2016 ANNUAL REPORT

Prysmian Group

2016 ANNUAL REPORT

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Disclaimer

This document contains forward-looking statements, specifically in the sections entitled "Significant events after the reporting period" and "Business outlook", that relate to future events and the operating, economic and financial results of the Prysmian Group. By their nature, forward-looking statements involve risk and uncertainty because they depend on the occurrence of future events and circumstances. Actual results may differ materially from those reflected in forward-looking statements due to a variety of factors.

LETTER TO STAKEHOLDERS

We have closed 2016 on a note of profitability with the highest ever Adjusted EBITDA in the company's history. Excellent sales performance in higher value-added businesses has been reflected in a significant improvement in profitability, also fostered by our focus on operational efficiency and manufacturing footprint optimisation.

Our Energy Projects business has introduced technological innovations that represent milestones for the entire industry and, with a view to providing a turnkey type service, we have made significant progress in developing project engineering and execution capabilities, also thanks to expansion of our fleet of cable-laying vessels. Driving the Telecom business are our renewed competitiveness in fibre manufacturing and our creation of manufacturing centres of excellence, allowing the business to make the most of opportunities in a growing market. The outlook remains positive, both for submarine cables and systems, where we aim to win new power interconnection and offshore wind farm projects, and for the Telecom business, where optical cable demand remains high. Strong sales performance and improved profitability have helped to further strengthen the financial structure, with a better net financial position than expected.

Business performance

Group Sales amounted to Euro 7,567 million, posting organic growth of +1.0% assuming the same group perimeter and excluding metal price and exchange rate effects. The most significant contributions came from positive performances by the Energy Projects segment, with the execution of important submarine connection projects in the portfolio, and by the Telecom segment, which benefited from the continued upward trend in demand for optical cables. Energy & Infrastructure sales were down, affected by the decline in demand for building wires and slower growth in Power Distribution. The Industrial & Network Components segment reported a weak performance, as a result of refocusing the sales mix and of the slowdown in wind business in China. In contrast the Elevators business recorded significant increases. Sales continued to decline for the Oil & Gas business, in a market context suffering from the drop in oil prices which in turn has affected extraction activities. Adjusted EBITDA was sharply up, reaching Euro 711 million (+14.1%), the highest ever since the company's birth. Profitability has also benefited from a concentration on operational and organisational efficiency, optimisation of manufacturing footprint and a favourable sales mix particularly focused on Energy Projects and Telecom.

Industrial investments

Like in the previous year, the Group has continued to develop its growth strategy through focusing on investments in its high value-added tech-driven businesses. A total of Euro 222 million was invested in 2016 (Euro 210 million in 2015). With Fast Forward Operations, the Group has initiated a major process to improve the competitiveness of its industrial footprint. The new strategy focuses on a continuous quest for production efficiency in lower value-added sectors and on the creation of centres of excellence with high technological expertise dedicated to the higher value-added business segments.

Research & Development

Expenditure on Research & Development amounted to Euro 84 million, in line with 2015. The major achievements include the launch of the new P-Laser 600 kV cable, which allows increased power transmission capacity at a cost of up to 10% less (per MW transmitted), and the introduction of 600 HVDC kV XLPE and 700 kV PPL cables, which can boost transmission capacity by up to 15%. In the field of inter-array connections for offshore wind farms, the Group has launched the new 66 kV cable, which allows significant savings in wind farm construction and operation costs. The new Flextube, the optical cable with the highest density in the world with more than 2,000 fibres, represents a major innovation for broadband networks. Work has continued on developing Pry-Cam, developed by Prysmian Electronics, network monitoring technologies, which are meeting with growing approval: during 2016 a contract was signed with National Grid for online monitoring of its UK networks.

Acquisition-led growth

The Group continued to pursue externally-driven growth in 2016, acquiring the assets of Shen Huan Cable in China, aimed at pursuing an independent growth strategy in this country, and the copper data cables business of Corning in Germany. The Group also moved ahead with the integration of acquisitions made in the past, namely Gulf Coast Downhole Technologies (GCDT) in the US and Oman Cables Industry.

Human capital development

In the area of human capital development and business organisation, the Group stands out for the innovative people development policies it has adopted. In the course of 2016 it continued to operate several talent development and recruiting programs for both employees and potential candidates: over 1,000 employees have passed through the doors of the Prysmian Group Academy and the new Manufacturing Academy; the Graduate Program, now in its sixth year, has resulted in the recruitment of 50 new high-potential resources; the year saw the launch of a new edition of the "Make it" recruitment program to recruit 50 engineers and technicians, and the launch of the new "Sell It" program for 50 young high-potential sales staff, for a total of some 150 new young recruits to the Group. The YES share purchase plan for employees also continued, with the number of employee-shareholders climbing to almost 9,000, representing over 50% of those eligible.

Sustainability

The Group has continued to devote ever more attention to Corporate Social Responsibility, with the adoption of the new SDG Sustainable Development Goals issued by the UN, the definition of a broad set of KPIs covering the three dimensions (namely economic, environmental and social), the adoption of the new Sustainability Policy and Human Rights Policy, the improved disclosure and reporting system (with the number of GRI indicators included in its Sustainability Report rising to more than 70) and the implementation of stakeholder engagement initiatives. Particular attention has been paid to the position in sustainability indexes, with the Group's scoring in the DJSI improving to 76 points (70 points in 2015). In 2016 we generated Economic Value of Euro 1,710 million, 8% more than in 2015.

Value creation

Among the principles underlying the Group's management approach is the ability to satisfy the expectations of our stakeholders and shareholders, through a constant focus on creating value. Once again this year we have achieved the targets announced to the market and we are able to reward our shareholders' continued confidence in us with a proposed dividend in line with 2015.

VALERIO BATTISTA

CHIEF EXECUTIVE OFFICER

PRYSMIAN GROUP

GROUP ANNUAL REPORT

Consolidated Financial Report

DIRECTORS' REPORT

DIRECTORS AND AUDITORS

Board of Directors (3)	
Chairman	Massimo Tononi (*) (2)
Chief Executive Officer & General Manager	Valerio Battista
Directors	Maria Elena Cappello (*) (**) (1)
	Monica de Virgiliis (*) (**)
	Claudio De Conto (*) (**) (1) (2)
	Alberto Capponi (*) (**)
	Massimo Battaini
	Pier Francesco Facchini
	Maria Letizia Mariani (*) (**) (1)
	Fabio Ignazio Romeo
	Giovanni Tamburi (*) (**) (2)

Board of Statutory Auditors (4)	
Chairman	Pellegrino Libroia
Standing Statutory Auditors	Laura Gualtieri
	Paolo Francesco Lazzati
Alternative Statutory Auditors	Michele Milano
	Claudia Mezzabotta
Independent Auditors (3)	Ernst & Young S.p.A.

(*) Independent directors as per Italy's Unified Finance Act

(**) Independent directors as per Italy's Corporate Governance Code

(1) Members of the Control and Risks Committee

(2) Members of the Compensation and Nominations Committee

(3) Appointed on 16 April 2015

(4) Appointed by the Shareholders' Meeting held on 13 April 2016

FINANCIAL HIGHLIGHTS

MAIN FINANCIAL AND OPERATING DATA (*))

(in millions of Euro)

	2016	2015	% change	2014
Sales	7,567	7,361	2.8%	6,840
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	680	584	16.4%	466
Adjusted EBITDA (1)	711	623	14.1%	509
EBITDA (2)	645	622	3.6%	496
Adjusted operating income (3)	538	473	13.7%	365
Operating income	447	399	11.5%	312
Profit/(loss) before taxes	368	310	18.7%	172
Net profit/(loss) for the year	262	214	22.4%	115

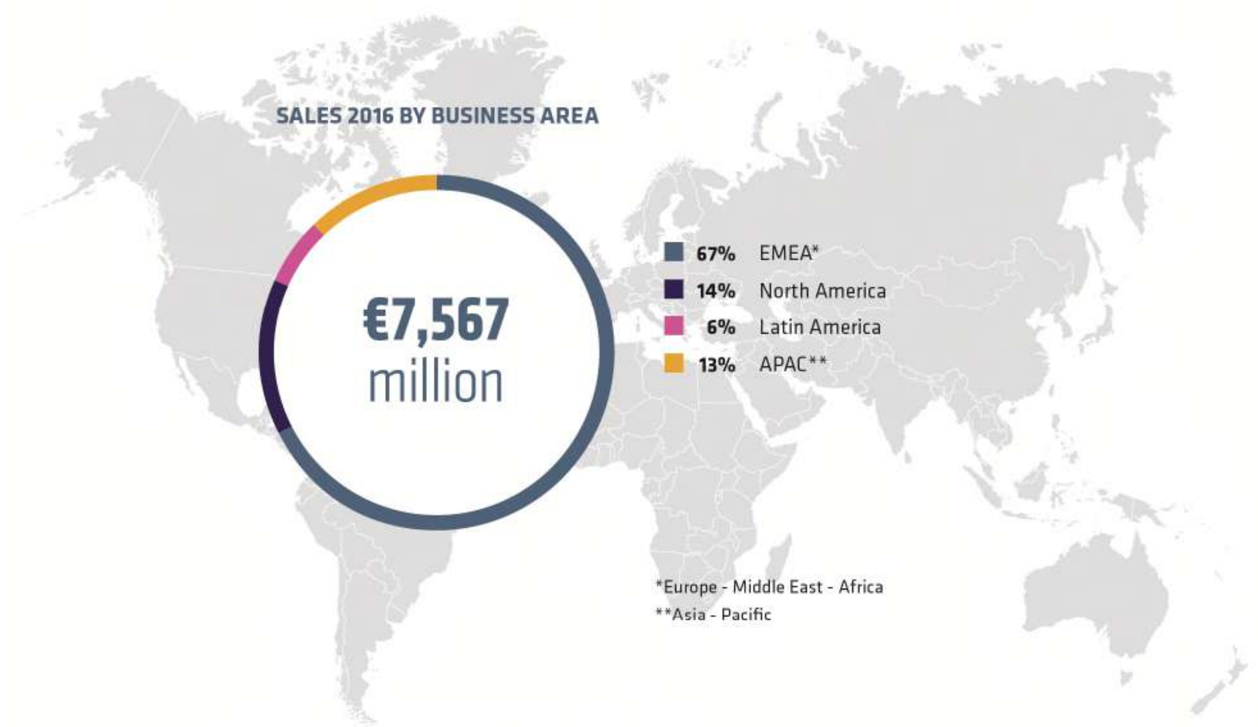
(in millions of Euro)

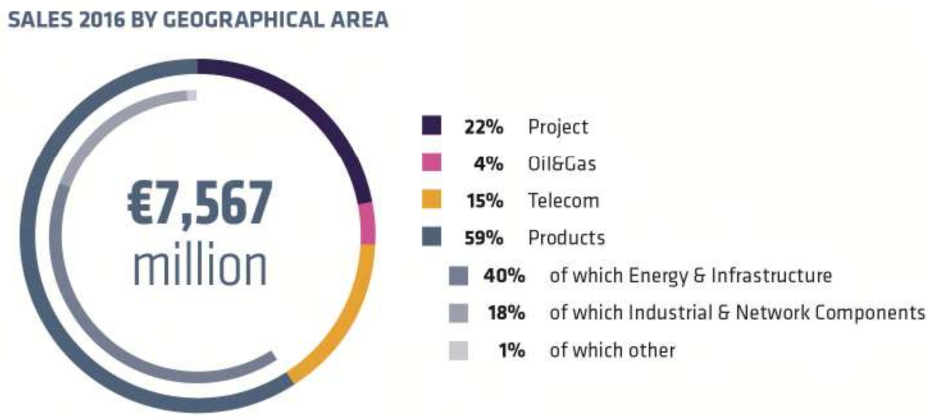
	31 December 2016	31 December 2015 (**)	Change	31 December 2014
Net capital employed	2,595	2,598	(3)	2,345
Employee benefit obligations	383	341	42	360
Equity	1,675	1,507	168	1,183
of which attributable to non-controlling interests	227	229	(2)	33
Net financial position	537	750	(213)	802

(in millions of Euro)

	2016	2015	% change	2014
Capital expenditure (4)	233	210	11.0%	163
of which for acquisition of ShenHuan assets	*11*	-		-
Employees (at period end) (5)	20,493	19,316	6.1%	19,436
Earnings/(loss) per share				
- basic	1,15	1,00		0,54
- diluted	1,09	1,00		0,54
Patents (***)	4,651	4,785		5,836
Number of plants	82	88		89
Percentage of plants certified ISO 14001	91%	91%		93%
Percentage of plants certified OHSAS 18001	73%	63%		59%

(1) Adjusted EBITDA is defined as EBITDA before income and expense associated with company reorganisation and before non-recurring items and other non-operating income and expense.
(2) EBITDA is defined as earnings/(loss) for the year, before the fair value change in metal derivatives and in other fair value items, amortisation, depreciation and impairment, finance costs and income, dividends from other companies and taxes.
(3) Adjusted operating income is defined as operating income before income and expense associated with company reorganisation, before non-recurring items (and other non-operating income and expense), and before the fair value change in metal derivatives and in other fair value items.
(4) Capital expenditure refers to additions to Property, plant and equipment and Intangible assets, gross of leased assets.
(5) The closing number of employees at 31 December 2015 does not include employees of Oman Cables Industry (SAOG).
(*) All percentages contained in this report have been calculated with reference to amounts expressed in thousands of Euro.
(**) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.
(***) These are the total number of patents, comprising patents granted plus patent applications pending worldwide.

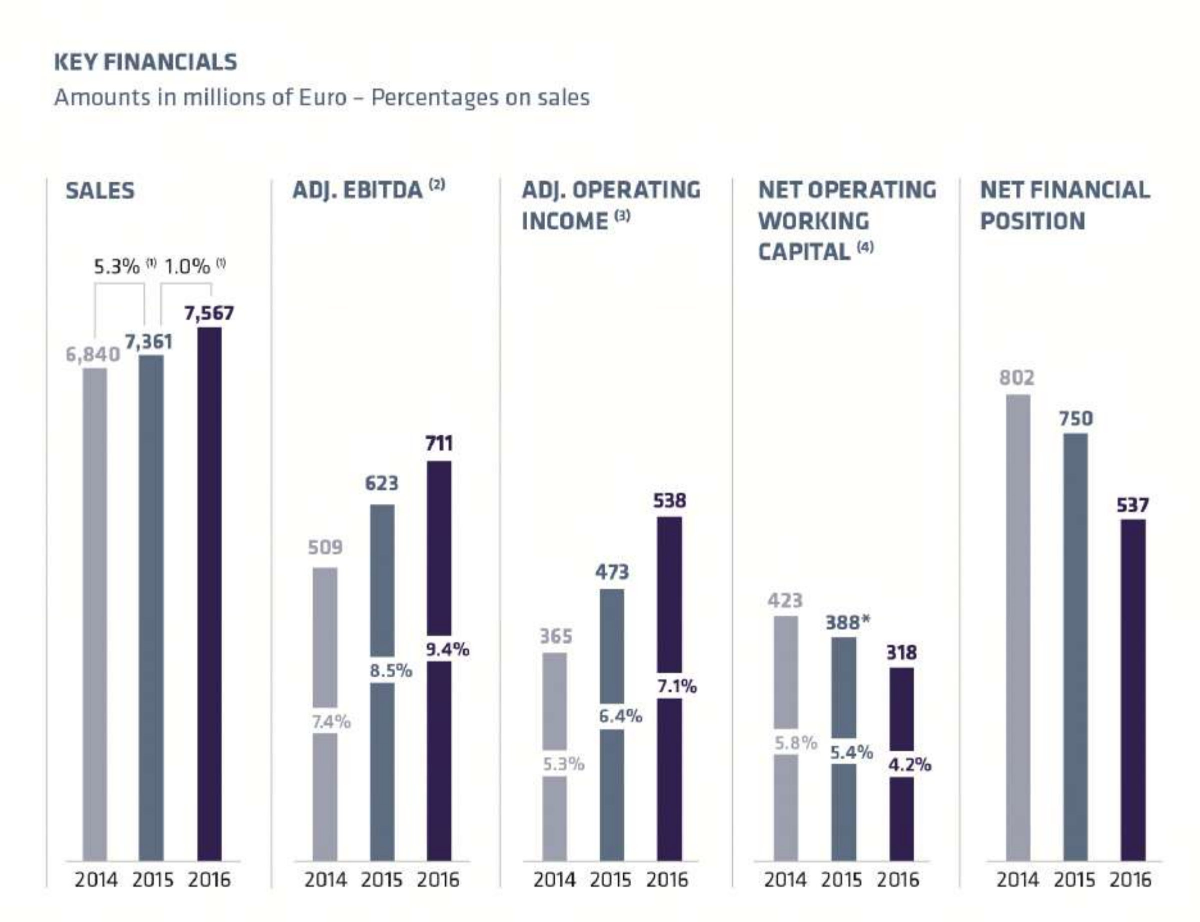




(*) Europe – Middle East - Africa.

KEY FINANCIALS

Amounts in millions of Euro – Percentages on sales



(*)The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

(1) Organic growth is defined as growth in sales calculated net of changes in the scope of consolidation, changes in commodity prices and exchange rate effects.

(2) Adjusted EBITDA is defined as EBITDA before income and expense associated with company reorganisation and before non-recurring items and other non-operating income and expense.

(3) Adjusted operating income is defined as operating income before income and expense associated with company reorganisation, before non-recurring items (and other non-operating income and expense), and before the fair value change in metal derivatives and in other fair value items.

(4) Net Operating Working Capital is defined as Net Working Capital excluding the effect of derivatives. The percentage is calculated as Net Working Capital/Annualised last-quarter sales.

PRYSMIAN GROUP

VISION, MISSION, VALUES

VISION

The Prysmian Group believes in the effective, efficient and sustainable supply of Energy and Information as a primary driver in the development of communities.

MISSION

The Prysmian Group provides its customers worldwide with superior cables solutions based on pioneering technology and consistent exellence in execution, ultimately delivering sustainable growth and profit.

VALUES

Excellence. Every day we relentlessly pursue exellence in all we do.

Integrity. We uphold the highest standards of integrity in our actions.

Understanding. We listen closely to our customers to really understand their needs.

Prysmian Group

Market, innovation and technology leader in the global cables industry.

Prysmian Group is world leader in the energy and telecom cables and systems industry. With nearly 140 years of experience, sales of over of Euro 7.5 billion in 2016, some 21,000 employees in 50 countries and 82 production units, the Group offers the widest possible range of products, services, technology and know-how for every type of industry thanks to an extensive commercial presence and 17 R&D centres in Europe, the United States, South America and China, with more than 500 qualified R&D professionals.

Prysmian is a public company, listed on the Italian Stock Exchange in the FTSE MIB index.

The Group is organised into the operating segments of Energy Projects, Energy Products, Oil & Gas and Telecom, and is active in the design, manufacture, supply and installation of cables for a wide range of applications.

It operates in the business of underground and submarine cables and systems for **power** transmission and distribution, of specialty cables for applications in many different industries and of medium and low voltage cables for the construction and infrastructure sectors.
The Group produces voice, video and data transmission cables and accessories for the **telecommunications** industry, offering a comprehensive range of optical fibres, optical and copper cables and connectivity systems.

Over the years Prysmian Group has achieved important milestones through realising projects with innovative, ground-breaking solutions to satisfy the highest customer expectations and create value for stakeholders and the Group itself.
The Prysmian Group carries out major submarine power interconnection projects for utilities and grid operators. These include the recent COBRAcable, a submarine link between the Netherlands and Denmark which will contribute to the creation of a sustainable international energy landscape, and the record Western HVDC Link in the United Kingdom, which boasts a number of industry firsts for voltage (600 kV) and world records for insulated cable rating (2200 MW) and route length (more than 400 km). Thanks to the Trans Bay, Neptune and Hudson projects in the United States, large areas between San Francisco and New York City are being illuminated with energy from different sources. The Group is also a world leader in submarine connections for offshore wind farms. Following its involvement in major European projects of recent years, Prysmian has just worked on the cable to link a number of wind farms in the West of Adlergrund cluster in the Baltic Sea to mainland electricity grids in Germany.

In the area of **onshore infrastructure**, the Group has been involved in the construction of electricity grids in some of the world's largest metropolises, from New York to Buenos Aires, London to St. Petersburg, and Hong Kong to Sydney. Prysmian is heading a consortium of 7 companies for the construction of the new high voltage direct current electricity interconnection between Italy and France, known as "Piedmont-Savoy". The project will play a strategic role in enhancing energy security and enabling energy exchange up to 1200 MW between Italy and France.

The Group also supports the **petrochemicals industry** with solutions for both upstream exploration and production activities, and downstream hydrocarbon processing and storage. These solutions range from power, instrumentation and control cables to SURF and DHT products and services, which include umbilical cables for offshore platforms and high-tech flexible pipes used in oil extraction.

In the **renewable energy** market, Prysmian technologies support the development of some of the most important solar and wind farms in the world, such as the Ohotnikovo photovoltaic plant in Ukraine and the main wind farms in Southern Italy.

The Group's fire-resistant cables can be found at the very heart of the most spectacular, state-of-the-art **constructions**, like the Wimbledon tennis stadium, the futuristic Marina Bay Sands in Singapore and the Shard skyscraper in London, the tallest in Western Europe. In Milan, Prysmian Group cable solutions helped ensure the safety of the millions of visitors from around the world who came to the Universal Exposition 2015.

In the **elevator** business, the Group's elevator cables are present in some of the world's tallest or most prestigious buildings, like the new World Trade Center in New York City. By cabling the Burj Khalifa in Dubai, the world's tallest building at 828 metres high, Prysmian has guaranteed the safety of every one of its 162 floors with elevator cables and fire-resistant cables the length of which is more than 1,300 times the tower's height.

Even in the **transport** business Prysmian has reached many exceptional milestones: it has cabled some of the world's biggest aircraft and ships, like the Airbus 380 or the Royal Caribbean's GENESIS fleet, some of the fastest trains, and some of the most innovative metro systems, like the one recently inaugurated in Shanghai. Three million passengers on the London Underground travel each day through 400 km of tunnels, thanks to Prysmian and Draka fire-resistant cables.

Lastly, with a wide range of fibre solutions for voice, video and data, continuous investment in R&D and around 30 dedicated manufacturing facilities, Prysmian Group is the world's top manufacturer of **telecom cables**, with which it contributes to developing infrastructure in support of information flows and communication between communities around the world.
The quality of optical fibre and level of innovation used in its cables allow the Group to meet the most difficult and ambitious challenges. The Group has recently been selected to support the development of a new broadband network in Singapore, and in Australia it is helping the local government achieve the goal of creating a Fibre-to-the-Premises network that will connect 93% of the country's residential and commercial buildings. This project confirms Prysmian's central role in the largest infrastructure challenge ever faced in Australian history.

Operating segments

The **Energy Projects Operating Segment** encompasses the high-tech and high value-added High Voltage underground and Submarine businesses focused on projects and their execution, as well as on product customisation:

- Prysmian engineers, manufactures and installs high and extra high voltage cables for *underground and submarine power transmission* directly from power stations to primary distribution networks.

Through Prysmian PowerLink S.r.l., the Group develops the most advanced "turnkey" submarine cable systems for installation at depths of up to 2,000 metres, possible thanks to the "Giulio Verne", one of the largest and most technologically advanced cable-laying ships in the world. Prysmian also offers advanced services for the construction of submarine power lines for offshore wind farms, ranging from project management to cable installation with the assistance of "Cable Enterprise" and "Ulisse", its other two cable-laying vessels. The Group's technological solutions for this business cover wind turbine, inter-array and export cables.

The **Energy Products Operating Segment** encompasses the businesses offering a complete and innovative product portfolio designed to meet the many and various demands of the market: Energy & Infrastructure (including Power Distribution and Trade & Installers) and Industrial & Network Components (comprising Specialties & OEM, Elevators, Automotive and Network Components).

- In the field of power transmission and distribution, the Group manufactures medium voltage cables and systems to connect industrial and residential buildings to primary distribution grids and low voltage ones for power distribution and the wiring of buildings. Prysmian solutions are designed to support utilities and grid operators, industrial concerns, installers and wholesalers in the electric power industry. In particular, its products for the Trade & Installers market include cables and systems for distributors and installers used to wire buildings and distribute power to or within commercial and residential structures. Fire-resistant and low smoke halogen-free cables complete one of the widest and most comprehensive product ranges in the world.
- The Group's offer of integrated cabling solutions for the Industrial market constitutes the most comprehensive and technologically advanced response to the needs of a wide variety of industries. Prymian's Specialties and OEM business offers cable systems for many specific industrial applications such as trains, aircraft, ships, harbours, cranes, mines, the nuclear industry, defence, the electro-medical sector and renewable energy. Other solutions serve the elevator market, such as flexible connectorised cables and hoistway cables, and the automotive industry, in which the Group collaborates with the sector's leading international manufacturers. The product range is completed with network accessories and components for connecting cables and other network elements.

The **Oil&Gas Operating Segment** encompasses Down-hole Technology products, SURF and Core Cables for applications in the fields of Exploration & Production, Pipeline & LNG and Refineries & Petrochemicals.

- The Group's Down-hole Technology (DHT) business offers technology-driven products for oil, geothermal and gas wells that are integral components of downhole control, injection, flow assurance and monitoring systems and which include latest-generation TEC (Tubing Encapsulated Cable), specialty tubing and specialty optical fibre sensing cable. The range is completed with a full range of protectors and the patented Safety-Strip® technology allowing faster, safer installation of jointing and termination devices.
- The Group offers products and services known in the market as "SURF" (Subsea Umbilical, Riser and Flowline) for offshore oil & gas exploration and production activities. The range comprises:

multipurpose umbilical cables for transporting power, data and communications, fluids and chemicals; flexible pipes for offshore oil extraction, accessories and installation and maintenance services.

- The Group's Core Cables product line includes power, instrumentation, control and communication cable solutions specifically designed for applications in the fields of Exploration & Production, Pipeline & LNG and Refinery & Petrochemicals. The range is completed with a series of specific solutions for drilling rigs which include cables for Electrical Submersible Pumps (ESP) and preassembled systems to power vertical traction installations.

The **Telecom Operating Segment** makes cable systems and connectivity products used in telecommunication networks. The product portfolio includes optical fibre, optical cables, connectivity components and accessories, OPGW (Optical Ground Wire) and copper cables.

With centres of excellence in Battipaglia (Italy), Claremont (USA), Douvrin (France), Eindhoven (the Netherlands) and Sorocaba (Brazil), Prysmian Group is one of the leading manufacturers of the core component of every type of optical cable: *optical fibre*. A wide range of optical fibres is designed and made to cater to the broadest possible spectrum of customer applications, including single-mode, multimode and specialty fibres. The Group also has at its disposal every currently available technology for the manufacture of optical fibre, allowing it to achieve optimal solutions for the different applications.

Optical fibres are employed in the production of a wide range of standard optical cables or those specifically designed for challenging or inaccessible environments, from underground ducts to overhead electricity lines, from road and rail tunnels to gas and sewerage networks.

Prysmian Group also supplies passive connectivity solutions that ensure efficient management of optical fibre within networks. Growing demand for higher bandwidth has seen the deployment of optical fibre moving closer to the end user. The Group is extremely active in this rapidly growing sector of the market, known as FTTx, where its approach is based on combining existing technologies with innovative, new solutions allowing fibres to be deployed in high-rise buildings and multi-dwelling units. Many of the cables used in FTTx systems feature Prysmian's bend-insensitive BendBrightxs optical fibre, which has been specially developed for this application.

Prysmian Group also produces a wide range of *copper cables* for underground and overhead cabling solutions and for residential as well as commercial buildings. The product portfolio comprises cables of different capacity, including broadband xDSL cables and those designed for high transmission, low interference and electromagnetic compatibility.

The Group also produces cable solutions serving communication needs in infrastructure, industry and transport, for a diverse range of applications: cables for television and film studios, cables for rail networks such as underground cables for long-distance telecommunications, light-signalling cables and cables for track switching devices, as well as cables for mobile telecommunications antennae and for communication networks.

GLOBAL PRESENCE

EMEA

Ivory Coast
Abidjian

Estonia
Keila

Finland
Pikkala
Oulu

France
Amfreville
Charvieu
Chavanoz
Gron
Paron
Cornimont
Douvrin
Calais
Sainte Genevieve

Germany
Neustadt
Schwerin
Nurnberg
Wuppertal
Berlin

Italy
Arco Felice
Battipaglia
Giovinazzo
Livorno
Merlino
Pignataro Maggiore
Quattordio

Norway
Drammen

Oman
Muscat
Sohar

Netherlands
Eindhoven
Delft
Emmen
Nieuw Bergen

Czech Republic
Velke Mezirici

Romania
Slatina

Russia
Rybinsk

Slovakia
Presov

Spain
Vilanova y la Geltrù
Santander
Santa Perpetua

Sweden
Nassjo

Tunisia
Grombalia

Turkey
Mudanya

U.A.E.
Fujairah

UK
Aberdare
Bishopstoke
Wrexham
Washington

Hungary
Balassagyarmat
Kistelek

SOUTH AMERICA

Argentina
La Rosa

Brasil
Joinville
Sorocaba (2)
Santo Andrè
Vila Velha

APAC

Australia
Dee Why
Liverpool

China
Tianjin
Wuxi
Yixing
Wuhan
Haixun
Shanghai
Suzhou
Zhongyao

Philippines
Cebu

India
Pune
Chiplun

Indonesia
Cikampek

Malaysia
Kuala Lumpur
Melaka

New Zeland
Auckland

Thailand
Rayong

NORTH AMERICA

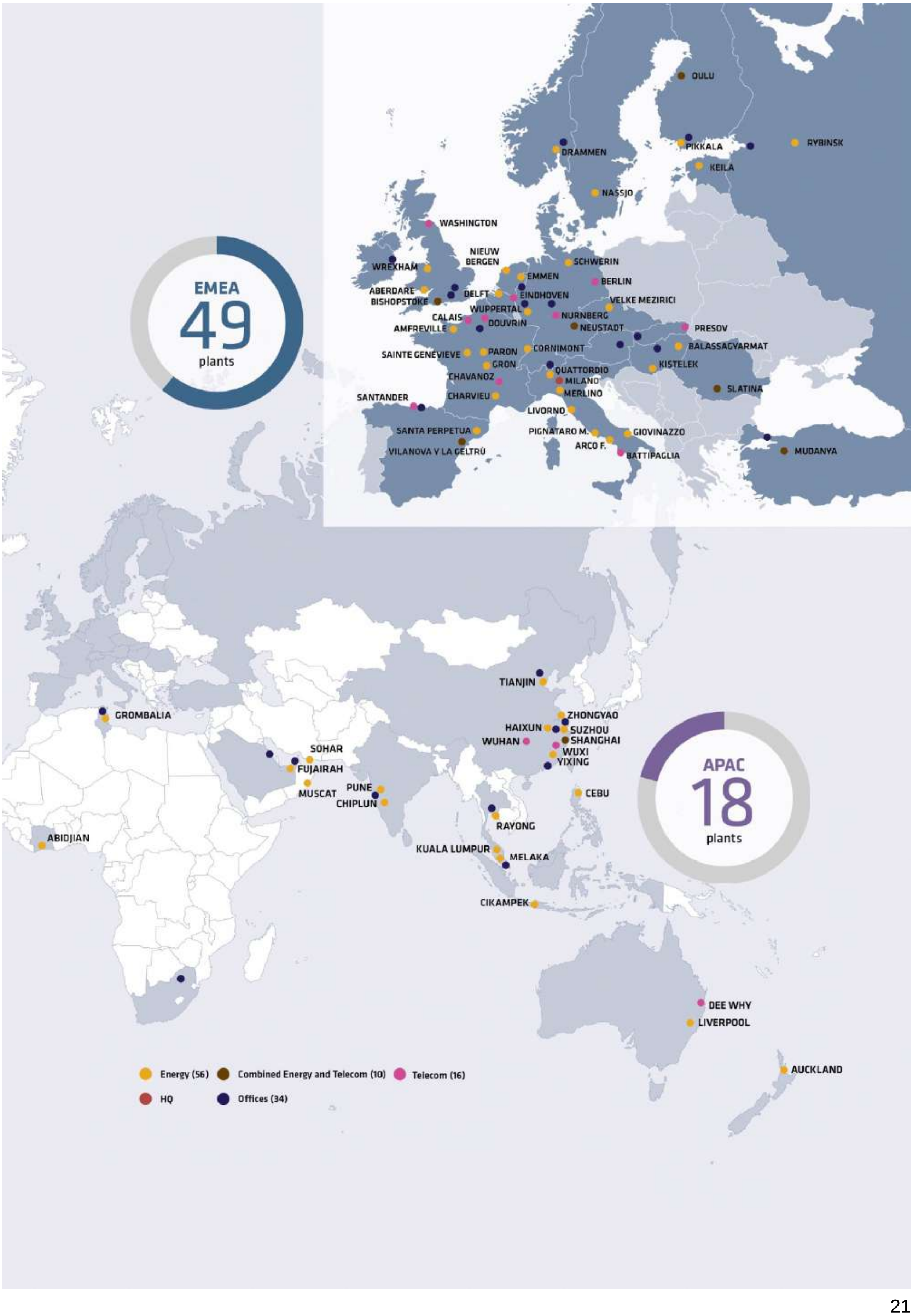
Canada
Prescott

Mexico
Durango

USA
Abbeville
Lexington
North Dighton
Bridgewater
Rocky Mount
Claremont
Schuylkill Haven

50 COUNTRIES
82 PLANTS
17 R&D CENTRES
21,000 EMPLOYEES

Prysmian Group


EMEA
49
plants
APAC
18
plants
OULU
RYBINSK
PIKKALA
KEILA
DRAMMEN
NASSJO
WASHINGTON
NIEUW BERGEN
WREXHAM
SCHWERIN
EMMEN
BERLIN
ABERDARE
BISHOPSTOKE
DELFT
EINDHOVEN
VELKE MEZIRICI
WUPPERTAL
NURNBERG
CALAIS
DOUVRIN
NEUSTADT
PRESOV
AMFREVILLE
SAINTE GENEVIEVE
PARON
CORNIMONT
BALASSAGYARMAT
GRON
QUATTORDIO
KISTELEK
CHAVANOZ
MILANO
MERLINO
SLATINA
SANTANDER
CHARVIEU
LIVORNO
SANTA PERPETUA
PIGNATARO M.
GIOVINAZZO
VILANOVA Y LA GELTRÚ
ARCO F.
BATTIPAGLIA
MUDANYA
TIANJIN
ZHONGYAO
HAIXUN
SUZHOU
WUHAN
SHANGHAI
WUXI
YIXING
GROMBALIA
SOHAR
FUJAIRAH
MUSCAT
PUNE
CHIPLUN
CEBU
RAYONG
ABIDJIAN
KUALA LUMPUR
MELAKA
CIKAMPEK
DEE WHY
LIVERPOOL
AUCKLAND
Energy (56)
Combined Energy and Telecom (10)
Telecom (16)
HQ
Offices (34)

DEVELOPMENT OBJECTIVES AND STRATEGIES

FUNDAMENTALS OF OUR GROWTH STRATEGY

As world leader in the energy and telecom cables and systems industry, Prysmian aims to serve as an "enabler" of economic and social development in countries in which it operates.

The Group's medium-term growth strategy is based above all on the shared principles of the corporate Mission and Vision. Prysmian states in its Vision that it believes in "the efficient, effective and sustainable supply of energy and information as the principal driver for the development of communities". In accordance with its mission, the Group is therefore committed to developing and applying advanced technological solutions to provide its "customers worldwide with cables and systems for energy and telecommunications" that represent effective, efficient and sustainable solutions to their needs. In short, Prysmian aims to play a role as an "enabler", in partnership with its customers, of economic and social development in the countries in which it operates. Its position as world leader in the energy and telecom cables and systems industry also sees the Group as the primary promoter of growth and continuous improvement in the entire industry, both in terms of the technologies used and the ability to develop suitable solutions with customers for the new sources of power generation and data transmission. The ability to produce constant innovations and to promote awareness of the cable industry's strategic role are the key to Prysmian's market approach.
The Group places stakeholders at the centre of its business strategy, the core guidelines of which are based on:

- **Customer Centricity**, meaning provision of innovative products and cable systems, truly inspired by a solution-driven approach;
- **Creating Value for Shareholders**, in terms of return on investment and profitability in the short term, but above all in the medium to long term.

The critical success factors for the Prysmian Group can be represented as follows:

Ability to anticipate/satisfy customer needs. The technologies and processes used must be capable of developing products and solutions that anticipate and satisfy the needs of customers. This is why the Group constantly strives to improve its competencies in the areas of Research and Development, Customer Centricity, human resource development and environmental sustainability.
Balanced and sustainable growth. The ability to combine short and medium to long-term objectives, measurable not only by short and medium-term financial performance to satisfy shareholders' expected return on capital, but also by seeking sound creation of value through the adoption of a system of governance and a business model that allows such results to be sustained over the long run.
"Sound" management and financial discipline. The Group aims to implement "sound" and prudent principles in its financial management. In particular, it pays great attention to operating profitability and cash generation, with a particular focus on working capital management and reduction of fixed costs and capital

employed in order to maximise cash flow generation and return on investment. The Group also aims to maintain adequate financial leverage for its strategy of organic and acquisition-led growth.

Transparency, corporate governance and market and investor confidence. The Group pays particular attention to its relations with financial markets, shareholders and investors, also because of its public company status. Its focus in this sense is on maintaining and delivering its commitments in terms of target results. Transparency and credibility are also expressed in a system of corporate governance based on strict interpretation and application of the relevant regulations and the adoption of principles and choices drawn from international best practices.

Expansion and growth. The Group's development strategy follows the dual track of growth in size and continuous improvement in profitability. The Group pursues both organic growth of the business, based on a selective investment policy and development of commercial and production synergies, and acquisition-led growth. Growth opportunities are primarily sought among higher value-added tech-driven businesses, while in terms of geographical expansion, the Group's main focus of investment is in countries and markets capable of ensuring high rates of growth and profitability.

Rationalisation and efficiency of industrial and commercial processes. Prysmian has confirmed over time its ability to optimise its industrial processes, including by integrating and rationalising its acquisitions. In fact, the Group has been successfully conducting the process of integration with Draka since 2011 and is on track with its targets. It intends to drive forward the plan to extract synergies from rationalising its organisation and industrial footprint, as well as from procurement activities. The development of synergies with Draka also covers the commercial sphere, involving the integration of product ranges and enhancement of customer service.

MARKET APPROACH

Prysmian Group has perfected a market approach over the years that puts the customer at the centre of its strategic, organisational and business choices. Its commitment to analysing customer expectations and their evolution over time allows the Group to develop organisational and operating models that translate into fast, efficient and targeted responses to the markets concerned.

At the heart of this approach is **Customer Centricity**, which expresses itself in the ability to anticipate and satisfy customer needs through its constant presence, from product design through to delivery, and its provision of a level of service that is monitored against specific, agreed parameters.

Prysmian Group is able to develop solutions that not only meet specific standards but also satisfy precise customer needs. In particular, the Group is able to serve very different segments and markets thanks to its ad hoc matrix organisational structure allowing it to have a local presence even for major global projects.

This means that markets with high local specificity are served by country commercial and development teams, and that markets with global products and customers are followed by integrated business unit teams, while other segments requiring a local presence and cooperation between countries draw on the matrix structure's potential.

The strategy of customer centricity and satisfaction is implemented by having a fast, smooth organisation

throughout the supply chain, capable of expediting decision-making and time to market by adapting itself to the needs of the various industries through continuous investment in innovation.
One of the ways of implementing customer centricity is through **Factory Reliability**, a process that makes it possible not only to improve the reliability of planning and the execution of manufacturing output, in terms of both mix and volumes in ever faster response times, but also to have stricter control over inventory levels for every type of stock (raw materials, intermediate and finished goods); this enables the Group to deal effectively and efficiently with upswings and downswings in sales volumes and consequent variation in manufacturing output.
In addition to the Customer Centricity and Factory Reliability propositions, Prysmian Group has also started **Supply Chain Integration** projects with some of its most important global customers with the goal of improving process effectiveness and efficiency throughout the supply chain, from the producers of raw materials and intermediate goods used in manufacturing through to the end cable user.

CORPORATE GOVERNANCE

Effective and efficient, in order to create long-term sustainable value and produce a virtuous circle at the centre of which business integrity.

Prysmian is aware of the importance of a good corporate governance system in order to achieve strategic objectives and create long-term sustainable value, by having a system that is **effective** in complying with the legal and regulatory framework, **efficient** in terms of cost-effectiveness, and **fair** towards all the Group's stakeholders.
Accordingly, the Prysmian Group keeps its corporate governance system constantly aligned with latest recommendations and regulations, adhering to national and international best practices.
In addition, the Group has adopted principles, rules and procedures that govern and guide the conduct of activities by all its organisational and operating units, as well as ensuring that all business transactions are carried out in an effective and transparent manner.

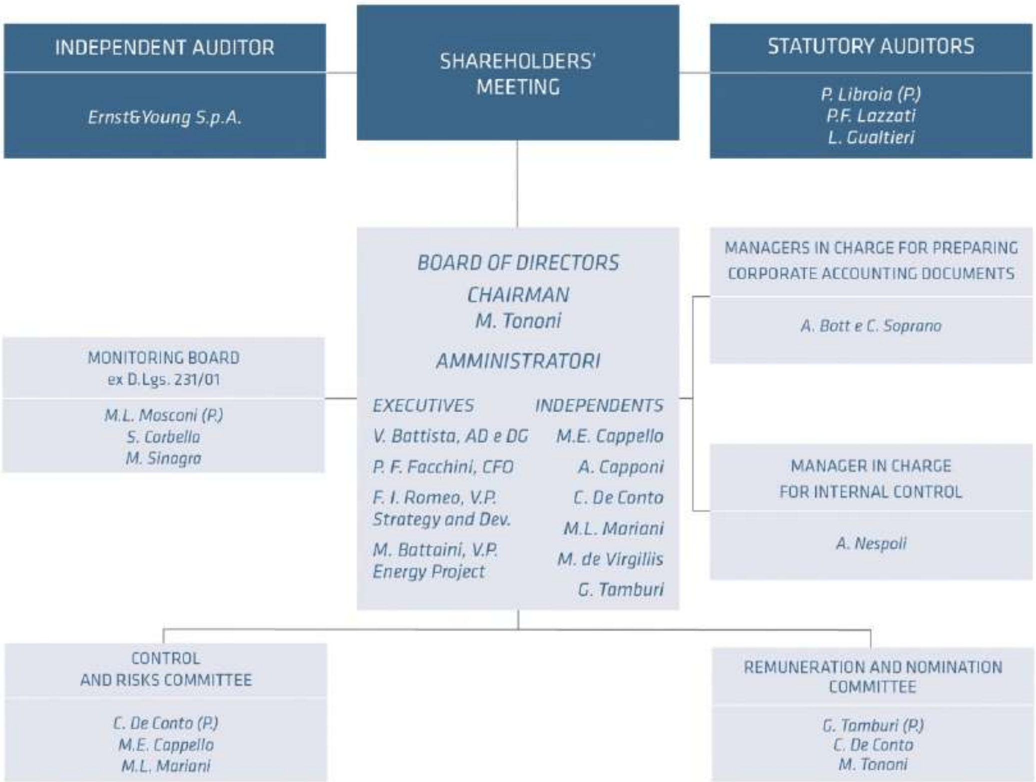
Once again in 2016, Prysmian undertook several initiatives to implement the recommendations of the Corporate Governance Code[1], to which it has adhered.

[1] "Corporate Governance Code for Listed Companies - Ed. July 2015" - approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Corporate Governance Structure. Prysmian's corporate governance structure is based on the central role of the Board of Directors (as the most senior body responsible for managing the company in the interests of shareholders) in providing strategic guidance, in ensuring the transparency of the decision-making process and in establishing an effective system of internal control and risk management, including decision-making processes for both internal and external matters. The model of governance and control adopted by Prysmian is the traditional one, with the presence of a general Shareholders' Meeting, a Board of Directors and a Board of Statutory Auditors.

An overview of the Company's corporate governance structure now follows, along with a description of its main features.

GOVERNANCE STRUCTURE



In compliance with the provisions of art. 14 of the By-laws, the Company is currently managed by a Board of Directors consisting of eleven directors - who will remain in office until the date of the annual general meeting that approves the financial statements for the year ended 31 December 2017 - of whom seven are non-executive. The Board of Directors is vested with the broadest possible powers of ordinary and extraordinary administration, except those which by law are the exclusive prerogative of the shareholders in general meeting. In line with the recommendations of the Corporate Governance Code, the non-executive directors are sufficiently numerous and have enough authority to ensure that their judgement carries significant weight in Board decision-making. Six of the non-executive directors are independent within the meaning of art. 148, par. 3 of Legislative Decree 58 dated 24 February 1998 (known as the Unified Finance Act) and of art. 3.C.1. and art. 3.C.2. of the Corporate Governance Code, while one non-executive director is independent within the meaning of art. 148, par. 3 of the Unified Finance Act. The Board of Directors has appointed a Chief Executive Officer and General Manager from among its members and granted him all the authority and powers of ordinary administration needed or useful for fulfilling the company's business purpose.

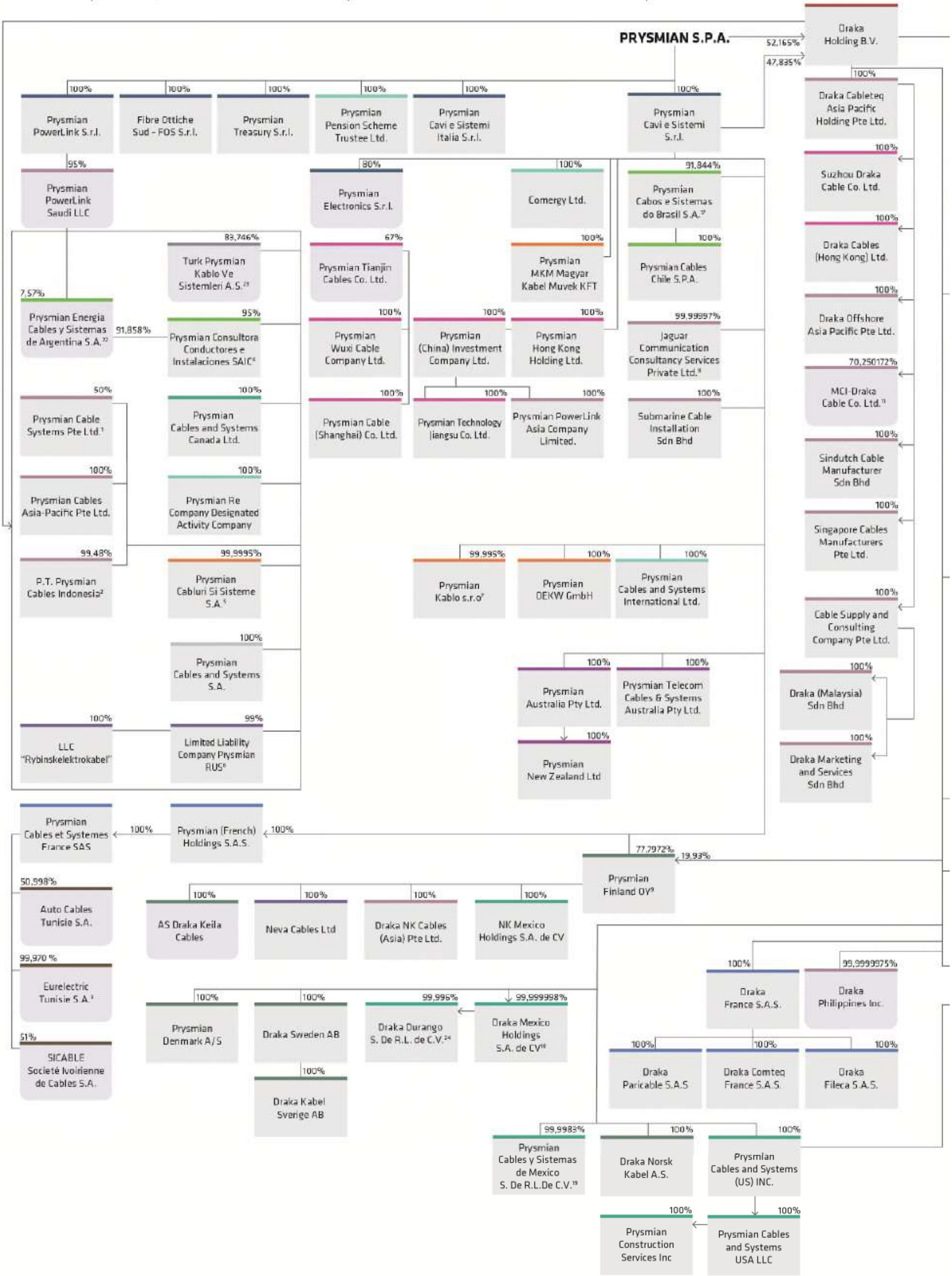
Management of the business is the responsibility of the directors, who take the necessary actions to implement the business purpose. The Board of Directors is also responsible for the Group's internal control and risk management system and is therefore required to verify its adequacy and to adopt specific guidelines for this system, with the support of the other parties involved in the internal control and risk management system, namely the Control and Risks Committee, the Director in charge of the internal control and risk management system, the Chief Audit & Compliance Officer, the Board of Statutory Auditors and the Managers responsible for preparing corporate accounting documents.

Completing the Prysmian corporate governance structure is a Compensation and Nominations Committee and a Monitoring Board instituted under Legislative Decree 231/2001.

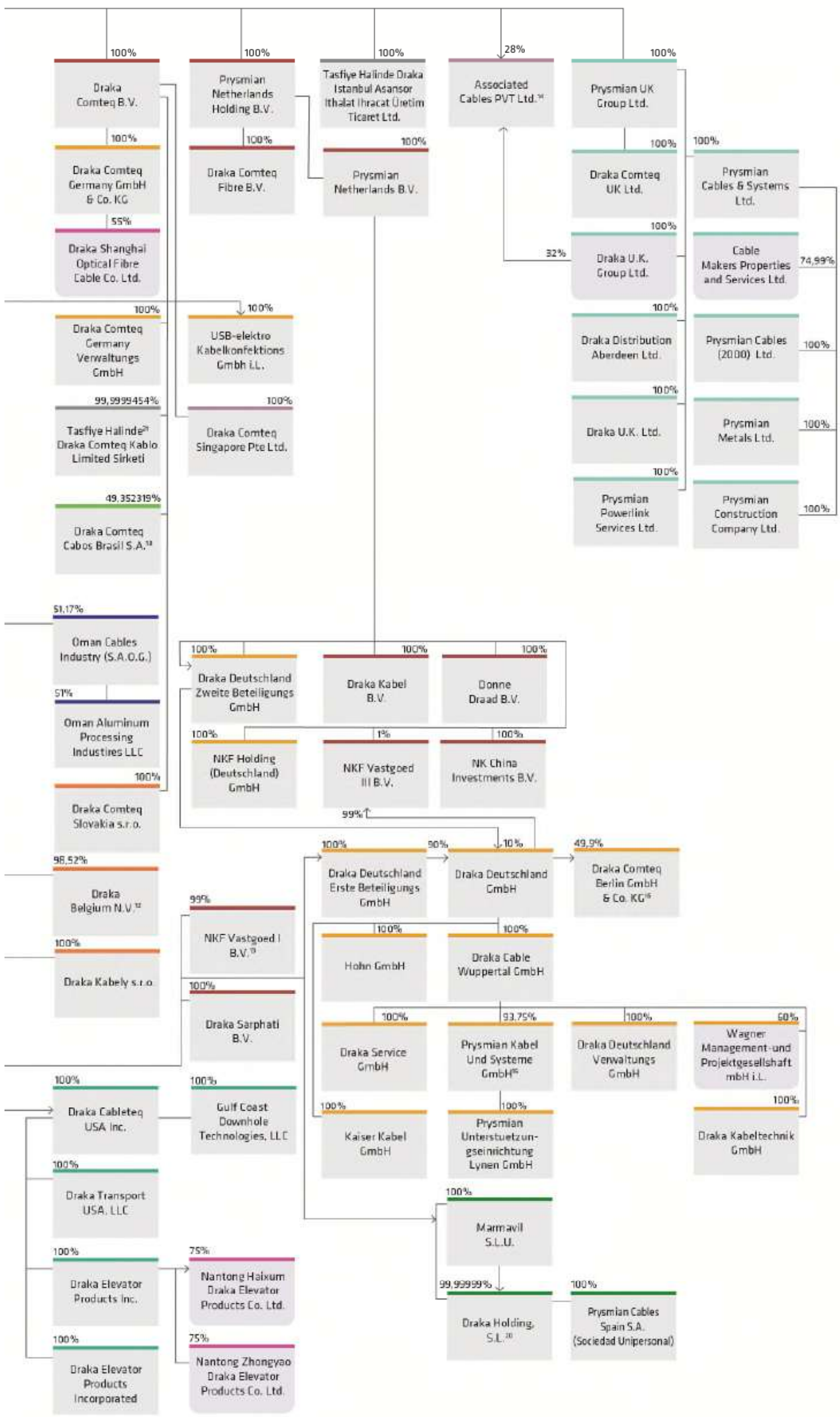
Further information (i) on the corporate governance system of Prysmian S.p.A. (ii) on its ownership structure, as required by art.123-bis of the Unified Finance Act and (iii) on directors' disclosures about directorships or statutory auditorships held in other listed or relevant companies, can be found in the "Report on Corporate Governance and Ownership Structure", prepared in accordance with art. 123-bis of the Unified Finance Act and available in the Investor Relations/Corporate Governance section of the company website at www.prysmiangroup.com.

CORPORATE STRUCTURE

The companies consolidated on a line-by-line basis at 31 December 2016 are presented below:



Prysmian Group

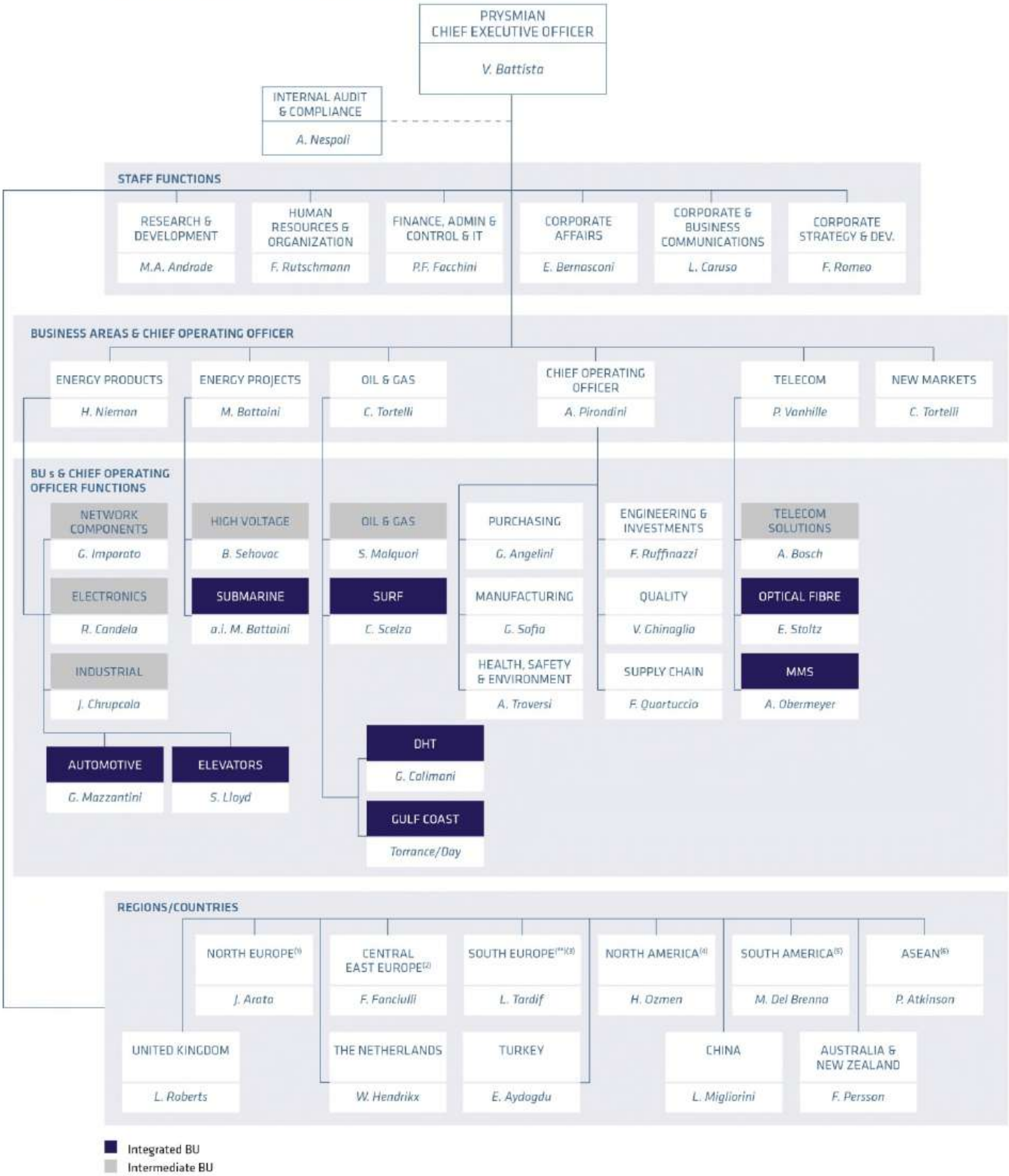


- Wholly owned
- Third-party ownership
- Italy
- UK - Ireland
- France
- Netherlands
- Nordics
- Germany
- Spain
- Danubian Area
- Switzerland
- Oceania
- Asia Pacific
- China
- Russia
- South America
- North America
- Turkey
- Africa
- Luxembourg
- Oman

1. Prysmian Cables & Systems Ltd. 50%
2. Prysmian Cavi e Sistemi S.r.l. 0.52%
3. Prysmian (French) Holdings S.A.S. 0.005%, Prysmian Cavi e Sistemi S.r.l. 0.005%
4. Prysmian Cavi e Sistemi S.r.l. 5%
5. Prysmian Cavi e Sistemi S.r.l. 0.0005%
6. Prysmian Cavi e Sistemi S.r.l. 1%
7. Prysmian S.p.A. 0.005%
8. Prysmian S.p.A. 0.00003%
9. Draka Comteq B.V. 2.27%
10. Draka Comteq B.V. 0.000002%
11. Draka (Malaysia) Sdn Bhd 0.000023%, Sindutch Cable Manufacturer Sdn Bhd 0.000023%, Singapore Cables Manufacturers Pte Ltd 0.000023%
12. Draka Kabel B.V. 1.48%
13. Prysmian Netherlands B.V. 1%
14. Oman Cables Industry (SAOG) 40%
15. Prysmian S.p.A. 6.25%
16. Prysmian Netherlands B.V. 50.10%
17. Prysmian S.p.A. 0.0401% Draka Holding B.V. 1.6874% Draka Comteq B.V. 6.42828%
18. Prysmian Cabos e Sistemas do Brasil S.A. 50.647681%
19. Draka Mexico Holdings S.A. de CV 0.0017%
20. Marmavil S.L.U. 0.00001%
21. Prysmian Netherlands B.V. 0.0000546%
22. Prysmian Cabos e Sistemas do Brasil S.A. 0.263%
23. Turk Prysmian Kablo Ve Sistemleri A.S. 0,891%
24. Draka Holding B.V. 0.004%

Prysmian Group

ORGANISATIONAL STRUCTURE (*)



(*) France delegated for Aerospace.

Prysmian Group

TOP MANAGERS

VALERIO BATTISTA

Chief Executive Officer

A graduate in Mechanical Engineering from Florence University, Valerio Battista is a manager with extensive knowledge and understanding of the industrial sector after more than 20 years of experience, initially with the Pirelli Group and then with the Prysmian Group, which he has headed since 2005. He held positions of increasing responsibility within the Pirelli Group, including for the restructuring and reorganisation of Pirelli Cavi, which in the period 2002-2004 was transformed into one of the most profitable and competitive companies in its industry. In 2005 he played a key role in the creation of the Prysmian Group, leading to its flotation in 2007. The Group of which he is currently CEO is world leader in the energy and telecom cables industry, with approximately 21,000 employees and 82 plants around the world.

FABIO ROMEO

Chief Strategy Officer

Fabio Romeo has been Chief Strategy Officer since January 2014. After graduating in Electronic Engineering from Milan's Polytechnic University in 1979, he then obtained an M.S. and a Ph.D. in Electrical Engineering and Computer Sciences from the University of California, Berkeley. He began his career with Tema (ENI Group) as Product Manager for its chemical plants and in 1982 he moved to Honeywell as a technical advisor to the Group's CEO. In 1989 he joined Magneti Marelli as Innovation Manager of the Electronics division, later becoming Director of the Electronic Systems division. In 2001 he moved to the Pirelli Group, where he held the positions of Director in charge of the Truck business unit and Director in charge of the Pirelli Cable division's Utilities business. From 2005, he held the position of Director of Prysmian's Energy Cables division, becoming the Group's Executive Vice President of the Energy Business in 2011.

PIER FRANCESCO FACCHINI

Chief Financial Officer

Pier Francesco Facchini became CFO of the Prysmian Group in January 2007. He graduated in Business Economics in 1991 from the "Luigi Bocconi" University in Milan. His first professional experience was with Nestlè Italia, where he held different positions in the Accounting and Finance department between 1991 and 1995. From 1995 to 2001, he worked for the Panalpina Group where he held the position of Regional Financial Controller for the Asia-Pacific region. During his time with the Panalpina Group he was also appointed CFO of Panalpina Korea (Seoul) and Panalpina Italia Trasporti Internazionali S.p.A.. In April 2001 he was appointed Finance Director of Fiat Auto's Consumer Services business unit, leaving in 2003 to become CFO of the Benetton Group, a post he held until November 2006.

ANDREA PIRONDINI

Chief Operating Officer

Andrea Pirondini has been Chief Operating Officer of Prysmian Group since January 2014. He has a degree in Business Administration from the "Luigi Bocconi" University in Milan. He started his career in Pirelli Group in 1989, holding various positions in the UK, Italy, Turkey, Russia and Egypt over a 24-year period, both in the Tyres and Cables & Systems businesses, where he was involved in restructuring the manufacturing footprint of energy cables. In 2012 he was appointed Chief Commercial Officer of Pirelli Tyre S.p.A, a position he held until December 2013.

MASSIMO BATTAINI

Senior Vice President Energy Projects

Massimo Battaini has been Senior Vice President Energy Projects since January 2014. He has a degree in Mechanical Engineering from the Polytechnic University of Milan and an MBA from SDA Bocconi (Milan). He started his career with the Pirelli Group in 1987 and held various positions in R&D and Operations over an 18-year period. After running the Business Development department for two years, covering the three Business Divisions of Tyres, Energy Cables and Telecom Cables, in 2002 he become Operations Director of Energy and Telecom Cables and Systems for Pirelli Group. In 2005 he was appointed CEO of Prysmian UK, and from 2011 to 2014 he served as Chief Operating Officer of the Group.

HANS NIEMAN

Senior Vice President Energy Products

Hans Nieman has been Senior Vice President Energy Products since January 2014. After graduating in Literature from the University of Amsterdam, he embarked on a diplomatic career with the Dutch Ministry of Foreign Affairs, holding several national and international posts. He started working in the cable industry about 20 years ago after switching to the private sector in 1992, and has since held various positions in NKF, Pirelli and Prysmian. He became CEO of the Submarine and High Voltage Cables division in 2002, and was appointed CEO of Prysmian Germany in 2010, a position he held until 2014.

PHILIPPE VANHILLE

Senior Vice President Telecom

Philippe Vanhille has been Senior Vice President Telecom since May 2013. After graduating as a Mechanical Engineer in Lyon (France) in 1989, he began his career as a Research Engineer for Renault Formula 1 development. He moved to the cable industry in 1991 with Alcatel Cable. Over a 20-year period he held a number of senior Operations and General Management positions within the cable industry for Alcatel and Draka, and subsequently in the energy, copper telecom and optical fibre sectors. He was head of Draka's Optical Fibre Business Unit at the time of the Prysmian merger, holding the same position in Prysmian Group until his appointment as Senior VP Telecom.

CRISTIANO TORTELLI

Senior Vice President Oil & Gas

Cristiano Tortelli has held the position of Senior Vice President Oil & Gas since January 2016. He has a degree in Electronic Engineering and an MBA. He has long experience in the Oil & Gas industry with several international postings in the Middle East, Africa and Russia. He worked for GE Oil & Gas for more than 15 years, holding several key positions including Subsea Chief Commercial Officer, Russia & East Europe CEO, Turbomachinery Global Sales General Manager and West Africa and Middle East Operations General Manager. He then joined the Air Liquide Group in Germany, leading the Engineering & Solution organisation as VP & Chairman.

PRYSMIAN AND THE FINANCIAL MARKETS

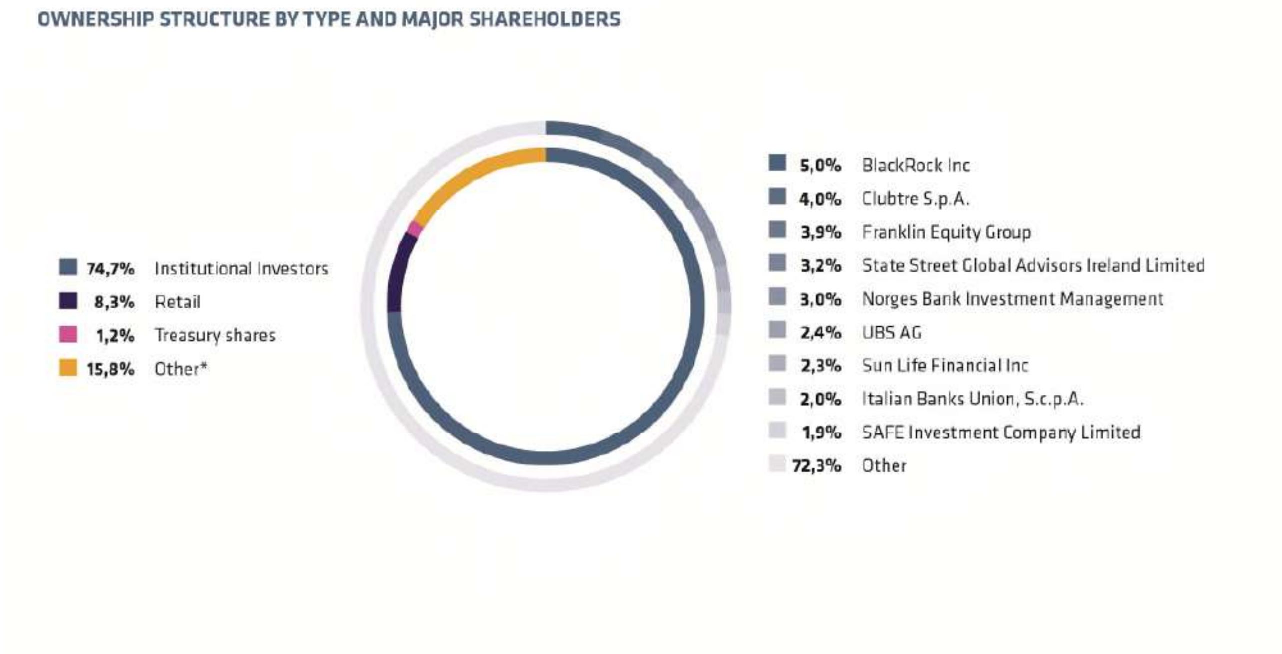
OWNERSHIP STRUCTURE

Prysmian Group can be considered a Public Company to all intents and purposes: its free float is equal to 100% of the shares, with nearly 80% of its capital held by institutional investors.

The listing of Prysmian's ordinary shares, resulting from the sale of 46% of the shares held by the Goldman Sachs Group Inc., took place on 3 May 2007 at a price of Euro 15.0 per share, corresponding to a capitalisation of Euro 2.7 billion. Subsequent to the listing, the Goldman Sachs Group Inc. gradually reduced its interest in the company, control of which it had acquired in July 2005, by placing the remaining 54% of the shares with institutional and selected investors in several successive stages: i) approx. 22% in November 2007, ii) approx. 14% in November 2009, iii) approx. 17% in March 2010. Valerio Battista, Prysmian's Chief Executive Officer, announced on occasion of the last sale that he had purchased 1,500,000 shares, corresponding to around 0.8% of share capital and taking his total shareholding to 1.2%, which he has raised to approximately 1.5% during the course of subsequent years.

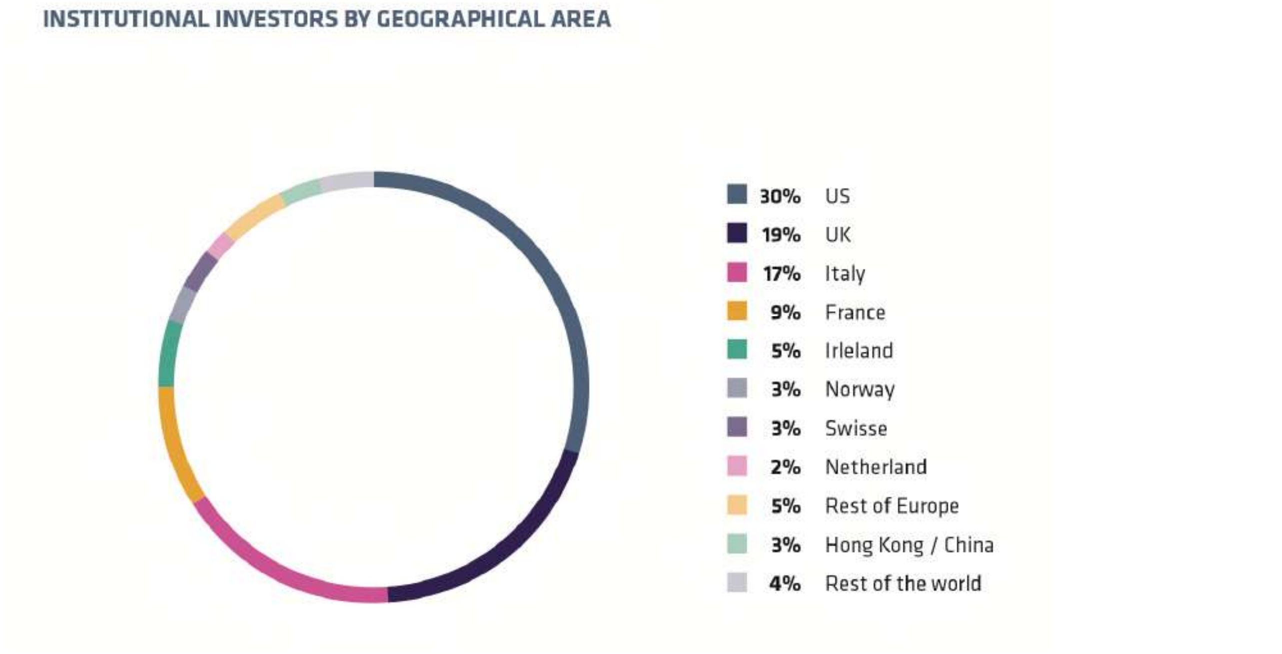
At 31 December 2016, the Company's free float was equal to 100% of the outstanding shares and major shareholdings (in excess of 3%) accounted for approximately 12% of total share capital, meaning there were no majority or controlling interests. Prysmian is now one of Italy's few globally present industrial concerns to have achieved true Public Company status in recent years.

At 31 December 2016, the share capital of Prysmian S.p.A. amounted to Euro 21,672,092.20, comprising 216,720,922 ordinary shares with a nominal value of Euro 0.1 each. The ownership structure at this date is shown below.

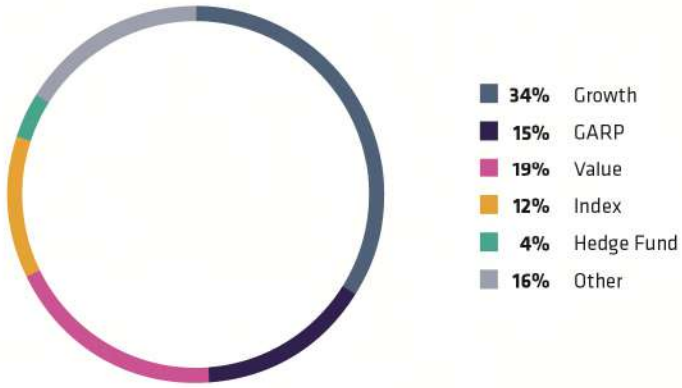


Source: Nasdaq OMX, December 2016 (Ownership structure by type); Thomson One public sources; CONSOB, January 2017 (Major shareholders with over 3%); Consob Form 120B received by the company on 18/01/2017.

* Mainly includes shares held by non-institutional investors and shares with third-party custodians held for trading.



INSTITUTIONAL INVESTORS BY INVESTMENT APPROACH



Source: Nasdaq OMX December 2016

The geographical ownership structure confirms the predominant presence of the United States, whose investors hold 30% of the institutional investor total, slightly down from 2015, followed by the United Kingdom, which accounted for 19% at the end of 2016, up from 2015. At the end of 2016 Italy accounted for 17% of the capital held by institutional investors, up since 2015, like France, whose share reached 9% of the institutional investor total. The proportion of Asian investors was stable.

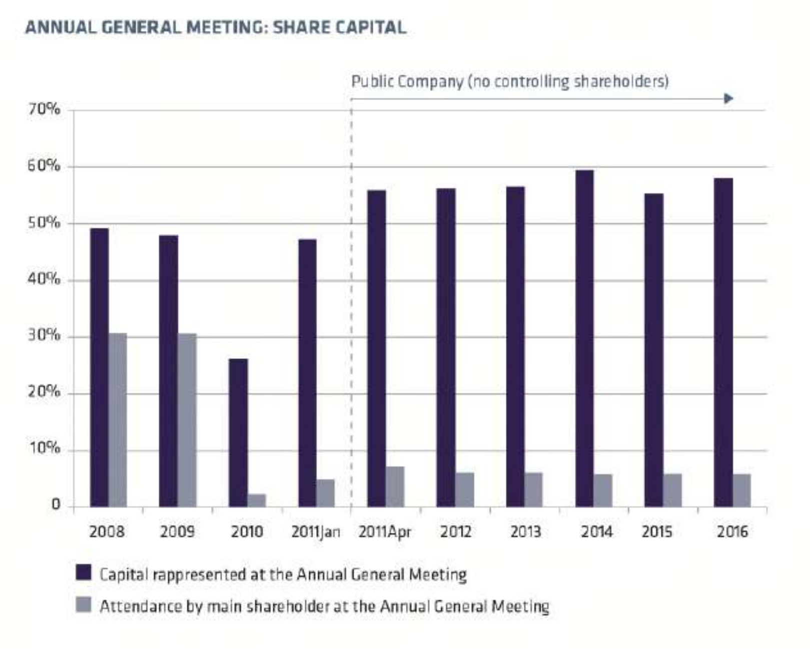
Approximately 68% of the share capital held by institutional investors is represented by investment funds with Value, Growth or GARP strategies, therefore focused on a medium to long-term investment horizon. The proportion of investors adopting an Index investment strategy, based on the principal stock indexes, was down from the previous year, while the Hedge Fund component, focused on a shorter time horizon, increased its weight to 4% of the total.

Clubtre S.p.A., the Group's main shareholder after the exit of Goldman Sachs, has reduced its holding to 4.01% after selling 4 million shares through an accelerated bookbuild. Tamburi Investment Partners, owner of 43.28% of Clubtre S.p.A., has issued a statement saying that this transaction is a partial realisation of the major investment made in 2010, and that it will continue to hold a significant holding in Prysmian through Clubtre.

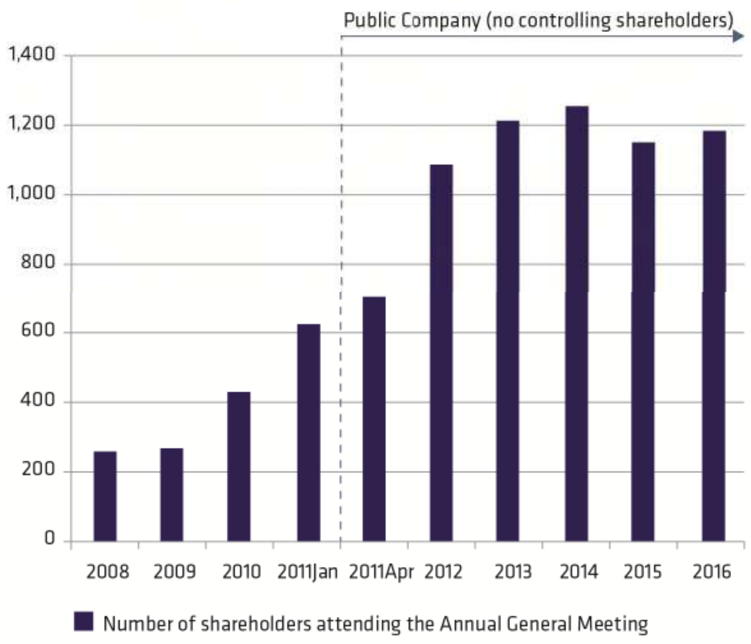
ANNUAL GENERAL MEETING

The Annual General Meeting saw participation by over 57% of share capital, with more than 1,000 shareholders present, in person or by proxy.

The Annual General Meeting of the shareholders of Prysmian S.p.A. was held on 13 April 2016 in single call to vote on several agenda items, including approval of the 2015 financial statements, allocation of profit for the year and declaration of a dividend, appointment of the Board of Statutory Auditors and its Chairman for the period 2016-2018, emoluments of members of the Board of Statutory Auditors, authorisation of a share buyback programme, approval of the employee share purchase plan, and consultation on remuneration policies. The meeting, which was attended by over one thousand shareholders, in person or by proxy, representing more than 57% of the share capital, approved every item on the agenda by a large majority (more than 95%); with reference to the appointment of the Board of Statutory Auditors and its Chairman, over 80% of the votes cast at the meeting went to Slate no. 1 presented by the shareholder Clubtre S.p.A., while Slate no. 2, presented by shareholders representing asset management companies and institutional investors, received around 14.6% of the total votes represented at the meeting.
The Annual General Meeting also approved the declaration of a dividend of Euro 0.42 per share, in line with the amount distributed the previous year. The dividend was paid on 20 April 2016, involving a total pay-out of approximately Euro 90 million.



ANNUAL GENERAL MEETING: NUMBER OF ATTENDEES IN PERSON OR BY PROXY



FINANCIAL CALENDAR 2017

01 March 2017	Group Annual Report and draft Annual Report of Prysmian S.p.A. at 31 December 2016
12 April 2017	Annual General Meeting to approve Annual Report at 31 December 2016
10 May 2017	First-Quarter Report at 31 March 2017
27 July 2017	Half-Year Report at 30 June 2017
7 November 2017	Third – Quarter Report at 30 September 2017

FINANCIAL MARKET PERFORMANCE

On the whole, 2016 showed a stabilisation in the global macro environment, with slowdown in the United States offset by a recovery in emerging economies and a stabilisation of growth in Europe.

Prysmian S.p.A. was floated on the Italian Stock Exchange on 3 May 2007 and since September 2007 has been included in the FTSE MIB index, comprising the top 40 Italian companies by capitalisation and stock liquidity. The Prysmian stock has since entered the principal world and sector indexes, including the Morgan Stanley Capital International index and the Dow Jones Stoxx 600, made up of the world's largest companies by capitalisation, and the FTSE ECPI Italia SRI Leaders, composed of a select basket of stocks of Italian companies that demonstrate excellent Environmental, Social and Governance (ESG) practice.

World economic growth in 2016 was in line with the previous year, albeit with a distribution geographically. The United States saw a sharp reduction in growth, mainly caused by the oil crisis and further appreciation of the dollar against other world currencies. Growth in the major Eurozone economies stagnated, confirming

the levels of 2015, while Britain experienced a slowdown due to a number of factors including the June vote to leave the European Union (Brexit).
The contribution to global growth by the major emerging economies improved slightly on 2015, mainly thanks to recovery in the macroeconomic situation in Russia and Brazil, while oil and commodity-exporting countries in Africa and the Middle East were affected by the decline in oil prices. The rate of Chinese economic growth slid yet again over the course of 2016, but remained within the government's growth targets thanks to its support for the housing market and infrastructure investment.

The main European stock indexes had a mixed trend, with the markets of Southern Europe (FTSE MIB -10.2%; IBEX -2.0%) weaker than those of the centre–north (CAC40 +4.0%, DAX +6.9%). In the US, the Dow Jones Industrial grew by 13.4% while the Nasdaq rose by 7.5%, both to record highs. Among the major emerging country indexes, the Brazilian market index (Bovespa) recorded a 38.9% increase, reflecting expectations for an economic rebound in 2017 after more than two years of recession. In China, the Hong Kong Hang Seng index remained largely unchanged during the year (+0.4%), while the Shanghai Shenzhen index (A Shares) lost 14.7% in the aftermath of the speculative stockmarket bubble burst of 2015.
The Prysmian stock appreciated 20.4% over the course of 2016, climbing from Euro 20.26 at 30 December 2015 to Euro 24.40 at the end of 2016. On 29 December 2016, the stock price reached Euro 24.42, its highest since listing, while the average price over the twelve months was Euro 20.93, also its highest ever. The stock's performance, including dividend pay-outs (total shareholder return), was +22.5% over the course of 2016 and +84.7% since listing. Excluding the contribution of dividends, the stock's appreciation was +20.4% in 2016 and +62.7% since listing.
The Prysmian stock's strong performance in 2016 was supported by the solidity of the Group's results (both in terms of organic growth and profitability) as well as its consistent ability to generate cash and pay dividends. The Prysmian stock has outperformed the principal benchmark indexes both in 2016 and in the period since its listing. In fact, the Euro Stoxx Industrial index reported a gain of 11.1% over the year and a loss of 9.4% since the Prysmian listing date, while the FTSE MIB reported a loss of 10.2% during 2016 and a loss of 56.1% since the IPO.
Looking at the stock's performance over the year, its appreciation was mainly concentrated in the second half of the year, after a slight retreat in the first six months. In particular, in the first quarter the stock price fell by 1.7%, nonetheless outperforming the FTSE MIB in the same period (-15.4%), while the Euro Stoxx Industrial lost 1.1%. The cautious attitude of markets in the early part of the year was due to increasing uncertainty over the growth prospects for some emerging countries and to downward pressure on commodity prices. In this context, the Prysmian stock benefited from the presentation in the first quarter of a strong, better-than-expected set of annual results for 2015.
After a small initial second-quarter recovery, European stock markets were impacted by the results of Britain's referendum on 23 June 2016, expressing this Anglo-Saxon country's desire to leave the European Union. This outcome came as a surprise to European markets, which reacted negatively to the news, hypothesising serious economic and political repercussions for the continent's major economies. The Prysmian stock limited its losses in the quarter to -1.4% compared with -8.9% for the FTSE MIB and -3.0% for the Euro Stoxx Industrial. This was due not only to the fact that the Prysmian stock is perceived as a safe

haven by investors against an uncertain economic and political backdrop, but also to its good quarterly results and the announcement of 2016 guidance in line with market expectations. During the third quarter the Prysmian stock achieved its best performance of the year, climbing 18.7% from Euro 19.64 at 30 June 2016 to Euro 23.19 at 30 September 2016. During the quarter, the stock benefited from the market's renewed confidence in the industrial sector, as also reflected in the recovery by the Euro Stoxx Industrial index (+9.7%), and from a positive reaction to the release of the Group's first-half results. The positive trend in the Prysmian stock price continued in the fourth quarter (+4.6%), supported by the recovery in the FTSE MIB after the constitutional referendum on 4 December 2016 (FTSE MIB +17.3%) and by another solid set of quarterly results.

The robustness of its results and growth expectations have allowed Prysmian to maintain a strong market appeal, confirmed by financial analyst recommendations at year end, of which 73% were "buy" and the remainder "hold". The Prysmian stock therefore closed 2016 at a price of Euro 24.40, up 20.4% from Euro 20.26 at 30 December 2015, and 62.7% higher than its original IPO price.

PERFORMANCE OF PRYSMIAN STOCK SINCE IPO

During 2016, the stock's liquidity reported average daily trading volumes of approximately 1.0 million shares, with an average daily turnover of Euro 20 million.

PRYSMIAN STOCK: PRINCIPAL DATA

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007*
Price at 31 December	24,40 €	20,26 €	15,15 €	18,71 €	15,01 €	9,60 €	12,75 €	12,19 €	11,10 €	16,89 €
Change over period	20,4%	33,7%	-19,0%	24,7%	56,4%	-24,7%	4,6%	9,8%	-34,3%	12,6%
Average price	20,93 €	19,10 €	16,38 €	16,68 €	13,00 €	12,90 €	13,13 €	10,60 €	13,76 €	18,36 €
Maximum price	24,42 €	22,23 €	19,54 €	19,30 €	15,43 €	15,95 €	15,81 €	13,84 €	18,54 €	21,00 €
Minimum price	16,45 €	14,43 €	12,78 €	14,03 €	9,77 €	9,25 €	11,27 €	6,10 €	6,21 €	15,34 €
Market capitalization at period end	5,288 Mil €	4,319 Mil €	3,283 Mil €	4,015 Mil €	3,220 Mil €	2,057 Mil €	2,321 Mil €	2,209 Mil €	2,004 Mil €	3,040 Mil €
Average capitalization	4,536 Mil €	4,140 Mil €	3,521 Mil €	3,578 Mil €	2,787 Mil €	2,701 Mil €	2,388 Mil €	1,918 Mil €	2,482 Mil €	3,305 Mil €
Average daily trading volume	1,0 Mil	1,4 Mil	1,4 Mil	1,2 Mil	1,5 Mil	2,2 Mil	2,3 Mil	1,9 Mil	1,3 Mil	1,0 Mil
Average daily turnover	20 Mil €	27 Mil €	23 Mil €	20 Mil €	20 Mil €	28 Mil €	30 Mil €	19 Mil €	18 Mil €	17 Mil €
Number of shares at 31 December	216.720.922	216.720.922	216.712.397	214.591.710	214.508.781	214.393.481	182.029.302	181.235.039	180.546.227	180.000.000

* Period of reference: 3 May (stock listing date) – 31 December 2007
Source: data processing Nasdaq OMX.

Source: Nasdaq OMX data

INVESTOR RELATIONS

Transparency in communication, growth in market confidence in the company and promotion of a long-term investment approach to its stock.

Creating value for shareholders, and other stakeholders, is a key priority for Prysmian, whose policy of strategic and financial communication is directed towards the highest standards of accuracy, clarity and transparency. Its actions and procedures are designed to provide the market with credible information, with the goal of boosting market confidence in the group by seeking to encourage a long-term investment approach, avoiding unequal access to information and ensuring effective compliance with the principle that all existing and potential investors have the right to receive the same information so as to make informed investment decisions.

On occasion of the publication of its quarterly results, Prysmian organises conference calls with institutional investors and financial analysts and also invites industry press representatives to take part. In addition, it promptly informs existing and potential shareholders of any action or decision that could have a material impact on their investment.

There was intense contact with the financial market during 2016, with more than 400 encounters involving conference calls and one-to-one or group meetings at Prysmian's offices. Prysmian also undertook numerous road shows in the major financial centres of Europe and North America, and took part in conferences organised by major international brokers. In addition, the increasing attention paid to the Group's activities by socially responsible investors (SRI) was confirmed by their growing number at SRI dedicated meetings and road shows. Lastly, the Group organised several visits during the year for institutional investors and financial analysts to see its production facilities and R&D centres, in order to give them a deeper understanding of its products and production processes.

Coverage of the Prysmian stock remained very high and geographically diversified. There are 23 independent analysts who regularly cover the Prysmian stock: Banca Akros, Banca Aletti, Banca IMI, Banca Profilo, Barclays Capital, Berenberg, BofA Merrill Lynch, Citi, Credit Suisse, Equita, Espirito Santo, Exane BNP Paribas, Fidentiis, Goldman Sachs, Hammer Partners, HSBC, Intermonte, JP Morgan, Kepler Cheuvreux, Mediobanca, Morgan Stanley, Natixis and UBS.

The Investor Relations office has also maintained regular contacts with institutional investors through the group website **www.prysmiangroup.com**, which contains recordings of conference calls and presentations to the financial community, corporate documents, press releases and all other information concerning the Group, in both English and Italian. The Investor Relations section also includes the financial calendar, documents relating to shareholders' meetings, the Code of Ethics, the contact details of analysts who cover the stock as well as specific sections about Corporate Governance, Risk Factors and Share Performance.

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SIGNIFICANT EVENTS DURING THE YEAR

NEW INDUSTRIAL PROJECTS AND INITIATIVES

On 1 February 2016, the Group was awarded a new contract worth around Euro 250 million for an HVDC (High Voltage Direct Current) submarine link between the Netherlands and Denmark, by TenneT TSO B.V. and Energinet.dk SOV, the respective operators of the Dutch and Danish power transmission grids. The project, known as COBRAcable ("COpenhagen BRussels Amsterdam" cable), will benefit the electricity grids in both countries concerned, by making Dutch capacity structurally available to Denmark and vice versa, by making the electricity supply more secure and by allowing connection to renewable energy sources at a later stage. The COBRAcable will contribute to the creation of a sustainable international energy landscape, a key aim of the European Union, which is supporting the project through the EEPR (European Energy Programme for Recovery). The cable will be constructed using HVDC technology, which minimises transmission losses over long distances. and is scheduled for delivery in the third quarter of 2018.

In June 2016, Terna Rete Italia S.p.A., an Italian power transmission grid operator, awarded the Group a contract worth around Euro 34 million (plus an option worth another Euro 25 million for a second cable system) for submarine power lines in the Venetian Lagoon.
The project, aimed at strengthening the high voltage power transmission network in the Venice area, involves two alternating current power lines, due for delivery in 2017.

In July 2016, the Group signed a contract with National Grid to supply Pry-Cam products for on-line condition assessment of electricity networks and for on-site manual diagnostics.
The contract involves the supply of 15 Pry-Cam Portable devices and 6 Pry-Cam Grids devices that National Grid will use on a trial basis for the on-line assessment and monitoring of operating conditions of its electricity transmission networks in England and Wales.
Pry-Cam is the innovative technology developed by the Group for assessing the operating conditions of electricity transmission networks and for managing them; it allows accurate and reliable on-line measurements of partial discharges, and diagnoses and localises faults, all with the purpose of gathering precise information about network conditions and of helping owners and operators to increase network uptime, longevity and safety, while reducing maintenance costs and risks.

MERGERS & ACQUISITIONS

Sale of 67% equity interest in Prysmian Baosheng Cable Co. Ltd

On 18 April 2016, Prysmian Group signed an agreement to sell 67% of the equity in Prysmian Baosheng Cable Co. to its joint venture partner Baosheng Group Ltd. for total consideration of RMB 300 million (approximately Euro 41 million). With the agreement's conditions precedent satisfied, the transaction's closing took place on 28 November 2016.

The transaction accounting date is 30 November 2016. The Group had already reclassified all this company's assets and liabilities as assets and liabilities held for sale in its Annual Financial Report at 31 December 2015. The transaction has resulted in the recognition of a capital gain of approximately Euro 14 million.

Acquisition of data cables business from Corning Optical Communications Gmbh & Co. KG.

On 13 May 2016, Prysmian Group completed an agreement to acquire a copper data cables business located in Neustadt (Germany) from Corning Optical Communications Gmbh & Co. KG., involving the realisation of a Euro 1 million receipt.

The investment will allow the Group to further expand its presence and intensify its growth strategy in the business of MultiMedia Solutions, by expanding its range of high-capacity and flexible cables for data transmission and data centres.

OTHER SIGNIFICANT EVENTS

Factory closures

On 29 January 2016, Prysmian Cables et Systèmes France presented the trade unions with a plan for the closure of the Angy factory, employing 74 people. The plan also envisaged investing in the nearby Draka Fileca factory in Sainte Geneviève, whose products serve the aviation industry, and which would result in the creation of 25 new jobs. At the same meeting, a plan was also presented to cease production at the Xoulces factory, employing 76 people, and to transfer this factory's accessories production activities to the nearby Neuf Pré factory, thereby creating a centre of accessories manufacturing excellence in a more suitable facility than at present, while also adding 38 new jobs to the previous workforce of 60.

Discussion of the related industrial and social plans has been completed with the signing of the relevant agreements.

On 17 June 2016, Prysmian Netherlands B.V. informed the trade unions and local union representatives of the intention to close the Delfzijl factory, a telecom cables manufacturing facility employing 82 people. The consultation process commenced on the same date and ended in September with the signing of the agreement for the social plan and acceptance of the factory's closure.

On 6 September 2016, Prysmian Denmark A/S informed the trade unions and union representatives of the intention to close the Brondby factory, employing 68 people in the manufacture of cables for the MultiMedia Solutions business. The social plan for the factory workers was signed during the month of September.

Creation of the OIL & GAS operating segment

In January 2016, the Group modified its organisational structure with the creation of a new OIL & GAS operating segment, incorporating the SURF, DHT and Oil & Gas Core cables businesses. The new organisational structure facilitates the creation of synergies between the businesses and allows major customers to be managed more efficiently.

Accordingly, the structure of "Segment Information" has been modified as from the first quarter of 2016 and in the current Annual Financial Report, with more details provided in the relevant section of the Explanatory Notes.

Dividend distribution

On 13 April 2016, the shareholders of Prysmian S.p.A. approved the financial statements for 2015 and the distribution of a gross dividend of Euro 0.42 per share, for a total of some Euro 90 million. The dividend was paid out on 20 April 2016 to shares outstanding on the record date of 19 April 2016, with the shares going ex-dividend on 18 April 2016.

Share buy-back and disposal programme

The Shareholders' Meeting held on 13 April 2016 authorised a share buy-back and disposal programme, revoking at the same time the previous authorisation under the shareholder resolution dated 16 April 2015. This programme provides the opportunity to purchase, on one or more occasions, a maximum number of ordinary shares whose total must not exceed, at any one time, 10% of share capital, equating to 18,964,916 ordinary shares as at the date of the Shareholders' Meeting, after deducting the treasury shares currently held. Purchases may not exceed the amount of undistributed earnings and available reserves reported in the most recently approved annual financial statements. The authorisation to buy back treasury shares will last for 18 months commencing from 13 April 2016, while the authorisation to dispose of treasury shares has no time limit.

New employee share purchase plan

The same Shareholders' Meeting held on 13 April 2016 also approved a share purchase plan reserved for employees of Prysmian S.p.A. and/or of its subsidiaries, including some of the Company's Directors, and granted the Board of Directors the relevant powers to establish and implement this plan.

The plan will offer the opportunity to purchase Prysmian's ordinary shares on preferential terms, with a maximum discount of 25% on the stock price, given in the form of treasury shares. The shares purchased will be subject to a retention period, during which they cannot be sold. The Plan contains purchase windows over the next three years.

The process of informing and explaining the plan to Group employees started in October 2016.

Acquisition of the assets of Shen Huan Cable

In December 2016, the Prysmian Group won a bankruptcy auction for the acquisition of certain assets of a high voltage cables factory in China previously operated by Shen Huan Cable Technology, for total consideration of around RMB 305 million (approximately Euro 42 million). This acquisition will significantly increase the Prysmian Group's competitiveness in the Chinese utilities market with greater operational flexibility, efficiency and technical developments.

BUSINESS ENVIRONMENT

MACROECONOMIC ENVIRONMENT

In 2016 the world economy recorded growth in line with the previous year, marked by a sharp slowdown in the United States, offset by recovery in some emerging countries (Russia, Brazil), and stabilisation in Europe and China.

The global macroeconomic environment showed modest growth in 2016, with expansionary trends in the more advanced economies progressively dwindling in the face of gradual recovery by some emerging economies.

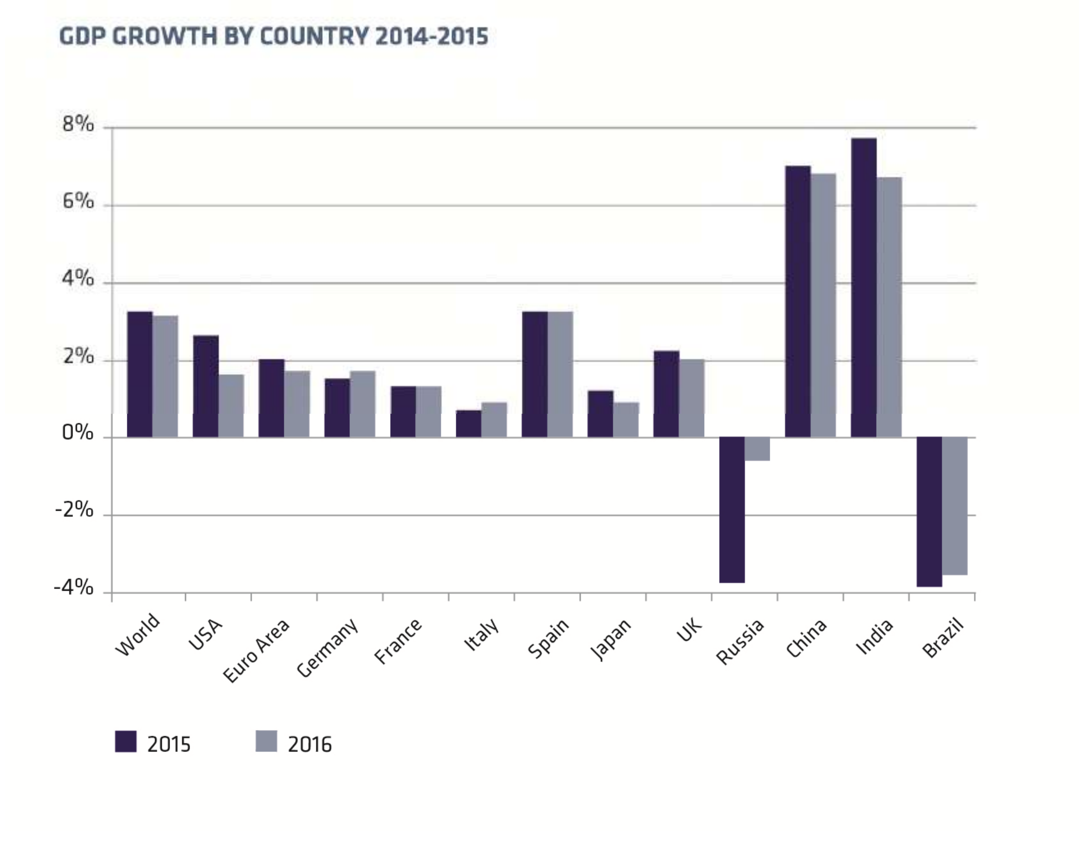
Eurozone economic growth remained sluggish, even though the expansionary monetary policy promoted by the European Central Bank continued to be in place throughout 2016. In particular, in the second half of the year, the uncertainty ensuing Britain's June vote to leave the European Union (Brexit) undermined confidence in the expected consolidation of the upturn emerging in 2015. The constitutional referendum held in Italy on 4 December 2016, combined with the crisis in some of the nation's financial institutions, helped increase the level of domestic uncertainty, which was reflected in a substantial hike in interest rates in the last months of the year.

While remaining positive, the US growth rate declined by more than expected, especially in the first part of 2016, affected by the inevitable slowdown in the oil industry as well as by the impact on exports of the dollar's appreciation against major world currencies.

China continued its transition from an export-driven industrial economy to a service economy, more oriented to supporting domestic consumption. This involved an inevitable slowdown in industrial activity and investment, thus affecting short-term economic growth and prices of raw materials used in the main industrial processes. The stimulus package implemented by the government in support of the housing market and infrastructure investment allowed the country to meet its growth objectives.

Global GDP grew by +3.1%* year-on-year (compared with +3.2%* and +3.4%* in 2015 and 2014 respectively), reflecting a sharp slowdown in growth in advanced economies from +2.1%* in 2015 to 1.6%* in 2016 and a general stabilisation in growth in emerging economies at +4.1%*. Chinese economic growth went from +6.9%* in 2015 to 6.7%* in 2016, in line with government targets, thanks to the government's introduction of a series of important measures to support the housing market and infrastructure investment, benefiting growth in the second half of the year. India continued to grow fast thanks to the renewal of international trade treaties and to important reforms deployed by the government. Completing the picture of emerging countries are Brazil, where the first signs of recovery were glimpsed in the second half of the year thanks to newfound political stability, and Russia, where growth went from -3.7%* in 2015 to -0.6%* in 2016 thanks to government intervention to stabilise the economy after the shock suffered in 2015 through the combination of energy price collapse and introduction of international sanctions following the crisis in Ukraine. The US economy reported a marked slowdown, with growth dipping from +2.6%* in 2015 to +1.6%* in 2016, reflecting the effects of the oil industry crisis and of a stronger dollar on exports.

In Europe, economic growth gradually stabilised although impacted in the second half of the year by Britain's vote to leave the European Union and by the uncertainty surrounding the constitutional referendum in Italy. Eurozone growth stabilised at +1.7%* in 2016, down from 2.0% in 2015, with some countries broadly in line with the 2015 trend (France +1.3%*, Spain +3.2%*), and others slightly up on 2015 (Germany improved from +1.5%* to +1.7%* in 2016; Italy from +0.7%* to +0.9%* in 2016). Outside the Eurozone, growth in Britain slowed from +2.2%* in 2015 to +2.0%* in 2016, partly reflecting the negative impact of the June pro-Brexit vote.



* Source: IMF, World Economic Outlook Update – January 2017

CABLE INDUSTRY TRENDS

Global demand for cables showed a moderate increase in 2016, driven by increased volumes in China, India and other emerging economies in Asia, while the Brazilian market continued to see a steep decline. Global demand for optical cables continued to grow, supported by a dynamic Chinese market.

Global demand for power cables in 2016 saw a modest increase in volumes on the previous year, mainly driven by a volume recovery in Russia and resilient demand in emerging Asian countries, as partially tempered by a steep drop in demand in Brazil. Telecom cable sales were marginally higher than in 2015, thanks to double-digit growth in optical cable volumes, while the copper cables market continued to shrink but by less than in 2015. In fact, the latter benefited from strong recovery of volumes in Russia and emerging Asian countries, mitigated by extremely poor performance in Brazil.

Geographically, Russia is the largest source of disparity with 2015, in both the power and telecom cables sectors, thanks to stabilisation in its macroeconomic environment following the shock suffered in 2015 from international trade sanctions and the collapse in energy prices.

Emerging Asian countries (such as China, India, Indonesia, Malaysia) were the main engine of 2016 growth in global demand for power cables, with above-average volume growth compared with the rest of the world. In Europe and the US, demand for power cables stabilised in the course of 2016, reflecting trends in the main economic indicators and industrial output. The optical cables market continued to expand strongly in the US, while remaining largely stable in Western Europe, albeit with differing trends between the various countries. Lastly, the difficult situation in Brazil persisted, affected by slowing industrial activity and investment cutbacks.

The various segments of the market had a mixed performance in 2016, featuring strong expansion by optical fibre cables, general stability in the high voltage underground and weakening demand in Europe for medium and low voltage cables. The optical fibre cables market benefited from growing demand for data transmission capacity, making it essential to upgrade existing network infrastructure, like in Italy, France, Spain and the United Kingdom where the existing network is still predominantly made up of copper cables. Global demand for optical fibre cables also benefited from growing investments by China, the world's largest market by volume, and from sustained growth in the US market, where new players (content providers) are emerging with projects for ultra-high speed dedicated networks.

The submarine cables market shrank compared with 2015, mainly due to contingent factors related to the postponement of some projects to 2017; the mix of projects awarded during the year was more skewed towards offshore wind projects, while in 2015 the market was dominated by interconnection projects. The Prysmian Group was confirmed as market leader in this segment after winning the largest contract up for tender in 2016, namely COBRAcable linking Denmark and the Netherlands, worth a total of approximately Euro 250 million. In a broadly stable market for high voltage underground cables, the Group retained its market share in Europe and North America, but experienced a temporary slowdown in new contracts in China due to industrial reorganisation carried out during the year.

The industrial applications business saw a mixed trend for the different market niches. While the Elevator and mass transport businesses posted attractive growth rates, applications for port cranes, mining and nuclear power stations slowed due to a global reduction in investment in these sectors.

Applications for the Oil & Gas segment were negatively impacted by the decline in tendering for new development projects both onshore and offshore, due to the widespread oil industry crisis with oil prices at their lowest level in more than 10 years. The T&I building wires business posted a moderate decline in the second half of the year, mainly due to lower demand in central and southern European countries and to a significant reduction in volumes in Brazil, while the Nordics continued to grow even if more slowly than in 2015. The fibre optical cables market maintained a solid growth trend during 2016, especially in North America and Australia, benefiting from growing investments by both public and private operators to increase the level of broadband coverage in outlying areas and to meet growing demands for widespread interconnection. The multimedia (MMS) business benefited from a rapidly expanding market for indoor communication systems such as data centres, enterprise networks and mobile phone data transmission systems.

GROUP PERFORMANCE AND RESULTS

FINANCIAL PERFORMANCE

(in millions of Euro)

	2016	2015	% change	2014
Sales	7,567	7,361	2.8%	6,840
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**680**	**584**	**16.4%**	**466**
% of sales	9.0%	7.9%		6.8%
Adjusted EBITDA	**711**	**623**	**14.1%**	**509**
% of sales	9.4%	8.5%		7.4%
EBITDA	**645**	**622**	**3.6%**	**496**
% of sales	8.5%	8.4%		7.2%
Fair value change in metal derivatives	54	(27)		7
Fair value stock options	(49)	(25)		(3)
Amortisation, depreciation, impairment and impairment reversal	(203)	(171)		(188)
Operating income	**447**	**399**	**11.5%**	**312**
% of sales	5.9%	5.4%		4.5%
Net finance income/(costs)	(79)	(89)		(140)
Profit/(loss) before taxes	**368**	**310**	**18.7%**	**172**
% of sales	4.9%	4.2%		2.5%
Taxes	(106)	(96)		(57)
Net profit/(loss) for the year	**262**	**214**	**22.4%**	**115**
% of sales	3.5%	2.9%		1.7%
Attributable to:				
Owners of the parent	246	214		115
Non-controlling interests	16	-		-

Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA

Operating income (A)	**447**	**399**	**11.5%**	**312**
EBITDA (B)	**645**	**622**	**3.6%**	**496**
Adjustments:				
Company reorganisation	50	48		40
Non-recurring expenses/(income):				
Antitrust	(1)	(29)		(31)
Other non-operating expenses/(income)	17	(18)		4
Total adjustments (C)	**66**	**1**		**13**
Fair value change in metal derivatives (D)	(54)	27		(7)
Fair value stock options (E)	49	25		3
Asset impairment and impairment reversal (F)	30	21		44
Adjusted operating income (A+C+D+E+F)	**538**	**473**	**13.7%**	**365**
Adjusted EBITDA (B+C)	**711**	**623**	**14.1%**	**509**

During 2016 the Group recorded a considerable growth in profitability and good resilience in its sales volumes. In particular, the Submarine and High Voltage businesses within the Energy Projects segment enjoyed a very positive year-on-year performance, also considering that their 2015 figures had benefited from a Euro 24 million positive effect in connection with the Western Link project. However, the new OIL & GAS segment reported a steep downturn compared with 2015, particularly in the business of Oil & Gas Core cables, while the reduction in earnings was more moderate for the SURF business, which compared with the previous year included Gulf Coast Downhole Technologies (GCDT), a company acquired in September 2015.

The Energy Products segment saw the E&I business grow as a result of acquiring a majority stake in Oman Cables Industry (SAOG). Excluding this effect, segment profitability would have declined during the year, mainly due to weaker performance by Trade & Installers as partially mitigated by the resilience of Power Distribution in the first half of the year. The Industrial business posted a strong performance by Elevators, with Automotive and Network Components largely in line with the previous year but OEM in retreat. The Telecom segment had a good year growth thanks to demand for optical fibre cables and copper cables.

The Group's sales in 2016 came to Euro 7,567 million, compared with Euro 7,361 million in 2015, posting a positive change of Euro 206 million (+2.8%).

The growth in sales was attributable to the following factors:

- increase associated with full-year consolidation of Oman Cables Industry (SAOG) for Euro 537 million, Gulf Coast Downhole Technologies (GCDT) for Euro 17 million and the data cables business acquired from Corning Optical Communications Gmbh & Co. KG. for Euro 7 million; decrease due to the disposal of the Chinese companies NK Wuhan for Euro 5 million and Prysmian Baosheng Cable co. for Euro 9 million, translating into an overall 7.4% net increase associated with acquisitions and disposals;
- increase of Euro 73 million (+1.0%) from organic growth;
- decrease of Euro 203 million (-2.7%) linked to unfavourable exchange rate movements;
- sales price erosion of Euro 211 million (-2.9%) following metal price fluctuations (copper, aluminium and lead).

The organic growth in sales of +1.0% is analysed between the four operating segments as follows:

Energy Projects	+18.5%;
OIL & GAS	-29.3%;
Energy Products	+3.6%;
Telecom	+8.5%.

Group Adjusted EBITDA (before Euro 64 million in net expenses for company reorganisation, net non-recurring expenses and other net non-operating expenses) came to Euro 711 million, posting an increase of Euro 88 million on the corresponding figure in 2015 of Euro 623 million (+14.1%). Adjusted EBITDA for 2016 reflects the negative impact of Euro 23 million in exchange rate effects compared with 2015, resulting from weakening in the British Pound, Turkish Lira, Argentine Peso and Chinese Renminbi.

EBITDA includes net expenses for company reorganisation, net non-recurring expenses and other net non-operating expenses, totalling Euro 66 million (Euro 1 million in 2015). Such adjustments in 2016 mainly comprise costs for reorganising and improving efficiency, as well as the effect of releasing the inventory revaluation for Oman Cables Industry (SAOG) under IFRS 3 accounting, the positive effect of recognising badwill arising from the acquisition of the data cables business from Corning Optical Communications Gmbh & Co. KG and the gain realised on disposing of Prysmian Baosheng Cable Co.

Group operating income came to Euro 447 million in 2016, compared with Euro 399 million in 2015, posting an increase of Euro 48 million.

Net finance costs came to Euro 79 million in 2016, down from Euro 89 million (-11.2%) in the previous year. The reduction of Euro 10 million is mainly attributable to lower finance costs associated with improved efficiency of the financial structure.

Taxes came to Euro 106 million, representing an effective tax rate of around 29%.

Net profit was Euro 262 million (of which Euro 246 million attributable to the Group and Euro 16 million to non-controlling interests), compared with Euro 214 million in 2015.

REVIEW OF ENERGY PROJECTS OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	1,634	1,416	15.4%	1,241
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**260**	**221**	**17.6%**	**140**
% of sales	15.9%	15.6%		11.2%
Adjusted EBITDA	**260**	**221**	**17.6%**	**140**
% of sales	15.9%	15.6%		11.2%
EBITDA	**275**	**247**	**11.4%**	**190**
% of sales	16.8%	17.4%		15.3%
Amortisation and depreciation	(36)	(34)		(28)
Adjusted operating income	**224**	**187**	**19.6%**	**112**
% of sales	13.7%	13.2%		8.9%

Reconciliation of EBITDA to Adjusted EBITDA

EBITDA (A)	**275**	**247**	**11.3%**	**190**
Adjustments:				
Company reorganisation	-	3		-
Non-recurring expenses/(income):				
Antitrust	(1)	(29)		(31)
Other non-operating expenses/(income)	(14)			(19)
Total adjustments (B)	**(15)**	**(26)**		**(50)**
Adjusted EBITDA (A+B)	**260**	**221**	**17.6%**	**140**

The Energy Projects Operating Segment incorporates the high-tech High Voltage underground and Submarine businesses, focused on projects and their execution, as well as on product customisation.

The Group engineers, produces and installs high and extra high voltage cables for electricity transmission both from power stations and within transmission and primary distribution grids. These highly specialised, tech-driven products include cables insulated with oil or fluid-impregnated paper for voltages up to 1100 kV and extruded polymer insulated cables for voltages up to 600 kV. These are complemented by laying and post-laying services, grid monitoring and preventive maintenance services, power line repair and maintenance services, as well as emergency services, including intervention in the event of damage.

In addition, Prysmian Group engineers, produces and installs "turnkey" submarine cable systems for power transmission and distribution. The products offered include cables with different types of insulation: cables insulated with layers of oil or fluid-impregnated paper for AC and DC transmission up to 700 kV; cables insulated with extruded polymer for AC transmission up to 400 kV and DC transmission up to 600 kV. The Group offers specific technological solutions for power transmission and distribution in underwater environments, which also satisfy the strictest international standards.

MARKET OVERVIEW

The submarine cables business saw a fall in market demand in 2016 compared with the previous year. In future years, the market is expected to be stable at around Euro 2-2.5 billion per year. Demand for offshore wind farm projects confirmed the stabilising trend emerging late in 2013 (after the boom in 2011, 2012 and part of 2013), as a consequence of the high overall implementation costs of such projects and their subsequent transfer to the end consumer. The market continued to be dominated by a few large global players who were awarded almost all of the projects up for tender. The much more fragmented medium voltage segment of the market slowed, with all suppliers exposed to the weak market for inter-array connections.

Demand in the high voltage underground business was essentially stable in the mature markets of Europe and North America. The imbalance between high production capacity and limited demand continued to exert pressure on prices in these markets. By contrast, demand continued to grow in the Middle and Far East, where prices and profitability nonetheless remained well below those in mature markets due to competition from local manufacturers and importers.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy Projects segment amounted to Euro 1,634 million in 2016, compared with Euro 1,416 million in 2015, posting a positive change of Euro 218 million (+15.4%).

The increase in sales can be broken down into the following main factors:

- positive organic growth of Euro 262 million (+18.5%);
- reduction of Euro 26 million (-1.8%) for exchange rate fluctuations;
- sales price reduction of Euro 10 million (-0.7%) for metal price fluctuations;
- decrease of Euro 8 million (-0.6%) due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016.

Organic sales growth in 2016 can be attributed to the significant upsurge in the *Submarine* business, accompanied by a good performance for the *High Voltage* business, also considering that the 2015 figure had benefited from a Euro 24 million positive effect in connection with the Western Link contract.

High Voltage performed well in North America and the Far East, particularly in China, but its performance was below par in all the major European markets, except France, because of lower demand for energy infrastructure.

Demand in Russia was still weak due to continued uncertainty in the local political situation, which delayed the implementation of previously planned major projects.

Sales by the *Submarine* business were sharply up on the previous year thanks to the sustained level of work on existing contracts.

The main projects on which work was performed in the period were the interconnector between Greece and the Cyclades islands, the link between Italy and Montenegro, the second interconnector across the Dardanelles Strait, completion of the link between Sicily and Calabria, the links between offshore wind farms

in the North and Baltic Seas and the German mainland (DolWin3, 50Hertz), the Western HVDC Link in the United Kingdom and the interconnection of the Philippine islands of Panay and Negros.
The main contribution to full-year sales came in equal measure from cable manufacturing by the Group's industrial facilities (Pikkala in Finland, Arco Felice in Italy and Drammen in Norway) and from installation services.

The value of the Group's *Submarine* order book is around Euro 2 billion, ensuring sales visibility for a period of about two years. The order book mainly consists of the following contracts: the link between Montenegro and Italy (Monita); the interconnector between Norway and Britain (North Sea Link); the CoBRA cable between the Netherlands and Denmark; inter-array and export cables for offshore wind platforms (Deutsche Bucht); links between offshore wind farms in the North and Baltic Seas and the German mainland (BorWin3, DolWin3, 50Hertz); the interconnector between England and Scotland (Western HVDC Link); and the Hainan2 project awarded in China.
The value of the Group's High Voltage Underground order book is around Euro 350 million.

Adjusted EBITDA for 2016 came to Euro 260 million, up Euro 39 million (+17.6%) from Euro 221 million in 2015.

REVIEW OF ENERGY PRODUCTS OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	4,469	4,415	1.2%	4,223
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**277**	**234**	**18.3%**	**210**
% of sales	6.2%	5.3%		5.0%
Adjusted EBITDA	**280**	**252**	**10.9%**	**228**
% of sales	6.3%	5.7%		5.4%
EBITDA	**216**	**264**	**-18.5%**	**184**
% of sales	4.8%	6.0%		4.4%
Amortisation and depreciation	(82)	(59)	39.8%	(58)
Adjusted operating income	**198**	**193**	**2.1%**	**170**
% of sales	**4.4%**	**4.4%**		**4.0%**

Reconciliation of EBITDA to Adjusted EBITDA

	2016	2015	% change	2014
EBITDA (A)	**216**	**264**	**-18.5%**	**184**
Adjustments:				
Company reorganisation	38	21		35
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	26	(33)		9
Total adjustments (B)	**64**	**(12)**		**44**
Adjusted EBITDA (A+B)	**280**	**252**	**10.9%**	**228**

The Energy Products Operating Segment, encompassing the businesses offering a complete and innovative product portfolio for a variety of industries, is organised into the businesses of Energy & Infrastructure (including Power Distribution, Trade & Installers) and Industrial & Network Components (comprising Specialties & OEM, Oil & Gas, Elevators, Automotive and Network Components).

Sales to third parties by the Energy Products operating segment amounted to Euro 4,469 million in 2016, compared with Euro 4,415 million in 2015, posting a positive change of Euro 54 million (+1.2%), due to the combined effect of the following main factors:

- increase of Euro 537 million (+12.2%) associated with the first-time consolidation of Oman Cables Industry (SAOG);
- decrease of Euro 1 million due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016;
- negative organic sales growth of Euro 160 million (-3.6%), reflecting growth in Oceania and some Asian countries, stability in Europe and a steep reduction in underlying sales in South America;
- decrease of Euro 139 million (-3.3%) linked to unfavourable exchange rate movements;
- sales price reduction of Euro 183 million (-4.1%) for metal price fluctuations.

Adjusted EBITDA for 2016 came to Euro 280 million, up Euro 28 million (+10.9%) from Euro 252 million in 2015.

The following paragraphs describe market trends and financial performance in each of the business areas of the Energy Products operating segment.

ENERGY & INFRASTRUCTURE

(in millions of Euro)

	2016	2015	% change	% organic sales change	2014
Sales	3,016	2,795	7.9%	-3.1%	2,677
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**152**	**111**	**37.0%**		**91**
% of sales	5.0%	4.0%			3.4%
Adjusted EBITDA	**154**	**128**	**20.1%**		**108**
% of sales	5.1%	4.6%			4.1%
Adjusted operating income	**92**	**93**	**-2.0%**		**74**
% of sales	3.0%	3.3%			2.8%

Prysmian produces high and medium voltage cable systems to connect industrial and/or civilian buildings to primary distribution grids and low voltage cables and systems for *power distribution* and the wiring of buildings. All the products offered comply with international standards regarding insulation, fire resistance, smoke emissions and halogen levels. The low voltage product portfolio includes rigid and flexible cables for distributing power to and within *residential and commercial buildings*. The Group concentrates product development and innovation activities on high performance cables, such as Fire-Resistant and Low Smoke zero Halogen cables, capable of guaranteeing specific safety standards. The product range has been recently expanded to satisfy cabling demands for infrastructure such as airports, ports and railway stations, by customers as diverse as international distributors, buying syndicates, installers and wholesalers.

MARKET OVERVIEW

The reference markets have distinct geographical characteristics (despite international product standards) both in terms of customer and supplier fragmentation and the range of items produced and sold.

The construction market, uncertainty about whose future prospects had paralysed buying plans of the industry's main players and exacerbated the pressure on sales prices during previous years, continued to stabilise in 2016 in line with the trend already emerging in the previous year.

This translated into a timid recovery in volumes in some European markets, such as Eastern Europe, the Nordic countries and United Kingdom, with demand in the rest of the continent remaining at a steady but low level accompanied by generally stable prices.

In South America, Brazil remained weak, with demand in line with the previous year, reflecting slowdown in the industrial and residential construction sectors and uncertainties about political stability.

Demand was up on the Australian construction market. The strong competitive pressures from Asian operators characterising the previous year started to retreat in the face of quality issues encountered with the latter; the market therefore rewarded local suppliers, also thanks to national campaigns on power cable safety.

The Power Distribution business saw a similar growth in demand in 2016 as in the previous year.

The trend in the principal European countries reflected generally stagnant energy consumption, which in turn adversely affected demand by the major utilities. The latter, operating in a recessionary economic environment, have either maintained an extremely cautious stance given the difficulty of forecasting future growth, or else they have concentrated on business restructuring to improve efficiency and reduce supply-side costs. As a result, the competitive environment in terms of price and mix remained extremely challenging almost everywhere.

However, investments to increase and improve distribution network performance started to resume, even on a major scale and already since the previous year, in some parts of Northern Europe, Oceania and some Asian countries.

FINANCIAL PERFORMANCE

Sales to third parties by the E&I business area amounted to Euro 3,016 million in 2016, compared with Euro 2,795 million in 2015, posting a positive change of Euro 221 million (+7.9%) due to the combined effect of the following main factors:

- increase of Euro 537 million (+19.2%) associated with first-time consolidation of Oman Cables Industry (SAOG);
- negative organic sales growth of Euro 86 million (-3.1%);
- reduction of Euro 104 million (-3.7%) for exchange rate fluctuations;
- sales price reduction of Euro 126 million (-4.5%) for metal price fluctuations.

Prysmian Group continued its strategy in the E&I business area of focusing on business relationships with top international customers and its development of tactical actions to avoid losing sales opportunities, by differentiating its offer in the various markets and by increasing its market share in specific geographical areas. This has led to a very complex commercial strategy, not only focused on improving the sales mix, but also aimed at regaining market share while seeking to minimise the impact on sales margins.

The Prysmian Group benefited from generally stable markets not only in North America, where volumes had already started to recover the previous year, especially thanks to growing demand for renewables (wind farms) in Canada for the part of the business served by distributors, but also in some European countries, where the market was invigorated by renewed infrastructure investments (for example in Finland), and from positive performance in Australia.

The rest of Europe remained largely stable with a contraction in low margin segments and price levels staying in line with previous quarters. The Group has undertaken industrial reorganisation programs to optimise production costs and thus raise profitability.

By contrast, the Group suffered in South America, with demand remaining negative due to a weak construction market and political uncertainty, and in Germany as a result of a revision to regulated utility tariffs.

Given the factors described above, Adjusted EBITDA for 2016 came to Euro 154 million, up from Euro 128 million in the previous year.

INDUSTRIAL & NETWORK COMPONENTS

(in millions of Euro)

	2016	2015	% change	% organic sales change	2014
Sales	1,343	1,499	-10.4%	-4.6%	1,440
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**126**	**121**	**4.2%**		**114**
% of sales	9.4%	8.1%			7.9%
Adjusted EBITDA	**127**	**122**	**4.2%**		**115**
% of sales	9.5%	8.1%			8.0%
Adjusted operating income	**108**	**100**	**8.4%**		**93**
% of sales	8.0%	6.7%			6.5%

The extensive range of cables developed specially for certain *industries* is characterised by the highly specific nature of the solutions offered. In the transport market, Prysmian cables are used in the construction of ships and trains, and in the automotive and aerospace industries; in the infrastructure market, the principal applications for its cables are found in railways, docks and airports. The product range also includes cables for the mining industry, for elevators and for applications in the renewable energy field (solar and wind power), cables for military use and for nuclear power stations, able to withstand the highest radiation environments.

Lastly, the Group produces accessories and *network components*, such as joints and terminations for low, medium, high and extra high voltage cables and submarine systems, to connect cables with one another and/or connect them with other network devices, suitable for industrial, construction and infrastructure applications and for use within power transmission and distribution grids.

MARKET OVERVIEW

Trends on Industrial cable markets in 2016 displayed considerable inconsistencies between the various business lines and large disparities between the different geographical areas. The common tendency was for more fragmented and erratic demand, concentrated on smaller scale but technologically more complex projects than in the past, accompanied by more exacting requirements regarding quality and after-sales service.

Within the Industrial market, some segments showed stable or growing demand, like certain OEM sectors (such as Defence and Marine), and the Elevator market, while demand in the renewable energy market generally grew in Germany and North America; however, other market segments experienced contracting

volumes due to delays in investment projects, like the low-end mining and infrastructure ranges for the OEM market, where demand depends on specific geographical factors, or the renewable energy sector in China, where 2016 demand was rather weak, with the major investments gradually shifting from production and installation towards grid connections. In particular, within the mining sector, demand was persistently weak, primarily due to falling commodity prices, significant production overcapacity and the reduction in investments.
The Elevator market saw growth in North America and in the APAC region, and an improving trend in Europe.
The Automotive market continued to enjoy growing demand almost everywhere, despite the build-up of competitive pressure especially in low-end segments, particularly in North and Central America and Europe.

FINANCIAL PERFORMANCE

Sales to third parties by the Industrial & Network Components business area amounted to Euro 1,343 million in 2016, compared with Euro 1,499 million in 2016, posting a negative change of Euro 156 million (-10.4%) due to the combined effect of the following main factors:

- decrease of Euro 1 million due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016.
- negative organic sales growth of Euro 69 million (-4.6%);
- decrease of Euro 31 million (-2.1%) for exchange rate fluctuations;
- sales price reduction of Euro 55 million (-3.7%) for metal price fluctuations.

Overall performance in 2016 by the industrial applications business was partially affected by the instability of investment demand in some sectors, while nonetheless maintaining geographical and application differentiation in view of the Group's wide range of specially developed products and the highly customised nature of its solutions.
In the OEM market, Prysmian Group reported a generally improving performance in North America and stability in Europe and Turkey but an extremely negative performance in South America due to the continuing economic crisis in Brazil and the sudden slowdown in investments in Argentina. As for the different sectors, good performance by the Defence and Marine businesses, with growth in the higher value-added order book, was partly offset by soft demand for Nuclear, Mining and Railway cables.
In the renewables business, the positive trend for the wind segment in Germany was entirely offset by segment weakness in China, where the Group has generally reduced its exposure for strategic reasons linked to the competitive environment and to the general slowing in market demand.
The strategy of technological specialisation of its solutions has allowed Prysmian Group to consolidate its Elevator market leadership in North America and to expand into the Chinese and European markets; its exposure to the European market in particular is still marginal although significantly greater than in the previous year.

The Automotive business reported a year-on-year improvement in margins, especially in APAC and Eastern Europe thanks to the benefits of reorganising its manufacturing footprint, as partially offset by the market downturn in South America.

Lastly, the Network Components business area recorded positive results for High Voltage and Submarine applications, also thanks to major projects in new markets (Mexico, Indonesia) and exports in general, which were partly neutralised by the downturn in sales in market segments serving the Oil & Gas industry.

Given the factors described above, Adjusted EBITDA for 2016 came to Euro 127 million, up from Euro 122 million in the previous year.

OTHER

(in millions of Euro)

	2016	2015	2014
Sales	110	121	106
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**(1)**	**2**	**5**
Adjusted EBITDA	**(1)**	**2**	**5**
Adjusted operating income	**(2)**	**-**	**3**

This business area encompasses occasional sales by Prysmian Group operating units of intermediate goods, raw materials or other products forming part of the production process. These sales are normally linked to local business situations, do not generate high margins and can vary in size from period to period.

REVIEW OF OIL & GAS OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	300	421	-28.9%	382
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**8**	**16**	**-49.0%**	**25**
% of sales	2.7%	3.8%		6.5%
Adjusted EBITDA	**8**	**16**	**-49.0%**	**25**
% of sales	2.7%	3.8%		6.5%
EBITDA	**8**	**-**		**16**
% of sales	2.7%	0.1%		4.1%
Amortisation and depreciation	(15)	(13)		(16)
Adjusted operating income	**(7)**	**3**		**9**
% of sales	**-2.4%**	**0.7%**		**2.4%**

Reconciliation of EBITDA to Adjusted EBITDA

	2016	2015	% change	2014
EBITDA (A)	**8**	**-**		**16**
Adjustments:				
Company reorganisation	2	13		-
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	(2)	3		9
Total adjustments (B)	**-**	**16**		**9**
Adjusted EBITDA (A+B)	**8**	**16**	**-49.0%**	**25**

The OIL & GAS operating segment encompasses the businesses of SURF (Subsea Umbilical, Riser and Flowline), DHT (Downhole Technology) and Oil & Gas Core cables (cables for Upstream, Midstream and Downstream applications) and is characterised by its focus on the oil industry.

Prysmian offers a wide range of products able to serve every onshore and offshore need, including the design and supply of: multipurpose umbilical systems (for power and data communications transmission and for hydraulic powering of wellheads by offshore platforms and/or by floating, production, storage and offloading vessels); flexible offshore pipes for transporting hydrocarbons; Downhole Technology (DHT) solutions, which include cables encased in insulated tubing to control and power systems inside extraction and production machinery both offshore and onshore.

The range of products for the OIL & GAS industry also includes low and medium voltage power cables, and instrumentation and control cables for offshore and onshore applications. The onshore product range is able to support applications in the Upstream, Midstream and Downstream segments.

MARKET OVERVIEW

The SURF business saw:

- a contraction in the umbilicals market in Brazil, as well as a reduction in demand for flexible pipes used in pre-salt fields, in which, however, the Group is not yet present. Demand for "post-salt" products, a sector in which Prysmian does compete, was also down;
- a contraction in the market for Downhole Technology products. For the time being, low oil prices have only partly impacted this business's performance thanks to major development projects underway in Africa and the North Sea.

The Oil & Gas Core cables business performed very poorly: in fact, the market for international projects (both offshore and onshore) deteriorated further, with oil companies holding back/postponing new investments pending more favourable market conditions. In addition, even the onshore drilling sector and the maintenance (MRO) business were hard hit by lower oil prices, with a consequent reduction in operations worldwide. Market weakness is expected to persist, with slight signs of recovery in North America.

FINANCIAL PERFORMANCE

Sales to third parties by the OIL & GAS segment amounted to Euro 300 million in 2016, compared with Euro 421 million in 2015, posting a negative change of Euro 121 million (-28.9%).
The decrease in sales can be broken down into the following main factors:

- negative organic sales growth of Euro 123 million (-29.3%);
- decrease of Euro 8 million (-1.9%) for exchange rate fluctuations;
- sales price reduction of Euro 7 million (-1.7%) for metal price fluctuations;
- increase of Euro 17 million (+4.0%) for the acquisition in 2015 of Gulf Coast Downhole Technologies LLC in the United States, a company operating in the DHT sector.

The performance of the OIL & GAS segment was hit by the drop in oil prices, in turn affecting decisions by the industry's major players, in particular:

- the SURF business witnessed a contraction in the umbilicals market in Brazil, Prysmian's main outlet for these products;
- demand for Downhole Technology products suffered a 25% reduction on 2015 levels. However, the decline in volumes was partly offset by positive performance on the industrial front thanks to synergies from the integration of Gulf Coast Downhole Technologies LLC. The acquisition of Gulf Coast Downhole Technologies LLC, completed in the second half of 2015, is designed to strengthen Prysmian's presence in the downhole technology market. The company's integration into the Group and development of commercial and industrial synergies are in line with expectations;
- the Oil & Gas Core cables business witnessed a sharp slowdown in demand from both onshore and offshore projects, triggered by the collapse in oil prices. The business's overall profitability was additionally affected by the sharp drop in higher-margin MRO volumes, particularly in Norway and the United States, and by a slowdown in call-off contracts for projects in progress.

Adjusted EBITDA for 2016 came to Euro 8 million, down Euro 8 million (-49%) from Euro 16 million in 2015.

REVIEW OF TELECOM OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	1,164	1,109	4.9%	994
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**135**	**113**	**19.3%**	**91**
% of sales	11.6%	10.2%		9.1%
Adjusted EBITDA	**163**	**134**	**22.0%**	**116**
% of sales	14.0%	12.1%		11.7%
EBITDA	**158**	**119**	**33.2%**	**116**
% of sales	13.6%	10.7%		11.6%
Amortisation and depreciation	(40)	(44)		(42)
Adjusted operating income	**123**	**90**	**37.9%**	**74**
% of sales	10.6%	8.1%		7.4%

Reconciliation of EBITDA to Adjusted EBITDA

EBITDA (A)	**158**	**119**	**33.2%**	**116**
Adjustments:				
Company reorganisation	6	10		6
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	(1)	5		(6)
Total adjustments (B)	**5**	**15**		**-**
Adjusted EBITDA (A+B)	**163**	**134**	**22.0%**	**116**

As partner to leading telecom operators worldwide, Prysmian Group produces and manufactures a wide range of cable systems and connectivity products used in telecommunication networks. The product portfolio includes optical fibre, optical cables, connectivity components and accessories and copper cables.

Optical fibre

Prysmian Group is one of the leading manufacturers of the core component of every type of optical cable: optical fibre. The Group is in the unique position of being able to use all existing manufacturing processes within its plants: MCVD (Modified Chemical Vapour Deposition), OVD (Outside Vapour Deposition), VAD (Vapour Axial Deposition) and PCVD (Plasma-activated Chemical Vapour Deposition). The result is an optimised product range for different applications. With centres of excellence in Battipaglia (Italy), Eindhoven (the Netherlands) and Douvrin (France), and 5 production sites around the world, Prysmian Group offers a wide range of optical fibres, such as single-mode, multimode and specialty fibres, designed and manufactured to cater to the broadest possible spectrum of customer applications.

Optical cables

Optical fibres are employed in the production of standard optical cables or those specially designed for challenging or inaccessible environments. Optical cables, constructed using just a single fibre or up to as many as 1,728 fibres, can be pulled (or blown) into ducts, buried directly underground or suspended on overhead devices such as telegraph poles or electricity pylons. Cables are also installed in road and rail tunnels, gas and sewerage networks and inside various buildings where they must satisfy specific fire-resistant requirements. Prysmian Group operates in the telecommunications market with a wide range of cable solutions and systems that respond to the demand for wider bandwidth by major network operators and service providers. The product portfolio covers every area of the industry, including long-distance and urban systems, and solutions such as optical ground wire (OPGW), Rapier (easy break-out), Siroccoxs (fibres and cables for blown installation), Flextube® (extremely flexible easy-to-handle cables for indoor or outdoor installations), Airbag (dielectric direct buried cable) and many more.

Connectivity

Whether deployed in outdoor or indoor applications, Prysmian Group's OAsys connectivity solutions are designed for versatility, covering all cable management needs whatever the network type. These include aerial and underground installations, as well as cabling in central offices (or exchanges) or customer premises. Prysmian Group has been designing, developing and making cable and fibre management products for more than two decades and is at the forefront of designing next-generation products specifically for Fibre-To-The-Home (FTTH) networks.

FTTx

Increasing bandwidth requirements, by both business and residential customers, are having a profound effect upon the level of performance demanded of optical networks, which in turn demands high standards of fibre management. Optimal fibre management in every section of the network is increasingly a matter of priority in order to minimise power loss and overcome the problems caused by ever greater space limitations. The Group has developed the suite of xsNet products for "last mile" access networks, which is also very suited to optical fibre deployment in sparsely populated rural areas. Most of the cables used in FTTx/FTTH systems feature Prysmian's bend-insensitive BendBrightxs optical fibre, which has been specially developed for this application.

FTTA (Fibre-To-The-Antenna)

xsMobile, which offers Fibre-To-The-Antenna (FTTA) solutions, is an extensive passive portfolio which enables mobile operators to upgrade their networks quickly and easily. Incorporating Prysmian's experience in Fibre-to-the-Home (FTTH) and its unique fibre innovations, xsMobile provides different product solutions for three applications: antenna towers, roof-top antennas and Distributed Antenna Systems (DAS) for small cell deployment. The technology offers three access types for outdoor and indoor FTTA deployment, as well as backhaul solutions, incorporating the latest fibre technologies.

Copper cables

Prysmian Group also produces a wide range of copper cables for underground and overhead cabling solutions and for both residential and commercial buildings. The product portfolio comprises cables of different capacity, including broadband xDSL cables and those designed for high transmission, low interference and electromagnetic compatibility.

Multimedia Solutions

The Group also produces cable solutions serving communication needs in infrastructure, industry and transport, for a diverse range of applications: cables for television and film studios, cables for rail networks such as underground cables for long-distance telecommunications, light-signalling cables and cables for track switching devices, as well as cables for mobile telecommunications antennae and for data centres.

MARKET OVERVIEW

Although the global optical fibre cables market grew in 2016 there were large regional differences. In fact, demand grew in fast-developing markets (China and APAC) and in those with high communication infrastructure needs (India). In France, projects to extend residential broadband access, in accordance with the European Digital Agenda's targets, played a crucial role in the market upturn. However, in Italy the programme to construct the next-generation network was postponed to early 2017. In Central Europe the distribution of bandwidth via xDSL and G.FAST technologies, using the last metres of the existing copper network, is requiring huge volumes of optical cables to upgrade distribution networks. In Brazil, uncertainty about the country's macroeconomic performance and growth prospects led to a fall-off in investments by major telecom operators. In parallel with the traditional activities of developing the fixed network, 2016 was marked by the consolidation of wireless technologies (4G, LTE) which require the installation of optical backbones to power antennae located across the territory. Mobile technology is experiencing a period of major growth both in developing countries, in the absence of costly investment in fixed network infrastructure, and in mature countries where demand for broadband on portable devices is constantly multiplying.

The Access/Broadband/FTTx market continued to grow in 2016, mainly in China, with demand driven by the development of optical fibre communication infrastructure. In addition to cables, this segment includes a varied portfolio of accessories for fibre connection. However, the still relatively low maturity of these products implies wide market differences between the various geographical areas.

The copper cables market continued to slow not only because of the economic downturn in the past two years, causing operators to scale back their larger investment projects, but also because of product maturity. The decline in this market was increasingly evident in 2016, with high demand for internet access leading major operators to opt to renew their networks using optical fibre, rather than perform maintenance or upgrade work on existing networks. Only the Australian market bucked this trend but was unable to reverse the global downturn.

The MMS cable market reported timid global growth, driven by Asia and, in the case of the optical cables segment, by China. Growth in demand was fuelled by requests for ever greater bandwidth capacity in professional and office environments and data centres. Interestingly, this trend applied to both new buildings and projects to renovate existing ones. An important contribution to this growth came from industrial applications that require new highly specialised products. Another important source of growth was HDTV cables used for the broadcast of digital content such as sports events or other events of media interest.

FINANCIAL PERFORMANCE

Sales to third parties by the Telecom operating segment amounted to Euro 1,164 million in 2016, compared with Euro 1,109 million in 2015, posting a positive change of Euro 55 million (+4.9%).

This change is attributable to the following factors:

- organic sales growth of Euro 94 million (+8.5%), thanks to volume recovery for copper and optical fibre cables;
- decrease of Euro 30 million (-2.8%) for exchange rate fluctuations;
- decrease of Euro 11 million (-1.0%) in sales prices for metal price fluctuations;
- net increase of Euro 2 million (+0.2%), reflecting an increase of Euro 7 million for the acquisition of the data cables business from Corning Optical Communications Gmbh & Co. KG. and a decrease of Euro 5 million for the disposal of NK Wuhan.

The organic growth in 2016 sales reflected the positive trend already observed the previous year. Such underlying growth came from strong demand for optical fibre cables in North America and APAC and for copper cables in Oceania, reflecting developments in major local investment projects.

Optical cables recorded an overall increase even if local trends at times showed opposite signs. For example, some European operators adopted stock reduction programmes by limiting the purchase of new material. In other markets outside Europe (Oceania among others), volume trends were positive. The general price pressure seen the previous year seemed to stabilise. In Europe, the Group won contracts for work on major projects to realise backhaul links and FTTH connections for leading operators. In North America, the development of new ultra-broadband networks produced a steady increase in domestic demand, from which Prysmian benefited. In Brazil, despite the relaxation in investments by major telecom operators, the drop in volumes was offset thanks to strategic repositioning in neighbouring high value-added market segments, namely OPGW. Lastly, both optical and copper cables saw a growth in activities associated with the NBN (National Broadband Network) project in Australia. This unique phenomenon in the current telecoms market is related to the new NBN orientation towards a "multi-technology" platform. The preference for FTTN architecture over the original FTTH one has necessitated the installation of a number of new copper cable sections.

Growth in the Multimedia Solutions business mainly reflected increased volumes on the European market for copper data transmission cables, also observed, albeit to a lesser extent, in South America. This positive result was achieved thanks to the ability to satisfy growing demand with a high level of responsiveness and service. This approach, along with its strong customer orientation, has been appreciated as one of the Group's main strengths.

Lastly, the high value-added business of optical connectivity accessories performed well, thanks to the development of new FTTx networks (for last mile broadband access) in Europe, particularly in France, Spain and the Netherlands.

Adjusted EBITDA for 2016 came to Euro 163 million, reporting an increase of Euro 29 million (+22.0%) from Euro 134 million in 2015.

GROUP STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(in millions of Euro)

	31 December 2016	31 December 2015 (*)	Change	31 December 2014
Net fixed assets	2,630	2,581	49	2,219
Net working capital	325	347	(22)	407
Provisions	(360)	(330)	(30)	(281)
Net capital employed	**2,595**	**2,598**	**(3)**	**2,345**
Employee benefit obligations	383	341	42	360
Total equity	1,675	1,507	168	1,183
of which attributable to non-controlling interests	227	229	(2)	33
Net financial position	537	750	(213)	802
Total equity and sources of funds	**2,595**	**2,598**	**(3)**	**2,345**

(*)The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

NET FIXED ASSETS

(in millions of Euro)

	31 December 2016	31 December 2015 (*)	Change	31 December 2014
Inventories	906	984	(78)	981
Trade receivables	1,088	1,098	(10)	952
Trade payables	(1,498)	(1,377)	(121)	(1,415)
Other receivables/(payables)	(178)	(317)	139	(95)
Net operating working capital	**318**	**388**	**(70)**	**423**
Derivatives	7	(41)	48	(16)
Net working capital	**325**	**347**	**(22)**	**407**

(*)The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

(**)These include the value of Land and Buildings classified as held for sale.

Net fixed assets amounted to Euro 2,630 million at 31 December 2016, compared with Euro 2,581 million at 31 December 2015, posting an increase of Euro 49 million mainly due to the combined effect of the following factors:

- Euro 233 million in capital expenditure on property, plant and equipment and intangible assets;
- Euro 9 million in increases following acquisition of the data cables business from Corning Optical Communications Gmbh & Co. KG. during the course of 2016;

- Euro 203 million in depreciation, amortisation and impairment charges for the year;
- Euro 3 million in decreases for disposals;
- Euro 18 million in net increase in equity-accounted investments primarily reflecting:
  - an increase of Euro 31 million for the share of net profit/(loss) of equity-accounted companies;
  - a decrease of Euro 10 million for dividend receipts.

NET WORKING CAPITAL

The following table analyses the main components of net working capital:

(in millions of Euro)

	31 December 2016	31 December 2015 (*)	Change	31 December 2014
Property, plant & equipment	1,631	1,552	79	1,414
Intangible assets	792	823	(31)	561
Equity-accounted investments	195	177	18	225
Available-for-sale financial assets	12	12	-	12
Assets held for sale (**)	-	17	(17)	7
Net fixed assets	**2,630**	**2,581**	**49**	**2,219**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

Net working capital of Euro 325 million at 31 December 2016 was Euro 22 million lower than the corresponding figure of Euro 347 million at 31 December 2015 (or Euro 70 million lower excluding the impact of the fair value change in derivatives). Net operating working capital amounted to Euro 318 million (4.2% of sales) at 31 December 2016, compared with Euro 388 million (5.4% of sales) at 31 December 2015, and was affected by the following factors:

- an increase in working capital employed in multi-year Submarine projects, linked to their stage of completion with respect to contractual deadlines;
- an increase of Euro 79 million in without-recourse factoring of trade receivables;
- a reduction in the level of past due trade receivables;
- a reduction of Euro 12 million in working capital in connection with the disposal of Prysmian Baosheng;
- a reduction in the level of inventories of finished goods, raw materials and semi-finished products, in spite of the growth in strategic metal prices compared with the year before;
- an increase of Euro 25 million for currency translation differences.

EQUITY

The following table reconciles the Group's equity and net profit/(loss) for 2016 with the corresponding figures reported by Prysmian S.p.A., the Parent Company.

(in milioni di Euro)

	Equity 31 December 2016	Net profit / (loss) for 2016	Equity 31 December 2015 (*)	Net profit / (loss) for 2015
Parent Company Financial Statements	**1,293**	**137**	**1,196**	**155**
Share of equity and net profit of consolidated subsidiaries, net of carrying amount of the related investments	404	318	332	249
Reversal of dividends distributed to the Parent Company by consolidated subsidiaries		(192)	-	(190)
Deferred taxes on earnings/reverses distributable by subsidiaries	(14)		(14)	-
Elimination of intercompany profits and losses included in inventories	(8)	(1)	(7)	-
Non - controlling interests	(227)	(16)	(229)	-
Consolidated Financial Statements	**1,448**	**246**	**1,278**	**214**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

NET FINANCIAL POSITION

The following table provides a detailed breakdown of the net financial position:

(in millions of Euro)

	31 December 2016	31 December 2015	Change	31 December 2014
Long-term financial payables				
- Term Loan facility 2011	-	-	-	400
- Bank fees	-	-	-	(2)
EIB Loan	58	75	(17)	92
Non-convertible bond	741	740	1	-
Convertible bond	288	279	9	271
Derivatives	-	-	-	3
Other financial payables	27	47	(20)	56
Total long-term financial payables	**1,114**	**1,141**	**(27)**	**820**
Short-term financial payables				
EIB Loan	17	17	-	9
Non-convertible bond	14	14	-	415
Convertible bond	1	1	-	1
Revolving credit facility 2014	50	50	-	30
Derivatives	1	4	(3)	8
Other financial payables	90	180	(90)	113
Total short-term financial payables	**173**	**266**	**(93)**	**576**
Total financial liabilities	**1,287**	**1,407**	**(120)**	**1,396**
Long-term financial receivables	2	1	1	2
Long-term bank fees	2	4	(2)	5
Short-term derivatives	1	8	(7)	5
Short-term financial receivables	38	8	30	9
Short-term bank fees	2	2	-	3
Financial assets held for trading	59	87	(28)	76
Cash and cash equivalents	646	547	99	494
Total financial assets	**750**	**657**	**93**	**594**
Net financial position	**537**	**750**	**(213)**	**802**

The net financial position of Euro 537 million at 31 December 2016 has decreased by Euro 213 million from Euro 750 million at 31 December 2015. The main factors contributing to this change are summarised in the comments in the next section on the statement of cash flows.

STATEMENT OF CASH FLOWS

(in millions of Euro)

	2016	2015	Change	2014
EBITDA	**647**	**622**	**25**	**496**
Changes in provisions (including employee benefit obligations)	19	(39)	58	(23)
(Gains)/losses on disposal of property, plant and equipment, intangible assets and non-current assets	(3)	-	(3)	(8)
Results of operating and financial investment and divestment activities	(18)	(36)	18	-
Share of net profit/(loss) of equity-accounted companies	(31)	(39)	8	(43)
Acquisition price adjustment [1]	-	-	-	(22)
Net cash flow provided by operating activities (before changes in net working capital)	**614**	**508**	**106**	**400**
Changes in net working capital	67	243	(176)	(1)
Taxes paid	(76)	(71)	(5)	(72)
Dividends from investments in equity-accounted companies	10	17	(7)	36
Net cash flow provided by operating activities	**615**	**697**	**(82)**	**363**
Cash flow from acquisitions and/or disposals	31	(138)	169	9
Net cash flow from operational investing activities	(227)	(200)	(27)	(155)
Of which for acquisition of ShenHuan assets	*(11)*	-	*(11)*	-
Free cash flow (unlevered)	**419**	**359**	**60**	**217**
Net finance costs	(68)	(100)	32	(110)
Free cash flow (levered)	**351**	**259**	**92**	**107**
Capital contributions and other changes in equity	-	3	(3)	(20)
Dividend distribution	(102)	(91)	(11)	(90)
Net cash flow provided/(used) in the year	**249**	**171**	**78**	**(3)**
Opening net financial position	**(750)**	**(802)**	**52**	**(805)**
Net cash flow provided/(used) in the year	249	171	78	(3)
Other changes	(36)	(119)	83	6
Closing net financial position	**(537)**	**(750)**	**213**	**(805)**

(1) This refers to the acquisition in November 2012 of Global Marine Systems Energy Ltd (now renamed Prysmian PowerLink Services Ltd) from Global Marine Systems Ltd.

Net cash flow provided by operating activities (before changes in net working capital) amounts to Euro 614 million at the end of 2016. The decrease in net working capital provided Euro 67 million in cash flow. After Euro 76 million in tax payments and Euro 10 million in dividend receipts from equity-accounted companies, net cash flow from operating activities for 2016 was a positive Euro 615 million.

Net cash flow provided in the year from acquisitions and disposals of equity investments came to Euro 31 million, mainly attributable to the disposal of the investment in Prysmian Baosheng Cable Co., for total consideration of some Euro 41 million, net of around Euro 6 million in cash and cash equivalents.

Net operating capital expenditure of Euro 227 million was primarily attributable to projects to increase, rationalise and technologically upgrade production capacity and to develop new products (Euro 94 million), to projects to improve industrial efficiency and rationalise production capacity (Euro 70 million), to structural work related to construction of the Group's new headquarters in the Bicocca district of Milan, and to refurbishment and other work on buildings and production lines to comply with the latest standards and regulations (Euro 58 million).

During the year a total of Euro 68 million in net finance costs were paid as well as Euro 102 million in dividends.

Total net cash flow provided in the year came to Euro 249 million.

ALTERNATIVE PERFORMANCE INDICATORS

In addition to the standard financial reporting formats and indicators required under IFRS, this document contains a number of reclassified statements and alternative performance indicators. The purpose is to help users better evaluate the Group's economic and financial performance. However, these statements and indicators should not be treated as a substitute for the standard ones required by IFRS.
In this regard, on 3 December 2015, Consob adopted the ESMA guidelines in Italy with publication of "ESMA Guidelines/2015/1415" which supersede the "CESR Recommendation 2005 (CESR/05-178b)". The alternative performance measures have therefore been revised in light of these guidelines.

The alternative indicators used for reviewing the income statement include:

- **Adjusted operating income**: operating income before income and expense for company reorganisation(1), before non-recurring items(2), as presented in the consolidated income statement, before other non-operating income and expense(3) and before the fair value change in metal derivatives and in other fair value items. The purpose of this indicator is to present the Group's operating profitability without the effects of events considered to be outside its recurring operations;
- **EBITDA**: operating income before the fair value change in metal price derivatives and in other fair value items and before amortisation, depreciation and impairment. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **Adjusted EBITDA**: EBITDA as defined above calculated before income and expense for company reorganisation, before non-recurring items, as presented in the consolidated income statement, and before other non-operating income and expense. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items, without the effects of events considered to be outside the Group's recurring operations;
- **Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies:** Adjusted EBITDA as defined above calculated before the share of net profit/(loss) of equity-accounted companies;
- **Organic growth:** growth in sales calculated net of changes in the scope of consolidation, changes in metal prices and exchange rate effects.

(1) Income and expense for company reorganisation: these refer to income and expense that arise as a result of the closure of production facilities and/or as a result of projects to enhance the organisational structure's efficiency;

(2) Non-recurring income and expense: these refer to income and expense related to unusual events that have not affected the income statement in past periods and that will probably not affect the results in future periods;

(3) Other non-operating income and expense: these refer to income and expense that management considers should not be taken into account when measuring business performance.

The alternative indicators used for reviewing the reclassified statement of financial position include:

- **Net fixed assets:** sum of the following items contained in the statement of financial position:
  - Intangible assets
  - Property, plant and equipment
  - Equity-accounted investments
  - Available-for-sale financial assets, net of non-current securities classified as long-term financial receivables in the net financial position
  - Assets held for sale with regard to Land and Buildings
- **Net working capital:** sum of the following items contained in the statement of financial position:
  - Inventories
  - Trade receivables
  - Trade payables
  - Other non-current receivables and payables, net of long-term financial receivables classified in the net financial position
  - Other current receivables and payables, net of short-term financial receivables classified in the net financial position
  - Derivatives net of financial instruments for hedging interest rate and currency risks relating to financial transactions, classified in the net financial position
  - Current tax payables
  - Assets and Liabilities held for sale with regard to current assets and liabilities
- **Net operating working capital:** sum of the following items contained in the statement of financial position:
  - Inventories
  - Trade receivables
  - Trade payables
  - Other non-current receivables and payables, net of long-term financial receivables classified in the net financial position
  - Other current receivables and payables, net of short-term financial receivables classified in the net financial position
  - Current tax payables
- **Provisions:** sum of the following items contained in the statement of financial position:
  - Provisions for risks and charges – current portion
  - Provisions for risks and charges – non-current portion
  - Provisions for deferred tax liabilities
  - Deferred tax assets
- **Net capital employed:** sum of Net fixed assets, Net working capital and Provisions.
- **Employee benefit obligations and Total equity:** these indicators correspond to Employee benefit obligations and Total equity reported in the statement of financial position.

- **Net financial position: sum of the following items:**
  - Borrowings from banks and other lenders – non-current portion
  - Borrowings from banks and other lenders – current portion
  - Derivatives for financial transactions recorded as Non-current derivatives and classified under Long-term financial receivables
  - Derivatives for financial transactions recorded as Current derivatives and classified under Short-term financial receivables
  - Derivatives for financial transactions recorded as Non-current derivatives and classified under Long-term financial payables
  - Derivatives for financial transactions recorded as Current derivatives and classified under Short-term financial payables
  - Medium/long-term financial receivables recorded in Other non-current receivables
  - Bank fees on loans recorded in Other non-current receivables
  - Short-term financial receivables recorded in Other current receivables
  - Bank fees on loans recorded in Other current receivables
  - Short/long-term available-for-sale financial assets, not instrumental to the Group's activities
  - Financial assets held for trading
  - Cash and cash equivalents

Reconciliation between the Reclassified Statement of Financial Position presented in the Directors' Report and the Statement of Financial Position contained in the Consolidated Financial Statements and Explanatory Notes at 31 December 2016

(in millions of Euro)

		Note	31 December 2016 Partial amounts from financial statements	31 December 2016 Total amounts from financial statements	31 December 2015 (*) Partial amounts from financial statements	31 December 2015 (*) Total amounts from financial statements
Net fixed assets						
Property, plant and equipment			1,631	1,631		1,552
Intangible assets			792	792		823
Equity-accounted investments			195	195		177
Available-for-sale financial assets			12	12		12
Assets held for sale			-	-		17
Total net fixed assets	**A**		**2,630**	**2,630**		**2,581**
Net working capital						
Inventories	B			906		984
Trade receivables	C			1,088		1,098
Trade payables	D			(1,498)		(1,377)
Other receivables/payables - net	E			(178)		(317)
of which:						
Other receivables - non-current		5	*17*		*21*	
Tax receivables		5	*5*		*9*	
Receivables from employees		5	*1*		*1*	
Other		5	*11*		*11*	
Other receivables - current		5	*748*		*689*	
Tax receivables		5	*132*		*148*	
Receivables from employees and pension plans		5	*4*		*5*	
Advances to suppliers		5	*19*		*13*	
Other		5	*105*		*97*	
Construction contracts		5	*488*		*426*	
Other payables - non-current		13	*(18)*		*(16)*	
Tax and social security payables		13	*(6)*		*(4)*	
Other		13	*(10)*		*(12)*	
Other payables - current		13	*(875)*		*(984)*	
Tax and social security payables		13	*(121)*		*(105)*	
Advances from customers		13	*(377)*		*(518)*	
Payables to employees		13	*(74)*		*(70)*	
Accrued expenses		13	*(130)*		*(129)*	
Other		13	*(173)*		*(162)*	
Current tax payables			*(50)*		*(27)*	
Total net operating working capital	**F = B+C+D+E**			**318**		**388**
Derivatives	G			7		(41)
of which:						
Forward currency contracts on commercial transactions (cash flow hedges) - current		8	*(7)*		*(7)*	
Forward currency contracts on commercial transactions - current		8	*6*		*2*	
Metal derivatives - non-current		8	*(1)*		*(17)*	
Metal derivatives - current		8	*17*		*(16)*	
Total net working capital	**H = F+G**			**325**		**347**

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(in millions of Euro)

		Note	31 December 2016 Partial amounts from financial statements	31 December 2016 Total amounts from financial statements	31 December 2015 (*) Partial amounts from financial statements	31 December 2015 (*) Total amounts from financial statements
Provisions for risks and charges - non-current		14		(40)		(52)
Provisions for risks and charges - current		14		(339)		(275)
Deferred tax assets				130		83
Deferred tax liabilities				(111)		(86)
Total provisions	**I**			**(360)**		**(330)**
Net capital employed	**L = A+H+I**			**2,595**		**2,598**
Employee benefit obligations	**M**	15		**383**		**341**
Total equity	**N**	11		**1,675**		**1,507**
Equity attributable to non-controlling interests				*227*		*229*
Net financial position						
Total long-term financial payables	**O**			**1,114**		**1,141**
EIB loan		12	58		75	
Non-convertible bond		12	741		740	
Convertible bond		12	288		279	
Derivatives			-		-	
Other payables			27		47	
of which:						
Finance lease obligations		12	*13*		*14*	
Other financial payables		12	*14*		*33*	
Total short-term financial payables	**P**			**173**		**266**
EIB loan		12	17		17	
Non-convertible bond		12	14		14	
Convertible bond		12	1		1	
Revolving facility - Credit Agreement		12	-		-	
Revolving Credit Facility 2014		12	50		50	
Derivatives		8	1		4	
of which:						
Interest rate swaps		8	-		*1*	
Forward currency contracts on financial transactions		8	*1*		*3*	
Other payables			90		180	
of which:						
Finance lease obligations		12	*1*		*1*	
Other financial payables		12	*89*		*179*	
Total financial liabilities	**Q = O+P**			**1,287**		**1,407**
Long-term financial receivables	**R**	5	(2)		(1)	
Long-term bank fees	**R**	5	(2)		(4)	
Short-term financial receivables	**R**	5	(38)		(8)	
Short-term derivatives	**R**	8	(1)		(8)	
of which:						
Forward currency contracts on financial transactions (current)		8	*(1)*		*(8)*	
Short-term bank fees	**R**	5	(2)		(2)	
Available-for-sale financial assets (current)	**S**			-		-
Financial assets held for trading	**T**			**(59)**		**(87)**
Cash and cash equivalents	**U**			**(646)**		**(547)**
Total financial assets	**V = R+S+T+U**			**(750)**		**(657)**
Total net financial position	**W = Q+V**			**537**		**750**
Total equity and sources of funds				**2,595**		**2,598**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*". Further details can be found in Section C. Restatement of comparative figures in the Explanatory Notes.

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Reconciliation between the principal income statement indicators and the Income Statement contained in the Consolidated Financial Statements and Explanatory Notes for 2016

(in millions of Euro)

	Note	2016 Amounts from income statement	2015 Amounts from income statement
Sales of goods and services	A	7,567	7,361
Change in inventories of work in progress, semi-finished and finished goods		(48)	(44)
Other income		75	104
Raw materials, consumables used and goods for resale		(4,387)	(4,484)
Personnel costs		(1,056)	(1,001)
Other expenses		(1,586)	(1,378)
Operating costs	B	**(7,002)**	**(6,803)**
Share of net profit/(loss) of equity-accounted companies	C	31	39
Fair value stock options	D	49	25
EBITDA	E = A+B+C+D	**645**	**622**
Other non-recurring expenses and revenues	F	1	29
Personnel costs for company reorganisation	G	(31)	(33)
Other costs and revenues for company reorganisation	H	(19)	(15)
Other non-operating expenses	I	(17)	18
Total adjustments	L= F+G+H+I	(66)	(1)
Adjusted EBITDA	M = E-L	**711**	**623**
Share of net profit/(loss) of equity-accounted companies	N	31	39
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	O = M-N	**680**	**584**

(in millions of Euro)

	Note	2016 Amounts from income statement	2015 Amounts from income statement
Operating income	A	**447**	**399**
Other non-recurring (expenses) and income		1	29
Personnel costs for company reorganisation		(31)	(33)
Other (expenses) and income for company reorganisation		(19)	(15)
Other non-operating expenses		(17)	18
Change in inventories of work in progress, semi-finished and finished goods		-	-
Adjusted EBITDA	B	**(66)**	**(1)**
Fair value change in metal derivatives	C	54	(27)
Fair value stock options	D	(49)	(25)
Non-recurring impairment and impairment reversals	E	(30)	(21)
Adjusted operating income	F=A-B-C-D-E	**538**	**473**

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Following adoption of the new organisational structure, the alternative performance indicators for 2015 have been restated as follows:

Alternative performance indicators at 31 December 2015

(in millions of Euro)

								2015
			Energy Products				Oil&GAS	Energy Projects
		Published	E&I	Industrial & NWC	Other	Total Products		
E&I	Sales	2,795	2,795					
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	111	111					
	Adjusted EBITDA	128	128					
	Adjusted operating income	93	93					
Industrial & NwC	Sales	1,749		1,499				
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	112		121				
	Adjusted EBITDA	113		122				
	Adjusted operating income	88		100				
Other	Sales	121			121			
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	2			2			
	Adjusted EBITDA	2			2			
	Adjusted operating income	-			-			
Energy Products	**Sales**	**4,665**				**4,415**		
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**225**				**234**		
	Adjusted EBITDA	**243**				**252**		
	Adjusted operating income	**181**				**193**		
Energy Projects	**Sales**	**1,587**						**1,416**
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**246**						**221**
	Adjusted EBITDA	**246**						**221**
	Adjusted operating income	**202**						**187**
Oil & Gas	**Sales**	**-**					**421**	
	Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**-**					**16**	
	Adjusted EBITDA	**-**					**16**	
	Adjusted operating income	**-**					**3**	

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Prysmian Group has adopted an internal control and risk management system in compliance with Italy's Corporate Governance Code[1] and which is in line with the best practices in the field and based on tools and information flows that allow the Board of Directors to take strategic decisions and define the system's guidelines in an informed manner.

The Group's internal control and risk management system involves the following bodies, each with their own duties and responsibilities:

- the Board of Directors, which is responsible for establishing the guidelines and assessing the adequacy and effectiveness of the internal control and risk management system;
- the Control and Risks Committee, with powers to advise and make proposals to the Board of Directors, including to allow the Board to discharge its duties concerning management of the internal control and risk management system;
- the Director in charge of the internal control and risk management system, as identified in the person of the Chief Executive Officer, who oversees identification of the key business risks and executes the guidelines established by the Board of Directors, by seeing to the design, implementation and management of the internal control and risk management system, and keeping its adequacy and effectiveness under constant review;
- the Managers responsible for preparing corporate accounting documents, as second-level figures of control, are responsible for establishing adequate administrative and accounting procedures for the preparation of financial reports;
- the Head of Internal Audit, who tests - acting in an independent capacity - the operation and suitability of the internal control and risk management system, including the ERM process, in accordance with the annual audit plan approved by the Board of Directors, itself the result of a structured process of analysing and prioritising key risks;
- the Compensation and Nominations Committee, with powers to advise and make proposals to the Board of Directors, including with reference to the remuneration of the directors and top management of Prysmian S.p.A., the appointment/replacement of independent directors, and the size and composition of the Board itself;
- the Board of Statutory Auditors, which is required to monitor the Company's compliance with the law and its memorandum of association, as well as the observance of good management practice in the conduct of its business, and to control the adequacy of the Company's organisational structure, internal control and risk management system and administrative-accounting system;
- the Monitoring Board, with the task of supervising operation of and compliance with the Organisational Model adopted under Legislative Decree 231/2001, as well as of ensuring that the model is kept up-to-date by presenting the Board of Directors with proposed revisions and amendments.

[1] "Italian Stock Exchange Corporate Governance Code for Listed Companies - Ed. 2015" drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.

Furthermore, in light of the increasing complexity of its activities and in response to changes in the legislative environment, in 2012 the Board of Directors decided to devote even more attention to the internal control and risk management system, by implementing a dynamic system of Enterprise Risk Management (ERM) and by appointing a specific Internal Risk Management Committee, consisting of the Group's Senior Management, with the mission of identifying, measuring, analysing and evaluating risk situations or events that could affect achievement of the Group's strategic objectives and priorities. The new system was established during 2013, and a Chief Risk Officer appointed to manage the ERM process, who reports directly to the Internal Risk Management Committee. More comprehensive information about the system of business risk management can be found in the "Risk Factors and Uncertainties" section of this report.

During the course of 2016 the Board of Directors decided, in order to strengthen the system of internal control and risk management, to establish a compliance function; accordingly, it selected and appointed a Chief Audit & Compliance Officer to head up the new Audit & Compliance department; the duties and responsibilities of the Head of Internal Audit under the Corporate Governance Code have therefore been transferred to the Chief Audit & Compliance Officer.

Also during 2016, the Group decided to take another step forward in improving the dissemination of ethical principles and rules of good conduct with the adoption by the Board of Directors of a whistleblowing procedure for receiving and managing reports of alleged violations of the Code of Ethics, giving everyone (employees or otherwise) the chance to report, even online and anonymously, improper conduct and alleged illegal activities taking place within the organisation.

System of internal control over financial reporting

In accordance with Law 262/2005 ("Provisions for the protection of savings and the regulation of financial markets") and under art. 19 of the By-laws, the Board of Directors, after consulting the Board of Statutory Auditors, has appointed Andreas Bott (Head of Planning & Controlling) and Carlo Soprano (Head of Financial Statements & Compliance) as joint managers responsible for preparing corporate accounting documents. In this role, they certify at least every six months, the accuracy of the financial information disclosed to the market, the existence of adequate procedures and internal controls relating to financial reporting and the consistency of financial data communicated externally through the financial statements. The Chief Audit & Compliance Officer is responsible for verifying the reliability of the information systems, including those used for financial reporting. To this end, the Audit & Compliance Department draws up an annual audit plan using a structured approach to analyse and prioritise key risks; this plan is approved by the Board of Directors, after consulting the Control and Risks Committee. The audit planning activity is not only based on the findings of the ERM process but also takes account of specific risks identified through interviews with management, and also includes any areas for which remediation actions have been previously recommended. In conducting Internal Audit activities, internal auditors are given full access to all relevant data and information to enable them to perform each audit. The Chief Audit & Compliance Officer attends every meeting of the Control and Risks Committee. The results of internal auditing activities are reported to the committee along with key findings and remediation actions. The status of the audit plan is reported during each meeting and any significant deviations or anticipated deviations are discussed and confirmed. The implementation status of previous audit recommendations or remediation actions is also reported to this committee.

For the purposes of ensuring a reliable system of internal control over the financial reporting process, Prysmian Group has adopted a set of administrative and accounting procedures, as well as a series of operating policies, procedures and instructions such as to guarantee an effective flow of information with its operating companies. The administrative and accounting procedures include the Group Accounting Manual (rules for the use and application of accounting policies), the Administrative Processes Manual, the procedures for creating and publishing financial information and other procedures for the preparation of the consolidated financial statements and interim financial reports (including the chart of accounts, the consolidation procedures and procedures for related party transactions). The Prysmian Group Planning & Controlling and Financial Statements & Compliance functions are responsible for distributing this documentation to operating companies, which can be accessed through the Group's intranet website. The operating companies also issue local policies, procedures and rules that comply with the Group's guidelines.
The Group has adopted a centrally coordinated evaluation system and attestation process for the purposes of assessing the adequacy and effectiveness of the internal control system, which includes controls over the financial reporting process. This system has been developed using the "COSO Framework[2]" to identify key risks and thus the required key controls to adopt to mitigate the risks identified and to ensure the internal control system operates effectively.
A scoping exercise is carried out annually to identify the companies, processes and sub-processes to be audited. In fact, the Audit & Compliance Department, serving in an independent capacity, tests the operation of the controls previously identified for each of the Group's "in-scope" operating companies and processes. The Chief Executive Officer and Chief Financial Officer of every Group operating company, and the officers in charge of Head Office Planning & Controlling and Financial Statements & Compliance, are responsible for maintaining an adequate system of internal control; this includes periodically testing the key controls, identified and tested by the Audit & Compliance Department during the implementation phase of the centrally co-ordinated evaluation system, to confirm that they continue to operate effectively and efficiently. These officers are required to submit an attestation every six months confirming that the internal control system is operating properly. This signed attestation is sent to Prysmian Group's Chief Financial Officer, the Managers responsible for preparing corporate accounting documents, and to the Chief Audit & Compliance Officer.

[2] "COSO Framework - Committee of Sponsoring Organizations of the Treadway Commission".

To support this attestation the officers must also confirm that they have specifically tested the operation of key controls and that evidence supporting their conclusions has been retained for future independent review. To achieve this, Prysmian requires each operating company to submit a detailed "Internal Control Questionnaire" (ICQ). These ICQs document the key controls for each critical business process and describe how the control works in that reporting entity and what type of tests have been performed in the reporting period to confirm the adequacy of the control. The ICQs are updated every six months by the owners of each process. The Audit & Compliance Department reviews the ICQ submissions centrally and accordingly will select a number of reporting entities or processes for detailed follow-up audits to confirm the integrity of the submission. An action plan is agreed with each reporting entity to strengthen existing controls or rectify any specific weaknesses.

The Group believes that the number of processes analysed and reporting entities incorporated within the evaluation system is sufficient to satisfy its ongoing Law 262/05 obligations.

RISK FACTORS AND UNCERTAINTIES

The policy of value creation that motivates the Prysmian Group has always been based on effective risk management. Since 2012, by adopting the provisions on risk management introduced by the "Italian Stock Exchange Corporate Governance Code for Listed Companies" (Corporate Governance Code), Prysmian has taken the opportunity to strengthen its governance model and implement an advanced system of Risk Management that promotes proactive management of risks using a structured and systematic tool to support the main business decision-making processes. In fact, this Enterprise Risk Management (ERM) model, developed in line with internationally recognised models and best practices, allows the Board of Directors and management to evaluate in an informed manner those risk scenarios that might compromise the achievement of strategic objectives, and to adopt additional tools able to anticipate, mitigate or manage significant exposures.

The Group Chief Risk Officer (CRO), designated to govern the ERM process, is responsible for ensuring, together with management, that the main risks facing Prysmian and its subsidiaries are promptly identified, evaluated and monitored over time. A special Internal Risk Management Committee (consisting of the Group's Senior Management) also ensures, through the CRO, that the ERM process is developed in a dynamic way by taking account of changes in the business, of needs and of events that have an impact on the Group over time. The CRO reports periodically (at least twice a year) on such developments to the top management. Please refer to the "Corporate Governance" section of this report for a discussion of the governance structure adopted and the responsibilities designated to the bodies involved.

The ERM model adopted (and formalised within the Group ERM Policy which incorporates the guidelines for the Internal Control and Risk Management System approved by the Board of Directors back in 2014) follows a top-down approach, whereby it is steered by Senior Management and by medium to long-term business objectives and strategies. It extends to all the types of risk/opportunity for the Group, represented in the Risk Model - shown in the following diagram - that uses five categories to classify the risks of an internal or external nature characterising the Prysmian business model:

- Strategic Risks: risks arising from external or internal factors such as changes in the market environment, from bad and/or improperly implemented corporate decisions and from failure to react to changes in the competitive environment, which could therefore threaten the Group's competitive position and achievement of its strategic objectives;
- Financial Risks: risks associated with the amount of financial resources available, with the ability to manage currency and interest rate volatility efficiently;
- Operational Risks: risks arising from the occurrence of events or situations that, by limiting the effectiveness and efficiency of key processes, affect the Group's ability to create value;
- Legal and Compliance Risks: risks related to violations of national, international and sector-specific legal and regulatory requirements, to unprofessional conduct in conflict with company ethical policies, exposing the Group to possible penalties and undermining its reputation on the market;

- Planning and Reporting Risks: risks related to the adverse effects of incomplete, incorrect and/or untimely information with possible impacts on the Group's strategic, operational and financial decisions.

THE PRYSMIAN RISK MODEL

STRATEGIC	FINANCIAL	OPERATIONAL
Macroeconomic, demand trends & Competitive environment	Raw materials price volatility	Sales & Tendering
Stakeholder expectations and Corporate Social Responsibility	Exchange rate volatility	Production Capacity / Efficiency
Key customer & business partners	Interest rate volatility	Supply Chain Capacity / Efficiency
Emerging country risk	Financial instruments	Business interruption / Catastrophic events
Law & regulation evolution	Credit risk	Contract execution / liabilities
Research & Development	Liquidity risk / Working Capital risk	Product quality / liabilities
M&A / JVs and integration process	Capital availability / cost risk	Environmental
Operative CAPEX	Financial counterparties	Information Technology
Strategy implementation		Human Resources
Organizational framework & governance		Outsourcing

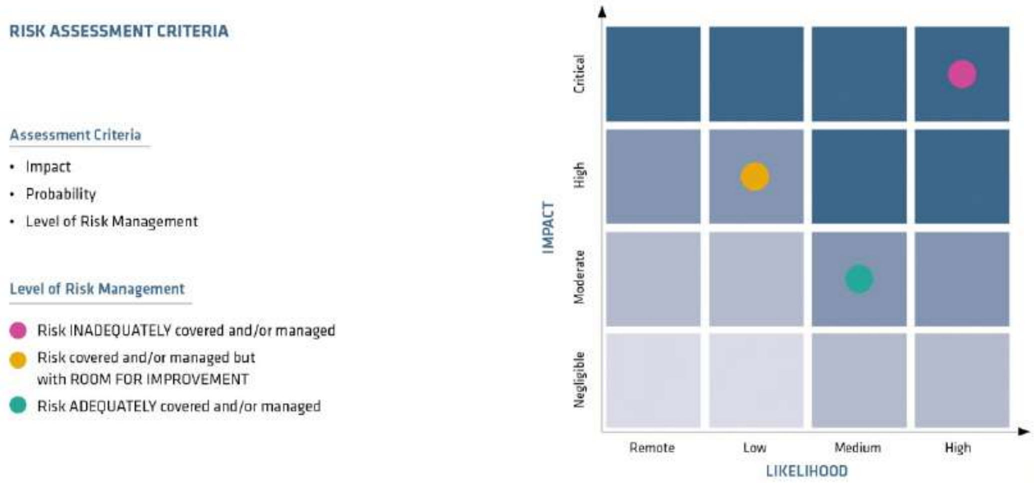
LEGAL & COMPLIANCE	PLANNING & REPORTING
Intellectual Property rights	Budgeting & Strategic planning
Compliance to laws and regulations	Tax & Financial planning
Compliance to Code of Ethics, Policies & Procedures	Management reporting
	Financial reporting

In compliance with the amendments to the Corporate Governance Code published in July 2015, the Group Risk Model has been revised to include, as part of strategic risks, the issue of Corporate Social Responsibility with the purpose of identifying more precisely the Group's economic, environmental and social sustainability risks which, over time, could jeopardise value creation for its shareholders and stakeholders.
The Board of Directors has also given the Compensation and Nominations Committee responsibility, with effect from 1 January 2016, for supervising sustainability questions associated with the Group's business, as described in the Corporate Governance Report.

Members of management involved in the ERM process are required to use a clearly defined common method to measure and assess specific risk events in terms of Impact, Probability of occurrence and adequacy of the existing Level of Risk Management, meaning:

- **economic-financial impact** on expected EBITDA or cash flow, net of any insurance cover and countermeasures in place and/or qualitative type of impact on reputation and/or efficiency and/or business continuity, measured using a scale that goes from *negligible* (1) to *critical* (4);
- **probability** that a particular event may occur within the specific planning period, measured using a scale that goes from *remote* (1) to *high* (4);
- **level of control,** meaning the maturity and efficiency of existing risk management systems and processes, measured using a scale that goes from *adequate* (green) to *inadequate* (red).

The overall assessment must also take into account the future outlook for risk, or the possibility that in the period considered the exposure is increasing, constant or decreasing.
The results of measuring exposure to the risks analysed are then represented on a 4x4 heat map diagram, which, by combining the variables in question, provides an immediate overview of the risk events considered most significant.



This comprehensive view of the Group's risks allows the Board of Directors and Management to reflect upon the level of the Group's risk appetite, and so identify the risk management strategies to adopt, meaning the assessment of which risks and with what priority it is thought necessary to improve and optimise mitigation actions or simply to monitor the exposure over time. The adoption of a particular risk management strategy, however, depends on the nature of the risk event identified, so in the case of:

- *external risks outside* the Group's control, it will be possible to implement tools that support the assessment of scenarios should the risk materialise, by defining the possible action plans to mitigate impacts (eg. continuous monitoring activities, stress testing of the business plan, insurance cover, disaster recovery plans, and so on);
- *risks partially addressable* by the Group, it will be possible to intervene through systems of risk transfer, monitoring of specific indicators of risk, hedging activities, and so on;
- *internal risks addressable* by the Group, it will be possible, as risks inherent in the business, to take targeted actions to prevent risk and minimise impacts by implementing an adequate system of internal controls and related monitoring and auditing.

ERM is a continuous process that, as stated in the ERM Policy, forms part of the Group's three-year strategic and business planning process, by identifying potential events that could affect sustainability, and is updated annually with the involvement of key members of management.
In 2016 this process involved the main business/function managers of the Group, allowing the most significant risk factors to be identified, assessed and managed; the main information emerging from this process is reported in the following paragraphs, including the questions of the Group's economic,

environmental and social sustainability aimed at ensuring value creation over time for shareholders and stakeholders. More details about how the Group manages Sustainability can be found in the annual Sustainability Report, available on the Company's corporate website at www.prysmiangroup.com in the section Corporate/Sustainability/Downloads/Sustainability Report.

The classification used in the above Risk Model will now be used to discuss the significant risk factors for each category and the strategies adopted to mitigate such risks. Financial risks are discussed in detail in the Explanatory Notes to the Consolidated Financial Statements in Section D (Financial Risk Management).
As stated in the Explanatory Notes to the Consolidated Financial Statements (Section B.1 Basis of preparation), the Directors have assessed that there are no financial, operating or other kind of indicators that might provide evidence of the Group's inability to meet its obligations in the foreseeable future and particularly in the next 12 months. In particular, based on its financial performance and cash generation in recent years, as well as its available financial resources at 31 December 2016, the Directors believe that, barring any unforeseeable extraordinary events, there are no significant uncertainties, such as to cast significant doubts upon the business's ability to continue as a going concern.

STRATEGIC RISKS

Risks associated with the competitive environment
Many of the products offered by the Prysmian Group, primarily in the Trade & Installers and Power Distribution businesses, are made in conformity with specific industrial standards and so are interchangeable with those offered by major competitors. Price is therefore a key factor in customer choice of supplier. The entry into mature markets (eg. Europe) of non-traditional competitors, meaning small to medium manufacturing companies with low production costs and the need to saturate production capacity, together with the possible occurrence of a contraction in market demand, translate into strong competitive pressure on prices with possible consequences for the Group's expected margins.
In addition, high value-added segments - like High Voltage underground cables, Optical Cables and Submarine cables - are seeing an escalation in competition both from operators already on the market and from new entrants with leaner more flexible organisational models, in both cases with potentially negative impacts on sales volumes and sales prices. With particular reference to the Submarine cables business, the high barriers to entry, linked to difficult-to-replicate ownership of technology, know-how and track record, are driving large market players to compete not so much on the product as on the related services.
The strategy of rationalising production facilities currently in progress, the consequent optimisation of cost structure, the policy of geographical diversification and, last but not least, the ongoing pursuit of innovative technological solutions, all help the Group to address the potential effects arising from the competitive environment.

Risks associated with changes in the macroeconomic environment and in demand
Factors such as changes in GDP and interest rates, the ease of getting credit, the cost of raw materials, and the overall level of energy consumption, significantly affect the energy demand of countries which, in the face

of persistent economic difficulties, then reduce investments that would otherwise develop the market. Government incentives for alternative energy sources and for developing telecom networks also face reduction for the same reason. The Prysmian Group's transmission business (high voltage submarine cables) and Power Distribution and Telecom businesses, all highly concentrated in the European market, are being affected by fluctuating contractions of demand in this market caused by the region's prolonged economic downturn.

To counter this risk, the Group is pursuing, on the one hand, a policy of geographical diversification in non-European countries (eg. Vietnam, Philippines, etc.) and, on the other, a strategy to reduce costs by rationalising its production structure globally in order to mitigate possible negative effects on the Group's performance in terms of lower sales and shrinking margins.

In addition, the Group constantly monitors developments in the global geopolitical environment which, as a result - for example - of the introduction of specific industrial policies by individual countries, could require it to revise existing business strategies and/or adopt mechanisms to safeguard the Group's competitive position.

Risks associated with dependence on key customers

In the SURF business, the Prysmian Group has a significant business relationship with Petrobras, a Brazilian oil company, for the supply of umbilical cables, developed and manufactured at the factory in Vila Velha, Brazil. In light of the country's continuing economic difficulties causing the local market for umbilical cables to contract and of growing competitive pressures on product technological innovation, the sustainability, even partial, of the business in Brazil could be impacted.

While committed to maintaining and strengthening its business relationship with this customer over time, the Group has started to gradually reorganise the business unit to make its processes more efficient and to concentrate increasingly on developing new products whose technical and economic solutions can lower production costs.

Risk of instability in the Group's countries of operation

The Prysmian Group operates and has production facilities and/or companies in Asia, Latin America, the Middle East and Eastern Europe. The Group's operations in these countries are exposed to different risks linked to local regulatory and legal systems, the imposition of tariffs or taxes, exchange rate volatility, and political and economic instability affecting the ability of business and financial partners to meet their obligations.

Significant changes in the macroeconomic, political, tax or legislative environment of such countries could have an adverse impact on the Group's business, results of operations and financial condition; consequently, as already mentioned in an earlier paragraph, the Group constantly monitors developments in the global geopolitical environment which could require it to revise existing business strategies and/or adopt mechanisms to safeguard its competitive position.

FINANCIAL RISKS

The Prysmian Group's risk management strategy focuses on the unpredictability of markets and aims to minimise the potentially negative impact on the Group's financial performance. Some types of risk are mitigated by using financial instruments (including derivatives).

Financial risk management is centralised with the Group Finance Department which identifies, assesses and hedges financial risks in close cooperation with the Group's operating companies.

The Group Finance, Administration and Control Department provides written guidelines on monitoring risk management, as well as on specific areas such as exchange rate risk, interest rate risk, credit risk, the use of derivative and non-derivative instruments, and how to invest excess liquidity.

Such financial instruments are used solely to hedge risks and not for speculative purposes.

Risks associated with availability of financial resources and their cost

The volatility of the international banking and financial system could represent a potential risk factor in terms of raising finance and its associated cost. Prysmian Group believes that it has significantly mitigated such a risk insofar as, in recent years, it has always been able to raise sufficient financial resources, and at a competitive cost.

The Group's main sources of finance are:

- Credit Agreement 2014: this is a five-year revolving credit facility for Euro 1,000 million, finalised in June 2014. This agreement was notable not only for the significant sum secured thanks to strong interest by the lenders involved, but also for its more competitive cost than previous facilities. The more lenient financial covenants already applied to the Group's other credit agreements were confirmed for this facility. The annual interest rate is equal to the sum of Euribor and an annual spread determined on the basis of the ratio between consolidated net financial position and consolidated EBITDA. This facility had not been drawn down as at 31 December 2016.

- Revolving Credit Facility 2014: this five-year credit facility for Euro 100 million granted by Mediobanca - Banca di Credito Finanziario S.p.A. had been drawn down by Euro 50 million as at 31 December 2016. This facility was cancelled on 31 January 2017: further details can be found in the subsequent section on Significant events after the reporting period.

- EIB Loan: this loan for Euro 100 million, received in February 2014 from the European Investment Bank (EIB), is intended to fund the Group's European R&D plans over the period 2013-2016. The outstanding amount of the loan as at 31 December 2016 was Euro 75 million, having made the first three repayments.

- Convertible bond: a convertible bond for Euro 300 million was placed with institutional investors in March 2013; it carries a 1.25% coupon and matures in March 2018.

- Non-convertible bond 2015: in March 2015, Prysmian S.p.A. completed the placement with institutional investors of an unrated bond, on the Eurobond market, for a total nominal value of Euro 750 million. The bond, with an issue price of Euro 99.002, has a 7-year maturity and a fixed annual coupon of 2.50%. The bond settlement date was 9 April 2015. The bond has been admitted to the Luxembourg Stock Exchange and is traded on the related regulated market. Prysmian used the bond issue proceeds to redeem the Euro 400 million Eurobond that matured on 9 April 2015 and to repay early the Term Loan Facility 2011 for Euro 400 million.

As at 31 December 2016, the Group's total financial resources, comprising cash and cash equivalents and undrawn committed credit lines, came to in excess of Euro 1 billion.

A detailed analysis of "Borrowings from banks and other lenders" can be found in the Explanatory Notes to the Consolidated Financial Statements.

Financial covenants

The credit agreements mentioned in the preceding paragraph contain a series of financial and non-financial covenants with which the Group must comply. These covenants could restrict the Group's ability to increase its net debt, other conditions remaining equal; should it fail to satisfy one of the covenants, this would trigger a default event which, unless resolved under the terms of the respective agreements, could lead to their termination and/or an early repayment of any amounts drawn down. In such an eventuality, the Group might be unable to repay the amounts demanded early, which in turn would give rise to a liquidity risk.
The financial covenants are measured at the half-year close on 30 June and at the full-year close on 31 December. All covenants, financial or otherwise, were fully observed as at 31 December 2016. In particular:

- the ratio between EBITDA and Net finance costs, as defined in the credit agreements, was 15.63x (against a required covenant of not less than 5.50x for the credit agreements signed before December 2013 and 4.00x for those signed in 2014);
- the ratio between Net Financial Position and EBITDA, as defined in the credit agreements, was 0.74x (against a required covenant of below 2.50x for the credit agreements signed before December 2013 and 3.00x for those signed in 2014).

As things stand and in view of the level of the financial covenants reported above, Prysmian Group believes this is a risk it will not have to face in the near future. A more detailed analysis of the risk in question can be found in the Explanatory Notes to the Consolidated Financial Statements.

Exchange rate volatility

The Prysmian Group operates internationally and is therefore exposed to exchange rate risk for the various currencies in which it operates (principally the US Dollar, British Pound, Brazilian Real, Turkish Lira and Chinese Renminbi). Exchange rate risk occurs when future transactions or assets and liabilities recognised in the statement of financial position are denominated in a currency other than the functional currency of the company which undertakes the transaction.

To manage exchange rate risk arising from future trade transactions and from the recognition of foreign currency assets and liabilities, most Prysmian Group companies use forward contracts arranged by Group Treasury, which manages the various positions in each currency.
However, since Prysmian prepares its consolidated financial statements in Euro, fluctuations in the exchange rates used to translate the financial statements of subsidiaries, originally expressed in a foreign currency, could affect the Group's results of operations and financial condition.
A more detailed analysis of the risk in question can nonetheless be found in the "Financial Risk Management" section of the Explanatory Notes to the Consolidated Financial Statements.

Interest rate volatility

Changes in interest rates affect the market value of the Prysmian Group's financial assets and liabilities as well as its net finance costs. The interest rate risk to which the Group is exposed is mainly on long-term financial liabilities, carrying both fixed and variable rates.
Fixed rate debt exposes the Group to a fair value risk. The Group does not operate any particular hedging policies in relation to the risk arising from such contracts since it considers this risk to be immaterial. Variable rate debt exposes the Group to a rate volatility risk (cash flow risk). The Group can use interest rate swaps (IRS) to hedge this risk, which transform variable rates into fixed ones, thus reducing the rate volatility risk. IRS contracts make it possible to exchange on specified dates the difference between contracted fixed rates and the variable rate calculated with reference to the loan's notional value. A potential rise in interest rates, from the record lows reached in recent years, could represent a risk factor in coming quarters.
A more detailed analysis of the risk in question can nonetheless be found in the "Financial Risk Management" section of the Explanatory Notes to the Consolidated Financial Statements.

Credit risk

Credit risk is the Prysmian Group's exposure to potential losses arising from the failure of business or financial partners to discharge their obligations. This risk is monitored centrally by the Group Finance Department, while customer-related credit risk is managed operationally by the individual subsidiaries. The Group does not have any excessive concentrations of credit risk, but given the economic and social difficulties faced by some countries in which it operates, the exposure could suffer a deterioration that would require more assiduous monitoring. Accordingly, the Group has procedures in place to ensure that its business partners are of recognised reliability and that its financial partners have high credit ratings. In addition, in mitigation of credit risk, the Group has a global trade credit insurance policy covering almost all its operating companies.
A more detailed analysis of the risk in question can nonetheless be found in the "Financial Risk Management" section of the Explanatory Notes to the Consolidated Financial Statements.

Liquidity risk

Liquidity risk indicates the sufficiency of an entity's financial resources to meet its obligations to business or financial partners on the agreed due dates.

With regard to the Prysmian Group's working capital cash requirements, these increase significantly during the first half of the year when it commences production in anticipation of order intake, with a consequent temporary increase in net financial debt.

Prudent management of liquidity risk involves the maintenance of adequate levels of cash, cash equivalents and short-term securities, the maintenance of an adequate amount of committed credit lines, and timely renegotiation of loans before their maturity. Due to the dynamic nature of the business in which the Prysmian Group operates, the Group Finance Department favours flexible arrangements for sourcing funds in the form of committed credit lines.

As at 31 December 2016, the Group's total financial resources, comprising cash and cash equivalents and undrawn committed credit lines, came to in excess of Euro 1 billion.

A more detailed analysis of the risk in question can nonetheless be found in the "Financial Risk Management" section of the Explanatory Notes to the Consolidated Financial Statements.

Risks associated with commodity price volatility

The main commodities purchased by the Prysmian Group are copper and aluminium, accounting for more than 50% of the total raw materials used to manufacture its products. The Group neutralises the impact of possible rises in the price of copper and its other principal raw materials through hedging activities and automatic sales price adjustment mechanisms. Hedging activities are based on sales contracts or sales forecasts, which if not met, could expose the Group to commodity price volatility risk.

A dedicated team within the Group Purchasing department monitors and coordinates centrally those sales transactions requiring the purchase of raw materials and the related hedging activities carried out by each subsidiary.

In addition, the continued oil crisis and low level of oil prices are making the extraction market less and less attractive, exposing the SURF and Oil & Gas businesses to a slowdown; however the impact on the Group would not be material since these businesses account for about 4% of the Group's sales and 1% of Adjusted EBITDA.

A more detailed analysis of the risk in question can nonetheless be found in the "Financial Risk Management" section of the Explanatory Notes to the Consolidated Financial Statements.

OPERATIONAL RISKS

Liability for product quality/defects

Any defects in the design and manufacture of the Prysmian Group's products could give rise to civil or criminal liability in relation to customers or third parties. Therefore, the Group, like other companies in the industry, is exposed to the risk of legal action for product liability in the countries where it operates. In line with the practice followed by many industry operators, the Group has taken out insurance which it considers provides adequate protection against the risks arising from such liability. However, should such insurance coverage be insufficient, the Group's results of operations and financial condition could be adversely affected. In addition, the Group's involvement in this kind of legal action and any resulting liability could expose it to reputational damage, with potential additional adverse consequences for its results of operations and financial condition.

Risks associated with non-compliance with the contractual terms of turnkey projects

Projects relating to submarine or underground connections with high/medium voltage cables feature contractual forms that entail "turnkey" project management and so require compliance with deadlines and quality standards, guaranteed by penalties calculated as an agreed percentage of the contract value and even involving the possibility of contract termination.

The application of such penalties, the obligation to compensate any damages as well as indirect effects on the supply chain in the event of late delivery or production problems, could significantly affect project performance and hence the Group's margins. Possible damage to market reputation cannot be ruled out.

Given the complexity of "turnkey" projects, Prysmian has implemented a quality management process involving extensive testing of cables and accessories before delivery and installation, as well as specific ad hoc insurance coverage, often through insurance syndicates, able to mitigate exposure to risks arising from production through to delivery.

Moreover, the ERM findings for this particular risk have led the Risk Management department, with the support of the Commercial area, to implement a systematic process of risk assessment for "turnkey" projects from as early as the bidding stage, with the aim of identifying, assessing and monitoring over time the Group's exposure to specific risks and of taking the necessary mitigation actions. The decision to present a bid proposal to the customer therefore also depends on the results of risk assessment.

Risk of business interruption through dependence on key assets

The submarine cables business is heavily dependent on certain key assets, such as the Arco Felice plant in Italy for the production of a particular type of cable and the cable-laying ships ("Giulio Verne", "Cable Enterprise" and "Ulisse"), some of whose technical capabilities are hard to find on the market. The loss of one of these assets due to unforeseen natural disasters (eg. earthquakes, storms, etc.) or other accidents (eg. fire, terrorist attacks, etc.) and the consequent prolonged business interruption could have a critical economic impact on the Group's performance.

Prysmian addresses this risk through its systematic Loss Prevention program, under which specific inspections of the above assets allow it to identify the level of local risk and define actions that could be necessary to mitigate such risk.

As at 31 December 2016, all of the plants inspected were classified as "Excellent HPR", "Good HPR" or "Good not HPR"; no plant was classified as medium or high risk. In addition, specific disaster recovery plans have been developed that, by predetermining loss scenarios, allow all the appropriate countermeasures to be activated as soon as possible in order to minimise the impact of a catastrophic event.

Lastly, specific insurance cover for damage to assets and loss of associated contribution margin helps minimise the risk's financial impact on cash flow.

Environmental risks

The Group's production activities in Italy and abroad are subject to specific environmental regulations, of which particularly important are those concerning soil and subsoil and the presence/use of hazardous materials and substances, including for human health. Such regulations are imposing increasingly strict standards on companies, which are therefore forced to incur significant compliance costs.

Considering the number of the Group's plants, there is a theoretically high probability of an accident with consequences for the environment, as well as for the continuity of production. The resulting economic and reputational impact would be critical.

The Group's policy of acquisition-led growth could augment its exposure to environmental risks, as a result of acquiring manufacturing facilities that fall short of its standards.

Environmental issues are managed centrally by the HQ Health Safety & Environment (HSE) department which oversees local HSE departments and is responsible for organising specific training activities, for adopting systems to ensure strict adherence to regulations in accordance with best practices, as well as for monitoring risk exposures using specific indicators and internal and external auditing activities.

Lastly, it is reported that 91% of the Group's sites are certified under ISO 14001 (for environmental management systems) and 73% for OHSAS 18001 (for safety management).

Cyber security risks

The growing spread of web-based technologies and business models allowing the transfer and sharing of sensitive information through virtual spaces (i.e. social media, cloud computing, etc.) carries computing vulnerability risks which the Prysmian Group cannot ignore in the conduct of its business. Exposure to potential cyberattacks could be due to several factors such as the necessary distribution of IT systems around the world, and the possession of high value-added information such as patents, technological innovation projects, as well as financial projections and strategic plans not yet disclosed to the market, unauthorised access to which could damage a company's results, financial situation and image.

During 2016, the Prysmian Group started to implement a structured and integrated process for managing cyber security related risks which, under the leadership of the Group IT Security department, in partnership with the Risk Management department, aims to strengthen the Group's IT systems and platforms and introduce solid mechanisms to prevent and control any cyberattacks.

LEGAL AND COMPLIANCE RISKS

Compliance risks associated with laws, regulations, Code of Ethics, Policies and Procedures

Compliance risk represents the possibility of incurring legal or administrative sanctions, material financial losses or reputational damage as a result of violations of laws, regulations, procedures, codes of conduct and best practices. Right at its inception, the Prysmian Group approved a Code of Ethics, a document which contains ethical standards and guidelines for conduct to be observed by all those engaged in activities on behalf of Prysmian or its subsidiaries, including managers, officers, employees, agents, representatives, contractors, suppliers and consultants. In particular, the Code of Ethics requires full compliance with current regulations and the avoidance of any kind of misconduct or illegal behaviour. The Group adopts organisational procedures designed to prevent violation of the principles of legality, transparency, fairness and honesty and is committed to ensuring their observance and practical application. Although the Group is committed to ongoing compliance with applicable regulations and to close supervision to identify any misconduct, it is not possible to rule out episodes in the future of non-compliance or violations of laws, regulations, procedures or codes of conduct by those engaged in performing activities on Prysmian's behalf, which could result in legal sanctions, fines or reputational damage, even on a material scale.

Risks relating to legal and tax proceedings

Within a complex and geographically diversified business, Prysmian S.p.A. and some of the Group companies could become involved in tax and legal proceedings, involving civil and administrative actions, despite the major programmes, organised by Group Compliance in agreement with Human Resources, to raise awareness about ethical and business integrity and legality among employees and staff. In some of these cases, the company might not be able to accurately quantify the potential losses or penalties associated with such proceedings. In the event of an adverse outcome to such proceedings, the Group cannot rule out an impact, even for a material amount, on its business, results of operations and financial condition, as well as reputational damages that are hard to estimate.

During August 2015, two employees of a foreign subsidiary were the subject of court orders by the local authorities as part of an investigation into alleged misappropriation at the subsidiary's expense. Following this notification, the Group instructed its advisors to review and assess a number of areas of potential risk and critical situations arising from possible breaches of internal procedures. Although an exact quantification of the risks is not possible, the Directors believe, based on the results of the above work to date, that any liabilities triggered by such situations would nevertheless not be material for the Group.

Risks of non-compliance with Antitrust law

Its strong international presence in more than 50 countries means the Group is subject to antitrust law in Europe and every other country in the world in which it operates, each with more or less strict rules on the civil, administrative and criminal liability of the perpetrators of anti-competitive practices. In the last decade, local Antitrust Authorities have shown increasing attention to commercial activities by market players, also involving a tendency for international collaboration between authorities themselves.

The geographical dispersion of its employees, the lack of knowledge at times of local regulations as well as market dynamics, make it difficult to monitor the behaviour of third parties like suppliers and competitors, exposing the Group to the risk of being involved in conduct that could be considered anti-competitive and that could consequently lead to extremely high economic sanctions with an adverse impact on the reputation and credibility of the Group's system of governance.

In line with the priorities identified by the ERM process, the Legal Department has taken steps, with the support of Group Compliance, to raise awareness of the issues at stake through the adoption of an Antitrust Code of Conduct that all Group employees, directors and managers are required to know and observe in the conduct of their duties and in their dealings with third parties. These activities represent a first step in establishing an "antitrust culture" within the Group by stimulating pro-competitive conduct and by heightening individual accountability for professional conduct.

Antitrust – European Commission Proceedings in the high voltage underground and submarine cables business

The European Commission started an investigation in late January 2009 into several European and Asian electrical cable manufacturers to verify the existence of alleged anti-competitive practices in the high voltage underground and submarine cables markets. On 2 April 2014, the European Commission adopted a decision under which it found that, between 18 February 1999 and 28 January 2009, the world's largest cable producers, including Prysmian Cavi e Sistemi S.r.l., adopted anti-competitive practices in the European market for high voltage submarine and underground power cables. The European Commission held Prysmian Cavi e Sistemi S.r.l. jointly liable with Pirelli & C. S.p.A. for the alleged infringement in the period 18 February 1999 - 28 July 2005, sentencing them to pay a fine of Euro 67.3 million, and it held Prysmian Cavi e Sistemi S.r.l. jointly liable with Prysmian S.p.A. and The Goldman Sachs Group Inc. for the alleged infringement in the period 29 July 2005 - 28 January 2009, sentencing them to pay a fine of Euro 37.3 million. Prysmian has filed an appeal against this decision with the General Court of the European Union along with an application to intervene in the appeals respectively lodged by Pirelli & C. S.p.A. and The Goldman Sachs Group Inc. against the same decision. Both Pirelli & C. S.p.A. and The Goldman Sachs Group Inc. have in turn submitted applications to intervene in the appeal brought by Prysmian against the European Commission's decision. The applications to intervene presented by Prysmian, Pirelli and The Goldman Sachs Group Inc. have been accepted by the General Court of the European Union. Prysmian has not incurred any financial outlay as a result of this decision having elected, pending the outcome of the appeals, to provide bank guarantees as security against payment of 50% of the fine imposed by the European Commission (amounting to approximately Euro 52 million) for the alleged infringement in both periods. As far as Prysmian is aware, Pirelli & C. S.p.A. has also provided the European Commission with a bank guarantee for 50% of the value of the fine imposed for the alleged infringement in the period 18 February 1999 - 28 July 2005. The hearing of oral arguments in the appeal brought by Prysmian against the European Commission's decision of April 2014 has been scheduled for 20 March 2017, while the hearings of oral arguments in the appeals brought by Pirelli & C. SpA and The Goldman Sachs Group Inc. against the same decision of the European Commission in April 2014 have been scheduled for 22 and 28 March 2017 respectively. Pirelli & C. S.p.A. has also brought a civil action against Prysmian Cavi e Sistemi S.r.l. in the Milan Courts, in which it demands to be held harmless for all claims made by the European Commission in implementation of its decision and for any expenses related to such implementation. Prysmian Cavi e Sistemi S.r.l. started legal proceedings in February 2015, requesting that the claims brought by Pirelli & C. S.p.A. be rejected in full and that it should be Pirelli & C. S.p.A. which holds harmless Prysmian Cavi e Sistemi S.r.l., with reference to the alleged infringement in the period 18 February 1999 - 28 July 2005, for all claims made by the European Commission in implementation of its decision and for any expenses related to such implementation. The proceedings have since been stayed by order of the court concerned in April 2015, pending the outcome of the appeals made against the European Commission's decision by both Prysmian and Pirelli in the European Courts. Pirelli has challenged this decision before the Court of Cassation, Italy's highest court of appeal, which has confirmed the stay of execution ordered by the Milan Courts.

Antitrust – Other proceedings in the high voltage underground and submarine cables business in jurisdictions other than the European Union

The US Department of Justice and the Japan Fair Trade Commission started similar investigations in late January 2009 into several European and Asian electrical cable manufacturers to verify the existence of alleged anti-competitive practices in the high voltage underground and submarine cables markets. Subsequently, the Australian Competition and Consumers Commission ("ACCC") and the New Zealand Commerce Commission also started similar investigations. During 2011, the Canadian antitrust authority also started an investigation into a high voltage submarine project dating back to 2006. The investigations in Japan, New Zealand, Canada and the United States have all ended without any sanctions for Prysmian; the other investigations are still in progress.

In Australia, the ACCC has filed a case before the Federal Court arguing that Prysmian Cavi e Sistemi S.r.l. and two other companies violated antitrust rules in connection with a high voltage underground cable project awarded in 2003. Prysmian Cavi e Sistemi S.r.l. has filed its objections and presented its preliminary defence. A ruling issued in July 2016 has held the company liable for violation of Australian antitrust law with regard to this project, without however quantifying the applicable penalty, which will be determined upon completion of the second stage of these proceedings. The company is reviewing the contents of this ruling in detail in order to assess whether there are possible grounds for appeal. The hearing of oral arguments took place on 1 December in connection with the amount of the penalty to impose on Prysmian Cavi e Sistemi S.r.l. at the end of which the judge reserved passing judgement.

In Brazil, the local antitrust authority has started an investigation into several cable manufacturers, including Prysmian, that operate in the high voltage underground and submarine cables market. Prysmian has presented its preliminary defence, which was rejected by the local competition authorities in a statement issued in February 2015. The preliminary stage of the proceedings will now ensue, at the end of which the authorities will publish their concluding observations, to which the parties may respond with all their arguments in defence before a final decision is taken.

Antitrust - Claims for damages as a result of the European Commission's 2014 decision

During 2015, National Grid and Scottish Power, two British operators, filed claims in the High Court in London against certain cable manufacturers, including Prysmian Group, to obtain compensation for damages purportedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014. The Group companies concerned were notified of this initial court filing during the month of May 2015 and presented their defence early in October 2015, along with the summons of other parties censured in the European Commission's decision. Among the parties involved in this action, Pirelli & C. S.p.A. has requested the London High Court to decline its jurisdiction or nonetheless to stay the proceedings in its regard pending the outcome of the civil action previously brought by Pirelli against Prysmian Cavi e Sistemi S.r.l. in the Milan Courts, in which it demands to be held harmless for all claims made by the European Commission in implementation of the latter's decision and for any expenses related to such implementation. The proceedings have since been stayed, as agreed between the parties, pending the outcome of the action brought by Pirelli in the Milan Courts. A similar agreement has also been reached with The Goldman Sachs Group Inc., another company involved in the actions discussed above. The other actions brought by Prysmian Group companies against other cable producers censured in the European Commission decision have in turn been suspended pending the outcome of the main action brought by National Grid and Scottish Power.

In addition, during 2016 other operators presented claims against Prysmian S.p.A. and some of its subsidiaries, either directly or through lawyers, in order to obtain compensation for an unquantified amount of damages, allegedly suffered as a result of Prysmian's participation in the anti-competitive practices condemned by the European Commission in its decision of April 2014. Based on the information currently available, the Directors are of the opinion not to make any provision.

Antitrust – Other investigations

The Australian and Spanish antitrust authorities have respectively initiated additional proceedings to verify the existence of anti-competitive practices by local low voltage cable manufacturers and distributors, including some of the Group's foreign subsidiaries based in these countries. As regards the judicial proceedings initiated by the Australian antitrust authorities, the hearing, which began at the end of November 2015, has been completed and a ruling is now awaited. As for the Spanish administrative proceedings, these were initiated at the end of February 2016 by the local competent authority, which has subsequently sent a statement of objections to some of the Group's local subsidiaries.

As at 31 December 2016, the provision for the above Antitrust investigations amounts to approximately Euro 147 million.

Despite the uncertainty of the outcome of the investigations in progress and potential legal action by customers as a result of the European Commission's decision, the amount of this provision is considered to represent the best estimate of the liability based on the information now available.

PLANNING AND REPORTING RISKS

Planning and reporting risks are related to the adverse effects that irrelevant, untimely or incorrect information might have on the Group's strategic, operational and financial decisions. At present, in view of the reliability and effectiveness of internal procedures for reporting and planning, these risks are not considered to be relevant for the Group.

A SUSTAINABLE APPROACH TO BUSINESS MANAGEMENT

Having opened the doors of its new headquarters in the Bicocca district this year, confirming itself at the forefront of innovation, Prysmian Group is pursuing a specific policy of sustainability that aims to create and deliver value to its stakeholders, while also improving the quality and transparency of its business relationships.

In line with its Vision statement, focused on promoting "the efficient, effective and sustainable supply of energy and information as the principal driver for the development of communities", and in keeping with its values of excellence, integrity and understanding, the Group made important progress this year in making sustainability an ever more integral part of its business operations, in recognition of the importance of sustainability as a distinguishing factor and competitive advantage.

The Prysmian Sustainability Policy defined in 2016 sets out the priorities driving its medium/long-term sustainability strategy, and identifies clear objectives consistent with the Group's identity, the businesses in which it operates and its specific stakeholder groups. Furthermore, Prysmian has referred to the United Nations Sustainable Development Goals, the recommendations of the main international sustainability indices and its stakeholder expectations to develop a Sustainability Plan that includes a series of annual actions for implementation through its business functions and units. Lastly, with the purpose of providing its stakeholders with full visibility as to implementation of its sustainability strategy, the Group has adopted a scorecard with 16 quantitative KPIs and related targets for 2020, which it undertakes to monitor and provide regular reports on their progress.

By developing this Plan, Prysmian has loudly reaffirmed its commitment to sustainability, as also demonstrated by its decision to link sustainability objectives to incentive systems for all managers from 2017.

Acknowledging the importance of these issues in business process management and in response to the invitation in Italy's Corporate Governance Code for Listed Companies to formalise the approach to such matters, as from 1 January 2016 the Board of Directors has put the Compensation and Nominations Committee in charge of supervising sustainability issues associated with the Group's operations and the related engagement with stakeholders.

Prysmian's decision to continue organising Multi-Stakeholder Engagement events, initiated in 2014, is another part of this process. Aware of the importance of engaging with stakeholders on the subject of sustainability as a way to strengthen a relationship of trust based on transparency, openness and dialogue, Prysmian has recently organised its third Multi-Stakeholder Engagement event in Pikkala (Finland), home to an important submarine cables plant. This type of event has now become an integral part of the Group's sustainability strategy, representing a valuable channel of communication both for managing the everyday business and for defining future policies. Cornerstones of this strategy are the technological and sustainable innovation of its solutions, the environmental responsibility of its production processes, the management of relations with local communities in which the Group operates, attention to safety at work and the development of its people.

On the people management front, Prysmian has developed a *Human Rights Policy* with the purpose of setting out its commitment to the protection of these rights not only within its own organisation, but also along the value chain, engaging with its suppliers on these issues. The Policy was approved early in 2017 and will be shared both with employees, through internal communication initiatives, and along the value chain. The Prysmian Group Academy, an international school of management and vocational education, with the mission of developing and strengthening the leadership and technical skills of management, continued to operate throughout 2016. During the year, a new recruitment campaign for sales personnel was developed under the title "Sell It", which aims in 2017 to identify young people passionate about and with experience of sales, who are ready to hold key and highly challenging positions in the various business areas. Lastly, the YES (Your Employee Shares) programme, giving employees the chance to buy Prysmian shares at a preferential price, continues to enjoy success. To date about 44% of employees have signed up, with this figure expected to increase in the future.

The Group's approach to sustainability is also evident in its relations with business partners. Among the actions to include environmental and social criteria in the process of supplier selection and qualification, Prysmian has continued to assess all new suppliers using a qualification questionnaire about their policies to safeguard the environmental and social aspects of their activities. In addition, as part of vendor management of metals suppliers, work has continued to map, classify and involve suppliers through a self-assessment questionnaire designed to assess the main parameters influencing sustainability issues, such as integrity, human and workers' rights, environment, mining, and conflict minerals. Following on from 2015, when self-assessment questionnaires were completed by metal suppliers accounting for nearly 80% of volumes purchased, the mapping has now been extended to 100% of regular suppliers. Prysmian has presented the results to each supplier during the routine negotiation meetings. This has significantly raised awareness within the Group's supply chain of the importance Prysmian attaches to sustainability as a criterion for selecting suppliers and awarding contracts.

In terms of sustainable innovation, 2016 was an exceptional year. The Group achieved a number of technological milestones on both the energy and telecom fronts, likely to have a significant impact on the market in terms of energy savings and sustainability. The main field of application is HVDC technology, allowing the transmission of large amounts of electricity over long distances, often between different countries. Prysmian launched its world first 700 kV PPL and 600 kV XLPE HVDC cables, which boost power transmission capacity and network reliability by up to 15%, and it extended its P-Laser technology - allowing the production of fully recyclable eco-friendly cables - to HVDC with the introduction of the P-Laser 600 kV cable, permitting cost savings of up to 30% per MW transmitted. It also introduced a 66 Kv cable, which can reduce the cost of offshore wind farms by up to 15%, and it obtained qualification for carbon trust programmes. The Flextube optical cable for the Telecom market achieved another world record, with its 2,112 fibres in a single solution, offering significant benefits in terms of installation cost per fibre and infrastructure usage by reducing the impact of civil works needed for installation.

The steadfast commitment to sustainability is also reflected in transparent, structured communication to all the Group's stakeholders through the annual publication of the Sustainability Report, offering its readers the chance to learn more about the policy promoted by Prysmian and its economic, environmental, social and product performance. Consistent with past reports, the 2016 Sustainability Report has been prepared in accordance with the "G4 Sustainability Reporting Guidelines" published by the Global Reporting Initiative (GRI) in 2013. In fact, the GRI Sustainability Reporting Guidelines G4 require the Sustainability Report to contain information on matters deemed to be material, meaning those that have a critical impact for the organisation in economic, environmental and social terms and which significantly influence the judgements and decisions of stakeholders. The report has also been audited by a recognised external firm to provide all stakeholders with assurance as to the reliability of the information contained therein.

Demonstrating the effort invested, the Group continues to be included in the prestigious FTSE4Good Global Index, consisting of companies that demonstrate ethical and transparent governance practices and implement socially responsible policies. In addition, like in the past, Prysmian will participate in the top international assessments of sustainability in 2017, in particular the RobecoSAM assessment for the Dow Jones Sustainability Index (DJSI) and the Carbon Disclosure Project questionnaire.
Lastly, reference should be made to the 2016 Sustainability Report for a complete account of how the Group manages the economic, environmental, and social impacts deemed of importance for itself and its stakeholders and its performance in these areas.

HUMAN RESOURCES

The HR strategy is rooted in the development and spread of a shared common identity: everyone must feel part of the team, contributing to a common project in which they believe.

Over *a period of 140 years*, the Prysmian Group has built its success and achieved important milestones thanks to the ability of its employees who, generation after generation, have been able to pass on to younger colleagues their values, experience and sense of belonging to the Group.
The human capital strategy of Prysmian seeks to continue in this direction: fostering and shaping the passion, motivation and competencies of employees into a true competitive edge over competitors.

In line with the Group's objectives, the human capital strategy is underpinned by a number of pillars:

- The development and spreading of a shared common identity: everyone must feel part of the team, contributing to a common project in which they believe.
- An inspiring model of Leadership: a management class of high moral and professional standing is essential for aspiring to ambitious goals and for achieving stable, long-term results. This also involves continually enhancing the ability to have a 360-degree vision of the business and related opportunities, as well as to anticipate changes in the business.
- The development and management of talent: involving the right people for the professional challenges, knowing how to select them, develop and make the most of their talents, and train, challenge and engage them. These activities, like others, require planning and method in order to prime the Group to face the challenges of the future. The Group aims to step up the development of the "people pipeline" that will drive and support both current activities and Prysmian's future growth.
- The ability to attract top quality resources, by offering professional, intellectual and challenging career alternatives, that are dynamic but also able to offer attractive long-term prospects.
- The ability to protect critical know-how and to prepare a planned succession for the more important technical roles within the factories.
- The development of an organisation that, in terms of size, structure and processes, will allow the Group to compete effectively on the market.
- The importance of internal communication and social relations, key to managing a large organisation and being able to engage internal and external stakeholders.
- The international and multicultural dimensions of our workplaces, consistent with our industrial and commercial presence worldwide.

Leadership Alignment / Organisational efficiency

With regard to regional structures, Italy was placed under the South Europe region in 2016 as part of the process of rationalising Country structures in Europe on a regional basis to improve commercial synergies in an increasingly integrated European market. The new organisational structure has also helped improve the sharing of industrial know-how, as well as logistics and procurement processes.

During the year a new segmentation of the business was introduced, involving the creation of the new OIL&GAS operating segment, which brings together the businesses operating in this market with a view to creating commercial synergies and developing integrated products and services. In addition, the structure of Oil&Gas Core Cables was redefined to promote greater cross-national coordination for major projects.

Within head office, a new Audit & Compliance department was established, extending the responsibility of the former Audit department to allow systematic management and control of Group compliance.

Talent and People Development: investing in people

Intellectual capital and talent are strategic assets for achieving Prysmian's goals of profitability and value creation, which is why they must be supported by appropriate actions to develop and make the most of them. During the period 2012-2016, the Group has designed and implemented a Human Capital Development strategy intended to minimise errors in personnel decisions and ensure the right people are in the right place, by staffing the business with capable resources able to contribute to future growth and maintenance of the global industry-leading position.

The Human Capital Development strategy is based on an integrated system of management, that is able to attract, develop, promote and retain talented people in the business.

This talent management system is based on four basic pillars:

- Recruiting and Talent Acquisition
- Training and Development
- Performance Management
- Talent and Succession Management

Recruiting and Talent acquisition

Build The Future

Building the managers and technicians of the future begins with selecting the best talents on the market, with particular attention to recent graduates. "Build the Future, the Graduate Program" is the Group's international recruitment program to place young high-potential graduates in different business functions and geographical locations.

The Graduate Program involves the following phases:

- Meticulous selection process. The selection phase is based on the most sophisticated assessment centre techniques: analysis of CV, administration of cognitive numerical/verbal tests, personality and corporate culture questionnaires, group exercises and individual interview.

- Two weeks of Induction in Milan in year one, plus another three weeks of training in the next two years under the Post Graduate Program, which allows recruits to acquire fundamental knowledge about the business, products, processes and customers.
- One-year job rotation (six months in Research and Development, three months in Operations and three months in Sales) in order to learn about all the critical stages of the value chain, as well as technical and product skills.
- Mentorship, to guide and mentor graduates in their first three years of working for the business.
- Two-year international assignment in one of the Group's locations.
- Appointment to an important technical or managerial position at the end of the three years.

Launched in 2012, the program has resulted in the recruitment of around 170 young people from around the world. The first half of 2016 saw the intake of 40 new graduates from every continent as part of the fifth cohort, while more than 28,000 applications were received in the second half of 2016 for the selection and intake of a sixth cohort in 2017 comprising another 40 graduates.
The program is currently one of the most attractive in the world thanks not only to the particular career path offered, involving a high standard of program conduct in the various countries, but also to an intensive employer branding campaign to promote the company brand in partnership with the leading professional social network (LinkedIn), to intense contact with the world's top engineering and economic universities and assiduous participation at careers fairs, and to the development of intense and focused activities on Facebook and other major social channels.
In particular, in 2016 the company used "Facebook Live" for the first time with candidates, in order to present them the company and its culture as best possible, to respond in real time to relevant questions and to provide a constant update on the various stages of the selection process. The initiative was a great success, with thousands of comments and visits.

Make It

Consistent with the talent acquisition strategy, Prysmian has launched a new international recruitment program, called "Make It", particularly targeting engineers with 3-5 years of experience and interested in playing key and highly challenging roles within the Group's most important factories.
The aim is to identify engineers, including from other sectors, who will have the opportunity to make their own significant contribution to the growth in manufacturing.
The program, designed to grow and develop manufacturing talent, involves the following stages.

- On boarding & on-the-job training for about 2 months designed to provide exposure to the local business and the specific job.
- Technical and managerial induction at the Group's Manufacturing Academy in Mudanya, Turkey. A period of training in the fundamentals of Prysmian's manufacturing culture, its values and common business language.
- Mentorship, with the goal of being directed to the best in the business.
- Continued technical training, through participation in Lean Six Sigma skills development program.

- Career development through individual performance evaluation and assessment of potential.

The first edition attracted about 6,000 direct and 1,500 indirect applications, and thanks to a rigorous selection process conducted in partnership with HAYS, an international recruiting firm, involving analysis of CV and career, the administration of tests and questionnaires and the conduct of multiple individual interviews, about 50 engineers from around the world and the most advanced industries joined Prysmian in 2016.

Sell It

Consistent with its strategic recruitment activities, during the year Prysmian developed "Sell It", a new recruitment program targeting sales professionals. The program, due to be launched early in 2017, aims to identify young people from different industries with 3/7 years of experience in sales, for placement in the Group's different business areas in key and highly-challenging positions.

The program has been designed with the important input from the sales force through a detailed process of interviews and a survey of a representative sample of approximately 100 sales staff.

Training and Development

Prysmian Group Academy

In the area of resource development, the Group has created the Prysmian Group Academy, an international school of management and vocational education, with the mission of developing and strengthening the leadership and technical skills of its management.

The Academy is structured in two distinct but complementary schools: the Management School and the Professional School.

Management School

The *Management School*, run in partnership with SDA Bocconi and a network of more than 10 major international business schools (ESADE, FUDAN, SMU, CBS, STENBEIS, UNIVERSITY OF STOCKHOLM, FGC, IESEC, USC), has seen around 600 participants pass through its doors in 5 years and has awarded 300 diplomas, with continued ambition to grow in 2017.

This school has been designed for the more talented resources with the goal of sharing a common vision of the business, of spreading Prysmian values and culture and of exposing them to best management practices.

The uniqueness of Prysmian Group's management school lies in the fact that its comprehensive portfolio of management training programs allows participants to accumulate credits towards GEMBA Global Executive MBA, an internationally recognised degree program run by SDA Bocconi in partnership with an international network of business schools.

Furthermore, all contents of the programs have been heavily customised to respond to the competitive challenges of the industry in which Prysmian operates. This has been possible by getting SDA Bocconi to develop "Global and Regional Prysmian case studies", which, by starting with real situations, allow participants to get to grips with the everyday difficulties faced when devising strategies in the cable world.

The management training portfolio is structured in 6 leadership programs:

1. Post Graduate Program: a Group induction program for new graduates who have just joined Prysmian Group, allowing them to learn the fundamentals about the business, products, processes and customers
2. International Leadership Program: an intensive Group program for talented resources with 5/7 years of experience who are on track for international leadership roles within Prysmian Group
3. Regional Leadership Programs: training programs of a regional nature (SOUTH EUROPE, NORTH EUROPE, SOUTH AMERICA, NORTH AMERICA, CENTRAL EAST EUROPE, APAC) designed in partnership with leading business schools, targeting regional middle management not involved in the global programs; with their design and content adapted to the specific nature of local business and markets, they seek to foster networking within the Region without losing sight of the Group's overall strategy.
4. Advanced Leadership Program: a specially designed Group program for middle and senior managers in order to assess and develop their managerial and leadership skills and to foster rapid career advancement within the business.
5. GEMBA, Global Executive MBA run by SDA Bocconi.
6. Senior Leadership Program (SLP), workshops and seminars on specific topics for the CEO's first line of reports. In particular, these addressed the topic of innovation in 2016.

Of particular importance was the establishment during the year of the first ALUMNI program, involving more than 100 employees who had completed previous editions of the leadership programs; the Alumni program aims to maintain and energise the network, as well as to serve as a source of continuing professional education.

Professional school

The *Professional School* is organised into a series of Academies by function (R&D, Manufacturing, Purchasing, Supply Chain, Quality, HR, Finance, Interfunctional) and centres of expertise (Manufacturing, Technology, Sales) and has trained more than 1,000 employees in five years, involving more than 100 experts with a similar number expected to be involved in 2017; its mission is to develop and share key technical and professional skills, with the assistance of a team of in-house experts from all over the world. The key objective is to develop and consolidate know-how and technical skills, by ensuring their transfer from older experts to younger staff, in order to spread knowledge of the product portfolio and foster the development of an internal network within the business. Details are set out below.

- Manufacturing Academy: the first centre of expertise was completed in 2016 in a fully equipped space within the Mudanya factory in Turkey, one of the Group's largest; so far it has provided technical training to about 100 employees from all the Group's plants.
- Research and Development Academy: courses conducted by senior in-house experts are designed to enhance technical expertise in the areas of innovation and product development so that customers can be provided with technologically innovative solutions at increasingly competitive costs.
- Quality and Supply Chain Academy: for staff who work in Operations, to enhance their key production management skills.
- Purchasing Academy: intended to develop excellence in managing procurement of materials and services, it explores key issues like negotiation.
- Sales and Marketing Academy: course designed to strengthen and develop technical and commercial skills in the different business segments, such as market analysis and product marketing.
- IT Academy: focused on providing the necessary knowledge for fundamental activities involving SAP One Client.
- Interfunctional Academy: specialist courses that aim to develop interfunctional knowledge.
- Human Resources Academy: courses which consolidate skills to manage the fundamental processes of recruiting, training and development.

Also deserving of mention was the development of four important activities involving business partnership, innovation and knowledge management:

1. The preparation of the start-up of the Group's Product and Technology school, based in Lexington, North America, under the leadership of the Group's most experienced chief engineer (retired in 2016).
2. The issue by the Prysmian Academy of the first in-house publication on optical fibre, curated by the Group's leading experts.
3. The launch of the Digital Academy, involving a pilot group of about 250 employees from the Quality function, was an important test of methodology and not just of on-line learning. A specific web-accessed Learning platform www.prysmiangroupacademy.com has been set up for this purpose.
4. Delivery of courses to Prysmian customers. Several technical training courses on the PRYCAM product were conducted for customers.

Performance Management

To achieve the business objectives and continue to improve the results, each employee must be able to make their daily contribution by being set clear objectives, agreed with their manager, and to have constant feedback on their work and the results achieved.

A performance appraisal system, known as Prysmian People Performance (P3), was introduced for the first time in 2012. Following the pilot project involving the Group's executives, the system has been extended to all management and clerical staff in every country, involving a total of about 5,000 people in 2016.

The objectives of P3 are to:

- align personal objectives with those of the Group, thereby motivating each employee to do their best and generate value for the entire organisation, and create a single business identity;
- guide leadership behaviour;
- facilitate communications between managers and staff, so that the results achieved can be shared;
- reward the most deserving resources based on objective appraisals.

The process, supported by an on-line platform, involves 5 main steps.

1. Performance definition: to determine targets and expected behaviours. This important phase requires appraiser and appraisee to agree objectives, including a detailed description (WHAT), how they will be measured and achieved (HOW).
2. Constant feedback: for a solid and lasting relationship between appraiser and appraisee.
3. Overall assessment: appraisal of the quantitative and qualitative results achieved.
4. Calibration: sharing and comparison of the appraisals made by management at various levels (Country/Region, Business Unit, Group).This phase is certainly what makes the Group's assessment model unique, with individual appraisals shared with committees at different levels of the organisation in order to gather the many options of the various stakeholders and be able to arrive at an objective appraisal.
5. Feedback: provision of feedback to appraisee. This is when the appraiser plays a key role in the growth and development of their staff, and when appraisees also gain an important say in their personal development.

In the spirit of continuous improvement in the business and in the business processes, a number of improvements were adopted and monitored in 2016 to ensure ever more meritocracy and employee engagement:

- possibility for employees to propose their own target objectives, agreeing these with their superiors, and to redefine them in the course of the year if the job or external market conditions should change;
- preparation and writing of an action plan aimed at improving performance;
- alignment between performance process and career programs;
- link between appraisal systems and reward system.

Talent and Succession Management

As a result of these different experiences of talent assessment and measurement, and as advocated by Italy's Corporate Governance Code (art. 5) regarding succession planning, the Group - under a mandate from the Compensation Committee - decided in 2015 to rationalise its talent management activities and adopt a unified process to identify talent and draft succession plans.

It therefore introduced in 2016 a unified talent identification process called P4 (Prysmian People Performance Potential), in partnership with Mercer, a human resource consulting firm. Its basic purpose is to provide an assessment of potential, by predicting future performance in positions of greater responsibility.

The process is based on the assumption of what talent means for Prysmian, defined through a series of structured interviews with 35 of the Group's key managers.

TALENT IN PRYSMIAN = CONSISTENT PERFORMANCE + POTENTIAL

Consistent performance means the ability to have achieved good results in at least the past two years (calculated using an algorithm of the P3 appraisal system).

Potential means the combination of 8 personal characteristics relevant to the Group.

The process, launched in March 2016, has covered everyone taking part in the P3 process (5,000 employees), and involved the following steps:

- ✓ POTENTIAL SCOUTING. The "consistent performance" access condition was calculated for all employees. A scouting activity was performed for the some 800 employees defined as consistent performers, involving a guided observation of the 8 characteristics of potential and a rating of potential on a scale of one to three.
- ✓ TALENT POOLS. All assessments were consolidated into a 9-box grid, consolidated by organisational level to produce talent pools.
- ✓ TALENT DISCUSSION. Discussion panels were held in each country to share the results of observations and prepare succession tables.
- ✓ GROUP VALIDATION. All the individual country reports were presented to corporate function committee meetings with the aim of validating and completing the mapping of talents and the succession plans.
- ✓ EXTERNAL ASSESSMENT. An external partner (Spencer Stuart) was also involved for the 10 strategic positions, with the performance of an independent assessment of potential for about 30 managers, to evaluate their level of readiness for these 10 particular jobs.

Given the positive results of this process in 2016 and its importance to risk assessment and business sustainability, it has been confirmed as an annual process, designed to ensure continuous monitoring of the pipeline, as well as of the risk of discontinuity for critical positions.

In terms of talent assessment, it is particularly worth mentioning the structured work in this area conducted in the Academy classrooms, in partnership with CEB, a consulting firm. Consistent with the P4 process, the leadership programs of the management school and some programs of the professional school have included an *assessment process* and *leadership development* modules, involving about 400 employees to date, including executives, middle managers and technicians. This process makes it possible to supplement the Prysmian Academy programs with individual action and development plans and to provide the Group with information about leadership potential and motivational drivers, information that can then be used for succession planning. The same methodology has been used in critical selection processes in several of the Group's operating companies, by providing additional information about candidates to make for a more robust decision-making process.

International mobility

At 31 December 2016, the Prysmian Group had an expatriate population of 233 people from about 30 different nationalities (of whom 36% were Italian), who had moved to 36 different destination countries; of this total 72% were non-executive staff and 16% women. A total of 88 people embarked on new international assignments during 2016.

The numbers presented above demonstrate the importance of international mobility within the Group, as evidence of how this tool is an integral part of the policies of talent development and growth. On the one hand, it allows the culture and values of Prysmian to spread to all its countries, fundamental after the Draka Group's acquisition in 2011. On the other hand, it allows local organisational needs to be met by transferring both managerial and technical know-how from one country to another. International experience is also central to the professional and managerial growth of young talents participating in the "Graduate" program. In 2016, 40 recent graduates from 18 different countries were involved in two-year international assignments in as many as 19 different destination countries.

Despite this great attention to internationalism and the development of transnational resources, Prysmian devotes considerable energy to promoting the cultural diversity of the individual countries in which it operates. Of the Group's senior executives, 56% work in their country of origin.

The focus of international mobility programs in 2017 will continue to be on ensuring the success of international assignments by measuring their effectiveness in terms of know-how transfer and local team professional development and by improving the career planning for expatriates once they finish their international assignments.

Key to the success of the international mobility policy is that expats manage to share and strengthen the Prysmian sense of identity, its corporate culture and values within the local teams, while leveraging the diversity of talents beyond geographical borders in order to achieve better results for the business.

Remuneration policies

The Compensation & Benefits policies adopted by the Group are designed to attract and retain highly professional resources, particularly for key positions, with the right skills for the complexity and specialisation of the business, while also having a view to the sustainability of costs and results over time. The business's growing internationalisation means constantly monitoring the different geographical situations to secure distinctive talents in a competitive market environment.

These policies are defined and implemented centrally for the Executive population (about 300 employees) and for expatriates (about 230 employees), while these activities are delegated to the local level for the rest of the workforce. Over the next few years, centralised management will also extend to the population of experienced employees, meaning those with extensive know-how linked to length of service.

In line with best market practice, executive remuneration packages contain a fixed component as well as short and long-term variable components. All components of remuneration are performance-related and the variable ones, in particular, account for an important percentage of the overall compensation package offered.

The fixed portion of remuneration is reviewed annually and revised if necessary to take account of competitiveness versus market compensation data, internal equity and individual performance, all of which in compliance with local regulations. This meritocratic approach is based on the P3 global performance appraisal system which is applied uniformly and consistently throughout the Group.

The executive population and 500 other managers participate annually in the MBO (Management by Objectives) plan under which an annual incentive is paid upon meeting predetermined Group objectives in line with the priorities identified in the business plan. In 2016 these objectives (on-off conditions) were represented by the Group's Net Financial Position and EBITDA. The value of the incentive paid depends on the percentage achieved of the predetermined business and/or functional and/or individual objectives, defined with the aim of aligning individual behaviour with the organisation's annual strategic objectives. Starting in 2017, the fourth objective for everyone will be linked to sustainability, as measured by the Group's improvement in the Dow Jones Sustainability index. There is also a multiplier that is applied to the final value of the MBO, depending on the P3 performance appraisal. The calculation of the final bonus therefore also takes into account an employee's qualitative performance and overall conduct. The MBO has very strict rules which are communicated clearly and transparently to all participants.

In a spirit of continuity with the past, and convinced of the importance of linking executive remuneration to business short-term as well as long-term results, the Prysmian Group launched a new long-term incentive plan (LTI) in 2015, duly approved by the shareholders.

Beneficiaries of the 2015-2017 LTI plan are executives, as well as some of the Group's talents and key people. This plan is based on the achievement of three-year targets and designed so as to be consistent with the interests and expectations of investors, by ensuring the sustainability of the business in the long run and promoting the retention of key resources within the Group.

The LTI plan is structured in two parts: a coinvestment part for the annual bonus (MBO) and a performance shares part.

The co-investment part requires a portion of the annual bonus (MBO) earned in relation to performance in 2015 and 2016 to be deferred and invested in shares, to which a multiplier will be applied at the end of the three-year period if the Group's two economic and financial targets have been met over the three-year period.

The performance shares part involves the allocation of a variable number of the Group's shares, also linked to achievement of the Group's economic and financial targets over the three-year period. A lock-up period also applies to part of the shares, thereby underlining the plan's purpose of fostering medium-term retention and commitment.

Group employee share purchase plan (YES Plan)

The YES Plan (Your Employee Shares), an employee share ownership scheme open to all Group employees, was introduced at the end of 2013 in 28 countries after an intense communication campaign and series of special presentations; initially for three years, the plan has now been extended for another three years.

The YES Plan's regulations allow participating employees to buy Prysmian shares, during specific purchase windows in 2017, 2018 and 2019, on preferential terms and on condition that they retain the shares for at least 36 months from the purchase date. Plan participants can buy Prysmian shares at a discount, that varies from 1% for the CEO and Senior Managers, to 15% for executives and 25% for the remaining workforce, thereby encouraging employee participation at every level. Moreover, by way of entry bonus, all participants receive 6 free shares in year one and 3 thereafter. The new three-year plan provides for an entry bonus of 8 shares to all participants in the previous plan.

The objectives pursued in launching this plan are to increase employees' sense of closeness and belonging to the Group as well as their engagement with and understanding of the business, in order to converge the long-term interests of shareholders, customers and employees and to strengthen the internal perception of Prysmian Group as one, single company, a real "One Company". In brief, the Group's intent is to have its employees become stable shareholders, thus making them owners of a small part of the business in which they work.

Participation in the plan in its first three years has confirmed expectations: around 7,300 employees, or 44% of those eligible (of whom about 55% are blue-collar employees) have signed up, investing a total of Euro 17.5 million, thereby confirming their great sense of corporate belonging and their confidence in Prysmian's people and in its future.

Participation in some countries has been very high, with for example, nearly all employees signing up in Romania, about 85% in Turkey and around 65% in the Milan headquarters.

Social and internal relations

The Group maintains constant and positive relations with employee representatives and trade unions based on mutual respect and fair discussion, in the belief that, with due respect for each other's roles, common interests can be pursued through constructive dialogue.

Employee and trade union representatives therefore operate freely in compliance with local laws and practices.

During 2016 a number of industrial restructurings in France, the Netherlands and Denmark were the subject of discussions with the unions, leading to agreements for the definition and/or conclusion of the relevant social plans.

Meetings of Prysmian's European Works Council were held in April and October 2016 and were attended by the body's delegate members. During the meeting in April, a very first training event was held for EWC delegates on the topic of Health & Safety. Both meetings were prepared beforehand by the Select

Committee which decided the content in terms of information about the business's performance and its most significant initiatives expected in the year, with ample room left for further questions.

For a more detailed understanding of the Prysmian Group's commitment to human resources, please refer to the 2016 Sustainability Report.

RESEARCH AND DEVELOPMENT

With 17 Centres of Excellence, over 550 professionals, more than 4,600 patents and partnerships with universities and research centres in many countries, the Prysmian Group intends to be an innovation leader.

Prysmian Group has always given key strategic importance to Research & Development to maintain its market leadership, with the intent of differentiating itself and of providing its customers with technologically innovative solutions at increasingly competitive costs. The Group currently has 17 Centres of Excellence, with headquarters in Milan, and over 550 qualified professionals. The Prysmian Group intends to be industry leader in R&D, with more than 4,600 patents granted or filed and partnerships with major universities and research centres in many countries where it is present, like:

- Politecnico di Milano (MIP) - Italy
- 'Giulio Natta' Department of Chemistry, Materials and Chemical Engineering, MIP - Italy
- University of Milano-Bicocca - Italy
- Department of Information Engineering, University of Padua - Italy
- Electrical, Electronics and Telecommunication Engineering and Naval Architecture Department, University of Genoa - Italy
- National Electrical Energy Research & Application Center (NEETRAC) of the Georgia Institute of Technology - USA

- University of South Carolina - USA
- Centro di Pesquisa e Desenvolvimento em Telecomunicacoes (CPqD) - Brazil
- University of São Paulo (USP) - Brazil
- Universitat Politecnica de Catalunya - Spain
- Shanghai TICW - China

Resources amounting to approximately Euro 84 million were employed Research, Development and Innovation in 2016, broadly in line with the previous year and confirming the Group's steadfast commitment to and focus on sustainable long-term growth.

The main achievements in the Energy business during the year are described below.

- Submarine Systems
  In the area of cables for submarine systems, the 220 kV cable with 1200 mm² copper conductors for the 50 Hz project has obtained approval and most of its production has been successfully completed. In the AC cables area, a new-design single-core cable with fibre optics integrated in the armouring has been installed and commissioned for the submarine project in the Philippines. Work has continued to develop new techniques for conductor diameter splicing to allow large aluminium conductors to be gathered together in conductor platforms and to splice conductors with different cross-sections and different metallic materials for DC systems operating at 320 kV and AC systems at 220 kV. The development activities also include long-term trials that will end in the next few years. The development of systems for deep water installation has seen a prototype with optimised double armouring completed and tested internally, confirming the feasibility of installation at depths of up to 3000 metres. In the area of MI cables (Mass Impregnated paper-insulated), besides work to improve the remediation plan for the WesternLink project and its 600 kV HVDC cables insulated using PPL technology, the first phase of research has been completed into alternative materials and optimisation of the design and manufacturing process, achieving internal qualification at 700 kV. With reference to the 600 kV extruded cable project, the first positive results have been obtained using XLPE and P-Laser technologies. Feasibility studies have been performed for the development of long-distance EHV AC submarine systems (up to 200 Km), and for the monitoring of partial discharges by long-distance EHV, AC or DC submarine systems using Prycam Gate technology. A project has been approved and initiated to implement and manufacture leadless submarine systems, using welded copper sheaths, at the Pikkala plant in Finland. This product will go into production at the end of 2017.

- Extra High Voltage (EHV) Underground Systems)
  In the field of product development of EHV underground cables, development and type tests have been completed for the new 600 kV HVDC system and certified according to CIGRE TB496. This important achievement is a milestone for cable power transmission and allows a single circuit to carry over 2.6 GW in power, according to the type of installation, which is more than twice the capability of the 320 kV

systems currently in service. The Prysmian Group's know-how in materials, technology and electrical testing has been decisive in achieving this result. HVDC systems are the preferred choice for carrying high voltage power over long distances via insulated cable. Prysmian precedents in the field of HVDC transmission using extruded cables include 200 kV submarine interconnectors like the Transbay cable, the 320 kV power lines in the North Sea and the 320 kV underground interconnectors between France and Spain, and between France and Italy. The EHVDC project will now move on to the development of a totally new solid-insulated cable system and pre-printed accessories, as well as to the development of non-conventional splicing technology. Still in the area of EHV, development has been completed of three extruded cable prototypes containing 2500 and 3500 mm² cross-section Milliken copper conductors and longitudinally welded aluminium sheaths. The two 2500 mm² prototypes have been insulated with alternative materials to those currently in use. The test circuits have been mounted at the IPH laboratories (CESI) in Berlin and the qualification tests according to the IEC62067 standard are about to start. Development of EHV cables with large cross-section aluminium conductors (3000 and 3500 mm²) has also been completed and the prototypes are now undergoing official qualification tests according to the IEC62067 standard. The prototypes with longitudinally welded aluminium sheaths also contain optical fibre for on-line measurement of cable operating temperature.

- T&I. The focus of R&D for the T&I business has concentrated on the following areas:
  - SAFETY: CPR - Construction Products Regulation is entering a decisive phase. The harmonised European standard EN 50575 became effective on 10 June 2016, followed by a one-year transition period before this standard becomes mandatory throughout the European Union (on 1 July 2017). During this transition period both old products, complying with current national legislation, and new ones, complying with the new European directive, can be sold but from 1 July 2017, only the latter will be authorised for sale. The Prysmian companies that operate in European countries affected by the new regulation are making huge efforts to make sure the characteristics of its product portfolio (cables intended for permanent indoor installation) comply with the performance classes adopted by each individual nation. On top of development activities are certification ones, since the new regulation lays down very strict criteria for testing and approval of CPR compliant cables. The results achieved in 2016 are encouraging as far as the deadline of 1 July 2017 is concerned when the CPR will become effective throughout the European Union.
  - SUSTAINABILITY: CFP - Work has started to develop and apply a tool that will allow the environmental impact of Prysmian products to be assessed, albeit partially, in terms of their carbon footprint (CO_2 equivalent) and recyclability. These parameters will be assessed on the basis of standard design data for each product (BOM and routing) just for the phase of the cable's life when it is under the manufacturer's control, or subject to the latter's influence. The intention is for widespread application of this tool to the Group's products. A pilot project is planned for 2017 and across-the-board application in 2018.
  - NEW PRODUCT INDICATOR: a computer model has been developed to monitor and quantify the impact of new product development in all of Prysmian's operating units. This model, which classifies

new products in three categories (Innovation, Product Development and Technology Transfer), is used to assess economic performance, sales and contribution margin over a three-year lifespan commencing with the new product's first sale.

- Oil & Gas
- The O&G business has focused on two main areas this year. The first is the development of solutions to increase the safety of cables used in Gas projects (ex LNG). Extensive work has been done on evaluating and improving resistance to gas flow of cables used to connect potentially explosive areas (Zone 0) with lower risk areas (Zone 1 and 2), or with the outside world. Prysmian Group offers customers not just technical solutions, but also support in how to understand and evaluate the impact of the cables and of the overall system (including accessories) used in these applications.
- The other area in which development activities have been concentrated is that of cables for Electrical Submersible Pumps (ESP). Prysmian Group is currently developing a new generation of products to cover a wide range of applications (for more or less severe operating conditions), with associated test procedures accelerated and on a real scale, as well as hybrid Downhole Technology high corrosion-resistant solutions for high temperatures, a totally new concept in this market sector.

- OEM

  In the area of cables for special OEM (Original Equipment Manufacturer) applications, the multitude of applications and the breadth of the product portfolio implies a large number of development projects for the various markets and customers. Among these the most important in the different fields of application have been:
  - CRANE - Protolon high-speed reeling cables able to withstand high mechanical stress, developed using Airbag technology. Spreaderflex cables (for winding drums) for arctic temperatures (-40°C).
  - MINING - Continued work to develop and produce SHD-GC and GGC cables for the North American market.
  - ROLLING STOCK - Approval of cable product families for Cat 5e and Databus 120 Ω and 105 Ω transmission, in accordance with the strict European installation standard EN45545.
  - RAILWAY - Flexible power cables for air-conditioning in stationary carriages. Cables for axle counters in accordance with the specifications of the Australian and American markets. Copper and steel conductors on heavy cables are becoming more frequent in this sector to limit the phenomenon of line theft.
  - NUCLEAR – Completion of internal approvals to extend the useful life of VVER cables to 60 years, as required by the latest updated specifications in this industry.
  - WIND POWER - Development of Medium Voltage twist-resistant cables with reduced diameter (-16%) for the customer Vestas.
  - DEFENCE - 36-fibre cables for military ships in the North American market.

- INFRASTRUCTURE - Development of products for airport runway lighting according to the American standard FAA L-824, but for the Chinese market. In addition, 400 Hz connectorised cables have been developed for aircraft ground power supply.

- Innovation in 2016
  - PRYCAM - the development of Pry-cam® Gate was completed in 2016; this new patented technology automatically measures the time elapsing between two partial discharge pulses, thereby determining with absolute certainty whether an accessory, or a length of cable, is affected by partial discharges without having to use any kind of expertise or artificial intelligence algorithms. A second important innovation at an advanced stage of development is Pry-cam® Cable, a hybrid cable intended solely for sensing. In particular, the idea is to combine in a single cable an energy section to power partial discharge Pry-cam® Grids monitoring systems usually installed in joint holes, a FO section for data transmission, and two FO sections for DTS temperature monitoring and DAS acoustic monitoring. In 2017 it is planned to install around 200 km of this cable, seen as the embryo of another new generation of integrated monitoring systems being developed and due to come out in 2017.
  - An on-line short-circuit current calculation application has been made available to all the Group's engineers. After a trial period of about one year, allowing the calculation procedures to be standardised and validated within the Prysmian Group, the on-line calculation application is now being used by all designers as the official short-circuit current calculation tool (http: //psp.prysmian.gph.local/Highlights/SCC_tool.aspx).
  - Development of numerical models to simulate magnetic phenomena and calculate the related losses in the armouring and the metal sheaths of three-core armoured submarine cables in a "contralay" configuration.
  - Development of a numerical model to calculate temperature transients in long-length submarine cables, when stowed on board cable-laying ships. The model has been used for detailed design of the cable heating system, in order to keep the cable at a suitable temperature during handling and transportation even at low temperatures.
  - Integration between the RTTR Lios temperature monitoring system and Prymon cable monitoring systems. First Prysmian proprietary software project.
  - Technological Development.

  In the area of technology development and improvement, the project has continued to optimise medium and high voltage conductors, by reducing cable weight and diameter in accordance with regulatory requirements for direct current resistance. This year's work focused on aluminium, reflecting the production mix in 2016. Weight savings of around 1-1.5% were achieved and the grade of aluminium cut, from 16 to 12, with an estimated saving on purchase price and materials management of around Euro 0.7 million.

  IEC62067 qualification was completed in the first quarter of 2016 for EHV 330 kV 2500 mm² copper and aluminium cables at the Rybinsk plant (Russia). The Rybinsk plant also saw the start of production of

EHV cables with small-section copper conductors (up to 400 mm²). The longitudinal welding line for aluminium laminated sheaths was inaugurated at the Mudanya plant in Turkey and a prototype produced for qualification of the technology according to Cigré TB446. HV cables with a Solidal conductor from 630 to 1200 mm² went into production at the Pignataro plant. Type Test IEC62067 was completed for the 245 kV 2500 mm² copper prototype, manufactured on the new VCV2 line at the Abbeville plant. The HV business unit carried on a Best Practices HV project involving technical visits and technological assistance to share the best practices used by the Group for selecting raw materials, design and technology. With regard to the technological development of specialty and low voltage cables, work continued on the project to standardise materials and NEK606 technologies.

Achievements in the Telecom business are described below.

- Optical Fibre
  The fibre manufacturing process has been further developed at the factories in the US and Brazil, which can now produce optical fibres with greater autonomy. Other investments have concerned improvements in product and process quality in some factories, resulting in a significant reduction in production costs. Several factories have been equipped to produce BendBrightXS fibres, which have much better micro- and macro-bending performances than competitor products. Their bend performance, even with small diameters, means these fibres can be used in the manufacture of smaller cables used in the different layers of FTTH (Fibre To The Home) networks.
  In the area of multimode fibre, the OM5 standard has been adopted since September, confirming the Prysmian Group's leadership in this field. This fibre is capable of transmitting 4 channels of 25 Gbit/s, or even 50 Gbit/s, with a wavelength division of between 850 nm and 950 nm. This fibre, adopted by the international standard-setting committees in record time, will help reduce the number of 40, 100 and 400 Gbit/s cables used in data centres.
  Another important innovation has been "Few Mode" technology. In the same way that digital information is encoded and travels on a single mode of transmission in "Single Mode" fibres, "Few Mode" fibres use a few such modes. The first 4-mode fibres are about to be tested in academic laboratories and small companies. These have been successfully tested in some of the preliminary trials with different partners with reference to data transmission (100 Gbit/s systems with 10 Gbit/s signals transmitted at 1310 nm on each mode) and to access networks (PON, Passive Optical Networks, at 1310 nm).

- Optical Cables.
  In the field of optical cables, work has focused on increasing fibre density, by producing high-fibre-count cables, on reducing cable sections, on making them easier to use and on reducing total cost of ownership. This applies to the various types of Flextube, Loose and Ribbon cables:
  - FLEXTUBE: The offer of Flextube cables has been extended to different markets, and their manufacture to several factories. An overhead version (ADSS), able to operate in tough environmental conditions, has also gone into production. The compactness of its structure is particularly suited to the development of high-fibre-count cables. Cables containing 2112 fibres

have been successfully developed and installed, and work is continuing with the goal of achieving 4000-fibre cables.

- MULTILOOSE: development work is mainly focused on reducing cable diameter to maximise the amount of fibre that can be blown into the designated underground ducts. A complete range of products from 12 to 144 fibres, with 1.35 mm tube diameter, is now available. In these cases, the high level of stress to which the fibres are subjected requires them to be selected from higher performance ones within our product portfolio. In the future we expect, by working with appropriate materials, to achieve a higher fibre density of 6 fibres/mm^2.
- RIBBON: The data centre product portfolio has been expanded with the addition of 864 fibre and 1728 fibre products (UL Riser Rated Indoor Outdoor cables), which reduce costs and complexity within hyperscale data centres. The Group's "dry" cable technology has also been certified for high-salinity environments.

Listed below are some examples of initiatives to simplify the use and installation of cables:

- Retractanet cables: this family has been expanded with the introduction of cables with limited "extractability" (up to 30 m). Specific versions of these cables are available with different fibre capacities for short lengths such as 1–2 metres.
- "Dry" cable technology has also been extended to Multiloose cables with tube diameters greater than 1.9 mm. Work is continuing to extend this technology to Flextube cables as well.
- A "dry" version (Dry ADSS) overhead cable has been introduced, with lower installation costs but the same high standard of reliability.
- Also very promising is the "overblowing" technology used in the UK, where ducts are extremely congested; the technology allows cables to be installed, by blowing, in the free space between the existing cable and the duct walls. The solution has received considerable interest and could be very attractive for many markets, also because of the ability to offer correctly sized cables and related joints.
- New lines of hybrid products have been presented, like the Power Fibre Cables for Small Cell 4G/5G antenna applications, or Super Radiation Resistance Fibre Cables for applications in the nuclear industry.

- As far as rationalisation of production is concerned, the development of Flextube technology has been completed at the Slatina factory. It is now possible to manufacture Microcables in most of the Group's factories. The main focus of attention has been on increasing production capacity at the Romanian factory in Slatina. This has involved the introduction of new machinery and development of products able to cover the majority of European markets. The product range includes Loosetube, standard and nano cables, Flextube and overhead (ADSS) cables.

- Connectivity

  In terms of connectivity, Prysmian has continued to develop new accessories for FTTH use (ultra broadband access networks). The focus has been on cabinets, with the development of optical distribution frames (MDFs), joints for splicing cables and termination solutions involving wall-mounted cabinets with pre-terminated cables for homes and modular solutions at the point of building access. The LMJ (Large Multi-Function Joint), originally developed for BT in 2015, was launched globally in April 2016. A number of new components have been designed to complement the range of multi–function joints (Compact Joint - CMJ, Medium Joint - MMJ and LMJ) and to be suitable for global markets. The new components include cable lead-in units, to expand the cable range from 20 to 23 mm, multiple lead-in units, for a maximum of 8 cables, new splice trays to accommodate the shrinkable 2.2 mm joint caps (common in many markets), new components to house optical splitters, and splice holders for up to 36 fibres. A small splice has been designed and launched for small repairs involving a limited number of fibres (up to 24 fibres).

  A new range of termination boxes (Customer Termination Box - CTB) has been developed for the French market - CTB MK3 (4FO), CTB hybrid (optical/copper) and DTIO (for installation within electrical panels) - in particular for Orange France. The products are generally supplied to the customer with a length of pre-installed cable. This is why these products have been produced in Tunisia at the connectorisation factory in Menzel.

  Some new solutions - using PBO - are being developed to simplify the range of reinforced connectors. Currently the use of reinforced connectors is growing, but they are expensive and are covered by patents. The purpose of the PBO is to have a standard connection on the end of a drop cable, with a component that seals and blocks it on the junction box. A number of solutions have been designed and are currently being evaluated for production in 2017.

  In addition, again for the French market, Prysmian is currently supplying a range of modular metal trays for splicing/termination. Constant pressure on costs means that the Group is transitioning to plastic versions, currently in the design stage.

  Further developments for the range of optical splitter building termination boxes have been completed for the Italian market. Mould construction is underway for ROE16 and ROE32 wall-mounted and post-mounted versions. The boxes can be used internally or externally, to connect customers in multi-dwelling units, with or without optical splitters (GPON or Point to Point). These products will enter production early in 2017, and are expected to be available to the market in about May 2017.

  Other developments include a new SRS (Subrack System) modular tray that will increase splice/termination capacity from 48 to 144 fibres in the same space (1U). The module designs have been completed and mould construction was started in December 2016. The product should be available to the market in May 2017.

- OPGW, special optical and submarine cables

  In terms of OPGW cables, research has concentrated on developing the product portfolio of steel tubes for the high-fibre-count segment: central tube structures (1 x 96 fibres), and multi-loose structures (3 x 48 fibres). New steel tubes for OPGW applications have also been developed and qualified.

In the area of submarine cables, Prysmian has taken an important step towards returning to this market, by developing and qualifying a single-armoured cable with up to 48 fibres.

- MMS - Multimedia Solutions

  Improvements have been made to the discontinuous metal ribbon-based Cat.6A U/UTP solution for structured cabling with copper cables.

  Interesting developments have taken place in remote-powering technology (eg. Power over Ethernet, PoE), with the launch of a family of cables optimised for longer connections than standard in the cat. 7 family of cables, which supply both power and data, to connect devices such as wireless access points or surveillance cameras. Cat. 7 residential cables are now available in a reduced diameter version suitable for installation in small spaces.

  In the area of building wiring, a complete family of optical cables using Flextube technology has also been developed.

  Additional hybrid optical/copper cabling solutions have been developed for data centres. In collaboration with an industrial partner, the first fully cat 8.2 connection has been qualified, allowing 40 Gbit/s transmission over a 30 m long copper channel, now available on the market.

  High speed MM fibre cables have also been developed (40/100 Gb/s); these cables are based on 12-fibre modules, to which multi-fibre MPO connectors are applied. These modules can either be of a Flextube kind, or 3 mm micro-cables, assembled to cover the 72 to 144 fibre range. These cable families are available in a version with low smoke and toxic gas emissions and in a Plenum/Riser version.

  Considerable energy is being devoted to the adoption of the Construction Products Regulation (CPR). Most existing products will be classified according to the new fire-performance classes. New solutions are also being studied and developed for classification in the very highest categories.

  As part of steps to rationalise production, the new factory in Prešov (Slovakia) has been further expanded. Production capacity has also been boosted with the acquisition of a data cables factory in Neustadt (Germany).

As for materials, Prysmian is intensifying exploratory research in this area due to the strategic role they play in cable and accessories technology. The main achievements in the year are described below:

- Joints created in labs using compounds with variable resistivity have performed well. Full-size joints have now been made for testing electrically in a circuit, with these tests due to take place next year.
- New high permittivity compounds have been made for both joints and terminations, resulting in the qualification of new accessories in class 36kV.
- Prysmian is evaluating the use of graphene and nanotubes in polyethylene sheaths to improve water resistance and conductivity respectively.
- Substances have been identified that can absorb water without releasing it. Long-term testing is in progress to identify all the parameters of water absorption of these substances dispersed in polyethylene. These two studies could identify substances capable of replacing metallic sheaths.

- The Group is evaluating the use of carbon nanotubes even in low voltage insulation to test their contribution, if any, to flame non-propagation.
- Work has been completed with an American organisation to identify new composite armouring systems for submarine cables, umbilicals and flexible pipes, resulting in the delineation of a possible new cable design. Experimentation on light armouring for submarine cables continues and optimal designs for new cable structures are being identified. A project has also been started with an external supplier for the joint development of a new tensioner.
- A particular type of polymer has been identified and synthesised that is capable of absorbing methane. The method that allows absorption efficiency and effectiveness to be assessed at both room temperature and at 70°C has been optimised. Sufficient quantities are now being made for an industrial test that will confirm the good in-lab performance.
- A number of characterisation techniques have been defined to improve the understanding of how materials behave in cables (type of ash of fire-resistant materials for cables, water resistance of paper and PPL at various temperatures, simulation of wrapping and PPL insulation impregnation, water absorption efficiency of hydro-expanding tapes).
- Research to develop oil-resistant polymers, starting with thermoplastic and cross-linkable materials, is still in progress. Associated with this research is: the development of a new cross-linking method with similar characteristics to the process using silanes but with better cross-link density.
- New Afumex compounds to achieve high CPR classifications have been put into production and entered into regular use, proving highly flame resistant as expected; one of these also shows an improvement in the processability.
- Prototypes cables have been made in Australia, UK and Italy with ceramicising compounds, whose initial evaluations have shown interesting fire-resistant properties. Testing is not yet complete: more complete results are expected during the year.
- Using a test system designed and developed by Prysmian, it has been possible to demonstrate higher resistance to corrosion in an aggressive environment (simultaneous presence of salt water, H_2S and CO_2) by aluminium coating than by zinc coating.
- The use of tetrazoles as aluminium corrosion inhibitors has proved a viable alternative to current methods. A quantity at least 200 g is being synthesised to allow it to be evaluated industrially. Suitable methods are also being studied for applying these inhibitors to aluminium wire.
- Rationalisations:
  - Alternative materials continue to be approved throughout the Group to eliminate sole suppliers, especially those of great commercial or technical importance. At times, this requires long laboratory experimentation and collaboration with suppliers.
  - The rationalisation of raw material codes for cables has been completed.
  - A program has been created that will show raw material specifications as soon as the material code is activated. This program will also allow the Group to have all its specifications in a single place, including for research purposes.

- The cataloguing program for compound technical specifications and associated search engine, allowing users to find compounds by entering characteristics, has been completed and is in the process of being ordered.

- DTC - Design To Cost
  Considerable attention continued to be paid this year to reducing costs. In fact, there are more than 1,100 DTC projects, which have helped continuously optimise materials and cable design. All these R&D activities have resulted in further savings of several million euros in 2016, allowing the Group to remain constantly competitive.

Intellectual property rights

Protecting its portfolio of patents and trademarks is a key part of the Group's business, particularly in view of its strategy of growth in high-tech market segments. In particular, the Group's intense R&D activities, in the Energy Projects, Energy Products, Oil & Gas and Telecom operating segments, have allowed it to continue to add to its patent portfolio during the year, especially in high-tech and higher value-added areas, in order to support its major investment in these areas in recent years and to protect the related businesses, both now and in the future.

As at 31 December 2016, the Prysmian Group had 4,651 patents and pending patent applications throughout the world, covering 749 inventions (of which 210 in the Energy Projects and Energy Products segments, 13 in the Oil&Gas segment and 526 in the Telecom segment). During 2016, 31 new patent applications were filed, of which 20 in the Telecom area and 11 in the Energy area, and 183 patents were granted after examination, of which 47 by the European Patent Office (EPO) and 33 in the United States.

The most important products, typically distinguished by particular characteristics or a specific production process, are protected by trademarks that allow them to be identified and guarantee their uniqueness. As at 31 December 2016, the Prysmian Group owned 570 trademarks, corresponding to 2,597 trademark registrations in its countries of operation, covering the names and identifying symbols of its companies, activities, products and product lines.

AN INTEGRATED SUPPLY CHAIN

SOURCING

Once again in 2016, the Prysmian Group was able to manage fluctuations in base metal prices through rigorous application of its hedging policies and daily matching between purchase and sales commitments.

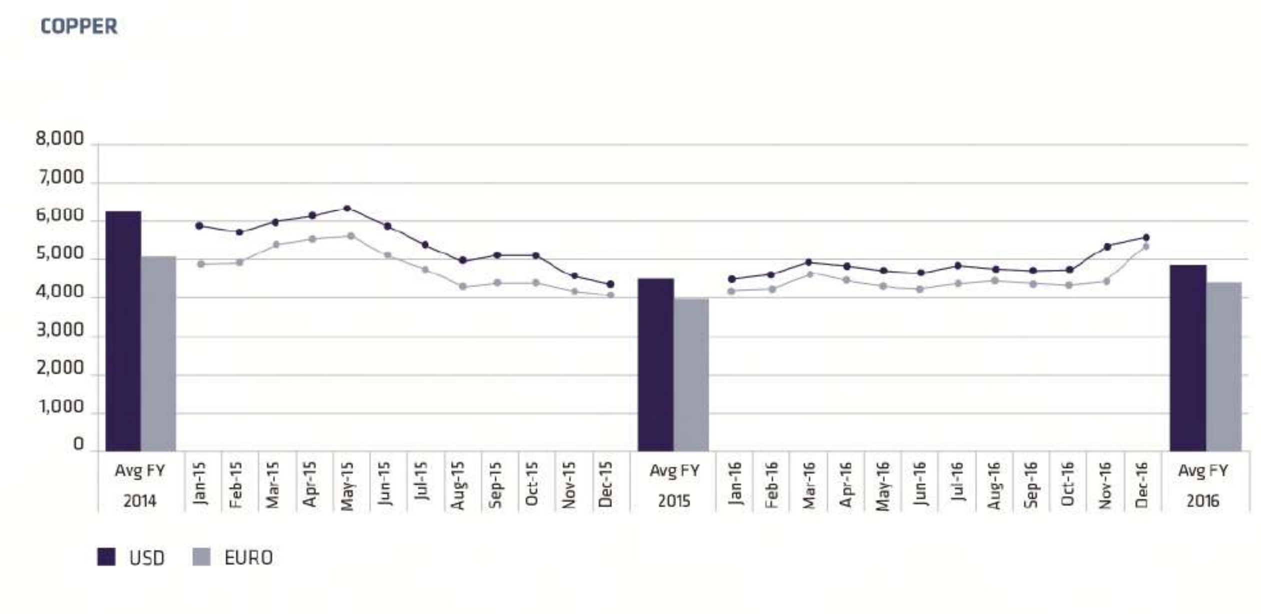
The main raw materials used by the Group in its production processes are copper, aluminium, lead, special glass and coating for optical fibres, as well as various petroleum derivatives, such as PVC and polyethylene.

In a market featuring continued global economic fragility and only a timid recovery in volumes, average prices of the principal plastic raw materials were less volatile in 2016 than the year before and were generally stable/slightly lower. In the case of base metals, average copper prices continued to decline like in 2015, with a further year-on-year decrease of around 12% despite a significant rally in the last two months of the year; aluminium prices declined by around 4% year-on-year with a weaker first half than second; lead prices, however, saw a 5% average increase largely due to an upsurge in the second half of the year. Average base metal prices in Euro were not significantly affected by currency movements due to less fluctuation in the EUR/USD rate. The price of oil started to recover on the previous year, from a low of USD 27.9/barrel in January to close with a December average of USD 54.9/barrel, 41% above the price a year earlier; in terms of year-on-year change the price nonetheless recorded an average 16% reduction. Ethylene prices gradually recovered over the course of the year, in line with the oil price, posting a year-on-year change in average price of 6%. Among the ethylene derivatives, polyethylene resins recorded a slight decrease in line with the trend in ethylene. The price of PVC resins was essentially stable; plasticiser prices fell once again, reflecting price trends in the related raw materials and persistently weak demand in the construction industry.

Once again in 2016, the Prysmian Group was able to manage fluctuations in base metal prices through rigorous application of its hedging policies and daily matching between purchase and sales commitments. Sales price adjustment mechanisms, combined with judicious hedging, helped in fact to mitigate the impact of price fluctuations on the income statement. As for other raw materials, work continued to rationalise and consolidate the supplier base, using all the synergy and volume levers offered by the Group's size. Risk management activities also continued with regard to the supplier portfolio, aimed not only at reducing dependence on individual suppliers, but also at strengthening partnerships with core suppliers or suppliers of critical technologies. The added strengthening of commercial relationships with core suppliers over the year allowed the Group to minimise costs and the risk of disruption in supplies, ensuring benefits not only in the short term but also in the medium and long term.

Copper

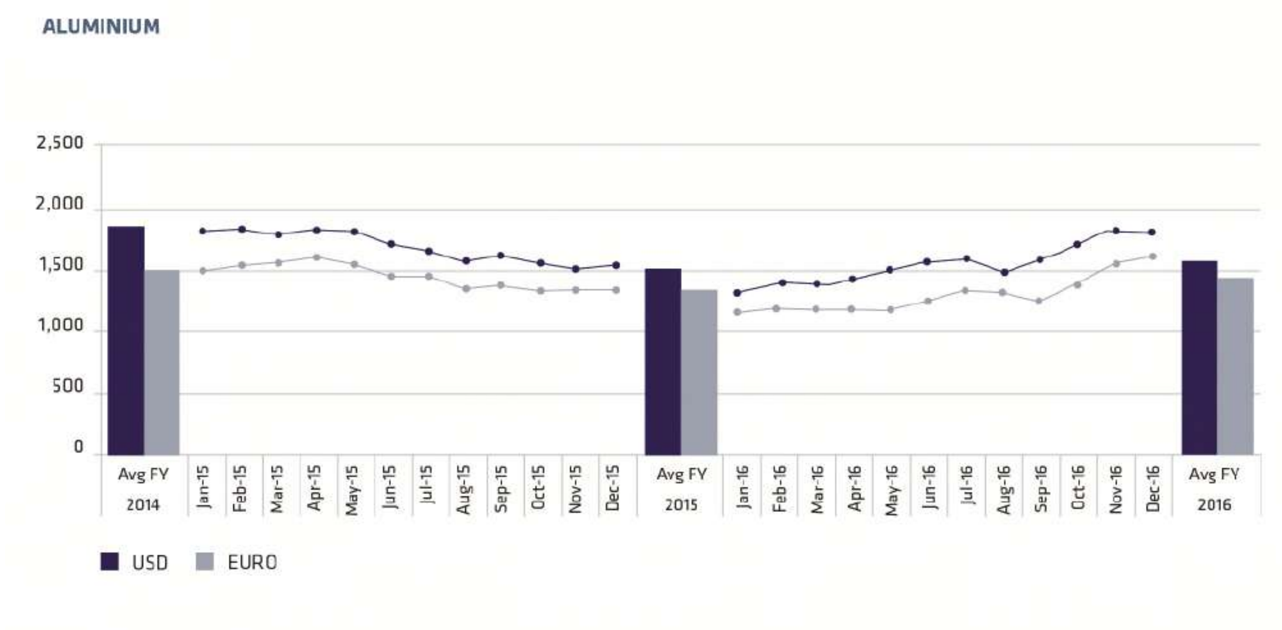
The average cash settlement price per tonne of copper on the London Metal Exchange (LME) was USD 4,863 (Euro 4,401) in 2016, representing a 11.6% decline on the prior year average price in USD (USD 5,502 per tonne) and an 11.2% decline in EUR (Euro 4,958 in 2015). Fluctuating between a low of USD 4,311 and a high of USD 5,936 per tonne, the price fluctuation band was slightly narrower than in 2015 (low of USD 4,515 - high of USD 6,448).



Source: LME data. Price per tonne

Aluminium

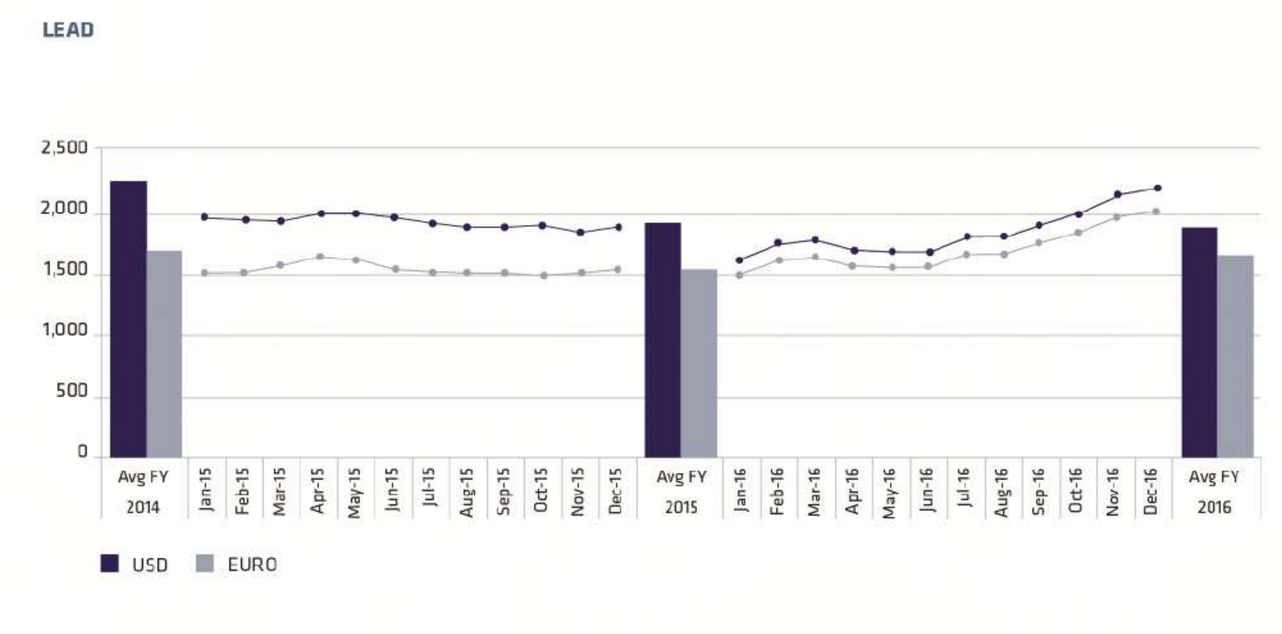
The average price of aluminium decreased by 3.6% in USD during 2016, while it depreciated by 3.2% in EUR. The average price per tonne of aluminium was USD 1,604 (Euro 1,451) in 2016, compared with USD 1,663 (Euro 1,499) in 2015.



Source: LME data. Price per tonne

Lead

The average price per tonne on the London Metal Exchange was USD 1,871 (Euro 1,694) in 2016, 4.8% more in USD and 5.1% more in EUR than the year before (USD 1,787 per tonne and Euro 1,611 per tonne respectively).



Source: LME data. Price per tonne

Oil

Brent crude prices were extremely volatile in 2016, fluctuating between 32 and 55 USD/barrel over the course of the year. Brent crude's average price per barrel in 2016 was USD 45, down USD 9 or 16% on 2015. Given the generally stable EUR/USD exchange rate, the decrease in average EUR price was almost the same at 15.7%, going from Euro 48.4/barrel in 2015 to Euro 40.8/barrel in 2016. European ethylene prices declined more moderately, in the order of 5.5% from Euro 961/tonne to Euro 908/tonne.

Source: ICE data. Price per barrel

INDUSTRIAL ACTIVITIES

During the year Prysmian Group continued to invest in the higher value-added business of submarine cables, confirming once again its world leadership in this segment.

The Prysmian Group's manufacturing activities are carried out through a highly decentralised model, involving 82 plants in 30 different countries, allowing it to react quickly to different market needs worldwide. Over the course of 2016 the Prysmian Group continued to implement an industrial strategy based on the following rationale: (i) concentration of output of higher value-added tech-driven products in a limited number of plants intended to become centres of excellence offering high levels of technological expertise, where the benefits of economies of scale can be reaped, thus improving manufacturing efficiency and reducing the amount of capital employed; (ii) ongoing pursuit of greater manufacturing efficiency in low value-added businesses by maintaining a wide geographical presence to minimise distribution costs.
Capital expenditure totalled Euro 233 million in 2016, up from Euro 210 million the previous year. Apart from the usual level of investment in the submarine cables business (for both offshore and onshore) and in the optical fibre business, this increase mainly reflected the very considerable resources invested in manufacturing footprint projects and continued work on building the new headquarters complex. In particular, with reference to the manufacturing footprint, the process of rationalising production capacity continued throughout the year, with the closure of the factories in Brondby (Denmark), Angy and Neuf Prè (France), Amsterdam and Delfzijl (Netherlands) and Quilmes (Argentina), and the redeployment of their production activities to other Group factories. These production facilities have been concentrated in order to optimise cost structure, thereby ensuring an adequate level of capacity utilisation within the various countries.

Capacity / Product mix. Investments to increase production capacity and change its mix accounted for 40% of the total.

Energy Projects. The significant investments in the Group's two main submarine cable plants - Arco Felice (Italy) and Pikkala (Finland) - to increase capability for the "50 Hertz" contract, were virtually completed during the year; this contract, worth more than Euro 700 million and awarded to the Group in 2014, involves the design, supply and installation of high voltage submarine systems between offshore wind farms in German territorial waters. In parallel with the above investments, work on a new vertical extrusion line at Pikkala reached an advanced stage of completion and will serve production of the COBRA submarine cable linking Denmark and the Netherlands. Also in the submarine business, the new cable-laying ship "Ulisse" completed its retrofitting initiated the previous year; the Group has accordingly added a third vessel to its existing installation fleet comprising the "Giulio Verne" and the "Cable Enterprise". The High Voltage business embarked on a multi-year programme to upgrade cable testing capability in various regions (North America, North and South Europe) to ensure a fully verticalised production process, including for the very highest voltage cables made by the Group. Lastly, in the final part of the year the Group initiated procedures to acquire certain assets of a Chinese high voltage cables factory in Yixing previously operated by Shen Huan Cable Technologies, and whose machinery includes two vertical extrusion lines.

Energy Products. This business segment has invested globally to fulfil growing demand in certain value-added sectors. In China, the investment to increase production capacity at the Suzhou and Tianjin plants for Trade & Installer, Rolling Stock and Elevator cables was completed. In North America, a catenary line for medium voltage cables was installed at the Prescott plant (Ontario, Canada); another catenary line was also installed at Pikkala, in Finland, to serve the local market. Still in Europe, fire-resistant cable production capacity was increased at the plant in Bishopstoke (Britain), while elevator cable production capacity was increased at Velke Mezirici; lastly, in Hungary, the investment in the Kistelek plant to expand production capacity for Trade & Installer cables, to serve the Central European market but from a source with lower processing costs, is reaching completion. From this year Prysmian Group has also consolidated capital expenditure by its subsidiary Oman Cables Industry, in which it acquired an absolute majority stake the previous year. This expenditure was concentrated mainly in the low and medium voltage cables business, serving both local utilities and the large engineering procurement and construction companies active in the Arabian Peninsula.

Telecom. The Telecom operating segment completed its major investment in the Sorocaba optical fibre factory in Brazil in order to verticalise production for the South American market and particularly the Brazilian one; investments were made in the Claremont facility in the United States to create a verticalised manufacturing structure also in North America, while at the same time increasing spinning capacity so as to satisfy demand for fibre used in optical cable manufacturing.
Still in the USA, ribbon cable production capacity was increased at the Lexington optical cables factory.

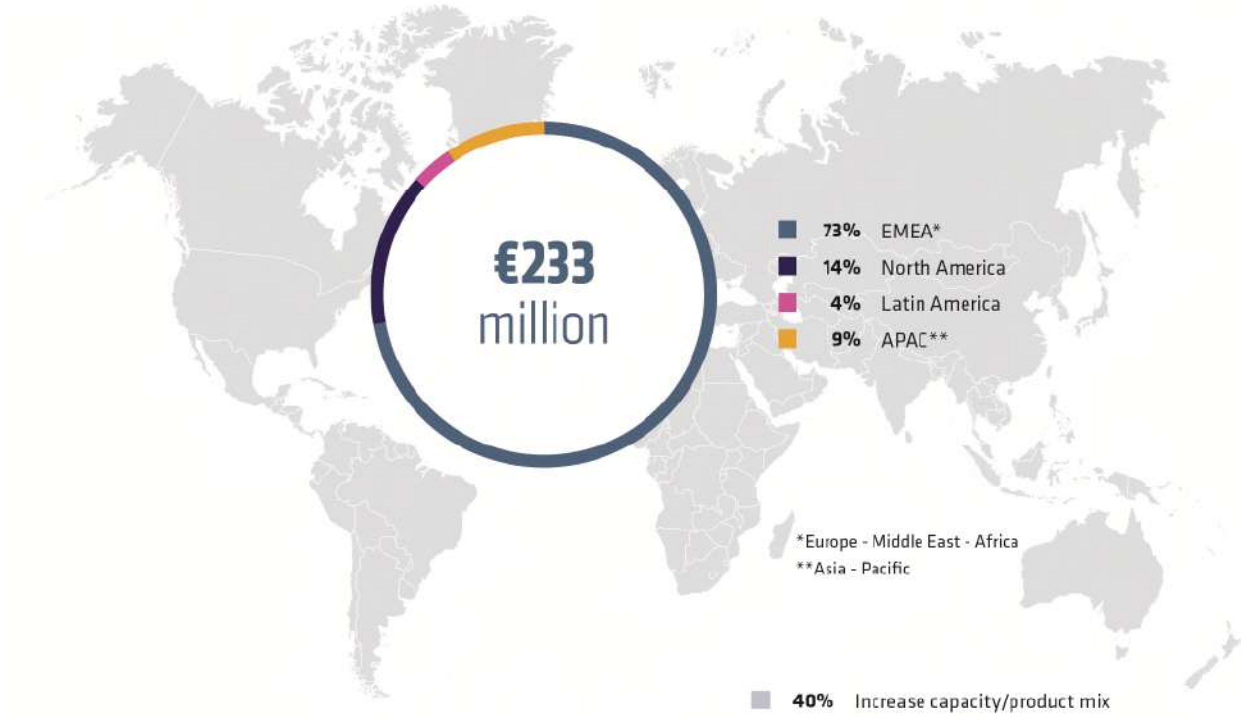
Efficiency and manufacturing footprint. Capital expenditure on achieving efficiencies to reduce variable costs (mainly product design and materials used) and fixed costs, accounted for approximately 30% of the total. In addition to the rationalisation of production capacity mentioned earlier, the Group has embarked on a major process of optimising costs throughout the Telecom segment's production chain. This has primarily involved the construction of two new factories in Eastern Europe: the first in Slatina (Romania) for the manufacture of optical telecom cables, the second in Presov (Slovakia) for the manufacture of optical multimedia cables in addition to the factory's existing copper cable production, whose capacity was increased at the same time. These two new factories confirm the Group's desire to create two centres of excellence in Europe for these types of cable. The same objective is behind the start of construction of an optical telecom cable manufacturing facility in Durango (Mexico), intended to meet growing demand in North and Central America. The Telecom segment's European optical fibre manufacturing facilities in Battipaglia (Italy) and Douvrin (France) have continued to invest in efficiency in order to achieve significant reductions in fibre manufacturing cost, with particular attention paid to increased preform size. Lastly, in Tunisia, the expansion of the existing factory that performs connectivity kitting activities is well underway, with the goal of bringing in-house work formerly done by outside companies.
IT, R&D. Some 7% of capital expenditure was devoted to continuous enhancement of information systems and to research and development. Once again this year, there was continued investment in the development of the "SAP Consolidation (1C)" program, which aims to standardise the back office information system throughout the Group; in 2016 the SAP 1C system not only underwent a major infrastructural development

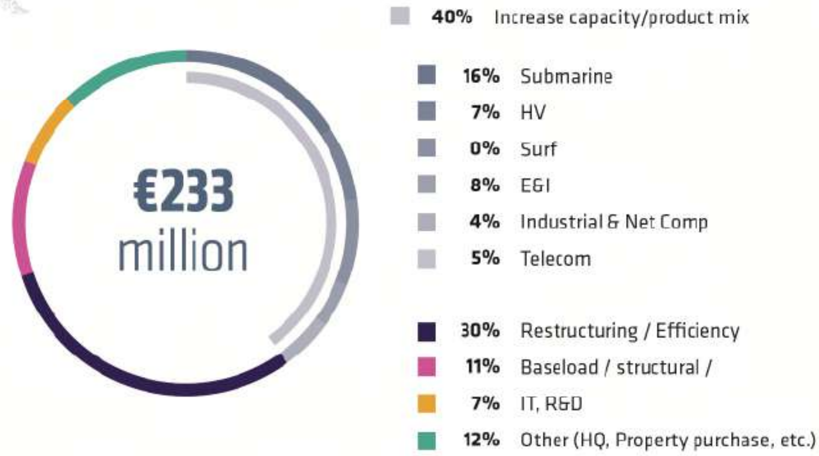
with the adoption of SAP HANA in-memory technology (with a big improvement in operational performance) but was also extended to Australia and New Zealand. The "Data Centre Consolidation" project was initiated in parallel, with the purpose of harmonising and strengthening the infrastructure layer of the Group's systems, while also making significant savings in the related operating costs. Lastly, the main Business Components of the Customer Centricity program (Pricing Tool, CRM, Customer Portal) were developed with the aim of creating an integrated, modern platform to support the Group's business processes.

Base-load. Capital expenditure on structural maintenance work accounted for about 11% of the total, in line with previous years. A major part of this expenditure related to the start of activities to remove all asbestos from the Group's facilities around the world.

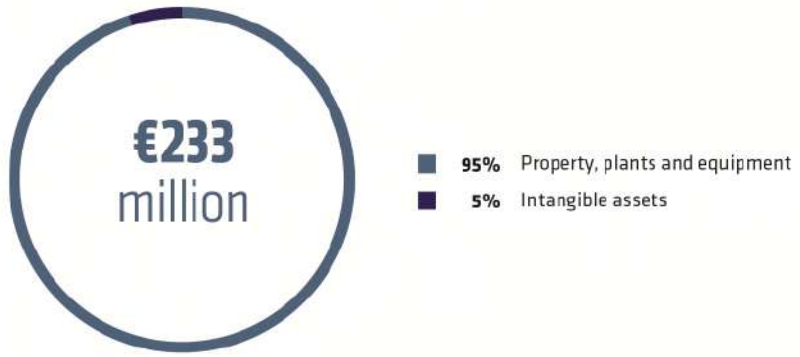
Other. This category (accounting for 12% of total expenditure) includes the purchase of land in Taunton (Massachusetts, USA) at the existing Industrial cables factory; the principal component of this category however refers to completion of work at the Ansaldo 20 industrial site, in the Bicocca district of Milan, to build the Group's new headquarters, which will extend over an area of more than 20,000 m^2 and allow the Group to consolidate all its Milan-based company functions in one place, with a resulting saving in running costs.

CAPITAL EXPENDITURE IN 2016





D&G



QUALITY

Focus on Customer Experience and sharing of know-how

The Prysmian Group has accelerated the process of improving Customer Experience during 2016. The focus has been on reducing response times to complaints, with the goal of becoming a byword not only for reliability, completeness and professionalism of the response but also for the speed of response.
Thanks to the introduction of a system of specific KPIs, it has been possible to have continuous and accurate monitoring of response times. This has focused the attention of the key people involved in this process and more than halved response times during 2016.

In parallel, work has continued to monitor the performance of core suppliers: a common and shared global approach has made it possible to standardise performance assessment and so have more objective evidence of the quality and level of service. In addition, a number of targeted activities have helped strengthen relationships with certain strategic suppliers, thereby improving the partnership relationship with Prysmian.

To support the implementation of continuous improvement projects, a fully on-line training program has been developed accessible to all employees via the Group's digital platform. The training program presents methods and tools to manage every improvement activity systematically and effectively, with particular attention to product manufacturing processes.

Work has also continued to harmonise data collection throughout the Group by rolling out proprietary software enabling faster data analysis and faster decisions about actions to be taken. This harmonisation has also made it possible to identify best business practices more immediately for subsequent examination and replication within the Group. This activity has received additional support with the creation of a forum on quality, in which every Prysmian employee can raise questions and get answers from leading experts in the field, enabling rapid sharing of knowledge and accelerating the time to resolve individual critical issues.

LOGISTICS

During 2016 Prysmian Group continued to maintain its strategic focus on Customer Centricity, maintaining its high level of service in terms of delivery reliability and at the same time instigating actions to reduce the "lead time" from order receipt to product delivery.

The Group also continued its efforts to reduce the value of inventories (on average Euro 60 million lower than in 2015 on a like-for-like basis), with another positive impact on cash flows.

It also continued to optimise supply chain management by macro-regions, with particular attention given to rationalisation of warehouses/distribution centres and to outsourcing of logistics services to reduce distribution costs.

The Logistics function has also optimised production allocations with an increase in intercompany flows consistent with the new world organisational structure by regions.

The Logistics function manages all the Group's intercompany flows at the level of both annual budget and monthly operations, with the aim of satisfying demand in all markets without a local production source due to lack of capability or production capacity. The function also manages short and medium-term production allocations and planning through Sales & Operations Planning (S&OP), a process which serves as the link between the demand cycle (sales) and the supply cycle (manufacturing and procurement). The Group plans production according to whether a product is classified as:

Engineer to Order: mainly used in the Energy Projects segment for Submarine and High Voltage cables, and in the Oil&Gas segment for Umbilical cables, businesses in which the Prysmian Group supports its customers right from system design all the way through to final cable laying.

Assembly to Order: this approach allows a fast response to demand for items that use standard components but differ only at the final stages of production or packaging. This approach has the dual objective of responding rapidly to market demand while at the same time keeping inventories of finished goods to a minimum.

Make to Order: in this case, production is activated and goods shipped only after receipt of a customer order, significantly reducing unused inventory levels and the time that raw materials and finished goods remain in stock.

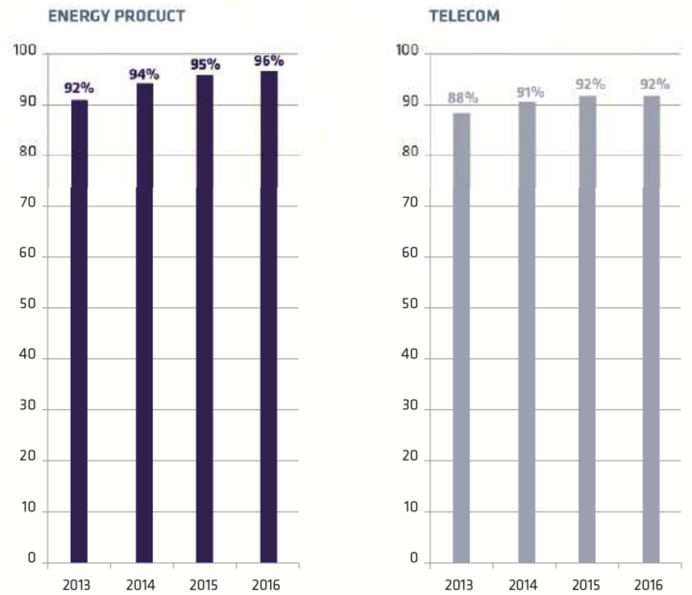
Make to Stock: in contrast, under the MTS approach, generally used for more standardised products, items are produced for stock to allow a fast response to demand. This model mainly applies to products used by the Energy Products and Telecom operating segments.

In keeping with the Group's strategic objectives and as part of the Customer Centricity and Factory Reliability propositions, Prysmian Group carried on in 2016 with actions already instigated in recent years to improve logistics services, in terms of lead-time flexibility, timeliness and efficiency.

The punctuality and reliability of its processes have confirmed the Prysmian Group's strong focus on continuous improvement. The On Time Delivery (OTD) indicator, measuring the ability to serve the customer by the delivery date agreed at the time of confirming order receipt, improved once again in 2016 for Energy

Products and was confirmed by Telecom, despite a large increase in volumes, as shown in the following charts.

Besides the absolute increase in the level of On Time Delivery, 2016 saw another fall in the proportion of units performing below the 90% mark, thus reflecting a more consistent performance between the Group's various plants.



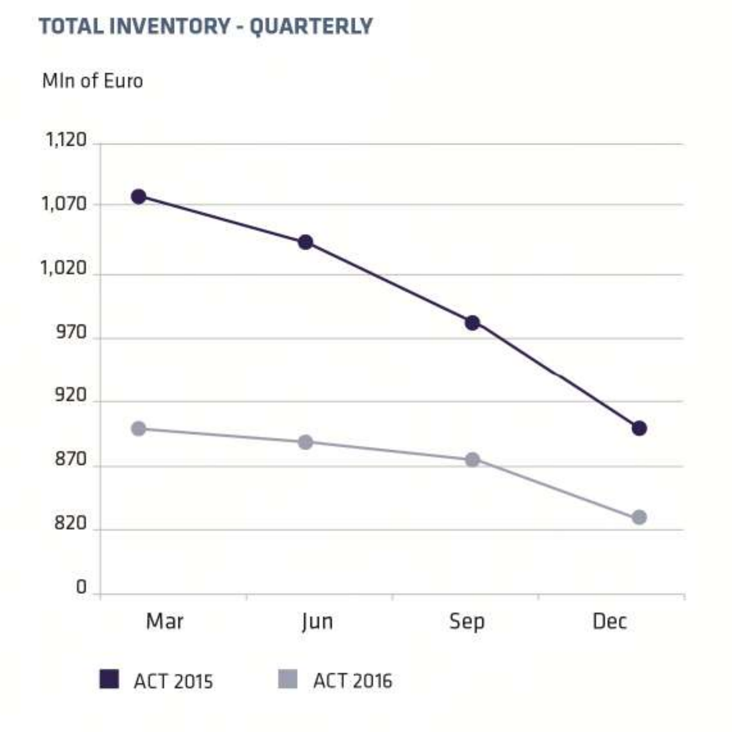
During the year the projects to reduce time to market were completed.
On the one hand, the "Fast Order Entry" project has allowed the customer care team to reduce the time to enter and process orders by 90%, by optimising both product search and stock availability and by allowing several items to be included in a single order.

The Distribution Logistics market in 2016 was characterised by an existing excess of transport capacity for all the major airlines, while maritime transport continued to show spare capacity due to the larger size of fleets and containers and to ongoing consolidation among major global carriers.
Prysmian has concentrated its activities to improve physical distribution on the South East Asia/China region by reducing the number of maritime transport suppliers to just one, with a considerable reduction in costs and greater efficiency.
Logistics activities have also been outsourced in North America (USA and Canada) and Europe (United Kingdom), applying existing formats and best practices to these regions to achieve significant cost savings.
The Group has also supported and improved logistics-related national recycling programs involving drums and packaging, resulting in significant benefits for environmental sustainability.

All aspects of inventory management continued to receive attention in 2016, an activity that became even more complex and important in the second half of the year because of the market downturn in Europe, in particular:

- in order to improve the quality of inventory and hence the speed of customer delivery with a related improvement in service, weekly monitoring was initiated in some plants for higher rotation products, using a Stock Fill Rate Monitor to give an ABC score;
- to stimulate the internal benchmark and implement the adoption of best practices, the Logistics function has segmented its units into clusters according to the markets served/ products supplied, allowing it to report a monthly Inventory Monitor by Cluster;
- raw materials, with increasing effort devoted to procurement planning and rationale for all materials, particularly metals (copper, aluminium and lead), where more reliable forecasts of local needs helped significantly reduce the level of safety stocks;
- intermediate products, with various "lean" and "six sigma" projects implemented in the most critical plants to help reduce factory "lead time";
- finished goods, with the focus in 2016 on reducing the quantity of obsolete and slow-moving items.

TOTAL INVENTORY(*)



(*)The graph does not include data for Oman Cables Industry (SAOG)

These actions have led to another significant reduction in the Group's inventory, thus contributing to a reduction in Net Working Capital and hence an improvement in the Net Financial Position.

Lastly, it should be noted that the Group has been able to meet the growing demand for medium and high voltage cables by utilities, by making the best of its manufacturing footprint both in Europe and beyond. In fact, the now established integrated Sales and Operations Planning process on a macro-regional scale made it possible to ensure full production capacity in every factory, especially in the first half of 2016, in response to extra demand from Central and North European and Australian markets.

Actions and projects of this kind confirm the Group's commitment to ever more efficient use of resources, to greater sharing of information and to faster response times to market needs.

PRYSMIAN FOR THE ENVIRONMENT

At the end of 2016, 91% and 73% of the sites were certified in accordance with ISO 14001 and OHSAS 18001 respectively.

Commitment to environmental stewardship and to the conservation of natural resources is critical for the Group to create sustainable value, benefiting both the organisation and its stakeholders. This approach is expressed not only in the product's intrinsic characteristics, but also in the management of production systems, where the focus is on prevention and reduction of environmental impact through, for example, efficient use of natural resources, optimisation of logistics and responsible waste management.

At the start of 2016 Prysmian's Health Safety & Environment (HSE) department, working together with other department and with the backing of the Board of Directors, set the Group's HSE objectives for 2016-2018 based on the environmental performance indicators treated as relevant at Group level. These objectives were communicated to all Country and Business Unit managers and, where possible, individual targets were set.

During the year, HSE continued to coordinate activities at various levels of the Group's organisation (Corporate, countries or regions, business units and production units), including:

- the extension of OHSAS 18001 certification for the Safety Management System to five more sites and of ISO 14001 certification to one site;
- the transition of plants previously certified by other organisations to the official certifying body: during 2016, 4 plants passed to the official body for ISO 14001 (relating to the Environmental Management System) and 2 plants to that for OHSAS 18001. This will help improve coordination of Management Systems thanks to the periodic audit of the Group's HSE procedures by the independent certifying body and to HSE involvement in deciding and agreeing corrective actions applicable to the Group's various production facilities;
- the enhancement of ISO 14001 and OHSAS 18001 certifications at Prysmian PowerLink (the organisation responsible for high voltage submarine and underground cable installation activities), by extending their field of application to design and production supervision activities, with the ISO 14001 and OHSAS 18001 audits integrated into a single programme;
- extending the number of plants which, like PPL above, opt for an integrated system of auditing (two more plants in 2016 in addition to those already organised in this way);
- the audit of the effectiveness and correct application of the HSE rules locally, according to a random audit programme organised by HSE and conducted by the Group's team of qualified auditors;
- the evaluation of the results of energy audits conducted in 2015 at a number of European production sites, resulting in the identification of a series of energy efficiency initiatives to reduce consumption and greenhouse gas emissions, both locally and at Group level through HSE centrally coordinated projects;

- the launch of pilot projects, at Group production units, aimed at analysing the issue of energy consumption more specifically and in greater detail, with reference to the production, machinery and maintenance needs of each site, to the type of supply and any existing constraints, to climate data, etc., in order to assess whether any machinery solutions or operational situations exist that can help reduce energy consumption and pollutant emissions compared with present;
- the drafting of Guidelines, to be adopted at Group level for consistent and coordinated implementation of efficiency projects managed by HSE, in particular the "Relamping with LED" and "Smart metering" projects;
- the launch of the "Relamping with LED" project to replace current lighting systems with LED lamps, starting with the 16 production units selected as priorities;
- the organisation of the next "world" departmental meeting, scheduled for early 2017 for HSE managers from each Region or Business Unit, with the intent of reviewing the state of existing initiatives, of presenting the initiatives planned by HSE for the next 3 years, including an explanation of how these will be implemented including with the involvement of local HSE teams, and of assigning responsibilities and specific HSE objectives, also in light of Prysmian Group's new commitments where Sustainability is concerned.

Once again during 2016, significant variables and indicators were tracked to assess the effectiveness of environmental performance in areas such as compliance with health and safety standards at work, energy consumption, waste management, atmospheric emissions of greenhouse gases and the use of water resources. As regards the latter, a method was developed in 2016 for concise evaluation of how efficiently process water is reused in the various production units. These indicators are presented in the Sustainability Report, which also reports greenhouse gas emissions, dividing them into "direct" emissions (arising from the production process), and "indirect" ones (arising from bought-in energy). This monitoring and reporting system has allowed Prysmian to participate, once again in 2016, in the Carbon Disclosure Project (CDP), to consolidate and improve the efforts involved in greenhouse gas emissions accounting and reporting and to define improvement objectives at Group level. The possibility of including assessment of product environmental impact - specifically focused on carbon footprint - at the design stage has been discussed and the most suitable courses of action to achieve this objective are being identified.

During the year a total of some 160 inspections were carried out at the various production units, including certification audits and audits for maintenance of existing certifications, of which 25% by qualified Prysmian personnel and the remainder by auditors from independent certifying bodies.

During the year a total of some 160 inspections were carried out at the various production units for certification purposes (individual inspections at production units with integrated auditing systems have been counted twice, once as an environmental audit and once as a safety audit). Of these 160, about 12% were carried out by qualified Prysmian auditors, and the remainder by auditors from independent certifying bodies.

This total also includes internal audits by qualified staff from Corporate HQ in connection with certified management systems.

In addition to numerous training initiatives, Prysmian managed and carried out a series of activities, coordinated by the HSE department, including:

- completion of the environmental and safety section of the RobecoSAM corporate sustainability assessment questionnaire for the rating process of the Dow Jones Sustainability Index (DJSI), with a major improvement on the prior year score, partly thanks to more complete reporting - for certain initiatives – about the link between environmental improvements and the resulting economic impacts;
- active participation in various industry association working groups and committees (the Europacable ECOE Committee, the Orgalime "Substances Task Force", the ANIE Environment Committee, the AICE environment working group, and the IEC Maintenance Team which is developing the standard for the environmental statement specific to energy cables).

INCENTIVE PLANS

Long-term incentive plan 2015-2017

The Shareholders' Meeting held on 16 April 2015 approved an incentive plan for employees of the Prysmian Group, including members of the Board of Directors of Prysmian S.p.A., and granted the Board of Directors the necessary powers to establish and implement this plan.

The reasons behind the introduction of the Plan are:

- to generate strong commitment by the Group's Management to achieving the targets for additional growth in profits and return on capital employed over the next three years;
- to align the interests of Management with those of shareholders by using share-based incentives, and promoting stable share ownership of the Company;
- to ensure the long-term sustainability of the Group's annual performance through the mechanism of co-investing part of the annual bonus and consequent retention effect.

The Plan covers around 335 employees of Group companies and involves the grant of options, the number of which depends on the achievement of common business and financial performance objectives for all participants.

The Plan consists of two parts:

- Co-investment;
- Performance Shares.

The Co-investment part requires each participant to defer and co-invest a variable portion of their annual bonuses for the years 2015 and 2016, if achieved; if the Target is achieved, this portion is returned to the participant in the form of company shares with a higher value than that co-invested.

The Performance Shares part involves the prior establishment of a minimum and maximum number of shares for each participant, according to their company position and salary level. The number of shares actually awarded will depend on the extent to which the Performance Conditions are achieved. Both parts of the plan are contingent upon achieving two financial performance targets in the period 2015-2017, namely the Group's aggregate Adjusted EBITDA for the three years (min. Euro 1,850 million - max. Euro 2,150 million) and average ROCE (Return On Capital Employed) in the same three-year period (min. 16.0% - max. 19.6%).

Additional information about the incentive plans can be found in Note 21 to the Consolidated Financial Statements.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Finance Activities

Bond issuance

On 12 January 2017, the Board of Directors approved the placement of an equity-linked bond, known as "Prysmian S.p.A. Euro 500 million Zero Coupon Linked Bonds due 2022" maturing 17 January 2022 and reserved for institutional investors.

The initial conversion price of the Bonds is Euro 34.2949 and has been set by applying a 41.25% premium to the weighted average price of the Company's ordinary shares recorded on the Milan Stock Exchange between the start and end of the book-building process during the morning of 12 January 2017.

The Bonds may be converted into ordinary shares of the Company, subject to approval by the Company's extraordinary general meeting, to be held no later than 30 June 2017 (the "Long-stop Date"), of a share capital increase with exclusion of preferential subscription rights pursuant to art. 2441, par. 5, of the Italian Civil Code, to be used exclusively to service conversion of the Bonds (the "Capital Increase"). After such approval, the Company shall issue a notice to the Bondholders (the "Physical Settlement Notice"). Under the terms and conditions of the Bonds, and following the date referred to in the Physical Settlement Notice, the Company shall settle any exercise of conversion rights with Prysmian ordinary shares issued under the Capital Increase or, at the Company's discretion, with existing Prysmian ordinary shares held by the Company.

Should the Capital Increase not be approved on or before the Long-stop Date, the Company may, within a limited period of time (and in any case no later than 10 dealing days after the Long-stop Date), give notice to the Bondholders (a "Shareholder Event Notice") and redeem all of the Bonds in cash at a premium determined in accordance with the terms and conditions of the Bonds.

Should the Capital Increase not be approved and should the Company not publish a Shareholder Event Notice by the date stated in the terms and conditions of the Bonds (and in certain limited circumstances prior to such date), each Bondholder may, in accordance with the terms and conditions of the Bonds, request early redemption of their Bonds in cash. In such circumstances, the Company shall redeem the Bonds against payment of a cash amount equal to the market value (as determined in accordance with the terms and conditions of the Bonds) of the number of Prysmian ordinary shares that a Bondholder would have been entitled to if such holder had been able to exercise the right to convert the Bonds into ordinary shares.

The Company will have the option to call all (but not just a part) of the outstanding Bonds at their principal amount from 1 February 2020, should the value of the Shares exceed 130% of the conversion price for a specified period of time.

The Company intends to apply for admission to listing of the Bonds on a regulated market or internationally recognised multilateral trading facility by no later than 30 June 2017.

The placement has allowed the Issuer to diversify its financial resources more widely by raising funds on the capital market. These funds will be used (i) to pursue the Company's potential external growth opportunities; (ii) to finance, in line with the shareholders' authorisation of the share buyback, the buyback of the

Company's shares that will be used to fulfil potential conversion rights requirements and/or as consideration to finance the Company's growth strategy and (iii) for general corporate purposes.

Share buy-back programme

On 12 January 2017, the Board of Directors approved the adoption of a share buyback programme (the "Programme").

In particular, the purposes of the Programme are:

1. to create a "stock of shares" that the Company can use as consideration in extraordinary corporate actions with third parties, including stock swaps, as part of transactions strategic to the Company's interest;
2. to serve the exercise of any bond conversion rights (as envisaged by art. 5 of the Market Abuse Regulation);
3. any other and additional purposes either (i) under art. 3 of the Market Abuse Regulation, or (ii) under the Consob Accepted Market Practices.

The shares may be purchased for an aggregate amount of up to Euro 125 million, and the number of shares purchased under the Programme shall not, in any case, exceed 3% of the Company's paid-up share capital.

The Programme can be executed in one or more tranches and will terminate by 30 September 2017.

Purchases will be made through a specifically appointed authorised intermediary, who will act independently and without any influence from the Company and in a manner consistent with the provisions of art. 3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016. All transactions carried out are disclosed to the market in accordance with the terms and procedures provided by applicable laws.

A total of 1,087,911 shares have been purchased under this programme up to the date of 24 February 2017.

Cancellation and repayment of Revolving Credit Facility 2014

Having completed the placement of the new equity-linked bond, the Company has reviewed its funding structure, as a result of which on 31 January 2017 it cancelled the five-year revolving credit facility for Euro 100 million with Mediobanca and repaid at the same time the amount of Euro 50 million drawn down as at 31 December 2016.

New industrial projects and initiatives

New onshore cable contract for the East Anglia ONE wind farm

On 21 February 2017, Prysmian signed a GBP 27 million contract with East Anglia One Limited to supply and install an onshore cable connection for the East Anglia ONE offshore wind farm. Consisting of 102 turbines, the GBP 2.5 billion wind farm will generate sufficient electricity to power 500,000 homes. The contract involves the supply and installation of a 220 kV double circuit line from the Bawdsey shore landing to a substation in Bramford, covering a 37 km route. Prysmian will be responsible for the design, production, installation and testing of the cables and their accessories. The underground high voltage cables will be manufactured by Prysmian and installed by its UK-based installation division. Pre-construction work is due to begin in early 2017, with the cable installation phase planned to take place from October 2017 to September 2018, during which time Prysmian will be employing a 50-strong team of professionals.

New submarine cable contract for three offshore wind farms in France

On 21 February 2017, Prysmian was awarded a contract worth around Euro 300 million by Rèsau De Transport D'Electricitè (RTE) to provide submarine cable systems to link three offshore wind farms to the mainland power grid in France. These are the first ever grid access connections developed by RTE in France to transmit renewable energy generated by offshore wind farms to thousands of businesses and homes. The three projects, Fécamp, Calvados and Saint Nazaire, will be individually activated over the period of the contract.

Prysmian will be responsible for the design, supply, installation, testing and commissioning of two HV export power cables for each of the three offshore wind farms, covering both the submarine and onshore routes to connect Fécamp, Calvados and St Nazaire to the French electricity grid. The submarine cable links, which consist of High Voltage Alternating Current (HVAC) 220 kV three-core cables with XLPE insulation, will connect the offshore wind farms being developed by Eolien Maritime France (EMF). The submarine cables will be produced at the Group's centres of excellence in Arco Felice, Italy and Pikkala, Finland. The cables for the onshore sections will be manufactured in Gron, France. The cables are expected to be delivered during the period 2018 to 2020, according to the scheduling of the individual wind farms, with commissioning estimated between 2019 and 2022. For marine installation, Prysmian will be using the services of its own cable-laying vessel, the Cable Enterprise.

New contract for an interconnector between France and the United Kingdom through the Channel Tunnel

On 27 February 2017, Prysmian was awarded a contract, under a wider consortium agreement with Balfour Beatty, a world leading group in infrastructure construction, for the development of a new High Voltage Direct Current (HVDC) interconnector between France and the UK through the Channel Tunnel. The project is one of the European Commission's Projects of Common Interest and has been awarded by ElecLink, a wholly-owned subsidiary of Groupe Eurotunnel, which will build an interconnector through the Channel Tunnel to provide a power transmission link between the UK and France with a capacity of 1000 MW in either direction of flow. The total contract value for the consortium is approximately Euro 219 million, of which the share of Prysmian, responsible for coordinating the design, supply, installation and commissioning of the interconnector, is approximately Euro 79 million.

The project comprises a ± 320 kV extruded HVDC underground cable turnkey system that includes the engineering, production and installation of one HVDC symmetrical single-core circuit along a 51 km route through the Channel Tunnel. The HVDC cable will connect the future converter stations located in Peuplingues (France) and Folkestone (UK). Prysmian will also supply and install the underground cables for the HVAC link to the Sellindge substation (UK). All cables will be manufactured at Prysmian's plant in Gron (France), one of the Group's centres of excellence for EHV AC and DC cables.

Other significant subsequent events

Transfer of registered office

On 1 March 2017, the Company transferred its registered office from the previous address in Viale Sarca 222, to the new address in Via Chiese 6, Milan, the location of the new offices of the Parent Company Prysmian S.p.A..

BUSINESS OUTLOOK

The macroeconomic environment in 2016 saw modest but mixed growth for Europe's major economies, partially eroded by the uncertainty generated by the outcomes of referenda held in the United Kingdom (23 June 2016) and Italy (4 December 2016). In the United States growth was moderate although less intense than in 2015. Among the main emerging economies, Russia experienced a progressive stabilisation after almost two years of crisis, while the economic and political situation in Brazil has remained challenging, despite a slight improvement in the latter part of the year. After a slow start, the Chinese economy benefited from the government's economic stimulus package for the housing market and from growing investments in infrastructure, with government growth targets achieved thanks to better-than-expected recovery in the second half of the year.

In such a context, the Group's expectation for FY 2017 is that demand in the cyclical businesses of building wires and medium voltage cables for utilities will be in line with the previous year, with a general stabilisation in prices. With the Energy Projects segment seeing a growing market, the Prysmian Group expects to consolidate its market leadership and improve profitability in the Submarine cables business, while it expects a slight decline in the High Voltage underground business especially due to phasing of its manufacturing footprint in China. In the OIL & GAS segment, the gradual strengthening of oil prices, if confirmed in 2017, should lead to a slight recovery in cable demand in the second part of the year. In the Telecom segment, the underlying growth in the Group's turnover is expected to remain strong in 2017, thanks to growth in the North American and European markets, while a gradual stabilisation in volumes is expected in Australia.

In addition, assuming exchange rates remain at the same level as at the time of preparing the present document, the effect of translating the results of other group companies into the reporting currency would not have a material impact on the Group's 2017 operating income.

Lastly, the Prysmian Group is continuing in 2017 to rationalise its activities with the objective of achieving projected cost efficiencies and greater competitiveness in all areas of its business.

OTHER INFORMATION

Related party transactions

Related party transactions do not qualify as either atypical or unusual but form part of the normal course of business by Group companies. Such transactions take place under market terms and conditions, according to the type of goods and services provided.

Information about related party transactions, including that required by the Consob Communication dated 28 July 2006, is presented in Note 33 to the Consolidated Financial Statements at 31 December 2016.

Atypical and/or unusual transactions

In accordance with the disclosures required by Consob Communication DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions took place during 2016.

Secondary offices and key corporate information

The list of secondary offices and key corporate information of the legal entities making up the Group can be found in Appendix A of the Explanatory Notes to the Consolidated Financial Statements.

Financial risk management

The management of financial risks is discussed in the Explanatory Notes to the Consolidated Financial Statements, in Section D. Financial risk management.

CERTIFICATION PURSUANT TO ART. 2.6.2 OF THE ITALIAN STOCKMARKET REGULATIONS REGARDING THE CONDITIONS CONTAINED IN ART. 36 OF THE MARKET REGULATIONS

The Company is compliant with the provisions of art. 36.1 of the above Regulations with regard to "Conditions for the listing of shares of companies which control companies established and regulated under the law of non-EU countries" specified in articles 36 and 39 of the Market Regulations.

Milan, 1 March 2017

FOR THE BOARD OF DIRECTORS
THE CHAIRMAN
Massimo Tononi

CONSOLIDATED FINANCIAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of Euro)

	Note	31 December 2016	of which related parties (Note 33)	31 December 2015 Restated (*)	of which related parties (Note 33)
Non-current assets					
Property, plant and equipment	1	1,631		1,551	
Intangible assets	2	792		823	
Equity-accounted investments	3	195	195	177	177
Available-for-sale financial assets	4	12		12	
Derivatives	8	3		1	
Deferred tax assets	16	130		111	
Other receivables	5	21		26	
Total non-current assets		**2,784**		**2,701**	
Current assets					
Inventories	6	906		984	
Trade receivables	5	1,088	14	1,098	7
Other receivables	5	788	5	687	4
Financial assets held for trading	7	59		87	
Derivatives	8	40		26	
Cash and cash equivalents	9	646		547	
Total current assets		**3,527**		**3,429**	
Assets held for sale	10	-		119	
Total assets		**6,311**		**6,249**	
Equity attributable to the Group:		**1,448**		**1,278**	
Share capital	11	22		22	
Reserves	11	1,180		1,042	
Net profit/(loss) for the year		246		214	
Equity attributable to non-controlling interests:		**227**		**229**	
Share capital and reserves		211		229	
Net profit/(loss) for the year		16		-	
Total equity		**1,675**		**1,507**	
Non-current liabilities					
Borrowings from banks and other lenders	12	1,114		1,141	
Other payables	13	18		16	
Provisions for risks and charges	14	40		52	
Derivatives	8	12		21	
Deferred tax liabilities	16	111		114	
Employee benefit obligations	15	383		341	
Total non-current liabilities		**1,678**		**1,685**	
Current liabilities					
Borrowings from banks and other lenders	12	172		262	
Trade payables	13	1,498	4	1,377	5
Other payables	13	875	3	984	5
Derivatives	8	24		43	
Provisions for risks and charges	14	339	2	275	
Current tax payables		50		27	
Liabilities held for sale	10	-		89	
Total current liabilities		**2,958**		**3,057**	
Total liabilities		**4,636**		**4,742**	
Total equity and liabilities		**6,311**		**6,249**	

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

CONSOLIDATED INCOME STATEMENT

(in millions of Euro)

	Note	2016	of which related parties (Note 33)	2015	of which related parties (Note 33)
Sales of goods and services	17	7,567	51	7,361	53
Change in inventories of work in progress, semi-finished and finished goods	18	(48)		(44)	
Other income	19	75	5	104	4
of which non-recurring other income		-		-	
Raw materials, consumables used and goods for resale	20	(4,387)	(17)	(4,484)	(35)
Fair value change in metal derivatives		54		(27)	
Personnel costs	21	(1,056)	(28)	(1,001)	(12)
of which personnel costs for company reorganisation		*(31)*		*(33)*	
of which personnel costs for stock option fair value		*(49)*		*(25)*	
Amortisation, depreciation, impairment and impairment reversals	22	(203)		(171)	
of which (impairment) and impairment reversals related to company reorganisation		*(5)*		*(3)*	
of which other (impairment) and impairment reversals		*(25)*		*(18)*	
Other expenses	23	(1,586)	(1)	(1,378)	(1)
of which non-recurring (other expenses) and releases		*1*		*29*	
of which (other expenses) for company reorganisation		*(19)*		*(15)*	
Share of net profit/(loss) of equity-accounted companies	24	31	31	39	39
Operating income		**447**		**399**	
Finance costs	25	(497)		(530)	
of which non-recurring finance costs		*(2)*		*(2)*	
Finance income	26	418		441	
of which non-recurring finance income		-		-	
Profit/(loss) before taxes		**368**		**310**	
Taxes	27	(106)		(96)	
Net profit/(loss) for the year		**262**		**214**	
Attributable to:					
Owners of the parent		246		214	
Non-controlling interests		16		-	
Basic earnings/(loss) per share (in Euro)	28	1.15		1.00	
Diluted earnings/(loss) per share (in Euro)	28	1.09		1.00	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of Euro)

	2016	2015
Net profit/(loss) for the year	**262**	**214**
Comprehensive income/(loss) for the year:		
- items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on cash flow hedges - gross of tax	(4)	1
Fair value gains/(losses) on cash flow hedges - tax effect	3	-
Release of cash flow hedge reserve after discontinuing cash flow hedging - gross of tax	-	2
Release of cash flow hedge reserve after discontinuing cash flow hedging - tax effect	-	(1)
Currency translation differences	17	(44)
Total items that may be reclassified, net of tax	**16**	**(42)**
- items that will NOT be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on employee benefits - gross of tax	(54)	23
Recognition of pension plan asset ceiling	-	-
Actuarial gains/(losses) on employee benefits - tax effect	10	(4)
Total items that will NOT be reclassified, net of tax	**(44)**	**19**
Total comprehensive income/(loss) for the year	**234**	**191**
Attributable to:		
Owners of the parent	211	192
Non-controlling interests	23	(1)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of Euro)

	Share capital	Cash flow hedge reserve	Currency translation reserve	Other reserves	Net profit/(loss) for the year	Equity attributable to the Group	Non-controlling interests	Total
Balance at 31 December 2014	**21**	**(11)**	**(126)**	**1,151**	**115**	**1,150**	**33**	**1,183**
Allocation of prior year net result	-	-	-	115	(115)	-	-	-
Dividend distribution	-	-	-	(90)	-	(90)	(1)	(91)
Fair value - stock options	-	-	-	25	-	25	-	25
Capital increase	1	-	-	-	-	1	2	3
Change in scope of consolidation	-	-	-	-	-	-	196	196
Total comprehensive income/(loss) for the year	-	2	(43)	19	214	192	(1)	191
Balance at 31 December 2015 (*)	**22**	**(9)**	**(169)**	**1,220**	**214**	**1,278**	**229**	**1,507**

(in millions of Euro)

	Share capital	Cash flow hedge reserve	Currency translation reserve	Other reserves	Net profit/(loss) for the year	Equity attributable to the Group	Non-controlling interests	Total
Balance at 31 December 2015 (*)	**22**	**(9)**	**(169)**	**1,220**	**214**	**1,278**	**229**	**1,507**
Allocation of prior year net result	-	-	-	214	(214)	-	-	-
Dividend distribution	-	-	-	(90)	-	(90)	(12)	(102)
Fair value - stock options	-	-	-	49	-	49	-	49
Change in scope of consolidation	-	-	-	-	-	-	(13)	(13)
Total comprehensive income/(loss) for the year	-	(4)	13	(44)	246	211	23	234
Balance at 31 December 2016	**22**	**(13)**	**(156)**	**1,349**	**246**	**1,448**	**227**	**1,675**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Euro)

	2016	of which related parties (Note 33)	2015	of which related parties (Note 33)
Profit/(loss) before taxes	368		310	
Depreciation, impairment and impairment reversals of property, plant and equipment	157		138	
Amortisation and impairment of intangible assets	46		33	
Net gains on disposal of property, plant and equipment, intangible assets and acquisition purchase price adjustment	(3)		-	
Results of operating and financial investment and divestment activities	(18)		(36)	
Share of net profit/(loss) of equity-accounted companies	(31)	(31)	(39)	(39)
Share-based payments	49		25	3
Fair value change in metal derivatives and other fair value items	(54)		27	
Net finance costs	79		89	
Changes in inventories	77		81	
Changes in trade receivables/payables	142	(8)	(54)	5
Changes in other receivables/payables	(152)	(3)	216	3
Taxes paid	(76)		(71)	
Dividends received from equity-accounted companies	10	10	17	17
Utilisation of provisions (including employee benefit obligations)	(82)		(87)	
Increases in provisions (including employee benefit obligations)	103	2	48	
A. Net cash flow provided by/(used in) operating activities	**615**		**697**	
Cash flow from acquisitions and/or disposals	31		(138)	
Investments in property, plant and equipment [(1)]	(222)		(204)	
Disposals of property, plant and equipment and assets held for sale	6		10	
Investments in intangible assets	(11)		(6)	
Investments in financial assets held for trading	(3)		(48)	
Disposals of financial assets held for trading	27		16	
B. Net cash flow provided by/(used in) investing activities	**(172)**		**(370)**	
Capital contributions and other changes in equity	-		3	
Dividend distribution	(102)		(91)	
Redemption of non-convertible bond - 2010	-		(400)	
EIB Loan	(17)		(8)	
Issuance of non-convertible bond - 2015	-		739	
Early repayment of Credit Agreement	-		(400)	
Finance costs paid [(2)]	(438)		(518)	
Finance income received [(3)]	370		418	
Changes in other net financial payables	(152)		11	
C. Net cash flow provided by/(used in) financing activities	**(339)**		**(246)**	
D. Currency translation gains/(losses) on cash and cash equivalents	**(5)**		**(16)**	
E. Total cash flow provided/(used) in the year (A+B+C+D)	**99**		**65**	
F. Net cash and cash equivalents at the beginning of the year	**547**		**494**	
G. Net cash and cash equivalents at the end of the year (E+F)	**646**		**559**	
Cash and cash equivalents reported in consolidated statement of financial position	**646**		**547**	
Cash and cash equivalents included in assets held for sale	**-**		**12**	

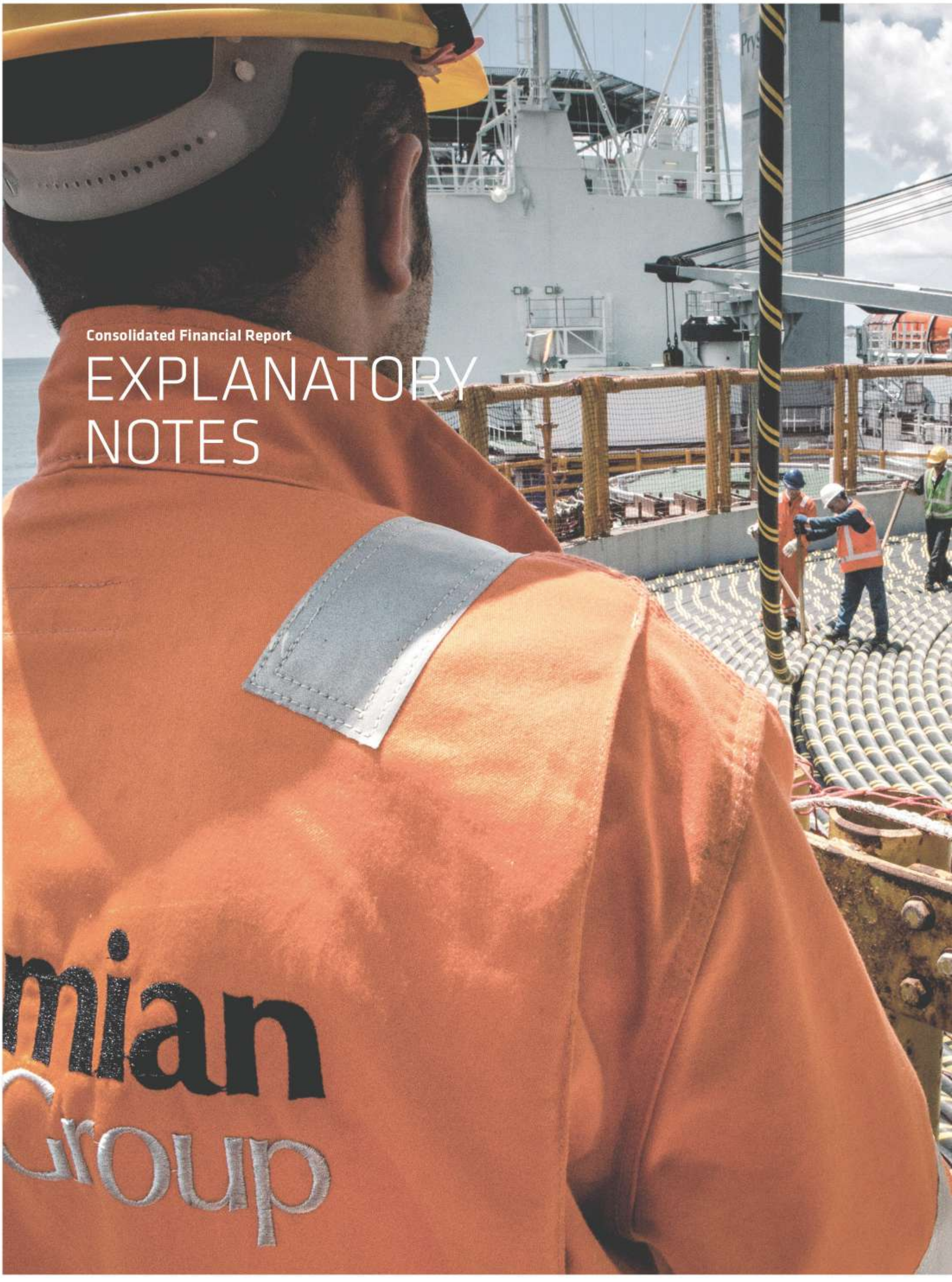
[(1)] Investments in property, plant and equipment include Euro 11 million in connection with the acquisition of the assets of Shen Huan Cable.

[(2)] Finance costs paid of Euro 438 million include interest payments of Euro 36 million in 2016 (Euro 46 million in 2015).

[(3)] Finance income received of Euro 370 million includes interest income of Euro 8 million in 2016 (Euro 10 million in 2015).

Consolidated Financial Report

EXPLANATORY NOTES



EXPLANATORY NOTES

A. GENERAL INFORMATION

Prysmian S.p.A. ("the Company") is a company incorporated and domiciled in Italy and organised under the laws of the Republic of Italy.

Since 1 March 2017 the Company has its registered office in Via Chiese 6, Milan (Italy).

Prysmian S.p.A. was floated on the Italian Stock Exchange on 3 May 2007 and since September 2007 has been included in the FTSE MIB index, comprising the top 40 Italian companies by capitalisation and stock liquidity.

The Company and its subsidiaries (together "the Group" or "Prysmian Group") produce cables and systems and related accessories for the energy and telecommunications industries, and distribute and sell them around the globe.

A.1 SIGNIFICANT EVENTS IN 2016

Mergers & Acquisitions

Sale of 67% equity interest in Prysmian Baosheng Cable Co., Ltd.

On 18 April 2016, Prysmian Group signed an agreement to sell 67% of the equity in Prysmian Baosheng Cable Co., Ltd. to its joint venture partner Baosheng Group Ltd. for total consideration of RMB 300 million (approximately Euro 41 million). With the agreement's conditions precedent satisfied, the transaction's closing took place on 28 November 2016.

The transaction accounting date is 30 November 2016. The Group had already reclassified all this company's assets and liabilities as assets and liabilities held for sale in its Annual Financial Report at 31 December 2015. The transaction has resulted in the recognition of a capital gain of approximately Euro 14 million.

Acquisition of data cables business from Corning Optical Communications Gmbh & Co. KG.

On 13 May 2016, Prysmian Group completed an agreement to acquire a copper data cables business located in Neustadt (Germany) from Corning Optical Communications Gmbh & Co. KG., involving the realisation of a Euro 1 million receipt.

The investment will allow the Group to further expand its presence and intensify its growth strategy in the business of MultiMedia Solutions, by expanding its range of high-capacity and flexible cables for data transmission and data centres. Further details can be found in Section F. Business combinations.

Other significant events

Factory closures

On 29 January 2016, Prysmian Cables et Systèmes France presented the trade unions with a plan for the closure of the Angy factory, employing 74 people. The plan also envisaged investing in the nearby Draka Fileca factory in Sainte Geneviève, whose products serve the aviation industry, and which would result in the creation of 25 new jobs. At the same meeting, a plan was also presented to cease production at the Xoulces factory, employing 76 people, and to transfer this factory's accessories production activities to the nearby Neuf Pré factory, thereby creating a centre of accessories manufacturing excellence in a more suitable facility than at present, while also adding 38 new jobs to the previous workforce of 60.
Discussion of the related industrial and social plans has been completed with the signing of the relevant agreements.

On 17 June 2016, Prysmian Netherlands B.V. informed the trade unions and local union representatives of the intention to close the Delfzijl factory, a telecom cables manufacturing facility employing 82 people. The consultation process commenced on the same date and ended in September with the signing of the agreement for the social plan and acceptance of the factory's closure.

On 6 September 2016, Prysmian Denmark A/S informed the trade unions and union representatives of the intention to close the Brondby factory, employing 68 people in the manufacture of cables for the MultiMedia Solutions business. The social plan for the factory workers was signed during the month of September.

Creation of the OIL & GAS operating segment

In January 2016, the Group modified its organisational structure with the creation of a new OIL & GAS operating segment, incorporating the SURF, DHT and Core Oil & Gas cables businesses. The new organisational structure facilitates the creation of synergies between the businesses and allows major customers to be managed more efficiently.
Accordingly, the structure of "Segment Information" has been modified as from the first quarter of 2016 and in the current Annual Financial Report, with more details provided in the relevant section of the Explanatory Notes.

Dividend distribution

On 13 April 2016, the shareholders of Prysmian S.p.A. approved the financial statements for 2015 and the distribution of a gross dividend of Euro 0.42 per share, for a total of some Euro 90 million. The dividend was paid out on 20 April 2016 to shares outstanding on the record date of 19 April 2016, with the shares going ex-dividend on 18 April 2016.

Share buy-back and disposal programme

The Shareholders' Meeting held on 13 April 2016 authorised a share buy-back and disposal programme, revoking at the same time the previous authorisation under the shareholder resolution dated 16 April 2015. This programme provides the opportunity to purchase, on one or more occasions, a maximum number of ordinary shares whose total must not exceed, at any one time, 10% of share capital, equating to 18,964,916 ordinary shares as at the date of the Shareholders' Meeting, after deducting the treasury shares currently held. Purchases may not exceed the amount of undistributed earnings and available reserves reported in the most recently approved annual financial statements. The authorisation to buy back treasury shares will last for 18 months commencing from 13 April 2016, while the authorisation to dispose of treasury shares has no time limit.

New employee share purchase plan

The same Shareholders' Meeting held on 13 April 2016 also approved a share purchase plan reserved for employees of Prysmian S.p.A. and/or of its subsidiaries, including some of the Company's Directors, and granted the Board of Directors the relevant powers to establish and implement this plan.

The plan will offer the opportunity to purchase Prysmian's ordinary shares on preferential terms, with a maximum discount of 25% on the stock price, given in the form of treasury shares. The shares purchased will be subject to a retention period, during which they cannot be sold. The Plan contains purchase windows over the next three years.

The process of informing and explaining the plan to Group employees started in October 2016. Additional details can be found in Note 21. Personnel costs.

Acquisition of the assets of Shen Huan Cable

In December 2016, the Prysmian Group won a bankruptcy auction for the acquisition of certain assets of a high voltage cables factory in China previously operated by Shen Huan Cable Technologies, for total consideration of around RMB 305 million (approximately Euro 42 million). This acquisition will significantly increase the Prysmian Group's competitiveness in the Chinese utilities market with greater operational flexibility, efficiency and technical developments.

The consolidated financial statements contained herein were approved by the Board of Directors on 1 March 2017.

In application of art. 264b HGB of the German Commercial Code ("Handelsgesetzbuch"), the present financial statements exempt Draka Comteq Berlin GMBH & Co.KG and Draka Comteq Germany GMBH & Co.KG. from the requirement to present statutory financial statements.

Note: all amounts shown in the tables in the following Notes are expressed in millions of Euro, unless otherwise stated.

B. ACCOUNTING POLICIES AND STANDARDS

The main accounting policies and standards used to prepare the consolidated financial statements and Group financial information are set out below.

B.1 BASIS OF PREPARATION

The present financial statements have been prepared on a going concern basis, with the directors having assessed that there are no financial, operating or other kind of indicators that might provide evidence of the Group's inability to meet its obligations in the foreseeable future and particularly in the next 12 months.

In particular, the Group’s estimates and projections have been prepared taking into account possible developments in the investigations by the European Commission and other jurisdictions into alleged anti-competitive practices in the high voltage underground and submarine cables market, as well as the risk factors described in the Directors’ Report. The assessments carried out confirm Prysmian Group's ability to operate as a going concern and to comply with its financial covenants.

Section D. Financial risk management and Section D.1 Capital risk management of these Explanatory Notes contain a description of how the Group manages financial risks, including liquidity and capital risks.

In application of Legislative Decree 38 of 28 February 2005 "Exercise of the options envisaged by article 5 of European Regulation 1606/2002 on international accounting standards", the Company has prepared its consolidated financial statements in accordance with the international accounting and financial reporting standards (hereafter also "IFRS") adopted by the European Union.
The term "IFRS" refers to all the International Financial Reporting Standards, all the International Accounting Standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").
IFRS have been applied consistently to all the periods reported in this document. The consolidated financial statements have been prepared in accordance with IFRS and related best practice; any future guidance and new interpretations will be reflected in subsequent years, in the manner established from time to time by the relevant accounting standards.

The Group has elected to present its income statement according to the nature of expenses, whereas assets and liabilities in the statement of financial position are classified as current or non-current. The statement of cash flows has been prepared using the indirect method. The Group has also applied the provisions of Consob Resolution 15519 dated 27 July 2006 concerning financial statement formats and the requirements of Consob Communication 6064293 dated 28 July 2006 regarding disclosures.

The financial statements have been prepared on the historical cost basis, except for the valuation of certain financial assets and liabilities, including derivatives, which must be reported using the fair value method.

On 3 December 2015, Consob implemented the ESMA guidelines in Italy with publication of "ESMA Guidelines/2015/1415" which supersede the "CESR Recommendation 2015 (CESR/05-178B)". The Prysmian Group has complied with these guidelines.

Amendments to the financial statements

The consolidated financial statements for 2015, presented in the current Annual Financial Report for comparative purposes, have undergone some amendments to the previously published figures. These amendments refer to:

- **Purchase Price Allocation of Oman Cables Indutry (SAOG)**

The amendment giving rise to the restatement is attributable to the revision of the Purchase Price Allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

- **Reclassification of deferred tax assets and deferred tax liabilities**

Deferred tax assets and deferred tax liabilities reported at 31 December 2015 have been reclassified to take account of legally enforceable rights to offset them in some of the Group's countries of operation.

- **Amendments to segment information**

In January 2016, the Group modified its organisational structure with the creation of a new OIL & GAS operating segment, incorporating the SURF, DHT and Core Oil & Gas cables businesses. The new organisational structure facilitates the creation of synergies between the businesses and allows major customers to be managed more efficiently.

Accordingly, the structure of "Segment Information" has been modified as from the first quarter of 2016 and in the current Annual Financial Report. Further details can be found in Section G. Segment Information.

B.2 BASIS OF CONSOLIDATION

The financial statements of Group operating companies used for consolidation purposes have been prepared for the year ended 31 December 2016 and the year ended 31 December 2015. They have been adjusted, where necessary, to bring them into line with Group accounting policies and standards. All the companies included in the consolidation end their financial year at 31 December. It should be noted that Yangtze Optical Fibre and Cable Joint Stock Company Limited, consolidated using the equity method, has reported financial results for the first nine months of 2016; for consolidation purposes these figures have been combined with the company's estimated results for the last quarter of the year.

Subsidiaries

The Group consolidated financial statements include the financial statements of Prysmian S.p.A. (the Parent Company) and the subsidiaries over which the Parent Company exercises direct or indirect control. Subsidiaries are consolidated from the date control is acquired until the date such control ceases. Control is connected with the ongoing existence of all the following conditions:

- power over the investee;
- the possibility of achieving a return resulting from ownership of the investment;
- the investor's ability to use its power over the investee to affect the amount of its return.

The existence of potential voting rights exercisable at the reporting date is also taken into consideration for the purposes of determining control.

Subsidiaries are consolidated on a line-by-line basis. The criteria adopted for line-by-line consolidation are as follows:

- assets and liabilities, expenses and income of consolidated entities are aggregated line-by-line and non-controlling interests are allocated, where applicable, the relevant portions of equity and profit for the period, which are then reported separately within equity and the consolidated income statement;
- gains and losses, including the relevant tax effect, arising from transactions between consolidated companies are eliminated if not realised with third parties; unrealised losses are not eliminated if there is evidence that the asset transferred is impaired. The following are also eliminated: intercompany payables and receivables, intercompany expenses and income, and intercompany finance income and costs;
- business combinations through which control of an entity is acquired are recorded using the acquisition method of accounting. The acquisition cost is measured as the acquisition-date fair value of the assets acquired, the liabilities incurred or assumed and the equity instruments issued. The assets, liabilities and contingent liabilities acquired are recognised at their acquisition-date fair values. The excess of acquisition cost over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill under intangible assets. If the acquisition cost is less than the Group's share of the fair value of the identifiable net assets acquired, the difference is recognised as a gain directly in the income statement, but only after reassessing that the fair values of the net assets acquired and the acquisition cost have been measured correctly;

- if non-controlling interests are acquired in entities which are already under the Group's control, the Group recognises directly in equity any difference between the acquisition cost and the related share of net assets acquired;
- if non-controlling interests are acquired in entities previously not under the Group's control, and which result in it obtaining control, the Group accounts for this using the acquisition method, whereby the consideration transferred is equal to the acquisition-date fair value of the assets acquired and liabilities assumed or incurred. In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in the income statement;
- gains or losses arising on the disposal of ownership interests that result in a loss of control of consolidated companies are recognised in the income statement at the amount equal to the difference between the sale consideration and the corresponding share of consolidated equity sold;
- gains or losses from the deconsolidation of an investee's net assets, resulting from the difference between the fair value of the equity interest and the corresponding portion of equity, are recognised in "Finance income" and "Finance costs" respectively.

In compliance with IAS 32, put options over non-controlling interests in subsidiary companies are recognised in "Other payables" at their present value. The matching entry differs according to whether:

A. the minority shareholders have a direct interest in the performance of the subsidiary's business in relation to the transfer of the risks and rewards of the shares subject to the put option. One of the indicators that such interest exists is the fair value measurement of the option exercise price. In addition to the presence of this indicator, the Group will assess on a case-by-case basis the facts and circumstances characterising existing transactions. In these circumstances, the present value of the option is initially deducted from the equity reserves attributable to the Group. Any subsequent changes in the measurement of the option exercise price are recognised through the income statement, as "Other income" or "Other expenses";
B. the minority shareholders do not have a direct interest in the performance of the business (eg. predetermined option exercise price). The duly discounted option exercise price is deducted from the corresponding amount of capital and reserves attributable to non-controlling interests. Any subsequent changes in the measurement of the option exercise price follow the same treatment, with no impact on the income statement.

There are currently no such options recorded in the Prysmian Group financial statements. The treatment described would be modified in the event of different interpretations or accounting standards in this regard.

Associates and joint arrangements: joint ventures and joint operations

Associates are those entities over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recorded at cost.

Joint arrangements are arrangements in which two or more parties have joint control. They are classified as either joint ventures or joint operations depending on the rights and obligations of the parties to the arrangement.
Joint ventures are those companies characterised by the presence of an arrangement for joint control whereby the parties are entitled to a share of the net assets or profit or loss arising from the arrangement. Joint ventures are accounted for using the equity method.
Joint operations are arrangements whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The assets, liabilities, revenues and expenses of a joint operation are consolidated according to the rights and obligations under the related arrangement.
Under the equity method, used to account for associates and joint ventures:

- the book value of these investments reflects the value of equity as adjusted, where necessary, to reflect the application of IFRS and includes any higher values identified on acquisition attributed to assets, liabilities and any goodwill;
- the Group's share of profits or losses is recognised from the date significant influence is acquired until the date it ceases. If a company accounted for under this method has negative equity due to losses, the book value of the investment is reduced to zero and additional losses are provided for and a liability is recognised, only to the extent that the Group is committed to fulfilling legal or constructive obligations of the investee company; changes in the equity of companies valued using the equity method which are not accounted for through profit or loss, are recognised directly in equity;
- unrealised gains arising from transactions between the Parent Company/subsidiaries and equity-accounted companies, are eliminated to the extent of the Group's interest in the investee company; unrealised losses are also eliminated unless they represent impairment.

Translation of foreign company financial statements

The financial statements of subsidiaries, associates and joint ventures are prepared in the currency of the primary economic environment in which they operate (the "functional currency"). The consolidated financial statements are presented in Euro, which is the Prysmian Group's functional and presentation currency for its consolidated financial reporting.

The rules for the translation of financial statements expressed in currencies other than the Euro are as follows:

- assets and liabilities are translated using the exchange rates applicable at the end of the reporting period;
- revenues and expenses are translated at the average rate for the period/year;
- the "currency translation reserve" includes both the translation differences generated by translating income statement items at a different exchange rate from the period-end rate and the differences generated by translating opening equity amounts at a different exchange rate from the period-end rate;

- 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 at the period-end exchange rate.

If a foreign entity operates in a hyperinflationary economy, revenues and expenses are translated using the exchange rate current at the reporting date. All amounts in the income statement are restated by applying the change in the general price index between the date when income and expenses were initially recorded in the financial statements and the reporting date. Corresponding figures for the previous reporting period/year are restated by applying a general price index so that the comparative financial statements are presented in terms of the exchange rate current at the end of the reporting period/year.
As at 31 December 2016, there are no consolidated companies that operate in hyperinflationary economies.

The exchange rates applied are as follows:

		Closing rates at		Average rates in
	31 December 2016	31 December 2015	FY 2016	FY 2015
Europe				
British Pound	0.856	0.734	0.819	0.726
Swiss Franc	1.074	1.084	1.09	1.068
Hungarian Forint	309.83	315.980	311.438	310.005
Norwegian Krone	9.086	9.603	9.291	8.952
Swedish Krona	9.553	9.190	9.469	9.354
Czech Koruna	27.021	27.023	27.034	27.279
Danish Krone	7.434	7.463	7.445	7.459
Romanian Leu	4.539	4.524	4.49	4.445
Turkish Lira	3.717	3.183	3.344	3.021
Polish Zloty	4.41	4.264	4.363	4.184
Russian Rouble	64.3	80.674	74.145	68.124
North America				
US Dollar	1.054	1.089	1.107	1.11
Canadian Dollar	1.419	1.512	1.466	1.419
South America				
Brazilian Real	3.435	4.251	3.856	3.699
Argentine Peso	16.75	14.197	16.362	10.287
Chilean Peso	704.945	772.713	748.561	726.089
Mexican Peso	21.772	18.915	20.667	17.619
Oceania				
Australian Dollar	1.46	1.490	1.488	1.478
New Zealand Dollar	1.516	1.592	1.589	1.593
Africa				
CFA Franc	655.957	655.957	655.957	655.957
Tunisian Dinar	2.45	2.210	2.376	2.177
Asia				
Chinese Renminbi (Yuan)	7.32	7.061	7.352	6.974
United Arab Emirates Dirham	3.87	3.997	4.063	4.074
Hong Kong Dollar	8.175	8.438	8.592	8.602
Singapore Dollar	1.523	1.542	1.528	1.526
Indian Rupee	71.594	72.022	74.372	71.201
Indonesian Rupiah	14,173	15,040	14,721	14,872
Japanese Yen	123.4	131.070	120.197	134.318
Thai Baht	37.726	39.248	39.043	38.032
Philippine Peso	52.268	50.999	52.556	50.528
Omani Rial	0.405	0.419	0.426	0.427
Malaysian Ringgit	4.729	4.696	4.584	4.339
Qatari Riyal	3.837	3.963	4.029	4.039
Saudi Riyal	3.954	4.086	4.152	4.162

Changes in the scope of consolidation

The Group's scope of consolidation includes the financial statements of Prysmian S.p.A. (the Parent Company) and of the companies over which it exercises direct or indirect control, which are consolidated from the date when control is obtained until the date when such control ceases.

The following changes in the scope of consolidation took place during 2016:

Mergers

On 30 April 2016, the merger was completed of Prysmian Draka Brasil S.A. into Prysmian Cabos e Sistemas do Brasil S.A.

On 30 July 2016, the merger was completed of Prysmian Fibras Oticas Brasil Ltda and Prysmian Surflex Umbilicais e Tubos Flexiveis do Brasil Ltda into Prysmian Cabos e Sistemas do Brasil S.A.

On 2 November 2016, the merger was completed of Draka Norway AS into Draka Norsk Kabel AS.

Liquidations

On 7 April 2016, the process of liquidating Prysmian Financial Services Ireland Ltd. was completed with the company's removal from the local company registry.

On 2 June 2016, the process of liquidating Kaiser Kabel Vertriebs GmbH was completed with the company's removal from the local company registry.

On 12 December 2016, the process of liquidating GSCP Athena (French) Holdings II SAS and Quoroon SAS was completed with the removal of these companies from the local company registry.

On 21 December 2016, the process of liquidating Prysmian Kabler og Systemer A.S. was completed with the company's removal from the local company registry.

On 31 December 2016, the process of liquidating Prysmian Treasury (Lux) s.a.r.l. was completed with the company's removal from the local company registry.

New company formations

Prysmian Cables Chile SpA was formed on 20 September 2016 and is wholly owned by Prysmian Cabos e Sistemas do Brasil S.A.

Prysmian Technology Jiangsu Co. Ltd. was formed on 21 September 2016 and is wholly owned by Prysmian (China) Investment Co. Ltd.

Disposals

On 28 November, the disposal of Prysmian Baosheng Cable Co., Ltd was completed as a result of which this company was deconsolidated with effect from 30 November 2016.

For the sake of better understanding the scope of consolidation, the name changes occurring in the year are listed below:

Name changes

On 29 February 2016, the Brazilian company Prysmian Energia Cabos e Sistemas do Brasil S.A. changed its name to Prysmian Cabos e Sistemas do Brasil S.A.

On 16 March 2016, the Spanish company Prysmian Spain, S.A. (Sociedad Unipersonal) changed its name to Prysmian Cables Spain, S.A. (Sociedad Unipersonal).

On 15 June 2016, the Irish company Prysmian Re Company Limited was converted into a Designated Activity Company (DAC) as a result of which the company changed its name to Prysmian Re Company Designated Activity Company.

Appendix A to these notes contains a list of the companies included in the scope of consolidation at 31 December 2016.

B.3 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED IN 2016

The basis of consolidation, the methods applied for translating foreign company financial statements into the presentation currency, the accounting standards as well as the accounting estimates adopted are the same as those used for the consolidated financial statements at 31 December 2015, except for the accounting standards and amendments discussed below and obligatorily applied with effect from 1 January 2016 after being endorsed by the competent authorities.

The principal changes were as follows:

- On 6 May 2014, the IASB issued amendments to *IFRS 11 - Joint Arrangements* to provide guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business;
- On 13 May 2014, the IASB published amendments to *IAS 16 - Property, Plant and Equipment* and *IAS 38 - Intangible Assets* to provide guidance on acceptable methods of depreciation and amortisation. In particular, the amendments clarify that revenue-based methods to calculate depreciation or amortisation are applicable only in limited circumstances;
- On 25 September 2014, the IASB published *Annual Improvements 2012-2014* as an integral part of its programme of annual improvements to its standards; most of the changes are clarifications of existing IFRSs;

- On 18 December 2014, the IASB published amendments to *IAS 1 - Presentation of Financial Statements*, designed to clarify how to apply the concept of materiality. The amendments make clear that materiality applies to the financial statements as a whole and that information must be disclosed only if it is material. If information exists that is necessary for the reader to understand the financial statements as a whole, such additional information must be presented in the financial disclosures even if not required by international accounting standards;
- On 18 December 2014, the IASB also published amendments to *IFRS 10, IFRS 12* and *IAS 28* with the aim of clarifying the consolidation rules applying to investment entities.

B.4 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP

On 29 May 2014, the IASB issued *IFRS 15 - Revenue from Contracts with Customers* with the aim of improving the quality and uniformity of revenue reporting. The publication of this standard is part of the convergence project with the FASB to improve the comparability of financial statements.
The objective of the standard is to provide a framework for determining when to recognise revenue and how much revenue to recognise. The standard therefore defines the following steps to follow for the recognition of revenue:

1) Identify the contract with the customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract;
5) Recognise revenue when (or as) the entity satisfies a performance obligation.

This standard applies to financial years beginning on or after 1 January 2018.
The Group is still evaluating the impact of adopting this new standard, in particular with regard to the work in progress. For all other contracts with customers, it is not expected to have a significant impact.

On 24 July 2014, the IASB issued *IFRS 9 - Financial Instruments*, which is divided into the following sections:

- classification and measurement of derivative instruments;
- impairment methodology for financial instruments;
- rules for the application of hedge accounting;
- accounting for changes in the reporting entity's own credit when measuring the fair value of liabilities.

This standard will apply to financial years beginning on or after 1 January 2018.
The Group is evaluating the implementation and impact of the adoption of this new standard.

On 11 September 2014, the IASB published amendments to *IFRS 10 - Consolidated Financial Statements* and to *IAS 28 - Investments in Associates and Joint Ventures*. The purpose is to clarify how to account for the results of a sale or contribution of assets between group companies and their associates and joint ventures. As at the present document date, the European Union had not yet completed the endorsement process needed for the application of these amendments, which is deferred until completion of the IASB project on the equity method.

On 13 January 2016, the IASB published the new standard *IFRS 16 - Leases* which will replace IAS 17. The new accounting standard requires lessees to adopt a uniform accounting treatment for both operating and finance leases. In fact, IFRS 16 requires the lessee to recognise assets and liabilities for both operating and finance leases unless the lease term is 12 months or less or the underlying asset has a low value.
This standard will apply to financial years beginning on or after 1 January 2019.
The Group is evaluating the implementation and impact of the adoption of this new standard.

On 19 January 2016, the IASB published a number of amendments to *IAS 12 - Income Taxes*. These aim to clarify how to account for deferred tax assets related to debt instruments measured at fair value and will apply to financial years beginning on or after 1 January 2017.

On 29 January 2016, the IASB published an amendment to *IAS 7 - Statement of Cash Flows*. The document intends to improve the disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. On first-time adoption, the reporting entity does not have to present prior period comparative information. This amendment will apply to financial years beginning on or after 1 January 2017.

On 14 December 2016, the IASB published a number of amendments to *IFRS 2 - Classification and Measurement of Share-based Payment Transactions*. The document intends to clarify:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On first-time adoption of this amendment, the reporting entity must apply the changes without restating prior periods, although retrospective application is permitted only if this election is made for all three of the above amendments. This amendment will apply to financial years beginning on or after 1 January 2018.

B.5 TRANSLATION OF TRANSACTIONS IN CURRENCIES OTHER THAN THE FUNCTIONAL CURRENCY

Transactions in currencies other than the functional currency of the company which undertakes the transaction are translated using the exchange rate applicable at the transaction date.
Prysmian Cables and Systems S.A. (Switzerland), P.T. Prysmian Cables Indonesia (Indonesia), Draka NK Cables (Asia) Pte Ltd (Singapore), Draka Philippines Inc. (Philippines), Prysmian Metals Limited (Great Britain), Draka Durango S. de R.L. de C.V., Draka Mexico Holdings S.A. de C.V. and NK Mexico Holdings

S.A. de C.V. (Mexico) present their financial statements in a currency other than that of the country they operate in, as their main transactions are not conducted in the local currency but in the reporting currency.
Foreign currency exchange gains and losses arising on completion of transactions or on the year-end translation of assets and liabilities denominated in foreign currencies are recognised in the income statement.

B.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at the cost of acquisition or production, net of accumulated depreciation and any impairment. Cost includes expenditure directly incurred to prepare the assets for use, as well as any costs for their dismantling and removal which will be incurred as a consequence of contractual or legal obligations requiring the asset to be restored to its original condition. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised and depreciated over the useful life of the asset to which they refer.

Costs incurred subsequent to acquiring an asset and the cost of replacing certain parts of assets recognised in this category are capitalised only if they increase the future economic benefits of the asset to which they refer. All other costs are recognised in profit or loss as incurred. When the replacement cost of certain parts of an asset is capitalised, the residual value of the parts replaced is expensed to profit or loss.

Depreciation is charged on a straight-line, monthly basis using rates that allow assets to be depreciated until the end of their useful lives. When assets consist of different identifiable components, whose useful lives differ significantly from each other, each component is depreciated separately using the component approach.

The indicative useful lives estimated by the Group for the various categories of property, plant and equipment are as follows:

Land	**Not depreciated**
Buildings	**25-50 years**
Plant	**10-15 years**
Machinery	**10-20 years**
Equipment and Other assets	**3-10 years**

The residual values and useful lives of property, plant and equipment are reviewed and adjusted, if appropriate, at least at each financial year-end.

Property, plant and equipment acquired through finance leases, whereby the risks and rewards of the assets are substantially transferred to the Group, are accounted for as Group assets at their fair value or, if lower, at the present value of the minimum lease payments, including any sum payable to exercise a purchase option. The corresponding lease liability is recorded under financial payables. The assets are depreciated using the method and rates described earlier for "Property, plant and equipment", unless the term of the lease is less than the useful life represented by such rates and ownership of the leased asset is not reasonably certain to be transferred at the lease's natural expiry; in this case the depreciation period will be represented by the term of the lease. Any capital gains realised on the disposal of assets which are leased back under finance leases are recorded under liabilities as deferred income and released to the income statement over the term of the lease. Leases where the lessor substantially retains all the risks and rewards of ownership of the assets are treated as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell as from the time they qualify as held for sale under the related accounting standard.

B.7 INTANGIBLE ASSETS

Intangible assets are non-monetary assets which are separately identifiable, have no physical nature, are under the company's control and are able to generate future economic benefits. Such assets are recognised at acquisition cost and/or production cost, including all costs directly attributable to make the assets available for use, net of accumulated amortisation and any impairment. Borrowing costs directly attributable to the acquisition or development of qualifying assets are capitalised and amortised over the useful life of the asset to which they refer. Amortisation commences when the asset is available for use and is calculated on a straight-line basis over the asset's estimated useful life.

(a) Goodwill

Goodwill represents the difference between the cost incurred for acquiring a controlling interest (in a business) and the fair value of the assets and liabilities identified at the acquisition date. Goodwill is not amortised, but is tested for impairment at least annually to identify any impairment losses. This test is carried out with reference to the cash-generating unit ("CGU") or group of CGUs to which goodwill is allocated and at which level it is monitored. Reductions in the value of goodwill are recognised if the recoverable amount of goodwill is less than its carrying amount. Recoverable amount is defined as the higher of the fair value of the CGU or group of CGUs, less costs to sell, and the related value in use (see Note B.8 Impairment of property, plant and equipment and finite-life intangible assets, for more details about how value in use is calculated). An impairment loss recognised against goodwill cannot be reversed in a subsequent period.

If an impairment loss identified by the impairment test is higher than the value of goodwill allocated to that CGU or group of CGUs, the residual difference is allocated to the other assets included in the CGU or group of CGUs in proportion to their carrying amount.

Such allocation shall not reduce the carrying amount of an asset below the highest of:

- its fair value, less costs to sell;
- its value in use, as defined above;
- zero.

(b) Patents, concessions, licences, trademarks and similar rights

These assets are amortised on a straight-line basis over their useful lives.

(c) Computer software

Software licence costs are capitalised on the basis of purchase costs and costs to make the software ready for use. These costs are amortised on a straight-line basis over the useful life of the software. Costs relating to the development of software programs are capitalised, in accordance with IAS 38, when it is likely that the asset's use will generate future economic benefits and when the conditions described below are met (see paragraph (d) on Research and development costs).

(d) Research and development costs

Research and development costs are expensed to the income statement when they are incurred, except for development costs which are recorded as intangible assets when all the following conditions are met:

- the project is clearly identified and the related costs can be reliably identified and measured;
- the technical feasibility of the project can be demonstrated;
- the intention to complete the project and to sell its output can be demonstrated;
- there is a potential market for the output of the intangible asset or, if the intangible asset is to be used internally, its usefulness can be demonstrated;
- there are sufficient technical and financial resources to complete the project.

Development costs capitalised as intangible assets start to be amortised once the output of the project is marketable.

B.8 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND FINITE-LIFE INTANGIBLE ASSETS

Property, plant and equipment and finite-life intangible assets are analysed at each reporting date for any evidence of impairment. If such evidence is identified, the recoverable amount of these assets is estimated and any impairment loss relative to carrying amount is recognised in profit or loss. The recoverable amount is the higher of the fair value of an asset, less costs to sell, and its value in use, where the latter is the present value of the estimated future cash flows of the asset. The recoverable amount of an asset which does not generate largely independent cash flows is determined in relation to the cash-generating unit to which the asset belongs. In calculating an asset's value in use, the expected future cash flows are discounted using a discount rate reflecting current market assessments of the time value of money, in relation to the period of the investment and the specific risks associated with the asset. An impairment loss is recognised in the income statement when the asset's carrying amount exceeds its recoverable amount. If the reasons for impairment cease to exist, the asset's carrying amount is restored with the resulting increase recognised through profit or loss; however, the carrying amount may not exceed the net carrying amount that this asset would have had if no impairment had been recognised and the asset had been depreciated/amortised instead.

In the case of the Prysmian Group, the smallest identifiable CGUs for the Energy Projects segment are the High Voltage and Submarine businesses; the smallest identifiable CGUs for the OIL & GAS segment are the Oil & Gas, SURF and DHT businesses; the smallest CGU for the Energy Products segment can be identified on the basis of the country or region[1] of the operating units; the smallest CGU for the Telecom segment is the operating segment itself.

B.9 FINANCIAL ASSETS

Financial assets are initially recorded at fair value and classified in one of the following categories on the basis of their nature and the purpose for which they were acquired:

(a) Financial assets at fair value through profit or loss;
(b) Loans and receivables;
(c) Available-for-sale financial assets.

Purchases and sales of financial assets are recognised at the value date of the related transactions.
Financial assets are derecognised when the right to receive cash flows from the instrument expires and the Group has substantially transferred all the risks and rewards relating to the instrument and its control.

(a) Financial assets at fair value through profit or loss
Financial assets classified in this category are represented by securities held for trading, having been acquired for the purpose of selling in the near term. Derivatives are treated as securities held for trading, unless they are designated as hedging instruments and are therefore classified as "Derivatives".
Financial assets at fair value through profit or loss are initially recorded at fair value and the related transaction costs are expensed immediately to the income statement.
Subsequently, financial assets at fair value through profit or loss are measured at fair value. Assets in this category are classified as current assets (except for Derivatives falling due after more than 12 months). Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are reported in the income statement as "Finance income" and "Finance costs", in the period in which they arise. This does not apply to metal derivatives, whose fair value changes are reported in "Fair value change in metal derivatives". Any dividends from financial assets at fair value through profit or loss are recognised as revenue when the Group's right to receive payment is established and are presented in the income statement under "Share of net profit/(loss) of associates and dividends from other companies".

(b) Loans and receivables
Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified in the statement of financial position as "Trade and other receivables" and treated as current assets, except for those with contractual due dates of

[1] If the operating units of one country almost exclusively serve other countries, the smallest CGU is given by the group of these countries.

more than twelve months from the reporting date, which are classified as non-current (See Note 5. Trade and other receivables).
These assets are valued at amortised cost, using the effective interest rate. The process of assessment to identify any impairment of trade and other receivables is described in Note 5.

(c) Available-for-sale financial assets

Available-for-sale assets are non-derivative financial instruments that are explicitly designated as available for sale, or that cannot be classified in any of the previous categories; they are classified as non-current assets, unless management intends to dispose of them within twelve months of the end of the reporting period.
All the financial assets in this category are initially recorded at fair value plus any related transaction costs. Subsequently, available-for-sale financial assets are measured at fair value and gains or losses on valuation are recorded in an equity reserve. "Finance income" and "Finance costs" are recognised in the income statement only when the financial asset is effectively disposed of.

The fair value of listed financial instruments is based on the current bid price; such instruments belong to Level 1 of the fair value hierarchy.
If the market for a financial asset is not active (or refers to unlisted securities), the Group measures fair value using valuation techniques whose inputs are based on observable market-based data (Level 2) or unobservable data (Level 3). More details can be found in Note D.2 Fair value.
When performing such valuations, the Group gives preference to market data rather than to internal data specifically connected to the nature of the business in which the Group operates.

Any dividends arising from investments recorded as available-for-sale financial assets are recognised as revenue when the Group's right to receive payment is established and are classified in the income statement under "Share of net profit/(loss) of equity-accounted companies".
The Group assesses at every reporting date if there is objective evidence of impairment of its financial assets. In the case of investments classified as available-for-sale financial assets, a prolonged or significant reduction in the fair value of the investment below initial cost is treated as an indicator of impairment. Should such evidence exist, the accumulated loss relating to the available-for-sale financial assets - calculated as the difference between their acquisition cost and fair value at the reporting date, net of any impairment losses previously recognised in profit or loss - is transferred from equity and reported in the income statement as "Finance costs". Such losses are realised ones and therefore cannot be subsequently reversed.
For debt securities, the related yields are recognised using the amortised cost method and are recorded in the income statement as "Finance income", together with any exchange rate effects, while exchange rate effects relating to investments classified as available-for-sale financial assets are recognised in the specific equity reserve.

B.10 DERIVATIVES

Derivatives are accounted for at fair value at the contract inception date and, unless accounted for as hedging instruments, any changes in the fair value following initial recognition are recorded as finance income or costs for the period, except for fair value changes in metal derivatives. If derivatives satisfy the requirements for classification as hedging instruments, the subsequent changes in fair value are accounted for using the specific criteria set out below.

The Group designates some derivatives as hedging instruments for particular risks associated with highly probable transactions ("cash flow hedges"). For each derivative that qualifies for hedge accounting, there must be documentation of the hedging relationship, including the risk management objective, of the hedging strategy and the methods for checking the hedge's effectiveness. The effectiveness of each hedge is reviewed both at the derivative's inception and during its life cycle. In general, a cash flow hedge is considered highly "effective" if, both at its inception and during its life cycle, the changes in the cash flows expected in the future from the hedged item are largely offset by changes in the fair value of the hedge.

The fair values of the various derivatives used as hedges are presented in Note 8. Derivatives. Movements in the "Cash flow hedge reserve" forming part of equity are reported in Note 11. Share capital and reserves.

The fair value of a hedging derivative is classified as a non-current asset or liability if the hedged item has a maturity of more than twelve months; if the maturity of the hedged item is less than twelve months, the fair value of the hedge is classified as a current asset or liability.

Derivatives not designated as hedges are classified as current or non-current assets or liabilities according to their contractual due dates.

Cash flow hedges

In the case of hedges intended to neutralise the risk of changes in cash flows arising from the future execution of contractual obligations existing at the reporting date ("cash flow hedges"), changes in the fair value of the derivative following initial recognition are recorded in equity under the "Cash flow hedge reserve", but only to the extent that they relate to the effective portion of the hedge. When the effects of the hedged item are reported in profit or loss, the reserve is transferred to the income statement and classified in the same line items that report the effects of the hedged item. If a hedge is not fully effective, the change in fair value of its ineffective portion is immediately recognised in the income statement as "Finance income" or "Finance costs". If, during the life of a derivative, the hedged forecast cash flows are no longer considered to be highly probable, the portion of the "Cash flow hedge reserve" relating to the derivative is taken to the period's income statement and treated as "Finance income" or "Finance costs". Conversely, if the derivative is disposed of or no longer qualifies as an effective hedge, the portion of the "Cash flow hedge reserve" representing the changes in the instrument's fair value recorded up to then remains in equity until the original hedged transaction occurs, at which point it is then taken to the income statement, where it is classified on the basis described above.

At 31 December 2016, the Group had designated derivatives to hedge the following risks:

- **exchange rate risk on construction contracts or orders:** these hedges aim to reduce the volatility of cash flows due to changes in exchange rates on future transactions. In particular, the hedged item is the amount of the cash flow expressed in another currency that is expected to be received/paid in relation to a contract or an order for amounts above the minimum limits identified by the Group Finance Committee: all cash flows thus identified are therefore designated as hedged items in the hedging relationship. The reserve originating from changes in the fair value of derivatives is transferred to the income statement according to the stage of completion of the contract itself, where it is classified as contract revenue/costs;
- **exchange rate risk on intercompany financial transactions:** these hedges aim to reduce volatility arising from changes in exchange rates on intercompany transactions, when such transactions create an exposure to exchange rate gains or losses that are not completely eliminated on consolidation. The economic effects of the hedged item and the related transfer of the reserve to the income statement occur at the same time as recognising the exchange gains and losses on intercompany positions in the consolidated financial statements.

When the economic effects of the hedged items occur, the gains and losses from the hedging instruments are taken to the following lines in the income statement:

	Sales of goods and services/Raw materials, consumables used and goods for resale	Finance income (costs)
Exchange rate risk on construction contracts or orders	•	
Exchange rate risk on intercompany financial transactions		•

B.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, net of the allowance for doubtful accounts. Impairment of receivables is recognised when there is objective evidence that the Group will not be able to recover the receivable owed by the counterparty under the terms of the related contract.
Objective evidence includes events such as:

(a) significant financial difficulty of the issuer or debtor;
(b) ongoing legal disputes with the debtor relating to receivables;
(c) likelihood that the debtor enters bankruptcy or starts other financial reorganisation procedures;
(d) delays in payments exceeding 30 days from the due date.

The amount of the impairment is measured as the difference between the book value of the asset and the present value of future cash flows and is recorded in the income statement under "Other expenses".
Receivables that cannot be recovered are derecognised with a matching entry through the allowance for doubtful accounts.
The Group makes use of without-recourse factoring of trade receivables. These receivables are derecognised because such transactions transfer substantially all the related risks and rewards of the receivables to the factor.

B.12 INVENTORIES

Inventories are recorded at the lower of purchase or production cost and net realisable value, represented by the amount which the Group expects to obtain from their sale in the normal course of business, net of selling costs. The cost of inventories of raw materials, ancillaries and consumables, as well as finished products and goods is determined using the FIFO (first-in, first-out) method.

The exception is inventories of non-ferrous metals (copper, aluminium and lead) and quantities of such metals contained in semi-finished and finished products, which are valued using the weighted average cost method.
The cost of finished and semi-finished products includes design costs, raw materials, direct labour costs and other production costs (calculated on the basis of normal operating capacity). Borrowing costs are not included in the valuation of inventories but are expensed to the income statement when incurred because inventories are not qualifying assets that take a substantial period of time to get ready for use or sale.

B.13 CONSTRUCTION CONTRACTS

Construction contracts (hereafter also "contracts") are recognised at the value agreed in the contract, in accordance with the percentage of completion method, taking into account the progress of the project and the expected contractual risks. The progress of a project is measured by reference to the contract costs incurred at the reporting date in relation to the total estimated costs for each contract.
When the outcome of a contract cannot be estimated reliably, the contract revenue is recognised only to the extent that the costs incurred are likely to be recovered. When the outcome of a contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the term of the contract. When it is probable that total contract costs will exceed total contract revenue, the potential loss is immediately recognised in the income statement.

The Group reports as assets the gross amount due from customers for construction contracts, where the costs incurred, plus recognised profits (less recognised losses), exceed the billing of work-in-progress; such assets are reported under "Other receivables". Amounts invoiced but not yet paid by customers are reported in "Trade receivables".

The Group reports as liabilities the gross amount due to customers for construction contracts where billing of work-in-progress exceeds the costs incurred plus recognised profits (less recognised losses). Such liabilities are reported in "Other liabilities".

B.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, demand bank deposits and other short-term investments, with original maturities of three months or less. Current account overdrafts are classified as financial payables under current liabilities in the statement of financial position.

B.15 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale are classified as such if the carrying amount will be recovered principally through a sale transaction; for this to be the case, the sale must be highly probable and the related assets/liabilities must be available for immediate sale in their present condition. Assets/Liabilities held for sale are measured at the lower of carrying amount and fair value less costs to sell.

B.16 TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

B.17 BORROWINGS FROM BANKS AND OTHER LENDERS

Borrowings from banks and other lenders are initially recognised at fair value, less directly attributable costs. Subsequently, they are measured at amortised cost, using the effective interest method. If the estimated expected cash flows should change, the value of the liabilities is recalculated to reflect this change using the present value of the expected new cash flows and the effective internal rate originally established. Borrowings from banks and other lenders are classified as current liabilities, except where the Group has an unconditional right to defer their payment for at least twelve months after the reporting date.

Borrowings from banks and other lenders are derecognised when they are extinguished and when the Group has transferred all the risks and costs relating to such instruments.

Purchases and sales of financial liabilities are accounted for on a settlement-date basis.

B.18 EMPLOYEE BENEFITS

Pension plans

The Group operates both defined contribution plans and defined benefit plans.

A defined contribution plan is a plan under which the Group pays fixed contributions to third-party fund managers and to which there are no legal or other obligations to pay further contributions should the fund not have sufficient assets to meet the obligations to employees for current and prior periods. In the case of defined contribution plans, the Group pays contributions, voluntarily or as established by contract, to public and private pension insurance funds. The Group has no obligations subsequent to payment of such contributions, which are recognised as personnel costs on an accrual basis. Prepaid contributions are recognised as an asset which will be repaid or used to offset future payments, should they be due.
A defined benefit plan is a plan not classifiable as a defined contribution plan. In defined benefit plans, the total benefit payable to the employee can be quantified only after the employment relationship ceases, and is linked to one or more factors, such as age, years of service and remuneration; the related cost is therefore charged to the period's income statement on the basis of an actuarial calculation. The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date, less the fair value of the plan assets, where applicable. Obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method. The present value of a defined benefit plan is determined by discounting the future cash flows at an interest rate equal to that of high-quality corporate bonds issued in the liability's settlement currency and which reflects the duration of the related pension plan. Actuarial gains and losses arising from the above adjustments and the changes in actuarial assumptions are recorded directly in equity.

Past service costs resulting from a plan amendment are recognised immediately in the income statement in the period the plan amendment occurs.

Other post-employment obligations

Some Group companies provide medical benefit plans for retired employees. The expected cost of these benefits is accrued over the period of employment using the same accounting method as for defined benefit plans. Actuarial gains and losses arising from the valuation and the effects of changes in the actuarial assumptions are accounted for in equity. These liabilities are valued annually by a qualified independent actuary.

Termination benefits

The Group recognises termination benefits when it can be shown that the termination of employment complies with a formal plan communicated to the parties concerned that establishes termination of employment, or when payment of the benefit is the result of voluntary redundancy incentives. Termination benefits payable more than twelve months after the reporting date are discounted to present value.

Equity-settled share-based payments

Stock options are valued on the basis of the fair value determined on their grant date. This value is charged to the income statement on a straight-line basis over the option vesting period with a matching entry in equity. This recognition is based on an estimate of the number of stock options that will effectively vest in favour of eligible employees, taking into consideration any vesting conditions, irrespective of the market value of the shares.

B.19 PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are recognised for losses and charges of a definite nature, whose existence is certain or probable, but the amount and/or timing of which cannot be determined reliably. A provision is recognised only when there is a current (legal or constructive) obligation for a future outflow of economic resources as the result of past events and it is likely that this outflow is required to settle the obligation. Such amount is the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material and the obligation settlement date can be estimated reliably, the provisions are stated at the present value of the expected outlay, using a rate that reflects market conditions, the variation in the cost of money over time, and the specific risk attached to the obligation.
Increases in the provision due to changes in the time value of money are accounted for as interest expense.
Risks for which the emergence of a liability is only possible but not remote are indicated in the disclosures about commitments and contingencies and no provision is recognised.
Any contingent liabilities accounted for separately when allocating the cost of a business combination, are valued at the higher of the amount obtained using the method described above for provisions for risks and charges and the liability's originally determined present value.
Further details can be found in Note 29. Contingent liabilities.

The provisions for risks and charges include the estimated legal costs to be incurred if such costs are incidental to the extinguishment of the provision to which they refer.

B.20 REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received for the sale of goods and services in the ordinary course of the Group's business. Revenue is recognised net of value-added tax, expected returns, rebates and discounts.
Revenue is accounted for as follows:

(a) Sales of goods
Revenue from the sale of goods is recognised when the risks and rewards of the goods are transferred to the customer; this usually occurs when the goods have been dispatched or delivered to the customer and the customer has accepted them.

(b) Sales of services
The sale of services is recognised in the accounting period in which the services are rendered, with reference to the progress of the service supplied and in relation to the total services still to be rendered.

In both cases, revenue recognition depends on there being reasonable assurance that the related consideration will be received.

The method of recognising revenue for construction contracts is outlined in Note B.13 Construction contracts.

B.21 GOVERNMENT GRANTS

Government grants are recognised on an accrual basis in direct relation to the costs incurred when there is a formal resolution approving the allocation and, when the right to the grant is assured since it is reasonably certain that the Group will comply with the conditions attaching to its receipt and that the grant will be received.

(a) Grants related to assets

Government grants relating to investments in property, plant and equipment are recorded as deferred income in "Other payables", classified under current and non-current liabilities for the respective long-term and short-term portion of such grants. Deferred income is recognised in "Other income" in the income statement on a straight-line basis over the useful life of the asset to which the grant refers.

(b) Grants related to income

Grants other than those related to assets are credited to the income statement as "Other income".

B.22 COST RECOGNITION

Costs are recognised for goods and services acquired or consumed during the year or to make a systematic allocation to match costs with revenues.

B.23 TAXATION

Current taxes are calculated on the basis of the taxable income for the year, applying the tax rates effective at the end of the reporting period.

Deferred taxes are calculated on all the differences emerging between the taxable base of an asset or liability and the related carrying amount, except for goodwill and those differences arising from investments in subsidiaries, where the timing of the reversal of such differences is controlled by the Group and it is likely they will not reverse in a reasonably foreseeable future. Deferred tax assets, including those relating to past tax losses, not offset by deferred tax liabilities, are recognised to the extent it is likely that future taxable profit will be available against which they can be recovered.

Deferred taxes are determined using tax rates that are expected to apply in the years when the differences are realised or extinguished, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current and deferred taxes are recognised in the income statement with the exception of those relating to items recognised directly in equity; such taxes are also accounted for directly in equity. Income taxes are offset if they are levied by the same taxation authority, if there is a legally enforceable right to offset them and if the net balance is expected to be settled.

Other taxes not related to income, such as property tax, are reported in "Other expenses".

B.24 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. For the purposes of calculating diluted earnings per share, the weighted average number of outstanding shares is adjusted so as to include the exercise, by all those entitled, of rights with a potentially dilutive effect, while the profit attributable to owners of the parent is adjusted to account for any effects, net of taxes, of exercising such rights.

B.25 TREASURY SHARES

Treasury shares are reported as a deduction from equity. The original cost of treasury shares and revenue arising from any subsequent sales are treated as movements in equity.

C. RESTATEMENT OF COMPARATIVE FIGURES

Following the acquisition of a majority stake in Oman Cables Industry (SAOG) on 16 December 2015, in compliance with IFRS 3, the fair values of the assets, liabilities and contingent liabilities were determined on a provisional basis in view of the fact that the related valuation processes had not yet been started at that date.
These values, liable to adjustment in the 12-month period from the acquisition date, have led to a restatement of the Group's consolidated figures at 31 December 2015.
In the absence of material impacts, the acquisition date has been taken as 31 December 2015 for accounting purposes.
This is why the restatement has only affected the consolidated statement of financial position at that date.

More information about the effects of applying IFRS 3 can be found in Section F. Business combinations.

Deferred tax assets and deferred tax liabilities reported at 31 December 2015 have been reclassified to take account of legally enforceable rights to offset them in some of the Group's countries of operation.

The following table presents the consolidated statement of financial position at 31 December 2015 before and after restatement:

(in millions of Euro)

	31 December 2015 Published	Purchase price allocation Oman Cables Industry (SAOG) and other reclassifications	31 December 2015 Restated
Non-current assets			
Property, plant and equipment	1,551	-	1,551
Intangible assets	722	101	823
Equity-accounted investments	177	-	177
Available-for-sale financial assets	12	-	12
Derivatives	1	-	1
Deferred tax assets	83	28	111
Other receivables	26	-	26
Total non-current assets	**2,572**	**129**	**2,701**
Current assets			
Inventories	979	5	984
Trade receivables	1,098	-	1,098
Other receivables	687	-	687
Financial assets held for trading	87	-	87
Derivatives	26	-	26
Cash and cash equivalents	547	-	547
Total current assets	**3,424**	**5**	**3,429**
Assets held for sale	119	-	119
Total assets	**6,115**	**134**	**6,249**
Equity attributable to the Group:	**1,278**	-	**1,278**
Share capital	22	-	22
Reserves	1,042	-	1,042
Net profit/(loss) for the year	214	-	214
Equity attributable to non-controlling interests:	**146**	**83**	**229**
Share capital and reserves	146	83	229
Net profit/(loss) for the year	-	-	-
Total equity	**1,424**	**83**	**1,507**
Non-current liabilities			
Borrowings from banks and other lenders	1,141	-	1,141
Other payables	16	-	16
Provisions for risks and charges	52	-	52
Derivatives	21	-	21
Deferred tax liabilities	63	51	114
Employee benefit obligations	341	-	341
Total non-current liabilities	**1,634**	**51**	**1,685**
Current liabilities		-	-
Borrowings from banks and other lenders	262	-	262
Trade payables	1,377	-	1,377
Other payables	984	-	984
Derivatives	43	-	43
Provisions for risks and charges	275	-	275
Current tax payables	27	-	27
Liabilities held for sale	89	-	89
Total current liabilities	**3,057**	-	**3,057**
Total liabilities	**4,691**	**51**	**4,742**
Total equity and liabilities	**6,115**	**134**	**6,249**

D. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to various forms of risk: market risk (including exchange rate, interest rate and price risks), credit risk and liquidity risk. The Group's risk management strategy focuses on the unpredictability of markets and aims to minimise the potentially negative impact on the Group's results. Certain types of risk are mitigated using derivatives.

Monitoring of key financial risks is centrally coordinated by the Group Finance Department, and by the Purchasing Department where price risk is concerned, in close cooperation with the Group's operating companies. Risk management policies are approved by the Group Finance, Administration and Control Department, which provides written guidelines on managing the above risks and on using (derivative and non-derivative) financial instruments.

The impact on profit and equity presented in the following sensitivity analyses has been determined net of tax, calculated using the Group's weighted average theoretical tax rate.

[a] Exchange rate risk

The Group operates worldwide and is therefore exposed to exchange rate risk caused by changes in the value of trade and financial flows expressed in a currency other than the unit of account of individual Group companies.

The principal exchange rates affecting the Group are:

- Euro/US Dollar: in relation to trade and financial transactions in US dollars by Eurozone companies on the North American and Middle Eastern markets, and similar transactions in Euro by North American companies on the European market;
- Euro/British Pound: in relation to trade and financial transactions by Eurozone companies on the British market and vice versa;
- United Arab Emirates Dirham/Euro: in relation to trade and financial transactions by Eurozone companies on the United Arab Emirates market;
- Euro/Qatari Riyal: in relation to trade and financial transactions by Eurozone companies on the Qatari market;
- Euro/Hungarian Forint: in relation to trade and financial transactions by Hungarian companies on the Eurozone market and vice versa;
- Bahraini Dinar/Euro: in relation to trade and financial transactions by Eurozone companies on the Bahrein market;
- Brazilian Real/US Dollar: in relation to trade and financial transactions in US dollars by Brazilian companies on foreign markets;
- Australian Dollar/Euro: in relation to trade and financial transactions by Eurozone companies on the Australian market and vice versa;
- Turkish Lira/US Dollar: in relation to trade and financial transactions in US dollars by Turkish companies on foreign markets;

- Euro/Singapore Dollar: in relation to trade and financial transactions by Eurozone companies on the Singapore market and vice versa;
- Remimbi/US Dollar: in relation to trade and financial transactions in US dollars by Chinese companies on foreign markets and vice versa;
- Euro/Swedish Krona: in relation to trade and financial transactions by Eurozone companies on the Swedish market and vice versa.

In 2016, trade and financial flows exposed to the above exchange rates accounted for around 85.2% of the total exposure to exchange rate risk arising from trade and financial transactions (86.8% in 2015).

The Group is also exposed to appreciable exchange rate risks on the following exchange rates: Thai Baht/US Dollar, Canadian Dollar/Euro, Euro/Norwegian Krone, Czech Koruna/Euro: none of these exposures, taken individually, accounted for more than 1.6% of the overall exposure to transactional exchange rate risk in 2016.

It is the Group's policy to hedge exposures, where possible, in currencies other than the accounting currencies of its individual companies. In particular, the Group hedges:

- Firm cash flows: invoiced trade flows and exposures arising from loans and borrowings;
- Projected cash flows: trade and financial flows arising from firm or highly probable contractual commitments.

The above hedges are arranged using derivative contracts.

The following sensitivity analysis shows the effects on net profit of a 5% and 10% increase/decrease in exchange rates versus closing exchange rates at 31 December 2016 and 31 December 2015.

(in millions of Euro)				
		2016		2015
	-5%	+5%	-5%	+5%
Euro	(1.25)	1.13	(2.47)	2.23
US Dollar	(0.65)	0.59	(0.88)	0.80
Other currencies	(2.76)	2.50	(1.55)	1.41
Total	**(4.66)**	**4.22**	**(4.90)**	**4.44**

(in millions of Euro)				
		2016		2015
	-10%	+10%	-10%	+10%
Euro	(2.63)	2.15	(5.21)	4.26
US Dollar	(1.37)	1.12	(1.86)	1.52
Other currencies	(5.83)	4.77	(3.28)	2.68
Total	**(9.83)**	**8.04**	**(10.35)**	**8.46**

When assessing the potential impact of the above, the assets and liabilities of each Group company in currencies other than their accounting currency were considered, net of any derivatives hedging the above-mentioned flows.

The following sensitivity analysis shows the post-tax effects on equity reserves of an increase/decrease in the fair value of designated cash flow hedges following a 5% and 10% increase/decrease in exchange rates versus closing exchange rates at 31 December 2016 and 31 December 2015.

(in millions of Euro)

		2016		2015
	-5%	+5%	-5%	+5%
US Dollar	8.26	(9.13)	5.97	(6.60)
United Arab Emirates Dirham	0.51	(0.57)	0.40	(0.44)
Qatari Riyal	2.45	(2.71)	2.59	(2.87)
Euro	0	0	1.01	(1.11)
Other currencies	1.03	(1.13)	0.16	(0.17)
Total	**12.25**	**(13.54)**	**10.13**	**(11.19)**

(in millions of Euro)

		2016		2015
	-10%	+10%	-10%	+10%
US Dollar	15.76	(19.26)	11.39	(13.92)
United Arab Emirates Dirham	0.98	(1.20)	0.76	(0.93)
Qatari Riyal	4.69	(5.73)	4.95	(6.05)
Euro	0	0	1.92	(2.35)
Other currencies	1.96	(2.40)	0.30	(0.37)
Total	**23.39**	**(28.59)**	**19.32**	**(23.62)**

The above analysis ignores the effects of translating the equity of Group companies whose functional currency is not the Euro.
Further details can be found in the individual notes to the financial statements.

[b] Interest rate risk

The interest rate risk to which the Group is exposed is mainly on long-term financial liabilities, carrying both fixed and variable rates.

Fixed rate debt exposes the Group to a fair value risk. The Group does not operate any particular hedging policies in relation to the risk arising from such contracts.
Variable rate debt exposes the Group to a rate volatility risk (cash flow risk). In order to hedge this risk, the Group can use derivative contracts that limit the impact of interest rate changes on the income statement.
The Group Finance Department monitors the exposure to interest rate risk and adopts appropriate hedging strategies to keep the exposure within the limits defined by the Group Administration, Finance and Control Department, arranging derivative contracts, if necessary.

The following sensitivity analysis shows the effects on consolidated net profit of an increase/decrease of 25 basis points in interest rates on the interest rates at 31 December 2016 and 31 December 2015, assuming that all other variables remain equal.

The potential effects shown below refer to net liabilities representing the bulk of Group debt at the reporting date and are determined by calculating the effect on net finance costs following a change in annual interest rates.
The net liabilities considered for sensitivity analysis include variable rate financial receivables and payables, cash and cash equivalents and derivatives whose value is influenced by rate volatility.

(in millions of Euro)				
		2016		2015
	-0.25%	+0.25%	-0.25%	+0.25%
Euro	(0.33)	0.33	(0.32)	0.32
US Dollar	(0.06)	0.06	(0.02)	0.02
British Pound	(0.16)	0.16	(0.06)	0.06
Other currencies	(0.43)	0.43	(0.37)	0.37
Total	**(0.98)**	**0.98**	**(0.77)**	**0.77**

At 31 December 2016, like at 31 December 2015, there were no derivatives designated as cash flow hedges.

[c] Price risk

The Group is exposed to price risk in relation to purchases and sales of strategic materials, whose purchase price is subject to market volatility. The main raw materials used by the Group in its own production processes consist of strategic metals such as copper, aluminium and lead. The cost of purchasing such strategic materials accounted for approximately 46.9% of the Group's total cost of materials in 2016 (48.5% in 2015), forming part of its overall production costs.

In order to manage the price risk on future trade transactions, the Group negotiates derivative contracts on strategic metals, setting the price for projected future purchases.
Although the ultimate aim of the Group is to hedge risks to which it is exposed, these contracts do not qualify as hedging instruments for accounting purposes.

The derivative contracts entered into by the Group are negotiated with major financial counterparties on the basis of strategic metal prices quoted on the London Metal Exchange ("LME"), the New York market ("COMEX") and the Shanghai Futures Exchange ("SFE").

The following sensitivity analysis shows the effect on net profit and consolidated equity of a 10% increase/decrease in strategic material prices versus prices at 31 December 2016 and 31 December 2015, assuming that all other variables remain equal.

(in millions of Euro)				
		2016		2015
	-10%	+10%	-10%	+10%
LME	(14.72)	14.72	(23.76)	23.76
COMEX	0.96	(0.96)	(0.81)	0.81
SFE	(1.02)	1.02	(4.28)	4.28
Total	**(14.78)**	**14.78**	**(28.85)**	**28.85**

The potential impact shown above is solely attributable to increases and decreases in the fair value of derivatives on strategic material prices which are directly attributable to changes in the prices themselves. It does not refer to the impact on the income statement of the purchase cost of strategic materials.

[d] Credit risk

Credit risk is connected with trade receivables, cash and cash equivalents, financial instruments, and deposits with banks and other financial institutions.

Customer-related credit risk is managed by the individual subsidiaries and monitored centrally by the Group Finance Department. The Group does not have excessive concentrations of credit risk. It nonetheless has procedures aimed at ensuring that sales of products and services are made to reliable customers, taking account of their financial position, track record and other factors. Credit limits for major customers are based on internal and external assessments within ceilings approved by local country management. The utilisation of credit limits is periodically monitored at local level.

During 2016 the Group had a global insurance policy in place to provide coverage for part of its trade receivables against any losses.

As for credit risk relating to the management of financial and cash resources, this risk is monitored by the Group Finance Department, which implements procedures intended to ensure that Group companies deal with independent, high standing, reliable counterparties. In fact, at 31 December 2016 (like at 31 December 2015) almost all the Group's financial and cash resources were held with investment grade counterparties. Credit limits relating to the principal financial counterparties are based on internal and external assessments, within ceilings defined by the Group Finance Department.

[e] Liquidity risk

Prudent management of the liquidity risk arising from the Group's normal operations involves the maintenance of adequate levels of cash and cash equivalents and short-term securities as well as ensuring the availability of funds by having an adequate amount of committed credit lines.

The Group Finance Department uses cash flow forecasts to monitor the projected level of the Group's liquidity reserves.

The amount of liquidity reserves at the reporting date is as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Cash and cash equivalents	646	547
Financial assets held for trading	59	87
Undrawn committed lines of credit	1,050	1,050
Total	**1,755**	**1,684**

Undrawn committed lines of credit at both 31 December 2016 and 31 December 2015 refer to the Syndicated Revolving Credit Facility 2014 (Euro 1,000 million) and to the Revolving Credit Facility 2014 (Euro 50 million).

The following table includes an analysis, by due date, of payables, other liabilities, and derivatives settled on a net basis; the various due date categories refer to the period between the reporting date and the contractual due date of the obligations.

(in millions of Euro)

				31 December 2016
	Due within 1 year	Due between 1 - 2 years	Due between 2 - 5 years	Due after 5 years
Borrowings from banks and other lenders	197	355	91	742
Finance lease obligations	1	2	4	9
Derivatives	24	8	4	-
Trade and other payables	2,373	4	3	11
Total	**2,595**	**369**	**102**	**762**

(in millions of Euro)

				31 December 2015
	Due within 1 year	Due between 1 - 2 years	Due between 2 - 5 years	Due after 5 years
Borrowings from banks and other lenders	287	80	411	749
Finance lease obligations	2	3	4	10
Derivatives	43	10	11	-
Trade and other payables	2,361	6	6	4
Total	**2,693**	**99**	**432**	**763**

In completion of the disclosures about financial risks, the following is a reconciliation between the classes of financial assets and liabilities reported in the Group's consolidated statement of financial position and the categories used by IFRS 7 to identify financial assets and liabilities:

(in millions of Euro)

						31 December 2016
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised cost	Hedging derivatives
Available-for-sale financial assets	-	-	12	-	-	-
Trade receivables	-	1,088	-	-	-	-
Other receivables	-	809	-	-	-	-
Financial assets held for trading	59	-	-	-	-	-
Derivatives (assets)	37	-	-	-	-	6
Cash and cash equivalents	-	646	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	1,286	-
Trade payables	-	-	-	-	1,498	-
Other payables	-	-	-	-	893	-
Derivatives (liabilities)	-	-	-	28	-	8

(in millions of Euro)

						31 December 2015
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised cost	Hedging derivatives
Available-for-sale financial assets	-	-	12	-	-	-
Trade receivables	-	1,098	-	-	-	-
Other receivables	-	713	-	-	-	-
Financial assets held for trading	87	-	-	-	-	-
Derivatives (assets)	23	-	-	-	-	4
Cash and cash equivalents	-	547	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	1,403	-
Trade payables	-	-	-	-	1,377	-
Other payables	-	-	-	-	1,000	-
Derivatives (liabilities)	-	-	-	51	-	13

D.1 CAPITAL RISK MANAGEMENT

The Group's objective in capital risk management is mainly to safeguard business continuity in order to guarantee returns for shareholders and benefits for other stakeholders. The Group also aims to maintain an optimal capital structure in order to reduce the cost of debt and to comply with a series of covenants required by the various Credit Agreements (Note 32. Financial covenants).

The Group also monitors capital on the basis of its gearing ratio (ie. the ratio between net financial position and capital). Details of how the net financial position is determined can be found in Note 12. Borrowings from banks and other lenders. Capital is equal to the sum of equity, as reported in the Group consolidated financial statements, and the net financial position.

The gearing ratios at 31 December 2016 and 31 December 2015 are shown below:

(in millions of Euro)

	31 December 2016	31 December 2015
Net financial position	537	750
Equity	1,675	1,507
Total capital	**2,212**	**2,257**
Gearing ratio	**24.28%**	**33.23%**

D.2 FAIR VALUE

With reference to assets and liabilities recognised in the statement of financial position, IFRS 13 requires such amounts to be classified according to a hierarchy that reflects the significance of the inputs used in determining fair value.

Financial instruments are classified according to the following fair value hierarchy:

Level 1: Fair value is determined with reference to quoted prices (unadjusted) in active markets for identical financial instruments. Therefore, the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

Level 2: Fair value is determined using valuation techniques where the input is based on observable market data. The inputs for this level include:

(a) quoted prices for similar assets or liabilities in active markets;

(b) quoted prices for identical or similar assets or liabilities in markets that are not active;

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

i. interest rate and yield curves observable at commonly quoted intervals;

ii. implied volatilities;

iii. credit spreads;

(d) market-corroborated inputs.

Level 3: Fair value is determined using valuation techniques where the input is not based on observable market data.

The following tables present the assets and liabilities that are measured at fair value:

(in millions of Euro)

				31 December 2016
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value				
through profit or loss:				
Derivatives	3	34	-	37
Financial assets held for trading	44	15	-	59
Hedging derivatives	-	6	-	6
Available-for-sale financial assets	-	-	12	12
Total assets	**47**	**55**	**12**	**114**
Liabilities				
Financial liabilities at fair value				
through profit or loss:				
Derivatives	-	15	-	15
Hedging derivatives	-	21	-	21
Total liabilities	**-**	**36**	**-**	**36**

(in millions of Euro)

				31 December 2015
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value				
through profit or loss:				
Derivatives	1	22	-	23
Financial assets held for trading	72	15	-	87
Hedging derivatives	-	4	-	4
Available-for-sale financial assets	-	-	12	12
Total assets	**73**	**41**	**12**	**126**
Liabilities				
Financial liabilities at fair value				
through profit or loss:				
Derivatives	4	47	-	51
Hedging derivatives	-	13	-	13
Total liabilities	**4**	**60**	**-**	**64**

Financial assets classified in fair value Level 3 have reported no significant movements in either 2016 or 2015.

Given the short-term nature of trade receivables and payables, their carrying amounts, net of any allowance for doubtful accounts, are treated as a good approximation of fair value.
During 2016 there were no transfers of financial assets and liabilities between the different levels of the fair value hierarchy.

VALUATION TECHNIQUES

Level 1: The fair value of financial instruments quoted in an active market is based on market price at the reporting date. The market price used for derivatives is the bid price, while for financial liabilities the ask price is used.

Level 2: Derivative financial instruments classified in this category include interest rate swaps, forward currency contracts and metal derivative contracts that are not quoted in active markets. Fair value is determined as follows:

- for interest rate swaps, it is calculated on the basis of the present value of forecast future cash flows;
- for forward currency contracts, it is determined using the forward exchange rate at the reporting date, appropriately discounted;
- for metal derivative contracts, it is determined using the prices of such metals at the reporting date, appropriately discounted.

Level 3: The fair value of instruments not quoted in an active market is primarily determined using valuation techniques based on estimated discounted cash flows.

An increase/decrease in the Group's credit rating at 31 December 2016 would not have had significant effects on net profit at that date.

E. ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to apply accounting policies and methods which, at times, rely on judgements and estimates based on past experience and assumptions deemed to be reasonable and realistic according to the related circumstances. The application of these estimates and assumptions influences the amounts reported in the financial statements, meaning the statement of financial position, the income statement, the statement of comprehensive income and the statement of cash flows, as well as the accompanying disclosures. Ultimate amounts, previously reported on the basis of estimates and assumptions, may differ from original estimates because of the uncertain nature of the assumptions and conditions on which the estimates were based.
The following is a brief description of the accounting policies that require the Prysmian Group's management to exercise greater subjectivity of judgement when preparing estimates and a change in whose underlying assumptions could have a significant impact on the consolidated financial statements.

(a) Provisions for risks and charges

Provisions are recognised for legal and tax risks and reflect the risk of a negative outcome. The value of the provisions recorded in the financial statements against such risks represents the best estimate by management at that date. This estimate requires the use of assumptions depending on factors which may change over time and which could, therefore, have a significant impact on the current estimates made by management to prepare the Group consolidated financial statements.

(b) Impairment of assets

Goodwill

In accordance with the accounting standards adopted and related impairment testing procedures, the Group tests annually whether Goodwill has suffered an impairment loss. Goodwill has been allocated to the operating segments of Energy Projects, OIL & GAS, Energy Products and Telecom and tested at this level. The recoverable amount has been determined by calculating value in use. This calculation requires the use of estimates.
More details about the impairment test for Goodwill can be found in Note 2. Intangible assets.

Property, plant and equipment and finite-life intangible assets

In accordance with the Group’s adopted accounting standards and impairment testing procedures, property, plant and equipment and intangible assets with finite useful lives are tested for impairment. Any impairment loss is recognised by means of a write-down, when indicators suggest it will be difficult to recover the related net book value through use of the assets. Verification of the existence of these indicators requires management to make subjective judgements based on the information available within the Group and from the market, as well as on past experience. If an impairment loss is identified, the Group will determine the

amount of such impairment using those valuation techniques deemed suitable. Correct identification of indicators of potential impairment, as well as its very estimation, depend on factors which can vary over time, thus influencing the judgements and estimates made by management.
Prysmian Group has assessed during the course of 2016 whether there was any evidence that its CGUs might be impaired and has consequently tested for impairment those CGUs potentially at "risk". Based on this test, the Group has written down assets in the Core Oil & Gas CGU and in the SURF CGU, both within the OIL&GAS segment.

The outcome of impairment tests at 31 December 2016 does not mean that future results will be the same, especially in the event of currently unforeseeable developments in the business environment.
Further information can be found in Note 1. Property, plant and equipment.

(c) Depreciation and amortisation

The cost of property, plant and equipment and intangible assets is depreciated/amortised on a straight-line basis over the estimated useful lives of the assets concerned. The useful economic life of Group property, plant and equipment and intangible assets is determined by management when the asset is acquired. This is based on past experience for similar assets, market conditions and expectations regarding future events that could impact useful life, including developments in technology. Therefore, actual economic life may differ from estimated useful life. The Group periodically reviews technological and industry developments to update residual useful lives. This periodic update may lead to a variation in the depreciation/amortisation period and therefore also in the depreciation/amortisation charge for future years.

(d) Recognition of construction contract revenues and costs

The Group uses the percentage of completion method to account for construction contracts. The margins recognised in the income statement depend on the progress of the contract and its estimated margins upon completion. This means that if work-in-progress and margins on as yet incomplete work are to be correctly recognised, management must have correctly estimated contract costs, potential contract variations, as well as delays, and any cost overruns and penalties that might reduce the expected profit. The percentage of completion method requires the Group to estimate contract completion costs and involves making estimates dependent on factors which may change over time and could therefore have a significant impact on current values. Should actual cost differ from estimated cost, this variation will impact future results.

(e) Taxes

Consolidated companies are subject to different tax jurisdictions. A significant degree of estimation is needed to establish the expected tax payable globally. There are many transactions for which the relevant taxes are difficult to estimate at year end. The Group records liabilities for tax risks on the basis of estimates, possibly made with the assistance of outside experts.

(f) Inventory valuation

Inventories are recorded at the lower of purchase cost (measured using the weighted average cost formula for non-ferrous metals and the FIFO formula for all others) and net realisable value, net of selling costs. Net realisable value is in turn represented by the value of firm orders in the order book, or otherwise by the replacement cost of supplies or raw materials. If significant reductions in the price of non-ferrous metals are followed by order cancellations, the loss in the value of inventories may not be fully offset by the penalties charged to customers for cancelling their orders.

(g) Employee benefit obligations

The present value of the pension plans reported in the financial statements depends on an independent actuarial calculation and on a number of different assumptions. Any changes in assumptions and in the discount rate used are duly reflected in the present value calculation and may have a significant impact on the consolidated figures. The assumptions used for the actuarial calculation are examined by the Group annually.

Present value is calculated by discounting future cash flows at an interest rate equal to that on high-quality corporate bonds issued in the currency in which the liability will be settled and which takes account of the duration of the related pension plan.

Further information can be found in Note 15. Employee benefit obligations and Note 21. Personnel costs.

(h) Incentive and share purchase plans

The employee share purchase plan, directed at almost all the Group's employees, provides an opportunity for them to obtain shares on preferential terms and conditions. The operation of this plan is described in Note 21. Personnel costs.

The grant of shares is subject to continued employment with the Group in the months between signing up to one of the plan's purchase windows and the purchase of the shares themselves on the equity market. The plan's financial and economic impact has therefore been estimated on the basis of the best possible estimates and information currently available.

The incentive plan for 2015-2017 involves granting options to some of the Group's employees and co-investing part of their annual bonuses. These benefits are granted subject to the achievement of operating and financial performance objectives and a continued employment relationship for the three-year period 2015-2017. The plan's financial and economic impact has therefore been estimated on the basis of the best possible estimates and information currently available.

More details can be found in Note 21. Personnel costs.

F. BUSINESS COMBINATIONS

Gulf Coast Downhole Technologies (GCDT)

Prysmian Group signed an agreement on 24 September 2015 to acquire 100% of Gulf Coast Downhole Technologies (GCDT), a privately-owned US company, for an initial consideration, subject to adjustment, of approximately USD 45 million. There is also an earn-out determined on an average combined EBITDA in the next three years, with the maximum pay-out capped at about USD 21 million. The acquisition was closed on 1 October 2015, meaning that the accounting effects have been reflected as from that date.
Details of the cost of acquisition of Gulf Coast Downhole Technologies (GCDT) and the related cash outlay are as follows:

(in millions of Euro)	
Acquisition price (A)	41
Liability for price adjustment and earn-out (B)	3
Fair value of net assets acquired (C)	26
Goodwill (A)+(B)-(C)	**18**
Purchase consideration	41
Debt for acquisition	(5)
Cash and cash equivalents held by acquiree	-
Acquisition cash flow	**36**

In compliance with IFRS 3, the final fair values of the assets acquired and liabilities assumed are as follows:

(in millions of Euro)	Fair value
Property, plant and equipment	1
Intangible assets	23
Inventories	5
Trade and other receivables	12
Trade and other payables	(2)
Provisions for risks	(4)
Borrowings from banks and other lenders	-
Deferred taxes	(9)
Cash and cash equivalents	-
Net assets acquired (C)	**26**

Intangible assets

The fair value measurement has identified increases in the value of customer relationships by Euro 14 million and of patents, licences and trademarks by Euro 9 million.

The acquisition has given rise to Euro 18 million in goodwill, which has been recorded in "Intangible assets".

Acquisition-related costs, recorded in 2015 and classified in "Other expenses", amounted to Euro 0.6 million, before tax effects of Euro 0.2 million.

Oman Cables Industry (SAOG)

On 16 December 2015, Prysmian Group signed an agreement to increase its interest in Oman Cables Industry (SAOG) to approximately 51%, thereby acquiring a majority stake which has resulted in the company's line-by-line consolidation. Prysmian Group, which already owned 34.78% of the company, purchased an additional interest of approximately 16% for consideration of around Euro 110 million.

In compliance with IFRS 3, the fair values of the assets acquired and liabilities assumed were determined on a provisional basis in accordance with the provisions of IFRS 3.

These values have led to a restatement of the Group's consolidated figures at 31 December 2015: further details can be found in Section C. Restatement of comparative figures.

The following table summarises the acquisition-related cash flows:

(in millions of Euro)	
Acquisition price (A)	105
Other consideration related to acquisition	5
Previously held assets (B)	127
Fair value of net assets acquired (C)	180
Goodwill (A)+(B)-(C)	**52**
Purchase consideration	110
Cash and cash equivalents held by acquiree	5
Acquisition cash flow	**105**

Details of the fair values of the assets/liabilities acquired are as follows:

(in millions of Euro)	Fair value
Property, plant and equipment	94
Intangible assets	188
Available-for-sale financial assets	1
Financial assets held for trading	3
Inventories	95
Trade and other receivables	174
Trade and other payables	(41)
Deferred taxes	(27)
Borrowings from banks and other lenders	(87)
Employee benefit and other obligations	(15)
Cash and cash equivalents	5
Non-controlling interests	(210)
Net assets acquired (C)	**180**

Intangible assets

The fair value measurement has identified increases in the value of customer relationships by Euro 155 million and of the trademark by Euro 33 million.

Inventories

The fair value measurement has increased the value of inventories by Euro 5 million.

Deferred tax liabilities

The fair value measurement has increased the value of deferred tax liabilities by Euro 23 million.

Non-controlling interests in equity

The fair value measurement has increased the value of non-controlling interests in equity by Euro 83 million.

Acquisition of data cables business from Corning Optical Communications Gmbh & Co. KG.

On 13 May 2016, Prysmian Group signed an agreement to acquire a copper data cables business located in Neustadt (Germany) from Corning Optical Communications Gmbh & Co. KG. The agreement, completed on 31 August 2016, involves transferring the assets and liabilities of the company's Multimedia Solutions business to the Group. The transaction has resulted in the receipt of Euro 1.1 million in income and the recognition of a receivable from the selling party of Euro 0.4 million, making a total acquisition-related inflow of Euro 1.5 million.

In compliance with IFRS 3, the fair values of the assets and liabilities acquired have been determined on a provisional basis; these valuations will be liable to adjustment over the course of the 12-month period from the acquisition date and so can still be modified.

The following table summarises the acquisition-related cash flows:

(in millions of Euro)	
Acquisition price (A)	(1)
Liability for price adjustment and earn-out (B)	-
Fair value of net assets acquired (C)	3
Badwill (A)+(B)-(C)	**(4)**
Purchase consideration	-
Receivable for acquisition	(1)
Cash and cash equivalents held by acquiree	-
Acquisition cash flow	**(1)**

Details of the provisional fair values of the assets/liabilities acquired are as follows:

(in millions of Euro)	
	Fair value (*)
Property, plant and equipment	9
Intangible assets	-
Inventories	2
Trade and other receivables	-
Trade and other payables	(2)
Provisions	(5)
Borrowings from banks and other lenders	-
Deferred taxes	(1)
Cash and cash equivalents	-
Net assets acquired (C)	**3**

(*) Values determined on a provisional basis.

The acquisition has given rise to Euro 4 million in badwill, recognised in the 2016 income statement and classified in "Other income".

Acquisition-related costs, recorded in 2016 and classified in "Other expenses", amount to Euro 0.4 million, before tax effects of Euro 0.1 million.

G. SEGMENT INFORMATION

The Group has modified its organisational structure since January 2016, resulting in the creation of a new operating segment, known as OIL & GAS, and the redefinition of its segment information in keeping with the new management model.
The new OIL & GAS operating segment incorporates the SURF business, previously included in the Energy Projects segment, and the Oil & Gas business, previously included in the Energy Products segment.
Following these changes, the Group's operating segments have been redefined as follows:

- Energy Products;
- OIL & GAS;
- Energy Projects;
- Telecom.

Segment information is structured in the same way as the report periodically prepared for the purpose of reviewing business performance. This report presents operating performance by macro type of business (Energy Products, OIL & GAS, Energy Projects and Telecom) and the results of operating segments primarily on the basis of Adjusted EBITDA, defined as earnings (loss) for the period before non-recurring items, the fair value change in metal price derivatives and in other fair value items, amortisation, depreciation and impairment, finance costs and income and taxes. This report also provides information about the statement of financial position for the Group as a whole but not by operating segment.
In order to provide users of the financial statements with clearer information, certain economic data is also reported for the following sales channels and business areas within the individual operating segments:

A. Energy Products operating segment: encompassing the businesses offering a complete and innovative product portfolio designed to meet the various and many needs of the market, namely:
   1. Energy & Infrastructure (E&I): this includes Trade and Installers and Power Distribution;
   2. Industrial & Network Components: this comprises Specialties and OEM, Elevators, Automotive and Network Components;
   3. Other: occasional sales of residual products.

B. OIL & GAS operating segment: encompassing the Core Oil & Gas business and the SURF business (involving umbilical cables, flexible pipes and special DHT (Downhole Technology) cables for the oil industry).

C. Energy Projects operating segment: encompassing the following high-tech and high value-added businesses whose focus is on projects and their execution, as well as on product customisation: High Voltage underground and Submarine.

D. Telecom operating segment: producing cable systems and connectivity products used in telecommunication networks. This segment is organised in the following lines of business: optical fibre, optical cables, connectivity components and accessories, OPGW (Optical Ground Wire) and copper cables.

All Corporate fixed costs are allocated to the Energy Products, OIL & GAS, Energy Projects and Telecom operating segments. Revenues and costs are allocated to each operating segment by identifying all revenues and costs directly attributable to that segment and by allocating indirect costs on the basis of Corporate resources (personnel, space used, etc.) absorbed by the operating segments.
Group operating activities are organised and managed separately according to the nature of the products and services provided: each segment offers different products and services to different markets. Sales of goods and services are analysed geographically on the basis of the location of the registered office of the company that issues the invoices, regardless of the geographic destination of the products sold. This type of presentation does not produce significantly different results from analysing sales of goods and services by destination of the products sold. All transfer prices are set using the same conditions applied to other transactions between Group companies and are generally determined by applying a mark-up to production costs.

Assets and liabilities by operating segment are not included in the data reviewed by management and so, as permitted by IFRS 8, this information is not presented in the current report.

It should be noted that the previously published comparative figures have been restated to reflect the redefinition of the operating segments described above.

G.1 OPERATING SEGMENTS

The following tables present information by operating segment:

(in millions of Euro)

	Energy Products				Oil & Gas	Energy Projects	Telecom	Corporate	2016 Group total
	E&I	Industrial & NWC	Other	Total Products					
Sales [1]	3,016	1,343	110	4,469	300	1,634	1,164		7,567
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**152**	**126**	**(1)**	**277**	**8**	**260**	**135**		**680**
% of sales	5.0%	9.4%		6.2%	2.7%	15.9%	11.6%		9.0%
Adjusted EBITDA (A)	**154**	**127**	**(1)**	**280**	**8**	**260**	**163**	**-**	**711**
% of sales	5.1%	9.5%		6.3%	2.7%	15.9%	14.0%		9.4%
EBITDA (B)	**119**	**101**	**(4)**	**216**	**8**	**275**	**158**	**(12)**	**645**
% of sales	4.0%	7.5%		4.8%	2.7%	16.8%	13.6%		8.5%
Amortisation and depreciation (C)	(62)	(19)	(1)	(82)	(15)	(36)	(40)		(173)
Adjusted operating income (A+C)	**92**	**108**	**(2)**	**198**	**(7)**	**224**	**123**	**-**	**538**
% of sales	3.0%	8.0%		4.4%	-2.4%	13.7%	10.6%		7.1%
Fair value change in metal derivatives (D)									54
Fair value stock options (E)									(49)
Asset (impairment) and impairment reversal (F)				(3)	(27)				(30)
Operating income (B+C+D+E+F)									**447**
% of sales									5.9%
Finance income									418
Finance costs									(497)
Taxes									(106)
Net profit/(loss) for the year									**262**
% of sales									3.5%
Attributable to:									
Owners of the parent									246
Non-controlling interests									16
RECONCILIATION BETWEEN EBITDA AND ADJUSTED EBITDA									
EBITDA (A)	**119**	**101**	**(4)**	**216**	**8**	**275**	**158**	**(12)**	**645**
Adjustments:									
Company reorganisation	14	24	-	38	2	-	6	4	50
Non-recurring expenses/(income):									
Antitrust investigations	-	-	-	-	-	(1)	-	-	**(1)**
Other non-operating expenses/(income)	21	2	3	26	(2)	(14)	(1)	8	**17**
Total adjustments (B)	**35**	**26**	**3**	**64**	**-**	**(15)**	**5**	**12**	**66**
Adjusted EBITDA (A+B)	**154**	**127**	**(1)**	**280**	**8**	**260**	**163**	**-**	**711**

[1] Sales of the operating segments and business areas are reported net of intercompany transactions and net of transactions between operating segments, consistent with the presentation adopted in the regularly reviewed reports.

(in millions of Euro)

									2015 (*)
	Energy Products				Oil & Gas	Energy Projects	Telecom	Corporate	Group total
	E&I	Industrial & NWC	Other	Total Products					
Sales (1)	2,795	1,499	121	4,415	421	1,416	1,109	-	7,361
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	111	121	2	234	16	221	113	-	584
% of sales	4.0%	8.1%		5.3%	3.8%	15.6%	10.2%		7.9%
Adjusted EBITDA (A)	128	122	2	252	16	221	134		623
% of sales	4.6%	8.1%		5.7%	3.8%	15.6%	12.1%		8.5%
EBITDA (B)	154	114	(4)	264	-	247	119	(8)	622
% of sales	5.5%	7.7%		6.0%	0.1%	17.4%	10.7%		8.4%
Amortisation and depreciation (C)	(35)	(22)	(2)	(59)	(13)	(34)	(44)		(150)
Adjusted operating income (A+C)	93	100	-	193	3	187	90	-	473
% of sales	3.3%	6.7%		4.4%	0.7%	13.2%	8.1%		6.4%
Fair value change in metal derivatives (D)									(27)
Fair value stock options (E)									(25)
Asset (impairment) and impairment reversal (F)				(15)	(4)	-	(2)	-	(21)
Operating income (B+C+D+E+F)									399
% of sales									5.4%
Finance income									441
Finance costs									(530)
Taxes									(96)
Net profit/(loss) for the year									214
% of sales									2.9%
Attributable to:									
Owners of the parent									214
Non-controlling interests									-

RECONCILIATION BETWEEN EBITDA AND ADJUSTED EBITDA

EBITDA (A)	154	114	(4)	264	-	247	119	(8)	622
Adjustments:									
Company reorganisation	13	5	3	21	13	3	10	1	48
Non-recurring expenses/(income):									
Antitrust investigations	-	-	-	-	-	(29)	-	-	(29)
Other non-operating expenses/(income)	(39)	3	3	(33)	3	-	5	7	(18)
Total adjustments (B)	(26)	8	6	(12)	16	(26)	15	8	1
Adjusted EBITDA (A+B)	128	122	2	252	16	221	134	-	623

(1) Sales of the operating segments and business areas are reported net of intercompany transactions and net of transactions between operating segments, consistent with the presentation adopted in the regularly reviewed reports.

(*) The previously published comparative figures have been restated for the redefinition of the operating segments.

G.2 GEOGRAPHICAL AREAS

The following table presents sales of goods and services by geographical area:

(in millions of Euro)

	2016	2015
Sales of goods and services	**7,567**	**7,361**
EMEA*	**5,087**	**4,619**
(of which Italy)	1,375	1,116
North America	**1,075**	**1,182**
Latin America	**460**	**565**
Asia Pacific	**945**	**995**

*EMEA: Europe, Middle East and Africa.

No individual customer accounted for more than 10% of the Group's total sales in either 2016 or 2015.

1. PROPERTY, PLANT AND EQUIPMENT

Details of this line item and related movements are as follows:

(in millions of Euro)

	Land	Buildings	Plant and machinery	Equipment	Other assets	Assets under construction and advances	Total
Balance at 31 December 2015	**252**	**493**	**491**	**37**	**76**	**202**	**1,551**
Movements in 2016:							
- Business combinations	1	4	4	-	-	-	9
- Investments	-	22	71	4	2	123	222
- Disposals	-	(1)	(2)	-	-	-	(3)
- Depreciation	-	(28)	(77)	(9)	(13)	-	(127)
- Impairment	(2)	(14)	(12)	-	(2)	-	(30)
- Impairment reversals	-	-	-	-	-	-	-
- Currency translation differences	(4)	4	9	1	(5)	-	5
- Reclassifications (to)/from Assets held for sale	(1)	2	-	-	-	-	1
- Other	(7)	51	89	6	6	(142)	3
Total movements	**(13)**	**40**	**82**	**2**	**(12)**	**(19)**	**80**
Balance at 31 December 2016	**239**	**533**	**573**	**39**	**64**	**183**	**1,631**
Of which:							
- Historical cost	244	795	1,350	115	142	187	2,833
- Accumulated depreciation and impairment	(5)	(262)	(777)	(76)	(78)	(4)	(1,202)
Net book value	**239**	**533**	**573**	**39**	**64**	**183**	**1,631**

(in millions of Euro)

	Land	Buildings	Plant and machinery	Equipment	Other assets	Assets under construction and advances	Total
Balance at 31 December 2014	**255**	**492**	**453**	**26**	**41**	**147**	**1,414**
Movements in 2015:							
- Business combinations	-	24	60	7	1	3	95
- Investments	-	6	37	8	2	151	204
- Disposals	(1)	(1)	(1)	-	-	-	(3)
- Depreciation	-	(26)	(74)	(7)	(13)	-	(120)
- Impairment	-	(4)	(10)	(1)	-	(3)	(18)
- Impairment reversals	-	-	-	-	-	-	-
- Currency translation differences	1	(4)	(4)	(1)	2	(1)	(7)
- Reclassifications to Assets held for sale	-	(8)	(2)	-	-	(6)	(16)
- Other	(3)	14	32	5	43	(89)	2
Total movements	**(3)**	**1**	**38**	**11**	**35**	**55**	**137**
Balance at 31 December 2015	**252**	**493**	**491**	**37**	**76**	**202**	**1,551**
Of which:							
- Historical cost	258	709	1,178	101	143	207	2,596
- Accumulated depreciation and impairment	(6)	(216)	(687)	(64)	(67)	(5)	(1,045)
Net book value	**252**	**493**	**491**	**37**	**76**	**202**	**1,551**

Gross capital expenditure on property, plant and equipment came to Euro 222 million in 2016.

Such expenditure during the course of 2016 referred to:

- Projects to increase and technologically upgrade production capacity and develop new products/markets: Euro 94 million (42% of the total). Such projects have particularly concerned the Submarine business, with completion of the refit of the "Ulisse", a new cable-laying vessel, and investments in the factories in Arco Felice (Italy) and Pikkala (Finland) to ensure sufficient production capacity to fulfil the "50 Hertz" and "Cobra" contracts. The High Voltage business has embarked on a multi-year programme to upgrade cable testing capabilities in various regions (North America, Northern and Southern Europe); this programme is aimed at ensuring a fully verticalised production process, including for the very highest voltage cables made by the Group.

  In order to strengthen its presence in the global market, the Group has initiated the process of acquiring certain assets of a Chinese high voltage cables factory in Yixing previously operated by Shen Huan Cable Technologies, and whose machinery includes two vertical extrusion lines, with the intention of replacing the plant previously operated by Prysmian Baosheng Cable Co. Ltd. The investments made by Oman Cables Industry also need to be considered: these investments have been concentrated mainly in the low and medium voltage cables business, serving both local utilities and the large engineering procurement and construction companies active in the Arabian Peninsula.

The Telecom operating segment has completed its major investment in the Sorocaba optical fibre factory in Brazil in order to verticalise production for the South American market and particularly the Brazilian one; in addition, investments have been made in the Claremont facility in the United States to create a verticalised plant in North America, by increasing spinning capacity so as to satisfy demand for fibre used in optical cable manufacturing. Still in the USA, ribbon cable production capacity has been increased at the Lexington optical cables factory.

- Multiple projects to improve industrial efficiency and rationalise production capacity: Euro 70 million (32% of the total). The Group has undertaken a major optimisation of costs throughout the Telecom segment's production chain. This has primarily involved the construction of two new factories in Eastern Europe: the first in Slatina (Romania) for the manufacture of optical telecom cables, the second in Presov (Slovakia) for the manufacture of optical multimedia cables in addition to the factory's existing copper cable production, whose capacity was increased at the same time. These two new factories confirm the Group's desire to create two centres of excellence in Europe for these types of cable; the same objective is behind the start of construction of an optical telecom cable manufacturing facility in Durango (Mexico), intended to meet growing demand in North and Central America. The Telecom segment's European optical fibre manufacturing facilities in Battipaglia (Italy) and Douvrin (France) have continued to invest in efficiency in order to achieve significant reductions in fibre manufacturing cost, with particular attention paid to increased preform size. Lastly, in Tunisia, the expansion of the existing factory that performs connectivity kitting activities is well underway, with the goal of bringing in-house work formerly done by outside companies.
- Structural work: Euro 58 million (26% of the total). This mainly relates to construction of the Group's new headquarters in the Bicocca district of Milan and to the purchase of land in Taunton (Massachusetts, USA) at the current Industrial cables factory. Part of this overall expenditure refers to improvements in health and safety standards within the Group's factories.

There are liens for Euro 6 million against the value of machinery in connection with long-term loans (Euro 6 million at 31 December 2015).

During the present financial year, the Prysmian Group has reviewed whether there was any evidence that its CGUs might be impaired, and then tested for impairment those CGUs potentially at "risk".
Such impairment testing has resulted in the full impairment of Plant and machinery, Equipment, and Assets under construction in the Core Oil & Gas CGU (Euro 14 million) and of Buildings in the SURF CGU (Euro 13 million). In the case of the Core Oil & Gas CGU, the cash flow projection has been determined, for 2017, using the post-tax cash flow derived from the Group's 2017 budget, approved by the Board of Directors on 1 March 2017, and for 2018-2019 by projecting forward the 2017 cash flow on the basis of expected growth rates for those years. The WACC (Weighted Average Cost of Capital, as defined in the paragraph "Goodwill impairment test"), used to discount cash flows for determining value in use for the Oil & Gas CGU is 6.70%. The perpetuity growth rate (G) projected after 2019 is 2%.
In the case of the SURF CGU, the cash flow projection has been determined, for 2017, using the post-tax cash flow derived from the Group's 2017 budget, approved by the Board of Directors on 1 March 2017, and

for 2018-2019 by projecting forward the 2017 cash flow on the basis of expected growth rates for those years. The WACC used to discount cash flows for determining value in use for the SURF CGU is 15.36%. The perpetuity growth rate (G) projected after 2019 is 2%.

Furthermore, the Group has tested other assets for impairment which, although belonging to larger CGUs for which there was no specific evidence of impairment, presented impairment indicators in relation to particular market circumstances. This has led to the recognition of Euro 3 million in additional impairment losses in 2016, including Euro 1 million to write down the site in Ascoli Piceno (Italy) and other minor amounts to write down sites in France.

"Buildings" include assets under finance lease with a net book value of Euro 14 million at 31 December 2016, compared with Euro 15 million at 31 December 2015. The maturity dates of finance leases are reported in Note 12. Borrowings from banks and other lenders; such leases generally include purchase options.

2. INTANGIBLE ASSETS

Details of this line item and related movements are as follows:

(in millions of Euro)

	Patents	Concessions, licences, trademarks and similar rights	Goodwill	Software	Other intangible assets	Intangibles in progress and advances	Total
Balance at 31 December 2015 (*)	**14**	38	**452**	**28**	**281**	**10**	**823**
Movements in 2016:							
- Business combinations	-	-	-	-	-	-	-
- Investments	-	-	-	2	1	8	11
- Disposals	-	-	-	-	-	-	-
- Amortisation	(5)	(5)	-	(5)	(31)	-	(46)
- Impairment	-	-	-	-	-	-	-
- Currency translation differences	-	1	(4)	1	4	2	4
- Other	-	1	-	5	1	(7)	-
Total movements	**(5)**	**(3)**	**(4)**	**3**	**(25)**	**3**	**(31)**
Balance at 31 December 2016	**9**	**35**	**448**	**31**	**256**	**13**	**792**
Of which:							
- Historical cost	55	92	468	95	379	34	1,123
- Accumulated amortisation and impairment	(46)	(57)	(20)	(64)	(123)	(21)	(331)
Net book value	**9**	**35**	**448**	**31**	**256**	**13**	**792**

(in millions of Euro)

	Patents	Concessions, licences, trademarks and similar rights	Goodwill	Software	Other intangible assets	Intangibles in progress and advances	Total
Balance at 31 December 2014	**13**	**5**	**380**	**33**	**117**	**13**	**561**
Movements in 2015:							
- Business combinations	8	34	70	-	169	-	281
- Investments	-	-	-	1	5	5	11
- Disposals	-	-	-	-	-	-	-
- Amortisation	(8)	(2)	-	(8)	(12)	-	(30)
- Impairment	-	-	-	-	(1)	(2)	(3)
- Currency translation differences	-	-	2	-	4	(3)	3
- Other	1	1	-	2	(1)	(3)	-
Total movements	**1**	**33**	**72**	**(5)**	**164**	**(3)**	**262**
Balance at 31 December 2015 (*)	**14**	**38**	**452**	**28**	**281**	**10**	**823**
Of which:							
- Historical cost	55	90	472	87	373	31	1,108
- Accumulated amortisation and impairment	(41)	(52)	(20)	(59)	(92)	(21)	(285)
Net book value	**14**	**38**	**452**	**28**	**281**	**10**	**823**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated for the purchase price allocation of Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

Gross capital expenditure on intangible assets came to Euro 11 million in 2016, most of which attributable to the continuous development of information systems. Once again this year, there was continued investment in the development of the "SAP Consolidation (1C)" program, which aims to standardise the back office information system throughout the Group; in 2016 the SAP 1C system not only underwent a major infrastructural development with the adoption of SAP HANA in-memory technology but was also extended to Australia and New Zealand. The "Data Centre Consolidation" project was initiated in parallel, with the purpose of harmonising and strengthening the infrastructure layer of the Group's systems, while also making the related operating costs more efficient. Lastly, the main Business Components of the Customer Centricity program (Pricing Tool, CRM, Customer Portal) were developed with the aim of creating an integrated, modern platform to support the Group's business processes.

As at 31 December 2016, the Prysmian Group had capitalised Euro 448 million in Goodwill.

As described in Note 1. Property, plant and equipment, at 31 December 2016 the Prysmian Group has reviewed whether there was any evidence that its CGUs might be impaired, and has then tested for impairment those CGUs potentially at "risk".

Goodwill impairment test

As reported earlier, management reviews operating performance by macro type of business. Goodwill has therefore been monitored internally at the level of the four operating segments: Energy Projects, OIL & GAS, Energy Products and Telecom.

The following table reports the amount of goodwill allocated to each operating segment:

(in millions of Euro)

	31 December 2015	Currency translation differences	Reclassifications to new OIL & GAS operating segment	31 December 2016
Energy Products goodwill	265	2	(2)	265
OIL & GAS goodwill	-	-	25	25
Energy Projects goodwill	101	(7)	(23)	71
Telecom goodwill	86	1	-	87
Total goodwill	**452**	**(4)**	**-**	**448**

The cash flow projection has been determined, for 2017, using the post-tax cash flow derived from the Group's 2017 budget, approved by the Board of Directors on 1 March 2017. The operating segment cash flow forecasts have been extended to the period 2018-2019 assuming expected annual growth rates of between 1.6% and 2.2%. A terminal value has been estimated to reflect CGU value after this period; this value has been determined assuming a 2% perpetuity growth rate. The rate used to discount cash flows has been determined on the basis of market information about the cost of money and asset-specific risks (Weighted Average Cost of Capital, WACC). The outcome of the test has shown that the recoverable amount of the individual CGUs is higher than their net invested capital (including the allocation of goodwill). In particular, recoverable amount is well in excess of carrying amount for the Energy Projects operating segment, aligned for the OIL & GAS segment, 155% higher for the Energy Products operating segment, and 184% higher for the Telecom operating segment.

The WACC used for the Energy Projects CGU was 6.7% while the theoretical WACC, which would make recoverable amount equal to carrying amount, would be 64.1%. In the case of the OIL & GAS CGU, the WACC used was around 10.8% while the theoretical WACC, which would make recoverable amount equal to carrying amount, would be around 11.1%. In the case of the Energy Products CGU, the WACC used was 6.9% while the theoretical WACC, which would make recoverable amount equal to carrying amount, would be 14.1%. In the case of the Telecom CGU, the WACC used was 6.7% while the theoretical WACC, which would make recoverable amount equal to carrying amount, would be around 14.8%.

In the case of growth rates, in order to have recoverable amount equal to carrying amount, the growth rate would have to be negative for all segments.

3. EQUITY-ACCOUNTED INVESTMENTS

These are detailed as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Investments in associates	191	172
Investments in joint ventures	4	5
Total equity-accounted investments	**195**	**177**

Movements over the period are as follows:

(in millions of Euro)			31 December 2016
	Investments in associates	Investments in joint ventures	Total
Opening balance	**172**	**5**	**177**
Movements:			
- Currency translation differences	(3)	-	(3)
- Share of net profit/(loss)	31	-	31
- Dividends	(9)	(1)	(10)
- Other movements	-	-	-
Total movements	**19**	**(1)**	**18**
Closing balance	**191**	**4**	**195**

(in millions of Euro)			31 December 2015
	Investments in associates	Investments in joint ventures	Total
Opening balance	**219**	**6**	**225**
Movements:			
- Business combinations	(127)	-	(127)
- Currency translation differences	13	-	13
- Effect of consolidating Oman Cables Industry	44	-	44
- Share of net profit/(loss)	39	-	39
- Dividends	(16)	-	(16)
- Other movements	-	(1)	(1)
Total movements	**(47)**	**(1)**	**(48)**
Closing balance	**172**	**5**	**177**

Details of investments in equity-accounted companies are as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Yangtze Optical Fibre and Cable Joint Stock Limited Company	149	129
Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd.	25	24
Kabeltrommel Gmbh & Co.K.G.	6	8
Elkat Ltd.	6	5
Rodco Ltd.	2	3
Eksa Sp.Zo.o	3	3
Total investments in associates	**191**	**172**
Power Cables Malaysia Sdn Bhd	4	4
Precision Fiber Optics Ltd.	-	1
Total investments in joint ventures	**4**	**5**
Total investments in equity-accounted companies	**195**	**177**

Investments in associates include Euro 17 million in equity-accounting adjustments.

Investments in associates

Information about the nature of the main investments in associates:

Company name	Registered office	% owned
Yangtze Optical Fibre and Cable Joint Stock Limited Company	China	26.37%
Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd	China	44.78%
Kabeltrommel Gmbh & Co.K.G.	Germany	43.18%
Elkat Ltd.	Russia	40.00%

Yangtze Optical Fibre and Cable Joint Stock Limited Company, a Chinese company formed in 1988, is a company whose main shareholders are: China Huaxin Post and Telecommunication Economy Development Center, Wuhan Yangtze Communications Industry Group Company Ltd. and Prysmian Group. The company is one of the industry's most important manufacturers of optical fibre and cables. Its products and solutions are sold in more than 50 countries, including the United States, Japan, the Middle East and Africa.
The company was listed on the Main Board of the Hong Kong Stock Exchange in December 2014.
At 31 December 2016, the fair value of the investment in Yangtze Optical Fibre and Cable Joint Stock Limited Company was Euro 322 million, compared with a carrying amount of Euro 149 million.

Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd, formed in 2002 and based in Shanghai (China), is an associated company, 25% of whose share capital is held by the Prysmian Group and 75% by Yangtze Optical Fibre and Cable Joint Stock Limited Company. The company specialises in the manufacture and sale of optical fibre and cables, offering a wide range of optical fibre cables and accessories, services and FTTx solutions.

Kabeltrommel Gmbh & Co. K.G. is a German company that heads a consortium for the production, procurement, management and sale of disposable and reusable cable carrying devices (drums). The services offered by the company include both the sale of cable drums, and the complete management of logistics services such as drum shipping, handling and subsequent retrieval. The company operates primarily in the German market.

Elkat Ltd. is based in Russia and manufactures and sells copper conductors; it is the only company certified by the LME to test copper cathodes for the local market.

The following table reports key financial figures for the principal investments in associates:

(in millions of Euro)	Kabeltrommel Gmbh & Co.K.G.		Yangtze Optical Fibre and Cable Joint Stock Limited Company		Elkat Ltd.		Yangtze Optical Fibre & Cable (Shanghai) Co.,Ltd	
	31 December 2016	31 December 2015	30 September 2016 (*)	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-current assets	n.a	11	n.a	362	n.a	5	13	12
Current assets	n.a	17	n.a	712	n.a	14	66	55
Total assets	n.a	28	1,113	1,074	n.a	19	79	67
Equity	n.a	14	570	529	n.a	17	39	37
Non-current liabilities	n.a	8	n.a	124	n.a	-	4	3
Current liabilities	n.a	6	n.a	421	n.a	2	36	27
Total equity and liabilities	n.a	28	1,113	1,074	n.a	19	79	67
	2016	2015	2016	2015	2016	2015	2016	2015
Sales of goods and services	n.a	32	796	965	n.a	124	111	96
Net profit/(loss) for the year	n.a	5	77	80	n.a	2	5	4
Comprehensive income/(loss) for the year	n.a	5	n.a	87	n.a	2	5	4
Dividends received	n.a	4	4	4	n.a	3	-	-

(*) The figures for Yangtze Optical Fibre and Cable Joint Stock Limited Company, a company listed on the Hong Kong Stock Exchange, refer to its latest published financial results for the first nine months of 2016.

Investments in joint ventures

Information about the nature of the main investments in joint ventures:

Company name	Registered office	% owned
Power Cables Malaysia Sdn Bhd	Malaysia	40.00%
Precision Fiber Optics Ltd	Japan	50.00%

Power Cables Malaysia Sdn Bhd is a joint venture based in Malaysia between the Prysmian Group and Lembaga Tabung Angkatan Tentera (LTAT), a Malaysian government retirement benefits fund. The company manufactures and sells power cables and conductors and is mainly specialised in high voltage products.

Precision Fiber Optics Ltd., based in Japan, manufactures and sells optical fibre cables in the local market.

The following table reports key financial figures for the investments in joint ventures:

(in millions of Euro)	Power Cables Malaysia Sdn		Precision Fiber Optics Ltd.	
	2016	2015	2016	2015
Non-current assets	11	11	-	-
Current assets	26	12	1	3
of which Cash and cash equivalents	-	-	1	2
Equity	9	9	1	3
Non-current liabilities	1	1	-	-
of which Financial liabilities	1	-	-	-
Current liabilities	27	13	-	-
of which Financial liabilities	4	6	-	-
	2016	2015	2016	2015
Sales of goods and services	36	27	2	2
Amortisation, depreciation and impairment	(1)	(1)	-	-
Profit/(loss) before taxes	-	-	-	-
Taxes	-	-	-	-
Net profit/(loss) for the year	-	-	-	-
Other comprehensive income	-	-	-	-
Comprehensive income/(loss) for the year	-	-	-	-
Dividends received	-	-	-	-

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

These are detailed as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Non-current	12	12
Current	-	-
Total	**12**	**12**

Current assets refer to securities that mature within 12 months of the reporting date and securities that mature beyond 12 months but which are expected to be sold in the near term; non-current assets comprise shareholdings considered instrumental to the Group's business.

Available-for-sale financial assets have not reported any significant movements during the year.

Available-for-sale financial assets comprise:

(in millions of Euro)	Type of financial asset	% owned by the Group	31 December 2016	31 December 2015
Ravin Cables Limited	unlisted shares	51%	9.00	9.00
Tunisie Cables S.A.	unlisted shares	7.55%	0.91	0.91
Cesi Motta S.p.A.	unlisted shares	6.48%	0.58	0.58
Voltimum S.A.	unlisted shares	13.71%	0.27	0.27
Other			1.42	1.14
Total non-current			**12,18**	**11,90**

Available-for-sale financial assets are denominated in the following currencies:

(in millions of Euro)	31 December 2016	31 December 2015
Euro	2	2
Tunisian Dinar	1	1
Indian Rupee	9	9
Total	**12**	**12**

Available-for-sale financial assets are classified in Level 3 of the fair value hierarchy.

5. TRADE AND OTHER RECEIVABLES

These are detailed as follows:

(in millions of Euro)		31 December 2016	
	Non-current	**Current**	**Total**
Trade receivables	-	1,153	1,153
Allowance for doubtful accounts	-	(65)	(65)
Total trade receivables	-	**1,088**	**1,088**
Other receivables:			
Tax receivables	5	132	137
Financial receivables	2	38	40
Prepaid finance costs	2	2	4
Receivables from employees	1	3	4
Pension plan receivables	-	1	1
Construction contracts	-	488	488
Advances to suppliers	-	19	19
Other	11	105	116
Total other receivables	**21**	**788**	**809**
Total	**21**	**1,876**	**1,897**

(in millions of Euro)

			31 December 2015
	Non-current	Current	Total
Trade receivables	-	1,150	1,150
Allowance for doubtful accounts	-	(52)	(52)
Total trade receivables	-	**1,098**	**1,098**
Other receivables:			
Tax receivables	9	148	157
Financial receivables	1	8	9
Prepaid finance costs	4	2	6
Receivables from employees	1	3	4
Pension plan receivables	-	2	2
Construction contracts	-	426	426
Advances to suppliers	-	13	13
Other	11	85	96
Total other receivables	**26**	**687**	**713**
Total	**26**	**1,785**	**1,811**

Trade receivables

The gross amount of past due receivables that are totally or partially impaired is Euro 170 million at 31 December 2016 (Euro 182 million at 31 December 2015).

The ageing of past due impaired receivables is as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
1 to 30 days past due	69	73
31 to 90 days past due	35	38
91 to 180 days past due	20	18
181 to 365 days past due	11	15
More than 365 days past due	35	38
Total	**170**	**182**

The value of trade receivables past due but not impaired is Euro 115 million at 31 December 2016 (Euro 102 million at 31 December 2015). These receivables mainly relate to customers in the Energy Projects operating segment, which, given the nature of these counterparties, are not considered necessary to impair.

The ageing of receivables that are past due but not impaired is as follows:

(in millions of Euro)	31 December 2016	31 December 2015
1 to 30 days past due	17	26
31 to 90 days past due	14	6
91 to 180 days past due	2	2
181 to 365 days past due	80	66
More than 365 days past due	2	2
Total	**115**	**102**

The value of trade receivables not past due is Euro 868 million at 31 December 2016 (Euro 866 million at 31 December 2015). There are no particular problems with the quality of these receivables and there are no material amounts that would otherwise be past due if their original due dates had not been renegotiated.

The following table breaks down trade and other receivables according to the currency in which they are expressed:

(in millions of Euro)	31 December 2016	31 December 2015
Euro	817	774
US Dollar	319	286
Omani Rial	161	173
Chinese Renminbi (Yuan)	131	108
Turkish Lira	41	106
Brazilian Real	84	73
British Pound	71	66
Qatari Riyal	44	40
Australian Dollar	20	15
Canadian Dollar	10	15
Swedish Krona	25	14
Romanian Leu	11	11
Singapore Dollar	12	12
Argentine Peso	9	6
Other currencies	142	112
Total	**1,897**	**1,811**

The allowance for doubtful accounts amounts to Euro 65 million at 31 December 2016 (Euro 52 million at the end of 2015). Movements in this allowance are shown in the following table:

(in millions of Euro)	31 December 2016	31 December 2015
Opening balance	**52**	**58**
Movements:		
- Business combinations	-	-
- Increases in allowance	19	7
- Releases	(4)	(5)
- Bad debt write-offs	(4)	(3)
- Currency translation differences and other movements	2	(5)
Total movements	**13**	**(6)**
Closing balance	**65**	**52**

Increases in and releases from the allowance for doubtful accounts are reported in "Other expenses" in the income statement.

Other receivables

"Prepaid finance costs", of Euro 4 million at 31 December 2016, refer to prepaid expenses in connection with the Group's Revolving Credit Facilities, of which Euro 2 million classified as current assets and Euro 2 million classified as non-current assets. These prepaid expenses relate to the Revolving Credit Facility 2014 and the Syndicated Revolving Credit Facility 2014. At 31 December 2015, the corresponding figure for prepaid finance costs regarding Revolving Credit Facilities was Euro 6 million, of which Euro 2 million classified as current assets and Euro 4 million as non-current assets.

"Construction contracts" represent the value of contracts in progress, determined as the difference between the costs incurred plus the related profit margin, net of recognised losses, and the amount invoiced by the Group.

The following table shows how these amounts are reported between assets and liabilities:

(in millions of Euro)	31 December 2016	31 December 2015
Construction contract revenue to date	6,263	5,001
Amounts invoiced	(6,109)	(5,027)
Net amount due from/(to) customers for construction contracts	**154**	**(26)**
Of which:		
Other receivables for construction contracts	488	426
Other payables for construction contracts	(334)	(452)

The following table shows the revenue and costs incurred in 2016 and 2015:

(in millions of Euro)	2016	2015
Revenue	1,254	1,057
Costs	(1,029)	(875)
Gross margin	**225**	**182**

6. INVENTORIES

These are detailed as follows:

(in millions of Euro)	31 December 2016	31 December 2015 (*)
Raw materials	273	300
of which allowance for obsolete and slow-moving raw materials	*(33)*	*(35)*
Work in progress and semi-finished goods	216	242
of which allowance for obsolete and slow-moving work in progress and semi-finished goods	*(11)*	*(9)*
Finished goods (**)	417	442
of which allowance for obsolete and slow-moving finished goods	*(56)*	*(58)*
Total	**906**	**984**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated for the purchase price allocation of Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

(**) Finished goods also include goods for resale.

7. FINANCIAL ASSETS HELD FOR TRADING

These are detailed as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Listed securities	44	72
Unlisted securities	15	15
Total	**59**	**87**

Financial assets held for trading basically refer to units in funds that mainly invest in short and medium-term government securities. These assets are mostly held by subsidiaries in Brazil and Argentina which invest temporarily available liquidity in such funds.

The listed securities primarily refer to investments in funds denominated in Brazilian reals.

Movements in these assets are analysed as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Opening balance	**87**	**76**
Movements:		
- Business combinations	-	3
- Currency translation differences	8	(24)
- Purchase of securities	3	48
- Disposal of securities	(39)	(16)
Total movements	**(28)**	**11**
Closing balance	**59**	**87**

8. DERIVATIVES

These are detailed as follows:

(in millions of Euro)

	31 December 2016	
	Asset	Liability
Non-current		
Interest rate swaps (cash flow hedges)	-	-
Forward currency contracts on commercial transactions (cash flow hedges)	-	8
Total hedging derivatives	**-**	**8**
Forward currency contracts on commercial transactions	-	-
Metal derivatives	3	4
Total other derivatives	**3**	**4**
Total non-current	**3**	**12**
Current		
Forward currency contracts on financial transactions (cash flow hedges)	-	-
Forward currency contracts on commercial transactions (cash flow hedges)	6	13
Total hedging derivatives	**6**	**13**
Forward currency contracts on commercial transactions	10	4
Forward currency contracts on financial transactions	1	1
Metal derivatives	23	6
Total other derivatives	**34**	**11**
Total current	**40**	**24**
Total	**43**	**36**

(in millions of Euro)

	31 December 2015	
	Asset	Liability
Non-current		
Interest rate swaps (cash flow hedges)	-	-
Forward currency contracts on commercial transactions (cash flow hedges)	-	2
Total hedging derivatives	**-**	**2**
Forward currency contracts on commercial transactions	1	2
Metal derivatives	-	17
Total other derivatives	**1**	**19**
Total non-current	**1**	**21**
Current		
Forward currency contracts on financial transactions (cash flow hedges)	-	-
Forward currency contracts on commercial transactions (cash flow hedges)	4	11
Total hedging derivatives	**4**	**11**
Forward currency contracts on commercial transactions	9	7
Forward currency contracts on financial transactions	8	3
Interest rate swaps	-	1
Metal derivatives	5	21
Total other derivatives	**22**	**32**
Total current	**26**	**43**
Total	**27**	**64**

There are no interest rate swaps as at 31 December 2016. At 31 December 2015, there were interest rate swaps with a notional value of Euro 200 million which referred to derivatives whose hedge accounting was discontinued in 2014. These financial instruments, which converted the variable interest rate component into a fixed rate of between 1.1% and 1.7%, reached their natural expiration in March 2016.

Forward currency contracts have a notional value of Euro 1,469 million at 31 December 2016 (Euro 1,797 million at 31 December 2015); total notional value at 31 December 2016 includes Euro 664 million in derivatives designated as cash flow hedges (Euro 713 million at 31 December 2015).

At 31 December 2016, like at 31 December 2015, almost all the derivative contracts had been entered into with major financial institutions.

Metal derivatives have a notional value of Euro 480 million at 31 December 2015 (Euro 580 million at 31 December 2015).

The following tables show the impact of offsetting assets and liabilities for derivative instruments, done on the basis of master netting arrangements (ISDA and similar agreements). They also show the effect of potential offsetting in the event of currently unforeseen default events:

(in millions of Euro)

					31 December 2016
	Gross derivatives	Amounts offset	Derivatives recognised in statement of financial position	Amounts not offset [(1)]	Net derivatives
Assets					
Forward currency contracts	17	-	17	(8)	9
Interest rate swaps	-	-	-	-	-
Metal derivatives	26	-	26	(7)	19
Total assets	**43**	-	**43**	**(15)**	**28**
Liabilities					
Forward currency contracts	26	-	26	(8)	18
Interest rate swaps	-	-	-	-	-
Metal derivatives	10	-	10	(7)	3
Total liabilities	**36**	-	**36**	**(15)**	**21**

(in millions of Euro)

					31 December 2015
	Gross derivatives	Amounts offset	Derivatives recognised in statement of financial position	Amounts not offset [(1)]	Net derivatives
Assets					
Forward currency contracts	22	-	22	(8)	14
Interest rate swaps	-	-	-	-	-
Metal derivatives	5	-	5	(4)	1
Total assets	**27**	-	**27**	**(12)**	**15**
Liabilities					
Forward currency contracts	25	-	25	(8)	17
Interest rate swaps	1	-	1	-	1
Metal derivatives	38	-	38	(4)	34
Total liabilities	**64**	-	**64**	**(12)**	**52**

[(1)] Derivatives potentially offsettable in the event of default events under master agreements.

The following table shows movements in both reporting periods in the cash flow hedge reserve for designated hedging derivatives:

(in millions of Euro)

	2016		2015	
	Gross reserve	Tax effect	Gross reserve	Tax effect
Opening balance	**(13)**	**4**	**(14)**	**3**
Changes in fair value	(11)	5	(24)	9
Reserve for other finance costs/(income)	-	-	-	-
Reserve for exchange losses/(gains)	5	(2)	5	(2)
Reclassification to other reserves	(1)	1	-	-
Release to finance costs/(income)	2	(1)	-	-
Discontinued hedge accounting for interest rate swaps	-	-	2	(1)
Release to construction contract costs/(revenues)	1	-	18	(5)
Closing balance	**(17)**	**7**	**(13)**	**4**

9. CASH AND CASH EQUIVALENTS

These are detailed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
Cash and cheques	2	4
Bank and postal deposits	644	543
Total	**646**	**547**

Cash and cash equivalents, deposited with major financial institutions, are managed centrally through the Group's treasury company and in its various operating units.

Cash and cash equivalents managed by the Group's treasury company amount to Euro 359 million at 31 December 2016, compared with Euro 302 million at 31 December 2015.

Further details about the change in cash and cash equivalents can be found in Note 37. Statement of cash flows.

10 ASSETS AND LIABILITIES HELD FOR SALE

These are detailed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
Assets held for sale:		
Land	-	-
Buildings	-	8
Plant and machinery	-	8
Intangible assets	-	-
Other assets	-	103
Total assets held for sale:	-	**119**
Liabilities held for sale:		
Other liabilities	-	89
Total liabilities held for sale:	-	**89**

Movements in Assets held for sale are analysed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
Opening balance	**119**	**7**
- Disposals	(115)	(7)
- Currency translation differences	(2)	1
- Reclassification	(2)	118
Total movements	**(119)**	**112**
Closing balance	-	**119**

Movements in Liabilities held for sale are analysed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
Opening balance	89	-
- Reclassification	-	89
- Disposals	(89)	-
Total movements	**(89)**	89
Closing balance	-	89

The movements in Assets and Liabilities held for sale refer to the disposal of Prysmian Baosheng Cable Co. Ltd, completed on 28 November 2016, effective for accounting purposes on 30 November 2016.

Assets held for sale are classified in Level 3 of the fair value hierarchy.

11. SHARE CAPITAL AND RESERVES

Consolidated equity has recorded an increase of Euro 168 million since 31 December 2015, mainly reflecting the effect of:

- positive currency translation differences of Euro 17 million;
- the negative post-tax change of Euro 1 million in the fair value of derivatives designated as cash flow hedges;
- the positive change of Euro 49 million in the share-based compensation reserve linked to the stock option plan;
- the negative post-tax change of Euro 44 million in the reserve for actuarial gains on employee benefits;
- the change in the scope of consolidation following the sale of Prysmian Baosheng Cable Co. Ltd, with a negative impact of Euro 13 million;
- the net profit for the year of Euro 262 million;
- the distribution of Euro 102 million in dividends.

At 31 December 2016, the share capital of Prysmian S.p.A. comprises 216,720,922 shares with a total value of Euro 21,672,092.20.

Movements in the ordinary shares and treasury shares of Prysmian S.p.A. are reported in the following table:

	Ordinary shares	Treasury shares	Total
Balance at 31 December 2014	**216,712,397**	**(2,830,318)**	**213,882,079**
Capital increase [(1)]	8,525	-	8,525
Allotments and sales [(2)]	-	123,142	123,142
Balance at 31 December 2015	**216,720,922**	**(2,707,176)**	**214,013,746**

	Ordinary shares	Treasury shares	Total
Balance at 31 December 2015	**216,720,922**	**(2,707,176)**	**214,013,746**
Capital increase	-	-	-
Allotments and sales [(3)]	-	88,859	88,859
Balance at 31 December 2016	**216,720,922**	**(2,618,317)**	**214,102,605**

[(1)] Capital increase following exercise of the options under the Long-term incentive plan 2011-2013.

[(2)] Allotment of 106,975 treasury shares under the Group employee share purchase plan (YES Plan), and sale to another Group company of 16,167 shares to serve this plan.

[(3)] Allotment of 88,859 treasury shares under the Group employee share purchase plan (YES Plan).

Treasury shares

During 2016 the only movements in treasury shares refer to allotments to employees participating in the YES employee share purchase plan.

The following table reports movements in treasury shares during the period:

	Number of shares	Total nominal value (in Euro)	% of share capital	Average unit value (in Euro)	Total carrying value (in Euro)
At 31 December 2014	**2,830,318**	**283,032**	**1.31%**	**12.021**	**34,023,369**
- Purchases	-	-	-	-	-
- Allotments under stock option plans	(123,142)	(12,314)	-	12.031	(1,481,526)
At 31 December 2015	**2,707,176**	**270,718**	**1.25%**	**12.021**	**32,541,843**
- Purchases	-	-	-	-	-
- Allotments under stock option plans	(88,859)	(8,886)	-	12.031	1,069,063
At 31 December 2016	**2,618,317**	**261,832**	**1.25%**	**12.021**	**33,610,906**

Share buy-back and disposal programmes

The Shareholders' Meeting held on 16 April 2015 authorised a share buy-back and disposal programme, and revoked the previous programme at the same time. The programme provided the opportunity to purchase, on one or more occasions, a maximum number of ordinary shares whose total could not exceed, at any one time, 10% of share capital, equating to 18,847,439 ordinary shares as at the date of the Shareholders' Meeting, after deducting the treasury shares already held by the Company. Purchases could not exceed the amount of undistributed earnings and available reserves reported in the most recently approved annual financial statements of the Parent Company. The authorisation to buy back treasury shares was for 18 months commencing from the date of the Shareholders' Meeting; the authorisation to dispose of treasury shares had no time limit.

The Shareholders' Meeting held on 13 April 2016 authorised a new share buy-back and disposal programme, and revoked the previous programme at the same time.

The new programme provides the opportunity to purchase, on one or more occasions, a maximum number of ordinary shares whose total must not exceed, at any one time, 10% of share capital, equating to 18,964,916 ordinary shares as at the date of the Shareholders' Meeting, after deducting the treasury shares already held by the Company. Purchases may not exceed the amount of undistributed earnings and available reserves reported in the most recently approved annual financial statements of the Parent Company. The authorisation to buy back treasury shares will last for 18 months commencing from the date of the Shareholders' Meeting; the authorisation to dispose of treasury shares has no time limit.

12. BORROWINGS FROM BANKS AND OTHER LENDERS

These are detailed as follows:

(in millions of Euro)

	31 December 2016		
	Non-current	Current	Total
Borrowings from banks and other financial institutions	72	156	228
Non-convertible bond	741	14	755
Convertible bond	288	1	289
Finance lease obligations	13	1	14
Total	**1,114**	**172**	**1,286**

(in millions of Euro)

	31 December 2015		
	Non-current	Current	Total
Borrowings from banks and other financial institutions	108	246	354
Non-convertible bond	740	14	754
Convertible bond	279	1	280
Finance lease obligations	14	1	15
Total	**1,141**	**262**	**1,403**

Borrowings from banks and other financial institutions and Bonds are analysed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
EBI Loan	75	92
Revolving Credit Facility 2014	50	50
Other borrowings	103	212
Borrowings from banks and other financial institutions	**228**	**354**
Non-convertible bond	755	754
Convertible bond	289	280
Total	**1,272**	**1,388**

The Group's principal credit agreements in place at the reporting date are as follows:

Syndicated Revolving Credit Facility 2014

On 27 June 2014, Prysmian S.p.A. signed an agreement (the "Credit Agreement 2014") under which a syndicate of premier banks made available a long-term credit facility for Euro 1,000 million (the "Syndicated Revolving Credit Facility 2014"). The facility, which expires on 27 June 2019, can also be used for the issue of guarantees. This new revolving facility was intended to refinance the existing facilities and the Group's other operating activities. As at 31 December 2016, this facility had not been drawn down.

Revolving Credit Facility 2014

On 19 February 2014, Prysmian S.p.A signed a credit agreement for Euro 100 million (the "Revolving Credit Facility 2014") with Mediobanca - Banca di Credito Finanziario S.p.A.. Under this five-year agreement, Mediobanca has provided the Group with a line of credit intended to refinance existing debt and working capital requirements.

As at 31 December 2016, the Revolving Credit Facility 2014 had been drawn down by Euro 50 million.

This facility was cancelled on 31 January 2017: further details can be found in Note 39. Subsequent events.

EIB Loan

On 18 December 2013, Prysmian S.p.A. entered into a loan agreement with the European Investment Bank (EIB) for Euro 100 million, to fund the Group's European research & development (R&D) programmes over the period 2013-2016.

The EIB Loan is particularly intended to support projects developed in the Group's R&D centres in six countries (France, Great Britain, the Netherlands, Spain, Germany and Italy) and represents about 50% of the Prysmian Group's planned investment expenditure in Europe during the period concerned.

The EIB Loan was received on 5 February 2014; it will be repaid in 12 equal half-yearly instalments starting on 5 August 2015 and ending on 5 February 2021.

Following repayment by instalment, the outstanding amount of the loan at 31 December 2016 was Euro 75 million.

The fair value of the EIB Loan at 31 December 2016 approximates the related carrying amount. Fair value has been determined using valuation techniques that refer to observable market data (Level 2 of the fair value hierarchy).

The following tables summarise the committed lines available to the Group at 31 December 2016 and 31 December 2015:

(in millions of Euro)

			31 December 2016
	Total lines	Drawn	Undrawn
Credit Agreements:			
Syndicated Revolving Credit Facility 2014	1,000	-	1,000
Total Credit Agreements	**1,000**	**-**	**1,000**
EBI Loan	75	(75)	-
Revolving Credit Facility 2014	100	(50)	50
Total	**1,175**	**(125)**	**1,050**

(in millions of Euro)

			31 December 2015
	Total lines	Drawn	Undrawn
Credit Agreements:			
Syndicated Revolving Credit Facility 2014	1,000	-	1,000
Total Credit Agreements	**1,000**	**-**	**1,000**
EBI Loan	92	(92)	-
Revolving Credit Facility 2014	100	(50)	50
Total	**1,192**	**(142)**	**1,050**

The Revolving Credit Facilities are intended to finance ordinary working capital requirements.

Bonds

The Prysmian Group had the following bonds outstanding as at 31 December 2016:

Non-convertible bond issued in 2015

On 30 March 2015 Prysmian S.p.A. completed the placement with institutional investors of an unrated bond, on the Eurobond market, for a total nominal value of Euro 750 million. The bond, with an issue price of Euro 99.002, has a 7-year maturity and a fixed annual coupon of 2.50%. The individual bonds, maturing on 11 April 2022, have minimum denominations of Euro 100,000, plus integral multiples of Euro 1,000.

The bond settlement date was 9 April 2015. The bond has been admitted to the Luxembourg Stock Exchange's official list and is traded on the related regulated market.

The fair value of the non-convertible bond is Euro 764 million at 31 December 2016. Fair value has been determined with reference to the quoted price in the relevant market (Level 1 of the fair value hierarchy).

Convertible bond

On 4 March 2013, the Board of Directors approved the placement of an Equity Linked Bond, referred to as "€300,000,000 1.25 per cent. Equity Linked Bonds due 2018", maturing on 8 March 2018 and reserved for institutional investors.

On 16 April 2013, the Shareholders' Meeting authorised the convertibility of the Bond at a value of Euro 22.3146 per share. As a result, the shareholders approved the proposal to increase share capital for cash, in single or multiple issues, with the exclusion of pre-emptive rights under art. 2441, par. 5 of the Italian Civil

Code, by a maximum nominal amount of Euro 1,344,411.30, by issuing, in single or multiple instalments, up to 13,444,113 ordinary shares of the Company with the same characteristics as its other outstanding ordinary shares.

The Company will be entitled to redeem the bonds early and in full in the circumstances detailed in the Bond's terms and conditions, in line with market practice, including:

(i) at nominal value (plus accrued interest), starting from 23 March 2016, if the trading price of the Company's ordinary shares rises to more than 130% of the conversion price in a given period of time;

(ii) at nominal value (plus accrued interest), if at least 85% of the original nominal amount of the Bond is converted, redeemed and/or repurchased;

(iii) at nominal value (plus accrued interest), if specific changes take place in the tax regime applying to the Bonds.

In the event of a change of control, every bondholder will be entitled to request early redemption at nominal value plus accrued interest.

The convertible Bond has a 5-year maturity ending on 8 March 2018 and pays a fixed annual coupon of 1.25%. The placement of the Bonds was completed on 8 March 2013, while their settlement took place on 15 March 2013.

On 3 May 2013, the Company sent a physical settlement notice to holders of the Bonds, granting them the right, with effect from 17 May 2013, to convert them into the Company's existing or new ordinary shares.

On 24 May 2013, the Bond was admitted to trading on the unregulated Third Market (a multilateral trading facility or MTF) on the Vienna Stock Exchange.

The accounting treatment for the convertible Bond has resulted in the recognition of an equity component of Euro 39 million and a debt component of Euro 261 million, determined at the bond issue date.

(in millions of Euro)	
Issue value of convertible bond	300
Equity reserve for convertible bond	(39)
Issue date net balance	**261**
Interest - non-monetary	29
Interest - monetary accrued	15
Interest - monetary paid	(13)
Related costs	(3)
Balance at 31 December 2016	**289**

The fair value of the convertible bond (equity component and debt component) is Euro 352 million at 31 December 2016 (Euro 337 million at 31 December 2015), of which the fair value of the debt component was Euro 278 million (Euro 287 million at 31 December 2015). In the absence of trading on the relevant market, fair value has been determined using valuation techniques that refer to observable market data (Level 2 of the fair value hierarchy).

Other borrowings from banks and financial institutions and Finance lease obligations

The following tables report movements in borrowings from banks and other lenders:

(in millions of Euro)

	Syndicated Revolving Credit Facility 2014	EBI Loan	Non-convertible bond	Convertible bond	Other borrowings/ Finance lease obligations [1]	Total
Balance at 31 December 2015	-	92	754	280	277	1,403
Business combinations	-	-	-	-	-	-
Reclassification to Liabilities held for sale	-	-	-	-	-	-
Currency translation differences	-	-	-	-	8	8
New funds	-	-	-	-	31	31
Repayments	-	(17)	-	-	(149)	(166)
Drawdown of revolving facilities	-	-	-	-	-	-
Amortisation of bank and financial fees and other expenses	-	-	1	1	-	2
Interest and other movements	-	-	-	8	-	8
Total movements	-	**(17)**	**1**	**9**	**(110)**	**(117)**
Balance at 31 December 2016	-	**75**	**755**	**289**	**167**	**1,286**

(in millions of Euro)

	Syndicated Revolving Credit Facility 2014	EBI Loan	Non-convertible bond	Convertible bond	Other borrowings / Finance lease obligations [1]	Total
Balance at 31 December 2014	398	101	415	272	199	1,385
Business combinations	-	-	-	-	87	87
Reclassification to Liabilities held for sale	-	-	-	-	(10)	(10)
Currency translation differences	-	-	-	-	(16)	(16)
New funds	-	-	739	-	38	777
Repayments	(400)	(8)	(400)	-	(41)	(849)
Drawdown of revolving facilities	-	-	-	-	20	20
Amortisation of bank and financial fees and other expenses	2	-	1	-	-	3
Interest and other movements	-	(1)	(1)	8	-	6
Total movements	**(398)**	**(9)**	**339**	**8**	**78**	**18**
Balance at 31 December 2015	-	**92**	**754**	**280**	**277**	**1,403**

[1] Includes the Revolving Credit Facility 2014.

Finance lease obligations represent the liability arising as a result of entering into finance leases. Finance lease obligations are reconciled with outstanding payments as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Due within 1 year	1	1
Due between 1 and 5 years	6	8
Due after more than 5 years	9	10
Minimum finance lease payments	**16**	**19**
Future interest costs	(2)	(4)
Finance lease obligations	**14**	**15**

Finance lease obligations are analysed by maturity as follows:

(in millions of Euro)	31 December 2016	31 December 2015
Due within 1 year	1	1
Due between 1 and 5 years	4	5
Due after more than 5 years	9	9
Total	**14**	**15**

The following tables provide a breakdown of borrowings from banks and other lenders by maturity and currency at 31 December 2016 and 2015:

(in millions of Euro)						31 December 2016
	Variable interest rate				Fixed interest rate	Total
	EUR	USD	GBP	Other currencies	Euro and other currencies	
Due within 1 year	70	19	-	22	61	172
Due between 1 and 2 years	17	-	-	-	299	316
Due between 2 and 3 years	17	-	-	-	3	20
Due between 3 and 4 years	17	-	-	-	1	18
Due between 4 and 5 years	9	-	-	-	1	10
Due after more than 5 years	8	-	-	-	742	750
Total	**138**	**19**	-	**22**	**1,107**	**1,286**
Average interest rate in period, as per contract	1.1%	2.9%		3.1%	3.1%	2.9%

(in millions of Euro)						31 December 2015
	Variable interest rate				Fixed interest rate	Total
	EUR	USD	GBP	Other currencies	Euro and other currencies	
Due within 1 year	82	10	-	94	76	262
Due between 1 and 2 years	17	-	-	-	18	35
Due between 2 and 3 years	17	4	-	-	288	309
Due between 3 and 4 years	17	-	-	-	3	20
Due between 4 and 5 years	17	-	-	-	1	18
Due after more than 5 years	17	-	-	-	742	759
Total	**167**	**14**	-	**94**	**1,128**	**1,403**
Average interest rate in period, as per contract	1.2%	2.3%		6.9%	3.1%	2.9%

Risks relating to sources of finance and to financial investments/receivables are discussed in the section entitled "Risks factors and uncertainties" forming part of the Directors' Report.

NET FINANCIAL POSITION

(in millions of Euro)

	Note	31 December 2016	31 December 2015
Long-term financial payables			
EBI Loan	12	58	75
Non-convertible bond	12	741	740
Convertible bond	12	288	279
Finance leases	12	13	14
Interest rate swaps	8	-	-
Other financial payables	12	14	33
Total long-term financial payables		**1,114**	**1,141**
Short-term financial payables			
Syndicated Revolving Credit Facility 2014	12	-	-
EBI Loan	12	17	17
Non-convertible bond	12	14	14
Convertible bond	12	1	1
Finance leases	12	1	1
Interest rate swaps	8	-	1
Forward currency contracts on financial transactions	8	1	3
Revolving Credit Facility 2014	12	50	50
Other financial payables	12	89	179
Total short-term financial payables		**173**	**266**
Total financial liabilities		**1,287**	**1,407**
Long-term financial receivables	5	2	1
Long-term bank fees	5	2	4
Forward currency contracts on financial transactions (current)	8	1	8
Short-term financial receivables	5	38	8
Short-term bank fees	5	2	2
Financial assets held for trading	7	59	87
Cash and cash equivalents	9	646	547
Net financial position		**537**	**750**

The following table presents a reconciliation of the Group's net financial position to the amount that must be reported under Consob Communication DEM/6064293 issued on 28 July 2006 and under the CESR recommendation dated 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses":

(in millions of Euro)

	Note	31 December 2016	31 December 2015
Net financial position - as reported above		**537**	**750**
Long-term financial receivables	5	2	1
Long-term bank fees	5	2	4
Net forward currency contracts on commercial transactions	8	9	8
Net metal derivatives	8	(16)	33
Recalculated net financial position		**534**	**796**

13. TRADE AND OTHER PAYABLES

These are detailed as follows:

(in millions of Euro)

			31 December 2016
	Non-current	Current	Total
Trade payables	-	1,498	1,498
Total trade payables	**-**	**1,498**	**1,498**
Other payables:			
Tax and social security payables	6	121	127
Advances from customers	-	377	377
Payables to employees	2	74	76
Accrued expenses	-	130	130
Other	10	173	183
Total other payables	**18**	**875**	**893**
Total	**18**	**2,373**	**2,391**

(in millions of Euro)

			31 December 2015
	Non-current	Current	Total
Trade payables	-	1,377	1,377
Total trade payables	**-**	**1,377**	**1,377**
Other payables:			
Tax and social security payables	4	105	109
Advances from customers	-	518	518
Payables to employees	-	70	70
Accrued expenses	-	129	129
Other	12	162	174
Total other payables	**16**	**984**	**1,000**
Total	**16**	**2,361**	**2,377**

Trade payables include around Euro 159 million (Euro 162 million at 31 December 2015) for the supply of strategic metals (copper, aluminium and lead), whose payment terms, in some cases, are longer than normal for this type of transaction.

Advances from customers report the liability for construction contracts, amounting to Euro 334 million at 31 December 2016 compared with Euro 452 million at 31 December 2015. This liability represents the gross amount by which work invoiced exceeds costs incurred plus accumulated profits (or losses) recognised using the percentage of completion method.

The following table breaks down trade and other payables according to the currency in which they are expressed:

(in millions of Euro)

	31 December 2016	31 December 2015
Euro	1,049	1,181
US Dollar	422	262
British Pound	207	222
Turkish Lira	2	144
Qatari Riyal	114	135
Chinese Renminbi (Yuan)	141	128
Brazilian Real	87	90
Australian Dollar	36	35
Romanian Leu	27	34
Omani Rial	43	32
Canadian Dollar	14	14
Swedish Krona	21	12
Malaysian Ringgit	6	10
Other currencies	222	78
Total	**2,391**	**2,377**

14. PROVISIONS FOR RISKS AND CHARGES

These are detailed as follows:

(in millions of Euro)

			31 December 2016
	Non-current	Current	Total
Restructuring costs	3	33	36
Contractual and legal risks	17	236	253
Environmental risks	-	7	7
Tax inspections	6	19	25
Contingent liabilities	3	3	6
Other risks and charges	11	41	52
Total	**40**	**339**	**379**

(in millions of Euro)

			31 December 2015
	Non-current	Current	Total
Restructuring costs	-	32	32
Contractual and legal risks	13	197	210
Environmental risks	-	6	6
Tax inspections	15	8	23
Contingent liabilities	3	4	7
Other risks and charges	21	28	49
Total	**52**	**275**	**327**

The following table reports the movements in these provisions during the period:

(in millions of Euro)	Restructuring costs	Contractual and legal risks	Environmental risks	Tax inspections	Contingent liabilities	Other risks and charges	Total
Balance at 31 December 2015	**32**	**210**	**6**	**23**	**7**	**49**	**327**
Business combinations	2	-	-	-	-	-	2
Increases	28	83	1	11	-	13	136
Utilisations	(25)	(30)	-	(5)	-	(13)	(73)
Releases	(2)	(11)	-	(6)	-	(2)	(21)
Currency translation differences	-	(4)	-	1	-	(1)	(4)
Other	1	5	-	1	(1)	6	12
Total movements	**4**	**43**	**1**	**2**	**(1)**	**3**	**52**
Balance at 31 December 2016	**36**	**253**	**7**	**25**	**6**	**52**	**379**

The provision for restructuring costs reports an overall net increase of Euro 4 million.
In particular, Euro 28 million in new provisions have been recognised during the period, while Euro 25 million has been utilised, mostly in connection with projects underway in the Netherlands, Italy, France and Germany.

The provision for contractual and legal risks, amounting to Euro 253 million at 31 December 2016, reports a net increase of Euro 43 million since 31 December 2015, mainly in connection with probable risks on contracts in the South Europe region.
This provision also includes the provision for the antitrust investigations discussed in the following paragraphs.

Antitrust – European Commission Proceedings in the high voltage underground and submarine cables business
The European Commission started an investigation in late January 2009 into several European and Asian electrical cable manufacturers to verify the existence of alleged anti-competitive practices in the high voltage underground and submarine cables markets. On 2 April 2014, the European Commission adopted a decision under which it found that, between 18 February 1999 and 28 January 2009, the world's largest cable producers, including Prysmian Cavi e Sistemi S.r.l., adopted anti-competitive practices in the European market for high voltage submarine and underground power cables. The European Commission held Prysmian Cavi e Sistemi S.r.l. jointly liable with Pirelli & C. S.p.A. for the alleged infringement in the period 18 February 1999 - 28 July 2005, sentencing them to pay a fine of Euro 67.3 million, and it held Prysmian Cavi e Sistemi S.r.l. jointly liable with Prysmian S.p.A. and The Goldman Sachs Group Inc. for the alleged infringement in the period 29 July 2005 - 28 January 2009, sentencing them to pay a fine of Euro 37.3 million. Prysmian has filed an appeal against this decision with the General Court of the European Union along with an application to intervene in the appeals respectively lodged by Pirelli & C. S.p.A. and The Goldman Sachs Group Inc. against the same decision. Both Pirelli & C. S.p.A. and The Goldman Sachs Group Inc. have in turn submitted applications to intervene in the appeal brought by Prysmian against the European Commission's decision. The applications to intervene presented by Prysmian, Pirelli and The Goldman Sachs Group Inc. have been accepted by the General Court of the European Union. Prysmian has not

incurred any financial outlay as a result of this decision having elected, pending the outcome of the appeals, to provide bank guarantees as security against payment of 50% of the fine imposed by the European Commission (amounting to approximately Euro 52 million) for the alleged infringement in both periods. As far as Prysmian is aware, Pirelli & C. S.p.A. has also provided the European Commission with a bank guarantee for 50% of the value of the fine imposed for the alleged infringement in the period 18 February 1999 - 28 July 2005. The hearing of oral arguments in the appeal brought by Prysmian against the European Commission's decision of April 2014 has been scheduled for 20 March 2017, while the hearings of oral arguments in the appeals brought by Pirelli & C. SpA and The Goldman Sachs Group Inc. against the same decision of the European Commission in April 2014 have been scheduled for 22 and 28 March 2017 respectively. Pirelli & C. S.p.A. has also brought a civil action against Prysmian Cavi e Sistemi S.r.l. in the Milan Courts, in which it demands to be held harmless for all claims made by the European Commission in implementation of its decision and for any expenses related to such implementation. Prysmian Cavi e Sistemi S.r.l. started legal proceedings in February 2015, requesting that the claims brought by Pirelli & C. S.p.A. be rejected in full and that it should be Pirelli & C. S.p.A. which holds harmless Prysmian Cavi e Sistemi S.r.l., with reference to the alleged infringement in the period 18 February 1999 - 28 July 2005, for all claims made by the European Commission in implementation of its decision and for any expenses related to such implementation. The proceedings have since been stayed by order of the court concerned in April 2015, pending the outcome of the appeals made against the European Commission's decision by both Prysmian and Pirelli in the European Courts. Pirelli has challenged this decision before the Court of Cassation, Italy's highest court of appeal, which has confirmed the stay of execution ordered by the Milan Courts.

Antitrust – Other proceedings in the high voltage underground and submarine cables business in jurisdictions other than the European Union

The US Department of Justice and the Japan Fair Trade Commission started similar investigations in late January 2009 into several European and Asian electrical cable manufacturers to verify the existence of alleged anti-competitive practices in the high voltage underground and submarine cables markets. Subsequently, the Australian Competition and Consumers Commission ("ACCC") and the New Zealand Commerce Commission also started similar investigations. During 2011, the Canadian antitrust authority also started an investigation into a high voltage submarine project dating back to 2006. The investigations in Japan, New Zealand, Canada and the United States have all ended without any sanctions for Prysmian; the other investigations are still in progress.

In Australia, the ACCC has filed a case before the Federal Court arguing that Prysmian Cavi e Sistemi S.r.l. and two other companies violated antitrust rules in connection with a high voltage underground cable project awarded in 2003. Prysmian Cavi e Sistemi S.r.l. has filed its objections and presented its preliminary defence. A ruling issued in July 2016 has held the company liable for violation of Australian antitrust law with regard to this project, without however quantifying the applicable penalty, which will be determined upon completion of the second stage of these proceedings. The company is reviewing the contents of this ruling in detail in order to assess whether there are possible grounds for appeal. The hearing of oral arguments took place on 1 December in connection with the amount of the penalty to impose on Prysmian Cavi e Sistemi S.r.l.at the end of which the judge reserved passing judgement.

In Brazil, the local antitrust authority has started an investigation into several cable manufacturers, including Prysmian, that operate in the high voltage underground and submarine cables market. Prysmian has presented its preliminary defence, which was rejected by the local competition authorities in a statement issued in February 2015. The preliminary stage of the proceedings will now ensue, at the end of which the authorities will publish their concluding observations, to which the parties may respond with all their arguments in defence before a final decision is taken.

Antitrust - Claims for damages as a result of the European Commission's 2014 decision

During 2015, National Grid and Scottish Power, two British operators, filed claims in the High Court in London against certain cable manufacturers, including Prysmian Group, to obtain compensation for damages purportedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014. The Group companies concerned were notified of this initial court filing during the month of May 2015 and presented their defence early in October 2015, along with the summons of other parties censured in the European Commission's decision. Among the parties involved in this action, Pirelli & C. S.p.A. has requested the London High Court to decline its jurisdiction or nonetheless to stay the proceedings in its regard pending the outcome of the civil action previously brought by Pirelli against Prysmian Cavi e Sistemi S.r.l. in the Milan Courts, in which it demands to be held harmless for all claims made by the European Commission in implementation of the latter's decision and for any expenses related to such implementation. The proceedings have since been stayed, as agreed between the parties, pending the outcome of the action brought by Pirelli in the Milan Courts. A similar agreement has also been reached with The Goldman Sachs Group Inc., another company involved in the actions discussed above. The other actions brought by Prysmian Group companies against other cable producers censured in the European Commission decision have in turn been suspended pending the outcome of the main action brought by National Grid and Scottish Power.

In addition, during 2016 other operators presented claims against Prysmian S.p.A. and some of its subsidiaries, either directly or through lawyers, in order to obtain compensation for an unquantified amount of damages, allegedly suffered as a result of Prysmian's participation in the anti-competitive practices condemned by the European Commission in its decision of April 2014. Based on the information currently available, the Directors are of the opinion not to make any provision.

Antitrust – Other investigations

The Australian and Spanish antitrust authorities have respectively initiated additional proceedings to verify the existence of anti-competitive practices by local low voltage cable manufacturers and distributors, including some of the Group's foreign subsidiaries based in these countries. As regards the judicial proceedings initiated by the Australian antitrust authorities, the hearing, which began at the end of November 2015, has been completed and a ruling is now awaited. As for the Spanish administrative proceedings, these were initiated at the end of February 2016 by the local competent authority, which has subsequently sent a statement of objections to some of the Group's local subsidiaries.

As at 31 December 2016, the provision for the above Antitrust investigations amounts to approximately Euro 147 million.
Despite the uncertainty of the outcome of the investigations in progress and potential legal action by customers as a result of the European Commission's decision, the amount of this provision is considered to represent the best estimate of the liability based on the information now available.

In addition, during August 2015, two employees of a foreign subsidiary were the subject of court orders by the local authorities as part of an investigation into alleged misappropriation at the subsidiary's expense. Following this notification, the Group instructed its advisors to review and assess a number of areas of potential risk and critical situations arising from possible breaches of internal procedures. Although an exact quantification of the risks is not possible, the Directors believe, based on the results of the above work to date, that any liabilities triggered by such situations would nevertheless not be material for the Group.

15. EMPLOYEE BENEFIT OBLIGATIONS

The Group provides a number of post-employment benefits through programmes that include defined benefit plans and defined contribution plans.
The defined contribution plans require the Group to pay, under legal or contractual obligations, contributions into public or private insurance institutions. The Group fulfils its obligations through payment of the contributions. At the financial reporting date, any amounts accrued but not yet paid to the above institutions are recorded in "Other payables", while the related costs, accrued on the basis of employee service, are recognised in "Personnel costs".
The defined benefit plans mainly refer to Pension plans, Employee indemnity liability (for Italian companies), Medical benefit plans and other benefits such as seniority bonuses.
The liabilities arising from these plans, net of any assets serving such plans, are recognised in Employee benefit obligations and are measured using actuarial techniques.

Employee benefit obligations are analysed as follows:

(in millions of Euro)

	31 December 2016	31 December 2015
Pension plans	298	258
Employee indemnity liability (Italian TFR)	19	20
Medical benefit plans	29	26
Termination and other benefits	37	37
Incentive plans	-	-
Total	**383**	**341**

Pension plan amendments in 2016

With regard to significant amendments to existing pension plans, it is reported that during 2016 the Prysmian Cables and Systems Pension Plan - Hourly Employees plans were transferred in the USA and Canada respectively, while, further to the acquisition of the data cables business from Corning Optical Communications Gmbh & Co. KG., the relevant pension plans of this company were also acquired.

PENSION PLANS

Pension plans relate to defined benefit pension schemes that can be "Funded" and "Unfunded".

Pension plan liabilities are generally calculated according to employee length of service with the company and the remuneration paid in the period preceding cessation of employment.

Liabilities for "Funded pension plans" are funded by contributions made by the employer and, in some cases, by employees, into a separately managed pension fund. The fund independently manages and administers the amounts received, investing in financial assets and paying benefits directly to employees. The Group's contributions to such funds are defined according to the legal requirements established in individual countries.

Liabilities for "Unfunded pension plans" are managed directly by the employer who sees to providing the benefits to employees. These plans have no assets to cover the liabilities.

At 31 December 2016, the most significant plans in terms of accrued employee benefit liabilities are those managed in the following countries:

- Germany;
- Great Britain;
- France.

Pension plans in the above countries account for approximately 90% of the related liability. The principal risks to which they are exposed are described below:

Germany

There are thirteen pension plans in Germany. These are mostly final salary plans in which the retirement age is generally set at 65. Although most plans are closed to new members, additional costs may need to be recognised in the future. As at 31 December 2016, the plans had an average duration of 15.5 years (15.4 years at 31 December 2015).

Total plan membership is made up as follows:

	31 December 2016	31 December 2015
	Number of participants	Number of participants
Active	978	923
Deferred	963	1,019
Pensioners	1,862	1,795
Total membership	**3,803**	**3,737**

The German plans do not have any assets that fund the liabilities, in line with the practice in this country; the Prysmian Group pays these benefits directly.

The benefits payable in 2017 will amount to Euro 6 million (the same as in 2016).

The increase in benefits, and so in the recorded liability and in service costs, will mainly depend on inflation, salary growth and the life expectancy of plan members. Another variable to consider when determining the amount of the liability and of service costs is the discount rate, identified by reference to market yields of AA corporate bonds denominated in Euro.

Great Britain

Two defined benefit plans were in operation at 31 December 2016: the Draka pension fund and the Prysmian pension fund. Both are final salary plans, in which the retirement age is generally set at 65 for the majority of plan participants. Neither plan has admitted any new members or accrued any new liabilities since 2013. Currently all employees participate in defined contribution plans.

As at 31 December 2016, the plans had an average duration of approximately 20.8 years (approximately 19.8 years at 31 December 2015).

Total plan membership is made up as follows:

			31 December 2016			31 December 2015
	Draka pension fund	Prysmian pension fund	Total	Draka pension fund	Prysmian pension fund	Total
	Number of participants	Number of participants	Number of participants	Number of participants	Number of participants	Number of participants
Active	-	-	N/A	N/A	N/A	N/A
Deferred	504	555	1,059	527	582	1,109
Pensioners	452	373	825	438	352	790
Total membership	**956**	**928**	**1,884**	**965**	**934**	**1,899**

Both plans operate under trust law and are managed and administered by a Board of Trustees on behalf of members and in accordance with the terms of the Trust Deed and Rules and current legislation. The assets that fund the liabilities are held by the Trust, for both plans.

For the purposes of determining the level of funding, the Trustees appoint an actuary to value the plans every three years, with annual updates. The latest valuations of the Draka pension fund and the Prysmian pension fund were conducted as at 31 March 2016 and 31 December 2014 respectively.

Even the contribution levels are set every three years at the time of performing the valuation to determine the level of plan funding. Currently, the contribution levels are set at Euro 3.4 million a year for the Draka pension fund (Euro 3.3 million at 31 December 2015) and Euro 0.2 million a year for the Prysmian pension fund (unchanged since the prior year).

The Trustees decide on the investment strategy in agreement with the company. The strategies differ for both plans. In particular, the Draka pension fund has invested a larger proportion of its assets in equities; the fund's investment split is as follows: 18% in equities, 41% in bonds and 41% in other financial instruments. The Prysmian pension fund has invested its assets as follows: 44% in bonds and the remaining 56% in other financial instruments.

The main risk for the Prysmian Group in Great Britain is that mismatches between the expected return and the actual return on plan assets would require contribution levels to be revised.

The liabilities and service costs are sensitive to the following variables: life expectancy of plan participants and future growth in benefit levels. Another variable to consider when determining the amount of the liability is the discount rate, identified by reference to market yields of AA corporate bonds denominated in GB pounds.

France

There were five pension plans in operation in France at 31 December 2016, of which four are unfunded retirement benefit plans and one is a funded plan.

All the plans generally set the retirement age at 63. All the plans are open to new members, except for the funded plan which does not admit new members or accrue new liabilities. As at 31 December 2016, the plans had an average duration of approximately 10.3 years (10.5 years at 31 December 2015).

Total plan membership is made up as follows:

	31 December 2016	31 December 2015
	Number of participants	Number of participants
Active	1,765	1,807
Deferred	N/A	N/A
Pensioners	24	24
Total membership	**1,789**	**1,831**

In the case of the unfunded plans, the company pays the amount accrued when employees leave the company.

The principal risk for the Prysmian Group in France is salary growth, which affects the benefits that the company has to pay the employee. The benefits vest only upon attaining retirement age; consequently, the cost to the company will depend on the probability that an employee does not leave the company before that date. There are no life expectancy risks relating to these plans. The liabilities and service costs are sensitive to the following variables: inflation, salary growth, life expectancy of plan participants and the discount rate, identified by reference to market yields of AA corporate bonds denominated in Euro.

The main risks for the funded plan are connected to inflation and life expectancy, both of which affect contribution levels. The plan's assets are entirely invested in insurance funds, whose main risk is that a mismatch between the expected return and the actual return on plan assets would require contribution levels to be revised.

Pension plan obligations and assets are analysed as follows at 31 December 2016 and 31 December 2015:

(in millions of Euro)

					31 December 2016
	Germany	Great Britain	France	Other countries	Total
Funded pension obligations:					
Present value of obligation	-	214	4	57	275
Fair value of plan assets	-	(125)	(3)	(49)	(177)
Asset ceiling	-	-	-		-
Unfunded pension obligations:					
Present value of obligations	165	-	23	12	200
Total	**165**	**89**	**24**	**20**	**298**

(in millions of Euro)

					31 December 2015
	Germany	Great Britain	France	Other countries	Total
Funded pension obligations:					
Present value of obligation	-	196	3	74	273
Fair value of plan assets	-	(134)	(3)	(62)	(199)
Asset ceiling	-	-	-	(1)	(1)
Unfunded pension obligations:					
Present value of obligations	154	-	21	10	185
Total	**154**	**62**	**21**	**21**	**258**

At 31 December 2016, "Other countries" mainly refer to:

- United States: funded pension obligations have a present value of Euro 29 million compared with a fair value of Euro 22 million for plan assets;
- Netherlands: funded pension obligations have a present value of Euro 26 million compared with a fair value of Euro 26 million for plan assets;
- Sweden: unfunded pension obligations have a present value of Euro 7 million;
- Norway: unfunded pension obligations have a present value of Euro 2 million.

Changes during the year in pension plan obligations are analysed as follows:

(in millions of Euro)

	2016	2015
Opening defined benefit obligation	**457**	**466**
Business combinations	4	-
Current service costs	3	2
Interest costs	13	14
Plan participants' contributions	-	-
Administrative costs and taxes	-	-
Actuarial (gains)/losses recognised in equity - Salary increase assumptions	(5)	(3)
Actuarial (gains)/losses recognised in equity - Demographic assumptions	-	(3)
Actuarial (gains)/losses recognised in equity - Financial assumptions	67	(15)
Disbursements from plan assets	(10)	(11)
Disbursements paid directly by the employer	(8)	(8)
Plan settlements	(16)	1
Currency translation differences	(29)	14
Reclassifications and legislative amendments to existing plans	(1)	-
Total movements	**19**	**(9)**
Closing defined benefit obligation	**475**	**457**

Changes during the year in pension plan assets are analysed as follows:

(in millions of Euro)

	2016	2015
Opening plan assets	**199**	**191**
Business combinations	-	-
Interest income on plan assets	6	7
Actuarial gains/(losses) recognised in equity	10	(2)
Contributions paid in by the employer	14	13
Contributions paid in by plan participants	-	-
Disbursements	(18)	(20)
Plan settlements	(16)	-
Currency translation differences	(18)	10
Total movements	**(22)**	**8**
Closing plan assets	**177**	**199**

At 31 December 2016, pension plan assets consisted of equities (14.4% versus 12.7% in 2015), government bonds (18.6% versus 19.6% in 2015), corporate bonds (18.1% versus 20.1% in 2015), and other assets (45.2% versus 47.6% in 2015).

Movements in the asset ceiling over the period are as follows:

(in millions of Euro)

	2016	2015
Opening asset ceiling	**(1)**	-
Interest costs	-	-
Changes in assets recognised in equity	1	(1)
Currency translation differences	-	-
Total movements	**1**	**(1)**
Closing asset ceiling	-	**(1)**

Pension plan costs recognised in the income statement are analysed as follows:

(in millions of Euro)

					2016
	Germany	Great Britain	France	Other countries	Total
Personnel costs	1	-	-	-	1
Interest costs	3	7	2	2	14
Expected returns on plan assets	-	(5)	-	(1)	(6)
Total pension plan costs	**4**	**2**	**2**	**1**	**9**

(in millions of Euro)

					2015
	Germany	Great Britain	France	Other countries	Total
Personnel costs	1	-	1	1	3
Interest costs	3	8	1	2	14
Expected returns on plan assets	-	(5)	-	(2)	(7)
Total pension plan costs	**4**	**3**	**2**	**1**	**10**

More details can be found in Note 21. Personnel costs.

The weighted average actuarial assumptions used to value the pension plans are as follows:

						31 December 2016
	Germany		Great Britain		France	
Interest rate	1.72%		2.60%		1.00%	
Expected future salary increase	1.75%		N/A		1.75%	
Expected increase in pensions	1.75%		3.50%		1.75%	
Inflation rate	2.75%		N/A		N/A	
Life expectancy at age 65:	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
People currently aged 65	19.76	23.82	22.20	24.20	24.16	27.63
People currently aged 50	21.76	25.72	23.40	25.60	26.23	29.84

						31 December 2015
	Germany		Great Britain		France	
Interest rate	2.22%		3.80%		1.50%	
Expected future salary increase	1.75%		N/A		1.75%	
Expected increase in pensions	1.75%		3.30%		1.75%	
Inflation rate	1.75%		N/A		N/A	
Life expectancy at age 65:	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
People currently aged 65	19.63	23.69	22.10	24.10	24.16	27.63
People currently aged 50	21.63	25.60	23.30	25.50	26.23	29.84

The following table presents a sensitivity analysis of the effects of an increase/decrease in the most significant actuarial assumptions used to determine the present value of benefit obligations, namely the interest rate, inflation rate and life expectancy.

Inflation rate sensitivity includes those effects relating to assumptions about salary increases and increases in benefits.

						31 December 2016
	Germany		Great Britain		France	
Interest rate	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**
Change in pension plans	7.82%	-7.07%	10.73%	-9.38%	5.25%	-4.77%
Inflation rate	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**
Change in pension plans	-2.99%	2.83%	-3.70%	3.84%	-3.27%	3.43%

			31 December 2016
	Germany	Great Britain	France
1-year increase in life expectancy	N/A	N/A	1.41%

						31 December 2015
	Germany		Great Britain		France	
Interest rate	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**
Change in pension plans	7.70%	-6.96%	10.02%	-8.82%	5.49%	-5.01%
Inflation rate	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**
Change in pension plans	-2.24%	3.83%	-3.76%	3.84%	-3.05%	3.19%

			31 December 2015
	Germany	Great Britain	France
1-year increase in life expectancy	4.96%	2.87%	1.41%

EMPLOYEE INDEMNITY LIABILITY

Employee indemnity liability refers to Italian companies only and is analysed as follows:

(in millions di Euro)

	2016	2015
Opening balance	**20**	**24**
Personnel costs	1	-
Interest costs	-	-
Actuarial (gains)/losses recognised in equity	1	(1)
Disbursements	(3)	(3)
Total movements	**(1)**	**(4)**
Closing balance	**19**	**20**

The net actuarial gains recognised at 31 December 2016 (Euro 1 million) mainly relate to the change in the associated economic parameters (the discount and inflation rates).

Under Italian law, the amount due to each employee accrues with service and is paid when the employee leaves the company. The amount due upon termination of employment is calculated on the basis of the length of service and the taxable remuneration of each employee. The liability is adjusted annually for the official cost of living index and statutory interest, and is not subject to any vesting conditions or periods, or any funding obligation; there are therefore no assets that fund this liability.

The benefits relating to this plan are paid to participants in the form of capital, in accordance with the related rules. The plan also allows partial advances to be paid against the full amount of the accrued benefit in specific circumstances.

The main risk is the volatility of the inflation rate and the interest rate, as determined by the market yield on AA corporate bonds denominated in Euro. Another risk factor is the possibility that members leave the plan or that higher advance payments than expected are requested, resulting in an actuarial loss for the plan, due to an acceleration of cash flows.

The actuarial assumptions used to value employee indemnity liability are as follows:

	31 December 2016	31 December 2015
Interest rate	1.25%	1.75%
Expected future salary increase	0.00%	1.75%
Inflation rate	1.50%	1.75%

The following table presents a sensitivity analysis of the effects of an increase/decrease in the most significant actuarial assumptions used to determine the present value of benefit obligations, namely the interest rate and inflation rate:

		31 December 2016		31 December 2015
Interest rate	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**
Change in employee indemnity liability	5.26%	-4.98%	5.19%	-4.86%
Inflation rate	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**
Change in employee indemnity liability	-1.59%	1.62%	-1.60%	1.62%

MEDICAL BENEFIT PLANS

Some Group companies provide medical benefit plans for retired employees. In particular, the Group finances medical benefit plans in Brazil, Canada and the United States. The plans in the United States account for approximately 90% of the total obligation for medical benefit plans (unchanged since 31 December 2015).

Apart from interest rate and life expectancy risks, medical benefit plans are particularly susceptible to increases in the cost of meeting claims. None of the medical benefit plans has any assets to fund the associated obligations, with benefits paid directly by the employer.

As noted earlier, the US medical benefit plans account for the majority of the benefit obligation. These plans are not subject to the same level of legal protection as pension plans. Currently the new reform has had no impact on liabilities and costs.

The obligation in respect of medical benefit plans is analysed as follows:

(in millions of Euro)

	2016	2015
Opening balance	**25**	**25**
Business combinations	-	-
Personnel costs	2	2
Interest costs	-	-
Plan settlements	-	-
Actuarial (gains)/losses recognised in equity - Salary increase assumptions	1	(3)
Actuarial (gains)/losses recognised in equity - Demographic assumptions	-	-
Actuarial (gains)/losses recognised in equity - Financial assumptions	-	-
Reclassifications	-	-
Disbursements	(1)	(1)
Currency translation differences	1	2
Total movements	**3**	**-**
Closing balance	**28**	**25**

The actuarial assumptions used to value medical benefit plans are as follows:

	31 December 2016		31 December 2015	
Interest rate	4.33%		4.68%	
Expected future salary increase	5.00%		2.37%	
Increase in claims	5.27%		5.20%	
Life expectancy at age 65:	**Male**	**Female**	**Male**	**Female**
People currently aged 65	21.46	23.37	21.84	23.77
People currently aged 50	22.62	24.48	22.67	24.81

The following table presents a sensitivity analysis of the effects of an increase/decrease in the most significant actuarial assumptions used to determine the present value of benefit obligations, such as the interest rate, inflation rate/growth in medical care costs and life expectancy.

		31 December 2016		31 December 2015
Interest rate	decrease -0.50%	increase +0.50%	decrease -0.50%	increase +0.50%
Change in medical benefit plans	8.74%	-7.81%	+8.78%	-7.73%
Medical inflation rate	decrease -0.25%	increase +0.25%	decrease -0.25%	increase +0.25%
Change in medical benefit plans	-4.76%	5.13%	-4.42%	+4.83%

	31 December 2016	31 December 2015
1-year increase in life expectancy	+4.26%	+4.08%

OTHER INFORMATION

Contributions to and payments of employee benefit obligations in 2017 will respectively amount to Euro 4 million (of which Euro 4 million in Great Britain) and Euro 14 million (of which Euro 9 million in Germany).

Headcount

Average headcount in the period is reported below, compared with closing headcount at the end of each period:

				2016
	Average	%	Closing	%
Blue collar	14,928	75%	15,346	75%
White collar and management	4,935	25%	5,147	25%
Total	**19,863**	**100%**	**20,493**	**100%**
				2015
	Average	%	Closing	%
Blue collar	14,720	75%	14,417	75%
White collar and management	4,880	25%	4,899	25%
Total	**19,600**	**100%**	**19,316**	**100%**

The headcount reported for Oman Cables Industry (SAOG) at 31 December 2016 is 880 and refers solely to the closing figure at that date.

16. DEFERRED TAXES

These are detailed as follows:

(in millions of Euro)	31 December 2016	31 December 2015 (*)
Deferred tax assets:		
- Deferred tax assets recoverable after more than 12 months	87	53
- Deferred tax assets recoverable within 12 months	43	58
Total deferred tax assets	**130**	**111**
Deferred tax liabilities:		
- Deferred tax liabilities reversing after more than 12 months	(89)	(73)
- Deferred tax liabilities reversing within 12 months	(22)	(41)
Total deferred tax liabilities	**(111)**	**(114)**
Total net deferred tax assets (liabilities)	**19**	**(3)**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

Movements in deferred taxes are analysed as follows:

(in millions of Euro)	Fixed assets	Provisions [1]	Tax losses	Other	Total
Balance at 31 December 2014	**(143)**	**119**	**62**	**24**	**62**
Business combinations	(11)	-	-	(23)	(34)
Currency translation differences	(3)	(3)	(1)	-	(7)
Impact on income statement	26	(9)	(8)	(30)	(21)
Impact on equity	-	(4)	-	(1)	(5)
Other and reclassifications	-	-	-	2	2
Balance at 31 December 2015 (*)	**(131)**	**103**	**53**	**(28)**	**(3)**
Business combinations	-	-	-	(2)	(2)
Currency translation differences	(1)	-	-	4	3
Impact on income statement	4	4	1	(2)	7
Impact on equity	-	10	-	2	12
Other and reclassifications	-	-	-	2	2
Balance at 31 December 2016	**(128)**	**117**	**54**	**(24)**	**19**

(*) The figures presented in the consolidated statement of financial position published and approved by the Shareholders' Meeting on 13 April 2016 have been restated due to revision of the purchase price allocation for Oman Cables Industry (SAOG), conducted in accordance with the procedures and timing established by *IFRS 3 - Business Combinations*. Further details can be found in Section C. Restatement of comparative figures.

(1) These comprise Provisions for risks and charges (current and non-current) and Employee benefit obligations.

Although the Group has not recognised any deferred tax assets on Euro 671 million in carryforward tax losses at 31 December 2016 (Euro 691 million at 31 December 2015), it has recognised deferred tax assets on Euro 151 million in tax losses at this same date (Euro 184 million at 31 December 2015). Unrecognised deferred tax assets relating to the above carryforward tax losses and to deductible temporary differences amount to Euro 216 million at 31 December 2016 (Euro 235 million at 31 December 2015).

The following table presents details of carryforward tax losses:

(in millions of Euro)	31 December 2016	31 December 2015
Carryforward tax losses	822	875
of which recognised as assets	151	184
Carryforward expires within 1 year	6	21
Carryforward expires between 2-5 years	155	168
Carryforward expires beyond 5 years	118	28
Unlimited carryforward	543	656

17. SALES OF GOODS AND SERVICES

These are detailed as follows:

(in millions of Euro)	2016	2015
Finished goods	5,902	5,829
Construction contracts	1,254	1,057
Services	59	63
Other	352	412
Total	**7,567**	**7,361**

18. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED GOODS

This is detailed as follows:

(in millions of Euro)	2016	2015
Finished goods	(17)	(48)
Work in progress	(31)	4
Total	**(48)**	**(44)**

19. OTHER INCOME

This is detailed as follows:

(in millions of Euro)	2016	2015
Rental income	1	1
Insurance reimbursements and indemnities	7	3
Gains on disposal of property	3	1
Other income	64	99
Total	**75**	**104**

Other income in 2016 includes Euro 14 million for the capital gain on the disposal of the equity interest in the subsidiary Prysmian Baosheng Cable Co. Ltd, Euro 4 million for the badwill arising on the acquisition of the data cables business from Corning Optical Communications Gmbh & Co. KG. and Euro 4 million for the release of the earn-out relating to the acquisition of Gulf Coast Downhole Technologies. Other income in 2015 included Euro 44 million from the revaluation of the Group's existing interest in Oman Cables Industry SAOG after acquiring an additional stake in this company.

20. RAW MATERIALS, CONSUMABLES USED AND GOODS FOR RESALE

These are detailed as follows:

(in millions of Euro)

	2016	2015
Raw materials	4,364	4,457
Change in inventories	23	27
Total	**4,387**	**4,484**

21. PERSONNEL COSTS

Personnel costs are detailed as follows:

(in millions of Euro)

	2016	2015
Wages and salaries	767	735
Social security	144	145
Fair value - stock options	49	25
Pension plans	1	3
Employee indemnity costs	1	-
Medical benefit costs	2	1
Termination and other benefits	4	-
Other personnel costs	56	58
Medium/long-term incentive plans	1	1
Company reorganisation	31	33
Total	**1,056**	**1,001**

Share-based payments

At 31 December 2016 and 31 December 2015, the Prysmian Group had share-based compensation plans in place for managers and employees of Group companies and for members of the Parent Company's Board of Directors. These plans are described below.

Group employee share purchase plan (YES Plan)

The third quarter of 2016 saw the conclusion of the first share purchase plan reserved for employees of Prysmian S.p.A. and/or its subsidiaries that had been approved by the shareholders on 16 April 2013.

The Plan was intended to strengthen the sense of belonging to the Group, to align the interests of the Prysmian Group's stakeholders (its employees and shareholders), and to help consolidate the integration process started after acquiring the Draka Group.

The Plan offered the opportunity to purchase Prysmian's ordinary shares on preferential terms, with a maximum discount of 25% on the stock price, given in the form of treasury shares, except for certain managers, for whom the discount was 15%, and the executive Directors and key management personnel, for whom the discount was 1% on the stock price. The Plan envisaged three purchase windows in the years 2014, 2015 and 2016.

The Plan therefore qualified as "of particular relevance" within the meaning of art. 84-bis, par. 2 of the Issuer Regulations.

A maximum number of 500,000 treasury shares were earmarked to serve the discounted purchases envisaged by the Plan.
The sum collected in April 2014 for the first window, totalling Euro 6.4 million, was used to make purchases of the Company's ordinary shares on the Milan Stock Exchange over a period of 5 consecutive business days in May 2014. The number of treasury shares allotted to each participant was determined by taking into account the average share purchase price (Euro 16.2629), the individual investment and the applicable discount. On 9 June 2014, an additional purchase window was opened for plan participants in the "Manager" category who had already bought shares in the purchase window in May and who were so entitled under the plan's regulations. Managers opting to participate in this additional window were able to buy an additional quantity of shares at a 25% discount. The total amount collected in this additional window was Euro 0.7 million and the average share purchase price (July 2014) was Euro 16.3585, taking account of the individual investment and the applicable discount.

The total amount collected in February 2015 for the second window was used to make purchases of the Company's shares on the Milan Stock Exchange over a period of five consecutive business days in July 2015. The number of treasury shares allotted to each participant was determined by taking into account the average share purchase price (Euro 18.8768), the individual investment and the applicable discount. On 25 August 2015, an additional purchase window was opened for plan participants in the "Manager" category. The total amount collected in this window was Euro 0.6 million and the average share purchase price (September 2015) was Euro 18.8988, taking account of the individual investment and the applicable discount.

The total amount collected for the third window was used to make purchases of the Company's shares on the Milan Stock Exchange over a period of five consecutive business days in July 2016. The number of treasury shares allotted to each participant was determined by taking into account the average share purchase price (Euro 19.1027), the individual investment and the applicable discount. On 29 August 2016, an additional purchase window was opened for plan participants in the "Manager" category. The total amount collected in this window was Euro 0.5 million and the average share purchase price (September 2016) was Euro 17.0313, taking account of the individual investment and the applicable discount.

The fair value of the options has been determined using the Montecarlo binomial pricing model, based on the following assumptions:

	1st Window (2014)	2nd Window (2015)	3rd Window (2016)
Grant date	13 November 2013	13 November 2013	13 November 2013
Share purchase date	19 May 2014	19 May 2015	19 May 2016
End of retention period	19 May 2017	19 May 2018	19 May 2019
Residual life at grant date (in years)	0.35	1.35	2.35
Share price at grant date (Euro)	18.30	18.30	18.30
Expected volatility	29.27%	30.11%	36.79%
Risk-free interest rate	0.03%	0.05%	0.20%
Expected dividend %	2.83%	2.83%	2.83%
Option fair value at grant date (Euro)	18.04	17.54	17.11

The total cost recognised as "Personnel costs" in the income statement at 31 December 2016 in relation to the fair value of options granted under this plan is immaterial.

The following table provides additional details about movements in the plan:

	31 December 2016	31 December 2015
	Number of options	Number of options
Options at start of year	93,976	164,009
Granted	-	-
Change in expected participations (**)	(5,117)	31,277
Cancelled	-	-
Exercised	(88,859)	(101,310)
Options at end of year	-	93,976

(**) The number of options has been revised for the actual number of participations in the three purchase windows.

The information memorandum, prepared under art. 114-bis of Legislative Decree 58/98 and describing the characteristics of the above plan, is publicly available on the Company's website at http://www.prysmiangroup.com/, from its registered offices and from Borsa Italiana S.p.A.

New employee share purchase plan (2016-2018) – YES 2.0

The Shareholders' Meeting held on 13 April 2016 approved a share purchase plan reserved for employees of Prysmian S.p.A. and/or of its subsidiaries, including some of the Company's Directors, and granted the Board of Directors the relevant powers to establish and implement this plan.

The main objectives of the Plan are:

- to strengthen the sense of belonging to the Group by offering employees an opportunity to share in its successes, through equity ownership;
- to align the interests of the Prysmian Group's stakeholders (meaning its employees and shareholders), by identifying a common goal of creating long-term value;
- to help consolidate the process of integrating the Group's acquisitions.

The Plan offers the opportunity to purchase Prysmian's ordinary shares on preferential terms, with a maximum discount of 25% on the stock price, given in the form of treasury shares, except for certain managers, for whom the discount is 15%, and the executive Directors and key management personnel, for whom the discount is 1% on the stock price.

The Plan therefore qualifies as "of particular relevance" within the meaning of art. 84-bis, par. 2 of the Issuer Regulations.

The shares purchased will be subject to a retention period, during which they cannot be sold. The Plan contains purchase windows over the next three years.

The process of informing and explaining the Plan to Group employees started in October 2016.

The fair value of the options has been determined using the Montecarlo binomial pricing model, based on the following assumptions:

	Window
Grant date	14 November 2016
Share purchase date	from 16 February 2017 to 16 September 2019
End of retention period	from 16 February 2020 to 16 September 2022
Residual life at grant date (in years)	2.71
Share price at grant date (Euro)	23.40
Expected volatility	from 31.74% to 36.05%
Risk-free interest rate	from 0.70% to 0.75%
Expected dividend %	2.07%
Option fair value at grant date (Euro)	from €21.57 to €23.15

The total cost recognised as "Personnel costs" in the income statement at 31 December 2016 in relation to the fair value of options granted under this plan is Euro 0.7 million.

The following table provides additional details about movements in the plan:

	31 December 2016
	Number of options
Options at start of year	-
Granted	349,849
Change in expected participations	-
Cancelled	-
Exercised	-
Options at end of year	349,849

The information memorandum, prepared under art. 114-bis of Legislative Decree 58/98 and describing the characteristics of the above plan, is publicly available on the Company's website at http://www.prysmiangroup.com/, from its registered offices and from Borsa Italiana S.p.A..

Long-term incentive plan 2015-2017

The Shareholders' Meeting held on 16 April 2015 approved an incentive plan for employees of the Prysmian Group, including members of the Board of Directors of Prysmian S.p.A., and granted the Board of Directors the necessary powers to establish and implement this plan.

The reasons behind the introduction of the Plan are:

- to generate strong commitment by the Group's Management to achieving the targets for additional growth in profits and return on capital employed over the next three years;
- to align the interests of Management with those of shareholders by using share-based incentives, and promoting stable share ownership of the Company;
- to ensure the long-term sustainability of the Group's annual performance through the mechanism of co-investing part of the annual bonus and consequent retention effect.

The Plan covers around 335 employees of Group companies and involves the grant of options, the number of which depends on the achievement of common business and financial performance objectives for all participants.

The Plan consists of two parts:

- Co-investment;
- Performance Shares.

The Co-investment part requires each participant to defer and co-invest a variable portion of their annual bonuses for the years 2015 and 2016, if achieved; if the Target is achieved, this portion is returned to the participant in the form of company shares with a higher value than that co-invested.

The Performance Shares part involves the prior establishment of a minimum and maximum number of shares for each participant, according to their company position and salary level. The number of shares actually awarded will depend on the extent to which the Performance Conditions are achieved. Both parts of the plan are contingent upon achieving two financial performance targets in the period 2015-2017, namely the Group's aggregate Adjusted EBITDA for the three years (min. Euro 1,850 million - max. Euro 2,150 million) and average ROCE (Return On Capital Employed) in the same three-year period (min. 16.0% - max. 19.6%).

The following table provides additional details about movements in the plan:

	Number options	Exercise price
Options at start of year	4,863,360	-
Granted	1,533,236	-
Variation for target remeasurement	217,528	-
Cancelled	-	-
Exercised	-	-
Options at end of year	6,614,124	-
of which vested at end of year	-	-
of which exercisable	-	-
of which not vested at end of year	6,614,124	-

The total cost recognised as "Personnel costs" in the income statement at 31 December 2016 in relation to the fair value of options granted under this plan is Euro 49 million.

In accordance with IFRS 2, the options allotted have been measured at their grant date fair value. The fair value of the options has been determined using the following assumptions:

Grant date	16 April 2015
Residual life at grant date (in years)	2.75
Exercise price (Euro)	-
Risk-free interest rate	0.49%
Expected dividend %	2.25%
Option fair value at grant date (Euro)	17.99

The information memorandum, prepared under art. 114-bis of Legislative Decree 58/98 and describing the characteristics of the above plan, is publicly available on the Company's website at http://www.prysmiangroup.com/, from its registered offices and from Borsa Italiana S.p.A.

As at 31 December 2016, there are no outstanding loans or guarantees by the Parent Company or its subsidiaries to any of the directors, senior managers or statutory auditors.

22. AMORTISATION, DEPRECIATION, IMPAIRMENT AND IMPAIRMENT REVERSALS

These are detailed as follows:

(in millions of Euro)

	2016	2015
Depreciation of buildings, plant, machinery and equipment	114	107
Depreciation of other property, plant and equipment	13	13
Amortisation of intangible assets	46	30
Net impairment of property, plant and equipment	27	15
Net impairment of intangible assets	-	3
Net impairment of property, plant and equipment involved in company reorganisations	3	3
Total	**203**	**171**

23. OTHER EXPENSES

These are detailed as follows:

(in millions of Euro)

	2016	2015
Professional services	39	39
Insurance	55	56
Maintenance costs	78	70
Selling costs	62	72
Utilities	139	141
Travel costs	42	43
Vessel charter	109	66
Increases in/(releases of) provisions for risks	101	25
Losses on disposal of assets	-	1
Sundry expenses	131	125
Other costs	812	754
Company reorganisation	19	15
Antitrust investigations	(1)	(29)
Total	**1,586**	**1,378**

The Group incurred Euro 75 million in research and development costs in 2016 (Euro 73 million in 2015).

24. SHARE OF NET PROFIT/(LOSS) OF EQUITY-ACCOUNTED COMPANIES

This is detailed as follows:

(in millions of Euro)

	2016	2015
Share of net profit/(loss) of associates	31	39
Total	**31**	**39**

Further information can be found in Note 3. Equity-accounted investments.

25. FINANCE COSTS

These are detailed as follows:

(in millions of Euro)

	2016	2015
Interest on loans	2	4
Interest on non-convertible bond	19	19
Interest on convertible bond - non-monetary component	8	8
Interest on convertible bond - monetary component	4	4
Amortisation of bank and financial fees and other expenses	5	4
Employee benefit interest costs	8	9
Other bank interest	11	15
Costs for undrawn credit lines	4	5
Sundry bank fees	12	16
Non-recurring other finance costs	2	2
Other	8	12
Finance costs	**83**	**98**
Net losses on forward currency contracts	3	-
Net losses on interest rate swaps	-	2
Losses on derivatives	**3**	**2**
Foreign currency exchange losses	411	430
Total finance costs	**497**	**530**

26. FINANCE INCOME

This is detailed as follows:

(in millions of Euro)

	2016	2015
Interest income from banks and other financial institutions	8	10
Other finance income	6	15
Finance income	**14**	**25**
Net gains on interest rate swaps	1	3
Net gains on forward currency contracts	-	14
Gains on derivatives	**1**	**17**
Foreign currency exchange gains	403	399
Total finance income	**418**	**441**

27. TAXES

These are detailed as follows:

(in millions of Euro)

	2016	2015
Current income taxes	113	75
Deferred income taxes	(7)	21
Total	**106**	**96**

The following table reconciles the effective tax rate with the Parent Company's theoretical tax rate:

(in millions of Euro)

	2016	Tax rate	2015	Tax rate
Profit/(loss) before taxes	368		310	
Theoretical tax expense at Parent Company's nominal tax rate	101	27.5%	85	27.5%
Differences in nominal tax rates of foreign subsidiaries	(1)	(0.3%)	5	1.6%
Unrecognised deferred tax assets	3	0.8%	18	5.8%
Net increase (release) of provision for tax disputes	1	0.3%	-	0.0%
IRAP (Italian regional business tax)	10	2.7%	5	1.6%
Current taxes for prior years	4	1.1%	-	0.0%
Taxes on distributable reserves	-	0.0%	-	0.0%
Release of prior year credit for taxes paid abroad	4	1.1%	4	1.3%
Antitrust provision	3	0.8%	(15)	(4.8%)
Asset impairment	6	1.6%	6	1.9%
Effect of consolidating Oman Cables Industry	-	0.0%	(7)	(2.3%)
ACE	(11)	(3.0%)	(3)	(1.0%)
Non-deductible costs/ (non-taxable income) and other	(14)	(3.8%)	(3)	(0.9%)
Effective income taxes	**106**	**28.9%**	**96**	**31.0%**

28. EARNINGS/(LOSS) AND DIVIDENDS PER SHARE

Both basic and diluted earnings (loss) per share have been calculated by dividing the net result for the period attributable to owners of the parent by the average number of the Company's outstanding shares.

Diluted earnings/(loss) per share have been affected by the options under the convertible bond, whose conversion was in the money as at 31 December 2016 and by the options under the employee share purchase plan (YES Plan), but they have not been affected by the options under the long-term incentive plan 2015-2017 since aggregate EBITDA at 31 December 2016 had not yet triggered their allotment.

(in millions of Euro)

	2016	2015
Net profit/(loss) attributable to owners of the parent	247	214
Weighted average number of ordinary shares (thousands)	214,057	213,944
Basic earnings per share (in Euro)	**1.15**	**1.00**
Net profit/(loss) attributable to owners of the parent [(*)]	249	214
Weighted average number of ordinary shares (thousands)	214,057	213,944
Adjustments for:		
New shares from conversion of bonds into shares (thousands)	13,418	-
Dilution from incremental shares arising from exercise of stock options (thousands)	26	98
Weighted average number of ordinary shares to calculate diluted earnings per share (thousands)	227,501	214,042
Diluted earnings per share (in Euro)	**1.09**	**1.00**

[(*)] This figure has been adjusted for interest accruing on the convertible bond, net of the related tax effect.

The dividend paid in 2016 amounted to approximately Euro 90 million (Euro 0.42 per share). A dividend of Euro 0.43 per share for the year ended 31 December 2016 will be proposed at the annual general meeting to be held on 12 April 2017 in a single call; based on the number of outstanding shares, this dividend per share equates to a total dividend pay-out of approximately Euro 91 million. The current financial statements do not reflect any liability for the proposed dividend.

29. CONTINGENT LIABILITIES

As a global operator, the Group is exposed to legal risks primarily, by way of example, in the areas of product liability and environmental, antitrust and tax rules and regulations. The outcome of legal disputes and proceedings currently in progress cannot be predicted with certainty. An adverse outcome in one or more of these proceedings could result in the payment of costs that are not covered, or not fully covered, by insurance, which would therefore have a direct effect on the Group's financial position and results.
As at 31 December 2016, the contingent liabilities for which the Group has not recognised any provision for risks and charges, on the grounds that an outflow of resources is unlikely, but which can nonetheless be reliably estimated, amount to approximately Euro 75 million.
It is also reported, with reference to the Antitrust investigations in the various jurisdictions involved, that the only jurisdiction for which the Group has been unable to estimate the risk is Brazil.

30. COMMITMENTS

(a) Commitments to purchase property, plant and equipment and intangible assets

Contractual commitments already entered into with third parties as at 31 December 2016 and not yet reflected in the financial statements amount to Euro 45 million for investments in property, plant and equipment (Euro 53 million at the end of 2015); commitments to third parties for investments in intangible assets amount to Euro 1 million at 31 December 2016 (Euro 0 at the end of 2015).

(b) Operating lease commitments

Future commitments relating to operating leases are as follows:

(in millions of Euro)

	2016	2015
Due within 1 year	21	25
Due between 1 and 5 years	31	35
Due after more than 5 years	7	9
Total	59	69

31. RECEIVABLES FACTORING

With reference to factoring programmes, the Group has made use of without-recourse factoring of trade receivables. The amount of receivables factored but not yet paid by customers was Euro 337 million at 31 December 2016 (Euro 258 million at 31 December 2015).

32. FINANCIAL COVENANTS

The credit agreements in place at 31 December 2016, details of which are presented in Note 12, require the Group to comply with a series of covenants on a consolidated basis. The main covenants, classified by type, are listed below:

a) Financial covenants

- Ratio between EBITDA and Net finance costs (as defined in the relevant agreements);
- Ratio between Net Financial Position and EBITDA (as defined in the relevant agreements).

The covenants contained in the various credit agreements are as follows:

	EBITDA/Net finance costs(1) not less than	Net financial position / EBITDA(1) not more than
EBI Loan	5.50x	2.50x
Syndicated Revolving Credit Facility 2014	4.00x	3.00x
Revolving Credit Facility 2014	4.00x	3.00x

(1) The ratios are calculated on the basis of the definitions contained in the relevant credit agreements.

b) Non-financial covenants

A number of non-financial covenants have been established in line with market practice applying to transactions of a similar nature and size. These covenants involve a series of restrictions on the grant of secured guarantees to third parties, on the conduct of acquisitions or equity transactions, and on amendments to the Company's by-laws.

Default events

The main default events are as follows:

- default on loan repayment obligations;
- breach of financial covenants;
- breach of some of the non-financial covenants;
- declaration of bankruptcy or subjection of Group companies to other insolvency proceedings;
- issuance of particularly significant judicial rulings;
- occurrence of events that may adversely and significantly affect the business, the assets or the financial conditions of the Group.

Should a default event occur, the lenders are entitled to demand full or partial repayment of the amounts lent and not yet repaid, together with interest and any other amount due. No collateral security is required.

Actual financial ratios reported at period end are as follows:

	31 December 2016	31 December 2015
EBITDA / Net finance costs [1]	15.63x	14.34x
Net financial position / EBITDA [1]	0.74x	1.06x

[1] The ratios are calculated on the basis of the definitions contained in the relevant credit agreements.

The above financial ratios comply with both covenants contained in the relevant credit agreements and there are no instances of non-compliance with the financial and non-financial covenants indicated above.

33. RELATED PARTY TRANSACTIONS

Transactions between Prysmian S.p.A. and its subsidiaries and associates mainly refer to:

- trade relations involving intercompany purchases and sales of raw materials and finished goods;
- services (technical, organisational and general) provided by head office for the benefit of Group companies;
- recharge of royalties for the use of trademarks, patents and technological know-how by Group companies;
- financial relations maintained by Group treasury companies on behalf of, and with, Group companies.

The related party disclosures also include the compensation paid to Directors, Statutory Auditors and Key Management Personnel.

All the above transactions form part of the Group's continuing operations.

The following tables provide a summary of related party transactions and balances for the years ended 31 December 2016 and 31 December 2015:

(in millions of Euro)

					31 December 2016
	Equity-accounted companies	Compensation of directors, statutory auditors and key management personnel	Total related parties	Total reported amount	Related party % of total
Equity-accounted investments	195	-	195	195	100.0%
Trade receivables	14	-	14	1,088	1.2%
Other receivables	5	-	5	809	0.6%
Trade payables	4	-	4	1,498	0.3%
Other payables	2	1	3	893	0.3%
Provisions	-	2	2	379	0.5%

(in millions of Euro)

					31 December 2015
	Equity-accounted companies	Compensation of directors, statutory auditors and key management personnel	Total related parties	Total reported amount	Related party % of total
Equity-accounted investments	177	-	177	177	100.0%
Trade receivables	7	-	7	1,098	0.6%
Other receivables	4	-	4	713	0.6%
Trade payables	5	-	5	1,377	0.4%
Other payables	3	2	5	1,000	0.5%

(in millions of Euro)

					2016
	Equity-accounted companies	Compensation of directors, statutory auditors and key management personnel	Total related parties	Total reported amount	Related party % of total
Sales of goods and services	51	-	51	7,567	0.7%
Other income	5	-	5	75	6.7%
Raw materials, consumables used and goods for resale	(17)	-	(17)	(4,387)	0.4%
Personnel costs	-	(28)	(28)	(1,056)	2.7%
Other expenses	-	(1)	(1)	(1,586)	0.1%
Share of net profit/(loss) of equity-accounted companies	31	-	31	31	100.0%

(in millions of Euro)

					2015
	Equity-accounted companies	Compensation of directors, statutory auditors and key management personnel	Total related parties	Total reported amount	Related party % of total
Sales of goods and services	53	-	53	7,361	0.7%
Other income	4	-	4	104	3.8%
Raw materials, consumables used and goods for resale	(35)	-	(35)	(4,484)	0.8%
Personnel costs	-	(12)	(12)	(1,001)	1.2%
Other expenses	-	(1)	(1)	(1,378)	0.1%
Share of net profit/(loss) of equity-accounted companies	39	-	39	39	100.0%

Transactions with associates

Trade and other payables refer to goods and services provided in the ordinary course of the Group's business. Trade and other receivables refer to transactions carried out in the ordinary course of the Group's business.

Key management compensation

Key management compensation is analysed as follows:

(in thousands of Euro)	2016	2015
Salaries and other short-term benefits - fixed part	6,727	5,973
Salaries and other short-term benefits - variable part	1,239	889
Other benefits	388	327
Share-based payments	17,467	4,951
Total	**25,821**	**12,140**
of which Directors	16,045	8,206

At 31 December 2016, payables for key management compensation amount to Euro 1 million, while employee benefit obligations for key management compensation are Euro 2 million.

34. COMPENSATION OF DIRECTORS AND STATUTORY AUDITORS

The compensation of the executive and non-executive Directors of Prysmian S.p.A. came to Euro 16.05 million in 2016 (Euro 8.74 million in 2015). The compensation of the Statutory Auditors of Prysmian S.p.A. came to Euro 0.2 million in 2016, the same as in 2015. Compensation includes emoluments, and any other types of remuneration, pension and medical benefits, received for their service as Directors or Statutory Auditors of Prysmian S.p.A. and other companies included in the scope of consolidation, and that have constituted a cost for Prysmian.

35. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In accordance with the disclosures required by Consob Communication DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions took place during 2016.

36. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

As required by Consob Communication DEM/6064293 dated 28 July 2006 and in accordance with the ESMA Guidelines 2015/1415, the following table presents the effects of non-recurring events and transactions on the income statement, involving total net non-recurring income of Euro 27 million in 2015 and net non–recurring expense of Euro 1 million in 2016.

(in millions of Euro)	2016	2015
Non-recurring other income/(expenses):		
Antitrust investigations	1	29
Non-recurring other finance income/(costs):		
Non-recurring other finance costs	(2)	(2)
Total	**(1)**	**27**

37. STATEMENT OF CASH FLOWS

Net cash flow provided by operating activities in 2016 benefited from an increase of Euro 67 million in working capital during the year; after accounting for Euro 76 million in tax payments, Euro 10 million in dividend receipts from associates and joint ventures, and Euro 19 million in net effects of increases/utilisations of provisions, net cash flow from operating activities was a positive Euro 615 million for the year.

Acquisitions and disposals during the year involved a net inflow of Euro 31 million, mainly attributable to the disposal of Prysmian Baosheng Cable Co. Ltd.
Net operating capital expenditure came to Euro 227 million in 2016, a large part of which relating to projects to increase, rationalise and upgrade production capacity and to develop new products. More details can be found in Note 1. Property, plant and equipment of these Explanatory Notes.

Cash flows provided by financing activities were influenced by the distribution of Euro 102 million in dividends. Finance costs paid, net of finance income received, came to Euro 68 million.

38. INFORMATION PURSUANT TO ART.149-DUODECIES OF THE CONSOB ISSUER REGULATIONS

Pursuant to art. 149-duodecies of the Consob Issuer Regulations, the following table shows the fees in 2016 for audit work and other services provided by the new independent auditors Ernst & Young and companies in the Ernst & Young network:

(in thousands of Euro)

	Recipient	Supplier of services	Fees relating to 2016
Audit services	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	499
	Italian subsidiaries	Ernst & Young Italia	369
	Foreign subsidiaries	Ernst & Young Italia	168
	Foreign subsidiaries	Ernst & Young Network	1,454
Certification services	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	-
	Italian subsidiaries	Ernst & Young Italia	-
	Foreign subsidiaries	Ernst & Young Network	-
Other services	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	-
	Italian subsidiaries	Ernst & Young Italia	-
	Foreign subsidiaries (1)	Ernst & Young Network	144
Total			**2,634**

(1) Audit support and other services.

39. SUBSEQUENT EVENTS

Finance Activities

Bond issuance

On 12 January 2017, the Board of Directors approved the placement of an equity-linked bond, known as "Prysmian S.p.A. Euro 500 million Zero Coupon Linked Bonds due 2022" maturing 17 January 2022 and reserved for institutional investors.

The initial conversion price of the Bonds is Euro 34.2949 and has been set by applying a 41.25% premium to the weighted average price of the Company's ordinary shares recorded on the Milan Stock Exchange between the start and end of the book-building process during the morning of 12 January 2017.

The Bonds may be converted into ordinary shares of the Company, subject to approval by the Company's extraordinary general meeting, to be held no later than 30 June 2017 (the "Long-stop Date"), of a share capital increase with exclusion of preferential subscription rights pursuant to art. 2441, par. 5, of the Italian Civil Code, to be used exclusively to service conversion of the Bonds (the "Capital Increase"). After such approval, the Company shall issue a notice to the Bondholders (the "Physical Settlement Notice"). Under the terms and conditions of the Bonds, and following the date referred to in the Physical Settlement Notice, the Company shall settle any exercise of conversion rights with Prysmian ordinary shares issued under the Capital Increase or, at the Company's discretion, with existing Prysmian ordinary shares held by the Company.

Should the Capital Increase not be approved on or before the Long-stop Date, the Company may, within a limited period of time (and in any case no later than 10 dealing days after the Long-stop Date), give notice to the Bondholders (a "Shareholder Event Notice") and redeem all of the Bonds in cash at a premium determined in accordance with the terms and conditions of the Bonds.

Should the Capital Increase not be approved and should the Company not publish a Shareholder Event Notice by the date stated in the terms and conditions of the Bonds (and in certain limited circumstances prior to such date), each Bondholder may, in accordance with the terms and conditions of the Bonds, request early redemption of their Bonds in cash. In such circumstances, the Company shall redeem the Bonds against payment of a cash amount equal to the market value (as determined in accordance with the terms and conditions of the Bonds) of the number of Prysmian ordinary shares that a Bondholder would have been entitled to if such holder had been able to exercise the right to convert the Bonds into ordinary shares.

The Company will have the option to call all (but not just a part) of the outstanding Bonds at their principal amount from 1 February 2020, should the value of the Shares exceed 130% of the conversion price for a specified period of time.

The Company intends to apply for admission to listing of the Bonds on a regulated market or internationally recognised multilateral trading facility by no later than 30 June 2017.

The placement has allowed the Issuer to diversify its financial resources more widely by raising funds on the capital market. These funds will be used (i) to pursue the Company's potential external growth opportunities; (ii) to finance, in line with the shareholders' authorisation of the share buyback, the buyback of the

Company's shares that will be used to fulfil potential conversion rights requirements and/or as consideration to finance the Company's growth strategy and (iii) for general corporate purposes.

Share buy-back programme

On 12 January 2017, the Board of Directors approved the adoption of a share buyback programme (the "Programme").

In particular, the purposes of the Programme are:

1. to create a "stock of shares" that the Company can use as consideration in extraordinary corporate actions with third parties, including stock swaps, as part of transactions strategic to the Company's interest;
2. to serve the exercise of any bond conversion rights, (as envisaged by art. 5 of the Market Abuse Regulation);
3. any other and additional purposes either (i) under art. 5 of the Market Abuse Regulation, or (ii) under the Consob Accepted Market Practices.

The shares may be purchased for an aggregate amount of up to Euro 125 million, and the number of shares purchased under the Programme shall not, in any case, exceed 3% of the Company's paid-up share capital.

The Programme can be executed in one or more tranches and will terminate by 30 September 2017.

Purchases will be made through a specifically appointed authorised intermediary, who will act independently and without any influence from the Company and in a manner consistent with the provisions of art. 3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016.

All transactions carried out are disclosed to the market in accordance with the terms and procedures provided by applicable laws.

A total of 1,087,911 shares have been purchased under this programme up to the date of 24 February 2017.

Cancellation and repayment of Revolving Credit Facility 2014

Having completed the placement of the new equity-linked bond, the Company has reviewed its funding structure, as a result of which on 31 January 2017 it cancelled the five-year revolving credit facility for Euro 100 million with Mediobanca and repaid at the same time the amount of Euro 50 million drawn down as at 31 December 2016.

New industrial projects and initiatives

New onshore cable contract for the East Anglia ONE wind farm

On 21 February 2017, Prysmian signed a GBP 27 million contract with East Anglia One Limited to supply and install an onshore cable connection for the East Anglia ONE offshore wind farm. Consisting of 102 turbines, the GBP 2.5 billion wind farm will generate sufficient electricity to power 500,000 homes. The contract involves the supply and installation of a 220 kV double circuit line from the Bawdsey shore landing to a substation in Bramford, covering a 37 km route. Prysmian will be responsible for the design, production, installation and testing of the cables and their accessories. The underground high voltage cables will be manufactured by Prysmian and installed by its UK-based installation division. Pre-construction work is due to begin in early 2017, with the cable installation phase planned to take place from October 2017 to September 2018, during which time Prysmian will be employing a 50–strong team of professionals.

New submarine cable contract for three offshore wind farms in France

On 21 February 2017, Prysmian was awarded a contract worth around Euro 300 million by Rèsau De Transport D'Electricitè (RTE) to provide submarine cable systems to link three offshore wind farms to the mainland power grid in France. These are the first ever grid access connections developed by RTE in France to transmit renewable energy generated by offshore wind farms to thousands of businesses and homes. The three projects, Fécamp, Calvados and Saint Nazaire, will be individually activated over the period of the contract.

Prysmian will be responsible for the design, supply, installation, testing and commissioning of two HV export power cables for each of the three offshore wind farms, covering both the submarine and onshore routes to connect Fécamp, Calvados and St Nazaire to the French electricity grid. The submarine cable links, which consist of High Voltage Alternating Current (HVAC) 220 kV three-core cables with XLPE insulation, will connect the offshore wind farms being developed by Eolien Maritime France (EMF). The submarine cables will be produced at the Group's centres of excellence in Arco Felice, Italy and Pikkala, Finland. The cables for the onshore sections will be manufactured in Gron, France. The cables are expected to be delivered during the period 2018 to 2020, according to the scheduling of the individual wind farms, with commissioning estimated between 2019 and 2022. For marine installation, Prysmian will be using the services of its own cable-laying vessel, the Cable Enterprise.

New contract for an interconnector between France and the United Kingdom through the Channel Tunnel

On 27 February 2017, Prysmian was awarded a contract, under a wider consortium agreement with Balfour Beatty, a world leading group in infrastructure construction, for the development of a new High Voltage Direct Current (HVDC) interconnector between France and the UK through the Channel Tunnel. The project is one of the European Commission's Projects of Common Interest and has been awarded by ElecLink, a wholly-owned subsidiary of Groupe Eurotunnel, which will build an interconnector through the Channel Tunnel to provide a power transmission link between the UK and France with a capacity of 1000 MW in either direction of flow. The total contract value for the consortium is approximately Euro 219 million, of which the share of Prysmian, responsible for coordinating the design, supply, installation and commissioning of the interconnector, is approximately Euro 79 million.

The project comprises a ± 320 kV extruded HVDC underground cable turnkey system that includes the engineering, production and installation of one HVDC symmetrical monopole circuit along a 51 km route through the Channel Tunnel. The HVDC cable will connect the future converter stations located in Peuplingues (France) and Folkestone (UK). Prysmian will also supply and install the underground cables for the HVAC link to the Sellindge substation (UK). All cables will be manufactured at Prysmian's plant in Gron (France), one of the Group's centres of excellence for EHV AC and DC cables.

Other significant subsequent events

Transfer of registered office

On 1 March 2017, the Company transferred its registered office from the previous address in Viale Sarca 222, to the new address in Via Chiese 6, Milan, the location of the new offices of the Parent Company Prysmian S.p.A..

Milan, 1 March 2017

ON BEHALF OF THE BOARD OF DIRECTORS
THE CHAIRMAN

Massimo Tononi

SCOPE OF CONSOLIDATION – APPENDIX A

The following companies have been consolidated line-by-line:

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Europe					
Austria					
Prysmian OEKW GmbH	Wien	Euro	2,053,008	100.00%	Prysmian Cavi e Sistemi S.r.l.
Belgium					
Draka Belgium N.V.	Antwerpen	Euro	61,973	98.52%	Draka Holding B.V.
				1.48%	Draka Kabel B.V.
Denmark					
Prysmian Denmark A/S	Albertslund	Danish Krone	40,001,000	100.00%	Draka Holding B.V.
Estonia					
AS Draka Keila Cables	Keila	Euro	1,664,000	100.00%	Prysmian Finland OY
Finland					
Prysmian Finland OY	Kirkkonummi	Euro	100,000	77.7972%	Prysmian Cavi e Sistemi S.r.l.
				19.9301%	Draka Holding B.V.
				2.2727%	Draka Comteq B.V.
France					
Prysmian (French) Holdings S.A.S.	Paron	Euro	129,026,210	100.00%	Prysmian Cavi e Sistemi S.r.l.
GSCP Athena (French) Holdings II S.A.S.	Paron	Euro	47,000	100.00%	Prysmian (French) Holdings S.A.S.
Prysmian Cables et Systèmes France S.A.S.	Sens	Euro	136,800,000	100.00%	Prysmian (French) Holdings S.A.S.
Draka Comteq France S.A.S.	Paron	Euro	246,554,316	100.00%	Draka France S.A.S.
Draka Fileca S.A.S.	Sainte Geneviève	Euro	5,439,700	100.00%	Draka France S.A.S.
Draka Paricable S.A.S.	Sainte Geneviève	Euro	5,177,985	100.00%	Draka France S.A.S.
Draka France S.A.S.	Marne La Vallée	Euro	261,551,700	100.00%	Draka Holding B.V.
Quoroon S.A.S.	Paron	Euro	10,000	100.00%	Prysmian Cables et Systemes France S.A.S.
Germany					
Prysmian Kabel und Systeme GmbH	Berlin	Euro	15,000,000	93.75%	Draka Cable Wuppertal GmbH
				6.25%	Prysmian S.p.A.
Prysmian Unterstuetzungseinrichtung Lynen GmbH	Eschweiler	Deutsche Mark	50,000	100.00%	Prysmian Kabel und Systeme GmbH
Draka Cable Wuppertal GmbH	Wuppertal	Euro	25,000	100.00%	Draka Deutschland GmbH
Draka Comteq Berlin GmbH & Co.KG	Berlin	Deutsche Mark	46,000,000	50.10%	Prysmian Netherlands B.V.
		Euro	1	49.90%	Draka Deutschland GmbH
Draka Comteq Germany Verwaltungs GmbH	Koln	Euro	25,000	100.00%	Draka Comteq BV
Draka Comteq Germany GmbH & Co.KG	Koln	Euro	5,000,000	100.00%	Draka Comteq B.V.
Draka Deutschland Erste Beteiligungs- GmbH	Wuppertal	Euro	25,000	100.00%	Draka Holding B.V.
Draka Deutschland GmbH	Wuppertal	Euro	25,000	90.00%	Draka Deutschland Erste Beteiligungs GmbH
				10.00%	Draka Deutschland Zweite Beteiligungs GmbH

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Draka Deutschland Verwaltungs GmbH	Wuppertal	Deutsche Mark	50,000	100.00%	Draka Cable Wuppertal GmbH
Draka Deutschland Zweite Beteiligungs GmbH	Wuppertal	Euro	25,000	100.00%	Prysmian Netherlands B.V.
Draka Kabeltechnik GmbH	Wuppertal	Euro	25,000	100.00%	Draka Cable Wuppertal GmbH
Draka Service GmbH	Nuremberg	Euro	25,000	100.00%	Draka Cable Wuppertal GmbH
Höhn GmbH	Wuppertal	Deutsche Mark	1,000,000	100.00%	Draka Deutschland GmbH
Kaiser Kabel GmbH	Wuppertal	Deutsche Mark	9,000,000	100.00%	Draka Deutschland GmbH
NKF Holding (Deutschland) GmbH	Wuppertal	Euro	25,000	100.00%	Prysmian Netherlands B.V.
usb-elektro Kabelkonfektions- GmbH i.L.	Wuppertal	Deutsche Mark	2,750,000	100.00%	Draka Holding B.V
Wagner Management-und Projektgesellschaft mit beschränkter Haftung i.L.	Berlin	Deutsche Mark	50,000	60.00%	Draka Cable Wuppertal GmbH
				40.00%	Third parties
U.K.					
Prysmian Cables & Systems Ltd.	Eastleigh	British Pound	113,901,120	100.00%	Prysmian UK Group Ltd.
Prysmian Construction Company Ltd.	Eastleigh	British Pound	1	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Cables (2000) Ltd.	Eastleigh	British Pound	1	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Cables and Systems International Ltd.	Eastleigh	Euro	1	100.00%	Prysmian Cavi e Sistemi S.r.l.
Cable Makers Properties & Services Limited	Hampton	British Pound	33	74.99%	Prysmian Cables & Systems Ltd.
				25.01%	Third parties
Prysmian Metals Limited	Eastleigh	British Pound	1	100.00%	Prysmian Cables & Systems Ltd.
Comergy Ltd.	Eastleigh	British Pound	1	100.00%	Prysmian Cavi e Sistemi S.r.l.
Prysmian Pension Scheme Trustee Limited	Eastleigh	British Pound	1	100.00%	Prysmian S.p.A.
Prysmian UK Group Ltd.	Eastleigh	British Pound	70,011,000	100.00%	Draka Holding B.V.
Draka Distribution Aberdeen Limited	Eastleigh	British Pound	1	100.00%	Prysmian UK Group Ltd
Draka Comteq UK Ltd.	Eastleigh	British Pound	9,000,002	100.00%	Prysmian UK Group Ltd
Draka UK Ltd.	Eastleigh	British Pound	1	100.00%	Prysmian UK Group Ltd.
Draka UK Group Ltd.	Eastleigh	British Pound	822,000	100.00%	Prysmian UK Group Ltd.
Prysmian Powerlink Services Ltd.	Eastleigh	British Pound	46,000,100	100.00%	Prysmian UK Group Ltd.
Ireland					
Prysmian Re Company Designated Activity Company	Dublin	Euro	5,000,000	100.00%	Draka Holding B.V.
Italy					
Prysmian Cavi e Sistemi S.r.l.	Milan	Euro	100,000,000	100.00%	Prysmian S.p.A.
Prysmian Cavi e Sistemi Italia S.r.l.	Milan	Euro	77,143,249	100.00%	Prysmian S.p.A.
Prysmian Treasury S.r.l.	Milan	Euro	30,000,000	100.00%	Prysmian S.p.A.
Prysmian PowerLink S.r.l.	Milan	Euro	100,000,000	100.00%	Prysmian S.p.A.
Fibre Ottiche Sud - F.O.S. S.r.l.	Battipaglia	Euro	47,700,000	100.00%	Prysmian S.p.A.
Prysmian Electronics S.r.l.	Milan	Euro	10,000	80.00%	Prysmian Cavi e Sistemi S.r.l.
				20.00%	Third parties

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Norway					
Draka Norsk Kabel A.S.	Drammen	Norwegian Krone	22,500,000	100.00%	Draka Holding B.V.
The Netherlands					
Draka Comteq B.V.	Amsterdam	Euro	1,000,000	100.00%	Draka Holding B.V.
Draka Comteq Fibre B.V.	Eindhoven	Euro	18,000	100.00%	Prysmian Netherlands Holding B.V.
Draka Holding B.V.	Amsterdam	Euro	52,229,321	52.165%	Prysmian S.p.A.
				47.835%	Prysmian Cavi e Sistemi S.r.l.
Draka Kabel B.V.	Amsterdam	Euro	2,277,977	100.00%	Prysmian Netherlands B.V.
Donne Draad B.V.	Nieuw Bergen	Euro	28,134	100.00%	Prysmian Netherlands B.V.
NK China Investments B.V.	Delft	Euro	19,000	100.00%	Prysmian Netherlands B.V.
NKF Vastgoed I B.V.	Delft	Euro	18,151	99.00%	Draka Holding B.V.
				1.00%	Prysmian Netherlands B.V.
NKF Vastgoed III B.V.	Amsterdam	Euro	18,151	99.00%	Draka Deutschland GmbH
				1.00%	Prysmian Netherlands B.V.
Draka Sarphati B.V.	Amsterdam	Euro	18,151	100.00%	Draka Holding B.V.
Prysmian Netherlands B.V.	Delft	Euro	1	100.00%	Prysmian Netherlands Holding B.V.
Prysmian Netherlands Holding B.V.	Amsterdam	Euro	1	100.00%	Draka Holding B.V.
Czech Republic					
Draka Kabely, s.r.o.	Velke Mezirici	Czech Koruna	255,000,000	100.00%	Draka Holding B.V.
Romania					
Prysmian Cabluri Si Sisteme S.A.	Slatina	Romanian Leu	103,850,920	99.9995%	Draka Holding B.V.
				0.0005%	Prysmian Cavi e Sistemi S.r.l.
Russia					
Limited Liability Company Prysmian RUS	Rybinsk city	Russian Rouble	230,000,000	99.00%	Draka Holding B.V.
				1.00%	Prysmian Cavi e Sistemi S.r.l.
Limited Liability Company "Rybinskelektrokabel"	Rybinsk city	Russian Rouble	90,312,000	100.00%	Limited Liability Company Prysmian RUS
Neva Cables Ltd	St. Petersburg	Russian Rouble	194,000	100.00%	Prysmian Finland OY

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Slovakia					
Prysmian Kablo s.r.o.	Bratislava	Euro	21,246,001	99.995%	Prysmian Cavi e Sistemi S.r.l.
				0.005%	Prysmian S.p.A.
Draka Comteq Slovakia s.r.o.	Prešov	Euro	1,506,639	100.00%	Draka Comteq B.V.
Spain					
Prysmian Cables Spain, S.A. (Sociedad Unipersonal)	Vilanova I la Geltrù	Euro	58,178,234	100.00%	Draka Holding , S.L.
Marmavil.S.L. (Sociedad Unipersonal)	Santa Perpetua de Mogoda	Euro	3,006	100.00%	Draka Holding B.V.
Draka Holding ,S.L.	Santa Perpetua de Mogoda	Euro	24,000,000	99.99999%	Draka Holding B.V.
				0.00001%	Marmavil.S.L. (Sociedad Unipersonal)
Sweden					
Draka Sweden AB	Nässjö	Swedish Krona	100,100	100.00%	Draka Holding B.V.
Draka Kabel Sverige AB	Nässjö	Swedish Krona	100,000	100.00%	Draka Sweden AB
Switzerland					
Prysmian Cables and Systems SA	Manno	Swiss Franc	500,000	100.00%	Draka Holding B.V.
Turkey					
Turk Prysmian Kablo Ve Sistemleri A.S.	Mudanya	Turkish new Lira	112,233,652	83.746%	Draka Holding B.V.
				0.891%	Turk Prysmian Kablo Ve Sistemleri A.S.
				15.363%	Third parties
Tasfiye Halinde Draka Istanbul Asansor İthalat İhracat Üretim Ticaret Ltd. Şti.	Osmangazi-Bursa	Turkish new Lira	180,000	100.00%	Draka Holding B.V.
Tasfiye Halinde Draka Comteq Kablo Limited Sirketi	Osmangazi-Bursa	Turkish new Lira	45,818,775	99.99995%	Draka Comteq B.V.
				0.00005%	Prysmian Netherlands B.V.
Hungary					
Prysmian MKM Magyar Kabel Muvek Kft.	Budapest	Hungarian Forint	5,000,000,000	100.00%	Prysmian Cavi e Sistemi S.r.l.
North America					
Canada					
Prysmian Cables and Systems Canada Ltd.	Saint John	Canadian Dollar	1,000,000	100.00%	Draka Holding B.V.
Draka Elevator Products, Incorporated	Saint John	Canadian Dollar	n/a	100.00%	Draka Cableteq USA, Inc.
U.S.A.					
Prysmian Cables and Systems (US) Inc.	Las Vegas	US Dollar	330,517,608	100.00%	Draka Holding B.V.
Prysmian Cables and Systems USA LLC	Wilmington	US Dollar	10	100.00%	Prysmian Cables and Systems (US) Inc.
Prysmian Construction Services Inc	Wilmington	US Dollar	1,000	100.00%	Prysmian Cables and Systems USA LLC
Draka Cableteq USA Inc.	Boston	US Dollar	10	100.00%	Prysmian Cables and Systems (US) Inc.
Draka Elevator Products, Inc.	Boston	US Dollar	1	100.00%	Draka Cableteq USA Inc.
Draka Transport USA LLC	Boston	US Dollar	0	100.00%	Draka Cableteq USA Inc.
Gulf Coast Downhole Technologies, LLC	Huston	US Dollar	0	100.00%	Draka Cableteq USA Inc.

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Central/South America					
Argentina					
Prysmian Energia Cables y Sistemas de Argentina S.A.	Buenos Aires	Argentine Peso	69,024,900	91.858%	Prysmian Consultora Conductores e Instalaciones SAIC
				7.570%	Draka Holding B.V.
				0.263%	Prysmian Cabos e Sistemas do Brasil S.A.
				0.309%	Third parties
Prysmian Consultora Conductores Instalaciones SAIC	Buenos Aires	Argentine Peso	48,571,242	95.00%	Draka Holding B.V.
				5.00%	Prysmian Cavi e Sistemi S.r.l.
Brazil					
Prysmian Cabos e Sistemas do Brasil S.A.	Sorocaba	Brazilian Real	547,630,605	91.844%	Prysmian Cavi e Sistemi S.r.l.
				0.040%	Prysmian S.p.A.
				1.687%	Draka Holding B.V.
				6.428%	Draka Comteq B.V.
Draka Comteq Cabos Brasil S.A	Santa Catarina	Brazilian Real	27,467,522	49.352%	Draka Comteq B.V.
				50.648%	Prysmian Cabos e Sistemas do Brasil S.A.
Chile					
Prysmian Cables Chile SpA	Santiago	Chile Peso	668,410,000	100.00%	Prysmian Cabos e Sistemas do Brasil S.A.
Mexico					
Draka Durango S. de R.L. de C.V.	Durango	Mexican Peso	163,471,787	99.996%	Draka Mexico Holdings S.A. de C.V.
				0.004%	Draka Holding B.V
Draka Mexico Holdings S.A. de C.V.	Durango	Mexican Peso	57,036,501	99.999998%	Draka Holding B.V
				0.000002%	Draka Comteq B.V.
NK Mexico Holdings S.A. de C.V.	Mexico City	Mexican Peso	n/a	100.00%	Prysmian Finland OY
Prysmian Cables y Sistemas de Mexico S. de R. L. de C. V.	Durango	Mexican Peso	173,265,600	99.9983%	Draka Holding B.V
				0.0017%	Draka Mexico Holdings S.A. de C.V.
Africa					
Ivory Coast					
SICABLE - Sociète Ivoirienne de Cables S.A.	Abidjan	CFA Franc	740,000,000	51.00%	Prysmian Cables et Systèmes France S.A.S.
				49.00%	Third parties
Tunisia					
Auto Cables Tunisie S.A.	Grombalia	Tunisian Dinar	4,050,000	50.998%	Prysmian Cables et Systèmes France S.A.S.
				49.002%	Third parties
Eurelectric Tunisie S.A.	Menzel Bouzelfa	Tunisian Dinar	2,050,000	99.970%	Prysmian Cables et Systèmes France S.A.S.
				0.005%	Prysmian (French) Holdings S.A.S.
				0.005%	Prysmian Cavi e Sistemi S.r.l.
				0.020%	Third parties

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Oceania					
Australia					
Prysmian Australia Pty Ltd.	Liverpool	Australian Dollar	56,485,736	100.00%	Prysmian Cavi e Sistemi S.r.l.
Prysmian Telecom Cables & Systems Australia Pty Ltd.	Liverpool	Australian Dollar	0	100.00%	Prysmian Cavi e Sistemi S.r.l.
New Zealand					
Prysmian New Zealand Ltd.	Auckland	New Zealand Dollar	10,000	100.00%	Prysmian Australia Pty Ltd.
Asia					
Saudi Arabia					
Prysmian Powerlink Saudi LLC	Al Khoabar	Saudi Arabian Riyal	500,000	95.00%	Prysmian PowerLink S.r.l.
				5.00%	Third parties
China					
Prysmian Tianjin Cables Co. Ltd.	Tianjin	US Dollar	36,790,000	67.00%	Prysmian (China) Investment Company Ltd.
				33.00%	Third parties
Prysmian Cable (Shanghai) Co.Ltd.	Shanghai	US Dollar	5,000,000	100.00%	Prysmian (China) Investment Company Ltd.
Prysmian Wuxi Cable Co. Ltd .	Wuxi	US Dollar	29,941,250	100.00%	Prysmian (China) Investment Company Ltd.
Prysmian Hong Kong Holding Ltd.	Hong Kong	Euro	59,500,000	100.00%	Prysmian Cavi e Sistemi S.r.l.
Prysmian (China) Investment Company Ltd.	Bejing	Euro	59,500,000	100.00%	Prysmian Hong Kong Holding Ltd.
Nantong Haixun Draka Elevator Products Co. LTD	Nantong	US Dollar	2,400,000	75.00%	Draka Elevator Product Inc.
				25.00%	Third parties
Nantong Zhongyao Draka Elevator Products Co. LTD	Nantong	US Dollar	2,000,000	75.00%	Draka Elevator Product Inc.
				25.00%	Third parties
Draka Cables (Hong Kong) Limited	Hong Kong	Hong Kong Dollar	6,500,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Draka Shanghai Optical Fibre Cable Co Ltd.	Shanghai	US Dollar	15,580,000	55.00%	Draka Comteq Germany GmbH & Co.KG
				45.00%	Third parties
Suzhou Draka Cable Co. Ltd	Suzhou	Chinese Renminbi (Yuan)	174,500,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Prysmian PowerLink Asia Co. Ltd	Suzhou	Euro	0	100.00%	Prysmian (China) Investment Company Ltd.
Prysmian Technology Jiangsu Co. Ltd.	Yixing	Euro	44,280,000	100.00%	Prysmian (China) Investment Company Ltd.
Philippines					
Draka Philippines Inc.	Cebu	Philippine Peso	253,652,000	99.9999975%	Draka Holding B.V.
				0.0000025%	Third parties
India					
Associated Cables Pvt. Ltd.	Mumbai	Indian Rupee	61,261,900	32.00%	Draka UK Group Ltd.
				28.00%	Draka Holding B.V.
				40.00%	Oman Cables Industry SAOG
Jaguar Communication Consultancy Services Private Ltd.	Mumbai	Indian Rupee	34,432,100	99.99997%	Prysmian Cavi e Sistemi S.r.l.
				0.00003%	Prysmian S.p.A.
Indonesia					
P.T.Prysmian Cables Indonesia	Cikampek	US Dollar	67,300,000	99.48%	Draka Holding B.V.
				0.52%	Prysmian Cavi e Sistemi S.r.l.

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Malaysia					
Submarine Cable Installation Sdn Bhd	Kuala Lumpur	Malaysian Ringgit	10,000	100.00%	Prysmian Cavi e Sistemi S.r.l.
Sindutch Cable Manufacturer Sdn Bhd	Malacca	Malaysian Ringgit	500,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Draka Marketing and Services Sdn Bhd	Malacca	Malaysian Ringgit	500,000	100.00%	Cable Supply and Consulting Company Pte Ltd
Draka (Malaysia) Sdn Bhd	Malacca	Malaysian Ringgit	8,000,002	100.00%	Cable Supply and Consulting Company Pte Ltd
Oman					
Oman Cables Industry (SAOG)	Al Rusayl	Omani Riyal	8,970,000	51.17%	Draka Holding B.V.
				48.83%	Third parties
Oman Aluminium Processing Industries LLC	Sohar	Omani Riyal	4,366,000	51.00%	Oman Cables Industry (SAOG)
				49.00%	Third parties
Singapore					
Prysmian Cables Asia-Pacific Pte Ltd.	Singapore	Singapore Dollar	213,324,290	100.00%	Draka Holding B.V.
Prysmian Cable Systems Pte Ltd.	Singapore	Singapore Dollar	25,000	50.00%	Draka Holding B.V.
				50.00%	Prysmian Cables & Systems Ltd.
Draka Offshore Asia Pacific Pte Ltd	Singapore	Singapore Dollar	51,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Draka Cableteq Asia Pacific Holding Pte Ltd	Singapore	Singapore Dollar	28,630,504	100.00%	Draka Holding B.V.
Singapore Cables Manufacturers Pte Ltd	Singapore	Singapore Dollar	1,500,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Cable Supply and Consulting Company Pte Ltd	Singapore	Singapore Dollar	50,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Draka Comteq Singapore Pte Ltd	Singapore	Singapore Dollar	500,000	100.00%	Draka Comteq B.V.
Draka NK Cables (Asia) pte ltd	Singapore	Singapore Dollar	200,000	100.00%	Prysmian Finland OY
Thailand					
MCI-Draka Cable Co. Ltd	Bangkok	Thai Baht	435,900,000	70.250172%	Draka Cableteq Asia Pacific Holding Pte Ltd
				0.000023%	Draka (Malaysia) Sdn Bhd
				0.000023%	Sindutch Cable Manufacturer Sdn Bhd
				0.000023%	Singapore Cables Manufacturers Pte Ltd
				29.749759%	Third parties

The following companies have been accounted for using the equity method:

Legal name	Office	Currency	Share capital	% ownership	Direct parent company
Europe					
Germany					
Kabeltrommel GmbH & CO.KG	Troisdorf	Euro	10,225,838	29.68%	Prysmian Kabel und Systeme GmbH
				13.50%	Draka Cable Wuppertal GmbH
				56.82%	Third parties
Kabeltrommel GmbH	Troisdorf	Deutsche Mark	51,000	17.65%	Prysmian Kabel und Systeme GmbH
				23.53%	Draka Cable Wuppertal GmbH
				58.82%	Third parties
U.K.					
Rodco Ltd.	Woking	British Pound	5,000,000	40.00%	Prysmian Cables & Systems Ltd.
				60.00%	Third parties
Poland					
Eksa Sp.z.o.o	Sokolów	Polish Zloty	394,000	29.949%	Prysmian Cavi e Sistemi S.r.l.
				70.051%	Third parties
Russia					
Elkat Ltd.	Moscow	Russian Rouble	10,000	40.00%	Prysmian Finland OY
				60.00%	Third parties
Asia					
China					
Yangtze Optical Fibre and Cable Joint Stock Limited Co.	Wuhan	Chinese Renminbi (Yuan)	682,114,598	26.37%	Draka Comteq B.V.
				73.63%	Third parties
Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd.	Shanghai	Chinese Renminbi (Yuan)	100,300,000	75.00%	Yangtze Optical Fibre and Cable Joint Stock Limited Co.
				25.00%	Draka Comteq B.V.
Japan					
Precision Fiber Opticos Ltd.	Chiba	Japanese Yen	138,000,000	50.00%	Draka Comteq Fibre B.V.
				50.00%	Third parties
Malaysia					
Power Cables Malaysia Sdn Bhd	Selangor Darul Eshan	Malaysian Ringgit	8,000,000	40.00%	Draka Holding B.V.
				60.00%	Third parties

List of unconsolidated other investments:

Denominazione	% partecip.	Possedute da
India		
Ravin Cables Limited	51,00%	Prysmian Cavi e Sistemi S.r.l.
	49,00%	Terzi
Emirati Arabi Uniti		
Power Plus Cable CO. LLC	49,00%	Ravin Cables Limited
	51,00%	Terzi
Africa		
Sud Africa		
Pirelli Cables & Systems (Proprietary) Ltd.	100,00%	Prysmian Cavi e Sistemi S.r.l.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 DATED 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned Valerio Battista, as Chief Executive Officer, and Carlo Soprano and Andreas Bott, as managers responsible for preparing the corporate accounting documents of Prysmian S.p.A., certify, also taking account of the provisions of paragraphs 3 and 4, art. 154-bis of Italian Legislative Decree 58 dated 24 February 1998, that during 2016 the accounting and administrative processes for preparing the consolidated financial statements:

- have been adequate in relation to the business's characteristics and
- have been effectively applied.

2. The adequacy of the accounting and administrative processes for preparing the consolidated financial statements at 31 December 2016 has been evaluated on the basis of a procedure established by Prysmian in compliance with the internal control framework published by the Committee of Sponsoring Organizations of the Treadway Commission, which represents the generally accepted standard model internationally.

3. They also certify that:

3.1 The consolidated financial statements at 31 December 2016:

a. have been prepared in accordance with applicable international accounting standards recognised 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 provide a true and fair view of the issuer's statement of financial position and results of operations and of the group of companies included in the consolidation.

3.2 The directors' report contains a fair review of performance and the results of operations, and of the situation of the issuer and the group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, 1 March 2017

Valerio Battista	Carlo Soprano	Andreas Bott
Chief Executive Officer	Managers responsible for preparing corporate accounting documents	

Consolidated Financial Report

AUDIT REPORT

EY S.p.A.
Via Meravigli, 12
20123 Milano

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Fax: +39 02 722122037
ey.com

Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders of

Prysmian S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Prysmian S.p.A. and its subsidiaries (Prysmian Group), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation of these 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 art. 9 of Legislative Decree n. 38, dated February 28, 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated January 27, 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Prysmian Group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated February 28, 2005.

Other matters

The consolidated financial statements of Prysmian S.p.A. for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 23, 2016.

Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements. The Directors of Prysmian S.p.A. are responsible for the preparation of the Directors' Report and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Directors' Report and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Prysmian Group as at December 31, 2016.

Milan, March 20, 2017

EY S.p.A.

Signed by: Pietro Carena, partner

This report has been translated into the English language solely for the convenience of international readers.

2016 ANNUAL REPORT

Prysmian Group