A.	▪ Fincantieri S.p.A. – Corporate ▪ Fincantieri USA Inc. ▪ Fincantieri Marine Group Holdings Inc. ▪ Fincantieri Holding BV ▪ Cetena S.p.A. ▪ Seaf S.p.A. ▪ Fincantieri do Brasil Participações S.A.

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



ITALIA

TRIESTE

- DIREZIONE GENERALE
- NAVI MERCANTILI
- RIPARAZIONI E TRASFORMAZIONI NAVALI
- OFFSHORE
- ARSENALE TRIESTINO SAN MARCO
- BACINO

GENOVA

- NAVI MILITARI
- MARINE SYSTEMS
- ORIZZONTE SISTEMI NAVALI S.p.A.
- CETENA S.p.A.
- DELFI S.r.l.
- SEASTEMA S.p.A.

MONFALCONE

- CANTIERE

MARGHERA

- CANTIERE

ANCONA

- CANTIERE

BARI

- ISOTTA FRASCHINI MOTORI S.p.A.

PALERMO

- CANTIERE
- BACINO

CASTELLAMMARE DI STABIA

- CANTIERE

MUGGIANO

- MEGA YACHTS
- CANTIERE
- BACINO

RIVA TRIGOSO

- CANTIERE

SESTRI PONENTE

- CANTIERE

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.
- UFFICIO DI MIAMI

EMIRATI ARABI UNITI

- ETIHAD SHIP BUILDING LLC

INDIA

- UFFICIO DI NUOVA DELHI

BRASILE

- FINCANTIERI DO BRASIL PARTICIPAÇÕES S.A.

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
- representative offices

FINCANTIERI

FINCANTIERI GROUP REPORT ON OPERATIONS

Operating performance

Dear Shareholders,

Your company has closed financial year 2012 with a profit in excess of euro 15 million, an improvement on the prior year, and EBITDA of euro 137 million, on revenues, despite the industry's continuing difficulties, that came in at approximately euro 2.4 billion, of which more than 70% from the export market.

The strength of the Group's capital and financial structure is demonstrated by the fact that net financial position is a positive euro 480 million, with euro 692 million in available cash, and that equity amounts to euro 957 million, of which euro 309 million in retained earnings from previous years. The financial statements also include euro 101 million in provisions that are more than adequate to cover specific risks and potential charges.

These positive results have been obtained in a market environment in which Fincantieri has displayed its commercial strength and succeeded in making the best of the available opportunities, by finalizing agreements for new orders, including options, worth a total of euro 6.5 billion, inclusive of all the cruise industry's orders for new prototype ships. This figure includes euro 1.4 billion in finalized contracts, while the remainder are all subject to the conclusion of the related financial packages, involving public and private financial institutions.

The new orders reflect a slowly improving market trend, which at present is unable to generate a sufficient order backlog to saturate capacity at all the Group's Italian yards. During the year Fincantieri continued to carry out the Reorganization Plan, covered by a national agreement signed at the end of 2011 with the Ministry of Labor and the majority of trade unions, and which included actions not only to adjust production capacity to reduced market demand but also to diversify the business.

With regard to production capacity adjustment, 333 staff left the Parent Company during the year, while an average of 1,463 employees were temporarily laid off using the Extraordinary Wage Guarantee Fund.

With regard to business diversification, during the year Fincantieri formed a specific offshore business unit and on 21 December 2012 it signed an agreement to acquire 50.75% of STX OSV, a company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels for the oil and gas extraction and production industry, which in the past three years has generated average revenues of approximately euro 1.6 billion and EBITDA of around euro 190 million. The closing of the transaction took place on 23 January 2013.

This acquisition doubles the Group's size to more than euro 4 billion in revenues and nearly 20,000 employees, spread across 21 yards in 3 different continents, making it one of the top five shipbuilders in the world, with the first four all Korean. This acquisition also positions Fincantieri as the leading producer in every high-end segment of the shipbuilding industry.

Group Positioning

Fincantieri strengthened its position in 2012 in every market sector in which it operates, with the acquisition of major orders for high-tech ships confirming its ability to design and build the most complex vessels currently on the market.

In particular, as reported earlier, in the cruise segment Fincantieri signed agreements for all the new prototype cruise ships ordered in 2012, strengthening its relationship with its main customer, Carnival, and diversifying its customer base to newcomer cruise lines like Viking Ocean Cruises.

In the ferries segment, Fincantieri demonstrated its acknowledged capacity for product innovation by securing an order during the year from Société des traversiers du Québec, a Canadian company, to build a dual fuel next generation ferry with an innovative propulsion system.

In the naval vessels segment, the new orders for two additional Littoral Combat Ships and the development of ongoing building programs for the Italian Navy and other important foreign navies confirm Fincantieri's position of technological leadership in the design and construction of every type of non-nuclear military ship.

In the mega yachts segment, Fincantieri delivered the "Serene", its first ship for this market, which is one of the world's ten largest yachts at 134 meters long and during 2012 won the award for best boat in the category "displacement motor yacht 3000 GT and above" at the seventh edition of World Superyacht Awards. Fincantieri has also managed to enter the maintenance activities segment of this market with an order, fulfilled during the year, to refit the mega yacht "Eclipse".

As reported earlier, to strengthen its position, Fincantieri not only set up the offshore business unit during the year but also signed an agreement late in 2012 to acquire 50.75% of STX OSV. This acquisition allows the Group to enter the offshore market segment as world leader in the construction of support vessels for the oil and gas extraction and production industry, a market segment complementing those hitherto occupied.

Key financial highlights

		2012	2011
New orders (*)	Euro/million	1,394	1,863
Order portfolio (*)	Euro/million	7,817	8,361
Order backlog (*)	Euro/million	4,735	5,373
Capital expenditure	Euro/million	89	78
R&D	Euro/million	62	55
Employees at year end	Number	10,240	9,994
Revenues	Euro/million	2,385	2,382
EBITDA	Euro/million	137	138
EBIT	Euro/million	77	72
Profit/loss (+/-) before extraordinary income and expenses (**)	Euro/million	56	60
Extraordinary income and expenses (+/-)	Euro/million	-41	-51
Profit for the year (**)	Euro/million	15	9
Net invested capital	Euro/million	477	785
Equity	Euro/million	957	951
Net financial position	Euro/million	480	166
Free cash flow	Euro/million	292	82
Ships delivered (***)	Number	4	8

(*) Net of eliminations and consolidations.
(**) The comparative figures have been restated to reflect early adoption of IAS 19 (Revised).
(***) Number of ships over 40 meters long.

Results

The main financial results are as follows:

- **Revenues**: are broadly in line with 2011 at euro 2,385 million;
- **EBITDA**: amounts to euro 137 million, with a margin of 5.7%;
- **Profit/loss before extraordinary income and expenses**: reports a profit of euro 56 million;
- **Extraordinary income and expenses**: report euro 41 million in net expenses for events falling outside the normal course of business, the most important of which were employer costs for the Wage Guarantee Fund, as well as various increases in provisions for risks;
- **Profit/loss for the year**: is a profit of more than euro 15 million, an improvement on the corresponding figure in 2011 (euro 9 million);
- **Net financial position**: reports euro 480 million in net cash, an improvement on the net cash position of euro 166 million in 2011, reflecting the positive balance between cash receipts for ships due for delivery and production activity outlays.

New orders and the order portfolio

Fincantieri secured euro 1,394 million in new orders during 2012.

In the Merchant Vessels business:

- a contract was signed in July with Viking Ocean Cruises to build two cruise ships with a gross tonnage of 47,000 tons and passenger capacity of 944, which will be delivered at the start of 2015 and 2016 respectively;
- a contract was obtained from Société des traversiers du Québec in Canada to build a next generation ferry, that will adopt the most advanced standards regarding energy saving and environmental impact;
- partly thanks to the flexibility provided by a network of 8 Italian shipyards, Fincantieri was awarded the contract to build 30 watertight chambers for use in refloating the "Costa Concordia", which, given the tight delivery schedule, will be built in parallel at different Group shipyards;
- a total of euro 66 million in new orders were also secured for ship repairs and conversions.

In the Naval Vessels business unit, the US subsidiary Fincantieri Marine Group secured the following orders:

- two additional Littoral Combat Ships for the US Navy, the third and fourth under a contract to build ten such ships, for which the US Navy can exercise the remaining options by 2015;
- another 40 RB-Ms (Response Boats-Medium) for the US Coast Guard.

The Systems and Components business secured new orders worth euro 77 million in relation to:

- parts and engines for marine applications, including orders for four 1716 propulsion engines for hydrofoils (Ustica Lines), 22 propulsion engines for the US Navy's LCS and JHSV programs and for the US Coast Guard, as well as, again in the military market, the implementation of diagnostic monitoring systems for the diesel generator groups of six FREMM frigates and nine non-magnetic 1312 engines for minesweepers of the South Korean Navy;
- steam turbines, of which 2 sold to the export market, and 4 stabilizers, of which 3 for export;
- integrated automation systems for merchant ships and an emergency shutdown system for military vessels.

In the after-sales sector, a contract was secured to manage logistics relating to the Corvette for the United Arab Emirates, as well as an order for the routine maintenance of the submarine "Todaro".

At the year-end reporting date, the Fincantieri Group's order portfolio was worth euro 7,817 million (euro 8,361 million at the end of the prior year). The associated order backlog was equal to euro 4,735 million (euro 5,373 million in 2011).

Capital expenditure – R&D and innovation

Capital expenditures of euro 89 million mainly relate to completion of projects started in previous years to enhance production efficiency and improve safety and environmental standards.

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 62 million in 2012 to develop several projects relating to product and process innovation, that will let it maintain its leadership in all high-tech market sectors in the future as well.

Dividends

It is proposed to distribute a dividend of euro 4 million for financial year 2012; this distribution will be made by using part of the Parent Company's profit for the year.

Competitive scenario

The shipbuilding industry continues to experience global difficulty, in a market environment offering the prospect of recovery only in the medium term.

While the current crisis is helping weed out the competition, it is also increasing competitive pressure in niche sectors (cruise ships and offshore) considered attractive because of high ship values and market resilience.

As for the main geographical areas of production:

- in China, top management at China State Shipbuilding Corporation, the country's largest state-owned shipbuilding conglomerate, estimate that 50% of Chinese shipyards might not survive the crisis, being unable to move quickly into segments other than those of "first entry" (tankers and bulk carriers);
- the leading Korean shipbuilders have achieved satisfactory results only through a strategy of product diversification into the offshore sector;
- the European industry has secured between 3% and 9% of world demand in the past four years, corresponding to an insufficient volume of orders to saturate its production capacity. The distress in Europe is also reflected in the employment figures: in fact, more than 50,000 direct jobs have been lost since 2008.

Business Units

Merchant vessels

Markets

Shipping in general

Demand for new merchant ships in 2012 was 20% below that of the previous year at approximately 26 million CGT. Investments in new build are estimated at about USD 100 billion, in line with the 2011 figure.
New orders for standard container ships, constituting most of the market, are at a standstill, confirming the continued imbalance between demand and supply and reflecting the financial difficulties afflicting the shipping industry. This situation is putting pressure on new-build prices, which have come down by as much as 35%-45% from the peaks in 2007.
Markets for high-tech ships are proving to be more lively, demonstrating the fact that shipowners are prepared to apply targeted investment policies where specialist vessels are concerned.

CARNIVAL BREEZE
Carnival Cruise Lines
2012
Monfalcone shipyard

Cruise Ships

Analysts are predicting 3.8% average annual growth in cruise ship passenger numbers until 2020, confirming the industry's high responsiveness and flexibility.

However, this forecast includes prudent estimates for the tourist market in the Far East and particularly China, considered a high-potential market by all the analysts. In fact, international cruise operators have begun to move their ships into these regions as well, and have been recently joined by local players who have started experimental routes with used or chartered vessels.

In this context shipowners have nonetheless adopted a cautious approach in recent years, and have sought to calibrate new investments without depressing fleet profitability, which is being negatively impacted by the growth in operating costs, mainly through higher fuel prices. As a result, the number of cruise ships ordered in the past four years has halved compared with the pre-crisis period.

Over the past year, however, the large number of sales negotiations indicates renewed market vitality and business confidence among shipowners. In particular, Fincantieri has been able to sign agreements for all the prototype vessels currently demanded by the market.

Carnival

Compagnie des Îles du Ponant

Costa Crociere

Cunard

Holland America Line
A Signature of Excellence

Oceania Cruises

P&O Cruises

Princess Cruises
escape completely

Silversea

Viking Ocean Cruises
Exploring the World in Comfort

NORDLINK
Finnlines
2007
Ancona shipyard

Ferries

Even in 2012 demand for new ferries was extremely low. Despite the need to replace an increasingly old fleet, shipowners are faced with a financial system that is unwilling to finance new investments due to the sector's low profitability resulting from higher fuel costs and lower passenger and freight traffic.

A possible source of recovery could come from the spread of gas-powered ships, whose development is nonetheless linked to creating adequate refueling facilities in ports, especially in the Mediterranean.

During the year Fincantieri secured an order for a particularly innovative and complex ferry from Société des traversiers du Québec in Canada. This 130-meter vessel will adopt the highest standards in terms of energy saving and environmental impact and will be certified with the top classification envisaged by international registers of shipping.

Repairs and Conversions

Like in the case of new build, there are good development prospects for repairs and conversions only for high value-added work, such as conversion/transformation of offshore vessels and modernization of passenger ships.

In particular, the passenger ships sector is seeing a number of programs to refurbish/upgrade existing vessels, in some cases involving high figures and many hours of work. Fincantieri has been awarded a contract by the Carnival Group to transform the Carnival Destiny into the Carnival Sunshine; it has also entered the mega yachts maintenance market after fulfilling an order during the year to refit the mega yacht "Eclipse".

In the future, ship repairs/conversions could also benefit from demand for retrofitting linked to the need to modernize vessels to comply with new regulations on emissions and environmental protection.

SAIPEM 3000
ATSM dock

Operations

(Euro/million)	2012	2011
New orders	787	1,187
Order portfolio	2,837	3,539
Order backlog	2,167	2,327
Capital expenditure	51	38
Ships delivered (no.)	3	4

New orders

During 2012 a contract was signed with Viking Ocean Cruises to build two cruise ships with a gross tonnage of 47,000 tons.

During the year a contract was also secured from Société des traversiers du Québec in Canada to build a next generation ferry.

Lastly, Fincantieri was awarded the contract, to be fulfilled by several of the Group's yards, to build 30 watertight chambers for use in refloating the "Costa Concordia".

A total of euro 66 million in orders were placed for ship Repairs and Conversions.

Order portfolio

The order backlog of the Merchant Vessels business unit stood at euro 2,167 million at the end of 2012 against euro 2,327 million at the end of 2011; this is not sufficient to fully utilize production capacity at all Fincantieri's shipyards in the short/medium term, meaning it will be necessary to make temporary lay-offs at some operating units using the Wage Guarantee Fund.

The order portfolio amounted to euro 2,837 million at the end of 2012, compared with euro 3,539 million at the end of 2011.

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 14.3 million): work on constructing the new robotic line for welding sub-assemblies and the start of construction of the automatic hull sections welding equipment, which will make the hull production process more efficient and improve product quality to meet the highest industry standards and optimize production cycle logistics in the shipbuilding workshop;
- Marghera (euro 18.1 million): the start of work that will allow building of the larger ships demanded by the market, in particular the construction of a fourth workshop for sandblasting and painting hull sections, the modernization of part of the lifting systems, and the upgrading of equipment to the highest standards of safety;
- Sestri (euro 2.0 million): continued work on systems and equipment safety;

- Ancona (euro 2.8 million): upgrade of the equipment for automatic welding of hull sections and installation of machinery for the new outfitting wharf;
- Castellammare (euro 1.4 million): continued work on upgrading plant, machinery and facilities to current standards;
- Palermo (euro 2.4 million): the construction of a new gate for the graving dry dock;
- Sestri (euro 8.3 million): construction in progress of the new barge "Atlante". This work, which is expected to be completed in 2014, will allow semi-completed complex structures to be transferred from one yard to another.

Production

Production activities in 2012 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Cruise Ships	3	2	3
Cruise Ferries			
Repairs and conversions			51 (*)

(*) Number of completed orders for repairs and conversions

Ships delivered (or orders completed for repair and conversions) were as follows:

- Oceania Riviera, a 66,000 GT super-luxury cruise ship, delivered to Oceania Cruises by the Sestri Ponente shipyard;
- Costa Fascinosa, a 114,500 GT cruise ship, delivered to Costa Crociere by the Marghera shipyard;
- Carnival Breeze, a 130,000 GT cruise ship, delivered to Carnival by the Monfalcone shipyard;
- The Palermo yard managed the repair of 27 ships and 4 conversions;
- ATSM managed the repair of 20 ships during the year.

Naval vessels, Special vessels and Mega yachts

ASW - ABU DHABI
UAE Navy
Muggiano shipyard

Markets

Naval Vessels

Over the past five years, defense cuts have streamlined programs in order to focus on lower unit value ships with greater operational flexibility.
In particular, after growing in 2011, the naval defense market has declined by 20% in value to around euro 16 billion worldwide, with over 70% of the programs awarded by the various national navies to their respective domestic shipbuilding industries. As a result, non-captive programs have reported an increase in competition and a growing demand for foreign companies to guarantee adequate technology transfer or local construction of at least part of the vessel. This implies the need for foreign producers to enter into agreements with local partners, thus guaranteeing business for the domestic shipbuilding industry, possibly even for less complex civilian ships, and increasing demand for the pro-

vision of complementary activities such as logistics support, crew training and after-sale maintenance services.
In view of these trends, of particular importance is Etihad Ship Building, a joint venture set up by Fincantieri with local partners to further develop the Middle Eastern market and which commenced full operations in 2012. In particular, the local facilities carried out end-of-warranty work on two patrol boats for the Iraqi Navy, built at Fincantieri's Italian yards.

US market

Despite the cuts to defense, the US military market remains the largest in the world. During 2012, the US Navy confirmed, with the allocation of additional funds, its continuation of the Littoral Combat Ship (LCS) program under which it had placed an order for 10 ships with the Lockheed Martin-Fincantieri consortium at the end of 2010.
These additional funds will finance the third and fourth ships in the above order that will be built at the Marinette Marine Corporation shipyard, controlled by the US subsidiary Fincantieri Marine Group.
In addition to the two LCSs, the US Coast Guard awarded the US subsidiary an order for 40 more vessels in the "Response Boats-Medium" program, for which Marinette Marine Corporation is the prime contractor.
The acquisition of these orders ensures the continuity and value of the US business and confirms Fincantieri's role as a prime partner of both the US Navy and the US Coast Guard.

Special Vessels

UOS COLUMBIA
Hartmann Logistik
2009
Riva Trigoso shipyard

The offshore vessels market stands out from other shipbuilding sectors for its strength of demand. High oil prices and growing demand for energy are fostering investment in oil & gas exploration, drilling and production.

New-build demand relates to very different types of complex vessels: from drilling and production rigs to support vessels.

In terms of geographical areas, Brazil is confirmed as the industry's new frontier: Petrobras, Brazil's national oil company, currently has plans to have about thirty rigs built by the domestic shipbuilding industry, and has confirmed an investment of more than USD 22 billion over coming years.

Other interesting opportunities relate to the growing interest in renewable energy, the exploitation of which requires specialist vessels, such as those for the construction and maintenance of offshore wind farms and offshore structures to exploit marine current or tidal energy.

Also in the area of clean energy, Fincantieri's Systems and Components business unit has entered into a partnership agreement with ABB, a leader in energy and automation technology, to develop turnkey systems for power generation from renewable sources, such as concentrated solar power and biomass, as well as cogeneration plants.

Mega yachts

After suffering a significant post-crisis drop in demand, the mega yachts sector has reported a recovery in demand even if still below the peak seen in 2007. Demand for superyachts has been driven in recent years by increased demand from customers in the BRIC nations (Brazil, Russia, India and China), as well as in the Middle East, with European and US customer numbers generally stable. The competitive environment has seen a consolidation of the strongest players, thanks to their recognized reliability in both construction and financial terms. For its part, Fincantieri is confirmed as a player in this sector with the award of best boat of 2011 to the mega yacht "Serene" in the category "displacement motor yacht 3000 GT and above" at the World Superyacht Awards. At 134 meters long, the Serene of one of the ten largest, most technologically advanced and luxurious yachts in the world and has marked Fincantieri's entry into an exclusive market segment, where it can capitalize on its expertise in building complex, highly innovative, high-tech and high-design vessels.

SERENE
2011
Muggiano shipyard

Operations

(Euro/milioni)	2012	2011
New orders	610	680
Order portfolio	4,980	4,822
Order backlog	2,568	3,046
Capital expenditure	35	38
Ships delivered (no.) (*)	1	4

(*) Ships over 40 meters long.

New orders

The Naval Vessels, Special Vessels and Mega yachts business units secured a number of important orders in 2012, amongst which:

- two additional Littoral Combat Ships for the US Navy, the third and fourth under a contract to build ten such ships, for which the US Navy can exercise the remaining options by 2015;
- another 40 RB-Ms (Response Boats-Medium) for the US Coast Guard.

The Systems and Components business secured new orders worth euro 77 million in relation to:

- parts and engines for marine applications, including orders for four 1716 propulsion engines for hydrofoils (Ustica Lines), 22 propulsion engines for the US Navy's LCS and JHSV programs and for the US Coast Guard, as well as, again in the military market, the implementation of diagnostic monitoring systems for the diesel generator groups of six FREMM frigates and nine non-magnetic 1312 engines for minesweepers of the South Korean Navy;
- steam turbines, of which 2 sold to the export market, and 4 stabilizers, of which 3 for export;
- integrated automation systems for merchant ships and an emergency shutdown system for military vessels.

In the after-sales sector, the value of new orders came to euro 40 million, comprising:

- a contract to manage logistics relating to the Corvette for the United Arab Emirates;
- an order for the routine maintenance of the submarine "Todaro".

Order portfolio

At the end of 2012, the total value of the order portfolio amounted to euro 4,980 million (euro 4,822 million at the end of 2011), while the order backlog stood at euro 2,568 million (euro 3,046 million at the end of 2011). 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, apart from that relating to safety at work and environmental protection, was carried out at the following yards:

- Riva Trigoso shipyard (euro 3.6 million): in the shipbuilding workshops, final installation activities for the new mobile crane for the hull pre-assembly area, and in the engineering workshop, the development of an electrical frequency converter to test onboard equipment and the upgrade of certain machines serving the engineering workshop;
- Muggiano shipyard (euro 3.5 million): the equipping of the uncovered areas used to build mega yachts and continuation of the program of work on the lifting equipment;
- head office of the Naval Vessels business unit (euro 0.2 million): work to maintain the efficiency and safety of buildings and installations and to update work station equipment;
- shipyards in the Fincantieri Marine Group (euro 25.0 million): continued modernization of installations and logistics at the Marinette Marine Corporation shipyards to support development of the Littoral Combat Ship program;
- shipyard of the subsidiary Isotta Fraschini Motori (euro 2.0 million): completion of the investments to update the product range and renew machinery and equipment.

Production

Production activities in 2012 can be summarized as follows:

(number)	Keel laying	Other	Deliveries
Naval vessels	7	5	1
Mega yachts			
Special vessels → 40 m long		2	
Special vessels ← 40 m long			32
Engines			71 (*)

(*) Number of engines produced on site.

In 2012, the Marinette Marine Corporation yard owned by the US subsidiary Fincantieri Marine Group delivered the "Fort Worth" under the Littoral Combat Ship program, while the ACE Marine yard delivered 32 Response Boats-Medium commissioned by the US Coast Guard.

Other activities

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

- CETENA research center;
- ELNAV, a subsidiary that modified its business purpose during 2012 and changed its name to Fincantieri Oil & Gas S.p.A.;
- 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 activities by the Parent Company involving management and coordination.

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.

Activities

CETENA carries out and promotes basic and applied research activities in shipbuilding and ship propulsion and in the marine sector in general, for its parent Fincantieri and for others. It acts as a coordinator or partner within European research consortia, also in collaboration with universities, scientific institutions and research centers both in Italy and abroad.

Fincantieri Holding BV continues to manage 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 2012 and 2011, 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.

For the sake of a consistent reading of these tables, the results for 2011 have been restated to take account of the early adoption of IAS 19 (Revised), while capitalized internal costs have been reclassified as a direct deduction from the expense category to which they refer.

Reclassified consolidated income statement

(Euro/million)	2012	2011
Revenues	**2,385**	**2,382**
Materials, services and other costs	-1,722	-1,765
Personnel costs	-507	-458
Provisions and impairment losses	-19	-21
EBITDA	**137**	**138**
Depreciation and amortization	-60	-66
EBIT	**77**	**72**
Finance income/costs (+/-)	-2	1
Income/expense (+/-) from investments	1	1
Income taxes	-20	-14
Profit/loss (+/-) before extraordinary income and expenses	**56**	**60**
Extraordinary income/expenses (+/-)	-41	-51
Profit/loss for the year (+/-)	**15**	**9**

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

- **Revenues**: are broadly in line with 2011 at euro 2,385 million;
- **EBITDA**: amounts to euro 137 million, with a margin of 5.7%;
- **Finance income and costs and income and expense from investments**: report a net negative euro 1 million, comprising euro 2 million in net finance costs and euro 1 million in income from investments, reflecting equity accounting for joint ventures;
- **Income taxes**: report a charge of euro 20 million in 2012, which comprises national current and deferred taxes as well as income taxes relating to foreign subsidiaries;
- **Profit/loss before extraordinary income and expenses**: reports a profit of euro 56 million;

- **Extraordinary income and expenses**: report euro 41 million in net expenses for events falling outside the normal course of business, the most important of which were employer costs for the Wage Guarantee Fund, as well as various increases in provisions for risks;
- **Profit/loss for the year**: is a profit of more than euro 15 million, an improvement on the corresponding figure in 2011 (euro 9 million).

Reclassified consolidated statement of financial position

(Euro/million)	31.12.2012	31.12.2011	Variazione
Intangible assets	104	110	-6
Property, plant and equipment	585	555	30
Equity investments and other financial assets	23	23	
Invested capital	**712**	**688**	**24**
Inventories and advances	273	276	-3
Construction contracts – assets	-52	153	-205
Trade receivables	261	272	-11
Other assets	293	378	-85
Advances from customers	-4	-4	
Trade payables	-595	-576	-19
Provisions for risks and charges	-101	-114	13
Other liabilities	-239	-223	-16
Working capital	**-164**	**162**	**-326**
Employee indemnity benefit	**-71**	**-65**	**-6**
Net invested capital	**477**	**785**	**-308**
Equity	**957**	**951**	**6**
Net financial position	**-480**	**-166**	**-314**

The **consolidated statement of financial position** reports a decrease of euro 308 million in net invested capital, mainly due to the following factors:

- **Invested capital**: has increased by euro 24 million, mostly due to expenditure on property, plant and equipment primarily by the Parent Company;
- **Working capital**: has decreased by euro 326 million, mainly due to a reduction in construction contracts (euro 205 million) and a decrease in other assets (euro 85 million).

Equity reports an increase of euro 6 million, reflecting the positive contribution of profit for the year (euro 15 million), the decrease in the currency translation reserve (euro 2 million) and the recognition in equity of the actuarial valuation of employee indemnity benefit (euro 7 million).

All the above factors have caused the **net financial position** to improve to a net cash position of euro 480 million at year end, with euro 692 million in available cash.

Consolidated net financial position

(Euro/milioni)	2012	2011
Cash and cash equivalents	**692**	**387**
Current financial receivables	**54**	**55**
Bank overdrafts	-3	-6
Current portion of bank loans	-22	-22
Other current financial liabilities	-133	-196
Current cash/debt (+/-)	**-158**	**-224**
Net current cash/ debt (+/-)	**588**	**218**
Non-current financial receivables	**75**	**72**
Non-current bank loans	-181	-121
Other non-current financial liabilities	-2	-3
Non-current debt (-)	**-183**	**-124**
Net non-current debt (-)	**-108**	**-52**
NET FINANCIAL POSITION	**480**	**166**

Reclassified consolidated statement of cash flows

(Euro/milioni)	2012	2011
EBITDA	**137**	**138**
Income taxes paid	-18	-19
Dividends received and interest received and paid	9	16
Utilization of provision for risks and charges and of provision for employee indemnity benefit	-37	-40
Changes in working capital	316	88
Other changes	-32	-33
Net cash flow from operating activities	**375**	**150**
Cash flow from intangible assets	-3	-4
Cash flow from property, plant and equipment	-85	-74
Cash flow from equity investments	5	10
Free cash flow	**292**	**82**
Net cash flow from financing activities	13	-24
Net cash flows for the year	**305**	**58**
Cash and cash equivalents at beginning of year	**387**	**329**
Cash and cash equivalents at end of year	**692**	**387**

The statement of cash flows reports an improvement in ***free cash flow*** of euro 210 million on 2011. This is primarily attributable to the increase in changes in working capital (euro 228 million).

Research, development and innovation

The Group invested a total of euro 62 million in research, innovation and development in 2012, corresponding to 2.6% of its revenues. Such a commitment is necessary in a persistently difficult market in order to strengthen its competitive position through continuous product and process innovation.
A new type of organization was introduced during the year for Research & Innovation activities so as to ensure better coordination between the different business units and focus resources on priority projects.
In particular, Fincantieri's efforts will be directed towards developing technological solutions to maximize payload, to reduce product and operating costs, and to improve safety, perceived quality, energy efficiency and compliance with rapidly evolving regulations at competitive costs.

Reference framework

The new Horizon 2020 program - the EU Framework Program for funding Research and Innovation in the period 2014-2020 - contains new forms of financial support for research projects in the shape of public private partnerships.
These forms of partnership aim to achieve better synergies between a broader base of stakeholders and stronger leadership by industry which, in turn, is required to ensure a long-term participation and commitment in terms of results and resources allocated to research.
On the European front, numerous initiatives have been developed to deal with the crisis, at a time when competitors in the Far East have long benefited from

huge state aid programs designed to protect the industry and promote green technologies.

The Shipbuilding Framework for innovation aid for the period 2012-2013 entered into force on 1 January 2012 and introduces aid for green product and process innovation. Unfortunately, the Framework has been adopted and funded by all the major shipbuilding countries in Europe, but not by Italy. This puts Fincantieri at a clear competitive disadvantage compared to its major competitors.

Domestically, Fincantieri was an active participant during 2012 in national and regional processes to define a National Strategic Framework and Regional Implementation Plans, in particular for the purposes of designing a "Smart Specialization" strategy focused on the sea, capable of guiding research and innovation activities in the period 2014-2020.

At the same time, the process of establishing Regional Technology Clusters continued, involving application of the funds obtained following the National Operating Program's invitation to apply for funding, closed in the previous year, and participation in the invitation to apply for funding for "Development and strengthening of National Technology Clusters", in which maritime interests were confined to transport issues.

Principal European projects

The BESST research project (Breakthrough in European Ship and Shipbuilding Technologies) for which Fincantieri is the coordinator, as well as an active partner through its Merchant Vessels and Naval Vessels business units, along with 64 other partners, representing the entire shipbuilding innovation chain, is drawing to its scheduled close in early 2013, after more than three years of work.

The GOALDS project (GOAL-based Damage Stability) to increase the safety of cruise ships and ferries was successfully completed at the end of September 2012.

CETENA's work is drawing to a close on the CO-PATCH project to research composite adhesive patches for large structures for both commercial and military use, while the SILENV project (Ships oriented Innovative soLutions to rEduce Noise and Vibrations) was completed.

During 2012 a number of projects involving CETENA funded by the European Defence Agency (EDA) were completed or were about to be completed. These focused on the issues of vulnerability and impact, composite materials and fatigue phenomena. The RACUN project (Robust Underwater Acoustic Communications in Networks) is still in progress.

Principal national projects

The ECOMOS project, sponsored by Italy's Ministry of Education, Universities and Research and involving the participation of CETENA, to conduct research into air pollutant emissions by ships and related reduction systems to comply with evolving international standards, ended in June 2012.

Work continued in 2012 on the SUPERPANAMAX project, which will be completed by June 2013. The project involves developing a design for a new cruise ship that takes account of the rapid changes in international regulations and overcomes the current size constraints of the Panama Canal.

The Group was also active in 2012 in submitting various proposed projects for funding by the Regional Technology Clusters now in operation in the different regions.

Other activities

In the international sphere, Fincantieri and Cetena continue to participate in the program of activities defined by the Cooperative Research Ships (CRS), an organization run by MARIN (Maritime Research Institute Netherlands) and which, for over 40 years, has brought together a select group of international experts in hydrodynamics.

Human resources and industrial relations

Headcount

(number)	2012	2011
Employees at year end:		
Total at year end	10,240	9,994
- of whom in Italy	8,102	8,367
- of whom in Parent Company	7,807	8,082
Average number of employees	10,227	9,809
- of whom in Italy	8,180	8,390
- of whom in Parent Company	7,892	8,110

The Fincantieri Group had 10,240 employees at 31 December 2012, an increase of 246 on a year earlier. Most of this growth is attributable to Fincantieri Marine Group which added 501 people, recording a 31.6% increase on 2011.
In contrast, the Parent Company reported a headcount decrease of 275 (-3.4%) on the prior year, reflecting 333 leavers and 58 joiners.

Industrial relations

Industrial relations during the year primarily focused on managing the actions contained in the Reorganization Plan signed at national level on 21 December 2011 by the Ministry of Labor, Fincantieri and the main trade unions also representing the majority of the Group's workers (FIMCISL, UILM-UIL, UGL Metalworkers, FAILMS and FAILMS CISAL). After signing the agreement, negotiations started at all the yards, with the exception of Castellammare di Stabia for which an agreement was signed at the beginning of 2013, to agree the lay-off of employees using the "mobility" procedure, which offers an incentive to prospective employers to hire those affected. The agreements signed during the year established that voluntary redundancy involving the "mobility" procedure would be applied to a maximum of 729 people, and confirmed the number of surplus employees at 1,573.

With regard to the mechanisms envisaged by the national agreement to manage this surplus, 333 employees left the Parent Company in 2012, through "mobility" procedures, redundancy incentives, outplacements and voluntary redundancies, and 138 staff transferred between offices, while Extraordinary Wage Guarantee Fund was used to lay off 1,463 staff temporarily. In addition to the Parent Company, the Ordinary Wage Guarantee Fund was used by Isotta Fraschini Motori S.p.A. for an average 21 employees, and by Cetena S.p.A for an average 3 employees.

Training and development

The staff training and development program in 2012 carried on along the lines adopted in previous years, by continuing to pursue a policy of efficiency and attention to costs.

The goal as far as training was concerned was to best satisfy the demands of the current transformation process, requiring prompt revision and updating of employee knowledge and specific skills.

Besides the institutional training courses, focused on technical know-how, regulatory updates and the effective use of information systems, a series of ad hoc training programs were started to boost management efficiency.

Particular attention was paid to department heads, for which a training program was started to improve their managerial skills, in view of the rapid changes in business logic and in the market. The positive results of the program's pilot run at the integrated shipyard of Riva Trigoso and Muggiano mean that it will be gradually rolled out from next year to the other sites and yards.

The year 2012 also saw the deployment of safety measures forming part of the "Towards Zero Accidents" project. This started with the definition of safety policy, communicated personally by the CEO in a video conference with all the locations, and ensued with multiple training and information sessions, covering the entire organization at different levels as well as subcontractors.

Employees temporarily laid off using the Wage Guarantee Fund continued to be able to attend retraining and refresher courses thanks to finance from special state-funded programs.

A total of 882 training courses were organized within the Fincantieri Group during 2012, involving 16,755 participants, for a total of 288,216 hours.
In terms of new developments, a performance evaluation program was introduced, in order to further enhance the performance of human resources and incentivize organizational behavior directed at achieving corporate goals.
As regards recent graduate recruits, the High Flyer program for young talent completed its second edition.
Finally, relationships have been forged with training, research and educational institutions and the most important universities, with the aim of strengthening mutual collaboration between the Group and the world of education and research and thus increase its ability to attract the most talented young graduates.

Litigation and privacy

Litigation relating to asbestos continued to be settled both in and out of court in 2012. In view of the trend over the past three years, it is expected that Fincantieri will continue to be involved in similar litigation also in the years ahead.
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

As part of the process started in 2011 to improve its environmental performance, during 2012 Fincantieri defined a Corporate Environmental Policy, which has been published on its website and communicated to all employees via the company intranet and displayed in all areas of the yards which have embarked on the certification process.

The Corporate Environmental Policy's core aspects and principles are as follows:

- maintenance of regulatory compliance;
- preventive approach;
- improvement of environmental performance;
- control and reduction of environmental impacts;
- responsible management of the supply chain;
- promotion of employee awareness;
- adoption of innovative technologies.

With the intent of developing and applying its Environmental Policy to manage the environmental aspects of its activities, products and services, Fincantieri has implemented Yard Environmental Management Systems during 2012.

These management systems are designed:

- to incorporate and implement operationally the principles of the Environmental Policy;
- to prevent, control and mitigate the environmental impacts associated with the activities performed;
- to improve overall environmental performance.

Work has therefore started at the Naval Vessels yards (in Muggiano and Riva Trigoso) to obtain production site certification in accordance with the requirements of the international standard UNI EN ISO 14001.

This work, which is still in progress, has had its first positive results with the issue of Environmental Certification for the Muggiano yard by RINA (Registro Italiano Navale - Italy's ship classification society).
The certification project has also been extended to the Riva Trigoso, Ancona, Sestri and Palermo yards, where Environmental Management Systems are currently being implemented and which are expected to be inspected by the certifying entity in 2013.

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 welfare 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, on the protection of its workers' health and safety, on defense of the environment, and on protection of the interests of its shareholders, employees, customers, 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 principles of the Code. Employee relationships at every level must be based on 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 website and intranet, is publicly displayed at all its offices, has been distributed to every employee and is given to every new employee.

Safety at work

Fincantieri continued the work initiated in the second half of 2011, which involved the launch of the "Towards Zero Accidents" project, the definition of a corporate safety policy and the communication to all its employees and contractors of its renewed resolve to ensure the preservation and protection of personal health and physical integrity as a strategic and essential objective of its activities. In 2012, Fincantieri accordingly focused its attention on the goals of reducing accident rates and on all the activities required by the "Towards Zero Accidents" project.

This undertaking has involved the entire management team in developing the actions needed to achieve these objectives, which in this first full year of the project focused on:

- the involvement and empowerment of all yard managers in the project's objectives;
- the involvement of trade unions nationally and at shipyard level, and of employee safety representatives;
- the involvement and training of all the Company's management;
- the training of all Production Managers in the use all Total Quality techniques to analyze accidents and critical areas of the production process and to identify new preventive measures for adoption using appropriate improvement plans;
- the reorganization of the Prevention and Protection Services;
- the application of the available disciplinary measures;
- the implementation of new forms of communication to spread a new safety culture;
- the involvement of the owners and managers of contractor companies.

The actions taken and the strong and effective involvement of the entire business, including employees of contractors, have certainly initiated a change in culture. This is seen in the increased use of helmets and personal protective equipment and is most evident in the reduction in accident rates well beyond the target set for 2012 of -20% for compensated accidents (involving absences of more than 3 days).

The number of accidents causing workers to lose less than 3 days of work decreased by 49% on 2011 to 56.

During 2012 there were 228 accidents involving compensated absences, 36% down on the prior year.

Overall, there was a 38% reduction in accident rates in 2012, corresponding to a 40% reduction in frequency.

Given the nature of the business, a more accurate assessment of workplace accidents is provided using the accident Frequency and Severity indices as follows:

	2012	2011	Reduction %
Frequency index	32.53	54.05	-40%
Severity index	1.10	1.48	-26%

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 the consolidated financial statements, and that form the basis for decision-making by management and shareholders;
- to monitor business processes and conduct in terms of legal compliance, fairness in business dealings, and observance of legislation relating to the environment, safety at work, corporate crime and corruption involving public authorities.

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").

Risks 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 (being the areas in which 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 enduring worldwide difficulties continue to affect 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 global crisis, with its serious repercussions within 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 these circumstances, the Fincantieri Group has continued its drive to reduce internal costs and improve efficiency, by adopting the mechanisms for 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 negative effects on product quality.

Mitigation

The HR Department constantly monitors the labor market and maintains frequent contact with universities, vocational schools and 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 882 training courses in 2012 with 16,755 participants for a total of 288,216 hours.
Lastly, specific training activities are planned 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 industry, 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 a definite 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 base.
In the Naval Vessels business, participation in international projects like the FREMM program between Italy and France, is very important, as is the Group's expansion into the USA, aimed at securing new opportunities to expand production for the defense sector 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 value-added market segments. As far as civilian vessels are concerned, Fincantieri has focused for some years 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 there is one, that lack the right technical skills, know-how or infrastructure for vessels of this kind.

Description

The pursuit of business opportunities in emerging markets, particularly in the defense sector, represents an opportunity for business expansion that nonetheless leads to increased exposure to country risk and/or risk of international corruption.

Mitigation

In pursuing business opportunities in emerging markets, the Group safeguards itself by favoring commercial prospects that are supported by inter-governmental agreements or other forms of cooperation between States, as well as by creating, within its own organization, appropriate safeguards to monitor the processes at risk.

Risks relating to production outsourcing and supplier relationships

Description

The Fincantieri Group's decision to outsource some of its business 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 carefully selects its "strategic suppliers", which must meet the highest standards of performance. As part of the Supply Chain improvement project, a precise program of supplier performance evaluation has been developed in this regard, ranging from qualitative measurement of the services rendered to the strict observation of safety regulations, in line with the Group's "Towards Zero Accidents" objective.

Risks relating to exchange rates

Description

Currency risk is defined as the uncertainty over income and expenses and receipts/payments caused by fluctuations in the value of shipbuilding contracts or of purchase orders following a change in the exchange rate.
Exposure to currency risk arises when shipbuilding contracts are denominated in a foreign currency and, to some 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

Fincantieri has a policy of financial risk management that defines instruments, responsibilities and reporting procedures, establishing what can be used and the authorization levels required in different situations.

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, along with an obligation to do all that is necessary to conform with such regulations, the costs and liability for which could have a negative impact on the Group's business and results. The Group's activities must also comply with regulations governing the environment and health and safety at work.

Impact

Any change in safety standards or environmental regulations, as well as the occurrence of exceptional or unforeseen events, could cause the Fincantieri Group to incur extraordinary costs in relation to the environment and health and safety at work and in relation to biological damage caused 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").
The commitment to pursue and promote principles of environmental sustainability has been reaffirmed in the Environmental Policy document, which binds the Group to maintain regulatory compliance and to monitor working activities to ensure effective observance of the rules and regulations.
To this end, Fincantieri has adopted suitable organizational models for preventing breach of the relevant regulations, and ensures that such models are continuously reviewed and updated. Fincantieri has recently started to implement and operate an Environmental Management System at its sites with a view to obtaining certification under UNI EN ISO 14001:2004.

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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 Italian subsidiaries, except in special cases, have identified Fincantieri S.p.A. as the entity that exercises their direction and coordination. 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 standardizing 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 22 March 2012 decided that the Board should have five 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 2014. At its first meeting on 29 March 2012, the Company's Board of Directors appointed Giuseppe Bono as Chief Executive Officer and Corrado Antonini as Chairman of the Board of Directors. Corrado Antonini resigned as Chairman and Director of the Company with effect from 31 December 2012.

Independence and integrity requirements, reasons for ineligibility and incompatibility

Further to the request by the principal shareholder to introduce specific rules on the qualifications to serve as a director, the Shareholders' Meeting of 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 is vested with 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 established 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 units;
- concluding agreements relating to major orders;
- buying and selling property.

As part of the powers of ordinary and extraordinary administration delegated by the Board of Directors, the Chief Executive Officer is vested with responsibility for:

- performing every act to administer and manage 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 established by the Board of Directors;
- delegating to company employees or to third parties, within the scope of his own powers, the authority deemed necessary to perform 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 had a significant impact on the business.
The Chairman is the Company's legal representative.

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 sound management principles 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

In 2006 the Ministry of Economy and Finance (MEF) requested Fintecna – Finanziaria per i Settori Industriale e dei Servizi S.p.A., as a company under its control, to amend its by-laws to include the figure of Manager Responsible for Preparing Financial Reports, and the related governance requirements set out in Law 2006/2005.

As a direct consequence, Fintecna instructed its subsidiary Fincantieri to do the same. Fincantieri 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, in compliance with the instructions issued by MEF and reiterated by Fintecna, the mandate granted by the Board of Directors to the Manager Responsible for Preparing Financial Reports excludes interim financial reports, price-sensitive disclosures and the contents of the report on operations from certification.

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

By 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, at the justified proposal of the Board of Statutory Auditors.

The Shareholders' Meeting of 22 March 2012 appointed PricewaterhouseCoopers S.p.A. as independent auditors for the period 2012-2014.

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.

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

Oversight Board

With reference to Fincantieri's organizational structure and in compliance with art. 6-b) of Italian Legislative Decree 231/2001, Fincantieri's Oversight Board has been set up as a collegial 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 Internal Audit function and, if necessary, of outside 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 breaches of the Code of Conduct or the Organizational Model reported by 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 30 July 2012.
When developing the model, the first step was to identify the "risks" which the Company should monitor, in other words those corporate crimes (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 affected by such potential crimes were mapped. A link was therefore drawn between the corporate crimes 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 misdemeanor.
Once the "risks" and areas at risk were identified, the possible ways of committing a misdemeanor 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 corporate crime falling under the scope of Legislative Decree 231/2001.

Transactions with the ultimate parent company and with other group companies

During 2012, the Fincantieri Group and its parent Fintecna, which has maintained the direction and coordination of Fincantieri, joined the Cassa Depositi e Prestiti Group.

During 2012, the Fincantieri Group carried out transactions with Fintecna, its ultimate parent company, and with certain companies in the Fintecna Group and with Cassa Depositi e Prestiti and with certain companies in the Cassa Depositi e Prestiti 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 transactions – disclosed in detail in the "Notes to the financial statements" – are always conducted on an arm's length basis.

Other information

Significant events after the end of the reporting period

Following signature of the agreement on 21 December 2012, on 23 January 2013 Fincantieri completed the acquisition from STX Europe of 50.75% of STX OSV, a company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels for the oil and gas extraction and production industry. The acquisition was made through its subsidiary Fincantieri Oil & Gas S.p.A. which acquired 50.75% of STX OSV at a price per share of SGD 1.22 (at a discount of 12.9% on the closing price of SGD 1.40 on 20 December and of 17.5% on the weighted average price in the previous three months of SGD 1.48 per share), equating to a total value of some euro 455 million (around SGD 730 million).

The ultimate value of the transaction will depend on the number of acceptances of the mandatory public tender offer for the remaining shares, made in accordance with the rules of the Singapore Stock Exchange.

The offer circular for the bid for the remaining shares at a price of SGD 1.22 per share was filed on 13 February 2013; the offer's acceptance rate as at 26 February 2013 was equal to 0.009%.

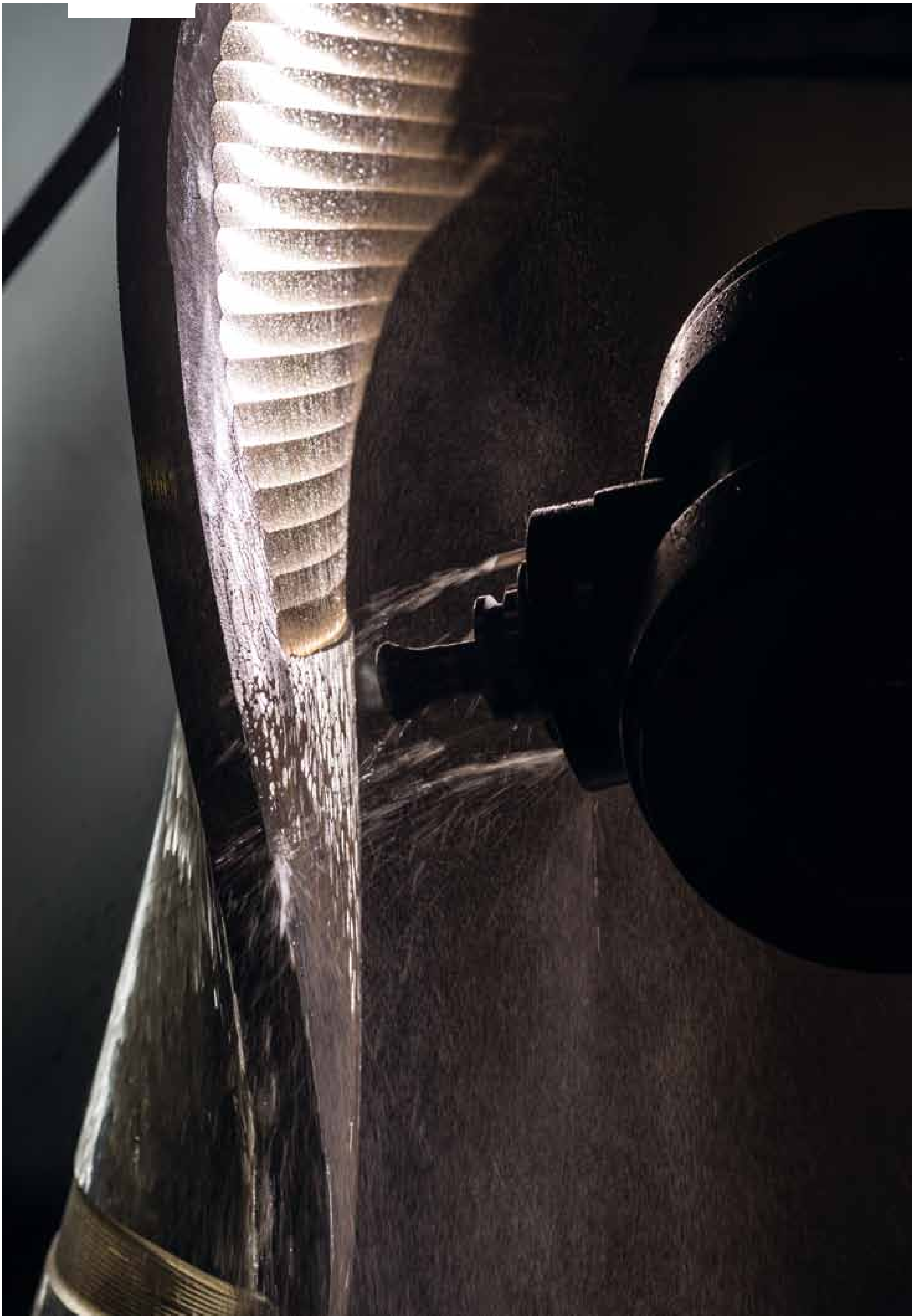
The total value of the transaction will be financed mainly from Fincantieri's internal resources and using a bank loan from a syndicate of banks comprising Banca IMI, BNP Paribas (Italian branch), Carige and Unicredit and will also involve the participation of Cassa Depositi e Prestiti as a lender guaranteed by SACE.

This acquisition marks Fincantieri's entry into a complementary market segment to those covered up until now and is expected to generate an increase in production volumes, the benefits of which will have a positive impact across the Group.

On 14 February 2013, STX OSV announced that it had secured three new contracts to build an equal number of Offshore Subsea Construction Vessels for Farstad Shipping, Solstad Offshore and Dof Subsea.
On 8 January 2013, a delivery ceremony was held at Fincantieri's Muggiano shipyard for two vessels for the United Arab Emirates Navy (the "Abu Dhabi Class" corvette and the "Ghantut" patrol vessel).
Lastly, in implementation of the Reorganization Plan, on 1 February 2013 a local agreement for the Castellammare di Stabia yard was finally signed with the trade unions, the last of Fincantieri's eight Italian shipyards to do so. This agreement is of great significance since it ensures, on the one hand, a rebalancing of the workforce for the reduced order backlog and, on the other, increased competitiveness in production thanks to more flexible working practices.

Business outlook

With the acquisition of STX OSV, which will be consolidated from the current year, 2013 marks the Group's entry into a new high value-added market, as part of the moves to diversify production started in previous years and considered, along with implementation of the Reorganization Plan, essential to consolidate and strengthen Fincantieri's market position and to mitigate the effects of the crisis hitting the worldwide shipbuilding industry.
The Reorganization Plan continues to be carried out and, having saved all the existing Italian shipyards, it will seek to rebalance the workforce to match order backlogs, while increasing the levels of flexibility and productivity.
This, combined with the finalization of agreements for new ships that are dependent on defining the related financial aspects, will make it possible to achieve another set of positive financial results in 2013.



FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

(Euro/000)	Note	31.12.2012	31.12.2011
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6	104,004	110,247
Property, plant and equipment	7	584,672	554,805
Equity-accounted investments	8	14,976	14,076
Other investments	8	1,697	1,671
Financial receivables	9	75,595	71,985
Other receivables	9	11,435	11,957
Deferred tax assets	10	113,072	120,685
Total non-current assets		**905,451**	**885,426**
CURRENT ASSETS			
Inventories and advances	11	273,472	276,241
Construction contracts – assets	12	516,650	977,696
Trade receivables and other assets	13	382,102	428,821
Tax receivables	13	52,941	49,676
Financial receivables	14	53,659	99,677
Cash and cash equivalents	15	691,827	387,170
Total current assets		**1,970,651**	**2,219,281**
TOTAL ASSETS		**2,876,102**	**3,104,707**
LIABILITIES AND EQUITY			
EQUITY	16		
Attributable to owners of the parent			
Share capital		633,481	633,481
Reserves and earnings		306,045	300,034
Total Group Equity		939,526	933,515
Non-controlling interests		17,011	17,425
Total Equity		**956,537**	**950,940**
NON-CURRENT LIABILITIES			
Provisions for risks and charges	17	89,215	113,978
Employee indemnity benefit	18	70,757	65,043
Financial liabilities	19	183,278	123,511
Other liabilities	19	73,187	73,897
Deferred tax liabilities	10	32,382	33,081
Total non-current liabilities		**448,819**	**409,510**
CURRENT LIABILITIES			
Provisions for risks and charges	17	11,845	
Construction contracts – liabilities	20	572,467	828,755
Trade payables and other current liabilities	21	727,989	685,494
Current tax liabilities	21	251	6,303
Financial liabilities	22	158,194	223,705
Total current liabilities		**1,470,746**	**1,744,257**
TOTAL LIABILITIES AND EQUITY		**2,876,102**	**3,104,707**

Consolidated statement of comprehensive income

(Euro/000)	Note	2012	2011
Operating revenues	23	2,301,049	2,316,624
Other revenues and income	23	85,742	64,000
Materials, services and other costs	24	-1,731,014	-1,776,844
Personnel costs	24	-528,983	-477,586
Depreciation and amortization	24	-59,896	-65,768
Provisions and impairment losses	24	-35,259	-45,572
Capitalization of internal costs	24	1,163	1,601
Finance income	25	42,983	34,412
Finance costs	25	-41,420	-28,266
Income/expense (+/-) from investments	26	7	-12
Share of profit/loss (+/-) from equity-accounted investments	26	900	420
Income taxes	27	-19,809	-14,128
PROFIT/LOSS FOR THE YEAR (+/-) (A)		**15,463**	**8,881**
Attributable to owners of the parent		*15,343*	*7,666*
Attributable to non-controlling interests		*120*	*1,215*
Basic earnings/loss (+/-) per share (Euro)	28	0.01235	0.00617
Other comprehensive income/losses (+/-) net of tax effect			
Effective portion of profits/losses (+/-) on cash flow hedging instruments	4-16	295	-889
Actuarial gains/losses (+/-) on employee indemnity benefit	16-18	-7,574	1,190
Attributable to non-controlling interests		*-14*	*3*
Gains/losses (+/-) arising on translation of foreign companies' financial statements	16	-2,367	4,257
Attributable to non-controlling interests		*-296*	*536*
Total other comprehensive income/losses (+/-) net of tax effect (B)	16	**-9,646**	**4,558**
Attributable to non-controlling interests		*-310*	*539*
TOTAL COMPREHENSIVE INCOME/LOSS FOR THE YEAR (+/-) (A) + (B)		**5,817**	**13,439**
Attributable to owners of the parent		*6,007*	*11,685*
Attributable to non-controlling interests		*-190*	*1,754*

Consolidated statement of changes in equity

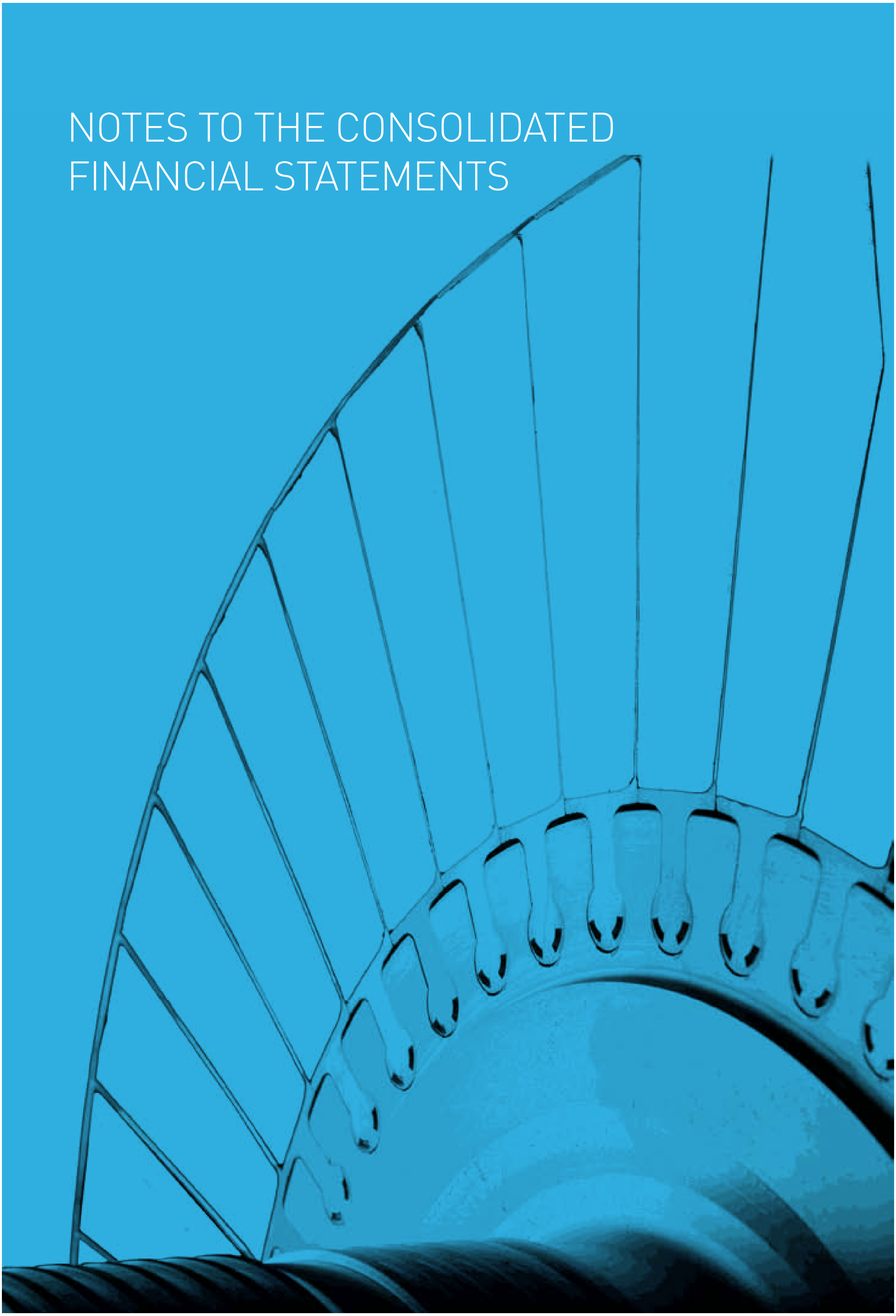
(Euro/000)	Note	Share capital	Reserves and earnings (+/-)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	**Total**
1.1.2011		**633,481**	**288,347**	**921,828**	**15,723**	**937,551**
Share capital increase					153	153
Dividend distribution					-204	-204
Share capital increase - non-controlling interests						
Total comprehensive income 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**
Share capital increase						
Purchase of non-controlling interests					-20	-20
Dividend distribution					-204	-204
Share capital increase - non-controlling interests						
Total comprehensive income for the year			6,007	6,007	-190	5,817
Other changes/roundings			4	4		4
31.12.2012	16	**633,481**	**306,045**	**939,526**	**17,011**	**956,537**

CAVOUR
Italian Navy
2008
Muggiano and Riva Trigoso shipyard

Consolidated statement of cash flows

(Euro/000)	Note	31.12.2012	31.12.2011
NET CASH FLOWS FROM OPERATING ACTIVITIES	29	**374,813**	**149,882**
Expenditure on:			
- intangible assets		-2,407	-3,670
- property, plant and equipment		-86,400	-74,379
- equity investments		-30	
- financial receivables and other assets		-5,607	-16
Disposals of:			
- intangible assets		-354	
- property, plant and equipment		1,393	432
- financial receivables and other assets		10,581	10,033
CASH FLOWS FROM INVESTING ACTIVITIES		**-82,824**	**-67,600**
Changes in medium/long-term loans:			
- proceeds		84,100	6,304
- repayments		-17,080	-12,748
Change in finance lease obligation:			
- repayments		-1,736	-1,684
Change in short-term bank loans and overdrafts		-2,793	792
Change in short-term loans from ultimate parent companies		39	37
Change in other financial liabilities/receivables		-36,254	-13,286
Change in receivables for financial instruments held for trading		-29	-30
Change in payables for financial instruments held for trading		-13,288	-4,067
Dividends paid		-204	-204
Change in non-controlling interests in equity		-20	153
CASH FLOWS FROM FINANCING ACTIVITIES		**12,735**	**-24,733**
NET CASH FLOWS FOR THE YEAR		**304,724**	**57,549**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**387,170**	**329,201**
Effect of exchange rate changes on cash and cash equivalents		-67	420
CASH AND CASH EQUIVALENTS AT END OF YEAR		**691,827**	**387,170**

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 2012 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 contains a summary of Fintecna's 2011 financial statements.

Principal activities of the group

The Fincantieri Group's principal business is the construction of both merchant and naval vessels.
Fincantieri is also active in ship repairs, major ship conversions and the production of mechanical systems and components, and also has a presence in the mega yachts and offshore markets.
The Group operates from 9 shipyards in Italy and 3 in the United States, acquired with 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 the 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 the accounting periods presented in the current document. IFRSs have been applied in Italy and other countries for the first time only recently and several recently published or revised standards lack any precedents for interpretation and application purposes. The consolidated financial statements have therefore been prepared on the basis of the best knowledge of the IFRSs and taking account of best practice; any future guidance and new interpretations will be reflected in subsequent financial years, in the manner required from time to time by the accounting standards concerned.

Accounting standards, amendments and interpretations applicable from 1 january 2012

A brief description of the amendments, improvements and interpretations applicable from 1 January 2012 is provided below. The application of such revisions, where applicable, has not had a material impact on the present consolidated financial statements.

On 7 October 2010, the IASB published a number of amendments to IFRS 7 – *Financial Instruments: Disclosures*, applicable to accounting periods beginning on or after 1 July 2011. These amendments have been made to allow users of financial statements to improve their understanding of transfer transactions involving financial assets and the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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*, is no longer applicable. This amendment is applicable to annual accounting periods beginning on or after 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.

Accounting standards, amendments and interpretations adopted early from 1 january 2012

As from its 2012 consolidated financial statements, the Group has elected early adoption of IAS 19 (Revised), published in the Official Journal of the European Union on 6 June 2012. The amendment to IAS 19 – *Employee Benefits* eliminates the "corridor method" option to defer the recognition of actuarial gains and losses, and requires a defined benefit plan's deficit or surplus to be presented in full in the statement of financial position, its service costs and net interest expense to be recognized separately in profit or loss, and actuarial gains and losses from the annual remeasurement of defined benefit assets and liabilities to be recognized in "Other comprehensive income/(losses)". 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. In this regard, it is noted as follows:

- on first-time adoption of IFRSs, the Group had chosen, from the possible options permitted by IAS 19, to recognize such actuarial gains and losses systematically in the income statement as "Finance income/costs"; the revised version of this standard, as endorsed by the European Commission, requires that, for the purposes of providing more reliable and relevant information, actuarial gains and losses be recognized directly in the "Valuation reserves" forming part of equity, with their immediate recognition in the statement of comprehensive income and not through the income statement. IAS 19 (Revised) therefore excludes the option of systematically recognizing actuarial gains and losses in the income statement;
- given the retrospective application required by IAS 8, the above amendment has had the following effects on the present financial statements:
  - the non-recognition, in the 2011 income statement, of the actuarial gain of euro 1,640 thousand recognized in that year to adjust defined employee benefit obligations for the actuary's annual calculations; this has resulted in a decrease of euro 1,190 thousand in profit for the year and a matching increase in the "Revaluation reserves" in the statement of financial position and in the "Actuarial gains (losses) on defined benefit plans" reported in the 2011 statement of comprehensive income;
  - the non-recognition, in the 2012 income statement, of the actuarial loss of euro 10,446 thousand recognized to adjust defined employee benefit obligations for the actuary's annual calculations; this has resulted in an increase of euro 7,574 thousand in profit for the year and a matching decrease in the "Revaluation reserves" in the statement of financial position and in the "Actuarial gains (losses) on defined benefit plans" reported in the 2012 statement of comprehensive income.

The technical valuations have been made on the basis of the following assumptions:

- annual discount rate 3.20%;
- annual inflation rate 2.00%;
- annual increase in employee indemnity benefit 3.00%.

The point of reference for the discount rate is the iBoxx Eurozone Corporates 10-yr+ A index.

The change in accounting method described above has not resulted in any overall change in either opening or closing equity, but simply a different quantification of the "Valuation reserves" and of "Profit (loss) for the year" reported in the statement of changes in equity and in the statement of financial position.

Accounting standards, amendments and interpretations not yet adopted but for which early application is permitted

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 builds on existing standards by identifying the concept of control as the key factor for 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 standard applies from 1 January 2014.

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 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. This revised standard applies from 1 January 2014.

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 standard applies from 1 January 2014.

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 standard applies 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 applies to annual accounting periods beginning on or after 1 January 2013, with earlier application permitted.

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 accounting periods beginning on or after 1 January 2013 (with retrospective application of the comparative disclosures). The effective date for the amendments to IAS 32 is 1 January 2014.

On 17 May 2012, the IASB issued the document *Annual Improvements to IFRSs 2009-2011 Cycle* containing amendments of a largely technical and editorial nature to the standards. The proposed improvements are effective from annual accounting periods beginning on or after 1 January 2013.

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

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 accounting periods beginning on or after 1 January 2015 (previously the mandatory effective date was for annual accounting periods beginning on or after 1 January 2013), and leaves unchanged the possibility of earlier application. This standard is the first part of a project aimed at completely replacing IAS 39 - *Financial Instruments: Recognition and Measurement*, and introducing new principles for the measurement and classification 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 28 June 2012, the IASB issued the document *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)* which provides further clarifications and simplifications with reference to the transition requirements of IFRS 10, IFRS 11 and IFRS 12. These amendments are effective from annual accounting periods beginning on or after 1 January 2013.

The IASB published *Government Loans – Amendments to IFRS 1* on 13 March 2012. Paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* requires that the benefit of a government loan at a below-market rate of interest be treated as a government grant. The loan must be recognized and measured in accordance with IAS 39. The amendment requires first-time adopters to apply paragraph 10A prospectively to loans already entered into at their IFRS transition date; this means that first-time adopters who, under their previous accounting standards, have not accounted for government loans at below-market rates in accordance with IAS 39, do not have to amend the carrying amount of such loans determined under the previous accounting standards. First-time adopters can nonetheless choose to account for government loans at below-market rates retrospectively in accordance with IAS 39, if the information necessary for such an accounting treatment had been obtained at the time of initially recognizing such loans. The amendments will be applicable to annual accounting periods beginning on or after 1 January 2013.

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, the shares held and the companies who hold them.

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 profit or loss for the year attributable to non-controlling interests are identified 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 IFRSs, 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:

	2012		2011	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.2848	1.3194	1.3920	1.2939
UAE Dirham (AED)	4.7190	4.8462	5.1126	4.7524
Brazilian Real (BRL)	2.5084	2.7036	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 values 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 of the net assets recognized for the acquired company. 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, which qualify 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's consolidated financial statements report provisional amounts for the items whose 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 identified 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 classified 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 - 25
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 contracts with a similar treatment to finance leases), 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, finance income is recognized by applying a constant periodic rate of return to the outstanding receivable so that it is spread over the lease term on a systematic and rational basis.

3. Impairment of non-financial assets

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

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

4. Other investments

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

5. Inventories and advances

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

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

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

6. Construction contracts

Construction contracts are recognized at the value of the agreed contractual consideration plus any grants available under specific laws which have reasonably accrued at the period-end reporting date, in accordance with the percentage of completion method, taking into account the progress of work and expected contractual risks. Progress 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 vessels for government defense forces (naval vessels), the delivery date is the issue date of the acceptance report.

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, and its exposure 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 the case of cash flow hedges designed to offset the cash flow risks relating to a highly probable forecast transaction, fair value changes in the effective portion of the derivative hedging instrument after initial recognition 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 under "Non-current other 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 change 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 in personnel costs as an expense 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 recorded in the "Valuation reserves" forming part of equity and immediately recognized in the statement of comprehensive income.

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 equity and borrowings.

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, namely the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows, and in 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; bearing this in mind, a brief description of the principal sources of estimation uncertainty affecting the Fincantieri Group is provided 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 2011.
The following tables provide a breakdown of the maximum exposure by risk class as of 31 December 2012 and 31 December 2011 based on the nominal value of receivables prior to any allowance against doubtful accounts:

	31.12.2012					
		Past due (days)				
(Euro/000)	Current	0 - 30	31 - 60	61 - 90	Over 90	Total
Trade receivables:						
- due from public entities	70,468	2,300	4,506	14	14,651	91,939
- due indirectly from public entities (*)	9,915				4,250	14,165
- due from private customers	62,380	10,555	4,359	5,925	98,020	181,239
TOTAL TRADE RECEIVABLES	**142,763**	**12,855**	**8,865**	**5,939**	**116,921**	**287,343**
Government grants financed by BIIS	53,427					53,427
Government grants from others	15,949				29	15,978
Receivables from joint ventures	6,530				344	6,874
Receivables from Fintecna Group companies	3,250					3,250
Other receivables	135,597			46	30,016	165,659
Other financial receivables	17,484					17,484
GROSS TOTAL	**375,000**	**12,855**	**8,865**	**5,985**	**147,310**	**550,015**
Allowance for doubtful receivables						-54,708
NET TOTAL						**495,307**
Advances, prepayments and accrued income						66,903
TOTAL						**562,210**

	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
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**

(*) This reports receivables due from main contractors 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.

The large volume of receipts from operations in 2012 provided the necessary funds to finance expected outlays and generated a cash surplus which remained until the end of the year.

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.

In addition, an agreement was completed during 2012 with the European Investment Bank (EIB) for the first tranche of euro 80 million out of a loan for euro 140 million intended to finance research and development programs.

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.

	31.12.2012							
(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	123			68			191	191
Payables to joint ventures	127,920	400	583	399			129,302	129,302
Bank loans and overdrafts	2,966	5,838		13,960	110,667	32,098	165,529	152,997
BIIS loans		4,073		4,073	32,589	21,162	61,897	53,427
Payables to suppliers	121,598	109,201	103,586	240,992	19,424	52	594,853	594,853
Finance lease obligations		169	337	667	875		2,048	1,868
Other liabilities	2,123	42,278	32,758	30,310	38,639	2,475	148,583	148,583
TOTAL	**254,730**	**161,959**	**137,264**	**290,469**	**202,194**	**55,787**	**1,102,403**	**1,081,221**
Advances, accrued expenses and deferred income								57,339
TOTAL	**254,730**	**161,959**	**137,264**	**290,469**	**202,194**	**55,787**	**1,102,403**	**1,138,560**

	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**

Market risk

Currency risk

Exposure to currency risk arises primarily 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.
During 2012, the Fincantieri Group was exposed to transactional currency risk on the US dollar receipt of the installment due upon delivery of the Carnival Breeze and on two contracts awarded during the year, one to refit the Carnival Destiny, denominated in US dollars, and the other to build the STQ ferry, denominated in Canadian dollars.
The final installment due upon delivery of the Carnival Breeze was fully hedged, while the two contracts in foreign currency acquired during the year had also been fully hedged by 31 December 2012.
Derivative contracts were also entered into to hedge a substantial portion of the notional amount of US dollar denominated contracts, which, at the reporting date, were thought highly likely to be secured. These derivatives guarantee a maximum exchange rate, while leaving the possibility to benefit from any depreciation in the Euro.
Fincantieri has also bought currency forward in order to offset its exposure to currency risk arising from the outlay in Singapore dollars to complete the acquisition of a majority stake in STX OSV Holdings Ltd.
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.
During 2012, the Group hedged part of its copper requirements for the Princess ships 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:

	31.12.2012				31.12.2011			
(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 HEDGES								
Interest rate swaps (payables)			2,182	36,000			1,693	44,000
Forwards (revenues, USD)							13,989	244,400
Forwards (CAD)	103	4,720						
Forwards Euro Call / USD Put (revenues, USD)					3,145	317,400		
Forwards (purchases, USD)					527	14,521		
Forwards (purchases, CAD)					215	4,918		
Forwards (purchases, SGD)			1,143	730,598				
INEFFECTIVE HEDGING DERIVATIVES								
Commodities futures					2,169	11,154	50	214
Options (USD)							659	15,000
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING								
Forwards (purchases, USD)	65	10,880						
Forwards (purchases, CAD)	69	3,574						
Commodities futures	751	5,547	55	1,110				
Options (USD)	8,050	574,260						
Options (CAD)	4,422	133,200						
DERIVATIVES HELD FOR TRADING								
Options (USD)			1,093	159,375			14,381	358,800
Forwards (USD)	59	1,563			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)	31.12.2012						
	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)							
Outflows	454,221	2,498	4,828	2,932	518		**464,997**
Inflows	453,078	2,525	4,882	2,974	529		**463,988**
INTEREST RATE SWAPS							
Outflows	548		479	786	909		**2,722**
Inflows	125		73	146	196		**540**
FUEL FUTURES							
Outflows	222	655	1,483	4,318			**6,678**
Inflows	180	781	1,774	4,612			**7,347**
COPPER FUTURES							
Outflows	678	1,844	1,661				**4,183**
Inflows	685	1,850	1,675				**4,210**
FORWARDS PURCHASED (SALES)							
Outflows							
Inflows							

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

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
1.1.2011	**-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**
Change in fair value	-1,747	477	-1,270	
Utilization	2,199	-634	1,565	-1,565
Other income/expenses (+/-) relating to intrinsic component of hedging derivatives				14,359
Finance income/expenses (+/-) relating to trading derivatives and time-value component of hedging derivatives				-2,702
31.12.2012	**-1,747**	**477**	**-1,270**	**10,092**

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
					31.12.2012				
Derivative financial assets	13,416	103						**13,519**	**13,519**
Other financial assets					127,170			**127,170**	**134,338**
Trade receivables and other current assets					382,102			**382,102**	**382,102**
Current tax receivables					52,941			**52,941**	**52,941**
Cash and cash equivalents					691,827			**691,827**	**691,827**
Derivative financial liabilities	-1,148	-1,143	-2,182					**-4,473**	**-4,473**
Other financial liabilities							-336,997	**-336,997**	**-348,089**
Other non-current liabilities							-73,187	**-73,187**	**-73,187**
Trade payables and other current liabilities							-727,984	**-727,984**	**-727,984**
Current tax liabilities							-251	**-251**	**-251**
Total	**12,268**	**-1,040**	**-2,182**		**1,254,040**		**-1,138,419**	**124,667**	**120,743**
					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**

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 5% increase and a 5% 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	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 1.1.2011	**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**
Movements in 2012								
- additions				943			1,464	2.407
- net disposals								
- reclassifications/other			839	2,545	355	1	-3,384	356
- amortization		-942	-985	-4,711	-244	-345		-7,227
- exchange rate differences	-1,170	-282			-288	-39		-1,779
Closing net carrying amount	**60,416**	**14,674**	**2,228**	**4,707**	**14,512**	**1,998**	**5,469**	**104,004**
- historical cost	60,416	23,382	9,742	80,642	14,891	3,335	5,469	197,877
- accumulated amortization and impairment losses		-8,708	-7,514	-75,935	-379	-1,337		-93,873
Net carrying amount at 31.12.2012	**60,416**	**14,674**	**2,228**	**4,707**	**14,512**	**1,998**	**5,469**	**104,004**

Additions made in 2012 amount to euro 2,407 thousand (euro 3,670 thousand in 2011).

The negative exchange rate differences of euro 1,779 thousand in 2012 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	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 1.1.2011	**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**
Movements in 2012								
- additions	4,590	30	15,091	1,091	1,526	1,380	62,692	86,400
- net disposals	-336		-743		-53	-320		-1,452
- other changes/ reclassifications	30,453	-26	16,469	952	389	767	-49,362	-358
- depreciation	-7,911	-724	-35,781	-2,852	-656	-4,746		-52,670
- impairment losses								
- exchange rate differences	-1,350	-13	-448		-2	-54	-186	-2.053
Closing net carrying amount	**204,879**	**14,916**	**183,204**	**55,890**	**5,412**	**46,559**	**73,812**	**584,672**
- historical cost	318,632	19,177	791,509	169,227	27,369	144,727	73,812	1,544,453
- accumulated depreciation and impairment losses	-113,753	-4,261	-608,305	-113,337	-21,957	-98,168		-959,781
Net carrying amount at 31.12.2012	**204,879**	**14,916**	**183,204**	**55,890**	**5,412**	**46,559**	**73,812**	**584,672**

The additions of euro 86,400 thousand made in 2012 (euro 74,395 thousand in 2011) mostly relate to production facilities. More information about capital expenditure can be found in the Report on Operations.

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 2,053 thousand in 2012 reflect movements in the US dollar/euro exchange rate.

At 31 December 2012, the Group owns plant and machinery carrying mortgages of euro 68,320 thousand against loans received (the same as at 31 December 2011).

Note 8 - investments

Investments

These are analyzed as follows:

(Euro/000)	Associates	Joint ventures	Total equity-accounted investments	Other companies	Total other investments	Total
1.1.2011		13,656	**13,656**	1,683	**1,683**	**15,339**
Additions						
Revaluations(+) Impairment losses(-)		420	**420**	-12	**-12**	**408**
31.12.2011		14,076	**14,076**	1,671	**1,671**	**15,747**
Additions				30	**30**	**30**
Revaluations(+) Impairment losses(-)		900	**900**	-4	**-4**	**896**
31.12.2012		14,976	**14,976**	1,697	**1,697**	**16,673**

All of the investments are in unlisted companies.
"Revaluations/impairment losses" of euro 900 thousand in 2012 mainly reflect (like in 2011) recognition of the Group's share of the profit for the year reported by the joint venture Orizzonte Sistemi Navali.

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Investments at 31 December 2012

Company name	Registered office	% owned	Carrying amount
Partecipazioni valutate a patrimonio netto			
Etihad Ship Building LLC.	Arab Emirates	35.00	178
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	14,798
			14,976
Other investments			
Centro Sviluppo Materiali S.p.A.	Rome	8.33	698
Friulia S.p.A.	Trieste	0.52	740
EEIG Euroyards	Brussels	16.67	10
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR A/S	Copenaghen	9.10	2
Consorzio IMAST Scarl	Naples	3.67	22
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.80	14
Consorzio Formazione Internazionale in liquidazione	Rome	5.55	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. (**)	Venice Marghera	59.82	5
DITENAVE Scarl – Distretto Tecnologico Navale e Nautico del Friuli Venezia Giulia	Monfalcone (Gorizia)	20.00	30
			1,697

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

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 2012:

(Euro/000)	Total assets	Total liabilities	Operating revenues	Profit/loss (+/-) for the year
Etihad Ship Building LLC.	258	87	1,042	-10
Orizzonte Sistemi Navali S.p.A.	2,048,807	2,091,840	526,684	1,846

The corresponding information at 31 December 2011 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.	1,772,941	1,745,243	324,258	819

Note 9 - non-current receivables

Financial receivables

These are analyzed as follows:

(Euro/000)	31.12.2012	31.12.2011
Grants financed by BIIS	47,226	53,427
Derivative assets	10,885	1,074
Other non-current financial receivables	17,484	17,484
NON-CURRENT FINANCIAL RECEIVABLES	**75,595**	**71,985**

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 increase since 2011 is due to currency hedges in US and Canadian dollars for sales agreements in those currencies and for US dollar contracts, which, at the reporting date, were thought highly likely to be secured.
"Other non-current financial receivables" of euro 17,484 thousand report loans to third parties carrying market rates of interest and are unchanged compared with the prior year.

Other receivables

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

(Euro/000)	31.12.2012	31.12.2011
Government grants receivable	2,295	6,313
Other	9,140	5,644
OTHER NON-CURRENT RECEIVABLES	**11,435**	**11,957**

"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)	31.12.2012	31.12.2011
- between one and two years	2,295	5,517
- between two and three years		796
Total	**2,295**	**6,313**

"Other receivables" of euro 9,140 thousand (euro 5,644 thousand at 31 December 2011) mostly refer to sums owed by the Iraqi Ministry of Defense (euro 4,693 thousand). A detailed discussion of this case can be found in the specific section on litigation in Note 28. The remaining balance of euro 4,447 thousand (euro 951 thousand at 31 December 2011) 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 1.1.2011	**20,367**
Direct movements and other changes	
Total at 31.12.2011	**20,367**
Direct movements and other changes	-3,711
Total at 31.12.2012	**16,656**

The change of euro 3,711 thousand relates to the reversal of an allowance after writing off a loan that had been fully written down in previous years.

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	Actuarial valuation employee indemnity benefit	Carryforward tax losses	Other temporary differences	Total
1.1.2011	**81,763**	**12,373**	**3,185**	**243**		**13,719**	**3,896**	**115,179**
Changes 2011								
- through income statement	9,579	-1,159	3,859			-8,093	908	5,093
- through equity and other reasons				391	-451			-60
- exchange rate differences		25				15	432	472
31.12.2011	**91,342**	**11,239**	**7,044**	**634**	**-451**	**5,641**	**5,236**	**120,685**
Changes 2012								
- through income statement	-35,617	-1,520	-2,358			28,009	1,508	-9,978
- through equity and other reasons				-157	2,873		-52	2,665
- exchange rate differences		-9				-64	-227	-300
31.12.2012	**55,726**	**9,710**	**4,686**	**477**	**2,422**	**33,586**	**6,465**	**113,072**

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 29,043 thousand (euro 28,251 thousand at 31 December 2011).

Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combination	Other temporary differences	Total
1.1.2011	**21,750**	**6,493**	**28,243**
Changes 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**
Changes 2012			
- through income statement	-514	504	-10
- through equity and other reasons		-52	-52
- exchange rate differences	-411	-226	-637
31.12.2012	**21,026**	**11,356**	**32,382**

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)	31.12.2012	31.12.2011
Raw, ancillary and consumable materials	151,119	122,836
Work in progress and semi-finished goods	969	3,442
Finished products	6,442	6,314
Total inventories	**158,530**	**132,592**
Advances to suppliers	114,942	143,649
TOTAL INVENTORIES AND ADVANCES	**273,472**	**276,241**

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 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 allowances:

(Euro/000)	Allowance for raw materials	Allowance for finished products
1.1.2011	**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**
Increases in allowance	1,540	1,018
Utilizations	-2,096	-452
Exchange rate differences	-1	-14
31.12.2012	**20,196**	**1,970**

Note 12 - construction contracts - assets

These are analyzed as follows:

	31.12.2012			**31.12.2011**		
(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	1,766,841	1,274,886	491,955	2,410,282	1,435,854	974,428
Other contracts for third parties	173,399	148,704	24,695	44,713	41,445	3,268
Total	**1,940,240**	**1,423,590**	**516,650**	**2,454,995**	**1,477,299**	**977,696**

"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 decrease on 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)	31.12.2012	31.12.2011
Receivables from customers	261,131	271,645
Receivables from joint ventures	6,874	46,071
Government grants receivable	8,167	4,948
Other receivables	76,133	83,980
Prepayments	29,797	22,177
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**382,102**	**428,821**
Tax receivables	**52,941**	**49,676**

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
1.1.2011	**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**
Direct movements and other changes	-6,237			-6,237
Increases in allowance (+) Utilizations (-)	-4,656	3,705	186	-765
Exchange rate differences	-1			-1
31.12.2012	**21,982**	**7,481**	**8,590**	**38,053**

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

"Other receivables" of euro 76,133 thousand mainly include:

- euro 42,800 thousand for research grants, insurance claims and advances to suppliers, mostly relating to the Parent Company (euro 47,358 thousand at 31 December 2011);
- euro 22,218 thousand for the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of contract price (euro 26,710 thousand at 31 December 2011);
- euro 9,767 thousand for receivables from social security institutions (euro 9,912 thousand at 31 December 2011), 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 17,386 thousand in indirect tax credits (euro 16,634 thousand at 31 December 2011), 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 35,555 thousand (euro 33,042 thousand at 31 December 2011) 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)	31.12.2012	31.12.2011
Derivative assets	2,634	5,012
Other receivables	42,658	86,077
Government grants financed by BIIS	6,201	5,975
Accrued interest income	2,165	2,612
Prepaid interest and other financial expense	1	1
TOTAL FINANCIAL RECEIVABLES	**53,659**	**99,677**

"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.

Note 15 - cash and cash equivalents

These are analyzed as follows:

(Euro/000)	31.12.2012	31.12.2011
Bank and postal deposits	691,676	387,022
Checks	28	41
Cash on hand	123	107
TOTAL CASH AND CASH EQUIVALENTS	**691,827**	**387,170**

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 22 March 2012 adopted a resolution to apportion euro 143,338.15 of the Parent Company's profit for 2011 to the Legal Reserve and the remaining euro 2,723,424.77 to the Extraordinary Reserve.
The composition of equity is analyzed in the following table:

(Euro/000)	31.12.2012	31.12.2011
Attributable to owners of the Parent		
Share capital	633,481	633,481
Share premium reserve	71	71
Legal reserve	28,596	28,453
Cash flow hedge reserve	-1,270	-1,565
Currency translation reserve	3,367	5,438
Other reserves and retained earnings	259,938	259,971
Profit/loss (+/-) for the year	15,343	7,666
	939,526	**933,515**
Attributable to non-controlling interests		
Capital and reserves	16,137	15,160
Currency translation reserve	754	1,050
Profit/loss (+/-) for the year	120	1,215
	17,011	**17,425**
TOTAL EQUITY	**956,537**	**950,940**

As reported in Note 1, the comparative figures have been restated following the early adoption of IAS 19 (Revised).

Share capital

The Parent Company's share capital amounts to euro 633,481 thousand at 31 December 2012, 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 using closing exchange rates for 2012 to translate the equity of foreign subsidiaries present in the US dollar zone. This reserve has decreased by euro 2,071 thousand in 2012 compared with 2011, reflecting the negative trend in the US dollar/euro exchange rate.

IFRS transition reserve

This reserve was established on the IFRS transition date (1 January 2005) and reflects all the adjustments required upon transition from Italian GAAP to IFRS. 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.
This reserve also includes the actuarial gains and losses on employee indemnity benefit, recognized in accordance with IAS 19 (Revised) which was adopted from the start of 2012, in advance of its mandatory application date; the comparative figures have been restated (see also Note 1 - Accounting Standards, Amendments and Interpretations adopted early from 1 January 2012). Movements in employee indemnity benefit are reported in Note 18.

Non-controlling interests

The change since 31 December 2011 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:

	31.12.2012			31.12.2011		
(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	452	-157	295	-1,280	391	-889
Actuarial gains/losses (+/-) on employee indemnity benefit	-10,446	2,872	-7,574	1,640	-450	1,190
Gains/losses (+/-) arising on translation of foreign companies' financial statements	-2,367		-2,367	4,257		4,257
Total other comprehensive income/losses (+/-)	**-12,361**	**2,715**	**-9,646**	**4,617**	**-59**	**4,558**

(Euro/000)	31.12.2012	31.12.2011
Effective portion of profits/losses (+/-) arising in period on cash flow hedging instruments	-1,747	-2,199
Effective portion of profits/losses (+/-) on cash flow hedging instruments reclassified to income statement	2,199	919
Effective portion of profits/losses (+/-) on cash flow hedging instruments	**452**	**-1,280**
Tax effect of other components of comprehensive income	**-157**	**391**
TOTAL OTHER COMPREHENSIVE INCOME/LOSSES (+/-), NET OF TAX EFFECT	**295**	**-899**

Note 17 - provisions for risks and charges

Non-current portion

These are analyzed as follows:

(Euro/000)	Litigation	Product warranty	Agent indemnity benefit	Other risks and charges	Total
1.1.2011	**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**
Increases	10,777	18,103	2	2,461	31,343
Utilizations	-8,581	-13,668		-6,838	-29,087
Releases	-1,758	-8,383	-2	-5,007	-15,150
Other movements				-11,845	-11,845
Exchange rate differences		-32		8	-24
31.12.2012	**46,817**	**35,447**	**121**	**6,830**	**89,215**

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.
Other movements refer to the reclassification as current of the provision for the reorganization plan (euro 11.8 million), which is expected to be utilized over the course of the next year.

Current portion

(Euro/000)	Litigation	Product warranty	Agent indemnity benefit	Other risks and charges	Total
1.1.2012					
Other movements				11,845	11,845
31.12.2012				**11,845**	**11,845**

Note 18 - employee indemnity benefit

Movements in this item are as follows:

(Euro/000)	2012	2011
Opening balance	**65,043**	**72,479**
Interest cost	2,874	3,276
Actuarial gains/losses (-/+)	10,446	-1,641
Utilizations for benefits and advances paid	-8,364	-9,067
Staff transfers and other movements	758	-4
Closing balance	**70,757**	**65,043**

Employee indemnity benefit relates only to the Group's Italian companies.
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:

	31.12.2012	31.12.2011
ECONOMIC ASSUMPTIONS		
Cost of living increase	2.0% per annum	2.0% per annum
Discount rate	3.2% 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 26,096 thousand into defined contribution plans in 2012 (euro 24,085 thousand in 2011).

Note 19 - non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2012	31.12.2011
Bank loans - non-current portion	133,925	67,262
Loans from BIIS - non-current portion	47,226	53,427
Finance lease obligations	782	1,751
Derivative liabilities	1,345	1,071
Total financial liabilities	**183,278**	**123,511**
Options on equity investments	28,149	28,619
Other non-current liabilities	45,038	45,278
TOTAL NON-CURRENT LIABILITIES	**256,465**	**197,408**

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:

	31.12.2012			31.12.2011		
(Euro/000)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	8,937	18,054	26,991	11,417	3,389	14,806
- between two and three years	8,702	18,078	26,780	8,948	3,411	12,359
- between three and four years	8,705	18,101	26,806	8,702	3,434	12,136
- between four and five years	4,487	17,581	22,068	8,705	3,458	12,163
- over five years	839	30,441	31,280	5,326	10,472	15,798
Total	**31,670**	**102,255**	**133,925**	**43,098**	**24,164**	**67,262**

The bank loans are repayable in installments through until 2021, and carry an annual average interest rate of 2.40% (2.33% in 2011).

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 that of the corresponding amount recognized as a receivable.

In addition, an agreement was completed during 2012 with the European Investment Bank (EIB) for the first tranche of euro 80 million out of a loan for euro 140 million intended to finance research and development programs.

This loan is subject to financial covenants that are in line with market standards for this type of technical form of financing and require certain financial parameters to be maintained, with failure to do so even leading to the immediate voiding of the contract's repayment terms. At the moment there is no evidence of a risk that these parameters will not be maintained.

"Bank loans" include euro 24,845 thousand in exposures to certain banks (of which euro 4,270 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.

"Other non-current liabilities" mainly relate to deferred income from grants for property, plant and equipment and grants for innovation (euro 30,920 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	**31.12.2012**	**31.12.2011**
Total future minimum lease payments	2,048	3,888
Future finance charges (-)	-180	-267
Present value of future minimum lease payments	1,868	3,621

(Euro/000)

2) Maturity of future minimum lease payments	**31.12.2012**			**31.12.2011**		
	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	1,173	875		2,026	1,862	
Present value of future minimum lease payments	1,086	782		1,870	1,751	

Note 20 - construction contracts - liabilities

These are analyzed as follows:

	31.12.2012			**31.12.2011**		
(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	2,465,197	3,025,179	559,982	1,618,558	2,411,401	792,843
Other contracts for third parties	185,622	194,433	8,811	208,698	240,595	31,897
Advances from customers		3,674	3,674		4,015	4,015
Total	**2,650,819**	**3,223,286**	**572,467**	**1,827,256**	**2,656,011**	**828,755**

"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 – net" reflect the valuation of construction contracts in progress and report a decrease on the previous year due to the state of work in progress relative to invoices issued. See also 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)	31.12.2012	31.12.2011
Payables to suppliers	594,853	576,552
Payables to joint ventures	2,041	720
Payables to ultimate Parent companies	68	
Social security payables	28,567	23,146
Other liabilities	93,625	78,916
Accrued expenses	8,835	6,151
Deferred income		9
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**727,989**	**685,494**
Current tax liabilities	**251**	**6,303**

"Payables to suppliers" have increased by euro 18,301 thousand on the previous year, reflecting the growth in production activity at the end of the year.
"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 the following February.
"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 118 thousand in IRES (Italian corporate income tax) and euro 130 thousand in IRAP (Italian regional business tax).

Note 22 - current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2012	31.12.2011
Payables to ultimate parent companies	123	84
Bank overdrafts repayable on demand	2,968	5,761
Bank loans - current portion	16,104	15,736
Loans from BIIS - current portion	6,201	5,975
Finance lease obligations - current portion	1,086	1,870
Payables to joint ventures	127,261	161,881
Other financial liabilities		985
Derivative liabilities	3,128	29,701
Accrued interest expense	1,323	1,712
TOTAL CURRENT FINANCIAL LIABILITIES	**158,194**	**223,705**

"Payables to ultimate parent companies" report the position with Fintecna on the intercompany current account.
"Payables to joint ventures" refer to Orizzonte Sistemi Navali and report the balance on the intercompany current account with this company.
"Derivative liabilities" represent the reporting-date fair value of current derivatives.

Note 23 - revenues and income

These are analyzed as follows:

(Euro/000)	2012	2011
Operating revenues	**2.301.049**	**2.316.624**
Other revenues and income		
Gains on disposal	704	762
Release of provisions	19,830	8,201
Sundry revenues and income	54,094	44,687
Government grants	11,114	10,350
Total other revenues and income	**85,742**	**64,000**
TOTAL REVENUES AND INCOME	**2,386,791**	**2,380,624**

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

(Euro/000)	2012	2011
Penalties charged to suppliers	2,101	897
Rental income	174	129
Insurance claims	16,658	14,101
Recharged costs	11,464	15,919
Income for personnel training	97	10
Third-party income relating to personnel	542	284
Other sundry income	8,258	12,644
Out-of-period income and other revenues		11
Income from ineffective hedging instruments	14,290	
Other income	510	692
Total	**54,094**	**44,687**

"Other sundry income" of euro 8,258 thousand primarily refers to out-of-period amounts and adjustments to the value of recognized assets.

Note 24 - operating costs

These are analyzed as follows:

(Euro/000)	2012	2011
Raw, ancillary and consumable materials	-1,248,494	-1,244,701
Services	-464,598	-495,536
Leases and rentals	-24,052	-22,650
Change in inventories of raw, ancillary and consumable materials	28,307	6,397
Change in work in progress	-1,921	635
Other operating costs	-27,744	-20,989
Cost of materials and services capitalized in fixed assets	7,488	
Total materials, services and other costs	**-1,731,014**	**-1,776,844**
Personnel costs:		
- wages and salaries	-362,350	-324,822
- social security	-129,231	-118,725
- costs for defined contribution plans	-26,096	-24,085
- other costs	-13,819	-9,954
Costs capitalized in fixed assets	2,513	
Total personnel costs	**-528,983**	**-477,586**
Depreciation and amortization:		
- amortization of intangible assets	-7,226	-7,120
- depreciation of property, plant and equipment	-52,670	-58,648
Total depreciation and amortization	**-59,896**	**-65,768**
Provisions and impairment losses:		
- other impairment losses		-115
- receivables write-down	-3,917	-11,658
- increases in provisions for risks and charges	-31,342	-33,799
Total provisions and impairment losses	**-35,259**	**-45,572**
Capitalization of internal costs	**1,163**	**1,601**
TOTAL OPERATING COSTS	**-2,353,989**	**-2,364,169**

The cost of services is analyzed as follows:

(Euro/000)	2012	2011
Subcontractors and outsourced services	-230,640	-250,540
Insurance	-29,041	-32,781
Other personnel costs	-19,417	-17,806
Maintenance costs	-13,382	-14,554
Tests and trials	-5,161	-5,487
Outsourced design	-15,508	-25,298
Licenses	-204	-243
Transportation and logistics	-10,486	-9,121
Technical and other services	-136,939	-134,208
Cleaning services	-18,825	-20,158
Utilization of product warranty and other provisions	15,005	14,660
Total	**-464,598**	**-495,536**

"Leases and rentals" amounting to euro 24,052 thousand (euro 22,650 thousand in 2011), include lease and rental costs of euro 15,941 thousand (euro 14,713 thousand in 2011), sundry lease costs of euro 5,630 thousand (euro 5,719 thousand in 2011), and concession and similar fees of euro 2,481 thousand (euro 2,218 thousand in 2011).

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

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 18,103 thousand versus euro 17,325 thousand in 2011), to provisions for litigation (euro 10,777 thousand versus euro 2,163 thousand in 2011) and other provisions for future charges (euro 2,461 thousand versus euro 14,311 thousand in 2011).

Note 25 - finance income and costs

These are analyzed as follows:

(Euro/000)	2012	2011
FINANCE INCOME		
Interest from customers (non-current receivables)	3,031	3,953
Interest from others (non-current receivables)	2,139	2,283
Income from derivative financial instruments	15,830	5,475
Other interest and commission income	19,657	20,018
Exchange rate gains	2,326	2,683
Total finance income	**42,983**	**34,412**
FINANCE COSTS		
Interest and commissions payable to joint ventures	-2,408	-1,282
Interest and commissions payable to ultimate parent companies	-1	-2
Expenses from derivative financial instruments	-18,532	-10,077
Interest/actuarial losses on employee indemnity benefit	-2,973	-3,179
Other interest and commission expense	-13,548	-11,318
Exchange rate losses	-3,958	-2,408
Total finance costs	**-41,420**	**-28,266**
TOTAL FINANCE INCOME AND COSTS	**1,563**	**6,146**

"Finance income" includes euro 2,139 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 to repay government grants (see Note 4).

The net balance of "Income and expenses from derivative financial instruments" has improved in 2012 on the previous year, while the balance of "Exchange rate gains and losses" has slightly worsened relative to 2011. Lastly of note is the increase in "Other interest and commission expense".

Note 26 - income and expense from investments

These are analyzed as follows:

(Euro/000)	2012	2011
INCOME		
Other income from investments	11	
Total income	**11**	
EXPENSE		
Impairment of investments	-4	-12
Total expense	**-4**	**-12**
INCOME/EXPENSE (+/-) FROM INVESTMENTS	**7**	**-12**
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS		
Profit	900	420
SHARE OF PROFIT/LOSS (+/-) FROM EQUITY-ACCOUNTED INVESTMENTS	**900**	**420**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**907**	**408**

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 900 thousand versus euro 420 thousand in 2011).

Note 27 - income taxes

These are analyzed as follows:

(Euro/000)	2012		2011	
Current taxes		**-9,839**		**-15,624**
Deferred tax assets:				
– sundry impairment losses	-35,617		9,579	
– product warranty	-1,520		-1,159	
– other risks and charges	-2,358		3,859	
– carryforward tax losses	28,009		-8,094	
– other	1,506		908	
		-9,980		**5,093**
Deferred tax liabilities:				
– tax deductions for construction contracts				
– other	10		-3,597	
		10		**-3,597**
Total deferred taxes		**-9,970**		**1,046**
TOTAL INCOME TAXES		**-19,809**		**-14,128**

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)	2012	2011
Theoretical corporate income tax rate (IRES)	**27.5%**	**27.5%**
Profit/loss (+/-) before tax	35,272	23,009
Theoretical corporate income tax (IRES)	**-9,700**	**-6,328**
Impact of taxes relating to prior periods	638	24
Impact of tax losses		-450
Impact of permanent differences and unrecognized temporary differences	750	5,919
Impact of different tax rate applicable to foreign entities	906	-817
IRAP charged to income statement	**-12,403**	**-12,476**
Total income taxes through income statement	**-19,809**	**-14,128**
Current taxes	-9,839	-15,624
Deferred taxes	-9,970	1,496

Note 28 - other information

Net financial position

(Euro/000)	31.12.2012	31.12.2011
Cash and cash equivalents	**691,827**	**387,170**
Current financial receivables	**53,659**	**54,677**
Bank overdrafts	-2,968	-5,761
Current portion of bank loans	-22,305	-21,711
Other current financial liabilities	-132,921	-196,233
Current debt	**-158,194**	**-223,705**
Net current debt	**587,292**	**218,142**
Non-current financial receivables	**75,595**	**71,985**
Bank loans	-181,151	-120,689
Other non-current financial liabilities	-2,127	-2,822
Non-current debt	**-183,278**	**-123,511**
Net non-current debt	**-107,683**	**-51,526**
Net financial position	**479,609**	**166,616**

Related party transactions

Intragroup transactions, transactions with Fintecna and its subsidiaries, with Cassa Depositi e Prestiti 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.

Since 2011, as a result of the application of IAS 24 (Revised), the information disclosed includes companies under the control of the Ministry of the Economy and Finance and the Group's Senior Management Supplementary Pension Funds. Related party transactions are reported in the following tables:

STATEMENT OF FINANCIAL POSITION	31.12.2012						
(Euro/000)	Total 2012	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Financial assets - receivables	129,254						
Advances	114,942						
Trade receivables and other assets	393,537	14,001	6,874		4,078	24,953	6%
Financial liabilities	-341,472	-2,188	-127,261		-11,770	-141,219	41%
Trade payables and other liabilities	-801,171	-68	-2,041		-3,940	-6,049	1%
	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						
Advances	143,649						
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	

INCOME STATEMENT	2012						
(Euro/000)	Total 2012	Ultimate parent company and subsidiaries	Joint ventures	Associates	Other related parties	Total related parties	% of reported amount
Operating revenues	2,301,049	8,455	1,658		405	10,518	0%
Other revenues and income	85,742		2,201			2,201	3%
Materials, services and other costs	-1,731,014	-68	-2,324		-13,276	-15,668	1%
Finance income	42,983	485				485	1%
Finance costs	-41,420	-13	-2,408			-2,421	6%
	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	
Finance income	34,412						
Finance costs	-26,626	-2	-1,282			-1,284	5%

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 remun-eration
			2012	
Parent Company Board of Directors	481	8	380	489
Parent Company Board of Statutory Auditors	26			
General Managers and Key Management Personnel		68	936	2,525
Parent Company Independent Auditors	251			105
			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

(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 other 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:

		31.12.2012	31.12.2011
Consolidated profit/loss (+/-)	Euro/000	15,463	8,881
Profit/loss (+/-) attributable to owners of the parent	Euro/000	15,343	7,666
Weighted average shares outstanding	Number	1,242,119,070	1,242,119,070
Basic earnings/loss (+/-) per share	Euro	**0.01235**	**0.00617**

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)	2012	2011
Maturity of future minimum operating lease payments:		
Within 1 year	8,807	8,908
Between 1 and 5 years	27,692	26,789
Over 5 years	19,729	19,208
Total	**56,228**	**54,905**

Guarantees

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

(Euro/000)	2012	2011
Other guarantees	64,289	28,569
Total	**64,289**	**28,569**

Other guarantees mainly relate to releases issued on behalf of Horizon to the French Ministry of Defense (euro 27,118 thousand), and on behalf of the joint venture Orizzonte Sistemi Navali S.p.A. (euro 37,171 thousand).

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 is reported that Armamenti & Aerospazio (the main contractor in a third contract) has lodged an appeal with the Genoa Court of Appeal, which has been counter-appealed by Iraq. According to our defense counsel, this appeal does not concern our company, for which the Genoa Courts' favorable ruling as to the merit and amount of damages can be reasonably seen as final;

- as for the Iraqi appeal to the Paris Court against the arbitration ruling in Fincantieri's favor, this appeal had been pending at the request of the appellant, who "revived" it with an act of resumption dated 8 May 2012. The Court now needs to establish a new calendar at the behest of one of the parties within a 2-year period. Once this period has expired, the proceedings are definitively closed;
- towards the end of 2011, 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. So far, the proceedings have gone in Fincantieri's favor. In fact, the rulings by the Baghdad judges have always maintained that the dispute should be decided by the Paris Court.

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, the discussions, started in 2011 to find an out-of-court settlement to the dispute, intensified in 2012.

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 commercially.

Although the legal actions against Tirrenia and SIREMAR (under special administration) continued, they did not result in any cash recoveries in 2012.

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. There were no new legal developments in this case during 2012; however, contact was made with the counterparty for a possible resolution of the matter out of court.

In 2012, out-of-court action was taken through an external lawyer to recover amounts owed by the German customer Neumann & Esser, as well as legal action against Energy Recuperator.

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 2012. Suitably defensive 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 revocatory actions; iv) for joint liability with insurance companies; v) for indirect damages arising from the production process; vi) in connection with trademarks and patents; vii) for compensation claims; viii) against consumer credit companies, and so on.
The Group has made suitable provisions for risks and charges even for this type of litigation where it believes the outcome might result in an outflow of economic resources.

Tax position

National group tax filing

The companies electing to file for tax on a group basis, which include the subsidiaries Fincantieri Oil & Gas S.p.A., Cetena S.p.A., Isotta Fraschini Motori S.p.A., Seaf. S.p.A. and Bacini di Palermo S.p.A, are the same as in the previous year.

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; these mentoring activities were defined during 2012.

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; there have been no new developments concerning these audits.

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 the Friuli Venezia Giulia Regional Tax Commission ordered a technical consultation in 2011; this has been completed but the outcome has not been notified;
- the excise duty dispute, with reference to which Italy's Supreme Court has confirmed that the reduced rate applies and not the exemption, thereby closing this matter;
- the "IRES on IRAP" dispute, for which the tax authorities have appealed against the ruling in Fincantieri's favor.

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, which has already file its appearance in court, is awaiting the date of the hearing.

Headcount

The Fincantieri Group had 10,240 employees at 31 December 2012 compared with 9,994 at the end of 2011, broken down as follows:

(number)	2012	2011
Employees at year end:		
Total at year end	10,240	9,994
- of whom in Italy	8,102	8,367
- of whom in Parent Company	7,807	8,082
Average number of employees	10,227	9,809
- of whom in Italy	8,180	8,390
- of whom in Parent Company	7,892	8,110

Orizzonte Sistemi Navali had 84 employees at 31 December 2012, compared with 83 at 31 December 2011.

FALAJ 2
UAE Navy
Muggiano shipyard

Note 29 - cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2012	31.12.2011
Profit/loss (+/-) for the year	15,463	8,881
Depreciation and amortization	59,896	65,768
Gains/losses (-/+) from disposal of property, plant and machinery	420	540
Revaluation/impairment (-/+) of intangible assets and equity investments	-896	-292
Increases/releases of provisions for risks and charges	16,193	26,466
Interest and actuarial gains/losses on employee indemnity benefit	3,632	3,276
Interest income	-24,827	-26,254
Interest expense	15,957	12,602
Income taxes for the year	19,809	14,127
Gross cash flows from operating activities	**105,649**	**105,114**
CHANGES IN WORKING CAPITAL		
- inventories	2,643	10,149
- construction contracts	184,992	94,346
- trade receivables	9,486	129,206
- other current assets	76,046	-916
- other non-current assets	139	295
- advances from customers	-347	-305
- trade payables	18,953	-155,371
- other current liabilities	24,425	9,815
- other non-current liabilities	-196	415
Cash flows from working capital	**421,790**	**192,748**
Interest received	25,274	26,603
Interest paid	-16,346	-10,460
Income taxes paid	-18,454	-19,308
Utilization of provisions for risks and charges	-29,087	-30,630
Utilization of provision for employee indemnity benefit	-8,364	-9,071
NET CASH FLOWS FROM OPERATING ACTIVITIES	**374,813**	**149,882**

Note 30 - events after 31 december 2012

Following signature of the agreement on 21 December 2012, on 23 January 2013 Fincantieri completed the acquisition from STX Europe of 50.75% of STX OSV, a company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels for the oil and gas extraction and production industry. The acquisition was made through its subsidiary Fincantieri Oil & Gas S.p.A. which acquired 50.75% of STX OSV at a price per share of SGD 1.22 (at a discount of 12.9% on the closing price of SGD 1.40 on 20 December and of 17.5% on the weighted average price in the previous three months of SGD 1.48 per share), equating to a total value of some euro 455 million (around SGD 730 million).
The ultimate value of the transaction will depend on the number of acceptances of the mandatory public tender offer for the remaining shares, made in accordance with the rules of the Singapore Stock Exchange.
The offer circular for the bid for the remaining shares at a price of SGD 1.22 per share was filed on 13 February 2013; the offer's acceptance rate as at 26 February 2013 was equal to 0.009%.
The total value of the transaction will be financed mainly from Fincantieri's internal resources and using a bank loan from a syndicate of banks comprising Banca IMI, BNP Paribas (Italian branch), Carige and Unicredit and will also involve the participation of Cassa Depositi e Prestiti as a lender guaranteed by SACE.
This acquisition marks Fincantieri's entry into a complementary market segment to those covered up until now and is expected to generate an increase in production volumes, the benefits of which will have a positive impact across the Group.
On 14 February 2013, STX OSV announced that it had secured three new contracts to build an equal number of Offshore Subsea Construction Vessels for Farstad Shipping, Solstad Offshore and Dof Subsea.
On 8 January 2013, a delivery ceremony was held at Fincantieri's Muggiano shipyard for two vessels for the United Arab Emirates Navy (the "Abu Dhabi Class" corvette and the "Ghantut" patrol vessel).
Lastly, in implementation of the Reorganization Plan, on 1 February 2013 a local agreement for the Castellammare di Stabia yard was finally signed with the trade unions, the last of Fincantieri's eight Italian shipyards to do so. This agreement is of great significance since it ensures, on the one hand, a rebalancing of the workforce for the reduced order backlog and, on the other, increased competitiveness in production thanks to more flexible working practices.

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
FINCANTIERI OIL & GAS S.p.A. (*) Holding company	Trieste ITALY	Euro authorized (paid in)	620,000,000.00 (2,580,000.00)	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
FMSNA YK	Sasebo SHI – Nagasaky-ken	JPY	3,000,000.00	100.00	Fincantieri Marine Systems North America Inc.	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	Trieste 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	51.00	Fincantieri	51.00
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	FMGH Inc.	87.44
MARINETTE MARINE CORPORATION 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	BRL	600,000.00	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

(*) The share capital was paid in full on 2 August 2012.
The Extraordinary Shareholders' Meeting of ELNAV - Esercizio e Locazione Navi S.p.A, held on 3 August 2012, changed the company's name to "FINCANTIERI OIL & GAS S.p.A." and approved a divisible capital increase up to euro 620 million.
(**) Definition, design, development and manufacture of integrated automation systems for the shipbuilding industry.
(***) Building, maintenance, repair and sale of all types of ships.

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 2011. For an adequate and complete understanding of FINTECNA's assets and liabilities and financial position at 31 December 2012, 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	**31.12.2011**
ASSETS	
Fixed assets	3,241,014
Current assets	625,434
Accrued income and prepayments	26,872
TOTAL ASSETS	**3,893,320**
LIABILITIES	
Equity	2,351,648
Provisions for risks and charges	1,394,906
Employee indemnity benefit	6,232
Payables	140,320
Accrued expenses and deferred income	214
TOTAL EQUITY AND LIABILITIES	**3,893,320**
MEMORANDUM ACCOUNTS	**7,153,700**
INCOME STATEMENT	
Value of production	62,950
Cost of production	-51,005
Finance income and costs	76,826
Adjustments to financial assets	-60,514
Extraordinary income and expenses	28,678
PROFIT/LOSS BEFORE TAX (+/-)	**56,935**
Income taxes	-2,309
PROFIT/LOSS (+/-) FOR THE YEAR	**54,626**

Glossary

1 - Operating activities

Shipowner

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

Dry-dock

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

Order backlog

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

Mega yachts

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

Merchant vessels

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

Naval vessels

This business unit builds (as well as repairs, refits and refurbishes) naval ships destined for the defense of territorial waters, such as surface vessels, 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 are 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 type and size of ship.

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.

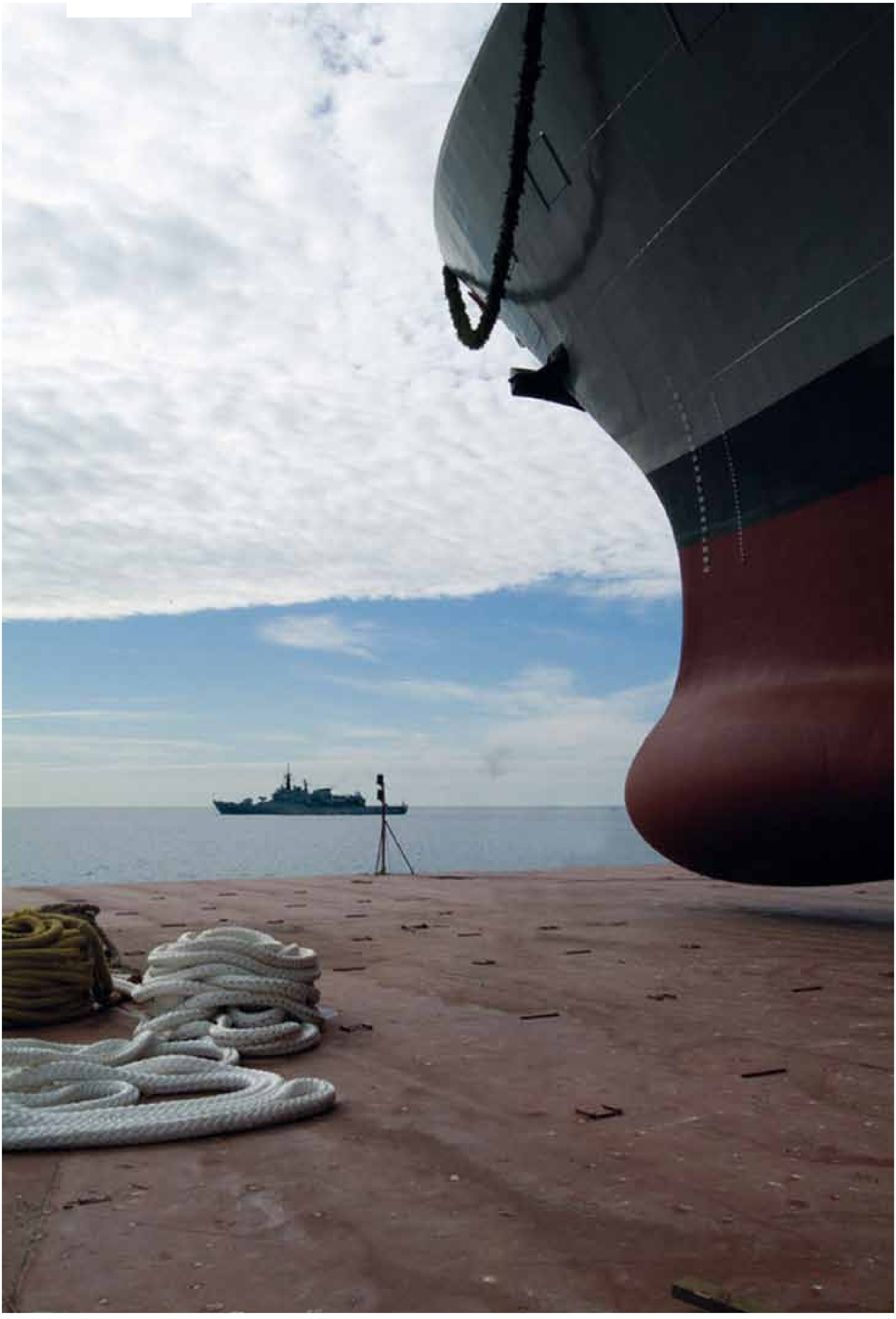
Basic or diluted earnings per share

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

REPORT BY THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2012

Dear Shareholders,

We have examined the Fincantieri Group's consolidated financial statements at 31 December 2012, drawn up in accordance with International Financial Reporting Standards, and the accompanying Report on Operations.
Our examination has been conducted in accordance with the standards of conduct for the Board of Statutory Auditors dictated by the Italian Civil Code and with reference to the regulatory framework governing consolidated financial statements.
The separate financial statements of Fincantieri – Cantieri Navali Italiani S.p.A., the Parent Company, have been audited by PricewaterhouseCoopers, and the financial statements of individual subsidiaries have been examined by their respective Boards of Statutory Auditors and Independent Auditors and not directly examined by the Parent Company's statutory auditors.
Fincantieri's subsidiaries have been consolidated on a line-by-line basis, except for Orizzonte – Sistemi Navali S.p.A. and Etihad Ship Building Llc, both of which have been equity accounted.
The consolidated financial statements, taken as a whole, give a fair view of the assets and liabilities, financial position, and results of operations of the Fincantieri Group for the year ended 31 December 2012.
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, 7 March 2013

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 2012.
2. The adequacy of the accounting and administrative processes for preparing the consolidated financial statements at 31 December 2012 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 internationally recognized as a generally accepted standard model. 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.

26 February 2013

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 N° 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 2012 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.

The consolidated financial statements present, for comparative purposes, the prior year annual data. As described in the explanatory notes, the Directors have restated some prior year comparative information as against those previously presented, that we had audited and on which we had already issued our report dated 23 February 2012. The consolidated financial statements figures of the previous period have been restated following the early adoption of IAS 19 revised "Employee benefits". The restatement of the figures presented for comparative purposes and the related disclosure set out in the explanatory notes have been examined by us in order to express our opinion on the consolidated financial statements as at 31 December 2012.

3 In our opinion, the consolidated financial statements of the FINCANTIERI Group as of 31 December 2012 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, result 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 n°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 2012.

Trieste, 21 March 2013

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. The financial statements referred to in the above report have not been translated.

PricewaterhouseCoopers SpA

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CORPORATE BOARDS

Following the resolutions of the Shareholders' Meeting

Board of directors

(2013-2015)

Chairman	PETRONE Vincenzo
Chief Executive Officer	BONO Giuseppe
	MANGONI Andrea
	MASINI Giovanni
	MOLINOTTI Anna
Secretary	CASTALDO Maurizio

Remuneration committee

Chairman	MOLINOTTI Anna
	MANGONI Andrea
	MASINI Giovanni

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

Indipendent auditors

(2012-2014)

PricewaterhouseCoopers S.p.A.

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