Once again 2017 was an extraordinary year for your Company in contrast with a market context that is still difficult for the merchant shipbuilding industry, which has been badly affected by demand for new construction not being enough to saturate worldwide production capacity, despite the orders finalized during year having doubled compared to 2016.

In this context, the cruise ship industry continues to record exceptional performance which is demonstrated by the orders for 23 ships with more than 10,000 tons in gross tonnage, without counting the contracts that are under definition and options. Added to this, there are orders for smaller vessels, confirming an expansion of the market for luxury-niche vessels, which is of particular interest for the success of the subsidiary VARD’s diversification policy.

Cruise tourism continues to rise arriving at 25.8 million passengers and confirming expectations for further growth in future years. Substantial investment programs in new construction projects are fuelled by the favourable trend in demand for cruise ships, the identification of new target customer segments, and the emergence of a demand for the replacement of ships belonging to top-level companies that were built in the early 1990s.

The global order book at the end of the year amounts to 80 ships for a total of 225,600 low beds, 43% of the fleet’s supply capacity of low beds, and is distributed across 18 shipowner groups and 30 brands. The picture was quite different ten years ago, before the financial crisis: the order book amounted to 40 ships for a total of 105,200 low beds and was distributed across six shipowner groups, for a total of 16 brands. We are therefore facing a much larger market, a greater number of clients and a demand for highly customized products.

The picture for shipbuilders, however, has not changed very much: consolidated European shipbuilders have a firm hold on the sector, holding 90% of the order book, while increased demand in the small ship sector, combined with the unavailability of slots at the major shipyards, has encouraged some small-medium newcomers who have been hit by the absence of orders in the merchant sector to adopt diversification strategies.

In the naval sector, in a context of increased defense spending, 2017 was characterized by the finalizing of programs to nearly all domestic shipbuilders. Fincantieri’s US subsidiary received confirmation of the order for the LCS 27, the fourteenth Freedom class vessel in the Littoral Combat Ships program.

The US Navy confirmed the original requirement for 52 ships, developing the program towards a new “fast frigate” design to be awarded between 2019 and 2025. Fincantieri Marine Group is participating in this tender as both Prime Contractor with a parent design based on the FREMM and as part of a consortium with Lockheed Martin, moving forward with an evolution of the LCS Freedom design.

On foreign markets Fincantieri has intensified its commitment in Australia with its
participation in the Future Frigates - SEA 5000 program. The Company has been shortlisted for
the construction of 9 future generation frigates for the Royal Australian Navy, with a value of
around AUD 35 billion, one of the most important programs in the world for surface naval vessels.
The year also saw the design activities initiated on the order for the Qatari Ministry of Defense.
One of the most important events of the year concerned competition and, in particular, the
launch of an Italo-French roadmap to strengthen cooperation in the naval defense sector.
The decision by the two Governments to embark on a joint process that paves the way for
the future creation of a gradual alliance in the naval defense sector between Naval Group and
Fincantieri is a crucial breakthrough for actually starting the sector consolidation that has been
talked about for years.
The two groups will define a roadmap detailing the principles of the future alliance by June 2018.
Added to this is the agreement reached between the two Governments on the shareholding
structure of STX France, which envisages both Naval Group and Fincantieri as shareholders,
another step towards cooperation in the naval sector.
The positive assessment of the year’s financial statements is based on the examination of the
performance indicators, which all show improvement, strengthened by the strategic process
undertaken, one that is absolutely unique in the sector.
Fincantieri’s positioning is even stronger than in the past and, owing to the commitment of all
its employees, the Company is able to ensure all its stakeholders a long path of prosperity for
the coming years, pursuing integration and enhancing synergies with the other high-specialized
companies that are now part of the Group.
To our Shareholders,

The results achieved by Fincantieri in 2017 have strengthened its leadership, confirming the caliber of its strategic choices and its capacity to manage the increased complexity at operational level caused by growth.

2017 ended with record revenues of over euro 5 billion, rising significantly compared to the previous year (+13%), an EBITDA of euro 341 million (+28%) with an increasing margin of 6.8%, an Adjusted Profit for the year of euro 91 million (+52%) and a Profit for the year of euro 53 million, nearly four times the Profit for the previous year.

The net financial position is negative for euro 314 million (negative for euro 615 million at 31 December 2016).

Over the year, the stock exchange has also shown its favorable opinion of the company: performance of the FINCANTIERI S.p.A. stock has continued the trend that began in the second quarter of 2016, with a stock price that varied from euro 0.47 per share on 30 December 2016 to euro 1.25 per share on 29 December 2017, with a corresponding market capitalization of over euro 2.1 billion.

Total backlog1 exceeds euro 26 billion, with a backlog of euro 22 billion, with, including options, means ship deliveries until 2027. The substantial commercial effort has led to orders worth euro 8.6 billion. A new prestigious client has been acquired in the cruise ship segment, the Norwegian Cruise Line, which commissioned four new generation ships.

Moreover, MSC Cruises has confirmed its confidence in us by awarding the construction of two vessels, an evolution of the Seaside class prototype, called Seaside EVO.

In 2017, Fincantieri also confirmed its capacity to complete complex projects within the contractual deadlines, delivering five cruise ships, including the MSC Seaside, the first prototype for the MSC shipowner which, together with its sister ship MSC Seaview (delivery of which is expected in spring 2018), represents the new reference standard in terms of respecting the environment as well as complying with the Safe Return to Port requirement.

In the naval business, work continued on the program to renew the Italian Navy fleet and design started on the orders for the Qatari Ministry of Defense.

Employment in the group has risen since last year, with over 19,500 employees at the end of the year; this rise is mainly due to the increase in the number of people employed in the Italian shipyards.

In short, we have kept all our promises made in the Business Plan 2016-2020, confirming the goals set and also tackling new challenges.

We have signed a share purchase agreement with the French Government for 50% of the share capital of STX France and we are continuing with the preparation of a roadmap to cement the alliance with the French Naval Group in the naval defense sector.

Our integration with Naval Group and STX France should create an entity with an international presence in over 20 countries, with around 35,000 employees and an

1 Sum of backlog and soft backlog.
estimated subcontractor network of over 120,000 people, able to generate annual revenues for over euro 10 billion, with an order backlog of over euro 50 billion and a portfolio of cutting-edge products with unparalleled technological capability.

In other words, a European player with recognized technological leadership, a unique client base and product portfolio, presence in all the higher value segments of naval shipbuilding and, consequently, equipped with a greater capacity to respond to market fluctuations and international competition.

We are pursuing our delisting application for the Norwegian subsidiary VARD and at the same time dealing with the integration process. The Norwegian company continues its successful diversification policy in the luxury-niche cruise ship segment and in fishing and aquaculture.

At the same time, the integration process continues in production with the use of capacity in Romania to support Fincantieri’s massive order backlog for cruise ships.

Today Fincantieri is a leader, a reference in global shipbuilding, a set of highly-specialized entities which can count on skills and resources in the various areas of cruise ships, offshore, naval vessels and service activities for both civil and naval fleets.

Our resistance strategy through the crisis has become an expansion plan which has seen us disembark in the United States, Norway, on the stock market, and more recently in China. However, we are still not prepared to content ourselves, just consider our shortlisting in the Australian tender.

The Group’s wealth is based on its differentiation, breadth of skills, availability of machinery and human resources and network of subcontractors, making it more than capable of protecting the interests of its numerous stakeholders.

Fincantieri reflects our global company, it is able to establish itself in, and effectively reach, the market using its capillary network; the different individuals that make up Fincantieri are its real strength, combined with the shared vision that binds everyone together and drives the sense of belonging, or rather the “pride of belonging”.

The significant order backlog demonstrates our competitiveness and the confidence placed in us by the market. I would like to thank all our employees for their huge commitment now and in the future. A challenging path lies ahead of us as we meet the expectations of clients and promote the integration of the various Group companies, by working as a team to enhance diversity and talent.

Giuseppe Bono
FINCANTIERI CHIEF EXECUTIVE OFFICER
PARENT COMPANY
DIRECTORS
AND OFFICERS
Board of Directors
(2016-2018)

Chairman
Giampiero Massolo

Chief Executive Officer
Giuseppe Bono

Councilors
Gianfranco Agostinetto
Simone Anichini
Massimiliano Cesare
Nicoletta Giadrossi
Paola Muratorio
Fabrizio Palermo
Donatella Treu

Secretary
Umberto Baldi

Manager responsible for preparing financial reports
Carlo Gainelli

Oversight board
Leg. Decree 231/01

Chairman
Guido Zanardi

Members
Stefano Dentilli
Giorgio Pani

Independent auditors
(2013-2021)

PricewaterhouseCoopers S.p.A.

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.
OUR VISION

We aspire to become world leaders in all sectors requiring cutting-edge marine solutions, and to stand out for diversification and pioneering work.

The Sea Ahead: all those who work at Fincantieri steer for this course: talented men and women working responsibly to help develop our idea of a future increasingly characterized by technology, performance and sustainability.
OUR MISSION

Technological development and continuous improvement are the goals that we have set for ourselves, and we are strongly determined to pursue them. Our every action, project, initiative or decision is based on principles and guidelines that are implemented across the Group: strict observance of the law, labor protection and protection of the environment, safeguarding the interests of our shareholders, employees, clients, trade and financial partners, local communities and group, creating value for every stakeholder.
WHO WE ARE

Fincantieri is one of the world’s largest shipbuilding groups and number one for 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 19,500 employees, of whom more than 8,300 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.
OVERVIEW
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.

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

SHIPYARDS AND DOCKS

EUROPE

ITALY
Trieste
Monfalcone
Marghera
Sestri Ponente
Genova
Riva Trigoso - Muggiano
Ancona
Castellammare di Stabia
Palermo

NORWAY
Aukra
Brattvaag
Brevik
Langsten
Silviknes

ROMANIA
Braila
Tulcea

ASIA

VIETNAM
Vung Tau

AMERICAS

USA
Marinette
Sturgeon Bay
Green Bay

BRAZIL
Suape

more than 19,500
EMPLOYEES
20
SHIPYARDS
4
CONTINENTS
MAIN SUBSIDIARIES

EUROPE

ITALY
Fincantieri S.p.A. (Headquarter)
Orizzonte Sistemi Navali
CETENA
Delfi
Seastema
Isotta Fraschini Motori
Fincantieri Oil & Gas
Seaf
Marine Interiors
Fincantieri SI
Fincantieri Infrastructure
Issel Nord

NORWAY
Vard Group (Headquarter)
Vard Design
Vard Piping
Vard Electro
Vard Accommodation
Seasonics

PRINCIPALITY OF MONACO
Camper & Nicholson's International

SWEDEN
Fincantieri Sweden

POLAND
Seasonics 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

QATAR
Fincantieri
Services Middle East

SINGAPORE
Fincantieri Singapore R.O.
Vard Holdings
Vard Shipholdings Singapore

JAPAN
FMSNA YK

AMERICAS

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

CANADA
Vard Marine

BRAZIL
Fincantieri do Brasil
Partecipacoes

OCEANIA

AUSTRALIA
Fincantieri Australia
HIGHLIGHTS

- **RESULTS IN LINE WITH THE BUSINESS PLAN 2016-2020 GOALS**

- **SIGNING OF THE SHARE PURCHASE AGREEMENT FOR 50% OF THE CAPITAL OF STX FRANCE WITH THE FRENCH GOVERNMENT**

- **INCREASED EMPLOYMENT IN ITALY, WITH NEARLY 400 NEW JOBS CREATED DIRECTLY AND 1,600 IN THE SUBCONTRACTOR NETWORK**

- **ANNOUNCEMENT OF THE DELISTING PROPOSAL OF THE SUBSIDIARY VARD**

- **ORDER INTAKE OF EURO 8.6 BILLION (+31%)**
  - **ACQUISITION OF THE NEW BRAND NORWEGIAN CRUISE LINE**
  - **TWO SEASIDE EVO SHIPS FOR MSC CRUISES**

- **TOTAL BACKLOG\(^{1}\) OF MORE THAN 26 BILLION**
  - **BACKLOG OF EURO 22 BILLION (+21%)**
  - **SOFT BACKLOG OF AROUND EURO 4.1 BILLION**

- **REVENUE AND INCOME: EURO 5,020 MILLION (+13%)**

- **EBITDA OF EURO 341 MILLION (+28%) WITH A CONSOLIDATED EBITDA MARGIN OF 6.8%**

- **ADJUSTED PROFIT FOR THE YEAR\(^{2}\) OF EURO 91 MILLION (+52%)**

- **PROFIT FOR THE YEAR OF EURO 53 MILLION (+279%)**

- **NET FINANCIAL POSITION\(^{3}\) NET DEBT OF EURO 314 MILLION (EURO 615 MILLION OF NET DEBT AT 31 DECEMBER 2016)**

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\(^{1}\) Sum of backlog and soft backlog.

\(^{2}\) Profit/(loss) before extraordinary and non-recurring income and expenses.

\(^{3}\) This figure does not include construction loans.
INTRODUCTION

To our Shareholders,

In 2017, Fincantieri Group further strengthened its position as undisputed leader in the high value-added sectors of shipbuilding, implementing - as forecast - its growth strategy based on the diversification of its product portfolio and client base and the expansion of its international footprint. The Group’s choices have been rewarded yet again by exceptional growth in the order backlog, which has significantly increased revenues. The Group’s recovery in terms of operational and economic performance is clearly shown by the 2017 trend, confirming its capacity for growth in line with the strategy outlined by management. The 2017 financial year ends with record revenues of over euro 5 billion, a significant rise compared to the previous year (+13%), EBITDA of euro 341 million (+28%) with a growth margin of 6.8%, an Adjusted profit for the year\(^1\) of euro 91 million (+52%) and Profit for the year of euro 53 million, almost four times the Profit for the previous year. On the stock exchange, FINCANTIERI S.p.A. stock has continued the trend that began in the second quarter of 2016, with a stock price that varied from euro 0.47 per share on 30 December 2016 to euro 1.25 per share on 29 December 2017 and a corresponding market capitalization of over 2.1 billion euro. Fincantieri continued its strategy of expansion and internationalization in 2017. In particular, in the cruise ship business the foundations of a share purchase agreement were laid down - signed in early 2018 - with the French Government, represented by the Agence des Participations de l’Etat (APE), for the purchase of 50% of STX France’s capital. This industrial partnership strengthens Fincantieri’s leadership in the world market and will enable the two Groups to serve all clients and end markets, generating value not just for shareholders but also for employees and their respective supplier networks. The signature is part of the agreement announced by the French Government and Italian Government in 2017 on the future shareholding structure of STX France, which envisages Naval Group also being a shareholder of STX France, and represents an important first step towards the creation of a future alliance in the civil and naval defense sectors. This purchase by Fincantieri will be subject to the closing of the transaction between the French Government and STX Europe, and to the usual conditions provided for this type of operation. The shareholders’ agreements and the agreement covering the loan of 1% of the share capital of STX France to Fincantieri - the terms of which have already been agreed by the parties - will be signed at the closing of the transaction. Under these agreements, the following capital structure of STX France will be implemented:

- Fincantieri (Fincantieri Europe S.p.A.): 50.00% (a further 1% will be loaned by APE)
- French Government (APE): 34.34% (of which 1% will be loaned to Fincantieri)
- Naval Group: 10.00% (or 15.66% in case the share purchase plan offered to employees and/or the purchase by a group of local companies cannot be implemented at the same time)
- Employees of STX France: up to 2.40%
- Group of local enterprises: up to 3.26%

STX France’s board of directors will be composed as follows:

- 4 directors appointed by Fincantieri

\(^1\) Profit/(loss) before extraordinary and non-recurring income and expenses.
(including the Chairman, who will have the casting vote and the Chief Executive Officer)
• 2 directors appointed by the French Government
• 1 director appointed by Naval Group
• 1 director appointed by the employees

The agreement with STX France is part of a broader collaboration on shipbuilding between Italy and France. The French and Italian governments have initiated a joint process that has opened the way to the future creation of a progressive alliance in the naval defense sector, based on a close collaboration and integration between Fincantieri and Naval Group.

The two groups play a key role in the management committee which, as expressly provided for by the intergovernmental agreement, will define a roadmap detailing the principles of the future alliance by June 2018.

Furthermore, the Group has also signed a memorandum of agreement with China State Shipbuilding Corporation (CSSC) and Carnival Corporation for the realization of 2 cruise ships, with an option for 4 more, which will be the first vessels of this kind ever built in China for the Chinese market.

This agreement enables Fincantieri to become a protagonist in a strategic market of such high potential as the Chinese one, with a leading role in the development of the cruise ship sector in China.

In the naval business, after winning the maxi contract from the Qatari Ministry of Defense in 2016, Fincantieri is participating in a tender for the Future Frigates - SEA 5000 program for the Royal Australian Navy, one of the most important programs in the world in the sector of naval surface vessels. Moreover, the US Navy awarded Fincantieri’s American subsidiary, Marinette Marine, a contract to develop the study of a customized version of its FREMM project for the new future generation multirole frigates of the FFG(X) program.

Significant commercial success continued in 2017, thanks to the order intake of euro 8.6 billion. In particular, an order for the construction of 4 new-generation cruise ships was signed with the Norwegian Cruise Line shipowner which will enable Fincantieri Group to include a new prestigious brand in its client base.

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with reduced execution risks and higher margins and, on the other, to the start of important naval programs in the portfolio. In spite of the crisis afflicting the Offshore segment, the Group initiated diversification which enabled it to maintain volumes and a positive margin. To maximize the effectiveness of these efforts, a delisting proposal was presented by the VARD subsidiary in the fourth quarter. In the Equipment, Systems and Services segment, the development strategy in the areas of cabins and integrated systems led to an increase in the volume of revenues while still maintaining high margins. These results are accompanied by the Group maintaining a balanced financial structure enabling it to deal with increased volumes, particularly in the cruise ship business.

The new Business Plan 2018-2022, presented to the market together with its 2017 final results, confirms the lines of intervention traced in the previous Business Plan 2016-2020 and the goal of consolidating the Group’s leadership in all the higher value-added shipbuilding sectors at global level, with financial and economic indications that have improved still further.

Revenues are expected to increase in 2022 by up to 50% compared to 2017 while a significant rise in profitability with an EBITDA margin forecast of between 8% and 9% of revenues in 2022 (corresponding to growth in EBITDA up to around 100% compared to 2017). Furthermore, an adjusted profit for the year 2022 of between 3% and 4% of revenues is forecast. The Shipbuilding segment shows the most significant growth in terms of volumes and margins. This is due to the entry into production of cruise ships purchased at more lucrative prices and the full operation of the Italian Navy fleet renewal programs and the order for the Qatari Ministry of Defense for the naval vessel business.

To support the production of large sized cruise ships, on the one hand, development will continue of production synergies between the shipyards involved in building cruise ships, including the Tulcea yard in Romania which has become fully integrated in the production network, and, on the other, the capital expenditure program in Italian shipyards will continue in order to significantly improve efficiency and safety. The Offshore segment will intensify the business diversification started in previous years to deal with the slowing down of capital expenditure in the Oil & Gas sector. Moreover, further expansion is forecast in the market for luxury expedition cruise ships. Similarly, in line with market trends, an important growth is expected in aquaculture and fisheries. The sector’s production set-up and the capacity for innovation that is characteristic of the Group companies will enable them to seize the opportunities that arise with the upturn in the Oil & Gas market.

For the Equipment, Systems and Services segment, development is expected in of the important backlog acquired with the contract for the renewal of the Italian Navy’s fleet and for the after-sales activities associated with the contract with the Qatari Ministry of Defense. The strategy for reconfiguring the Group’s foothold in the value chain (by internalizing high value-added activities and externalizing lower value activities) will enable the Group to gain greater penetration in non captive after sales.

The Plan was prepared in line with the scope of consolidation and therefore does not take into account the effects associated with the share purchase agreement for 50% of STX France or the possible future alliance with Naval Group in the naval defense sector.
### KEY FINANCIALS

#### (euro/million)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Revenue and income</td>
<td>5,020</td>
<td>4,429</td>
</tr>
<tr>
<td>EBITDA</td>
<td>341</td>
<td>267</td>
</tr>
<tr>
<td>EBITDA margin(*)</td>
<td>6.8%</td>
<td>6.0%</td>
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<tr>
<td>EBIT</td>
<td>221</td>
<td>157</td>
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<tr>
<td>EBIT margin(**)</td>
<td>4.4%</td>
<td>3.5%</td>
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<tr>
<td>Adjusted profit/(loss) for the year</td>
<td>53</td>
<td>14</td>
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<tr>
<td>Extraordinary and non-recurring income and (expenses)</td>
<td>-59</td>
<td>-60</td>
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<tr>
<td>Profit/(loss) for the year</td>
<td>-5</td>
<td>-7</td>
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<tr>
<td>Group share of profit/(loss) for the year</td>
<td>25</td>
<td>14</td>
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#### FINANCIAL DATA

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Net invested capital</td>
<td>1,623</td>
<td>1,856</td>
</tr>
<tr>
<td>Equity</td>
<td>1,309</td>
<td>1,241</td>
</tr>
<tr>
<td>Net financial position</td>
<td>-314</td>
<td>-615</td>
</tr>
</tbody>
</table>

#### OTHER INDICATORS

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Order intake(***)</td>
<td>8,554</td>
<td>6,505</td>
</tr>
<tr>
<td>Order book(***)</td>
<td>28,482</td>
<td>24,003</td>
</tr>
<tr>
<td>Total backlog(****)</td>
<td>26,153</td>
<td>24,031</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>65</td>
<td>49</td>
</tr>
<tr>
<td>Net cash flows for the period</td>
<td>112</td>
<td>96</td>
</tr>
<tr>
<td>Research and Development costs</td>
<td>19,546</td>
<td>19,161</td>
</tr>
<tr>
<td>Vessels delivered(*****)(1)</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Vessels ordered(*****)(1)</td>
<td>19,181</td>
<td>26</td>
</tr>
<tr>
<td>Vessels in order book(*****)(1)</td>
<td>106</td>
<td>99</td>
</tr>
</tbody>
</table>

#### RATIOS

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROI</td>
<td>12.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>ROE</td>
<td>4.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Total debt/number</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Net financial position/EBITDA</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Net financial position/Total equity</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

(*) 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.
(1) Profit/(loss) before extraordinary and non-recurring income and expenses.

The percentages contained in this report have been calculated with reference to amounts expressed in thousands of euros.
GROUP PERFORMANCE

Group operational performance

Order intake
Order intake amounted to euro 8,554 million in 2017 (+31%) with a book-to-bill ratio (order intake/revenue in the period) of 1.7 (1.5 in 2016). Before intersegment consolidation adjustments, the Shipbuilding segment recorded an increase of euro 2,335 million (+45%), while the Offshore segment and the Equipment, Systems and Services segment recorded decreases of euro 250 million (-22%) and euro 91 million (-14%) respectively.

With reference to the cruise ship business, during 2017, Fincantieri won orders for the construction of 11 vessels: 2 vessels for Viking, 2 vessels for Carnival (for the Holland America Line and Princess Cruises), 1 ultra-luxury vessel for Silversea Cruises, 2 vessels for MSC Cruises (further development of the Seaside class prototype), which will reinforce the relationship with the client, and 4 new-generation vessels for the Norwegian Cruise Line brand owned by the group with the same name. This last agreement, which also envisages the option to build two other vessels, 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. With reference to the naval business, the Group has won, through its subsidiary Marinette Marine Corporation, an order for the construction of one new “Freedom” class ship (LCS 27) for the Littoral Combat Ship program, under an option exercised by the US Navy.

In the Offshore segment, as a consequence of the strategy to diversify the business, the Group has acquired orders to build 2 expedition cruise ships for the Australian shipowner Coral Expedition and for Ponant respectively. The latter will be the first LNG-propulsion expedition cruise ship for polar trips built by the VARD Group. Orders were also received for the construction of 10 vessels for fishing operations, 5 vessels for aquaculture activities, 2 ferries for civil and vehicle transport and 1 research expedition unit (specialized for oceanographic research), which will be built in collaboration with WWF Norway.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Amounts</td>
<td>%</td>
<td>Amounts</td>
</tr>
<tr>
<td>Fincantieri S.p.A.</td>
<td>7,291</td>
<td>85</td>
</tr>
<tr>
<td>Rest of Group</td>
<td>1,263</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>8,554</td>
<td>100</td>
</tr>
<tr>
<td>Shipbuilding</td>
<td>7,526</td>
<td>88</td>
</tr>
<tr>
<td>Offshore</td>
<td>888</td>
<td>10</td>
</tr>
<tr>
<td>Equipment, Systems and Services</td>
<td>573</td>
<td>7</td>
</tr>
<tr>
<td>Consolidation adjustments</td>
<td>(433)</td>
<td>(5)</td>
</tr>
<tr>
<td>Total</td>
<td>8,554</td>
<td>100</td>
</tr>
</tbody>
</table>
Backlog and Soft backlog

Total backlog amounted to euro 26.1 billion at 31 December 2017, of which euro 22 billion in backlog (+21%) and euro 4.1 billion in soft backlog, with the order delivery profile extending until 2026.

The backlog and total backlog guarantee about 4.4 and 5.2 years of activity respectively in relation to the 2017 level of revenue, with most of it in the Shipbuilding segment. Before intersegment consolidation adjustments, backlog recorded an increase for the Shipbuilding segment of euro 3,866 million (+24%), for the Offshore segment of euro 57 million (+4%) and for the Equipment, Systems and Services segment of euro 31 million (+3%).

The growth in backlog on the previous year once again confirms the Group’s ability to offer successful solutions to clients in the high value-added sectors in which it operates.

The backlog’s composition, in terms of the number of clients and variety of projects, is further proof of the effectiveness of the Group’s growth and diversification strategy. The composition of the backlog by operating segment is shown in the following table.

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 4.1 billion at 31 December 2017, compared with euro 5.8 billion at 31 December 2016.

The following table shows the deliveries in 2017 and those scheduled in future years for vessels currently in the order book, analysed by the main business units and by year.

---

### Backlog Analysis

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FINCANTIERI S.p.A.</td>
<td>19,882</td>
<td>90</td>
<td>15,961</td>
<td>18,231</td>
<td>100</td>
<td>15,270</td>
</tr>
<tr>
<td>Rest of Group</td>
<td>2,171</td>
<td>10</td>
<td>1,270</td>
<td>2,270</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22,053</td>
<td>100</td>
<td>18,231</td>
<td>20,531</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Shipbuilding</td>
<td>20,258</td>
<td>92</td>
<td>16,572</td>
<td>22,053</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Offshore</td>
<td>1,418</td>
<td>6</td>
<td>1,361</td>
<td>1,155</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Equipment, Systems and Services</td>
<td>1,186</td>
<td>5</td>
<td>1,155</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation adjustments</td>
<td>(789)</td>
<td>(3)</td>
<td>(657)</td>
<td>(4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22,053</td>
<td>100</td>
<td>18,231</td>
<td>22,053</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

### Soft Backlog

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>88</td>
<td></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100</td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>90</td>
<td></td>
<td>90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
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<td>3</td>
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<tr>
<td></td>
<td>7</td>
<td></td>
<td>5</td>
<td></td>
</tr>
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<td></td>
<td>100</td>
<td></td>
<td>100</td>
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</tr>
<tr>
<td></td>
<td>90</td>
<td></td>
<td>90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td></td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

---

### Deliveries

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Beyond 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cruise ships</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Naval &gt; 40 m</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Offshore</td>
<td>13</td>
<td>32</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Compared with the situation at 31 December 2016, delivery of the following vessels - initially scheduled for 2017 - has been postponed:

- two “Freedom” class Littoral Combat Ships (LCS 11 and LCS 13) for the US Navy, delivery of which has been postponed from 2017 to 2018 due to the deferment of the program;
- one oceanographic icebreaker ship for the Norwegian Polar Institute, delivery of which has been postponed from 2017 to 2018;
- seven offshore vessels (of which one LPG, three OSCVs and three PSVs), delivery of which has been postponed from 2017 to 2018 in agreement with the shipowners;
- one patrol ship and one Corvette for the Qatari Navy, delivery of which has been deferred from 2021 to 2022, as agreed with the client.

**Capital expenditure**

Capital expenditure amounted to euro 163 million in 2017, of which euro 55 million for Intangible assets (including euro 31 million for development projects) and euro 108 million for Property, plant and equipment. The Parent Company accounted for 67% of this total expenditure. Capital expenditure represented 3.2% of the Group’s revenue in 2017 (5.1% in 2016). Capital expenditure on property, plant and equipment in 2017 mainly related to initiatives to support growth in production volumes and to boost safety standards and compliance with environmental regulations within production sites. In particular, interventions have continued with the introduction of new sandblasting and painting systems at the Monfalcone yard as well as those for the development of new technologies. Capital expenditure was also made to update the yards to the new production scenarios and the technological upgrade of infrastructure and equipment.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amounts</td>
<td>%</td>
</tr>
<tr>
<td><strong>Fincantieri S.p.A.</strong></td>
<td>109</td>
<td>67</td>
</tr>
<tr>
<td><strong>Rest of Group</strong></td>
<td>54</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>163</td>
<td>100</td>
</tr>
<tr>
<td><strong>Shipbuilding</strong></td>
<td>90</td>
<td>55</td>
</tr>
<tr>
<td><strong>Offshore</strong></td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td><strong>Equipment, Systems and Services</strong></td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td><strong>Other activities</strong></td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>163</td>
<td>100</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td>55</td>
<td>34</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td>108</td>
<td>66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>163</td>
<td>100</td>
</tr>
</tbody>
</table>
R&D and innovation

The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. Accordingly, its 2017 income statement contains euro 113 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 31 million in development costs in 2017 for projects with long-term utility; these projects mainly relate to the development of innovative devices and systems able to optimize onboard operations and improve the efficiency of systems on cruise ships, as well as the realization of innovative systems in order to upgrade of the technological requirements of some types of naval vessels.

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

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Revenue and income</td>
<td>5,020</td>
<td>4,429</td>
</tr>
<tr>
<td>Materials, services and other costs</td>
<td>(3,742)</td>
<td>(3,291)</td>
</tr>
<tr>
<td>Personnel costs</td>
<td>(909)</td>
<td>(846)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(28)</td>
<td>(25)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>341</td>
<td>287</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>6.8%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Depreciation, amortization and impairment</td>
<td>(120)</td>
<td>(110)</td>
</tr>
<tr>
<td>EBIT</td>
<td>221</td>
<td>157</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>4.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Finance income/(costs)</td>
<td>(83)</td>
<td>(66)</td>
</tr>
<tr>
<td>Income/(expense) from investments</td>
<td>(5)</td>
<td>(10)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(42)</td>
<td>(21)</td>
</tr>
<tr>
<td>Adjusted profit/(loss) for the year¹</td>
<td>91</td>
<td>60</td>
</tr>
<tr>
<td>of which attributable to Group</td>
<td>95</td>
<td>66</td>
</tr>
<tr>
<td>Extraordinary and non-recurring income and expenses</td>
<td>(49)</td>
<td>(59)</td>
</tr>
<tr>
<td>Tax effect of extraordinary and non-recurring income and expenses</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>of which attributable to Group</td>
<td>57</td>
<td>25</td>
</tr>
</tbody>
</table>

¹ Profit/(loss) before extraordinary and non-recurring income and expenses.
Revenue and income, amounted to a record euro 5,020 million, an increase of euro 591 million on the previous year (+13%), confirming the growth trend in revenues that started in the third quarter of 2017. This change is mainly attributable to the Shipbuilding segment, which recorded an increase of revenues in both the cruise ship business (+27% compared to 2016), accounting for 49% of the Group’s total revenues for the year, and the naval vessel business (+5% compared to 2016). The Equipment, Systems and Services segment also recorded an increase in revenues compared to the same period in 2016 (+13%), confirming the growth trend. With reference to the Offshore segment, there is a rise in volumes deriving from diversification activities in a context where the volumes and orders for vessels destined for the Oil & Gas sector continue to offset the effects of the sector crisis, showing an overall change in revenues from year to year of -1.8%.

Revenue generated by foreign clients accounted for 85% of the total, largely in line with 2016 (84%).

EBITDA came in at euro 341 million in 2017 (euro 267 million in 2016), with an EBITDA margin of 6.8%. Therefore, the growth trend that started last year when the EBITDA margin was 6.0%. This trend is essentially the result of the positive performance recorded in the Shipbuilding segment, where the margin reached 6.9% compared to 5.7% in 2016, also thanks to the higher profitability of the orders under production and the positive results arising from the improvements made to the production and design processes.
EBIT came to euro 221 million in 2017 (euro 157 million in 2016), with an EBIT margin (EBIT expressed as a percentage of Revenue and income) of 4.4% (3.5% in 2016). This change can be attributed to the reasons illustrated above for the Group’s EBITDA and to the greater amortization from the investments made in 2017.

Finance income/(costs) and Income/(expense) from investments report a net expense of euro 88 million (net expense of euro 76 million at 31 December 2016). The main changes can be attributed to the increased unrealized foreign exchange losses of euro 17 million, mostly related to a loan held by Vard Promar, only partially offset by the lower finance costs on construction loans (euro 10 million) which fell from euro 34 million in 2016 to euro 24 million in 2017.

Income taxes presented a net charge of euro 42 million in 2017, compared with net charge of euro 21 million in 2016, largely due to the increase in taxable income, particularly that of the Parent Company.

Adjusted profit/(loss) reported a profit of euro 91 million at 31 December 2017 (euro 60 million at 31 December 2016), reflecting the factors discussed above. The Group share of this result was a profit of euro 95 million, compared with profit of euro 66 million in 2016.

Extraordinary and non-recurring income and expenses report euro 49 million in net expenses (euro 59 million in 2016) and include costs for legal disputes for euro 45 million (of which euro 39 million for asbestos-related litigation) and charges for business reorganization plans and other non-recurring personnel costs mainly related to the subsidiary VARD for euro 4 million. This item amounted to euro 59 million at 31 December 2016 and included costs for litigation of euro 46 million (of which euro 27 million for asbestos-related litigation and euro 19 million for litigation with a mega-yacht owner) and charges for business reorganization plans and other non-recurring personnel costs of euro 13 million, mainly regarding VARD for shutting down the Niterói shipyard.

Tax effect of extraordinary and non-recurring income and expenses was a net positive euro 11 million at 31 December 2017.

Profit (loss) for the year was a profit of euro 53 million, posting a major improvement from 2016 (euro 14 million). The Group share of this result was a profit of euro 57 million, compared with profit of euro 25 million in 2016.
RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>582</td>
<td>595</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,045</td>
<td>1,064</td>
</tr>
<tr>
<td>Investments</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Other non-current assets and liabilities</td>
<td>122</td>
<td>(69)</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>(59)</td>
<td>(58)</td>
</tr>
<tr>
<td><strong>Net fixed capital</strong></td>
<td><strong>1,743</strong></td>
<td><strong>1,590</strong></td>
</tr>
<tr>
<td>Inventories and advances</td>
<td>835</td>
<td>590</td>
</tr>
<tr>
<td>Construction contracts and client advances</td>
<td>648</td>
<td>604</td>
</tr>
<tr>
<td>Construction loans</td>
<td>(624)</td>
<td>(678)</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>909</td>
<td>1,123</td>
</tr>
<tr>
<td>Trade payables</td>
<td>(1,748)</td>
<td>(1,307)</td>
</tr>
<tr>
<td>Provisions for risks and charges</td>
<td>(141)</td>
<td>(126)</td>
</tr>
<tr>
<td>Other current assets and liabilities</td>
<td>1</td>
<td>59</td>
</tr>
<tr>
<td><strong>Net working capital</strong></td>
<td><strong>(120)</strong></td>
<td><strong>265</strong></td>
</tr>
<tr>
<td>Net assets classified as held for sale</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Net invested capital</strong></td>
<td><strong>1,623</strong></td>
<td><strong>1,856</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>863</td>
<td>863</td>
</tr>
<tr>
<td>Reserves and retained earnings attributable to the Group</td>
<td>374</td>
<td>223</td>
</tr>
<tr>
<td>Non-controlling interests in equity</td>
<td>72</td>
<td>159</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td><strong>1,309</strong></td>
<td><strong>1,241</strong></td>
</tr>
<tr>
<td><strong>Net financial position</strong></td>
<td><strong>314</strong></td>
<td><strong>615</strong></td>
</tr>
<tr>
<td><strong>Sources of funding</strong></td>
<td><strong>1,623</strong></td>
<td><strong>1,856</strong></td>
</tr>
</tbody>
</table>
The **Reclassified consolidated statement of financial position** reports a decrease in Net invested capital at 31 December 2017 of euro 233 million since the end of the previous year, mainly due to the following factors:

- **Net fixed capital**: presents an overall increase of euro 153 million. Among the main effects of particular note is i) the decrease of euro 32 million in the value of Intangible assets and Property, plant and equipment, mainly reflecting amortization (euro 120 million) and the negative effect of the translation of the foreign currency items of foreign subsidiaries (euro 81 million) offset by the capital expenditure in the period (euro 163 million) and ii) the change of euro 191 million in Other non-current assets and liabilities, mainly due to the positive effect of the fair value measurement of currency derivatives.

- **Net working capital**: reports a negative balance of euro 120 million (euro 265 million at 31 December 2016). The main changes are: an increase of euro 245 million in Inventories and advances, particularly due to the advances paid to suppliers as part of the new navy contracts; an increase of euro 44 million in Construction contracts and client advances and of euro 441 million Trade payables, essentially due to the effect of the growth in production volumes in the cruise ship and naval vessel businesses; a decrease of euro 214 million in Trade receivables, mainly due to the receipt of the final installment for the cruise ships delivered in 2017; a decrease in Other current assets and liabilities, mainly due to the decrease in Deferred tax assets and Other current receivables; a decrease in Construction loans of euro 624 million at 31 December 2017 (euro 678 million at 31 December 2016) related to the subsidiary VARD for euro 574 million (92% of the total) and to the Parent Company for the remaining euro 50 million.

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.

- **Equity** reports a balance of euro 1,309 million, an increase of euro 68 million mainly reflecting the net gain generated during the year (euro 53 million), the increase in the cash flow reserve (euro 120 million) and the recording of the reserve for the share-based incentive plan for top management (euro 3 million). These effects have been partially offset by the recording of the negative reserve for the purchase of own shares under the medium/long-term share-based incentive plan for top management (euro 5 million), the decrease in the currency translation reserve (euro 58 million) and the negative change of euro 45 million in Consolidated equity (the result of the decrease in Non-controlling interests in equity of euro 72 million and the increase in Group equity of euro 27 million) arising from the purchase of more interests held by minority VARD shareholders. On this point, it should be remembered that the interest held in the VARD Group has increased from 55.63% to 79.74% at the end of 2017, while the average carrying amount of the shares went from SGD 1.22 to SGD 0.92 at 31 December 2017.
The **Consolidated net financial position**, which excludes construction loans, reports a net debt balance of euro 314 million, a significant improvement over the net debt balance of euro 615 million at 31 December 2016. The change is mainly due to the receipt of the final installment for the cruise ships delivered, which, together with the advances received for the new cruise ship and navy vessel contracts that took effect during the year, have more than offset the absorption of financial resources generated by the growth in production volumes.

**RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Net cash flows from operating activities</td>
<td>532</td>
<td>73</td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>(168)</td>
<td>(237)</td>
</tr>
<tr>
<td>Net cash flows from financing activities</td>
<td>(299)</td>
<td>115</td>
</tr>
<tr>
<td>Net cash flows for the period</td>
<td>65</td>
<td>(49)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>220</td>
<td>260</td>
</tr>
<tr>
<td>Effects of currency translation difference on opening cash and cash equivalents</td>
<td>(11)</td>
<td>9</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>274</td>
<td>220</td>
</tr>
</tbody>
</table>

The **Reclassified consolidated statement of cash flows** reported positive **Net cash flows** for the period of euro 65 million (euro 49 million negative balance in 2016), reflecting a positive (cash flow from operating activities of euro 532 million (euro 73 million in 2016), cash flow from investing activities) which has absorbed resources for eu of euro 168 million, (euro 237 million in 2016) and flows from financing activities which absorbed resources for euro 299 million (euro 115 million generated in 2016).
Net cash flows from operating activities also include the change in construction loans, which used approximately euro 16 million in cash flow in the year ended 31 December 2017 (construction loans absorbed cash inflows of euro 502 million in the year ended 31 December 2016).

**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 2017 and 2016.

ROI and ROE at 31 December 2017 show an improvement compared to 31 December 2016, essentially due to the improved economic performance. All the indicators of strength and efficiency of the capital structure at 31 December 2017, compared with those at 31 December 2016, show an improvement that is the result of the positive change in the net financial position and, in particular, the reduced short-term debt.

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>ROI</td>
<td>12.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>ROE</td>
<td>4.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Total debt/Total equity</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Net financial position/EBITDA</td>
<td>0.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Net financial position/Total equity</td>
<td>0.2</td>
<td>0.5</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue and income(*)</td>
<td>3,883</td>
<td>3,246</td>
</tr>
<tr>
<td>EBITDA(*)</td>
<td>269</td>
<td>185</td>
</tr>
<tr>
<td>EBITDA margin(<em>)(</em>**)</td>
<td>6.9%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Order intake(*)</td>
<td>7,526</td>
<td>5,191</td>
</tr>
<tr>
<td>Order backlog(*)</td>
<td>25,069</td>
<td>20,826</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>20,238</td>
<td>16,372</td>
</tr>
<tr>
<td>Vessels delivered (number)(***)</td>
<td>12</td>
<td>13</td>
</tr>
</tbody>
</table>

(*) Before eliminations between operating segments.
(**) Ratio between segment EBITDA and Revenue and income.
(***) Vessels over 40 meters in length.

Revenue and income

Revenue from the Shipbuilding segment amounted to euro 3,883 million in 2017 (euro 3,246 million in 2016) and comprised euro 2,649 million from the cruise ships business (euro 2,078 million in 2016), euro 1,212 million from the naval vessels business (euro 1,156 million in 2016) and euro 22 million from other activities (euro 12 million in 2016). The increase in revenues of 19.6% compared to 2016 was almost entirely achieved in the second half of the year and mainly attributed to the growth of volumes in the cruise ship business, particularly owing to the larger size and higher value of the ships being built. There were 16 vessels under construction in the Group's Italian shipyards (of which 5 were delivered) compared to 15 under construction in 2016 (of which 5 were delivered). The increased revenues were also positively influenced by the ongoing activities related to the fleet renewal program of the Italian Navy and the start of design on the orders for the Qatari Ministry of Defense.

EBITDA

Segment EBITDA was euro 269 million at 31 December 2017 (euro 185 million at 31 December 2016), with an EBITDA margin of 6.9% (5.7% at 31 December 2016). This confirms the positive trend that started in 2016, recording a further improvement associated in particular with the construction of more profitable cruise ships, the measures taken to improve the production and design processes and the positive contribution from the progress of activities in the fleet renewal program of the Italian Navy.
Order intake

New order intake of euro 7,526 million in 2017 refers to:

- four new-generation cruise ships for the Norwegian Cruise Line brand owned by the group with the same name;
- one new cruise ship for the Holland America Line brand owned by the Carnival group;
- one cruise ship for the Princess Cruise brand (sixth vessel for the “Royal Princess” class) owned by the Carnival group;
- one new ultra-luxury cruise ship “Silver Moon” for Silversea Cruises, sister ship of the previously built “Silver Muse”;
- two new cruise ships (7th and 8th) for Viking Ocean Cruises, sister ships of the six vessels ordered previously;
- two “Seaside EVO” ship, further evolution of the “Seaside” prototype for MSC Cruises;
- one new “Freedom” class ship (LCS 27) to be built by the subsidiary Marinette Marine Corporation for the Littoral Combat Ship program, under an option exercised by the US Navy.

Capital expenditure

Capital expenditure on Property, plant and equipment during the year mostly involved the continuation of activities to introduce new technology that will reduce the environmental impact of operations (particularly at the Monfalcone yard), the updating of the working areas at some production sites to the new production scenarios and upgrading and improvement of the safety standards of machinery, equipment and buildings. Capital expenditure in the US shipyards mainly concerned maintenance of infrastructure and upgrading of production systems.

As far as Intangible assets are concerned, of particular note was expenditure on the development of a set of innovative and specialist technical and system solutions for ships that must operate in Arctic regions as well as those for realizing innovative solutions and systems aimed at improving the efficiency of cruise ship systems and onboard operations.

Production

The number of ships delivered during 2017 is analysed as follows:

<table>
<thead>
<tr>
<th>Deliveries</th>
<th>(number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cruise ships</td>
<td>5</td>
</tr>
<tr>
<td>Cruise ferries</td>
<td>7</td>
</tr>
<tr>
<td>Naval vessels &gt; 40 m</td>
<td>7</td>
</tr>
<tr>
<td>Mega yachts</td>
<td>1</td>
</tr>
<tr>
<td>Naval vessels &lt; 40 m</td>
<td>1</td>
</tr>
</tbody>
</table>

The vessels delivered were:

- “Viking Sky” and “Viking Sun”, the third and fourth of a series of eight cruise ships for Viking Ocean Cruises, were delivered at the Ancona shipyard;
- “Majestic Princess”, a new ship of the fleet of Princess Cruise Line, a Carnival Group brand, was delivered at the Monfalcone shipyard;
- “Silver Muse”, ultra-luxury cruise ship for Silversea Cruises, was delivered at the Sestri Ponente shipyard;
- “Seaside”, the first of next-generation two cruise ships for MSC Cruises, was delivered at the Monfalcone shipyard;
- “Rizzo”, the sixth frigate in the FREMM program for the Italian Navy, was delivered at the Muggiano shipyard in La Spezia;
- “Romeo Romei”, the last in a series of four “Todaro” class submarines (U212A) for the Italian Navy, was delivered at
the Muggiano shipyard in La Spezia;  
• “Little Rock” (LCS 9) for the US Navy’s LCS program was delivered at the Marinette shipyard in Wisconsin (USA);  
• four ATB units (two Tugs and two Barges) for goods transportation in the chemical/petroleum sector, two of which were delivered to the Kirby Corporation and two to Plains Towing LLC 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.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Revenue and income(*)</td>
<td>943</td>
<td>960</td>
</tr>
<tr>
<td>EBITDA(**)</td>
<td>42</td>
<td>51</td>
</tr>
<tr>
<td>EBITDA margin(<strong>)</strong></td>
<td>4.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Order intake(*)</td>
<td>888</td>
<td>1,138</td>
</tr>
<tr>
<td>Order book(*)</td>
<td>2,646</td>
<td>2,366</td>
</tr>
<tr>
<td>Order backlog(*)</td>
<td>1,410</td>
<td>1,361</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>37</td>
<td>31</td>
</tr>
<tr>
<td>Vessels delivered (number)</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

(*) Before eliminations between operating segments.  
(**) Ratio between segment EBITDA and Revenue and income.
Revenue and income
Revenue from the Offshore segment amounted to euro 943 million in 2017, a slight decrease of 1.8% compared to 2016 (euro 960 million). This change, partly influenced by the negative effect of changes NOK/EUR exchange rate (euro 3 million), is mainly attributable to reduced production activities owing to the fall in the demand for offshore vessels, particularly with regard to the shipyards in Norway and Brazil. Nevertheless, 2017 saw a gradual increase of volumes in the VARD shipyards in Vietnam and Romania thanks to the continuation of business diversification activities to counteract the slowdown in the Oil & Gas sector.

EBITDA
The Offshore segment posted EBITDA of euro 42 million at 31 December 2017, compared with euro 51 million at 31 December 2016, and a positive margin of 4.4% versus 5.3% in 2016. Business diversification activities have positively influenced the margin which however, is still affected by the crisis in the Oil & Gas sector with the consequent fall of volumes in Norway and Brazil.

Order intake
New order intake amounted to euro 888 million in 2017. In detail:

- one expedition cruise vessel for the Australian shipowner Coral Expedition to be built in the Vietnam shipyard;
- one expedition cruise vessel with LNG propulsion, for polar regions, for the French shipowner Ponant to be built in the VARD Group shipyards in Romania and Norway;
- two transport and service vessels for aquaculture activities to be built in Norway for the FSV Group;
- one vessel for aquaculture activities to be built in Norway for Midt-Norsk Havbruk;
- two offshore platforms for aquaculture activities to be built in Norway for Cermaq Norway;
- three fishing vessels to be built in Norway, one for ocean fishing, one for transporting fish and one for Antarctic fishing operations, for the Research Fishing Company, Fjordlaks Aqua and Aker Biomarine respectively;
- seven fishing vessels for fishing operations in Iceland for four Icelandic shipowners (Bergur-Huginn, Utgerdarfelag Akureyringa, Gjögur and Skinny-Thinganes) to be built in Norway;
- two passenger and vehicle ferries for Torghatten Nord to be built in Norway;
- one research expedition vessel for the Norwegian shipowner Rosellinis Four-10, a ship specialized in oceanographic research which will be built in collaboration with WWF Norway in Romania and Vietnam;

Capital expenditure
Capital expenditure in the year mainly related to the continuation of activities to expand and improve 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, as well as other minor capital expenditure in the Group’s shipyards in order to maintain efficiency.
Production
The number of ships delivered during 2017 is analyzed as follows:

- 4 AHTS
- 8 PSV (including MRV)
- 1 OSCV
- 1 MCV
- Other

In detail:

- "Skandi Buzios" was delivered to Techdof Brasil at the Vard Søviknes shipyard (Norway);
- "Far Superior" was delivered to Farstad Shipping at the Vard Vung Tau shipyard (Vietnam);
- "Skandi Vinland" was delivered to DOF at the VARD Langsten shipyard (Norway);
- two MCVs (Module Carrier Vessels) were delivered to Kazmorsflot at the Vard Braila shipyard (Romania);
- six MCVs (Module Carrier Vessels) were delivered to Topaz Energy and Marine at the Vard Vung Tau shipyard (Vietnam) and Vard Tulcea shipyard (Romania);
- one LPG carrier was delivered to Transpetro at the VARD Promar shipyard (Brazil);
- one OSCV (Offshore Subsea Construction Vessel) was delivered to Kreuz Subsea at the Vard Søviknes shipyard (Norway).

Equipment, systems and services

Revenue and income
Revenue from the Equipment, Systems and Services segment amounts to euro 558 million at 31 December 2017, an increase of 12.7% on the previous year (euro 495 million). This change is largely due to an increase in volumes of cabins and public areas realized within the Group mainly to support the cruise ship business. Volumes related to post sales assistance have also increased, driven by the development of the major order backlog acquired for the fleet renewal of the Italian Navy.

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Revenue and income(*)</td>
<td>558</td>
<td>495</td>
</tr>
<tr>
<td>EBITDA(*)</td>
<td>64</td>
<td>62</td>
</tr>
<tr>
<td>EBITDA margin(*)</td>
<td>11.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Order intake(*)</td>
<td>573</td>
<td>664</td>
</tr>
<tr>
<td>Order book(*)</td>
<td>1,973</td>
<td>1,742</td>
</tr>
<tr>
<td>Order backlog(*)</td>
<td>1,186</td>
<td>1,155</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>31</td>
<td>45</td>
</tr>
</tbody>
</table>

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

Drivers for Growth
- Higher volumes of cabins and public areas realized.
- Increased contribution from post sales assistance.

Key Figures
- EBITDA margin: 11.5% (2016: 12.5%).
- Order backlog: 1,186 million (2016: 1,155 million).

Notes
- The Equipment, Systems and Services segment includes activities related to the design, production, repair, conversion, and after-sales support of vessels.
EBITDA
Segment EBITDA came to euro 64 million at 31 December 2017 largely in line with euro 62 million in 2016 but with an EBITDA margin of 11.5%, down from 12.5% the previous year, primarily due to the change in the mix of products and services sold during the year compared to the previous year.

Order intake
New order intake for Equipment, Systems and Services amounted to euro 573 million in 2017, mostly comprising:

- three steam turbines (a 36C, a 50CE and a 36B) for foreign clients;
- one retractable stabilization system for a client in Italy;
- two stabilization systems with retractable fins for cruise projects;
- one stabilization system with flaps for a Chinese client;
- supply of propeller systems and shaft lines, thruster positioning systems, stabilization systems with non retractable fins, helicopter landing grids, rudder and steering systems for the four Qatari Corvettes;
- supply of new automation equipment and upgrades and modifications to existing systems for naval projects and for cruise ships and other clients such as HAL, Azimut, Benetti and Hanwha System;
- supply of entertainment systems and assistance to the MSC, Silversea and Viking cruise ships;
- supply of In Service Support (ISS) and Integrated Logistic Support (ILS) to the Italian Navy and supply of ILS to the Indian Navy;
- 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.

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.

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</thead>
<tbody>
<tr>
<td>Revenue and income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>(34)</td>
<td>(31)</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>27</td>
<td>20</td>
</tr>
</tbody>
</table>

Capital expenditure
The most relevant items of expenditure related to the introduction of mobile devices to support onboard supervision activities, development of information systems in support of the Group’s business and, 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.
As in previous years, work continued to upgrade the Group's network infrastructure and hardware.
Cruise Ships

The cruise ship market continues to record excellent performance. For ships of more than 10,000 tons in gross tonnage the favourable 2014-2016 trend continued in 2017 with 23 ships ordered and Memoranda of Understanding/Agreements for 5 ships. While another 5 ships (plus agreements for three more) with less than 10,000 tons in gross tonnage were ordered.

This has taken the worldwide order book at December 2017 to a record high of 80 ships (including those under a Memorandum of Understanding/Agreement) which can climb to 100 if we include the options and with deliveries stretching to 2027, ensuring shipyards an exceptionally long visibility in terms of workload.

The investment programs are generally being driven by strong demand for cruises in traditional markets like Europe and America and in emerging ones, but also by the entry of new operators.

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 2018 to a total of around 27.2 million, compared to the preliminary result of 25.8 million in 2017 (+5.4%).

According to initial estimates, in emerging markets the number of Chinese cruise passengers has reached 2.8 million, while a slight slowdown is expected next year due to the temporary reduction (-4%) of the number of vessels deployed in the area by the major operators.

The growth in China’s cruise market will require significant capital expenditure in order to develop infrastructure and build ships for use in the area, including the first Costa Asia ship and a new Quantum Ultra-class ship for RCL. Recently, the chairman of the China State Shipbuilding Corporation (CSSC) stated that the country could have potential of 10 million cruise passengers as early as 2026.

In 2017, Fincantieri, 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 local market. The parties signed the MoA on behalf of the joint venture between Fincantieri and CSSC Cruise Technology Development Co., of the joint venture between Carnival Corporation and CSSC, and of the shipyard Shanghai Waigaoqiao Shipbuilding.

Fincantieri has also signed a letter of intent with CSSC and with the district of Baoshan in Shanghai, aimed at creating an industrial park for the sector.

In 2017 there was a certain buoyancy in the market for small scale (under 10,000 tons in gross tonnage) expedition ships. This market is characterized by the presence of old ships that no longer meet clients’ standards, particularly after the introduction of the new class of ships built by Fincantieri for Ponant since 2010.

On this subject, the subsidiary VARD has successfully pursued its diversification strategy, winning contracts in 2017 to build two expedition ships, one for the Australian...
company Coral Expeditions and a highly innovative hybrid electric and LNG propulsion ship for Arctic journeys.

**Naval Vessels**

In 2017, world demand for naval vessels was characterized by the finalization of programs aimed at almost all domestic shipbuilders, including the contract for the construction of Type 26 frigates in Great Britain and the one for Frégate de Taille Intermédiaire in France. In the US, the subsidiary Fincantieri Marine Group (FMG) received confirmation of the order for LCS 27, the 14th Freedom class ship ordered by the US Navy. At the same time FMG announced its participation in the Fast Frigates (FFG-X) program to build new multirole frigates, proposing a ship that stems from the Italian FREMM platform, modified and adapted to the needs of the US Navy.

On foreign markets, Fincantieri has intensified its commitment in Australia, as part of its participation in the Future Frigates - SEA 5000 program, where it has been shortlisted to build 9 future generation frigates for the Royal Australian Navy, with a value of around AUD 35 billion, one of the most important programs in the world for surface naval vessels. This year also saw design activities initiated on the order for the Qatari Ministry of Defense.

One of the most important events during the year, concerns competition and, in particular, the launch of an Italian-French cooperation in the sector of naval defense. The decision by the two Governments to launch a joint process paves the way for the future creation of a gradual alliance in the naval defense sector between Naval Group and Fincantieri. This is a crucial breakthrough for actually starting the sector consolidation process which has been talked about for years. The two groups will play a key role in the management committee with the aim of defining a roadmap detailing the principles of the future alliance by June 2018. Added to this is the agreement reached by the two Governments on the shareholding structure of STX France, which envisages both Naval Group and Fincantieri as shareholders, another step towards Italian-French cooperation in the naval sector.

**Mega yacht**

The mega yachts market continued to be affected in 2017 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 just 2 yachts of more than 80 meters were ordered, compared to 6 the year before. Demand, however, has concentrated predominantly on vessels of less than 60 meters. This is confirmed by the trends that have emerged during the last boat show in Genoa, where there was talk of recovery, with a forecast of double-digit growth in revenue for the sector in 2017 as well.

On the supply side, the number of competitors continues to be streamlined and at the same time investments have been launched in recent years in new production capacity by several leading shipbuilders (Oceanco, Feadship, etc.) and aimed at the construction of large scale vessels.
Offshore

The Offshore industry was once again affected by an extremely depressed global market environment despite a slight upturn in oil prices, which ended the year at around USD 66 a barrel, contributing to an annual average of USD 54, ten dollars higher than the 2016 average. The International Energy Agency (IEA) has raised the growth estimates of world demand for oil in 2017 and 2018 up to 97.8 and 99.1 million barrels a day respectively. An excess of supply has accumulated since 2014 which still has an effect together with high stocks. To deal with this situation, OPEC producers, along with another ten producers guided by Russia, from the end of 2016 decided to reduce production and this commitment was applied in 2017 and has been extended, after the agreement of 30 November 2017, to the whole of 2018. However, the price recovery has not been fast due to the high stocks accumulated and the increased production carried out by some countries that are not party to the agreement, first among them the US.

During 2017, there were no orders for Platform Supply Vessels, while contracts were finalized for four Anchor Handling Tug Supply vessels. The near zero demand for these two type of vessel should be connected with the surplus of fleet vessels with the consequent reduction in their average rates of use and charters. The situation is further exacerbated by the presence of vessels that have been finished but not collected by the shipowners at numerous shipyards. The shipyards are attempting to find new buyers or, alternatively, to charter them.

A very limited number of orders, and certainly not enough for the many
shipyards active worldwide in the offshore sector, has mainly involved small Offshore Service Vessels (OSV) for maintenance and service activities, particularly for wind farms.

To deal with this scenario, the Vard Group has successfully pursued a diversification strategy that led to interesting achievements in fishing and aquaculture, as well as ferries and expedition-type cruise ships.

Market opportunities in the offshore business are continuously monitored and, despite some positive signs, no significant upturn in demand is expected in the near term.

The scenario also remains challenging as a result of the ongoing restructuring process being carried out in many companies operating in the OSV sector and the requests for postponed deliveries in some project.

**Repairs and conversions**

Once again in 2017 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 continues to be intense, especially in the segment for the repair of merchant 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 and Malta).

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.

In this sense Fincantieri has been awarded an important contract for the lengthening of the Silver Spirit cruise ship by inserting a 15-meter long section which will allow 34 cabin suites to be added; furthermore, technical updates will also be implemented.

The ship repairs market may receive positive momentum from the introduction of new regulations to reduce emissions and treat ballast water which will require shipowners to make investment decisions to refit their fleets, bringing them into line with the regulations.

This segment is also undergoing interesting consolidation and company reorganization operations, such as Damen’s acquisition of the Dutch shipyard Verolme from the Singaporean Keppel group. Bucking this trend, some operators are carrying out operations to increase production capacity, particularly in the Mediterranean, with the construction of new docks in Turkey (Sefine shipyards) and in the port of Piraeus by the new Chinese owner (Cosco) which has become a shareholder in the Port Authority.

As regards the supply of after-sales services for navy vessels, the last two patrol vessels - deriving from the upgrading and conversion of “Minerva” class corvettes decommissioned by the Italian Navy - were delivered to the Bangladesh Coast Guard (BCG) and the offshore P61 patrol vessel that had been upgraded was delivered to the Maltese Armed Forces.
RESEARCH, DEVELOPMENT AND INNOVATION

The Group spent a total of euro 113 million on research, innovation and development in 2017. For the Fincantieri Group innovation is one of the key factors for maintaining competitiveness. Fincantieri’s strategic positioning in terms of high-tech and high value-added products as well as the global competitive scenario the Group operates in require significant and constant commitment in terms of R&D on new technologies and new products. Ships designed and built by the Group are not standard products and each ship is custom built, created in line with the shipowner’s needs which represent the state-of-the-art in terms of applied technical solutions and innovation, particularly with regard to safety, compatibility with the environment, stability and speed of operation as well as the ship automation systems.

For this reason the Group’s R&D activities are steered in three main directions:

• development of technologies and innovation applied to the project: activities aimed at developing technological solutions, materials and innovative systems which are carried out during the ship design process and necessary in order to meet shipowners’ specific needs;
• off-the-shelf innovation: activities aimed at developing specific project solutions that are not directly applicable to the project but necessary in order to predict clients’ needs, for example, in areas such as energy savings and reduction of operation costs, maximizing payload and perceived quality and improving safety;
• long-term innovation: activities aimed at developing the Group’s technologies, also in order to support entry into new market segments.

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. Innovation is a dynamic process that leads to a constant evolution of projects in order to improve performance and increase product value. The 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 activities. In parallel with its commercial initiatives to enter new market segments, VARD has developed various new projects by drawing 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.

As regards the US subsidiaries, research and innovation initiatives start during the evaluation of new shipbuilding contracts. This ensures a functional design that responds better to the challenges posed by manufacturing processes and those for the development and improvement of vessels.

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.

In 2017, European stakeholders in the maritime sector concentrated their efforts on rebuilding and relaunching the “WATERBOURNE” European Technology Platform which aims to be the strategic partner of the European Commission during the consensus building of research priorities in the maritime, naval and blue growth field. Recognizing the importance of participating in the industry consulting processes which lead to the definition of guidelines for maritime research, Fincantieri joined “WATERBOURNE” at the end of 2017.

In 2017, European Sustainable Shipping Forum (ESSF) activities continued which aim 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, National Technology Cluster activities “Italian Transport 2020” continued and, in 2017, the National Technology Cluster “Blue Italian Growth” was established. 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, “HOLISHIP”, aimed at optimizing the ship design phase in order to minimize the product’s total costs throughout its lifecycle and “RAMSES” aimed at studying special steels and new materials for naval use to improve the performance and efficiency of future ships.

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 Flow in Service (FLOWIS) project, aimed at developing techniques to analyse navy vessel propeller performance in off-design conditions.

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. The US subsidiary Marinette Marine Group conducts most research and innovation initiatives in collaboration with research centers and universities, through the National Shipbuilding Research Project (NSRP) funded by the US Government. NSRP arose in collaboration with U.S. Shipyards which studies and develops new processes and designs to improve shipbuilding in the US and make it more efficient. This project has enabled Marinette Marine Group to initiate collaborations to develop research and innovation projects with important partners belonging to NSRP, such as NSWC Carderock Division, Ship Design USA, Praeses LLC, Newport News Shipbuilding, DRS Technologies and BAS Engineering.

**Principal national projects**

Fincantieri has initiated specific collaborations to develop innovation projects in order to increase technological know-how and at the same time develop innovative solutions that can be applied onboard. The collaborations launched in 2017 with the National Research Council (CNR) - based on the partnership agreement in effect since 2011 - are of particular importance. Fincantieri has involved the CNR in three important multidisciplinary research projects under the MIT project for ship design and construction. This collaboration is an important example of open innovation between private industry and the main Italian research center. The latter also acts as a hub in the broader collaboration with the academic network, ensuring that the development of innovative solutions is coordinated between 10 research institutes of the CNR and 3 leading Italian universities. One of the projects developed in this collaboration, the “E-Cabin” project, was mentioned in November 2017 in a work by the Associazione Italiana per la Ricerca Industriale (AIRI) as the first real public-private collaboration. The program is composed of 6 main lines of research, which are complementary to each other. The topics developed range from the design of an energy intelligent cabin to the optimized development of technologies for the production, management and consumption of electricity on board, from innovative navigation solutions that are based on augmented reality technologies to safety and rescue systems for passengers and crew.

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 the year work continued 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.

With reference to the regional technology clusters that the Group has joined (Maritime Technology Cluster FVG, 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 six research projects were continued. These focused on issues related to design tools and methods and product optimization, the study of innovative architectural solutions and analysis of new materials and modular solutions.

With regard to the call issued by the region of Fruili Venezia Giulia with Resolution 1489 of 4 August 2017 “POR FESR 2014 – 2020”, the Group submitted four applications for funding which have the common purpose of research and development of solutions and processes aimed at improving ship performance.

Over 2017, the Group also submitted various projects in response to the call “Axis 1 – Research and Innovation (OTI)” issued by the regions of Liguria and Sicily, the aim of which is to boost the research and innovation system as a driver for regional development and territory competitiveness.
HUMAN RESOURCES

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

The Parent Company had 7,616 employees at 31 December 2017, an increase of 183 on a year earlier reflecting the net effect of 312 new entries, mainly in the individual business units, and 129 leavers. This change is mainly the result of the increase in resources employed in the Group’s Italian shipyards, confirming Fincantieri’s commitment to pursuing the growth targets set out in the Plan.

Industrial relations

Industrial relations in Fincantieri are based on the participative model and are conducted through the activities of various Joint Bodies, which in some cases are made up of workers. Training Plans and initiatives to contain accidents and protect the environment (Towards Zero Accidents and Active
regulate work hours with a view to work/life balance (start/end) and to better organize work shifts. Mention should also be made of the trade union agreements which have introduced solidarity leave at the Ancona and Palermo sites. This provides workers with the opportunity to donate holidays and leave to colleagues on the same site who have serious need of them. A specific agreement has also been made to move the Systems and Components Department from Genoa to Riva Trigoso.

As regards foreign subsidiaries, Fincantieri Marine Group signed a long-term collective bargaining agreement with the trade union, confirming the constructive climate of industrial relations.

**Corporate welfare**

Fincantieri considers welfare a highly innovative tool compared to traditional wage and incentive measures and it will become an integral part of a modern and efficient management of resources. The company’s 2016 agreement has introduced an annual Social Bonus, to be used exclusively for welfare services, which has also created the opportunity for workers to convert variable bonuses linked to the assigned objectives into welfare allowances instead of money. The Company also recognizes employees who decide to convert their bonuses into welfare a further increase of 10% of the value converted into welfare. Achievement of production targets can therefore result in a strengthening of the whole welfare system.

Fincantieri’s welfare system is available
to employees in general and is also extended to Italian subsidiaries and associates, falling under the application of the supplementary labor agreement (Isotta Fraschini Motori S.p.A., CETENA S.p.A. and Orizzonte Sistemi Navali S.p.A.), allows access, through a special portal, to a wide range of goods and services (education, health, culture and leisure time, mortgages and loans, supplementary pensions, fringe benefits).

The diversification provided by the comprehensive welfare portal, the dissemination of information to employees and the periodic support guaranteed by the “welfare corner” have encouraged a welfare culture, which is useful tool that effectively responds to the needs and demands of employees and their families, as is shown by the high levels of use of the available services.

The increasing importance of welfare is also confirmed in the provision of the new collective bargaining agreement (CCNL) for the steel-working industry signed in November 2016. This provision introduced welfare tools at the collective bargaining level for the very first time.

The mechanism envisages the possibility of allocating part of the supplementary pension fund and has encouraged a noticeable increase in subscribers.

As regards health care benefits, the annual contribution per capita paid by the Company was increased in the company agreement signed in 2016. The subsequent implementing agreement in February 2017 established an annual health care benefit program that has been extensively renewed and the services provided to employees have been strengthened. With this understanding, the Health Plan has been extended, again with regard to the contribution paid by the company, to include dependent family members as well as civil partners who are dependants for tax purposes.

Health services are ensured directly, through facilities with special arrangements with the manager (identified together with the Trade Union Organizations), and in the form of “reimbursement”.

The health care agreement signed in February 2017 also confirmed the opportunity for pensioners to continue to make use of the health care benefits with a contribution paid for by them.

At national level and again with regard to trade unions, an agreement was define in December to regulate the new 2018 Health Plan, which will guarantee a considerable increase in the level of services provided to employees and a further extension to family members covered with the contribution paid by the Company.

Fincantieri Marine Group provides benefits to all employees working at least 30 hours a week. Benefits include subscription to the Group Health Medical Plan, which covers various services, a medical coverage plan and vision coverage for eye health. Costs are sustained in part by the Company and in part by the employee. Moreover, there are other benefits that are not included in the above plans, such as the onsite clinic, life insurance for death and dismemberment, the retirement plan and the employee assistance plan.

The VARD Group guarantees medical assistance, internal catering services, food cards and training incentives to its employees.
Training and development

In 2017, Fincantieri implemented specific measures to increase and define internal resources’ skills associated with the technological solutions in use, but also and more particularly to train and increase horizontal skills associated with abilities to manage and promote innovation, change management and project management as well as soft skills such as broader leadership skills, emotional intelligence and advanced communication.

At the end of last year, with the aim of “putting people first”, the Company launched an important change management project - Fincantieri for the Future; an organic change management path based on the active involvement of all the workers, with a view to increasing, constant and transparent information and communication and an ever greater capacity to listen. With the launch of this change path, the Company primarily intends to increase the sense of belonging and spirit of togetherness, bolstering the company’s distinctive footprint by sharing the values and principles on which the Group’s identity is based, and to contribute to improving the working environment and company climate. An anonymous survey was conducted on the entire workforce (blue collar, office staff, middle and senior management) in December 2016. The survey results were shared over a series of meetings with all employees at the various company offices/sites, involving almost 6,500 resources. At the end of 2017, using the same methods, monitoring was launched on
the change initiatives set up and to collect suggestions from people with a view to continuous improvement.

In Fincantieri Corporate University, the management training school established by Fincantieri in 2013, with the partnership of the most renowned Italian business schools, the annual edition of “Competency Management” took place. This training course aims to accompany resources recently appointed to middle management positions with greater responsibilities and to create a strong sense of belonging and group spirit. Numerous editions of “Academy” training courses were provided that had been updated in terms of content and extended to all recently hired young employees with the aim of involving them in the change path adopted by the Company in recent years.

Technical training was mainly developed on issues associated with design and also involved suppliers of this area.

To support technological development, the “Integrated Ship Design & Manufacturing” (ISDM) project is particularly important. It envisages the development of an integrated platform for using technical software in design and document management.

As part of the Quality Improvement plan developed by the Merchant Vessel Department, the “Training for Quality” project, launched in 2016, continued apace. Its aim is to improve the final quality of the product (ship) by ensuring that each phase of the construction process is carried out correctly.

In the category of training for software supporting the process and the working method, the special training on “Primavera P6” - a system for planning, programing
and controlling complex projects - was of particular importance in 2017. For the health and safety of resources increasingly more engaged abroad, in 2017 a “Travel Security” course was created for employees, enabling them to acquire awareness of the risks in different countries and develop useful behavioural strategies to effectively manage any problematic situations.

To significantly increase the workforce’s language skills, a company Language Policy was established in 2017 and a new method for language training was introduced which also included an advanced e-learning platform. Training and information exercises continued on the Organizational Model and on the administrative liability of legal entities under Italian Legislative Decree 231 in order to promote greater responsibility of employees and an “Enterprise Risk Management” course was developed to focus on the process of identifying, assessing, managing and monitoring the Company’s main risks. As confirmation of its constant commitment to health and safety at work, inalienable values of the company, during 2017 for the Parent Group alone, over 1,000 training events were organized on this subject for around 4,500 participants, for a total of over 35,200 hours of training given.

As part of the processes for developing human capital, the Group has, for several years, used an annual performance assessment system which, in 2017, was extended to blue collar workers. To assess, enhance and develop the wealth of management skills in the company and to set up individual development plans and define managerial growth paths, Fincantieri has, for some time, used a process to assess resources’ potential. This process aims to highlight strengths, areas for improvement and motivate growth in individual resources, enabling them to develop self-awareness of their abilities and identify effective development plans in terms of short/medium-term training, coaching, planning career paths and job rotation.

Training and development activities also continued in foreign subsidiaries. Over 2017, Fincantieri Marine Group offered its employees training on various subjects such as health and safety at work, to people involved in production and to management, developing leadership skills aimed at corporate employees who were specially selected according to their potential and achievements.

VARD continued compulsory training on health and safety at work, focusing on e-learning rather than on traditional classroom teaching. In Romania, training activities mainly concerned the analysis and strengthening of various skills due to the increased workload and resulting increased demand for qualified workers. Vard Tulcea and the local Chamber of Commerce continued to collaborate, focusing on employee recruitment and professional training for new welders. In Vietnam, VARD continued to support training, enhancing local skills and providing employees with a number of training initiatives on developing leadership skills and on health, safety and quality.

**Talent acquisition**

To support, promote and implement the development of its business, Fincantieri
continues to conduct recruiting and employer branding activities aimed at identifying and recruiting the best talent available on the market both at home and abroad.

Fincantieri constantly searches for professionals with specific technical and transversal skills and solid experience in order to boost the development of know-how in the Company.

During recruitment attention is focused, in equal measure, on the assessment of candidates’ technical skills and their transversal and relational skills, more specifically detailed by Fincantieri’s model of skills. In accordance with its Charter of Values, behaviour that is aimed at people, safety, integrity, customer focus and innovation is of predominant importance.

To increase the effectiveness of its international recruitment, in 2017 Fincantieri implemented actions to map in detail the technical/engineering skills available on different markets, for both design and production.

The Company continues to bolster its employer branding through the main social communication tools and through collaboration with universities, higher technical institutes and the most important national and international business schools to attract young talent leaving school or academia. In 2017, Fincantieri received over 3,000 job applications from school leavers and graduates which led to over 200 work experience placements. The same year, over 90 young people were hired by the company after their internships.

Lastly, Fincantieri actively participates in the main pooling and guidance initiatives of the public education system in order to meet the increasing professional needs of the employment market and the world of research (company visits, conferences and seminars, lessons with company managers and work experience, school/work alternation projects, collaborations in research and innovation).

The VARD Group has continued its change management program which is focused on 4 shipyards in the area of Møre og Romsdal, funded by the Norwegian Labour and Welfare Administration for the area. This contribution has led to re-qualification of resources in light of the product diversification strategy adopted by the Norwegian Group.

The recruiting campaign for technical resources and specialized workers, as a result of the increased workloads in VARD’s Romanian shipyards, was also particularly relevant.

**Privacy protection**

Over the year, Fincantieri received ISO/IEC 27001:2013 and ISO 9001:2015 certifications from RINA Services for the information security management and quality system.

The ISO 27001 certification process in particular shows the adequacy of the ICT business processes in terms of the requirements of the international standard for information security management. This highly encouraging result is a decisive step towards compliance with the new European regulation on data protection (GDPR) which will be fully effective from May 2018.

The Regulator’s requirements dated 25 June 2009 concerning the duties of the system administrator continued to be implemented during the year.
ENVIRONMENT AND SAFETY AT WORK

During 2017 Fincantieri continued the cultural growth and professional development of staff working in business processes, with particular attention to protection of the environment 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, the end of 2017 saw the conclusion of the administrative proceedings that have led to the issue of an Integrated Environmental Authorization by the region of Friuli Venezia-Giulia. Given the importance of the Monfalcone yard to the Group’s Italian production, 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 and with a view to transparency. With particular reference to the environmental aspect of atmospheric emissions, during 2017 the Monfalcone yard finished building 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 subsidiary VARD is also very sensitive to these issues and continues to seek new methods to improve its practices and minimize the impact of emissions from its industrial activities. The commitment of the Norwegian Group can be seen in its participation, since 2008, in the...
Confederation of Norwegian Enterprises NOx-Fund, whose primary goal is to reduce the emission of greenhouse gases. 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. Consistent with the gradual process to make production efficient, after several improvement initiatives launched in recent years and in line with national and European energy regulations, the Parent Company has created a structure and organizational process aimed at preparing annual site energy diagnoses and identifying improvement plans to continually improve the company’s energy efficiency. In line with the Parent Company’s approach, foreign subsidiaries have also launched initiatives to reduce energy waste and implement more efficient technologies.

As regards the waste management and disposal, the Parent Company has outlined a special procedure which provides the criteria to be adopted to remove materials and residues produces during processing and specific guidelines on responsibilities and procedures. Fincantieri Marine Group has set up specific policies and procedures for waste management and aims to continually improve the processes used. The Company monitors the waste produced and, as a result, is able to ensure that all materials recovered are collected and managed correctly, seeking innovative solutions to re-use waste products. The VARD Group has also ensured that waste recycling is a priority. An exhaustive framework regulation was introduced in 2011 for waste management and the Group continues to record year-on-year improvements, with a percentage of recycled waste that increased from 65% in 2012 to over 90% in 2017.

**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.

**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, including new employees.

Health and safety at work

As far as reducing accidents is concerned, 2017 also confirmed the positive trend recorded in recent years in terms of events and frequency. 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. Worth mentioning in this regard is the introduction and development of special software to control access to work areas classified as “Confined Spaces”. Work also began to computerize the management of relevant Safety Data Sheets used to manage chemical risks.

Towards Zero Accidents project

During 2017, initiatives continued in support of the “Towards Zero Accidents” project, which involves all resources employed at the Group’s Italian production facilities. The training/information 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 launched and developed 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. Other initiatives set up by the subsidiary include:

- the use of the Safety Observation tool for reporting any anomalies;
- reporting on health and safety indicators at monthly management meetings;
- organization of an internal accident prevention week;
- monthly discussions on health and safety (compulsory under Brazilian law);
- election of an internal accident prevention commission;
- internal distribution of a booklet with the ten golden rules for health and safety.
at work, prepared in accordance with the Group’s guidelines.

The US subsidiaries have continued their commitment in line with 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 “James S. Cogswell Outstanding Industrial Security Achievement” and the “Wisconsin Corporate Safety Award” from the Defense Security Service and Wisconsin Manufacturers & Commerce (WMC), in addition to the “Safety Excellence Award” and the “Safety Improvement Award” already received in 2016.

**UNI EN ISO 14001:2004 Certifications**

During 2017 the Parent Company continued to introduce and consolidate Environmental Management systems in its operating units. The sites that had already been certified (Muggiano, Riva Trigoso, Ancona, Naval Vessels HQ, Arsenale Triestino San Marco, Marghera, Castellammare di Stabia, Sestri Ponente) continued to be monitored by RINA (the certifying body), while new certificates of compliance were obtained by the shipyards in Monfalcone and Merchant Vessels HQ. The Palermo yard, which implemented its own management system in compliance with the requirements of the UNI EN ISO 14001 standard, aims to start certification activities in 2018 with the conduct of a “Stage 1” audit by RINA.

The Marinette yard in the US also obtained certification for its environmental management system in 2017, in compliance with the requirements of the UNI EN ISO 14001 standard.

For the VARD Group, the Vard Braila and Vard Tulcea yards in Romania and the Vard Vung Tau in Vietnam were certified.

**BS OHSAS 18001 and SA 8000 Certifications**

During 2017 the Parent Company continued to introduce and consolidate Occupational Health and Safety Management systems in its operating units, with the aim of supporting the implementation of the policy adopted by the Company. 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 Palermo yard, which implemented its own management system in compliance with the requirements of the UNI EN ISO 14001 standard, aims to start certification activities in 2018 with the conduct of a “Stage 1” audit by RINA.

The Marinette yard in the US also obtained certification for its health and safety at work management system in 2017, in compliance with the requirements of the BS OHSAS 18001 standard.

The VARD Group obtained OHSAS 18001 certification for the Vard Braila, Tulcea (Romania) and Vard Vung Tau (Vietnam) yards. All the VARD yards are aligned to the SA 8000 standard which is based on the International Labour Organization conventions and on the Universal Declaration of Human Rights.
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.

1 Risks related to operational complexity

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<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>IMPACT</th>
<th>MITIGATION</th>
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<tbody>
<tr>
<td>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:</td>
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<td>• not guaranteeing adequate control of project management activities;</td>
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<td>• not adequately managing the operational, logistical and organizational complexity that characterizes the Group;</td>
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<td>• overestimating the synergies arising from acquisition operations or suffering the effects of slow and/or weak integration;</td>
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<td>• not adequately managing the complexity arising from its product diversification;</td>
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<td>• failing to efficiently distribute workloads according to production capacity (plant and labor) or that excess capacity might impede the achievement of competitive margins;</td>
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<td>• not meeting market demand due to its own or its suppliers’ insufficient production capacity.</td>
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<td>If the Group was unable to implement adequate project management activities, with sufficient or effective procedures and actions to control the proper completion and efficiency of its shipbuilding processes, or if it was unable to adequately manage the Group synergies and 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.</td>
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<td>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. Constant dialogue channels are established between the Group entities in order to safeguard the integration processes, occasionally Parent Company resources are included. 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. The Group is implementing actions aimed at improving the production and design processes in order to strengthen competitiveness and increase productivity.</td>
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2 Risks related to nature of the market

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<th>DESCRIPTION OF RISK</th>
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<tr>
<td>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. In the naval business, the demand for new ships is heavily dependent on governments’ defense spending policies.</td>
<td>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.</td>
<td>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, wind offshore, fishing and aquaculture, with the intent of reducing its exposure to the cyclical nature of the offshore Oil &amp; Gas industry. As part of the program to improve efficiency and cut costs to rightsize production capacity for the new market opportunities, VARD has scaled down its production capacity in Brazil by shutting down one of its yards, it has temporarily downsized the workforce at its facilities in Norway using work flexibility tools and it has repositioned one of the Norwegian yards to serve the aquaculture industry.</td>
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### 3 Risks related to maintenance of competitiveness in core markets

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<th>DESCRIPTION OF RISK</th>
<th>IMPACT</th>
<th>MITIGATION</th>
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<tr>
<td>The production of standard merchant 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.</td>
<td>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.</td>
<td>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.</td>
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<td>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.</td>
<td>Situations involving country risk may have negative effects on the Group’s results of operations and financial condition, with the loss of clients, profits and competitive advantage and, in the case of lawsuits and sanctions, on its reputation.</td>
<td>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.</td>
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4 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.
The operational management of contracts carries a risk that one or more counterparties with whom the Group has contracts are unable to meet its commitments, more specifically involving one or more clients do not meet the contractual obligations, or one or more suppliers fail 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 clients in the Offshore sector has led to the cancellation or redefinition of the delivery dates of some orders in the order book.

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.

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. Moreover, 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.

The Group adopts a financing strategy aimed at diversifying as much as possible the technical forms of financing and the financing counterparties with the ultimate objective of maintaining a more than sufficient credit capacity to guarantee coverage of the working capital needs generated by its operations.

**Mitigation**

Bankruptcy by one or more counterparties, whether clients or suppliers, 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 or, potentially, at prices that do not allow its construction costs to be recovered. Moreover, the postponement of delivery dates can significantly increase working capital financing needs, with a consequent growth in debt and higher borrowing costs.

When acquiring orders, and where deemed necessary, the Group can perform checks on the financial strength of its counterparties, including by obtaining information from leading credit rating agencies. Suppliers are subject to a qualification process, including evaluation of the potential risks associated with the counterparty concerned. As regards the financial aspect, the Group offers its 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 reconvert and reposition on the new markets served those vessels already built but whose orders have been cancelled.

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<td>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.</td>
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<td>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.</td>
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<td>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 also actively works 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 paying any costs prepaid by the Group.</td>
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5 Risks related to production outsourcing and relations with suppliers and local communities

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<td>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.</td>
<td>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 on the market.</td>
<td>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, at the time supplemented by the conclusion of suitable legality and/or transparency protocols with the local authorities, which in turn enabled the definition of the National Legality Framework Agreement signed in 2017. The subsidiary VARD has paid special attention to the process of evaluating and managing contracts with new suppliers operating in new sectors entered as a result of its diversification strategy.</td>
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6 Risks related to knowledge management

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<td>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 and resource management with a view to continuous improvement, achieved by investing in staff training and performance evaluation.</td>
<td>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.</td>
<td>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.</td>
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## 7 Risks related to legal and regulatory environment

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<th>DESCRIPTION OF RISK</th>
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<td>Any breaches of tax, 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 tax, the environment or safety at work.</td>
<td>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 implemented an Environmental Management System at their sites with a view to obtaining certification under UNI EN ISO 14001:2004 and has started updating to the 2015 standard. As regards the mitigation of tax risks, the Group constantly monitors changes to the law force.</td>
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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.

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.

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.

8 Risks related to information access and operation of the computer system

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.

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.

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.
9 Risks related to exchange rates

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 Group’s financial statements, through translation of the income statements and balance sheets of consolidated subsidiaries that operate in a currency other than the Euro (mainly NOK, USD and BRL).

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.

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. With regard to currency translation risk, the Group constantly monitors its main exposures which are normally not subject to coverage. In the same way, the subsidiary VARD prepared a management policy that is based on the fundamental principles defined by the Parent Company, though with some differences due to the company’s particular needs.
### 10 Risks related to financial debt

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<td>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 immediate 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 them, 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.</td>
<td>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.</td>
<td>To ensure access to adequate types of finance in terms of amount and conditions, the Group constantly monitors the results of its operations and financial condition and its current and future capital and financial structure as well as any circumstances that could adversely affect them. 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. Moreover, the Company can negotiate derivative contracts, usually in the form of interest rate swaps, in order to contain the impact of fluctuations of interest rates on the Group's medium/long-term profitability.</td>
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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 22 March 2018, and published in the “Governance” section of the Company’s website at www.fincantieri.it.

The Report has been prepared in accordance with the recommendations of the Corporate Governance Code and modeled on the “Format for the report on corporate governance and ownership structure - VII Edition (January 2018)” 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 164.7% over 2017, going from a price of euro 0.47 on 30 December 2016 to euro 1.25 on 29 December 2017. The FTSE MIB, the index comprising Italy’s 40 largest stocks, gained 13.6% over the same period, while the FTSE Mid Cap, of which Fincantieri is part, gained 32.3%. Over 2017, FINCANTIERI S.p.A. stock performance recorded a continued upward trend. Fincantieri stock benefited from the period’s positive results, which demonstrated the Group’s solidity and its capacity for growth consistent with management’s guidelines. The stock reported an average price for the year of euro 0.89 per share, reaching a peak value of euro 1.32 on 11 December. The stock closed the year, on 29 December 2017, with a price of euro 1.25 per share corresponding to a market capitalization of over euro 2.1 billion. In terms of stock liquidity, a total of 1.8 billion shares were traded during the year, with an average daily trading volume of around 7.1 million shares. During 2017, Fincantieri started and ended the program to purchase its own shares for the incentive plan called “Performance Share Plan 2016 - 2018”, as resolved by the Shareholders’ Meeting held on 19 May 2017. In the period from 30 October 2017 to 30 November 2017, Fincantieri purchased on the Mercato Telematico Azionario (MTA) organized and managed by Borsa Italiana S.p.A. and on
the Bats, Chi-X and Turquoise trading platforms, via Exane BNP Paribas, 4,706,890 of its own shares, equal to 0.28% of the shares representing the share capital.

At 31 December 2017, Fincantieri’s share capital of euro 862,980,725.70 was held as follows: 71.64% by Fintecna S.p.A., 28.08% by the general market and 0.28% in own shares.

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<td><strong>KEY FIGURES</strong></td>
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<tr>
<td>Share capital</td>
<td>862,980,725.70</td>
<td>862,980,725.70</td>
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<tr>
<td>Ordinary shares issued</td>
<td>4,706,890</td>
<td>1,692,119,070</td>
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<tr>
<td>Own shares</td>
<td>1,692,119,070</td>
<td>1,692,119,070</td>
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<tr>
<td>Market capitalization (*)</td>
<td>euro/million</td>
<td>2,118</td>
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<tr>
<td>Price at year end</td>
<td>1.25</td>
<td>0.47</td>
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<tr>
<td>Year high</td>
<td>1.32</td>
<td>0.47</td>
</tr>
<tr>
<td>Year low</td>
<td>0.47</td>
<td>0.27</td>
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<tr>
<td>Average price</td>
<td>0.89</td>
<td>0.38</td>
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(*) Number of shares outstanding multiplied by reference share price at period end.
Other significant events in the period

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.

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.

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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 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 (18.3% of shares issued). 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 was SGD 51,829,098.08 (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) was SGD 1,465,536.00 (approx. euro 969,398.07 at the exchange rate on 24 March 2017). After the conclusion of the Offer, Fincantieri Oil & Gas further increased its shareholding in Vard to 79.74% of the share capital at 31 December 2017. This increase in the shareholding in Vard, from 55.63% to 79.74%, has not altered the Fincantieri Group’s scope of consolidation since Vard was already fully consolidated.

On 19 May 2017, Fincantieri signed the share purchase agreement for 66.66% of the capital of STX France from its current shareholder STX Europe AS. The agreement gives a purchase price for the shareholding of euro 79.5 million, which the Company will pay using the financial resources it has available. The closing was subject to the usual conditions envisaged for this type of transaction and to the French Government failing to exercise its preemptive rights on the shares sold by STX Europe AS. The French Government then exercised this right on 27 July 2017.

On 29 May 2017, Fincantieri and Eni signed a Memorandum of Understanding to collaborate in R&D on energy systems and, in particular, on the chain to develop natural gas. The understanding covers highly innovative content that holds particular industrial importance and is aimed at projects for the sustainable development and support in the use of gas for transport.

On 31 May 2017, Fincantieri signed a letter of intent with China State Shipbuilding Corporation and with the district of Baoshan in Shanghai, aimed at creating an industrial park, mainly for cruise ship, shipyard and maritime activities, as part of the development of these segments started by China.
On 13 November 2017, Fincantieri Oil & Gas S.p.A. (Fincantieri O&G) submitted a delisting proposal (Proposal) to Vard Holdings Limited (Vard) for the latter’s delisting using the voluntary delisting procedure from the Main Board of the Singapore Exchange Securities Trading Limited (SGX-ST). The proposal was assessed by Vard’s Board of Directors, which resolved to request delisting approval from SGX-ST and convene an extraordinary shareholders’ meeting (Shareholders’ Meeting) to request approval for the delisting (“Shareholders’ Meeting Resolution). The delisting is condition on (i) the approval by SGX-ST of the delisting application submitted by Vard (ii) the approval of the Shareholders’ Meeting with a resolution passed with at least a 75% majority, and the failure to vote against the proposal of 10% or more, of the total number of shares held by shareholders present and voting at the Shareholders’ Meeting. If the above conditions are met, Fincantieri O&G will make an offer for all the ordinary shares of Vard not already held and controlled by, or subject to share purchase agreement by, Fincantieri O&G, its associates and their representatives (Exit Offer). In the Exit Offer, Fincantieri O&G will offer Vard shareholders SGD 0.25 cash per share delivered in acceptance of the offer, for a maximum disbursement of SGD 60,943,572.50 (equal to around euro 38,500,000 at the current exchange rate) if all the shareholders agree. The offer will be financed using the financial resources available.

On 4 July 2017, Naval Group and Fincantieri, with the full support of the French and Italian governments, combined their skills and announced they had presented a “ready for use” and well-proven solution to the Royal Canadian Navy, based on the design of the FREMM frigate, for the supply of 15 surface battle ships to the Royal Canadian Navy. If the offer is accepted, the construction of the future frigates will start shortly in Canada at the Irving Shipbuilding yard, thus maximizing the participation of Canadian industry with a specific and exhaustive technology transfer and with the integration of Canadian suppliers in the global supply chain of the two companies.

On 4 July 2017, Fincantieri and Mapei, leader in the chemical sector for the construction industry, with a branch specialized in shipyards, signed a strategic collaboration agreement on research and innovation. Through this partnership Fincantieri sets the goals of optimizing laying times, reducing the weight of some materials used, improving sound abatement with the use of specific products, developing and broadly using the use of adhesive products in some shipbuilding applications. Moreover, Mapei intends to pursue projects that could lead to solutions that can be exploited in its own business.

On 27 September 2017 a cooperation agreement was reached between the Italian Government and the French Government which will lead to the creation of a global leader in civil and naval shipbuilding, and which will see Naval Group and Fincantieri the protagonists. With this agreement the two Governments have also defined the shareholding structure of STX France, which envisages both Naval Group and Fincantieri as shareholders.

On 30 October 2017, Fincantieri S.p.A. started the program to purchase its own shares for its incentive plan called “Performance Share Plan 2016-2018”, to be carried out in accordance with art. 5 of EU Regulation No. 596/2014 and as resolved by the Shareholders’ Meeting held on 19 May 2017. The program ended on 30 November 2017 with the purchase of 4,706,890 Fincantieri own shares (0.28% of the share capital) for euro 5,2 million.

On 1 December 2017, Naval Group and Fincantieri, with the full support of the French and Italian governments, combined their skills and announced they had presented a “ready for use” and well-proven solution to the Canadian Government, based on the design of the FREMM frigate, for the supply of 15 surface battle ships to the Royal Canadian Navy. If the offer is accepted, the construction of the future frigates will start shortly in Canada at the Irving Shipbuilding yard, thus maximizing the participation of Canadian industry with a specific and exhaustive technology transfer and with the integration of Canadian suppliers in the global supply chain of the two companies.
Key events after the reporting period ended 31.12.2017

On 17 January 2018, Fincantieri signed a collaboration agreement with the autonomous region of Friuli Venezia Giulia and with the trade union organizations Cgil, Cisl and Uil aimed at implementing a series of initiatives to promote work placement process and boost local employment, particularly for young people, thus contributing to the social and economic development of the region.

On 2 February 2018, Fincantieri, through its subsidiary Fincantieri Europe S.p.A., signed the share purchase agreement for 50% of the capital of STX France with the French Government, represented by the Agence des Participations de l’Etat (APE). This signature is the result of the Share Purchase Agreement signed by Fincantieri and STX Europe AS on 19 May 2017, following the French Government’s exercise on 28 July 2017 of its preemptive rights on all the capital of STX France, as well as the signature of the Share Purchase Agreement between the French Government and STX Europe. This purchase by Fincantieri will be subject to the closing of the transaction between the French Government and STX Europe, and to the usual conditions provided for this type of operation. For Fincantieri, the agreement gives a purchase price for the shareholding of euro 59.7 million, payable using the financial resources it has available. The shareholders’ agreements and the agreement covering the loan of 1% of the share capital of STX France to Fincantieri will be signed at the closing of the transaction.

On 19 February 2018, the US Navy awarded Fincantieri’s American subsidiary, Marinette Marine, a contract worth USD 15 million to develop the study of a customized version of its FREMM project for the new future generation multirole frigates of the FFG(X) program.

On 5 March 2018 Fincantieri and the Grimaldi Group signed a letter of intent for the program to lengthen and transform the cruise ferries “Cruise Roma” and “Cruise Barcelona”.

On 6 March 2018, Fincantieri reached an important agreement with Viking for the supply of a further 6 ships, bringing the total to 16 vessels built in partnership by the two companies, extending the collaboration until 2027.

On the same date, the subsidiary Vard Holdings Limited signed a contract for the design and construction of two more small sized luxury cruise ships for the French shipowner PONANT.

Business outlook

The new Business Plan 2018-2022, presented to the market together with its 2017 final results, confirms the lines of intervention traced in the previous Business Plan 2016-2020 and the goal of consolidating the Group’s leadership in all the higher value-added shipbuilding sectors at global level, with financial and economic indications that have improved still further.

Revenues are expected to increase in 2022 by up to 50% compared to 2017 while a significant rise in profitability with an EBITDA margin forecast of between 8% and 9% of revenues in 2022 (corresponding to growth in EBITDA up to around 100% compared to 2017). Furthermore, an adjusted profit for the year 2022 of between 3% and 4% of revenues is forecast.

The Shipbuilding segment shows the most significant growth in terms of volumes.
and margins. This is due to the entry into production of cruise ships purchased at more lucrative prices and the full operation of the Italian Navy fleet renewal programs and the order for the Qatari Ministry of Defense for the naval vessel business. To support the production of large sized cruise ships, on the one hand, development will continue of production synergies between the shipyards involved in building cruise ships, including the Tulcea yard in Romania which has become fully integrated in the production network, and, on the other, the capital expenditure program in Italian shipyards will continue in order to significantly improve efficiency. The Offshore segment will intensify the business diversification started in previous years to deal with the slowing down of capital expenditure in the Oil & Gas sector. Moreover, further expansion is forecast in the market for luxury position in expedition cruise ships. Similarly, in line with market trends, an important growth is expected in aquaculture and fisheries. The sector’s production set-up and the capacity for innovation that is characteristic of the Group companies will enable them to seize the opportunities that arise with the upturn in the Oil & Gas market.

For the Equipment, Systems and Services segment, development is expected in of the important backlog acquired with the contract for the renewal of the Italian Navy’s fleet and for the after-sales activities associated with the contract with the Qatari Ministry of Defense. The strategy for reconfiguring the Group’s foothold in the value chain (by internalizing high value-added activities and externalizing lower value activities) will enable the Group to gain greater penetration in non captive after sales. The Plan was prepared in line with the scope of consolidation and therefore does not take into account the effects associated with the share purchase.
agreement for 50% of STX France or the possible future alliance with Naval Group in the naval defense sector.

Transactions with the controlling company and other group companies

Direction and coordination by Fintecnia 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 carried out in the six-month period 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 Condensed Consolidated Interim Financial Statements at 31 December 2017.

Purchase of own shares

The Shareholders’ Meeting held on 19 May 2017 authorized the Board of Directors to purchase its own shares on the market in order to implement the first cycle of the medium/long-term share-based incentive plan for management, called the Performance Share Plan 2016-2018. Therefore, over the second half of 2017, 4,706,890 Fincantieri own shares were purchased (0.28% of the share capital) for euro 5,277 thousand and held by FINCANTIERI S.p.A.

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 2017, 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 2017.

Sustainability report

The Fincantieri Group has fulfilled its obligation, required by Legislative Decree No. 254/2016, to prepare non-financial statements, translating them into its first Sustainability Report, a stand-alone document approved by the Board of Directors on 27 March 2018, and published in the “Sustainability” section of the Company’s website at www.fincantieri.it.
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).
• Adjusted profit/(loss) 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.
• ROI: Return on Investment is calculated as the ratio between EBIT and the arithmetic mean of Net invested capital at the beginning and end of the reporting period.
• ROE: Return on equity is calculated as the ratio between Profit/(loss) for the period and the arithmetic mean of Total Equity at the beginning and end of the reporting period.
• 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).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Company Financial Statements</td>
<td>1,411,723</td>
<td>1,179,108</td>
</tr>
<tr>
<td>Share of equity and net result of consolidated subsidiaries, net of carrying amount of the related investments</td>
<td>(208,736)</td>
<td>(261,894)</td>
</tr>
<tr>
<td>Consolidation adjustments for difference between purchase price and corresponding book value of equity</td>
<td>210,409</td>
<td>227,201</td>
</tr>
<tr>
<td>Reversal of dividends distributed by consolidated subsidiaries to the Parent Company</td>
<td>(1,500)</td>
<td></td>
</tr>
<tr>
<td>Joint ventures and associates accounted for using the equity method</td>
<td>8,870</td>
<td>7,939</td>
</tr>
<tr>
<td>Elimination of intercompany profits and losses and other consolidation adjustments</td>
<td>(59,493)</td>
<td>(3,149)</td>
</tr>
<tr>
<td>Exchange translation differences from line-by-line consolidation of foreign subsidiaries</td>
<td>(125,935)</td>
<td>(63,090)</td>
</tr>
<tr>
<td>Equity and profit for the year attributable to owners of the parent</td>
<td>1,236,840</td>
<td>1,086,115</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>72,322</td>
<td>155,241</td>
</tr>
<tr>
<td>Total consolidated equity and profit/(loss) for the year</td>
<td>1,309,162</td>
<td>1,241,356</td>
</tr>
</tbody>
</table>
## RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS USED IN THE REPORT ON OPERATIONS WITH THE MANDATORY IFRS STATEMENTS

### CONSOLIDATED INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amounts in IFRS statement</td>
<td>Amounts in reclassified statement</td>
</tr>
<tr>
<td>A - Revenue</td>
<td>5,020</td>
<td>4,429</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>4,914</td>
<td>4,347</td>
</tr>
<tr>
<td>Other revenue and income</td>
<td>106</td>
<td>87</td>
</tr>
<tr>
<td>Recl. to I - Extraordinary and non-recurring income and expenses</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>B - Materials, services and other costs</td>
<td>(3,742)</td>
<td>(3,291)</td>
</tr>
<tr>
<td>Materials, services and other costs</td>
<td>(3,747)</td>
<td>(3,296)</td>
</tr>
<tr>
<td>Recl. to I - Extraordinary and non-recurring income and expenses</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>C - Personnel costs</td>
<td>(909)</td>
<td>(846)</td>
</tr>
<tr>
<td>Personnel costs</td>
<td>(912)</td>
<td>(858)</td>
</tr>
<tr>
<td>Recl. to I - Extraordinary and non-recurring income and expenses</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>D - Provisions</td>
<td>(69)</td>
<td>(28)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(72)</td>
<td>(25)</td>
</tr>
<tr>
<td>Recl. to I - Extraordinary and non-recurring income and expenses</td>
<td>41</td>
<td>47</td>
</tr>
<tr>
<td>E - Depreciation, amortization and impairment</td>
<td>(120)</td>
<td>(110)</td>
</tr>
<tr>
<td>Depreciation, amortization and impairment</td>
<td>(120)</td>
<td>(110)</td>
</tr>
<tr>
<td>F - Finance income/(costs)</td>
<td>(83)</td>
<td>(66)</td>
</tr>
<tr>
<td>Finance income/(costs)</td>
<td>(83)</td>
<td>(66)</td>
</tr>
<tr>
<td>G - Income/(expense) from investments</td>
<td>(5)</td>
<td>(10)</td>
</tr>
<tr>
<td>Income/(expense) from investments</td>
<td>(5)</td>
<td>(10)</td>
</tr>
<tr>
<td>H - Income taxes</td>
<td>(42)</td>
<td>(21)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(31)</td>
<td>(8)</td>
</tr>
<tr>
<td>Recl. to L - Tax effect of extraordinary and non-recurring income and expenses</td>
<td>(11)</td>
<td>(13)</td>
</tr>
<tr>
<td>I - Extraordinary and non-recurring income and expenses</td>
<td>(49)</td>
<td>(59)</td>
</tr>
<tr>
<td>Recl. from B - Materials, services and other costs</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Recl. from C - Personnel costs</td>
<td>(3)</td>
<td>(12)</td>
</tr>
<tr>
<td>Recl. from D - Provisions</td>
<td>(41)</td>
<td>(47)</td>
</tr>
<tr>
<td>L - Tax effect of extraordinary and non-recurring income and expenses</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Recl. from H - Income taxes</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>53</td>
<td>14</td>
</tr>
</tbody>
</table>
### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### (euro/million)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amounts in IFRS statement</td>
<td>Amounts in reclassified statement</td>
</tr>
<tr>
<td><strong>A) Intangible assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>582</td>
<td>595</td>
</tr>
<tr>
<td><strong>B) Property, plant and equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,045</td>
<td>1,064</td>
</tr>
<tr>
<td><strong>C) Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td><strong>D) Other non-current assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>144</td>
<td>4</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>(17)</td>
<td>(41)</td>
</tr>
<tr>
<td><strong>E) Employee benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>(59)</td>
<td>(58)</td>
</tr>
<tr>
<td><strong>F) Inventories and advances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories and advances</td>
<td>835</td>
<td>590</td>
</tr>
<tr>
<td><strong>G) Construction contracts and client advances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction contracts - assets</td>
<td>1,995</td>
<td>1,374</td>
</tr>
<tr>
<td>Construction contracts - liabilities and client advances</td>
<td>(648)</td>
<td>604</td>
</tr>
<tr>
<td><strong>H) Construction loans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction loans</td>
<td>(624)</td>
<td>(679)</td>
</tr>
<tr>
<td><strong>I) Trade receivables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables and other current assets</td>
<td>1,156</td>
<td>1,383</td>
</tr>
<tr>
<td>Recl. to N - Other assets</td>
<td>(247)</td>
<td>(260)</td>
</tr>
<tr>
<td><strong>J) Trade payables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables and other current liabilities</td>
<td>(1,748)</td>
<td>(1,307)</td>
</tr>
<tr>
<td>Recl. to N - Other liabilities</td>
<td>225</td>
<td>189</td>
</tr>
<tr>
<td><strong>M) Provisions for risks and charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for risks and charges</td>
<td>(141)</td>
<td>(126)</td>
</tr>
<tr>
<td><strong>N) Other current assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current assets and liabilities</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Income tax assets</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Recl from I - Other current assets</td>
<td>247</td>
<td>260</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(62)</td>
<td>(85)</td>
</tr>
<tr>
<td>Income tax liabilities</td>
<td>(12)</td>
<td>(11)</td>
</tr>
<tr>
<td>Derivative liabilities and option fair value</td>
<td>(54)</td>
<td>(101)</td>
</tr>
<tr>
<td>Recl from L - Other current liabilities</td>
<td>(225)</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>O) Net assets/(liabilities) held for sale</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET INVESTED CAPITAL</strong></td>
<td>1,623</td>
<td>1,856</td>
</tr>
<tr>
<td><strong>P - Equity</strong></td>
<td>1,309</td>
<td>1,241</td>
</tr>
<tr>
<td><strong>Q - Net financial position</strong></td>
<td>314</td>
<td>615</td>
</tr>
<tr>
<td><strong>SOURCES OF FUNDING</strong></td>
<td>1,623</td>
<td>1,856</td>
</tr>
</tbody>
</table>
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**MANAGEMENT REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT BY THE INDEPENDENT AUDITORS**

216
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>6</td>
<td>581,501</td>
<td></td>
<td>594,622</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>7</td>
<td>1,044,671</td>
<td></td>
<td>1,063,946</td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>8</td>
<td>50,581</td>
<td></td>
<td>54,973</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>8</td>
<td>2,348</td>
<td></td>
<td>3,179</td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td>8</td>
<td>279,763</td>
<td></td>
<td>138,270</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>10</td>
<td>6,718</td>
<td></td>
<td>731</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>11</td>
<td>72,104</td>
<td></td>
<td>154,373</td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>2,057,371</td>
<td></td>
<td>2,025,518</td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories and advances</td>
<td>12</td>
<td>835,199</td>
<td>206,509</td>
<td>590,310</td>
<td>2,390</td>
</tr>
<tr>
<td>Construction contracts - assets</td>
<td>13</td>
<td>1,995,342</td>
<td>1,379,814</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax assets</td>
<td>14</td>
<td>50,000</td>
<td>1,383,064</td>
<td>140,913</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>4,357,795</td>
<td>3,644,815</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets classified as held for sale</strong></td>
<td>35</td>
<td>-</td>
<td>6,314</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>6,395,166</td>
<td>5,676,647</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### EQUITY AND LIABILITIES

|                         |      |            |                          |            |                          |
| **EQUITY**              |      |            |                          |            |                          |
| Equity attributable to owners of the parent | 18   |            |                          |            |                          |
| Share capital           |      | 862,981    |                          | 862,981    |                          |
| Reserves and retained earnings | 19   | 573,857    |                          | 223,134    |                          |
| **Total Equity attributable to owners of the parent** |      | 1,236,838  |                          | 1,086,115  |                          |
| Non-controlling interests |      | 72,322     |                          | 155,241    |                          |
| **Total Equity**        |      | 1,309,160  |                          | 1,241,356  |                          |

### NON-CURRENT LIABILITIES

|                         |      |            |                          |            |                          |
| Provisions for risks and charges | 19   | 130,754    |                          | 109,805    |                          |
| Employee benefits        | 20   | 58,912     |                          | 57,777     |                          |
| Financial liabilities    | 21   | 293,699    | 48,935                   | 590,604    | 49,769                   |
| Other liabilities        | 22   | 30,916     |                          | 48,233     |                          |
| Deferred tax liabilities | 35   | 61,752     |                          | 85,072     |                          |
| **Total non-current liabilities** |      | 576,033    |                          | 550,479    |                          |

### CURRENT LIABILITIES

|                         |      |            |                          |            |                          |
| Provisions for risks and charges | 19   | 10,089     |                          | 16,169     |                          |
| Construction contracts - liabilities | 23   | 1,547,252  |                          | 776,114    |                          |
| Financial liabilities    | 24   | 1,975,482  | 19,756                   | 1,496,076  | 20,055                   |
| **Total current liabilities** |      | 35,380     |                          | 35,380     |                          |
| **Liabilities directly associated with assets classified as held for sale** |      | -          | 4,811                    |            |                          |
| **TOTAL EQUITY AND LIABILITIES** |      | 6,395,166  | 5,676,647                |            |                          |
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>2017 (€)</th>
<th>of which related parties Nota 32</th>
<th>2016 (€)</th>
<th>of which related parties Nota 32</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>27</td>
<td>4,914,255</td>
<td>293,603</td>
<td>4,346,755</td>
<td>299,326</td>
</tr>
<tr>
<td>Other revenue and income</td>
<td>27</td>
<td>105,830</td>
<td>1,152</td>
<td>87,367</td>
<td>1,726</td>
</tr>
<tr>
<td>Materials, services and other costs</td>
<td>28</td>
<td>(3,746,474)</td>
<td>(82,097)</td>
<td>(3,296,409)</td>
<td>(15,149)</td>
</tr>
<tr>
<td>of which non-recurring</td>
<td>32</td>
<td>-</td>
<td>(389)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel costs</td>
<td>28</td>
<td>(912,064)</td>
<td>(857,842)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which non-recurring</td>
<td>32</td>
<td>(3,493)</td>
<td>(10,069)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, amortization and impairment</td>
<td>28</td>
<td>(119,860)</td>
<td>(109,448)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>28</td>
<td>(69,060)</td>
<td>(72,136)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which non-recurring</td>
<td>32</td>
<td>-</td>
<td>(1,452)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>29</td>
<td>31,487</td>
<td>264</td>
<td>48,782</td>
<td>308</td>
</tr>
<tr>
<td>Finance costs</td>
<td>29</td>
<td>(114,934)</td>
<td>(3,395)</td>
<td>(115,227)</td>
<td>(1,583)</td>
</tr>
<tr>
<td>Income/(expense) from investments</td>
<td>30</td>
<td>(4,794)</td>
<td>(6,819)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which non-recurring</td>
<td>31</td>
<td>(31,277)</td>
<td>(8,558)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROFIT/(LOSS) FOR THE YEAR (A)</td>
<td></td>
<td>53,140</td>
<td>13,751</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to owners of the parent</td>
<td></td>
<td>57,140</td>
<td>25,491</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to non-controlling interests</td>
<td></td>
<td>4,000</td>
<td>(4,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic earnings/(loss) per share (Euro)</td>
<td>32</td>
<td>0.03366</td>
<td>0.01506</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diluted earnings/(loss) per share (Euro)</td>
<td>32</td>
<td>0.03366</td>
<td>0.01506</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income/(losses), net of tax (OCI)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/(losses) from remeasurement of employee defined benefit plans</td>
<td>18-20</td>
<td>94</td>
<td>(1,618)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total gains/(losses) that will not be reclassified to profit or loss,</td>
<td>18</td>
<td>94</td>
<td>(1,618)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>net of tax</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>attributable to non-controlling interests</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective portion of gains/(losses) on cash flow hedging instruments</td>
<td>4-18</td>
<td>119,692</td>
<td>(25,170)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/(losses) arising from changes in OCI of investments accounted for</td>
<td>8</td>
<td>(216)</td>
<td>(11,006)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>using the equity method</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/(losses) arising from fair value measurement of available-for-sale</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>securities and bonds</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange gains/(losses) arising on translation of foreign subsidiaries’</td>
<td>18</td>
<td>(57,840)</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial statements</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total gains/(losses) that may be subsequently reclassified to profit or</td>
<td>18</td>
<td>61,636</td>
<td>(36,142)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>loss, net of tax</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>attributable to non-controlling interests</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total other comprehensive income/(losses), net of tax (B)</td>
<td>18</td>
<td>61,730</td>
<td>(37,760)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>attributable to non-controlling interests</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A) + (B)</td>
<td></td>
<td>114,870</td>
<td>(24,009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to owners of the parent</td>
<td></td>
<td>125,175</td>
<td>13,251</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to non-controlling interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>Date</th>
<th>Share capital</th>
<th>Reserves and retained earnings</th>
<th>Equity attributable to owners of the parent</th>
<th>Equity attributable to non-controlling interests</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2016</td>
<td>862,981</td>
<td>275,038</td>
<td>1,138,019</td>
<td>128,079</td>
<td>1,266,098</td>
</tr>
</tbody>
</table>

### Business combinations
- Share capital increase
- Share capital increase – non-controlling interests

### Acquisition of non-controlling interests
- (65,155) | (65,155) | 62,105 | (3,050) |

### Dividend distribution
- Other changes/roundings

### Total transactions with owners
- (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
- 13,251 | 13,251 | (37,260) | (24,009) |

- Share capital increase – non-controlling interests
- Reserve for long-term incentive plan
- Purchase of own shares
- Other changes/roundings

### Total transactions with owners
- (27,552) | (27,552) | (72,447) | (44,895) |

### Profit/(Loss) for the year
- (57,140) | 57,140 | (4,000) | 53,140 |

### OCI for the year
- 68,035 | 68,035 | (6,305) | 61,730 |

### Total comprehensive income for the year
- 125,175 | 125,175 | (10,305) | 114,870 |

### 31.12.2017
- Share capital increase – non-controlling interests
- Reserve for long-term incentive plan
- Purchase of own shares
- Other changes/roundings

### Total transactions with owners
- 27,552 | 27,552 | (72,447) | (44,895) |

### Profit/(Loss) for the year
- 57,140 | 57,140 | (4,000) | 53,140 |

### OCI for the year
- 68,035 | 68,035 | (6,305) | 61,730 |

### Total comprehensive income for the year
- 125,175 | 125,175 | (10,305) | 114,870 |
### CONSOLIDATED STATEMENT OF CASH FLOWS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td>33</td>
<td><strong>546,869</strong></td>
</tr>
<tr>
<td>- of which related parties</td>
<td></td>
<td>(256,553)</td>
</tr>
<tr>
<td>Investments in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- intangible assets</td>
<td></td>
<td>(54,739)</td>
</tr>
<tr>
<td>- property, plant and equipment</td>
<td></td>
<td>(107,919)</td>
</tr>
<tr>
<td>- equity investments</td>
<td></td>
<td>(328)</td>
</tr>
<tr>
<td>- receivables and other financial assets</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>- cash out for business combinations, net of cash acquired</td>
<td></td>
<td>(5,514)</td>
</tr>
<tr>
<td>Disposals of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- intangible assets</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>- property, plant and equipment</td>
<td></td>
<td>825</td>
</tr>
<tr>
<td>- equity investments</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td>(167,625)</td>
</tr>
<tr>
<td>Change in non-current loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- disbursements</td>
<td></td>
<td>107,911</td>
</tr>
<tr>
<td>- repayments</td>
<td></td>
<td>(140,847)</td>
</tr>
<tr>
<td>Change in non-current financial receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- disbursements</td>
<td></td>
<td>(14,227)</td>
</tr>
<tr>
<td>- repayments</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Change in current bank loans and credit facilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- disbursements</td>
<td></td>
<td>3,184,410</td>
</tr>
<tr>
<td>- repayments</td>
<td></td>
<td>(3,380,512)</td>
</tr>
<tr>
<td>Change in current parent company loans</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Changes in payables/receivables to/from investee companies</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Change in other current financial liabilities/receivables</td>
<td></td>
<td>(11,093)</td>
</tr>
<tr>
<td>Change in receivables for held-for-trading financial instruments</td>
<td></td>
<td>(3,025)</td>
</tr>
<tr>
<td>Change in payables for held-for-trading financial instruments</td>
<td></td>
<td>(6,389)</td>
</tr>
<tr>
<td>Net capital contributions by non-controlling interests</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Purchase of own shares</td>
<td></td>
<td>(5,277)</td>
</tr>
<tr>
<td>Acquisition of non-controlling interests in subsidiaries</td>
<td></td>
<td>(44,895)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td>(313,944)</td>
</tr>
<tr>
<td>- of which related parties</td>
<td></td>
<td>(32,566)</td>
</tr>
<tr>
<td><strong>NET CASH FLOWS FOR THE YEAR</strong></td>
<td></td>
<td>65,300</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</strong></td>
<td></td>
<td>219,512</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td></td>
<td>(10,401)</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT END OF YEAR</strong></td>
<td></td>
<td>274,411</td>
</tr>
</tbody>
</table>
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 2017, 71.64% of the Company’s share capital of euro 862,980,725.70 was held by Fintecn S.p.A.; the remainder of share capital was distributed between a number of private investors (none of whom held significant interests of 3% or above) and own shares (of around 0.28% of shares representing the Share Capital). It should be noted that 100% of the Share Capital of Fintecn 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. Furthermore, CDP, with registered office in via Goito 4, Rome, prepares the consolidated financial statements of the larger Group to which the company belongs and which are available on the website www.cdp.it in the section.

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.

Basis of preparation

In 2007 Fincantieri took up the option permitted by Italian Legislative Decree No. 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 2017 were approved by the Company’s Board of Directors on 27 March 2018.

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 2017

A brief description of the amendments, improvements and interpretations applicable to financial statements as at and for the year ended 31 December 2017 is provided below. The list excludes those standards and interpretations concerning matters not applicable to the Group.

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. These amendments, effective from 1 January 2017, do not impact on the Consolidated Financial Statement at 31 December 2017.

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. With regard to these amendments, applicable from 1 January 2017, the related information has been introduced in Note 32 to these consolidated financial statements.

On 8 December 2016, the IASB published amendments to IFRS 12 - Disclosure of interests in other entities. When the investment is in a subsidiary, joint venture or associate, it is classified as held for sale, as laid down by IFRS 5, there is no need to summarize the financial data for that subsidiary, joint venture or associate in the financial statements. These amendments, effective from 1 January 2017, do not impact on the Consolidated Financial Statement at 31 December 2017.

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

Regulation No. 2016/1905 issued by the European Commission on 22 September
2016 endorses IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). In particular, IFRS 15 stipulates that revenues are recorded based on the following five steps:

1. identification of the contract with the customer;
2. identification of the performance obligations (i.e. the contractual obligations to transfer the goods and/or services to the customer);
3. determination of the transaction price;
4. allocation of the transaction price to the performance obligations identified based on the stand alone sale price of each good or service; and
5. recognition of revenue when the related performance obligation has been satisfied.

Regulation No. 2017/1987 issued by the European Commission on 31 October 2017 endorses the clarifications to IFRS 15. These clarifications concern:

• identification of the contractual obligations;
• attribution of the role of principal or agent;
• determination of the moment revenues from granting a licence are recognized.

The IFRS 15 provisions and related clarifications are 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. It should be noted that, for the purposes of reporting the impacts from the first adoption of IFRS 9 in the financial statements, the Company has decided to use the “Modified retrospective method”, which records the cumulative effects from application of the new accounting standard as an adjustment of the initial equity reserves at 1 January 2018 (date of first adoption), which comparative figures are not restated according to IFRS 9. The Group has assessed that the first application of IFRS 9 will not have significant effects on equity at 1 January 2018.

Regulation No. 2017/1986 of the European Commission dated 31 October 2017 endorses IFRS 16 “Leases” with significant impacts on the financial statements of lessors. The distinction between an operating lease and a financial lease has been removed and a single model for all leases has been introduced which
entails recognition of an asset for the right to use and of a liability for leasing. The new standard is effective for annual accounting periods beginning on or after 1 January 2019. Early adoption is permitted (concurrently with the date IFRS 15 is first applied) but Fincantieri has not taken up this option. The implementation method and the evaluation of the effects of the new standard on the Group’s consolidated financial statements are ongoing.

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

The following is a brief description of the new accounting standards, amendments 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 2017. The list excludes those standards, amendments and interpretations concerning matters not applicable to the Group.

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 the same date, the IASB issued the “Annual Improvements to IFRSs: 2014-2016 Cycle” (effective for annual accounting periods beginning on or after 1 January 2018), as part of the program of annual improvements to the standards; most of the changes are clarifications or corrections of existing IFRSs or amendments as a consequence of previous changes to IFRSs.

On 7 June 2017, the IASB issued the interpretation IFRIC 23 – Uncertainty over Income Tax Treatments, which provides indications on how to reflect the effects of uncertainties in tax treatment in the accounts. IFRIC 23 will come into effect on 1 January 2019.

On 12 October 2017, the IASB published amendments to IFRS 9 – Prepayment Features with Negative Compensation, aimed at enabling measurement at amortized cost or at fair value through other comprehensive income (OCI) of financial assets with an early repayment option with negative compensation. The amendments will be effective from 1 January 2019.

On the same date, the IASB published amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures, to clarify that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments will be effective from 1 January 2019.
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.

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 2017:

• On 28 March 2017, the Parent Company incorporated Fincantieri Infrastructure S.p.A. with registered office in Trieste, which will focus on carpentry;
• On 11 September 2017, the subsidiary Fincantieri USA Inc. incorporated Fincantieri Services USA LLC. The company purpose is post-sales services;
• On 10 October 2017, the subsidiary Issel Nord S.r.l. was involved in the incorporation of Issel Middle East Information Technology Consultancy LLC, owning 49% of the company’s share capital. The new company will focus on IT consulting and onshore and offshore services for the Oil & Gas sector;
• On 30 November 2017, the subsidiary Marine Interiors S.p.A. was involved in the incorporation of Luxury Interiors Factory S.r.l., owning 40% of the company’s share capital. The new company will focus on research, sales and installation of sanitation in the shipping sector;
• On 21 December 2017, the Parent Company incorporated Fincantieri Services Middle East, 100% owned by Fincantieri, which will be the hub for all the services and post-sales relating to the Group’s naval vessels in Qatar;
• On 22 December 2017, the Parent Company incorporated Fincantieri Europe S.p.A., a holding company to manage investments in companies in the industrial, real estate and services sectors.

The following other main changes have also taken place:

• On 10 April 2017, Vard Group AS sold its 100% interest in Multifag AS;
• On 26 May 2017, the subsidiary Vard Group AS acquired the remaining 30% of the share capital of Vard Engineering Brevik AS, bringing its interest to 100%;
• On 26 May 2017, after the call option was exercised, Vard Group AS acquired the remaining 4.85% of the share capital of Vard Promar AS, bringing its interest to 100%;
• On 13 June 2017, the subsidiary Delfi S.r.l. acquired 83.5% of the share capital of Issel Nord S.r.l., specialized in engineering and IT applied to the Defense sector. The agreement also provides for a call option to acquire the remaining share capital of 16.5% that Fincantieri can exercise for two years after acquisition at a set price.

At the acquisition date, the carrying amount of the net assets of Issel Nord S.r.l. was approximately euro 7 million. The process of allocating the purchase price entailed the recognition of depreciable intangible assets for around euro 3 million and deferred tax liabilities for euro 1 million.

It should be noted that the purchase price of euro 9 million was partly paid on the acquisition date (euro 7.5 million) and partly deferred using the call option which can be exercised in accordance with the contractual terms and conditions (euro 1.5 million);
• On 5 July 2017, the subsidiary Fincantieri
Oil & Gas S.p.A. acquired 24% of the capital of ARSENAL S.r.l., a company that provides services in the field of simulation and virtual reality;

- On 17 July 2017, the Parent Company carried out a capital increase of euro 56 million in the joint venture CSSC – Fincantieri Cruise Industry Development Ltd, in which it holds a 40% interest;
- During 2017, the subsidiary Fincantieri Oil & Gas S.p.A. increased its interest in Vard Holdings Limited to 79.74%. The other shares were acquired through a voluntary general offer in November 2016, which ended on 24 March 2017 with the stake reaching 74.45%, and then through subsequent purchases of shares on the market until the stake in Vard Holdings Limited at 31 December 2017 reached 79.74%.

The Consolidated Financial Statements at 31 December 2017 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:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2017 12-month average</th>
<th>2017 Closing rate at 31-Dec</th>
<th>2016 12-month average</th>
<th>2016 Closing rate at 31-Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar (USD)</td>
<td>1.1297</td>
<td>1.1993</td>
<td>1.1069</td>
<td>1.0541</td>
</tr>
<tr>
<td>Australian Dollar (AUD)</td>
<td>1.4732</td>
<td>1.5346</td>
<td>1.4883</td>
<td>1.4596</td>
</tr>
<tr>
<td>UAE Dirham (AED)</td>
<td>4.1475</td>
<td>4.4044</td>
<td>4.0634</td>
<td>3.8696</td>
</tr>
<tr>
<td>Brazilian Real (BRL)</td>
<td>3.6054</td>
<td>3.9729</td>
<td>3.8561</td>
<td>3.4305</td>
</tr>
<tr>
<td>Indian Rupee (INR)</td>
<td>73.5324</td>
<td>76.6055</td>
<td>74.3717</td>
<td>71.5935</td>
</tr>
<tr>
<td>Romanian Leu (RON)</td>
<td>4.5688</td>
<td>4.6585</td>
<td>4.4904</td>
<td>4.539</td>
</tr>
<tr>
<td>Chinese Yuan (CNY)</td>
<td>7.6290</td>
<td>7.8044</td>
<td>7.3522</td>
<td>7.3202</td>
</tr>
</tbody>
</table>

**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 recognised 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 recognised. 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 recognised 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 capitalised as part of the asset’s cost. Assets qualifying as “assets acquired in a business combination” are recognised 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 recognised 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 recognised goodwill.

1.2 Concessions, licenses, trademarks and similar rights

Concessions, licenses and similar rights, acquired in a business combination, are recognised 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 recognised 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.

1.4 Research and development costs

Expenditure on research is recognised as an expense when it is incurred. Expenditure on developing new products and processes is capitalised and recognised 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.

Capitalised 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 capitalised 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 capitalised only if such expenditure increases the asset’s future economic benefits. Routine repair and maintenance costs are recognised as expenses in the period incurred. If the costs of replacing certain parts of an asset are capitalised, 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 recognised 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 recognised 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:

<table>
<thead>
<tr>
<th>CATEGORIES</th>
<th>USEFUL LIFE (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial buildings and dry docks</td>
<td>33 - 47</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>7 - 25</td>
</tr>
<tr>
<td>Equipment</td>
<td>4 - 12</td>
</tr>
<tr>
<td>Assets under concession</td>
<td><strong>Useful life or term of concession, if shorter</strong></td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>4 - 33</td>
</tr>
</tbody>
</table>

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 recognised as financial receivables in the statement of financial position. Income from the sale of a leased asset is recognised 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 recognised the financial receivable, finance income is recognised 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 asset

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 recognised 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 recognised 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 recognised 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 recognised among the components of other comprehensive income until these assets are sold or suffer an impairment loss; at such time, the effects previously recognised 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.

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 recognised 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 recognised in full in the period in which it becomes reasonably foreseeable.

Construction contracts are reported as the costs incurred plus profit recognised 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 3 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 derecognised 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 recognised 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 recognised 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 recognised 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 recognised. 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 recognised 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 recognised 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 recognised.

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 recognised 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 recognised 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 recognised in equity are transferred to profit or loss. Previously recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised in "Other comprehensive income" and included in a separate equity reserve. Amounts recognised 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 recognised 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 recognised 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 recognised 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 derecognised 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 recognised 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 Capital 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 recognised 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 recognised 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 recognised 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 recognised in the statement of 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. Share-based incentive plans

Medium/long-term share-based incentive plans are a component of remuneration for the beneficiaries; therefore, for plans that entail remuneration in equity instruments, the cost is represented by the fair value of these instruments at the grant date and is recognised in “Personnel costs”, over the period between the grant date and the maturity date, against a specially created Equity reserve. Changes in fair value after the grant date have no effect on the initial value. The estimate of the number of rights that will mature until expiry is updated at the end of each period. The change in the estimate is reflected in the adjustment of the Equity reserve for the share incentive plan, against “Personnel costs”.

13. 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 recognised 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 recognised 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 recognised 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 recognised in the income statement under “Finance costs”.

Contingent liabilities, meaning those relating to obligations that are only possible, are not recognised but are disclosed in the section of the notes to the financial statements reporting commitments and risks.

14. Revenue, dividends, finance income and costs

Revenue from construction contracts is recognised using the percentage of completion method. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognised 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 recognised until any post-delivery obligations have been fully satisfied.

Revenue from the sale of goods is recognised 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 recognised in profit or loss when the shareholder’s right to receive payment is established. Finance income and costs are recognised in profit or loss in the period in which they accrue.

15. 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 recognised for all taxable temporary differences, while deferred tax assets, including those for carryforward tax losses, are recognised 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 recognised for temporary differences relating to goodwill. Deferred tax liabilities are recognised 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 recognised 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 recognised 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”.

16. Earnings per share

16.1 Basic earnings per share
Basic earnings per ordinary 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, excluding own shares.

16.2 Diluted earnings per share
Diluted earnings per ordinary 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, excluding own shares, and adjusting to take account of the number of potential shares that could be issued.

17. Own shares
Own shares are recognised as a reduction of Equity. The original cost of the own shares and the income arising from sale at a later date are shown as movements in Equity.

18. 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.

18.1 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 recognised 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 recognised in the financial statements represent management’s best estimate using these systems and procedures.

18.2 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.

18.3 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 recognised deferred tax assets depends on factors that can change over time and so have a material impact on the recoverability of deferred tax assets.

18.4 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.

18.5 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 recognised the assets and liabilities at their fair value. The unallocated portion is recognised 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.

18.6 Medium/long-term share-based incentive plans
For medium/long-term share-based incentive plans, the estimate of the number of rights that will mature until expiry is updated at the end of each period. The change in the estimate is reflected in the adjustment of the specially created Equity reserve for incentive plans, against “Personnel costs”.
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 following tables provide a breakdown by risk class of the exposure as at 31 December 2017 and 2016 based on the nominal value of receivables before any provision for impairment of receivables:

(euro/000)

<table>
<thead>
<tr>
<th></th>
<th>31.12.2017</th>
<th>Past due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net due</td>
<td>0 - 1 month</td>
</tr>
<tr>
<td>Trade receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- from public entities</td>
<td>9,685</td>
<td>8,583</td>
</tr>
<tr>
<td>- indirectly from public entities (*)</td>
<td>16,541</td>
<td>13,907</td>
</tr>
<tr>
<td>- from private shipowners</td>
<td>507,094</td>
<td>91,657</td>
</tr>
<tr>
<td>TOTAL TRADE RECEIVABLES</td>
<td>533,320</td>
<td>100,240</td>
</tr>
<tr>
<td>Government grants financed by BIIS</td>
<td>19,981</td>
<td></td>
</tr>
<tr>
<td>Other government grants</td>
<td>4,475</td>
<td>3,758</td>
</tr>
<tr>
<td>Receivables from associates</td>
<td>5,562</td>
<td></td>
</tr>
<tr>
<td>Receivables from joint ventures</td>
<td>151,950</td>
<td>66</td>
</tr>
<tr>
<td>Receivables from controlling companies</td>
<td>20,327</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>114,997</td>
<td>2</td>
</tr>
<tr>
<td>Other financial receivables</td>
<td>150,889</td>
<td></td>
</tr>
<tr>
<td>GROSS TOTAL</td>
<td>1,001,501</td>
<td>104,000</td>
</tr>
<tr>
<td>Provision for impairment of receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET TOTAL</td>
<td>1,234,170</td>
<td></td>
</tr>
<tr>
<td>Advances, prepayments and accrued income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,361,459</td>
<td></td>
</tr>
</tbody>
</table>

(*) 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 314 million at 31 December 2017 compared with net debt of euro 615 million at 31 December 2016. The change is mainly due to the financial dynamics typical of the cruise ship business during the year, the receipt of the final instalment for the cruise ships delivered, which, together with the advances received for the new cruise ship and navy vessel contracts that took effect during the year, have more than offset the absorption of financial resources generated by the growth in production volumes. The following tables show the contractual maturities of trade and 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.

#### Trade receivables:

<table>
<thead>
<tr>
<th></th>
<th>Past due</th>
<th>Not yet due</th>
<th>0 - 1 month</th>
<th>1 - 4 months</th>
<th>4 - 12 months</th>
<th>Beyond 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>from public entities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17,197</td>
<td>7,647</td>
<td>405</td>
<td>3,655</td>
<td>14,525</td>
<td>43,429</td>
<td></td>
</tr>
<tr>
<td>indirectly from public entities (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>31,776</td>
<td></td>
<td></td>
<td>2,987</td>
<td></td>
<td>4</td>
<td>34,767</td>
</tr>
<tr>
<td>from private shipowners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>807,982</td>
<td>45,237</td>
<td>53,864</td>
<td>23,365</td>
<td>52,150</td>
<td>982,598</td>
<td></td>
</tr>
<tr>
<td>TOTAL TRADE RECEIVABLES</td>
<td></td>
<td>856,955</td>
<td>52,884</td>
<td>54,269</td>
<td>30,007</td>
<td>66,679</td>
<td>1,060,794</td>
</tr>
<tr>
<td>Government grants financed by BLIS</td>
<td>27,177</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other government grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13,010</td>
</tr>
<tr>
<td>Receivables from associates</td>
<td>7,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables from joint ventures</td>
<td>89,287</td>
<td></td>
<td>442</td>
<td>141</td>
<td></td>
<td>89,870</td>
<td></td>
</tr>
<tr>
<td>Receivables from controlling companies</td>
<td>34,034</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34,034</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>107,102</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>45,971</td>
<td>153,073</td>
</tr>
<tr>
<td>Other financial receivables</td>
<td>139,607</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>139,607</td>
</tr>
<tr>
<td>GROSS TOTAL</td>
<td>1,274,672</td>
<td>52,884</td>
<td>54,711</td>
<td>30,148</td>
<td>112,650</td>
<td>1,525,065</td>
<td></td>
</tr>
</tbody>
</table>

- (*) These are receivables due from customers that manage work commissioned by public entities, which are therefore the effective debtors.
(euro/000)

<table>
<thead>
<tr>
<th></th>
<th>31.12.2017</th>
<th>Past due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On demand</td>
<td>Within 1 year</td>
</tr>
<tr>
<td>Payables to controlling company</td>
<td>7,870</td>
<td>38,187</td>
</tr>
<tr>
<td>Payables to associates</td>
<td>311</td>
<td>311</td>
</tr>
<tr>
<td>Payables to joint ventures</td>
<td>3,801</td>
<td>3,862</td>
</tr>
<tr>
<td>Bank loans and credit facilities</td>
<td>609</td>
<td>758,882</td>
</tr>
<tr>
<td>BIS loans</td>
<td>8,146</td>
<td>13,016</td>
</tr>
<tr>
<td>Payables to suppliers</td>
<td>188,792</td>
<td>1,247,938</td>
</tr>
<tr>
<td>Payables to suppliers for reverse factoring</td>
<td>271,964</td>
<td>271,964</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>253</td>
<td>200</td>
</tr>
<tr>
<td>Bond</td>
<td>311,250</td>
<td>311,250</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>22,971</td>
<td>3,941</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,431</td>
<td>208,068</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>194,633</td>
<td>2,841,515</td>
</tr>
<tr>
<td>Advances, accrued expenses and deferred income</td>
<td>50,639</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,419,712</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31.12.2016</th>
<th>Past due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On demand</td>
<td>Within 1 year</td>
</tr>
<tr>
<td>Payables to controlling company</td>
<td>57</td>
<td>3,931</td>
</tr>
<tr>
<td>Payables to joint ventures</td>
<td>5,341</td>
<td>1,728</td>
</tr>
<tr>
<td>Bank loans and credit facilities</td>
<td>16,336</td>
<td>841,853</td>
</tr>
<tr>
<td>BIS loans</td>
<td>8,146</td>
<td>21,162</td>
</tr>
<tr>
<td>Payables to suppliers</td>
<td>212,634</td>
<td>960,972</td>
</tr>
<tr>
<td>Payables to suppliers for reverse factoring</td>
<td>102,037</td>
<td>102,037</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>413</td>
<td>517</td>
</tr>
<tr>
<td>Bond</td>
<td>11,250</td>
<td>311,250</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>4,711</td>
<td>184,193</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>239,079</td>
<td>2,134,383</td>
</tr>
<tr>
<td>Advances, accrued expenses and deferred income</td>
<td>54,587</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,256,599</td>
<td></td>
</tr>
</tbody>
</table>
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 neutralised (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 2017, the Group was exposed to currency risk primarily in connection with certain cruise contracts. 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 fluctuations in interest rates; this risk is mitigated 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 mitigated 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. In March 2017, the Company arranged three interest rate swaps to pre-hedge the interest rate risk on new sources of medium/long-term funding which are expected to be arranged in 2018. Derivative instruments have been accounted for as 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 and/or hedges. During 2017, the Group entered into swaps to fix the purchase price of a large part of its diesel and fuel oil needs through until 2019.
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 capitalisation 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.

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>31.12.2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive fair value</td>
</tr>
<tr>
<td>CASH FLOW HEDGING DERIVATIVES</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td></td>
<td>Forwards</td>
</tr>
<tr>
<td>FAIR VALUE HEDGING DERIVATIVES</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td></td>
<td>Forwards</td>
</tr>
<tr>
<td></td>
<td>Futures</td>
</tr>
<tr>
<td></td>
<td>Options</td>
</tr>
<tr>
<td>HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td></td>
<td>Forwards</td>
</tr>
<tr>
<td></td>
<td>Futures</td>
</tr>
<tr>
<td>HELD-FOR-TRADING DERIVATIVES</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td></td>
<td>Forwards</td>
</tr>
<tr>
<td></td>
<td>Futures</td>
</tr>
</tbody>
</table>
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.

### CASH FLOW HEDGING DERIVATIVES

<table>
<thead>
<tr>
<th></th>
<th>Positive fair value</th>
<th>Notional amount</th>
<th>Negative fair value</th>
<th>Notional amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwards</td>
<td>1,338</td>
<td>32,492</td>
<td>69,034</td>
<td>2,020,875</td>
</tr>
</tbody>
</table>

### FAIR VALUE HEDGING DERIVATIVES

<table>
<thead>
<tr>
<th></th>
<th>Positive fair value</th>
<th>Notional amount</th>
<th>Negative fair value</th>
<th>Notional amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwards</td>
<td>5,689</td>
<td>226,052</td>
<td>48,045</td>
<td>822,763</td>
</tr>
<tr>
<td>Futures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING

<table>
<thead>
<tr>
<th></th>
<th>Positive fair value</th>
<th>Notional amount</th>
<th>Negative fair value</th>
<th>Notional amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwards</td>
<td>3,358</td>
<td>146,328</td>
<td>1,316</td>
<td>66,482</td>
</tr>
<tr>
<td>Futures</td>
<td>1,689</td>
<td>11,467</td>
<td>1</td>
<td>106</td>
</tr>
<tr>
<td>Options</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### HELD-FOR-TRADING DERIVATIVES

<table>
<thead>
<tr>
<th></th>
<th>Positive fair value</th>
<th>Notional amount</th>
<th>Negative fair value</th>
<th>Notional amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwards</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Futures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options</td>
<td>6,389</td>
<td>189,735</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CURRENCY RISK MANAGEMENT

<table>
<thead>
<tr>
<th></th>
<th>Within 1 year</th>
<th>Between 1 and 5 years</th>
<th>Beyond 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outflow</td>
<td>737,234</td>
<td>1,969,555</td>
<td>2,706,789</td>
<td>5,507,578</td>
</tr>
<tr>
<td>Inflow</td>
<td>680,090</td>
<td>2,000,861</td>
<td>2,680,951</td>
<td>3,361,802</td>
</tr>
</tbody>
</table>

### INTEREST RATE RISK MANAGEMENT

<table>
<thead>
<tr>
<th></th>
<th>Within 1 year</th>
<th>Between 1 and 5 years</th>
<th>Beyond 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outflow</td>
<td>328</td>
<td>2,775</td>
<td>693</td>
<td>3,796</td>
</tr>
<tr>
<td>Inflow</td>
<td>2,601</td>
<td>769</td>
<td>3,370</td>
<td></td>
</tr>
</tbody>
</table>

### COMMODITY PRICE RISK MANAGEMENT

<table>
<thead>
<tr>
<th></th>
<th>Within 1 year</th>
<th>Between 1 and 5 years</th>
<th>Beyond 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outflow</td>
<td>4,974</td>
<td>4,194</td>
<td>9,168</td>
<td>18,336</td>
</tr>
<tr>
<td>Inflow</td>
<td>5,864</td>
<td>4,570</td>
<td>10,434</td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Net</th>
<th>Profit or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross</td>
<td>Taxes</td>
<td></td>
</tr>
<tr>
<td>1.1.2016</td>
<td>(2,743)</td>
<td>857</td>
<td>(1,886)</td>
</tr>
<tr>
<td>Change in fair</td>
<td>(36,891)</td>
<td>9,835</td>
<td>(27,056)</td>
</tr>
<tr>
<td>value</td>
<td>Utilization</td>
<td>(857)</td>
<td>1,886</td>
</tr>
<tr>
<td>Other income/(expenses) for risk hedging</td>
<td>2,743</td>
<td>(857)</td>
<td>(1,886)</td>
</tr>
<tr>
<td>Finance income/(costs) relating to held-for-trading derivatives and time-value component of hedging derivatives</td>
<td>7,688</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.12.2016</td>
<td>(36,891)</td>
<td>9,835</td>
<td>(27,056)</td>
</tr>
<tr>
<td>Change in fair</td>
<td>36,891</td>
<td>(9,835)</td>
<td>27,056</td>
</tr>
<tr>
<td>value</td>
<td>Utilization</td>
<td>(9,835)</td>
<td>27,056</td>
</tr>
<tr>
<td>Other income/(expenses) for risk hedging</td>
<td>40,873</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income/(costs) relating to held-for-trading derivatives and time-value component of hedging derivatives</td>
<td>(3,772)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.12.2017</td>
<td>131,697</td>
<td>(39,061)</td>
<td>92,636</td>
</tr>
<tr>
<td></td>
<td>10,045</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>31.12.2017</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>Total</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments carried at fair value</td>
<td>1,208</td>
<td>1,208</td>
<td>1,208</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>11,173</td>
<td>149,368</td>
<td>160,541</td>
<td>160,541</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>203,532</td>
<td>203,532</td>
<td>188,364</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables and other current assets</td>
<td>1,156,017</td>
<td>1,156,017</td>
<td>1,156,017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>274,411</td>
<td>274,411</td>
<td>274,411</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>(23,345)</td>
<td>(30,353)</td>
<td>(53,698)</td>
<td>(53,698)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(17,677)</td>
<td>(1,406,916)</td>
<td>(1,416,937)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(30,916)</td>
<td>(30,916)</td>
<td>(30,916)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables and other current liabilities</td>
<td>(1,973,485)</td>
<td>(1,973,485)</td>
<td>(1,973,485)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>31.12.2016</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>Total</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments carried at fair value</td>
<td>2,039</td>
<td>2,039</td>
<td>2,039</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>10,735</td>
<td>1,338</td>
<td>12,073</td>
<td>12,073</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>191,399</td>
<td>191,399</td>
<td>178,354</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables and other current assets</td>
<td>1,383,064</td>
<td>1,383,064</td>
<td>1,383,064</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>219,512</td>
<td>219,512</td>
<td>219,512</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>(55,751)</td>
<td>(69,115)</td>
<td>(124,866)</td>
<td>(124,866)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(18,025)</td>
<td>(1,705,782)</td>
<td>(1,719,712)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(30,916)</td>
<td>(30,916)</td>
<td>(30,916)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables and other current liabilities</td>
<td>(1,496,076)</td>
<td>(1,496,076)</td>
<td>(1,496,076)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 2017 and 2016 according to their level in the fair value hierarchy.

<table>
<thead>
<tr>
<th></th>
<th>31.12.2017</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Level 1</td>
<td>Fair value</td>
<td>Level 2</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity instruments</td>
<td> </td>
<td>631</td>
<td> </td>
<td>1,718</td>
</tr>
<tr>
<td>Debt instruments</td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging derivatives</td>
<td> </td>
<td>157,516</td>
<td> </td>
<td></td>
</tr>
<tr>
<td>Held-for-trading derivatives</td>
<td> </td>
<td>3,025</td>
<td> </td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td> </td>
<td>631</td>
<td> </td>
<td>160,541</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss</td>
<td> </td>
<td>17,677</td>
<td> </td>
<td>17,677</td>
</tr>
<tr>
<td>Hedging derivatives</td>
<td> </td>
<td>53,698</td>
<td> </td>
<td>53,698</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Level 1</td>
<td>Fair value</td>
<td>Level 2</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity instruments</td>
<td> </td>
<td>1,414</td>
<td> </td>
<td>1,766</td>
</tr>
<tr>
<td>Debt instruments</td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging derivatives</td>
<td> </td>
<td>12,073</td>
<td> </td>
<td>12,073</td>
</tr>
<tr>
<td>Held-for-trading derivatives</td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td> </td>
<td>1,414</td>
<td> </td>
<td>12,073</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td> </td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss</td>
<td> </td>
<td>18,025</td>
<td> </td>
<td>18,025</td>
</tr>
<tr>
<td>Hedging derivatives</td>
<td> </td>
<td>118,477</td>
<td> </td>
<td>118,477</td>
</tr>
<tr>
<td>Held-for-trading derivatives</td>
<td> </td>
<td>6,389</td>
<td> </td>
<td>6,389</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td> </td>
<td>124,866</td>
<td> </td>
<td>18,025</td>
</tr>
</tbody>
</table>
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. “Fair value of options on equity investments” (Level 3) amounting to euro 17,677 thousand (euro 18,025 thousand at 31 December 2016) is related to the option held by minority shareholders of the Fincantieri Marine Group, the reduction in which since 2016 is due to the positive effect of translating the balance expressed in currency partially offset by the option’s negative fair value difference of euro 1,947 thousand.
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 2017 for individual exchange rates.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on pre-tax profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including hedging derivatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency appreciation</td>
<td>(22)</td>
<td>(152)</td>
</tr>
<tr>
<td>Foreign currency depreciation</td>
<td>19</td>
<td>132</td>
</tr>
<tr>
<td>Excluding hedging derivatives(*)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency appreciation</td>
<td>(18)</td>
<td>(18)</td>
</tr>
<tr>
<td>Foreign currency depreciation</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

(*) 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 annualised basis. The estimated effects on profit or loss involve a negative impact of approximately euro 1.3 million in the event of a 0.50% increase in interest rates and a positive impact of euro 0.7 million in the event of a 0.50% reduction.
NOTE 6 - INTANGIBLE ASSETS

Movements in this line item are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Client relationships and order backlog</th>
<th>Development cost</th>
<th>Industrial patents and intellectual property rights</th>
<th>Concessions, licenses, trademarks and similar rights</th>
<th>Other intangibles</th>
<th>Intangibles in progress and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- cost</td>
<td>263,614</td>
<td>192,085</td>
<td>55,918</td>
<td>94,038</td>
<td>19,119</td>
<td>13,009</td>
<td>44,973</td>
<td>682,756</td>
</tr>
<tr>
<td>- accumulated amortization and impairment losses</td>
<td>(58,016)</td>
<td>(14,712)</td>
<td>(83,992)</td>
<td>(1,347)</td>
<td>(6,712)</td>
<td></td>
<td>(164,779)</td>
<td></td>
</tr>
</tbody>
</table>

Net carrying amount at 1.1.2016: 263,614

Movements in 2016:

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Client relationships and order backlog</th>
<th>Development cost</th>
<th>Industrial patents and intellectual property rights</th>
<th>Concessions, licenses, trademarks and similar rights</th>
<th>Other intangibles</th>
<th>Intangibles in progress and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- business combinations</td>
<td>1,374</td>
<td>441</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,815</td>
<td></td>
</tr>
<tr>
<td>- additions</td>
<td>37,762</td>
<td>905</td>
<td>1,901</td>
<td>738</td>
<td>38,589</td>
<td>79,895</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net disposals</td>
<td>(316)</td>
<td>(34)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(350)</td>
<td></td>
</tr>
<tr>
<td>- reclassifications/ other</td>
<td>25,531</td>
<td>3,496</td>
<td>1,148</td>
<td>245</td>
<td>30,426</td>
<td>(6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- amortization</td>
<td>(8,993)</td>
<td>(1,001)</td>
<td>(3,895)</td>
<td>(997)</td>
<td>(1,362)</td>
<td>(26,248)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- impairment losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>13,241</td>
<td>7,043</td>
<td>254</td>
<td>691</td>
<td>94</td>
<td>47</td>
<td>21,541</td>
<td></td>
</tr>
</tbody>
</table>

Closing net carrying amount: 278,229

Net carrying amount at 31.12.2016: 278,229

Movements in 2017:

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Client relationships and order backlog</th>
<th>Development cost</th>
<th>Industrial patents and intellectual property rights</th>
<th>Concessions, licenses, trademarks and similar rights</th>
<th>Other intangibles</th>
<th>Intangibles in progress and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- business combinations</td>
<td>86</td>
<td>3,328</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td>3,435</td>
<td></td>
</tr>
<tr>
<td>- additions</td>
<td>8,638</td>
<td>6,543</td>
<td>637</td>
<td>424</td>
<td>38,497</td>
<td>54,739</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- reclassifications/ other</td>
<td>12,970</td>
<td>3,780</td>
<td>2,253</td>
<td>3</td>
<td>(18,312)</td>
<td>694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- amortization</td>
<td>(8,510)</td>
<td>(16,763)</td>
<td>(4,545)</td>
<td>(1,914)</td>
<td>(1,514)</td>
<td>(33,246)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- impairment losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>(24,517)</td>
<td>(10,300)</td>
<td>(668)</td>
<td>(361)</td>
<td>(2,444)</td>
<td>(371)</td>
<td>(82)</td>
<td>(38,743)</td>
</tr>
</tbody>
</table>

Closing net carrying amount: 253,798

Net carrying amount at 31.12.2017: 253,798
“Goodwill” amounts to euro 253,798 thousand at 31 December 2017. The increase of euro 86 thousand is associated with the greater goodwill that emerged from the completion of the process of allocating the purchase price of Storvik Aqua AS by the VARD Group. 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 2018-2022 approved by Group Management. The growth rate used to estimate cash flows beyond the explicit planning period is determined on the basis of realistic projections of estimated long-term sector growth, reflected in market data and information available to Group Management. Expected future cash flows have been discounted using WACC (Weighted Average Cost of Capital) for the individual sectors to which the CGUs refer, and, if necessary, 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

Capital expenditure in 2017 amounted to euro 54,739 thousand (euro 79,895 thousand in 2016) and mainly related to:

- the development of innovative devices and systems to improve efficiency and broaden the technological requirements of cruise ships and naval vessels, 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;
- ongoing work 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.

During 2017, the Group also expensed to profit or loss euro 113,273 thousand in research and development costs for various projects involving product and process innovations (euro 96 million in 2016), that will let the Group retain its leadership of all high-tech market sectors for the foreseeable future.

“Concession, licenses, trademarks and similar rights” include euro 15,426 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 CGU for the purposes of impairment testing, which has not revealed any evidence of impairment. The exchange rate differences reflect movements in the period by the Norwegian Krone and the US Dollar against the euro.
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 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.

<table>
<thead>
<tr>
<th>CGU</th>
<th>Goodwill carrying amount</th>
<th>Recoverable amount</th>
<th>WACC post-tax</th>
<th>g rate</th>
<th>Cash flow period</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMG Group</td>
<td>66,360 Value in use</td>
<td>5.8% 2.4%</td>
<td>5 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VARD Group</td>
<td>187,438 Value in use</td>
<td>5.9% 2.5%</td>
<td>5 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>Land and buildings</th>
<th>Assets under finance lease</th>
<th>Industrial plant, machinery and equipment</th>
<th>Assets under concession</th>
<th>Leasehold improvements</th>
<th>Other assets</th>
<th>Asset under construction and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net carrying amount at 1.1.2016</strong></td>
<td>373,347</td>
<td>491</td>
<td>356,855</td>
<td>58,026</td>
<td>7,351</td>
<td>58,388</td>
<td>119,447</td>
<td>973,905</td>
</tr>
<tr>
<td><strong>Movements in 2016</strong></td>
<td>17</td>
<td>122</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>139</td>
</tr>
<tr>
<td>- business combinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- additions</td>
<td>8,051</td>
<td>24,267</td>
<td>2,379</td>
<td>94</td>
<td>4,046</td>
<td>104,947</td>
<td>143,784</td>
<td></td>
</tr>
<tr>
<td>- net disposals</td>
<td>(530)</td>
<td>(1,699)</td>
<td>(11)</td>
<td>(169)</td>
<td>(764)</td>
<td>(3,173)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- reclassifications/other changes</td>
<td>22,452</td>
<td>812</td>
<td>29,648</td>
<td>2,364</td>
<td>253</td>
<td>9,137</td>
<td>(65,465)</td>
<td>(799)</td>
</tr>
<tr>
<td>- depreciation</td>
<td>(15,918)</td>
<td>(385)</td>
<td>(55,378)</td>
<td>(3,953)</td>
<td>(1,081)</td>
<td>(6,429)</td>
<td>(83,144)</td>
<td></td>
</tr>
<tr>
<td>- impairment losses</td>
<td>(54)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(54)</td>
<td></td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>17,460</td>
<td>37</td>
<td>14,228</td>
<td></td>
<td>349</td>
<td>1,214</td>
<td>33,288</td>
<td></td>
</tr>
<tr>
<td><strong>Closing net carrying amount</strong></td>
<td>404,825</td>
<td>955</td>
<td>368,043</td>
<td>58,816</td>
<td>6,606</td>
<td>65,322</td>
<td>159,379</td>
<td>1,063,946</td>
</tr>
<tr>
<td><strong>Movements in 2017</strong></td>
<td>3,215</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,378</td>
</tr>
<tr>
<td>- business combinations</td>
<td>16,396</td>
<td>36,616</td>
<td>2,613</td>
<td>299</td>
<td>6,604</td>
<td>107,919</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net disposals</td>
<td>(403)</td>
<td>(344)</td>
<td>(1)</td>
<td>(26)</td>
<td>(13)</td>
<td>(767)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- reclassifications/other changes</td>
<td>6,301</td>
<td>1</td>
<td>39,983</td>
<td>1,079</td>
<td>133</td>
<td>7,752</td>
<td>(55,935)</td>
<td>(686)</td>
</tr>
<tr>
<td>- depreciation</td>
<td>(16,769)</td>
<td>(399)</td>
<td>(57,100)</td>
<td>(4,265)</td>
<td>(1,052)</td>
<td>(7,002)</td>
<td>(86,577)</td>
<td></td>
</tr>
<tr>
<td>- impairment losses</td>
<td>(38)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(38)</td>
<td></td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>(25,055)</td>
<td>(92)</td>
<td>(14,814)</td>
<td></td>
<td>(1,079)</td>
<td>(1,444)</td>
<td>(42,484)</td>
<td></td>
</tr>
<tr>
<td><strong>Closing net carrying amount</strong></td>
<td>388,472</td>
<td>475</td>
<td>372,387</td>
<td>58,243</td>
<td>5,985</td>
<td>71,731</td>
<td>147,378</td>
<td>1,044,671</td>
</tr>
<tr>
<td><strong>Net carrying amount at 31.12.2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Capital expenditure in 2017 has resulted in additions of euro 107,919 thousand, mainly related to:

- work to bring the production units’ operating areas and infrastructure in line with the new production scenarios, mainly within the Monfalcone, Marghera, Sestri and Ancona shipyards;
- continuation of activities to introduce new technology for reducing the environmental sandblasting impact of operations at the Monfalcone shipyard, with reference to sandblasting and painting processes;
- continuation of activities to expand 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;
- technological upgrading of safety of equipment, 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 fair value less the costs to sell as identified in a report commissioned from an independent expert. 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 2017, the amount of the Group’s property, plant and machinery pledged as collateral against loans received was approximately euro 264 million (euro 268 million at the end of 2016).

Contractual commitments already given to third parties as of 31 December 2017 for capital expenditure not yet reflected in the financial statements amounted to approximately euro 42 million, of which euro 37 million for Property, plant and equipment and euro 5 million for Intangible assets.
# NOTE 8 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER INVESTMENTS

## Investments

These are analyzed as follows:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>Associates</th>
<th>Joint ventures</th>
<th>Total investments accounted for using the equity method</th>
<th>Other companies carried at cost</th>
<th>Other companies carried at fair value</th>
<th>Total other investments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.1.2016</strong></td>
<td>35,552</td>
<td>21,524</td>
<td>57,076</td>
<td>1,066</td>
<td>4,040</td>
<td>5,146</td>
<td>62,222</td>
</tr>
<tr>
<td><strong>Additions</strong></td>
<td>2,337</td>
<td>9,354</td>
<td>11,491</td>
<td>34</td>
<td>1,289</td>
<td>1,323</td>
<td>12,814</td>
</tr>
<tr>
<td>Revaluations/(Impairment losses) through profit or loss</td>
<td>(-6,291)</td>
<td>(528)</td>
<td>(6,819)</td>
<td>(3,135)</td>
<td>(3,135)</td>
<td>(9,954)</td>
<td></td>
</tr>
<tr>
<td>Revaluations/(Impairment losses) through equity</td>
<td>(11,006)</td>
<td>81</td>
<td>(10,925)</td>
<td></td>
<td></td>
<td>(10,925)</td>
<td></td>
</tr>
<tr>
<td><strong>Disposals</strong></td>
<td></td>
<td></td>
<td></td>
<td>(13)</td>
<td>(13)</td>
<td>(13)</td>
<td></td>
</tr>
<tr>
<td>Dividends from investments accounted for using the equity method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassifications/Other</td>
<td>2,415</td>
<td>30</td>
<td>2,445</td>
<td>(323)</td>
<td>(323)</td>
<td>2,122</td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>1,705</td>
<td></td>
<td>1,705</td>
<td>181</td>
<td>181</td>
<td>1,886</td>
<td></td>
</tr>
<tr>
<td><strong>31.12.2016</strong></td>
<td>24,512</td>
<td>30,461</td>
<td>54,973</td>
<td>1,140</td>
<td>2,039</td>
<td>3,179</td>
<td>58,152</td>
</tr>
<tr>
<td>Changes in the consolidation</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>11</td>
<td>56,317</td>
<td>56,328</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluations/(Impairment losses) through profit or loss</td>
<td>(5,135)</td>
<td>341</td>
<td>(4,794)</td>
<td>(712)</td>
<td>(712)</td>
<td>(5,506)</td>
<td></td>
</tr>
<tr>
<td>Revaluations/(Impairment losses) through equity</td>
<td>(216)</td>
<td>(99)</td>
<td>(315)</td>
<td></td>
<td></td>
<td>(315)</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>(43)</td>
<td>(43)</td>
<td>(3)</td>
<td>(5)</td>
<td>(46)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends from investments accounted for using the equity method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassifications/Other</td>
<td>2,300</td>
<td>(56,000)</td>
<td>(53,700)</td>
<td></td>
<td></td>
<td>(53,700)</td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>(1,868)</td>
<td>(1,868)</td>
<td>(1,987)</td>
<td>(119)</td>
<td>(119)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>31.12.2017</strong></td>
<td>19,561</td>
<td>31,020</td>
<td>50,581</td>
<td>1,140</td>
<td>1,208</td>
<td>2,348</td>
<td>52,929</td>
</tr>
</tbody>
</table>
"Additions" include the capital increase carried out by the Parent Company (euro 56,000 thousand) in the joint venture CSSC – Fincantieri Cruise Industry Development Ltd, in which the Parent Company holds a 40% stake. The operation comes under the agreement signed in 2016 with China State Shipbuilding Corporation (CSSC) to incorporate the joint venture with the aim of developing the cruise ship industry in China. The value of the investment was adjusted to take account of the transactions with the subsidiary to eliminate the Fincantieri Group’s the share of gains.

Revaluations/(impairment losses) through profit or loss (negative euro 5,506 thousand) includes the share of comprehensive income of companies accounted for using the equity method (namely associates and joint ventures). “Other investments” include euro 1,208 thousand in investments carried at fair value, calculated 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). An impairment loss of euro 712 thousand was recognized against the VARD Group’s investment in Sostad Offshore ASA following the negative change to fair value over the period.
### INVESTMENTS AT 31 DECEMBER 2017

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>Registered office</th>
<th>Owned %</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bredvik Technology AS</td>
<td>Norway</td>
<td>34.00</td>
<td>77</td>
</tr>
<tr>
<td>Bridge Eiendom AS</td>
<td>Norway</td>
<td>50.00</td>
<td>-</td>
</tr>
<tr>
<td>Castor Drilling Solution AS</td>
<td>Norway</td>
<td>34.13</td>
<td>1,037</td>
</tr>
<tr>
<td>CSS Design Ltd.</td>
<td>British Virgin Islands</td>
<td>31.00</td>
<td>713</td>
</tr>
<tr>
<td>Arsenal S.r.l.</td>
<td>Italy</td>
<td>24.00</td>
<td>11</td>
</tr>
<tr>
<td>AS Dameco</td>
<td>Norway</td>
<td>34.00</td>
<td>7</td>
</tr>
<tr>
<td>DOF Iceman AS</td>
<td>Norway</td>
<td>50.00</td>
<td>-</td>
</tr>
<tr>
<td>Makster Supply AS</td>
<td>Norway</td>
<td>40.00</td>
<td>593</td>
</tr>
<tr>
<td>Makster Supply KS</td>
<td>Norway</td>
<td>36.00</td>
<td>1,714</td>
</tr>
<tr>
<td>Olympic Charging KS</td>
<td>Norway</td>
<td>35.00</td>
<td>12,024</td>
</tr>
<tr>
<td>Olympic Green Energy KS</td>
<td>Norway</td>
<td>30.00</td>
<td>-</td>
</tr>
<tr>
<td>Rem Supply AS</td>
<td>Norway</td>
<td>26.66</td>
<td>3,107</td>
</tr>
<tr>
<td>Taklift AS</td>
<td>Norway</td>
<td>25.47</td>
<td>278</td>
</tr>
</tbody>
</table>

Total investments in associates accounted for using the equity method: **19,561**

### INVESTMENTS IN JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>Registered office</th>
<th>Owned %</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camper &amp; Nicholsons International SA</td>
<td>Luxembourg</td>
<td>49.96</td>
<td>12,906</td>
</tr>
<tr>
<td>CSSC - Fincantieri Cruise Industry Development Ltd.</td>
<td>Hong Kong</td>
<td>40.00</td>
<td>-</td>
</tr>
<tr>
<td>Ethihad Ship Building LLC</td>
<td>Arab Emirates</td>
<td>35.00</td>
<td>495</td>
</tr>
<tr>
<td>Orizzonte Sistemi Navali S.p.A.</td>
<td>Genoa</td>
<td>51.00</td>
<td>17,582</td>
</tr>
<tr>
<td>Luxury Interiors Factory S.r.l.</td>
<td>Naples</td>
<td>40.00</td>
<td>20</td>
</tr>
<tr>
<td>Unifer Navale S.r.l.</td>
<td>Modena</td>
<td>20.00</td>
<td>-</td>
</tr>
</tbody>
</table>

Total investments in joint ventures accounted for using the equity method: **31,020**

### OTHER INVESTMENTS

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>Registered office</th>
<th>Owned %</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consorzio CONAI</td>
<td>Rome</td>
<td>(*)</td>
<td>1</td>
</tr>
<tr>
<td>Consorzio F.S.B. (***)</td>
<td>Venice - Marghera</td>
<td>58.36</td>
<td>5</td>
</tr>
<tr>
<td>Consorzio IMAST Scarl</td>
<td>Naples</td>
<td>(+)</td>
<td>1</td>
</tr>
<tr>
<td>Consorzio MIB</td>
<td>Trieste</td>
<td>(*)</td>
<td>2</td>
</tr>
<tr>
<td>Distretto Ligure delle Tecnologie Marine Scarl</td>
<td>La Spezia</td>
<td>10.64</td>
<td>115</td>
</tr>
<tr>
<td>EEIG Euroyards</td>
<td>Brussels</td>
<td>14.29</td>
<td>10</td>
</tr>
<tr>
<td>Friulia S.p.A</td>
<td>Trieste</td>
<td>0.56</td>
<td>869</td>
</tr>
<tr>
<td>International Business Science Company Scarl</td>
<td>Trieste</td>
<td>18.18</td>
<td>10</td>
</tr>
<tr>
<td>MARETE FVG – Maritime Technology cluster FVG S.c.a.r.l.</td>
<td>Monfalcone (Gorizia)</td>
<td>19.30</td>
<td>65</td>
</tr>
<tr>
<td>Moldekrift AS</td>
<td>Norway</td>
<td>5.14</td>
<td>508</td>
</tr>
<tr>
<td>SITI Distretto Tecnologico Ligure sui Sistemi Intelligent Integrat S.p.a</td>
<td>Genoa</td>
<td>2.30</td>
<td>14</td>
</tr>
<tr>
<td>Solstad Farstad ASA</td>
<td>Norway</td>
<td>0.35</td>
<td>699</td>
</tr>
</tbody>
</table>

Total other investments: **2,348**

(*) % interest not shown, as consortium membership is subject to continuous change.
(**) Consortium for recharging costs.
because, under its shareholders' agreement, it is considered jointly controlled with other shareholders who hold the remainder of share capital.

Issel Middle East Information Technology Consultancy LLC, which is 49% owned by Issel Nord S.r.l., is considered jointly controlled under the agreements with the other shareholder.

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.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) from operations in the year</td>
<td>(5,135)</td>
<td>(6,291)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>(216)</td>
<td>(11,006)</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>(5,351)</td>
<td>(17,297)</td>
</tr>
</tbody>
</table>

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

At the reporting date, the Group has not undertaken commitments for financing relating to 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 2017 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current</td>
<td>376</td>
<td>526</td>
</tr>
<tr>
<td>Current</td>
<td>329,131</td>
<td>402,416</td>
</tr>
<tr>
<td>Other assets</td>
<td>312,791</td>
<td>391,767</td>
</tr>
<tr>
<td>Financial assets</td>
<td>1,611</td>
<td>660</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14,729</td>
<td>9,989</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current</td>
<td>223</td>
<td>247</td>
</tr>
<tr>
<td>Current</td>
<td>294,145</td>
<td>367,654</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>223</td>
<td>247</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,139</td>
<td>35,041</td>
</tr>
</tbody>
</table>

## CONDENSED COMPREHENSIVE STATEMENT OF INCOME

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>426,307</td>
<td>552,896</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(245)</td>
<td>(250)</td>
</tr>
<tr>
<td>Interest income</td>
<td>14,729</td>
<td>9,989</td>
</tr>
<tr>
<td>Pre-tax profit from recurring operations</td>
<td>199</td>
<td>443</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(110)</td>
<td>(100)</td>
</tr>
<tr>
<td>Net profit from recurring operations</td>
<td>89</td>
<td>343</td>
</tr>
<tr>
<td>Other comprehensive income/(losses)</td>
<td>89</td>
<td>343</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME/(LOSS)</strong></td>
<td>89</td>
<td>343</td>
</tr>
</tbody>
</table>

## RECONCILIATION WITH CARRYING AMOUNT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at 01.01</td>
<td>35,041</td>
<td>34,699</td>
</tr>
<tr>
<td>Profit/(loss) for period</td>
<td>89</td>
<td>342</td>
</tr>
<tr>
<td>Other changes</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Equity at 31.12</td>
<td>35,139</td>
<td>35,041</td>
</tr>
<tr>
<td>51% interest in joint venture</td>
<td>17,921</td>
<td>17,871</td>
</tr>
<tr>
<td>Other changes</td>
<td>(339)</td>
<td>(335)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>17,582</td>
<td>17,536</td>
</tr>
</tbody>
</table>
Disclosures relating to non-controlling interests material to the Group

Given the materiality of the non-controlling interests in Vard Holdings Limited (20.26%), the parent company of the VARD Group, over which FINCANTIERI S.p.A. has control with an interest of 79.74% as at 31 December 2017, 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td>1,541</td>
<td>1,486</td>
</tr>
<tr>
<td>Other assets</td>
<td>344</td>
<td>345</td>
</tr>
<tr>
<td>Financial assets</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td>1,117</td>
<td>1,059</td>
</tr>
<tr>
<td>Other assets</td>
<td>995</td>
<td>948</td>
</tr>
<tr>
<td>Financial assets</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>82</td>
<td>79</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td>1,328</td>
<td>1,233</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>102</td>
<td>87</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>123</td>
<td>115</td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td>1,103</td>
<td>1,031</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>440</td>
<td>405</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>563</td>
<td>626</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td>213</td>
<td>253</td>
</tr>
</tbody>
</table>
**CONDENSED COMPREHENSIVE STATEMENT OF INCOME**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>945</td>
<td>960</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(24)</td>
<td>(22)</td>
</tr>
<tr>
<td>Interest income</td>
<td>25</td>
<td>38</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(59)</td>
<td>(66)</td>
</tr>
<tr>
<td>Pre-tax profit from recurring operations</td>
<td>(24)</td>
<td>(6)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Net profit from recurring operations</td>
<td>(23)</td>
<td>(10)</td>
</tr>
<tr>
<td>Net profit from non-recurring operations</td>
<td>(3)</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>TOTAL PROFIT/(LOSS) FOR THE YEAR</strong></td>
<td>(26)</td>
<td>(21)</td>
</tr>
<tr>
<td>Other comprehensive income/(losses)</td>
<td>4</td>
<td>(50)</td>
</tr>
<tr>
<td>- attributable to owners of the parent</td>
<td>(21)</td>
<td>(48)</td>
</tr>
<tr>
<td>- attributable to non-controlling interests</td>
<td>(1)</td>
<td>(23)</td>
</tr>
</tbody>
</table>

**CONDENSED STATEMENT OF CASH FLOWS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross cash flows from operating activities</td>
<td>11</td>
<td>96</td>
</tr>
<tr>
<td>Interest paid</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td><strong>NET CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td>(3)</td>
<td>83</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td>(37)</td>
<td>(34)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td>50</td>
<td>(63)</td>
</tr>
<tr>
<td>Net cash flows for the period</td>
<td>10</td>
<td>(14)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year (excluding term deposits)</td>
<td>68</td>
<td>85</td>
</tr>
<tr>
<td>Exchange rate differences for cash and cash equivalents (*)</td>
<td>1</td>
<td>(3)</td>
</tr>
<tr>
<td>Term deposits</td>
<td>8</td>
<td>11</td>
</tr>
</tbody>
</table>

(*) Including NOK/EUR exchange rate differences.
NOTE 9 – NON-CURRENT FINANCIAL ASSETS

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants financed by BIIS</td>
<td>12,513</td>
<td>19,981</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>144,456</td>
<td>3,817</td>
</tr>
<tr>
<td>Other non-current financial receivables</td>
<td>118,099</td>
<td>107,754</td>
</tr>
<tr>
<td>Non-current financial receivables from investee companies</td>
<td>4,695</td>
<td>6,718</td>
</tr>
<tr>
<td><strong>NON-CURRENT FINANCIAL ASSETS</strong></td>
<td><strong>279,763</strong></td>
<td><strong>138,270</strong></td>
</tr>
</tbody>
</table>

“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 six fifteen-year loans for such amount with Banca Infrastrutture Innovazione e Sviluppo (BIIS), due to be extinguished in 2019 and 2020 (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. The difference refers particularly to the increased fair value of the derivatives to hedge exchange rate risks, essentially due to the strengthening of the Euro against the Dollar.

“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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other receivables from investee companies</td>
<td>642</td>
<td>731</td>
</tr>
<tr>
<td>Government grants receivable</td>
<td>3,758</td>
<td>5,718</td>
</tr>
<tr>
<td>Firm commitments</td>
<td>14,016</td>
<td>1,819</td>
</tr>
<tr>
<td>Other receivables</td>
<td>7,987</td>
<td>7,887</td>
</tr>
<tr>
<td><strong>OTHER NON-CURRENT ASSETS</strong></td>
<td><strong>26,403</strong></td>
<td><strong>16,155</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- between one and two years</td>
<td>2,052</td>
<td>2,401</td>
</tr>
<tr>
<td>- between two and three years</td>
<td>1,706</td>
<td>2,335</td>
</tr>
<tr>
<td>- between three and four years</td>
<td>982</td>
<td></td>
</tr>
<tr>
<td>- between four and five years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- beyond five years</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,758</strong></td>
<td><strong>5,718</strong></td>
</tr>
</tbody>
</table>

"Firm commitments" of euro 14,016 thousand (euro 1,819 thousand at 31 December 2016) 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 7,987 thousand (euro 7,887 thousand at 31 December 2016) 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 3,294 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:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>Provision for impairment of other receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1.1.2016</strong></td>
<td><strong>16,104</strong></td>
</tr>
<tr>
<td>Utilizations</td>
<td></td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td></td>
</tr>
<tr>
<td><strong>Total at 31.12.2016</strong></td>
<td><strong>16,104</strong></td>
</tr>
<tr>
<td>Utilizations</td>
<td></td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td>(6,116)</td>
</tr>
<tr>
<td><strong>Total at 31.12.2017</strong></td>
<td><strong>8,188</strong></td>
</tr>
</tbody>
</table>
NOTE 11 - DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are analyzed as follows:

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.

The negative difference of euro 82,269 thousand mainly refers to the Parent Company and is due to the recovery of tax losses generated in previous periods and the recognition of the tax effect related to the fair value of hedging derivatives (negative euro 48,730 thousand) against the Equity reserve. It should be noted that some euro 22.7 million of the deferred tax assets are largely offsettable against the deferred tax liabilities discussed below.

No deferred tax assets have been recognized on euro 97 million (euro 95 million at 31 December 2016) in carryforward losses of subsidiaries which are thought unlikely to be recovered against future taxable income.
Deferred tax liabilities are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th>Deferred taxes from business combinations</th>
<th>Other temporary differences</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- business combinations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- through profit or loss</td>
<td>(2,820)</td>
<td>2,693</td>
<td>(127)</td>
</tr>
<tr>
<td>- through other comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- tax rate and other changes</td>
<td>(1)</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>2,613</td>
<td>1,040</td>
<td>3,653</td>
</tr>
<tr>
<td>31.12.2016</td>
<td>57,123</td>
<td>27,949</td>
<td>85,072</td>
</tr>
<tr>
<td>Changes in 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- business combinations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- through profit or loss</td>
<td>(1,944)</td>
<td>(979)</td>
<td>(2,923)</td>
</tr>
<tr>
<td>- through other comprehensive income</td>
<td></td>
<td>(1,804)</td>
<td>(1,804)</td>
</tr>
<tr>
<td>- tax rate and other changes</td>
<td>(5,775)</td>
<td>(6,444)</td>
<td>(12,219)</td>
</tr>
<tr>
<td>- exchange rate differences</td>
<td>(5,002)</td>
<td>(2,289)</td>
<td>(7,291)</td>
</tr>
<tr>
<td>31.12.2017</td>
<td>45,319</td>
<td>16,433</td>
<td>61,752</td>
</tr>
</tbody>
</table>

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 include 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:

<table>
<thead>
<tr>
<th></th>
<th>31.12.2017 (euro/000)</th>
<th>31.12.2016 (euro/000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and consumables</td>
<td>249,789</td>
<td>223,091</td>
</tr>
<tr>
<td>Work in progress and semi-finished goods</td>
<td>137,317</td>
<td>164,337</td>
</tr>
<tr>
<td>Finished products</td>
<td>31,416</td>
<td>33,549</td>
</tr>
<tr>
<td>Merchandise</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL INVENTORIES</strong></td>
<td><strong>418,522</strong></td>
<td><strong>420,977</strong></td>
</tr>
<tr>
<td>Advances to suppliers</td>
<td>416,677</td>
<td>169,333</td>
</tr>
<tr>
<td><strong>TOTAL INVENTORIES AND ADVANCES</strong></td>
<td><strong>835,199</strong></td>
<td><strong>590,310</strong></td>
</tr>
</tbody>
</table>

Inventories and advances are stated net of relevant provisions for impairment. The difference in "Work in progress and semi-finished goods" in 2017 was due to the increase carried out by the subsidiary VARD in order to adjust the carrying amount of an offshore vessel to the estimated net value of its sale.

The following table presents the amount of and movements in such provisions for impairment:

<table>
<thead>
<tr>
<th></th>
<th>Provision for impairment - raw materials</th>
<th>Provision for impairment - work in progress and semi-finished goods</th>
<th>Provision for impairment - finished products</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2016 increases</td>
<td>13,972</td>
<td>4,247</td>
<td>2,708</td>
</tr>
<tr>
<td>Utilizations</td>
<td>(2,803)</td>
<td>(254)</td>
<td></td>
</tr>
<tr>
<td>Releases</td>
<td>(1,74)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.12.2016 total</td>
<td>14,266</td>
<td></td>
<td>2,485</td>
</tr>
<tr>
<td>Increases</td>
<td>2,625</td>
<td></td>
<td>5,796</td>
</tr>
<tr>
<td>Utilizations</td>
<td>(1,341)</td>
<td></td>
<td>(359)</td>
</tr>
<tr>
<td>Releases</td>
<td>(868)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>(53)</td>
<td></td>
<td>(119)</td>
</tr>
<tr>
<td>31.12.2017 total</td>
<td>14,629</td>
<td></td>
<td>5,494</td>
</tr>
</tbody>
</table>

"Provision for impairment - raw materials" includes the adjustments made to align the carrying amount of slow-moving materials still in stock at year end with the net estimated realizable value.

The difference in "Work in progress and semi-finished goods" in 2017 was due to the increase carried out by the subsidiary VARD in order to adjust the carrying amount of an offshore vessel to the estimated net value of its sale.
NOTE 13 - CONSTRUCTION CONTRACTS - ASSETS

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipbuilding contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction contracts - gross</td>
<td>7,993,621</td>
<td>(6,009,467)</td>
</tr>
<tr>
<td>Invoices issued and provision for future losses</td>
<td>1,984,154</td>
<td>4,774,660</td>
</tr>
<tr>
<td>Construction contracts - net assets</td>
<td>3,418,220</td>
<td>1,356,440</td>
</tr>
<tr>
<td>Other contracts for third parties</td>
<td>32,867</td>
<td>(21,679)</td>
</tr>
<tr>
<td></td>
<td>11,188</td>
<td>34,696</td>
</tr>
<tr>
<td></td>
<td>11,322</td>
<td>23,374</td>
</tr>
<tr>
<td>Total</td>
<td>8,026,488</td>
<td>(6,031,146)</td>
</tr>
<tr>
<td></td>
<td>1,995,342</td>
<td>3,429,542</td>
</tr>
<tr>
<td></td>
<td>1,379,814</td>
<td></td>
</tr>
</tbody>
</table>

"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. The positive difference of euro 615,528 thousand is essentially associated with the increase in production activity recorded over the year.
NOTE 14 - TRADE RECEIVABLES AND OTHER CURRENT ASSETS

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>908,960</td>
<td>1,122,972</td>
</tr>
<tr>
<td>Receivables from controlling companies (tax consolidation)</td>
<td>20,327</td>
<td>34,034</td>
</tr>
<tr>
<td>Government grants receivable</td>
<td>4,475</td>
<td>7,292</td>
</tr>
<tr>
<td>Other receivables</td>
<td>142,322</td>
<td>132,231</td>
</tr>
<tr>
<td>Indirect tax receivables</td>
<td>32,181</td>
<td>37,343</td>
</tr>
<tr>
<td>Firm commitments</td>
<td>2,992</td>
<td>13,470</td>
</tr>
<tr>
<td>Accrued income</td>
<td>44,700</td>
<td>33,540</td>
</tr>
<tr>
<td>Prepayments</td>
<td>51</td>
<td>2,182</td>
</tr>
<tr>
<td>TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS</td>
<td>1,166,018</td>
<td>1,383,064</td>
</tr>
</tbody>
</table>

Provisions for impairment of trade receivables have been recognized in a “Provision for past due interest”. Provisions for impairment of receivables report the following amounts and movements:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>Provision for impairment of trade receivables</th>
<th>Provision for past due interest</th>
<th>Provision for impairment of other receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.2016</td>
<td>33,459</td>
<td>63</td>
<td>6,430</td>
<td>39,937</td>
</tr>
<tr>
<td>Business combinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilizations</td>
<td>(6,844)</td>
<td>(12)</td>
<td>(6,856)</td>
<td></td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td>274</td>
<td>27</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>239</td>
<td></td>
<td>239</td>
<td></td>
</tr>
<tr>
<td>31.12.2016</td>
<td>27,128</td>
<td>63</td>
<td>6,430</td>
<td>33,621</td>
</tr>
<tr>
<td>Business combinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilizations</td>
<td>(2,955)</td>
<td>(444)</td>
<td>(3,399)</td>
<td></td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td>1,592</td>
<td>216</td>
<td>1,808</td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>(86)</td>
<td></td>
<td>(86)</td>
<td></td>
</tr>
<tr>
<td>31.12.2017</td>
<td>25,679</td>
<td>63</td>
<td>6,202</td>
<td>31,944</td>
</tr>
</tbody>
</table>

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 is included in the "Provision for past due interest".
The decrease of euro 214,012 thousand in “Trade receivables” is mainly due to the receipt of the final instalments for three cruise ships delivered during 2017, and billed at the end of 2016.

“Government grants receivable” of euro 4,475 thousand include operating and capital grants from the state of Wisconsin recognized by the FMGH Group for the LCS project, and grants receivable, by the Parent Company and the subsidiary Cetena, for research and innovation.

“Other receivables” of euro 142,332 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 140,914 thousand (euro 111,704 thousand at 31 December 2016);
- receivables from social security institutions for euro 1,418 thousand (euro 3,826 thousand at 31 December 2016), 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 32,181 thousand (euro 37,343 thousand at 31 December 2016) 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 2,992 thousand (euro 13,470 thousand at 31 December 2016) reflect the fair value of hedged items in fair value hedges adopted by the VARD Group to hedge currency risk arising on construction contracts in currencies other than the functional currency. The decrease of euro 10,478 thousand is mainly due to the progress in the construction contracts in foreign currency of the subsidiary VARD. “Prepayments” mainly refer to insurance premiums relating to future periods.
NOTE 15 – INCOME TAX ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian corporate income taxation (IRES)</td>
<td>13,641</td>
<td>18,337</td>
</tr>
<tr>
<td>Italian regional tax on productive activities (IRAP)</td>
<td>192</td>
<td>1,170</td>
</tr>
<tr>
<td>Foreign tax</td>
<td>5,085</td>
<td>3,561</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX ASSETS</strong></td>
<td><strong>18,918</strong></td>
<td><strong>23,068</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Provision for impairment of income tax assets</th>
<th>(euro/000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1.1.2016</td>
<td>2,042</td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td></td>
</tr>
<tr>
<td>Other changes</td>
<td></td>
</tr>
<tr>
<td>Total at 31.12.2016</td>
<td>2,042</td>
</tr>
<tr>
<td>Increases/(Releases)</td>
<td></td>
</tr>
<tr>
<td>Other changes</td>
<td></td>
</tr>
<tr>
<td>Total at 31.12.2017</td>
<td>2,042</td>
</tr>
</tbody>
</table>
NOTE 16 – CURRENT FINANCIAL ASSETS

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative assets</td>
<td>16,085</td>
<td>8,256</td>
</tr>
<tr>
<td>Other receivables</td>
<td>33,542</td>
<td>32,403</td>
</tr>
<tr>
<td>Government grants financed by BIIS</td>
<td>7,468</td>
<td>7,196</td>
</tr>
<tr>
<td>Accrued interest income</td>
<td>800</td>
<td>960</td>
</tr>
<tr>
<td>Prepaid interest and other financial expense</td>
<td>12</td>
<td>232</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT FINANCIAL ASSETS</strong></td>
<td><strong>57,907</strong></td>
<td><strong>49,047</strong></td>
</tr>
</tbody>
</table>

“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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank and postal deposits</td>
<td>274,299</td>
<td>219,370</td>
</tr>
<tr>
<td>Checks</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Cash on hand</td>
<td>112</td>
<td>125</td>
</tr>
<tr>
<td><strong>TOTAL CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>274,411</strong></td>
<td><strong>219,512</strong></td>
</tr>
</tbody>
</table>

Cash and cash equivalents at period end include euro 8,457 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 2017 adopted a resolution to allocate euro 933,672.61 of the profit for the year to the Legal reserve and the remaining euro 17,739,779.66 to the Extraordinary reserve.

The composition of equity is analyzed in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attributable to owners of the parent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>862,981</td>
<td>862,981</td>
</tr>
<tr>
<td>Reserve of own shares</td>
<td>(5,277)</td>
<td></td>
</tr>
<tr>
<td>Share premium reserve</td>
<td>110,499</td>
<td>110,499</td>
</tr>
<tr>
<td>Legal reserve</td>
<td>34,326</td>
<td>33,392</td>
</tr>
<tr>
<td>Cash flow hedge reserve</td>
<td>92,527</td>
<td>(25,291)</td>
</tr>
<tr>
<td>Available-for-sale fair value reserve</td>
<td>(323)</td>
<td>(226)</td>
</tr>
<tr>
<td>Currency translation reserve</td>
<td>(134,128)</td>
<td>(65,167)</td>
</tr>
<tr>
<td>Other reserves and retained earnings</td>
<td>219,093</td>
<td>145,825</td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>57,140</td>
<td>24,102</td>
</tr>
<tr>
<td><strong>Attributable to non-controlling interests</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>89,689</td>
<td>194,418</td>
</tr>
<tr>
<td>Available-for-sale fair value reserve</td>
<td>(84)</td>
<td>(180)</td>
</tr>
<tr>
<td>Currency translation reserve</td>
<td>(13,283)</td>
<td>(28,646)</td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>(4,000)</td>
<td>(10,351)</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>1,309,160</td>
<td>1,241,356</td>
</tr>
</tbody>
</table>
**Share capital**

The share capital of FINCANTIERI S.p.A. 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 issued is unchanged with respect to 31 December 2016.

**Reserve of own shares**

The Reserve is negative for euro 5,277 thousand and comprises the value of the own shares for the Company’s incentive plan called “Performance Share Plan 2016 - 2018” (described in more detail in Note 32) to be carried out in accordance with art. 5 of EU Regulation No. 596/2014 and as resolved by the Company’s Shareholders’ Meeting held on 19 May 2017.

Over the period, the Parent Company purchased 4,706,890 ordinary own shares (0.28% of the share capital) for euro 5,277 thousand. The number of shares issued is reconciled to the number of outstanding shares in the Parent Company at 31 December 2017.

**Share premium reserve**

This reserve has been recorded as a result of the capital increase accompanying the Company’s listing on the Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A. 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; iii) the Reserve for the share-based incentive plan for management.

The Fincantieri Group’s purchase of shares from minority shareholders in the subsidiary VARD over the period has led to a change of euro 27,552 thousand in other reserves and retained earnings. At 31 December 2016, the subsidiary Fincantieri Oil & Gas directly owned
55.63% of the share capital of Vard Holdings Limited and its acquisition of shares from minority shareholders of the Norwegian Group took place through a voluntary general offer (which ended on 24 March 2017) with the stake reaching 74.45%, and then through subsequent purchases of shares on the market until the stake reached 79.74% by the end of the period. This transaction has not altered the Fincantieri Group’s scope of consolidation since VARD was already fully consolidated; the above change in the interest 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.

The change in the Reserve for management’s share-based incentive plan refers to the share of personnel costs and costs for services matured over 2017 (euro 3,409 thousand). More details about the incentive plan can be found in Note 32.

Non-controlling interests

The change since 31 December 2016 (euro 72,447 thousand) is due to the effect of the purchase of additional VARD shares, as described above.

Other comprehensive income/losses

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amount</td>
<td>Tax (expense)/benefit</td>
<td>Net amount</td>
</tr>
<tr>
<td>Effective portion of profits/(losses) on cash flow hedging instruments</td>
<td>168,588</td>
<td>(48,896)</td>
</tr>
<tr>
<td>Gains/(losses) from remeasurement of employee defined benefit plans</td>
<td>75</td>
<td>19</td>
</tr>
<tr>
<td>Gains/(losses) arising from changes in OCI of investments accounted for using the equity method</td>
<td>(216)</td>
<td>(216)</td>
</tr>
<tr>
<td>Gains/(losses) arising on translation of financial statements of foreign operations</td>
<td>(59,810)</td>
<td>1,970</td>
</tr>
<tr>
<td>Total other comprehensive income/losses</td>
<td>108,637</td>
<td>(46,907)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective portion of profits/(losses) arising in period on cash flow hedging instruments</td>
<td>131,697</td>
<td>(36,891)</td>
</tr>
<tr>
<td>Effective portion of profits/(losses) on cash flow hedging instruments reclassified to profit or loss</td>
<td>36,891</td>
<td>2,743</td>
</tr>
<tr>
<td>Effective portion of profits/(losses) on cash flow hedging instruments</td>
<td>168,588</td>
<td>(34,148)</td>
</tr>
<tr>
<td>Tax effect</td>
<td>(48,896)</td>
<td>8,978</td>
</tr>
<tr>
<td>TOTAL OCI FOR CASH FLOW HEDGES, NET OF TAX</td>
<td>119,692</td>
<td>(25,170)</td>
</tr>
</tbody>
</table>
NOTE 19 - PROVISIONS FOR RISKS AND CHARGES

These are analyzed as follows:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>Litigation</th>
<th>Product warranty</th>
<th>Agent indemnity benefit</th>
<th>Business reorganization</th>
<th>Other risks and charges</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.2016</td>
<td>45,549</td>
<td>38,074</td>
<td>118</td>
<td>1,649</td>
<td>26,575</td>
<td>111,965</td>
</tr>
<tr>
<td>Business combinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increases</td>
<td>48,918</td>
<td>30,855</td>
<td>2</td>
<td>1,511</td>
<td>2,490</td>
<td>83,776</td>
</tr>
<tr>
<td>Utilizations</td>
<td>(37,489)</td>
<td>(17,781)</td>
<td>(30)</td>
<td>(676)</td>
<td>(862)</td>
<td>(56,838)</td>
</tr>
<tr>
<td>Releases</td>
<td>(563)</td>
<td>(8,048)</td>
<td>(14)</td>
<td>(59)</td>
<td>(3,651)</td>
<td>(12,135)</td>
</tr>
<tr>
<td>Other movements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>147</td>
<td>329</td>
<td></td>
<td>99</td>
<td>619</td>
<td>1,194</td>
</tr>
</tbody>
</table>


| Business combinations |         |                   |                         |                         |                         |       |
| Increases  | 47,374     | 30,974            |                         | 4,468                   | 82,616                  |       |
| Utilizations | (31,564)  | (18,367)          |                         | (1,407)                 | (53,710)                |       |
| Releases   | (2,130)    | (6,978)           |                         | (15)                    | (2,606)                 | (1,729) |
| Other movements |         |                   |                         |                         |                         |       |
| Exchange rate differences | (119)    | (808)             |                         | (212)                   | (901)                   | (2,040) |
| 31.12.2017 | 70,123     | 48,249            | 61                      | 905                     | 21,505                  | 140,843 |

- of which non-current portion | 69,561 | 41,714 | 61 | 905 | 19,418 | 130,754 |
- of which current portion | 562 | 6,535 | 905 | 2,087 | 10,089 |

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) adjustment of the fund against the risk associated with the “Serene” litigation, details of which are given below in Note 32; 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 in previous years by VARD in its Romanian and Norwegian shipyards.

The provision for “Other risks and charges” includes funds of euro 7,526 thousand for environmental clean-up costs and the remainder includes provisions for risks related to various kinds of disputes, mostly of a contractual, technical or fiscal nature, which might be settled at the Group’s expense either in or out of court.
NOTE 20 - EMPLOYEE BENEFITS

Movements in this line item are as follows:

(euro/000)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>57,848</td>
<td>56,638</td>
</tr>
<tr>
<td>Business combinations</td>
<td>2,270</td>
<td></td>
</tr>
<tr>
<td>Interest cost</td>
<td>882</td>
<td>1,198</td>
</tr>
<tr>
<td>Actuarial (gains)/losses</td>
<td>(74)</td>
<td>2,082</td>
</tr>
<tr>
<td>Utilizations for benefits and advances paid</td>
<td>(2,172)</td>
<td>(2,060)</td>
</tr>
<tr>
<td>Staff transfers and other movements</td>
<td>175</td>
<td>10</td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>58,929</td>
<td>57,848</td>
</tr>
<tr>
<td>Plan assets</td>
<td>(17)</td>
<td>(71)</td>
</tr>
<tr>
<td>Closing balance</td>
<td>58,912</td>
<td>57,777</td>
</tr>
</tbody>
</table>

The balance at 31 December 2017 of euro 58,912 thousand is mainly comprised of the employee severance benefit pertaining to the Group’s Italian companies (euro 58,929 thousand). 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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ECONOMIC ASSUMPTIONS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of living increase</td>
<td>1.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Discount rate</td>
<td>1.30%</td>
<td>1.31%</td>
</tr>
<tr>
<td>DEMOGRAPHIC ASSUMPTIONS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected mortality rate</td>
<td>RG48 mortality tables published by the State Accounting Office</td>
<td>RG48 mortality tables published by the State Accounting Office</td>
</tr>
<tr>
<td>Expected invalidity rate</td>
<td>INPS tables split by age and gender</td>
<td>INPS tables split by age and gender</td>
</tr>
<tr>
<td>Expected resignation rate</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Expected payments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>3,789</td>
</tr>
<tr>
<td>Between 1 and 2 years</td>
<td>2,997</td>
</tr>
<tr>
<td>Between 2 and 3 years</td>
<td>3,179</td>
</tr>
<tr>
<td>Between 3 and 4 years</td>
<td>3,637</td>
</tr>
<tr>
<td>Between 4 and 5 years</td>
<td>3,870</td>
</tr>
<tr>
<td>Total</td>
<td>17,472</td>
</tr>
</tbody>
</table>

The Group paid a total of euro 35,406 thousand into defined contribution plans in 2017 (euro 33,352 thousand in 2016).
NOTE 21 – NON-CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond</td>
<td>298,405</td>
<td></td>
</tr>
<tr>
<td>Bank loans and credit facilities - non-current portion</td>
<td>261,027</td>
<td>229,286</td>
</tr>
<tr>
<td>Loans from BlIS - non-current portion</td>
<td>12,513</td>
<td>19,981</td>
</tr>
<tr>
<td>Liabilities to other lenders</td>
<td>2,474</td>
<td>1,655</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>200</td>
<td>519</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>17,485</td>
<td>40,758</td>
</tr>
<tr>
<td><strong>TOTAL NON-CURRENT FINANCIAL LIABILITIES</strong></td>
<td>293,699</td>
<td>590,604</td>
</tr>
</tbody>
</table>

**Bond**

The change in “Bond” refers to the debt related to the bond issue (euro 299,682 thousand at 31 December 2017) by FINCANTIERI S.p.A. in 2013 for a nominal value of euro 300 million - which will be repaid in a lump sum on 19 November 2018 - being reclassified from non-current to current.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banca Carige</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Banca Mediocredito del Friuli Venezia Giulia</td>
<td>12,775</td>
<td>16,765</td>
</tr>
<tr>
<td>Mediobanca</td>
<td></td>
<td>65,000</td>
</tr>
<tr>
<td>UBI Banca</td>
<td>58,284</td>
<td>40,000</td>
</tr>
<tr>
<td>Banca Popolare dell’Emilia Romagna</td>
<td>12,500</td>
<td>20,833</td>
</tr>
<tr>
<td>Cassa di Risparmio di San Minato</td>
<td>5,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Cassa Depositi e Prestiti</td>
<td>56,444</td>
<td>53,375</td>
</tr>
<tr>
<td>Banca UBAE</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Credito Valtellinese</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Unicredit Tiriac Bank SIA</td>
<td>18,338</td>
<td>6,667</td>
</tr>
<tr>
<td>Innovation Norway</td>
<td>11,145</td>
<td>14,224</td>
</tr>
<tr>
<td>Nordea</td>
<td>2,501</td>
<td>3,302</td>
</tr>
<tr>
<td>Brazil (Banco do Brazil and BNDES)</td>
<td>84,316</td>
<td>101,160</td>
</tr>
<tr>
<td>Other loans and credit facilities</td>
<td>13,103</td>
<td>17,910</td>
</tr>
<tr>
<td><strong>TOTAL BANK LOANS AND CREDIT FACILITIES</strong></td>
<td>309,406</td>
<td>333,236</td>
</tr>
<tr>
<td>Non-current portion</td>
<td>261,027</td>
<td>229,286</td>
</tr>
<tr>
<td>Current portion</td>
<td>48,379</td>
<td>123,950</td>
</tr>
</tbody>
</table>

**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.

FINCANTIERI S.p.A.’s exposure to Banca Mediocredito del Friuli Venezia Giulia refers to four different loans made between 2006 and 2014, originally totaling euro 42,700 thousand.

The last instalment of one of the four loans originally amounting to euro 5,600 thousand was paid in 2017. The remaining three loans are repayable in semi-annual instalments through until 2021. These loans are secured by a lien on plant, machinery and equipment at the Monfalcone shipyard, as disclosed in Note 7.


In 2015, the Banca Popolare di Ancona, now UBI Banca, granted the Parent Company a medium/long-term unsecured loan for euro 35 million, repayable in 7 semi-annual instalments ending in December 2018. In November 2016, the same bank granted the Parent Company an additional medium/long-term unsecured loan for euro 20 million, repayable in 6 semi-annual instalments ending in February 2020.

In December the same year, UBI Banca granted the Parent Company the first portion of euro 1,617 thousand of a loan for euro 2,021 thousand for an innovation project under Law 46/1982 called “Environment”. In November 2017, FINCANTIERI S.p.A. made an early repayment without penalties of the remaining debt of euro 15 million related to the first loan granted in 2015 by taking out a new medium/long-term unsecured loan, at better economic terms compared to the previous one, for euro 40 million, repayable in a single instalment in November 2020.

The Parent Company’s exposure to the Banca Popolare dell’Emilia e Romagna refers to a medium/long-term unsecured loan of euro 25 million granted in 2015, repayable in 6 semi-annual instalments ending in June 2019.

In 2015, the Cassa di Risparmio di San Miniato granted FINCANTIERI S.p.A. a medium/long-term unsecured loan for euro 15 million, repayable in 6 semi-annual instalments ending in June 2019.

The exposure to Cassa Depositi e Prestiti refers to six soft loans received by the Parent Company under the “revolving fund in support of businesses and investment in research” (the “Fund”), established under Law 311 of 30 December 2004, for the “Superpanamax cruise ship” development project under Law 46/1982, 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 to the Parent Company under this Fund through the Cassa Depositi e Prestiti:

• related to the “Superpanamax cruise ship” project, a loan for up to euro 12,217 thousand, the last portion of which, of euro 1,221 thousand, was disbursed in November 2017. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2022:
related to the “Ecomos” project, a loan for up to euro 4,405 thousand, the last portion of which, of euro 681 thousand, was disbursed in November 2017. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2020;

• related to the “Environmental Logistics” project, a loan for up to euro 10,818 thousand, the last portion of which, of euro 2,164 thousand, was disbursed in April 2017. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

• related to the “Payload” project, a loan for up to euro 13,043 thousand, the last portion of which, of euro 2,609 thousand, was disbursed in April 2017. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

• related to the “Production Engineering” project, a loan for up to euro 10,822 thousand, of which euro 8,658 thousand was disbursed by the end of 2016. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

• related to the “Environmental” project, a loan for up to euro 10,722 thousand, of which euro 8,658 thousand was disbursed by the end of 2016. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

It should be noted that the loan for the investment program under Law 488 of 19/12/1992, granted between 2011 and 2013 and totalling euro 3,481 thousand, was duly repaid in June 2017. FINCANTIERI S.p.A. took out two additional new medium-long term unsecured loans in 2017: the first with Banca UBAE for euro 15 million, repayable in a single instalment in January 2020; the second with Credito Valtellinese for euro 20 million, repayable in 5 semi-annual instalments ending in July 2021.

Lastly, it should be noted that the Parent Company took out a medium/long-term unsecured loan with a leading Italian bank for euro 25 million in the last quarter of 2017 - which was expected to be disbursed in January 2018 - and repayable in a single instalment in the first quarter of 2020. This falls under the total of committed facilities available to the Company at 31 December 2017.

In September 2017, Vard Tulcea SA obtained a loan from Unicredit Tiriac Bank SA for euro 20 million. The residual amount of this loan at 31 December 2017 is euro 18,338 thousand. The loan is collateralized with shipyard assets and must be repaid in monthly instalments by September 2020.

VARD Group AS has six loans with Innovation Norway for a total of NOK 110 million (current and non-current portions) at 31 December 2017; these loans are secured by plant and machinery and by the dock at the Langesten shipyard and also carry covenants (Consolidated Equity > NOK 1,500 million and Consolidated Cash and cash equivalents > NOK 500 million) which, at 31 December 2017, had been fulfilled.

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 3 million outstanding at the end of 2017), 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 101 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 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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed rate</td>
<td>Floating rate</td>
</tr>
<tr>
<td>- between one and two years</td>
<td>23,541</td>
<td>25,767</td>
</tr>
<tr>
<td>- between two and three years</td>
<td>26,377</td>
<td>68,140</td>
</tr>
<tr>
<td>- between three and four years</td>
<td>25,338</td>
<td>4,864</td>
</tr>
<tr>
<td>- between four and five years</td>
<td>16,475</td>
<td>3,313</td>
</tr>
<tr>
<td>- beyond five years</td>
<td>60,571</td>
<td>8,641</td>
</tr>
<tr>
<td>Total</td>
<td>152,302</td>
<td>108,725</td>
</tr>
</tbody>
</table>

“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 9). 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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital grants</td>
<td>21,676</td>
<td>31,514</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>9,203</td>
<td>13,739</td>
</tr>
<tr>
<td>Firm commitments</td>
<td>37</td>
<td>2,980</td>
</tr>
<tr>
<td>TOTAL OTHER NON-CURRENT LIABILITIES</td>
<td>30,916</td>
<td>48,233</td>
</tr>
</tbody>
</table>

“Capital grants” mainly comprise deferred income associated with grants for property, plant and equipment and innovation grants 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).
NOTE 23 - CONSTRUCTION CONTRACTS - LIABILITIES

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction contracts - gross</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipbuilding contracts</td>
<td>1,532,501</td>
<td>3,880,919</td>
</tr>
<tr>
<td>Other contracts for third parties</td>
<td>100,142</td>
<td>148,423</td>
</tr>
<tr>
<td><strong>Client advances</strong></td>
<td>1,324</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,632,643</td>
<td>4,017,927</td>
</tr>
</tbody>
</table>

"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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables to suppliers</td>
<td>1,476,531</td>
<td>1,204,623</td>
</tr>
<tr>
<td>Payables to suppliers for reverse factoring</td>
<td>271,964</td>
<td>102,037</td>
</tr>
<tr>
<td>Social security payables</td>
<td>35,577</td>
<td>32,937</td>
</tr>
<tr>
<td>Other payables for deferred employee remuneration</td>
<td>69,921</td>
<td>65,385</td>
</tr>
<tr>
<td>Other payables</td>
<td>91,777</td>
<td>69,854</td>
</tr>
<tr>
<td>Indirect tax payables</td>
<td>15,888</td>
<td>12,611</td>
</tr>
<tr>
<td>Firm commitments</td>
<td>3,837</td>
<td>1,088</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>6,677</td>
<td>5,234</td>
</tr>
<tr>
<td>Deferred income</td>
<td>1,310</td>
<td>2,307</td>
</tr>
<tr>
<td><strong>TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES</strong></td>
<td><strong>1,973,482</strong></td>
<td><strong>1,496,076</strong></td>
</tr>
</tbody>
</table>

“Payables to suppliers” are euro 271,908 thousand higher than at 31 December 2016, 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” include amounts due to INPS (the Italian social security authorities) for employer and employee contributions on December’s wages and salaries and contributions on end-of-period wage adjustments.

“Other payables” 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 12,995 thousand for indirect tax liabilities of the VARD Group.

“Firm commitments” reflect the fair value of hedged items in fair value hedges adopted 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 2016 can be found in Note 14.
NOTE 25 - INCOME TAX LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian corporate income taxation (IRES)</td>
<td>427</td>
<td>653</td>
</tr>
<tr>
<td>Italian regional tax on productive activities (IRAP)</td>
<td>6,049</td>
<td>531</td>
</tr>
<tr>
<td>Foreign tax</td>
<td>5,759</td>
<td>9,402</td>
</tr>
<tr>
<td>TOTAL INCOME TAX LIABILITIES</td>
<td>12,235</td>
<td>10,586</td>
</tr>
</tbody>
</table>

(euro/000)
NOTE 26 - CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond</td>
<td>299,239</td>
<td></td>
</tr>
<tr>
<td>Bank loans and credit facilities - current portion</td>
<td>48,379</td>
<td>123,950</td>
</tr>
<tr>
<td>Loans from BIIS - current portion</td>
<td>7,468</td>
<td>7,196</td>
</tr>
<tr>
<td>Bank loans and credit facilities - Construction loans</td>
<td>624,360</td>
<td>677,578</td>
</tr>
<tr>
<td>Other short-term bank debt</td>
<td>121,690</td>
<td>290,602</td>
</tr>
<tr>
<td>Liabilities to other lenders - current portion</td>
<td>5,280</td>
<td>16,830</td>
</tr>
<tr>
<td>Bank credit facilities repayable on demand</td>
<td>609</td>
<td>16,336</td>
</tr>
<tr>
<td>Financial liabilities for the acquisition of equity investments</td>
<td>1,485</td>
<td>1,496</td>
</tr>
<tr>
<td>Payables to joint ventures</td>
<td>1,628</td>
<td>660</td>
</tr>
<tr>
<td>Finance lease obligations - current portion</td>
<td>253</td>
<td>411</td>
</tr>
<tr>
<td>Fair value of options on equity investments</td>
<td>17,677</td>
<td>18,025</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>36,213</td>
<td>84,108</td>
</tr>
<tr>
<td>Accrued interest expense</td>
<td>2,634</td>
<td>2,852</td>
</tr>
<tr>
<td>TOTAL CURRENT FINANCIAL LIABILITIES</td>
<td>1,166,915</td>
<td>1,240,044</td>
</tr>
</tbody>
</table>

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 2017:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>50,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Norway</td>
<td>277,011</td>
<td>276,388</td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>297,349</td>
<td>301,190</td>
</tr>
<tr>
<td>TOTAL CONSTRUCTION LOANS</td>
<td>624,360</td>
<td>677,578</td>
</tr>
</tbody>
</table>

“Bond” 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. This Bond, subscribed solely by institutional investors, carries a fixed coupon of 3.75% payable annually and will be repaid in a lump sum on 19 November 2018. 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 Parent Company or any one of its Material Subsidiaries totaling at least euro 30 million, iii) enforcement of guarantees over any assets of the Parent 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 Parent 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 Parent 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.

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. The existing facilities of euro 1,454 million are detailed as follows:

- In the last quarter of 2017, the Parent Company finalized a construction loan with a leading national bank, in syndicate with Cassa Depositi e Prestiti, for a maximum of euro 225 million, for the purpose of financing construction of a cruise ship. As at 31 December 2017, euro 50 million had been drawn down against this loan, of which euro 10 million disbursed by Cassa Depositi e Prestiti. In the same period, the Parent Company finalized another construction loan with a leading national bank for a maximum of euro 90 million. As at 31 December 2017, this loan had not been drawn down.
- In October 2017, the Parent Company finalized a construction loan with a leading international bank for a maximum of euro 300 million for the stage of completion of works on a cruise ship. In this operation, SACE guaranteed the bank 50% of the maximum amount payable. SACE’s guarantee was given as public support for the development of production activities benefiting from the Italian state’s counter-guarantee, in application of Legislative Decree No. 123 of 31 March 1998 “Provisions for streamlining public support to companies, according to Art. 4, para. 4(c) of Law No. 59 of 15 March 1997.” As at 31 December 2017, this loan had not been drawn down.
- VARD Group AS has existing construction loan facilities with Nordea, DNB, Sparebanken 1 SMN and Deutsche Bank for a total of NOK 4,977 million. These facilities had been drawn down by a total of NOK 2,726 million at 31 December 2017. These facilities carry covenants which, as far as Nordea, DNB and Sparebanken 1 SMN are concerned, have been renegotiated in the last quarter of 2017 as follows: the limit for the covenant on equity was lowered from NOK 2,700 million to NOK 1,500 million, while the covenant on net working capital was replaces with
a covenant on consolidated cash and cash equivalents which must be greater than or equal to NOK 500 million. In addition to these covenants, but only with regard to the facility with DNB, the covenant on net working capital has been maintained but the limit has been removed. At 31 December 2017 these covenants had been fulfilled.

• The Brazilian subsidiary Vard Promar SA has construction loans with leading Brazilian banks for a total of BRL 46 million for local content and USD 386 million for imported content. These loans had been drawn down at 31 December 2017 by BRL 33 million and USD 347 million respectively.

The construction loans drawn down at 31.12.2017 consist of a fixed-rate portion for approximately euro 289 million (carrying rates at 31 December 2017 of between 2.5% and 4.5%) and a variable-rate portion for about euro 335 million (carrying rates at 31 December 2017 of between 0.7% 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 2017 includes the drawing down of committed lines of credit for euro 15 million, entirely relating to VARD, and euro 107 million of uncommitted lines of credit, of which euro 50 million relating to the Parent Company and repayment is expected in February 2018. At 31 December 2017, the Group had a total of euro 335 million in committed lines of credit with leading Italian and international banks maturing between 2018 and 2019. It should be noted that on the same date the Parent Company was also negotiating new committed lines of credit totalling euro 150 million with some leading Italian banks; these facilities will be finalized in the first two months of 2018. In addition to committed credit lines, the Group has access to additional uncommitted credit lines with leading Italian and international banks in different currencies (about euro 686 million). It should also be noted that in December 2017 the Parent Company structured a new Euro-Commercial Paper Step Label program to issue non-subordinated and unsecured short-term debt securities for a maximum of euro 500 million. As at 31 December 2017, this form of financing had not been drawn down.

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

“Fair value of options on equity investments” (Level 3) amounting to euro 17,677 thousand (euro 18,025 thousand at 31 December 2016) is related to the option held by minority shareholders of the Fincantieri Marine Group, the reduction in which since 2016 is due to the positive effect of translating the balance expressed in currency partially offset by the option’s negative fair value difference of euro 1,947 thousand.

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:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenue</td>
<td>3,428,083</td>
<td>4,372,981</td>
</tr>
<tr>
<td>Change in construction contracts</td>
<td>1,486,172</td>
<td>(26,226)</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>4,914,255</td>
<td>4,346,755</td>
</tr>
<tr>
<td>Gains on disposal</td>
<td>471</td>
<td>335</td>
</tr>
<tr>
<td>Sundry revenue and income</td>
<td>69,024</td>
<td>54,693</td>
</tr>
<tr>
<td>Government grants</td>
<td>36,335</td>
<td>32,339</td>
</tr>
<tr>
<td>Total other revenue and income</td>
<td>105,830</td>
<td>87,367</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE AND INCOME</strong></td>
<td><strong>5,020,085</strong></td>
<td><strong>4,434,122</strong></td>
</tr>
</tbody>
</table>

“Government grants” comprises the grants for the year recognized in the Parent Company for the loan for innovative projects on products and processes in the naval vessel sector, under Law 190 of 2014, for euro 29,420 thousand and assigned in November and December 2016. The remaining part is the grants related to income (euro 2,321 thousand) and capital (euro 4,594 thousand) mainly related to the Parent Company, the subsidiary Cetena S.p.A. and the US subsidiary Fincantieri Marine Group LLC.

Sundry revenue and income comprise:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalties charged to suppliers</td>
<td>8,053</td>
<td>9,671</td>
</tr>
<tr>
<td>Rental income</td>
<td>1,849</td>
<td>1,091</td>
</tr>
<tr>
<td>Insurance claims</td>
<td>19,659</td>
<td>12,028</td>
</tr>
<tr>
<td>Recharged costs</td>
<td>5,857</td>
<td>5,723</td>
</tr>
<tr>
<td>Income from third parties relating to personnel</td>
<td>150</td>
<td>343</td>
</tr>
<tr>
<td>Other sundry income</td>
<td>19,538</td>
<td>16,174</td>
</tr>
<tr>
<td>Gains on hedging instruments not qualifying for hedge accounting</td>
<td>11,122</td>
<td>5,967</td>
</tr>
<tr>
<td>Other income</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69,024</strong></td>
<td><strong>54,693</strong></td>
</tr>
</tbody>
</table>

“Recharged costs”, of euro 5,857 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories. “Other sundry income” of euro 19,538 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and consumables</td>
<td>(2,502,461)</td>
<td>(2,294,193)</td>
</tr>
<tr>
<td>Services</td>
<td>(1,171,098)</td>
<td>(980,873)</td>
</tr>
<tr>
<td>Leases and rentals</td>
<td>(40,332)</td>
<td>(43,260)</td>
</tr>
<tr>
<td>Change in inventories of raw materials and consumables</td>
<td>14,624</td>
<td>10,080</td>
</tr>
<tr>
<td>Change in inventories work in progress and finished products</td>
<td>(19,715)</td>
<td>6,481</td>
</tr>
<tr>
<td>Sundry operating costs</td>
<td>(51,188)</td>
<td>(40,525)</td>
</tr>
<tr>
<td>Cost of materials and services capitalized in fixed assets</td>
<td>23,696</td>
<td>45,881</td>
</tr>
<tr>
<td><strong>Total materials, services and other costs</strong></td>
<td><strong>(3,746,474)</strong></td>
<td><strong>(3,296,409)</strong></td>
</tr>
</tbody>
</table>

The increase in “Sundry operating costs” is mainly due to the recognition in 2017 of an income adjustment of euro 16,701 thousand, the effect of which was partially offset by the increase in the fair value of derivatives.

Sundry operating costs also include euro 420 thousand in losses on the disposal of non-current assets (euro 1,102 thousand at 31 December 2016).

Details of the cost of services are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontractors and outsourced services</td>
<td>(627,624)</td>
<td>(530,172)</td>
</tr>
<tr>
<td>Insurance</td>
<td>(42,664)</td>
<td>(40,068)</td>
</tr>
<tr>
<td>Other personnel costs</td>
<td>(26,913)</td>
<td>(25,998)</td>
</tr>
<tr>
<td>Maintenance costs</td>
<td>(23,182)</td>
<td>(19,901)</td>
</tr>
<tr>
<td>Commissioning and trials</td>
<td>(11,207)</td>
<td>(12,366)</td>
</tr>
<tr>
<td>Outsourced design costs</td>
<td>(26,302)</td>
<td>(23,373)</td>
</tr>
<tr>
<td>Licenses</td>
<td>(4,903)</td>
<td>(4,599)</td>
</tr>
<tr>
<td>Transportation and logistics</td>
<td>(26,300)</td>
<td>(21,880)</td>
</tr>
<tr>
<td>Technical and other services</td>
<td>(318,933)</td>
<td>(242,946)</td>
</tr>
<tr>
<td>Cleaning services</td>
<td>(35,539)</td>
<td>(31,425)</td>
</tr>
<tr>
<td>Electricity, water, gas and other utilities</td>
<td>(44,241)</td>
<td>(45,535)</td>
</tr>
<tr>
<td>Utilization of product warranty and other provisions</td>
<td>16,710</td>
<td>17,390</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td><strong>(1,171,098)</strong></td>
<td><strong>(980,873)</strong></td>
</tr>
</tbody>
</table>

“Leases and rentals” amounting to euro 40,332 thousand (euro 43,260 thousand at 31 December 2016) include rental and hire costs of euro 23,334 thousand (euro 23,369 thousand at 31 December 2016), lease costs of euro 14,227 thousand (euro
17,031 thousand at 31 December 2016), and concession and similar fees of €2,771 thousand (€2,860 thousand at 31 December 2016). It should be noted that “Technical and other services” includes charges related to the “Performance Share Plan” (€2,771 thousand) approved by the Shareholders’ Meeting held on 19 May 2017.

“It should be noted that “Technical and other services” includes charges related to the “Performance Share Plan” (€2,771 thousand) approved by the Shareholders’ Meeting held on 19 May 2017.”

**Operating leases**

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

<table>
<thead>
<tr>
<th>Maturity of Future Minimum Operating Lease Payments</th>
<th>2017 (€/000)</th>
<th>2016 (€/000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>14,334</td>
<td>13,197</td>
</tr>
<tr>
<td>Between 1 and 5 years</td>
<td>33,231</td>
<td>27,659</td>
</tr>
<tr>
<td>Beyond 5 years</td>
<td>26,791</td>
<td>22,295</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74,356</strong></td>
<td><strong>63,151</strong></td>
</tr>
</tbody>
</table>

**Personnel Costs**

<table>
<thead>
<tr>
<th>Personnel Costs</th>
<th>2017 (€/000)</th>
<th>2016 (€/000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>wages and salaries</td>
<td>(658,440)</td>
<td>(618,609)</td>
</tr>
<tr>
<td>social security</td>
<td>(200,652)</td>
<td>(185,346)</td>
</tr>
<tr>
<td>costs for defined contribution plans</td>
<td>(35,406)</td>
<td>(33,352)</td>
</tr>
<tr>
<td>costs for defined benefit plans</td>
<td>(70)</td>
<td></td>
</tr>
<tr>
<td>other personnel costs</td>
<td>(26,358)</td>
<td>(34,994)</td>
</tr>
<tr>
<td>Personnel costs capitalized in fixed assets</td>
<td>8,862</td>
<td>14,459</td>
</tr>
<tr>
<td><strong>Total personnel costs</strong></td>
<td><strong>(912,064)</strong></td>
<td><strong>(857,842)</strong></td>
</tr>
</tbody>
</table>

“Personnel costs” represent the total cost incurred for employees, including wages and salaries, employer social security contributions payable by the Group, gifts and travel allowances. The change of €54,222 thousand compared to 31 December 2016 is partly attributable to the increase in average resources employed mainly in the Group’s Italian yards.

It should be noted that “Other personnel costs” include charges related to the “Performance Share Plan” (€2,585 thousand) for the Group’s management and approved by the Shareholders’ Meeting held on 19 May 2017. More details on the operation can be found in Note 32.

“Personnel costs” includes charges related to the “Performance Share Plan” (€2,585 thousand) for the Group’s management and approved by the Shareholders’ Meeting held on 19 May 2017. More details on the operation can be found in Note 32.

Personnel costs include €3,493 thousand in non-recurring expenses attributable to the subsidiary VARD (see Note 32).
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 30,974 thousand versus euro 30,854 thousand in 2016), to provisions for litigation (euro 47,374 thousand versus euro 48,919 thousand in 2016) and to other provisions for future charges (euro 1,744 thousand versus euro 2,490 thousand in 2016). More details about the nature of the provisions made can be found in Note 19 and Note 31.
NOTE 29 - FINANCE INCOME AND COSTS

These are analyzed as follows:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCE INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and other income from financial assets</td>
<td>3,152</td>
<td>4,767</td>
</tr>
<tr>
<td>Income from derivative financial instruments</td>
<td>42</td>
<td>1,353</td>
</tr>
<tr>
<td>Interest and fees from joint ventures</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Bank interest and fees and other income</td>
<td>4,705</td>
<td>5,171</td>
</tr>
<tr>
<td>Foreign exchange gains</td>
<td>23,560</td>
<td>37,491</td>
</tr>
<tr>
<td>Total finance income</td>
<td>31,487</td>
<td>48,782</td>
</tr>
<tr>
<td>FINANCE COSTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fees charged by joint ventures</td>
<td>(193)</td>
<td>(674)</td>
</tr>
<tr>
<td>Interest and fees from related parties</td>
<td>(68)</td>
<td></td>
</tr>
<tr>
<td>Interest and fees charged by controlling companies</td>
<td>(1,095)</td>
<td>(179)</td>
</tr>
<tr>
<td>Expenses from derivative financial instruments</td>
<td>(4,852)</td>
<td>(5,705)</td>
</tr>
<tr>
<td>Unrealized finance costs - delta fair value</td>
<td>(1,947)</td>
<td></td>
</tr>
<tr>
<td>Interest on employee benefit plans</td>
<td>(746)</td>
<td>(1,104)</td>
</tr>
<tr>
<td>Interest and fees on bonds</td>
<td>(12,083)</td>
<td>(12,051)</td>
</tr>
<tr>
<td>Interest and fees on construction loans</td>
<td>(25,652)</td>
<td>(36,601)</td>
</tr>
<tr>
<td>Bank interest and fees and other expense</td>
<td>(42,289)</td>
<td>(36,342)</td>
</tr>
<tr>
<td>Foreign exchange losses</td>
<td>(26,009)</td>
<td>(22,570)</td>
</tr>
<tr>
<td>Total finance costs</td>
<td>(114,934)</td>
<td>(115,227)</td>
</tr>
<tr>
<td>TOTAL FINANCE INCOME AND COSTS</td>
<td>(83,447)</td>
<td>(66,445)</td>
</tr>
</tbody>
</table>

“Finance income” in 2017 includes euro 817 thousand (euro 1,084 thousand in 2016) 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 “Foreign exchange gains/losses” is primarily attributable to the unfavourable trend in the USD/BRL and EUR/USD exchange rates.
NOTE 30 - INCOME AND EXPENSE FROM INVESTMENTS

These are analyzed as follows:

\[
\begin{array}{lcl}
\text{(euro/000)} & 2017 & 2016 \\
\hline
\text{INCOME} & & \\
\text{Dividends from other companies} & 53 & 27 \\
\text{Release of provision for losses on investments} & 690 & \\
\text{Other income from investments} & 394 & \\
\text{Total income} & 743 & 421 \\
\hline
\text{EXPENSE} & & \\
\text{Fair value measurement losses} & (712) & (3,135) \\
\text{Total expense} & (712) & (3,135) \\
\text{INCOME/(EXPENSE) FROM INVESTMENTS} & 31 & (2,714) \\
\hline
\text{SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD} & & \\
\text{Profit} & 1,135 & 176 \\
\text{Loss} & (5,929) & (6,995) \\
\text{SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD} & (4,794) & (6,819) \\
\hline
\text{TOTAL INCOME AND EXPENSE FROM INVESTMENTS} & (4,763) & (9,533) \\
\end{array}
\]

With reference to investments carried at fair value, at 31 December 2017 a loss of euro 712 thousand was recorded for VARD’s investment in Solstad Offshore ASA.

As regards investments accounted for using the equity method, the profit of euro 1,825 thousand refers mainly to the Group’s share of the result for the year reported by Etihad Ship Building LLC (euro 1,185 thousand of which euro 690 thousand released from the provision for losses on investments) and Camper & Nicholson International SA (euro 379 thousand). The loss of euro 5,929 thousand reflects the Group’s share of the results for the year of Olympic Challenger KS (euro 777 thousand), Mokster Supply KS (euro 1,066 thousand), Rem Supply AS (euro 849 thousand), Unifer Navale S.r.l. (euro 579 thousand) and DOF Iceman AS (euro 2,306). The remaining euro 352 thousand is attributed to the share of the results for the year of the VARD Group’s other associates.

For more details on the changes to investments, see Note 8.
NOTE 31 - INCOME TAXES

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current taxes</strong></td>
<td>(17,778)</td>
<td>(9,690)</td>
</tr>
<tr>
<td><strong>Deferred tax assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- sundry impairment losses</td>
<td>6,647</td>
<td>(10,325)</td>
</tr>
<tr>
<td>- product warranty</td>
<td>2,056</td>
<td>976</td>
</tr>
<tr>
<td>- other risks and charges</td>
<td>3,450</td>
<td>2,036</td>
</tr>
<tr>
<td>- carryforward tax losses</td>
<td>(31,194)</td>
<td>(6,730)</td>
</tr>
<tr>
<td>- other items</td>
<td>(4,683)</td>
<td>15,752</td>
</tr>
<tr>
<td>- tax rate and other changes</td>
<td>(4,920)</td>
<td>(704)</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- business combinations</td>
<td>1,944</td>
<td>2,820</td>
</tr>
<tr>
<td>- other items</td>
<td>979</td>
<td>(2,693)</td>
</tr>
<tr>
<td>- tax rate and other changes</td>
<td>12,222</td>
<td>15,145</td>
</tr>
<tr>
<td><strong>Total deferred taxes</strong></td>
<td>(13,499)</td>
<td>1,132</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAXES</strong></td>
<td>(31,277)</td>
<td>(8,558)</td>
</tr>
</tbody>
</table>

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 3,556 thousand in expenses were recognized in 2017 for income taxes relating to previous periods, including euro 2,419 thousand of increases carried out during the year to the tax risk provision in relation to the formal notice of assessment received in 2017 for the 2013 period, which is still to be determined. The theoretical tax rate is reconciled to the effective tax rate as follows:

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical corporate income tax rate (IRES)</td>
<td>24.00%</td>
<td>27.50%</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>84,417</td>
<td>22,309</td>
</tr>
<tr>
<td>Impact of taxes relating to prior periods</td>
<td>20,260</td>
<td>(6,135)</td>
</tr>
<tr>
<td>Non-taxed income and non-deductible expenses</td>
<td>(452)</td>
<td>(218)</td>
</tr>
<tr>
<td>Impact of tax losses</td>
<td>281</td>
<td>(4,609)</td>
</tr>
<tr>
<td>Impact of permanent differences and unrecognized temporary differences</td>
<td>(2,965)</td>
<td>8,639</td>
</tr>
<tr>
<td>Impact of temporary differences not recognized in previous years</td>
<td>144</td>
<td>321</td>
</tr>
<tr>
<td>Effect of change in tax rates</td>
<td>7,757</td>
<td>1,732</td>
</tr>
<tr>
<td>Impact of different tax rates applicable to foreign entities</td>
<td>5,775</td>
<td>(2,886)</td>
</tr>
<tr>
<td>IRAP charged to profit or loss</td>
<td>10,007</td>
<td>(5,402)</td>
</tr>
<tr>
<td>Total income taxes through profit or loss</td>
<td>(31,277)</td>
<td>(8,558)</td>
</tr>
<tr>
<td>Current taxes</td>
<td>(17,778)</td>
<td>(9,690)</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>(13,499)</td>
<td>1,132</td>
</tr>
</tbody>
</table>
## NOTE 32 - OTHER INFORMATION

### Net financial position

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Cash</td>
<td>112</td>
<td>142</td>
</tr>
<tr>
<td>B. Other cash equivalents</td>
<td>274,299</td>
<td>219,370</td>
</tr>
<tr>
<td>C. Held-for-trading securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Cash and cash equivalents (A)+(B)+(C)</td>
<td>274,411</td>
<td>219,512</td>
</tr>
<tr>
<td>E. Current financial receivables</td>
<td>34,354</td>
<td>33,595</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>576</td>
<td>550</td>
</tr>
<tr>
<td>F. Current bank debt</td>
<td>(122,299)</td>
<td>(306,938)</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>(20,000)</td>
<td></td>
</tr>
<tr>
<td>G. Bonds - current portion</td>
<td>(299,239)</td>
<td></td>
</tr>
<tr>
<td>H. Current portion of non-current debt</td>
<td>(17,564)</td>
<td>(36,939)</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>(1,611)</td>
<td>(660)</td>
</tr>
<tr>
<td>I. Other current financial liabilities</td>
<td>(8,957)</td>
<td>(19,397)</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>(2,674)</td>
<td></td>
</tr>
<tr>
<td>J. Current debt (F)+(G)+(H)+(I)</td>
<td>(481,508)</td>
<td>(453,137)</td>
</tr>
<tr>
<td>K. Net current debt (D)+(E)+(J)</td>
<td>(172,743)</td>
<td>(200,030)</td>
</tr>
<tr>
<td>L. Non-current financial receivables</td>
<td>122,794</td>
<td>114,472</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>6,718</td>
<td></td>
</tr>
<tr>
<td>M. Non-current bank debt</td>
<td>(261,027)</td>
<td>(229,286)</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>(48,935)</td>
<td>(49,769)</td>
</tr>
<tr>
<td>N. Bond</td>
<td>(263,701)</td>
<td>(278,405)</td>
</tr>
<tr>
<td>O. Other non-current financial liabilities</td>
<td>(2,674)</td>
<td></td>
</tr>
<tr>
<td>P. Non-current debt (M)+(N)+(O)</td>
<td>(140,907)</td>
<td>(415,393)</td>
</tr>
<tr>
<td>Q. Net non-current debt (L)+(P)</td>
<td>(315,650)</td>
<td>(615,423)</td>
</tr>
<tr>
<td>R. Net financial position (K)+(Q)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net financial position</td>
<td>(313,650)</td>
<td>(615,423)</td>
</tr>
<tr>
<td>Construction loans</td>
<td>(122,794)</td>
<td>(114,472)</td>
</tr>
<tr>
<td>Non-current financial receivables</td>
<td>(624,360)</td>
<td>(677,578)</td>
</tr>
<tr>
<td>Net financial position as per ESMA recommendation</td>
<td>(1,060,804)</td>
<td>(1,407,473)</td>
</tr>
</tbody>
</table>
Statement of net financial debt flows

The following table shows the movements in the financial position with regard to financing activities and cash flows (IAS 7).

<table>
<thead>
<tr>
<th>(euro/000)</th>
<th>1.1.2017</th>
<th>Business combinations</th>
<th>Cash flows</th>
<th>Changes in fair value</th>
<th>Exchange rate differences</th>
<th>Other non-monetary changes</th>
<th>31.12.2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current financial liabilities</td>
<td>529,865</td>
<td>(32,936)</td>
<td>(13,797)</td>
<td>(219,431)</td>
<td>263,701</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current financial receivables</td>
<td>(114,472)</td>
<td>(14,227)</td>
<td>4,590</td>
<td>1,315</td>
<td>(122,794)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current bank loans and credit facilities</td>
<td>1,111,318</td>
<td>482</td>
<td>(196,102)</td>
<td>(64,908)</td>
<td>246,121</td>
<td>1,096,911</td>
<td></td>
</tr>
<tr>
<td>Other current financial liabilities/receivables</td>
<td>(14,198)</td>
<td>(11,093)</td>
<td>(1,971)</td>
<td>1,865</td>
<td>(25,397)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables/payables for held-for-trading financial instruments</td>
<td>6,389</td>
<td>(9,414)</td>
<td></td>
<td></td>
<td>(3,025)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities from financing activities</td>
<td>1,518,902</td>
<td>482</td>
<td>(254,358)</td>
<td>(76,086)</td>
<td>29,870</td>
<td>1,209,396</td>
<td></td>
</tr>
<tr>
<td>Purchase of non-controlling interests in VARD</td>
<td></td>
<td></td>
<td></td>
<td>(44,895)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of own shares</td>
<td></td>
<td></td>
<td></td>
<td>(5,277)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td>(304,530)</td>
<td>(9,414)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 of euro 3,493 thousand (euro 3,306 thousand net of 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 2017.

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

The operations are detailed in the tables that follow

<table>
<thead>
<tr>
<th></th>
<th>Non-current financial assets</th>
<th>Current financial assets</th>
<th>Advances(*)</th>
<th>Trade receivables and other current assets</th>
<th>Trade payables and other current liabilities</th>
<th>Non-current financial liabilities</th>
<th>Current financial liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINTECNA S.p.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASSA DEPOSITI E PRESTITI S.p.A</td>
<td>20,357</td>
<td>(48,935)</td>
<td>(17,564)</td>
<td>(87)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL CONTROLLING COMPANIES</td>
<td>20,357</td>
<td>(48,935)</td>
<td>(17,564)</td>
<td>(87)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORIZZONTE SISTEMI NAVALI S.p.A</td>
<td>82,875</td>
<td></td>
<td>(1,611)</td>
<td>(794)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAMPER &amp; NICHOLSONS INTERNATIONAL SA</td>
<td>351</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSS - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd</td>
<td>55,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ETIHAD SHIP BUILDING LLC</td>
<td>2,100</td>
<td>14,482</td>
<td>(5,820)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL JUNIOR VENTURES</td>
<td>351</td>
<td>2,100</td>
<td>152,357</td>
<td>(1,611)</td>
<td>(6,925)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OLYMPIC GREEN ENERGY KS</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOP ICEMAN AS</td>
<td>4,111</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BREVIK TECHNOLOGY AS</td>
<td>178</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MØKSTER SUPPLY KS</td>
<td>406</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSS DESIGN</td>
<td>642</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OLYMPIC CHALLENGER KS</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASTOR DRILLING SOLUT. AS</td>
<td>173</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ASSOCIATES</td>
<td>225</td>
<td>5,337</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDP IMMOBILIARE S.r.i.</td>
<td>3,250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACE FCT</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.</td>
<td>1,088</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMETA NATIONAL PENSION FUND</td>
<td>3,523</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER</td>
<td>1,339</td>
<td>3,268</td>
<td>(8,703)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL CDP GROUP</td>
<td>1,339</td>
<td>3,268</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QUANTA S.p.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPERIS S.r.l.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENT. S.p.A.</td>
<td>(1,088)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRUPPO LEONARDO</td>
<td>203,081</td>
<td>1,921</td>
<td>(2,474)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRUPPO ENI</td>
<td>(11)</td>
<td>823</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOCIETA CONTROLLATE DAL MEF</td>
<td>(14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL OTHER RELATED PARTIES</td>
<td>203,070</td>
<td>2,744</td>
<td>(3,041)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL RELATED PARTIES</td>
<td>576</td>
<td>206,509</td>
<td>178,726</td>
<td>5,337</td>
<td>(48,935)</td>
<td>(19,175)</td>
<td>(18,756)</td>
</tr>
<tr>
<td>TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION</td>
<td>279,763</td>
<td>57,907</td>
<td>416,677</td>
<td>1,156,018</td>
<td>(293,699)</td>
<td>(1,166,915)</td>
<td>(1,973,482)</td>
</tr>
</tbody>
</table>

% on consolidated statement of financial position

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>1%</th>
<th>50%</th>
<th>15%</th>
<th>20%</th>
<th>17%</th>
<th>2%</th>
<th>1%</th>
</tr>
</thead>
</table>

(*) “Advances” are classified in “Inventories and advances”, as detailed in Note 12.
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(euro/000)**

<table>
<thead>
<tr>
<th></th>
<th>Non-current financial assets</th>
<th>Current financial assets</th>
<th>Advances(*)</th>
<th>Trade receivables and other current assets</th>
<th>Trade receivables and other non-current assets</th>
<th>Non-current financial liabilities</th>
<th>Current financial liabilities</th>
<th>Trade payables and other current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINTECNA S.p.A.</td>
<td></td>
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(*) “Advances” are classified in “Inventories and advances”, as detailed in Note 12.
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Consolidated statement of comprehensive income**

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Costs for contributions incurred in 2017 and included in personnel costs amounted to euro 1,563 thousand for the Pension Fund for Senior Managers of FINCANTIERI S.p.A. and euro 1,860 thousand for the Cometa National Pension Fund.
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

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<td>TOTAL CDP GROUP</td>
<td></td>
<td>36</td>
<td></td>
<td>(1,221)</td>
<td>(132)</td>
</tr>
<tr>
<td>HORIZON S.a.s.</td>
<td></td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QUANTA S.p.A.</td>
<td></td>
<td></td>
<td></td>
<td>(2,320)</td>
<td></td>
</tr>
<tr>
<td>EXPERIS S.r.l.</td>
<td></td>
<td></td>
<td></td>
<td>(450)</td>
<td></td>
</tr>
<tr>
<td>LEONARDO GROUP</td>
<td></td>
<td>35</td>
<td>67</td>
<td>(5,675)</td>
<td></td>
</tr>
<tr>
<td>ENGROUP</td>
<td></td>
<td>1,886</td>
<td>42</td>
<td>(966)</td>
<td></td>
</tr>
<tr>
<td>ENEL GROUP</td>
<td></td>
<td>315</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMPANIES CONTROLLED BY MEF</td>
<td></td>
<td>127</td>
<td>16</td>
<td>(51)</td>
<td></td>
</tr>
<tr>
<td>TOTAL OTHER RELATED PARTIES</td>
<td></td>
<td>2,363</td>
<td>138</td>
<td>(9,462)</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL RELATED PARTIES</td>
<td></td>
<td>299,326</td>
<td>1,726</td>
<td>(19,149)</td>
<td>358</td>
</tr>
<tr>
<td>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</td>
<td></td>
<td>4,346,755</td>
<td>87,367</td>
<td>(3,296,409)</td>
<td>48,782</td>
</tr>
</tbody>
</table>

% on consolidated statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7%</td>
<td>2%</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

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.
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 2017 and 2016 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;
- ENI Group, in 2017 mainly with reference to the sale of products and services and purchases of fuel with ENI S.p.A.;
- 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 mainly refer to refitting of the Tirrenia fleet;
- CDP Immobiliare S.r.l. (formerly Fintecna Immobiliare S.r.l.), with whom the receivables/liabilities at 31 December 2017 and 2016 refer to the sale of a piece of land and related compensation works in progress;
- costs and revenue or receivables and payables with other related parties at 31 December 2017 and 2016, 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:

- an Indemnity and Guarantee Agreement entered into by FINCANTIERI S.p.A. during 2017 with SACE S.p.A. to cover any breach of obligations under export credit insurance policies with a total maximum payout of euro 3,229 million;
- an Exporter Indemnity Agreement entered into by FINCANTIERI S.p.A. with SIMEST S.p.A., for a guaranteed amount of euro 319 million;
- on 12/07/17 Fincantieri entered into a Facility and Indemnity Agreement & Intercreditor Agreement with a syndicate of banks and SACE S.p.A. for the issue Performance Bonds and Advance Payment Bonds to a foreign client. The bonds were issued in July 2017 by a leading Italian bank and will remain in place until the delivery of the last vessel (scheduled for March 2024). SACE guarantees the fronting bank for a share equal to euro 380 million;
- the granting of a guarantee in October 2017 by SACE S.p.A. in favour of FINCANTIERI S.p.A., on a construction loan disbursed in the form of a receivables purchase agreement by a leading bank, for a maximum guaranteed amount of euro 150 million. As at 31 December 2017, this loan had not been drawn down.

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. The grant of a construction loan to Fincantieri S.p.A. in November 2017 by Cassa Depositi e Prestiti S.p.A., in syndicate with a leading national bank, for a maximum of euro 225 million (of which euro 45 million the share of Cassa Depositi e Prestiti), intended to finance the construction of cruise ships. As at 31 December 2017, euro 50 million had been drawn down against this loan, of which euro 10 million disbursed by Cassa Depositi e Prestiti.

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) attributable to owners of the parent</td>
<td>57,140</td>
<td>25,491</td>
</tr>
<tr>
<td>Weighted average number of shares outstanding to calculate the basic earnings/(loss) per share</td>
<td>1,691,465,257</td>
<td>1,692,119,070</td>
</tr>
<tr>
<td>Weighted average number of shares outstanding to calculate the diluted earnings/(loss) per share</td>
<td>1,697,312,068</td>
<td></td>
</tr>
<tr>
<td>Basic earnings/(loss) per share</td>
<td>0.03378</td>
<td>0.01506</td>
</tr>
<tr>
<td>Diluted earnings/(loss) per share</td>
<td>0.03366</td>
<td>0.01506</td>
</tr>
</tbody>
</table>

Basic earnings per share have been calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of FINCANTIERI S.p.A. shares outstanding during the year, excluding own shares. Diluted earnings per share have been calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of FINCANTIERI S.p.A. shares outstanding during the year, excluding own shares, plus the number of shares that could be issued. At 31 December 2017, the shares that could be issued concerned only those shares assigned under the Performance Share Plan 2016-2018 described below.

Guarantees

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sureties</td>
<td>24,561</td>
<td>14,089</td>
</tr>
<tr>
<td>Other guarantees</td>
<td>11,143</td>
<td>558</td>
</tr>
<tr>
<td>Total</td>
<td>35,704</td>
<td>14,647</td>
</tr>
</tbody>
</table>

Medium/long-term incentive plan

On 19 May 2017, the Shareholders’ Meeting of FINCANTIERI S.p.A. approved the medium/long-term share-based incentive plan for management, called the Performance Share Plan 2016-2018 (the “Plan”) and related Terms and Conditions. It should be noted that the project had been approved by the Board of Director on 10 November 2016. The Plan, structured in 3 three-year cycles, provides for the free grant, to the beneficiaries identified by the Board of Directors, of entitlements to receive a maximum of 50,000,000 ordinary shares in FINCANTIERI S.p.A. 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 Total Shareholder Return (“TSR”) and EBITDA, deemed to represent objective criteria for measuring long-term value creation for the Company.

The performance targets for the Plan’s second and third cycles will be identified by the Board of Directors at the time of granting the related entitlements.

The Plan provides for a three-year vesting period for all beneficiaries from the date the entitlements are awarded to the date the shares are allotted to the 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 by 31 July 2019, while those vesting for the second and third cycles will be allotted and delivered by 31 July 2020 and 31 July 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 of the Company.

With reference to the Plan’s first cycle, 9,101,544 shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 15 December 2016, while, for the second cycle, 4,170,706 shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 25 July 2017.

The performance targets are comprised of two elements:

a) a “market based” component (with a 30% weight on total entitlements awarded) linked to measuring Fincantieri’s performance in terms of TSR related to the FTSE ITALY ALL SHARE and the peer group identified by the Company;

b) a “non-market based” component (with a 70% weight on total entitlements awarded) linked to the achievement of the Group’s set EBITDA targets.

The overall fair value of the Plan’s first cycle, determined at the date the Shareholders’ Meeting approved the Plan (first cycle’s grant date), is euro 6,866,205, while the fair value of the second cycle, determined at the award date 25 July 2017 (second cycle’s grant date), is euro 3,672,432.

With reference to the market based component, the Monte Carlo calculation method is used, based on appropriate assumptions, which enables a consistent number of alternative scenarios to be defined over the time period in consideration. Unlike the market based performance target, the non-market based
component (EBITDA) is not relevant for the fair value estimation, but is updated every quarter in order to take into account the expectations relating to the number of entitlements that could vest, depending on the achievement of the set EBITDA targets.

To estimate of the number of entitlements at 31 December 2017, it is assumed that the targets are achieved.

The Shareholders’ Meeting of FINCANTIERI S.p.A. on 19 May 2017 authorized the Board of Directors to purchase, for a period of 18 months from the date of the meeting, own ordinary shares for this Plan. At 31 December 2017, the Parent Company had purchased 4,706,890 own shares for euro 5,227 thousand.

The Plan’s features, described above, are given in detail in the special document prepared by the Parent Company under Art. 84-bis of Consob Regulation No. 11971 of 14 May 1999, and is made available to the public on the section of the website “www.fincantieri.it” dedicated to the Shareholders’ Meeting held on 19 May 2017.

**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 the failure to agree the operating contracts (Refurbishment Contract and Combat System Contract), as a prerequisite under the Settlement Agreement, the Iraqi Government stepped up the proceedings pending before the Appeals Court of Paris against the arbitration awarded to Fincantieri.

On 18 January 2018, the Appeals Court of Paris rejected the counterparty’s claims.

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 have appealed to Italy’s Court of Cassation, with the intent of having the various faults in the ruling recognized. In any case, the Company has recognized a specific provision for risks (see Note 19).

The enforcement proceedings brought in Italy by the counterparty have been suspended awaiting the ruling from the Court of Cassation.

The verification action brought early in February 2015 before the Court of Venice (special industrial property division) is 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), and it has reached the stage for the decision on the preliminary issues.

With regard to the proceedings to enforce the arbitration awards in the Netherlands, on 24 May 2017, the Court of Amsterdam acknowledged the English awards, but subjected their execution to the presentation of a guarantee by the claimant to protect Fincantieri’s compensation should it win. To date this guarantee has not been given. Failure to do this means the claimant cannot proceed to enforce the shares held by
Fincantieri in Fincantieri Holding BV, subject to preventive seizure. Fincantieri appealed against the decision of the Court of Amsterdam on 20 July 2017; the ruling on this is expected in the second quarter of 2018.

With regard to the “Papanikolaou” dispute, pending in the Court of 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, the first hearing of the Court of Cassation relating to the alleged loss of income until 2012, initially scheduled for 15 November 2017, was postponed until 18 April 2018, while the first hearing in the case relating the loss of income from 2012 to 2052, initially scheduled for 8 December 2015, was postponed until 17 April 2018.

With regard to the “Yuzwa” dispute, pending in the District Courts of California and Florida, brought by Mr Yuzwa against Fincantieri, Carnival and others for loss suffered by the claimant following an accident aboard the “Oosterdam” in 2011, the decision on Fincantieri’s exclusion request owning to lack of jurisdiction in Florida is still pending.

With reference to the claim brought by the Brazilian subsidiary Vard Promar against Petrobas Transpetro S.A., after the losses incurred on eight shipbuilding contracts, a claim for compensation is pending. In December 2015, Petrobas Transpetro S.A. 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 2017 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 received in December 2017. It should be noted that the entire credit against Micoperi S.p.A. under Special Administration has been sold. The Company’s credits have been appropriately impaired in cases where the expectation of recovery is less than the amount of the credit.

#### Litigation with suppliers

These are disputes involving claims by suppliers and contractors that the Company considers unjustified (alleged contractual liability, 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 Italian Legislative Decree 276/2003). Litigation relating to asbestos continued to be settled both in and out of court in 2017.

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 Italian Legislative Decree 231/2001
The Group is currently involved in five criminal prosecutions brought under Italian 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 Italian 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. The Company was acquitted at the hearing held on 14 July 2017 but the public prosecutor has appealed against the ruling.

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 March 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 suitable measures to protect worker health), and on the Company 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.

Lastly, in November 2015, 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 on the Company under art. 25-septies, par. 3, of Legislative Decree No. 231/2001, in connection with an accident on 14 March 2011 at the Monfalcone shipyard involving an employee who fractured the middle finger of his right hand, which took eight months to heal. As a result of the hearing held at the end of July 2017, the proceedings against the Company were dismissed due to intervening time-barring of the offence under Legislative Decree No. 231/01.
**Tax position**

**National tax consolidation**

**Controlled foreign companies (CFC)**
The Tax Commissions of Trieste and Rome examined the appeals 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.
In applying the direction that the rejections do not create any immediate damage to the taxpayer, the judges decided that the rejections are not actionable. The proceeding therefore proceeds to the next stage when the Tax Authorities issue the assessments.

**Audits and assessments**

**Fincantieri**
During 2017, Fincantieri was subjected to a tax audit of fiscal year 2013; a formal notice of assessment was notified and, as a result, a questionnaire requesting certain documents was issued. An evaluation of the findings has led to the recognition of provision.

**Marine Interiors**
In 2017, the Italian Revenue Service, Trieste office, carried out a tax audit of fiscal year 2015; the audit ended with the notification of a formal notice of assessment containing findings essentially related to the acquisition of a company in 2015. No assessment reports nor requests to respond have yet been issued. The same findings were used by the Italian Revenue Service, Pordenone office, to adjust the value of the deed for the purposes of the registration fee; after an unsuccessful attempt at settlement, an appeal has been filed with the Tax Commission (jointly with the seller of the company, jointly and severally liable).

**Seastema**
At the end of 2017, the Italian Guardia di Finanza started a general VAT/Intrastat audit of the fiscal year 2016. A formal notice of assessment was notified in February 2018 with negligible findings.

**Foreign Group companies**
The appeal by the subsidiary Vard Niteroi S.A. (Brazil) against the assessment notified in 2014 has been completed and the subsidiary’s appeal was upheld. The assessment was therefore annulled.

**Headcount**
The Group’s average workforce numbered 19,314 employees in 2017 (19,050 in 2016), distributed between the various contractual grades as follows:

<table>
<thead>
<tr>
<th>(number)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average headcount</td>
<td>361</td>
<td>367</td>
</tr>
<tr>
<td>- Senior managers</td>
<td>1,028</td>
<td>949</td>
</tr>
<tr>
<td>- Middle managers</td>
<td>6,327</td>
<td>6,090</td>
</tr>
<tr>
<td>- White collars</td>
<td>11,598</td>
<td>11,644</td>
</tr>
<tr>
<td>Total average number of employees</td>
<td>19,314</td>
<td>19,050</td>
</tr>
</tbody>
</table>
### NOTE 33 – CASH FLOWS FROM OPERATING ACTIVITIES

These are analyzed as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) for the year</td>
<td>53,140</td>
<td>13,751</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>119,823</td>
<td>109,392</td>
</tr>
<tr>
<td>(Gains)/losses from disposal of property, plant and equipment</td>
<td>(51)</td>
<td>767</td>
</tr>
<tr>
<td>(Revaluation)/impairment of property, plant and equipment, intangible assets and equity investments</td>
<td>5,544</td>
<td>10,010</td>
</tr>
<tr>
<td>Increases/(releases) of provisions for risks and charges</td>
<td>68,363</td>
<td>71,441</td>
</tr>
<tr>
<td>Interest expenses capitalized</td>
<td>81,380</td>
<td>85,848</td>
</tr>
<tr>
<td>Interest on employee benefits</td>
<td>985</td>
<td>1,263</td>
</tr>
<tr>
<td>Interest income</td>
<td>(7,885)</td>
<td>(9,938)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>31,277</td>
<td>8,558</td>
</tr>
<tr>
<td>Long-term share-based incentive plan</td>
<td>3,409</td>
<td>-</td>
</tr>
<tr>
<td>Impact of unrealized exchange rate changes</td>
<td>1,657</td>
<td>(19,261)</td>
</tr>
<tr>
<td>Finance income and costs from derivatives</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gross cash flows from operating activities</td>
<td>357,642</td>
<td>271,831</td>
</tr>
</tbody>
</table>

#### CHANGES IN WORKING CAPITAL

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- inventories</td>
<td>(266,841)</td>
<td>(172,486)</td>
</tr>
<tr>
<td>- construction contracts and client advances</td>
<td>(115,159)</td>
<td>1,257,918</td>
</tr>
<tr>
<td>- trade receivables</td>
<td>209,827</td>
<td>(558,655)</td>
</tr>
<tr>
<td>- other current assets and liabilities</td>
<td>4,851</td>
<td>(244,393)</td>
</tr>
<tr>
<td>- other non-current assets and liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- trade payables</td>
<td>458,238</td>
<td>116,030</td>
</tr>
<tr>
<td>- receivables for hedging instruments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- payables for hedging instruments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows from working capital</td>
<td>647,981</td>
<td>669,706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid</td>
<td>(167)</td>
<td>-</td>
</tr>
<tr>
<td>Interest income received</td>
<td>6,766</td>
<td>9,165</td>
</tr>
<tr>
<td>Interest expense paid</td>
<td>(54,682)</td>
<td>(44,580)</td>
</tr>
<tr>
<td>Income taxes (paid)/collected</td>
<td>2,729</td>
<td>(353)</td>
</tr>
<tr>
<td>Utilization of provisions for risks and charges and for employee benefits</td>
<td>(55,758)</td>
<td>(58,980)</td>
</tr>
<tr>
<td>NET CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td>546,869</td>
<td>574,958</td>
</tr>
<tr>
<td>- of which related parties</td>
<td>(256,553)</td>
<td>8,392</td>
</tr>
</tbody>
</table>
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. 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; 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 are not allocated to other operating segments.

The Group evaluates the performance of its operating segments and the allocation of financial resources on the basis of revenue and EBITDA, defined as Profit/(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.

The results of the operating segments at 31 December 2017 and 31 December 2016 are reported in the following pages.
**FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS**

**Shipbuilding** **Offshore** **Equipment, Systems** **and Services** **Other activities** **Group**

| Segment revenue | 3,882,532 | 943,072 | 557,769 | 1,477 | 5,384,850 |
| Intersegment elimination | (47,287) | (70,390) | (245,694) | (1,395) | (364,766) |

**Revenue**

| 3,835,245 | 872,682 | 312,075 | 82 | 5,020,084 |

**EBITDA**

| 269,435 | 41,696 | 64,379 | (34,240) | 341,270 |

**EBITDA margin**

| 6.9% | 4.4% | 11.5% | (119,860) | 6.8% |

**Depreciation, amortization and impairment**

| 31,487 |

**Finance income**

| (114,934) |

**Finance costs**

| (119,860) |

**Income/(expense) from investments**

| 31 |

**Share of profit of investments accounted for using the equity method**

| (4,794) |

**Extraordinary and non-recurring income and expenses**

| (38,395) |

**Profit/(loss) for the year**

| 53,140 |

(*) 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 (negative for euro 48,784 thousand) are presented in the following table.

| (euro/000) | 2017 |
| Costs associated with the “Wage Guarantee Fund” (1) | (78) |
| Costs relating to reorganization plans and other non-recurring personnel costs (2) | (3,493) |
| Provisions for costs and legal expenses associated with asbestos-related lawsuits (2) | (38,395) |
| Other non-recurring income and expenses (2) | (6,818) |

**Extraordinary and non-recurring income and expenses**

| (48,784) |

(1) Amount included in “Personnel costs”.

(2) Of which euro 4 million included in “Materials, services and other costs” and euro 34.4 million in “Provisions”.

(3) This mainly refers to a provision recognized against risks in connection with the “Serene” litigation.
The following table shows a breakdown of Property, plant and equipment in Italy and other countries:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>666</td>
<td>653</td>
</tr>
<tr>
<td>Other countries</td>
<td>379</td>
<td>411</td>
</tr>
<tr>
<td>Total Property, plant and equipment</td>
<td>1,045</td>
<td>1,064</td>
</tr>
</tbody>
</table>

Details of “Extraordinary and non-recurring income and expenses” gross of the tax effect (negative for euro 58,920 thousand) are presented in the following table.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs associated with the “Wage Guarantee Fund”(1)</td>
<td>(962)</td>
</tr>
<tr>
<td>Costs relating to reorganization plans and other non-recurring personnel costs(2)</td>
<td>(11,910)</td>
</tr>
<tr>
<td>Provisions for costs and legal expenses associated with asbestos-related lawsuits(3)</td>
<td>(27,319)</td>
</tr>
<tr>
<td>Other non-recurring income and expenses(4)</td>
<td>(18,709)</td>
</tr>
<tr>
<td>Extraordinary and non-recurring income and expenses</td>
<td>(58,920)</td>
</tr>
</tbody>
</table>

(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.
Capital expenditure in 2017 on Intangible assets and Property, plant and equipment amounted to euro 163 million (euro 224 million in 2016), of which euro 119 million relating to Italy (euro 177 million in 2016) 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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>730</td>
<td>15</td>
<td>726</td>
<td>16</td>
</tr>
<tr>
<td>Other countries</td>
<td>4,290</td>
<td>85</td>
<td>3,703</td>
<td>84</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE AND INCOME</strong></td>
<td><strong>5,020</strong></td>
<td><strong>100</strong></td>
<td><strong>4,429</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client 1</td>
<td>1,190</td>
<td>24</td>
<td>973</td>
<td>22</td>
</tr>
<tr>
<td>Client 2</td>
<td>669</td>
<td>13</td>
<td>526</td>
<td>12</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE AND INCOME</strong></td>
<td><strong>1,859</strong></td>
<td></td>
<td><strong>1,499</strong></td>
<td></td>
</tr>
</tbody>
</table>
NOTE 35 - ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The balance of Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale at 31 December 2017 equalled zero. At 31 December 2016 these items included assets of euro 6,314 thousand and related liabilities of euro 4,811 thousand of Multifag AS, a subsidiary of the VARD Group, which was sold in 2017.
NOTE 36 - EVENTS AFTER 31 DECEMBER 2017

On 17 January 2018, Fincantieri signed a collaboration agreement with the autonomous region of Friuli Venezia Giulia and with the trade union organizations Cgil, Cisl and Uil aimed at implementing a series of initiatives to promote work placement process and boost local employment, particularly for young people, thus contributing to the social and economic development of the region.

On 2 February 2018, Fincantieri, through its subsidiary Fincantieri Europe S.p.A., signed the share purchase agreement for 50% of the capital of STX France with the French Government, represented by the Agence des Participations de l’Etat (APE). This signature is the result of the Share Purchase Agreement signed by Fincantieri and STX Europe AS on 19 May 2017, following the French Government’s exercise on 28 July 2017 of its preemptive rights on all the capital of STX France, as well as the signature of the Share Purchase Agreement between the French Government and STX Europe.

This purchase by Fincantieri will be subject to the closing of the transaction between the French Government and STX Europe, and to the usual conditions provided for this type of operation.

For Fincantieri, the agreement gives a purchase price for the shareholding of euro 59.7 million, payable using the financial resources it has available. The shareholders’ agreements and the agreement covering the loan of 1% of the share capital of STX France to Fincantieri will be signed at the closing of the transaction.

On 19 February 2018, the US Navy awarded Fincantieri’s American subsidiary, Marinette Marine, a contract worth USD 15 million to develop the study of a customized version of its FREMM project for the new future generation multirole frigates of the FFG(X) program.

On 5 March 2018 Fincantieri and the Grimaldi Group signed a letter of intent for the program to lengthen and transform the cruise ferries “Cruise Roma” and “Cruise Barcelona”.

On 6 March 2018, Fincantieri reached an important agreement with Viking for the supply of a further 6 ships, bringing the total to 16 vessels built in partnership by the two companies, extending the collaboration until 2027.

On the same date, the subsidiary Vard Holdings Limited signed a contract for the design and construction of two more small sized luxury cruise ships for the French shipowner PONANT.
## COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

<table>
<thead>
<tr>
<th>Company name</th>
<th>Principal activity</th>
<th>Registered office</th>
<th>Share capital</th>
<th>(% interest held)</th>
<th>% consolidated by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiaries consolidated line-by-line</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BACINI DI PALERMO S.p.A.</td>
<td>Dry-dock management</td>
<td>Palermo</td>
<td>EUR 1,032,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA S.p.A.</td>
<td>Ship research and experimentation</td>
<td>Genova</td>
<td>EUR 1,000,000.00</td>
<td>71.10 15.00</td>
<td>FINCANTIERI S.p.A 86.10</td>
</tr>
<tr>
<td>FINCANTIERI OIL &amp; GAS S.p.A.</td>
<td>Holding company</td>
<td>Trieste</td>
<td>EUR 21,000,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>FINCANTIERI HOLDING B.V.</td>
<td>Holding company for foreign investments</td>
<td>Netherlands</td>
<td>EUR 9,529,384.54</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>FINCANTIERI MARINE SYSTEMS</td>
<td>Sale and after-sale services relating to mechanical products</td>
<td>USA</td>
<td>USD 501,000.00</td>
<td>100.00</td>
<td>Fincantieri Holding B.V. 100.00</td>
</tr>
<tr>
<td>FMSNA YK</td>
<td>Servicing and sale of spare parts</td>
<td>Japan</td>
<td>JPY 3,000,000.00</td>
<td>100.00</td>
<td>Fincantieri Marine Systems North America Inc. 100.00</td>
</tr>
<tr>
<td>GESTIONE BACINI LA SPEZIA S.p.A.</td>
<td>Dry-dock management</td>
<td>Muggiano (La Spezia)</td>
<td>EUR 260,000.00</td>
<td>99.89</td>
<td>FINCANTIERI S.p.A 99.89</td>
</tr>
<tr>
<td>ISOTTA FRASCHINI MOTORI S.p.A.</td>
<td>Design, construction, sale and after-sale services relating to fast medium-duty diesel engines</td>
<td>Bari</td>
<td>EUR 3,300,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>SOCIETÀ PER L’ESERCIZIO DI ATTIVITÀ FINANZIARIE SEAF S.p.A.</td>
<td>Financial support for Group companies</td>
<td>Trieste</td>
<td>EUR 6,562,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>DELFI S.r.l.</td>
<td>Technical and logistics engineering</td>
<td>Follo (La Spezia)</td>
<td>EUR 400,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>ISSEL NORD S.r.l.</td>
<td>Logistics engineering</td>
<td>Follo (La Spezia)</td>
<td>EUR 102,961.00</td>
<td>83.50</td>
<td>Delfi S.r.l. 100.00</td>
</tr>
<tr>
<td>ISSEL SERVICE S.r.l.</td>
<td>Translation of manuals</td>
<td>Follo (La Spezia)</td>
<td>EUR 20,000.00</td>
<td>100.00</td>
<td>Issel nord S.r.l. 100.00</td>
</tr>
<tr>
<td>SEASTEMA S.p.A.</td>
<td>Design and development of integrated automation systems</td>
<td>Genova</td>
<td>EUR 300,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>FINCANTIERI AUSTRALIA Pty Ltd.</td>
<td>Shipbuilding support activities</td>
<td>Australia</td>
<td>AUD 2,200,100.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>FINCANTIERI SERVICES MIDDLE EAST LLC</td>
<td>Project management services</td>
<td>Qatar</td>
<td>EUR 200,000.00</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>FINCANTIERI USA Inc.</td>
<td>Holding company</td>
<td>USA</td>
<td>USD 1,029.75</td>
<td>100.00</td>
<td>FINCANTIERI S.p.A 100.00</td>
</tr>
<tr>
<td>Company name</td>
<td>Principal activity</td>
<td>Registered office</td>
<td>Share capital</td>
<td>(%) interest held</td>
<td>% consolidated by Group</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------------------------------------</td>
<td>-------------------</td>
<td>---------------</td>
<td>-------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>FINCANTIERI SERVICES USA LLC</td>
<td>After-sales services</td>
<td>USA USD</td>
<td>300,001.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>FINCANTIERI MARINE GROUP HOLDINGS Inc.</td>
<td>Holding company</td>
<td>USA USD</td>
<td>1,027.97</td>
<td>87.44</td>
<td></td>
</tr>
<tr>
<td>FINCANTIERI MARINE GROUP LLC</td>
<td>Ship building and repair</td>
<td>USA USD</td>
<td>1,000.00</td>
<td>100.00</td>
<td>87.44</td>
</tr>
<tr>
<td>MARINETTE MARINE CORPORATION</td>
<td>Ship building and repair</td>
<td>USA USD</td>
<td>146,706.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>ACE MARINE LLC</td>
<td>Building of small aluminium ships</td>
<td>USA USD</td>
<td>1,000.00</td>
<td>100.00</td>
<td>87.44</td>
</tr>
<tr>
<td>FINCANTIERI DO BRASIL PARTICIPAÇÕES SA</td>
<td>Holding company</td>
<td>Brazil BRL</td>
<td>1,310,000.00</td>
<td>80.00 80.00</td>
<td>100.00</td>
</tr>
<tr>
<td>FINCANTIERI INDIA Pte. Ltd.</td>
<td>Design, technical support and marketing</td>
<td>India INR</td>
<td>10,500,000.00</td>
<td>99.00 1.00</td>
<td></td>
</tr>
<tr>
<td>MARINE INTERIORS S.p.A.</td>
<td>Ship interiors</td>
<td>Trieste EUR</td>
<td>5,120,000.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>FINCANTIERI SI S.p.A.</td>
<td>Electric, electronic and electromechanical industrial solutions</td>
<td>Trieste EUR</td>
<td>500,000.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>FINCANTIERI INFRASTRUCTURE S.p.A.</td>
<td>Carpentry</td>
<td>Trieste EUR</td>
<td>500,000.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>FINCANTIERI SWEDEN AB</td>
<td>Sale, maintenance and after-sales service for a series of systems, equipment and related activities</td>
<td>Sweden SEK</td>
<td>5,000,000.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>FINCANTIERI (SHANGHAI) TRADING Co. Ltd.</td>
<td>Engineering design, consulting and development</td>
<td>China CNY</td>
<td>3,500,000.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>FINCANTIERI EUROPE S.p.A. Holding company</td>
<td>Holding company</td>
<td>Italy EUR</td>
<td>50,000.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>VARD HOLDINGS Ltd. Holding company</td>
<td>Engineering design, consulting and development</td>
<td>Singapore SGD</td>
<td>932,200,000.00</td>
<td>79.74</td>
<td>Fincantieri Oil &amp; Gas S.p.A.</td>
</tr>
<tr>
<td>VARD GROUP AS</td>
<td>Shipbuilding</td>
<td>Norway NOK</td>
<td>16,295,600.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>VARD SHIPHOLDING SINGAPORE Pte. Ltd.</td>
<td>Charter of boats, ships and barges</td>
<td>Singapore USD</td>
<td>1.00</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>VARD ELECTRO AS</td>
<td>Electrical and automation installation</td>
<td>Norway NOK</td>
<td>1,000,000.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>
## COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

<table>
<thead>
<tr>
<th>Company name</th>
<th>Principal activity</th>
<th>Registered office</th>
<th>Share capital</th>
<th>(%) interest held</th>
<th>% consolidated by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VARD ELECTRO ITALY S.r.l.</strong></td>
<td>Installation, production, sale and assistance for electrical equipment and parts</td>
<td>Genova EUR</td>
<td>200,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD RO HOLDING S.r.l.</strong></td>
<td>Holding company</td>
<td>Romania RON</td>
<td>82,573,830.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD NITERÓI Ltda.</strong></td>
<td>Inactive</td>
<td>Brazil BRL</td>
<td>354,883,790.00</td>
<td>99.99 0.01</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD PROMAR SA</strong></td>
<td>Shipbuilding</td>
<td>Brazil BRL</td>
<td>869,108,180.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>ESTALEIRO QUISSAMÁ Ltda.</strong></td>
<td>Inactive</td>
<td>Brazil BRL</td>
<td>400,000.00</td>
<td>50.50</td>
<td>40.27</td>
</tr>
<tr>
<td><strong>VARD SINGAPORE Pte. Ltd.</strong></td>
<td>Sales and holding company</td>
<td>Singapore USD</td>
<td>6,000,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD DESIGN AS</strong></td>
<td>Design and engineering</td>
<td>Norway NOK</td>
<td>4,000,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD ACCOMMODATION AS</strong></td>
<td>Accommodation installation</td>
<td>Norway NOK</td>
<td>500,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD PIPING AS</strong></td>
<td>Pipe installation</td>
<td>Norway NOK</td>
<td>100,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>SEASONICS AS</strong></td>
<td>Offshore handing systems</td>
<td>Norway NOK</td>
<td>46,639,721.00</td>
<td>56.40</td>
<td>44.97</td>
</tr>
<tr>
<td><strong>SEASONICS HOLDING AS</strong></td>
<td>Inactive</td>
<td>Norway NOK</td>
<td>30,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>SEASONICS POLSKA SP. Z O.O.</strong></td>
<td>Engineering services</td>
<td>Polonia PLN</td>
<td>400,000.00</td>
<td>37.50</td>
<td>44.97</td>
</tr>
<tr>
<td><strong>VARD DESIGN LIBURNA Ltd.</strong></td>
<td>Design and engineering</td>
<td>Croatia HRK</td>
<td>20,000.00</td>
<td>51.00</td>
<td>40.67</td>
</tr>
<tr>
<td><strong>VARD ELECTRO TULCEA S.r.l.</strong></td>
<td>Electrical installation</td>
<td>Romania RON</td>
<td>4,149,525.00</td>
<td>99.96</td>
<td>79.71</td>
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<tr>
<td><strong>VARD ELECTRO BRAZIL (INSTALAÇÕES ELETRICAS) Ltda.</strong></td>
<td>Electrical installation</td>
<td>Brazil BRL</td>
<td>3,000,000.00</td>
<td>99.00 1.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD ELECTRO BRAILA S.r.l.</strong></td>
<td>Electrical installation</td>
<td>Romania RON</td>
<td>45,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td><strong>VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) Pte. Ltd.</strong></td>
<td>Electrical installation</td>
<td>India INR</td>
<td>7,000,000.00</td>
<td>99.00 1.00</td>
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<tr>
<td><strong>VARD TULCEA SA</strong></td>
<td>Shipbuilding</td>
<td>Romania RON</td>
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<tr>
<td><strong>VARD BRAILA SA</strong></td>
<td>Shipbuilding</td>
<td>Romania RON</td>
<td>165,862,177.50</td>
<td>94.12 5.88</td>
<td>79.74</td>
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## COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

<table>
<thead>
<tr>
<th>Company name</th>
<th>Principal activity</th>
<th>Registered office</th>
<th>Share capital (€)</th>
<th>(%) interest held</th>
<th>% consolidated by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>VARD ENGINEERING CONSTANTA S.r.l.</td>
<td>Engineering</td>
<td>Romania/RON</td>
<td>1,408,000.00</td>
<td>70.00</td>
<td>30.00</td>
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<tr>
<td>VARD VUNG TAU Ltd.</td>
<td>Shipbuilding</td>
<td>Vietnam/USD</td>
<td>8,000,000.00</td>
<td>100.00</td>
<td>79.74</td>
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<tr>
<td>VARD ACCOMMODATION TULCEA S.r.l.</td>
<td>Accommodation installation</td>
<td>Romania/RON</td>
<td>436,000.00</td>
<td>99.77</td>
<td>0.23</td>
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<tr>
<td>VARD ENGINEERING BREVIK AS</td>
<td>Design and engineering</td>
<td>Norway/NOK</td>
<td>105,000.00</td>
<td>100.00</td>
<td>79.74</td>
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<tr>
<td>VARD OFFSHORE BREVIK AS</td>
<td>Services and installation</td>
<td>Norway/NOK</td>
<td>100,000.00</td>
<td>100.00</td>
<td>79.74</td>
</tr>
<tr>
<td>VARD SHIP REPAIR BRAILA SA</td>
<td>Ship repair</td>
<td>Romania/RON</td>
<td>-</td>
<td>100.00</td>
<td>79.74</td>
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<tr>
<td>VARD MARINE INC.</td>
<td>Design and engineering</td>
<td>Canada/CAD</td>
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<tr>
<td>VARD MARINE US INC.</td>
<td>Ship design and marine engineering</td>
<td>USA/USD</td>
<td>10,000.00</td>
<td>100.00</td>
<td>79.74</td>
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<tr>
<td>VARD ENGINEERING GDANSK Sp. Z.o.o.</td>
<td>Offshore design and engineering activities</td>
<td>Poland/PLN</td>
<td>50,000.00</td>
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<tr>
<td>VARD CONTRACTING AS</td>
<td>Various shipbuilding services</td>
<td>Norway/NOK</td>
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<td>100.00</td>
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<tr>
<td>ICD SOFTWARE AS</td>
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<td>44.97</td>
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<tr>
<td>CDP TECHNOLOGIES ESTONIA OÜ</td>
<td>Automation and control system software</td>
<td>Estonia/EUR</td>
<td>5,200.00</td>
<td>100.00</td>
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<td>SIA ICD INDUSTRIES LATVIA</td>
<td>Automation and control system software</td>
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<td>INDUSTRIAL CONTROL DESIGN AS</td>
<td>Automation and control system</td>
<td>Norway/NOK</td>
<td>30,000.00</td>
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<td>44.97</td>
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<tr>
<td>VARD ELECTRO CANADA Inc.</td>
<td>Installation and integration of electrical systems</td>
<td>Canada/CAD</td>
<td>100,000.00</td>
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<tr>
<td>CDP TECHNOLOGIES AS</td>
<td>Research and development of technology</td>
<td>Norway/NOK</td>
<td>302,204.00</td>
<td>100.00</td>
<td>44.97</td>
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<tr>
<td>VARD AQUA SUNNDAL AS</td>
<td>Supplier of aquaculture equipment</td>
<td>Norway/NOK</td>
<td>1,100,000.00</td>
<td>96.42</td>
<td>76.89</td>
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<tr>
<td>VARD AQUA CHILE SA</td>
<td>Supplier of aquaculture equipment</td>
<td>Chile/CLP</td>
<td>137,989,917.00</td>
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<tr>
<td>VARD AQUA SCOTLAND Ltd.</td>
<td>Supplier of aquaculture equipment</td>
<td>UK/GBP</td>
<td>10,000.00</td>
<td>100.00</td>
<td>76.89</td>
</tr>
</tbody>
</table>
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<th>(% interest held)</th>
<th>% consolidated by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORIZZONTE SISTEMI NAVALI S.p.A</td>
<td>Management of large naval vessel contracts</td>
<td>Genova</td>
<td>EUR 20,000,000.00</td>
<td>51.00</td>
<td>FINCANTIERI S.p.A 51.00</td>
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<tr>
<td>ETHIAD SHIP BUILDING LLC</td>
<td>Design, production and sale of civilian and naval ships</td>
<td>United Arab Emirates</td>
<td>AED 2,500,000.00</td>
<td>35.00</td>
<td>FINCANTIERI S.p.A 35.00</td>
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<td>CAMPER &amp; NICHOLSONS INTERNATIONAL SA</td>
<td>Luxury yachting broker</td>
<td>Luxembourg</td>
<td>EUR 940,850.00</td>
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<td>FINCANTIERI S.p.A 49.96</td>
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<td>CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.</td>
<td>Design and marketing of cruise ships</td>
<td>Hong Kong</td>
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<td>FINCANTIERI S.p.A 40.00</td>
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<td>UNIFER NAVALE S.r.l.</td>
<td>Piping</td>
<td>Modena</td>
<td>EUR 150,000.00</td>
<td>20.00</td>
<td>Seaf S.p.A. 20.00</td>
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<tr>
<td>LUXURY INTERIORS FACTORY S.r.l.</td>
<td>Ship interiors</td>
<td>Italy</td>
<td>EUR 50,000.00</td>
<td>40.00</td>
<td>Marine Interiors S.p.A. 40.00</td>
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<tr>
<td>ISSEL MIDDLE EAST TECHNOLOGY CONSULTANCY LLC</td>
<td>IT consulting and Oil &amp; Gas services</td>
<td>Qatar</td>
<td>AED 150,000.00</td>
<td>49.00</td>
<td>Issel Nord S.r.L. 49.00</td>
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</table>
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<table>
<thead>
<tr>
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<th>(% interest held)</th>
<th>% consolidated by Group</th>
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</thead>
<tbody>
<tr>
<td>CASTOR DRILLING SOLUTION AS</td>
<td>Offshore drilling technology</td>
<td>Norway NOK 229,710.00</td>
<td>34.13</td>
<td>Seamecs AS 15.35</td>
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<td>OLYMPIC CHALLENGER KS</td>
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<td>35.00</td>
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<tr>
<td>BRIDGE EIENDOM AS</td>
<td>Real estate</td>
<td>Norway NOK 3,100,000.00</td>
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<td>VARD Group AS 39.87</td>
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<tr>
<td>BREVIX TECHNOLOGY AS</td>
<td>Holding of technology licenses and patents</td>
<td>Norway NOK 600,000.00</td>
<td>34.00</td>
<td>VARD Group AS 27.11</td>
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<td>ARSENAL S.r.l.</td>
<td>IT consulting</td>
<td>Italy EUR 16,421.05</td>
<td>24.00</td>
<td>Fincantieri Oil &amp; Gas S.p.A. 24.00</td>
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<td>MOKSTER SUPPLY AS</td>
<td>Shipowner</td>
<td>Norway NOK 13,296,000.00</td>
<td>40.00</td>
<td>VARD Group AS 31.90</td>
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<td>MOKSTER SUPPLY KS</td>
<td>Shipowner</td>
<td>Norway NOK 131,950,000.00</td>
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<td>VARD Group AS 28.71</td>
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<td>REM SUPPLY AS</td>
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<td>26.66</td>
<td>VARD Group AS 21.26</td>
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<td>OLYMPIC GREEN ENERGY KS</td>
<td>Shipowner</td>
<td>Norway NOK 4,841,028.00</td>
<td>29.50</td>
<td>VARD Group AS 23.52</td>
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<tr>
<td>DOF ICEMAN AS</td>
<td>Shipowner</td>
<td>Norway NOK 23,600,000.00</td>
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<td>VARD Group AS 39.87</td>
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<td>TAKLIFT AS</td>
<td>Floating cranes</td>
<td>Norway NOK 2,450,000.00</td>
<td>25.47</td>
<td>VARD Group AS 20.31</td>
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<td>AS DAMECO</td>
<td>Maintenance services</td>
<td>Norway NOK 606,000.00</td>
<td>34.00</td>
<td>Vard Offshore Brevik AS 27.11</td>
<td></td>
</tr>
<tr>
<td>CSS DESIGN LIMITED</td>
<td>Design and engineering</td>
<td>British Virgin Islands GBP 100.00</td>
<td>31.00</td>
<td>Vard Marine Inc. 24.72</td>
<td></td>
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</table>
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 No. 58 dated 24 February 1998, hereby represent:

- the suitability in relation to the business’s organization and,
- the effective application

of the administrative and accounting processes for the preparation of the consolidated financial statements during financial year 2017.

2. The suitability of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2017 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 all the companies included in the consolidation area.

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

27 marzo 2018

CHIEF EXECUTIVE OFFICER
Giuseppe Bono

MANAGER RESPONSIBLE FOR PREPARING FINANCIAL REPORTS
Carlo Gainelli
Independent auditor’s report  
*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholders of Fincantieri SpA

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Fincantieri Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance 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. 38/05.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Fincantieri SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Key Audit Matters

Valuation of construction contracts

Refer to notes No 3 “Accounting policies (point 6 – construction contracts), No 13 “Construction contracts – assets”, No 19 “Provisions for risks and charges”, No 23 “Construction contracts – liabilities” to the consolidated financial statements.

The Fincantieri Group recorded assets for construction contracts amounting to €1,995,342 thousand (representing 31% of total assets) and liabilities for construction contracts amounting to €1,347,252 thousand (representing 21% of total liabilities and net equity) in the consolidated financial statements as at 31 December 2017.

The value of the construction contracts is determined with the percentage of completion method by comparing the contract costs incurred for work performed at the reporting date with 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.

The forecast of total costs requires a high level of management judgement and an error in this stage could lead to a wrong valuation of the construction contracts (and consequently of operating revenue) that could be significant.

Furthermore, due to the complexity of the contracts and to the long time required to complete the construction of the vessels, it is possible that management may not correctly estimate the probability and the magnitude of future events that could have an impact on the valuation of the contract costs, of the provision for future losses and/or on the evaluation of the guarantee provision.

The correct measurement of the stage of completion of the construction contracts and of the possible related liabilities represents a key audit matter due to the magnitude of the amounts involved and due to the high level of management judgement.

Auditing procedures performed in response to key audit matters

We performed an understanding and evaluation of the internal control system with reference to the construction contracts. We identified and tested the relevant controls.

For each naval construction contract we obtained and examined the contract (and their amendments and modifications agreed with the client, if any) and verified that the total revenues were in accordance with the contracts. For the construction contracts expressed in foreign currencies, we checked the conversion of the price to Euro.

For each construction contract we performed comparative analysis by comparing the budget of the full life costs with the one for sister vessels and with the budgets obtained in past audits, in order to verify significant fluctuations. We had discussions with the Project Managers and with the management control team in order to understand main fluctuations and evaluate the reasonableness of the budgets and their updates.

We analysed and verified the process of attribution of the costs incurred to the related construction contract and we checked the balance between general accounting and industrial accounting for some randomly selected yards.

We performed substantive procedures in order to test the correct attribution of the costs to the related construction contract.
We verified the percentage of completion computed by comparing the costs incurred at the reporting date with the estimated full life costs.

We performed substantive procedures on the closing of the accounting for the constructions delivered during the financial year, on the reasonableness of the provision for estimated future losses and of the guarantee provision. We evaluated the impact of claims from customers, if any.

Recoverability of goodwill

Refer to notes No 3 "Accounting policies (point 1.1 – goodwill) and No 6 "Intangible assets" to the consolidated financial statements

Fincantieri SpA recognized goodwill amounting to Euro 253,798 thousand (representing 4% of total assets) in its consolidated financial statements as at 31 December 2017, out of which Euro 187,438 thousand allocated to the cash generating unit ("CGU") “VARD Group" and Euro 66,360 thousand allocated to the CGU “FMG Group”.

The CGU “VARD Group” coincides with the group controlled by the company Vard Holdings Limited (listed on the Singapore stock exchange) and historically involved in the sector of design and construction of offshore means of support for the extraction and production of petroleum and natural gas and for the industry of oil services.

The CGU “FMG Group” refers to the US group controlled by Fincantieri Marine Group LLC, involved in the construction of middle size vessels in the US for civil clients and government agencies, including the US Navy and the US Coast Guard.

The Company at least annually performs an impairment test for each CGU. This impairment test is based on the estimation of the value in use of each CGU determined with the discounted cash flow method. For the computation the Company used the cash flows derived from the Strategic Plan 2018-2022 approved by the Board of Directors.

Furthermore, the reduction of the oil price and the crisis of the offshore industry impacted the profitability of VARD Group which suffered from...
losses amounting to 238 million Norwegian Krone (equal to Euro 26 million) for the year ended 31 December 2017 and 197 million Norwegian Krone (equal to Euro 21 million) for the year ended 31 December 2016.

We focused on this matter as the amount of goodwill recognised in the financial statements is significant and because the management’s valuation of the recoverable amount of each CGU involves a high level of judgement, in particular relating to the estimate of the expected future cash flows and the definition of the discount rates used.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance 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. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Fincantieri SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:
We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

We obtained an understanding of internal control relevant to the audit 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 Group's internal control;

We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

We concluded on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;

We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor’s report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 February 2014, the shareholders of Fincantieri SpA in the general meeting engaged us to perform the statutory audit of the Company’s stand alone and consolidated financial statements for the years ending 31 December 2013 to 31 December 2021.
We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

**Report on Compliance with other Laws and Regulations**

**Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98**

Management of Fincantieri SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Fincantieri Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Fincantieri Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Fincantieri SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

**Statement in accordance with article 4 of Consob’s Regulation implementing Legislative Decree No. 254 of 30 December 2016**

Management of Fincantieri SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that management approved the non-financial statement. Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Trieste, 5 April 2018

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*
1 - Operating Activities

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

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

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

**Mega yachts**
The business of building motor yachts that are at least 70 meters (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.

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

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

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

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

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

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

**GT - Gross Tonnage**
A unit that measures a ship's total internal volume, including its engine rooms, fuel tanks and crew quarters. Its measurement is based on the external area of the bulkheads.

**CGT - Compensated Gross Tonnage**
An international unit of measurement that provides a common way of measuring the amount of work needed to build a given ship. It is calculated by multiplying the GT of a ship by a coefficient determined according to the type and size of ship.

2 - Accounting and Finance

**Impairment testing**
This is the work performed by the Group...
to assess, at every reporting date, whether there is evidence that an asset might be impaired, by estimating its recoverable amount.

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

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

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

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

**CGU**
Acronym for Cash-Generating Unit, defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**EBIT**
Acronym for Earnings Before Interest and Taxes. It is defined as: Profit/(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.

**IAS/IFRS**
Acronyms for the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) which require 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.

Operating capex
This represents investments in property, plant and equipment and intangible assets other than those acquired in a business combination and allocated to property, plant and equipment or intangible assets.

Net financial position
A line in the statement of financial position that summarizes the Company’s financial position and includes:

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

Statement of cash flows
This examines all the cash flows that caused changes in cash and cash equivalents, in order to determine “Net cash flows for the period”, as the difference between cash inflows and outflows in the period.

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

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

Diluted earnings per share are calculated in the same way as for basic earnings per share, but take account of all dilutive potential ordinary shares as follows:

- profit or loss attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

WACC
Acronym for Weighted Average Cost of Capital. This represents the average cost of the various sources of company financing, both in the form of debt and of capital.