

Business Plan 2018-2022

FINCANTIERI
The sea ahead



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Declaration of the Manager responsible for preparing financial reports

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



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Section 2 Short and medium term financial targets



The story so far...

What we said...

...what we did...

...what we will achieve

Cruise

- Backlog de-risking
- Synergies with Vard: integration of Tulcea shipyards

- Delivered 5 prototypes on time in 2016 - 2017
- Tonnage delivered to Italian yards from Tulcea doubled from 2016 to 2017

- Only 3 prototype ships to be delivered in 2018-2022
- Continuing operational integration of Romanian shipyards with Italian yards and further coordination in procurement strategy

Naval

- Entry into new markets in Naval segment

- Acquired Qatari Navy contract
- Bid for highly strategic and visible programs

- Leveraging established know how and reputation through development of well proven products and new concepts
- Identified opportunities: Australia, US FFG(X)

Offshore

- Diversification of VARD

- Over 90% of orders acquired in 2017 not related to core Offshore

- Consolidating acquired know-how to exploit opportunities in Offshore
- Expansion into luxury cruise and military segments

Equipment, Systems and Services

- Insourcing of high value added activities
- Expansion of after sales services

- Consolidated Cabins and Integrated Systems businesses
- Newly acquired Naval contracts include sizable after sales services

- Developing Equipment, Systems and Services business to fully transform Fincantieri into a "one stop shop" for its clients
- From Cabins to complete Accommodation



...and continuing successfully on a profitable growth path



Key pillars of the 2018-2022 Business Plan

Long term visibility

Backlog supported by positive underlying momentum, particularly in the cruise segment

New horizons and markets

Expansion into new geographical areas and development of after-sales services

Innovation

Proven capability to develop cutting edge designs and technological solutions to meet clients' evolving needs

Streamlined production

Continued focus on seamless execution through streamlining of processes and production

Section 1

Market overview and strategic developments



Shipbuilding - Cruise: growing market

Dynamics of cruise ships market

Historical trends (2013-2017)

- Starting from 2014, **significant recovery in demand**, with record orders in the last two years (49 units) and consequent **increase of workload and shipyards production visibility**
 - Demand recovery in “traditional markets”
 - Entering new markets with great potential (e.g. China and Australia)
 - New players / new brands (e.g. Virgin Cruises, Costa Asia)

Forecast (2018-2022)

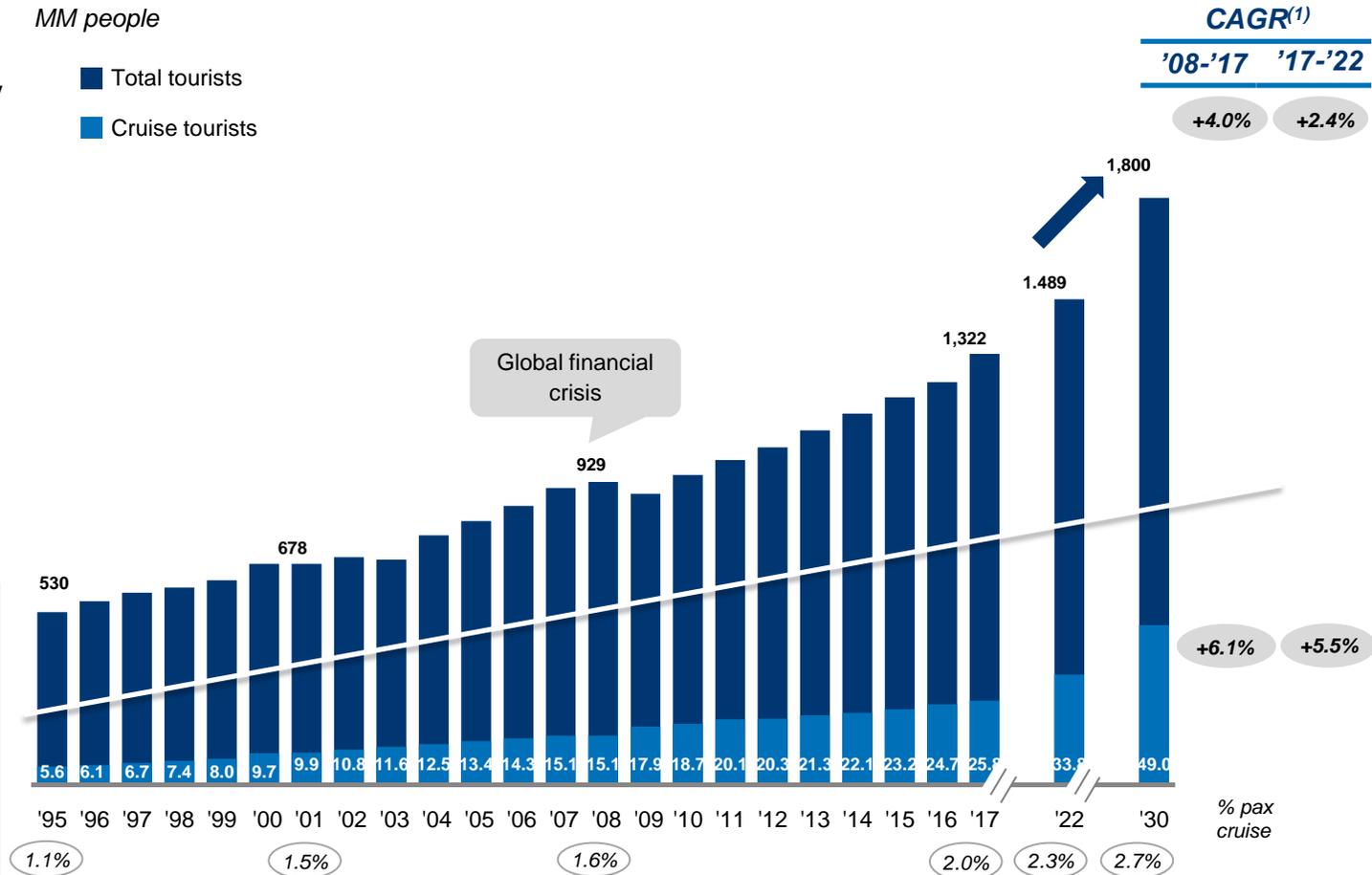
- Production capacity already filled through 2022** with ships currently in backlog or close to finalization
- Steady growth in demand for lower berths, going beyond 2022, thanks to growing number of cruise passengers**

(1) Compounded annual growth rate

Dynamics of global tourism and cruise passengers

MM people

- Total tourists
- Cruise tourists



Source: Total Tourists: World Tourism Organization, UNWTO – Tourism Highlights, 2017 Total cruise Tourist: Fincantieri estimates

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Shipbuilding - Cruise: strategy and action plan

Description

Revenue growth

- **Deployment of vast backlog**
 - over 90% of cruise revenues spanning the Plan's horizon covered by existing contracts and/or MOAs
- **Acquisition of new clients and expansion into new geographical areas**

Positive market momentum

- **Confirmed positive trend in lower berth pricing**
 - Substantial uptick in the latter part of the plan period
- **Demand for ships over 140,000 GRT spurs increase of project size and contract values**
- **Expansion in niche market spaces** (luxury-exploration and ice class cruise ships)

Favorable backlog composition

- **Leverage on the commercial efforts of previous years and on a proven track record** of consistent execution and timely delivery
- **New prototypes lay the base for future order acquisitions** (on average a prototype generates 4 sister ships)

Production/engineering

- **De-risking prototype construction** by relying on consolidated know-how in both engineering and project management
- **Further focus on production efficiencies**
- Continuing implementation of:
 - Operational **integration of Tulcea shipyard** with the Italian yards in order to build complex sections of cruise ships
 - Coordinated **procurement strategy** to exploit low cost production platform advantages

Capex and Human Resources

- **Capital investments in Italy and Romania** to further optimize construction yards and project development capabilities
- **Hiring of additional, highly specialized workforce** to better execute backlog deployment



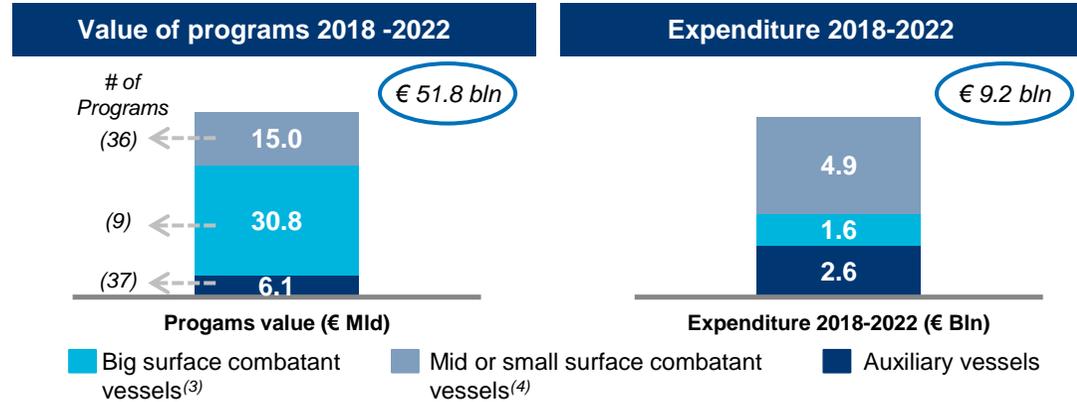
Shipbuilding - Naval: market opportunities

Description

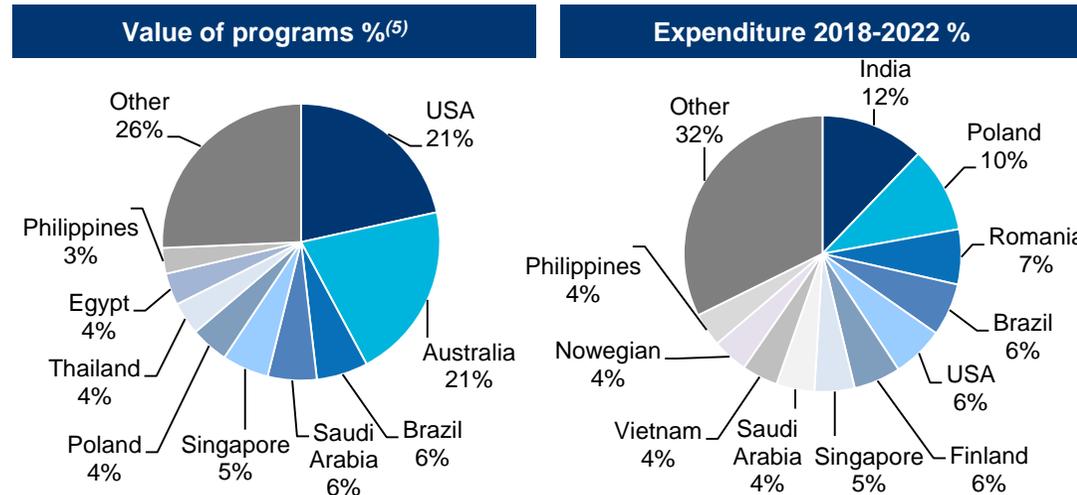
Fincantieri's accessible markets⁽¹⁾

- The value of high-likelihood programs⁽²⁾, with expected allocation date in the 2018-2022 period, amounts to approx. €52 billion
- In the 2018-2022 period **these programs should generate a commitment to expenditures approaching € 9.2 billion**
- 9 countries make for 74% of the orders:** USA, Australia, Brazil, Saudi Arabia, Singapore, Poland, Thailand, Egypt, Philippines.
- The main programs expected to be assigned in 2018-2022 include:
 - Australia: SEA 5000 Future Frigates
 - USA: LCS and FFG (X) Future Frigates
 - Canada⁽⁶⁾: Frigates
 - Brazil: FSGHM CV03 (Tamandaré), OPV NPa 500-BR
 - Saudi Arabia: Multi-Mission Surface combatant frigates
 - Singapore: Corvette, LPD
 - Poland: Corvette, AOR Supply
 - Romania⁽⁶⁾: Corvette
 - Thailand: Frigates, OPV
 - Egypt: Frigates
 - Philippines: Frigates, OPV

Programs value and expenditure



Programs value, expenditure and number of units



Source: IHS Jane's – January 2018, Fincantieri analysis

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

(2) High likelihood programs are considered to be those with a probability of actual deployment greater than or equal to 75%, based on the evaluation of a series of elements such as the definition of the ship configuration, Country situation, availability of defense budgets, etc.

(3) Including aircraft carriers, destroyers and frigates

(4) Including patrol vessels and corvettes

(5) The program related to the construction of Frigates for the Canadian Navy is valued only in terms of the potential revenue for Fincantieri

(6) Not included in the analysis

Shipbuilding - Naval: commercial strategy

Description

Consolidation and development of existing programs

- **Italy**: continuing execution of **Italian Navy's fleet renewal program**
 - 9 vessels in backlog (7 Multipurpose Offshore Patrol units, 1 Logistic Support Ship, 1 Multipurpose amphibious unit), with first delivery in 2019
 - options for 3 vessels (Multipurpose Offshore Patrol units)
 - Deliveries of remaining FREMM vessels (4 units)
- **US**: completion of current backlog of **LCS program**
 - 9 vessels in backlog
 - 1 option
 - Awarded budget for design phase of FFG(X)
- **Qatar**: execution of contract with the construction of 7 vessels
 - 4 corvettes, 1 amphibious vessel (LPD - Landing Platform Dock), 2 patrol vessels (OPV - Offshore Patrol Vessel), with first delivery in 2021

Other programs

- **Australia**
- **US FFG(X)**
- **Italian Navy (submarines – 3rd batch)**

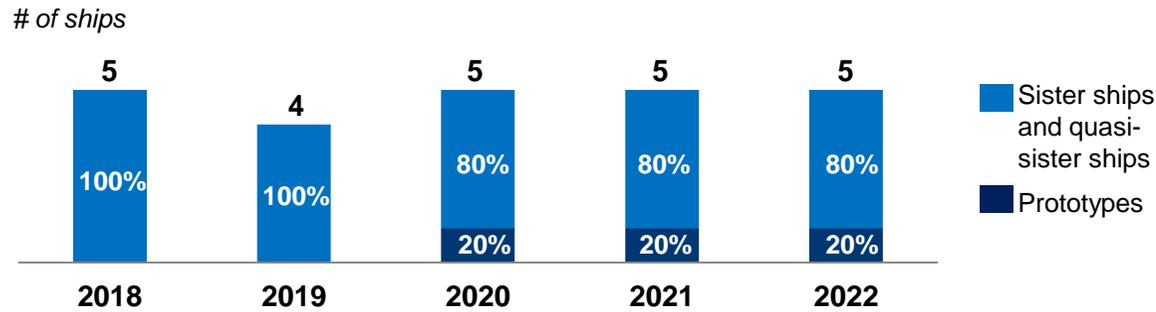
Leveraging established know-how and reputation to access new markets through the development of both well proven products and new concepts



Shipbuilding: quantifying main drivers of growth and increasing profitability

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

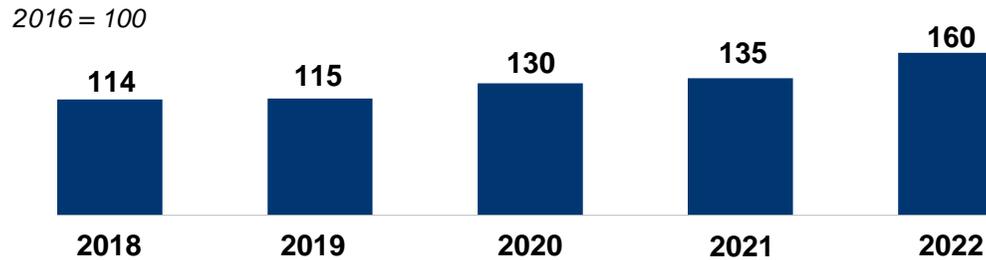
Cruise ships by delivery year: prototypes, sister ships and quasi-sister ships



- Deliveries heavily skewed towards sister ships with lower execution risks and better margins

Cruise: pricing trends

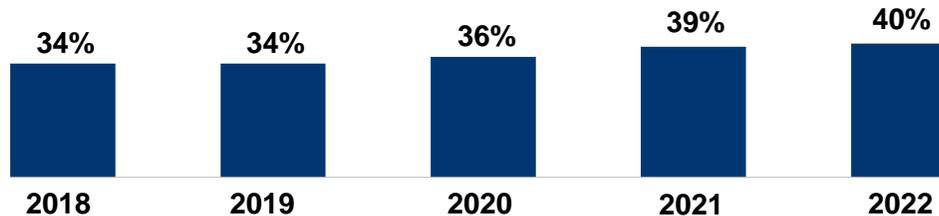
Cruise ships >90k GRT: revenues per lower berth by delivery year



- Positive trend due to progressive, structural increase in base line pricing for contracts acquired at greater margin

Naval revenues/Shipbuilding revenues

Naval revenues/Shipbuilding revenues



- The relative contribution is influenced by the strong uptick in cruise volumes



Offshore: market overview

Description

Offshore Oil&Gas: forecast

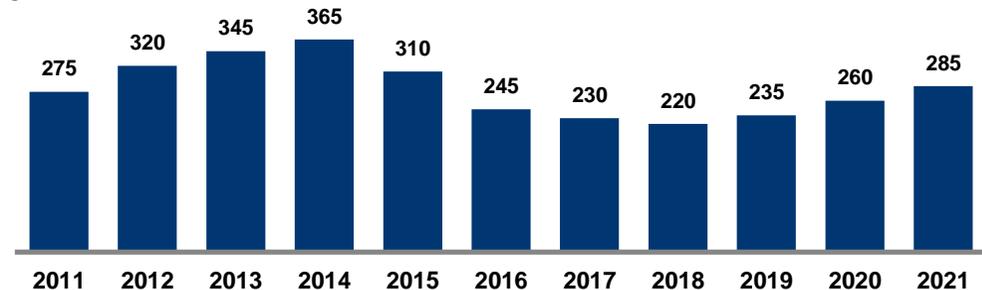
- Exploration & Production Expenditure is expected to reach a minimum in 2018, then slowly return to growth
- **Negative outlook for PSV and AHTS demand** due to oversupply following oil price fall and significant postponements of drilling projects
- **VARD uses a tender driven approach to establish itself** in other market segments of the offshore business

Focus on new business opportunities

- **Small FPSO:** Requires partnerships with producers of topside or FPSO operators
- **Gas (LNG):** increase in future demand, also thanks to new environmental rules. The market for smaller FLNG and LNG carriers will likely ramp up. VARD to leverage on existing patent (Brevik containment system) for small LNG vessels
- **Offshore wind:** expected installed capacity in 2022 at 46,4 GW (2018-2022 CAGR at 15%)
- **Norwegian coastal ferries:** sector characterized by old fleet
- **Aquaculture & fisheries:** sustained market growth with increasing complexity related to higher technological and industrial contents
- **Specialized vessels:** old fleet of cable layer and pipe layer. New market for mining vessels

E&P Expenditure

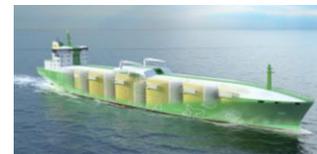
USD BN



New business opportunity



Small FPSO



Gas



Offshore wind



Norwegian coastal ferries



Aquaculture & fisheries



Specialized vessels

Offshore: strategy and action plan

Description

Revenue growth

- **Tender driven approach in the Offshore market**, where first signs of recovery are becoming visible
- **Furthering diversification efforts in expedition cruises, fishery/aquaculture and select opportunities in the military segment**, in countries where VARD already operates directly (Brazil, Norway)

Production footprint

- **Finalizing Tulcea’s cruise ship building capabilities**
 - segments of large cruise vessels to be transported to Italian yards
 - autonomous production of smaller scale ships
- **Production specialization in Norwegian yards**
- Rightsizing and refitting of **Vard Promar in order to seize local market opportunities and potential military tenders**

Improvement of cost position and operating efficiency

- Continued focus on
 - **rightsizing of operations** with improvements to increase efficiency and quality
 - Strengthening of **procurement efficiency**
 - Increasing of the scope of work in Romania to **lower the average cost base**



Equipment, Systems and Services: strategy

Description

Continuous growth of traditional businesses

- **Development of large backlog already acquired**
- **Strong focus on expanding non-captive markets** (in both System & Components, and After Sales)
- **Enhancing After Sales services**
 - to include **full lifecycle management for military vessels**,
 - as well as **extending offering to the cruise clients in established high value areas** (e.g. Fincantieri Services USA)
- Potential expansion into **new geographical areas**

Insourcing of other high value added businesses: from cabins to complete accommodation

- **Leveraging internalization** of Cabins business to **bolster product offering in other high value-adding segments**, such as:
 - **Public areas**
 - over the plan period, Marine Interiors will provide a total of 160,000 sq. meters of public areas, on 18 ships, representing 27% of total public areas to be installed (in 2017 it provided 15,400 sq. meters, on 3 ships, representing 13% of installed public areas)

Developing Equipment, Systems and Services business to fully transform Fincantieri into a “one stop shop” for its clients

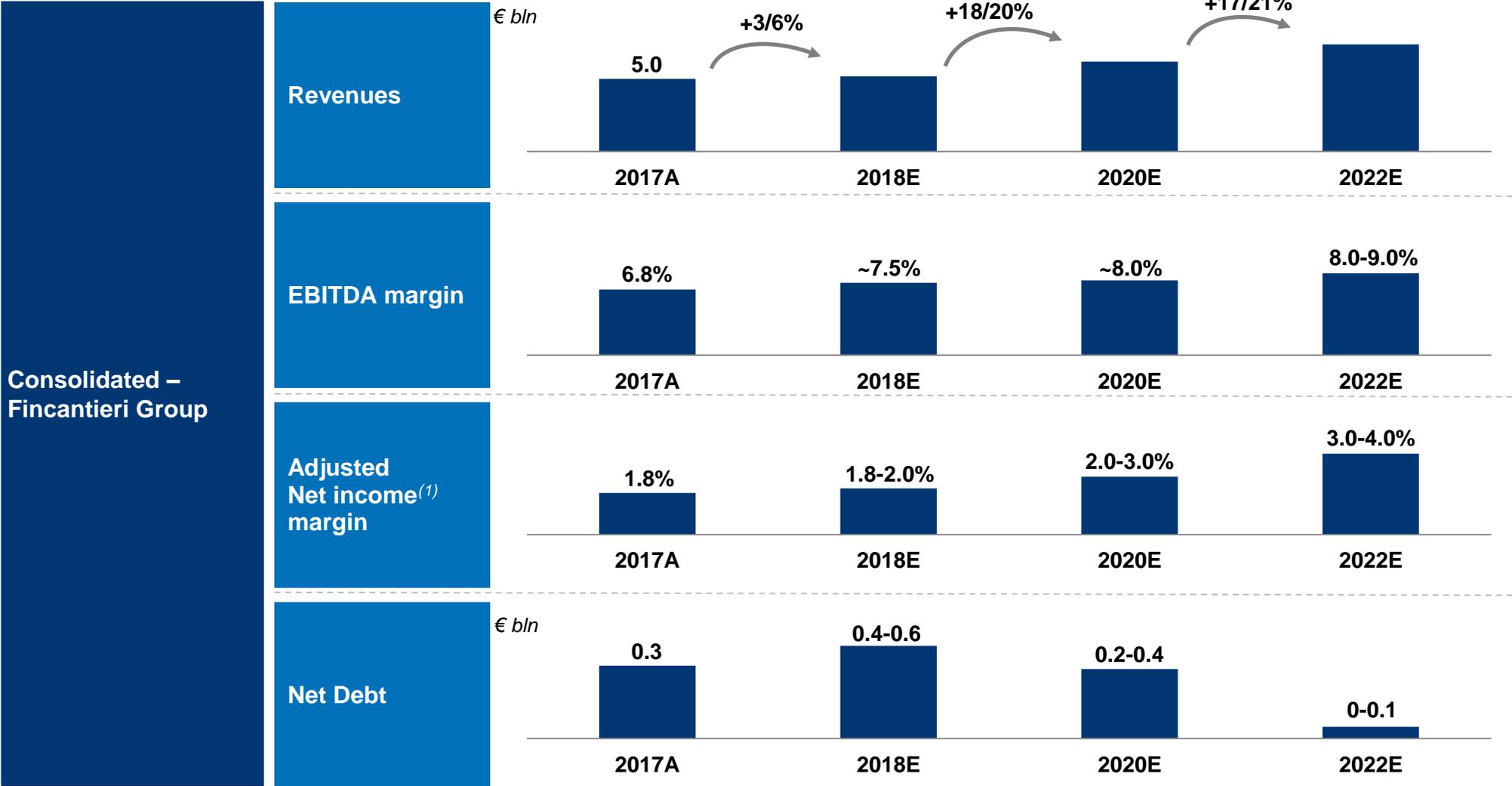


Section 2

Short and medium term financial targets



Short and medium term financial targets



(1) Net income before extraordinary and non-recurring items



Short and medium term financial targets – key take away messages

2018 Guidance

- **Revenues expected to increase between 3% and 6% driven by the progress of cruise construction volumes**, also supported by the increasing workload of Romanian yards
- **EBITDA margin around 7.5%** thanks to the increased contribution of profitable cruise projects and naval programs
- Net debt increasing vs. 2017 due to the continued growth of cruise construction volumes

2020 Objectives

- **Revenues estimated to grow in a range of 18% to 20% vs. 2018** supported by the **continuing increase in volumes** in cruise, **the effects of the diversification actions** implemented by VARD, as well as **the stronger contribution of naval** both in Italy and abroad
- **EBITDA margin around 8.0%** thanks to the consolidated recovery of cruise profitability and the increasing effects of the economies of scale
- **Operating cash flow starting to kick-in driven by the stabilization of volumes in cruise and the contribution from naval projects with net debt expected to decrease** vs. previous years

2022 Objectives

- **Revenues estimated to grow in a range between 17% and 21% vs. 2020 thanks to the expansion of volumes across all the segments**, especially outside Italy
- A sound profitability in the cruise sector, the continuing contribution from naval, the recovered performance of VARD and the effects of the economies of scale across the whole Group are expected to push **EBITDA margin up to 8.0%-9.0% in 2022, leading to a structural increase in performance**
- **Net debt substantially reduced** (essentially zero excluding construction loans) thanks to a stronger operating cash flow and the gradual completion of the investment plan pursued over the plan period

- **Revenues growth: up to approx. 50% by 2022**
- **EBITDA growth: up to approx. 100% by 2022**
- **Increasing reliance on self-financing from operational cash flow to reduce net debt substantially and fund an investment plan tailored to support an expanding business**



Q&A

