

REVIEW OF ENERGY PRODUCTS OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	4,469	4,415	1.2%	4,223
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	277	234	18.3%	210
% of sales	6.2%	5.3%		5.0%
Adjusted EBITDA	280	252	10.9%	228
% of sales	6.3%	5.7%		5.4%
EBITDA	216	264	-18.5%	184
% of sales	4.8%	6.0%		4.4%
Amortisation and depreciation	(82)	(59)	39.8%	(58)
Adjusted operating income	198	193	2.1%	170
% of sales	4.4%	4.4%		4.0%

Reconciliation of EBITDA to Adjusted EBITDA

EBITDA (A)	216	264	-18.5%	184
Adjustments:				
Company reorganisation	38	21		35
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	26	(33)		9
Total adjustments (B)	64	(12)		44
Adjusted EBITDA (A+B)	280	252	10.9%	228

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 4,469 million in 2016, compared with Euro 4,415 million in 2015, posting a positive change of Euro 54 million (+1.2%), due to the combined effect of the following main factors:

- increase of Euro 537 million (+12.2%) associated with the first-time consolidation of Oman Cables Industry (SAOG);
- decrease of Euro 1 million due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016;
- negative organic sales growth of Euro 160 million (-3.6%), reflecting growth in Oceania and some Asian countries, stability in Europe and a steep reduction in underlying sales in South America;
- decrease of Euro 139 million (-3.3%) linked to unfavourable exchange rate movements;
- sales price reduction of Euro 183 million (-4.1%) for metal price fluctuations.

Adjusted EBITDA for 2016 came to Euro 280 million, up Euro 28 million (+10.9%) from Euro 252 million in 2015.

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)

	2016	2015	% change	% organic sales change	2014
Sales	3,016	2,795	7.9%	-3.1%	2,677
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	152	111	37.0%		91
% of sales	5.0%	4.0%			3.4%
Adjusted EBITDA	154	128	20.1%		108
% of sales	5.1%	4.6%			4.1%
Adjusted operating income	92	93	-2.0%		74
% of sales	3.0%	3.3%			2.8%

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 construction market, uncertainty about whose future prospects had paralysed buying plans of the industry's main players and exacerbated the pressure on sales prices during previous years, continued to stabilise in 2016 in line with the trend already emerging in the previous year.

This translated into a timid recovery in volumes in some European markets, such as Eastern Europe, the Nordic countries and United Kingdom, with demand in the rest of the continent remaining at a steady but low level accompanied by generally stable prices.

In South America, Brazil remained weak, with demand in line with the previous year, reflecting slowdown in the industrial and residential construction sectors and uncertainties about political stability.

Demand was up on the Australian construction market. The strong competitive pressures from Asian operators characterising the previous year started to retreat in the face of quality issues encountered with the latter; the market therefore rewarded local suppliers, also thanks to national campaigns on power cable safety.

The Power Distribution business saw a similar growth in demand in 2016 as in the previous year.

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, have either maintained an extremely cautious stance given the difficulty of forecasting future growth, or else they have concentrated on business 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, investments to increase and improve distribution network performance started to resume, even on a major scale and already since the previous year, in some parts of Northern Europe, Oceania and some Asian countries.

FINANCIAL PERFORMANCE

Sales to third parties by the E&I business area amounted to Euro 3,016 million in 2016, compared with Euro 2,795 million in 2015, posting a positive change of Euro 221 million (+7.9%) due to the combined effect of the following main factors:

- increase of Euro 537 million (+19.2%) associated with first-time consolidation of Oman Cables Industry (SAOG);
- negative organic sales growth of Euro 86 million (-3.1%);
- reduction of Euro 104 million (-3.7%) for exchange rate fluctuations;
- sales price reduction of Euro 126 million (-4.5%) for metal price fluctuations.

Prysmian Group continued its strategy in the E&I 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 Prysmian Group benefited from generally stable markets not only in North America, where volumes had already started to recover the previous year, especially thanks to growing demand for renewables (wind farms) in Canada for the part of the business served by distributors, but also in some European countries, where the market was invigorated by renewed infrastructure investments (for example in Finland), and from positive performance in Australia.

The rest of Europe remained largely stable with a contraction in low margin segments and price levels staying in line with previous quarters. The Group has undertaken industrial reorganisation programs to optimise production costs and thus raise profitability.

By contrast, the Group suffered in South America, with demand remaining negative due to a weak construction market and political uncertainty, and in Germany as a result of a revision to regulated utility tariffs.

Given the factors described above, Adjusted EBITDA for 2016 came to Euro 154 million, up from Euro 128 million in the previous year.

INDUSTRIAL & NETWORK COMPONENTS

(in millions of Euro)

	2016	2015	% change	% organic sales change	2014
Sales	1,343	1,499	-10.4%	-4.6%	1,440
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	126	121	4.2%		114
% of sales	9.4%	8.1%			7.9%
Adjusted EBITDA	127	122	4.2%		115
% of sales	9.5%	8.1%			8.0%
Adjusted operating income	108	100	8.4%		93
% of sales	8.0%	6.7%			6.5%

The extensive range of cables developed specially for certain *industries* is characterised by the highly specific nature of the solutions offered. In the transport market, Prysmian cables are used in the construction of ships and trains, and in the automotive and aerospace industries; in the infrastructure market, the principal applications for its cables are found in railways, docks and airports. The product range also includes cables for the mining industry, for elevators and for applications in the renewable energy field (solar and wind power), cables for military use and for nuclear power stations, able to withstand the highest radiation environments.

Lastly, the Group produces accessories and *network components*, such as joints and terminations for low, medium, high and extra high voltage cables and submarine systems, to connect cables with one another and/or connect them with other network devices, suitable for industrial, construction and infrastructure applications and for use within power transmission and distribution grids.

MARKET OVERVIEW

Trends on Industrial cable markets in 2016 displayed considerable inconsistencies between the various business lines and large disparities between the different geographical areas. The common tendency was for more fragmented and erratic demand, concentrated on smaller scale but technologically more complex projects than in the past, accompanied by more exacting requirements regarding quality and after-sales service.

Within the Industrial market, some segments showed stable or growing demand, like certain OEM sectors (such as Defence and Marine), and the Elevator market, while demand in the renewable energy market generally grew in Germany and North America; however, other market segments experienced contracting

volumes due to delays in investment projects, like the low-end mining and infrastructure ranges for the OEM market, where demand depends on specific geographical factors, or the renewable energy sector in China, where 2016 demand was rather weak, with the major investments gradually shifting from production and installation towards grid connections. 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 Elevator market saw growth in North America and in the APAC region, and an improving trend in Europe. The Automotive market continued to enjoy growing demand almost everywhere, despite the build-up of competitive pressure especially in low-end segments, particularly in North and Central America and Europe.

FINANCIAL PERFORMANCE

Sales to third parties by the Industrial & Network Components business area amounted to Euro 1,343 million in 2016, compared with Euro 1,499 million in 2015, posting a negative change of Euro 156 million (-10.4%) due to the combined effect of the following main factors:

- decrease of Euro 1 million due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016.
- negative organic sales growth of Euro 69 million (-4.6%);
- decrease of Euro 31 million (-2.1%) for exchange rate fluctuations;
- sales price reduction of Euro 55 million (-3.7%) for metal price fluctuations.

Overall performance in 2016 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 Group's wide range of specially developed products and the highly customised nature of its solutions.

In the OEM market, Prysmian Group reported a generally improving performance in North America and stability in Europe and Turkey but an extremely negative performance in South America due to the continuing economic crisis in Brazil and the sudden slowdown in investments in Argentina. As for the different sectors, good performance by the Defence and Marine businesses, with growth in the higher value-added order book, was partly offset by soft demand for Nuclear, Mining and Railway cables.

In the renewables business, the positive trend for the wind segment in Germany was entirely offset by segment weakness in China, where the Group has generally reduced its exposure for strategic reasons linked to the competitive environment and to the general slowing in market demand.

The strategy of technological specialisation of its solutions has 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 is still marginal although significantly greater than in the previous year.

The Automotive business reported a year-on-year improvement in margins, especially in APAC and Eastern Europe thanks to the benefits of reorganising its manufacturing footprint, as partially offset by the market downturn in South America.

Lastly, the Network Components business area recorded positive results for High Voltage and Submarine applications, also thanks to major projects in new markets (Mexico, Indonesia) and exports in general, which were partly neutralised by the downturn in sales in market segments serving the Oil & Gas industry.

Given the factors described above, Adjusted EBITDA for 2016 came to Euro 127 million, up from Euro 122 million in the previous year.

OTHER

(in millions of Euro)

	2016	2015	2014
Sales	110	121	106
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	(1)	2	5
Adjusted EBITDA	(1)	2	5
Adjusted operating income	(2)	-	3

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.