2017 Annual Report

Prysmian Group

2017 Annual Report

Prysmian
Group

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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

The results for 2017 are in line with our expectations, with more or less stable organic sales for the year masking a fourth-quarter acceleration. Profitability was up, with a good increase in Adjusted EBITDA and a significant improvement in margins for the high-tech high value-added businesses of Energy Projects and Telecom. The robust order intake for submarine cables and systems of around one billion euros confirms the Group's technological and market leadership. We have won important projects, like the cabling of the first offshore wind farms in France and the IFA2 interconnector between Britain and France. The progress in margins has been assisted by the insourcing of important project execution activities, and by a more profitable mix. The Telecom business has continued to see strong growth in demand for optical cables, supported by the development of broadband networks and the initiation of investments in 5G.

Business performance

Group sales amounted to Euro 7,901 million, posting an organic variation of -0.1% assuming the same group perimeter and excluding metal price and exchange rate effects, with a fourth-quarter improvement (+2.9%) thanks to double-digit growth in Telecom's optical business and recovery by E&I and Industrial & Network Components. The most significant contributions to the growth in Adjusted EBITDA came from improved margins in the strategic businesses of Telecom, up to 17.0% (from 14.0% in 2016), and Energy Projects, up to 17.8% (from 15.9% in 2016). This positive progress absorbed not only the effects of negative performance by the subsidiary Oman Cable Industries, but also the adverse impact of exchange rate movements (a negative Euro 11 million compared with 2016). EBITDA climbed 1.9% to Euro 657 million, after a total of Euro 76 million in net expenses for business reorganisation, net non-recurring expenses, other net non-operating expenses and General Cable acquisition-related costs, while the Adjusted EBITDA margin on sales was stable compared with 2016 at 9.3%.

Adjusted EBITDA has thus reached a new high of Euro 733 million, after the 2016 record of Euro 711 million, hitting the target range Euro 710-750 million, and allowing the Board of Directors to propose a dividend of Euro 0.43 per share. Other important factors benefiting profitability have been our focus on operational and organisational efficiency, optimisation of manufacturing footprint and a favourable sales mix particularly for Energy Projects and Telecom.

Industrial investments

Like in the previous year, the Group has continued to develop its growth strategy by concentrating investments in high value-added tech-driven businesses, with the creation of centres of excellence and expertise, while pursuing manufacturing efficiencies in its lower value-added segments.

A total of Euro 257 million was invested in 2017 (Euro 233 million in 2016). The Group is currently engaged in a three-year Euro 250 million investment programme to expand its global production capacity to meet growing demand for optical cables for the development of new high-speed telecommunication networks. The Group has continued the drive to make its industrial footprint more competitive through the Fast Forward Operations Project.

Research & Development

R&D expenditure amounted to Euro 84 million in 2017, in line with 2016. Prysmian Group's growth strategy revolves around its commitment to R&D. In 2017, the European Investment Bank (EIB) and Prysmian Group announced the finalisation of a loan for Euro 110 million, to fund the Group's European R&D programmes over the period 2017-2020. Also thanks to EIB financing, Prysmian has been able to step up its level of investment, with cable technology proving it can make a decisive contribution to the challenge of digitalisation and the development of more efficient and environmentally sustainable power grids. Innovative optical fibres, eco-friendly cables with higher carrying capacity and ratings, and technologies for monitoring grid operating conditions are just a few of the areas on which we are focusing. The EIB loan is particularly earmarked for research on innovative materials involving the use of nanotechnology, systems for monitoring and managing underground and submarine networks, new cables and materials for more sustainable solutions and hybrid power-telecom cables. It will also serve to finance the development of new products, like underground and submarine power transmission cables and systems, high voltage P-Laser cables, cables for the renewable energy sector, high-performance optical fibres, cables for FTTH and FTTA applications, connectivity and development of smart cables and systems for sensing, monitoring and management. New investments will allow us to achieve even more significant results for the development of energy and telecom networks, like those obtained in recent years, including the new 600 kV P-Laser cable, the 600 kV XLPE and 700 kV PPL HVDC cables and the new 66 kV cable for energy applications, and for use in broadband networks, the new Flextube, the optical cable with the highest fibre density in the world. Work also continued in 2017 on the Pry-Cam electrical grid monitoring technologies developed by Prysmian Electronics, which are proving very successful.

Acquisition-led growth

Financial year 2017 marked a further acceleration in Prysmian's acquisition-led growth, confirming the Group's vocation to act as an aggregator on a global scale, raising the quality and competitiveness of the entire cable industry. The merger agreement reached with General Cable represents another fundamental step forward in this direction, and follows in the wake of a series of other important recent transactions. These include the acquisition of the assets of Shen Huan Cable in China, with the aim of pursuing an independent growth strategy in China, that of Corning's copper data cables business in Germany and, less recently, the acquisitions of Gulf Coast Downhole Technologies in the USA and Oman Cables Industry, now both at an advanced stage of integration.

Human capital development

Human capital development and business organisation are areas in which the Group is at the forefront for its innovative people development policies and initiatives to promote diversity and equal opportunities. Over the course of 2017, the Group operated several talent development and recruiting programs for both employees and potential candidates: over 5,100 employees attended training courses at the Prysmian Group Academy and the new Manufacturing Academy; more than 48 new high-potential recruits embarked on careers in the company with the "Build The Future" Graduate Program, now in its seventh year. The "Make It" program for engineers and technicians, now in its second year, and the new "Sell It" program for high-potential young sales professionals have resulted in the recruitment of 57 and 48 experienced operations and sales specialists respectively. One of the main initiatives in 2017 was the "Side by Side" project, aimed at increasing women's participation at all levels of the organisation, at fostering a culture of inclusion and respect for diversity and at promoting diversity and meritocracy within the business. Also fitting into this context is the YES - Your Employee Shares - scheme, which in its first four years has seen a more than 53% uptake by 7,400 employees in 28 countries, who have thereby also become investors in the company in which they work.

Sustainability in Prysmian: an integrated strategy

Sustainability plays a central role for Prysmian Group, which is committed to promoting a business model that integrates economic, social and environmental responsibility in all aspects and activities of the Group. A strategic approach focused on listening to and actively engaging with all the Group's internal and external stakeholders, constant attention to the evolution of the global and industry context, as well as the ability to think about the future in terms of environmental and societal responsibility, translate into a Prysmian business model based on the concept of shared values. A key strength of this approach is constant monitoring of the Group's sustainability performance throughout the value chain, intended not only to evaluate performances *ex post*, but also to develop a proactive attitude in decision-making processes, that can anticipate and seize new opportunities.

As leader in the energy and telecom cables and systems industry, the Group best expresses its approach to sustainability by directing its growth strategy towards key issues such as: sustainable, technological innovation of its solutions, environmental responsibility of its production processes, attention to workplace safety, development of talents, and management of relations with customers and local communities in which the Group operates.

Framing all this are the staunch principles of ethics, integrity, transparency, anti-corruption and respect for human rights that characterise Prysmian's way of doing business and are materially reflected in the Code of Ethics and the policies applied throughout the Group.

In 2017, Prysmian gave wide visibility to sustainability issues through targeted communication activities and campaigns, communication tools like the "Sustainability Yearly Overview" and the related website, and the events in Pikkala (Finland-February 2017), and in Delft (Netherlands-November 2017), dedicated to a selected panel of stakeholders.

Value creation for our shareholders

These combined positive performances have allowed us to achieve our guidance targets once again in 2017 and to propose our shareholders a dividend of Euro 0.43 per share. Lastly, looking to the future, I reiterate our satisfaction for the General Cable shareholders' approval of our acquisition proposal and confirm our expectation of closing the transaction by the third quarter of 2018. The approval of the Euro 500 million capital increase will give us greater financial flexibility and also allow us to look at other targeted acquisitions in line with our growth strategy.

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)	EY 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, Nominations and Sustainability Committee

(3) Appointed on 16 April 2015

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

INTRODUCTION

In compliance with the provisions of art. 5, par. 3 (b) of Italian Legislative Decree 254/2016, the Group has prepared its Consolidated Non-Financial Statement in a separate document (Sustainability Report 2017). This document, covering environmental, social and personnel-related issues, respect for human rights, and the fight against active and passive corruption, aims to provide its users with an understanding of the Group's business, its performance, results and impact. The Consolidated Non-Financial Statement 2017 has been prepared according to the reporting standards of the GRI *(*Global Reporting Initiative*)* and was approved by the Board of Directors on 27 February 2018. The document is available on the Group's website at www.prysmiangroup.com.

FINANCIAL HIGHLIGHTS

MAIN FINANCIAL AND OPERATING DATA (*)

(in millions of Euro)

	2017	2016	% change	2015
Sales	7,901	7,567	4.4%	7,361
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	691	680	1.7%	584
Adjusted EBITDA (1)	733	711	3.1%	623
EBITDA (2)	657	645	1.9%	622
Adjusted operating income (3)	556	538	3.3%	473
Operating income	421	447	-5.8%	399
Profit/(loss) before taxes	305	368	-17.1%	310
Net profit/(loss) for the year	223	262	-14.9%	214

(in millions of Euro)

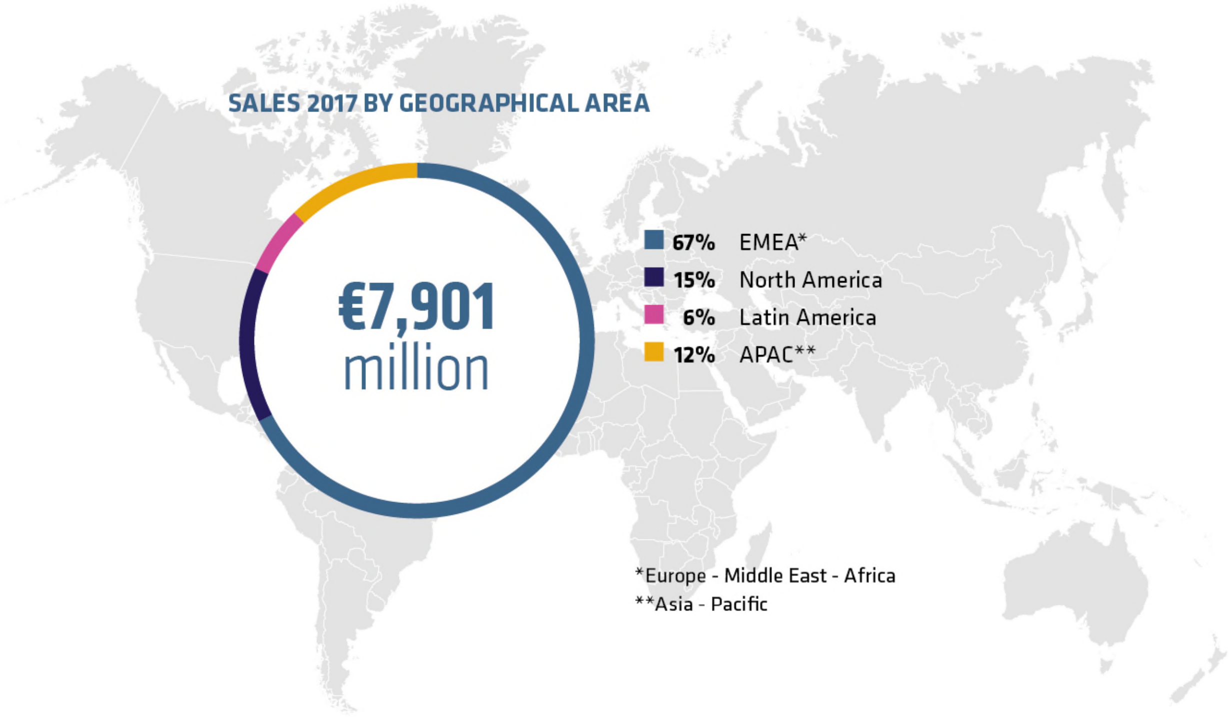
	31 December 2017	31 December 2016	Change	31 December 2015
Net capital employed	2,466	2,595	(129)	2,598
Employee benefit obligations	355	383	(28)	341
Equity	1,675	1,675	-	1,507
of which attributable to non-controlling interests	*188*	*227*	*(39)*	*229*
Net financial debt	436	537	(101)	750

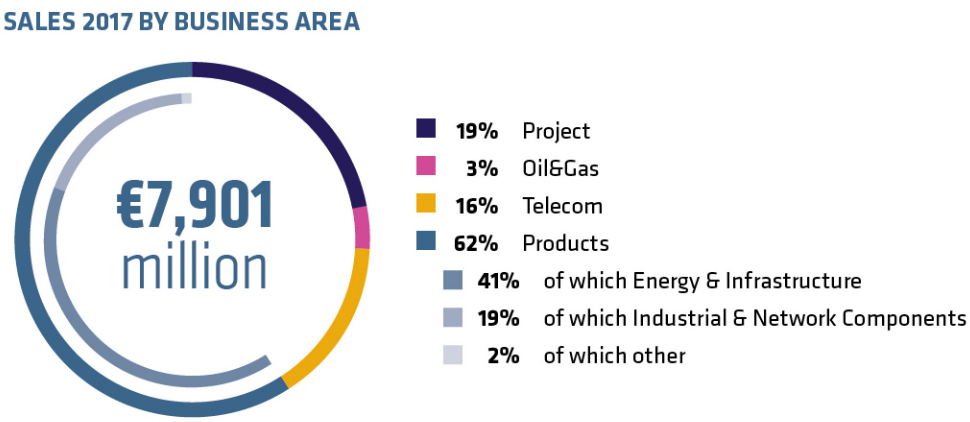
(in millions of Euro)

	2017	2016	% change	2015
Capital expenditures (4)	257	233	10.3%	210
of which for acquisition of Shen Huan assets	*35*	*11*		-
Employees (at year-end) (5)	21,050	20,493	2.7%	19,316
Earnings/(loss) per share				
- basic	1.07	1.15		1.00
- diluted	1.05	1.09		1.00
Patents (**)	4,871	4,651		4,785
Number of plants	82	82		88

(1) Adjusted EBITDA is defined as EBITDA before income and expense associated with company reorganisation, non-recurring items, other non-operating income and expense and General Cable acquisition-related costs.
(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, non-recurring items, other non-operating income and expense, General Cable acquisition-related costs, and 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.
(**) These are the total number of patents, comprising patents granted plus patent applications pending worldwide.

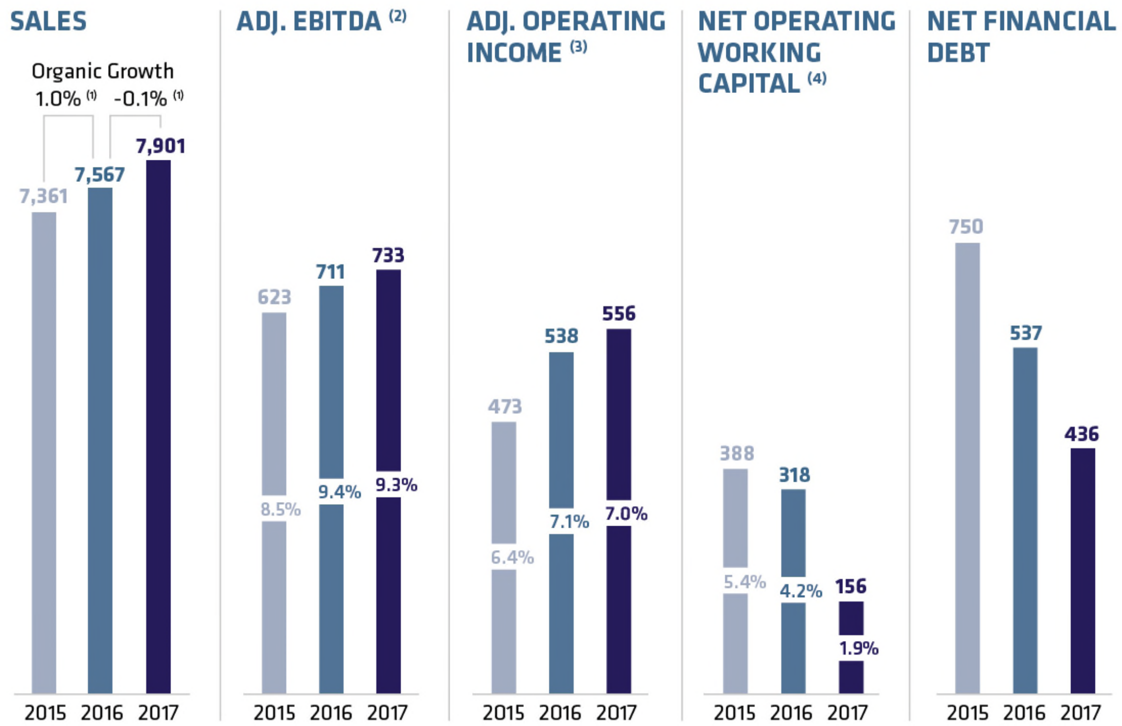




(*) Europe – Middle East - Africa.

KEY FINANCIALS

Amounts in millions of Euro – Percentages on sales



(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, non-recurring items, other non-operating income and expense and General Cable acquisition-related costs.

(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, before General Cable acquisition-related costs, and before the fair value change in metal derivatives and in other fair value items.

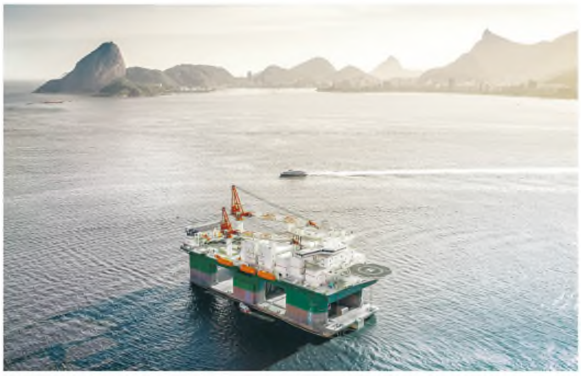
(4) Net Operating Working Capital is defined as Net Working Capital excluding the effect of derivatives. The percentage is calculated as Net Working Capital/Annualised last-quarter sales.

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 7.9 billion in 2017, more than 21,000 employees in 50 countries and 82 plants, 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.

Towards the end of 2017, Prysmian Group and General Cable Corporation announced that they had entered into a merger agreement under which Prysmian would acquire 100% of General Cable's shares, representing a landmark moment for the Group and a unique, strategic opportunity to create value for its shareholders. Based on pro-forma aggregated results for the twelve months ended 30 September 2017, the combined group would have had sales of over Euro 11 billion and adjusted EBITDA of approximately Euro 930 million. The combined group will be present in more than 50 countries with approximately 31,000 employees.

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.

Prysmian Group executes major submarine power interconnection projects for utilities and grid operators, like 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 distance (more than 400 km). In 2017 the Group started work on the IFA2 project**,** a 320 kV submarine cable system between France and Britain, capable of transmitting up to 1000 MW and contributing to the development of an increasingly interconnected European energy network. In the United States energy from different sources is illuminating large areas between San Francisco and New York City thanks to the Trans Bay, Neptune and Hudson projects. The Group is also a world leader in submarine connections for offshore wind farms. Following on from its involvement in major European projects of recent years, Prysmian will develop, for the first time in France, submarine cable systems to link three offshore wind farms to the national power grid, allowing renewable energy to be carried to thousands of businesses and homes.

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 HVDC 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 sector of **renewable energy** generation and distribution, Prysmian Group has been involved in 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. Between late 2017 and early 2018, the Group was awarded the contract for the cable to link the Kincardine floating offshore wind farm to mainland UK, marking Prysmian's entry into this emerging sector. The Group has also participated in research and development projects such as Energy Observer, the world's first catamaran powered entirely by renewable energy sources, and Solar Impulse 2, a special solar-powered aircraft, which are circumnavigating the globe to demonstrate that power from renewable sources is now a reality.

The Group's fire-resistant cables can be found at the very heart of the world's 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. These have been joined in 2017 by the new Louvre Abu Dhabi, in which 500 km of FP fire-resistant cables have been installed to ensure visitor safety and protection of the works of art. In Milan, Prysmian Group cable solutions have contributed to enhancing the safety of Isozaki Tower, the skyscraper designed by the renowned eponymous Japanese architect and inaugurated in 2017 in the futuristic City Life district.

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 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 that supports 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, like deployment of the underwater FlexTube® cable boasting the densest fibre count ever (1,728), installed in 2017 to boost broadband connections in Hong Kong, marking a true world first in broadband telecommunication network technology.

The Group has also 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 an ultra broadband network that will connect 93% of the country's residential and commercial buildings. In the United States Prysmian will partner the telecom carrier Verizon Communications in its "Onefiber" project which, with 17 million kilometres of ribbon and loose tube cables, will foster an IoT digital transformation through the deployment of 5G services.

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 pioneering "turnkey" submarine cable systems for installation at depths of up to 2,000 metres, assisted by its cable-laying fleet boasting the "Giulio Verne", one of the largest and most high-tech such vessels in the world, the "Cable Enterprise" and the "Ulisse". Prysmian also offers cutting-edge solutions, ranging from project management to cable installation, for submarine cables between offshore wind farms and the mainland, used for both generation and distribution. 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 diverse 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.

Prysmian'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 is partner to leading international carmakers. The product range is completed with network accessories and components for connecting cables and other network elements.

The **OIL&GAS Operating Segment** encompasses Downhole Technology products, SURF and Core Cables for applications in the fields of Exploration & Production, Pipeline & LNG and Refineries & Petrochemicals.

- The Group's Downhole Technology (DHT) business offers tech-driven products for oil, geothermal and gas wells serving as integral components of downhole control, injection, flow assurance and monitoring systems and including latest-generation TEC (Tubing Encapsulated Cable), specialty tubing and specialty optical fibre sensing cable. Completing the offer is a wide 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 covers: 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. Completing the range is 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 BendBright^{xs} 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[1]

GLOBAL PRESENCE

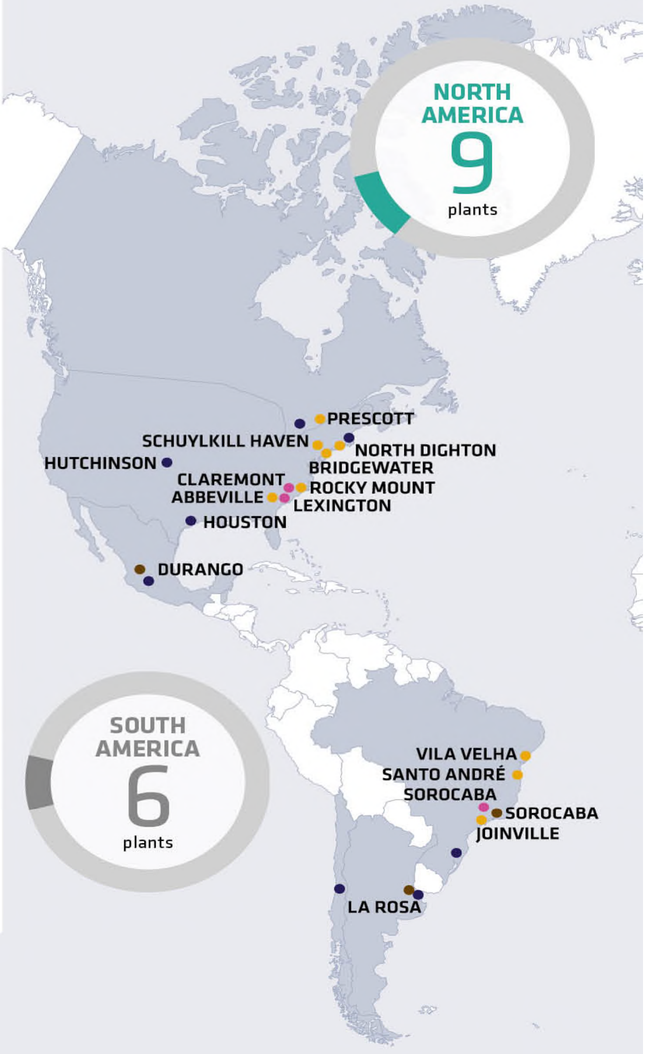
EMEA
Ivory Coast
Abidjian
Denmark
Albertslund
Estonia
Keila
Finland
Pikkala
Oulu
France
Amfreville
Charvieu
Chavanoz
Gron
Paron
Cornimont
Douvrin
Calais
Sainte Genevieve
Germany
Neustadt
Schwerin
Nurnberg
Wuppertal
Berlin
Kopenick
Italy
Arco Felice
Battipaglia
Giovinazzo
Livorno
Merlino
Pignataro Maggiore
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
Malmö
Nassjo
Stockholm
Tunisia
Grombalia
Turkey
Istanbul
Mudanya
U.A.E.
Fujairah
UK
Aberdare
Bishopstoke
Wrexham
Washington
Hungary
Balassagyarmat
Kistelek

SOUTH AMERICA
Argentine
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
Republic of Singapore
Singapore
Thailand
Rayong

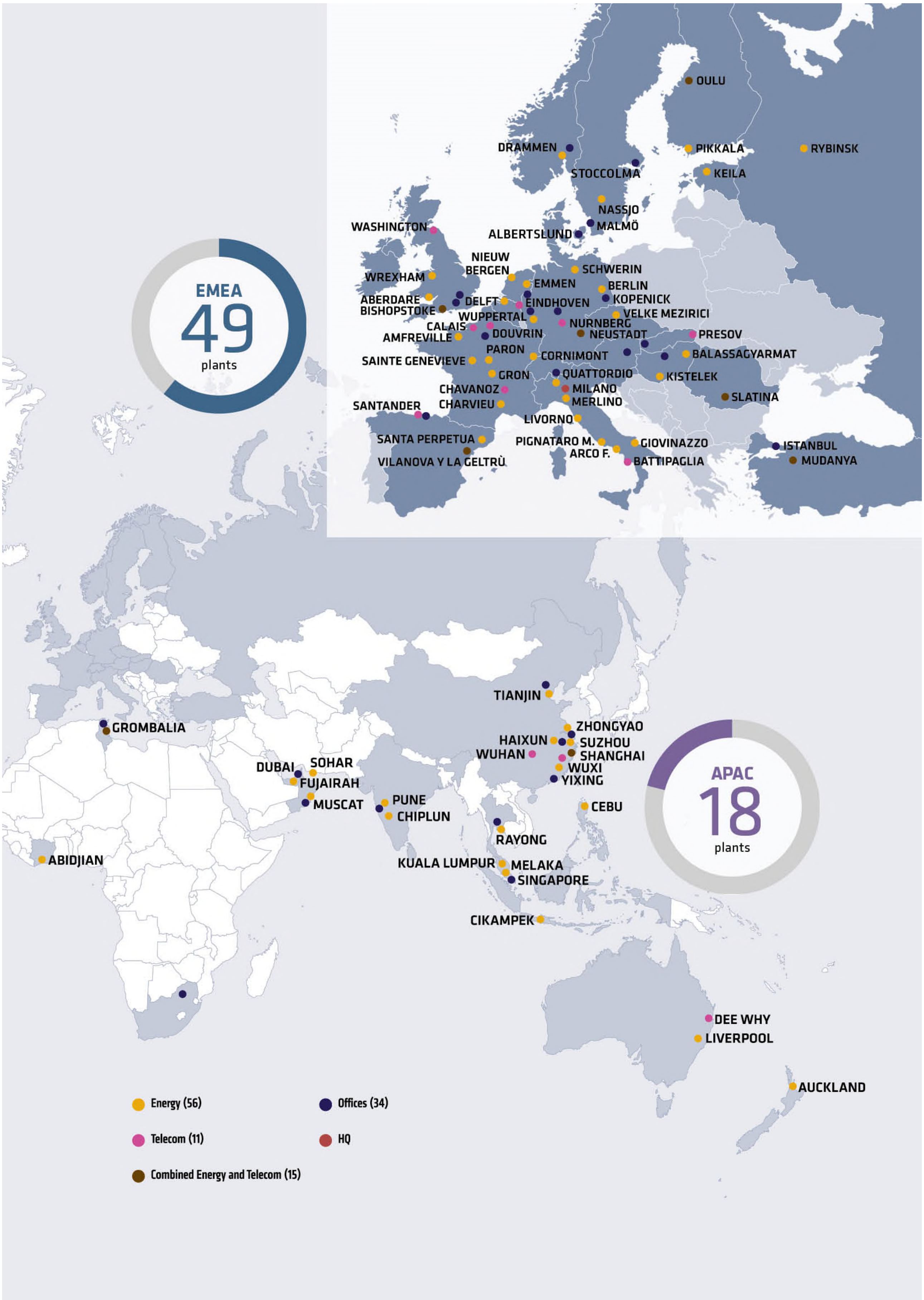
NORTH AMERICA
Canada
Prescott
Mexico
Durango
USA
Abbeville
Lexington
North Dighton
Bridgewater
Rocky Mount
Claremont
Schuylkill Haven
Houston
Hutchinson

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



[1] The above geographical representation includes plants belonging to companies not consolidated line-by-line.

Prysmian Group



Prysmian Group

DEVELOPMENT OBJECTIVES AND STRATEGIES

FUNDAMENTALS OF OUR GROWTH STRATEGY

As world leader in the energy and telecom cables and systems industry, Prysmian aims to act as a "technology 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 a primary driver in 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 act as a "technology enabler", in partnership with its customers, of the economic and social development of 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 new sources of power generation and data transmission. 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.

Prysmian Group's critical success factors 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 its customers. This is why the Group has a constant commitment to improving 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 healthy creation of value through the adoption of a system of governance and a business model that allow long-term sustainability of such results.
"Sound" management and financial discipline. The Group aims to apply "sound" and prudent principles to 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 able to ensure high rates of growth and profitability.

More efficient and innovative industrial and commercial processes. Prysmian has over time consolidated its ability to optimise industrial processes. In 2017 the Group took an important step towards Factory 4.0 with the implementation of the "Fast Track" pilot project. Launched in the Calais optical cable plant (France), the project will make factories smarter, using cutting-edge IoT technologies and Big Data analytics and leveraging the interaction between digital knowledge and human expertise. The "Fast Track" approach will ensure full traceability of manufacturing activities and materials, while managing events that could jeopardise production processes and providing all relevant real-time information needed to identify root causes and possible solutions. This digital ecosystem will not only make production processes more efficient, but will also improve the quality of work for employees.

APPROACH TO THE MARKET

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 by being constantly present, from product design through to delivery, and providing 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 large complex 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.

APPROACH TO SUSTAINABILITY

Prysmian Group is strongly committed to making sustainable growth a reality, thanks to the very latest technologies and a responsible business model. From its products, to its sites, processes and people, Prysmian Group's attention is constantly focused on solutions that improve efficiency, protect people's health and safety, and create constructive relationships with local communities in which it operates, all while limiting its impact on the environment. Prysmian has aligned its sustainable development strategy with the Sustainable Development Goals (SDGs) established by the United Nations, setting itself measurable sustainability targets to be achieved by 2020.
For further details and information on the Group's sustainability policies and performance, please refer to the 2017 Sustainability Report, a non-financial statement.

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, Prysmian Group keeps its corporate governance system constantly in line 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.

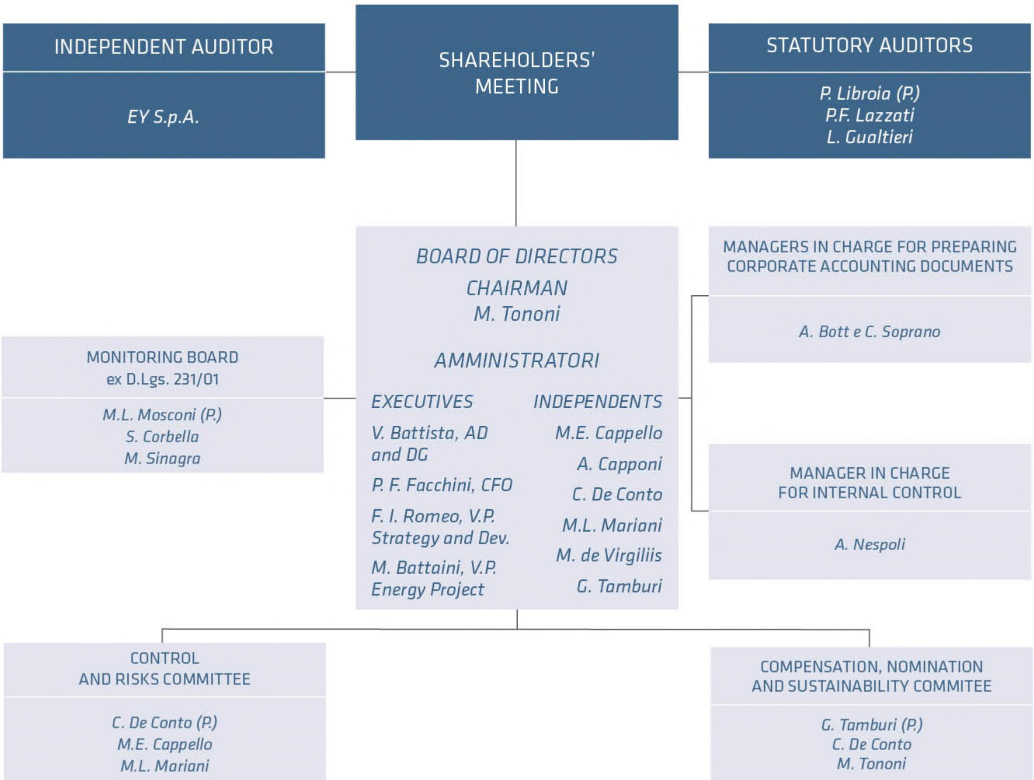
Once again in 2017, Prysmian undertook several initiatives to implement the recommendations of the Corporate Governance Code[1], to which it has adhered.

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.

[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.

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.

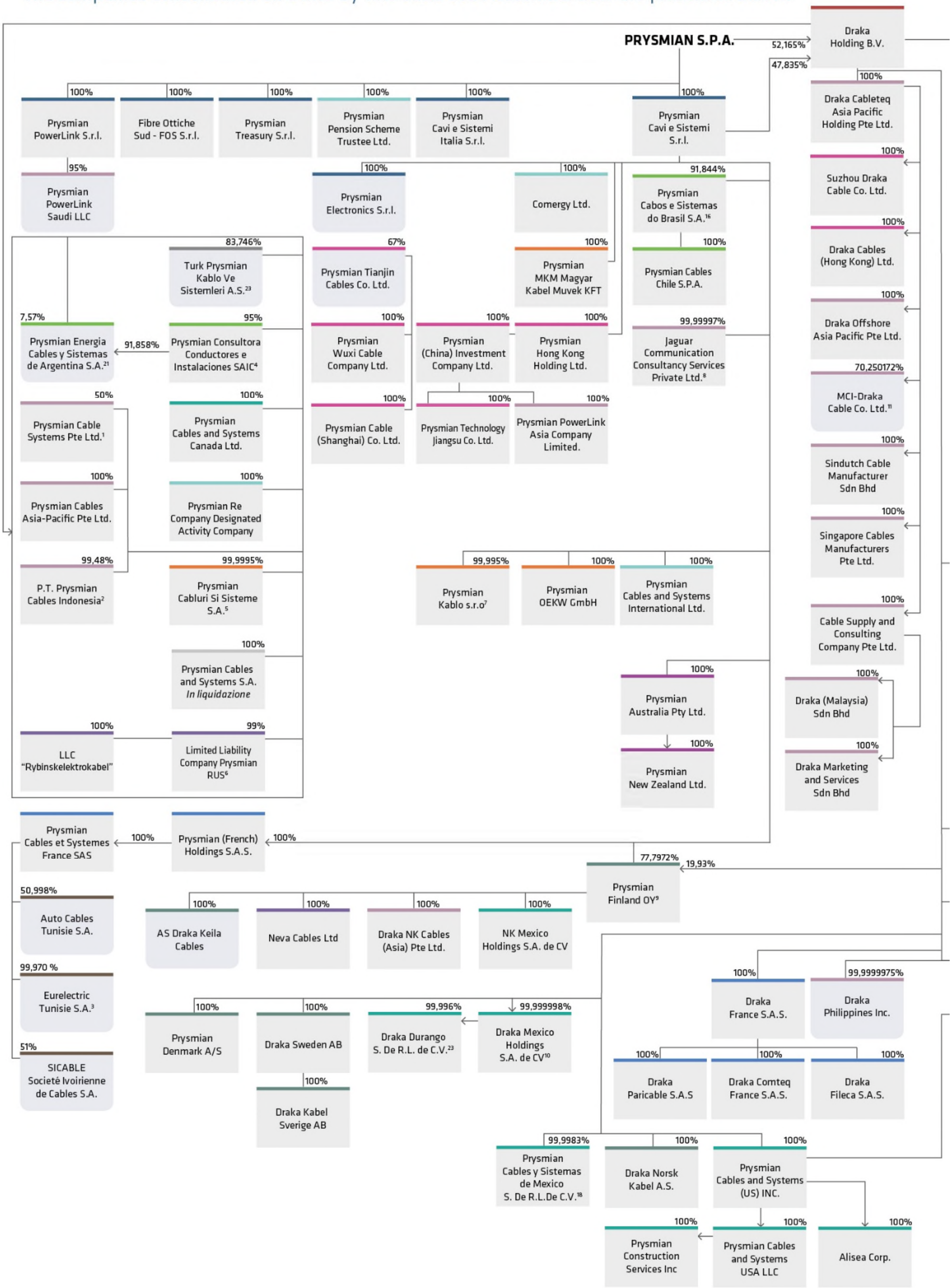
Management of the business is the responsibility of the directors, who take the necessary actions to implement the business purpose. The Board of Directors is also responsible for the Group's internal control and risk management system and is therefore required to verify its adequacy and to adopt specific 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, Nominations and Sustainability Committee and a Monitoring Board instituted under Legislative Decree 231/2001.

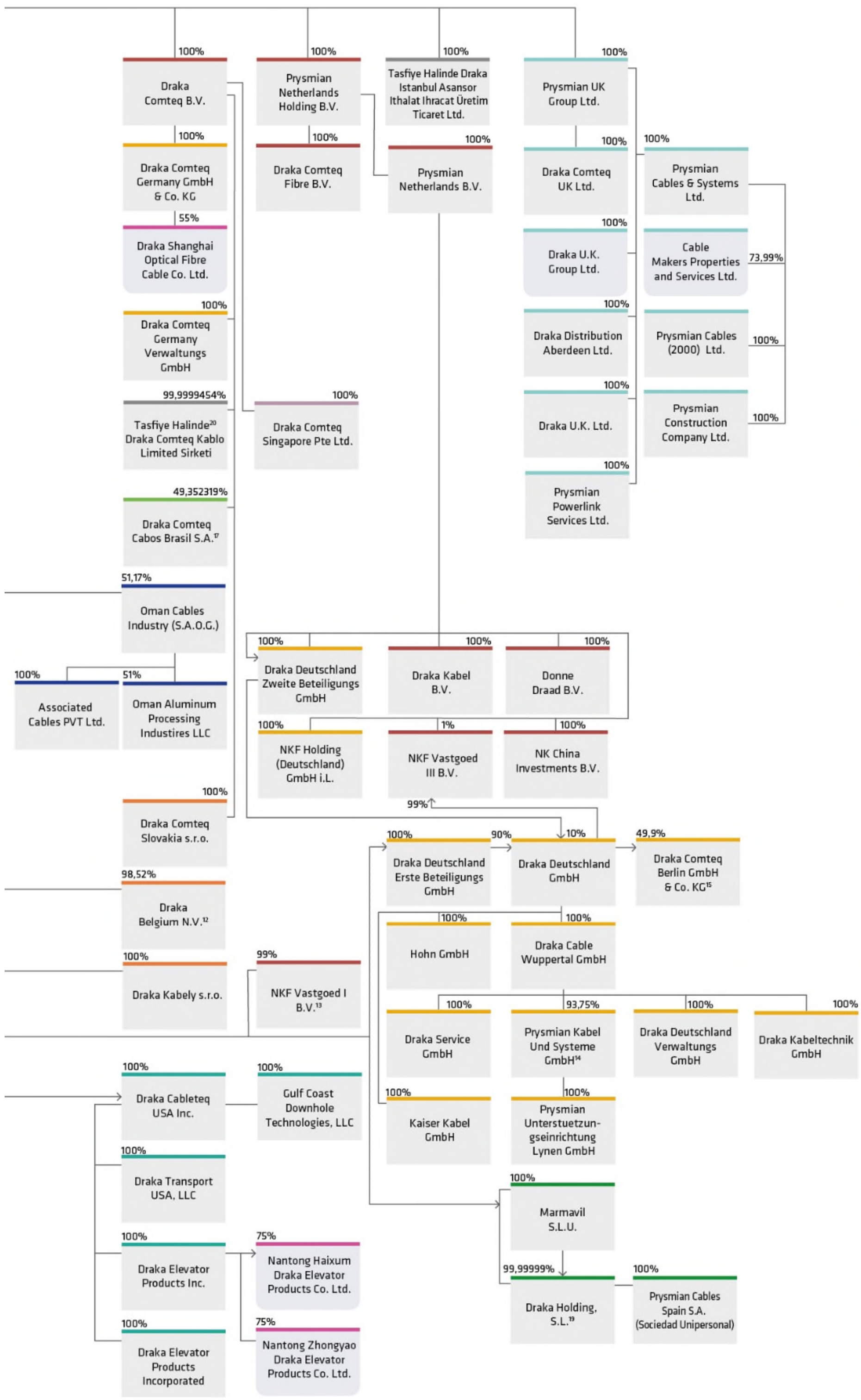
Further information regarding (i) the corporate governance system of Prysmian S.p.A. (ii) its ownership structure, as required by art.123-bis of the Unified Finance Act and (iii) directors' disclosures about directorships or statutory auditorships held in other listed or relevant companies, can be found 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 2017 are presented below:

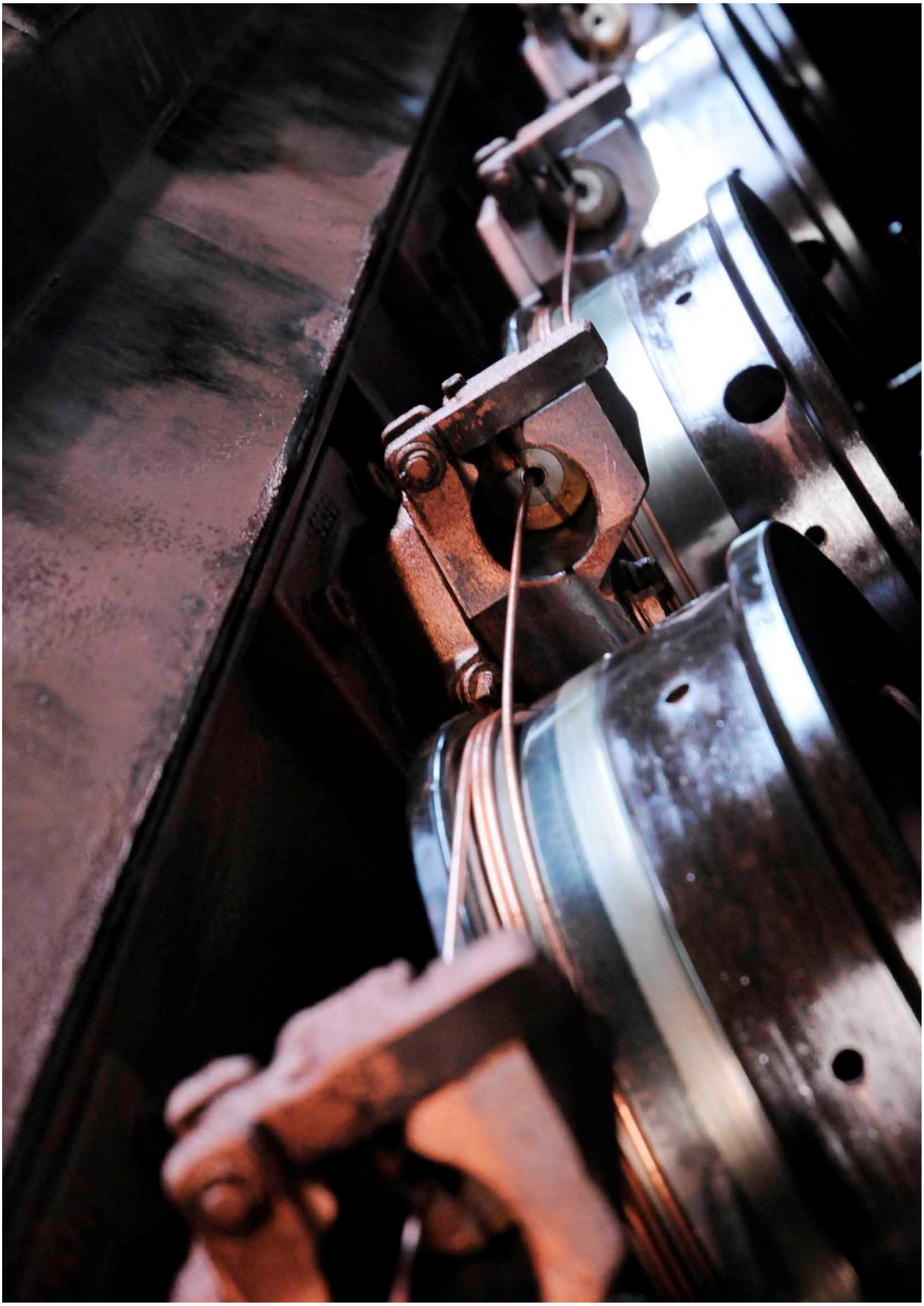


Prysmian Group



- 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 and Sistemi S.r.l. 0.005%
4. Prysmian Cavi and Sistemi S.r.l. 5%
5. Prysmian Cavi and Sistemi S.r.l. 0.0005%
6. Prysmian Cavi and 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. Prysmian S.p.A. 6.25%
15. Prysmian Netherlands B.V. 50.10%
16. Prysmian S.p.A. 0.0401% Draka Holding B.V. 1.6874% Draka Comteq B.V. 6.42828%
17. Prysmian Cabos and Sistemas do Brasil S.A. 50.647681%
18. Draka Mexico Holdings S.A. de CV 0.0017%
19. Marmavil S.L.U. 0.00001%
20. Prysmian Netherlands B.V. 0.0000546%
21. Prysmian Cabos and Sistemas do Brasil S.A. 0.263%
22. Turk Prysmian Kablo Ve Sistemleri A.S. 0,705%
23. Draka Holding B.V. 0.004%



ORGANISATIONAL STRUCTURE (*)

(*) The organisation chart reflects the organisational structure as from February 2018.
(**) France delegated for Aerospace.
(1) NORTH EUROPE: Denmark, Estonia, Finland, Norway, Russia, Sweden, Benelux.
(2) CENTRAL EAST EUROPE: Austria, Czech Republic, Germany, Hungary, Poland, Romania, Slovak Republic.
(3) SOUTH EUROPE: France, Italy, Spain, Tunisie and Ivory Coast.
(4) NORTH AMERICA: Canada, Mexico, USA.
(5) SOUTH AMERICA: Argentina, Brazil, Chile.
(6) ASEAN: Indonesia, Malaysia, Philippines, Singapore, Thailand.

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, transformed between 2002 and 2004 into one of the most profitable and competitive organisations in its industry. In 2005 he played a key role in the creation of Prysmian Group, leading to its stock 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 worldwide.

FABIO IGNAZIO ROMEO

Chief Strategy and Development Officer. Executive Director.

Born on 25 August 1955 in Rho (Milan), he graduated in Electronic Engineering from the Polytechnic University of Milan in 1979. In 1986 and 1989, respectively, he obtained an MS. and a Ph.D. in Electrical Engineering and Computer Sciences at the University of California in Berkeley. In 1981, he began his career at Tema (ENI Group) as chemical plant control system engineer. In 1982, he joined Honeywell as a Member of Technical Staff, later becoming technical advisor to the Honeywell Group's CEO. In 1989, he joined Magneti Marelli as Innovation Manager within the Electronics division. In 1995, he was appointed Managing Director of Magneti Marelli's rear-view mirror division, and in 1998 he became Managing Director of Magneti Marelli's electronic systems division. In 2001, he moved to Pirelli & C. S.p.A. Group, where he held the position of Director for the Pirelli Tyre division's Truck business unit. One year later, he was appointed Utilities Director of the Pirelli Cable division. In December 2004, he became Director of the Group's Energy Cables and Systems business unit, a position which he held until December 2013, when he was named Chief Strategy and Development Officer. He has been a member of Prysmian's Board of Directors since February 2007. He was elected for the current term on 16 April 2015 from the list submitted by the Board of Directors, which obtained the majority of votes in the Shareholders' Meeting.

PIER FRANCESCO FACCHINI

Chief Financial Officer

Pier Francesco Facchini has been Prysmian Group CFO since January 2007. He graduated in Business Economics in 1991 from the "Luigi Bocconi" University in Milan. His first work 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 and 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. He has been a member of Prysmian's Board of Directors since February 2007.

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 Business Energy Project. Executive director

After graduating in Mechanical Engineering from the Polytechnic University of Milan and earning an MBA from SDA Bocconi in the same city, he started his career in Pirelli Group in 1987 and held various positions in R&D and Operations over an 18-year period. After running the Business Development department from 2000 to 2002, covering the three Business Divisions of Tyres, Energy Cables and Telecom Cables, he was appointed Operations Director of Energy Cables and Telecom Cables at Pirelli Group. In 2005, he was appointed CEO of Prysmian UK and in January 2011 Chief Operating Officer of Prysmian Group, a position he held until 2014, when he took on the roles of Senior Vice President Energy Projects and Chairman and CEO of Prysmian PowerLink S.r.l., positions which he still holds today.

He has been a member of Prysmian's Board of Directors since February 2014.

HANS NIEMAN

Senior Vice President Energy Products (in office until January 2018)

Hans Nieman became Senior Vice President Energy Products in 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, and then moved to the cable industry joining Alcatel Cable in 1991. 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 been Senior Vice President OIL & GAS since January 2016. He holds a degree in Electronic Engineering and an MBA. He has a 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.

FRANCESCO FANCIULLI

Senior Vice President Energy Products (in office since February 2018)

Francesco Fanciulli has been Senior Vice President of Prysmian Group's Energy Products business area since February 2018. He holds a degree in Law from the Cattolica University of Milan. In 1988, he joined Procter and Gamble, where he served in various leading positions in sales and marketing, culminating with his appointment as Head of Mass Retail for Italy. He moved to Pirelli in 1998 as Marketing Director for its Tyres division and successfully filled a variety of sales-related roles in this division, eventually becoming Senior Vice President Sales & Marketing. He has been with Prysmian since 2008, contributing his vast experience in sales and marketing and occupying various positions of regional responsibility, such as CEO India, CEO Turkey and CEO Danube Area. Since 2015 - when the Central Eastern Europe region was created - he has been CEO CEE Region, responsible for integration of Germany and the Danube Area and development of the region's industrial footprint.

PRYSMIAN AND THE FINANCIAL MARKETS

OWNERSHIP STRUCTURE

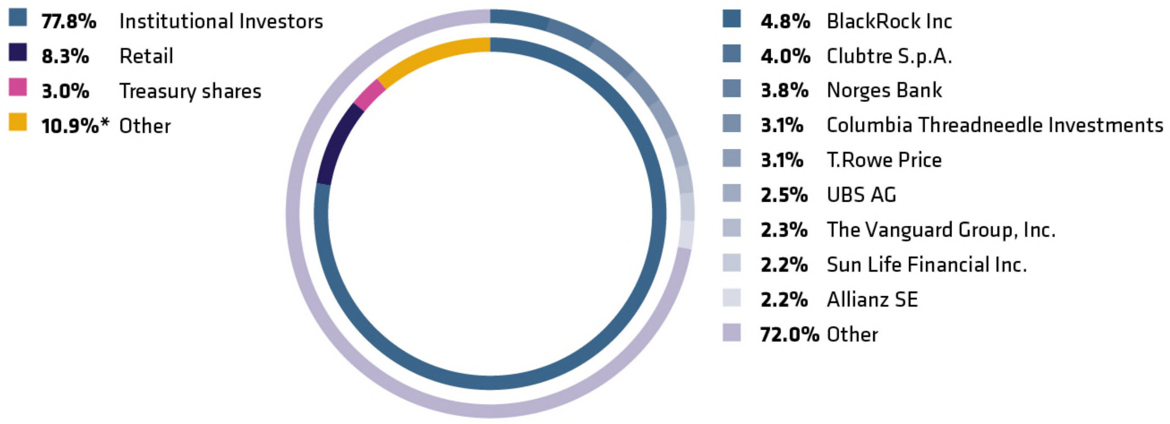
Prysmian Group can be considered a Public Company to all intents and purposes: its free float is equal to 100% of the shares, with nearly 80% of its capital held by institutional investors.

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 2017, the Company's free float was equal to 100% of the outstanding shares and major shareholdings (in excess of 3%) accounted for approximately 19% 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 2017, the share capital of Prysmian S.p.A. amounted to Euro 21,748,275.40, comprising 217,482,754 ordinary shares with a nominal value of Euro 0.10 each. The ownership structure at this date is shown below.

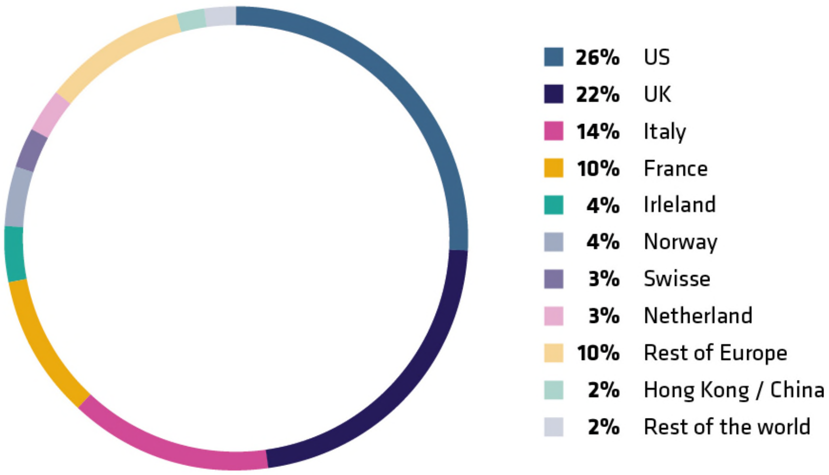
OWNERSHIP STRUCTURE BY TYPE AND MAJOR SHAREHOLDERS



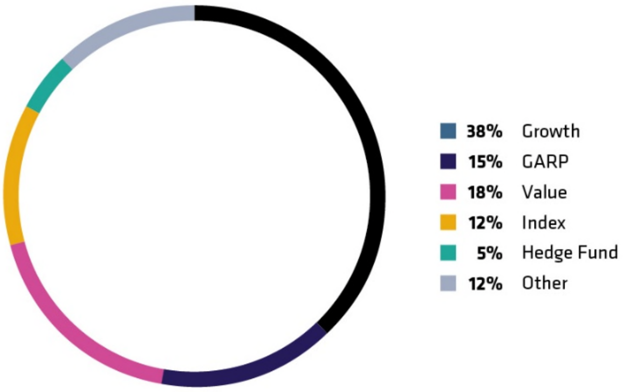
* Mainly includes shares held by non-institutional investors and shares with third-party custodians held for trading.

Source: Nasdaq OMX, December 2017 (Ownership structure by type); Nasdaq IR public source; Annex A - Form 120A published on 17/01/2018;Annex A - Form 120A published on 29/01/2018.

INSTITUTIONAL INVESTORS BY GEOGRAPHICAL AREA



INSTITUTIONAL INVESTORS BY INVESTMENT APPROACH



Source: Nasdaq OMX December 2017

The geographical ownership structure shows a predominant presence of the United Kingdom, which represents 26% of the institutional investor total, an increase from 2016, followed by the United States, which accounted for 22%, a decrease from 2016. Italy accounted for around 14% of the capital held by institutional investors, slightly down from 2016, while France's share edged up to 10%. The proportion of Asian investors was basically unchanged.
Approximately 71% 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 stable compared with 2016, while the Hedge Fund component, focused on a shorter time horizon, increased its weight to reach 5% 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 on 18 January 2017. Tamburi Investment Partners, owner of 43.28% of Clubtre S.p.A., issued a statement saying that this transaction was a partial realisation of the major investment made in 2010, and that it would continue to keep a significant holding in Prysmian through Clubtre.

ANNUAL GENERAL MEETING

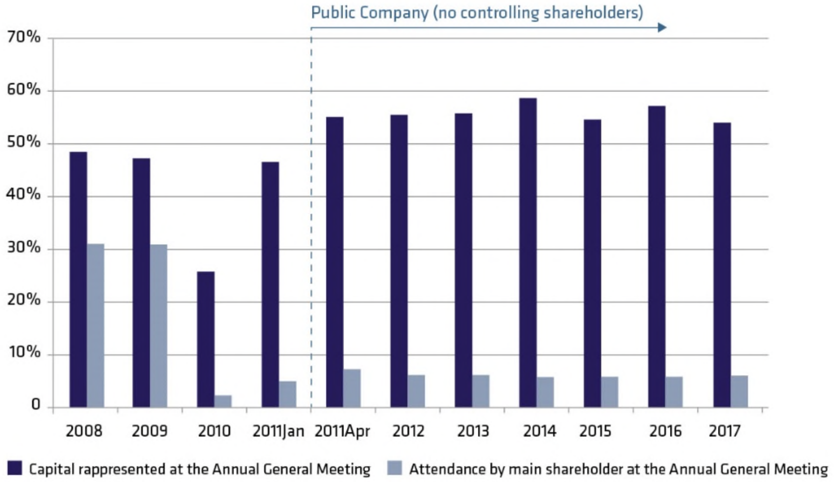
The Annual General Meeting saw participation by over 54% of share capital, with more than 1,700 shareholders present, in person or by proxy.

The Annual General Meeting of the shareholders of Prysmian S.p.A. was held on 12 April 2017 in single call to adopt resolutions on a number of items: in ordinary session, the approval of the 2016 financial statements, the allocation of profit for the year and declaration of a dividend, the authorisation of a share buyback programme, and a consultation on remuneration policies; in extraordinary session, the meeting authorised the convertibility of the equity-linked bond, approved on 11 January 2017, with a nominal value of Euro

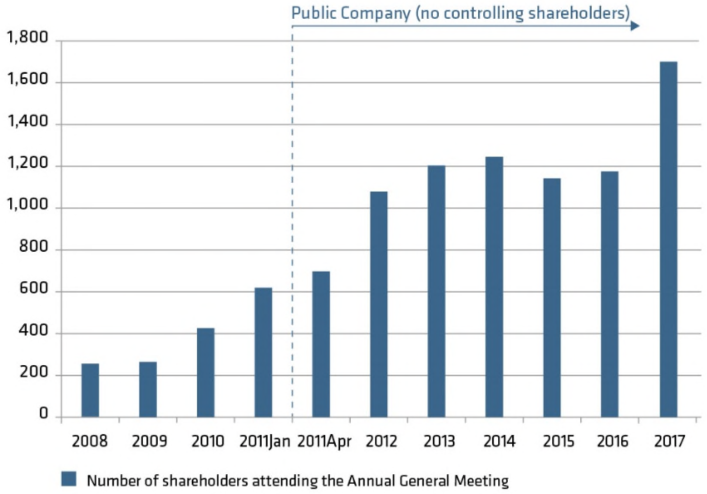
500,000,000.00. The meeting, which was attended by over one thousand seven hundred shareholders, in person or by proxy, representing more than 54% of share capital, approved every item on the agenda by a wide majority (more than 95%).

The Annual General Meeting also approved the declaration of a dividend of Euro 0.43 per share, in line with the amount distributed the previous year. The dividend was paid on 26 April 2017, involving a total pay-out of approximately Euro 91 million.

ANNUAL GENERAL MEETING: SHARE CAPITAL



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



FINANCIAL CALENDAR 2018

27 February 2018	Group Annual Report and draft Annual Report of Prysmian S.p.A. at 31 December 2017
12 April 2018	Annual General Meeting to approve Annual Report at 31 December 2017
10 May 2018	First-Quarter Report at 31 March 2018
25 July 2018	Half-Year Report at 30 June 2018
8 November 2018	Third - Quarter Report at 30 September 2018

FINANCIAL MARKET PERFORMANCE

On the whole, 2017 showed an improvement in the global macro environment, with a faster pace of growth in Europe and the United States than 2016 and a recovery in Brazil and Russia after two years in recession.

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 FTSE4Good, composed of a select basket of listed companies that demonstrate excellent Environmental, Social and Governance (ESG) practice.

World economic growth in 2017 picked up on the previous year, on the back of improved macroeconomic conditions in Europe and the United States and resumed growth in Brazil and Russia after two years in recession. The Eurozone benefited from a continuation in 2017 of the European Central Bank's expansionary monetary policies and from newfound political stability after the shock of the 2016 Brexit referendum.

The main emerging economies reported solid growth in 2017, spearheaded once again by positive performance in China, up from 2016, tailed by brisk growth in India. The main area of weakness was the Middle East and North Africa region, primarily due to the region's geopolitical uncertainty and highly oil-dependent economy.

The main Eurozone stock indexes posted a positive performance in 2017, primarily driven by the stock markets in Italy (FTSE MIB +13.6%) and Germany (DAX +12.5%). The French market grew by 9% (CAC40 +9.3%) and the Spanish one by 7% (IBEX +7.4%). The US stock market reached record highs with the Dow Jones Industrial rising by 25.1% and the Nasdaq by 28.2%. Among the major emerging country indexes, the Brazilian market index (Bovespa) recorded a 26.9% increase, reflecting encouraging signs of economic rebound in 2017 after more than two years of recession and newfound political stability. In China, the Hong Kong Hang Seng index climbed by 36%, while the Shanghai Composite index posted a modest growth of 6.6%.

The Prysmian stock appreciated 11.4% over the course of 2017, climbing to Euro 27.19/share from Euro 24.40 at the end of 2016. On 1 November 2017, the stock price recorded its highest closing level since listing, reaching Euro 30.00 per share.

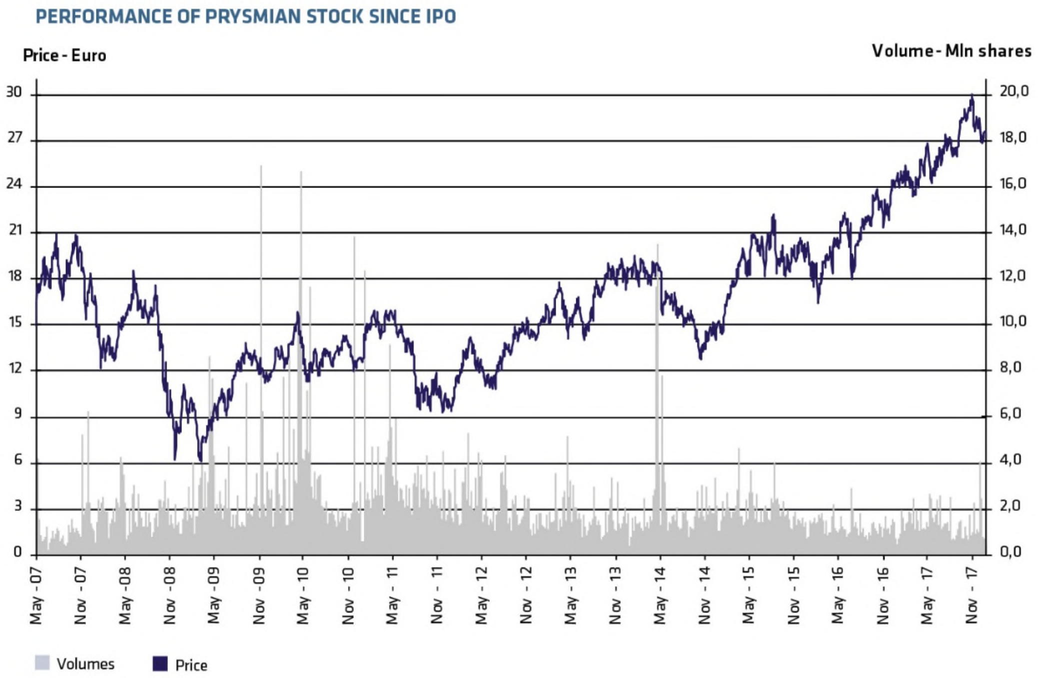
The average share price was Euro 26.31 in 2017, up from Euro 20.93 in 2016. Including dividend pay-outs, the total shareholder return offered by the Prysmian stock was +13.2% in 2017 and +106.2% since its date of listing. Excluding the contribution of dividends and so just considering the change in price, the value created was +11.4% in 2017 and +81.3% since listing. This performance reflected the consistency of the Group's results, both in terms of organic growth and increase in margins, as well as the solidity of its financial structure. Lastly, the stock benefited from expectations about acquisition-led growth, crystallising late in the year with the announcement of the offer to acquire General Cable in the US. The Prysmian stock's performance in 2017 was largely in line with the principal benchmark indexes, like the Euro Stoxx 600 Industrial Goods & Services, which gained 14.7% in 2017, while the FTSE MIB grew by 13.6% over the period thanks to improvement in the Eurozone's macroeconomic and industrial output data. Extending the time horizon back to the Prysmian listing date, the Euro Stoxx 600 Industrial Goods & Services) appreciated by 51.5% while the FTSE MIB lost 50%, both well below the performance of the Prysmian stock.

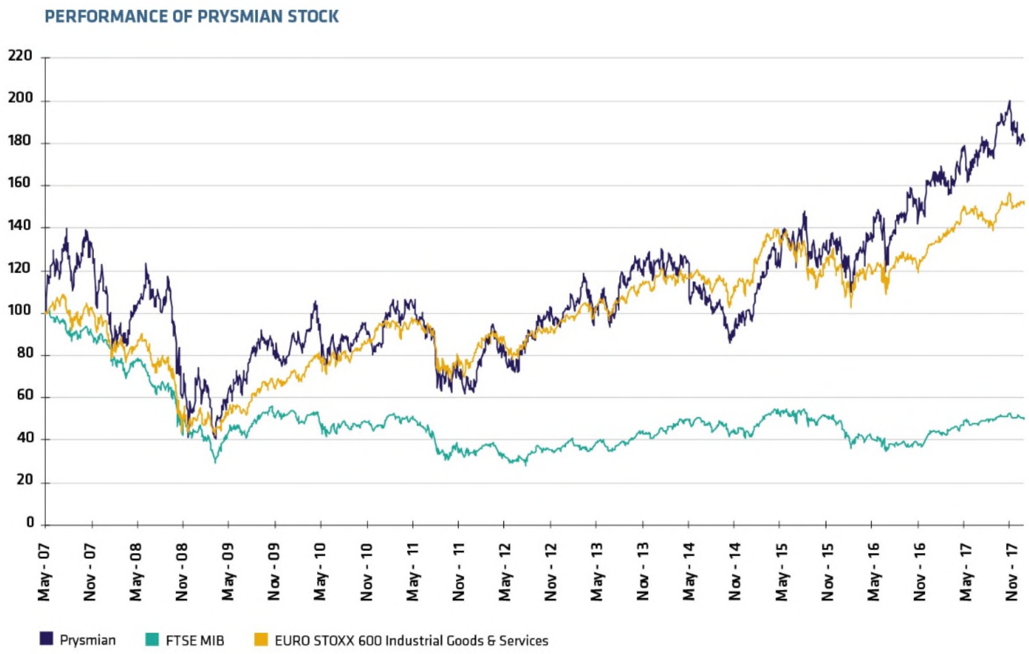
Looking at the stock's performance over the four quarters of 2017, its uptrend was most pronounced in the second and third quarters, with an outperformance against the benchmarks, while the first and fourth quarters both reported a more stable price trend. In the first quarter, the stock price grew by 1.6%, versus gains of 6.5% and 7.6% by the FTSE MIB and Euro Stoxx 600 Industrial respectively. In the second quarter, the stock recovered most of the ground lost at the beginning of the year, posting 3.9% growth, well above that recorded by the FTSE MIB (+0.4%) and the Euro Stoxx 600 Industrial (+1.8%), supported by a rating upgrade by two major investment banks.

During the third quarter, the Prysmian stock achieved its best performance of the year, going from Euro 25.75 at 30 June 2017 to Euro 28.58 at 30 September 2017, a performance of +11.0%, in line with that of the Italian market (FTSE MIB +10.3%), supported by a consolidating recovery in the country's macroeconomic cycle, versus a 4.2% gain by the Euro Stoxx 600 Industrial over the same quarter. After a positive start to the fourth quarter, during which the stock hit an all-time high of Euro 30 on 1 November 2017, its price retreated steadily to close the year at Euro 27.19, with a quarterly performance of -4.9% similar to that of the FTSE MIB index (-3.7%), while the Euro Stoxx 600 Industrial sector index remained largely unchanged (+0.4%). On 4 December 2017, the Group announced the offer to purchase 100% of General Cable shares at a price of USD 30 per share. After an initially negative reaction, the market gradually recognised the deal's high potential in terms of creating value for shareholders, thanks to the expected synergies and the high geographical complementarity achieved through combining the two companies.

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 53% were "buy" and the remainder "hold".

PERFORMANCE OF PRYSMIAN STOCK SINCE IPO





During 2017, the stock's liquidity reported average daily trading volumes of approximately 1.0 million shares, with an average daily turnover of Euro 26 million.

PRYSMIAN STOCK: PRINCIPAL DATA

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007*
Price at 31 December	27,19 €	24,40 €	20,26 €	15,15 €	18,71 €	15,01 €	9,60 €	12,75 €	12,19 €	11,10 €	16,89 €
Change over period	11,4%	20,4%	33,7%	-19,0%	24,7%	56,4%	-24,7%	4,6%	9,8%	-34,3%	12,6%
Average price	26,31 €	20,93 €	19,10 €	16,38 €	16,68 €	13,00 €	12,90 €	13,13 €	10,60 €	13,76 €	18,36 €
Maximum price	30,00 €	24,42 €	22,23 €	19,54 €	19,30 €	15,43 €	15,95 €	15,81 €	13,84 €	18,54 €	21,00 €
Minimum price	23,34 €	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	5,913 Mil €	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	5,701 Mil €	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 €	1,0 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	26 Mil €	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	217.482.754	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 2017, 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 30 January 2017, the Group announced it had 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. Prysmian will be responsible for the design, production, installation and testing of the cables and their accessories. Work began in 2017, with cable installation due to be completed in September 2018.

On 21 February 2017, Prysmian announced the award of a contract worth more than Euro 300 million by Réseau de Transport D'Electricité (RTE) to provide submarine cable systems to link three offshore wind farms to the mainland power grid in France.
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 cables are due to be delivered over the period 2018 to 2020, according to the scheduling of the individual wind farms.

On 27 February 2017, Prysmian secured a new 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.

On 10 March 2017, the Group signed two new cable system contracts for offshore wind farms in Germany (Merkur) and Denmark (Horns Rev 3). Both contracts involve inter-array connections, a market segment in which Prysmian aims to grow and has developed new technologies and specific installation capabilities.
In the case of the contract for the Merkur offshore wind farm in Germany, awarded by Tideway B.V., Prysmian will be responsible for the design, engineering, manufacturing, testing and supply of approximately 90 km of 33 kV inter-array submarine cables and related accessories.
The Horns Rev 3 project (Denmark), to be carried out in the North Sea, approximately 25 km off the coast of Denmark, involves the design and supply of more than 100 km of 33 kV inter-array submarine cables in various cross sections.

On 7 April 2017, Prysmian signed a contract worth around Euro 350 million with IFA2 SAS, a joint venture between National Grid IFA2 Ltd, part of National Grid UK, and RTE of France. The contract is for the turnkey design, manufacture and installation of a submarine and underground power cable to connect Tourbe in France to Chilling in Hampshire, UK.
The submarine cables will be manufactured at the Prysmian production facility in Pikkala, Finland, while the underground cables will be manufactured at the Prysmian factory in Gron, France. The Prysmian cable-laying vessels Cable Enterprise and Ulisse will both be used for installation of the submarine cables.
The entire system is due to be completed in 2020.

On 8 May 2017, the Group signed a major supply agreement with the US company Verizon Communications to support expansion of the telecom carrier's optical network that will promote the development of 5G services, while improving the 4G LTE capacity of the broadband network. The three-year contract is worth approximately USD 300 million and involves the supply of 17 million fibre kilometres of ribbon and loose tube cables.
Both Prysmian and Verizon believe that demand for optical fibre cables for the next-generation passive optical network (NGPON2) will last well beyond 2020 as new technologies like 5G and the IoT become reality. Prysmian will make a significant investment in 2018 in its US-based optical cable production capacity to support the Verizon project and the growth of investments by other major telecom carriers in North America.

On 13 June 2017, the Group inaugurated its new optical fibre manufacturing facility in Slatina, Romania. The new facility is part of a three-year Euro 250 million investment plan aimed at expanding the Group's global production capacity to meet the growing demand for optical cables linked with the deployment of new high-speed telecommunication networks. This plan involves existing facilities in Italy, France, the Netherlands, North and South America, and the development of new facilities like those in Slatina (Romania), Presov (Czech Republic) and Durango (Mexico).

On 27 June 2017, the Group was awarded a series of additional works by Terna Rete Italia in relation to the submarine power cable project in the Venetian Lagoon. These works, originally included as an option in the contract awarded to the Group last year, are worth approximately Euro 20 million and include a 6 km 132 kV HVAC cable to be manufactured at the Arco Felice plant.

On 13 December 2017, the Group was awarded a contract worth some Euro 80 million by EWA (Electricity & Water Authority of the Government of the Kingdom of Bahrain) to develop a new 400 kV cable loop circuit. This project adds a crucial link to the infrastructure of the Kingdom of Bahrain and is the first 400 kV XLPE submarine cable to be installed in the GCC (Gulf Cooperation Council) Region. This project follows a previous contract awarded to Prysmian Group by the Gulf Cooperation Council Interconnection Authority (GCCIA) for a 400 kV HVAC submarine interconnection between Saudi Arabia and Bahrain.
Prysmian will provide a complete turnkey solution with delivery and commissioning of the loop circuit scheduled for 2019.

On 22 December 2017, the Group was awarded a contract worth more than Euro 150 million by the Filipino grid operator NGCP (National Grid Corporation of the Philippines) for the design, supply, installation and commissioning of two submarine power cables linking the islands of Cebu and Negros in the Philippines. This project is part of a wider development plan by NGCP, aimed at connecting the islands of Cebu, Negros, and Panay with one another and at strengthening the overall Philippines power transmission network. The submarine cable link, which will play a key role in this plan, is scheduled for completion in the first half of 2019.

Mergers & Acquisitions

Agreement to acquire General Cable for USD 30 per share

On 4 December 2017, Prysmian Group and General Cable Corporation announced that they had entered into a merger agreement under which Prysmian would acquire 100% of the shares in General Cable for USD 30.00 per share. The transaction values General Cable at approximately USD 3 billion, including debt and other liabilities, and represents a premium of approximately 81% on the General Cable closing price of USD 16.55 per share on 14 July 2017, the last day of trading before the company announced a review of strategic alternatives.

On 16 February 2018 the shareholders of General Cable Corporation approved the acquisition by Prysmian Group of 100% of General Cable's shares for a consideration of USD 30.00 per share.

Present at the meeting was 75.34% of the share capital entitled to vote, of which some 99% voted in favour of the acquisition.

Subject to regulatory approvals and other customary closing conditions, the completion of the acquisition is expected to take place by the third quarter of 2018.

The combined group will be present in more than 50 countries with approximately 31,000 employees. Prysmian expects the combined group to generate run-rate pre-tax cost synergies of approximately Euro 150 million within five years following closing, mainly from improved procurement strategy, overhead cost savings and manufacturing footprint optimisation. One-off integration costs are estimated at approximately Euro 220 million. The transaction will be financed through a mix of new debt (for which Prysmian has received lender commitments), cash on hand and existing credit lines.

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 Equity Linked Bonds due 2022" maturing 17 January 2022 and reserved for institutional investors.

At the meeting held on 12 April 2017, the Company's shareholders authorised:

1. the convertibility of the Equity-Linked Bond;
2. the proposal to increase share capital for cash, in single or multiple issues with the exclusion of pre-emptive rights, by a maximum nominal amount of Euro 1,457,942.70, by issuing, in single or multiple

instalments, up to 14,579,427 ordinary shares of the Company, with the same characteristics as its other outstanding ordinary shares, exclusively and irrevocably to serve the Bond's conversion.

The conversion price of the Bonds of Euro 34.2949 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 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 placement has allowed the Company to diversify its financial resources more widely by raising funds on the capital market.

On 16 May 2017, the Company sent a physical settlement notice to holders of the bonds, granting them the right, with effect from 29 May 2017, to convert them into the Company's existing or new ordinary shares. On 30 May 2017, the Bond was admitted to trading on the Third Market (a multilateral trading facility or MTF) on the Vienna Stock Exchange.

Share buyback programme

On 12 January 2017, the Board of Directors approved the adoption of a share buyback programme, which terminated on 30 September 2017.

Purchases were made through a specifically appointed authorised intermediary, acting 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 were disclosed to the market in accordance with the terms and procedures provided by applicable laws.

Under the above programme, a total of 4,003,943 shares, with a total value of Euro 100,232,034.74 inclusive of related costs, were purchased on the Italian Stock Exchange over the period 23 January to 30 September 2017; the average share purchase price of Euro 25.0333 compares with an average official price over this period of Euro 25.7314.

More information can be found in Note 11 of the Explanatory Notes to the Consolidated Financial Statements.

Cancellation and repayment of Revolving Credit Facility 2014

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

Loan from Cassa Depositi e Prestiti (CDP)

On 25 September 2017, Prysmian S.p.A. entered into an agreement with Cassa Depositi e Prestiti S.p.A. for a medium/long-term cash loan for a maximum total amount of Euro 100 million. On 29 September 2017, this amount was drawn down in full. The line matures on 30 September 2020. This funding will be used solely for the Group's general purposes, including capital expenditure, expenditure on research, development and innovation, as well as on energy efficiency and environmental stewardship.

EIB loan for research and development projects

On 14 November 2017, the European Investment Bank (EIB) and Prysmian Group announced the finalisation of a seven-year bullet loan for Euro 110 million to support the Group's R&D programmes in Europe over the period 2017-2020. Specifically, the EIB loan will be put towards:

- Industrial research: research on innovative materials involving the use of nanotechnology, systems for monitoring and managing underground and submarine networks, optimisation of cable design to reduce power loss and increase transmission capacity, new cables and materials for more sustainable solutions and hybrid energy and telecom cables.
- Innovation and experimentation: the use of alternative materials for cable design and product project optimisation.
- New product development: underground and submarine cables and systems for power transmission, high voltage P-Laser cables, cables for the renewable energy sector, high-performance optical fibres, cables for FTTH and FTTA applications, connectivity and development of smart cables and systems for sensing, monitoring and management.

The financing represents about 50% of the planned investment expenditure in Europe during the period concerned.

The EIB loan is specifically intended to support projects to be developed at R&D centres in six European countries: France, Great Britain, the Netherlands, Spain, Germany and Italy.

Proposed capital increase

As anticipated when announcing the acquisition agreement for General Cable Corporation (GCC), the Board of Directors of Prysmian S.p.A.. has requested the Group Chief Financial Officer to analyse the opportunity for Prysmian S.p.A. to implement over the next 12 months a rights issue or other similar operations for an aggregate maximum amount of Euro 500,000,000.

The Board of Directors has resolved to convene an Extraordinary General Meeting on 12 April 2018 to vote on a proposed rights issue for an aggregate maximum amount of Euro 500,000,000, subject to the closing of the GCC acquisition.

This operation would be designed to rebalance and optimise Prysmian Group's post-GCC acquisition financial structure, by improving its financial leverage ratios.

Other significant events

Transfer of registered office

On 1 March 2017, the Company transferred its registered office from the previous location in Viale Sarca 222, to the new address in Via Chiese 6, Milan.

Approval of financial statements at 31 December 2016 and dividend distribution

On 12 April 2017, the shareholders of Prysmian S.p.A. approved the financial statements for 2016 and the distribution of a gross dividend of Euro 0.43 per share, for a total of some Euro 91 million. The dividend was paid out from 26 April 2017 to shares outstanding on the record date of 25 April 2017, with the shares going ex-dividend on 24 April 2017.

Centre of excellence in Sorocaba (Brazil)

During the second quarter of 2017, Prysmian Cabos e Sistemas do Brasil S.A. informed personnel of the start of an investment plan to create a centre of excellence in cable manufacturing at the Sorocaba Eden plant, involving the transfer of production activities currently carried out by the Santo Andrè plant which will be closed; it will take about a year and a half to complete this project.

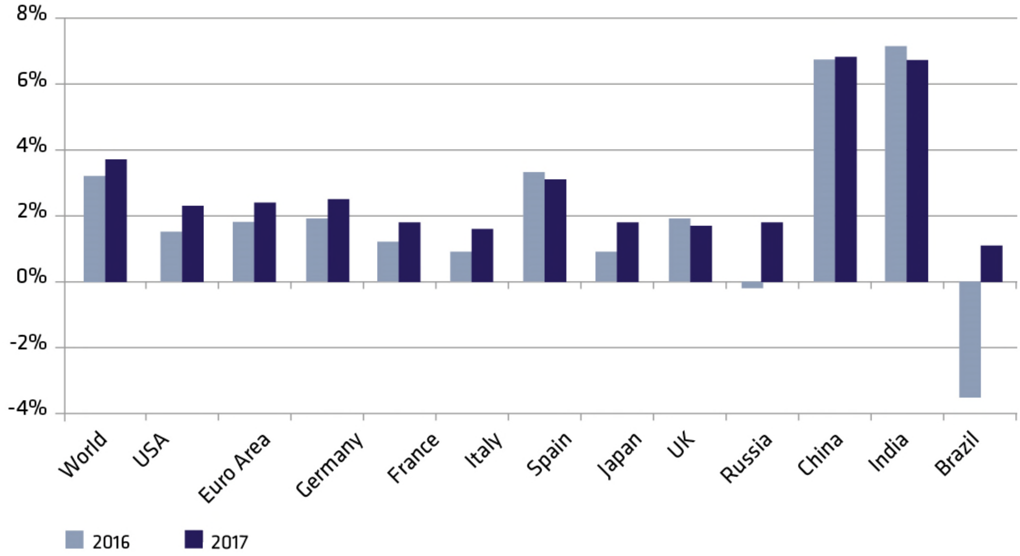
BUSINESS ENVIRONMENT

MACROECONOMIC ENVIRONMENT

World economic growth in 2017 picked up on 2016, driven by growth in the Eurozone and United States and recovery in Brazil and Russia after two years in recession.

The global economy presented a positive scenario in 2017, with a higher growth rate than 2016, particularly reflecting stronger performance in the Eurozone and the United States and recovery by emerging countries like Brazil and Russia, after two years in recession.
Eurozone economic growth improved on 2016, even if below the world average, thanks to the European Central Bank's continued pursuit of expansionary monetary policies and the gradual growth in business and consumer confidence across the region. The strengthening recovery over the course of the year was also favoured by the outcome of the French elections, which averted the ascent of an anti-European government.
Higher growth in the US reflected a stabilisation in the political environment and a gradual recovery in activity related to the oil industry.
China's growth improved on 2016, even beating government forecasts, thanks to continuation in 2017 of stimulus measures to support the housing market and infrastructure investment.
Global GDP grew by +3.7%* year-on-year (compared with +3.1%* in 2016), reflecting marked improvement by advanced economies from +1.7%* in 2016 to 2.3%* in 2017 and more modest progress by emerging economies from +4.4%* to +4.7%*.
After slowing in 2016, the US economy's growth once again topped the 2% mark in 2017 (+2.3%*), benefiting from greater political stability and the gradual recovery in oil prices.
After the shock provoked by the pro-Brexit vote in 2016, the Eurozone grew at a rate of +2.4%*, its highest in the last 10 years and well up from +1.7% in 2016, while in Britain the uncertainty surrounding the post-Brexit negotiations triggered a mild dip in growth from +1.9%* in 2016 to +1.7% in 2017. Within the Eurozone, all the major economies reported a marked improvement, with Germany going from +1.9%* to +2.5%*, France from +1.2%* to +1.8% and Italy, which made the biggest progress, from +0.9%* in 2016 to +1.6%* in 2017. Lastly, in Spain growth eased from +3.3%* in 2016 to +3.1%* in 2017, mainly due to growing political uncertainty in the second half of the year.
Chinese economic growth once again exceeded the average for other emerging countries, going from +6.7%* in 2016 to 6.8%* in 2017, even beating the government target of +6.5%, thanks to the government's introduction in 2016 of a series of important measures to support infrastructure investment, carried over into 2017. India reported growth of +6.7%* in 2017, slightly down from +7.1%* the year before, confirming itself as one of the main drivers of growth in the region, along with China. Renewed political stability and a gradual recovery in the main commodity prices helped the Brazilian economy resume its growth after 2 years in recession, recording a +1.1%* after contracting -3.5%* in 2016, while stabilisation of the geopolitical scenario allowed Russian growth to improve from -0.2%* in 2016 to 1.8%* in 2017.

GDP GROWTH BY COUNTRY 2016-2017



* Source: IMF, World Economic Outlook Update – January 2018

CABLE INDUSTRY TRENDS

Global cable demand improved in 2017 on 2016, driven by a livelier pace of growth in the Chinese and North American markets and by an upturn in the Brazilian market. Global demand for optical cables continued to grow apace, fuelled by further acceleration in the Chinese market and double-digit growth in Europe and North America.

Global demand for power cables in 2017 saw improved volume growth on the previous year, mainly driven by a recovery in Brazil after two years of downturn, and by China where growth continued to beat the world average. Demand for telecom cables continued to climb in 2017, boosted by double-digit growth in optical cable volumes, as partially offset by shrinking demand for copper cables, gradually being replaced.
Geographically, Brazil shrugged off its previous slowdown, triggered by the challenging economic conditions faced in recent years, to post a sharp uptick in demand for both energy and telecom cables.
Emerging Asian economies (China, India, Southeast Asia) were confirmed as the main engine of 2017 growth in global demand for power cables, while the main area of weakness was the Middle East region, where the oil crisis and geopolitical uncertainty adversely affected regional economic performance. In the United States and Europe, demand for power cables continued the upward trajectory initiated in 2016, supported by a resurgence in industrial output and consumer confidence. As for the optical cable market, China accounted for more than 50% of global volume growth, followed by North America and Europe, which both displayed higher growth than in 2016, while the Australian market witnessed astabilisation.

The various segments of the market had a mixed performance in 2017, featuring strong expansion by optical fibre cables, moderate growth in demand by cables for industrial applications and infrastructure, general stability in the European high voltage underground market and softer demand for cables by utilities, especially in Central Europe. The optical fibre cables market benefited from growing demand for data transmission capacity, making it essential to upgrade existing network infrastructure, particularly in Italy and France, where the existing network is still predominantly in copper cable, while North America started to see the first initiatives to develop the 5G network. The market for optical fibre cables also benefited from growing investments by the principal Chinese carriers, who represented the biggest source of growth in global optical cable demand.
The submarine cables market grew compared with 2016, benefiting from major contracts for interconnectors and offshore wind farm connections, with the mix of projects more or less evenly split between these two categories. The Prysmian Group was confirmed as undisputed market leader after winning major turnkey interconnector contracts in Europe (the IFA2 interconnector between France and the UK worth around Euro 350 million) and Asia (the CNP-3 interconnector between the islands of Cebu and Negros in the Philippines worth around Euro 150 million) as well as the project to develop offshore wind farms in France commissioned by RTE, worth a total of more than Euro 300 million. In a largely stable market for high voltage underground cables, the Group retained its market share in Europe and North America, but posted a steep drop in turnover in China due to the industrial reorganisation at the end of 2016.
The industrial applications business saw a mixed trend for the different market niches. While cables for the automotive and railway infrastructure industries reported double-digit growth, applications for port cranes and renewable energy were affected by softer demand in North America and Europe.

Applications for the Oil & Gas segment were negatively impacted by the contraction in demand for umbilical cables in Brazil, while "core" cables benefited from a resumption in activity to develop new onshore projects in the United States and Middle East. The T&I building wires business posted a moderate recovery in the second half of the year, mainly due to volume growth in Central and Southern Europe and the Nordics, partly thanks to introduction of the new Construction Products Regulation, while the tough economic climate in the Middle East (Oman) caused business in this region to decline. Medium and low voltage cables for Utilities (the Power Distribution business) recorded a slight decrease on 2016, especially in Germany after a recent update to tariffs affecting local utilities. The optical fibre cables market maintained a solid growth trend during 2017, driven by increased demandin North America and Europe, which benefited from growing investments by both public and private operators to increase the level of broadband coverage, and from commencement of the first projects to develop 5G networks in the United States. In this context, Prysmian Group has been awarded a contract worth USD 300 million by the US carrier Verizon to develop a 5G network. The copper telecom cables business slowed in 2017 mainly due to lower demand in the Australian market, which had benefited from a major contract in 2016. Lastly, the multimedia (MMS) business reported general stability, on a consistent comparative basis, buoyed by growing demand for cables for indoor applications (like datacentres) in Europe and Asia.

GROUP PERFORMANCE AND RESULTS

FINANCIAL PERFORMANCE

(in millions of Euro)

	2017	2016	% change	2015
Sales	7,901	7,567	4.4%	7,361
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**691**	**680**	**1.7%**	**584**
% of sales	8.8%	9.0%		7.9%
Adjusted EBITDA	**733**	**711**	**3.1%**	**623**
% of sales	9.3%	9.4%		8.5%
EBITDA	**657**	**645**	**1.9%**	**622**
% of sales	8.3%	8.5%		8.4%
Fair value change in metal derivatives	12	54		(27)
Fair value stock options	(49)	(49)		(25)
Amortisation, depreciation, impairment and impairment reversal	(199)	(203)		(171)
Operating income	**421**	**447**	**-5.8%**	**399**
% of sales	5.3%	5.9%		5.4%
Net finance income/(costs)	(116)	(79)		(89)
Profit/(loss) before taxes	**305**	**368**	**-17.1%**	**310**
% of sales	3.9%	4.9%		4.2%
Taxes	(82)	(106)		(96)
Net profit/(loss) for the year	**223**	**262**	**-14.9%**	**214**
% of sales	2.8%	3.5%		2.9%
Attributable to:				
Owners of the parent	227	246		214
Non-controlling interests	(4)	16		-
Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA				
Operating income (A)	**421**	**447**	**-5.8%**	**399**
EBITDA (B)	**657**	**645**	**1.9%**	**622**
Adjustments:				
Company reorganisation	30	50		48
Non-recurring expenses/(income):				
Antitrust	18	(1)		(29)
Other non-operating expenses/(income)	12	17		(18)
General Cable acquisition-related costs	16	-		-
Total adjustments (C)	**76**	**66**		**1**
Fair value change in metal derivatives (D)	(12)	(54)		27
Fair value stock options (E)	49	49		25
Impairment and impairment reversal of assets (F)	22	30		21
Adjusted operating income (A+C+D+E+F)	**556**	**538**	**3.3%**	**473**
Adjusted EBITDA (B+C)	**733**	**711**	**3.1%**	**623**

The Group's Adjusted EBITDA for 2017 increased on the previous year.

The Energy Projects segment reported a year-on-year decline in sales, even if the fourth-quarter figures showed a recovery from previous quarters. The submarine cables business boosted its profitability on 2016, thanks to a favourable mix of projects and service and installation activities, which benefited from the deployment of new installation assets, like the third cable-laying vessel "Ulisse" and cable burial equipment. The availability of these new assets is allowing the Group to insource more of its high-margin activities. The High Voltage business enjoyed a positive performance in the Far East and France, partially tempered by a slight decline in the UK, the Nordics and Russia.

The 2017 profitability of the Energy Products segment reflected mixed performances within the various business lines. Within Energy and Infrastructure, Power Distribution profitability and sales volumes remained down on the previous year, while, despite some later improvement from the earlier part of the year, year-on-year performance for the Trade & Installers business continued to flag, particularly due to the results of the Omani subsidiary. Within Industrial & Network Components, the Automotive business continued to perform well, confirming the benefits of having reorganised manufacturing footprint the previous year. The OEM business also posted an overall positive year-on-year performance at the end December 2017. However, the Renewables and Elevator businesses both continued to underperform.
Compared with the previous year, the OIL & GAS segment saw its profitability penalised by a downturn in the Umbilical cables business in Brazil. In the DHT cables business, the contraction in volumes for international projects in the North Sea, West Africa and Asia was partially offset by North American volumes associated with shale oil production and with synergies arising from the integration of Gulf Coast Downhole Technologies LLC; lastly, the Core Oil&Gas business saw a resurgence in demand by onshore projects.
The Telecom segment confirmed its upward momentum, thanks to persistently strong demand for optical fibre cables, particularly in fast-developing regions; optical fibre cable consumption continued to expand in North America and in Europe, thanks to plans under the Digital Agenda for Europe 2025. Demand for copper cables continued to flag, as expected, while the MMS cable market reported timid global growth, driven by Asia and, in the case of the optical cables segment, by China.

The Group's sales in 2017 came to Euro 7,901 million, compared with Euro 7,567 million in 2016, posting a positive change of Euro 334 million (+4.4%).
The growth in sales was attributable to the combined effect of the following factors:
- sales price increase of Euro 525 million (+6.9%) following metal price fluctuations (copper, aluminium and lead);
- negative effect of Euro 45 million (-0.6%) arising from the disposal of the high voltage cables business of Prysmian Baosheng in China as partially offset by the acquisition of Corning Optical Communications Gmbh & Co. KG. in the Multimedia Solutions business;
- decrease of Euro 8 million (-0.1%) in organic sales growth;
- decrease of Euro 138 million (-1.8%) due to adverse exchange rate effects.

Negative organic sales growth of -0.1% is analysed between the four operating segments as follows:

Energy Projects	-4.8%;
Energy Products	+0.9%;
OIL & GAS	-10.8%;
Telecom	+5.3%.

Group Adjusted EBITDA (before net expenses for company reorganisation, net non-recurring expenses, other net non-operating expenses and General Cable acquisition-related costs, totalling Euro 76 million) came to Euro 733 million, posting an increase of Euro 22 million on the corresponding 2016 figure of Euro 711 million (+3.1%). Adjusted EBITDA for 2017 reflects the negative impact of Euro 11 million in exchange rate effects compared with 2016, mainly resulting from depreciation of the British Pound, the US Dollar and Turkish Lira, but also of the Chinese Renminbi and Argentine Peso, which only partially offset appreciation of the Australian Dollar and Brazilian Real in the earlier part of the year.

EBITDA is stated after net expenses for company reorganisation, net non-recurring expenses, other net non-operating expenses and General Cable acquisition-related costs totalling Euro 76 million (Euro 66 million in 2016). Such adjustments in 2017 mainly comprise costs for reorganising and improving efficiency, increases in and releases of the provisions for risks and charges relating to ongoing antitrust matters and General-Cable acquisition-related costs.

Group operating income came to Euro 421 million in 2017, compared with Euro 447 million in 2016, posting a decrease of Euro 26 million.

Net finance costs came to Euro 116 million in 2017, compared with Euro 79 million in the previous year. The increase of Euro 37 million is mainly attributable to the non-cash cost of the new convertible bond and to the arrangement of derivative contracts in connection with the General Cable acquisition.

Taxes came to Euro 82 million, representing an effective tax rate of around 27%.

Net profit for 2017 was Euro 223 million (of which Euro 227 million attributable to the Group), compared with Euro 262 million in 2016 (of which Euro 246 million attributable to the Group and Euro 16 million to non-controlling interests).

REVIEW OF ENERGY PROJECTS OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	1,490	1,634	-8.8%	1,416
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**265**	**260**	**2.1%**	**221**
% of sales	17.8%	15.9%		15.6%
Adjusted EBITDA	**266**	**260**	**2.3%**	**221**
% of sales	17.8%	15.9%		15.6%
EBITDA	**246**	**275**	**-10.5%**	**247**
% of sales	16.5%	16.8%		17.4%
Amortisation and depreciation	(41)	(36)		(34)
Adjusted operating income	**225**	**224**	**0.3%**	**187**
% of sales	15.1%	13.7%		13.2%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	**246**	**275**	**-10.5%**	**247**
Adjustments:				
Company reorganisation	1	-		3
Non-recurring expenses/(income):				
Antitrust	18	(1)		(29)
Other non-operating expenses/(income)	1	(14)		-
Total adjustments (B)	**20**	**(15)**		**(26)**
Adjusted EBITDA (A+B)	**266**	**260**	**2.3%**	**221**

The Energy Projects Operating Segment incorporates the high-tech High Voltage underground and Submarine businesses, whose focus is projects and their execution, as well as 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 uses specific technological solutions for power transmission and distribution in underwater environments, which satisfy the strictest international standards.

MARKET OVERVIEW

The submarine cables business saw a substantial growth in market demand in 2017 compared with 2016 thanks to the award of major projects both for interconnectors (IFA2) and for offshore wind farm connections (RTE Offshore, Dolwin6). This market is expected to grow in coming years, especially the Offshore Wind segment, fostered by the continuous reduction in electricity generation costs and the consequent increase in competitiveness.

Demand in the high voltage underground business has been essentially stable in Europe, with a mixed trend in the different countries, while reporting a downturn in North America and the Middle East. By contrast, demand has continued to grow in South East Asia, where the Group has won a number of major interconnection projects.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy Projects segment amounted to Euro 1,490 million in 2017, compared with Euro 1,634 million in 2016, posting a negative change of Euro 144 million (-8.8%).

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

- negative organic sales growth of Euro 78 million (-4.8%);
- decrease of Euro 15 million (-0.8%) for exchange rate fluctuations;
- sales price increase of Euro 9 million (+0.5%) for metal price fluctuations;
- decrease of Euro 60 million (-3.7%) due to the change in scope of consolidation after disposing of the interest in Prysmian Baosheng Cable Co. Ltd, a Chinese company deconsolidated as from December 2016.

The organic decline in sales recorded in 2017 is attributable to different phasing and contract mix in the Submarine business and soft High Voltage demand in some European markets (mainly the Nordics and Russia) and in North America, as partially offset by higher sales in the Far East.

The submarine cables business boosted its profitability on 2016, thanks to a favourable mix of projects and service and installation activities, which benefited from the deployment of new installation assets, like the third cable-laying vessel "Ulisse" and cable burial equipment.

The availability of these new assets is allowing the Group to bring back in-house more high-margin activities.

The High Voltage business enjoyed a positive performance in the Far East and France, partially tempered by a slight decline in the UK, the Nordics and Russia.

The main submarine cable projects on which work was performed during the period were the link between Italy and Montenegro, the links between offshore wind farms in the North and Baltic Seas and the German mainland (Borwin3, 50Hertz), the Western HVDC Link in the United Kingdom, the interconnector between Norway and Britain (North Sea Link) and the interconnector between the Netherlands and Denmark (CoBRA cable).

Most of the sales in year derived from cable manufacturing activities by the Group's industrial facilities (Pikkala in Finland, Arco Felice in Italy and Drammen in Norway) and from installation services, performed with both its own assets and third-party equipment.

The value of the Group's Submarine order book is around Euro 2.1 billion, ensuring sales visibility for a time horizon of about two years. The order book mainly consists of the following contracts: 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, 50Hertz); the interconnection between France and the UK (IFA2); the link between Montenegro and Italy (Monita); the Hainan2 project in China; the new offshore project in France and the new interconnection project in the Philippines.
The value of the Group's High Voltage order book is around Euro 390 million, up from Euro 350 million at the end of 2016.

Adjusted EBITDA came to Euro 266 million in 2017, up from Euro 260 million in 2016, posting an increase of Euro 6 million (+2.3%).

REVIEW OF ENERGY PRODUCTS OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	4,880	4,469	9.2%	4,415
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**240**	**277**	**-13.4%**	**234**
% of sales	4.9%	6.2%		5.3%
Adjusted EBITDA	**244**	**280**	**-12.9%**	**252**
% of sales	5.0%	6.3%		5.7%
EBITDA	**223**	**216**	**2.9%**	**264**
% of sales	4.6%	4.8%		6.0%
Amortisation and depreciation	(79)	(82)		(59)
Adjusted operating income	**165**	**198**	**-16.5%**	**193**
% of sales	3.4%	4.4%		4.4%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	**223**	**216**	**2.9%**	**264**
Adjustments:				
Company reorganisation	18	38		21
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	3	26		(33)
Total adjustments (B)	**21**	**64**		**(12)**
Adjusted EBITDA (A+B)	**244**	**280**	**-12.9%**	**252**

The Energy Products Operating Segment is organised into the businesses of Energy & Infrastructure (including Power Distribution and Trade & Installers) and Industrial & Network Components (comprising Specialties & OEM, Elevators, Automotive and Network Components), which are able to offer a complete and innovative product portfolio to a variety of industries.

Sales to third parties by the Energy Products operating segment amounted to Euro 4,880 million in 2017, compared with Euro 4,469 million in 2016, posting a positive change of Euro 411 million (+9.2%), due to the combined effect of the following main factors:

- organic sales growth of Euro 41 million (+0.9%), reflecting a contraction in volumes in some European countries and North America, absorbed by positive performance in Northern Europe and growth in Asia;
- decrease of Euro 108 million (-2.4%) linked to unfavourable exchange rate movements;
- sales price increase of Euro 478 million (+10.7%) for metal price fluctuations.

Adjusted EBITDA for 2017 came to Euro 244 million, down Euro 36 million (-12.9%) from Euro 280 million in 2016.

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)

	2017	2016	% change	% organic sales growth	2015
Sales	3,271	3,016	8.5%	-0.2%	2,795
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**128**	**152**	**-16.1%**		**111**
% of sales	3.9%	5.0%			4.0%
Adjusted EBITDA	**130**	**154**	**-15.5%**		**128**
% of sales	4.0%	5.1%			4.6%
Adjusted operating income	**73**	**92**	**-21.0%**		**93**
% of sales	2.2%	3.0%			3.3%

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.

During the first half of 2017, the European Trade & Installers market continued to see generally stable or declining demand in most countries, with the exception of Northern Europe; however, encouraging signs of an upturn in some European countries started to emerge in the second half of the year.

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

Over the course of 2017, demand in the Power Distribution market was mostly stable or declining in Central and Southern Europe, while displaying positive signs in North America, in some Asian markets (Indonesia) and Northern Europe.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy & Infrastructure business area amounted to Euro 3,271 million in 2017, compared with Euro 3,016 million in 2016, posting a positive change of Euro 255 million (+8.5%) due to the combined effect of the following main factors:

- sales price increase of Euro 335 million (+11.1%) for metal price fluctuations;
- negative organic sales growth of Euro 6 million (-0.2%);
- decrease of Euro 74 million (-2.4%) for adverse exchange rate fluctuations.

Prysmian Group has carried on its strategy for the Energy & Infrastructure business of focusing on relationships with top international customers and of developing 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 complex commercial strategy, not only focused where possible on improving the sales mix, but also aimed at regaining market share while seeking to minimise the impact on sales margins.
Over the course of 2017, the Group witnessed volumes decline in some areas, like North America, due to government policies for renewable energy investments (wind farms), and Germany, in contrast with the same period last year which had enjoyed a strong first six months. Demand nonetheless remained sustained thanks to an upturn in infrastructure investment (for example, in Finland).

Positive second-half performance in some countries in Central and Southern Europe (like Italy, Spain and the Netherlands) was down to strict application of the Construction Products Regulation (EU Regulation 305/2011), which became mandatory from 1 July 2017 in every European Union member state. In addition, the fourth quarter saw volumes recover on the corresponding prior year period in other European countries, like Germany, some countries in the Danube region and in Turkey.

The rest of Europe remained largely stable with a contraction in low margin segments and persistent pressure on prices which the Group has sought to resist with its industrial reorganisation projects of recent years.

The Omani subsidiary continued to perform poorly, reflecting conditions on the local market. In Oceania, there was continued competitive pressure in Australia, while the trend in New Zealand remained positive. In terms of volumes, Brazil and China were generally positive, while signs of recovery in Argentina started to emerge in the final quarter.

Given the factors described above, Adjusted EBITDA for 2017 came to Euro 130 million, down from Euro 154 million in the previous year (-15.5%).

INDUSTRIAL & NETWORK COMPONENTS

(in millions of Euro)

	2017	2016	% change	% organic sales growth	2015
Sales	1,460	1,343	8.8%	3.5%	1,499
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**113**	**126**	**-10.0%**		**121**
% of sales	7.8%	9.4%			8.1%
Adjusted EBITDA	**115**	**127**	**-9.3%**		**122**
% of sales	7.9%	9.5%			8.1%
Adjusted operating income	**95**	**108**	**-11.7%**		**100**
% of sales	6.5%	8.0%			6.6%

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 networks.

MARKET OVERVIEW

Trends in Industrial cable markets during 2017 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 growing demand, like certain OEM sectors (such as Railway and Infrastructure), and the Automotive business, while other segments saw volumes decline in specific countries due to delays in investment projects in areas of national interest such as Defence and Nuclear, accompanied by a temporary slowdown in demand for the Crane business.
The Elevator market recorded a rising trend in EMEA, but substantial stability and price pressure in North America and APAC.

The Automotive market posted stable growth almost everywhere, even if competitive pressure remained strong, especially in low-end segments.

Demand remained sustained in China, partly thanks to major growth in the market for electric cars, while staying stable in Europe and North America and growing at a healthy pace in South America.

FINANCIAL PERFORMANCE

Sales to third parties by the Industrial & Network Components business area amounted to Euro 1,460 million in 2017, compared with Euro 1,343 million in 2016, posting a positive change of Euro 117 million (+8.8%) due to the combined effect of the following main factors:

- positive organic growth of Euro 47 million (+3.5%);
- decrease of Euro 32 million (-2.3%) for adverse exchange rate fluctuations;
- sales price increase of Euro 102 million (+7.6%) for metal price fluctuations.

Given the Group's wide range of products and the highly customised nature of its solutions, allowing the necessary differentiation geographically and by application, overall performance in 2017 by its industrial applications business remained unaffected by the instability of investment demand in some sectors.

In the OEM market, the Group posted strong growth in Australia, China, Turkey and Northern Europe but a slowdown in the rest of Europe. As for the different applications, the market's main drivers were the businesses of Railway, supported by a growth in orders, and of Infrastructure, while Crane, Marine and Defence applications all performed worse than in 2016. The Renewables business slowed compared with 2016, reflecting strong price competition, especially in North America's Solar segment, and fewer government incentives.

The Elevator business was affected in 2017 by rising price pressure and project delays, partly mitigated by actions to expand the product portfolio.
The business grew in EMEA thanks to a renewed focus on some markets, while the APAC market was affected by rising price pressure for low value-added products and by softer demand. By contrast, the market in North America reported stable demand, mostly concentrated on low value-added products, and pressure on prices, also due to the hike in commodity prices.

The Automotive business improved its margins on the previous year, above all thanks to the strategy of focusing on top-end segments, to better industrial performance and to reorganisation of the manufacturing footprint. There was continued competitive pressure on low value-added products.

The Network Components business area recorded positive results for Medium and Low Voltage applications, driven by robust demand in North America and Northern Europe, while the High Voltage and Extra High Voltage market segment was affected by a downturn in demand.

Given the factors described above, Adjusted EBITDA for 2017 came to Euro 115 million, down from Euro 127 million in the previous year (-9.3%).

OTHER

(in millions of Euro)

	2017	2016	2015
Sales	149	110	121
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**(1)**	**(1)**	**2**
Adjusted EBITDA	**(1)**	**(1)**	**2**
Adjusted operating income	**(3)**	**(2)**	**-**

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)

	2017	2016	% change	2015
Sales	273	300	-9.0%	421
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**9**	**8**	**15.6%**	**16**
% of sales	3.4%	2.7%		3.8%
Adjusted EBITDA	**9**	**8**	**15.6%**	**16**
% of sales	3.4%	2.7%		3.8%
EBITDA	**7**	**8**	**-17.7%**	**-**
% of sales	2.4%	2.7%		0.1%
Amortisation and depreciation	(16)	(15)		(13)
Adjusted operating income	**(7)**	**(7)**		**3**
% of sales	-2.5%	-2.4%		0.7%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	**7**	**8**	**-17.7%**	**-**
Adjustments:				
Company reorganisation	2	2		13
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	-	(2)		3
Total adjustments (B)	**2**	**-**		**16**
Adjusted EBITDA (A+B)	**9**	**8**	**15.6%**	**16**

The OIL & GAS Operating Segment encompasses the businesses of SURF (Subsea Umbilical, Riser and Flowline), DHT (Downhole Technology) and Core Cable Oil & Gas (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 steep contraction in prices during the year just ended due to strong competition on local markets.

In the Downhole Technology business, volumes associated with shale oil production in North America continued to grow, while international projects in the North Sea, West Africa and Asia remained in retreat. Growth resumed in the Middle East thanks to onshore investments in Saudi Arabia.
The Core Oil & Gas business continued to show signs of recovery, propelled by North American, Russian and Middle Eastern markets. Offshore activities remained highly depressed with pressure impacting not only the major Asian shipyards (in Singapore and Korea) but also EPC contractors. The drilling sector revived, largely driven by the US market, while the MRO segment remained weak.

FINANCIAL PERFORMANCE

Sales to third parties by the OIL & GAS segment amounted to Euro 273 million in 2017, compared with Euro 300 million in 2016, posting a negative change of Euro 27 million (-9.0%).
The decrease in sales can be broken down into the following main factors:

- negative organic sales growth of Euro 33 million (-10.8%);
- negative effect of Euro 7 million (-2.5%) for exchange rate fluctuations;
- sales price increase of Euro 13 million (+4.3%) for metal price fluctuations.

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 experienced a contraction in the umbilicals market in Brazil, Prysmian's main outlet for these products, linked to a downturn in activity by Petrobras;
- demand for Downhole Technology products suffered a 7% reduction on 2016 levels in connection with international projects in the North Sea, West Africa and Asia. However, the decline was partly offset by North American volumes linked to shale oil production and by commercial synergies arising from the integration of Gulf Coast Downhole Technologies LLC;
- the Core Oil & Gas business witnessed a recovery in onshore project demand. The business's overall profitability continued to be affected by the drop in higher-margin MRO and offshore volumes.

Adjusted EBITDA for 2017 was Euro 9 million, up from Euro 8 million in 2016, despite the contraction in turnover for the Brazilian SURF business.

REVIEW OF TELECOM OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	1,258	1,164	8.1%	1,109
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**177**	**135**	**31.1%**	**113**
% of sales	14.0%	11.6%		10.2%
Adjusted EBITDA	**214**	**163**	**31.1%**	**134**
% of sales	17.0%	14.0%		12.1%
EBITDA	**206**	**158**	**30.5%**	**119**
% of sales	16.4%	13.6%		10.7%
Amortisation and depreciation	(41)	(40)		(44)
Adjusted operating income	**173**	**123**	**40.0%**	**90**
% of sales	13.8%	10.6%		8.1%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	**206**	**158**	**30.5%**	**119**
Adjustments:				
Company reorganisation	6	6		10
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	2	(1)		5
Total adjustments (B)	**8**	**5**		**15**
Adjusted EBITDA (A+B)	**214**	**163**	**31.1%**	**134**

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 morei.

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

The global optical fibre cables market expanded in 2017 compared with the previous year. Demand grew in fast-developing markets (China and APAC) which alone accounted for more than 50% of the market. Optical fibre cable consumption continued to expand in North America and in Europe, thanks to plans under the Digital Agenda for Europe 2025. The latter envisages the provision of three levels of minimum service depending on the type of user. In fact, government offices and entities like schools and hospitals will benefit from a bandwidth of at least 1 Gb/s. Likewise, the entire residential population will be connected with 100 Mb/s, while all urban areas and transport corridors should have broadband mobile coverage with 5G technology. In Europe, the network architectures used vary according to decisions made by each country. FTTH networks are the preference in France, Spain, Portugal and the Nordics, while G.Fast is the norm in Germany and Britain; although these systems use the last metres of the existing copper network, massive volumes of optical cables are nonetheless required to upgrade the distribution networks. In other places like Italy, the two technologies coexist.

In Brazil, despite uncertainty about the country's macroeconomic performance and growth prospects, there was a slight recovery in investments by the major telecom carriers, both in copper and optical fibre cables.

North America continues to see a big increase in data consumption by all sectors of society. As a result, the major market players - AT&T and Verizon to name just a few - are investing in fibre network infrastructure. For instance, Verizon has announced that it is upgrading its network architecture around a next-generation fibre platform with the aim of increasing 4G coverage and laying the foundations for the subsequent development of 5G and IoT (Internet of Things) technology.

In conclusion, the growing demand for data on both fixed and mobile networks is leading to a progressive convergence between the two and to a consequent increase in fibre infrastructure investments.

The copper cable market is slowing down due to the maturity of the products concerned. The decline in this market was increasingly evident in 2017, with high demand for internet access causing major operators to opt to renew their networks using optical fibre, rather than perform maintenance or upgrade work on existing

networks. It is still worth remaining in this segment since the gradual decommissioning of assets by competitor cable manufacturers nonetheless offers attractive opportunities.
The MMS cable market has reported timid global growth, driven by Asia and, in the case of the optical cables segment, by China. Growth in demand is being fuelled by requests for ever greater bandwidth capacity in professional and office environments and data centres. Interestingly, this trend applies to both new buildings and projects to renovate existing ones. An important contribution to this growth is coming from industrial applications (Industry 4.0) that require new highly specialised products. Another important source of growth is 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 1,258 million in 2017, compared with Euro 1,164 million in 2016, posting a positive change of Euro 94 million (+8.1%).

This change is attributable to the following factors:

- organic sales growth of Euro 62 million (+5.3%), mainly thanks to volume recovery for optical fibre cables;
- negative change of Euro 8 million (-0.7%) for exchange rate fluctuations;
- increase of Euro 15 million (+1.3%) due to change in the scope of consolidation after acquiring the data cables business from Corning Optical Communications Gmbh & Co. KG.;
- sales price increase of Euro 25 million (+2.2%) for metal price fluctuations.

The organic growth in 2017 sales reflects the positive trend already observed the previous year. This mainly derives from the constant growth in demand for optical fibre cables, reflecting developments in major investment projects. Volume trends in Europe were positive while the general price pressure stabilised.
The Group has renewed important contracts with leading operators in Europe for the construction of backhaul links and FTTH connections. The network development plan in rural areas is progressing in the Netherlands, while the FTTH project of Open Fiber is in progress in Italy. In France the "Trés Haut Débit" broadband roll-out project is progressing at full speed.

In North America, the development of new ultra-broadband networks is generating a steady increase in domestic demand from which Prysmian is benefiting. As part of a massive multi-year investment program by Verizon, one of the major US incumbents, Prysmian has recently signed a three-year agreement to supply optical fibre cables starting from January 2018. The Group has concurrently announced it will increase the production capacity of its North American plants to support this growth.
In Brazil, there has been an increase in investments by the major telecom carriers in both copper and optical fibre cables.

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 and Britain.

The Multimedia Solutions business recorded an increase in profitability on the previous year, thanks to its ability to satisfy growing demand with a high level of responsiveness and service.
The return on investments to reduce optical fibre costs and the relocation of some cable manufacturing sources to Eastern Europe also made a substantial contribution to the segment's overall results.

Adjusted EBITDA for 2017 came to Euro 214 million, reporting an increase of Euro 51 million (+31.1%) from Euro 163 million in 2016, also thanks to the contribution of Yangtze Optical Fibre and Cable Joint Stock Limited Company in China.

GROUP STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Net fixed assets	2,610	2,630	(20)	2,581
Net working capital	178	325	(147)	347
Provisions and net deferred taxes	(322)	(360)	38	(330)
Net capital employed	**2,466**	**2,595**	**(129)**	**2,598**
Employee benefit obligations	355	383	(28)	341
Total equity	1,675	1,675	-	1,507
of which attributable to non-controlling interests	188	227	(39)	229
Net financial debt	436	537	(101)	750
Total equity and sources of funds	**2,466**	**2,595**	**(129)**	**2,598**

NET FIXED ASSETS

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Property, plant & equipment	1,646	1,631	15	1,552
Intangible assets	735	792	(57)	823
Equity-accounted investments	217	195	22	177
Available-for-sale financial assets	12	12	-	12
Asset held for sale (*)	-	-	-	17
Net fixed assets	**2,610**	**2,630**	**(20)**	**2,581**

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

Net fixed assets amounted to Euro 2,610 million at 31 December 2017, compared with Euro 2,630 million at 31 December 2016, posting a decrease of Euro 20 million mainly due to the combined effect of the following factors:

- Euro 257 million in capital expenditure on property, plant and equipment and intangible assets;
- Euro 199 million in depreciation, amortisation and impairment charges for the year;
- Euro 97 million in negative currency translation differences;
- Euro 22 million for the net increase in equity-accounted investments primarily reflecting:
  - an increase of Euro 42 million for the share of net profit/(loss) of equity-accounted companies;
  - a decrease of Euro 10 million for dividend receipts;
  - Euro 11 million in negative currency translation differences.

NET WORKING CAPITAL

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

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Inventories	954	906	48	984
Trade receivables	1,131	1,088	43	1,098
Trade payables	(1,686)	(1,498)	(188)	(1,377)
Other receivables/(payables)	(243)	(178)	(65)	(317)
Net operating working capital	**156**	**318**	**(162)**	**388**
Derivatives	22	7	15	(41)
Net working capital	**178**	**325**	**(147)**	**347**

Net working capital of Euro 178 million at 31 December 2017 was Euro 147 million lower than the corresponding figure of Euro 325 million at 31 December 2016. Net operating working capital amounted to Euro 156 million (1.9% of annualised last-quarter sales) at 31 December 2017, a reduction of Euro 162 million from Euro 318 million (4.2% of sales) at 31 December 2016, reflecting the following factors:

- an increase in without-recourse factoring of trade receivables;
- an increase linked to fluctuations in metal prices (copper, aluminium, lead);
- a substantial decrease for currency translation differences.

EQUITY

The following table reconciles the Group's equity and net profit/(loss) for 2017 with the corresponding figures reported by Prysmian S.p.A., the Parent Company.

(in millions of Euro)

	Equity at 31 December 2017	Net profit / (loss) 2017	Equity at 31 December 2016	Net profit/(loss) 2016
Parent Company Financial Statements	**1,328**	**111**	**1,293**	**137**
Share of equity and net profit of consolidated subsidiaries, net of carrying amount of the related investments	372	277	404	318
Reversal of dividends distributed to the Parent Company by consolidated subsidiaries	-	(162)	-	(192)
Deferred taxes on earnings/reverses distributable by subsidiaries	(16)	(2)	(14)	-
Elimination of intercompany profits and losses included in inventories	(9)	(1)	(8)	(1)
Non-controlling interests	(188)	4	(227)	(16)
Consolidated Financial Statements	**1,487**	**227**	**1,448**	**246**

NET FINANCIAL DEBT

The following table provides a detailed breakdown of net financial debt:

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Long-term financial payables				
CDP Loan	100	-	100	-
EIB Loans	152	58	94	75
Non-convertible bond	743	741	2	740
Convertible bond 2013	-	288	(288)	279
Convertible bond 2017	456	-	456	-
Other financial payables	15	27	(12)	47
Total long-term financial payables	**1,466**	**1,114**	**352**	**1,141**
Short-term financial payables				
EIB Loans	17	17	-	17
Non-convertible bond	14	14	-	14
Convertible bond 2013	283	1	282	1
Revolving Credit Facility 2014	-	50	(50)	50
Derivatives	1	1	-	4
Other financial payables	56	90	(34)	180
Total short-term financial payables	**371**	**173**	**198**	**266**
Total financial liabilities	**1,837**	**1,287**	**550**	**1,407**
Long-term financial receivables	2	2	-	1
Long-term bank fees	1	2	(1)	4
Held-to-maturity financial assets	2	2	-	-
Short-term derivatives	1	1	-	8
Short-term financial receivables	7	38	(31)	8
Short-term bank fees	2	2	-	2
Financial assets held for trading	40	57	(17)	87
Available-for-sale financial assets (current)	11	-	11	-
Cash and cash equivalents	1,335	646	689	547
Total financial assets	**1,401**	**750**	**651**	**657**
Net financial debt	**436**	**537**	**(101)**	**750**

Net financial debt of Euro 436 million at 31 December 2017 has decreased by Euro 101 million from Euro 537 million at 31 December 2016. 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)

	2017	2016	Change	2015
EBITDA	**657**	**645**	**12**	**622**
Changes in provisions (including employee benefit obligations)	-	21	(21)	(39)
(Gains)/losses on disposal of property, plant and equipment, intangible assets and non-current assets	(2)	(3)	1	-
(Gains)/losses from business combinations or disposal of investments	-	(18)	18	(36)
Share of net profit/(loss) of equity-accounted companies	(42)	(31)	(11)	(39)
Net cash flow provided by operating activities (before changes in net working capital	**613**	**614**	**(1)**	**508**
Changes in net working capital	88	67	21	243
Taxes paid	(104)	(76)	(28)	(71)
Dividends from investments in equity-accounted companies	10	10	-	17
Net cash flow provided/(used) by operating activities	**607**	**615**	**(8)**	**697**
Cash flow from acquisitions and/or disposal	(7)	31	(38)	(138)
Net cash flow used in operating activities	(254)	(227)	(27)	(200)
Of which for investment in Wuhan Shen Huan	*(35)*	*(11)*	*(24)*	-
Free cash flow (unlevered)	**346**	**419**	**(73)**	**359**
Net finance costs	(70)	(68)	(2)	(100)
Free cash flow (levered)	**276**	**351**	**(75)**	**259**
Share buy back	(100)	-	(100)	-
Dividend distribution	(101)	(102)	1	(91)
Capital contributions and other changes in equity	3	-	3	3
Net cash flow provided/(used) in the year	**78**	**249**	**(171)**	**171**
Opening net financial debt	**(537)**	**(750)**	**213**	**(802)**
Net cash flow provided/(used) in the year	78	249	(171)	171
Equity component of Convertible Bond 2017	48	-	48	-
Conversion of Convertible Bond 2013	17	-	17	-
Other changes	(42)	(36)	(6)	(119)
Closing net financial debt	**(436)**	**(537)**	**101**	**(750)**

Net cash flow provided by operating activities (before changes in net working capital) amounted to Euro 613 million at the end of 2017. The decrease in net working capital provided Euro 88 million in cash flow. After Euro 104 million in tax payments and Euro 10 million in dividend receipts from equity-accounted companies, net cash flow from operating activities for 2017 was a positive Euro 607 million.

Net cash flow used in the year for acquisitions and/or disposals of equity investments came to Euro 7 million, mainly attributable to the purchase of non-controlling interests in subsidiaries and the payment of the second and final instalment for the acquisition of Gulf Coast Downhole Technologies LLC.

Net operating capital expenditure amounted to Euro 254 million in 2017, a large part of which relating to projects to increase, rationalise and technologically upgrade production capacity and to develop new products.

During the year a total of Euro 70 million in net finance costs were paid as well as Euro 101 million to distribute dividends and Euro 100 million to buy back the Company's shares.
Net financial debt also benefited from Euro 48 million for the equity component of the convertible bond issued in January 2017 and from the partial conversion of the convertible bond issued in 2013.

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), before General Cable acquisition-related costs, 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, before other non-operating income and expense, and before General Cable acquisition-related costs. 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 net financial debt
  - 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 net financial debt
  - Other current receivables and payables, net of short-term financial receivables classified in net financial debt
  - Derivatives net of financial instruments for hedging interest rate and currency risks relating to financial transactions, classified in net financial debt
  - 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 net financial debt
  - Other current receivables and payables, net of short-term financial receivables classified in net financial debt
  - 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 debt:** 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 2017

(in millions of Euro)

			31 December 2017		31 December 2016	
		Note	Partial amounts from financial statements	Total amounts from financial statements	Partial amounts from financial statements	Total amounts from financial statements
Net fixed assets						
Property, plant and equipment		*1*		1,646		1,631
Intangible assets		*2*		735		792
Equity-accounted investments		*3*		217		195
Available for sale financial assets		*4*		12		12
Total net fixed assets	**A**			**2,610**		**2,630**
Net working capital						
Inventories	**B**	*6*		954		906
Trade receivables	**C**	*5*		1,131		1,088
Trade payables	**D**	*13*		(1,686)		(1,498)
Other receivables/payables net	**E**			(243)		(178)
Of which:						
Other receivables - non-current			*15*		*17*	
Tax receivables		*5*	*3*		*5*	
Receivables from employees		*5*	*1*		*1*	
Other		*5*	*11*		*11*	
Other receivables - current			*439*		*748*	
Tax receivables		*5*	*115*		*132*	
Receivables from employees and pension plans		*5*	*3*		*4*	
Advances to suppliers		*5*	*15*		*19*	
Other		*5*	*91*		*105*	
Construction contracts		*5*	*215*		*488*	
		5				
Other payables - non-current			*(8)*		*(18)*	
Tax and social security payables		*13*	*(3)*		*(6)*	
Payables to employees		*13*	*-*		*(2)*	
Other		*13*	*(5)*		*(10)*	
Other payables - current			*(671)*		*(875)*	
Tax and social security payables		*13*	*(161)*		*(121)*	
Advances from customers		*13*	*(156)*		*(377)*	
Payables to employees		*13*	*(92)*		*(74)*	
Accrued expenses		*13*	*(107)*		*(130)*	
Other		*13*	*(155)*		*(173)*	
Current tax payables			*(18)*		*(50)*	
Total net operating net working capital	**F = B+C+D+E**			**156**		**318**
Derivatives	**G**		22		7	
Of which:						
Forward currency contracts on commercial transactions (cash flow hedges) - non-current		*8*	*6*		*(8)*	
Forward currency contracts on commercial transactions (cash flow hedges) - current		*8*	*4*		*(7)*	
….Zero cost collar on General Cable acquisition (cash flow hedges)		*8*	*(17)*			
Forward currency contracts on commercial transactions - current		*8*	*(1)*		*6*	
Metal derivatives - non-current		*8*	*6*		*(1)*	
Metal derivatives - current		*8*	24		17	
Total net working capital	**H = F+G**			**178**		**325**

(in millions of Euro)

		Note	31 December 2017		31 December 2016	
			Partial amounts from financial statements	Total amounts from financial statements	Partial amounts from financial statements	Total amounts from financial statements
Provisions for risks and charges - non-current		14		(33)		(40)
Provisions for risks and charges - current		14		(321)		(339)
Deferred tax assets		16		135		130
Deferred tax liabilities		16		(103)		(111)
Total provisions	**I**			**(322)**		**(360)**
Net capital employed	**L = A+H+I**			**2,466**		**2,595**
Employee benefit obligations	**M**	15		**355**		**383**
Total equity	**N**	11		**1,675**		**1,675**
of which equity attributable to non-controlling interests				*188*		*227*
Net financial debt						
Total long-term financial payables	**O**			**1,466**		**1,114**
CDP Loan		12	100		-	
EIB Loans		12	152		58	
Non-convertible bond		12	743		741	
Convertible bond 2013		12	-		288	
Convertible bond 2017		12	456			
Other payables			15		27	
of which:						
Finance lease obligations		*12*	*12*		*13*	
Other financial payables		*12*	*3*		*14*	
Total short-term financial payables	**P**			**371**		**173**
EIB Loans		12	17		17	
Non-convertible bond		12	14		14	
Convertible bond 2013		12	283		1	
Revolving Credit Facility 2014		12	-		50	
Derivatives		8	1		1	
of which:						
Forward currency contracts on financial transactions		*8*	*1*		*1*	
Other payables			56		90	
of which:						
Finance lease obligations		*12*	*1*		*1*	
Other financial payables		*12*	*55*		*89*	
Total financial liabilities	**Q = O+P**			**1,837**		**1,287**
Long-term financial receivables	R	5	(2)		(2)	
Long-term bank fees	R	5	(1)		(2)	
Short-term financial receivables	R	5	(7)		(38)	
Short-term derivatives	R	8	(1)		(1)	
of which:						
Forward currency contracts on financial transactions (current)		*8*	*(1)*		*(1)*	
Short-term bank fees	R	5	(2)		(2)	
Financial assets held to maturity	S			(2)		(2)
Available-for-sale financial assets (current)	T	4		(11)		-
Financial assets held for trading	U	7		(40)		(57)
Cash and cash equivalents	V	9		(1,335)		(646)
Total financial assets	**Z = R+S+T+U+V**			**(1,401)**		**(750)**
Total net financial debt	**W = Q+Z**			**436**		**537**
Total equity and sources of funds	**Y = M+N+W**			**2,466**		**2,595**

Reconciliation between the principal income statement indicators and the Income Statement contained in the Consolidated Financial Statements and Explanatory Notes for 2017

(in millions of Euro)

		Note	2017 Amounts from income statement	2016 Amounts from income statement
Sales of goods and services	A	17	7,901	7,567
Change in inventories of work in progress, semi-finished and finished goods		18	57	(48)
Other income		19	81	75
Raw materials, consumables used and goods for resale		20	(4,912)	(4,387)
Personnel costs		21	(1,086)	(1,056)
Other expenses		23	(1,475)	(1,586)
Operating costs	**B**		**(7,335)**	**(7,002)**
Share of net profit/(loss) of equity-accounted companies	C	24	42	31
Fair value stock options	D		49	49
EBITDA	**E = A+B+C+D**		**657**	**645**
Other non-recurring expenses and revenues	F		(18)	1
Personnel costs for company reorganisation	G		(24)	(31)
Other costs and revenues for company reorganisation	H		(6)	(19)
Other non-operating expenses	I		(12)	(17)
General Cable acquisition-related costs	L		(16)	-
Total adjustments	**M= F+G+H+I+L**		**(76)**	**(66)**
Adjusted EBITDA	**N = E-M**		**733**	**711**
Share of net profit/(loss) of equity-accounted companies	O	24	42	31
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**P = M-O**		**691**	**680**

(in millions of Euro)

		2017 Amounts from income statement	2016 Amounts from income statement
Operating income	**A**	**421**	**447**
Other non-recurring expenses and revenues		(18)	1
Personnel costs for company reorganisation		(24)	(31)
Other costs and revenues for company reorganisation		(6)	(19)
Other non-operating expenses		(12)	(17)
General Cable acquisition-related costs		(16)	-
Adjusted EBITDA	**B**	(76)	(66)
Fair value change in metal derivatives	C	12	54
Fair value stock options	D	(49)	(49)
Non-recurring impairment and impairment reversal	E	(22)	(30)
Adjusted operating income	**F=A-B-C-D-E**	**556**	**538**

RISK FACTORS AND UNCERTAINTIES

The policy of value creation that motivates 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 consciously evaluate 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 develops dynamically, 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. Reference should be made 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 in the marketplace;

- 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

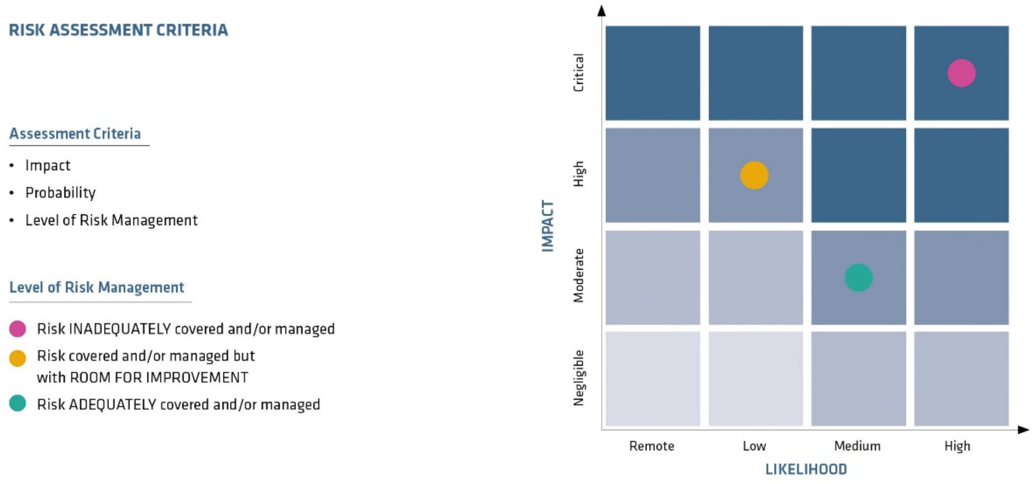
In compliance with the amendments to the Corporate Governance Code published in July 2015, the Group Risk Model has been revised to include, as part of strategic risks, the issue of Corporate Social Responsibility with the purpose of identifying more precisely the Group's economic, environmental and social sustainability risks which, over time, could jeopardise value creation for its shareholders and stakeholders.
The Board of Directors has also given the Compensation, Nominations and Sustainability 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, or rather to assess 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 (e.g. 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 its sustainability, and is updated annually with the involvement of key members of management.

In 2017 this process involved the main business/function managers of the Group, allowing the most significant risk factors to be identified, assessed and managed; this process also covered factors related to the Group's economic, environmental and social sustainability, to ensure lasting value creation for shareholders and stakeholders, for which more details can be found in the annual Sustainability Report, available on the Company's website at www.prysmiangroup.com.

The main risk factors to which the Group's particular type of business model is exposed are presented below, organised according to the classification used in the Risk Model described above, and describing the strategies adopted to mitigate these risks.
Financial risks are discussed in detail in the Explanatory Notes to the Consolidated Financial Statements in Section C (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 2017, the Directors believe that, barring any unforeseeable extraordinary events, there are no material uncertainties, such as to cast significant doubts upon the business's ability to continue as a going concern.

It should be noted that, in line with the Group's ERM process, the risks described below will be reassessed during 2018, particularly taking into consideration any effects arising from completion of the General Cable acquisition.

STRATEGIC RISKS

Risks associated with the competitive environment
Many of the products offered by 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 from operators already on the market, with potentially negative impacts on both 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 depress 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 (e.g. 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 guidelines on risk management, with particular attention to exchange rate risk, interest rate risk, credit risk, the use of derivative and non-derivative instruments, and on 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 be a potential risk factor in terms of raising finance and its associated cost. In addition, non-compliance with the financial and non-financial covenants contained in the Group's credit agreements could restrict its ability to increase its net debt, other conditions remaining equal. In fact, should it fail to satisfy one of these 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 credit drawn down. In such an eventuality, the Group might be unable to repay the amounts demanded early, in turn giving rise to a liquidity risk.

At present, given its balance of cash and cash equivalents and undrawn committed credit lines, totalling more than Euro 1 billion at 31 December 2017, and six-monthly monitoring[2] of financial covenant compliance (fully satisfied at 31 December 2017), the Group is of the opinion that this risk is significantly mitigated and that it is able to raise sufficient financial resources and at a competitive cost. A more detailed analysis of the risk in question, including a description of the Group's principal sources of finance, 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. Exchange rate volatility is monitored both locally

[2] The financial covenants are measured at the half-year close on 30 June and at the full-year close on 31 December.

and centrally, by the Group Finance department, also using specific indicators designed to intercept potential risk situations which, when thought to exceed the defined tolerance limits, will trigger immediate mitigating actions.
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 program covering almost all its operating companies; this is managed centrally by the Risk Management department, which monitors, with the assistance of the Group's Credit Management function, the level of exposure to risk and intervenes when tolerance limits are exceeded as a result of difficulty in obtaining coverage on the market.
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 2017, 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, controlling that the level of exposure to risk is kept within defined tolerance limits.

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 Core Oil & Gas businesses to a slowdown; however the impact on the Group is not material since these businesses account for about 3% 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. Should such insurance coverage prove 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 one of its cable-laying vessels (the "Giulio Verne"), some of whose technical capabilities are hard to find on the market. The loss of one of these assets due to unforeseen natural disasters (e.g. earthquakes, storms, etc.) or other accidents (e.g. 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:

- a systematic Loss Prevention program, managed centrally by the Risk Management department, which, through periodic on-site inspections, allows the adequacy of existing systems of protection to be assessed and any necessary remedial actions decided to mitigate the estimated residual risk. As at 31 December 2017, the Group's operating plants were sufficiently protected and no significant exposures to risk were noted. All the plants have been classified as "Excellent Highly Protected Rated (HPR)", "Good HPR" or "Good not HPR", in accordance with the methodology defined by internationally recognised best practices in the field of Risk Engineering & Loss Prevention;

- specific disaster recovery & business continuity plans which allow appropriate countermeasures to be activated as soon as possible in order to minimise the impact of a catastrophic event and to manage any consequent crisis;
- specific insurance programs for coverage against any damage to assets and loss of associated contribution margin due to business interruption, such as to minimise the financial impact of this risk on cash flow.

Environmental risks

The Group's production activities in Italy and abroad are subject to specific environmental regulations, amongst which 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 obliged to incur significant compliance costs.

Considering the large number of the Group's plants, the probability of an accident with consequences for the environment, as well as for continuity of production, cannot be ignored or the resulting potentially significant economic and reputational impact. Accordingly, Prysmian adopts a series of controls that keep the risk at an acceptable level. In fact, 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 noted that 94% of the Group's sites are certified under ISO 14001 (for environmental management systems) and 78% 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 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. In partnership with the Risk Management department, the Group's IT Security function periodically performs specific assessments to identify any vulnerabilities in IT systems locally and centrally that could compromise business continuity.

Furthermore, since 2016 Prysmian Group has started to implement a structured and integrated process for managing cyber security related risks which, under the leadership of the Group IT Security function, in partnership with the Risk Management department, aims to strengthen the Group's IT systems and platforms and introduce robust mechanisms to prevent and control any cyberattacks. A cogent Information Security strategy has been defined in this regard that clarifies the governance structure adopted by the Group and the guidelines for managing cyber risk in connection with IT architectures and business processes. A special

Information Security Committee, consisting of the key figures involved in managing cyber risk[3], has been appointed with the mission of defining the strategic and operational objectives regarding Cyber Security, of coordinating the main initiatives undertaken, as well as of examining and approving policies, operating procedures and instructions. The Committee is convened on a periodic basis (twice a year) and in any case upon the occurrence of any extraordinary events or crises. Lastly, specific e-learning training sessions have been provided to all the Group's IT staff with the aim of increasing their awareness of this issue.

LEGAL AND COMPLIANCE RISKS

Compliance risks associated Code of Ethics, Policies and Procedures

Compliance risk generically represents the possibility of incurring legal or administrative sanctions, material financial losses or reputational damage as a result of violations of prevailing laws and regulations. Prysmian Group deploys a series of organisational procedures designed to define the principles of legality, transparency, fairness and honesty through which to operate. In particular, since its inception, the Group has adopted a Code of Ethics, a document which contains the ethical standards and the behavioural guidelines that all those engaged in activities on behalf of Prysmian or its subsidiaries (including managers, officers, employees, agents, representatives, contractors, suppliers and consultants) are required to observe. The Group undertakes, through its Internal Audit & Compliance department, to constantly monitor compliance and actual application of these rules, with no type of violation tolerated.

However, despite this ongoing endeavour, assiduous vigilance and periodic information campaigns, it is not possible to rule out future episodes of improper conduct in breach of policy, procedures or the Code of Ethics, and hence of current legislation and regulations, 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 of non-compliance with Data Protection (Privacy) legislation

The new European General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679), replacing Italy's "Privacy Code" contained in Legislative Decree 196/2003, entered into force in May 2016 and requires companies operating in the European Union to revise their data protection management models to meet the new GDPR requirements. The transition to the new rules must be completed by 25 May 2018, after which there is the risk of incurring penalties, even of significant amount.

The large number of employees and the growing tendency towards global data management (e.g. cloud storage, use of mobile devices, etc.) could expose the Group to the risk of receiving claims for compensation from individuals for damages in respect of their personal data caused by violation of the protection rules or incorrect handling of the protected data, if not properly managed. Potential penalties imposed by the competent authorities as well as reputational damages should also be considered as a consequence of this risk.

Although the Group has always demonstrated its compliance with the current Privacy Code and other applicable regulations, in order to minimise potential exposure to risk, in 2017 the Internal Audit & Compliance

[3] The following sit, as permanent members, on the Information Security Committee: the Chief Operating Officer, the Vice president HR&Organization, the Chief Security Officer, the Chief Information Officer, the Chief Risk Officer, the Chief Audit & Compliance Officer and the Group's IT Security Manager.

department, with the support of the relevant business functions, initiated the process for compliance with the new European Directive (GDPR), involving in particular a review of the Privacy organisational model, the mapping of data potentially exposed to risk and the subsequent assessment of any changes to the data processing methods themselves.

Risks of non-compliance with Anti-bribery legislation

In recent years, legislators and regulators have devoted much attention to the fight against bribery and corruption, with a growing tendency to extend responsibility to legal entities as well as to natural persons. With growing internationalisation, organisations more and more often find themselves operating in contexts exposed to the risk of bribery and having to comply with the many related regulations, such as Italian Legislative Decree 231/2001, Italy's Anti-bribery Law (Law 190/2012), the Foreign Corrupt Practices Act, the UK Bribery Act etc., all with a common objective: to counteract and repress corruption.

The Group's business model, with a global presence in over 50 countries and a wide array of applications for its products, brings it into constant contact with multiple third parties (suppliers, intermediaries, agents and customers). In particular, in the Energy (submarine and high voltage) and Oil & Gas businesses, the management of large international projects involves having commercial relations even in countries with a potential risk of bribery (as per the Corruption Perception Index[4]), often through local commercial agents and public officials.

Prysmian Group has therefore implemented a series of actions designed to manage bribery and corruption on a preventive basis; foremost amongst these is the adoption of an Anti-Bribery Policy which prohibits the bribery of both public officials and private individuals and requires employees to abide by it and to observe and comply with all anti-bribery legislation in the countries in which they are employed or active, if this is more restrictive. In addition, specific e-learning activities (training and testing) for all Group personnel are periodically conducted to raise awareness about compliance with this legislation. In continuity with the objectives set in 2016, Prysmian Group decided during 2017 to strengthen its monitoring of and focus on compliance issues by launching an Anti-Bribery Compliance Program inspired by the ISO 37001 guidelines for Anti-bribery management systems, published on 15 October 2016. This program, in addition to giving greater control over management of the bribery risk, also aims to minimise the risk of punishment if crimes related to corruption are committed by employees or third parties. The core of the ISO 37001 standard is the control of third parties (suppliers, intermediaries, agents and customers) through a due diligence system designed to reveal any critical or negative events that undermine the reputation of third parties with whom Prysmian Group deals.

Further details about the actions taken by the Group to prevent corrupt practices can be found in the specific section of the 2017 Sustainability Report.

[4] The Corruption Perception Index (CPI) is an indicator published annually by Transparency International, used to measure the perception of public sector corruption in various countries around the world.

Risks of non-compliance with Antitrust law

Competition rules, covering restrictive agreements and abuse of dominant position, now play a central role in governing business activities in all sectors of economic life. Its extensive 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 parties that violate the applicable legislation. In the last decade, local Antitrust Authorities have paid increasing attention to commercial activities by market players, also involving a tendency for international collaboration between authorities themselves. Prysmian aspires to operate on the market in compliance with the competition rules.

In keeping with the priorities identified by the ERM process, the Board of Directors has adopted 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. The Antitrust Code of Conduct is currently being updated and a new version is expected to be published in 2018 and will contain the general principles of antitrust law generally found in industry regulations applying in the various jurisdictions in which the Group operates. Subsequently, more detailed documents will be prepared, each focusing on the antitrust legislation specifically applicable in the main countries in which the Group operates. The Antitrust Code of Conduct forms an integral part of the training program and is intended to provide a framework for the issues concerning application of EU and Italian competition law in the field of agreements and abuse of dominant position, within which specific situations can be assessed on a case-by-case basis. These activities represent a further step in establishing an "antitrust culture" within the Group by promoting knowledge and heightening individual accountability for professional duties arising under antitrust legislation. In this context, specific classroom training sessions were held during 2017 for the Group's sales force, organised in collaboration with external lecturers and legal consultants. E-learning modules are also in the process of being published on the company intranet.

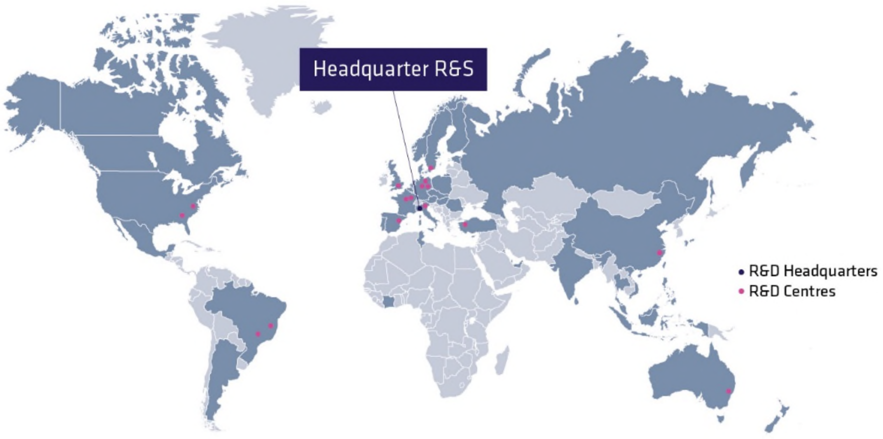
With regard to the antitrust investigations still in progress, details of which can be found in Note 14. Provisions for risks and charges in the Explanatory Notes to the Consolidated Financial Statements, the Group has a provision for risks and charges as at 31 December 2017 of approximately Euro 163 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 adopted in April 2014, as described in the Explanatory Notes (Note 14. Provisions for risks and charges), 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, the Group does not consider these risks to be relevant.

RESEARCH AND DEVELOPMENT

In 2017 the resources devoted to Research, Development and Innovation amounted to some Euro 84 million, confirming the ongoing commitment to and focus on sustainable long-term growth.



84 million (1% of sales) invested in R&D

17 R&D Centres

Over **500** professionals

Over **4,850** patents

Over the course of the year Prysmian worked on numerous Research and Development projects. This section presents the most significant ones also from a sustainability point of view.

Work also continued to optimise costs through the Design-To-Cost (DTC) program, a methodology used to lower production costs, both when developing new products and when re-engineering existing ones. Prysmian's aim therefore is to reduce the quantity of materials used in cable manufacturing through product redesign. Thanks to this program, Prysmian achieved cost savings of more than Euro 13 million in 2017, with over 1,050 projects feeling the benefit. The cost savings were a direct result of reducing the quantity of material used in cable manufacturing with a consequent reduction in the associated environmental impacts.

ENERGY

Submarine Cables

The development of new diametrical splicing techniques for large aluminium conductors (with the possibility of gathering them on fixed platforms) was completed during the year, as was production of a large part of the 320 kV DC cable for the COBRA project to link the Netherlands to Denmark.

Work on splicing conductors in different materials continued with a series of mechanical tests in order to use the solution in three-core 220 kV AC cables. The geometric configuration of three-pole cables places higher mechanical stress on conductors and the related joints, particularly on bending. Full qualification and production are scheduled for 2018. Other important projects were:

- The development of **bimetallic joints** to optimise power transmission efficiency of submarine power lines, using the best conductor design for each section of the line according to its depth, thus ensuring greater sustainability of the line itself.
- With reference to **MI cables** (Mass Impregnated), catch-up work for the WesternLink project reached an end and voltage testing was completed following installation of the DC section to guarantee efficient transfer of energy between the north and south of the United Kingdom.
- In the area of **deep water cables**, having completed all the trials to confirm the mechanical feasibility of the cable solution developed, work was started and partly completed on developing installation and repair technologies entailing the use of innovative techniques in view of the great depths involved. These future ultra-deep submarine systems (for depths up to 3.000 metres) will therefore permit the development of new previously unviable interconnectors and power transmission links, also ensuring more efficient and sustainable energy.
- With reference to the **600 kV DC extruded cables** project, tests continued to fine-tune XLPE and P-Laser technologies. In particular, new prototypes were produced in both XLPE and P-Laser with copper conductor sectional areas of up to 2500mm^2 and aluminium conductor sectional areas of up to 3500mm^2.
- In the case of extra high voltage P-Laser cables using solid insulation, work continued on developing the **flexible "P-Laser"** joint with a new so-called intrusion technology, whereby the insulation is extruded to fill in the area of the joint. This technology has been patented and the first internal tests carried out on a full-size prototype, with decidedly encouraging results. Cables with P-Laser technology are made using recyclable, eco-friendly materials, which help reduce the environmental impact of electricity grids while increasing their efficiency and transmission capacity.
- Work was completed to fine-tune "**Lead Less**" technology for the production of lead-free metallic sheaths, using a tube-shaped longitudinally welded copper sheet. Over the next year, this technology will undergo industrialisation at the Pikkala plant in Finland. The removal of lead from HV and EHV submarine cables is an extremely important breakthrough for the environment. Furthermore, this technology will also make it possible to develop dynamic connections for offshore platforms, thus expanding the range of wind systems to even the deepest seas.

- Lastly, work continued on developing **monitoring systems** (of partial discharges) for **long distance EHV, AC or DC** submarine systems, using Prycam Gate technology. Research has begun into diagnostic systems allowing real-time identification of the position of any problems during cable operation, thus minimising repair times. Diagnostics and monitoring help reduce transmission system downtime, while ensuring better energy distribution and making the system more sustainable.

Underground Cables

- Product development for EHV cable systems saw the production of new prototypes insulated with P-Laser proprietary technology for **525 kV HVDC** systems. The 3500 mm^2 conductor section is the largest ever made by Prysmian, while the chosen conductor material (aluminium) has helped limit cable weight. Thanks to P-Laser technology, the system can operate at a conductor temperature of 90°C (instead of 70°C as is normally the case for HVDC XLPE cables) ensuring the same transmission capacity as that of a cable with like voltage but a 2500 mm^2 XLPE insulated copper conductor.
- Work continued on industrialising the production technology for the new generation of accessories serving **EHVDC applications.**
- In the area of future UHV AC applications, work started on developing suitable materials and technologies applicable to voltages of up to **800 kV**. The cables produced have allowed a preliminary evaluation of existing and new generation materials, with new technological solutions for insulation.
- The Abbeville plant in South Carolina has produced a 500 kV (AC) prototype with a 2500 mm^2 conductor (pre-qualification tests will be carried out in accordance with IEC62067), while the Mudanya plant in Turkey has started production of HV cables with longitudinally welded aluminium sheaths.

T&I (Trade and Installers)

The T&I business saw the European Construction Products Regulation (CPR) enter into full force in 2017, requiring cables to meet specific performance standards in terms of reaction and resistance to fire. The intense development work carried out in previous years to make its products compliant with the new European standard has allowed the Group's various companies to secure an edge in the different local markets right from the outset. Intensive work to complete the range and optimise costs will nonetheless continue throughout 2018. Several product families for applications not regulated by the CPR are also being required to comply with the same safety standards, intensifying the R&D focus in this regard. The imminent extension of the CPR requirements regarding reaction and resistance to fire has already spurred Prysmian into starting the testing and fine-tuning of products for this category even if the final requirements have not yet been clearly defined. The focus on sustainability has also become of primary importance for products in the T&I market.

Oil&Gas and Surf

The Group offers products and services for offshore oil & gas exploration and production activities, known in the market as "SURF" (Subsea Umbilical, Riser and Flowline). The Group added a new technology in 2017 to produce steel tube umbilicals for dynamic applications.

The O&G market crisis has oriented all "Core" cable development activities towards design and production cost optimisation, also by introducing alternative products to the market. The introduction of the CPR in the T&I market is also arousing the interest of oil companies, requiring specific developments also for products in this family.

In the area of electrical submersible pumps (ESP), oil exploration and production companies are now seeking technological solutions that simplify installation and maintenance as well as limit the related costs.

This involves developing extremely innovative solutions that require new generation cables with very specific additional performance characteristics. This trend is also leading to ever greater synergy between ESP and Downhole Technology systems, making it strategic to combine KH for both technologies.

OEMs

Intense activities continued in 2017 to develop and improve products for the industrial market, covering a vast and varied number of applications. The specialisation in some of these sectors, developed by some of the Group's units, is often required to be transferred to other units due to increasingly frequent requests for localisation in emerging country markets. It has therefore been necessary to equip local plants to manufacture part of the product portfolio, making it possible, also thanks to transfer of the Group's proprietary know-how and technologies, to penetrate new markets.

Monitoring systems

The development of monitoring systems has assumed ever increasing importance insofar as constant network monitoring helps manage, optimise and identify any network problems and so minimise the risk of default. This led in 2017 to a greater focus on systems to measure not only partial discharges but also other parameters, such as temperature, strain, vibration and radiation, with the development of sensors and monitoring systems and devices. As part of the PRYCAM services, whose purpose is to obtain real-time information on the conditions of cables or network components in their respective systems or circuits, the Group has developed PryCam Cable, to create a power source and data collection device for distributed systems of this kind.

TELECOM

Optical Fibre

As for optical fibre, 2017 marked further improvements in the fibre manufacturing process at the US and Brazilian factories, where an autonomous production process is now in operation.

During the year, production capacity was increased for BendBrightXS fibres (single-mode completely bend-insensitive fibre for FTTH applications), also thanks to process improvements. This fibre is very popular with the market thanks to its great flexibility and ductility, especially since the G657.A1 standard came into force. As a result, the Group is converting much of its capacity in this direction, favouring the production of multimodal bend-insensitive fibres for use in FTTH applications.

Since the standard for OM5 fibres has been ratified by the IEC and ISO/IEC, this platform is now used in IEEE to develop the specifications of the physical interfaces of transceivers that will operate at 25/50Gbit/s using up to four wavelengths. This will allow an 8-fibre cable, for example, to transmit from 40G to 100G up to 400G.

Another important innovation concerns the use of "**Few Mode**" fibre technology, which allows digital information to be transmitted using a limited number of "modes", unlike, until now, when this has been possible using only single mode fibres. While information is encoded in single-mode fibres and travels in a single *light mode*, "Few Mode" fibre allows different *modes* to transmit digital information (with a consequent advantage for information capacity). The first "Few Mode" fibres, in so-called "4-LP mode", are still being tested.

Optical Cables

In the optical cables field, the Group's activity mainly involves three types of products (Flextube, Blowing, Ribbon).

Flextube cables have proven suitable for many international markets, and their production has been extended to several Group factories. Prysmian continues to work to increase the number and density of fibres contained in a single cable: the latest design houses **3,456 fibres**, organised in 6 elementary cores of 576 fibres each in a single cable (BendBrightXS fibres with a 200 µm diameter were used for this cable to help miniaturisation without compromising bend sensitivity).

Increased fibre density is also the main development goal of "Mini" and "Nano" cables installed using the **Blowing** technique. This family includes drop cables with up to 24 fibres and a maximum diameter of 3 mm and multi loose cables with up to 288 fibres and a maximum diameter of 8 mm. A blowing technique called "overblowing" has also been developed, allowing new cables to be "blown" into the space of the tube not occupied by previously installed cables, representing a clear benefit in terms of environmental impact.

As far as classic **Ribbon** cables for internal and external use are concerned, further improvements and additions to the portfolio were made. Totally Dry Ribbon cables up to 864f have been developed in a Low Smoke Zero Halogen version, while a new generation of Ribbon cables is under development with loose-connected fibres to allow greater packing density while maintaining the benefits of mass fusion splicing.

In collaboration with the University of Applied Science Südwestfalen, the Group has studied the impact of choice of broadband access technology on CO_2 emissions. The comparison between xDSL, Hybrid-Coax, GPON and Point-to-Point showed the advantage of full FTTH implementation, although it was noted that the impact on power consumption by customer modems offered room for improvement.

Connectivity

In terms of Connectivity, Prysmian has continued to develop new accessories for FTTH use (ultra broadband access networks). The Group's focus has been on "cabinets", with the development of optical distribution frames (MDFs), joints for splicing cables and termination solutions involving wall-mounted cabinets. The family of multi-function joints has also been launched in several countries, with specific characteristics for adaption to the various platforms.

The main innovations have involved:

- the development of a new range of **customer termination boxes**, under industrialisation at the plant in Menzel (Tunisia);

- the development of other **joint components**, making it possible to extend their use in the network, thus increasing Prysmian's market share;
- the development of **multiple components** and the launch of an extensive testing program to qualify the joints. These components are currently in production, with sales expected to start in the second quarter of 2018.

OPGW (special optical and submarine cables).

OPGW technology, in stainless steel with an aluminium coating, has been developed up to 96fo, while spiral space technology has been added to the product portfolio. Cables using these technologies have been qualified for various projects in the special cables field, for example cables for 500-vertical-metre dams.
Further developments have taken place in the family of optical cables offering high mechanical strength and high chemical resistance (ALPA) or fire resistance (ALPAM). Production of Subaqua cables has started at the Vilanova plant in Spain. As for submarine cables, a 330-km optical core has been successfully produced for the COBRA project.

Multimedia and Data Centre Solutions

Improvements have been made to the discontinuous ribbon-based Cat.6A U/UTP solution for structured cables with copper conductors.
PoE technology (Power over Ethernet) continues to be the main driver of product range extension and use in the field. This technology allows wireless access points, cameras, sensors and other IoT devices (Internet of Things) to be connected to one another. Even the new Reduced-Twisted-Pair technology is catching on: the first projects have been qualified to allow 1 Gbit/s transmission channels on a single pair, also allowing us to support current standardisation work.
Hybrid combined optical fibre and copper cabling solutions have been further developed for data centres. The first complete cat 8.2 connection has been qualified in collaboration with an industrial partner and is now on sale, offering 40 Gb/s transmission over a 30 m long copper channel. The IEEE transition to a speed of 25 Gb/s allows possible solutions using the Cat.7a product range. New multimode optical fibre cables have been developed for high speed data transmission (40/100 Gb/s); these cables are based on 8 or 12 fibre modules terminated with multi-fibre MPO connectors. The optical modules used can either be of a Flextube micro-module kind, or 3 mm micro-cables, that are 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.
During 2017, all the product families were qualified according to the Construction Products Regulation: tests were carried out on existing products, designs adapted and materials modified, in order to propose a product portfolio that covers all the necessary performance classes on the market. Most existing products will be classified according to the new fire-performance classes, but new solutions are also being studied and developed for classification in the very top categories.

INNOVATIVE MATERIALS

Prysmian is intensifying exploratory research to find innovative materials for new cable and accessories technology. The main achievements in the year are described below.

- Creation of an elastic sheath for overhead cable accessories (currently under industrialisation), also evaluating new forms for the elastic joint that it serves.
- Studies to understand how to eliminate lead from insulating compounds for medium and high voltage accessories and cables (still in progress).
- Development of semiconductive compounds for medium voltage disconnectable joints used by a subsidiary in France.
- Collaboration with an external partner to develop a coating able to reduce the flame propagation of crosslinked polyethylene, in order to improve the performance of low voltage CPR compliant cables and enhance their characteristics in the future.
- Collaboration with the University of Padua for a preliminary study with the purpose of starting a joint project on fire-resistant materials.
- Study of substances that absorb water without subsequently releasing it, showing the feasibility of a material with superior impermeability. By putting this material into high density polyethylene compounds, impermeability increases by a measure of at least one. In the area of lightweight submarine armouring, a collaboration was started with a producer of UHMW-based polyethylene fibre.
- Successful completion of tests using by-product absorbers in HVDC cables to confirm the reliability of the proposed solution.
- Collaboration with an external supplier for the development of a new tensioner. Experiments are underway to understand how to improve catalyst structure in order to have a cleaner polymer that absorbs gas better.
- Development of a method to study the electrical properties of mica glass tapes at high temperatures (up to 800°C) to evaluate the performance of tapes currently in use.
- Collaboration with the Polytechnic University of Milan to study and make oil-resistant polymers, leading to the creation of a material based on unsaturated polymers that react with each other to generate a crosslinked product with good properties. If the validity of this technique is confirmed, it will be possible to make oil-resistant sheaths consuming much less energy than at present.
- Experiments have been initiated to evaluate and approve materials suitable for the production of small optical cables, which are becoming more and more important in the marketplace.

- Studies were completed with the University of Salerno of a polypropylene used to make the diameter joints in PLaser cables, which showed totally unexpected anomalous behaviour.

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. During the year, the Group continued to add to its patent portfolio, especially in high value-added segments and in support of the major investments made in recent years.

As at 31 December 2017, Prysmian Group had **4,871 patents** - including patents granted and pending applications - throughout the world, covering 746 inventions (of which 211 in the Energy Projects and Energy Products segments, 15 in the Oil&Gas segment and 520 in the Telecom segment). During 2017, 28 new patent applications were filed, of which 18 in the Telecom area, 8 in the Energy area and 2 in the Oil&Gas area, while 187 patents were granted after examination, of which 52 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 2017, the Prysmian Group owned **586 trademarks**, corresponding to 2,514 trademark registrations in its countries of operation, covering the names and identifying symbols of its companies, activities, products and product lines.

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 were:

- generation of a strong commitment by the Group's management to achieving the targets for additional growth in profits and return on capital employed;
- alignment of the interests of management with those of shareholders by using share-based incentives and by promoting stable share ownership of the Company and the possibility of ensuring long-term sustainability of the Group's annual performance by fostering staff retention through co-investment of part of the annual bonus.

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

The Plan consisted of two parts:

- Co-investment;
- Performance Shares.

The Co-investment part required 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 was achieved, this portion would be returned to the participant in the form of company shares with a higher value than that co-invested.

The Performance Shares part involved 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 depended on the extent to which the Performance Conditions were achieved. Both parts of the plan were 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%).

As at 31 December 2017 the options were all fully vested and are subject to a lock-up period, the length of which varies according to the seniority of the plan's beneficiaries.

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

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Mergers & Acquisitions

Acquisition of General Cable

On 16 February 2018, Prysmian Group acknowledged that the shareholders of General Cable Corporation had approved the acquisition by Prysmian of 100% of General Cable's shares for a consideration of USD 30.00 per share, as announced on 4 December 2017.

Present at the meeting was 75.34% of the share capital entitled to vote, of which some 99% voted in favour of the acquisition.

Subject to regulatory approvals and other customary closing conditions, the completion of the acquisition is expected to take place by the third quarter of 2018.

Finance Activities

Interest rate hedging derivatives

In January 2018, the Group entered into interest rate hedging derivatives, transforming variable into fixed rate, with the purpose of reducing rate volatility risk. In particular, forward rate agreements have been arranged, for an overall notional value of Euro 850 million, with the objective of hedging variable interest rate flows over the period 2018-2023 on loans the Group will contract for the General Cable acquisition.

In addition, interest rate swaps have been arranged, for an overall notional value of Euro 110 million, with the objective of hedging variable interest rate flows over the period 2018-2024 on an existing loan.

New industrial projects and initiatives

Cable to link Kincardine floating offshore wind farm to the UK mainland

On 24 January 2018, Prysmian Group was awarded a contract by Cobra Wind International Ltd for the cable to link the Kincardine floating offshore wind farm to mainland UK. This is the Group's first cable project for a floating offshore wind farm and involves the design and supply of two submarine export cables, inter-array cables and related accessories to connect the turbines of the Kincardine floating offshore wind farm, located approximately 15 km southeast of Aberdeen, to the Scottish mainland power grid. Installation is due to take place during 2018 and 2019.

Submarine power link to Capri

On 2 February 2018, the Group was awarded a contract worth around Euro 40 million by Terna Rete Italia S.p.A. for a new submarine cable link between the isle of Capri and Sorrento (Naples) following a European call for tender. The project involves the turnkey installation of a 150 kV HVAC power cable between Sorrento and the Gasto recycling centre on Capri, along a route running 16 km subsea and 3 km onshore. The project is scheduled for completion in 2019.

BUSINESS OUTLOOK

The global macroeconomic cycle got stronger in 2017, with all the main geographical areas improving, primarily driven by recovery of the Eurozone economies and by resumption of growth in certain emerging countries, such as Brazil and Russia. In the United States growth has become steadily stronger thanks to improvements in domestic consumption and external demand and to positive effects of the Trump administration's tax reform. China's growth was solid throughout 2017, outperforming government forecasts and analyst expectations; such expansion was supported by sectors operating in new technologies and services, which helped make up for slowing investment in traditional industries and construction. The Middle East and North Africa region was the main area of weakness in 2017, beset by its uncertain geopolitical situation and highly oil-dependent local economy.

In such a context, the Prysmian Group's expectation for FY 2018 is that demand in the cyclical businesses of building wires and industrial applications will be higher than in 2017, reflecting stronger European demand as partially tempered by weakness in the Middle East (Oman), while demand for medium voltage cables for utilities should be stable, reflecting a mixed performance between the different geographical areas. With market expansion forecast, Prysmian Group's Energy Projects segment anticipates consolidating its leadership in Submarine cables and systems while boosting the business's profitability through the strategy of insourcing installation activities. The Group expects High Voltage underground cables and systems to make a moderate recovery from 2017, with a steady improvement in results anticipated in China thanks to the new manufacturing footprint. In the Oil & Gas segment, the Group expects cable demand for Onshore projects (primarily in North America and the Middle East) to be stable thanks to the gradual rise in oil prices, while the SURF business is forecast to remain weak due to price pressures in the Brazilian market. The Telecom segment should see solid underlying sales growth in 2018, underpinned by strong growth in demand for optical cables in North America and Europe, while copper telecom cables can expect to flag further due to declining demand in Australia.

In addition, assuming exchange rates remain at the same level as at the date of the present document, the effect of translating Group company results into the reporting currency can be expected to have a negative impact on the Group's forecast operating income for 2018.

Lastly, the Prysmian Group will continue in 2018 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.

The Group has also published, including on its website, the procedures adopted to ensure the transparency and substantive and procedural fairness of related party transactions.

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 2017.

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 2017.

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 C. Financial risk management.

Treasury shares

Information about treasury shares can be found in Note 11 to the Consolidated Financial Statements at 31 December 2017.

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, 27 February 2018

FOR THE BOARD OF DIRECTORS
THE CHAIRMAN
Massimo Tononi

Consolidated Financial Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of Euro)

	Note	31 December 2017	of which related parties (Note 33)	31 December 2016	of which related parties (Note 33)
Non-current assets					
Property, plant and equipment	1	1,646		1,631	
Intangible assets	2	735		792	
Equity-accounted investments	3	217	217	195	195
Available-for-sale financial assets	4	12		12	
Financial assets held to maturity		2		2	
Derivatives	8	14		3	
Deferred tax assets	16	135		130	
Other receivables	5	18		21	
Total non-current assets		**2,779**		**2,786**	
Current assets					
Inventories	6	954		906	
Trade receivables	5	1,131	6	1,088	14
Other receivables	5	448	5	788	5
Financial assets held for trading	7	40		57	
Derivatives	8	45		40	
Available-for-sale financial assets	4	11		-	
Cash and cash equivalents	9	1,335		646	
Total current assets		**3,964**		**3,525**	
Total assets		**6,743**		**6,311**	
Equity attributable to the Group:		**1,487**		**1,448**	
Share capital	11	22		22	
Reserves	11	1,238		1,180	
Net profit/(loss) for the year		227		246	
Equity attributable to non-controlling interests:		**188**		**227**	
Share capital and reserves		192		211	
Net profit/(loss) for the year		(4)		16	
Total equity		**1,675**		**1,675**	
Non-current liabilities					
Borrowings from banks and other lenders	12	1,466		1,114	
Other payables	13	8		18	
Provisions for risks and charges	14	33		40	
Derivatives	8	2		12	
Deferred tax liabilities	16	103		111	
Employee benefit obligations	15	355		383	
Total non-current liabilities		**1,967**		**1,678**	
Current liabilities					
Borrowings from banks and other lenders	12	370		172	
Trade payables	13	1,686	4	1,498	4
Other payables	13	671	1	875	3
Derivatives	8	35		24	
Provisions for risks and charges	14	321	4	339	2
Current tax payables		18		50	
Total current liabilities		**3,101**		**2,958**	
Total liabilities		**5,068**		**4,636**	
Total equity and liabilities		**6,743**		**6,311**	

CONSOLIDATED INCOME STATEMENT

(in millions of Euro)

	Note	2017	of which related parties (Note 33)	2016	of which related parties (Note 33)
Sales of goods and services	17	7,901	34	7,567	51
Change in inventories of work in progress, semi-finished and finished goods	18	57		(48)	
Other income	19	81	5	75	5
Raw materials, consumables used and goods for resale	20	(4,912)	(15)	(4,387)	(17)
Fair value change in metal derivatives		12		54	
Personnel costs	21	(1,086)	(26)	(1,056)	(23)
of which personnel costs for company reorganisation		*(24)*		*(31)*	
of which personnel costs for stock option fair value		*(49)*		*(49)*	
Amortisation, depreciation, impairment and impairment reversals	22	(199)		(203)	
of which impairment related to company reorganisation		*(4)*		*(5)*	
of which other impairment		*(18)*		*(25)*	
Other expenses	23	(1,475)	(1)	(1,586)	(1)
of which non-recurring (other expenses) and releases		*(18)*		*1*	
of which (other expenses) for company reorganisation		*(6)*		*(19)*	
Share of net profit/(loss) of equity-accounted companies	24	42	42	31	31
Operating income		**421**		**447**	
Finance costs	25	(443)		(497)	
of which non-recurring finance costs		*(2)*		*(2)*	
Finance income	26	327		418	
Profit/(loss) before taxes		**305**		**368**	
Taxes	27	(82)		(106)	
Net profit/(loss) for the year		**223**		**262**	
Attributable to:					
Owners of the parent		227		246	
Non-controlling interests		(4)		16	
Basic earnings/(loss) per share (in Euro)	28	1.07		1.15	
Diluted earnings/(loss) per share (in Euro)	28	1.05		1.09	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of Euro)

	2017	2016
Net profit/(loss) for the year	**223**	**262**
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	28	(4)
Fair value gains/(losses) on cash flow hedges - tax effect	(9)	3
Currency translation differences	(169)	17
Total items that may be reclassified, net of tax	**(150)**	**16**
- items that will NOT be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on employee benefits - gross of tax	17	(54)
Actuarial gains/(losses) on employee benefits - tax effect	(3)	10
Total items that will NOT be reclassified, net of tax	**14**	**(44)**
Total comprehensive income/(loss) for the year	**87**	**234**
Attributable to:		
Owners of the parent	119	211
Non-controlling interests	(32)	23

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 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**

(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 2016	**22**	**(13)**	**(156)**	**1,349**	**246**	**1,448**	**227**	**1,675**
Allocation of prior year net result	-	-	-	246	(246)	-	-	-
Dividend distribution	-	-	-	(91)	-	(91)	(10)	(101)
Fair value - stock options	-	-	-	49	-	49	-	49
Equity component of Convertible Bond 2017	-	-	-	48	-	48	-	48
Share buyback	-	-	-	(100)	-	(100)	-	(100)
Non-controlling interests purchased in subsidiaries	-	-	-	(3)	-	(3)	-	(3)
Capital contributions by non-controlling interests	-	-	-	-	-	-	3	3
Partial conversion of Convertible Bond 2013	-	-	-	17	-	17	-	17
Total comprehensive income/(loss) for the year	-	21	(143)	14	227	119	(32)	87
Balance at 31 December 2017	**22**	**8**	**(299)**	**1,529**	**227**	**1,487**	**188**	**1,675**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Euro)

		2017	Of which related parties (Note 33)	2016	Of which related parties (Note 33)
	Profit/(loss) before taxes	305		368	
	Depreciation, impairment and impairment reversals of property, plant and equipment	154		157	
	Amortisation and impairment of intangible assets	45		46	
	Net gains on disposal of property, plant and equipment, intangible assets and acquisition purchase price adjustment	(2)		(3)	
	Results of operating and financial investment and divestment activities	-		(18)	
	Share of net profit/(loss) of equity-accounted companies	(42)	(42)	(31)	(31)
	Share-based payments	49		49	
	Fair value change in metal derivatives and other fair value items	(12)		(54)	
	Net finance costs	116		79	
	Changes in inventories	(101)		77	
	Changes in trade receivables/payables	122	8	142	(8)
	Changes in other receivables/payables	67	2	(152)	(3)
	Taxes paid	(104)		(76)	
	Dividends received from equity-accounted companies	10	10	10	10
	Utilisations of provisions (including employee benefit obligations)	(64)		(82)	
	Increases and/or realises of provisions (including employee benefit obligations)	64	2	103	2
A.	**Net cash flow provided by/(used in) operating activities**	**607**		**615**	
	Net cash flow from acquisitions and/or disposals	(7)		31	
	Investments in property, plant and equipment [(1)]	(237)		(222)	
	Disposals of property, plant and equipment and assets held for sale	3		6	
	Investments in intangible assets	(20)		(11)	
	Investments in financial assets held for trading	(2)		(3)	
	Disposals of financial assets held for trading	11		27	
	Investments in available-for-sale financial assets	(13)		-	
	Investments in associates	(1)		-	
B.	**Net cash flow provided by/(used in) investing activities**	**(266)**		**(172)**	
	Capital contributions and other changes in equity	3		-	
	Share buyback	(100)		-	
	Dividend distribution	(101)		(102)	
	Early repayment of credit facility	(50)		-	
	Repayment of EIB Loan 2013	(16)		(17)	
	Proceeds of EIB Loan 2017	110		-	
	Issuance of Convertible Bond 2017	500		-	
	Proceeds of CDP Loan	100		-	
	Finance costs paid [(2)]	(398)		(438)	
	Finance income received [(3)]	328		370	
	Changes in other net financial receivables/payables	(7)		(152)	
C.	**Net cash flow provided by/(used in) financing activities**	**369**		**(339)**	
D.	**Currency translation gains/(losses) on cash and cash equivalents**	(21)		(5)	
E.	**Total cash flow provided/(used) in the year (A+B+C+D)**	**689**		**99**	
F.	**Net cash and cash equivalents at the beginning of the year**	**646**		**547**	
G.	**Net cash and cash equivalents at the end of the year (E+F)**	**1,335**		**646**	

[(1)] Investments in property, plant and equipment include Euro 35 million in connection with the acquisition of the assets of Shen Huan Cable (Euro 11 million at 31 December 2016).
[(2)] Finance costs paid of Euro 398 million include interest payments of Euro 33 million in 2017 (Euro 36 million in 2016).
[(3)] Finance income received of Euro 328 million includes interest income of Euro 6 million in 2017 (Euro 8 million in 2016).

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.

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 2017

Mergers & Acquisitions

Agreement to acquire General Cable for USD 30 per share

On 4 December 2017, Prysmian Group and General Cable Corporation announced that they had entered into a merger agreement under which Prysmian would acquire 100% of the shares in General Cable for USD 30.00 per share. The transaction values General Cable at approximately USD 3 billion, including debt and other liabilities, and represents a premium of approximately 81% on the General Cable closing price of USD 16.55 per share on 14 July 2017, the last day of trading before the company announced a review of strategic alternatives.

On 16 February 2018 the shareholders of General Cable Corporation approved the acquisition by Prysmian Group of 100% of General Cable's shares for a consideration of USD 30.00 per share.

Present at the meeting was 75.34% of the share capital entitled to vote, of which some 99% voted in favour of the acquisition.

Subject to regulatory approvals and other customary closing conditions, the completion of the acquisition is expected to take place by the third quarter of 2018.

The combined group will be present in more than 50 countries with approximately 31,000 employees. Prysmian expects the combined group to generate run-rate pre-tax cost synergies of approximately Euro 150 million within five years following closing, mainly from improved procurement strategy, overhead cost savings and manufacturing footprint optimisation. One-off integration costs are estimated at approximately Euro 220 million.

The transaction will be financed through a mix of new debt (for which Prysmian has received lender commitments), cash on hand and existing credit lines.

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 Equity Linked Bonds due 2022" maturing 17 January 2022 and reserved for institutional investors.

At the meeting held on 12 April 2017, the Company's shareholders authorised:

3. the convertibility of the Equity-Linked Bond;
4. the proposal to increase share capital for cash, in single or multiple issues with the exclusion of pre-emptive rights, by a maximum nominal amount of Euro 1,457,942.70, by issuing, in single or multiple instalments, up to 14,579,427 ordinary shares of the Company, with the same characteristics as its other outstanding ordinary shares, exclusively and irrevocably to serve the Bond's conversion.

The conversion price of the Bonds of Euro 34.2949 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 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 placement has allowed the Company to diversify its financial resources more widely by raising funds on the capital market.

On 16 May 2017, the Company sent a physical settlement notice to holders of the bonds, granting them the right, with effect from 29 May 2017, to convert them into the Company's existing or new ordinary shares. On 30 May 2017, the Bond was admitted to trading on the Third Market (a multilateral trading facility or MTF) on the Vienna Stock Exchange.

Share buyback programme

On 12 January 2017, the Board of Directors approved the adoption of a share buyback programme, which terminated on 30 September 2017.

Purchases were made through a specifically appointed authorised intermediary, acting 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 were disclosed to the market in accordance with the terms and procedures provided by applicable laws.

Under the above programme, a total of 4,003,943 shares, with a total value of Euro 100,232,034.74 inclusive of related costs, were purchased on the Italian Stock Exchange over the period 23 January to 30 September 2017; the average share purchase price of Euro 25.0333 compares with an average official price over this period of Euro 25.7314.

More information can be found in Note 11 of these Explanatory Notes.

Cancellation and repayment of Revolving Credit Facility 2014

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

Loan from Cassa Depositi e Prestiti (CDP)

On 25 September 2017, Prysmian S.p.A. entered into an agreement with Cassa Depositi e Prestiti S.p.A. for a medium/long-term cash loan for a maximum total amount of Euro 100 million. On 29 September 2017, this amount was drawn down in full. The line matures on 30 September 2020. This funding will be used solely for the Group's general purposes, including capital expenditure, expenditure on research, development and innovation, as well as on energy efficiency and environmental stewardship.

EIB loan for research and development projects

On 14 November 2017, the European Investment Bank (EIB) and Prysmian Group announced the finalisation of a seven-year bullet loan for Euro 110 million to support the Group's R&D programmes in Europe over the period 2017-2020. Specifically, the EIB loan will be put towards:

- Industrial research: research on innovative materials involving the use of nanotechnology, systems for monitoring and managing underground and submarine networks, optimisation of cable design to reduce power loss and increase transmission capacity, new cables and materials for more sustainable solutions and hybrid energy and telecom cables.
- Innovation and experimentation: the use of alternative materials for cable design and product project optimisation.
- New product development: underground and submarine cables and systems for power transmission, high voltage P-Laser cables, cables for the renewable energy sector, high-performance optical fibres, cables for FTTH and FTTA applications, connectivity and development of smart cables and systems for sensing, monitoring and management.

The financing represents about 50% of the planned investment expenditure in Europe during the period concerned.

The EIB loan is specifically intended to support projects to be developed at R&D centres in six European countries: France, Great Britain, the Netherlands, Spain, Germany and Italy.

Proposed capital increase

As anticipated when announcing the acquisition agreement for General Cable Corporation (GCC), the Board of Directors of Prysmian S.p.A.. has requested the Group Chief Financial Officer to analyse the opportunity for Prysmian S.p.A. to implement over the next 12 months a rights issue or other similar operations for an aggregate maximum amount of Euro 500,000,000.

The Board of Directors has resolved to convene an Extraordinary General Meeting on 12 April 2018 to vote on a proposed rights issue for an aggregate maximum amount of Euro 500,000,000, subject to the closing of the GCC acquisition.

This operation would be designed to rebalance and optimise Prysmian Group's post-GCC acquisition financial structure, by improving its financial leverage ratios.

New industrial projects and initiatives

During 2017 the Group won contracts for the following projects:

Onshore cable system for the East Anglia ONE wind farm

On 30 January 2017, the Group announced it had 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. Prysmian will be responsible for the design, production, installation and testing of the cables and their accessories. Work began in 2017, with cable installation due to be completed in September 2018.

Submarine cable systems for three offshore wind farms in France

On 21 February 2017, Prysmian announced the award of a contract worth more than Euro 300 million by Réseau de Transport D'Electricité (RTE) to provide submarine cable systems to link three offshore wind farms to the mainland power grid in France.

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 cables are due to be delivered over the period 2018 to 2020, according to the scheduling of the individual wind farms.

Interconnector between France and the United Kingdom through the Channel Tunnel

On 27 February 2017, Prysmian secured a new 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.

Cable systems for offshore wind farms in Germany and Denmark

On 10 March 2017, the Group signed two new cable system contracts for offshore wind farms in Germany (Merkur) and Denmark (Horns Rev 3). Both contracts involve inter-array connections, a market segment in which Prysmian aims to grow and has developed new technologies and specific installation capabilities.

In the case of the contract for the Merkur offshore wind farm in Germany, awarded by Tideway B.V., Prysmian will be responsible for the design, engineering, manufacturing, testing and supply of approximately 90 km of 33 kV inter-array submarine cables and related accessories.

The Horns Rev 3 project (Denmark), to be carried out in the North Sea, approximately 25 km off the coast of Denmark, involves the design and supply of more than 100 km of 33 kV inter-array submarine cables in various cross sections.

Electrical interconnector between France and Britain - IFA2

On 7 April 2017, Prysmian signed a contract worth around Euro 350 million with IFA2 SAS, a joint venture between National Grid IFA2 Ltd, part of National Grid UK, and RTE of France. The contract is for the turnkey design, manufacture and installation of a submarine and underground power cable to connect Tourbe in France to Chilling in Hampshire, UK.

The submarine cables will be manufactured at the Prysmian production facility in Pikkala, Finland, while the underground cables will be manufactured at the Prysmian factory in Gron, France. The Prysmian cable-laying vessels Cable Enterprise and Ulisse will both be used for installation of the submarine cables.

The entire system is due to be completed in 2020.

"One Fiber" project, a new broadband network to support 5G and IoT

On 8 May 2017, the Group signed a major supply agreement with the US company Verizon Communications to support expansion of the telecom carrier's optical network that will promote the development of 5G services, while improving the 4G LTE capacity of the broadband network. The three-year contract is worth approximately USD 300 million and involves the supply of 17 million fibre kilometres of ribbon and loose tube cables.

Both Prysmian and Verizon believe that demand for optical fibre cables for the next-generation passive optical network (NGPON2) will last well beyond 2020 as new technologies like 5G and the IoT become reality. Prysmian will make a significant investment in 2018 in its US-based optical cable production capacity to support the Verizon project and the growth of investments by other major telecom carriers in North America.

Investments in cable and fibre manufacturing facilities

On 13 June 2017, the Group inaugurated its new optical fibre manufacturing facility in Slatina, Romania. The new facility is part of a three-year Euro 250 million investment plan aimed at expanding the Group's global production capacity to meet the growing demand for optical cables linked with the deployment of new high-speed telecommunication networks. This plan involves existing facilities in Italy, France, the Netherlands, North and South America, and the development of new facilities like those in Slatina (Romania), Presov (Czech Republic) and Durango (Mexico).

Submarine power lines in Venetian Lagoon

On 27 June 2017, the Group was awarded a series of additional works by Terna Rete Italia in relation to the submarine power cable project in the Venetian Lagoon. These works, originally included as an option in the contract awarded to the Group last year, are worth approximately Euro 20 million and include a 6 km 132 kV HVAC cable to be manufactured at the Arco Felice plant.

New strategic electrical network in Bahrain

On 13 December 2017, the Group was awarded a contract worth some Euro 80 million by EWA (Electricity & Water Authority of the Government of the Kingdom of Bahrain) to develop a new 400 kV cable loop circuit. This project adds a crucial link to the infrastructure of the Kingdom of Bahrain and is the first 400 kV XLPE submarine cable to be installed in the GCC (Gulf Cooperation Council) Region. This project follows a previous contract awarded to Prysmian Group by the Gulf Cooperation Council Interconnection Authority (GCCIA) for a 400 kV HVAC submarine interconnection between Saudi Arabia and Bahrain.
Prysmian will provide a complete turnkey solution with delivery and commissioning of the loop circuit scheduled for 2019.

Submarine power cable links in the Philippines

On 22 December 2017, the Group was awarded a contract worth more than Euro 150 million by the Filipino grid operator NGCP (National Grid Corporation of the Philippines) for the design, supply, installation and commissioning of two submarine power cables linking the islands of Cebu and Negros in the Philippines. This project is part of a wider development plan by NGCP, aimed at connecting the islands of Cebu, Negros, and Panay with one another and at strengthening the overall Philippines power transmission network. The submarine cable link, which will play a key role in this plan, is scheduled for completion in the first half of 2019.

Other significant events

Transfer of registered office

On 1 March 2017, the Company transferred its registered office from the previous location in Viale Sarca 222, to the new address in Via Chiese 6, Milan.

Approval of financial statements at 31 December 2016 and dividend distribution

On 12 April 2017, the shareholders of Prysmian S.p.A. approved the financial statements for 2016 and the distribution of a gross dividend of Euro 0.43 per share, for a total of some Euro 91 million. The dividend was paid out from 26 April 2017 to shares outstanding on the record date of 25 April 2017, with the shares going ex-dividend on 24 April 2017.

Centre of excellence in Sorocaba (Brazil)

During the second quarter of 2017, Prysmian Cabos e Sistemas do Brasil S.A. informed personnel of the start of an investment plan to create a centre of excellence in cable manufacturing at the Sorocaba Eden plant, involving the transfer of production activities currently carried out by the Santo Andrè plant which will be closed; it will take about a year and a half to complete this project.

The consolidated financial statements contained herein were approved by the Board of Directors of Prysmian S.p.A. on 27 February 2018.

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 material uncertainties as to the Group's ability 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 also 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 in compliance with the going concern assumption and with its financial covenants.

Section C. Financial risk management and Section C.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.

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 2017 and the year ended 31 December 2016. 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 2017; 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 2017, 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 2017	31 December 2016	2017	2016
Europe				
British Pound	0.887	0.856	0.877	0.819
Swiss Franc	1.17	1.074	1.112	1.09
Hungarian Forint	310.33	309.83	309.193	311.438
Norwegian Krone	9.84	9.086	9.327	9.291
Swedish Krona	9.844	9.553	9.635	9.469
Czech Koruna	25.535	27.021	26.326	27.034
Danish Krone	7.445	7.434	7.439	7.445
Romanian Leu	4.659	4.539	4.569	4.49
Turkish Lira	4.524	3.717	4.123	3.344
Polish Zloty	4.177	4.410	4.257	4.363
Russian Rouble	69.392	64.300	65.938	74.145
North America				
US Dollar	1.199	1.054	1.13	1.107
Canadian Dollar	1.504	1.419	1.465	1.466
South America				
Brazilian Real	3.967	3.435	3.607	3.856
Argentine Peso	22.366	16.750	18.721	16.362
Chilean Peso	737.29	704.945	732.607	748.561
Mexican Peso	23.661	21.772	21.329	20.667
Oceania				
Australian Dollar	1.535	1.460	1.473	1.488
New Zealand Dollar	1.685	1.516	1.59	1.589
Africa				
CFA Franc	655.957	655.957	655.957	655.957
Tunisian Dinar	2.974	2.450	2.731	2.376
Asia				
Chinese Renminbi (Yuan)	7.804	7.320	7.629	7.352
United Arab Emirates Dirham	4.404	3.870	4.148	4.063
Hong Kong Dollar	9.372	8.175	8.805	8.592
Singapore Dollar	1.602	1.523	1.559	1.528
Indian Rupee	76.606	71.594	73.532	74.372
Indonesian Rupiah	16.239	14,173.43	15.118	14.721
Japanese Yen	135.01	123.400	126.711	120.197
Thai Baht	39.121	37.726	38.296	39.043
Philippine Peso	59.795	52.268	56.973	52.556
Omani Rial	0.461	0.405	0.434	0.426
Malaysian Ringgit	4.854	4.729	4.853	4.584
Qatari Riyal	4.366	3.837	4.112	4.029
Saudi Riyal	4.497	3.954	4.237	4.152

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 2017:

Liquidations

On 3 January 2017, the process of liquidating Prysmian Metals Ltd. was completed with its removal from the local company registry.

On 24 February 2017, the process of liquidating Submarine Cable Installation Sdn Bhd was completed with its removal from the local company registry.

On 22 September 2017, the process of liquidating Wagner Management- und Projektgesellschaft mit beschränkter Haftung i. L. was completed with its removal from the local company registry.

On 7 November 2017, the process of liquidating Usb-elektro Kabelkonfektions GmbH i. L. was completed with its removal from the local company registry.

On 15 November 2017, the process of liquidating Prysmian Telecom Cables & Systems Australia Pty Ltd. was completed with its removal from the local company registry.

On 22 December 2017, the process of liquidating Draka Sarphati B.V. i. l. was completed with its removal from the local company registry.

New company formations

Alisea Corp. was formed on 30 November 2017 and is wholly owned by Prysmian Cables and Systems (US) Inc.

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

Name changes

On 24 February 2017, the Swiss company Prysmian Cables and Systems S.A. changed its name to Prysmian Cables and Systems S.A. in liquidation.

On 31 May 2017, the German company NKF Holding (Deutschland) GmbH changed its name to NKF Holding (Deutschland) GmbH i. L.

On 29 September 2017, the Dutch company Draka Sarphati B.V. changed its name to Draka Sarphati B.V. in liquidatie.

Appendix A to these notes contains a list of the companies included in the scope of consolidation at 31 December 2017.

B.3 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED IN 2017

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 2016, except for the accounting standards and amendments described below and obligatorily applied with effect from 1 January 2017 after being endorsed by the competent authorities.
The principal changes have been as follows:

- On 29 January 2016, the IASB published amendments to *IAS 7 - Statement of Cash Flows - Disclosure Initiative*. The amendments are intended to improve information about financing activities. The European Union endorsement process was completed in November 2017.
- On 19 January 2016, the IASB published amendments to *IAS 12 - Income Taxes - Recognition of deferred tax assets for unrealised losses.* The amendments are intended to clarify how to recognise deferred tax assets related to debt instruments measured at fair value. The European Union endorsement process was completed in November 2017; the application of these amendments has not had any material impact on the Group.

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

IFRS 15, issued in May 2014 and amended in April 2016, introduces a new five-step model to be applied to revenue from contracts with customers. IFRS 15 provides for the recognition of revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to customers.
The new standard will replace all current IFRS requirements regarding revenue recognition. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with full retrospective or modified application. Earlier application is permitted.
The Group will apply the new standard from the mandatory effective date, using the full retrospective application method. During 2017 the Group evaluated the effects of IFRS 15, determining that these would not be material. In particular, in 2018, the Group will make the following adjustments upon adopting IFRS 15:

- The amount of "Other receivables" net of "Other payables" reported in the Statement of Financial Position as at 31 December 2017 will be decreased by an overall Euro 50 million;
- "Sales of goods and services" for 2017 will be increased by Euro 3 million;
- Operating income for 2017 will be increased by Euro 3 million;
- Net profit for 2017 will be increased by Euro 1 million;

There will be no effects on either net financial debt or cash flow provided by operating activities for 2017.
The above effects are due to the extended warranties given by the Group to its customers, compared with those commonly found in commercial practice.

In July 2014, the IASB issued the final version of *IFRS 9 - Financial Instruments*, which replaces *IAS 39 - Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects addressed by the project on accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018; earlier application is permitted.
The Group will adopt the new standard as from the effective date.
During 2017 the Group evaluated the effects of IFRS 9, determining that these would not be material. In particular, in 2018, the Group will have to make the following adjustments upon adopting IFRS 9:

- The amount of other comprehensive income (OCI) at 31 December 2017 will be decreased by Euro 13 million, net of the related tax;
- Finance costs for 2017 will be decreased by Euro 17 million;
- Net profit for 2017 will be increased by Euro 13 million net of the related tax effect;

There will be no effects on either net financial debt or cash flow provided by operating activities.
The above effects are due to the time value component of option contracts designated as hedging instruments.

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 document will apply to annual reporting periods beginning on or after 1 January 2019.
The Group is evaluating the implementation and impact of adopting this new standard. It is not planned to adopt this standard early.

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. The revised standard will apply to annual reporting periods beginning on or after 1 January 2018 without any material effects for the Group.

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. in liquidation (Switzerland), P.T. Prysmian Cables Indonesia (Indonesia), Draka NK Cables (Asia) Pte Ltd (Singapore), Draka Philippines Inc. (Philippines), 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 Core 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.

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.

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

(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 equity-accounted 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 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 Section C.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 2017, 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;
- **exchange rate risk on General Cable acquisition:** these hedges aim to reduce the volatility of cash flows due to changes in exchange rates on the future transaction involving the acquisition of General Cable.

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 in "Other receivables". Amounts invoiced but not yet paid by customers are reported under "Trade receivables".

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

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.

B.18 EMPLOYEE BENEFITS

The Group operates both defined contribution plans and defined benefit plans.

Defined contribution 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.

Defined benefit plans

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 post-tax effects 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. 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;
- Bahraini Dinar/Euro: in relation to trade and financial transactions by Eurozone companies on the Bahrain market;
- United Arab Emirates Dirham/Euro: in relation to trade and financial transactions by Eurozone companies on the United Arab Emirates market;
- Euro/Hungarian Forint: in relation to trade and financial transactions by Hungarian companies on the Eurozone market and vice versa;
- 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/Qatari Riyal: in relation to trade and financial transactions by Eurozone companies on the Qatari market;
- Czech Koruna/Euro: in relation to trade and financial transactions by Eurozone companies on the Czech market and vice versa;

- Euro/Norwegian Krone: in relation to trade and financial transactions by Eurozone companies on the Norwegian market and vice versa;
- Euro/Romanian Leu: in relation to trade and financial transactions by Eurozone companies on the Romanian 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;
- Brazilian Real/US Dollar: in relation to trade and financial transactions in US dollars by Brazilian companies on foreign markets;
- Euro/Singapore Dollar: in relation to trade and financial transactions by Eurozone companies on the Singapore market and vice versa.

In 2017, trade and financial flows exposed to the above exchange rates accounted for around 84.2% of the total exposure to exchange rate risk arising from trade and financial transactions (85.2% in 2016).
The Group is also exposed to appreciable exchange rate risks on the following exchange rates: Indonesia Rupiah/US Dollar, UAE Dirham/Omani Rial, Canadian Dollar/Euro, Euro/Hong Kong Dollar; none of these exposures, taken individually, accounted for more than 1.8% of the overall exposure to transactional exchange rate risk in 2017.
It is the Group's policy to hedge, where possible, exposures in currencies other than the unit of account 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.

Such 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 2017 and 31 December 2016.

(in millions of Euro)

	2017		2016	
	-5%	+5%	-5%	+5%
Euro	(0.97)	0.88	(1.25)	1.13
US Dollar	(0.76)	0.69	(0.65)	0.59
Other currencies	(3.49)	3.16	(2.76)	2.50
Total	**(5.22)**	**4.73**	**(4.66)**	**4.22**

(in millions of Euro)

	2017		2016	
	-10%	+10%	-10%	+10%
Euro	(2.05)	1.67	(2.63)	2.15
US Dollar	(1.61)	1.32	(1.37)	1.12
Other currencies	(6.27)	6.03	(5.83)	4.77
Total	**(9.93)**	**9.02**	**(9.83)**	**8.04**

When assessing the potential impact of the above, the assets and liabilities of each Group company in currencies other than their unit of account were considered, net of any derivatives hedging the above-stated cash 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 2017 and 31 December 2016.

(in millions of Euro)

	2017		2016	
	-5%	+5%	-5%	+5%
US Dollar	6.31	(6.97)	8.26	(9.13)
United Arab Emirates Dirham	0.67	(0.75)	0.51	(0.57)
Qatari Riyal	1.29	(1.43)	2.45	(2.71)
Euro	0.32	(0.36)	0	(0)
Other currencies	3.62	(4.04)	1.03	(1.13)
Total	**12.21**	**(13.51)**	**12.25**	**(13.54)**

(in millions of Euro)

	2017		2016	
	-10%	+10%	-10%	+10%
US Dollar	12.04	(14.71)	15.76	(19.26)
United Arab Emirates Dirham	1.29	(1.57)	0.98	(1.20)
Qatari Riyal	2.47	(3.02)	4.69	(5.73)
Euro	0.62	(0.75)	0	(0)
Other currencies	6.92	(9.56)	1.96	(2.40)
Total	**23.34**	**(29.61)**	**23.39**	**(28.59)**

The above analysis ignores the effects of translating the equity of Group companies whose functional currency is not the Euro.

Following on from the General Cable acquisition agreement, the Group has arranged derivative contracts, collectively constituting zero cost collar, with a notional value of Euro 2,251 million. The fair value of these instruments is calculated using the Black & Sholes method. At 31 December 2017, these instruments were out of the money and so their fair value consists solely of the time value component.

Positive 5% and 10% variations in the EUR/USD exchange rate versus closing exchange rates at 31 December 2017 would reduce fair value by Euro 68 million and Euro 146 million respectively; negative 5% and 10% variations in the EUR/USD exchange rate versus closing exchange rates at 31 December 2017 would increase fair value by Euro 69 million and Euro 166 million respectively. These effects include both intrinsic and time components.
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 2017 and 31 December 2016, 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)

	2017		2016	
	-0.25%	+0.25%	-0.25%	+0.25%
Euro	(1.34)	1.34	(0.33)	0.33
US Dollar	(0.08)	0.08	(0.06)	0.06
British Pound	(0.27)	0.27	(0.16)	0.16
Other currencies	(0.36)	0.36	(0.43)	0.43
Total	**(2.05)**	**2.05**	**(0.98)**	**0.98**

At 31 December 2017, like at 31 December 2016, 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 53.3% of the Group's total cost of materials in 2017 (46.9% in 2016), 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 of expected 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 2017 and 31 December 2016, assuming that all other variables remain equal.

(in millions of Euro)

		2017		2016
	-10%	+10%	-10%	+10%
LME	(18.03)	18.04	(14.72)	14.72
COMEX	0.76	(0.76)	0.96	(0.96)
SFE	(1.48)	1.48	(1.02)	1.02
Total	**(18.76)**	**18.76**	**(14.78)**	**14.78**

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 situation, 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 2017 the Group had a global insurance policy in place to provide coverage for part of its trade receivables against any losses, net of the deductible.

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 2017 (like at 31 December 2016) 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 2017	31 December 2016
Cash and cash equivalents	1,335	646
Financial assets held for trading	40	57
Current available-for-sale financial assets	11	-
Undrawn committed lines of credit	1,000	1,050
Total	**2,386**	**1,753**

Undrawn committed lines of credit at 31 December 2017 refer to the Syndicated Revolving Credit Facility 2014 (Euro 1,000 million). Undrawn committed lines of credit at 31 December 2016 refer to the Syndicated Revolving Credit Facility 2014 (Euro 1,000 million) and 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 2017			
	Due within 1 year	Due between 1 - 2 years	Due between 2 - 5 years	Due after 5 years
Borrowings from banks and other lenders	403	71	174	1,312
Finance lease obligations	1	2	3	7
Derivatives	35	2	-	-
Trade and other payables	2,357	2	3	3
Total	**2,796**	**77**	**180**	**1,322**

(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 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 2017					
	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	-	-	23	-	-	-
Trade receivables	-	1,131	-	-	-	-
Other receivables	-	466	-	-	-	-
Financial assets held for trading	40	-	-	-	-	-
Derivatives (assets)	46	-	-	-	-	13
Cash and cash equivalents	-	1,335	-	-	-	-
Borrowings from banks and other lenders	-	-	-	-	1,836	-
Trade payables	-	-	-	-	1,686	-
Other payables	-	-	-	-	679	-
Derivatives (liabilities)	-	-	-	17	-	20

(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	57	-	-	-	-	-
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)	-	-	-	15	-	21

C.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 debt and capital). Details of how net financial debt 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 net financial debt.
The gearing ratios at 31 December 2017 and 31 December 2016 are shown below:

(in millions of Euro)

	2017	2016
Net financial debt	436	537
Equity	1,675	1,675
Total capital	**2,111**	**2,212**
Gearing ratio	**20.65%**	**24.28%**

C.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 2017
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value				
through profit or loss:				
Derivatives	-	46	-	46
Financial assets held for trading	39	1	-	40
Hedging derivatives	-	13	-	13
Available-for-sale financial assets	11	-	12	23
Total assets	**50**	**60**	**12**	**122**
Liabilities				
Financial liabilities at fair value				
through profit or loss:				
Derivatives	-	17	-	17
Hedging derivatives	-	20	-	20
Total liabilities	**-**	**37**	**-**	**37**

(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**

Financial assets classified in fair value Level 3 have reported no significant movements in either 2017 or 2016.

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 2017 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 2017 would not have had significant effects on net profit at that date.

D. 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 material 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, materially impact 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. To verify the existence of these indicators management has to make subjective judgements based on 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 suitable valuation techniques. 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 2017 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 SURF CGU.
The outcome of impairment tests at 31 December 2017 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 revenue and completion costs, including any contract variations and any cost overruns and penalties that might reduce the expected margin. The percentage of completion method requires the Group to estimate contract completion costs and involves making estimates dependent on factors that could potentially change over time and so could have a significant impact on the recognition of revenue and margins in the process of formation.

(e) Taxes

Consolidated companies are subject to different tax jurisdictions. A significant degree of estimation is needed to establish the expected global tax charge. 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 involved granting options to some of the Group's employees and co-investing part of their annual bonuses. These benefits were granted subject to the achievement of operating and financial performance objectives and a continued employment relationship for the three-year period 2015-2017. As at 31 December 2017 the options were all fully vested.

More details can be found in Note 21. Personnel costs.

E. SEGMENT INFORMATION

The Group's operating segments are:

- Energy Projects;
- Energy Products;
- OIL & GAS;
- 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 Projects, Energy Products, OIL & GAS 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 by sales channels and business areas within the individual operating segments:

A) Energy Projects operating segment: encompassing the 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.

B) 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;

Other: occasional sales of residual products.

C) OIL & GAS operating segment: encompassing the Core Oil & Gas business, the SURF business (involving umbilical cables and flexible pipes) and the DHT (Downhole Technology) business serving the oil industry.

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 Projects, Energy Products, OIL & GAS 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.

E.1 OPERATING SEGMENTS

The following tables present information by operating segment:

(in millions of Euro)

	Energy Projects	Energy Products				Oil&GAS	Telecom	Corporate	2017 Group Total
		E&I	Industrial & NWC	Other	Total Products				
Sales [(1)]	1,490	3,271	1,460	149	4,880	273	1,258	-	7,901
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**265**	**128**	**113**	**(1)**	**240**	**9**	**177**	**-**	**691**
% of sales	17.8%	3.9%	7.8%		4.9%	3.4%	14.0%		8.8%
Adjusted EBITDA (A)	**266**	**130**	**115**	**(1)**	**244**	**9**	**214**	**-**	**733**
% of sales	17.8%	4.0%	7.9%		5.0%	3.4%	17.0%		9.3%
EBITDA (B)	**246**	**116**	**109**	**(2)**	**223**	**7**	**206**	**(25)**	**657**
% of sales	16.5%	3.6%	7.5%		4.6%	2.4%	16.4%		8.3%
Amortisation and depreciation (C)	(41)	(57)	(20)	(2)	(79)	(16)	(41)	-	(177)
Adjusted operating income (A+C)	**225**	**73**	**95**	**(3)**	**165**	**(7)**	**173**	**-**	**556**
% of sales	15.1%	2.2%	6.5%		3.4%	-2.5%	13.8%		7.0%
Fair value change in metal derivatives (D)									12
Fair value stock options (E)									(49)
Asset (impairment) and impairment reversal (F)	-				-	(22)	-	-	(22)
Operating income (B+C+D+E+F)									**421**
% of sales									5.3%
Finance income									327
Finance costs									(443)
Taxes									(82)
Net profit/(loss) for the year									**223**
% of sales									2.8%
Attributable to:									
Owners of the parent									227
Non-controlling interests									(4)
RECONCILIATION BETWEEN EBITDA AND ADJUSTED EBITDA									
EBITDA (A)	**246**	**116**	**109**	**(2)**	**223**	**7**	**206**	**(25)**	**657**
Adjustments:									
Company reorganisation	1	10	7	1	18	2	6	3	30
Non-recurring expenses/(income):									
Antitrust investigations	18	-	-	-	-	-	-		18
Other non-operating expenses/(income)	1	4	(1)	-	3	-	2	6	12
General Cable acquisition-related costs								16	16
Total adjustments (B)	**20**	**14**	**6**	**1**	**21**	**2**	**8**	**25**	**76**
Adjusted EBITDA (A+B)	**266**	**130**	**115**	**(1)**	**244**	**9**	**214**	**-**	**733**

[(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)

									2016
	Energy Projects	Energy Products				Oil&GAS	Telecom	Corporate	Group Total
		E&I	Industrial & NWC	Other	Total Products				
Sales [1]	1,634	3,016	1,343	110	4,469	300	1,164	-	7,567
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**260**	**152**	**126**	**(1)**	**277**	**8**	**135**	**-**	**680**
% of sales	15.9%	5.0%	9.4%		6.2%	2.7%	11.6%		9.0%
Adjusted EBITDA (A)	**260**	**154**	**127**	**(1)**	**280**	**8**	**163**	**-**	**711**
% of sales	15.9%	5.1%	9.5%		6.3%	2.7%	14.0%		9.4%
EBITDA (B)	**275**	**119**	**101**	**(4)**	**216**	**8**	**158**	**(12)**	**645**
% of sales	16.8%	4.0%	7.5%		4.8%	2.7%	13.6%		8.5%
Amortisation and depreciation (C)	(36)	(62)	(19)	(1)	(82)	(15)	(40)	-	(173)
Adjusted operating income (A+C)	**224**	**92**	**108**	**(2)**	**198**	**(7)**	**123**	**-**	**538**
% of sales	13.7%	3.0%	8.0%		4.4%	-2.4%	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)	**275**	**119**	**101**	**(4)**	**216**	**8**	**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)	(14)	21	2	3	26	(2)	(1)	8	17
Total adjustments (B)	**(15)**	**35**	**26**	**3**	**64**	**-**	**5**	**12**	**66**
Adjusted EBITDA (A+B)	**260**	**154**	**127**	**(1)**	**280**	**8**	**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.

E.2 GEOGRAPHICAL AREAS

The following table presents sales of goods and services by geographical area:

(in millions of Euro)

	2017	2016
Sales of goods and services	**7,901**	**7,567**
EMEA*	**5,321**	**5,087**
(of which Italy)	1,335	1,375
North America	**1,179**	**1,075**
Latin America	**442**	**460**
Asia Pacific	**959**	**945**

*EMEA: Europe, Middle East and Africa.

No individual customer accounted for more than 10% of the Group's total sales in either 2017 or 2016.

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 2016	**239**	**533**	**573**	**39**	**64**	**183**	**1,631**
Movements in 2017:							
- Investments	-	16	49	3	4	165	237
- Disposals	(1)	-	(1)	-	-	-	(2)
- Depreciation	-	(30)	(80)	(11)	(11)	-	(132)
- Impairment	(1)	(6)	(15)	-	-	-	(22)
- Currency translation differences	(6)	(18)	(27)	(3)	(1)	(11)	(66)
- Other	1	33	77	14	5	(130)	-
Total movements	**(7)**	**(5)**	**3**	**3**	**(3)**	**24**	**15**
Balance at 31 December 2017	**232**	**528**	**576**	**42**	**61**	**207**	**1,646**
Of which:							
- Historical cost	238	818	1,413	126	146	210	2,951
-Accumulated depreciation and impairment	(6)	(290)	(837)	(84)	(85)	(3)	(1,305)
Net book value	**232**	**528**	**576**	**42**	**61**	**207**	**1,646**

(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**

Gross capital expenditure on property, plant and equipment came to Euro 237 million in 2017.

Such expenditure during the course of 2017 referred to:

- Projects to increase and technologically upgrade production capacity and develop new products/markets: Euro 124 million (52% of the total). The most significant investment during the year was the completion of the acquisition of assets formerly owned by Shen Huan Cable Technologies, with the aim of offering the Group's customers all high-voltage cable technologies by creating a centre of excellence in China serving the entire Far East region. The High Voltage business also saw an increase in production capacity at the Gron plant in France for cables up to 2 km long in order to meet ever growing demand for long-distance direct current power lines.

In Argentina, installation of a line for the production of cables with welded aluminium sheaths is reaching conclusion, thus completing the current range of lead-sheathed products offered to South American customers. In the Submarine cables business, a new vertical extrusion line was completed in Pikkala for the purposes of manufacturing the Cobra submarine cable between Denmark and the Netherlands. Investments remained stable in the Group's fleet of cable-laying vessels comprising: "Giulio Verne", "Cable Enterprise" and "Ulisse".

The Energy Products segment has invested globally to fulfil growing demand in certain value-added sectors. In China, the investment to increase production capacity at the Suzhou plant for Trade & Installer, Rolling Stock and Automotive cables was completed. The entire Far East region has received great attention in general, with investments under way in Malaysia for the Instrumentation and Control business and in Indonesia for the installation of an additional catenary line for medium voltage cable extrusion. These investments aim to place the Group in a state of readiness to exploit the growth opportunities presented by this region in every area of its business. Lastly, capacity at the Durango automotive plant in Mexico was increased in order to serve local automotive component suppliers better. Capex by the subsidiary Oman Cables Industry 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.

The Group's Telecom operating segment saw investments in the optical fibre manufacturing facility in Claremont, North Carolina, aimed at creating a verticalised production platform and increasing its spinning capacity to satisfy demand for fibre for optical cables. In this regard, the Group is also boosting ribbon cable production capacity at the plant in Lexington, South Carolina, also in the wake of a major supply agreement with the US company Verizon Communications to support expansion of the telecom carrier's optical network that will promote development of 5G services, while improving the 4G LTE capacity of the broadband network.

Even in Europe, the Group initiated additional investments at the Douvrin and Battipaglia plants with the purpose of augmenting production of single-mode fibre, serving the continent's optical telecom cables market.

- Multiple projects to improve industrial efficiency and rationalise production capacity: Euro 69 million (29% of the total). The Group continued to invest in cost optimisation throughout the Telecom segment's production chain. Work was almost completed on two new plants in Eastern Europe, one in Slatina (Romania) for the manufacture of optical telecom cables and the other in Presov (Slovakia) for the manufacture of optical multimedia cables in addition to the factory's existing copper cable production. In Durango (Mexico), work was completed on an optical telecom cable factory to meet growing demand in North and Central America. The European optical fibre

manufacturing facilities in Battipaglia (Italy) and Douvrin (France) continued to invest in efficiency with a view to achieving significant reductions in fibre manufacturing cost, with particular attention paid to increased preform size and spinning speed.
Work was also started on establishing a new Centre of Excellence for South America in Brazil, within the existing facility in Sorocaba (São Paulo): this centre will house all of the production unit currently located in Santo André (São Paulo), which will be closed, and will be one of Prysmian Group's most modern factory and office complexes in the world.

- Structural work: Euro 44 million (19% of the total). A large part of this expenditure related to the continuation of activities to remove all asbestos from the Group's facilities around the world. Other expenditure included the purchase of a building in Taunton (Massachusetts, USA) on a site adjoining the existing Industrial cables factory in support of future growth plans; of final note was completion of construction work for the Group's new headquarters on the Ansaldo 20 industrial site in the Bicocca district of Milan.

There are liens for Euro 3 million against the value of machinery as security against long-term loans (Euro 6 million at 31 December 2016).

During the reporting period just ended, the Prysmian Group 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 impairment of assets in the SURF CGU, namely Buildings (Euro 4 million) and Plant and machinery (Euro 15 million).
The cash flow projection for this CGU has been determined, for 2018, using the post-tax cash flow derived from the Group's 2018 budget, approved by the Board of Directors on 27 February 2018, and for 2019-20 by projecting forward the 2018 cash flow on the basis of expected growth rates for those years. The WACC (Weighted Average Cost of Capital) used to discount cash flows for determining value in use for the SURF CGU is 11.81%. The perpetuity growth rate (G) projected after 2020 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 2017, mainly to write down the site in Ascoli Piceno (Italy).
"Buildings" include assets under finance lease with a net book value of Euro 13 million at 31 December 2017 (Euro 14 million at 31 December 2016). 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 2016	**9**	**35**	**448**	**31**	**256**	**13**	**792**
Movements in 2017:							
- Investments	1	-	-	1	7	11	20
- Disposals	-	-	-	-	-	(1)	(1)
- Amortisation	(4)	(5)	-	(7)	(29)	-	(45)
- Impairment	-	-	-	-	-	-	-
- Currency translation differences	(1)	(3)	(10)	-	(18)	1	(31)
- Other	2	-	-	6	-	(8)	-
Total movements	**(2)**	**(8)**	**(10)**	**-**	**(40)**	**3**	**(57)**
Balance at 31 December 2017	**7**	**27**	**438**	**31**	**216**	**16**	**735**
Of which:							
- Historical cost	57	89	458	102	368	37	1,111
- Accumulated amortisation and impairment	(50)	(62)	(20)	(71)	(152)	(21)	(376)
Net book value	**7**	**27**	**438**	**31**	**216**	**16**	**735**

(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**

Gross capital expenditure on intangible assets came to Euro 20 million in 2017, most of which attributable to the land rights to the Shen Huan Cable factory in China and ongoing enhancement of information systems; in particular, 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 2017, the system was rolled out to Australia, New Zealand and Argentina, while the process of preliminary review got under way in Asia.

Lastly, the Customer Centricity program (Pricing Tool, CRM, Customer Portal) continued to receive investment with the aim of creating an integrated, modern platform to support the Group's business processes.

As at 31 December 2017, the Prysmian Group had capitalised Euro 438 million in Goodwill.

As described in Note 1. Property, plant and equipment, at 31 December 2017 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 in note B.8 Impairment of property, plant and equipment and finite-life intangible assets, the Group's activities are organised in four operating segments: Energy Projects, OIL & GAS, Energy Products and Telecom. The Energy Projects segment consists of the High Voltage and Submarine CGUs; the OIL & GAS segment consists of the Core Oil & Gas, SURF and DHT CGUs; the Energy Products segment consists of a number of CGUs corresponding to the Countries or Regions of the operating units; lastly, the Telecom segment consists of a single CGU that coincides with the operating segment itself.

Goodwill, acquired in the occasion of business combinations occurred in previous years, has been allocated to groups of CGUs, corresponding to the operating segments, which are expected to benefit from the synergies coming from such combinations and which represet the lowest level at which management monitors business performance.

Goodwill has therefore been allocated to each 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 2016	Currency translation differences	31 December 2017
Energy Products goodwill	265	(7)	258
OIL & GAS goodwill	25	(2)	23
Energy Projects goodwill	71	-	71
Telecom goodwill	87	(1)	86
Total goodwill	**448**	**(10)**	**438**

The cash flow projection has been determined, for 2018, using the post-tax cash flow derived from the Group's 2018 budget, approved by the Board of Directors on 27 February 2018. The operating segment cash flow forecasts have been extended to the period 2019-2020 assuming expected annual growth rates of between 1.6% and 2.6%. A terminal value has been estimated to reflect operating segment 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 operating segments is higher than their net invested capital (including the allocation of goodwill). In

particular, recoverable amount is significantly higher than carrying amount for the Energy Projects operating segment, aligned for the OIL & GAS segment, 152% higher for the Energy Products operating segment, and 246% higher for the Telecom operating segment.
The WACC used for the Energy Projects segment was 6.6% while the theoretical WACC, making recoverable amount equal to carrying amount, would be 34.0%. In the case of the OIL & GAS segment, the WACC used was around 8.3% while the theoretical WACC, making recoverable amount equal to carrying amount, would be around 9.8%. In the case of the Energy Products segment, the WACC used was 6.6% while the theoretical WACC, making recoverable amount equal to carrying amount, would be 13.5%. In the case of the Telecom segment, the WACC used was 6.6% while the theoretical WACC, making recoverable amount equal to carrying amount, would be 15.4%.

In the case of growth rates, for recoverable amount to be 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 2017	31 December 2016
Investments in associates	212	191
Investments in joint ventures	5	4
Total equity-accounted investments	**217**	**195**

Movements over the period are as follows:

(in millions of Euro)

			31 December 2017
	Investments in associates	Investments in joint ventures	Total
Opening balance	**191**	**4**	**195**
Movements:			
- Currency translation differences	(11)	-	(11)
- Investments	-	1	1
- Share of net profit/(loss)	41	1	42
- Dividends	(9)	(1)	(10)
- Other movements	-	-	-
Total movements	**21**	**1**	**22**
Closing balance	**212**	**5**	**217**

(in millions of Euro)

	31 December 2016		
	Investments in associates	Investments in joint ventures	Total
Opening balance	**172**	**5**	**177**
Movements:			
- Business combinations	-	-	-
- 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**

Details of investments in equity-accounted companies are as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Yangtze Optical Fibre and Cable Joint Stock Limited Company	168	149
Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd.	26	25
Kabeltrommel Gmbh & Co.K.G.	6	6
Elkat Ltd.	7	6
Rodco Ltd.	2	2
Eksa Sp.Zo.o	3	3
Total investments in associates	**212**	**191**
Power Cables Malaysia Sdn Bhd	5	4
Precision Fiber Optics Ltd.	-	-
Total investments in joint ventures	**5**	**4**
Total investments in equity-accounted companies	**217**	**195**

The value of investments includes 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 2017, the fair value of the investment in Yangtze Optical Fibre and Cable Joint Stock Limited Company was Euro 688 million, compared with a carrying amount of Euro 168 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 2017	31 December 2016	30 September 2017 (*)	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Non-current assets	n.a	11	n,a	484	n.a	6	12	13
Current assets	n.a	17	n,a	633	n.a	18	66	66
Total assets	n.a	28	1,173	1,117	n.a	24	78	79
Equity	n.a	11	661	606	n.a	23	40	39
Non-current liabilities	n.a	8	n,a	151	n.a	-	4	4
Current liabilities	n.a	9	n,a	360	n.a	1	34	36
Total equity and liabilities	n.a	28	1,173	1,117	n.a	24	78	79
	2017	2016	2017	2016	2017	2016	2017	2016
Sales of goods and services	n.a	35	976	1,102	n.a	146	112	111
Net profit/(loss) for the year	n.a	7	122	92	n.a	1	5	5
Comprehensive income/(loss) for the year	n.a	7	n,a	95	n.a	1	5	5
Dividends received	3	3	6	4	n.a	-	-	-

(*) 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 2017.

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 Bhd		Precision Fiber Optics Ltd.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Non-current assets	10	11	-	-
Current assets	15	27	1	1
of which Cash and cash equivalents	2	-	1	1
Equity	11	9	1	1
Non-current liabilities	2	1	-	-
of which Financial liabilities	-	-	-	-
Current liabilities	12	27	-	-
of which Financial liabilities	4	4	-	-
	2017	2016	2017	2016
Sales of goods and services	42	36	2	2
Amortisation, depreciation and impairment	(1)	(1)	-	-
Profit/(loss) before taxes	2	-	-	-
Taxes	-	-	-	-
Net profit/(loss) for the year	2	-	-	-
Other comprehensive income	-	-	-	-
Comprehensive income/(loss) for the year	2	-	-	-
Dividends received	1	-	-	-

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

These are detailed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Non-current	12	12
Current	11	-
Total	**23**	**12**

Non-current assets refer to securities that mature beyond 12 months which are not expected to be sold in the near term; non-current assets comprise shareholdings considered instrumental to the Group's business. Current assets refer to securities that either mature within 12 months of the reporting date or could possibly be sold in the near term.

Current available-for-sale financial assets have increased over the period as a result of purchasing Italian government bonds.

Non-current available-for-sale financial assets comprise:

(in millions of Euro)

	Type of financial asset	% owned by the Group	31 December 2017	31 December 2016
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%	0.59	0.58
Voltimum S.A.	unlisted shares	13.71%	0.27	0.27
Other			1.73	1.42
Total non-current			**12.50**	**12.18**

Available-for-sale financial assets are denominated in the following currencies:

(in millions of Euro)

	31 December 2017	31 December 2016
Euro	13	2
Tunisian Dinar	1	1
Indian Rupee	9	9
Total	**23**	**12**

Non-current available-for-sale financial assets are classified in Level 3 of the fair value hierarchy, while current such assets fall under Level 1 of the fair value hierarchy.

5. TRADE AND OTHER RECEIVABLES

These are detailed as follows:

(in millions of Euro)

			31 December 2017
	Non-current	Current	Total
Trade receivables	-	1,196	1,196
Allowance for doubtful accounts	-	(65)	(65)
Total trade receivables	**-**	**1,131**	**1,131**
Other receivables:	3	115	118
Tax receivables	2	7	9
Financial receivables	1	2	3
Prepaid finance costs	1	2	3
Receivables from employees	-	1	1
Pension plan receivables	-	215	215
Construction contracts	-	15	15
Advances to suppliers	11	91	102
Other	**18**	**448**	**466**
Total other receivables	**18**	**1,579**	**1,597**

(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:	5	132	137
Tax receivables	2	38	40
Financial receivables	2	2	4
Prepaid finance costs	1	3	4
Receivables from employees	-	1	1
Pension plan receivables	-	488	488
Construction contracts	-	19	19
Advances to suppliers	11	105	116
Other	**21**	**788**	**809**
Total other receivables	**21**	**1,876**	**1,897**

Trade receivables

The gross amount of past due receivables that are totally or partially impaired is Euro 196 million at 31 December 2017 (Euro 170 million at 31 December 2016).

The ageing of past due impaired receivables is as follows:

(in millions of Euro)	31 December 2017	31 December 2016
1 to 30 days past due	90	69
31 to 90 days past due	28	35
91 to 180 days past due	17	20
181 to 365 days past due	13	11
More than 365 days past due	48	35
Total	**196**	**170**

The value of trade receivables past due but not impaired is Euro 113 million at 31 December 2017 (Euro 115 million at 31 December 2016). 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 2017	31 December 2016
1 to 30 days past due	20	17
31 to 90 days past due	3	14
91 to 180 days past due	8	2
181 to 365 days past due	82	80
More than 365 days past due	-	2
Total	**113**	**115**

The value of trade receivables not past due is Euro 887 million at 31 December 2017 (Euro 868 million at 31 December 2016). 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 2017	31 December 2016
Euro	631	817
US Dollar	268	319
Omani Rial	137	160
Chinese Renminbi (Yuan)	109	131
British Pound	96	71
Brazilian Real	80	84
Indonesian Rupiah	49	33
Turkish Lira	37	41
Swedish Krona	29	25
Australian Dollar	22	20
United Arab Emirates Dirham	19	19
Singapore Dollar	16	12
Romanian Leu	16	11
Canadian Dollar	12	10
Other currencies	76	144
Total	**1,597**	**1,897**

The allowance for doubtful accounts amounts to Euro 65 million at 31 December 2017, unchanged since the end of 2016. Movements in this allowance are shown in the following table:

(in millions of Euro)

	31 December 2017	31 December 2016
Opening balance	**65**	**52**
Movements:		
- Business combinations	-	-
- Increases in allowance	6	19
- Releases	(2)	(4)
- Bad debt write-offs	(1)	(4)
- Currency translation differences and other movements	(3)	2
Total movements	**-**	**13**
Closing balance	**65**	**65**

Increases in and releases from the allowance for doubtful accounts are reported in "Other expenses" in the income statement.

Other receivables

Other receivables include "Prepaid finance costs" of Euro 3 million at 31 December 2017, primarily relating to arrangement costs for the Syndicated Revolving Credit Facility 2014 agreed with a syndicate of leading banks on 27 June 2014.

At 31 December 2016, the corresponding figure for prepaid finance costs regarding Revolving Credit Facilities was Euro 4 million, of which Euro 2 million classified as current and Euro 2 million as non-current.

"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 2017	31 December 2016
Construction contract revenue to date	7,347	6,263
Amounts invoiced	(7,255)	(6,109)
Net amount due from/(to) customers for construction contracts	**92**	**154**
Of which:		
Other receivables for construction contracts	215	488
Other payables for construction contracts	(123)	(334)

The following table shows the revenue and costs incurred in 2017 and 2016:

(in millions of Euro)	2017	2016
Revenue	1,176	1,254
Costs	(972)	(1,029)
Gross margin	**204**	**225**

6. INVENTORIES

These are detailed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Raw materials	284	273
of which allowance for obsolete and slow-moving raw materials	*(33)*	*(33)*
Work in progress and semi-finished goods	230	216
of which allowance for obsolete and slow-moving work in progress and semi-finished goods	*(8)*	*(11)*
Finished goods (*)	440	417
of which allowance for obsolete and slow-moving finished goods	*(50)*	*(56)*
Total	**954**	**906**

(*) Finished goods also include goods for resale.

7. FINANCIAL ASSETS HELD FOR TRADING

These are detailed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Listed securities	40	44
Unlisted securities	-	13
Total	**40**	**57**

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 consist of funds denominated in Brazilian reals.

Movements in these assets are analysed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Opening balance	**57**	**87**
Movements:		
- Currency translation differences	(8)	8
- Purchase of securities	2	3
- Disposal of securities	(11)	(39)
- Other movements	-	(2)
Total movements	**(17)**	**(30)**
Closing balance	**40**	**57**

8. DERIVATIVES

These are detailed as follows:

(in millions of Euro)

	31 December 2017	
	Asset	**Liability**
Non-current		
Forward currency contracts on commercial transactions (cash flow hedges)	6	-
Total hedging derivatives	**6**	**-**
Metal derivatives	8	2
Total other derivatives	**8**	**2**
Total non-current	**14**	**2**
Current		
Zero cost collar on General Cable acquisition (cash flow hedges)	-	17
Forward currency contracts on commercial transactions (cash flow hedges)	7	3
Total hedging derivatives	**7**	**20**
Forward currency contracts on commercial transactions	2	3
Forward currency contracts on financial transactions	1	1
Metal derivatives	35	11
Total other derivatives	**38**	**15**
Total current	**45**	**35**
Total	**59**	**37**

(in millions of Euro)

	31 December 2016	
	Asset	Liability
Non-current		
Forward currency contracts on commercial transactions (cash flow hedges)	-	8
Total hedging derivatives	**-**	**8**
Metal derivatives	3	4
Total other derivatives	**3**	**4**
Total non-current	**3**	**12**
Current		
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	-	-
Total other derivatives	23	6
Total current	**34**	**11**
Total	**40**	**24**
Non-current	**43**	**36**

Forward currency contracts have a notional value of Euro 1,461 million at 31 December 2017 (Euro 1,469 million at 31 December 2016); total notional value at 31 December 2017 includes Euro 543 million in derivatives designated as cash flow hedges (Euro 664 million at 31 December 2016).

Following on from the General Cable acquisition agreement, the Group has arranged derivative contracts, collectively constituting zero cost collar, with a notional value of Euro 2,251 million. The fair value of these instruments is calculated using the Black & Sholes method. At 31 December 2017, these instruments were out of the money and so their fair value consists solely of the time value component.

At 31 December 2017, like at 31 December 2016, almost all the derivative contracts had been entered into with major financial institutions.

Metal derivatives have a notional value of Euro 566 million at 31 December 2017 (Euro 480 million at 31 December 2016).

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 2017
	Gross derivatives	Amounts offset	Derivatives recognised in statement of financial position	Amounts not offset [(1)]	Net derivatives
Assets					
Forward currency contracts	16	-	16	(6)	10
Interest rate swaps	-	-	-	-	-
Metal derivatives	43	-	43	(10)	33
Total assets	**59**	**-**	**59**	**(16)**	**43**
Liabilities					
Forward currency contracts	24	-	24	(6)	18
Interest rate swaps	-	-	-	-	-
Metal derivatives	13	-	13	(10)	3
Total liabilities	**37**	**-**	**37**	**(16)**	**21**

(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**

[(1)] Derivatives potentially offsettable in the event of default events under master netting arrangements.

The following table shows movements in both reporting periods in the cash flow hedge reserve for designated hedging derivatives:

(in millions of Euro)

	2017		2016	
	Gross reserve	Tax effect	Gross reserve	Tax effect
Opening balance	**(17)**	**7**	**(13)**	**4**
Changes in fair value	35	(11)	(11)	5
Reserve for other finance costs/(income)	-	-	-	-
Reserve for exchange losses/(gains)	-	-	5	(2)
Reclassification	-	-	(1)	1
Release to finance costs/(income)	1	-	2	(1)
Discontinued hedge accounting for interest rate swaps	-	-	-	-
Release to construction contract costs/(revenues)	(8)	2	1	-
Closing balance	**11**	**(2)**	**(17)**	**7**

9. CASH AND CASH EQUIVALENTS

These are detailed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Cash and cheques	2	**2**
Bank and postal deposits	1,333	644
Total	**1,335**	**646**

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 1,066 million at 31 December 2017, compared with Euro 359 million at 31 December 2016.

The change in cash and cash equivalents is commented on in Note 37. Statement of cash flows.

10. ASSETS AND LIABILITIES HELD FOR SALE

There are no assets and liabilities held for sale.

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11. SHARE CAPITAL AND RESERVES

Consolidated equity has recorded the following changes since 31 December 2016:

- negative currency translation differences of Euro 169 million;
- the positive post-tax change of Euro 19 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 partial conversion of the Convertible Bond 2013 for Euro 17 million;
- the purchase of Euro 100 million in treasury shares;
- the distribution of Euro 101 million in dividends;
- an increase of Euro 48 million to record the equity component of the Convertible Bond 2017;
- the positive post-tax change of Euro 14 million in the reserve for actuarial gains on employee benefits;
- a negative change of Euro 3 million following the purchase of non-controlling interests in subsidiaries;
- capital contributions of Euro 3 million paid in by non-controlling interests;
- the net profit for the year of Euro 223 million.

At 31 December 2017, the share capital of Prysmian S.p.A. comprises 217,482,754 shares, each of nominal value Euro 0.10 for a total of Euro 21,748,275.40.

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 2015	**216,720,922**	**(2,707,176)**	**214,013,746**
Capital increase	-		-
Allotments and sales [(1)]	-	88,859	88,859
Balance at 31 December 2016	**216,720,922**	**(2,618,317)**	**214,102,605**

	Ordinary shares	Treasury shares	Total
Balance at 31 December 2016	**216,720,922**	**(2,618,317)**	**214,102,605**
Capital increase [(3)]	761,832	-	761,832
Share buybacks	-	(4,003,943)	(4,003,943)
Allotments and sales [(2)]	-	127,379	127,379
Balance at 31 December 2017	**217,482,754**	**(6,494,881)**	**210,987,873**

[(1)] Allotment of 88,859 treasury shares under the Group employee share purchase plan (YES Plan).

[(2)] Allotment of 92,271 treasury shares under the Group employee share purchase plan (YES Plan) and sale of 35,108 shares

[(3)] Issue of new shares following partial conversion of the Convertible Bond 2013.

Treasury shares

Movements in treasury shares during 2017 mostly refer to purchases under the buyback programme approved by the shareholders.

The following table reports movements in treasury shares during the year:

	Number of shares	Total nominal value (in Euro)	% of share capital	Average unit value (in Euro)	Total carrying value (in Euro)
At 31 December 2015	**2,707,176**	**270,718**	**1.25%**	**12.02**	**32,541,843**
- Purchases	-	-	-	-	-
- Allotments and sales	(88,859)	(8,886)	-	12.03	1,069,063
At 31 December 2016	**2,618,317**	**261,832**	**1.25%**	**12.02**	**33,610,906**
- Allotments and sales	(127,379)	(12,738)		19.28	(2,455,867)
- Share buybacks	4,003,943	400,394		25.03	100,232,035
At 31 December 2017	**6,494,881**	**649,489**	**2.99%**	**20.23**	**131,387,074**

Share buy-back and disposal programmes

The Shareholders' Meeting held on 13 April 2016 authorised a share buyback 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 18,964,916 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.

On 12 April 2017, the shareholders of Prysmian S.p.A. authorised a new share buyback and disposal programme, revoking at the same time the previous authorisation under the shareholder resolution dated 13 April 2016. 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. 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 lasts for 18 months commencing from the date of the Shareholders' Meeting, while the authorisation to dispose of treasury shares has no time limit.

Acting under the above shareholder resolutions, on 12 January 2017, the Board of Directors approved the adoption of a share buyback programme, which terminated on 30 September 2017 and has resulted in the purchase of 4,003,943 shares.

12. BORROWINGS FROM BANKS AND OTHER LENDERS

These are detailed as follows:

(in millions of Euro)

			31 December 2017
	Non-current	Current	Total
Borrowings from banks and other lenders	255	72	327
Non-convertible bond	743	14	757
Convertible Bond 2013	-	283	283
Convertible Bond 2017	456	-	456
Finance lease obligations	12	1	13
Total	**1,466**	**370**	**1,836**

(in millions of Euro)

			31 December 2016
	Non-current	Current	Total
Borrowings from banks and other lenders	72	156	228
Non-convertible bond	741	14	755
Convertible Bond 2013	288	1	289
Convertible Bond 2017	-	-	-
Finance lease obligations	13	1	14
Total	**1,114**	**172**	**1,286**

Borrowings from banks and other lenders and Bonds are analysed as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
CDP Loan	100	-
EIB Loans	169	75
Revolving Credit Facility 2014	-	50
Other borrowings	58	103
Borrowings from banks and other lenders	**327**	**228**
Non-convertible bond	757	755
Convertible Bond 2013	283	289
Convertible Bond 2017	456	-
Total	**1,823**	**1,272**

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 revolving facility was intended to refinance the existing facilities and the Group's other operating activities. As at 31 December 2017, like at 31 December 2016, this facility had not been drawn down.

Revolving Credit Facility 2014

After completing the placement of the new equity-linked Bond, the Company reviewed its funding structure, as a result of which on 31 January 2017 it repaid the credit line of Euro 50 million drawn down as at 31 December 2016, cancelling at the same time the five-year revolving credit facility for Euro 100 million with Mediobanca.

EIB Loans

On 18 December 2013, Prysmian S.p.A. entered into a first loan agreement with the European Investment Bank (EIB) for Euro 100 million, to fund the Group's research & development (R&D) programmes in Europe over the period 2013-2016.

The EIB Loan was 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 represented about 50% of the Prysmian Group's investment expenditure in Europe during the period concerned.

The EIB Loan, received on 5 February 2014, is repayable in 12 equal half-yearly instalments as from 5 August 2015 until 5 February 2021.

On 10 November 2017, Prysmian S.p.A. entered into a new loan for Euro 110 million to support the Group's R&D programmes in Europe over the period 2017-2020. The loan was received on 29 November 2017 and involves a bullet repayment at maturity on 29 November 2024.

This second loan, following on from the first, and also in support of R&D in Europe, is a sign of the trust and excellent credit standing that the Group enjoys with the EIB.

The fair value of the EIB Loans at 31 December 2017 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).

After repayments against the EIB Loan 2013, the outstanding balance on the EIB Loans as at 31 December 2017 was Euro 169 million.

Loan from Cassa Depositi e Prestiti (CDP)

On 25 September 2017, Prysmian S.p.A. entered into an agreement with Cassa Depositi e Prestiti S.p.A. for a medium/long-term cash loan for a maximum total amount of Euro 100 million. On 29 September 2017, this amount was drawn down in full. The line matures on 30 September 2020. This funding will be used solely for the Group's general purposes, including capital expenditure, expenditure on research, development and innovation, as well as on energy efficiency and environmental stewardship. The fair value of the CDP Loan at 31 December 2017 approximates the related carrying amount.

The following tables summarise the committed lines available to the Group at 31 December 2017 and 31 December 2016:

(in millions of Euro)

			31 December 2017
	Total lines	Drawn	Undrawn
Syndicated Revolving Credit Facility 2014	1,000	-	1,000
CDP Loan	100	(100)	-
EIB Loans	169	(169)	-
Revolving Credit Facility 2014	-	-	-
Total	**1,269**	**(269)**	**1,000**

(in millions of Euro)

			31 December 2016
	Total lines	Drawn	Undrawn
Syndicated Revolving Credit Facility 2014	1,000	-	1,000
EIB Loan	75	(75)	-
Revolving Credit Facility 2014	100	(50)	50
Total	**1,175**	**(125)**	**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 2017:

Non-convertible bond issued in 2015

On 10 March 2015, the Board of Directors of Prysmian S.p.A. authorised management to proceed, depending on prevailing market conditions and in any case by 30 June 2016, with the issuance and private or public placement of bonds in one or more tranches. These bonds were offered for sale to institutional investors only. As a result, 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 pays 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 and is traded on the related regulated market.

The fair value of the non-convertible bond is Euro 789 million at 31 December 2017. Fair value has been determined with reference to the quoted price in the relevant market (Level 1 of the fair value hierarchy).

Convertible Bond 2013

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 Third Market (a multilateral trading facility or MTF) on the Vienna Stock Exchange.

The accounting treatment for the Convertible Bond 2013 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	38
Interest - monetary accrued	18
Interest - monetary paid	(17)
Related costs	-
Partial conversion	(17)
Balance at 31 December 2017	**283**

The fair value of the Convertible Bond (equity component and debt component) is Euro 364 million at 31 December 2017 (Euro 352 million at 31 December 2016), of which the fair value of the debt component is Euro 284 million (Euro 278 million at 31 December 2016). 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).

Since October 2017 some bondholders have requested to convert their bonds into shares. These requests related to bond conversions into a total of 761,832 shares, corresponding to bonds with a nominal value of Euro 17 million.

Convertible Bond 2017

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 Equity Linked Bonds due 2022" maturing 17 January 2022 and reserved for institutional investors.

At the meeting held on 12 April 2017, the Company's shareholders authorised:

- the convertibility of the Equity-Linked Bond;
- the proposal to increase share capital for cash, in single or multiple issues with the exclusion of pre-emptive rights, by a maximum nominal amount of Euro 1,457,942.70, by issuing, in single or multiple instalments, up to 14,579,427 ordinary shares of the Company, with the same characteristics as its other outstanding ordinary shares, exclusively and irrevocably to serve the Bond’s conversion.

The conversion price of the bonds of Euro 34.2949 was 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 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 placement has allowed the Company to diversify its financial resources more widely by raising funds on the capital market. These funds will be used to pursue the Company's potential external growth opportunities; 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 for general corporate purposes.

On 16 May 2017, the Company sent a physical settlement notice to holders of the bonds, granting them the right, with effect from 29 May 2017, to convert them into the Company's existing or new ordinary shares. On 30 May 2017, the Bond was admitted to trading on the Third Market (a multilateral trading facility or MTF) on the Vienna Stock Exchange.

The accounting treatment for the Convertible Bond 2017 has resulted in the recognition of an equity component of Euro 48 million and a debt component of Euro 452 million, determined at the bond issue date.

(in millions of Euro)	
Issue value of convertible bond	500
Equity reserve for convertible bond	(48)
Issue date net balance	**452**
Interest - non-monetary	9
Related costs	(5)
Balance at 31 December 2017	**456**

As at 31 December 2017, the fair value of the Convertible Bond 2017 (equity component and debt component) is Euro 536 million, of which the fair value of the debt component is Euro 472 million. 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 other lenders and Finance lease obligations

The following tables report movements in Borrowings from banks and other lenders:

(in millions of Euro)

	CDP Loan	EIB Loans	Non-convertible bond	Convertible Bond 2013	Convertible Bond 2017 [2]	Other borrowings/ Finance lease obligations [1]	Total
Balance at 31 December 2016	**-**	**75**	**755**	**289**	**-**	**167**	**1,286**
Currency translation differences	-	-	-	-	-	(7)	(7)
New funds	100	110	-	-	446	14	670
Repayments	-	(16)	-	-	-	(103)	(119)
Drawdown of revolving facilities	-	-	-	-	-	-	-
Amortisation of bank and financial fees and other expenses	-	-	2	2	1	-	5
Conversion of Convertible Bond 2013	-	-	-	(17)	-	-	(17)
Interest and other movements	-	-	-	9	9	-	18
Total movements	**100**	**94**	**2**	**(6)**	**456**	**(96)**	**550**
Balance at 31 December 2017	**100**	**169**	**757**	**283**	**456**	**71**	**1,836**

(in millions of Euro)

	CDP Loan	EIB Loan	Non-convertible bond	Convertible Bond 2013	Convertible Bond 2017	Other borrowings/ Finance lease obligations [1]	Total
Balance at 31 December 2015	**-**	**92**	**754**	**280**	**-**	**277**	**1,403**
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**

[1] Includes the Revolving Credit Facility 2014.

[2] New funds are shown net of arrangement costs and the equity component.

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 2017	31 December 2016
Due within 1 year	1	1
Due between 1 and 5 years	4	6
Due after more than 5 years	9	9
Minimum finance lease payments	**14**	**16**
Future interest costs	(1)	(2)
Finance lease obligations	**13**	**14**

Finance lease obligations are analysed by maturity as follows:

(in millions of Euro)

	31 December 2017	31 December 2016
Due within 1 year	1	1
Due between 1 and 5 years	5	4
Due after more than 5 years	7	9
Total	**13**	**14**

The following tables provide a breakdown of borrowings from banks and other lenders by maturity and currency at 31 December 2017 and 2016:

(in millions of Euro)

							31 December 2017
	Variable interest rate			Fixed interest rate			Total
	Euro	USD	Other currencies	Euro	USD	Other currencies	
Due within 1 year	22	18	16	302	3	9	370
Due between 1 and 2 years	17	-	-	1	-	2	20
Due between 2 and 3 years	117	-	-	-	1	-	118
Due between 3 and 4 years	9	-	-	1	-	-	10
Due between 4 and 5 years	-	-	-	1,201	-	-	1,201
Due after more than 5 years	117	-	-	-	-	-	117
Total	**282**	**18**	**16**	**1,505**	**4**	**11**	**1,836**
Average interest rate in period, as per contract	0.4%	3.1%	6.2%	2.5%	10.3%	13.9%	2.3%

(in millions of Euro)

							31 December 2016
	Variable interest rate			Fixed interest rate			Total
	Euro	USD	Other currencies	Euro	USD	Other currencies	
Due within 1 year	70	19	22	33	3	25	172
Due between 1 and 2 years	17	-	-	290	-	9	316
Due between 2 and 3 years	17	-	-	-	1	2	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**	**1,066**	**5**	**36**	**1,286**
Average interest rate in period, as per contract	1.1%	2.3%	3.1%	3.0%	10.7%	7.9%	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 DEBT

(in millions of Euro)

	Note	31 December 2017	31 December 2016
Long-term financial payables			
CDP Loan	12	100	-
EIB Loans	12	152	58
Non-convertible bond	12	743	741
Convertible Bond 2013	12	-	288
Convertible Bond 2017	12	456	-
Finance leases	12	12	13
Other financial payables	12	3	14
Total long-term financial payables		**1,466**	**1,114**
Short-term financial payables			
EIB Loans	12	17	17
Non-convertible bond	12	14	14
Convertible Bond 2013	12	283	1
Finance leases	12	1	1
Forward currency contracts on financial transactions	8	1	1
Revolving Credit Facility 2014	12	-	50
Other financial payables	12	55	89
Total short-term financial payables		**371**	**173**
Total financial liabilities		**1,837**	**1,287**
Long-term financial receivables	5	2	2
Long-term bank fees	5	1	2
Held-to-maturity financial assets		2	2
Forward currency contracts on financial transactions (current)	8	1	1
Short-term financial receivables	5	7	38
Short-term bank fees	5	2	2
Financial assets held for trading	7	40	57
Available-for-sale financial assets (current)	4	11	-
Cash and cash equivalents	9	1,335	646
Net financial debt		**436**	**537**

The following table presents a reconciliation for the periods concerned of the Group's net financial debt 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 2017	31 December 2016
Net financial debt - as reported above		**436**	**537**
Long-term financial receivables and other assets		4	2
Long-term bank fees	5	1	2
Net forward currency contracts on commercial transactions	8	(9)	9
Zero cost collar on General Cable acquisition (cash flow hedge)	8	17	-
Net metal derivatives	8	(30)	(16)
Recalculated net financial debt		**419**	**534**

13. TRADE AND OTHER PAYABLES

These are detailed as follows:

(in millions of Euro)

			31 December 2017
	Non-current	Current	Total
Trade payables	-	1,686	1,686
Total trade payables	**-**	**1,686**	**1,686**
Other payables:			
Tax and social security payables	3	161	164
Advances from customers	-	156	156
Payables to employees	-	92	92
Accrued expenses	-	107	107
Other	5	155	160
Total other payables	**8**	**671**	**679**
Total	**8**	**2,357**	**2,365**

(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**

Trade payables include around Euro 180 million (Euro 159 million at 31 December 2016) 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 include the liability for construction contracts, amounting to Euro 123 million at 31 December 2017 compared with Euro 334 million at 31 December 2016. 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 2017	31 December 2016
Euro	1,140	1,049
US Dollar	421	422
British Pound	190	207
Turkish Lira	4	2
Qatari Riyal	7	114
Chinese Renminbi (Yuan)	167	141
Brazilian Real	88	87
Australian Dollar	30	36
Romanian Leu	39	27
Omani Rial	53	43
Canadian Dollar	20	14
Swedish Krona	23	21
Malaysian Ringgit	13	6
Other currencies	170	222
Total	**2,365**	**2,391**

14. PROVISIONS FOR RISKS AND CHARGES

These are detailed as follows:

(in millions of Euro)

			31 December 2017
	Non-current	Current	Total
Restructuring costs	1	25	26
Contractual and legal risks	14	239	253
Environmental risks	-	7	7
Tax inspections	5	18	23
Contingent liabilities	3	2	5
Other risks and charges	10	30	40
Total	**33**	**321**	**354**

(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**

The following table presents the movements in these provisions during the reporting 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 2016	**36**	**253**	**7**	**25**	**6**	**52**	**379**
Increases	13	64	-	3	-	6	86
Utilisations	(21)	(36)	-	(1)	(1)	(3)	(62)
Releases	(2)	(31)	-	(1)	-	(8)	(42)
Currency translation differences	-	(5)	-	(1)	-	(3)	(9)
Other	-	8	-	(2)	-	(4)	2
Total movements	**(10)**	**-**	**-**	**(2)**	**(1)**	**(12)**	**(25)**
Balance at 31 December 2017	**26**	**253**	**7**	**23**	**5**	**40**	**354**

The provision for restructuring costs reports an overall net decrease of Euro 10 million.

In particular, Euro 13 million has been provided in the year, while Euro 21 million has been utilised, mostly in connection with projects under way in the Netherlands, France and Germany.

The provision for contractual and legal risks amounts to Euro 253 million at 31 December 2017, like at 31 December 2016.
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 took place on 20 March 2017, while the hearings of oral arguments in the appeals brought by Pirelli & C. S.p.A. and The Goldman Sachs Group Inc. against the same decision of the European Commission in April 2014 took place on 22 and 28 March 2017 respectively. A ruling is awaited as a result of these hearings. 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. In view of the circumstances described and also with the support of the Group's legal advisors, the directors have recognised provisions deemed appropriate to cover the potential liabilities associated with the events in question.

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

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. A ruling issued in July 2016 held the company liable for violation of Australian antitrust law with regard to this project, without however quantifying the applicable penalty, which would be determined upon completion of the second stage of these proceedings. On 1 December 2016 the hearing of oral arguments took place to quantify the amount of the penalty to impose on Prysmian Cavi e Sistemi S.r.l. and on 28 July 2017, the Federal Court in Adelaide finally issued a ruling condemning Prysmian Cavi e Sistemi S.r.l. to pay a fine of AUD 3.5 million. Not agreeing with this decision, Prysmian Cavi e Sistemi S.r.l. has lodged an appeal with the Australian Federal Court of Appeals. However, the Australian competition authority has not appealed against this decision. The hearing to discuss the appeal was held on 26 February 2018, following which the judge has reserved judgement. In view of the circumstances described and also with the support of the Group's legal advisors, the directors have recognised provisions deemed appropriate to cover the potential liabilities associated with the events in question.

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 investigative 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. In view of the circumstances described and also with the support of the Group's legal advisors, the directors have been unable to estimate the risk with regard to the Brazilian authority.

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 companies, 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.

During the first few months of 2017, in addition to those mentioned in the preceding paragraph, other operators belonging to the Vattenfall Group filed claims in the High Court in London against certain cable manufacturers, including companies in the Prysmian Group, to obtain compensation for damages purportedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in its decision of April 2014. The Prysmian Group defendant companies have duly filed their statement of objections.

In addition, during 2016 other operators had 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. Following on from these notifications, only one operator has sent a new letter to a subsidiary of Prysmian S.p.A., received in August 2017, quantifying the damage suffered. The subsidiary of Prysmian S.p.A. has responded to this letter declining all responsibility.

In view of the circumstances described and also with the support of the Group's legal advisors, the directors have recognised, consistent with the accounting policies, provisions deemed appropriate to cover the potential liabilities associated with the events in question.

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, these have ended favourably for the Group's local subsidiary; in fact, the ruling by the competent Australian Federal Court dismissed all the allegations brought by the Australian Competition and Consumer Commission (ACCC), which was also ordered to pay the legal costs incurred by the Group's local subsidiary.

As for the Spanish administrative proceedings, these were initiated at the end of February 2016 by the local competition authority, which sent a statement of objections to some of the Group's local subsidiaries in January 2017. The objections raised in the statement of objections were reiterated in the so-called Proposal for Resolution of 24 April 2017, another act heralding the pronouncement of a final decision by the local competition authority.

On 24 November 2017, the local competition authority notified the Group's Spanish subsidiaries of a decision under which they have been held liable for the alleged infringements in the period from June 2002 to June 2015 and were jointly and severally sentenced to pay a fine of Euro 15.6 million. The Group's Spanish subsidiaries have appealed against this decision. In view of the circumstances described and also with the support of the Group's legal advisors, the directors have adjusted the related provisions for risks as appropriate.

As at 31 December 2017, the provision for the above antitrust issues amounts to approximately Euro 163 million.
Despite the uncertainty of the outcome of the investigations and legal action in progress, the amount of this provision is considered to represent the best estimate of the liability based on the information now available.

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 2017	31 December 2016
Pension plans	269	298
Employee indemnity liability (Italian TFR)	17	19
Medical benefit plans	27	29
Termination and other benefits	42	37
Incentive plans	-	-
Total	**355**	**383**

Pension plan amendments in 2017

There were no pension plan amendments in 2017.

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 2017, 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 more than 90% of the related liability. The principal risks to which they are exposed are described below:

Germany

There are fourteen 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 2017, the plans had an average duration of 14.9 years (15.5 years at 31 December 2016).

Total plan membership is made up as follows:

	31 December 2017	31 December 2016
	Number of participants	Number of participants
Active	992	978
Deferred	915	963
Pensioners	1,916	1,862
Total membership	**3,823**	**3,803**

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 2018 will amount to Euro 7 million (Euro 6 million at 31 December 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 2017: 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 2017, the plans had an average duration of approximately 19.8 years (approximately 20.8 years at 31 December 2016).

Total plan membership is made up as follows:

	31 December 2017			31 December 2016		
	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
Deferred	492	547	1,039	504	555	1,059
Pensioners	458	379	837	452	373	825
Total membership	**950**	**926**	**1,876**	**956**	**928**	**1,884**

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 2015 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 3.3 million a year for the Draka pension fund (Euro 3.4 million at 31 December 2016) 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 its assets as follows: 17% in equities, 38% in bonds and 45% in other financial instruments. The Prysmian pension fund has invested its assets as follows: 35% in bonds and the remaining 65% 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 four pension plans in operation in France at 31 December 2017, of which three are unfunded retirement benefit plans and one is a partially funded pension 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 2017, the plans had an average duration of approximately 10.6 years (10.3 years at 31 December 2016).

Total plan membership is made up as follows:

	31 December 2017	31 December 2016
	Number of participants	Number of participants
Active	1,673	1,765
Deferred	N/A	N/A
Pensioners	25	24
Total membership	**1,698**	**1,789**

In the case of the unfunded plans, the company pays the amount accrued when employees leave the company upon retirement.

The principal risk for the Prysmian Group in France is salary growth, which affects the benefits that the company has to pay the employee. In the case of the retirement benefit plans, 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 2017 and 31 December 2016:

(in millions of Euro)

					31 December 2017
	Germany	Great Britain	France	Other countries	Total
Funded pension obligations:					
Present value of obligation	-	193	3	51	247
Fair value of plan assets	-	(123)	(2)	(48)	(173)
Asset ceiling	-	-	-	-	-
Unfunded pension obligations:					
Present value of obligations	163	-	21	11	195
Total	**163**	**70**	**22**	**14**	**269**

(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**

At 31 December 2017, "Other countries" mainly refer to:

- United States: funded pension obligations have a present value of Euro 27 million compared with a fair value of Euro 22 million for plan assets;
- Netherlands: funded pension obligations have a present value of Euro 23 million compared with a fair value of Euro 23 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)

	2017	2016
Opening defined benefit obligation	**475**	**457**
Business combinations	-	4
Current service costs	2	3
Interest costs	10	13
Contributions paid in by plan participants	-	-
Administrative costs and taxes	-	-
Actuarial (gains)/losses recognised in equity - experience	(3)	(5)
Actuarial (gains)/losses recognised in equity - demographic assumptions	(3)	-
Actuarial (gains)/losses recognised in equity - financial assumptions	(7)	67
Disbursements from plan assets	(12)	(10)
Disbursements paid directly by the employer	(8)	(8)
Plan settlements	-	(16)
Currency translation differences	(12)	(29)
Reclassifications and legislative amendments to existing plans		(1)
Total movements	**(33)**	**18**
Closing defined benefit obligation	**442**	**475**

Changes during the year in pension plan assets are analysed as follows:

(in millions of Euro)

	2017	2016
Opening plan assets	**177**	**199**
Business combinations	-	-
Interest income on plan assets	4	6
Actuarial gains/(losses) recognised in equity	4	10
Contributions paid in by the employer	13	14
Contributions paid in by plan participants	-	-
Disbursements	(20)	(18)
Plan settlements	-	(16)
Currency translation differences	(5)	(18)
Total movements	**(4)**	**(22)**
Closing plan assets	**173**	**177**

At 31 December 2017, pension plan assets consisted of equities (14.6% versus 14.4% in 2016), government bonds (16.8% versus 18.6% in 2016), corporate bonds (18.1% versus 18.1% in 2016), and other assets (50.5% versus 45.2% in 2016).

Movements in the asset ceiling over the period are as follows:

(in millions of Euro)

	2017	2016
Opening asset ceiling	**-**	**(1)**
Interest costs	-	-
Changes in assets recognised in equity	-	1
Currency translation differences	-	-
Total movements	**-**	**1**
Closing asset ceiling	**-**	**-**

Pension plan costs recognised in the income statement are analysed as follows:

(in millions of Euro)

					2017
	Germany	**Great Britain**	**France**	**Other countries**	**Total**
Personnel costs	1	-	1	-	2
Interest costs	3	5	-	2	10
Expected returns on plan assets	-	(3)	-	(1)	(4)
Total pension plan costs	**4**	**2**	**1**	**1**	**8**

(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**

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 2017
	Germany		Great Britain		France	
Interest rate	1.75%		2.70%		1.25%	
Expected future salary increase	1.75%		N/A		1.75%	
Expected increase in pensions	1.75%		3.40%		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	19.90	23.95	22.10	23.90	24.16	27.63
People currently aged 50	21.88	25.84	23.10	25.10	26.23	29.84

						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	22.00	24.20	24.16	27.63
People currently aged 50	21.76	25.72	23.40	25.60	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 2017
	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	7.61%	-6.79%	10.16%	-9.07%	5.38%	-4.98%
Inflation rate	**decrease - 0.25%**	**increase +0.25%**	**decrease - 0.25%**	**increase +0.25%**	**decrease - 0.25%**	**increase +0.25%**
Change in pension plans	-2.93%	2.85%	-3.54%	3.72%	-2.79%	2.89%

			31 December 2017
	Germany	Great Britain	France
1-year increase in life expectancy	5.19%	3.53%	1.96%

						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	5,22%	3,47%	1,41%

EMPLOYEE INDEMNITY LIABILITY

Employee indemnity liability refers to Italian companies only and is analysed as follows:

(in millions of Euro)

	2017	2016
Opening balance	**19**	**20**
Personnel costs	-	1
Interest costs	-	-
Actuarial (gains)/losses recognised in equity	(1)	1
Disbursements	(1)	(3)
Total movements	**(2)**	**(1)**
Closing balance	**17**	**19**

The net actuarial gains recognised at 31 December 2017 (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.

The actuarial assumptions used to value employee indemnity liability are as follows:

	31 December 2017	31 December 2016
Interest rate	1.25%	1.25%
Expected future salary increase	1.50%	1.50%
Inflation rate	1.50%	1.50%

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 2017		31 December 2016
Interest rate	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**
Change in employee indemnity liability	4.78%	-4.44%	5.26%	-4.98%
Inflation rate	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**
Change in employee indemnity liability	-1.44%	1.48%	-1.59%	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 more than 90% of the total obligation for medical benefit plans (unchanged since 31 December 2016).

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 latest 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)

	2017	2016
Opening balance	**29**	**25**
Business combinations	-	-
Personnel costs	1	2
Interest costs	1	-
Plan settlements	-	-
Actuarial (gains)/losses recognised in equity - experience	(1)	1
Actuarial (gains)/losses recognised in equity - demographic assumptions	-	-
Actuarial (gains)/losses recognised in equity - financial assumptions	2	-
Reclassifications	-	-
Disbursements	(1)	(1)
Currency translation differences	(4)	2
Total movements	**(2)**	**4**
Closing balance	**27**	**29**

The actuarial assumptions used to value medical benefit plans are as follows:

	31 December 2017		31 December 2016	
Interest rate	3.83%		4.33%	
Expected future salary increase	N/A		N/A	
Increase in claims	5.17%		5.27%	
Life expectancy at age 65:	**Male**	**Female**	**Male**	**Female**
People currently aged 65	21.39	23.26	21.46	23.37
People currently aged 50	22.75	24.84	22.62	24.48

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 2017		31 December 2016	
Interest rate	**decrease -0.50%**	**increase +0.50%**	**decrease -0.50%**	**increase +0.50%**
Change in medical benefit plans	8.91%	7.93%	8,74%	-7,81%
Medical inflation rate	**decrease -0.25%**	**increase +0.25%**	**decrease -0.25%**	**increase +0.25%**
Change in medical benefit plans	4.75%	5.02%	-4,76%	5,13%

	31 December 2017	31 December 2016
1-year increase in life expectancy	4.35%	4.26%

OTHER INFORMATION

Contributions to and payments of employee benefit obligations in 2018 will respectively amount to Euro 4 million (of which Euro 4 million in Great Britain) and Euro 14 million (of which Euro 7 million in Germany).

Headcount

Average headcount in the period is reported below, compared with closing headcount at the end of each period:

				2017
	Average	**%**	**Closing**	**%**
Blue collar	15,856	75%	15,927	76%
White collar and management	5,173	25%	5,123	24%
Total	**21,029**	**100%**	**21,050**	**100%**

				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%**

16. DEFERRED TAXES

The balance of deferred tax assets at 31 December 2017 is Euro 135 million (Euro 130 million at 31 December 2016) while that of deferred tax liabilities is Euro 103 million (Euro 111 million at 31 December 2016).

Movements in deferred taxes are analysed as follows:

(in millions of Euro)	Fixed assets	Provisions [1]	Tax losses	Other	Total
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**
Currency translation differences	8	(2)	-	7	13
Impact on income statement	21	(2)	(6)	(1)	12
Impact on equity	-	(3)	-	(9)	(12)
Other and reclassifications	-	(1)	-	1	-
Balance at 31 December 2017	**(99)**	**109**	**48**	**(26)**	**32**

[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 599 million in carryforward tax losses at 31 December 2017 (Euro 671 million at 31 December 2016), it has recognised deferred tax assets on Euro 121 million in tax losses at this same date (Euro 151 million at 31 December 2016). Unrecognised deferred tax assets relating to the above carryforward tax losses and to deductible temporary differences amount to Euro 167 million at 31 December 2017 (Euro 216 million at 31 December 2016).

The following table presents details of carryforward tax losses:

(in millions of Euro)

	31 December 2017	31 December 2016
Carryforward tax losses	720	822
of which recognised as assets	121	151
Carryforward expires within 1 year	3	6
Carryforward expires between 2-5 years	85	155
Carryforward expires beyond 5 years	15	118
Unlimited carryforward	617	543

17. SALES OF GOODS AND SERVICES

These are detailed as follows:

(in millions of Euro)

	2017	2016
Finished goods	6,134	5,902
Construction contracts	1,176	1,254
Services	91	59
Other	500	352
Total	**7,901**	**7,567**

18. CHANGE IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED GOODS

This is detailed as follows:

(in millions of Euro)

	2017	2016
Finished goods	33	(17)
Work in progress	24	(31)
Total	**57**	**(48)**

19. OTHER INCOME

This is detailed as follows:

(in millions of Euro)

	2017	2016
Rental income	1	1
Insurance reimbursements and indemnities	12	7
Gains on disposal of property	2	3
Other income	66	64
Total	**81**	**75**

20. RAW MATERIALS, CONSUMABLES USED AND GOODS FOR RESALE

These are detailed as follows:

(in millions of Euro)

	2017	2016
Raw materials	4,955	4,364
Change in inventories	(43)	23
Total	**4,912**	**4,387**

21. PERSONNEL COSTS

Personnel costs are detailed as follows:

(in millions of Euro)

	2017	2016
Wages and salaries	799	765
Social security	153	147
Fair value - stock options	49	49
Pension plans	2	1
Employee indemnity costs	-	1
Medical benefit costs	1	2
Termination and other benefits	3	4
Other personnel costs	55	56
Company reorganisation	24	31
Total	**1,086**	**1,056**

Share-based payments

At 31 December 2017 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.

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 are subject to a retention period, during which they cannot be sold. The Plan contains purchase windows over the next three years.
All those who have signed up for the plan have also received an entry bonus of six free shares, taken from the Company's portfolio of treasury shares, only available at the time of first purchase. If an employee had already participated in the 2013 plan, they received eight shares as an entry bonus to the new plan.
The shares purchased by participants, as well as those received by way of discount and entry bonus, will generally be subject to a retention period during which they cannot be sold and the length of which will vary according to local regulations.
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 2017 in relation to the fair value of options granted under this plan is Euro 2 million.
The following table provides additional details about movements in the plan:

	31 December 2017
	Number of options
Options at start of year	349,849
Granted	-
Change in expected participations	(76,841)
Cancelled	-
Exercised	(92,271)
Options at end of year	180,737

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 were:

- generation of a strong commitment by the Group's management to achieving the targets for additional growth in profits and return on capital employed;
- alignment of the interests of management with those of shareholders by using share-based incentives and by promoting stable share ownership of the Company and the possibility of ensuring long-term sustainability of the Group's annual performance by fostering staff retention through co-investment of part of the annual bonus.

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

The Plan consisted of two parts:

- Co-investment;
- Performance Shares.

The Co-investment part required 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 was achieved, this portion would be returned to the participant in the form of company shares with a higher value than that co-invested.

The Performance Shares part involved 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 depended on the extent to which the Performance Conditions were achieved. Both parts of the plan were 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	6,614,124	-
Granted	-	-
Variation for target remeasurement	(7,991)	-
Cancelled	-	-
Exercised	-	-
Options at end of year	6,606,133	-
of which vested at end of year	6,606,133	-
of which exercisable	-	-
of which not vested at end of year	-	-

As at 31 December 2017 the options were all fully vested and are subject to a lock-up period, the length of which varies according to the seniority of the plan's beneficiaries..

The total cost recognised as "Personnel costs" in the income statement at 31 December 2017 in relation to the fair value of options granted under this plan is Euro 47 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 2017, 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)

	2017	2016
Depreciation of buildings, plant, machinery and equipment	121	114
Depreciation of other property, plant and equipment	11	13
Amortisation of intangible assets	45	46
Net other impairment of property, plant and equipment	18	27
Net impairment of intangible assets involved in company reorganisations	1	-
Net impairment of property, plant and equipment involved in company reorganisations	3	3
Total	**199**	**203**

23. OTHER EXPENSES

These are detailed as follows:

(in millions of Euro)

	2017	2016
Professional services	41	39
Insurance	47	55
Maintenance costs	72	78
Selling costs	47	62
Utilities	138	139
Travel costs	44	42
Vessel charter	88	109
Increases in/(releases of) provisions for risks	32	101
Losses on disposal of assets	-	-
Sundry expenses	129	131
Other costs	813	812
Company reorganisation	6	19
Non-recurring other expenses	18	(1)
Total	**1,475**	**1,586**

The Group expensed Euro 73 million in research and development costs in 2017 (Euro 75 million in 2016), insofar as no criteria existed for their capitalisation.

24. SHARE OF NET PROFIT/(LOSS) OF EQUITY-ACCOUNTED COMPANIES

This is detailed as follows:

(in millions of Euro)

	2017	2016
Share of net profit/(loss) of associates	42	31
Total	**42**	**31**

Further information can be found in Note 3. Equity-accounted investments.

25. FINANCE COSTS

These are detailed as follows:

(in millions of Euro)

	2017	2016
Interest on loans	1	2
Interest on non-convertible bond	19	19
Interest on convertible bond 2013 - non-monetary component	9	8
Interest on convertible bond 2013 - monetary component	4	4
Interest on convertible bond 2017- non-monetary component	9	-
Amortisation of bank and financial fees and other expenses	6	5
Employee benefit interest costs	8	8
Other bank interest	7	11
Costs for undrawn credit lines	4	4
Sundry bank fees	12	12
Non-recurring other finance costs	2	2
Other	7	8
Finance costs	**88**	**83**
Net losses on forward currency contracts	10	3
Net losses on Zero cost collar relating to General Cable acquisition	17	-
Losses on derivatives	**27**	**3**
Foreign currency exchange losses	326	411
Other non-operating financial costs	2	-
Total finance costs	**443**	**497**

26. FINANCE INCOME

This is detailed as follows:

(in millions of Euro)

	2017	2016
Interest income from banks and other financial institutions	6	8
Other finance income	5	6
Finance income	**11**	**14**
Net gains on interest rate swaps	-	1
Gains on derivatives	**-**	**1**
Foreign currency exchange gains	316	403
Total finance income	**327**	**418**

27. TAXES

These are detailed as follows:

(in millions of Euro)

	2017	2016
Current income taxes	94	113
Deferred income taxes	(12)	(7)
Total	**82**	**106**

The following table reconciles the effective tax rate with the Parent Company's theoretical tax rate:

(in millions of Euro)

	2017	Aliquota	2016	Aliquota
Profit/(loss) before taxes	305		368	
Theoretical tax expense at Parent Company's nominal tax rate	73	24.0%	101	27.5%
Differences in nominal tax rates of foreign subsidiaries	5	1.6%	(1)	-0.3%
Unrecognised deferred tax assets	(4)	-1.3%	3	0.8%
Net increase (release) of provision for tax disputes	(1)	-0.3%	1	0.3%
IRAP (Italian regional business tax)	7	2.3%	10	2.7%
Current taxes for prior years	5	1.6%	4	1.1%
Taxes on distributable reserves	2	0.7%	-	0.0%
Release of prior year credit for taxes paid abroad	(1)	-0.3%	4	1.1%
Antitrust provision	-	0.0%	3	0.8%
Asset impairment	7	2.3%	6	1.6%
Allowance for Corporate Equity (ACE)	-	0.0%	(11)	-3.0%
Non-deductible costs/ (non-taxable income) and other	(11)	-3.6%	(14)	-3.8%
Effective income taxes	**82**	**27.0%**	**106**	**28.9%**

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 2013, whose conversion was in the money as at 31 December 2017 and by the options under the employee share purchase plan (YES Plan). Diluted earnings/(loss) per share have not been affected by the Convertible Bond 2017, whose conversion is currently out of the money.
The options under the Incentive Plan 2015-2017 have been taken into account for the purposes of determining both basic and diluted earnings/(loss) per share, their grant dependent on the level of aggregate EBITDA achieved in the three-year target period.

(in millions of Euro)

	2017	2016
Net profit/(loss) attributable to owners of the parent	227	246
Weighted average number of ordinary shares (thousands)	211.684	214.057
Basic earnings per share (in Euro)	**1.07**	**1.15**
Net profit/(loss) attributable to owners of the parent for purposes of diluted earnings per share (*)	237	249
Weighted average number of ordinary shares (thousands)	211.684	214.057
Adjustments for:		
New shares from conversion of bonds into shares (thousands)	13.375	13.418
Dilution from incremental shares arising from exercise of stock options (thousands)	97	26
Weighted average number of ordinary shares to calculate diluted earnings per share (thousands)	225.156	227.501
Diluted earnings per share (in Euro)	**1.05**	**1.09**

(*) This figure has been adjusted for interest accruing on the Convertible Bond 2013, net of the related tax effect.

The dividend paid in 2017 amounted to approximately Euro 91 million (Euro 0.43 per share). A dividend of Euro 0.43 per share for the year ended 31 December 2017 will be proposed at the annual general meeting to be held on 12 April 2018 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 96 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 2017, 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 40 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 2017 and not yet reflected in the financial statements amount to Euro 85 million for investments in property, plant and equipment (Euro 45 million at the end of 2016); there were no commitments to third parties at 31 December 2017 for investments in intangible assets (Euro 1 million at the end of 2016).

(b) Operating lease commitments

Future commitments relating to operating leases are as follows:

(in millions of Euro)

	2017	2016
Due within 1 year	20	21
Due between 1 and 5 years	49	31
Due after more than 5 years	16	7
Total	**85**	**59**

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 363 million at 31 December 2017 (Euro 337 million at 31 December 2016).

32. FINANCIAL COVENANTS

The credit agreements in place at 31 December 2017, 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 Debt and EBITDA (as defined in the relevant agreements).

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The covenants contained in the various credit agreements are as follows:

EBITDA/Net finance costs[(1)] not less than	Net financial debt / EBITDA[(1)] not more than
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 2017	31 December 2016
EBITDA / Net finance costs [(1)]	15,37x	15,63x
Net financial debt / EBITDA [(1)]	0,58x	0,74x

[(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 subsidiaries with associates mainly refer to:

- trade relations involving 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.

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 2017 and 31 December 2016:

(in millions of Euro)

					31 December 2017
	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	217	-	**217**	217	100.0%
Trade receivables	6	-	**6**	1,131	0.5%
Other receivables	5	-	**5**	466	1.1%
Trade payables	4	-	**4**	1,686	0.2%
Other payables	-	5	**5**	679	0.7%
Provisions for risks and charges	-	4	**4**	354	1.1%

(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 for risks and charges	-	2	**2**	379	0.5%

(in millions of Euro)

					2017
	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	34	-	**34**	7,901	0.4%
Other income	5	-	**5**	81	6.2%
Raw materials. consumables used and goods for resale	(15)	-	**(15)**	(4,912)	0.3%
Personnel costs	-	(26)	**(26)**	(1,086)	2.4%
Other expenses	-	(1)	**(1)**	(1,475)	0.1%
Share of net profit/(loss) of equity-accounted companies	42	-	**42**	42	100.0%

(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	0.6%
Other income	5	-	**5**	75	6.7%
Raw materials, consumables used and goods for resale	(17)	-	**(17)**	(4,387)	0.4%
Personnel costs	-	(23)	**(23)**	(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%

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)

	2017	2016
Salaries and other short-term benefits - fixed part	6,671	6,727
Salaries and other short-term benefits - variable part	4,901	1,239
Other benefits	255	388
Share-based payments	12,294	12,473
Total	**24,121**	**20,827**
of which Directors	15,015	12,572

At 31 December 2017, payables for key management compensation amount to Euro 5 million, while employee benefit obligations for key management compensation are Euro 4 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 15.02 million in 2017 (Euro 12.57 million in 2016). The compensation of the Statutory Auditors of Prysmian S.p.A. came to Euro 0.2 million in 2017, the same as the year before. 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 2017.

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:

(in millions of Euro)

	2017	2016
Non-recurring other income/(expenses):		
Antitrust investigations	(18)	1
Non-recurring other finance income/(costs):		
Non-recurring other finance costs	(2)	(2)
Total	**(20)**	**(1)**

37. STATEMENT OF CASH FLOWS

Net cash flow provided by operating activities in 2017 benefited from an increase of Euro 88 million in working capital during the year; after accounting for Euro 104 million in tax payments and Euro 10 million in dividend receipts from associates and joint ventures, net cash flow from operating activities was a positive Euro 607 million for the year.

Acquisitions and disposals during the year involved a net outflow of Euro 7 million, mainly attributable to the purchase of the non-controlling interest in the subsidiary Prysmian Electronics S.r.l. and to the payment of the second and final instalment for the acquisition of Gulf Coast Downhole Technologies (GCDT).
Net operating capital expenditure came to Euro 254 million in 2017, 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 101 million in dividends. Finance costs paid, net of finance income received, came to Euro 70 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 2017 for audit work and other services provided by the independent auditors Ernst & Young and companies in the Ernst & Young network:

(in thousands of Euro)

	Recipient	Supplier of services	Fees relating to 2017	Fees relating to 2016
	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	518	499
Audit services	Italian subsidiaries	Ernst & Young Italia	407	369
	Foreign subsidiaries	Ernst & Young Italia	159	168
	Foreign subsidiaries	Rete Ernst & Young	1,424	1,454
	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	-	-
Certification services	Italian subsidiaries	Ernst & Young Italia	7	-
	Foreign subsidiaries	Rete Ernst & Young	-	-
	Parent Company - Prysmian S.p.A.	Ernst & Young Italia	55	-
Other services	Italian subsidiaries	Ernst & Young Italia	2	-
	Foreign subsidiaries (1)	Rete Ernst & Young	261	144
			2,833	**2,634**

(1) Tax and other services.

In addition to the services shown in the above table, between the year-end closing date and that of the present Annual Financial Report, other services have been provided (or are currently being provided) to Group foreign subsidiaries by EY S.p.A. (for Euro 10 thousand) and to Group foreign subsidiaries by other firms in the EY network (Euro 62 thousand).

39. SUBSEQUENT EVENTS

Mergers & Acquisitions

Acquisition of General Cable

On 16 February 2018, Prysmian Group acknowledged that the shareholders of General Cable Corporation had approved the acquisition by Prysmian of 100% of General Cable's shares for a consideration of USD 30.00 per share, as announced on 4 December 2017.

Present at the meeting was 75.34% of the share capital entitled to vote, of which some 99% voted in favour of the acquisition.

Subject to regulatory approvals and other customary closing conditions, the completion of the acquisition is expected to take place by the third quarter of 2018.

Finance Activities

Interest rate hedging derivatives

In January 2018, the Group entered into interest rate hedging derivatives, transforming variable into fixed rate, with the purpose of reducing rate volatility risk. In particular, forward rate agreements have been arranged, for an overall notional value of Euro 850 million, with the objective of hedging variable interest rate flows over the period 2018-2023 on loans the Group will contract for the General Cable acquisition.
In addition, interest rate swaps have been arranged, for an overall notional value of Euro 110 million, with the objective of hedging variable interest rate flows over the period 2018-2024 on an existing loan.

New industrial projects and initiatives

Cable to link Kincardine floating offshore wind farm to the UK mainland

On 24 January 2018, Prysmian Group was awarded a contract by Cobra Wind International Ltd for the cable to link the Kincardine floating offshore wind farm to mainland UK. This is the Group's first cable project for a floating offshore wind farm and involves the design and supply of two submarine export cables, inter-array cables and related accessories to connect the turbines of the Kincardine floating offshore wind farm, located approximately 15 km southeast of Aberdeen, to the Scottish mainland power grid. Installation is due to take place during 2018 and 2019.

Submarine power link to Capri

On 2 February 2018, the Group was awarded a contract worth around Euro 40 million by Terna Rete Italia S.p.A. for a new submarine cable link between the isle of Capri and Sorrento (Naples) following a European call for tender. The project involves the turnkey installation of a 150 kV HVAC power cable between Sorrento and the Gasto recycling centre on Capri, along a route running 16 km subsea and 3 km onshore. The project is scheduled for completion in 2019.

Milan, 27 February 2018

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:

Fully consolidated subsidiaries on a line-by-line basis:

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.
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.
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

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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 i.L	Wuppertal	Euro	25,000	100.00%	Prysmian Netherlands B.V.
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	Esher	British Pound	33.72	73.99%	Prysmian Cables & Systems Ltd.
				26.01%	Third parties
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	100.00%	Prysmian Cavi e Sistemi S.r.l.

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.	Delft	Euro	18,151	99.00%	Draka Deutschland GmbH
				1.00%	Prysmian Netherlands 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.	Záborské	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 S.A. in liquidazione	Lugano	Swiss Franc	500,000	100.00%	Draka Holding B.V.
Turkey					
Turk Prysmian Kablo Ve Sistemleri A.S.	Mudanya	Turkish new Lira	141,733,652	83.746%	Draka Holding B.V.
				0.705%	Turk Prysmian Kablo Ve Sistemleri A.S.
				15.549%	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.
Alisea Corp.	Wilmington	US Dollar	1	100.00%	Prysmian Cables and Systems (US) 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	1,900,000,000	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	1,850,000	99.97%	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.
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	72,000,000	100.00%	Prysmian Cavi e Sistemi S.r.l.
Prysmian (China) Investment Company Ltd.	Bejing	Euro	72,003,061	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	99.9999985%	Draka Cableteq Asia Pacific Holding Pte Ltd.
				0.0000015%	Cable Supply and Consulting Co. 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	51,150,100	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	100.00%	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					
Sindutch Cable Manufacturer Sdn Bhd	Melaka	Malaysian Ringgit	500,000	100.00%	Draka Cableteq Asia Pacific Holding Pte Ltd
Draka Marketing and Services Sdn Bhd	Melaka	Malaysian Ringgit	500,000	100.00%	Cable Supply and Consulting Company Pte Ltd
Draka (Malaysia) Sdn Bhd	Melaka	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 Private Limited	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	18,000,000	40.00%	Draka Holding B.V.
				60.00%	Third parties

List of other investments not consolidated pursuant to IFRS 10:

Legal name	% ownership	Direct parent company
Asia		
India		
Ravin Cables Limited	51.00%	Prysmian Cavi e Sistemi S.r.l.
	49.00%	Third parties
United Arab Emirates		
Power Plus Cable CO. LLC	49.00%	Ravin Cables Limited
	51.00%	Third parties
Africa		
South 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 2017 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 2017 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 2017:

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, 27 February 2018

Valerio Battista	Carlo Soprano	Andreas Bott
Chief Executive Officer	Managers responsible for preparing corporate accounting documents	

Audit Report

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Prysmian S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

We identified the following key audit matter:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Key Audit Matter	Audit Response
Recognition of revenues and margins from construction contracts The consolidated financial statements include revenues related to the "Energy projects" segment for Euro 1.490 million. These revenues, and the related margins, are mainly derived from construction contracts and are recognized in the income statement considering the progress of the project, in accordance with the percentage of completion method, which is determined on the basis of actual costs, as compared to expected costs. Processes and method of revenue recognition and evaluation of construction contracts are based on assumptions, sometimes complex, which imply, by their nature, estimates by Group management, especially with regard to forecasted costs to complete each project, including the estimate of risks and penalties where applicable, as well as to contract modifications either expected or under negotiation, and to changes in estimates from prior periods. Considering the complexity of assumptions adopted in forecasting costs to complete the projects and in accounting for contract modifications under negotiation as well as the potential significant impact of changes in estimates on the net result of the fiscal year we assessed this matter as a key audit matter. Financial statements disclosures related to this matter are reported in the notes "B.13 Construction contracts" and "D. Estimates and assumptions" of the consolidated financial statements.	Our audit procedures related to the key audit matter included, among the others, the analysis of the accounting treatment adopted by Prysmian Group, as well as the analysis of the procedures and key controls implemented by management to assess the criteria for recognition of revenues and margins from construction contracts. We performed a detailed analysis of assumptions involving a significant judgment by management, in particular with regard to the estimate of costs to complete significant projects, including expected risks and penalties and contract modifications expected or under negotiation; this analysis has been performed through inquiries with project managers, the analysis of the contracts and project documentation and the analysis of significant events occurred after the reporting period. We performed a comparative analysis of material variances of projects results in comparison with the original budget, and, where applicable, with prior period. Our audit procedures included specific tests of details performed on a sample basis. We also requested external confirmations to a sample of contractors, in order to test the existence and completeness of specific contract clauses. Finally, we analyzed the disclosures provided in the consolidated financial statements of Prysmian Group as of December 31, 2017.

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Prysmian S.p.A., in the general meeting held on April 16, 2015, engaged us to perform the audits of the consolidated financial statements of each years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Prysmian S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Prysmian Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Prysmian Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Prysmian Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of EIP S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, March 12, 2018

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.

2017 Annual Report

Prysmian
Group