fincantieri annual report 2016

FINCANTIERI
The sea ahead

fincantieri
_annual report 2016

FINCANTIERI
The sea ahead

Giampiero Massolo

Chairman of Fincantieri

To our Shareholders,

The year 2016 was an extraordinary one for your Company in a particularly difficult market context for the shipbuilding industry, in which record low global demand for every type of merchant and offshore vessel was nonetheless compensated by a boom in cruise ship orders. With 25 cruise ships ordered, rising to 32 counting those included in memoranda of understanding and letters of intent, the year 2016 marked an unprecedented record for this business, with diversified demand in terms of nature and size of vessels, involving both large and expedition ships.
There are basically two reasons underlying the high volume of orders. The main one is expectations for growth in passenger numbers, particularly driven by emerging markets such as Australia and China; the latter will soon become the world's second largest market in terms of passenger country of origin. The second reason is the need to renew those vessels that entered service in the early nineties, when the modern cruise industry started to take off. Cruise lines are therefore taking steps to program their fleet development by booking production slots in order not to miss out on market opportunities.
The positive trend in demand not only promotes ever more diversified, full and synergistic utilization of the Group’s production capacity, but has also favored the diversification of VARD, which signed agreements during 2016 and the early part of 2017 with three different cruise lines for the construction of seven ships, to which FINCANTIERI will also contribute by supplying key components and technical support.
On the competition front, there have been two opposing signals: on the one hand, Mitsubishi of Japan has announced it will build no more cruise ships after the difficulties experienced in fulfilling the Aida order, while on the other hand, Genting, an Asian group, has acquired the Lloyd Werft and Nordic Yards shipyards in Germany, with the intent of devoting them to a challenging fleet renewal program by its subsidiaries in the absence of slots at other specialized European yards.

In the naval vessels business, the foreign market has seen the award of some particularly large programs. Among these, the contract worth almost euro 4 billion signed by FINCANTIERI with the Armed Forces of Qatar for the construction of 7 new-generation surface vessels, including 4 corvettes, and the provision of support services in Qatar for 15 years post-delivery. FINCANTIERI is also one of three shipbuilders shortlisted by the Capability Acquisition and Sustainment Group (CASG), part of the Australian Department of Defense, to take part in the evaluation and selection process for the award of a construction contract for 9 future frigates to be built in Adelaide for the Royal Australian Navy under the SEA 5000 program. These results have been achieved thanks to the important visibility gained by building FREMM frigates for the Italian Navy; this has confirmed the strategic value of the domestic market as a driver of exports, and the ability to offer well-proven state-of-the-art products and continuously develop the innovation needed to produce sophisticated products.

The year just ended is certainly positive, not only for its financial results but also because it is clear that FINCANTIERI has overcome the crisis, emerging stronger and with an exceptional assurance of work for the next few years, as witnessed by the some 99 vessels on order and deliveries that extend to 2025-2026.

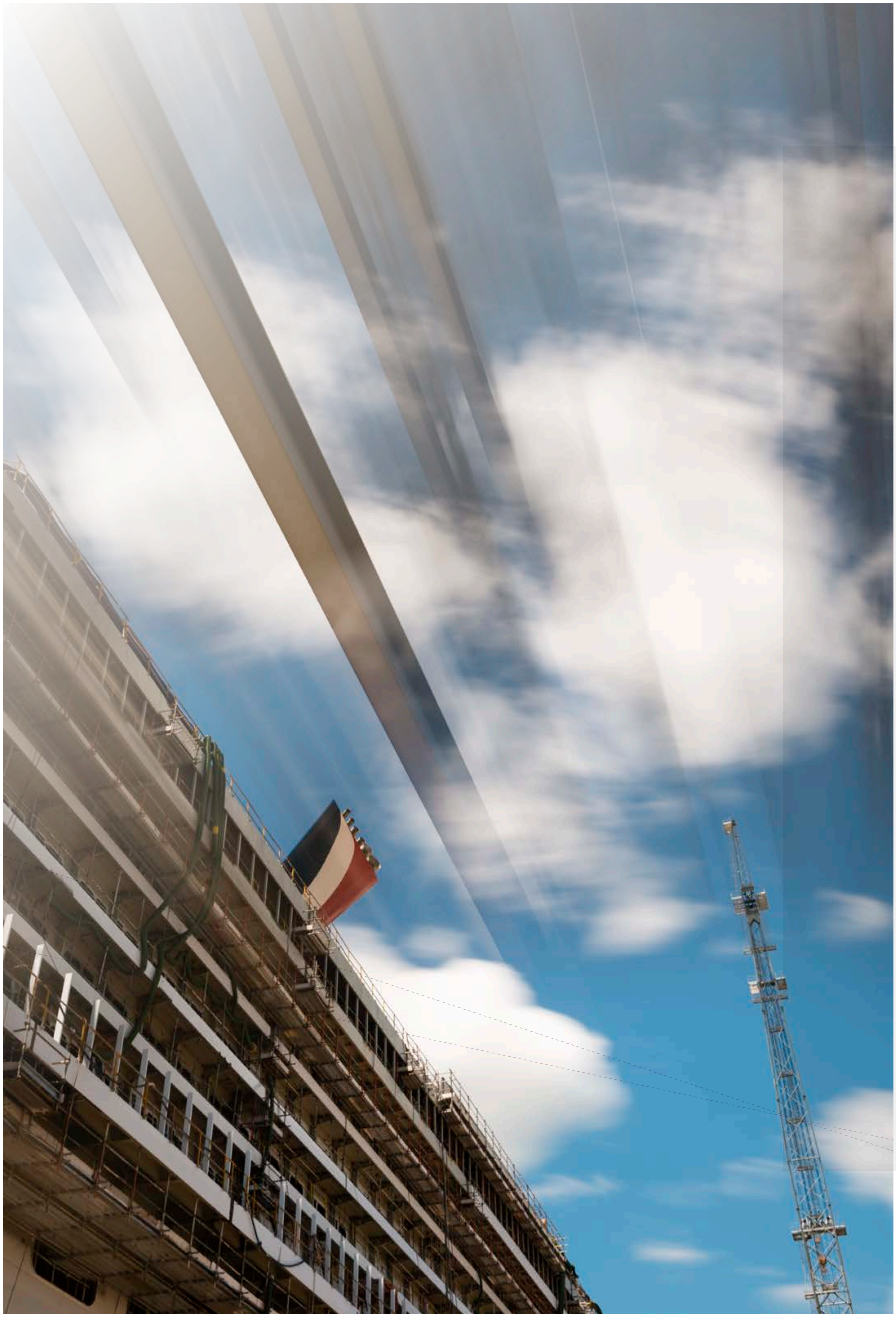
Today FINCANTIERI is undoubtedly Europe's largest shipbuilder, with a big Italian heart combined with a global production network allowing it to serve otherwise inaccessible markets; number one by diversification in higher value, high-tech sectors, it has a clearly visible solid future ahead. An additional and eloquent demonstration of this circumstance lies in the heads of terms agreed with the French government for the operation of Chantiers de l'Atlantique - in the process of being acquired by us from its Korean owners - including with a view to expedient future consolidations within Europe.

The long crisis in the shipbuilding market has radically shifted the traditional power relations between competitors; in fact, the traditional Asian leaders, particularly the Koreans, are in deep trouble, as evidenced by their negative financial results, very limited workloads, unclear prospects and recent plans for restructuring involving substantial downsizing in production structure.

To all effects, therefore, FINCANTIERI is in a privileged position and, thanks to its extraordinary human and technological capital, it is able to consolidate its leadership and generate value for all its stakeholders.

Giampiero Massolo

Chairman of Fincantieri



Giuseppe Bono

Chief Executive Officer of Fincantieri

To our Shareholders,

The results achieved by Fincantieri in 2016 and its start to 2017 now make it a unique group in the world.
Successful implementation of the strategy underlying our Business Plan 2016-2020 has enabled us to achieve excellent and I would add unique results, as clear from comparison with other shipbuilders.
Total backlog has reached another record level of euro 24 billion, covering approximately 5.4 years of work based on 2016 revenues.
Thanks to successful strategic and commercial initiatives, the cruise ships business has finalized prestigious contracts with new clients like Virgin Voyages and Norwegian Cruise Lines during the first few months of 2017. A binding memorandum of understanding has also been reached for cruise ship construction in China, a country which should soon become one of the cruise industry's largest markets. In the naval vessels business, the foreign market expansion policy has resulted in the signing in 2016 of a contract worth almost euro 4 billion with the Qatari Ministry of Defense and the award by the US Navy of another "Freedom" class LCS (LCS 25).
Deliveries of vessels currently on order stretch to 2025 for cruise ships and to 2026 for naval ones, an absolutely exceptional time horizon in the current industry environment.
The year 2016 also displayed a major recovery both in operating performance, with on-time delivery of four high-complexity prototype cruise ships, and in economic and financial results. In detail, revenue climbed by 5.9% to euro 4.4 billion, thanks to the contribution of the Shipbuilding segment, driven in particular by the cruise business which, accounting for 44% of Group revenue, made up for the contraction in the offshore segment representing 20%.

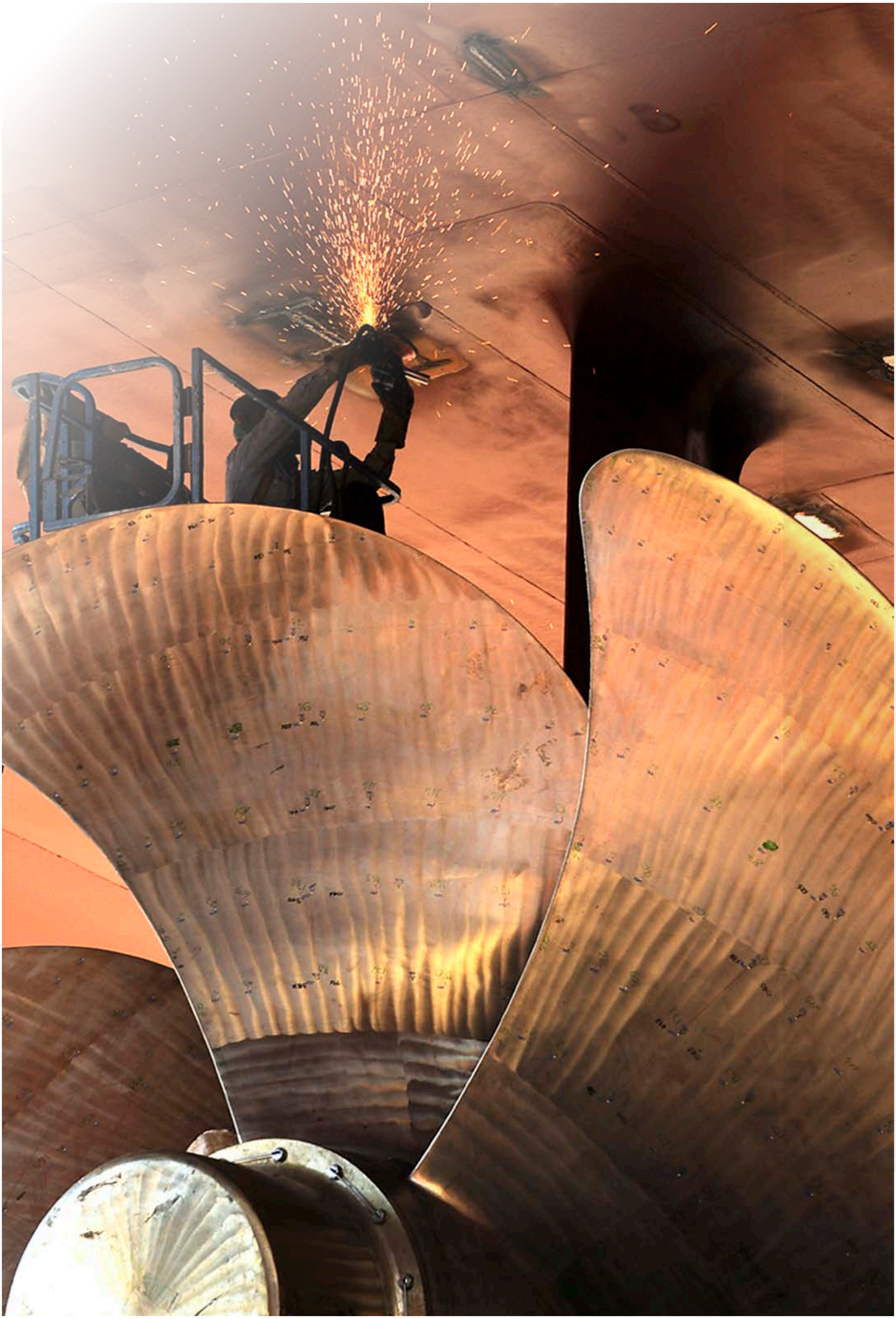
EBITDA came in at euro 267 million, with a margin of 6% on revenue, reflecting the steady improvement in operating and economic performance by all the Group's businesses.
The end result for the year was a profit of euro 14 million (an improvement of more than euro 300 million on 2015), while the Group share of this result was a profit of euro 25 million: this marks a clear turnaround from 2015, the year in which Fincantieri left behind the industry's longest period of crisis.
The net financial position reported net debt of euro 615 million (net debt of euro 438 million at 31 December 2015), and was slightly better than the 2016 guidance. Most of the Group's debt is attributable to shipbuilding, meaning funds to finance working capital. The Group's solidity and credibility gives it access to the credit market to obtain support for financing requirements related to growth in production volumes.
During 2016, Fincantieri agreed with the main trade unions the terms of the new supplementary labor agreement, based on performance-related incentive tools, some of which in the form of welfare. The innovative formula, focused on worker co-responsibility, provides further impetus towards greater efficiency and increased competitiveness.
Consistent with its Business Plan, VARD rationalized its production structure in Brazil during 2016 by shutting down the shipyard in Niteroi.
At the same time, important industrial synergies have been developed in the cruise business by using the Romanian shipyard in Tulcea to support the Italian shipbuilding network in the production of sections for large cruise ships.
On the commercial front, VARD has also finalized important contracts for the construction of expedition cruise vessels, to which Fincantieri will also contribute with the supply of key components and technical support.
Lastly, in line with the diversification strategy adopted to counter the profound deterioration throughout the offshore market, VARD has secured and finalized important orders for the construction of module carriers vessels and fishing boats.
The Group is expected to see further growth in volumes and improved margins for the next few years.
In fact, operational performance will benefit from the start of work on new cruise ships, based on existing prototypes and ordered more recently at higher prices, and from a larger contribution from the naval business as the Italian Navy's fleet renewal program enters

full-swing production and with design and planning activities commencing for the Qatari Ministry of Defense contract.
In keeping with the strategy of growth and diversification pursued to date, Fincantieri aims to consolidate its leadership at the high value-added end of the shipbuilding market.
Fincantieri is now the most credible and best-referenced operator on the market and as such able to play an important role in the process of consolidating the European shipbuilding industry. The operation initiated in 2016 to acquire STX France falls within this context.
In fact, on 3 January 2017, the Court of Seoul picked Fincantieri as the Preferred Bidder for the 66.66% stake for sale in STX France. The other 33.34% of STX France is held by the French government through APE (*Agence des Participations de l'Etat*).
On 12 April 2017, Fincantieri reached a set of agreed principles concerning the acquisition of STX France, formalized in the Heads of Terms it signed with APE. The Heads of Terms are a key precursor to completing the final agreements between the prospective shareholders and also include guidelines of the business plan for STX France, prepared by Fincantieri and agreed with APE. Fincantieri is working with the Court of Seoul to finalize the acquisition as soon as possible.
The business combination with STX France, one of the cruise industry's major operators also with operations in the naval and renewable energy sectors, will help to accelerate the process of consolidating the European shipbuilding industry and to create a European player with recognized technological leadership, with a unique client and product portfolio and a presence in every higher value shipbuilding segment, and therefore better equipped to react to market fluctuations and international competition.
The critical mass achieved by the two companies will allow major areas of value creation to be developed with benefits for the workforce and subcontractor network. In particular, it will allow industrial synergies to be developed in engineering, procurement and operations, with significant impacts on quality, efficiency and profitability as well as on enhanced research and innovation also by undertaking common projects.
Lastly, the presence of DCNS among the shareholders in STX France, desired by the French government, is seen as a positive factor given the long and fruitful collaboration between Fincantieri and DCNS in the military sector and which should hopefully facilitate the development of more opportunities in the naval field.

This business combination marks an important chapter in the history of Fincantieri: it will lead to the creation of a Group of major critical dimensions, with a combined turnover of around euro 6 billion, a total backlog of some euro 36 billion and about 22,000 direct employees and an estimated 90,000 in the subcontractor network.
The coming months will be particularly challenging for the Group as it works towards achieving the orderly growth envisaged in the Business Plan 2016-2020, while the significant improvement in earnings expected will allow it to distribute a dividend out of the 2017 profit.
Our thanks go to all the workers, in the company and subcontractor network, who have successfully contributed to achieving these results and to making Fincantieri a globally recognized name for Italian excellence. This is all the more significant considering that our products and processes are among the most complex in the world.
I am confident that the same commitment and pride will allow us to win the upcoming challenges as well.

Giuseppe Bono

Chief Executive Officer of Fincantieri



parent company directors and officers

Board of directors

(2016-2018)

Giampiero Massolo (Chairman)
Giuseppe Bono (Chief Executive Officer)
Gianfranco Agostinetto
Simone Anichini
Massimiliano Cesare
Nicoletta Giadrossi
Paola Muratorio
Fabrizio Palermo
Donatella Treu
Umberto Baldi (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)

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, the Nomination Committee and the Sustainability Committee) is provided in the Governance section of the Fincantieri website at www.fincantieri.com

DISCLAIMER

Forecast data and information must be regarded as forward-looking statements and therefore, not being based on simple historical facts, contain, by their nature, an element of risk and uncertainty because they also depend on the occurrence of future events and developments outside the Company's control. Actual results could therefore be materially different from those expressed in forward-looking statements. Forward-looking statements refer to the information available at the date of their publication; FINCANTIERI S.p.A undertakes no obligation to revise, update or correct its forward-looking statements after such date, other than in the circumstances strictly required by applicable regulations. The forward-looking statements provided do not constitute and shall not be considered by users of the financial statements as advice for legal, accounting, tax or investment purposes nor is it the intention for such statements to create any type of reliance and/or induce such users to invest in the Company.

Overview

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

SEGMENTS	**SHIPBUILDING**				**OFFSHORE**	**EQUIPMENT, SYSTEMS AND SERVICES**		**OTHER**
BUSINESS AREAS	 **Cruise Ships**	 **Ferries**	 **Naval Vessels**	 **Mega Yacht**	 **Offshore**	 **Systems and Components**	 **Services**	
PRODUCT PORTFOLIO	Contemporay Premium Upper Premium Luxury Exploration/Niche	Cruise ferries Ro-Pax Dual fuel ferries	Aircraft Carriers Destroyers Frigates Corvettes Patrol vessels Amphibious ships Logistic support ships Multirole and research vessels Special vessels Submarines	Mega yacht > 70 m	Drilling units Offshore support vessels: AHTS-PSV-OSCV Special vessels Fisheries/Aquaculture Wind offshore Expedition cruise vessels	Cabins Public areas Electrical, electronic and electromechanical integrated systems Automation systems Entertainment systems Stabilization, propulsion, positioning and power generation systems Steam turbines Steel structure for large scale projects	Ship repairs Refitting Refurbishment Conversions Product lifecycle management • Integrated logistic support • In-service support • Refitting • Conversions Training and assistance	
MAIN SUBSIDIARIES/ASSOCIATES/JOINT VENTURES	FINCANTIERI S.p.A. • Trieste • Monfalcone • Marghera • Sestri Ponente • Cantiere Integrato Navale Riva Trigoso e Muggiano • Genova • Ancona • Castellammare di Stabia • Palermo Bacini Palermo S.p.A. Gestione Bacini La Spezia S.p.A. Fincantieri Holding BV Cetena S.p.A. Fincantieri Marine Group Holdings Inc. FMG LLC • Sturgeon Bay Marinette Marine Corporation LLC • Marinette ACE Marine LLC • Green Bay Fincantieri India Pte Ltd. Fincantieri do Brasil Partecipacões S.A. Fincantieri USA Inc. Fincantieri Australia PTY LTD. Fincantieri (Shanghai) Trading Co. Ltd. Camper & Nicholsons International SA Etihad Ship Building LLC. Orizzonte Sistemi Navali S.p.A. CSSC - Fincantieri Cruise Industry Development Ltd.				FINCANTIERI S.p.A. Fincantieri Oil&Gas S.p.A. Vard Group AS • Aukra • Langsten • Brattvaag • Brevik • Søviknes Vard Tulcea SA • Tulcea Vard Promar SA • Suape Vard Braila SA • Braila Vard Vung Tau Ltd. • Vung Tau Vard Electro AS Vard Design AS Vard Piping AS Vard Accomodation AS Vard Marine Inc. Seaonics AS	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 Fincantieri SI S.P.A. Marine Interiors S.p.A. Fincantieri Sweden AB Unifer Navale S.r.l.		FINCANTIERI S.p.A.

Fincantieri is one of the world's largest shipbuilding groups and number one by diversification and innovation. It is leader in cruise ship design and construction and a reference player in all high-tech shipbuilding industry sectors, from naval to offshore vessels, from high-complexity special vessels and ferries to mega yachts, as well as in ship repairs and conversions, systems and equipment production and after-sales services.

Headquartered in Trieste (Italy), the Group has built more than 7,000 vessels in its over 230 years of history. With around 19,200 employees, of whom more than 7,900 in Italy, 20 shipyards in 4 continents, today Fincantieri is the leading Western shipbuilder. It has among its clients the major cruise operators, the Italian and the US Navy, in addition to several foreign navies, and it is partner of some of the main European defense companies within supranational programs.

Fincantieri's business is widely diversified by end markets, geographical exposure and by client base, with revenue mainly split between cruise ship, naval and offshore vessel construction. Compared with less diversified players, such diversification allows it to mitigate the effects of any fluctuations in demand on the end markets served. In particular, the Group operates through the following three segments:

- Shipbuilding: encompassing the businesses of cruise ships, naval vessels and other products and services (ferries and mega yachts);
- Offshore: encompassing the design and construction of high-end offshore support vessels, expedition cruise vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as 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, integrated systems and ship accommodation, and the provision of repair and conversion services, logistical support and after-sales services.

After an operational reorganization in November 2016, the businesses of repairs and conversions, ship accommodation and integrated systems, previously included in the Shipbuilding operating segment, are now part of the Equipment, Systems and Services operating segment.

This reorganization also reflects the Group's strategy of developing the after-sales business in the areas of accommodation and integrated systems.

the fincantieri planet

SHIPYARDS AND DOCKS

_ europe

ITALY

TRIESTE
MONFALCONE
MARGHERA
SESTRI PONENTE
GENOA
RIVA TRIGOSO-MUGGIANO
ANCONA
CASTELLAMMARE DI STABIA
PALERMO

NORWAY

AUKRA
BRATTVAAG
BREVIK
LANGSTEN
SØVIKNES

ROMANIA

BRAILA
TULCEA

_ asia

VIETNAM

VUNG TAU

_ americas

USA

GREEN BAY
MARINETTE
STURGEON BAY

BRAZIL

SUAPE

More than
19.000
employees

20
shipyards

4
continents

MAIN SUBSIDIARIES/ASSOCIATES/ JOINT VENTURES

_ europe

ITALY

FINCANTIERI S.p.A. (Headquarter)
Orizzonte Sistemi Navali
Cetena
Delfi
Seastema
Isotta Fraschini Motori
Fincantieri Oil&Gas
Seaf
Marine Interiors
Fincantieri SI

NORWAY

Vard Group (Headquarter)
Vard Design
Vard Piping
Vard Electro
Vard Accommodation
Seaonics

PRINCIPALITY OF MONACO

Camper&Nicholsons International

SWEDEN

Fincantieri Sweden

POLAND

Seaonics Polska

_ asia

CHINA

Fincantieri (Shanghai) Trading
CSSC - Fincantieri Cruise Industry Development

INDIA

Fincantieri India
Vard Electrical Installation and Engineering (India)

BAHRAIN

FMSNA

UAE

Etihad Ship Building

SINGAPORE

Vard Holdings
Vard Shipholding Singapore

JAPAN

FMSNA YK

_ americas

USA

Fincantieri Marine Group Holdings
Fincantieri Marine Systems North America
Fincantieri USA
Vard Marine US

CANADA

Vard Marine

BRAZIL

Fincantieri do Brasil Participações

_ oceania

AUSTRALIA

Fincantieri Australia


SEABOURN

fincantieri group
report on operations

Introduction

To our Shareholders,

The positive results for 2016 indicate a clear recovery in operating and economic performance, in line with the target of the Business Plan 2016-2020, marking a turning point when compared to 2015, particularly the second half of that year, a period with which Fincantieri left behind the industry's longest period of crisis. In fact, the Group ended 2016 with a profit of euro 14 million, an improvement of more than euro 300 million on the prior year loss of euro 289 million.
In 2016 Fincantieri confirmed its position as leader in all its main sectors of activity, finalizing important contracts not only in the cruise ship business but above all in the naval business with the winning of a maxi contract from the Qatari Ministry of Defense which saw Fincantieri prevail over other naval shipbuilders with a project recognized as the most advanced and innovative of all. This contract will allow Fincantieri to build a true partnership with the State of Qatar's naval forces and to become a world leader in the defense sector, like in the cruise and offshore markets. The contract, worth euro 3.8 billion, involves the supply of seven new-generation surface vessels for the Qatari Navy, of which four corvettes, one amphibious vessel and two patrol boats, as well as the provision of support services in Qatar for a 15-year period after vessel delivery. All the vessels will be built at the Group's Italian shipyards commencing in 2018, assuring six years of work and important impact on Italy's top defense contractors.
In addition to the contract with the Qatari Navy, the Group's Shipbuilding segment secured two orders for two new cruise ships, one for the Princess Cruises brand, owned by Carnival Corporation, and the other for the Regent Seven Seas Cruises brand, owned by Norwegian Cruise Line Holdings, and an order from the US Navy to build another "Freedom" class LCS (LCS 25).
The major commercial successes achieved in 2016 have carried on in the early part of 2017, with the Group securing an important order from Norwegian Cruise Line Holdings Ltd to build 4 new-generation cruise ships, with an option for 2 more, with a contract value of euro 800 million each. This exceptional result enables Fincantieri to add a new prestigious brand to its client base, confirming the Group's ability and flexibility in developing advanced solutions to serve every segment and need of the modern cruise industry. In addition, the Group signed a memorandum of agreement in January 2017 with Carnival Corporation & plc for the construction of two new cruise ships, with an overall value in excess of euro 1 billion, for Holland America Line and Princess Cruises.
At 31 December 2016, the Group was able to count on a total backlog of euro 24.0 billion, of which some 18.2 billion in firm order backlog (the residual value of firm orders not yet completed) and euro 5.8 billion in soft backlog (representing the value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which yet reflected in the order backlog), a large part of which Fincantieri believes it can shortly convert into firm orders.
Early in July 2016 Fincantieri signed a major agreement with China State Shipbuilding Corporation (CSSC), China's largest shipbuilding conglomerate, for the formation of a joint venture aimed at developing the Chinese cruise industry. In February 2017, Fincantieri, CSSC and Carnival Corporation signed a binding memorandum of agreement for the construction of two cruise ships, with an option for four more, which will be the first vessels of this kind ever built in China for the Chinese market. This result, giving Fincantieri an important foothold in a high-potential strategic market, once again confirms the Group's ability to be the first to seize market opportunities and to secure global leadership of all its business sectors.

Fincantieri also confirmed in 2016 its ability to complete highly complex projects within contractual deadlines, with the delivery of 5 cruise ships by 4 shipyards for 5 different brands, including four prototypes, namely "Koningsdam" for Holland America Line, "Carnival Vista" for Carnival Cruise Lines, "Seven Seas Explorer" for Regent Seven Seas Cruises and "Seabourn Encore" for Seabourn Cruise Line. It is important to recall that Fincantieri currently finds itself managing a major increase in cruise ship production volumes following market growth in the last two years, having completed in 2015 a restructuring in response to the global economic and financial crisis.
In the first half of 2016, Fincantieri agreed with the main trade unions the terms for renewing the supplementary labor agreement applying to all employees of Fincantieri S.p.A. and some of the Group's Italian companies. The agreement, signed jointly by the unions, provides for the payment of a bonus related to service and continuity of presence, and to the effective performance of each individual worker. It also defines an innovative participatory model which, by focusing on the shared responsibility of workers, will ensure standards of efficiency that will help improve business competitiveness.
The Offshore segment, whose global market environment remains extremely depressed following the steep decline in oil prices, has started to see the fruits of VARD's actions to diversify into new sectors and new markets. As a result of this strategy, during the year the VARD Group finalized two important contracts, one with Ponant to build 4 cruise expedition vessels and the other with Hapag-Lloyd Cruises of Germany to build 2 vessels of the same kind; in addition, the group signed a letter of intent with a major international cruise company in the early part of 2017 for the construction of another new expedition cruise vessel. The construction of these vessels will entail technical support and supply of key components by Fincantieri.
During the same period VARD also acquired important orders to design and build 20 module carrier vessels, of which 17 for Topaz Energy and Marine and 3 for Kazmortransflot, guaranteeing a significant workload for the yards in Romania and Vietnam, as well as an order to build a stern trawler for HAVFISK ASA.
Still in terms of diversification, VARD has continued to develop synergies with the Italian cruise business, by building sections for large cruise ships under construction at Italian yards.
In order to achieve a structural reduction in its cost base, VARD continued during the year to reorganize and rationalize its operations, using flexible employment mechanisms (eg. temporary layoffs) to cope with the current reduction in volumes in Norway; it also continued to expand production capacity for the growing workload in Romania and to derisk the group's Brazilian operations, leading to the shutdown of Vard Niterói and the simplification of corporate structure in Brazil by increasing the stake in Vard Promar to 95.15%.
In terms of 2016 revenue, the Shipbuilding segment recorded a positive performance, mainly thanks to growth in cruise ship production volumes, and the Equipment, Systems and Services segment remained buoyant. As expected, Offshore segment value of production declined, primarily due to the Oil&Gas market crisis, pending the full development of efforts to diversify, and to the reduction in activities in Brazil after shutting down the Vard Niterói yard.
The Group's Shipbuilding profit margins posted a significant improvement in 2016, thanks on the one hand to observation of cruise ship production schedules with the on-time delivery of 4 prototype vessels and on the other to the positive performance recorded for naval vessels delivered in the year. Offshore profit margins also improved sharply on 2015, largely thanks to the positive contribution of newbuilding in progress in Europe and the use of provisions recognized in 2015 against vessels being built at the Brazilian shipyards.

Fincantieri is gearing up to manage the significant growth in activity envisaged in its business plan and will be able to benefit in coming years from the expected increase in naval vessel production volumes and from commercial actions in progress that will help consolidate this level of profitability. The result for the year before extraordinary and non-recurring income and expenses was a profit of euro 60 million compared with a loss of euro 252 million at 31 December 2015.
Profit/(loss) for the year was a net profit of euro 14 million (net loss of euro 289 million at 31 December 2015), an improvement of more than euro 300 million and inclusive of euro 27 million in provisions for lawsuits brought by personnel for asbestos-related damages.
The full-year results confirm the 2016 guidance and the short and medium-term growth forecasts.

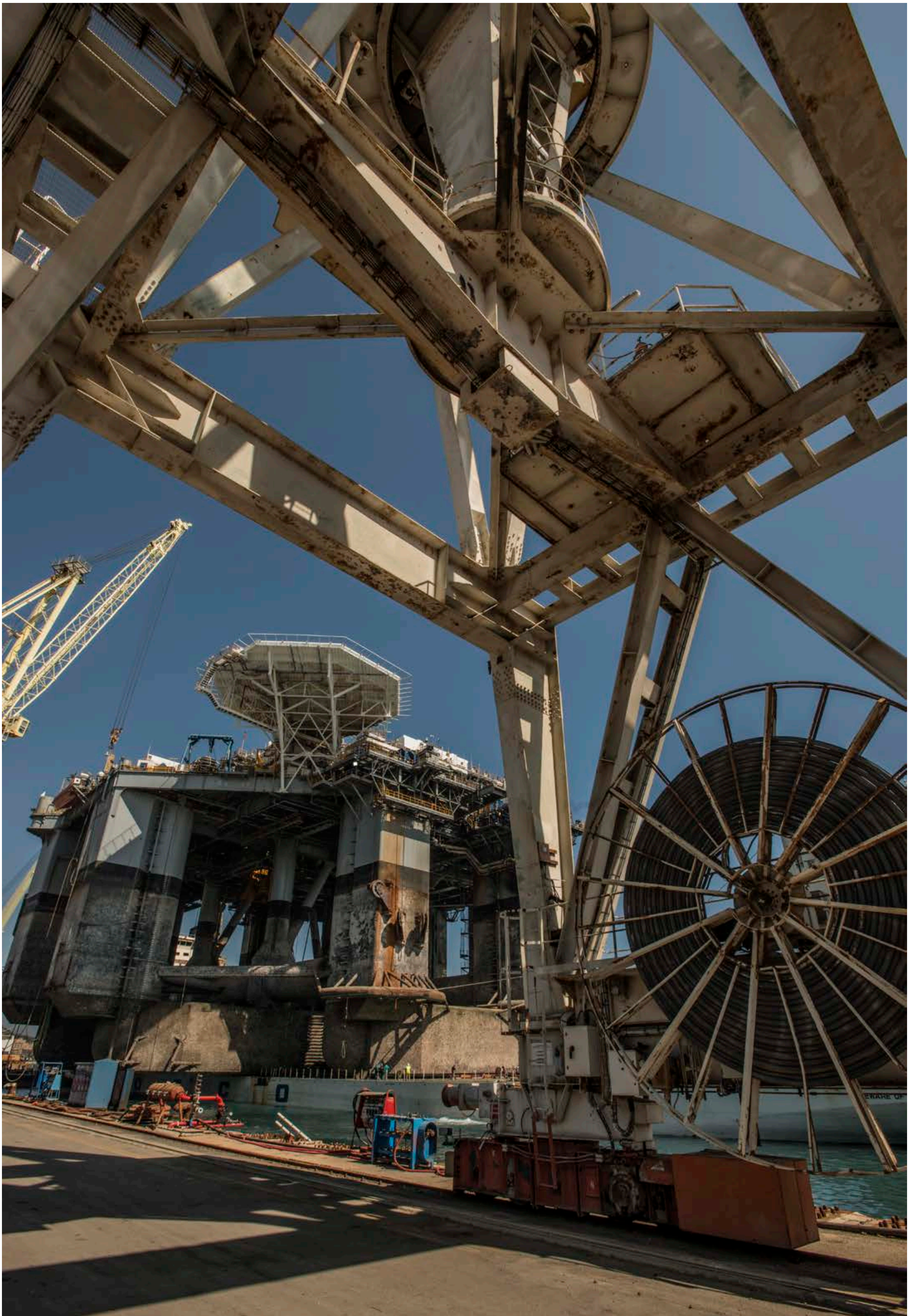
Highlights

- **Profit for the year before extraordinary and non-recurring income and expenses:** euro 60 million (loss of euro 252 million at 31 December 2015). The Group share of this result was a profit of euro 66 million, compared with a loss of euro 141 million in 2015
- **Profit for the year:** euro 14 million (an improvement of euro 303 million from the loss of euro 289 million at 31 December 2015). The Group share of this result was a net profit of euro 25 million (net loss of euro 175 million at 31 December 2015)
- **Business Plan targets confirmed:** the results for 2016, showing a marked improvement compared with 2015, confirm the short-term guidance and medium-term targets. Revenue up by 5.9% (in line with the 2016 target), EBITDA margin at 6.0% (above the 2016 target) and net debt at euro 615 million (better than the 2016 target)
- **Total backlog[1] of euro 24.0 billion, covering approximately 5.4 years of work relative to 2016 revenues:** the backlog at 31 December 2016 was euro 18,231 million (euro 15,721 million at 31 December 2015) with 99 ships in the order book, and the soft backlog was approximately euro 5.8 billion (approximately euro 3.0 billion at 31 December 2015)
- **Continued development of strategic and commercial actions** leading to the finalization of contracts with Virgin Voyages, a Virgin Group brand and new cruise industry player, and the addition, early in 2017, of a new prestigious brand to the cruise client portfolio with an order of 4 vessels for the Norwegian Cruise Line brand and the reaching of the first binding agreements to build cruise ships in China for the domestic market
- **Naval business expansion in foreign markets:** major contract signed worth almost euro 4 billion with Qatari Ministry of Defense, marking the most significant commercial milestone in the naval shipbuilding business of the past 30 years
- **Marked recovery in cruise business operating performance:** 4 high-complexity prototype vessels delivered on schedule, with sister- ships and/or semi sister- ships put into production at the same time carrying higher post-crisis margins
- **Effective implementation of Vard Business Plan:** production structure in Brazil rationalized, significant synergies developed with cruise business cruise and successful pursuit of diversification strategy

1. Sum of backlog and soft backlog

- **New supplementary labor agreement:** the agreement, based on incentive tools, some of which in the form of welfare and linked to individual performance and overall Company results, represents a key step towards greater efficiency and an absolute novelty in industrial relations, also in view of worker participation in company management at all levels
- **Order intake:** euro 6,505 million (euro 10,087 million at 31 December 2015)
- **Revenue and income:** euro 4,429 million (euro 4,183 million in 2015)
- **EBITDA:** euro 267 million (negative euro 26 million in 2015) with a consolidated **EBITDA margin** of 6.0% (negative 0.6% in 2015)
- **Net financial position:**[2] net debt of euro 615 million (net debt of euro 438 million at 31 December 2015), slightly better than guidance. Most of the Group's debt is used to finance current assets associated with cruise ship construction and thus directly connected with the financing of net working capital
- **Construction loans:** euro 678 million at 31 December 2016 (euro 1,103 million at 31 December 2015), of which euro 578 million relating to VARD and the remaining euro 100 million to the Parent Company. The decrease in construction loans more than offset the increase in net debt during the year, resulting in an overall reduction in the Group's funding requirements
- **Capital expenditure:** euro 224 million in 2016 (euro 161 million in 2015)
- **Free cash flow:** negative euro 164 million (negative euro 459 million in 2015) reflecting the absorption of euro 237 in cash by investing activities as partially offset by euro 73 million in cash provided by operating activities
- **Headcount:** down from 20,019 employees at 31 December 2015 (of whom 7,771 in Italy) to 19,181 at 31 December 2016 (of whom 7,939 in Italy).

2. Consistent with the presentation at 31 December 2015, this figure does not include construction loans



Key financials

Economic data		31.12.2016	31.12.2015
Revenue and income	Euro/million	4,429	4,183
EBITDA	Euro/million	267	(26)
EBITDA margin (*)	*Percentage*	*6.0%*	*(0.6)%*
EBIT	Euro/million	157	(137)
EBIT margin (**)	*Percentage*	*3.5%*	*(3.3)%*
Profit/(loss) before extraordinary and non-recurring income and expenses	Euro/million	60	(252)
Extraordinary and non-recurring income and (expenses)	Euro/million	(59)	(50)
Profit/(loss) for the year	Euro/million	14	(289)
Group share of profit/(loss) for the year	Euro/million	25	(175)

Financial data		31.12.2016	31.12.2015
Net invested capital	Euro/million	1,856	1,704
Equity	Euro/million	1,241	1,266
Net financial position	Euro/million	(615)	(438)

Other indicators		31.12.2016	31.12.2015
Order intake (***)	Euro/million	6,505	10,087
Order book (***)	Euro/million	24,003	22,061
Total backlog (***)(****)	Euro/million	24,031	18,721
- of which backlog (***)	Euro/million	*18,231*	*15,721*
Capital expenditure	Euro/million	224	161
Free cash flow	Euro/million	(164)	(459)
Research and Development costs	Euro/million	96	90
Employees at the end of the period	Number	19,181	20,019
Vessels delivered (*****)	Number	26	21
Vessels ordered (*****)	Number	39	30
Vessels in order book (*****)	Number	99	88

Ratios		31.12.2016	31.12.2015
ROI	Percentage	8.8%	(8.6)%
ROE	Percentage	1.1%	(20.7)%
Total debt/Total equity	Number	0.8	0.7
Net financial position/EBITDA	Number	2.3	n.s.
Net financial position/Total equity	Number	0.5	0.3

(*) Ratio between EBITDA and Revenue and income
(**) Ratio between EBIT and Revenue and income
(***) Net of eliminations and consolidation adjustments
(****) Sum of backlog and soft backlog
(*****) Number of vessels over 40 meters in length
n.s. not significant
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 amounted to euro 6,505 million in 2016 (euro 10,087 million in 2015) with a book-to-bill ratio (order intake/revenue in the period) of 1.5 (2.4 in 2015).

Before intersegment consolidation adjustments, the Shipbuilding segment accounted for 80% of total order intake (91% in 2015), the Offshore segment for 17% (4% in 2015) and the Equipment, Systems and Services segment for 10% (8% in 2015).

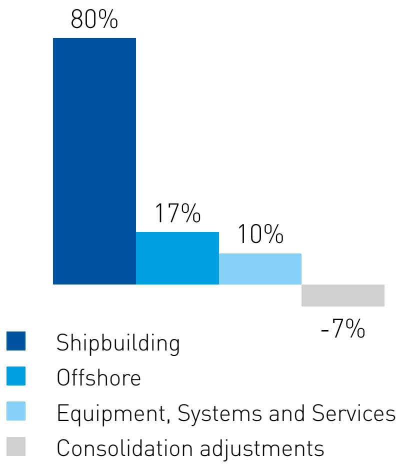
As for the **Shipbuilding segment**, during the year Fincantieri won a major naval contract from the Qatari Ministry of Defense for the supply of seven new-generation surface vessels and the provision of on-site support services for 15 years after vessel delivery. Again in the naval business, the US Navy exercised its option for a new "Freedom" class ship (LCS 25) under the Littoral Combat Ship program, and an order was received for an ATB (Articulated Tug Barge) for chemical/petroleum transportation, to be built at the Sturgeon Bay shipyard. With reference to the cruise ship business, during the period, Fincantieri finalized a contract with Carnival Corporation for another ship for the Princess Cruises brand on top of the four foreseen in the memorandum of agreement signed in December 2015, as well as an agreement with Norwegian Cruise Line Holdings for the construction of a second ultra-luxury cruise ship for the Regent Seven Seas Cruises brand.

In the **Offshore segment**, as a result of the strategy to diversify the business following the Oil&Gas market crisis, the VARD Group signed two major contracts during the year, respectively with Ponant for the construction of 4 expedition cruise vessels and with Hapag-Lloyd Cruises, a German cruise company, for the construction of 2 vessels, the contract for which became effective at the beginning of October 2016. Both orders involve support and supply of key components by Fincantieri.

During the same period VARD also acquired important orders to design and build 20 module carrier vessels, of which 17 for Topaz Energy and Marine and 3 for Kazmortransflot, guaranteeing a significant workload for the yards in Romania and Vietnam, as well as an order to build a stern trawler for HAVFISK ASA.

Over the course of 2016, the **Equipment, Systems and Services segment** saw the finalization of euro 664 million in orders (compared with euro 773 million in the previous year).

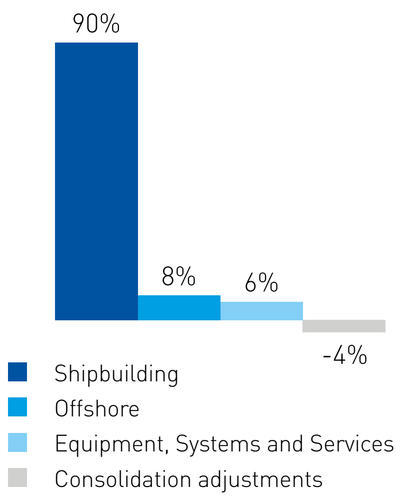
% order intake by operating segment in 2016



Order intake analysis *(Euro/million)*	31.12.2016		31.12.2015 [*]	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	5,003	77	9,155	91
Rest of Group	1,502	23	932	9
Total	**6,505**	**100**	**10,087**	**100**
Shipbuilding	5,191	80	9,194	91
Offshore	1,138	17	402	4
Equipment, Systems and Services	664	10	773	8
Consolidation adjustments	(488)	(7)	(282)	(3)
Total	**6,505**	**100**	**10,087**	**100**

[*] The 2015 comparative figures have been restated following redefinition of the operating segments

% order backlog by segment
at 31 December 2016



Backlog and Soft backlog

Total backlog amounted to euro 24.0 billion at 31 December 2016, of which euro 18.2 billion in backlog (euro 15.7 billion in 2015) and euro 5.8 billion in soft backlog (euro 3.0 billion in 2015), with the order delivery profile extending until 2026.

The backlog and total backlog guarantee about 4.1 and 5.4 years of activity respectively in relation to the 2016 level of revenue, with most of it in the Shipbuilding segment. Before intersegment consolidation adjustments, the Shipbuilding segment accounted for 90% of the Group's backlog (89% in 2015), the Offshore segment for 8% (7% in 2015) and the Equipment, Systems and Services segment for 6% (5% in 2015).

The growth in backlog on the previous year once again confirms the Group's ability to transform soft backlog into firm orders.

The composition of the backlog by operating segment is shown in the following table.

Backlog analysis *(Euro/million)*	31.12.2016		31.12.2015 [*]	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	15,961	88	13,607	87
Rest of Group	2,270	12	2,114	13
Total	**18,231**	**100**	**15,721**	**100**
Shipbuilding	16,372	90	14,067	89
Offshore	1,361	8	1,143	7
Equipment, Systems and Services	1,155	6	934	5
Consolidation adjustments	(657)	(4)	(423)	(1)
Total	**18,231**	**100**	**15,721**	**100**

[*] The 2015 comparative figures have been restated following redefinition of the operating segments

The soft backlog, representing the value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which yet reflected in the order backlog, amounted to approximately euro 5.8 billion at 31 December 2016, compared with euro 3.0 billion at 31 December 2015.

Soft backlog *(Euro/billion)*	**31.12.2016**	**31.12.2015**
	Amounts	Amounts
Group total	**5.8**	**3.0**

The following table shows the deliveries in 2016 and those scheduled in future years for vessels currently in the order book, analyzed by the main business units and by year.

(number)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Beyond 2021**
Cruise ships	5	5	5	4	4	1	1
Naval > 40 m.	8	10	5	4	3	6	10
Offshore	13	20	17	4			

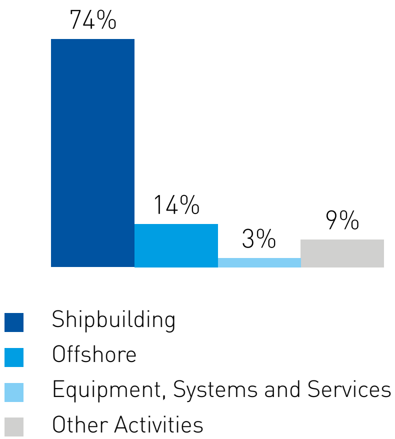
Compared with the situation presented at 31 December 2015, delivery of the following vessels has been postponed:

- two "Freedom" class Littoral Combat Ships (LCS 9 and LCS 23) for the US Navy and the submarine "Romei" for the Italian Navy;
- four offshore vessels (of which two OSCVs and two PSVs) in agreement with the shipowners.

VARD also suspended delivery of an OSCV previously scheduled for delivery in 2016 to Harkand which is in administration and cancelled the order for an AHTS placed by Rem Offshore Asa, originally due for delivery in 2018.

Capital expenditure

% capital expenditure
by operating segment in 2016



Capital expenditure amounted to euro 224 million in 2016, of which euro 80 million for Intangible assets (including euro 61 million for development projects) and euro 144 million for Property, plant and equipment.
The Parent Company accounted for 78% of this total expenditure.
Capital expenditure represented 5.1% of the Group's revenue in 2016 (3.8% in 2015).
Capital expenditure on property, plant and equipment in 2016 mainly related to initiatives to support growth in production volumes and to boost safety standards and compliance with environmental regulations within production sites. In more detail, this expenditure has involved the extension of the semi-submersible launching barge to accommodate larger ships at the Vard Tulcea yard, supporting the production of cruise ship sections and blocks for the Italian yards, the introduction of new sandblasting and painting systems at the Monfalcone yard, the reorganization of operational areas within production sites and the technological upgrade of welding systems to improve hull welding quality.
There was also continued investment in developing new technologies, particularly with regard to cruise ships.

Capital expenditure analysis *(Euro/million)*	**31.12.2016**		**31.12.2015** (*)	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	174	78	112	70
Rest of Group	50	22	49	30
Total	**224**	**100**	**161**	**100**
Shipbuilding	165	74	107	67
Offshore	31	14	31	19
Equipment, Systems and Services	8	3	10	6
Other activities	20	9	13	8
Total	**224**	**100**	**161**	**100**
Intangible assets	80	64	39	24
Property, plant and equipment	144	36	122	76
Total	**224**	**100**	**161**	**100**

(*) The 2015 comparative figures have been restated following redefinition of the operating segments

R&D AND INNOVATION

The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. Accordingly, its 2016 income statement contains euro 96 million in Research and Development expenditure on numerous projects involving 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 61 million in development costs in 2016 for projects with long-term utility; these projects mainly relate to the development of innovative devices and systems to comply with new international maritime safety and pollution regulations and to ensure higher standards of comfort aboard cruise ships, as well as the development of innovative systems to upgrade technology on certain types of military vessel.

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.
A reconciliation of these reclassified statements to the IFRS statements can be found later on in this report.

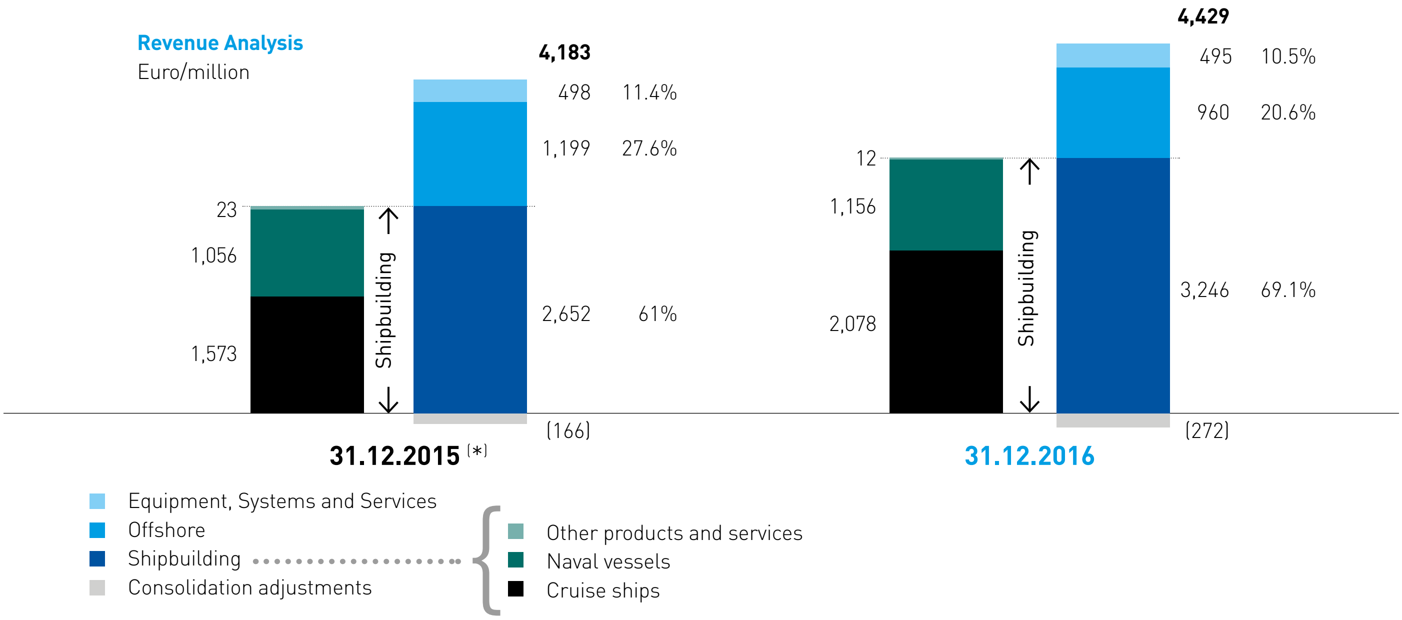
RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(Euro/million)	31.12.2016	31.12.2015
Revenue and income	**4,429**	**4,183**
Materials, services and other costs	(3,291)	(3,337)
Personnel costs	(846)	(865)
Provisions	(25)	(7)
EBITDA	**267**	**(26)**
EBITDA margin	***6.0%***	***(0.6)%***
Depreciation, amortization and impairment	(110)	(111)
EBIT	**157**	**(137)**
EBIT margin	***3.5%***	***(3.3)%***
Finance income/(costs)	(66)	(135)
Income/(expense) from investments	(10)	(3)
Income taxes	(21)	23
Profit/(loss) before extraordinary and non-recurring income and expenses	**60**	**(252)**
of which attributable to Group	*66*	*(141)*
Extraordinary and non-recurring income and (expenses)	(59)	(50)
Tax effect of extraordinary and non-recurring income and expenses	13	13
Profit/(loss) for the year	**14**	**(289)**
Group share of profit/(loss) for the year	*25*	*(175)*

Revenue and income amounted to euro 4,429 million, reporting an increase of euro 246 million (or 5.9%) on 2015. This change mainly reflects growth in Shipbuilding revenue, particularly by the cruise ship business which accounted for 44% of the Group's total revenue for the year (36% in 2015), as partially offset by a decline in Offshore revenue, which accounted for 20% of the Group's total revenue (28% in 2015).
Revenue generated by foreign clients accounted for 84% of the total, in line with 2015 (85%).

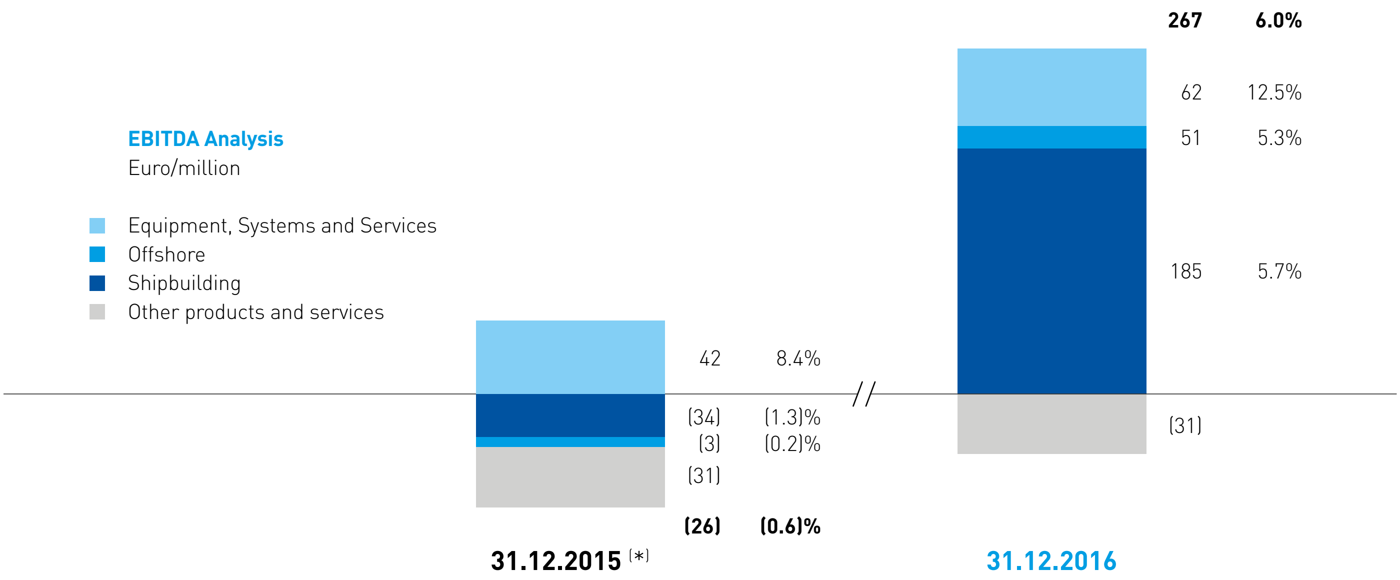
EBITDA came in at euro 267 million in 2016 (negative euro 26 million in 2015), with an EBITDA margin of 6.0% compared with a negative margin of 0.6% in 2015. This result reflects the steady improvement in operating and economic performance by all the Group's businesses.

Revenue Analysis
Euro/million



(*) The 2015 comparative figures have been restated following redefinition of the operating segments

EBITDA Analysis
Euro/million



(*) The 2015 comparative figures have been restated following redefinition of the operating segments

EBIT came to euro 157 million in 2016 (negative euro 137 million in 2015), with an **EBIT margin** (EBIT expressed as a percentage of Revenue and income) of 3.5% (-3.3% in 2015).

Finance income/(costs) and Income/(expense) from investments report a net expense of euro 76 million (net expense of euro 138 million at 31 December 2015). The positive change of euro 62 million on the previous year is mainly attributable to the recognition of euro 26 million in unrealized foreign exchange gains on the USD-BRL translation of a loan held by Vard Promar (compared with euro 32 million in unrealized losses on the same loan at 31 December 2015). Finance costs for construction loans came to euro 34 million in 2016 (euro 36 million in 2015).

Income taxes presented a net charge of euro 21 million in 2016, compared with net income of euro 23 million in 2015, largely due to the improvement in taxable income, particularly that of the Parent Company.

Profit/(loss) before extraordinary and non-recurring income and expenses reported a profit of euro 60 million at 31 December 2016, reflecting the factors discussed above. The Group share of this result was a profit of euro 66 million, compared with a loss of euro 141 million in 2015.

Extraordinary and non-recurring income and expenses amounted to euro 59 million at 31 December 2016 and included costs for claims under asbestos-related lawsuits (euro 27 million), charges for business reorganization plans and other non-recurring personnel costs, mainly within VARD (euro 12 million) particularly for shutting down the Niterói shipyard, company costs for Italy's Wage Guarantee Fund (euro 1 million) and other extraordinary expenses (euro 19 million) mainly for a provision against the risk of a negative outcome to ongoing litigation with a mega-yacht owner. At 31 December 2015, extraordinary and non-recurring income and expenses amounted to euro 50 million and included costs relating to claims under asbestos-related lawsuits (euro 30 million), charges for business reorganization plans and other non-recurring personnel costs mainly related to VARD (euro 17 million) and company costs for Italy's Wage Guarantee Fund (euro 3 million).

Tax effect of extraordinary and non-recurring income and expenses was a net positive euro 13 million at 31 December 2016.

Profit (loss) for the year was a profit of euro 14 million, posting a major improvement from 2015 (loss of euro 289 million) for the reasons described above. The Group share of this result was a profit of euro 25 million, compared with a loss of euro 175 million in 2015.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Euro/million)	31.12.2016	31.12.2015
Intangible assets	595	518
Property, plant and equipment	1,064	974
Investments	58	62
Other non-current assets and liabilities	(69)	(44)
Employee benefits	(58)	(57)
Net fixed capital	**1,590**	**1,453**
Inventories and advances	590	405
Construction contracts and client advances	604	1,876
Construction loans	(678)	(1,103)
Trade receivables	1,123	560
Trade payables	(1,307)	(1,179)
Provisions for risks and charges	(126)	(112)
Other current assets and liabilities	59	(196)
Net working capital	**265**	**251**
Net assets classified as held for sale	**1**	
Net invested capital	**1,856**	**1,704**
Share capital	863	863
Reserves and retained earnings attributable to the Group	223	274
Non-controlling interests in equity	155	129
Equity	**1,241**	**1,266**
Net financial position	**615**	**438**
Sources of funding	**1,856**	**1,704**

The **Reclassified consolidated statement of financial position** reports an increase in Net invested capital at 31 December 2016 of euro 152 million since the end of the previous year, mainly due to the following factors:

- **Net fixed capital:** presents an overall increase of euro 137 million. Of particular note is the increase of euro 167 million in the value of Intangible assets and Property, plant and equipment, reflecting capital expenditure in the period less amortization and depreciation, and the change of euro 25 million in Other non-current assets and liabilities, mainly due to the negative effect of the fair value measurement of currency derivatives.
- **Net working capital:** reports a positive balance of euro 265 million (euro 251 million at 31 December 2015). The main changes are: (i) an increase of euro 185 million in Inventories and advances, mainly due to reclassification from Construction contracts of the value of a vessel being built for Harkand, a VARD client that entered administration; (ii) a reduction of euro 1,272 million in Construction contracts and client advances mainly reflecting VARD deliveries made in the period, the reclassification to Inventories of the value of the vessel

mentioned above and the issue of invoices for the final payment of three cruise ships about to be delivered; (iii) an increase of euro 563 million in Trade receivables, mainly due to the invoicing of final payments for the three cruise ships mentioned above, and iv) an increase of euro 128 million in Trade payables. Lastly, Other current assets and liabilities increased from a net negative balance of euro 196 million at 31 December 2015 to a net positive balance of euro 59 million at 31 December 2016, mainly reflecting a reduction in the negative fair value of currency derivatives, also as a result of the settlement of hedging contracts referring to the vessels delivered in the period, and an increase in Other current receivables. 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 client advances and so classifies them as part of Net working capital. Construction loans came to euro 678 million at 31 December 2016 (euro 1,103 million at 31 December 2015), of which euro 578 million related to the subsidiary VARD and the remaining euro 100 million to the Parent Company, which finalized a construction loan during the year for the purpose of financing cruise ship construction.

- **Equity** reported a decrease of euro 25 million, mainly reflecting the negative change of euro 36 million in the cash flow reserve and in other reserves for equity-accounted investments, as partially offset by the profit for the period of euro 14 million.

CONSOLIDATED NET FINANCIAL POSITION

(Euro/million)	31.12.2016	31.12.2015
Cash and cash equivalents	**220**	**260**
Current financial receivables	**33**	**53**
Current bank debt	(306)	(187)
Current portion of bank loans and credit facilities	(128)	(63)
Other current financial liabilities	(19)	(13)
Current debt	**(453)**	**(263)**
Net current cash/(debt)	**(200)**	**50**
Non-current financial receivables	**115**	**113**
Non-current bank debt	(229)	(299)
Bonds	(298)	(298)
Other non-current financial liabilities	(3)	(4)
Non-current debt	**(530)**	**(601)**
Net financial position	**(615)**	**(438)**

The **Consolidated net financial position,** which excludes construction loans, was slightly better than the 2016 guidance with a net debt balance of euro 615 million at the end of 2016 (net debt balance of euro 438 million at 31 December 2015). Most of the Group's debt is used to finance current assets associated with cruise ship construction and thus directly connected with the financing of net working capital. By contrast, fixed capital is financed primarily by equity and for the remainder by other sources of long-term funding. The change in net financial position is mainly due to financial flows typical of the cruise ship business which reported a significant growth in volumes on the previous year, with three ships due for delivery during the first three months of 2017.

RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS

(Euro/million)	31.12.2016	31.12.2015
Net cash flows from operating activities	73	(287)
Net cash flows from investing activities	(237)	(172)
Net cash flows from financing activities	115	167
Net cash flows for the period	**(49)**	**(292)**
Cash and cash equivalents at beginning of period	**260**	**552**
Effects of currency translation difference on opening cash and cash equivalents	9	
Cash and cash equivalents at end of period	**220**	**260**

(Euro/million)	31.12.2016	31.12.2015
Free cash flow	**(164)**	**(459)**

The **Reclassified consolidated statement of cash flows** reported negative **Net cash flows** for the period of euro 49 million (versus a net negative euro 292 million in 2015), reflecting negative **Free cash flow** (the sum of cash flow from operating activities and cash flow from investing activities) of euro 164 million, as offset by euro 115 million in cash flows provided by financing activities. Net cash flows from operating activities also include the change in construction loans, which used euro 502 million in cash flow in the year ended 31 December 2016 (construction loans generated cash inflows in the year ended 31 December 2015).

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 2016 and 2015.

	31.12.2016	31.12.2015
ROI	8.8%	(8.6)%
ROE	1.1%	(20.7)%
Total debt/Total equity	0.8	0.7
Net financial position/EBITDA	2.3	n.s.
Net financial position /Total equity	0.5	0.3

n.s. not significant

ROI and ROE at 31 December 2016 benefited from the positive results in 2016 compared with 2015 which reported negative EBIT and an overall net loss.

The increase in the indicators of strength and efficiency of the capital structure at 31 December 2016 compared with those at 31 December 2015 is mainly due to the growth in gross and net debt, following the absorption of financial resources needed to cope with the growth in Shipbuilding production volumes.

DIVIDENDS

In line with the policy previously announced by management, it is proposed not to declare a dividend for 2016.

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. Production is carried out at the Group's shipyards in Italy, Europe and the United States.

(Euro/million)	**31.12.2016**	**31.12.2015** (****)
Revenue and income (*)	3,246	2,652
EBITDA(*)	185	(34)
EBITDA margin (*) (**)	*5.7%*	*(1.3)%*
Order intake (*)	5,191	9,194
Order book (*)	20,825	18,539
Order backlog (*)	16,372	14,067
Capital expenditure	165	107
Vessels delivered (number) (***)	13	9

(*) Before eliminations between operating segments

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

(***) Vessels over 40 meters in length

(****) The 2015 comparative figures have been restated following redefinition of the operating segments

Revenue and income

Revenue from the Shipbuilding segment amounted to euro 3,246 million at 31 December 2016 (euro 2,652 million at 31 December 2015) and comprised euro 2,078 million from the cruise ships business (euro 1,573 million at 31 December 2015), euro 1,156 million from the naval vessels business (euro 1,056 million at 31 December 2015) and euro 12 million from other activities (euro 23 million at 31 December 2015). Cruise ship production volumes continued to grow, with 15 ships under construction during 2016 versus 14 during 2015; there was also a gradual recovery in naval volumes with the start of production activities for the Italian Navy's fleet renewal program.

EBITDA

Segment EBITDA was euro 185 million at 31 December 2016 (negative euro 34 million at 31 December 2015), with an EBITDA margin of 5.7% (negative 1.3% at 31 December 2015). Having left behind the industry's longest period of crisis with its 2015 results, Shipbuilding margins improved significantly, thanks not only to the observance of cruise ship production plans with 4 prototype vessels duly delivered within the agreed deadlines but also to the positive performance recorded for naval vessels delivered in the year. It should be noted that these positive results have not yet benefited from the expected increase in naval volumes once the Naval Law and Qatar contracts enter full swing production.

Order intake

New order intake of euro 5,191 million in 2016 refers to:

- one new cruise ship for the Princess Cruises brand, owned by the US group Carnival Corporation, representing the fifth under the memorandum of agreement signed at the end of 2015;
- one new cruise ship for the Regent Seven Seas Cruises brand owned by Norwegian Cruise Line Holdings;
- seven new-generation surface vessels for the Qatari Ministry of Defense, of which four corvettes over 100 meters in length, one amphibious vessel (LPD - Landing Platform Dock), and two patrol vessels (OPV - Offshore Patrol Vessel), as well as in situ support services;
- one new "Freedom" class ship (LCS 25) to be built by the subsidiary Marinette Marine Corporation for the Littoral Combat Ship program, under an option exercised by the US Navy;
- one ATB (Articulated Tug Barge), comprising 1 tug and 1 barge, for petroleum/chemical transportation, which will be built at the Sturgeon Bay shipyard.

Capital expenditure

Capital expenditure on Property, plant and equipment in 2016 mostly involved the continuation of activities to introduce new technology that will reduce the environmental impact of operations, particularly at the Monfalcone yard, the optimization of logistics in working areas at some production sites, and continued work to upgrade welding systems and improve the safety standards of machinery, equipment and buildings. Expenditure at the Sturgeon Bay yard in the United States included the acquisition of production assets next to the site in order to increase production capacity for the currently large order book, and investments in logistical reorganization and equipment upgrades. Lastly, work was completed to extend the Atlante II semi-submersible launching barge at the Vard Tulcea shipyard in Romania to accommodate larger hulls as part of the multi-year program to build pre-fitted cruise ship blocks and sections for the Italian production network. As far as Intangible assets are concerned, of particular note was expenditure on the development of innovative devices and systems to comply with new international maritime safety and pollution regulations and to ensure higher standards of comfort aboard cruise ships, as well as the development of innovative systems to upgrade technology on certain types of military vessel.

Production

The number of ships delivered during 2016 is analyzed as follows:

(number)	Deliveries
Cruise ships	5
Cruise ferries	
Naval vessels > 40 m in length	8
Mega yachts	
Naval vessels < 40 m in length	

In particular, the main deliveries were:

- "Viking Sea", the second of a series of six cruise ships for Viking Ocean Cruises, was delivered at the Ancona shipyard;
- "Koningsdam", a prototype ship for Holland America Line, a brand of the Carnival Group, the world's largest cruise operator, was delivered at the Marghera shipyard;
- "Carnival Vista", a prototype and new flagship of the fleet of Carnival Cruise Line, a Carnival Group brand, was delivered at the Monfalcone shipyard;
- "Seven Seas Explorer", the new super-luxury prototype ship for Regent Seven Seas Cruises, a brand of Norwegian Cruise Line Holdings, was delivered at the Sestri Ponente shipyard;
- "Seabourn Encore", the first of two ultra-luxury cruise ships for Seabourn Cruise Line, a Carnival Group brand, was delivered at the Marghera shipyard;
- "Alpino", the fifth frigate in the FREMM program for the Italian Navy, was delivered at the Muggiano shipyard in La Spezia;
- USS "Detroit" (LCS 7) for the US Navy's LCS program was delivered at the Marinette shipyard in Wisconsin (USA);
- "Pietro Venuti", the third U212A "Todaro" class submarine for the Italian Navy, was delivered at the Muggiano shipyard in La Spezia;
- "Itarus", a semi-submersible floating platform for RosRAO, Russia's federal state unitary enterprise for radioactive waste management, was delivered at the Muggiano shipyard in La Spezia;
- two ATBs (Articulated Tug Barges each comprising 1 tug and 1 barge) for petroleum/chemical transportation were delivered to Moran Towing and Kirby Inland Marine respectively at the Sturgeon Bay shipyard.

OFFSHORE

The Offshore operating segment is engaged in the design and construction of high-end offshore support vessels, expedition cruise vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as the offer of innovative products in the field of drillships and semi-submersible drilling rigs. 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 clients with turnkey electrical systems, inclusive of engineering, manufacturing, installation, integration testing and commissioning.

(Euro/million)	31.12.2016	31.12.2015
Revenue and income (*)	960	1,199
EBITDA (*)	51	(3)
EBITDA margin (*) (**)	*5.3%*	*(0.2)%*
Order intake (*)	1,138	402
Order book (*)	2,366	2,729
Order backlog (*)	1,361	1,143
Capital expenditure	31	31
Vessels delivered (number)	13	12

(*) Before eliminations between operating segments
(**) Ratio between segment EBITDA and Revenue and income

Revenue and income

Revenue from the Offshore segment amounted to euro 960 million at 31 December 2016, down 19.9% from euro 1,199 million at 31 December 2015. This reflects the downturn in production activities stemming from the crisis in VARD's core market, whilst awaiting the results of the Norwegian group's efforts to diversify its revenue sources, particularly the production of expedition cruise vessels. The decline in revenue was also affected by the cessation of shipbuilding activities at the Niterói yard in Brazil and by the negative impact of changes in the NOK/EUR exchange rate (euro 37 million).

EBITDA

The Offshore segment posted EBITDA of euro 51 million at 31 December 2016, compared with a negative euro 3 million at 31 December 2015, and a positive margin of 5.3% versus -0.2% in 2015. The profitability of the Offshore segment, although still affected by the downturn in order intake since the fourth quarter of 2014, showed a significant improvement on 2015, thanks to the positive contribution of projects under construction in Europe and the use of provisions accrued in 2015 against projects at the Brazilian yards. As part of the plan to derisk its operations in Brazil, the Norwegian group also completed the process of phasing out shipbuilding activities at VARD Niterói and increased its stake in Vard Promar to 95.15%, thereby simplifying corporate structure in this country.

Order intake

New order intake amounted to euro 1,138 million in 2016. In detail:

- twenty module carrier vessels, of which seventeen for Topaz Energy and Marine and three for Kazmortransflot to be built in Romania and Vietnam;
- six expedition cruise vessels, of which four for Ponant and two for Hapag-Lloyd to be built entirely in Romania and Norway with support and supply of key components by Fincantieri;
- an order to design and build a stern trawler for HAVFISK ASA.

Capital expenditure

Capital expenditure in 2016 mainly related to expansion of production capacity at the Vard Tulcea shipyard to support the construction of cruise ship hulls for Norway and the multi-year program to build pre-fitted cruise ship blocks and sections for the Fincantieri production network.

Production

The number of ships delivered during 2016 is analyzed as follows:

(number)	Deliveries
AHTS	2
PSV (including MRV)	3
OSCV	3
Other	5

2 AHTS (Anchor Handling Tug Supply vessels)

- "Bourbon Artic" was delivered to Bourbon at the Vard Brattvag shipyard (Norway);
- "Skandi Paraty" was delivered to DOF at the VARD Niterói shipyard (Brazil).

3 PSV (Platform Supply Vessels)

- "MMA Brewster" was delivered to Mermaid Marine Australia Offshore at the Vard Vung Tau shipyard (Vietnam);
- "NAO Galaxy" and "NAO Horizon" were delivered to Nordic American Offshore at the Vard Aukra shipyard (Norway).

3 OSCV (Offshore Subsea Construction Vessels)

- "Skandi Açu" was delivered to Techdof Brasil at the Vard Søviknes shipyard (Norway);
- "Normand Maximus" was delivered to Solstad Offshore at the Vard Brattvaag shipyard (Norway);
- "Deep Explorer" was delivered to Technip at the Vard Langsten shipyard (Norway).

5 Others

- three LPG carriers ("Barbosa Lima Sobrinho", "Darcy Ribeiro" and "Lucio Costa") were delivered to Transpetro at the Vard Promar shipyard (Brazil);
- the fishing vessel "Newfoundland Victor" was delivered to Newfoundland Resources at the Vard Aukra shipyard (Norway);
- the fishing vessel "Breivik Junior" was delivered to Breivik at the Vard Braila shipyard (Romania).

EQUIPMENT, SYSTEMS AND SERVICES

The Equipment, Systems and Services operating segment is engaged in the design and production of systems, equipment and accommodation, in repair and conversion services and after-sales support for the vessels produced. 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., Marine Interiors S.p.A., Fincantieri SI S.p.A. and FMSNA Inc..

(Euro/million)	**31.12.2016**	**31.12.2015** (***)
Revenue and income (*)	495	498
EBITDA (*)	62	42
EBITDA margin (*) (**)	*12.5%*	*8.4%*
Order intake (*)	664	773
Order book (*)	1,742	1,446
Order backlog (*)	1,155	934
Capital expenditure	8	10
Engines produced in workshops (number)	45	44

(*) Before eliminations between operating segments
(**) Ratio between segment EBITDA and Revenue and income
(***) The 2015 comparative figures have been restated following redefinition of the operating segments

Revenue and income

Revenue from the Equipment, Systems and Services segment amounted to euro 495 million at 31 December 2016, largely in line with the prior year figure of euro 498 million. In 2016 there were increased sales of systems and equipment, which benefited from the Naval Law, and of after-sales services for naval vessels; this increase made up for the smaller contribution from ship conversion activities which had benefited in the previous year from work on the Renaissance program for the client MSC.

EBITDA

Segment EBITDA came to euro 62 million at 31 December 2016 (EBITDA margin of 12.5%), up from euro 42 million in 2015 (EBITDA margin of 8.4%). This improvement was mostly due to a larger contribution both from repair and conversion services, mainly for cruise ships, and from systems and equipment design and production.

Order intake

New order intake for Equipment, Systems and Services amounted to euro 664 million in 2016, mostly comprising:

- 21 stabilization systems and 13 thruster positioning systems for naval and cruise projects;
- 7 steering systems, 7 helicopter landing grids and 3 thruster positioning systems for naval projects;
- 8 propeller systems and 8 shaft lines, 8 lifts, 8 shipset hangar doors, 7 watertight doors and 7 stern modular areas for naval projects;
- 1 side and aft ramp, 1 propulsion reducer, 8 turbine casings and 2 bulwark doors for aircraft lifts for naval projects;
- 3 onboard THR turbines for cruise projects;

- supply of new automation equipment and upgrades and modifications to existing systems for naval projects and for Merchant Division ships and other clients such as HAL, Azimut Benetti, Princess;
- supply of entertainment systems and assistance to the cruise ships MSC Seaside and Carnival Vista and to mega yachts;
- supply of diesel generators (DDGG) for Italian Navy programs;
- supply of In Service Support (ISS) to the Italian Navy, supply of Integrated Logistic Support (ILS) in connection with the Iraq contract and refitting activities for the Malta contract;
- after-sales services and supply of spare parts for programs of the Italian Navy and US Coast Guard, for cruise clients and other smaller clients;
- orders for the complete supply of accommodation for 3 cruise ships, 2 public rooms, complete interiors for 2 cruise ships being built at Vard yards in Norway and after-sales projects.

During 2016 Fincantieri delivered two Offshore Patrol Vessels (OPV) under the contract for the supply of four such vessels to the Bangladesh Coast Guard as part of the program to upgrade and convert "Minerva" class corvettes decommissioned by 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)	31.12.2016	31.12.2015
Revenue and income	-	-
EBITDA	(31)	(31)
EBITDA margin	*n.a.*	*n.a.*
Capital expenditure	20	13

n.a. not applicable

Capital expenditure

The most relevant items of expenditure related to development of information systems in support of the Group's business; in particular, work continued to implement an integrated system for ship design (CAD) and project lifecycle management (PLM), aimed at improving the efficiency and effectiveness of the engineering process. In addition, like in previous years, work continued to upgrade network infrastructure and hardware and to improve and update the Group's technical and enterprise management software.

Core markets

Cruise Ships

The cruise ship market is enjoying a particularly buoyant period, recording a new industry record in 2016 with 25 new ships of more than 10,000 tons in gross tonnage ordered, in continuous improvement from 2015 (19 ships) and 2014 (16 ships). If other agreements between shipyards and shipowners in the form of letters of intent and memorandum of understanding are taken into account, the demand for ships in 2016 would rise to 32.

This has taken the worldwide order book at December 2016 to a record high of 69 ships, climbing to 75 counting the latest additions in 2017, with deliveries stretching to 2027, ensuring shipyards an exceptionally long visibility in terms of workload.

The new-build investment programs are generally being driven by strong demand for cruises in traditional markets like Europe and America and in emerging ones like China, but also by new entrants with innovative strategic approaches designed to appeal to new target customer groups.

As regards the cruise market, the Cruise Lines International Association, the world's largest cruise industry trade association, predicts further growth in passenger numbers in 2017 to a total of around 25.3 million (+4.5% versus 2016), allowing the industry's major players to boost profits and fleet utilization. In particular, with reference to emerging markets, the initial estimates for 2016 indicate that Chinese passengers numbered around 1.7 million (+70% on 2015), expected to rise in 2017 to make China the second largest market in the world in terms of passenger country of origin.

In a general context of growth in the traditional markets of North America and Europe, the slowing Italian market seems to be going against trend, being penalized by instability in North Africa and infrastructure problems in Venice, factors which have adversely affected the offer of itineraries and hence the presence of ships in the Mediterranean.

Recognizing the strategic importance of China for the cruise industry's future, Fincantieri has embarked on a number of initiatives in this country including a major agreement with China State Shipbuilding Corporation (CSSC), China's largest shipbuilding conglomerate, for the constitution of a joint venture aimed at developing and supporting the growth of the Chinese cruise industry.

Fincantieri, China State Shipbuilding Corporation (CSSC) and Carnival Corporation & plc have since signed a binding Memorandum of Agreement (MoA) for the construction of two cruise ships, with an option for four more, which will be the first vessels of this kind ever built in China for the Chinese market. The parties signed the MoA on behalf of the joint venture between Fincantieri and CSSC Cruise Technology Development Co., Ltd (CCTD), of the joint venture between Carnival Corporation and CSSC, and of the shipyard Shanghai Waigaoqiao Shipbuilding Co., Ltd.

Demand for new build is also being driven by established players wanting to renew their oldest ships. These include Genting Hong Kong, an Asian group which owns Star Cruises, Dream Cruises and Crystal Cruises, and has acquired the Lloyd Werft and Nordic Yards shipyards in Germany, the latter renamed MV Werften, with the intent of putting them to work on its fleet renewal and expansion program given the unavailability of slots at other specialized European yards. The new operator faces a tough challenge: the construction of prototype vessels in accordance with production schedules driven by competitive lead-times in yards without recent experience of passenger ship construction, also lacking design resources and an established supplier network.

The initial production schedule has already been revised to defer the delivery of some of the ships.

Growing demand was also seen in 2016 for smaller expedition cruise vessels, a segment whose fleets are generally older. The subsidiary VARD has successfully diversified into this area, with the award of contracts to build six luxury expedition vessels, for two prominent companies, France's Ponant, a longstanding Fincantieri client, and Germany's Hapag Lloyd Cruises.

Below
"Koningsdam"
Holland America Line

Above
"Pietro Venuti" Submarine
Italian Navy

Naval Vessels

The naval vessels business saw continued work in 2016 on a number of important domestic programs, with particular reference to the United States, where the subsidiary Fincantieri Marine Group received confirmation of the order for LCS 25, the eleventh "Freedom" class vessel under the original plan of 2010.

The foreign market saw a number of particularly large programs awarded. These included the contract worth almost euro 4 billion signed by Fincantieri with the Qatari Ministry of Defense for the construction of 7 new-generation surface vessels, of which four corvettes, one amphibious vessel (LPD - Landing Platform Dock) and two patrol vessels (OPV - Offshore Patrol Vessel) and for support services in Qatar for 15 years after vessel delivery.

The foreign market also confirmed Australia as one of the countries of most strategic interest for the large number and size of its current naval shipbuilding programs. In 2016, the Royal Australian Navy awarded DCNS of France a program worth euro 34 billion to build 12 submarines as part of the SEA 1000 program (the value for the entire French industry is estimated at euro 17 billion, of which euro 8 billion for DCNS), while Navantia of Spain was selected to build two auxiliary oiler and replenishing vessels.

Fincantieri is one of three shipbuilders shortlisted in April by the Capability Acquisition and Sustainment Group (CASG), part of the Australian Department of Defense, to take part in the evaluation and selection process lasting about a year for the award of a construction contract for 9 future frigates to be built in Adelaide for the Royal Australian Navy under the SEA 5000 program. Fincantieri has been selected by the CASG thanks to the huge visibility gained by constructing FREMM frigates for the Italian Navy, confirming the strategic value of the domestic market as a driver of exports by stimulating demand for well-proven state-of-the-art products and continuous innovation needed to produce sophisticated products.

Mega yachts

The mega yachts market continued to be affected in 2016 by a climate of uncertainty, related to geopolitical and economic factors, even though the market for luxury goods continued to grow, along with the wealth and number of those holding it.

A total of 6 yachts of more than 80 meters in length were ordered during the year, the same number as the year before.

On the supply side, the number of competitors is being streamlined after the euphoria leading to the appearance of many new operators before the advent of the economic and financial crisis in 2008. Since then a number of projects, which had been announced, have remained unfinished by such new operators, while a small group of mostly Dutch, German and Italian shipbuilders has strengthened its position mainly for customized larger projects, by developing their facilities both for construction and for refitting and maintenance.

Below
Mega yacht "Serene"

Above
Offshore Subsea
Construction Vessel
"Normand Maximus"
Solstad Offshore

Offshore

The Offshore industry was once again affected by an extremely depressed global market environment following the plunge in oil prices, which fell to a record low of below USD 30 a barrel in January 2016. In late 2016, following the OPEC decision to cut crude output, the oil price gradually started to climb again, reaching around USD 54 a barrel at the end of December. Throughout 2016, low oil prices and the decline in spending on exploration and production activities adversely affected the market for offshore supply vessels (OSV), which was characterized by oversupply, insufficient levels of fleet utilization and low charter rates.

As a result, new-build demand was particularly low, and many deliveries were subject to postponement or cancellation, driving some shipyards into bankruptcy.

Although the offshore wind energy sector showed some interesting signs, demand was nonetheless limited and mostly for installation vessels. Faced with this scenario, the Vard Group is engaged in developing cost-effective solutions to meet the challenges of a market with lower oil prices than the past, without compromising the innovative content, performance, quality and safety of its products. Although market opportunities are continuously monitored, no significant upturn in demand is expected in the near term.

Repairs and conversions

Once again in 2016 the repairs market as a whole was adversely affected by the modest amount of resources allocated by shipowners to fleet maintenance due to the depressed state of the shipping industry.

Competition has remained intense, especially in the market segment for the repair of traditional vessels (tankers, bulk carriers) and in particular for smaller vessels (up to 160 meters in length), by both other Italian shipyards and numerous operators within the Mediterranean area (Gibraltar, Spain, France, Croatia, Montenegro, Greece, Turkey).

The cruise ship sector remains the most attractive, providing opportunities for fleet maintenance and refitting due to the need to meet the latest environmental standards and to offer the same standards as new-generation ships to ensure consistent brand perception by passengers. It is in this context that Fincantieri has entered into an exclusive cooperation agreement with Huarun Dadong Dockyard, a Chinese shipyard, to develop joint technical management of cruise ship repairs, dry-docking and conversion in view of the growing number of ships operating out of China.

"MSC Sinfonia"
Rinascimento Programme
MSC Cruises

Research, development and innovation

The Group spent a total of euro 96 million on research, innovation and development in 2016. Such a level of investment is necessary to strengthen the Group's competitive advantage in a market that, despite signs of improvement, remains difficult and where product and process innovation is a key factor for success.

During the year, the Group carried on developing different technological solutions that focus on energy efficiency, environmental impact reduction, payload maximization, product and operating cost reduction, improvements in safety and quality perception and compliance with rapidly evolving regulations. Such activities resulted in the filing of 4 patent applications in 2016 for innovative solutions applicable to the Group's products.

In support of Research and Innovation, Fincantieri has continued to adopt an Open Innovation policy, by using the key tool of technology scouting to investigate both radical and incremental innovations in sectors other than shipbuilding with the aim of identifying technologies transferrable to Fincantieri's fields of operations, and it has also pursued innovation with its supply chain by sharing innovation roadmaps with suppliers concerning the principal systems and related activities. All these activities have led to the definition of a number of good design ideas.

The subsidiary VARD conducts a wide range of Research and Development (R&D) activities, both in-house and in collaboration with industrial and academic partners. Its projects pay particular attention to vessel safety, functionality, efficiency, fuel consumption and environmental impact.

The strategy of diversification, initiated by VARD at the start of 2016, has had a profound impact on its R&D and innovation activities. In parallel with its commercial initiatives to enter new market segments, VARD has developed several new projects for passenger ships, for vessels serving the offshore

wind sector and for fishing and aquaculture vessels. In developing new projects for new markets, VARD is able to draw on its extensive experience in R&D, engineering and design for the offshore sector and particularly its experience with vessels able to operate in extreme weather conditions.
During the year, other areas of interest for VARD were the conceptual design of specialized vessels for the oil&gas industry and the development of more effective solutions to meet the challenges of the oil industry in a low-price context, without compromising innovation, performance, quality and safety.
In the area of Equipment and Solutions, Vard Electro introduced a new power management system and an integrated automation system. A new dashboard system was used for the first time, developed thanks to the "A Step Forward" innovation project started during 2015. R&D activities also focused on battery-based energy storage systems and on wireless sensor systems.

REFERENCE FRAMEWORK

Fincantieri participates in the "Horizon 2020" program which offers funding for Research & Innovation projects to boost European growth and competitiveness through public-private sector partnerships designed to achieve better synergies between stakeholders and through formal commitment in terms of results and resources.
Fincantieri is a member and sits on the board of "Vessels for the Future", a maritime research association of which it and Rolls Royce are founding members and which aims to promote research, development and innovation in the maritime sector. The association's activities help identify priorities for maritime research and innovation and to bring together stakeholders within the European industry in order to foster the development of areas concerning competitiveness, environmental sustainability and safety within the Horizon 2020 program.
The activities of the European Sustainable Shipping Forum (ESSF), launched in 2014, were extended in 2016 until 2018. The ESSF, whose activities are followed by Fincantieri, aims to identify and overcome technological and regulatory gaps to promote the use of LNG as an alternative fuel and the use of scrubbers to treat atmospheric emissions.
In Italy, the Stability Law no. 190 dated 23 December 2014 came into force in 2016, putting shipbuilding on a par with other industries, thereby removing the restrictions previously imposed by the Shipbuilding Framework and providing great impetus to maritime industry product and process innovation.
In 2016, the Italian Ministry of Education completed the definition of its so-called "clusters policy", establishing the National Technology Clusters (NTC) as the key bodies of reference in their respective areas of expertise and strengthening their function of soft-governance between scientific research and industry; it also issued a call for the establishment of four new Clusters, including one dedicated to Blue Growth, to complete the range of strategic issues identified by the National Research Plan for 2016-2020. Fincantieri is involved both in the leadership of the Transport NTC active since 2014, and in coordinating the wide partnership proposed through the formation of the Blue Italian Growth NTC.
Lastly, Fincantieri has continued its active support for the Italian Ministry of Education's work on industrial issues in connection with the "Joint Programming Initiative Health and Productive Seas and Oceans" (JPI Oceans), and that designed to give more attention to Mediterranean issues in the "Blue Med - research and innovation initiative for blue jobs and growth in the Mediterranean" under Horizon 2020, an area in which the Blue Growth Coordination and Support Action has carried on its work of presenting guidelines to the European Commission concerning new work programs.

PRINCIPAL EUROPEAN PROJECTS

In Europe, Fincantieri has continued to collaborate in the "JOULES" project focused on improving a ship's energy efficiency throughout its operating life and in the "LeanSHIPS" project to develop specific technological solutions for further reductions in the environmental impact of European-built ships.

The work of the Maritime Europe Strategy Action ("MESA"), aimed at strengthening the research and innovation strategies of the maritime transport industry in Europe, through the formation of special integration groups for specific areas of technological interest, was completed during the year.

Work started in September 2016 on the 48-month "HOLISHIP" project, aimed at optimizing the ship design phase in order to minimize the product's total costs throughout its life cycle.

During 2016 a project proposal on the use of special materials for shipbuilding was presented under the Horizon 2020 MG-2.2-2016 call for projects; having passed the two-stage approval process, the project was approved by the European Commission early in 2017. The project will be started in 2017.

With reference to agreements entered into with the European Defence Agency (EDA) for research projects in which the Fincantieri Group participates, worth mentioning is the "FLOWIS" project ("Flow in Service and Study on Industrial and Technological Competences in the Naval Sector"), whose final report was presented in 2016.

Fincantieri and its subsidiary Cetena continue to participate in the program of activities defined by Cooperative Research Ships (CRS), an organization run by MARIN (Maritime Research Institute Netherlands) and which, for over 40 years, has brought together a select group of international experts in hydrodynamics, benefiting from all the results and advanced simulation tools produced by such cooperation.

Vard Design continued to participate in several long-term research projects, including a three-year project called "Vista" (Virtual Sea Trial) and the "SFI Smart Maritime" and "SFI MOVE" projects supported by the Norwegian Research Council. The "Vista" project involves virtual prototyping in order to develop a virtual benchmarking system for Offshore Supply Vessels and their propulsion and primary energy generating systems. The "SFI Smart Maritime" project aims to create a center of expertise to improve maritime industry energy efficiency and reduce emissions. The "SFI MOVE" project is intended to support the process of innovation for maritime operations and to develop know-how, methods and tools to make installation and maintenance of offshore structures and equipment in deep water safer and more efficient. Vard Design has also prolonged its involvement in the Statoil "Arclog" project, focusing on key elements in the logistics chain for drilling in remote locations.

PRINCIPAL NATIONAL PROJECTS

Work continued during the year on the project known as "RedFriCoat - Novel Process for producing Reduced Friction Coatings for Fluids Flowing Over Solids" started in October 2015 and financed by the Italian Ministry of Foreign Affairs and International Cooperation under a cooperation agreement in the field of industrial, scientific and technological research and development between Italy and Israel. The aim of the project is to develop a new process for the production of reduced friction hull coatings, by studying and adopting superhydrophobic surfaces made up of two emerging nanomaterials (nanoclay and silicon).

During 2016 work started on the project known as "Model of data and processes for smart production of the ship product" presented in 2015 and financed under the "Digital Agenda" call for projects, drawing on the Italian Ministry of Economic Development's new special revolving fund instituted in accordance with art. 14 of Law 46 dated 17 February 1982, renamed "Fund for sustainable growth". The aim of the project is to develop a model of data and processes that can capture and manage in an integrated fashion the properties of the individual and collective parts of the ship product, managing all relevant information throughout the life cycle, from design to construction, to after-sales.

At the end of 2016, the Scientific-Technical Committee of the Italian Ministry of Transport approved six applications sent in 2015 for funding under Law 190 of 23 December 2014 (the 2015 Stability Law) which authorizes finance for innovative projects involving shipbuilding products and processes, and the related confirmatory decrees were issued as a result. Activities related to these projects are currently underway and will end in 2018.

With reference to the "Enterprise and Competitiveness" funding under PON-FESR 2014-2020, Italy's Ministry of Economic Development has issued two calls (Ministerial Decree dated 1 June 2016), namely "Horizon 2020" and "PON Large Projects", in response to which Fincantieri has presented two applications, currently being evaluated by the Ministry.

With reference to the regional technology 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), the following projects were completed:

- "CruiseCon.Net" and "Navred@Cruise" in Friuli Venezia Giulia;
- "Pyxis - Integrated Mast for Naval Vessels", "Flumarturb - Fluid-dynamic design of turbomachinery for eco-friendly marine power systems" and "Prodifcon - Integrated design, naval vessel defense and control" financed by the region of Liguria.

In 2016, Fincantieri presented five applications for funding in response to two calls issued by the region of Friuli Venezia Giulia to be drawn against the "POR FESR 2014 – 2020" funds: Call DGR 647/2016 "Business incentives for innovation in the specialist areas of food production, strategic productive chains, maritime technologies and smart health" and Call DGR 849/2016 "Incentives for standard and strategic R&D projects conducted through private-public partnerships in the specialist areas of Maritime Technologies and Smart Health".

In 2016, Fincantieri also presented a project entitled "Criteria for energy efficiency and optimization of ship electricity usage to reduce environmental impact" in response to a call by the region of Liguria for POR FESR 2014-2020 funding with the aim of finding solutions to improve vessel energy efficiency, by making electrical devices more efficient, evaluating on-board electricity usage stochastically and developing methods to manage peak loads.

Human resources

The following section presents the Group's employment figures as well as its main initiatives in the field of Human Resources.

HEADCOUNT

(number)	2016	2015
Employees at year end:		
Total at year end	19,181	20,019
- of whom in Italy	7,939	7,771
- of whom in Parent Company	7,433	7,337
Average number of employees	19,050	21,120
- of whom in Italy	7,790	7,701
- of whom in Parent Company	7,330	7,289

The Parent Company had 7,433 employees at 31 December 2016, an increase of 96 on a year earlier reflecting the net effect of 232 new entries, mainly in the individual business units, and 136 leavers.

The Group's foreign subsidiaries reported a decrease in headcount from 12,248 in 2015 to 11,242 in 2016, most of which attributable to the VARD Group which reduced its workforce by a total of 975, particularly after downsizing its operations in Brazil with the shutdown of the Vard Niterói yard.

INDUSTRIAL RELATIONS

With reference to the Parent Company's industrial relations, after more than a year of negotiations, a new supplementary in-house labor agreement was signed on 24 June 2016 with the unions represented in the business (FIOM, FIM, UILM, FAIMS, UGL). The agreement, valid from 1 July 2016 until 31 December 2019, also applies to the subsidiaries Isotta Fraschini Motori and Cetena and to the joint venture Orizzonte Sistemi Navali.

The new supplementary agreement is highly innovative in certain respects and includes a new performance bonus, entirely based on variable criteria, being payable only upon an objective recovery in productivity, as measured by efficiency, quality and construction progress indicators, as well as the timeliness and completeness of design. This reward system is also linked to corporate results, with part of the bonus dependent on the achievement of a minimum corporate profitability target ("EBITDA margin"). The agreement also provides for the introduction of an advanced corporate welfare system, wider health care benefits, flexible working hours, training and retraining, simplification of elements of remuneration and rules governing contractors. The agreement is also Noteble for a "new participative model", which heightens the participative role of trade unions and workers.

On 28 August 2016, the Palermo yard ceased to use the Ordinary Wage Guarantee Fund for temporary layoffs, having accessed this fund at the end of 2015 due to the temporary absence of sufficient work.

At the start of 2016, the Ordinary Wage Guarantee Fund was used to lay off 101 workers until the end of January 2017 at the Castellammare di Stabia yard due to the temporary absence of sufficient work at the yard.

As for the foreign subsidiaries, local legislation in Norway has allowed the VARD shipyards to reduce staff numbers using mechanisms like temporary layoffs to cope with the current reduction in volumes.

At the US subsidiary Fincantieri Marine Group, negotiations were conducted in 2016 at the Marinette yard to renegotiate the labor agreement that expired during the year with renewal still to be achieved.

TRAINING AND DEVELOPMENT

Once again in 2016, Fincantieri continued to invest heavily in the training and development of its resources, in order to enhance their knowledge and skills in line with the strategic business objectives.

Fincantieri has therefore enriched its training program by introducing new technical and management training courses and updating existing ones, thereby promoting greater and wider know-how, shared corporate values and distinctive standards of corporate conduct in line with the core competency model.

Fincantieri Corporate University, the in-house business school developed in collaboration with some of Italy's top business schools, has offered educational programs that aim to accompany staff at key junctures in their careers. The "Academy" program has also continued to run, with the aim of helping integrate recently recruited new graduates and of developing a common set of technical and management skills, as has the annual edition of the "Competency Management" program, designed to strengthen management skills.
As part of the "Xcellence Program", several training courses were organized for senior and middle management on the topics of project management, a core discipline for Fincantieri and a tool for managing, changing and innovating the business.
The "Middle Managers" project carried on in 2016 with the aim of creating a unique management style consistent with corporate strategies and the priorities of change and to have this management category evolve from a purely technical and specialist function to one that is more engaged, more accountable and better equipped to support decision-making processes.
The training program in support of the "Integrated Ship Design & Manufacturing" (ISDM) project, aimed at replacing existing technical and management tools used in product design and development, continued to run with the provision of more than 6,200 hours of training to Parent Company personnel. This program will have a significant impact in coming years as well.
The range of technical training courses was expanded and improved in 2016, the main novelty being the extension of e-learning to some courses primarily for personnel working in mechanical design and after-sales support for marine systems and equipment.
Of particular note was the training project on corrosion for personnel involved in design and procurement for Naval Vessels, developed to teach them about an issue knowledge about which was traditionally confined to production departments.
The numerous other technical courses offered by Fincantieri have covered a wide range of topics, from shipbuilding regulations to basic and functional design notions, with the purpose of helping integrate new employees, transfer knowledge in the event of job change and build up technical know-how. This training will be extended in 2017 with the introduction of new courses to improve, reinforce and share more and more in-house technical expertise and develop sector-specific professional know-how.
The "Training for Quality" project was launched in 2016, with the aim of strengthening the technical and operational know-how of skilled workers (both Fincantieri ones and contractors) and of production supervisors. The project, which will continue in 2017 in all the Group's yards, combines on-the-job training with classroom instruction.
With the aim of updating and developing the skills and knowledge of personnel working in procurement, a training project related to contractual issues was launched in October, covering the new general terms and conditions of purchasing and procurement recently introduced by the Company, and communication, negotiation and supplier scouting techniques. This project will continue to run in 2017.
In order to ensure that all employees are constantly up-to-date in specific issues and rules concerning listed companies, a number of e-learning courses have been developed. These include courses on the new Fincantieri Organizational Model governing the administrative liability of legal persons under Legislative Decree 231/2001, on the "Compliance of Listed Companies", the "Model of Governance of Segregation of Duties" and on the SAP tool "Governance, Risk Management and Compliance".

Fincantieri continued to provide occupational health and safety training in 2016 in compliance with Legislative Decree 81/2008 and subsequent State-Regions Conference agreements, and with Presidential Decree 177/2011, in the form of the "Confined Spaces" project launched in 2015.
In support of the corporate mission of safeguarding health, respect for the environment and continuous improvement of product quality, during 2016 Fincantieri upgraded the skills of personnel who oversee Safety, Environment and Quality systems to create a team of RINA certified auditors qualified to audit these systems.
During 2016, the Parent Company organized a total of 2,300 training events for around 19,500 participants, who received an aggregate of more than 157,400 hours of training.
The annual evaluation of individual performance was conducted once again in 2016 for the entire workforce of white collar and management staff with the aim of developing targeted training for the areas of improvement noted. The activities of the "Development Center" also carried on with the purpose of supporting and complementing the annual performance evaluation with an assessment process that analyzes the potential of employees.
In December "Fincantieri for the Future", a major change management project, was launched, arising from the need to initiate a process of change management at all levels to better face the competitive challenges ahead. The project aims to promote a change of pace through the contribution of all employees, by further strengthening values like sense of belonging, cohesion and shared common objectives. The first phase of the project has involved the distribution of a questionnaire to the entire workforce to obtain the opinions, expectations and suggestions of employees, to evaluate their attitude to change and willingness to get involved and to identify all potential barriers that need to be removed in order to ensure the business's success.
As for VARD, in 2016 it benefited from financing programs introduced in 2015 by the Norwegian Government for in-house training, by undertaking, as from the first quarter of 2016, an extensive training program to support its organizational and business changes, with the implementation of the first pilot initiatives in 3 main areas of interest: i) positioning in new markets; ii) development of new models; iii) alterations to production processes.
To support and promote the diversification of the Norwegian group's product portfolio, Fincantieri and VARD have implemented a joint program to exchange knowledge and experience involving both technical staff and managers.
In order to foster the retention of personnel with key skills, the Vard Holdings Board of Directors has approved a new guideline on remuneration and incentives for management.
The US subsidiary Fincantieri Marine Group was awarded a "Workforce Advancement Training" (WAT) grant by the State of Wisconsin for its training of staff working in the electrical and pipes areas. In particular, these training activities were geared towards Quality Assurance, testing and welding. These courses were in preparation for the application of correct operating procedures, established by the company. The Marinette shipyard is being assessed for the award of a WAT grant for 2017.

TALENT ACQUISITION

In 2016 Fincantieri conducted a recruitment campaign targeting highly skilled resources in the areas of design, production, procurement and project management. The aim was to support the business's strong international and volume growth with the recruitment of senior ranking, experienced professionals. Also as part of the Group's strategic development, business

diversification and expansion of commercial initiatives led its subsidiaries, particularly Isotta Fraschini Motori, Fincantieri SI and Marine Interiors, to actively recruit resources with specific skills in design, sales and after-sales.
Fincantieri continues to be a point of reference for talented young people entering the labor market thanks to the different opportunities offered in the technical and engineering fields. Once again in 2016, selected high school and university graduates had the opportunity to gain work experience in technical, production and management functions and develop specific knowledge and skills in the shipbuilding sector.
During the year Fincantieri continued its employer branding activities, participating in the main Career Days organized by Italian universities in order to meet and attract the best undergraduates/graduates. A number of ad hoc events ("Meet Fincantieri") were also organized involving the Universities of Genoa, Naples and Trieste with the aim of offering job opportunities and specific training to naval engineering undergraduates/graduates.
Fincantieri also invested during 2016 in activities designed to bring the world of educational institutions closer to the world of work. An important role in this respect has been played by the new "Work Experience" project introduced in Italian schools, which saw several students from the area's main high schools spend a period of 2 or 3 weeks within the business. This initiative aims to interest school leavers in Fincantieri not only with a view to choosing a university course, but also as a direct career opportunity in which to put to use the technical knowledge acquired during their education.
Even VARD, despite having to optimize and reduce its workforce, maintained a reasonable flow of incoming talent and continued to place particular emphasis on employer branding by developing an identity to allow it to attract high quality candidates.
During 2016, the US subsidiary Fincantieri Marine Group continued to develop partnerships with selected high schools and universities, such as certain major colleges in the Midwest and 5 maritime academies in New England. In order to pursue the recruitment objectives for qualified personnel, the summer internship program was also enhanced.

TALENT MANAGEMENT

As for the development of human resources, during 2016r Fincantieri launched new projects and enhanced existing initiatives, with the aim of preparing its people for the future, by focusing them on the medium and long-term needs of the business. These new projects included:

- "Senior Professional" project, which aims to develop those highly skilled professionals with deep technical expertise that make a key contribution to achieving corporate objectives in non-managerial roles;
- "Coaching" project, introduced as a tool to develop the potential of senior managers and, in the future, of middle management;
- "Career Paths" project, which aims not only to define career paths that allow new recruits to grow within the business, until they gain adequate experience and skills to hold key "professional" or "managerial" roles, but also to provide managers with a tool to manage career paths and succession plans for employees.

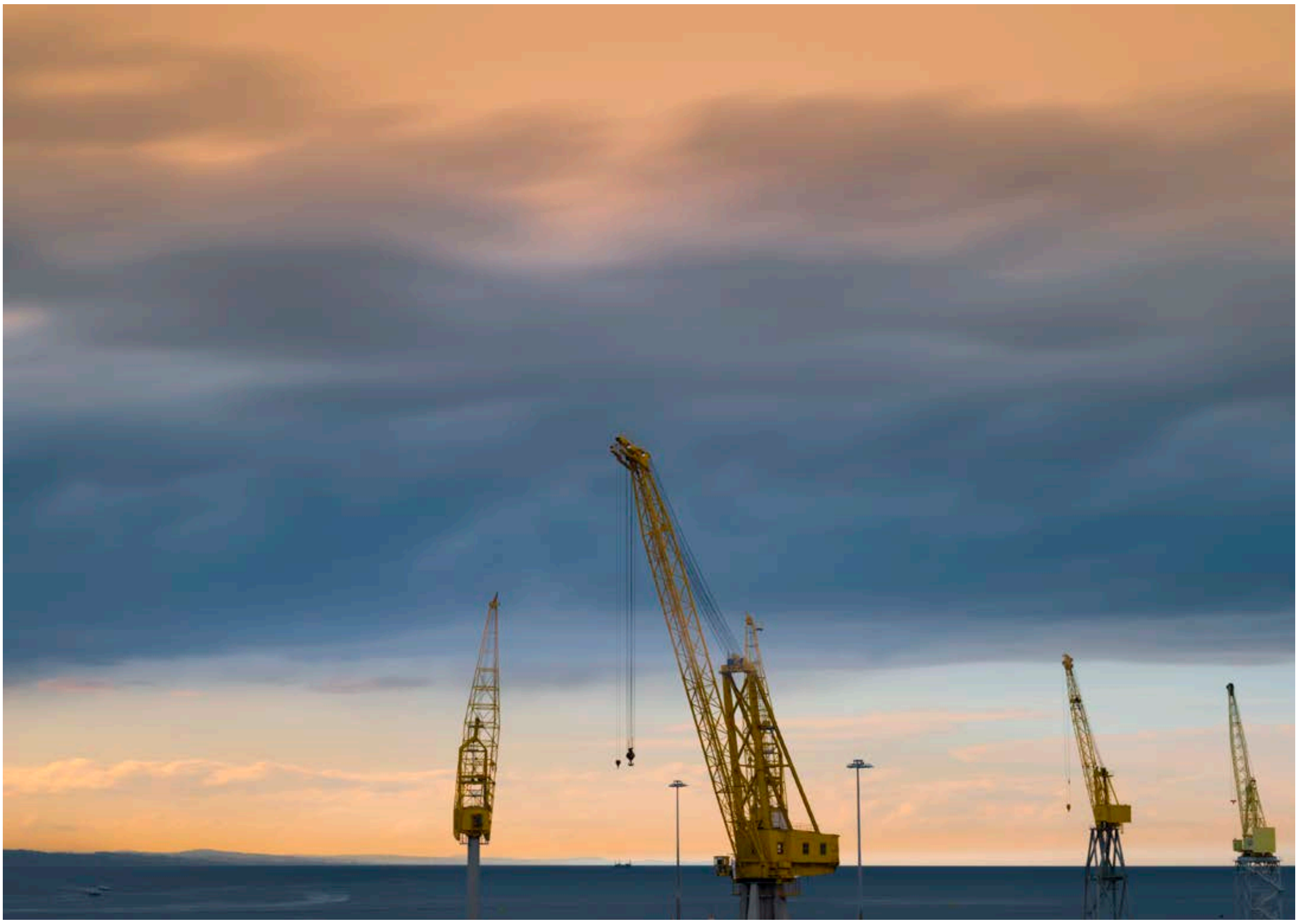
Fincantieri has also introduced "Personal Development Plans", as a means to develop professional skills by having employees agree with their superiors development plans and individual improvement targets.

PRIVACY PROTECTION

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

As part of the Information Security Management System project, VARD has created and implemented group-wide security policies that meet ISO standards. To improve the security of its information systems, VARD has also updated all its firewalls around the group which are monitored centrally by a system at the Norwegian headquarters.

Environment and safety at work



During 2016 Fincantieri consolidated the cultural growth and professional development of staff working in business processes, with particular attention to protection of the environmental and of the health and safety of workers.
These activities, also implemented through specific projects, have actively involved employees of Fincantieri and of its contractors.
Certification of the company's systems for managing the Environment, Hygiene, Health and Safety, has also contributed to a widespread consolidation of corporate culture being promoted in these areas.
The need for prompt information about newly-published rules and regulations affecting the business has been satisfied with a special management tool, allowing immediate evaluation of the necessary requirements and constant maintenance of compliance.

RESPECT FOR THE ENVIRONMENT

With regard to authorizations, 2016 saw the conclusion of administrative proceedings that have led to a Single Environmental Authorization being obtained for the production units of Sestri Ponente, Ancona, Riva Trigoso, and Arsenale Triestino San Marco, having presented an application for this purpose.
Since the future production scenarios at the Monfalcone yard may give rise to an increase in production volumes and to a different yard lay-out, an application has been submitted for an Integrated Environmental Authorization to replace the current Single Environmental Authorization, consistent with the corporate policy of responsible environmental management.
With particular reference to the environmental aspect of atmospheric emissions, during 2016 the Monfalcone yard started to build new facilities for sandblasting and painting in confined spaces, with the adoption of extraction and post-combustion purification systems, currently considered among the best available technologies. This is part of a wider plan of improvements at group level, that in recent years has involved the yards in Ancona, Marghera and Castellammare di Stabia, where similar systems have already been installed.
The general context in which Fincantieri operates gives ever more importance to the issues of energy efficiency and energy conservation, with a view to environmental sustainability.
On this basis, a specific team was set up in 2016 and an organizational and management process defined in order to perform annual energy audits and identify improvement plans to achieve ever more efficient energy performance, as a result of which specific energy-saving measures have already been planned and adopted.
In order to optimize the internal traceability of process residues, a tool has been implemented for the administrative management of waste, with the aim of also simplifying the completion of official registers and transport documents; it is planned to make this tool available to all production units by the end of 2017.
As for Vard, three of whose yards already in possession of UNI EN ISO 14001:2004 certification, work has continued to revise procedures and improve processes in order to limit environmental impact, abate noise, reduce emissions and build ships using technology designed to achieve such objectives. VARD has also invested in 690 volt power systems to reduce exhaust emissions during vessel commissioning.

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 business partners and the local community in general.
As a result, Fincantieri has adopted, and constantly updates, organizational models, and specific instruments and policies able to provide both responsible and rigorous support to such commitments.
In terms 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 operate according to this standard.
VARD, three of whose yards already ISO 14001 certified, has continued to improve its procedures to minimize environmental impact, particularly with regard to waste management, noise abatement, emissions reduction and the construction of eco-friendly ships.

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 all the 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 success of the enterprise.
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.

HEALTH AND SAFETY AT WORK

As far as accidents are concerned, the positive trend of recent years was further consolidated in 2016, with additional improvements in all the relevant measures (total number of events, frequency index, severity index).
The objective of promoting a corporate culture of health and safety at work has resulted in various initiatives as part of the "Towards Zero Accidents" project and in the performance of activities to certify Occupational Health and Safety Management Systems in the various business units in accordance with OHSAS18001:2007. Worth mentioning in this regard is the introduction and development of special software to control access to work areas classified as "Confined Spaces".
During 2016 a three-stage administrative process lasting more than two years was completed, allowing the Monfalcone yard to obtain a Fire Prevention Certificate.
Work also began to computerize the management of relevant Safety Data Sheets used to manage chemical risks.

"Towards Zero Accidents" project

During 2016, continued actions were taken in support of the "Towards Zero Accidents" project, which involves all skilled workers employed at the Group's Italian production facilities.

The training project known as "Active Safety" (supplementing the compulsory training courses required by Legislative Decree 81/08 and the State-Regions Conference) has attracted growing interest and approval, thanks to the novel involvement of heads of production, for Fincantieri personnel, and shipyard foremen, for outside contractors, in training and instructing their staff.

In parallel with the monthly presentation of safety cards addressing the issues described in the "Active Safety" campaign, a visual information campaign has been developed and implemented in the form of posters and videos on the specific risks described in the cards themselves.

Like "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 positive results: the Vard Tau yard (Vietnam), for example, has won the award for not having had any accidents for 365 consecutive days.

The US subsidiaries have confirmed their commitment to pursuing the objectives set out in their safety and environment communication and training projects, receiving once again this year numerous awards for excellence for both the Marinette and Sturgeon Bay yards, including the "Safety Excellence Award" and the "Safety Improvement Award" from the National Security Council, the Security Council of Wisconsin and the Shipbuilders Council of America.

UNI EN ISO 14001:2004 / BS OHSAS 18001:2007 CERTIFICATIONS

During 2016 Fincantieri continued to introduce and consolidate Environmental and Occupational Health and Safety Management systems in its operating units, with the aim of ensuring that company policy in this area was implemented.

The sites that had already been certified (Muggiano, Riva Trigoso, Naval Vessels HQ, Arsenale Triestino San Marco, Marghera, Ancona), continued to be monitored by RINA (the certifying body), while new certificates of compliance were obtained by the shipyards in Castellammare di Stabia and Sestri Ponente.

The Monfalcone yard started activities for the certification of its Environmental and Occupational Health and Safety Management Systems with the conduct of a "Stage 1" audit by RINA. The objective for 2017 is to complete the "Stage 2" audit and obtain the related certifications in compliance with UNI EN ISO 14001:2015 on the environment and BS OHSAS 18001:2007 on occupational health and safety.

During 2016, the Marinette yard in the USA also implemented an Environmental and Occupational Health and Safety Management System in accordance with UNI EN ISO 14001:2015 and BS OHSAS 18001:2007. During the year, it embarked on the certification process, entailing the conduct of the "Stage 1" audit by RINA, with the aim of completing the process and obtaining the related certifications in 2017.

INTERNAL AUDITS

The annual systematic review of Environment, Occupational Health and Safety was performed once again in 2016 through a series of internal audits.

This work, designed to provide objective evidence of operational compliance with the legislation, and to check compliance of the Environmental Management Systems and Occupational Health and Safety Management Systems with UNI EN ISO 14001:2004 and BS OHSAS 18001:2007

respectively, has made it possible, including through the use of performance indicators, to identify priority actions to achieve compliance, to reduce risks and improve processes.
During 2016 new resources allocated to the management of Safety and Environment systems received training as Auditors and Lead Auditors of systems certified BS OHSAS 18001:2007 (Safety) and ISO 14001:2015 (Environment), giving them the requisite knowledge, methods and tools for proper and effective programming, planning, conduct, reporting and follow-up of audits.

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 RELATED TO OPERATIONAL COMPLEXITY

Description of risk

Given the operational complexity stemming 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:

- not guaranteeing adequate control of project management activities;
- not adequately managing the operational, logistical and organizational complexity that characterizes the Group;
- not adequately managing the complexity arising from its product diversification;
- failing to efficiently distribute workloads according to production capacity (plant and labor) or that excess capacity might impede the achievement of competitive margins;
- not meeting market demand due to insufficient production capacity.

Impact

If the Group were 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 were unable to adequately manage the complexity arising from its product diversification or if it failed to efficiently distribute workloads according to production capacity (plant and labor) available on each occasion at the different production facilities, 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 implements procedures and work 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 vessel demand 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 ensuring that delivery dates are met.

RISKS RELATED TO NATURE OF THE MARKET

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 brand but also through other prestigious brands such as P&O, Princess Cruises, Holland America Line, Cunard and Costa Cruises. The special relationship with the Carnival Group is certainly a strength for the Fincantieri Group, but also potentially a weakness if the client concentration aspect is considered. In the naval vessels business, the bulk of revenue has traditionally come from the Italian Navy, representing a strategic asset for the Group, but whose demand for new ships is heavily dependent on defense spending policy. The subsidiary VARD, which in the past operated primarily in the offshore vessels market, has longstanding relationships with shipowners and companies operating in this sector.

The shipbuilding market in general is historically characterized by cycles, sensitive to trends in the industries served. The Group's offshore and cruise clients base their investment plans on demand by their own clientele; in the case of offshore, the main influence is energy demand and oil price forecasts, which in turn drive investment in exploration and production, while the main influences on the cruise industry are trends 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 client could impact capacity utilization and business profitability; similarly a downturn in the offshore market could lead, as has already happened, to a reduction in the level of orders for the subsidiary VARD, as well as exposing it to the risk of cancellation or postponement of existing orders. Equally, the availability of resources earmarked by the State for defense spending on fleet modernization programs is a variable that could influence the Group's results of operations and financial condition.

Mitigation

The Fincantieri Group's policy of diversifying its cruise ship clients, while continuing to satisfy Carnival's requirements, has allowed it to enlarge the client base. In the naval vessels business, participation in international projects, like the FREMM program between Italy and France, has been of importance, as has the Group's expansion into the United States aimed at securing opportunities to expand production for the US defense sector, along with its efforts to develop international business through an active presence in the defense markets of other foreign countries with no domestic shipbuilding industry or, even if present, that lack the right technical skills, know-how or infrastructure for vessels of this kind. In this context, of particular importance is the order worth some euro 3.8 billion for the Qatari Ministry of Defense.

In order to mitigate the impact of the shipbuilding market cycle, 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 equipment, repairs, refitting and after-sales service. In parallel, the Group has expanded its business internationally, including through acquisitions.

Given the current downturn in the offshore market, the subsidiary VARD has pursued a strategy of diversifying into new market segments, such as expedition cruise, offshore wind, fishing and aquaculture, with the intent of reducing its exposure to the cyclical nature of the offshore Oil&Gas industry. As part of the program to improve efficiency and cut costs to rightsize production capacity for the new market opportunities, VARD has shut down one of its Brazilian yards, it has initiated a program to downsize the workforce at its facilities in Norway and Romania and it has repositioned one of the Norwegian yards to serve the aquaculture industry.

RISKS RELATED 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 extended this focus to the production of offshore support vessels. Additional factors that may affect competitiveness are the risk that due attention is not given to client needs, or that standards of quality and product safety are not in line with market demands and new regulations. Moreover, aggressive commercial policies, development of new products and new technologies, or increases in production capacity by competitors may lead to increased price competition, consequently impacting the required level of competitiveness.

Impact

Inattentive monitoring of the Group's markets and slow responses to the challenges posed by competitors and client needs may lead to a reduction in competitiveness, with an associated impact on production volumes, and/or less remunerative pricing, resulting in a drop in profit margins.

Mitigation

The Group endeavors to maintain competitive position in its business areas by ensuring a high quality, innovative product, and by seeking optimal costing as well as flexible technical and financial solutions in order to be able to propose more attractive offers than the competition. In parallel with the commercial initiatives to penetrate new market segments, the subsidiary VARD has developed a series of new ship projects, exploiting not only its own engineering and design expertise acquired in the offshore sector but also the know-how of the Fincantieri Group.

Description of risk

The difficult political and economic context and worsening regulatory environment of countries in which the Group operates, particularly for VARD's activities in Brazil, may adversely impact operations and future cash flows. In addition, 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.

Impact

Situations involving country risk may have negative effects on the Group's results of operations and financial condition due to loss of clients, profits and competitive advantage.

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 establishing, within its own organization, appropriate safeguards to monitor the processes at risk.

RISKS RELATED TO CONTRACT MANAGEMENT

Description of risk

The shipbuilding contracts managed by the Group are mostly multi-year contracts for a fixed consideration, any change in which must be agreed with the client. Contract pricing must necessarily involve careful evaluation of the costs of raw materials, machinery, components, sub-contracts and all other construction-related costs (including personnel and overheads); this process is more complicated in the case of prototype or particularly complex ships.

Impact

Cost overruns not envisaged 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 vessel's principal components.

Description of risk

Many factors can influence production schedules, as well as capacity utilization, and so impact agreed vessel delivery dates with possible penalties payable by the Group. These factors include, inter alia, strikes, poor industrial productivity, inadequate logistics and warehouse management, unexpected problems during design, engineering and production, events linked to adverse weather conditions, design changes or problems in procuring key supplies.

Impact

When 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, outfitting). Contracts with suppliers include the possibility of applying penalties for delays or hold-ups attributable to such suppliers.

Description of risk

The operational management of contracts carries a risk that a counterparty with whom the Group is doing business is unable to meet its commitments, more specifically involving client default on contractual payments, or supplier failure to discharge its obligations for operational or financial reasons. The Offshore industry is in the midst of a profound global market deterioration affecting all its players with a significant number of shipowners undertaking restructuring, in turn giving rise to increased counterparty risk. With particular reference to VARD, deterioration in the financial situation of many clients in the Offshore sector could lead to the cancellation or the postponement of a large number of orders in the order book.

Impact

Bankruptcy, whether by a client or supplier, can have serious effects on the Group's production and cash flows, given the high unit value of shipbuilding orders and the strategic nature of certain supplies for the production process. In particular, client cancellation of orders during vessel construction exposes the Group to the risk of having to sell the vessel in adverse market conditions and at prices that do not allow its construction costs to be recovered; likewise the postponement of deliveries can significantly increase working capital financing needs, with a consequent growth in debt and higher borrowing costs.

Mitigation

When acquiring shipbuilding orders, and where deemed necessary, the Group performs checks on the financial strength of its counterparties, including by obtaining information from leading credit rating agencies. Suppliers are subject to a strict qualification process, including evaluation of the potential risks associated with the counterparty concerned. As regards the financial aspect, the Group offers suppliers the opportunity to use instruments that facilitate their access to credit.
To address the difficult situation in the offshore market, the subsidiary VARD is now working with clients and financial institutions to ensure delivery of not only vessels in the current order book but also those whose orders have been canceled. The subsidiary is also considering, where possible, all technical and commercial opportunities to reposition on the new markets served those vessels already built but whose orders have been cancelled.

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 clients pay only a part of the contract price during ship construction; the balance of the price is paid upon delivery.
As a result, the Group incurs significant upfront costs, assuming the risk of incurring such costs before receiving full payment of the price from its clients and thus having to finance the working capital absorbed by ships during construction.

Impact

If the Group were unable to finance the working capital needs of ships during construction, it might not be able to complete contracts or win new ones, with negative effects on its results of operations and financial condition.
As for VARD, the cancellation and postponement of orders by clients in difficulty could have a significant impact on the Group's financial structure, with the risk that banks limit access to credit, thereby depriving it of the necessary funding for its working capital, such as construction loans.

Mitigation

The Group's objective is to maintain a more than sufficient level of committed and uncommitted credit lines and construction loans to guarantee coverage of the working capital needs generated by its operations.

Description of risk

The Group's clients often make use of financing to finalize the placement of orders.
Overseas clients may be 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. and GIEK in the case of Norway.
The availability of export financing is therefore a key condition for allowing overseas clients to award contracts to the Group, especially where cruise ship construction is concerned.

Impact

The lack of available finance for the Group's clients could have a highly negative impact on the Group's ability to obtain new orders as well as on the ability of clients to comply with the contractual terms of payment.

Mitigation

Fincantieri supports overseas clients 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. The subsidiary VARD is also actively working with GIEK, the Norwegian export credit agency, particularly in a new sector for the Norwegian market like that of expedition cruise vessels.
As an additional safeguard for the Group, in the event of a client default on its contractual obligations, Fincantieri has the right to terminate the contract. In such a case, it is entitled to keep the payments received and the ship under construction. The client may also be held liable for any uncovered costs.

RISKS RELATED TO PRODUCTION OUTSOURCING AND RELATIONS WITH SUPPLIERS AND LOCAL COMMUNITIES

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 it has the skills but insufficient in-house resources; b) outsource activities for which there are no in-house skilled resources and which would be too expensive and inefficient to develop.
Dependence on suppliers for certain business activities may result in the inability to ensure high standards of quality, failure to meet delivery dates, the acquisition of excessive supplier bargaining power, and a lack of access to new technologies.
In addition, the significant presence of suppliers in the production process has an impact on local communities, possibly requiring the Group to address social, political and legality issues.

Impact

A negative performance by suppliers in terms of quality, timing or costs causes production costs to rise, and the client's perception of the quality of the Fincantieri product to deteriorate. As for other partners at the local level, non-optimal relations may impact the Group's ability to compete.

Mitigation

The Group has specific personnel in charge of coordinating the assembly of on-board 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. The Parent Company has developed a precise program of supplier performance evaluation in this regard, ranging from measurement of the services rendered, both in terms of quality of service offered and punctuality of delivery, to the strict observation of safety regulations, in line with the Group's "Towards Zero Accidents" objective. In addition, particular attention is paid in general to relations with the local communities that interact with the Group's shipyards, involving appropriate institutional relationships, as sometimes supplemented by the conclusion of suitable legality and/or transparency protocols with the local authorities, which in turn inspired the National Legality Framework Agreement signed in 2017. The subsidiary VARD has paid special attention to the process of evaluating and managing contracts with suppliers especially in light of the increase in the number of suppliers operating in new sectors entered as a result of its diversification strategy.

RISKS RELATED 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 highly professional resources for key roles, and the ability to retain such talents within the Group; this involves suitable talent management with a view to continuous improvement, achieved by investing in staff training and performance evaluation.

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 to the Group's resources, 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 organized to ensure that key management positions are covered in the event of staff turnover. The subsidiary VARD has carried out an internal reorganization to assist the process of diversifying into new markets, with particular attention to the development of new concepts and alteration of production processes.

RISKS RELATED 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, including those to safeguard the environment and health and safety at work. 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.

Impact

Any breaches of safety or environmental standards, any changes in the local legal and regulatory framework, as well as the occurrence of exceptional or unforeseen events, could cause the Fincantieri Group to incur extraordinary costs relating to the environment or 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. Accordingly, in order to prevent and manage the risk of occurrence of unlawful acts, the Parent Company has adopted an organizational, management and control model under Italian Legislative Decree 231 of 8 June 2001, which is also binding for suppliers and, in general, for third parties working with Fincantieri. In particular, the Parent Company has applied 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 uphold regulatory compliance and to monitor working practices so as to ensure effective observance of the rules and regulations. The subsidiary VARD is also committed to minimizing the impact of its activities on the environment, involving actions in terms of resources, policies and procedures to improve its environmental performance. Fincantieri and VARD have 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 in order to ensure 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 RELATED TO INFORMATION ACCESS AND OPERATION OF COMPUTER SYSTEMS

Description of risk

The Group's business could be adversely affected by:

- inadequate management of the Group's sensitive data, due to ineffective protective measures, with unauthorized persons outside the Group able to access and use confidential information;
- improper access to information, involving the risk of accidental or intentional alterations or cancellations by unauthorized persons;
- IT infrastructure (hardware, networks, software) whose security and reliability are not guaranteed, resulting in possible disruption of the computer system or network or in illegal attempts to gain unauthorized access or 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 not 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, affecting the Group's ability to compete on the market.

Mitigation

The Group considers it has taken all necessary steps to minimize these risks, by drawing on best practice for its governance systems and continuously monitoring the management of its IT infrastructure and applications. Authority to access and operate on the computer system is managed and maintained to ensure proper segregation of duties, as enhanced with the adoption of a new access management procedure using special software, allowing prior identification and treatment of the risks of segregation of duties (SoD) resulting from inappropriate attribution of access credentials.

RISKS RELATED TO EXCHANGE RATES

Description of risk

The Group is exposed to exchange rate risk on transactions of a commercial and financial nature denominated in a currency other than the functional one (economic risk and transaction risk). In addition, translation risk can arise when preparing the consolidated financial statements, through translation of the income statements and balance sheets of consolidated companies that prepare their financial statements in a functional currency other than the Euro (mainly NOK, USD and BRL).

Impact

The absence of adequate currency risk management could increase the volatility of the Group's economic results. In particular, if currencies in which shipbuilding contracts are denominated were to depreciate, this could have an adverse impact on company profit margins.

Mitigation

Fincantieri has a policy for managing economic and transaction financial risks that defines instruments, responsibilities and reporting procedures, with which it mitigates currency market risks. The Group does not take out any hedges against currency risk arising from the translation of financial statements of subsidiaries that use functional currencies other than the Euro (translation risk).

RISKS RELATED TO FINANCIAL DEBT

Description of risk

Some of the loan agreements entered into by the Group require it or some of its companies to comply with conditions, commitments and constraints of a financial and legal nature (such as the occurrence of events of default, even potential ones, cross-default clauses and covenants), non-observance of which could lead to early repayment of the loans. In addition, future increases in interest rates could lead to higher payments depending on the level of indebtedness outstanding at the time. The Group might not be able to access sufficient credit to properly finance its activities (such as in the case of particularly poor financial performance) or it might be able to access it only under particularly onerous terms and conditions. As for the Offshore industry, the worsening financial situation resulting in restructuring by many industry players is causing banks to reduce their credit exposure to such players, with the risk of consequent repercussions for VARD's ability to access construction loans, needed not only for offshore projects but also for those in new markets.

Impact

In the event of having limited access to credit, including because of its financial performance, or in the event of a rise in interest rates or of early repayment of debt, 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 both the circumstances that could adversely affect its results of operations and financial condition and its current and future capital and financial structure in order to ensure access to adequate types of finance in terms of amount and conditions. In particular, to mitigate liquidity risk and maintain a sufficient level of financial flexibility, the Group diversifies its sources of funding in terms of duration, counterparty and technical form.

Corporate Governance

The "Report on Corporate Governance and Ownership Structure" (the "Report") required by art. 123-bis of Italy's Consolidated Law on Finance is a stand-alone document approved by the Board of Directors on 29 March 2017, and published in the "Governance" section of the Company's website at www.fincantieri.com.
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 - VI Edition (January 2017)" 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 presents 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 "Remuneration Report", prepared in compliance with the requirements of art. 123-ter of Italy's Consolidated Law on Finance and art. 84-quater of the Consob Issuer Regulations, and published in the "Governance" section of the Company's website.

Other information

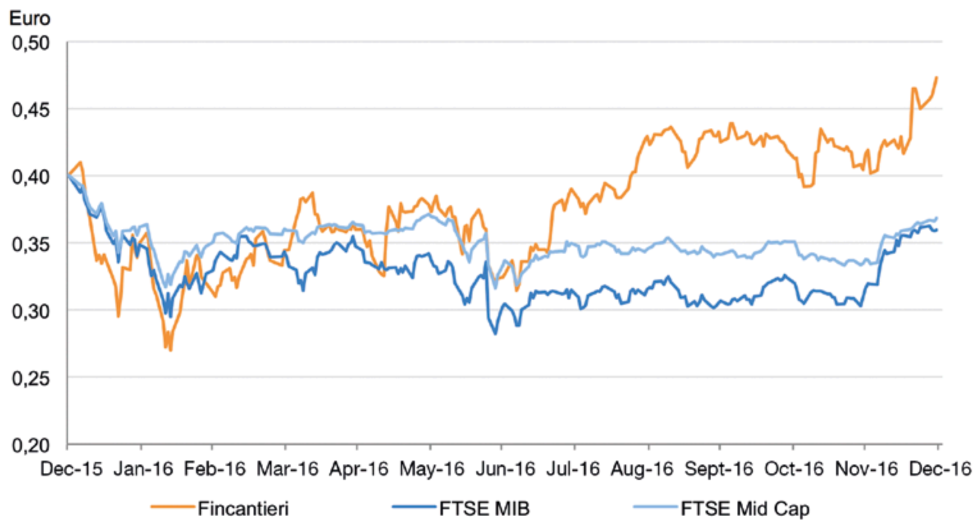
STOCK PERFORMANCE

The stock gained 18.1% over 2016, going from a price of euro 0.40 on 30 December 2015 to euro 0.47 on 30 December 2016. The FTSE MIB, the index comprising Italy's 40 largest stocks, lost 10.2% over the same period, while the FTSE Mid Cap, of which Fincantieri is part, lost 8.0%.
During the first few months of the year, the Fincantieri stock continued the downward trend that had commenced in October 2015. The Fincantieri stock price reached a low of euro 0.27 on 11 February 2016, after which it benefited not only from the publication in March 2016 of the Group's Business Plan for 2016-2020, but also from the Group's positive first-quarter, six-month and nine-month results, reflecting a robust recovery in its financial and economic performance. The Fincantieri stock has continued to enjoy a positive trend in the first few months of 2017.
The stock reported an average price for the year of euro 0.38 per share, closing the year with a peak value of euro 0.47 on 30 December 2016 corresponding to a market capitalization of about euro 800 million.
In terms of stock liquidity, a total of 372 million shares were traded during the year, with an average daily trading volume of around 1.4 million shares.
At 31 December 2016, Fincantieri's share capital of euro 862,980,725.70 was held as follows: 71.6% by Fintecna S.p.A. and 28.4% by the general market.

Key figures		31.12.2016	31.12.2015
Share capital	Euro	862,980,725,70	862,980,725,70
Shares outstanding	Number	1,692,119,070	1,692,119,070
Market capitalization (*)	Euro/million	800	677

Performance		31.12.2016	31.12.2015
Price at year end	Euro	0.47	0.40
Year high	Euro	0.47	0.85
Year low	Euro	0.27	0.35
Average price	Euro	0.38	0.68

(*) Number of shares outstanding multiplied by reference share price at period end



OTHER SIGNIFICANT EVENTS IN THE PERIOD

On 19 May 2016, following the approval of the financial statements of Fincantieri for the year ended 31 December 2015, the ordinary Shareholders' Meeting appointed the new Board of Directors which will remain in office until the date of the Shareholders' Meeting called to approve the 2018 financial statements.

On 26 May 2016, the Fincantieri Board of Directors confirmed Giuseppe Bono as the Chief Executive Officer of the Company.

On 17 June 2016, during the 20th International Economic Forum in St. Petersburg, Fincantieri and Rosneft signed a Heads of Agreement for the formation of a joint venture focused on design and engineering of a new type of vessel to be built at the Zvezda shipbuilding cluster.

On 24 June 2016, Fincantieri and the FIM, FIOM, UILM, UGL and FAILMS trade unions signed the new Fincantieri supplementary labor agreement at the national headquarters of Confindustria (the Italian employers' federation). The agreement, approved by the trade unions and by the workers at the end of July 2016, applies from 1 July 2016 and will stay in force until 31 December 2019. It will apply to all employees of Fincantieri S.p.A. as well as those of Isotta Fraschini Motori S.p.A., Orizzonte Sistemi Navali S.p.A. and Cetena S.p.A.. The agreement, based on incentive tools, some of which in the form of welfare and linked to individual performance and overall Company results, represents a key step towards greater efficiency.

On 4 July 2016, Fincantieri signed a major agreement with China State Shipbuilding Corporation (CSSC), China's largest shipbuilding conglomerate, for the constitution of a joint venture aimed at developing and supporting the growth of the Chinese cruise industry. The agreement specifically provides that the joint venture will develop and sell cruise ships exclusively intended and specially customized for the Chinese and Asian market. These vessels will be built at one of CSSC's shipyards, the Shanghai Waigaogiao Shipbuilding Co (SWS) facility, on the basis of a technological platform licensed to the joint venture and to the SWS shipyard by Fincantieri, which will therefore perform the activities within its responsibility through the joint venture. The agreement envisages that Fincantieri will also provide specialized consultancy services and supply certain key components of the vessels to the joint venture and SWS.

On 5 August 2016, the subsidiary VARD announced it had increased its stake in Vard Promar, an indirect subsidiary in Brazil, from 50.5% to 95.15%, by means of a capital increase entirely subscribed through the conversion of shareholder loans; VARD and PSMR, the minority shareholder in Vard Promar, have a cross call and put option over the remaining share capital. This transaction has not altered the Fincantieri Group's scope of consolidation since Vard Promar was already fully consolidated.

On 1 September 2016, Fincantieri announced it had signed a contract with the Australian government to participate in the competitive evaluation process, conducted by the Department of Defense, for the delivery of 9 future frigates - to be built in Adelaide (Australia) - for the Royal Australian Navy (RAN) under the SEA 5000 program. To manage this process properly, Fincantieri incorporated a specific company late in December under the name of Fincantieri Australia, with offices in Sydney.

On 23 September 2016, Fincantieri and CSSC signed a non-binding agreement with Carnival Corporation and CIC Capital Corporation for the construction of the first new cruise ships to be built in China for the Chinese market.

On 26 September 2016, the Board of Directors of FINCANTIERI S.p.A. appointed as General Manager of the Company Mr. Alberto Maestrini, who had been Deputy General Manager since

February 2016 and Senior Executive Vice President of Fincantieri's Naval Vessels Business Unit since January 2004.
On 13 October 2016, VARD announced the acquisition of Storvik Aqua AS, a leading supplier of equipment to the aquaculture industry, for NOK 35 million.
On 10 November 2016, the Board of Directors of Fincantieri approved a proposed medium/long-term share-based incentive plan for top management, known as the Performance Share Plan 2016-2018, and voted to submit this plan for the approval of the Shareholders' Meeting that will be convened to approve the financial statements for the year ended 31 December 2016, pursuant to art. 114-bis, par. 1, of Italy's Consolidated Law on Finance. The Board of Directors also approved the Terms & Conditions of the Plan, whose validity is subject to the Plan's approval by the shareholders.
On 13 November 2016, the subsidiary Fincantieri Oil & Gas S.p.A. launched a voluntary general offer (the "Offer") in Singapore for all the ordinary shares of VARD Holdings Limited not already held directly or indirectly (equating to 44.37% of share capital). The Offer, intended to delist VARD from the Singapore Stock Exchange and financed from available financial resources, involved a price per share of SGD 0.24 offered to minority shareholders, for a maximum consideration, if fully accepted, of SGD 125,646,896 (approximately euro 82,000,000 at the exchange rate on 13 November 2016). On 15 December 2016, VARD published a circular to its shareholders, containing the opinion of VARD's independent financial advisor that the Offer was fair and reasonable, by virtue of which VARD's independent directors recommended that shareholders accept the Offer. From an accounting viewpoint, this transaction does not change the Fincantieri Group's scope of consolidation because the VARD Group is already under its control and consolidated on a line-by-line basis.
On 20 December 2016, Fincantieri announced that the contracts with Virgin Voyages, a member of the Virgin Group of companies and a new player in the cruise industry, to build three new cruise ships worth approximately euro 2 billion, had been finalized and are effective.

KEY EVENTS AFTER THE REPORTING PERIOD ENDED 31.12.2016

On 3 January 2017, Fincantieri received a letter from Samil PricewaterhouseCoopers, advisor to STX Europe, notifying it that it had been selected as preferred bidder in the sale of a 66.66% stake in STX France SA.
On 10 January 2017, VARD signed an order with Torghatten Nord, a new client, for the construction of two LNG-powered car and passenger ferries designed for environmentally friendly operations in the Norwegian fjords.
On 17 January 2017, VARD announced it had signed a letter of intent with an international cruise company for the construction of an expedition cruise vessel at its shipyards in Romania and Norway.
On 19 January 2017, Fincantieri signed a memorandum of agreement with Carnival Corporation & plc for the construction of two new cruise ships, with an overall value in excess of euro 1 billion, for Holland America Line and Princess Cruises.
On 26 January 2017, "Viking Sky", the third of six cruise ships Viking Ocean Cruises has ordered from Fincantieri, was delivered at the Fincantieri shipyard in Ancona.
On 14 February 2017, VARD signed a contract with Aker BioMarine for the construction of one krill fishing vessel for fishing operations in Antarctica.

On 16 February 2017, Fincantieri secured an order from Norwegian Cruise Line Holdings Ltd. for the construction of 4 new-generation cruise ships for the Norwegian Cruise Line brand, with an option for 2 more vessels. The value of each ship is approximately euro 800 million, with one delivery per year from 2022 to 2025, stretching to 2027 if the option is confirmed.

On 20 February 2017, Fincantieri and Ferretti Group announced they had signed a wide-scope cooperation agreement with the goal of developing commercial and industrial synergies between the two Italian companies, world leaders in their respective markets. The agreement relates to the security and defense sector and to the recreational yachting industry, areas in which the two groups have relevant and complementary capabilities and expertise, the sharing of which could open up many possibilities.

On 22 February 2017, Fincantieri, China State Shipbuilding Corporation (CSSC) and Carnival Corporation & plc signed a binding Memorandum of Agreement (MoA) for the construction of two cruise ships, with an option for four more, which will be the first vessels of this kind ever built in China for the Chinese market. The parties signed the MoA on behalf of the joint venture between Fincantieri and CSSC Cruise Technology Development Co., Ltd (CCTD), of the joint venture between Carnival Corporation and CSSC, and of the shipyard Shanghai Waigaoqiao Shipbuilding Co., Ltd.

On 27 February 2017, Marco Minniti, Italy's Minister of the Interior, and Giampiero Massolo, Fincantieri Chairman, signed a National Legality Framework Agreement at the Ministry's headquarters in Rome. Also in attendance was Fincantieri CEO Giuseppe Bono. The agreement, aimed at preventing attempts at infiltration by organized crime, is based on the experience of several such agreements signed by the Group at a local level, and is a major milestone that will standardize anti-mafia checking procedures nationally for contractors and subcontractors at all Fincantieri Group locations.

On 28 February 2017, Vard Holdings Limited announced its financial results for the fourth quarter 2016 and for the year ended 31 December 2016.

On 3 March 2017, the Brazilian subsidiary Vard Promar S.A. received an assessment for about euro 3 million for a municipal tax on services, applied to the value of two vessels delivered. The subsidiary has not recognized any provisions based on the opinion of its legal advisors who consider the claim to be based on erroneous factual and legal suppositions.

On 8 March 2017, Vard Singapore Pte. Ltd. delivered the Offshore Subsea Construction Vessel "Far Superior" to Farstad Shipping ASA. The delivery, originally scheduled for 20 November 2016, had been postponed in agreement with the owner engaged in a process of financial restructuring.

On 24 March 2017, Fincantieri announced that the voluntary general offer for shares in VARD (the "Offer") had closed with acceptances for total of 215,946,242 shares. Following the Offer and the purchase of VARD shares on the Singapore Stock Exchange during the Offer period, as at 24 March 2017, the total number of VARD shares owned directly or indirectly, controlled or agreed to be acquired by Fincantieri Oil&Gas, amounted to an aggregate number of 878,523,910 VARD shares, representing approximately 74.45% of VARD's share capital. The consideration for the Offer Shares tendered in acceptance of the Offer is SGD 51,827,098.08 (approx. euro 34,281,715.89 at the exchange rate on 24 March 2017) while that paid for the VARD shares acquired on the Singapore Stock Exchange (excluding brokerage fees, clearing fees and applicable tax) is SGD 1,465,536.00 (approx. euro 969,398.07 at the exchange rate on 24 March 2017). VARD was consolidated by the Fincantieri Group on a line-by-line basis even before the Offer and so the outcome of the Offer has no impact on the quantitative targets previously published by Fincantieri.

BUSINESS OUTLOOK

During the presentation of its 2015 final results, Fincantieri also presented its Business Plan for 2016-2020 through which, in keeping with the strategy of growth and diversification pursued to date, it aims to consolidate the Group's global leadership at the high value-added end of the shipbuilding market.

Given the results achieved in 2016 and the progress in implementing the strategic initiatives planned and announced to the market at the time of presenting the Business Plan 2016-2020, the Group confirms the lines of action set out in this Plan and its short and medium-term guidance at a consolidated level: in 2018, revenue growth of 16-23% on 2016, an EBITDA margin of approximately 6-7% and net debt of around euro 0.4-0.6 billion, linked to the net working capital cycle, and in 2020, revenue growth of 16-21% on 2018, an EBITDA margin of approximately 7-8% and net debt of around euro 0.1-0.3 billion.

The results for 2017 are expected to be line with the financial and economic projections contained in the Plan, bearing in mind the positive performance achieved in 2016. In line with these expectations, the Group confirms dividend distribution on 2017 net profit.

As for the Shipbuilding segment, 2017 is expected to see further growth in volumes and improved margins thanks to the start of work on new cruise sister-ships, based on existing prototypes and ordered in the post-crisis period at higher prices, and to increased volumes in the naval business following full start-up of the Italian Navy's fleet renewal program and of design and planning activities for the Qatari Ministry of Defense contract. The Group also plans to carry on actions to boost profitability, particularly by developing yet more important production synergies through using the VARD Romanian shipyard in Tulcea to support the Italian shipbuilding network with the production of sections for large cruise ships. In response to this heavy prospective workload, Fincantieri will also continue to optimize its production and design systems in Italy.

As for the Offshore segment, VARD expects that 2017 will see not only steady growth in volumes, particularly in the expedition cruise segment, after diversifying its business in response to the crisis in the core Oil&Gas business, but also continued actions to reduce its cost base and optimize its production network, with the aim of becoming more competitive in readiness to seize the opportunities arising once the market recovers. The current order book nonetheless continues to have a significant exposure to vessels under construction for the Oil&Gas industry.

The Equipment, Systems and Services segment will see work progress on the major backlog acquired for the Italian Navy's fleet renewal, and will continue its strategy of regaining control over the value chain by taking back insourcing high value-added activities and outsourcing lower margin activities, with the aim of strengthening its control over the product and further developing the after-sale business.

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 terms and 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, is presented in Note 32 of the Notes to the Consolidated Financial Statements at 31 December 2016.

PURCHASE OF OWN SHARES

No purchases of the Parent Company's own shares were made on the market in 2016.

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 2016, 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 2016.

Alternative performance measures

Fincantieri's management reviews the performance of the Group and its business segments also using certain measures not envisaged by IFRS. In particular, EBITDA is used as the main earnings indicator, as it enables the Group's underlying profitability to be assessed without the impact of volatility associated with non-recurring items or extraordinary items outside the ordinary course of business.
As required by Consob Communication no. 0092543 of 3 December 2015 which implements the ESMA Guidelines on Alternative Performance Measures (document no. ESMA/2015/1415), 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, amortization and impairment, as reported in the financial statements, adjusted to exclude the following items:
  - company costs for the Wage Guarantee Fund;

- costs relating to reorganization plans and non-recurring other personnel costs;
- 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 recurring depreciation, amortization and impairment (this excludes impairment of goodwill, intangible assets and property, plant and equipment recognized as a result of impairment tests).
- Profit/(loss) before extraordinary and non-recurring income and expenses: this is equal to profit (loss) for the year before adjustments for non-recurring items or those outside the ordinary course of business, 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 and liabilities (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 client advances, 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 2016, and (ii) the ratio between EBIT and Net invested capital at 31 December 2015.
- ROE: the Group calculates ROE (Return on equity) as (i) the ratio between Profit/(loss) 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 2016, and (ii) the ratio between Profit/(loss) for the period and total Equity at 31 December 2015.
- 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: these refer to increases in the Provisions for risks and charges, and impairment of Trade receivables and Other non-current and current assets.

Reconciliation of parent company profit/(loss) 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/(loss) for the year of the Parent Company FINCANTIERI S.p.A. with the consolidated figures (Group and non-controlling interests).

	31.12.2016		31.12.2015	
(Euro/000)	**Equity**	**Profit/(loss) for the year**	**Equity**	**Profit/(loss) for the year**
Parent Company Financial Statements	**1,179,108**	**18,673**	**1,183,108**	**(112,732)**
Share of equity and net result of consolidated subsidiaries, net of carrying amount of the related investments	(261,894)	11,823	(185,661)	(48,975)
Consolidation adjustments for difference between purchase price and corresponding book value of equity	227,201	(2,980)	209,515	(10,741)
Reversal of dividends distributed by consolidated subsidiaries to the Parent Company		(1,500)		(2,000)
Joint ventures and associates accounted for using the equity method	7,939	(134)	7,992	(224)
Elimination of intercompany profits and losses and other consolidation adjustments	(3,149)	(391)	(2,758)	65
Exchange translation differences from line-by-line consolidation of foreign subsidiaries	(63,090)		(74,177)	
Equity and profit for the year attributable to owners of the parent	**1,086,115**	**25,491**	**1,138,019**	**(174,607)**
Non-controlling interests	155,241	(11,740)	128,079	(114,147)
Total consolidated equity and profit/(loss) for the year	**1,241,356**	**13,751**	**1,266,098**	**(288,754)**

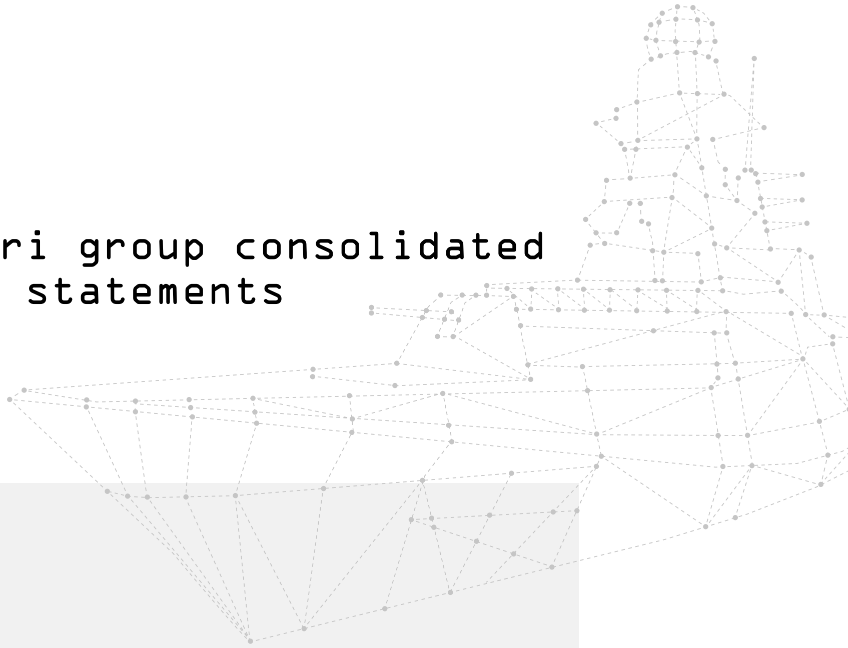
Reconciliation of the reclassified financial statements used in the report on operations with the mandatory ifrs statements

CONSOLIDATED INCOME STATEMENT

	31.12.2016		31.12.2015	
(Euro/million)	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A – Revenue		**4,429**		**4,183**
Operating revenue	4,347		4,125	
Other revenue and income	87		58	
Recl. to I – Extraordinary and non-recurring income and expenses	(5)			
B - Materials, services and other costs		**(3,291)**		**(3,337)**
Materials, services and other costs	(3,296)		(3,345)	
Recl. to I – Extraordinary and non-recurring income and expenses	5		8	
C - Personnel costs		**(846)**		**(865)**
Personnel costs	(858)		(878)	
Recl. to I – Extraordinary and non-recurring income and expenses	12		13	
D – Provisions		**(25)**		**(7)**
Provisions	(72)		(36)	
Recl. to I – Extraordinary and non-recurring income and expenses	47		29	
E – Depreciation, amortization and impairment		**(110)**		**(111)**
Depreciation, amortization and impairment	(110)		(111)	
F – Finance income and (costs)		**(66)**		**(135)**
Finance income and costs	(66)		(135)	
Recl. to I – Extraordinary and non-recurring income and expenses				
G - Income/(expense) from investments		**(10)**		**(3)**
Income/(expense) from investments	(10)		(3)	
H - Income taxes		**(21)**		**23**
Income taxes	(8)		36	
Recl. to L – Tax effect of extraordinary and non-recurring income and expenses	(13)		(13)	
I - Extraordinary and non-recurring income and expenses		**(59)**		**(50)**
Recl. from A - Revenue and income	5			
Recl. from B - Materials, services and other costs	(5)		(8)	
Recl. from C - Personnel costs	(12)		(13)	
Recl. from D - Provisions	(47)		(29)	
Recl. from F – Finance income and (costs)				
L- Tax effect of extraordinary and non-recurring income and expenses		**13**		**13**
Recl. from H – Income taxes	13		13	
Profit/(loss) for the year		**14**		**(289)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.12.2016		31.12.2015	
	(Euro/million)	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A)	**Intangible assets**		**595**		**518**
	Intangible assets	595		518	
B)	**Property, plant and equipment**		**1,064**		**974**
	Property, plant and equipment	1,064		974	
C)	**Investments**		**58**		**62**
	Investments	58		62	
D)	**Other non-current assets and liabilities**		**(69)**		**(44)**
	Derivative assets	4		2	
	Other non-current assets	16		11	
	Other liabilities	(48)		(47)	
	Derivative liabilities	(41)		(10)	
E)	**Employee benefits**		**(58)**		**(57)**
	Employee benefits	(58)		(57)	
F)	**Inventories and advances**		**590**		**405**
	Inventories and advances	590		405	
G)	**Construction contracts and client advances**		**604**		**1,876**
	Construction contracts - assets	1,374		2,554	
	Construction contracts – liabilities and client advances	(770)		(678)	
H)	***Construction loans***		**(678)**		**(1,103)**
	Construction loans	(678)		(1,103)	
I)	**Trade receivables**		**1,123**		**560**
	Trade receivables and other current assets	1,383		888	
	Recl. to N) Other assets	(260)		(328)	
L)	**Trade payables**		**(1,307)**		**(1,179)**
	Trade payables and other current liabilities	(1,496)		(1,366)	
	Recl. to N) Other liabilities	189		187	
M)	**Provisions for risks and charges**		**(126)**		**(112)**
	Provisions for risks and charges	(126)		(112)	
N)	**Other current assets and liabilities**		**59**		**(196)**
	Deferred tax assets	154		151	
	Income tax assets	23		35	
	Derivative assets	8		37	
	Recl. from I) Other current assets	260		328	
	Deferred tax liabilities	(85)		(82)	
	Income tax liabilities	(11)		(3)	
	Derivative liabilities and option fair value	(101)		(475)	
	Recl. from L) Other current liabilities	(189)		(187)	
O)	**Net assets/(liabilities) held for sale**	**1**	**1**		
NET INVESTED CAPITAL			**1,856**		**1.704**
P)	**Equity**		**1,241**		**1,266**
Q)	**Net financial position**		**615**		**438**
SOURCES OF FUNDING			**1,856**		**1,704**



fincantieri group consolidated financial statements

Consolidated statement of financial position

(Euro/000)	Note	31.12.2016	*of which related parties Note 32*	31.12.2015	*of which related parties Note 32*
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	6	594,622		517,977	
Property, plant and equipment	7	1,063,946		973,905	
Investments accounted for using the equity method	8	54,973		57,076	
Other investments	8	3,179		5,146	
Financial assets	9	138,270	*6,718*	141,586	*9,061*
Other assets	10	16,155	*731*	10,728	*704*
Deferred tax assets	11	154,373		150,974	
Total non-current assets		**2,025,518**		**1,857,392**	
CURRENT ASSETS					
Inventories and advances	12	590,310	*2,390*	404,908	*3,319*
Construction contracts – assets	13	1,379,814		2,554,122	
Trade receivables and other current assets	14	1,383,064	*140,913*	888,033	*145,401*
Income tax assets	15	23,068		34,866	
Financial assets	16	49,047	*550*	97,918	*752*
Cash and cash equivalents	17	219,512		259,507	
Total current assets		**3,644,815**		**4,239,354**	
Assets classified as held for sale	35	**6,314**			
TOTAL ASSETS		**5,676,647**		**6,096,746**	
EQUITY AND LIABILITIES					
EQUITY	18				
Equity attributable to owners of the parent					
Share capital		862,981		862,981	
Reserves and retained earnings		223,134		275,038	
Total Equity attributable to owners of the parent		**1,086,115**		**1,138,019**	
Non-controlling interests		155,241		128,079	
Total Equity		**1,241,356**		**1,266,098**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	19	109,805		98,765	
Employee benefits	20	57,777		56,574	
Financial liabilities	21	590,604	*49,769*	637,698	*30,164*
Other liabilities	22	48,233		46,544	
Deferred tax liabilities	11	85,072		81,546	
Total non-current liabilities		**891,491**		**921,127**	
CURRENT LIABILITIES					
Provisions for risks and charges	19	16,169		13,200	
Construction contracts – liabilities	23	776,114		678,627	
Trade payables and other current liabilities	24	1,496,076	*20,055*	1,366,765	*17,052*
Income tax liabilities	25	10,586		3,068	
Financial liabilities	26	1,240,044	*57,599*	1,847,861	*35,902*
Total current liabilities		**3,538,989**		**3,909,521**	
Liabilities directly associated with assets classified as held for sale	35	**4,811**			
TOTAL EQUITY AND LIABILITIES		**5,676,647**		**6,096,746**	

Consolidated statement of comprehensive income

(Euro/000)	Note	2016	*of which related parties Note 32*	2015	*of which related parties Note 32*
Operating revenue	27	4,346,755	*299,326*	4,125,074	*406,684*
Other revenue and income	27	87,367	*1,726*	57,873	*2,235*
Materials, services and other costs *of which non-recurring*	28 *32*	(3,296,409) *(389)*	*(15,149)*	(3,344,246) *(4,973)*	*(24,321)*
Personnel costs *of which non-recurring*	28 *32*	(857,842) *(10,069)*		(878,375) *(10,219)*	
Depreciation, amortization and impairment	28	(109,448)		(111,660)	
Provisions *of which non-recurring*	28 *32*	(72,136) *(1,452)*		(35,493) *(1,769)*	
Finance income	29	48,782	*308*	53,632	*287*
Finance costs	29	(115,227)	*(1,583)*	(188,913)	*(1,647)*
Income/(expense) from investments	30	(2,714)		(2,510)	
Share of profit/(loss) of investments accounted for using the equity method	30	(6,819)		(96)	
Income taxes	31	(8,558)		35,960	
PROFIT/(LOSS) FOR THE YEAR (A)		**13,751**		**(288,754)**	
Attributable to owners of the parent		*25,491*		*(174,607)*	
Attributable to non-controlling interests		*(11,740)*		*(114,147)*	
Basic earnings/(loss) per share (Euro)	32	0.01506		(0.10319)	
Diluted earnings/(loss) per share (Euro)	32	0.01506		(0.10319)	

Other comprehensive income/(losses), net of tax (OCI)					
Gains/(losses) from remeasurement of employee defined benefit plans	18-20	*(1,618)*		*1,983*	
Total gains/(losses) that will not be reclassified to profit or loss, net of tax ***attributable to non-controlling interests***	18	**(1,618)** ***(3)***		**1,983** ***6***	
Effective portion of gains/(losses) on cash flow hedging instruments	4-18	(25,170)		(1,692)	
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method		(11,006)		(345)	
Gains/(losses) arising from fair value measurement of available-for-sale securities and bonds					
Exchange gains/(losses) arising on translation of foreign subsidiaries' financial statements	18	34		23,086	
Total gains/(losses) that may be subsequently reclassified to profit or loss, net of tax ***attributable to non-controlling interests***	18	**(36,142)** ***(25,517)***		**21,049** ***20,423***	
Total other comprehensive income/(losses), net of tax (B) ***attributable to non-controlling interests***	18	**(37,760)** ***(25,520)***		**23,032** ***20,429***	
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A) + (B)		**(24,009)**		**(265,722)**	
Attributable to owners of the parent		*13,251*		*(172,004)*	
Attributable to non-controlling interests		*(37,260)*		*(93,718)*	

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**
1.1.2015	18	**862,981**	**447,036**	**1,310,017**	**219,875**	**1,529,892**
Business combinations					1,978	1,978
Share capital increase						
Share capital increase – non-controlling interests						
Acquisition of non-controlling interests						
Dividend distribution					(48)	(48)
Other changes/roundings			6	6	(8)	(2)
Total transactions with owners			***6***	***6***	***1,922***	***1,928***
Profit/(Loss) for the year			(174,607)	(174,607)	(114,147)	(288,754)
OCI for the year			2,603	2,603	20,429	23,032
Total comprehensive income for the year			***(172,004)***	***(172,004)***	***(93,718)***	***(265,722)***
31.12.2015	18	**862,981**	**275,038**	**1,138,019**	**128,079**	**1,266,098**
Business combinations						
Share capital increase						
Share capital increase – non-controlling interests					2,317	2,317
Acquisition of non-controlling interests			(65,155)	(65,155)	62,105	(3,050)
Dividend distribution						
Other changes/roundings						
Total transactions with owners		***0***	***(65,155)***	**(65,155)**	***64,422***	**(733)**
Profit/(Loss) for the year			25,491	25,491	(11,740)	13,751
OCI for the year			(12,240)	(12,240)	(25,520)	(37,760)
Total comprehensive income for the year		***0***	***13,251***	***13,251***	***(37,260)***	***(24,009)***
31.12.2016	18	**862,981**	**223,134**	**1,086,115**	**155,241**	**1,241,356**

Consolidated statement of cash flows

(Euro/000)	Note	31.12.2016	31.12.2015
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	**574,958**	**(568,308)**
- of which related parties		*8,392*	*(40,547)*
Investments in:			
- intangible assets		(79,895)	(39,133)
- property, plant and equipment		(143,784)	(121,866)
- equity investments		(12,814)	(6,501)
- cash out for business combinations, net of cash acquired		(3,410)	(4,978)
Disposals of:			
- intangible assets		357	133
- property, plant and equipment		2,404	368
- equity investments		13	
CASH FLOWS FROM INVESTING ACTIVITIES		**(237,129)**	**(171,977)**
Change in non-current loans:			
- disbursements		48,401	182,204
- repayments		(66,555)	(163,373)
Change in non-current financial receivables:			
- disbursements		(411)	(19,568)
- repayments		221	2,249
Change in current bank loans and credit facilities			
- disbursements		2,344,464	896,271
- repayments		(2,739,085)	(469,699)
Change in other current financial liabilities/receivables		23,794	27,213
Change in receivables for held-for-trading financial instruments		796	(796)
Change in payables for held-for-trading financial instruments		(982)	(6,167)
Net capital contributions by non-controlling interests		2,317	
CASH FLOWS FROM FINANCING ACTIVITIES		**(387,040)**	**448,334**
- of which related parties		*43,847*	*45,409*
NET CASH FLOWS FOR THE YEAR		**(49,211)**	**(291,951)**

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**259,507**	**552,285**
Effect of exchange rate changes on cash and cash equivalents	9,216	(827)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**219,512**	**259,507**

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" or the "Parent Company" and, together with its subsidiaries, the "Group" or the "Fincantieri Group") 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 2016, 71.6% 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 distributed 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

Fincantieri is one of the world's largest shipbuilding groups and number one by diversification and innovation. It is leader in cruise ship design and construction and a reference player in all high-tech shipbuilding industry sectors, from naval to offshore vessels, from high-complexity special vessels and ferries to Mega yachts, as well as in ship repairs and conversions, systems and equipment production and after-sales services.
In particular, the Group operates through the following three segments:

- Shipbuilding: encompassing the businesses of cruise ships, naval vessels and other products and services (ferries and Mega yachts);
- Offshore: encompassing the design and construction of high-end offshore support vessels, expedition cruise vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as 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, integrated systems and ship accommodation, and the provision of repair and conversion services, logistical support and after-sales services.

After an operational reorganization in November 2016, the businesses of repairs and conversions, ship accommodation and integrated systems, previously included in the Shipbuilding operating segment, are now part of the Equipment, Systems and Services operating segment. This reorganization also reflects the Group's strategy of developing the after-sales business in the areas of accommodation and integrated systems.

BASIS OF PREPARATION

In 2007 Fincantieri took up the option permitted by Italian Legislative Decree 38 dated 28 February 2005, governing the exercise of the options contained in article 5 of European Regulation no.1606/2002 concerning international accounting standards.

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 2016 were approved by the Company's Board of Directors on 29 March 2017.

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.

Accounting standards, amendments and interpretations applicable to financial years ended 31 december 2016

A brief description of the amendments, improvements and interpretations applicable to financial statements as at and for the year ended 31 December 2016 is provided below. The application of such standards/interpretations, where applicable, has not had a material impact on the present Consolidated Financial Statements. The list excludes those standards and interpretations concerning matters not applicable to the Group.

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 (effective for annual accounting periods beginning on or after 1 February 2015), while on 25 September 2014, it issued Annual Improvements to IFRSs: 2012-2014 Cycle (effective for annual accounting periods beginning on or 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.

On 21 November 2013, the IASB issued the document Defined Benefit Plans: Employee Contributions (Amendments to *IAS 19 Employee Benefits*). The amendments to IAS 19 allow contributions from employees or third parties, that are independent of the number of years of service, to be treated as a reduction in current service cost rather than attributing them to the period over which service is rendered. This treatment is optional and not mandatory.

On 6 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.

On 12 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.

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 subsidiaries, associates and joint ventures even in their separate financial statements.

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.

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.

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

On 28 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 2018 and will supersede IAS 18, concerning contracts for the sale of goods and services, and IAS 11, concerning construction contracts. Earlier adoption is permitted from 1 January 2016 but Fincantieri has not taken up this option. Following a preliminary review of its existing major sales contracts, the Group does not expect the application of this new accounting standard to have a material impact on revenue recognition.

On 24 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 for annual accounting periods beginning on or after 1 January 2018. Earlier adoption is permitted from 1 January 2016 but Fincantieri has not taken up this option. The Group is evaluating the method of implementing this new standard and its impact on the consolidated financial statements. Following a preliminary review with particular reference to classification and hedge accounting, no material impacts are expected on the Group's financial statements.

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 2016. The list excludes those standards and interpretations concerning matters not applicable to the Group.

On 13 January 2016, the IASB issued *IFRS 16 - Leases*, which supersedes IAS 17 and has a significant impact on the financial statements of lessees: in fact, the new standard eliminates the distinction between operating and finance leases and introduces a single model for all leases, involving the recognition of an asset for the right of use and a liability for the obligation to make lease payments. The new standard is effective 1 January 2019, but earlier application is permitted for companies that also apply *IFRS 15 - Revenue from Contracts with Customers*.

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. The process of endorsing these amendments has been suspended and their effective date has been postponed to a future date to be determined.

On 19 January 2016, the IASB issued amendments to *IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses*. These amendments intend to clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments will apply as from 1 January 2017. Earlier application is permitted.

On 29 January 2016, the IASB published amendments to *IAS 7* under its *Disclosure Initiative*. The intention is to improve the presentation and disclosure of financial information in financial reports and to address a number of issues raised by users of financial statements. The amendments will apply as from 1 January 2017.

On 12 April 2016, the IASB issued amendments to *IFRS 15 - Revenue from Contracts with Customers*, to provide some clarifications on how to identify performance obligations, on how to account for revenue from granting a license over intellectual property and how to determine whether a company is a principal or an agent. The amendments will apply as from 1 January 2018.

On 20 June 2016, the IASB issued amendments to *IFRS 2 - Classification and Measurement of Share-based Payment Transactions*. These amendments address a number of issues concerning the accounting treatment for share-based payments. In particular, significant improvements have been made to (i) accounting for cash-settled share-based payments, (ii) their classification and (iii) accounting for a modification of the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments will apply as from 1 January 2018.

On 8 December 2016, the IASB issued *IFRIC 22 - Foreign Currency Transactions and Advance Consideration*, which defines what exchange rate to use when accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. This interpretation is effective 1 January 2018.

On 8 December 2016, the IASB issued amendments to *IAS 40 - Transfers of Investment Property*, in order to clarify the requirements concerning transfers to, or from, investment property. More specifically, it has been clarified whether a property under construction or development that was

previously classified as inventory could be transferred to investment property when there was an evident change in use. These amendments are effective 1 January 2018.
On 8 December 2016, the IASB issued several amendments to standards to clarify a number of requirements in *IFRS 1, IFRS 12* and *IAS 28*, effective 1 January 2018.

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. With reference to the Statement of Comprehensive Income, the composition of non-recurring income and expenses has been altered for the clarifications provided in Consob Communication no. 0092543 of 3 December 2015; as a result, some items, although considered outside the ordinary course of business, have been excluded from non-recurring items and the related comparative figures have been restated accordingly.

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.
The scope of consolidation includes the following companies that were incorporated during 2016:

- Fincantieri Australia, incorporated in Australia by Fincantieri. The new company, 100% owned by Fincantieri, will manage the Group's participation in the selection process for the award of defense contracts by the Royal Australian Navy;
- Vard Electro Canada Inc. incorporated in Canada by Vard Electro AS. The new company, 100% owned by Vard Electro AS, will install and integrate electrical systems for the VARD Group;
- CDP Technologies AS incorporated in Norway by Seaonics AS, which owns 100% of the shares. The new company will focus on research and development of new technology;

- CSSC - Fincantieri Cruise Industry Development Limited, has been incorporated by the Parent Company together with China State Shipbuilding Corporation as a joint venture based in Hong Kong. The Group owns 40% of the joint venture's share capital and accounts for this investment using the equity method.

The following other changes have also taken place:

- on 20 April 2016, Aja Ship Design AS, 60% owned by Vard Braila SA, was liquidated;
- on 30 June 2016, FINCANTIERI S.p.A. acquired 144 shares in Fincantieri USA Inc., equating to 13.98% of its share capital, from SIMEST S.p.A., thus becoming sole owner of this company. This transaction was envisaged in the agreement made with SIMEST S.p.A. on 19 December 2008 in connection with the acquisition of the US shipyards;
- on 5 August 2016, the Group increased its interest, through Vard Group AS, in the subsidiary Vard Promar SA from 50.5% to 95.15%; VARD and the minority shareholder have a cross call and put option over the remaining 4.85% interest;
- on 5 September 2016, the subsidiary Seaonics AS was involved in a corporate reorganization. In detail:
  - Vard Group AS increased its interest in the subsidiary Seaonics AS from 51% to 56.4%;
  - ICD Polska sp. z.o.o., based in Poland, was merged into Seaonics Polska sp. z.o.o., a 100% subsidiary;
  - Faster Imaging AS, based in Norway, was merged into ICD Software AS, a 100% direct subsidiary;
  - CDP Industries Estonia OÜ (formerly ICD Industries Estonia OÜ) passed under 100% ownership of CDP Technologies AS;
- on 13 October 2016, the Group acquired, through the subsidiary Vard Group AS, 94.64% of the share capital in Storvik Aqua AS, based in Norway. This company in turn owns 100% of the share capital in Storvik Aqua Ltd, based in Britain, and 95% of the share capital in Storvik Aqua SA, based in Chile. The acquisition, whose consideration was euro 4 million, has given rise to around euro 1 million in goodwill;
- on 29 October 2016, Aakre Eigendom AS and Vard Brevik Holding AS were merged into Vard Group AS. At the same time, the shares held by Vard Brevik Holding AS in Vard Ship Repair Braila SA were transferred to Vard Braila SA;
- on 13 November 2016, the subsidiary Fincantieri Oil & Gas S.p.A. launched a voluntary general offer in Singapore for Vard Holdings Limited to obtain complete control of this company. The offer price is SGD 0.24 per share, for a maximum consideration of euro 82 million (at the exchange rate on the offer launch date). The offer closing date was extended to 24 March 2017. On that date, the stake of the subsidiary Fincantieri Oil & Gas S.p.A. in Vard Holdings Limited had reached 74.45%.

The Consolidated Financial Statements at 31 December 2016 have not been affected by any significant transactions or unusual events except as reported in the Notes.

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:

	2016		2015	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.1069	1.0541	1.1095	1.0887
UAE Dirham (AED)	4.0634	3.8696	4.0733	3.9966
Brazilian Real (BRL)	3.8561	3.4305	3.7004	4.3117
Norwegian Krone (NOK)	9.2906	9.0863	8.9496	9.603
Indian Rupee (INR)	74.3717	71.5935	71.1956	72.0215
Romanian Leu (RON)	4.4904	4.539	4.4454	4.524
Chinese Yuan (CNY)	7.3522	7.3202	6.9733	7.0608
Swedish Krona (SEK)	9.4689	9.5525	9.3535	9.1895

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

Since 2013, Fincantieri S.p.A., together with its subsidiaries Isotta Fraschini Motori S.p.A. and Fincantieri Oil & Gas S.p.A., have partaken in the tax regime governed by art. 117 et seq. of Presidential Decree 917/1986, namely National Tax Consolidation, headed up by Cassa Depositi e Prestiti S.p.A.. The National Tax Consolidation agreement was renewed in 2016 for another three years until financial year 2018.

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 Client relationships and order backlog

Client relationships and order backlog are recognized only if acquired in a business combination. Client 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. Value in use is determined, net of tax, using a post-tax discount rate, since this method produces broadly similar values to those obtained by discounting pre-tax cash flows at a pre-tax discount rate. 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.

A group of contracts, whether with a single or several clients, is treated as a single construction contract when:
i) the group of contracts is negotiated as a single package;
ii) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
iii) the contracts are performed concurrently or in a continuous sequence.
Furthermore, if the original contract i) provides for the construction of an additional asset at the option of the client or ii) may be amended to include the construction of an additional asset, whose price is closely interrelated to the original contract, the construction of the additional asset is treated as a combined part of the original contract.
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 at the gross margin level, 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. If the difference arising under this calculation is positive, it is classified as an asset under "Construction contracts – assets" and if 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, inclusive of loans and borrowings, trade payables, other payables and other liabilities, other than derivatives, are measured at amortized cost, less repayments of principal already made.
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.

7.1 Reverse factoring

In order to ensure easier access to credit for its suppliers and given the importance of the supply chain to the shipbuilding industry, the Parent Company has entered into factoring agreements, typically in the technical form of reverse factoring. Under these arrangements, the supplier has the discretionary option to sell receivables due from the Parent Company to a finance company and receive the amount owed before the due date; in addition, the supplier also has the option to agree with the Parent Company to extend the due date beyond that shown in the invoice. Such extensions can be either interest-bearing or non-interest bearing. Since the primary obligation is still to the supplier, the related liability retains its nature and so continues to be classified in trade payables.

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 (primarily: market exchange rates at the reporting date, expected rate differentials between the currencies concerned and volatility of the relevant markets, interest rates and commodity prices);
- Level 3: financial assets and financial liabilities whose fair value is determined using inputs not based on observable market data.

Financial assets are derecognized when the rights to receive cash flows from the financial asset expire and the company has transferred substantially all the risks and rewards of ownership and the related control of the financial asset.

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 those 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 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 accompanying 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.

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 shipbuilding contracts, by the Italian government both for grants receivable and for supplies to the country's military services, and by the US Navy and US Coast Guard for shipbuilding contracts.
With specific reference to trade receivables due from private shipowners, the Fincantieri Group constantly monitors customer creditworthiness, credit exposure and promptness of payments. It should be underlined that, vessel delivery in the cruise business is subject to receipt of final payment. The increase in trade receivables compared with the previous year is due to invoicing of the final payment for three cruise ships due to be delivered in the first three months of 2017.
The following tables provide a breakdown by risk class of the exposure as at 31 December 2016 and 2015 based on the nominal value of receivables before any provision for impairment of receivables:

	31.12.2016					
		Past due				
(Euro/000)	Not yet due	0 – 1 month	1 – 4 months	4 – 12 months	Beyond 1 year	**Total**
Trade receivables:						
- from public entities	17,197	7,647	405	3,655	14,525	43,429
- indirectly from public entities (*)	31,776			2,987	4	34,767
- from private shipowners	807,982	45,237	53,864	23,365	52,150	982,598
TOTAL TRADE RECEIVABLES	**856,955**	**52,884**	**54,269**	**30,007**	**66,679**	**1,060,794**
Government grants financed by BIIS	27,177					27,177
Other government grants	13,010					13,010
Receivables from associates	7,500					7,500
Receivables from joint ventures	89,287		442	141		89,870
Receivables from controlling companies	34,034					34,034
Receivables from other companies						
Other receivables	107,102				45,971	153,073
Other financial receivables	139,607					139,607
GROSS TOTAL	**1,274,672**	**52,884**	**54,711**	**30,148**	**112,650**	**1,525,065**
Provision for impairment of receivables						(51,767)
NET TOTAL						**1,473,298**
Advances, prepayments and accrued income						109,029
TOTAL						**1,582,327**

	31.12.2015					
			Past due			
(Euro/000)	Not yet due	0 – 1 month	Not yet due	0 – 1 month	Not yet due	0 – 1 month
Trade receivables:						
- from public entities	26,547	10,961	1,264	1,894	16,176	56,842
- indirectly from public entities (*)	38,100		6,168		7,183	51,451
- from private shipowners	255,434	35,049	14,119	20,406	54,188	379,196
TOTAL TRADE RECEIVABLES	**320,081**	**46,010**	**21,551**	**22,300**	**77,547**	**487,489**
Government grants financed by BIIS	34,110					34.110
Other government grants	15,307					15.307
Receivables from associates	10,092					10.092
Receivables from joint ventures	106,314					106.314
Receivables from controlling companies	24,068					24.068
Receivables from other companies	161					161
Other receivables	88,288				45,955	134.243
Other financial receivables	154,324					154.324
GROSS TOTAL	**752,745**	**46,010**	**21,551**	**22,300**	**123,502**	**966,108**
Provision for impairment of receivables						(58.083)
NET TOTAL						**908.025**
Advances, prepayments and accrued income						91.371
TOTAL						**999.396**

(*) These are 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 reported net debt of euro 615 million at 31 December 2016 compared with net debt of euro 438 million at the end of 2015. The change in net financial position is mainly due to financial flows typical of the cruise ship business which reported a significant growth in volumes on the previous year and has three ships due for delivery during the first quarter of 2017.

The following tables show the contractual maturities of financial liabilities, other than derivatives, calculated before interest which, depending on the loan or form of finance, may be at a fixed or floating rate.

	31.12.2016					
(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	57	3,931	32,859	17,767	54,614	53,437
Payables to joint ventures	5,341	1,728			7,069	6,565
Bank loans and credit facilities	16,336	841,853	391,696	84,815	1,334,700	1,284,377
BIIS loans		8,146	21,162		29,308	27,177
Payables to suppliers	212,634	960,972	25,085	27	1,198,718	1,198,718
Payables to suppliers for reverse factoring		102,037			102,037	102,037
Finance lease obligations		413	517		930	930
Bond		11,250	311,250		322,500	298,405
Other financial liabilities		19,860	1,359	321	21,540	38,006
Other liabilities	4,711	184,193	3,456		192,360	192,360
TOTAL	**239,079**	**2,134,383**	**787,384**	**102,930**	**3,263,776**	**3,202,012**
Advances, accrued expenses and deferred income						54,587
TOTAL						**3,256,599**

						31.12.2015
(Euro/000)	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company		3,199	17,286	13,481	33,966	33,201
Payables to joint ventures	4,746	1,623			6,369	6,369
Bank loans and credit facilities	1,278	945,053	659,886	94,227	1,700,444	1,614,868
BIIS loans		8,146	29,176	133	37,455	34,110
Payables to suppliers	231,216	919,611	23,334	2	1,174,163	1,174,163
Finance lease obligations		298	19		317	317
Bond		11,250	322,500		333,750	297,604
Other financial liabilities		29,599	3,491	849	33,939	33,888
Other liabilities	4,694	164,669	11,070	1,266	181,699	181,699
TOTAL	**241,934**	**2,083,448**	**1,066,762**	**109,958**	**3,502,102**	**3,376,219**
Advances, accrued expenses and deferred income						42,264
TOTAL						**3,418,483**

MARKET RISK

The financial risks affecting the Group specifically involve 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, due to changes in market interest rates or to changes in commodity prices.

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 (where possible) through hedging instruments.

Apart from using financial instruments, currency risk can be hedged by entering into loan agreements in the same currency as the sale contract, or cash balances can be established in the same currency as supply contracts.

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 arranged according to the expected timing of foreign currency cash inflows and outflows; where possible, payments and receipts in the same currency are matched.

Currency risk management seeks to hedge all of the Group's foreign currency inflows, but only the largest foreign currency outflows.

During 2016, the Group was exposed to currency risk primarily in connection with certain cruise contracts and with contracts in the offshore business. This risk was mitigated using hedging instruments.

Interest rate risk

Interest rate risk is linked to:

- 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 2016, against a long-term floating-rate refinancing loan taken out 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.

In March 2016, the Group arranged another interest rate swap to convert the interest rate on a new loan from a floating to fixed one. This derivative instrument has been accounted for as a cash flow hedge.

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. The Group mitigates this risk using appropriate contractual arrangements, where possible, and/or hedges. During 2016, the Group entered into swaps to fix the purchase price of a large part of its diesel and fuel oil needs through until 2018.

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.

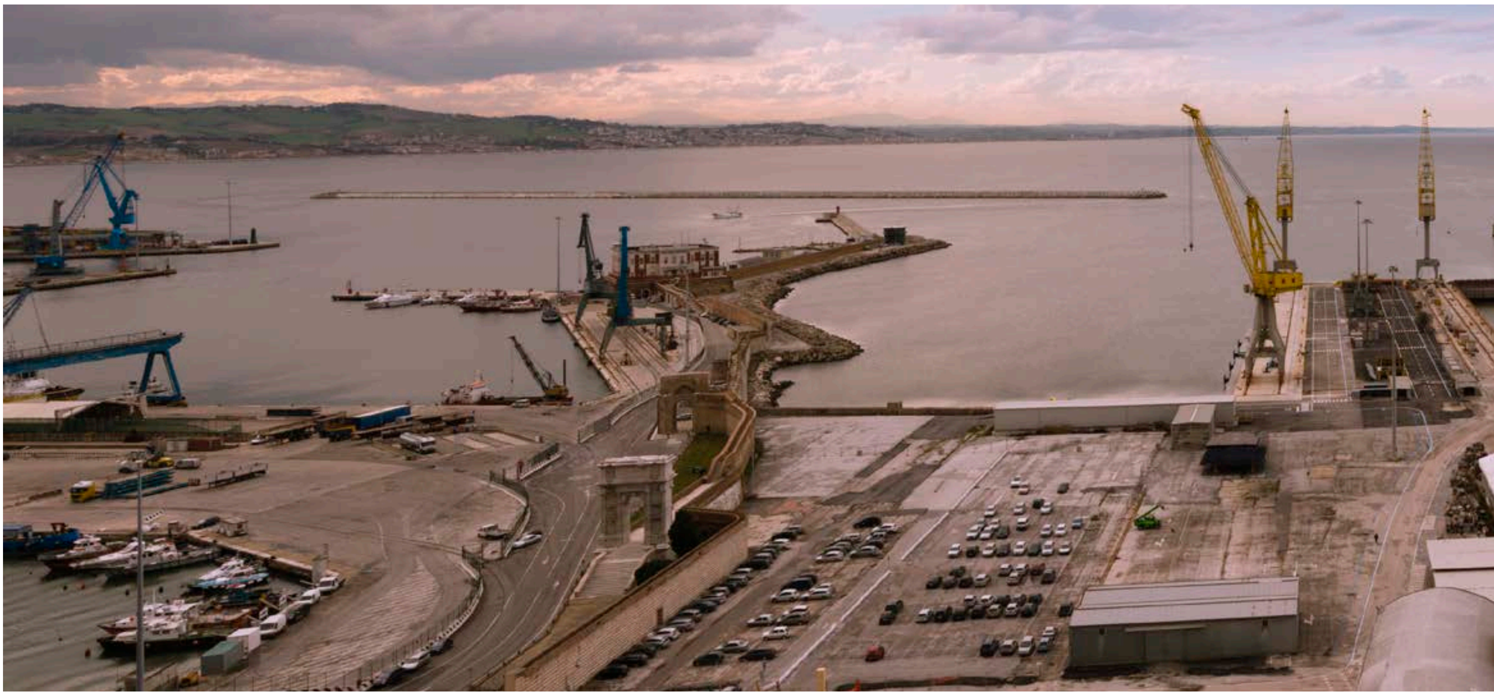
	31.12.2016			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			81	19,000
Forwards	1,338	32,492	69,034	2,020,875
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	5,689	226,052	48,045	822,763
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	3,358	146,328	1,316	66,482
Futures	1,689	11,467	1	106
Options				
HELD-FOR-TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options			6,389	189,735

	31.12.2015			
(Euro/000)	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			374	12,000
Forwards	2,361	215,225	70,328	600,626
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	35,963	461,521	384,403	1,089,902
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	111	15,125	293	9,481
Futures			4,339	16,932
Options			655	27,556
HELD-FOR-TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options	796	76,537	7,371	117,376

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.

	31.12.2016			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	455,267	2,025,239		**2,480,506**
Inflow	377,271	1,840,175		**2,217,446**
INTEREST RATE RISK MANAGEMENT				
Outflow	80			**80**
Inflow	8			**8**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	7,821	3,756		**11,577**
Inflow	8,922	4,341		**13,263**

	31.12.2015			
(Euro/000)	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	1,459,798	460,770		**1,920,568**
Inflow	1,049,664	433,592		**1,483,256**
INTEREST RATE RISK MANAGEMENT				
Outflow	290	61		**351**
Inflow		3		**3**
COMMODITY PRICE RISK MANAGEMENT				
Outflow	13,667	3,265		**16,932**
Inflow	9,639	2,871		**12,510**



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 AND IMPACT OF DERIVATIVE INSTRUMENTS ON PROFIT OR LOSS

The following table presents movements in the cash flow hedge reserve and the effect of derivative instruments on profit or loss:

	Equity			Profit or loss
(Euro/000)	Gross	Taxes	Net	
1.1.2015	**(248)**	**54**	**(194)**	
Change in fair value	(2,743)	857	(1,886)	
Utilization	248	(54)	194	(194)
Other income/(expenses) for risk hedging				(49,088)
Finance income/(costs) relating to held-for-trading derivatives and time-value component of hedging derivatives				(12,912)
31.12.2015	**(2.743)**	**857**	**(1.886)**	**(62.194)**

	Equity			Profit or loss
(Euro/000)	Gross	Taxes	Net	
Change in fair value	(36,891)	9,835	(27,056)	
Utilization	2,743	(857)	1,886	(1,886)
Other income/(expenses) for risk hedging				7,688
Finance income/(costs) relating to held-for-trading derivatives and time-value component of hedging derivatives				11,392
31.12.2016	**(36,891)**	**9,835**	**(27,056)**	**17,194**

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**
					31.12.2016			
Investments carried at fair value					2,039		**2,039**	***2,039***
Derivative financial assets	10,735	1,338					**12,073**	***12,073***
Other financial assets				191,399			**191,399**	***178,354***
Trade receivables and other current assets				1,383,064			**1,383,064**	***1,383,064***
Cash and cash equivalents				219,512			**219,512**	***219,512***
Derivative financial liabilities	(55,751)	(69,115)					**(124,866)**	***(124,866)***
Other financial liabilities	(18,025)					(1,687,757)	**(1,705,782)**	***(1,719,712)***
Other non-current liabilities						(48,233)	**(48,233)**	***(48,233)***
Trade payables and other current liabilities						(1,496,076)	**(1,496,076)**	***(1,496,076)***
					31.12.2015			
Investments carried at fair value					4,040		**4,040**	***4,040***
Derivative financial assets	36,870	2,361					**39,231**	***39,231***
Other financial assets				211,001			**211,001**	***198,320***
Trade receivables and other current assets				888,033			**888,033**	***888,033***
Cash and cash equivalents				259,507			**259,507**	***259,507***
Derivative financial liabilities	(397,061)	(70,702)					**(467,763)**	***(467,763)***
Other financial liabilities	(17,452)					(2,000,344)	**(2,017,796)**	***(2,040,128)***
Other non-current liabilities						(46,544)	**(46,544)**	***(46,544)***
Trade payables and other current liabilities						(1,366,765)	**(1,366,765)**	***(1,377,333)***

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 tables show the financial instruments that are measured at fair value at 31 December 2016 and 2015 according to their level in the fair value hierarchy.

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
		31.12.2016		
Assets				
Available-for-sale financial assets				
Equity instruments	1,414		625	2,039
Debt instruments				
Hedging derivatives		12,073		12,073
Held-for-trading derivatives				
Total assets	**1,414**	**12,073**	**625**	**14,112**
Liabilities				
Financial liabilities at fair value through profit or loss			18.025	18.025
Hedging derivatives		118,477		118,477
Held-for-trading derivatives		6,389		6,389
Total liabilities		**124,866**	**18,025**	**142,891**

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.

(Euro/000)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
		31.12.2015		
Assets				
Available-for-sale financial assets				
Equity instruments	3,124		916	4,040
Debt instruments				
Hedging derivatives		38,435		38,435
Held-for-trading derivatives		796		796
Total assets	**3,124**	**39,231**	**916**	**43,271**
Liabilities				
Financial liabilities at fair value through profit or loss			17.452	17.452
Hedging derivatives		460,392		460,392
Held-for-trading derivatives		7,371		7,371
Total liabilities		**467,763**	**17,452**	**485,215**

Note 5 - Sensitivity analysis

CURRENCY RISK

With regard to currency risk, the Group has performed sensitivity analysis, both including and excluding the effect of hedging derivatives, 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 against the functional currencies of the Parent Company and its subsidiaries (involving an appreciation/depreciation of the foreign currency against the functional one). The analysis looks at exposure to currency risk, as defined by IFRS 7, and therefore does not consider the effects arising from 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 2016 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
	31.12.2016		31.12.2015	
Including hedging derivatives				
Foreign currency appreciation	(58)	(244)	(237)	(332)
Foreign currency depreciation	53	204	215	291
Excluding hedging derivatives (*)				
Foreign currency appreciation	(19)	(19)	(16)	(16)
Foreign currency depreciation	24	24	16	16

(*) 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 3 million in the event of a 0.50% increase in interest rates and a positive impact of euro 2.3 million in the event of a 0.50% reduction.

Note 6 - Intangible assets

Movements in this line item are as follows:

(Euro/000)	Goodwill	*Client 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	**Total**
- 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 1.1.2015	**265,197**	**157,061**	**31,988**	**5,796**	**15,833**	**6,878**	**25,890**	**508,643**
Movements in 2015								
- business combinations	3,065			4,805				7,870
- additions			3,579	1,109	495	962	32,988	39,133
- net disposals			(132)	(1)				(133)
- reclassifications/ other			11,998	1,920			(13,918)	
- amortization		(17,325)	(6,051)	(3,256)	(231)	(1,559)		(28,422)
- impairment losses								
- exchange rate differences	(4,648)	(5,667)	(176)	(327)	1,675	16	13	(9,114)
Closing net carrying amount	**263,614**	**134,069**	**41,206**	**10,046**	**17,772**	**6,297**	**44,973**	**517,977**
- cost	263,614	192,085	55,918	94,038	19,119	13,009	44,973	682,756
- accumulated amortization and impairment losses		(58,016)	(14,712)	(83,992)	(1,347)	(6,712)		(164,779)
Net carrying amount at 31.12.2015	**263,614**	**134,069**	**41,206**	**10,046**	**17,772**	**6,297**	**44,973**	**517,977**
Movements in 2016								
- business combinations	1,374		441					1,815
- additions			37,762	905	1,901	738	38,589	79,895
- net disposals			(316)				(34)	(350)
- reclassifications/ other			25,531	3,496	1,148	245	(30,426)	(6)
- amortization		(8,993)	(11,001)	(3,895)	(997)	(1,362)		(26,248)
- impairment losses						(2)		(2)
- exchange rate differences	13,241	7,043	171	254	691	94	47	21,541
Closing net carrying amount	**278,229**	**132,119**	**93,794**	**10,806**	**20,515**	**6,010**	**53,149**	**594,622**
- cost	278,229	199,128	119,507	98,693	22,859	14,086	53,149	785,651
- accumulated amortization and impairment losses		(67,009)	(25,713)	(87,887)	(2,344)	(8,076)		(191,029)
Net carrying amount at 31.12.2016	**278,229**	**132,119**	**93,794**	**10,806**	**20,515**	**6,010**	**53,149**	**594,622**

Capital expenditure in 2016 has involved additions of euro 79,895 thousand (euro 39,133 thousand in 2015), mainly relating to the development of innovative devices and systems to comply with new international maritime safety and pollution regulations and to ensure higher standards of comfort aboard cruise ships, as well as the development of innovative systems to upgrade technology on certain types of military vessel. 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 2016, the Group also expensed to profit or loss euro 96 million in research and development costs for various projects involving product and process innovations (euro 90 million in 2015), that will let the Group retain its leadership of all high-tech market sectors for the foreseeable 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 17,551 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 cash-generating unit ("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 278,229 thousand at 31 December 2016. The increase of euro 1,374 thousand is due to the VARD Group's acquisition of Storvik Aqua AS in the last quarter of the year, described in more detail in Note 2. This acquisition has also resulted in the allocation of euro 441 thousand to "Development costs".

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 CGUs operate.

For the purpose of impairment testing, the Group uses cash flow projections based on the best information available at the time, in this case derived from the Strategic Plan 2016-2020 approved by Group Management, updated to take account of the 2017 budget defined as part of the Group's strategic planning/budgeting process.

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 WACC used for discounting purposes is a post-tax rate applied consistently to the relevant cash flows.

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 the 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 of performance in the markets concerned.

The CGUs have not been impacted by the operational reorganization carried out in November 2016.

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	75,353	Value in use	5.6%	2.5%	4 years
VARD Group	202,876	Value in use	7.2%	2.7%	4 years

Impairment tests have made reference to the reporting-date carrying amounts of each CGU.

FMG Group CGU

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 for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 basis points, recoverable amounts would still be significantly higher than carrying amounts.

VARD Group CGU

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 for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 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	Assets under finance lease	Industrial plant, machinery and equipment	Assets under concession	Leasehold improve-ments	Other assets	Asset under construct-ion and advances	**Total**
- 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 1.1.2015	**372,979**	**795**	**375,271**	**58,375**	**5,697**	**53,458**	**91,942**	**958,517**
Movements in 2015								
- business combinations			225					225
- additions	18,194		32,992	1,608	514	4,859	63,699	121,866
- net disposals	(436)		(663)		(21)	(43)	(472)	(1,635)
- reclassifications/ other changes	6,559		18,721	1,685	2,199	5,229	(34,382)	11
- depreciation	(15,276)	(390)	(54,811)	(3,642)	(1,040)	(5,480)		(80,639)
- impairment losses	(56)		(3,073)					(3,129)
- exchange rate differences	(8,617)	86	(11,807)		2	365	(1,340)	(21,311)
Closing net carrying amount	**373,347**	**491**	**356,855**	**58,026**	**7,351**	**58,388**	**119,447**	**973,905**
- cost	570,647	2,985	1,135,900	180,612	28,378	163,854	119,447	2,201,823
- accumulated depreciation and impairment losses	(197,300)	(2,494)	(779,045)	(122,586)	(21,027)	(105,466)		(1,227,918)
Net carrying amount at 31.12.2015	**373,347**	**491**	**356,855**	**58,026**	**7,351**	**58,388**	**119,447**	**973,905**
Movements in 2016								
- business combinations	17		122					139
- additions	8,051		24,267	2,379	94	4,046	104,947	143,784
- net disposals	(530)		(1,699)		(11)	(169)	(764)	(3,173)
- reclassifications/ other changes	22,452	812	29,648	2,364	253	9,137	(65,465)	(799)
- depreciation	(15,918)	(385)	(55,378)	(3,953)	(1,081)	(6,429)		(83,144)
- impairment losses	(54)							(54)
- exchange rate differences	17,460	37	14,228			349	1,214	33,288
Closing net carrying amount	**404,825**	**955**	**368,043**	**58,816**	**6,606**	**65,322**	**159,379**	**1,063,946**
- cost	619,215	3,936	1,200,557	185,356	28,706	176,477	159,379	2,373,626
- accumulated depreciation and impairment losses	(214,390)	(2,981)	(832,514)	(126,540)	(22,100)	(111,155)		(1,309,680)
Net carrying amount at 31.12.2016	**404,825**	**955**	**368,043**	**58,816**	**6,606**	**65,322**	**159,379**	**1,063,946**

Capital expenditure in 2016 has resulted in additions of euro 143,784 thousand, mainly related to:

- enlargement of the Atlante II semi-submersible launching barge, work to upgrade hull-building infrastructure at the Palermo shipyard and welding systems at the Monfalcone shipyard, enlargement of the covered construction areas at the Marghera and Ancona shipyards;
- work to optimize production unit logistical facilities mainly within the Monfalcone and Sestri shipyards;
- continuation of activities to introduce new technology for reducing the environmental sandblasting impact of operations at the Monfalcone shipyard, with reference to and painting processes;
- acquisition of production assets next to the Sturgeon Bay shipyard (USA);
- completion of construction of new premises for Vard Electro (Norway) started during 2015;
- start of work at the Vard Tulcea shipyard in Romania to support construction of cruise ship hulls for Norway and the multi-year program to build pre-fitted cruise ship blocks and sections for the Fincantieri production network;
- technological upgrading of safety of machinery and systems at all the Group's 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 the relevant asset categories once the assets entered service.

The value of the property, plant and equipment of the indirect subsidiary Vard Promar has been tested for impairment, taking as its estimated recoverable amount the value in use determined by 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 rate used ("g rate") may not exceed the long-term average growth rate predicted for the particular market sector. The cash flow projections have been discounted using a WACC of 11.6%, while the g rate used to determine terminal value is 4.7%. The impairment test has shown that the assets' recoverable amount exceeds their carrying amount, meaning that no impairment loss needs to be recognized.

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

As at 31 December 2016, the amount of the Group's property, plant and machinery pledged as collateral against loans received was approximately euro 268 million (euro 226 million at the end of 2015).

Contractual commitments already given to third parties as of 31 December 2016 for capital expenditure not yet reflected in the financial statements amounted to approximately euro 65 million, of which euro 51 million for Property, plant and equipment and euro 14 million for Intangible assets.

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**
1.1.2015	**36,133**	**16,663**	**52,796**	**981**	**6,702**	**7,683**	**60,479**
Business combinations							**-**
Additions	1,364	4,987	**6,351**	129	21	**150**	**6,501**
Revaluations/(Impairment losses) through profit or loss	49	(145)	**(96)**		(2,458)	**(2,458)**	**(2,554)**
Revaluations/(Impairment losses) through equity	(345)	19	**(326)**				**(326)**
Disposals				(4)		**(4)**	**(4)**
Reclassifications/Other	526		**526**				**526**
Exchange rate differences	(2,175)		**(2,175)**		(225)	**(225)**	**(2,400)**
31.12.2015	**35,552**	**21,524**	**57,076**	**1,106**	**4,040**	**5,146**	**62,222**
Business combinations							**-**
Additions	2,137	9,354	**11,491**	34	1,289	**1,323**	**12,814**
Revaluations/(Impairment losses) through profit or loss	(6,291)	(528)	**(6,819)**		(3,135)	**(3,135)**	**(9,954)**
Revaluations/(Impairment losses) through equity	(11,006)	81	**(10,925)**				**(10,925)**
Disposals					(13)	**(13)**	**(13)**
Reclassifications/Other	2,415	30	**2,445**		(323)	**(323)**	**2,122**
Exchange rate differences	1,705		**1,705**		181	**181**	**1,886**
31.12.2016	**24,512**	**30,461**	**54,973**	**1,140**	**2,039**	**3,179**	**58,152**

Additions in the year mainly refer to the acquisition for euro 8,854 thousand of a further interest (32.33%) in the share capital of Camper & Nicholsons International S.A. (in which Fincantieri Spa already held 17.63%), by exercising a call option, at an agreed price, with the outgoing shareholder Colosseum Services A.S.. This transaction means that, as at 31 December 2016, Fincantieri owns 49.96% of Camper & Nicholsons International S.A.. Given the nature of the shareholder agreements signed, this constitutes a joint venture arrangement and so Camper & Nicholsons International S.A. and its subsidiaries have been consolidated using the equity method.

Revaluations/(impairment losses) through profit or loss (negative euro 6,819 thousand) and through equity (negative euro 10,925 thousand) include respectively the Group's share of the result for the period and share of comprehensive income of companies accounted for using the equity method (namely associates and joint ventures).

"Other investments" include euro 2,040 thousand in investments carried at fair value, calculated either on the basis of the related prices if quoted in active markets (Level 1), or using valuation techniques whose inputs are not observable on the market (Level 3). During the year an impairment loss of euro 3,135 thousand was recognized against the investment in Rem Offshore ASA following the financial crisis experienced by this company during 2016.

The investment in Unifer Navale S.r.l. has been reclassified from associates to joint ventures by virtue of the nature of the agreement between the Parent Company and the other shareholder Unifer S.r.l..

For the purposes of preparing the present financial statements, the investment in Camper & Nicholson International SA, in which the Group owns a 49.96% interest, has been tested for impairment. The test was performed on the basis of the three-year strategic plan prepared by the investee. The recoverable amount was determined with reference to value in use, calculated using the discounted cash flow method, by discounting future cash flows at the weighted average cost of capital (WACC). The WACC was determined as 11.4%, while the growth rate (g rate), used to project cash flows beyond the explicit planning period, was determined as 1.2%. The impairment test has shown that the investment's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized. Furthermore, the results obtained have been subjected to sensitivity analysis for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or growth rates (g rate), in the terminal value calculation, to decrease by 100 basis points, the recoverable amount of the investment would still be higher than its carrying amount.

Investments at 31 December 2016

Company name	Registered office	% owned	Carrying amount
Investments in associates accounted for using the equity method			
Brevik Technology AS	Norway	34.00	101
Bridge Eiendom AS	Norway	50.00	-
Canadian Subsea Shipping Company AS	Norway	45.00	44
Castor Drilling Solution AS	Norway	34.13	1,229
CSS Design Ltd.	British Virgin Islands	31.00	1,111
Dameco AS	Norway	34.00	10
DOF Iceman AS	Norway	50.00	-
Møkster Supply AS	Norway	40.00	649
Møkster Supply KS	Norway	36.00	2,951
Olympic Challenger KS	Norway	35.00	13,820
Olympic Green Energy KS	Norway	30.00	-
Rem Supply AS	Norway	26.66	4,236
Taklift AS	Norway	25.47	361
Total investments in associates accounted for using the equity method			**24,512**
Investments in joint ventures accounted for using the equity method			
Camper & Nicholsons International SA	Luxembourg	49.96	12,626
CSSC - Fincantieri Cruise Industry Development Ltd.	Hong Kong	40.00	-
Etihad Ship Building LLC	Arab Emirates	35.00	-
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	17,536
Unifer Navale S.r.l.	Modena	20.00	299
Total investments in joint ventures accounted for using the equity method			**30,461**
Other investments			
Consorzio Ric. Innov. Tec. Sicilia Trasp. Navali Scarl	Messina	5.70	28
Consorzio CONAI	Rome	(*)	1
Consorzio F.S.B. (**)	Venice - Marghera	58.36	5
Consorzio IMAST Scarl	Naples	3.24	22
Consorzio MIB	Trieste	(*)	2
Distretto Ligure delle Tecnologie Marine Scarl	La Spezia	11.10	115
EEIG Euroyards	Brussels	14.29	10
Friulia S.p.A.	Trieste	0.53	869
International Business Science Company Scarl	Trieste	18.18	10
MARE^{TC} FVG – Maritime Technology cluster FVG S.c.a.r.l.	Monfalcone (GO)	20.84	65
Moldekraft AS	Norway	6.13	550
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.80	14
Solstad Offshore ASA	Norway	1.16	1,488
Total other investments			**3,179**

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

(**) Consortium for recharging costs

CSSC - Fincantieri Cruise Industry Development Ltd., which is 40% by the Parent Company, is classified as an investment in a joint venture and consolidated using the equity method by virtue of the nature of the agreement between the Parent Company and the other shareholders.

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.
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%.
Unifer Navale S.r.l., which is 20% owned by SEAF S.p.A., is consolidated using the equity method by virtue of the arrangements with the other shareholder.

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)	31.12.2016	31.12.2015
Profit (loss) from operations in the year	(6,291)	49
Other comprehensive income	(11,006)	(345)
Total comprehensive income	**(17,297)**	**(296)**

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 2016, the Group has commitments for financing totaling euro 7,044 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 2016 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)	31.12.2016	31.12.2015
ASSETS	**402,942**	**349,386**
NON-CURRENT	**526**	**1,470**
Other assets	526	1,470
CURRENT	**402,416**	**347,916**
Other assets	391,767	223,532
Financial assets	660	1,156
Cash and cash equivalents	9,989	123,228
LIABILITIES	**367,901**	**314,686**
NON-CURRENT	**247**	**269**
Other liabilities	247	269
CURRENT	**367,654**	**314,418**
Other liabilities	367,654	314,418
EQUITY	**35,041**	**34,699**

Condensed comprehensive statement of income

(Euro/000)	31.12.2016	31.12.2015
Revenue	552,896	636,773
Depreciation and amortization	(250)	(237)
Interest income	1,335	2,803
Pre-tax profit from recurring operations	**443**	**1,446**
Income taxes	(100)	(80)
Net profit from recurring operations	**343**	**1,366**
Other comprehensive income/(losses)		
TOTAL COMPREHENSIVE INCOME/(LOSS)	**343**	**1,366**

Reconciliation with carrying amount

(Euro/000)	31.12.2016	31.12.2015
Equity at 01.01	**34,699**	**33,333**
Profit/(loss) for period	342	1,366
Equity at 31.12	**35,041**	**34,699**
51% interest in joint venture	17,871	17,696
Other changes	(335)	(336)
Carrying amount	**17,536**	**17,360**

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% as at 31 December 2016, 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)	31.12.2016	31.12.2015
ASSETS	**1,486**	**2,177**
NON-CURRENT	**427**	**392**
Other assets	345	301
Financial assets	82	91
CURRENT	**1,059**	**1,785**
Other assets	948	1,638
Financial assets	32	51
Cash and cash equivalents	79	96
LIABILITIES	**1,233**	**1,869**
NON-CURRENT	**202**	**147**
Other liabilities	87	22
Financial liabilities	115	125
CURRENT	**1,031**	**1,722**
Other liabilities	405	652
Financial liabilities	626	1,070
EQUITY	**253**	**308**

Condensed comprehensive statement of income

(Euro/million)	31.12.2016	31.12.2015
Revenue	960	1,263
Depreciation and amortization	(22)	(26)
Interest income	38	3
Interest expense	(66)	(9)
Pre-tax profit from recurring operations	**(6)**	**(135)**
Income taxes	(4)	(9)
Net profit from recurring operations	**(10)**	**(144)**
Net profit from non-recurring operations	**(11)**	
TOTAL PROFIT/(LOSS) FOR THE YEAR	**(21)**	**(144)**
Other comprehensive income/(losses)	(50)	41
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(71)**	**(103)**
- attributable to owners of the parent	*(48)*	*(37)*
- attributable to non-controlling interestsi	*(23)*	*(66)*

Condensed statement of cash flows

(Euro/million)	31.12.2016	31.12.2015
Cash flows from operating activities		
Gross cash flows from operating activities	96	(104)
Interest paid	(8)	(7)
Taxes paid	(5)	(21)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**83**	**(132)**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(34)**	**(35)**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(63)**	**24**
Net cash flows for the period	**(14)**	**(143)**
Cash and cash equivalents at beginning of year (excluding term deposits)	85	221
Exchange rate differences for cash and cash equivalents (*)	(3)	(4)
Term deposits	11	22
Cash and cash equivalents at end of year (including term deposits)	79	96

(*) Including NOK/EUR exchange rate differences

Note 9 – Non-current financial assets

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Grants financed by BIIS	19,981	27,177
Derivative assets	3,817	1,598
Other non-current financial receivables	107,754	103,750
Non-current financial receivables from investee companies	6,718	9,061
NON-CURRENT FINANCIAL ASSETS	**138,270**	**141,586**

“Grants financed by Banca BIIS” 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.
“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)	31.12.2016	31.12.2015
Other receivables from investee companies	731	704
Government grants receivable	5,718	1,573
Firm commitments	1,819	1,065
Other receivables	7,887	7,386
OTHER NON-CURRENT ASSETS	**16,155**	**10,728**

Other non-current assets are all stated net of the related provision for impairment.

"Government grants receivable" report the non-current portion of state aid granted by governments in the form of tax credits, recoverable as follows:

(Euro/000)	31.12.2016	31.12.2015
- between one and two years	2,401	625
- between two and three years	982	423
- between three and four years		
- between four and five years		
- beyond five years	2,335	525
Total	**5,718**	**1,573**

"Firm commitments" of euro 1,819 thousand (euro 1,065 thousand at 31 December 2015) 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.

"Other receivables" of euro 7,887 thousand (euro 7,386 thousand at 31 December 2015) include euro 4,693 thousand in amounts owed by the Iraqi Ministry of Defense, as discussed in more detail in the specific section on litigation in Note 32. The remaining balance of euro 3,194 thousand consists of 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 1.1.2015	**16,656**
Utilizations	
Increases/(Releases)	(552)
Total at 31.12.2015	**16,104**
Utilizations	
Increases/(Releases)	
Total at 31.12.2016	**16,104**

During 2016 there were no changes in the above provision.

Note 11 - Deferred tax assets and liabilities

Deferred tax assets are analyzed as follows:

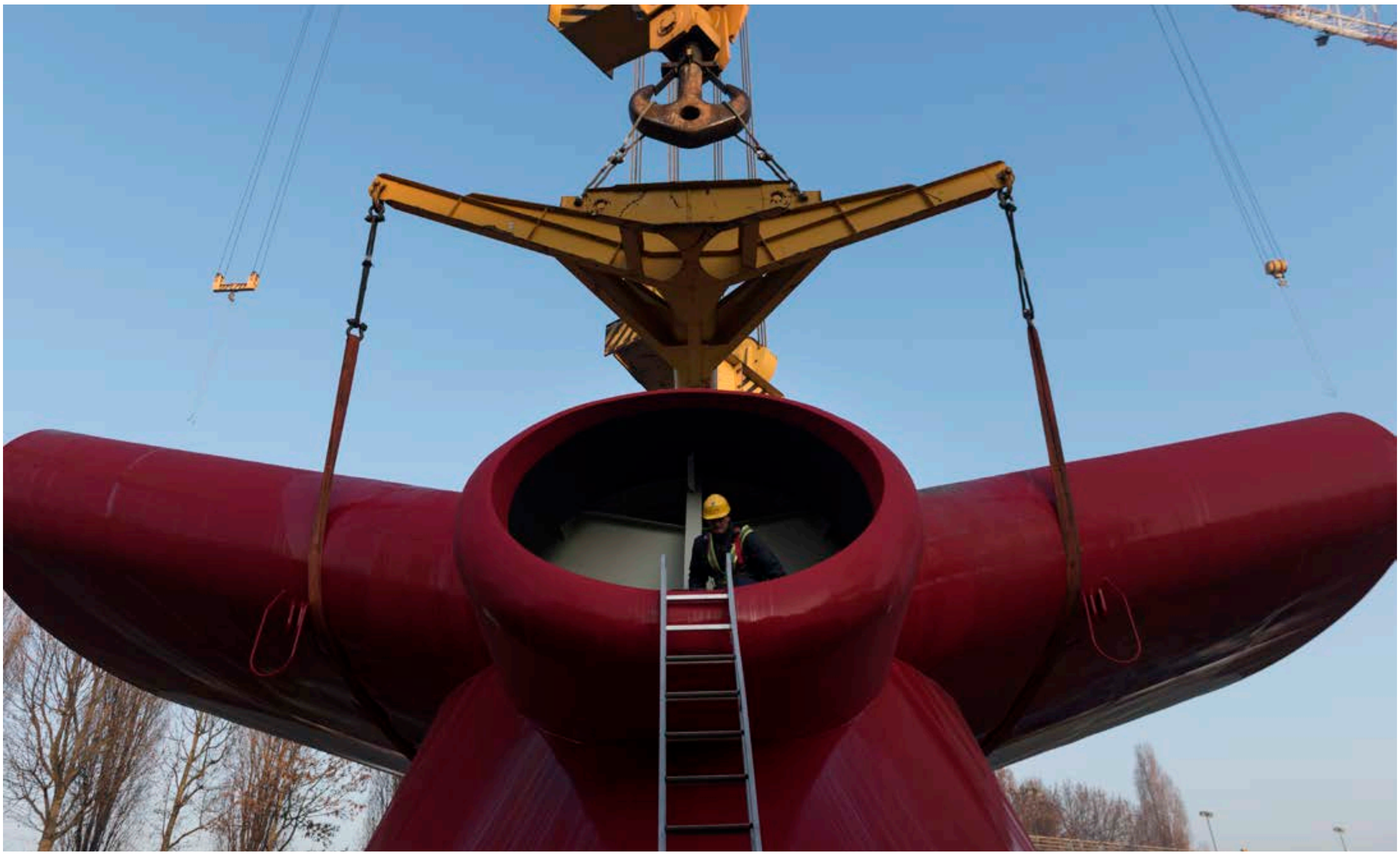
(Euro/000)	Sundry impairment losses	Product warranty	Other risks and charges	Fair value derivatives	Actuarial valuation employee severance benefit	Carry-forward tax losses	Other temporary differences	Total
1.1.2015	**25.018**	**12.832**	**18.491**	**53**	**9.813**	**59.140**	**15.567**	**140.914**
Changes in 2015								
- business combinations						(705)		(705)
- through profit or loss	24,854	(3,357)	(3,445)		(2,380)	(3,434)	7,643	19,881
- through other comprehensive income				804	(1,433)			(629)
- tax rate and other changes	(2,861)	(1,321)	(1,516)		(706)	(4,633)	195	(10,842)
- exchange rate differences	33	60	20			607	1,635	2,355
31.12.2015	**47,044**	**8,214**	**13,550**	**857**	**5,294**	**50,975**	**25,040**	**150,974**
Changes in 2016								
- business combinations						26	175	201
- through profit or loss	(10,325)	976	2,036		553	(6,730)	15,199	1,709
- through other comprehensive income			(1)	8,978	460		(8,741)	696
- tax rate and other changes	(692)		52		(41)	(8)	(9)	(698)
- exchange rate differences	(139)	7	22	30		354	1,217	1,491
31.12.2016	**35,888**	**9,197**	**15,659**	**9,865**	**6,266**	**44,617**	**32,881**	**154,373**

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 addition, some euro 32 million of the deferred tax assets are largely offsettable against the deferred tax liabilities discussed below.
In particular, as far as Parent Company deferred tax assets are concerned, amounting to euro 104 million, a plan of recovery has been drawn up in which projected future taxable income has been derived from the Strategic Plan 2016-2020, approved by Group Management and updated to reflect the 2017 budget defined as part of the Group's strategic planning/budgeting process; this plan indicates that the deferred tax assets will be basically recovered.
No deferred tax assets have been recognized on euro 95 million (euro 72 million at 31 December 2015) in carryforward losses of subsidiaries which are thought unlikely to be recovered against future taxable income.

Deferred tax liabilities are analyzed as follows:

(Euro/000)	Deferred taxes from business combinations	Other temporary differences	**Total**
1.1.2015	**62,042**	**22,235**	**84,277**
Changes in 2015			
- business combinations			
- through profit or loss	(5,164)	277	(4,887)
- through other comprehensive income			
- tax rate and other changes			
- exchange rate differences	453	1,703	2,156
31.12.2015	**57,331**	**24,215**	**81,546**
Changes in 2016			
- business combinations			
- through profit or loss	(2,820)	2,693	(127)
- through other comprehensive income			
- tax rate and other changes	(1)	1	
- exchange rate differences	2,613	1,040	3,653
31.12.2016	**57,123**	**27,949**	**85,072**

The deferred tax liabilities for business combinations relate to differences arising when allocating purchase price to intangible assets with indefinite useful lives, primarily client relationships and order backlog.
The other temporary differences relate primarily to the difference between book and fiscal values of fixed assets, mainly for the American subsidiaries.



Note 12 - Inventories and advances

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Raw materials and consumables	223,091	200,935
Work in progress and semi-finished goods	164,337	33,290
Finished products	33,549	31,263
Total inventories	**420,977**	**265,488**
Advances to suppliers	169,333	139,420
TOTAL INVENTORIES AND ADVANCES	**590,310**	**404,908**

Inventories and advances are stated net of relevant provisions for impairment.
The amount recorded for Raw materials and consumables basically represents the volume of stock considered sufficient to ensure the normal conduct of production activities.
Work in progress and semi-finished goods and finished products generally refer to the manufacture of engines and spare parts. During the year VARD reclassified around euro 117 million from "Construction contracts - assets" to "Work in progress and semi-finished goods" for a vessel being built for the client Harkand currently in administration.
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
1.1.2015	**13,842**	**2,660**
Increases	4,326	
Utilizations	(3,297)	(50)
Releases	(924)	
Exchange rate differences	25	98
31.12.2015	**13,972**	**2,708**
Increases	4,247	
Utilizations	(2,803)	(254)
Releases	(1,174)	
Exchange rate differences	24	31
31.12.2016	**14,266**	**2,485**

Note 13 - Construction contracts - assets

These are analyzed as follows:

(Euro/000)	31.12.2016 Con-struction contracts – gross	31.12.2016 Invoices issued and provision for future losses	31.12.2016 Con-struction contracts - net assets	31.12.2015 Con-struction contracts – gross	31.12.2015 Invoices issued and provision for future losses	31.12.2015 Con-struction contracts - net assets
Shipbuilding contracts	4,774,660	3,418,220	1,356,440	5,766,765	3,224,293	2,542,472
Other contracts for third parties	34,696	11,322	23,374	23,760	12,110	11,650
Total	**4,809,356**	**3,429,542**	**1,379,814**	**5,790,525**	**3,236,403**	**2,554,122**

"Construction contracts - assets" report those contracts where the value of the contract's stage of completion exceeds the amount invoiced to the client. 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)	31.12.2016	31.12.2015
Trade receivables	1,122,972	560,018
Receivables from controlling companies (tax consolidation)	34,034	24,068
Government grants receivable	7,292	13,733
Other receivables	132,231	90,027
Indirect tax receivables	37,343	32,916
Firm commitments	13,470	133,439
Accrued income	33,540	32,771
Prepayments	2,182	1,061
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	**1,383,064**	**888,033**

Receivables are shown net of provisions for impairment. 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. A provision for interest charged on past due trade receivables has been recognized in a "Provision for past due interest". Provisions for impairment of receivables report the following amounts and movements:

(Euro/000)	Provision for impairment of trade receivables	Provision for past due interest	Provision for impairment of other receivables	**Total**
1.1.2015	**34,618**	**63**	**6,282**	**40,963**
Business combinations				
Utilizations	(2,080)		(73)	(2,153)
Increases/(Releases)	609		206	815
Exchange rate differences	312			312
31.12.2015	**33,459**	**63**	**6,415**	**39,937**
Business combinations				
Utilizations	(6,844)		(12)	(6,856)
Increases/(Releases)	274		27	301
Exchange rate differences	239			239
31.12.2016	**27,128**	**63**	**6,430**	**33,621**

The increase of euro 562,954 thousand in trade receivables is mainly due to invoicing of final payments for three cruise ships due to be delivered during the first quarter of 2017.

"Government grants receivable" of euro 7,292 thousand include operating and capital grants from the state of Wisconsin recognized by the FMGH Group for the LCS project, and grants receivable, mainly by the Parent Company, for research and innovation.

"Other receivables" of euro 132,231 thousand mainly refer to:

- research and shipbuilding grants, insurance claims, advances to suppliers, sundry receivables from employees and other miscellaneous receivables, mostly relating to the Parent Company, totaling euro 111,704 thousand (euro 71,656 thousand at 31 December 2015);
- the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of the contract price, totaling euro 16,701 thousand (unchanged compared with 31 December 2015);
- receivables from social security institutions for euro 3,826 thousand (euro 1,670 thousand at 31 December 2015), most of which advances paid to employees for accidents and amounts owed by INPS (the Italian social security administration) in respect of the Wage Guarantee Fund.

"Indirect tax receivables" of euro 37,343 thousand (euro 32,916 thousand at 31 December 2015) 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" of euro 13,470 thousand (euro 133,439 thousand at 31 December 2015) 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. The decrease of euro 119,969 thousand in this balance is mainly due to the closing out of hedges after the VARD Group delivered two vessels, whose construction contracts were denominated in USD.

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

Note 15 – Income tax assets

(Euro/000)	31.12.2016	31.12.2015
Italian corporate income taxation (IRES)	18,337	23,663
Italian regional tax on productive activities (IRAP)	1,170	4,446
Foreign tax	3,561	6,757
TOTAL INCOME TAX ASSETS	**23,068**	**34,866**

The provision for impairment of income tax assets reports the following amounts and movements:

(Euro/000)	Provision for impairment of income tax assets
Balance at 1.1.2015	**4,342**
Increases/(Releases)	(2,300)
Other changes	
Total at 31.12.2015	**2,042**
Increases/(Releases)	
Other changes	
Total at 31.12.2016	**2,042**

Note 16 – Current financial assets

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Derivative assets	8,256	37,633
Other receivables	32,403	51,326
Government grants financed by BIIS	7,196	6,933
Accrued interest income	960	1,169
Prepaid interest and other financial expense	232	857
TOTAL CURRENT FINANCIAL ASSETS	**49,047**	**97,918**

"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 clients and deposits made by the VARD Group as security for certain contractual obligations to its lenders.

"Government grants financed by BIIS" (Banca Infrastrutture Innovazione e Sviluppo) report 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)	31.12.2016	31.12.2015
Bank and postal deposits	219,370	259,377
Checks	17	
Cash on hand	125	130
TOTAL CASH AND CASH EQUIVALENTS	**219,512**	**259,507**

Cash and cash equivalents at period end include euro 11,676 thousand in term bank deposits; the remainder refers to the balances on current accounts held with a number of banks.

Note 18 - Equity

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

The Ordinary Shareholders' Meeting held on 19 May 2016 adopted a resolution to cover the Parent Company's loss for 2015 of euro 112,732,364.50 by using the Extraordinary reserve, classified among Other reserves and retained earnings.
The composition of equity is analyzed in the following table:

(Euro/000)	31.12.2016	31.12.2015
Attributable to owners of the parent		
Share capital	862,981	862,981
Share premium reserve	110,499	110,499
Legal reserve	33,392	33,392
Cash flow hedge reserve	(25,291)	(1,886)
Available-for-sale fair value reserve	(226)	(226)
Currency translation reserve	(65,167)	(78,889)
Other reserves and retained earnings	145,825	386,755
Profit/(loss) for the year	24,102	(174,607)
	1,086,115	**1,138,019**
Attributable to non-controlling interests		
Capital and reserves	194,418	257,364
Available-for-sale fair value reserve	(180)	(180)
Currency translation reserve	(28,646)	(14,958)
Profit/(loss) for the year	(10,351)	(114,147)
	155,241	**128,079**
TOTAL EQUITY	**1,241,356**	**1,266,098**

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). As a result, 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 number of shares is unchanged compared with the previous year.

SHARE PREMIUM RESERVE

This reserve has been recorded as a result of the capital increase accompanying the Company's listing on the MTA 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.

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 prepared 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.

The VARD Group's purchase of shares from minority shareholders in the subsidiary Vard Promar in the second half of 2016 has led to a change of euro 65,155 thousand in other reserves and retained earnings. The Norwegian group increased its interest in the Brazilian subsidiary from 50.5% to 95.15% by subscribing in full to a capital increase through the conversion of shareholder loans the payment of euro 2 million in consideration to the outgoing minority shareholder; VARD and the minority shareholder have entered into a cross call and put option over the remaining 4.85% interest in share capital. This transaction has not altered the Fincantieri Group's scope of consolidation since Vard Promar was already fully consolidated; the change in the VARD Group's interest in Vard Promar must be treated as a ''transaction with owners" in which the difference between the value of the acquisition and the carrying amount of the non-controlling interest acquired is not recognized in profit or loss but in consolidated equity. As a result of the above transaction, the carrying amount of the entire non-controlling interest has been eliminated from consolidated equity.

NON-CONTROLLING INTERESTS

Most of the change compared with 31 December 2015 is due to VARD Group's acquisition of non-controlling interests in Vard Promar, with a negative equity value at the transaction date, resulting in a positive impact of euro 62,105 thousand on equity attributable to non-controlling interests. This effect was partially offset by euro 37,260 thousand in total comprehensive loss attributable to non-controlling interests.

OTHER COMPREHENSIVE INCOME/LOSSES

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

	31.12.2016			31.12.2015		
(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	(34,148)	8,978	(25,170)	(2,495)	803	(1,692)
Gains/(losses) from remeasurement of employee defined benefit plans	(2,081)	463	(1,618)	3,357	(1,374)	1,983
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method	(11,006)		(11,006)	(345)		(345)
Gains/(losses) arising on translation of financial statements of foreign operations	8,775	(8,741)	34	23,086		23,086
Total other comprehensive income/ (losses)	**(38,460)**	**700**	**(37,760)**	**23,603**	**(571)**	**23,032**

(Euro/000)	31.12.2016	31.12.2015
Effective portion of profits/(losses) arising in period on cash flow hedging instruments	(36,891)	(2,743)
Effective portion of profits/(losses) on cash flow hedging instruments reclassified to profit or loss	2,743	248
Effective portion of profits/(losses) on cash flow hedging instruments	**(34,148)**	**(2,495)**
Tax effect	**8,978**	**803**
TOTAL OCI FOR CASH FLOW HEDGES, NET OF TAX	**(25,170)**	**(1,692)**

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**
1.1.2015	**42,832**	**55,294**	**111**	**-**	**30,248**	**128,485**
Business combinations						
Increases	28,112	24,513	11	1,769	3,182	57,587
Utilizations	(25,212)	(22,326)			(721)	(48,259)
Releases	(73)	(19,497)	(4)		(2,114)	(21,688)
Other movements					(3,707)	(3,707)
Exchange rate differences	(110)	90		(120)	(313)	(453)
31.12.2015	**45,549**	**38,074**	**118**	**1,649**	**26,575**	**111,965**
Business combinations						
Increases	48,918	30,855	2	1,511	2,490	83,776
Utilizations	(37,489)	(17,781)	(30)	(676)	(862)	(56,838)
Releases	(563)	(8,048)	(14)	(59)	(3,651)	(12,335)
Other movements					(1,788)	(1,788)
Exchange rate differences	147	329		99	619	1,194
31.12.2016	**56,562**	**43,429**	**76**	**2,524**	**23,383**	**125,974**
- of which non-current portion	*54,746*	*35,733*	*76*		*19,250*	*109,805*
- of which current portion	*1,816*	*7,696*		*2,524*	*4,133*	*16,169*

Increases in the litigation provision mainly refer to: i) precautionary provisions for claims brought by employees, authorities or third parties for damages arising from asbestos exposure; ii) the provision against the risk associated with the "Serene" litigation, recognized after the ruling handed down in January 2017 by the Trieste Court of Appeal, which rejected Fincantieri's opposition thereby making the arbitration awards executive; iii) other provisions for litigation with employees and suppliers and for 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 has been set aside for the cost of the reorganization programs initiated by VARD in its Romanian and Norwegian shipyards.

The provision for "Other risks and charges" includes euro 8,254 thousand for environmental clean-up costs, while the remainder includes risks for 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)	2016	2015
Opening balance	**56,638**	**62,220**
Business combinations		
Interest cost	1,198	1,012
Actuarial (gains)/losses	2,082	(3,418)
Utilizations for benefits and advances paid	(2,060)	(4,003)
Staff transfers and other movements	(10)	826
Exchange rate differences		1
Closing balance	**57,848**	**56,638**
Plan assets	(71)	(64)
Closing balance	**57,777**	**56,574**

The balance at 31 December 2016 of euro 57,777 thousand comprises euro 57,845 thousand for employee severance benefit pertaining to the Group's Italian companies.

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:

	31.12.2016	31.12.2015
ECONOMIC ASSUMPTIONS		
Cost of living increase	1.50%	From 1.5% per annum in 2016 to 2.0% per annum from 2020 on
Discount rate	1.31%	2.03% per annum
Increase in employee severance benefit	2.625%	From 2.625% per annum in 2016 to 3.0% per annum from 2020 on
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%	3.0% per annum
Expected rate of advances on employee severance benefit	2.0%	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	3,570
Between 1 and 2 years	3,045
Between 2 and 3 years	2,756
Between 3 and 4 years	2,950
Between 4 and 5 years	3,294
Total	**15,615**

The Group paid a total of euro 33,352 thousand into defined contribution plans in 2016 (euro 34,474 thousand in 2015).

Note 21 – Non-current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Bond	298,405	297,604
Bank loans and credit facilities - non-current portion	229,286	298,490
Loans from BIIS - non-current portion	19,981	27,177
Liabilities to other lenders	1,655	4,300
Finance lease obligations	519	19
Derivative liabilities	40,758	10,108
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**590,604**	**637,698**

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 terms and conditions of the Bond allow holders to request early redemption of the bonds in the event of a change of control. The Bond's terms and conditions 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's terms and conditions 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)	**31.12.2016**	**31.12.2015**
Banca Carige S.p.A.	4,000	12,000
Banca Mediocredito del Friuli Venezia Giulia S.p.A.	16,765	21,035
Mediobanca	65,000	65,000
Banca Popolare di Ancona	40,000	30,000
Banca Popolare dell'Emilia Romagna	20,833	25,000
Cassa di Risparmio di San Miniato	10,000	15,000
Cassa Depositi e Prestiti S.p.A.	53,375	33,086
Unicredit Tiriac Bank SA	6,667	13,714
Innovation Norway	14,224	16,481
Nordea	3,302	3,905
Brazil (Banco do Brazil and BNDES)	101,160	105,763
Other loans and credit facilities	17,910	17,219
TOTAL BANK LOANS AND CREDIT FACILITIES	**353,236**	**358,203**
Non-current portion	*229,286*	*298,490*
Current portion	*123,950*	*59,713*

FINCANTIERI S.p.A. took out four new medium-long term unsecured loans in 2015: the first with Mediobanca for euro 65 million, repayable in a single instalment in May 2017; the second with Banca Popolare di Ancona for euro 35 million, repayable in 7 semi-annual instalments ending in December 2018; the third with Banca Popolare dell'Emilia Romagna for euro 25 million, repayable in 6 semi-annual instalments by June 2019; and the fourth with Cassa di Risparmio di San Miniato for euro 15 million, repayable in 6 semi-annual instalments from June 2016 to December 2018.

In November 2016, the Banca Popolare di Ancona granted the Company an additional medium/long-term unsecured loan for euro 20 million, repayable in 6 semi-annual instalments ending in February 2020.

In 2009, Banca Carige S.p.A. granted the Group a loan for euro 60 million repayable in semi-annual instalments no later than 31 January 2017, the outstanding balance of which was euro 4 million at 31 December 2016.

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

The exposure to Cassa Depositi e Prestiti S.p.A. refers to five soft loans received by the Company under the "revolving fund in support of businesses and investment in research" (the "Fund"), established under Law 311 of 30/12/2004, for the "Superpanamax cruise ship" development project, for the investment program involving the Palermo yard under Law 488 of 19/12/1992, for the "Ecomos" applied research project under Law 297/1999 and for four technological innovation projects under Law 46/1982 known as "Payload", "Environmental Logistics", "Production Engineering" and "Environment".

The following loans have been granted under this Fund and provided through the controlling company Cassa Depositi e Prestiti:

- a loan for up to euro 12,488 thousand, receivable in stages according to the progress of the relevant development project. The loan, of which euro 10,966 thousand has been received, is unsecured and must be repaid in semi-annual instalments 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 instalments by 30 June 2017;
- a loan for up to euro 4,405 thousand, of which euro 3,724 thousand has been received. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2020;
- a loan for up to euro 10,818 thousand, of which euro 8,654 thousand has been received. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- a loan for up to euro 13,043 thousand, of which euro 10,434 thousand has been received. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- a loan for up to euro 10,822 thousand, of which euro 8,658 thousand received by the end of 2016. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- a loan for up to euro 18,192 thousand, of which euro 14,554 thousand received by the end of 2016. The loan is unsecured and will be repaid in semi-annual instalments by 30 June 2024.

In December 2014, Vard Tulcea SA obtained a loan from Unicredit Tiriac Bank SA for euro 20 million. The residual amount of this loan at 31 December 2016 is euro 6.7 million. The loan is collateralized with shipyard assets and must be repaid in monthly instalments by December 2017.

The weighted average interest rate on the above loans, all of which denominated in Euro, was 1.54% at 31 December 2016.

Vard Group AS has six loans with Innovation Norway for a total of NOK 129 million (current and non-current portions) at 31 December 2016; these loans are secured by plant and machinery and by the dock at the Langesten shipyard and also carry covenants (net working capital > NOK 1,000 million and adjusted equity > NOK 2,100 million). Vard obtained a covenant waiver from Innovation Norway for the last quarter of 2016.

The subsidiary Vard Electro AS obtained a loan from a local bank in 2016 for NOK 59 million, maturing in 2032, to finance construction of its new headquarters.

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 (USD 4.5 million outstanding at the end of 2016), has had its maturity extended from 2014 to 2019. The loan is secured by a lien over the shares in Vard Holding Ltd. and by a parent company guarantee issued by the same.

Among the loans granted to the Brazilian subsidiaries, Vard Promar SA has a long-term financing agreement for USD 106 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 weighted average rate of interest on the above loans to Vard Group AS, Vard Singapore Pte. Ltd., Vard Electro AS, Vard Tulcea SA and Vard Promar SA was approximately 3.62% at 31 December 2016.
The non-current portion of bank loans and credit facilities reports the instalments due beyond one year of loans obtained from financial institutions, analyzed by maturity as follows:

(Euro/000)	31.12.2016			31.12.2015		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	17,286	35,760	53,046	16,669	101,833	118,502
- between two and three years	19,254	16,690	35,944	13,744	30,773	44,517
- between three and four years	18,892	7,487	26,379	15,361	9,296	24,657
- between four and five years	17,891	4,240	22,131	14,438	3,530	17,968
- beyond five years	83,868	7,917	91,785	87,365	5,481	92,846
Total	**157,191**	**72,094**	**229,285**	**147,577**	**150,913**	**298,490**

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

Note 22 – Other non-current liabilities

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Capital grants	31,514	29,161
Other liabilities	13,739	17,383
Firm commitments	2,980	
TOTAL OTHER NON-CURRENT LIABILITIES	**48,233**	**46,544**

"Capital grants" mainly comprise deferred income associated with grants for property, plant and equipment and grants for innovation (euro 31,514 thousand at 31 December 2016 and euro 29,161 thousand at 31 December 2015) 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 parties in respect of the amount owed by the Iraqi Ministry of Defense (see also Note 10 - Other non-current assets).

Note 23 - Construction contracts - liabilities

These are analyzed as follows:

	31.12.2016			31.12.2015		
(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	3,880,919	4,645,533	764,614	3,482,960	4,138,947	655,987
Other contracts for third parties	137,008	148,423	11,415	115,969	120,356	4,387
Client advances		85	85		18,253	18,253
Total	**4,017,927**	**4,794,041**	**776,114**	**3,598,929**	**4,277,556**	**678,627**

"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 client. The stage of completion is determined as the costs incurred to date plus recognized margins less any expected losses.

"Client advances" 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)	31.12.2016	31.12.2015
Payables to suppliers	1,204,623	1,179,401
Payables to suppliers for reverse factoring	102,037	
Social security payables	32,937	31,265
Other payables for deferred employee remuneration	65,385	57,000
Other payables	69,854	66,864
Indirect tax payables	12,611	11,694
Firm commitments	1,088	15,690
Accrued expenses	5,234	4,476
Deferred income	2,307	375
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	**1,496,076**	**1,366,765**

"Payables to suppliers" are euro 25,222 thousand higher than at 31 December 2015, essentially reflecting the growth in production activity during the year.

"Payables to suppliers for reverse factoring" report the liabilities to suppliers who have relinquished their creditor position with Fincantieri to a factoring company.

"Social security payables" of euro 32,937 thousand, refer to amounts due to INPS (the Italian social security administration) for employer and employee contributions on December's wages and salaries and contributions on end-of-year wage adjustments.

"Other payables" of euro 69,854 thousand, include employee income tax withholdings payable to 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 11,260 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. Comments on the change in the balance since 31 December 2015 can be found in Note 14.

Note 25 - Income tax liabilities

(Euro/000)	31.12.2016	31.12.2015
Italian corporate income taxation (IRES)	653	98
Italian regional tax on productive activities (IRAP)	531	54
Foreign tax	9,402	2,916
TOTAL INCOME TAX LIABILITIES	**10,586**	**3,068**

Note 26 - Current financial liabilities

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Bank loans and credit facilities - current portion	123,950	59,713
Loans from BIIS - current portion	7,196	6,933
Bank loans and credit facilities - Construction loans	677,578	1,102,556
Other short-term bank debt	290,602	185,917
Liabilities to other lenders - current portion	16,830	366
Bank credit facilities repayable on demand	16,336	1,278
Financial liabilities for the acquisition of equity investments	1,496	11,770
Payables to joint ventures	660	1,156
Finance lease obligations - current portion	411	298
Fair value of options on equity investments	18,025	17,452
Derivative liabilities	84,108	457,655
Accrued interest expense	2,852	2,767
TOTAL CURRENT FINANCIAL LIABILITIES	**1,240,044**	**1,847,861**

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 2016:

(Euro/000)	31.12.2016	31.12.2015
Construction loans		
Italy	100,000	120,050
Norway	276,388	624,023
Singapore		11,925
Brazil	301,190	346,557
TOTAL CONSTRUCTION LOANS	**677,578**	**1,102,556**

Construction loans are project specific and are secured by the vessels under construction. These loans are repaid in full by the time of vessel delivery or upon expiry of the loan agreement if earlier. It should also be noted that in the event of shipbuilding contract cancellation, the bank is entitled to request early repayment of the loan unless the Group provides adequate guarantees. Details of these loans are provided below:

- on 17 November 2016, the Parent Company finalized a construction loan with a leading national bank, in syndicate with Cassa Depositi e Prestiti, for a maximum of euro 300 million, for the purpose of financing cruise ship construction. As at 31 December 2016, euro 100 million had been drawn down against this loan, of which euro 33.3 million disbursed by Cassa Depositi e Prestiti;
- On 20 December 2016, the Parent Company finalized another construction loan with a

leading national bank for a maximum of euro 135 million. As at 31 December 2016, this loan had not been drawn down;

- the Norwegian subsidiaries (Vard Group AS and Seaonics AS) have construction loan facilities with leading international banks for a total of NOK 7,949 million. These facilities had been drawn down by a total of NOK 2,511 million at 31 December 2016. In addition, the loans to Vard Group AS (NOK 7,939 million) carry covenants on net working capital (which must be greater than or equal to NOK 1,000 million) and on equity (which must be greater than or equal to NOK 2,700 million). At 31 December 2016, the banks waived the net working capital and equity covenants for the last quarter of 2016;
- the Brazilian subsidiary Vard Promar SA has construction loans with leading Brazilian banks for a total of BRL 78 million for local content and USD 365 million for imported content. These loans had been drawn down at 31 December 2016 by BRL 68 million and USD 296.5 million respectively.

The construction loans drawn down at 31.12.2016 consist of a fixed-rate portion for approximately euro 282 million (carrying rates at 31 December 2016 of between 2.5% and 4.5%) and a variable-rate portion for about euro 396 million (carrying rates at 31 December 2016 of between 1.2% and 9.4%).

Some of the construction loans include immediate repayment clauses triggered by circumstances of economic and financial distress of clients, construction of whose ships is being financed with such loans. None of the main banks financing the VARD Group has reported the occurrence of such circumstances.

"Other short-term bank debt" at 31 December 2016 reflects committed lines drawn down by the Parent Company (euro 55 million) and two short-term loans taken out towards the end of 2015 and in the first quarter of 2016 (euro 35 million), while "Bank credit facilities repayable on demand" mainly refer to the drawdown of uncommitted lines of credit.

At 31 December 2016, the Group also had a total of euro 520 million in committed lines of credit with leading Italian and international banks maturing between 2017 and 2018, all of which related to FINCANTIERI S.p.A.. In addition to committed credit lines, the Group has access to additional uncommitted credit lines with leading international banks in different currencies (about euro 481 million).

With reference to "Financial liabilities for the acquisition of equity investments", the minority shareholders of Fincantieri USA have exercised their put option to sell their shareholding to Fincantieri. The Parent Company has therefore acquired the minority shareholder's interest in Fincantieri USA. The balance at 31 December 2016 of euro 1,496 thousand refers to the options held by the minority shareholders of the VARD Group, recognized in 2016 when acquiring the minority shares in Vard Promar.

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

"Fair value of options on equity investments" (Level 3) amounting to euro 18,025 thousand is related to the option held by minority shareholders of the Fincantieri Marine Group, the change in which since 2015 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)	2016	2015
Sales and service revenue	4,372,981	3,715,351
Change in construction contracts	(26,226)	409,723
Operating revenue	**4,346,755**	**4,125,074**
Gains on disposal	335	189
Sundry revenue and income	54,693	48,935
Government grants	32,339	8,749
Total other revenue and income	**87,367**	**57,873**
TOTAL REVENUE AND INCOME	**4,434,122**	**4,182,947**

Sundry revenue and income comprise:

(Euro/000)	2016	2015
Penalties charged to suppliers	9,671	9,606
Rental income	1,091	1,385
Insurance claims	12,028	15,837
Recharged costs	5,723	8,001
Income from third parties relating to personnel	343	245
Other sundry income	16,174	9,554
Gains on held-for-trading foreign currency derivatives	5,967	4,282
Gains on hedging instruments not qualifying for hedge accounting	3,686	
Other income	10	25
Total	**54,693**	**48,935**

"Recharged costs", of euro 5,723 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories.
"Other sundry income" of euro 16,174 thousand mainly includes the recharge of services made available to subcontractors at the shipyards and out-of-period income and adjustments 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)	2016	2015
Raw materials and consumables	(2,294,193)	(2,375,716)
Services	(980,873)	(869,415)
Leases and rentals	(43,260)	(45,321)
Change in inventories of raw materials and consumables	10,080	15,982
Change in inventories work in progress and finished products	6,481	4,555
Sundry operating costs	(40,525)	(93,513)
Cost of materials and services capitalized in fixed assets	45,881	19,182
Total materials, services and other costs	**(3,296,409)**	**(3,344,246)**

The change in “Sundry operating costs” mainly reflects recognition of the change in fair value of derivatives.
Sundry operating costs also include euro 1,102 thousand in losses on the disposal of non-current assets (euro 1,447 thousand at 31 December 2015).
Materials, Services and Other costs also include euro 389 thousand in non-recurring expenses, as reported in Note 32.
Details of the cost of services are as follows:

(Euro/000)	2016	2015
Subcontractors and outsourced services	(530,172)	(464,393)
Insurance	(40,068)	(37,764)
Other personnel costs	(25,998)	(26,238)
Maintenance costs	(19,901)	(22,761)
Commissioning and trials	(12,366)	(11,983)
Outsourced design costs	(23,373)	(27,818)
Licenses	(4,599)	(4,426)
Transportation and logistics	(21,880)	(20,748)
Technical and other services	(242,946)	(203,879)
Cleaning services	(31,425)	(27,509)
Electricity, water, gas and other utilities	(45,535)	(43,684)
Utilization of product warranty and other provisions	17,390	21,788
Total cost of services	**(980,873)**	**(869,415)**

“Leases and rentals” amounting to euro 43,260 thousand (euro 45,321 thousand in 2015) include rental and hire costs of euro 23,369 thousand (euro 25,837 thousand in 2015), lease costs of euro 17,031 thousand (euro 16,539 thousand in 2015), and concession and similar fees of euro 2,860 thousand (euro 2,945 thousand in 2015).

OPERATING LEASES

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

(Euro/000)	2016	2015
Maturity of future minimum operating lease payments:		
Within 1 year	13,197	16,390
Between 1 and 5 years	27,659	36,077
Beyond 5 years	22,295	25,918
Total	**63,151**	**78,385**

PERSONNEL COSTS

(Euro/000)	2016	2015
Personnel costs:		
- wages and salaries	(618,609)	(633,020)
- social security	(185,346)	(187,797)
- costs for defined contribution plans	(33,352)	(34,474)
- other personnel costs	(34,994)	(27,184)
Personnel costs capitalized in fixed assets	14,459	4,100
Total personnel costs	**(857,842)**	**(878,375)**

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

Personnel costs include euro 10,069 thousand in non-recurring expenses (see Note 32).

HEADCOUNT

Employees are distributed as follows:

(number)	2016	2015
Employees at period end:		
Total at period end	19,181	20,019
- of whom in Italy	7,939	7,771
- of whom in Parent Company	7,433	7,337
- of whom in VARD	8,982	9,957
Average number of employees	19,050	21,120
- of whom in Italy	7,790	7,701
- of whom in Parent Company	7,330	7,289
- of whom in VARD	9,015	11,173

DEPRECIATION, AMORTIZATION AND IMPAIRMENT AND PROVISIONS

(Euro/000)	2016	2015
Depreciation and amortization:		
- amortization of intangible assets	(26,248)	(28,422)
- depreciation of property, plant and equipment	(83,144)	(80,639)
Impairment:		
- impairment of intangible assets	(2)	
- impairment of property, plant and equipment	(54)	(2,599)
Total depreciation, amortization and impairment	**(109,448)**	**(111,660)**
Provisions:		
- other impairment losses		(530)
- impairment of receivables	(698)	(1,597)
- increases in provisions for risks and charges	(83,776)	(56,387)
- release of provisions and impairment reversals	12,338	23,021
Total provisions	**(72,136)**	**(35,493)**

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" refer to provisions for contractual warranties (euro 30,854 thousand versus euro 24,513 thousand in 2015), to provisions for litigation (euro 48,919 thousand versus euro 28,112 thousand in 2015), to provisions for business reorganization (euro 1,511 thousand versus euro 1,769 thousand in 2015) and to other provisions for future charges (euro 2,492 thousand versus euro 1,933 thousand in 2015). More details about the nature of the provisions made can be found in Note 19.
Provisions include euro 1,452 thousand in non-recurring expenses (see Note 32).

Note 29 -Finance income and costs

These are analyzed as follows:

(Euro/000)	2016	2015
FINANCE INCOME		
Interest and other income from financial assets	4,767	4,111
Income from derivative financial instruments	1,353	973
Bank interest and fees and other income	5,171	6,314
Foreign exchange gains	37,491	42,234
Total finance income	**48,782**	**53,632**
FINANCE COSTS		
Interest and fees charged by joint ventures	(674)	(833)
Interest and fees charged by controlling companies	(179)	(66)
Expenses from derivative financial instruments	(5,705)	(12,788)
Interest on employee benefit plans	(1,104)	(889)
Interest and fees on bonds	(12,051)	(12,020)
Interest and fees on construction loans	(36,601)	(36,129)
Bank interest and fees and other expense	(36,343)	(37,121)
Foreign exchange losses	(22,570)	(89,067)
Total finance costs	**(115,227)**	**(188,913)**
TOTAL FINANCE INCOME AND COSTS	**(66,445)**	**(135,281)**

"Finance income" includes euro 1,084 thousand (euro 1,342 thousand in 2015) in interest 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).
The decrease in "Expenses from derivative financial instruments" is due to the favorable trend in the EUR-USD interest rate differential during 2016.
The reduction in "Foreign exchange losses" is primarily attributable to the favorable trend in the USD/BRL and EUR/USD exchange rates.

Note 30 - Income and expense from investments

These are analyzed as follows:

(Euro/000)	2016	2015
INCOME		
Dividends from other companies	27	29
Other income from investments	394	
Total income	**421**	**29**
EXPENSE		
Provision for losses on investments		(79)
Fair value measurement losses	(3,135)	(2,458)
Losses on disposal of investments		(2)
Total expense	**(3,135)**	**(2,539)**
INCOME/(EXPENSE) FROM INVESTMENTS	**(2,714)**	**(2,510)**
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Profit	176	3,024
Loss	(6,995)	(3,120)
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	**(6,819)**	**(96)**
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**(9,533)**	**(2,606)**

With reference to investments carried at fair value, the loss of euro 3,135 thousand reflects the impairment of the carrying amount of the investment in Rem Offshore ASA, hit by a financial crisis during the year.

As regards investments accounted for using the equity method (see Note 8), the entire profit of euro 176 thousand refers to the Group's share of the result for the year reported by Orizzonte Sistemi Navali. The loss reflects euro 473 thousand for the Group's share of the results for the year of Camper & Nicholsons International SA, euro 231 thousand for the share of the results for the year of Unifer Navale S.r.l., euro 1,593 thousand for the share of the results for the year of Rem Supply AS, euro 913 thousand for the share of the results for the year of DOF Iceman AS, euro 1,830 thousand for the share of the results for the year of Olympic Green Energy KS and euro 1,955 thousand for the share of the results for the year of the VARD Group's other associates.

Note 31 - Income taxes

These are analyzed as follows:

(Euro/000)	2016		2015	
Current taxes		**(9,690)**		**22,035**
Deferred tax assets:				
– sundry impairment losses	(10,325)		24,854	
– product warranty	976		(3,357)	
– other risks and charges	2,036		(3,445)	
– carryforward tax losses	(6,730)		(3,434)	
– other items	15,752		5,263	
– tax rate and other changes	(704)		(10,843)	
		1,005		**9,038**
Deferred tax liabilities:				
– other items	127		4,887	
		127		**4,887**
Total deferred taxes		**1,132**		**13,925**
TOTAL INCOME TAXES		**(8,558)**		**35,960**

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 217 thousand in expenses were recognized in 2016 for income taxes relating to previous periods.

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

(Euro/000)	2016	2015
Theoretical corporate income tax rate (IRES)	**27.50%**	**27.50%**
Profit/(loss) before tax	22,309	(324,714)
Theoretical corporate income tax (IRES)	**(6,135)**	**89,296**
Impact of taxes relating to prior periods	(218)	8,904
Non-taxed income and non-deductible expenses		
Impact of tax losses		
Impairment of deferred tax assets	(4,609)	(8,604)
Impact of permanent differences and unrecognized temporary differences	8,639	(33,624)
Impact of temporary differences not recognized in previous years	321	392
Effect of change in tax rates	1,732	(13,694)
Impact of different tax rates applicable to foreign entities	(2,886)	(10,629)
IRAP charged to profit or loss	**(5,402)**	**3,919**
Total income taxes through profit or loss	**(8,558)**	**35,960**
Current taxes	(9,690)	22,215
Deferred taxes	1,132	13,745

Note 32 - Other information

NET FINANCIAL POSITION

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

(Euro/000)	31.12.2016	31.12.2015
A. Cash	142	130
B. Other cash equivalents	219,370	259,377
C. Held-for-trading securities		
D. Cash and cash equivalents (A)+(B)+(C)	**219,512**	**259,507**
E. Current financial receivables	**33,595**	**53,352**
- of which related parties	*550*	*752*
F. Current bank debt	(306,938)	(187,195)
- of which related parties	*(20,000)*	*(20,000)*
G. Current portion of non-current debt	(126,802)	(62,480)
- of which related parties	*(36,939)*	*(2,976)*
H. Other current financial liabilities	(19,397)	(13,590)
- of which related parties	*(660)*	*(12,926)*
I. Current debt (F)+(G)+(H)	**(453,137)**	**(263,265)**
J. Net current debt (D)+(E)+(I)	**(200,030)**	**49,594**
K. Non-current financial receivables	**114,472**	**112,811**
- of which related parties	***6,718***	***9,061***
L. Non-current bank debt	(229,286)	(298,490)
- of which related parties	*(49,769)*	*(30,164)*
M. Bond	(298,405)	(297,604)
N. Other non-current financial liabilities	(2,174)	(4,319)
O. Non-current debt (L)+(M)+(N)	**(529,865)**	**(600,413)**
P. Net non-current debt (K)+(O)	**(415,393)**	**(487,602)**
Q. Net financial position (J)+(P)	**(615,423)**	**(438,008)**

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)	31.12.2016	31.12.2015
Net financial position	**(615,423)**	**(438,008)**
Non-current financial receivables	(114,472)	(112,811)
Construction loans	(677,578)	(1,102,556)
Net financial position as per ESMA recommendation	**(1,407,473)**	**(1,653,375)**

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

In accordance with Consob Communication no. 0092543 of 3 December 2015 with reference to the provisions of Consob Resolution no. 15519 of 27 July 2006, only items considered to be non-recurring have been presented on the face of the financial statements, and not extraordinary ones outside of ordinary operations. The items reported refer to costs of restructuring plans and other non-recurring personnel costs presented gross of euro 527 thousand in tax effects.

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 2016.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2016							
(Euro/000)	Non-current financial assets	Current financial assets	Advances (*)	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.								
CASSA DEPOSITI E PRESTITI S.p.A.				34,034		(49,769)	(36,939)	(62)
TOTAL CONTROLLING COMPANIES				**34,034**		**(49,769)**	**(36,939)**	**(62)**
ORIZZONTE SISTEMI NAVALI S.p.A.				77,308			(660)	(1,902)
UNIFER NAVALE S.n.l.								(75)
CAMPER & NICHOLSON INTERNATIONAL SA		499						
ETIHAD SHIP BUILDING LLC			2,100	15,060				(3,928)
TOTAL JOINT VENTURES		**499**	**2,100**	**92,368**			**(660)**	**(5,905)**
BRIDGE EIENDOM AS								
REM SUPPLY AS								
OLYMPIC GREEN ENERGY KS								
DOF ICEMAN AS	6,532							
BREVIK TECHNOLOGY AS	186							
CSS DESIGN Ltd.					731			
OLYMPIC CHALLENGER KS		51						
CASTOR DRILLING SOLUT. AS								
TOTAL ASSOCIATES	**6,718**	**51**			**731**			
CDP IMMOBILIARE S.r.l.				3,250				
TIRRENIA DI NAVIGAZIONE S.p.A.				10,760				
SIMEST S.p.A.								
SACE FCT S.p.A.				6				
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,144)
COMETA NATIONAL PENSION FUND								(3,461)
OTHER								(153)
TOTAL CDP GROUP				**14,016**				**(4,758)**
HORIZON SAS								(1)
QUANTA S.p.A.								(438)
BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENT. S.p.A.							(20,000)	
LEONARDO GROUP			287	42				(8,787)
ENI GROUP			3	278				(53)
ENEL GROUP								
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE				175				(51)
TOTAL OTHER RELATED PARTIES			**290**	**495**			**(20,000)**	**(9,330)**
TOTAL RELATED PARTIES	***6,718***	***550***	***2,390***	***140,913***	***731***	***(49,769)***	***(57,599)***	***(20,055)***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	138,270	49,047	590,310	1,383,064	16,155	(590,604)	(1,240,044)	(1,496,076)
% on consolidated statement of financial position	*5%*	*1%*	*0%*	*10%*	*5%*	*8%*	*5%*	*1%*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2015							
(Euro/000)	Non-current financial assets	Current financial assets	Advances (*)	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.								(25)
CASSA DEPOSITI E PRESTITI S.p.A.				24,068		(30,164)	(2,976)	(90)
TOTAL CONTROLLING COMPANIES				**24,068**		**(30,164)**	**(2,976)**	**(115)**
ORIZZONTE SISTEMI NAVALI S.p.A.				86,535			(1,156)	(1,376)
CAMPER & NICHOLSONS INT. SA		4						
CAMPER & NICHOLSONS INT. SA		264						
ETIHAD SHIP BUILDING LLC			2,100	19,513				(3,837)
TOTAL JOINT VENTURES		**264**	**2,100**	**106,048**			**(1,156)**	**(5,213)**
BRIDGE EIENDOM AS	448							
REM SUPPLY AS	555							
OLYMPIC GREEN ENERGY KS	1,250	82						
DOF ICEMAN AS	6,543							
BREVIK TECHNOLOGY AS		357						
CSS DESIGN					704			
OLYMPIC CHALLENGER KS		49						
CASTOR DRILLING SOLUT. AS	104							
TOTAL ASSOCIATES	**8,900**	**488**			**704**			
CDP IMMOBILIARE S.r.l.				3,250				
TIRRENIA DI NAVIGAZIONE S.p.A.				10,760				
SIMEST S.p.A.							(11,770)	(464)
SACE FCT S.p.A.		10						
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,207)
COMETA NATIONAL PENSION FUND								(2,858)
OTHER	161			18				(173)
TOTAL CDP GROUP	**161**			**14,028**			**(11,770)**	**(4,702)**
HORIZON SAS								(1)
QUANTA S.p.A.								(1)
BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENT. S.p.A.							(20,000)	
LEONARDO GROUP			1,219	165				(5,595)
ENI GROUP				721				(1,426)
ENEL GROUP				342				
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE				29				
TOTAL OTHER RELATED PARTIES			**1,219**	**1,257**			**(20,000)**	**(7,022)**
TOTAL RELATED PARTIES	***9,061***	***752***	***3,319***	***145,401***	***704***	***(30,164)***	***(35,902)***	***(17,052)***
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	141,586	97,918	404,908	888,033	10,728	637,698	1,847,861	1,366,765
% on consolidated statement of financial position	6%	1%	1%	16%	7%	5%	2%	1%

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31.12.2016				
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance	Oneri finanziari
FINTECNA S.p.A.			(10)		
CASSA DEPOSITI E PRESTITI S.p.A.			(94)		(777)
TOTAL CONTROLLING COMPANIES			**(104)**		**(777)**
ORIZZONTE SISTEMI NAVALI S.p.A.	296,443	1,124	(1,280)		(674)
UNIFER NAVALE S.r.l.			(75)		
ETIHAD SHIP BUILDING LLC	520	428	(3,006)		
TOTAL JOINT VENTURES	**296,963**	**1,552**	**(4,361)**		**(674)**
BREVIK TECHNOLOGY AS				16	
REM SUPPLY AS				20	
OLYMPIC GREEN ENERGY KS				56	
DOF ICEMAN AS				216	
TOTAL ASSOCIATES				**308**	
SIMEST S.p.A.			(347)		
SACE S.p.A.					
SACE BT S.p.A.					(132)
SACE FCT S.p.A.		10			
OTHER		26	(875)		
TOTAL CDP GROUP		**36**	**(1,221)**		**(132)**
HORIZON SAS		13			
QUANTA S.p.A.			(2,320)		
EXPERIS S.r.l.			(450)		
LEONARDO GROUP	35	67	(5,675)		
ENI GROUP	1,886	42	(966)		
ENEL GROUP	315				
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE	127	16	(51)		
TOTAL OTHER RELATED PARTIES	**2,363**	**138**	**(9,462)**		
TOTAL RELATED PARTIES	***299,326***	***1,726***	***(15,149)***	***308***	***(1,583)***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4,346,755	87,367	(3,296,409)	48,782	(115,227)
% on consolidated statement of comprehensive income	*7%*	*2%*	*0%*	*1%*	*1%*

Costs for contributions incurred in 2016 and included in personnel costs amounted to euro 1,239 thousand for the Pension Fund for Senior Managers of FINCANTIERI S.p.A. and euro 1,387 thousand for the Cometa National Pension Fund.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31.12.2015				
(Euro/000)	Operating revenue	Other revenue and income	Materials, services and other costs	Finance	Oneri finanziari
FINTECNA S.p.A.			(25)		
CASSA DEPOSITI E PRESTITI S.p.A.			(90)		(229)
TOTAL CONTROLLING COMPANIES			**(115)**		**(229)**
ORIZZONTE SISTEMI NAVALI S.p.A.	399,926	920	(130)		(833)
UNIFER NAVALE S.r.l.					
ETIHAD SHIP BUILDING LLC	5,624	491	(1,776)		
TOTAL JOINT VENTURES	**405,550**	**1,411**	**(1,906)**		**(833)**
BREVIK TECHNOLOGY AS				8	
REM SUPPLY AS				26	
OLYMPIC GREEN ENERGY KS				61	
DOF ICEMAN AS				192	
TOTAL ASSOCIATES				**287**	
SIMEST S.p.A.			(696)		
SACE S.p.A.					(172)
SACE BT S.p.A.					(413)
SACE FCT S.p.A.					(413)
OTHER		35	(306)		
TOTAL CDP GROUP		**35**	**(1,002)**		**(585)**
HORIZON SAS		34	(183)		
QUANTA S.p.A.					
EXPERIS S.r.l.					
LEONARDO GROUP	213	629	(13,426)		
ENI GROUP	473	126	(7,563)		
ENEL GROUP	336				
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE	112		(126)		
TOTAL OTHER RELATED PARTIES	**1,134**	**789**	**(21,298)**		
TOTAL RELATED PARTIES	***406,684***	***2,235***	***(24,321)***	***287***	***(1,647)***
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4,125,074	57,873	(3,344,246)	53,632	(188,913)
% on consolidated statement of comprehensive income	10%	4%	1%	1%	1%

Costs for contributions incurred in 2015 and included in personnel costs amounted to euro 3,756 thousand for the Pension Fund for Senior Managers of FINCANTIERI S.p.A. and euro 8,106 thousand for the Cometa National Pension Fund.

The main related party relationships refer to:

- Orizzonte Sistemi Navali S.p.A., under the agreement signed in 2006 with the Italian Navy relating to the first phase of the “Renaissance” (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 2016 and 2015 relate to its current account with Fincantieri under a centralized treasury management arrangement;

- Horizon, in connection with an agreement for the construction of naval vessels between Horizon and the supranational agency acting on behalf of the French and Italian Navies. This relationship ceased in 2016 after this company was put into liquidation;
- the ENI Group, in 2016 mainly with reference to maintenance work on platforms belonging to SAIPEM S.p.A.. Dealings in 2015 referred to an agreement to form an Offshore hub with Rosetti Marino S.p.A., an ENI Group associate company;
- the LEONARDO group, in connection with agreements to supply and install combat systems for naval vessels under construction;
- Tirrenia di Navigazione S.p.A., with whom the receivables at 31 December 2016 and 2015 mainly refer to refitting of the Tirrenia fleet;
- CDP Immobiliare S.r.l. (formerly Fintecna Immobiliare S.r.l.), with whom the receivables at 31 December 2016 and 2015 refer to sale of a piece of land;
- Simest S.p.A., with whom the financial liabilities at 31 December 2015 related to the put option to purchase shares in Fincantieri USA, duly exercised in 2016;
- costs and revenue or receivables and payables with other related parties at 31 December 2016 and 2015, 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:

- four Indemnity and Guarantee Agreements entered into by FINCANTIERI S.p.A. during 2016 with SACE S.p.A. to cover any breach of obligations under export credit insurance policies with a total maximum payout of euro 2,086 million.
- the grant of a construction loan to FINCANTIERI S.p.A. in November 2016 from Cassa Depositi e Prestiti S.p.A., in syndicate with a leading national bank, for a maximum of euro 300 million (of which euro 100 million the share of Cassa Depositi e Prestiti), intended to finance the construction of cruise ships. As at 31 December 2016, euro 100 million had been drawn down against this loan, of which euro 33.3 million disbursed by Cassa Depositi e Prestiti.

The increase in financial liabilities with Cassa Depositi e Prestiti S.p.A. is due to the receipt in December 2016 of euro 8,658 thousand and euro 14,554 thousand as the initial disbursements of the soft loans relating to the “Production Engineering” and “Environment” technological innovation projects under Law 46/1982, repayable in June 2024.

It is also reported that FINCANTIERI S.p.A. entered into four Exporter Indemnity Agreements with SIMEST S.p.A., qualifying as a standard less material related party transactions. Also with reference to standard less material transactions, FCT SACE and SACE BT have entered into a reverse factoring agreement that allows the Parent Company’s suppliers to factor their receivables from the same for a maximum amount payable of euro 50 million.

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

(Euro/000)	Emoluments of office [1]	Non-monetary benefits	Bonuses and other incentives	Other remuneration
		2016		
Board of Directors of Parent Company	1,596	4	793[4]	-
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		101		1,904
Independent Auditors for Parent Company	333			300
		2015		
Board of Directors of Parent Company	1,357	5	518[3]	-
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		199		6,712[2]
Independent Auditors for Parent Company	356			155

(1) Excluding amounts paid on behalf of subsidiaries
(2) This figure includes euro 3,885 thousand paid to general managers upon termination of employment.
(3) This amount does not include the medium-term incentive linked to qualitative parameters, for an amount of euro 430 thousand, covering an 18-month period (1 January 2015 - 30 June 2016). This incentive was paid in the second half of 2016, once the Board of Directors had reviewed the achievement of the specific performance conditions and the Compensation Committee consulted accordingly.
(4) This amount includes the medium-term incentive paid in 2016, linked to qualitative parameters, for an amount of Euro 430 thousand, relating to the period 1 January 2015 – 30 June 2016 (See note 3 for 2015). The remaining euro 363 thousand refers to payment in 2016 of the 2015 MBO bonus.

More details can be found in the Remuneration 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 Cassa Depositi e Prestiti S.p.A., the controlling company.

BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

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

		31.12.2016	**31.12.2015**
Profit/(loss) attributable to owners of the parent	Euro/000	25,491	(174,607)
Weighted average number of shares outstanding	Number	1,692,119,070	1,692,119,070
Basic/Diluted Earnings/(Loss) Per Share	**Euro**	**0.01506**	**(0.10319)**

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). Diluted earnings per share are the same as basic earnings per share since there is no dilution.

GUARANTEES

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

(Euro/000)	2016	2015
Sureties	14,089	17,273
Other guarantees	558	558
Total	**14,647**	**17,831**

"Sureties" at 31 December 2016, like in 2015, entirely refer to guarantees issued on behalf of the joint venture Orizzonte Sistemi Navali S.p.A..
"Other guarantees", whose amount has remained unchanged since 2015, mainly relate to release letters issued on behalf of Horizon to the French Ministry of Defense (euro 558 thousand).

MEDIUM/LONG-TERM INCENTIVE PLAN

On 10 November 2016, the Board of Directors of Fincantieri approved a proposed medium/long-term share-based incentive plan for top management, known as the Performance Share Plan 2016-2018 (the "Plan"), and voted to submit this plan for the approval of the Shareholders' Meeting that will be convened to approve the financial statements for the year ended 31 December 2016, pursuant to art. 114-bis, par. 1, of Italy's Consolidated Law on Finance. The Board of Directors also approved the Terms & Conditions of the Plan, whose validity is subject to the Plan's approval by the shareholders.
The Plan, structured in three three-year cycles, provides for the free grant, to a maximum of 50 beneficiaries identified by the Board of Directors, of entitlements to receive a maximum of 50,000,000 Fincantieri ordinary shares without nominal value, based on the achievement of specific performance targets for the three-year periods 2016-2018 (first cycle), 2017-2019 (second cycle) and 2018-2020 (third cycle). The performance targets for the Plan's first cycle have been identified as EBITDA and Total Shareholder Return ("TSR"), deemed to represent objective criteria for the measurement of long-term value creation for the Company. The performance targets for the second and third cycles will be identified at the time of granting the related entitlements.
The Plan provides for a three-year vesting period for all beneficiaries. Therefore, if the performance targets are achieved and the other conditions of the Plan's Terms & Conditions satisfied, the shares vesting for the first cycle will be allotted and delivered to beneficiaries in 2019, while those vesting for the second and third cycles will be allotted and delivered in 2020 and 2021 respectively.
The Plan also provides for a lock-up period for part of the shares given to members of the Board of Directors or key management personnel.
The source of the shares serving the Plan will be the subject of specific proposals that the Board of Directors will submit for the approval of the above mentioned Shareholders' Meeting.

LITIGATION

Foreign litigation

With reference to the "Iraq" dispute, described in detail in the Notes to the Consolidated Financial Statements at 31 December 2014, it is recalled that a series of meetings was scheduled in May 2015 in Baghdad to agree the operating contracts (Refurbishment Contract and Combat System Contract), as a prerequisite under the Settlement Agreement to ending the dispute. Probably due to the worsening of the internal conflict, the Iraqi government requested (and obtained) an extension of the existing agreements until 30 June 2016. Meanwhile, with the final deadline for reactivating the proceedings pending before the Court of Appeal of Paris (against the arbitration award in favor of Fincantieri) about to be reached, the Iraqi government duly reactivated these proceedings. The next hearing in these initial proceedings, to which Fincantieri is a party, is due to take place on 24 October 2017. We believe that this decision by the Iraqi government is not indicative of a definitive change in thinking, but rather an inevitable step to preserve the position. It is therefore our intention to resume dialogue with the Iraqi government. The prudent approach already adopted nonetheless remains confirmed.

As regards the "Serene" dispute, in July 2015 Fincantieri lodged its opposition with the Trieste Court of Appeal (against the shipowner's request for recognition of foreign arbitration awards in Italy) in order to have the awards confirmed as contrary to domestic and international public order, as well as to enforce the revocation of the awards themselves for procedural fraud. A ruling was handed down in late January 2017, with the unexpected rejection of the Fincantieri appeal. The Company's lawyers are preparing to appeal to Italy's Court of Cassation, with the intent of having the various faults in the ruling recognized, and believe there to be a reasonable chance of success in this court. Following the ruling by the Trieste Court of Appeal, which made the arbitration awards executive, the Company has recognized a specific provision for risks (see Note 19).

At the same time, with reference to the verification action brought early in February 2015 in the specialized industrial property division of the Court of Venice, intended to confirm that the shipowner is not the owner of any intellectual property rights (which, as erroneously recognized by the Arbitration Panel, places a latent constraint on Fincantieri's freedom to do business), this is at an investigative stage and the next hearing is scheduled for November 2017. The Company's lawyers have confirmed a reasonably optimistic opinion regarding this case.

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 him major physical injury, 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 first hearing of this appeal has been postponed to a date still to be determined. 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, originally scheduled for 8 December 2015, has been postponed to 6 June 2017.

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 in Trieste and to the office of FMSNA in San Diego. After a series of preliminary steps under applicable procedural law, Fincantieri has been excluded from the lawsuit in California. As for the lawsuit in Florida, the hearing on the Fincantieri exclusion request took place on 16 November 2016 and the related decision is expected in coming months.

Further to the losses incurred on eight shipbuilding contracts with Petrobras Transpetro S.A., the Brazilian subsidiary Vard Promar S.A. unsuccessfully attempted an out-of-court renegotiation of the terms of these contracts. Accordingly, in September 2015, the subsidiary initiated legal proceedings to obtain compensation for the losses incurred and to redress the contractual economic imbalance, for a total amount of BRL 244 million (approximately euro 60 million). The preliminary review has confirmed the existence of a contractual imbalance, but the quantification of damages and the outcome of the proceedings depend on the final report, forming the basis upon which the competent court will reach its decision.

In December 2015, Transpetro terminated the contracts for the construction of two vessels and demanded repayment of its previous advance payments. The related claim has been brought in the court of the State of Rio de Janeiro.

VARD has not recognized any receivable in its financial statements at 31 December 2016 for the Transpetro disputes.

Italian litigation

Client 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 legal actions are continuing against Tirrenia and Siremar (under special administration), with the Company winning a legal victory regarding its request for preferential payment of part of the Tirrenia receivable, even though no payment had been received as at 31 December 2016.

As for recovery of the amount owed by Energy Recuperator S.p.A., which had made significant counterclaims, a settlement was reached in April 2016 allowing the case to be closed with receipt of part of the contested credit.

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 or contractor breaches of contract. In some cases, it has been considered appropriate to bring negative assessment actions against such alleged claims relating in one case to rectification of an alleged excessive downward adjustment applied to a relationship described by the other party as a subcontract and in another case, following the termination of orders commissioned and reaching of a settlement agreement.

A provision for risks and charges has been recognized for those disputes not thought to 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 2016.

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 subcontractors under the customer co-liability principle; iii) compensation for direct and indirect damages arising from the production process; iv) civil actions for injury compensation claims.

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 six 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 upheld the prosecutor's appeal against such rejection, referring the proceedings back to the Court.

In an order dated 21 May 2015, the court instructed the seizure of some areas and buildings, duly executed by the Environmental Operations Task Force of the Italian Military Police on 29 June 2015. Following the entry into force of Legislative Decree no. 92 of 4 July 2015, the Gorizia Prosecutor's Office subsequently ordered the release of the shipyard's seized areas on 6 July 2015.

Between March and April 2014, notices of conclusion of preliminary investigations were served not only 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 offences of "willful removal or omission of precautions against workplace accidents" and "bodily harm" under articles 437 and 590 of the Italian Criminal Code and of violation of certain provisions of Legislative Decree no. 81/2008, but also 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, the proceedings against the members of the Board of Directors and the Oversight Board and the two General Managers were dismissed, while the other employees of the Company at the date of the incident, as notified above, were formally indicted. Gorzia's public prosecutor has challenged the dismissal in the Court of Cassation which, at the end of the hearing held on 20 January 2016, rejected the appeal and upheld the dismissal of the action against members of the Board of Directors and the Oversight Board, and the two General Managers.

Between September and October 2014, notices of conclusion of preliminary investigations were served not only 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 offences 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, but also 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. The Company and former Monfalcone shipyard manager were notified early in July 2016 that they would be brought to trial and of the date of the preliminary hearing. The notification indicates that, further to the above dismissal, the claims against the Board of Directors, the Oversight Board and General Managers have been withdrawn. At the preliminary hearing, initially scheduled for 8 November 2016 and later postponed to 28 February 2017, the judge ruled there was no case against the Company due to intervening time-barring of the offence under Legislative Decree no. 231/01. All the defendants, however, were ordered to stand trial.

In September 2015, notices of conclusion of preliminary investigations were served not only on the former Monfalcone shipyard manager and three other employees under investigation for violation of art. 19, letter f), and art. 71 of Legislative Decree no. 81/2008 (respectively concerning breach of management obligations and failure to provide suitable personal protective equipment) and in general of art. 2087 of the Italian Civil Code (failure to adopt suitable measures to protect worker health), but also on the Company itself, under art. 25-septies, par. 1, 2 and 3, of Legislative Decree no. 231/2001, in connection with an accident on 24 November 2009 at the Monfalcone shipyard involving an employee, resulting in a sprained shoulder that took a year to heal.

In November 2015, notices of conclusion of preliminary investigation were served not only on the former Monfalcone shipyard manager, under investigation for the offence of "bodily harm" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree no. 81/2008, but also on the Company itself, under art. 25-septies, par. 3, of Legislative Decree no. 231/2001, in connection with an accident on 14 March 2011 at the Monfalcone yard involving an employee who fractured the middle finger of his right hand, which took eight months to heal.

In March 2016, notices of conclusion of preliminary investigation were served not only on the former Monfalcone shipyard manager, under investigation for the offence of "bodily harm" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree no. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take the suitable measures to protect worker health), but also on the Company itself under art. 25-septies, par. 3, of Legislative Decree no. 231/2001, in connection with an accident on 29 March 2012 at the Monfalcone yard involving an employee who injured the fifth finger of his left hand, which took eight months to heal.

In June and July 2016, notices of conclusion of preliminary investigation were served on the former Monfalcone shipyard manager, under investigation for the offense of "bodily harm" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree no. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take the suitable measures to protect worker health), but also on the Company itself under art. 25-septies, par. 3, of Legislative Decree no. 231/2001, in connection with an accident on 25 August 2010 at the Monfalcone shipyard involving an employee of a contractor with a contusion to his left knee, requiring more than forty days to get better.

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)

The appeal brought by the subsidiary Fincantieri Oil & Gas S.p.A. against the rejection of the application for CFC exemption with reference to its subsidiary Vard Holdings Limited in Singapore is still pending.

Audits and assessments

Fincantieri

A settlement was reached during 2016 regarding the tax audit of fiscal year 2011, resulting in a charge of euro 386 thousand to the income statement.

Marine Interiors

The Italian Revenue Service has initiated a tax audit in 2017 of fiscal year 2015.

Foreign Group companies

The appeal by the subsidiary Vard Niteroi S.A. (Brazil) against the assessment notified in 2014 is still pending. The first-instance administrative ruling had an adverse outcome and so an appeal has been lodged. VARD has not recognized any provision for this dispute because it expects a favorable outcome at the next stages of the legal process.

HEADCOUNT

The Group's average workforce numbered 19,050 employees in 2016 (21,120 in 2015), distributed between the various contractual grades as follows:

(number)	2016	2015
Average headcount:		
- Senior managers	367	350
- Middle managers	949	944
- White collars	6,090	6,268
- Blue collars	11,644	13,558
Total average number of employees	**19,050**	**21,120**

Note 33 – Cash flows from operating activities

These are analyzed as follows:

(Euro/000)	31.12.2016	31.12.2015
Profit/(loss) for the year	13,751	(288,754)
Depreciation and amortization	109,392	109,061
(Gains)/losses from disposal of property, plant and equipment	767	1,258
(Revaluation)/impairment of property, plant and equipment, intangible assets and equity investments	10,010	5,683
Increases/(releases) of provisions for risks and charges	71,441	35,899
Interest on employee benefits	1,263	1,011
Interest income	(9,938)	(10,425)
Interest expense	85,848	86,169
Income taxes	8,558	(35,960)
Impact of unrealized exchange rate changes	(19,261)	36,246
Gross cash flows from operating activities	**271,831**	**(59,812)**
CHANGES IN WORKING CAPITAL		
- inventories	(172,486)	(21,264)
- construction contracts and client advances	1,257,918	(731,375)
- trade receivables	(558,655)	53,641
- other current assets and liabilities	(244,393)	150,916
- other non-current assets and liabilities	(539)	124
- trade payables	116,030	137,653
Cash flows from working capital	**669,706**	**(470,117)**
Dividends paid		(48)
Interest income received	9,165	9,635
Interest expense paid	(44,580)	(72,541)
Income taxes (paid)/collected	(353)	19,901
Utilization of provisions for risks and charges and for employee benefits	(58,980)	(55,138)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**574,958**	**(568,308)**
- of which related parties	*8,392*	*(40,547)*

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, Systems, Components and Services and Other Activities.

The Shipbuilding operating segment is engaged in the design and construction of cruise ships, ferries, naval vessels (for the Italian and foreign navies) and Mega yachts. Production is carried out at the Group's shipyards in Italy and the United States.

The Offshore operating segment is engaged in the design and construction of high-end support vessels, expedition cruise vessels, specialized ships and vessels for offshore wind farms and open ocean aquaculture, and in the offer of innovative products in the field of drillships and semi-submersible natural gas drilling rigs. Fincantieri operates in this market primarily through the VARD Group.

The Equipment, Systems and Services operating segment is engaged in the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, integrated systems and ship accommodation, and in the provision of repair and conversion services, logistical support and after-sales services.

Other activities primarily refer to the cost of activities by corporate headquarters, which have not been 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/(loss) 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, amortization and impairment, (vii) costs associated with the " Wage Guarantee Fund", (viii) costs relating to reorganization plans and other non-recurring personnel costs, (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.

After an operational reorganization in November 2016, the businesses of repairs and conversions, ship accommodation and integrated systems, previously included in the Shipbuilding operating segment, are now part of the Equipment, Systems and Services operating segment.

This reorganization reflects the Group's strategy of developing the after-sales business in the area of accommodation and integrated systems.

The results of the operating segments at 31 December 2016 and 31 December 2015 are reported in the following pages.

	2016				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**3,245,745**	**959,655**	**495,033**	**1,203**	**4,701,636**
Intersegment elimination	(2,767)	(56,825)	(212,203)	(1,024)	(272,819)
Revenue (*)	**3,242,978**	**902,830**	**282,830**	**179**	**4,428,817**
EBITDA	**185,198**	**50,677**	**61,642**	**(30,862)**	**266,655**
EBITDA margin	***5.7%***	***5.3%***	***12.5%***		***6.0%***
Depreciation, amortization and impairment					(109,448)
Finance income					48,782
Finance costs					(115,227)
Income/(expense) from investments					(2,714)
Share of profit of investments accounted for using the equity method					(6,819)
Income taxes					(8,558)
Extraordinary and non-recurring income and expenses					(58,920)
Profit/(loss) for the year					**13,751**

(*) 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 13,121 thousand) are presented in the following table.

(Euro/000)	2016
Costs associated with the " Wage Guarantee Fund" (1)	(982)
Costs relating to reorganization plans and other non-recurring personnel costs (2)	(11,910)
Provisions for costs and legal expenses associated with asbestos-related lawsuits (3)	(27,319)
Other non-recurring income and expenses (4)	(18,709)
Extraordinary and non-recurring income and expenses	**(58,920)**

(1) Amount included in "Personnel costs".

(2) Of which euro 0.4 million included in "Materials, services and other costs", euro 10.1 million in "Personnel costs" and euro 1.4 million in "Provisions".

(3) Of which euro 4.9 million included in "Materials, services and other costs" and euro 22.5 million in "Provisions".

(4) This mainly refers to a provision recognized against risks in connection with the "Serene" litigation.

	2015 (**)				
(Euro/000)	Shipbuilding	Offshore	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**2,651,834**	**1,198,493**	**497,752**	**1,301**	**4,349,380**
Intersegment elimination	(23,827)	(15,828)	(125,799)	(979)	(166,433)
Revenue (*)	**2,628,007**	**1,182,665**	**371,953**	**322**	**4,182,947**
EBITDA	**(33,568)**	**(2,603)**	**41,832**	**(31,238)**	**(25,577)**
EBITDA margin	***(1.3)%***	***(0.2)%***	***8.4%***		***(0.6)%***
Depreciation, amortization and impairment					(111,660)
Finance income					53,632
Finance costs					(188,913)
Income/(expense) from investments					(2,510)
Share of profit of investments accounted for using the equity method					(96)
Income taxes					35,960
Extraordinary and non-recurring income and expenses					(49,590)
Profit/(loss) for the year					**(288,754)**

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

(**) The 2015 comparative figures have been restated after redefining the operating segments.

Details of “Extraordinary and non-recurring income and expenses” (gross of the tax effect of euro 12,643 thousand) are presented in the following table.

(Euro/000)	2015
Costs associated with the " Wage Guarantee Fund" (1)	(3,023)
Costs relating to reorganization plans and other non-recurring personnel costs (2)	(16,961)
Provisions for costs and legal expenses associated with asbestos-related lawsuits (3)	(29,408)
Other non-recurring income and expenses	(198)
Extraordinary and non-recurring income and expenses	**(49,590)**

((1) Amount included in “Personnel costs”.

(2) Of which euro 5 million included in “Materials, services and other costs”, euro 10.2 million in “Personnel costs” and euro 1.8 million in “Provisions”.

(3) Of which euro 2.6 million included in “Materials, services and other costs” and euro 26.8 million in “Provisions”.

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

(Euro/million)	31.12.2016	31.12.2015
Italy	653	601
Other countries	411	372
Total Property, plant and equipment	**1,064**	**973**

Capital expenditure in 2016 on Intangible assets and Property, plant and equipment amounted to euro 224 million (euro 161 million in 2015), of which euro 177 million relating to Italy (euro 120 million in 2015) and the remainder to other countries.
The following table shows a breakdown of revenue and income between Italy and other countries, according to client country of residence:

(Euro/million)	31.12.2016		31.12.2015	
	Revenue and income	%	Revenue and income	%
Italy	726	16%	623	15%
Other countries	3,703	84%	3,560	85%
Total Revenue and income	**4,429**		**4,183**	

The following table shows those clients 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)	31.12.2016		31.12.2015	
	Revenue and income	%	Revenue and income	%
Client 1	973	22%	849	20%
Client 2	526	12%	438	10%
Total Revenue and income	**1,499**		**4,183**	

Note 35 - Assets classified as held for sale and liabilities directly associated with assets classified as held for sale

Assets classified as held for sale refer to the assets of Multifag As, a subsidiary of the VARD Group, expected to be sold in 2017. The balance of euro 6,314 thousand mainly consists of cash and cash equivalents (for euro 533 thousand), inventories (for euro 2,832 thousand) and trade receivables (for euro 1,943 thousand).
Liabilities directly associated with assets classified as held for sale report the liabilities of Multifag AS. The balance of euro 4,811 thousand mainly consists of trade payables (for euro 3,184 thousand) and tax payables (for euro 485 thousand).

Note 36 - Events after 31 december 2016

On 3 January 2017, Fincantieri received a letter from Samil PricewaterhouseCoopers, advisor to STX Europe, notifying it that it had been selected as preferred bidder in the sale of a 66.66% stake in STX France SA.

On 10 January 2017, VARD signed an order with Torghatten Nord, a new client, for the construction of two LNG-powered car and passenger ferries designed for environmentally friendly operations in the Norwegian fjords.

On 17 January 2017, VARD announced it had signed a letter of intent with an international cruise company for the construction of an expedition cruise vessel at its shipyards in Romania and Norway.

On 19 January 2017, Fincantieri signed a memorandum of agreement with Carnival Corporation & plc for the construction of two new cruise ships, with an overall value in excess of euro 1 billion, for Holland America Line and Princess Cruises.

On 26 January 2017, "Viking Sky", the third of six cruise ships Viking Ocean Cruises has ordered from Fincantieri, was delivered at the Fincantieri shipyard in Ancona.

On 14 February 2017, VARD signed a contract with Aker BioMarine for the construction of one krill fishing vessel for fishing operations in Antarctica.

On 16 February 2017, Fincantieri secured an order from Norwegian Cruise Line Holdings Ltd. for the construction of 4 new-generation cruise ships for the Norwegian Cruise Line brand, with an option for 2 more vessels. The value of each ship is approximately euro 800 million, with one delivery per year from 2022 to 2025, stretching to 2027 if the option is confirmed.

On 20 February 2017, Fincantieri and Ferretti Group announced they had signed a wide-scope cooperation agreement with the goal of developing commercial and industrial synergies between the two Italian companies, world leaders in their respective markets. The agreement relates to the security and defense sector and to the recreational yachting industry, areas in which the two groups have relevant and complementary capabilities and expertise, the sharing of which could open up many possibilities.

On 22 February 2017, Fincantieri, China State Shipbuilding Corporation (CSSC) and Carnival Corporation & plc signed a binding Memorandum of Agreement (MoA) for the construction of two cruise ships, with an option for four more, which will be the first vessels of this kind ever built in China for the Chinese market. The parties signed the MoA on behalf of the joint venture between Fincantieri and CSSC Cruise Technology Development Co., Ltd (CCTD), of the joint venture between Carnival Corporation and CSSC, and of the shipyard Shanghai Waigaoqiao Shipbuilding Co., Ltd.

On 27 February 2017, Marco Minniti, Italy's Minister of the Interior, and Giampiero Massolo, Fincantieri Chairman, signed a National Legality Framework Agreement at the Ministry's headquarters in Rome. Also in attendance was Fincantieri CEO Giuseppe Bono. The agreement, aimed at preventing attempts at infiltration by organized crime, is based on the experience of several such agreements signed by the Group at a local level, and is a major milestone that will standardize anti–mafia checking procedures nationally for contractors and subcontractors at all Fincantieri Group locations.

On 28 February 2017, Vard Holdings Limited announced its financial results for the fourth quarter 2016 and for the year ended 31 December 2016.

On 3 March 2017, the Brazilian subsidiary Vard Promar S.A. received an assessment for about euro 3 million for a municipal tax on services, applied to the value of two vessels delivered.

The subsidiary has not recognized any provisions based on the opinion of its legal advisors who consider the claim to be based on erroneous factual and legal suppositions.

On 8 March 2017, Vard Singapore Pte. Ltd. delivered the Offshore Subsea Construction Vessel "Far Superior" to Farstad Shipping ASA. The delivery, originally scheduled for 20 November 2016, had been postponed in agreement with the owner engaged in process of financial restructuring.

On 24 March 2017, Fincantieri announced that the voluntary general offer for shares in VARD (the "Offer") had closed with acceptances for total of 215,946,242 shares. Following the Offer and the purchase of VARD shares on the Singapore Stock Exchange during the Offer period, as at 24 March 2017, the total number of VARD shares owned directly or indirectly, controlled or agreed to be acquired by Fincantieri O&G, amounted to an aggregate number of 878,523,910 VARD shares, representing approximately 74.45% of VARD's share capital. The consideration for the Offer Shares tendered in acceptance of the Offer is SGD 51,827,098.08 (approx. euro 34,281,715.89 at the exchange rate on 24 March 2017) while that paid for the VARD shares acquired on the Singapore Stock Exchange (excluding brokerage fees, clearing fees and applicable tax) is SGD 1,465,536.00 (approx. euro 969,398.07 at the exchange rate on 24 March 2017). VARD was consolidated by the Fincantieri Group on a line-by-line basis even before the Offer and so the outcome of the Offer has no impact on the quantitative targets previously published by Fincantieri.

Appendix 1

Companies included in the scope of consolidation

COMPANY NAME Principal activity	**Registered office**		**Share capital**	**(%) interest held**		**% con-solidated 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	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	USA	USD	501,000.00	100.00	Fincantieri Holding B.V.	100.00
FMSNA YK Servicing and sale of spare parts	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	6,562,000.00	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 AUSTRALIA Pty Ltd. Shipbuilding support activities	Australia	AUD	2,200,100.00	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI USA Inc. Holding company	USA	USD	1,029.75	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI MARINE GROUP HOLDINGS Inc. Holding company	USA	USD	1,027.97	87.44	Fincantieri USA Inc.	87.44
FINCANTIERI MARINE GROUP LLC. Ship building and repair	USA	USD	1,000.00	100.00	Fincantieri Marine Group Holdings Inc.	87.44
MARINETTE MARINE CORPORATION Ship building and repair	USA	USD	146,706.00	100.00	Fincantieri Marine Group LLC.	87.44
ACE MARINE LLC. Building of small aluminium ships	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

COMPANY NAME Principal activity	**Registered office**		**Share capital**	**(%) interest held**		**% con-solidated by Group**
FINCANTIERI INDIA Pte. Ltd. Design, technical support and marketing	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	5,120,000.00	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
FINCANTIERI SWEDEN AB Sale, maintenance and after-sales service for a series of systems, equipment and related activities	Sweden	SEK	5,000,000.00	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI (SHANGHAI) TRADING Co. Ltd Engineering design, consulting and development	China	CNY	3,500,000.00	100	Fincantieri S.p.A.	100
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	10,000,000.00	100.00	Vard Holdings Ltd.	55.63
VARD SHIPHOLDING SINGAPORE Pte. Ltd. Charter of boats, ships and barges	Singapore	USD	1.00	100	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 ELECTRO ITALY S.r.l. Installation, production, sale and assistance for electrical equipment and parts	Genoa (Italy)	EUR	200,000.00	100.00	Vard Electro 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	339,383,790.00	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	95.15	Vard Group AS	52.93
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
SEAONICS AS Offshore handling systems	Norway	NOK	29,130,00.00	56.40	Vard Group AS	31.38
VARD SEAONICS HOLDING AS Dormant	Norway	NOK	30,000.00	100.00	Vard Group AS	55.63
SEAONICS POLSKA SP. Z O.O. Engineering services	Poland	PLN	50,000.00	100.00	Seaonics AS	28.37
VARD DESIGN LIBURNA Ltd. Design and engineering	Croatia	HRK	20,000.00	51.00	VARD Design AS	28.37

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest held		% con-solidated by Group
VARD ELECTRO TULCLEA 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	7,000,000.00	99.00 1.00	VARD Electro AS VARD Tulcea SA	55.63
VARD TULCEA SA Shipbuilding	Romania	RON	151,606,459.00	99.996 0.004	Vard RO Holding S.r.l. Vard Group As	55.63
VARD BRAILA SA Shipbuilding	Romania	RON	165,862,177.50	94.12	VARD RO Holding S.r.l.	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	99.77 0.23	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 Group AS	55.63
VARD ENGINEERING BREVIK AS Design and engineering	Norway	NOK	105,000.00	70.00	Vard Group AS	38.94
VARD OFFSHORE BREVIK AS Offshore industrial services and installation	Norway	NOK	100,000.00	100.00	Vard Group AS	55.63
VARD SHIP REPAIR BRAILA SA Ship repair	Romania	RON	7,798,340.00	68.58	VARD Braila SA	55.63
BREVIK ELEKTRO AS Onshore electrical installation	Norway	NOK	100,000.00	100.00	Multifag AS	55.63
VARD MARINE INC. Design and engineering	Canada	CAD	12,783,700.00	100.00	Vard Group AS	55.63
VARD MARINE US INC. Ship design and marine engineering	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
VARD CONTRACTING AS Various shipbuilding services	Norway	NOK	3,000,000.00	100.00	Vard Group AS	55.63
ICD SOFTWARE AS Automation and control system software	Norway	NOK	839,000.00	100.00	Seaonics AS	28.37
ICD INDUSTRIES ESTONIA OÜ Automation and control system software	Estonia	EUR	5,200.00	100.00	ICD Software AS	28.37
SIA ICD INDUSTRIES LATVIA Automation and control system software	Latvia	EUR	33,164	100.00	ICD Software AS	28.37
INDUSTRIAL CONTROL DESIGN AS Automation and control system software	Norway	NOK	30,000	100.00	ICD Software AS	28.37
VARD ELECTRO CANADA Inc.	Canada	CAD	100,000.00	100.00	Vard Electro AS	55.63
CDP TECHNOLOGIES AS Research and development of technology	Norway	NOK	302,204.00	100.00	Seaonics AS	28.37
STORVIK AQUA AS Supplier of aquaculture equipment	Norway	NOK	1,100,000.00	94.64	Vard Group AS	52.65
STORVIK SA Supplier of aquaculture equipment	Chile	CLP	137,989,917.00	95.00	Storvik Aqua AS	50.02

COMPANY NAME Principal activity	Registered office		Share capital	(%) interest held		% consolidated by Group
STORVIK AQUA Ltd Supplier of aquaculture equipment	UK	GBP	10,000.00	100.00	Storvik Aqua AS	52.65
JOINT VENTURES CONSOLIDATED USING THE EQUITY METHOD						
ORIZZONTE SISTEMI NAVALI S.p.A. Management of large naval vessel contracts	Genoa (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
CAMPER & NICHOLSON INTERNATIONAL SA Luxury yachting broker Various services relating to luxury yachts	Luxembourg	EUR	940,850.00	49.96	Fincantieri S.p.A.	49.96
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT LTD Design and marketing of cruise ships	Hong Kong	Euro	2.00	40.00	Fincantieri S.p.A.	40.00
UNIFER NAVALE S.r.l. Piping	Modena (Italy)	EUR	150,000.00	20.00	Seaf S.p.A	20.00
ASSOCIATES CONSOLIDATED USING THE EQUITY METHOD						
CASTOR DRILLING SOLUTION AS Offshore drilling technology	Norway	NOK	196,082.00	34.07	Seaonics AS	9.65
OLYMPIC CHALLENGER KS Shipowner	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 Group AS	27.82
BREVIK TECHNOLOGY AS Holding of technology licenses and patents	Norway	NOK	45,000.00	34.00	VARD Group AS	18.91
MOKSTER SUPPLY AS Shipowner	Norway	NOK	13,296,000.00	40.00	VARD Group AS	22.25
MOKSTER SUPPLY KS Shipowner	Norway	NOK	120,000,000.00	36.00	VARD Group AS	20.03
REM SUPPLY AS Shipowner	Norway	NOK	345.000,00	26,66	VARD Group AS	14,83
OLYMPIC GREEN ENERGY KS Shipowner	Norway	NOK	125.000.000,00	30,00	VARD Group AS	16,69
DOF ICEMAN AS Shipowner	Norway	NOK	23.600.000,00	50,00	VARD Group AS	27,82
TAKLIFT AS Floating cranes	Norway	NOK	2,450,000.00	25.47	VARD Brevik Holding AS	14.17
DAMECO AS Maintenance services	Norway	NOK	606,000.00	34.00	Vard Offshore Brevik AS	18.91
CSS DESIGN LIMITED Design and engineering	British Virgin Islands	GBP	100.00	31.00	Vard Marine Inc.	17.25
CANADIAN SUBSEA SHIPPING COMPANY AS Shipowner	Norway	NOK	100,800.00	45.00	Vard Group AS	25.03

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:
   a. the suitability in relation to the business's organization and,
   b. the effective application, of the administrative and accounting processes for the preparation of the consolidated financial statements, during financial year 2016.
2. The suitability of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2016 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.
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.

29 March 2017

chief executive officer

Giuseppe Bono

manager responsible for preparing financial reports

Carlo Gainelli

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Fincantieri SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Fincantieri SpA and its subsidiaries ("Fincantieri Group"), which comprise the statement of financial position as of 31 December 2016, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Fincantieri SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Fincantieri Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Fincantieri SpA, with the consolidated financial statements of the Fincantieri Group as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Fincantieri Group as of 31 December 2016.

Trieste, 13 April 2017

PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Glossary

1 - OPERATING ACTIVITIES

Dry-dock

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

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.

Mega yachts

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

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.

National tax consolidation

FAn 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.

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 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.

Order book

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

Order intake

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

Refitting/refurbishment

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

Shipowner

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

Soft backlog

Value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which yet reflected in the order backlog.

Total backlog

This is calculated as the sum of the order backlog and soft backlog.

Total order book

This is calculated as the sum of the order book and soft backlog.

2 - ACCOUNTING AND FINANCE

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.

Business combination

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

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/(loss) 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 "Wage Guarantee Fund", (vii) costs relating to reorganization plans and other non-recurring personnel costs, (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/(loss) 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, amortization and impairment, (vii) costs associated with the "Wage Guarantee Fund", (viii) costs relating to reorganization plans and other non-recurring personnel costs, (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.

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.

Net expenditure/disposals

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

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 invested capital

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

Net working capital

This is equal to capital employed in ordinary operations which includes Inventories and advances, Construction contracts and advances from clients, 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).

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.

Revenue

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

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.

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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