

**EXPLANATORY REPORT BY THE ADMINISTRATIVE BODY ON THE PROPOSAL PURSUANT TO THE EIGHTH ITEM ON THE AGENDA OF THE ORDINARY PART OF THE SHAREHOLDERS' MEETING OF PRYSMIAN S.P.A. HELD ON 16 APRIL 2015, CALLED TO RESOLVE ON THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR FINANCIAL YEARS 2016-2024, PREPARED IN ACCORDANCE WITH ART. 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED.**

**8. Appointment of the independent auditors for financial years 2016-2024: related resolutions**

Dear Shareholders,

We have convened an ordinary meeting to submit to your approval, in accordance with Art. 13 of Italian Legislative Decree no. 39/2010 (the "Consolidated Law on Audit"), the proposed appointment of the independent auditors for financial years 2016-2024 and the determination of the fee due to the independent auditing firm to be appointed.

Following approval of the 2015 financial statements, the appointment of PricewaterhouseCoopers S.p.A., which had been selected to carry out the audit for financial years 2007-2015, comes to an end. In accordance with current provisions of law, the appointment of PricewaterhouseCoopers S.p.A., which shall expire upon the approval of the financial statements as at 31 December 2015, can no longer be renewed or otherwise extended.

The new independent auditors called to take over from PricewaterhouseCoopers S.p.A., if designated by the shareholders' meeting to which the 2015 financial statements are submitted, would have very little time available to acquire adequate knowledge of the Company and its subsidiaries and issue the relevant opinion for the approval of the 2016 half-year report.

In light of the above and in order to ensure efficient and effective auditing, we have discussed with the Board of Statutory Auditors and the Risk and Control Committee the opportunity of bringing forward the decision on the appointment to be made for the nine-year period 2016-2024 to 2015. This applies without prejudice to the fact that the new appointment shall only come into effect upon termination of the current audit appointment and, precisely, as from the approval of the financial statements as at 31 December 2015.

By virtue of this, the Board of Statutory Auditors of Prysmian S.p.A. has carried out the activities necessary to be able to formulate a reasoned proposal and present it to the Shareholders' Meeting in relation to the appointment of the independent auditors for the nine-year period 2016-2024, as included in full as an attachment hereto.

\* \* \*

In light of the above, please find herewith the following proposed resolution for your approval:

*"The Shareholders' Meeting*

- *having acknowledged the fact that the audit appointment of PricewaterhouseCoopers S.p.A. shall expire upon the approval of the financial statements of Prysmian S.p.A. as at 31 December 2015;*
- *having considered that the early appointment of the independent auditors for financial years 2016-2024 made in 2015, with effect as from the approval of the financial statements as at 31 December 2015, is due to the need to ensure effective and efficient auditing;*
- *having regard to the reasoned proposal made by the Board of Statutory Auditors for the award of said audit appointment to the company Reconta Ernst & Young S.p.A. for the nine-year period 2016-2024*

*resolved*

- I. *to appoint the independent auditing firm Reconta Ernst & Young S.p.A. for the financial years included in the nine-year period 2016-2024 to perform the auditing of the accounts, specifically including:*
- *the auditing of the separate financial statements of Prysmian S.p.A.*
  - *the auditing of the consolidated financial statements of Prysmian S.p.A.*
  - *the expression of an opinion on the consistency of the Directors' Report and the information on corporate governance, as required by Art. 123-bis of Italian Legislative Decree no. 58/98*
  - *the verification during the year of the proper keeping of the company's accounts and correct accounting of operations*
  - *the verification and signing of the tax declarations made in accordance with current tax legislation*
  - *the auditing of the accounts limited to the consolidated half-year report of Prysmian S.p.A.*
  - *activities connected with the auditing procedures of intragroup chargebacks as provided for by the group service agreement and the IT & SAP operations*
- II. *to determine the total annual fees due to Reconta Ernst & Young S.p.A. as 441,268 Euro, in exchange for an annual amount of 8,579 hours of work, acknowledging that the fees are indicated with reference to the tariffs in force from 1 July 2016 to 30 June 2017 and that they shall be reconsidered once a year, every 1st July, starting from 1 July 2017, according to the total change in the ISTAT index relating to the cost of living (June 2016 baseline). Changes in the aforementioned index shall not, however, be reflected in an adjustment to the prices until a total change has been accumulated of 5%. Upon exceeding this threshold, the fees shall be adjusted by only the difference between the cumulative amount of the changes in the ISTAT index and the aforementioned threshold. Reimbursements for out-of-pocket expenses incurred in performing their activities, such as travel and accommodation expenses, shall be paid in addition to said fees and quantified as the amount incurred. Expenses incurred for any travel necessary to the fulfilment of the appointment shall be debited within the limits and in accordance with the procedures envisaged by the Prysmian Group's travel policy. VAT shall also be charged. The supervisory fee due to Consob shall be applied as required by the law on all activities for which it is required and it shall be quantified as the amount to be paid to Consob.*

\* \* \*

**Reasoned proposal by the Board of Statutory Auditors of Prysmian S.p.A. under art. 13 of Legislative Decree 39 dated 27 January 2010 for the statutory audit engagement for financial years 2016-2024**

Shareholders,

The approval of the separate and consolidated financial statements for the year ended 31 December 2015 will mark the expiry of the statutory audit engagement awarded to the audit firm of PricewaterhouseCoopers S.p.A ("PwC") by the Shareholders of Prysmian S.p.A. (formerly Prysmian S.r.l.) in their meeting of 12 January 2006, initially for the period 2007-2009; this period was later extended to 2007-2015 (subject to the Company's listing, which took place on 3 May 2007) by the Shareholders in their meeting of 16 January 2007, under the provisions of art. 159 of Legislative Decree 58/98, as amended by art. 3, par. 16, of Legislative Decree 303 dated 29 December 2006, setting the maximum term of audit engagements at nine financial years.

This engagement cannot be renewed because financial year 2015 will mark the end of the maximum nine-year term established by art. 17 of Legislative Decree 39/2010. Under art. 13 of this same decree, the Shareholders' Meeting, *"... on presentation of a reasoned proposal by the Board of Statutory Auditors, must award the statutory audit engagement and determine the related fees payable to the appointed audit firm for the entire term of the engagement and any criteria for adjusting these fees during the course of the engagement."*

Given the size and complexity of the Prysmian Group and of the companies it controls and following what appears to be well-established practice by Italy's major listed companies, the Board of Statutory Auditors of Prysmian S.p.A. (the "Board of Statutory Auditors"), in agreement with the management of Prysmian S.p.A. and with its Control and Risks Committee, considered it appropriate to start a year ahead of time the process for selecting the new auditors for financial years 2016-2024, by submitting the proposal for the new engagement to the Shareholders' Meeting scheduled for 16 April 2015.

Such anticipation will also allow the new auditors to have due time to organise the audit transition process, to learn more about Prysmian S.p.A. and the Group before the engagement starts and to structure the audit more effectively and efficiently.

The Board of Statutory Auditors has conducted the selection process, including with the assistance of the relevant company functions, and has performed, in an independent capacity, a thorough technical and economic review of the proposals received, as a result of which it has identified the

best proposal as that presented by Reconta Ernst & Young S.p.A..

This report will cover:

- the stages in the selection process for the new auditors and related criteria;
- final stages and choice of audit firm;
- main contents of the engagement proposal presented by Reconta Ernst & Young S.p.A.;
- factors emerging as a result of applying the quali-quantitative selection criteria underlying the reasoned proposal of the Board of Statutory Auditors to the Shareholders.

### **Stages in the selection process for the new auditors and related criteria**

The Board of Statutory Auditors initiated the process of selecting the new auditors in May 2014, in which it was assisted by the Chief Financial Officer, Group Administration and the Purchasing Department of Prysmian S.p.A..

The Board of Statutory Auditors considered it appropriate to invite Deloitte & Touche S.p.A., KPMG S.p.A. and Reconta Ernst & Young S.p.A. to participate in the selection process, agreeing this decision with the relevant company functions. In fact, the preliminary selection of these firms was based on their possession of suitable organisation and technical competence for the scope and complexity of the Engagement associated with the Prysmian Group's structure.

The Board of Statutory Auditors, together with the Chief Financial Officer, Group Administration and the Purchasing Department of Prysmian S.p.A., held an initial meeting with senior representatives of these audit firms in May 2014 to introduce them to the context of reference; following this meeting, the three firms were provided with an information pack to enhance their understanding of the Prysmian Group's business with a view to then preparing their engagement proposals, based on the audit hours reported by PwC in 2013.

In June 2014, Deloitte & Touche S.p.A., KPMG S.p.A. and Reconta Ernst & Young S.p.A. were formally invited to present their respective engagement proposals.

During the selection process, which ran from May to December 2014, the audit firms was asked to provide the following information:

(i) a statement that, at the date of the proposal, there were no situations capable of compromising the independence of the audit firm or reasons for incompatibility with respect to the award of the Engagement, under, in particular, articles 10 and 17 of Legislative Decree 39/2010, as well as their related implementing provisions (Chapter I-bis of Title VI Audit of the accounts - Incompatibility -

of the Issuer Regulations adopted by Consob Resolution no. 11971 dated 14 May 1999, as amended, as well as the Auditing Standard contained in Document no. 100 "Principles for auditor independence");

(ii) a statement about the audit firm's corporate structure;

(iii) a list of offices belonging to the audit firm's network present in the countries in which Prysmian Group companies are based, as well as a description of the internal organisation of the Italian and international network with a particular focus on coordination;

(iv) a description of the operational approach to the Engagement (audit method, procedures for coordination, supervision and direction of the work performed by other firms in the network; information flows with Prysmian);

(v) an indication of the main areas deemed critical for the Prysmian Group's audit;

(vi) details of those involved in the audit team, with particular regard to their experience of other clients in comparable sectors to that of the Prysmian Group;

(vii) IFRS credentials (participation of Italian representatives in national and international groups and bodies both inside and outside the network, national and international publications on the subject of IFRS, governance and reliability of the central technical team and in individual countries where the Group has operations, ease of access to centres of expertise and their location);

(viii) names of two/three clients for *credentials checks with other listed companies, clients of these audit firms*;

(ix) the estimated hours and fees for the performance of the Engagement, including specific details of the proposed professional mix.

In conducting the selection process, the Board of Statutory Auditors paid particular attention to the privacy and confidentiality of the information provided by the audit firms concerned.

The Board of Statutory Auditors acted in constant coordination with the relevant company functions, in particular, with Pier Francesco Facchini, a member of the Board of Directors and CFO of Prymian S.p.A., with Giancarlo Angelini, Alberto Boffelli and Thomas Zambon from Purchasing, and with Carlo Soprano and Monica Albertini from Financial Statements & Compliance.

The three audit firms (KPMG S.p.A., Deloitte & Touche S.p.A. and EY S.p.A.) submitted their respective proposals for the provision of auditing services through the "Ariba" e-procurement portal of Prysmian S.p.A..

The Board of Statutory Auditors discussed the selection over the course of six meetings (including the meeting with the Control and Risks Committee), held between May 2014 and December 2014,

as well as in other meetings in October 2014 for the *credentials checks* involving clients of the aforementioned audit firms.

A number of meetings were also held with representatives of each of the audit firms undergoing selection, in order to obtain specific information and explanations from each of the participants.

#### *Defining the selection criteria*

In defining the selection criteria to adopt, the Board of Statutory Auditors opted for a combination of audit quality, standards of professionalism and organisation in connection with peculiarities of the Prysmian Group, and economic considerations.

In this context, the Board of Statutory Auditors also considered it a priority to check that, since the time of presenting the engagement proposal by each audit firm concerned, their independence requirements were still satisfied and that there were still no reasons for their incompatibility with regard to the Engagement, in compliance with the provisions of articles 10 and 17 of Legislative Decree 39/2010 and the related implementing rules (Chapter I-*bis* "Incompatibility" of Title VI "Audit of the accounts" of the Issuer Regulations adopted by Consob Resolution no. 11971 dated 14 May 1999, as amended, as well as the Auditing Standard contained in Document no. 100 "Principles for auditor independence");

After careful consideration, the Board of Statutory Auditors identified quali-quantitative selection criteria ("clusters"), in turn divided into subcategories, which were attributed suitable weightings during the evaluation stage.

The clusters identified by the Board of Statutory Auditors were as follows:

- Ability to serve global clients, with particular attention to: (i) annual global revenues from audit services; (ii) the number of audit services staff worldwide; and (iii) the number of countries served by the audit services network.
- Parent company audit team and audit strategy, with regard to: (i) decision-making autonomy of the partner in charge; (ii) the partner in charge's experience of auditing comparable multinational groups in the last five years as lead partner; (iii) the firm's experience of auditing comparable multinational groups in the last five years; (iv) experience of the team's senior managers of auditing comparable multinational groups in the last five years; and (v) audit approach and strategy.
- Knowledge of the business and experience with the Prysmian Group, weighted in relation to: (i) proven knowledge of the Group, with specific reference to accounting issues and related

interpretations; (ii) experience with other clients in comparable sectors in Italy, indicating the projects undertaken.

- Total number of hours and proposed professional mix, evaluated with reference to: (i) the reasonableness of the estimated hours for the Engagement (having regard to the number of hours previously recorded by PwC); (ii) the proposed mix of professional hours.

- IFRS expertise and authority, evaluated on the basis of information provided by the audit firm regarding: (i) ease of access to centres of expertise; (ii) participation of Italian representatives in national and international groups and bodies both inside and outside the network; (iii) national and international publications on the subject of IFRS; (iv) governance and reliability of the central technical team and in individual countries where the Prysmian Group has operations.

- Results of *credentials checks conducted* on two/three clients (one/two proposed and one/two selected) in order to assess: (i) the pricing of extra services (for same scope); (ii) the overall quality of work performed; (iii) the organisation of work; and (iv) the pricing of additional services (additional scope).

- Quantitative factors, which included: (i) difference between the fees indicated in the proposal and those actually paid to the current auditors; (ii) comparison between the different proposals of the total number of hours, professional mix and hourly rates for each professional category; (iii) comparison between the different proposals of the payment terms, any annual fee adjustment, unpaid activities covered by the service, and any conditions applicable to extraordinary work.

### **Evaluation process and choice of audit firm**

The engagement proposals presented by Deloitte & Touche S.p.A., KPMG S.p.A. and Reconta Ernst & Young S.p.A. were examined by the Board of Statutory Auditors in the meeting held on 26 June 2014, on the basis of the selection criteria outlined above.

On 8 and 16 July 2014, Prysmian's Purchasing Department met the audit firms to request that they streamline the audit hours and other services offered (while still complying with Consob requirements), thereby obtaining a revised economic proposal.

Subsequently, on 19 September 2014, the Board of Statutory Auditors met representatives of Deloitte & Touche S.p.A., KPMG S.p.A. and Reconta Ernst & Young S.p.A. to ask for explanations and/or additional information about their proposals.

The Board of Statutory Auditors then invited the three audit firms to refine/amend the proposals already submitted in view of these respective meetings.

All three audit firms responded by sending an updated version of their engagement proposals. The evaluation process carried on in the meetings held on 17 October 2014 and 17 December 2014; during the last meeting, the Board of Statutory Auditors expressed a unanimous opinion in favour of the proposal presented by Reconta Ernst & Young S.p.A. (the "EY Proposal"), judging this proposal, in light of the selection criteria outlined earlier, the best of those submitted since it was the one that best corresponded to the needs of the Prysmian Group.

### **Main contents of the EY Proposal**

#### *Audit Services included in the Engagement*

As indicated in the EY Proposal, the Engagement covers the performance of the following activities ("Audit Services"):

- (i) audit of Prysmian's separate and consolidated financial statements, under art. 14, par. 1, of Legislative Decree 39/2010, for financial years 2016-2024;
- (ii) interim audit during the year to ascertain that Prysmian's accounting records are kept properly and that transactions are recorded correctly, under art. 14, par. 1 b) of Legislative Decree 39/2010;
- (iii) review, under art. 14, par. 2 e) of Legislative Decree 39/2010, of the consistency of the Directors' Report with the separate and consolidated financial statements, including a review of the consistency of the information on corporate governance and ownership structure under art. 123-*bis*, par. 4, of Legislative Decree 58 dated 24 February 1998;
- (iv) audit by foreign correspondents of Reconta Ernst & Young S.p.A. of the reporting packages prepared by Prysmian's foreign subsidiaries for consolidation purposes, with such audits serving the statutory audit of Prysmian's separate and consolidated financial statements;
- (v) audit, where agreed, of separate financial statements prepared by foreign subsidiaries under local law.

#### *Annual fees for Audit Services*

The following table summarises the annual hours of work and fees contained in the EY Audit Services Proposal:

<b>Prysmian Group fee summary</b>		
Fees for the performance of:	Hours	Total fees
Services related to the statutory audit of Prysmian S.p.A.	8,579	€ 441,268
Services related to the audit of the Italian subsidiaries of Prysmian S.p.A.	7,269	€ 368,172
Services related to the audit of the foreign subsidiaries of Prysmian S.p.A.	43,670	€ 1,590,560
<b>TOTAL HOURS AND FEES FOR THE ENGAGEMENT</b>	<b>59,518</b>	<b>€ 2,400,000</b>

<b>Audit services for Prysmian S.p.A., the parent company</b>		
Services related to the statutory audit:	Hours	Total fees
a) Audit of the separate financial statements of Prysmian S.p.A. under articles 14, 16 and 17, par. 1 of Legislative Decree 39/2010;	1,584	€ 91,840
b) Audit of the Group's consolidated financial statements under articles 14, 16 and 17, par. 1 of Legislative Decree 39/2010 (*);	3,700	€ 214,560
c) Opinion on the consistency of the directors' report with the information referred to in par. 1, letters c), d), f), l), m) and par. 2, letter b) of art. 123-bis of Legislative Decree 58/98, presented in the corporate governance report;	68	€ 4,300
d) Limited review of the Group's consolidated half-year report under Consob communication no. 97001574 of 20/02/1997, performed according to the criteria for limited reviews recommended by Consob;	1,793	€ 104,694
e) Interim testing during the year to ascertain that the accounting records are kept properly and that transactions are recorded correctly, under art. 14, par. 1 b) of Legislative Decree 39/2010;	366	€ 20,684
f) Audit and sign-off of tax returns made under current tax laws;	68	€ 5,190
g) Testing of intercompany recharges made under the Group Service Agreement and of IT & SAP processes.	1,000	€ -
<b>TOTAL HOURS AND FEES FOR PRYSMIAN S.P.A.</b>	<b>8,579</b>	<b>€ 441,268</b>

(\* ) Includes 75 hours for the audit of the Reporting Package of Draka Comteq BV by the Central Team.

The fees contained in the proposal are valid until 30 June 2017. On 1 July 2017, and every following 1 July, the fees will be revised for the total change in Italy's ISTAT cost of living index (or other equivalent index for foreign countries) over the previous year (base June 2016). However, no fee adjustment will be made for an aggregate cost of living increase that is below a level of 5%. If this level is exceeded, the fees will be adjusted only for the difference between the aggregate cost of living increase and the threshold level itself.

### **Factors emerging as a result of applying the quali-quantitative selection criteria underlying the reasoned proposal of the Board of Statutory Auditors to the Shareholders**

As anticipated, the evaluation process conducted using the quali-quantitative selection criteria outlined earlier, has led the Board of Statutory Auditors to express its opinion in favour of the EY Proposal.

The overall opinion of the Board of Statutory Auditors is supported, in particular, by the following factors concerning independence and the individual clusters identified as part of the selection process:

- Independence: as declared in the EY Proposal, the audit firm is independent and has no situations of incompatibility with regard to the Engagement, in compliance with the provisions of articles 10 and 17 of Legislative Decree 39/2010, as well as the related implementing provisions (Chapter I-bis "Incompatibility" of Title VI "Audit of the accounts" of the Issuer Regulations adopted by Consob Resolution no. 11971 dated 14 May 1999 as amended, as well

as the Auditing Standard contained in Document no. 100 "Principles for auditor independence"). At the date of the EY proposal, the audit firm had no engagements in progress with Prysmian for the provision of non-audit services.

- Ability to serve global clients: Reconta Ernst & Young S.p.A. belongs to one of the largest international networks and has an undisputed standard of professionalism, a suitable organisational structure and technical skills of the highest order, necessary to address the scope and complexity of the Engagement. The Reconta Ernst & Young network has a direct presence in every country in which the Prysmian Group has operations. The central audit team will consist of staff from the Milan office. The Engagement will be conducted entirely by firms belonging to the Ernst & Young network, without the involvement of entities outside this network.
- Operational approach to the engagement: the audit methodology used by Reconta Ernst & Young S.p.A. pays particular attention to the "Risk assessment" phase, as well as analysis of context and "Entity-level controls". It also includes detailed planning of the activities needed during the transition period and for shadowing the outgoing auditor. The audit firm also uses software to allow constant monitoring of current engagements and situations of incompatibility. With regard to supervision of work by other members of its network, the EY Proposal states that the firm will arrange annual planning meetings and visits to the most significant foreign audit teams. With reference to its interface with the Group's governing bodies, the audit firm proposes that meetings be held at least once a quarter with the main corporate and governance bodies.
- Knowledge of the business and experience of comparable groups: Reconta Ernst & Young S.p.A. has extensive experience of auditing Italian and foreign groups and companies operating in comparable sectors with a similar organisational structure in terms of size and geography to that of the Prysmian Group.
- Total number of hours and proposed professional mix: the estimated number of hours of work contained in the EY Proposal is commensurate with: (i) the size, composition and level of risk presented by the most significant items reported in the Prysmian financial statements; (ii) the technical expertise and experience that the engagement demands and (iii) the need to ensure, on top of the material performance of the audit, suitable supervision and overall direction. The professional mix indicated by Reconta Ernst & Young S.p.A. improves on the original guideline, presenting a higher proportion of partner and manager hours. Piero Carena, the Global Lead

Audit Partner indicated by Reconta Ernst & Young S.p.A., has many years of experience of auditing listed companies and companies operating in comparable sectors.

- Quantitative factors: from a quantitative point of view, the EY Proposal, examined using the criteria established by the Board of Statutory Auditors, is broadly in line with the best of the other two proposals received. In any case, in the opinion of the Board of Statutory Auditors, the fees contained in the EY Proposal, as set out above, have been determined in such a way as to safeguard the quality and reliability of the work.

Milan, 6 March 2015

The Board of Statutory Auditors