fincantieri annual report 2013

FINCANTIERI
The sea ahead

fincantieri
_annual report 2013

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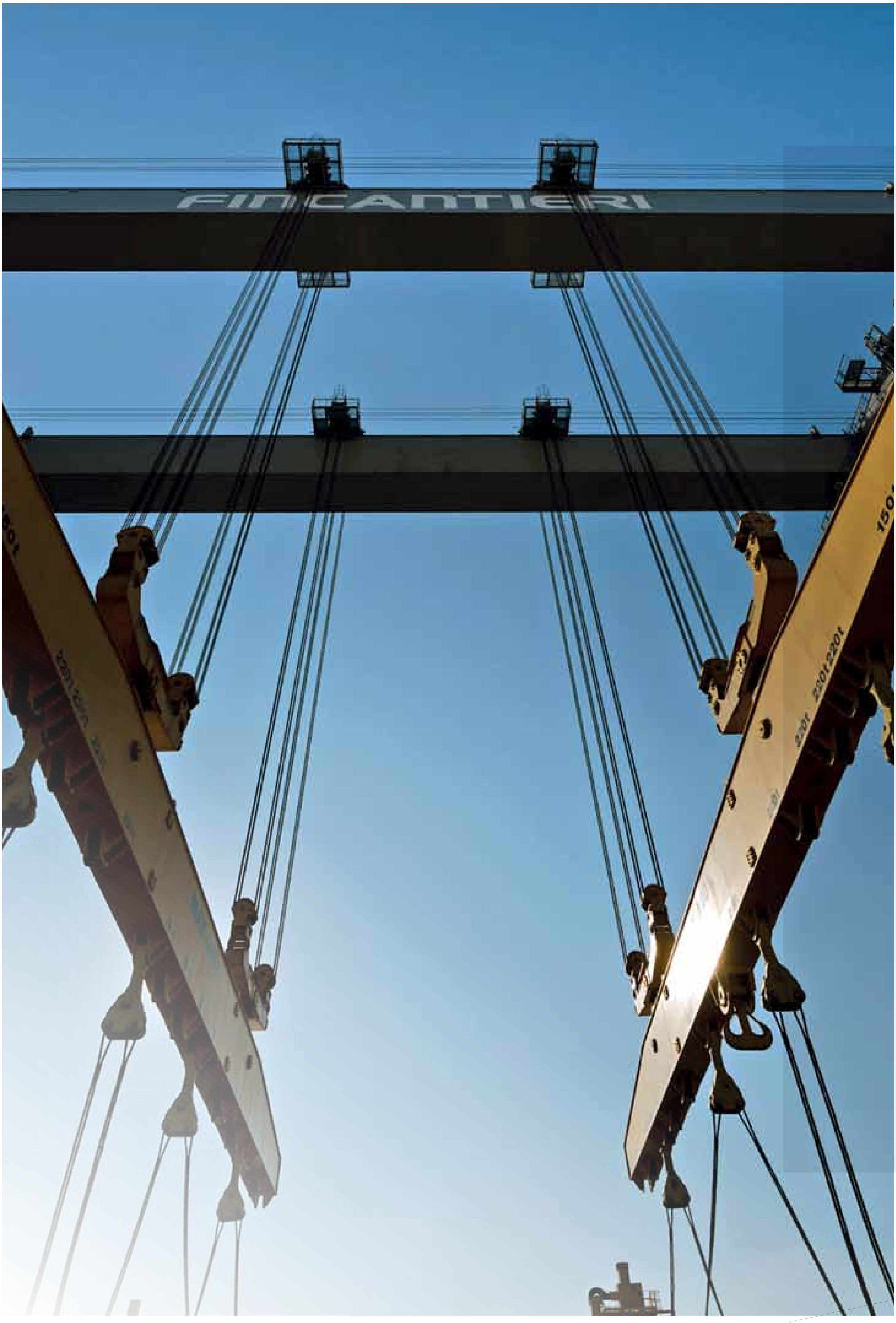

FINCANTIERI

Vincenzo Petrone

Chairman of Fincantieri

To our Shareholders,

The financial report being submitted for your approval is particularly significant in that its key data reflects the strategy of diversification and internationalization that Fincantieri has pursued in recent years and will continue to follow in the future.
The shareholders' support for this strategy has allowed the company's management to achieve a strong set of financial results.
With respect to the Group's frame of reference, the global economy reported a moderate rate of growth in 2013. The modest improvements in the United States, Japan and the Eurozone bode well for an end to this long crisis, with 2014 projected to be another year of moderate expansion, with positive GDP growth in the Eurozone (+1%)[1] and worldwide (+3.7%)[2].
In Italy, one of the main features of the crisis in recent years has been the collapse of domestic demand, while exports have grown, meaning that export-oriented businesses are those that have come through this period best. At the same time, there has been a realization that to take part fully in the development of high-potential emerging markets, Western businesses can no longer confine themselves to exports, but must have a direct presence in these markets. Fincantieri is one of those companies whose strength lies in exports and who have a worldwide market presence through their production networks.
Despite a rather negative start to the year, the shipping sector showed an improvement in its fundamentals from midway through the year, with growth in freight rates and world fleet capacity utilization improving by about one percentage point during 2013 to 85% overall[3].
Global demand for new merchant ships far exceeded initial expectations and shipyards benefited from a good inflow of orders, which equated to more than 50 million in compensated gross tonnage, the highest level since the onset of the crisis in 2008.

1. Source: Intesa San Paolo, Scenario 2014
2. Source: International Monetary Fund
3. Source: The Platou Report 2014

This greater dynamism was seen across nearly all sectors and was stimulated by certain specific drivers for each type of vessel, such as the growth of Chinese iron ore imports for bulk carriers and exports of U.S. shale gas and the nuclear energy backlash in Japan for LNG carriers, even though speculation cannot be ruled out as the motivation behind certain mega-contracts.

The last few years have been very difficult for the shipbuilding industry: the average volume of orders placed worldwide has been insufficient to absorb a production capacity which, having soared in the boom years, is now largely unused, especially at less competitive or newcomer yards.

As for the cruise ship market, the fundamentals remain positive in view the estimated steady growth in passenger numbers, expected to reach a target of over 27 million in 2020[4], while in the ferry market, fleet obsolescence and the implementation of new environmental regulations should promote demand for these vessels in the near future.

The growing demand for energy and the price of oil are underpinning the start of new exploration that is increasingly focused on new reserves in ultra-deepwater and extreme environments (eg. the Arctic); this in turn is driving demand for more efficient, technologically advanced offshore vessels, such as those designed and built by your company.

In the naval defense sphere, the growing importance of the maritime environment at both a geopolitical and commercial level is emphasizing the role of national navies. The Italian Navy has seen its duties grow in the last thirty years, with involvement in operations of various kinds, from traditional maritime defense and surveillance of the national territory and of shipping, to multinational peace-keeping and security missions and disaster relief or search and rescue operations.

This situation, together with obsolescence of the fleet, 80% of which already beyond the end of useful operational life, is driving the need to provide the Italian Navy with new ships, suitable for ensuring ongoing maritime defense and surveillance, for projecting naval power and supporting the community.

Fincantieri can now present itself to shareholders and to the market as one of the top players in the world, able to offer an extensive range of highly competitive products featuring a level of technology that few other competitors can boast.

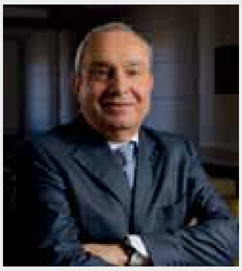
We produce systems and innovative platforms that allow us to compete in very different markets at all latitudes. Moreover, today a company like ours must meet the challenge of having to compete against a complex, globalized shipbuilding system, featuring a huge diversity of products, fierce competition, complex marine technology and continuous product innovation.

4. Source: Seatrade - Cruising through the perfect storm, by Tony Peisley

I believe that the financial results demonstrate the above and allow your company to look to the future with confidence, after several difficult years, which have decimated the number of industry players. In fact, many historical shipbuilders have not survived the crisis, while the stronger ones are coming out of it tougher and more determined than ever to grow and prosper commercially and technologically.
Your company is in every way a member of this second group of companies.
The results already achieved and challenging goals we have set ourselves will allow Fincantieri to grow further, by consolidating its image as a global player, with a diversified and balanced portfolio of activities and a structure that, with the acquisition of a controlling interest in VARD, can count on a global production network consisting of over 20,000 employees working in 21 shipyards in 7 countries, from Brazil to the United States, Vietnam to Norway. And, it must be emphasized, with a strong Italian identity.
As Chairman, in collaboration with the Chief Executive Officer and in execution of the guidelines laid down by the Board of Directors, I offer all my energy and professional experience to contributing to the further growth of your company and to consolidating the enormous prestige that it enjoys in Italy and abroad.

Vincenzo Petrone

Chairman of Fincantieri



Giuseppe Bono

Chief Executive Officer of Fincantieri

To our Shareholders,

The year 2013 was an important one in which the results of a series of strategic and operational initiatives were brought to fruition and which, I can proudly say, have transformed Fincantieri into a global company, a promoter of European shipbuilding technological excellence on the world stage, but which, staying faithful to its origins and thanks to the now entrenched skills found within its territory, has maintained a strong industrial presence in Italy.
At the strategic level, the first quarter of the year saw the Group complete the acquisition of the Norwegian company STX OSV, renamed VARD, in which it now owns a controlling interest of 55.63%. In keeping with its policy of diversification, this transaction has allowed it to access the offshore market, thanks to the newly-acquired company's range of support vessels for oil & gas exploration and production.
Through this acquisition, Fincantieri has practically doubled in size, reaching euro 3,811 million in revenue in 2013, with a workforce of more than 20,000 employees, spread across 21 shipyards in seven different countries. The Group is now one of the leading global players in the shipbuilding industry, the largest of the Western producers (Europe and North America) by turnover[5] but above all, it is one of the most diversified players in high-value market segments with promising growth prospects, in each of which it boasts a position of excellence.
In terms of profitability, the Group's EBITDA came to euro 298 million, with an EBITDA margin of 7.8%, up on 2012, while the Profit for the year was euro 85 million, after deducting euro 80 million in extraordinary and non-recurring expenses.
Net financial position at the end of 2013 was a negative euro 155 million, mainly due to the VARD acquisition, financed entirely with own resources.
To consolidate the structure of its debt and at the same time reduce its servicing costs, Fincantieri has issued a 5-year bond for euro 300 million, listing it on the Luxembourg Stock Exchange.

5. Source: Fincantieri estimate based on revenue for 2012 of Western shipbuilders (Europe and North America), excluding shipyards that operate in the naval defense segment for domestic markets.

The market received this issue very well, so much so that it was seven times oversubscribed, generating a great sense of satisfaction.
I think this is an important sign because it demonstrates that the financial market believes in a manufacturing company like ours, capable of responding to the signs of market recovery and of managing the complex competitive scenario, also reflecting the worldwide excess production capacity that emerged with the crisis and is not yet fully reabsorbed.
With regard to the market, the signs are encouraging: global orders for merchant shipping totaled more than 50 million in compensated gross tons, indicating a recovery in demand for new-build in almost every class.
Through intensive and targeted commercial activities, supported by the offer of a portfolio of high-end, custom-built products, the Group was able to win new orders worth approximately euro 4,998 million, taking its order portfolio to euro 12,900 million at the end of the year.
In detail, of the nine total contracts for cruise ships finalized around the world, six including three prototypes were awarded to Fincantieri, which added to its customer portfolio Regent Seven Seas Cruises, a company that operates at the luxury end of the market. The cruise industry continues to grow: it reported some 21.3 million passengers in 2013 and continues to have a favorable outlook, which could be even better if market potential starts to be realized in Asia, joining the traditional tourist markets in North America and Europe.
Demand for ferries, however, still appears to be on hold but, in view of environmental legislation soon to be introduced, there are growing expectations for green vessels, such as the ferry being built by Fincantieri for the Canadian company Société des traversiers du Québec, which has a diesel electric propulsion system, like modern cruise ships, but four dual-fuel diesel generators that can run on either gas or marine diesel oil.
The ship repairs and conversions market has selectively required more complex work of higher value; Fincantieri has been able to win prestigious orders, such as the restyling of the "Carnival Destiny" and the lengthening of the four Lirica class ships for MSC Crociere, just to mention the main ones.
The naval defense market has been driven primarily by the finalization of captive orders, issued by the various navies to domestic shipyards, while only a few contracts for surface vessels were awarded to non-domestic shipyards.
Fincantieri secured two foreign government orders, one for Norway's Institute of Marine Research and the other for RosRAO, a Russian state-owned enterprise specialized in the treatment of radioactive waste.
However, the most important events for the company's future concern the domestic market. In fact, funding has been allocated for the seventh and eighth FREMM and, at year end, the 2014

Stability Law 2014 implemented the new Naval Law by allocating 20-year funding to start the Italian fleet's renewal program.
Likewise, in the American market, new funds have been allocated for the construction of 2 more ships in the Littoral Combat Ship (LCS) program under the order for 10 ships awarded to the Lockheed Martin-Fincantieri consortium at the end of 2010.
In the offshore market, given the positive trend in demand for support vessels and offshore subsea construction vessels, the Group won euro 1,816 million in new orders during the year, including an order for four pipe lay support vessels for the DOF Subsea - Technip joint venture, the largest ever order in VARD's history.
Overall, then, 2013 was a good year and a turning point for the Group.
Reduced capacity utilization still persists in Italy due to the gap between acquiring new orders and putting them into production.
The drivers of our business are the pursuit of technological excellence as a mark of distinction from low-cost producers, the policy of operating in complex but high-potential markets and the firm conviction that, now more than ever, a proactive approach to the market is needed; this can be achieved by having a production model based on a network of shipyards, supported by many allied businesses, which guarantees both flexibility and proximity to the market.
Continuous improvements in efficiency are as essential as strategic actions, and I think that there is always room for progress in this area. In this sense, hand in hand with the process of internationalization, work continued in 2013 to rationalize the Parent Company's Italian production system, in line with the provisions of the Reorganization Plan set out in the agreement signed with the Ministry of Labor and the majority of trade unions in late 2011. This year, with the release or transfer of another 708 staff, 68% of the agreed total contained in the agreement was reached, while the Extraordinary Wage Guarantee Fund was used to temporarily lay off an average of 1,139 employees, a lower number than in previous years.
Agreements were also signed during the year at the shipyards in Castellammare di Stabia, Sestri Ponente, Ancona and Marghera to introduce flexible working practices and working hours, with the goal of increasing efficiency and productivity and making the business more competitive. This is an important step in the direction of working better and more effectively, in the face of a highly competitive global market.
Markets and competitors evolve fast, making it necessary to consolidate the position achieved and invest in areas related to our business offering higher added value, such as the components sector and after-sales services, with the aim of improving profitability.
The next important event is undoubtedly the privatization of Fincantieri. The listing is an opportunity to strengthen the Company, by being able to access new financial resources needed to ensure a future of growth and development. The stock market is an opportunity to do better

what we, our workers around the world together with our specialized allied industries, are used to doing every day in managing this complex business.
Lastly, it should also be noted that Fincantieri has adopted an anti-bribery policy which lays down the responsibility of all stakeholders in contributing to the maintenance of a sound reputation for honesty, integrity and fairness for the Group's companies, through behavior that ensures full compliance with all applicable laws and regulations in Italy and abroad, in the conviction that business conduct cannot be separated from an ethically correct attitude.

Giuseppe Bono

Chief Executive Officer of Fincantieri

parent company directors and officers

Board of directors

(2013-2015)

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

(*) Members of the Remuneration Committee

Board of statutory auditors

(2011-2013)

Chairman	Luigi ORLANDO
Standing members	Mauro D'AMICO
	Giovanna D'ONOFRIO
Alternate members	Giuseppe DELLA CHIARA
	Costantino LEGGERI

Manager responsible for preparing financial reports

Carlo GAINELLI

Independent auditors

(2013-2021) (**)

PricewaterhouseCoopers S.p.A.

(**) appointed by resolution of the General Meeting of Shareholders held on 28 February 2014

Oversight board

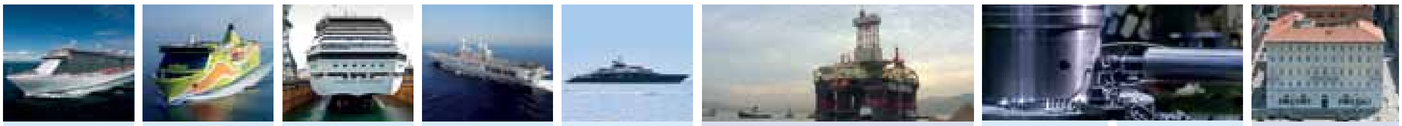
Italian Legislative Decree 231/01

Chairman	Guido ZANARDI
Members	Stefano DENTILLI
	Giorgio PANI

The group in review

At the close of financial year 2013, 99.355% of Fincantieri'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 overview of the companies included in its consolidation will now be presented.



SEGMENTS	SHIPBUILDING					OFFSHORE	EQUIPMENT, SYSTEMS AND SERVICES		OTHER
BUSINESS AREAS	Cruise ships	Ferries	Ship repairs and conversions	Naval Vessels	Mega Yachts	Offshore	Equipment and systems	After-sales	
PRODUCT PORTFOLIO	Luxury/niche Upper premium Premium Contemporary	Fast Ferries Cruise ferries Ro-Pax	Repair Refitting Conversion Refurbishment	Aircraft carrier Submarines Destroyers Frigates Corvettes Patrol vessels Amphibious ships Logistic support Special vessels Barges	Luxury yachts >60m	Offshore Support Vessels Construction vessels Drilling vessels	Steam turbines Stabilization, propulsion, dynamic positioning and power generation systems Automation systems Cabins	After-sales services • Integrated logistic support • In-service of warranty service Product lifecycle management Training and assistance	

COMPANIES AND OPERATING UNITS

Shipbuilding

Fincantieri S.p.A.
- Monfalcone
- Marghera
- Sestri Ponente
- Ancona
- Castellammare di Stabia
- Palermo
- Trieste
- Integrated naval shipyard Riva Trigoso and Muggiano

Cetena S.p.A.

Bacini Palermo S.p.A.

Gestione Bacini La Spezia S.p.A.

FMG LLC
- Sturgeon Bay

Fincantieri Marine Group Holdings Inc.

Marinette Marine Corporation LLC
- Marinette

ACE Marine LLC
- Green Bay

Fincantieri USA Inc.

Fincantieri India Private Ltd.

Fincantieri do Brasil Partecipações S.A.

Fincantieri Holding BV

Offshore

Fincantieri Oil&Gas S.p.A.

Fincantieri S.p.A.

Vard Holdings Ltd.

Vard Group A.S.
- Aukra
- Langsten
- Brattvaag
- Brevik
- Søviknes

Vard Tulcea S.A.
- Tulcea

Vard Niterói S.A.
- Niterói

Vard Promar S.A.
- Promar

Vard Vung Tau Ltd.
- Vung Tau

Vard Electro A.S.

Vard Design A.S.

Vard Piping A.S.

Vard Accommodation A.S.

Vard Braila S.A.

Equipment, systems and services

Fincantieri S.p.A.
- Riva Trigoso

Seastema S.p.A.

Delfi S.r.l.

Seaf S.p.A.

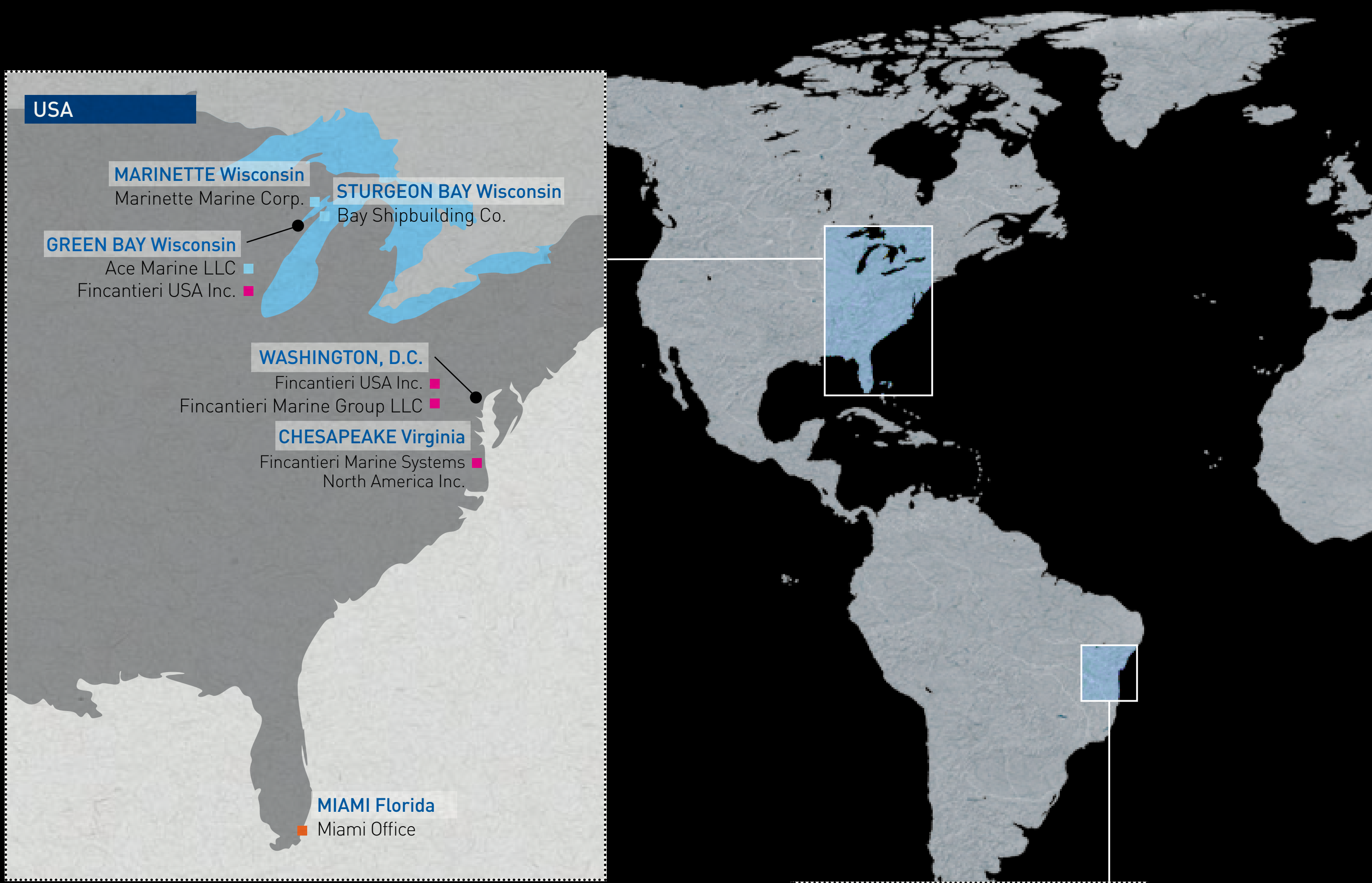
Isotta Fraschini Motori S.p.A.
- Bari

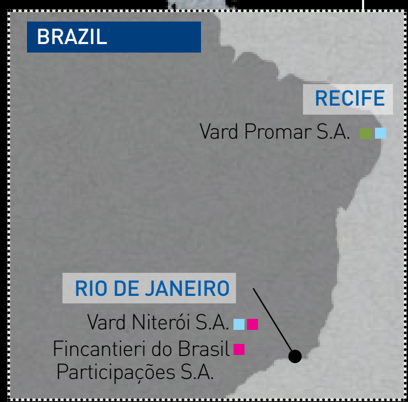
FMSNA Inc.

Other

Fincantieri S.p.A.
- Corporate

Structure of the Fincantieri Group





AMERICAS

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.
- MIAMI OFFICE

BRAZIL

- FINCANTIERI DO BRASIL PARTICIPAÇÕES S.A.
- VARD NITERÓI S.A.
- VARD PROMAR S.A.

- subsidiary
- shipyard
- business unit
- dock
- joint venture
- representative office

EUROPE

ITALY

TRIESTE
- HEAD OFFICE
- MERCHANT SHIPS
- SHIP REPAIRS AND CONVERSIONS
- OFFSHORE

MUGGIANO
- MEGA YACHTS

BARI
- ISOTTA FRASCHINI MOTORI S.p.A.

GENOVA
- NAVAL VESSELS
- MARINE SYSTEMS AND COMPONENTS
- AFTER SALES
- ORIZZONTE SISTEMI NAVALI S.p.A.
- CETENA S.p.A.
- DELFI S.r.l.
- SEASTEMA S.p.A.

- TRIESTE ATSM DOCK
- MUGGIANO DOCK
- PALERMO DOCK

ASIA

- MONFALCONE SHIPYARD
- MARGHERA SHIPYARD
- ANCONA SHIPYARD
- SESTRI PONENTE SHIPYARD
-
- CASTELLAMMARE DI STABIA SHIPYARD
- PALERMO SHIPYARD

ROMANIA

- VARD BRAILA S.A.
- VARD TULCEA S.A.

NORWAY

- VARD GROUP A.S. (Head Office)
- VARD DESIGN A.S.
- VARD PIPING A.S.
- VARD ELECTRO A.S.
- VARD ACCOMMODATION A.S.
- VARD LANGSTEN
- VARD AUKRA
- VARD BRATTVAAG
- VARD BREVIK
- VARD SØVIKNES

CROATIA

- VARD DESIGN LIBURNA Ltd.

INDIA

- FINCANTIERI INDIA PRIVATE Ltd.
- VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) PRIVATE Ltd.

UAE

- ETIHAD SHIP BUILDING LLC

VIETNAM

- VARD VUNG TAU Ltd.

SINGAPORE

- VARD HOLDINGS Ltd.

fincantieri group report on operations

page number	
20	Operational and financial review
28	Financial highlights
34	Operational review by segment
41	Core markets
49	Research, development and innovation
52	Human resources and industrial relations
55	Respect for the environment
56	Ethics and safety at work
59	Enterprise risk management
66	Corporate governance
78	Transactions with the controlling company and other group companies
78	Other information
80	Reconciliation of parent company profit for the year and equity with the consolidated figures
81	Reconciliation of the reclassified financial statements used in the report on operations with the mandatory IFRS statements

Operational and financial review

To our Shareholders,

The year 2013 saw a major change in the Group's scope of consolidation following the acquisition of VARD. In fact, on 23 January 2013 the Fincantieri Group completed the acquisition of a controlling interest (50.75%) in STX OSV (now renamed VARD), one of the world leaders in the construction of complex support vessels for the oil & gas exploration and production industry; in March, the Group then raised its stake in this company to 55.63% upon closing the mandatory public tender offer made under the rules of the Singapore Stock Exchange. The acquisition forms part of the actions to diversify the Group into businesses with higher growth prospects and profitability, as well as to raise its international "profile".

Through this acquisition, the Group has doubled in size, to reach almost euro 4 billion in annual revenue, with more than 20,000 employees, in 21 shipyards located in 3 different continents, and has become one of the world's top four shipbuilders, behind three Korean players, and number one by product diversification and leader in the principal high added-value and high-potential segments of the shipbuilding market.

In a market environment that remains challenging despite signs of recovery, the Group achieved a strong set of results in 2013, posting euro 3,811 million in Revenue, euro 298 million in EBITDA and euro 85 million in Profit for the year, after deducting euro 80 million in extraordinary and non-recurring expenses.

Net financial position (stated net of the VARD Group's construction loans of euro 563 million) was a negative euro 155 million at the end of December 2013. In this regard, it is recalled that in November Fincantieri completed the issuance of a 5-year bond for euro 300 million, with a 3.75% coupon, listed on the Luxembourg Stock Exchange; this has not only lengthened and optimized the structure of the Group's debt, but has also reduced the related finance costs. The issue was very well received by the market, attracting more than euro 2 billion in applications.

The strength of the consolidated capital and financial structure is reflected in Equity of euro 1,210 million, of which euro 492 million in reserves. The financial statements also include euro 151 million in appropriate provisions to cover specific risks and potential charges.

During 2013 the Parent Company continued to implement its Reorganization Plan in Italy, in accordance with the agreement signed at the end of 2011 with the Ministry of Labor and the majority of trade unions. In fact, there were 708 leavers and transferees during the year, which, combined with those leaving in previous years, represent 68% of the Plan's target total. The Extraordinary Wage Guarantee Fund was used for an average of 1,139 employees, which was lower than in previous years. It is noted that the Parent Company hired 131 new staff during the year.

In addition, important agreements were signed during the year with all the local trade unions, aimed at increasing the flexibility of working practices at the yards in Castellammare di Stabia, Sestri Ponente, Ancona and Marghera.

On 10 July 2013, an agreement was signed with the Ministry of Labor to extend utilization of the Extraordinary Wage Guarantee Fund at all the Italian production facilities until August 2014.

The order portfolio at 31 December 2013 stood at euro 12,900 million, after winning euro 4,998 million in new orders during the year, which ensure an order backlog of euro 8,068 million, equating to more than two years' worth of annual revenue, although not sufficient to fully utilize production capacity at the Italian shipyards in the short/medium term. In addition, at the reporting date Fincantieri can also boast a substantial number of agreements in the process of being finalized, for which the related funding is being arranged. Work has also continued on the FREMM frigates program and a major investment program has been approved to modernize and rationalize the Italian Navy, with specific funding earmarked in the "2014 Stability Law".
Lastly, it is reported that the Group delivered a total of 33 new vessels during the course of 2013.

GROUP POSITIONING

Following the acquisition of VARD, the Fincantieri Group is now the largest Western player in the market and the leading player by product, customer and geographical diversification.
During 2013 the Group further consolidated its position in its established market segments, and, with the goal of long-term growth and defense of its industrial and intellectual assets, it embarked on a strategy of further diversification after identifying the Offshore Oil & Gas sector as its target.
The acquisition of 50.75% of VARD Holdings Limited, subsequently increased to 55.63% following completion of the mandatory public tender offer, forms part of this strategy and marks Fincantieri's entrance into a complementary market segment to existing ones, under a transaction entirely financed with own resources. This has allowed Fincantieri to add a third major line of business to that of cruise/passenger ships and naval vessels.
Fincantieri now boasts a portfolio of high-tech products in an extremely complex sector, with a global presence centered on a network of 21 shipyards in 12 countries (including Italy, Norway, Romania, USA, Brazil, UAE and Vietnam) across 3 continents (Europe, America and Asia), with more than 20,000 direct employees and more than 80,000 people working in allied industries.
Fincantieri has strengthened its presence at the luxury end of the cruise ship market: not only has it won orders for two more ships from Viking Ocean Cruises and one from Compagnie du Ponant, but it has also secured an order from Regent Seven Seas Cruises, a new customer in an already well-diversified portfolio by type of customer and ships, featuring numerous negotiations in the process of finalization at the year-end date.
The naval vessels business saw a continuation of the FREMM frigates program and the approval of a new investment program to modernize and rationalize the Italian Navy. The start of this program, to which Italy's "2014 Stability Law" has allocated funding, should make for a more certain future for Fincantieri's Italian shipyards dedicated to this business.
In the United States, new orders for two more Littoral Combat Ships (LCS) have confirmed Fincantieri's role as a preferred partner of the U.S. Navy and the U.S. Coast Guard.
The new orders secured in 2013 demonstrate Fincantieri's competitive, design and delivery capabilities in a market that demands high-tech products featuring high degrees of innovation.

SIGNIFICANT EVENTS IN THE PERIOD:

January

A delivery ceremony was held at the Muggiano shipyard for two vessels for the United Arab Emirates Navy: the “Abu Dhabi Class” corvette, launched in February 2011, and the “Ghantut” patrol vessel, launched at the same yard in January 2012.

Further to the agreement signed on 21 December 2012, on 23 January 2013 Fincantieri completed the acquisition from STX Europe of 50.75% of STX OSV Holdings Limited, a company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels for the oil & gas exploration and production industry.

February

Fincantieri signed with the Provincial Secretariats of all the trade unions and the individual shipyard trade union representatives, an agreement for the reorganization of the Castellammare di Stabia yard, which follows on from the one signed on 21 December 2011 with the government and national unions and which establishes important new practices to make work more flexible (multi-period hours, six-hour shifts six days a week and end-of-shift clocking out).

RINA (*Registro Italiano Navale* or Italy’s ship classification society) awarded the Riva Trigoso yard with “Environmental Protection” certification under ISO 14001, the most recent and advanced environmental management standard.

The purchase of a majority stake in VARD triggered the obligation, under the rules applying to companies listed on the Singapore Stock Exchange, for the Group to make a public tender offer for all of the remaining shares at a price of SGD 1.22 per share. In compliance with these rules, the Group filed the offer document with the Singapore Stock Exchange on 13 February 2013.

On 14 February 2013, STX OSV Holdings Limited announced that it had secured three new contracts to build an equal number of Offshore Subsea Construction Vessels (OSCV) for Farstad Shipping, Solstad Offshore and DOF Subsea, with deliveries scheduled between the second quarter of 2014 and first quarter of 2015.

In February 2013, the Memorandum of Agreement signed with the Carnival group in 2012, was finalized with the formalization of contracts for the construction of two cruise ships, one for Holland America Line and the other for Carnival Cruise Lines. Both ships will be firsts in a new, innovative class of vessel. The Holland America Line ship will have a gross tonnage of 99,000 tons and will be delivered in autumn 2015. The Carnival Cruise Lines ship, with a gross tonnage of 135,000 tons, will enter service in winter 2016.

March

The plate-cutting ceremony for the sixth FREMM frigate was held at the Riga Trigoso shipyard. This marked a continuation of the European multipurpose frigate construction program, the most important joint initiative to date between European industries in the naval defense sector.

The U.S. Navy placed an order with FMG, Fincantieri’s American subsidiary, for two more Littoral Combat Ships, the fifth and sixth under a contract for ten ships, for which the customer must exercise the remaining options by 2015.

The “Regal Princess”, the new flagship of the Princess Cruises fleet, was launched at the Monfalcone shipyard. Delivery is scheduled for spring 2014.

On 13 March 2013, the acceptance period ended for the mandatory public tender offer, made by Fincantieri after acquiring a majority stake in STX OSV Holdings Limited, renamed “VARD

Holdings Limited" ("VARD") on 23 April. A total of 57,620,268 shares had been acquired (4.88% of the total), taking the total number of shares held at the end of the public tender offer to 656,471,268, equating to 55.63% of VARD's share capital.

April

Fincantieri signed with the Provincial Secretariats of all the trade unions and the individual shipyard trade union representatives, an agreement for the reorganization of the Sestri Ponente yard, which follows on from the one signed on 21 December 2011 with the government and national unions and the one signed locally on 15 February 2012, and which establishes important new practices to make work more flexible (multi-period hours, six-hour shifts six days a week and end-of-shift clocking out).

On 22 April 2013, a delivery ceremony was held at the Muggiano shipyard for the "Salahah" patrol vessel, built for the United Arab Emirates Navy.

On 23 April 2013, VARD signed a letter of intent with Simon Møkster Shipping for the construction of a Platform Supply Vessel (PSV).

On 30 April 2013, VARD announced the signing of a contract with Buksér og Berging for the construction of an Azimuth Stern Drive (ASD) offshore tug.

May

On 3 May 2013, VARD reported that it had secured a contract for the construction of an Advanced Offshore Support Vessel for Island Offshore and on 13 May 2013 it announced the formalization of the contract to build a Platform Supply Vessel (PSV) for Simon Møkster Shipping, which had been the subject of a letter of intent signed the previous month.

On 15 May 2013, a ceremony was held at the Monfalcone shipyard to mark the start of work on a new ship for P&O Cruises, scheduled for delivery in March 2015.

On 22 May 2013, a contract was signed for the construction at the Group's American shipyards of 4 RBMs (Response Boats-Medium) for the U.S. Coast Guard.

On 31 May 2013, a ceremony was held at the Monfalcone shipyard to deliver the "Royal Princess", the new flagship of the Princess Cruises fleet and the largest ship ever built by Fincantieri, featuring a new approach to design not only in terms of lay-out and superior performance, but also because it complies with all the most recent regulations for large cruise ships.

Also in May was the official delivery ceremony for the "Carlo Bergamini" FREMM, launched on 16 July 2011 at the Riva Trigoso shipyard.

June

On 6 June 2013, the plate-cutting ceremony was held at the Marghera shipyard for the "Viking Star", the first of two cruise ships that Fincantieri is building for Viking Ocean Cruises.

During the month Fincantieri signed with the Provincial Secretariats of all the trade unions and the individual shipyard trade union representatives, an agreement for the reorganization of the Ancona yard, which follows on from the one signed on 21 December 2011 with the government and national unions, and which establishes important new practices to make work more flexible (multi-period hours, six-hour shifts six days a week and end-of-shift clocking out).

On 28 June 2013, a ceremony was held at the Ancona shipyard to deliver "Le Soléal", a super-luxury cruise ship built by Fincantieri for the French cruise operator Compagnie du Ponant.

On 29 June 2013, a ceremony was held at the Riva Trigoso shipyard to launch the "Carlo Margottini" frigate, the third in a series of FREMMs commissioned from Fincantieri by the Italian Navy under the Italo-French international cooperation agreement.
In June, the Group's American shipyards held ceremonies to lay the keel of the third ship in the LCS program and to cut the plate of the fourth ship.

July

On 10 July 2013, Fincantieri signed a contract with Regent Seven Seas Cruises for the construction of a super-luxury cruise ship. The new contract will be assigned to the Sestri Ponente shipyard, with delivery scheduled for summer 2016.
On 10 July 2013, an agreement was signed at the Ministry of Labor, with all the trade unions, to extend utilization of the Extraordinary Wage Guarantee Fund at all the Group's Italian production facilities until August 2014.
On 15 July 2013, the "Ubaldo Diciotti" patrol boat was launched at Castellammare di Stabia; this was the second multipurpose vessel commissioned from Fincantieri by the General Command of the Port Authority Corp for the Italian Coast Guard.
On 16 July 2013, Fincantieri signed a contract with the French cruise operator Compagnie du Ponant for the construction of a super-luxury cruise ship. The new ship will be a sister ship to the "Le Soleal", the mini-cruise ship delivered in June 2013 at Ancona.
On 24 July 2013, a plate-cutting ceremony was held at the Castellammare di Stabia shipyard for the latest generation ferry being built by Fincantieri for Société des traversiers du Québec (STQ).
At the end of July a new Italo-Russian alliance was created in the field of research: Fincantieri and the Krylov State Research Centre, one of the world's most prestigious centers for shipbuilding research, signed a framework agreement with the aim of jointly developing new projects for technological innovation within the industry.

August

On 12 August 2013, VARD announced it had won a major order from the DOF Subsea - Technip joint venture for the construction of four Pipe Lay Support Vessels (PLSVs). The contract, worth approximately USD 1.1 billion, is the largest in VARD's history and one of the largest ever in this particular sector.
On 15 August 2013, the Board of Directors of VARD Holdings Ltd. announced that the company had acquired, through its subsidiary VARD Electro AS, a 100% interest in Johangarden AS.
On 22 August 2013, VARD announced the signing of a new contract for the construction of an Offshore Subsea Construction Vessel (OSCV) for Farstad Shipping.

September

On 2 September 2013, VARD announced the signing of a contract for the construction of a Platform Supply Vessel (PSV) for Carlotta Offshore Ltd.
Fincantieri launched a project in partnership with Genoa University's Polytechnic School in order to foster and develop the best ideas originating from the university in order to translate them into product innovations in areas most critical to competitive advantage.
On 30 September 2013, a ceremony was held at the Castellammare di Stabia shipyard to deliver the "Luigi Dattilo" patrol vessel, the first of two multipurpose vessels commissioned from Fincantieri by the General Command of the Port Authority Corp for the Italian Coast Guard.

October

VARD announced that further to the rationalization of operations in Romania, the pipe fabrication business of VARD Piping SRL had been integrated into the Tulcea shipyard, while its engineering division had been transferred to VARD Engineering Constanta SRL, a newly incorporated company in Romania, 70% of which owned by VARD RO Holding SRL and 30% by VARD Braila SA.

On 18 October 2013, Fincantieri signed a letter of intent for the construction of a new super-luxury cruise ship for Seabourn, a Carnival Corporation brand.

On 25 October 2013, a ceremony was held at the Group's American shipyards to deliver the first special vessel to Tidewater.

November

On 5 November 2013, VARD announced the signing of a contract for the construction of a survey vessel for Circle Maritime Invest JSC.

On 8 November 2013, a ceremony was held at the Group's American shipyards to deliver the "Reuben Lasker", a fisheries survey vessel, to the government agency NOAA (National Oceanic and Atmospheric Administration).

On 15 November 2013, a ceremony was held at Fincantieri's Marghera shipyard for the technical launch of the "Costa Diadema", the future flagship of Costa Crociere.

On 19 November 2013, Fincantieri placed the first bond in its history by issuing a 5-year bond for euro 300 million with a 3.75% annual coupon.

On 22 November 2013, a ceremony was held at the RMK Marine shipyard to deliver the "Gűven" patrol vessel to the Turkish Coast Guard. This patrol vessel is part of a project between Fincantieri and the Turkish shipyard RMK Marine which involves the construction of four vessels commissioned by SSM (Undersecretariat for Defense Industry) for the Turkish Coast Guard fleet.

During the Italy-Russia Business Forum, held in Trieste on 26 November 2013, Fincantieri announced the signing of an agreement to define plans for a drillship featuring frontline innovation and technology, and the securing of a contract to build a pontoon to transport nuclear submarine reactor compartments.

On 29 November 2013, Fincantieri and the Institute of Marine Research (IMR) signed a contract for the construction of an oceanographic icebreaker for operating in polar waters. The owner of the ship will be the Norwegian Polar Institute, on behalf of the Norwegian government. The ship will be built in Italy at the integrated shipyard of Riva Trigoso-Muggiano, before undergoing final outfitting and sea trials in the VARD shipyards in Norway. The project is strategically important also in terms of acquiring and enhancing skills in special artic vessels, a market sector projected to expand.

On 29 November 2013, VARD announced the signing of a contract for the construction of an Advanced Offshore Support Vessel for Island Offshore.

December

On 9 December 2013, a ceremony was held at the Group's American shipyards to deliver a special vessel to Tidewater.

On 16 December 2013, Fincantieri announced the signing of a contract for the construction of two cruise ships for Viking Ocean Cruises. These new ships will be sister ships to those ordered in July 2012 and will be delivered in 2016 and 2017 respectively. The contract will be effective once all financing and other customary closing conditions have been agreed.

On 16 December 2013, a ceremony was held at the Castellammare di Stabia shipyard to mark the start of construction of the "F.-A.-Gauthier", the latest generation ferry being built by Fincantieri for Société des traversiers du Québec (STQ).
On 18 December 2013, a ceremony was held at the Group's American shipyards to launch one of the ships in the LCS program.
On 19 December 2013, a ceremony was held at the Muggiano shipyard to deliver to the Italian Navy the " Virgilio Fasan", the second frigate in the FREMM program and the first featuring ASW (Anti-Submarine Warfare) systems.
On 20 December 2013, Fincantieri announced that MSC Crociere had awarded it a major contract to refit all four of its Lirica class ships. The program, baptized "Renaissance", will be completed by the end of 2015 and will allow Fincantieri to strengthen its position in the refitting and refurbishment segment.
On 30 December 2013, VARD announcing the signing of a contract with a new customer, Harkand Group, for the design and construction of a Diving Support and Construction Vessel.

Financial highlights

The Fincantieri Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IAS/IFRS).
It should be noted that the figures for 2013, unlike those for 2012 and 2011, have been affected by the first-time line-by-line consolidation of VARD and so are not comparable with the figures for previous years.

		2013	2012	2011
New orders (*)	Euro/million	4,998	1,394	1,863
Order portfolio (*)	Euro/million	12,900	7,817	8,361
Order backlog (*)	Euro/million	8,068	4,735	5,373
Capital expenditure	Euro/million	255	89	78
R&D	Euro/million	88	62	55
Employees at year end	Number	20,389	10,240	9,994
Revenue and income (**)	Euro/million	3,811	2,381	2,380
EBITDA (**)	Euro/million	298	147	141
EBIT (**)	Euro/million	209	87	75
Profit/loss (+/-) before extraordinary and non-recurring income and expenses (**)(***)	Euro/million	137	44	44
Extraordinary and non-recurring income and expenses (+/-)	Euro/million	-80	-41	-51
Profit for the year	Euro/million	85	15	9
Net invested capital	Euro/million	1,365	498	725
Equity	Euro/million	1,210	957	951
Net financial position	Euro/million	-155	459	226
Free cash flow	Euro/million	-519	292	82
Vessels delivered (****)	Number	33	4	8

(*) Net of eliminations and consolidations
(**) The comparative figures for 2012 and 2011 have been restated to reflect reclassifications of the release of provisions and the effects of foreign currency derivatives on the income statement
(***) The comparative figures for 2011 have been restated to reflect early adoption of IAS 19 *Revised*
(****) Number of ships over 40 meters long

For a detailed analysis of the contents of the financial statements of VARD, please refer to this company's financial reports and other communications to shareholders, made in compliance with the rules of the Singapore Stock Exchange.

GROUP FINANCIAL RESULTS

For the purposes of analyzing the Group's results of operations, assets and liabilities and financial situation in the years ended 31 December 2013, 2012 and 2011, presented below are the reclassified versions of the income statement, statement of financial position and statement of cash flows and the breakdown of net financial position, used by management to monitor business performance. A reconciliation of these reclassified statements to the IFRS statements can be found later on in this report.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(Euro/million)	2013	2012	2011
Revenue and income	**3,811**	**2,381**	**2,380**
Materials, services and other costs	-2,745	-1,727	-1,768
Personnel costs	-752	-507	-458
Provisions and impairment	-16	-	-13
EBITDA	**298**	**147**	**141**
Depreciation and amortization	-89	-60	-66
EBIT	**209**	**87**	**75**
Finance income/costs (+/-)	-55	-12	-1
Income/expense (+/-) from investments	2	1	-
Income taxes	-19	-32	-30
Profit/loss (+/-) before extraordinary and non-recurring income and expenses	**137**	**44**	**44**
Extraordinary and non-recurring income and expenses (+/-)	-80	-41	-51
Tax effect of extraordinary and non-recurring income and expenses	28	12	16
Profit for the year	**85**	**15**	**9**

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

- **Revenue and income:** these amount to euro 3,811 million, up on 2012 due to the consolidation of the VARD Group; revenue of euro 2,381 million in 2012 is in line with that in 2011;
- **EBITDA:** this amounts to euro 298 million with an EBITDA margin of 7.8%, while EBITDA in 2012 and 2011 came to euro 147 million and euro 141 million respectively, with the EBITDA margin at 6.2% in 2012 and 5.9% in 2011;
- **Finance income and costs and income and expense from investments:** these report a net negative euro 53 million, comprising euro 55 million in net finance costs (inclusive of euro 24 million in finance costs relating to the VARD Group's construction loans) and euro 2 million in income from investments. In 2012 and 2011, such financial operations produced net costs of euro 11 million and euro 1 million respectively;
- **Income taxes:** these report a negative balance of euro 19 million in 2013, excluding the tax effect of extraordinary and non-recurring income and expenses;
- **Profit/loss (+/-) before extraordinary and non-recurring income and expenses:** this is a profit of euro 137 million, compared with euro 44 million in 2012 and euro 44 million in 2011;
- **Extraordinary and non-recurring income and expenses:** these report euro 80 million in net expenses for events falling outside the normal course of business, the most important of which were employer costs for the Extraordinary Wage Guarantee Fund, increases in provisions

for restructuring costs and asbestos problems, non-recurring expenses associated with the acquisition of the VARD Group and the impairment of certain assets in the subsidiary Isotta Fraschini Motori, in view of its planned reorganization;
- **Tax effect of extraordinary and non-recurring income and expenses:** taxes relating to extraordinary and non-recurring income and expenses have had an overall positive effect of euro 28 million in 2013;
- **Profit for the year:** this amounts to more than euro 85 million.

ALTERNATIVE NON-GAAP PERFORMANCE MEASURES

Fincantieri's management reviews the performance of the Group and its business segments using a number of measures not defined under IFRS. In particular, EBITDA is used as the main earnings indicator, as it enables the Group's underlying profitability to be assessed, by eliminating the impact of volatility associated with non-recurring items or extraordinary items outside the ordinary course of business.
As required by Recommendation no. 05-178b of the Committee of European Securities Regulators, the components of each of these measures are described below:

- EBITDA: this is equal to earnings before taxes, before finance income and costs, before income and expenses from investments and before depreciation and amortization, as reported in the financial statements, adjusted by the following items:
  - company costs for the Extraordinary Wage Guarantee Fund;
  - costs relating to the restructuring plan;
  - provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages;
  - other expenses or income outside the ordinary course of business due to particularly significant non-recurring events.
- EBIT: this is equal to EBITDA after deducting depreciation and amortization, as reported in the financial statements.
- Profit/loss (+/-) before extraordinary and non-recurring income and expenses: this is equal to profit (loss) for the year before adjustments for non-recurring items or those outside the ordinary course of business.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Euro/million)	31.12.2013	31.12.2012	31.12.2011
Intangible assets	539	104	110
Property, plant and equipment	897	585	555
Investments	70	17	16
Other non-current assets and liabilities	-14	-40	-50
Employee benefits	-60	-71	-65
Net fixed capital	**1,432**	**595**	**566**
Inventories and advances	400	273	276
Construction contracts and advances from customers	757	-56	149
Construction loans	-563	-	-
Trade receivables	344	268	318
Trade payables	-911	-597	-577
Provisions for risks and charges	-151	-101	-114
Other current assets and liabilities	57	116	107
Net working capital	**-67**	**-97**	**159**
Net invested capital	**1,365**	**498**	**725**
Equity	**1,210**	**957**	**951**
Net financial position	**155**	**-459**	**-226**
Sources of funding	**1,365**	**498**	**725**

The **consolidated statement of financial position** reports an increase of euro 867 million in net invested capital in 2013, mainly due to the following factors:

- **Net fixed capital:** this has increased by euro 837 million, net of depreciation and amortization, mostly due to the change in the scope of consolidation (approximately euro 700 million) and to expenditure on property, plant and equipment and intangible assets during the year (euro 252 million);
- **Net working capital:** this is a negative euro 67 million and is broadly in line with the figure for 2012.

Equity reports an increase of euro 253 million, mainly reflecting the positive contribution of profit for the year (euro 85 million), the decrease in the currency translation reserve due to trends in the US dollar and Norwegian krone against the euro (euro 41 million) and the effect of the change in the scope of consolidation on equity attributable to non-controlling interests.

All the above factors have led to a **net financial position** of euro 155 million in net debt at year end.

CONSOLIDATED NET FINANCIAL POSITION

(Euro/million)	31.12.2013	31.12.2012	31.12.2011
Cash and cash equivalents	**385**	**692**	**432**
Current financial receivables	**52**	**45**	**44**
Current bank debt	-35	-3	-6
Current portion of bank loans and credit facilities	-32	-17	-17
Other current financial liabilities	-3	-129	-164
Current debt (-)	**-70**	**-149**	**-187**
Net current cash/debt (+/-)	**367**	**588**	**289**
Non-current financial receivables	**41**	**17**	**17**
Non-current bank debt	-255	-134	-67
Bond	-296	-	-
Other non-current financial liabilities	-12	-12	-13
Non-current debt (-)	**-563**	**-146**	**-80**
Net financial position	**-155**	**459**	**226**

The above **net financial position**, reporting a negative balance of euro 155 million at 31 December 2013, does not include construction loans (see Note 26), which are treated as part of working capital.

RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS

(Euro/million)	2013	2012	2011
Net cash flows from operating activities	-95	375	150
Net cash flows from investing activities	-424	-83	-68
Net cash flows from financing activities	255	13	-24
Net cash flows for the year	**-264**	**305**	**58**
Cash and cash equivalents at beginning of year	**692**	**387**	**329**
Effects of currency translation difference on opening cash and cash equivalents	-43	-	-
Cash and cash equivalents at end of year	**385**	**692**	**387**

The statement of cash flows reports negative **Net cash flows for the year** of euro 264 million, as the result of negative free cash flow of euro 519 million (which includes the outlay for the VARD acquisition), as partially offset by euro 255 million in cash flows provided by financing activities. Cash flows from operating activities include the change in construction loans.

NEW ORDERS AND THE ORDER PORTFOLIO

A total of euro 4,998 million in new orders were secured during 2013, reflecting a significant increase on previous years in every segment of the Group's business.
As a result, at the year-end reporting date, the Fincantieri Group's order portfolio was worth euro 12,900 million (euro 7,817 million in 2012 and euro 8,361 million in 2011). The associated order backlog at 31 December 2013 was equal to euro 8,068 million (euro 4,735 million in 2012 and euro 5,373 million in 2011).
The following table analyzes the new orders, order portfolio and order backlog for 2013.

2013						
(Euro/million)	**Shipbuilding**	**Offshore**	**Equipment, Systems and Services**	**Other Activities**	**Eliminations**	**Group**
New orders	3,010	1,816	205	-	-33	4,998
Order portfolio	8,695	3,757	550	-	-102	12,900
Order backlog	5,345	2,480	264	-	-21	8,068

CAPITAL EXPENDITURE - R&D AND INNOVATION

Capital expenditure of euro 255 million mainly refers to completion of multi-year programs to increase production capacity of the shipyards in Brazil and the United States, and to projects to make production more efficient and improve safety and environmental standards.
The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. This is why its 2013 income statement contains euro 88 million in research costs for numerous projects relating to product and process innovation; the Group systematically carries out such activities, seen as a strategic prerequisite for retaining its leadership of all high-tech market sectors, now and in the future. In addition, the Company has capitalized euro 34 million in development costs for projects with long-term utility; these projects mainly relate to innovative devices and systems able to meet the new international safety regulations (the Safe Return to Port requirement) and to reduce the pollution produced by cruise ships. In this regard, it is reported that during 2013 the Company delivered to the Carnival Group the first ship in the world able to comply with these new international safety regulations, defined by the International Maritime Organization, a UN agency.

DIVIDENDS

Despite reporting a profit for the year, it is proposed not to distribute a dividend for 2013 in order to better support the Company's capital structure.

Operational review by segment

SHIPBUILDING

The Shipbuilding operating segment is engaged in the design and construction of ships for the business areas of cruise ships, ferries, naval defense (Italian and foreign) and mega yachts, as well as in ship conversion and repair. Production is carried out at the Italian shipyards and, in the case of vessels intended for the American market, at the Group's U.S. shipyards.

(Euro/million)	2013	2012	2011
Revenue and income (*)	2,394	2,292	2,288
EBITDA (*)	155	157	156
New orders (*)	3,010	1,298	1,792
Order portfolio (*)	8,695	7,440	8,181
Order backlog (*)	5,345	4,623	5,316
Capital expenditure	137	84	73
Vessels delivered (no.) (**)	11	4	8

(*) Before eliminations between operating segments
(**) Vessels over 40 meters long

Revenue and income

Revenue from the Shipbuilding operating segment amounted to euro 2,394 million at 31 December 2013 (euro 2,292 million in 2012 and euro 2,288 million in 2011), of which euro 1,075 million related to the Cruise Ships business area (euro 1,062 million in 2012 and euro 1,244 million in 2011) and euro 1,126 million to the Naval Vessels business area (euro 1,052 million in 2012 and euro 894 million in 2011).

New orders

New orders worth euro 3,010 million were secured during 2013, marking a significant increase on the previous year.

The new orders referred to six cruise ships (two for the Carnival Group, two for Viking Ocean Cruises, and one for each of Regent Seven Seas Cruises and Compagnie du Ponant), two more Littoral Combat Ships for the U.S. Navy, two ships under the FREMM program for the Italian Navy, four small patrol boats for the U.S. Coast Guard, a pontoon to transport nuclear submarine reactor compartments and an oceanographic icebreaker intended to operate in polar waters for the Norwegian Polar Institute.

Order portfolio and backlog

The Shipbuilding segment's order portfolio stood at euro 8,695 million at year end (euro 7,440 million in 2012 and euro 8,181 million in 2011).

The associated order backlog at 31 December 2013 was equal to euro 5,345 million (euro 4,623 million in 2012 and euro 5,316 million in 2011).

The year-end order backlog at the Italian yards, showing a significant increase for cruise ships and a temporary contraction for naval vessels, is not sufficient to fully utilize production capacity at all the shipyards in the short/medium term, meaning it will be necessary to make temporary lay-offs at some operating units using the Extraordinary Wage Guarantee Fund. In addition, at the reporting date Fincantieri can also boast a substantial number of agreements in the process of being finalized, for which the related funding is being arranged. Work has also continued on the FREMM frigates program and a major investment program has been approved to modernize and rationalize the Italian Navy, with specific funding earmarked in the "2014 Stability Law".

Capital expenditure

The most significant expenditure included:

- by the Parent Company:
  - modernization of hull-building technology with the introduction of hybrid laser technology for welding at the Monfalcone shipyard;
  - creation of new infrastructure and logistical support areas, particularly in the shipyards of Monfalcone and Marghera, also to allow them to handle the production of higher tonnage ships;
  - introduction of advanced, more eco-friendly systems for supplying power to ships under construction and for testing on-board electrical generators, such as the development of a new frequency conversion system and the construction of a floating platform equipped with resistive boards at the Marghera shipyard;
  - continued implementation of new technologies to reduce the environmental impact of surface treatments, with the main actions taken at the shipyards of Castellammare di Stabia and Marghera;
  - technological upgrading of lifting equipment at all the main shipyards;
  - continued construction at the Sestri Ponente shipyard of a semi-submersible barge, due to be completed at the start of 2014, for use by the different yards when launching ships or sections of ships;
  - capitalization of development costs for the large number of new technologies developed as a result of changes in regulations and of the new prototype orders acquired in the cruise ship market.
- by the subsidiary Fincantieri Marine Group: completion of the modernization of installations and logistics at the Marinette Marine Corporation shipyard to support the growth in volumes associated with the Littoral Combat Ship program, and the commissioning of a new repairs dock at the Sturgeon Bay shipyard.

Production

Production activities in 2013 can be summarized as follows:

(number)	Keel laying	Launches	Deliveries
Cruise ships	2	2	2
Cruise ferries	1	-	-
Naval vessels	3	3	7
Mega yachts	-	-	-
Special vessels > 40 m long	2	2	2
Special vessels < 40 m long	-	-	33
Repairs and conversions (*)	-	-	46

(*) Number of completed orders for repairs and conversions

With particular reference to the FMG Group, during 2013 it completed two special vessels, work on which was particularly demanding in terms of complexity of production, with a related impact on timing and costs.

Ship deliveries (or orders completed for repairs and conversions) in 2013 were as follows:

- the "Abu Dhabi Class" corvette, the "Ghantut" patrol vessel and the "Salahah" patrol vessel, all delivered to the United Arab Emirates Navy by the Muggiano shipyard;
- "Royal Princess", the largest ship ever built by Fincantieri, delivered to Princess Cruises by the Monfalcone shipyard;
- the first two ships under the FREMM program ("Carlo Bergamini" and "Virgilio Fasan"), built at the integrated shipyard of Riva Trigoso and Muggiano;
- "Le Soléal", a super-luxury ship built at the Ancona shipyard for Compagnie du Ponant, a French cruise operator;
- "Luigi Dattilo", the first of two multipurpose patrol boats commissioned from Fincantieri by the General Command of the Port Authority Corp for the Italian Coast Guard, built at the Castellammare di Stabia shipyard;
- three naval vessels built at the Group's American shipyards.

OFFSHORE

The Offshore operating segment is engaged in the design and construction of support vessels for the oil & gas exploration and production market. Fincantieri operates in this market through the VARD Group, Fincantieri S.p.A. and Fincantieri Oil&Gas S.p.A.
The VARD Group also provides its customers with a complete package of turnkey electrical systems, including engineering, manufacturing, installation, integration testing and commissioning.
The Offshore segment has made a positive contribution to the Group’s performance, both in terms of new orders and financial results. Operational difficulties emerging in VARD’s Brazilian business have been duly disclosed to the financial market since June. These difficulties have not affected the results of the Fincantieri Group in 2013, as the potential liabilities had been identified at the time of acquisition and reflected in the purchase price allocation.

(Euro/million)	2013	2012 (*)	2011 (*)
Revenue and income	1,321	-	-
EBITDA	155	-	-
New orders	1,816	-	-
Order portfolio	3,757	-	-
Order backlog	2,480	-	-
Capital expenditure	111	-	-
Vessels delivered (no.) (**)	22	-	-

(*) The figures relating to the Offshore Business Unit of Fincantieri S.p.A. and Fincantieri Oil&Gas for 2012 and 2011 are not material.
(**) Of which 2 before 23 January 2013.

Revenue and income

Revenue from the Offshore operating segment amounted to euro 1,321 million at 31 December 2013.

New orders

New orders worth euro 1,816 million were secured during 2013 in relation to 15 vessels.
In detail:

- 4 Offshore Subsea Construction Vessels (OSCV);
- 1 Azimuth Stern Drive (ASD) offshore tug;
- 2 Advanced Offshore Support Vessels;
- 2 Platform Supply Vessels (PSV);
- 4 Pipe Lay Support Vessels (PLSV);
- 1 survey vessel;
- 1 Diving Support and Construction Vessel.

Order portfolio and backlog

The Offshore segment's order portfolio stood at euro 3,757 million at year end.
The associated order backlog at 31 December 2013 was equal to euro 2,480 million.

Capital expenditure

The most significant expenditure included:

- completion of the new shipyard of VARD Promar (Brazil) which started operation in June with 930 employees and 4 vessels currently under construction,
- expansion of launching capacity at the Vung Tau shipyard (Vietnam) by increasing the size of the floating dock;
- improved process automation at the Braila shipyard (Romania) with the start of construction of a new automated pipe manufacturing workshop.

Production

Production activities in 2013 can be summarized as follows:

(number)	Deliveries
AHTS	3
PSV (incl. MRV)	12
OSCV	3
Other	4

A total of 22 vessels were delivered:

3 AHTS (Anchor Handling Tug Supply)

- "Far Senator" and "Far Statesman" were delivered to Farstad Shipping by the VARD Langsten shipyard (Norway);
- "Skandi Iceman" was delivered to DOF by the VARD Aukra shipyard (Norway).

11 PSV (Platform Supply Vessel)

- "Far Sitella" and "Far Starling" were delivered to Farstad Shipping by the VARD Vung Tau shipyard (Vietnam);
- "Lundstrom Tide" and "Fanning Tide" were delivered to Tidewater by the VARD Søviknes shipyard (Norway);
- "Island Crown", "Island Duke" and "Island Duchess" were delivered to Island Offshore by the VARD Brevik shipyard (Norway);
- "Troms Lyra" and "Demarest Tide" were delivered to Troms Offshore and Tidewater respectively by the VARD Aukra shipyard (Norway);
- "Far Spica" was delivered to Farstad Shipping by the VARD Langsten shipyard (Norway);
- "Siem Atlas" was delivered to Tidewater by the VARD Niteroi shipyard (Brazil).

1 MRV (Multi Role Vessel)

- "Skandi Hugen" was delivered to DOF by the VARD Aukra shipyard (Norway).

3 OSCV (Offshore Subsea Construction Vessel)

- "Siem Dyna" and "Siem Dyna 2" were delivered to Siem Offshore by the VARD Brattvaag shipyard (Norway);
- "Skandi Bergen" was delivered to DOF by the VARD Søviknes shipyard (Norway).

4 other vessels

- "Gadus Njord" and "Gadus Poseidon" were delivered to Havfisk by the VARD Brattvaag shipyard (Norway);
- "Eidsvaag Pioner" was delivered to Eidsvaag by the VARD Aukra shipyard (Norway);
- "Hopen" was delivered to Remoy Fiskeriselskap by the VARD Langsten shipyard (Norway).

EQUIPMENT, SYSTEMS AND SERVICES

The Equipment, Systems and Services operating segment is engaged in the design and manufacture of systems and equipment and the provision of after-sales services. These activities are carried out by FINCANTIERI S.p.A. and its subsidiaries Isotta Fraschini Motori S.p.A., Delfi S.r.l., Seastema S.p.A. and FMSNA Inc.
In particular, the subsidiary Isotta Fraschini Motori has recognized impairment losses against some of its assets in view of new future plans for reorganization.

(Euro/million)	2013	2012	2011
Revenue and income	163	166	131
EBITDA	14	15	10
New orders	205	127	142
Order portfolio	550	500	303
Order backlog	264	146	109
Capital expenditure	4	3	6
Engines (*)	59	71	113

(*) Number of engines produced on site

Capital expenditure

By the Parent Company at the Riva Trigoso shipyard: renewal of certain machines used in production, purchase of machine tools and supporting systems for the production of propellers and turbines.
By the subsidiary Isotta Fraschini Motori: completion of investments needed to update the product range and renew its plant and machinery.

Order portfolio and backlog

The Equipment, Systems and Services segment's order portfolio stood at euro 550 million at the end of 2013 (euro 500 million in 2012 and euro 303 million in 2011).
The associated order backlog at 31 December 2013 was equal to euro 264 million (euro 146 million in 2012 and euro 109 million in 2011).

New orders

The Equipment, Systems and Services segment secured euro 205 million in new orders during 2013, mostly comprising:

- nine 1708-HPCR generator sets for the U.S. Navy's LCS program, three 1712 emergency generator sets for Fincantieri's cruise ship business, six 1312-HPCR generator sets for the U.S. Navy's JHSV program;
- ten 1312-propulsion engines for the U.S. Coast Guard;
- six shipset diagnostic monitoring systems for six FREMM frigates for the Italian Navy;
- maintenance activities - both programmed and at request - for ships in the Italian Navy (under "In Service Support" contracts) as well as logistical activities for the Italian Navy;
- seven steam turbines, three stabilizers, one marine propulsion system;
- one automation system for the FFX II frigate for the Korean Navy, two automation systems for cruise ships and one system for the Canadian ferry of Société des traversiers du Québec, and the Dimming System for the cruise ships ordered by Viking Cruise Line.

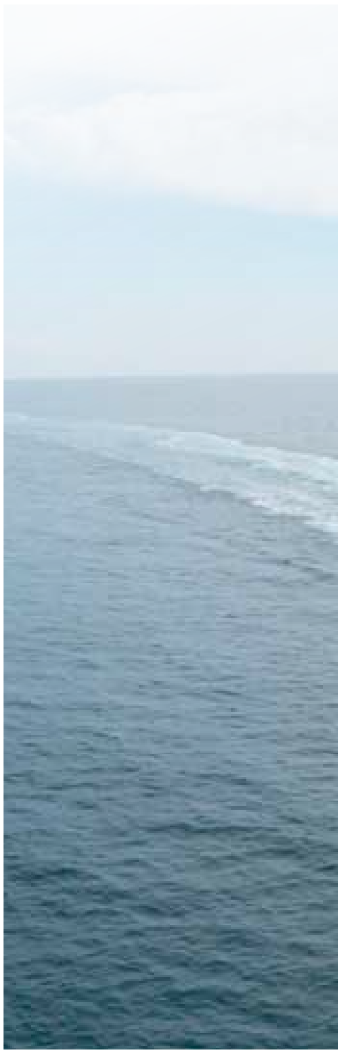
OTHER ACTIVITIES

Other activities primarily refer to the costs incurred by corporate headquarters for directing, controlling and coordinating the business, that are not allocated to other operating segments.

(Euro/million)	2013	2012	2011
Revenue	-	-	-
EBITDA	-26	-25	-25
New orders	-	-	-
Order portfolio	-	-	-
Order backlog	-	-	-
Capital expenditure	4	3	2

Capital expenditure

The most significant items of expenditure included development of the information systems in support of the Group's business.



Core Markets

SHIPBUILDING

Shipping in general

The year 2013 can be seen as one of recovery for the merchant ships sector. Based on initial preliminary data, demand amounted to more than 50 million in compensated gross tonnage, the highest level since the onset of the crisis in 2008.

However, the market still seems to be affected by speculation, fostered by the very low prices offered by some shipyards, and which could be behind the conclusion of certain mega-contracts. Despite the positive trend in demand for new ships, overcapacity arising in previous years in maritime freight transport continues to hurt some sectors of the market and is unlikely to be reabsorbed quickly.

"Le Soleal"
Compagnie du Ponant
(2013)
Ancona shipyard

Cruise Ships

The fundamentals of the cruise ship market remain positive, following reconfirmation of analyst predictions that passenger numbers will grow at an annual average rate of 4% until 2020, reaching a total of 27.6 million passengers compared with an estimated 21.3 million in 2013.

As for trends by geographical area, the Asian market, which in 2012 had only 1.3 million cruise passengers, could become one of the main catchment areas even assuming much lower penetration rates for this type of holiday than in more advanced markets.

Numerous negotiations took place in the course of 2013, with the finalization of contracts for 9 ships. In particular, Fincantieri secured new orders for 6 ships, of which three are prototypes. These ships are all very different, not only in size, but also by type and market segment served: this is further evidence of this sector's vitality and of the growth potential underlying the increasingly diversified range of ships operated by cruise lines.

In terms of competition, the financial difficulties faced by STX Corporation of Korea, which also owns STX Finland and STX France, and its consequent policy of disinvestment, could have repercussions on the market.

Carnival

COMPAGNIE DU PONANT

Costa

CUNARD

Disney Cruise Line

Holland America Line
A Signature of Excellence

HURTIGRUTEN

OCEANIA CRUISES

P&O CRUISES

PRINCESS CRUISES
escape completely

SILVERSEA

VIKING
OCEAN CRUISES
Exploring the World in Comfort

Rendering of the new generation ferry "Gauthier" for Société des traversiers du Québec, under construction at the Castellammare di Stabia shipyard

Ferries

No orders were placed in 2013 for complex ferries (more than 150 meters long) in the market accessible to Fincantieri.

The continuing economic crisis, the consequent reduction in passenger and freight traffic that plagues the Mediterranean area, and the difficulty of shipowners in finding financial resources to invest in new ships are effectively holding back recovery in this sector.

The main drivers that could fuel demand in the near future are related to the increasing age of the fleet and the introduction of environmental regulations aimed at preventing or limiting the pollution produced by obsolete ships through the introduction of new "green ships".

In this respect, shipowners are showing great interest in gas-powered ships, which are becoming increasingly common in the North Sea.

Repairs and Conversions

High value, complex repair and conversion work, such as passenger ship refurbishment and conversion/transformation of offshore vessels, enjoyed a positive trend in demand in 2013.

Passenger shipping lines are investing in programs to renew older vessels, in order to ensure correct brand perception by customers and to make such vessels compliant with the latest safety and environmental regulations.

During the year, Fincantieri's production facilities worked on a wide variety of vessels, from cruise ships, with the restyling of the "Carnival Destiny" and the work on the "HAL Noordam" to increase the number of cabins by adding a deck, to offshore vessels, involving maintenance work on a pipelay vessel, and merchant vessels, with the repair and reconditioning of the engine of a large container ship owned by Maersk Line.

At year end, the Group also signed an agreement with MSC Crociere for the refitting of all four of its Lirica class ships. The program, known as "Renaissance", will be carried out in 2014 and 2015.


"FREMM" frigates
Integrated
Naval Shipyard
Riva Trigoso-Muggiano

Naval Vessels

The naval defense market was livelier in 2013 than in previous years. Most of the orders were in captive markets, with programs awarded by the various national navies to domestic shipbuilders, while the accessible part of the market saw growing demand for on-site construction and technology transfer.

In Italy, the need to provide the Italian Navy with suitable vessels to perform a growing number of duties and the planned retirement of a large number of vessels that have reached the end of their lives, led to the allocation of funding in 2013 for the seventh and eighth of the FREMM class frigates and to the allocation in the 2014 Stability Law of the funds needed to renew the fleet, involving a total investment of euro 5.8 billion.

Fincantieri also secured orders for an oceanographic icebreaker intended to operate in polar waters for the Institute of Marine Research, a Norwegian oceanographic and fisheries research institute, and a pontoon to transport nuclear submarine reactor compartments for RosRAO, a Russian state-owned enterprise.

American Market

In the course of 2013, the U.S. Navy confirmed its continuation of the Littoral Combat Ship (LCS) program by allocating new funds for the construction of two more ships (LCS13 and LCS15) under the order for 10 ships awarded to the Lockheed Martin-Fincantieri consortium at the end of 2010. These additional funds will finance the fifth and sixth ships that will be built by the American subsidiary, Fincantieri Marine Group, at its Marinette shipyard.

The American subsidiary also secured orders from the U.S. Coast Guard for 4 more Response Boats-Medium, for which Marinette is the prime contractor, and which takes the total number of boats ordered to date under this program to 170.

The new orders placed in the year ensure the continuity and value of the American business and confirms Fincantieri's role as a preferred partner of the U.S. Navy and the U.S. Coast Guard.

"LCS -
Littoral
Combat Ship"

MY "Serene"
(2011)
Integrated
Naval Shipyard
Riva Trigoso-Muggiano

Mega yachts

Demand for mega yachts was similar to the previous year, confirming a positive trend especially in the high-end market, with strong demand for vessels of more than 100 meters long, marketed as "unique items" featuring a high degree of customization.

According to the major players, the market is enjoying a revival with numerous negotiations in progress, even with U.S. buyers long absent from this market.

The geography of customer country of origin is changing: while Russia and the Middle East continue to be the main markets for large vessels, certain emerging countries (eg. Brazil, China) are increasingly important due to growing propensity to spend on luxury goods.

The market's most important players have strengthened their position, thanks to their recognized financial and construction reliability. Some of the sector's prestigious brands have been acquired by Chinese operators who have taken advantage of the crisis to invest in what is still seen to be an attractive market.

Offshore

The offshore vessels market continued to see good levels of demand once again in 2013.
High oil prices and growing demand for energy has fuelled investment in new exploration; new reserves continue to be discovered in ultra-deepwater and hostile marine and meteorological environments (eg. the Arctic), driving demand for more efficient vessels equipped with advanced safety systems.
The demand for more sophisticated constructions crosses a very diverse range of vessels: from drilling and production rigs to support vessels.
As regards the market for platform supply vessels (PSV) and anchor handlers (AHTS), the growth in exploration and start of operations by a large number of rigs, especially in the North Sea, should foster growth in the use of these vessels and their charter.
The offshore subsea construction vessel (OSCV) segment confirmed significant opportunities for larger, more complex vessels. During the year, the subsidiary VARD secured orders for 8 such vessels out of a total of 14 placed in this market.
Given the demand for new generation vessels for use in Exploration & Production activities, in 2013 Fincantieri presented the Overdrill project, a new-concept drillship capable of drilling to depths of 15 km. In addition, during the year, Fincantieri signed an agreement with the Krylov State Research Centre in Russia to define plans for a drillship capable of operating in arctic environments.

OSCV
"Skandi Bergen"
(2013)

Research, Development and Innovation

In 2013, the Group expensed the equivalent of 2.3% of its revenue on research and innovation. Such a level of investment is necessary in order to strengthen competitive position in a market where product and process innovation is a key factor for success.
The main projects involving the Parent Company are presented below. A detailed analysis of this area in relation to the VARD Group can be found in this company's financial statements and other communications to shareholders, made in compliance with the rules of the Singapore Stock Exchange.
During the year, the Parent Company developed several technological solutions that focused on energy efficiency, reduction in environmental impact, maximization of payload, reduction in product and operating costs, improvements in safety and quality perception and compliance with rapidly evolving regulations at competitive costs.
To support the process of Research & Innovation, Fincantieri has embarked on a series of strategic initiatives to strengthen its partnership network and implement the Open Innovation paradigm, a model of collaboration between companies and external research facilities.

Reference framework

Fincantieri has contributed to Horizon 2020 - the European Commission's Framework Program for funding Research, Development, Innovation and Training in the period 2014-2020 - by developing projects aimed at increasing energy efficiency and reducing emissions and on-board safety, all of which identified as priorities not only by the European Commission but also by the entire European shipbuilding industry.

Horizon 2020 provides for new types of financial support for research projects in the form of Public Private Partnerships, aimed at achieving 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 formal commitment in terms of results and resources.

On the European front, numerous other 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.

In Italy, the 2014 Stability Law has finally remedied the failure to activate the Shipbuilding Framework, by providing funding for shipbuilding Innovation projects started in 2012-2013, helping reverse the competitive disadvantage previously existing with respect to other European competitors.

Fincantieri has acted both nationally and regionally to establish an extensive network of institutional relationships that will allow it to obtain suitable recognition of its role as a socio-economic and technological driver at all levels and that will result, in coming years, in specific opportunities to support the development of its surrounding know-how industry. In particular, at a national level, Fincantieri has taken part, through the "Transport Italy 2020" National Technology Cluster, in defining the priority instruments and strategic content of the National Research Program 2014-2020; it has also taken part, with the regions of Campania, Friuli Venezia Giulia and Liguria, in defining a "Smart Specialization Strategy" that reflects the innovation and research issues of interest to Fincantieri.

The "Transport Italy 2020" National Technology Cluster, formed at the request of the Ministry of Education, Universities and Research, involves a primary role for Fincantieri and, under the new program, represents a way to cooperate with other transport sectors for the joint establishment of rational and interconnected national and regional strategies. In addition, the Cluster, or rather the Maritime Task Force set up within it, is the way to link up science and technology in the national shipbuilding and maritime sector with transport technology as well as technology for offshore production facilities.

PRINCIPAL EUROPEAN PROJECTS

The BESST research project (Breakthrough in European Ship and Shipbuilding Technologies) was successfully concluded, with Fincantieri having coordinated the work of 64 European partners, covering the entire spectrum of innovation in shipbuilding. The main results were achieved in the fields of energy efficiency and emissions reduction, involving competitive solutions applicable to both new ships and those undergoing refitting.

Work on the MOSAIC project addressing hull structural efficiency has been actively pursued under the leadership of CETENA.

The goals of improving hydrodynamic and systems efficiency in order to reduce energy consumption are priorities of both the GRIP project - which particularly focuses on applications for the existing fleet - and the JOULES project.

The new MESA support action has been launched with the goal of harmonizing the European research topics of greatest interest to shipbuilding, in view of the evolution in competition.

PRINCIPAL NATIONAL PROJECTS

As part of the MISE research projects (to enhance the competitiveness of “Made in Italy” in innovative sectors), financed by the Technology Innovation Fund, established by art. 14 of Italian Law 46/82, work was completed in June 2013 on the pre-competitive development of a “SuperPanamax cruise ship”. Positive results have been obtained by adopting innovative design solutions applicable to large new cruise ships that take into account the rapid changes in international regulations and overcome the current size constraints of the Panama Canal.
At the same time, work continued on other projects relating to technological innovation and sustainable mobility, aimed at developing solutions that are applicable to both products and processes.

Human resources and industrial relations

The main initiatives undertaken by the Parent Company are presented below. A detailed analysis of this area in relation to the VARD Group can be found in this company's financial statements and other communications to shareholders, made in compliance with the rules of the Singapore Stock Exchange.

HEADCOUNT

(number)	2013	2012
Employees at year end:		
Total at year end	20,389	10,240
- of whom in Italy	7,735	8,102
- of whom in Parent Company	7,436	7,807
Average number of employees	20,169	10,227
- of whom in Italy	7,872	8,180
- of whom in Parent Company	7,577	7,892

The Fincantieri Group had 20,389 employees at 31 December 2013.
The Parent Company had 7,436 employees at 31 December 2013, reporting a decrease of 371 (-4.8%) on a year earlier as the net effect of 502 leavers and 131 new entries, in line with the implementation of the Reorganization Plan signed with the trade unions at the end of 2011.

INDUSTRIAL RELATIONS

Industrial relations during the year involved negotiations to extend the Extraordinary Wage Guarantee Fund for reorganization purposes and to apply the "mobility" procedure under Italian Law 223/91, as well as the signing of local agreements to adopt flexible working practices.

In particular, on 10 July 2013, Fincantieri met with the national unions at the Ministry of Labor to sign an agreement, following on from the one previously signed in December 2011, to extend the utilization of the Extraordinary Wage Guarantee Fund due to business reorganization involving complex production processes, for 12 months with effect from 19 August 2013. The new agreement confirms the various mechanisms already defined in the previous agreement, aimed at managing surplus headcount while limiting the economic and social consequences, and covers a smaller number of people than in the previous agreement due to the redundancies already made and the growth in workloads.

In implementation of the above agreement, the "mobility" procedure was subsequently put into practice at all group sites, under the principle of non-opposition to dismissal, with particular reference to persons eligible for retirement.

The mechanisms for managing surplus headcount mentioned above continued to be used during 2013: the Parent Company released 502 staff, using "mobility" procedures, redundancy incentives, outplacements and voluntary redundancies, and transferred or retrained 217 others, while it temporarily laid off an average of 1,139 staff using the Extraordinary Wage Guarantee Fund. In addition, the Ordinary Wage Guarantee Fund was used by Isotta Fraschini Motori S.p.A. for an average 11 employees, and by Cetena S.p.A for an average 2 employees.

Lastly, agreements were signed during the year at the shipyards in Castellammare di Stabia, Sestri Ponente, Ancona and Marghera to introduce flexible working practices and working hours, with the goal of increasing efficiency and productivity and making the business more competitive.

TRAINING AND DEVELOPMENT

Training and development activities in 2013 carried on from the previous year with further consolidation of the Talent Management system introduced by Fincantieri to support the development of its human resources. Accordingly, the principles and guidelines for human resource development started to be extended to the Group's foreign companies during 2013.

One of the most significant projects was the definition of the new Fincantieri Competency Model, serving as a benchmark against which to plan management training and develop the Group's intellectual capital.

As regards management training, 2013 saw the creation of the Corporate University, in collaboration with a leading international business school, with the aim of providing the Group's managers with top-level training programs, consistent with the competencies identified in the model. The activities of the Fincantieri Corporate University kicked off with a pilot course on "Advanced Project Management".

Particular attention was once again paid to middle management, by rolling out and adapting the pilot project started in 2012 at the Integrated Shipyard to other yards. This project aims to enhance the managerial skills and level of organizational awareness of middle managers, in order to achieve a more responsible and incisive approach to the processes under their management, in keeping with the logic of an increasingly competitive market.

The issue of Safety continued to receive great attention in 2013, involving two main courses of action: mandatory training in accordance with applicable laws, carried out in "classroom" and "e-learning" environments, and continuation of the "Towards Zero Accidents" project, with tuition and instruction for various levels of the organization, particularly blue-collar workers who received specific training in this area.

Lastly, employees temporarily laid off using the Wage Guarantee Fund continued to be able to attend retraining and refresher courses which particularly focused on developing multi-skilled workers able to work in a variety of functions.

A total of 1,505 training courses were organized by the Parent Company during 2013, involving 25,057 participants, for a total of 238,865 hours.

On the development front, 2013 saw the implementation of the second round of performance evaluation for white collar staff, middle managers and senior managers; this process, which has now become an established business management and development tool, is particularly appreciated by everyone involved, with the "objective evaluation - structured feedback" process providing them with important guidance not only for achieving departmental goals but also for accelerating personal development; the performance evaluation system has also been extended to the American subsidiaries.

Among the other significant actions in the field of development carried out in 2013 was the updating of the succession plans for key company positions, which, together with individual development plans, have led to the implementation of internal, international career paths for a large number of managers; in fact, during 2013 an average of 70 managers were transferred or seconded to foreign operations, compared with an average of 30 in 2012.

Lastly, a major project known as "Development Center" and also based on the new competency model, was initiated in 2013 to develop management potential and define career paths. The output and findings of this activity, which will also run throughout 2014, will enable additional management training to be planned.

TALENT ACQUISITION

As for recruiting activities, 2013 saw a consolidation of the Talent Acquisition process, with the aim of monitoring and developing recruitment channels and employer branding in order to attract quality resources in line with the business's needs, strategies and programs. Among the steps to enhance its visibility as an employer and identify the most appropriate channels for attracting potential resources, during 2013 Fincantieri took part in a larger number of Career Days, it forged close partnerships with universities in order to offer internships during and after degree courses, and it conducted orientation activities at upper secondary schools.

PRIVACY PROTECTION

As far as privacy protection regulations are concerned, the Regulator's requirements dated 25 June 2009 concerning the duties of the system administrator continued to be implemented during the year.

In 2013, a series of regulations on IT Security came into force which apply to certain key aspects of ICT risk management within Fincantieri's core processes.

Respect for the environment

The main activities undertaken by the Parent Company are presented below. A detailed analysis of this area in relation to the VARD Group can be found in this company's financial statements and other communications to shareholders, made in compliance with the rules of the Singapore Stock Exchange.
With the intent of developing and applying its Environmental Policy to manage the environmental aspects of its activities, products and services, Fincantieri continued in 2013 to seek certification for its production sites, particularly the integrated Riva Trigoso-Muggiano shipyard and the Ancona shipyard, all of which achieved UNI EN ISO 14001 certification.
The main focus of activities in 2013 was to inform Fincantieri staff and employees of contractors about the principles and virtuous behavior contained in the Fincantieri Environmental Policy, as well as to consolidating the Environmental Management System by applying precise procedures and operating instructions in all areas of the certified yards.
Regulatory and system compliance continued to be checked through internal auditing, while practices and procedures laid down by the ISO 14001 Management System continued to be rolled out to Fincantieri's other production sites in order to ensure implementation of its Environmental Policy and facilitate the future process of certification.

The main environmental improvements initiated at all sites were as follows:

- rationalization of waste water drainage;
- definition of new procedures to manage the Carriage of Dangerous Goods (ADR standard);
- completion of the rationalization of the areas used to manage and temporarily store process waste;
- improvement of the procedures and measures for managing environmental emergencies, including through the provision of specific training to the staff concerned;
- introduction of new waste management software, which will optimize its administration and monitor improvements in the system of waste collection and disposal.

The goal for 2014 will be to obtain ISO 14001 Environmental Management System Certification at two more production sites and to introduce key performance indicators (KPI) to quantify the improvements resulting from the Management System's application.

Ethics and safety at work

The main activities undertaken by the Parent Company are presented below. A detailed analysis of this area in relation to the VARD Group can be found in this company's financial statements and other communications to shareholders, made in compliance with the rules of the Singapore Stock Exchange.

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.
One of the activities during 2013 in this regard was the Update Seminar on Italian Legislative Decree 231/01, which was attended by Fincantieri's top management and senior operations managers, as well as senior managers from its main subsidiaries. The seminar included presentations by experts from the university and legal sector, who addressed not only the Decree's general concepts but also the various kinds of criminal conduct relating to health and safety at work, the environment and bribery and corruption, providing useful insights as to how these issues apply to the business operating environment.
The contents of the seminar will be used to develop additional training activities for other members of staff involved in Decree 231 issues, with the aim of strengthening the knowledge and effectiveness of the organizational models adopted under this law.

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 long since 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 discharging 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. Fincantieri is committed to facilitating and promoting awareness of the Code among employees and to encouraging their constructive contribution to its contents; accordingly, the Code of Conduct can be consulted on the Company's website and intranet, is publicly displayed in all its offices, and has been distributed to every employee and all new employees.

SAFETY AT WORK

The initiatives implemented by Fincantieri in 2013 further enhanced growth in the Corporate Culture introduced at the end of 2011.

The drivers of activities undertaken during 2013 were:

- the "Towards Zero Accidents" project, in its second year of application;
- the extension to all employees of the new training methods introduced by the State-Regions Conference;
- the start of activities to obtain certification of the Occupational Health and Safety Management System in accordance with the requirements of BS OHSAS 18001.

The actions taken produced a further reduction in the number of workplace accidents in 2013: the number of accidents involving paid absences amounted to 184 compared with 228 in 2012, corresponding to a 16% reduction in the frequency rate versus 2012.

"Towards Zero Accidents" project

During 2013, the project - arising from Fincantieri's desire to strengthen the preservation and protection of the health and physical integrity not only of its employees, but also of all personnel who work at its sites for contractors - saw the implementation of actions to consolidate the use of those instruments, which had been the subject of an information and training campaign in the previous year. Specifically, 30 working groups were set up to apply Total Quality Management tools to issues relating to Health and Safety at Work; "best practices" continued to be identified and disseminated through a communication campaign using visual aids; work was started to identify and instruct "safety trainers" with the job of informally and effectively spreading safety culture throughout the business and of monitoring project progress.

All the various organizational actions in support of the project continued in 2013, such as shipyard management meetings, departmental safety/environment meetings, and the sharing of information between managers at every level about accidents and near misses, in order to foster analysis of the events and identify remedial actions.

BS OHSAS 18001 certifications

During 2013, work started on obtaining certification of the Occupational Health and Safety Management System in accordance with the requirements of the BS OHSAS 18001 international standard. In fact, this certification was obtained for the Ancona shipyard on 25 July 2013, while the certification process was started for the Integrated Shipyard and Production Units in Riva Trigoso and Muggiano. This activity will be gradually extended to the other production units in 2014.

Actions in support of the certification process involved:

- dissemination of the principles and virtuous behavior identified by the Fincantieri policy to company personnel and employees of contractors;
- consolidation of the management system by applying precise procedures and operating instructions in all areas of the certified yards;
- verification of regulatory and system compliance through the conduct of internal audits;
- sharing of practices and procedures laid down by the BS OHSAS 18001 management system with other Fincantieri production units in order to ensure the implementation of its Occupational Health and Safety Policy and facilitate the future process of certification.

The main improvements introduced and extended to all yards involved:

- methods for managing the Company Training System;
- further improvement, using the most appropriate technology, of the safety systems contained in plant, machinery and equipment;
- introduction of new software for the management of Personal Protective Equipment (PPE) and portable equipment maintenance;
- improvement of Prevention and Protection systems in places with risks of falling from a height.

Internal Audits

The way of conducting internal audits was significantly improved during 2013 with the introduction of methods envisaged by the Certification Systems currently being adopted.

New checklists were introduced and the improvement plans introduced by individual units in response to identified shortcomings started to be monitored on a monthly basis.

Auditing activities were monitored on an ongoing basis by the Quality and Safety Committee at corporate headquarters.

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 the Parent Company 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 action plans to mitigate the "inherent risk" identified and/or into testing of the operation of controls to reduce risks to an acceptable level ("residual risk").
In accordance with the requirements of the Singapore Stock Exchange, the VARD Group has mapped its major operational, financial and compliance risks, thereby providing its Audit Committee with a basis for assessing the adequacy of its internal control system.

RISKS RELATING TO GENERAL ECONOMIC CONDITIONS

Description of risk

The Fincantieri Group's results of operations and financial condition are influenced by various global macroeconomic variables, particularly in Europe and North America for the Fincantieri parent, and in Europe, South America and Asia for the subsidiary VARD; such variables include the rate of GNP growth, the level of consumer and business confidence, the state of credit markets and the cost of commodities.

Impact

Enduring worldwide difficulties continue to affect the shipbuilding industry, with a slowdown in fleet renewal programs by shipping lines. This also has repercussions for the credit and financial market, making it more difficult for shipping lines and the Group to access the capital needed to finance their cash requirements at competitive rates. This situation could also have repercussions for utilization of the Group's production capacity.

Mitigation

The global crisis, which is severely affecting 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 implementing a reorganization plan to resize its corporate structure for the changing market conditions. On the financial front, the Group has adopted alternative methods of financing through the issuance of a bond that will assure the Parent Company sufficient financial flexibility to pursue its development plans and complete the expansion projects already underway.

RISKS RELATING TO KNOWLEDGE MANAGEMENT

Description of risk

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. The effective management of the Group's business is also linked to the ability to attract talent, and to retain such talent within the Group.

Impact

The inadequacy of the domestic labor market to meet the Group's needs, the inability to acquire the necessary skills and the failure to transfer specific knowledge, particularly in the technical sphere, could have negative effects on product quality.

Mitigation

The Human Resources 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 Parent Company organized 1,505 training courses in 2013 with 25,057 participants for a total of 238,865 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 of risk

The Fincantieri Group has many years of experience of building cruise ships for Carnival, a U.S. 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 area, the bulk of revenue has traditionally come from the Italian Navy, whose demand for new ships is heavily dependent on defense spending policy.

The subsidiary VARD operates in the offshore vessels market, with strong established relationships with its customers.

The shipbuilding industry in general has been historically characterized by cyclical trends, sensitive to trends in the industries that it serves. The Group's offshore and cruise customers base their investment plans on demand by their own customers; in the case of offshore, the main influence is demand for energy, which in turn drives investment in exploration and production, while in the cruise market the main influence is the demand for leisure products.

Impact

Postponement of fleet renewal programs or other events affecting the order backlog with the Fincantieri Group's principal cruise ship customer could impact capacity utilization and business profitability; similarly a downturn in the offshore market could lead to a reduction in the level of orders for the subsidiary VARD.

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.

In order to mitigate the impact of the cyclical trend in the shipbuilding industry, in recent years, the Group has pursued a diversification strategy, expanding its business both in terms of products and geographical coverage. Since 2005 the Group has expanded into the markets of offshore, mega yachts, marine systems and components, repairs, refitting and after-sales service. In parallel, the Group has expanded its business internationally, including through acquisitions.

RISKS RELATING TO MAINTENANCE OF COMPETITIVENESS IN CORE MARKETS

Description of risk

The production of standard vessels is now dominated by Asian shipyards, meaning that competitiveness can only be maintained by specializing in high added-value markets. As far as civilian vessels are concerned, the Parent Company has focused for several years on the cruise ship and cruise ferry segments, in which it has been historically active; following the acquisition of VARD, it has recently extended this focus to the production of offshore support vessels.

Aggressive commercial policies, development of new products or increases in production capacity by competitors may result in price competition with a reduction in profit margins.

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, innovative 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 of risk

The pursuit of business opportunities in emerging markets, particularly in the defense sector, leads to increased exposure to country risk and/or risk of international bribery and 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.

Description of risk

The Group's customers may require that contract validity depends on the provision of financing on appropriate terms, in particular through export financing guaranteed by export credit agencies (in the case of Italy, SACE S.p.A.).

Mitigation

The Group supports its commercial efforts with the proposal of appropriate financial solutions, also thanks to the support of export credit agencies.

RISKS RELATING TO PRODUCTION OUTSOURCING AND SUPPLIER RELATIONSHIPS

Description of risk

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 Parent Company's 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 of risk

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. This risk also arises when preparing the consolidated financial statements, due to the translation of assets and liabilities of subsidiaries that prepare their financial statements in a functional currency other than the Euro (mainly NOK and USD).

Impact

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

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. The Group does not take out any hedges against the currency risk relating to translation of financial statements of subsidiaries that use functional currencies other than the Euro (translation risk).

RISKS RELATING TO LEGAL AND REGULATORY ENVIRONMENT

Description of risk

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 relating to the environment and health and safety at work and in relation to biological damage caused at the time by exposure to asbestos.

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, the Parent Company has fully implemented the provisions of Italian Legislative Decree 81/2009 - "Revised rules governing health and safety at work" (known as the "Safety at Work Act"). Fincantieri has adopted suitable organizational models for preventing breach of these regulations, and sees that such models are reviewed and updated on an ongoing basis.
The commitment to pursue and promote principles of environmental sustainability has been reaffirmed in the Parent Company's 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.
The subsidiary VARD devotes great attention to minimizing the impact of its activities on the environment, with significant actions in terms of resources allocated, policies and procedures to improve its environmental performance.
Fincantieri and VARD have recently started to implement and operate an Environmental Management System at their sites with a view to obtaining certification under UNI EN ISO 14001:2004.

RISKS RELATING TO CONTRACT MANAGEMENT

Description of risk

The shipbuilding contracts managed by the Group are mostly long-term contracts for an established consideration, and any change in the price must be agreed with the customer. At the time of signing the contract, the price must take into account the costs of raw materials, machinery, components, procurement and all other construction-related costs (including personnel costs and overheads); the determination of these costs is more complicated in the case of prototype or particularly complex ships.

Impact

Upward variations in costs not foreseen at the pre-contractual stage and not covered by a parallel increase in price can lead to a reduction in margins on the contracts concerned.

Mitigation

The Group takes into consideration expected increases in the components of contract costs when determining the offer price. In addition, at the time of signing the contract, fixed-price purchase options are already defined for the principal components of the ship.

Description of risk

Many factors can influence production programs and capacity utilization, and so impact the contractual terms of delivery of shipbuilding orders with possible penalties payable by the Group. These factors include, inter alia, strikes, events related to adverse weather conditions, design changes or problems in the procurement of key supplies.

Impact

If the causes of late delivery are not recognized by contract, shipbuilding contracts provide for the payment of penalties that generally increase the longer the delay.

Mitigation

The Group manages its contracts through dedicated structures that control all aspects (design, procurement, construction, fitting out) during the contract life cycle and ensure that contractual undertakings are upheld.

Description of risk

The payment terms of a large number of the Group's shipbuilding contracts (for example, in the case of cruise ships and offshore support vessels) establish that only a part of the price is paid in the course of construction with the balance settled on the ship's delivery. This means that the Group may incur costs and liabilities before the customer pays part of the purchase price, and that the total amount of costs incurred before delivery may be significantly higher than total payments received. In addition, customers may request a postponement of the delivery date due to their financial circumstances, or fail to fulfil their contractual commitments.

Impact

A customer's postponement of the delivery date or failure to fulfil the contractual payment terms has an impact on cash flows and therefore on financial position.

Mitigation

On signing the contract, the Group's customers normally activate specific financing to ensure payment of the ship's price. In the event of non-fulfilment of significant contractual conditions, the Group is entitled, under normal terms and conditions, to terminate the contract, retaining ownership of the ship under construction and keeping the payments received. The customer may be held liable for any uncovered costs.

Corporate governance

PROFILE AND STRUCTURE

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 has the task of supervising 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.

FINCANTIERI S.p.A. exercises direction and coordination over its direct and indirect Italian subsidiaries, except in specific cases, and 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 models 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 benefit from specialist and expert services and 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 General Meeting of Shareholders held on 27 June 2013 established that the Board of Directors would have five members for the three-year term 2013-2015; it confirmed Giuseppe Bono as Chief Executive Officer and appointed Vincenzo Petrone as Chairman, in place of Corrado Antonini who had resigned as Chairman and Director of the Company with effect from 31 December 2012.

Independence and integrity requirements, reasons for ineligibility and incompatibility

Following the request by the controlling shareholder to revise the article in the by-laws covering the requirements that must be met before assuming the office of Director, along with the need to amend the by-laws for certain regulatory changes and the alteration in the Company's chain of control, the General Meeting held on 30 September 2013 amended the qualifying requirements for the office of Director, including the explicit provisions set out in Presidential Decree 251 dated 30 November 2012 and the Prime Ministerial Decree dated 25 May 2012.

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 entering into agreements with strategically important domestic and foreign operators in the sector or other companies and groups;
- acquiring and selling equity investments, companies or business units;
- signing, amending and terminating contracts relating to large orders;
- buying and selling of 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 all acts 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;
- carrying out transactions involving financial assets and liabilities for an amount not exceeding euro 300 million;
- issuing guarantees for an amount not exceeding euro 300 million (except for urgent cases) to secure obligations assumed, including those assumed by subsidiaries;

- 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 a significant impact on the business.
The Chairman is the Company's legal representative.

Remuneration Committee

The Board of Directors of FINCANTIERI S.p.A. has formed a Remuneration Committee, to make proposals and provide advice concerning the remuneration of directors holding specific offices. This committee can also express opinions regarding the remuneration 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 alternate ones, all of whom nominated by the shareholders in General Meeting for three financial years and who are eligible for re-election at the end of their mandate.

Operation

The Board of Statutory Auditors must meet at least every 90 days. Any auditor who absents himself, without a valid reason, from two meetings of the Board of Statutory Auditors during any one financial year shall lose office. Minutes of board meetings must be drawn up, recorded in the related minute book and signed by the participants.
The Board of Statutory Auditors is properly constituted with the presence of a majority of statutory auditors and adopts resolutions by majority vote of those present. Dissenting auditors are entitled to have the reasons for their disagreement entered in the meeting's minutes.
The statutory auditors must attend meetings of the Board of Directors and of the shareholders.

INTERNAL CONTROLS

The system of internal controls is embodied in a set of mechanisms, organizational structures and procedures for each activity, which are codified in the Organization Manual, updated and disseminated within the Group, and designed to contribute, through a process of risk identification, management and monitoring, to good and proper management of the business, consistent with its mission.
An internal control system, integrated into the broader organizational and corporate governance structures, also aims to enable the principal business risks to be identified, measured, managed and monitored and to ensure the reliability, accuracy, reliability and timeliness of financial information.
The following paragraphs describe the organizational bodies involved, responsibilities and regulatory framework with reference to FINCANTIERI S.p.A.; as regards VARD, the Parent Company has initiated a review of its system of control with the purpose of harmonizing it with

its own and of introducing additions, particularly with reference to the compliance model for the financial reporting process.

ORGANIZATIONAL BODIES INVOLVED AND RESPONSIBILITIES

Board of Directors

Based on the information received from the bodies responsible for ensuring that the organizational, administrative and accounting structure is appropriate for the size and nature of the business, the Board of Directors establishes guidelines for the internal control system and appoints the Head of Internal Audit.

As part of its powers, the Board:

- approves, at least annually, the Audit Plan prepared by the Head of Internal Audit;
- evaluates and endorses the proposals made by the Chief Executive Officer on the appointment and removal of the Manager Responsible for Preparing Financial Reports of FINCANTIERI S.p.A.;
- appoints Directors and Statutory Auditors of direct subsidiaries;
- decides on the Oversight Board's membership, including changes and additions thereto, and its emoluments;
- approves the Organizational, Management and Control Model, pursuant to Italian Legislative Decree 231/2001 and its subsequent updates, with specific reference to its General Section;
- receives from the Oversight Board of FINCANTIERI S.p.A., an annual report on its activities, containing the results of auditing activities and information about legislative changes in the area of administrative vicarious liability for corporate entities, as well as immediate notification by this same Board of any particularly material or significant facts that it should learn.

Head of Internal Audit and Internal Control

In FINCANTIERI S.p.A. the Head of Internal Audit is also Head of Internal Control (as defined by Italian Law 69 dated 18 June 2009).

The mission of the Internal Audit function is to monitor the internal control system of the Parent Company and its subsidiaries, ensuring that the system's effectiveness and efficiency is continuously improved by conducting independent, autonomous and objective auditing, validation and advisory activities.

The Board of Directors has granted a specific mandate to the Head of Internal Audit, that lists his duties and responsibilities:

- to check, both on an ongoing basis and in relation to specific needs, the operation and the suitability of the internal control system used within the Group, with reference to company procedures, risk management and measures adopted to monitor and mitigate risks, through an audit plan based on a process of analyzing and prioritizing key risks, that is approved by the Board of Directors;
- to assist the Oversight Boards (set up under Legislative Decree 231/2001) of the Parent Company and its subsidiaries in the performance of their duties;
- to discuss and exchange information with the Chief Executive Officer, the Oversight Board, the Board of Statutory Auditors, the Manager Responsible for Preparing Financial Reports and the Independent Auditors;
- to prepare prompt reports on events of particular importance;
- to test, as part of the audit plan, the reliability of information systems, including the accounting systems, and the separation of duties;

- to analyze substantiated evidence of problems associated with the financial statements, internal and/or external audit and the control environment in general;
- to assist the statutory auditors of the Parent Company and its subsidiaries in the selection and preliminary evaluation of statutory audit engagement proposals presented by Independent Auditing firms.

In relation to the duties of this function, the Head of Internal Audit:

- is not be responsible for any operational area and does not report to any managers of such areas;
- does not hold corporate office of any kind (with the exception of being a member of the Oversight Board) in the Company and/or its operating subsidiaries;
- has constant and unconditional access to all information, data, persons, records and company property needed to perform his duties;
- reports on his activities at least twice a year to the Board of Directors, constantly liaising with the Chief Executive Officer and the Board of Statutory Auditors and interacts, when carrying out his duties, with the Oversight Board and the Manager Responsible for Preparing Financial Reports;
- independently manages the budgets set for his department and for the Oversight Board, both approved by the Board of Directors, subject to agreement with the Chief Executive Officer;
- appoints external consulting firms - completely independent of the Company and the Group - to perform certain activities, primarily in the area of information technology, if specific technical skills are required to be used that are not present in the internal audit department.

Board of Statutory Auditors

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.

Pursuant to art. 19 of Italian Legislative Decree 39/2010, Fincantieri S.p.A. has set up an Internal Control and Audit Committee, whose duties are performed by the Board of Statutory Auditors and which must monitor the following:

- the financial reporting process;
- the effectiveness of internal control systems, internal audit and risk management;
- the statutory audit of annual and consolidated accounts;
- the independence of the external auditing firm, in particular as regards the provision of non-audit services to the company for which it also performs the statutory audit.

The Board of Statutory Auditors is required to express an opinion on the appointment of the Manager Responsible for Preparing Financial Reports and, under art. 13 of Italian Legislative Decree 39 dated 27 January 2010, is required to present the General Meeting of shareholders with a justified proposal concerning the conferral of the statutory audit engagement.

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 Oversight Board, as defined by the Board of Directors on 30 July 2012, consists of:

- two members chosen from outside the corporate structure from persons of proven experience, independence and professionalism. An external member serves as Chairman of this Board;
- a member from inside the Company, identified in the person of the Head of Internal Audit.

The Oversight Board operates on the basis of a set of “Rules and procedures for the Oversight Board” which is adopted autonomously by the Board and submitted to the Board of Directors for informational purposes.
These rules also set out how the Oversight Board estimates its annual expenditure, which is regularly approved as part of the annual budget.
The Company can enlarge the Oversight Board’s membership if it believes that the presence of particular specialist expertise is required. Operationally, the Oversight Board uses the services of the Internal Audit department and, if necessary, of external consultants. The Oversight Board reports to the Board of Directors and the Board of Statutory Auditors in the manner established by the Organizational Model.
The Board’s activities are as follows:

- to oversee the effectiveness and adequacy of the "Decree 231" Organizational Model, and update its operational requirements over time;
- to monitor the effectiveness of internal procedures and rules of corporate governance.

These activities may involve making specific requests for information from company personnel in the presence of significant events and/or recurrent requests for specific types of information from particular business functions. The manner of carrying out these activities and the structure of the periodic information requests from the different business functions are generally governed by specific rules that lay down behavioral guidelines in the various areas sensitive to Legislative Decree 231/2001.
The Oversight Board draws up an annual program to audit the operation of the Organizational Model, compliance therewith, and compliance with the Code of Conduct.
The Oversight Board has unrestricted access to all business functions and can require them to provide regularly and/or at request the information, data and facts deemed necessary to carry out its duties under Legislative Decree 231/2001. To this end, it meets company managers and requests suitable, specific “reports” about sensitive business activities falling within the scope of Legislative Decree 231/2001.
The audits are performed with the operational support of the Legal and Internal Audit departments and, in specific cases, of external consultants.
The Oversight Board receives reports of alleged breaches of the Code of Conduct and the Organizational Model from members of the Company’s governing and control bodies, from department Heads, as well as from employees, external contractors, suppliers and customers, including anonymously. The Oversight Board decides whether to investigate such reports or to dismiss them, giving suitable reasons for its decision.
The Board receives, evaluates and files the declarations of responsibility and absence of conflicts of interests that are made by the Directors and by all company representatives.
The Oversight Board reports at two levels: to the Board of Directors, for matters involving the company structure, and to both the Board of Directors and the Board of Statutory Auditors, if the matter concerns senior management, members of the Board of Directors or the Board of Statutory Auditors.
At the end of each financial year, the Oversight Board prepares a report on its activities, which it submits to the Board of Directors and to the Board of Statutory Auditors. The Oversight Board exchanges information with the Board of Statutory Auditors and liaises with the Chairman of the Board of Directors and the Chief Executive Officer.
Certain company functions are required to submit to the Oversight Board the following information:

- the existence of legal measures and/or notices originating from law enforcement bodies, or any other authority, both judicial and administrative, that involve the Company or its senior

management, which indicate the conduct of investigations, even against unknown persons, for offences under Legislative Decree 231/2001, without prejudice to legal obligations of confidentiality and secrecy;
- requests for legal assistance made by senior managers and/or employees against whom the public prosecutor is bringing legal proceedings for offences under Legislative Decree 231/2001.

The Oversight Board's other duties also include examination of any breaches of the Code of Conduct or the Organizational Model reported by the statutory auditors or any employee, and investigation of such reports and requests for appropriate action to 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.

Manager Responsible for Preparing Financial Reports

Under art. 30 of the by-laws, and after obtaining the compulsory opinion of the Board of Statutory Auditors, the Board of Directors appoints the Manager Responsible for Preparing Financial Reports for a period of not less than the term of office of the Board itself and of no more than six years, determining the term of the appointment, the duties, powers and remuneration. If necessary, the Board of Directors can also revoke this appointment. The Manager Responsible for Preparing Financial Reports will be experienced in the field of accounting, finance and control and satisfy the integrity requirements established by the Directors. The loss of these requirements will result in removal from office, as declared by the Board of Directors at its first meeting after learning that such requirements are no longer satisfied. The Manager Responsible for Preparing Financial Reports attends meetings of the Board of Directors that discuss matters falling under his remit.

Disclosures to the market concerning the Company's annual and interim financial results must be accompanied by a **written representation** by the Manager Responsible for Preparing Financial Reports, certifying that the financial information contained therein corresponds to the underlying accounting books and records.

Such a representation must accompany:
- the Company's quarterly, half-year and annual financial reports;
- price sensitive communications, governed by art. 114 of Italy's Consolidated Law on Finance, relating to accounting information, including of an interim nature.

The Chief Executive Officer and the Manager Responsible for Preparing Financial Reports must certify in special reports accompanying the annual separate financial statements, the annual consolidated financial statements and, where applicable, the condensed interim financial statements:
- the adequacy and effective application during the reporting period of the administrative and accounting processes for the preparation of the specific financial report, as per art. 154-bis, par. 3 of Italy's Consolidated Law on Finance;
- that the financial report has been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation (EC) 1606/2002;
- that the contents of the financial report correspond to the underlying accounting books and records;
- that the financial report is able to give a true and fair view of the assets, liabilities, financial position and results of operations of the issuer and the group of companies included in the consolidation;

- for the separate financial statements and consolidated financial statements, that the report on operations includes a fair review of operating performance and results as well as the situation of the issuer and the group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed;
- for the condensed interim financial statements, where applicable, that the interim report on operations contains a fair review of the information required by art. 154-ter, par. 4 of Italy's Consolidated Law on Finance.

In order to facilitate the flow of information, the Manager Responsible for Preparing Financial Reports also able to attend meetings of the Board of Directors that discuss accounting-related matters.

The Manager Responsible for Preparing Financial Reports prepares a periodic report on the planning of the various audit and control activities and results thereof, which is presented to the Board of Directors.

The Board of Directors, in the exercise of its supervisory duties, or at the request of the Manager Responsible for Preparing Financial Reports, may take action to supplement and/or make effective the powers and resources attributed to this position if it considers that these are not sufficient to perform the duties required by law, or if they are not effective.

The Manager Responsible for Preparing Financial Reports activates a direct and reciprocal channel of communication with the Board of Statutory Auditors, by organizing regular meetings to examine relevant accounting issues and the outcome and results of work performed, as well as with the Oversight Board, by sending it a periodic report on the results of work relevant to the Oversight Board's specific area of responsibility.

Independent Auditors

By law, the statutory audit of the financial statements must be performed by a firm of independent auditors listed in the register of approved statutory auditors and audit firms established by art. 6 of Italian Legislative Decree 39 dated 27 January 2010; these auditors must be appointed by the shareholders in General Meeting, at the justified proposal of the Board of Statutory Auditors.

The General Meeting of shareholders held on 28 February 2014 appointed PriceWaterhouseCoopers S.p.A. as independent auditors for the period 2013-2021.

Group personnel

All the Group's employees, within the scope of their duties and responsibilities, play an active role in the maintenance, updating and correct operation of the internal control system, in accordance with the established internal rules and procedures.

LEGAL AND REGULATORY FRAMEWORK

Code of Conduct

The Code of Conduct (the "**Code**") adopted by Fincantieri establishes the general rules of conduct that all those who work for the company, without distinctions or exceptions, and those with whom it has explicit contractual relationships, are bound to observe and to ensure are observed with respect to their own duties and responsibilities. The contents of the Code also serve to prevent the offences listed in Legislative Decree 231/2001 and subsequent amendments.

All the Group's activities are carried out in compliance with the law (most recently, Italian Law 190/2012), international conventions (such as the 1997 OECD Convention on Combating Bribery

of Foreign Public Officials in International Business Transactions) and in strict observance of the United Nations Universal Declaration of Human Rights.
Fincantieri operates, according to the principle of fair competition, with honesty, integrity, propriety and good faith, respecting the legitimate interests of shareholders, employees, customers, business and financial partners, as well as those of the general public and communities where it conducts its business.
In particular, Fincantieri promotes Corporate Social Responsibility - meaning the integration of social and environmental concerns into its strategic vision - by communicating all relevant activities in this regard in its periodic reports.
All those who work for Fincantieri, without distinctions or exceptions, are committed to observing and ensuring compliance with these principles with respect to their own duties and responsibilities. The conviction that one is acting in the interests or for the benefit of the Company may in no way whatsoever justify conduct in conflict with these principles.
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 fairness, fidelity and propriety 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 standards set out in the Code. Employee relationships at every level must be based on transparency, propriety, 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 to encouraging their constructive contribution to its contents. Any conduct in conflict with the letter and spirit of the Code will be punished in accordance with the provisions of the Code.
The standards outlined in the Code of Conduct may be supported by specific internal directives, regulations or procedures, aimed at making its application more practical and precise. The Code is brought to the attention of all those with whom Fincantieri does business.
Fincantieri monitors compliance with the Code and develops suitable instruments of communication, prevention and control to ensure the transparency of the transactions and conduct adopted.
The Board of Directors and company management are responsible for monitoring compliance with the Code of Conduct and its application, and may also put forward proposals to add to or amend its content.

Organizational Model (Italian Legislative Decree 231/2001)

The adoption of an Organizational, Management and Control Model under Legislative Decree 231/2001 (the "**Model**"), which is voluntary and not mandatory, and whose first publication dates back to 2002, has been seen by Fincantieri as a significant opportunity to take a "proactive" approach to preventing the commission of the criminal offences addressed by this legislation. The Model identifies - in accordance with the Code of Conduct adopted by the Company, which forms an integral part of the Model - the rules and procedures that must be followed by all target users, i.e. all individuals and entities, including employees, members of the Company's governing and control bodies, external consultants and partners, whose work on behalf or in the interests of the Company involves processes sensitive to the commission of offences, resulting in administrative vicarious liability under Legislative Decree 231/2001.

The Board of Directors plays a primary role in matters concerning/for application of the provisions of Legislative Decree 231/2001, being the sole body with authority to approve the Model and to establish and appoint members of the Oversight Board. On 30 July 2012, the Board of Directors approved the structure of the Model, divided into a General Section, whose amendment requires the Board's approval, and a Special Section. The Special Section of the Model was last updated during the Oversight Board's meeting of 18 October 2013. The Oversight Board ensures constant supervision of the Model's implementation, through overall monitoring of its effectiveness and adequacy over time.

The Model is directed at all those involved in performing activities identified as being at risk, whether they are employees or third parties engaged in business relations with Fincantieri. The Model's provisions must therefore be observed by all executive and managerial staff who act in the name and on behalf of the Company, and by all employees, who have been properly instructed and informed of the Model's contents, in the manner indicated below.

Compliance with the Model is also ensured through contractual clauses that bind contractors, consultants and business partners to comply with the standards set out in the Code and, where possible, the specific procedures applying to their activities; failure to comply with such clauses will allow Fincantieri to withdraw from the contract or terminate it.

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

At the same time, the individual business areas affected by such potential offences were mapped. A link was therefore drawn between the particular offences listed in Legislative Decree 231/2001 and the company sectors and people who, by virtue of their jobs, duties 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 an offence were mapped for the areas concerned. This analysis and classification were evaluated against the Company's systems of preventive controls.

The Model consists of a General Section and a Special Section. The General section illustrates the Model's functions and principles and identifies its essential components and the disciplinary measures applying thereto: the system of preventive controls, the disciplinary system and punishment mechanisms, the Oversight Board and updating of the Model over time. The Fincantieri Model is an instrument through which to extend the Model's guiding principles to the various parties with whom Fincantieri deals.

In fact, it is the channel through which:

- all target users of the Model are made aware of the need for strict observance of the principles expressed in the Model and the disciplinary measures arising from the violation thereof;
- Fincantieri strongly condemns all forms of unlawful behavior not only because contrary to the law, but also to the ethical standards which Fincantieri intends to follow in the conduct of its business activities;
- people are informed about the potentially serious consequences for the Company (and thus, indirectly, for all its stakeholders) if fines are levied or prohibitions imposed in application of Legislative Decree 231/2001, including the possibility that such penalties may also be ordered on a precautionary basis;
- the Company is permitted constant control and close supervision of its activities, in order to intervene promptly if risk profiles arise and, where necessary, to apply the disciplinary measures established in the Model.

The Special Section refers to the conduct of the Model's target users, including employees, Fincantieri's governing and control bodies, its external contractors, consultants and partners.

The objective of the Special Section is that all target users adopt rules of conduct and behavior that complies with the recommendations, in order to prevent the commission of the offences listed in Legislative Decree 231/2001. Specifically, the Special Section has the purpose of:

- setting out the standards of conduct that target users are required to observe for the proper application of the Model;
- indicating the control objectives and providing the Oversight Board, and the heads of other company departments cooperating with it, the executive instruments to exercise control, monitoring and verification activities.

In accordance with the provisions of law, the Model contains a disciplinary system to punish any violations thereof and any failure to follow company procedures that represent key controls.

Due to the complexity of the Company's organizational structure, the Oversight Board plays an important role in driving forward the Model and making recommendations and constructive criticism, insofar as it evaluates and technically determines proposed changes to the Model, presenting appropriate recommendations to the Board of Directors as a result of:

- legislative changes with reference to the regulations governing corporate liability in the event of administrative offences;
- significant changes in the organizational structure or business activities of the Company;
- significant violations of the Model and/or results of audits of the Model's effectiveness or of publicly-known experiences.

The Model and the Code of Conduct are published on Fincantieri's website at www.fincantieri.com and are also available on the company intranet.

Reporting of violations, including anonymously

The Oversight Board receives reports of alleged violations of the Code of Conduct and the Organizational Model from members of the Company's governing and control bodies, from department Heads, as well as from employees, external contractors, suppliers and customers, including anonymously. The Oversight Board decides whether to investigate such reports or to dismiss them, giving suitable reasons for its decision.

These reports and all other spontaneous internal or external communications or notifications to the Oversight Board may be submitted by mail or e-mail to the dedicated addresses listed in the Model. Without prejudice to legal obligations, the Oversight Board assures the confidentiality of sources and information that come into its possession through the above dedicated channels.

Internal controls relating to the financial reporting process (Compliance Model under Italian Law 262/2005)

The Internal Audit department has developed the Compliance Model under Italian Law 262/2005 to analyze the significant line items in the Fincantieri consolidated financial statements and to identify the business processes involved in the preparation of financial reports. This Model also defines the specific components of the financial reporting process and requires a system of administrative and accounting procedures, supported and supplemented by "Risk and Control Matrices" where appropriate; lastly, the Model defines the procedures and frequency of financial reporting risk assessment in order to identify the most relevant processes for financial reporting purposes.

Fincantieri has adopted the "COSO - Internal Control Integrated Framework" and "COBIT - Control Objectives for Information and related Technology" frameworks as the main company-wide assessment tools of the system of internal controls associated with financial reporting.

The Internal Audit department updates the Compliance Model on an annual basis and whenever such need arise.

Transactions with the controlling company and other group companies

During 2013, the Fincantieri Group carried out transactions with Fintecna, its controlling company, and with certain companies in the Fintecna Group, and with Cassa Depositi e Prestiti and 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

January

On 9 January 2014, Fincantieri signed with the Provincial Secretariats of all the trade unions and the individual shipyard trade union representatives, an agreement for the reorganization of the Palermo yard, which follows on from the one signed on 21 December 2011 with the government and national unions, and which establishes important new practices to make work more flexible, essential for achieving the improvements in efficiency and productivity demanded by the altered international environment.

On 15 January 2014, VARD signed a contract with an international customer for the construction of a Diving Support and Construction Vessel.

On 21 January 2014, Fincantieri announced the signing of a contract for the construction of a super-luxury cruise ship for Seabourn, a Carnival Corporation brand. The contract follows last October's letter of intent between the two companies.

February

On 4 February 2014, a plate-cutting ceremony was held at the Marghera shipyard for the new cruise ship being built by Fincantieri for Holland America Line, a Carnival Corporation brand.

On 7 February 2014, VARD signed a contract with Bourbon for the design and construction of an arctic Anchor Handling Tug Supply vessel (AHTS), while on 11 February 2014 it finalized the contract for a Platform Support Vessel (PSV) for Carlotta Offshore.

In February 2014, Fincantieri acquired 50% of the share capital of Seastema S.p.A. from ABB S.p.A. As a result, Fincantieri now controls 100% of the shares in this company.

On 14 February 2014, the "Britannia", the new flagship of P&O Cruises, was launched at the Monfalcone shipyard. The ship is due to be delivered at the start of 2015.

The month of February 2014 also saw official delivery to the Italian Navy of the "Carlo Margottini", the third multipurpose frigate under the FREMM program.

March

During the month of March 2014, the U.S. Navy confirmed the placing of an order with Fincantieri, through its American subsidiary FMG, for the construction of two more LCSs.

On 11 March 2014, VARD announced the signing of a letter of intent for the construction of an Offshore Subsea Construction Vessel (OSCV) for Solstad Offshore, representing the largest order for a single vessel in the Norwegian company's history.

On 12 March 2014, VARD announced the signing of a contract for the construction of two Offshore Support Vessels (OSV).

On 14 March 2014, VARD announced the signing of a contract for the construction of two Platform Supply Vessels (PSV) for Mermaid Marine Australia Ltd.

On 17 March 2014, VARD Marine Inc. was incorporated in Canada, with all of its share capital owned by VARD Holdings Ltd.

BUSINESS OUTLOOK

In a market environment likely to confirm the signs of an albeit slow recovery, the Group is expecting a modest growth in its business for the current year. This will also be affected by a temporary contraction in its naval defense business due to the gap between concluding certain contracts and starting work on new ones in the process of being acquired.

Reconciliation of Parent Company profit for the year and equity with the consolidated figures

As required by the Consob Communication of 28 July 2006, the following table provides a reconciliation between equity and profit for the year of the parent company Fincantieri S.p.A. with the consolidated figures (Group and non-controlling interests).

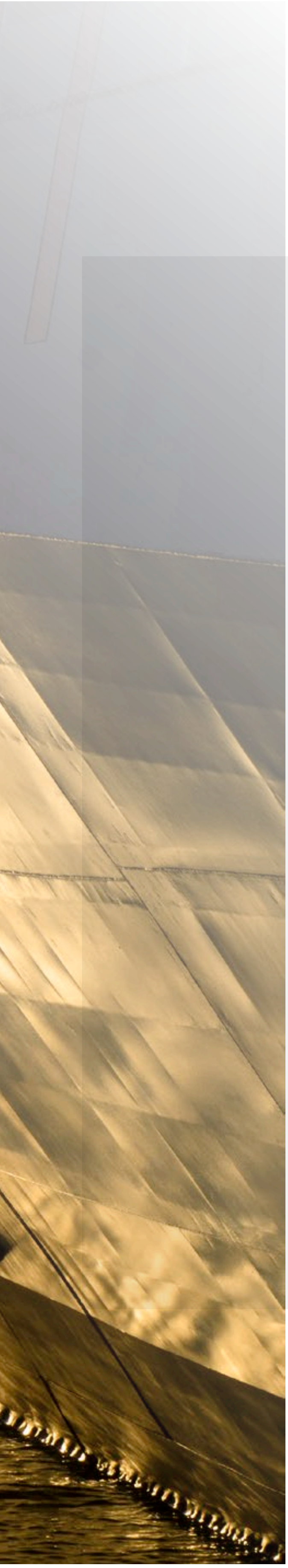
	31.12.2013		31.12.2012		31.12.2011	
(Euro/000)	Equity	Profit for the year	Equity	Profit for the year	Equity	Profit for the year
Parent Company Financial Statements	**933,076**	**41,544**	**894,827**	**16,858**	**885,062**	**1,717**
Share of equity and net profit of consolidated subsidiaries, net of carrying amount of the related investments	-213,564	-5,672	36,659	-1,657	38,680	5,649
Consolidation adjustments for difference between purchase price and corresponding book value of equity	278,113	20,479	-	-	-	-
Reversal of dividends distributed by consolidated subsidiaries to the Parent Company	-	-204	-	-196	-	-196
Investments accounted for using the equity method	8,116	601	7,515	900	6,615	420
Elimination of intercompany profits and losses and other consolidation adjustments	-2,873	-31	-2,842	-562	-2,280	76
Exchange translation differences from line-by-line consolidation of foreign subsidiaries	-34,527	-	3,367	-	5,438	-
Equity and profit for the year attributable to owners of the Parent	**968,341**	**56,717**	**939,526**	**15,343**	**933,515**	**7,666**
Non-controlling interests	242,225	28,401	17,011	120	17,425	1,215
Total consolidated equity and profit for the year	**1,210,566**	**85,118**	**956,537**	**15,463**	**950,940**	**8,881**

Reconciliation of the reclassified financial statements used in the report on operations with the mandatory IFRS statements

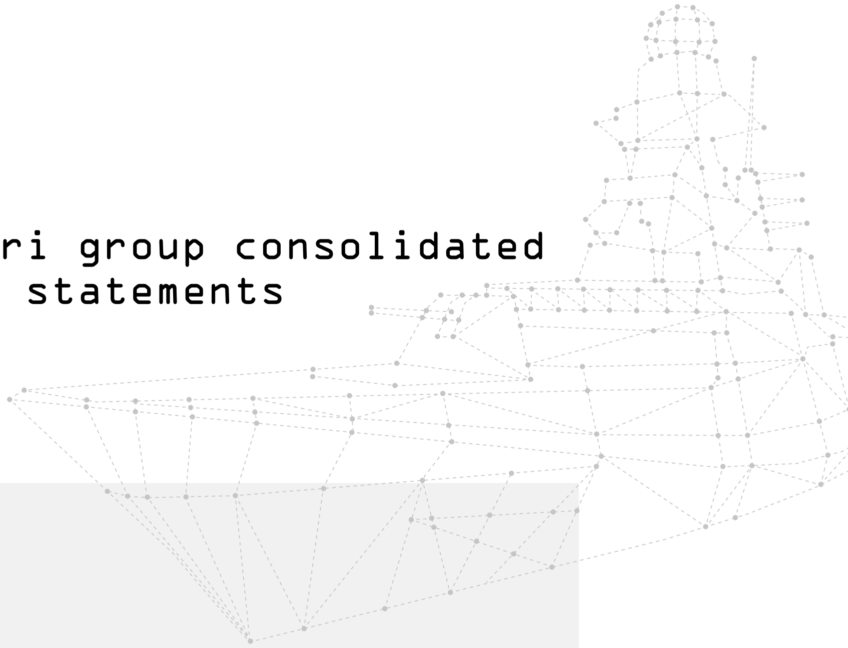
CONSOLIDATED INCOME STATEMENT

	2013		2012		2011	
(Euro/million)	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A - Revenue		**3,811**		**2,381**		**2,380**
Operating revenue	3,737		2,301		2,317	
Other revenue and income	74		80		63	
B - Materials, services and other costs		**-2,745**		**-1,727**		**-1,768**
Materials, services and other costs	-2,769		-1,735		-1,778	
Recl. to L - Extraordinary and non-recurring income and expenses	24		8		10	
C - Personnel costs		**-752**		**-507**		**-458**
Personnel costs	-770		-528		-478	
Recl. to L - Extraordinary and non-recurring income and expenses	18		22		20	
Recl. from E - Capitalization of internal costs			1			
D - Provisions and impairment		**-16**		**-**		**-13**
Provisions and impairment	-47		-15		-37	
Recl. to L - Extraordinary and non-recurring income and expenses	31		15		24	
E - Depreciation and amortization		**-89**		**-60**		**-66**
Depreciation and amortization	-89		-60		-66	
F - Finance income and costs		**-55**		**-12**		**-1**
Finance income and costs	-62		-8		2	
Recl. to L - Extraordinary and non-recurring income and expenses	7		-4		-3	
G - Income/expense (+/-) from investments		**2**		**1**		**-**
Income/expense (+/-) from investments	2		1			
H - Income taxes		**-19**		**-32**		**-30**
Income taxes	9		-20		-14	
Recl. L - Extraordinary and non-recurring income and expenses	-28		-12		-16	
I - Extraordinary and non-recurring income and expenses		**-80**		**-41**		**-51**
Recl. from B - Materials, services and other costs	-24		-8		-10	
Recl. from C - Personnel costs	-18		-22		-20	
Recl. from D - Provisions and impairment	-31		-15		-24	
Recl. from F- Finance income and costs	-7		4		3	
L - Tax effect of extraordinary and non-recurring income and expenses		**28**		**12**		**16**
Recl. from H - Income taxes for the year	28		12		16	
Profit for the year		**85**		**15**		**9**

(Euro/million)	31.12.2013 Partial amounts in IFRS statement	31.12.2013 Amounts in reclassified statement	31.12.2012 Partial amounts in IFRS statement	31.12.2012 Amounts in reclassified statement	31.12.2011 Partial amounts in IFRS statement	31.12.2011 Amounts in reclassified statement
A) Intangible assets		**539**		**104**		**110**
Note 6 - Intangible assets	539		104		110	
B) Property, plant and equipment		**897**		**585**		**555**
Note 7 - Property, plant and equipment	897		585		555	
C) Equity investments and other financial assets		**70**		**17**		**16**
Note 8 - Investments and Non-current receivables	70		17		16	
D) Employee benefits		**-60**		**-71**		**-65**
Note 18 - Employee benefits	-60		-71		-65	
E) Other non-current assets and liabilities		**-14**		**-40**		**-50**
Note 9 - Derivative assets	17		11		1	
Note 10 - Other non-current assets	17		11		12	
Note 21 - Other liabilities, Derivative liabilities, and purchase contract fair value	-48		-62		-63	
F) Inventories and advances		**400**		**273**		**276**
Note 11 - Inventories and advances	400		273		276	
G) Construction contracts - assets		**250**		**-52**		**153**
Note 12 - Construction contracts - assets	1,531		517		978	
Note 23 - Construction contracts - liabilities	-774		-573		-829	
Note 26 - Construction loans	-563					
Recl. to I) Advances from customers	56		4		4	
H) Trade receivables		**344**		**268**		**318**
Note 14 - Trade receivables and other current assets	532		399		445	
Recl. to N) Other assets	-188		-131		-127	
I) Advances from customers		**-56**		**-4**		**-4**
Recl. from G) Construction contracts	-56		-4		-4	
L) Trade payables		**-911**		**-597**		**-577**
Note 24 - Trade payables and other current liabilities	-1,129		-728		-685	
Recl. to N) Other liabilities	218		131		108	
M) Provisions for risks and charges		**-151**		**-101**		**-114**
Note 19 - Provisions for risks and charges	-151		-101		-114	
N) Other current assets and liabilities		**57**		**116**		**107**
Note 11 - Deferred tax assets	168		113		120	
Note 15 - Income tax assets	38		36		33	
Note 16 - Derivative assets	68		3		5	
Recl. from H) Trade receivables	188		131		127	
Note 11 - Deferred tax liabilities	-88		-32		-33	
Note 25 - Income tax liabilities	-30		-1		-6	
Note 26 - Derivative liabilities and option fair value	-69		-3		-31	
Recl. from L) Trade payables	-218		-131		-108	
NET INVESTED CAPITAL		**1,365**		**498**		**725**
O) Equity		**1,210**		**957**		**951**
P) Net financial position		**155**		**-459**		**-226**
SOURCES OF FUNDING		**1,365**		**498**		**725**
Q) Net (assets)/liabilities held for sale						



fincantieri group consolidated financial statements



page number	
86	Consolidated statement of financial position
87	Consolidated statement of comprehensive income
88	Consolidated statement of changes in equity
89	Consolidated statement of cash flows

Consolidated statement of financial position

(Euro/000)	Note	31.12.2013	31.12.2012	31.12.2011
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	6	539,332	104,004	110,247
Property, plant and equipment	7	896,545	584,672	554,805
Investments accounted for using the equity method	8	61,647	14,976	14,076
Other investments	8	8,917	1,697	1,671
Financial assets	9	99,882	75,595	71,985
- of which related parties	*32*	*8,548*		
Other assets	10	17,456	11,435	11,957
Deferred tax assets	11	167,651	113,072	120,685
Total non-current assets		**1,791,430**	**905,451**	**885,426**
CURRENT ASSETS				
Inventories and advances	12	399,728	273,472	276,241
Construction contracts - assets	13	1,530,660	516,650	977,696
Trade receivables and other current assets	14	558,921	399,488	445,455
- of which related parties	*32*	*48,808*	*24,953*	*73,367*
Income tax assets	15	38,817	35,555	33,042
Financial assets	16	99,353	53,659	99,677
- of which related parties	*32*	*4,368*		
Cash and cash equivalents	17	384,506	691,827	387,170
Total current assets		**3,011,985**	**1,970,651**	**2,219,281**
TOTAL ASSETS		**4,803,415**	**2,876,102**	**3,104,707**
EQUITY AND LIABILITIES				
EQUITY	18			
Equity attributable to owners of the parent				
Share capital		633,481	633,481	633,481
Reserves and retained earnings		334,860	306,045	300,034
Total Equity attributable to owners of the parent		**968,341**	**939,526**	**933,515**
Non-controlling interests		242,225	17,011	17,425
Total Equity		**1,210,566**	**956,537**	**950,940**
NON-CURRENT LIABILITIES				
Provisions for risks and charges	19	98,907	89,215	113,978
Employee benefits	20	60,049	70,757	65,043
Financial liabilities	21	604,727	209,448	149,965
- of which related parties	*32*	*19,049*	*13,380*	
Other liabilities	22	47,600	47,017	47,443
Deferred tax liabilities	11	87,837	32,382	33,081
Total non-current liabilities		**899,120**	**448,819**	**409,510**
CURRENT LIABILITIES				
Provisions for risks and charges	19	51,860	11,845	
Construction contracts – liabilities	23	773,657	572,467	828,755
Trade payables and other current liabilities	24	1,154,718	727,989	685,494
- of which related parties	*32*	*1,250*	*2,234*	*824*
Income tax liabilities	25	30,220	251	6,303
Financial liabilities	26	683,274	158,194	223,705
- of which related parties	*32*	*4,424*	*127,839*	*161,965*
Total current liabilities		**2,693,729**	**1,470,746**	**1,744,257**
TOTAL EQUITY AND LIABILITIES		**4,803,415**	**2,876,102**	**3,104,707**

Consolidated statement of comprehensive income

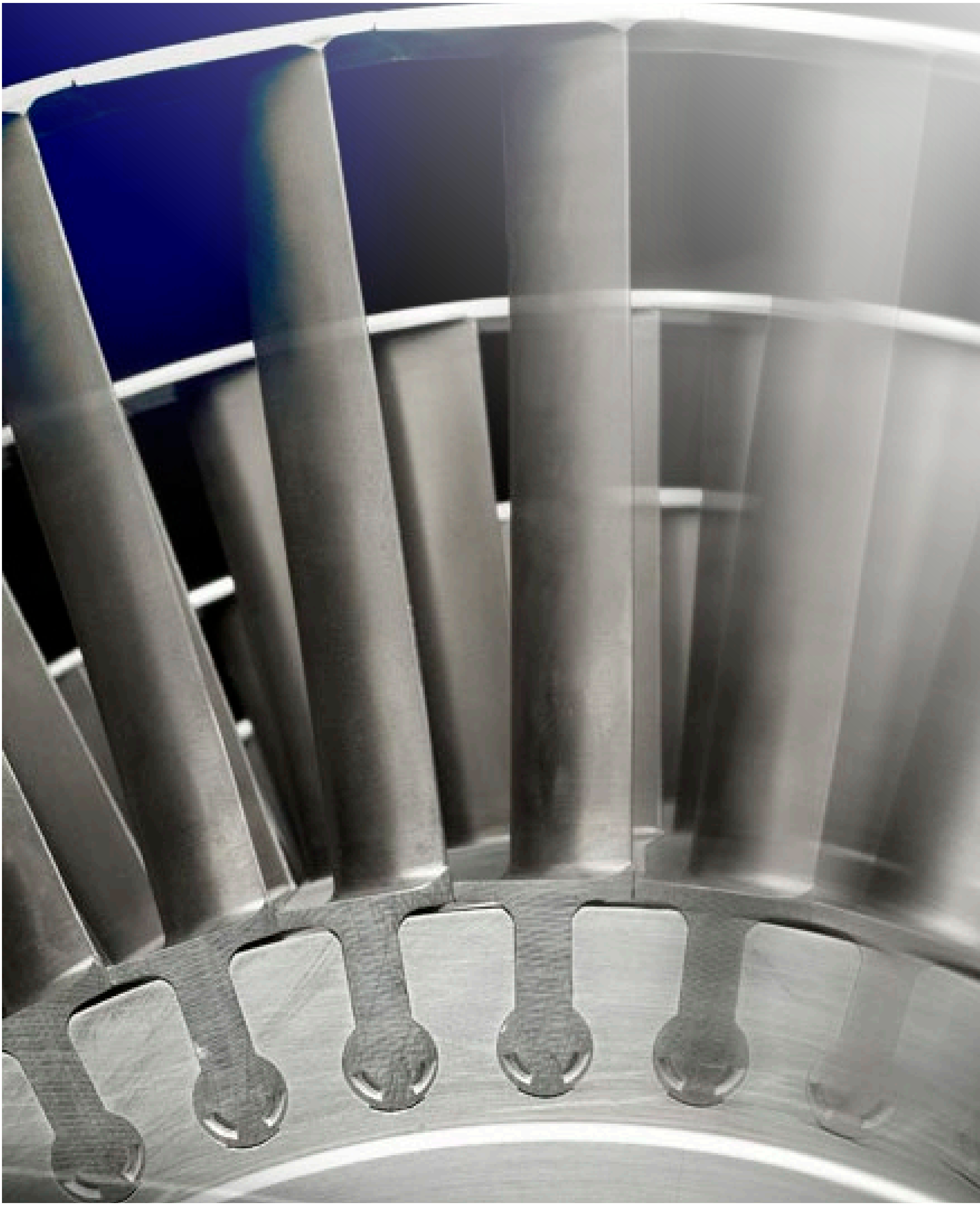
(Euro/000)	Note	2013	2012	2011
Operating revenue	27	3,737,165	2,301,049	2,316,624
- of which related parties	*32*	*463,310*	*328,792*	*220,018*
Other revenue and income	27	73,897	80,320	62,894
- of which related parties	*32*	*2,215*	*2,201*	*3,674*
Materials, services and other costs	28	-2,769,087	-1,733,811	-1,777,725
- of which related parties	*32*	*-4,729*	*-3,737*	*-1,735*
Personnel costs	28	-769,719	-528,983	-477,586
Depreciation and amortization	28	-88,959	-59,896	-65,768
Provisions and impairment	28	-46,680	-15,429	-37,371
Finance income	29	22,952	28,575	28,937
- of which related parties	*32*	*282*	*485*	
Finance costs	29	-85,480	-37,460	-27,404
- of which related parties	*32*	*-5,864*	*-2,421*	*-1,284*
Income/expense (+/-) from investments	30	-444	7	-12
Share of profit/loss (+/-) of investments accounted for using the equity method	30	2,006	900	420
Income taxes	31	9,467	-19,809	-14,128
PROFIT/LOSS (+/-) FOR THE YEAR (A)		**85,118**	**15,463**	**8,881**
Attributable to owners of the parent		*56,717*	*15,343*	7,666
Attributable to non-controlling interests		*28,401*	*120*	1,215
Basic and diluted earnings/loss (+/-) per share (Euro)	32	0.04566	0.01235	0.00617
Other comprehensive income/losses (+/-), net of tax (OCI)				
Gains/losses (+ /-) from remeasurement of employee defined benefit plans	20 -18	1,079	-7,574	1,190
Total gains/losses (+/-) that will not be reclassified to profit or loss, net of tax	**18**	**1,079**	**-7,574**	**1,190**
attributable to non-controlling interests		***403***	***-14***	***3***
Effective portion of gains/losses (+/-) on cash flow hedging instruments	4-18	510	295	-889
Gains/losses (+/-) arising from changes in OCI of investments accounted for using the equity method	18	-744		
Gains/losses (+/-) arising from fair value measurement of available-for-sale securities and bonds	18	-1		
Exchange gains/losses (+/-) arising on translation of foreign subsidiaries' financial statements	18	-41,996	-2,367	4,257
Total gains/losses (+/-) that may be subsequently reclassified to profit or loss, net of tax	**18**	**-42,231**	**-2,072**	**3,368**
attributable to non-controlling interests		***-17,736***	***-296***	***536***
Total other comprehensive income/losses (+/-), net of tax (B)	**18**	**-41,152**	**-9,646**	**4,558**
attributable to non-controlling interests		***-17,333***	***-310***	***539***
TOTAL COMPREHENSIVE INCOME/LOSS (+/-) FOR THE YEAR (A) + (B)		**43,966**	**5,817**	**13,439**
Attributable to owners of the parent		*32,898*	*6,007*	*11,685*
Attributable to non-controlling interests		*11,068*	*-190*	*1,754*

Consolidated statement of changes in equity

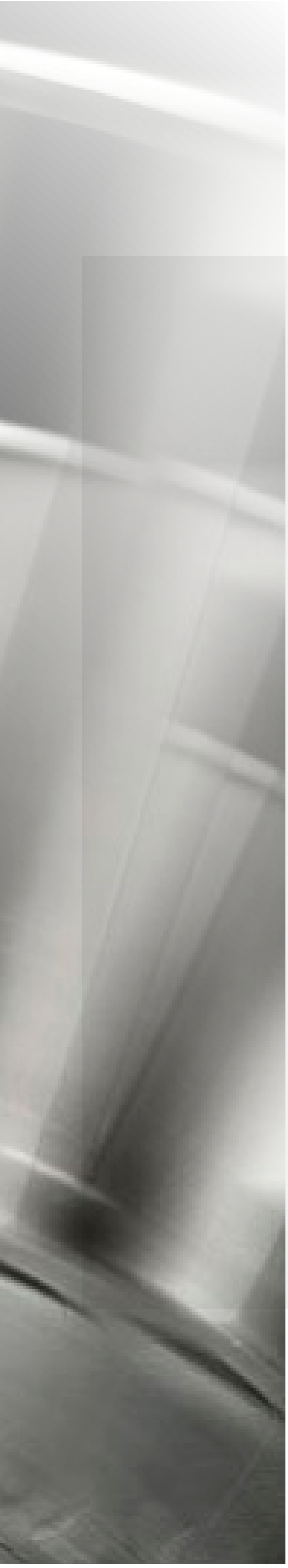
(Euro/000)	Note	Share capital	Reserves and retained earnings (+/-)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	**Total**
1.1.2011		**633,481**	**288,347**	**921,828**	**15,723**	**937,551**
Share capital increase					153	153
Purchase of non-controlling interests						
Dividend distribution					-204	-204
Share capital increase – non-controlling interests						
Other changes/roundings			2	2	-1	1
Total transactions with owners			***2***	***2***	***-52***	***-50***
Profit for the year			7,666	7,666	1,215	8,881
OCI for the year			4,019	4,019	539	4,558
Total comprehensive income for the year			***11,685***	***11,685***	***1,754***	***13,439***
31.12.2011	18	**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						
Other changes/roundings			4	4		4
Total transactions with owners			***4***	***4***	***-224***	***-220***
Profit for the year			15,343	15,343	120	15,463
OCI for the year			-9,336	-9,336	-310	-9,646
Total comprehensive income for the year			***6,007***	***6,007***	***-190***	***5,817***
31.12.2012	18	**633,481**	**306,045**	**939,526**	**17,011**	**956,537**
Business combinations					212,975	**212,975**
Share capital increase						
Share capital increase – non-controlling interests					1,464	**1,464**
Purchase of non-controlling interests						
Dividend distribution			-4,000	-4,000	-295	**-4,295**
Other changes/roundings			-83	-83	2	**-81**
Total transactions with owners			***-4,083***	***-4,083***	***214,146***	***210,063***
Profit for the year			56,717	56,717	28,401	85,118
OCI for the year			-23,819	-23,819	-17,333	-41,152
Total comprehensive income for the year			***32,898***	***32,898***	***11,068***	***43,966***
31.12.2013	18	**633,481**	**334,860**	**968,341**	**242,225**	**1,210,566**

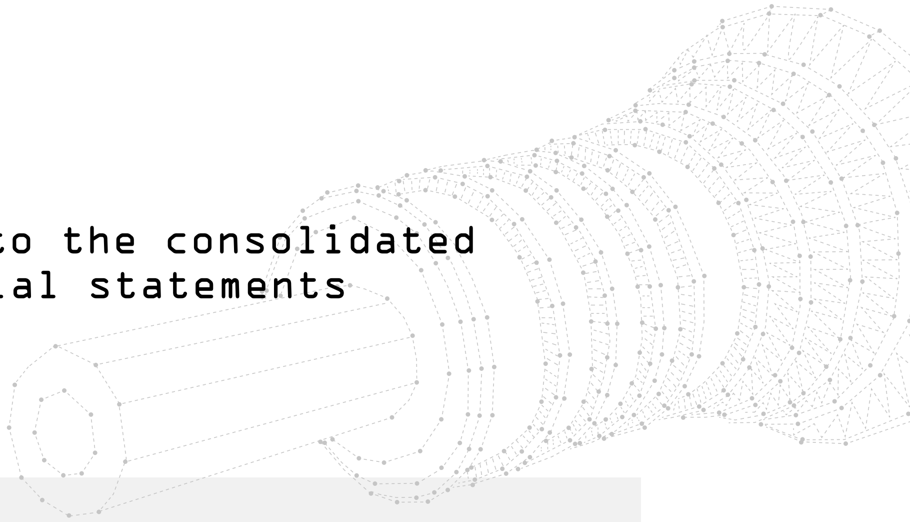
Consolidated statement of cash flows

(Euro/000)	Note	31.12.2013	31.12.2012	31.12.2011
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	**-246,242**	**374,813**	**149,882**
- of which related parties		*-24,839*	*49,824*	*4,668*
Investments in:				
- intangible assets		-36,816	-2,407	-3,670
- property, plant and equipment		-217,916	-86,400	-74,379
- equity investments		-8,552	-30	-
- receivables and other financial assets		-	-5,607	-16
- cash out for business combination (VARD group), net of cash acquired		-168,707	-	-
Disposals of:				
- intangible assets		17	-	-
- property, plant and equipment		1,314	1,039	432
- equity investments		6,820	-	-
- non-current receivables and other financial assets		-	10,581	10,033
CASH FLOWS FROM INVESTING ACTIVITIES		**-423,840**	**-82,824**	**-67,600**
Change in non-current loans:				
- proceeds		376,979	84,100	6,304
- repayments		-18,614	-18,816	-14,432
Change in non-current financial receivables:				
- proceeds		-15,131	-	-
- repayments		592	-	-
Change in current bank loans and credit facilities		191,071	-2,754	829
Change in current loans from controlling companies		-	-	-
Change in payables/receivables due to/from associates		-	-	-
Change in other current financial liabilities/receivables		-125,168	-36,254	-13,286
Change in receivables for held-for-trading financial instruments		52	-29	-30
Change in payables for held-for-trading financial instruments		-1,074	-13,288	-4,067
Dividends paid		-4,295	-204	-204
Contribution by shareholders, including non-controlling interests		-	-	-
Change in non-controlling interests		1,464	-20	153
CASH FLOWS FROM FINANCING ACTIVITIES		**405,876**	**12,735**	**-24,733**
- of which related parties		*-130,662*	*-20,746*	*-10,033*
NET CASH FLOWS FOR THE YEAR		**-264,206**	**304,724**	**57,549**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**691,827**	**387,170**	**329,201**
Effect of exchange rate changes on cash and cash equivalents		-43,115	-67	420
CASH AND CASH EQUIVALENTS AT END OF YEAR		**384,506**	**691,827**	**387,170**



notes to the consolidated financial statements





page number	
92	Note 1 - form, contents and other general information
100	Note 2 - scope and basis of consolidation
103	Note 3 - accounting policies
116	Note 4 - financial risk management
129	Note 5 - sensitivity analysis
130	Note 6 - intangible assets
133	Note 7 - property, plant and equipment
135	Note 8 – investments accounted for using the equity method and other investments
138	Note 9 - non-current financial assets
139	Note 10 - other non-current assets
140	Note 11 - deferred tax assets and liabilities
142	Note 12 - inventories and advances
143	Note 13 - construction contracts - assets
143	Note 14 - trade receivables and other current assets
145	Note 15 - income tax assets
145	Note 16 - current financial assets
146	Note 17 - cash and cash equivalents
146	Note 18 - equity
149	Note 19 - provisions for risks and charges
150	Note 20 - employee benefits
151	Note 21 - non-current financial liabilities
155	Note 22 - other non-current liabilities
155	Note 23 - construction contracts - liabilities
156	Note 24 - trade payables and other current liabilities
156	Note 25 - income tax liabilities
157	Note 26 - current financial liabilities
158	Note 27 - revenue and income
159	Note 28 - operating costs
162	Note 29 - finance income and costs
163	Note 30 - income and expense from investments
164	Note 31 - income taxes
165	Note 32 - other information
174	Note 33 - cash flows from operating activities
175	Note 34 - segment information
179	Note 35 - vard group acquisition
181	Note 36 - events after 31 december 2013

Note 1 - form, contents and other general information

THE PARENT COMPANY

FINCANTIERI S.p.A. (hereinafter "Fincantieri", the "Company" or the "Parent Company" and, together with its subsidiaries, the "Group" or the "Fincantieri Group") is a legal entity incorporated under Italian law. The current name was adopted at the Extraordinary General Meeting of the Company's shareholders held on 30 September 2013, and has replaced the previous name of "Fincantieri Cantieri Navali Italiani S.p.A.".
At the close of financial year 2013, 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%. It should be noted that the share capital of Fintecna S.p.A. is 100% owned by Cassa depositi e prestiti S.p.A. (hereinafter also referred to as "CDP"), 80.1% of whose share capital is in turn owned by Italy's Ministry of Economy and Finance.
The Company's registered office is located in Via Genova no. 1, Trieste (Italy).
Appendix 2 contains a summary of the 2012 financial statements of Fintecna S.p.A.
The present document was approved by the Company's Board of Directors on 18 March 2014.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is one of the world's top players in the shipbuilding industry and one of the most diversified globally, offering design and construction services for high added-value products such as cruise ships, naval vessels, ferries, mega-yachts, offshore vessels, and marine systems and components.
The Group has increased its presence in the offshore vessels sector after acquiring VARD Holdings Limited and its group of companies (the "VARD Group") in January 2013, as described in more detail in Note 35. This Group's activities are particularly focused on the design and construction of support vessels for the oil & gas exploration and production industry and other specialized vessels.
The comparability of the financial statements for 2013, 2012 and 2011 has been affected by the enlarged scope of consolidation due to the VARD Group's acquisition. Note 35 contains an analysis of the impact of this acquisition on the Group's results for financial year 2013.

IFRS CONSOLIDATED FINANCIAL STATEMENTS

In 2007 Fincantieri took 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.

Therefore, starting from the year ended 31 December 2007, the consolidated financial statements of the Fincantieri Group have been prepared in compliance with IFRS, meaning 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 reporting date of 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.

It should be noted that as at the date of approving the present financial statements, work is in progress for the publication of a prospectus (hereinafter the "**Prospectus**") for the proposed initial public offering and subscription of the Company's ordinary shares and their admission to listing on the Milan Stock Exchange organized and managed by Borsa Italiana S.p.A. (hereinafter the "**Listing**"). In view of the fact that *(i)* for the purposes of preparing the Prospectus it is necessary to present the financial statements for the past three years, and *(ii)* the subsequent listing of the shares will also involve the preparation of an offer document for the sale of shares to international institutional investors, within the meaning of Regulation S of the United States Securities Act of 1933, including those in the United States of America, under Rule 144A of this Act, which must contain, among other things, the Company's consolidated financial statements for the past three years, the consolidated financial statements for 2013 present comparative figures for financial years 2012 and 2011 and the related disclosures also refer to these years (hereinafter the "**Consolidated Financial Statements**").

In addition, the following changes and additions have been made when preparing the present document compared with the Group's consolidated financial statements for the years ended 31 December 2012 and 2011, approved on 26 February 2013 and 15 February 2012 respectively:

- the effects of derivative instruments that do not technically qualify as hedging instruments, previously recorded under finance income and costs have been reclassified as income and expenses of an operational nature, a presentation considered more consistent with the Group's intended objectives through the use of such instruments;
- the effects of any reversals of impairment losses and provisions for risks and charges have been reclassified from "Other revenue and income" to "Provisions and impairment";
- following the issuance of the bond in 2013, the Group is required to apply IFRS 8 - *Operating Segments*. The present document therefore contains for the first time the disclosures required by this reporting standard.

The changes and additions in question have been applied to the Group's consolidated information for the year ended 31 December 2013 and, in accordance with the provisions of paragraph 41 of IAS 1, to the comparative amounts presented. Further details are given below.

The statutory audit of the Consolidated Financial Statements is the responsibility of 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.

BASIS OF PREPARATION

The IFRSs have been consistently applied to all the accounting periods presented in the current document.

The Consolidated Financial Statements have been prepared on a going concern basis, since the Directors have verified that there are no financial, operating or other types of indicators that might cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and particularly within the 12 months from the end of the reporting period.
The financial statements have been prepared under the historical cost convention, except for those financial assets and financial liabilities for which fair value measurement is compulsory.

Accounting standards, amendments and interpretations applicable from 1 january 2013

A brief description of the amendments, improvements and interpretations applicable from 1 January 2013 is provided below. The application of such revisions, where applicable, has not had a material impact on the present consolidated financial statements.
On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which groups together in a single document the rules that define how to measure fair value for financial reporting purposes and its use in the various circumstances permitted by IFRSs. IFRS 13 also requires specific disclosures about fair value, some of which replace those required by other standards, including IFRS 7 - *Financial Instruments: Disclosures*.
The standard was published in the Official Journal of the European Union on 29 December 2012, and is effective for annual accounting periods beginning on or after 1 January 2013. The Group has adopted this new standard prospectively from 1 January 2013. Its adoption has not had a material impact.
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 are potentially reclassifiable to profit or loss subsequently. The amendment was published in the Official Journal of the European Union on 6 June 2012, and is effective for annual accounting periods beginning on or after 1 July 2013. The amendment, adopted by the Group from 1 January 2013, has resulted in a different presentation of the consolidated statement of comprehensive income.
On 16 June 2011, the IASB issued an amendment to IAS 19 – *Employee Benefits*, effective retrospectively for annual accounting periods beginning on or after 1 January 2013 with the option for earlier adoption. The Group has taken up this option and adopted this amendment as from the year ended 31 December 2012. The amendment in question has eliminated 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 that:

- 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 requires that actuarial gains and losses be included in the "valuation reserves" forming part of equity, having been recognized through "other comprehensive income" and not profit or loss. IAS 19 (*revised*) therefore excludes the option of systematically recognizing actuarial gains and losses in profit or loss;

- given the retrospective application required by IAS 8, the adoption of this amendment had the following effects on the financial statements for the year ended 31 December 2012:
  - 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 resulted in a decrease of euro 1,190 thousand in profit for the year and a matching increase in the "Valuation reserves" in the consolidated statement of financial position and in the "Actuarial gains (losses) on defined benefit plans" reported in "Other comprehensive income" for 2011;
  - 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 resulted in an increase of euro 7,574 thousand in profit for the year and a matching decrease in the "Valuation reserves" in the consolidated statement of financial position and in the "Actuarial gains (losses) on defined benefit plans" reported in "Other comprehensive income" for 2012.

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 severance benefit 3.00%.

The point of reference for the discount rate is the iBoxx Eurozone Corporates10-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 consolidated statement of financial position.
On 16 December 2011, the IASB issued some amendments to IFRS 7 - *Financial Instruments: Disclosures*, which require disclosures about rights of set-off between financial assets and financial liabilities, in order to allow users of the financial statements to evaluate the effects of such offsetting on the reporting entity's financial position. Such disclosure is required for all financial instruments that are set off in accordance with IAS 32 and for those subject to master netting arrangements and similar arrangements. The Group has adopted this amendment from 1 January 2013. The adoption of this amendment has had no impact on the disclosures included in the present financial statements.
In 17 May 2012, the IASB issued a series of amendments to IFRS in the document entitled *Annual Improvements to IFRSs 2009 - 2011 Cycle*; the following are those applicable to the Group, omitting those that have involved only changes in terminology with minimal accounting effects:

- IAS 1 – *Presentation of Financial Statements*: the amendment clarifies how to present comparative information when a reporting entity changes its accounting policies and makes a retrospective restatement or reclassification, and when the reporting entity provides additional comparative information to that required by the standard. This amendment has been applied to the retrospective restatement of the income statement for the change in classification of finance income and costs from transactions in held-for-trading foreign currency derivatives, the effects of which have been reflected in the income statements for 2012 and 2011;

- IAS 16 – *Property, Plant and Equipment*: the amendment clarifies that spare parts, stand-by equipment and servicing equipment shall be capitalized only if they meet the definition of property, plant and equipment, otherwise they must be classified as inventory;
- IAS 32 – *Financial Instruments: Presentation*: the amendment removes an inconsistency between IAS 12 - *Income Tax* and IAS 32 concerning the tax effect of distributions to equity holders, by establishing that such tax must be recognized in the income statement to the extent that the distribution relates to income generated from operations originally recognized in the income statement.

These amendments, adopted by the Group retrospectively from 1 January 2013, have not had any impact on the 2013 financial statements, other than as reported in the subsequent paragraph entitled "Presentation of financial statements".

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* (subsequently amended on 28 June 2012), which supersedes SIC-12 - *Consolidation: Special Purposes Entities*, and parts of IAS 27 – *Consolidated and Separate Financial Statements*, from which all references to consolidation have been removed and so which now addresses the accounting and disclosure requirements for investees when an entity prepares separate financial statements. The new standard builds on existing standards by identifying a single model of control applicable to all investees, including special purpose entities. The new definition of control is more detailed and complex than before, and depends on the ongoing and concurrent existence of three specific conditions, namely: power over the investee, the possibility for the investor to achieve returns from ownership of the investment and the investor's ability to use its power over the investee to affect the amount of its returns. The IASB requires this standard to be applied retrospectively from 1 January 2013. The competent bodies of the European Union have completed the process of endorsing this standard and deferred its application date to 1 January 2014, while nonetheless permitting early adoption as from 1 January 2013. The Group believes that the adoption of the new standard will not have a material impact on its financial statements.

On 12 May 2011, the IASB issued IFRS 11 – *Joint Arrangements* (subsequently amended on 28 June 2012), which supersedes IAS 31 – *Interests in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The new standard provides principles for identifying a joint arrangement based on the rights and obligations under such an arrangement, regardless of the arrangement's legal form. The accounting treatment differs according to whether the arrangement is classified as a joint operation or a joint venture. The new standard eliminates the proportionate consolidation method and establishes the equity method as the only method with which to account for interests in joint ventures. 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, as from the new standard's effective date. The IASB requires this standard to be applied retrospectively from 1 January 2013. The competent bodies of the European Union have completed the process of endorsing this standard and deferred its application date to 1 January 2014, while nonetheless permitting early adoption as from 1 January 2013. The Group believes that the new standard's adoption will not have a material impact on its financial statements.

On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities* (subsequently amended on 28 June 2012), 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 IASB requires this standard to be applied retrospectively from 1 January 2013. The competent bodies of the European Union have completed the process of endorsing this standard and deferred its application date to 1 January 2014, while nonetheless permitting early adoption as from 1 January 2013. The effects of adopting this new standard are limited to the disclosures of interests in other companies that must be provided in the notes to the annual consolidated financial statements.

On 16 December 2011, the IASB published some amendments to IAS 32 – *Financial Instruments: Presentation*, to clarify the application of certain criteria for offsetting financial assets and financial assets under IAS 32. The amendments must be applied retrospectively for annual accounting periods beginning on or after 1 January 2014.

On 29 May 2013, the IASB issued an amendment to IAS 36 - *Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets*, which addresses the disclosure requirements concerning the recoverable amount of impaired assets, when such amount is based on fair value less costs of disposal. The amendment must be applied retrospectively for annual accounting periods beginning on or after 1 January 2014. Earlier application is permitted for periods in which a reporting entity has already applied IFRS 13.

On 27 June 2013, the IASB issued a few minor amendments to IAS 39 - *Financial Instruments: Recognition and Measurement*, entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated as a result of laws or regulations, in order to replace the original counterparty and so ensure the successful outcome of the obligation assumed and provided specific conditions are met. The same amendment will also be included in IFRS 9 - *Financial Instruments*. The amendments must be applied retrospectively for annual accounting periods beginning on or after 1 January 2014.

Accounting standards not yet applicable because not endorsed by the European Union

At the date of the present financial statements the competent bodies of the European Union had not yet completed the endorsement process needed for the adoption of the following accounting standards and amendments:

On 12 November 2009, the IASB issued IFRS 9 – *Financial Instruments*; this standard has been subsequently amended. The standard, which must be applied retrospectively from 1 January 2015, is the first part of a project aimed at completely replacing IAS 39, and introduces new principles for the classification and measurement of financial assets and liabilities. 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 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 chang-

es must be recognized in "Other comprehensive income and losses" and no longer through profit or loss.
On 20 May 2013, the IASB issued IFRIC 21 - *Levies*, an interpretation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 provides guidance on when to recognize a liability for levies imposed by a government, except for those already covered by other standards (eg. IAS 12 – *Income Taxes*). IAS 37 establishes criteria for the recognition of a liability, one of which is the existence of a present obligation by the reporting entity as a result of a past event (known as the obligating event). The interpretation clarifies that the obligating event giving rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. IFRIC 21 is effective for annual accounting periods beginning on or after 1 January 2014.
On 21 November 2013, the IASB issued the document *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*. The amendments to IAS 19 allow contributions from employees or third parties, that are independent of the number of years of service, to be treated as a reduction in current service cost rather than attributing them to the period over which service is rendered. This treatment is optional and not mandatory.
On 12 December 2013, the IASB issued the document *Annual Improvements to IFRSs 2010 –2012 Cycle*. The related improvements have made changes to: (i) IFRS 2, by amending the definition of "vesting condition"; (ii) IFRS 3, by clarifying that contingent consideration that is classified as an asset or a liability must be measured at fair value at each reporting date; (iii) IFRS 8, mainly by requiring a reporting entity to disclose the judgments made by management in applying the aggregation criteria to operating segments; (iv) the Basis of Conclusions of IFRS 13, by confirming the possibility of being able to measure short-term receivables and payables with no stated interest rate at their invoice amounts, without discounting if the effect of not discounting is immaterial; (v) IAS 16 and IAS 38, by clarifying that when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount; (vi) IAS 24, by specifying that if an entity (or any member of a group of which it is part) provides key management personnel services to the reporting entity (or to the parent of the reporting entity), then it is a related party of the reporting entity.
On the same date, the IASB issued the document *Annual Improvements to IFRSs 2011-2013 Cycle*. The related improvements have made changes to: (i) the Basis of Conclusions of IFRS 1, by clarifying the definition of "existing and currently effective" IFRS for first-time adopters; (ii) IFRS 3, by clarifying that this standard excludes from its scope, the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; (iii) IFRS 13, by clarifying that the scope of the exception defined in paragraph 48 of IFRS 13 includes all contracts accounted for within the scope of IAS 39, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32; (iv) IAS 40, by clarifying the interrelationship between IFRS 3 and IAS 40.
In accordance with the pronouncements made by the IASB, the provisions contained in these documents are effective for annual periods beginning on or after 1 July 2014. However, since these improvements have not yet been endorsed by the European Commission, the effective date of the provisions in question could be deferred to a later date.
On 19 November 2013, the IASB issued the document IFRS 9 - *Financial Instruments: Hedge Accounting* and amendments to IFRS 9, IFRS 7 and IAS 39, with the related Basis for Conclusions and Implementation Guidance. These amendments: (i) involve a substantial overhaul of hedge accounting; (ii) allow earlier application compared with other amendments to IFRS

9 of the amendment which requires changes in the fair value of liabilities designated at fair value through profit or loss, comprising gains or losses arising from changes in the entity's credit risk, to be recognized in Other comprehensive income; (iii) remove the 1 January 2015 mandatory effective date of IFRS 9.

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.

Classification of release of provisions in the income statement

As from 2013, releases of provisions for risks and charges and impairment reversals have been classified as a reduction of "Provisions and impairment" and not in "Other revenue and income". In order to align financial years 2012 and 2011, presented for comparative purposes, the line items "Other revenue and income" and "Provisions and impairment" have been restated accordingly.

Classification of the economic effects of foreign currency derivatives

During 2013, the Group changed its accounting policy for the treatment of realized gains/losses arising from held-for-trading foreign currency derivatives and those from the measurement of such instruments. In particular, such gains and losses have been classified in "Other revenue and income/Materials, services and other costs" in order to achieve a better match with the results of the construction contracts for whose currency risk these derivatives are traded. The following table reconciles the effects of these reclassifications for the 2012 and 2011 income statement:

	31.12.2012			
(Euro/000)	**Published Consolidated Financial Statements 2012**	**Reclassification - Derivative financial instruments**	**Reclassification - Release of provisions**	**Restated Consolidated Financial Statements 2012**
Other revenue and income	85,742	14,408	-19,830	80,320
Materials, services and other costs	-1,731,014	-3,960		-1,734,974
Provisions and impairment	-35,259		19,830	-15,429
Finance income	42,983	-14,408		28,575
Finance costs	-41,420	3,960		-37,460
	31.12.2011			
(Euro/000)	**Published Consolidated Financial Statements 2011***	**Reclassification - Derivative financial instruments**	**Reclassification - Release of provisions**	**Restated Consolidated Financial Statements 2011**
Other revenue and income	64,000	7,095	-8,201	62,894
Materials, services and other costs	-1,776,844	-2,482		-1,779,326
Provisions and impairment	-45,572		8,201	-37,371
Finance income	34,412	-7,095		27,317
Finance costs	-28,266	2,482		-25,784

(*) Note: the 2011 income statement shown for comparative purposes was restated with respect to the 2011 published figures to reflect the early adoption of IAS 19 (*Revised*).

Classification of liabilities for put options on equity investments

As from 2013, liabilities for over-the-counter put options on equity investments have been classified as current and non-current "Financial liabilities" and no longer as "Other liabilities". In order to align financial years 2012 and 2011, presented for comparative purposes, the non-current line items "Other liabilities" and "Financial liabilities" have been restated, resulting in respective increases and decreases of Euro 26,170 thousand in 2012 and Euro 26,454 thousand in 2011.

Presentation of income tax assets

As from 2013, income tax assets are being presented separately from indirect tax receivables. In order to align financial years 2012 and 2011, presented for comparative purposes, the specific line item includes only income tax assets, while receivables for indirect tax have been reclassified to "Trade receivables and other current assets".

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Euro which is the currency of the primary economic environment in which the 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 companies included in the scope of consolidation, including information about the nature of their business, location of their registered offices, amount of share capital, the interests held and the companies which hold them.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the financial statements of all entities controlled by the Parent Company.
Control can exist either due to direct or indirect ownership of a majority of the voting rights or when the Group has the power, directly or indirectly, to govern the financial and operating 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. Assets and liabilities, income and expenses arising from transactions between companies included in the consolidation are eliminated in full; also eliminated are profits and losses arising from intragroup transfers of fixed assets, profits and losses arising on the intragroup sale of assets that are still in inventory of the purchasing company, impairment and impairment reversals relating to investments in consolidated companies and intragroup dividends. 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 the non-controlling 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.

Appropriate adjustments are made to the financial statements of subsidiaries to ensure conformity with the Group's accounting policies.

The reporting date of subsidiary companies is aligned with that of the Parent Company; where this is not the case, subsidiaries prepare appropriate financial statements for use by the Parent Company.

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. Appropriate adjustments are made to the financial statements of investments accounted for using the equity method to ensure conformity with the Group's accounting policies.

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 investments accounted for using the equity method 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 associates accounted for using the equity method 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. Joint control arises from an agreement between parties and exists only when strategic financial and operating decisions about the rel-

evant activities require the unanimous consent of the parties sharing control. Appropriate adjustments are made to the financial statements of joint ventures to ensure conformity with the Group's accounting policies.
Such investments 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 translated into Euro, which is the Group's functional currency and the presentation currency for its consolidated financial statements.
The criteria for translating the financial statements of companies expressed in a currency other than the 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 initially at the acquisition-date exchange rate and subsequently adjusted to 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:

	2013		2012		2011	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.3281	1.3791	1.2848	1.3194	1.3920	1.2939
UAE Dirham (AED)	4.8782	5.0654	4.7190	4.8462	5.1126	4.7524
Brazilian Real (BRL)	2.8669	3.2576	2.5084	2.7036	2.3265	2.4159
Norwegian Krone (NOK)	7.8051	8.3630				
Indian Rupee (INR)	77.8753	85.3660				
Romanian Leu (RON)	4.4193	4.4710				

Business combinations

Business combinations under which the acquirer obtains control of the acquiree are accounted for in accordance with the provisions of IFRS 3 - *Business Combinations*, using the acquisition method. The cost of acquisition is represented by the acquisition-date fair value of the assets acquired, the liabilities assumed, and equity instruments issued. The identifiable assets acquired, and liabilities and contingent liabilities assumed are recognized at their

acquisition-date fair values, except for deferred tax assets and liabilities, assets and liabilities for employee benefits and assets held for sale, which are recognized in accordance with the applicable accounting standards for these items. The difference between the cost of acquisition and the fair value of the assets and liabilities acquired is recognized, if positive, under intangible assets as goodwill or, if negative, after reassessing the correct measurement of the fair values of the assets and liabilities acquired and the cost of acquisition, it is recognized directly in profit or loss as income. Acquisition-related costs are accounted for as expenses in the period incurred.
The cost of acquisition includes contingent consideration, recognized at its acquisition-date fair value. Subsequent changes in fair value are recognized in profit or loss or other comprehensive income if the contingent consideration is a financial asset or liability. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for directly in equity. If control in a business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss in the income statement.
Acquisitions of non-controlling interests in entities which are already controlled by the acquirer or disposals of non-controlling interests that do not involve a loss of control are treated as equity transactions; therefore, any difference between the cost of acquisition/disposal and the related share of net assets acquired/sold is accounted for as an adjustment to the Group's equity.
When controlling interests of less than 100% are acquired, only the portion of goodwill attributable to the Parent Company is recognized. The value of non-controlling equity interests is determined in proportion to the non-controlling interest in the acquiree's net identifiable assets. Acquisition-related costs are recognized in the income statement on the date the services are received.

National tax consolidation

Based on the provisions of Italy's Income Tax Code (Presidential Decree 917/86, art. 117 *et seq*) and as a result of the provisions of art. 11, par. 4 of the Ministerial Decree dated 9 June 2004 relating to the "Application of the national tax consolidation regime, contained in articles 117 to 128 of the Income Tax Code", as from 2013 the Company has joined the national group tax consolidation of CPD, together with its subsidiaries Isotta Fraschini Motori S.p.A. and Fincantieri Oil&Gas S.p.A.

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. The criteria used to identify and determine any impairment losses for intangible assets can be found in paragraph 3 below.

1.1 Goodwill

Goodwill is not amortized but is tested annually for impairment, or whenever specific events or changed circumstances indicate that it might be impaired. It is not permitted to reverse a previously recognized impairment loss. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

On loss of control of a subsidiary, the gain or loss on disposal takes into account the residual value of previously recognized goodwill.

1.2 Concessions, licenses, trademarks and similar rights

Concessions, licenses and similar rights, acquired in a business combination, are recognized at their acquisition-date fair values and systematically amortized over the shorter of their expected period of use and the length of the right's ownership.

Trademarks are considered to have an indefinite useful life and so 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 and order portfolio

Customer relationships and order portfolio are recognized only if acquired in a business combination. Customer relationships are amortized over the expected life of such relationships (10-20 years).

The order portfolio represents the expected residual value of orders existing at the acquisition date. This value is amortized on a straight-line basis over expected useful life (3 years).

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 over the period the expected future income from the project will arise. Useful life varies depending on the project and ranges from 5 to 10 years.

1.5 Industrial patents and intellectual property rights

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

2. PROPERTY, PLANT AND EQUIPMENT

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

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

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
Assets under concession	Useful life or term of concession, if shorter
Leasehold improvements	Useful life or term of concession, if shorter
Other assets	4 - 33

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

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

The criteria used to identify and determine any impairment losses for property, plant and equipment can be found in paragraph 3 below.

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 more often, 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 in companies other than 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 among the components of other comprehensive income until these assets are sold or suffer an impairment loss; at such time, the effects previously recognized among the components of other comprehensive income are reclassified to profit or loss for the period. 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.
If it is expected that the completion of a contract may give rise to a loss in terms of gross margin, this is recognized in full in the period in which it becomes reasonably foreseeable.
Construction contracts are reported as the costs incurred plus profit earned to date, less provision for any estimated future losses and less progress billings issued. This calculation is performed on a contract-by-contract basis. When the difference calculated 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 for specific loans during and for the development 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 LIABILITIES

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. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.
For derivative liabilities, please refer to paragraph 8.5.

8. FINANCIAL ASSETS

The Group classifies financial assets in the following categories:

- assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity financial assets;
- available-for-sale financial assets.

8.1 Financial assets at fair value through profit or loss

This category includes financial assets acquired for trading in the near term, as well as derivative instruments, for which reference should be made to paragraph 8.5. The fair value of these instruments is determined with reference to the market value at the reporting-period closing date: in the case of unlisted instruments, fair value is determined using commonly used valuation techniques. Changes in the fair value of instruments classified in this category are recognized immediately in profit or loss.
Classification as current or non-current reflects management's expectations regarding their trading: assets expected to be realized within 12 months or designated as held for trading purposes are classified as current assets.

8.2 Loans and receivables

This category includes non-derivative (trade and financial) receivables, including debt instruments, that are not quoted in an active market and for which fixed or determinable payments are expected and there is no predetermined intent to later sell them. These assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Trade receivables, with normal commercial terms of payment, are not discounted. If there is objective evidence of impairment, the amount of the asset is reduced to the present value of estimated future cash flows: impairment losses identified by impairment tests are recognized in profit or loss.
If, in subsequent periods, the reasons for the impairment loss cease to apply, the amount of the asset is reinstated, but to no more than the amortized cost it would have had if no impairment had been previously recognized. These assets are classified as current assets, except for the portion falling due after more than 12 months, which is included in non-current assets.

8.3 Held-to-maturity financial assets

This category includes non-derivative financial assets, not representing equity investments, that have fixed or determinable payments and fixed maturities and for which the Group has the positive intention and ability to hold to maturity. These financial assets are recognized on the basis of the settlement date and, at the time of initial recognition, they are measured at purchase cost, including any directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment losses. They are classified as current assets if their contractual maturity is expected within the next 12 months. If there is objective evidence of impairment, the amount of the asset is reduced to the present value of estimated future cash flows: impairment losses identified by impairment tests are recognized in profit or loss. If, in subsequent periods, the reasons for the impairment loss cease to apply, the amount of the asset is reinstated, but to no more than the amortized cost it would have had if no impairment had been previously recognized.

8.4 Available-for-sale financial assets

This category includes non-derivative financial assets, specifically designated as available for sale or not classified in any of the previous categories. These assets are measured at fair value, which is determined with reference to market prices at the year-end or interim reporting date or using financial valuation techniques and models, with changes in value recognized in a specific equity reserve ("Available-for-sale fair value reserve"). This reserve is reversed to profit or loss only when the financial asset is sold, or when there is evidence that a decline in the fair value already recognized in equity will not be recovered. The classification as current or non-current assets depends on the intentions of management and the effective marketability of the security itself: they are classified as current assets if expected to be realized within the next 12 months.

If there is objective evidence of impairment, the amount of the asset is reduced to the present value of estimated future cash flows: negative fair value changes previously recognized in equity are transferred to profit or loss. Only in the case of non-equity financial instruments can previously recognized impairment losses be reversed if the circumstances leading to their original recognition no longer apply.

8.5 Derivatives

The derivatives used by the Fincantieri Group are intended 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 functional currencies, 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 an operating or financial component of the income statement according to the nature of the instrument. 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. For each derivative financial instrument designated 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 intended to offset the cash flow risks relating to a highly probable forecast transaction, fair value changes after initial recognition in the effective portion of the derivative hedging instrument are recognized in "Other comprehensive income" and included in a separate equity reserve. Amounts recognized through other comprehensive income are reclassified from equity to profit or loss, among the operating items, in the same period that the hedged forecast cash flows affect 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 hedge, the portion of the "reserves" representing changes in the instrument's fair value recognized up until then through other comprehensive income remains separately in equity until the hedged forecast transaction occurs, at which point it is reclassified to profit or loss. If a hedged transaction is no longer regarded as probable, the unrealized gains or losses recognized in other comprehensive income are immediately reclassified to profit or loss.
The fair value of financial instruments quoted on public markets is determined with reference to quoted prices at the end of the period. The fair value of unquoted instruments is measured with reference to the financial valuation techniques: in particular, the fair value of interest rate swaps is measured by discounting the expected future cash flows, while the fair value of foreign currency forwards is determined on the basis of market exchange rates at the reporting date and the rate differentials expected between the currencies concerned.
Financial assets and liabilities measured at fair value are classified in the three hierarchical levels described below, in order of the priority attributed to the inputs used to determine fair value. In particular:

- Level 1: financial assets and financial liabilities whose fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: financial assets and financial liabilities whose fair value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is determined using inputs not based on observable market data.

9. 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.

9.1 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.

9.2 Grants related to income

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

10. 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.

11. EMPLOYEE BENEFITS

Post-employment benefits are defined on the basis of formal and informal arrangements which, depending on their characteristics, are classified as "defined contribution" plans and "defined benefit" plans. In defined contribution plans, the employer's obligation is limited to the payment of contributions to the state or to a trust or separate legal entity (fund) and is determined on the basis of the contributions due.
Liabilities for defined benefit plans, net of any plan assets, are determined using actuarial techniques and are recognized on an accrual basis over the period of employment needed to obtain the benefits.
Defined benefit plans include the employee severance benefit, payable to employees of the Group's Italian companies under article 2120 of the Italian Civil Code, that accrued before the reform of this benefit in 2007.
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 severance 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 severance 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 through "Other comprehensive income".
For Italian employee severance benefits that have accrued after 1 January 2007 (which are treated like defined contribution plans), the employer's obligation is limited to the payment of contributions to the state or to a trust or separate legal entity (fund) and is determined on the basis of the contributions due. There are no additional obligations for the Company to pay further amounts.

12. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges relate to costs and expenses of a specific nature of certain or probable existence, but whose timing or amount are uncertain as at the reporting date. Provisions are recognized when: (i) a present legal or constructive obligation is likely to exist as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; (iii) the amount of the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time; provisions for onerous contracts are recognized at the lower of the cost required to settle the obligation, net of the expected economic benefits arising from the contract, and the cost of terminating the contract.

Where the effect of the time value of money is material and the obligation settlement date can be estimated reliably, the amount of the provision is determined by discounting the expected cash outflows to present value using the average rate on company debt that takes account of the risks specific to the obligation; any increase in the amount of a provision due to the effect of the time value of money is recognized in the income statement under "Finance costs".

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.

13. REVENUE, DIVIDENDS, FINANCE INCOME AND COSTS

Revenue from construction contracts is 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.

Revenue earned up to the reporting date from contracts denominated in a currency other than the functional currency are translated into the functional currency using: i) the hedged exchange rate (if currency risk has been hedged) or ii) in the absence of hedging transactions, the actual exchange rate used for the part of the contract already billed and the period-end rate for the part still to be billed.

Retentions or other amounts which can be contractually reclaimed by customers are not recognized until any post-delivery obligations have been fully satisfied.

Revenue from the sale of goods is recognized when the risks and rewards of ownership of the goods are transferred to the buyer, the amount of revenue can be measured reliably and is expected to be received.

Dividends received from investee companies not consolidated on a line-by-line basis are recognized in the income statement when the shareholder's right to receive payment is established.

Finance income and costs are recognized in the income statement in the period in which they accrue.

14. INCOME TAXES

Income taxes 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 assets, including those arising from tax losses and unused tax credits, are recognized when their recovery is considered probable.
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”.

15. EARNINGS PER SHARE

15.1 Basic earnings per share

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

15.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing profit or loss attributable to owners of the Parent Company 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.

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 ultimate 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.

Below is a brief description of the categories, with regard to the Fincantieri Group's type of business, most affected by the use of estimates and judgments and for which a change in the underlying assumptions could have a material impact on the consolidated financial results.

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 and outstanding litigation 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.

16.3 Deferred tax assets

The recognition of deferred tax assets is based on expectations about the Group's future taxable profit and the possibility of transferring certain tax benefits to companies participating in the national tax consolidation of CDP. The assessment of future taxable profit for the purposes of recognizing deferred tax assets depends on factors that change over time and can have a material impact on the recoverability of deferred tax assets.

16.4 Impairment of assets

The Group's property, plant and equipment and intangible assets with indefinite useful lives are tested for impairment at least annually or more often in the presence of evidence indicating that the carrying amount of such assets is not recoverable.

The impairment loss is determined by comparing an asset's carrying amount with its recoverable amount, defined as the higher of the asset's fair value less costs to sell and its value in use, determined by discounting the expected future cash flows expected to be derived from the asset net of costs to sell. The expected cash flows are quantified using information available at the time of the estimate on the basis of subjective assessments of future variables (prices, costs, rates of growth in demand, production profiles) and are discounted using a rate that takes into account the risks specific to the asset concerned.

Goodwill and other intangible assets with indefinite useful lives are not amortized; the recoverability of their carrying amount is reviewed at least annually and whenever there is an indication that the asset may be impaired. Goodwill is tested for impairment at the lowest level (cash-generating unit "CGU") within the entity at which management assesses, directly or indirectly, the return on the investment that includes such goodwill. When the carrying amount of the cash-generating unit, including the attributed goodwill, is higher than its recoverable amount, the difference is an impairment loss that is charged first against the value of goodwill until fully absorbed; any loss not absorbed by goodwill is allocated pro-rata to the carrying amount of the other assets in the cash-generating unit.

16.5 Business combinations

The recognition of business combinations involves allocating to the acquired company's assets and liabilities the difference between the purchase price and the net book value of the net assets acquired. For most of the assets and liabilities, the allocation of this difference is performed by recognizing the assets and liabilities at their fair value. The unallocated portion is recognized as goodwill if positive, and if negative, it is taken to profit or loss. Management uses available information for the purposes of the allocation process and, in the case of the most significant business combinations, external valuations.

Note 4 - financial risk management

The principal financial risks to which the Group is exposed are credit risk, liquidity risk and market risk (in particular currency, interest rate and commodity price risk).
The management of these financial risks is coordinated by the Parent Company which decides, in close collaboration with its operating units, whether and how to hedge these risks.

CREDIT RISK

The Fincantieri Group's receivables essentially comprise 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, by the United Arab Emirates Navy and by the U.S. Navy and U.S. Coast Guard for vessels under construction.
With specific regard to trade receivables due from private shipowners, the Fincantieri Group constantly monitors customer creditworthiness, credit exposure and promptness of payments. Receivables due from private shipowners represent a limited exposure because payment terms are very short and, in accordance with shipping industry practice, the full purchase price must be settled before a ship can be delivered.
The following tables provide a breakdown by risk class of the maximum exposure as at 31 December 2013, 2012 and 2011 based on the nominal value of receivables before any provision for impairment of receivables.

	31.12.2013					
		Past due				
(Euro/000)	Not yet due	0 – 1 month	1 – 4 month	4 – 12 month	Beyond 1 year	**Total**
Trade receivables:						
- due from public entities	74,353	8,599	6,787	35,996	9,751	135,486
- due indirectly from public entities (*)	24,000	6,299			3,404	33,703
- due from private customers	68,165	22,221	29,917	22,005	42,938	185,246
TOTAL TRADE RECEIVABLES	**166,518**	**37,119**	**36,704**	**58,001**	**56,093**	**354,435**
Government grants financed by BIIS	47,226					47,226
Other government grants	5,665			3,598	2,555	11,818
Receivables from associates	12,916					12,916
Receivables from joint ventures	20,475		422			20,897
Receivables from controlling companies	10,210					10,210
Receivables from other companies	266					266
Receivables from Fintecna group companies	3,250					3,250
Other receivables	136,712			1,955	29,568	168,235
Other financial receivables	78,956					78,956
GROSS TOTAL	**482,195**	**37,119**	**37,126**	**63,554**	**88,216**	**708,210**
Provision for impairment of receivables						-59,754
NET TOTAL						**648,456**
Advances, prepayments and accrued income						81,229
TOTAL						**729,685**

	31.12.2012					
		Past due				
(Euro/000)	Not yet due	0 – 1 month	1 – 4 month	4 – 12 month	Beyond 1 year	**Total**
Trade receivables:						
- due from public entities	70,468	2,300	6,492	3,657	9,022	91,939
- due indirectly from public entities (*)	9,915				4,250	14,165
- due from private customers	62,380	10,555	11,914	6,618	89,771	181,238
TOTAL TRADE RECEIVABLES	**142,763**	**12,855**	**18,406**	**10,275**	**103,043**	**287,342**
Government grants financed by BIIS	53,427					53,427
Other government grants	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	92,941		46		30,016	123,003
Other financial receivables	60,140					60,140
GROSS TOTAL	**375,000**	**12,855**	**18,796**	**10,275**	**133,088**	**550,014**
Provision for impairment of receivables						-54,708
NET TOTAL						**495,306**
Advances, prepayments and accrued income						66,903
TOTAL						**562,209**

	31.12.2011					
		Past due				
(Euro/000)	Not yet due	0 – 1 month	1 – 4 month	4 – 12 month	Beyond 1 year	Total
Trade receivables:						
- due from public entities	40,056	3,924	830	2,781	4,584	52,175
- due indirectly from public entities (*)	22,405			1,889	8,343	32,637
- due from private customers	96,602	11,551	19,730	23,563	68,789	220,235
TOTAL TRADE RECEIVABLES	**159,063**	**15,475**	**20,560**	**28,233**	**81,716**	**305,047**
Government grants financed by BIIS	59,402					59,402
Other government grants	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**	**20,560**	**28,233**	**115,258**	**657,921**
Provision for impairment of receivables						-65,423
NET TOTAL						**592,498**
Advances, prepayments and accrued income						63,534
TOTAL						**656,032**

(*) This reports receivables due from customers that manage 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 Group's net financial position was a positive euro 459 million at the end of 2012 and a positive euro 226 million at the end of 2011.

On 23 January 2013, the Group completed - through its subsidiary Fincantieri Oil & Gas S.p.A. - the acquisition from STX Europe of 50.75% of STX OSV Holdings Limited (now renamed VARD Holdings Limited), a company listed on the Singapore Stock Exchange and world leader in the construction of offshore support vessels for the oil and gas exploration and production industry. The acquisition was made at a price per share of SGD 1.22, equating to total consideration of some euro 455 million (around SGD 730 million), paid in cash on the acquisition date.

On 13 February 2013, the offer circular was filed in relation to the mandatory public tender offer for the remaining shares, made in accordance with the rules of the Singapore Stock Exchange, at a price of SGD 1.22 per share. At the offer's closing date of 13 March 2013, its

acceptance rate was equal to 4.88%, taking Fincantieri's total shareholding to 55.63%. The total consideration for the acquisition therefore came to approximately euro 500 million (approximately SGD 800 million). The entire transaction was financed with own resources from available liquidity.
Given the outlay for the VARD acquisition, and following the change in the scope of consolidation, the net financial position moved into negative territory, reporting net debt of euro 155 million at 31 December 2013.
In order to rebalance the Group's financial position and refinance part of the outlay for the VARD acquisition, Fincantieri S.p.A. issued a 5-year bond for euro 300 million on 19 November 2013.
In addition to this, over the course of 2013, Fincantieri S.p.A. also managed to significantly increase its available liquidity by agreeing committed lines of credit with leading Italian and international banks for a total of euro 450 million, maturing between April 2014 and May 2015.
During the same period, an agreement was also finalized with the European Investment Bank (EIB) for the second and third tranches, of euro 30 million each, of the loan 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.

	31.12.2013					
(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	184	2,156	4,775	2,629	9,744	9,578
Payables to joint ventures	2,917	59			2,976	2,976
Bank loans and credit facilities	888	637,930	196,923	69,973	905,714	873,615
BIIS loans		8,146	32,589	13,017	53,752	47,226
Payables to suppliers	181,001	710,841	18,137	32	910,011	909,982
Finance lease obligations		226	388		614	820
Bond		11,250	343,675		354,925	296,095
Other financial liabilities		13,777	11,770		25,547	25,547
Other liabilities	10,190	186,048	15,081	2,348	213,667	212,996
TOTAL	**195,180**	**1,570,433**	**623,338**	**87,999**	**2,476,950**	**2,378,835**
Advances, accrued expenses and deferred income						85,744
TOTAL						**2,464,579**

	31.12.2012					
(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	123	533	1,626		2,282	2,256
Payables to joint ventures	127,920	1,382			129,302	129,302
Bank loans and credit facilities	2,966	19,333	109,041	32,098	163,438	150,932
BIIS loans		8,146	32,589	21,162	61,897	53,427
Payables to suppliers	121,598	453,779	19,424	52	594,853	594,853
Finance lease obligations		1,173	875		2,048	1,868
Other liabilities	2,123	105,346	38,639	2,475	148,583	148,583
TOTAL	**254,730**	**589,692**	**202,194**	**55,787**	**1,102,403**	**1,081,221**
Advances, accrued expenses and deferred income						57,339
TOTAL	**254,730**	**589,692**	**202,194**	**55,787**	**1,102,403**	**1,138,560**

	31.12.2011					
(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	84	36			120	120
Payables to joint ventures	161,883	718			162,601	162,601
Bank loans and credit facilities	5,761	18,156	56,769	16,343	97,029	88,759
BIIS loans		8,146	32,589	29,310	70,045	59,402
Payables to suppliers	63,634	503,069	694	9,119	576,516	576,516
Finance lease obligations		2,040	1,849		3,889	3,621
Other liabilities	2,576	91,888	37,735	3,174	135,373	135,373
TOTAL	**233,938**	**624,053**	**129,636**	**57,946**	**1,045,573**	**1,026,392**
Advances, accrued expenses and deferred income						55,844
TOTAL	**233,938**	**624,053**	**129,636**	**57,946**	**1,045,573**	**1,082,236**

MARKET RISK

In pursuing its business objectives, the Group does not intend to take on financial risks. If this is not possible, such risks are assumed only if they relate to the Group's core business and their impact can be neutralized through hedging instruments.
The Group's financial risks specifically refer to the risk that the fair value or future cash flows of assets/liabilities may fluctuate due to changes in the exchange rate of currencies in which the Group's commercial or financial transactions are denominated, to changes in market interest rates or changes in commodity prices.

In addition to instruments to hedge financial risks, the Group may also take out loans denominated in the same currency as a sale contract, duly extinguished with cash receipts from the customer: this method can be adopted solely for hedging currency risk. This method can also be used to hedge foreign-currency-denominated purchases, by providing funds in the currency used to pay suppliers.

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 functional currency.

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 2013, the Fincantieri Group was exposed to transactional currency risk mainly on two orders secured during 2012, one to refit the "Carnival Destiny", denominated in US dollars, and the other to build the STQ ferry, denominated in Canadian dollars, both of which hedged in full at 31 December 2013. Derivative contracts have also been entered into to hedge a substantial portion of the notional amount of two US dollar-denominated orders by Carnival finalized in 2013. These derivatives set a maximum exchange rate, while leaving the possibility to benefit from any euro depreciation. During 2012 Fincantieri 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, subsequently finalized on 23 January 2013.

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, still in place at 31 December 2013, against a long-term floating-rate loan taken out for refinancing purposes following the acquisition of Fincantieri Marine Group LLC. This cash flow hedge involves an interest rate swap that converts 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.

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.

FAIR VALUE OF DERIVATIVES

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:

	31.12.2013			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swap			1,362	28,000
Forward				
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swap				
Forward	31,276	2,015,038	29,015	1,756,537
Futures				
Options				
INEFFECTIVE HEDGING DERIVATIVES				
Interest rate swap				
Forward				
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swap				
Forward			211	5,452
Futures	408	8,945	184	4,758
Options	26,388	426,627		
HELD-FOR-TRADING DERIVATIVES				
Interest rate swap				
Forward	7	714		
Futures				
Options			18	56,559

	31.12.2012			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swap			2,182	36,000
Forward			1,143	453,478
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swap				
Forward	103	3,593		
Futures				
Options				
INEFFECTIVE HEDGING DERIVATIVES				
Interest rate swap				
Forward				
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swap				
Forward	134	10,967		
Futures	751	5,547	55	1,110
Options	12,472	536,636		
HELD-FOR-TRADING DERIVATIVES				
Interest rate swap				
Forward	59	1,184		
Futures				
Options			1,093	120,794

	31.12.2011			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swap			1,693	44,000
Forward	3,887	260,249	13,989	188,886
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swap				
Forward				
Futures				
Options				
INEFFECTIVE HEDGING DERIVATIVES				
Interest rate swap				
Forward				
Futures	2,169	11,154	50	214
Options			659	11,593
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swap				
Forward				
Futures				
Options				
HELD-FOR-TRADING DERIVATIVES				
Interest rate swap				
Forward	30	1,700		
Futures				
Options			14,381	277,301

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.

	31.12.2013			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	889,835	1,474,511		**2,364,346**
Inflow	912,563	1,506,954		**2,419,517**
INTEREST RATE RISK MANAGEMENT				
Outflow	786	908		**1,694**
Inflow	103	222		**325**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	9,806	3,880		**13,686**
Inflow	10,130	3,718		**13,848**

	31.12.2012			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	641,450	480,978		**1,122,428**
Inflow	646,421	483,090		**1,129,511**
INTEREST RATE RISK MANAGEMENT				
Outflow	1,027	1,695		**2,722**
Inflow	198	342		**540**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	6,543	4,318		**10,861**
Inflow	6,945	4,612		**11,557**

	31.12.2011			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	192,457	10,778		**203,235**
Inflow	178,271	11,149		**189,420**
INTEREST RATE RISK MANAGEMENT				
Outflow	1,273	2,661	61	**3,995**
Inflow	648	1,562	55	**2,265**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	4,690	6,678		**11,368**
Inflow	6,181	7,307		**13,488**

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			Income statement
(Euro/000)	Gross	Taxes	Net	
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/costs (+/-) relating to held-for-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	
Utilisation	2,199	-634	1,565	-1,565
Other income/expenses (+/-) relating to intrinsic component of hedging derivatives				14,359
Finance income/costs (+/-) relating to held-for-trading derivatives and time-value component of hedging derivatives				-2,702
31.12.2012	**-1,747**	**477**	**-1,270**	**10,092**
Change in fair value	-1,048	288	-760	
Utilisation	1,747	-477	1,270	-1,270
Other income/expenses (+/-) for risk hedging				22,731
Finance income/costs (+/-) relating to held-for-trading derivatives and time-value component of hedging derivatives				570
31.12.2013	**-1,048**	**288**	**-760**	**22,031**

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	Total	*Fair value*
					31.12.2013			
Investments carried at *fair value*					7,390		**7,390**	**7,390**
Derivative financial assets	58,079						**58,079**	**58,079**
Other financial assets				158,612			**158,612**	**152,921**
Trade receivables and other current assets				558,821			**558,821**	**558,821**
Cash and cash equivalents				384,506			**384,506**	**384,506**
Derivative financial liabilities	-29,428	-1,362					**-30,790**	**-30,790**
Other financial liabilities	-13,777					-1,243,434	**-1,257,211**	**-1,236,484**
Other non-current liabilities						-47,600	**-47,600**	**-47,600**
Trade payables and other current liabilities						-1,154,714	**-1,154,714**	**-1,129,548**
					31.12.2012			
Derivative financial assets	13,519						**13,519**	**13,519**
Other financial assets				127,170			**127,170**	**134,338**
Trade receivables and other current assets				399,488			**399,488**	**399,488**
Cash and cash equivalents				691,827			**691,827**	**691,827**
Derivative financial liabilities	-2,291	-2,182					**-4,473**	**-4,473**
Other financial liabilities	-14,400					-348,767	**-363,167**	**-374,259**
Other non-current liabilities						-47,017	**-47,017**	**-47,017**
Trade payables and other current liabilities						-727,984	**-727,984**	**-727,984**
					31.12.2011			
Derivative financial assets	6,086						**6,086**	**6,086**
Other financial assets				177,533			**177,533**	**184,438**
Trade receivables and other current assets				445,455			**445,455**	**445,455**
Cash and cash equivalents				387,170			**387,170**	**387,170**
Derivative financial liabilities	-15,090	-15,682					**-30,772**	**-30,772**
Other financial liabilities	-14,684					-328,214	**-342,898**	**-351,965**
Other non-current liabilities						-47,443	**-47,443**	**-47,443**
Trade payables and other current liabilities						-685,494	**-685,494**	**-685,494**

Key
A = Financial assets and liabilities at fair value through profit or loss
B = Financial assets and liabilities at fair value through equity (including hedging derivatives)
C = Held-to-maturity investments
D = Loans and receivables (including cash and cash equivalents)
E = Available-for-sale financial assets
F = Financial liabilities carried at amortized cost

FAIR VALUE MEASUREMENT

The following table shows the financial instruments that are measured at fair value at 31 December 2013, 2012 and 2011 according to their level in the fair value hierarchy.

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
		31.12.2013		
Assets				
Available-for-sale financial assets				
Equity instruments		6,219	1,171	7,390
Debt instruments				
Hedging derivatives		58,079		58,079
Held-for-trading derivatives				
Total assets		**64,298**	**1,171**	**65,470**
Liabilities				
Liabilities at fair value through profit or loss			13,777	13,777
Hedging derivatives		30,790		30,790
Held-for-trading derivatives				
Total liabilities		**30,790**	**13,777**	**44,567**

Available-for-sale financial assets classified as Level 3 relate to equity investments carried at fair value. Level 3 also includes the financial liabilities relating to the fair value of options on equity investments calculated using valuation techniques whose inputs are not observable on the market.

During 2013 there were no transfers between levels of the fair value hierarchy.

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
		31.12.2012		
Assets				
Available-for-sale financial assets				
Equity instruments				
Debt instruments				
Hedging derivatives		13,519		13,519
Held-for-trading derivatives				
Total assets		**13,519**		**13,519**
Liabilities				
Liabilities at fair value through profit or loss			14,400	14,400
Hedging derivatives		4,473		4,473
Held-for-trading derivatives				
Total liabilities		**4,473**	**14,400**	**18,873**

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Totale
		31.12.2011		
Assets				
Available-for-sale financial assets				
Equity instruments				
Debt instruments				
Hedging derivatives		6,086		6,086
Held-for-trading derivatives				
Total assets		**6,086**		**6,086**
Liabilities				
Liabilities at fair value through profit or loss			14,684	14,684
Hedging derivatives		30,772		30,772
Held-for-trading derivatives				
Total liabilities		**30,772**	**14,684**	**45,456**

Note 5 - sensitivity analysis

The Group has performed a sensitivity analysis, including the effect of derivatives, to estimate the impact on the income statement of a change of +/- 5% in the principal exchange rates to which it is exposed with respect to the functional currencies of the Parent Company and its subsidiaries. The effects consisted of an increase in profit of approximately euro 13.7 million, if the US dollar, Canadian dollar and euro were to weaken by 5% against the functional currencies, and a decrease of approximately euro 15.8 million if the US dollar, Canadian dollar and euro were to strengthen by 5% against the functional currencies.
Similarly, a sensitivity analysis has also been performed to estimate the impact of a potential general change in benchmark interest rates of +/- 50 basis points on an annualized basis. The estimated effects on the income statement involve a negative impact of approximately euro 1 million in the event of a 0.50% increase in interest rates and a positive impact of euro 1 million in the event of a 0.50% reduction.

Note 6 - intangible assets

Movements in this line item are as follows:

(Euro/000)	Goodwill	Customer relationships and order portfolio	Develop-ment costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangibles	Intangibles in progress and advances to suppliers	**Total**
- 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 - business combinations								
- 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
- impairment losses								
- 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**
- 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 - business combinations								
- additions				943			1,464	2,407
- net disposals								
- reclassifications/ other			839	2,545	355		-3,384	355
- amortization		-942	-985	-4,711	-244	-344		-7,226
- impairment losses								
- 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**
- 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**

Movements 2013								
- business combinations	241,965	212,453		86		1,011		455,515
- additions			15,861	971	144	589	19,251	36,816
- net disposals						-60		-60
- reclassifications/ other				312	121	2	-392	44
- amortization		-17,911	-2,406	-2,791	-274	-518		-23,900
- impairment losses			-1,408			-69	-4,281	-5,758
- exchange rate differences	-2,568	-23,953		-5	-624	-179		-27,329
Closing net carrying amount	**299,813**	**185,263**	**14,275**	**3,280**	**13,879**	**2,775**	**20,047**	**539,332**
- cost	299,813	210,397	26,832	81,229	14,602	6,203	20,047	659,123
- accumulated amortization and impairment losses		-25,134	-12,557	-77,949	-723	-3,428		-119,791
Net carrying amount at 31.12.2013	**299,813**	**185,263**	**14,275**	**3,280**	**13,879**	**2,775**	**20,047**	**539,332**

Additions made in 2013 amount to euro 36,816 thousand (euro 2,407 thousand in 2012 and euro 3,670 thousand in 2011). These relate to the development of innovative devices and systems to improve the safety and reduce the pollution produced by cruise ships. Such costs have been capitalized in view of the long-term utility of the projects concerned, whose benefits are not limited to a specific ship, but will be applied to future new builds as well.

During 2013, the Group also expensed to profit or loss euro 88 million in research and development costs for various projects involving product and process innovations (euro 62 million in 2012 and euro 55 million in 2011), that will let it retain its leadership of all high-tech market sectors into the future.

Impairment losses recognized in 2013 relate to the subsidiary Isotta Fraschini Motori in respect of previously capitalized or ongoing impaired development costs.

The currency translation differences arising over the three-year period primarily reflect movements in the Norwegian krone and the U.S. dollar against the Euro.

Trademarks with indefinite useful lives, amounting to euro 14,287 thousand, refer to the names of U.S. shipyards acquired (namely Marinette and Bayshipbuilding) and are allocated to the CGU representing the American 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.

Goodwill increased from euro 60,416 thousand at 31 December 2012 (euro 61,586 thousand in 2011) to euro 299,813 thousand at 31 December 2013. The increase of euro 241,965 thousand is entirely due to the acquisition of the VARD Group during 2013. This goodwill is not deductible for tax purposes. For further details, see Note 35.

The recoverable amount of goodwill is estimated, in accordance with IAS 36, using the unlevered version of the Discounted Cash Flow model whereby an asset's value in use is calculated on the basis of estimated future cash flows discounted at an appropriate rate. Cash flow projections beyond the explicit period covered by the most recent budgets/forecasts are

extrapolated using the perpetuity growth method to determine terminal value; the growth rates used ("g rate") may not exceed the long-term average growth rates predicted for the markets in which the individual cash-generating units (hereinafter "CGU") operate.
For the purpose of impairment testing, the Group uses five-year cash flow projections approved by management based on different growth rates according to past trends for the various products and their markets. Specifically, the growth rate used to estimate cash flows beyond the explicit planning period is determined on the basis of realistic projections of estimated long-term sector growth, reflected in market data and information available to management.
Expected future cash flows have been discounted using WACC (Weighted Average Cost of Capital). The growth rates ("g rate") used to project the cash flows of CGUs beyond the explicit planning period have been estimated on the basis of the anticipated growth scenarios for the individual sectors in which these CGUs operate.
The following table shows the amount of goodwill allocated to the CGUs, as well as the method used to determine recoverable amount, as well as the discount and growth rates adopted for this calculation.

CGU	**Goodwill carrying amount**	**Recoverable amount**	**WACC post-tax**	**g rate**	**Cash flow period**
Naval	57,848	Value in use	8.0%	2.5%	5 anni
Offshore	241,965	Value in use	9.4%	2.6%	5 anni

The impairment tests made reference to the reporting-date carrying amounts of each CGU and the values contained in their respective strategic plans.

Naval CGU

Fincantieri accounted for the acquisition of a controlling interest in Fincantieri Marine Group Holding on 1 January 2009. This acquisition gave rise to goodwill of USD 75,303 thousand, which has been recognized in the financial statements of the subsidiary and allocated in the consolidation to the Naval CGU, forming part of the Shipbuilding operating segment.
No impairment loss has been identified as a result of the impairment test performed with reference to the subsidiary's financial statements, meaning that it has not been necessary to test the recoverable amount of goodwill allocated to the Naval CGU.
The WACC and the "g" rate used for the impairment tests performed in 2012 and 2011 were respectively 7.9% and 2.5% in 2012 and 9.2% and 0% in 2011.

Offshore CGU

Through its subsidiary Fincantieri Oil & Gas S.p.A., the Fincantieri Group acquired a controlling interest in the VARD Group during 2013. The goodwill arising on the acquisition has been allocated to the Offshore CGU, which represents the entire Offshore operating segment.
The impairment test has shown that the CGU's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized.
The results obtained have been subjected to sensitivity analysis, with reference to those assumptions, changes in which might reasonably cause the test results to be significantly different. This has shown that if, when calculating terminal value, WACC were to increase by 50 basis points or growth rates (g rate) to decrease by 50 basis points, recoverable amounts would still exceed carrying amounts.

Note 7 - property, plant and equipment

Movements in this line item are as follows:

(Euro/000)	Land and buildings	Leased buildings	Industrial plant, machinery and equipment	Assets under concession	Extraordinary maintenance on leased assets	Other assets	Assets under construction and advances to suppliers	**Total**
- 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 - business combinations								
- 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**
- 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 - business combinations								
- 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**
- 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**

Movements in 2013								
- business combinations	66,136		57,132				63,694	186,962
- additions	26,203		51,338	1,723	534	4,431	133,687	217,916
- net disposals	-243		-834	-175	-1	-199		-1,452
- other changes/ reclassifications	22,468	-14,136	22,963	3,569	960	6,175	-42,149	-150
- depreciation	-13,319	-282	-42,957	-3,093	-780	-4,628		-65,059
- impairment losses	-68		-946					-1,014
- exchange rate differences	-8,245	-23	-8,048		-1	-125	-8,889	-25,330
Closing net carrying amount	**297,811**	**475**	**261,852**	**57,914**	**6,125**	**52,213**	**220,155**	**896,545**
- cost	465,245	1,900	968,264	173,451	25,292	152,898	220,155	2,007,205
- accumulated depreciation and impairment losses	-167,434	-1,425	-706,412	-115,537	-19,167	-100,685		-1,110,660
Net carrying amount at 31.12.2013	**297,811**	**475**	**261,852**	**57,914**	**6,125**	**52,213**	**220,155**	**896,545**

The capital expenditure additions over the three-year period, amounting to euro 217,916 thousand in 2013, euro 86,400 thousand in 2012 and euro 74,395 thousand in 2011, have mainly related to:

- modernization of hull-building technology with the introduction of hybrid laser technology for welding at the Monfalcone shipyard;
- creation of new infrastructure and logistical support areas including, at the Monfalcone shipyard, the creation of a new centralized locker room for external contractors;
- at the Marghera shipyard, rationalization of the main locker room and alterations to areas serving the outfitting dock in order to better meet production needs;
- introduction of advanced, more eco-friendly systems for supplying power to ships under construction and for testing on-board electrical generators, such as the development of a new frequency conversion system and the construction of a floating platform equipped with resistive boards at the Marghera shipyard;
- continued implementation of new technologies to reduce the environmental impact of surface treatments, with the main actions taken at the Castellammare di Stabia and Marghera shipyards;
- technological upgrading of lifting equipment at all the main shipyards and continued construction at the Sestri Ponente shipyard of a semi-submersible barge, due to be completed at the start of 2014, for use by the different yards when launching ships or sections of ships.

With the acquisition of the VARD Group, the following capex additions were made in 2013:

- completion of Vard Promar's new shipyard in Brazil, which started operation in June;
- expansion of launching capacity at the Vung Tau shipyard (Vietnam) by increasing the size of the floating dock;
- improved process automation at the Braila shipyard (Romania) with the start of construction of a new automated pipe manufacturing workshop.

These additions have impacted on the value of capital expenditure for the year.

The other changes include not only the reclassification of amounts reported at the end of the previous year in "Assets under construction and advances to suppliers" to the relevant asset categories once the assets entered service, but also the reclassification to "Land and buildings" of the Parent Company's head office upon reaching the end of its finance lease.

The currency translation differences arising over the three-year period reflect movements in the Norwegian krone and the U.S. dollar against the Euro.

As at 31 December 2013, approximately euro 8 million had been capitalized for borrowing costs incurred to build new shipyards.

As at 31 December 2013, the amount of the Group's property, plant and machinery pledged as collateral against loans received was approximately euro 152 million (euro 68 million at the end of 2012 and 2011).

Note 8 – investments accounted for using the equity method and other investments

INVESTMENTS

These are analyzed as follows:

(Euro/000)	Associates	Joint ventures	**Total investments accounted for using the equity method**	Other companies carried at cost	Other companies carried at *fair value*	**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**
Disposals							
Reclassifications/ Other							
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**
Disposals							
Reclassifications/ Other							
31.12.2012		14,976	**14,976**	1,697		**1,697**	**16,673**
Business combinations	56,506		**56,506**		1,590	**1,590**	**58,096**
Additions	1,914		**1,914**		6,764	**6,764**	**8,678**
Revaluations(+) Impairment losses(-)	1,834	822	**2,656**	-240		**-240**	**2,416**
Disposals	-8,158		**-8,158**				**-8,158**
Dividends from investments accounted for using the equity method	-33		**-33**				**-33**
Reclassifications/ Other				70	-379	**-309**	**-309**
Exchange rate differences	-6,214		**-6,214**		-585	**-585**	**-6,799**
31.12.2013	45,849	15,798	**61,647**	1,527	7,390	**8,917**	**70,564**

"Revaluations" for investments accounted for using the equity method include euro 2,006 thousand for the recognition of the Group's share of profit for the year of associates and joint ventures, while the remainder refers to items that affect equity.
"Additions" include euro 2 million for increases in share capital by Island Offshore LNG AS (euro 191 thousand) and Island Offshore LNG KS (euro 1,723 thousand).
"Other investments" include euro 7,390 thousand in investments carried at fair value, which has been calculated using valuation techniques whose inputs are not observable on the market (Level 3). The fair value of such investments has not undergone significant changes during the period.
Assessments of these investments at the reporting date have not revealed any indications of impairment.

Investments at 31 December 2013

Company name	Registered office	% owned	Carrying amount
Investments in associates accounted for using the equity method			
Castor Drilling Solution AS	Norway	34.00	1,435
Olympic Subsea KS	Norway	35.00	12,496
Bridge Eiendom AS	Norway	50.00	327
Møkster Supply AS	Norway	40.00	650
Møkster Supply KS	Norway	36.00	4,754
Island Offshore LNG AS	Norway	30.00	1,040
Island Offshore LNG KS	Norway	27.00	9,738
Rem Supply AS	Norway	26.66	9,654
Olympic Green Energy KS	Norway	30.00	2,927
DOF Iceman AS	Norway	50.00	2,432
Taklift AS	Norway	25.47	303
Dameco AS	Norway	34.00	3
Brevik Technology AS	Norway	34.00	90
Total investments in associates accounted for using the equity method			**45,849**
Investments in joint ventures accounted for using the equity method			
Etihad Ship Building LLC	Arab Emirates	35.00	
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	15,798
Total investments in joint ventures accounted for using the equity method			**15,798**
Other investments			
Centro Sviluppo Materiali S.p.A.	Rome	4.13	538
Friulia S.p.A.	Trieste	0.52	740
EEIG Euroyards	Bruxelles	16.67	10
Consorzio CONAI	Rome	(*)	1
Consorzio EVIMAR A/S	Copenaghen	9.10	2
Consorzio IMAST Scarl	Naples	3.19	22
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.80	14
Consorzio Formazione Internazionale in liquidazione	Rome	5.56	1
Consorzio MIB	Trieste	(*)	2
Consorzio Rinave	Trieste	20.00	4
Cons.Ric.Innov.Tec.Sicilia Trasp. Navali Scarl	Messina	6.00	28

Company name	Registered office	% owned	Carrying amount
Distretto Ligure delle Tecnologie Marine Scarl	La Spezia	10.90	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
Moldekraft AS	Norway	8.00	598
Klosterøya Vest Holding AS	Norway	6.00	359
REM Offshore ASA	Norway	4.92	6,218
Others	NA	NA	215
Total other investments			**8,917**

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

Orizzonte Sistemi Navali S.p.A., which is 51% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is jointly controlled with another shareholder who holds 49%.
Etihad Shipbuilding LLC, which is 35% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is jointly controlled with other shareholders who hold the remainder of share capital.

Disclosures relating to investments accounted for using the equity method

The following table reports financial highlights relating to investments as at and for the year ended 31 December 2013:

(Euro/000)	Total assets	Total liabilities	Operating revenue	Profit/loss (+/-) for the year
Castor Drilling Solution AS	1,794	359	1,554	-239
Olympic Subsea KS	64,570	33,481	9,686	3,229
Bridge Eiendom AS	8,370	8,251	598	
Møkster Supply AS	1,674			
Møkster Supply KS	44,362	29,654	8,370	717
Island Offshore LNG AS	3,468			
Island Offshore LNG KS	106,421	72,582	14,349	239
Rem Supply AS	91,235	58,233	14,229	1,196
Olympic Green Energy KS	52,374	43,525	6,098	-1,674
DOF Iceman AS	13,631	11,001	4,544	-239
Taklift AS	2,272	478	1,674	120
Dameco AS	239	120	598	
Brevik Technology AS	120	120		
Etihad Ship Building Llc	1,341	1,941	2,258	-1,139
Orizzonte Sistemi Navali S.p.A.	2,935,540	2,904,482	618,556	2,005

The corresponding information as at and for the year ended 31 December 2012 is as follows:

(Euro/000)	Total assets	Total liabilities	Operating revenue	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 as at and for the year ended 31 December 2011 is as follows:

(Euro/000)	Total assets	Total liabilities	Operating revenue	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 financial assets

These are analyzed as follows:

(Euro/000)	**31.12.2013**	**31.12.2012**	**31.12.2011**
Grants financed by BIIS	40,790	47,226	53,427
Derivative assets	17,253	10,885	1,074
Other non-current financial receivables	33,211	17,484	17,484
Non-current financial receivables from investee companies	8,628		
NON-CURRENT FINANCIAL ASSETS	**99,882**	**75,595**	**71,985**

The above grants relate to production grants under Italian Law 431/91. Specifically, during 2004 the Group received a total of euro 92.8 million in capital grants from the Ministry of Infrastructure and Transport. In accordance with the Ministerial Decree approving these grants, i) the Group has entered into a fifteen-year loan for such amount with Banca Infrastrutture Innovazione e Sviluppo (BIIS), due to be extinguished in 2019 (recognized under financial liabilities), ii) the loan is repaid directly by the Ministry of Infrastructure and Transport to BIIS, with no impact on the Group's cash flows.
Given the nature of the financial receivables and financial liabilities in question, the repayment of the loan with BIIS has no impact on the Group's cash flows.
"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of more than 12 months.
"Other non-current financial receivables" report loans to third parties bearing market rates of interest. The increase is attributable to the change in scope of consolidation due to the acquisition of the VARD Group.
"Non-current financial receivables from investee companies" refer to loans, bearing market rates of interest, to VARD Group companies that are not consolidated line-by-line.

Note 10 - other non-current assets

Other non-current assets are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Other receivables from investee companies	186		
Government grants receivable	2,555	2,295	6,313
Other receivables	14,715	9,140	5,644
OTHER NON-CURRENT ASSETS	**17,456**	**11,435**	**11,957**

Other non-current assets are all stated net of any provisions for impairment.
"Government grants receivable" reports the non-current portion of state aid granted by governments in the form of tax credits. These amounts are interest free and will expire by the end of 2018.

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
- between one and two years		2,295	5,517
- between two and three years			796
- between three and four years			
- between four and five years	2,555		
- beyond five years			
Total	**2,555**	**2,295**	**6,313**

The most significant item included in "Other receivables" of euro 14,715 thousand (euro 9,140 thousand at 31 December 2012 and euro 5,644 thousand at 31 December 2011) is the amount 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 32. The remaining balance of euro 10,022 thousand (euro 4,447 thousand at 31 December 2012 and euro 951 thousand at 31 December 2011) refers to security deposits/advances and other minor amounts.
The following table presents the amount of and movements in the provision for impairment of other non-current receivables:

(Euro/000)	Provision for impairment of other receivables
Balance at 1.1.2011	**20,367**
Utilizations	
Increases (+) Releases (-)	
Total at 31.12.2011	**20,367**
Utilizations	-3,711
Increases (+) Releases (-)	
Totale al 31.12.2012	**16,656**
Utilizations	
Increases (+) Releases (-)	
Total at 31.12.2013	**16,656**

The provision for impairment of other non-current receivables reported no movements during 2013.

Note 11 - deferred tax assets and liabilities

Deferred tax assets are analyzed as follows:

(Euro/000)	Sundry impairment losses	Product warranty	Other risks and charges	Business combinations	Fair value derivatives	Actuarial valuation employee severance benefit	Carry-forward tax losses	Other temporary differences	**Total**
1.1.2011	**81,763**	**12,373**	**3,185**	**-**	**243**	**-**	**13,719**	**3,896**	**115,179**
Changes in 2011									
- business combinations									
- through income statement	9,579	-1,159	3,859				-8,093	908	5,093
- impairment losses									
- through other comprehensive income					391	-451			-60
- other changes									
- 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 in 2012									
- business combinations									
- through income statement	-35,617	-1,520	-2,358				28,009	1,508	-9,978
- impairment losses									
- through other comprehensive income					-157	2,873		-52	2,665
- other changes									
- 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**
Changes in 2013									
- business combinations	-8,784		20,834	20,511		676	1,180	2,568	36,985
- through income statement	15,775	-765	-10,004	-7,280		4,555	2,800	17,628	22,709
- impairment losses									
- through other comprehensive income					-189	-69	-263		-521
- other changes							-153		-153
- exchange rate differences	535	-21	-1,153	-1,899		-38	-270	-1,586	-4,432
31.12.2013	**63,252**	**8,924**	**14,363**	**11,332**	**288**	**7,546**	**36,871**	**25,075**	**167,651**

The deferred tax assets recognized for business combinations relate to the acquisition of the VARD Group, described in more detail in Note 35, and refer to the portion of the purchase price allocated to a provision for expected losses on construction contracts in progress.
Deferred tax assets have been recognized on items for which the tax is likely to be recovered against forecast future taxable income of Group companies.
No deferred tax assets have been recognized on euro 27 million in carryforward losses of subsidiaries which are unlikely to be recovered against future taxable income.
Deferred tax is also recognized on the basis of the tax consolidation with CDP which commenced in 2013.
Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combinations	Other temporary differences	**Total**
1.1.2011	**21,750**	**6,493**	**28,243**
Changes in 2011			
- business combinations			
- through income statement	-474	4,071	3,597
- impairment losses			
- through other comprehensive income		46	46
- exchange rate differences	675	520	1,195
31.12.2011	**21,951**	**11,130**	**33,081**
Changes in 2012			
- business combinations			
- through income statement	-514	504	-10
- impairment losses			
- through other comprehensive income		-52	-52
- exchange rate differences	-411	-226	-637
31.12.2012	**21,026**	**11,356**	**32,382**
Changes in 2013			
- business combinations	59,798	11,465	71,263
- through income statement	-5,281	-1,383	-6,664
- impairment losses			
- through other comprehensive income			
- exchange rate differences	-7,465	-1,679	-9,144
31.12.2013	**68,078**	**19,759**	**87,837**

The deferred tax liabilities recognized in 2013 for business combinations relate to the acquisition of the VARD Group, described in more detail in Note 35, and refer to the portion of the purchase price allocated to intangible assets with indefinite useful lives, primarily customer relationships and order portfolio.

Note 12 - inventories and advances

These are analyzed as follows::

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Raw materials and consumables	183,348	151,119	122,836
Work in progress and semi-finished goods	3,843	969	3,442
Finished products	6,083	6,442	6,314
Merchandise			
Total inventories	**193,274**	**158,530**	**132,592**
Advances to suppliers	206,454	114,942	143,649
TOTAL INVENTORIES AND ADVANCES	**399,728**	**273,472**	**276,241**

Inventories and advances are stated net of relevant provisions for impairment.
Raw materials and consumables 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 provisions for impairment:

(Euro/000)	Provision for impairment - raw materials	Provision for impairment - finished products
1.1.2011	**21,885**	**1,207**
Increases	2,553	220
Utilizations	-3,687	-17
Exchange rate differences	2	8
31.12.2011	**20,753**	**1,418**
Increases	1,540	1,018
Utilizations	-2,096	-452
Exchange rate differences	-1	-14
31.12.2012	**20,196**	**1,970**
Increases	3,553	1,034
Utilizations	-6,425	-385
Releases	-1,188	
Exchange rate differences	-5	-33
31.12.2013	**16,131**	**2,586**

Note 13 - construction contracts - assets

These are analyzed as follows:

(Euro/000)	31.12.2013			31.12.2012			31.12.2011		
	Con-struction contracts - gross	Invoices issued and provision for future losses	Con-struction contracts - net assets	Con-struction contracts - gross	Invoices issued and provision for future losses	Con-struction contracts - net assets	Con-struction contracts - gross	Invoices issued and provision for future losses	Con-struction contracts - net assets
Shipbuilding contracts	3,383,893	1,868,900	1,514,993	1,766,841	1,274,886	491,955	2,410,282	1,435,854	974,428
Other contracts for third parties	31,252	15,585	15,667	173,399	148,704	24,695	44,713	41,445	3,268
Total	**3,415,145**	**1,884,485**	**1,530,660**	**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 exceeds 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 an increase on the previous year due to the change in the scope of consolidation.

Note 14 - trade receivables and other current assets

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Trade receivables	343,684	268,005	317,716
Receivables from controlling companies (tax consolidation)	10,210		
Government grants receivable	8,467	8,167	4,948
Other sundry receivables	82,522	76,133	83,980
Indirect tax receivables	47,473	17,386	16,634
Firm Commitments	26,564		
Prepayments	40,001	29,797	22,177
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**558,921**	**399,488**	**445,455**

The above receivables are shown net of provisions for the impairment of receivables. These provisions relate to receivables that are no longer considered fully recoverable, including those involving legal action and judicial and out-of-court proceedings in cases of insolvency. The provision for past due interest relates to interest charged on the late payment of trade receivables. The amounts and movements in the provisions for impairment of receivables are as follows:

(Euro/000)	Provision for impairment of trade receivables	Provision for past due interest	Provision for impairment of other receivables	**Total**
1.1.2011	**26,362**	**63**	**9,134**	**35,559**
Business combinations				
Utilizations	-920		-283	-1,203
Increases (+) Releases (-)	7,449	3,713	-447	10,715
Exchange rate differences	-15			-15
31.12.2011	**32,876**	**3,776**	**8,404**	**45,056**
Business combinations				
Utilizations	-6,237			-6,237
Increases (+) Releases (-)	-4,656	3,705	186	-765
Exchange rate differences	-1			-1
31.12.2012	**21,982**	**7,481**	**8,590**	**38,053**
Business combinations	3,954			3,954
Utilizations	-2,164	-7,379	-560	-10,103
Increases (+) Releases (-)	11,357	352	168	11,877
Exchange rate differences	-683			-683
31.12.2013	**34,446**	**454**	**8,198**	**43,098**

"Government grants receivable" include the recognition by the FMGH Group of receivables from the state of Wisconsin for operating and capital grants in respect of the LCS project. This same line item also includes grants receivable for research and innovation, mainly by the Parent Company.

"Other receivables" of euro 82,522 thousand mainly include:

- euro 49,870 thousand for research grants, insurance claims, advances to suppliers, and restricted security deposits, mostly relating to the Parent Company and the newly-acquired VARD Group (euro 42,800 thousand at 31 December 2012 and euro 47,358 thousand at 31 December 2011);
- euro 17,497 thousand for the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of the contract price (euro 22,218 thousand at 31 December 2012 and euro 26,710 thousand at 31 December 2011);
- euro 15,055 thousand for receivables from social security institutions (euro 9,767 thousand at 31 December 2012 and 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 contribu-

tions that will mature during the subsequent year.
"Firm commitments" reflect the fair value of hedged items in fair value hedges used by the VARD Group to hedge currency risk arising on construction contracts in currencies other than the functional currency.
"Prepayments" mainly refer to insurance premiums relating to future periods.

Note 15 - income tax assets

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Receivables for Italian corporate income taxation (IRES)	32,648	35,555	33,042
Receivables for Italian regional tax on productive activities (IRAP)	205		
Foreign tax receivables	5,964		
TOTAL INCOME TAX ASSETS	**38,817**	**35,555**	**33,042**

Note 16 - current financial assets

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Derivative assets	40,826	2,634	5,012
Other receivables	50,113	42,658	41,077
Other financial receivables			45,000
Government grants financed by BIIS	6,436	6,201	5,975
Accrued interest income	1,978	2,165	2,612
Prepaid interest and other financial expense		1	1
TOTAL FINANCIAL RECEIVABLES	**99,353**	**53,659**	**99,677**

"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of less than 12 months. The fair value of derivative financial instruments has been calculated considering market parameters and using widely accepted measurement techniques (Level 2).
"Other receivables" include interest-bearing receivables from customers.
"Other financial receivables" – which amounted to euro 45 million in 2011 – referred to a low-risk investment.
"Government grants financed by BIIS" (Banca Infrastrutture Innovazione e Sviluppo) 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 17 - cash and cash equivalents

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Bank and postal deposits	384,236	691,676	387,022
Checks	149	28	41
Cash on hand	121	123	107
TOTAL CASH AND CASH EQUIVALENTS	**384,506**	**691,827**	**387,170**

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

Note 18 - equity

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

The ordinary General Meeting of Shareholders held on 11 April 2013 adopted a resolution to apportion the Parent Company's profit for 2012 of euro 16,858 thousand so as to increase the Legal reserve by euro 843 thousand, to increase Retained earnings by euro 12,015 thousand and to distribute dividends of euro 4,000 thousand.
The composition of equity is analyzed in the following table:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Attributable to owners of the parent			
Share capital	633,481	633,481	633,481
Share premium reserve	71	71	71
Legal reserve	29,439	28,596	28,453
Cash flow hedge reserve	-760	-1,270	-1,565
Available-for-sale fair value reserve	-226		
Currency translation reserve	-34,527	3,367	5,438
Other reserves and retained earnings	284,146	259,938	259,971
Profit/loss (+/-) for the year	56,717	15,343	7,666
	968,341	**939,526**	**933,515**
Attributable to non-controlling interests			
Capital and reserves	241,356	16,137	15,160
Available-for-sale fair value reserve	-180		
Currency translation reserve	-27,352	754	1,050
Profit/loss (+/-) for the year	28,401	120	1,215
	242,225	**17,011**	**17,425**
TOTAL EQUITY	**1,210,566**	**956,537**	**950,940**

SHARE CAPITAL

The Parent Company's share capital amounts to euro 633,481 thousand at 31 December 2013, all of which fully paid-in and comprising 1,242,119,070 ordinary shares with no par value. Share capital has not undergone any changes in any of the years under review.

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

The currency translation reserve reflects exchange differences arising from the translation into Euro of financial statements of foreign operations in currencies other than the Euro.

OTHER RESERVES AND RETAINED EARNINGS

These mainly comprise: i) surplus earnings after making allocations to the legal reserve and distributions in the form of shareholder dividends; ii) actuarial gains and losses on employee benefit plans.

NON-CONTROLLING INTERESTS

The change compared with 31 December 2012 is mainly attributable to the change of the scope of consolidation following the acquisition of the VARD Group, as well as comprehensive income for the year attributable to non-controlling interests. In addition, dividends of euro 295 thousand were distributed to minority shareholders during 2013.

OTHER COMPREHENSIVE INCOME/LOSSES

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

	31.12.2013			31.12.2012			31.12.2011		
(Euro/000)	Gross amount	Tax expense/ benefit (+/-)	Net amount	Gross amount	Tax expense/ benefit (+/-)	Net amount	Gross amount	Tax expense/ benefit (+/-)	Net amount
Effective portion of profits/losses (+/-) on cash flow hedging instruments	699	-189	510	452	-157	295	-1,280	391	-889
Gains/losses (+/-) from remeasurement of employee defined benefit plans	1,148	-69	1,079	-10,446	2,872	-7,574	1,640	-450	1,190
Gains/losses (+/-) arising from changes in OCI of investments accounted for using the equity method	-744		-744						
Gains/losses (+/-) arising on translation of financial statements of foreign operations	-41,733	-263	-41,996	-2,367		-2,367	4,257		4,257
Total other comprehensive income/losses (+/-)	**-40,630**	**-521**	**-41,151**	**-12,361**	**2,715**	**-9,646**	**4,617**	**-59**	**4,558**

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Effective portion of profits/losses (+/-) arising in period on cash flow hedging instruments	-1,048	-1,747	-2,199
Effective portion of profits/losses (+/-) on cash flow hedging instruments reclassified to income statement	1,747	2,199	919
Effective portion of profits/losses (+/-) on cash flow hedging instruments	**699**	**452**	**-1,280**
Tax effect of other components of comprehensive income	**-189**	**-157**	**391**
TOTAL OTHER COMPREHENSIVE INCOME/LOSSES (+/-), NET OF TAX	**510**	**295**	**-889**

Note 19 - provisions for risks and charges

These are analyzed as follows:

(Euro/000)	Litigation	Product warranty	Agent indemnity benefit	Business reorganization	Other risks and charges	**Total**
1.1.2011	**60,389**	**43,232**	**136**		**14,322**	**118,079**
Business combinations						
Increases	2,163	17,325	1	13,500	810	33,799
Utilizations	-16,046	-13,982			-602	-30,630
Releases	-127	-7,191	-16			-7,334
Other movements						
Exchange rate differences		43			21	64
31.12.2011	**46,379**	**39,427**	**121**	**13,500**	**14,551**	**113,978**
Business combinations						
Increases	10,777	18,103	2	2,145	315	31,342
Utilizations	-8,581	-13,668		-3,800	-3,038	-29,087
Releases	-1,758	-8,383	-2		-5,007	-15,150
Other movements						
Exchange rate differences		-32			9	-23
31.12.2012	**46,817**	**35,447**	**121**	**11,845**	**6,830**	**101,060**
Business combinations	8,397	48,053			48,701	105,151
Increases	21,744	34,440	2	4,645	18,589	79,420
Utilizations	-28,436	-18,463		-11,715	-19,528	-78,142
Releases	-3,555	-31,902	-13		-11,415	-46,885
Other movements	62	-6,684			6,775	153
Exchange rate differences	-693	-4,153			-5,144	-9,990
31.12.2013	**44,336**	**56,738**	**110**	**4,775**	**44,808**	**150,767**
- of which non-current portion	*42,910*	*37,534*	*110*		*18,353*	*98,907*
- of which current portion	*1,426*	*19,204*		*4,775*	*26,455*	*51,860*

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 warranty period normally lasts for 1 or 2 years after delivery, but in some cases it may be longer.

The business reorganization provision refers to the residual amount of the reorganization plan initiated in 2011 with the agreement of the main trade unions, aimed at addressing the issue of surplus staff.

The provision for other risks and charges includes euro 10,968 thousand for environmental clean-up costs, while the remainder relates to various kinds of disputes, mostly of a contractual, technical or fiscal nature, which might be settled at the Group's expense either in or out of court.

Note 20 - employee benefits

Movements in this line item are as follows:

(Euro/000)	2013	2012	2011
Opening balance	**70,757**	**65,043**	**72,479**
Business combinations	4,597		
Interest cost	2,049	2,973	3,179
Actuarial gains/losses (-/+)	-1,152	10,446	-1,641
Utilizations for benefits and advances paid	-12,899	-8,364	-9,067
Staff transfers and other movements	-2,589	659	93
Exchange rate differences	-277		
Closing balance	**60,486**	**70,757**	**65,043**
Plan assets	**-437**		
Closing balance	**60,049**	**70,757**	**65,043**

The balance at 31 December 2013 includes euro 60,148 thousand for the employee severance benefit relating to the Group's Italian companies, while the remainder refers to the VARD Group's employee benefits.

The amount of Italian employee severance benefit 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:

	31.12.2013	31.12.2012	31.12.2011
ECONOMIC ASSUMPTIONS			
Cost of living increase	2.0% per annum	2.0% per annum	2.0% per annum
Discount rate	3.17% per annum	3.2% per annum	4.7% per annum
Increase in employee severance benefit	3.0% per annum	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	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	INPS tables split by age and gender
Expected resignation rate	3.0% per annum	3.0% per annum	3.0% per annum
Expected rate of advances on employee severance benefit	2.0% per annum	2.0% per annum	2.0% per annum

The table below shows the expected payments for Italian employee severance benefits in years to come:

(Euro/000)	Expected payments
Within 1 year	10,854
Between 1 and 2 years	2,837
Between 2 and 3 years	2,850
Between 3 and 4 years	2,831
Between 4 and 5 years	2,763
	22,135

The Group paid a total of euro 28,972 thousand into defined contribution plans in 2013 (euro 26,096 thousand in 2012 and euro 24,085 thousand in 2011).

Note 21 - non-current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Bond	296,095		
Bank loans and credit facilities - non-current portion	254,670	133,925	67,262
Loans from BIIS - non-current portion	40,790	47,226	53,427
Finance lease obligations	544	782	1,751
Financial liabilities for the acquisition of equity investments	11,770	11,770	11,770
Fair value of options on equity investments		14,400	14,684
Derivative liabilities	858	1,345	1,071
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**604,727**	**209,448**	**149,965**

BOND

This refers to the bonds placed by FINCANTIERI S.p.A. on 19 November 2013 on the Luxembourg Stock Exchange at a below par price of euro 99.442. These bonds, subscribed solely by institutional investors, will be repaid in a lump sum on 19 November 2018 and carry a fixed coupon of 3.75% payable annually.

BANK LOANS AND CREDIT FACILITIES

The following table presents the composition of bank loans and credit facilities, including disclosure of the non-current portion and the current portion reclassified to current financial liabilities.

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
European Investment Bank	140,000	80,000	
Banca Carige S.p.A.	28,000	36,000	44,000
Banca Mediocredito del Friuli Venezia Giulia S.p.A.	20,575	24,845	25,015
Banca Infrastrutture Innovazione e Sviluppo (BIIS)	47,226	53,427	59,402
Cassa Depositi e Prestiti S.p.A.	8,697	2,065	
Innovation Norway	12,626		
Nordea	6,547		
Brasile (Banco do Brazil e BNDES)	60,055		
Other loans and credit facilities	7,887	7,119	13,983
TOTAL BANK LOANS AND CREDIT FACILITIES	**331,613**	**203,456**	**142,400**
Non-current portion	295,460	181,151	120,689
Current portion	36,153	22,305	21,711

The loan from the European Investment Bank ("EIB") for a total of euro 140 million is intended to finance research and development programs. The total amount has been received in three tranches, as follows:

- The first tranche, for euro 80 million received in July 2012, is repayable in 12 semi-annual installments starting in January 2014 and ending in July 2019; it carries an interest rate of Euribor plus a spread of 1.799%;
- the second and third tranches, each of euro 30 million received in March 2013, are repayable in a lump sum in March 2017; they carry an interest rate of Euribor plus respective spreads of 0.433% and 0.63%.

This loan carries the obligation to comply with the following covenants, reviewed annually and calculated on the basis of FINCANTIERI S.p.A. figures: *(i)* Gross debt[6]/Equity not more than 50% and *(ii)* Gross cash flow from operating activities/ Gross debt[6] not less than 20%. Any non-compliance with these covenants represents an "event of default", allowing the lender to ask for guarantees against the outstanding debt and, if such guarantees are not forthcoming, this triggers the obligation to repay the outstanding debt immediately. This loan agreement also contains other standard clauses found in international practice for this type of instrument, such as those governing a change of control, negative pledges and notification and reporting requirements.

All the above covenants were observed as at 31 December 2013.

In 2009, Banca Carige S.p.A. granted the Group a loan for euro 60 million repayable in semi-annual installments no later than 31 January 2017, and carrying fixed interest of 2.95%, including the effect of the IRS contract to hedge the related interest rate risk. The outstanding balance of this loan was euro 28 million at 31 December 2013.

The Group's exposure to the Banca Mediocredito del Friuli Venezia Giulia S.p.A. refers to four different loans made between 2006 and 2012, originally totaling euro 33.7 million. These loans are repayable in semi-annual installments through until 2022. The contractual minimum rates of 0.45% and 0.85% are currently being applied to these loans, which carry interest at 80% of the Euribor rate. This credit is secured by a lien on plant and machinery at the Monfalcone shipyard, as disclosed in Note 7.

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6 The calculation of "Gross debt" disregards the bond issue completed in late 2013.

"Loans from BIIS – non-current portion" reflects the payment of production grants in the form of loans that 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.

The exposure to Cassa Depositi e Prestiti S.p.A. refers to two soft loans received by the company under the "revolving fund in support of business and investment in research" (the "Fund") established under Italian Law 311 dated 30 December 2004, for the "Superpanamax cruise ship" development project and for the investment program under Italian Law 488 dated 19 December 1992 involving the Palermo shipyard.

The following loans have been granted under this Fund and provided by CDP:

- a loan for up to euro 12,488 thousand, receivable in stages according to the progress of the subsidized development project. The loan is unsecured and must be repaid in semi-annual installments by 30 June 2022;
- a loan for up to euro 3,481 thousand, received in full. The loan is unsecured, carries interest at a fixed rate of 0.50% and must be repaid in semi-annual installments by 30 June 2017.

VARD Group AS has six loans with Innovation Norway for a total of NOK 125 million (current and non-current portions), carrying fixed interest of between 3.6% and 4.4%; these loans are secured by plant and machinery and by the dock at the Langesten shipyard and also carry covenants (working capital > NOK 600 million, adjusted equity > NOK 1,300 million and equity/adjusted equity ratio > 2/3).

The credit facility with Nordea refers to the subsidiary VARD Singapore Pte. Ltd. and has been obtained for the purposes of financing the construction of the Vietnamese shipyard. This facility, for an original amount of USD 15 million, matures in 2014, is secured by a pledge on shares and carries a floating interest rate of LIBOR +1.125%.

Loans and credit facilities relating to the Brazilian operations are as follows:

- VARD Niteròi SA has approximately USD 2.8 million in credit facilities with the Brazilian Development Bank (BNDES) and Finame for modernizing the Niteròi shipyard. These facilities, which expire in 2016, carry interest rates between 3.5% and 10.0%, and are collateralized with shipyard assets;
- VARD Promar SA has a credit facility for BRL 154 million with Banco do Brasil, all of which drawn down at 31 December 2013; this facility, which matures in 2029 and carries an interest rate of 3.5% for local content and 4.5% for imported content, is being used to finance construction of the shipyard in Suape currently being built, and is collateralized with shipyard assets.

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

(Euro/000)	31.12.2013			31.12.2012			31.12.2011		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	14,801	24,864	39,665	8,937	18,054	26,991	11,417	3,389	14,806
- between two and three years	15,752	18,444	34,196	8,702	18,078	26,780	8,948	3,411	12,359
- between three and four years	11,416	77,802	89,218	8,705	18,101	26,806	8,702	3,434	12,136
- between four and five years	6,538	16,435	22,973	4,487	17,581	22,068	8,705	3,458	12,163
- beyond five years	52,946	15,672	68,618	839	30,441	31,280	5,326	10,472	15,798
Total	**101,453**	**153,217**	**254,670**	**31,670**	**102,255**	**133,925**	**43,098**	**24,164**	**67,262**

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

FINANCIAL LIABILITIES FOR THE ACQUISITION OF EQUITY INVESTMENTS

As from 2013, financial liabilities for the acquisition of equity investments have been reclassified from "Other liabilities" to non-current "Financial liabilities"; the corresponding balances for 2012 and 2011 have been similarly reclassified. This amount (which has not changed during the three years under review) reflects the fair value of a put option held by the minority shareholders of Fincantieri USA under which they have the option to sell their shareholding to Fincantieri at a fixed price.

FAIR VALUE OF OPTIONS ON EQUITY INVESTMENTS

As from 2013, the fair value of options on equity investments has been reclassified from "Other liabilities" to non-current "Financial liabilities"; the corresponding balances for 2012 and 2011 have been similarly reclassified. The decrease in this balance is due to the reclassification of euro 13,777 thousand to current "Financial liabilities" for the option held by the Fincantieri Marine Group's minority shareholders, exercisable from 1 January 2014. This liability is stated at fair value, calculated using valuation techniques whose inputs are not observable on the market (Level 3).

Note 22 - other non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Capital grants	30,014	30,920	33,467
Other liabilities	17,586	16,097	13,976
TOTAL OTHER NON-CURRENT LIABILITIES	**47,600**	**47,017**	**47,443**

”Capital grants” mainly comprise deferred income associated with grants for property, plant and equipment and grants for innovation (euro 30,014 thousand at 31 December 2013, euro 30,920 thousand at 31 December 2012 and euro 33,467 thousand at 31 December 2011) which will be released to the income statement in future years to match the related depreciation/amortization of these assets.
“Other liabilities” include euro 4,693 thousand in payables to other recipients in respect of the amount owed by the Iraqi Ministry of Defense (see Note 10 - Other non-current assets).

Note 23 - construction contracts - liabilities

These are analyzed as follows:

	31.12.2013			31.12.2012			31.12.2011		
(Euro/000)	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities
Shipbuilding contracts	3,009,670	3,715,342	705,672	2,465,197	3,025,179	559,982	1,618,558	2,411,401	792,843
Other contracts for third parties	153,967	165,958	11,991	185,622	194,433	8,811	208,698	240,595	31,897
Advances from customers		55,994	55,994		3,674	3,674		4,015	4,015
Total	**3,163,637**	**3,937,294**	**773,657**	**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 13.
“Advances from customers” refer to contracts on which work had not started at the year-end reporting date.

Note 24 - trade payables and other current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Payables to suppliers	910,538	596,962	577,272
Social security payables	28,028	28,567	23,146
Other payables for deferred employee remuneration	64,572	38,737	32,950
Other payables	98,209	53,393	45,296
Indirect tax payables	20,700	1,495	670
Firm commitments	25,166		
Accrued expenses	7,504	8,835	6,151
Deferred income	1		9
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**1,154,718**	**727,989**	**685,494**

“Payables to suppliers” have increased by euro 313,576 thousand on 31 December 2012, mainly due to the change in the scope of consolidation.
“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.
“Other liabilities” include 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 received.
“Indirect tax payables” include euro 19,955 thousand for indirect tax liabilities of the VARD Group.
“Firm commitments” reflect the fair value of hedged items in fair value hedges used by the VARD Group to hedge currency risk arising on construction contracts in currencies other than the functional currency.

Note 25 - income tax liabilities

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Payables for Italian corporate income taxation (IRES)	260	118	2,511
Payables for Italian regional tax on productive activities (IRAP)	5,691	130	3,654
Foreign tax payables	24,269	3	138
TOTAL INCOME TAX LIABILITIES	**30,220**	**251**	**6,303**

Note 26 - current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Bank loans and credit facilities - current portion	29,717	16,104	15,736
Loans from BIIS - current portion	6,436	6,201	5,975
Bank loans and credit facilities – Construction loans	562,791		
Bank credit facilities repayable on demand	35,134	2,968	5,761
Payables to Fintecna	184	123	84
Payables to joint ventures	2,535	127,261	161,881
Finance lease obligations - current portion	276	1,086	1,870
Fair value of options on equity investments	13,777		
Other financial liabilities			985
Derivative liabilities	29,932	3,128	29,701
Accrued interest expense	2,492	1,323	1,712
TOTAL CURRENT FINANCIAL LIABILITIES	**683,274**	**158,194**	**223,705**

For “Bank loans and credit facilities - current portion” and “Loans from BIIS - current portion”, see Note 21.
“Construction loans” are analyzed as follows at 31 December 2013:

(Euro/000)	31.12.2013
Construction Loans	
VARD Group AS	293,289
VARD Niterói SA	221,436
VARD Promar SA	48,066
TOTAL CONSTRUCTION LOANS	**562,791**

Construction loan facilities are project specific and are secured by the vessels under construction. These loans will be fully repaid from the proceeds received from the customer upon the delivery of the completed vessels. Of the total, around euro 270 million carry fixed interest (at rates between 3.5% and 4.5%) and around 293 million carry floating interest (at rates between 2.5% and 3.6%). These loans refer to:

- the Norwegian shipyards of VARD Group AS, which have an agreement with Nordea Bank Norge ASA for a maximum facility of NOK 3,392 million, whose terms, conditions and structure are determined on a project-by-project basis. The Romanian yards are largely financed by the Norwegian Group in the form of partial payments against the progress of work on hull-building contracts;
- VARD Niteròi SA, which has a construction loan facility with BNDES (capped at USD 250 million) and one with Banco do Brasil (capped at USD 62 million), determined on a project-by-project basis;

- VARD Promar SA, which has a construction loan facility with Banco do Brasil guaranteed by VARD Holdings Ltd (BRL 289 million for local content and USD 72 million for imported content). This facility is intended to finance the construction of eight vessels and was only partially drawn down at 31 December 2013;
- the Group's Vietnamese company, controlled by VARD Singapore Pte Ltd, which has a construction loan agreement with Nordea Bank in Singapore; at 31 December 2013 this facility is limited to USD 15 million. This agreement is guaranteed by VARD Holdings Ltd and VARD Group AS.

"Bank credit facilities repayable on demand" mostly refer to drawdowns by VARD Niteròi against its short-term credit facilities for USD 30 million and BRL 25 million with Banco Itaù and Banco do Brasil respectively.

At 31 December 2013, Fincantieri S.p.A. also had a total of euro 450 million in committed but undrawn lines of credit with leading Italian and international banks with maturities between April 2014 and April 2015. One of these lines of credit calls for semi-annual testing of the net debt/ EBITDA ratio, which must be less than or equal to 3.5. Otherwise the bank may demand the line of credit to be terminated and immediate repayment of any amounts drawn down.

The above covenant was observed as at 31 December 2013.

"Payables to joint ventures" relate to the balance on the intercompany current account with Orizzonte Sistemi Navali.

The increase in current "Fair value of options on equity investments" is due to the reclassification to current financial liabilities of euro 13,777 thousand for the option held by minority shareholders of the Fincantieri Marine Group, exercisable from 1 January 2014.

The fair value of derivative financial instruments has been calculated considering market parameters and using widely accepted measurement techniques (Level 2).

Note 27 - revenue and income

These are analyzed as follows:

(Euro/000)	**2013**	**2012**	**2011**
Operating revenue	**3,737,165**	**2,301,049**	**2,316,624**
Other revenue and income			
Gains on disposal	370	704	762
Sundry revenue and income	65,180	68,502	51,782
Government grants	8,347	11,114	10,350
Total other revenue and income	**73,897**	**80,320**	**62,894**
TOTAL REVENUE AND INCOME	**3,811,062**	**2,381,369**	**2,379,518**

Sundry revenue and income comprise:

(Euro/000)	2013	2012	2011
Penalties charged to suppliers	5,361	2,101	897
Rental income	709	174	129
Insurance claims	710	16,658	14,101
Recharged costs	8,330	11,464	15,919
Income for personnel training		97	10
Income from third parties relating to personnel	513	542	284
Other sundry income	17,331	8,258	12,644
Extraordinary income and other revenue	6		11
Gains on held-for-trading foreign currency derivatives	3,958	14,408	7,095
Gains on ineffective hedging instruments	27,240	14,290	
Other income	1,022	510	692
Total	**65,180**	**68,502**	**51,782**

"Recharged costs", of euro 8,330 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories.
"Other sundry income" of euro 17,331 thousand primarily refers to out-of-period income and adjustments to the value of recognized assets.
Note 1 and the related comments on the presentation of the financial statements contain information about reclassifications in 2013 of provision releases and the income statement effects of held-for-trading foreign currency derivatives.

Note 28 - operating costs

MATERIALS, SERVICES AND OTHER COSTS

Materials, services and other costs are analyzed as follows:

(Euro/000)	2013	2012	2011
Raw, ancillary and consumable materials	-2,055,840	-1,215,883	-1,217,575
Services	-692,217	-498,546	-523,265
Leases and rentals	-43,093	-24,052	-22,650
Change in inventories of raw, ancillary and consumable materials	-15,521	28,307	6,397
Change in work in progress	451	-1,921	635
Other operating costs	-11,541	-30,367	-22,868
Cost of materials and services capitalized in fixed assets	48,674	8,651	1,601
Total materials, services and other costs	**-2,769,087**	**-1,733,811**	**-1,777,725**

Note 1 and the related comments on the presentation of the financial statements contain information about reclassifications in 2013 of the income statement effects of held-for-trading foreign currency derivatives.

The cost of services is analyzed as follows:

(Euro/000)	2013	2012	2011
Subcontractors and outsourced services	-322,710	-230,640	-250,540
Insurance	-34,653	-29,041	-32,781
Other personnel costs	-20,414	-19,417	-17,806
Maintenance costs	-23,952	-13,382	-14,554
Tests and trials	-9,980	-5,161	-5,487
Outsourced design costs	-18,119	-15,508	-25,298
Licenses	-8,215	-204	-243
Transportation and logistics	-26,334	-10,486	-9,121
Technical and other services	-186,421	-136,939	-134,208
Cleaning services	-22,670	-18,825	-20,158
Electricity, water, gas and other utilities	-37,167	-32,611	-27,126
Utilization of product warranty and other provisions	18,418	13,668	14,057
Total cost of services	**-692,217**	**-498,546**	**-523,265**

"Leases and rentals" amounting to euro 43,093 thousand (euro 24,052 thousand in 2012 and euro 22,650 thousand in 2011) include rental and hire costs of euro 25,971 thousand (euro 15,941 thousand in 2012 and euro 14,713 thousand in 2011), lease costs of euro 14,647 thousand (euro 5,630 thousand in 2012 and euro 5,719 thousand in 2011), and concession and similar fees of euro 2,475 thousand (euro 2,481 thousand in 2012 and euro 2,218 thousand in 2011).

OPERATING LEASES

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

(Euro/000)	2013	2012	2011
Maturity of future minimum operating lease payments:			
Within 1 year	8,684	8,807	8,908
Between 1 and 5 years	25,185	27,692	26,789
Beyond 5 years	22,845	19,729	19,208
Total	**56,714**	**56,228**	**54,905**

PERSONNEL COSTS

(Euro/000)	2013	2012	2011
Personnel costs:			
- wages and salaries	-566,888	-362,350	-324,822
- social security	-169,951	-129,231	-118,725
- costs for defined contribution plans	-29,407	-26,096	-24,085
- other personnel costs	-26,048	-13,819	-9,954
Personnel costs capitalized in fixed assets	22,575	2,513	
Total personnel costs	**-769,719**	**-528,983**	**-477,586**

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

HEADCOUNT

The Fincantieri Group had 20,389 employees at 31 December 2013, compared with 10,240 at the end of 2012 and 9,994 at the end of 2011, broken down as follows:

(number)	2013	2012	2011
Employees at year end:			
Total at year end	20,389	10,240	9,994
- of whom in Italy	7,735	8,102	8,367
- of whom in Parent Company	7,436	7,807	8,082
- of whom in VARD	10,689		
Average number of employees	20,169	10,227	9,809
- of whom in Italy	7,872	8,180	8,390
- of whom in Parent Company	7,577	7,892	8,110
- of whom in VARD	10,340		

Orizzonte Sistemi Navali had 84 employees at 31 December 2013, the same as at 31 December 2012; at 31 December 2011 it had 83 employees.

DEPRECIATION AND AMORTIZATION, PROVISIONS AND IMPAIRMENT

(Euro/000)	2013	2012	2011
Depreciation and amortization:			
- amortization of intangible assets	-23,900	-7,226	-7,120
- depreciation of property, plant and equipment	-65,059	-52,670	-58,648
Total depreciation and amortization	**-88,959**	**-59,896**	**-65,768**
Provisions and impairment:			
- other write-downs			-115
- impairment of receivables	-13,398	-3,917	-11,658
- increases in provisions for risks and charges	-79,199	-31,342	-33,799
- other impairment losses	-2,491		
- release of provisions and impairment reversals	48,408	19,830	8,201
Total provisions and impairment	**-46,680**	**-15,429**	**-37,371**

Note 1 and the related comments on the presentation of the financial statements contain information about the provision releases reclassified in 2013.
A breakdown of "Depreciation and amortization" expense is provided in Notes 6 and 7.
"Impairment of receivables" 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 34,440 thousand versus euro 18,103 thousand in 2012 and euro 17,325 thousand in 2011), to provisions for litigation (euro 21,744 thousand versus euro 10,777 thousand in 2012 and euro 2,163 thousand in 2011), to provisions for business reorganization (euro 4,645 thousand versus euro 2,145 thousand in 2012 and euro 13,500 thousand in 2011) and to other provisions for future charges (euro 18,370 thousand versus euro 316 thousand in 2012 and euro 811 thousand in 2011).

Note 29 - finance income and costs

These are analyzed as follows:

(Euro/000)	2013	2012	2011
FINANCE INCOME			
Interest and other income from financial assets	5,052	5,168	6,236
Income from derivative financial instruments	827	1,422	
Bank interest and fees and other income	7,804	19,659	20,018
Foreign exchange gains	9,269	2,326	2,683
Total finance income	**22,952**	**28,575**	**28,937**
FINANCE COSTS			
Interest and fees charged by joint ventures	-2,609	-2,408	-1,282
Interest and fees charged by parent companies	-1,165	-13	-2
Expenses from derivative financial instruments	-257	-14,572	-9,215
Interest on employee benefit plans	-2,049	-2,973	-3,179
Interest and fees on bonds	-1,412		
Interest and fees on Construction loans	-24,228		
Bank interest and fees and other expense	-36,938	-13,536	-11,318
Foreign exchange losses	-16,822	-3,958	-2,408
Total finance costs	**-85,480**	**-37,460**	**-27,404**
TOTAL FINANCE INCOME AND COSTS	**-62,528**	**-8,885**	**1,533**

Note 1 and the related comments on the presentation of the financial statements contain information about reclassifications in 2013 of provision releases and the income statement effects of held-for-trading foreign currency derivatives.

“Finance income” includes euro 1,830 thousand (euro 2,060 thousand in 2012 and euro 2,283 thousand in 2011) 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).

Note 30 - income and expense from investments

These are analyzed as follows:

(Euro/000)	2013	2012	2011
INCOME			
Dividends from other companies	17		
Other income from investments		11	
Total income	**17**	**11**	
EXPENSE			
Impairment of investments	-240	-4	-12
Provision for losses on investments	-221		
Total expense	**-461**	**-4**	**-12**
INCOME/EXPENSE (+/-) FROM INVESTMENTS	**-444**	**7**	**-12**
SHARE OF PROFIT/LOSS (+/-) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD			
Profit	2,881	900	420
Loss	-875		
SHARE OF PROFIT/LOSS (+/-) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	**2,006**	**900**	**420**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**1,562**	**907**	**408**

Note 8 provides details about investments accounted for using the equity method. The "Share of profit/loss of investments accounted for using the equity method" mainly reflects euro 1,000 thousand for the Group's share of profit of Orizzonte Sistemi Navali (euro 900 thousand in 2012 and euro 420 thousand in 2011), euro 796 thousand for the share of profit of REM Supply AS, euro 271 thousand for the share of profit of Møkster Supply KS and euro 725 thousand for the share of profit of Olympic Subsea KS, as offset by euro 524 thousand for the share of the loss of Olympic Green Energy KS, euro 132 thousand for the share of the loss of DOF Iceman AS and euro 178 thousand for the Group's share of the loss of Etihad Ship Building (not present in 2012 and 2011).

Note 31 - income taxes

These are analyzed as follows::

(Euro/000)	2013	2012	2011
Current taxes	**-19,906**	**-9,841**	**-15,624**
Deferred tax assets:			
– sundry impairment losses	15,918	-35,617	9,579
– product warranty	-765	-1,520	-1,159
– other risks and charges	-10,004	-2,358	3,859
– carryforward tax losses	2,375	28,009	-8,094
– other items	15,185	1,508	908
	22,709	**-9,978**	**5,093**
Deferred tax liabilities:			
– other items	6,664	10	-3,597
	6,664	**10**	**-3,597**
Total deferred taxes	**29,373**	**-9,968**	**1,496**
TOTAL INCOME TAXES	**9,467**	**-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.

Approximately euro 10 million in net revenue was recognized in 2013 for income taxes relating to previous periods.

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

(Euro/000)	2013	2012	2011
Theoretical corporate income tax rate (IRES)	**27.50%**	**27.50%**	**27.50%**
Profit/loss (+/-) before tax	75,651	35,272	23,009
Theoretical corporate income tax (IRES)	**-20,804**	**-9,700**	**-6,328**
Impact of taxes relating to prior periods	9,882	638	24
Non-taxed income and non-deductible expenses	3,702		
Impact of tax losses	-22,720		-450
Impact of permanent differences and unrecognized temporary differences	10,248	750	5,919
Impact of temporary differences not recognized in previous years	26,617		
Impact of different tax rate applicable to foreign entities	17,506	906	-817
IRAP charged to income statement	**-14,963**	**-12,403**	**-12,476**
Total income taxes through income statement	**9,467**	**-19,809**	**-14,128**
Current taxes	-19,906	-9,841	-15,624
Deferred taxes	29,373	-9,968	1,496

Note 32 - other information

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.
The figures for related party transactions and balances are reported in the following tables.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**31.12.2013**						
(Euro/000)	Non-current financial assets	Current financial assets	Advances (*)	Trade receivables and other assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
FINTECNA S.p.A.						-184	-128
CASSA DEPOSITI E PRESTITI S.p.A.				10,210	-7,279	-1,418	-569
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-**	**10,210**	**-7,279**	**-1,602**	**-697**
ORIZZONTE SISTEMI NAVALI S.p.A.				20,475		-2,535	-201
ETIHAD SHIP BUILDING LLC				422			-240
TOTAL JOINT VENTURES	**-**	**-**	**-**	**20,897**		**-2,535**	**-441**
BRIDGE EIENDOM AS	641						
BREVIK TECHNOLOGY AS		26					
ISLAND OFFSHORE LNG AS		4,089					
REM SUPPLY AS	1,172						
OLYMPIC GREEN ENERGY KS	1,256	253					
DOF ICEMAN AS	5,479						
TOTAL ASSOCIATES	**8,548**	**4,368**	**-**	**-**	**-**	**-**	**-**
QUADRIFOGLIO PALERMO S.r.l.				3,250			
TIRRENIA DI NAVIGAZIONE S.p.A.				10,760			
ENI S.p.A.				85			-80
HORIZON SAS				3,423			-1
SIMEST S.p.A.					-11,770		
SACE S.p.A.						-252	
SACE BT S.p.A.						-35	
ANSALDO ENERGIA S.p.A.				183			
MINISTRY OF ECONOMY AND FINANCE							-31
TOTAL OTHER RELATED PARTIES	**-**	**-**	**-**	**17,701**	**-11,770**	**-287**	**-112**
TOTAL RELATED PARTIES	***8,548***	***4,368***		***48,808***	***-19,049***	***-4,424***	***-1,250***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	99,882	99,353	206,454	558,921	-604,727	-683,274	-1,154,718
% on consolidated statement of financial position	9%	4%	0%	9%	3%	1%	0%

(*) "Advances" are classified in "Inventories and advances", as detailed in Note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2012						
(Euro/000)	Non-current financial assets	Current financial assets	Advances (*)	Trade receivables and other assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
FINTECNA S.p.A.						-123	-68
CASSA DEPOSITI E PRESTITI S.p.A.					-1,610	-455	
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-**	**-**	**-1,610**	**-578**	**-68**
ORIZZONTE SISTEMI NAVALI S.p.A.				6,412		-127,261	-2,041
ETIHAD SHIP BUILDING LLC				462			
TOTAL JOINT VENTURES	**-**	**-**	**-**	**6,874**	**-**	**-127,261**	**-2,041**
TOTAL ASSOCIATES	**-**	**-**	**-**	**-**	**-**	**-**	**-**
QUADRIFOGLIO PALERMO S.r.l.				3,250			
TIRRENIA DI NAVIGAZIONE S.p.A.				10,751			
ENI S.p.A.				46			
HORIZON SAS				4,032			-1
SIMEST S.p.A.					-11,770		
MINISTRY OF ECONOMY AND FINANCE							-124
TOTAL OTHER RELATED PARTIES	**-**	**-**	**-**	**18,079**	**-11,770**	**-**	**-125**
TOTAL RELATED PARTIES	***-***	***-***	***-***	***24,953***	***-13,380***	***-127,839***	***-2,234***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	75,595	53,659	114,942	399,488	-209,448	-158,194	-727,989
% on consolidated statement of financial position	*0%*	*0%*	*0%*	*6%*	*6%*	*81%*	*0%*

(*) "Advances" are classified in "Inventories and advances", as detailed in Note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2011						
(Euro/000)	Non-current financial assets	Current financial assets	Advances (*)	Trade receivables and other assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
FINTECNA S.p.A.						-84	-36
CASSA DEPOSITI E PRESTITI S.p.A.							
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-**	**-**	**-**	**-84**	**-36**
ORIZZONTE SISTEMI NAVALI S.p.A.				46,071		-161,881	-720
ETIHAD SHIP BUILDING LLC							
TOTAL JOINT VENTURES	**-**	**-**	**-**	**46,071**	**-**	**-161,881**	**-720**
TOTAL ASSOCIATES	**-**	**-**	**-**	**-**	**-**	**-**	**-**
QUADRIFOGLIO PALERMO S.r.l.				3,250			
TIRRENIA DI NAVIGAZIONE S.p.A.				13,908			
ENI S.p.A.				121			-66
HORIZON SAS				9,917			-1
ITALIA LAVORO S.p.A.				100			
ISTITUTO POLIGRAFICO ZECCA DELLO STATO S.p.A.							-1
TOTAL OTHER RELATED PARTIES	**-**	**-**	**-**	**27,296**	**-**	**-**	**-68**
TOTAL RELATED PARTIES	***-***	***-***	***-***	***73,367***	***-***	***-161,965***	***-824***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	71,985	99,677	143,649	445,455	-149,965	-223,705	-685,494
% on consolidated statement of financial position	*0%*	*0%*	*0%*	*16%*	*0%*	*72%*	*0%*

(*) "Advances" are classified in "Inventories and advances", as detailed in Note 12.

INCOME STATEMENT	31.12.2013				
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
FINTECNA S.p.A.			-35		-217
CASSA DEPOSITI E PRESTITI S.p.A.			-18		-948
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-53**	**-**	**-1,165**
ORIZZONTE SISTEMI NAVALI S.p.A.	461,856	2,215	-276		-2,609
ETIHAD SHIP BUILDING LLC	709		-3,155		
TOTAL JOINT VENTURES	**462,565**	**2,215**	**-3,431**	**-**	**-2,609**
REM SUPPLY AS				62	
OLYMPIC GREEN ENERGY KS				67	
DOF ICEMAN AS				153	
TOTAL ASSOCIATES	**-**	**-**	**-**	**282**	**-**
QUADRIFOGLIO PALERMO S.r.l.					
TIRRENIA DI NAVIGAZIONE S.p.A.	13				
ENI S.p.A.	144		-490		
HORIZON SAS	417				
SIMEST S.p.A.			-696		
SACE S.p.A.					-1,529
SACE BT S.p.A.					-561
ANSALDO ENERGIA S.p.A.	171		-31		
POSTE ITALIANE S.p.A.			-28		
MINISTRY OF ECONOMY AND FINANCE					
TOTAL OTHER RELATED PARTIES	**745**	**-**	**- 1,245**	**-**	**- 2,090**
TOTAL RELATED PARTIES	***463,310***	***2,215***	***- 4,729***	***282***	***-5,864***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3,737,165	73,897	-2,769,087	22,952	- 85,480
% on consolidated statement of comprehensive income	12%	3%	0%	1%	7%

"C.te Borsini" patrol vessel - Cigala Fulgosi Class (2004)

INCOME STATEMENT	31.12.2012				
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
FINTECNA S.p.A.			-68		-1
CASSA DEPOSITI E PRESTITI S.p.A.					-12
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-68**	**-**	**-13**
ORIZZONTE SISTEMI NAVALI S.p.A.	318,841	2,201	-1,233		-2,408
ETIHAD SHIP BUILDING LLC	1,091		-1,091		
TOTAL JOINT VENTURES	**319,932**	**2,201**	**-2,324**	**-**	**-2,408**
TOTAL ASSOCIATES	**-**	**-**	**-**	**-**	**-**
QUADRIFOGLIO PALERMO S.r.l.					
TIRRENIA DI NAVIGAZIONE S.p.A.	8,455			485	
ENI S.p.A.	82		-649		
HORIZON SAS	323				
SIMEST S.p.A.			-696		
MINISTRY OF ECONOMY AND FINANCE					
TOTAL OTHER RELATED PARTIES	**8,860**	**-**	**-1,345**	**485**	**-**
TOTAL RELATED PARTIES	***328,792***	***2,201***	***-3,737***	***485***	***-2,421***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2,301,049	80,320	-1,733,811	28,575	-37,460
% on consolidated statement of comprehensive income	14%	3%	0%	2%	6%

INCOME STATEMENT	31.12.2011				
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
FINTECNA S.p.A.			-36		-2
CASSA DEPOSITI E PRESTITI S.p.A.					
TOTAL CONTROLLING COMPANIES	**-**	**-**	**-36**	**-**	**-2**
ORIZZONTE SISTEMI NAVALI S.p.A.	180,016	3,169	-735		-1,282
ETIHAD SHIP BUILDING LLC					
TOTAL JOINT VENTURES	**180,016**	**3,169**	**-735**	**-**	**-1,282**
TOTAL ASSOCIATES	**-**	**-**	**-**	**-**	**-**
QUADRIFOGLIO PALERMO S.r.l.					
TIRRENIA DI NAVIGAZIONE S.p.A.	39,420				
ENI S.p.A.	484		-822		
HORIZON SAS	23	505			
ITALIA LAVORO S.p.A.	75				
ISTITUTO POLIGRAFICO ZECCA DELLO STATO S.p.A.			-22		
POSTE ITALIANE S.p.A.			-34		
RAI S.p.A.			-1		
SACE S.p.A.			-85		
TOTAL OTHER RELATED PARTIES	**40,002**	**505**	**-964**	**-**	**-**
TOTAL RELATED PARTIES	***220,018***	***3,674***	***-1,735***	***-***	***-1,284***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2,316,624	62,894	-1,777,725	28,937	-27,404
% on consolidated statement of comprehensive income	9%	6%	0%	0%	5%

Among the main relationships with related parties are:

- the Group's relationship with Orizzonte Sistemi Navali S.p.A., which started following the agreement signed in 2006 with the Italian Navy relating to the first phase of the FREMM program. This program involves the construction of 10 ships for the Italian Navy, and involves the Issuer and its subsidiaries supplying Orizzonte Sistemi Navali S.p.A. with goods and services for ship design and production. The financial liabilities with Orizzonte Sistemi Navali S.p.A. at 31 December 2013, 2012 and 2011 relate to the current account that this company has with the Issuer under a centralized treasury management agreement;
- trade receivables due from Horizon SAS at 31 December 2013, 2012 and 2011 relate to an agreement for the construction of naval vessels. This agreement was signed between Horizon and the supranational agency acting on behalf of the French and Italian Navies. The construction work has been carried out by various domestic companies, including the Issuer;
- revenue and receivables from Tirrenia di navigazione S.p.A. mainly refer at 31 December 2013, 2012 and 2011 to refurbishment of the Tirrenia fleet;
- receivables at 31 December 2013, 2012 and 2011 from Quadrifoglio Palermo S.r.l. relate to the sale of a piece of land;
- financial liabilities at 31 December 2012 with Simest S.p.A. relate to the put option to purchase Fincantieri USA.

REMUNERATION OF THE BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL

(Euro/000)	Emoluments of office[1]	Non-monetary benefits	Bonuses and other incentives	Other remuneration
		2013		
Parent Company Board of Directors	695	3	180	1
Parent Company Board of Statutory Auditors	58			
General Managers and Key Management Personnel		78	992	2,640
Parent Company Independent Auditors	272			1,080
		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 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 controlling company.

BASIC AND DILUTED EARNINGS/LOSS PER SHARE

Basic earnings/loss per share, which coincide with diluted earnings/loss per share, are calculated as follows:

		31.12.2013	31.12.2012	31.12.2011
Profit/loss (+/-) attributable to owners of the Parent	Euro/000	56,717	15,343	7,666
Weighted average number of shares outstanding	Number	1,242,119,070	1,242,119,070	1,242,119,070
Basic and diluted earnings/loss (+/-) per share	**Euro**	**0.0457**	**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.

GUARANTEES

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

(Euro/000)	2013	2012	2011
Sureties	57,095		
Other guarantees	7,334	64,289	28,569
Total	**64,429**	**64,289**	**28,569**

"Sureties" at 31 December 2013 mainly refer to guarantees issued on behalf of the joint venture Orizzonte Sistemi Navali S.p.A (euro 57,095 thousand).
"Other guarantees" mainly relate to release letters issued on behalf of Horizon to the French Ministry of Defense (euro 7,334 thousand).
Other guarantees in 2012 mainly related to release letters 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). Other guarantees in 2011 related to release letters issued on behalf of Horizon to the French Ministry of Defense.

LITIGATION

The most important types of dispute are described below.

Iraq dispute

This long-running dispute involves 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.

Fincantieri was the main contractor in a contract for the supply of 11 naval vessels (3 of which were delivered) and in another for "logistical support", consisting of the provision of a floating dock, equipment for a naval base, training and other services (the dock and part of the services were delivered).

A third contract - in which Fincantieri has no interest, had as its main contractor Oto Melara, now owned by Armamenti e Aerospazio SpA, a company 100% owned by the Italian Ministry of Economy and Finance, to which the Agusta contract for the supply of helicopters was also transferred.

The current status of the dispute can be summarized as follows:

- 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 2006 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. It is recalled that the case closed with Iraq being condemned to pay USD 17.9 million, being the difference between the advances paid by the buyer and the damages sustained by suppliers; For the record, it is reported that Armamenti & Aerospazio, as the main contractor in the third contract, has lodged an appeal with the Genoa Court of Appeal, which has been counter-appealed by Iraq. This appeal is still pending. According to our defense counsel, this appeal does not concern Fincantieri, for which the Genoa Courts' favorable ruling as to the merit and amount of damages can be reasonably treated as final;
- with regard to the Iraqi appeal relevant to all 3 contracts, brought before the Court of Appeal of Paris against the arbitration ruling in the Company's favor, this process is still in progress, with the next hearing scheduled for 13 May 2014;
- the legal proceedings initiated at the end of 2011 by the Iraqi government in the Baghdad Commercial Court (a court specializing in commercial cases) - also relevant to all three contracts - to secure repayment of the advances (those concerning the Fincantieri contracts amount to USD 558 million) and other amounts, are currently suspended in anticipation of the outcome of the case pending before the Court of Appeal of Paris.

The discussions, started in 2011 to find an out-of-court settlement to the dispute, saw a major rapprochement of positions in 2013, at least as regards reaching a settlement of the dis-

puted contracts involving Fincantieri. The negotiations for a final settlement are now at an advanced stage and do not indicate, at present, any additional costs for Fincantieri.
In view of the above, the prudent approach adopted remains confirmed.

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 2013.
The action brought against Saipem has been concluded with a settlement.
The out-of-court action taken through an external lawyer to recover amounts owed by the German customer Neumann & Esser, as well as legal action against Energy Recuperator both continued during the year. The recoverability of the various debtor positions has been carefully evaluated, and, where necessary, 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 2013.

Other litigation

Other litigation includes actions: i) against government bodies for environmental expenses; ii) involving appeals against claims by social security authorities; iii) involving joint liability with insurance companies; iv) for indirect damages arising from the production process; v) involving fees due to tugboat operators; vi) for compensation claims; vii) involving provisional convictions in criminal proceedings; viii) for damages, etc.
The Group has made suitable provisions for risks and charges even for this type of litigation whenever it believes the outcome might result in an outflow of economic resources.

TAX POSITION

National tax consolidation

As from 2013 FINCANTIERI S.p.A., Fincantieri Oil & Gas S.p.A. and Isotta Fraschini Motori S.p.A. have joined the national tax consolidation of Cassa Depositi e Prestiti S.p.A. Starting in the same year, Cetena S.p.A., Seaf S.p.A. and Bacini di Palermo S.p.A are no longer participating in any tax consolidation.

Audits and Assessments

Fincantieri

At the beginning of 2014, an audit was started of tax year 2011.

Orizzonte Sistemi Navali

The tax audit of tax years 2007 and 2008 was finalized in 2013.

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, in which the rulings have confirmed the evidential requirement identified by the Court of Cassation in place of the flat-rate mechanism established by the law; ways are being considered as to how to provide such evidence for the purposes of the refund;
- the refund of "IRES on IRAP", for which the Regional Commission has upheld Fincantieri's appeal and determined the refund at the maximum amount under the new rules.

The Company's assessments in this regard allow it to rule out any costs affecting future years.

Isotta Fraschini Motori

The appeal pending in Italy's Court of Cassation against the assessment of tax year 2004 did not have any developments during 2013 and is still awaiting the date of the hearing.

"Costa Fascinosa"
Costa Crociere
(2012)
Marghera shipyard

Note 33 - cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2013	31.12.2012	31.12.2011
Profit/loss (+/-) for the year	85,118	15,463	8,881
Depreciation and amortization	88,959	59,896	65,768
Gains/losses (-/+) from disposal of property, plant and equipment	4,462	420	540
Revaluation/impairment (-/+) of intangible assets and equity investments	850	-896	-293
Increases/releases of provisions for risks and charges	32,557	16,193	26,466
Capitalized interest expense	1,993		
Interest (income)/expense on employee benefits	-943	3,632	3,276
Interest income	-10,587	-24,825	-26,254
Interest expense	64,083	15,957	12,602
Income taxes	-9,467	19,809	14,128
Non-recurring income/expenses (-/+)			
Impact of exchange rate changes on construction contracts			
Finance income and costs from derivative financial instruments			
Gross cash flows from operating activities	**257,025**	**105,649**	**105,114**
CHANGES IN WORKING CAPITAL			
- inventories	44,765	2,643	10,149
- construction contracts	-442,920	184,992	94,346
- trade receivables	-43,232	9,486	129,206
- other current assets and liabilities	6,019	100,471	8,899
- other non-current assets and liabilities	2,141	-57	710
- advances from customers	52,028	-347	-305
- trade payables	60,795	18,953	-155,371
- other current liabilities			
- other non-current liabilities			
- receivables arising from hedging instruments			
- liabilities arising from hedging instruments			
Cash flows from working capital	**-63,379**	**421,790**	**192,748**
Dividend receipts			
Interest income received	10,775	25,274	26,603
Interest expense paid	-72,465	-16,346	-10,460
Income taxes paid	-29,818	-18,454	-19,308
Utilization of provisions for risks and charges and for employee benefits	-91,355	-37,451	-39,701
NET CASH FLOWS FROM OPERATING ACTIVITIES	**-246,242**	**374,813**	**149,882**
- of which related parties	*-47,927*	*49,824*	*4,668*

Note 34 - segment information

Management has identified the following operating segments in keeping with the model it uses to manage and control the business sectors in which the Group operates: Shipbuilding, Offshore, Equipment, Systems and Services and Other Activities.

The Shipbuilding operating segment is engaged in the design and construction of ships for the cruise ships, ferries, naval defense (Italian and foreign) and mega-yachts markets, as well as in ship conversion and repair activities. Production is carried out at the Group's Italian shipyards and, in the case of vessels intended for the American market, at its U.S. shipyards. The Offshore operating segment is engaged in the design and construction of support vessels for the oil & gas exploration and production market, including the provision of services and production of electronic systems, power and automation solutions, pipe systems, electrical installations and accommodation for such support vessels. Fincantieri operates in this market primarily through the VARD Group.

The Equipment, Systems and Services operating segment is engaged in the manufacture of mechanical products and the provision of after-sales services for ships delivered.

Other activities primarily refer to the cost of activities by corporate headquarters, which are not allocated to other operating segments.

The Group evaluates the performance of its operating segments and the allocation of financial resources on the basis of revenue and EBITDA, defined as Profit for the year adjusted for the following items: (i) Income taxes, (ii) Share of profit of investments accounted for using the equity method, (iii) Income/expense from investments, (iv) Finance costs, (v) Finance income, (vi) Depreciation and amortization, (vii) costs associated with the "Extraordinary Wage Guarantee Fund", (viii) costs relating to restructuring plans, (ix) provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages; and (x) other expenses or income outside the ordinary course of business due to particularly significant non-recurring events.

"Other Activities" report the functions of corporate headquarters, whose costs are not directly allocated to the other segments.

The results of the segments at 31 December 2013, 31 December 2012 and 31 December 2011 are presented in the following pages.

	2013				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**2,394,430**	**1,320,618**	**163,090**	**-**	**3,878,138**
Intersegment elimination	-9,051		-58,025		-67,076
Revenue (*)	**2,385,379**	**1,320,618**	**105,065**	**-**	**3,811,062**
EBITDA	**155,240**	**155,300**	**13,925**	**-26,148**	**298,317**
Depreciation and amortization					-88,959
Finance income					22,952
Finance costs					-85,480
Income/(expense) from investments					-444
Share of profit of investments accounted for using the equity method					2,006
Income taxes					9,467
Extraordinary and non-recurring income and expenses					-72,741
Profit/loss (+/-) for the year	**-**	**-**	**-**	**-**	**85,118**

(*) Revenue: Sum of "Operating revenue" and "Other revenue and income" reported in the consolidated statement of comprehensive income.

Shipbuilding segment revenue includes euro 1,075,250 thousand in relation to the cruise ship market and euro 1,126,278 thousand in relation to the naval vessels market.
Finance costs include euro 7,718 thousand (gross of the tax effect of euro 2,122 thousand) in non-recurring expenses relating to the acquisition of VARD.
"Extraordinary and non-recurring income and expenses" (gross of the tax effect of euro 25,763 thousand) are analyzed in the following table:

(Euro/000)	2013
Costs associated with the "Extraordinary Wage Guarantee Fund" (1)	-14,795
Costs relating to reorganisation plans (2)	-11,069
Provisions for costs and legal expenses associated with asbestos-related lawsuits (3)	-23,877
Other non-recurring income and expenses (4)	-23,000
Extraordinary and non-recurring income and expenses	**-72,741**

(1) Entire amount included in Personnel costs.
(2) Of which euro 4 million included in "Provisions and impairment", euro 3 million in "Personnel costs" and euro 4 million in "Materials, services and other costs".
(3) Of which euro 1 million included in "Materials, services and other costs" and euro 23 million in "Provisions and impairment".
(4) Of which euro 4 million included in "Provisions and impairment" and euro 19 million in "Materials, services and other costs".

"Other non-recurring income and expenses" includes euro 13 million in costs incurred for the acquisition of VARD, while the remainder refers to the impairment loss recognized for the subsidiary Isotta Fraschini Motori S.p.A.

	2012				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**2,292,026**		**165,575**		**2,457,601**
Intersegment elimination	-12,439	-	-63,793	-	-76,232
Revenue (*)	**2,279,587**	**-**	**101,782**	**-**	**2,381,369**
EBITDA	**156,610**	**-**	**15,390**	**-24,119**	**147,881**
Depreciation and amortization					-59,896
Finance income					28,575
Finance costs					-37,460
Income/(expense) from investments					7
Share of profit of investments accounted for using the equity method					900
Income taxes					-19,809
Extraordinary and non-recurring income and expenses					-44,735
Profit/loss (+/-) for the year	-	-	-	-	**15,463**

(*) Revenue: Sum of "Operating revenue" and "Other revenue and income" reported in the consolidated statement of comprehensive income.

Shipbuilding segment revenue includes euro 1,061,938 thousand in relation to the cruise ship market and euro 1,052,189 thousand in relation to the naval vessels market.
“Extraordinary and non-recurring income and expenses” (gross of the tax effect of euro 11,767 thousand) are analyzed in the following table:

(Euro/000)	2012
Costs associated with the "Extraordinary Wage Guarantee Fund" (1)	-18,824
Costs relating to reorganisation plans (2)	-8,417
Provisions for costs and legal expenses associated with asbestos-related lawsuits (3)	-8,224
Other non-recurring income and expenses (4)	-9,270
Extraordinary and non-recurring income and expenses	**-44,735**

(1) Entire amount included in Personnel costs.
(2) Of which euro 6 million included in "Provisions and impairment" and euro 2 million in "Personnel costs".
(3) Entire amount included in "Materials, services and other costs".
(4) Entire amount included in "Provisions and impairment" (of which euro 4 million relating to allowance of finance income).

	2011				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**2,287,594**	**-**	**131,044**		**2,418,638**
Intersegment elimination	-1,055	-	-38,065		-39,120
Revenue (*)	**2,286,539**	**-**	**92,979**		**2,379,518**
EBITDA	**155,617**	**-**	**10,333**	**-25,432**	**140,518**
Depreciation and amortization					-65,768
Finance income					28,937
Finance costs					-27,404
Income/(expense) from investments					-12
Share of profit of investments accounted for using the equity method					420
Income taxes					-14,128
Extraordinary and non-recurring income and expenses					-53,682
Profit/loss (+/-) for the year	-	-	-	-	**8,881**

(*) Revenue: Sum of "Operating revenue" and "Other revenue and income" reported in the consolidated statement of comprehensive income.

Shipbuilding segment revenue includes euro 1,244,084 thousand in relation to the cruise ship market and euro 894,318 thousand in relation to the naval vessels market.
“Extraordinary and non-recurring income and expenses” (gross of the tax effect of euro 15,669 thousand) are analyzed in the following table:

(Euro/000)	2011
Costs associated with the "Extraordinary Wage Guarantee Fund" (1)	-20,016
Costs relating to reorganisation plans (2)	-19,642
Provisions for costs and legal expenses associated with asbestos-related lawsuits (3)	-3,515
Other non-recurring income and expenses (4)	-10,509
Extraordinary and non-recurring income and expenses	**-53,682**

(1) Entire amount included in Personnel costs.

(2) Entire amount included in "Provisions and impairment".

(3) Entire amount included in "Materials, services and other costs".

(4) Of which euro 7 million included in "Materials, services and other costs" and euro 3 million in "Provisions and impairment" (relating to finance income).

The following table shows a breakdown of Property, plant and equipment in Italy and other countries:

(Euro/million)	31.12.2013	31.12.2012	31.12.2011
Italy	540	488	475
Other countries	357	97	80
Total Property, plant and equipment	**897**	**585**	**555**

Capital expenditure in 2013 on Intangible assets and Property, plant and equipment amounted to euro 255 million (euro 89 million in 2012 and euro 78 million in 2011), of which euro 131 million relating to Italy (euro 64 million in 2012 and euro 55 million in 2011) and the remainder to other countries.

The following table shows a breakdown of revenue and income between Italy and other countries, according to customer country of residence:

(Euro/million)	31.12.2013		31.12.2012		31.12.2011	
	Revenue and income	%	Revenue and income	%	Revenue and income	%
Italy	907	24%	892	37%	828	35%
Other countries	2,904	76%	1,489	63%	1,552	65%
Total Revenue and income	**3,811**		**2,381**		**2,380**	

The following table shows those customers whose revenue plus change in inventories accounted for more than 10% of the Group's revenue and income in each reporting period:

(Euro/million)	31.12.2013		31.12.2012		31.12.2011	
	Revenue and income	%	Revenue and income	%	Revenue and income	%
Customer 1	869	23%	804	34%	933	39%
Customer 2	572	15%	402	17%	277	12%
Total Revenue and income	**3,811**		**2,381**		**2,380**	

Note 35 - Vard Group acquisition

DESCRIPTION OF THE TRANSACTION

On 23 January 2013 (the "**Acquisition Date**"), the Company completed - through its subsidiary Fincantieri Oil & Gas S.p.A. – the acquisition from STX Europe of 50.75% of STX OSV Holdings Limited (now renamed VARD Holdings Limited, hereinafter "VARD" and together with its subsidiaries the "**VARD Group**"). VARD is a company that is listed on the Singapore Stock Exchange and is world leader in the construction of offshore support vessels for the oil and gas exploration and production industry.

The acquisition was made at a price per share of SGD 1.22, equating to total consideration of some euro 455 million (around SGD 730 million), paid in a lump sum on the Acquisition Date.

The above purchase triggered the obligation, under the rules applying to companies listed on the Singapore Stock Exchange, for the Group to make a public tender offer (the "**Offer**") for all of the remaining shares at a price of SGD 1.22 per share.

In compliance with these rules, the Group filed the offer document with the Singapore Stock Exchange on 13 February 2013. At the Offer's closing date of 13 March 2013, its acceptance rate was equal to 4.88%, taking the Group's total shareholding to 55.633% of VARD's current share capital.

The total consideration for the acquisition, including the shares acquired through the Offer, therefore came to approximately euro 500 million (approximately SGD 800 million). It should be noted that there are no price adjustment mechanisms.

The acquisition was entirely financed with own resources. For the sole purpose of securing the cash needed to launch the Offer, the Group obtained credit lines that would have been used if the Offer's acceptance rate had exceeded certain levels. These levels were not exceeded and so the credit lines in question were not used.

ACCOUNTING FOR THE ACQUISITION

The acquisition of the VARD Group qualifies as a business combination, which must be accounted for in accordance with IFRS 3 - *Business Combinations*. Therefore, the VARD Group's identifiable assets acquired and identifiable liabilities assumed have been recognized at their fair values on the Acquisition Date, except for certain pre-acquisition contingent liabilities whose amount could not be determined, and deferred taxes and certain liabilities for employee benefits, which were recognized in accordance with the applicable accounting standards, as required by IFRS 3. The process of measuring the identifiable assets acquired and identifiable liabilities assumed was completed during the second half of 2013, meaning that the amounts recorded in the present financial statements can be considered as final.

The following table shows the total consideration, the fair value of the assets acquired and the liabilities assumed and the goodwill arising from the acquisition.

(Euro/000)	
Consideration for the acquisition of 50.75% of the VARD Group	454,692
Consideration for the acquisition of shares under the Offer	43,285
(a) Total consideration	**497,977**
Fair value of assets acquired and liabilities assumed	
Intangible assets	213,550
Property, plant and equipment	186,962
Investments	58,096
Other non-current assets	13,686
Inventories	51,288
Cash and cash equivalents	329,270
Construction contracts net of progress billings	454,303
Trade receivables and other current assets	276,302
Other non-current liabilities	(110,486)
Trade payables and other current liabilities	(438,709)
Deferred tax assets/liabilities	(34,287)
Non-current financial liabilities	(73,660)
Current financial liabilities	(457,277)
Total	**469,038**
Non-controlling interests	(8,857)
(b) Total net assets acquired	**460,181**
(c) Share of net assets = (b) * 55.633%	256,012
Goodwill = (a-c)	**241,965**

The purchase price allocation process has involved:

- identification and measurement of intangible assets with finite useful lives, primarily customer relationships and order portfolio, for a total of euro 212,452 thousand;
- recognition of a provision for expected losses on construction contracts in progress, for euro 95,543 thousand;
- calculation of the tax effects of the above adjustments;
- recognition of the unallocated amount of purchase price as goodwill, amounting to euro 241,965 thousand.

The value of the order portfolio and customer relationships has been estimated using the "Income Approach", i.e. on the basis of income, net of tax, from future inflows relating to orders not yet fulfilled (or only partly fulfilled) and from customer relationships existing at the acquisition date.

The provision for expected losses on construction contracts in progress relates to the operations in Brazil and specifically to certain contracts whose costs could be higher than those originally estimated.

Acquisition-related costs came to a total of euro 21 million, of which euro 1 million was expensed in the income statement for the year ended 31 December 2012 and euro 20 million in the year ended 31 December 2013.
If the VARD Group had been consolidated from 1 January 2013, it is estimated that it would have added euro 90 million to the Group's consolidated revenue and euro 6 million to its profit for the year.

Note 36 - events after 31 december 2013

On 9 January 2014, Fincantieri signed with the Provincial Secretariats of all the trade unions and the individual shipyard trade union representatives, an agreement for the reorganization of the Palermo yard, which follows the one signed on 21 December 2011 with the government and national unions and which establishes important new practices to increase the flexibility of work, essential for achieving the improvements in efficiency and productivity demanded by the altered international environment.
On 15 January 2014, VARD signed a contract with an international customer for the construction of a Diving Support and Construction Vessel.
On 21 January 2014, Fincantieri announced the signing of a contract for the construction of a super-luxury cruise ship for Seabourn, a Carnival Corporation brand. The contract follows last October's letter of intent between the two companies.
On 4 February 2014, a plate-cutting ceremony was held at the Marghera shipyard for the new cruise ship being built by Fincantieri for Holland America Line, a Carnival Corporation brand.
On 7 February 2014, VARD signed a contract with Bourbon for the design and construction of an arctic Anchor Handling Tug Supply vessel (AHTS).
In February 2014, Fincantieri acquired 50% of the share capital of Seastema S.p.A. from ABB S.p.A. As a result, Fincantieri now controls 100% of the shares in this company.
On 11 February 2014, VARD signed a contract with Carlotta Offshore Ltd for the construction of a Platform Support Vessel (PSV).
On 14 February 2014, the "Britannia", the new flagship of P&O Cruises, was launched at the Monfalcone shipyard. The ship is due to be delivered at the start of 2015.
The month of February 2014 also saw official delivery to the Italian Navy of the "Carlo Margottini", the third multipurpose frigate under the FREMM program.
During the month of March, the U.S. Navy confirmed the placing of an order with Fincantieri, through its American subsidiary FMG, for the construction of two more LCSs.
On 11 March 2014, VARD announced the signing of a letter of intent for the construction of an Offshore Subsea Construction Vessel (OSCV) for Solstad Offshore.
On 12 March 2014, VARD announced the signing of a contract for the construction of two Offshore Support Vessels (OSV).
On 14 March 2014, VARD announced the signing of a contract for the construction of two Platform Supply Vessels (PSV) for Mermaid Marine Australia Ltd.
On 17 March 2014, VARD Marine Inc. was incorporated in Canada, with all of its share capital owned by VARD Holdings Ltd.

Companies included in the scope of consolidation

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest 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 S.p.A	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 S.p.A. Seaf S.p.A.	86.10
FINCANTIERI OIL & GAS S.p.A. Holding company	Trieste (Italy)	Euro	21,000,000.00	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI HOLDING B.V. Holding company for foreign investments	Amsterdam (Netherlands)	Euro	9,529,384.54	100.00	Fincantieri S.p.A.	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 B.V.	100.00
FMSNA YK	Sasebo SHI – Nagasaky-ken (Japan)	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 S.p.A.	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 S.p.A.	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 S.p.A.	100.00
DELFI S.r.l. Technical and logistics engineering	Follo (La Spezia) (Italy)	Euro	400,000.00	51.00	Fincantieri S.p.A.	51.00
SEASTEMA S.p.A. Design and development of integrated automation systems	Genoa (Italy)	Euro	300,000,00	50.00	Fincantieri S.p.A.	50.00
FINCANTIERI USA Inc. Holding company	Delaware Corporation based in Wilmington (DE - USA)	USD	1,029.75	86.02	Fincantieri S.p.A.	100.00
FINCANTIERI MARINE GROUP HOLDINGS Inc. Holding company	Delaware Corporation based in Green Bay (WI - USA)	USD	1,027.97	87.44	Fincantieri USA Inc.	87.44

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest held		% consolidated by Group
FINCANTIERI MARINE GROUP LLC. Ship building and repair	Nevada LLC based in Marinette (WI – USA)	USD	1,000,00	100.00	Fincantieri Marine Group Holdings Inc.	87.44
MARINETTE MARINE CORPORATION Ship building and repair	Wisconsin (WI – USA)	USD	400,000,00	100.00	Fincantieri Marine Group LLC.	87.44
ACE MARINE LLC. Building of small aluminum ships	Wisconsin (WI – USA)	USD	1,000,00	100.00	Fincantieri Marine Group LLC.	87.44
FINCANTIERI DO BRASIL PARTICIPAÇÕES SA Holding company	Brazil	BRL	600,000,00	80.00 20.00	Fincantieri S.p.A. Fincantieri Holding B.V.	100.00
FINCANTIERI INDIA Pte. Ltd.	India	INR	10,500,000,00	99.00 1.00	Fincantieri Holding B.V. Fincantieri S.p.A.	100.00
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE AFTER CHANGE IN SCOPE OF CONSOLIDATION						
VARD HOLDINGS Ltd. Holding company	Singapore	SGD	932,200,000.00	55.63	Fincantieri Oil & Gas S.p.A.	55.63
VARD GROUP AS Shipbuilding	Norway	NOK	100,000.00	100.00	VARD Holdings Ltd.	55.63
VARD ELECTRO AS Electrical / automation installation	Norway	NOK	1,000,000.00	100.00	VARD Group AS	55.63
VARD RO HOLDING S.r.l. Holding company	Romania	NOK	148,129,000.00	100.00	VARD Group AS	55.63
VARD NITERÓI SA Shipbuilding	Brazil	USD	176,782,000.00	99.99 0.01	VARD Group AS VARD Electro Brazil (Instalaçoes Eletricas) Ltda.	55.63
VARD PROMAR SA Shipbuilding	Brazil	USD	135,031,000.00	50.50	VARD Group AS	28.09
ESTALEIRO QUISSAMÃ Ltda. Project development	Brazil	NOK	1,101,000.00	50.50	VARD Group AS	28.09
VARD SINGAPORE Pte. Ltd. Sales and holding company	Singapore	USD	6,000,000.00	100.00	VARD Group AS	55.63
VARD DESIGN AS Design and engineering	Norway	NOK	4,000,000.00	100.00	VARD Group AS	55.63
VARD ACCOMMODATION AS Accommodation installation	Norway	NOK	500,000.00	100.00	VARD Group AS	55.63
VARD PIPING AS Pipe installation	Norway	NOK	100,000.00	100.00	VARD Group AS	55.63
VARD BREVIK HOLDING AS Holding company	Norway	NOK	5,810,000.00	100.00	VARD Group AS	55.63
SEAONICS AS Offshore handling systems	Norway	NOK	20,000,000.00	51.00	VARD Group AS	28.37
SEAONICS POLSKA SP. Z O.O. Engineering services	Poland	NOK	228,000.00	100.00	Seaonics AS	28.37

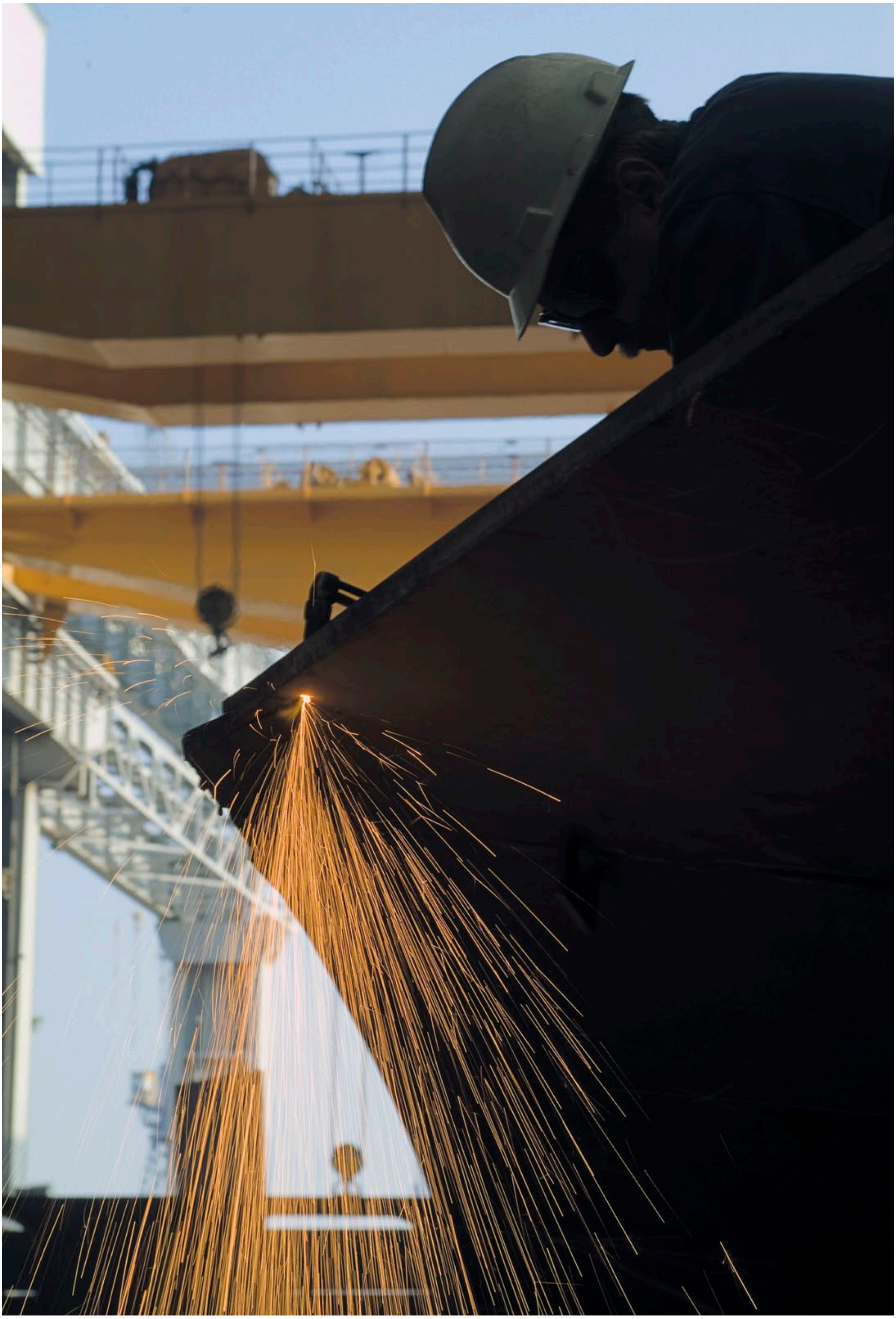
COMPANY NAME Principal activity	**Registered office**		**Share capital**	**(%) interest held**		**% consolidated by Group**
AAKRE EIGENDOM AS Real estate	Norway	NOK	100,000.00	100.00	VARD Group AS	55.63
VARD PIPING S.r.l. Pipe installation	Romania	Euro	6,109,000.00	100.00	VARD Piping AS	55.63
VARD DESIGN LIBURNA Ltd Design and engineering	Croatia	NOK	20,000.00	51.00	VARD Design AS	28.37
VARD ELECTRO TULCLEA S.r.l. Electrical installation	Romania	Euro	8,968,000.00	99.96	VARD Electro AS	55.61
VARD ELECTRO BRAZIL (INSTALAÇÕES ELETRICAS) LTDA. Electrical installation	Brazil	NOK	9,225,000.00	99.00 1.00	VARD Electro AS VARD Group AS	55.63
VARD ELECTRO BRAILA S.r.l. Electrical installation	Romania	NOK	82,000.00	100.00	VARD Electro AS	55.63
VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) Pte. Ltd. Electrical installation	India	INR	810,000.00	99.00 1.00	VARD Electro AS VARD Tulcea SA	55.63
BREVIK PHILADELPHIA In liquidation	USA			100.00	VARD Electro AS	55.63
VARD TULCEA SA Shipbuilding	Romania	NOK	577,085,000.00	99.44	VARD RO Holding S.r.l.	55.32
VARD BRAILA SA Shipbuilding	Romania	NOK	586,319,000.00	94.12 5.88	VARD RO Holding S.r.l. VARD Group AS	55.63
VARD ENGINEERING CONSTANTA S.r.l. Engineering	Romania	NOK	2,560,000.00	70.00 30.00	VARD RO Holding S.r.l. VARD Braila S.A.	55.63
VARD VUNG TAU Ltd. Shipbuilding	Vietnam	USD	8,000,000.00	100.00	VARD Singapore Pte. Ltd.	55.63
VARD ACCOMMODATION TULCEA S.r.l. Accommodation installation	Romania	Euro	793,000.00	99.77 0.23	VARD Accommodation AS VARD Electro Tulcea S.r.l.	55.63
VARD GRENLAND INDUSTRI AS Onshore industrial services and installation	Norway	NOK	20,000,000.00	100.00	VARD Brevik Holding AS	55.63
VARD BREVIK SUPPORT AS Dormant	Norway	NOK	100,000.00	100.00	VARD Brevik Holding AS	55.63
VARD ENGINEERING BREVIK AS Design and engineering	Norway	NOK	105,000.00	70.00	VARD Brevik Holding AS	38.94
VARD OFFSHORE BREVIK AS Offshore industrial services and installation	Norway	NOK	100,000.00	100.00	VARD Brevik Holding AS	55.63
RONOR AS Dormant	Norway	NOK	1,800,000.00	100.00	VARD Brevik Holding AS	55.63
VARD SHIP REPAIR BRAILA SA Ship repair	Norway	RON	12,879,100.00	68.58 31.42	VARD Braila SA VARD Brevik Holding AS	55.63

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest held		% consolidated by Group
AJA SHIP DESIGN SA In liquidation	Romania	RON	1,809,000,00	60.00	VARD Braila SA	33.38
BREVIK ELEKTRO AS Onshore electrical installation	Norway	NOK	100,000,00	100.00	VARD Grenland Industri AS	55.63
JOHANGARDEN AS Real estate	Norway	NOK	1,000,000,00	100.00	VARD Electro AS	55.63
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 S.p.A.	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 S.p.A.	35.00
ASSOCIATES CONSOLIDATED USING THE EQUITY METHOD						
CASTOR DRILLING SOLUTION AS Offshore drilling technology	Norway	NOK	196,082.00	34.00	Seaonics AS	9.65
OLYMPIC SUBSEA KS Shipping	Norway	NOK	84,000,000.00	35.00	VARD Group AS	19.47
BRIDGE EIENDOM AS Real estate	Norway	NOK	3,100,000.00	50.00	VARD Brevik Holding AS	27.82
BREVIK TECHNOLOGY AS Holding of technology licenses and patents	Norway	NOK	45,000.00	34.00	VARD Brevik Holding AS	18.91
MOKSTER SUPPLY AS Shipping	Norway	NOK	13,295,000.00	40.00	VARD Group AS	22.25
MOKSTER SUPPLY KS Shipping	Norway	NOK	120,000,000.00	36.00	VARD Group AS	20.03
ISLAND OFFSHORE LNG AS Shipping	Norway	NOK	6,500,000.00	30.00	VARD Group AS	16.69
ISLAND OFFSHORE LNG KS Shipping	Norway	NOK	310,400,000.00	27.00	VARD Group AS	15.02
REM SUPPLY AS Shipping	Norway	NOK	265,000,000.00	26.66	VARD Group AS	14.83
OLYMPIC GREEN ENERGY KS Shipping	Norway	NOK	125,000,000.00	30.00	VARD Group AS	16.69
DOF ICEMAN AS Shipping	Norway	NOK	23,600,000.00	50.00	VARD Group AS	27.82
TAKLIFT AS Floating cranes	Norway	NOK	2,450,000.00	25.47	VARD Brevik Holding AS	14.17
DAMECO AS Maintenance services	Norway	NOK	606,000.00	34.00	VARD Offshore Brevik AS	18.91

Key figures from the financial statements of Fintecna S.p.A.

The key figures for the controlling company Fintecna S.p.A., presented in the condensed format required by article 2497-bis of the Italian Civil Code, have been taken from its financial statements for the year ended 31 December 2012. 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, published in the format and manner required by law and accompanied by an independent auditors' report.

(Euro/000)	
STATEMENT OF FINANCIAL POSITION	**31.12.2012**
ASSETS	
Fixed assets	3,078,422
Current assets	761,040
Accrued income and prepayments	19,022
TOTAL ASSETS	**3,858,483**
LIABILITIES	
Equity	2,503,014
Provisions for risks and charges	1,246,021
Employee severance benefit	4,431
Payables	104,472
Accrued expenses and deferred income	545
TOTAL EQUITY AND LIABILITIES	**3,858,483**
MEMORANDUM ACCOUNTS	**6,768,104**
INCOME STATEMENT	
Value of production	46,083
Cost of production	-50,395
Finance income and costs	112,996
Adjustments to financial assets	8,347
Extraordinary income and expenses	73,759
PROFIT/LOSS BEFORE TAX (+/-)	**190,790**
Income taxes	-9,425
PROFIT/LOSS (+/-) FOR THE YEAR	**181,365**



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

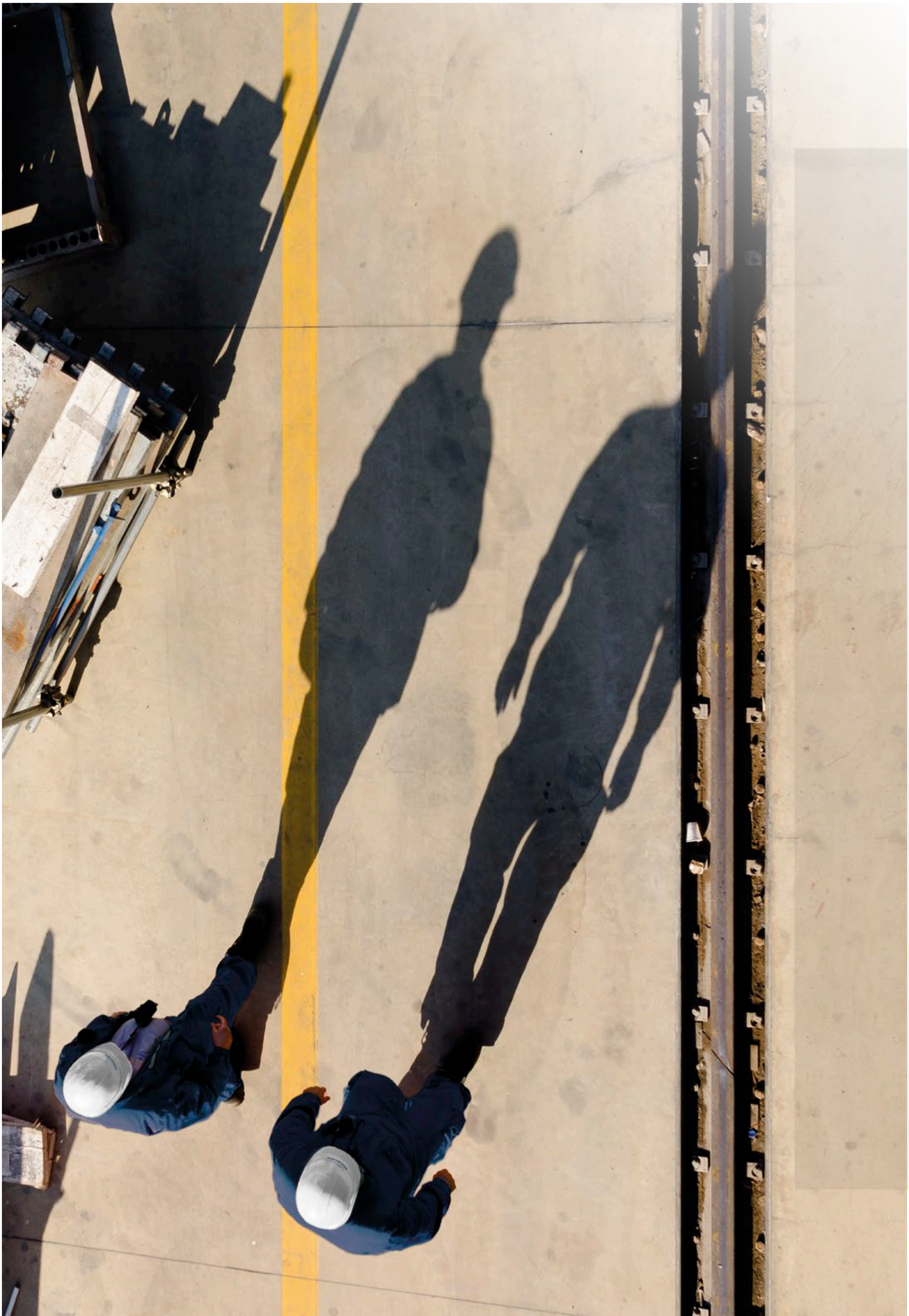
Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

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 on the consolidated financial statements at 31 december 2013

To the Shareholders,

We have examined the Fincantieri Group's consolidated financial statements at 31 December 2013, 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 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 investee companies 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 as at and for the year ended 31 December 2013.
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, 19 March 2014

the board of statutory auditors

management representation on the consolidated financial statements

MANAGEMENT REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS, PAR. 5 OF ITALIAN LEGISLATIVE DECREE 58/1998 *(ITALY'S CONSOLIDATED LAW ON FINANCE)*

1. The undersigned Giuseppe Bono, in his capacity as Chief Executive Officer, and Carlo Gainelli, as Manager Responsible for Preparing Financial Reports of FINCANTIERI S.p.A. ("Fincantieri"), with reference to the requirements of art. 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree 58 dated 24 February 1998, hereby represent:
   - the suitability in relation to the business's organization and,
   - the effective application,

   of the administrative and accounting processes for the preparation of the consolidated financial statements, during financial year 2013.
2. The adequacy of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2013 has been evaluated on the basis of a procedure established by Fincantieri in compliance with the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, which is the generally accepted standard model internationally.

   Following the acquisition of the VARD Group during the year, a program was defined to standardize the framework model for identifying reporting risks and for testing the controls that mitigate these risks. This program will enable the VARD Group to be included in the audit plan developed according to Fincantieri's established model of control.
3. The undersigned also represent that:

   3.1 the consolidated financial statements:

   a) 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;

   b) correspond to the underlying accounting records and books of account;

   c) are able to give a true and fair view of the assets, liabilities, financial position and results of operations of the issuer and the group of companies included in the consolidation.

   3.2 the report on operations includes a fair review of operating performance and results as well as the situation of the issuer and the group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

18 March 2014

chief executive officer

Giuseppe Bono

manager responsible for preparing financial reports

Carlo Gainelli

pwc

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of
Fincantieri SpA

1 We have audited the consolidated financial statements of Fincantieri SpA and its subsidiaries ("Fincantieri Group") as of 31 December 2013 which comprise the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes to the consolidated financial statements. The directors of Fincantieri 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 and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria 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 presented for comparative purposes the data for the years ended 31 December 2012 and 31 December 2011. As explained in the notes, the directors have restated certain comparative figures for the previous years, compared to the data previously presented and audited by us, on which we issued the audit reports respectively on 21 March 2013 and 23 February 2012. The methods of restatement of comparative information and disclosures presented in the notes, have been examined by us for the purpose of expressing an opinion on the consolidated financial statements at 31 December 2013.

3 In our opinion, the consolidated financial statements of the Fincantieri Group as of 31 December 2013 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 SpA are responsible for the preparation of a report on operations in compliance with the applicable laws and regulations. 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 the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations is consistent with the financial statements of Fincantieri SpA as of 31 December 2013.

Brescia, 21 March 2014

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

PricewaterhouseCoopers SpA

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corporate boards
following the resolutions of the shareholders' meeting

Board of directors

(2013-2015)

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

Remuneration committee

Chairman	Anna MOLINOTTI
	Andrea MANGONI
	Giovanni MASINI

Board of statutory auditors (*)

(2011-2013)

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

Manager responsible for preparing financial reports

Carlo GAINELLI

Indipendent auditors

(2013-2021)

PricewaterhouseCoopers S.p.A.

(*) Board's term in office has expired pending renewal by the Shareholders in General Meeting.

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VAT No. 00629440322
Company subject to direction and coordination by Fintecna S.p.A.

graphic design & photocomposition
SINTESI/HUB Trieste


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