2016

ANNUAL FINANCIAL REPORT

PRIMA INDUSTRIE SpA
Registered Office: via Antonelli 32 – Collegno (TO)
Share Capital 26,208,185 EUR (fully paid-up)
Company Register of Turin and VAT No. 03736080015

Notice of Shareholders' Meeting

Please note that the Ordinary Shareholders' Meeting convening notice has been published on the company website (www.primaindustrie.com). It will be held at the Associated Notary's Office Nardello Stefani Marcoz, Corso Duca degli Abruzzi no. 18, Turin, at 9.30 am on April 10th 2017 on first call, and on second call, if necessary, on April 11th 2017, at 10.00 am at the company's new offices located in Strada Torino-Pianezza no. 36 Collegno (TO) to discuss the following:

Agenda

1. 2016 Financial Statements and related reports: ensuing resolutions. Review of the 2016 consolidated financial statements. Allocation of the net income and distribution of dividends.
2. Remuneration report in accordance with article 123-ter of the TUF.
3. Appointment of auditors for period 2017-2025 and determination of the remuneration for period; discussion and resolutions.
4. Appointment of the Board of Directors and the Chairman, subject to determination of number of members and term. Determination of Directors' remuneration. Relevant and consequent discussions and resolutions.
5. Resolutions on the acquisition and sale of treasury shares in accordance with articles 2357 and 2357-ter of the Italian Civil Code, subject to revocation of the resolution of the General Meeting of April 21st, 2016.

It is hereby stated that, given the shareholding structure of the Company, the Board may be constituted and may deliberate on April 11th , 2017.

Entitlement to attend

Those entitled to attend the meeting are the holders of voting rights at the end of the accounting day of 30 March 2017 (record date) and for which the Company has received notification by the qualified intermediary.
In accordance with the law, entitled voters may appoint a proxy to represent them at the Meeting.
Proxy forms are available on the Company website (www.primaindustrie.com) and they will be sent to those who request them by telephone +39 011 0923200.

Documentation

The Meeting convening notice has been published on the Company website (www.primaindustrie.com) and contains all the information and detailed instructions on the rights exercisable by Shareholders (submission of applications, additions to the agenda, filing of nomination lists for the Board of Directors).
Reports and proposals on the topics on the agenda are available to the public at the registered office, on the company website, and on the storage website 1Info (www.1info.it), within the time limits required by law, and will be sent to anyone requesting them.

The Chairman of the Board of Directors
Gianfranco Carbonato

Management and Control

BOARD OF DIRECTORS

EXECUTIVE CHAIRMAN	Gianfranco Carbonato
MANAGING DIRECTORS	Ezio G. Basso [1]
	Domenico Peiretti [2]
INDEPENDENT DIRECTORS	Chiara Damiana Burberi
	Donatella Busso
	Sandro D'Isidoro
	Enrico Marchetti
	Mario Mauri
OTHER DIRECTORS	Rafic Y. Mansour
	Michael R. Mansour

INTERNAL CONTROL COMMITTEE

CHAIRMAN	Enrico Marchetti
MEMBERS	Chiara Damiana Burberi
	Donatella Busso

REMUNERATION COMMITTEE

CHAIRMAN	Mario Mauri
MEMBERS	Sandro D'Isidoro
	Rafic Y. Mansour

BOARD OF STATUTORY AUDITORS

CHAIRMAN	Franco Nada
REGULAR AUDITORS	Maura Campra
	Roberto Petrignani
ALTERNATE AUDITORS	Roberto Coda
	Gaetana Laselva

AUDIT COMPANY

EY SpA

EXPIRY OF MANDATES AND APPOINTMENTS

The Board of Directors shall remain in office until the approval of 2016 Financial Statements.

The Board of Statutory Auditors shall remain in office until the approval of 2018 Financial Statements.

The Audit company was appointed by the Stockholders's Meeting held on April 29th, 2008 for the period 2008 -2016.

[1] *EZIO G. BASSO IS ALSO THE GENERAL MANAGER OF PRIMA INDUSTRIE SpA*

[2] *DOMENICO PEIRETTI IS ALSO THE MANAGING DIRECTOR AND GENERAL MANAGER OF PRIMA ELECTRO SpA*

Acceleration towards the future

Ladies and Gentlemen,

2016 was a successful year for your company and has confirmed that our mid-term targets (EUR 500 million in revenues in 2019, as per our Business Plan) are achievable.
Also thanks to the generally positive situation in our main markets, in particular the USA and China, our 2016 revenues have reached EUR 393.9 million, up 8.1% compared to the previous year.
This value is the highest achieved in the 40 years of history of our Group and the growth rate is double that achieved in 2015.

Profitability also improved significantly with EBITDA at EUR 35.4 million, up 13% and Net Profit at EUR 10.2 million up 80%.
This improvement is significant, especially considering that our Consolidated Accounts were diluted, as expected, by the results of the Prima Electro Division, which saw a decline in revenues due to reduced orders from one of its main customers and also to the phase-out/phase-in process between CO_2 and fibre lasers.

Important drivers of our growth, which we believe was stronger than in the reference market, were investments in new products (Laser Next has become a reference in 3D laser market) and in market coverage (Prima Power Suzhou and new sales/service organisation in China).
Our performance was outstanding in the North American market (our first in terms of size) where we registered growth of 18% year-over-year and, even more, in China, where growth was 35%.

However, the main accelerator was our new HQTC (Headquarters & Technology Centre) in Collegno (Turin).
HQTC was inaugurated in late May and in the first 6 months of operation over 1,000 customers from more than 40 countries visited it.
With nine stand-alone machines/flexible manufacturing cells and one complete PSBB line (punching shearing buffering bending) on display, HQTC has become a real European Hub for Laser and Sheet Metal Fabrication customers after those already established in Chicago for North America and in Suzhou for China and Asia Pacific.
Thanks to a solid order intake, our year-end backlog has increased by 22% to EUR 143.4 million, which is a satisfactory base for further growth in the current year.

R&D was, as usual, very intense (5.8% of revenues) and several new products were introduced to the market at the main exhibition of the year, EuroBlech, held in Hannover in October 2016.
These include Laser Next 2130 (larger version of our Laser Next 3D laser family), BCe SMART (compact and automatic panel-bending machine), Combi Genius (a new high performance punching/laser combi machine) and CF4000 (the 4 KW model of our CF fibre laser family).

As far as our CF fibre lasers are concerned, we are pleased with the performance of the many dozens of lasers delivered in 2016 and are still investing to increase power levels beyond 4 kW and to improve manufacturing costs and production efficiency.

Also a lower power (1 KW) version has been developed, to target, among others, additive manufacturing applications, where we are getting more and more experience by participating in several EU and national research projects.

From a financial standpoint, we managed to keep our working capital well under control notwithstanding the increase in revenues and our Net Financial Position at year end was EUR 84.2 million, a great improvement from the previous year. This is the lowest level of net debt since the acquisition of Finn-Power in 2008 and led to significantly improved financial ratios (PFN/EBITDA=2.4, PFN/Net Equity=0.6) which are largely in line with the covenants agreed for banks and bond financing.

In view of the good year-end order backlog and the satisfactory order intake at the beginning of 2017, we are confident that we will be able to further grow and improve our results in 2017, thanks again to the strong performance of our Prima Power Division and to improved financials in Prima Electro.

Of course, we are aware that uncertainty and volatility may be quite high this year after the recent events on the European and American political and economic scene. However, our strengthened presence in many world markets will hopefully enable us to balance oscillations in individual countries.
Furthermore, our technology (photonics and laser-based manufacturing, integrated systems) is key in high-tech manufacturing national programmes such as *Industrie 4.0* in Germany, *Industria 4.0* in Italy, *China 2025*, etc. and this should drive robust growth in future years.

The high professionalism and skills of our 1664 employees in 25 countries has allowed us to achieve satisfactory results this year and is key for our future development: to all of them I send my sincere appreciation and thanks.

In conclusion, we are pleased to propose at our next General Meeting to increase the dividend to our shareholders to EUR 0.30/share (from EUR 0.25/share in 2016).

We also would like to thank all our stakeholders and friends for their continuing confidence and support.

Yours sincerely,

Gianfranco Carbonato
Executive Chairman

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Report of the Independent Auditors of the Financial Statements to December 31st, 2016

Report of the Independent Auditors on the consolidated Financial Statements to December 31st, 2016

Report of the Board of Statutory Auditors on the Financial Statements to December 31st, 2016

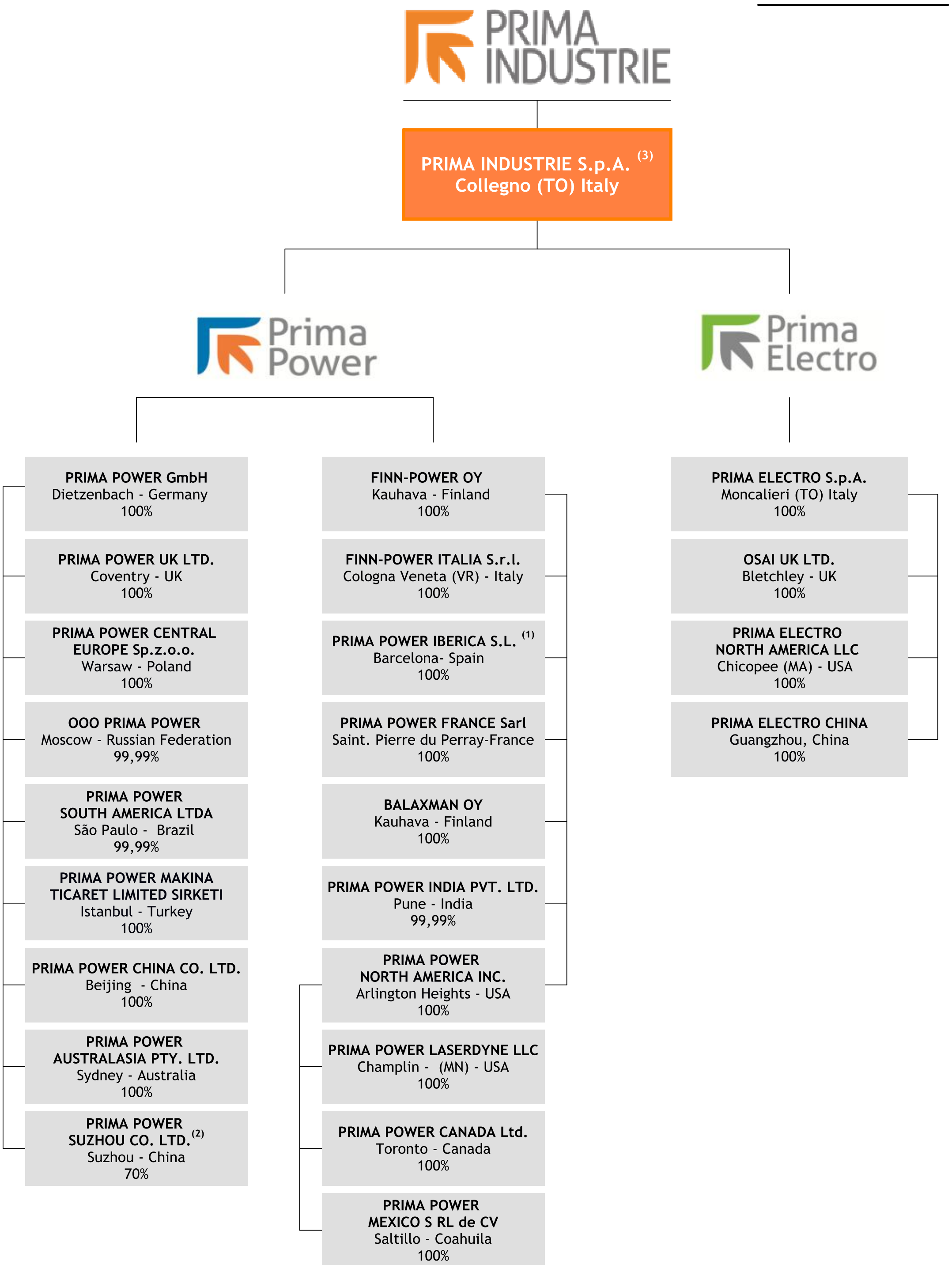
Report of the Board of Statutory Auditors on the Consolidated Financial Statements to December 31st, 2016

CHAPTER 1

Structure and Profile of **Prima Industrie Group**
December 31st, 2016

CHAPTER 1 Prima Industrie Group Structure and Profile at December 31st, 2016

Structure of Prima Industrie Group



The statement on this page represents the corporate situation of PRIMA INDUSTRIE Group on December 31st, 2016.

1) *FINN-POWER OY holds 78% of PRIMA POWER IBERICA SL (the remaining 22% is held by Prima Industrie SpA).*
2) *Prima Industrie SpA holds 70% of PRIMA POWER SUZHOU Co. Ltd. (the remaining 30% is held by third parties).*
3) *Prima Industrie SpA is included in PRIMA POWER Division for Reporting purposes.*

Profile of Prima Industrie Group

The PRIMA INDUSTRIE Group is a market leader in the development, manufacture and sale of laser systems for industrial applications and of sheet metal processing machines, as well as in the fields of industrial electronics and laser sources.
The parent company, Prima Industrie SpA, established in 1977 and listed on the Italian Share Exchange since October 1999 (currently MTA - STAR segment), designs and manufactures high-power laser systems for cutting, welding and surface treatment of three-dimensional (3D) and flat (2D) components.
The PRIMA INDUSTRIE Group boasts over 35 years of experience and has over 12,000 machines installed in more than 70 countries. Owing also to the acquisition of the FINN-POWER Group in February 2008, it has stably ranked among world leaders in the sector of sheet metal processing applications. In recent years, the Group has reorganised its structure, branching its *business* into the following two divisions:

- PRIMA POWER for laser machines and sheet metal processing;
- PRIMA ELECTRO for industrial electronics and laser technologies.

The **PRIMA POWER** Division is involved in the design, manufacture and sale of:

- cutting, welding and punching machines for three-dimensional (3D) and two-dimensional (2D) metallic components;
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

This division owns manufacturing plants in Italy (Prima Industrie SpA and FINN-POWER ITALIA Srl), Finland (FINN-POWER OY), the United States (PRIMA POWER LASERDYNE Llc), China (PRIMA POWER SUZHOU Co. Ltd.) and has direct sales and customer service facilities in France, Switzerland, Spain, Germany, the United Kingdom, Belgium, Poland, Czech Republic, Lithuania, Hungary, Russia, Turkey, USA, Canada, Brazil, China, India, South Korea, Australia and the United Arab Emirates.

The **PRIMA ELECTRO** Division is involved in the development, construction and sale of electronic power and control components, and high-power laser sources for industrial applications, intended for the machines of the Group and third customers. The division has manufacturing plants in Italy (Prima Electro SpA) and in the United States (PRIMA ELECTRO NORTH AMERICA Llc.), as well as sales & marketing facilities in the United Kingdom and China.

Throughout the 35 years after its existence, the mission of the PRIMA INDUSTRIE Group has continued to be that of systematically expanding its range of products and services and to continue to grow as a global supplier of laser systems and sheet metal processing systems for industrial applications, including industrial electronics, markets that demand top-range technology and where growth rates are quite good, though in the presence of a cyclical context.

This company draft financial statements was approved by the Board of Directors on February 27th, 2017.

Consolidation area

There were no changes in the area of consolidation during the year 2016.

On December 31st, 2016, the subsidiaries listed in the statements below were fully consolidated.

SUBSIDIARIES

PRIMA POWER	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
FINN POWER OY	Metallite 4, FI - 62200 Kauhava, FINLAND	€ 49.417.108	100%	Line-by-line method
FINN-POWER Italia S.r.l.	Viale Artigianato 9, 37044, Cologna Veneta (VR), ITALY	€ 1.500.000	100%	Line-by-line method
PRIMA POWER LASERDYNE LLC	8600, 109th Av. North, Champlin, MN 55316, U.S.A.	USD 200.000	100%	Line-by-line method
PRIMA POWER SUZHOU Co. LTD.	Xinrui Road 459, Wujiang Ec. & Tech. Develp. Zone, Suzhou City Jiangsu Prov. CHINA	USD 8.000.000	70%	Line-by-line method
PRIMA POWER NORTH AMERICA Inc.	555W Algonquin Rd., Arlington Heights, IL 60005, U.S.A.	USD 10.000	100%	Line-by-line method
PRIMA POWER CANADA Ltd.	390 Bay Street Suite 2800 Toronto, Ontario M5H 2Y2 CANADA	CAD 200	100%	Line-by-line method
PRIMA POWER MEXICO S DE RL DE CV	Campo Real, 121 FRACC. Valle Real, Saltillo, Coahuila C.P. 25198 MEXICO	USD 250	100%	Line-by-line method
PRIMA POWER GmbH	Lise-Meitner Strasse 5, Dietzenbach, GERMANY	€ 500.000	100%	Line-by-line method
PRIMA POWER IBERICA S.L.	C/Primero de Mayo 13-15, 08908 L'Hospitalet de Llobregat, Barcelona, SPAIN	€ 6.440.000	100%	Line-by-line method
PRIMA POWER CENTRAL EUROPE Sp.z.o.o.	Ul. Holenderska 6 - 05 - 152 Czosnów Warsaw, POLAND	PLN 350.000	100%	Line-by-line method
OOO PRIMA POWER	Ordzhonikidze str., 11/A - 115419, Moscow - RUSSIAN FEDERATION	RUB 4.800.000	99,99%	Line-by-line method
PRIMA POWER FRANCE Sarl	Espace Green Parc , Route de Villepècle, 91280 St. Pierre du Perray, FRANCE	€ 160.005	100%	Line-by-line method
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	Soğanlık Yeni Mah. Balıkesir Cad. Uprise Elite Teras Evler B2 A Dubleks Gül Blok Daire:4 Kartal – Istanbul, TURKEY	TRY 1.470.000	100%	Line-by-line method
PRIMA POWER UK LTD	Unit 1, Phoenix Park, Bayton Road, Coventry CV7 9QN, UNITED KINGDOM	GBP 1	100%	Line-by-line method
PRIMA POWER INDIA PVT. LTD.	Plot No A-54/55, H Block, MIDC, Pimpri, Pune - 411018, Maharashtra, INDIA	Rs. 7.000.000	99,99%	Line-by-line method
PRIMA POWER SOUTH AMERICA Ltda	Av Fuad Lutfalla, 1,182 – Freguesia do Ó - 02968-00, Sao Paulo BRASIL	R$ 4.471.965	99,99%	Line-by-line method
PRIMA POWER CHINA Company Ltd.	Room 2006, Unit C, Tower 1, Wangjing SOHO, Chaoyang District, Beijing, P.R. CHINA	RMB 2.038.778	100%	Line-by-line method
PRIMA POWER AUSTRALASIA Pty. LTD.	Minter Ellison,LEVEL 3, 25 National circuit,Forrest, ACT, 2603 AUSTRALIA	A$ 1	100%	Line-by-line method
BALAXMAN OY	Metallitie 4, FI-62200 Kauhava, FINLAND	€ 2.523	100%	Line-by-line method

SUBSIDIARIES

PRIMA ELECTRO	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
PRIMA ELECTRO S.p.A.	Strada Carignano 48/2, 10024 Moncalieri, (TO) ITALY	€ 15.000.000	100%	Line-by-line method
PRIMA ELECTRO NORTH AMERICA LLC.	711 East Main Street, Chicopee, MA 01020, U.S.A.	USD 24.119.985	100%	Line-by-line method
PRIMA ELECTRO (CHINA) Co.Ltd.	23G East Tower, Fuxing Shangmao n.163, Huangpu Avenue Tianhe District 510620 Guangzhou P.R. CHINA	€ 100.000	100%	Line-by-line method
OSAI UK Ltd.	Mount House - Bond Avenue, Bletchley, MK1 1SF Milton Keynes, UNITED KINGDOM	GBP 160.000	100%	Line-by-line method

ASSOCIATES

PRIMA ELECTRO	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
ELECTRO POWER SYSTEM SA	Boulevard Poissonnière 14-16, 75009 Paris - FRANCE	€ 1.576.361	15,00%	Net Equity Method

CHAPTER 2

Introduction

CHAPTER 2 Introduction

Legislative framework

In application of European Regulation no. 1606 of July 19th, 2002, the PRIMA INDUSTRIE Group has drafted the consolidated financial statements at December 31st, 2016 in compliance with the guidelines of the International Accounting Standards approved by the European Commission (hereinafter individually also referred to as IAS/IFRS and collectively as IFRS).

The consolidated financial statements includes the Report of the Board of Directors drafted by its members.

Pursuant to Legislative Decree 38/2005, at January 1st, 2006, the financial statements of the parent company Prima Industrie SpA are also prepared in accordance with International Accounting Standards. Reference will be made to these standards throughout this report when listing figures related to the parent company.

Alternative performance indicators

In addition to the conventional financial indicators required by the IFRS, the Report of the Board of Directors, the consolidated financial statements of the PRIMA INDUSTRIE Group and the separate financial statements of the parent company Prima Industrie SpA for the years closed on December 31st, 2016 and 2015 all include a series of alternative performance indicators, to facilitate the evaluation of the company's financial trends.

These indicators, which are also presented in the Report of the Board of Directors when other interim reports are due, must not, however, be seen as replacing the conventional ones required by the IFRS.

The Group uses the following alternative performance indicators:

- EBIT (corresponding to "Operating Profit")
- EBITDA ("Earnings before interest, taxes, depreciation and amortisation"), the sum of "Amortisation" and "Impairment and Depreciation" added to "Operating Profit"
- EBT ("Earnings before taxation")
- Adjusted EBITDA, EBIT and EBT (hereinafter "Adj.") correspond to the same alternative performance indicators net of non-recurring items

The following entries are also mentioned:

- the "Value of Production", which is the algebraic sum of the entries "Net Revenues and services", "Other income", "Change in inventories of semi-finished and finished products" and "Increases in fixed assets for internal work";
- the "Operational Working Capital", which is the algebraic sum of "Inventory", "Trade Receivables", "Trade Payables" and "Advances".

Currency exchange rates

The exchange rates applied in the conversion of balances into currencies other than the Euro with the aim of consolidation are the following:

	AVERAGE EXCHANGE RATE		SPOT EXCHANGE RATE	
CURRENCY	2016	2015	December 31st, 2016	December 31st, 2015
US DOLLAR	1.1066	1.1096	1.0541	1.0887
CHINESE RENMINBI	7.3496	6.9730	7.3202	7.0608
RUSSIAN RUBLE	74.2224	68.0068	64.3000	80.6736
TURKISH LIRA	3.3427	3.0219	3.7072	3.1765
POLISH ZLOTY	4.3636	4.1828	4.4103	4.2639
POUND STERLING	0.8189	0.7260	0.8562	0.7340
BRAZILIAN REAL	3.8616	3.6916	3.4305	4.3117
INDIAN RUPEE	74.3553	71.1752	71.5935	72.0215
AUSTRALIAN DOLLAR	1.4886	1.4765	1.4596	1.4897
CANADIAN DOLLAR	1.4664	1.4176	1.4188	1.5116
MEXICAN PESO	20.6550	17.5995	21.7719	18.9145

CHAPTER 3

Group **Management Report**

CHAPTER 3 Group Management Report

Management of the risks for Prima Industrie Group

The *Risk Model* of PRIMA INDUSTRIE Group, based on reference standards adapted to the Group's specific risk categories, involves the mapping of risks by categories identified according to the nature of the risks. Following the business acquisitions of the recent past, this model is reconsidered concurrently with the required organisational changes that are the result of the integration process that is underway. These updates are aimed at the reallocation of risk maps based on their category: context risk, process risk (in turn divided into strategic, operational and financial).

Generally, the PRIMA INDUSTRIE Group operates within a very dynamic market and hence faces multiple risks as it conducts business. Therefore, in addition to the risks described below, further risks and uncertainties may arise of which the Group currently has no knowledge or which are not currently considered important.

Below is a brief description of the main risks to which the Group is exposed.

Context Risk

Risks associated with general economic conditions and the cyclical nature of the reference commodity markets

Since it operates within a global competitive context, the economic and financial situation of PRIMA INDUSTRIE Group is influenced by general conditions and world economic trends. Therefore, any negative economic situation or political instability in one or several of the group's geographical markets, including reduced opportunities for access to credit, can have a significant impact on economic performance and can influence its future prospects, in the short, medium and long term.
The Group's business also depends on the performance of some commodity markets (*automotive, aerospace, home appliances,* etc.) which are historically subject to cyclical variations and uncertain future economic prospects. Any negative economic performance on one or more of these markets, regardless of overall positive developments in the global economy, may significantly affect the Group's economic and financial performance and strategic perspective in the short, medium and long term and may have a negative effect on the business conducted by the Group and on its economic and financial position.

Risks associated with new competitors entering the market

The Group's sector of industry is characterised by a high technological barrier to entry. It is therefore unlikely that a large number of new competitors will enter sector, although the spread of fibre technology has reduced barriers to entry for laser machines. However, it is possible that investors with substantial financial resources – and therefore able to attract sufficient human resources and to financially support the considerable initial investment required to become competitive in the market – may enter the market and change the competitive framework and therefore the Group's product profitability. Similarly, the Group's existing competitors can consolidate their positions through mergers, joint ventures or other forms of trade agreements. As a result, the PRIMA INDUSTRIE Group can compete with groups that have greater financial resources, are larger and with better production capacity, as well as a more diversified presence in the world able to develop greater economies of scale and aggressive pricing policies.

In addition, if the Group is unable to continue to supply its services to existing customers, ensure a high level of satisfaction or develop new products and services, to attract new customers, meet their needs, increase efficiency and reduce overheads, it may not be able to successfully compete in key markets. If the Group is unable to maintain its position in the relevant markets, this could have a negative impact on the business, results, financial condition or future prospects.

Risks associated with financial requirements

Ordinary management of the company involves the availability of considerable financial resources to devote to working capital. Competition dynamics also involves the need for substantial financial resources to support investments in research and development of new products, as well as commercial and production investments for direct establishment in new geographical markets of interest.
In addition, as happened several times in the recent past, the Group may need to consider a loan to evaluate growth opportunities through acquisitions. In line with its development strategy, the Group has credit lines and bank loans granted by major credit institutes, at a level deemed appropriate to avoid financial stress. However, even considering the debt renegotiation in the first months of 2015, it is not possible to rule out that market uncertainty could lead to financial stress and/or the inability to obtain sufficient resources to finance growth and investment plans.

Risks related to the employment of key personnel in the Group

The PRIMA INDUSTRIE Group includes some key figures who, through their experience in the industry and deep knowledge of the Group's business, gained thanks to their long relationship with the Group, have contributed decisively to its success. The Group's future results depend in part on the skills and involvement of key figures.
The Group's ability to attract and retain qualified personnel is one of the elements that contribute to certain results. If one or more key figures stops working with the Group and the latter were unable to attract additional qualified personnel, there is a risk that it might not be able to replace them quickly with equally qualified people who are capable of providing, even in the short term, the same contribution, with consequent negative effects on business and on the Group's economic and financial position.

Process risks - **Strategic**

Risks related to competition, technological innovation and the introduction of new products

The market in which PRIMA INDUSTRIE Group operates is characterised by strong competition and a high rate of technological innovation. In light of this, the Group's activities are particularly focused on research and development and introducing new technologically advanced products to meet market demand. However, there is no certainty that these activities will enable the Group to maintain and/or improve its competitive position, even in the face of the possibility of more innovative competing products. In this case, the Group's assets, operating profitability and financial position can be adversely affected.

Notwithstanding the existence of patents and other forms of intellectual property protection on which the Group relies, there is the possibility that competitors might develop (without infringing the Group's intellectual property) similar products or technologies or create alternative ones, with lower costs and greater quality or with a higher level of functionality. This could have negative effects on the Group's competitiveness, with a consequent negative impact on its economic and financial position.

Risks related to intellectual property and know-how

The PRIMA INDUSTRIE Group owns a number of patents and other intellectual property. In addition, the Group cannot guarantee that any required or planned patent, in the new technological development plans, will be granted in each country in which it is needed or is expected to be granted. External parties may infringe the Group's patents and/or intellectual property rights and it may not be able to counter such violations. Consequently, if the Group is unable to protect its intellectual property, it may not be able to benefit from the technological progress achieved, leading to lower future results, and a worsening of the Group's competitive position.
In parallel, the Group cannot rule out the possibility of infringing patents or other intellectual property rights of third parties, which could result in a ban on use of the technologies involved or alteration of production processes or the payment of compensation.
The PRIMA INDUSTRIE Group cannot guarantee protection of its trade secrets, or that third parties will not develop the same or similar know-how independently. Any delivery and production restrictions or production interruptions due to patent infringement, or the subsequent acquisition of corresponding licences, may have an important adverse effect on the Group's business and results.

Risks associated with potential future acquisitions

The PRIMA INDUSTRIE Group evaluates the opportunity to improve its business operations by carrying out efficiency drives or expanding its product range. As a result, the Group has achieved, and may in the future perform, acquisitions or strategic partnerships or other significant operations. These operations could result in a further rise in debt and/or other liabilities that could have an adverse effect on the Group's economic and financial position.

Risks associated with the Group's presence on international markets and new emerging markets

In recent years, the PRIMA INDUSTRIE Group has developed an extensive geographical organisation and today has sufficient commercial coverage of emerging markets. The management of an international organisation requires strong management and significant financial resources. The presence of international markets involves additional risks such as changing market conditions, trade barriers, differences in taxation, restrictions on foreign investment and civil disorder. As a result, these international risks may have adverse effects on business.
In recent years, the Group has expanded its presence geographically into emerging markets. Maintaining market share in these emerging markets could require investments in financial, trade and technical terms; if these are missing the market share held by the company could be reduced, with negative impacts on overall economic performance.

Risks associated with possible defects in products sold by the Group and related to the timing of deliveries to customers

The PRIMA INDUSTRIE Group manufactures and markets products with high technological content. A significant portion of the products sold is represented by new or newly designed products, which, due to their complexity, can present quality issues and require long installation times. Any defects in products may require extraordinary maintenance and entail contractual liabilities.
In this regard, it should be noted that both divisions of the PRIMA INDUSTRIE Group consider continuous quality improvement a primary goal. In this respect, the two divisions have formed autonomous organisations aimed at continuous quality control, while each production plant has local units that operate according to the principles of quality defined by the respective division. Furthermore, products are put into production upon receipt of the customer order provided with all the technical specifications. Any situations where production is concentrated at particular times of the year can lead to difficulties in delivery times agreed with the customer resulting in potential compensation claims for damages.

Risks related to dependence on suppliers and potential disruption in supply

The PRIMA INDUSTRIE Group purchases components from a large number of suppliers and relies on services and products provided by external companies. Possible dependence on manufacturers of fibre laser sources (currently only a few parties), will be mitigated by the industrialisation of our laser with fibre technology. Close cooperation between manufacturers and suppliers is common in the Group's sectors and although this offers economic benefits in terms of cost reduction, it may also mean that the Group could be exposed to the difficulties experienced by suppliers, including those of a financial nature, (whether caused by internal or external factors) and this could have a negative effect on the Group. Orders for the purchase of raw materials and semi-finished components from suppliers are planned according to specific workflow rules for the provision of components to the production lines of the production plants. Any delays in the delivery of raw materials and semi-finished products could lead to delays in the delivery of products to the customer; there is no certainty of recovering from the supplier possible claims for damages brought by customers, with consequent negative impact on the company.

Risks related to possible injury caused by the Group's products

The PRIMA INDUSTRIE Group's products are used by customers for cutting, welding and bending metal components and, although highly automated, they need the assistance of the customer's personnel, who are subject to certain risks related to the production processes. Consequently, any injury to the customer's personnel, not entirely covered by insurance, may have a negative effect on the Group's economic and financial position.

Risks related to the Group's production plants

The Group's production facilities are currently located in four countries and are subject to operational risks, including production risks such as equipment failure, failure to comply with current regulations, revocation of permits and licences, labour shortages or work interruptions, natural disasters, sabotage, attacks or disruptions to raw material supplies. Any interruption of work in production facilities, caused by these or other events, can have a negative impact on the Group's economic and financial position.

Risks associated with IT system failures, network outages and breaches in data security

The PRIMA INDUSTRIE Group is subject to IT system failures, power failures and violations of data security, which can adversely affect the Group. The Group depends on technology to maintain and improve the efficiency and effectiveness of its operations and to interface with their customers, and to maintain the accuracy and efficiency of reporting and internal audits. IT system errors can cause erroneous transactions, process inefficiencies, can impede the production or shipment of products and the loss of or damage to intellectual property through security breach. The Group's IT systems can also be penetrated by external parties intent on extracting information.

Risks relating to health, safety and the environment

The PRIMA INDUSTRIE Group is subject to regulations regarding health, safety and the environment in the countries in which it operates. Failure to comply with these rules as a result of operating processes not suitably monitored or, particularly in new markets, an inadequate assessment of these requirements can expose the Group to risks with significant impacts on the Group's economic, equity and financial situation and its reputation. In order to reduce this risk, it should be noted that the Group will adopt systems to manage health, safety and the environment aimed at ensuring compliance with local regulations.

Risks related to legal issues, tax or labour law litigation

In the exercise of its business activities, the PRIMA INDUSTRIE Group may encounter legal, tax or labour law litigation. The Group adopts the necessary measures to prevent and mitigate any penalties that may result from these proceedings, including the establishment of specific risk provisions, as described in the Explanatory Notes.
PRIMA INDUSTRIE Group is subject to changes in tax laws in the countries in which it operates. Although the Group allocates provisions, where necessary, for tax disputes, for unforeseen tax payables, it can experience a negative effect on the financial condition and results due to insufficient provisions or due to unforeseeable circumstances.

Liquidity risk and management of working capital

Liquidity risk is the risk that financial resources may not be sufficient to fund the financial and commercial obligations within the pre-established periods and due dates. The liquidity risk to which the group is subject may derive from late collections and, more generally, from the difficulty of obtaining loans to support operational activities within the necessary time. The cash flow, financing needs and liquidity of group companies are monitored or managed centrally under the supervision of the Group Treasury, with the aim of guaranteeing effective and efficient management of financial resources.
The Group’s finished products are usually an investment for client companies, therefore their collection can also be done in quotas, with the last occurring after the machine or system has been commissioned on their premises. The period of time necessary for the production cycle and the commissioning is therefore usually much longer than that for payment of suppliers. In addition, customers often make the investment with medium to long-term financial support, which sometimes takes a long time to obtain. It is normal for the Group to have to face these needs and thus its working capital cycle may be longer and adversely affect Group liquidity. These situations create the need for the Group to have adequate lines of credit and bear the cost for their use. A difficult trend in the financial market or intrinsic difficulties by customers in raising financial funds in the short term could have a negative impact on the Group's economic and financial performance.

Risks related to fluctuation in interest rates and exchange rates

The PRIMA INDUSTRIE Group uses various forms of financing to cover the financial requirements of its business. Changes in interest rate levels can therefore lead to increases or decreases in the financing cost. In order to manage risks related to fluctuations in interest rates on financing transactions, the Group may use, if necessary, financial hedge instruments. Despite this, sudden fluctuations in interest rates could have a negative impact on the economic and financial results due to higher interest expense on the Net Financial Position part not promptly hedged by derivatives. It should be specified that the Group's current Net Financial Position includes a seven-year non-convertible bond whose interest rate is fixed, so it is not exposed to interest rate changes. Moreover, since the PRIMA INDUSTRIE Group operates on a world-scale and with subsidiaries in many countries of the world, the impact of the fluctuation of the different currencies in which are denominated the Group's financial statements may determine relevant economic and financial consequences; to cope with this financial risk, the company has a hedging policy through the use of derivative instruments.

Credit risk

The Group only deals with noted and trustworthy clients; furthermore, the amount of receivables is monitored during the financial year so that the sum exposed to losses is not significant.
It should be noted that there are no significant concentrations of credit risk within the Group.
The financial assets are shown in the financial statements net of the devaluation calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and possibly considering historical data.

2016 significant events

Appointment of new Board of Statutory **Auditors**

On April 21st, 2016, the Shareholders' Meeting of PRIMA INDUSTRIE appointed the new Board of Statutory Auditors, which will remain in office for the financial years 2016, 2017 and 2018. It made up of: Franco Nada, Chairman (elected by the minority list), Roberto Petrignani and Maura Campra; the deputy auditors elected are Gaetana Laselva and Roberto Coda.

Authorisation to purchase **treasury shares**

The shareholders meeting on April 21st, 2016 authorised the purchase, in one or more tranches, over a period of eighteen months, of PRIMA INDUSTRIE ordinary shares for a maximum number of shares equal to 500,000, setting at EUR 10,000,000 the maximum value for the purchase, authorising as of now the disposal of treasury shares, in one or more times, without time limits, in the manner deemed most appropriate in the interests of the company and in compliance with applicable regulations.
Purchases, mainly aimed at supporting the liquidity of the market and to service any free allocation to shareholders, including as dividends in kind, will be carried out on regulated markets according to operating procedures established in the regulations for the organisation and management of the markets according to the operating procedures set out in Borsa Italiana SpA Regulation, in accordance with article 144 bis, paragraph 1, sub-paragraph b), of CONSOB Regulation no. 11971/99 and subsequent amendments.

New **HQTC Opening**

On May 23rd, 2016, PRIMA INDUSTRIE officially opened the new "Headquarters & Technology Centre" ("HQTC") in via Torino-Pianezza in Collegno, which hosts a large Technology Centre in addition to the Group's central offices, which were moved here to improve coordination of the various group businesses.
The new centre, in which PRIMA INDUSTRIE has invested 8.5 million EUR (in addition to the approximately 6.5 million EUR of total machines on display in the demo room) and which was built in less than a year after the laying of the cornerstone, is structured into 5000 total square metres of which 2500 dedicated to the company offices of PRIMA INDUSTRIE and to the divisional offices of PRIMA POWER and 2500 dedicated to the demo room and customer hospitality. One structure can accommodate four delegations of customers, with an 80-seat training room, a demo room dedicated to customers from all over the world, in which eleven of our machines are operating, including a whole production line.
The building is equipped with the latest energy-saving technologies, ranging from thermal insulation to energy production through photovoltaic panels, solar panels and a geothermal plant. Even lighting management is automated with a home automation system to reduce waste. In other words, this will mean reducing CO_2 emissions by approximately 300 tonnes per year. A philosophy closely linked to the "*Green Means*" technology that PRIMA INDUSTRIE applies to all product lines and allows a significant consumption reduction compared to conventional technologies.

The global economy proved somewhat resilient in recent unexpected developments. A recovery or, at least consolidation, is taking place in almost all major areas. Starting from the last quarter of 2016, economic data has been surprisingly positive in all areas – and particularly in the Eurozone. Manufacturing is once again accelerating, as are services, and global GDP growth is steadily rising from the lows of the beginning of the year. This improvement reflects several parallel processes, which affect the Eurozone, China, the USA and the countries producing raw materials (mainly oil).

The new acceleration in the US and oil producers should extend to 2017. The Eurozone, on the other hand, will be affected by conflicting drives: a loss of consumer purchasing power due to the rise in the cost of raw materials for energy and the likely recovery in exports and business investments. Lastly, fiscal policy will not be expansive, rather neutral at best. Although the Chinese economy has improved more than expected in recent months, the shadow of financial imbalances continues to hover. Weighing up the various factors at stake, we believe that the slowdown in Europe and China will be moderate, such that we expect world growth to accelerate again next year.

According to the analyses provided by Deloitte's Global Economic Outlook and the Intesa Sanpaolo Research Office, the global economy will see a number of major trends in different geographical areas.

On the one hand, there is likely to be growth in the US economy compared to the first half of 2016, driven by the increase in employment and consequently increased household incomes. For the US 2017 will be a transition year marked by the search for a legislative compromise to the promised electoral reforms and any signs of protectionism. In the second half of the year, with the long-awaited entry into force of tax reforms for businesses and households and a likely increase in public spending on defence and infrastructure, growth should accelerate, remaining at just above 2%. In 2018, we should see the full effects of fiscal stimulus and there should be excess demand, especially on the job market.

On the other hand, Brexit has so far produced no obvious effects on Central Banks in the Eurozone. This does not mean there will be no major long-term consequences, such as the risks of disruption to long-standing business relations.

Economic recovery continues faster than expected. Recent figures show an acceleration in GDP early in the new year, thanks to the recovery in manufacturing. Estimates for 2017 point to 1.5% growth. In 2018, GDP could accelerate to 1.6-1.7%. Growth performance in the Eurozone remains varied, but has now spread to almost all member countries. Foreign demand will contribute to growth more than expected, but the road remains uncertain and certainly not comparable to the pre-crisis situation. The risks of a downturn remain, especially in view of the dense election calendar over the coming months in several countries.

New studies discuss whether China's indebtedness is too high and dangerous and whether its massive investments in infrastructure has really created economic value. Meanwhile, new figures from the Chinese government indicate that the economy is on the way to stabilising.

In Japan, the Central Bank seems to have run out of ideas for strengthening the economy through monetary policy. Quantitative easing policies and negative interest rates have had little effect. The Bank’s objective now for the long-term is to maintain ten-year bonds with near-zero yields.

In India, despite continuing concerns about investment stagnation in the mining, agriculture and construction industries, recent reforms have created a sense of trust in business and the economy.

An overall improvement is also seen in the Russian economy, despite widespread concern. In Brazil, on the other hand, signs of recovery are indicated by the Central Bank cutting interest rates for the first time in four years in October 2016. After the economic crisis, a fall in interest rates should be a positive sign for consumers and businesses. However, further cuts will depend on inflation, which is even higher than the Central Bank's targets.

In the Group's sector, despite the slowdown in global economic growth and high levels of uncertainty in international trade relations, the European machine tool industry shows clear signs of strength. Machine tool production in Europe increased its share on the global market to above 40% in 2016.
Investments in modern production equipment remain relatively low, but economic recovery is visible and business confidence in Europe can sustain further growth in investments. All the economic indicators from the target markets point to steady growth.
Global machine tool production will decrease slightly (2% – 3%) from 61.5 billion EUR in 2015 to 60 billion in 2016. Consumption of machine tools is down in Brazil and China and production stands at two-digit negative values. CECIMO estimates that the European machine tool industry will be able to overcome this trend and consolidate the strong results of 2015.
Exports to Asia are falling, in line with local economic developments. Exports to Russia are strongly affected (-30% annually) by EU trade sanctions. Exports to the Americas are on the rise as a result of investments in new or upgraded automotive plants in the USA and Mexico. Lastly, European household consumption is sustained by a resilient investment climate in Europe, with steady investments in more efficient plants and production systems.

UCIMU (the Italian Association of Machine Tool Manufacturers), Italian manufacturers of machine tools, robots and automation, closed 2016 with positive economic indicators and is preparing for a further growth in 2017.

Revenues and profitability

The main Revenues and Profitability details of the Prima Industrie Group are shown below.

Revenues and Profitability	December 31st, 2016	December 31st, 2015	Variations
Values expressed in Euro thousand			
REVENUES	393,886	364,466	29,420
EBITDA	35,409	31,402	4,007
EBIT	18,528	17,487	1,041
EBT	11,347	8,132	3,215
NET RESULT	10,160	5,606	4,554

The **consolidated revenues** at December 31st, 2016 amount to 393,886 thousand EUR, an increase of 8.1% compared to the corresponding period of the previous year (equal to 364,466 thousand EUR).

The consolidated turnover is shown below on a geographic basis at December 31st, 2016 compared with the previous financial year.

Revenues	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
EMEA	226,094	57.4	228,640	62.7
AMERICAS	94,331	23.9	80,919	22.2
APAC	73,461	18.7	54,907	15.1
TOTAL	**393,886**	**100.0**	**364,466**	**100.0**

It should be noted that the Group generated consolidated revenues in the EMEA of 226,094 thousand EUR; in particular, the Group achieved good results in Italy (16.2% of consolidated revenues), in the countries of Northern Europe (8.7% of consolidated revenues), in Spain (6.7% of consolidated revenues) and in Germany (6.0% of consolidated revenues).
The performance achieved in the Americas increased compared to 2015 from 80,919 thousand EUR to 94,331 thousand EUR (+16.6%); the increase is attributable to USA, whose sales went from 64,121 thousand EUR to 72,108 thousand EUR.
Also with regard to the APAC countries, the revenues increased compared to 2015; this growth is mainly attributable to China, South Korea and India, whose revenues increased respectively from 38,622 thousand EUR to 52,284 thousand EUR (+35.4% and 13.3% of consolidated revenues), from 3,733 thousand EUR to 8,690 thousand EUR and from 2,304 thousand EUR to 4,929 thousand EUR.

Below, a subdivision of the proceeds by sector of the gross inter-sector transactions is shown (for more detailed indications on the Group's operational segments, see Chapter 7 - Sector Information).

Revenues	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
PRIMA POWER	368,669	93.6	326,190	89.5
PRIMA ELECTRO	42,222	10.7	53,435	14.7
Inter-sector revenues	(17,005)	(4.3)	(15,159)	(4.2)
TOTAL	**393,886**	**100.0**	**364,466**	**100.0**

For a clearer view of revenues, the following table shows the breakdown by both segment and geographical area, net of intercompany amounts, for year 2016 and for year 2015.

REVENUES SEGMENT/AREA December 31st, 2016	EMEA	AMERICAS	APAC	TOTAL
Euro thousand				
PRIMA POWER	206,179	91,466	70,709	368,354
PRIMA ELECTRO	19,915	2,865	2,752	25,532
TOTAL	**226,094**	**94,331**	**73,461**	**393,886**

REVENUES SEGMENT/AREA December 31st, 2015	EMEA	AMERICAS	APAC	TOTAL
Euro thousand				
PRIMA POWER	199,135	77,836	49,133	326,104
PRIMA ELECTRO	29,505	3,083	5,774	38,362
TOTAL	**228,640**	**80,919**	**54,907**	**364,466**

It should be noted that the overall increase in revenues is attributable to PRIMA POWER Division, while the PRIMA ELECTRO Division reported revenues decreased due to a sharp drop in the supply of orbital welding systems (intended for the oil and gas sector) as well as to the reduction in the sale of CO_2 laser machines not yet offset by the major supplies of fibre laser machines.

The revenues of PRIMA POWER Division increased by 42,250 thousand EUR compared with 2015 financial year (+13%). The division achieved 56% of sales in the EMEA region (mainly in Italy, Northern European countries, Germany, Spain), 24.8% in the Americas Countries (mainly NAFTA) and 19.2% in the APAC region (mainly China).

The revenues of PRIMA ELECTRO Division decreased by 12,830 thousand EUR compared with 2015. The division achieved 78% of sales in the EMEA region (mainly Italy and Benelux), 11.2% in the Americas Countries and 10.8% in the APAC region (mainly China).

The **value of production** at December 31st, 2016 stood at 407,258 thousand EUR, 4.2% (16,601 thousand EUR) higher than in 2015 (390,657 thousand EUR). The value of production in the period also includes increases for internal work equal to 10,450 thousand EUR (11,751 thousand EUR at December 31st, 2015); these costs principally refer to investments in development costs. There was also other operating income of 4,218 thousand EUR (4,773 thousand EUR at December 31st, 2015).

Performance indicators	December 31st, 2016		December 31st, 2015	
	Euro thousand	*% on sales*	*Euro thousand*	*% on sales*
EBITDA	35,409	9.0	31,402	8.6
EBITDA Adj (*)	36,135	9.2	32,011	8.8
EBIT	18,528	4.7	17,487	4.8
EBIT Adj (*)	20,282	5.1	18,504	5.1
EBT	11,347	2.9	8,132	2.2
EBT Adj (*)	12,052	3.1	11,558	3.2
NET RESULT	10,160	2.6	5,606	1.5
NET RESULT ATTRIBUTABLE TO GROUP SHAREHOLDERS	*10,102*	*2.6*	*6,017*	*1.7*

(*) net of non recurring items

Group **EBITDA** stood at 35,409 thousand EUR (9% of revenues) and rose by 4,007 thousand EUR (31,402 thousand EUR at December 31st, 2015).

Group EBITDA is shown below at December 31st, 2016 and at December 31st, 2015 subdivided by sector (gross of the inter-sector transactions).

EBITDA	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
PRIMA POWER	34,363	97.1	25,246	80.4
PRIMA ELECTRO	1,257	3.5	6,134	19.5
Inter sector items and eliminations	(211)	(0.6)	22	0.1
TOTAL	**35,409**	**100.0**	**31,402**	**100.0**

The increase is mainly attributable to increased turnover for the PRIMA POWER Division. Of note are the non-recurring events of -726 thousand EUR (-846 thousand EUR for restructuring/reorganisation costs and +120 thousand EUR for litigation costs and penalties from customers/suppliers). Non-recurring events at December 31st, 2015 were down to 609 thousand EUR.

Consolidated **EBIT** at December 31st, 2016 stood at 18,528 thousand EUR (4.7% of consolidated revenues) and rose by 1,041 thousand EUR from the previous year (17,487 thousand EUR).
This result is affected by the amortisation of intangible assets of 11,931 thousand EUR, tangible fixed assets of 3,922 thousand EUR, in addition to the non-recurring effect attributable to the write-down of 1,028 thousand EUR of development costs for the PRIMA ELECTRO Division. With regard to the depreciation of intangible fixed assets, these refer to the depreciation of development costs (7,994 thousand EUR) and the depreciation of assets with a defined useful life recognised in the business merger of the FINN-POWER Group (brand and relations with customers - "customer list"), which amounted to 3,137 thousand EUR.
EBIT is shown below at December 31st, 2016 and December 31st, 2015, gross of inter-sector transactions.

EBIT	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
PRIMA POWER	22,139	119.5	14,578	83.4
PRIMA ELECTRO	(3,415)	(18.4)	2,872	16.4
Inter sector items and eliminations	(196)	(1.1)	37	0.2
TOTAL	**18,528**	**100.0**	**17,487**	**100.0**

The consolidated **EBT** at December 31st, 2016 was positive at 11,347 thousand EUR and increased by 3,215 thousand EUR compared to the previous year when it was 8,132 thousand EUR. This value discounts net charges arising from financial operations (including profits and losses) for 8,230 thousand EUR (at December 31st, 2015 they were 9,311 thousand EUR). It is important to note that the net financial expenses at December 31st, 2015 were affected by non-recurring expenses of 2,123 thousand EUR incurred between February and March 2015, following the full early repayment of the FINPOLAR loan, which also involved the closure of the derivative contract related to the loan.

Financial results (€/000)	December 31st, 2016	December 31st, 2015
Bond expenses	(2,421)	(2,167)
Club-Deal loan expenses	(1,295)	(1,436)
Finnish Loan loan expenses	(652)	(351)
Advance Finpolar loan expenses	-	(2,123)
Finpolar loan expenses	-	(295)
Derivate expenses (CRS)	(916)	442
Derivates expenses (IRS)	-	(1)
Other financial expenses	(2,597)	(2,848)
Net financial expenses	**(7,881)**	**(8,779)**
Net exchange differences	(349)	(532)
TOTAL	**(8,230)**	**(9,311)**

Exchange rate management was down to 349 thousand EUR (532 thousand EUR at December 31st, 2015). Derivative management was negative at -916 thousand EUR. This result is due to the appreciation of the dollar in the last quarter of 2016 and largely (896 thousand EUR) unrealised as it refers to the fair value of contracts open at the end of the 2016 financial year.

The Net Result of investments using net equity method was positive at 1,057 thousand EUR and refers to a capital gain generated by the sale of part of EPS SA shares. The net result of other investments was negative at 8 thousand EUR and refers to the write-down of the stake in Caretek Srl held by Prima Electro SpA.

Group **Net Result** at December 31st, 2016 amounts to 10,160 thousand EUR (5,606 thousand EUR at December 31st, 2015); while the Net Result attributable to parent company amounts to 10,102 thousand EUR. Income taxes in 2016 financial year indicate a negative net balance of 1,187 thousand EUR. The balance of current and deferred taxes is -724 thousand EUR, IRAP is equal to 341 thousand EUR and other taxes including those relating to prior years amounted to 122 thousand EUR.

Financial Statement

The PRIMA INDUSTRIE Group's reclassified financial statements is shown below.

Values expressed in Euro thousand	December 31st, 2016	December 31st, 2015	Variations
Tangible and intagible fixed assets	87,733	83,067	4,666
Goodwill	103,262	103,170	92
Equity investments and other non-current assets	1,158	1,400	(242)
Deferred tax assets	11,555	9,846	1,709
NON-CURRENT ASSETS	**203,708**	**197,483**	**6,225**
Inventories	98,561	93,993	4,568
Trade receivables	88,377	86,414	1,963
Trade payables	(88,449)	(78,323)	(10,126)
Advances	(26,029)	(21,385)	(4,644)
OPERATING WORKING CAPITAL	**72,460**	**80,699**	**(8,239)**
Other current assets and liabilities	(15,650)	(11,200)	(4,450)
Current tax assets and liabilities	(2,641)	(229)	(2,412)
Provisions for risks and employee benefits	(26,688)	(23,860)	(2,828)
Deferred tax liabilities	(8,341)	(10,518)	2,177
Non-current assets held for sale	319	284	35
NET INVESTED CAPITAL	**223,167**	**232,659**	**(9,492)**
NET INDEBTEDNESS	**84,215**	**101,747**	**(17,532)**
SHAREHOLDER'S EQUITY	**138,952**	**130,912**	**8,040**
Stockholders' equity of the Group	137,740	129,716	8,024
Minority interest	1,212	1,196	16
LOAN SOURCES	**223,167**	**232,659**	**(9,492)**

Property, Plant & Equipment and intangible assets (other than Goodwill) of PRIMA INDUSTRIE Group increased by 4,666 thousand EUR. Movements in the year were for:

- increases net of 21,347 thousand EUR in sales, of which 9,711 thousand EUR were development costs 7,330 thousand EUR were for the new HQTC (of which 7 million EUR came from a financial lease and the rest were incurred directly);

- amortisation and depreciation accounted for 16,881 thousand EUR and
- positive exchange rate differences were 200 thousand EUR.

The change in Goodwill is attributable to the only currency adjustment.

Investments and other non-current assets decreased by 242 thousand EUR, as a result of:

- a 214 thousand EUR negative effect following the sale of shares in EPS SA held by Prima Electro SpA (the sale generated capital gains of 1,057 thousand EUR);
- a 25 thousand EUR negative effect due to repayment of the loan issued by Prima Electro SpA to Caretek Srl;
- a 20 thousand EUR negative effect following the decrease in the item Other receivables;
- an 18 thousand EUR positive effect due to the increase in share capital (+ 25 thousand EUR) and the write-down (-8 thousand EUR) of the stake in Caretek Srl held by Prima Electro SpA.

Working Capital decreased by 8,239 thousand EUR from the previous year. This change is mainly due to improved management of trade receivables and inventories, which saw a reduction in average collection and inventory turnover.

Net invested capital went down by 9,492 thousand EUR, mainly due to an 8,239 thousand EUR decrease in working capital as discussed previously.

The Group’s Net Financial Position at 31/12/2016 stood at 84,215 thousand EUR; compared to the end of the previous financial year there was an increase of 17,532 thousand EUR (for further comments on this item, see the paragraph "Net Financial Position").

Net Equity increased by 8,040 thousand EUR. This increase is the effect of the Group's overall positive result for the period (10,661 thousand EUR) and the negative impact of payment of dividends (2,621 thousand EUR).

Impairment test and goodwill

In the current economic situation, checking for any loss of value in the Group’s assets is of fundamental importance. An essential part of drafting the PRIMA INDUSTRIE Group’s financial statements consists of performing the impairment test of the goodwill items entered in the statements.

In order to enable users of the financial statements to understand the assets valuation process (the underlying assumptions, the estimation methods, the parameters used, etc.) an extensive explanation of the methods employed by the Directors for this purpose is given in the notes attached to the consolidated financial statements (see Note 8.2 – Intangible assets). The methods and basic assumptions used in the goodwill impairment test carried out by the Directors of PRIMA INDUSTRIE independently and prior to the approval of these financial statements.

No problems were found in the impairment *test*.

Net Financial Position

At December 31st, 2016, the Group's net financial position was down to 84,215 thousand EUR, compared to 101,747 thousand EUR on December 31st, 2015.

The net financial position detail is shown as follows.

Value expressed in Euro thousand	December 31st, 2016	December 31st, 2015
CASH & CASH EQUIVALENTS	(62,680)	(41,365)
CURRENT FINANCIAL RECEIVABLES	(792)	(839)
CURRENT FINANCIAL LIABILITIES	35,790	25,731
NON CURRENT FINANCIAL LIABILITIES	111,897	118,220
NET FINANCIAL POSITION	**84,215**	**101,747**

To provide better information with regard to the net financial position at December 31st, 2016, the following should be considered costs included):

- the bond amounts comprehensively to 40,531thousand EUR;
- the Club Deal loan amounts comprehensively to 29,507 thousand EUR;
- the Finnish Loan amounts comprehensively to 21,079 thousand EUR;
- payables due to leasing companies (almost exclusively of a property nature) amount to 10,208 thousand EUR.

Trade assets and order portfolio

During the year 2016 the Group's **acquisition of orders** (including *after-sale service*) amounted to 426.5 million EUR, an increase of 389.9 million of EUR compared to 31 December 2015. The acquisition of orders of the PRIMA POWER segment amounted to 401.3 million EUR, while the PRIMA ELECTRO ones, considering the ones from customers outside the Group, amounted to 25.2 million EUR.

The consolidated **order portfolio** (not including the *after-sale service*) at 31 December 2016 amounts to 143.4 million EUR (compared to 117.7 million EUR at 31 December 2015). The portfolio includes 136.4 million EUR relating to the PRIMA POWER sector and 7 million EUR relating to the PRIMA ELECTRO sector.

At January 31st, 2017, the order portfolio amounted to 161.2 million EUR.

Research and development

The research and development activity carried out by the Group during the year 2016 has been comprehensively equal to 22,917 thousand EUR (of which 16,155 thousand EUR in the PRIMA POWER sector and 6,762 thousand EUR in the PRIMA ELECTRO sector) equal to 5.8% of turnover.

The capitalised share was equal to 10,098 thousand EUR (of which 6,668 thousand EUR in the PRIMA POWER sector and 3,430 thousand EUR in the PRIMA ELECTRO sector).

Costs incurred in research and development activities for new products proved the Group main purpose in investing for the future and improving products always in the competitiveness on the international markets. For all the capitalised development activities, the technical feasibility was verified as well as the generation of probable future economic benefits.

During the financial year, the main research and development activities of the PRIMA POWER Division were:

During the financial year, the main activities of the PRIMA POWER Division were as follows:

- introduction of a 2D Laser Genius machine with the following innovations:
  - new design for the cutting head equipped with adaptive optics;
  - a 4kW fibre laser source developed and produced internally;
  - a 2D automation system developed internally and equipped with a new fast-loading single-sheet option;
  - faster numerical control with an upgrade user interface connected to software to monitor the productivity and reliability of laser machines, in line with the Industry 4.0 evolution;
- introduction of a 3D machine from the Laser Next range, larger and equipped with 3kW fibre laser engineered internally

- implementation of a new generation of torch punches (Punch Genius), which provide improved energy efficiency, low maintenance requirements and high speed of operation
- implementation of a new punching and laser cutting machine *(Combi Genius),* whose main features are the 4kW fibre laser engineered internally and the wide range of tools, which are fast and easy to replace
- improvements and additions to the new 3D CAM programming for panel shaping machines
- production launch and installation at customers' premises of the new series of panelling machines (Bce SMART 2220) and completion of development activities for the new EBe7 panelling machine
- release of the new eP2040 Press Brake
- release of the new PSBB line configuration with PCD+BTD+EBe, presented at Euroblech 2016
- addition of lower sizes of the CNC crowning function derived from the eP2040 Press Brake
- development of a "dual workstation" on Laserdyne machines designed to support increased productivity in the aeronautical sector; it is a new system equipped with two independent machining stations within a single structure. The new system has already been presented to industry press and three units have been delivered. This new product was presented at IMTS2016 in Chicago in September 2016
- additive manufacturing, in which technical operations were conducted for the European Borealis, in which PRIMA INDUSTRIE is group leader.

During the financial year, the main projects carried out by the PRIMA ELECTRO Division were as follows (divided by business line):

Open Control

- completion of development of a new numerical control for laser machine for 2D cutting and for panelling machines for which a new control console was designed

- completion of development of the control system for the new bending press with special algorithms and special electric motors to reduce electricity consumption
- completion of development of the OPEN CNC for the BCe SMART series panelling machines
- development of a new size in the OD700 range of electric drives with Ethercat interface
- completion of a new numerical control for plasma and laser cutting machines
- creation of two demonstrators for additive manufacturing technology, based on the OPEN CNC.

Special Products

- development of power electronics to control motors in stationary compressors with better energy efficiency;
- development of a control unit for dryers, currently undergoing certification;
- launch of the project for a power control and conversion unit for "Energy Storage" systems based on hydrogen;
- development of an optical power supply for rail applications;
- development of a control and piloting device for electric engines used in underwater vehicles.

Laser Sources

- completion of development and construction of the prototype for the CF4000 fibre laser;
- development of the CF1000 model for low-power applications;
- development of a new laser model known as Twin Laser that can use both the laser light directly emitted by the diodes and the light emitted from resonant fibre;
- continuation of development of solid-state modules for the new fibre laser sources.

Personnel

At December 31st, 2016, the Group had 1,664 employees of which 1,406 in PRIMA POWER Division and 258 in PRIMA ELECTRO Division. Compared to the December 31st, 2015 the employee numbers increased by 21.

VALUES EXPRESSED IN UNITS	PRIMA POWER		PRIMA ELECTRO		PRIMA GROUP	
	Dec. 31st, 2016	Dec. 31st, 2015	Dec. 31st, 2016	Dec. 31st, 2015	Dec. 31st, 2016	Dec. 31st, 2015
Production & Installation	479	479	119	128	598	607
Sales & Marketing	160	152	37	33	197	185
Service & Spare Parts	461	439	15	16	476	455
R&D and Product Management	187	185	64	62	251	247
General & Administrative	119	124	23	25	142	149
Total	**1,406**	**1,379**	**258**	**264**	**1,664**	**1,643**

For a better comprehension, the 2015 figures have been re-exposed

Operations with related parties

Pursuant to article 5, paragraph 8 of the Regulation no. 17221 on Related Parties enacted on March 12th, 2010 by CONSOB, there follows a summary report of the operations (disbursements and repayments) related to intercompany loans which, pursuant to article 14, paragraph 2 of the said Regulation and article 32 of the Regulation adopted by the company with regard to related parties, are exempt from the application of the related procedure.

VALUES EXPRESSED IN EURO THOUSAND	Dec. 31st, 2015	Issued (*)	Reimbursements	Interests	Dec. 31st, 2016
Loans issued by Prima Industrie SpA					
Finn-Power OY	104	-	(204)	100	-
Prima Electro SpA	-	1,500	(206)	25	1,319
Prima Power Laserdyne LLC	3,239	111	-	95	3,445
Prima Power Suzhou CO. LTD.	1,517	1,500	-	114	3,131
Loans issued by Prima Power Iberica S.L.					
Prima Industrie SpA	2,519	1,500	(120)	101	4,000
Loans issued by Osai UK LTd					
Prima Electro SpA	206	-	(12)	6	200
Loans issued by Prima Power North America					
Prima Power Laserdyne LLC	927	-	(938)	11	-
TOTAL	**8,512**	**4,611**	**(1,480)**	**452**	**12,095**

(*) Loans to Prima Power Laserdyne LLC are issued in dollars

For further details on the subject and of other operations carried out by the Group with related parties, refer to Note 8.31 - Information on related parties.

Share trend and Treasury shares

During 2016, PRIMA INDUSTRIE shares went from a unit value of 14.72 EUR at January 4th, 2016 to 15.82 EUR per share at December 30th, 2016.

The minimum value of the share was 8.75 EUR (February 11th, 2016), while the maximum value reached was 15.82 EUR per share at year-end. Furthermore, after the end of the year, the value continued to grow, reaching well above 16.5 EUR per share.

This trend is shown in the chart below:

On April 21st, 2016, the Shareholders' Meeting of PRIMA INDUSTRIE SpA authorised the purchase, over a period of eighteen months, of Prima Industrie SpA ordinary shares for a maximum of 500,000 shares. 10,000,000 EUR was set as the maximum purchase value and, at the same time, authorising the sale of treasury shares on one or more occasions, with no time limits, in the ways deemed most in the interests of the company and in accordance with applicable legislation.

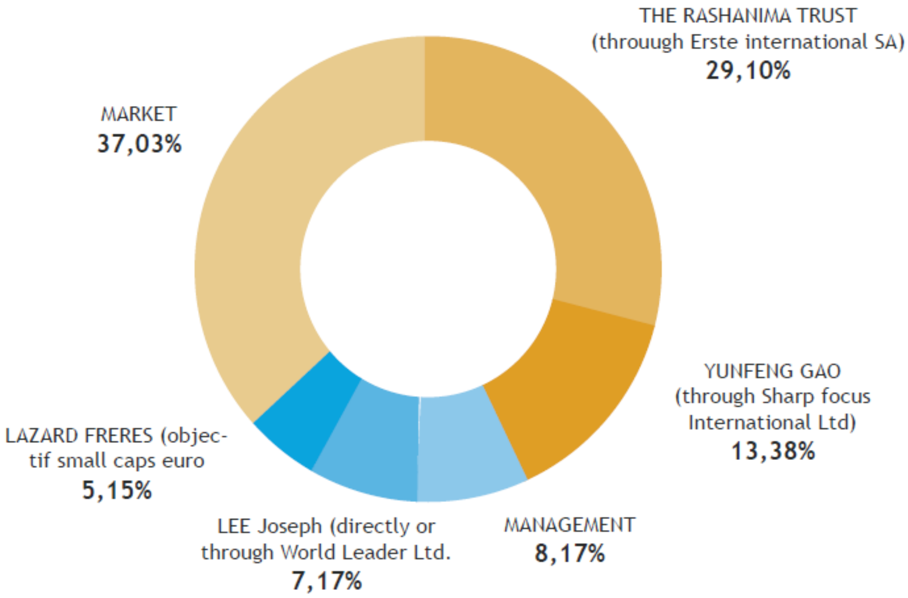
The purchases will be made on regulated markets in accordance with the operating rules set out by the markets themselves, according to the operating rules set out in Borsa Italiana SpA regulations, in accordance with article 144 bis, paragraph 1, sub-paragraph b) of CONSOB Regulation no. 11971/99 and subsequent amendments.

At the date of this Annual Report, PRIMA INDUSTRIE holds no treasury shares.

Shareholding Structure

On December 31st, 2016, the share capital of Prima Industrie SpA amounts to EUR 26,208,185 divided into 10,483,274 ordinary shares at the nominal value of 2.50 EUR each. No classes of shares or bonds have been issued other than ordinary shares.

In the light of the results of the shareholders diary and from subsequent communications carried out between the company and the overseeing authority, the most up-to-date share structure is as follows:



Pursuant to the combined provisions of article 1, paragraph 1, sub-paragraph w-quarter 1) of Legislative Decree no. 58/1998 and article 117, paragraph 1 of the Issuers CONSOB Regulation 11971/1999, significant investments are the investment of those who participate in the Issuer's share capital with a share of over 5%, as the Issuer is defined as SME.

Corporate Governance

The overall corporate governance framework of PRIMA INDUSTRIE, the system of rules and procedures that Company Boards refer to in deciding their line of conduct and in attending to their several responsibilities towards their stakeholders, has been defined bearing in mind the applicable standards and guidelines of the Code of Conduct approved in July 2014 by the Corporate Governance Committee promoted by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime, Confindustria.

Pursuant to article 123-bis of Leg. Decree no. 58/1998 (the "TUF") and to articles 89-bis and 144-decies of CONSOB's Regulation, the company annually drafts the "Report on Corporate Governance and Ownership Structure" (based on the “comply or explain” principle), with which it provides appropriate information on its Corporate Governance system. More specifically, the Report contains a general description of the system of corporate governance adopted by the Group and reports the information on the company's structure and its adherence to the Code of Conduct, including the main practices of *Governance* applied and the characteristics of its Internal Audit and Risk Management, also in relation to the financial information process.

First of all, the Report supplies a whole set of information on the company's Boards, their membership, term of office, business conduct, their powers and other information on elements that further distinguish the structure of corporate governance. It also contains information, including the personal details of company executives, along with their educational and professional profile.

The same Report, moreover, provides news on remuneration (fees) of Directors and Executives who have strategic responsibilities (also by recalling the Report on remuneration to be published in accordance with article 84-quater of the CONSOB Regulation), on the policy to apply when processing confidential information and when conducting major transactions (financial or capital) with associates, or that are atypical or unusual.

In particular, in observance of Leg. Decree no. 173/2008 which implements Directive 2006/46 as part of the legislation, the Report includes information on:

a) the corporate governance practices actually applied by the company, independently of the obligations imposed by legislation or regulations;
b) the main features of the Risk management and Internal audit system, involving the financial information process (consolidated as well);
c) regulations by which Shareholders' Assemblies are held, the Assembly's principal powers, shareholders' rights and the terms for their exercise;
d) the line-up of members and business method of Company Boards and their committees.

The Report is a separate document from the Financial Statements and can be viewed by Shareholders on the company's website (www.primaindustrie.com) each year, along with the documentation submitted to the Assembly for the approval of the financial statements.

PRIMA INDUSTRIE SpA wholly owns certain companies that have offices in non-EU countries and are crucial to its business, pursuant to article 36 of CONSOB Regulation no. 16191/2007, as per its amendments ratified with CONSOB Resolution no. 18214/2012, concerning "Market regulation". With reference to the data available on 31 December 2013, please note that procedures have been adopted to ensure that the previously mentioned legislation is complied with and that none of the conditions stated in said article 36 subsist.

Application of Legislative Decree 231/2001

The Issuing Party has adopted an Organisation, management and control model, as required by Leg. Decree no. 231/2001.

The Organisation, Management and Control Model responds to the following requirements:

- it describes the contents and aims of Decree no. 231/01;

- it lists and describes Presumed breaches, identifies the "Sensitive Areas" in which they may occur and arranges "Protocols" to regulate corporate operational procedures and re-conduct the risk of their perpetration below an acceptable threshold set by the company (Sensitive Areas and Protocols document);
- it evaluates (in the *Risk Assessment*) the "Risk Score" for each Presumed Breach, which is the product of the probability of a Breach occurring in Sensitive Areas and the magnitude of its possible aftermath (defined by the administrative fines established by the Decree);
- it applies the Company Code of Ethics, sensitising all recipients to its diligent compliance;
- it defines the criteria for appointing members to the Supervisory Board ("SB"), their tasks and responsibilities, and the method to use when reporting presumed breaches to the Model;
- it structures an integrated audit system meant to check that the Model is indeed applied and efficient (duty of the Supervisory Board);
- it stresses the need for training and briefing sessions to increase awareness of the Model and of its related documents in all of its recipients;
- it adopts a System of Administrative Fines for negligent conduct (Model breach).

The Model is reviewed from time to time to take account of the changing legislative framework, of changes to the company's organisational structure and/or of any imperfections of the Model in its day-by-day application.
The task of monitoring the correct application and observance of the Organisation Model, including revising its contents, is entrusted to the Supervisory Board, which answers to the Board of Directors and Board of Auditors.

Until May 12th, 2016 the functions of Supervisory Board of PRIMA INDUSTRIE SpA were carried out by the Board of Auditors, which had received a specific mandate to that effect at the time of appointment. Following the appointment of the board on May 13th, 2016, the Board of Directors also appointed the new Supervisory Board, consisting of two members of the Board of Auditors and the Internal Auditor, which will remain in office until approval of the financial statements at December 31st, 2016.

Investments made for safety in the workplaces

A total of 179 thousand EUR were spent by Prima Industrie SpA in 2016 for safety. The cost items refer to documentation, consultant services and training for safety, devices for vision protection from laser beams, personal protective equipment, signs, the creation of safe conditions in work zones and actions to improve workstation ergonomics.

Foreseeable developments in Management

The excellent orders since the start of the year, well above the same period in the previous year, enables the Group to confirm its goals of further growth for 2017. This year, proprietary fibre laser sales are also expected to grow considerably, enabling the Prima Electro division to overcome its difficulties.

Events occurring after the reference date of the Financial Statement

There were no significant events subsequent to the financial statements closing and until the date of approval of this Annual Financial Report.

Atypical and unusual transactions

Pursuant to CONSOB Bulletin of July 28th, 2006 no. DEM/6064296, we wish to specify that in the examined period, the Group has not engaged in transactions defined as atypical or unusual in the Bulletin.

Management and coordination activities

Prima Industrie SpA is not subject to management and coordination by other companies or entities and decides which general or operative course of action to take in full independence.

CHAPTER 4

Economic performance **by segment**

CHAPTER 4 Economic Performance by Segment

The Group conducts its business with an organisational structure that concentrates its activities into two divisions: PRIMA POWER and PRIMA ELECTRO.

The PRIMA POWER Division includes the design, manufacture and sale of:

- laser machines to cut, weld and punch metallic components, three-dimensional (3D) and two-dimensional (2D), and
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

The PRIMA ELECTRO Division includes the development, construction and sale of electronic power and control components, and hi-power laser sources for industrial applications, intended for the machines of the Group and third customers.

Shown here below, is a summary table of the economic progress for the two segments in which the Group currently operates.

Values expressed in Euro thousand

December 31, 2016	REVENUES	EBITDA	% ON REVENUES	EBIT	% ON REVENUES
PRIMA POWER	368,669	34,363	9.3%	22,139	6.0%
PRIMA ELECTRO	42,222	1,257	3.0%	(3,415)	-8.1%
ELIMINATION	(17,005)	(211)	1.2%	(196)	1.2%
GROUP	**393,886**	**35,409**	**9.0%**	**18,528**	**4.7%**

Values expressed in Euro thousand

December 31, 2015	REVENUES	EBITDA	% ON REVENUES	EBIT	% ON REVENUES
PRIMA POWER	326,190	25,246	7.7%	14,578	4.5%
PRIMA ELECTRO	53,435	6,134	11.5%	2,872	5.4%
ELIMINATION	(15,159)	22	-0.1%	37	-0.2%
GROUP	**364,466**	**31,402**	**8.6%**	**17,487**	**4.8%**

Prima Power

The revenues of PRIMA POWER Division increased by 13.0% compared with the corresponding period of the previous year. The division achieved excellent results in terms of revenues in Italy (14.4% of turnover of the division), in Northern Europe (9.1%), in Germany (6.3%) and in Spain (7%). The NAFTA countries contribute for 24.5% of the division revenues and China contributes for 13.6%.

EBITDA in the PRIMA POWER segment is 34,363 thousand EUR and increased in both absolute terms (9,117 thousand EUR) and in percentage terms, from 7.7% to 9.3%. Of note is that EBITDA to December 31st, 2016 is affected by non-recurring events of 979 thousand EUR and refer to 698 thousand EUR for restructuring/reorganisation costs and +281 thousand EUR for litigation costs and penalties from customers/suppliers. At December 31st, 2015, non-recurring events were -317 thousand EUR. EBIT at December 31st, 2016 had increased by 7,561 thousand EUR. This result is affected by 12,224 thousand EUR amortisation, of which 5,890 thousand EUR was the amortisation of development costs and fixed assets with a defined useful life recognised in the business merger of the FINN-POWER Group (brand and relations with customers – “customer list”), which amounted to 3,137 thousand EUR.

Prima Electro

Revenues of PRIMA ELECTRO Division, net of elisions towards PRIMA POWER Division, decreased compared to December 31st, 2015 by 12,830 thousand EUR. This significant decrease is due to the sharp drop in supplies of orbital welding systems (intended for the oil & gas sector) as well as the reduction in CO_2 laser sales not yet compensated by the start of the fibre laser supplies.

EBITDA in the PRIMA POWER Division is 1,257 thousand EUR and decreased from December 31st, 2015 in both absolute terms (-4,877 thousand EUR) and in percentage terms, from 11.5% to 3% from same period of the previous year. This reduction is entirely due to the drop in revenues, albeit mitigated by a significant reduction in structure costs. Of note is that EBITDA to December 31st, 2016 is affected by non-recurring events of 253 thousand EUR and refer to +402 thousand EUR for litigation costs and -149 thousand EUR for restructuring/reorganisation costs. Non-recurring events at December 31st , 2015 were -292 thousand EUR. EBIT was down to 3,415 thousand EUR, and was also affected by non-recurring events of 774 thousand EUR. These include (in addition to those mentioned for EBITDA), development cost write-downs for Prima Electro SpA and PRIMA ELECTRO North America.

Net result **allocation**

Ladies and Gentlemen,

We hope that you are in favour of the company's return, after some years, to the risk capital policy, and, taking this opportunity to thank you for the confidence that you have placed in us, we invite you to approve these financial statements of your company on December 31st, 2016 that closes with a net profit of 1,757,529.35 EUR and:

- to allocate to the Legal Reserve a portion of the above net profit, amounting to 87,876.47 Euro;
- to distribute, in the form of ordinary dividends, the remaining 1,669,652.88 EUR of the above profit, and 1,475,329.32 EUR related to previous earnings and profits previously allocated to the Extraordinary Reserve, amounting to a total unitary dividend of 0.30 EUR for each of the 10,483,274 shares.

On behalf of the Board of Directors
Executive Chairman
Gianfranco Carbonato

CHAPTER 5

Consolidated Financial Statements of **Prima Industrie Group** at December 31st, 2016

Accounting tables

CHAPTER 5 Consolidated Financial Statements of Prima Industrie Group at December 31st, 2016

Consolidated Statement of Financial Position

Values in Euro	*Notes*	December 31st, 2016	December 31st, 2015
Property, plant and equipment	*8.1*	35,281,369	28,465,557
Intangible assets	*8.2*	155,713,399	157,770,974
Investments accounted for using the equity method	*8.3*	1,009,341	1,223,555
Other investments	*8.4*	139,051	121,358
Non current financial assets	*8.5*	9,578	35,000
Deferred tax assets	*8.6*	11,555,324	9,845,765
Other non current assets	*8.9*	-	19,703
NON CURRENT ASSETS		**203,708,062**	**197,481,912**
Inventories	*8.7*	98,561,165	93,992,707
Trade receivables	*8.8*	88,376,748	86,413,895
Other receivables	*8.9*	6,425,617	8,019,131
Current tax receivables	*8.10*	5,053,888	7,029,222
Derivatives	*8.11*	-	47,225
Financial assets	*8.11*	791,509	791,509
Cash and cash equivalents	*8.11*	62,679,901	41,365,408
CURRENT ASSETS		**261,888,828**	**237,659,097**
Assets held for sale	***8.12***	**318,812**	**284,000**
TOTAL ASSETS		**465,915,702**	**435,425,009**
Capital stock	*8.13*	26,208,185	26,208,185
Legal reserve	*8.13*	4,565,082	4,494,745
Other reserves	*8.13*	70,738,752	72,243,694
Currency translation reserve	*8.13*	6,848,598	5,965,409
Retained earnings	*8.13*	19,276,926	14,786,376
Net result	*8.13*	10,102,304	6,016,715
Stockholders' equity of the Group		***137,739,847***	***129,715,124***
Minority interest		***1,212,065***	***1,196,407***
STOCKHOLDERS' EQUITY		**138,951,912**	**130,911,531**
Interest-bearing loans and borrowings	*8.11*	111,675,762	117,805,350
Employee benefit liabilities	*8.14*	8,100,353	7,912,782
Deferred tax liabilities	*8.15*	8,340,653	10,518,305
Provisions	*8.16*	162,684	150,551
Derivatives	*8.11*	220,866	414,635
NON CURRENT LIABILITIES		**128,500,318**	**136,801,623**
Trade payables	*8.17*	88,448,383	78,323,460
Advance payments	*8.17*	26,029,170	21,385,159
Other payables	*8.17*	22,076,067	19,218,309
Interest-bearing loans and borrowings	*8.11*	34,894,444	25,700,281
Current tax payables	*8.18*	7,695,264	7,257,725
Provisions	*8.16*	18,424,370	15,796,491
Derivatives	*8.11*	895,774	30,430
CURRENT LIABILITIES		**198,463,472**	**167,711,855**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**465,915,702**	**435,425,009**

Consolidated Income Statement

VALUES IN EURO	*NOTES*	December 31st, 2016	December 31st, 2015
Net revenues	*8.19*	393,885,774	364,465,523
Other income	*8.20*	4,217,630	4,773,331
Change in inventories of finished goods and WIP	-	(1,295,770)	9,667,276
Increases in fixed assets for internal work	*8.21*	10,450,001	11,751,310
Use of raw materials, consumables, supplies and goods	-	(179,095,944)	(173,263,011)
Personnel cost	*8.22*	(102,699,067)	(100,223,151)
Depreciation	*8.23*	(15,853,684)	(13,507,132)
Impairment - Write-off	*8.23*	(1,027,682)	(407,924)
Other operating expenses	*8.24*	(90,053,657)	(85,769,211)
OPERATING PROFIT		**18,527,601**	**17,487,011**
Financial income	*8.25*	626,831	693,514
Financial expenses	*8.25*	(8,507,194)	(9,472,762)
Net exchange differences	*8.25*	(349,409)	(531,702)
Net result of investments accounted for using the equity method	*8.26*	1,057,207	-
Net result of other investments	*8.27*	(7,729)	(44,300)
RESULT BEFORE TAXES		**11,347,307**	**8,131,761**
Taxes	*8.28*	(1,187,184)	(2,525,917)
NET RESULT		**10,160,123**	**5,605,844**
- Attributable to Group shareholders		*10,102,304*	*6,016,715*
- Attributable to minority shareholders		*57,819*	*(410,871)*
RESULT PER SHARE - BASIC (in euro)	***8.29***	***0.96***	***0.57***
RESULT PER SHARE - DILUTED (in euro)	***8.29***	***0.96***	***0.57***

Consolidated statement of comprehensive income

VALUES IN EURO	*NOTES*	December 31st, 2016	December 31st, 2015
NET RESULT (A)		10,160,123	5,605,844
Gains/ (Losses) on actuarial defined benefit plans	*8.13*	(361,496)	401,176
Tax effect	*8.13*	84,385	(115,956)
Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)		**(277,111)**	**285,220**
Gains /(Losses) on cash flow hedges	*8.13*	(82,686)	1,692,873
Tax effect	*8.13*	19,845	(465,541)
Gains/(Losses) on exchange differences on translating foreign operations	*8.13*	841,028	4,408,057
Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)		**778,187**	**5,635,389**
TOTAL COMPREHENSIVE INCOME (A) + (B) + (C)		10,661,199	11,526,453
- Attributable to Group shareholders		*10,645,541*	*11,854,826*
- Attributable to minority shareholders		*15,658*	*(328,373)*

Consolidated statement of changes in Shareholders' Equity

from the 1st of January 2015 to the 31st of December 2015

VALUES IN EURO	Capital stock	Additional paid-in capital	Legal reserve	Capital increase - expenses	Change in the FV of hedging derivatives	Other reserves	Currency translation reserve	Retained earnings	Net result	Stockholders' equity of the Group	Minority interest	STOCKHOLDERS' EQUITY
Balance as at 01/01/2015	**26,208,185**	**57,506,537**	**4,455,497**	**(1,286,154)**	**(1,227,332)**	**16,974,650**	**1,639,850**	**5,523,165**	**9,762,948**	**119,557,346**	**1,150,354**	**120,707,700**
Capital increase Prima Power Suzhou	-	-	-	-	-	399,607	-	-	-	399,607	374,426	774,033
Dividends paid	-	-	-	-	-	(2,096,655)	-	-	-	(2,096,655)	-	(2,096,655)
Allocation of prior year net result	-	-	39,248	-	-	745,709	-	8,977,991	(9,762,948)	-	-	-
Result of comprehensive Income	-	-	-	-	1,227,332	-	4,325,559	285,220	6,016,715	11,854,826	(328,373)	11,526,453
Balance as at 31/12/2015	**26,208,185**	**57,506,537**	**4,494,745**	**(1,286,154)**	**-**	**16,023,311**	**5,965,409**	**14,786,376**	**6,016,715**	**129,715,124**	**1,196,407**	**130,911,531**

from the 1st of January 2016 to the 31st of December 2016

VALUES IN EURO	Capital stock	Additional paid-in capital	Legal reserve	Capital increase - expenses	Change in the FV of hedging derivatives	Other reserves	Currency translation reserve	Retained earnings	Net result	Stockholders' equity of the Group	Minority interest	STOCKHOLDERS' EQUITY
Balance as at 01/01/2016	**26,208,185**	**57,506,537**	**4,494,745**	**(1,286,154)**	**-**	**16,023,311**	**5,965,409**	**14,786,376**	**6,016,715**	**129,715,124**	**1,196,407**	**130,911,531**
Reserves reclassification	-	-	-	-	-	(77,709)	-	77,709	-	-	-	-
Dividends paid	-	-	-	-	-	(2,620,818)	-	-	-	(2,620,818)	-	(2,620,818)
Allocation of prior year net result	-	-	70,337	-	-	1,336,397	-	4,609,981	(6,016,715)	-	-	-
Result of comprehensive Income	-	-	-	-	(62,841)	(79,971)	883,189	(197,140)	10,102,304	10,645,541	15,658	10,661,199
Balance as at 31/12/2016	**26,208,185**	**57,506,537**	**4,565,082**	**(1,286,154)**	**(62,841)**	**14,581,210**	**6,848,598**	**19,276,926**	**10,102,304**	**137,739,847**	**1,212,065**	**138,951,912**

Consolidated Cash Flow Statement

VALUES IN EURO	December 31, 2016	December 31st, 2015 (**)
Net result	**10,160,123**	**5,605,844**
Adjustments (sub-total)	**29,886,002**	**(1,759,599)**
Depreciation, impairment & write-off	16,881,366	13,915,056
Gain from sales of shares in investments accounted for using the equity method	(1,057,207)	-
Net change in deferred tax assets and liabilities	(3,887,211)	(192,229)
Change in employee benefits	187,571	(769,590)
Change in inventories	(4,568,458)	(16,488,757)
Change in trade receivables	(1,962,853)	(749,988)
Change in trade payables and advances	14,768,934	5,181,126
Net change in other receivables/payables and other assets/liabilities	9,523,860	(2,655,217)
Cash Flows from (used in) operating activities (A)	**40,046,125**	**3,846,245**
Cash flow from investments		
Acquisition of tangible fixed assets (*)	(3,176,344)	(4,403,766)
Acquisition of intangible fixed assets	(904,090)	(1,334,088)
Capitalization of development costs	(9,710,945)	(10,337,511)
Net disposal of fixed assets	72,280	133,191
Devaluation of other investments	7,729	50,000
Sale/Purchase of shares in investments accounted for using the equity method	1,271,421	(464,483)
Purchase/Capital increases in Other investments	(25,422)	-
Cash Flows from (used in) investing activities (B)	**(12,465,371)**	**(16,356,657)**
Cash flow from financing activities		
Change in other financial assets/liabilities and other minor items	651,232	(3,127,350)
Increases in loans and borrowings (including bank overdrafts)	11,514,175	138,290,097
Repayment of loans and borrowings (including bank overdrafts)	(16,203,858)	(120,076,216)
Repayments in financial lease liabilities	(170,909)	(447,874)
Dividends paid	(2,620,818)	(2,096,655)
Change in currency translation reserve	883,189	4,325,559
Other variations	(277,111)	684,827
Cash Flows from (used in) financing activities (C)	**(6,224,100)**	**17,552,388**
Cash Flows from (used in) change of minority shareholders (D)	**(42,161)**	**456,924**
Net change in cash and equivalents (E=A+B+C+D)	**21,314,493**	**5,498,900**
Cash and equivalents beginning of period (F)	**41,365,408**	**35,866,508**
Cash and equivalents end of period (G=E+F)	**62,679,901**	**41,365,408**

Additional Information to the Consolidated Statement of Cash-Flow	December 31, 2016	December 31st, 2015 (**)
Values in Euro		
Taxes	(1,187,184)	(2,525,917)
Financial incomes	626,831	693,514
Financial expenses	(8,507,194)	(9,472,762)

(*) not included the acquisition of real estate assets by means of a financial lease and included assets held for sale
(**) for a better comprehension, the 2015 figures have been re-exposed

Consolidated Statement of Financial Position pursuant to CONSOB N.15519 of July 27th, 2006

Values in Euro	*Notes*	December 31st, 2016	*of which related parties*	December 31st, 2015	*of which related parties*
Property, plant and equipment	*8.1*	35,281,369	-	28,465,557	-
Intangible assets	*8.2*	155,713,399	-	157,770,974	-
Investments accounted for using the equity method	*8.3*	1,009,341	*1,009,341*	1,223,555	*1,223,555*
Other investments	*8.4*	139,051	-	121,358	-
Non current financial assets	*8.5*	9,578	-	35,000	-
Deferred tax assets	*8.6*	11,555,324	-	9,845,765	-
Other non current assets	*8.9*	-	-	19,703	-
NON CURRENT ASSETS		203,708,062		197,481,912	
Inventories	*8.7*	98,561,165	-	93,992,707	-
Trade receivables	*8.8*	88,376,748	*50,647*	86,413,895	*221,005*
Other receivables	*8.9*	6,425,617	-	8,019,131	-
Current tax receivables	*8.10*	5,053,888	-	7,029,222	-
Derivatives	*8.11*	-	-	47,225	-
Financial assets	*8.11*	791,509	-	791,509	-
Cash and cash equivalents	*8.11*	62,679,901	-	41,365,408	-
CURRENT ASSETS		261,888,828		237,659,097	
Assets held for sale	***8.12***	**318,812**	**-**	**284,000**	**-**
TOTAL ASSETS		465,915,702		435,425,009	
Capital stock	*8.13*	26,208,185	-	26,208,185	-
Legal reserve	*8.13*	4,565,082	-	4,494,745	-
Other reserves	*8.13*	70,738,752	-	72,243,694	-
Currency translation reserve	*8.13*	6,848,598	-	5,965,409	-
Retained earnings	*8.13*	19,276,926	-	14,786,376	-
Net result	*8.13*	10,102,304	-	6,016,715	-
Stockholders' equity of the Group		***137,739,847***	**-**	***129,715,124***	**-**
Minority interest		***1,212,065***	**-**	***1,196,407***	**-**
STOCKHOLDERS' EQUITY		138,951,912		130,911,531	
Interest-bearing loans and borrowings	*8.11*	111,675,762	-	117,805,350	-
Employee benefit liabilities	*8.14*	8,100,353	-	7,912,782	-
Deferred tax liabilities	*8.15*	8,340,653	-	10,518,305	-
Provisions	*8.16*	162,684	-	150,551	-
Derivatives	*8.11*	220,866	-	414,635	-
NON CURRENT LIABILITIES		128,500,318		136,801,623	
Trade payables	*8.17*	88,448,383	-	78,323,460	*1,283*
Advance payments	*8.17*	26,029,170	-	21,385,159	-
Other payables	*8.17*	22,076,067	*774,582*	19,218,309	*617,896*
Interest-bearing loans and borrowings	*8.11*	34,894,444	-	25,700,281	-
Current tax payables	*8.18*	7,695,264	-	7,257,725	-
Provisions	*8.16*	18,424,370	-	15,796,491	-
Derivatives	*8.11*	895,774	-	30,430	-
CURRENT LIABILITIES		198,463,472		167,711,855	
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		465,915,702		435,425,009	

Consolidated Income Statement pursuant to CONSOB n. 15519 of July 27th, 2006

VALUES IN EURO	NOTES	December 31st, 2016	of which related parties	December 31st, 2015	of which related parties
Net revenues	8.19	393,885,774	395,563	364,465,523	373,914
Other income	8.20	4,217,630	649	4,773,331	38,736
Change in inventories of finished goods and WIP	-	(1,295,770)	-	9,667,276	-
Increases in fixed assets for internal work	8.21	10,450,001	-	11,751,310	-
Use of raw materials, consumables, supplies and goods	-	(179,095,944)	-	(173,263,011)	-
Personnel cost	8.22	(102,699,067)	(340,640)	(100,223,151)	(350,186)
Depreciation	8.23	(15,853,684)	-	(13,507,132)	-
Impairment - Write-off	8.23	(1,027,682)	-	(407,924)	-
Other operating expenses	8.24	(90,053,657)	(1,071,742)	(85,769,211)	(1,064,961)
OPERATING PROFIT		**18,527,601**		**17,487,011**	
of which: non recurring items		***(1,752,995)***	-	***(1,017,205)***	
Financial income	8.25	626,831	-	693,514	-
Financial expenses	8.25	(8,507,194)	-	(9,472,762)	-
Net exchange differences	8.25	(349,409)	-	(531,702)	-
Net result of investments accounted for using the equity method	8.26	1,057,207	1,057,207	-	-
Net result of other investments	8.27	(7,729)	-	(44,300)	-
RESULT BEFORE TAXES		**11,347,307**		**8,131,761**	
of which: non recurring items		***(703,517)***	-	***(3,425,832)***	
Taxes	8.28	(1,187,184)	-	(2,525,917)	-
NET RESULT		**10,160,123**		**5,605,844**	
- Attributable to Group shareholders		*10,102,304*	-	*6,016,715*	-
- Attributable to minority shareholders		*57,819*	-	*(410,871)*	-
RESULT PER SHARE - BASIC (in euro)	8.29	**0.96**		**0.57**	
RESULT PER SHARE - DILUTED (in euro)	8.29	**0.96**		**0.57**	

Consolidated cash flow statement pursuant to CONSOB n. 15519 of July 27th, 2006

VALUES IN EURO	December 31st, 2016	*of which related parties*	December 31st, 2015 (**)	*of which related parties*
Net result	**10,160,123**		**5,605,844**	
Adjustments (sub-total)	**29,886,002**	-	**(1,759,599)**	-
Depreciation, impairment & write-off	16,881,366	-	13,915,056	-
Gain from sales of shares in investments accounted for using the equity method	(1,057,207)	*(1,057,207)*	-	-
Net change in deferred tax assets and liabilities	(3,887,211)	-	(192,229)	-
Change in employee benefits	187,571	-	(769,590)	-
Change in inventories	(4,568,458)	-	(16,488,757)	-
Change in trade receivables	(1,962,853)	*170,358*	(749,988)	*(215,718)*
Change in trade payables and advances	14,768,934	*(1,283)*	5,181,126	*(4,244)*
Net change in other receivables/payables and other assets/liabilities	9,523,860	*156,686*	(2,655,217)	*26,486*
Cash Flows from (used in) operating activities (A)	**40,046,125**		**3,846,245**	
Cash flow from investments				
Acquisition of tangible fixed assets (*)	(3,176,344)	-	(4,403,766)	-
Acquisition of intangible fixed assets	(904,090)	-	(1,334,088)	-
Capitalization of development costs	(9,710,945)	-	(10,337,511)	-
Net disposal of fixed assets	72,280	-	133,191	-
Devaluation of other investments	7,729	-	50,000	-
Sale/Purchase of shares in investments accounted for using the equity method	1,271,421	*1,271,421*	(464,483)	*(464,483)*
Purchase/Capital increases in Other investments	(25,422)	-	-	-
Cash Flows from (used in) investing activities (B)	**(12,465,371)**		**(16,356,657)**	
Cash flow from financing activities				
Change in other financial assets/liabilities and other minor items	651,232	-	(3,127,350)	-
Increases in loans and borrowings (including bank overdrafts)	11,514,175	-	138,290,097	-
Repayment of loans and borrowings (including bank overdrafts)	(16,203,858)	-	(120,076,216)	-
Repayments in financial lease liabilities	(170,909)	-	(447,874)	-
Dividends paid	(2,620,818)	-	(2,096,655)	-
Change in currency translation reserve	883,189	-	4,325,559	-
Other variations	(277,111)	-	684,827	-
Cash Flows from (used in) financing activities (C)	**(6,224,100)**		**17,552,388**	
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Net change in cash and equivalents (E=A+B+C+D)	**21,314,493**		**5,498,900**	
Cash and equivalents beginning of period (F)	**41,365,408**		**35,866,508**	
Cash and equivalents end of period (G=E+F)	**62,679,901**		**41,365,408**	

(*) not included the acquisition of real estate assets by means of a financial lease and included assets held for sale
(**) for a better comprehension, the 2015 figures have been re-exposed

CHAPTER 6

Description of **Accounting Principles**

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Consolidation Principles

The consolidated financial statements include the financial statements of PRIMA INDUSTRIE SpA (the parent company) and its subsidiaries at 31 December of every year. The financial statements of the subsidiaries are prepared applying the same accounting standards as the parent company; any corrections for consolidation are made to harmonise the items that are affected by application of different accounting standards. All infra-group balances and transactions, including any profits not realised deriving from relations engaged in between companies in the Group, are entirely eliminated. The profits and losses not realised with affiliates are eliminated for the part pertaining to the Group. Any losses not realised are eliminated with the exception of the case in which they are representative of impairments.
The subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires control, and cease to be consolidated at the date on which control is transferred outside the Group. Minority interests represent the part of profits or losses and net assets not held by the Group, and are reported in a separate item in the Income Statement, and in the Income Statement, and in the balance sheet among the elements of net equity, separately from the Group's net equity.

(a) Subsidiaries

All companies, including any vehicle-company, in which the Group has the capacity to control the financial and operating choices, are defined as subsidiary companies. Generally, control is presumed to exist if the Group holds more than half of the voting rights, also via Para-corporate agreements or potential voting rights. Subsidiaries are consolidated at the time in which the Group is capable of exercising control and are de-consolidated when this control ceases.
The Group records acquisitions of controlling shareholdings by means of the acquisition method.
The acquisition cost is the sum of the price paid and any potential accessory charges.
Identifiable and acquired assets and liabilities are initially booked within the consolidated financial statements at the fair value, determined on the date of acquisition.
The excess cost with respect to the investment quota of the fair value of net assets acquired is capitalised as goodwill among intangible assets, if positive; if negative, it is immediately entered to the Income Statement.
The costs, income, receivables, payables and profits/losses realised among companies belonging to the group are eliminated. Where necessary, the accounting principles of the Subsidiaries are amended to bring them into line with those of the parent company.

(b) Affiliates and joint ventures

Affiliated companies are those in which the Group exercises considerable influence but no form of control. Significant influence is presumed in the case that more than 20% of voting rights are held; this threshold is reduced to 10% for listed companies. Affiliated companies are initially recorded at cost and then accounted for, using the equity method. Joint Ventures are companies subject to joint control. They are booked in accordance with the provisions of IFRS 11.
Group equity investment in affiliated companies and joint ventures includes goodwill, as recorded at the time of acquisition and net of any potentially accumulated value losses.
The Group's Income Statement reflects the applicable share of the affiliated company and joint venture's result. If the affiliated company or the joint venture records an adjustment with a direct effect on net equity, the Group determines the portion that applies to it, reflecting such change in the Net Equity statement of change.
Booking the quota of a loss from an affiliated company or joint venture within the Group's accounts includes a limit relative to the zeroing out of the investment value; additional loss

quotas are entered under the liabilities if the Group has assumed obligations or has implemented payments on behalf of the affiliated company or joint venture.

(c) Other enterprises
Equity investments in other minor enterprises are booked at cost, and may be written down for impairment of value.

Accounting standards applied

Standards to apply when drafting the **consolidated financial statements**

The consolidated Financial statements for 2016 were drafted in accordance with the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union, as well as the measures issued to implement the article 9 of Leg. Decree no. 38/2005.

IFRS refer to all the main International Accounting Standards ("IAS") reviewed and to all the interpretations given by the International Financial Reporting Interpretations Committee ("IFRIC"), formerly known as Standing Interpretations Committee ("SIC").
The financial statements are drafted based on the principle of historical cost, except for those financial assets available for sale, the financial assets held for trading and the hedging instruments, which have been listed at their fair value. The Group has applied accounting principles that are coherent with those applied in previous years, with the exception of amendments to standards and interpretations effective from January 1st, 2016.

Going **concern**

The consolidated financial statements at December 31st, 2016 were prepared on the basis of the going-concern principle, as it is reasonable to expect that PRIMA INDUSTRIE will continue its business in the foreseeable future. In particular, the value of the order backlog, the rebalanced relationship between risk capital and debt capital, the rescheduling of medium to long-term bank debt, the availability of sufficient credit lines, are the main factors taken into consideration to ascertain that, at the current time, there are no doubts about the Group's prospects of remaining in business.

Financial **statement formats**

The Group has opted to use the formats described hereinafter in drafting its Financial Statements:
a) for the Consolidated Balance Sheet, the format used distinguishes the assets and liabilities between “current” (i.e. receivable or payable in 12 months) and “non-current” (i.e. receivable or payable after 12 months);
b) for the Consolidated Income Statement, the format used distributes costs according to their kind; the Global Consolidated Income Statement includes, besides the Profit in the year as listed in the Consolidated Income Statement, the other variations to the Net Equity that do not refer to transactions with Shareholders;
c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;
d) for the Financial Account, the so-called "indirect" method was chosen, whereby the net financial flow of company business is determined by adjusting the profit and loss, because of the effects of:
    - non-monetary elements such as amortisation and depreciation;

- variations of inventory, receivables and payables generated by company business;
- other elements whose financial flows are generated by investments and financings.

Please note, furthermore, that with reference to CONSOB Resolution no. 15519 of July 27th, 2006 concerning the format of financial statements, specific supplementary versions have been added for the Income Statement and for the Balance Sheet, which particularly stress those relations with associates and non-recurrent transactions that are most significant, in order to make the financial statements more readily comprehensible.

Stake acquisitions and goodwill

Stake acquisitions (from January 1st, 2010)

Stake acquisitions are entered using the acquisition method (in accordance with the guidelines of IFRS3). The amount paid for a purchased stake is calculated as the sum of the amount transferred at its fair value on the date of the acquisition with any minority stake already held in the purchased company. For all stake acquisitions, the buyer must enter any minority stake in the purchased company at its fair value, or proportionately to the share of the minority stake under the identifiable net assets of the purchased company. Costs of acquisition are covered and classified as administrative expenses.

All potential purchase prices must be listed by the buyer at their fair value on the date of acquisition and classified in accordance with the guidelines of IAS 32 and IAS 39.

Goodwill is initially entered at the cost, i.e. the surplus between the amount paid summed to the amount of the minority stake, compared to the identifiable purchased net assets and the liabilities transferred to the Group. If the amount paid is less than the fair value of the net assets of the purchased subsidiary, the difference is entered in the Income Statement.
After its first entry, goodwill is not impaired and is decreased of any cumulated loss of value, determined according to the methods described hereinafter. Goodwill for stakes in associates and joint ventures is included in the book value of those companies.
Goodwill recoverability is analysed on a yearly basis or more frequently, if events or changes of circumstance lead to presumable loss of value. In order to audit the actual loss of value, goodwill acquired as part of a stake acquisition is allocated on the date of the acquisition to the Group's single cash-flow generating units, or to the groups of cash-flow generating units that are expected to benefit of the purchase's synergies, independently of whether other assets or liabilities of the purchased company have been assigned to those units or unit groupings.

Every unit or unit group to which goodwill is allocated:

- represents the lowest level within the Group at which goodwill is monitored for internal management purposes; and
- is not more than the divisions identifiable from the Group's industry-related information.

All loss of value is identified by comparing the book value of the cash-generating unit and its recoverable value, determined according to the methods described in paragraph "Loss of asset value". If the value recoverable by a cash-flow generating unit is less than the book value attributed to it, the relative loss of value is reported in the statement. This loss of value is not restored, even if the reasons that have generated it fall short.
If goodwill has been allocated to a cash-flow generating unit and the entity dismisses part of the assets of that unit, the goodwill associated to the dismissed asset must be included in the book value of the asset when determining the profit or loss deriving from the dismissal. Goodwill

associated to the dismissed asset must be determined on the basis of the values afferent to the dismissed assets and to the part withheld by the cash-flow generating unit.

If the initial values of an acquired stake are incomplete on the closing date of the financial statements, the Group reports the temporary values of those incomplete elements in its consolidated financial statements. Said temporary values are adjusted in the period they are measured, to account for new information received on facts and circumstances on the date of the acquisition which, if known, would affect the value of the assets and liabilities recognised to that date.

Transactions by which the parent purchases or transfers a minority stake that do not affect its control over the subsidiary are classified as transactions with shareholders and therefore, their effects must be entered in the Net Equity: there will be no adjustments to goodwill and profit/loss reported in the Income Statement.

Company acquisitions (prior to January 1st, 2010)
Company acquisitions before January 1st, 2010 have been entered in accordance with the former version of IFRS 3.

Loss of asset value *("Impairment")*

Permanent assets whose value does not depreciate are annually audited to establish their recovery ("impairment") and whenever there is reason to believe their book value has suffered loss.
Assets that do depreciate are "impairment" tested only if there is reason to believe that their book value has decreased.
Value recoverability is calculated for goodwill purchased and allocated throughout the business year, at the end of the year the latter was purchased and allocated.
In order to verify its recoverability, goodwill is allocated on the date of its acquisition to the unit or group of cash-generating units that benefit of the acquisition.
The amount depreciated because of "impairment" is calculated as the difference between the asset's book value and its recoverable value, determined as the price of sale net of transaction costs and its expendable value, either of which is higher, or the current value, in other words, of the estimated financial flows gross of taxes, applying a discount rate that reflects current market cash value and risks that are specific to the asset. The loss because of a drop in value is at first attributed to the book value of the goodwill allocated to the unit (or unit group) and only later to the other unit assets, proportionately to their book value, up to the amount of the recoverable value of permanent assets. A loss of value is entered if the recoverable value is less than the book value. When a loss of asset value other than goodwill subsequently falls short or decreases, the book value of that asset or cash-flow generating unit is increased to the new estimated recoverable value and cannot exceed the value that would have been determined if no loss due to the drop had been reported. The restored loss of value is entered immediately in the Income Statement. The expendable value of an asset is the current value of the expected cash flows, calculated by applying an actualisation rate that reflects current market cash value and the risks specific to the asset.

Tangible Assets

All categories of tangible assets, including real estate investments, are listed in the financial statements at their historical cost, minus the amortisation and "impairment", except for land, which is entered at its historical cost, minus any "impairment". The cost includes all expenses that are directly attributable to the purchase.

Costs incurred after the asset is purchased are accounted for as an increase of the historical value or listed separately, only if it is likely that it will generate future economic benefits and their cost is reliably quantifiable.

Amortisation of tangible assets is calculated with the linear method, to distribute the residual book value over the asset’s estimated economic-technical lifespan.

Special maintenance costs capitalised as increase of an already existent asset are depreciated based on the residual lifespan of that asset or, if less, in the interim period from the date of service to the next scheduled maintenance.

The residual value and lifespan of tangible assets are reviewed and modified if necessary, on the closing date of the financial statements.

Capital gains or losses from transfers of tangible assets are entered in the Income Statement and are determined by comparing their book value to the price of sale.

Assets held by virtue of financial lease agreements that basically transfer all risks and benefits tied with the asset to the Group, are entered as Group assets at their fair value or, if less, at the current value of the minimum lease fees due. The lease fee is divided into taxable amount and interest share, determined by applying a fixed interest rate to the residual debt.

The financial debt with leasing companies is entered among the short-term liabilities (current amount) and among the long-term liabilities (amount to be reimbursed after year-end). Interest costs are attributed to the Income Statement for the entire contract term. The leased asset is entered among the tangible assets and is depreciated based on its estimated economic-technical lifespan.
Leased assets over which the lessor essentially preserves all risks and benefits tied thereto are classified as business leases. Costs of business leases are reported in the Income Statement over the term of the leasing agreement.

Real estate investments made in the prospect of collecting rental fees are entered at their book value, net of amortisation and losses due to cumulated reduction in value.

Intangible Assets

Assets with indefinite useful life

(a) Goodwill

Goodwill deriving from stake acquisitions is initially entered at its book value on the date of the acquisition.
Goodwill generated by the acquisition of a stake in subsidiaries is included among intangible assets. Goodwill generated by the acquisition of a stake in associates and joint ventures is included in the stake's value.

Goodwill is not depreciated, but audited to identify any loss of value, on a yearly basis or even more often, if specific events or changed circumstances give reason to believe that it may have lost value. After its first entry, goodwill is evaluated at the cost net of any cumulated loss of value. On the date on which control over a formerly purchased company is transferred, the capital gain or loss from the transfer takes account of the corresponding residual value of the previously entered goodwill.

Intangible assets with indefinite useful lives are not depreciated, but are annually or even more frequently (whenever there is reason to believe the asset has lost value) subjected to an impairment test to identify any reduction in value.

Assets with finite useful life

(b) Software

Software licences are capitalised at their cost of purchase and the cost to put them in service, and are depreciated based on their estimated lifespan.
Costs associated to development and software program maintenance are considered operating costs and therefore attributed to the Income Statement according to their category.

(c) Research & Development costs

R&D costs are entered in the Income Statement in the business year they are incurred.
R&D costs relating to specific projects are capitalised if the following conditions are met:

- the costs can be reliably determined;
- the technical feasibility of the projects, the forecasted volumes and prices indicate that the costs sustained as part of R&D activities will generate economic benefits in the future.

R&D costs attributed to Income Statement over the course of previous years are not post-capitalised, if at a later date the requirements are met.
Capitalised R&D costs are depreciated from the date the product is sold, based on the period in which they are estimated to generate economic benefits (max. 5 years). R&D costs that do not fit the above conditions are charged to Income Statement in the year they were incurred.

(d) Trademark

Trademarks are considered perishable assets. In accordance with IAS 38, these assets are depreciated using a method that estimates when the future economic benefits yielded by the asset are presumed to be consumed.

(e) Other intangible assets

Other intangible assets purchased separately are capitalised at their cost, while those purchased as part of a stake are capitalised at their fair value identified on the date of the acquisition. After their first entry, intangible assets with finite useful life are entered at their cost, minus amortisation and "impairment"; intangible assets with indefinite useful life are instead entered at their cost, minus "impairment" only.

Intangible assets from internal production are not capitalised, but entered in the Income Statement for the year they were generated.

Intangible assets are annually subjected to an "impairment *test*", whenever there are reasons to caution its performance; this analysis can be conducted on the individual intangible asset or on a cash-flow generating unit of assets. The lifespan of other intangible assets is reviewed on an annual basis: any changes, where plausible, are reported in statements.

Financial Instruments

Presentation

The financial instruments held by the Group are included in the financial statement entries described below.

The entry "Stakes and other non-current financial assets" includes stakes in other companies, stakes in *joint ventures* and other non-current financial assets.

Current financial assets include receivables and cash and cash equivalents. More specifically, the entry "Cash and cash equivalents" includes bank deposits.

Financial liabilities refer to financial debts, include debts for advance payments on orders or on credit transfers, as well as other financial liabilities (which include the negative fair value of hedging instruments), payables and other debts.

Evaluation

Stakes in other companies and stakes in joint ventures included among non-current financial assets are entered as described in the following paragraph "Consolidation principles".

Non-current financial assets other than stakes, such as financial liabilities, are entered, in accordance with what established by IAS 39 – Financial instruments: reporting and evaluation.

Assets held with the intent of keeping them in the portfolio until expiry are evaluated at the depreciated cost, using the effective interest method. When financial assets do not have a clear date of expiry, they are evaluated at their cost of purchase. Evaluations are meant to verify if there is objective evidence that a financial asset may suffer loss of value. If there is such evidence, the loss of value must be reported as cost in the Income Statement for the period. Except for hedging instruments, financial liabilities are listed as depreciated cost, using the method of effective interest.

Hedging instruments

Coherently with the contents of IAS 39, hedging instruments can be entered according to hedge accounting methods only when:

- the formal designation and the documentation of the hedge are available on the starting date of the hedge;
- it is presumed that the hedge is highly effective;
- its effectiveness can be reliably measured; and
- the hedge itself is highly effective during the various accounting periods for which it is designated.

All hedging instruments are measured at their fair value, as established by IAS 39.

When hedging instruments qualify for *hedge accounting*, they are entered in statements as follows:

- *Cash-flow hedge*. If a hedging instrument is chosen to cover the exposure to unstable future cash flows of an asset or liability listed in the financial statements or of an expected and highly probable transaction that could affect the Profit & Loss, the effective share of the profit or loss for the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off the Other total profits/(losses) and entered in the Income Statement in the same period in which the correlated economic effect of the hedged transaction is reported. The profit or loss associated to a hedge (or part of one) that has become obsolete are immediately entered in the Profit & Loss. If a hedging instrument or a hedge report are closed, but the hedged transaction has not yet been concluded, the cumulated profit and loss, hitherto entered in the Other total profits/(losses), are reported in the Income Statement with regards to the reported economic effects of the hedged transaction. If the hedged transaction is no longer presumed probable, the profits or losses as yet not accrued and suspended in the Other total profits/(losses) are immediately reported in the Profit & Loss.

- Fair value *hedge*. If a hedging instrument is designated to hedge the exposure to variations of the fair value of an asset or liability in the financial statements that are attributable to a particular risk which may affect the Income Statement, the profit or loss deriving from subsequent evaluations of the fair value of the hedging instrument are reported in the Profit & Loss. The profit or loss on the hedged item is attributable to the hedged risk, modifying the book value of that item, and is reported in the Profit & Loss.
- *Hedge of a net investment*. If a hedging instrument is designated to hedge a net investment in an offshore company, the effective share of profit or loss on the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off from the Net Equity and entered in the Income Statement on the date in which the offshore asset is dismissed.

Financial Liabilities

Financial liabilities encompass financial debts, which include debts for advance payments on orders or on transfers of credits, as well as other financial liabilities, including hedging instruments and liabilities against assets entered in the scope of financial leasing agreements. As required by IAS 39, they also include payables and miscellaneous debts.
Financial liabilities other than hedging instruments are initially entered at their fair value; they are subsequently evaluated at their depreciated cost, i.e. their starting value, net of already paid cash reimbursements, adjusted (increased or decreased) based on the amortisation (using the effective interest method) of any differences between the starting and closing value.

Loans

Loans are initially entered in the financial statements at their fair value, net of any accessory charges. After their first entry, they are accounted for on the basis of the depreciated cost criteria. Any difference between the collected financing net of any accessory charges and the amount reimbursed is entered in the Income Statement according to its item category, based on the effective interest method. Financings are listed among short-term liabilities, unless the Group does not enjoy unconditional right to defer them to a more than twelve months after the closing date of the financial statements.

Inventory

Inventories are entered at their cost or net price of sale, whichever is the least, with the latter consisting in the standard price applied to customers as part of the company's business, net of variable sale expenses. The cost is determined using the weighted average cost method.
The costs of finished and semi-finished products include design, commodities, cost of direct labour, other direct costs and other indirect costs that can be allocated to production based on a normal manufacturing capacity and to their stage in production.
This cost configuration does not include financial charges.

Calculations include provision to cover depreciation of commodities, finished products, spare parts and other supplies considered obsolete or with a slow rotation, taking account of their expected future use and their price of sale.

Receivables **and other credits**

Receivables are initially entered at their fair value and subsequently quantified at their depreciated cost by applying the effective interest method, net of impairment, to account for receivables that prove uncollectable. Credit impairment is reported if there is objective evidence that the Group will not be able to collect the full amount due by the deadlines agreed with the customer.
The impairment amount is determined as the difference between the book value of the credit and the current value of future receivables, updated with the effective interest rate method. Credit impairment is entered in the Profit & Loss.

Credit Transfers

Transferred credits are cancelled from the company's assets following factoring transactions if and only if the risks and benefits that come with their ownership have all been transferred to the beneficiary; a financial liability of the same amount is entered in the consolidated financial statements as debts for advance payments on credit transfers. Profits and losses from the transferred assets are only reported when those assets have been cancelled from the Group's Balance Sheet.
All credits transferred through factoring transactions that do not meet the requisites for their cancellation as established by IAS 39 remain listed in the Group's financial statements, even though they have legally been transferred.

Cash **and cash equivalents**

Cash and cash equivalents include cash, bank deposits instantly available and overdraft allowances on bank accounts and other liquid investments collectable within three months. Bank overdrafts are entered in the financial statements among short-term financings.

Assets for sale

The entry "Assets for sale" include non-current assets (or groups of dismissed assets) whose book value will be largely recovered through their sale (as opposed to their continued use). Assets for sale are entered at the least between the net book value and the fair value net of costs of sale and they are not subject to amortisation.

Share Capital

Ordinary shares are classified in the Net Equity.
Accessory charges directly linked to issued shares or to options are entered in the Net Equity, subtracted from cash payments. When the Group purchases parent shares (treasury shares), the price paid net of all directly attributed accessory charges is subtracted from the Group's Net Equity, until the treasury shares are either cancelled or sold.

Current and **deferred taxes**

The income tax burden for the year is determined according to the legislation in force and at the date of closure of the financial statements. Income tax is reflected in the Income Statement. In particular as regards the three Italian companies, it is highlighted that the national consolidated taxation regime is in force, in accordance with article 117/129 of the Consolidation Act on Income Tax (TUIR).

Deferred taxes are calculated on all temporary differences between the fiscal value and book value of assets and liabilities listed in the financial statements.

Deferred taxes are not accounted for:

- on goodwill deriving from stake acquisitions;
- on the initially entered asset and liability deriving from a transaction other than a stake acquisition and that does not affect either the operating profit calculated in the financial statements or the taxable income.

Deferred taxes are calculated using tax rates and applying the laws issued or essentially issued on the closing date of the financial statements, and that are expected to be applied upon reversal of the temporary differences that have led to their entry in the first place.
Prepaid tax receivables are entered in the financial statements only if it is likely that when the temporary differences are reversed, a taxable income will be generated that is sufficient to compensate the credit. Prepaid tax receivables are reviewed at the end of every business year and if need be reduced, to the extent that it is improbable that sufficient taxable income will be available in the future, so that part or all the credit can be used.

Deferred taxes are also calculated on temporary differences that originate on stakes in subsidiaries, associates and JV's, except when the reversal of those differences can be contained by the Group and it is likely that they will not occur in the near future. Deferred taxes on components reported directly in the Net Equity are likewise directly attributed to the Net Equity.

Employee **benefits**

On June 16th, 2011, the IASB issued an amendment to "IAS 19 - Employee Benefits", which modifies the rules for the recognition of fixed benefits plans and of *terminations benefits*. The main changes concern the recognition in the balance sheet of the deficit or surplus of the plan, the introduction of the net financial burden and the classification of net financial expenses. In particular:

- Recognition of the deficit or surplus of the plan: the amendment eliminates the option to defer actuarial gains and losses with the "corridor method" and it requires the recognition directly in Other overall gains (losses) and the recognised in the Income Statement of costs related to past service;
- Net financial burden: the net financial burden is composed of financial costs calculated on the present value of liabilities for fixed benefits plans, financial gains from the valuation of plan's assets and financial income or expenses arising from any limits to the recognition of the surplus of the plan. The net financial burden is determined using for all of these components the discount rate used for the measurement of the fixed benefits plans at the beginning of the period;

- Classification of net financial expenses: net financial expenses will be recognised among the financial income (expense) in the Income Statement.

(a) Pension plans

On December 31st, 2006, Severance Pay (TFR) of Italian companies was considered a plan of fixed benefits. The legislation applying to the liability was modified by Law of December 27th, 2006, no. 296 ("Financial Law 2007") and the subsequent Decrees and Regulations issued in the first months of 2007. In light of those amendments, and with reference in particular to companies with at least 50 employees, Severance Pay is now considered a plan of fixed benefits only for shares accrued before January 1st, 2007 (and resulting as unpaid in the financial statement), while shares accrued at a later date can be assimilated to a fixed contributions plan.

Plans of fixed benefits are pension liabilities that define the amount of the pension benefit owed to the worker on the date the employment relation is ended; this amount depends on several factors, such as age, years of service and wage.
Fixed-contribution plans are pension plans for which the Group pays a fixed amount to a separate entity. The Group is in no way implicitly required by law to pay additional sums, should the activities in service of the plan prove insufficient to pay off benefits owed to employees for their current service and for services provided hitherto.
The plans described here were recorded in accordance with the provisions of IAS 19.

(b) Benefits paid to employees who attain seniority status

Certain Group companies pay their employees benefits after a set number of years in service (seniority status).
The benefits described here were recorded in accordance with the provisions of IAS 19.

(c) Benefits paid to employees upon termination of employment relation

These benefits are owed to employees if their employment relation ends in advance on the date of retirement, or if the relation is terminated because of company restructuring plans. The Group enters a liability in the financial statements for these benefits whenever:

- an official and detailed early retirement incentive plan exists, without the possibility of the employee waive the plan;
- employees are encouraged to will fully resign. Amounts payable after 12 months from the closing date of the financial statements are updated.

(d) Incentives, bonuses and profit-sharing agreements

The Group enters a cost and a debt in view of liabilities that originate for bonuses, employee incentives and profit-sharing agreements, which are calculated with a formula that accounts for profits attributable to shareholders (given their due adjustments). The Group enters a liability under a listed fund only if the event is likely to occur, if contractually due, or in view of a procedural custom that infers an implicit obligation.

(e) Benefits paid to employees in shares

The Group pays additional benefits to certain executives and employees through *share option plans*.
Based on the provisions of IFRS 2 – Share options, said plans are an element of retributions paid to beneficiaries; as such, their cost is represented by the fair value of the *share options* on the date they are assigned, and is reported in the Income Statement in constant shares over the period from their date of assignment to date of accrual, with their offset directly attributed to

Net Equity. Variations in fair value ensuing after the date of assignment do not affect the amount first listed.

Provisions for **risks and charges**

Provisions to cover risks and charges are accounted for when:

- the Group is faced with a legal or implicit obligation as result of previous events;
- a deployment of resources to cover the obligation and its amount is probable;
- its amount is reliably determinable.

Restructuring provisions include both liabilities deriving from early retirement incentives and penalties tied to terminated leasing agreements. No provisions are accounted for risks and charges in view of future operating losses.
Provisions entered in the financial statements are the best updated estimates made by Directors in identifying the costs (amount) the Group will be called to incur on the closing date to extinguish the obligation.

Income

Entered income includes the fair value deriving from the sale of assets and services, net of VAT, returned goods, discounts and infra-Group transactions. Income is entered in accordance with the following rules:

(a) Sale of assets
Income for sold assets/goods (laser systems, sheet metal processing machines and components) are reported when all of the following conditions are met:

- the Group has transferred all significant risks and benefits that come with ownership of the assets to the buyer;
- the Group ceases to physically control the sold goods;
- the income (value) is reliably determinable;
- it is likely that the economic benefits deriving from the transaction will be enjoyed by the Group;
- costs incurred or yet to incur for the transaction are reliably determinable.

(b) Service provision
Income for provided services are accounted for based on their progress in the business year they are rendered.

(c) Interest
Interest receivables are accounted for by category, based on the amortised cost method, applying the effective interest rate (rate that precisely updates cash flows expected in the future, based on the estimated life of the financial instrument).

(d) Royalties
Income deriving from royalties is accounted for by category, based on the conditions agreed in their underlying contracts.

(e) Dividends
Dividends are accounted for in the year the shareholders accrue right to receive their payment.

Distributions **of Dividends**

Dividends distributed among shareholders generate a debt on the date their distribution is approved by the Shareholders' Assembly.

Profit per Share

Basic profit per share is calculated by dividing the Group's Net Profit by the weighted average value of shares in circulation during the business year. In order to calculate profit by single share, the average weighted value of circulating shares is modified on the assumption that all shares with a potentially diluting effect will be converted. The Group's Net Profit too, is adjusted to account for the effects (net of taxes) of the conversion of potentially diluting shares issued by subsidiaries.

Public Contributions

Public contributions are entered in the financial statements at their fair value only if it is reasonably certain they will be paid and the Group has satisfied all the requirements established by the conditions to obtain them. Revenues from Public Contributions are recorded in the Income Statement if the costs for which they were granted are actually incurred.

Currency conversions

(a) Functional currency and listing currency
Financial statements of subsidiaries, associates and joint ventures are drafted applying their functional currency, i.e. the currency widely used in their chief area of business. The currency used by the PRIMA INDUSTRIE Group for financial statement entries is the Euro.

(b) Assets, liabilities and transactions in foreign currencies
Transactions in a foreign currency are initially reported at the exchange rate applicable on the date of the transaction.
Assets and liabilities in a foreign currency are converted to Euros using the exchange rate applicable on the closing date of the financial statements. All currency exchange differences are reported in Profit & Loss.

(C) Group companies
On the closing date of the financial statements, the assets and liabilities of Group companies in a foreign currency are converted to Euros at the exchange rate applicable on said date. Their entry in the Income Statement is converted applying the average exchange rate for the year. Currency exchange differences are directly reported in Net Equity and are listed separately in the "Currency conversion Reserve", until dismissal of the subsidiary.

Fair Value

The *fair value* of financial instruments exchanged on an active market is determined on the basis of market prices on the closing date of the financial statements. The market price used as reference for financial assets held by the Group is the current price of sale (or price of purchase for financial liabilities).
The *fair value* of financial instruments exchanged on an active market is determined by a whole set of estimating techniques and assumptions, based on the market conditions existent on the closing date of the financial statements. For medium and long-term liabilities, the prices of

similar financial instruments exchanged are compared, while the financial flows are updated for other categories of financial instruments.
The *fair value* of IRS is determined by updating the estimated cash flow deriving from the latter on the closing date. For credits, it is presumed that the nominal value net of any adjustments made to account for their collectability is close to the *fair value*. For the purpose of the required information provided in this report, the fair value of financial liabilities is determined by updating cash flow generated by contracts at an interest rate approximating the market rate the Group applies to fund its business.

Discretional assumptions and significant accounting estimates

Drafting the financial statements calls upon the management to make a series of subjective assumptions and estimates drawing from past experience.
Application of those estimates and assumptions affects the amount of assets and liabilities entered in the Balance Sheet, as well as the costs and income reported in the Income Statement. Actual results may differ (even substantially) from the estimated amounts, considering the natural uncertainty that surrounds the assumptions and underlying conditions.

More specifically, taking account of the uncertainty that persists in certain markets and the economic-financial context in which the Group operates, it cannot be excluded that in the next business year, results will be different from our estimates and that adjustments (even significant) to the book value of the given entries may therefore prove necessary, which cannot presently be either estimated or forecasted. The financial statement items concerned by this condition of uncertainty are credit impairment and warehouse depreciation, non-current assets (tangible and intangible assets), pension liabilities and other benefits accrued after the employment relation and deferred tax receivables.

What follows is a summary of the main evaluation process and key assumptions made as part of that process that may significantly affect the amounts reported in the consolidated financial statements or that involve a risk of ensuing adjustments to the book value of the assets and liabilities in the year following the one balanced in the financial statements.

Goodwill recovery
The book value of this asset was calculated mainly by applying cash-flow estimates expected from its use and adequate discount rates to calculate its current value; if not completely exhaustive, other methods of evaluation were used. As part of the process, and for the purpose of drafting the consolidated financial statements at December 31st, 2014 and, in particular, when performing impairment tests, the foreseeable trend between the period 2015-2019 was considered. Based on the budget figures thus modified, no need for impairment has emerged.
Recoverability considerably depends on the discount rate used as part of updated cash-flow models, including cash flow expected in the future and the rate of growth used for extrapolation. The key assumptions made in determining recovery for the several cash-flow generating units (CGU), including a sensitivity analysis, are described in detail in "Note 8.2 – Intangible assets".

Prepaid and deferred taxes
Deferred tax receivables and payables entered in the financial statements are determined by applying the difference between the statutory value and the fiscally recognised value of the various assets and liabilities, the tax rates that are presumed to apply in the various countries in

the year the temporary differences are expected to fall short. Prepaid taxes relating to fiscal losses reportable in following years are entered in the financial statements only if and to the extent that the management expects the concerned company to generate a fiscal profit in those years, such as to allow their absorption.
If arising circumstances after the estimates are made induce management to modify those evaluations, i.e. the rate used in calculating the deferred taxes has changed, the items entered in the financial statements are accordingly adjusted.

Inventory Provision
In determining inventory provision, Group companies make a series of estimates on the future requirement for various types of products and materials shared, based on their production plans and previous experience with customer demand. If those estimates prove inaccurate, the obsolescence reserves will be adjusted and will consequently affect the Profit & Loss.

***Credit* impairment**
Provisions for credit impairment are determined based on an analysis of individual credit items and in light of past experience with credit collection and customer relations. If the economic and financial conditions of an important customer suddenly worsen, it may call for the need to adjust credit impairment, consequently having negative effects in terms of profit.

Employee Benefits
Several Group companies (particularly in Italy, Germany and France) have legally or contractually required plans for employee benefits that are paid after the employment relation ends. To calculate the amount entered in the financial statements, actuarial estimates are required that duly consider a series of assumptions on such parameters as annual inflation rates, increase in salaries, annual personnel turnover rate and a set of other variables. A variation in these parameters calls for a readjustment of the actuarial estimates and, consequently, of the amounts reported in the financial statements.

Variations to accounting principles

Accounting standards, amendments and interpretations effective from January 1st, 2016

- In May 2014 the IASB issued some amendments to "IFRS 11 - Joint arrangements: Recognition of the acquisition of investments in jointly controlled assets "to clarify the accounting recognition of the acquisition of investments in jointly controlled assets. These changes have not generated significant effects on the Group's financial statements.
- In May 2014, the IASB issued an amendment to "IAS 16 - Property, plant and equipment" and to "IAS 38 - Intangible Assets" clarifying that the use of methods based on revenues to calculate the depreciation of an asset or of an intangible asset are not appropriate; they are allowed only in some certain limited circumstances. These changes have not generated significant effects on the Group's financial statements.
- In August 2014, the IASB issued an amendment to "IAS 27 Separate Financial Statements". The amendment will allow the company to use the net equity method for accounting investments in subsidiaries, *joint ventures* and associates in their separate financial statements. This amendment has been come into force from January 1st, 2016 and has not generated significant effects on the Group's financial statements.
- *Annual Improvements* 2012-2014 *Cycle* (with effect from January 1st, 2016): a series of amendments to IFRS in response to four themes addressed during the 2012-2014 cycle.

They mainly refer to clarifications. These changes have not generated significant effects on the Group's financial statements.

- In September 2014, the IASB issued minors amendments to "IFRS 10 - Consolidated Financial Statements" and to "IAS 28 - Investments in associates and joint ventures (2011)" regarding the recognised inconsistency between the requirements of IFRS 10 and those of IAS 28 (2011), in the sales relations or transfer of assets between an investor and its subsidiary or joint venture. If the object of the transaction is a strategic asset then the gain or loss is recognised in full, while if the object of the transaction is not a strategic asset, then the gain or loss is recognised in particle These changes will be effective from January 1st, 2016, on a prospective basis and has not generated significant effects on the Group's financial statements.
- In December 2014, the IASB issued amendments to "IAS 1 - Presentation of Financial Statements" to improve the presentation and disclosure of financial reports. The amendments clarify that materiality is applied to the entire financial statements, and that the immaterial information must be included if it inhibits the usefulness of the financial information. The amendments also clarify that companies should rely on the judgement of an expert to determine where and in what order the information should be presented in the financial report. These changes have not generated significant effects on the Group's financial statements.

Accounting standards, amendments and interpretations not yet applicable and not adopted in advance by the Group

- In May 2014, the IASB issued the standard "IFRS 15 - Revenue from Contracts with Customers". The new standard will apply to all contracts with customers. The main concept is that companies must recognise revenues to represent the transfer of goods or services to customers at an amount that reflects the consideration price (payment) that they expect to receive in exchange for those goods or services The standard requires more information on revenues, provides guidance for transactions which were not previously addressed in fully and improves guidelines on multiple-item contracts. On September 11th, 2015, the IASB issued an amendment to the above standard, postponing its application date to January 1st, 2018. The standard was further amended on April 12th, 2016. The amendment is applicable from January 1st, 2018 and its purpose is to clarify the guidelines for identifying an obligation to sell an asset or to provide one or more services and also intends to clarify the issue of accounting for licences in terms of intellectual property. At the date of approval of these financial statements, an analysis of the impact of application of this principle is underway. At present, these effects are not considered significant for the purposes of the consolidated financial statements and the separate financial statements.
- In July 2014, the IASB issued an amendment to the "IFRS 9 - Financial Instruments" which simplifies the evaluation model and establishes three main evaluation categories for financial assets: depreciated cost, fair value through the statement of comprehensive income and fair value through profit or loss. The classification criterion depends on the entity's operating model and on the characteristics of the contractual cash flows of the financial asset. The amendment introduces a new model of expected losses; for the financial liabilities the main change concerns the accounting treatment of fair value changes of a financial liability designated as evaluated at fair value through the Income Statement, if these are due to changes in the creditworthiness of the liability. According to the new standard, these variations must be reported in the Consolidated Statement of Comprehensive Income, no longer transiting in the Income Statement. The standard also

reforms the hedge accounting method. These amendments are applicable for financial years beginning on or after January 1st, 2018.

- On January 2016, the IASB issued an amendment to IFRS 16 “Leasing”. The amendment sets out the principles for the recording, assessment, presentation and additional information on lease contracts for both parties involved, and replaces the previous standard IAS 17 "Leasing". IFRS 16 defines leasing as a contract that transfers to the customer (lessee), in return for a fee, the right to use an asset for a predetermined period of time; the distinction for the lessee between operating and finance leasing is eliminated and a single accounting model is introduced where a lessee must record assets and liabilities for all leasing contracts expiring over 12 months, unless the underlying asset is of low value, and to separately record in the Income Statement the depreciation amount for assets compared to trade payables. These amendments are applicable for financial years beginning on or after January 1st, 2019.
- In January 2016, the IASB issued an amendment to IAS 12 “Income taxes”. The amendment clarifies the requirements for attribution of deferred tax assets on losses not realised relating to liabilities evaluated at fair value. This amendment is applicable for the financial years beginning on or after January 1st, 2017.
- In January 2016, the IASB issued an amendment to IAS 7 “Financial statement”. The amendment requires additional disclosures that enables the users of the financial statements to evaluate changes in the liabilities arising from loans. This amendment is applicable for the financial years beginning on or after January 1st, 2017.

The Group will adopt these new standards, amendments and interpretations, based on the planned date of application, and will evaluate the potential impacts, when they will be endorsed by the European Union.

CHAPTER 7

Segment Reporting

CHAPTER 7 Segment reporting

Please note that not all information provided hereinafter is directly retraceable to the information provided in chapters "3 – Group Management report" and "4 – Economic Performance by Segment", as the latter are expressed gross of cross-over entries.

Information by Business segment

Information by business segment was prepared in accordance with IFRS 8.

Incomes from cross-over are determined based on market prices.
The following are the Group's business segments or divisions:

- PRIMA POWER
- PRIMA ELECTRO

Below are the main figures for each division:

SEGMENT RESULTS AT DECEMBER 31ST, 2016	PRIMA POWER	PRIMA ELECTRO	ITEMS NOT ALLOCATED	TOTAL
Total sector revenues	368,669	42,222	-	410,891
(Inter-sector revenues)	(315)	(16,690)	-	(17,005)
Revenues	**368,354**	**25,532**	**-**	**393,886**
EBITDA	**34,421**	**988**	**-**	**35,409**
EBIT	**22,212**	**(3,684)**	**-**	**18,528**
Net financial income/expenses	(7,663)	(567)	-	(8,230)
Net result of investments accounted for using the equity method	-	1,049	-	1,049
Profit before taxes	**14,549**	**(3,202)**	**-**	**11,347**
Taxes	-	-	(1,187)	(1,187)
Net result	**14,549**	**(3,202)**	**(1,187)**	**10,160**

EBIT and EBITDA values here presented are not directly reconcilable with the data presented in Chapter 4 - ECONOMIC PERFORMANCE BY SEGMENT since they are presented at net of inter-sector items.

SEGMENT ASSETS AND LIABILITIES AT DECEMBER 31ST, 2016	PRIMA POWER	PRIMA ELECTRO	ITEMS NOT ALLOCATED	TOTAL
Assets	324,333	60,354	80,081	464,768
Associates and other equity investments	116	1,032	-	1,148
Total assets	**324,449**	**61,386**	**80,081**	**465,916**
Liabilities	**146,628**	**16,613**	**163,723**	**326,964**

SEGMENT RESULTS AT DECEMBER 31ST, 2015	PRIMA POWER	PRIMA ELECTRO	ITEMS NOT ALLOCATED	TOTAL
Total sector revenues	326,190	53,435	-	379,625
(Inter-sector revenues)	(86)	(15,073)	-	(15,159)
Revenues	**326,104**	**38,362**	**-**	**364,466**
EBITDA	**26,390**	**5,012**	**-**	**31,402**
EBIT	**15,737**	**1,750**	**-**	**17,487**
Net financial income/expenses	(8,899)	(412)	-	(9,311)
Net result of other investments	6	(50)	-	(44)
Profit before taxes	**6,844**	**1,288**	**-**	**8,132**
Taxes	-	-	(2,526)	(2,526)
Net result	**6,844**	**1,288**	**(2,526)**	**5,606**

EBIT and EBITDA values here presented are not directly reconcilable with the data presented in Chapter 4 - ECONOMIC PERFORMANCE BY SEGMENT since they are presented at net of inter-sector items.

SEGMENT ASSETS AND LIABILITIES AT DECEMBER 31ST, 2016	PRIMA POWER	PRIMA ELECTRO	ITEMS NOT ALLOCATED	TOTAL
Assets	317,097	57,904	59,079	434,080
Associates and other equity investments	116	1,229	-	1,345
Total assets	**317,213**	**59,133**	**59,079**	**435,425**
Liabilities	**126,629**	**16,158**	**161,727**	**304,514**

Information by geographical area

For details concerning the information on income per region, please refer to the contents of Chapter 3 "Group Management report" under paragraph "Revenues and profitability".

NON-CURRENT ASSETS (EURO THOUSAND)	December 31, 2016	December 31, 2015
Italy	51,733	43,602
Europe	122,213	125,091
North America	13,247	13,810
Rest of the world	4,121	4,017
TOTAL	**191,314**	**186,520**

CHAPTER 8

Explanatory notes to the **Consolidated Financial Statements**

December 31st, 2016

CHAPTER 8 Explanatory notes to the Consolidated Financial Statements at December 31st, 2016

The data shown in the explanatory notes, if not shown otherwise, are expressed in Euro.

Note 8.1 – Tangible Fixed Assets

The tangible fixed assets on December 31st, 2016 are equal to 35,281 thousand EUR, an increase of 6,816 thousand EUR compared with December 31st, 2015.

For greater detail on the subject, see the table below.

Tangible Fixed Assets	LAND AND BUILDING	PLANTS AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER TANGIBLE FIXED ASSETS	FIXED ASSETS UNDER CONSTRUCTION	TOTAL
Net value as at December 31, 2014	**18,992,681**	**2,201,670**	**2,331,670**	**2,606,706**	**779,439**	**26,912,167**
Movements 2015						
Increases	473,892	548,917	2,059,884	1,065,328	431,175	4,579,196
Disinvestments	(98,837)	(86,612)	(42,257)	(680,349)	-	(908,055)
Utilization of accumulated depreciation	5,835	85,503	40,888	622,397	-	754,623
Depreciation	(718,985)	(495,993)	(1,125,844)	(1,062,226)	-	(3,403,048)
Impairment	-	-	-	(25,087)	-	(25,087)
Reclassifications with tangible fixed assets	-	-	208,993	19,439	(228,432)	-
Differences on exchange rates	322,577	38,593	137,960	53,590	3,041	555,761
Net value as at December 31, 2015	**18,977,163**	**2,292,078**	**3,611,294**	**2,599,798**	**985,223**	**28,465,557**
Movements 2016						
Increases	7,101,922	1,273,068	990,760	1,215,751	223,129	10,804,630
Disinvestments	-	(218,723)	(131,566)	(525,028)	-	(875,317)
Utilization of accumulated depreciation	-	217,996	112,957	472,084	-	803,037
Depreciation	(813,879)	(581,290)	(1,397,421)	(1,129,796)	-	(3,922,386)
Reclassifications with tangible fixed assets	222,051	14,500	220,081	64,577	(521,209)	-
Differences on exchange rates	(67,198)	(22,307)	50,223	44,890	240	5,848
Net value as at December 31, 2016	**25,420,059**	**2,975,322**	**3,456,328**	**2,742,276**	**687,383**	**35,281,369**

The increases for the year amounted to 10,805 thousand EUR and net disposals amounted to 72 thousand EUR. As can be seen from the table above, the most significant increases in the year refer to Land and buildings, Plants and Machinery and Other Assets. The last category contains electronic office machines, furniture, cars, etc. Land increased significantly during the year as a result of construction of the HQTC in Collegno which includes a large technology centre and the Group’s main offices, which were moved there to provide strong coordination for the Group’s activities. This investment was made through a financial lease.

Depreciation in the year totalled 3,922 thousand EUR, while exchange rate differences had a positive impact of 6 thousand EUR.

Note 8.2 – Intangible Assets

The intangible assets on December 31st, 2016 are equal to 155,713 thousand EUR, a decrease of 2,058 thousand EUR compared with December 31st, 2015.

For greater detail on the subject, see the table below.

INTANGIBLE ASSETS	GOODWILL	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
Net value as at December 31, 2014	**102,880,429**	**32,164,841**	**20,507,052**	**155,552,322**
Movements 2015				
Increases/ (decreases)	-	10,337,511	1,334,088	11,671,599
Depreciation	-	(6,479,777)	(3,624,307)	(10,104,084)
Impairment	-	(357,777)	(25,060)	(382,837)
Differences on exchange rates	289,417	683,479	61,078	1,033,974
Net value as at December 31, 2015	**103,169,846**	**36,348,277**	**18,252,851**	**157,770,974**
Movements 2016				
Increases/ (decreases)	-	9,710,945	904,090	10,615,035
Depreciation	-	(7,993,986)	(3,937,312)	(11,931,298)
Impairment	-	(1,027,682)	-	(1,027,682)
Reclassifications with intangible assets	-	309,525	(309,525)	-
Differences on exchange rates	91,975	189,284	5,111	286,370
Net value as at December 31, 2016	**103,261,821**	**37,536,363**	**14,915,215**	**155,713,399**

The most significant item is Goodwill, which on December 31st, 2016 is equal to 103,262 thousand EUR. All goodwill recorded into the financial statements refers to the larger value paid with respect to the fair value of the net assets acquired.

The table below shows the book value of the goodwill allocated to each of the units generating financial flow.

CASH GENERATING UNIT	BOOK VALUE GOODWILL December 31, 2016	BOOK VALUE GOODWILL December 31, 2015
PRIMA POWER	97,851	97,794
OSAI (Service)	4,125	4,125
PRIMA ELECTRO NORTH AMERICA	1,095	1,060
MLTA	154	154
OSAI UK	37	37
TOTAL	**103,262**	**103,170**

Prima Power

Acquisition of the FINN-POWER Group in 2008 resulted in the inclusion of goodwill for 96,078 thousand EUR. The cash-generating unit to which this goodwill has been allocated is represented by the FINN-POWER Group, consisting of the sheet metal processing machines production plants in Finland and Italy, and the European and U.S. distribution companies. This allocation has been made on the aggregate maximum constraint, which may not exceed the operating segments under IFRS 8.

Following the adoption in 2011 of a new organisational structure, which has resulted in the reorganisation of the business in the two PRIMA POWER and PRIMA ELECTRO segments, there was a redistribution of the managerial responsibilities, the reorganisation of certain legal entities and the revision of the *reporting* tools. Consistent with the new organisation of the segments, starting in 2011, the goodwill was assessed on the basis of the new CGU PRIMA POWER, representative of the minimum level at which goodwill is monitored for the internal management control. In view of the fact that an impairment *test* is carried out for the entire PRIMA POWER Division, in the value of the goodwill deriving from the acquisition of the FINN-POWER Group was included also the value resulting from PRIMA POWER LASERDYNE equal to 1,897 thousand dollars (such goodwill with that of the PRIMA ELECTRO NORTH AMERICA was previously called PRIMA NORTH AMERICA).

At December 31st, 2016 the recoverable value from the cash-flow generating unit was subjected to the impairment test to determine the existence of any impairment through comparison between the book value of the unit (inclusive of goodwill) and the value of use, or rather the current value of future financial flows that should derive from their continued use and any divestment of them at the end of their useful life.
The value of use was determined by discounting the cash flows contained in the economic and financial plan of PRIMA POWER segment approved by the Board of Directors of PRIMA INDUSTRIE SpA concerning the time period January 1st, 2017 – December 31st, 2019. The assumptions made on the cash flow forecast for the period of explicit projection were made on a prudential basis and uses future realistic and achievable expectations (based also on economic forecasts of the *machine tool*). In order to determine the value-in-use of the CGU, cash flows are considered discounted for the 3 years of the explicit forecast, and are then summed to a terminal value determined by discounting the perpetual yield. The discount rate applied to prospective cash flows is equal to 7.89% (*post-tax*), calculated taking account of the sector in which the Group operates, the countries in which the Group intends to achieve planned results, the structure of indebtedness at full capacity and the current economic situation. This rate was substantially in line with the rate used at the previous year closing (at December 31st, 2015 the *post-tax* rate was 7.81%). For cash flows for the years subsequent to the explicit forecast period, a growth rate of 0.5% (identical to that used in previous years) has been hypothesised, coherent with recent market evaluations, to take account of the current economic situation.
Determination of the value-in-use using the process illustrated led to a recoverable value above the book value of the cash-flow generating unit, making it possible to avoid any reductions in the value of goodwill allocated to the PRIMA POWER segment.
With respect to the basic assumptions described above, an analysis of sensitivity was made of the results with respect to the WACC, the growth rates (g) and the forecast results. In particular, even with increases of 30 *basis points* on the cost of capital and setting to zero the perpetuity growth rate (g), the values of use show no impairment losses. Considering a growth rate (g) of zero, the WACC (*post-tax*) that would make the recoverable value of the CGU equal to its book value would be 19.50%.
A sensitivity test was also performed with forecast results lower than those reflected in the 2017 - 2019 plan. If revenues forecasted for 2017 were reduced by 5% (and likewise EBITDA) and the percentage growth rates were maintained for the following years, hence even (with a *post-tax* WACC of 7.89% and growth rate of 0.5%) the values of use would not show impairment losses. Considering a growth rate (g) of 0.5% and a WACC of 7.89%, a 10% reduction in future revenues (with percentage growth maintained at the same rates in the subsequent years) would make the recoverable value of the CGU the same as its book value.
It should be emphasised that the data for this sensitivity study refers to a theoretical year that has some limitations. Indeed, in the reference *industry*, the greater the revenue contractions, the higher the growth rates during the positive phase of the cycle. Hence a 10% reduction in revenues, keeping the growth rates constant in the following years (i.e. no recovery of the

percentage loss of revenues during the five-year period), would mean either a contraction in the machine tools market during the next cycle or a loss in market share for the PRIMA POWER segment. Neither of these events appears likely at the moment.

At the end of the test, the value-in-use of the PRIMA POWER CGU at December 31st, 2016 is greater than its book value of around 170 million EUR.

WACC	*7,89%*
Growth rate (g)	*0,50%*
Surplus of recoverable value of CGU over book value	*Euro 170 millions*

OSAI (Service)

The acquisition of the OSAI Group during 2007 reflects the strategy of penetration and development of the *service* market, in which the acquired Group has a consolidated position. The goodwill remaining at the end of the process of allocation of the price paid is therefore entirely allocated to the *service* segment and represents the entire value of the capital invested in that segment.
The value recoverable from this cash-flow generator at December 31st, 2016 was calculated on the basis of the value-in-use, determined by discounting the cash flows contained in the economic and financial plan for the period 2017-2021 (approved by the management of PRIMA ELECTRO) and considering the current value of the operating assets of the company at the end of the explicit forecast period (residual value, calculated by basing the expected perpetuity on the cash flow generated in the last year of the plan).
The discount rate applied to prospective cash flows was 5.39%, *post-tax* (at December 31st, 2015 amounted to 6.12%) calculated taking account of the sector in which the OSAI Group operates and its structure of indebtedness. Determination of the value of use according to the process illustrated, made it possible not to make any reductions in the value of goodwill allocated in the service sector of the OSAI Group. The sensitivity analysis carried out on WACC and growth rate, and on the deviations from the forecasts for revenues showed no reductions in the value.

At the end of the test, at December 31st, 2016 the value of use of the CGU OSAI is greater than its book value of around 13.4 million EUR (11.9 million EUR at December 31st, 2015).

WACC	*5,39%*
Growth rate (g)	*0,00%*
Surplus of recoverable value of CGU over book value	*Euro 13,4 millions*

Prima Electro North America

The goodwill in the financial statements relates to the U.S. subsidiary, which is part of the PRIMA ELECTRO Division (this goodwill along with that of PRIMA POWER LASERDYNE was formerly called PRIMA NORTH AMERICA).

At December 31st, 2016, the recoverable value of the CGU was subjected to the impairment test to determine the existence of any impairment through the comparison between the book value of the GCU (goodwill included) and the value of use. The value-in-use was determined by the present value of expected cash flows, also weighted by a valuation based on multiples of the sector.

In order to determine the value of use bases on the current value of the expected cash flows, we used the cash-flow forecast from the financial plan for 2017-2021 (approved by the Board of Directors of PRIMA ELECTRO NORTH AMERICA), while the cash flows beyond 2021 and for an unlimited time frame were determined by assuming an average cash flows of the period stated on the financial plan with zero growth (g) equal to 0%.
The discount rate *post-tax* is equal to 8.09% (compared to the 7.97% *post-tax* WACC used for the impairment *test* at December 31st, 2015), calculated taking account of the countries in which the company operates and its indebtedness structure.
From our audit of the possible value impairment of the goodwill referring to this CGU, it did not appear necessary to make any reduction in the value.
The sensitivity analysis carried out on WACC and growth rate, and on the deviations from the forecasts for revenues showed no value reductions in the consolidated financial statements.

WACC	*8,09%*
Growth rate (g)	*0,00%*
Surplus of recoverable value of CGU over book value	*US$ 1,0 millions*

Other intangible fixed assets

As can be deduced from the year's progression, most increases in 2015 were due to the capitalisation of development costs.
Considering the *business* of Prima Industrie SpA (and by all other Group companies) having a high technological content, it is absolutely essential to have constant investment in research and development activities. Despite the difficult economic situation, the Group continued to invest significantly in the development of its products, in order to retain a competitive advantage and be ready in this stage of reference market recovery.

The capitalisation of development costs has been carried out by the PRIMA INDUSTRIE Group where there are the conditions set out in IAS 38. For all the development activities of capitalised new projects, the technical feasibility has been verified as well as the generation of probable future economic benefits. The capitalised costs on development projects are monitored individually and measured in terms of the economic benefits expected from the time of their implementation. The costs capitalised on projects where the technical feasibility is uncertain or no longer strategic are assigned to the Income Statement. The rate applied for the number of hours of internal development reflects the cost of industrial man-hours.
It should be noted that the “Other intangible fixed assets” category contains the trademark and customer relationships ("*customer list*") deriving from the Purchase Price Allocation of FINN-POWER OY occurred in 2008. The net values of the FINN-POWER trademark and of the *customer list* at December 31st, 2016 are of 11,174 thousand EUR and 1,400 thousand EUR, respectively.

The “FINN-POWER” trademark has been defined an asset with finite life, as we consider that its use for business and production purposes will be limited in time to 15 years, and consequently it is subject to the depreciation process.

Customer lists of the FINN-POWER Group have been defined as an asset with a definite life of 10 years, and consequently this asset is submitted to the depreciation process. It should be noted that the FINN-POWER trademark and the customer list of the FINN-POWER Group fall within the “PRIMA POWER” CGU, hence their recoverability was considered as part of the impairment test on goodwill.

Note 8.3 - Investments accounted for using the equity method

This item includes the investment in EPS SA for 1,009 thousand EUR, owned 15% by Prima Electro SpA. The 214 thousand EUR decrease refers to the sale of approximately 250 thousand shares, which led to a capital gain of 1,057 thousand EUR. The valuation of the investment at December 31st, 2016 takes into consideration the latest data available at the time of approval of this Financial Report by EPS SA (sole subsidiary included in this category).

Note 8.4 - Other investments

Other investments at December 31st, 2016 were 139 thousand EUR and increased by 18 thousand EUR compared to at December 31st, 2015. This was due to the 25 thousand EUR increase in share capital and the 7 thousand EUR write-down for the Caretek holding held by Prima Electro SpA.

This item on December 31st, 2016 is composed of:

- Caretek Srl: 23 thousand EUR (investment equal to 19.3% held by Prima Electro SpA);
- Fimecc OY: 50 thousand EUR (investment equal to 2.4% held by FINN-POWER OY);
- Härmämedi OY: 25 thousand EUR (investment equal to 8.3% held by FINN-POWER OY);
- Lamiera Servizi Srl: 11 thousand EUR (investment equal to 19% held by Prima Industrie SpA);
- other minor investments: 30 thousand EUR.

Note 8.5 - Non-current financial assets

This item at December 31st, 2016 is equal to 10 thousand EUR and consists of a loan issued by Prima Electro SpA to the company Caretek Srl.

Note 8.6 - Deferred Tax Assets

The deferred tax assets are equal to 11,555 thousand EUR, in increase compared with the preceding financial year of 1,710 thousand EUR.

DEFERRED TAX ASSETS	December 31, 2016	December 31, 2015
Opening balance	**9,845,765**	**9,957,302**
Provisions	1,973,980	1,186,292
Utilizations	(495,392)	(1,745,334)
Differences on exchange rates	230,971	447,505
Closing balance	**11,555,324**	**9,845,765**

The composition of deferred tax assets on December 31st, 2016 is shown below.

DEFERRED TAX ASSETS	December 31, 2016	December 31, 2015
Provisions for risks and other liabilities	3,346,710	2,790,946
Inventories	3,356,203	2,997,283
Tax losses carried forward	2,471,733	2,315,371
Employee benefits	673,874	600,187
Non-current tangible/intangible assets/Financial leases	501,793	522,640
Trade receivables	426,413	151,154
Other	778,598	468,184
TOTAL	**11,555,324**	**9,845,765**

Deferred tax assets are accounted for only where there is a likelihood of recoverability. The assessment of recoverability of deferred tax assets take into account the expected profitability in future years. Deferred tax assets on the net operating losses carried forward have been recognised according to the likelihood of a future taxable income against which they might be recovered. In the light of what has been illustrated, there were no elements seen to modify the preceding valuations on the basis of the recoverability of the deferred tax assets.

Note 8.7 - Inventories

The following table shows the composition of inventories at December 31st, 2016 and at December 31st, 2015.

INVENTORIES	December 31, 2016	December 31, 2015
Raw materials	34,127,407	28,983,532
Semi-finished goods	19,731,012	18,200,325
Finished goods	52,953,832	54,485,981
(Inventory provisions)	(8,251,086)	(7,677,131)
TOTAL	**98,561,165**	**93,992,707**

Inventories on December 31st, 2016 amount to 98,561 thousand EUR, net of the inventory provision for a total of 8,251 thousand EUR.

Movements in inventories during 2016 were as follows:

INVENTORY PROVISIONS	December 31, 2016
Value as at December 31, 2015	**(7,677,131)**
Provisions	(1,198,993)
Utilizations	655,256
Differences on exchange rates	(30,218)
Value as at December 31, 2016	**(8,251,086)**

Net inventories at December 31st, 2016 had increased by 4,568 thousand EUR from December 31st, 2015. This increase results from procurement needs and work in progress to fulfil orders for delivery within the first months of 2017.

Note 8.8 - Trade receivables

The trade receivables on December 31st, 2016 amounted to 88,377 thousand EUR an increase of 1,963 thousand EUR compared to December 31st, 2015.

TRADE RECEIVABLES	December 31, 2016	December 31, 2015
Receivables from customers	92,050,822	90,264,658
Bad Debt Reserve	(3,674,074)	(3,850,763)
TOTAL	**88,376,748**	**86,413,895**

The movements of the bad debt reserve during the year 2016 was as following.

BAD DEBT RESERVE	Euro thousand
Value as at December 31, 2015	**(3,851)**
Provisions	(799)
Utilizations	1,002
Differences on exchange rates	(26)
Value as at December 31, 2016	**(3,674)**

The reserve reflects the management's best estimate of the Group's expected losses. The book value of Trade receivables is considered to be equal to its fair value.

Below is a breakdown of trade receivables (inclusive of the bad debt reserve) by due date.

RECEIVABLES BY MATURITY	Euro thousand
Due to expire	48,840
Expired 0 - 30 days	20,650
Expired 31 - 60 days	5,700
Expired 61 - 90 days	4,046
Expired 91 - 120 days	1,586
Expired over 120 days	11,229
TOTAL	**92,051**

Note 8.9 - Other Receivables

The other receivables on December 31st, 2016 are equal to 6,426 thousand EUR and decreased by 1,594 thousand EUR compared with December 31st, 2015.

OTHER RECEIVABLES	December 31, 2016	December 31, 2015
Contribution to be received for R&D projects	2,327,180	2,857,574
Advances payments to suppliers	2,006,187	3,438,338
Prepayments and accrued income	1,567,286	1,062,144
Advances to employees	308,317	209,024
Other receivables	216,647	452,051
TOTAL	**6,425,617**	**8,019,131**

The contribution of research and development to be received shows a decrease of 530 thousand EUR compared to the previous year and relate to contributions on projects financed by the European Union, the Ministry of Economic Development and the "Regione Piemonte" to be disbursed to the companies Prima Industrie SpA, Prima Electro SpA and FINN-POWER ITALIA Srl.

Accrued income and prepaid expenses primarily include costs (such as insurance, leasing fees, fees for licences of IT systems and/or software) pertaining to future years which financial disbursement has already occurred on December 31st, 2016.

Note 8.10 - Current tax assets

The item stands at 5,054 thousand EUR and was down 1,975 thousand EUR from December 31st, 2015. Tax assets include income tax receivables of 2,260 thousand EUR (3,956 thousand EUR at December 31st, 2015), VAT receivables amounting to 1,661 thousand EUR (1,730 thousand EUR at December 31st, 2015), a tax credit of 1,048 thousand EUR following the submission of claims for IRES reimbursement (IRAP deductions for IRES purposes for the years 2007-2011), which arose in February 2013, by withholding taxes for 75 thousand EUR (111 thousand EUR on December 31st, 2015) and by other receivables for tax assets for 10 thousand EUR (184 thousand EUR on December 31st, 2015).

Note 8.11 – Net Financial Position

On December 31st, 2016, the Group's net financial position amounts to 84,215 thousand EUR, showing a decrease of 17,532 thousand EUR compared to the previous financial year (negative of 101,747 thousand EUR). For a better understanding of the variation in the net financial position achieved during the financial year 2016, refer to the consolidated financial report for the period.

As required by the CONSOB Communication No. DEM/6064293 of July 28th, 2006, the net financial debt at December 31st, 2016 and December 31st, 2015 is shown in the following table, determined with the indicated criteria in the CESR (*Committee of European Securities Regulators*) Recommendations of February 10th, 2005 "Recommendations for the uniform activation of the European Commission Regulation on Information Sheets" and quoted by CONSOB itself.

Values expressed in Euro thousand

	NET FINANCIAL POSITION	December 31, 2016	December 31, 2015	VARIATIONS
A	CASH	62,680	41,365	21,315
B	OTHER CASH AND CASH EQUIVALENTS	-	-	-
C	SECURITIES HELD FOR TRADING	-	-	-
D	**CASH ON HAND (A+B+C)**	**62,680**	**41,365**	**21,315**
E	**CURRENT FINANCIAL RECEIVABLES**	**792**	**839**	**(47)**
F	CURRENT BANK DEBTS	5,454	9,222	(3,768)
G	CURRENT PART OF NON-CURRENT INDEBTEDNESS	24,993	14,328	10,665
H	BOND ISSUED	871	869	2
I	OTHER CURRENT FINANCIAL DEBTS	4,472	1,312	3,160
J	**CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)**	**35,790**	**25,731**	**10,059**
K	**NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)**	**(27,682)**	**(16,473)**	**(11,209)**
L	NON-CURRENT BANK DEBTS	59,195	74,077	(14,882)
M	BOND ISSUED	39,660	39,591	69
N	OTHER NON-CURRENT FINANCIAL DEBTS	13,042	4,552	8,490
O	**NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)**	**111,897**	**118,220**	**(6,323)**
P	**NET FINANCIAL POSITION (K+O)**	**84,215**	**101,747**	**(17,532)**

Liquidity

Liquid assets amounted to 62,680 thousand EUR and consist of:
- bank deposits 62,629 thousand EUR and
- cash 51 thousand EUR.

For more detail related to liquid availability, see the Consolidated Cash Flow Statement.

Current financial receivables

The current financial receivables amount to 792 thousand EUR and include:
- a term deposit signed by Prima Industrie SpA as guarantee for a loan granted to the Brazilian subsidiary PRIMA POWER SOUTH AMERICA LTDA equal to 550 thousand EUR;
- receivables from the company Wuhan Unity deriving from the sale by Prima Industrie SpA of the last 5% of the investment in Shanghai Unity Prima amounting to 236 thousand EUR;
- receivables from the company Lamiera Servizi of 6 thousand EUR, a subsidiary of Prima Industrie SpA for 19%.

Bonds issued

The debt to bondholders amounts to 40,940 thousand EUR, including interest accrued but not yet paid for an amount of 940 thousand EUR. The debt relates exclusively to the bond issued in the first quarter of 2015 and expires on 6 February 2022. The net debt on the accounting statement amounts to 40,531 thousand EUR as the accessory charges incurred at the bonds issue, partially reduced the debt.

The amount due after 12 months is equal to 39,660 thousand EUR.

Indebtedness with banks

The main loans included in the bank payables are the Club Deal loan and the *Finnish Loan*. The Club Deal loan at December 31st, 2016 amounted to 30,000 thousand EUR and consists of the loan repayment due on June 30th, 2021; the Club Deal loan also consists of a quota in the form of *revolving* credit lines amounting to 20,000 thousand EUR expiring on December 31st,2019. At December 31st, 2016, these commercial credit lines were fully available. Net debt in the balance sheet amounted to 29,507 and includes any additional costs relating to the loan.

The Club Deal loan is for 23,017 thousand EUR expiring beyond 12 months.

On both the Club Deal loan and the bond there are *covenants* with measurements on annual and half-yearly consolidated basis; at December 31st, 2016 the *covenants* set have been met.

The *Finnish Loan* at December 31st, 2016 amounts to 21,250 thousand EUR and consists of two quotas of an amount of 12,500 thousand EUR each and a third in the amount of 11,000 thousand EUR constituted from commercial credit lines; it is noted that at December 31st, 2016 these commercial credit lines were fully available. Net debt on the accounting statement and a partial reduction of the accessory charges incurred at the issuing time and calculated in the debt reduction amounting to 21,079 thousand EUR.

The *Finnish Loan* is for 18,636 thousand EUR expiring beyond 12 months.

The non-current bank debt also includes other bank loans for 17,321 thousand EUR and relate mainly to new loans from the three Italian companies Prima Industrie SpA, Prima Electro SpA e FINN-POWER ITALIA Srl within the long-term refinancing operation TLTRO (*Targeted Longer - Term Refinancing Operations*) issued by the European Central Bank. The non-current bank debt also includes the negative fair value of a derivative financial instrument (IRS – Interest Rate Swap) equal to 221 thousand EUR whose fair value variations have been directly attributed to the Income Statement as the *hedge accounting* criteria has not been applied.

Current indebtedness with banks (also considering the current part of the non-current debt) includes the Club Deal loan for 6,490 thousand EUR, the Finnish Loan for 2,443 thousand EUR, bank overdrafts for 4,052 thousand EUR, other bank loans for 16,566 thousand EUR and other financial instruments hedging the foreign exchange risk (Currency Rate Swap) equal to 896 thousand EUR.

Other financial payables

The Other financial payables amount comprehensively to 17,514 thousand EUR (of which 4,472 thousand are current).
The other financial payables encompass:

- payables for financial leasing for a sum equal to 10,208 thousand EUR (of which 734 thousand EUR are current);
- other financial payables for 7,306 thousand EUR (of which 3,738 thousand EUR are current); these payables refer mainly to subsidised ministerial loans and contributions for funded research activities collected by Prima Industrie SpA, as the project leader, which will be redistributed to all the project partners.

Bond

On February 2nd, 2015, Prima Industrie SpA completed the issuance of non-convertible bonds for an aggregate nominal amount of EUR 40 million and with 7 years maturity, as approved by the Board of Directors on January 13th, 2015.

The bonds, exclusively placed with qualified investors, have a minimum denomination of EUR 200,000 and pay semi-annually a fixed coupon of 5.875% per annum. The bonds, governed under English law, will be redeemed on February 6th, 2022.

The contract governing the bond issue expects for compliance with certain financial *covenants*, which if not followed is not a decisive event (and therefore mandatory early repayment) but only requires an increase in the interest rate by one percentage point.

BOND	
EBITDA (*)/Consolidated Net Financial costs ratio not less than:	*3,5x for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Borrowings/Consolidated EBITDA (*) ratio not higher than:	*4,0x for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Borrowings/Consolidated Shareholders's Equity rario not higher than:	*1,5x for the duration of the loan, to be calculated at June 30 and at December 31 of each year*

(*) net of non recurring items

The bond issue is the beginning of Prima Industrie SpA on the Eurobond market. Prima Industrie SpA has applied for bond loan admission for trading on the multilateral trading facility "Euro MTF Market" operated by the Luxembourg Share Exchange.

Medium to long-term Club Deal bank loan

On February 23rd, 2015, Prima Industrie SpA took out a medium to long-term Club Deal loan agreement for a total amount of 60 million EUR with a pool of Italian banks (Unicredit, IntesaSanpaolo and BNL).

The main features of the loan agreement are as follows:

- the amount, totalling 60 million EUR, is divided into a quota of 40 million EUR in the form of loan repayment expiring on June 30th, 2021 and a quota of 20 million EUR in the form of revolving credit lines expiring on December 31st, 2019;
- the interest rate for both quotas is set in Euribor plus an additional margin of 3%;
- fees charged for failure to use the *revolving* credit line amount to 1% of the amount not used;
- penalties in the event of advanced repayment or voluntary cancellation amount to 0.5% of the refunded/cancelled amount for the first two years following the subscription of the loan and 0.4% of the refunded/cancelled amount in case this occurs on the third or fourth year from the subscription date;
- the reimbursement instalments for the depreciation part expire every six months starting from 31 December 2015;
- the maximum amount of debt allowed (including the bond loan and this loan) amount to 210 million EUR at Group level;
- the following financial covenants must be met:

CLUB DEAL	
EBITDA(*)/Consolidated Net Financial costs ratio not less than:	***4,00 at December 31, 2016 and June 30, 2017 4,25 for each measurement subsequent date***
Net Financial Borrowing/Consolidated EBITDA(*) ratio not more than:	***3,25 at December 31, 2016 and June 30, 2017 3,00 for each measurement subsequent date***

(*) net of non recurring items

Failure to comply with these covenants constitutes a decisive event and implies the mandatory prepayment if it is not remedied within twenty working days from the non-compliance notification. As previously indicated, the covenants measured on the consolidated financial statements at December 31st, 2016 are met.

Movement of payables due to **Banks and loans**

The payables due to banks and loans of the PRIMA INDUSTRIE Group on December 31st, 2016 (not including the derivatives fair value of derivatives) are equal to 146,570 thousand EUR and during the year 2016, they have changed as shown in the following table.

BANK PAYABLES AND LOANS	*Euro thousand*
Bank Payables and loans - current portion (December 31, 2015)	25,700
Bank Payables and loans - non-current portion (December 31, 2015)	117,805
TOTAL BANK PAYABLES AND LOANS AS OF DECEMBER 31, 2015	**143,505**
Stipulation of loans and borrowings *(including bank overdrafts)*	11,514
Repayment of loans and borrowings *(including bank overdrafts)*	(16,204)
Stipulation/(repayments) of financial leasing	7,492
Exchange rate effect	263
TOTAL BANK PAYABLES AND LOANS AS OF DECEMBER 31, 2016	**146,570**
of which:	
Bank Payables and loans - current portion (December 31, 2016)	34,894
Bank Payables and loans - non-current portion (December 31, 2016)	111,676
TOTAL BANK PAYABLES AND LOANS AS OF DECEMBER 31, 2016	**146,570**

Breakdown of financial **payables by expiration and interest rate**

The following table lists the breakdown of financial payables to banks and other lenders (and, for the purposes of providing a framework for the data exposed in the financial statements, includes payables for leases, factoring and payables to banks for derivatives) by expiration and interest rate.

Current financial payables

Values expressed in Euro thousand

CURRENT BANK PAYABLES	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
Bank overdrafts	N/A	Sight	3,996
Finimp	2,450%	01/06/17	506
Interests owed	N/A	N/A	56
Derivative - CRS	N/A	N/A	896
TOTAL			**5,454**

Values expressed in Euro thousand

CURRENT PORTION OF NON-CURRENT INDEBTEDNESS	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
Club Deal (quota in amortizing)	Euribor 6m + 3,0%	30/06/21	6,547
Club Deal (quota revolving)	Euribor 6m + 3,0%	31/12/19	(58)
Finnish Loan	Euribor 6m + 2,50%	30/06/20	2,443
Banco do Brasil	Euribor 12m + 1,50%	23/07/18	6,655
Banco Popolare	Euribor 3m + 1,40%	30/09/19	2,489
ICBC	Euribor 12m + 1,75%	10/04/17	2,000
Banca Popolare di Milano	Euribor 3m + 1,50%	30/09/19	1,480
Banca Popolare di Milano	Euribor 3m + 1,30%	30/09/19	1,479
UBI	1,30%	09/11/20	731
Banca Unicredit / Sace	Euribor 3m + 1,80%	30/06/20	593
Banca Piemonte	0,90%	30/05/17	300
Banca Sella	Euribor 3m + 1,70%	24/06/19	284
Interests owed	N/A	N/A	50
TOTAL			**24,993**

Values expressed in Euro thousand

BOND ISSUED	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
Bond	5,875%	06/02/22	871
TOTAL			**871**

Values expressed in Euro thousand

OTHER CURRENT FINANCIAL PAYABLES	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
4 Hybrid	N/A	N/A	2,710
ICCREA	Euribor 3m + 3,50%	30/06/17	434
BCC	Euribor 3m + 1,30%	30/06/20	328
MISE	0,448%	26/11/23	173
Financial leasing	N/A	N/A	827
TOTAL			**4,472**

Non-current financial payables

Values expressed in Euro thousand

NON-CURRENT BANK PAYABLES	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
Club Deal (quota in amortizing)	Euribor 6m + 3,0%	30/06/21	23,132
Club Deal (quota revolving)	Euribor 6m + 3,0%	31/12/19	(116)
Finnish Loan	Euribor 6m + 2,50%	30/06/20	18,636
Banco Popolare	Euribor 3m + 1,40%	30/09/19	4,438
Banca Popoloare di Milano	Euribor 3m + 1,50%	30/09/19	3,520
Banca Popoloare di Milano	Euribor 3m + 1,30%	30/09/19	3,514
UBI	1,30%	09/11/20	2,258
Banco do Brasil	Euribor 12m + 1,50%	23/07/18	1,664
Banca Unicredit / Sace	Euribor 3m + 1,80%	30/06/20	1,492
Banca Sella	Euribor 3m + 1,70%	24/06/19	436
Derivative - IRS	N/A	N/A	221
TOTAL			**59,195**

Values expressed in Euro thousand

BOND ISSUED	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
Bond	5,875%	06/02/22	39,660
TOTAL			**39,660**

Values expressed in Euro thousand

OTHER NON-CURRENT FINANCIAL PAYABLES	EFFECTIVE INTEREST RATE	EXPIRY	December 31, 2016
BCC	Euribor 3m + 1,30%	30/06/20	1,672
MISE	0,448%	26/11/23	1,055
UBI	0,500%	03/06/26	860
Financial leasing	N/A	N/A	9,455
TOTAL			**13,042**

The following table shows the temporal distribution of payments of financial payables.

VALUES EXPRESSED IN EURO THOUSAND	2017	2018	2019	2020 onwards	TOTAL
CURRENT BANK PAYABLES (*)	4,559	-	-	-	4,559
CURRENT PORTIONS OF NON-CURRENT PAYABLES	24,993	-	-	-	24,993
OTHER CURRENT FINANCIAL PAYABLES	4,472	-	-	-	4,472
NON-CURRENT BANK PAYABLES (*)	-	18,781	15,442	24,751	58,974
BOND ISSUED	871	(73)	(78)	39,811	40,531
OTHER NON-CURRENT FINANCIAL PAYABLES	-	2,422	2,074	8,546	13,042
TOTAL	**34,894**	**21,130**	**17,439**	**73,107**	**146,570**

(*) excluding the fair value of derivatives

It should be noted that of the total amount of 34,894 thousand EUR payable in 2017, 3,996 thousand EUR refer to *bank overdrafts*.

Derivative financial instruments

At December 31st, 2016 the Group holds several derivative financial instruments for an overall negative value of 1,117 thousand EUR, of which 221 thousand EUR are non-current and 896 thousand EUR are current.

Derivatives non current

Notional values are indicated in the reference currency

TYPE	COMPANY	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM 31/12/16
IRS - Non Hedge accounting	Finn-Power Italia	Unicredit	07/05/17	€10,000,000	-€138,179
IRS - Hedge accounting	Prima Industrie SpA	BNL	30/06/21	€10,000,133	-€27,856
IRS - Hedge accounting	Prima Industrie SpA	Unicredit	30/06/21	€10,000,133	-€27,793
IRS - Hedge accounting	Prima Industrie SpA	Banca Intesa	30/06/21	€10,000,133	-€27,038
				TOTAL	**-€220,866**

Derivatives current

Notional values are indicated in the reference currency

Type	Company	Counterparty	Expiry date	Reference notional	MTM 31/12/16
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/06/17	$1,000,000	-€32,904
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/09/17	$1,000,000	-€21,874
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/12/17	$2,000,000	-€28,228
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	20/03/17	$2,000,000	-€65,478
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	20/09/17	$3,000,000	-€67,111
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	22/12/17	$8,000,000	-€201,322
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/06/17	$2,000,000	-€63,745
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/09/17	$1,000,000	-€23,206
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/12/17	$3,000,000	-€40,774
CRS - Non hedge accounting	Prima Industrie SpA	BNL	18/12/17	$8,000,000	-€198,115
CRS - Non hedge accounting	Prima Industrie SpA	IMI	20/03/17	$2,000,000	-€55,995
CRS - Non hedge accounting	Prima Industrie SpA	IMI	20/06/17	$1,000,000	-€31,268
CRS - Non hedge accounting	Prima Industrie SpA	MPS	20/03/17	$1,000,000	-€34,200
CRS - Non hedge accounting	Prima Industrie SpA	MPS	20/06/17	$1,000,000	-€31,554
				TOTAL	**-€895,774**

During the last quarter of 2016, Prima Industrie SpA redefined a number of features of its financial structure and entered into several derivative contracts with the aim of hedging the interest rate risk on Club Deal funding. This operation had no significant impact on debt at December 31st, 2016. Furthermore, in keeping with previous years, Prima Industrie SpA took out derivative instruments to mitigate exchange rate risk, mainly on dollar and sterling transactions. At December 31st, 2016, the company thus had net derivatives of -978 thousand EUR, of which 82 thousand EUR were non-current.

For the purposes of the financial statements at December 31st, 2016, a valuation of outstanding derivative instruments was carried out.
Some financial instruments were disclosed using HEDGE ACCOUNTING, using the requirements of IAS 39 for applying this method of accounting. As set out in IAS 39, the company has formally documented the hedging relationship between the hedge instrument and the hedged item, the risk management objectives and the strategy used.

Therefore, as already described in Chapter 6, for derivative instruments disclosed under HEDGE ACCOUNTING, the changes in the fair value of the underlying instruments are disclosed in equity, in terms of the effective portion.

Note 8.12 – Assets held for sale

At December 31st, 2016, the value of assets held for sale is equal to 319 thousand EUR and had increased by 35 thousand EUR from December 31st, 2015. It refers to some properties under construction held by the company FINN-POWER ITALIA Srl located in Mantova, Italy. The properties are available for immediate sale and it is believed that this event is highly likely, as the Management has engaged in a divestment programme.

Note 8.13 – Net equity

Share Capital
The Share Capital amounts to 26,208,185 EUR (divided into 10,483,274 ordinary shares with a par value of 2.50 EUR each).

Legal reserve
This item amounts to 4,565 thousand EUR and has increased as a result of the allocation of the mandatory share of the profit accrued in 2015.

Other reserves
The item Other Reserves has a value of 70,739 thousand EUR and is made up as follows:
- Share Premium Reserve of 57,507 thousand EUR;
- Share capital increases were -1,286 thousand EUR;
- Fair value adjustment reserve stood at -63 thousand EUR and consists of profits and losses net of taxes, entered directly in the shareholders' equity deriving from the adjustment to fair value of hedges underwritten by the Group;
- Other Reserves of 14,581 thousand EUR;

Currency translation reserve
The currency translation reserve has a positive value of 6,849 thousand EUR and has increased over the previous financial year by 883 thousand EUR.

Profits carried over
This amount, which is positive for 19,277 thousand EUR includes the results of previous years of consolidated companies as well as the change in the area of consolidation and the capital losses/gains generated as a result of the acquisition or transfer of treasury shares and the effect of actuarial profits/losses net of taxes on severance indemnities for employees. In addition, the amounts relative to differences in accounting methods on the date of IAS/IFRS transition are also included; these refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

Profit for the year
This item includes the profit for the year, totalling 10,102 thousand EUR (6,017 thousand EUR on December 31st, 2015) attributable to the majority shareholders of the parent company.

Minority Shareholders equity
This item is positive for 1,212 thousand EUR (on December 31st, 2015 it was 1,196 thousand EUR) and compared to the previous financial year, it remained substantially unchanged. The changes in Net Equity attributable to minority shareholders refer to the overall result for the period.

Overall income
Overall income for the period is 10,661 thousand EUR;
- Profit for the period is 10,160 thousand EUR;
- Currency translation reserve: positive for 841 thousand EUR (of which 883 thousand EUR refer to the majority shareholders and -42 thousand EUR to minority shareholders);
- Reserve for *fair value* adjustment of derivatives: negative at 63 thousand EUR (net of a tax effect of 20 thousand EUR);

- Effect of actuarial profit/losses on employee severance indemnities according to the application of IAS 19 revised down to 277 thousand EUR (net of a tax effect of 84 thousand EUR).

Connection between result and shareholders' equity of the parent Company and the same values for the Group

Pursuant to the CONSOB Communication of July 28th, 2006, the following table illustrates the connection between the result for the year 2016 and the Group's shareholders' equity at December 31st, 2016 with the same values of the parent company Prima Industrie SpA.

Values expressed in Euro thousand

Reconciliation between Net Result and Shareholders' equity of the parent company and related Group values	Shareholders' Equity as at December 31, 2016	Net result as at December 31, 2016	Shareholders' Equity as at December 31, 2015	Net result as at December 31, 2015
PRIMA INDUSTRIE S.p.A. Separate Financial Statements	101,867	1,758	102,873	1,407
Accounting for shareholders' equity and income from subsidiaries	227,566	12,918	198,037	6,056
Accounting Goodwill including share allocated on Trade Mark and Customer List	20,609	(3,137)	23,775	(3,095)
Elimination of values of consolidated shareholdings in PRIMA INDUSTRIE S.p.A. Financial Statements	(203,711)	-	(185,478)	850
Valuation of investments held for sale	-	-	-	-
Elimination of infragroup income included in stock and fixed assets	(8,083)	(1,530)	(6,514)	(184)
Elimination of depreciation/revaluation of consolidated shareholdings	1,626	971	1,063	694
Elimination of dividends paid between subsidiaries	-	(2,707)	-	(750)
Tax effect on consolidation adjustments	(975)	1,591	(2,615)	617
Other consolidate entries	53	296	(229)	11
PRIMA INDUSTRIE Group Financial Statements	138,952	10,160	130,912	5,606

Note 8.14 – Employees benefits liabilities

The item Benefits to employees includes:

- the Severance Indemnity (TFR) recognised by Italian companies for employees;
- a loyalty premium recognised by the parent company and by PRIMA ELECTRO for their own employees;
- a pension fund recognised by PRIMA POWER GmbH and by PRIMA POWER France Sarl to their employees;
- a liability for employee benefits in recorded by Prima Industrie SpA for its *branch office* in South Korea.

It should be noted that, until December 31st, 2006, the Severance Indemnity (TFR) of the Italian companies was considered a fixed-benefit plan. Regulation of these funds was modified by Law no. 296 of December 27th, 2006 ("2007 Financial Law") and subsequent Decrees and Regulations enacted in the first months of 2007. In the light of these changes and, in particular, with reference to companies with at least 50 employees, this scheme must now only be considered a fixed benefit plan for quotas accrued before January 1st, 2007 (and not yet liquidated at the date of the financial statements) while the quotas which accrued subsequently to this date are comparable to a fixed-contribution plan.
The fidelity premium, however, accrues on reaching certain seniority within the company.
The table below compares the items in question.

EMPLOYEE BENEFITS	December 31, 2016	December 31, 2015
Severance indemnity fund	5,694,418	5,831,601
Fidelity premium and other pension funds	2,405,935	2,081,181
TOTAL	8,100,353	7,912,782

The table below shows a Severance Indemnity operation.

SEVERANCE INDEMNITY FUND (VALUES EXPRESSED IN EURO THOUSAND)	2016	2015
Opening balance	**5,832**	**6,532**
Severance indemnity paid out during the period	(523)	(409)
Actuarial gains/losses	271	(386)
Financial expenses	114	95
Closing balance	**5,694**	**5,832**

The main actuarial hypotheses used to estimate the final liabilities deriving from employee benefits are as follows.

ACTUARIAL HYPOTHESES	December 31, 2016	December 31, 2015
Annual discount rate	1.31% - 2.33%	2.03% - 2.33%
Annual inflation rate	1.5% - 2.0%	1.75% - 2.0%
Annual Severance fund increase rate	2.0% - 2.63%	2.0% - 2.81%

The following demographic hypotheses have been used for Severance Indemnity only:

- probability of death as defined by the Italian State Treasury RG48;
- the probability of disability, divided by gender, adopted in the INPS model for all the projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with frequency of 0.5% depending on the company;
- for the probability of advances an annual rate of 3.0% was supposed.

Note 8.15 - Deferred tax liabilities

The Deferred Tax Liabilities are equal to 8,341 thousand EUR, in decrease compared with December 31st, 2015 of 2,178 thousand EUR.

DEFERRED TAX LIABILITIES	December 31, 2016	December 31, 2015
Opening balance	**10,518,305**	**10,822,071**
Provisions	573,730	712,520
Utilizations	(2,851,062)	(1,402,336)
Differences on exchange rates	99,680	386,050
Closing balance	**8,340,653**	**10,518,305**

The composition of the deferred tax liabilities on December 31st, 2016 is shown below.

DEFERRED TAX LIABILITIES	December 31, 2016	December 31, 2015
Non-current tangible/intangible assets/Financial leases	7,400,408	9,599,803
Trade receivables/payables and other entries	912,240	885,964
Employee benefits	28,005	32,538
TOTAL	**8,340,653**	**10,518,305**

The calculation of deferred tax liabilities considers the IRES rate reduction (from 27.50% to 24.00%) from 2017, as required by the recent Law no. 208/2015 (Stability Law 2016).

It should be noted that the deferred tax liabilities on the trademark, on the relation with clients and the Cologna Veneta real estate deriving from the company merger of the FINN-POWER Group amount to 4,164 thousand EUR.

Deferred tax liabilities were not recorded on undistributed profit reserves of subsidiaries.

Note 8.16 - Provisions

Provisions amount to 18,587 thousand EUR and show an increased compared with December 31st, 2015 by 2,640 thousand EUR.

NON-CURRENT PROVISIONS	Cust. Agent. Ind. Provision	TOTAL
December 31, 2014	**144,551**	**144,551**
Allocations	9,688	9,688
Utilizations in the period	(3,688)	(3,688)
December 31, 2015	**150,551**	**150,551**
Allocations	20,522	20,522
Utilizations in the period	(8,389)	(8,389)
December 31, 2016	**162,684**	**162,684**

CURRENT PROVISIONS	Warranty provisions	Completion project and others provisions	TOTAL
December 31, 2014	**9,103,326**	**5,723,153**	**14,826,479**
Allocations	5,682,938	7,487,450	13,170,388
Utilizations in the period	(5,057,111)	(7,515,428)	(12,572,539)
Exchange rate differences	256,167	115,996	372,163
December 31, 2015	**9,985,320**	**5,811,171**	**15,796,491**
Allocations	3,005,605	3,252,866	6,258,471
Utilizations in the period	(2,310,635)	(1,441,943)	(3,752,578)
Exchange rate differences	88,873	33,113	121,986
December 31, 2016	**10,769,163**	**7,655,207**	**18,424,370**

The non-current provisions refer exclusively to the agent client indemnity fund and amount comprehensively to 163 thousand EUR.
The current provisions mainly relate to product warranties (equal to 10,769 thousand EUR) and the best estimate of costs still to be incurred for the completion of certain activities ancillary to the sale of machinery already sold (equal to 7,243 thousand EUR). Warranty provision relates to the provisions for technical warranty interventions on the group's products and is considered appropriate in comparison to the guarantee costs which have to be provided for.
The other funds amounting to 412 thousand EUR refer to legal, fiscal procedures and other disputes; these funds represent the best estimate by management of the liabilities which must be accounted for with reference to legal, fiscal proceedings occasioned during normal operational activity with regard to resellers, clients, suppliers or public authorities.

Note 8.17 – Trade payables, advance payments and other payables

The value of these payables increased compared to December 31st, 2015 by 17,627 thousand EUR. Trade payables include accounts on orders relating to machines which have not yet been delivered, as well as those generated by the application of the IAS 18 accounting principle relating to machines already delivered, but not yet accepted by the end client and thus not accountable as revenue. The Other payables item includes social security and welfare payables, payables due to employees, accruals and deferrals and other minor payables.

For greater detail on the subject, see the table below.

TRADE, ADVANCES AND OTHER PAYABLES	December 31, 2016	December 31, 2015
Trade payables	88,448,383	78,323,460
Advances	26,029,170	21,385,159
Other payables	22,076,067	19,218,309
TOTAL	**136,553,620**	**118,926,928**

Note 8.18 - Current tax payables

The Current Tax Payables on December 31st,2016 are equal to 7,695 thousand EUR, an increase of 438 thousand EUR compared with the previous fiscal year (7,258 thousand EUR on December 31st, 2015).
Current tax payables include:

- payables for VAT amounting to 3,867 thousand EUR;
- payables for income taxes amounting to 2,304 thousand EUR;
- payables for withholding tax amounting to 1,460 thousand EUR and
- other minor payables for 64 thousand EUR.

Note 8.19 - Net income from sales and services

The consolidated turnover is shown below on a geographic basis at December 31st, 2016 compared with the previous financial year.

Revenues	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
EMEA	226,094	57.4	228,640	62.7
AMERICAS	94,331	23.9	80,919	22.2
APAC	73,461	18.7	54,907	15.1
TOTAL	**393,886**	**100.0**	**364,466**	**100.0**

Below, a subdivision of revenues by sector of the gross inter-sector transactions is shown (for more detailed indications on the Group's operational segments, see the Chapter 7 - Sector Information).

Revenues	December 31st, 2016		December 31st, 2015	
	Euro thousand	*%*	*Euro thousand*	*%*
PRIMA POWER	368,669	93.6	326,190	89.5
PRIMA ELECTRO	42,222	10.7	53,435	14.7
Inter-sector revenues	(17,005)	(4.3)	(15,159)	(4.2)
TOTAL	**393,886**	**100.0**	**364,466**	**100.0**

Revenues from sales and services has already been dislcosed in Chapter 3 of this document: "Group Management Report" (see paragraph "Revenues and Profitability").

Note 8.20 - Other Operating Income

Other Operating Income was 4,218 thousand EUR and decreased by 555 thousand EUR from 2015 (4,773 thousand EUR at December 31st, 2015). They refer mainly to contributions received from public institutions for research and development.

Note 8.21 - Increases in fixed assets for internal work

Increases for internal work at December 31st, 2016 totalled 10,450 thousand EUR and mainly refer to the capitalisation of development (10,098 thousand EUR) of new products and models, new features and/or applications on existing products, new software and new material handling and storage automation options.

For these projects, the technical feasibility was checked as well as the likelihood of future economic benefits. The capitalised development was carried out by the parent company, FINN-POWER OY, FINN-POWER ITALIA Srl, PRIMA POWER LASERDYNE Llc, Prima Electro SpA, and PRIMA ELECTRO NORTH AMERICA Llc.

Note 8.22 - Personnel costs

The personnel costs at December 31st, 2016 is equal to 102,699 thousand EUR (on December 31st, 2015 was equal to 100,223 thousand EUR). It should be noted that the Group's personnel at December 31st, 2016 amounted to 1,664 units, while at December 31st, 2015 it amounted to 1,643 units, with an increase of 21 units. Finally, it should be noted that the non-recurring events recorded in this item amounted to 411 thousand EUR.

Note 8.23 - Depreciation, Impairment and Write-downs

Depreciation at December 31st, 2016 amounts to 15,854 thousand EUR (of which 11,931 thousand EUR are related to intangible assets).

DEPRECIATION	December 31, 2016	December 31, 2015
Depreciation of tangible fixed assets	3,922,386	3,403,048
Depreciation of intangible fixed assets	11,931,298	10,104,084
TOTAL	**15,853,684**	**13,507,132**

The increase in depreciation of tangible assets is mainly due to Industrial & Commercial Equipment (increase of 272 thousand EUR), Buildings (increase of 95 thousand EUR) and Plants and machinery (increase of 85 thousand EUR); the increase in depreciation of intangible assets is mainly due to development costs (increase of 1,514 thousand EUR).

It should be noted that depreciation of the trademark and relationships with clients ("*customers list*") amount to a total of 3,137 thousand EUR, while those relating to development costs are equal to 7,994 thousand EUR.

During 2016 an impairment amounting to 1,028 thousand EUR relating mainly to development costs of the PRIMA ELECTRO Division was recorded.

Note 8.24 – Other Operating Expenses

The Other operating expenses for the year 2016 amount to 90,054 thousand EUR increased by 4,285 thousand EUR compared with December 31st, 2015.

Operating expenses mainly include:

- external production services amounting to 16,999 thousand EUR;
- travel expenses amounting to 14,025 thousand EUR mainly related to staff travelling for business, installation and technical assistance reasons;
- transport and delivery costs amounting to 10,357 thousand EUR;
- consultancies (directional, administrative, fiscal, commercial, and technical) amounting to 7,440 thousand EUR;
- cost for the temporary workers and other personnel costs amounting to 6,222 thousand EUR;
- rents and use of third party assets amounting to 5,443 thousand EUR;
- exhibitions and advertising expenses amounting to 3,922 thousand EUR;
- commissions amounting to 3,535 thousand EUR.

Note 8.25 – Financial income and expenses

The financial income and expenses of 2016 shows a negative result of 8,230 thousand EUR.

FINANCIAL MANAGEMENT	December 31, 2016	December 31, 2015
Financial income	626,831	693,514
Financial expenses	(8,507,194)	(9,472,762)
Net financial expenses	**(7,880,363)**	**(8,779,248)**
Net exchange of transactions in foreign currency	(349,409)	(531,702)
Total Financial Management	**(8,229,772)**	**(9,310,950)**

It should be noted that the financial costs at December 31st, 2016 include financial expenses of 2,421 thousand EUR relevant to the bond, 1,295 thousand EUR relevant to the new Club Deal loan and 652 thousand EUR relevant to the Finnish Loan. It should also be noted that, the financial charges at December 31st, 2015 included non recurring expenses held between February and March 2015, following the full early repayment of the FINPOLAR loan, amounting to 2,123 thousand EUR. These costs relate mainly to hedging derivatives subscribed with FINPOLAR loan.

Note 8.26 - Investments accounted for using the equity method

The net result of investments accounted for using the net equity method was positive for 1,057 thousand EUR and refers to the capital gain generated by the sale of part of EPS SA shares.

Note 8.27 - Net result on other investments

The net result on other investments is equal to 8 thousand EUR relating to the impairment of the investment in Caretek Srl owned by Prima Electro SpA.

Note 8.28 - Current and deferred taxes

Income tax for the year 2016 showed a net negative balance of 1,187 thousand EUR. The balance of current and deferred taxes is negative by 724 thousand EUR, IRAP is equal to 341 thousand EUR and other taxes, including those relating to prior years, amount to 122 thousand EUR.

Values expressed in Euro thousand

Income tax	2016	2015
Current income tax (excluding regional trade tax IRAP)	(4,184)	(2,165)
IRAP (Regional Trade tax)	(341)	(720)
Charges from tax consolidation for Italian Companies	(146)	-
Taxes relating to previous year	(122)	(249)
Deferred tax	3,617	614
Other taxes	(11)	(6)
TOTAL	**(1,187)**	**(2,526)**

The reconciliation between the fiscal costs entered in the consolidated financial statements and the theoretical fiscal cost, calculated on the basis of the theoretical tax rates in force in the countries where the Group companies are residing, is as follows:

Values expressed in Euro thousand

Current income taxes	2016	2015
Current tax on theoretical income (excluding regional trade tax IRAP)	(4,593)	(2,029)
Permanent changes	1,976	843
Temporary changes	(2,931)	(156)
Utilization/Surplus losses	973	(823)
Other differences	391	-
CURRENT INCOME TAX	**(4,184)**	**(2,165)**

Note 8.29 - Result per Share

The earnings per share on December 31st, 2016, positive by 0.96 EUR (0.57 EUR on December 31st, 2015) is calculated by dividing the profits attributable to the shareholders of the parent company by the average number of ordinary shares in circulation during the financial year which are 10,483,274. The diluted earnings per share is equal to the basic earning because at December 31st, 2016 no dilutive operations occurred.

Note 8.30 – Guarantees granted, commitments and other potential liabilities

The situation of the guarantees granted and commitments made by the Group at December 31st, 2016 is shown below.

VALUES EXPRESSED IN EURO THOUSAND	December 31, 2016	December 31, 2015
Guarantees granted	14,921	21,163
Commitments to leasing companies	1,907	1,185
Other commitments and significant contracts rights	10,039	11,861
TOTAL	**26,867**	**34,209**

At December 31st, 2016 the guarantees granted by PRIMA INDUSTRIE Group amounted to 14,921 thousand EUR and refer to guarantees to trade counterparties and sureties to credit institutions.
"Commitments to leasing companies" refer to repurchase agreements for sales made through financial intermediaries.
“Other Commitments and significant contract rights” refer mainly to rents on buildings, rentals and operating leases. There are no potential liabilities other than those already reported in the financial statements.
The PRIMA INDUSTRIE Group, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be indicated.

Note 8.31 - Information on related parties

In addition to relationships with the strategic management and the Board of Statutory Auditors, operations with related parties were relevant to transactions with EPS SpA (100% owned by EPS SA) mainly for research and development of special electronic components.

OPERATIONS WITH RELATED PARTIES	Strategic Management	Board of Statutory Auditors	EPS	TOTAL
RECEIVABLES AS AT January 1, 2016	-	-	221,005	221,005
RECEIVABLES AS AT December 31, 2016	**-**	**-**	**50,647**	**50,647**
PAYABLES AS AT January 1, 2016	512,896	105,000	1,283	619,179
PAYABLES AS AT December 31, 2016	**672,832**	**101,750**	**-**	**774,582**
REVENUES Jan.1, 2016 - Dec. 31, 2016	**-**	**-**	**396,212**	**396,212**
COSTS Jan.1, 2016 - Dec. 31, 2016	**1,310,632**	**101,750**	**-**	**1,412,382**
VARIATIONS IN RECEIVABLES				
Jan.1, 2016 - Dec. 31, 2016	-	-	(170,358)	(170,358)
VARIATIONS IN PAYABLES				
Jan.1, 2016 - Dec. 31, 2016	159,936	(3,250)	(1,283)	155,403

Note 8.32 – Management of Financial risks

The Group's financial instruments, aimed at financing the operational activity, include bank loans, the financial leasing contracts and factoring, cash and short-term bank deposits. There are then other financial instruments, such as commercial payables and receivables, deriving from the operational activity.

The PRIMA INDUSTRIE Group is mainly exposed to the following categories of risk:

- Interest rate risk
- Exchange rate risk
- Credit risk
- Liquidity risk

The Group has adopted specific *policies* with the aim of correctly managing the risks mentioned, in order to safeguard its own activity and capacity to create value for shareholders and for all the Stakeholders.

The Group's objectives and politics for management of the above risks is detailed below.

Interest rate risk

The debit position towards the credit system and capital markets can be negotiated at a fixed or variable rate.

Variations of interest rate in the market generate the following categories of risk:

- an increase in market interest rates exposes to the risk of greater financial burdens to be paid on the quota of variable interest rate debits;
- a decrease in market interest rates exposes to the risk of excessive financial burdens to be paid on the quota of fixed interest rate debits.

In particular, the strategies adopted by the Group to confront these risks are as follows:

- Interest rate → Management/Hedging

Exposure to interest rates is by nature structural, in that the net financial position generates net financial burdens subject to the volatility of interest rates, according to the contractual conditions established with the financing party. Consequently, the identified strategy is of Management/Hedging and is confirmed by:

- Continuous *Monitoring* of the exposure to interest rate risks;
- *Hedging* activity through derivative financial instruments.

At the date of approval of this Financial Report, the Group has no derivative financial instrument to hedge the interest rate risk; in the future, the Group could decide to hedge this risk using derivative instruments.

Exchange rate risk

The debit position towards the banking system and the capital market, as well as towards other creditors, can be expressed in one's own account currency (Euro), or in other currencies on account. In this case, the financial burden of the debit in currency is subject to the interest rate risks, not of the European market, but of the market of the chosen currency.

The attitude and strategy to follow concerning risk factors are determined by the plurality of elements which concerned both the characteristics of the reference market and their impact on the company balance sheet results. Indeed, four possible strategic and distinctive areas for the operational management of individual risk factors can be identified:

- "Avoid" strategy (Avoidance)
- Acceptance
- Management/Hedging
- "Market Intelligence" (Speculation)

In particular, the strategies primarily adopted by the Group to confront these risks are as follows:

- Exchange rate $\longrightarrow$ Management/Hedging

Exposure to exchange rate risks deriving from financial factors is currently contained, in that the company does not take on financing in currency different from the Europe, with the exception of some financing of the U.S. subsidiaries, for which the U.S. dollar is the reference currency.
In relation to the commercial transactions, on the other hand, at Group level there exists a certain exposure to exchange rate risk, because the fluctuations of purchase in U.S. dollars (substantially the only relevant accounting currency different from the Euro) of the parent company Prima Industrie SpA, of FINN-POWER OY and of PRIMA ELECTRO SpA are not sufficient to balance the fluctuations of sales carried out in U.S. dollars and because the Group also works with other currencies for which hedging transactions are not available.

The Group has recently provided itself with guidelines for managing the foreign exchange risk in the major currencies in which it operates (mainly the US dollar and Chinese Renminbi). The goal is to cover the budget results from the exchange risk, through the subscription of hedging derivatives. This hedging is managed by the parent company Prima Industrie SpA.

The Group carries out monitoring to reduce such exchange risks even using covering instruments.

With regard to account currencies different from the U.S. dollar and Chinese Renminbi not hedged by ad hoc derivatives, the risk management strategy is one of acceptance, both because they normally deal with sums of modest value and because of the difficulty of finding suitable covering instruments.

Credit risk

The Group only deals with known and trustworthy clients; furthermore, the amount of credit is monitored during the financial year so that the sum exposed to losses is not significant.
For this purpose, with regards to PRIMA INDUSTRIE, a Group credit management unit has been set up.

It should be noted that there are no significant concentrations of credit risk within the Group. The financial activities are shown in the balance sheet net of the write-downs calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and eventually considering historical data.
In compliance with CONSOB Communication DEM/RM 11070007 of August 5th, 2011, we inform you that the PRIMA INDUSTRIE Group Holds no bonds issued by central and local governments nor by government bodies, and has granted no loans to these institutions.

Liquidity risk

The liquidity risk represents the risk that financial resources are not sufficient to fund the financial and commercial obligations within the pre-established periods and due dates.
The risk of liquidity to which the group is subject may emerge from late payments on its sales and more generally from the difficulty of obtaining financing to support operational activities in the time necessary. Cash flows, financing needs and the liquidity of the Group's companies are monitored or managed centrally under the control of the Group Treasury, with the aims of guaranteeing effective and efficient management of financial resources.

The Group operates with the aim of carrying out collection operations on the various financial markets with varied techniques, with the aim of guaranteeing a correct level of liquidity both current and future. The strategic aim is to ensure that at any moment the group has sufficient credit lines to service financial due dates over the following twelve months.
The current difficult market environment whether operational or financial requires particular attention to the management of liquidity risks and, in this sense, particular attention is given to those actions aimed at generating financial resources through operational management and the maintenance of an adequate level of available liquidity.

Therefore, the group has arranged to address the requirements emerging from financial payable due dates and from the investments, through the fluctuations caused by operational management, available liquidity, use of credit lines, the renewing of bank loans and eventual recourse to other forms of provision of a non-ordinary nature.

The table below lists, for the assets and liabilities at December 31st, 2016 and on the basis of the categories foreseen by IAS 39, the additional information on financial instruments pursuant to IFRS 7.

Fair value by category - IAS 39 - December 31, 2016 - Values expressed in Euro thousand

Assets	Category IAS 39	Financial value December 31, 2016	Amortized cost	FV in Equity	FV in income statement	IAS 17	Fair Value December 31, 2016
Cash and cash equivalents	NA	62,680	-	-	-	-	62,680
Assets held to maturity	Held to Maturity	793	-	-	-	-	793
Assets at fair value in profit or loss	Held for Trading	-	-	-	-	-	-
Assets valued under IAS 17	NA	13,627	-	-	-	13,627	13,627
TOTAL		**77,100**	**-**	**-**	**-**	**13,627**	**77,100**

Liabilities	Category IAS 39	Financial value December 31, 2016	Amortized cost	FV in Equity	FV in income statement	IAS 17	Fair Value December 31, 2016
Liabilities at amortized cost	Amortised Cost	83,224	83,224	-	-	-	84,364
Liabilities at fair value in profit or loss	Held for Trading	1,117	-	-	(1,568)	-	1,117
Hedge Derivatives	NA	-	-	-	-	-	-
Liabilities valued under IAS 17	NA	10,282	-	-	-	10,282	10,282
TOTAL		**94,623**	**83,224**	**-**	**(1,568)**	**10,282**	**95,763**

Profit and losses by category - IAS 39 - December 31, 2016 - Values expressed in Euro thousand

Assets	Category IAS 39	Net profit and loss	of which Interests
Cash and cash equivalents	NA	-	114
Assets held to maturity	Held to Maturity	-	-
Assets valued under IAS 17	NA	-	-
TOTAL		-	114

Liabilities	Categoria IAS 39	Net profit and loss	of which Interests
Liabilities at amortized cost	Amortised Cost	(5,289)	(4,148)
Liabilities at fair value in profit or loss	Held for Trading	(1,568)	(1,568)
Hedge Derivatives	NA	-	-
Liabilities valued under IAS 17	NA	(178)	(178)
Other Financial payables - factoring	NA	(167)	(167)
TOTAL		(7,202)	(6,061)

Hierarchical levels for assessment of fair value

In relation to the financial instruments disclosed in the financial position for fair value accounting purposes, IFRS 13 requires these values to be classified as a hierarchy of levels reflecting the weight of inputs used to determine the fair value. The following levels are used:

- level 1 – quoted prices in active markets for assets or liabilities subject to valuation;
- level 2 – inputs other than quoted prices included in level one that are observable either directly (as prices) or indirectly (derived from prices) on the market;
- level 3 – inputs that are not based on observable market data.

The following table shows the assets and liabilities entered at fair value at December 31st, 2016 according to hierarchical valuation of fair value.

Values expressed in Euro thousand	Level 1	Level 2	Level 3
Assets valuated at fair value	-	-	-
Other Assets	-	-	-
TOTAL ASSETS	**-**	**-**	**-**
Liabilities valuated at fair value	-	1,117	-
Other Liabilities	-	-	-
TOTAL LIABILITIES	**-**	**1,117**	**-**

Furthermore, for the sole purpose of disclosure, the fair value of all the items included in the net financial position is reported below, compared with relevant book value.

Values expressed in Euro thousand	Book Value	Fair Value
Cash	62,680	62,680
Other cash and cash equivalents	-	-
Cash on hand	**62,680**	**62,680**
Current financial receivables	**792**	**792**
Current bank payables	5,454	5,465
Current part of non-current indebtedness	24,993	25,242
Bond issued	871	940
Other current financial payables	4,472	4,472
Current financial indebtedness	**35,790**	**36,119**
Net current financial indebtedness	**(27,682)**	**(27,353)**
Non-current bank payables	59,195	59,646
Bond issued	39,660	40,000
Other non-current financial payables	13,042	13,062
Non-current financial indebtedness	**111,897**	**112,708**
Net financial position	**84,215**	**85,355**

Note 8.33 – Significant non-recurring items

The table below summarises non-recurring items that have had a negative impact on the Income Statement for a total of 705 thousand EUR.

Significant non-recurrent events and transactions (Values expressed in Euro thousand)	Other operating revenues	Personnel cost	Other operating costs	Impairment	Financial management	Net result of investments	Total as at December 31, 2016
Sale of know-how and licenses	-	-	-	-	-	-	-
Actions of reorganization/Restructuring	-	(411)	(435)	-	-	-	(846)
Legal/fiscal disputes and penalties from customers	580	-	(460)	-	-	-	120
EBITDA	580	(411)	(895)	-	-	-	(726)
Impairment of intangible fixed assets	-	-	-	(1,028)	-	-	(1,028)
Impairment of tangible fixed assets	-	-	-	-	-	-	-
EBIT	580	(411)	(895)	(1,028)	-	-	(1,754)
Advance Finpolar loan expenses	-	-	-	-	-	-	-
Devaluation of financial receivables	-	-	-	-	-	-	-
Economical effect on investments accounted for using the equity method	-	-	-	-	-	1,049	1,049
Economical effect on investments operations	-	-	-	-	-	-	-
NET RESULT BEFORE TAXES	580	(411)	(895)	(1,028)	-	1,049	(705)

For comparison purposes, the detail of non-recurring items for 2015 is shown below.

Significant non-recurrent events and transactions (Values expressed in Euro thousand)	Other operating revenues	Personnel cost	Other operating costs	Impairment	Financial management	Net result of investments	Total as at December 31, 2015
Sale of know-how and licenses	1,260	-	-	-	-	-	1,260
Actions of reorganization/Restructuring	-	(634)	(221)	-	-	-	(855)
Legal/fiscal disputes and penalties from customers	30	-	(1,044)	-	-	-	(1,014)
EBITDA	1,290	(634)	(1,266)	-	-	-	(609)
Impairment of intangible fixed assets	-	-	-	(383)	-	-	(383)
Impairment of tangible fixed assets	-	-	-	(25)	-	-	(25)
EBIT	1,290	(634)	(1,266)	(408)	-	-	(1,017)
Advance Finpolar loan expenses	-	-	-	-	(2,123)	-	(2,123)
Devaluation of financial receivables	-	-	-	-	(236)	-	(236)
Economical effect on investments operations	-	-	-	-	-	(50)	(50)
NET RESULT BEFORE TAXES	1,290	(634)	(1,266)	(408)	(2,359)	(50)	(3,426)

Note 8.34 – Transactions deriving from atypical and/or unusual business

Pursuant to CONSOB Bulletin of July 28th, 2006, we wish to specify that in 2016, the Group conducted no atypical and/or unusual business, as per its definition in the Bulletin itself, which states that atypical and/or unusual business are those transactions which, given their importance/relevance, nature of the counterparties, transaction scope, method in determining the price of transfer and time frame (close to closing date), could lead to doubts on: the accuracy/completeness of the information in the financial statements, conflicts of interest, protection of company wealth and protection of minority shareholders.

Signature of the Executive Chairman

Consolidated Financial Statements at December 31st, 2016 Declaration

PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14th, 1999 AND ITS SUBSEQUENT AMENDAMENTS AND INTEGRATIONS

1. The undersigned Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents) of Prima Industrie SpA certify that, taken account of article 154-bis, paragraphs 3 and 4, of Leg. Decree of February 24th, 1998, no. 58:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the consolidated financial statements over the course of 2016.
2. That no significant facts have emerged regarding thereto
3. Said signees furthermore certify that:

3.1 the consolidated financial statements:

a) is drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;

b) truthfully represent the figures in the accounting books and ledgers;

c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the Corporation and of the group of companies included in the consolidation.

3.2 the Report of the Board of Directors includes a reliable analysis of company business trends and results, as well as of the position of the Corporation and of the group of companies included in the consolidation, along with the description of the chief risks and uncertainties to which they are exposed.

Date: February 27th, 2017

Signature of the Executive Chairman

Signature of the Officer in charge of preparing the financial reports

CHAPTER 9

Prima Industrie SpA **Financial statements**
December 31st, 2016

CHAPTER 9 Financial statements of Prima Industrie SpA at December 31st, 2016

STATEMENT OF FINANCIAL POSITION

VALUES IN EURO	*Notes*	December 31, 2016	December 31, 2015
Property, plant and equipment	*11.1*	13,954,864	6,773,620
Intangible assets	*11.2*	9,945,490	9,487,291
Investment in subsidiaries	*11.3*	159,429,421	141,200,554
Other investments	*11.4*	11,931	11,931
Financial assets - loan to the subsidiaries	*11.5*	2,800,000	-
Other financial assets	*11.6*	-	18,128,639
Deferred tax assets	*11.7*	2,291,324	2,381,269
NON CURRENT ASSETS		**188,433,030**	**177,983,304**
Inventories	*11.8*	24,445,109	21,515,280
Trade receivables	*11.9*	43,266,836	39,260,864
Other receivables	*11.10*	2,638,733	2,377,098
Current tax receivables	*11.11*	3,045,409	4,377,960
Derivatives	*11.14*	-	47,225
Financial assets	*11.5*	5,886,259	5,650,714
Cash and cash equivalents	*11.12*	7,456,973	5,514,785
CURRENT ASSETS		**86,739,319**	**78,743,926**
TOTAL ASSETS		**275,172,349**	**256,727,230**
Capital stock	*11.13*	26,208,185	26,208,185
Legal reserve	*11.13*	4,565,082	4,494,745
Other reserves	*11.13*	71,034,163	72,539,104
Retained earnings	*11.13*	(1,697,935)	(1,775,643)
Net result	*11.13*	1,757,529	1,406,734
STOCKHOLDERS' EQUITY		**101,867,024**	**102,873,125**
Interest-bearing loans and borrowings	*11.15*	83,857,011	83,429,200
Employee benefit liabilities	*11.16*	3,778,483	3,738,078
Deferred tax liabilities	*11.17*	806,191	816,000
Provisions	*11.18*	1,008,735	1,140,534
Derivatives	*11.14*	82,687	-
NON CURRENT LIABILITIES		**89,533,107**	**89,123,812**
Trade payables	*11.19*	47,895,027	34,405,904
Advance payments	*11.19*	2,110,241	2,990,067
Other payables	*11.19*	6,773,985	6,254,049
Interest-bearing loans and borrowings	*11.15*	19,236,238	12,357,303
Current tax payables	*11.20*	2,275,053	4,080,670
Provisions	*11.18*	4,585,900	4,642,300
Derivatives	*11.14*	895,774	-
CURRENT LIABILITIES		**83,772,218**	**64,730,293**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**275,172,349**	**256,727,230**

INCOME STATEMENT

VALUES IN EURO	*Notes*	December 31, 2016	December 31, 2015
Net revenues	*11.21*	124,694,119	109,781,243
Other income	*11.22*	3,947,153	4,531,445
Change in inventories of finished goods and WIP	-	962,122	4,147,894
Increases in fixed assets for internal work	*11.23*	2,338,950	3,002,678
Use of raw materials, consumables, supplies and goods	-	(71,238,035)	(61,549,655)
Personnel cost	*11.24*	(24,997,605)	(23,075,526)
Depreciation	*11.25*	(2,712,717)	(1,679,938)
Other operating expenses	*11.26*	(27,575,390)	(26,915,791)
OPERATING PROFIT		**5,418,597**	**8,242,350**
Financial income	*11.27*	3,507,775	2,176,719
Financial expenses	*11.27*	(6,378,796)	(8,092,411)
Net exchange differences	*11.27*	(237,608)	(144,063)
RESULT BEFORE TAXES		**2,309,968**	**2,182,595**
Taxes	*11.28*	(552,439)	(775,861)
NET RESULT		**1,757,529**	**1,406,734**

STATEMENT OF COMPREHENSIVE INCOME

VALUES IN EURO	*Notes*	December 31, 2016	December 31, 2015
NET RESULT (A)		**1,757,529**	**1,406,734**
Gains/ (Losses) on actuarial defined benefit plans	*11.13*	(92,945)	149,265
Tax effect	*11.13*	12,974	(41,048)
Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)		**(79,971)**	**108,217**
Gains /(Losses) on cash flow hedges	*11.13*	(82,686)	1,692,873
Tax effect	*11.13*	19,845	(465,541)
Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)		**(62,841)**	**1,227,332**
TOTAL COMPREHENSIVE INCOME (A) + (B) +(C)		**1,614,717**	**2,742,283**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

VALUES IN EURO	Capital stock	Additional paid-in capital	Legal reserve	Capital increase - expenses	FV derivates adjustment reserve	Other reserves	Retained ernings	Net result	EQUITY
Balance as at December 31, 2014	**26,208,185**	**57,506,537**	**4,455,497**	**(1,286,154)**	**(1,227,332)**	**17,669,667**	**(1,883,860)**	**784,956**	**102,227,496**
Allocation of prior year net result	-	-	39,248	-	-	745,708	-	(784,956)	-
Dividends paid	-	-	-	-	-	(2,096,654)	-	-	(2,096,654)
Result of comprehensive Income	-	-	-	-	1,227,332	-	108,217	1,406,734	2,742,283
Balance as at December 31, 2015	**26,208,185**	**57,506,537**	**4,494,745**	**(1,286,154)**	**-**	**16,318,721**	**(1,775,643)**	**1,406,734**	**102,873,125**
Allocation of prior year net result	-	-	70,337	-	-	1,336,397	-	(1,406,734)	-
Dividends paid	-	-	-	-	-	(2,620,818)	-	-	(2,620,818)
Reclassification of reserves						(77,708)	77,708		
Result of comprehensive Income	-	-	-	-	(62,841)	(79,971)	-	1,757,529	1,614,717
Balance as at December 31, 2016	**26,208,185**	**57,506,537**	**4,565,082**	**(1,286,154)**	**(62,841)**	**14,876,621**	**(1,697,935)**	**1,757,529**	**101,867,024**

CASH FLOW STATEMENT

VALUES IN EURO	December 31, 2016	December 31, 2015
Net result	**1,757,529**	**1,406,734**
Adjustments (sub-total)	7,994,979	(20,204,277)
Depreciation	2,712,717	1,679,938
Net change in deferred tax assets and liabilities	80,136	758,836
Change in employee benefits liabilities	40,405	(362,838)
Change in inventories	(2,929,829)	(2,748,253)
Change in trade receivables	(4,005,972)	621,631
Change in trade payables and advances	12,609,297	(4,373,512)
Net change in other receivables/payables and other assets/liabilities	(511,775)	(15,780,079)
Cash Flows from (used in) operating activities (A)	**9,752,508**	**(18,797,543)**
Cash flow from investments		
Acquisition of tangible fixed assets (*)	(728,277)	(750,116)
Acquisition of intangible fixed assets	(414,445)	(764,939)
Capitalization of development costs	(2,141,945)	(2,670,393)
Net disposal of fixed assets and investment in subsidiaries	22,938	94,952
Capital Increase FINN-POWER OY	(18,228,867)	(5,000,000)
Capital Increase PRIMA POWER GMBH	-	(1,039,712)
Reversal of devaluation provision of PRIMA POWER GMBH	-	6,960,288
Capital Increase PRIMA POWER SUZHOU	-	(474,053)
Devaluation PRIMA POWER SOUTH AMERICA Ltda	82,656	650,948
Devaluation PRIMA POWER AUSTRALASIA	26,155	43,037
Cash Flows from (used in) investing activities (B)	**(21,381,785)**	**(2,949,988)**
Cash flow from financing activities		
Change in financial receivables and other financial assets	15,093,094	37,883,150
Change in other non current financial liabilities and other minor items	937,515	(1,082,282)
Increases in loans and borrowings (including bank overdrafts)	10,613,958	94,324,602
Repayment of loans and borrowings (including bank overdrafts)	(10,372,313)	(108,695,046)
Dividends paid	(2,620,818)	(2,096,654)
Other variations	(79,971)	108,217
Cash Flows from (used in) financing activities (C)	**13,571,465**	**20,441,987**
Net change in cash and equivalents (D=A+B+C)	**1,942,188**	**(1,305,544)**
Cash and equivalents beginning of period (E)	**5,514,785**	**6,820,329**
Cash and equivalents end of period (F=D+E)	**7,456,973**	**5,514,785**

(*) not included the acquisition of real estate assets by means of a financial lease

Additional Information to the Consolidated Statement of Cash-Flow	December 31, 2016	December 31, 2015
Values in Euro		
Taxes	(552,439)	(775,861)
Financial incomes	3,507,775	2,176,719
Financial expenses	(6,378,796)	(8,092,411)

STATEMENT OF FINANCIAL POSITION pursuant to CONSOB N.15519 of July 27th, 2006

VALUES IN EURO	*Notes*	December 31, 2016	*of which related parties*	December 31, 2015	*of which related parties*
Property, plant and equipment	*11.1*	13,954,864	-	6,773,620	-
Intangible assets	*11.2*	9,945,490	-	9,487,291	-
Investment in subsidiaries	*11.3*	159,429,421	*159,429,421*	141,200,554	*141,200,554*
Other investments	*11.4*	11,931	-	11,931	-
Financial assets - loan to the subsidiaries	*11.5*	2,800,000	*2,800,000*	-	-
Other financial assets	*11.6*	-	-	18,128,639	*18,128,639*
Deferred tax assets	*11.7*	2,291,324	-	2,381,269	-
NON CURRENT ASSETS		**188,433,030**		**177,983,304**	
Inventories	*11.8*	24,445,109	-	21,515,280	-
Trade receivables	*11.9*	43,266,836	*17,939,689*	39,260,864	*16,657,363*
Other receivables	*11.10*	2,638,733	-	2,377,098	-
Current tax receivables	*11.11*	3,045,409	-	4,377,960	-
Derivatives	*11.14*	-	-	47,225	-
Financial assets	*11.5*	5,886,259	*5,094,750*	5,650,714	*4,859,205*
Cash and cash equivalents	*11.12*	7,456,973	-	5,514,785	-
CURRENT ASSETS		**86,739,319**		**78,743,926**	
TOTAL ASSETS		**275,172,349**		**256,727,230**	
Capital stock	*11.13*	26,208,185	-	26,208,185	-
Legal reserve	*11.13*	4,565,082	-	4,494,745	-
Other reserves	*11.13*	71,034,163	-	72,539,104	-
Retained earnings	*11.13*	(1,697,935)	-	(1,775,643)	-
Net result	*11.13*	1,757,529	-	1,406,734	-
STOCKHOLDERS' EQUITY		**101,867,024**		**102,873,125**	
Interest-bearing loans and borrowings	*11.15*	83,857,011	*4,000,000*	83,429,200	*2,500,000*
Employee benefit liabilities	*11.16*	3,778,483	-	3,738,078	-
Deferred tax liabilities	*11.17*	806,191	-	816,000	-
Provisions	*11.18*	1,008,735	-	1,140,534	-
Derivatives	*11.14*	82,687	-	-	-
NON CURRENT LIABILITIES		**89,533,107**		**89,123,812**	
Trade payables	*11.19*	47,895,027	*11,534,326*	34,405,904	*6,100,042*
Advance payments	*11.19*	2,110,241	-	2,990,067	*58,285*
Other payables	*11.19*	6,773,985	*690,222*	6,254,049	*579,190*
Interest-bearing loans and borrowings	*11.15*	19,236,238	*85,160*	12,357,303	-
Current tax payables	*11.20*	2,275,053	-	4,080,670	-
Provisions	*11.18*	4,585,900	-	4,642,300	-
Derivatives	*11.14*	895,774		-	-
CURRENT LIABILITIES		**83,772,218**		**64,730,293**	
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**275,172,349**		**256,727,230**	

INCOME STATEMENT pursuant to CONSOB N.15519 of July 27th, 2006

VALUES IN EURO	*Notes*	December 31, 2016	*of which related parties*	December 31, 2015	*of which related parties*
Net revenues	*11.21*	124,694,119	*53,678,595*	109,781,243	*49,854,708*
Other income	*11.22*	3,947,153	*2,394,286*	4,531,445	*1,626,864*
Change in inventories of finished goods and WIP	-	962,122	-	4,147,894	-
Increases in fixed assets for internal work	*11.23*	2,338,950	-	3,002,678	-
Use of raw materials, consumables, supplies and goods	-	(71,238,035)	*(14,721,227)*	(61,549,655)	*(12,644,599)*
Personnel cost	*11.24*	(24,997,605)	*(367,503)*	(23,075,526)	*(338,368)*
Depreciation	*11.25*	(2,712,717)	-	(1,679,938)	-
Other operating expenses	*11.26*	(27,575,390)	*(6,589,247)*	(26,915,791)	*(2,427,124)*
OPERATING PROFIT		**5,418,597**		**8,242,350**	
of which: non recurring items		***(251,427)***		***1,038,142***	
Financial income	*11.27*	3,507,775	*3,066,806*	2,176,719	*2,437,881*
Financial expenses	*11.27*	(6,378,796)	*(209,784)*	(8,092,411)	*(751,373)*
Net exchange differences	*11.27*	(237,608)	-	(144,063)	-
RESULT BEFORE TAXES		**2,309,968**		**2,182,595**	
of which: non recurring items		***(360,238)***		***(2,014,470)***	
Taxes	*11.28*	(552,439)	-	(775,861)	-
NET RESULT		**1,757,529**		**1,406,734**	

CASH FLOW STATEMENT pursuant to CONSOB N.15519 of July 27th, 2006

VALUES IN EURO	December 31, 2016	*of which related parties*	December 31, 2015	*of which related parties*
Net result	**1,757,529**	**-**	**1,406,734**	**-**
Adjustments (sub-total)	7,994,979	-	(20,204,277)	-
Depreciation	2,712,717	-	1,679,938	-
Net change in deferred tax assets and liabilities	80,136	-	758,836	-
Change in employee benefits liabilities	40,405	-	(362,838)	-
Change in inventories	(2,929,829)	-	(2,748,253)	-
Change in trade receivables	(4,005,972)	*(1,282,326)*	621,631	*(1,936,883)*
Change in trade payables and advances	12,609,297	*5,434,284*	(4,373,512)	*(3,092,224)*
Net change in other receivables/payables and other assets/liabilities	(511,775)	*111,032*	(15,780,079)	*(23,739)*
Cash Flows from (used in) operating activities (A)	**9,752,508**		**(18,797,543)**	
Cash flow from investments				
Acquisition of tangible fixed assets (*)	(728,277)	-	(750,116)	-
Acquisition of intangible fixed assets	(414,445)	-	(764,939)	-
Capitalization of development costs	(2,141,945)	-	(2,670,393)	-
Net disposal of fixed assets and investment in subsidiaries	22,938	-	94,952	-
Capital Increase FINN-POWER OY	(18,228,867)	*(18,228,867)*	(5,000,000)	*(5,000,000)*
Capital Increase PRIMA POWER GMBH	-	-	(1,039,712)	*(1,039,712)*
Reversal of devaluation provision of PRIMA POWER GMBH	-	-	6,960,288	-
Capital Increase PRIMA POWER SUZHOU	-	-	(474,053)	*(474,053)*
Devaluation PRIMA POWER SOUTH AMERICA Ltda	82,656	*82,656*	650,948	*650,948*
Devaluation PRIMA POWER AUSTRALASIA	26,155	*26,155*	43,037	*43,037*
Cash Flows from (used in) investing activities (B)	**(21,381,785)**		**(2,949,988)**	
Cash flow from financing activities				
Change in financial receivables and other financial assets	15,093,094	*15,093,094*	37,883,150	*38,232,768*
Change in other non current financial liabilities and other minor items	937,515	-	(1,082,282)	-
Increases in loans and borrowings (including bank overdrafts)	10,613,958	*1,585,160*	94,324,602	*2,500,000*
Repayment of loans and borrowings (including bank overdrafts)	(10,372,313)	-	(108,695,046)	-
Dividends paid	(2,620,818)	-	(2,096,654)	-
Other variations	(79,971)	-	108,217	-
Cash Flows from (used in) financing activities (C)	**13,571,465**		**20,441,987**	
Net change in cash and equivalents (D=A+B+C)	**1,942,188**		**(1,305,544)**	
Cash and equivalents beginning of period (E)	**5,514,785**		**6,820,329**	
Cash and equivalents end of period (F=D+E)	**7,456,973**		**5,514,785**	

(*) not included the acquisition of real estate assets by means of a financial lease

CHAPTER 10

Description of **Accounting Principles**

CHAPTER 10 Description of accounting principles

Company information

Prima Industrie SpA (the "company") is incorporated under Italian law and is the parent company which holds, directly or indirectly through other companies, shares in the capital of the PRIMA INDUSTRIE Group. The company is headquartered in Collegno (TO), Italy.

The scope of Prima Industrie SpA includes the design, manufacture and marketing of devices, instruments, machines and mechanical, electrical and electronic equipment and related programming (software) for industrial automation or in other areas where the company's technology may be usefully employed.

The company can also provide industrial services of a technical, managerial and organisational nature in the production of capital goods and industrial automation.
Its main activity is focused in the field of laser cutting and welding machines for two-dimensional (2D) and three-dimensional applications (3D).

Prima Industrie SpA, as the parent company, has also prepared the consolidated financial statements of the PRIMA Group at December 31st, 2016.

Valuation Criteria

The 2016 financial statements represent the separate financial statements of the parent company Prima Industrie SpA and have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union. The IFRS also includes all valid International Accounting Standards ("IAS") and all interpretations of the International *Financing Reporting Interpretations Committee* ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In compliance with European Regulation no. 1606 of July 19th, 2002, starting from 2005, the PRIMA Group has adopted the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") in the preparation of the consolidated financial statements. Depending on the national legislation implementing that Regulation, the financial statements of the parent company Prima Industrie SpA have been prepared in accordance with these standards since 2006.

The disclosures required by IFRS 1, First Time Adoption of IFRS, regarding the effects following the transition to IFRS, was included in a specific Chapter to the Financial Statements at December 31st, 2006, to which reference is made.

The financial statements are prepared in accordance to the historical cost principle, except for financial assets and liabilities (including derivative instruments) of the category at fair value with changes in value recorded in the Income Statement, as well as on a going concern basis. The Group has determined that there are no significant uncertainties (as defined by par. 25 of IAS 1) on business continuity.
On this issue, it is also appropriate to refer to the specific comment included in the consolidated financial statements in Chapter 6 "DESCRIPTION OF ACCOUNTING PRINCIPLES" in the section "Accounting policies used".

The preparation of the financial statements in accordance with IFRS inevitably requires the use of accounting estimates and opinions expressed by the Directors of the company. Aspects of the financial statements that require the application of more complex estimates and greater recourse to the judgements of the Directors is provided below.
This Financial Statements are audited by Reconta Ernst & Young SpA.

Financial statements - Format

The company presents its Income Statement by type of cost. With reference to the assets and liabilities of the balance sheet a form of presentation that distinguishes between current and non-current, as allowed by IAS 1, has been adopted. Moreover, information on the timing of liabilities is provided in the notes. The cash flow statement was prepared under the indirect method.
The Group has opted to use the formats described hereinafter in drafting its Financial Statements:

a) for the Consolidated Balance Sheet, the format used distinguishes the assets and liabilities between "current" (i.e. receivable or payable in 12 months) and "non-current" (i.e. receivable or payable over 12 months);
b) for the Consolidated Profit & Loss, the format used distributes costs according to their type; the Global Consolidated Income Statement includes, besides the Profit in the year as listed in the Consolidated Profit & Loss, the other variations to the Net Equity that do not refer to transactions with Shareholders;
c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;
d) for the Financial Account, the so-called "indirect" method was chosen, whereby the net financial flow of company business is determined by adjusting the profit and loss, because of the effects of:
    - non-monetary elements such as amortisation and depreciation;
    - variations of inventory, receivables and payables generated by company business;
    - other elements whose financial flows are generated by investments and financings.

Please note, furthermore, that with reference to CONSOB Resolution no. 15519 of July 27th, 2006 concerning the format of financial statements, specific supplementary schemes have been added for the Income Statement and for the Balance Sheet, which particularly stress those relations with associates and non-recurrent transactions that are most significant, in order to make the financial statements more readily comprehensible.

Changes in **accounting policies**

With regard to the changes in accounting principles that took place in 2016, reference is made, as stated, in Chapter 6 of the consolidated financial statements, "DESCRIPTION OF ACCOUNTING PRINCIPLES".

Conversion of **foreign currency**

The financial statements have been prepared in Euro, the functional and presentation currency. Transactions in foreign currency are initially recorded at the exchange rate at the transaction date. The assets and liabilities in currencies other than the Euro are converted into EUR using the exchange rates applicable at the balance sheet date. All exchange differences are recognised in the Income Statement, provided that the accounting standards allow the revaluation in equity.

Tangibles assets

All classes of tangible assets, including investment properties, are stated at historical cost, as expected by IFRS 1, less accumulated depreciation and impairment losses, except for land, recorded at historical cost less impairment, where applicable. Cost includes all expenses directly attributable to the acquisition.

Costs incurred after the acquisition of the asset are accounted for as an increase of their historical value or booked separately only if it is probable that they will generate future economic benefits and the costs can be measured reliably. Depreciation of tangible fixed assets is calculated using the straight-line method, in order to distribute the residual book value of its estimated economic life as follows:

- Buildings and incremental work: 33 years
- Plant and machinery 10 - 5 years
- Equipment: 4 - 5 years
- Furniture and office equipment: 9 - 5 years
- Electronic office equipment: 5 years
- Motor vehicles: 3 - 5 years

Extraordinary maintenance capitalised as an increase of an existing asset is depreciated over the remaining useful life of the asset or, if lower, during the period until the next maintenance.

The residual value and the useful life of tangible assets are reviewed and adjusted, if appropriate, at the date of the balance sheet.
The book value of tangible fixed assets is written down to its recoverable value immediately, whenever the former exceeds the latter.

Gains and losses on disposal of tangible assets are recognised in the Income Statement and are determined by comparing the carrying amount with the sale price.

Assets held under finance leases, through which all property risks and rewards are substantially transferred to the company, are recognised as Group assets at their fair value or, if lower, at the present value of minimum lease payments due for the lease. The lease fee is separated between the capital portion and the interest, which is determined by applying a fixed interest rate on outstanding debt.

Financial debt payable to the leasing company is recognised as a liability in the short term, for the current portion, and as long-term liabilities for the portion due over one year. The interest cost is recognised in the Income Statement over the term of the contract. The asset under finance leases are recognised as intangible assets and are amortised over the estimated economic useful life of the asset.

Leases for which the lessor substantially preserves all the property risks and rewards are classified as operating leases. The costs of operating leases are recognised in the Income Statement over the term of the lease.

Property investments held for lease are measured at cost less accumulated depreciation and accumulated impairment losses.

Intangible Assets

Finite useful life

(a) ***Software***

Software licences are capitalised at the cost incurred to obtain and implement them and amortised over the estimated useful life (3 to 5 years).
Costs associated with the development and maintenance of software are treated as period costs and charged to the Income Statement on an accruals basis.

(b) ***Research and development costs***

Research costs are recognised in the Income Statement in the period in which they are incurred. Development costs incurred in relation to a specific project are capitalised if the following conditions are met:

- the costs can be measured reliably;
- the technical feasibility of the projects, the volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits.

Development costs recorded in Income Statements in previous years cannot be capitalised retrospectively even if the requirements are met in the following years.
Development costs with a finite useful life are amortised starting from the date the product is commercialised, based on the period in which they are expected to produce economic benefits, in any case not more than 5 years. Development costs that do not meet these characteristics are charged to the Income Statement in the year in which they are incurred.

(c) ***Other intangible assets***

Other intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at fair value at the acquisition date.
After initial recognition, intangible assets with finite useful life are recorded at cost, less depreciation and impairment; intangible assets with indefinite useful life are recorded at cost less impairment only.

Intangible assets generated internally are not capitalised but are recognised in the Income Statement in the year in which they were incurred.

Intangible assets with a finite useful life are verified annually for “impairment” whenever there are any reasons to justify it; such analysis can be conducted for each individual intangible asset or cash revenues generating unit. The useful lives of other intangible assets are reviewed annually: possible changes are applied prospectively, where possible.

Investments in **subsidiaries and associates**

They are recorded at cost and adjusted for impairment loss. The positive difference arising from the purchase agreement between the acquisition cost and the share of net equity at the fair value of the company's subsidiary is therefore included in the carrying amount of the investment. Investments in subsidiaries and associates are reviewed for impairment when there are related indicators. If there is any evidence that these investments have suffered an impairment loss, the loss is recognised in the Income Statement as an impairment loss. If any share of the company's losses exceeds the carrying amount of the investment, and the company has an obligation to respond, then the value of the investment is reduced to nil and the share of further losses is recognised as a provision under liabilities. If the impairment is subsequently nil or reduced, it is recognised in the Income Statement as a reversal of impairment within cost limits.

Investments in **other companies**

Investments in other small companies, for which no market price is available, are stated at cost less any impairment losses.

Impairment of **Assets**

Assets with indefinite lives not subject to amortisation are tested for their recoverable value (impairment) annually and whenever there is an indication that the carrying amount may not be recoverable. Assets subject to amortisation are tested for impairment only if there is an indication that their carrying value may not be recoverable.
The amount of the impairment loss is determined as the difference between the asset's carrying amount and its recoverable amount, determined as the higher amount between the sale price net of transaction costs and its use value, that is the current value of estimated cash flows, before tax, applying a discount rate that reflects current market assessments of the time value of money and the specific risk connected to the asset. An impairment loss is recognised if the recoverable amount is less than the book value. When a loss on an asset other than goodwill is reversed or reduced, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount and cannot exceed the carrying amount that would have been determined if there had been no loss in value. The reversal of an impairment loss is recognised immediately in the Income Statement.

Financial **instruments**

Presentation

The financial instruments held by the Company are included in the items described below. Investments and other non-current financial assets include investments in subsidiaries and other companies as well as investments in joint ventures and other non-current assets.
Current financial assets include trade receivables and cash and cash equivalents. In particular, the item Cash and cash equivalents include bank deposits. The financial liabilities refer to financial payables, including payables for advances on orders, transfer of receivables, and other financial liabilities (which include the negative fair value of derivative financial instruments), trade payables and other payables.

Valuation

Investments in subsidiaries, associates, joint ventures and other companies included under non-current financial assets are accounted for as described in the previous paragraphs.
Non-current assets other than investments, as well as financial liabilities, are accounted for in accordance with IAS 39 - Financial Instruments: Recognition and Measurement.

Loans and receivables that the company does not hold for trading purposes, the assets held with the intention of holding them to maturity are measured at amortised cost using the effective interest method. When financial assets do not have a fixed maturity they are measured at acquisition cost. Assessments are made regularly in order to check whether there is objective evidence that a financial asset may have suffered an impairment loss. If any evidence exists, the impairment loss is recognised as an expense in the Income Statement for the period. With the exception of derivative financial instruments, financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities subject to fair value hedges are valued in accordance with the methods established for hedge accounting: gains and losses from subsequent fair value valuations, due to changes in the hedged risks, are disclosed in the Income Statement and are offset by the effective portion of the loss or gain arising from subsequent fair value valuations of the hedging instrument.

Derivative financial instruments

In compliance with IAS 39, derivative financial instruments can be accounted for in accordance with the *hedge accounting* only when:

- at the beginning of the hedge, there is formal designation and documentation of the hedging relationship;
- it is assumed that the hedge is highly effective;
- effectiveness can be reliably measured and
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.
When financial instruments have the characteristics to be accounted for under *hedge accounting*, the following accounting treatment applies:

- *Cash-flow hedge*. If a derivative financial instrument is designated as a hedge for the exposure to variability in future cash flows of an asset or liability recognised in the balance sheet or for a highly probable expected transaction and could affect the Income Statement, the effective portion of the gain or loss on the financial instrument is recognised in other comprehensive income / (loss). The derivative gain or loss is removed from other comprehensive income / (loss) and recognised in the Income Statement of the period in which the relative economic effect of the hedged transaction is noted. The gain or loss associated with a hedge (or part of the hedge) that has become ineffective is recognised in the Income Statement immediately. If a hedging instrument or hedge relations is completed but the hedged transaction has not yet been realised, the gains and losses accrued up to the time recorded in other comprehensive income / (loss) are recognised in the Income Statement interrelated with the detection of the economic effects of the hedged transaction. If the hedged transaction is no longer probable, the cumulative gains or losses not yet realised in other comprehensive income / (loss) are recognised immediately in the Income Statement.
- *Fair value hedge*. If a derivative financial instrument is designated as a hedge of the exposure to changes in the fair value of an asset or liability that is attributable to a particular risk and could affect the Income Statement, the gain or loss from reviewing the fair value of the hedging instrument are recognised in the Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the item and are recognised in the Income Statement.
- *Hedge of a net Investment*. If a derivative financial instrument is designated as a hedge of a net investment in a foreign operation, the effective portion of the gain or loss on the derivative financial instrument is recognised in other comprehensive income / (loss). The gain or loss is removed from equity and recognised in the Income Statement at the date of disposal of the foreign asset.

Financial **Liabilities**

Financial liabilities include financial payables, including payables for advances on orders, transfer of receivables, and other financial liabilities, including derivative financial instruments and liabilities in respect of assets acquired under finance leases. Pursuant to IAS 39, they also include trade and other payables of different nature.
Financial liabilities, other than derivative financial instruments are initially recognised at fair value and are subsequently measured at amortised cost, i.e. the initial value, net of principal repayments made, adjusted (up or down) on the basis of depreciation (using the effective interest method) of any difference between the initial amount and the maturity amount.

Loans

Loans are initially recognised at fair value, net of any incidental charges. After initial recognition they are recorded at amortised cost. Any difference between the proceeds net of any transaction costs and the redemption value is recognised in the Income Statement on an accrual basis at the effective interest rate method.
Loans are sorted as short-term liabilities, unless the Company has an unconditional right to defer then over 12 months after the date of the balance sheet.

Inventories

Inventories are stated at the lower amount between cost and net realisable value, the latter is represented by the normal sales value during ordinary activities, less the variable costs of sale.
The cost is determined using the weighted average cost method. The cost of finished goods and semi-finished goods includes the cost of design, raw materials, direct labour, other direct costs and other indirect costs allocated to production activities based on normal production capacity and on the progress. This costing does not include interest expense.
Provision is made for materials, finished goods, spare parts and other supplies considered obsolete or slow moving, taking into account their expected future use and realisable value.
The realisable value is the estimated sale price during normal operations, net of all estimated costs for the completion of the asset and sale and distribution costs.

Trade and **other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, net of the allowance to take account of their uncollectible accounts. The allowance is recognised if there is objective evidence that the Company is not able to collect the full amount due on the date agreed with the customer.
The amount of the allowance is determined as the difference between the asset's carrying amount and the present value of future collections, discounted at the effective interest rate. The allowance is recognised in the Income Statement.

Transfer of receivables

Receivables transferred as a result of factoring transactions are eliminated from the balance sheet assets only if the ownership risks and rewards have been substantially transferred to the concessionaire. Recourse and non-recourse receivables transferred that do not meet this requirement remain in the balance sheet of the company, although they have been legally transferred, in this case a liability of equal amount is recognised as a liability against the advance received.

Cash and **Cash Equivalents**

Cash and cash equivalents includes cash, bank accounts, demand deposits and other highly liquid short-term financial investments, that are readily convertible into cash and are subject to an insignificant risk of changes in value.

Assets **held for sale**

Assets held for sale include non-current assets (or groups of assets being disposed of) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower amount between their carrying amount and fair value less selling costs.

Share Capital

Ordinary shares are classified as equity. Accessory costs incurred to issue shares or options are shown in equity as a reduction of the cash received.
When the company purchases its own shares, the price paid, net of any directly attributable accessory costs, is deducted from equity until the shares are cancelled, reissued or sold.

Employee Benefits

On June 16th, 2011, the IASB issued an amendment to "IAS 19 - Employee Benefits", which modifies the rules for the recognition of fixed benefits plans and of *terminations benefits*. The main changes concern the recognition in the balance sheet of the deficit or surplus of the plan, the introduction of the net financial burden and the classification of net financial expenses. In particular:

- Recognition of the deficit or surplus of the plan: the amendment eliminates the option to defer actuarial gains and losses with the "corridor method" and it requires the recognition directly in Other overall gains (losses) and the recognition in the Income Statement of costs related to past service;
- Net financial burden: the net financial burden is composed of financial costs calculated on the present value of liabilities for fixed benefits plans, financial gains from the valuation of plan’s assets and financial income or expenses arising from any limits to the recognition of the surplus of the plan. The net financial burden is determined using for all of these components the discount rate used for the measurement of the fixed benefits plans at the beginning of the period;
- Classification of net financial expenses: net financial expenses will be recognised among the financial income (expense) in the Income Statement.

(a) ***Pension Plans***
Until December 31st, 2006, the provision for severance indemnities (TFR) was considered a defined benefit plan.
The regulations for this provision were amended by the Law no. 296 of December 27th, 2006 (2007 Finance Law) and subsequent Decrees and Regulations issued in early 2007. In light of these changes, and in particular with reference to companies with at least 50 employees, this is now considered a defined benefit plan only for amounts accrued prior to January 1st, 2007

(and not yet budgeted), while amounts accrued after that date are treated as a defined contribution plan.

Defined benefit plans are pension plans that define the amount of the retirement benefit payable to the worker upon termination of employment, an amount that depends on several factors such as age, years of service and salary.
The defined plans are contribution pension plans for which the Company pays a fixed amount to a separate entity. The company has no legal or implicit obligation to pay further amounts if the activities in the plan were not sufficient to pay the employees the benefits due for the current service and past services.
The plans described here were recorded in accordance with the provisions of IAS 19.

(b) Benefits granted to the achievement of certain seniority
The company offers its employees benefits upon achievement of a certain length of service.
The benefits described here were recorded in accordance with the provisions of IAS 19.

(c) *Benefits granted upon termination of the employment relationship*
These benefits are payable to workers in the event of early termination of the employment relationship, the date of retirement, or termination due to company restructuring plans. The company records a liability in the balance sheet in respect of these benefits when:

- there is a formal, detailed plan of incentives to leave and employees cannot refuse;
- an offer is made to employees to encourage voluntary redundancy; The amounts payable beyond 12 months from the balance sheet date are discounted to present value.

(d) Incentives, bonuses and profit-sharing schemes
The company recognises costs and debt for liabilities that arise for bonuses, incentive compensation and profit-sharing schemes, determined using a formula that considers the profits attributable to shareholders after certain adjustments. The company records a liability to a provision only if it is probable that the event could happen, if it is contractually obliged or where there is a custom that defines an implicit obligation.

(e) *Employee benefits granted in shares*
The company provides additional benefits to certain members of management and employees through equity compensation plans (*share option* plans).

In accordance with IFRS 2 - Share-based payments, these plans are a component of the remuneration of beneficiaries, so the cost is the fair value of *share options* at the grant date and is recognised in the Income Statement on a straight-line basis over the period between the grant date and the vesting date, with the offsetting credit recognised directly in equity. Changes in fair value subsequent to the grant date do not affect the initial assessment.

Provisions for **liabilities and charges**

Provisions for risks and charges are recognised when:

- a legal or implicit obligation arises for the company as a result of past events;
- an outflow of resources to settle the obligation and the amount thereof is probable;
- it can be determined reliably.

The restructuring provisions include both liabilities arising from the leave incentives as well as penalties related to the termination of the lease agreements. Provisions are not set aside for risks and charges in respect of future operating losses.
Provisions are measured by discounting the best estimates made by the Directors to identify the amount of costs that the Company shall bear to settle the obligation at the date of the balance sheet.

Revenues

Revenues include the fair value arising from the sale of goods and services, net of VAT, returns, discounts and transactions between Group companies. Revenues are recognised according to the following rules:

(a) Sale of goods
Revenues from the sale of goods (laser systems, sheet metal processing machines and components) are recognised when all the following conditions are met:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group ceases to exercise effective control over the sold goods;
- the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Provision of services
Revenues from services are recognised based on the progress made in the period in which they are performed.

(c) Interest
Interest income is recognised on an accrual basis at amortised cost using the effective interest rate (the rate that discounts estimated future cash flows exactly based on the expected life of the financial instrument).

(d) *Royalties*
Revenues from *royalties* are recognised on an accrual basis under the agreed conditions in the underlying contracts.

(e) *Dividends*
Dividends are recognised in the period in which the right of shareholders to receive the payment arises.

Taxes

a) Current: the burden on income taxes for the year is determined in accordance with current legislation. Income taxes are recognised in the Income Statement. Concerning in particular Prima Industrie SpA and its subsidiaries Prima Electro SpA and FINN-POWER ITALY Srl, it should be noted that it is in force the tax bracket of its national consolidated business pursuant to article 117/129 of the Consolidation Act on tax on income (TUIR).

b) Deferred: Deferred tax liabilities and deferred tax assets are calculated on all temporary differences between the tax value and the book value of assets and liabilities in the financial statements of the company.

They are calculated using the tax rates and laws that have been enacted at the balance sheet date, or substantially enacted, and that are expected to be applicable at the time of the reversal of temporary differences that gave rise to the recognition of deferred tax.
The deferred tax assets on tax losses and temporary differences are recognised only if sufficient taxable income to their compensation is probable at the time of the reversal of the temporary differences. Deferred tax assets are reviewed at each financial year-end, and if necessary reduced to the extent that it is no longer probable that sufficient taxable income will become available in the future in order to allow all or part of the asset to be utilised. Deferred taxes related to items recognised directly in equity are also recognised directly in equity.

Distribution **of Dividends**

The distribution of dividends to shareholders generates a payable at the time of approval of the Shareholders' Meeting.

Government **grants**

Government grants are recognised at their fair value only if there is reasonable certainty that the Company has accomplished all the requirements set by the terms of the grants. Revenues from government grants are recognised in the Income Statement based on the costs for which they were granted.

Valuation of the ***Fair value***

The fair value of financial instruments traded in an active market is determined based on market prices at the balance sheet date. The market price of reference for financial assets held by the Company is the current selling price (purchase price for financial liabilities).

The fair value of financial instruments that are not traded in an active market is determined using various valuation techniques and assumptions based on market conditions existing at the balance sheet date. For medium and long-term liabilities comparing prices of similar listed financial instruments, for the other categories of financial instruments cash flows are discounted.
The fair value of IRS is determined by discounting the estimated deriving cash flows at the balance sheet date. For receivables it is assumed that the nominal value net of any adjustments made to take account of their payable approximates their fair value. The fair value of financial liabilities for disclosure purposes is determined by discounting contractual cash flows at an interest rate that approximates the market rate at which the company borrows.

Financial **risk factors**

Concerning the management of financial risks, please refer to paragraph provided in the corresponding note of the consolidated financial statements.

Discretionary evaluations and **significant accounting estimates**

The preparation of financial statements requires Management to make a number of subjective assumptions and estimates based on past experience.
The application of these estimates and assumptions affects the amounts of assets and liabilities recognised in the balance sheet, as well as expenses and income recognised in the Income Statement. Actual results may differ significantly from the estimates made, in view of the natural uncertainty surrounding the assumptions and conditions on which the estimates are based.
In this context it should be noted that the situation caused by the financial and economic crisis has led to the need to make assumptions about future trends characterised by significant uncertainty, so it cannot be ruled out that there will be different results next year compared to as estimated, and which therefore might require even significant adjustments that cannot be foreseen or estimated currently, to the carrying amount of the related items. The main items affected by these situations of uncertainty are provisions for doubtful accounts receivable and inventory, non-current assets (tangible and intangible assets), pension liabilities and other post-employment benefits, deferred tax assets.

The following summarises the main evaluation process and key assumptions used in the process that can have a significant effect on the amounts recognised in the financial statements or for which there is a risk that there can be value adjustments to the carrying amount of assets and liabilities in the year following the date of the financial statements.

Recoverable amount of goodwill included in the FINN-POWER OY investment
The recoverable amount of goodwill included in the FINN-POWER OY investment has been evaluated in the context of the impairment test prepared for the CGU PRIMA POWER. The key assumptions used to define the recoverable amount of the CGU, including a sensitivity analysis, are detailed in Note 8.2 - INTANGIBLE ASSETS.

Deferred tax assets and liabilities
Deferred tax assets and liabilities recorded in the balance sheet are determined using the differences between the accounting values and recognised for tax purposes of the various assets and liabilities at the tax rates that are assumed to be in effect in the year in which the temporary differences are expected to be less. Deferred taxes relating to tax losses carried forward to subsequent years are recognised only if and to the extent that management believes it likely that in future years the company will achieve a positive tax result such that it can be absorbed. In the event that, subsequent to the time of execution of the estimate, there are circumstances that lead to changing these estimates or the rate used for the calculation of deferred taxes, the items recorded in the financial statements will be adjusted.
The calculation of prepaid and deferred taxes considers the IRES rate reduction (from 27.50% to 24.00%) from 2017, as required by the recent Law no. 208/2015 (Stability Law 2016).

Provision for inventories
In determining the provision for inventory obsolescence, the company makes a number of estimates regarding future demand for the various types of products and materials in share, on the basis of their production plans and past experience of customer requirements. In the event that these estimates are found to be inappropriate, this will result in an adjustment to the provision for obsolescence with its impact in the Income Statement.

Provision for doubtful debts

Provisions for doubtful accounts are determined based on an analysis of the individual debtors and in the light of past experience in terms of debt and relationships with individual customers. In the event that there is an unexpected deterioration in the economic and financial conditions of a major customer, this could result in the need to adjust the allowance for doubtful accounts, with the consequent negative effects in terms of economic performance.

Employee benefits

The determination of the amount to be budgeted requires the use of actuarial estimates that take into account a number of assumptions relating to parameters such as the annual rate of inflation, wage increase, the annual rate of staff turnover and other variables. Any changes in these parameters require a readjustment of the actuarial estimates and, consequently, the amounts disclosed in the financial statements.

CHAPTER 11

Explanatory Notes to **Financial Statements**

December 31st, 2016

CHAPTER 11 Explanatory Notes to Financial Statements at December 31st, 2016

The data shown in the explanatory notes, unless otherwise specified, are expressed in Euro.

Note 11.1 – Tangible fixed assets

The following table illustrates the composition of tangible fixed assets at December 31st, 2016 and at December 31st, 2015, and the changes during the year.

TANGIBLE FIXED ASSETS	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other tangible fixed assets	Fixed assets under construction	TOTAL
Net value as at December 31, 2014	**5,071,250**	**153,376**	**575,275**	**210,345**	**602,140**	**6,612,386**
Movements 2015						
Increases	77,114	-	485,434	187,568	-	750,116
Disinvestments	(93,002)	-	-	(15,597)	-	(108,599)
Utilization of accumulated depreciation	-	-	-	13,647	-	13,647
Depreciation	(53,475)	(33,047)	(316,747)	(90,661)	-	(493,930)
Impairment	-	-	-	-	-	-
Net value as at December 31, 2015	**5,001,887**	**120,329**	**743,962**	**305,302**	**602,140**	**6,773,620**
Movements 2016						
Increases	7,026,091	123,502	359,679	234,764	74,857	7,818,893
Disinvestments	-	(105,148)	-	(103,757)	-	(208,905)
Utilization of accumulated depreciation	-	105,148	-	80,819	-	185,967
Depreciation	(128,312)	(36,293)	(346,666)	(103,255)	-	(614,526)
Reclassifications with tangible fixed assets	222,051	-	-	-	(222,051)	-
Differences on exchange rates	-	-	(185)	-	-	(185)
Net value as at December 31, 2016	**12,121,717**	**207,538**	**756,790**	**413,873**	**454,946**	**13,954,864**

Land and buildings amounting to 12,122 thousand EUR includes:

- Land for a total value of 3,987 thousand EUR.
- Buildings for a total value of 8,078 thousand EUR; this item increased significantly during the year as a result of construction of the HQTC in Collegno. This houses a large technology centre and the Group’s main offices, which were moved there to provide strong coordination for the Group’s activities. This investment was made through a financial lease. This item includes the property leased to PRIMA POWER UK Ltd (134 thousand EUR) and the company at 28 via Antonelli (686 thousand EUR).
- Light constructions for 57 thousand EUR.

Plants and Machinery amounting to 208 thousand EUR increased during the year by 123 thousand and decreased by 36 thousand EUR due to the effect of depreciation.

Industrial and trade equipment item equal to 757 thousand EUR increased during the year by 13 thousand EUR and includes equipment for 680 thousand EUR and dies for 77 thousand EUR. The value of this item increased by 353 thousand EUR (105 thousand EUR refer to equipment generated internally) and decreased by 309 thousand EUR due to depreciation.

The Other Assets item amounts to 414 thousand EUR and is represented mainly by:

- Electronic office equipment with a value of 290 thousand EUR;
- Office furniture, furnishings and equipment with a value of 121 thousand EUR;
- Other assets for 3 thousand EUR.

The Fixed assets in progress item relates to costs incurred for preliminary analysis and design activities for the construction of the new plant in Collegno.

All above mentioned values at December 31st, 2016 are net of accumulated depreciation except for land and fixed assets in progress which are not depreciated.

Note 11.2 – Intangible assets

The following table illustrates the composition of tangible fixed assets at December 31st,2016 and at December 31st, 2015, and the changes during the year.

INTANGIBLE ASSETS	Goodwill	Development costs	Other intangible assets	TOTAL
Net value as at December 31, 2014	**131,744**	**7,105,340**	**883**	**7,237,967**
Movements 2015				
Increases/ (decreases)	746,801	2,670,393	18,138	3,435,332
Depreciation	(92,319)	(1,087,085)	(6,604)	(1,186,008)
Net value as at December 31, 2015	**786,226**	**8,688,648**	**12,417**	**9,487,291**
Movements 2016				
Increases/ (decreases)	416,321	2,141,945	(1,876)	2,556,390
Depreciation	(330,341)	(1,764,006)	(3,844)	(2,098,191)
Net value as at December 31, 2016	**872,206**	**9,066,587**	**6,697**	**9,945,490**

The main item in intangible assets are the development costs (net value at December 31st, 2016 of 9,067 thousand EUR); during 2016 this item increased by 2,217 thousand EUR due to the capitalisation of projects, and decreased overall by 1,839 thousand EUR, of which 1,764 thousand EUR was due to depreciation.
During the 2015, financial year there was also an increase of 416 thousand EUR for software. The most significant component is related to the investment in the new ERP, which went live was in January 2016.Investments in this new software began in 2015 with 2016 being the first year of amortisation.

Note 11.3 - Equity investments in subsidiaries

The value of equity investments at December 31st, 2016 amounts to 159,429 thousand EUR and it is increasing compared to the previous financial year by 18,229 thousand EUR.

SHAREHOLDING IN SUBSIDIARIES	Investment value	Investment provisions	Net value at Dec. 31, 2015	Increases	Net value at December 31, 2016
FINN POWER OY	116,948,538	-	121,948,538	18,228,867	140,177,405
PRIMA ELECTRO SpA	10,944,702	-	10,944,702	-	10,944,702
PRIMA POWER IBERICA SL	1,441,305	-	1,441,305	-	1,441,305
PRIMA POWER CHINA Company Ltd	766,765	-	766,765	-	766,765
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	539,825	-	539,825	-	539,825
OOO PRIMA POWER	122,737	-	122,737	-	122,737
PRIMA POWER CENTRAL EUROPE Spzoo	92,821	-	92,821	-	92,821
PRIMA POWER UK LTD	1	-	1	-	1
PRIMA POWER GmbH	474,436	(474,436)	1,039,712	-	1,039,712
PRIMA POWER SOUTH AMERICA Ltda	751,819	(751,819)	-	-	-
PRIMA POWER AUSTRALASIA Pty Ltd	157,070	(157,070)	-	-	-
PRIMA POWER SUZHOU CO LTD	3,830,094	-	4,304,148	-	4,304,148
TOTAL	136,070,113	(1,383,325)	141,200,554	18,228,867	159,429,421

As can be seen from the table above, the only movement during the year was the increase in the FINN-POWER OY shareholding. During 2016, Prima Industrie SpA increased its share capital by 18,228 thousand EUR, by converting E-shares (Class E - remunerated through a Euribor-linked dividend plus a spread) held in FINN-POWER OY into ordinary shares ("Class A”), which represents a long-term financial debt.

The details of the cost of investments compared with the net equity pro-rata resulting from the economic-financial situation of the companies involved, in compliance with IAS/IFRS principles, is as follows:

SHAREHOLDING IN SUBSIDIARIES	Net value at December 31, 2016	Equity as at Dec. 31, 2016	Stake	Equity pro-quota	Difference
FINN POWER OY	140,177,405	121,596,795	100%	121,596,795	(18,580,610)
PRIMA ELECTRO SpA	10,944,702	31,238,207	100%	31,238,207	20,293,505
PRIMA POWER IBERICA SL	1,441,305	7,331,728	22%	1,612,980	171,675
PRIMA POWER CHINA Company Ltd	766,765	1,885,209	100%	1,885,209	1,118,444
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	539,825	957,706	100%	957,706	417,881
OOO PRIMA POWER	122,737	1,729,135	100%	1,728,962	1,606,225
PRIMA POWER CENTRAL EUROPE Spzoo	92,821	354,207	100%	354,207	261,386
PRIMA POWER UK LTD	1	1,003,524	100%	1,003,524	1,003,523
PRIMA POWER GmbH	1,039,712	783,066	100%	783,066	(256,646)
PRIMA POWER SOUTH AMERICA Ltda	-	(704,311)	100%	(704,241)	(704,241)
PRIMA POWER AUSTRALASIA Pty Ltd	-	(222,088)	100%	(222,088)	(222,088)
PRIMA POWER SUZHOU CO LTD	4,304,148	4,040,216	70%	2,828,151	(1,475,997)

The difference between the cost and the net equity of FINN-POWER OY mainly reflects the value of goodwill and other intangible assets recognised for the acquisition of the company. In consideration of the results already achieved and the probable future results by the company and by the FINN-POWER Group during the year 2016 and during the previous years, there were no impairment indicators related to the value of the equity investment. FINN-POWER OY in 2016 achieved an EBITDA of 12,655 thousand EUR (equal to 10.5% of revenues) and the sub-group FINN-POWER (resulting from the consolidation of FINN-POWER OY and of all its subsidiaries) has achieved an EBITDA of 24,244 thousand EUR (equal to 9.5% of revenues) and net income of 13,571 thousand EUR. Moreover, the PRIMA INDUSTRIE Group carried out the impairment test on CGU PRIMA POWER (in which the sub-group FINN-POWER is included) in the consolidated financial statements (see Note 8.2 - Intangible assets) from which are no indications of value impairment index emerge.

The difference between the cost and the net equity of Prima Power Suzhou was not considered a loss in the value of the shareholding, but is attributable to the fact that the company is still in the initial stages of business. The management of PRIMA INDUSTRIE SPA believes this difference will be covered over the coming years by the future profits of the Chinese company. 2016 was the company's first year in profit, which ended with net profits of 193 thousand EUR.

The differences in the equity investments PRIMA POWER SOUTH AMERICA Ltda and PRIMA POWER AUSTRALASIA Pty Ltd are almost entirely offset by a provision for risks of 926 thousand EUR (see Note 11.18), such that the losses are considered to be long-term. During the year, 109 thousand EUR was allocated to this provision and 408 thousand EUR was used after the increase in share capital in PRIMA POWER SOUTH AMERICA Ltda. For PRIMA POWER GmbH, the difference is attributable to losses recorded to net assets over the years for the valuation of employee benefits as required by IAS19. This effect does not represent a loss in the value of the investment. In 2016, the German company achieved positive results and the trend is expected to continue over the coming years.

Note 11.4 – Other investments

The value of investments in other companies at December 31st, 2016 amounts to 12 thousand EUR and is unchanged compared to the previous year.

OTHER INVESTMENTS	Unionfidi	Fidindustria	Lamiera Servizi	TOTAL
December 31, 2014	**903**	**103**	**10,925**	**11,931**
Increases	-	-	-	-
Decreases	-	-	-	-
December 31, 2015	**903**	**103**	**10,925**	**11,931**
Increases	-	-	-	-
Decreases	-	-	-	-
December 31, 2016	**903**	**103**	**10,925**	**11,931**

Other shareholdings are related to two guarantee consortiums (Unionfidi and Fidindustria) to which the company has adhered, and to the company Lamiera Servizi of which it owns the 19% of the share capital.

In addition to the above shareholdings, Prima Industrie SpA holds other shareholdings whose book value at December 31st, 2016 was zero. The book value of these shareholdings was zeroed in previous years due to the insolvency procedures to which they were subject; no costs to the company are expected to derive from completion of these procedures.

Note 11.5 - Financial assets - loans to subsidiaries

As can be seen from the table below, 2,800 thousand EUR were disbursed in loans to subsidiaries, which have been disclosed as non-current assets.

FINANCIAL ASSETS LOAN TO THE SUBSIDIARIES	FINN POWER OY	PRIMA ELECTRO SpA	PRIMA POWER SUZHOU CO.LTD.	PRIMA POWER UK LTD	TOTAL
December 31, 2014	**35,100,000**	**7,300,000**	**-**	**180,356**	**42,580,356**
Increases	-	-	-	-	-
Decreases	(35,100,000)	(7,300,000)	-	(180,356)	(42,580,356)
December 31, 2015	**-**	**-**	**-**	**-**	**-**
Increases	-	1,300,000	1,500,000	-	2,800,000
Decreases	-	-	-	-	-
December 31, 2016	**-**	**1,300,000**	**1,500,000**	**-**	**2,800,000**

"Current financial assets" totalled 5,886 thousand EUR and changed in 2016 as follows:

OTHER CURRENT FINANCIAL ASSETS	Loan to Prima Power Laserdyne LLC	Loan to Prima Power Suzhou Co.Ltd	Deposit account Banco Do Brasil	Financial receivable v/Wuhan Unity	Loan to subsidiaries	Interests on non-current loans	TOTAL
December 31, 2015	3,238,888	1,516,645	550,000	235,809	5,700	103,672	5,650,714
Reimbursements	-	-	-	-	-	(103,672)	(103,672)
Interests	95,343	114,466	-	-	-	18,825	228,634
Differences on exchange rates	110,583	-	-	-	-	-	110,583
December 31, 2016	3,444,814	1,631,111	550,000	235,809	5,700	18,825	5,886,259

Items to be highlighted:

- interest on non-current loans open at December 31st, 2016 is attributable to Prima Electro SpA;
- the time deposit was taken out by the company as guarantee for a loan granted to PRIMA POWER SOUTH AMERICA Ltda.

Note 11.6 - Other financial assets

Other financial assets are down to nil. This reduction from December 31st, 2015 is due to the already mentioned increase in the share capital FINN-POWER OY as an equity investment in the same Finnish subsidiary. For more details see Note 11.3 - Investments in Subsidiaries.

Note 11.7 - Deferred tax assets

The following table shows the movement of deferred tax assets during the year 2016.

Deferred tax assets	December 31, 2016	December 31, 2015
Opening balance	**2,381,269**	**3,172,022**
Provisions	320,616	63,137
Utilizations	(410,561)	(853,890)
Closing balance	**2,291,324**	**2,381,269**

The items that generate fiscal assets from prepaid taxes can be summed up as follows:

Deferred tax assets	Deferred taxability	Deferred tax assets
Provisions for risks and other liabilities	5,124,980	1,232,105
Inventories	2,045,000	490,800
Tax losses carried forward	391,468	93,952
Employee benefits	1,658,197	397,966
Other assets and liabilities	318,754	76,501
Total	**9,538,399**	**2,291,324**

The calculation of prepaid taxes considers the IRES rate reduction (from 27.50% to 24.00%) from 2017, as required by the recent Law no. 208/2015 (Stability Law 2016).

With regard to the recoverability of these taxes it should be noted that Prima Industrie SpA has historically achieved positive taxable incomes, both for IRES and IRAP purposes and expects to earn positive taxable incomes in the following financial years too.
The valuation on the recoverability of prepaid taxes take into account the expected profits in future financial years and furthermore, is supported by the fact that prepaid taxes refer to asset's proivision for which there is no expiry.

Note 11.8 - Inventories

The inventories on December 31st, 2016 amount to 24,445 thousand EUR, net of the obsolescence provision.

INVENTORIES	December 31, 2016	December 31, 2015
Raw materials	15,353,805	12,426,994
(Provision for raw materials)	(2,015,000)	(1,945,000)
Semi-finished goods	5,731,622	5,523,571
Finished goods	5,404,682	5,722,715
(Provision for finished goods)	(30,000)	(213,000)
Total	**24,445,109**	**21,515,280**

During the year 2016 there was an increase of 2,930 thousand EUR, mainly due to the high order backlog at December 31st, 2016, resulting in the need for procurement and ongoing work necessary to process the orders with delivery requested in the first months of 2017.

The movements of the inventories provisions that occurred during the year are provided below.

INVENTORIES PROVISIONS	Raw materials	Finished goods
Value as at December 31, 2015	**(1,945,000)**	**(213,000)**
Utilizations	30,000	213,000
Provisions	(100,000)	(30,000)
Value as at December 31, 2016	**(2,015,000)**	**(30,000)**

Note 11.9 - Trade Receivables

Trade receivables at December 31st, 2016 amounted to 43,267 thousand EUR and compared to the previous financial year an increase of 4,006 thousand EUR was experienced.

TRADE RECEIVABLES	December 31, 2016	December 31, 2015
Receivables from customers	25,509,821	22,808,134
Bad Debt Reserve	(182,674)	(204,633)
Receivables from customers (net)	**25,327,147**	**22,603,501**
Receivables from Related Parties	17,939,689	16,657,363
Receivables from customers (net)	**43,266,836**	**39,260,864**

Trade receivables include receivables in foreign currency which relate to items denominated in US dollars and British pounds and relate mostly to invoices issued to American and British subsidiaries.

Given the open positions at December 31st, 2016, adjustments to the exchange rate were entered correctly. Receivables in currencies other than the reference currency are converted into EUR at the effective exchange rate on the date of the financial statements closing. All exchange differences are reflected in the Income Statement.

Movements in the bed debt reserve during the considered period are as follows:

BAD DEBT RESERVE	Amount
Value as at December 31, 2015	**204,633**
Utilizations	(29,656)
Provisions	7,697
Value as at December 31, 2016	**182,674**

The provision reflects the management's more accurate estimate of expected losses by Prima Industrie SpA on its receivables.

Below is a breakdown of trade receivables (including those of subsidiaries and associates and net of the bed debt reserve) divided according to expiry.

Values expressed in Euro thousand

RECEIVABLES BY DUE DATE	December 31, 2016	December 31, 2015
Due to expire	26,054	20,059
Expired 0 - 60 days	7,895	9,134
Expired 61 - 120 days	2,696	2,855
Expired over 120 days	6,804	7,418
Total	**43,449**	**39,466**

Note 11.10 - Other receivables

Other Receivables are equal to 2,639 thousand EUR, increasing by of 262 thousand EUR compared to the previous financial year (2,377 thousand EUR on December 31st, 2015) and include:

- contributions to be received for 1,450 thousand EUR; refer to contributions on projects financed by the European Union, the Ministry of Economic Development and the Piedmont Region;
- advances to suppliers (for 773 thousand EUR) paid on orders for future deliveries;
- accruals and deferrals (for 222 thousand EUR);
- security deposits (for 162 thousand EUR);
- receivables from employees (32 thousand EUR) for advances on travel expenses granted to employees.

Note 11.11 - Other Tax Assets

Other tax assets totalled 3,045 thousand EUR at December 31st, 2016, against 4,378 thousand EUR at December 31st, 2015 and are made up of a tax credit recorded following the submission of applications for a refund (IRAP deduction for IRES purposes for the years 2007-2011), Group IRES (corporation tax), VAT receivables in Italy, receivables for withholding tax paid, tax credits for investments in research and development and foreign VAT refunds.

Below is a summary table comparing December 31st, 2016 and December 31st, 2015, showing that the increase is mainly due to receivable from the tax authorities for IRES (corporation tax) and IRAP (regional production tax) advances and Group IRES receivables.

CURRENT TAX RECEIVABLES	December 31, 2016	December 31, 2015
Tax Receivables - Advances direct (IRES and IRAP) taxes	1,373,595	2,200,706
Tax Receivables - IRES reimbursment IRAP deduction	970,392	970,392
VAT Receivables - Italy	429,111	327,936
Tax Receivables - R&D	225,724	113,219
Tax Receivables - Tax Consolidation (IRES)	20,547	569,697
VAT Receivables - Foreign countries	22,330	13,320
Tax Receivables - Witholding taxes	3,710	182,690
Total	**3,045,409**	**4,377,960**

Note 11.12 - Cash and cash equivalents

Cash and cash equivalents at December 31st, 2016 totalled 7,457 thousand EUR, against 5,515 thousand EUR at December 31st, 2015 and consists of cash (including foreign currency), cheques and letters of credit.
For more details on Cash and cash equivalents, see the Financial Report (for the Financial Report, see the Chapter 9 – Prima Industrie SpA - Financial Statements at December 31st, 2016).

Cash and cash equivalents	December 31, 2016	December 31, 2015
Cash and checks	22,591	22,179
Bank accounts	7,434,382	5,492,606
Total	**7,456,973**	**5,514,785**

Note 11.13 – Net Equity

Share Capital

The Share Capital amounts to 26,208,185 EUR (divided into 10,483,274 ordinary shares with a par value of 2.50 EUR each), and has remained unchanged compared with December 31st, 2015.

Legal Reserve

This item amounts to 4,565 thousand EUR and has increased of 70 thousand EUR as a result of the allocation of the mandatory share of the profit accrued in 2015.

Other Reserves

The item "Other Reserves" has a value of 71,034 thousand EUR and is composed of:

- Share premium reserve: amounting to 57,506 thousand EUR.
- Reserve for non-amortised development costs: 9,067 thousand EUR.
- Extraordinary reserve: 6,095 thousand EUR.
- Costs for share capital increase: -1,286 thousand EUR and represents costs incurred for share capital increases (such as bank fees, legal and administrative consultant fees, etc.).
- Staff indemnities reserve: -285 thousand EUR and, in accordance with IAS 19 revised, refers to the effect of actuarial gains/losses on employee severance indemnities net of tax.
- Fair value adjustment reserve: -63 thousand EUR and consists of the portion directly entered directly as net assets, net of taxes, of the market value of derivative contracts hedging exchange rate fluctuation.

Earnings (losses) carried forward

EARNINGS (LOSSES) CARRIED FORWARD

This item was -1,698 thousand EUR; This item includes the differences in accounting methods on the date of transition to IFRS and refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

Overall income for the period

Net income for the period is negatively affected by the allocation to the fair value adjustment reserve of 63 thousand EUR (net of 20 thousand taxes). It is also affected by actuarial profit/losses on employee severance indemnities according to the application of IAS 19 revised, which were 80 thousand EUR (net of a tax effect of 13 thousand EUR).

Profit (Loss) for the year

Profits for the year were 1,758 thousand EUR.

For more details on this subject, see the table of changes in equity (for changes in equity, see Chapter 9 – Financial Statements of Prima Industrie at December 31st, 2016).

Note 11.14 - Derivative financial instruments

At December 31st, 2016 PRIMA INDUSTRIE SpA holds several derivative financial instruments down overall to 978 thousand EUR, of which 82 thousand EUR are non-current and 896 thousand EUR are current.

Derivatives non current

Type	Company	Counterparty	Expiry date	Reference notional	MTM 31/12/16
IRS - Hedge accounting	Prima Industrie SpA	BNL	30/06/21	€10,000,133	-€27,856
IRS - Hedge accounting	Prima Industrie SpA	Unicredit	30/06/21	€10,000,133	-€27,793
IRS - Hedge accounting	Prima Industrie SpA	Banca Intesa	30/06/21	€10,000,133	-€27,038
				TOTAL	**-€82,687**

Derivatives current

Type	Company	Counterparty	Expiry date	Reference notional	MTM 31/12/16
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/06/17	$1,000,000	-€32,904
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/09/17	$1,000,000	-€21,874
CRS - Non hedge accounting	Prima Industrie SpA	AKROS	20/12/17	$2,000,000	-€28,228
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	20/03/17	$2,000,000	-€65,478
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	20/09/17	$3,000,000	-€67,111
CRS - Non hedge accounting	Prima Industrie SpA	BARCLAYS	22/12/17	$8,000,000	-€201,322
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/06/17	$2,000,000	-€63,745
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/09/17	$1,000,000	-€23,206
CRS - Non hedge accounting	Prima Industrie SpA	BNL	20/12/17	$3,000,000	-€40,774
CRS - Non hedge accounting	Prima Industrie SpA	BNL	18/12/17	$8,000,000	-€198,115
CRS - Non hedge accounting	Prima Industrie SpA	IMI	20/03/17	$2,000,000	-€55,995
CRS - Non hedge accounting	Prima Industrie SpA	IMI	20/06/17	$1,000,000	-€31,268
CRS - Non hedge accounting	Prima Industrie SpA	MPS	20/03/17	$1,000,000	-€34,200
CRS - Non hedge accounting	Prima Industrie SpA	MPS	20/06/17	$1,000,000	-€31,554
				TOTAL	**-€895,774**

For the purposes of the financial statements at December 31st, 2016, a valuation of outstanding derivative instruments was carried out. For more information on the derivative financial instruments of Prima Industrie SpA and on their disclosure method, see Note 8.11 of the consolidated financial statements – Net Financial Position.

Note 11.15 - Loans

The following table is a breakdown of Prima Industrie SpA's loan status on December 31st, 2016 (in comparison with December 31st, 2015).

Bank borrowings and other financing	December 31, 2016	December 31, 2015
Current		
Short-term payable for financial leasings	55,184	25,515
Short-term payable for bank loans	18,051,899	10,774,819
Short-term payable for Bond	871,233	868,748
Short-term payable for other financing	172,762	172,221
Short-term payable for other financing from subsidiaries	85,160	-
Short-term payable for advances on invoices	-	516,000
Total Current	**19,236,238**	**12,357,303**
Non-current		
Long-term payable for operational leasings	105,808	105,808
Long-term payable for financial leasings	7,111,487	76,054
Long-term payable for bank loans	31,945,078	39,928,956
Long-term payable for Bond	39,659,833	39,591,067
Long-term payable for other financing	1,034,805	1,227,315
Long-term payable for loan from subsidiaries	4,000,000	2,500,000
Total Non-current	**83,857,011**	**83,429,200**
TOTAL	**103,093,249**	**95,786,503**

The Club Deal loan at December 31st, 2016 amounted to a total of 30,000 thousand EUR and refers to the loan under depreciation expiring on June 30th, 2021; the Club Deal loan also consists of a quota in the form of *revolving* credit lines equal to 20,000 thousand EUR expiring on December 31st, 2019 that at December 31st, 2016 was fully available. The net debt in the financial statements amounted to 29,507 and includes the additional costs incurred at the signing of the loan.

The Club Deal loan is for 23,017 thousand EUR expiring beyond 12 months.

The bond amounts to 40,940 thousand EUR, inclusive of interest accrued but not yet paid amounting to 940 thousand EUR. The payables refer exclusively to the bond issued during the first quarter of 2015 and expiring on February 6th, 2022. Net debt in the financial statements total 40,531 thousand EUR, since the accessory charges incurred at the bond issue, partially reduced the debt.

The quota with expiry over 12 months is equal to 39,660 thousand EUR.

On both the Club Deal loan and on the bond there are *covenants* with measurements on annual and half-yearly basis; the *covenants* measured on the consolidated financial statements at December 31st, 2016 have been met.

For more details about the Financing of PRIMA INDUSTRIE SpA, see the Management Report and the consolidated financial statements at the Note 8.11 - Net Financial Position.

The movements in the financial payables of Prima Industrie SpA during 2016 are illustrated below.

Bank borrowings and other financing Movements	December 31, 2015	Increases	Decreases	Reclassification	December 31, 2016
Current					
Short-term payable for financial leasings	25,515	28,641	(25,515)	26,543	55,184
Short-term payable for bank loans	10,774,819	5,830,710	(8,795,596)	10,241,966	18,051,899
Short-term payable for Bond	868,748	940,000	(868,748)	(68,767)	871,233
Short-term payable for other financing	172,221	-	(171,680)	172,221	172,762
Short-term payable for other financing from subsidiaries	-	85,160	-	-	85,160
Short-term payable for advances on invoices	516,000	-	(516,000)	-	-
Total Current	12,357,303	6,884,511	(10,377,539)	10,371,963	19,236,238
Non-current					
Long-term payable for operational leasings	105,808	-	-	-	105,808
Long-term payable for financial leasings	76,054	7,061,975	-	(26,542)	7,111,487
Long-term payable for bank loans	39,928,956	2,258,088	-	(10,241,966)	31,945,078
Long-term payable for Bond	39,591,067	-	-	68,766	39,659,833
Long-term payable for other financing	1,227,315	-	(20,289)	(172,221)	1,034,805
Long-term payable for loan from subsidiaries	2,500,000	1,500,000	-	-	4,000,000
Total Non-current	83,429,200	10,820,063	(20,289)	(10,371,963)	83,857,011
TOTAL	95,786,503	17,704,574	(10,397,828)	-	103,093,249

During 2016 financial payables decreased by a total of 7.3 million EUR. The table below lists, for the assets and liabilities at December 31st, 2016 to third parties and on the basis of the categories foreseen by IAS 39, the additional information on financial instruments pursuant to IFRS 7.

Fair value by category - IAS 39 - December 31, 2016 - Values expressed in Euro thousand

Assets	Category IAS 39	Financial value December 31, 2016	Amortized cost	FV in Equity	FV in income statement	IAS 17	Fair Value December 31, 2016
Cash and cash equivalents	NA	7,457	-	-	-	-	7,457
Assets held to maturity	Held to Maturity	793	-	-	-	-	793
Assets at fair value in profit or loss	Held for Trading	-	-	-	-	-	-
Assets valued under IAS 17	NA	9,022	-	-	-	9,022	9,022
TOTAL		17,272	-	-	-	9.022	17,272

Liabilities	Category IAS 39	Financial value December 31, 2016	Amortized cost	FV in Equity	FV in income statement	IAS 17	Fair Value December 31, 2016
Liabilities at amortized cost	Amortised Cost	62,145	62,145	-	-	-	63,116
Liabilities at fair value in profit or loss	Held for Trading	978	-	-	(938)	-	978
Hedge Derivatives	NA	-	-	-	-	-	-
Liabilities valued under IAS 17	NA	7,167	-	-	-	7,167	7,167
Altre passività finanziarie - factoring	NA	-	-	-	-	-	-
TOTAL		70,290	62,145	-	(938)	7,167	71,261

Profit and losses by category - IAS 39 - December 31, 2016 - Values expressed in Euro thousand

Assets	Category IAS 39	Net profit and loss	of which Interests
Cash and cash equivalents	NA	-	2
Assets at fair value in profit or loss	Held for Trading	439	439
Assets valued under IAS 17	NA	-	-
TOTAL		439	441

Liabilities	Category IAS 39	Net profit and loss	of which Interests
Liabilities at amortized cost	Amortised Cost	(4,201)	(5,172)
Liabilities at fair value in profit or loss	Held for Trading	(1,377)	(1,377)
Hedge Derivatives	NA	-	-
Liabilities valued under IAS 17	NA	(4)	(4)
Altre passività finanziarie - factoring	NA	(31)	(31)
TOTAL		(5,613)	(6,584)

Note 11.16 – Employee Benefits Liabilities

The following table shows the composition of liabilities for employee benefits at December 31st, 2016 and at the closing of the previous year.

Employee benefits	December 31, 2016	December 31, 2015
Italian employee's benefits liabilities	2,301,087	2,382,188
Fidelity premium	1,452,101	1,340,216
TOTAL	**3,753,188**	**3,722,404**

The Employees' Severance Indemnity liabilities, provided by the Italian law, is accrued by employees during their working life and paid on termination of their employment. This indemnity is considered a defined benefit plan, subject to actuarial valuation with regard to future benefits and to benefits already paid.
Following the changes to the Employees' Severance Indemnity liability by the Law of December 27th, 2006 (Finance Act 2007) and subsequent Decrees and Regulations issued in the first months of 2007, for IAS purposes, only the liability concerning the Employees' Severance Indemnity liability was accrued and held by the company, as the amount not yet accrued was credited to a separate account (complementary pension fund or INPS (National Institute of Social Insurance fund). As a consequence of these payments, the company will have no other liabilities in connection with future employee activity. Also for those who have explicitly decided to keep the Employees' Severance Indemnity in the company, and therefore subject to the regulations in force, the Severance Indemnity yet to accrue, starting from January 1st, 2007, was paid into the Treasury Fund managed by INPS. This fund, according to article 1, paragraph 5, of the Financial Law 2007 guarantees the provision of employee's Severance Indemnity to employees of the private sector pursuant to article 2120 of the Italian Civil Code, for the quota equivalent to payments made by employees.

Below the changes of the Employees' Severance Indemnity liability and of the Fidelity Premium are shown during the year 2016.

Italian employee's benefits liabilities	December 31, 2016	December 31, 2015
Opening balance	**2,382,188**	**2,729,633**
Italian employee's benefits indemnities paid out during the period	(220,916)	(237,966)
Actuarial gains/losses	92,945	(149,265)
Financial expenses	46,870	39,786
Closing balance	**2,301,087**	**2,382,188**

Fidelity Premium	December 31, 2016	December 31, 2015
Opening balance	**1,340,216**	**1,371,283**
Fidelity Premium paid out during the period	(90,446)	(131,300)
Provisions/Actuarial Adjustment	117,305	80,648
Financial expenses	85,026	19,585
Closing balance	**1,452,101**	**1,340,216**

The Fidelity Premium refers to the seniority premium for employees of the company paid at the end of 20, 30 and 35 years of service, corresponding to two gross monthly salaries. The main hypotheses used to estimate final liabilities from employee benefits are as follows:

Actuarial hypotheses	December 31, 2016	December 31, 2015
Annual discount rate	1.31%	2.03%
Annual inflation rate	1.50%	1.75%
Annual Italian employee's benefits increase rate	2.63%	2.81%

The demographic hypotheses used for actuarial valuation include:

- probability of death as defined by the Italian State Treasury called RG48, divided by gender;
- the probability of disability, divided by gender, adopted in the INPS model for projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 0.5% depending on the company;
- probability of advances with an annual rate of 3%.

It is also to be noted that a liability for employee benefits of 25 thousand EUR has been enrolled by Prima Industrie SpA for its *branch office* in South Korea.

Note 11.17 – Deferred tax liabilities

The following table shows the movements of deferred tax liabilities during the year 2016.

Deferred tax liabilities	December 31, 2016	December 31, 2015
Opening balance	**816,000**	**847,917**
Provisions	355,153	403,495
Utilizations	(364,962)	(435,412)
Closing balance	**806,191**	**816,000**

The main items for tax liabilities deriving from deferred taxes can be summarised as follows.

Deferred tax liabilities	Deferred taxability	Deferred tax liabilities
Current payables and receivables	2,742,269	658,143
Tangible fixed assets	616,863	148,048
Total	**3,359,132**	**806,191**

The calculation of deferred taxes considers the IRES rate reduction (from 27.50% to 24.00%) from 2017, as required by the recent Law no. 208/2015 (Stability Law 2016).

Note 11.18 - Provisions

The provisions for risks and charges at December 31st, 2016 amounted to 5,595 thousand EUR (1,009 of non-current). During the year 2016 they had an overall decrease of 188 thousand EUR.

The movements of both current and non-current provisions are shown below.

Non-current provisions	Cust. Agent. Ind. provision	Investment losses provision	TOTAL
December 31, 2014	**74,696**	**7,329,708**	**7,404,404**
Allocations	6,121	693,985	700,106
Utilizations in the period	(3,688)	(6,960,288)	(6,963,976)
December 31, 2015	**77,129**	**1,063,405**	**1,140,534**
Allocations	7,552	108,811	116,363
Utilizations in the period	(2,345)	(408,000)	(410,345)
Exchange rate differences	-	162,183	162,183
December 31, 2016	**82,336**	**926,399**	**1,008,735**

Current provisions	Tax claims provision	Warranty provisions and project's completion	TOTAL
Utilizzi del periodo	-	(3.978.200)	(3.978.200)
December 31, 2014	-	**4,916,100**	**4,916,100**
Allocations	-	3,657,000	3,657,000
Utilizations in the period	-	(3,930,800)	(3,930,800)
December 31, 2015	-	**4,642,300**	**4,642,300**
Allocations	-	4,129,600	4,129,600
Utilizations in the period	-	(4,186,000)	(4,186,000)
December 31, 2016	-	**4,585,900**	**4,585,900**

Investment losses provision

This provision relates to the subsidiary PRIMA POWER SOUTH AMERICA Ltda for 704 thousand EUR and to the company PRIMA POWER AUSTRALASIA Pty Ltd for 222 thousand EUR. For further details on this subject see Note 11.3 - Equity investments in subsidiaries.

Agent client indemnity liability

This represents the indemnity payables accrued at year-end towards agents due for interruption of the agency relationship, in accordance with current legislation.

Provision for warranty and projects completion

This refers to provisions for the completion of ongoing projects and technical warranty on products of the company and is proportionate to the costs that must be held. Compared to 2015 they decreased for a total of 56 thousand EUR.

Note 11.19 - Trade payables, Advance Payments and other payables

Trade payables at December 31st, 2016 amount to 47,895 thousand EUR, of which 36,361 thousand EUR due to third party suppliers and 11,534 thousand EUR due to related parties.

Trade, advances and other payables	December 31, 2016	December 31, 2015
Trade payables	36,360,701	28,305,862
Trade payable owed to related parties	11,534,326	6,100,042
Trade payables	**47,895,027**	**34,405,904**
Advances from customers	2,110,241	2,931,782
Advances from related parties	-	58,285
Advances	**2,110,241**	**2,990,067**
Social security payables	1,958,964	1,709,564
Amounts due to employees	2,601,725	2,238,136
Accrued expenses and deferred income	1,179,839	1,582,491
Other payables	343,235	144,668
Other payable owed to related parties	690,222	579,190
Other payables	**6,773,985**	**6,254,049**

Trade payables increased by 13,489 thousand EUR in 2016. The figure increased as a consequence of a high orders backlog at December 31st, 2016, resulting in the need to procure goods to complete the orders with delivery in the first few months of 2017.
Advances from customers came down by 880 thousand EUR. At December 31st, 2016 the item totalled 2,110 thousand EUR against 2,990 thousand EUR at December 31st, 2015. This item mainly consists of advances received from customers on orders for machines not yet delivered.

Debts related to security and welfare are payables to social security and welfare (especially INPS and other forms of assistance).

Payables to employees refers to salaries not yet paid and compensation matured but not yet paid for leave not taken, for production bonus and incentives matured by managers and sales personnel and for advance payment of travel expenses in account of the company for employees out for work.

Accrued expenses and Deferred Income decreased from the previous year by 403 thousand EUR; at December 31st, 2016 it amounted to 1,180 thousand EUR against 1,582 thousand EUR at December 31st, 2015. This item is mainly composed of deferred income related to some facilitations on an unsecured basis for research and development and revenues from maintenance contracts relating to future years.

Note 11.20 - Current taxes payables

This item amounts 2,275 thousand EUR (4,081 thousand EUR at December 31st, 2015) and includes:

- Payables to subsidiaries for tax consolidation: 1,357 thousand EUR
- Payables for withholding income taxes: 655 thousand EUR
- Payables for IRES and IRAP: 263 thousand EUR

Note 11.21 - Net Income from sales and services and other Income

Net Revenues from sales and services are set out below divided by product/activity and by geographic area (values expressed in thousand EUR).

Revenues from sales and services	Italy	%	Europe	%	North America	%	Rest of the world	%	Total
Machines	22,109,867	21.82%	38,453,367	37.96%	12,224,565	12.07%	28,521,481	28.15%	101,309,280
Spare parts	5,522,135	31.64%	6,137,189	35.16%	2,745,963	15.73%	3,048,477	17.47%	17,453,764
Services	4,406,658	74.30%	714,737	12.05%	153,157	2.58%	656,523	11.07%	5,931,075
Total	32,038,660		45,305,293		15,123,685		32,226,481		124,694,119

Revenues at December 31st, 2016 amounted to 124,694 thousand EUR with an increase of 14,913 thousand EUR from 2015 (at December 31st, 2015 their value amounted to 109,781 thousand EUR).

Note 11.22 - Other operational income

Below is a summary report of the Other operational income.

Other income	December 31, 2016	December 31, 2015
Services provided and costs charged back to subsidiaries	2,394,286	1,624,795
Research and development projects income	1,086,348	2,317,406
Extraordinary income	165,433	505,255
Other	301,086	83,989
Total	**3,947,153**	**4,531,445**

Income for research and development, refer to contributions entered in the Income Statement relating to facilitations on an unsecured basis for research and development accrued in the period of competence.

Services and cost chargebacks with respect to the Group's companies are ascribable to services provided by the parent company to subsidiaries in relation to accounting, finance, IT and management control.

The contingent assets mainly refer to adjustments of commitments made in the previous year.

Note 11.23 - Increases in fixed assets for internal work

Capitalisation for increases for internal work amount to 2,339 thousand EUR in 2016 compared to 3,003 thousand EUR of the previous year.

The amount entered in the Income Statement for the year refers to 2,217 thousand EUR for capitalisation of research and development costs and 122 thousand EUR for costs incurred for the construction of production equipment and off-line testing of components or pre-assembled groups. Capitalised development activities refer to new products and models, new features and/or applications on existing products and new software.

For all capitalised projects, the technical feasibility was verified, along with the likelihood of generating future economic benefits. The former category of costs is classified among the intangible assets, and the latter among the tangible assets.

Note 11.24 – Personnel costs

Personnel costs at December 31st, 2016 is equal to 24,998 thousand EUR and shows an increase compared with the previous financial year of 1,922 thousand EUR.

Personnel cost	December 31, 2016	December 31, 2015
Salaries and wages	17,847,562	16,481,976
Social security contributions	5,253,138	5,004,992
Severance indemnities paid into complementary	1,149,319	1,000,713
Fidelity Premium	117,305	80,648
Other costs	630,281	507,197
TOTAL	**24,997,605**	**23,075,526**

Here below is shown the number of employees at December 31st, 2016 compared to the end of the previous year.

Personnel movements	December 31, 2016	December 31, 2015
Executives	21	19
Front-line managers	22	22
Managers	29	24
Office staff	192	185
Intermediate	-	4
Production workers	98	103
Foreign branch office employees	4	3
Total	**366**	**360**

The overall workforce at PRIMA INDUSTRIE went from 360 units (at December 31st, 2015) to 366 units (at December 31st, 2016). It should be noted that, since the company operates in a high-tech sector, employees are, on average, very specialised and thus labour costs are higher than the average industry standard.

Note 11.25 - Depreciation and Impairment

Depreciation for the year 2016 amounted to 2,713 thousand EUR, an increase compared to the previous year of 1,033 thousand EUR. The increase in depreciation of intangible assets is mainly due to development costs (increase of 677 thousand EUR) and software (increase of 238 thousand EUR). The increase in depreciation of tangible fixed assets is mainly due to Buildings (increase of 74 thousand EUR) and Industrial and commercial equipment (increase of 30 thousand EUR).

Depreciation	December 31, 2016	December 31, 2015
Depreciation of intangible fixed assets	2,098,191	1,186,008
Depreciation of tangible fixed assets	614,526	493,930
TOTAL	**2,712,717**	**1,679,938**

Note 11.26 - Other Operating Income

Other operating costs at December 31st, 2016 amounted to 27,575 thousand EUR and, compared to the previous financial year, the item recorded an increase of 660 thousand EUR.

The table below shows the details of these costs:

Other operating expenses	December 31, 2016	December 31, 2015
External services	12,670,551	12,958,416
Travel expenses	2,327,615	2,531,022
Transport and custom duties	1,824,648	1,781,092
Technical, legal, fiscal and administrative consultancies	1,884,518	1,743,492
Commissions	1,376,142	1,590,528
Rentals and other costs for leases	1,187,992	1,164,761
Utility	804,945	655,787
Other costs for services	664,037	868,236
Advertising and promotion	883,228	271,531
External maintenance	703,069	449,013
Administrators' fee	625,122	620,863
Rent	510,964	621,083
Insurances	455,489	397,385
Extraordinary liabilities	187,296	101,887
Statutory auditors' fee	105,420	108,000
Temporary work	747,402	809,637
Taxes	91,228	79,244
Other operating costs	574,428	390,788
Provision/Utilization of provision for risks	(56,400)	(273,800)
Provision for Bad Debt Reserve	7,697	46,826
Total	**27,575,390**	**26,915,791**

This increase is mainly attributable to advertising and promotion, outside maintenance and risk provisions. However, the increase in these items was compensated by a reduction in travel costs, commissions, outsourcing and other service costs.

The most significant "Other service costs" include:
- costs for storage for 310 thousand EUR;
- cleaning costs for 190 thousand EUR;
- personnel research costs for 61 thousand EUR;
- entertainment expenses for 67 thousand EUR;
- other service costs for 36 thousand EUR.

The most significant "Other operating costs" include:
- company expenses for 257 thousand EUR;
- membership in trade associations for 64 thousand EUR;
- translation services for 112 thousand EUR;
- miscellaneous expenses for 141 thousand EUR.

Note 11.27 - Financial Income and Expenses

The net financial costs of 2016 amounts to 3,109 thousand EUR.

Financial Management	December 31, 2016	December 31, 2015
Interests on Bond	(2,421,251)	(2,166,993)
Interests on loan Club Deal	(1,295,218)	(1,435,997)
Interests on payable for bank loans (current/non current)	(383,056)	(538,173)
Borrowing expenses Finpolar	-	(294,766)
Interests on loans from subsidiaries	(100,973)	(57,388)
Advance Finpolar loan expenses	-	(2,122,627)
Derivatives expenses (CRS)	(1,376,580)	(67,771)
Interests on financial leasing	(4,170)	(698)
Interests paid on employee tax benefits	(131,906)	(59,371)
Impairment of investments	(108,811)	(693,985)
Impairment of financial receivables	-	(235,809)
Bank charges	(520,423)	(408,051)
Other financial expenses	(36,408)	(10,782)
Financial expenses	**(6,378,796)**	**(8,092,411)**
Interests income on loans to subsidiaries	234,578	893,940
Dividends	2,706,994	756,139
Derivatives income (CRS)	438,762	411,296
Interest income from customers	-	66,831
Bank interest income	2,122	5,450
Other financial income	125,319	43,063
Financial income	**3,507,775**	**2,176,719**
Net exchange differences	**(237,608)**	**(144,063)**
FINANCIAL INCOME AND EXPENSES (NET)	**(3,108,629)**	**(6,059,755)**

The financial costs related to the bond amount to 2,421 thousand EUR, while interests on the Club Deal loan amount to 1,295 thousand EUR.

As shown in the table above, interest payables to credit institutions amount to 383 thousand EUR. It should also be noted that the financial charges include 109 thousand EUR for impairment of investments (related to Prima Power South America Ltd for 83 thousand EUR and Prima Power Australasia Pty Ltd for 26 thousand EUR) and exchange rate derivatives for 1,377 thousand EUR, of which 896 thousand EUR were unrealised.

It is important to note that the net financial expenses at December 31st, 2015 were affected by non-recurring expenses of 2,123 thousand EUR incurred between February and March 2015, following the full early repayment of the FINPOLAR loan, which also involved the closure of the derivative contract related to the loan.

Financial income includes interest income on loans of 235 thousand EUR to subsidiaries, dividends of 2,707 thousand EUR (Finn-Power OY: 1,300 thousand EUR, Prima Power Central Europe Sp.zoo: 1,021 thousand EUR, Prima Electro SpA: 360 thousand EUR and Prima Power Iberica: 26 thousand EUR) and income from foreign exchange derivatives: 439 thousand EUR. For more information of the consolidated financial statements, see Note 8.11 – Net Financial Position.

Note 11.28- Current and deferred taxes

The tax burden of Prima Industrie SpA at December 31st, 2016 compared to the data of the previous year is summarised below.

Current tax liabilities and deferred taxes	December 31, 2016	December 31, 2015
IRAP (Regional Trade tax)	(284,091)	(391,114)
IRES *(included the effect derived from consolidated taxation)*	(145,751)	(126,970)
Taxes relating to previous year	(2,010)	216
Deferred tax assets	(122,764)	(284,165)
Deferred tax liabilities	9,809	31,917
Other taxes	(7,632)	(5,745)
TOTAL	**(552,439)**	**(775,861)**

The reconciliation between the fiscal costs entered in the financial statements and the theoretical fiscal cost, calculated on the basis of the theoretical tax rates in force in Italy, is as follows.

Reconciliation between ordinary and theorical tax rates	2016	2015
RESULT BEFORE TAXES	**2,309,880**	**2,182,595**
IRES rate	27.50%	27.50%
THEORICAL IRES ON INCOME	**635,217**	**600,214**
PERMANENT INCREASE	842,301	1,437,874
TEMPORARY INCREASE	1,589,523	5,494,634
PERMANENT DECREASE	(2,916,927)	(2,272,250)
TEMPORARY DECREASE	(792,744)	(6,381,146)
NON-DEDUCTIBLE INTEREST	396,331	2,071,625
ROL SURPLUS RECOVERED FROM ITALIAN FISCAL CONSOLIDATED	(396,331)	(2,071,625)
ACE RECOVERED FROM ITALIAN FISCAL CONSOLIDATED	(893,498)	-
FISCAL LOSS FROM ITALIAN FISCAL CONSOLIDATED	(530,003)	-
INCREASE/DECREASE	**(2,701,348)**	**(1,720,888)**
EFFECTIVE FISCAL RESULT	**(391,468)**	**461,707**
IRES rate	27.50%	27.50%
EFFECTIVE IRES ON INCOME	**-**	**126,970**

Note 11.29 - Guarantees granted, commitments and other potential liabilities

The guarantees granted and commitments undertaken by the company at December 31st, 2016 are shown below.

Values expressed in Euro thousand

Guarantees, commitments and other potential liabilities	December 31, 2016	December 31, 2015
Guarantees granted	13,259	17,612
Other commitments and significant contracts rights	2,914	3,473
Commitments to leasing companies	1,907	1,185
TOTAL	**18,080**	**22,270**

At December 31st, 2016 the guarantees granted by Prima Industrie SpA amounted to 13,259 thousand EUR and relate to guarantees to trade counterparties and sureties to credit institutions on behalf of Group companies.

"Commitments to leasing companies" refer to repurchase agreements for sales made through financial intermediaries.

“Other Commitments and significant contract rights” refer mainly to rents on buildings, rentals and operating leases.

Prima Industrie SpA, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be mentioned.

Note 11.30 – Information sheet on related parties

Relations with associated parties are generally represented by transactions with companies controlled directly or indirectly by the company regulated at market conditions considered normal in the reference market, in view of the characteristics of the assets and the services rendered.
The impact of these transactions on individual items in the 2016 Financial Statements, already highlighted in the supplementary tables of the Balance Sheet and Income Statement, drawn up in accordance with CONSOB Resolution no. 15519 of July 27th, 2006, is summarised in the following table:

Associated parties – financial items

Counterparty	Financial receivables	Trade receivables	Financial payables	Trade payables and advances	Other payables
PRIMA POWER GmbH	-	1,348,890	-	91,303	-
PRIMA POWER UK LTD	-	73,247	-	38,206	-
PRIMA POWER CENTRAL EUROPE Spzoo	-	1,258,197	-	23,078	-
PRIMA POWER CHINA Company Ltd	-	1,393,023	-	1,302,852	-
OOO PRIMA POWER	-	23,039	-	6,316	-
PRIMA ELECTRO SpA	1,318,825	68,239	-	2,232,724	-
PRIMA ELECTRO NORTH AMERICA LLC	-	114,935	-	1,168,970	-
FINN-POWER OY	-	769,122	-	1,574,283	-
PRIMA POWER IBERICA	-	1,277,322	4,000,000	184,888	-
PRIMA POWER FRANCE Sarl	-	1,783,362	-	37,418	-
PRIMA POWER NORTH AMERICA Inc	-	3,612,817	-	83,784	-
FINN-POWER ITALIA Srl	-	1,157,752	-	1,119,957	-
PRIMA POWER LASERDYNE LLC	3,444,814	693,004	-	3,291	-
PRIMA POWER SOUTH AMERICA LTDA	-	247,008	-	6,302	-
PRIMA MACHINE SERVICE INDIA PR. LTD	-	357,084	-	210,895	-
PRIMA POWER MAKINA TICARET LTD	-	160,757	-	1,220	-
PRIMA POWER AUSTRALASIA PTY LTD	-	-	-	-	-
PRIMA POWER SUZHOU CO. LTD	3,131,111	3,601,891	85,160	3,448,839	-
STRATEGIC MANAGEMENT	-	-	-	-	588,472
BOARD OF AUDITORS	-	-	-	-	101,750
TOTAL	**7,894,750**	**17,939,689**	**4,085,160**	**11,534,326**	**690,222**

Associated parties – economic items

Counterparty	Revenues	Other operating revenues	Financial income	Purchases	Personnel costs	Other operating costs	Financial expenses
PRIMA POWER GmbH	9,002,368	68,999	5,398	52,220	-	162,336	-
PRIMA POWER UK LTD	3,873,342	57,473	-	50,471	-	113,507	-
PRIMA POWER CENTRAL EUROPE Spzoo	3,989,485	79,090	646	47,231	-	66,516	-
OOO PRIMA POWER	688,298	35,459	-	-	-	34,711	-
PRIMA ELECTRO SpA	20,269	84,183	24,768	5,316,140	-	404,928	-
PRIMA ELECTRO NORTH AMERICA LLC	233,072	1,870	-	3,845,655	-	11,136	-
FINN-POWER OY	3,000,430	683,713	100,229	3,409,934	14,898	510,478	-
PRIMA POWER IBERICA	9,197,598	44,352	2,081	102,397	-	558,701	100,973
PRIMA POWER FRANCE Sarl	4,831,444	26,336	3,179	28,162	-	229,639	-
PRIMA POWER NORTH AMERICA Inc	14,829,887	62,859	-	-	-	79,675	-
FINN-POWER ITALIA Srl	809,267	589,686	3,465	1,845,698	3,654	279,605	-
PRIMA POWER LASERDYNE LLC	108,741	143,506	105,493	1,341	-	3,099	-
PRIMA POWER SOUTH AMERICA LTDA	80,158	5,520	-	15,401	1,463	62,338	-
PRIMA MACHINE SERVICE INDIA PR. LTD	72,822	5,280	-	-	-	331,465	-
PRIMA POWER MAKINA TICARET LTD	557,577	24,970	-	-	-	17,657	-
PRIMA POWER SUZHOU CO LTD	2,383,837	480,990	114,553	6,577	6,848	2,989,552	-
STRATEGIC MANAGEMENT	-	-	-	-	340,640	632,154	-
BOARD OF AUDITORS	-	-	-	-	-	101,750	-
TOTAL	53,678,595	2,394,286	359,812	14,721,227	367,503	6,589,247	100,973

In terms of the impact on the financial flows of relationships with associated parties, these were not represented in a table, since they are almost entirely linked to transactions with companies that are directly or indirectly controlled by the company, as illustrated previously. The above table does not contain items deriving from national consolidated taxation, since they do not represent actual exchanges, but rather only those originating from the financial procedures provided for in national taxation legislation (payables to PRIMA ELECTRO for 445 thousand EUR and payables to FINN-POWER ITALIA of 912 thousand EUR). Furthermore, dividend financial income and impairment of investments are not included.

Note 11.31 – Significant non-recurrent events and transactions

The table below summarises non-recurring transactions that have had a negative impact on the Income Statement for a total of 360 thousand EUR, of which one for 251 thousand EUR on EBITDA and one for 109 thousand EUR on financial items.

Values expressed in Euro thousand

Significant non-recurrent events and transactions	Other operating revenues	Personnel cost	Other operating costs	Financial income and expenses	TOTAL
Actions of reorganization/Restructuring	-	(81)	(170)	-	(251)
Impairment of investments	-	-	-	(109)	(109)
Total	**-**	**(81)**	**(170)**	**(109)**	**(360)**

For comparison purposes, the same Not Recurrent Items table for 2015 is shown below

Significant non-recurrent events and transactions	Other operating revenues	Personnel cost	Other operating costs	Financial income and expenses	TOTAL
Research and development projects	1,260	-	-	-	1,260
Legal/fiscal disputes	-	-	(24)	-	(24)
Actions of reorganization/Restructuring	-	(162)	(36)	-	(198)
Advance Finpolar loan expenses	-	-	-	(2,123)	(2,123)
Impairment of financial receivables Wuhan Uni	-	-	-	(236)	(236)
Impairment of investments	-	-	-	(694)	(694)
Total	**1,260**	**(162)**	**(60)**	**(3,053)**	**(2,015)**

Note 11.32 – Transactions deriving from atypical and/or unusual operations

In accordance with CONSOB Communication of July 28th, 2006, during 2016 the company performed no atypical and/or unusual transactions, as defined by the Communication, which states that atypical and/or unusual transactions are those operations whose size/importance, nature of the counterparties, object, price transfer determination method and timing (proximity to close of the financial year) can give rise to doubts regarding: the correctness/completeness of the information in the financial statements, conflict of interests, safeguard of company assets, protection of minority shareholders.

Note 11.33 – Net Financial Position

In accordance with CONSOB Communication no. DEM/6064293 of July 28th, 2006, the table of the Net Financial Position shown above does not indicate non-current financial receivables which at December 31st, 2016 amounted to 2,800 thousand EUR (at December 31st, 2015 they totalled 18,129 thousand EUR). At December 31st, 2016, these assets refer to loans granted to the subsidiary PRIMA POWER SUZHOU Co. LTD (1,500 thousand EUR) and Prima Electro SpA (1,300 thousand EUR).

For more details on net financial position, see the following notes:

- Note 11.5 – Financial assets – loans to subsidiaries
- 11.12 - Cash and cash equivalents
- 11.15 – Loans

Values expressed in Euro thousand

		December 31, 2016	December 31, 2015	Variations
A	CASH	7,457	5,515	1,942
B	OTHER CASH AND CASH EQUIVALENTS	-	-	-
C	SECURITIES HELD FOR TRADING	-	-	-
D	**CASH ON HAND (A+B+C)**	**7,457**	**5,515**	**1,942**
E	**CURRENT FINANCIAL RECEIVABLES**	**5,886**	**5,698**	**188**
F	CURRENT BANK DEBTS	952	516	436
G	CURRENT PART OF NON-CURRENT INDEBTEDNESS	17,996	10,775	7,221
H	BOND ISSUED	871	869	2
I	OTHER CURRENT FINANCIAL DEBTS	313	198	115
J	**CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)**	**20,132**	**12,358**	**7,774**
K	**NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)**	**6,789**	**1,145**	**5,644**
L	NON-CURRENT BANK DEBTS	32,028	39,929	(7,901)
M	BOND ISSUED	39,660	39,591	69
N	OTHER NON-CURRENT FINANCIAL DEBTS	12,252	3,909	8,343
O	**NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)**	**83,940**	**83,429**	**511**
P	**NET FINANCIAL POSITION (K+O)**	**90,729**	**84,574**	**6,155**

Summary of key figures of the last Financial statements of subsidiaries

The tables below provide a summary of the key figures of the Financial Statements of subsidiaries by segment at 31 December 2016.

PRIMA POWER

Values expressed in Euro thousand

	PRIMA POWER GMBH	PRIMA POWER UK LTD.	PRIMA POWER CENTRAL EUROPE Sp.z.o.o.	OOO PRIMA POWER	PRIMA POWER SOUTH AMERICA LTDA	PRIMA POWER CHINA CO.LTD.	PRIMA POWER MAKINA TICARET LTD SIRTEKI	PRIMA POWER AUSTRALASIA PTY. LTD.	PRIMA POWER SUZHOU CO.LTD.	FINN-POWER OY	FINN-POWER ITALIA S.r.l.	PRIMA POWER IBERICA S.L.	PRIMA POWER FRANCE Sarl	BALAXMAN OY	PRIMA POWER INDIA PVT.LTD.	PRIMA POWER NORTH AMERICA INC.	PRIMA POWER CANADA Ltd.	PRIMA POWER LASERDYNE LLC	PRIMA POWER MEXICO SRL de CV
NON-CURRENT ASSETS	257	66	256	495	50	-	106	-	3,706	123,928	10,349	4,110	49	4	28	3,888	-	5,714	-
CURRENT ASSETS	5,956	4,056	5,679	4,146	491	4,429	4,651	75	21,803	61,949	28,336	6,826	5,645	92	801	37,132	1,114	20,184	166
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	-	-	-	-	-	-	319	-	-	-	-	-	-	-	-
TOTAL ASSETS	**6,213**	**4,122**	**5,935**	**4,641**	**541**	**4,429**	**4,757**	**75**	**25,509**	**185,877**	**39,004**	**10,936**	**5,694**	**96**	**829**	**41,020**	**1,114**	**25,898**	**166**
SHAREHOLDERS' EQUITY	783	1,004	354	1,729	(704)	1,885	958	(222)	4,040	121,597	10,601	7,332	(181)	89	(111)	18,557	1,020	7,951	(16)
NON-CURRENT LIABILITIES	509	-	26	283	-	-	-	-	-	18,830	4,048	-	152	-	-	1,448	-	1,433	-
CURRENT LIABILITIES	4,921	3,118	5,555	2,629	1,245	2,544	3,799	297	21,469	45,450	24,355	3,604	5,723	7	940	21,015	94	16,514	182
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**6,213**	**4,122**	**5,935**	**4,641**	**541**	**4,429**	**4,757**	**75**	**25,509**	**185,877**	**39,004**	**10,936**	**5,694**	**96**	**829**	**41,020**	**1,114**	**25,898**	**166**

	PRIMA POWER GMBH	PRIMA POWER UK LTD.	PRIMA POWER CENTRAL EUROPE Sp.z.o.o.	OOO PRIMA POWER	PRIMA POWER SOUTH AMERICA LTDA	PRIMA POWER CHINA CO.LTD.	PRIMA POWER MAKINA TICARET LTD SIRTEKI	PRIMA POWER AUSTRALASIA PTY. LTD.	PRIMA POWER SUZHOU CO.LTD.	FINN-POWER OY	FINN-POWER ITALIA S.r.l.	PRIMA POWER IBERICA S.L.	PRIMA POWER FRANCE Sarl	BALAXMAN OY	PRIMA POWER INDIA PVT.LTD.	PRIMA POWER NORTH AMERICA INC.	PRIMA POWER CANADA Ltd.	PRIMA POWER LASERDYNE LLC	PRIMA POWER MEXICO SRL de CV
REVENUES	22,706	8,312	14,779	10,255	828	163	12,299	-	20,578	120,802	54,270	21,361	10,634	-	777	74,286	1,710	26,529	185
EBIT	326	77	356	824	(264)	(264)	245	(10)	439	9,272	896	1,095	(77)	1	38	4,835	830	2,209	(19)
PROFIT BEFORE TAXES	281	160	364	629	(83)	(272)	200	(26)	193	7,601	587	1,189	(83)	-	29	4,560	745	2,041	(19)
NET RESULT	**100**	**120**	**276**	**483**	**(83)**	**(307)**	**158**	**(26)**	**193**	**7,489**	**590**	**892**	**(83)**	**-**	**29**	**2,688**	**700**	**1,253**	**(28)**

PRIMA ELECTRO

Values expressed in Euro thousand

	PRIMA ELECTRO S.p.A.	OSAI UK LTD.	PRIMA ELECTRO NORTH AMERICA LLC	PRIMA ELECTRO CHINA
NON-CURRENT ASSETS	39,082	19	10,984	-
CURRENT ASSETS	26,534	888	13,017	1,436
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-
TOTAL ASSETS	**65,616**	**907**	**24,001**	**1,436**
SHAREHOLDERS' EQUITY	31,238	763	18,562	337
NON-CURRENT LIABILITIES	12,598	-	1,982	-
CURRENT LIABILITIES	21,780	144	3,457	1,099
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**65,616**	**907**	**24,001**	**1,436**

	PRIMA ELECTRO S.p.A.	OSAI UK LTD.	PRIMA ELECTRO NORTH AMERICA LLC	PRIMA ELECTRO CHINA
REVENUES	32,661	834	11,434	1,470
EBIT	(564)	89	(3,083)	122
PROFIT BEFORE TAXES	(79)	126	(3,088)	89
NET RESULT	**227**	**110**	**(1,921)**	**58**

Information pursuant to article 149-duodecies of CONSOB Regulation - Prima Industrie Group

The following table, prepared pursuant to article 149-duodecies of the CONSOB Issuers Regulation shows the audit fees for the year 2016 for audit and non-audit services provided by the independent auditors and entities belonging to its network.

Values expressed in Euro thousand

AUDIT COSTS	2016
Parent Company audit	110
Subsidiaries audit	193
Other services	35
TOTAL	**338**

Financial statements as at December 31st, 2016 Declaration

PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14th, 1999 AND ITS SUBSEQUENT AMENDAMENTS AND INTEGRATIONS

1. The undersigned, Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents), of Prima Industrie SpA, certify that, having taken account of the provisions of article 154-bis, paragraphs 3 and 4, of Legislative no. 58 of February 24th, 1998:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the consolidated financial statements over the course of 2016.

2. No significant facts have emerged regarding thereto.

3. We also certify that:

   3.1 the financial statements:
   a) are drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
   b) truthfully represent the figures in the accounting books and ledgers;
   c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the company.

   3.2 the Report of the Board of Directors includes a reliable analysis of company business trends and results, as well as of the position of the company, along with the description of the chief risks and uncertainties to which they are exposed.

Date: February 27th, 2017

Signature of the Executive Chairman

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Officer in charge of preparing the financial reports

____

Prima Industrie S.p.A.

Financial statements as at December 31, 2016

Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
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Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Prima Industrie S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Prima Industrie S.p.A., which comprise the statement of financial position as at December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and a summary of significant accounting principles and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of Prima Industrie S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Prima Industrie S.p.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Group Management Report and of specific information of the Report on Corporate Governance and the Shareholding Structure with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Group Management Report and of specific information of the Report on Corporate Governance and the Shareholding Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Prima Industrie S.p.A. are responsible for the preparation of the Group Management Report and of the Report on Corporate Governance and the Shareholding Structure in accordance with the applicable laws and regulations. In our opinion the Group Management Report and the specific information of the Report on Corporate Governance and the Shareholding Structure are consistent with the financial statements of Prima Industrie S.p.A. as at December 31, 2016.

Turin, March 16, 2017

EY S.p.A.
Signed by: Roberto Grossi, partner

This report has been translated into the English language solely for the convenience of international readers.

Prima Industrie S.p.A.

Consolidated financial statements as at December 31, 2016

Independent auditor’s report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
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Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Prima Industrie S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Prima Industrie Group, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting principles and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of Prima Industrie S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Prima Industrie Group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Group Management Report and of specific information of the Report on Corporate Governance and the Shareholding Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Group Management Report and of specific information of the Report on Corporate Governance and the Shareholding Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Prima Industrie S.p.A. are responsible for the preparation of the Group Management Report and of the Report on Corporate Governance and the Shareholding Structure in accordance with the applicable laws and regulations. In our opinion the Group Management Report and the specific information of the Report on Corporate Governance and the Shareholding Structure are consistent with the consolidated financial statements of Prima Industrie Group as at December 31, 2016.

Turin, March 16, 2017

EY S.p.A.
Signed by: Roberto Grossi, partner

This report has been translated into the English language solely for the convenience of international readers.

PRIMA INDUSTRIE SpA

Registered office: Via Antonelli 32, 10093 Collegno (Turin)
Share Capital €26,208,185.00 (fully paid-up)
Companies Register of Turin No. 03736080015
www.primaindustrie.com

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REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE FINANCIAL STATEMENTS AT December 31st, 2016
(in accordance with article 153 of Legislative Decree no. 58 of 24 February 1998 and article 2429 of the Italian Civil Code)

To the Shareholders of Prima Industrie SpA,

in accordance with the provisions and obligations set out in Articles 153 and 149 of Legislative Decree No. 58 of February 24th, 1998, with the required regulations and recommendations and in accordance with Article 2429, paragraph 2, of the Italian Civil Code, we report the following with regard to the activities carried out in the financial year 2016 and the conclusions we have reached.

Oversight and information received

During the year we:

- held six board meetings, each attended by all members of the board, attended the nine meetings of the Board of Directors and the eight meetings of the Audit and Risk Committee, also intervening in our role as Committee for Internal Control and Audit and we took part in one Shareholders' Meeting;
- kept an open channel of information and held regular meetings with the independent auditors, for timely exchanges of data and information about of our respective duties;
- gathered documents and information considered relevant by the Executive Directors, the Manager in charge of drafting the company's accounting documents and other company departments and we met the Internal Auditor.

The duties of the Supervisory Body, as required by Legislative Decree no. 231/2001, were carried out by the Board of Auditors, as assigned by the Board of Directors on May 14th, 2013 until 12 May 2016. The Board of Directors appointed the new Supervisory Body on May 13th, 2016 to remain in office until approval of the financial statements at December 31st,2016. The Body met five times in 2016 and issued its annual report on February 24th, 2017 in which nothing of any particular significance was raised.

During the meetings of the Board, we were informed of its activities and of the most significant economic, financial and equity transactions carried out or in progress, and of their compliance with the law, the company by-laws, the resolutions of the Shareholders' Meetings and of the absence of any conflicts of interest.

With particular reference to Article 19 of Legislative Decree No. 39 of January 27th, 2010, we held joint meetings and we worked alongside the Audit and Risk Committee, specifically for oversight of the financial disclosure process, the effectiveness of the internal audit and risk management systems, on the statutory annual and consolidated audit and on aspects relating to the independence of the independent auditors.

During meetings with the independent auditors and the Audit and Risk Committee, we examined the work plan adopted by them, received information about the accounting standards used, the book representation of the most significant transactions that took place during the year, and the outcome of auditing activities

We acknowledge that the independent auditors EY SpA, regarding whose independence we have no reservations, presented us with the report referred to in paragraph 3 of Article 19 of Legislative Decree no. 39 of January 27th, 2010, which states that there were no fundamental issues or significant deficiencies in the internal audit system with regard to the financial reporting process and the "Annual independence confirmation", in accordance with Article 17, paragraph 9, of the aforementioned legislative decree.

We assessed and verified the suitability of the internal auditing and administrative-accounting systems and the reliability of the latter to properly represent information on operations. This was done by collecting information from the managers of the respective departments, as well as analysing company documents, the report of the Internal Auditor, the results of the work performed by the independent auditors and by taking part in the meetings of the Audit and Risk Committee, which was set up by the Board of Directors and has three non-Board members.

The Board of Statutory Auditors is satisfied with the involvement of the Group companies Prima Electro and Finn-Power Italian in the ERM project.

We monitored the actual methods of implementation of the corporate governance rules set out in the Code of Conduct adopted by Prima Industrie SpA.

We ascertained, on the basis of statements made by individual directors and assessments made by the Board of Directors as a whole, that the criteria and procedures adopted by the latter to assess the independence of its members were applied correctly.

On the basis of our oversight activities, we can assert that the appropriateness of the organisational structure in terms of the size and business activities of the company, the internal control system as a whole, and the ability of the accounts management to properly represent operations.

The Board of Directors sent us the first half-year report of the previous financial year and the interim reports for the first and third quarter of 2016, within the specified period. These were published within the time frames and as required by legislation

The half-year report on the consolidated information of the Prima Industrie Group was audited by EY SpA. Quarterly data were not audited, as this is not compulsory.

We examined the draft statements to December 31st, 2016, drawn up by the Directors in accordance with legal requirements, and as communicated to the Board of Auditors during the Board Meeting of February 27th, 2017. The financial statements include the declaration by the Chairman and the person responsible for drafting the accounting documents pursuant to article 154-bis of Legislative Decree no. 58 of February 24th, 1998.

In particular, we ascertained that none of the exceptions referred to in article 2423, paragraph 4 of the Italian Civil Code were applied.

Furthermore, we obtained the necessary information from the independent auditors on the statutory report, which is released today in the Financial Statements to December 31st, 2016, in accordance with articles 14 and 16 of Legislative Decree no. 39 of January 27th, 2010, with nothing of any particular significance being raised.

For those aspects within our competence, we monitored compliance of the procedure for related-party transactions with legislation in force. Transactions between group companies and ordinary transactions with related parties are described in the Management Report, along with their characteristics and their economic importance.

We assessed the methodological suitability of the impairment process set up to check for the existence of any impairment losses on assets entered in the financial statements.

We verified that the Directors' Management Report for the year ended December 31st, 2016 conforms to legislation and regulations in force, consistently with the resolutions adopted by the Board of Directors, with the facts disclosed in the financial statements and those occurring after the end of the year.

During the course of our oversight operations, no information appeared warranting notification to the supervisory bodies or deserving mention in the present report.

CONSOBT Communication no. 1025564 of April 6th, 2001

Regarding CONSOB recommendations:

- the information provided by the Directors in their management report is accurate and complete;
- in accordance with the Consolidated Finance Law (Legislative Decree no. 58 of February 24th, 1998), we were constantly informed of all matters within our sphere of competence;
- the regular checks and audits that we made of the company revealed no atypical and/or unusual transactions with third parties, related parties or group companies, as defined in CONSOB Communication of July 28th, 2006;
- the instructions given by Prima Industrie SpA to its subsidiaries, in accordance with article 114, paragraph 2 of Legislative Decree no. 58 of February 24th, 1998, appear to be in order;
- with regard to the provisions of article 36 of the Market Regulations issued by CONSOB concerning significant subsidiaries set up and governed by the laws of non-EU countries – at December 31st, 2016 – the companies subject to these provisions are considered significant for the purposes of the Prima Industrie financial reporting audit system, and no deficiencies were reported;
- with regard to intra-group operations, the Directors, in their Management Report, highlight and illustrate the existence of relations between your company and other companies in the group, and with associated companies, specifying that these relationships were conducted at conditions deemed normal on their respective markets, taking account of the characteristics of the goods and services provided and/or loans granted to the subsidiaries. Such transactions are carried out in compliance with the specific procedures adopted by the company and based on the interests of the company, and comply with the provisions introduced on this matter;
- from the discussions and meetings with the management and the supervisory bodies of the main subsidiaries, no aspects worthy of note emerged;
- a new organizational, management and control model in accordance with Legislative Decree no. 231 of June 8th, 2001 and subsequent amendments, concerning the administrative liability of Companies for the offences set out in those regulations, was approved by the Board of Directors on January 15th, 2016 for integration of the offences recently added to Legislative Decree 231/2001;
- no critical aspects arose during the meetings held with the auditors in relation to article 150 of Legislative Decree no. 58 of February 24th, 1998;

- no additional assignments were given to the independent auditors EY SpA by Prima Industrie SpA, other than those provided for in article 155 of Legislative Decree no. 58 of February 24^{th}, 1998. The activities required of the independent auditors and their fees are detailed in the notes to the financial statements and have been summarized by the auditors themselves (Audit of the parent company for 110,000 EUR. Audit of subsidiaries 193,000 EUR. Other services 35,000 EUR.
- the independent auditors' report, issued today, contains no objections, observations or proposals and considers the Management Report to be consistent;
- in accordance with article 149, paragraph 1, sub-paragraph c) bis of Legislative Decree no. 58 of February 24^{th}, 1998, in their report on Corporate Governance and Ownership Structure, the Directors state that: "*The Issuer complies with the Code of Conduct for listed companies approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana SpA, Abi, Ania, Assogestioni, Assonime, and Confindustria*". The above, in all its various aspects, is the subject of the report on Corporate Governance that the Board of Directors submits to you, which provides more detailed and complete information. This report complies with the provisions of article 123-bis of the Consolidated Finance Law and the independent auditors have expressed their finding of coherence in the information referred to in paragraph 4 of the law;
- we examined the Remuneration Report prepared in accordance with article 123-ter of Legislative Decree no. 58 of February 24^{th}, 1998 and article 84 quater of the Issuers Regulations transmitted to us by the Board of Directors at the board meeting held on March 9^{th}, 2016, on which the Shareholders' Meeting is asked to vote in favour or against with a non-binding vote;
- with regard to the provisions of article 2408 of the Italian Civil Code, we received no complaints from shareholders concerning any censurable deeds, and no claims have been filed by shareholders and/or third parties;
- during the year we provided the opinions required by law and specifically with regard to the acquisition of treasury shares, and on February 13^{th}, 2017, we gave our recommendations to the Board of Directors of Prima Industrie SpA, in accordance with article 16, paragraph 2 of Regulation no. 537/2014 of the European Parliament, for the appointment of statutory auditors for the financial years 2017-2025.

We acknowledge that Prima Industrie SpA is not controlled by or a subsidiary of other companies and holds no treasury shares.

Conclusions

To conclude our report, we acknowledge that during the year the Board of Directors verified the independence of independent directors, and we confirm that the proper criteria and procedures were used for this, in accordance with article 3, paragraph 1 of the Code of Conduct. We, on the other hand, verified our own independence as required by article 8, paragraph 1 of the same Code.

With regard to the financial statements for the year ending December 31st, 2016, showing a profit of **1,757,529 EUR**, we carried out checks, within the limits of our responsibilities, to verify observance of the laws governing their composition and format, in accordance with article 149 of Legislative Decree no. 58 of February 24th, 1998, taking account of the information provided to us by the independent auditors.

In view of the above, in consideration of the statutory audit performed by independent auditors EY SpA, which reported no irregularities found in the financial statements, to the best of our knowledge we believe that the financial statements of your company for the financial year ended December, 31st 2016, can be approved as well as the proposal of the Board of Directors for the allocation of profits of 1,757,529.35 EUR and namely, 87,876.47 EUR to the Legal Reserve, with the remaining 1,669,652.88 EUR to be distributed along with 1,475,329.32 EUR from previous profits as an ordinary dividend of EUR 0.30 per share.

The mandate of the Board of Directors and of the independent auditors expire with approval of the financial statements to December 31st, 2016.

We would like to thank EY SpA in the persons of Stefania Boschetti, Roberto Grossi and Raffaele Pala for their collaboration over the last nine years and we refer you to our recommendation to the Board of Directors for the appointment of statutory independent auditors for the financial years 2017-2025.

Collegno, March 16th, 2017

Board of Statutory Auditors

(Franco Nada)
Chairman

(Maura Campra)
Statutory Auditor

(Roberto Petrignani)
Statutory Auditor

PRIMA INDUSTRIE GROUP

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REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED December 31st, 2016

To the Shareholders of Prima Industrie SpA,

The Board of Directors of Prima your company has prepared and approved the consolidated financial statements to 31 December 2016, in accordance with Legislative Decree no. 127 of April 9th, 1991 and with the provisions of Legislative Decree no. 38 of February 28th, 2005, presented to the Board meeting on February 27th, 2017.

The Group Consolidated Financial Statements include the statement by the Chairman and the Manager responsible for drafting the accounting documents pursuant to art. 154-bis of Legislative Decree no. 58 of February 24th, 1998.

The Consolidated Financial Statements of the Prima Industrie Group, which are available for your examination, present profits of 10,160,123 EUR, of which 10,102,304 EUR to be allocated to the shareholders of the parent company and 57,819 EUR to be allocated to the minority shareholders and are drafted according to International Accounting Standards (IAS/IFRS).

In the course of our duties, we have carried out oversight activities, and were regularly informed by the parent company's Board of Directors of major economic, financial and equity transactions, including extraordinary operations, performed as part of Group relations.

We ascertained that transactions that were resolved and put into effect, conformed to legislative requirements and to the company by-laws, that they did not diverge from the resolutions of the Shareholders' Meetings, showed no potential conflict of interest and were based on principles of proper administration.

We paid close attention to intragroup operations carried out during the year and ascertained that these were performed legitimately, whether they were commercial in nature or loans granted by the parent company to its subsidiaries.

Audits by the independent auditors, EY SpA reveal that the values expressed in the consolidated statements conform to the results of the parent company, to the financial statements of the subsidiaries and to all relevant information formally passed on by them.
The Board of Auditors, therefore, did not check these financial statements, in accordance with the provisions of article 41, paragraph 3 of Legislative Decree no. 127 of April 9th, 1991.

Furthermore, we obtained the necessary information from the independent auditors on the statutory report, which it issued in accordance with articles 14 and 16 of Legislative Decree no. 39 of January 27th, 2010, with nothing of any particular significance being raised. In its own report, the independent auditors confirmed the accuracy of the Management Report in relation to the Consolidated Financial Statements of Prima Industrie SpA and the information disclosed in accordance with article 123-bis of Legislative Decree no. 58 of February 24th, 1998 in the report on Corporate Governance and Ownership Structure.

The area of consolidation, the principles for equity consolidation and relevant procedures were all determined in accordance with IFRS rules. The structure of the consolidated financial statements can therefore be considered technically correct and fully conformant to specific regulations.

As in previous years, the Board of Directors has drawn up a single Management Report, which contains all required information pertaining to the parent company and to individual subsidiary companies.

The report illustrates the economic, equity and financial position of all consolidated companies, their operating performance during 2016, the main risks to which the business is exposed and expected developments for 2017.

Having examined this report, we confirm that it corresponds to the Group's consolidated statement.

The Explanatory Notes contain the general drafting criteria for the Consolidated Financial Statements, as well as the criteria used for assessing individual items.

For comparative purposes, the Consolidated Financial Statements also present the data corresponding to the previous year.

Based on our investigations, the Board of Statutory Auditors agrees with the content and form of the Group Consolidated Financial Statements to 31 December 2016.

Collegno, March 16th, 2017

Board of Statutory Auditors

(Franco Nada)
Chairman

(Maura Campra)
Statutory Auditor

(Roberto Petrignani)
Statutory Auditor