ANNUAL REPORT
2018

FINCANTIERI
The sea ahead

ANNUAL REPORT 2018

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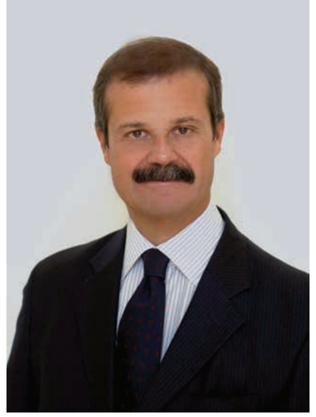
SUMMARY



Giampiero Massolo
FINCANTIERI CHAIRMAN

To our Shareholders

2018 was an extraordinary year for our Company, with a particularly favourable trend in the cruise ship segment, in contrast with a market situation for all other types of merchant vessel marked, even now, by insufficient levels of demand.
Orders for cruise ships of more than 10,000 tons in gross tonnage stood at 23 vessels, while Memoranda of Understanding/Agreements or Letters of Intent were signed for a further 17 ships.
Orders were distributed more or less evenly between large ships for the contemporary and premium markets (12 vessels) and small/medium sized ships (11 vessels) for the luxury upper premium and expedition segments; the latter is an area of primary interest for the Norwegian subsidiary VARD which was awarded the construction of 5 vessels for three different cruise lines (Viking, Ponant and Hapag-Lloyd).
Fincantieri has acquired orders for 9 vessels for six different customers and signed a Memorandum of Understanding for a further 12. In particular, the Company further expanded its customer base in 2018, finalising an agreement with TUI Cruises, a joint venture between TUI AG and Royal Caribbean Cruises, for the construction of 2 new generation gas-powered cruise ships. A Memorandum of Agreement was also signed with Princess Cruises, a Carnival Group brand, for 2 ships of 175,000 tons in gross tonnage, which will be the biggest ever built in Italy and the first in the Princess Cruises fleet to be primarily gas fuelled.
Finally, in confirmation of the excellent relationship established with Fincantieri, MSC Crociere has decided to enter the ultra-luxury segment, signing a Memorandum of Agreement with the Company for the construction of a new class of 4 ships of 64,000 tons in gross tonnage.
The high volume of orders is justified by the healthy state of cruise tourism, which reached 28.2 million cruise passengers in 2018, confirming also for the years ahead expectations of further growth, both in traditional markets (America and Europe) and in emerging ones (Asia). This primary demand is supplemented, moreover, by the need to replace ships that entered service in the early 1990s.
This has taken the worldwide order book at December 2018 to a record high of 103 vessels[1], with deliveries stretching as far as 2027, an exceptionally long time horizon in the current industrial scenario.
The order book is spread across 18 shipowning groups and 31 brands, unlike eleven years ago, before the economic and financial crisis, when it amounted to 40 vessels and was distributed between 6 shipowning groups with a total of 16 brands.
We are, therefore, in a much bigger market, with a wider range of customers and a demand for highly customized products, all of which has favoured the entry of new producers, especially in the market for smaller vessels, in the face of a shortage of slots at established shipbuilders.
In 2018 there was considerable buoyancy in the market for naval vessels, with the award of numerous programs, both abroad and in the domestic market. The US subsidiary Fincantieri Marinette Marine has received an order from the US Navy for the LCS 29, the fifteenth vessel in the Freedom class of the Littoral Combat Ships program.
In addition, the US Government has awarded to the joint venture led by Lockheed Martin, in which Fincantieri Marinette Marine is a partner, an order under an “Undefinitized Contract Action” as an advance on the Foreign Military Sales contract for the construction of 4 Multi-Mission Surface Combatants (MMSC) for Saudi Arabia, to be built at Marinette.
The subsidiary VARD signed a contract with the Norwegian Defence Materiel Agency for the construction of three coastguard vessels.
Fincantieri is addressing the substantial production commitment resulting from the implementation of naval programs for the Italian Navy and the Qatar Ministry of Defence by involving the Castellammare di Stabia shipyard in support of the integrated Riva Trigoso - Muggiano yard, traditionally dedicated to the construction of naval vessels.
During 2018, Fincantieri and Naval Group worked on the project to create an industrial alliance in the naval defence sector, presenting to the Ministries in France and Italy a proposal to define the terms and conditions for the establishment of a 50:50 joint venture. The decision of the two governments to develop a progressive alliance between Naval Group and Fincantieri marks a first step towards consolidation in the shipbuilding field. The priorities of the joint venture concern joint planning of competitive tenders for bi-national programs and export, the creation of a stable, more efficient and competitive supply chain, support for innovation through joint research and development, including new components, and exchange of best practices between the two companies.
Fincantieri has worked well, with a clear strategy which makes it the main player in the global shipbuilding and naval engineering industry. Its economic performance and commercial success bear witness to its capacity to combine attention to innovation with continual improvement in all its business processes, based on universally shared objectives and team spirit.
My sincere thanks to all our workers and suppliers, our partners in the creation of our wonderful ships.

Giampiero Massolo

FINCANTIERI CHAIRMAN

[1] Includes ships subject to Memorandum of Understanding/Agreement and Letters of Intent.

Giuseppe Bono

FINCANTIERI CHIEF EXECUTIVE OFFICER

To our Shareholders

The results achieved by Fincantieri in 2018 show that your company is a leader, a true reference point for the world shipbuilding scene, a model of combined excellence that brings together skills and resources in a range of fields.
The 2018 financial year closed with record revenues of almost euro 5.5 billion, an increase of 9% compared to 2017, and a clear rise in profitability, with EBITDA at euro 414 million (+21% compared to 2017) and a margin of 7.6% on revenues (compared to 6.8% in 2017).
Adjusted net income amounted to euro 108 million (+19% compared to 2017) and net income euro 69 million (+30% compared to 2017).
Net debt totalled euro 494 million.
The euro 8.6 billion of new orders acquired in 2018 increased the total backlog to a record figure of euro 33.8 billion (+29%), corresponding to a backlog of euro 25.5 billion (+16%) and a soft backlog of euro 8.3 billion.
Today, Fincantieri's backlog, equal to about 2% of Italian GDP, has a value greater than that of the entire domestic maritime economy, estimated by Censis at euro 33 billion. A unique result not only for the industrial segment in which we operate, but also across all industries.
We are talking about 116 ships with delivery dates that extend to 2027, offering a guarantee of long-term visibility that supports the development of leading-edge supply chains and technology districts, creating a driving force for the subcontractor network and fostering Italian export and innovation, while at the same time ensuring long-term employment for all the Group's Italian shipyards and the large and diversified supply chain network, thus providing financial stability.
The effects are already evident: in Italy the number of employees has grown by about 350, and this trend will continue in the coming years, in order to complete the workforce provided for in the very demanding production plans.
It's time for "action", while taking care to preserve the sustainability of the production model that requires investment in people. A ship is a large, complex object, which combines an infinite range of technologies and skills, craftsmanship, quality, economic performance and respect for challenging deadlines; in other words, building a ship requires real teamwork.
The company is therefore working to strengthen the relationship between the school and higher technical education and training system and the world of work in the shipbuilding sector, to support the processes for job placements and to stimulate local employment, especially youth employment, thus contributing to regional socio-economic development.
The Company's growth will continue over the next few years, with an increase in volumes of around 50% by 2022. An ambitious goal that will require a considerable organizational effort and a strengthening of our subcontractor network.
During 2018, we took a number of important steps forward on our chosen strategic path, laying the foundations for the joint venture with Naval Group in the naval segment. Thanks to the support of the Italian and French Governments, we signed the agreement for the acquisition of 50% of Chantiers de l'Atlantique (formerly STX France), plus a loan of 1%. The closing of the operation is now subject only to the approval of the Antitrust Authority.
Both operations aim to combine the experience and skills of excellent companies to achieve a larger scale business, to address the cyclical nature of the markets and to respond to a need that remains poorly understood even today.

FINCANTIERI GROUP

Fulfilling military programs or even building a single cruise ship means engaging in dialogue with governments or large customers, making business commitments worth billions of euro, having the ability to deploy a large volume of resources and expertise inside and outside the company and dealing with extremely challenging economic objectives and deadlines. It is clear that this is incompatible with small size.
Also in the strategic area, we are continuing to pursue with great determination our strategy of developing an integrated electronics and information technology hub, a key area for innovation, aimed at strengthening the company's existing skills in the fields of cybersecurity, automation, simulation, training and autonomous driverless technologies, creating synergies between Group companies and thus further reinforcing our vocation as a company that makes innovation and knowledge the cornerstone of its competitiveness.
Finally, we received further confirmation of confidence in our ability to combine the best Italian skills and manage complex projects in the infrastructure sector, where Fincantieri was one of the first to put itself forward for the reconstruction of the bridge over the Polcevera, putting its excellence at the service of the country for a project that aims not only to restore a key infrastructure but also to repair the damage done to the social fabric of Genoa, a city in which our Group has solid roots.
In order to better face the challenges of the next few years and to improve process efficiency, the Company is carrying out numerous initiatives.
These include the completion of the VARD delisting followed by the start of organisational integration both for expedition cruise ship construction projects and related production sites and offshore and specialized vessels projects, in the field of industrial design.
In addition, a partnership was established between Fincantieri, ArcelorMittal CLN Distribuzione Italia and Palescandolo Lavorazioni Siderurgiche for the creation of Centro Servizi Navali S.p.A., a company 10.93% owned by Fincantieri, specializing in logistics services and sheet metal processing for the Fincantieri Monfalcone and Marghera shipyards. This initiative allows low value processes to be outsourced, freeing precious areas in the yards that, as is well-known, due to their historical nature as industrial sites, have difficulty in reconciling confinement within a limited space with rapidly growing production needs.
Fincantieri confronts all these challenges and all this work every day, true to its values and aware of its mission to grow with and for the communities in which it operates.
For Fincantieri, this is an extraordinary moment, contributed to by our workers and the entire network of suppliers working on our projects. I would like to thank all of them most sincerely in the certainty that this commitment will continue into the future.
I would also like to thank the members of the Board of Directors and the Board of Statutory Auditors who contributed with their constant and competent presence to the achievement of the results achieved in the three-year period.
Finally, I would like to thank all the shareholders, in particular CDP, which holds the majority of the shares. We have always had strong support for our initiatives, which have been able to develop in a harmonious framework between shareholders, stakeholders, management and staff, a unique factor, in our opinion, in the development of our company.

Giuseppe Bono

Giuseppe Bono

FINCANTIERI CHIEF EXECUTIVE OFFICER

PARENT COMPANY DIRECTORS AND OFFICERS

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

Board of statutory auditors
(2017-2019)

Chairman
Gianluca Ferrero

Standing Auditor
Roberto Spada
Fioranna Vittoria Negri

Alternate Auditor
Alberto De Nigro
Flavia Daunia Minutillo
Massimiliano Nova

Manager responsible for preparing financial reports

Felice Bonavolontà

Supervisory body
Leg. Decree 231/01
(2018-2020)

Chairman
Guido Zanardi

Members
Stefano Dentilli
Giorgio Pani

Independent auditors
(2013-2021)

PricewaterhouseCoopers S.p.A.

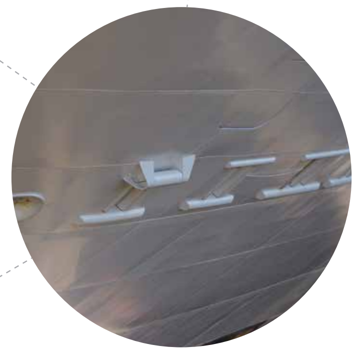
*From 22 January 2019 the role of Secretary to the Board was covered by Giuseppe Cannizzaro, who was appointed to replace Umberto Baldi.

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 Remuneration Committee, Nomination Committee and the Sustainability Committee) is provided in the Ethics and 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.

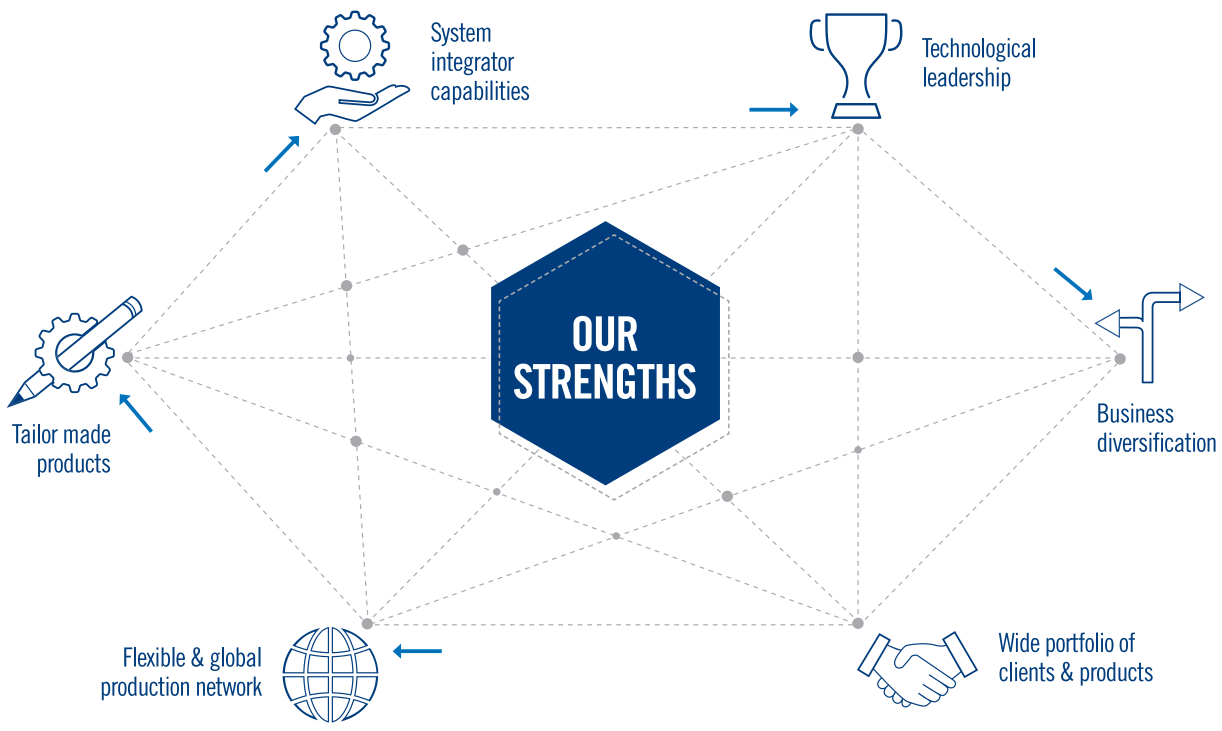
THE FINCANTIERI GROUP



OUR VISION

We aspire to become world leaders in all areas of shipbuilding requiring the most advanced solutions, and to stand out even more for our diversification and innovation.

The Sea Ahead: all those who work at Fincantieri Group 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.



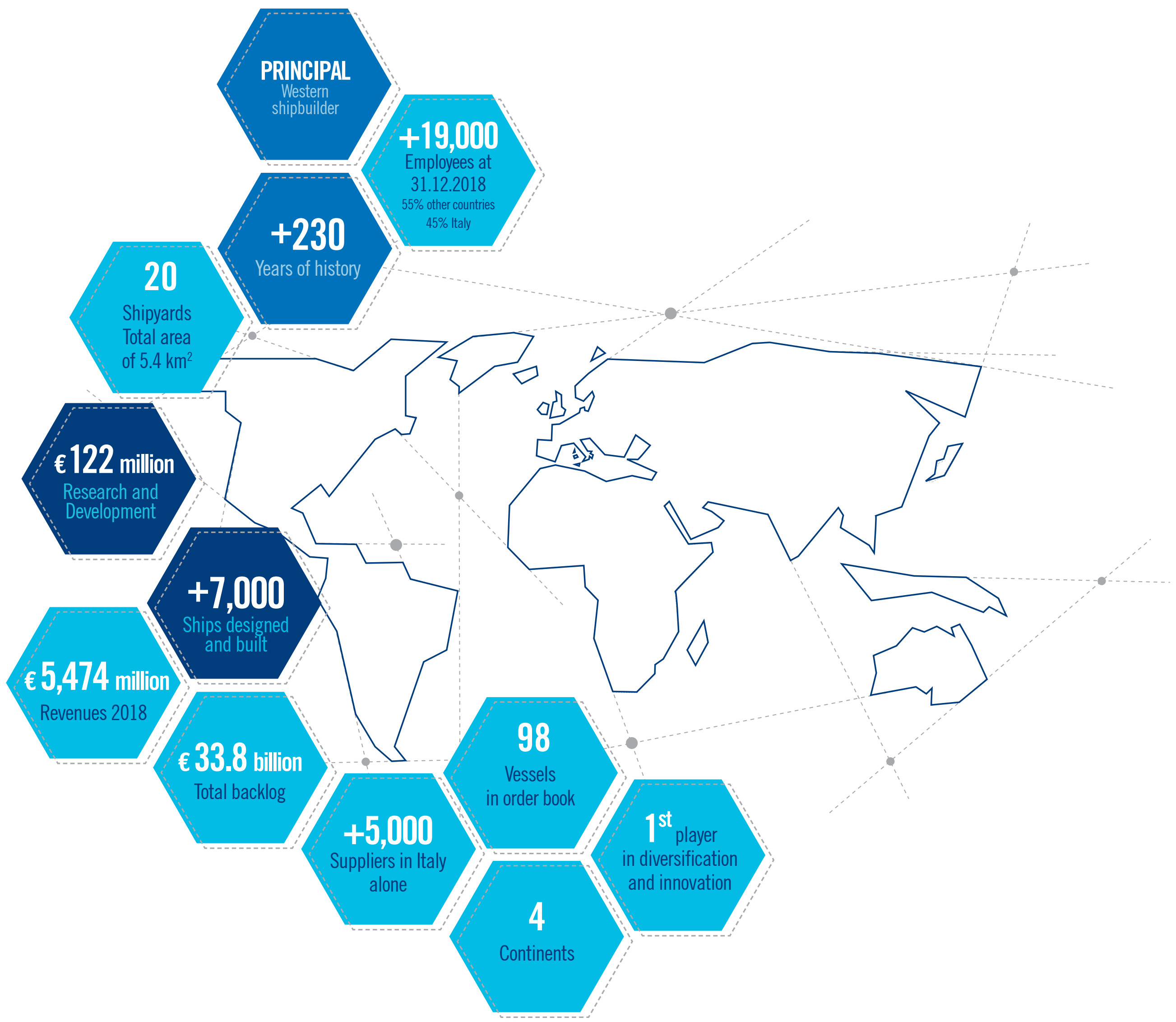
OUR MISSION

Development and continuous improvement are the goals that we have set for ourselves, and we are 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, labour protection and protection of the environment, safeguarding the interests of our shareholders, employees, clients, commercial and financial partners, the general and local communities, creating value for every stakeholder.

WHO WE ARE

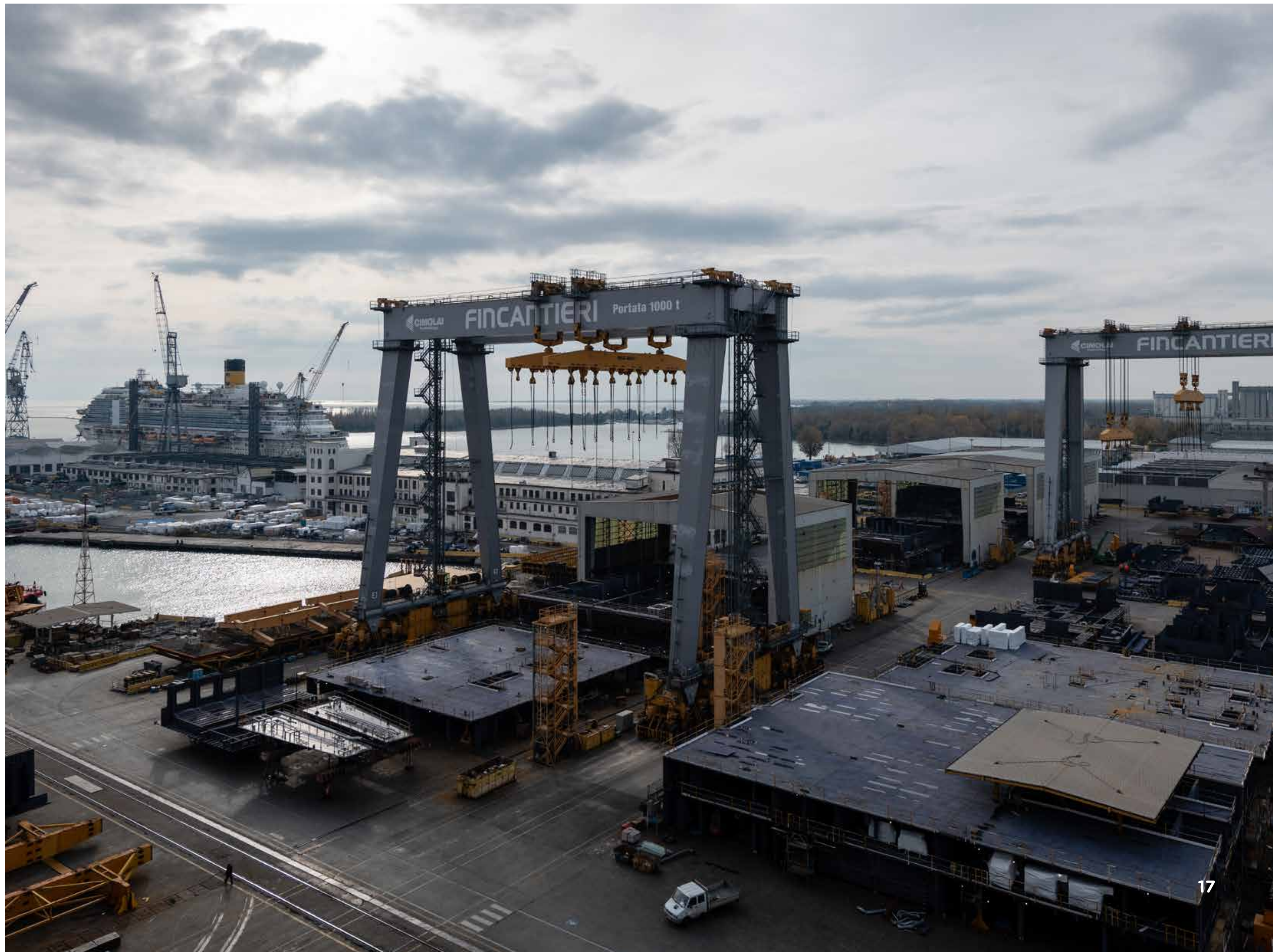
Fincantieri is one of the world's largest shipbuilding groups and number one for diversification and innovation. It is leader in cruise ship design and construction and a reference player in all high-tech shipbuilding industry sectors, from naval to offshore vessels, from high-complexity special vessels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

FACTS AND FIGURES



FINCANTIERI GROUP

With over 230 years of history and more than 7,000 vessels built, Fincantieri has always kept its management offices, as well as all the engineering and production skills, in Italy. With over 8,600 employees and a supplier network that employs nearly 50,000 people, Fincantieri has enhanced a fragmented production capacity over several shipyards into a strength, acquiring the widest portfolio of clients and products in the cruise segment. To hold its own in relation to competition and assert itself at global level, Fincantieri has broadened its product portfolio becoming world leader in the sectors in which it operates.
The Group now has 20 shipyards in 4 continents, more than 19,000 employees, and is the leading Western shipbuilder; its clients include the world's biggest cruise operators and the Italian and the US Navy as well as numerous foreign navies. Fincantieri is also a partner of some of the main European defence companies within supranational programs.
Fincantieri's business is widely diversified by end markets, geographical exposure and by client base, with revenue mainly generated from 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 business areas cruise ships and expedition cruise vessels, naval vessels and other products and services (ferries and mega yachts);
- Offshore and Specialized Vessels: encompassing the design and construction of high-end offshore support vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as 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.

In 2018 the delisting of VARD was completed and December saw the start of full organizational integration with the Parent Company both for the construction of expedition cruise vessels and the related production sites and for offshore and specialized vessels projects. As a result of this reorganization, project management, the Romanian production sites and Norwegian shipyards dedicated to the outfitting of cruise ships and other key activities such as production supervision of public areas and procurement have been merged into an autonomous organizational unit denominated the Cruise business unit. The VARD Cruise business unit and the Parent Company Fincantieri have defined a specific coordination policy based on which the head of Fincantieri's Merchant Ships Department directs and controls the activities of the VARD Cruise business unit. In line with the above, the economic results of this business unit have been reallocated to the Shipbuilding operating segment. Project management for the construction of offshore vessels, special ships and vessels for the Norwegian Coastguard, as well as the direction of the remaining production sites in Norway, Brazil and Vietnam, have been merged into the VARD Offshore & Specialized Vessels business unit, whose economic results continue to be shown in the Offshore segment.

As part of initiatives to raise the efficiency of the production system, the workforce of the VARD Brazilian shipyard (Vard Promar) has been reduced to adapt it to the reduced use of the site. The strategic role of the Group's presence in the country remains unchanged, enabling opportunities in the naval field to be taken up, particularly as regards the Brazilian Navy project for the Tamandaré corvettes, as well as to maintain commercial relations with some key clients in the offshore field.
The structure of the Fincantieri Group and overview of the companies included in its consolidation will now be presented.

FINCANTIERI GROUP

SEGMENTS

BUSINESS AREAS

PRODUCT PORTFOLIO

MAIN SUBSIDIARIES / ASSOCIATES / JOINT VENTURES

SHIPBUILDING

Cruise Ships

Contemporay
Premium
Upper Premium
Luxury
Exploration/Niche
Expedition cruise vessels

Ferries

Cruise ferry
Ro-Pax
Dual fuel ferries

Naval Vessels

Aircraft carriers
Destroyers
Frigates
Corvettes
Patrol vessels
Amphibious ships
Logistic support ships
Multirole and research vessels
Special vessels
Submarines

Mega Yacht

Mega yacht > 70 m

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

VARD Group AS
- Langsten
- Søviknes

Vard Tulcea SA
- Tulcea

Vard Braila SA
- Braila

Vard Accommodations AS
Cetena S.p.A.

Fincantieri Marine Group Holdings Inc.
FMG LLC
- Sturgeon Bay

Marinette Marine Corporation LLC
- Marinette

ACE Marine LLC
- Green Bay

Fincantieri India Pte Ltd.
Fincantieri do Brasil Partecipações SA
Fincantieri USA Inc.
Fincantieri Australia PTY Ltd.
Fincantieri (Shanghai) Trading Co. Ltd.
Etihad Ship Building LLC.
Orizzonte Sistemi Navali S.p.A.
CSSC - Fincantieri Cruise Industry Development Ltd.

OFFSHORE AND SPECIALIZED VESSELS

Offshore and Specialized Vessels

Drilling units
Offshore support vessels (AHTS-PSV-OSCV)
Special vessels
Fisheries/Aquaculture
Wind offshore

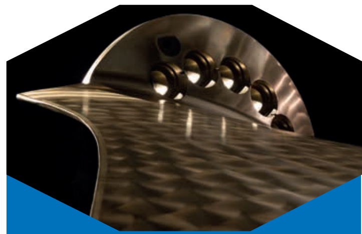
FINCANTIERI S.p.A.
Fincantieri Oil&Gas S.p.A.
VARD Group AS
- Aukra
- Brattvaag
- Brevik

Vard Promar SA
- Suape

Vard Vung Tau Ltd.
- Vung Tau

Vard Electro AS
Vard Design AS
Vard Piping AS
Vard Marine Inc.
Seaonics AS

EQUIPMENT, SYSTEMS AND SERVICES



Systems and Components

Cabins
Public areas
Electrical, electronic and electromechanical integrated systems
Automation systems
Entertainment systems
Stabilization, propulsion, positioning and power generation systems
Steam turbines
Steel structures for large scale projects

FINCANTIERI S.p.A.
- Riva Trigoso

Seastema S.p.A.
Seaf S.p.A.
Isotta Fraschini Motori S.p.A.
- Bari

Fincantieri SI S.p.A.
Marine Interiors S.p.A.
Seanergy a Marine Interiors company S.r.l.
Fincantieri Infrastructure S.p.A.
Fincantieri Sweden AB
Unifer Navale S.r.l.

Service

Ship repairs
Refitting
Refurbishment
Conversions
Product lifecycle management
- Integrated logistic support
- In-service support
- Refitting
- Conversions

Training and assistance

FINCANTIERI S.p.A.
- Arsenale Triestino San Marco
- Bacino di Genova

Delfi S.r.l.
Issel Nord S.r.l.
FMSNA Inc.
Fincantieri Services Middle East LLC
Fincantieri Services USA LLC

OTHER

FINCANTIERI S.p.A.

FINCANTIERI GROUP

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
Søviknes

ROMANIA
Braila
Tulcea

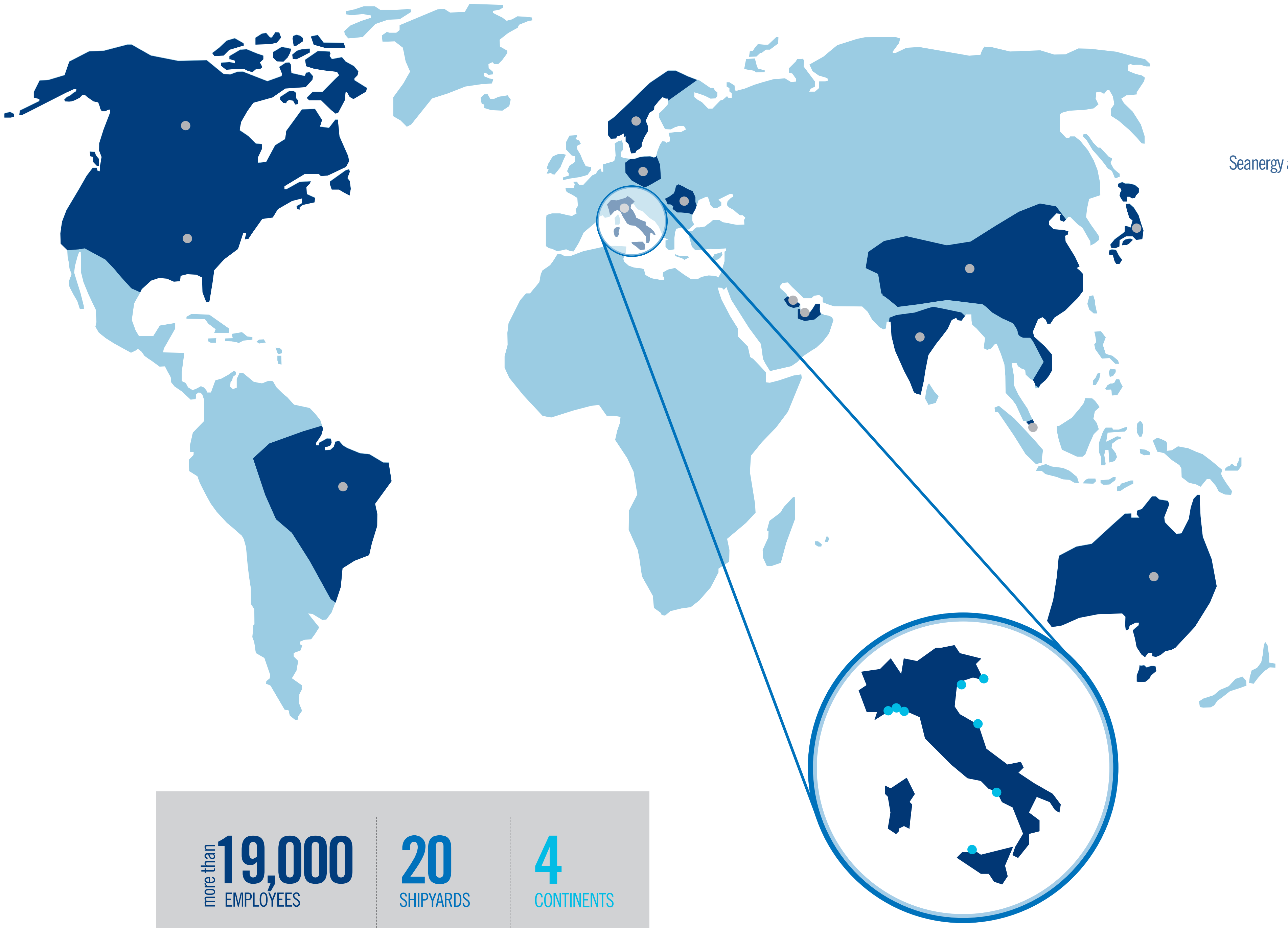
ASIA

VIETNAM
Vung Tau

AMERICAS

USA
Marinette
Sturgeon Bay
Green Bay

BRAZIL
Suape



more than **19,000** EMPLOYEES | **20** SHIPYARDS | **4** CONTINENTS

MAIN SUBSIDIARIES

EUROPE

ITALY
FINCANTIERI S.p.A.
Orizzonte Sistemi Navali
Cetena
Delfi
Seastema
Isotta Fraschini Motori
Fincantieri Oil & Gas
Seaf
Marine Interiors
Seanergy a Marine interiors company
Fincantieri SI
Fincantieri Infrastructure
Issel Nord

NORWAY
Vard Group
Vard Design
Vard Piping
Vard Electro
Vard Accomodation
Seaonics

SWEDEN
Fincantieri Sweden

POLOND
Seaonics Polska

ASIA

CHINA
Fincantieri (Shanghai) Trading
CSSC - Fincantieri
Cruise Industry Development

INDIA
Fincantieri India
Vard Electrical Installation
and Engineering (India)

UAE
Etihad Ship Building

QATAR
Fincantieri
Services Middle East

SINGAPORE
Vard Holdings
Vard Shipholdings Singapore

JAPAN
FMSNA YK

AMERICAS

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

CANADA
Vard Marine

BRAZIL
Fincantieri do Brasil
Partecipações

OCEANIA

AUSTRALIA
Fincantieri Australia

FINCANTIERI GROUP REPORT ON OPERATIONS

HIGHLIGHTS

- **ORDER INTAKE** (EURO **8.6** BILLION)
  - **27** UNITS, INCLUDING 14 CRUISE SHIPS FOR **8** SHIPOWNERS
  - **ACQUISITION OF A MAJOR NEW CLIENT TUI CRUISES**
- **RECORD-HIGH TOTAL BACKLOG**[1] WITH **116 UNITS** AT **33.8** BILLION
  - **BACKLOG** AT EURO **25.5** BILLION (+16%)
  - **SOFT BACKLOG** AT EURO **8.3** BILLION
- **SUCCESSFUL DELIVERY** OF **35** UNITS FROM **15** DIFFERENT SHIPYARDS
- **COMPLETION OF VARD DELISTING PROCESS AND LAUNCH OF FULL INTEGRATION WITH GROUP'S ITALIAN ACTIVITIES**
- **CONTINUED FOCUS ON STRATEGIC INITIATIVES**
- APPROVAL AND PUBLICATION OF **SUSTAINABILITY PLAN**

- **REVENUE AND INCOME**: EURO **5,474** MILLION (+9%)
- **EBITDA** OF EURO **414** MILLION (+21%) WITH A CONSOLIDATED **EBITDA MARGIN** OF **7.6%**
- **ADJUSTED PROFIT FOR THE YEAR**[2] OF EURO **108** MILLION (+19%)
- **PROFIT FOR THE YEAR** OF EURO **69** MILLION (+30%)
- **NET DEBT**[3] OF EURO **494** MILLION (EURO 314 MILLION AT 31 DECEMBER 2017)

PROPOSED DISTRIBUTION OF A DIVIDEND OF 0.01 PER SHARE

[1] Sum of backlog and soft backlog.
[2] Profit/(loss) before extraordinary and non-recurring income and expenses.
[3] This amount does not include construction loans.

INTRODUCTION

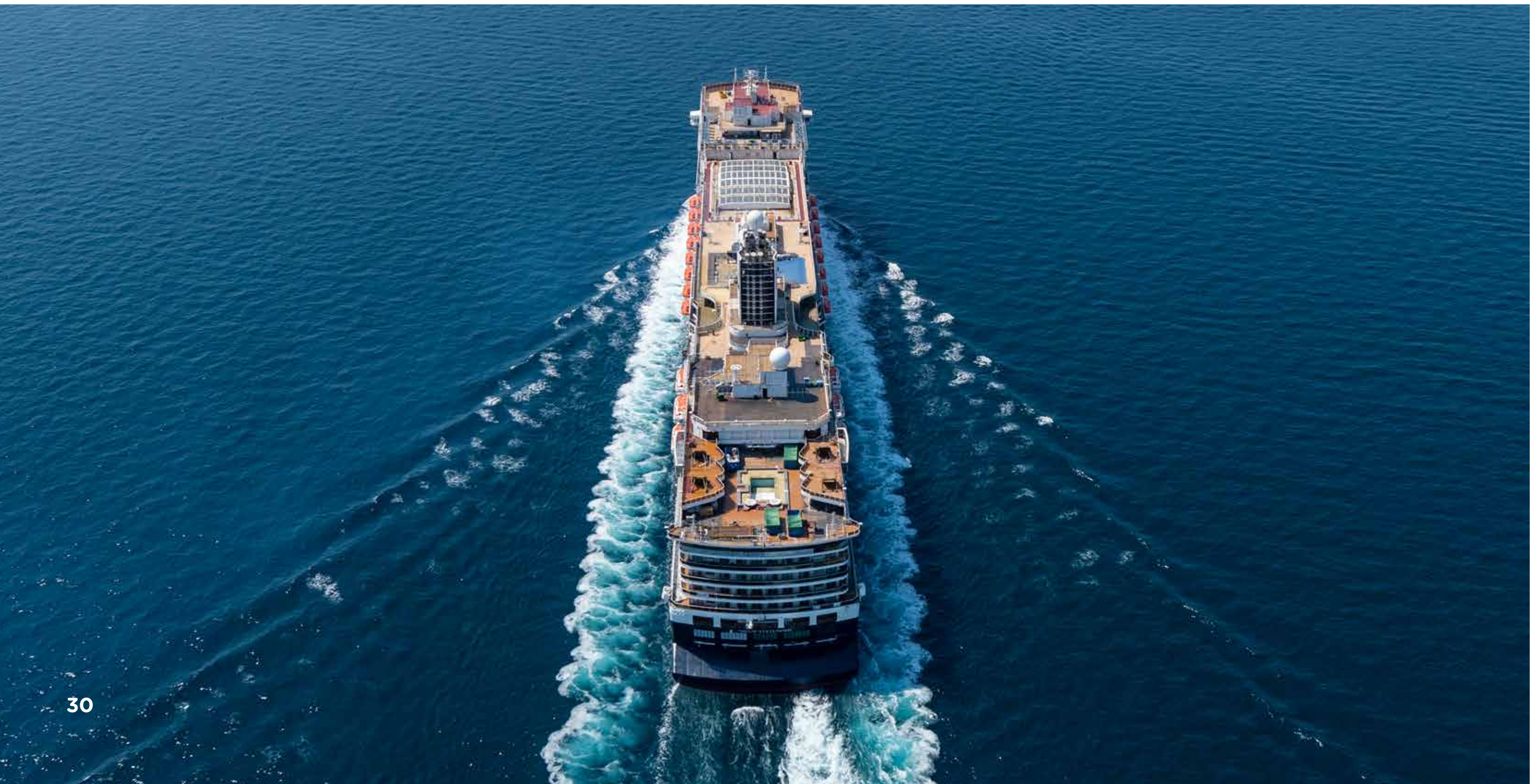
To our Shareholders,
The Fincantieri Group has once again confirmed its position as undisputed leader in the high value-added sectors of shipbuilding. Moving ahead with its growth strategy based on the diversification of its product portfolio and client base, the Group has continued to demonstrate its significant ability to create value in an extremely complex industry, putting the experience gained to good use by seizing opportunities in new segments.
The Fincantieri Group recorded significant values in the year in terms of new orders (euro 8.6 billion), successfully delivered 35 naval vessels in 15 different shipyards, and can count on a total order backlog of around euro 33.8 billion at 31 December 2018.
In addition to consolidating the Fincantieri Group's leadership at a global level, the total order backlog, composed of about euro 25.5 billion of backlog (with 98 vessels to deliver up to 2027) and euro 8.3 billion of soft backlog, will give Fincantieri significant visibility in the next few years and, in particular, guaranteed work for all the Group's Italian shipyards.
The 2018 results achieved by Fincantieri confirm the development strategy identified in the new 2018-2022 business plan presented at the end of March 2018. The 2018 financial year ends with revenues at record levels of almost euro 5.5 billion, up 9% on the previous year, EBITDA of euro 414 million (+21%) with a margin, also up on the previous year, of 7.6%, Adjusted profit for the year of euro 108 million (+19%) and Profit for the year of 69 million (+30%).
With an increase of 348 resources, employment in Italy has grown by over 4% compared to the same period of the previous year to meet the workloads acquired, whereas at an overall level, the headcount has fallen from 19,545 units to 19,274 units, mainly due to the reduction of the workforce in the VARD shipyard in Brazil.
Following the delisting of VARD from the Singapore Stock Exchange, its full integration with the Italian activities of the Group commenced from both a production and a sales and marketing viewpoint. As far as production is concerned, the capacity of the Romanian shipyards has been used to produce sections of cruise ships to support the enormous order backlog acquired by the Group. In addition, some of the subsidiary's European shipyards have been employed on the construction of expedition cruise ships with operational support from the parent company. From a sales and marketing viewpoint, the integration aims to strengthen VARD's role in the expedition cruise ship segment of the market, while maintaining its presence in the offshore segment, while awaiting a recovery in the Oil & Gas market.
Within VARD's offshore activities, notwithstanding the downsizing of the workforce at the Brazilian shipyard Vard Promar to adapt it to reduced use of the site, the strategic role of the Group's presence remains unaltered. The shipyard activities in Brazil, in fact, allow the Group to take up opportunities in the naval field, in particular as regards the Brazilian Navy project for the Tamandaré corvettes, as well as to maintain commercial relations with some key clients in the offshore segment.
During the year the Group was able to take advantage, through its subsidiary Fincantieri Infrastructure, of sales opportunities in the infrastructure segment, winning an important contract in Romania for the supply of the steel structure for a suspension bridge over the Danube. In addition, in January 2019, the Group was awarded, through its subsidiary Fincantieri Infrastructure, in a joint venture with Salini Impregilo, the contract for the reconstruction of the bridge over the Polcevera river in Genoa. This contract also provides for cooperation with the Group's companies involved in the integrated bridge monitoring, control and inspection system. This is an extraordinarily important result in strategic terms, because it

allows the Group to expand its presence in a highly specialized market with great potential. Industrial alliances continue to be forged within the naval vessels segment. With the support of the French and Italian governments, Fincantieri has agreed with Naval Group the basis for the launch of a solid alliance, identifying terms and conditions for the establishment of a 50:50 joint venture. Thanks to this agreement, the two groups will be able to submit bids for joint Italian-French projects with potential benefits for the export sector. In addition, the joint venture could generate synergies in the areas of procurement and research and development, permitting Fincantieri and Naval Group to bring into play common structures, testing instruments and skills networks.
Also in the context of cooperation between Italy and France, February 2018 saw the signing of the share purchase agreement with the French government for the acquisition of 50% of the capital of STX France (now Chantiers de l'Atlantique). The operation, whose closing is subject to certain conditions, including authorization by the Antitrust Authorities, also provides for the loan to Fincantieri of 1% of the share capital of STX France.
At the domestic level, making the most of the respective competencies developed to create a Country Network, in the second half of 2018 Fincantieri and Leonardo confirmed the guiding principles of an agreement which will allow them to compete in the increasingly dynamic market for naval vessels.
As part of the reconfiguration of its management of the value chain, the Group took further initiatives during the year to internalize high value-added activities and to optimize production processes. In particular, integration of the activities developed over the years by the various Group business units in the area of electronics and IT has started in order to maximise value and create further growth opportunities. This initiative mainly concerns control and automation systems, cyber security and unmanned systems. The establishment by the subsidiary Marine Interiors of the company Seanergy S.r.l., dedicated to the construction of kitchens and refrigerated rooms for cruise ships, also fits into this context. The other initiatives include the establishment, in partnership with ArecelorMittal CLN and Palescandolo, of a company named Centro Servizi Navali S.p.A. dedicated to logistic services and metal sheet working for the Fincantieri Monfalcone and Marghera shipyards. The outsourcing of part of the work will allow space recovery within the shipyards involved, improving the efficiency of the production process without compromising company know-how.
In the year Fincantieri approved and published its Sustainability Plan for the first time, confirming its ongoing attention to sustainability issues in the development of its business. With the aim of creating long-term value, it has set sustainability as one of the goals of its strategy, combining business growth and sound finances with social and environmental sustainability.
In the sales and marketing area, the Group has been able to benefit from the positive trend in the cruise market, spurred by three main factors: the favourable trend in demand for cruises both in traditional markets and in emerging ones, with growth of about 5% in 2018, the entry of new operators and the need for fleet renewal. Against this background, the group acquired an exceptional number of orders in the year for the construction of 14 cruise ships (including 5 expedition cruise vessels ordered from the VARD subsidiary), in addition to finalizing orders for the construction of a further 3 vessels in the first few days of 2019. A new client was also acquired: the company Tui Cruises (joint venture between TUI AG and Royal Caribbean Cruises), which signed an important order for 2 new generation LNG-powered cruise ships, cutting-edge in terms of technology and environmental impact. A Memorandum of Agreement was also signed with Princess Cruises, a Carnival Group brand, for the construction of two new generation cruise ships, the biggest ever built in Italy and the first in the Princess Cruises fleet to be primarily fuelled by LNG. The agreements with TUI Cruises and Princess Cruises demonstrate Fincantieri's recognized ability to stand out in the field of global shipbuilding, due to its reliability and ability to innovate and to attract and retain the loyalty of new customers.
In order to seize the significant sales opportunities linked to the growth of the Chinese cruise market, Fincantieri embarked some time ago on strategic initiatives which have led to the signing in Shanghai of the contracts relating to the construction of two cruise ships for CSSC Carnival Cruise Shipping Limited, already announced in 2017. These will be the first vessels ever built in China for the domestic market.
In the naval field, production activities are going ahead in Italy for the fleet renewal programme for the Italian Navy and the design work for the huge order for the Qatari Ministry of Defence. In the year the Group was also awarded contracts for important projects in the United States, through its subsidiary Marinette Marine (in a joint venture with Lockheed Martin). Specifically, the subsidiary received confirmation from the US Navy of the order for the construction of the LCS 29 (15th vessel in the Freedom class, followed in January 2019 by the award of the order for the construction of the LCS 31, 16th in the program), an order for the design of a new type of multi-role frigate based on the FREMM platform, as part of the tender for the program of new-generation FFG (X) frigates, and an order for the start of detailed design and planning for the construction of four Multi-Mission Surface Combatants (MMSC) for Saudi Arabia.
In the Offshore and Specialized Vessels segment, where the investment crisis in the Oil & Gas sector remains, the Group is taking forward its strategy of diversification of its product portfolio and client base in the specialized vessels area. In this context, in addition to an offshore vessel for Prysmian (cable-laying), the Vard subsidiary has obtained orders for the construction of 10 specialized vessels, including 4 fishery vessels, 3 naval vessels, 2 electric powered ferries and 1 autonomous (unmanned) electric powered container ship, the first of its type built by the Norwegian Group.
In the Equipment, Systems and Services segment, a contract was signed for a significant plan to extend and modernize three ships for the shipowner Windstar Cruises (Xanterra Travel Collection Group); in addition an order was acquired for the program to extend and convert the cruise ferries “Cruise Roma” and “Cruise Barcelona”, to be carried out in the Palermo shipyards for the Grimaldi Group, as well as an order for the upgrading of the Cavour aircraft carrier for the Italian Navy.
As far as the economic results for 2018 are concerned, Shipbuilding continues its previous good performance, with a significant increase in revenues and margins at the record level of 8.5%. In the Offshore and Specialized Vessels segment, the Group succeeded, with the diversification measures adopted to counter the effects of the crisis in the Oil & Gas segment, in keeping volumes substantially in line with the previous year, while margins were affected by underemployment of some shipyards and the low profitability of the latest offshore projects to be delivered.
In the Equipment, Systems and Services segment, the development strategy in the business area of cabins, complete accommodation and integrated systems has led to an increase in revenues while maintaining high profit margins.
The financial structure of the Group is consistent with the steady growth in the size and value of the cruise vessels under construction and the related delivery schedule.
The Group expects 2019 results to be in line with 2018 and consistent with the economic and financial forecast announced within the 2018-2022 Business Plan.

FINCANTIERI GROUP / REPORT ON OPERATIONS

Revenues will continue their trend of growth with an EBITDA margin in line with the one recorded for 2018.
Net debt (net financial position) is expected to rise due to working capital financial needs.
In the Shipbuilding segment, the Group expects to deliver 11 ships in 2019, including 8 cruise ships (one of which, the Viking Jupiter, the sixth ship built for the shipowner Viking Cruises, was delivered on 7 February at the Ancona shipyard) and 3 ships in the naval vessels business area (one of which, Billings - LCS 15, was delivered at the Marinette shipyard to the US Navy on 6 February). Also with reference to the naval vessels business area, the launch of two vessels from the fleet renewal program for the Italian Navy is expected, including the landing helicopter dock currently under construction at the Castellamare di Stabia shipyard, while the program for the Qatari Ministry of Defence is coming into full swing, with 3 vessels under construction.
In the Offshore and Specialized Vessels segment, the costruction activity related to the backlog acquired as a result of the diversification strategy will continue as well as the focus on execution aimed at the recovery of the margins.

In 2019, the Equipment, Systems and Services segment is expected to confirm its revenue growth trend, thanks to the development of the backlog related to the Italian Navy fleet renewal and to the Qatari contract, the higher volumes of production of cabins and public areas for the cruise business activity, the programs for the lengthening and refitting of the Cavour aircraft carrier.



KEY FINANCIALS

(euro/million)			
ECONOMIC DATA		31.12.2018	31.12.2017
Revenue and income		5,474	5,020
EBITDA		414	341
EBITDA margin*		7.6%	6.8%
EBIT		277	221
EBIT margin**		5.1%	4.4%
Adjusted profit/(loss) for the year [1]		108	91
Extraordinary and non-recurring income and (expenses)		(51)	(49)
Profit/(loss) for the year		69	53
Group share of profit/(loss) for the year		72	57
FINANCIAL DATA			
Net invested capital		1,747	1,623
Equity		1,253	1,309
Net financial position		(494)	(314)
OTHER INDICATORS			
Order intake***		8,617	8,554
Order book***		32,743	28,482
Total backlog***/****		33,824	26,153
- of which backlog***		25,524	22,053
Capital expenditure		161	163
Net cash flows for the period		402	65
Research and Development costs		122	113
Employees at the end of the period	number	19,274	19,545
Vessels delivered*****	number	35	25
Vessels ordered*****	number	27	32
Vessels in order book*****	number	98	106
RATIOS			
ROI		16.5%	12.7%
ROE		5.4%	4.1%
Total debt/Total equity	number	1.0	0.6
Net financial position/EBITDA	number	1.2	0.9
Net financial position/Total equity	number	0.4	0.2

* 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

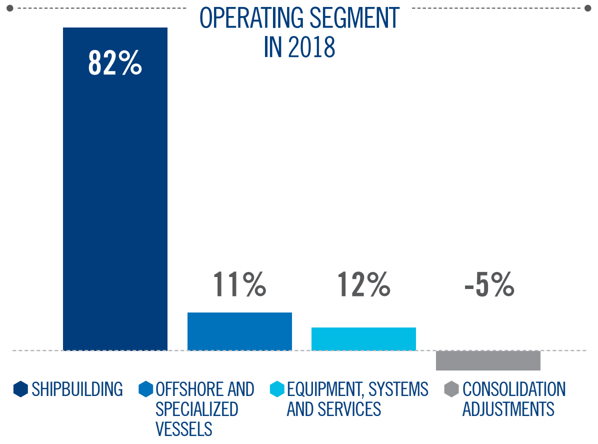
Order intake

New orders in 2018 amount to euro 8,617 million (+1%) with a book-to-bill ratio (order intake/ revenue) of 1.6 (1.7 in 2017).
Before intersegment consolidation adjustments, the Shipbuilding segment accounted for 82% (92% in 2017), the Offshore and Specialized Vessels segment for 11% (5% in 2017) and the Equipment, Systems and Services segment for 12% (7% in 2017).
The cruise ships business area of the Shipbuilding segment acquired the following orders in 2018:

- two vessels for the shipowner Viking (the ninth and tenth vessels of the same class);
- two vessels for the shipowner Norwegian Cruise Line (the fifth and sixth vessels of the Leonardo class);
- one vessel for the historic luxury brand Cunard, part of the Carnival Group;
- one ultra-luxury vessel for Silversea (the third in the "Muse" series);
- one vessel for the shipowner Virgin (the fourth unit of the same class);
- two new generation LNG-powered vessels for a new client, Tui Cruises (joint venture between Tui Ag and Royal Caribbean Cruises);
- two expedition cruise vessels for Ponant (the fifth and sixth vessels of the same class), which will be built by the subsidiary VARD;
- two expedition cruise vessels for Viking, which will be built by the subsidiary VARD;
- one expedition cruise vessel for the shipowner Hapag Lloyd, third in the series, which will be built by the subsidiary VARD.

In the naval field, an order was acquired, through the subsidiary Marinette Marine Corporation (in a joint venture with Lockheed

% ORDER INTAKE BY OPERATING SEGMENT IN 2018



Martin), for the construction of a new vessel for the Littoral Combat Ship program in the "Freedom" class (LCS 29), the fifteenth ship in the program, as well as an order for the construction of a barge and an order from the United States government for the launch of the detailed design and planning for the construction of four Multi-Mission Surface Combatants (MMSC) for Saudi Arabia.
In the Offshore and Specialized Vessels segment, orders were obtained for the construction of four fishing vessels, two electric powered passenger and vehicle ferries and an offshore cable-laying vessel. In addition, three vessels for the Royal Norwegian Coast Guard were ordered, enriching VARD's order book with a naval project and further contributing to business diversification. Also of note is the acquisition of an experimental project, the first autonomous (unmanned) electric powered container ship for the Norwegian company Yara Norge.
In the Equipment, Systems and Services segment, the Group signed a contract for a significant plan to extend and modernize three ships for the shipowner Windstar Cruises (Xanterra Travel Collection Group); in addition an order was acquired for the program to extend and convert the cruise ferries "Cruise Roma" and "Cruise Barcelona", to be carried out in the Palermo shipyard for the Grimaldi Group, as well as an order for the upgrading of the Cavour aircraft carrier for the Italian Navy.
Lastly, in November 2018 the Group secured an order for the supply of the metal components of a suspension bridge to be built in Romania which, once built, will be the longest in the country and the third biggest in Europe in terms of the width of the central span.

(euro/milioni)

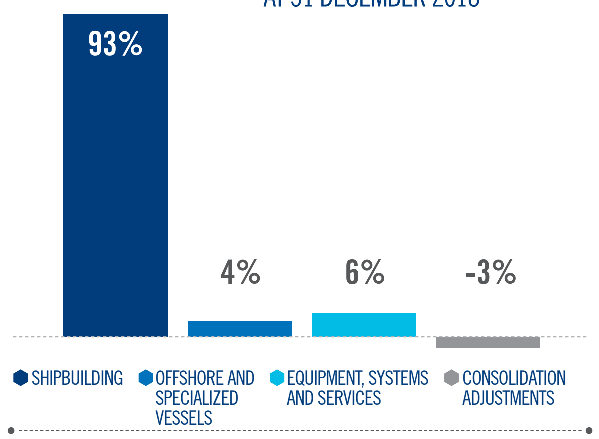
ORDER INTAKE ANALYSIS	31.12.2018		31.12.2017*	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	6,288	73	7,291	85
Rest of Group	2,329	27	1,263	15
Total	**8,617**	**100**	**8,554**	**100**
Shipbuilding	7,129	82	7,845	92
Offshore and Specialized Vessels	913	11	471	5
Equipment, Systems and Services	1,006	12	573	7
Consolidation adjustments	(431)	(5)	(335)	(4)
Total	**8,617**	**100**	**8,554**	**100**

*The comparative figures for 2017 have been restated following the redefinition of the operating segments.

Backlog and Soft backlog

The Group's total backlog reached a record level of euro 33.8 billion at 31 December 2018 (+29% compared to the previous year), of which euro 25.5 billion was backlog and euro 8.3 billion soft backlog, with the order delivery profile extending until 2027.
The extraordinary level of total order backlog demonstrates the undoubted commercial strength of the Group and its determination to develop and consolidate strong relationships with its clients. The Group has once again demonstrated its ability to convert agreements and commercial negotiations, represented by the soft backlog, into firm orders in a short time. In fact, the soft backlog, which amounted to euro 4.1 billion at the end of the previous year, has substantially been converted into new orders during 2018. This conversion, in addition to the other new orders acquired over the period, has led to an increase in backlog of about 16% (from euro 22 billion at 31 December 2017 to euro 25.5 billion at 31 December 2018).
The backlog and the total backlog guarantee respectively about 4.7 and 6.2 years of work, in relation to the revenues recorded in 2018,

% ORDER BACKLOG BY SEGMENT AT 31 DECEMBER 2018



with a clear predominance of the Shipbuilding segment. Before intersegment consolidation adjustments, the backlog for the Shipbuilding segment recorded an increase of euro 2,743 million (+13%), the Offshore and Specialized Vessels segment an increase of euro 392 million (+66%) and the Equipment, Systems and Services segment an increase of euro 452 million (+38%).
The latest order intake enriches the composition of the backlog in terms of the number of clients and variety of projects and is further proof of the effectiveness of the Group's growth and diversification strategy.

Moreover, the policy of investing in reliability, quality and innovation on the latest platforms of prototype vessels has enabled both the creation of long-lasting relationships with clients and the acquisition of sister ships by these clients which further extend the employment horizon of Fincantieri shipyards and improve margins.

(euro/million)

BACKLOG ANALYSIS	31.12.2018		31.12.2017*	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	22,462	88	19,882	90
Rest of Group	3,062	12	2,171	10
Total	**25,524**	**100**	**22,053**	**100**
Shipbuilding	23,714	93	20,971	95
Offshore and Specialized Vessels	987	4	595	3
Equipment, Systems and Services	1,638	6	1,186	5
Consolidation adjustments	(815)	(3)	(699)	(3)
Total	**25,524**	**100**	**22,053**	**100**

*The comparative figures for 2017 have been restated following the redefinition of the operating segments.

The soft backlog, representing the value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which are yet reflected in the order backlog, amounted to approximately euro 8.3 billion at 31 December 2018, compared with euro 4.1 billion at 31 December 2017.

(euro/billion)

SOFT BACKLOG	31.12.2018	31.12.2017
	Amounts	Amounts
Group total	**8.3**	**4.1**

The following table shows the deliveries in 2018 and those scheduled in future years for vessels currently in the order book, analyzed by the main business areas and by year.

(number)

	2018	2019	2020	2021	2022	2023	BEYOND 2023
Cruise ships and expedition cruise vessels	7	8	8	9	6	4	6
Naval > 40 m.	6	3	6	6	6	2	5
Offshore and Specialized Vessels	22	22	3	1	1	1	1

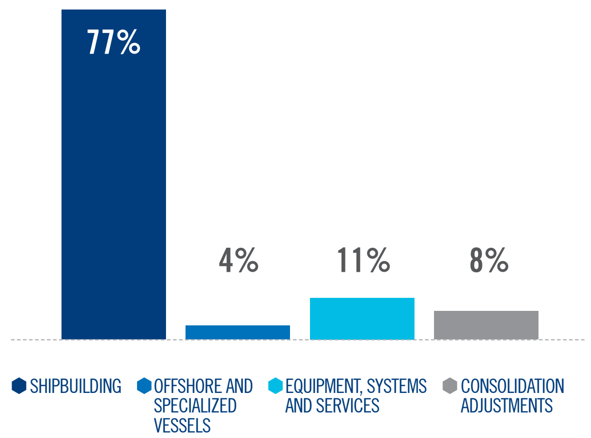
Compared to the situation presented at 31 December 2017, the delivery, initially planned for 2018, of five offshore vessels, two ferries and a fishery unit has been postponed by VARD in agreement with the shipowners. With regard to naval vessels, the delivery of one unit for the Italian Navy has been postponed. It should be noted that following the reorganization of VARD, the cruise ships and expedition cruise vessels category now includes the vessels delivered by the VARD Cruise business unit.

Capital expenditure

Capital expenditure amounted to euro 161 million in 2018, of which euro 37 million for intangible assets (including euro 22 million for development projects) and euro 124 million for property, plant and equipment. The Parent Company accounted for 68% of total capital expenditure. Capital expenditure represented 2.9% of the Group's revenue in 2018 (3.2% in 2017).

Capital expenditure on property, plant and equipment in 2018 mainly related to the upgrading of operational areas and infrastructure at some Italian shipyards to meet new production scenarios based on an increasing order backlog, an increase in the safety standards of the plant, equipment and buildings and the continuation of work to extend the production capacity of the Vard Tulcea shipyard to support both the construction of the hulls of the cruise ships for Norway and the multi-year program to construct the pre-fitted sections of cruise ships in support of Fincantieri's production network.

% CAPITAL EXPENDITURE BY OPERATING SEGMENT IN 2018



(euro/million)

CAPITAL EXPENDITURE ANALYSIS	31.12.2018		31.12.2017*	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	109	68	109	67
Rest of Group	52	32	54	33
Total	**161**	**100**	**163**	**100**
Shipbuilding	124	77	120	74
Offshore	6	4	7	4
Equipment, Systems and Services	18	11	9	6
Other activities	13	8	27	16
Total	**161**	**100**	**163**	**100**
Intangible assets	37	23	55	34
Property, plant and equipment	124	77	108	66
Total	**161**	**100**	**163**	**100**

*The 2017 comparative figures have been restated following redefinition of the operating segments.

R&D and innovation

The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. Accordingly, its 2018 income statement contains euro 122 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, also in the future, its leadership of all high-tech market sectors.
In addition, the Group capitalized euro 22 million in development costs in 2018 for projects with long-term utility; these projects mainly relate to the development of innovative solutions and systems to optimize onboard operations and improve the efficiency of cruise ships, both in terms of energy balance and reducing environmental impact, as well as the realization of innovative systems to upgrade the technological capacity of certain 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.

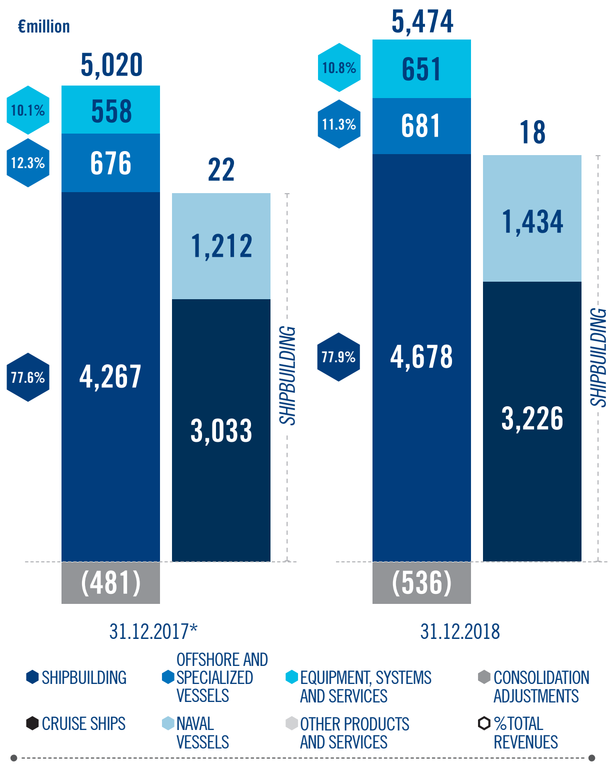
RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(euro/million)	31.12.2018	31.12.2017
Revenue and income	**5,474**	**5,020**
Materials, services and other costs	(4,089)	(3,742)
Personnel costs	(946)	(909)
Provisions	(25)	(28)
EBITDA	**414**	**341**
EBITDA margin	**7.6%**	**6.8%**
Depreciation, amortization and impairment	(137)	(120)
EBIT	**277**	**221**
EBIT margin	**5.1%**	**4.4%**
Finance income/(costs)	(104)	(83)
Income/(expense) from investments	(1)	(5)
Income taxes	(64)	(42)
Adjusted profit/(loss) for the year[1]	**108**	**91**
of which attributable to Group	111	95
Extraordinary and non-recurring income and expenses	(51)	(49)
Tax effect of extraordinary and non-recurring income and expenses	12	11
Profit/(loss) for the year	**69**	**53**
of which attributable to Group	72	57

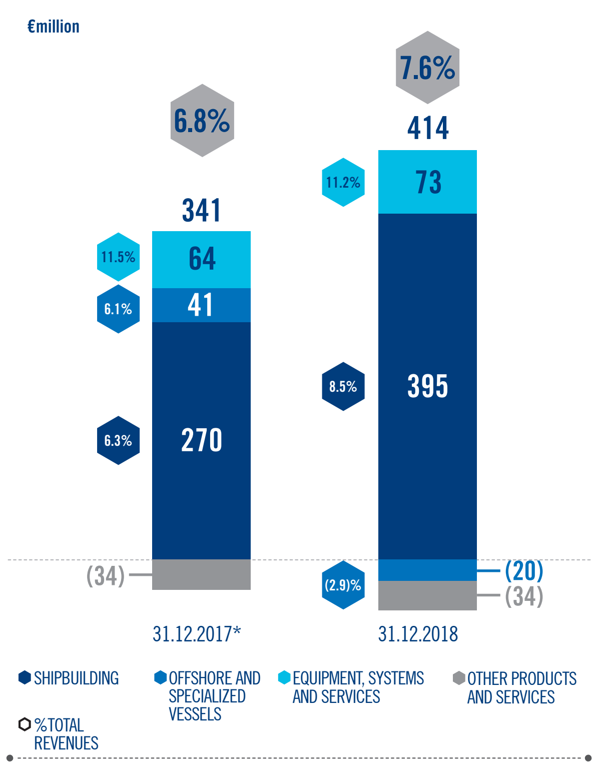
[1] Profit/(loss) before extraordinary and non-recurring income and expenses.

Revenue and income amounted to a record euro 5,474 million, an increase of euro 454 million compared to the previous year (+9%), despite the negative impact (euro 49 million) of the conversion into euro of the revenues denominated in NOK and USD generated by the foreign subsidiaries. The Shipbuilding segment recorded an overall increase in revenues of 9.6%, with the revenues from cruise ships which increased by 6.4% and the revenues from naval vessels which increased by 18.3%.
At 31 December 2018 the revenue from the cruise ships business area accounted for 54% of the Group's revenues (55% at 31 December 2017), while the naval vessels business area accounted for 24% (22% at 31 December 2017). The Equipment, Systems and Services segment also recorded an increase in volumes of about 17%, while revenue from the Offshore and Specialized Vessels segment is substantially in line with the previous year. Revenues generated by foreign clients accounted for 82% of total revenues in 2018, a reduction compared to 2017 (85%).
EBITDA came in at euro 414 million (euro 341 million in 2017), with an EBITDA margin of 7.6% compared to 6.8% in 2017. The Shipbuilding segment made a significant contribution to the overall profitability of the Group, with a record EBITDA margin of 8.5% thanks to the excellent performance of the orders under construction both for cruise ships and naval vessels. 2018 also saw the EBITDA in the Equipment, Systems and Services segment benefiting from the growth in volumes, and a negative margin in the Offshore and Special Vessels segment, which is suffering from the insufficient level of employment of some of its shipyards and the low profitability of the latest offshore being delivered.

REVENUE ANALYSIS



EBITDA ANALYSIS



*The 2017 comparative figures have been restated following redefinition of the operating segments.

EBIT came to euro 277 million in 2018 (euro 221 million in 2017), with an **EBIT margin** (EBIT expressed as a percentage of Revenue and income) of 5.1% (4.4% in 2017). This change is due, in addition to the reasons illustrated above for the Group's EBITDA, to the greater amortization following the completion of various capital investment projects in 2018.
Finance income/(costs) and Income/(expense) from investments: report a net expense of euro 105 million (net expense of euro 88 million at 31 December 2017). The main changes are due to the increased finance costs on hedging derivatives for orders in foreign currency (increased by euro 14 million in comparison with 2017) and unrealized exchange rate losses associated with the conversion into euro of a loan taken out in US dollars by Vard Promar (increased by euro 6 million compared to 2017), whose effects were partly offset by reduced expenses from investments (reduced by euro 4 million compared to 2017).
Income taxes: present a net charge of euro 64 million in 2018, compared with a net charge of euro 42 million in 2017, mainly due to the increase in taxable income of the parent company.
Adjusted profit/(loss): reported a profit of euro 108 million at 31 December 2018 (euro 91 million at 31 December 2017), reflecting the factors discussed above. The Group share of this result was a profit of euro 111 million, compared with a profit of euro 95 million in 2017.
Extraordinary and non-recurring income and expenses: report euro 51 million in net expenses (euro 49 million in 2017) and include costs for legal disputes (euro 39 million, of which euro 37 million relate to asbestos-related litigation), charges for business reorganization plans related to the subsidiary VARD (euro 5 million), other costs linked to non-recurring operations (euro 11 million) and income from the sale of a shareholding (euro 4 million). The same item at 31 December 2017 amounted to euro 49 million and included costs for legal disputes (euro 45 million, of which euro 39 million related to asbestos-related litigation) and charges related to business reorganization plans and other non-recurring personnel costs (euro 4 million), mainly related to the subsidiary VARD for the closure of the Niterói shipyard.
Tax effect of extraordinary and non-recurring income and expenses: was a net positive euro 12 million at 31 December 2018.
Profit/(loss) for the period: was a net profit of euro 69 million in 2018, up on 2017 (euro 53 million). The Group share of this result was a profit of euro 72 million, compared with a profit of euro 57 million in 2017.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/million)	31.12.2018	31.12.2017
Intangible assets	618	582
Property, plant and equipment	1,074	1,045
Investments	60	53
Other non-current assets and liabilities	8	122
Employee benefits	(57)	(59)
Net fixed capital	**1,703**	**1,743**
Inventories and advances	881	835
Construction contracts and client advances	936	648
Construction loans	(632)	(624)
Trade receivables	749	909
Trade payables	(1,849)	(1,748)
Provisions for risks and charges	(135)	(141)
Other current assets and liabilities	94	1
Net working capital	**44**	**(120)**
Net invested capital	**1,747**	**1,623**
Share capital	863	863
Reserves and retained earnings attributable to the Group	364	374
Non-controlling interests in equity	26	72
Equity	**1,253**	**1,309**
Net financial position	**494**	**314**
Sources of funding	**1,747**	**1,623**

The **Reclassified consolidated statement of financial position** reports an increase in Net invested capital at 31 December 2018 of euro 124 million compared to the end of the previous year, mainly due to the following factors:

- **Net fixed capital**: presents an overall decrease of euro 40 million. The main effects include i) the increase in the value of Property, plant and equipment and Intangible assets, by euro 65 million in total, mainly due to capital expenditure in the period (euro 161 million) and the effects of the first application of IFRS 15 (euro 48 million), partly offset by amortization (euro 137 million) and ii) the reduction in Other non-current assets and liabilities (euro 114 million), mainly the result of the negative trend in the fair value of exchange rate derivatives negotiated to cover contracts in currencies other than the euro.
- **Net working capital**: il reports a positive balance of euro 44 million (negative for euro 120 million at 31 December 2017). The main changes relate to i) the increase in Construction contracts and client advances (euro 288 million) and Trade payables (euro 101 million), mainly due to the growth in production volumes in the cruise ships and naval vessels business, ii) the reduction in Trade receivables (euro 160 million) due to the receipt of the final payment instalment for a cruise ship delivered in the first quarter of 2018 and iii) the increase in Other current assets and liabilities (euro 93 million) as a result of the increase in Receivables for prepaid taxes and Other current receivables.

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Construction loans, amounting to euro 632 million, relating to the subsidiary VARD for euro 582 million and to the parent company for the remaining euro 50 million, were more or less in line with the previous year.
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**, amounting to euro 1,253 million, recorded a reduction of euro 56 million with a profit for the year of euro 69 million, which was more than offset by the reduction in the legal reserve linked to cash flow hedging instruments (euro 77 million), the distribution of dividends (euro 17 million) and the establishment, as a deduction from shareholders equity, of the reserve for the first application of IFRS 15 and IFRS 9 (euro 21 million).
It should also be noted that the shareholding in the VARD Group increased from 79.74% at the end of 2017 to 97.22% at the end of 2018.

CONSOLIDATED NET FINANCIAL POSITION

(euro/million)	31.12.2018	31.12.2017
Cash and cash equivalents	677	274
Current financial receivables	17	35
Current bank debt	(197)	(122)
Bonds - current portion	(231)	(300)
Current portion of bank loans and credit facilities	(54)	(52)
Other current financial liabilities	(3)	(8)
Current debt	(485)	(482)
Net current cash/(debt)	209	(173)
Non-current financial receivables	63	123
Non-current bank debt	(760)	(262)
Bonds - non-current portion	-	-
Other non-current financial liabilities	(6)	(2)
Non-current debt	(766)	(264)
Net financial position	(494)	(314)

The **Consolidated net financial position**, which excludes construction loans, reports a net debt balance of euro 494 million compared to euro 314 million in net debt at 31 December 2017. The change is mainly due to the financial dynamics typical of the cruise ships business which has recorded a growth of volumes compared to the previous year, with 3 vessels due for delivery in the first three months of 2019.

RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/million)	31.12.2018	31.12.2017
Net cash flows from operating activities	30	532
Net cash flows from investing activities	(163)	(168)
Net cash flows from financing activities	535	(299)
Net cash flows for the period	402	65
Cash and cash equivalents at beginning of period	274	220
Effects of currency translation difference on opening cash and cash equivalents	1	(11)
Cash and cash equivalents at end of period	677	274

The **Reclassified consolidated statement of cash flows** reports positive **Net cash flows for the period** of euro 402 million (positive for euro 65 million in 2017) due to operating activities and financing activities which generated cash flows of euro 30 million and euro 535 million respectively and investing activities which instead absorbed financial resources of euro 163 million.
At 31 December 2018, construction loans absorbed cash flows of euro 12 million (euro 16 million at 31 December 2017).

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 2018 and 2017.

ROI and ROE at 31 December 2018 show an improvement compared to 31 December 2017, essentially due to the improved economic performance.
All the indicators of the strength and efficiency of the capital structure at 31 December 2018, when compared with those at 31 December 2017, show a minimal improvement due to the negative change in the Net financial position and, in particular, the increase in non-current debt.

	31.12.2018	31.12.2017
ROI	16.5%	12.7%
ROE	5.4%	4.1%
Total debt/Total equity	1.0	0.6
Net financial position/EBITDA	1.2	0.9
Net financial position/Total equity	0.4	0.2

OPERATIONAL REVIEW BY SEGMENT

Shipbuilding

The Shipbuilding operating segment is engaged in the design and construction of cruise ships, expedition cruise vessels, ferries, naval vessels and mega yachts. Production is carried out at the Group's shipyards in Italy, Europe and the United States.
It should be noted that following the operational reorganization of the VARD Group, its Cruise business unit, which mainly includes the construction of expedition cruise vessels, previously included in the Group's Offshore segment, has been reallocated to the Shipbuilding operating segment.

(euro/milioni)

	31.12.2018	31.12.2017 restated ****	31.12.2017 published
Revenue and income*	4,678	4,267	3,883
EBITDA*	395	270	269
EBITDA margin*/**	8.5%	6.3%	6.9%
Order intake*	7,129	7,845	7,526
Order book*	29,620	26,007	25,069
Order backlog*	23,714	20,971	20,238
Capital expenditure	124	120	90
Vessels delivered (number)***	13	12	12

* Before eliminations between operating segments.
** Ratio between segment EBITDA and Revenue and income.
*** Vessels over 40 meters in length.
**** The 2017 comparative figures have been restated following redefinition of the operating segments.

Revenue and income

Revenues from the Shipbuilding segment in 2018 amount to euro 4,678 million (euro 4,267 million in 2017 restated, +9.6%) and relates, for euro 3,226 million to the business area cruise ships (euro 3,033 million in 2017 restated, +6.4%), for euro 1,434 million to the naval vessels business area (euro 1,212 million in 2017, +18.3%) and, for euro 18 million, to other activities (euro 22 million in 2017). The overall increase in revenues generated by the Shipbuilding segment in 2018 is due to steady progress in production activities on cruise orders in the final part of the year and the development of naval contracts, with particular reference to the FREMM program, the Italian Navy fleet renewal program and the contract for the Qatari Ministry of Defence.

EBITDA

Segment EBITDA was euro 395 million at 31 December 2018 (euro 270 million in 2017 restated), with an EBITDA margin of 8.5 % (6.3% in 2017 restated), confirming the positive trend which started in 2016. This result was achieved thanks to the particularly positive performance of some of the cruise contracts, both delivered and and almost completed units (with particular reference to the second half of the year), as well as to the contribution to the profitability of the Group of the naval units contracts. Such dynamics countervailed the ramp-up phase of production activity in the Cruise business unit of the VARD Group, reallocated to the Shipbuilding operating segment as a result of the reorganization completed in 2018, following the delisting of the company.

Order intake

New order intake of euro 7,129 million in 2018 refers to:

- two cruise ships for Viking (ninth and tenth ships), part of the first series of ten ships, of which five have already been successfully delivered to the client;
- the ultra-luxury cruise ship “Silver Dawn” (the third in the "Muse" series) for Silversea Cruises;
- two cruise ships for the shipowner Norwegian Cruise Line (the fifth and sixth vessels of the Leonardo class);
- a cruise ship for the historic luxury brand Cunard, part of the Carnival Group;
- a cruise ship for the shipowner Virgin (the fourth unit of the same class);
- two new generation LNG-powered cruise ships for a new client, Tui Cruises (joint venture between Tui Ag and Royal Caribbean Cruises);
- two small luxury expedition cruise vessels (fifth and sixth vessels of the same class), which will be built by the subsidiary VARD for the French shipowner Ponant;
- two expedition cruise vessels, which will be built by the subsidiary VARD for the shipowner Viking;
- one expedition cruise vessel, which will be built by the subsidiary VARD for the shipowner Hapag Lloyd, third in the series;
- a vessel from the Littoral Combat Ship program of the “Freedom” class (LCS 29), the fifteenth vessel in the program, order acquired via the subsidiary Marinette Marine Corporation;
- a barge unit for the chemicals/oil & gas segment which will be built by the subsidiary Fincantieri Bay Shipbuilding.

Capital expenditure

Investments in Property, plant and equipment by the Parent Company during 2018 mostly involved:

- updating of the working areas and infrastructure at some shipyards, in particular Monfalcone and Marghera, to meet the new production scenarios and upgrading and improvement of the safety standards of machinery, equipment and buildings;
- continuation of activities to introduce new technologies, in particular at the Monfalcone shipyard, as part of the requirements of the Integrated Environmental Authorization (IEA).

Capital expenditure by the subsidiary VARD in 2018 mainly related to the continuation of activities to increase production capacity and the efficiency of production processes at the Tulcea shipyard, in order to guarantee adequate support both for the construction of the hulls of the cruise ships for Norway, and the long-term program to construct pre-fitted sections of cruise ships for the Group's Italian shipyards. Capital expenditure in the US shipyards mainly concerned maintenance of infrastructure and upgrading of production systems.

Production

The number of vessels delivered during 2018 is summarized as follows:

(number)

	DELIVERIES
Cruise ships	7
Cruise ferries	
Naval vessels > 40 m	6
Mega yachts	
Naval vessels < 40 m	

The vessels delivered were:

- “Carnival Horizon”, the cruise ship for Carnival, delivered at the Monfalcone shipyard;
- "Seabourn Ovation", the second ultra-luxury cruise ship for Seabourn Cruise Line, a Carnival Group brand, delivered at the Genoa Sestri Ponente shipyard;
- “MSC Seaview”, the second next-generation cruise ship for MSC Cruises, delivered at the Monfalcone shipyard;

• "Viking Orion", the fifth cruise ship for Viking, delivered at the Ancona shipyard;
• "Nieuw Statendam", the second cruise ship in the "Pinnacle" class for the Carnival Group brand Holland America Line, delivered at the Marghera shipyard;
• two expedition cruise vessels delivered by the Søviknes shipyard (Norway) to the French shipowner Ponant;
• "Federico Martinengo", the seventh of a series of ten multi-role frigates (FREMM) for the Italian Navy, delivered at the Muggiano shipyard in La Spezia;
• "Kronprins Haakon", the ice breaker oceanographic vessel built in the Group's Italian shipyards for the Norwegian Government's Institute of Marine Research and Fishing, delivered at the Norwegian Vard Langsten shipyard;
• "USS Sioux City" (LCS 11) and "USS Wichita" (LCS 13) for the US Navy, within the LCS program, delivered at the US Marinette shipyard (Wisconsin);
• two ATB (Articulated Tug Barges) for cargo transport in the chemical/oil & gas segment (each unit composed of 1 tug and 1 barge), delivered at the Sturgeon Bay shipyard for the shipowner AMA.

Offshore and specialized vessels

The Offshore and Specialized Vessels segment includes the design and construction of high-end offshore support vessels, specialized vessels and vessels for offshore wind farms and open ocean aquaculture, as well as 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.
It should be noted that following the operational reorganization of the VARD Group, its Cruise business unit, which mainly includes the construction of expedition cruise vessels, previously included in the Group's Offshore segment, has been reclassified in the Shipbuilding operating segment.

(euro/million)

	31.12.2018	31.12.2017 restated***	31.12.2017 published
Revenue and income*	681	676	943
EBITDA*	(20)	41	42
EBITDA margin*/**	(2.9)%	6.1%	4.4%
Order intake*	913	471	888
Order book*	1,860	1,564	2,646
Order backlog*	987	595	1,418
Capital expenditure	6	7	37
Vessels delivered (number)	22	13	13

*Before eliminations between operating segments.
**Ratio between segment EBITDA and Revenue and income.
***The 2017 comparative figures have been restated following redefinition of the operating segments.

Revenue and income

Revenues from the Offshore and Specialized Vessels segment in 2018 amounted to euro 681 million, with a slight increase of euro 5 million compared to 2017 restated (euro 676 million), despite the negative impact of changes in the Euro/Norwegian Krone exchange rate (euro 20 million) due to the conversion of VARD's financial statements. Volumes recorded benefited from the diversification strategy of VARD's business that was successful also in 2018 and that lead to new orders in the fisheries and aquaculture segments, and to the acquisition of an important program for the Norwegian Coast Guard.

EBITDA

The Offshore and Specialized Vessels segment presented a negative EBITDA at 31 December 2018 of euro 20 million compared to the positive EBITDA of euro 41 million in 2017 restated, with a negative margin of 2.9% compared to the positive 6.1% of 2017 restated. This performance reflects, in particular, the low profitability of the last offshore contracts in the order book, the costs associated with the reduction of workload in some shipyards (mainly Brazil) as well as a loss realized from the sale of an offshore vessel whose original contract was cancelled following the bankruptcy of the client (a transaction which however generated significant benefits in terms of reducing VARD's commitments to the banks).

Order intake

New order intake amounted to euro 913 million in 2018. In detail:

• three coast guard vessels for the Norwegian Defence Material Agency (NDMA), the Ministry of Defence agency tasked with developing and modernizing the Norwegian Armed Forces; the vessels will be built by the production network of the VARD Group;
• four Fishery vessels for the shipowners Remøybuen, Nergard Havfiske, Havfisk and Australian Longline Vessel Pty;
• two electric powered passenger and vehicle ferries for the shipowner Boreal Sjø;
• one cable-laying vessel for the shipowner Prysmian;
• one autonomous (unmanned) electric powered container ship for Yara Norge.

Capital expenditure

Capital expenditure in 2018 mainly relates to measures to maintain production efficiency in European and Non-European shipyards.

Production

The number of vessels delivered during 2018 is summarized as follows:

(number)

	DELIVERIES
AHTS	
PSV (including MRV)	1
OSCV	1
MCV	12
Fishery & Aqua	7
Other	1

In detail:

- one PSV (Platform Supply Vessel) was delivered to Island Offshore Shipping AS at the Brevik shipyard (Norway);
- one OSCV (Offshore Subsea Construction Vessel) was delivered to Dofcon Navegação Ltda at the Promar shipyard (Brazil);
- twelve MCVs (Module Carrier Vessels), eleven of which were delivered at the Group's Romanian and Vietnamese shipyards to the shipowner Topaz Energy and Marine and one vessel delivered at the Romanian Braila shipyard to NMSC Kazmortransflot LLP;
- seven fishery & aquaculture vessels delivered at the Group's Norwegian shipyards, two of which were delivered to the shipowner Cermaq Norway and the remainder to the companies Nordland Havfiske AS, FSV Group-Solstrand trading, Aqua Shipping AS, Midt-Norsk Havbruk and Research Fishing Co.;
- an LPG vessel delivered at the Brazilian Promar shipyard to the shipowner Petrobrás Transporte.

Equipment, Systems and Services

The Equipment, Systems and Services operating segment is engaged in the design and production of systems, equipment and accommodation, repair and conversion services and after-sales support for the vessels produced. These activities are carried out by FINCANTIERI S.p.A. and its subsidiaries Isotta Fraschini Motori S.p.A., Delfi S.r.l., Seastema S.p.A., Marine Interiors S.p.A., Fincantieri SI S.p.A., Fincantieri Infrastructure S.p.A., Issel Nord S.r.l. and FMSNA Inc.

(euro/million)

	31.12.2018	31.12.2017
Revenue and income*	651	558
EBITDA*	73	64
EBITDA margin*/**	11.2%	11.5%
Order intake*	1,006	573
Order book*	2,519	1,973
Order backlog*	1,638	1,186
Capital expenditure	18	9
Engines produced in workshops (number)	18	31

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

Revenue and income

The revenue from the Equipment, Systems and Services segment, which amounts to euro 651 million at 31 December 2018, recorded an increase of 16.7% compared to the previous period (euro 558 million). Revenues continue to benefit from the increase in the volumes of cabins and public areas built internally within the Group, mainly to support the cruise ship business.

EBITDA

Segment EBITDA at 31 December 2018 was euro 73 million, up compared to euro 64 million in 2017 thanks to the growth in production volumes; the EBITDA margin of 11.2% is substantially in line with the 11.5% of the previous year.

Order intake

New order intake for the Equipment, Systems and Services segment amounted to euro 1,006 million in 2018, mostly comprising:

- extension, conversion and modernization of the automation system of the cruise ferries "Cruise Roma" and "Cruise Barcelona" for the shipowner Grimaldi;
- Cavour aircraft carrier upgrade;
- supply of steel structure for a suspension bridge over the Danube for the joint venture Astaldi-IHI in Romania;
- extension and conversion of the "Star Breeze", "Star Legend" and "Star Pride", vessels operating in the luxury cruise segment, for the shipowner Wind Star;
- 12 stabilization systems and 6 thruster positioning systems for cruise clients;
- supply of propeller systems/shaft lines, stabilization systems and navigation system for the two Qatari OPV (Offshore Patrol Vessels);
- 1 sliding door for a naval client;
- 2 grease-lubricated stabilization systems for Meyer Turku;
- 1 steam turbine revamping for RCCL Summit;
- 1 model 36 steam turbine, Waste to Energy segment for Swiss client;
- supply of In Service Support (ISS) to the Italian Navy on the Submarine and FREMM program;
- 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;
- supply of the automation, internal communication and navigation package for the Qatari Corvette program;
- supply of the automation package for the 3rd and 4th vessels in the Korean Navy's FFX-II program;
- after-sales services and supply of cabins, wet units, public areas, kitchens and "complete accommodation" packages for ship platforms.

Other activities

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

(euro/million)

	31.12.2018	31.12.2017
Revenue and income	-	-
EBITDA	(34)	(34)
EBITDA margin	n.a.	n.a.
Capital expenditure	13	27

n.a. not applicable.

Capital expenditure

The main initiatives relate to capital expenditure on:

- 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;
- the introduction of mobile devices to increase the efficiency of onboard supervision activities;
- the development of information systems to support the Group's increasing activities and optimize process management.

As in previous years, investment in renewing the Group's network infrastructure and hardware continued.

CORE MARKETS

Cruise Ships

The cruise ship segment once again recorded excellent performance.
For ships of more than 10,000 tons in gross tonnage, 2018 saw orders finalized for 23 vessels, the same number as the previous year; in addition, Memoranda of Understanding/Agreements were signed for a further 17 ships. For ships with less than 10,000 tons in gross tonnage, orders for 5 vessels were issued.
This has taken the worldwide order book at December 2018 to a record high of 103 ships (including those under a Memorandum of Understanding/ Agreement or Letter of Intent) with deliveries stretching to 2027, an exceptionally long time horizon in the current industrial scenario.
The investment programs continue to be driven by the positive trend in demand for cruises in traditional markets like Europe and America and in emerging ones, but also by the entry of new operators and the need to replace vessels that came into service in the early 1990s.
The Cruise Lines International Association, the world's largest cruise industry trade association, has set a target of 30 million cruise passengers for 2019, thus predicting growth of over 6% compared to the 28.2 million achieved in 2018.
The Asian market has played an important part in this growth and in particular the Chinese market, which has reached 2.4 million passengers, confirming it as the second biggest country market for cruise passengers after the United States.
China is supporting the development of the cruise industry by encouraging the strengthening of the infrastructure such as ports and dedicated terminals, the birth of local companies through the purchase of new ships or the exploitation of used vessels and the development of industrial docks to stimulate local production of new ships.
The new strategies launched some time ago by Fincantieri for this huge market were crowned in November by the signing in Shanghai of the contracts, announced in 2017, for the construction of two cruise ships for CSSC Carnival Cruise Shipping Limited, which will be the first vessels of this type ever made in China for the domestic market, as well as the contract for the design of the industrial park for the shipbuilding sector in the district of Baoshan.
In the expedition cruise segment, also attractive due to the high level of demand, the Norwegian subsidiary VARD has confirmed its diversification strategy, winning contracts for the construction of two new expedition cruise ships for Viking, two more ships for Ponant, sisters of those ordered in 2016, and a third unit in the Hanseatic series for Hapag-Lloyd Cruises.
Fincantieri has acquired orders for nine vessels and signed Memoranda of Understanding for a further twelve. In particular, a new client was acquired in 2018: the company TUI Cruises, a joint venture between TUI AG and Royal Caribbean Cruises, which has awarded an order for the construction of 2 new generation gas-powered cruise ships.
A Memorandum of Agreement was also signed with Princess Cruises, a Carnival Group brand, for the construction of two new generation cruise ships of 175,000 tons in gross tonnage, the biggest ever built in Italy and the first in the Princess Cruises fleet to be primarily gas fuelled.

Naval Vessels

In 2018 there was considerable buoyancy in the market for naval vessels, with the finalization of several contracts, also abroad, although the main bulk of the programs continued to be assigned to domestic shipbuilders. The most notable in terms of scale were the destroyer programs for the United States, the frigates and OPVs for the Australian Navy and the corvettes and frigates for Saudi Arabia.
Also in this area, the subsidiary Fincantieri Marine Group ("FMG") in the United States received confirmation of the order for the LCS 29, the 15th vessel in the Freedom class ordered by the US Navy. At the same time, the US Government has awarded to the joint venture led by Lockheed Martin, in which Fincantieri's subsidiary, Marinette Marine Corporation, is a partner, an order under an "Undefinitized Contract Action" as an advance on the Foreign Military Sales contract for the construction of four Multi-Mission Surface Combatants (MMSC) for Saudi Arabia. The ships will be built in the Fincantieri Marinette shipyard.
The subsidiary VARD, instead, signed a contract for the construction of three coastguard vessels with the Norwegian Defence Materiel Agency.
During 2018, Fincantieri and Naval Group worked intensely on the project to create an industrial alliance, presenting to the relevant ministries in France and Italy a proposal to define the terms and conditions for the establishment of a 50:50 joint venture.
The aim is to strengthen European industry through the joint preparation of bids for binational programs and for export, the pursuit of a more efficient procurement policy, the development of joint research and innovation activities, the sharing of testing facilities / instruments and skills networks.
In addition, Leonardo and Fincantieri, building on the cooperation between them since 2014, have agreed the guiding principles for an agreement in the naval vessels segment. The aim is to approach the market as a Country Network, pooling the competencies of the two companies, relaunching the joint venture Orizzonte Sistemi Navali, which both parties plan to give resources to, so that it can take responsibility for the Combat System, defining requirements and the architecture of individual components, including the Combat Management System.
The path towards consolidation in both the civil and naval shipbuilding appears necessary to address the cyclical nature of the market, the rate of technological innovation, the growth in the size and value of products and the presence of large markets and/or powerful clients.
The last few years have seen profound changes in the competitive framework both in the civil and naval fields, with the disappearance of the smaller and weaker players and the emergence of new operators; this process cannot be considered concluded and the geometry of the group is likely to undergo further change.

Mega yacht

The mega yachts market continued to be affected in 2018 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.
The preliminary closing results for the year indicate a trend in demand in line

with that for 2017, albeit minus a few vessels. Orders for yachts of more than 60 metres numbered 26 compared to 27 in 2017, including a pair of vessels started on a speculative basis.
Overall, the segment has been pervaded by a cautious optimism, which also emerged during the last boat show in Genoa, where there was talk of a recovery, with two-digit growth forecasts for the segment in 2018 as well.

Offshore

The offshore segment once again reflected a depressed market environment, despite a slight upturn in oil prices which lasted until September, followed by a new fall which took the price at year end to around 51 dollars a barrel, against an annual average of 71 dollars (54 dollars in 2017).
During 2018, at a worldwide level no contracts were finalized for Anchor Handling Tug Supply, while only three orders were recorded for Platform Supply Vessels, including an innovative LNG-powered vessel.
Demand was mainly concentrated on small Offshore Service Vessel (“OSV”) for maintenance and service activities, particularly for wind farms.
In this area, the Norwegian subsidiary VARD succeeded in making its know-how pay by acquiring an order for a cable-laying vessel for the Prysmian group.
At the same time, the subsidiary successfully pursued its diversification strategy, achieving some notable wins in the fishing and ferries segment, with the acquisition of orders for two innovative electric powered ferries, as well as an important program for the Norwegian Coast Guard in the naval segment.
Also of note is the acquisition of an experimental project, the first autonomous (unmanned) electric powered container ship for the Norwegian company Yara Norge.

Repairs and conversions

The market for naval repairs in general was positively affected by the demand for work to adapt vessels to the new standards imposed by the entry into force of the regulations on emissions and treatment of ballast water, which require the installation, respectively, of devices to treat fumes (scrubbers) and water.
Competition continues to be intense in the repairs market as a whole, above all in the segment for the repair of merchant vessels (tankers, bulk carriers) and in particular for smaller vessels (up to 160 meters in length) both from 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 maintenance and refitting work, including some of considerable value and complexity.
In this area Fincantieri has been awarded an order for the important contract for the lengthening and transformation the cruise ferries Cruise Roma and Cruise Barcelona by inserting a 29 metre long section which provides an additional 600 linear metres for heavy vehicles, 80 beds in new passenger cabins, two overnight rooms with the capacity for 450 seats as well as a new 270-seat restaurant.
Fincantieri has also signed with the shipowner Windstar Cruises (Xanterra Travel Collection group), a contract for the lengthening and modernisation of three ships with the insertion of a 26 metre long section and the almost complete renewal of the machinery and refitting of the engine rooms, public areas and cabins.

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RESEARCH AND INNOVATION

Fincantieri aspires to maintain its position as world leader in all shipbuilding segments that require advanced, high value-added solutions. This technological leadership is based on the Group's high capacity to innovate and its system integrator know-how and leads to technological growth and a constant improvement of the essential objectives behind every action, project, initiative and decision made by the Group.
Innovation of products and working methods is therefore one of the fundamental values behind Fincantieri that have led to it being one of the most competitive actors in its segment globally. In this sense, the capacity to seize on the promising synergies in terms of innovation at international level characterizes the Group's action and makes it gradually more integrated with and sensitive to market dynamics.
A company subject to cyclical trends over time, such as the naval business, requires considerable flexibility in order to enter new market segments. This flexibility can only be guaranteed by careful management of innovation strategies. A recent example of the Group's flexibility is VARD's development of new projects that build on its experience acquired in the offshore segment and in the production of vessels capable of operating in extreme conditions.

A clear vision for 2030

Consolidating a shared path with its European partners in research and innovation in the shipbuilding industry is one of the Group's most ambitious objectives that it intends to pursue in the coming years, and one from which it intends to channel its actions. It has been possible, as a result of collaboration with other Italian and French shipbuilders and through the relative associations (Assonave and Gican), to establish a collective development vision for civil and naval technological innovation.
The Assonave–Gican roadmap is built on five pillars, called Visions, from which the necessary technological objectives for their success have been identified. These pillars, which are the core direction of Fincantieri's Research and Innovation process, are the eco-sustainability and energy efficiency of ships (Green Ships), their digitalization (Smart Ships), their automation (Autonomous Ships), the development of more efficient, safe and sustainable production facilities and processes (Smart Yards) and the introduction of innovative solutions for Blue Economy growth (Smart Offshore Infrastructures). The importance of this vision is supported by the inclusion of these pillars in the 2018-2022 Sustainability Plan.
Fincantieri actively supports and promotes its roadmap towards innovation with the relevant organizations at national level (the national technology clusters Trasporti Italia 2020 and Blue Italian Growth) and European level (the Waterborne technology platform and the Sea Europe association) in the conviction that they represent the dynamics of technological development in the medium- to long-term which are needed to bolster the competitiveness of the European shipbuilding industry. Innovation is a key element for the operating segment to continue to maintain a global leadership position, demonstrating that it is fully able to handle the greatest technological and environmental challenges of our time.

Structured processes for innovation

The Group's R&D activities are steered in three main directions:

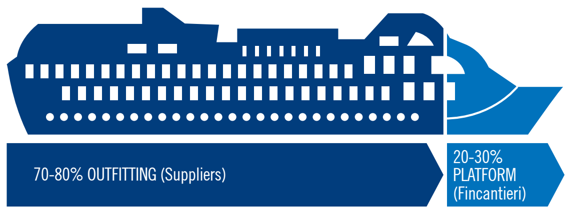
- **Development of technologies and innovation applied to the order**, i.e. activities aimed at developing technological solutions, materials and innovative systems, carried out during the design of ships and necessary to meet the specific needs of shipowners;
- **Off-the-shelf innovation**, i.e. activities aimed at developing specific design solutions that are not directly applicable to orders, but are necessary to anticipate customer needs, for example in areas such as energy efficiency and reduction of operating costs, maximizing payload - the typical profitability indicator for naval products - and perceived quality and improving safety;
- **Long-term innovation**, i.e. activities aimed at developing the Group's technologies also in order to support entry into new sectors.

Fincantieri has defined a structured and articulated process for preparing the Research and Innovation Plan (R&I Plan), which is the operational tool with which the Group gains greater competitiveness on the international market, allowing it to generate and maintain a competitive edge against the competition. It is redefined annually in order to maintain consistency between developed activities, corporate objectives and market needs.
The Group also continuously studies new concepts, promoting the generation of innovations within its business perimeter, collaborates with suppliers to produce innovative solutions that also lead to a possible business expansion, and constantly monitors technological megatrends to anticipate market trends. These different processes are supported by Technology Scouting, aimed at identifying emerging technologies, including in sectors far removed from the world of shipping.
Protecting intellectual property enables Fincantieri to get the greatest possible benefit from the results of the research and innovation activities, from its know-how - accrued and consolidated over the years - and from the design solutions that have enabled it to acquire leadership in its market sectors. The Research and Innovation processes are supported by Cetena, the centre that is the key element of the Group's pre-competitive research. Cetena's main tasks concern purely naval areas including fluid dynamics, innovative structures and materials, energy efficiency and control of emissions, safety and tools for decision support, development of manoeuvre and navigation simulators and testing activities at sea and in the laboratory.

Widespread network

The complexity of its products has driven Fincantieri to think about its own innovation processes, founding them on both internal skills and on the creation of partnerships with various external stakeholders that differ in terms of type and geographical location.

The role of system integrator played by Fincantieri requires the creation of long-lasting relationships that enable the establishment of cooperative development programmes in order to pursue research into new technologies, continually improve current ones - in terms of quality, efficiency and costs - and reduce risks.



In this way the Group has given substance to the paradigm of open innovation, a model of cooperation between firms and research facilities, creating a network of extensive and widespread collaborations at international level.
In order to ensure the integration of internal and external innovation processes, the R&I Plan takes into consideration the various stakeholders: i) suppliers; ii) networks of universities and research bodies; iii) ship classification bodies; iv) clients; v) trade associations and industrial forums.

Italy: National Technology Clusters and Regional Technological Districts

National Technology Clusters (NTCs) perform, for their respective areas of competence, the function of soft governance in the meeting-point between scientific research and industry. The purpose of the clusters is to mobilise the industrial system, research system and Public Administration to activate extensive and inclusive national partnerships to address shared priorities. Moreover, they fuel strategies for research, development and training of human resources, and the relative implementation plans to maximize the impact on the economic system, in line with the need for innovation and increased competitiveness emerging from companies in the country. 2018 saw a continuation of the activities of the NTCs Trasporti Italia 2020 NTC and Blue Italian Growth.

NTC Italy Transport 2020

Fincantieri participates in the maritime Working Group of the Trasporti Italia 2020 NTC, whose objective is to create synergy between the various supply chains and to identify future research and innovation trajectories for the surface transportation industry.
In 2018, the Trasporti Italia 2020 NTC worked to maintain important dialogue with the Ministry of Economic Development (MiSE) and the Ministry of Economy and Finance (MEF) aimed at steering actions in support of firms with particular focus on the issue of automatic incentives (R&D, Training 4.0, etc.) and producing an impact analysis of the Stability Law on the above issues.

Blue Italian Growth NTC:

Fincantieri actively took part in launching the activities of the Blue Italian Growth (BIG) NTC, including through direct participation with two members on the Scientific and Technical Committee and two members on the Steering Committee. In 2018, the BIG NTC continued with consultation and coordination actions with the main players in the public and private research system on the topic of Blue Growth aimed at defining its own Three-Year Action Plan.

Regional Technological Districts

At a regional level, the cluster policy has strengthened the roles of the districts; Fincantieri works with five technology districts located in the areas of its shipyards:

- The **Friuli Venezia Giulia Maritime Technology Cluster** (MareTC FVG), which has the objective of promoting and developing scientific and applied research, technological development and training, as well as the communication of results, the stimulus for innovative activities, the exchange of knowledge and experience, technology transfer, publishing on the internet and communication of information between companies and research organizations, and internationalization, to promote the growth of the intangible value of the Friuli Venezia Giulia Region maritime technology system.
- The **Liguria District for Marine Technology** (DLTM), focused on the development of new solutions for vessel systems for naval and recreational shipyards, for vessel systems for defence and security, and for monitoring, reclamation and safety of the marine environment.
- The **Liguria Technology District for Integrated Intelligent Systems** (SIIT), created for the development of virtual reality, simulation and support tools for the automation of processes and logistics.
- The **Polymeric and Composite Materials and Structures Engineering District** (IMAST) in the Campania region, founded for the development of cutting-edge skills in innovative materials for various segments, including the aerospace, maritime, automotive and bio-medical industries.
- The **Technology District for Maritime, Commercial and Recreational Transportation** (NAVTEC) in Sicily, focused on improving the skills of the network of strategic suppliers within the field of maritime repair and conversion in Sicily.

The objective of the districts is also to integrate the skills present in the research system and the business world, and to allow suppliers, universities and research centres to interact in close contact with the Group for the development of technological solutions.

Norway: the main partnerships

The Group, through the subsidiaries of VARD group, regularly cooperates with the Norwegian academic and research world. In particular activities are regularly carried out in partnership with NTNU - the Norwegian University of Science and Technology - and SINTEF - The Foundation for Industrial and Technical Research - one of the main independent research centres in northern Europe.
This close cooperation has driven to the establishment of two centres for research-based Innovation (SFI), within a framework initiative established by the Research Council of Norway. These temporary centres (established for the period 2015-2023) aim to improve the ability to innovate in a specific industrial sector by creating close partnerships between companies and research groups, focused on medium- to long-term research goals. In particular the Group participates in the Smart Marine SFI, the centre which aims to improve the positioning of the Norwegian maritime sector in the segment of low environmental impact maritime transport and Move SFI, the centre focused on maritime operations and developing IT knowledge, methods and tools to increase their value.

Europe: the main partnerships

During 2018, European stakeholders in the maritime sector were strongly committed, in line with the initiatives launched in previous years, to relaunching the Waterborne European Technology Platform, changing the membership procedures by opening up to a wider range of private entities and strengthening communication skills and strategic collaborations with other European entities. The Waterborne European Technology Platform is the most important strategic partner of the European Commission in identifying the research priorities in the maritime, naval, port, logistics and blue growth fields, consolidating widespread consensus among the many stakeholders in the sector. Fincantieri recognizes the importance of participating in the industry consultation processes needed to define the European guidelines for research and technological innovation and is therefore an active participant in Waterborne and fully involved in its relaunch.
In 2018, Fincantieri participated in the work of numerous working groups, contributing significantly to the preparation of the platform's visions and missions, appropriately integrated in a Strategic Research Agenda for the sector at the European level.
This document aims to help the process for identifying the industry priorities in terms of research and innovation, also with reference to the issue of mobility, by European institutions, identifying a long-term technological development path capable of strengthening global competitiveness in the sector.
In the European context, Fincantieri continues its cooperation, through Assonave, with Sea Europe - the European association of shipyards and producers of naval systems - and, through Cetena, with the European Council For Maritime Applied R&D (ECMAR), which aims to develop a common strategy for European research in the maritime sector in line with the EU funded research, innovation and development priorities. Moreover, the Group participates intensely in the activities of the Cooperative Research Ships (CRS), a consortium of over 25 members concerned with obtaining data on the hydrodynamic behaviour of large ships. Fincantieri also participates in Hydrogen Europe, the European association representing the industry and research for the development of hydrogen technologies and fuel cells, which cooperates with the European Commission on the Fuel Cells and Hydrogen Joint Undertaking (FCH JU) innovation programme.

United States: the National Shipbuilding Research Program

The American subsidiary Marinette Marine carries out most of the research and innovation initiatives in collaboration with research centres and universities, through the National Shipbuilding Research Program (NSRP) funded by the US Government. NSRP was founded in collaboration with US Shipyards, which studies and develops new processes and designs to improve ship production in the United States and make it more efficient. This project allowed Marinette Marine to launch collaboration initiatives for the development of research projects and innovations. The activities carried out in this context range from welding techniques to "design for maintenance" concepts, via the study of strategies to reduce ship weight.

Significant projects

The Group operates through its own resources, with over 90 projects, and through programmes funded at European, national and regional level. Often, given the complexity of the issues covered, projects are cooperative in nature in order to maximize effectiveness by exchanging knowledge with various actors who are leaders in their respective sectors. In 2018 the Group pursued the following innovative projects:

Green Ship

Greening has been steering innovation and markets for years now and, today, it represents an important issue in the eyes of public opinion. CLIA, the Cruise Lines International Association, recently announced its formal commitment to reducing carbon emissions by 40% by 2030 on all cruise ships, pursuing the International Maritime Organization's (IMO) objective to reach zero carbon emissions throughout the whole naval industry by the end of this century.
Fincantieri considers Green Ship as a milestone of its vision. The activities in 2018 confirm this commitment. Recent contracts, whether they are related to the sectors of new builds or refitting, feature the use of advanced technologies, such as Liquefied Natural gas (LNG), batteries, modern pollutant reducing and energy saving systems.
Fincantieri aims to continually improve ship energy efficiency and emissions using a holistic approach able to cover all the on-board sub-systems. Future activities will be focused on reducing emissions to air and water, greater innovation of on-board waste management and disposal systems and reducing noise and vibrations. Furthermore, Fincantieri supports the Green Fuel Switch, also by harnessing renewable energy, and it believes in developing new technologies for de-carbonization such as Fuel Cells, encouraging the introduction of high performance materials and promoting eco-design ideas (for example design for eco-compatibility, evaluation of the life cycle, etc.).
The main Group projects active in 2018 were: "High Efficiency" aimed at identifying innovative systems solutions for energy recovery; "Platform for Onboard Waste to Heat conversion" aimed at analysis for waste-to-energy solutions; "Innovative Electricity Generation" with the objective of preliminary design of a cruise ship powered by fuel cells; "Low environmental impact technologies" which provides for the creation of a new 25 metre laboratory for the study of new technologies; "Energy Efficiency Criteria and Optimization of Ship Electric Balance" to reduce environmental impact; "Sustainable Ship Design Program", aimed at introducing and approving a holistic approach to energy efficiency and emissions reduction, "New generation stabilizers", to assess the influence of different configurations of the stabilizers on energy efficiency.

Smart Ship and Autonomous Vessel

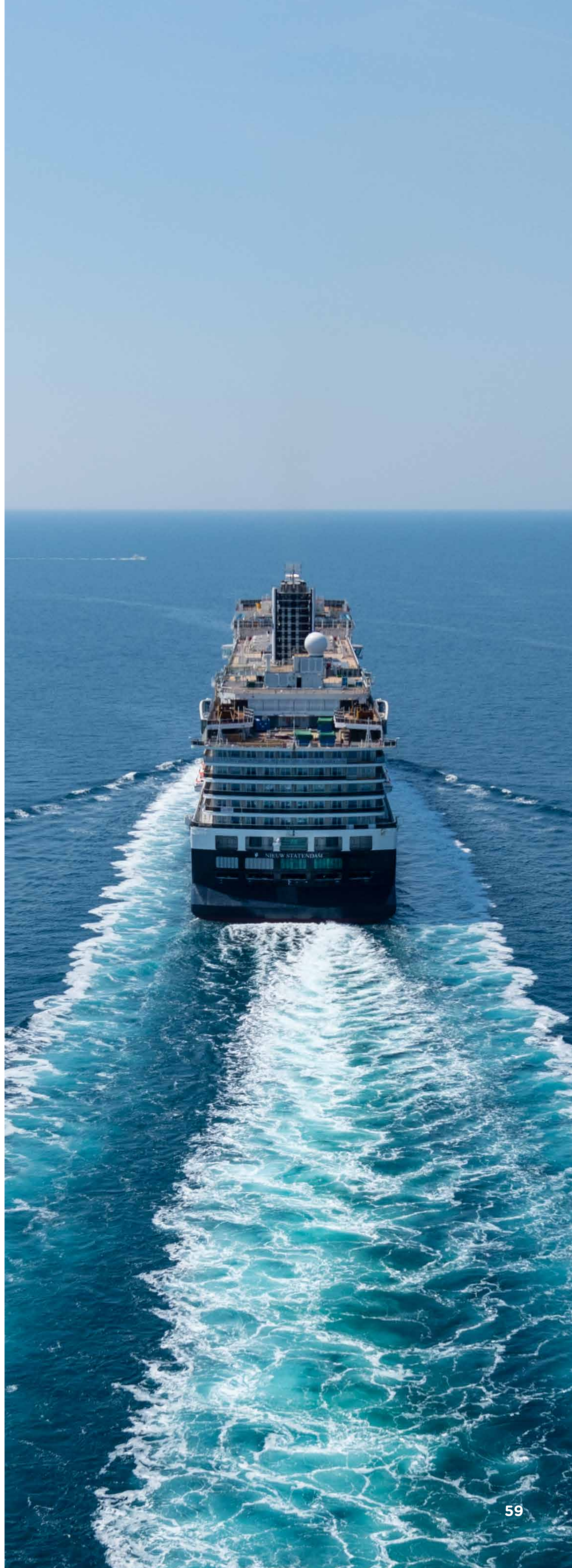
The Internet of Things (IOT) and smart devices are pervasive across all industrial sectors and ships are not exempt from this "intelligent" revolution.
The development of sensors, monitoring systems, support systems for navigation and on-board activities help increase the value added of the whole ship product and improve global safety.
The study of pre-accident measures, i.e. design and operational solutions to reduce the frequency of accidents, in addition to measures that improve the resilience capacity of ships, i.e. the capacity of a ship to survive accidents, will increase safety across the board. Furthermore, implementing technologically advanced solutions will enable process optimization and automation and reduce the operating costs associated with them.
One of the most interesting challenges for the shipbuilding industry is to develop autonomous ships of a significant size for use in any operational scenario, including in busy port areas. The key technological factors that drive this trend are the implementation of new technologies that, based on the integration of different systems, are able to track ship operations and allow it to manoeuvre autonomously. Moreover, each highly smart or autonomous ship will require highly advanced IT security studies to avoid any type of hacker attack.
The main Group projects active in 2018 were: "E-Cabin", aimed at developing digital solutions and tools for passengers; "E-Navigation", aimed at exploiting the use of augmented reality for the evaluation of operational scenarios; "Secure Platform", aimed at increasing physical safety on board ships; "Ocean2020", with the aim of integrating unmanned systems and introducing concepts of situational awareness in a maritime context; "Integrated Bridge" (SeaQ Bridge), to integrate a wide range of navigation and communication products; and "Cyber", a study of different aspects of cyber security.

Smart Yard

Fincantieri has identified various areas of interest for improving the design and production stages of future smart yards. The main aims are related to improving safety and productivity. Computer models, virtual product methodologies, additive manufacture, cobotics, logistics and quality control procedures will drive the evolution of the shipyard within Industry 4.0. In the coming years, ships will be designed and produced by giving greater consideration to the life cycle perspective, from design to decommissioning. Moreover, innovative and cost-effective production techniques and methods will be developed, with a particular focus on welding and joining procedures.
The main Group projects active in 2018 were: "Ramsses", aimed at extending the application of advanced materials in the maritime industry; "Sidran", immersive system for design review in the naval field; "Maestri", Integrated structures and macro-accommodation modules for cruise ships; "ISDM", data and process model for the smart vessel production; and "Virtual sea trial by simulating complex marine operations", aimed at improving the design process through methods and models for realistic simulation of life-cycle performance.

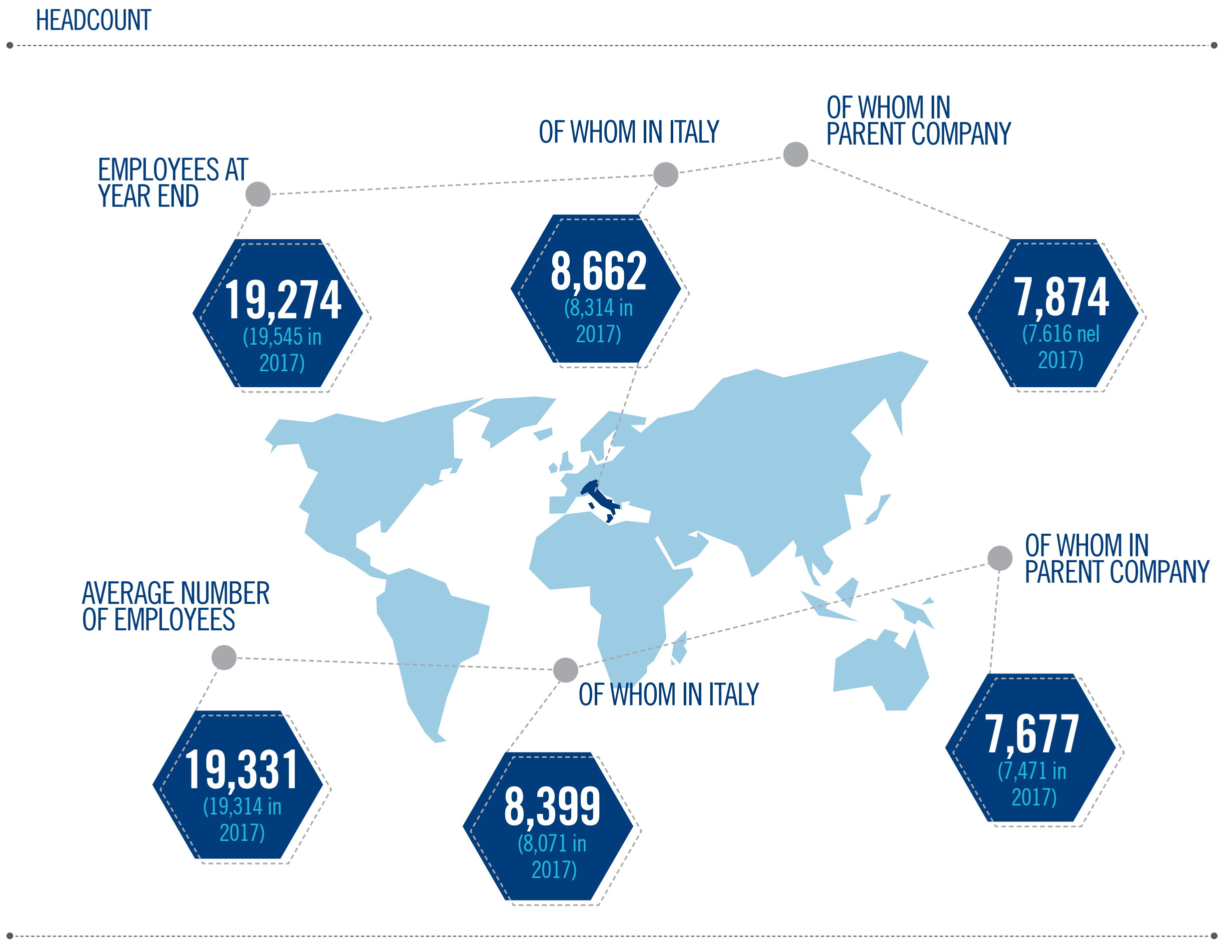
Smart Offshore Infrastructure

The offshore world is evolving rapidly and Fincantieri wants to lead the change. The evolution is steered by new business models and by the need to more efficiently harness the maritime environment, also thanks to structures that can be adapted to different uses, such as work and life at sea.
Multipurpose platforms will be able to support different activities at the same time, such as aquaculture, energy production and the extraction of raw materials and hydrocarbons. Furthermore, the platforms will be used to store products (energy and materials) during operation. Their modular construction will enable the infrastructure to be modified during its life cycle by adding or dismantling individual modules, and thus meeting requirements that have changed over time. This will increase the overall efficiency of offshore operations.
The increase of offshore activities, and their gradual movement to ever more remote areas, will require support infrastructures, particularly for the transfer of people and materials to and from land.
The main Group projects active in 2018 were: "Modular Production Platform", aimed at developing the concept of modular floating platforms for offshore operations; Deep Sea Mining, aimed at assessing the commercial potential of and possible strategic options for entry into the market for deep sea mining or mining in remote areas.



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 7,874 employees at 31 December 2018, an increase of 258 on 2017 reflecting the net effect of 383 new entries, mainly in the business areas and 125 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 a very strong participatory model and are developed through the activities of various commissions and specific bodies, which in some cases, in addition to trade unions, include workers. This is the case of the Bilateral Joint Technical Body which continued to operate in all the company sites in 2018. Its purpose is to increase the motivation and participation of employees in the innovation processes, combing the necessary increases in efficiency and productivity with the improvement of life and work quality.
On a national level, work continued in the various joint commissions and special attention was given to further developing training issues, the structuring of a plan of initiatives for the prevention and containment of accidents and protection of the environment with the constant and increasing involvement of the supply chain.
Solidarity leave was established during the year. It offers employees the option of passing their own holiday and leave entitlements to colleagues in serious need and it was extended with the trade union agreement to the Sestri Ponente shipyard.
Employees are guaranteed freedom of association throughout the Group. In 2018, 52% of employees are registered with trade unions.
Specific information procedures are envisaged for any restructuring processes which involve trade union organizations. The restructuring methods used have different set-ups depending on the context in which they are used.
The VARD Group signed five collective bargaining agreements for foreign subsidiaries in 2018.

Corporate Welfare

With the 2016 cooperation agreement Fincantieri laid the foundations for a welfare model able to seize on the employment and enterprise market dynamics, translating them into a modern and efficient management of the available resources.
The welfare system is available to employees in general, including part-time and fixed term employees, and is also recognized for the employees of Italian subsidiaries and/or associates falling under the application of the supplementary labour agreement (Isotta Fraschini Motori S.p.A., CETENA S.p.A. and Orizzonte Sistemi Navali S.p.A.).
Employees can access a wide range of goods, and services through a special portal. The options most used by employees are welfare vouchers (40%), services for families (21%) and supplementary pensions (15%).
Part of the performance bonus, also called the Social Bonus, is used on an annual basis and exclusively on welfare services and is a management element that is consolidated within the Company. Moreover, workers can convert variable awards linked to the achievement of assigned objectives into welfare entitlements. The Company also adds a further increase of 10% to the value converted for employees who decide to use this opportunity, thereby strengthening the connection between the achievement of production objectives and consolidation of the overall welfare system.
Welfare is also extended to the other Italian subsidiaries and/or associates that fall within the scope of the national collective bargaining agreements.
On this point, particular attention has been paid to transport issues. In 2018, the reimbursement of public transport costs was included among the convertible services. With this benefit the employee can request the total or partial reimbursement of public transport costs for themselves and/or for their dependent family members.

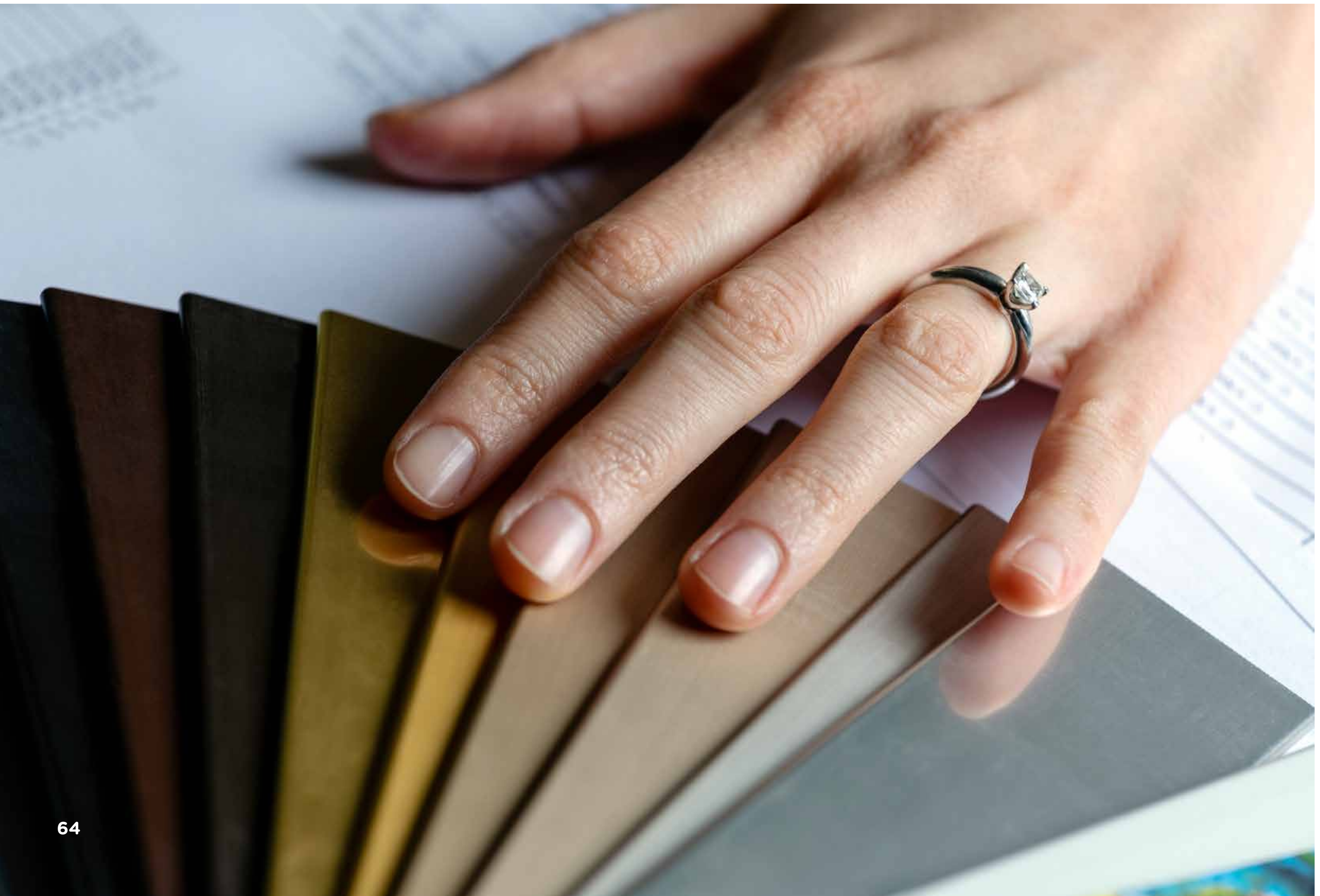
Confirming the validity of the welfare model it has adopted, Fincantieri won the Welfare Awards 2018 for the best plan

in application of the National Collective Bargaining Agreement for Steelworkers, and a special Welfare Awards 2018 award for welfare policies aimed at manual workers.
In the same vein, the spread of corporate Car Pooling (namely two or more people sharing a private car for the commute to and from work) continued and in 2019 it will be extended to all companies in the Group.
To respond to the increasing need for a work/life balance, in addition to envisaging greater working hour flexibility as regards the times for arriving and leaving the workplace, the Company has launched an initial trial of the Smart Working tool.
In relation to supplementary health care, an agreement was defined with the national trade unions for the new Health Plan, which has guaranteed 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. Health services were provided both directly, through the facilities contracted by the operator and in the form of "reimbursement" and access to them was facilitated by assistance for Group employees only.
The agreement also confirmed the opportunity for pensioners, under the operator's most favourable conditions, to continue to make use of the supplementary health care benefits with a contribution paid for by them.
FMG pays benefits to all employees who work for at least 30 hours a week. Benefits include subscription to the Group Health Medical Plan, which covers various services: a medical coverage plan, a dental coverage plan and vision coverage plan for eye health. The costs are borne partly by the Company and partly by the worker. In addition, there are other benefits not included in the above plans, such as the on-site clinic, vacation and holiday pay, the policy on short/long term disability, life insurance for accidental death & dismemberment, the retirement plan and the employee assistance programme.
The VARD Group provides its employees, using different methods depending on the location, with medical assistance, internal catering services, food cards, training incentives and support for transport to and from home.

Training And Development

In the Talent Management process operative within Fincantieri, training and development play a key role in enhancing human capital. People are actively involved in their own career development paths, from the perspective of responsibility, defining career goals and awareness of training needs. The training programmes provided by the Fincantieri Corporate University, the Company's management training school, have been updated in terms of content and delivery methods in order to better respond to business needs and the prospects related to order backlog.
Numerous editions of the Academy programme have taken place. This programme is dedicated to young people who have recently been hired by the Company and aims to encourage integration into the company environment, providing them with training on cross-functional issues and facilitate an aptitude to manage change.
Further training paths have been implemented to accompany employees' development towards managerial positions and to increase, from an integrated business view, the relational and methodological skills of recently appointed managers.
The Project Management Academy has been introduced in the institutional training programmes offered by the Fincantieri Corporate University. This modular training programme aims to accelerate the placement of people in Project Management Team and to strengthen the specific knowledge and skills required of them.
As evidence of the importance given to sustainability issues, an objective that envisages the insertion of the subject in the Corporate University's training framework has been included in the 2018-2022 Sustainability Plan.
In the mass of training aimed at strengthening and maintaining technical and specialist skills, a key role is played by the Integrated Ship Design & Manufacturing (ISDM) project, which envisages the development of new technical and managerial tools to support product design and development. The training activities already launched will have a significant impact in coming years as well.
Technical training is also one of the priorities for subsidiaries, in both Italy and abroad, and it has been especially focused on the issues of production, design, new technological solutions, augmented reality, after-sales service, with the aim of improving the quality of services and products supplied to the customer.
The Quality Improvement programme of the Merchant Vessel Division continued; at training level it was delivered in the Training for Quality project, a broad range of technical-operational courses aimed at manual workers and production supervisors within the Group and those working in contractors. In 2018, over 26,500 hours of training were delivered to Fincantieri employees and, as part of lifelong learning, the project will continue in 2019.
To keep attention focused on quality issues, the Naval Vessel Division also provides for a specific course for new hires on the current procedures in the naval and after-sales areas, while VARD delivered more training courses aimed at product quality standards during the year.
A special training course was dedicated to the roles of production supervisors and managers of the production and design areas. It was aimed at strengthening their managerial and motivational and relational skills also within the context of internal corporate dynamics.
Along these lines, over the year, FMG and VARD also developed a training path on leadership for supervisors and staff in technical roles, aimed at facilitating development into the team leaders.
Globalization and the broadening of the business scenarios in which the Group operates from day to day have intensified, in line with the Company Language Policy, the demand for and provision of training to improve language skills across the board.
Fincantieri's increasing presence in international scenarios and the need to protect the people required to work abroad have been the basis for relaunching the Travel Security course. In 2019, more information was developed for all employees to raise awareness of the risks associated with travel abroad and to provide them with consequent indications on how to behave.
The introduction of the new European Regulation on Data Protection (GDPR) entailed a significant training commitment in order to fulfil the legal obligations and give substance to the internal procedures.

With the same purposes, the Parent Company has promoted and extended to its subsidiary companies training and information activities with regards to Listed Companies, Enterprise Risk Management, IT Security, Organizational Model and the administrative responsibility of legal entities under Legislative Decree No. 231.
From the perspective of continuity with the path of cultural growth and resource involvement that the Group has undertaken for some time, various training and information activities on health and safety at work and the environment were promoted in 2018, in addition to and in furtherance of that required by law.
As part of the policies to enhance and protect human capital, Fincantieri adopts a variety of tools to evaluate its resources with the aim of facilitating their growth and enabling them to perform at their best.
Among these, performance appraisal is the systematic and consolidated process in Italy that enables the core competencies of all employees, from manual workers to managers, to be measured on an annual basis. The value added of the process is represented by the feedback interview that each manager carries out individually with their collaborators in order to share the results of the appraisal and define future targets. The foreign subsidiaries have also adopted advanced appraisal systems that measure the performance attained compared to the assigned objectives, allowing job rotation and professional growth opportunities to be assessed.
In 2018, the Parent Company launched the comprehensive assessment, a development tool that enables a full appraisal of the resource to be obtained by comparing self-assessment and assessment by others. The multiple feedback perspectives collected (self-assessment, appraisal by the manager, by colleagues and by collaborators) are shared and discussed in a feedback interview which aims to develop in employees a greater awareness of their strengths and areas for improvement. An individual development plan is prepared after the feedback which collects the support actions aimed at strengthening the most critical competencies.
Appraisals of performance and potential are the drivers that guide the People Review activities in the Fincantieri Group. These help identify resources with greater potential and usefulness in the Company and the development actions needed to accompany their growth. In fact, potential appraisal weighs the maturity of each individual resource's cognitive, realization, relational and coordination skills and examines the potential for the resource to hold more complex positions, including those far outside their usual perimeter of activity. Individual career paths are identified and defined on these bases and aim to put in place the steps needed to accrue the experience and essential skills through job rotation, classroom and on-the-job training and coaching paths.
The people review activity also helps succession plans to be set up, which are an essential tool for identifying managers who occupy positions of strategic importance for the business and ensuring the availability of potential "successors" in the short and medium term.
In the same vein, FMG has introduced a policy aimed at inter-generational cooperation, also through mentoring and training activities from "senior" to "junior" workers.



Recruitment policies, management and enhancement of human capital

As enshrined in the Code of Conduct, Fincantieri operates with due regard to diversity and equal opportunities and does not permit any kind of discrimination, from personnel selection and throughout the entire employment relationship.
All the companies in the Group work in accordance with these principles, as defined in the respective guidelines or corporate policies.
In order to meet the needs arising from the development of the business in terms of internationalism, diversification and strong growth, the Fincantieri Group adopts recruiting and employer branding strategies aimed at identifying and recruiting the best talent on the market.
Each year the Company maintains and improves its employer market position, at both national and international level. This growth can be seen among students and professionals and it is the result of targeted actions that are being developed including thought the main web and social network platforms.
FMG and VARD have a structured system of internal job posting, which gives employees the opportunity to apply for job vacancies, and therefore making themselves the prime movers of their own career paths.
Fincantieri is an integral part of the production fabric in Italy and abroad and it is fully aware of the need to strengthen the skills available on the market through offers that are devised, implemented and promoted in close synergy with the stakeholders operating in the world of work and training.
Fincantieri has therefore adopted policies and strategies aimed at enhancing the knowledge and professional skills available

in the territories in which it operates.
In particular, it has further developed its connection with the main national and international Universities and with Maritime Academies, owing to its growing presence at career days and the promotion of specific career guidance, training and recruitments days - called Meet Fincantieri - in Universities. The Group continues to cooperate with Secondary Education Institutions (known as High Schools and Technical Schools abroad) in Italy, particularly with the Work-Study schemes (Law No. 107/2015), with public (local and regional) institutions through career guidance and recruitment days and tours around its production sites and shipyards.
Fincantieri consciously aims to be a guiding element for strategies aimed at building a synergistic network between public and private institutions, companies and districts in the shipbuilding industry.
In practical terms, Fincantieri established working groups with the main national and local educational institutions in 2018 to identify the potential evolution of the training plans and study programmes in order to bring them closer to the needs of companies.
This pro-active cooperation led to projects with the Central Office for Labour, Training, Education and Family of the Friuli Venezia Giulia region and with the Liguria region. These initiatives have culminated in the setting up of a Regional Labour Agency Desk in the Monfalcone shipyard which has facilitated the meeting of employment demand and supply in the shipbuilding industry and, in Liguria, with the creation of a “virtual desk” on the Formazione lavoro platform which identifies and manages job vacancies in the shipbuilding industry.
To support development of the whole shipbuilding industry, Fincantieri has also expressed the need to train and prepare technical career profiles that are not easily available in the market. This led to an important cooperation with the Ministry of Education, Universities and Research (MIUR) which resulted in the Memorandum of Understanding signed on 20 November 2018. The MoU aims to promote and encourage the development of study paths at Istituti Tecnici Superiori (ITS - Higher Technical Colleges), mainly in the areas in which Fincantieri operates but also throughout Italy, to train specialist technical staff in line with the profiles sought. Fincantieri and MIUR have agreed on the fact that ITSs are the most efficient means to meet the demands of the employment market, particularly as regards highly specialized roles.
Among the initiatives implemented, an important role is played by the launching of the first ITS Ship Design course in Italy, developed by the Adriatic Nautical Academy in partnership with Fincantieri, which is also the Founding Partner and member of the Steering Committee and the Executive Committee.
To promote the Fincantieri brand on the employment markets of the countries in which the Group operates, solid cooperation arrangements have been implemented with the main universities which have established Naval Engineering courses, including through participation in career guidance and Meet Fincantieri days.

Privacy protection

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the “GDPR”) became fully applicable on 25 May 2018. From this date, for the first time, a unified regulatory framework that defines the fundamental principles applicable to the processing of such data started to be applied within the European Union.
In this context, Fincantieri - aware of its social responsibilities and in light of the full transposition of the principles laid down to protect personal data - launched a process to comply with this regulation the year.
At the end of this process, the Company adopted a privacy management system, whose founding principles are contained in the policy on General Principles of the Privacy Management System (Privacy Policy) which establishes, among other things, the main processes needed to ensure the protections envisaged by the legislation.
With this policy Fincantieri undertakes to establish and maintain over time a control model aimed at protecting the personal data collected and processed as part of the operational processes of its business, promoting the development of a pervasive privacy culture at Group level. With this in mind, in addition to the dissemination of privacy statements to the data subjects and instructions to personnel authorized to process personal data, Fincantieri has carried out a pervasive training campaign that reached all the employees of the Parent Company and was extended to the Italian subsidiaries.
The Privacy Management System was laid out in detail in a specific Manual and by operational procedures that identify certain processes that are especially critical such as management of data breaches and management of requests from data subjects asserting their rights.
As regards the security measures to be implemented to guarantee and protect personal data, the certification body RINA Services confirmed once again in 2018 the full compliance of the integrated IT security and quality management systems, confirming the ISO/IEC 27001:2013 and ISO 9001:2015 certifications, which represent deeper integration with the information technology required by the personal data protection obligations.

ENVIRONMENT AND SAFETY AT WORK

Environmental policy

Fincantieri is aware that its level of responsibility is judged by its ability to combine, in its work, professionalism and quality with strict respect for laws and consideration for the needs and expectations of the community in relation to the protection of public goods. The Company wants to represent a model of excellence also in terms of maximum environmental protection.
To manage the more significant environmental aspects associated with its business, Fincantieri is committed to implementing and maintaining an Environmental Management System, certified in accordance with international standard ISO 14001, with the aim of supporting the policy adopted by the Company and give coherence to the production model.
All the Italian sites have been certified and have completed transition to ISO 14001/2015, while the Palermo shipyard alone is currently in the interim stages which should lead to certification by 2019. The Marinette yard in the US also maintained certification for its environmental management system, in compliance with the standard.
For the VARD Group, the shipyards VARD Braila and VARD Tulcea in Romania and the VARD Vung Tau shipyard in Vietnam have confirmed their ISO 14001 certification. Environmental audits are constantly carried out in all the sites, as an integral part of the "Vision Zero" programme, by the specific internal structures and all the reports of environmental near-misses are collected and managed systematically.
In 2018 the Fincantieri Group invested about 8 million euros in environmental protection. In particular, the Parent Company launched initiatives to both improve environmental impact and to reduce direct and indirect atmospheric emissions.
The works carried out in the Monfalcone shipyard, in line with the improvement programme set up with the issue of the Integrated Environmental Authorization (AIA) in 2017, are of particular importance. The main ones involved the systems for collecting and treating rainwater, noise containment measures related to production and systems for extracting and treating welding fumes.
The Sestri Ponente, Muggiano, Marghera and Riva Trigoso shipyards have also carried out work on their systems for extracting and treating welding fumes. While the Arsenale Triestino San Marco shipyard, as part of its water management, has built a collection system for draining the industrial waste produced in the dry dock into the public network.
As regards product, the Group committed to various projects with the aim of containing environmental impact throughout the ship's life cycle.

Health and safety at work

Safety at work, workers' health, the maintenance and improvement of work environments have always been the main drivers of the Company's policies, in a vision that considers safety a strategic and development factor for the Company. In this light, the continued implementation of tools associated with the certification of the company's systems for managing health and safety at work, according to the requirements of OHSAS18001, has resulted in the broadening of the work population involved, facilitating dissemination of corporate culture growth paths.
This result is monitored through the systematic implementation of internal audits connected to the certification of management systems and it has been further supported by the various initiatives implemented as part of the Towards Zero Accidents project.
Owing to the more frequent and widespread presence of employees who travel or are on secondment abroad, the Travel Security programme has developed an ongoing mapping of risks in foreign countries to guarantee the security of travelling employees and the sustainability of the locations associated with business operations.

Towards Zero Accidents project

For several years the Towards Zero Accidents project has involved all the resources concerned with the Company's production process within a structured plan of initiatives. In 2018, a series of activities were carried out that were aimed at employees and suppliers and at contractors' employees.
To consolidate good practices and the constant monitoring of the production dynamics, careful attention has been paid to coordination meetings on safety and the environment which, scheduled at least every two weeks, are carried out directly in the production areas with the participation of all the supervisors involved in processing and the workers' safety representatives.
At the level of individual production unit, Fincantieri has established the Quality and Safety Committees with the aim of monitoring the production processes within their different structures. The Quality and Safety Committees meet regularly, are supervised by the Management of the production unit and are composed of all those reporting to the management and by the quality, health, safety and environment managers. Workers are represented in these Committees through their safety and environment representatives.
The documented analysis of accidents and near-misses at the individual sites, made with the use of a computerized format, is shared among all the organizational units and has made the involvement of the entire Company systematic, particularly detailed and timely.
The Active Safety project involves training/information provision beyond that required by law and is carried out on a monthly basis during working

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hours and directly at the workplace. The new element relates to the direct and simultaneous involvement of supervisors (production managers for Fincantieri, site managers for external companies) in the training and information of their respective employees and in the sharing of the same issue and common illustrative material. In 2018, 10 different editions were carried out with a duration of 30 minutes.
Over the year, the supplier evaluation process has received a significant boost as regards safety issues. Contractors are already subject to evaluation from a financial, quality, contractual and production perspective and they have been assessed using a predefined format and scorecards focused on health, safety and environment issues, also by the various shipyards, with the direct involvement of the managers of the relative areas. The assessments have led to the calculation of the overall performances of the companies and will be subject to permanent monitoring within Supplier Oversight.
The Training for Quality initiative aims to verify and strengthen the technical and operational know-how of production supervisors and skilled workers (in both Fincantieri and contractors) and it has been extended to all Italian shipyards. As part of this initiative, those skills that have a direct impact on product quality have been analysed along with the consequent identification of any training needs, including elements directly concerning safety, such as the proper use of equipment and work tools, the use of personal protective equipment and keeping the work station clean and tidy.
The VARD Group, similarly to Towards Zero Accidents, has further developed its Vision Zero project, the results of which confirm a positive trend.

Multiple initiatives have been carried out with the aim of preventing any type of accident to people and the environment:

- using the Safety Observation tool to report any anomalies found;
- reporting health and safety indicators at the monthly management meetings;
- organizing the prevention week to reduce internal accidents;
- monthly discussions on health and safety (compulsory under Brazilian law);
- election of an internal accident prevention commission;
- the internal distribution of a booklet with the ten golden rules for health and safety at work, based on the Group's guidelines.

The US subsidiaries have maintained a high commitment to safety and the environment and have received numerous awards for excellence.
While Fincantieri Bay Shipbuilding won the Shipbuilders Council of America Excellence in Safety Award for the fourth year running, Fincantieri Marinette Marine and Fincantieri Bay Shipbuilding have been awarded the Excellence in Safety Award by the Shipbuilders Council of America.
Fincantieri Ace Marine has developed the SLAM (Stop, Look, Assess, Manage) programme that involves the employees and intends to promote a pro-active vision of health and safety in the workplace.

Together in Safety project

A new tool has been made available and operational in all Italian shipyards since January 2018. It is aimed at protecting human resources and promoting correct behaviour, including from an environmental perspective: Together in Safety.

This is a multimedia training video, with a duration of over three hours, aimed at employees of subcontractors (a user catchment of around 30,000 people), and it must be watched in the classroom when people enter the Group's production sites for the first time.
The aim is to represent and simplify the main risks present in the shipyard and the correct operational methods, also in order to prevent and minimize the interference risks of certain stages in which several activities are carried out.
The Together in Safety video focuses on 35 risk situations and describes over 180 recommended prevention and protection measures to inform and make the worker aware of the risk situations present in the workplace.
The video has been developed in the 10 languages most used in Fincantieri sites and, in the context of each of the Italian production units, with a first part customized to the logistics of each shipyard.

BS OHSAS 18001 and SA 8000 Certifications

During 2018, Fincantieri continued implementing and consolidating the occupational health and safety management systems in its operating units, with the aim of supporting the implementation of the related policy adopted by the Company.
The sites that have already been certified continued to be monitored by the RINA certification body to ensure certification maintenance or renewal.
The Palermo shipyard, which had started certifying its management system over the course of the year, aims to achieve certification of compliance with the requirements of the standard by 2019.

The US site of Fincantieri Marinette Marine maintained the certification of its health and safety at work management system, in compliance with the requirements of BS OHSAS 18001.
The VARD Group maintained OHSAS 18001 certification for the VARD Braila and VARD Tulcea (Romania) shipyards, as well as the VARD Vung Tau (Vietnam) shipyard. All VARD shipyards are aligned with SA 8000 standards, which are based on the International Labour Organization (ILO) conventions and the Universal Declaration of Human Rights (Vung Tau is also certified).

ENTERPRISE RISK MANAGEMENT

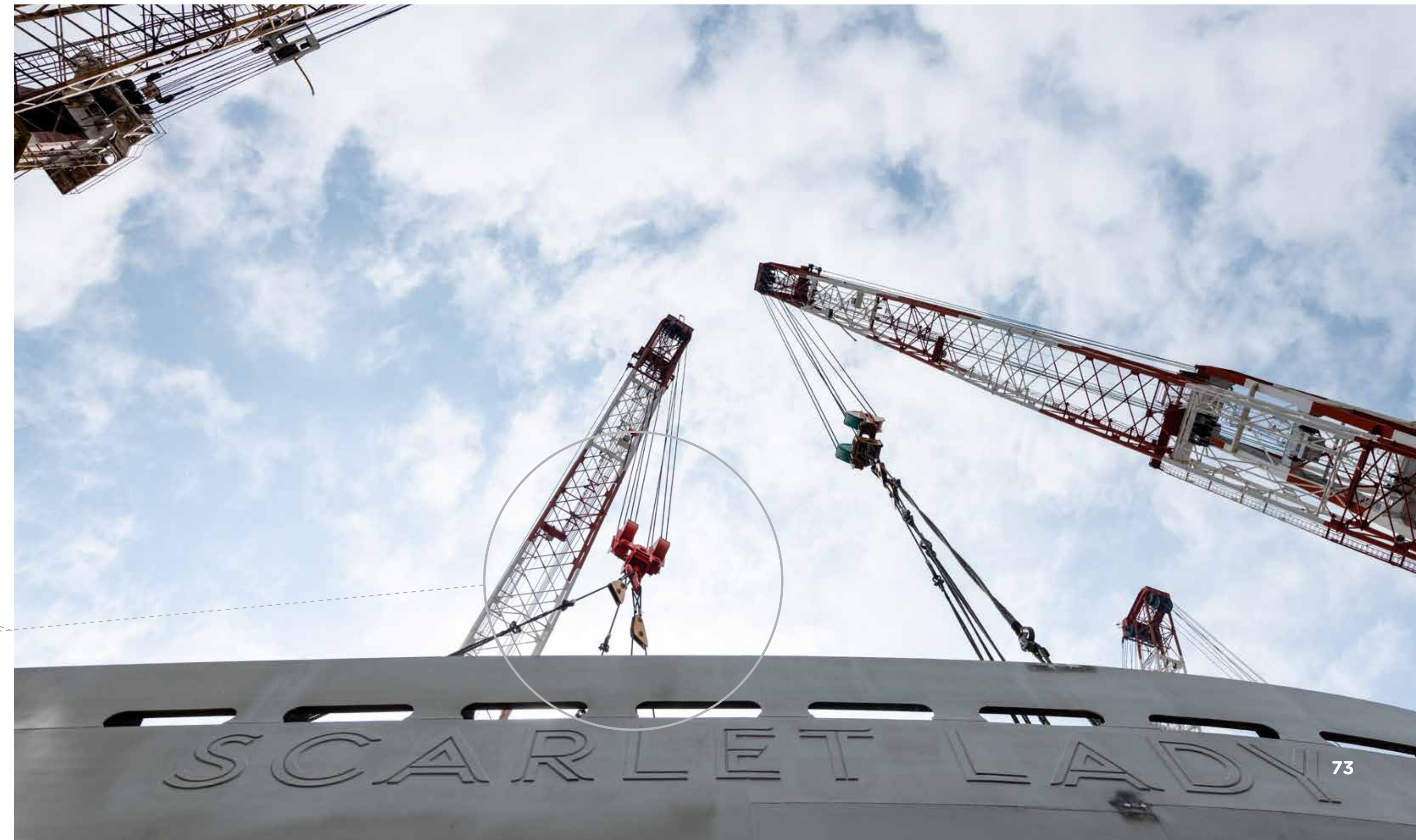
The Fincantieri Group is exposed in the normal course of its business activities to various financial and non-financial risk factors, which, if they should materialize, could have an impact on the results of operations and financial condition of the Group.

1 Risks related to operational complexity

DESCRIPTION OF RISK	IMPACT	MITIGATION
Given the operational complexity stemming not only from the inherent nature of shipbuilding but also from the Group's geographical and product diversification and acquisition-led growth, the Group is exposed to the risk of: • not guaranteeing adequate control of project management activities; • not adequately managing the operational, logistical and organizational complexity that characterizes the Group; • overestimating the synergies arising from acquisition operations or suffering the effects of slow and/or weak integration; • not adequately managing the complexity arising from its product diversification; • failing to efficiently distribute workloads according to production capacity (plant and labor) or that excess capacity might impede the achievement of competitive margins; • not meeting market demand due to its own or its suppliers' insufficient production capacity..	If the Group was unable to implement adequate project management activities, with sufficient or effective procedures and actions to ensure control of 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.	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.

2 Risks related to nature of the market

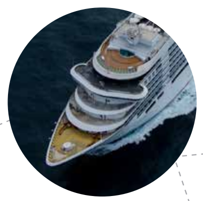
DESCRIPTION OF RISK	IMPACT	MITIGATION
The shipbuilding market in general is historically characterized by cycles, sensitive to trends in the industries served. The Group's offshore and cruise clients base their investment plans on demand by their own clientele; in the case of offshore, the main influence 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' defence spending policies.	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, in this segment, for the subsidiary VARD, as well as the risk of cancellation or postponement of existing orders. Equally, the availability of resources earmarked by the State for defence spending on fleet modernization programs is a variable that could influence the Group's results of operations and financial condition.	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 nationally and internationally, through acquisitions or the incorporation of new companies dedicated to specific businesses, such as the manufacture of steel products. Given the current downturn in the offshore market, the subsidiary VARD has successfully pursued a strategy of diversifying into new market segments, such as the expedition cruise market (in which VARD has already signed orders for 13 vessels from 2016 to date) and specialized vessels for fishing and aquaculture, with the intent of reducing its exposure to the cyclical nature of the offshore Oil & Gas segment.



3 Risks related to maintenance of competitiveness in core markets

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

DESCRIPTION OF RISK	IMPACT	MITIGATION
The difficult political and economic context and worsening regulatory environment of countries in which the Group operates may adversely impact operations and future cash flows. In addition, the pursuit of business opportunities in emerging markets, particularly in the defence sector, leads to increased exposure to country risk and/or risk of international bribery and corruption.	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.	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.



4 Risks related to contract management

DESCRIPTION OF RISK	IMPACT	MITIGATION
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.	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.	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	IMPACT	MITIGATION
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.	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.	The Group manages its contracts through dedicated structures that control all aspects during the contract life cycle (design, procurement, construction, outfitting). Contracts with suppliers include the possibility of applying penalties for delays or hold-ups attributable to such suppliers.

DESCRIPTION OF RISK	IMPACT	MITIGATION
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.	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 the majority of the offshore vessels in the current order book and is pursuing the initiatives launched to ensure a commercial solution to the few offshore projects that have remained in the order book to date. 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.

DESCRIPTION OF RISK	IMPACT	MITIGATION
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 offer its clients sufficient financial guarantees against the advances received or to meet 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 and margins, with the risk that banks limit access to credit, thereby depriving it of the necessary funding for its working capital, such as construction loans, or that banks will only be willing to grant credit at more costly conditions.	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.

DESCRIPTION OF RISK	IMPACT	MITIGATION
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.	The lack of available finance for the Group's clients or the low competitiveness of their conditions 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.	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.

5 Risks related to production outsourcing and relations with suppliers and local communities

DESCRIPTION OF RISK	IMPACT	MITIGATION
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.	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.	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 Protocol 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 that the Group entered as a result of its diversification strategy.

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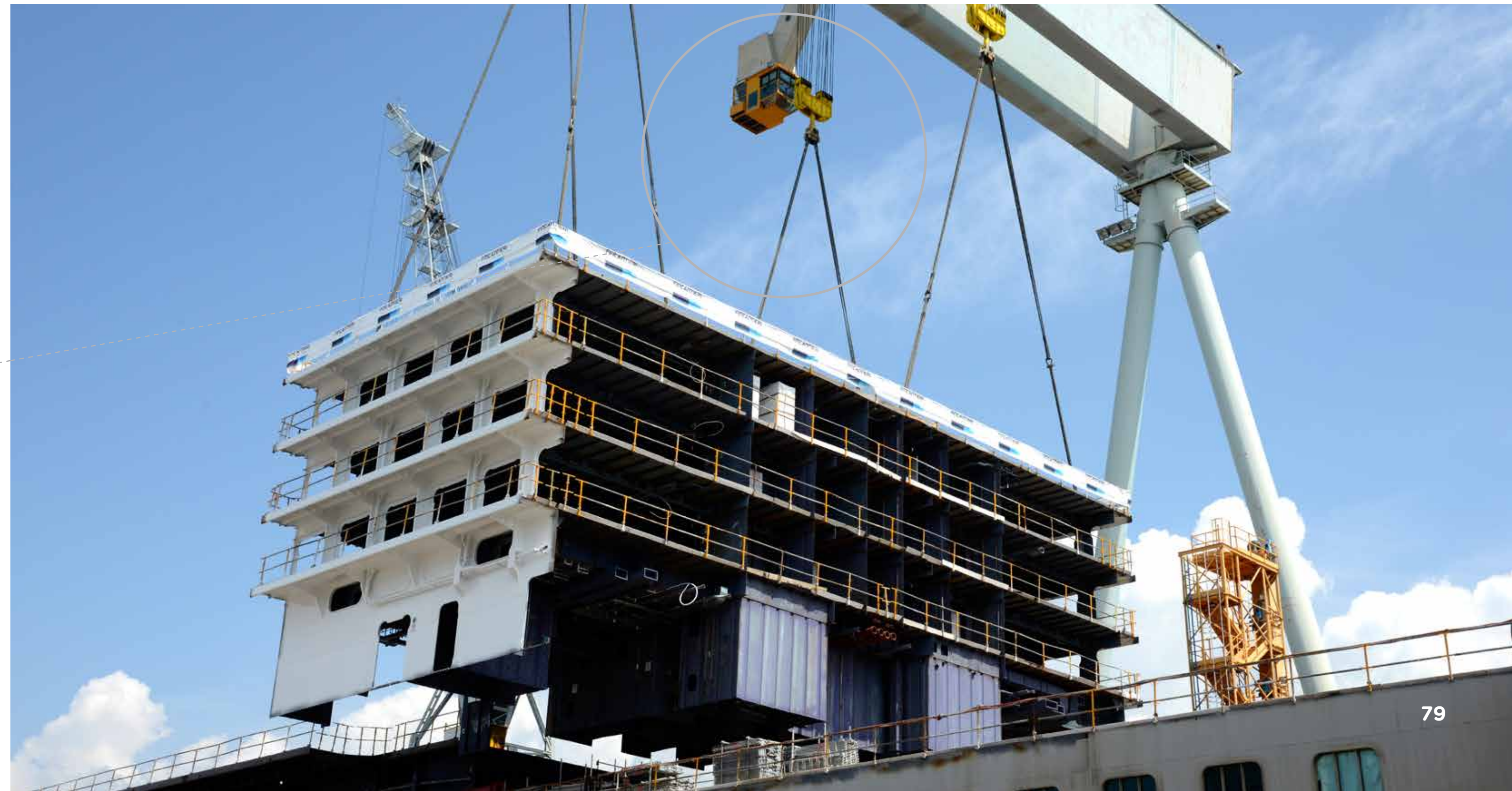
6 Risks related to knowledge management

DESCRIPTION OF RISK	IMPACT	MITIGATION
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.	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.	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. With regard to the subsidiary VARD, an internal reorganization has been carried out to assist the process of diversifying into new markets, with particular attention to the development of new concepts and alteration of production processes. At the same time, actions to recruit qualified labor have been launched in the Romanian shipyards to increase the technical and qualitative level of the workforce and achieve production efficiency in order to both support the parent company's production plan and guarantee better management of the other projects in the order book.



7 Risks related to legal and regulatory environment

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Fincantieri Group must abide by the regulations in force in the countries where it operates, including those to safeguard the environment and health and safety at work, tax regulations and the personal data protection regulation. Any breaches of such rules and regulations could result in civil, tax, administrative or criminal sanctions, along with an obligation to do all that is necessary to comply with such regulations, the costs and liability for which could have a negative impact on the Group's business and results.	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. Any breaches of personal data protection regulations would result in the application of the sanctions introduced by EU Regulation 2016/679 regarding the protection of personal data.	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 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 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 have started updating to the 2015 standard. As regards the mitigation of tax risks, the Group constantly monitors changes to the law force. Compliance with the personal data protection regulation is ensured by a system of internal rules adopted in order to ensure that the personal data collected and processed within the company's business processes.

DESCRIPTION OF RISK	IMPACT	MITIGATION
Working in the defence 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 defence and security sector including in other countries.

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

DESCRIPTION OF RISK	IMPACT	MITIGATION
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

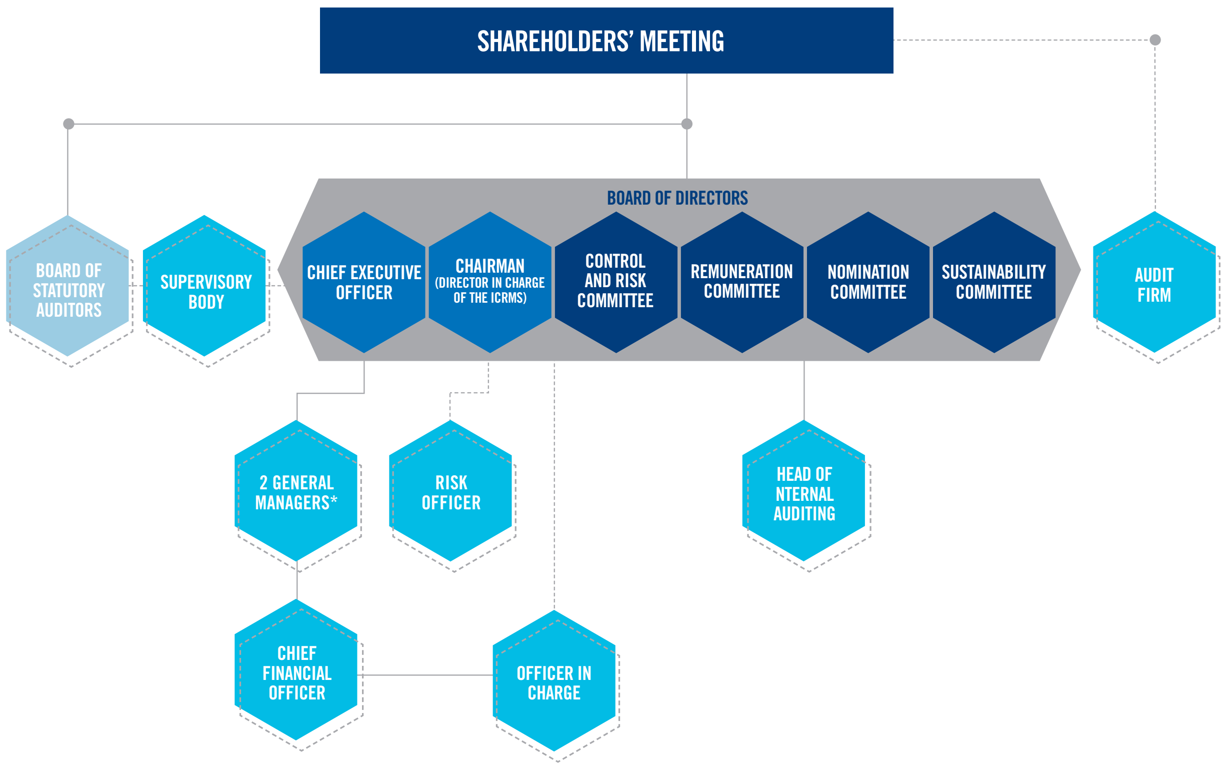
DESCRIPTION OF RISK	IMPACT	MITIGATION
The Group is exposed to exchange rate risk on transactions of a commercial and financial nature denominated in a currency other than the functional one (economic risk and transaction risk). In addition, translation risk can arise when preparing the Group's financial 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 and the Group's cash flow.	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

DESCRIPTION OF RISK	IMPACT	MITIGATION
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 costs and 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.	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.	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.

CORPORATE GOVERNANCE

The “Report on Corporate Governance and Ownership Structure” (the “Report”) required by Art. 123-bis of the Consolidated Law on Finance is a stand-alone document approved by the Board of Directors on 25 February 2019, and published in the "Ethics and 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 modelled on the “Format for the report on corporate governance and ownership structure - VIII Edition (January 2019)” 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 "Ethics and Governance" section of the Company's website.



* On 22 January 2019, the Board of Directors, upon proposal of the Chief Executive Officer, appointed a second General Manager who will support the General Manager already appointed on 26 September 2016.

OTHER INFORMATION

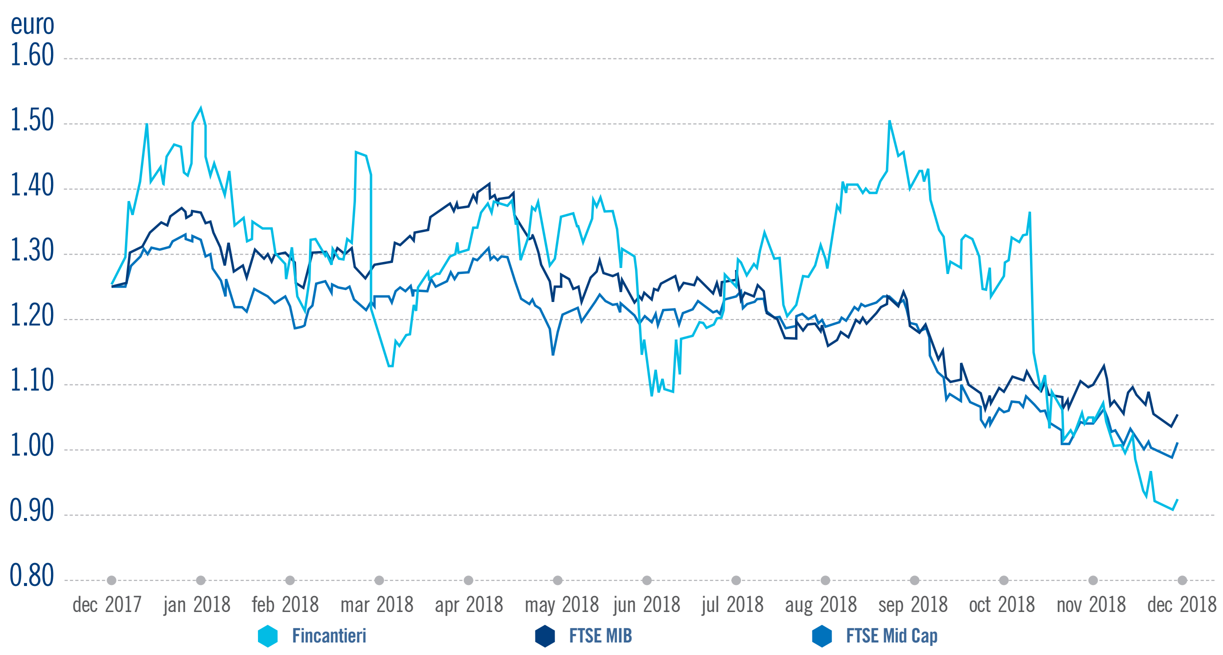
Stock performance

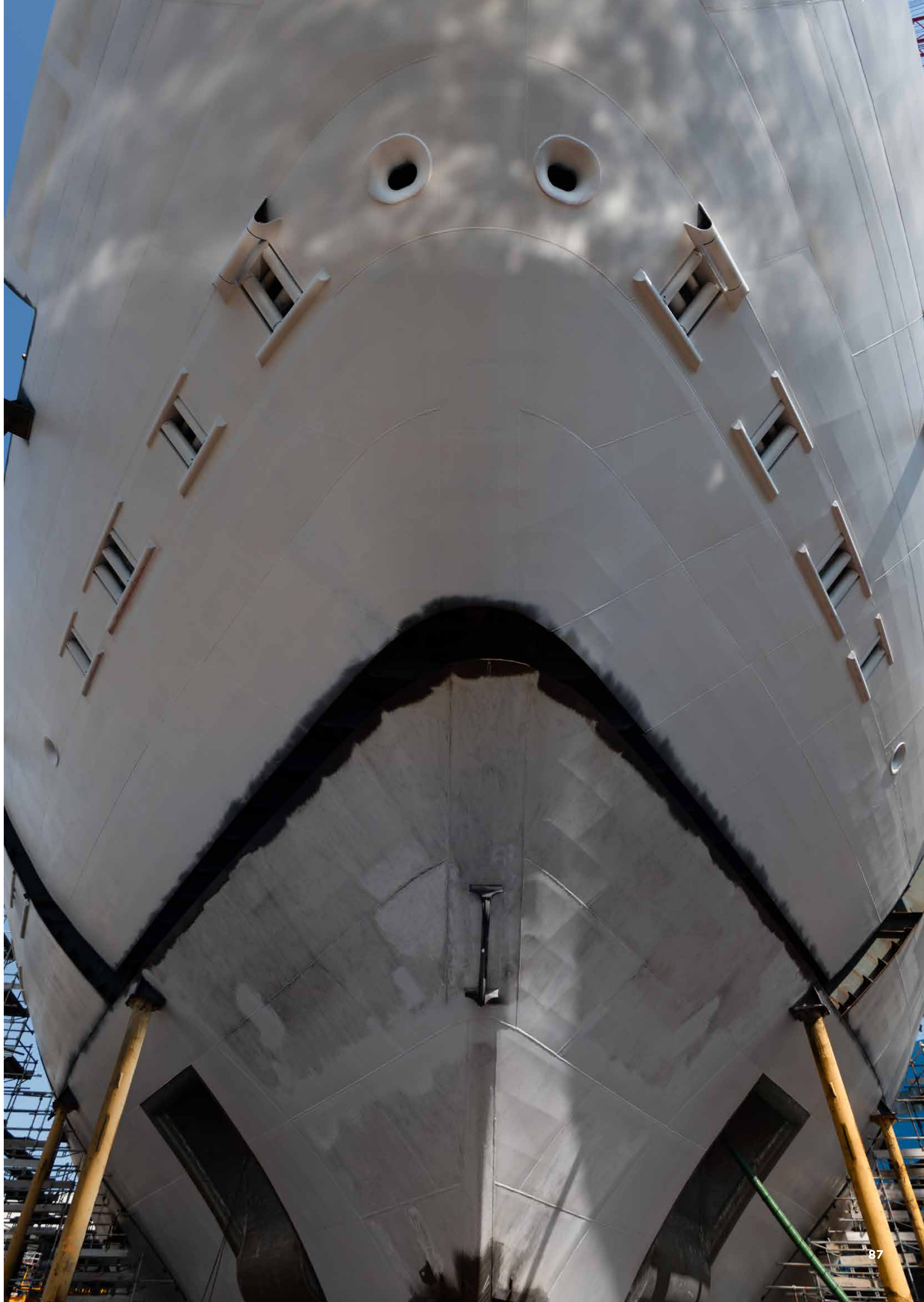
The performance of the stock in 2018 recorded a decline, falling 26.4% from a price of € 1.25 per share on 29 December 2017 to € 0.92 on 28 December 2018. The FTSE MIB, the index comprising Italy's 40 largest stocks, lost 16.1% over the same period, while the FTSE Mid Cap, of which Fincantieri is part, lost 19.6%.
Over 2018, FINCANTIERI S.p.A. stock performance recorded a downward trend, in line with the performance of the main Italian indexes, which were also influenced by the worsening of the economic situation at a global level.
The stock recorded an average price for the year of € 1.28 per share, with a peak value for the period of € 1.52 on 29 January. The stock closed the year, on 28 December 2018, with a price of euro 0.92 per share corresponding to a market capitalization of over euro 1.5 billion.
In terms of volumes, a total of 1.6 billion shares were traded during the year, with an average daily trading volume of around 6.3 million shares.
At 31 December 2018, 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.

KEY FIGURES		31.12.2018	31.12.2017
Share capital	euro	862,980,725.70	862,980,725.70
Ordinary shares issued	number	1,692,119,070	1,692,119,070
Own shares	number	4,706,890	4,706,890
Market capitalization*	euro/million	1,560	2,118

PERFORMANCE		31.12.2018	31.12.2017
Price at year end	euro	0.92	1.25
Year high	euro	1.52	1.32
Year low	euro	0.91	0.47
Average price	euro	1.28	0.89

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





Other significant events in the period

17 JANUARY

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.

2 FEBRUARY

On **2 February 2018,** Fincantieri, through its subsidiary Fincantieri Europe S.p.A., signed a share purchase agreement with the French Government represented by the Agence des Participations de l'Etat (APE), regarding the acquisition of 50% of the share capital of Chantiers de l'Atlantique (formerly STX France). The signature took place after the resolution of the share purchase agreement previously signed by Fincantieri and STX Europe on 19 May 2017 as a consequence of the exercise by the French Government of its pre-emption right for the acquisition of the entirety of STX France share capital on 28 July 2017 and followed the signing of the share purchase agreement between the French Government and STX Europe. The acquisition by Fincantieri is subject to some conditions, among which the approval by the EU Antitrust Authority. Upon the closing of the deal, the shareholders' agreements and the stock lending agreement relating to 1% of share capital of Chantiers de l'Atlantique will be signed.

22 MAY

On **22 May 2018,** the Campania Region and Fincantieri signed a cooperation agreement to launch actions aimed at maintaining employment levels and increasing order backlog in the Castellammare di Stabia shipyard and to foster the economic, productive, social and employment development of the area, while keeping to environmentally sustainable conditions.

28 AUGUST

On **28 August 2018,** Fincantieri and China State Shipbuilding Corporation (CSSC), the leading Chinese shipbuilding conglomerate, signed a Memorandum of Understanding for the expansion of the industrial cooperation already in place between the two groups to all the naval and merchant shipbuilding segments.

9 OCTOBER

On **9 October 2018,** Fincantieri and Leonardo agreed on guiding principles to strengthen their collaboration in the naval sector, revamping the joint venture Orizzonte Sistemi Navali (in which Fincantieri has a 51% interest) with the aim of making it responsible for the combat system. This partnership will enable both groups to compete in a market that is ever more challenging, enhancing the reciprocal skills developed nationally with a view to the country's system perspective.

23 OCTOBER

On **23 October 2018,** Fincantieri and Naval Group announced the start of discussions to define the terms and conditions for the establishment of a 50:50 joint venture. This represents the first step towards the creation of a broader alliance as provided for in the intergovernmental agreement signed on 27 September 2017 in Lyon.

31 OCTOBER

On **31 October 2018,** Fincantieri, ArcelorMittal CLN Distribuzione Italia and Palescandolo Lavorazioni Siderurgiche established a company called "Centro Servizi Navali S.p.A.", specialized in logistic services and metal working for the sheet yard at the Fincantieri Monfalcone and Marghera shipyards.

2 NOVEMBER

On **2 November 2018,** the delisting of VARD Group from the Singapore Stock Exchange, previously approved by the Shareholders' Meeting of the company on 24 July 2018, was completed. Following the delisting, Fincantieri holds a 97.22% of its shares.

5 NOVEMBER

On **5 November 2018,** Fincantieri and the district of Baoshan in Shanghai signed contracts related to the creation of an industry hub, mainly for cruise ship, shipyards and maritime activities, as part of the development of these areas of activity started by China.

13 DICEMBER

On **13 December 2018,** following approval by the Board of Directors, Fincantieri published its Sustainability Plan. It was an important step along the path undertaken by the company to spread and consolidate a culture of sustainability, which is an increasingly important aspect in the creation of long-term value.

Key events after the reporting period ended 31.12.2018

On 14 January 2019, Cassa Depositi e Prestiti, Fincantieri and Snam signed a preliminary cooperation agreement aimed at identifying, defining and implementing strategic medium-term projects in some key segments for innovation and the development of port facilities in Italy, as well as for the development of sustainable technologies for sea transport, in line with the Proposals of the National Integrated Plan for Energy and the Climate (PNIEC).
On 21 January 2019, as part of the US Navy Littoral Combat Ship (LCS) program, the consortium formed by Fincantieri, through its subsidiary Fincantieri Marinette Marine (FMM), and Lockheed Martin Corporation, was awarded the contract for the construction of another LCS (LCS 31).
On 23 January 2019 as part of the initiatives for the tender called by the Brazilian Navy for the construction of 4 Tamandaré class corvettes, Fincantieri engaged in a road show aimed at involving the industry of the country, promoting the creation and development of the small and medium-sized local and national companies supply chain.
In January 2019, through its subsidiary Fincantieri Infrastructure in joint venture with Salini Impregilo, the Group was selected for the reconstruction of the bridge over the Polcevera river in Genoa. This contract also provides for cooperation with the Group's companies involved in the integrated bridge monitoring, control and inspection system.
On 4 February 2019 the Autorità di sistema portuale del Mare di Sicilia Occidentale (AdSP - Western Sicilian Sea Port Authority) signed a Memorandum of Understanding for the revamping of the shipbuilding industry hub in the port of Palermo, based on the common goal of enabling the Sicilian site to assert itself as one of the most important shipyards in the Mediterranean.
On 6 February 2019, as part of the Littoral Combat Ship (LCS) program, the joint venture formed by Fincantieri, through its subsidiary Fincantieri Marinette Marine (FMM), and Lockheed Martin Corporation, delivered “Billings” (LCS 15) to the US Navy at the Marinette shipyard (Wisconsin).
On 7 February 2019 “Viking Jupiter”, the sixth cruise ship that Fincantieri has built for the shipowner Viking Cruises, was delivered at Fincantieri's Ancona shipyard.
On 21 February 2019 during the Abu Dhabi 2019 International Defense Exhibition & Conference (IDEX), Fincantieri and Abu Dhabi Shipbuilding (ADSB), the leading shipbuilder in the United Arab Emirates specialized in the construction, repair and refit of military and commercial vessels, announced that they have reached an agreement in principle to explore future forms of industrial and market cooperation in the UAE shipbuilding segment.

Business outlook

The Group expects 2019 results to be in line with 2018 and consistent with the economic and financial forecast announced within the 2018-2022 Business Plan. Revenues will continue their trend of growth with an EBITDA margin in line with the one recorded for 2018.
Net debt (net financial position) is expected to rise due to working capital financing needs.
In the Shipbuilding segment, the Group expects to deliver 11 ships in 2019, including 8 cruise ships (one of which, the Viking Jupiter, the sixth ship built for the shipowner Viking Cruises, was

delivered on February 7, at the Ancona shipyard) and 3 ships in the naval vessels business area (one of which, Billings - LCS 15, was delivered at the Marinette shipyard to the US Navy on February 6). Also with reference to the naval vessels business area, the launch of two vessels from the fleet renewal program for the Italian Navy is expected, including the landing helicopter dock currently under construction at the Castellamare di Stabia shipyard, while the program for the Qatari Ministry of Defence is coming into full swing, with 3 vessels under construction.
In the Offshore and Specialized Vessels segment, the construction activity related to the backlog acquired as a result of the diversification strategy will continue as well as the focus on execution aimed at the recovery of the margins.
In 2019, the Equipment, Systems and Services segment is expected to confirm its revenue growth trend, thanks to the development of the backlog related to the Italian Navy fleet renewal and to the Qatari contract, the higher volumes of production of cabins and public areas for the cruise business activity, the programs for the lengthening and refitting of the Cavour aircraft carrier.
The results achieved in 2018 allow us to confirm the 2018 - 2022 Business Plan targets can be confirmed, thanks to the constant support of an extremely determined and cohesive management team.

Transactions with the controlling company and other group companies

Direction and coordination by Fintecna S.p.A., the main shareholder of FINCANTIERI S.p.A., ceased as from 3 July 2014.
In compliance with the provisions of the Regulations concerning related party transactions adopted under Consob

Resolution no. 17221 of 12 March 2010 and subsequent amendments and additions, FINCANTIERI S.p.A. has adopted a "Procedure for Related Party Transactions" with effect from 3 July 2014.
As far as related party transactions 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 28 of the Notes to the Condensed Consolidated Interim Financial Statements at 31 December 2018.

Purchase of own shares

The Shareholders' Meeting held on 11 May 2018 authorized the purchase and payment of the Company's own ordinary shares, subject to the revocation, to the extent not yet used, of the previous authorization given by the Shareholders' Meeting of 19 May 2017. No purchases of own shares were made during 2018 and therefore the number of own shares held by FINCANTIERI S.p.A. at 31 December 2018 was 4,706,890 (0.28% of the share capital).

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 2018, 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 2018.

Sustainability report

Fincantieri Group's Sustainability Report 2018 was approved by the Board of Directors on 25 February 2019 and published on the Company's internet site at the address www.fincantieri.it in the Sustainability section.
Moreover, following approval by the Board of Directors, Fincantieri published its Sustainability Plan on its website.
This is an important step along the path undertaken by the company to spread and consolidate a culture of sustainability, which is an increasingly important aspect in the creation of long-term value.

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 other non-recurring personnel costs;
  - provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages;
  - other income or expenses outside the ordinary course of business due to non-recurring events.
- EBIT: this is equal to EBITDA after deducting depreciation, amortization and impairment of a recurring nature (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).

(euro/000)

	31.12.2018		31.12.2017	
	Equity	Profit/(loss) for the year	Equity	Profit/(loss) for the year
Parent Company Financial Statements	**1,524,774**	**217,998**	**1,411,723**	**119,272**
Share of equity and net result of consolidated subsidiaries, net of carrying amount of the related investments	(341,788)	(147,280)	(208,736)	1,277
Consolidation adjustments for difference between purchase price and corresponding book value of equity	218,823	(4,962)	210,409	(8,095)
Reversal of dividends distributed by consolidated subsidiaries to the Parent Company				
Joint ventures and associates accounted for using the equity method	15,330	5,650	8,870	1,030
Elimination of intercompany profits and losses and other consolidation adjustments	(58,459)	1,034	(59,493)	(56,344)
Exchange translation differences from line-by-line consolidation of foreign subsidiaries	(131,401)		(125,935)	
Equity and profit for the year attributable to owners of the parent	**1,227,280**	**72,440**	**1,236,840**	**57,140**
Non-controlling interests	25,690	(3,317)	72,322	(4,000)
Total consolidated equity and profit/(loss) for the year	**1,252,970**	**69,123**	**1,309,162**	**53,140**

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS USED IN THE REPORT ON OPERATIONS WITH THE MANDATORY IFRS STATEMENTS

CONSOLIDATED INCOME STATEMENT

(euro/million)

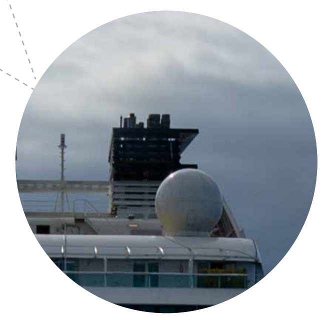
	31.12.2018		31.12.2017	
	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A - Revenue		**5,474**		**5,020**
Operating revenue	5,369		4,914	
Other revenue and income	105		106	
Recl. to I - Extraordinary and non-recurring income and expenses				
B - Materials, services and other costs		**(4,089)**		**(3,742)**
Materials, services and other costs	(4,104)		(3,747)	
Recl. to I - Extraordinary and non-recurring income and expenses	15		5	
C - Personnel costs		**(946)**		**(909)**
Personnel costs	(951)		(912)	
Recl. to I - Extraordinary and non-recurring income and expenses	5		3	
D - Provisions		**(25)**		**(28)**
Provisions	(60)		(69)	
Recl. to I - Extraordinary and non-recurring income and expenses	35		41	
E - Depreciation, amortization and impairment		**(137)**		**(120)**
Depreciation, amortization and impairment	(137)		(120)	
F - Finance income and (costs)		**(104)**		**(83)**
Finance income/(costs)	(104)		(83)	
G - Income/(expense) from investments		**(1)**		**(5)**
Income/(expense) from investments	3		(5)	
Recl. to I - Extraordinary and non-recurring income and expenses	(4)			
H - Income taxes		**(64)**		**(42)**
Income taxes	(52)		(31)	
Recl. to L - Tax effect of extraordinary and non-recurring income and expenses	(12)		(11)	
I - Extraordinary and non-recurring income and expenses		**(51)**		**(49)**
Recl. from B - Materials, services and other costs	(15)		(5)	
Recl. from C- Personnel costs	(5)		(3)	
Recl. from D - Provisions	(35)		(41)	
Recl. from G - Income/(expense) from investments	4			
L- Tax effect of extraordinary and non-recurring income and expenses		**12**		**11**
Recl. from H – Income taxes	12		11	
Profit/(loss) for the year		**69**		**53**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/million)

	31.12.2018		31.12.2017	
	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A - Intangible assets		**618**		**582**
Intangible assets	618		582	
B - Property, plant and equipment		**1,074**		**1,045**
Property, plant and equipment	1,074		1,045	
C - Investments		**60**		**53**
Investments	60		53	
D - Other non-current assets and liabilities		**8**		**122**
Derivative assets	30		144	
Other non-current assets	31		26	
Other liabilities	(32)		(31)	
Derivative liabilities	(21)		(17)	
E - Employee benefits		**(57)**		**(59)**
Employee benefits	(57)		(59)	
F - Inventories and advances		**881**		**835**
Inventories and advances	881		835	
G - Construction contracts and client advances		**936**		**648**
Construction contracts - assets	2,531		1,995	
Construction contracts - liabilities and client advances	(1,595)		(1,347)	
H - Construction loans		**(632)**		**(624)**
Construction loans	(632)		(624)	
I - Trade receivables		**749**		**909**
Trade receivables and other current assets	1,062		1,156	
Recl. to N) Other assets	(313)		(247)	
L - Trade payables		**(1,849)**		**(1,748)**
Trade payables and other current liabilities	(2,116)		(1,973)	
Recl. to N) Other liabilities	267		225	
M - Provisions for risks and charges		**(135)**		**(141)**
Provisions for risks and charges	(135)		(141)	
N - Other current assets and liabilities		**94**		**1**
Deferred tax assets	123		72	
Income tax assets	21		19	
Derivative assets	23		16	
Recl. from I) Other current assets	313		247	
Deferred tax liabilities	(58)		(62)	
Income tax liabilities	(4)		(12)	
Derivative liabilities and option fair value	(57)		(54)	
Recl. from L) Other current liabilities	(267)		(225)	
NET INVESTED CAPITAL		**1,747**		**1,623**
O - Equity		**1,253**		**1,309**
P - Net financial position		**494**		**314**
SOURCES OF FUNDING		**1,747**		**1,623**

FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)

	Note	31.12.2018	of which related parties Note 32	31.12.2017	of which related parties Note 32
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	6	617,668		581,501	
Property, plant and equipment	7	1,074,026		1,044,671	
Investments accounted for using the equity method	8	55,651		50,581	
Other investments	8	4,556		2,348	
Financial assets	9	97,901	13,449	279,763	
Other assets	10	31,811	673	26,403	5,337
Deferred tax assets	11	123,964		72,104	
Total non-current assets		**2,005,577**		**2,057,371**	
CURRENT ASSETS					
Inventories and advances	12	881,095	201,738	835,199	206,509
Construction contracts - assets	13	2,531,272		1,995,342	
Trade receivables and other current assets	14	1,062,377	145,310	1,156,018	178,726
Income tax assets	15	20,602		18,918	
Financial assets	16	48,688	86	57,907	576
Cash and cash equivalents	17	676,487		274,411	
Total current assets		**5,220,521**		**4,337,795**	
TOTAL ASSETS		7,226,098		6,395,166	
EQUITY AND LIABILITIES					
EQUITY	18				
Equity attributable to owners of the parent					
Share capital		862,981		862,981	
Reserves and retained earnings		364,299		373,857	
Total Equity attributable to owners of the parent		**1,227,280**		**1,236,838**	
Non-controlling interests		25,690		72,322	
Total Equity		**1,252,970**		**1,309,160**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	19	126,523		130,754	
Employee benefits	20	56,806		58,912	
Financial liabilities	21	792,728	40,487	293,699	48,935
Other liabilities	22	32,137		30,916	
Deferred tax liabilities	11	58,012		61,752	
Total non-current liabilities		**1,066,206**		**576,033**	
CURRENT LIABILITIES					
Provisions for risks and charges	19	8,693		10,089	
Construction contracts - liabilities	23	1,594,793		1,347,252	
Trade payables and other current liabilities	24	2,116,290	66,642	1,973,482	18,756
Income tax liabilities	25	4,300		12,235	
Financial liabilities	26	1,182,846	12,324	1,166,915	19,175
Total current liabilities		**4,906,922**		**4,509,973**	
TOTAL EQUITY AND LIABILITIES		7,226,098		6,395,166	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	Note	2018	of which related parties Note 32	2017	of which related parties Note 32
Operating revenue	27	5,368,896	271,109	4,914,255	293,603
Other revenue and income	27	105,124	3,164	105,830	1,152
Materials, services and other costs	28	(4,104,050)	(106,386)	(3,746,474)	(82,097)
Personnel costs	28	(951,615)		(912,064)	
- of which non-recurring	32	(4,969)		(3,493)	
Depreciation, amortization and impairment	28	(136,359)		(119,860)	
Provisions	28	(58,759)		(69,060)	
Finance income	29	36,635	94	31,487	264
Finance costs	29	(140,566)	(4,079)	(114,934)	(3,395)
Income/(expense) from investments	30	5,942		31	
Share of profit/(loss) of investments accounted for using the equity method	30	(2,905)		(4,794)	
Income taxes	31	(53,220)		(31,277)	
PROFIT/(LOSS) FOR THE YEAR (A)		**69,123**		**53,140**	
Attributable to owners of the parent		72,440		57,140	
Attributable to non-controlling interests		(3,317)		(4,000)	
Basic earnings/(loss) per share (Euro)	32	0.04293		0.03378	
Diluted earnings/(loss) per share (Euro)	32	0.04264		0.03366	
Other comprehensive income/(losses), net of tax (OCI)					
Gains/(losses) from remeasurement of employee defined benefit plans	18-20	1,141		94	
Total gains/(losses) that will not be reclassified to profit or loss, net of tax	18	**1,141**		**94**	
attributable to non-controlling interests		**2**			
Effective portion of gains/(losses) on cash flow hedging instruments	4-18	(77,433)		119,692	
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method	8			(216)	
Exchange gains/(losses) arising on translation of foreign subsidiaries' financial statements	18	16,008		(57,840)	
Total gains/(losses) that may be subsequently reclassified to profit or loss, net of tax	18	**(61,425)**		**61,636**	
attributable to non-controlling interests		**1,014**		**(6,305)**	
Total other comprehensive income/(losses), net of tax (B)	18	**(60,284)**		**61,730**	
attributable to non-controlling interests		**1,016**		**(6,305)**	
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A) + (B)		**8,839**		**114,870**	
Attributable to owners of the parent		11,140		125,175	
Attributable to non-controlling interests		(2,301)		(10,305)	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(euro/000)	Note	Share capital	Reserves and retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total
1.1.2017	18	**862,981**	**223,134**	**1,086,115**	**155,241**	**1,241,356**
Business combinations						
Share capital increase						
Share capital increase – non-controlling interests						
Acquisition of non-controlling interests			27,552	27,552	(72,447)	(44,895)
Dividend distribution					(167)	(167)
Reserve for long-term incentive plan			3,409	3,409		3,409
Purchase of own shares			(5,277)	(5,277)		(5,277)
Other changes/roundings			(136)	(136)		(136)
Total transactions with owners		**-**	**25,548**	**25,548**	**(72,614)**	**(47,066)**
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	18	**862,981**	**373,857**	**1,236,838**	**72,322**	**1,309,160**
First adoption IFRS			(20,427)	(20,427)	(234)	(20,661)
01.01.2018		**862,981**	**353,430**	**1,216,411**	**72,088**	**1,288,499**
Business combinations						
Share capital increase						
Share capital increase – non-controlling interests					180	180
Acquisition of non-controlling interests			11,814	11,814	(44,278)	(32,464)
Dividend distribution			(16,874)	(16,874)		(16,874)
Reserve for long-term incentive plan			4,844	4,844		4,844
Purchase of own shares						
Other changes/roundings			(55)	(55)	1	(54)
Total transactions with owners		**-**	**(271)**	**(271)**	**(44,097)**	**(44,368)**
Profit/(Loss) for the year			72,440	72,440	(3,317)	69,123
OCI for the year			(61,300)	(61,300)	1,016	(60,284)
Total comprehensive income for the year		**-**	**11,140**	**11,140**	**(2,301)**	**8,839**
31.12.2018	18	**862,981**	**364,299**	**1,227,280**	**25,690**	**1,252,970**

CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/000)	Note	31.12.2018	31.12.2017
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	**41,682**	**546,869**
- of which related parties		99,454	(256,553)
Investments in:			
- intangible assets		(37,226)	(54,739)
- property, plant and equipment		(124,069)	(107,919)
- equity investments		(18,343)	(328)
- receivables and other financial assets			
- cash out for business combinations, net of cash acquired		(85)	(5,514)
Disposals of:			
- intangible assets			
- property, plant and equipment		232	825
- equity investments		16,600	50
- receivables and other non-current financial assets			
CASH FLOWS FROM INVESTING ACTIVITIES		**(162,891)**	**(167,625)**
Change in non-current loans:			
- disbursements		567,785	107,911
- repayments		(61,080)	(140,847)
Change in non-current financial receivables:			
- disbursements		(14,012)	(14,227)
- repayments		64,674	
Change in current bank loans and credit facilities			
- disbursements		1,255,041	3,184,410
- repayments		(1,200,335)	(3,380,512)
Change in current bonds/commercial papers			
- disbursements		1,275,300	
- repayments		(1,343,539)	
Change in current parent company loans			
Changes in payables/receivables to/from investee companies			
Change in other current financial liabilities/receivables		9,398	(11,093)
Change in receivables for trading financial instruments		2,214	(3,025)
Change in payables for trading financial instruments		30	(6,389)
Net capital contributions by non-controlling interests		180	
Purchase of own shares			(5,277)
Acquisition of non-controlling interests in subsidiaries		(32,464)	(44,895)
CASH FLOWS FROM FINANCING ACTIVITIES		**523,192**	**(313,944)**
- of which related parties		(28,258)	(32,566)
NET CASH FLOWS FOR THE YEAR		**401,983**	**65,300**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**274,411**	**219,512**
Effect of exchange rate changes on cash and cash equivalents		93	(10,401)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**676,487**	**274,411**

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 2018, 71.64% of the Company's share capital of euro 862,980,725.70 was held by Fintecna S.p.A.; the remainder of share capital was distributed between a number of private investors (none of whom held significant interests of 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 Fintecna S.p.A. is owned by Cassa Depositi e Prestiti S.p.A. (hereinafter also referred to as "CDP"), 82.77% 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 "Financial information".

Principal activities of the Group

The Group operates through the following three segments:

• Shipbuilding: encompassing the business areas cruise ships and expedition cruise vessels, naval vessels and other products and services (ferries and mega yachts);
• Offshore and Specialized Vessels: encompassing the design and construction of high-end offshore support vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as 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.

In 2018 the delisting of VARD was completed and December saw the start of full organizational integration with the Parent Company both for the construction of expedition cruise vessels and the related production sites and for offshore and specialized vessels projects. As a result of this reorganization, project management, the Romanian production sites and Norwegian shipyards dedicated to the outfitting of cruise ships and other key activities such as production supervision of public areas and procurement have been merged into an autonomous organizational unit denominated the Cruise business unit.
The VARD Cruise business unit and the Parent Company Fincantieri have defined a specific coordination policy based on which the head of Fincantieri's Merchant Ships Department directs and controls the activities of the VARD Cruise business unit. In line with the above, the economic results of this business unit have been reallocated to the Shipbuilding operating segment.
Project management for the construction of offshore vessels, special ships and vessels for the Norwegian Coastguard, as well as the direction of the remaining production sites in Norway, Brazil and Vietnam, have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore segment.

Basis of preparation

In 2007 Fincantieri took up the option permitted by Legislative Decree 38 dated 28 February 2005, governing the exercise of the options contained in article 5 of European Regulation no.1606/2002 concerning international accounting standards.
The Consolidated Financial Statements of the Fincantieri Group have been prepared in compliance with IFRS, meaning all the International Financial Reporting Standards, all the International Accounting Standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC"), which, as at the reporting date of the Consolidated Financial Statements, had been endorsed by the European Union in accordance with the procedure laid down in Regulation (EC) no. 1606/2002 of the European Parliament and European Council dated 19 July 2002, and in compliance with 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 2018 were approved by the Company's Board of Directors on 25 February 2019.
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 2018

A brief description of the accounting standards, amendments and interpretations applicable to financial statements as at and for the year ended 31 December 2018 is provided below. 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.
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 selling price of each good or service; and
5. recognition of revenue when the related performance obligation has been satisfied.

IFRS 15 also requires additional financial statement disclosures to be provided regarding the nature, amount, timing and uncertainty of revenues and related cash flows.

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

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

The IFRS 15 provisions and related clarifications replace 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 15 in the financial statements, the Group has decided to use simplified method laid down in paragraph C3(b), 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), while comparative figures are not restated according to IFRS 15. The Group has chosen to apply this principle only to contracts not completed at the date of first application.
In particular, the adoption of IFRS 15 has entailed a lower consolidated equity of euro 20,160 thousand, net of the related tax effect, which is analyzed as follows:

(euro/000)

Combination of a series of goods and services into a single contractual obligation	(23,308)
Change in the timing for recording revenues	(1,254)
Capitalization of incremental costs to obtain contracts	(3,444)
Increase of deferred tax assets	7,846
Total	**(20,160)**

Regulation No. 2016/2067 issued by the European Commission on 22 November 2016 endorses IFRS 9 "Financial Instruments", which replaces IAS 39 and IAS 32 ("IFRS 9"). In particular, the new standard reduces the number of categories of financial assets envisaged under IAS 39 and defines: (i) the methods for classifying and measuring financial assets based on the characteristics of the financial flows and on the business model used to hold them; (ii) a single model for the impairment of financial assets based on expected losses; (iii) methods for applying hedge accounting and (iv) recognition of changes to credit standing in the fair value measurement of liabilities.
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), while comparative figures are not restated according to IFRS 9.
In particular, the adoption of IFRS 9 has entailed a lower consolidated equity of euro 501 thousand, net of the related tax effect, due to the application of the new impairment model for financial assets.
Other new changes introduced by IFRS 9 are:
- the new method for classifying and measurement of financial assets representing capital instruments has not resulted in any change;
- the method for recognizing the financial risk hedging operations currently adopted by the Group is consistent with the new hedge accounting provisions introduced by IFRS 9.
A summary of the effects arising from the application of IFRS 15 and IFRS 9 on the opening balances as at 1 January 2018 is given below. There are no effects on the net financial position.

(euro/000)

	Published	First adoption effects		Restated
	31 December 2017	IFRS 15	IFRS 9	1 January 2018
Non-current assets	**2,057,371**	**55,771**	**(501)**	**2,112,641**
of which: Intangible assets	581,501	47,926		629,427
of which: Financial assets	279,763		(651)	279,112
of which: Deferred tax assets	72,104	7,845	150	80,099
Current assets	**4,337,795**	**(106,628)**		**4,231,167**
of which: Construction contracts - assets	1,995,342	(106,628)		1,888,714
Total Assets	**6,395,166**	**(50,857)**	**(501)**	**6,343,808**
Equity	**1,309,160**	**(20,160)**	**(501)**	**1,288,499**
of which: Group equity	1,236,838	(20,028)	(399)	1,216,411
of which: Non-controlling interests in equity	72,322	(132)	(102)	72,088
Non-current liabilities	**576,033**			**576,033**
Current liabilities	**4,509,973**	**(30,697)**		**4,479,276**
of which: Construction contracts - liabilities	1,347,252	(30,697)		1,316,555
Total equity and liabilities	**6,395,166**	**(50,857)**	**(501)**	**6,343,808**

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. Application of this interpretation has no impact on the Consolidated Financial Statements at 31 December 2018.

On the same date, the IASB issued the "Annual Improvements to IFRSs: 2014-2016 Cycle" 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. Application of these changes has no impact on the Consolidated Financial Statements at 31 December 2018.

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

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. Early adoption is permitted but Fincantieri has not taken up this option.
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. Early adoption is permitted (concurrently with the date IFRS 9 is first applied) but Fincantieri has not taken up this option.
Regulation No. 2017/1986 issued by the European Commission on 31 October 2017 endorses the new accounting standard 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. For the purposes of recording in the financial statements the impacts resulting from the first adoption of IFRS 16, the Group has decided to adopt the practical expedient envisaged by IFRS 16 paragraph C5 point b) and paragraph C8, based on which the Group will record, on 1 January 2019 (date of first adoption), a financial liability (estimated to be about euro 89 million) corresponding to the current value of the remaining payments due for the leases in existence at the date of first application, with an intangible asset of the same value, reflecting the right of use of the leased asset, as the contra-entry.

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 2018. The list excludes those standards, amendments and interpretations concerning matters not applicable to the Group.
On 7 June 2017, 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.
On 12 December 2017, the IASB issued the "Annual Improvements to IFRSs: 2015-2017 Cycle" 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. The improvements will be effective from 1 January 2019.
On 7 February 2018, the IASB published amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, specifying the methods for determining, in the case of a defined benefit plan, the costs relating to pensions for the remainder of the reporting period. The amendments will be effective from 1 January 2019.
On 29 March 2018, the IASB published the revised version of the Conceptual Framework for Financial Reporting and at the same time published a document amending the references to the previous Conceptual Framework in IFRS Standards, providing:
- updated definitions of an asset and a liability;
- a new chapter on measurement, derecognition and disclosure;
- clarification of certain principles when drafting financial statements, such as prudence and substance over form.
The amendments will be effective from 1 January 2020.
On 22 October 2018, the IASB published amendments to IFRS 3 – Business Combination, with the aim of identifying the principles according to which an acquisition concerns a business or a group of assets, which, as such, do not meet the definition of business provided by IFRS 3. The amendments will be effective for business combinations that occur from 1 January 2020.
On 31 October 2018, the IASB published amendments to IAS 1 and IAS 8, clarifying the definition of "material information" in order to establish whether or not to include information in the financial statements.
The amendments will be effective from 1 January 2020.

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.
During 2018 the consolidation boundary of the Fincantieri group changed due to the following transactions:

- On 8 March 2018, the subsidiary Marine Interiors S.p.A. incorporated the company "Seaenergy a Marine Interiors Company S.r.l." (formerly M.I. Galley S.r.l.), owning 85% of the share capital. The new company, with headquarters in Pordenone, will focus on the design and construction of catering areas;
- On 18 April 2018, exercising a call option, the subsidiary Delfi S.r.l. acquired the remaining 16.5% of the share capital of Issel Nord S.r.l., bringing its shareholding to 100%;
- On 30 August 2018, Vard Group AS acquired 100% of the shelf company Vard Contracting AS;
- On 2 November 2018, the de-listing of the VARD Group from the Singapore Stock Exchange, previously approved by the Shareholders' Meeting of the company on 24 July 2018, was completed. Following the delisting, the subsidiary Fincantieri Oil & Gas S.p.A. increased its interest in Vard Holdings Limited from 79.74% at 31 December 2017 to 97.22% at 31 December 2018;
- On 11 November 2018, Vard Group AS increased its shareholding in Vard Acqua Sunndal AS from 96.42% to 98.21%.

With regard to movements in shareholdings consolidated using the equity method, the following main transactions are reported:

- On 1 January 2018, the joint venture CSSC - Fincantieri Cruise Industry Development Limited incorporated CSSC Fincantieri (Shanghai) Cruise Design Limited, with headquarters in Hong Kong, which will mainly focus on cruise ship design;
- On 16 April 2018, the Parent Company was involved in the incorporation of Centro Servizi Navali S.p.A., with headquarters in San Giorgio di Nogaro (UD), in which it holds 10.93% of the share capital, which will focus on the logistics management of flat and long products made of steel and other metals;
- On 4 June 2018, Vard Group AS acquired 39.38% of the share capital of shipowner Island Diligence AS;
- On 28 June 2018, the Parent Company sold its shares in Camper & Nicholsons International SA for euro 16.6 million;
- On 29 June 2018, Vard Group AS sold its shares in Bridge Eiendom AS;
- On 3 August 2018, the Parent Company acquired 10% of the share capital of Gruppo PSC S.p.A., a company specialized in the planning and construction of technological systems for major works;
- On 30 October 2018, the Parent Company and the subsidiary Fincantieri SI incorporated the company BUSBAR4F S.c.a.r.l., in which they hold 10% and 50% of the share capital respectively. The NewCo, with headquarters in Trieste (Italy), will focus on the construction of electrical systems;
- On 5 December 2018, the subsidiary Fincantieri Infrastructure S.p.A. was involved in the incorporation of Fincantieri Clea Buildings S.c.a.r.l., owning 51% of the share capital. The new company, with headquarters in Verona (Italy), will focus on the management and execution solely of works relating to the construction of the new workshop in the Marghera shipyard;
- On 18 December 2018, the subsidiary Fincantieri Infrastructure S.p.A. was involved in the incorporation of PERGENOVA S.c.p.a., owing 50% of the share capital. The new company, with headquarters in Genoa (Italy), will focus on rebuilding the city's bridge.

The Consolidated Financial Statements at 31 December 2018 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:

	2018		2017	
	12-month average	Closing rate at 31-Dec	12-month average	Closing rate at 31-Dec
US Dollar (USD)	1.1810	1.1450	1.1297	1.1993
Australian Dollar (AUD)	1.5797	1.6220	1.4732	1.5346
UAE Dirham (AED)	4.3371	4.2050	4.1475	4.4044
Brazilian Real (BRL)	4.3085	4.4440	3.6054	3.9729
Norwegian Krone (NOK)	9.5975	9.9483	9.3270	9.8403
Indian Rupee (INR)	80.7332	79.7298	73.5324	76.6055
Romanian Leu (RON)	4.6540	4.6635	4.5688	4.6585
Chinese Yuan (CNY)	7.8081	7.8751	7.6290	7.8044
Swedish Krona (SEK)	10.2583	10.2548	9.6351	9.8438

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

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its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss in profit or loss.

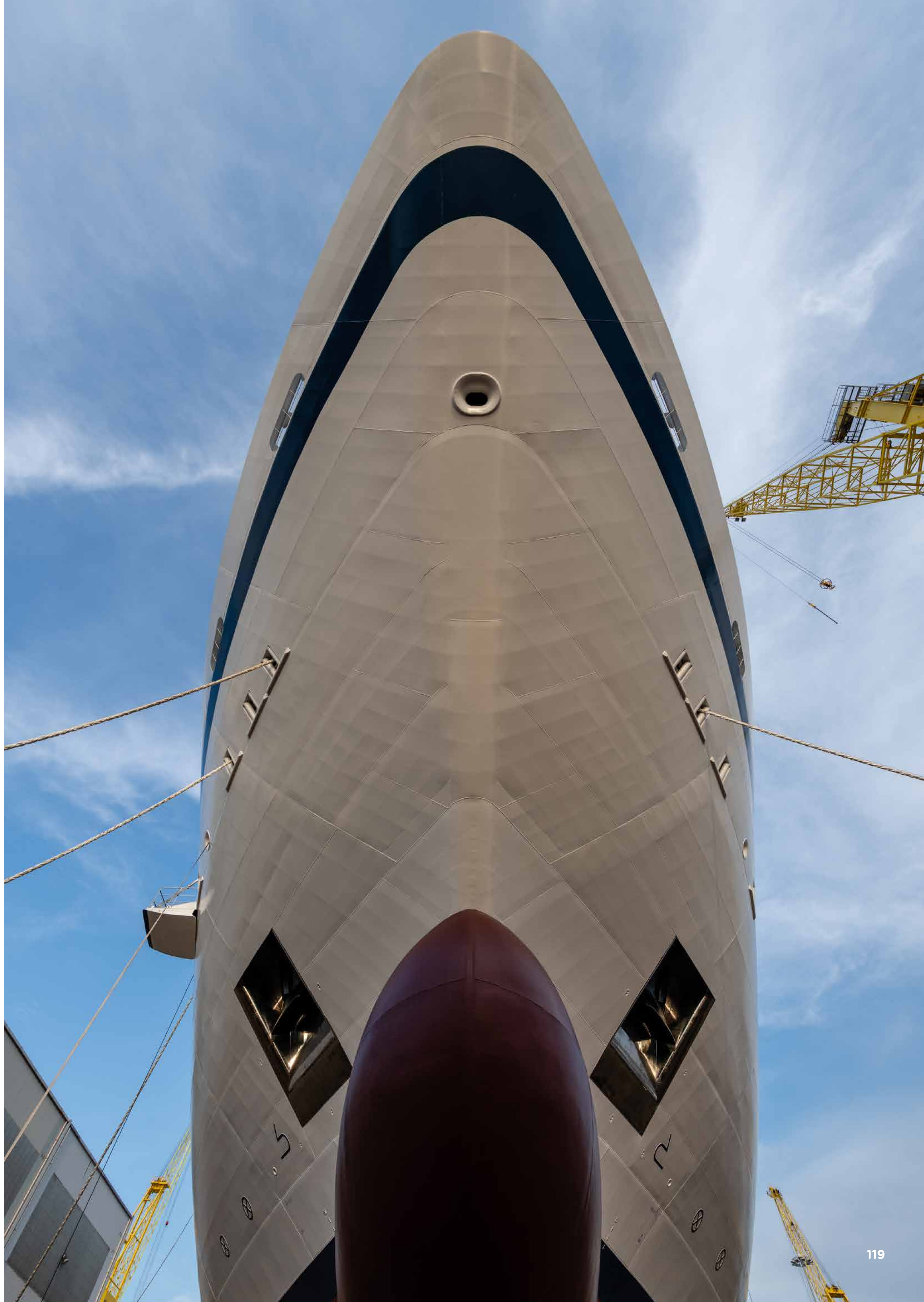
Acquisitions of non-controlling interests in entities which are already controlled by the acquirer or disposals of non-controlling interests that do not involve a loss of control are treated as equity transactions; therefore, any difference between the cost of acquisition/disposal and the related share of net assets acquired/sold is accounted for as an adjustment to the Group's equity.

When controlling interests of less than 100% are acquired, only the portion of goodwill attributable to the Parent Company is recognized. The value of non-controlling equity interests is determined in proportion to the non-controlling interest in the acquiree's net identifiable assets.

Acquisition-related costs are recognized in profit or loss on the date the services are received.

National tax consolidation

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



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NOTE 3 - ACCOUNTING POLICIES

1. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, that are controllable and able to generate future economic benefits. Such assets are carried at purchase cost and/or internal production cost, including expenses directly attributable to preparing assets for their intended use, less accumulated amortization and any accumulated impairment losses. Any borrowing costs incurred during and for the development of an intangible asset are capitalized as part of the asset's cost. Assets qualifying as "assets acquired in a business combination" are recognized separately only if their fair value can be measured reliably. Intangible assets are amortized unless they have an indefinite useful life. Amortization commences when the asset is available for use and is allocated on a systematic basis over its useful life. The criteria used to identify and determine any impairment losses for intangible assets can be found in paragraph 3 below.

1.1 Goodwill

Goodwill is not amortized but is tested annually for impairment, or whenever specific events or changed circumstances indicate that it might be impaired. It is not permitted to reverse a previously recognized impairment loss. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.
On loss of control of a subsidiary, the gain or loss on disposal takes into account the residual value of previously recognized goodwill.

1.2 Concessions, licenses, trademarks and similar rights

Concessions, licenses and similar rights, acquired in a business combination, are recognized at their acquisition-date fair values and systematically amortized over the shorter of their expected period of use and the length of the right's ownership. Trademarks are considered to have an indefinite useful life and so are not amortized, but are tested annually for impairment, or whenever specific events or changed circumstances indicate that they might be impaired.

1.3 Client relationships and order backlog

Client relationships and order backlog are recognized only if acquired in a business combination.
Client relationships are amortized over the expected life of such relationships (10-20 years).
The order backlog represents the expected residual value of orders existing at the acquisition date. This value is amortized on a straight-line basis over expected useful life.

1.4 Research and development costs

Expenditure on research is recognized as an expense when it is incurred. Expenditure on developing new products and processes is capitalized and recognized as an intangible asset only if all the following conditions are satisfied:

- the development project is clearly identified and the related costs are identifiable and can be measured reliably;
- the technical feasibility of the project can be demonstrated;
- the intention to complete the project and sell the intangible assets generated can be demonstrated;
- a potential market exists for the intangible asset or, if it is used internally, the asset is of demonstrable utility;
- adequate technical and financial resources are available to complete the project.

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

1.5 Industrial patents and intellectual property rights

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

2. Property, plant and equipment

Items of property, plant and equipment are stated at their historical purchase or production cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to preparing the assets for their intended use, as well as any costs of dismantling and removing the assets which will be incurred as a result of contractual obligations to restore assets to their original condition. Any borrowing costs incurred during and for the development of an item of property, plant and equipment are capitalized as part of the asset's cost.
Assets under concession are stated at cost, including estimated dismantling and removal costs, arising as a consequence of contractual obligations to restore an asset to its original condition, less accumulated depreciation calculated over the shorter of the asset's estimated useful life and the term of the individual concessions.
Expenditure incurred after acquiring an asset and the cost of replacing certain parts is capitalized only if such expenditure increases the asset's future economic benefits. Routine repair and maintenance costs are recognized as expenses in the period incurred. If the costs of replacing certain parts of an asset are capitalized, the residual value of the parts replaced is charged to profit or loss.
Property, plant and equipment acquired under finance lease, where the risks and rewards incidental to ownership of an asset are substantially transferred to the Group, are recognized as assets at the lower of their fair value or the present value of the minimum lease payments, including any purchase option cost. The corresponding lease liability is reported in financial liabilities. Leased assets are depreciated using the same criteria and useful lives as indicated below for owned assets.
Leases where the lessor substantially retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized as expenses on a straight-line basis over the lease term.
Depreciation is charged on a straight-line basis so as to depreciate assets over their useful lives. If a depreciable asset consists of separately identifiable parts, whose useful lives differ significantly from other parts of that asset, each part is depreciated separately in accordance with the component approach. The Group has estimated the following useful lives for its

various categories of property, plant and equipment:

CATEGORIES	Useful life (years)
Industrial buildings and dry docks	33 - 47
Plant and machinery	7 - 25
Equipment	4 - 12
Assets under concession	Useful life or term of concession, if shorter
Leasehold improvements	Useful life or term of lease, if shorter
Other assets	4 - 33

Land is not depreciated. The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at least at every financial year-end.
Property, plant and equipment leased out by the Fincantieri Group under finance lease agreements (or under a contract treated the same as a finance lease), where all the risks and rewards of ownership are substantially transferred to the lessee, are recognized as financial receivables in the statement of financial position. Income from the sale of a leased asset is recognized when the asset is transferred to the lessee. Such income is determined as the difference between: i) the fair value of the asset at the commencement of the lease term, or, if lower, the present value of the minimum lease payments accruing to the Group, computed at a market rate of interest; and ii) the leased asset's production costs plus any legal costs and internal costs directly attributable to negotiating and arranging the lease. After recognizing the financial receivable, finance income is recognized by applying a constant periodic rate of return to the outstanding receivable so that it is spread over the lease term on a systematic and rational basis.
The criteria used to identify and determine any impairment losses for property, plant and equipment can be found in paragraph 3 below.

3. Impairment of non-financial assets

Property, plant and equipment and intangible assets are reviewed at the end of each reporting period to identify any indication of impairment. If any such indication exists, the recoverable amount of such assets is estimated and if this is lower than the carrying amount, the difference is recognized in profit or loss as an impairment loss. Intangible assets with indefinite useful lives, such as goodwill, are not amortized but are tested annually for impairment, or more often, whenever there are signs that such assets might be impaired.
The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, defined as the present value of the future cash flows expected to be derived from that asset. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, its value in use is determined with reference to the cash-generating unit to which the asset belongs. When calculating an asset's value in use, its expected cash flows are discounted using a discount rate reflecting current market assessments of the time value of money for the period of investment and risks specific to that asset. Value in use is determined, net of tax, using a post-tax discount rate, since this method produces broadly similar values to those obtained by discounting pre-tax cash flows at a pre-tax discount rate. An impairment loss is recognized in profit or loss when an asset's carrying amount is higher than its recoverable amount. If the reasons for an impairment loss cease to exist, it may be reversed in whole or in part through profit or loss, except in the case of goodwill, whose impairment can never be reversed; if an impairment loss is reversed, the asset's new carrying amount may not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the past.

4. Other investments

Investments in companies other than subsidiaries, associates and joint ventures (generally where the interest is less than 20%) are classified as financial assets carried at fair value, which normally corresponds, during first inclusion, to the amount of the operation inclusive of the transaction costs directly attributed to it. Subsequent changes in fair value are recognized in profit or loss (FVTPL) or, if the option envisaged by the standard is exercised, in other comprehensive income (FVOCI) under the item "FVOCI reserve". For investments valued at FVOCI, impairment losses are not recorded in comprehensive income, neither are the accumulated profits or losses if the investment is sold. The dividends distributed by the investee are recorded in comprehensive income only when:

a) the Group's right to receive the dividend matures;
b) it is probable that the economic benefits arising from the dividend will flow to the Group;
c) the amount of the dividend can be reliably measured.

5. Inventories and advances

Inventories are recorded at the lower of purchase or production cost and net realizable value, defined as the estimated selling price in the ordinary course of business less selling costs. The cost of inventories of raw, ancillary and consumable materials and finished products and goods is determined using the weighted average cost method.
The cost of production includes raw materials, direct labor costs and other costs of production (allocated on the basis of normal operating capacity). Borrowing costs are not included in the value of inventories.
Slow-moving and obsolete inventories are suitably written down to align their value with the net realizable amount.

6. Construction contracts

The assets and liabilities for construction contracts are recognized depending on the method for transferring control of the good or service to the customer. If control is transferred gradually as the good is built or the service is rendered, the assets are recognized 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, in accordance with the cost-to-cost method, taking into account the stage of completion of the contract and any expected risks. If, however, control is transferred at the moment of final delivery of the good or completion of all the services contracted, the assets are recognized at purchase cost.
If two or more contracts are concluded at the same time (or almost at the same time) with the same customer (or related parties of the customer), they are recorded as a single contract when they meet one or more of the following criteria: i) they were negotiated

together for a single business purpose, ii) the contract prices are interdependent, or iii) the goods or services promised in the contract represent a single obligation to the customer. A contract is recognized as a single asset when it identifies a single contractual obligation, i.e. if the promise is to transfer one single good/service to the customer or a series of goods/services that are substantially the same are transferred to the customer over a period of time using the same methods. If different contractual obligations are identified in the contract, these are recognized as separate assets arising from the same contract with the customer. If the original contract i) provides for the construction of an additional asset at the option of the customer or ii) may be amended to include the construction of an additional asset, whose price is closely interrelated to the original contract, the construction of the additional asset is treated as a combined part of the original contract.
The stage of completion is measured by calculating the proportion that contract costs incurred for work performed to the reporting date bear to the estimated total costs for each contract.
If it is expected that the completion of a contract may give rise to a loss at the gross margin level, this is recognized in full in the period in which it becomes reasonably foreseeable.
Assets for construction contracts are reported as the costs incurred plus profit recognized to date, net of the related liabilities, i.e. the progress billings issued and any estimated future losses. 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 "assets arising from contracts with customers" and if it is negative, the difference is classified as a liability under "Construction contracts – liabilities".

Any borrowing costs incurred for specific loans during and for the development of construction contracts are treated as expenses of the specific job.
Shipbuilding contracts are closed for accounting purposes three months after a vessel's delivery; in the case of vessels for government defense forces (naval vessels), the delivery date is the issue date of the acceptance report.

7. Financial Liabilities

Financial liabilities, inclusive of loans and borrowings, trade payables, other payables and other liabilities, other than derivatives, are initially recognized at fair value and then measured at amortized cost, less repayments of principal already made.
Payables and other liabilities are classified as current liabilities, unless the Group has a contractual right to extinguish its obligations more than twelve months from the reporting date. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.
For derivative liabilities, please refer to paragraph 8.4.

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. Based on these agreements, the supplier has the discretionary option to sell receivables due from the Parent Company or some subsidiaries 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 according to the categories identified by IFRS 9:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income (FVOCI);
- financial assets measured at fair value through profit or loss (FVTPL).

8.1 Financial assets measured at amortized cost

Financial assets are classified in this category if both of the following conditions are met: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. These mainly concern trade receivables and loans. Except for trade receivables, which do not contain a significant financial component, other receivables and loans are initially recognized at fair value. Trade receivables which do not contain a significant financial component are recognized at the price defined for that transaction (determined as per IFRS 15 Revenue from contracts with customers). The assets belonging to this category are subsequently measured at amortized cost using the effective interest method. Impairment losses for these receivables is determined using a forward-looking approach with a three-step model: 1) recognition of expected credit losses that have had no increase in credit risk in the first 12 months since initial recognition of the asset; 2) recognition of lifetime expected credit losses at the moment the credit risk increased significantly since initial recognition of the asset; interest revenue is calculated on gross carrying amount; 3) recognition of further lifetime expected credit losses at the moment in which the loss occurred; interest revenue is calculated on the net carrying amount (the amortized cost is reviewed because the internal rate of return changes since the trigger event affects cash flows).

8.2 Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified in this category if both of the following conditions are met: (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This category also includes equity instruments (investments in companies in which the Group exerts neither control nor considerable influence) for which the Group applies the option permitted by this standard to measure these instruments at fair value with an effect on overall profitability (see section 4 above).
These assets are initially recognized at fair value; in subsequent measurements, the value calculated during recognition is updated again and any changes in fair value are recognized in other comprehensive income. Any impairment losses, interest revenues and gains or losses from exchange rate differences are recorded in profit and loss.

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8.3 Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets that do not meet the conditions, in terms of business model or cash flow characteristics, for measurement at amortized cost or at fair value through other comprehensive income are classified in this category. These are mainly derivatives; this category includes listed and unlisted equity instruments that Group has not irrevocably decided to classify as FVOCI at initial recognition or during transition. The assets falling under this category are classified among current and non-current assets depending on their maturity and reported at fair value at the moment of their initial recognition. During subsequent measurement, the profits and losses arising from the fair value measurements are recorded in the consolidated income statement for the period in which they were recognized.

8.4 Impairment

Impairment of financial assets measured at amortized cost is calculated on the basis of an expected credit loss model. According to this model, financial assets are classified as at step 1, step 2 or step 3 depending on their level of credit worthiness since initial recognition. In particular:

- Stage 1: includes (i) newly acquired receivables, (ii) receivables that have not had a significant worsening of the credit risk since the initial recognition date and (iii) receivables with low credit risk.
- Stage 2: includes receivables that, while not non-performing, have had a significant worsening of the credit risk since the initial recognition date.
- Stage 3: includes non-performing receivables.

For receivables belonging to stage 1, impairments are equal to the expected credit loss calculated over a period of up to one year. For receivables belonging to stages 2 or 3, impairments are equal to the expected credit loss calculated over the entire duration of the exposure.
The criteria for determining impairment on receivables are based on discounting the expected cash flows for the principal and the interest. To calculate the current value of flows, the essential elements are those identifying the estimated receipts, the related receipt dates and the discounting rate to be applied. In particular, the loss is the difference between the recognition value and the current value of the estimated cash flows, discounted at the original interest rate of the financial asset. 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.

8.5 Derivatives

The derivatives used by the Fincantieri Group are intended to hedge its exposure to currency risk primarily on sale contracts and, to a lesser extent, on procurement contracts denominated in currencies other than the functional currencies, and its exposure to interest rate risk on loans and to price risk relating to certain commodities.
Derivative instruments are initially recognized at fair value on the derivative contract's inception date. Following initial recognition, changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized as an operating or financial component of the income statement according to the nature of the instrument. If derivative instruments do qualify for hedge accounting, any subsequent changes in their fair value are treated in accordance with the specific rules of the IFRS 9 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 verifying hedge effectiveness. The effectiveness of each hedge must be assessed, both at hedge inception and on an ongoing basis. A hedging transaction is usually regarded as highly "effective" if, at inception and during its life, the change in the hedged item's fair value, in the case of fair value hedges, and in the expected future cash flows, in the case of cash flow hedges, substantially offsets the change in fair value of the hedging instrument.
Changes in the fair value of derivative assets or liabilities that qualify as fair value hedges are recognized in profit or loss, along with any changes in the fair value of the hedged item. In the case of cash flow hedges intended to offset the cash flow risks relating to a highly probable forecast transaction, fair value changes after initial recognition in the effective portion of the derivative hedging instrument are recognized in "Other comprehensive income" and included in a separate equity reserve. Amounts recognized through other comprehensive income are reclassified from equity to profit or loss, among the operating items, in the same period that the hedged forecast cash flows affect profit or loss. If the hedge is not perfectly effective, the fair value change in the ineffective portion of the hedging instrument is immediately recognized in profit or loss. If, during the life of a derivative hedging instrument, the expected transaction for which hedging was made is no longer expected to occur, the portion of the "reserves" relating to this instrument is immediately reclassified to profit or loss for the period. Conversely, if the derivative instrument is sold or no longer qualifies as an effective hedge, the portion of the "reserves" representing changes in the instrument's fair value recognized up until then through other comprehensive income remains separately in equity until the hedged forecast transaction occurs, at which point it is reclassified to profit or loss. The fair value of financial instruments quoted on public markets is determined with reference to quoted prices at the end of the period. The fair value of unquoted instruments is measured with reference to financial valuation techniques: in particular, the fair value of interest rate swaps is measured by discounting the expected future cash flows, while the fair value of foreign currency forwards is determined on the basis of market exchange rates at the reporting date and the rate differentials expected between the currencies concerned.
Financial assets and liabilities measured at fair value are classified in the three hierarchical levels described below, in order of the priority attributed to the inputs used to determine fair value. In particular:

- Level 1: financial assets and financial liabilities whose fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: financial assets and financial liabilities whose fair value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (primarily: market exchange rates at the reporting date, expected rate differentials between the currencies concerned and volatility of the relevant markets, interest rates and commodity prices);
- Level 3: financial assets and financial liabilities whose fair value is determined using inputs not based on observable market data.

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

9. Grants from Government and other public entities

Government grants are recognized in the financial statements when there is reasonable assurance that the recipient will comply with the conditions attaching to them and that the grants will be received.

9.1 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 recognized as income in profit or loss on a straight-line basis over the useful life of the asset for which the grant was received.

9.2 Grants related to income

Grants other than those related to assets are credited to profit or loss as "Other revenue and income".

10. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts and demand deposits with banks and other highly liquid short-term investments that are readily convertible into cash and which are subject to an insignificant risk of change in value.

11. Employee benefits

Post-employment benefits are defined on the basis of formal and informal arrangements which, depending on their characteristics, are classified as "defined contribution" plans and "defined benefit" plans. In defined contribution plans, the employer's obligation is limited to the payment of contributions to the state or to a trust or separate legal entity (fund) and is determined on the basis of the contributions due.
Liabilities for defined benefit plans, net of any plan assets, are determined using actuarial techniques and are recognized on an accrual basis over the period of employment needed to obtain the benefits.
Defined benefit plans include the employee severance benefit, payable to employees of the Group's Italian companies under article 2120 of the Italian Civil Code, that accrued before the reform of this benefit in 2007. The amount recognized in the financial statements is calculated on an actuarial basis using the projected unit credit method; the discount rate used by this method to calculate the present value of the defined benefit obligation reflects the market yield on bonds with the same maturity as that expected for the obligation. The calculation relates to the employee severance benefit already accrued for past service and, in the case of Italian subsidiaries with less than 50 employees, incorporates assumptions concerning future salary levels. Further to the reform of employee severance benefit under Italian Law 296 dated 27 December 2006, the actuarial assumptions no longer need to consider future salary levels for Italian subsidiaries with more than 50 employees. Any actuarial gains and losses are recorded in the "Valuation reserves" forming part of equity and immediately recognized 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 recognized 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 recognized when: i) a present legal or constructive obligation is likely to exist as a result of a past event; ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; iii) the amount of the obligation can be estimated reliably.
The amount recognized as a provision is the best estimate of the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time; provisions for onerous contracts are recognized at the lower of the cost required to settle the obligation, net of the expected economic benefits arising from the contract, and the cost of terminating the contract. Where the effect of the time value of money is material and the obligation settlement date can be estimated reliably, the amount of the provision is determined by discounting the expected cash outflows to present value using the average rate on company debt that takes account of the risks specific to the obligation; any increase in the amount of a provision due to the effect of the time value of money is recognized in the income statement under "Finance costs".
Contingent liabilities, meaning those relating to obligations that are only possible, are not recognized but are disclosed in the section of the notes to the financial statements reporting commitments and risks.

14. Revenue, dividends, finance income and costs

Revenue from contracts with customers are recognized based on the time control of the goods and/or services is transferred to the customer. If control is transferred gradually as the good is built or the service is rendered, revenues are recognized over time, i.e. as the activities gradually progress.
If, however, control is not transferred gradually as the good is built or the service rendered, revenues are recognized at a point in time, i.e. at the moment of final delivery of the good or completion of service provision. The Group has chosen to measure the percentage of completion of the contracts over time using the cost-to-cost method. When it is probable that total lifetime contract costs will exceed total lifetime contract revenue, the expected loss is immediately recognized as an expense in the income statement.
Revenue earned up to the reporting date from contracts denominated in a currency other than the functional currency is translated into the functional currency using: i) the hedged exchange rate (if currency risk has been hedged - see Section 8.5 above) or ii) in the absence of hedging transactions, the actual exchange rate used for the part of the contract already billed and the period-end rate for the part still to be billed.

Retentions or other amounts which can be contractually reclaimed by customers are not recognized until any post-delivery obligations have been fully satisfied.
Dividends received from investee companies not consolidated on a line-by-line basis and with the equity method, are recognized in profit or loss when:

a) the Group's right to receive the dividend matures;
b) it is probable that the economic benefits arising from the dividend will flow to the Group;
c) the amount of the dividend can be reliably measured.

Finance income and costs are recognized 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 recognized for all taxable temporary differences, while deferred tax assets, including those for carry forward tax losses, are recognized to the extent it is probable that taxable profit will be available against which the temporary differences can be recovered. No deferred tax liabilities are recognized for temporary differences relating to goodwill.
Deferred tax liabilities are recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in cases when both the following conditions apply: (i) the Group is able to control the timing of the reversal of such temporary differences and (ii) the temporary differences are unlikely to reverse in the foreseeable future.
Deferred income taxes are determined using tax rates that are expected to apply to the period when the related differences are realized or settled.
Current and deferred income taxes are recognized in profit or loss with the exception of taxes relating to items which are directly debited or credited to equity, in which case the tax effect is also recognized directly in equity.
Deferred tax assets and liabilities are offset if, and only if, income tax is levied by the same taxation authority, there is a legally enforceable right of offset and the outstanding net balance is expected to be settled.
Taxes not related to income (levies), such as property tax, are reported in "Other costs".

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 recognized 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 recognized in profit or loss according to the stage of contract completion.
Accordingly, correct recognition of construction contracts and margins relating to work in progress requires management to estimate correctly the costs of completion, any incremental costs, as well as delays, additional costs and penalties that could reduce the expected margin. In support of such estimates, management uses a system of contract risk management and analysis to monitor and quantify the risks relating to these contracts. The amounts recognized in the financial statements represent management's best estimate using these systems and procedures.

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

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

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 recognizing the assets and liabilities at their fair value. The unallocated portion is recognized as goodwill if positive, and if negative, it is taken to profit or loss. Management uses available information for the purposes of the allocation process and, in the case of the most significant business combinations, external valuations.

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 2018 and 2017 based on the nominal value of receivables before any provision for impairment of receivables:

(euro/000)

	31.12.2018					
		Past due				
	Not yet due	0 - 1 month	1 - 4 months	4 - 12 months	beyond 1 year	Total
Trade receivables:						
- from public entities	2,504	1,048	4,449	8,416	26,451	42,868
- indirectly from public entities*	399	17	527	5,031	13,649	19,623
- from private customers	381,544	88,606	20,294	26,128	64,339	580,911
Total trade receivables	**384,447**	**89,671**	**25,270**	**39,575**	**104,439**	**643,402**
Government grants financed by BIIS	12,513					12,513
Other government grants	6,672	2,149				8,821
Receivables from associates	9,865					9,865
Receivables from joint ventures	146,680			66	517	147,263
Receivables from controlling companies	2,926		32			2,958
Receivables from other companies	2					2
Other receivables	167,278	2,755			23,732	193,791
Other financial receivables	66,545					66,545
Gross total	**796,954**	**94,575**	**25,302**	**39,641**	**128,688**	**1,085,160**
Provision for impairment of receivables						(50,230)
Net total						**1,034,930**
Advances, prepayments and accrued income						152,993
TOTAL						**1,187,923**

*These are receivables due from customers that manage work commissioned by public entities, which are therefore the effective debtors.

(euro/000)

	31.12.2017					
		Past due				
	Not yet due	0 - 1 month	1 - 4 months	4 - 12 months	Beyond 1 year	Total
Trade receivables:						
- from public entities	9,685	8,583	3,156	11,894	12,780	46,098
- indirectly from public entities*	16,541			13,907		30,448
- from private customers	507,094	91,657	15,707	27,667	64,541	706,666
Total trade receivables	**533,320**	**100,240**	**18,863**	**53,468**	**77,321**	**783,212**
Government grants financed by BIIS	19,981					19,981
Other government grants	4,475	3,758				8,233
Receivables from associates	5,562					5,562
Receivables from joint ventures	151,950				66	152,016
Receivables from controlling companies	20,327					20,327
Receivables from other companies						
Other receivables	114,997	2			21,125	136,124
Other financial receivables	150,889					150,889
Gross total	**1,001,501**	**104,000**	**18,863**	**53,468**	**98,512**	**1,276,344**
Provision for impairment of receivables						(42,174)
Net total						**1,234,170**
Advances, prepayments and accrued income						127,289
TOTAL						**1,361,459**

*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 494 million at 31 December 2018 compared with net debt of euro 314 million at 31 December 2017. The change is mainly due to the financial dynamics typical of the cruise ship business, with the absorption of financial resources generated by the growth in production volumes partly offset by the receipt of the final instalment for the cruise ships delivered during the year.
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.

(euro/000)

	31.12.2018					
	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	14	58,367	36,954	4,013	99,348	98,574
Payables to associates	2,524	3,272	54		5,850	5,850
Payables to joint ventures	5,214	1,720			6,934	7,088
Bank loans and credit facilities	21,956	860,933	708,767	53,324	1,644,980	1,590,576
BIIS loans		8,146	4,866		13,012	12,513
Payables to suppliers	133,544	1,298,979	32,199	100	1,464,822	1,464,822
Payables to suppliers for reverse factoring	6,704	370,783			377,487	377,487
Finance lease obligations		210	26		236	236
Bond and commercial papers		231,000			231,000	231,000
Other financial liabilities		20,344	4,191	2,041	26,576	26,373
Other liabilities	3,456	190,383	7,537	127	201,503	201,397
TOTAL	173,412	3,044,137	794,594	59,605	4,071,748	4,015,916
Advances, prepayments and accrued income						52,394
TOTAL						4,068,310

(euro/000)

	31.12.2017					
	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company		7,870	38,187	11,440	57,497	56,574
Payables to associates		311			311	311
Payables to joint ventures	3,801	3,862	579		8,242	8,242
Bank loans and credit facilities	609	758,882	215,065	64,013	1,038,569	999,578
BIIS loans		8,146	13,016		21,162	19,981
Payables to suppliers	188,792	1,247,938	37,541	25	1,474,296	1,474,296
Payables to suppliers for reverse factoring		271,964			271,964	271,964
Finance lease obligations		253	200		453	453
Bond and commercial papers		311,250			311,250	299,239
Other financial liabilities		22,971	3,941	47	26,959	26,916
Other liabilities	1,431	208,068	1,063	1,044	211,606	211,519
TOTAL	194,633	2,841,515	309,592	76,569	3,422,309	3,369,073
Advances, prepayments and accrued income						50,639
TOTAL						3,419,712

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Market risk

The financial risks affecting the Group specifically involve the risk that the fair value or future cash flows of assets/liabilities may fluctuate due to changes in the exchange rate of currencies in which the Group's commercial or financial transactions are denominated, due to changes in market interest rates or to changes in commodity prices.
In pursuing its business objectives, the Group does not intend to take on financial risks. If this is not possible, such risks are assumed only if they relate to the Group's core business and their impact can be neutralized (where possible) through hedging instruments.
Apart from using financial instruments, currency risk can be hedged by entering into loan agreements in the same currency as the sale contract, or cash balances can be established in the same currency as supply contracts.

Currency risk

Exposure to currency risk arises primarily when shipbuilding contracts are denominated in foreign currencies and, to a lesser extent, when goods and materials are purchased in currencies other than the functional currency. Currency risk is managed using forward contracts or currency options, which are arranged according to the expected timing of foreign currency cash inflows and outflows; where possible, payments and receipts in the same currency are matched.
Currency risk management seeks to hedge all of the Group's foreign currency inflows, but only the largest foreign currency outflows.
During 2018, 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 2018, the Company negotiated three interest rate swaps to pre-hedge the interest rate risk on a medium/long-term variable rate loan finalized during the year and two forms of short-term financing which are expected to be used during 2019 (pre-hedging). Derivative instruments have been accounted for as cash flow hedges.

Other market risks

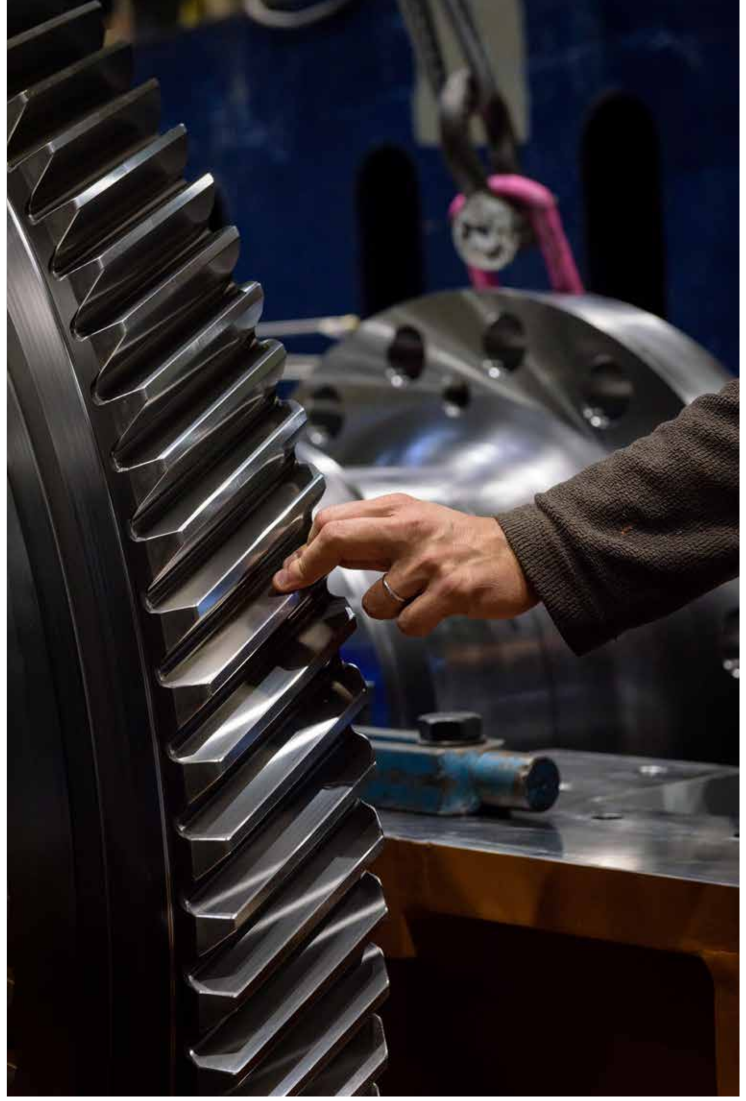
The Group's production costs are affected by movements in the price of the principal raw materials used, such as steel, copper and fuel. The Group mitigates this risk using appropriate contractual arrangements and/or hedges. During 2018, the Group entered into swaps to fix the purchase price of a large part of its diesel and fuel oil needs through until 2022.

Capital management

The objective of the Fincantieri Group is to create value for shareholders and to support future development by maintaining an adequate level of capitalization that allows it to access external sources of financing at acceptable rates.

Fair value of derivatives

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



(euro/000)

	31.12.2018			
	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			1,778	280,000
Forwards	41,227	1,688,621	21,920	83,200
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	2,546	120,539	34,530	785,519
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	8,070	335,317	387	63,845
Futures	304	5,639	650	5,490
Options				
TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options	811	41,594	30	11,004

(euro/000)

	31.12.2017			
	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			461	150,000
Forwards	149,367	1,663,134	29,892	82,626
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	3,213	89,542	21,434	434,988
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	3,668	199,233	1,911	138,739
Futures	1,266	9,168		
Options				
TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options	3,025	96,306		

With reference to cash flow hedging derivatives, the change in the fair value of the hedged items is perfectly offset by the change in the value of the hedging instruments (negative for euro 81,6 million in 2018) and therefore no ineffective portion has been recognized.
The hedged items are recorded under Construction contracts – assets/liabilities in the Consolidated Statement of Financial Position (see Notes 13 and 23). The balance and movements of the cash flow hedge reserve in the year are shown in the table to this Note.
The fair value hedging instruments cover changes in the value of hedged firm commitments included in Other current and non-current assets/liabilities shown in Notes 10, 14, 22 and 24.
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.

(euro/000)

	31.12.2018			
	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	1,355,761	1,724,280		3,080,041
Inflow	1,328,420	1,699,952		3,028,372
INTEREST RATE RISK MANAGEMENT				
Outflow	1,111	2,121		3,232
Inflow	339	1,115		1,454
COMMODITY PRICE RISK MANAGEMENT				
Outflow	5,370	5,759		11,129
Inflow	5,648	5,133		10,781

(euro/000)

	31.12.2017			
	Within 1 year	Between 1 and 5 years	Beyond 5 years	**Total**
CURRENCY RISK MANAGEMENT				
Outflow	737,234	1,969,555		2,706,789
Inflow	680,090	2,000,861		2,680,951
INTEREST RATE RISK MANAGEMENT				
Outflow	328	2,775	693	3,796
Inflow		2,601	769	3,370
COMMODITY PRICE RISK MANAGEMENT				
Outflow	4,974	4,194		9,168
Inflow	5,864	4,570		10,434

The fair value of derivative financial instruments has been calculated considering market parameters at the year-end reporting date and using widely accepted measurement techniques. In particular, the fair value of forward contracts has been calculated with reference to year-end exchange rates and interest rates for the different currencies.

Movements in the cash flow hedge reserve and impact of derivative instruments on profit or loss

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

(euro/000)

	Equity			
	Gross	Income taxes	Net	Profit or loss
1.1.2017	(36,891)	9,835	(27,056)	
Change in fair value	131,697	(39,061)	92,636	
Utilization	36,891	(9,835)	27,056	(27,056)
Other income/(expenses) for risk hedging				40,873
Finance income/(costs) relating to trading derivatives and time-value component of hedging derivatives				(3,772)
31.12.2017	131,697	(39,061)	92,636	10,045
Change in fair value	24,968	(9,765)	15,203	
Utilization	(131,697)	39,061	(92,636)	92,636
Other income/(expenses) for risk hedging				(90,215)
Finance income/(costs) relating to trading derivatives and time-value component of hedging derivatives				(18,361)
31.12.2018	24,968	(9,765)	15,203	(15,940)

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:

(euro/000)

	31.12.2018					
	A	B	C	D	Total	Fair value
Investments carried at fair value	4,289	267			4,556	4,556
Derivative financial assets	11,731	41,227			52,958	52,958
Other financial assets			125,442		125,442	126,690
Trade receivables and other current assets			1,062,377		1,062,377	1,062,377
Cash and cash equivalents			676,487		676,487	676,487
Derivative financial liabilities	(35,596)	(23,698)			(59,294)	(59,294)
Other financial liabilities	(19,389)			(1,896,891)	(1,916,280)	(1,938,480)
Other non-current liabilities				(32,137)	(32,137)	(32,137)
Trade payables and other current liabilities				(2,116,290)	(2,116,290)	(2,116,290)

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 = Financial assets and receivables carried at amortized cost (including cash & cash equivalents)
D = Financial liabilities carried at amortized cost

(euro/000)

	31.12.2017					
	A	B	C	D	Total	Fair value
Investments carried at fair value	2,077	272			2,349	2,349
Derivative financial assets	11,173	149,368			160,541	160,541
Other financial assets			203,532		203,532	188,364
Trade receivables and other current assets			1,156,017		1,156,017	1,156,017
Cash and cash equivalents			274,411		274,411	274,411
Derivative financial liabilities	(23,345)	(30,353)			(53,698)	(53,698)
Other financial liabilities	(17,677)			(1,389,239)	(1,406,916)	(1,416,937)
Other non-current liabilities				(30,916)	(30,916)	(30,916)
Trade payables and other current liabilities				(1,973,485)	(1,973,485)	(1,973,485)

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 = Financial assets and receivables carried at amortized cost (including cash & cash equivalents)
D = 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 2018 and 2017, according to their level in the fair value hierarchy.

(euro/000)

	31.12.2018			
	Fair value Level 1	Fair value Level 2	Fair value Level 3	**Total**
Assets				
Financial assets at fair value through profit or loss				
Equity instruments	178		4,111	4,289
Debt instruments				
Financial assets at fair value through comprehensive income				
Equity instruments			267	267
Debt instruments				
Hedging derivatives		52,147		52,147
Trading derivatives		811		811
Total assets	**178**	**52,958**	**4,378**	**57,514**
Liabilities				
Financial liabilities at fair value through profit or loss			19,389	19,389
Hedging derivatives		59,264		59,264
Trading derivatives		30		30
Total liabilities		**59,294**	**19,389**	**78,683**

(euro/000)

	31.12.2017			
	Fair value Level 1	Fair value Level 2	Fair value Level 3	**Total**
Assets				
Financial assets at fair value through profit or loss				
Equity instruments	631		1,446	2,077
Debt instruments				
Financial assets at fair value through comprehensive income				
Equity instruments			272	272
Debt instruments				
Hedging derivatives		157,516		157,516
Trading derivatives		3,025		3,025
Total assets	**631**	**160,541**	**1,718**	**162,890**
Liabilities				
Financial liabilities at fair value through profit or loss			17,677	17,677
Hedging derivatives		53,698		53,698
Trading derivatives				
Total liabilities		**53,698**	**17,677**	**71,375**

Financial assets at fair value through comprehensive income 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 whose fair value, recorded through comprehensive income, is calculated using valuation techniques whose inputs are not observable on the market. This item relates to the option held by minority shareholders of the American Group FMG, the increase in which since 2017 is mainly due to the change due to the fair value of the instrument.

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 2018 for individual exchange rates.

(euro/milion)

	31.12.2018		31.12.2017	
	Effect on pre-tax profit	Pre-tax effect on equity	Effect on pre-tax profit	Pre-tax effect on equity
Including hedging derivatives				
Foreign currency appreciation		(127)	(22)	(152)
Foreign currency depreciation	(2)	109	19	132
Excluding hedging derivatives*				
Foreign currency appreciation	(14)	(14)	(18)	(18)
Foreign currency depreciation	14	14	20	20

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

Interest rate risk
Similarly, a sensitivity analysis has also been performed to estimate the impact of a potential general change in benchmark interest rates of +/- 50 basis points on an annualized basis. The estimated effects on profit or loss involve a negative impact of approximately euro 2.6 million in the event of a 0.50% increase in interest rates and a positive impact of euro 1.5 million in the event of a 0.50% reduction.

NOTE 6 - INTANGIBLE ASSETS

Movements in this line item are as follows:

(euro/000)

	Goodwill	Client Relationships and Order Backlog	Development costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangibles	Intangibles in progress and advances	**Total**
- cost	278,229	199,128	119,507	98,693	22,859	14,086	53,149	785,651
- accumulated amortization and impairment losses		(67,009)	(25,713)	(87,887)	(2,344)	(8,076)		(191,029)
Net carrying amount at 1.1.2017	278,229	132,119	93,794	10,806	20,515	6,010	53,149	594,622
Movements in 2017								
- business combinations	86	3,328		21				3,435
- additions			8,638	6,543	637	424	38,497	54,739
- net disposals								
- reclassifications/ other			12,970	3,780	2,253	3	(18,312)	694
- depreciation		(8,510)	(16,763)	(4,545)	(1,914)	(1,514)		(33,246)
- impairment losses								
- exchange rate differences	(24,517)	(10,300)	(668)	(361)	(2,444)	(371)	(82)	(38,743)
Closing net carrying amount	253,798	116,637	97,971	16,244	19,047	4,552	73,252	581,501
- cost	253,798	188,850	140,681	108,702	24,185	13,526	73,252	802,994
- accumulated depreciation and impairment losses		(72,213)	(42,710)	(92,458)	(5,138)	(8,974)		(221,493)
Net carrying amount at 31.12.2017	253,798	116,637	97,971	16,244	19,047	4,552	73,252	581,501
First adoption IFRS 15						47,926		47,926
Net carrying amount at 01.01.2018	253,798	116,637	97,971	16,244	19,047	52,478	73,252	629,427
Movements in 2018								
- business combinations		85						85
- additions			7,228	1,363	249	1,069	27,317	37,226
- net disposals								
- reclassifications/ other			32,240	13,431	(369)	42	(45,330)	14
- depreciation		(8,398)	(27,813)	(5,980)	(2,171)	(5,681)		(50,043)
- impairment losses						(211)		(211)
- exchange rate differences	1,032	(373)	(199)	(48)	828	(90)	20	1,170
Closing net carrying amount	254,830	107,951	109,427	25,010	17,584	47,607	55,259	617,668
- cost	254,830	188,420	179,898	123,349	24,938	63,048	55,259	889,742
- accumulated depreciation and impairment losses		(80,469)	(70,471)	(98,339)	(7,354)	(15,441)		(272,074)
Net carrying amount at 31.12.2018	254,830	107,951	109,427	25,010	17,584	47,607	55,259	617,668

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Capital expenditure in 2018 amounted to euro 37,226 thousand (euro 54,739 thousand in 2017) and mainly related to:

- 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, and the development of information systems to support the Group's increasing activities and optimize process management;
- innovative solutions and systems to optimize onboard operations and improve the efficiency of systems on cruise ships, as well as innovative systems to upgrade the technological capacity of certain types of naval vessels.

During 2018, the Group also spent euro 122 million in research and development costs for various projects involving product and process innovations (euro 113 million in 2017), that will allow the Group to retain its leadership of all high-tech market sectors for the foreseeable future.
"Concessions, licenses, trademarks and similar rights" include euro 16,158 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 Bay Shipbuilding); 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 effects arising from the capitalization of incremental costs to obtain contracts have been reclassified in "First adoption IFRS" after the first application of IFRS 15 from 1 January 2018. The capitalized costs are amortized according to the contractual duration of the orders for which they were incurred. More details can be found in Note 1.
The exchange rate differences reflect movements in the period by the Norwegian krone and the US dollar against the Euro.
"Goodwill" amounts to euro 254,830 thousand at 31 December 2018.
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, derived from the Strategic Plan 2018-2022 approved by Group Management, updated to take into account the 2019 budget data in line with the requirements of the Group's strategic planning/budgeting process. The growth rate used to estimate cash flows beyond the explicit planning period is determined on the basis of realistic projections of estimated long-term sector growth, reflected in market data and information available to Group Management.
Expected future cash flows have been discounted using WACC (Weighted Average Cost of Capital) for the individual sectors to which the CGUs refer 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 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.
In the second half of 2018 an operational reorganization of the VARD Group was completed (please refer to Note 1 for a full description) as a result of which the economic results of the VARD Cruise business unit were reallocated to the Shipbuilding operating segment. The remaining activities of the VARD Group have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore segment. For the purposes of impairment testing, the two business units, VARD Cruise and VARD Offshore and Specialized Vessels, constitute two distinct cash generating units at the level of monitoring and testing of the goodwill recorded for VARD.
The following table shows the amount of goodwill allocated to each CGU, as well as the method used to determine recoverable amount, and the discount and growth rates adopted for this calculation.

CGU	Goodwill carrying amount	Recoverable amount	WACC post-tax	g rate	Cash flow period
FMG Group	69,456	Value in use	7.2%	2.2%	4 years
VARD Offshore and Specialized Vessels	129,278	Value in use	6.8%	2.0%	4 years
VARD Cruise	56,096	Value in use	6.3%	2.0%	4 years

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

FMG Group CGU
The impairment test has shown that the CGU's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized. The results obtained have been subjected to sensitivity analysis for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 basis points, recoverable amounts would still be significantly higher than carrying amounts.

VARD Offshore and Specialized Vessels 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 Cruise 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

(euro/000)

	Land and buildings	Assets under finance lease	Ilndustrial plant, machinery and equipment	Assets under concession	Leasehold improvements	Other assets	Assets under construction and advances	**Total**
- cost	619,215	3,936	1,200,557	185,356	28,706	176,477	159,379	2,373,626
- accumulated depreciation and impairment losses	(214,390)	(2,981)	(832,514)	(126,540)	(22,100)	(111,155)		(1,309,680)
Net carrying amount at 1.1.2017	**404,825**	**955**	**368,043**	**58,816**	**6,606**	**65,322**	**159,379**	**1,063,946**
Movements in 2017								
- business combinations	3,215		3			160		3,378
- additions	16,396		36,616	2,613	299	6,604	45,391	107,919
- net disposals	(403)		(344)		(1)	(26)	(13)	(787)
- reclassifications/ other changes	6,301	1	39,983	1,079	133	7,752	(55,935)	(686)
- depreciation	(16,769)	(389)	(57,100)	(4,265)	(1,052)	(7,002)		(86,577)
- impairment losses	(38)							(38)
- exchange rate differences	(25,055)	(92)	(14,814)			(1,079)	(1,444)	(42,484)
Closing net carrying amount	**388,472**	**475**	**372,387**	**58,243**	**5,985**	**71,731**	**147,378**	**1,044,671**
- cost	613,581	3,460	1,242,879	189,048	29,030	188,654	147,378	2,414,030
- accumulated depreciation and impairment losses	(225,109)	(2,985)	(870,492)	(130,805)	(23,045)	(116,923)		(1,369,359)
Net carrying amount at 31.12.2017	**388,472**	**475**	**372,387**	**58,243**	**5,985**	**71,731**	**147,378**	**1,044,671**
Movements in 2018								
- business combinations								-
- additions	10,677		23,973	1,312	216	3,459	84,432	124,069
- net disposals	(1)		(177)			(44)	(10)	(232)
- reclassifications/ other changes	24,444		40,588	3,290	514	10,804	(81,603)	(1,963)
- depreciation	(16,907)	(269)	(55,541)	(4,496)	(1,016)	(7,826)		(86,055)
- impairment losses	(50)							(50)
- exchange rate differences	(2,147)	14	(3,977)		1	403	(708)	(6,414)
Closing net carrying amount	**404,488**	**220**	**377,253**	**58,349**	**5,700**	**78,527**	**149,489**	**1,074,026**
- cost	646,233	3,624	1,297,782	193,649	29,774	202,782	149,489	2,523,333
- accumulated depreciation and impairment losses	(241,745)	(3,404)	(920,529)	(135,300)	(24,074)	(124,255)		(1,449,307)
Net carrying amount at 31.12.2018	**404,488**	**220**	**377,253**	**58,349**	**5,700**	**78,527**	**149,489**	**1,074,026**

Capital expenditure in 2018 has resulted in additions of euro 124,069 thousand, mainly related to:

- updating of the working areas and infrastructure at some shipyards, in particular Monfalcone and Marghera, to meet the new production scenarios and upgrading and improvement of the safety standards of machinery, equipment and buildings;
- continuation of activities to introduce new technologies in particular at the Monfalcone shipyard with regard to the Integrated Environmental Authorization;
- maintenance of infrastructure and upgrading of production systems in the US shipyards;
- 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.

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. "Other changes/Reclassifications" includes euro 1,866 thousand for the disposal of an asset which occurred after the in-kind contribution made to the associate Centro Servizi Navali S.p.A. with the subscription of euro 1,392 thousand, as a paid increase in the share capital of the same, decided in May 2018 (see Note 8).
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 recoverable amount of the assets 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 2018, the amount of the Group's property, plant and machinery pledged as collateral against loans received was approximately euro 243 million (euro 264 million at the end of 2017).
Contractual commitments already given to third parties as of 31 December 2018 for capital expenditure not yet reflected in the financial statements amounted to approximately euro 87 million, of which euro 76 million for Property, plant and equipment and euro 11 million for Intangible assets.

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NOTE 8 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER INVESTMENTS

Investments

These are analyzed as follows:

(euro/000)

	Associates	Joint ventures	**Total investments accounted for using the equity method**	Other companies carried at fair value through comprehensive income	Other companies at fair value through profit and loss	**Total other investments**	**Total**
1.1.2017	24,512	30,461	54,973	1,140	2,039	3,179	58,152
Changes in the consolidation				3		3	3
Additions	11	56,317	56,328				56,328
Revaluations/ (Impairment losses) through profit or loss	(5,135)	341	(4,794)		(712)	(712)	(5,506)
Revaluations/ (Impairment losses) through equity	(216)	(99)	(315)				(315)
Disposals	(43)		(43)	(3)		(3)	(46)
Dividends from investments accounted for using the equity method							
Reclassifications/Other	2,300	(56,000)	(53,700)				(53,700)
Exchange rate differences	(1,868)		(1,868)		(119)	(119)	(1,987)
31.12.2017	19,561	31,020	50,581	1,140	1,208	2,348	52,929
Changes in the consolidation							
Additions	21,005	234	21,239				21,239
Revaluations/ (Impairment losses) through profit or loss	(4,781)	1,875	(2,906)		2,208	2,208	(698)
Revaluations/ (Impairment losses) through equity							
Disposals		(12,905)	(12,905)				(12,905)
Dividends from investments accounted for using the equity method							
Reclassifications/Other		4	4	(873)	869	(4)	
Exchange rate differences	(362)		(362)		4	4	(358)
31.12.2018	35,423	20,228	55,651	267	4,289	4,556	60,207

Capital expenditure ("additions") during the year amount to euro 21,239 thousand and mainly related to the acquisition of a 10% shareholding in the PSC Group (euro 11,123 thousand), the establishment by VARD of the associate Island Diligence AS (euro 6,981 thousand) and the contribution in kind made to the associate Centro Servizi Navali S.p.A. (see Note 6) with the subscription of euro 1,392 thousand as a paid increase in the share capital of the same.
Revaluations/(impairment losses) through profit or loss (negative euro 698 thousand) include the share of comprehensive income of companies accounted for using the equity method (namely associates and joint ventures).
Disposals refer to the removal of the carrying value of the shareholding in Camper & Nicholsons International, sold for euro 16,600 thousand, realizing a capital gain of euro 3,695 thousand.
"Other investments" include 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).

INVESTMENTS AT 31 DECEMBER 2018

COMPANY NAME	Registered office	% owned	Carrying amount
INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
Brevik Technology AS	Norway	34.00	61
Castor Drilling Solution AS	Norway	34.13	265
CSS Design Ltd.	British Virgin Islands	31.00	529
Arsenal S.r.l.	Italy	24.00	11
AS Dameco	Norway	34.00	7
DOF Iceman AS	Norway	50.00	
Møkster Supply AS	Norway	40.00	587
Møkster Supply KS	Norway	36.00	1,135
Olympic Challenger KS	Norway	35.00	11,403
Olympic Green Energy KS	Norway	30.00	
Rem Supply AS	Norway	26.66	2,565
Taklift AS	Norway	25.47	320
Island Diligence AS	Norway	39.38	6,020
Gruppo PSC S.p.A.	Italy	10.00	11,123
Centro Servizi Navali	Italy	10.93	1,397
Total investments in associates accounted for using the equity method			**35,423**
INVESTMENTS IN JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
CSSC - Fincantieri Cruise Industry Development Ltd.	Hong Kong	40.00	1,557
Etihad Ship Building LLC	Arab Emirates	35.00	1,013
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	17,582
Luxury Interiors Factory S.r.l.	Naples	40.00	
Issel Middle East Information Technology Consultancy LLC	Arab Emirates	49.00	17
Unifer Navale S.r.l.	Modena	20.00	
BUSBAR4F S.c.a.r.l.	Trieste	10.00	24
Fincantieri Clea Buildings S.c.a.r.l.	Verona	51.00	5
PERGENOVA S.c.p.a.	Genoa	50.00	25
CONSORZIO F.S.B.*	Venice - Marghera	58.36	5
Total investments in joint ventures accounted for using the equity method			**20,228**
OTHER INVESTMENTS IN COMPANIES CARRIED AT FAIR VALUE THROUGH COMPREHENSIVE INCOME			
Consorzio Ric. Innov. Tec. Sicilia Trasp. Navali S.c.a.r.l.	Messina	6.21	28
Consorzio CONAI	Rome	**	1
Consorzio IMAST S.c.a.r.l.	Naples	3.24	22
Consorzio MIB	Trieste	**	2
Distretto Ligure delle Tecnologie Marine S.c.a.r.l.	La Spezia	11.50	115
EEIG Euroyards	Brussels	14.29	10
International Business Science Company S.c.a.r.l.	Trieste	18.18	10
MARE[TC] FVG – Maritime Technology cluster FVG S.c.a.r.l.	Monfalcone (Gorizia)	14.62	65
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a	Genoa	2.30	14
Total other investments in companies carried at fair value through comprehensive income			**267**
OTHER INVESTMENTS IN COMPANIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS			
Solstad Offshore ASA	Norway	0.35	178
Moldekraft AS	Norway	6.14	503
Friulia S.p.A.	Trieste	0.56	3,608
Total other investments in companies carried at fair value through profit and loss			**4,289**

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

CSSC - Fincantieri Cruise Industry Development Ltd., which is 40% owned by the Parent Company, is consolidated using the equity method because, under the agreements between the Parent Company and the other shareholder, it is considered jointly controlled.
Etihad Ship Building LLC, which is 35% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is considered jointly controlled with other shareholders who hold the remainder of share capital.
Orizzonte Sistemi Navali S.p.A., which is 51% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is considered jointly controlled with another shareholder who holds 49%.
Luxury Interiors Factory S.r.l., which is 40% owned by Marine Interiors S.p.A., is consolidated using the equity method 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.
PSC S.p.A., 10% owned by the Parent Company, is consolidated using the equity method because the shareholding is considered to carry significant influence based on the shareholder agreements signed with the other shareholders.
Centro Servizi Navali S.p.A., which is 10.93% owned by the Parent Company, is consolidated using the equity method because the shareholding is considered to carry significant influence due to the Company's bylaws.
Fincantieri Clea Buildings S.c.a.r.l., 51% owned by Fincantieri Infrastructure S.p.A., is considered jointly controlled under the agreement with the other shareholder.

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

(euro/000)	31.12.2018	31.12.2017
Profit (loss) from operations in the year	(4,781)	(5,135)
Other comprehensive income		(216)
Total comprehensive income	**(4,781)**	**(5,351)**

The other components of the Statement of Comprehensive Income at 31.12.2017 included the valuation at fair value of the financial data for the vessels built at Group 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 2018 is material to the Group. The figures shown reflect amounts reported in the company's financial statements as adjusted for the Group's accounting policies.

CONDENSED BALANCE SHEET

(euro/000)	31.12.2018	31.12.2017
ASSETS	353,763	329,507
NON-CURRENT	168	376
Other assets	168	376
CURRENT	353,595	329,131
Other assets	333,762	312,791
Financial assets	1,699	1,611
Cash and cash equivalents	18,134	14,729
LIABILITIES	318,551	294,368
NON-CURRENT	192	223
Other liabilities	192	223
CURRENT	318,359	294,145
Other liabilities	318,359	294,145
EQUITY	35,212	35,139

CONDENSED COMPREHENSIVE STATEMENT OF INCOME

(euro/000)	31.12.2018	31.12.2017
Revenue	276,634	426,307
Depreciation and amortization	(137)	(245)
Interest income	321	550
Pre-tax profit from recurring operations	208	199
Income taxes	(139)	(110)
Net profit from recurring operations	69	89
Other comprehensive income/(losses)		
TOTAL COMPREHENSIVE INCOME/(LOSS)	69	89

RECONCILIATION WITH CARRYING AMOUNT

(euro/000)	31.12.2018	31.12.2017
Equity at 01.01	35,139	35,041
Profit/(loss) for period	69	89
Other movements	4	9
Equity at 31.12	35,212	35,139
51% interest in joint venture	17,958	17,921
Other movements	(376)	(339)
Carrying amount	17,582	17,582

NOTE 9 – NON-CURRENT FINANCIAL ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Receivables for loans to joint ventures	8,400	
Grants financed by BIIS	4,762	12,513
Derivative assets	30,006	144,456
Other non-current financial receivables	49,684	118,099
Non-current financial receivables from investee companies	5,049	4,695
NON-CURRENT FINANCIAL ASSETS	97,901	279,763

"Receivables for loans to joint ventures" relates to the first tranche of the shareholder loan made in 2018 to the joint venture CSSC – Fincantieri Cruise Industry Development Ltd.
"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 reduction in the balance is mainly due to the change in the fair value of the derivatives to hedge exchange rate risks following the weakening 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.
It should be noted that, following the first application of IFRS 9, the opening balance at 1 January 2018 of "Other non-current financial receivables" decreased by euro 651 thousand, reflecting the effects of the adoption of the new impairment model introduced by IFRS 9. More details can be found in Note 1.

NOTE 10 – OTHER NON-CURRENT ASSETS

Other non-current assets are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Other receivables from investee companies	673	642
Government grants receivable	4,407	3,758
Firm commitments	18,427	14,016
Other receivables	8,304	7,987
OTHER NON-CURRENT ASSETS	31,811	26,403

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. The amount is analyzed below by due date for recovery:

(euro/000)

	31.12.2018	31.12.2017
- between one and two years	4,407	2,052
- between two and three years		1,706
- between three and four years		
- between four and five years		
- beyond five years		
TOTAL	4,407	3,758

"Firm commitments" of euro 18,427 thousand (euro 14,016 thousand at 31 December 2017) 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 8,304 thousand (euro 7,987 thousand at 31 December 2017) mainly include the receivable from the Iraqi Ministry of Defence (euro 4,693 thousand). Please refer to the specific section on litigation in Note 32 for a more detailed explanation.
The remaining balance of euro 3,611 thousand consists of security deposits, advances and other minor items.
The following table presents the amount of and movements in the provision for impairment of other non-current receivables:

(euro/000)

	Provision for impairment of other receivables
Balance at 1.1.2017	16,104
Utilizations	(6,116)
Increases/ (Releases)	(1,800)
Total at 31.12.2017	8,188
Utilizations	
Increases/ (Releases)	
Total at 31.12.2018	8,188

NOTE 11 - DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are analyzed as follows:

(euro/000)

	Sundry impairment losses	Product warranty	Other risks and charges	Fair value derivatives	Actuarial valuation employee severance benefit	Carry forward tax losses	Other temporary differences	**Total**
1.1.2017	**35,888**	**9,197**	**15,659**	**9,865**	**6,266**	**44,617**	**32,881**	**154,373**
Changes in 2017								
- business combinations							5	5
- through profit or loss	6,647	2,056	3,450		(2,728)	(31,194)	(1,955)	(23,724)
- impairment losses								
- through other comprehensive income				(48,730)	20			(48,710)
- tax rate and other changes	(180)	(339)				1,588	(5,992)	(4,923)
- exchange rate differences	(488)	(57)	(30)	(36)		(1,061)	(3,245)	(4,917)
31.12.2017	**41,867**	**10,857**	**19,079**	**(38,901)**	**3,558**	**13,950**	**21,694**	**72,104**
First adoption IFRS							7,995	7,995
1.1.2018	**41,867**	**10,857**	**19,079**	**(38,901)**	**3,558**	**13,950**	**29,689**	**80,099**
Changes in 2018								
- business combinations								
- through profit or loss	(12,866)	(1,385)	1,910		(55)	10,058	17,312	14,974
- impairment losses								
- through other comprehensive income				29,134	(351)			28,783
- tax rate and other changes					(28)		(12)	(40)
- exchange rate differences	(134)	40	(56)	(24)		(535)	857	148
31.12.2018	**28,867**	**9,512**	**20,933**	**(9,791)**	**3,124**	**23,473**	**47,846**	**123,964**

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 positive difference of euro 43,865 thousand mainly relates to the VARD group and is mainly due to the provision made for tax losses made during the year and the valuation of some balance sheet items. Also worthy of note is the increase due to the recognition of the tax effect related to the fair value measurement of hedging derivatives (positive for euro 29,134 thousand) with contra-entry in the equity reserve.
The opening balance at 1 January 2018 has been adjusted by euro 7,995 thousand to reflect the tax effects resulting from the first application of the new accounting standards IFRS 15 and IFRS 9. More details can be found in Note 1.
Deferred tax assets are largely offsettable (by euro 23.5 million) against the deferred tax liabilities discussed below.

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No deferred tax assets have been recognized on euro 102 million (euro 97 million at 31 December 2017) in carry forward losses of subsidiaries which are thought unlikely to be recovered against future taxable income.

Deferred tax liabilities are analyzed as follows:

(euro/000)

	Deferred taxes from business combinations	Other temporary differences	**Total**
1.1.2017	**57,123**	**27,949**	**85,072**
Changes in 2017			
- business combinations	917		917
- through profit or loss	(1,944)	(979)	(2,923)
- impairment losses			
- through other comprehensive income		(1,804)	(1,804)
- tax rate and other changes	(5,775)	(6,444)	(12,219)
- exchange rate differences	(5,002)	(2,289)	(7,291)
31.12.2017	**45,319**	**16,433**	**61,752**
Changes in 2018			
- business combinations			
- through profit or loss	(2,102)	(857)	(2,959)
- impairment losses			
- through other comprehensive income		(1,586)	(1,586)
- tax rate and other changes			
- exchange rate differences	495	310	805
31.12.2018	**43,712**	**14,300**	**58,012**

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:

(euro/000)

	31.12.2018	31.12.2017
Raw materials and consumables	280,105	249,789
Work in progress and semi-finished goods	120,044	137,317
Finished products	31,786	31,416
Merchandise		
TOTAL INVENTORIES	**431,935**	**418,522**
Advances to suppliers	449,160	416,677
TOTAL INVENTORIES AND ADVANCES	**881,095**	**835,199**

Inventories and advances are stated net of relevant provisions for impairment.
The difference of euro 45,896 thousand is mainly attributable to the Parent Company and refers in part, to the stock of raw materials needed for production and in part to the advances paid to suppliers for the new naval vessel contracts started in 2017.
The amount recorded for Raw materials and consumables basically represents the volume of stock considered sufficient to ensure the normal conduct of production activities.
Work in progress and semi-finished goods and finished products include some of the subsidiary VARD's naval vessels as well as the manufacture of engines and spare parts.
The following table presents the amount of and movements in such provisions for impairment:

(euro/000)

	Provision for impairment - raw materials	Provision for impairment - work in progress and semi-finished goods	Provision for impairment- finished products
1.1.2017	14,266	-	2,485
Increases	2,625	5,796	
Utilizations	(1,341)		(359)
Releases	(868)		
Exchange rate differences	(53)	(302)	(119)
31.12.2017	14,629	5,494	2,007
Increases	2,228	11,413	994
Utilizations	(1,732)		
Releases	(2,139)		
Exchange rate differences	15	(462)	59
31.12.2018	13,000	16,445	3,060

"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.

"Work in progress and semi-finished goods" increased during the year due to the increase made 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

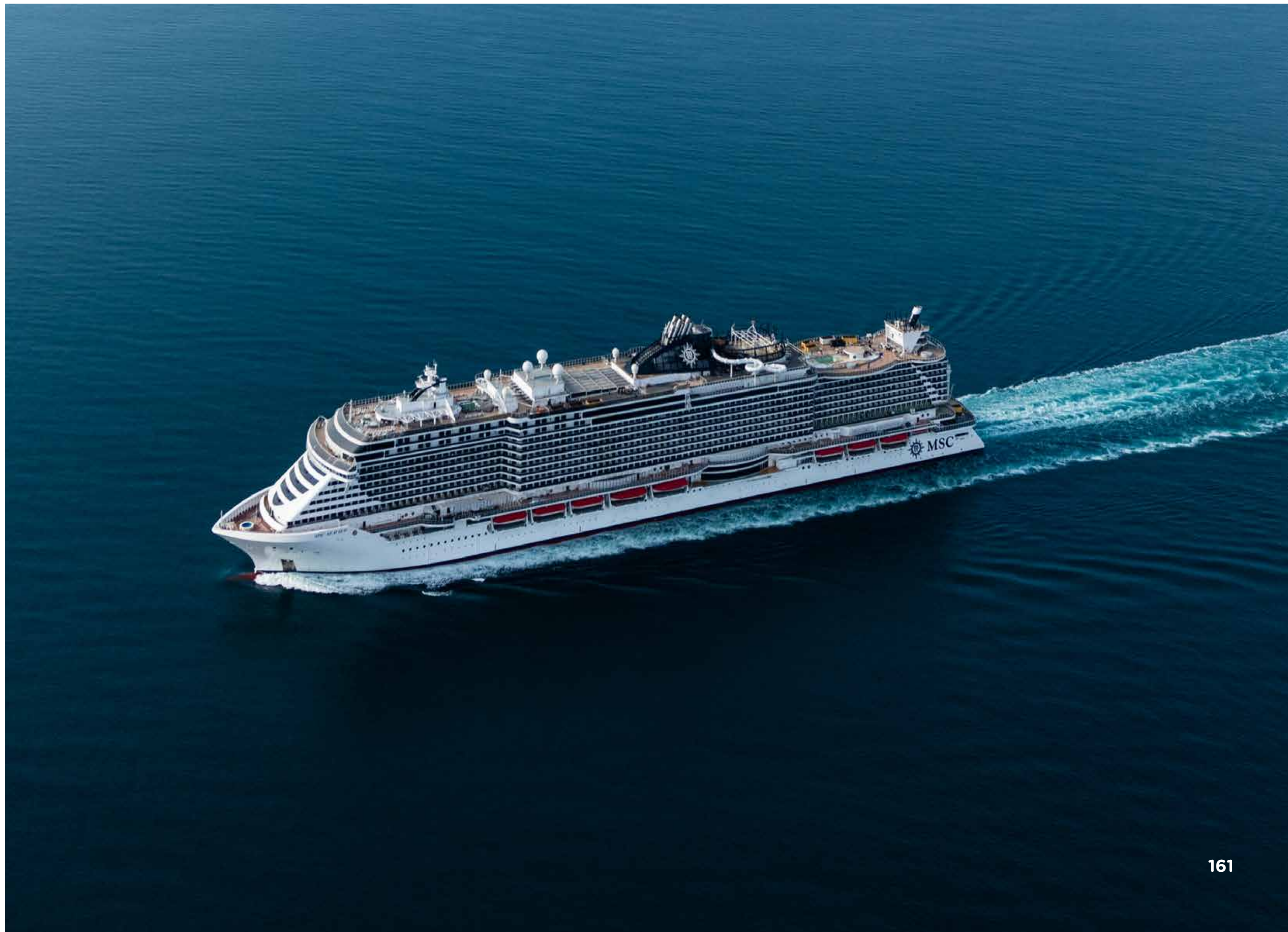
These are analyzed as follows:

(euro/000)

	31.12.2018			31.12.2017		
	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net assets	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net assets
Shipbuilding Contracts	8,134,360	(5,610,562)	2,523,798	7,993,621	(6,009,467)	1,984,154
Other contracts for third parties	48,102	(40,628)	7,474	32,867	(21,679)	11,188
Total	**8,182,462**	**(5,651,190)**	**2,531,272**	**8,026,488**	**(6,031,146)**	**1,995,342**

"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 opening balance at 1 January 2018 of Construction contracts - net assets has been adjusted by euro 106,628 thousand to reflect the tax effects resulting from the first application of IFRS 15. More details can be found in Note 1.



NOTE 14 - TRADE RECEIVABLES AND OTHER CURRENT ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Trade receivables	749,387	908,960
Receivables from controlling companies (tax consolidation)	2,926	20,327
Government grants receivable	4,414	4,475
Other receivables	208,152	142,332
Indirect tax receivables	43,033	32,181
Firm commitments	5,217	2,992
Accrued income	49,053	44,700
Prepayments	195	51
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	1,062,377	1,156,018

Receivables are shown net of provisions for impairment. These provisions relate to receivables that are no longer considered fully recoverable, including those involving legal action and judicial and out-of-court proceedings in cases of debtor default.

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

(euro/000)

	Provision for impairment of trade receivables	Provision for past due interest	Provision for impairment of other receivables	Total
1.1.2017	27,128	63	6,430	33,621
Business combinations				
Utilizations	(2,955)		(444)	(3,399)
Increases / (Decreases)	1,592		216	1,808
Exchange rate differences	(86)			(86)
31.12.2017	25,679	63	6,202	31,944
Business combinations				
Utilizations	(1,534)			(1,534)
Increases / (Decreases)	9,000		607	9,607
Exchange rate differences	(17)			(17)
31.12.2018	33,128	63	6,809	40,000

The decrease of euro 159,573 thousand in "Trade receivables" is mainly due to the receipt of the final instalment for the Carnival Horizon cruise ship delivered by the Parent Company in the first months of the year.

"Government grants receivable" of euro 4,414 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 208,152 thousand mainly refer to:

- research grants, shipowner supplies, insurance claims, advances to suppliers, sundry receivables from employees and other miscellaneous receivables, mostly relating to the Parent Company, totalling euro 206,642 thousand (euro 140,914 thousand at 31 December 2017);
- receivables from social security institutions for euro 1,510 thousand (euro 1,418 thousand at 31 December 2017), 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 43,033 thousand (euro 32,181 thousand at 31 December 2017) 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 5,217 thousand (euro 2,992 thousand at 31 December 2017) 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.
"Prepayments" mainly refer to insurance premiums relating to future periods.

NOTE 15 – INCOME TAX ASSETS

(euro/000)

	31.12.2018	31.12.2017
Italian corporate income taxation (IRES)	13,451	13,641
Italian regional tax on productive activities (IRAP)	541	192
Foreign tax	6,610	5,085
TOTAL INCOME TAX ASSETS	20,602	18,918

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

(euro/000)

	Provision for impairment of income tax assets
Balance at 1.1.2017	2,042
Increases/ (Releases)	
Other movements	
Total at 31.12.2017	2,042
Increases/ (Releases)	
Other movements	
Total at 31.12.2018	2,042

NOTE 16 – CURRENT FINANCIAL ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Derivative assets	22,952	16,085
Other receivables	17,329	33,542
Government grants financed by BIIS	7,751	7,468
Accrued interest income	439	800
Prepaid interest and other financial expense	217	12
TOTAL CURRENT FINANCIAL ASSETS	48,688	57,907

"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.

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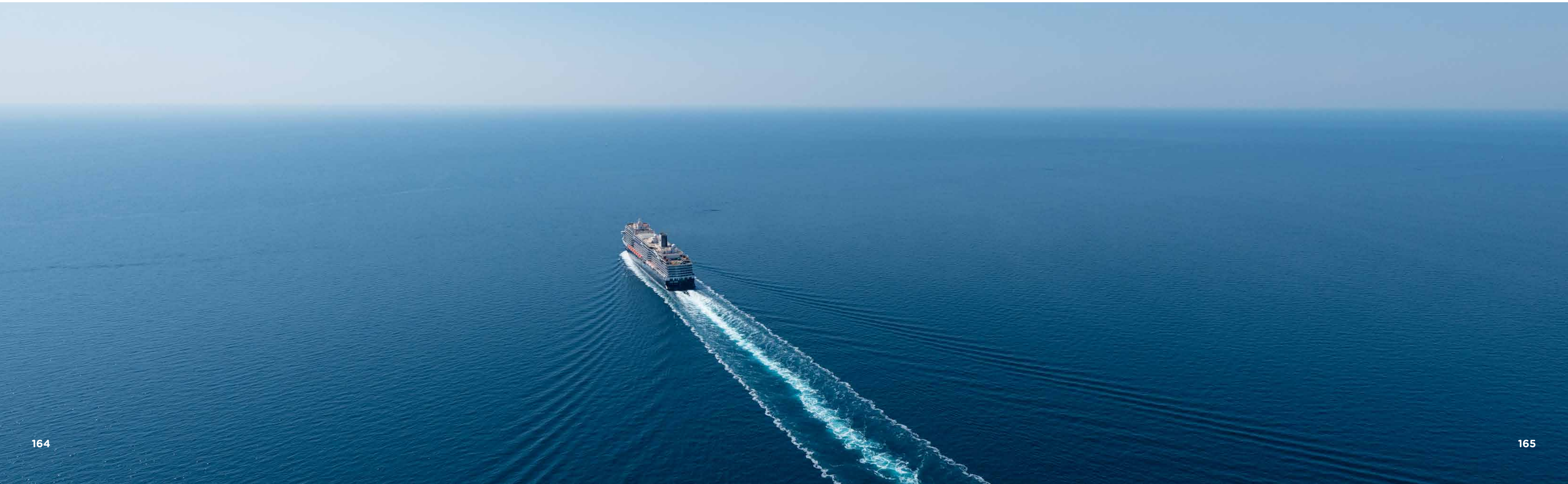
NOTE 17 - CASH AND CASH EQUIVALENTS

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Bank and postal deposits	676,395	274,299
Checks		
Cash on hand	92	112
TOTAL CASH AND CASH EQUIVALENTS	676,487	274,411

Cash and cash equivalents at period end include euro 10,929 thousand in term bank deposits; the remainder refers to the balances on current accounts held with a number of banks.



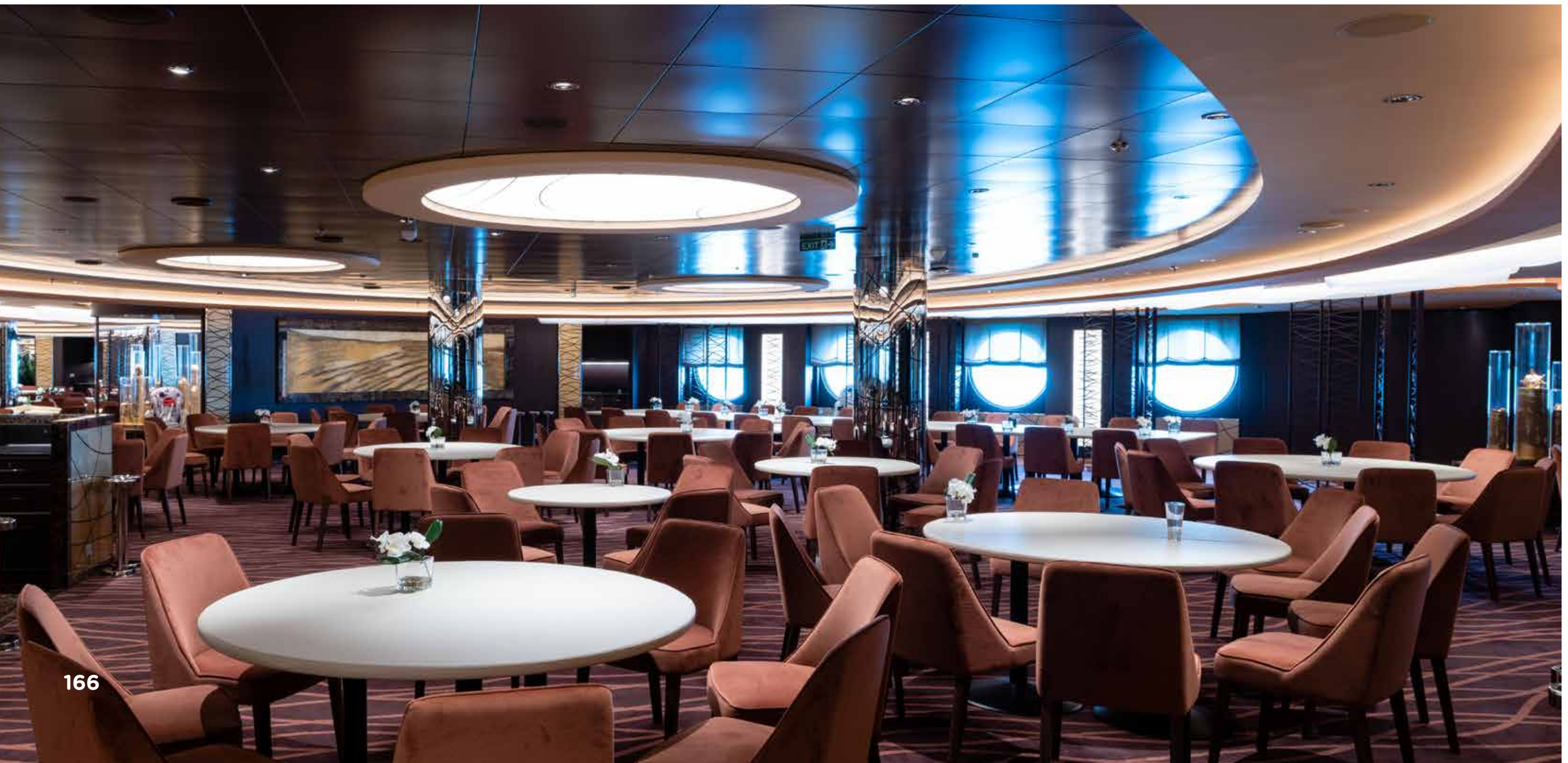
NOTE 18 - EQUITY

Equity attributable to owners of the parent

The Ordinary Shareholders' Meeting held on 11 May 2018 adopted a resolution to allocate the net profit from the 2017 financial year, euro 119,272, as follows: euro 5,963 thousand to the Legal Reserve, euro 16,874 thousand for distribution to shareholders with a dividend of 1 euro cent per share in circulation at the coupon-detachment date (21 May 2018), excluding own shares in the portfolio on that date, and the remainder to the Extraordinary Reserve.
The composition of equity is analyzed in the following table:

(euro/000)

	31.12.2018	31.12.2017
Attributable to owners of the parent		
Share capital	862,981	862,981
Reserve of own shares	(5,277)	(5,277)
Share premium reserve	110,499	110,499
Legal reserve	40,289	34,326
Cash flow hedge reserve	15,271	92,527
Available-for-sale fair value reserve	(394)	(323)
Currency translation reserve	(137,916)	(134,128)
Other reserves and retained earnings	269,387	219,093
Profit/(loss) for the year	72,440	57,140
	1,227,280	1,236,838
Attributable to non-controlling interests		
Capital and reserves	22,504	89,689
Available-for-sale fair value reserve	(11)	(84)
Currency translation reserve	6,515	(13,283)
Profit/(loss) for the year	(3,318)	(4,000)
	25,690	72,322
TOTAL EQUITY	1,252,970	1,309,160



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 2017.

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. During 2017, 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 shares outstanding in the Parent Company at 31 December 2018.

	N° shares
Ordinary shares issued	1,692,119,070
less: own shares purchased in 2017	(4,706,890)
Ordinary shares outstanding	1,687,412,180

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 year has led to a change of euro 11,814 thousand in other reserves and retained earnings. At 31 December 2017, the subsidiary Fincantieri Oil & Gas directly owned 79.74% of the share capital of Vard Holdings Limited and its acquisition of shares from minority shareholders of the Norwegian Group took place through subsequent purchases of shares on the market which brought the stake to 97.22% at year end. 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 accrued during 2018 (euro 4,844 thousand). More details about the incentive plan can be found in Note 32.

First adoption of IFRS 15 and IFRS 9

The application of IFRS 15 and IFRS 9 has led to a change in the opening balances of "Other reserves and retained earnings" at 1 January 2018, which decreased by euro 20,661 thousand, of which the group's portion is euro 20,427 thousand and euro 234 thousand is the portion of non-controlling interests. More details on the effects of the transition can be found in Note 1.

Non-controlling interests

The change since 31 December 2017 (euro 44,278 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:

(euro/000)

	31.12.2018			31.12.2017		
	Gross amount	Tax (expense)/ benefit	Net amount	Gross amount	Tax (expense)/ benefit	Net amount
Effective portion of profits/(losses) on cash flow hedging instruments	(106,729)	29,296	(77,433)	168,588	(48,896)	119,692
Gains/(losses) from remeasurement of employee defined benefit plans	1,502	(361)	1,141	75	19	94
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method				(216)		(216)
Gains/(losses) arising on translation of financial statements of foreign operations	14,586	1,424	16,010	(59,810)	1,970	(57,840)
Total other comprehensive income/ (losses)	**(90,641)**	**30,359**	**(60,282)**	**108,637**	**(46,907)**	**61,730**

(euro/000)

	31.12.2018	31.12.2017
Effective portion of profits/(losses) arising in period on cash flow hedging instruments	24,968	131,697
Effective portion of profits/(losses) on cash flow hedging instruments reclassified to profit or loss	(131,697)	36,891
Effective portion of profits/(losses) on cash flow hedging instruments	**(106,729)**	**168,588**
Tax effect of other components of comprehensive income	**29,296**	**(48,896)**
TOTAL OCI FOR CASH FLOW HEDGES, NET OF TAX	**(77,433)**	**119,692**

NOTE 19 - PROVISIONS FOR RISKS AND CHARGES

These are analyzed as follows:

(euro/000)

	Litigation	Product warranty	Agent indemnity benefit	Business reorganization	Other risks and charges	Total
1.1.2017	**56,562**	**43,429**	**76**	**2,524**	**23,383**	**125,974**
Business combinations						
Increases	47,374	30,974			4,468	82,816
Utilization	(31,564)	(18,367)		(1,407)	(2,372)	(53,710)
Releases	(2,130)	(6,978)	(15)		(2,606)	(11,729)
Other movements		(1)			(467)	(468)
Exchange rate differences	(119)	(808)		(212)	(901)	(2,040)
31.12.2017	**70,123**	**48,249**	**61**	**905**	**21,505**	**140,843**
Business combinations						
Increases	36,857	28,493			3,834	69,184
Utilization	(31,405)	(25,257)			(1,158)	(57,820)
Releases		(11,495)	(7)		(6,183)	(17,685)
Other movements		432			244	676
Exchange rate differences	(342)	340		(11)	31	18
31.12.2018	**75,233**	**40,762**	**54**	**894**	**18,273**	**135,216**
- of which non-current portion	73,483	35,919	54		17,067	126,523
- of which current portion	1,750	4,843		894	1,206	8,693

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 5,070 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)	2018	2017
Opening balance	58,929	57,848
Business combinations		2,270
Interest cost	724	882
Actuarial (gains)/losses	(1,694)	(74)
Utilizations for benefits and advances paid	(1,501)	(2,172)
Staff transfers and other movements	373	175
Exchange rate differences	(1)	
Closing balance	56,830	58,929
Plan assets	(24)	(17)
Closing balance	56,806	58,912

The balance at 31 December 2018 of euro 56,830 thousand is mainly comprised of the employee severance benefit pertaining to the Group's Italian companies (euro 56,794 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:

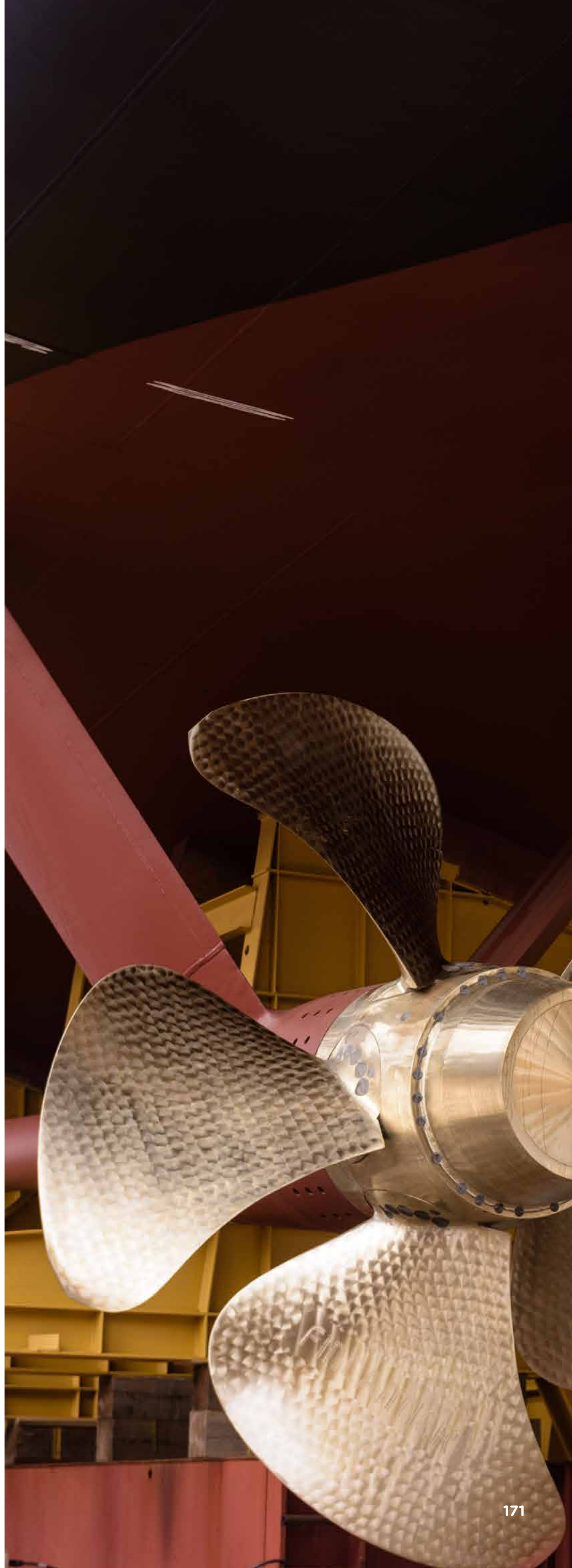
	31.12.2018	31.12.2017
ECONOMIC ASSUMPTIONS		
Cost of living increase	1.50%	1.50%
Discount rate	1.57%	1.30%
Increase in employee severance benefit	2.625%	2.625%
DEMOGRAPHIC ASSUMPTIONS		
Expected mortality rate	RG48 mortality tables published by the State Accounting Office	RG48 mortality tables published by the State Accounting Office
Expected invalidity rate	INPS tables split by age and gender	INPS tables split by age and gender
Expected resignation rate	3.0%	3.0%
Expected rate of advances on employee severance benefit	2.0%	2.0%

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

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

(euro/000)	Expected payments
Within 1 year	3,716
Between 1 and 2 years	3,177
Between 2 and 3 years	3,491
Between 3 and 4 years	3,974
Between 4 and 5 years	3,811
Total	18,169

The Group paid a total of euro 36,598 thousand into defined contribution plans in 2018 (euro 35,406 thousand in 2017).



NOTE 21 – NON-CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

(euro/000)	31.12.2018	31.12.2017
Bank loans and credit facilities - non-current portion	760,448	261,027
Loans from BIIS - non-current portion	4,762	12,513
Liabilities to other lenders	6,078	2,474
Finance lease obligations	26	200
Derivative liabilities	21,414	17,485
TOTAL NON-CURRENT FINANCIAL LIABILITIES	792,728	293,699

The increase in “Bank loans and credit facilities - non-current portion” is due to the taking out of new medium and long term loans for the refinancing, at a much lower cost, of the bond which matured and was repaid in November 2018.

Bank loans and credit facilities

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

(euro/000)	31.12.2018	31.12.2017
Bayerische Landesbank	175,000	
Banca Nazionale del Lavoro	100,000	
Intesa Sanpaolo	103,853	3,613
Banca Mediocredito del Friuli Venezia Giulia	9,240	12,775
Mediobanca		
UBI Banca	91,617	58,284
Banca Popolare dell’Emilia Romagna	84,167	12,500
Cassa di Risparmio di San Miniato		5,000
Cassa Depositi e Prestiti	51,101	56,444
Banca UBAE	15,000	15,000
Credito Valtellinese	50,000	20,000
Crèdit Agricole - Friuladria	25,000	
Unicredit Tiriac Bank SA	11,667	18,338
Innovation Norway	9,232	11,145
Nordea	1,310	2,501
Banco do Brazil	80,445	84,316
Other loans and credit facilities	4,360	9,490
TOTAL BANK LOANS AND CREDIT FACILITIES	811,992	309,406
Non-current portion	760,448	261,027
Current portion	51,544	48,379

The exposure to Bayerische Landesbank relates to three medium/long-term loans taken out by Fincantieri S.p.A. The first was disbursed in September 2018 for 75 million, repayable in a single instalment in September 2023. In November 2018 two other “Schuldschein” loans were taken out with Bayerische Landesbank acting as Arranger and Paying Agent: the first for euro 29 million with a duration of 3 years (expiry November 2021) and the second for 71 million with a duration of 5 years (expiry November 2023). Both the “Schuldschein” loans will be repaid in a single solution at the respective maturity dates.
“Schuldschein” loans are debt instruments which are privately placed by an arranger bank with professional investors. Unlike normal syndicated loans, the loan is securitized in a note (Schuldschein) which is then transferred to the investors.
In July 2018 the Parent Company took out an unsecured medium-long term loan with Banca Nazionale del Lavoro, disbursed in the same month for euro 100 million, repayable in a single instalment in July 2023.
The exposure to Intesa Sanpaolo refers to a medium/long term unsecured loan disbursed to the Parent Company in August 2018 for euro 100 million, repayable in a single instalment in July 2023. In addition, with the same bank, the Parent Company fully drew down, between 2015 and 2018, the ordinary portions of three loans taken out in 2014 for technological innovation projects under Law 46/1982 known as “Environmental Logistics”, ““Payload” and “Production Engineering” for euro 3,853 thousand. These loans are due to be repaid between 2022 and 2024.
The Parent Company has an exposure to Banca Popolare dell’Emilia Romagna consisting of the residual debt on three medium/long-term unsecured loans.
The first loan was disbursed in 2015 for 25 million: at the final expiry date of June 2019 the last of the 6 semi-annual instalments will be repaid. The second loan was disbursed in January 2018 for euro 30 million, repayable in six semi-annual instalments from July 2019 ending in January 2022. In August 2018 the third loan was disbursed for euro 50 million, also repayable in six semi-annual instalments from February 2021 to August 2023.
In November 2016, the Banca Popolare di Ancona, now UBI Banca, granted the Parent Company a medium/long-term unsecured loan for euro 20 million, repayable in 6 semi-annual instalments ending in February 2020. In December 2016, UBI Banca granted the Parent Company the first ordinary portion, euro 1,617 thousand, of a loan agreed in 2014 for euro 2,021 thousand for an innovation project under Law 46/1982 called “Environment”; this amount will be repaid in semi-annual instalments due between 2021 and 2024. In 2017 the bank granted the Parent Company a new medium/long-term unsecured loan for euro 40 million, repayable in a single instalment in November 2020. In December 2018 a further unsecured loan was taken out with UBI Banca for a total of 30 million, repayable in a single instalment in June 2020. In May 2018 Vard Group AS took out a loan with UBI Banca for a total of 10 million, which will be repaid in three-monthly instalments by May 2021.
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:

- for the "Superpanamax cruise ship" project, a fully disbursed loan for euro 12,217 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2022;
- for the "Superpanamax cruise ship" project, a fully disbursed loan for euro 4,405 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2020;
- for the "Ecomos" project, a fully disbursed loan for euro 10,818 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Payload" project, a fully disbursed loan for euro 13,043 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Production Engineering" project, a loan for up to euro 10,822 thousand, the last portion of which, 2,164 thousand, was disbursed in October 2018. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Environmental" project, a loan for up to euro 18,192 thousand, of which euro 14,554 thousand was disbursed by the end of 2016. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

In 2018 the Parent Company took out a further new medium/long-term unsecured loan with Credito Valtellinese for euro 30 million, repayable, after a grace period of 36 months, in 3 semi-annual instalments ending in September 2022. This loan is in addition to the medium/long-term unsecured loan disbursed by the bank in July 2017 for 20 million to be repaid, after a 22-month grace period, in 5 semi-annual instalments ending in July 2021.
In January 2018 a medium/long-term unsecured loan, taken out by the Parent Company in October 2017 with Credit Agricole – Friuladria, was disbursed for euro 25 million, due to be repaid in a single instalment in January 2020.
In 2017 the Parent Company took out a medium/long-term unsecured loan for euro 15 million with Banca UBAE, repayable in a single instalment in January 2020.
FINCANTIERI S.p.A.'s exposure to Banca Mediocredito del Friuli Venezia Giulia refers to four different loans, secured by a lien on plant, machinery and equipment at the Monfalcone shipyard, as disclosed in Note 7, disbursed between 2009 and 2014 for the original total amount of euro 33.6 million. These loans are to be repaid progressively in semi-annual instalments by 2022. In 2018 the last instalment of a further loan originally totalling 3.5 million was paid and the Parent Company extinguished the lien on the loan.
In December 2018 the medium/long-term unsecured loan granted by Cassa di Risparmio di San Miniato to the Parent Company in 2015 for the original amount of 15 million was fully repaid.
"Other loans and credit facilities" includes the ordinary residual portion of two loans granted by Mediocredito Centrale for the "Superpanamax cruise ship" development project under Law 46/1982 and the "Ecomos" applied research project under Law 297/1999, fully disbursed between 2013 and 2017 for an overall total of euro 1,847 thousand. The final instalments are due on these loans in June 2022 and June 2020 respectively.
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 2018 is euro 11,667 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 92 million (current and non-current portions) at 31 December 2018; 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). Vard obtained from Innovation Norge a waiver of the covenant relating to equity for the last quarter of 2018.
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 1.5 million outstanding at the end of 2018), 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:

(euro/000)

	31.12.2018			31.12.2017		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	26,285	138,644	164,929	23,541	23,767	47,308
- between two and three years	25,578	73,141	98,719	26,377	68,140	94,517
- between three and four years	16,717	45,536	62,253	25,338	4,864	30,202
- between four and five years	290,898	91,269	382,167	16,475	3,313	19,788
- beyond five years	49,749	2,631	52,380	60,571	8,641	69,212
Total	**409,227**	**351,221**	**760,448**	**152,302**	**108,725**	**261,027**

"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.

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NOTE 22 - OTHER NON-CURRENT LIABILITIES

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Capital grants	24,242	21,676
Other liabilities	6,933	9,203
Firm commitments	962	37
TOTAL OTHER NON-CURRENT LIABILITIES	32,137	30,916

"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:

(euro/000)

	31.12.2018			31.12.2017		
	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities
Shipbuilding contracts	2,505,411	4,062,921	1,557,510	1,532,501	2,874,082	1,341,581
Other contracts for third parties				100,142	104,489	4,347
Client advances		37,283	37,283		1,324	1,324
Total	2,505,411	4,100,204	1,594,793	1,632,643	2,979,895	1,347,252

"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. At 31 December 2018 this item includes euro 35 million of advances received in relation to a naval contract classified in inventories under Work in progress and semi-finished goods.
The opening balance at 1 January 2018 of Construction contracts - net liabilities has been adjusted by euro 30,697 thousand to reflect the tax effects resulting from the first application of IFRS 15. More details can be found in Note 1.

NOTE 24 - TRADE PAYABLES AND OTHER CURRENT LIABILITIES

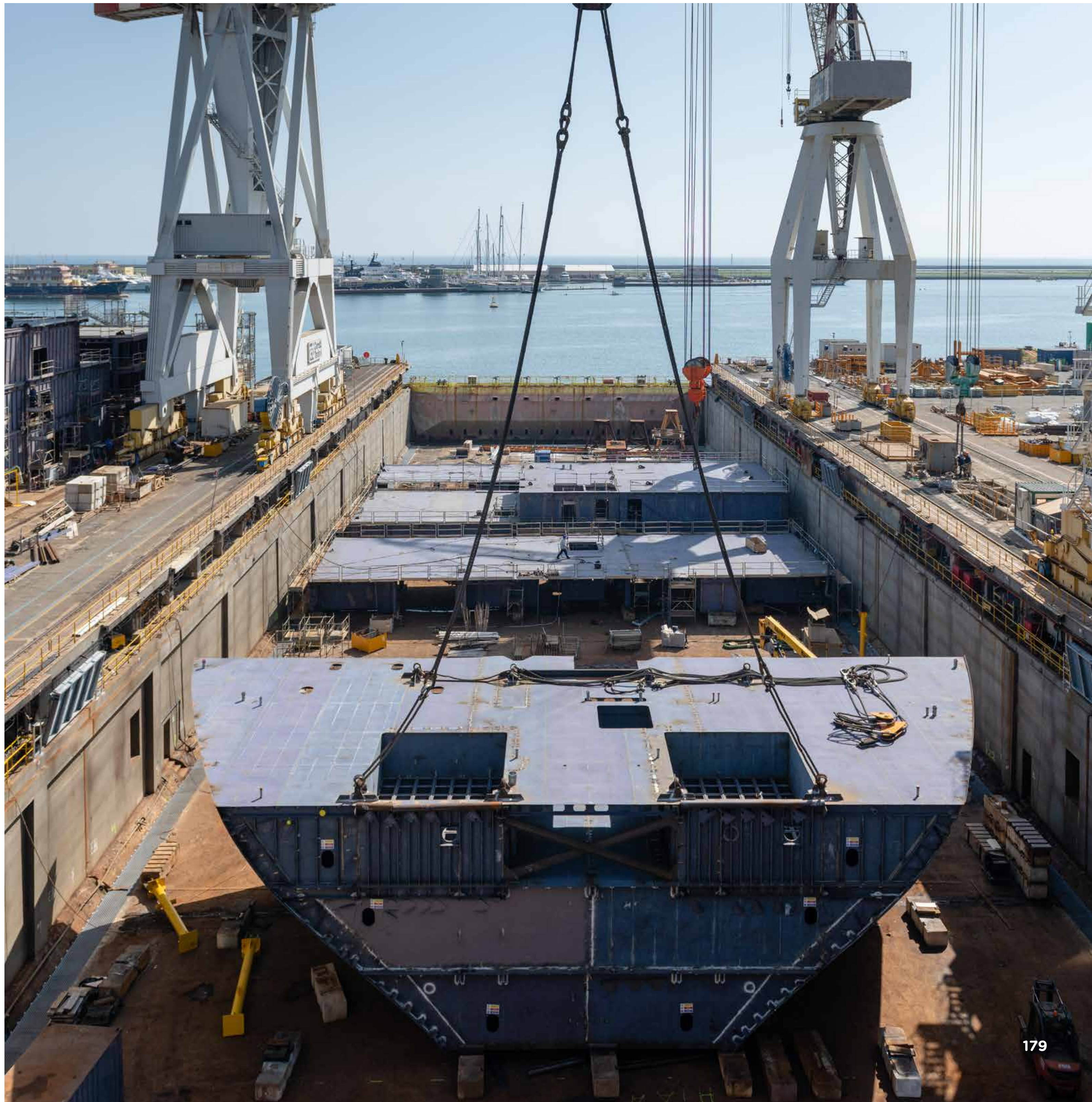
These are analyzed as follows:

(euro/000)	31.12.2018	31.12.2017
Payables to suppliers	1,471,101	1,476,531
Payables to suppliers for reverse factoring	377,487	271,964
Social security payables	37,327	35,577
Other payables for deferred employee remuneration	76,454	69,921
Other payables	84,335	91,690
Other payables to Parent Company (tax consolidation)	47,459	87
Indirect tax payables	18,007	15,888
Firm commitments	697	3,837
Accrued expenses	2,576	6,677
Deferred income	847	1,310
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	2,116,290	1,973,482

"Payables to suppliers" is essentially unchanged compared to the previous 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 16,108 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.

NOTE 25 - INCOME TAX LIABILITIES

(euro/000)	31.12.2018	31.12.2017
Italian corporate income taxation (IRES)	1,269	427
Italian regional tax on productive activities (IRAP)	190	6,049
Foreign tax	2,841	5,759
TOTAL INCOME TAX LIABILITIES	4,300	12,235



NOTE 26 - CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

(euro/000)

	31.12.2018	31.12.2017
Bonds and commercial papers	231,000	299,239
Bank loans and credit facilities - current portion	51,544	48,379
Loans from BIIS - current portion	7,751	7,468
Bank loans and credit facilities - Construction loans	632,482	624,360
Other short-term bank debt	195,930	121,690
Liabilities to other lenders - current portion	906	5,280
Bank credit facilities repayable on demand	1,287	609
Financial liabilities for the acquisition of equity investments		1,485
Payables to joint ventures	1,716	1,628
Finance lease obligations - current portion	210	253
Fair value of options on equity investments	19,389	17,677
Derivative liabilities	37,880	36,213
Accrued interest expense	2,751	2,634
TOTAL CURRENT FINANCIAL LIABILITIES	1,182,846	1,166,915

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 2018:

(euro/000)

	31.12.2018	31.12.2017
CONSTRUCTION LOANS		
Italy	50,000	50,000
Norway	412,535	277,011
Brazil	169,947	297,349
TOTAL CONSTRUCTION LOANS	632,482	624,360

The change in “Bonds - current portion” refers to the regular repayment, on 19 November 2018, of the bonds placed by the Parent Company on 19 November 2013 on the Luxembourg Stock Exchange (at a below par price of euro 99.442).

With reference to the Euro-Commercial Paper Step Label program structured by the Parent Company in December 2017 for a maximum of euro 500 million, euro 231 million of this financing had been drawn down as at 31 December 2018.
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 1,336 million are detailed as follows:

- In December 2018 the Parent Company agreed with a syndicate of leading national banks, including Cassa Depositi e Prestiti, a construction loan for up to 300 million to finance the construction of a cruise ship. As at 31 December 2018, this loan had not been drawn down.
- In July 2018 the Parent Company agreed construction financing with a leading international bank for up to 150 million, to be disbursed in line with the progress of works on a cruise ship. As at 31 December 2018, euro 50 million of this loan had been drawn down.
- VARD Group AS has existing construction loan facilities with Nordea, DNB, Sparebanken 1 SMN, Deutsche Bank and Intesa SanPaolo for a total of NOK 7,122 million. These facilities had been drawn down by a total of NOK 5,794 million at 31 December 2018. These facilities carry covenants as follows: all have a covenant on consolidated equity (minimum NOK 1,500 million) and consolidated cash and cash equivalents, which must be at least NOK 500 million. In addition, but only for the loans with DNB and Sparebanken 1 SMN, there is a covenant on net working capital, with a minimum of zero. At 31 December 2018 Vard obtained from the banks a waiver of the covenants relating to equity and net working capital.
- At 31 December 2018 the Brazilian subsidiary Vard Promar SA had construction loans with leading Brazilian banks for a total of USD 195 million which were fully repaid in January 2019 following the delivery of the project financed.

The construction loans drawn down at 31.12.2018 consist of a fixed-rate portion for approximately euro 170 million (carrying rates at 31 December 2018 of between 3.2% and 5.3%) and a variable-rate portion for about euro 412 million (carrying rates at 31 December 2018 of between 1.6% and 4.3%).
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 2018 includes the drawing down of committed lines of credit for euro 15 million, entirely relating to VARD, and euro 182 million of uncommitted lines of credit, of which euro 46 million relates to the Parent Company; this is expected to be repaid in January 2019.
At 31 December 2018, the Group had a total of euro 535 million in committed lines of credit with leading Italian and international banks maturing between 2019 and 2021. 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 690 million).
"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 19,389 thousand (euro 17,677 thousand at 31 December 2017) is related to the option held by minority shareholders of the American Group FMG, the increase in which since 2017 is due to the revaluation recognized in profit and loss under financial costs for euro 847 thousand and, for the remainder, to the positive effect of translating the balance expressed in foreign currency.

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

NOTE 27 - REVENUE AND INCOME

These are analyzed as follows:

(euro/000)

	2018	2017
Sales and service revenue	4,112,276	3,428,083
Change in construction contracts	1,256,620	1,486,172
Operating revenue	**5,368,896**	**4,914,255**
Gains on disposal	219	471
Sundry revenue and income	74,518	69,024
Government grants	30,387	36,335
Total other revenue and income	**105,124**	**105,830**
TOTAL REVENUE AND INCOME	**5,474,020**	**5,020,085**

For detail of the revenue broken down by the Group's operating segments, please refer to Note 34. It should be noted that almost all the revenue relating to naval and service contracts is recognized gradually over time.
"Government grants" includes euro 19,504 thousand grants for the year recognized by the Parent Company for the loan for innovative projects on products and processes in the naval vessel sector, under Law 190 of 2014, assigned in November and December 2016. The remaining part is the grants related to income (euro 4,350 thousand) and capital (euro 6,533 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:

(euro/000)

	2018	2017
Penalties charged to suppliers	11,471	8,053
Rental income	810	1,849
Insurance claims	30,861	19,659
Recharged costs	8,402	5,857
Income from third parties relating to personnel	212	150
Other sundry income	21,836	19,538
Gains on held-for-trading foreign currency derivatives	456	11,122
Gains on hedging instruments not qualifying for hedge accounting		2,785
Other income	470	11
Total	**74,518**	**69,024**

"Recharged costs", of euro 8,402 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories.
"Other sundry income" of euro 21,836 thousand mainly includes the recharge of services made available to subcontractors at the shipyards and out-of-period income and adjustments arising on settlements agreed with suppliers during the year.

NOTE 28 - OPERATING COSTS

Materials, services and other costs

Materials, services and other costs are analyzed as follows:

(euro/000)

	2018	2017
Raw materials and consumables	(2,901,600)	(2,502,461)
Services	(1,148,803)	(1,171,098)
Leases and rentals	(45,126)	(40,332)
Change in inventories of raw materials and consumables	27,051	14,624
Change in inventories work in progress and finished products	(14,346)	(19,715)
Sundry operating costs	(33,348)	(51,188)
Cost of materials and services capitalized in fixed assets	12,122	23,696
Total materials, services and other costs	**(4,104,050)**	**(3,746,474)**

The reduction in Sundry operating costs is mainly due to the recognition in 2017 of an income adjustment of euro 16,701 thousand. Sundry operating costs also include euro 708 thousand in losses on the disposal of non-current assets (euro 420 thousand at 31 December 2017).
Details of the cost of services are as follows:

(euro/000)

	2018	2017
Subcontractors and outsourced services	(612,769)	(627,624)
Insurance	(38,970)	(42,664)
Other personnel costs	(32,655)	(26,913)
Maintenance costs	(22,768)	(23,182)
Commissioning and trials	(21,544)	(11,207)
Outsourced design costs	(30,867)	(26,302)
Licenses	(7,372)	(4,903)
Transportation and logistics	(28,073)	(26,300)
Technical and other services	(299,579)	(318,933)
Cleaning services	(35,451)	(35,539)
Electricity, water, gas and other utilities	(42,882)	(44,241)
Utilization of product warranty and other provisions	24,127	16,710
Total cost of services	**(1,148,803)**	**(1,171,098)**

"Leases and rentals" amounting to euro 45,126 thousand (euro 40,332 thousand at 31 December 2017) include rental and hire costs of euro 26,987 thousand (euro 23,334 thousand at 31 December 2017), lease costs of euro 15,214 thousand (euro 14,227 thousand at 31 December 2017), and concession and similar fees of euro 2,925 thousand (euro 2,771 thousand at 31 December 2017).
It should be note that "Technical and other services" includes charges related to the "Performance Share Plan" (euro 1,122 thousand), approved by the Shareholders' Meeting held on 19 May 2017, for the Parent Company's Chief Executive Officer. More details on the operation can be found in Note 32.

Operating leases

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

(euro/000)

	2018	2017
Maturity of future minimum operating lease payments:		
Within 1 year	13,022	14,334
Between 1 and 5 years	41,593	33,231
Beyond 5 years	26,573	26,791
Total	**81,188**	**74,356**

PERSONNEL COSTS

(euro/000)

	2018	2017
Personnel costs:		
- wages and salaries	(704,634)	(658,440)
- social security	(188,023)	(200,652)
- costs for defined contribution plans	(36,598)	(35,406)
- costs for defined benefit plans	(13)	(70)
- other personnel costs	(27,515)	(26,358)
Personnel costs capitalized in fixed assets	5,168	8,862
Total personnel costs	**(951,615)**	**(912,064)**

"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 euro 39,551 thousand compared to 31 December 2017 is partly attributable to the increase in average resources employed in the Group's Italian yards.
It should be note that "Other personnel costs" includes charges related to the "Performance Share Plan" (euro 3,722 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 euro 4,969 thousand in non-recurring expenses attributable to the subsidiary VARD (see Note 32).

Headcount

Employees are distributed as follows:

(number)

	2018	2017
Employees at year end:		
Total at year end	19,274	19,545
- of whom in Italy	8,662	8,314
- of whom in Parent Company	7,874	7,616
- of whom in VARD	8,664	9,172
Average number of employees	19,331	19,314
- of whom in Italy	8,400	8,071
- of whom in Parent Company	7,677	7,471
- of whom in VARD	8,970	9,068

DEPRECIATION, AMORTIZATION AND IMPAIRMENT AND PROVISIONS

(euro/000)

	2018	2017
Depreciation and amortization:		
- amortization of intangible assets	(50,041)	(33,245)
- depreciation of property, plant and equipment	(86,057)	(86,577)
Impairment:		
- impairment of intangible assets	(222)	
- impairment of property, plant and equipment	(39)	(38)
Total depreciation, amortization and impairment	**(136,359)**	**(119,860)**
Provisions:		
- other impairment losses		
- impairment of receivables	(9,923)	(2,450)
- increases in provisions for risks and charges	(66,066)	(80,091)
- release of provisions and impairment reversals	17,230	13,481
Total provisions	**(58,759)**	**(69,060)**

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" mainly comprise provisions for obligations deriving from contractual warranties for euro 28,493 thousand (euro 30,974 thousand at 31 December 2017), and provisions for litigation for euro 36,857 thousand (euro 47,373 thousand at 31 December 2017). 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:

(euro/000)

	2018	2017
FINANCE INCOME		
Bank interest and fees and other income	5,592	4,705
Income from derivative financial instruments	73	42
Interest and fees from joint ventures and associates	323	28
Interest and other income from financial assets	2,031	3,152
Foreign exchange gains	28,616	23,560
Total finance income	**36,635**	**31,487**
FINANCE COSTS		
Interest and fees charged by joint ventures	(159)	(193)
Interest and fees from related parties	(168)	(68)
Interest and fees charged by controlling companies	(727)	(1,095)
Expenses from derivative financial instruments	(19,431)	(4,852)
Unrealized finance costs - delta fair value	(847)	(1,947)
Interest on employee benefit plans	(724)	(746)
Interest and fees on bonds and commercial papers	(10,878)	(12,083)
Interest and fees on construction loans	(24,620)	(25,652)
Bank interest and fees and other expense	(46,088)	(42,289)
Foreign exchange losses	(36,924)	(26,009)
Total finance costs	**(140,566)**	**(114,934)**
TOTAL FINANCE INCOME AND COSTS	**(103,931)**	**(83,447)**

"Finance income" in 2018 includes euro 539 thousand (euro 817 thousand in 2017) in interest formally paid by the Italian State to the Parent Company, but effectively paid to BIIS (Banca Infrastrutture Innovazione e Sviluppo) (with an equal amount recognized as finance expense), under the structure in place for the disbursement of government grants (see Note 9).
The decrease in "Foreign exchange gains/losses" is primarily attributable to the unfavourable trend in the USD/BRL exchange rate.

NOTE 30 - INCOME AND EXPENSE FROM INVESTMENTS

These are analyzed as follows:

(euro/000)

	2018	2017
INCOME		
Dividends from other companies	39	53
Release of provision for losses on investments		690
Gains from sale of investments	3,695	
Fair value measurement gains	2,671	
Total income	**6,405**	**743**
EXPENSE		
Fair value measurement losses	(463)	(712)
Total expense	**(463)**	**(712)**
INCOME/(EXPENSE) FROM INVESTMENTS	5,942	31
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Profit	2,122	1,135
Loss	(5,027)	(5,929)
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	(2,905)	(4,794)
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**3,037**	**(4,763)**

The gain from sale of investments relates to the sale of the shareholding in Camper & Nicholson International in June 2018.
With reference to investments carried at fair value, at 31 December 2018 a fair value gain of euro 2,671 thousand was recorded for the investment in Friulia S.p.A. and a loss of euro 463 thousand for Solstad Offshore ASA.
As regards investments accounted for using the equity method, the profit of euro 2,122 thousand refers mainly to the Group's share of the result for the year reported by CSSC - Fincantieri Cruise Industry Development Limited (euro 1,557 thousand) and Etihad Ship Building LLC (euro 518 thousand).
The loss of euro 5,027 thousand mainly reflects the Group's share of the results for the year of DOF Iceman AS (euro 1,504 thousand), Castor Drilling Solution AS (euro 789 thousand), Island Diligence AS (euro 741 thousand), Møkster Supply KS (euro 582 thousand), Rem Supply AS (euro 526 thousand) and Olympic Challenger KS (euro 509 thousand).
For more details on the changes to investments, see Note 8.

NOTE 31 - INCOME TAXES

These are analyzed as follows:

(euro/000)

	2018		2017	
Current taxes		**(71,153)**		**(17,778)**
Deferred tax assets:				
- sundry impairment losses	(12,866)		6,647	
- product warranty	(1,385)		2,056	
- other risks and charges	1,910		3,450	
- carry forward tax losses	10,058		(31,194)	
- other items	17,312		(4,683)	
- tax rate and other changes	(55)		(4,920)	
		14,974		(28,644)
Deferred tax liabilities:				
- business combinations	2,102		1,944	
- other items	857		979	
- tax rate and other changes			12,222	
		2,959		15,145
Total deferred taxes		**17,933**		**(13,499)**
TOTAL INCOME TAXES		**(53,220)**		**(31,277)**

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 1,478 thousand in expenses were recognized in 2018 for income taxes relating to previous periods (euro 3,556 thousand in 2017), including euro 2,585 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:

(euro/000)

	2018	2017
Theoretical corporate income tax rate (IRES)	**24%**	**24%**
Profit/(loss) before tax	122,342	84,417
Theoretical corporate income tax (IRES)	**(29,362)**	**(20,260)**
Impact of taxes relating to prior periods	(6,076)	(452)
Non-taxed income and non-deductible expenses		
Impact of tax losses	(13,673)	
Impairment of deferred tax assets		281
Impact of permanent differences and unrecognized temporary differences	14,238	(2,965)
Impact of temporary differences not recognized in previous years	2,203	144
Effect of change in tax rates	978	7,757
Impact of different tax rates applicable to foreign entities	(9,389)	(5,775)
IRAP charged to profit or loss	**(12,139)**	**(10,007)**
Total income taxes through profit or loss	**(53,220)**	**(31,277)**
Current taxes	(71,153)	(17,778)
Deferred taxes	17,933	(13,499)

NOTE 32 - OTHER INFORMATION

Net financial position

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

(euro/000)

	31.12.2018	31.12.2017
A. Cash	92	112
B. Other cash equivalents	676,395	274,299
C. Held-for-trading securities		
D. Cash and cash equivalents (A)+(B)+(C)	**676,487**	**274,411**
E. Current financial receivables	**17,985**	**34,354**
- of which related parties	106	576
F. Current bank debt	(197,217)	(122,299)
G. Bonds and commercial papers - current portions	(231,000)	(299,239)
H. Current portion of non-current debt	(54,292)	(51,013)
- of which related parties	(10,622)	(17,564)
I. Other current financial liabilities	(2,835)	(8,957)
- of which related parties	(1,702)	(1,611)
J. Current debt (F)+(G)+(H)+(I)	**(485,344)**	**(481,508)**
K. Net current debt (D)+(E)+(J)	**209,128**	**(172,743)**
L. Non-current financial receivables - of which related parties	**63,133**	**122,794**
M. Non-current bank debt	(760,448)	(261,027)
- of which related parties	(40,487)	(48,935)
N. Bonds - non-current portion		
O. Other non-current financial liabilities	(6,104)	(2,674)
P. Non-current debt (M)+(N)+(O)	**(766,552)**	**(263,701)**
Q. Net non-current debt (L)+(P)	**(703,419)**	**(140,907)**
R. Net financial position (K)+(Q)	**(494,291)**	**(313,650)**

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

(euro/000)

	31.12.2018	31.12.2017
NET FINANCIAL POSITION	**(494,291)**	**(313,650)**
Non-current financial assets	(63,133)	(122,794)
Construction loans	(632,482)	(624,360)
Net financial position as per ESMA recommendation	**(1,189,906)**	**(1,060,804)**

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).

(euro/000)

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

(euro/000)

	1.1.2018	Business combinations	Cash flows	Changes in fair value	Exchange rate differences	Other non-monetary changes	31.12.2018
Non-current financial liabilities	263,701		506,705		(7,830)	3,976	766,552
Non-current financial receivables	(122,794)		50,662		530	8,468	(63,134)
Current bank loans and credit facilities	797,672		54,706		518	31,095	883,991
Other current financial liabilities/receivables	(25,708)		9,398		1,004	156	(15,150)
Current bonds/ commercial papers	299,239		(68,239)				231,000
Receivables/payables for held-for-trading financial instruments	(3,025)			2,244			(781)
Total liabilities from financing activities	**1,209,085**	**-**	**553,232**	**2,244**	**(5,778)**	**43,695**	**1,802,478**
Purchase of non-controlling interests in VARD			(32,464)				
Purchase of own shares							
Third party capital		180					
CASH FLOWS FROM FINANCING ACTIVITIES		**180**	**520,768**	**2,244**			

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 in the financial statements, excluding extraordinary ones outside of ordinary operations. The items reported refer to Costs relating to reorganization plans and other non-recurring personnel costs of euro 4,969 thousand (euro 4,869 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 2018.

Related party transactions

Intragroup transactions, transactions with Fintecna and its subsidiaries, with Cassa Depositi e Prestiti S.p.A. and its subsidiaries, with companies controlled by MEF (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

(euro/000)

	31.12.2018							
	Non-current financial assets	Current financial assets	Advances*	Trade receivables and other current assets	Trade receivables and other non-current assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
CASSA DEPOSITI E PRESTITI S.p.A.					2,926	(40,487)	(10,622)	(47,459)
TOTAL CONTROLLING COMPANIES					2,926	(40,487)	(10,622)	(47,459)
ORIZZONTE SISTEMI NAVALI S.p.A.					92,326		(1,702)	(1,269)
UNIFER NAVALE S.r.l.			1,491					(1,042)
CAMPER AND NICHOLSONS INTERNATIONAL SA								
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	8,400	86			39,528			
ETIHAD SHIP BUILDING LLC					7,598			(4,421)
CONSORZIO F.S.B.								
LUXURY INTERIORS FACTORY S.r.l								(33)
TOTAL JOINT VENTURES	8,400	86	1,491		139,452		(1,702)	(6,765)
ARSENAL S.r.l.								(34)
PSC GROUP			656		18			(4,423)
CENTRO SERVIZI NAVALI S.p.A.					306			
OLYMPIC CHALLENGER KS	176							
BREVIK TECHNOLOGY AS	182							
MØKSTER SUPPLY KS	619							
DOF ICEMAN AS								
CSS DESIGN				673				
ISLAND DILIGENCE AS	4,072							
TOTAL ASSOCIATES	5,049		656	673	324			(4,457)
CDP IMMOBILIARE S.r.l.								
SACE FCT					11			(54)
TERNA RETE ITALIA S.p.A.								12
VALVITALIA S.p.A.			1,843		17			(1,593)
ACAM CLIENTI S.p.A.								(6)
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,199)
COMET NATIONAL PENSION FUND								(3,651)
SOLIDARIETÀ VENETO - PENSION FUND								(93)
TOTAL CDP GROUP			1,843		28			(6,584)
QUANTA S.p.A.								(34)
EXPERIS S.r.l.								(9)
LEONARDO GROUP			197,748		1,967			(1,528)
ENI GROUP					613			218
ENEL GROUP								(1)
COMPANIES CONTROLLED BY MEF								(23)
TOTAL OTHER RELATED PARTIES			197,748		2,580			(1,377)
TOTAL RELATED PARTIES	13,449	86	201,738	673	145,310	(40,487)	(12,324)	(66,642)
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	97,901	48,688	449,160	31,811	1,062,377	(792,728)	(1,182,846)	(2,116,290)
% on consolidated statement of financial position	14%	0%	45%	2%	14%	5%	1%	3%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)

	31.12.2017							
	Non-current financial assets	Current financial assets	Advances*	Trade receivables and other current assets	Trade receivables and other non-current assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
CASSA DEPOSITI E PRESTITI S.p.A.				20,357		(48,935)	(17,564)	(87)
TOTAL CONTROLLING COMPANIES				20,357		(48,935)	(17,564)	(87)
ORIZZONTE SISTEMI NAVALI S.p.A.				82,875			(1,611)	(794)
UNIFER NAVALE S.r.l.								(311)
CAMPER & NICHOLSONS INTERNATIONAL SA		351						
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.				55,000				
ETIHAD SHIP BUILDING LLC			2,100	14,482				(5,820)
TOTAL JOINT VENTURES		351	2,100	152,357			(1,611)	(6,925)
OLYMPIC GREEN ENERGY KS		7						
DOF ICEMAN AS					4,111			
BREVIK TECHNOLOGY AS					178			
MØKSTER SUPPLY KS					406			
CSS DESIGN					642			
OLYMPIC CHALLENGER KS		45						
CASTOR DRILLING SOLUT. AS		173						
TOTAL ASSOCIATES		225			5,337			
CDP IMMOBILIARE S.r.l.				3,250				(2,871)
SACE FCT				13				
PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,088)
COMETA NATIONAL PENSION FUND								(3,523)
OTHER			1,339	5				(1,221)
TOTAL CDP GROUP			1,339	3,268				(8,703)
QUANTA S.p.A.								(447)
EXPERIS S.r.l.								(36)
LEONARDO GROUP			203,081	1,921				(2,474)
ENI GROUP			(11)	823				(70)
ENEL GROUP								
COMPANIES CONTROLLED BY MEF								(14)
TOTAL OTHER RELATED PARTIES			203,070	2,744				(3,041)
TOTAL RELATED PARTIES		576	206,509	178,726	5,337	(48,935)	(19,175)	(18,756)
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	279,763	57,907	416,677	1,156,018	26,403	(293,699)	(1,166,915)	(1,973,482)
% on consolidated statement of financial position	0%	1%	50%	15%	20%	17%	2%	1%

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	2018				
	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
CASSA DEPOSITI E PRESTITI S.p.A.			(88)		(734)
TOTAL CONTROLLING COMPANIES			(88)		(734)
ORIZZONTE SISTEMI NAVALI S.p.A.	257,617	762	(3,033)		(159)
UNIFER NAVALE S.r.l.			(10,696)		
CAMPER & NICHOLSONS INTERNATIONAL SA				8	
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	4,148	1,268		86	
ETIHAD SHIP BUILDING LLC	6,125	290	(1,394)		
CONSORZIO F.S.B.	11	26	(61)		
LUXURY INTERIORS FACTORY S.r.l.		49	(2,142)		
TOTAL JOINT VENTURES	267,901	2,395	(17,326)	94	(159)
ARSENAL S.r.l.			(67)		
GRUPPO PSC		20	(2,897)		
CENTRO SERVIZI NAVALI S.p.A.			(241)		
BREVIK TECHNOLOGY AS					
DOF ICEMAN AS					
TOTAL ASSOCIATES		20	(3,205)		
CDP IMMOBILIARE S.r.l.			(379)		
SACE S.p.A.					(3,018)
SACE FCT S.p.A.		42			(168)
VALVITALIA S.p.A.		102	(8,286)		
TERNA RETE ITALIA S.p.A.			(69)		
TOTAL CDP GROUP		144	(8,734)		(3,186)
QUANTA S.p.A.			(1,014)		
EXPERIS S.r.l.			(168)		
LEONARDO GROUP	1,273	513	(75,053)		
ENI GROUP	1,935	92	(756)		
ENEL GROUP			(3)		
COMPANIES CONTROLLED BY MEF			(39)		
TOTAL OTHER RELATED PARTIES	3,208	605	(77,033)		
TOTAL RELATED PARTIES	271,109	3,164	(106,386)	94	(4,079)
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5,368,896	105,124	(4,104,050)	36,635	(140,566)
% on consolidated statement of comprehensive income	5%	3%	3%	0%	3%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	2017				
	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
CASSA DEPOSITI E PRESTITI S.p.A.			(88)		(1,668)
TOTAL CONTROLLING COMPANIES			(88)		(1,668)
ORIZZONTE SISTEMI NAVALI S.p.A.	292,944	504	(2,998)		(193)
UNIFER NAVALE S.r.l.		3	(3,312)		
CAMPER & NICHOLSONS INTERNATIONAL SA				28	
ETIHAD SHIP BUILDING LLC	403	16	(2,522)		
TOTAL JOINT VENTURES	293,347	523	(8,832)	28	(193)
BREVIK TECHNOLOGY AS				5	
DOF ICEMAN AS				231	
TOTAL ASSOCIATES				236	
CDP IMMOBILIARE S.r.l.			(2,871)		
SACE S.p.A.					(1,466)
SACE FCT S.p.A.		46			(68)
OTHER		308	(2,990)		
TOTAL CDP GROUP		354	(5,861)		(1,534)
QUANTA S.p.A.			(2,735)		
EXPERIS S.r.l.			(575)		
LEONARDO GROUP	5	216	(62,417)		
ENI GROUP	251	59	(1,413)		
ENEL GROUP			(46)		
COMPANIES CONTROLLED BY MEF			(130)		
TOTAL OTHER RELATED PARTIES	256	275	(67,316)		
TOTAL RELATED PARTIES	293,603	1,152	(82,097)	264	(3,395)
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4,914,255	105,830	(3,746,474)	31,487	(114,934)
% on consolidated statement of comprehensive income	6%	1%	2%	1%	3%

Costs for contributions incurred in 2018 and included in personnel costs amounted to euro 1,679 thousand for the Pension Fund for Senior Managers of FINCANTIERI S.p.A. and euro 2,138 thousand for the Cometa National Pension Fund.

The main related party relationships refer to:

• the Group's transactions with 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 2018 and 2017 relate to its current account with Fincantieri under a centralized treasury management arrangement;
• the Company's transactions with the LEONARDO group, in connection with agreements to supply and install combat systems for naval vessels under construction;
• the Company's transactions with the PSC Group during 2018 mainly relate to the supply of turnkey air conditioning systems (engineering, supply of ventilation equipment, accessories and piping, onboard installation, start-up and commissioning);
• in relation to transactions with the ENI group, in 2018 the framework agreement was finalized under which studies have been started on new technologies linked to gas utilization and valorisation, some of which were completed during the year. The remainder relates mainly to sales of products and services and the purchase of fuel from ENI S.p.A.;
• the receivables/payables to CDP Immobiliare S.r.l. (formerly Fintecna Immobiliare S.r.l.) at 31 December 2017 relate to the sale of a piece of land and related compensation works in progress;
• costs and revenues or receivables and payables with other related parties at 31 December 2018 and 2017, which mainly refer to the supply of goods or services used in the production process.

The following transaction is also reported in accordance with Art. 13, par. 3 (c) of the Consob Regulations concerning related party transactions:
• the grant of a revolving credit facility to FINCANTIERI S.p.A. in March 2018, with expiry date March 2020, by Cassa Depositi e Prestiti S.p.A. in a pool with a leading Italian credit institution, to meet financing requirements associated with ordinary operations as well as the realization of research, development and innovation programs in the period 2018-2019, for a maximum amount of euro 200 million (of which euro 100 million granted by Cassa Depositi e Prestiti S.p.A.). As at 31 December 2018, this credit facility had not been drawn down.

It is also reported that FINCANTIERI S.p.A. entered into nine new Exporter Indemnity Agreements with SIMEST S.p.A., qualifying as standard less material related party transactions. Also in the area of less material standard transactions, we report the grant of a construction loan to FINCANTIERI S.p.A. in December 2018 by Cassa Depositi e Prestiti S.p.A., in syndicate with two leading national banks, for a maximum of euro 300 million (of which euro 90 million the share of Cassa Depositi e Prestiti S.p.A.), intended to finance the construction of cruise ships. As at 31 December 2018, this loan had not been drawn down.

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

(euro/000)

	Emoluments of office[1]	Non-monetary benefits	Bonuses and other incentives	Other remuneration
		2018		
Board of Directors of Parent Company	1,741	4	1,854[2]	
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		200	1,725[2]	2,211
Independent Auditors for Parent Company	349			325
		2017		
Board of Directors of Parent Company	1,741	3	1,557[3]	
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		179	1,361[3]	2,372
Independent Auditors for Parent Company	336			324

[1] Excluding amounts paid on behalf of subsidiaries.
[2] This figure includes euro 1,122 thousand for the Board of Directors and euro 991 thousand for the General Manager and Key Management Personnel, the fair value accrued in 2018 of the rights assigned under the medium/long-term share-based incentive plan for management (Performance Share Plan 2016-2018).
[3] This figure includes euro 823 thousand for the Board of Directors and euro 599 thousand for Key Management Personnel, the fair value accrued in 2017 of the rights assigned under the medium/long-term share-based incentive plan for management (Performance Share Plan 2016-2018).

More details can be found in the Remuneration Report.
The fees of the independent auditors cover the statutory audit of the separate financial statements and the audit of the IFRS consolidated financial statements and the reporting package for Cassa Depositi e Prestiti S.p.A., the controlling company.

Basic and diluted Earnings/(Loss) per Share

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

		31.12.2018	31.12.2017
Basic/Diluted Earnings/(Loss) Per Share			
Profit/(loss) attributable to owners of the parent	Euro/000	72,440	57,140
Weighted average number of shares outstanding to calculate the basic earnings/(loss) per share	Number	1,687,412,180	1,691,465,257
Weighted average number of shares outstanding to calculate the diluted earnings/(loss) per share	Number	1,699,032,738	1,697,312,068
Basic earnings/(loss) per share	Euro	**0.04293**	**0.03378**
Diluted earnings/(loss) per share	Euro	**0.04264**	**0.03366**

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 the Group by the weighted average number of Fincantieri S.p.A. shares in circulation during the year, excluding own shares, plus the number of shares that could potentially be issued. At 31 December 2018, the shares that could potentially be issued concerned only the 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:

(euro/000)

	2018	2017
Sureties	11,828	24,561
Other guarantees	4,286	11,143
Total	**16,114**	**35,704**

"Sureties" at 31 December 2018, as in 2017, entirely refer to guarantees issued on behalf of the joint venture Orizzonte Sistemi Navali S.p.A..
"Other guarantees" refer to guarantees issued in the interest of BUSBAR4F (euro 2,742 thousand) and Orizzonte Sistemi Navali S.p.A. mainly to the Algerian Ministry of Defence (euro 1,544 thousand).

Medium/long-term incentive plan

Performance Share Plan 2016-2018

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 Directors 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 and for the third cycle, 3,604,691 shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 22 June 2018.
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 values of the second and third cycle, determined at the award dates of 25 July 2017 and 22 June 2018 (second and third cycle grant dates), are euro 3,672,432 and 3,963,754 respectively.
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

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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 2018, 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 2018, the Parent Company had purchased 4,706,890 own shares for euro 5,277 thousand (unchanged compared to 31 December 2017).
The Plan's features, outlined above, are described in detail in the special document prepared by the Parent Company under Art. 84-bis of Consob Regulation No. 11971 of 14 May 1999, made available to the public on the section of the website "www.fincantieri.it" dedicated to the Shareholders' Meeting held on 19 May 2017.

Performance Share Plan 2019-2021

On 11 May 2018, the Shareholders' Meeting of FINCANTIERI S.p.A. approved the Performance Share Plan 2019-2021 (the "Plan") for management, and the related Terms and Conditions, the structure of which was defined by the Board of Directors at the meeting held on 27 March 2018.
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 25,000,000 ordinary shares in FINCANTIERI S.p.A. without nominal value, based on the achievement of specific performance targets for the three-year periods 2019-2021 (first cycle), 2020-2022 (second cycle) and 2021-2023 (third cycle).
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 2022, while those vesting for the second and third cycles will be allotted and delivered by 31 July 2023 and 31 July 2024 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.
Among the Plan's targets, in addition to the EBITDA and TRS already included in the Performance Share Plan 2016-2018, the Group introduced another parameter, the sustainability index, to measure achievement of the sustainability targets set by the Group in order to align with European best practices and the financial community's increased expectations for sustainable development. The references used to test achievement of the sustainability target are market parameters such as the "CDP" (Carbon Disclosure Project) and a second rating by another agency which evaluates the entire basket of sustainability aspects.
The free award of a number of rights is left to the Board of Directors, which also has the power to identify the number and names of the beneficiaries.
The Plan's features, outlined above, are described in detail in the special document prepared by the Parent Company under Art. 84-bis of Consob Regulation No. 11971 of 14 May 1999, made available to the public on the section of the website "www.fincantieri.it" dedicated to the Shareholders' Meeting held on 11 May 2018.

Litigation

Foreign litigation

With reference to the "Iraq" dispute, described in detail in the Notes to the Consolidated Financial Statements at 31 December 2014 and the subject of various subsequent updates, it is recalled that following the failure to agree the operating contracts (Refurbishment Contract and Combat System Contract) required for 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. On 20 June 2018 the Iraqi Government notified Fincantieri of its appeal before the French Supreme Court against the decision of the Appeals Court of Paris and the proceedings are still pending.
As regards the "Serene" dispute, in July 2015 the Company 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 has been decided, without entering into the merits of the case, with the rejection of the demands put forward by the Company, in relation to which the Court confirmed a lack of interest to maintain the action (locus standi).
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. This guarantee was not given. Fincantieri appealed against the decision of the Court of Amsterdam on 20 July 2017. On 9 October 2018, the Appeal Court of Amsterdam recognized the exequatur of the English awards in the Netherlands.
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 ship "Europa Palace", built by Fincantieri: (i) in the proceeding relating to the alleged loss of income until 2012, the Greek Court of Cassation confirmed the main conclusions formulated in the appeal ruling (which declared Fincantieri liable), referring judgement however to the Appeal Court in relation to a relatively minor point, while (ii) the proceeding in relation to the alleged loss of income from 2012 to 2052 is currently suspended. The Company has made an appropriate allocation to the provision for risk in relation to the dispute in question.
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 losses

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suffered by the claimant following an accident aboard the ship "Oosterdam" in 2011, built by Fincantieri, the Florida Court of Appeal upheld Fincantieri's exclusion request, acknowledging the lack of jurisdiction, and then rejected the request for review and extraordinary appeal brought by the counterparty.
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 2018 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, it is reported that legal actions are continuing against Tirrenia and Siremar, both under special administration.
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 favour.

Employment litigation
This refers to cases brought by employees and former employees of contractors and subcontractors, which involve the Company under Art. 1676 of the Italian Civil Code and Art. 29 of Legislative Decree 276/2003 (the "customer co-liability" principle).
Litigation relating to asbestos continued to be settled both in and out of court in 2018.

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

Criminal prosecutions under Legislative Decree 231/2001
The Group is currently involved in six criminal prosecutions brought under Legislative Decree no. 231/2001 in the Court of Gorizia.

- In January 2014, FINCANTIERI S.p.A. received notice of a request for extension of the deadline for the preliminary investigations, under art. 406 of the Code of Criminal Procedure, into the former manager of the Monfalcone shipyard for the alleged infringement of Art. 256, par. 1, letters a) and b) of Legislative Decree No. 152/2006, as well as into the Company, being investigated under art. 25-undecies of Legislative Decree No. 231/2001 in relation to its alleged management of areas of sorting, temporary deposit and 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. As part of these proceedings, in October 2017, the former Managers of the Monfalcone shipyard, the former General Managers of the Company, the Company's former head of Safety and former Head of Personnel were notified of the conclusion of the preliminary investigations for the offences referred in art. 256, par. 1(a) and 1(b) of Legislative Decree No. 152/2006 ("Unauthorized waste management activities"); in April 2018, the Company was also notified of the conclusion of the investigations for the offence referred to in art. 25-undecies of Legislative Decree No. 231/2001 ("Environmental Offences"). In September 2018 the writ of summons to appear in court was served on all those under investigation.
- 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 "wilful 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. Gorizia'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 29 March 2012 at the Monfalcone shipyard involving an employee with an injury to the little finger on his left hand that healed in eight months.
- In June and July 2016, notices of conclusion of preliminary investigation were served on the former Monfalcone shipyard manager, under investigation for the offense of "bodily harm" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree No. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take 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, which took more than forty days to heal.
- In June 2018, notifications were served of the conclusion of the preliminary investigations into the management and disposal of waste, involving many persons and companies, including the Company's Chief Executive Officer, the former manager and two employees of the Palermo shipyard for the offence referred to in art. 452-quaterdecies of the Criminal Code ("Illegal waste trafficking activities") and the Company for the offence referred to in art. 25-undecies, par. 2(f) Legislative Decree No. 231/2001 ("Environmental Offences").

Tax position

National tax consolidation

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

Audits and assessments

Fincantieri

During 2017, Fincantieri was subjected to a tax audit of fiscal year 2013, which concluded with the notification of findings. Preliminary investigations continued in 2018 and the resulting notices of assessment were notified.

Further work is in progress on the Company's defence and an appropriate risk provision has been set aside to cover the estimated costs.

Marine Interiors

With reference to the tax audit conducted by the Italian Revenue Service, Trieste office in 2017 on fiscal year 2015, the assessment notices received in 2018 have been appealed. The same arguments were used by the Italian Revenue Service, Pordenone office, to adjust the value of the deed of transfer of the company branch for the purposes of the registration fee; the appeal against this action ended, at the first level, with a sentence in favour of the Subsidiary.

Delfi

In September 2018 the Italian Customs started an audit on the 2014-2016 period, then extended to 2013, focused on the verification of customs operations and VAT. The audit was concluded with findings of a marginal nature.

Headcount

The Group's average workforce numbered 19,331 employees in 2018 (19,314 in 2017), distributed between the various contractual grades as follows:

(number)

	2018	2017
Average number of employees:		
- Senior managers	357	361
- Middle managers	1,013	1,028
- White collars	6,758	6,327
- Blue collars	11,203	11,598
Total average number of employees	**19,331**	**19,314**

Grants and economic benefits received from government bodies

Under art. 1 paragraph 125 of Law no. 124 of 2017 the tables below give information on grants and other economic benefits received from Italian public entities during 2018:

GRANTS

Type	Grantor	Reason	Amount received (euro/000)
Non-repayable	MIUR	Flumarturb Project/D.M. 593-2000	170
Non-repayable	MIT	Technological Leadership project/D.M.10/06/2015	748
Non-repayable	MIT	Agorà Project/D.M.10/06/2015	745
Non-repayable	MIT	Virgin Project/D.M.10/06/2015	740
Non-repayable	MIT	Polar Project/D.M.10/06/2015	596
Non-repayable	MISE	Project F/02/0018/01-02/X27/Sustainable Growth Fund / "Digital Agenda" Tender	776
Non-repayable	FVG Region	Project Pantaf/ERDF ROP 2014-2020/ASSE1/MEASURE 1.3.b	44
Non-repayable	F.I.L.S.E.	Project Ben/ERDF ROP LIGURIA 2014-2020 /ACTION 1.2.4.	345
Capital	GSE S.p.A.	D.M. 16/02/2016 winter air conditioning system with heat pump	48
Non-repayable	MIUR	COCET project	152
Non-repayable	MIUR	PRADE project	156
Non-repayable	F.I.L.S.E.	ARIANNA project	163
Non-repayable	FVG Region	COSMO project	24
Non-repayable	FVG Region	OPENVIEWSHIP project	17
Non-repayable	FVG Region	STABILITY SOFTWARE/ERDF ROP 2014-2020	159

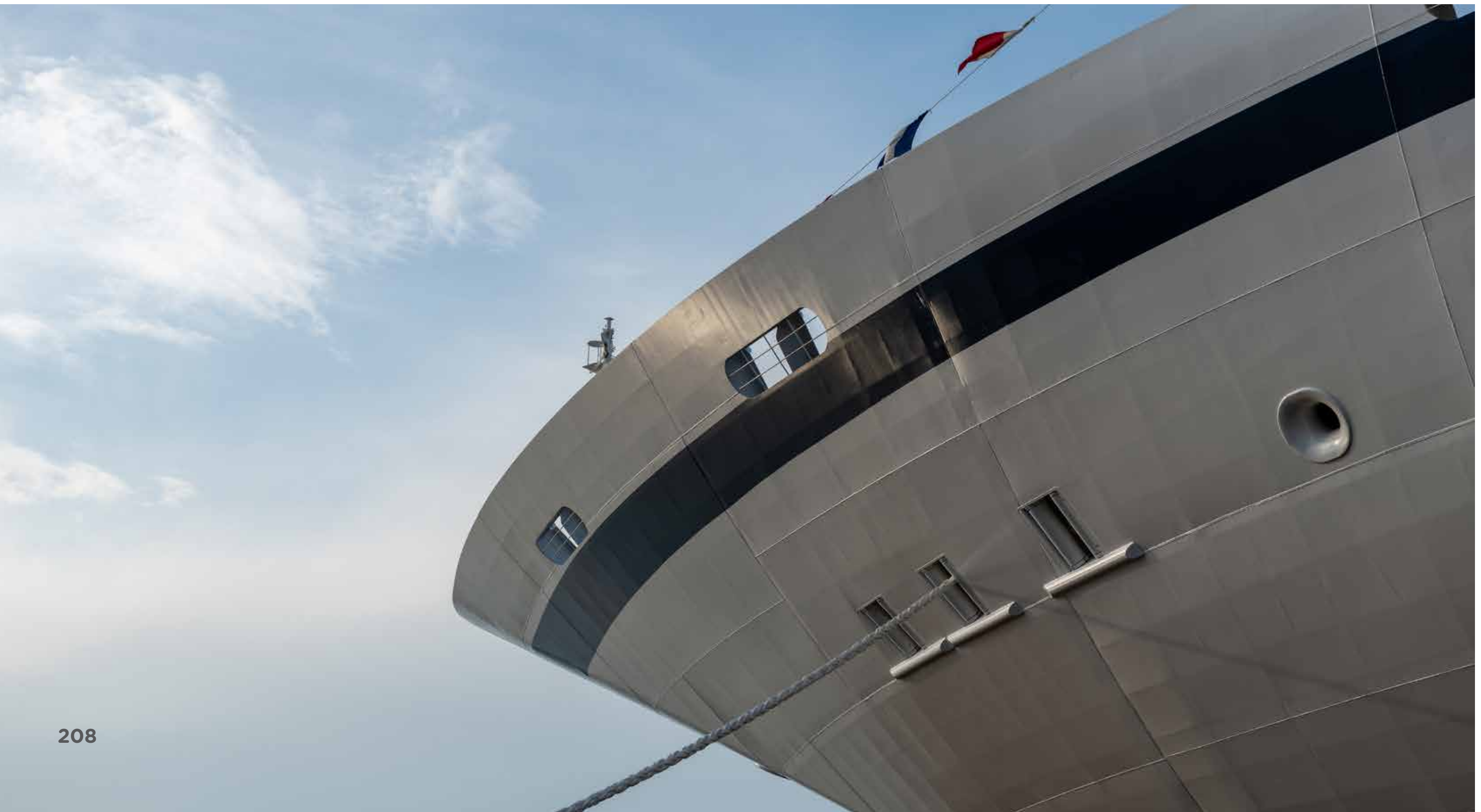
LOW COST FINANCING

Grantor	Reason	Subsidized interest rate %	Amount funded (euro/000)
Cassa Depositi e Prestiti S.p.A.	Production Engineering - L. 46	0.50%	2,164
MISE	Digital Agenda - L. 46	0.80%	4,509

Donations and contributions

Under art. 1 paragraph 126 of Law no. 124 of 2017 the tables below give information on donations and contributions made by the Group during 2018:

Beneficiary	Reason	Amount paid (euro/000)
Trieste Giuseppe Verdi Theatrical and Operatic Foundation	Donation	35
Pallamano Trieste ASD	Contribution	10
Atlantic Council	Contribution	50
Fincantieri Foundation	Contribution	100
Trieste University - Department of Medical Science, Surgery and Health	Contribution	30
Municipality of Monfalcone- School fees and transport	Donation	45
Cystic Fibrosis research foundation	Donation	23
Lombardo family solidarity fund	Contribution	12
Library - Biblioteca Judeteana "Panait Istrati" Braila	Donation in kind	11
High School "ANGHEL SALIGNY" Braila, Romania	Donations and gifts	15
High School - Liceul Tehnologic Henry Coanda	Donations and gifts	15
Hospital - Asociatia Daruieste Viata	Donations and gifts	11
High School - Colegiul Dobrogean Spiru Haret Tulcea	Donations and gifts	11



NOTE 33 - CASH FLOWS FROM OPERATING ACTIVITIES

These are analyzed as follows:

(euro/000)	31.12.2018	31.12.2017
Profit/(loss) for the year	69,123	53,140
Depreciation and amortization	136,098	119,823
(Gains)/losses from disposal of property, plant and equipment	(3,202)	(51)
(Revaluation)/impairment of property, plant and equipment, intangible assets and equity investments	959	5,544
Increases/(releases) of provisions for risks and charges	48,914	68,363
Interest expenses capitalized		
Interest on employee benefits	903	985
Interest income	(7,946)	(7,885)
Interest expense	82,640	81,380
Income taxes	53,220	31,277
Long-term share-based incentive plan	4,844	3,409
Impact of unrealized exchange rate changes	11,966	1,657
Finance income and costs from derivatives		
Gross cash flows from operating activities	**397,519**	**357,642**
CHANGES IN WORKING CAPITAL		
- inventories	(47,489)	(266,841)
- construction contracts and client advances	(359,700)	(115,159)
- trade receivables	161,421	209,827
- other current assets and liabilities	(79,157)	4,851
- other non-current assets and liabilities	(2,351)	(577)
- trade payables	101,515	458,238
- receivables for hedging instruments		
- payables for hedging instruments		
Cash flows from working capital	**171,758**	**647,981**
Dividends paid	(16,874)	(167)
Interest income received	7,268	6,766
Interest expense paid	(52,383)	(54,682)
Income taxes (paid)/collected	(8,799)	2,729
Utilization of provisions for risks and charges and for employee benefits	(59,288)	(55,758)
NET CASH FLOWS FROM OPERATING ACTIVITIES	41,682	546,869
- of which related parties	99,454	(256,553)

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.
Shipbuilding includes the business areas cruise ships and expedition cruise vessels, naval vessels and other products and services (ferries and mega yachts).
Offshore and Specialized Vessels includes the design and construction of high-end offshore support vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as innovative products in the field of drillships and semi-submersible drilling rigs.
The Equipment, Systems and Services operating segment includes the business areas for 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, cabins, repair and conversion services, logistical support and after-sales services.
Other activities primarily refer to the cost of corporate activities which have not been allocated to other operating segments.
In 2018 the delisting of VARD was completed and December saw the start of full organizational integration with the Parent Company both for the construction of expetition cruise vessels and the related production sites and for offshore and specialized vessels projects. As a result of this reorganization, project management for cruise ships, the Romanian production sites and Norwegian shipyards dedicated to the outfitting of cruise ships and other key activities such as production supervision of public areas and procurement have been merged into an autonomous organizational unit denominated the Cruise business unit. The VARD Cruise business unit and the Parent Company Fincantieri have defined a specific coordination policy based on which the head of Fincantieri's Merchant Ships Department directs and controls the activities of the VARD Cruise business unit. In line with the above, the economic results of this business unit have been reallocated to the Shipbuilding operating segment.
Project management for the construction of offshore vessels, special ships and vessels for the Norwegian Coastguard, as well as the direction of the remaining production sites in Norway, Brazil and Vietnam, have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore segment.
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, (x) Proceeds from sale of shareholding in Camper & Nicholsons and (xi) 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 2018 and 31 December 2017 are reported below.

(euro/000)

	2018				
	Shipbuilding	Offshore and Specialized vessels	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**4,678,234**	**680,980**	**650,846**	**1,905**	**6,011,965**
Intersegment elimination	(394,811)	(126,896)	(15,757)	(481)	(537,945)
Revenue*	**4,283,423**	**554,084**	**635,089**	**1,424**	**5,474,020**
EBITDA	**395,393**	**(19,978)**	**73,210**	**(34,992)**	**413,633**
EBITDA margin	**8.5%**	**(2.9%)**	**11.2%**		**7.6%**
Depreciation, amortization and impairment					(136,359)
Finance income					36,635
Finance costs					(140,566)
Income/(expense) from investments					2,246
Share of profit/(loss) of investments accounted for using the equity method					(2,905)
Income taxes					(53,220)
Extraordinary and non-recurring income and expenses					(50,344)
Profit/(loss) for the year					**69,120**

*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 (positive for euro 11,844 thousand) are presented in the following table.

(euro/000)

	2018
Costs associated with the "Wage Guarantee Fund"	
Costs relating to reorganization plans and other non-recurring personnel costs [1]	(4,969)
Provisions for costs and legal expenses associated with asbestos-related lawsuits [2]	(37,432)
Proceeds from sale of shareholding in Camper & Nicholsons [3]	3,695
Other non-recurring income and expenses [4]	(11,638)
Extraordinary and non-recurring income and expenses	**(50,344)**

[1] Amount included in "Personnel costs".
[2] Of which euro 5.1 million included in "Materials, services and other costs" and euro 32.3 million in "Provisions".
[3] Amount included in "Income/(expenses) form investments".
[4] This item includes other costs linked to non-recurring activities.

(euro/000)

	2017*				
	Shipbuilding	Offshore and Specialized vessels	Equipment, Systems and Services	Other Activities	Group
Segment revenue	**4,267,039**	**676,371**	**557,769**	**1,477**	**5,502,656**
Intersegment elimination	(180,223)	(55,260)	(245,694)	(1,396)	(482,572)
Revenue**	**4,086,816**	**621,111**	**312,075**	**82**	**5,020,084**
EBITDA	**269,722**	**41,410**	**64,379**	**(34,240)**	**341,270**
EBITDA margin	**6.3%**	**6.1%**	**11.5%**		**6.8%**
Depreciation, amortization and impairment					(119,860)
Finance income					31,487
Finance costs					(114,934)
Income/(expense) from investments					31
Share of profit/(loss) of investments accounted for using the equity method					(4,794)
Income taxes					(31,276)
Extraordinary and non-recurring income and expenses					(48,784)
Profit/(loss) for the year					**53,140**

* The 2017 comparative figures have been restated following redefinition of the operating segments.
** 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 (positive for euro 10,933 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[1]	(3,493)
Provisions for costs and legal expenses associated with asbestos-related lawsuits[2]	(38,395)
Other non-recurring income and expenses[3]	(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:

(euro/million)

	31.12.2018	31.12.2017
Italy	704	666
Other countries	374	379
Total Property, plant and equipment	**1,078**	**1,045**

Capital expenditure in 2018 on Intangible assets and Property, plant and equipment amounted to euro 161 million (euro 163 million in 2017), of which euro 122 million related to Italy (euro 119 million in 2017) and the remainder to other countries.
The following table shows a breakdown of revenue and income between Italy and other countries, according to client country of residence:

(euro/million)

	31.12.2018		31.12.2017	
	Revenue and income	%	Revenue and income	%
Italy	1,004	18	730	15
Other countries	4,470	82	4.290	85
TOTAL REVENUE AND INCOME	**5,474**	**100**	**5.020**	**100**

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

(euro/million)

	31.12.2018		31.12.2017	
	Revenue and income	%	Revenue and income	%
Client 1	1,562	29	1,190	24
Client 2	795	15	669	13
TOTAL	**2,357**		**1,859**	

NOTE 35 - EVENTS AFTER 31 DECEMBER 2018

On 14 January 2019, Cassa Depositi e Prestiti, Fincantieri and Snam signed a preliminary cooperation agreement aimed at identifying, defining and implementing strategic medium-term projects in some key segments for innovation and the development of port facilities in Italy, as well as for the development of sustainable technologies for sea transport, in line with the Proposals of the National Integrated Plan for Energy and the Climate (PNIEC).
On 21 January 2019, as part of the US Navy Littoral Combat Ship (LCS) program, the consortium formed by Fincantieri, through its subsidiary Fincantieri Marinette Marine (FMM), and Lockheed Martin Corporation, was awarded the contract for the construction of another LCS (LCS31).
On 23 January 2019 as part of the initiatives for the tender called by the Brazilian Navy for the construction of 4 Tamandaré class corvettes, Fincantieri engaged in a road show aimed at involving the industry of the country, promoting development of the small and medium-sized local national companies supply chain.
In January, through its subsidiary Fincantieri Infrastructure in a joint venture with Salini Impregilo, the Group was selected for the contract for the reconstruction of the bridge over the Polcevera river in Genoa.
This contract also provides for cooperation with the Group's companies involved in the integrated bridge monitoring, control and inspection system.
On 4 February 2019 the Autorità di sistema portuale del Mare di Sicilia Occidentale (AdSP - Western Sicilian Sea Port Authority) signed a Memorandum of Understanding for the revamping of the shipbuilding industry hub in the port of Palermo, based on the common goal of enabling the Sicilian site to assert itself as one of the most important shipyards in the Mediterranean.
On 6 February 2019, as part of the Littoral Combat Ship (LCS) program, the joint venture formed by Fincantieri, through its subsidiary Fincantieri Marinette Marine (FMM), and Lockheed Martin Corporation, delivered "Billings" (LCS 15) to the US Navy at the Marinette shipyard (Wisconsin).
On 7 February "Viking Jupiter", the sixth cruise ship built by Fincantieri for the shipowner Viking Cruises, was delivered at Fincantieri's Ancona shipyard.
On 21 February 2019 during the Abu Dhabi 2019 International Defence Exhibition & Conference (IDEX) , Fincantieri and Abu Dhabi Shipbuilding (ADSB), the leading shipbuilder in the United Arab Emirates specialized in the construction, repair and refit of military and commercial vessels, announced that they have reached an agreement in principle to explore future forms of industrial and market cooperation in the UAE shipbuilding segment.

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
Subsidiaries consolidated line-by-line						
BACINI DI PALERMO S.p.A. Dry-dock management	Palermo	EUR	1,032,000.00	100.00	FINCANTIERI S.p.A	100.00
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA S.p.A. Ship research and experimentation	Genoa	EUR	1,000,000.00	71.10 15.00	FINCANTIERI S.p.A Seaf S.p.A.	86.10
FINCANTIERI OIL & GAS S.p.A. Holding company	Trieste	EUR	21,000,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI HOLDING B.V. Holding company for foreign investments	Netherlands	EUR	9,529,384.54	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI MARINE SYSTEMS NORTH AMERICA Inc. Sale and after-sale services relating to mechanical products	USA	USD	501,000.00	100.00	Fincantieri Holding B.V.	100.00
FMSNA YK Servicing and sale of spare parts	Japan	JPY	3,000,000.00	100.00	Fincantieri Marine Systems North America Inc.	100.00
GESTIONE BACINI LA SPEZIA S.p.A. Dry-dock management	Muggiano (La Spezia)	EUR	260,000.00	99.89	FINCANTIERI S.p.A	99.89
ISOTTA FRASCHINI MOTORI S.p.A. Design, construction, sale and after-sale services relating to fast medium-duty diesel engines	Bari	EUR	3,300,000.00	100.00	FINCANTIERI S.p.A	100.00
SOCIETÀ PER L'ESERCIZIO DI ATTIVITÀ FINANZIARIE SEAF S.p.A. Financial support for Group companies	Trieste	EUR	6,562,000.00	100.00	FINCANTIERI S.p.A	100.00
DELFI S.r.l. Technical and logistics engineering	Follo (La Spezia)	EUR	400,000.00	100.00	FINCANTIERI S.p.A	100.00
ISSEL NORD S.r.l. Logistics engineering	Follo (La Spezia)	EUR	102,961.00	100.00	Delfi S.r.l.	100.00
SEASTEMA S.p.A. Design and development of integrated automation systems	Genoa	EUR	300,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI AUSTRALIA Pty Ltd. Shipbuilding support activities	Australia	AUD	2,200,100.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI SERVICES MIDDLE EAST LLC Project management services	Qatar	EUR	200,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI USA Inc. Holding company	USA	USD	1,029.75	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI SERVICES USA LLC After-sales services	USA	USD	300,001.00	100.00	Fincantieri USA Inc.	100.00

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
FINCANTIERI MARINE GROUP HOLDINGS Inc. Holding company	USA	USD	1,027.97	87.44	Fincantieri USA Inc.	87.44
FINCANTIERI MARINE GROUP LLC Ship building and repair	USA	USD	1,000.00	100.00	Fincantieri Marine Group Holdings Inc.	87.44
MARINETTE MARINE CORPORATION Ship building and repair	USA	USD	146,706.00	100.00	Fincantieri Marine Group LLC	87.44
ACE MARINE LLC Building of small aluminium ships	USA	USD	1,000.00	100.00	Fincantieri Marine Group LLC	87.44
FINCANTIERI DO BRASIL PARTICIPAÇÕES SA Holding company	Brazil	BRL	1,310,000.00	80.00 20.00	FINCANTIERI S.p.A Fincantieri Holding B.V.	100.00
FINCANTIERI INDIA Pte. Ltd. Design, technical support and marketing	India	INR	10,500,000.00	99.00 1.0	Fincantieri Holding B.V. FINCANTIERI S.p.A	100.00
MARINE INTERIORS S.p.A. Ship interiors	Trieste	EUR	5,120,000.00	100.00	Seaf S.p.A.	100.00
SEAENERGY A MARINE INTERIORS COMPANY S.r.l. Manufacture of furniture	Pordenone	EUR	50,000.00	85.00	Marine Interiors S.p.A.	85.00
FINCANTIERI SI S.p.A. Electric, electronic and electromechanical industrial solutions	Trieste	EUR	500,000.00	100.00	SEAF S.P.A.	100.00
FINCANTIERI INFRASTRUCTURE S.p.A. Carpentry	Trieste	EUR	500,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI SWEDEN AB Sale, maintenance and after-sales service for a series of systems, equipment and related activities	Sweden	SEK	5,000,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI (SHANGHAI) TRADING Co. Ltd. Engineering design, consulting and development	China	RMB	3,500,000.00	100.00	FINCANTIERI S.p.A	100.00
FINCANTIERI EUROPE S.p.A. Holding company	Trieste	EUR	50,000.00	100.00	FINCANTIERI S.p.A	100.00
VARD HOLDINGS Ltd. Holding company	Singapore	SGD	932,200,000.00	97.22	Fincantieri Oil & Gas S.p.A.	97.22
VARD GROUP AS Shipbuilding	Norway	NOK	16,295,600.00	100.00	Vard Holdings Ltd.	97.22
VARD SHIPHOLDING SINGAPORE Pte. Ltd. Charter of boats, ships and barges	Singapore	USD	1.00	100.00	Vard Holdings Ltd.	97.22
VARD ELECTRO AS Electrical/automation installation	Norway	NOK	1,000,000.00	100.00	VARD Group AS	97.22

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
VARD ELECTRO ITALY S.r.l. Installation, production, sale and assistance for electrical equipment and parts	Genoa	EUR	200,000.00	100.00	Vard Electro AS	97.22
VARD RO HOLDING S.r.l. Holding company	Romania	RON	82,573,830.00	100.00	VARD Group AS	97.22
VARD NITERÓI Ltda. Dormant	Brazil	BRL	354,883,790.00	99.99 0.01	VARD Group AS Vard Electro Brazil Ltda.	97.22
VARD PROMAR SA Shipbuilding	Brazil	BRL	869,108,180.00	100.00	VARD Group AS	97.22
ESTALEIRO QUISSAMÃ Ltda. Dormant	Brazil	BRL	400,000.00	50.50	VARD Group AS	49.10
VARD SINGAPORE Pte. Ltd. Sales and holding company	Singapore	USD	6,000,000.00	100.00	VARD Group AS	97.22
VARD DESIGN AS Design and engineering	Norway	NOK	4,000,000.00	100.00	VARD Group AS	97.22
VARD ACCOMODATION AS Accommodation installation	Norway	NOK	500,000.00	100.00	VARD Group AS	97.22
VARD PIPING AS Pipe installation	Norway	NOK	100,000.00	100.00	VARD Group AS	97.22
SEAONICS AS Offshore handling systems	Norway	NOK	46,639,721.00	56.40	VARD Group AS	54.83
VARD SEAONICS HOLDING AS Dormant	Norway	NOK	30,000.00	100.00	VARD Group AS	97.22
SEAONICS POLSKA SP. Z O.O. Engineering services	Poland	PLN	400,000.00	100.00	Seaonics AS	54.83
VARD DESIGN LIBURNA Ltd. Design and engineering	Croatia	HRK	20,000.00	51.00	Vard Design AS	49.58
VARD ELECTRO TULCEA S.r.l. Electrical installation	Romania	RON	4,149,525.00	99.96	Vard Electro AS	97.18
VARD ELECTRO BRAZIL (INSTALAÇÕES ELETRICAS) Ltda. Electrical installation	Brazil	BRL	3,000,000.00	99.00 1.00	Vard Electro AS VARD Group AS	97.22
VARD ELECTRO BRAILA S.r.l. Electrical installation	Romania	RON	45,000.00	100.00	Vard Electro AS	97.22
VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) Pte. Ltd. Electrical installation	India	INR	14,000,000.00	99.50 1.00	Vard Electro AS Vard Electro Tulcea S.r.l.	97.22
VARD TULCEA SA Shipbuilding	Romania	RON	151,606,459.00	99.996 0.004	Vard RO Holding S.r.l. VARD Group As	97.22
VARD BRAILA SA Shipbuilding	Romania	RON	165,862,177.50	94.12 5.88	Vard RO Holding S.r.l. VARD Group AS	97.22

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
VARD ENGINEERING CONSTANTA S.r.l. Engineering	Romania	RON	1,408,000.00	70.00 30.00	Vard RO Holding S.r.l. Vard Braila S.A.	97.22
VARD VUNG TAU Ltd. Shipbuilding	Vietnam	USD	8,000,000.00	100.00	Vard Singapore Pte. Ltd.	97.22
VARD ACCOMODATION TULCEA S.r.l. Accommodation installation	Romania	RON	436,000.00	99.77 0.23	Vard Accomodation AS Vard Electro Tulcea S.r.l.	97.22
VARD ENGINEERING BREVIK AS Design and engineering	Norway	NOK	105,000.00	100.00	VARD Group AS	97.22
VARD OFFSHORE BREVIK AS Offshore industrial services and installation	Norway	NOK	100,000.00	100.00	VARD Group AS	97.22
VARD SHIP REPAIR BRAILA SA Ship repair	Romania	RON	-	100.00	Vard Braila SA	97.22
VARD MARINE INC. Design and engineering	Canada	CAD	9,783,700.00	100.00	VARD Group AS	97.22
VARD MARINE US INC. Design and engineering	USA	USD	1,010,000.00	100.00	Vard Marine Inc.	97.22
VARD ENGINEERING GDANSK Sp. Z.o.o. Offshore design and engineering activities	Poland	PLN	50,000.00	100.00	Vard Engineering Brevik AS	97.22
VBD1 AS Dormant	Norway	NOK	500,000.00	100.00	VARD Group AS	97.22
VARD CONTRACTING AS Dormant	Norway	NOK	30,000.00	100.00	VARD Group AS	97.22
CDP TECHNOLOGIES AS Research and development of technology	Norway	NOK	500,000.00	100.00	Seaonics AS	54.83
CDP TECHNOLOGIES ESTONIA OÜ Automation and control system software	Estonia	EUR	5,200.00	100.00	CDP Technologies AS	54.83
SIA ICD INDUSTRIES LATVIA Automation and control system software	Latvia	EUR	33,164.00	100.00	Seaonics AS	54.83
VARD ELECTRO CANADA Inc. Installation and integration of electrical systems	Canada	CAD	100,000.00	100.00	Vard Electro AS	97.22
VARD AQUA SUNNDAL AS Supplier of aquaculture equipment	Norway	NOK	1,100,000.00	98.21	VARD Group AS	95.48
VARD AQUA CHILE SA Supplier of aquaculture equipment	Chile	CLP	137,989,917.00	95.00	Vard Aqua Sunndal AS	90.71
VARD AQUA SCOTLAND Ltd. Supplier of aquaculture equipment	UK	GBP	10,000.00	100.00	Vard Aqua Sunndal AS	95.48

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
Joint ventures consolidated using the equity method						
ORIZZONTE SISTEMI NAVALI S.p.A. Management of large naval vessel contracts	Genoa	EUR	20,000,000.00	51.00	FINCANTIERI S.p.A.	51.00
ETIHAD SHIP BUILDING LLC Design, production and sale of civilian and naval ships	Arab Emirates	AED	2,500,000.00	35.00	FINCANTIERI S.p.A.	35.00
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd. Design and marketing of cruise ships	Hong Kong	EUR	140,000,000.00	40.00	FINCANTIERI S.p.A.	40.00
UNIFER NAVALE S.r.l. Piping	Modena	EUR	150,000.00	20.00	Seaf S.p.A.	20.00
LUXURY INTERIORS FACTORY S.r.l. Ship interiors	Italy	EUR	50,000.00	40.00	Marine Interiors S.p.A.	40.00
ISSEL MIDDLE EAST INFORMATION TECHNOLOGY CONSULTANCY LLC IT consultancy and Oil & Gas services	Qatar	AED	150,000.00	49.00	Issel Nord S.r.L.	49.00
CSSC - FINCANTIERI (SHANGAI) CRUISE DESIGN LIMITED Engineering, Project Management and Supply Chain Management	Hong Kong	RMB	1,000,000.00	100.00	CSSC - Fincantieri Cruise Industry Development Limited	40.00
BUSBAR4F s.c.a.r.l. Installation of electrical systems	Italy	EUR	40,000.00	10.00 50.00	FINCANTIERI S.p.A. Fincantieri SI S.p.A.	60.00
FINCANTIERI CLEA BUILDINGS s.c.a.r.l. Contract management and execution	Italy	EUR	10,000.00	51.00	Fincantieri Infrastructure S.p.A.	51.00
PERGENOVA s.c.p.a. Construction of bridge in Genoa	Italy	EUR	50,000.00	50.00	Fincantieri Infrastructure S.p.A.	50.00
CONSORZIO F.S.B. Construction	Italy	EUR	15,000.00	58.36	FINCANTIERI S.p.A.	58.36

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name Principal activity	Registered office		Share capital	% interest held	% consolidated by Group	
Associates consolidated using the equity method						
CASTOR DRILLING SOLUTION AS Offshore drilling technology	Norway	NOK	229,710.00	34.13	Seaonics AS	18.71
OLYMPIC CHALLENGER KS Shipowner	Norway	NOK	84,000,000.00	35.00	VARD Group AS	34.03
BREVIK TECHNOLOGY AS Holding of technology licenses and patents	Norway	NOK	600,000.00	34.00	VARD Group AS	33.05
MOKSTER SUPPLY AS Shipowner	Norway	NOK	13,296,000.00	40.00	VARD Group AS	38.89
MOKSTER SUPPLY KS Shipowner	Norway	NOK	131,950,000.00	36.00	VARD Group AS	35.00
REM SUPPLY AS Shipowner	Norway	NOK	345,003,000.00	26.66	VARD Group AS	25.92
OLYMPIC GREEN ENERGY KS Shipowner	Norway	NOK	4,841,028.00	29.50	VARD Group AS	28.68
DOF ICEMAN AS Shipowner	Norway	NOK	23,600,000.00	50.00	VARD Group AS	48.61
TAKLIFT AS Floating cranes	Norway	NOK	2,450,000.00	25.47	VARD Group AS	24.76
AS DAMECO Maintenance services	Norway	NOK	606,000.00	34.00	Vard Offshore Brevik AS	33.05
CSS DESIGN LIMITED Design and engineering	British Virgin Islands	GBP	100.00	31.00	Vard Marine Inc.	30.14
ARSENAL S.r.l. IT consulting	Trieste	EUR	16,421.05	24.00	Fincantieri Oil & Gas S.p.A.	24.00
ISLAND DILIGENCE AS Shipowner	Norway	NOK	17,012,500.00	39.38	VARD Group AS	38.29
CENTRO SERVIZI NAVALI S.p.A. Steel-working	Italy	EUR	12,782,000.00	10.93	FINCANTIERI S.p.A.	10.93
GRUPPO PSC S.p.A. Shipbuilding and systems	Italy	EUR	1,431,112.00	10.00	FINCANTIERI S.p.A.	10.00

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 Felice Bonavolontà, 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 2018.

2. The suitability of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2018 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.

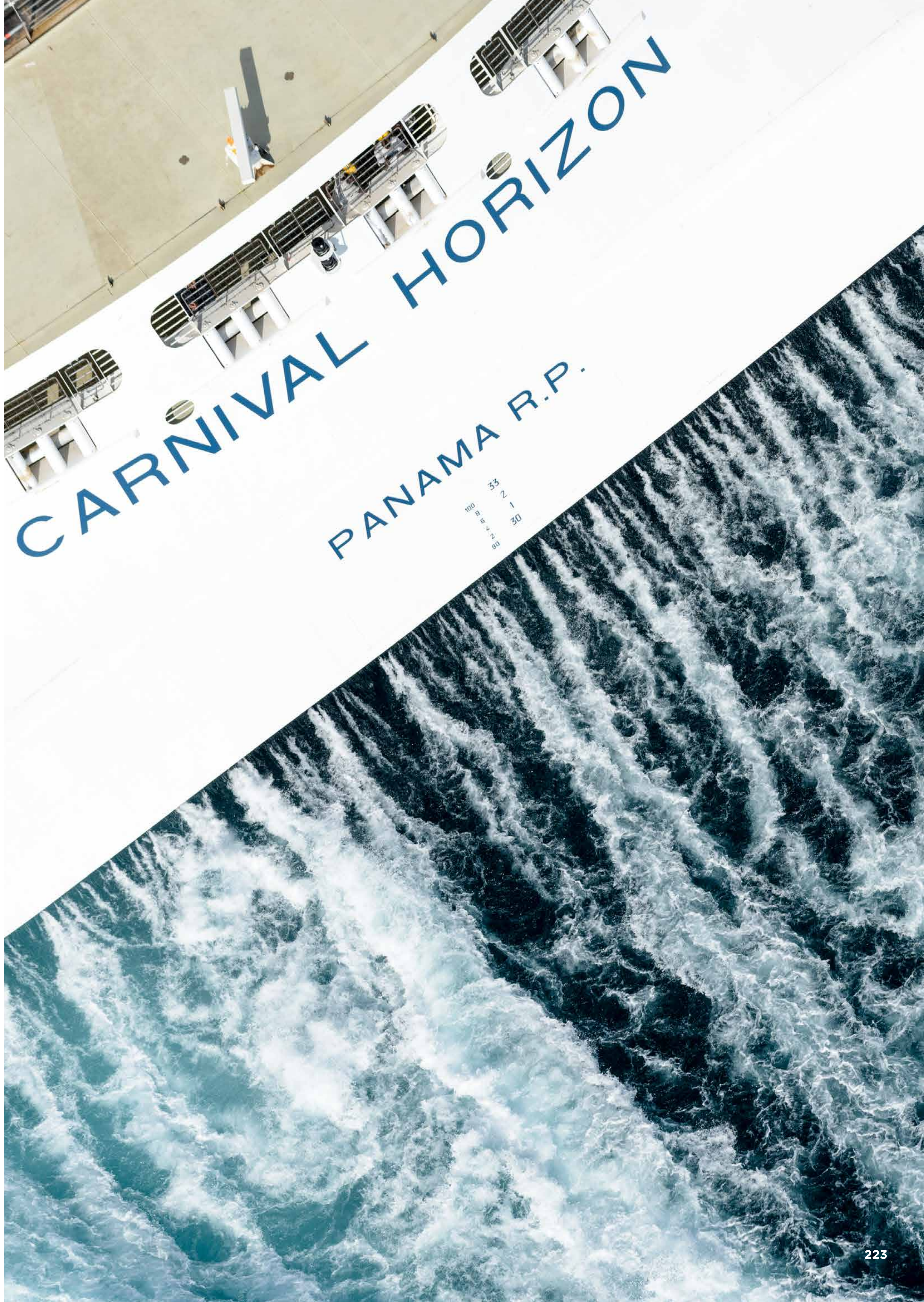
25 February 2019

CHIEF EXECUTIVE OFFICER

Giuseppe Bono

MANAGER RESPONSIBLE FOR PREPARING FINANCIAL REPORTS

Felice Bonavolontà



REPORT BY THE INDEPENDENT AUDITORS

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 2018, 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 2018, 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.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	***Auditing procedures performed in response to 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 recored assets for construction contracts amounting to Euro 2.531.272 thousand (representing 35,03% of total assets) and liabilities for construction contracts amounting to Euro 1.594.793 thousand (representing 22,07% of total liabilities and net equity) in the consolidated financial statements as at 31 December 2018.	We performed an understanding and evaluation of the internal control system with reference to the construction contracts. We identified and tested the relevant controls.
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, this is recognized in full in the period in which it becomes reasonably foreseeable.	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.
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.	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.
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.	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.
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.	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 254.830 thousand (representing 3,53% of total assets) in its consolidated financial statements as at 31 December 2018, out of which Euro 129.278 thousand allocated to the cash generating unit ("CGU") "VARD Offshore and Specialized vessels", Euro 56.096 thousand to the CGU "VARD Cruise" and Euro 69.456 thousand allocated to the CGU "FMG Group".

The two CGUs "VARD Offshore and Specialized vessels" and "VARD Cruise" have been identified starting from 2018 following a reorganization of the group controlled by the company Vard Holdings Limited ("VARD Group"), 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. This reorganization is the outcome of the business diversification process undertaken by the VARD Group in the last few years to cope with the decline in demand of Offshore vessels.
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 the VARD Group which recorded non positive results in 2018 (and in previous years).

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.

We understood and evaluated the methodology applied by management in the impairment test for each CGU.

We examined the projections in the Strategic Plan 2018-2022 and we had discussions with management in order to understand and critically analyse the assumptions used by them.

We compared the 2018 budget, used in the impairment test of last year, with the actual data as at 31 December 2018, in order to identify significant differences and corroborate the planning process used by management.

We verified the accuracy of the impairment test model used by management through an independent re-computation and by comparing the results obtained.

We recomputed the discount rates used by management for each CGU and the growth rate with the support of experts from the PwC network.

We performed sensitivity analysis in order to evaluate if changes in the discount and growth rates could lead to an impairment.

We verified the completeness and accuracy of the disclosures in the notes.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are 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 they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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, the directors use the going concern basis of accounting unless they either intend to liquidate Fincantieri SpA or to cease operations, or have no realistic alternative but to do so.
The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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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 our 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 the directors;
- We concluded on the appropriateness of the directors' 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.

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

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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 the board of statutory auditors, 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

The directors of Fincantieri SpA are 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 2018, 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 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

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 the Fincantieri Group as of 31 December 2018 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

The directors of Fincantieri SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors 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.

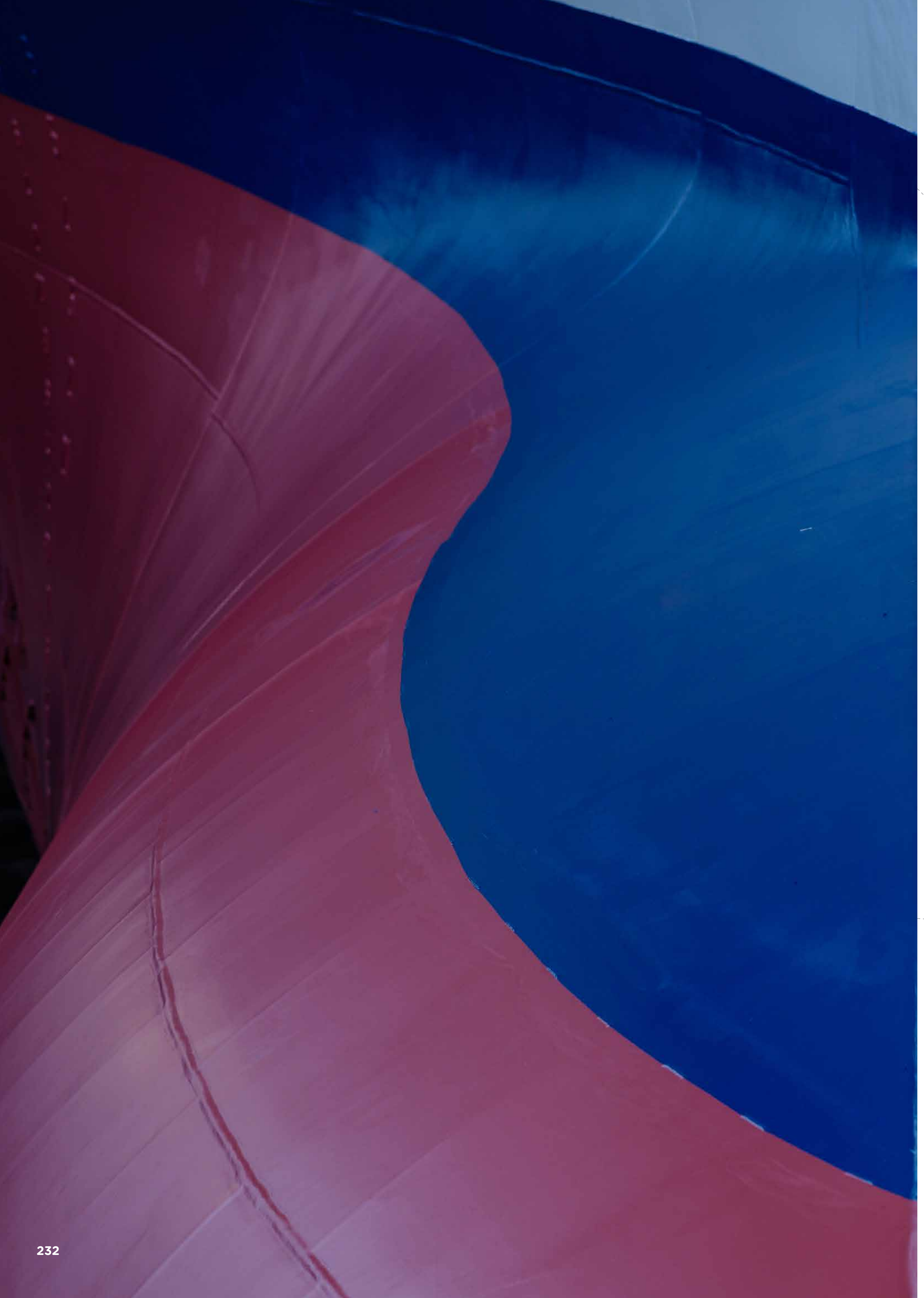
Trieste, 13 March 2019

PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

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



GLOSSARY

1 - Operating Activities

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 book 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 and International Financial Reporting Standards, adopted by the Company.

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.

FINCANTIERI

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The sea ahead