

LETTER TO STAKEHOLDERS

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

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

Business performance

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

Industrial investments

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

Research & Development

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

Acquisition-led growth

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

Human capital development

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

Sustainability

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

Value creation

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

VALERIO BATTISTA

CHIEF EXECUTIVE OFFICER

PRYSMIAN GROUP