REVIEW OF ENERGY PRODUCTS OPERATING SEGMENT

(in millions of Euro)

	2015	2014	% change	2013 (*)
Sales	4,665	4,491	3.9%	4,649
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	225	221	2.0%	259
% of sales	4.8%	4.9%		5.6%
Adjusted EBITDA	243	239	2.1%	276
% of sales	5.2%	5.3%		5.9%
EBITDA	242	195	24.1%	250
% of sales	5.2%	4.3%		5.4%
Amortisation and depreciation	(62)	(62)		(66)
Adjusted operating income	181	177	2.9%	210
% of sales	3.9%	3.9%		4.5%

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

EBITDA (A)	242	195	24.1%	250
Non-recurring expenses/(income):				
Company reorganisation	35	38		29
Environmental remediation and other costs	-	-		(3)
Gains on asset disposals	-	-		(2)
Effect of consolidating Oman Cables Industry	(44)	-		-
Other net non-recurring expenses	10	6		2
Total non-recurring expenses/(income) (B)	1	44		26
Adjusted EBITDA (A+B)	243	239	2.1%	276

(*) The originally published 2013 figures have been restated following the introduction of IFRS 10 and IFRS 11 and a new method of classifying the share of net profit (loss) of associates and joint ventures.

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

Sales to third parties by the Energy Products operating segment amounted to Euro 4,665 million in 2015, compared with Euro 4,491 million in 2014, posting a positive change of Euro 174 million (+3.9%), due to the combined effect of the following main factors:

- increase of Euro 53 million (+1.2%) due to organic sales growth, reflecting volume recovery in Europe, North America, Argentina and Oceania, partially offset by negative organic growth in Brazil;
- increase of Euro 193 million (+4.3%) for exchange rate fluctuations;
- sales price reduction of Euro 72 million (-1.6%) for metal price fluctuations.

Adjusted EBITDA for 2015 came to Euro 243 million, up Euro 4 million (+2.1%) from Euro 239 million in 2014.

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

ENERGY & INFRASTRUCTURE

(in millions of Euro)

	2015	2014	% change	Variaz. % Organica dei ricavi	2013 (*)
Sales	2,795	2,677	4.4%	3.0%	2,747
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**111**	**91**	**22.7%**		**113**
% of sales	4.0%	3.4%			4.1%
Adjusted EBITDA	**128**	**108**	**19.5%**		**127**
% of sales	4.6%	4.1%			4.6%
Adjusted operating income	**93**	**74**	**26.5%**		**90**
% of sales	3.3%	2.8%			3.3%

(*) The originally published 2013 figures have been restated following the introduction of IFRS 10 and IFRS 11 and a new method of classifying the share of net profit (loss) of associates and joint ventures.

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

MARKET OVERVIEW

The reference markets have distinct geographical characteristics (despite international product standards) both in terms of customer and supplier fragmentation and the range of items produced and sold.
The year 2015 witnessed some stabilisation in the construction market, uncertainty about whose future prospects had paralysed the buying plans of the industry's main players and exacerbated the pressure on sales prices during 2014.
This translated into a slight recovery in volumes particularly in some European markets (North Europe and United Kingdom), while demand in the rest of the continent remained low with generally stable prices and a sharp decline in Russia.

The North American market, previously affected by largely flat demand for products serving infrastructure construction, confirmed its signs of growth in 2015. In Canada, the renewables sector (wind farms) continued to display growth in demand.

In South American markets, however, Brazil remained weak, with demand in line with the previous year, caused by slowdown in the industrial and residential construction sectors and uncertainties about political stability.

The growth trend was positive in Asia, particularly in China and other markets like Indonesia and Malaysia, while demand continued to stagnate on the Australian construction market, affected by strong competitive pressures from Asian operators.

The Power Distribution business line reported a growth in demand during 2015 compared with 2014.

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

However, some countries saw a resumption of investments to increase and improve distribution network performance, and in some cases the level of investment has been considerable, like in Germany and the Nordic countries; the positive trend was most buoyant in markets with growing per capita energy needs, such as South America and Asia.

FINANCIAL PERFORMANCE

Sales to third parties by the E&I business area amounted to Euro 2,795 million in 2015, compared with Euro 2,677 million in 2014, posting a positive change of Euro 118 million (+4.4%) due to the combined effect of the following main factors:

- positive organic growth of Euro 79 million (+3.0%);
- increase of Euro 77 million (+2.8%) for exchange rate fluctuations;
- sales price reduction of Euro 38 million (-1.4%) for metal price fluctuations.

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

The general precariousness of demand for infrastructure, combined with the state of energy consumption, certainly affected the Group's performance in some European markets, with the exception of North Europe, Spain and the United Kingdom, as well as North America and certain Asian markets, where growth opportunities were able to be grasped.

By contrast, Prysmian Group suffered in South America, particularly in the Brazilian market, where demand remained negative and price pressure started to be felt; however, performance in Argentina was positive.

Given the factors described above, Adjusted EBITDA for 2015 came to Euro 128 million, up from Euro 108 million in the previous year.

INDUSTRIAL & NETWORK COMPONENTS

(in millions of Euro)

	2015	2014	% change	Variaz. % Organica dei ricavi	2013 (*)
Sales	1,749	1,708	2.4%	-2.3%	1,788
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**112**	**125**	**-10.7%**		**141**
% of sales	6.4%	7.4%			7.9%
Adjusted EBITDA	**113**	**126**	**-10.6%**		**141**
% of sales	6.5%	7.4%			7.9%
Adjusted operating income	**88**	**100**	**-12.4%**		**116**
% of sales	5.0%	5.9%			6.5%

(*) The originally published 2013 figures have been restated following the introduction of IFRS 10 and IFRS 11 and a new method of classifying the share of net profit (loss) of associates and joint ventures.

The extensive range of cables developed specially for certain *industries* is characterised by the highly specific nature of the solutions offered. In the transport market, Prysmian cables are used in the construction of ships and trains, and in the automotive and aerospace industries; in the infrastructure market, the principal applications for its cables are found in railways, docks and airports. The product range also includes cables for the mining industry, for elevators and for applications in the renewable energy field (solar and wind power), cables for military use and for nuclear power stations, able to withstand the highest radiation environments. The range of products for the Oil & Gas industry includes low and medium voltage power cables, and instrumentation and control cables for use in the oil and petrochemicals industry (offshore platforms, onshore extraction facilities, refineries, chemical plants for fertilizer production, and so on).
Lastly, the Group produces accessories and *network components*, such as joints and terminations for low, medium, high and extra high voltage cables and submarine systems, to connect cables with one another and/or connect them with other network devices, suitable for industrial, construction and infrastructure applications and for use within power transmission and distribution grids.

MARKET OVERVIEW

Trends on Industrial cable markets in 2015 displayed considerable inconsistencies between the various business lines and large disparities between the different geographical areas. The common tendency was for more fragmented and erratic demand, concentrated on smaller scale but technologically more complex projects than in the past, accompanied by more exacting requirements regarding quality and after-sales service.

The Industrial market reported stable or growing demand in some segments, like certain OEM sectors (such as Nuclear, Crane and Railway) and Elevators, and a general growth in renewables market demand in China and North America. In Europe, however, renewables demand remained weak, like in the previous year, in the wake of restrictive financial policies adopted by the main governments which had either cut special incentives or made it more difficult to access credit for onshore wind projects. Other market segments of the Industrial market, however, saw volumes contract due to delays in investment projects, like the low-end mining and infrastructure OEM ranges, where demand depends on specific geographical factors. In particular, within the mining sector, demand was persistently weak, primarily due to falling commodity prices, significant production overcapacity and the reduction in investments.

The Oil & Gas segment experienced a highly negative trend: in fact, the market for international projects deteriorated sharply, reporting many instances of oil companies cancelling or postponing investments in new fields pending more favourable market conditions. In addition, even the drilling sector was heavily impacted by lower oil prices, with a consequent reduction in operations worldwide.

The Automotive market recorded a general growth in Europe, the United States and China, while the negative trend continued in Brazil, heightened by the ongoing economic crisis.

FINANCIAL PERFORMANCE

Sales to third parties by the Industrial & Network Components business area amounted to Euro 1,749 million in 2015, compared with Euro 1,708 million in 2014, posting a positive change of Euro 41 million (+2.4%) due to the combined effect of the following main factors:

- negative organic growth in sales of Euro 39 million (-2.3%);
- increase of Euro 114 million (+6.7%) for exchange rate fluctuations;
- sales price reduction of Euro 34 million (-2.0%) for metal price fluctuations.

Overall performance in 2015 by the industrial applications business was partially affected by the instability of investment demand in some sectors, while nonetheless maintaining geographical and application differentiation in view of the wide range of specially developed products and the highly customised nature of the solutions offered by the Group.

In the OEM market, the sales trend recorded by the Prysmian Group was generally positive in the European market and in Argentina, but stable in North America and Asia. As for the different sectors, good performance by Railway, Crane and Nuclear applications, with a growth in the higher value-added order book, was partly offset by weak demand for Marine and Rolling Stock cables.

In the renewables business, the positive trend in demand in the solar segment in North America was entirely offset by the slowdown in the onshore wind segment in North Europe and China, where the Group has generally reduced its exposure for strategic reasons linked to the competitive environment.

The Oil & Gas sector witnessed a growth in sales by the onshore projects business, thanks to the solid order book at the start of the year, particularly in Asia, the Middle East and Caspian region. However, this was not sufficient to make up for the steep decline in activities in the markets for submersible pumps, MRO

(Maintenance, Repair and Operations) and offshore. The business's overall profitability was adversely affected by the sharp drop in higher-margin MRO volumes, particularly in the North Sea and the United States, and by the reduction in offshore projects; this trend reflects the reduction in investments, especially in more capital intensive sectors like offshore, as a result of the collapse in oil prices.
The strategy of technological specialisation of its solutions allowed Prysmian Group to consolidate its Elevator market leadership in North America and to expand into the Chinese and European markets; its exposure to the European market in particular was still marginal although significantly greater than in the previous year.

The Automotive business reported a slowdown in activity as a result of the increasing competitive pressure being put on the Prysmian Group at the lower end of the market by countries with lower labour costs and by cable installers tending to intercept the market upstream. During 2015, the Group embarked on a process of focusing on the high-end segments of its business portfolio in order to secure medium-term margin growth, which has permitted a gradual recovery of market share, particularly in the last few months of the year.

Lastly, although the Network Components business area reported positive results on the Chinese market, also supported by local production at the Suzhou plant, and an improvement in demand in North America, these were offset by the weakness in Brazil and in the High Voltage sector in Europe.
Given the factors described above, Adjusted EBITDA for 2015 came to Euro 113 million, down from Euro 126 million in the previous year.

OTHER

(in millions of Euro)

	2015	2014	2013 (*)
Sales	121	106	114
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	2	5	5
Adjusted EBITDA	2	5	8
Adjusted operating income	-	3	4

(*) The originally published 2013 figures have been restated following the introduction of IFRS 10 and IFRS 11 and a new method of classifying the share of net profit (loss) of associates and joint ventures.

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