fincantieri annual report 2014

FINCANTIERI
The sea ahead

fincantieri
_annual report 2014

FINCANTIERI
The sea ahead

Vincenzo Petrone

Chairman of Fincantieri

To our Shareholders,

The financial report being submitted for your approval is the first after the stock listing last July. It has been an eventful year and Fincantieri has responded consistently and promptly to the complex environment, proving to be a dynamic and proactive operator, an example of Made in Italy in the world, capable of holding its position as leader in high-complexity ships.
With respect to the frame of reference, the macroeconomic indicators have not shown significant signs of improving on previous years; on the contrary, the geopolitical crises in Ukraine and the Middle East, intensifying from the second half of the year, have increased the level of economic uncertainty.
Global GDP grew by 2.6%, compared with 2.5% the year before, and according to the latest World Bank estimates, there will be a steady but slow improvement in the next two years, with GDP expanding by 3% in the current year and by 3.2%-3.3% in the period 2016-2017[1].
Given this trend, maritime traffic, measured in tonnage, should increase by 3.5%-4% in 2015, which is slightly better than the +3.4% per annum recorded since the onset of the crisis in 2008, but still well below the annual growth recorded in the period 2002-2008 (+5.9%)[2].
Despite the high number of ships scrapped in recent years, the world cargo fleet has grown by 50% since 2008 while demand for sea trade has risen by only 23%, ensuring utilization of 83% of existing vessels and depressing the level of freight rates[3]. This explains the slowdown in investment in new ships.
During 2014, the demand for merchant ships declined by 15% on the previous year to around 47 million in compensated gross tonnage. Global shipyard utilization was estimated at 65% and yet, for the second consecutive year, the newbuilding price index increased, by 3.9% on the previous year[4].

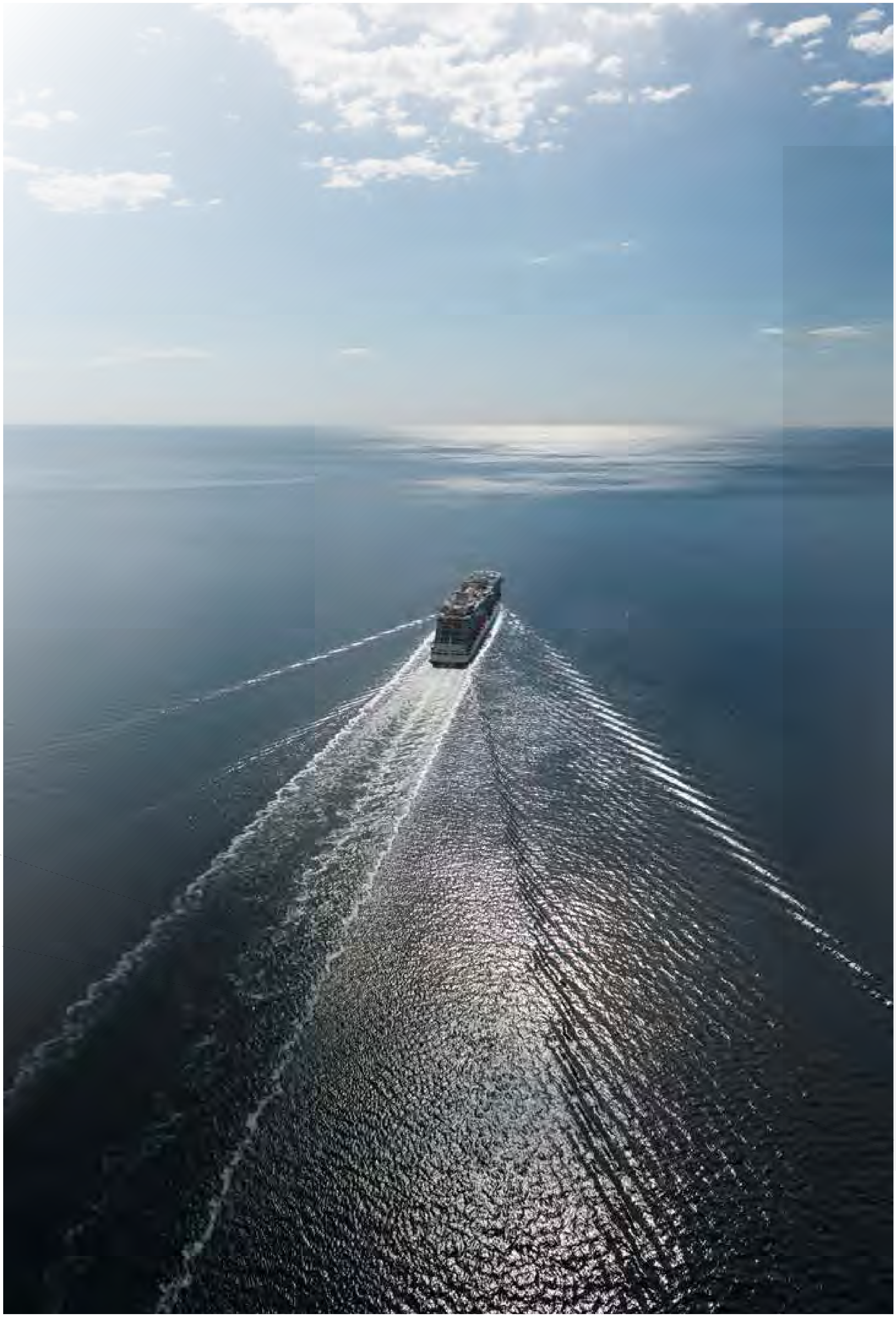
1. Worldbank, January 2015
2. Danmarks Skibskredit A/S: Shipping Market Review - November 2014
3. Clarkson: World Shipbuilding Challenge 2014 – "Survive and Change" Clarksea Earnings Index: since the 2008 market collapse, freight earnings have averaged only $12,145 per day, compared with $27,178 per day in the 6 years before 2008.
4. Clarkson Newbuilding Price Index, World Shipyard Monitor - January 2015

In fact, this trend is explained by the failure of many yards, located primarily in the Far East, to attract orders because they are uncompetitive and therefore destined to exit the market; however, the much more selective market than in the past rewards shipbuilders like Fincantieri, able to offer quality and technology and position themselves in segments enjoying strong demand.
In fact, orders for cruise ships and LNG carriers almost doubled compared with 2013, while offshore vessels started to see a gradual slowdown in investment in new build from the second half of the year, also in response to the drop in oil prices. Nevertheless, the support vessels sector, particularly platform supply vessels (PSV) and anchor handlers (AHTS), closed with the year with a comparable volume of orders to the previous year. However, orders for semisubs and drillships reported a sharp reduction.
Once again in 2014 most of the orders for naval vessels were in captive markets, meaning programs awarded by the various national navies to domestic shipbuilders, while the non-captive part of the market saw growing demand for on-site construction and technology transfer.
As a result, competition in foreign markets has remained high and saturation of production capacity has largely depended on demand by domestic navies.
Accordingly, one of the priority commitments for Fincantieri has been to take forward the work with the Italian Navy on defining the configuration of all vessels in the fleet renewal program, in prelude to the imminent formalization of the related contracts.
In the export market, Fincantieri delivered a landing platform dock to the Algerian Navy and completed a contract for the supply of integrated logistics support services for the second Saettia Stealth ship built for the UAE Navy.
Fincantieri is present in the Middle East with the joint venture Etihad Ship Building which could become an important logistics hub within a region with a growing defense budget, expected to reach euro 132 billion in 2015; the United Arab Emirates, with a budget of about euro 15 billion, is the region's second top spender after Saudi Arabia[5]. On the American market, the subsidiary Fincantieri Marine Group has benefited from the order for two more Littoral Combat Ships that will be built at the Marinette yard. The LCS program has been confirmed in its entirety, resulting in the ultimate construction of 52 ships, of which the last 20, due to be ordered between 2019 and 2025, will have a modified design compared with those currently under construction.
Fincantieri has demonstrated its ability to meet and overcome the challenges presented by globalization and its emphasis on competitiveness, but now new ones are emerging in connection with the highly variable economic and industry environment, making it essential to be able to adapt to change fast and to act with the necessary strategic foresight.

5. IHS Jane's: "Global Defence Budgets Annual Report 2014", December 2014

The Fincantieri Group is now one of the world's top players in the shipbuilding industry, the largest producer by revenue in the Western world (meaning Europe and North America), and above all one of the most diversified operators in high value-added market segments.
The greatness of the Group is demonstrated by the results achieved to date and especially by the quality of its management, skilled workforce and technological capital at its disposal, allowing it to face the challenges that the future holds with determination and intelligence.

Vincenzo Petrone
Chairman of Fincantieri



Giuseppe Bono

Chief Executive Officer of Fincantieri

To our Shareholders,

The year 2014 has been a turning point for your Company, full of events and rewards.
Above all, there was the stock listing in July, with Fincantieri one of the few large industrial concerns to go public in 2014 in Europe: the confidence you have placed in us has been the best recognition for the growth and diversification strategy pursued in recent years, allowing us to respond to the competition and to meet the challenges of globalization and different situations on the various markets.
The listing raised euro 351 million in capital, thanks to which Fincantieri can count on new funds to support growth and create value.
Despite the uncertainty permeating the geopolitical and macroeconomic scenario, the Group has confirmed its earnings guidance and secured a substantial volume of orders.
2014 was a particularly good year for cruise ships: orders were placed for sixteen ships around the world, of which eight with Fincantieri.
Thanks to a large and diverse product portfolio, Fincantieri has been able to win orders for very different types of ships, designed to serve the various sectors of the tourist industry, from the contemporary mass cruise segment to the luxury end of the market, and to attract new customers, particularly MSC Cruises and the Seabourn brand, part of the Carnival group.
On the competitive front, the strengthening of Fincantieri's biggest cruise ship competitor after its acquisition of STX Finland, will require it to make significant additional efforts to increase productivity and efficiency to successfully defend its position.

In the naval vessels sphere, work continued with the Italian Navy to decide the configuration of all vessels in the fleet renewal program while, on the American market, the subsidiary Fincantieri Marine Group was awarded an order for two more LCS and the U.S. Department of Defense reaffirmed its resolve to complete this program in its entirety, even if the last 20 ships (SSC - Small Surface Combatant ships) will require an upgrade of the current project.
Demand by the offshore industry reported a positive trend in the first half of the year, followed by a rapid slowdown due to the oil price decline and consequently negative impact on spending decisions regarding Oil&Gas Exploration&Production, leading to an extremely competitive market environment.
Given these trends in demand, Fincantieri won a considerable euro 5,639 million in new orders during the year, helping take the order backlog to euro 9,814 million at 31 December 2014 (+21.6% on the previous year), representing two years of work based on 2014 revenue.
At the same time, revenue climbed to euro 4,399 million, reporting an increase of euro 588 million (+15.4%) on 2013 mainly due to higher cruise and offshore volumes, which more than offset the decline in naval volumes following the steadily diminishing contribution of existing contracts, pending the start of new programs under Italy's latest Naval Defense Act.
In particular, all the Italian yards reported a recovery in utilization, with nine cruise ships currently under construction, compared with four at the end of 2013.
The Group's export revenue accounted for 82% of the total in 2014, up from 76% in 2013.
Despite some problems in the subsidiary VARD involving its Brazilian operations and the revision of estimates for certain projects in its European order book, the Group's EBITDA came to euro 297 million (euro 298 million in 2013), representing a margin on revenue of 6.8% versus 7.8% in 2013. The reduction in offshore profitability was only partially offset by the improvement by the Shipbuilding and Equipment, Systems&Services segments.
The year closed with a profit of euro 55 million (euro 85 million in 2013), with a margin on revenue of 1.3% (2.2% in 2013). The contraction mainly reflects the higher tax burden for the year.
Net financial position was a positive euro 44 million at 31 December 2014, an improvement of euro 199 million from 31 December 2013.
In line with the announcement at the time of listing, no dividend is being proposed.
The strategy of business diversification adopted by Fincantieri in recent years has proven effective in dealing with the cyclical nature of the markets and the challenges of globalization.
In 2014, with the intent of consolidating its existing position and laying the foundations for fresh development, Fincantieri finalized a series of cooperation agreements with major companies active in the various business segments in which it operates.

In particular, in the cruise business, it has signed two Memoranda of Understanding with Carnival and China CSSC Holdings Limited respectively for the development of the Chinese market; this could mark the start of a trilateral partnership to build the first ever cruise ships made in China, targeting a local clientele whose numbers could reach 4.5 million in just a few years, making it the second largest cruise market after the U.S. one.

The intent is to seize opportunities in a fast-growing region, where there is a clear government desire to support cruise business expansion.

Fincantieri would work with CSSC to develop China's cruise shipbuilding capability, by providing specialized services and components, while Carnival would work closely with CSSC and Fincantieri, using its experience to create the vision, definition, and specifications for the China-built cruise ships, to help run the ships themselves, through the potential formation of a local cruise line, and to take part in the development of ports, supply chain and logistics.

In the naval business, Fincantieri has signed two agreements, with Finmeccanica and Cantiere Navale Vittoria respectively, both aimed at boosting export market competitiveness by leveraging Italy's sectors of technical excellence. The fragmentation of the naval sector in Europe is evident, as is the resulting difficulty of continuously fostering the technological and product development required by the defense sector. The achievement of greater critical mass, through agreements and partnerships, is therefore an important goal.

Lastly, in the offshore business, Fincantieri and Technip, a world leading provider of project management, engineering and construction services for the energy industry, have decided to work on the joint development of new generation vessels for offshore oil and gas production, such as FPU (Floating Production Units) and FRSU (Floating Regasification&Storage Units). These agreements with top referenced partners lay the foundation for the Group's continued development and testify to Fincantieri's ability to act as a global player, capable of playing an active role as an aggregator in the ongoing process of industry consolidation.

Fincantieri is also promoting a number of initiatives aimed at securing direct control over what it considers higher value-added activities.

One such initiative has been the formation of the company Marine Interiors, which is leasing the "Santarossa Contract" business, with an option to buy it. Through this operation, Fincantieri is in-sourcing cabin design and construction with the aim of reducing supply costs at the same time.

Early in 2015, Fincantieri SI was formed as a specialist company in the design, manufacture and supply of integrated innovative systems in the field of electric, electronic and electromechanical industrial solutions.

The aim, in this case, is to strengthen its presence in the electrical and electronic components sector, a highly strategic business for ships of the future, meaning "smart vessels" that incorporate solutions to govern and control all the ship's vital functions, ensuring optimal performance in terms of energy efficiency, operations, comfort and safety.
The economic and financial results, the clarity of its strategic direction and the operational initiatives undertaken confirm that Fincantieri is able to successfully meet the challenges of an international scenario and in turn operate as an international player.
The results achieved to date and those we intend to pursue cannot ignore the combined commitment of the Group's management and workforce throughout the world, to whom we express our sincere thanks.

Giuseppe Bono

Chief Executive Officer of Fincantieri

parent company directors and officers

Board of Directors

(2013-2015)

Vincenzo Petrone (Chairman)
Giuseppe Bono (Chief Executive Officer)
Simone Anichini (*)
Massimiliano Cesare (*)
Andrea Mangoni
Anna Molinotti
Leone Pattofatto (**)
Paola Santarelli (*)
Paolo Scudieri (*)
Maurizio Castaldo (Secretary)

Board of Statutory Auditors

(2014-2016)

Gianluca Ferrero (Chairman)
Alessandro Michelotti (Standing member)
Fioranna Vittoria Negri (Standing member)
Claudia Mezzabotta (Alternate member)
Flavia Daunia Minutillo (Alternate member)

Manager responsible for preparing financial reports

Carlo Gainelli

Independent Auditors

(2013-2021) (***)

PricewaterhouseCoopers S.p.A.

Oversight Board (Leg. Decree 231/01)

(2015-2017)

Guido Zanardi (Chairman)
Stefano Dentilli (Member)
Giorgio Pani (Member)

(*) Appointed with effect from 3 July 2014.

(**) Appointed by the Board of Directors on 26 May 2014 in place of Giovanni Masini, who resigned, and confirmed by the General Meeting of Shareholders on 28 May 2014.

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

Information regarding the composition and functions of the Board Committees (the Internal Control and Risk Committee, which is also serving on an interim basis as the committee responsible for related party transactions, the Compensation Committee and the Nomination Committee) is provided in the Corporate Governance section of the Fincantieri website at www.fincantieri.it.

Overview

The structure of the Fincantieri Group and overview of the companies included in its consolidation will now be presented.

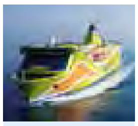
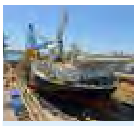
SEGMENTS

BUSINESS AREAS

PRODUCT PORTFOLIO

COMPANIES AND OPERATING UNITS

SHIPBUILDING

Cruise ships	Ferries	Ship repairs and conversions	Naval Vessels	Mega Yachts
Luxury/niche	Fast Ferries	Repair	Aircraft carrier	Luxury yachts →60m
Upper premium	Cruise ferries	Refitting	Submarines	
Premium	Ro-Pax	Conversion	Destroyers	
Contemporary		Refurbishment	Frigates	
			Corvettes	
			Patrol vessels	
			Amphibious ships	
			Logistic support	
			Special vessels	
			Barges	

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

Fincantieri Holding BV

Marine Interiors S.p.A.

OFFSHORE

Offshore

Offshore Support Vessels

Construction vessels

Drilling vessels

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.

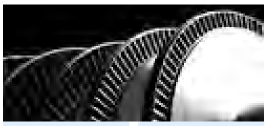
Vard Piping A.S.

Vard Accommodation A.S.

Vard Braila S.A.

Vard Marine Inc.

EQUIPMENT, SYSTEMS AND SERVICES



Equipment and systems

Steam turbines

Stabilization, propulsion, dynamic positioning and power generation systems

Automation systems

After-sales

After-sales services
- Integrated logistic support
- In-service of warranty service

Product lifecycle management

Training and assistance

Fincantieri S.p.A.
- Riva Trigoso

Seastema S.p.A.

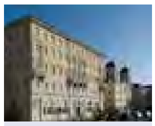
Delfi S.r.l.

Seaf S.p.A.

Isotta Fraschini Motori S.p.A.
- Bari

FMSNA Inc.

OTHER

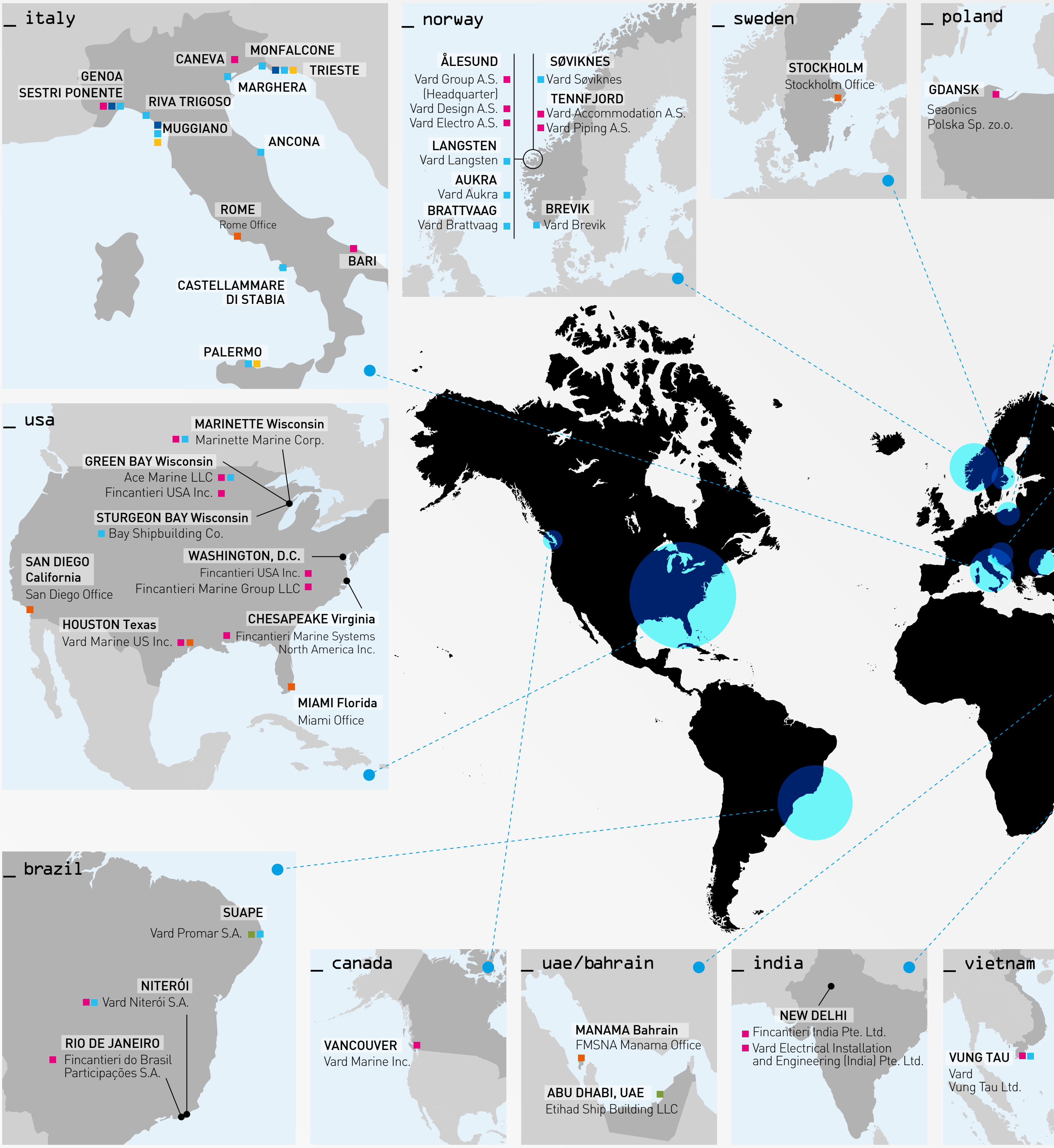


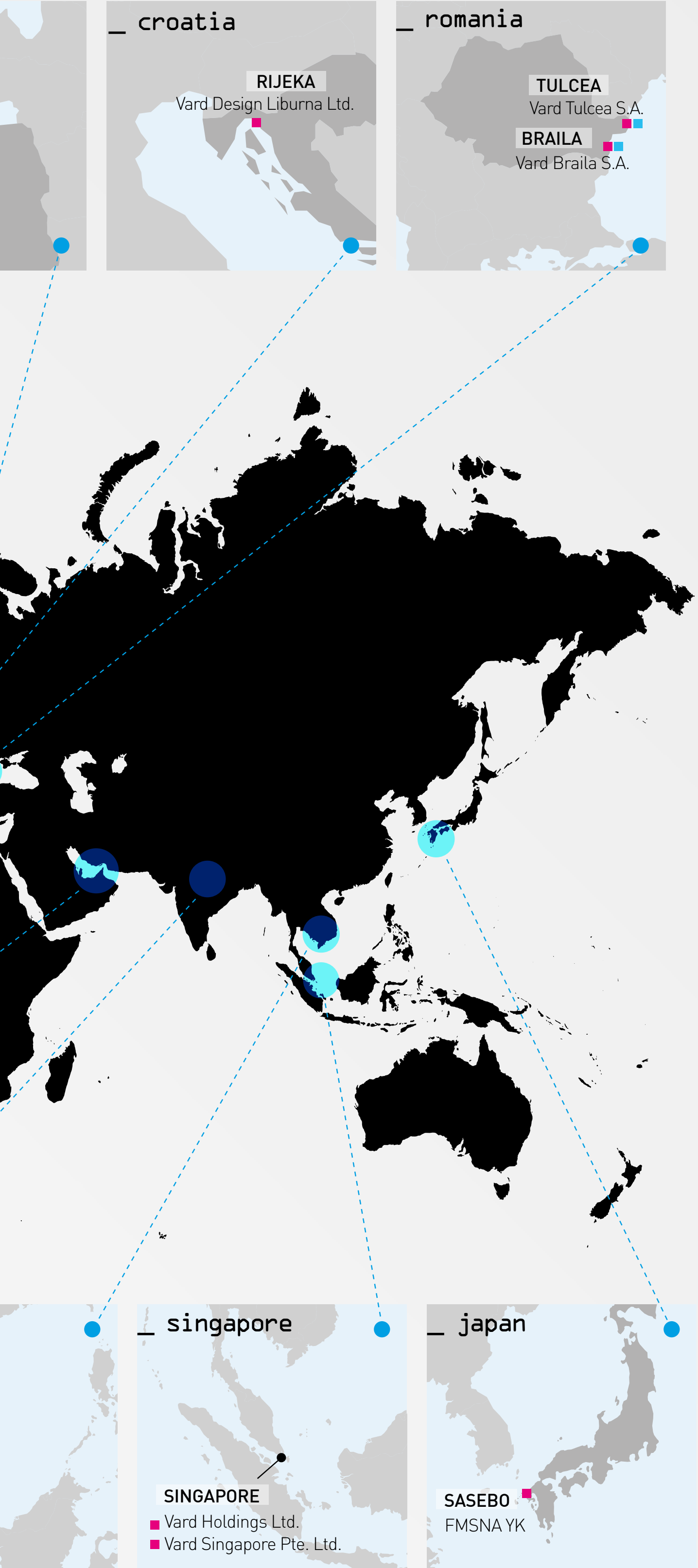
Fincantieri S.p.A.
- Corporate

The Fincantieri Group is now the largest shipbuilder by revenue in the Western world (meaning Europe and North America) and one of the most dynamic and diversified players in the industry, with its focus on segments featuring high value-added, high-tech content and high product unit values, and a position of excellence in all these segments making it one of the most technologically complex groups internationally. In fact, the Group is a world leader in the design and construction of cruise ships, among the world leaders in the design and construction of naval combat, support and special vessels and of submarines, and one of the leading global players in the design and construction of high-end offshore support vessels (OSV).
Fincantieri operates in 13 countries spanning four continents (Europe, North America, South America and Asia), with 21 shipyards located in Italy, Norway, Romania, United States of America, Brazil, and Vietnam plus a joint venture in the United Arab Emirates, and a total workforce of more than 21,000.
This flexible, global production structure is able to cover all activities, from design and construction of hulls and certain critical components, to assembly and maintenance of the ships built. The creation of successful products combined with strong economic and financial performance is centered on an optimized production model, inspired by the philosophy of a single large, flexible shipyard designed to ensure uniform product quality.
Outstanding engineering and technological prowess, strong customer relationships, and access to a highly specialized and reliable local supplier network are key factors in allowing the Group to defend its leadership position. Fincantieri is able to implement technologically sophisticated and innovative projects and, thanks to its capability as a system integrator, manages to coordinate complex processes from the earliest stages of concept development through to vessel delivery to the customer.
Furthermore, the Group views product and process technological innovation as key to maintaining its leadership position and so invests in research and development, drawing on a series of specialized centers created in partnership with suppliers and leading research institutions and ensuring suitable transfer of know-how and expertise between the various businesses in which it operates.
Fincantieri's business is widely diversified by end markets, geographical exposure and by customer base, with revenue evenly balanced between cruise ship, naval and offshore vessel construction, giving it an edge over less diversified players by being able to mitigate the effects of fluctuations in demand on the end markets served. In particular, the Group operates through the following three segments:

- Shipbuilding: encompassing the business units that build cruise ships and naval vessels and offer other products and services (ferries, mega yachts and ship repairs and conversions);
- Offshore: encompassing the design and construction of high-end offshore support vessels by its subsidiary Vard Holdings and the offer of innovative products in the field of drillships and semi-submersible drilling rigs;
- Equipment, Systems and Services: encompassing the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, and the provision of logistical support and after-sales services.

the fincantieri planet





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ITALY

TRIESTE
- HEAD OFFICE
- MERCHANT SHIPS
- SHIP REPAIR AND CONVERSION
- OFFSHORE
- ATSM SHIPYARD
- ATSM DOCK

GENOA
- 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.
- SESTRI PONENTE SHIPYARD

MUGGIANO
- MEGA YACHTS
- INTEGRATED NAVAL SHIPYARD RIVA TRIGOSO-MUGGIANO
- MUGGIANO DOCK

ROME
- ROME OFFICE

BARI
- ISOTTA FRASCHINI MOTORI S.p.A.

CANEVA
- MARINE INTERIORS S.p.A.

MONFALCONE
- MONFALCONE SHIPYARD

MARGHERA
- MARGHERA SHIPYARD

ANCONA
- ANCONA SHIPYARD

CASTELLAMMARE DI STABIA
- CASTELLAMMARE DI STABIA SHIPYARD

PALERMO
- PALERMO SHIPYARD
- PALERMO DOCK

NORWAY
- VARD GROUP A.S. (Headquarter)
- 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

SWEDEN
- STOCKHOLM OFFICE

POLAND
- SEAONICS POLSKA Sp. zo.o.

CROATIA
- VARD DESIGN LIBURNA Ltd.

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

_ asia

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

BAHRAIN
- FMSNA MANAMA OFFICE

UAE
- ETIHAD SHIP BUILDING LLC

VIETNAM
- VARD VUNG TAU Ltd.

SINGAPORE
- VARD HOLDINGS Ltd.
- VARD SINGAPORE Pte. Ltd.

JAPAN
- FMSNA YK

_ americas

USA
- FINCANTIERI USA Inc.
- FINCANTIERI MARINE SYSTEMS NORTH AMERICA Inc.
- FINCANTIERI MARINE GROUP LLC
- VARD MARINE US Inc.
- MARINETTE MARINE Corp.
- ACE MARINE LLC
- BAY SHIPBUILDING Co.
- MIAMI OFFICE
- SAN DIEGO OFFICE

CANADA
- VARD MARINE Inc.

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

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


REGAL PRINCESS

fincantieri group report on operations

Introduction

To our Shareholders,

On 3 July 2014, FINCANTIERI S.p.A. successfully concluded its listing on the Italian stock market (*Mercato Telematico Azionario* or MTA) organized and managed by *Borsa Italiana S.p.A.*. The Initial Public Offering was completed with the placement of a total of 450 million new shares, for an amount of euro 351 million, of which 89.05% allotted to the general public and 10.95% to institutional investors.
The achievement of this milestone represents a fundamental step in giving additional impetus to the process of growth in both volumes and efficiency that has profoundly transformed the Fincantieri Group over the past ten years. In fact, at the start of the 2000s Fincantieri was known as a national operator basically focused on two areas of business: cruise ships, with the Carnival Group as the main customer, and naval vessels, with the Italian Navy as the sole customer; now, however, by implementing a growth strategy concentrated on diversification and internationalization, Fincantieri has become a global player, the leader by diversification and the Western world's number one shipbuilder. Over these years, despite a particularly difficult and challenging market environment, the Group has pursued a strategy of diversifying its product and customer portfolio both for cruise ships and naval vessels; at the same time, it has expanded into new areas of business, such as the design and construction of mega yachts, the design and construction of marine systems and equipment, ship repairs and conversions and above all the offshore market. This strategy has seen the 2008 acquisition in America of Fincantieri Marine Group LLC (which operates in the business of naval and special vessels) and the 2013 acquisition of Norway's VARD Group (listed on the Singapore Stock Exchange and one of the world leaders in the construction of high-end offshore support vessels). In addition, with the formation of the companies Marine Interiors and Fincantieri SI, the Group has embarked on a strategy aimed at ensuring greater direct control over higher value-added sectors of the ship components business. Lastly, the Group has signed two Memoranda of Understanding, one with Carnival Corporation and the other with China CSSC Holdings Limited, China's largest shipbuilding conglomerate, with the aim of exploring the possibility of a joint venture to build cruise ships for the Chinese market, representing an unprecedented trilateral partnership for the construction of the first ever cruise ships built in China.
What is more, since 2008, the Group has managed to anticipate the effects of the global financial crisis and improve its competitive position, by implementing a strategy that combines increased operational efficiency in Italy (thanks to agreements aimed at rationalizing the production system, with the goal of reducing the Italian workforce by 16% and significantly increasing its flexibility) with enhancement of the Group's technical, economic and financial expertise. This process will put the Group in a position of strength to pursue further opportunities offered by the market to develop its businesses and presence in the various countries where it operates.
With reference to 2014, the year reported record order intake, which reached a value of euro 5.6 billion, and record revenue of euro 4.4 billion. In particular, the cruise ships business unit saw a resurgence in both order intake and production volumes; the naval vessels business unit is in the process of finalizing negotiations with the Italian Navy to formalize contracts for the fleet renewal program, while the oil price decline and accompanying sharp reduction in new investment expenditure has led to a slowdown in order intake for the Offshore business.
In terms of profitability, although both the Shipbuilding and Equipment, Systems and Services segments performed well, this only partially offset the shrinkage in VARD's margins arising

from problems with its operations in Brazil and the revision of estimates for certain projects in its European order book.

Net financial position reported a positive balance of euro 44 million, including the effects of the capital increase realized on 3 July 2014 following the Parent Company's admission to listing. Like in the previous year, Net financial position excludes construction loans relating to the subsidiary VARD and which amounted to euro 847 million at 31 December 2014.

Year-end headcount increased from 20,389 employees at 31 December 2013 (of whom 7,735 in Italy) to 21,689 at 31 December 2014 (of whom 7,706 in Italy). This increase is mainly due to the progressive ramp-up of operations by the Group's Brazilian yards.

Financial Highlights

- New order intake for a total of euro 5,639 million (up euro 641 million on 2013), of which euro 4,400 million in the Shipbuilding segment (euro 3,010 million in 2013), with a backlog at 31 December 2014 of euro 9,814 million. In particular, the uptrend in new orders for the cruise ships business unit was confirmed;
- Revenue and income of euro 4,399 million (euro 3,811 million in 2013), up 15.4% on the prior year;
- EBITDA of euro 297 million (euro 298 million in 2013), with a margin on revenue of 6.8% versus 7.8% in 2013. The reduction in margin is mainly attributable to the Offshore operating segment (6.8% in 2014 versus 11.8% in 2013) and in particular to the results of VARD, as only partially offset by release of the provision recognized when allocating the Norwegian group's purchase price. However, margins improved in the Shipbuilding operating segment (7.2% in 2014 versus 6.5% in 2013), mainly reflecting growth in volumes and positive trends in the Euro/USD exchange rate, and in the Equipment, Systems and Services operating segment (11.1% in 2014 versus 8.5% in 2013);
- Profit/(loss) before extraordinary and non-recurring income and expenses of euro 87 million (euro 137 million in 2013), with a margin on revenue of 2.0% (3.6% in 2013). The share of this profit attributable to the Group was euro 99 million, compared with euro 109 million in 2013;
- Profit for the year of euro 55 million (euro 85 million in 2013), with a margin on revenue of 1.3% (2.2% in 2013); the contraction mainly reflects the higher tax burden for the year just ended. The share of this profit attributable to the Group was euro 67 million, compared with euro 57 million in 2013;
- Net financial position of positive euro 44 million at 31 December 2014, an improvement of euro 199 million since 31 December 2013; consistent with the presentation at 31 December 2013, this figure excludes VARD's construction loans, which are treated as part of working capital;
- Capital expenditure in 2014 of euro 162 million (euro 255 million in 2013);
- Free cash flow of negative euro 124 million (negative euro 519 million in 2013). Investing activities absorbed euro 157 million in funds. Operating activities, however, generated euro 33 million in cash flows (thanks to changes in net working capital which includes construction loans);
- Construction loans of euro 847 million at 31 December 2014 (euro 563 million at 31 December 2013).

Economic data		**31.12.2014**	**31.12.2013**
Revenue and income	Euro/million	4,399	3,811
EBITDA	Euro/million	297	298
EBITDA margin (*)	*Percentage*	*6.8%*	*7.8%*
EBIT	Euro/million	198	209
EBIT margin (**)	*Percentage*	*4.5%*	*5.5%*
Profit/(loss) before extraordinary and non-recurring income and expenses	Euro/million	87	137
Extraordinary and non-recurring income and (expenses)	Euro/million	(44)	(80)
Profit for the year	Euro/million	55	85

Financial data		**31.12.2014**	**31.12.2013**
Net invested capital	Euro/million	1,486	1,365
Equity	Euro/million	1,530	1,210
Net financial position	Euro/million	44	(155)

Other indicators		**31.12.2014**	**31.12.2013**
Order intake (***)	Euro/million	5,639	4,998
Order book (***)	Euro/million	15,019	12,900
Order backlog (***)	Euro/million	9,814	8,068
Soft backlog	Euro/billion	5,0	5,0
Capital expenditure	Euro/million	162	255
Free cash flow	Euro/million	(124)	(519)
Research and Development costs	Euro/million	101	88
Employees at the end of the period	Number	21,689	20,389
Vessels delivered (****)	Number	25	33

Ratios		**31.12.2014**	**31.12.2013**
ROI	Percentage	13.9%	15.3%
ROE	Percentage	4.0%	7.0%
Total debt/Total equity	Number	0.4	0.5
Net financial position/EBITDA	Number	n.a.	0.5
Net financial position/Total equity	Number	n.a.	0.1

(*) Ratio between EBITDA and Revenue and income
(**) Ratio between EBIT and Revenue and income
(***) Net of eliminations and consolidation adjustments
(****) Number of vessels over 40 meters long
n.a. Not applicable
It is recalled that financial year 2013 includes the first-time consolidation of VARD as from 23 January 2013.
The percentages contained in this report have been calculated with reference to amounts expressed in thousands of euros.

GROUP OPERATIONAL PERFORMANCE

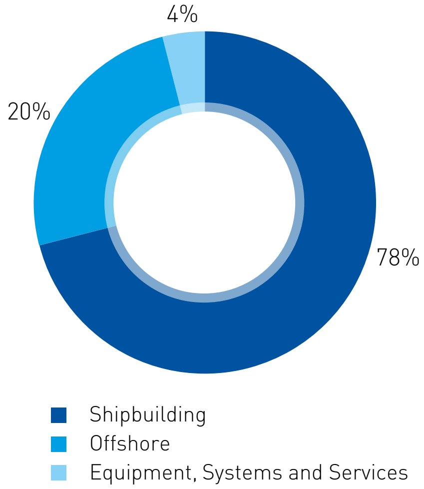
Order intake

Order intake in 2014 amounted to euro 5,639 million (euro 4,998 million in 2013), of which euro 1,392 million received in the fourth quarter of 2014. Of the total new orders, 78% related to the Shipbuilding segment, 20% to the Offshore segment, and 4% to the Equipment, Systems and Services segment. New orders won by the Parent Company accounted for 70% of the total.

The book-to-bill ratio (between order intake and revenue generated in the period) was equal to 1.3 in 2014 (1.3 in 2013), confirming the Group's good growth prospects, particularly in Shipbuilding, where the trend in new orders (up 46% on 2013) reflects recovery in the cruise market in which Fincantieri won orders for a total of 8 new ships during the year. As for the naval vessels market, the Littoral Combat Ship program for the U.S. Navy has continued (with the U.S. Navy awarding two more options to the subsidiary Marinette Marine Corporation) and demand has recovered for complex vessels for chemical/petroleum transportation in the Great Lakes area. In addition, the process of deciding with the Italian Navy the configuration for all vessels in its fleet renewal program has been completed in prelude to subsequent finalization of the related contracts.

As for Offshore, after the very high value of order intake in the first half, the second half of the year reported a rapid slowdown in orders due to the oil price decline and consequently negative impact on customer spending decisions.

% order intake by operating segment in 2014 (before consolidation adjustments)

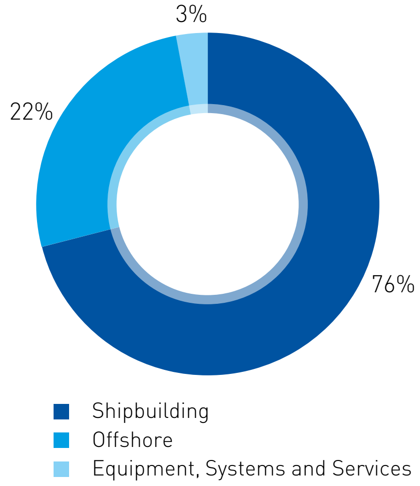


Order intake analysis *(Euro/million)*	**31.12.2014**		**31.12.2013**	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	3,936	70	2,763	55
Rest of Group	1,703	30	2,235	45
Total	**5,639**	**100**	**4,998**	**100**
Shipbuilding	4,400	78	3,010	61
Offshore	1,131	20	1,816	36
Equipment, Systems and Services	204	4	205	4
Consolidation adjustments	(96)	(2)	(33)	(1)
Total	**5,639**	**100**	**4,998**	**100**

Order backlog

The order backlog, representing the residual value of orders not yet completed, amounted to euro 9,814 million at 31 December 2014 (euro 8,068 million at the end of December 2013), with the order cover extending until 2019.
The growth in backlog reflects the significant increase in order intake over the last 18 months. The order backlog represents more than 2 years of work in relation to the revenue generated in 2014.
This increase confirms the Group's ability to finalize contracts under negotiation, contract options and commercial opportunities and to transform them into order backlog. The composition of the backlog by operating segment is shown in the following table.

% order backlog by operating segment at 31 December 2014 (before consolidation adjustments)



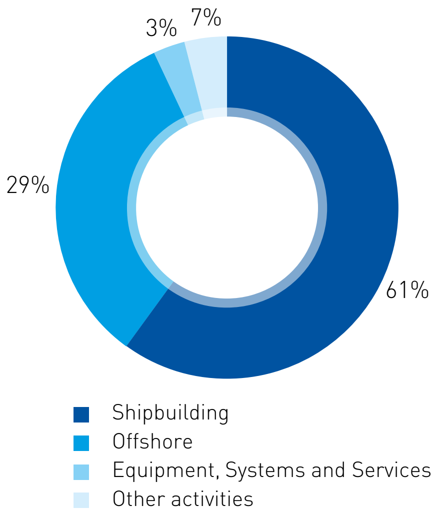
Order intake analysis *(Euro/million)*	**31.12.2014**		**31.12.2013**	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	6,877	70	4,930	61
Rest of Group	2,937	30	3,138	39
Total	**9,814**	**100**	**8,068**	**100**
Shipbuilding	7,465	76	5,345	66
Offshore	2,124	22	2,480	31
Equipment, Systems and Services	300	3	264	3
Consolidation adjustments	(75)	(1)	(21)	-
Total	**9,814**	**100**	**8,068**	**100**

In addition, the Soft backlog, not yet reflected in the order backlog, amounted to approximately euro 5.0 billion at 31 December 2014; this measure represents the value of existing contract options and letters of intent as well as of contracts under negotiation for the Italian Navy's fleet renewal program.

The following table shows the deliveries scheduled each year for vessels currently in the order book, analyzed by the main business units.

(number)	***2015***	***2016***	***2017***	***2018***	***2019***
Cruise ships	3	7	3	4	-
Naval > 40 m.	7	9	6	3	1
Offshore	21	15	3	-	-

% capital expenditure
by operating segment in 2014



Capital expenditure

Capital expenditure totaled euro 162 million in 2014, of which euro 38 million for intangible assets (including euro 22 million for development projects) and euro 124 million for property, plant and equipment.

The Parent Company accounted for 60% of this total expenditure.

Capital expenditure represented 3.7% of the Group's revenue in 2014 compared with 6.7% in 2013.

Capital expenditure in 2014 mainly related to the completion of the Vard Promar shipyard in Brazil, a project which had significantly impacted capex in 2013, and to investments (i) to upgrade the technology used by Italian shipyards (to boost production efficiency through greater process automation), (ii) to improve safety conditions and environmental respect within production units and (iii) to continue developing new technologies, particularly for the cruise business.

Capital expenditure analysis *(Euro/million)*	**31.12.2014**		**31.12.2013**	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	98	60	128	50
Rest of Group	64	40	127	50
Total	**162**	**100**	**255**	**100**
Shipbuilding	98	61	137	54
Offshore	47	29	111	43
Equipment, Systems and Services	5	3	4	2
Other activities	12	7	3	1
Total	**162**	**100**	**255**	**100**
Intangible assets	38	23	37	15
Property, plant and equipment	124	77	218	85
Total	**162**	**100**	**255**	**100**

R&D AND INNOVATION

The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. Accordingly, its 2014 income statement contains euro 101 million in research and development 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 Group capitalized euro 22 million in development costs in 2014 for projects with long-term utility; these projects mainly relate to innovative devices and systems able to meet the new international safety regulations and to reduce the pollution produced by cruise ships.

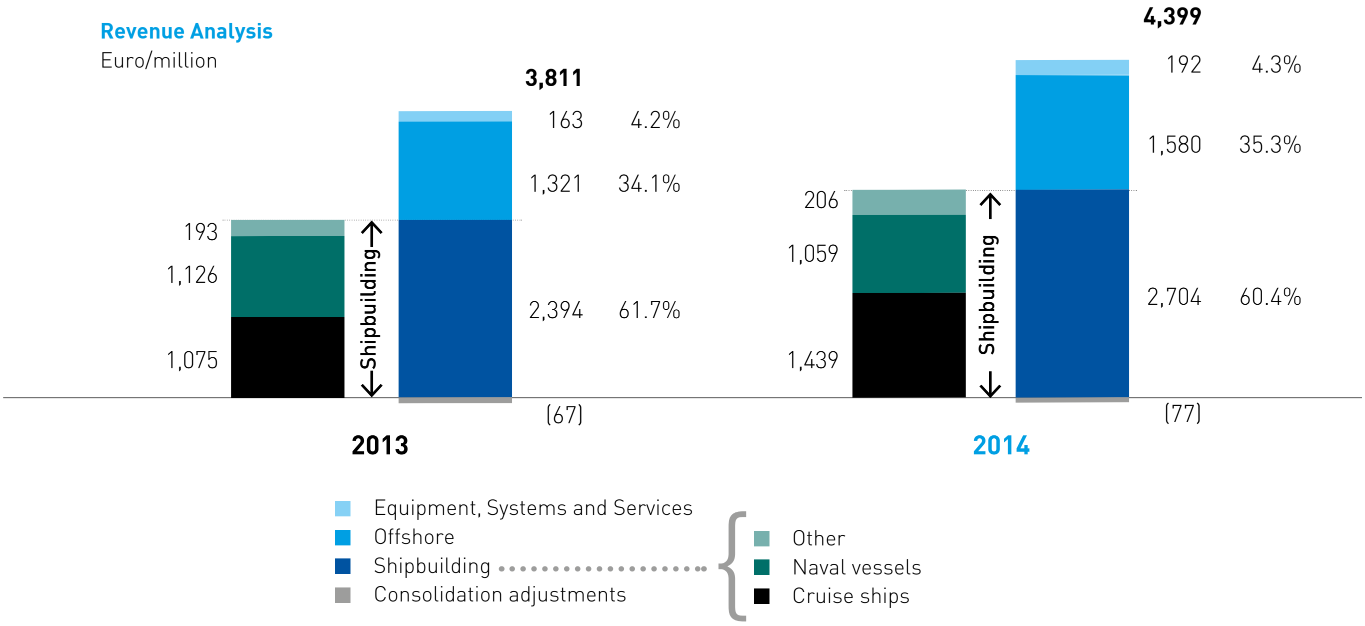
GROUP FINANCIAL RESULTS

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. It is recalled that financial year 2013 includes the first-time line-by-line consolidation of VARD as from 23 January 2013.
A reconciliation of these reclassified statements to the IFRS statements can be found later on in this report.

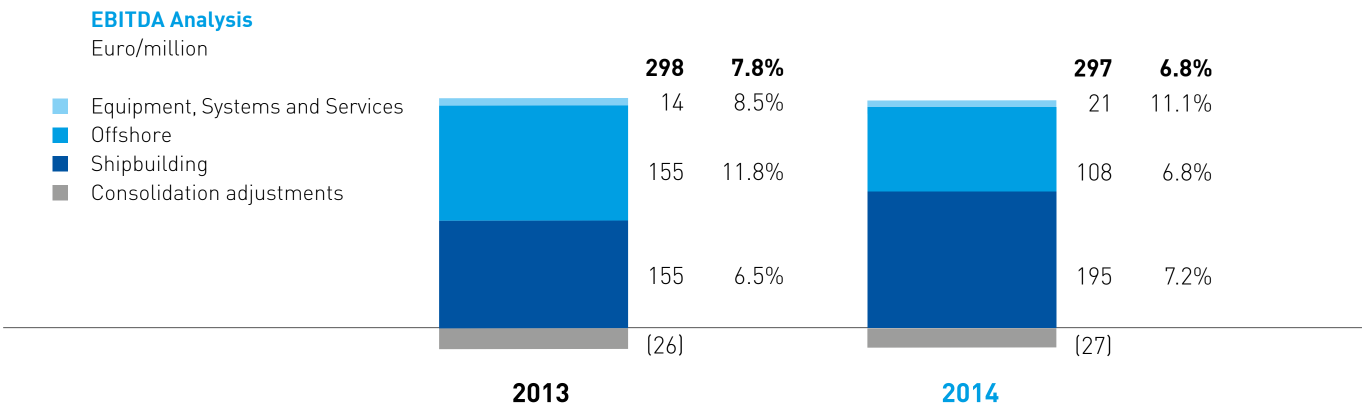
RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(Euro/million)	31.12.2014	31.12.2013
Revenue and income	**4,399**	**3,811**
Materials, services and other costs	(3,234)	(2,745)
Personnel costs	(843)	(752)
Provisions and impairment	(25)	(16)
EBITDA	**297**	**298**
EBITDA margin	***6.8%***	***7.8%***
Depreciation and amortization	(99)	(89)
EBIT	**198**	**209**
EBIT margin	***4.5%***	***5.5%***
Finance income/(costs)	(66)	(55)
Income/(expense) from investments	6	2
Income taxes	(51)	(19)
Profit/(loss) before extraordinary and non-recurring income and expenses	**87**	**137**
of which attributable to Group	*99*	*109*
Extraordinary and non-recurring income and (expenses)	(44)	(80)
Tax effect of extraordinary and non-recurring income and expenses	12	28
Profit for the year	**55**	**85**
of which attributable to Group	*67*	*57*

Revenue and income amounted to euro 4,399 million, reporting an increase of euro 588 million (+15.4%) on 2013 mainly due to higher cruise and Offshore volumes, which more than offset the decline in naval vessels volumes following progressive completion of existing contracts, pending the start of the Italian Navy's fleet renewal program.
The Group's export revenue accounted for 82% of the total in 2014, up from 76% in 2013.



EBITDA came to euro 297 million, in line with the figure recorded in 2013. The **EBITDA margin** calculated as the ratio of EBITDA to Revenue and income, was 6.8% compared with 7.8% in 2013. In terms of contribution, the Shipbuilding and Equipment, Systems and Services operating segments posted an increase in profitability compared with 2013 also thanks to the positive impact of Euro/USD exchange rate movements, although this improvement only partially offset the Offshore segment's decline in margin. In fact, Offshore profitability in 2014 was affected by VARD's results, only partly offset, upon consolidation, by full utilization of the provision for order-related risks recognized at the time of the Norwegian group's acquisition.



EBIT amounted to euro 198 million in 2014, compared with euro 209 million in 2013. The decrease is due not only to the factors discussed earlier, but also to higher depreciation and amortization charges for assets entering service in 2014 (particularly the new Promar shipyard in Brazil). As a result, the **EBIT margin** (EBIT expressed as a percentage of Revenue and income) declined compared with 2013 (4.5% in 2014 versus 5.5% in 2013).

Finance income and costs and income and expense from investments reported a net expense of euro 60 million (euro 53 million at 31 December 2013). The change on the previous year includes an increase of euro 11 million for recognizing a full 12 months' worth of interest costs on the bond issued in November 2013, as partly offset by euro 5 million in foreign exchange gains. Net finance income and costs include euro 26 million in interest expense on the VARD Group's construction loans (euro 24 million at 31 December 2013). Income from investments posted an increase of euro 4 million compared with 2013.

Income taxes reported a negative balance of euro 51 million in 2014, compared with euro 19 million in 2013. This difference is primarily due to the recording in 2013 of previously unrecognized deferred tax assets.

Profit/(loss) before extraordinary and non-recurring income and expenses came to euro 87 million at 31 December 2014, representing 2.0% of Revenue and income (3.6% in 2013) and reflecting the factors described above. The share of this profit attributable to the Group was euro 99 million, compared with euro 109 million in 2013.

Extraordinary and non-recurring income and expenses reported euro 44 million in net expenses at 31 December 2014 and include company costs for the Extraordinary Wage Guarantee Fund (euro 10 million), charges connected with business reorganization plans (euro 9 million), costs relating to claims under asbestos-related lawsuits (euro 21 million) and non-recurring expenses relating to the Initial Public Offering (euro 4 million). At 31 December 2013, extraordinary and non-recurring income and expenses amounted to euro 80 million, including euro 21 million for the VARD Group's acquisition-related costs.

Tax effect of extraordinary and non-recurring income and expenses was a net positive euro 12 million at 31 December 2014.

Profit (loss) for the year amounted to euro 55 million in 2014, down from the previous year for the reasons described above. The share of this profit attributable to the Group was euro 67 million, compared with euro 57 million in 2013.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Euro/million)	31.12.2014	31.12.2013
Intangible assets	508	539
Property, plant and equipment	959	897
Investments	60	70
Other non-current assets and liabilities	(48)	(14)
Employee benefits	(62)	(60)
Net fixed capital	**1,417**	**1,432**
Inventories and advances	388	400
Construction contracts and advances from customers	1,112	757
Construction loans	(847)	(563)
Trade receivables	610	344
Trade payables	(1,047)	(911)
Provisions for risks and charges	(129)	(151)
Other current assets and liabilities	(18)	57
Net working capital	**69**	**(67)**
Net invested capital	**1,486**	**1,365**
Share capital	863	633
Reserves and retained earnings attributable to the Group	447	335
Non-controlling interests in equity	220	242
Equity	**1,530**	**1,210**
Net financial position	**(44)**	**155**
Sources of funding	**1,486**	**1,365**

- **Net fixed capital** presents an overall decrease of euro 15 million. With reference to the individual items included in this balance, Intangible assets decreased by euro 31 million (mainly due to exchange rate differences on translating the VARD Group's balances), Property, plant and equipment increased by euro 62 million (for capital expenditure in 2014) and Other non-current assets and liabilities decreased by euro 34 million (mainly due to the fair value of currency derivatives);
- **Net working capital** reports a positive balance of euro 69 million, representing an increase of euro 136 million on the balance at 31 December 2013. In detail: Construction contracts increased by euro 355 million, due to the growth in production volumes; Construction loans were euro 284 million higher, reflecting growth in the VARD Group's work in progress; the growth in construction work in progress triggered increases in Trade receivables (euro 266 million) and Trade payables (euro 136 million). There was also a decrease (euro 75 million) in Other current assets and liabilities, mainly because of a reduction in deferred tax assets and a negative change in the fair value of currency derivatives. It is recalled that in view of the operational nature of construction loans and particularly the fact that these types of loan are

obtained and can be used exclusively to finance the contracts to which they refer, management treats them in the same way as advances received from customers and so classifies them as part of net working capital.

Equity reports an increase of euro 320 million, including euro 351 million in respect of the proceeds from the capital increase realized at the time of the Initial Public Offering, of which euro 230 million allocated to share capital and euro 121 million to the share premium reserve (euro 110 million stated net of post-tax listing costs). The change in equity also reflects the positive contribution of profit for the year (euro 55 million), the reduction for the dividend distribution (euro 10 million), and the negative effects on the currency translation reserve mainly arising from changes in the Norwegian krone exchange rate against the Euro (euro 58 million).

The strength of the capital structure is confirmed by the positive trend in the ratios between debt (gross and net) and equity and in the ability of equity to fund Net fixed capital.

Net financial position reports euro 44 million in net cash at 31 December 2014 (euro 155 million in net debt at 31 December 2013). This amount does not include construction loans.

CONSOLIDATED NET FINANCIAL POSITION

(Euro/million)	31.12.2014	31.12.2013
Cash and cash equivalents	**552**	**385**
Current financial receivables	**82**	**52**
Current bank debt	(32)	(35)
Current portion of bank loans and credit facilities	(47)	(32)
Other current financial liabilities	(1)	(3)
Current debt	**(80)**	**(70)**
Net current cash/(debt)	**554**	**367**
Non-current financial receivables	**90**	**41**
Non-current bank debt	(290)	(255)
Bond	(297)	(296)
Other non-current financial liabilities	(13)	(12)
Non-current debt	**(600)**	**(563)**
Net financial position	**44**	**(155)**

The above **Consolidated net financial position**, which excludes VARD construction loans, presents a net cash balance of euro 44 million. Net financial position reflects the effects of the capital increase realized on 3 July 2014 following the Parent Company's admission to listing.

RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS

(Euro/million)	31.12.2014	31.12.2013
Net cash flows from operating activities	33	(95)
Net cash flows from investing activities	(157)	(424)
Net cash flows from financing activities	303	255
Net cash flows for the period	**179**	**(264)**
Cash and cash equivalents at beginning of period	**385**	**692**
Effects of currency translation difference on opening cash and cash equivalents	(12)	(43)
Cash and cash equivalents at end of period	**552**	**385**

(Euro/million)	31.12.2014	31.12.2013
Free cash flow	**(124)**	**(519)**

The **Reclassified consolidated statement of cash flows** reports positive **Net cash flows for the year** of euro 179 million (versus a net negative euro 264 million in 2013), reflecting negative **Free cash flow** (the sum of cash flow from operating activities and cash flow from investing activities) of euro 124 million, as offset by euro 303 million in cash flows provided by financing activities.

It should be noted that cash flows from operating activities include the change in construction loans.

ECONOMIC AND FINANCIAL INDICATORS

The following table presents additional economic and financial measures used by the Group's management to monitor the performance of its main business indicators in the periods considered. The following table shows the trend in the main profitability ratios and the strength and efficiency of the capital structure in terms of the relative importance of sources of finance between net debt and equity for the years ended 31 December 2014 and 2013.

	31.12.2014	31.12.2013
ROI	13.9%	15.3%
ROE	4.0%	7.0%
Total debt/Total equity	0.4	0.5
Net financial position/EBITDA	n.a.	0.5
Net financial position /Total equity	n.a.	0.1

n.a. not applicable

The change in ROI compared with 31 December 2013 mainly reflects the reduction in 2014 EBIT, while ROE at 31 December 2014 has been influenced by the growth in equity and lower profits compared with 31 December 2013.
Some of the indicators of the strength and efficiency of the capital structure are not applicable at 31 December 2014 given the positive Net financial position at that date, while the Total debt/Total equity ratio is in line with values reported at 31 December 2013.

DIVIDENDS

Despite reporting a profit for the year, in line with the policy previously announced by management, it is proposed not to distribute dividends for 2014.

Operational review by segment

SHIPBUILDING

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

(Euro/million)	31.12.2014	31.12.2013
Revenue and income (*)	2,704	2,394
EBITDA (*)	195	155
EBITDA margin (*) (**)	*7.2%*	*6.5%*
Order intake (*)	4,400	3,010
Order book (*)	10,945	8,695
Order backlog (*)	7,465	5,345
Capital expenditure	98	137
Vessels delivered (number) (***)	7	11

(*) Before eliminations between operating segments

(**) Ratio between segment EBITDA and Revenue and income

(***) Vessels over 40 meters long

Revenue and income

Revenue from the Shipbuilding operating segment amounted to euro 2,704 million at 31 December 2014 (euro 2,394 million at 31 December 2013), of which euro 1,439 million from the cruise ships business unit (euro 1,075 million at 31 December 2013) and euro 1,059 million from the naval vessels business unit (euro 1,126 million at 31 December 2013). Compared with 2013, cruise ship revenue increased by euro 364 million, with 9 ships under construction at the Group's Italian yards (versus 4 ships at 31 December 2013); this contrasts with a reduction in revenue from the naval business following recent deliveries of vessels to the Italian Navy and Coast Guard. Revenue from other activities reported an increase of euro 13 million from euro 193 million at 31 December 2013.

EBITDA

The segment's EBITDA came to euro 195 million at 31 December 2014, up from euro 155 million in the comparative year ended 31 December 2013. This improvement is attributable to increased volumes and the positive impact on USD-denominated contracts of movements in the Euro/USD exchange rate over the course of 2014. It should be noted that these results were achieved despite the fact that shipbuilding margins were still affected by the competitive pricing applied to cruise orders acquired during the crisis and currently under production, and that the Group's production capacity was still not fully utilized in Italy.

Order intake

New order intake amounted to euro 4,400 million in 2014. In particular, these orders refer to:

- two new ships (plus one more under option) for MSC Cruises; the new "Seaside" prototype is not only the first commissioned from the Group by MSC Cruises, but will also be the largest ever built by Fincantieri and will boast many innovations. The ships will be 323 meters long with a gross tonnage of 154,000 tons and accommodation for nearly 5,200 passengers in 2,070 cabins. These orders are also important because they represent additional expansion and diversification of the customer portfolio;
- one cruise ship for Princess Cruises, a Carnival Corporation brand, with delivery scheduled for 2017. The 143,000 gross ton ship with accommodation for 3,560 passengers will be based on the successful design of the sister ships "Royal Princess" and "Regal Princess";
- one ultra-luxury cruise ship for Seabourn, a Carnival Corporation brand, with delivery scheduled for the second half of 2016 and the contract for which follows on from a letter of intent signed in October 2013. The ship will be approximately 40,350 gross tons and 210 meters long and will be able to accommodate 604 passengers in 302 suites;
- another ultra-luxury cruise ship for Seabourn, a Carnival Corporation brand, through the exercise of the option contained in the order signed at the beginning of 2014;
- two new cruise ships for Carnival Cruise Lines and Holland America Line, both Carnival Corporation brands. These will be sister ships to the "Carnival Vista" and "Koningsdam", currently being built in Fincantieri's yards;
- one ultra-luxury cruise ship for an undisclosed customer;
- four ATB (Articulated Tug Barges) for petroleum/chemical transportation, comprising four tugs and four barges, which will be built at the Sturgeon Bay shipyard for Moran Towing Corporation and Kirby Offshore Marine Operating LLC;
- two more LCS (Littoral Combat Ships) for the U.S. Navy, respectively the seventh and eighth ships under the contract for ten ships signed in 2010 by the subsidiary FMG;
- a contract for the construction of four more RB-M (Response Boats Medium) for the U.S. Coast Guard;
- the "Rinascimento" program for the upgrade and elongation of four "Lirica" class ships for MSC Cruises.

Capital expenditure

Capital expenditure on property, plant and equipment in 2014 was mostly concentrated on the Monfalcone and Marghera shipyards, in order to modernize hull-building technologies and build new infrastructure and logistical support areas for the outfitting docks, as well as on the Marinette and Sturgeon Bay shipyards in the United States in completion of plans to expand their production capacity. As far as intangible assets were concerned, there was continued expenditure on developing new technologies that comply with new international rules on cruise ship safety (Safe return to port) and noise reduction, and which will be applied to the large number of new prototypes currently in the order book.

Production

The number of ships delivered during 2014 is analyzed as follows:

(number)	Deliveries
Cruise ships	2
Cruise ferries	-
Naval vessels >40 m long	4
Mega yachts	1
Naval vessels <40 m long	28

In particular, the main deliveries were:

- "Regal Princess", the new flagship of the Princess Cruises fleet, delivered by the Monfalcone shipyard;
- "Costa Diadema", flagship of the Costa Cruises fleet, delivered by the Marghera shipyard;
- "Ocean Victory", delivered by the Muggiano shipyard; at 140 meters long, it is the largest yacht ever built in Italy and among the ten largest ever built in the world;
- "Ubaldo Diciotti", a patrol boat delivered by the Castellammare di Stabia shipyard to the General Command of the Port Authority Corp for the Italian Coast Guard;
- "Carlo Margottini", the third in a series of FREMM vessels (Multi Mission European Frigates), delivered to the Italian Navy by the Muggiano shipyard;
- "Sikuliaq", an oceanographic research vessel, delivered to the University of Alaska Fairbanks by the Marinette shipyard;
- "Kalaat Beni-Abbes", a vessel commissioned in 2011 from Orizzonte Sistemi Navali by the Ministry of Defense of the People's Democratic Republic of Algeria;
- "MSC Armonia", the first of four ships in the MSC fleet included in the "Rinascimento" program, was delivered by the Palermo shipyard.

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 turnkey electrical systems, inclusive of engineering, manufacturing, installation, integration testing and commissioning.

(Euro/million)	31.12.2014	31.12.2013
Revenue and income [*]	1,580	1,321
EBITDA [*]	108	155
EBITDA margin [*] [**]	*6.8%*	*11.8%*
Order intake [*]	1,131	1,816
Order book [*]	3,623	3,757
Order backlog [*]	2,124	2,480
Capital expenditure	47	111
Vessels delivered (number) [***]	18	22

[*] Before eliminations between operating segments

[**] Ratio between segment EBITDA and Revenue and income

[***] Of which 2 before 23 January 2013

Revenue and income

Revenue from the Offshore operating segment amounted to euro 1,580 million at 31 December 2014, up 19.6% from euro 1,321 million in 2013. The increase, mainly reflecting the growth in volumes posted by VARD, reflects its significant order intake in 2013 and in the first half of 2014.

It should also be noted that the Offshore segment's operating revenue in 2014 and 2013 included euro 35 million and euro 53 million respectively in utilizations of the provision recognized at the time of allocating the VARD Group's purchase price in respect of delays and higher expected costs at its Brazilian shipyards. Following these utilizations, as at 31 December 2014 this provision has been utilized in full.

EBITDA

The Offshore segment reported EBITDA of euro 108 million at 31 December 2014 compared with euro 155 million in 2013. This deterioration was the result of (i) performance of orders in progress at VARD's Brazilian shipyards where a slower-than-expected ramp-up of productivity at the new Vard Promar yard affected profitability in the start-up phase and (ii) revised estimates for a limited number of projects in the European order book although these are not expected to impact delivery schedules, having taken the necessary mitigating actions.

Lastly, following the collapse in oil prices in the second half of the year, VARD has agreed to sign variation orders for several projects, thus meeting customer requests to extend delivery dates, with a consequentially positive impact on its workload balance.

Order intake

New order intake amounted to euro 1,131 million in 2014, referring to 16 vessels. In detail:

- 1 Diving Support and Construction Vessel for Technip;
- 1 artic AHTS (Anchor Handling Tug Supply vessel) for Bourbon Offshore;
- 8 PSV (Platform Supply Vessels), of which 2 for Carlotta Offshore Ltd, 2 for Nordic American Offshore Ltd, 2 for Mermaid Marine Australia Ltd, 1 for E.R. Offshore and 1 for Island Offshore (made public on 3 October 2014);
- 2 OSCV (Offshore Subsea Construction Vessels), of which one for Solstad Offshore, representing the largest order ever won by the VARD Group for a single vessel, and one for Farstad Shipping;
- 2 OSV (Offshore Support Vessels) for Island Offshore;

- 1 OSCV (Offshore Subsea Construction Vessel) for Island Offshore;
- 1 Offshore Construction and Anchor Handling Vessel for Rem Offshore.

These orders take the backlog at 31 December 2014 to euro 2,124 million, relating to 39 vessels, of which 24 of VARD's own design, and ensuring a high volume of activity until 2016.

Capital expenditure

Capital expenditure in 2014 mainly related to the completion of activities for starting up production at the Vard Promar shipyard in Brazil, as well as to projects for increasing automation and production capacity in Romania.

Production

A total of 18 vessels were delivered:

(number)	Deliveries
AHTS	3
PSV (including MRV)	7
OSCV	5
Other	3

3 AHTS (Anchor Handling Tug Supply Vessels)

- "Far Sigma" was delivered to Farstad Shipping by the Vard Langsten shipyard (Norway);
- "Far Sirius" was delivered to Farstad Shipping by the Vard Langsten shipyard (Norway);
- "Skandi Urca" was delivered to DOF by the Vard Niterói shipyard (Brazil).

7 PSV (Platform Supply Vessels)

- "Island Dawn", "Island Dragon" and "Island Condor" were delivered to Island Offshore by the Vard Brevik shipyard (Norway);
- "Troms Arcturus" was delivered to Troms Offshore by the Vard Aukra shipyard (Norway);
- "Siem Giant" was delivered to Siem Offshore by the Vard Niterói shipyard (Brazil);
- "Far Sun" was delivered to Farstad Shipping by the Vard Langsten shipyard (Norway);
- "Far Sygna" was delivered to Farstad Shipping by the Vard Vung Tau shipyard (Vietnam).

5 OSCV (Offshore Subsea Construction Vessels)

- "Island Pride" was delivered to Island Offshore by the Vard Brevik shipyard (Norway);
- "Siem Spearfish" was delivered to Siem Offshore by the Vard Brattvaag shipyard (Norway);
- "Normand Reach" was delivered to Solstad Offshore by the Vard Aukra shipyard (Norway);
- "Normand Vision" was delivered to Solstad Offshore by the Vard Søviknes shipyard (Norway);
- "Siem Stingray" was delivered to Siem Offshore by the Vard Brattvaag shipyard (Norway).

3 other vessels

- "Gadus Neptun" was delivered to Havfisk by the Vard Brattvaag shipyard (Norway);
- "Kanysh Satpayevn" was delivered to Circle Maritime Invest by the Vard Braila shipyard (Romania);
- "Pierre de Fermat" was delivered to FT Marine by the Vard Brattvaag 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..

(Euro/million)	31.12.2014	31.12.2013
Revenue and income (*)	192	163
EBITDA (*)	21	14
EBITDA margin (*) (**)	*11.1%*	*8.5%*
Order intake (*)	204	205
Order book (*)	663	550
Order backlog (*)	300	264
Capital expenditure	5	4
Engines produced in workshops (number)	53	59

(*) Before eliminations between operating segments

(**) Ratio between segment EBITDA and Revenue and income

Revenue and income

Revenue from the Equipment, Systems and Services operating segment increased by 17.8% year-on-year to euro 192 million at 31 December 2014. This increase was primarily due to higher volumes of after-sales services for naval vessels, in line with the development prospects for this business.

EBITDA

The segment's EBITDA came to euro 21 million at 31 December 2014 (EBITDA margin of 11.1%), up from euro 14 million in 2013 (EBITDA margin of 8.5%). The increase was mainly due to the change in mix of products and services sold in 2014.

Order intake

New order intake for Equipment, Systems and Services amounted to euro 204 million in 2014, mostly comprising:

- 2 propulsion, rudder roll stabilization and ship positioning systems with retractable azimuth thrusters and lifters for the Italian Navy's FREMM program;
- 5 ship positioning systems, for the Regent, Carnival Magic, third Viking and Seabourn orders;
- 9 stabilization systems for the following customers: Princess, Seabourn, MSC, Viking and Meyer Turku OY;
- 1 stabilization system for Sopromar, a research vessel customer;
- 8 generating sets for the Italian Navy's FREMM program, 3 non-magnetic ones for the Indian Navy and 1 set for the Korean Navy;
- 8 generating sets for the U.S. Navy's LCS program and 3 for its JHSV program;
- 4 on-board power generation systems for the following cruise ship customers: Compagnie du Ponant and Viking;
- 8 propulsion engines for the U.S. Coast Guard program;

- 5 steam turbines, of which 4 for domestic customers and 1 for export;
- 2 entertainment management systems for Carnival and Regent cruise ships and one entertainment system for the "MY Victory";
- 2 automation systems for the Italian Navy's FREMM program;
- Integrated logistics support services for the 2nd Saettia Stealth ship built for the UAE Navy and temporary support services for the "Cavour", an Italian Navy aircraft carrier;
- Supply on on-board equipment for the 7th and 8th FREMMs for the Italian Navy;
- Supply of documentation, parts and temporary support for the Todaro and Scirè U212A class submarines of the Italian Navy.

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)	**31.12.2014**	**31.12.2013**
Revenue and income	-	-
EBITDA	(27)	(26)
EBITDA margin	*n.a.*	*n.a.*
Capital expenditure	12	3

n.a. not applicable

Capital expenditure

The most significant items of expenditure included development of the information systems in support of the Group's business, particularly the updating of technical design systems, the improvement of supply chain management systems and the updating of the Group's management software.

Core markets

Shipping in general

Demand for merchant ships in 2014 equated to 47 million in compensated gross tonnage. Of particular note was the resumption of investment in cruise ships and LNG carriers, while demand for offshore vessels started to slow, especially in the second half of the year also as a result of the oil price decline.

Cruise Ships

The cruise industry enjoyed a general recovery. The Cruise Lines International Association estimates that passenger numbers reached 22.1 million in 2014, and predicts 4% compound annual growth for 2014-2020, arriving at a total of 27.6 million in 2020.
During the year, cruise lines placed orders for 16 new ships, of which 8 awarded to Fincantieri; this number equals the peak in orders before the crisis of 2007, confirming strong confidence in future growth.
Thanks to a large and diverse product portfolio, Fincantieri has been able to win orders for very different types of ships, designed to serve the various sectors of the tourist industry, from the contemporary mass cruise segment to the luxury end of the market, and to attract new customers, particularly MSC Cruises and the Seabourn brand, part of the Carnival group.
New ship investments are also being driven by growth prospects in Asian markets; China in particular could soon become the world's second largest cruise market after the U.S.A., with 4.5 million passengers by 2020.
This is the rationale behind the two Memoranda of Understanding signed by Fincantieri, respectively with Carnival Corporation and China CSSC Holdings Limited, controlled by CSSC (China State Shipbuilding Corporation), China's largest shipbuilding conglomerate, with the aim of exploring the possibility of a joint venture to build cruise ships for the Chinese market, under which Fincantieri would provide designs, assistance and a series of key components made in Italy.

The positive trend in demand has been accompanied by an easing of pressure on prices, while requests for more competitive costs and efficiency have remained unchanged despite the greater complexity and prototypical nature of the new ships.

Carnival
Costa
CUNARD
Disney Cruise Line
Holland America Line
HURTIGRUTEN
OCEANIA CRUISES
P&O CRUISES
PONANT
PRINCESS CRUISES escape completely
Regent SEVEN SEAS CRUISES
SEABOURN
SILVERSEA
VIKING CRUISES

"Costa Diadema"
Costa Cruises
Marghera shipyard

Ferries

The ferry market is still struggling to overcome its stagnation in orders. The continuing economic crisis, an unsatisfactory trend in passenger and freight traffic, and low ferry line profitability are all serving to hinder recovery.

The main drivers that could fuel demand in the near future are 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", which would also have more economic running costs thanks to greater energy efficiency.

Even though ferry owners are showing some interest in gas-powered ships, especially in Northern Europe with the application of legislation from 2015 that limits ship sulphur emissions in Emission Control Areas, the process of creating a green fleet requires specialized shipyards and the related supply chain to make not only a huge effort in product and process innovation but also specific investments.

It will be recalled that Fincantieri is about to deliver a green ferry to 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.

Launch "F.-A.- Gauthier"
Société des traversiers du Québec
Castellammare di Stabia shipyard

Lenghtening
"MSC Armonia"
MSC Cruises
Palermo shipyard

Repairs and conversions

Once again in 2014 the repairs market reported a tendency by shipowners to curtail maintenance and repair of fleets, by commissioning only strictly necessary work, which obviously reduces the time spent in dry dock and the related revenue.
At the same time, however, there was increased demand for work to bring ships into line with the latest safety and environment regulations, to install energy-saving solutions and, in the case of passenger ships, to revamp the accommodation and entertainment areas to match standards on new generation ships, ensuring a uniform brand perception.
This trend looks like continuing in the future after the announcement by the Carnival Group, the cruise industry's largest operator, of a 50% increase for next year of the number of days ships will be stationed in dry dock for repairs and retrofitting.
In this context, one of the most significant projects involving Fincantieri has been the "Rinascimento" program for MSC Cruises, announced last December, involving four of its ships (MSC Armonia, MSC Lirica, MSC Sinfonia and MSC Opera) which will be completed by the end of 2015. MSC Armonia, the first ship to enter the program, completed its elongation process in 2014, with the insertion of a new section into the middle of the ship's hull; floated out in July, the ship boasts 200 new cabins, new entertainment areas, as well as new space and decor for the on-board boutiques and employment of the latest technology throughout the ship.

Naval Vessels

Once again in 2014 most of the orders were in captive markets, meaning programs awarded by the various national navies to domestic shipbuilders, while the non-captive part of the market saw growing demand for on-site construction and technology transfer.

As a result, competition in foreign markets has remained high and saturation of production capacity has largely depended on demand by domestic navies.

Given the complexity of the military sector's competitive and market scenario, Fincantieri has signed an agreement with Finmeccanica with a view to being at the forefront of a process to optimize the role of all players within the Italian system, by seeking to bring together, at least in the marine sector, the country's sectors of excellence. The goal is to improve the quality of products and become more competitive in export markets, by leveraging the technical and commercial synergies between Fincantieri and Finmeccanica group companies in the business of marine systems and naval engineering technology.

Furthermore, again with a view to strengthening its competitive position in foreign markets, through enlarging its product range, Fincantieri has signed a cooperation agreement with Cantiere Navale Vittoria, a shipyard specialized in the development, promotion and sale abroad of patrol boats and small and medium commercial vessels.

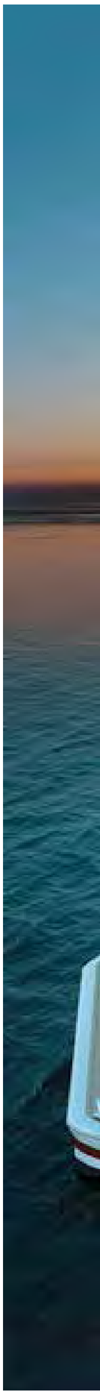
At an operational level, the process of deciding with the Italian Navy the configuration of all vessels in its fleet renewal program has been completed in prelude to subsequent contract finalization.

During 2014, the U.S. Navy allocated new funds to the LCS (Littoral Combat Ship) program for the construction of four more ships under the order for 20 ships awarded to the two consortia Austal and Lockheed Martin-Fincantieri at the end of 2010. Two of these ships (LCS17 and LCS19) will be built by Fincantieri Marine Group, the American subsidiary, at its Marinette shipyard.

The LCS program has been confirmed in its entirety, resulting in the ultimate construction of 52 ships, of which the last 20, due to be ordered between 2019 and 2025, will have a modified design compared with those currently under construction.

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, taking the total number of boats ordered to date under this program to 174.

The new orders placed in the year confirm Fincantieri's position as a preferred partner of the U.S. Navy and the U.S. Coast Guard.



left
FREMM "Carlo Margottini"
Riva Trigoso-Muggiano
integrated shipyard

below
"Skyback with Crystal Beach"
project

Mega yachts

Demand for mega yachts of more than 60 meters long was at about the same level as the year before. The market displayed a certain liveliness, with a positive trend especially in the high-end market.

A small group of Dutch, German and Italian shipbuilders are the main players especially for customized larger projects, while competition in the market for smaller vessels (60-80 meters) and semi-custom vessels is very fragmented with the continued appearance of new operators.

Offshore

Demand by the offshore industry in 2014 reported a positive trend in the first half of the year, followed by a rapid slowdown due to the oil price decline and consequently negative impact on spending decisions regarding Oil&Gas Exploration&Production.

Nevertheless, the support vessels sector, particularly where platform supply vessels (PSV) and anchor handlers (AHTS) were concerned, closed with the year with a comparable number of orders to the previous year. However, orders for semisubs and drillships reported a sharp reduction.

The industry's fundamentals nonetheless remain solid, with population growth and growing demand in developing countries meaning that the overall demand for energy (oil&gas) is expected to grow by 34% between 2014 and 2030.

This medium to long-term scenario therefore justifies the expectations that oil prices will recover over this period, even if the short-term context is one of great uncertainty and slowing investment.

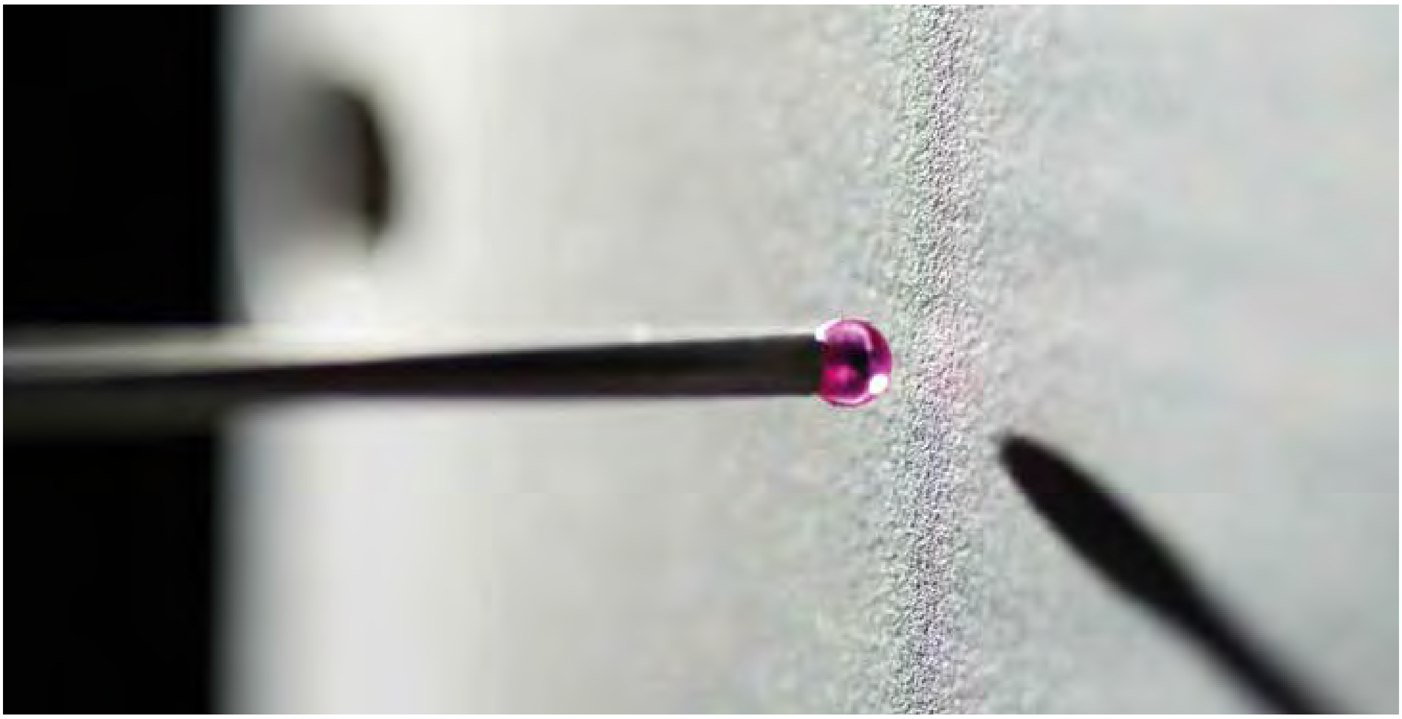
Although the current scenario for the support vessels industry is seeing more cautious investment policies, interesting opportunities are nonetheless available for certain types of vessel, particularly the segment of subsea support vessels in which VARD specializes.

As for offshore drilling and production vessels, Fincantieri is strongly committed to developing new generation vessels. Accordingly, it entered an agreement in 2014 with Technip for the joint development of vessels for offshore oil and gas production, such as FPU (Floating Production Units) and FRSU (Floating Regasification&Storage Units).

Furthermore, in the drillships segment, last year Fincantieri Offshore presented a revolutionary design for a deepwater drilling vessel called PROXIMA. This ship is equipped with an innovative drilling system comprising two telescopic cylindrical towers and has the largest drillfloor available on the market for this type of vessel. This innovative configuration considerably increases drilling speed. PROXIMA was ranked as one of the industry's ten most innovative projects presented during the year.

"Proxima" project

Research, Development and Innovation



In 2014, the Group expensed to income research and development costs equating to 2.3% of its revenue. Such a level of investment is necessary for enhance the Group's competitive advantage in a market that, despite some signs of improvement, remains difficult and where product and process innovation is a key factor for success.

During the year, the Group developed several technological solutions that focused on energy efficiency, environmental impact reduction, payload maximization, product and operating cost reduction, improvements in safety and quality perception and cost-competitive compliance with rapidly evolving regulations. Such activities led to the filing of a total of seventeen patent applications in 2014 relating to innovative solutions applicable to the Group's products.

As evidence of its innovation capability, Fincantieri won the National Award for Innovation, in the Large Groups category (for promoting the culture of innovation among young people) and the Italian Confederation of Industry's Andrea Pininfarina Business Award for Innovation in the Industry and Services category.

During 2014 Fincantieri pursued Innovation Challenge in partnership with the University of Palermo, an initiative conceived in realization of the Open Innovation model of collaboration between private enterprise and research bodies.

In addition, the Group completed the "A Journey to the Future" project which looked at the mega trends likely to impact the Group in coming years in order to identify a number of medium to long-term innovation projects.

The subsidiary Vard is pursuing a series of projects focused on a wide range of Research&Development (R&D) activities, both in-house and in collaboration with industrial and academic partners, testifying to its position as a provider of state-of-the-art high-tech solutions to some of the most demanding customers in the Oil&Gas industry. These activities are pursued by Vard Design, a group subsidiary specialized in R&D, and by other more product-focused companies, like Vard Electro. Vard Design developed two new concepts in 2014 that will be presented to the market during the first half of 2015.

R&D activities in Vard Electro focus on the ongoing development and expansion of the portfolio of products and services offered, allowing the business to innovate and remain competitive. R&D concentrates on innovations that meet customer needs and provide value, as well as on environment-friendly solutions that reduce vessel CO_2 emissions. The main areas of innovation explored in recent years have included automation systems, power generation and management systems, wireless monitoring systems and navigation systems.

REFERENCE FRAMEWORK

With regard to Horizon 2020, the European Commission's Framework Program for funding Research, Development, Innovation and Training in the period 2014-2020, Fincantieri participated in two proposals presented in response to the first two calls for funding: "Safer and more efficient waterborne operations through new technologies and smarter traffic management" and "Towards the energy efficient and emission free vessel".

As is known, Horizon 2020 offers funding for Research&Development projects in the form of Public Private Partnerships, designed to achieve better synergies between stakeholders through long-term participation and formal commitment in terms of results and resources.

SEA Europe, the association representing the European maritime industry and to which all the continent's major shipbuilding countries belong, set up the association known as "Vessels for the Future" in November 2014. The initiative, of which Fincantieri is a founding member along with Rolls Royce, aims to promote research, development and innovation in the maritime sector through a Public Private Partnership with the European Union, focusing European maritime research in the Horizon 2020 program on the key issues of competitive pricing, environmental sustainability and safety.

As part of the "Blue Med - research and innovation initiative for blue jobs and growth in the Mediterranean", Fincantieri has helped finalize the integrated mapping of the contributions of nine European countries in the Mediterranean area, identifying existing shortcomings and opportunities for R&D.

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. During 2014 Fincantieri oversaw activities to identify and overcome the technological and regulatory gaps to promote the on-board installation of effective scrubbers that treat gaseous emissions and the use of LNG as an alternative fuel under the European Sustainable Shipping Forum (ESSF).

In Italy, the 2015 Stability Law has introduced a new mechanism to support maritime industry research and innovation which finally puts shipbuilding on a par with other industries, thereby removing the restrictions previously imposed by the Shipbuilding Framework.

With reference to the "Transport Italy 2020" National Technology Cluster, which took on a formal dimension in 2014, Fincantieri has acted in a leadership role for the entire maritime industry and as the Secretariat for this strategic organization.

Moreover, during the reporting period, Fincantieri continued its efforts in support of the Adriatic-Ionian Initiative, activated by the European Parliament; late in the year, the Region of Friuli Venezia Giulia approved action aimed at developing the start-up of a macro-regional technology cluster for maritime industry technology, which should bring production and knowledge chains together in the areas involved.
In parallel, Fincantieri has strongly supported the Italian Ministry of Education's efforts to ensure a proper understanding of the industrial issues in connection with the Joint Programming Initiative Health and Productive Seas and Oceans (JPI Oceans), which has 23 participating Member States; in fact, Fincantieri has led the pilot action for Italy relating to maritime technologies, which has attracted the immediate interest of Germany, United Kingdom, Netherlands, Norway and Portugal, and remains open to other members.

PRINCIPAL EUROPEAN PROJECTS

In Europe, Fincantieri continued to work on the joint projects already underway, including the MOSAIC project, coordinated by Cetena S.p.A., on hull structural efficiency, and the GRIP and JOULES projects (with the direct involvement of the Mega Yachts division), both dedicated to improving hydrodynamic and systems efficiency for lower energy consumption.
Fincantieri also participates in the MESA (Maritime Europe Strategy Action) support action, aimed at reinforcing the research and innovation strategies of transport-related industries in Europe, through the formation of special integration groups for specific areas of technological interest.
With reference to projects funded by the European Defence Agency (EDA) in which the Fincantieri Group participates, worth mentioning are "RACUN - Robust Acoustic Communications in Underwater Networks", a project concluded in 2014, a project in progress known as AMMS "Impact of Mission Modularity on a Naval Ship's Life Cycle Cost" and the Group's participation in the EDA tender entitled "Study on Industrial and Technological Competences in the Naval Sector".
In addition, the VARD Group is a driving force behind the "Norwegian Centre of Expertise - Maritime", a program aimed at fostering and improving the process of innovation within the regional cluster through cooperation between companies, research and innovation centers and major government partners. The latter include Innovation Norway, SIVA (the Industrial Development Corporation of Norway) and the Research Council of Norway. In this context, it is noted that the maritime cluster surrounding the VARD base in Ålesund is a world leader in the design, construction, outfitting and operation of ships for the shipping industry.
Still with reference to the VARD Group, its subsidiary Vard Design was involved during 2014 in several long-term R&D initiatives, supported by the Norwegian Research Council. For example, it completed a three-year project entitled EEOSV (Energy Efficient and Environmentally Friendly Offshore Service Vessels), focused on the development of guidelines for the use of advanced CFD (Computational Fluid Dynamics) methods to improve integration between the hull and propulsion system. In addition, a three-year project entitled Vista (Virtual Sea trial) got underway with the aim of developing a virtual benchmarking system for Offshore Supply Vessels and the related propulsion and primary generating systems.
VARD also participates in several large-scale R&D projects supported by the Norwegian Research Council. These include "SFI Smart Maritime", a new eight-year initiative, which aims to create a center of expertise in energy efficiency and emissions reduction for the maritime sector. The center intends to support the industry with innovative methods and new concepts able to reduce

both investment and operating costs, as well as increase the shipping industry's ability to create value. Another long-term project is "SFI Marine Operations" whose purpose is to promote the use of new systems, processes and methods to make offshore operations safer, more efficient and more reliable. A third new project is focused on offshore logistics in arctic environments.

PRINCIPAL NATIONAL PROJECTS

Between 2013 and 2014 four industrial research and experimental projects were completed that benefited from grants under the Technological Innovation Fund. The topics covered and objectives pursued included energy efficiency and environmental impact as well as improvements in cruise ship safety and profitability. A brief description is provided below:

- "New criteria for integrated ship design regarding space optimization", aimed at maximizing the payload areas of cruise ships and ferries, while ensuring high safety standards at the same time.
- Technology innovation project for ships and systems for safety, maritime control and logistical/environmental support operations, ensuring both a technological upgrade of the product in terms of performance, and its economic sustainability on the market.
- "New criteria for integrated ship design regarding the environment", which promote the sustainable growth of the shipbuilding industry, through development of new technological solutions throughout the production chain.
- "Development of standards and hull-outfitting integration principles using simulation software applied to specific events (Tecnomatix)". The purpose of the project is to reorganize, optimize, standardize and harmonize all activities that contribute to the ship's construction process, in view of the specific nature of the systems, logistics and processes at each individual stage of production.

In addition, several research and development projects are in progress within the regional clusters that the Group has joined (Friuli Venezia Giulia's Naval and Nautical Technology Cluster, Liguria's Marine Technology Cluster, Liguria's Integrated Smart Systems Technology Cluster, Campania's Technology Cluster for engineering of polymers, composites and structures and Sicily's Sea Transport Technology Cluster).

Human Resources and Industrial Relations

The following section will present the Group's employment figures as well as its main initiatives in the field of Human Resources and Industrial Relations.

HEADCOUNT

(number)	2014	2013
Employees at year end:		
Total at year end	21,689	20,389
- of whom in Italy	7,706	7,735
- of whom in Parent Company	7,302	7,436
Average number of employees	21,154	20,169
- of whom in Italy	7,692	7,872
- of whom in Parent Company	7,366	7,577

The Fincantieri Group had 21,689 employees at 31 December 2014.
The Parent Company had 7,302 employees at 31 December 2014, a decrease of 134 on a year earlier reflecting the net effect of 349 leavers (in line with the Reorganization plan signed with the trade unions at the end of 2011) and 215 new entries.

INDUSTRIAL RELATIONS

The Parent Company's industrial relations during the year involved negotiations to extend the Extraordinary Wage Guarantee Fund for reorganization purposes and the signing of local agreements to adopt flexible working practices for efficient management of the growth in capacity utilization in Italy.

In particular, on 31 July 2014, Fincantieri and the national unions signed an agreement at the Ministry of Labor, following on from those previously signed in December 2011 and July 2013, 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 2014. The new agreement confirms the various mechanisms already defined in the previous agreements, aimed at managing surplus headcount while limiting the economic and social consequences for Fincantieri employees, and covers a smaller number of people than in the previous agreements due to the redundancies already made and the growth in capacity utilization.

The mechanisms for managing surplus headcount mentioned above continued to be used during 2014: the Parent Company released 349 staff, using "mobility" procedures, redundancy incentives, outplacements and voluntary redundancies, and transferred or retrained 160 others, while it temporarily laid off an average of 790 staff using the Extraordinary Wage Guarantee Fund.

Following the agreements already made at the shipyards in Castellammare di Stabia, Ancona and Sestri Ponente, agreements were signed during the year for the adoption of flexible working practices and working hours in the Merchant Vessels division and in the Palermo and Marghera yards, with the goal of increasing efficiency and productivity and making the business more competitive.

Industrial relations at VARD continued to be characterized in 2014 by a positive relationship with the trade unions at all its yards. The only episode of trade union protest during the year occurred at the VARD shipyards in Brazil, where a two-week strike was called in respect of wage demands.

As for the American subsidiary Fincantieri Marine Group, the focus of industrial relations was on identifying mechanisms to improve overall performance, resulting in a reduction in grievances during the year at Marinette Marine Corporation and the reaching of a new labor agreement in Bay Shipbuilding with three out of the four trade unions.

TRAINING AND DEVELOPMENT

During 2014 Fincantieri further strengthened its internal talent management system, aimed at enhancing the competencies of its employees, developing career plans and evaluating their performance, bringing the former into line with corporate strategy as reflected in the Fincantieri competency model.

The Corporate University (a school of management established in 2013 in collaboration with a leading international business school) developed a series of training programs for excellence, some of which already started with pilot projects the year before. These programs were for staff working in line and head office functions, with the aim of complementing their technical skills and experience gained in the field with inter-functional managerial skills, and mainly

related to the topic of Project Management, presented as a tool for enterprise management, change and innovation.
The Corporate University also ran its annual edition of the "Competency Management" program in support of the career development of middle management.
In order to accelerate and optimize the induction of young graduate recruits into the organization, several editions of the "Academy" training course were held with the aim of developing of common managerial and technical skills and encouraging the sharing of corporate values and Group standards of corporate conduct.
In the course of 2014, Vard founded the "Vard Academy" to deliver training to both employees and customers. Three types of training program have already been defined:

- *Competence programs:* courses on internal policies, procedures and updating of professional certifications, delivered both in the classroom and through e-Learning.
- *Leadership programs:* content was defined for leadership development programs, to be offered to management in 2015.
- *Customer programs:* training courses for customers on products, equipment and systems. These courses were mainly delivered by Vard Electro in 2014.

In order to preserve and develop its technical know-how, the Group's core competence, several classroom courses were organized for designers and operations staff to refresh their technical and professional skills, and to maintain and/or achieve the national and international certifications needed to manage key processes. During the year a number of technical courses were offered through the e-Learning platform to allow the related know-how to reach a wide audience. This platform will continue to be used in 2015, with an increase in the range of courses accessible.
Courses were also held in 2014 to prepare workers for transition into "supervisor" roles and for taking on additional job-related duties. Work continued on extending the "middle managers" project to all operating units with the aim of developing greater organizational awareness. Training for temporarily laid off employees continued to be provided.
Health and safety at work are fundamental values for the Fincantieri Group, in light of which it continued to provide extensive training in 2014 at every level of the organization; in the Parent Company's case this involved over 1,000 training events, with about 10,250 participants and approximately 81,500 hours of training. Training initiatives involved both compulsory courses in compliance with applicable rules on health and safety at work, issued by the State-Regions Conference, and continuation of the strategic "Towards Zero Accidents" project, details of which can be found in a later section of this report. In fact, the "Towards Zero Accidents" project alone accounted for more than 100 training events in 2014, involving over 8,500 hours of training and around 2,180 participants.
Activities to support and consolidate Fincantieri's internationalization process included the provision of courses to a good number of employees to improve their English.
Overall, the Parent company organized 1,580 training courses during 2014, with around 22,000 participants, for a total of 220,000 hours.
As part of the process of developing human resources, for a number of years the Group has employed a system of annual individual performance evaluation. This annual evaluation was conducted once again in 2014 and involved all white collar and management staff. This activity, which has now become an integral part of the resource management process, not only aims to improve employee performance through individual feedback but is also used to guide meritocratic decisions, to customize individual development paths, and to identify

training needs for any skills gaps, including with the assistance of the "Formare 2014" catalog of available training courses.
The "Development Center" project was carried forward in 2014. The related assessment process is designed to analyze potential and existing management skills, to create individual development plans and define career progression paths. This involved a large number of employees, at both senior and middle management levels and the clerical level. Particular attention was paid to the new graduates recruited in the last 24 months, who were involved in an ad hoc project primarily seeking to develop self-awareness of their competencies and motivational drive, and to identify the competencies acquired and the areas to consolidate or improve.
An "International Internship program" has also been set up to promote and encourage international experience by new graduates who want to test themselves in an international environment, by giving them the opportunity for work experience in the Group's foreign offices. This program will be rolled out during 2015.
Fincantieri Marine Group also continued to implement the talent management process, completing the identification of high potential staff in all its units; it also embarked on the process of succession planning and distribution of individual development plans, according to Parent Company guidelines, with both activities due to be completed in 2015.
Among the training topics receiving particular attention in the United States during 2014 were human resource management, conflict management, project management and leadership.

TALENT ACQUISITION

As for recruiting activities, 2014 saw an enhancement of the talent acquisition process, with the aim of widening the selection channels and boosting employer branding, including internationally, 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, during 2014 the Parent Company forged stronger ties with universities and initiated new contacts with specialist academic institutions to ensure a constant flow of qualified young people to train and employ through internships during and after degree courses. Fincantieri also bolstered its presence on the main social professional networks, making greater use of them as a recruitment channel.
During the second half of the year a pilot project took shape under the name "Recruiting Upstream"; this joint project between the Ministry of Education, the Regions of Friuli Venezia Giulia, Liguria and Campania, the main universities in the regions involved and Fincantieri, is focused on orientation, training weeks, internships and apprenticeships for young people in high school and university. The project aims to foster the orientation of young talent towards technical professions relevant to shipbuilding, significantly increasing the employment opportunities of young people and allowing them, through their learning experience in Fincantieri, to develop skills and know-how that better meet current labor market demands.
VARD continued in 2014 to strengthen its employer branding in the key markets in which it operates. Important initiatives were launched in Brazil, a country where it is particularly difficult to find staff with experience in the shipbuilding sector, and where about 700 new employees have been selected and trained.
To cover its personnel requirements in 2014, Fincantieri Marine Group, entered into agreements with leading local educational establishments to participate at job and career fairs, and in so

doing was able to ensure an adequate flow of new hires, albeit in a US labor market in which unemployment is down to 5% and the working population is progressively aging.

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 in the Parent Company during the year.

Since 2013, a series of regulations on IT Security have been in force which apply to certain key aspects of ICT risk management within Fincantieri's core processes in order to manage the security of its IT sites.

Respect for the environment

With the purpose of developing and applying its Environmental Policy and of managing all the environmental aspects of its activities, products and services, the Parent Company continued in 2014 to pursue certification for its production sites, particularly the Arsenale Triestino San Marco (ATSM) shipyard and the Naval Vessels headquarters in Genoa.
At the same time, monitoring by the auditing body (RINA) continued at the sites already in possession of ISO 14001 Environmental Management System certification, namely the Integrated Shipyard (in Riva Trigoso and Muggiano) and the shipyard in Ancona.
Regulatory and system compliance continued to be checked through internal auditing, while practices and procedures laid down by the ISO 14001 Environmental 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 focus of activities in 2014 was to consolidate the Environmental Management System at certified sites and to extend best practices to other production units waiting to start the certification process.
The main initiatives undertaken in 2014 focused not only on consolidating the Environmental Management System, by further improving the application of operating procedures and instructions, but also on raising awareness of the principles and virtuous behavior contained in the Environmental Policy among Fincantieri personnel and employees of contractors; in particular these initiatives involved:

- enhancement of production unit Prevention and Protection Services with the recruitment of new staff specialized in environmental management;
- training to update staff involved in managing the main environmental issues (waste management, management of atmospheric emissions and waste water management);
- specific training of Prevention and Protection Services personnel to allow them to qualify as Environmental Auditors.

The goal for 2015 will be to extend ISO 14001 Environmental Management System certification to two more production units and to introduce key performance indicators (KPI) to quantify the improvements resulting from the Management System's application.

VARD, which is already certified under ISO 14001, continued to improve its practices and procedures to minimize environmental impact, particularly with regard to waste management, noise abatement, emissions reduction and the construction of eco-friendly ships. In addition, VARD promotes an open dialogue on environmental issues with employees, authorities, local communities and other stakeholders.

Accordingly, periodic inspections carried out during the year uncovered only minor issues, managed locally.

Lastly, the Group's US companies focused on the objective of improving their "green" credentials through partnerships with institutions, special procedures and processes and specific actions for the recycling of waste and spent substances.

Ethics and safety at work

ETHICS AND SOCIAL RESPONSIBILITY

The scale 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.

The Parent Company continued to provide instruction about Italian Legislative Decree 231/01, following on from the update seminar held in 2013 and attended by Fincantieri's top management, senior operations managers and senior managers from its main subsidiaries. In fact, seminars were held during 2014 at all the Italian production sites on the legal provisions concerning corporate liability under Italian Legislative Decree no. 231/01, the responsibility of managers in relation to health, safety and environment, as well as on ways of preventing corruption and promoting transparency.

As more fully described below, the Company has initiated a certification process according to OHSAS 18001 standards, and has achieved this certification at some sites.

On the subject of ethics and social responsibility, VARD complies with two international certification standards: SA 8000 (Social Accountability) and OHSAS 18001 (Occupational Health and Safety Assessment Series).

The SA 8000 standard is based on principles established in international documents such as, among others, the Conventions of ILO (International Labor Organization) and the Universal Declaration of Human Rights, which are particularly relevant in emerging markets. All VARD's workplaces meet this standard, although some - such as those in Brazil and Romania - still do not possess official certification, although on track to receive it. During 2014, VARD was the subject of a series of audits conducted by customers, achieving the same positive feedback on each occasion.
Compliance with OHSAS 18001 demonstrates VARD's commitment to health and safety at work; currently the two VARD yards in Romania and Vietnam are officially certified under this standard. Compliance with both SA 8000 and OHSAS 18001 is increasingly seen as a hallmark of VARD's activities in this field. Lastly, in the United States a program was initiated to define best safety practices for the Group's various companies, involving an exchange of experience between the different Health Safety and Environment (HSE) teams, with the goal of achieving "zero accidents".

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 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. 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.
A specific procedure for disclosing conflicts of interest is in force in FINCANTIERI S.p.A..

SAFETY AT WORK

In 2014 the Parent Company further extended and consolidated the actions already initiated in previous years to enhance the growth in corporate culture and knowledge and awareness about the importance of safety at work.
The drivers of activities undertaken during 2014 were:

- the "Towards Zero Accidents" project, in its third year of application;
- an extensive training drive directed at all employees, aimed at reinforcing their safety expertise, also using the new training methods introduced by the State-Regions Conference;

- the continuation of activities to obtain certification of the Occupational Health and Safety Management System in accordance with the requirements of BS OHSAS 18001.

These actions led to another reduction in 2014 in the frequency of accidents, as demonstrated by the following statistics:

- the number of accidents totaled 209 compared with 260 in 2013, corresponding to a reduction of 20% on 2013;
- the corresponding Frequency Index was equal to 24.02, a 22% reduction from the figure of 30.98 reported at 31 December 2013.
- a total of 34,564 hours were lost to injuries in 2014, down 18% on 2013;
- the corresponding Severity index was equal to 0.66, a 21% reduction on 2013.

Accident prevention activities also continued at the US companies, involving the training of supervisors, communication at all levels and wide dissemination of preventive procedures such as "safety observation" and the "DuPont STOP program". In 2014, the Shipbuilders Council of America presented Marinette Marine Corporation with an "Award for Excellence in Safety" for its commitment to safety and radical reduction in accidents.

"Towards Zero Accidents" project

During 2014, the "Towards Zero Accidents" project - born 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 - focused on the development of training activities for all employees.

Accordingly, the activities already developed during 2013 were continued in 2014 for all persons in positions of responsibility for health and safety at work; training of all workers was completed, by combining programs defined by the State-Regions Conference with specific courses and by conducting communication activities not only to present the project, its aims and the actions undertaken (Communication - Best Practices - Safety&Environment Meetings - Accident and Near Miss Analysis, etc.), but also to provide senior and middle managers with specific expertise.

As part of the project, a new safety communication initiative, called "7 minutes", was launched to ensure continuous education in the best practices of prevention and protection to adopt at work. This training activity, directed at workers, is carried out directly by workshop supervisors and product supervisors through short, regular meetings held simultaneously in all workshops at each yard.

All the various organizational actions in support of the project continued in 2014, such as shipyard management meetings, departmental safety/environment meetings, and the sharing of information between all managers about accidents and near misses, in order to allow analysis of the events and identify remedial actions.

Mirroring "Towards Zero Accidents", VARD has taken forward its "Vision Zero" project, which aims to avoid any kind of accident, both for people and the environment, and has produced important results. Despite this, in April 2014, an employee of an outside firm tragically died following an accident at the VARD Braila yard in Romania. Since then, the rules have been tightened up concerning protective equipment and the adoption of preventive behavior for workplace safety.

In 2014, a video was also produced and translated into all the languages spoken within the VARD Group, which emphasizes to all employees the importance of always using protective equipment.

Once again in 2014, particular attention was given to promoting and communicating all initiatives aimed at reducing long-term impacts on health, as better detailed in the specific communications to shareholders required of VARD under Singapore Stock Exchange rules.

BS OHSAS 18001 certifications

During 2014, work continued 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, on 19 May 2014 this certification was achieved by the Integrated Shipyard (comprising the Riva Trigoso and Muggiano production units), while the certification process was completed for the Naval Vessels headquarters on 31 December 2014 and the certification already obtained in 2013 for the Ancona shipyard was confirmed.

The process of obtaining certification was initiated at the Arsenale Triestino San Marco (ATSM) yard in September 2014 and at the Marghera yard in November 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 following activities initiated in 2013 continued throughout the year:

- methods for managing the Company Training System;
- further improvement, using the most appropriate technology, of the safety systems contained in plant, machinery and equipment;
- roll-out to all yards 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

Audits were conducted during 2014 at all production units to check compliance with the legal and regulatory requirements and, where present, to inspect the Occupational Health, Safety and Environment Management System.

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

Enterprise risk management

The Fincantieri Group is exposed in the normal course of its business activities to various financial and non-financial risk factors, which, if they should materialize, could have an impact on the results of operations and financial condition of the Group.

RISKS RELATING TO OPERATIONAL COMPLEXITY

Description of risk

Due to operational complexity arising not only from the inherent nature of shipbuilding but also from the Group's geographical and product diversification and acquisition-led growth, the Group is exposed to the risk of being unable to implement adequate project management activities or to adequately manage such operational complexity or the process of organizational integration, with particular reference to the Vard Group.

Impact

If the Group was unable to implement adequate project management activities, with sufficient or effective procedures and actions to control the proper completion and efficiency of its shipbuilding processes, or if it was unable to adequately manage the complexity arising from its product diversification or if it failed to efficiently distribute workloads according to production capacity (equipment and labor) available on each occasion at the different production facilities, the Group's revenue and profitability might decline, with possible negative effects on its results of operations and financial condition.

Mitigation

To manage processes of such complexity, the Group adopts procedures and activity plans designed to manage and monitor the implementation of each project throughout its duration. In addition, the Group has adopted a flexible production structure in order to respond efficiently to fluctuations in demand for ships in the various business areas. This flexible approach allows the Group to overcome capacity constraints at individual shipyards and to work on more than one contract at the same time while guaranteeing very short lead times.

RISKS RELATING TO MARKET STRUCTURE

Description of risk

The Fincantieri Group has many years of experience of building cruise ships for Carnival, an American 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 Cruises, Holland America Line, Cunard and Costa Cruises. The special relationship with the Carnival Group is a definite strength for the Fincantieri Group. In the naval vessels business, 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 customer relationships.

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 and oil price forecasts, which in turn drive investment in exploration and production, while in the cruise market the main influence is the trend in the leisure market.

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 Fincantieri Group's policy of diversifying its cruise ship customers, 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 United States, 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, the Group has pursued a diversification strategy in recent years, expanding its business both in terms of products and geographical coverage. Since 2005 the Group has expanded into the businesses 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 value-added markets. As far as civilian vessels are concerned, the Parent Company has been focusing for several years on the cruise ship and cruise ferry segments, where it has a long track record; 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 its core business areas 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 business areas 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 United States 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.

RISKS RELATING TO CONTRACT MANAGEMENT

Description of risk

The shipbuilding contracts managed by the Group are mostly long-term contracts for a fixed consideration, any change in which must be agreed with the customer. The price agreed upon signing the contract must take into account the costs of raw materials, machinery, components, sub-contracts and all other construction-related costs (including personnel costs and overheads); the determination of such 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 will already have been defined for some of the ship's principal components.

Description of risk

Many factors can influence production programs and capacity utilization, and so impact the contractual terms of vessel delivery 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 during the contract life cycle (design, procurement, construction, fitting out).

Description of risk

A significant number of the Group's shipbuilding contracts (in general, for merchant vessels like cruise ships and offshore support vessels) establish that only a part of the contract price is paid by the customer during the period of ship construction.
As a result, the Group incurs significant upfront costs and liabilities, thus assuming the risk of incurring such costs before receiving full payment of the price from its customers and consequently having to finance the working capital absorbed by ships under construction.

Impact

If the Group was unable to finance the working capital needs of ships under construction, it might not be able to complete contracts or win new ones, with negative effects on its results of operations and financial condition.

Mitigation

The Group maintains committed and uncommitted credit lines and construction loans at such a level as to ensure coverage of the working capital needs of its operations.

Description of risk

The ships built by the Group can have a high contract price, meaning that its customers often rely on finance to finalize the placement of orders.
In the case of overseas customers, these are eligible for export finance schemes structured in accordance with OECD rules.
Under such schemes, overseas buyers of ships can obtain bank credit against receipt of a guarantee by a national export credit agency, which in the case of Italy is SACE S.p.A..
The availability of export financing is therefore a key requirement for allowing customers to award contracts to the Group, especially where cruise ship construction is concerned.

Impact

The lack of available finance for the Group's customers could have a significantly adverse effect on the Group's ability to obtain new orders from its customers or on the ability of these customers to comply with the contractual terms of payment.

Mitigation

Fincantieri supports foreign customers during the process of finalizing export finance and particularly in managing relations with the agencies and companies involved in structuring such finance (for example, SACE, Simest and the banks). In addition, the process of structuring finance is managed in parallel with the process of finalizing the commercial contract, the enforceability of which is often subject to the shipowner's receipt of the commitment by SACE and the banks to provide an export credit guarantee.
As an additional safeguard for the Group, in the event of a customer's default on its contractual obligations, Fincantieri has the right to terminate the contract, retaining ownership of the ship under construction and keeping the payments received. The customer may also be held liable for any uncovered costs.

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 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. Lastly, specific training activities are planned to ensure that key management positions are covered in the event of staff changes.

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 changes in safety or environmental standards, as well as the occurrence of exceptional or unforeseen events could cause the Fincantieri Group to incur extraordinary costs relating to the environment or health and safety at work.

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 81/2008 - "Implementation of art. 1 of Law no, 123 dated 3 August 2007, concerning health and safety at work" (known as the "Health and 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.

Description of risk

Working in the defense and security sector, the Group is exposed to the risk that the evolving tendency in this sector could lead in the near future to restrictions on the currently permitted exceptions to competition law, with consequent limitations on the direct award of business, for the purpose of ensuring greater competition in this particular market.

Impact

Possible limitations on the direct award of business could prevent the Group from being awarded work through negotiated procedures, without any prior publication of a public tender notice.

Mitigation

The Group is monitoring the possible evolution of national and Community legislation that could open up the possibility of competing in the defense and security sector including in other countries.

RISKS RELATING TO COMPUTER SECURITY AND OPERATION OF THE INFORMATION SYSTEM

Description of risk

The Group's business could be adversely affected by any disruption of the computer system or network or by illegal attempts to gain unauthorized access or by breaches of its data security system, including coordinated attacks by groups of hackers.

Impact

Computer system failures, loss or corruption of data, including as a result of external attacks, inappropriate IT solutions for the needs of the business, or updates to IT solutions out in line with user needs, could affect the Group's operations by causing errors in the execution of operations, inefficiencies and procedural delays and other disruptions.

Mitigation

The Group believes that it has taken all necessary steps to minimize these risks, by adopting best practice solutions of governance and by continuously monitoring the management of its IT infrastructure and applications.

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 therefore arises when shipbuilding contracts or supplier contracts are denominated in a foreign currency. 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 EXISTING DEBT

Description of risk

Some of the Group's loan agreements involve commitments and constraints (such as cross-default clauses and covenants) for the Group that may lead to early repayment of the loans.

Impact

In the event of early repayment and if the ability to access credit was limited, including because of its financial performance, the Group could be forced to delay raising capital or to seek financial resources under more onerous terms and conditions, with negative effects on its results of operations and financial condition.

Mitigation

The Group constantly monitors its capital and financial structure in order to verify compliance with its covenants. In addition, the Group can prevent the activation of cross-default clauses by promptly providing additional guarantees to the bank.

A fuller analysis of financial risks can be found in the notes of the financial statements.

Corporate Governance

The "Report on Corporate Governance and Ownership Structure" (the "Report") required by art. 123-bis of Italy's Consolidated Law on Finance (TUF) is a stand-alone document approved by the Board of Directors on 13 March 2015, and published in the "Corporate Governance" section of the Company's website at www.fincantieri.it.

The Report has been prepared in accordance with the recommendations of the Corporate Governance Code and modeled on the "Format for the report on corporate governance and ownership structure - V Edition (January 2015)" drawn up by *Borsa Italiana S.p.A.*.

The Report contains a general and complete overview of the corporate governance system adopted by FINCANTIERI S.p.A.. It illustrates the Company's profile and the principles underlying the way it conducts its business; it provides information about the ownership structure and adoption of the Corporate Governance Code, including the main governance practices applied and the main characteristics of the system of internal control and risk management; it contains a description of the operation and composition of the governing and supervisory bodies and their committees, roles, duties and responsibilities.

The criteria for determining the compensation of the directors are set out in the "Compensation Report", prepared in compliance with the requirements of art. 123-ter of the TUF and art. 84-quater of the Consob Issuer Regulations, and published in the "Corporate Governance" section of the Company's website.

Other information

LISTING ON THE ITALIAN STOCK MARKET

During the first half of 2014, the Fincantieri Group undertook and successfully completed the process of listing its shares on the Italian stock market (*Mercato Telematico Azionario* or MTA) organized and managed by *Borsa Italiana S.p.A.*, marking an important milestone in the Group's history.
The process involved a preparatory phase in the months of March, April and May, and an offering period during the month of June.
The main formal steps during the preparatory phase were as follows:

- on 5 May 2014, the shareholders of FINCANTIERI S.p.A. approved, in ordinary general meeting, the proposal to apply for listing of the Company's shares, and, in extraordinary general meeting, a share capital increase for up to euro 600 million to serve the initial public offering;
- on 6 May 2014, the request for permission to publish the prospectus was filed with Consob (Italy's stock market regulator);
- on 9 May 2014, the application for admission to listing was presented to *Borsa Italiana S.p.A.*;
- on 28 May 2014, the shareholders voted in general meeting to increase the size of the Board of Directors from 5 to 9 members;
- on 12 June 2014, *Borsa Italiana S.p.A.* authorized the admission to listing of the Company's shares and Consob approved the prospectus for the initial public offering.

The offering period, lasting from 16 to 27 June 2014 and involving a maximum of 703,980,000 shares, of which up to 600,000,000 from the share capital increase and up to 103,980,000 offered by the selling shareholder, saw management engaged in numerous meetings with investors in the major European and U.S. financial centers.
During this period, characterized by a large number of equity placements in Europe and Italy, an increase in market volatility and poor overall performance by equity markets, applications were received for a total of 578,475,809 shares, of which 69% from the general public, which showed great interest in the Group. Based on the number of applications received, it was decided, by the Board of Directors on 27 June 2014, to reduce the total number of shares placed to 450,000,000, derived exclusively from the capital increase, and to fix the price at €0.78 per share (the offer price range having been €0.78 - €1.00).
Upon allotment, a total of 500,000,000 shares were allocated to 55,200 applicants, of which 450,000,000 derived from the capital increase and 50,000,000 from the exercise of an overallotment option granted by the selling shareholder. Furthermore, under the claw-back provision contained in the Prospectus, a total of 99,262,000 shares were allotted to institutional investors and 400,738,000 shares to the general public, including 5,650,000 shares to Fincantieri employees residing in Italy.
Settlement took place on 3 July 2014, coinciding with the first day of trading of the Company's shares on the MTA, with the proceeds from the capital increase amounting to euro 351 million, of which euro 230 million allocated to share capital and euro 121 million to the share premium reserve.

The costs of the listing amounted to euro 19 million, of which euro 12 million has been accounted for as a deduction from the share premium reserve (net of euro 4 million in tax effects), while the remainder (euro 3 million) has been recognized as services in the income statement and reported among "non-recurring expenses".
A statement confirming execution of the capital increase approved by resolution of the Extraordinary Shareholders' Meeting held on 5 May 2014 was formally lodged with the Trieste Company Registry on 3 July 2014. Therefore, the share capital of FINCANTIERI S.p.A. now amounts to euro 862,980,726 divided into 1,692,119,070 ordinary shares with no par value.
Lastly, it is reported that the Stabilizing Manager, Credit Suisse Securities (Europe) Limited, also acting in the name and on behalf of the Institutional Managers, partially exercised the greenshoe option granted by Fintecna S.p.A. over 7,215,171 shares for consideration of euro 5.6 million, settled on 6 August. Including the exercised part of the greenshoe option, the Global Offering therefore involved a total of 457,215,171 FINCANTIERI S.p.A. shares, corresponding to 27% of the company's share capital, for an aggregate amount of euro 356.6 million.

STOCK PERFORMANCE

Since trading in the shares of FINCANTIERI S.p.A. on the Milan Stock Exchange only commenced on 3 July 2014, it is not possible to compare the stock's annualized performance with the principal market benchmarks. Between its listing date to the reporting date, the stock price fell by 1.5%, from a placement price of €0.78 to €0.77 at year end. Over the same period the FTSE MIB, the index comprising Italy's 40 largest stocks, recorded a decrease of 13.1%, while the FTSE Mid Cap, which Fincantieri joined from 3 September 2014, fell by 12.9%.
The stock price hit a low of €0.62 on 15 October 2014, following the profit guidance issued by Vard on announcing a third-quarter loss for 2014; it then embarked on a gradual recovery, reaching a high of €0.78 on 29 December 2014 and ultimately closing the year at €0.77.
Fincantieri's share capital of euro 862,980,725.70 at 31 December 2014 is held as follows: 72.5% by Fintecna S.p.A. and 27.5% by individual shareholders and institutional investors. At the end of December, Fincantieri had a market capitalization of about euro 1.3 billion. In terms of stock liquidity, a total of 206 million shares were traded during the year, including during the stabilization period, with an average daily trading volume of around 1.6 million shares.

Key figures		2014
Share capital	Euro	862,980,725.70
Shares outstanding	Number	1,692,119,070
Market capitalization	Euro/million	1,300

Performance		2014
Price at year end	Euro	0.77
Year high	Euro	0.78
Year low	Euro	0.62
Average price	Euro	0.70

OTHER SIGNIFICANT EVENTS IN THE PERIOD

During 2014 Fincantieri acquired 50% of the share capital of Seastema S.p.A. from ABB S.p.A. and 38% and 11% interests in the share capital of Delfi S.r.l. from ISSELnord S.r.l. and Gentes S.r.l. respectively. Following these acquisitions Fincantieri now controls 100% of the share capital in both these companies.

During the period, Vard Marine Inc. was formed in Canada, with all of its share capital owned by Vard Group AS; Vard Marine Inc. has since acquired and absorbed STX Canada Marine Inc., a leading provider of marine engineering services in North America with 75 employees.

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

In May, Fincantieri signed a historic settlement agreement in Baghdad with the Iraqi government that paves the way for resolving a more than twenty-year dispute between the parties. In return for closing all outstanding litigation, the agreement also provides for the refurbishment of the two corvettes "Musa Bin Nasir" and "Tariq Bin Ziyad", whose delivery was suspended as a result of the arms embargo imposed on Iraq at the time of the First Gulf War.

In May, Fincantieri presented the market with its PROXIMA project for a revolutionary offshore drillship able to operate effectively at greater depths than comparable vessels. PROXIMA has been developed by integrating the innovative drilling tower designed by Castor Drilling Solution AS. This project has confirmed Fincantieri’s strong commitment to developing the offshore market.

In September, Fincantieri won two prestigious awards for having promoted the culture of innovation among young people: the National Award for Innovation and the Andrea Pininfarina Business Award for Innovation.

On 8 October, Mr. Giuseppe Dado was appointed as Chief Financial Officer.

In October, an important cooperation agreement between Fincantieri and Finmeccanica was signed in the field of military shipbuilding with the aim of making the two companies more competitive in domestic and international markets by offering a more effective and efficient integrated range of products. The agreement also provides for collaboration in research and innovation in order to maximize market position and rationalize the associated expenditure.

On 20 October 2014, the newly-formed subsidiary Marine Interiors S.p.A. finalized an agreement to lease "Santarossa Contract", with an option to buy this business, which is currently in a state of voluntary arrangement and is a traditional supplier of Fincantieri for the design and creation of turnkey solutions and cabin refitting for the cruise industry. This transaction is in line with the strategic decision to expand Fincantieri's direct involvement in higher value-added segments, with the aim of expanding its areas of business and reducing its supply costs at the same time.

On 29 October 2014, during the Euronaval event Fincantieri signed a cooperation agreement with Cantiere Navale Vittoria, a shipyard specialized in building military, transport and working vessels of up to 100 meters long. The agreement provides for the supply of services and activities relating to platforms for smaller vessels for both military and commercial use.

In addition, Fincantieri and Technip Italy, a world leading provider of project management, engineering, and construction services for the energy industry, signed a Memorandum of Understanding aimed at increasing their competitiveness in the domestic and international offshore market.

On 18 November 2014, Fincantieri and the Italian Navy signed an agreement in La Spezia concerning the "Fincantieri Training Academy" program, under which Fincantieri and the Navy will offer a wide package of training activities, covering not only structural and technological issues but academic ones as well. This partnership will allow Fincantieri to present itself on international markets with a turnkey package, covering not just vessel construction, but also crew training and after-sales support.

On 21 November 2014, Fincantieri signed two Memoranda of Understanding, one with Carnival Corporation and the other with China CSSC Holdings Limited, controlled by CSSC (China State Shipbuilding Corporation), China's largest shipbuilding conglomerate, with the aim of exploring the possibility of a joint venture to build cruise ships for the Chinese market, under which Fincantieri would provide designs, assistance and a series of key components made in Italy.

KEY EVENTS AFTER THE REPORTING PERIOD ENDED 31.12.2014

On 29 January 2015, Fincantieri announced the formation of Fincantieri SI, a company based in Trieste, to design, manufacture and supply integrated innovative systems in the field of electric, electronic and electromechanical industrial solutions.

On 4 February 2015, SEA Europe, the association representing the European maritime industry and to which all the continent's major shipbuilding countries belong, officially launched the association known as "Vessels for the Future". The initiative, of which Fincantieri is a founding member along with Rolls Royce, aims to promote research, development and innovation in the maritime sector, with a particular focus on vessels of the future and their operational requirements.

On 9 February 2015, the three winning project ideas were announced for Innovation Challenge, the Open Innovation initiative developed by Fincantieri with the Department of Chemical, Management, Computer and Mechanical Engineering of the University of Palermo. The ideas selected will become joint research projects between Fincantieri and the University of Palermo.

On 13 February 2015, the Board of Directors of FINCANTIERI S.p.A. approved, as part of a company reorganization process, the unification of the Corporate General Management unit, headed by Mr. Vitaliano Pappaianni, and the Operations General Management unit, headed by Mr. Enrico Buschi, into a single General Management unit. At the recommendation of Giuseppe Bono, the Chief Executive Officer, the Board also resolved to appoint as General Manager Mr. Andrea Mangoni, a member of the Company's Board of Directors since June 2013, who will take up his new position by March 2015.

During the month of February 2015, the "Britannia" was delivered at the Monfalcone shipyard, becoming the new flagship of P&O Cruises, a brand of the Carnival Group, the world's largest cruise ship operator. The delivery of "Britannia" further enhances and strengthens the partnership between Fincantieri and P&O Cruises, a prestige brand characterized by a particularly high-end customer target and catering to the British market, one of the most active and elegant in the world.

On 12 March 2015, the VARD Group was informed that Nordmoon Schiffahrts GmbH&Co. KG and Nordlight Schiffahrts GmbH&Co. had filed for bankruptcy in the court of Neumünster in Germany. The VARD Group is building a PSV for each of these two companies at its shipyard in Vietnam. The VARD Group has received a 10% advance payment in respect of one of these two vessels. On 13 March 2015, the VARD Group terminated the contracts for the construction of the two vessels. The VARD Group does not expect to have to return the advance payment and expects to be able to sell the two vessels at a price that will allow it to recover their construction costs, net of the advance received.

BUSINESS OUTLOOK

In general terms, the Group forecasts a sustained order intake in 2015, also in view of the expected finalization of contracts for the Italian Navy's fleet renewal program.

In the Shipbuilding segment, despite the gradual recovery in cruise volumes thanks to the significant number of new ships entering production, margins will continue to be affected by prices on cruise orders acquired during the crisis and currently under construction, as well as by still partial utilization of the Group's production capacity in Italy. As for the naval business, the period will see reduced production volumes, with vessels for the Italian Navy's fleet renewal program expected to enter production in the second half of the year.

Regarding the Offshore segment, the oil price decline has significantly altered the oil companies' exploration&production spending outlook, particularly in the North Sea. In this context, a general reduction in investments and the implementation of cost reduction programs are being seen. Consequently, 2015 will be a challenging year for the entire industry and for Vard in particular, with new order intake expected to be weak. Furthermore, despite the good revenue coverage from the existing order book for most of the

year, Vard is likely to experience decreasing yard utilization in Norway and Romania in the second half of 2015 and a challenging operating environment in Brazil. In this context, the company will continue to focus on the ongoing cost improvement program, in order to streamline its organization and increase flexibility, thus leading to an expected margin improvement on 2014.
The Equipment, Systems and Services segment can expect to see further growth in 2015 both in terms of order intake, driven by new orders for systems and services related to the Italian Navy's fleet renewal program, and in terms of revenue, confirming the expected volume growth, with confirmation of the positive margins achieved in previous years.

TRANSACTIONS WITH THE CONTROLLING COMPANY AND OTHER GROUP COMPANIES

Direction and coordination by Fintecna S.p.A., the main shareholder of FINCANTIERI S.p.A., ceased as from 3 July 2014.
In compliance with the provisions of the Regulations concerning related party transactions adopted under Consob Resolution no. 17221 of 12 March 2010 and subsequent amendments and additions, FINCANTIERI S.p.A. has adopted a "Procedure for Related Party Transactions" with effect from 3 July 2014.
As far as related party transactions are concerned, these do not qualify as either atypical or unusual, since they fall within the normal course of business by the Group's companies. Such transactions are conducted under market conditions, taking into account the characteristics of the goods and services involved.
Information about related party transactions, including the disclosures required by the Consob Communication dated 28 July 2006, are presented in Note 32 of the Notes to the Consolidated Financial Statements at 31 December 2014.

ITALIAN STOCKMARKET REGULATIONS

Art. 36 of the Consob Market Regulations (adopted by Consob Resolution no. 16191/2007 and subsequent amendments) sets out the listing conditions for companies that control companies incorporated in and governed by the laws of non-EU countries. With reference to these regulatory requirements concerning the listing conditions for companies that control companies, incorporated in and governed by the laws of non-EU countries, that are material to the consolidated financial statements, it is reported that as at 31 December 2014, the Fincantieri subsidiaries falling under the scope of the above article are the VARD Group and the FMG Group.
Suitable procedures have already been adopted to ensure that these groups comply with these regulations (art. 36).
In accordance with the disclosures required by Consob Communication no. DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions took place during 2014.

PURCHASE OF OWN SHARES

None of the Parent Company's own shares were purchased on the market in 2014.

Alternative non-gaap performance measures

Fincantieri's management reviews the performance of the Group and its business segments using certain non-GAAP 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 reorganization 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 period before adjustments for non-recurring items or those outside the ordinary course of business, which are reported before the related tax effect.
- **Net fixed capital**: this reports the fixed assets used in the business and includes the following items: Intangible assets, Property, plant and equipment, Investments and Other non-current assets (including the fair value of derivatives classified in non-current Financial assets and non-current Financial liabilities) net of Employee benefits.
- **Net working capital**: this is equal to capital employed in ordinary operations which includes Inventories and advances, Construction contracts and advances from customers, Construction loans, Trade receivables, Trade payables, Provisions for risks and charges, and Other current assets and liabilities (including Income tax assets, Income tax liabilities, Deferred tax assets and Deferred tax liabilities, as well as the fair value of derivatives classified in current Financial assets and current Financial liabilities).
- **Net invested capital**: this is equal to the total of Net fixed capital and Net working capital.
- **Free cash flow**: this is equal to the sum of (i) net cash flows from operating activities, (ii) net cash flows from investing activities and (iii) cash flows arising from the change in construction loans.
- **ROI**: the Group calculates ROI (Return on investment) as (i) the ratio between EBIT and the arithmetic mean of Net invested capital at the beginning and end of the reporting period, for the value reported at 31 December 2014, and (ii) the ratio between EBIT and Net invested capital at 31 December 2013. The method of calculating this ratio has been altered so as to moderate the effects of the first-time consolidation of Vard Holdings with effect from 23 January 2013.
- **ROE**: the Group calculates ROE (Return on equity) as (i) the ratio between Profit for the period and the arithmetic mean of total Equity at the beginning and end of the reporting period, for the value reported at 31 December 2014, and (ii) the ratio between Profit for the period and total Equity at 31 December 2013. The method of calculating this ratio has been altered so

as to moderate the effects of the first-time consolidation of Vard Holdings with effect from 23 January 2013.

- **Total debt/Total equity**: this is calculated as the ratio between Total debt and Total equity.
- **Net financial position/EBITDA**: this is calculated as the ratio between the Net financial position, as monitored by the Group, and EBITDA.
- **Net financial position/Total equity**: this is calculated as the ratio between the Net financial position, as monitored by the Group, and Total equity.
- **Provisions and impairment:** these refer to increases in the Provisions for risks and charges, impairment of Trade receivables and impairment of Other non-current and current assets.

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).

	31.12.2014		31.12.2013	
(Euro/000)	Equity	Profit for the year	Equity	Profit for the year
Parent Company Financial Statements	**1,295,659**	**37,519**	**933,076**	**41,544**
Share of equity and net profit of consolidated subsidiaries, net of carrying amount of the related investments	(145,845)	23,408	(213,564)	(5,672)
Consolidation adjustments for difference between purchase price and corresponding book value of equity	237,299	6,277	278,113	20,479
Reversal of dividends distributed by consolidated subsidiaries to the Parent Company		(400)		(204)
Joint ventures and associates accounted for using the equity method	8,199	81	8,116	601
Elimination of intercompany profits and losses and other consolidation adjustments	(2,823)	50	(2,873)	(31)
Exchange translation differences from line-by-line consolidation of foreign subsidiaries	(82,472)		(34,527)	
Equity and profit for the year attributable to owners of the parent	**1,310,017**	**66,935**	**968,341**	**56,717**
Non-controlling interests	219,875	(11,655)	242,225	28,401
Total consolidated equity and profit for the year	**1,529,892**	**55,280**	**1,210,566**	**85,118**

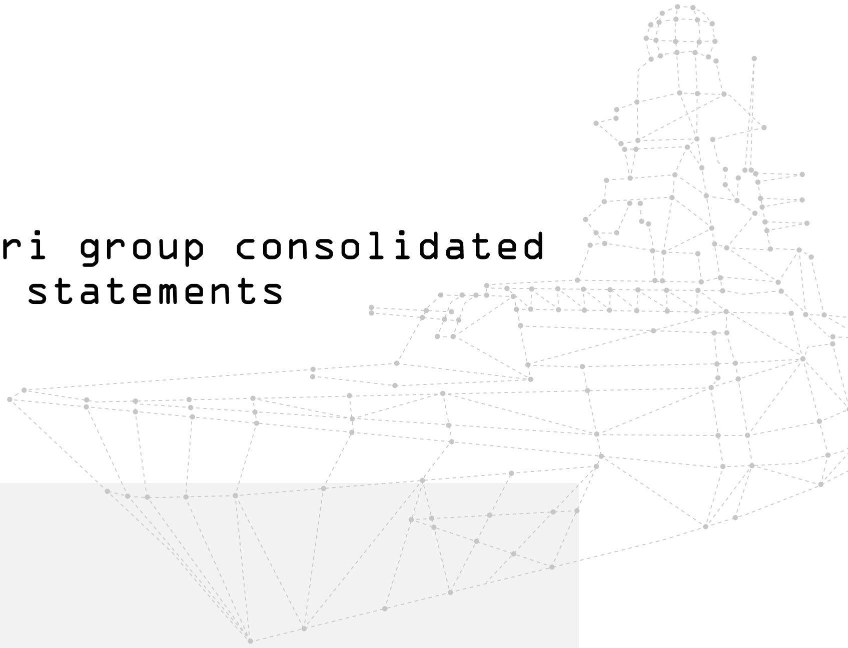
Reconciliation of the reclassified financial statements used in the report on operations with the mandatory IFRS statements

CONSOLIDATED INCOME STATEMENT

	31.12.2014		31.12.2013	
(Euro/million)	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A – Revenue		**4,399**		**3,811**
Operating revenue	4,315		3,737	
Other revenue and income	84		74	
B - Materials, services and other costs		**(3,234)**		**(2,745)**
Materials, services and other costs	(3,241)		(2,769)	
Recl. to I – Extraordinary and non-recurring income and expenses	7		24	
C - Personnel costs		**(843)**		**(752)**
Personnel costs	(862)		(770)	
Recl. to I – Extraordinary and non-recurring income and expenses	19		18	
D - Provisions and impairment		**(25)**		**(16)**
Provisions and impairment	(43)		(47)	
Recl. to I – Extraordinary and non-recurring income and expenses	18		31	
E - Depreciation and amortization		**(99)**		**(89)**
Depreciation and amortization	(99)		(89)	
F – Finance income and (costs)		**(66)**		**(55)**
Finance income and costs	(66)		(62)	
Recl. to I – Extraordinary and non-recurring income and expenses			7	
G - Income/(expense) from investments		**6**		**2**
Income/(expense) from investments	6		2	
H - Income taxes		**(51)**		**(19)**
Income taxes	(39)		9	
Recl. to L – Tax effect of extraordinary and non-recurring income and expenses	(12)		(28)	
I - Extraordinary and non-recurring income and expenses		**(44)**		**(80)**
Recl. from B - Materials, services and other costs	(7)		(24)	
Recl. from C - Personnel costs	(19)		(18)	
Recl. from D - Provisions and impairment	(18)		(31)	
Recl. from F – Finance income and costs			(7)	
L- Tax effect of extraordinary and non-recurring income and expenses		**12**		**28**
Recl. from H – Income taxes for the year	12		28	
Profit for the year		**55**		**85**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.12.2014		31.12.2013	
	(Euro/million)	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A)	**Intangible assets**		**508**		**539**
	Intangible assets	508		539	
B)	**Property, plant and equipment**		**959**		**897**
	Property, plant and equipment	959		897	
C)	**Investments**		**60**		**70**
	Investments	60		70	
D)	**Other non-current assets and liabilities**		**(48)**		**(14)**
	Derivative assets	1		17	
	Other non-current assets	15		17	
	Other liabilities	(46)		(47)	
	Derivative liabilities	(18)		(1)	
E)	**Employee benefits**		**(62)**		**(60)**
	Employee benefits	(62)		(60)	
F)	**Inventories and advances**		**388**		**400**
	Inventories and advances	388		400	
G)	**Construction contracts and advances from customers**		**1,112**		**757**
	Construction contracts - assets	1,649		1,531	
	Construction contracts – liabilities and advances from customers	(537)		(774)	
H)	**Construction loans**		**(847)**		**(563)**
	Construction loans	(847)		(563)	
I)	**Trade receivables**		**610**		**344**
	Trade receivables and other current assets	817		559	
	Recl. to N) Other assets	(207)		(215)	
L)	**Trade payables**		**(1,047)**		**(911)**
	Trade payables and other current liabilities	(1,250)		(1,155)	
	Recl. to N) Other liabilities	203		244	
M)	**Provisions for risks and charges**		**(129)**		**(151)**
	Provisions for risks and charges	(129)		(151)	
N)	**Other current assets and liabilities**		**(18)**		**57**
	Deferred tax assets	141		168	
	Income tax assets	55		38	
	Derivative assets	206		41	
	Recl. from I) Other current assets	207		215	
	Deferred tax liabilities	(84)		(88)	
	Income tax liabilities	(25)		(30)	
	Derivative liabilities and option fair value	(315)		(43)	
	Recl. from L) Other current liabilities	(203)		(244)	
NET INVESTED CAPITAL			**1,486**		**1,365**
O)	**Equity**		**1,530**		**1,210**
P)	**Net financial position**		**(44)**		**155**
SOURCES OF FUNDING			**1,486**		**1,365**
Q)	**Net (assets)/liabilities held for sale**				



fincantieri group consolidated financial statements

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Consolidated statement of financial position

(Euro/000)	Note	31.12.2014	*of which related parties Note 32*	3.12.2013	*of which related parties Note 32*
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	6	508,643		539,332	
Property, plant and equipment	7	958,517		896,545	
Investments accounted for using the equity method	8	52,796		61,647	
Other investments	8	7,683		8,917	
Financial assets	9	124,480	*7,147*	99,882	*8,548*
Other assets	10	14,705	*972*	17,456	
Deferred tax assets	11	140,914		167,651	
Total non-current assets		**1,807,738**		**1,791,430**	
CURRENT ASSETS					
Inventories and advances	12	388,467		399,728	
Construction contracts – assets	13	1,649,278		1,530,660	
Trade receivables and other current assets	14	975,051	*104,992*	558,921	*49,581*
Income tax assets	15	54,532		38,817	
Financial assets	16	136,693	*1,396*	99,353	*4,368*
Cash and cash equivalents	17	552,285		384,506	
Total current assets		**3,756,306**		**3,011,985**	
TOTAL ASSETS		**5,564,044**		**4,803,415**	
EQUITY AND LIABILITIES					
EQUITY	18				
Equity attributable to owners of the parent					
Share capital		862,981		633,481	
Reserves and retained earnings		447,036		334,860	
Total Equity attributable to owners of the parent		**1,310,017**		**968,341**	
Non-controlling interests		219,875		242,225	
Total Equity		**1,529,892**		**1,210,566**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	19	108,621		98,907	
Employee benefits	20	62,141		60,049	
Financial liabilities	21	652,918	*17,625*	604,727	*19,049*
Other liabilities	22	45,506		47,600	
Deferred tax liabilities	11	84,277		87,837	
Total non-current liabilities		**953,463**		**899,120**	
CURRENT LIABILITIES					
Provisions for risks and charges	19	19,864		51,860	
Construction contracts – liabilities	23	536,601		773,657	
Trade payables and other current liabilities	24	1,277,425	*14,981*	1,154,718	*13,255*
Income tax liabilities	25	25,178		30,220	
Financial liabilities	26	1,221,621	*1,762*	683,274	*4,424*
Total current liabilities		**3,080,689**		**2,693,729**	
TOTAL EQUITY AND LIABILITIES		**5,564,044**		**4,803,415**	

Consolidated statement of comprehensive income

(Euro/000)	Note	2014	*of which related parties Note 32*	2013	*of which related parties Note 32*
Operating revenue	27	4,314,962	*360,701*	3,737,165	*463,985*
Other revenue and income	27	83,744	*2,804*	73,897	*2,225*
Materials, services and other costs *of which non-recurring*	28 *32*	(3,240,630) *(6,967)*	*(25,264)*	(2,769,087) *(24,513)*	*(26,819)*
Personnel costs *of which non-recurring*	28 *32*	(861,422) *(18,234)*		(769,719) *(17,457)*	
Depreciation and amortization	28	(99,207)		(88,959)	
Previsions and impairment *of which non-recurring*	28 *32*	(42,884) *(18,376)*		(46,680) *(30,771)*	
Finance income	29	36,254	*335*	22,952	*282*
Finance costs *of which non-recurring*	29 *32*	(102,553)	*(4,298)*	(85,480) *(7,718)*	*(18,598)*
Income/(expense) from investments	30	859		(444)	
Share of profit/(loss) of investments accounted for using the equity method	30	5,049		2,006	
Income taxes	31	(38,892)		9,467	
PROFIT/(LOSS) FOR THE YEAR (A)		**55,280**		**85,118**	
Attributable to owners of the parent		*66,935*		*56,717*	
Attributable to non-controlling interests		*(11,655)*		*28,401*	
Basic earnings/(loss) per share (Euro)	32	0.04564		0.04566	
Diluted earnings/(loss) per share (Euro)	32	0.04564		0.04566	

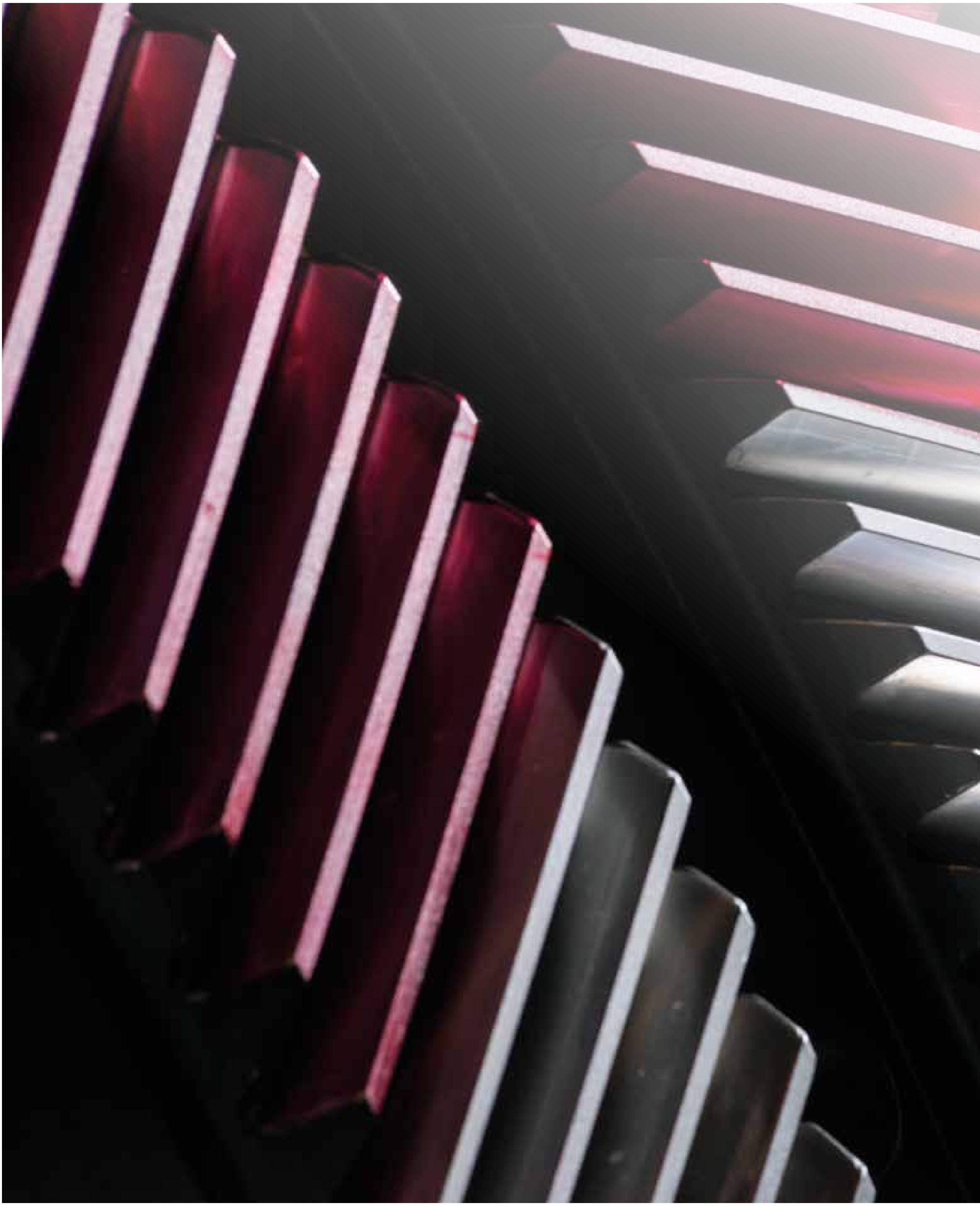
Other comprehensive income/(losses), net of tax (OCI)					
Gains/(losses) from remeasurement of employee defined benefit plans	18-20	(5,594)		1,079	
Total gains/(losses) that will not be reclassified to profit or loss, net of tax ***attributable to non-controlling interests***	18	**(5,594)** ***(11)***		**1,079** ***403***	
Effective portion of gains/(losses) on cash flow hedging instruments	4-18	566		510	
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method		(2,964)		(744)	
Gains/(losses) arising from fair value measurement of available-for-sale securities and bonds				(1)	
Exchange gains/(losses) arising on translation of foreign subsidiaries' financial statements	18	(55,142)		(41,996)	
Total gains/(losses) that may be subsequently reclassified to profit or loss, net of tax ***attributable to non-controlling interests***	18	**(57,540)** ***(9,586)***		**(42,231)** ***(17,736)***	
Total other comprehensive income/(losses), net of tax (B) ***attributable to non-controlling interests***	18	**(63,134)** ***(9,597)***		**(41,152)** ***(17,333)***	
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A) + (B)		**(7,854)**		**43,966**	
Attributable to owners of the parent		*13,398*		*32,898*	
Attributable to non-controlling interests		*(21,252)*		*11,068*	

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**
1.1.2013	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
Acquisition 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**
Share capital increase		229,500	110,428	339,928	1,160	341,088
Acquisition of non-controlling interests			(1,642)	(1,642)	(2,258)	(3,900)
Dividend distribution			(10,000)	(10,000)		(10,000)
Share capital increase – non-controlling interests						
Other changes/roundings			(8)	(8)		(8)
Total transactions with owners		***229,500***	***98,778***	***328,278***	***(1,098)***	***327,180***
Profit for the year			66,935	66,935	(11,655)	55,280
OCI for the year			(53,537)	(53,537)	(9,597)	(63,134)
Total comprehensive income for the year			***13,398***	***13,398***	***(21,252)***	***(7,854)***
31.12.2014	18	**862,981**	**447,036**	**1,310,017**	**219,875**	**1,529,892**

Consolidated statement of cash flows

(Euro/000)	Note	31.12.2014	31.12.2013
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	**(319,509)**	**(250,537)**
- of which related parties		*(54,657)*	*(24,839)*
Investments in:			
- intangible assets		(37,375)	(36,816)
- property, plant and equipment		(122,194)	(217,916)
- equity investments		(3,144)	(8,552)
- cash out for business combinations, net of cash acquired		(8,165)	(168,707)
Disposals of:			
- intangible assets		15	17
- property, plant and equipment		639	1,314
- equity investments		11,854	6,820
CASH FLOWS FROM INVESTING ACTIVITIES		**(158,370)**	**(423,840)**
Change in non-current loans:			
- proceeds		77,303	376,979
- repayments		(32,583)	(18,614)
Change in non-current financial receivables:			
- proceeds		(38,685)	(15,131)
- repayments		11,492	592
Change in current bank loans and credit facilities		353,091	191,071
Change in other current financial liabilities/receivables		(63,807)	(125,168)
Change in receivables for held-for-trading financial instruments		7	52
Change in payables for held-for-trading financial instruments		13,519	(1,074)
Contribution by shareholders		1,160	
Capital increase		339,928	
Change in non-controlling interests		(3,900)	1,464
CASH FLOWS FROM FINANCING ACTIVITIES		**657,525**	**410,171**
- of which related parties		*287*	*(130,662)*
NET CASH FLOWS FOR THE YEAR		**179,646**	**(264,206)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**384,506**	**691,827**
Effect of exchange rate changes on cash and cash equivalents		(11,867)	(43,115)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**552,285**	**384,506**



notes to the consolidated financial statements

Note 1 – Form, contents and other general information

THE PARENT COMPANY

FINCANTIERI S.p.A. (hereinafter "Fincantieri" or the "Company") is a public limited company with its registered office in Via Genova no. 1, Trieste (Italy), and is listed on the *Mercato Telematico Azionario* (Italy's electronic stock market) organized and managed by Borsa Italiana S.p.A..
As at 31 December 2014, 72.5% of the Company's share capital of euro 862,980,725.70 was held by Fintecna S.p.A.; the remainder of share capital was spread between a number of private investors, none of whom held significant interests of 2% or above. It should be noted that 100% of the share capital of Fintecna S.p.A. is 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.

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 value-added products such as cruise ships, naval vessels, ferries, mega yachts, offshore vessels, and ship systems and equipment.
In particular, the Group operates through the following three segments:

- Shipbuilding: encompassing the business units that build cruise ships and naval vessels and offer other products and services (ferries, mega yachts and ship repairs and conversions);
- Offshore: encompassing the design and construction of high-end offshore support vessels by its subsidiary Vard Holdings and the offer of innovative products in the field of drillships and semi-submersible drilling rigs;
- Equipment, Systems and Services: encompassing the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, and steam turbines, and the provision of logistical support and after-sales services.

BASIS OF PREPARATION

In 2007 Fincantieri adopted 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.
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, as at the reporting date of the Consolidated Financial Statements, had

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, and in compliance with Italian Legislative Decree 38/2005 and Consob Communication no. 6064293 dated 28 July 2006 concerning disclosures.

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.

The present Consolidated Financial Statements as at and for the year ended 31 December 2014 were approved by the Company's Board of Directors on 13 March 2015.

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 Consolidated 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.

When comparing the 2014 and 2013 financial statements, it is necessary to take into consideration the enlargement of the scope of consolidation as from 23 January 2013 following the VARD Group's acquisition.

Accounting standards, amendments and interpretations applicable to financial years ended 31 december 2014

A brief description of the amendments, improvements and interpretations applicable to financial years ended 31 December 2014 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 10 - *Consolidated Financial Statements,* IFRS 11 - *Joint Arrangements,* IFRS 12 - *Disclosure of Interests in Other Entities,* IAS 27 - *Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures.*

The objective of IFRS 10 is to provide a single model for the presentation and preparation of consolidated financial statements, in which control is the basis for the consolidation of all types of 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. IFRS 10 supersedes IAS 27 - *Consolidated and Separate Financial Statements* and SIC 12.

IFRS 11 establishes the accounting principles for entities that are parties to a joint arrangement and 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.

IFRS 12 combines, enhances and supersedes the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. In order to enable users of financial statements to evaluate the nature, risks and financial effects associated with equity investments, the standard requires a reporting entity to disclose information about a) the significant judgements and assumptions made about the nature of control over the investee, b) interests in subsidiaries, c) interests in joint arrangements and associates, and d) the nature of its interests in unconsolidated structured entities.

As a result of these new IFRSs, the IASB has also issued IAS 27 (revised) and IAS 28 (revised). All five of the above standards were published in the Official Journal of the European Union on 29 December 2012 and became effective for annual accounting periods beginning on or after 1 January 2014. These standards and the resulting amendments to existing standards and interpretations contain references to IFRS 9 that currently cannot be applied because IFRS 9 has not yet been formally adopted by the European Union. Therefore all references to IFRS 9 should be read as a reference to IAS 39 - *Financial Instruments: Recognition and Measurement*. In addition, all consequential amendments to IFRS 9 cannot be applied.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), issued by the IASB on 31 October 2012, were published in the Official Journal of the European Union in November 2013. These amendments are intended to exempt companies that manage and report their investments at fair value from the IFRS 10 consolidation requirements. Although these amendments are applicable for annual accounting periods beginning on or after 1 January 2014, they have had no effects on the current consolidated financial statements.

The Group has adopted these new standards from 1 January 2014. Their adoption has not had any significant effects apart from on the content of the disclosures made in the notes presented herewith.

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 liabilities in the statement of financial position, without changing the existing provisions of IAS 32. The amendments clarify that there is a legally enforceable right of set-off when both of the following conditions are satisfied:

- the right of set-off must be currently enforceable and not contingent on a future event;
- the right of set-off must be legally enforceable by all counterparties both in the normal course of business and in the event of insolvency or bankruptcy of one of the parties.

These amendments were published in the Official Journal of the European Union on 29 December 2012. The Group has applied these amendments retrospectively to its financial statements from 1 January 2014. No significant effect has arisen as a result of applying these amendments.

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. In particular, more detailed disclosure is required about fair value when there has been an impairment or impairment reversal (IFRS 13). These amendments were published in the Official Journal of the European Union on 20 December 2013. The Group has applied these amendments retrospectively to its financial statements from 1 January 2014. No significant effect has arisen as a result of applying these amendments.

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 an OTC derivative financial instrument, 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. These amendments will also be included in IFRS 9 - *Financial Instruments*. They were published in the Official Journal of the European Union on 20 December 2013. The Group has applied these amendments retrospectively to its financial statements from 1 January 2014. No significant effect has arisen as a result of applying these amendments.

On 20 May 2013, the IASB issued IFRIC 21 - *Levies*. This interpretation has been issued to identify the accounting treatment for levies, defined as payments to a government body for which the reporting entity does not receive specific goods or services. In particular, it provides guidance on recognition of a liability to pay levies and in particular what obligating events trigger such recognition and when to recognize such liability. This interpretation was published in the Official Journal of the European Union on 14 June 2014. The Group has applied this interpretation retrospectively to its financial statements from 1 January 2014. No significant effect has arisen as a result.

Accounting standards, amendments and interpretations already issued but not yet effective

The following is a brief description of the new standards and interpretations already issued but not yet effective or not yet endorsed by the European Union and therefore not applicable for the preparation of financial statements for annual accounting periods ended 31 December 2014. The list excludes those standards and interpretations concerning matters not applicable to the Group.

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. The amendments are effective retrospectively for annual accounting periods beginning on or after 1 July 2014. Earlier adoption is permitted.

As part of its program of annual improvements to the standards, on 12 December 2013, the IASB issued *Annual Improvements to IFRSs: 2010 - 2012 Cycle and Annual Improvements to IFRSs: 2011 - 2013 Cycle* (effective for annual periods beginning on or after 1 July 2014), and on 25 September 2014 it issued *Annual Improvements to IFRSs: 2012 - 2014 Cycle* (effective for annual periods that end after 1 January 2016); most of the changes are clarifications or corrections of existing IFRSs or amendments as a consequence of previous changes to IFRSs.

In May 2014, the IASB issued amendments to IFRS 11 - *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations,* to provide guidance on when an entity should apply the principles in IFRS 3 to account for the acquisition of an interest in a joint operation that constitutes a business. These amendments are effective retrospectively for annual accounting periods beginning on or after 1 January 2016. Earlier adoption is permitted.

In May 2014, the IASB published amendments to IAS 16 - *Property, Plant and Equipment and IAS 38 - Intangible Assets*. The IASB has clarified that revenue-based methods to calculate asset depreciation or amortization are not appropriate because the revenue generated by an activity that includes the use of an asset generally does not reflect the pattern of consumption of an asset's expected future economic benefits. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits generated by an intangible asset. However, there are limited circumstances when this presumption can be overcome. These amendments are effective for annual accounting periods beginning on or after 1 January 2016. Earlier adoption is permitted.

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers,* which requires an entity to recognize revenue when control of the goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model defines a five-step process to achieve this purpose. The new standard also requires disclosure of additional information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual accounting periods beginning on or after 1 January 2017. Earlier adoption of the standard is permitted. The Group is evaluating the method of implementing this new standard and its impact on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9 - *Financial Instruments.* The series of changes made by the new standard supersede IAS 39 and introduce a logical approach to the classification and measurement of financial instruments based on their cash flow characteristics and the business model for managing such assets, a single model for the impairment of financial assets based on expected loss and a substantially new approach to hedge accounting. The new standard is effective retrospectively from 1 January 2018. Earlier adoption is permitted.

On 12 August 2014, the IASB published some amendments to IAS 27 - *Separate Financial Statements.* The purpose is to allow parent entities to use the equity method to account for investments in associates and joint ventures even in their separate financial statements. These amendments are effective for annual accounting periods beginning on or after 1 January 2016.

On 11 September 2014, the IASB published some amendments to IFRS 10 - *Consolidated Financial Statements* and to IAS 28 - *Investments in Associates and Joint Ventures.* The purpose is to clarify how to account for the results of a sale or contribution of assets between group companies and their associates and joint ventures. These amendments are effective for annual accounting periods beginning on or after 1 January 2016.

On 18 December 2014, the IASB published amendments to IFRS 10, IFRS 12 and IAS 28. The purpose is to clarify: i) how to account for investment entities; ii) the exemption from presenting consolidated financial statements for companies that control investment entities and iii) how a non-investment entity investor must apply the equity method to an investment entity investee. These amendments are effective for annual accounting periods beginning from 1 January 2016.

On 18 December 2014, the IASB published amendments to IAS 1 - *Presentation of Financial Statements.* The purpose is to clarify some doubts about presentation and disclosure requirements and to ensure that reporting entities can use their professional judgement in deciding what information to publish in their financial statements, with the focus on materiality. These amendments are effective for annual accounting periods beginning on or after 1 January 2016.

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. It is also noted that the Group has applied the provisions of Consob Resolution no. 15519 of 27 July 2006 concerning financial statement formats.

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.
On 17 March 2014, Vard Marine Inc. was formed in Canada as a wholly-owned subsidiary of Vard Group AS and is now included in the Group's consolidation.
On 4 July 2014, the Group acquired, through Vard Marine Inc., 100% of STX Canada Marine Inc., which was merged at the same time with Vard Marine Inc..
The acquisition-date fair value of the net assets acquired was approximately euro 6.2 million. The higher price paid over net asset value was approximately euro 1.8 million, which has been allocated to goodwill.
During 2014, the following companies were formed: Marine Interiors S.p.A. and A MOTION S.p.A. (now renamed FINCANTIERI SI S.p.A.), both 100% owned by Seaf S.p.A.; and Vard Engineering Gdansk sp. Z o. o., 100% owned by Vard Engineering Brevik AS.
In addition, all of the remaining shares were acquired in Delfi S.r.l. and Seastema S.p.A., giving the Group 100% control of these subsidiaries.
The Consolidated Financial Statements as at and for the year ended 31 December 2014 have not been concerned by any significant transactions or unusual events.

BASIS OF CONSOLIDATION

Subsidiaries

Consolidated financial statements incorporate the financial statements of all entities (subsidiaries) controlled by the Group.

The Group controls an entity (including structured entities) when it is exposed, or has rights, to variable returns from its involvement with this entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date that control is obtained until the date control ceases. Costs incurred during the acquisition process are expensed in the year incurred.

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. The difference between the price paid and the share of net assets acquired is recorded against equity attributable to the parent as gains/losses arising on the sale of shares to non-controlling interests.

If the Group loses control of a subsidiary, it recalculates the fair value of the investment retained in the former subsidiary at the date control is lost, recognizing any difference in profit or loss as gains or losses attributable to the parent. This value will also correspond to the remaining investment's initial carrying amount classified as an investment in an associate or joint venture or as a financial asset. Lastly, the Group will account for all amounts previously recognized in other comprehensive income for that subsidiary, in the same way as if the parent had disposed of the related assets or liabilities directly. This may result in a reclassification of such gains or losses from equity to profit or loss.

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 specific 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 arrangements

The Group applies IFRS 11 to classify investments in joint arrangements, distinguishing them between joint operations and joint ventures according to the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, while a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Interests in joint ventures are accounted for using the equity method, while in the case of joint operations, each party to the joint operation recognizes the specific assets to which it is entitled and the specific liabilities for which it has obligations, including its share of any assets and liabilities held/incurred jointly, and its share of the revenue and expenses under the terms of the joint arrangement.
Appropriate adjustments are made to the financial statements of joint ventures to ensure conformity with the Group's accounting policies.

Translation of the financial statements of foreign operations

The financial statements of subsidiaries and associates 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 Group companies with a "functional currency" other than the Euro are as follows:

	2014		2013	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.3285	1.2141	1.3281	1.3791
UAE Dirham (AED)	4.8796	4.4594	4.8782	5.0654
Brazilian Real (BRL)	3.1211	3.2207	2.8669	3.2576
Norwegian Krone (NOK)	8.3544	9.0420	7.8051	8.3630
Indian Rupee (INR)	81.0406	76.7190	77.8753	85.3660
Romanian Leu (RON)	4.4437	4.4828	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, in a business combination, control 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 profit or loss.

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 profit or loss 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 CDP, 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 backlog

Customer relationships and order backlog 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 backlog 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 - 47
Plant and machinery	7 - 25
Equipment	4 - 12
Assets under concession	Useful life or term of concession, if shorter
Leasehold improvements	Useful life or term of lease, if shorter
Other assets	4 - 33

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

Property, plant and equipment leased out by the Fincantieri Group under finance lease agreements (or under a contract treated the same as a finance lease), where all the risks and rewards of ownership are substantially transferred to the lessee, are recognized as financial receivables in the statement of financial position. Income from the sale of a leased asset is recognized when the asset is transferred to the lessee. Such income is determined as the difference between: i) the fair value of the asset at the commencement of the lease term, or, if lower, the present value of the minimum lease payments accruing to the Group, computed at a market rate of interest; and ii) the leased asset's production costs plus any legal costs and internal costs directly attributable to negotiating and arranging the lease. After recognizing the financial receivable, 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 any such indication exists, 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 in accordance with the percentage of completion method with reference to the value of the agreed contractual consideration plus any grants available under specific laws which have reasonably accrued at the period-end reporting date, taking into account the stage of completion of the contract and any expected risks. The stage of completion is measured by calculating the proportion that contract costs incurred for work performed to the reporting date bear to the estimated total 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 recognized to date, less provision for any estimated future losses and less progress billings issued. The 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 expires.

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 period-end reporting 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 of subsequent resale. 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 financial asset's effective marketability: 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. Previously recognized impairment losses are reversed if the circumstances leading to their original recognition no longer apply; reversals relating to financial instruments that are equity instruments are not recognized through consolidated profit or loss.

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 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 profit or loss 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 profit or loss 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 is translated into the functional currency using: i) the hedged exchange rate (if currency risk has been hedged - see paragraph 8.5 above) 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, and when 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 profit or loss when the shareholder’s right to receive payment is established.
Finance income and costs are recognized in profit or loss 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 liabilities are recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in cases when both the following conditions apply: (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 profit or loss 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 (levies), 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 JUDGEMENTS

Preparation of financial statements requires management to apply accounting policies and principles that, in some circumstances, are based on difficult, subjective estimates and judgements 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 sectors of business, most affected by the use of estimates and judgements 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. Contracts now seldom include price adjustment formulae, while clauses providing for the possibility of additional consideration for additions or variations apply only to significant modifications in the scope of work.
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 can change over time and so have a material impact on the recoverability of deferred tax assets.

16.4 Impairment of assets

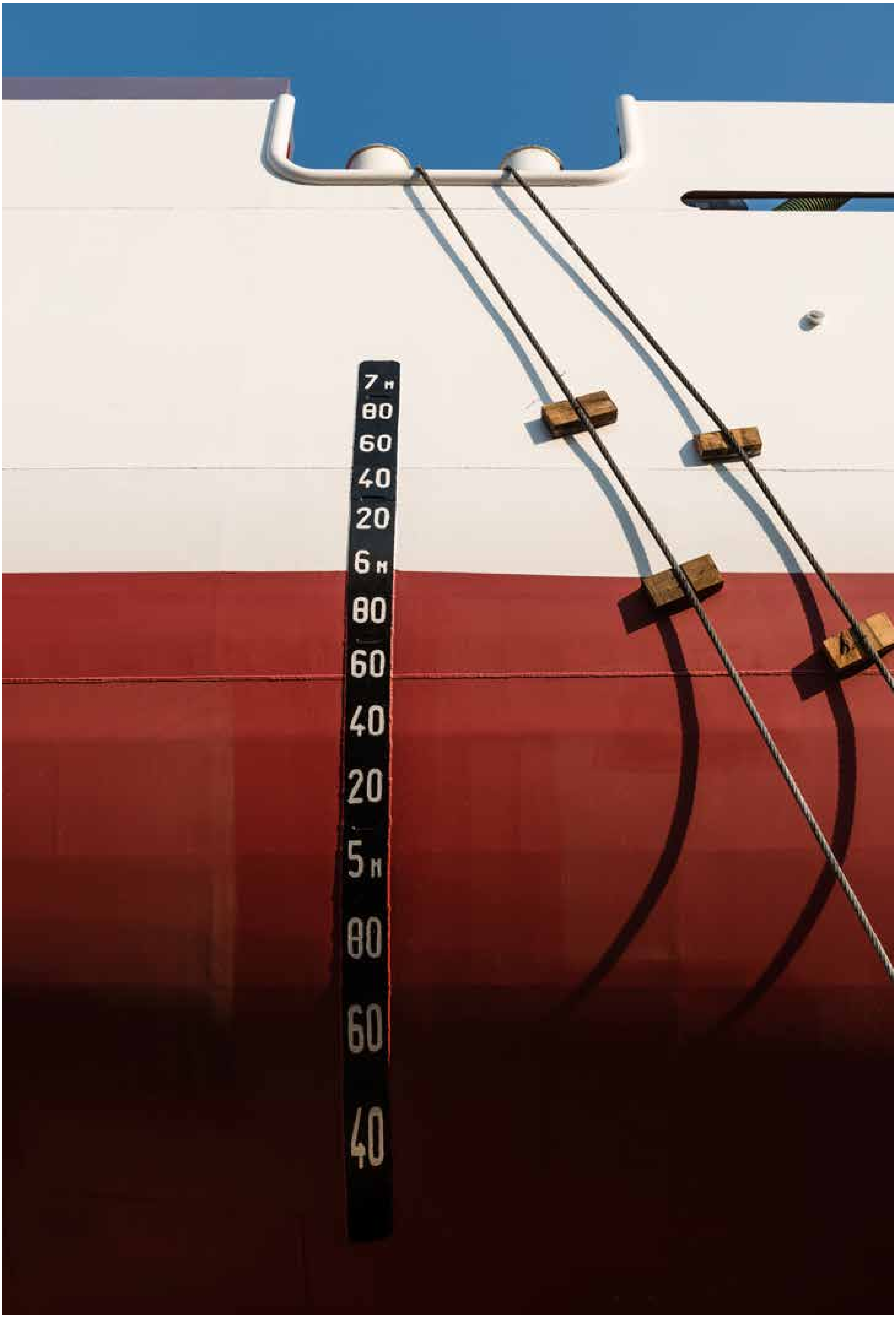
The Group's property, plant and equipment and intangible assets with indefinite useful lives are tested for impairment at least annually or more often in the presence of evidence indicating that the carrying amount of such assets is not recoverable.

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.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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 2014 and 2013 based on the nominal value of receivables before any provision for impairment of receivables:

	31.12.2014					
		Past due				
(Euro/000)	Not yet due	0 – 1 month	1 – 4 months	4 – 12 months	Beyond 1 year	**Total**
Trade receivables:						
- due from public entities	22,114	7,596	2,687	65,113	27,718	125,228
- due indirectly from public entities [*]	5,889			3,353	3,830	13,072
- due from private customers	313,264	42,684	13,876	10,175	65,261	445,260
TOTAL TRADE RECEIVABLES	**341,267**	**50,280**	**16,563**	**78,641**	**96,809**	**583,560**
Government grants financed by BIIS	40,790					40,790
Other government grants	16,122					16,122
Receivables from associates	9,402					9,402
Receivables from joint ventures	61,015					61,015
Receivables from controlling companies	23,687					23,687
Receivables from other companies	113					113
Other receivables	126,993				48,649	175,642
Other financial receivables	160,742					160,742
GROSS TOTAL	**780,131**	**50,280**	**16,563**	**78,641**	**145,458**	**1,071,073**
Provision for impairment of receivables						(61,961)
NET TOTAL						**1,009,112**
Advances, prepayments and accrued income						90,297
TOTAL						**1,099,409**

	31.12.2013					
			Past due			
(Euro/000)	Not yet due	0 – 1 month	1 – 4 months	4 – 12 months	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	71,416	22,221	29,917	22,005	42,938	188,497
TOTAL TRADE RECEIVABLES	**169,769**	**37,119**	**36,704**	**58,001**	**56,093**	**357,686**
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
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**

(*) 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 44 million at the end of 2014 compared with a negative euro 155 million at the end of 2013, with the improvement mainly attributable to the effects of the capital increase for some euro 351 million on 3 July 2014 in connection with the Parent Company's stock listing.

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.

(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
	31.12.2014					
Payables to controlling company		1,486	4,067	1,878	7,431	7,307
Payables to joint ventures	2,672	1,872			4,544	4,544
Bank loans and credit facilities	3,559	963,782	244,200	90,240	1,301,781	1,207,207
BIIS loans		8,146	32,589	4,866	45,601	40,790
Payables to suppliers	173,712	852,850	15,996	33	1,042,591	1,042,591
Finance lease obligations		368	318		686	647
Bond		11,250	332,425		343,675	296,835
Other financial liabilities	15,649	296	12,409	421	28,775	28,749
Other liabilities	4,806	189,063	6,911	5,699	206,479	206,479
TOTAL	**200,398**	**2,029,113**	**648,915**	**103,137**	**2,981,563**	**2,835,149**
Advances, accrued expenses and deferred income						69,765
TOTAL						**2,904,914**

(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
	31.12.2013					
Payables to controlling company	184	2,063	4,775	2,629	9,651	9,485
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	710,934	18,137	32	910,104	910,075
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**

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 establishing cash balances in the same 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.

During 2014, Fincantieri was exposed to transactional currency risk mainly on two Carnival orders, denominated in US dollars, and on another, denominated in Canadian dollars, to build a ferry for Société des traversiers du Québec. As at 31 December 2014 a substantial portion of the notional amount of the two US dollar-denominated Carnival orders had been hedged, while the Canadian dollar exposure was completely neutralized by forward contracts.

During the same period, the VARD Group was exposed to currency risk mainly in connection with receipts relating to three orders on the books of Vard Group AS and two orders on the books of Vard Promar, all of whose contracts were denominated in US dollars.

The VARD Group was also exposed to currency risk on Euro-denominated payments by Vard Group AS to Vard Tulcea and Vard Braila, its two Romanian subsidiaries, for the building of hulls on its behalf. As at 31 December 2014, these exposures were hedged with forward contracts.

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 2014, 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. In addition, during 2014 the Group took out swap agreements to fix the price of part of its forecast fuel purchases from 2014 to 2016 and part of its copper supplies through until 2017.

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 fair value measurements of derivative financial instruments, as presented in the following table. Derivatives have tested positively as far as cash flow hedge effectiveness is concerned and so no ineffective portion of these hedges has needed to be expensed to profit or loss.

	31.12.2014			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			826	20,000
Forwards	458	31,572	462	31,572
Futures				
Options				
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	44,431	498,351	246,381	1,488,037
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	221	7,239	17	508
Futures	425	9,000	1,864	14,090
Options	2,714	31,572	27,249	483,379
HELD-FOR-TRADING DERIVATIVES				
Interest rate swaps				
Forwards			588	12,767
Futures				
Options			12,950	252,533

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

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.

	31.12.2014			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	1,239,217	1,235,157		**2,474,374**
Inflow	1,131,813	1,049,628		**2,181,441**
INTEREST RATE RISK MANAGEMENT				
Outflow	545	364		**909**
Inflow	50	32		**82**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	12,475	10,615		**23,090**
Inflow	11,839	9,209		**21,048**

	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**

The fair value of derivative financial instruments has been calculated considering 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 year-end exchange rates and interest rates for the different currencies.

MOVEMENTS IN THE CASH FLOW HEDGE RESERVE

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

	Equity			Profit or loss
(Euro/000)	Gross	Taxes	Net	
1.1.2013	**(1,747)**	**477**	**(1,270)**	**10,092**
Change in fair value	(1,048)	288	(760)	
Utilization	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**
	Equity			Profit or loss
(Euro/000)	Gross	Taxes	Net	
Change in fair value	(248)	54	(194)	
Utilization	1,048	(288)	760	(760)
Other income/(expenses) for risk hedging				(59,932)
Finance income/(costs) relating to held-for-trading derivatives and time-value component of hedging derivatives				227
31.12.2014	**(248)**	**54**	**(194)**	**(60,465)**

FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The following table analyzes financial assets and liabilities by category together with their fair value (IFRS 13) at the year-end reporting date:

(Euro/000)	A	B	C	D	E	F	**Total**	**Fair value**
					31.12.2014			
Investments carried at fair value					6,703		**6,703**	***6,703***
Derivative financial assets	47,790	458					**48,248**	***48,248***
Other financial assets				227,630			**227,630**	***227,862***
Trade receivables and other current assets				975,051			**975,051**	***975,051***
Cash and cash equivalents				552,285			**552,285**	***552,285***
Derivative financial liabilities	(289,047)	(1,288)					**(290,335)**	***(290,335)***
Other financial liabilities	(15,649)					(1,568,555)	**(1,584,204)**	***(1,599,672)***
Other non-current liabilities						(45,506)	**(45,506)**	***(45,506)***
Trade payables and other current liabilities						(1,277,423)	**(1,277,423)**	***(1,277,423)***
					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)***

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 2014 and 2013 according to their level in the fair value hierarchy.

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
		31.12.2014		
Assets				
Available-for-sale financial assets				
Equity instruments		5,750	952	6,702
Debt instruments				
Hedging derivatives		48,248		48,248
Held-for-trading derivatives				
Total assets		**53,998**	**952**	**54,950**
Liabilities				
Liabilities at fair value through profit or loss			15,649	
Hedging derivatives		276,797		276,797
Held-for-trading derivatives		13,538		13,538
Total liabilities		**290,335**	**15,649**	**290,335**

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. Movements in financial assets and liabilities classified as Level 3 are basically due to currency translation differences, which have had no impact on profit or loss.
During 2014 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
		31.12.2013		
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**

Note 5 - Sensitivity analysis

CURRENCY RISK

With regard to currency risk, the Group has performed sensitivity analysis including and excluding the effect of derivatives, which are essentially related to hedging transactions, in order to estimate the impact on pre-tax profit of a reasonable variance in the principal exchange rates to which the Group is most exposed with reference to the functional currencies of the Parent Company and its subsidiaries (involving an appreciation/depreciation of the foreign currency against the functional one). The analysis concerns exposure to the currency risk defined by IFRS 7 and therefore does not consider the effects arising from the translation of financial statements of foreign companies with a functional currency other than the Euro. In addition, the analysis has not examined the effect of exchange rate fluctuations on the valuation of work in progress, because the latter does not qualify as a financial asset under the IAS 32 definition. The variances for individual cross-currencies have been measured against the average 6-month volatility observed in 2014 for individual exchange rates.

(Euro/million)	Effect on pre-tax profit	Pre-tax effect on equity	Effect on pre-tax profit	Pre-tax effect on equity
	31.12.2014		**31.12.2013**	
Including hedging derivatives				
Foreign currency appreciation	(209)	(211)	(161)	(161)
Foreign currency depreciation	185	187	151	151
Excluding hedging derivatives(*)				
Foreign currency appreciation	(8)	(8)	(7)	(7)
Foreign currency depreciation	8	8	8	8

(*) The USD/BRL exposure is expressed net of USD construction loans, contracted with the purpose of hedging USD exposures.

INTEREST RATE RISK

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 profit or loss involve a negative impact of approximately euro 1.3 million in the event of a 0.50% increase in interest rates and a positive impact of euro 1.6 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 backlog	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	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 1.1.2013	**60,416**	**14,674**	**2,228**	**4,707**	**14,512**	**1,998**	**5,469**	**104,004**
Movements in 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	3	(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**
Movements in 2014								
- business combinations	1,785					265		2,050
- additions			4,331	4,573	327	4,959	23,185	37,375
- net disposals					(5)			(5)
- reclassifications/ other			15,740	1,530	63		(17,342)	(9)
- amortization		(18,302)	(2,281)	(3,587)	(277)	(1,165)		(25,612)
- impairment losses								
- exchange rate differences	(36,401)	(9,900)	(77)		1,846	44		(44,488)
Closing net carrying amount	**265,197**	**157,061**	**31,988**	**5,796**	**15,833**	**6,878**	**25,890**	**508,643**
- cost	265,197	199,317	40,912	87,115	16,920	11,782	25,890	647,133
- accumulated amortization and impairment losses		(42,256)	(8,924)	(81,319)	(1,087)	(4,904)		(138,490)
Net carrying amount at 31.12.2014	**265,197**	**157,061**	**31,988**	**5,796**	**15,833**	**6,878**	**25,890**	**508,643**

Additions made in 2014 amount to euro 37,375 thousand (euro 36,816 thousand in 2013). These mainly relate to the development of innovative devices and systems to improve cruise ship safety and reduce their level of pollution. 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 101 million in research and development costs for various projects involving product and process innovations (euro 88 million in 2013), that will let it retain its leadership of all high-tech market sectors into the future.
The exchange rate differences primarily reflect movements in the period by the Norwegian krone and the US dollar against the Euro.
"Concession, licenses, trademarks and similar rights" include euro 15,412 thousand for trademarks with indefinite useful lives, reflecting the expectation for their use and referring to the names of the American shipyards acquired (namely Marinette and Bayshipbuilding); these trademarks have been 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 amounts to euro 265,197 thousand at 31 December 2014. The increase of euro 1,785 thousand is due to the VARD Group's acquisition of STX Canada Marine Inc. during 2014.
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 cash flow projections based on the best information available at the time, derived from the plan approved by Group Management.
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 Group Management.
Expected future cash flows have been discounted using WACC (Weighted Average Cost of Capital) for the individual sectors to which the CGUs refer, as adjusted to take account of the risk premium/discount of the specific country in which business is conducted.
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 cash flow projections used reflect the current conditions of the CGUs being tested, while the values of WACC and g rate used are consistent with the Group's past performance and with management expectations for performance in the markets concerned.
The following table shows the amount of goodwill allocated to each CGU, as well as the method used to determine recoverable amount, and the discount and growth rates adopted for this calculation.

CGU	Goodwill carrying amount	Recoverable amount	WACC post-tax	g rate	Cash flow period
FMG Group	65,564	Value in use	7.2%	2.1%	4 years
VARD Group	199,633	Value in use	9.0%	2.8%	4 years

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

FMG Group 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 FMG Group CGU, forming part of the Shipbuilding 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 be significantly higher than carrying amounts.

VARD Group 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 of NOK 1,791 million arising on the acquisition has all been allocated to the VARD Group CGU, forming part of the Offshore operating segment; during 2014, the VARD Group acquired 100% of STX Canada Marine Inc. through Vard Marine Inc., recognizing NOK 15 million in goodwill.

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 be significantly higher than 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	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 1.1.2013	**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)
- reclassifications/ other changes	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**
Movements in 2014 - business combinations			397					397
- additions	10,644		45,022	2,489	398	3,811	61,939	124,303
- net disposals	(353)		(502)			(22)		(877)
- reclassifications/ other changes	77,050	474	120,073	1,427	29	1,857	(200,735)	175
- depreciation	(14,092)	(239)	(50,200)	(3,455)	(857)	(4,754)		(73,597)
- impairment losses	(66)							(66)
- exchange rate differences	1,985	85	(1,371)		2	353	10,583	11,637
Closing net carrying amount	**372,979**	**795**	**375,271**	**58,375**	**5,697**	**53,458**	**91,942**	**958,517**
- cost	555,607	2,676	1,121,377	177,368	25,760	154,418	91,942	2,129,148
- accumulated depreciation and impairment losses	(182,628)	(1,881)	(746,106)	(118,993)	(20,063)	(100,960)		(1,170,631)
Net carrying amount at 31.12.2014	**372,979**	**795**	**375,271**	**58,375**	**5,697**	**53,458**	**91,942**	**958,517**

Capital expenditure additions of euro 124,303 thousand in 2014 have mainly related to:

- continuation and consolidation of the introduction of hybrid laser technology for welding in order to modernize hull-building technology at the Monfalcone shipyard;
- expenditure to optimize the logistical structure of production units at the Monfalcone and Marghera shipyards;
- completion of the new Promar shipyard in Brazil;
- improved process automation at the Braila shipyard in Romania;
- continued implementation of new technologies to reduce the environmental impact of surface treatments;
- technological upgrading of safety systems and lifting equipment at all the main shipyards.

The other changes include the reclassification of amounts reported at the end of the previous year in “Assets under construction and advances to suppliers” to the relevant asset categories once the assets entered service.

The exchange rate differences reflect movements in the period by the Norwegian krone and the US dollar against the Euro.

The year ended 31 December 2014 reports about euro 2 million in capitalized finance costs for the construction of new shipyards (euro 8 million in 2013).

As at 31 December 2014, the amount of the Group’s property, plant and machinery pledged as collateral against loans received was approximately euro 167 million (euro 152 million at the end of 2013).

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**
1.1.2013	-	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) through profit or loss	1,057	822	**1,879**	(240)		**(240)**	**1,639**
Revaluations/(Impairment losses) through equity	777		**777**				**777**
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**
Business combinations	646		**646**				**646**
Additions	3,134		**3,134**	10		**10**	**3,144**
Revaluations/(Impairment losses) through profit or loss	4,184	865	**5,049**	(538)		**(538)**	**4,511**
Revaluations/(Impairment losses) through equity	(2,964)		**(2,964)**				**(2,964)**
Disposals	(11,790)		**(11,790)**	(17)	(24)	**(41)**	**(11,831)**
Dividends from investments accounted for using the equity method							**-**
Reclassifications/Other				(1)	(119)	**(120)**	**(120)**
Exchange rate differences	(2,926)		**(2,926)**		(545)	**(545)**	**(3,471)**
31.12.2014	36,133	16,663	**52,796**	981	6,702	**7,683**	**60,479**

"Revaluations" of investments accounted for using the equity method (associates and joint ventures) report euro 5,049 thousand for the recognition of the Group's share of profit for the year of associates and joint ventures; revaluations recognized through equity report a negative balance of euro 2,964 thousand.

"Disposals" in 2014 refer to Island Offshore LNG AS (euro 1,173 thousand) e Island Offshore LNG KS (euro 10,617 thousand), while "additions" refer to Rem Supply AS (euro 1,277 thousand) and CSS Design LTD (euro 536 thousand).

"Other investments" include euro 6,702 thousand in investments carried at fair value, calculated using valuation techniques whose inputs are not observable on the market (Level 3). The fair value of such investments has not undergone any significant changes during the period.

Assessments of these investments at the reporting date have not revealed any indications of impairment.

Investments at 31 December 2014

Company name	Registered office	% owned	Carrying amount
Investments in associates accounted for using the equity method			
Castor Drilling Solution AS	Norway	34.00	1,290
Olympic Challenger KS	Norway	35.00	12,354
Bridge Eiendom AS	Norway	50.00	309
Brevik Technology AS	Norway	34.00	76
Møkster Supply AS	Norway	40.00	601
Møkster Supply KS	Norway	36.00	4,753
Rem Supply AS	Norway	26.66	11,096
Olympic Green Energy KS	Norway	30.00	2,231
DOF Iceman AS	Norway	50.00	1,724
Taklift AS	Norway	25.47	390
Dameco AS	Norway	34.00	10
CSS Design LTD	Isle of Man	31.00	1,299
Total investments in associates accounted for using the equity method			**36,133**
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	16,663
Total investments in joint ventures accounted for using the equity method			**16,663**
Other investments			
Friulia S.p.A.	Trieste	0.52	740
EEIG Euroyards	Brussels	14.29	10
Consorzio CONAI	Rome	(*)	1
Consorzio IMAST Scarl	Naples	3.24	22
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.80	14
Consorzio MIB	Trieste	(*)	2
Consorzio Rinave	Trieste	20.00	4
Cons.Ric.Innov.Tec.Sicilia Trasp. Navali Scarl	Messina	6.00	28
Distretto Ligure delle Tecnologie Marine Scarl	La Spezia	10.53	115
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	553
Klosterøya Vest Holding AS	Norway	6.00	399
REM Offshore ASA	Norway	4.92	5,750
Total other investments			**7,683**

(*) % 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 Ship Building 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 in associates

With regard to investments in associates accounted for using the equity method, the following table reports the aggregate share of the profits and losses attributable to the Group for all associates that are not individually material.

(Euro/000)	31.12.2014	31.12.2013
Profit (loss) from operations in the year	4,184	1,057
Other comprehensive income	(2,964)	777
Total comprehensive income	**1,220**	**1,834**

Other comprehensive income includes the reporting-date fair value of ships being built at the Group's shipyards on behalf of associates.

As at 31 December 2014, the Group has commitments totaling euro 5,456 thousand in respect of its investments in associates.

Disclosures relating to investments in joint ventures

The following tables present summarized financial information for Orizzonte Sistemi Navali S.p.A., a joint venture that at 31 December 2014 is material to the Group. The figures shown reflect amounts reported in the company's financial statements as adjusted for the Group's accounting policies.

Condensed balance sheet

(Euro/000)	31.12.2014	31.12.2013
ASSETS	**335,563**	**246,583**
NON-CURRENT	**951**	**1,827**
Other assets	951	1,827
CURRENT	**334,612**	**244,756**
Other assets	196,309	121,042
Financial assets	337	2,535
Cash and cash equivalents	137,966	121,179
LIABILITIES	**302,211**	**215,514**
NON-CURRENT	**459**	**445**
Other liabilities	459	445
CURRENT	**301,752**	**215,069**
Other liabilities	301,752	215,069
EQUITY	**33,352**	**31,069**

Condensed comprehensive statement of income

(Euro/000)	31.12.2014	31.12.2013
Revenue	754,037	618,559
Depreciation and amortization	(240)	(236)
Interest income	4,749	4,811
Pre-tax profit from recurring operations	**2,541**	**2,226**
Income taxes	(258)	(221)
Net profit from recurring operations	**2,283**	**2,005**
Other profits/(losses)		
TOTAL PROFIT/(LOSS)	**2,283**	**2,005**

Reconciliation with carrying amount		
(Euro/000)	31.12.2014	31.12.2013
Equity at 01.01	**31,069**	**29,061**
Profit/(loss) for period	2,283	2,008
Equity at 31.12	**33,352**	**31,069**
51% interest in joint venture	17,010	15,845
Other changes	(347)	(47)
Carrying amount	**16,663**	**15,798**

Disclosures relating to non-controlling interests material to the Group

Given the materiality of the non-controlling interests in Vard Holdings Limited (44.37%), the Parent company of the VARD Group, over which FINCANTIERI S.p.A. has control with an interest of 55.63%, the following tables present summarized financial information for the VARD Group as a whole.

Dealings between the Fincantieri Group and the VARD Group are governed by the authorization procedures contained in the regulations for related party transactions ("IPT Mandate": Interested Person Transactions Mandate), approved by the shareholders of Vard Holdings in General Meeting. It should be noted that although there are currently no cash pooling arrangements between the Fincantieri Group and the VARD Group, cash can nonetheless be transferred between the two entities in accordance with the procedures contained in the IPT Mandate.

Condensed balance sheet

(Euro/million)	31.12.2014	31.12.2013
ASSETS	**2,151**	**1,635**
NON-CURRENT	**419**	**392**
Other assets	339	315
Financial assets	80	77
CURRENT	**1,732**	**1,243**
Other assets	1,452	1,028
Financial assets	59	6
Cash and cash equivalents	221	209
LIABILITIES	**1,724**	**1,191**
NON-CURRENT	**161**	**106**
Other liabilities	27	25
Financial liabilities	133	80
CURRENT	**1,563**	**1,086**
Other liabilities	671	486
Financial liabilities	892	599
EQUITY	**427**	**444**

Condensed comprehensive statement of income

(Euro/million)	31.12.2014	31.12.2013
Revenue	1,547	1,429
Depreciation and amortization	(23)	(26)
Interest income	4	7
Interest expense	(2)	(1)
Pre-tax profit from recurring operations	**29**	**63**
Income taxes	(23)	(25)
Net profit from recurring operations	**6**	**38**
Net profit from non-recurring operations		
Other profits/(losses)	11	23
TOTAL PROFIT/(LOSS)	**17**	**61**
- attributable to owners of the parent	*53*	*68*
- attributable to non-controlling interests	*(36)*	*(7)*

Condensed statement of cash flows		
(Euro/million)	**31.12.2014**	**31.12.2013**
Cash flows from operating activities		
Gross cash flows from operating activities	109	10
Interest paid	(1)	(1)
Taxes paid	(25)	(53)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**83**	**(44)**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(104)**	**(109)**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**52**	**54**
Net cash flows for the period	**31**	**(99)**
Cash and cash equivalents at beginning of year	209	327
Exchange rate differences for cash and cash equivalents (*)	(23)	(30)
Term deposits	4	11
Cash and cash equivalents at end of year (including term deposits)	221	209

(*) Including NOK/Euro exchange rate differences

Note 9 – Non-current financial assets

These are analyzed as follows:

(Euro/000)	**31.12.2014**	**31.12.2013**
Grants financed by BIIS	34,110	40,790
Derivative assets	504	17,253
Other non-current financial receivables	82,719	33,211
Non-current financial receivables from investee companies	7,147	8,628
NON-CURRENT FINANCIAL ASSETS	**124,480**	**99,882**

The above grants relate to production grants under Italian Law 431/91. In detail, 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.

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. Further details can be found in Note 4.

“Other non-current financial receivables” report loans to third parties bearing market rates of interest. The increase in this balance is attributable to the grant of new loans to shipowners and to the extension of the due dates on certain market rate loans to customers, previously classified as current receivables.

“Non-current financial receivables from investee companies” refer to market rate loans 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)	31.12.2014	31.12.2013
Other receivables from investee companies	972	186
Government grants receivable	2,011	2,555
Other receivables	11,722	14,715
OTHER NON-CURRENT ASSETS	**14,705**	**17,456**

Other non-current assets are all stated net of the related provision for impairment.
"Government grants receivable" reports the non-current portion of state aid granted by governments in the form of tax credits.

(Euro/000)	31.12.2014	31.12.2013
- between one and two years	601	
- between two and three years	560	
- between three and four years	470	
- between four and five years	380	2,555
- beyond five years		
Total	**2,011**	**2,555**

"Other receivables" of euro 11,722 thousand (euro 14,715 thousand at 31 December 2013) mostly refer to sums owed by the Iraqi Ministry of Defense (euro 4,693 thousand). A detailed discussion of this case can be found in the specific section on litigation in Note 32. The remaining balance of euro 7,029 thousand (euro 10,022 thousand at 31 December 2013) refers to security deposits/advances and other minor items.
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 1.1.2013	**16,656**
Utilizations	
Increases/(Releases)	
Total at 31.12.2013	**16,656**
Utilizations	
Increases/(Releases)	
Total at 31.12.2014	**16,656**

The provision for impairment of other non-current receivables reported no movements during 2014.

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 com-binations	Fair value deriv-atives	Actuarial valuation employee severance benefit	Carry-forward tax losses	Other temporary differences	**Total**
1.1.2013	**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	1,171	2,568	36,976
- through profit or loss	15,775	(765)	(10,004)	(7,280)		4,555	2,800	17,628	22,709
- 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**
Changes in 2014									
- business combinations									
- through profit or loss	(39,093)	3,420	4,448	(11,344)		145	4,427	2,272	(35,725)
- through other comprehensive income					(235)	2,122	176	3,777	5,840
- other changes	283	453	14				17,247	(17,672)	325
- exchange rate differences	576	35	(334)	12			419	2,115	2,823
31.12.2014	**25,018**	**12,832**	**18,491**	**-**	**53**	**9,813**	**59,140**	**15,567**	**140,914**

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. In particular, a plan of recovery for the Parent Company's deferred tax assets of euro 99 million has been drawn up which projects the taxable income of the Italian companies for the explicit planning period.

No deferred tax assets have been recognized on euro 43 million (euro 27 million at 31 December 2013) in carryforward losses of subsidiaries which are thought unlikely to be recovered against future taxable income.

The recognition of deferred tax is also supported by participation in the tax consolidation with CDP commencing in 2013.

Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combinations	Other temporary differences	**Total**
1.1.2013	**21,026**	**11,356**	**32,382**
Changes in 2013			
- business combinations	59,798	11,465	71,263
- through profit or loss	(5,281)	(1,383)	(6,664)
- exchange rate differences	(7,465)	(1,679)	(9,144)
31.12.2013	**68,078**	**19,759**	**87,837**
Changes in 2014			
- business combinations			
- through profit or loss	(5,392)	1,186	(4,206)
- exchange rate differences	(644)	1,290	646
31.12.2014	**62,042**	**22,235**	**84,277**

The deferred tax liabilities for business combinations relate to differences arising when allocating purchase price to intangible assets with indefinite useful lives, primarily customer relationships and order backlog.

The other temporary differences relate primarily to the difference between book and fiscal values of fixed assets.

Note 12 - Inventories and advances

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Raw materials and consumables	178,137	183,348
Work in progress and semi-finished goods	12,972	3,843
Finished products	6,191	6,083
Total inventories	**197,300**	**193,274**
Advances to suppliers	191,167	206,454
TOTAL INVENTORIES AND ADVANCES	**388,467**	**399,728**

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 such provisions for impairment:

(Euro/000)	Provision for impairment - raw materials	Provision for impairment - finished products
1.1.2013	**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**
Increases	2,316	113
Utilizations	(3,831)	(141)
Releases	(798)	
Exchange rate differences	24	102
31.12.2014	**13,842**	**2,660**

Note 13 - Construction contracts - assets

These are analyzed as follows:

(Euro/000)	31.12.2014 Con-struction contracts – gross	31.12.2014 Invoices issued and provision for future losses	31.12.2014 Con-struction contracts - net assets	31.12.2013 Con-struction contracts – gross	31.12.2013 Invoices issued and provision for future losses	31.12.2013 Con-struction contracts - net assets
Shipbuilding contracts	3,459,144	1,819,107	1,640,037	3,383,893	1,868,900	1,514,993
Other contracts for third parties	19,755	10,514	9,241	31,252	15,585	15,667
Total	**3,478,899**	**1,829,621**	**1,649,278**	**3,415,145**	**1,884,485**	**1,530,660**

"Construction contracts - assets" report those contracts where the value of the contract's stage of completion 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.

Note 14 - Trade receivables and other current assets

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Trade receivables	610,140	343,684
Receivables from controlling companies (tax consolidation)	23,443	10,210
Government grants receivable	14,111	8,467
Other sundry receivables	90,831	82,522
Indirect tax receivables	42,639	47,473
Firm commitments	157,802	26,564
Accrued income	35,750	40,001
Prepayments	335	
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**975,051**	**558,921**

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 debtor default. 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**
1.1.2013	**21,982**	**7,481**	**6,509**	**35,972**
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**	**6,117**	**41,017**
Business combinations				
Utilizations	(1,883)	(391)		(2,274)
Increases/(Releases)	2,418		165	2,583
Exchange rate differences	(363)			(363)
31.12.2014	**34,618**	**63**	**6,282**	**40,963**

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

"Other sundry receivables" of euro 90,831 thousand mainly include:

- euro 60,297 thousand for research grants, insurance claims, advances to suppliers, and other miscellaneous receivables, mostly relating to the Parent Company (euro 49,870 thousand at 31 December 2013);
- euro 16,701 thousand for the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of the contract price (euro 17,497 thousand at 31 December 2013);
- euro 13,787 thousand for receivables from social security institutions (euro 15,055 thousand at 31 December 2013), most of which an advance paid to INAIL (Italy's national institution for industrial accident insurance) for contributions that will mature during the subsequent year.

"Indirect tax receivables" of euro 42,639 thousand (euro 47,473 thousand at 31 December 2013) mainly refer to claims for VAT refunds or set-off, to indirect foreign taxes and claims for customs duty refunds from the Italian Customs Authority.

"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)	31.12.2014	31.12.2013
Receivables for Italian corporate income taxation (IRES)	46,825	32,648
Receivables for Italian regional tax on productive activities (IRAP)	2,318	205
Foreign tax receivables	5,389	5,964
TOTAL INCOME TAX ASSETS	**54,532**	**38,817**

The amount and movements in the provision for impairment of income tax assets are as follows:

(Euro/000)	Provision for impairment of income tax assets
Balance at 1.1.2013	**2,081**
Increases/(Releases)	
Other changes	
Total at 31.12.2013	**2,081**
Increases/(Releases)	2,300
Other changes	(39)
Total at 31.12.2014	**4,342**

Note 16 – Current financial assets

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Derivative assets	47,744	40,826
Other receivables	79,419	50,113
Government grants financed by BIIS	6,680	6,436
Accrued interest income	2,426	1,978
Prepaid interest and other financial expense	424	
TOTAL CURRENT FINANCIAL ASSETS	**136,693**	**99,353**

"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). Further details can be found in Note 4.

“Other receivables” include interest-bearing receivables from customers and deposits made by the VARD Group as security for contractual obligations to its lenders.
“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)	31.12.2014	31.12.2013
Bank and postal deposits	552,178	384,236
Checks		149
Cash on hand	107	121
TOTAL CASH AND CASH EQUIVALENTS	**552,285**	**384,506**

Cash and cash equivalents at period end include euro 132,544 thousand in term bank deposits maturing within 3 months; the remainder refers to the balances 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 7 April 2014 adopted a resolution to apportion the Parent Company's profit for 2013 so as to increase the Legal reserve by euro 2,077,184.58, to distribute a dividend of euro 10,000,000.00 (equating to a dividend per share of euro 0.00805), and to increase Retained earnings by euro 29,466,506.92.
The composition of equity is analyzed in the following table:

(Euro/000)	**31.12.2014**	**31.12.2013**
Attributable to owners of the parent		
Share capital	862,981	633,481
Share premium reserve	110,499	71
Legal reserve	31,516	29,439
Cash flow hedge reserve	(194)	(760)
Available-for-sale fair value reserve	(226)	(226)
Currency translation reserve	(81,401)	(34,527)
Other reserves and retained earnings	319,907	284,146
Profit/(loss) for the year	66,935	56,717
	1,310,017	**968,341**
Attributable to non-controlling interests		
Capital and reserves	267,953	241,356
Available-for-sale fair value reserve	(180)	(180)
Currency translation reserve	(36,243)	(27,352)
Profit/(loss) for the year	(11,655)	28,401
	219,875	**242,225**
TOTAL EQUITY	**1,529,892**	**1,210,566**

SHARE CAPITAL

A statement confirming execution of the capital increase approved by resolution of the Extraordinary Shareholders' Meeting held on 5 May 2014 was formally lodged with the Trieste Company Registry on 3 July 2014; this increase, involving the issue of 450,000,000 new shares, was completed on 3 July following the Company's admission to listing on the main Italian stock market (*Mercato Telematico Azionario* or MTA). Therefore, the share capital of FINCANTIERI S.p.A. now amounts to euro 862,980,726, fully paid-in, divided into 1,692,119,070 ordinary shares with no par value.

The terms of the Initial Public Offering provided for the allotment of free shares as follows:

- one share for every twenty shares held continuously for twelve months from their issue date (3 July 2014) by shareholders who are members of the general public;
- one share for every ten shares held continuously for twelve months from their issue date (3 July 2014) by Fincantieri employees resident in Italy.

The free shares will be made available by the shareholder Fintecna S.p.A..

SHARE PREMIUM RESERVE

This reserve has been recorded as a result of the capital increase accompanying the Company's listing on the Italian stock market on 3 July 2014. Listing costs of euro 11,072 thousand (net of tax effects) referring to the capital increase have been accounted for as a deduction from the share premium reserve, in compliance with IAS 32.
The rest of the listing costs, amounting to euro 2,747 thousand, have been recognized as services in the income statement and reported among the "non-recurring expenses".

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 2013 is mainly due to comprehensive income for the year attributable to non-controlling interests and to the acquisition of 50% of the share capital of Seastema S.p.A. and 49% of the share capital of Delfi S.r.l., giving the Fincantieri Group 100% control of both these companies.

OTHER COMPREHENSIVE INCOME/LOSSES

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

	31.12.2014			31.12.2013		
(Euro/000)	Gross amount	Tax (expense)/ benefit	Net amount	Gross amount	Tax (expense)/ benefit	Net amount
Effective portion of profits/(losses) on cash flow hedging instruments	800	(234)	566	699	(189)	510
Gains/(losses) from remeasurement of employee defined benefit plans	(7,685)	2,091	(5,594)	1,148	(69)	1,079
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method	(2,964)		(2,964)	(744)		(744)
Gains/(losses) arising on translation of financial statements of foreign operations	(55,318)	176	(55,142)	(41,733)	(263)	(41,996)
Total other comprehensive income/ (losses)	**(65,167)**	**2,033**	**(63,134)**	**(40,630)**	**(521)**	**(41,151)**

(Euro/000)	31.12.2014	31.12.2013
Effective portion of profits/(losses) arising in period on cash flow hedging instruments	(248)	(1,048)
Effective portion of profits/(losses) on cash flow hedging instruments reclassified to profit or loss	1,048	1,747
Effective portion of profits/(losses) on cash flow hedging instruments	**800**	**699**
Tax effect of other components of comprehensive income	**(234)**	**(189)**
TOTAL OTHER COMPREHENSIVE INCOME/(LOSSES), NET OF TAX	**566**	**510**

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**
1.1.2013	**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**
Business combinations						
Increases	18,785	34,566	8		8,242	61,601
Utilizations	(19,831)	(24,382)	(7)	(4,775)	(333)	(49,328)
Releases	(132)	(11,671)			(8,773)	(20,576)
Other movements	(231)	(1)			(13,159)	(13,391)
Exchange rate differences	(95)	44			(537)	(588)
31.12.2014	**42,832**	**55,294**	**111**	**-**	**30,248**	**128,485**
- of which non-current portion	*41,726*	*40,357*	*111*		*26,427*	*108,621*
- of which current portion	*1,106*	*14,937*			*3,821*	*19,864*

The main component of the "Litigation" provision relates to precautionary provisions for claims brought by employees, authorities or third parties for damages arising from asbestos exposure. The remainder of the litigation provision relates to lawsuits with employees and suppliers and to other legal proceedings.

The "Product warranty" provision relates to the estimated 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 was utilized in full during 2014; the balance reported at 31 December 2013 referred to the residual amount for the Reorganization Plan started in 2011 with the agreement of the main trade unions and with the purpose of managing the surplus number of staff.

The provision for "Other risks and charges" includes euro 8,295 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)	2014	2013
Opening balance	**60,486**	**70,757**
Business combinations		4,597
Interest cost	1,925	2,049
Actuarial (gains)/losses	7,717	(1,152)
Utilizations for benefits and advances paid	(7,677)	(12,899)
Staff transfers and other movements	(222)	(2,589)
Exchange rate differences	(9)	(277)
Closing balance	**62,220**	**60,486**
Plan assets	(79)	(437)
Closing balance	**62,141**	**60,049**

The balance at 31 December 2014 includes euro 62,113 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 are as follows:

	31.12.2014	31.12.2013
ECONOMIC ASSUMPTIONS		
Cost of living increase	from 0.6% per annum in 2015 to 2.0% per annum from 2019 on	2.0% per annum
Discount rate	1.49% per annum	3.17% per annum
Increase in employee severance benefit	from 1.95% per annum in 2015 to 3.0% per annum from 2019 on	3.0% per annum
DEMOGRAPHIC ASSUMPTIONS		
Expected mortality rate	RG48 mortality tables published by the State Accounting Office	RG48 mortality tables published by the State Accounting Office
Expected invalidity rate	INPS tables split by age and gender	INPS tables split by age and gender
Expected resignation rate	3.0% per annum	3.0% per annum
Expected rate of advances on employee severance benefit	2.0% per annum	2.0% per annum

Reasonable variations in the parameters used do not have any significant impact on the estimated liability.

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

(Euro/000)	Expected payments
Within 1 year	8,284
Between 1 and 2 years	2,624
Between 2 and 3 years	2,694
Between 3 and 4 years	2,612
Between 4 and 5 years	2,511
	18,725

The Group paid a total of euro 32,985 thousand into defined contribution plans in 2014 (euro 28,972 thousand in 2013).

Note 21 – Non-current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Bond	296,835	296,095
Bank loans and credit facilities - non-current portion	290,364	254,670
Loans from BIIS - non-current portion	34,110	40,790
Liabilities to other lenders	1,040	
Finance lease obligations	310	544
Financial liabilities for the acquisition of equity investments	11,770	11,770
Derivative liabilities	18,489	858
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**652,918**	**604,727**

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.

The Bond does not envisage any financial covenants and is not secured by collateral.

The Bond Regulations allow holders to request early redemption of the bonds in the event of a change of control. The Regulations also contain a series of standard events of default triggering immediate repayment of the Bond; these include i) non-payment of either principal or interest due in respect of the Bond, ii) cross-acceleration, in the event of non-payment or default against indebtedness of the Company or one of its Material Subsidiaries totaling at least euro 30 million,

iii) enforcement of guarantees over any assets of the Company or any of its Material Subsidiaries with an aggregate value of at least euro 30 million, iv) the start of insolvency proceedings by the Company or any of its Material Subsidiaries, v) the issue of a final judgement for the payment of more than euro 30 million by the Company or one of its Material Subsidiaries when such sentence is not discharged or challenged within 90 days. The Bond Regulations also contain a number of restrictions on the Company and its subsidiaries, with some exceptions related to the Group's ordinary business. In particular, they contain negative pledge clauses (which limit the possibility of giving the Group's assets as security to other lenders, unless such guarantees are also extended to the Bond) and clauses that limit the assumption of new indebtedness by subsidiaries.

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)	**31.12.2014**	**31.12.2013**
European Investment Bank	126,667	140,000
Banca Carige S.p.A.	20,000	28,000
Banca Mediocredito del Friuli Venezia Giulia S.p.A.	25,305	20,575
Banca Infrastrutture Innovazione e Sviluppo (BIIS)	40,789	47,226
Cassa Depositi e Prestiti S.p.A.	7,280	8,697
Unicredit Tiriac Bank SA	20,000	
Innovation Norway	19,625	12,626
Nordea	6,166	6,547
Brazil (Banco do Brazil and BNDES)	97,676	60,055
Other loans and credit facilities	12,353	7,887
TOTAL BANK LOANS AND CREDIT FACILITIES	**375,861**	**331,613**
Non-current portion	*324,474*	*295,460*
Current portion	*51,387*	*36,153*

The loan from the European Investment Bank ("EIB") is intended to finance research and development programs. The overall amount of euro 140 million 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;
- the second and third tranches, each of euro 30 million received in March 2013, are repayable in a lump sum in March 2017.

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 indebtedness[1] /Equity cannot exceed 50% and (ii) Gross cash flow from operating activities/Gross indebtedness cannot be

1. The calculation of "Gross indebtedness" disregards the bond issue completed in late 2013.

under 20%. Any failure to comply 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 change of control, negative pledges and notification and reporting requirements.

All the above covenants have been observed as at 31 December 2014.

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, the outstanding balance of which was euro 20 million at 31 December 2014.

The Group's exposure to Banca Mediocredito del Friuli Venezia Giulia S.p.A. refers to four different loans made between 2006 and 2012, originally totaling euro 42.7 million (of which euro 9.0 million received in 2014). These loans are repayable in semi-annual installments through until 2022. This credit is secured by a lien on plant and machinery at the Monfalcone shipyard, as disclosed in Note 7.

"Loans from BIIS – non-current portion" reflect the receipt 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 and must be repaid in semi-annual installments by 30 June 2017.

In December 2014, Vard Tulcea SA obtained a loan from Unicredit Tiriac Bank SA for euro 20 million. The loan is collateralized with shipyard assets and must be repaid in monthly installments by December 2017.

The above loans, all of which denominated in Euro, carry interest at a weighted average rate of around 2.00%.

Vard Group AS has six loans with Innovation Norway for a total of NOK 177 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). All these covenants have been observed as at 31 December 2014.

The loan from 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 loan, originally for USD 15 million, has had its maturity extended from 2014 to 2019.

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

- Vard Niteròi SA has approximately USD 2.5 million in loans from the Brazilian Development Bank (BNDES) and other smaller loans from Finame for a total of USD 1.0 million, whose purpose is to finance the modernization of the Niteròi shipyard. These loans, which expire in 2016, are collateralized with shipyard assets;

- Vard Promar SA has a long-term financing agreement for USD 141.9 million with Banco do Brasil, maturing in 2029; this loan is being used to finance construction of the shipyard in Suape and is collateralized with shipyard assets.

The above loans to Vard Singapore Pte. Ltd., Vard Niteròi SA and Vard Promar SA carry interest at a weighted average rate of around 3.85%.

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)	31.12.2014			31.12.2013		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	21,467	27,168	48,635	14,801	24,864	39,665
- between two and three years	15,345	88,963	104,308	15,752	18,444	34,196
- between three and four years	10,079	18,233	28,312	11,416	77,802	89,218
- between four and five years	10,065	18,143	28,208	6,538	16,435	22,973
- beyond five years	73,832	7,070	80,902	52,946	15,672	68,618
Total	**130,788**	**159,577**	**290,365**	**101,453**	**153,217**	**254,670**

"Derivative liabilities" represent the reporting-date fair value of derivatives with a maturity of more than 12 months. Further details can be found in Note 4.

Note 22 – Other non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Capital grants	28,282	30,014
Other liabilities	17,224	17,586
TOTAL OTHER NON-CURRENT LIABILITIES	**45,506**	**47,600**

"Capital grants" mainly comprise deferred income associated with grants for property, plant and equipment and grants for innovation (euro 28,282 thousand at 31 December 2014 and euro 30,014 thousand at 31 December 2013) which will be released to income 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:

	31.12.2014			31.12.2013		
(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
Shipbuilding contracts	4,819,305	5,318,735	499,430	3,009,670	3,715,342	705,672
Other contracts for third parties	154,843	164,038	9,195	153,967	165,958	11,991
Advances from customers		27,976	27,976		55,994	55,994
Total	**4,974,148**	**5,510,749**	**536,601**	**3,163,637**	**3,937,294**	**773,657**

"Construction contracts - liabilities" report those contracts where the value of the stage 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 stage of contract completion relative to actual billings. 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)	31.12.2014	31.12.2013
Payables to suppliers	1,046,825	910,538
Social security payables	29,574	28,028
Other payables for deferred employee remuneration	65,004	64,572
Other payables	79,269	98,209
Indirect tax payables	20,494	20,700
Firm commitments	27,397	25,166
Accrued expenses	8,838	7,504
Deferred income	24	1
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**1,277,425**	**1,154,718**

"Payables to suppliers" have increased by euro 136,287 thousand on 31 December 2013, reflecting the growth in production activity at year end.
"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 payables" include employee income tax withholdings 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 18,764 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)	31.12.2014	31.12.2013
Payables for Italian corporate income taxation (IRES)	3,493	260
Payables for Italian regional tax on productive activities (IRAP)	471	5,691
Foreign tax payables	21,214	24,269
TOTAL INCOME TAX LIABILITIES	**25,178**	**30,220**

Note 26 - Current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Bank loans and credit facilities - current portion	44,707	29,717
Loans from BIIS - current portion	6,680	6,436
Bank loans and credit facilities - Construction loans	847,454	562,791
Liabilities to other lenders - current portion	290	
Bank credit facilities repayable on demand	31,962	35,134
Payables to controlling company Fintecna		184
Payables to joint ventures	337	2,535
Finance lease obligations - current portion	337	276
Fair value of options on equity investments	15,649	13,777
Derivative liabilities	271,846	29,932
Accrued interest expense	2,359	2,492
TOTAL CURRENT FINANCIAL LIABILITIES	**1,221,621**	**683,274**

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 2014:

(Euro/000)	31.12.2014	31.12.2013
Construction loans		
Vard Group AS	509,020	293,289
Vard Niteròi SA	144,366	221,436
Vard Promar SA	176,591	48,066
Vard Singapore Pte. Ltd.	15,199	
Seaonics SA	2,278	
TOTAL CONSTRUCTION LOANS	**847,454**	**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 273 million carry fixed interest (at rates between 2.5% and 5.6%) and around 574 million carry floating interest (at rates between 2.4% and 7.4%). Details of these loans are provided below:

- Nordea Bank Norge ASA has granted Vard Group AS a facility capped at NOK 6,000 million that can be drawn down as follows: NOK 4,800 million for construction loans, NOK 1,050 for guarantees and NOK 150 million for short-term finance. The facility also carries the following covenants as at 31 December 2014: i) working capital must be greater than or equal to NOK 1,000 million and ii) equity must be greater than or equal to NOK 2,100 million. Both these covenants have been observed as at 31 December 2014.

- DnB has granted Vard Group AS a credit facility of NOK 1,200 million for construction loans, guarantees and operations in derivatives; this facility carries the same covenants as the Nordea facility above. All the above covenants have been observed as at 31 December 2014.
- Sparebanken Midt Norge has granted Vard Group AS a credit facility of NOK 900 million for construction loans, guarantees and operations in derivatives; the facility can be increased to NOK 1,800 million with a guarantee by GIEK (Norway's export credit agency); this facility carries the same covenants as the Nordea facility described earlier.
- Vard Niteròi SA has a construction loan facility with BNDES (capped at USD 176 million).
- Vard Promar SA has a construction loan facility with Banco do Brasil guaranteed by Vard Holdings Ltd. (BRL 536 million for local content and USD 140 million for imported content).
- Vard Promar SA has also secured a construction loan facility with BNDES guaranteed by Vard Holdings Ltd. (BRL 247 million for local content and USD 68 million for imported content).
- Vard Singapore Pte. Ltd. has an agreement with Nordea Bank in Singapore, for a maximum amount of USD 40 million as at 31 December 2014. This agreement is guaranteed by VARD Holdings Ltd. and VARD Group AS. In addition, the Company has a facility with Nordea Bank in Singapore for USD 19.7 million for refund guarantees given to customers.

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.

"Bank credit facilities repayable on demand" mostly refer to drawdowns by Vard Niteròi against its short-term credit facilities for USD 30 million with Banco Itaù Nassau. Vard Promar SA has short-term credit facilities with Banco Itaù Nassau for USD 5.1 million, with Bradesco for BRL 14 million and with Santander for BRL 30 million.

At 31 December 2014, FINCANTIERI S.p.A. also had a total of euro 220 million in committed but undrawn lines of credit with leading Italian and international banks with maturities between February 2015 and June 2016.

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

"Fair value of options on equity investments" includes euro 15,649 thousand for the option held by minority shareholders of the Fincantieri Marine Group, exercisable from 1 January 2014; the change in this amount since 2013 is entirely due to exchange rate differences.

The fair value of derivative financial instruments has been calculated considering market parameters and using widely accepted measurement techniques (Level 2). Further details can be found in Note 4.

Note 27 - Revenue and income

These are analyzed as follows:

(Euro/000)	2014	2013
Operating revenue	**4,314,962**	**3,737,165**
Other revenue and income		
Gains on disposal	722	370
Sundry revenue and income	64,102	65,180
Government grants	18,920	8,347
Total other revenue and income	**83,744**	**73,897**
TOTAL REVENUE AND INCOME	**4,398,706**	**3,811,062**

Operating revenue includes the effects of the Change in construction contracts amounting to euro 1,699 million in 2014 (euro 1,242 million in 2013).

Sundry revenue and income comprise:

(Euro/000)	2014	2013
Penalties charged to suppliers	8,638	5,361
Rental income	1,385	709
Insurance claims	26,614	710
Recharged costs	7,008	8,330
Income from third parties relating to personnel	239	513
Other sundry income	17,983	17,331
Extraordinary income and other revenue		6
Gains on held-for-trading foreign currency derivatives	1,704	3,958
Gains on hedging instruments not qualifying for hedge accounting	171	27,240
Other income	360	1,022
Total	**64,102**	**65,180**

“Recharged costs”, of euro 7,008 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories.

“Other sundry income” of euro 17,983 thousand includes out-of-period income and adjustments mainly arising on settlements agreed with suppliers during the year.

Note 28 - Operating costs

MATERIALS, SERVICES AND OTHER COSTS

Materials, services and other costs are analyzed as follows:

(Euro/000)	2014	2013
Raw materials and consumables	(2,448,186)	(2,055,840)
Services	(677,451)	(692,217)
Leases and rentals	(40,065)	(43,093)
Change in inventories of raw materials and consumables	(2,211)	(15,521)
Change in work in progress	4,435	451
Sundry operating costs	(94,699)	(11,541)
Cost of materials and services capitalized in fixed assets	17,547	48,674
Total materials, services and other costs	**(3,240,630)**	**(2,769,087)**

The increase in "Sundry operating costs" is mainly due to recognition of the change in fair value of derivatives. Sundry operating costs also include euro 751 thousand in losses on the realization of non-current assets (euro 4,832 thousand at 31 December 2013).

Materials, Services and Other costs include non-recurring expenses, as reported in Note 32.

The cost of services is analyzed as follows:

(Euro/000)	2014	2013
Subcontractors and outsourced services	(319,694)	(322,710)
Insurance	(36,792)	(34,653)
Other personnel costs	(19,141)	(20,414)
Maintenance costs	(21,470)	(23,952)
Tests and trials	(10,712)	(9,980)
Outsourced design costs	(22,716)	(18,119)
Licenses	(6,527)	(8,215)
Transportation and logistics	(18,459)	(26,334)
Technical and other services	(182,914)	(186,421)
Cleaning services	(22,706)	(22,670)
Electricity, water, gas and other utilities	(38,028)	(37,167)
Utilization of product warranty and other provisions	21,708	18,418
Total cost of services	**(677,451)**	**(692,217)**

"Leases and rentals" amounting to euro 40,065 thousand (euro 43,093 thousand in 2013) include rental and hire costs of euro 21,877 thousand (euro 25,971 thousand in 2013), lease costs of euro 15,417 thousand (euro 14,647 thousand in 2013), and concession and similar fees of euro 2,771 thousand (euro 2,475 thousand in 2013).

OPERATING LEASES

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

(Euro/000)	2014	2013
Maturity of future minimum operating lease payments:		
Within 1 year	16,191	8,684
Between 1 and 5 years	37,274	25,185
Beyond 5 years	26,217	22,845
Total	**79,682**	**56,714**

PERSONNEL COSTS

(Euro/000)	2014	2013
Personnel costs:		
- wages and salaries	(619,132)	(566,888)
- social security	(185,462)	(169,951)
- costs for defined contribution plans	(32,985)	(29,407)
- other personnel costs	(31,036)	(26,048)
Personnel costs capitalized in fixed assets	7,193	22,575
Total personnel costs	**(861,422)**	**(769,719)**

“Personnel costs” represent the total cost incurred for employees, including wages and salaries, employer social security contributions, gifts and travel allowances.
Personnel costs include non-recurring expenses, as reported in Note 32.

HEADCOUNT

The Fincantieri Group had 21,689 employees at 31 December 2014, compared with 20,389 at the end of 2013, broken down as follows:

(number)	2014	2013
Employees at year end:		
Total at year end	21,689	20,389
- of whom in Italy	7,706	7,735
- of whom in Parent Company	7,302	7,436
- of whom in VARD	11,779	10,689
Average number of employees	21,154	20,169
- of whom in Italy	7,692	7,872
- of whom in Parent Company	7,366	7,577
- of whom in VARD	11,336	10,340

Orizzonte Sistemi Navali had 84 employees at 31 December 2014, the same as at 31 December 2013.

DEPRECIATION AND AMORTIZATION, PROVISIONS AND IMPAIRMENT

(Euro/000)	2014	2013
Depreciation and amortization:		
- amortization of intangible assets	(25,612)	(23,900)
- depreciation of property, plant and equipment	(73,595)	(65,059)
Total depreciation and amortization	**(99,207)**	**(88,959)**
Provisions and impairment:		
- impairment of receivables	(4,061)	(13,398)
- increases in provisions for risks and charges	(60,817)	(79,199)
- other impairment losses	(66)	(2,491)
- release of provisions and impairment reversals	22,060	48,408
Total provisions and impairment	**(42,884)**	**(46,680)**

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 34,566 thousand versus euro 34,440 thousand in 2013), to provisions for litigation (euro 18,785 thousand versus euro 21,744 thousand in 2013), and to other provisions for future charges (euro 7,466 thousand versus euro 18,370 thousand in 2013).
Provisions and impairment include non-recurring expenses, as reported in Note 32.

Note 29 - Finance income and costs

These are analyzed as follows:

(Euro/000)	2014	2013
FINANCE INCOME		
Interest and other income from financial assets	5,849	5,052
Income from derivative financial instruments	303	827
Bank interest and fees and other income	5,613	7,804
Foreign exchange gains	24,489	9,269
Total finance income	**36,254**	**22,952**
FINANCE COSTS		
Interest and fees charged by joint ventures	(2,197)	(2,609)
Interest and fees charged by controlling companies	(179)	(1,165)
Expenses from derivative financial instruments	(76)	(257)
Interest on employee benefit plans	(1,767)	(2,049)
Interest and fees on bonds	(11,990)	(1,412)
Interest and fees on construction loans	(26,277)	(24,228)
Bank interest and fees and other expense	(33,273)	(36,938)
Foreign exchange losses	(26,794)	(16,822)
Total finance costs	**(102,553)**	**(85,480)**
TOTAL FINANCE INCOME AND COSTS	**(66,299)**	**(62,528)**

"Finance income" includes euro 1,591 thousand (euro 1,830 thousand in 2013) in income formally paid by the Italian State to the Parent Company, but effectively paid to "Banca Infrastrutture Innovazione e Sviluppo" (with an equal amount recognized as finance expense), under the structure in place to disburse government grants (see Note 4).

Finance income and costs included non-recurring expenses in 2013, as reported in Note 32.

Note 30 - Income and expense from investments

These are analyzed as follows:

(Euro/000)	2014	2013
INCOME		
Dividends from other companies	219	17
Other income from investments	1,963	
Total income	**2,182**	**17**
EXPENSE		
Impairment of investments	(538)	(240)
Provision for losses on investments	(784)	(221)
Losses on disposal of investments	(1)	
Total expense	**(1,323)**	**(461)**
INCOME/(EXPENSE) FROM INVESTMENTS	**859**	**(444)**
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Profit	5,338	2,881
Loss	(289)	(875)
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	**5,049**	**2,006**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**5,908**	**1,562**

"Other income from investments" of euro 1,963 thousand reflects the gains realized on the disposal of the investments in Island Offshore LNG AS and Island Offshore LNG KS.

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" in 2014 mainly reflects the Group's share of profit of Orizzonte Sistemi Navali (euro 865 thousand versus euro 1,000 thousand in 2013), REM Supply AS (euro 3,027 thousand versus euro 651 thousand in 2013), Møkster Supply KS (euro 317 thousand versus euro 271 thousand in 2013), Olympic Challenger KS (euro 583 thousand versus euro 725 thousand in 2013), and CSS Design Ltd. (euro 224 thousand versus not present in 2013), while its share of loss mainly refers to DOF Iceman AS (euro 240 thousand versus euro 132 thousand in 2013).

Note 31 - Income taxes

These are analyzed as follows:

(Euro/000)	2014		2013	
Current taxes		**(7,369)**		**(19,906)**
Deferred tax assets:				
– sundry impairment losses	(39,094)		15,918	
– product warranty	3,420		(765)	
– other risks and charges	4,447		(10,004)	
– carryforward tax losses	4,427		2,375	
– other items	(8,928)		15,185	
		(35,728)		**22,709**
Deferred tax liabilities:				
– other items	4,205		6,664	
		4,205		**6,664**
Total deferred taxes		**(31,523)**		**29,373**
TOTAL INCOME TAXES		**(38,892)**		**9,467**

Notes:
Negative figures indicate the recognition of deferred tax liabilities or reversal of deferred tax assets.
Positive figures indicate the reversal of deferred tax liabilities or recognition of deferred tax assets.

Approximately euro 11 million in net revenue was recognized in 2014 for income taxes relating to previous periods.

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

(Euro/000)	2014	2013
Theoretical corporate income tax rate (IRES)	**27.50%**	**27.50%**
Profit/(loss) before tax	94,172	75,651
Theoretical corporate income tax (IRES)	**(25,897)**	**(20,804)**
Impact of taxes relating to prior periods	11,233	9,882
Non-taxed income and non-deductible expenses	920	3,702
Impact of tax losses	2,108	(22,720)
Impact of permanent differences and unrecognized temporary differences	(2,005)	10,248
Impact of temporary differences not recognized in previous years		26,617
Effect of change in tax rates	(4,700)	
Impact of different tax rates applicable to foreign entities	(4,788)	17,506
IRAP charged to profit or loss	**(15,763)**	**(14,963)**
Total income taxes through profit or loss	**(38,892)**	**9,467**
Current taxes	(7,369)	(19,906)
Deferred taxes	(31,523)	29,373

Note 32 - Other information

NET FINANCIAL POSITION

The consolidated Net financial position as monitored by the Group is presented below.

(Euro/000)	31.12.2014	31.12.2013
A. Cash	107	270
B. Other cash equivalents	552,178	384,236
C. Held-for-trading securities		
D. Cash and cash equivalents (A)+(B)+(C)	**552,285**	**384,506**
E. Current financial receivables	**82,269**	**52,091**
- of which related parties	*1,396*	*4,368*
F. Current bank debt	(31,962)	(35,134)
G. Current portion of non-current debt	(47,071)	(32,393)
- of which related parties	*(1,425)*	*(1,602)*
H. Other current financial liabilities	(959)	(2,811)
- of which related parties	*(337)*	*(2,535)*
I. Current debt (F)+(G)+(H)	**(79,992)**	**(70,338)**
J. Net current debt (D)+(E)+(I)	**554,562**	**366,259**
K. Non-current financial receivables	**89,866**	**41,839**
-of which related parties	*7,147*	*8,548*
L. Non-current bank debt	(290,364)	(254,670)
- of which related parties	*(5,855)*	*(7,279)*
M. Bond	(296,835)	(296,095)
N. Other non-current financial liabilities	(13,120)	(12,314)
- of which related parties	*(11,770)*	*(11,770)*
O. Non-current debt (L)+(M)+(N)	**(600,319)**	**(563,079)**
P. Net non-current debt (K)+(O)	**(510,453)**	**(521,240)**
Q. Net financial position (J)+(P)	**44,109**	**(154,981)**

For the purposes of complying with Consob Communication no. DEM/6064293/2006, the following table reconciles the above Net financial position with the disclosure recommended by the European Securities and Markets Authority (ESMA).

(Euro/000)	31.12.2014	31.12.2013
Net financial position	**44,109**	**(154,981)**
Non-current financial receivables	(89,866)	(41,839)
Construction loans	(847,454)	(562,791)
Net financial position as per ESMA recommendation	**(893,211)**	**(759,611)**

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

As required by CONSOB Resolution no. 15519 of 27 July 2006, the following table summarizes the income and expenses arising from non-recurring events or transactions that have been recorded in profit or loss in 2014 and 2013; these amounts, presented before tax effects, have been classified in the following line items:

(Euro/000)		31.12.2014	31.12.2013
Description	**Income statement line**		
Costs associated with the "Extraordinary Wage Guarantee Fund"	Personnel costs	9,937	14,795
Costs relating to reorganization plans	Materials, services and other costs	1,100	3,762
	Personnel costs	8,277	2,662
	Provisions and impairment		4,645
Provisions for costs and legal expenses associated with asbestos-related lawsuits	Materials, services and other costs	2,947	2,153
	Provisions and impairment	18,376	21,724
Other non-recurring income and expenses	Materials, services and other costs	2,920	18,598
	Provisions and impairment		4,402
	Finance costs		7,718
Total extraordinary and non-recurring income and expenses		**43,557**	**80,459**

At 31 December 2014, "Other non-recurring income and expenses" include euro 2,747 thousand in costs connected with the Parent Company's IPO.
At 31 December 2013, "Other non-recurring income and expenses" included euro 7,718 thousand in finance costs and 12,438 thousand in costs pertaining to the VARD Group's acquisition.
Extraordinary and non-recurring income and expenses are presented before tax effects of euro 12,085 thousand at 31 December 2014 (euro 27,885 thousand at 31 December 2013).

ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In accordance with the disclosures required by Consob Communication no. DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions were carried out during 2014.

RELATED PARTY TRANSACTIONS

Intragroup transactions, transactions with Fintecna and its subsidiaries, with Cassa Depositi e Prestiti and its subsidiaries, with companies controlled by Italy's Ministry of Economy and Finance, 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 2013 have been adjusted to include balances and transactions with companies controlled by Italy's Ministry of Economy and Finance.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2014						
(Euro/000)	Non-current financial assets	Current financial assets	Trade receivables and other current assets	Trade receivables and other non-current assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
FINTECNA S.p.A.			244				
CASSA DEPOSITI E PRESTITI S.p.A.			23,489		(5,855)	(1,425)	(27)
TOTAL CONTROLLING COMPANIES			**23,733**		**(5,855)**	**(1,425)**	**(27)**
ORIZZONTE SISTEMI NAVALI S.p.A.			53,684			(337)	(3,597)
ETIHAD SHIP BUILDING LLC			7,331				(610)
TOTAL JOINT VENTURES			**61,015**			**(337)**	**(4,207)**
BRIDGE EIENDOM AS	476						
REM SUPPLY AS	590						
OLYMPIC GREEN ENERGY KS		1,356					
DOF ICEMAN AS	5,852						
BREVIK TECHNOLOGY AS		40					
ISLAND OFFSHORE LNG AS(*)							
CSS DESIGN Ltd.				972			
CASTOR DRILLING SOLUTION AS	116						
TOTAL ASSOCIATES	**7,034**	**1,396**		**972**			
FINTECNA IMMOBILIARE S.r.l.(**)			3,250				
TIRRENIA DI NAVIGAZIONE S.p.A.			10,760				
SIMEST S.p.A.					(11,770)		(467)
SACE S.p.A.							(257)
SACE BT S.p.A.							
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.							(999)
COMETA NATIONAL PENSION FUND							(2,848)
PECOL S.r.l							(830)
BOAT S.p.A.							(550)
OTHER	113						(75)
Total CDP Group	**113**		**14,010**		**(11,770)**		**(6,026)**
HORIZON SAS			1,928				(1)
FINMECCANICA GROUP			1,852				(4,065)
ENI GROUP			2,454				(655)
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE							
TOTAL OTHER RELATED PARTIES			**6,234**				**(4,721)**
TOTAL RELATED PARTIES	***7,147***	***1,396***	***104,992***	***972***	***(17,625)***	***(1,762)***	***(14,981)***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	124,480	136,693	975,051	14,705	(652,918)	(1,221,621)	(1,277,425)
% on consolidated statement of financial position	*6%*	*1%*	*11%*	*7%*	*3%*	*0%*	*1%*

(*) Equity investment sold in 2014

(**) Formerly Quadrifoglio Palermo S.r.l.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION				**31.12.2013**			
(Euro/000)	Non-current financial assets	Current financial assets	Trade receivables and other current assets	Trade receivables and other non-current 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						
REM SUPPLY AS	1,172						
OLYMPIC GREEN ENERGY KS	1,256	253					
DOF ICEMAN AS	5,479						
BREVIK TECHNOLOGY AS		26					
ISLAND OFFSHORE LNG AS		4,089					
CSS DESIGN Ltd.							
CASTOR DRILLING SOLUTION AS							
TOTAL ASSOCIATES	**8,548**	**4,368**					
QUADRIFOGLIO PALERMO S.r.l.			3,250				
TIRRENIA DI NAVIGAZIONE S.p.A.			10,760				
SIMEST S.p.A.					(11,770)		(467)
SACE S.p.A.						(252)	
SACE BT S.p.A.						(35)	
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.							(972)
COMETA NATIONAL PENSION FUND							(3,401)
PECOL S.r.l							(737)
BOAT S.p.A.							(577)
OTHER							(64)
Total CDP Group			**14,010**		**(11,770)**	**(287)**	**(6,218)**
HORIZON SAS			3,423				(1)
FINMECCANICA GROUP			201				(5,787)
ENI GROUP			840				(80)
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE							(31)
TOTAL OTHER RELATED PARTIES			**4,464**				**(5,899)**
TOTAL RELATED PARTIES	***8,548***	***4,368***	***49,581***		***(19,049)***	***(4,424)***	***(13,255)***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	99,882	99,353	558,921		(604,727)	(683,274)	(1,154,718)
% on consolidated statement of financial position	*9%*	*4%*	*9%*		*3%*	*1%*	*1%*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			**31.12.2014**		
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
FINTECNA S.p.A.		244	(13)		(132)
CASSA DEPOSITI E PRESTITI S.p.A.			(27)		(42)
TOTAL CONTROLLING COMPANIES		**244**	**(40)**		**(174)**
ORIZZONTE SISTEMI NAVALI S.p.A.	357,652	1,786	(158)		(2,197)
ETIHAD SHIP BUILDING LLC	1,257	639	(2,064)		
TOTAL JOINT VENTURES	**358,909**	**2,425**	**(2,222)**		**(2,197)**
REM SUPPLY AS				42	
OLYMPIC GREEN ENERGY KS				66	
DOF ICEMAN AS				227	
TOTAL ASSOCIATES				**335**	
TIRRENIA DI NAVIGAZIONE S.p.A.					
SIMEST S.p.A.			(696)		
SACE S.p.A.					(815)
SACE BT S.p.A.					(1,112)
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A..			(3,167)		
COMETA NATIONAL PENSION FUND			(7,563)		
PECOL S.r.l			(2,806)		
BOAT S.p.A.			(2,473)		
OTHER	235		(128)		
Total CDP Group	**235**		**(16,833)**		**(1,927)**
HORIZON SAS		52			
FINMECCANICA GROUP		83	(3,946)		
ENI GROUP	1,557		(2,198)		
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE			(25)		
TOTAL OTHER RELATED PARTIES	**1,557**	**135**	**(6,169)**		
TOTAL RELATED PARTIES	***360,701***	***2,804***	***(25,264)***	***335***	***(4,298)***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4,314,962	83,744	(3,240,630)	36,254	(102,553)
% on consolidated statement of comprehensive income	*8%*	*3%*	*1%*	*1%*	*4%*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	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**	
TIRRENIA DI NAVIGAZIONE S.p.A.	13				
SIMEST S.p.A.			(696)		
SACE S.p.A.					(1,529)
SACE BT S.p.A.					(561)
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A..					(3,562)
COMETA NATIONAL PENSION FUND					(9,028)
PECOL S.r.l			(2,593)		
BOAT S.p.A.			(3,045)		
OTHER			(18)		(144)
Total DCP Group	**13**		**(6,352)**		**(14,824)**
HORIZON SAS	417				
FINMECCANICA GROUP	191	10	(16,417)		
ENI GROUP	799		(507)		
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE			(59)		
TOTAL OTHER RELATED PARTIES	**1,407**	**10**	**(16,983)**		
TOTAL RELATED PARTIES	***463,985***	***2,225***	***(26,819)***	***282***	***(18,598)***
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%*	*1%*	*1%*	*22%*

The main related party relationships are:

- 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 “Rinascimento” (or FREMM) program. This program, for which Orizzonte Sistemi Navali S.p.A. is the prime contractor, involves the construction of 10 ships for the Italian Navy with ship design and production activities performed by the Company and its subsidiaries. The financial liabilities with Orizzonte Sistemi Navali S.p.A. at 31 December 2014 and 2013 relate to the current account that this company has with the Company under a centralized treasury management agreement;

- with Horizon, with whom the balances and transactions reported at 31 December 2014 and 2013 refer to an agreement for the construction of naval vessels between Horizon and the supranational agency acting on behalf of the French and Italian Navies. This construction work has been carried out by various domestic companies, including FINCANTIERI S.p.A.;
- with Tirrenia di Navigazione S.p.A., with whom revenue and receivables balances at 31 December 2014 and 2013 mainly refer to refurbishment of the Tirrenia fleet;
- with Fintecna Immobiliare S.r.l. (formerly Quadrifoglio Palermo S.r.l.), with whom the receivables balance at 31 December 2014 and 2013 relates to the sale of a piece of land;
- with Simest S.p.A., with whom the financial liabilities at 31 December 2014 and 2013 relate to the put option to purchase Fincantieri USA;
- costs and revenue or receivables and payables with other related parties at 31 December 2014 and 2013, which mainly refer to the supply of goods or services used in the production process.

The following transactions are also reported in accordance with art. 13, par. 3 (c) of the Consob Regulations concerning related party transactions:

- six Indemnity and Guarantee Agreements signed by FINCANTIERI S.p.A. during 2014 with SACE S.p.A. to cover any breach of obligations under export credit insurance policies for a maximum amount payable of euro 1,879 million;
- four financing agreements with Cassa Depositi e Prestiti S.p.A., totaling euro 53 million and not utilized in 2014.

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

(Euro/000)	Emoluments of office(*)	Non-monetary benefits	Bonuses and other incentives	Other remun-eration
		2014		
Board of Directors of Parent Company	1,175	5	180	80
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		64	895	2,355
Independent Auditors for Parent Company	388			1,255
		2013		
Board of Directors of Parent Company	695	3	180	1
Board of Statutory Auditors of Parent Company	58			
General Managers and Key Management Personnel		78	992	2,640
Independent Auditors for Parent Company	272			1,080

(*) Excluding amounts paid on behalf of subsidiaries

More details can be found in the “Compensation Report.”

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

The basic assumptions for calculating Earnings/(Loss) Per Share are as follows:

		31.12.2014	31.12.2013
Profit/(loss) attributable to owners of the Parent	Euro/000	66,935	56,717
Weighted average number of shares outstanding	Number	1,466,502,632	1,242,119,070
Basic Earnings/(Loss) Per Share	**Euro**	**0.04564**	**0.04566**

Basic earnings per share have been calculated by dividing profit or loss for the year attributable to owners of the Parent by the average number of shares outstanding during the year (see Note 18).

		31.12.2014	31.12.2013
Profit/(loss) attributable to owners of the Parent	Euro/000	66,935	56,717
Weighted average number of shares outstanding	Number	1,466,502,632	1,242,119,070
Diluted Earnings/(Loss) Per Share	**Euro**	**0.04564**	**0.04566**

Diluted earnings per share are the same as basic earnings per share since no dilution will arise from the free shares allotted at the time of the IPO because these will be made available by the shareholder Fintecna S.p.A. (see Note 18).

GUARANTEES

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

(Euro/000)	2014	2013
Sureties	40,379	57,095
Other guarantees	2,605	7,334
Total	**42,984**	**64,429**

“Sureties” at 31 December 2014, like in 2013, mainly refer to guarantees issued on behalf of the joint venture Orizzonte Sistemi Navali S.p.A (euro 40,379 thousand).
“Other guarantees”, like in 2013, mainly relate to release letters issued on behalf of Horizon to the French Ministry of Defense (euro 2,605 thousand).

LITIGATION

Foreign litigation

The long-running dispute with the Iraqi government refers to contracts that were only partially performed following the customer’s breach of contract, following an embargo involving 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 S.p.A., 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 status of the dispute can be summarized as follows:

- in the case involving the two contracts in which Fincantieri was the main contractor, our defense lawyers 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. The outcome of this appeal is still pending. According to our defense counsel, this appeal does not concern Fincantieri, in whose regard 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 three contracts, brought before the Court of Appeal of Paris against the arbitration ruling in the Company's favor, the proceedings are currently suspended, as explained below;
- 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 obtain 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 talks initiated in 2011 for an out-of-court settlement of the dispute led to the signing on 15 May 2014, by Fincantieri and the Iraqi government, of a Settlement Agreement that defines the terms for ending the dispute.

This agreement envisages that in exchange for entering into a Refurbishment Contract, under which Fincantieri will perform work to return the two corvettes delivered to the Iraqi Navy to working condition, the Iraqi government will commission Fincantieri, under the Combat System Contract, to replace the now technologically obsolete combat system of these two ships with a more modern one.

Under the Settlement Agreement, all the outstanding disputes will be extinguished once the Refurbishment Contract reaches a certain stage of completion (expected within a year of this contract's effective date), at which point Fincantieri will renounce all further claims to its outstanding receivable balance.

Under the Settlement Agreement, the case filed by Iraq with the Paris Court of Appeal has been suspended at the joint request of the parties, while those pending in Baghdad had already been suspended in anticipation of the outcome of the appeal in Paris. The above contracts were agreed and signed in July, although their finalization, originally scheduled for September, was postponed due to the installation of a new Iraqi government, which only at the end of 2014 had elected a new president of the Inter-ministerial Committee in charge of settling the dispute with Fincantieri. In February, there were signs from the Iraqi side of a resumption of contact with a view to finalizing the contracts.

In view of the above, the prudent approach adopted remains confirmed.

The award in the Serene arbitration was issued at the end of July 2014. This unexpectedly found that, by virtue of a claimed "indisputable external similarity", the MY Victory is a sister ship to the MY Serene, in breach of the owner's intellectual property, for which the latter was awarded the sum of euro 13.2 million in compensation; furthermore, on the basis of an interpretation contrary to the wording of the contract, the award considered late delivery penalties to be applicable in the amount of euro 7.7 million (plus interest).
FINCANTIERI S.p.A., deeming this decision to be absolutely unfair and illegitimate, since flawed with multiple errors, swiftly filed an appeal with the High Court in London. Since arbitration is a single-instance process, the appeal filed by Fincantieri had to obtain preliminary "clearance" from the aforesaid High Court, which has failed to grant it.
The Company will therefore take every better action to counter the recognition and/or enforcement of the ruling.
Accordingly, it has initiated a lawsuit in Italy against the owner of MY Serene to demonstrate that the latter does not own any intellectual property over the yacht's design and that the MY Victory does not violate any hypothetical intellectual property rights of the MY Serene's owner.
The Company's outside legal counsel have expressed themselves favorably as to a positive outcome to this dispute.
There is also a case pending in the Court in Patras (Greece), brought by Mr. Papanikolaou and his wife against the Company, Minoan Lines and others following an accident in 2007 involving the claimant whilst aboard the "Europa Palace", built by Fincantieri. According to Mr. Papanikolaou's reconstruction, this accident caused major physical damage, apparently of a totally disabling nature. The Patras Court of Appeal has overturned the first-instance ruling in Fincantieri's favor, and condemned it, jointly and severally with the other defendants, to pay euro 1,364 thousand, from which the amounts already paid by Minoan Lines under an earlier precautionary action can presumably be deducted. Fincantieri filed an appeal with the Greek Court of Cassation on 20 January 2015 and, according to its Greek legal counsel, stands a good chance of success. The outcome of this appeal will affect a second lawsuit, initiated by Papanikolaou against Fincantieri before the same court for his alleged loss of income over the period 2012-2052. The first hearing will be on 8 December 2015.
Under two summons notified in March 2014, Mr. Anthony Yuzwa convened Fincantieri, Carnival and others to appear before the District Courts of California and Florida. This dispute concerns the loss suffered by the claimant following an accident aboard the "Oosterdam" in 2011, that the claimant alleges was caused by negligence of the defendants. The amount of compensation claimed is not specified. Fincantieri's petitions concerning the lack of notification and jurisdiction were accepted by the American state courts during the course of 2014. The claimant then sent notification of the same documents to the offices of Trieste and to the office of FMSNA in San Diego. The related hearings should be held by March 2015. In both cases, our lawyers have confirmed very good chances of prevailing at this stage.
With reference to the dispute for the recovery of the "Neuman Esser" receivable, the unavailability of the single arbitrator for several months means that the arbitration award, originally scheduled to be issued in mid-November 2014, should take place by 31 March 2015.

Italian litigation

Customer credit recovery

With reference to legal action against customers that are insolvent, bankrupt or the subject of other reorganization measures, with whom disputes have arisen that could not be resolved commercially, it is reported that the legal actions against Tirrenia and Siremar (under special administration) and Energy Recuperator S.p.A. did not produce any cash recoveries during 2014. Further distributions are still awaited from the special administration of Micoperi S.p.A.. The recoverability of the various debtor positions has been carefully evaluated and duly written down, where necessary.

Litigation with suppliers

These are disputes involving claims by suppliers and contractors that the Company considers unjustified (alleged receivables for invoices not due or for extra items not due), or concerning the recovery of extra costs and/or losses incurred by the 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

This refers to cases brought by employees and former employees of contractors and subcontractors, which involve the Company under the "customer co-liability" principle (art. 1676 of the Italian Civil Code and art. 29 of Legislative Decree 276/2003). Litigation relating to asbestos continued to be settled both in and out of court in 2014.

Other litigation

Other litigation includes: i) claims against government bodies for environmental expenses, including disputes with the City of Ancona and disputes with the Ministry of the Environment involving the shipyards in Muggiano and Castellammare; ii) appeals against claims by social security authorities, including litigation against INPS for claims arising from the non-payment of contributions by contractors and sub-contractors under the customer co-liability principle; iii) compensation for direct and indirect damages arising from the production process.
Whenever the outcome of such litigation is thought to result in a possible outflow of economic resources, suitable provisions for risks and charges have been recognized.

Criminal prosecutions under Legislative Decree no. 231/2001

The Group is currently involved in three criminal prosecutions brought under Legislative Decree no. 231/2001 in the Court of Gorizia.
In January 2014, FINCANTIERI S.p.A. received notice of a request for extension of the deadline for the preliminary investigations, under art. 406 of the Code of Criminal Procedure, into the former manager of the Monfalcone shipyard for the alleged infringement of art. 256, par. 1, letters a) and b) of Legislative Decree no. 152/2006, as well as into the Company, being investigated under art. 25-undecies of Legislative Decree no. 231/2001 in relation to its alleged management of areas of sorting and temporary storage of hazardous waste at the Monfalcone shipyard without the required authorization, and the alleged disposal of such waste with documentation that would not permit it to be traced. Under this investigation, the public prosecutor's request for seizure of some areas and sheds was rejected in first and second instance, but Italy's Court of Cassation has upheld the prosecutor's appeal against such rejection, referring the proceedings back to the Court.

Between March and April 2014, notices of conclusion of preliminary investigations were served on twenty-one individuals (including members of the Board of Directors and of the Oversight Board, and employees of the Company at the date of the event, some of whom are still in office or employed by the Company) in the various capacities being investigated for the offenses of "willful removal or omission of precautions against workplace accidents" and "bodily harm" under articles 437 and 590 of the Criminal Code and of violation of certain provisions of Legislative Decree no. 81/2008; such notices were also served on the Company under art. 25-septies, par. 3, of Legislative Decree no. 231/2001 in connection with an injury to an employee on 13 December 2010 at the Monfalcone shipyard during the lifting of two bundles of iron pipes. At the preliminary hearing on 18 December 2014, it was declared that there was no reason to proceed against the members of the Board of Directors and the Oversight Board and the two General Managers, while the other employees of the Company at the date of the incident, as notified above, were formally indicted.
Between September and October 2014, notices of conclusion of preliminary investigations were served on twenty-one individuals (including members of the Board of Directors and of the Oversight Board, and employees of the Company at the date of the event, some of whom are still in office or employed by the Company) in the various capacities being investigated for the offenses of "willful removal or omission of precautions against workplace accidents" and "wrongful death" under articles 437 and 589 of the Criminal Code and of violation of certain provisions of Legislative Decree no. 81/2008; such notices were also served on the Company under art. 25-septies of Legislative Decree no. 231/2001 in connection with the death of an employee of a contractor on 21 February 2011 after falling into a ventilation shaft.

TAX POSITION

National tax consolidation

FINCANTIERI S.p.A., Fincantieri Oil & Gas S.p.A. and Isotta Fraschini Motori S.p.A. take part in the national tax consolidation of Cassa Depositi e Prestiti S.p.A..

Controlled foreign companies (CFC) application for exemption

Since 2013, the subsidiary Fincantieri Oil & Gas S.p.A. has held the investment in Vard Holdings Ltd. and, indirectly, in Vard Singapore Pte. Ltd. Both companies are resident in Singapore and so an application has been filed for exemption from the tax transparency rules applying to controlled foreign companies.
The application for the operating company Vard Singapore Pte. Ltd. has been accepted, while the one for the listed company Vard Holdings Ltd. has been rejected. The Group disagrees with the second decision and will take every step necessary to defend itself (the Fincantieri Group acquired the majority of the existing VARD Group without any intent of relocating income to low-tax states).

Audits and assessments

Fincantieri

A routine tax audit of fiscal year 2011 was initiated at the beginning of 2014 and terminated in July with notification of the report of findings; the nature and small amount of some of the matters raised advised making a settlement. Other findings are still pending, with no conclusions yet reached in their regard; corresponding provisions have been recognized for the currently quantifiable risks.

Foreign Group companies

Following an audit initiated in 2012, the subsidiary Vard Niteròi S.A. (Brazil) was notified in 2014 of an assessment for approximately euro 21.5 million; the company has filed an appeal, which was rejected by the first-instance administrative commission at the start of 2015; this outcome was predictable in view of the commission's composition and the first-instance procedure, and does not change the overall opinion that the taxpayer will prevail, on the basis of which no provisions have been recognized. The subsidiary is preparing an appeal to the second-instance commission (there is also a third administrative level, after which all the various levels of the legal process are available).

HEADCOUNT

The Group's average workforce numbered 21,154 employees in 2014 (20,169 in 2013), distributed between the various contractual grades as follows:

(number)	**2014**	**2013**
Average headcount:		
- Senior managers	331	311
- Middle managers	926	949
- White collars	5,917	5,600
- Blue collars	13,980	13,309
Total average number of employees	**21,154**	**20,169**

Note 33 – Cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2014	31.12.2013
Profit/(loss) for the year	55,280	85,118
Depreciation and amortization	99,207	88,959
(Gains)/losses from disposal of property, plant and machinery	29	4,462
(Revaluation)/impairment of intangible assets and equity investments	(4,445)	850
Increases/(releases) of provisions for risks and charges	41,025	32,557
Capitalized interest expense		1,993
Interest on employee benefits	1,925	(943)
Interest income	(11,462)	(10,587)
Interest expense	73,916	64,083
Income taxes	38,892	(9,467)
Gross cash flows from operating activities	**294,367**	**257,025**
CHANGES IN WORKING CAPITAL		
- inventories	(748)	44,765
- construction contracts	(354,307)	(442,920)
- trade receivables	(258,224)	(43,232)
- other current assets and liabilities	90,031	6,019
- other non-current assets and liabilities	(20,548)	2,141
- advances from customers	(30,037)	52,028
- trade payables	148,938	60,795
Cash flows from working capital	**(130,528)**	**(63,379)**
Dividends paid	(10,000)	(4,295)
Interest income received	10,363	10,775
Interest expense paid	(72,841)	(72,465)
Income taxes paid	(42,516)	(29,818)
Utilization of provisions for risks and charges and for employee benefits	(73,987)	(91,355)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(319,509)**	**(250,537)**
- of which related parties	*(54,657)*	*(47,927)*

Note 34 – Segment information

Management has identified the following operating segments which reflect the model used 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 construction of cruise ships, ferries, naval vessels (for the Italian and foreign navies) and mega-yachts, as well as in ship repair and conversion activities. Production is carried out at the Group's Italian shipyards and, in the case of vessels intended for the American market, at its American 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 period adjusted for the following items: (i) Income taxes, (ii) Share of profit/(loss) 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 reorganization plans, (ix) Provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages, and (x) Other particularly material expenses or income outside the ordinary course of business arising from non-recurring events.

The results of the operating segments at 31 December 2014 and 31 December 2013 are reported in the following pages.

	2014				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**2,704,465**	**1,579,687**	**191,892**		**4,476,044**
Intersegment elimination	(8,442)	(133)	(68,763)		(77,338)
Revenue (*)	**2,696,023**	**1,579,554**	**123,129**		**4,398,706**
EBITDA	**195,264**	**108,172**	**21,340**	**(27,449)**	**297,327**
EBITDA margin	***7.2%***	***6.8%***	***11.1%***		***6.8%***
Depreciation and amortization					(99,207)
Finance income					36,254
Finance costs					(102,553)
Income/(expense) from investments					859
Share of profit of investments accounted for using the equity method					5,049
Income taxes					(38,892)
Extraordinary and non-recurring income and expenses					(43,557)
Profit/(loss) for the year					**55,280**

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

Details of “Extraordinary and non-recurring income and expenses” (gross of the tax effect of euro 12,085 thousand) can be found in the relevant table in Note 32.

	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**
EBITDA margin	***6.5%***	***11.8%***	***8.5%***		***7.8%***
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.

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.
Details of “Extraordinary and non-recurring income and expenses” (gross of the tax effect of euro 25,763 thousand) can be found in the relevant table in Note 32.
The following table shows a breakdown of Property, plant and equipment in Italy and other countries:

(Euro/million)	31.12.2014	31.12.2013
Italy	566	540
Other countries	393	357
Total Property, plant and equipment	**959**	**897**

Capital expenditure in 2014 on Intangible assets and Property, plant and equipment amounted to euro 162 million (euro 255 million in 2013), of which euro 110 million relating to Italy (euro 131 million in 2013) 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)	31.12.2014		31.12.2013	
	Revenue and income	%	Revenue and income	%
Italy	795	18%	907	24%
Other countries	3,604	82%	2,904	76%
Total Revenue and income	**4,399**		**3,811**	

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

(Euro/million)	31.12.2014		31.12.2013	
	Revenue and income	%	Revenue and income	%
Customer 1	937	21%	869	23%
Customer 2	492	11%	572	15%
Total Revenue and income	**4,399**		**3,811**	

Note 35 - Events after 31 December 2014

On 29 January 2015, Fincantieri announced the formation of Fincantieri SI, a company based in Trieste, to design, manufacture and supply integrated innovative systems in the field of electric, electronic and electromechanical industrial solutions.
On 4 February 2015, SEA Europe, the association representing the European maritime industry and to which all the continent's major shipbuilding countries belong, officially launched the association known as "Vessels for the Future". The initiative, of which Fincantieri is a founding member along with Rolls Royce, aims to promote research, development and innovation in the maritime sector, with a particular focus on vessels of the future and their operational requirements.
On 9 February 2015, the three winning project ideas were announced for Innovation Challenge, the Open Innovation initiative developed by Fincantieri with the Department of Chemical, Management, Computer and Mechanical Engineering of the University of Palermo. The ideas selected will become joint research projects between Fincantieri and the University of Palermo.
On 13 February 2015, the Board of Directors of FINCANTIERI S.p.A. approved, as part of a company reorganization process, the unification of the Corporate General Management unit, headed by Mr. Vitaliano Pappaianni, and the Operations General Management unit, headed by Mr. Enrico Buschi, into a single General Management unit. At the recommendation of Giuseppe Bono, the Chief Executive Officer, the Board also resolved to appoint as General Manager Mr. Andrea Mangoni, a member of the Company's Board of Directors since June 2013, who will take up his new position by March 2015.

During the month of February 2015, the "Britannia" was delivered at the Monfalcone shipyard, becoming the new flagship of P&O Cruises, a brand of the Carnival Group, the world's largest cruise ship operator. The delivery of "Britannia" further enhances and strengthens the partnership between Fincantieri and P&O Cruises, a prestige brand characterized by a particularly high-end customer target and catering to the British market, one of the most active and elegant in the world.

On 12 March 2015, the VARD Group was informed that Nordmoon Schiffahrts GmbH & Co. KG and Nordlight Schiffahrts GmbH & Co. had filed for bankruptcy in the court of Neumünster in Germany.
The VARD Group is building a PSV for each of these two companies at its shipyard in Vietnam. The VARD Group has received a 10% advance payment in respect of one of these two vessels. On 13 March 2015, the VARD Group terminated the contracts for the construction of the two vessels. The VARD Group does not expect to have to return the advance payment and expects to be able to sell the two vessels at a price that will allow it to recover their construction costs, net of the advance received.

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)	EUR	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)	EUR	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)	EUR	21,000,000.00	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI HOLDING B.V. Holding company for foreign investments	Amsterdam (Netherlands)	EUR	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)	EUR	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)	EUR	3,300,000.00	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)	EUR	1,032,000.00	100.00	Fincantieri S.p.A.	100.00
DELFI S.r.l. Technical and logistics engineering	Follo (La Spezia), (Italy)	EUR	400,000.00	100.00	Fincantieri S.p.A.	100.00
SEASTEMA S.p.A. Design and development of integrated automation systems	Genoa (Italy)	EUR	300,000.00	100.00	Fincantieri S.p.A.	100.00
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
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

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest held		% consolidated by Group
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	1,310,000.00	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
MARINE INTERIORS S.p.A. Ship interiors	Trieste (Italy)	EUR	120,000.00	100.00	Seaf S.p.A.	100.00
FINCANTIERI SI S.p.A.(*) Electric, electronic and electromechanical industrial solutions	Trieste (Italy)	EUR	500,000.00	100.00	Seaf S.p.A.	100.00
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	RON	82,573,830.00	100.00	Vard Group AS	55.63
VARD NITERÓI SA Shipbuilding	Brazil	BRL	219,383,790.00	99.99 0.01	Vard Group AS Vard Electro Brazil (Instalaçoes Eletricas) Ltda.	55.63
VARD PROMAR SA Shipbuilding	Brazil	BRL	57,600,000.00	50.50	Vard Group AS	28.09
ESTALEIRO QUISSAMÃ Ltda. Project development	Brazil	BRL	400,000.00	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	PLN	50,000.00	100.00	Seaonics AS	28.37
AAKRE EIGENDOM AS Real estate	Norvegia	NOK	100,000.00	100.00	Vard Group AS	55.63

(*) A-Motion al 31.12.2014

COMPANY NAME Principal activity	**Registered office**		**Share capital**	**(%) interest held**		**% consolidated by Group**
VARD DESIGN LIBURNA Ltd. Design and engineering	Croatia	HRK	20,000.00	51.00	VARD Design AS	28.37
VARD ELECTRO TULCEA S.r.l. Electrical installation	Romania	RON	4,149,525.00	99.96	VARD Electro AS	55.61
VARD ELECTRO BRAZIL (INSTALAÇÕES ELETRICAS) Ltda. Electrical installation	Brazil	BRL	3,000,000.00	99.00 1.00	VARD Electro AS VARD Group AS	55.63
VARD ELECTRO BRAILA S.r.l. Electrical installation	Romania	RON	45,000.00	100.00	VARD Electro AS	55.63
VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) Pte. Ltd. Electrical installation	India	INR	7,000,00.00	99.00 1.00	VARD Electro AS VARD Tulcea SA	55.63
BREVIK PHILADELPHIA Dormant	USA	NOK	-	100.00	VARD Electro AS	55.63
VARD TULCEA SA Shipbuilding	Romania	NOK	577,085,000.00	99.99	Vard RO Holding S.r.l.	55.32
VARD BRAILA SA Shipbuilding	Romania	RON	165,862,177.50	94.12 5.88	VARD RO Holding S.r.l. VARD Group AS	55.63
VARD ENGINEERING CONSTANTA S.r.l. Engineering	Romania	RON	1,408,000.00	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	RON	436,000.00	98.18 1.82	VARD Accommodation AS VARD Electro Tulcea S.r.l.	55.63
MULTIFAG AS Onshore industrial services and installation	Norway	NOK	20,000,000.00	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
VARD SHIP REPAIR BRAILA SA Ship repair	Romania	RON	7,798,340.00	68.58 31.42	VARD Braila SA VARD Brevik Holding AS	55.63
BREVIK ELEKTRO AS Onshore electrical installation	Norway	NOK	100,000.00	100.00	Multifag AS	55.63
VARD MARINE Inc. Ship design and marine engineering	Canada	CAD	12,783,700.00	100.00	Vard Group AS	55.63
VARD MARINE US Inc. Ship design and marine engineering	Texas (TX– USA)	USD	10,000.00	100.00	Vard Marine Inc.	55.63
VARD ENGINEERING GDANSK SP. Z O.O. Offshore design and engineering activities	Poland	PLN	50,000.00	100.00	Vard Engineering Brevik AS	38.94

COMPANY NAME Principal activity	**Registered office**		**Share capital**	**(%) interest held**		**% consolidated by Group**
JOINT VENTURES CONSOLIDATED USING THE EQUITY METHOD						
ORIZZONTE SISTEMI NAVALI S.p.A. Management of contracts to supply large naval vessels	Genova (Italy)	EUR	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 CHALLENGER 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
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	Multifag AS	18,91
CSS DESIGN Ltd. Design and engineering	GB/Isle of Man	GBP	100,000.00	31.00	Vard Marine Inc.	17,25

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)*

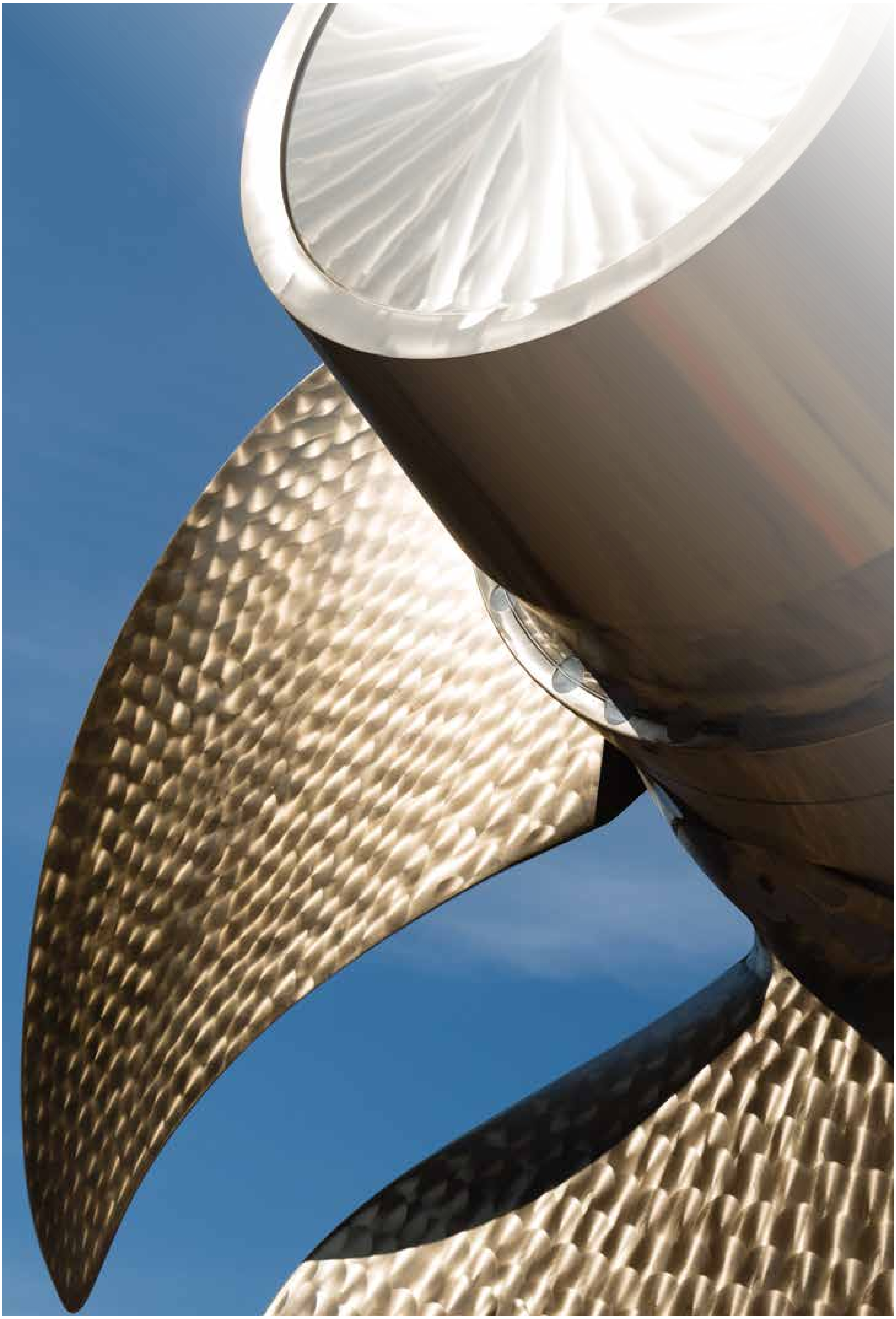
1. The undersigned Giuseppe Bono, in his capacity as Chief Executive Officer, and Carlo Gainelli, as Manager Responsible for Preparing Financial Reports of FINCANTIERI S.p.A. ("Fincantieri"), with reference to the requirements of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 dated 24 February 1998, hereby represent:
   - lthe 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 2014.
2. The adequacy of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2014 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.
   With reference to the Vard Group, whose acquisition was completed in the course of 2013, work has continued to bring its internal controls over financial reporting into line with those of the Parent Company. This led in 2014 to the testing of controls over some of the key processes of Vard Group AS.
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.

13 March 2015

chief executive officer	manager responsible for preparing financial reports
Giuseppe Bono	Carlo Gainelli



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 2014 which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes. The directors of Fincantieri SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n°38/2005. 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.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 21 March 2014.

3 In our opinion, the consolidated financial statements of the Fincantieri Group as of 31 December 2014 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n°38/2005; 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 and a report on corporate governance and ownership structure, the latter published in section "Corporate Governance" of the website of Fincantieri SpA, in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree n°58/98 presented in the report on corporate governance and ownership structure, 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 and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree n°58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the Fincantieri Group as of 31 December 2014.

Trieste, 3 April 2015

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

PricewaterhouseCoopers SpA

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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 reporting date.

Mega yachts

The business of building motor yachts that are at least 70 meters long (230 feet).

Merchant vessels

Ships intended for commercial purposes, mostly involving passenger transportation. Examples are cruise ships, ferries (either for transporting just vehicles or for both vehicles and passengers), container ships, oil tankers, dry and liquid bulk carriers etc.

Naval vessels

Vessels used for military purposes, such as surface combat vessels (aircraft carriers, destroyers, frigates, corvettes, patrol ships) as well as support craft and submarines.

Order intake

Value of new orders, including additions and variations to such orders, awarded to the Company in each reporting period.

Order book

Value of principal contracts, order additions and variations, in respect of orders not yet delivered or fulfilled.

Refitting/refurbishment

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

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.

Net fixed capital

This reports the fixed assets used in the business and includes Intangible assets, Property, plant and equipment, Investments and Other non-current assets (including the fair value of derivatives classified in non-current Financial assets and non-current Financial liabilities) net of Employee benefits.

Net working capital

This is equal to capital employed in ordinary operations which includes Inventories and advances, Construction contracts and advances from customers, Construction loans, Trade receivables, Trade payables, Provisions for risks and charges, and Other current assets and liabilities (including Income tax assets, Income tax liabilities, Deferred tax assets and Deferred tax liabilities, as well as the fair value of derivatives classified in current Financial assets and current Financial liabilities).

Net invested capital

This represents the sum of Net fixed capital and Net working capital.

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

Acronym for Earnings Before Interest and Taxes. It is defined as: Profit for the year adjusted for the following items (i) Income taxes, (ii) Share of profit/(loss) of investments accounted for using the equity method, (iii) Income/(expense) from investments, (iv) Finance costs, (v) Finance income, (vi) costs associated with the “Extraordinary Wage Guarantee Fund”, (vii) costs relating to reorganization plans, (viii) provisions for costs and legal expenses associated with lawsuits for asbestos-related damages, and (ix) other non-recurring income and expenses.

EBITDA

Acronym for Earnings Before Interest, Taxes, Depreciation and Amortization. It is defined as: Profit for the year adjusted for the following items (i) Income taxes, (ii) Share of profit/(loss) 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 reorganization plans, (ix) provisions for costs and legal expenses associated with lawsuits for asbestos-related damages, and (x) other non-recurring 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 calculated as the sum of (i) net cash flows from operating activities, (ii) net cash flows from investing activities and (iii) cash flows arising from the change in construction loans.

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 cash/(debt):* cash and cash equivalents, held-for-trading securities, current financial receivables, current bank debt (excluding construction loans), current portion of long-term loans and credit facilities, other current financial liabilities;
- *Net non-current cash/(debt):* non-current financial receivables, non-current bank debt, bonds, 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.

Revenue

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

Basic or diluted earnings per share

Basic earnings per share are calculated by dividing profit or loss for the reporting 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.

FINCANTIERI

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