

REVIEW OF OIL & GAS OPERATING SEGMENT

(in millions of Euro)

| | 2016 | 2015 | % change | 2014 |
|---|-------|------|----------|------|
| Sales | 300 | 421 | -28.9% | 382 |
| Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies | 8 | 16 | -49.0% | 25 |
| % of sales | 2.7% | 3.8% | | 6.5% |
| Adjusted EBITDA | 8 | 16 | -49.0% | 25 |
| % of sales | 2.7% | 3.8% | | 6.5% |
| EBITDA | 8 | - | | 16 |
| % of sales | 2.7% | 0.1% | | 4.1% |
| Amortisation and depreciation | (15) | (13) | | (16) |
| Adjusted operating income | (7) | 3 | | 9 |
| % of sales | -2.4% | 0.7% | | 2.4% |

Reconciliation of EBITDA to Adjusted EBITDA

| | | | | |
|---------------------------------------|-----|----|--------|----|
| EBITDA (A) | 8 | - | | 16 |
| Adjustments: | | | | |
| Company reorganisation | 2 | 13 | | - |
| Non-recurring expenses/(income): | | | | |
| Antitrust | - | - | | - |
| Other non-operating expenses/(income) | (2) | 3 | | 9 |
| Total adjustments (B) | - | 16 | | 9 |
| Adjusted EBITDA (A+B) | 8 | 16 | -49.0% | 25 |

The OIL & GAS operating segment encompasses the businesses of SURF (Subsea Umbilical, Riser and Flowline), DHT (Downhole Technology) and Oil & Gas Core cables (cables for Upstream, Midstream and Downstream applications) and is characterised by its focus on the oil industry.

Prysmian offers a wide range of products able to serve every onshore and offshore need, including the design and supply of: multipurpose umbilical systems (for power and data communications transmission and for hydraulic powering of wellheads by offshore platforms and/or by floating, production, storage and offloading vessels); flexible offshore pipes for transporting hydrocarbons; Downhole Technology (DHT) solutions, which include cables encased in insulated tubing to control and power systems inside extraction and production machinery both offshore and onshore.

The range of products for the OIL & GAS industry also includes low and medium voltage power cables, and instrumentation and control cables for offshore and onshore applications. The onshore product range is able to support applications in the Upstream, Midstream and Downstream segments.

MARKET OVERVIEW

The SURF business saw:

- a contraction in the umbilicals market in Brazil, as well as a reduction in demand for flexible pipes used in pre-salt fields, in which, however, the Group is not yet present. Demand for "post-salt" products, a sector in which Prysmian does compete, was also down;
- a contraction in the market for Downhole Technology products. For the time being, low oil prices have only partly impacted this business's performance thanks to major development projects underway in Africa and the North Sea.

The Oil & Gas Core cables business performed very poorly: in fact, the market for international projects (both offshore and onshore) deteriorated further, with oil companies holding back/postponing new investments pending more favourable market conditions. In addition, even the onshore drilling sector and the maintenance (MRO) business were hard hit by lower oil prices, with a consequent reduction in operations worldwide. Market weakness is expected to persist, with slight signs of recovery in North America.

FINANCIAL PERFORMANCE

Sales to third parties by the OIL & GAS segment amounted to Euro 300 million in 2016, compared with Euro 421 million in 2015, posting a negative change of Euro 121 million (-28.9%).

The decrease in sales can be broken down into the following main factors:

- negative organic sales growth of Euro 123 million (-29.3%);
- decrease of Euro 8 million (-1.9%) for exchange rate fluctuations;
- sales price reduction of Euro 7 million (-1.7%) for metal price fluctuations;
- increase of Euro 17 million (+4.0%) for the acquisition in 2015 of Gulf Coast Downhole Technologies LLC in the United States, a company operating in the DHT sector.

The performance of the OIL & GAS segment was hit by the drop in oil prices, in turn affecting decisions by the industry's major players, in particular:

- the SURF business witnessed a contraction in the umbilicals market in Brazil, Prysmian's main outlet for these products;
- demand for Downhole Technology products suffered a 25% reduction on 2015 levels. However, the decline in volumes was partly offset by positive performance on the industrial front thanks to synergies from the integration of Gulf Coast Downhole Technologies LLC. The acquisition of Gulf Coast Downhole Technologies LLC, completed in the second half of 2015, is designed to strengthen Prysmian's presence in the downhole technology market. The company's integration into the Group and development of commercial and industrial synergies are in line with expectations;
- the Oil & Gas Core cables business witnessed a sharp slowdown in demand from both onshore and offshore projects, triggered by the collapse in oil prices. The business's overall profitability was additionally affected by the sharp drop in higher-margin MRO volumes, particularly in Norway and the United States, and by a slowdown in call-off contracts for projects in progress.

Adjusted EBITDA for 2016 came to Euro 8 million, down Euro 8 million (-49%) from Euro 16 million in 2015.