

**FINCANTIERI**  
The sea ahead



## Business Plan 2016-2020

31 March 2016

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## Declaration of the Manager responsible for preparing financial reports

Pursuant to art. 154-BIS, par. 2, of the Unified Financial Act of February 24, 1998, the executive in charge of preparing the corporate accounting documents at Fincantieri, Carlo Gainelli, declares that the accounting information contained herein correspond to document results, books and accounting records.

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**FINCANTIERI**

# Key messages

## BUSINESS PLAN KEY MESSAGES

### Long term visibility

All time high backlog at € 18.7 BN, of which soft backlog € 3.0 BN, and substantial commercial opportunities in advanced stage

### Clear strategy and defined action plan to seize opportunities and address issues:

- ✓ Shipbuilding
- ✓ Offshore
- ✓ Equipment, Systems and Services

### Synergies with Vard

Significant development of commercial and industrial synergies with Vard

## STRATEGIC GOALS

### Growth

Strengthening and development of Fincantieri global leadership in the Cruise, Naval, Offshore and high value-added Equipment, Systems and Services businesses

### Profitability

Structural increase in profitability which will allow strong organic growth and fair shareholders return

### Shareholders return

Positive net result foreseen for 2016 and dividend distribution starting with 2017 net income

# Shipbuilding - Cruise: growing market

## Dynamics of cruise ships market

### Historical trends (2013-2015)

- Starting in 2014, **significant recovery of demand**, with record orders in 2015 (19 units) and consequent **increase of workload and shipyards production visibility**
  - Demand recovery in “traditional markets”
  - Opening of new markets with great potential (e.g. China and Australia)
  - New players / new brands (e.g. Virgin Cruises, Costa Asia)

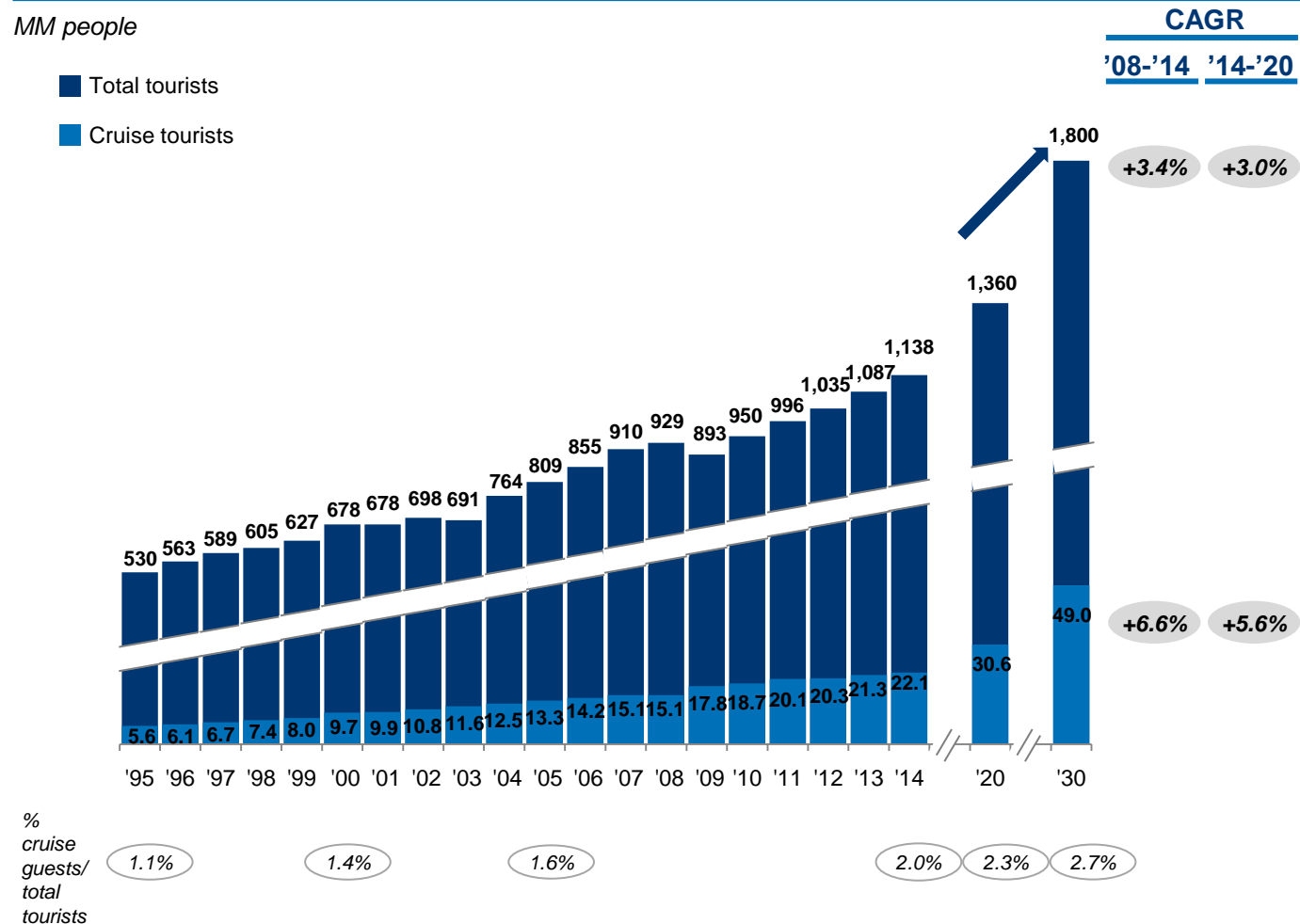
### Forecast (2016-2020)

- Production capacity already filled through 2020** with ships currently in shipbuilders’ backlogs (i.e. with fleet development programs already approved by shipowners)
- Steady growth of additional demand of lower berths also beyond 2020**, thanks to growing cruise guests

## Dynamics of global tourism and cruise passengers

MM people

- Total tourists
- Cruise tourists



Source: World Tourism Organization , UNWTO – Tourism Highlights, 2015 Edition, Fincantieri estimates

# Shipbuilding - Cruise: strategy and action plan

Description	Timing/status
<b>Revenue growth</b>	<ul style="list-style-type: none"> <li>• <b>Development of the important backlog and soft backlog</b> as of today (over 90% of 2016-2020 revenues covered by contracts and/or MOA), <b>driven by a strong and dedicated management team</b></li> <li>• <b>Commercial synergies with Vard</b> (e.g. recent Vard order from Ponant: client retention)</li> </ul>
<b>Consolidation of positive pricing trend</b>	<ul style="list-style-type: none"> <li>• Demand conditions allow for consolidation of this trend</li> <li>• <b>Positive impact on income statement starting from 2017</b></li> </ul>
<b>Backlog de-risking</b>	<ul style="list-style-type: none"> <li>• <b>Leverage of the engineering effort made for prototypes in delivery in 2016:</b> over the business plan horizon delivery of mostly <b>sister ships</b> and quasi-sister ships</li> <li>• Current Cruise backlog only entails 2 full prototypes (MSC and Virgin) to be delivered in 2017-2020</li> </ul>
<b>Production/engineering synergies with Vard</b>	<ul style="list-style-type: none"> <li>• Support of Cruise production plan through:               <ul style="list-style-type: none"> <li>– Operational <b>integration of Tulcea shipyard</b> with the Italian shipyards in order to design and build complex sections of cruise ships</li> <li>– Implementation of a specific <b>procurement strategy</b> to exploit low cost production platform advantages</li> <li>– Support of Tulcea yard in developing capabilities to build <b>complete cruise vessels of lower complexity</b></li> <li>– Utilisation of <b>Vard engineering facilities</b></li> </ul> </li> </ul>
<b>Capex plan</b>	<ul style="list-style-type: none"> <li>• <b>New capex</b> to serve the important Cruise production plan and to leverage on market dynamics (bigger cruise ships):               <ul style="list-style-type: none"> <li>– Improvement of workflow and capacity at Monfalcone and Marghera shipyards</li> <li>– New design tools and processes</li> </ul> </li> </ul>
<b>Increase of workforce productivity and flexibility</b>	<ul style="list-style-type: none"> <li>• <b>Agreement with the trade unions</b> on a “second layer” labour contract introducing new forms of performance based compensation, based on productivity and efficiency targets to the workforce</li> </ul>

# Shipbuilding - Naval: market opportunities

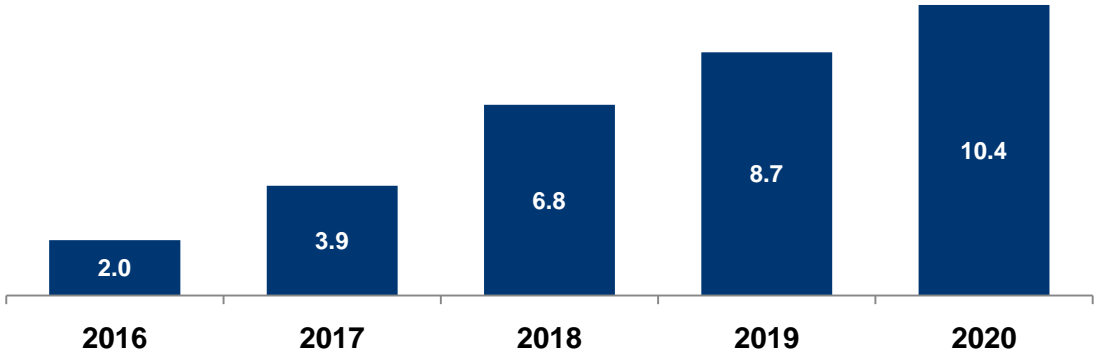
## Description

### Fincantieri's accessible markets

- **Countries with naval shipbuilding capabilities** where the Group already operates
  - **Italy:** Italian Navy's fleet renewal program and other programs (e.g. FREMM)
  - **US:** LCS program
- **Countries with no strong local shipbuilder or with no significant naval technologies**
  - Cumulated spending programs amount to € 31.8 BN over 2016-2020
  - 60% of estimated 2016-2020 spending for naval vessels is related to a group of 10 countries

## Estimated defense spending for naval vessels (foreign markets accessible to Fincantieri<sup>(1)</sup>)

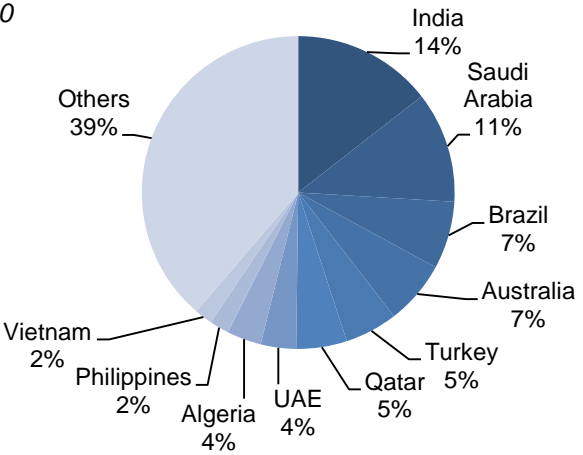
€ BN



Source: IHS Jane's – October 2015, Fincantieri analysis

## Spending by country (foreign markets accessible to Fincantieri)

Euro in %, period 2016-2020



Source: IHS Jane's – October 2015, Fincantieri analysis

(1) Excluding submarines, minehunters and programs of self-sufficient / non accessible countries



# Shipbuilding - Naval: commercial strategy

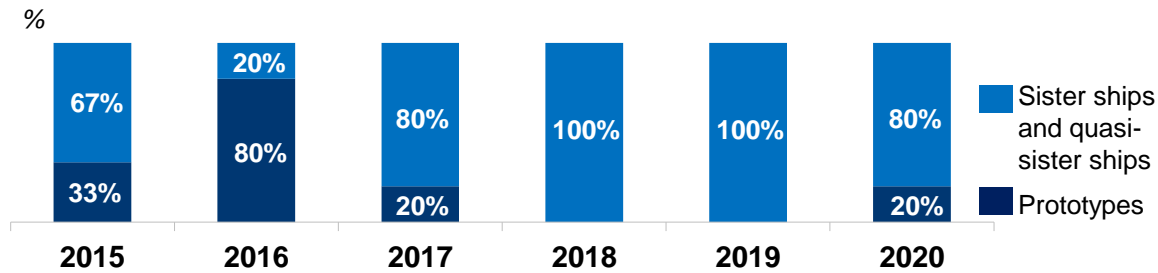
Description	Timing/status
<b>Consolidation and development of existing programs</b>	<ul style="list-style-type: none"><li>• <b>Italy:</b> execution of <b>Italian Navy's fleet renewal program</b><ul style="list-style-type: none"><li>– 9 vessels in backlog (7 Multipurpose Offshore Patrol units, 1 Logistic Support Ship, 1 Multipurpose amphibious unit)</li><li>– options for 3 vessels (Multipurpose Offshore Patrol units)</li></ul></li><li>• <b>US:</b> completion of current backlog of <b>LCS program</b> and participation to the tender for the continuation of the program<ul style="list-style-type: none"><li>– 9 vessels in backlog</li><li>– 1 option</li><li>– tender for the continuation of the program</li></ul></li><li>• <b>Significant share of Business Plan revenues covered by contracts, options and commercial negotiations with high likelihood of finalisation</b></li></ul>
	<ul style="list-style-type: none"><li>• <b>Expansion in new markets, leveraging well-proven products with new potential clients</b></li></ul>



# Shipbuilding: quantifying main drivers of growth and increasing profitability

Cruise: mix prototypes/sister ships and quasi-sister ships

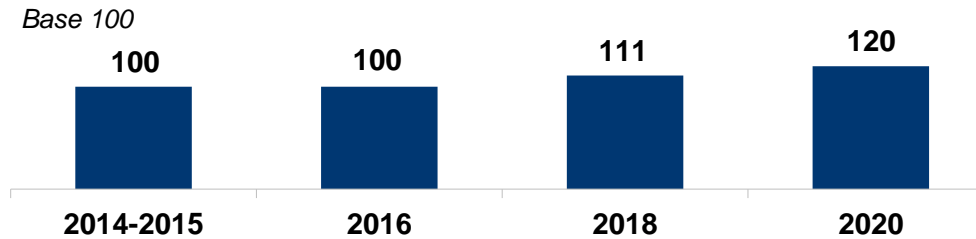
Cruise ships by delivery year: prototypes, sister ships and quasi-sister ships



- Fewer prototypes to be delivered from 2017: lower execution risks, better margins

Cruise: pricing trends

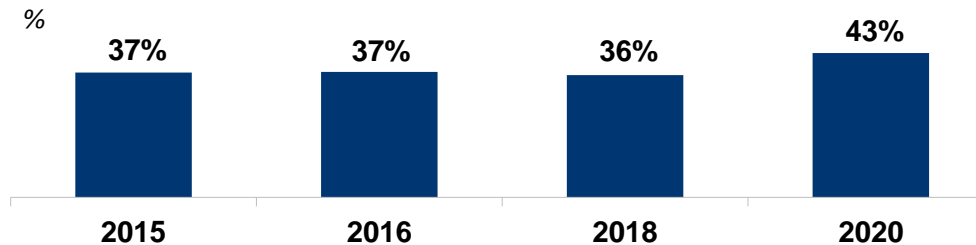
Cruise ships >90k TSL: revenues per lower berth by delivery year



- Positive trend due to progressive kick-in of ships acquired after the crisis

Naval revenues/Shipbuilding revenues

Naval revenues/Shipbuilding revenues



- Increase towards the end of Business Plan horizon thanks to the Italian Navy program and development of opportunities abroad

# Offshore: market overview

## Description

### Offshore Oil&Gas: forecast (2016-2020)

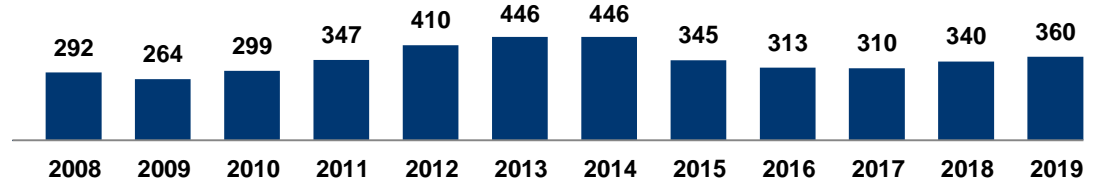
- **Negative outlook for PSV and AHTS demand** due to oversupply following oil price fall and significant postponements of drilling projects
- Opportunities in **OSCV** sub-segment, notably in **Middle East region**
- **Expected recovery in demand starting from 2018**

### New business opportunities

- **Offshore wind:** expected installed capacity in 2020 at 27,9 GW (2014-2020 CAGR at 23%)
- **Aquaculture:** sustained market growth with increasing complexity related to higher technological and industrial contents
- **Exploration cruise:** strong market growth (e.g. recent Vard LOI from Ponant)

## E&P Capex

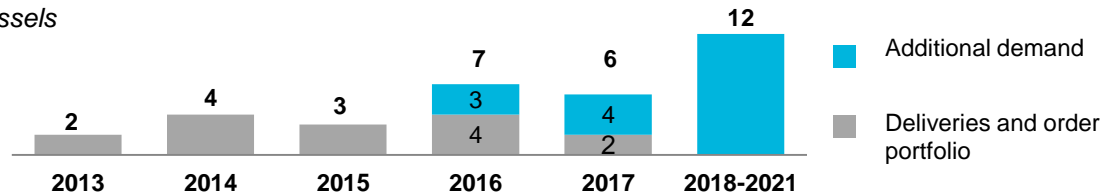
USD BN



Sources: Pareto E&P Survey 2015, 24/08/2015, E&P CAPEX estimated based on announced expenditure budget (54 E&P companies); INTSOK, Annual Offshore Market Report 2015 (2016-2019) – June 2015

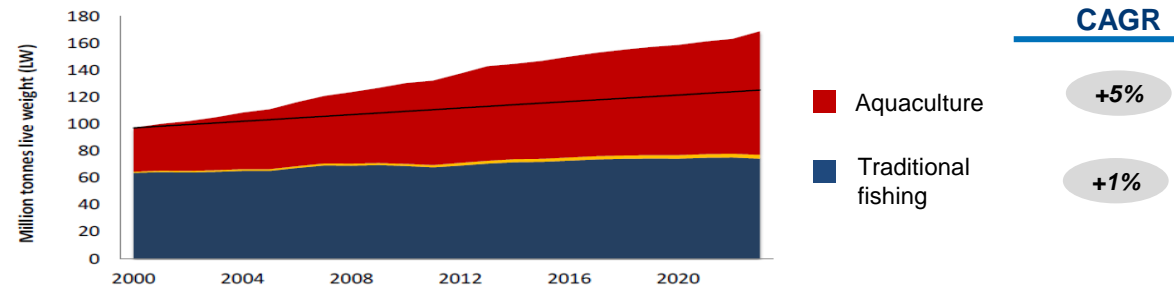
### Offshore wind: expected demand for SOVs<sup>(1)</sup> for O&M<sup>(2)</sup> activities of new offshore plants

# of vessels



Source: EWEA - Wind energy scenarios for 2020 (High Scenario)

### Aquaculture: growth of aquaculture vs traditional fishing



Source: Marine Harvest "Salmon Farming Industry Handbook 2015"

(1) SOV = Wind Service Operation Vessels (SOV)  
 (2) O&M = Operations and Maintenance

# Offshore: strategy and action plan

Description	Timing/status
<b>Revenue growth</b>	<ul style="list-style-type: none"> <li>• <b>Diversification into new vessel segments:</b> <ul style="list-style-type: none"> <li>– aquaculture</li> <li>– offshore wind</li> <li>– passenger (<i>exploration cruise</i>) and Offshore Patrol Vessel (OPV) in cooperation with Fincantieri (e.g. LOI Ponant)</li> </ul> </li> <li>• <b>Expansion of offshore business in Middle East region</b></li> </ul>
<b>Yards structure in Europe</b>	<ul style="list-style-type: none"> <li>• Focus of <b>Norwegian yards on core market segments</b> and highly specialised vessels</li> <li>• Focus of <b>Aukra yard on aquaculture sector</b>, leveraging its location in the maritime cluster on the west coast of Norway</li> <li>• <b>Development of Romanian yards</b> to deliver complete vessels of low complexity</li> <li>• Consolidation of expertise in the production of <b>cruise vessel sections</b>, providing base load for the Tulcea yard in the next years</li> </ul>
<b>Rationalisation of production structure in Brazil</b>	<ul style="list-style-type: none"> <li>• <b>Phasing out of shipbuilding activities at Niterói yard</b> after completion of current order book (Q2 2016)</li> <li>• Strategic decision to <b>maintain a foothold in Brazil through Vard Promar in order to seize local market opportunities</b></li> <li>• Process initiated with the client Transpetro and other stakeholders to recover extra costs incurred in LPG carrier project</li> </ul>
<b>Improvement of cost position and operating efficiency</b>	<ul style="list-style-type: none"> <li>• Continued focus on <b>rightsizing of operations</b> with improvements to <b>increase efficiency and quality</b></li> <li>• Strengthening of <b>procurement efficiency</b></li> <li>• Increase of the scope of work in Romania to <b>lower the average cost base</b></li> </ul>

# Equipment, Systems and Services: strategy

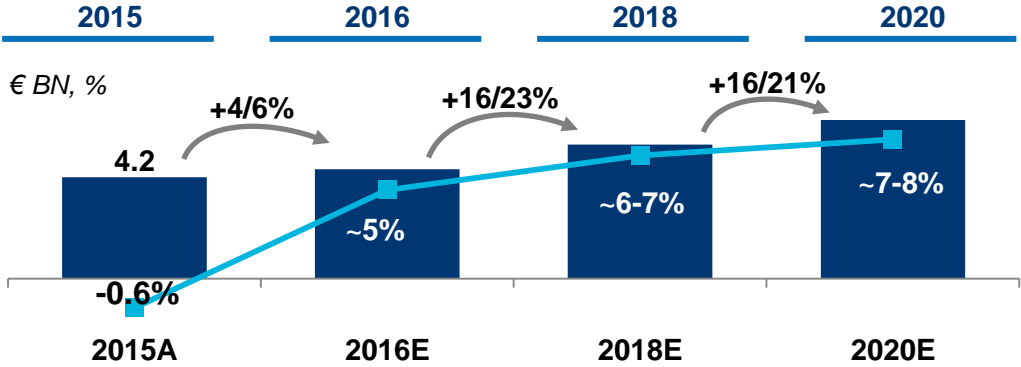
Description	Timing/status	
<b>Continuous growth of traditional businesses</b>	<ul style="list-style-type: none"> <li>• <b>Systems &amp; Components:</b> development of the relevant backlog (e.g. renewal of Italian Navy's fleet) and increase of non-captive business (e.g. turbines)</li> <li>• <b>Naval after-sales:</b> expansion of service range towards full lifecycle management</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Consolidation of the cabins business (Marine Interiors)</b>	<ul style="list-style-type: none"> <li>• Business area insourced in 2015 through an acquisition</li> <li>• Capex to support volumes growth included</li> <li>• 80% of cabin supplies over 2016-2020 expected to be assigned to Marine Interiors</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Consolidation of the integrated systems business (Fincantieri SI)</b>	<ul style="list-style-type: none"> <li>• Business area started up in 2015</li> <li>• Expansion of product range and role as main contractor</li> <li>• Further development of non-captive business</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Insourcing of other high value added businesses</b>	<ul style="list-style-type: none"> <li>• Further insourcing of high value added businesses:               <ul style="list-style-type: none"> <li>– HVAC</li> <li>– public areas</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• From 2016</li> </ul>

- **Development in the medium term of further after-sale activities**
  - in Marine Interiors and Fincantieri SI businesses
  - in businesses to be insourced (HVAC, public areas)
  - with a focus on cruise business

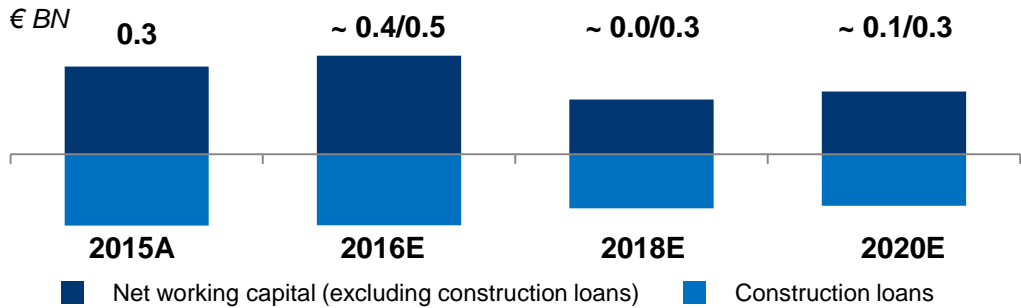
# Short and medium term financial targets (1/2)

Consolidated – Fincantieri Group

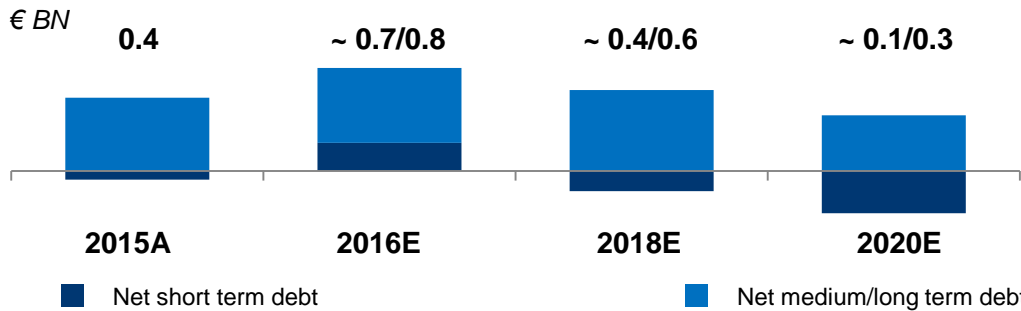
Revenues and EBITDA margin



Net working capital (including construction loans)

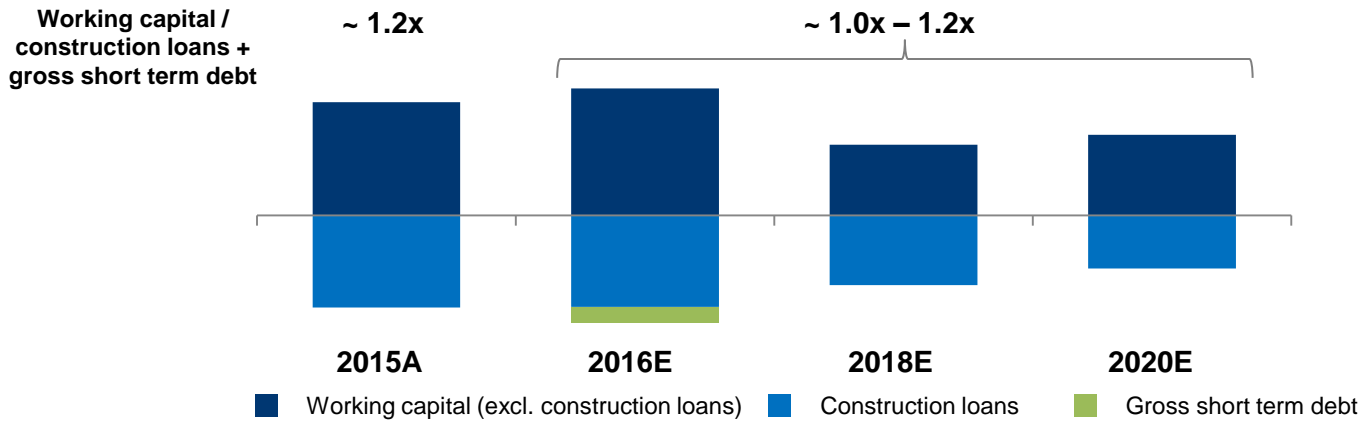


Net debt



# Short and medium term financial targets (2/2)

- **Current funding needs driven by higher cruise volumes**, implying a relevant amount of working capital employed in construction projects due to payment terms of cruise contracts
- **This trend is expected to continue during 2016** due to deployment of cruise backlog and production timing of naval programs
- **Fincantieri is well prepared to cover the expected funding needs** thanks to the available credit lines (approx. € 1.0 BN for Fincantieri S.p.A. only, of which € 590 MM of committed revolving credit facilities, € 150 MM of committed construction loans and € 260 MM of uncommitted credit lines) and the utilization of structured funding sources (reverse factoring and other forms of construction financing currently under negotiation). Trend of working capital vs. construction loans and gross short term debt is as follows:



- **Future cash flow generation** sustained by **increased profitability** on backlog, generating available cash once cruise growth has reached steady state, allowing for:
  - Capex funding
  - Net debt reduction
  - Dividend distribution (starting with 2017 net income)

# Q&A

