

GROUP PERFORMANCE AND RESULTS

FINANCIAL PERFORMANCE

(in millions of Euro)

	2017	2016	% change	2015
Sales	7,901	7,567	4.4%	7,361
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	691	680	1.7%	584
% of sales	8.8%	9.0%		7.9%
Adjusted EBITDA	733	711	3.1%	623
% of sales	9.3%	9.4%		8.5%
EBITDA	657	645	1.9%	622
% of sales	8.3%	8.5%		8.4%
Fair value change in metal derivatives	12	54		(27)
Fair value stock options	(49)	(49)		(25)
Amortisation, depreciation, impairment and impairment reversal	(199)	(203)		(171)
Operating income	421	447	-5.8%	399
% of sales	5.3%	5.9%		5.4%
Net finance income/(costs)	(116)	(79)		(89)
Profit/(loss) before taxes	305	368	-17.1%	310
% of sales	3.9%	4.9%		4.2%
Taxes	(82)	(106)		(96)
Net profit/(loss) for the year	223	262	-14.9%	214
% of sales	2.8%	3.5%		2.9%
Attributable to:				
Owners of the parent	227	246		214
Non-controlling interests	(4)	16		-
Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA				
Operating income (A)	421	447	-5.8%	399
EBITDA (B)	657	645	1.9%	622
Adjustments:				
Company reorganisation	30	50		48
Non-recurring expenses/(income):				
Antitrust	18	(1)		(29)
Other non-operating expenses/(income)	12	17		(18)
General Cable acquisition-related costs	16	-		-
Total adjustments (C)	76	66		1
Fair value change in metal derivatives (D)	(12)	(54)		27
Fair value stock options (E)	49	49		25
Impairment and impairment reversal of assets (F)	22	30		21
Adjusted operating income (A+C+D+E+F)	556	538	3.3%	473
Adjusted EBITDA (B+C)	733	711	3.1%	623

The Group's Adjusted EBITDA for 2017 increased on the previous year.

The Energy Projects segment reported a year-on-year decline in sales, even if the fourth-quarter figures showed a recovery from previous quarters. The submarine cables business boosted its profitability on 2016, thanks to a favourable mix of projects and service and installation activities, which benefited from the deployment of new installation assets, like the third cable-laying vessel "Ulisse" and cable burial equipment. The availability of these new assets is allowing the Group to insource more of its high-margin activities. The High Voltage business enjoyed a positive performance in the Far East and France, partially tempered by a slight decline in the UK, the Nordics and Russia.

The 2017 profitability of the Energy Products segment reflected mixed performances within the various business lines. Within Energy and Infrastructure, Power Distribution profitability and sales volumes remained down on the previous year, while, despite some later improvement from the earlier part of the year, year-on-year performance for the Trade & Installers business continued to flag, particularly due to the results of the Omani subsidiary. Within Industrial & Network Components, the Automotive business continued to perform well, confirming the benefits of having reorganised manufacturing footprint the previous year. The OEM business also posted an overall positive year-on-year performance at the end December 2017. However, the Renewables and Elevator businesses both continued to underperform.

Compared with the previous year, the OIL & GAS segment saw its profitability penalised by a downturn in the Umbilical cables business in Brazil. In the DHT cables business, the contraction in volumes for international projects in the North Sea, West Africa and Asia was partially offset by North American volumes associated with shale oil production and with synergies arising from the integration of Gulf Coast Downhole Technologies LLC; lastly, the Core Oil&Gas business saw a resurgence in demand by onshore projects.

The Telecom segment confirmed its upward momentum, thanks to persistently strong demand for optical fibre cables, particularly in fast-developing regions; optical fibre cable consumption continued to expand in North America and in Europe, thanks to plans under the Digital Agenda for Europe 2025. Demand for copper cables continued to flag, as expected, while the MMS cable market reported timid global growth, driven by Asia and, in the case of the optical cables segment, by China.

The Group's sales in 2017 came to Euro 7,901 million, compared with Euro 7,567 million in 2016, posting a positive change of Euro 334 million (+4.4%).

The growth in sales was attributable to the combined effect of the following factors:

- sales price increase of Euro 525 million (+6.9%) following metal price fluctuations (copper, aluminium and lead);
- negative effect of Euro 45 million (-0.6%) arising from the disposal of the high voltage cables business of Prysmian Baosheng in China as partially offset by the acquisition of Corning Optical Communications GmbH & Co. KG. in the Multimedia Solutions business;
- decrease of Euro 8 million (-0.1%) in organic sales growth;
- decrease of Euro 138 million (-1.8%) due to adverse exchange rate effects.

Negative organic sales growth of -0.1% is analysed between the four operating segments as follows:

Energy Projects	-4.8%;
Energy Products	+0.9%;
OIL & GAS	-10.8%;
Telecom	+5.3%.

Group Adjusted EBITDA (before net expenses for company reorganisation, net non-recurring expenses, other net non-operating expenses and General Cable acquisition-related costs, totalling Euro 76 million) came to Euro 733 million, posting an increase of Euro 22 million on the corresponding 2016 figure of Euro 711 million (+3.1%). Adjusted EBITDA for 2017 reflects the negative impact of Euro 11 million in exchange rate effects compared with 2016, mainly resulting from depreciation of the British Pound, the US Dollar and Turkish Lira, but also of the Chinese Renminbi and Argentine Peso, which only partially offset appreciation of the Australian Dollar and Brazilian Real in the earlier part of the year.

EBITDA is stated after net expenses for company reorganisation, net non-recurring expenses, other net non-operating expenses and General Cable acquisition-related costs totalling Euro 76 million (Euro 66 million in 2016). Such adjustments in 2017 mainly comprise costs for reorganising and improving efficiency, increases in and releases of the provisions for risks and charges relating to ongoing antitrust matters and General-Cable acquisition-related costs.

Group operating income came to Euro 421 million in 2017, compared with Euro 447 million in 2016, posting a decrease of Euro 26 million.

Net finance costs came to Euro 116 million in 2017, compared with Euro 79 million in the previous year. The increase of Euro 37 million is mainly attributable to the non-cash cost of the new convertible bond and to the arrangement of derivative contracts in connection with the General Cable acquisition.

Taxes came to Euro 82 million, representing an effective tax rate of around 27%.

Net profit for 2017 was Euro 223 million (of which Euro 227 million attributable to the Group), compared with Euro 262 million in 2016 (of which Euro 246 million attributable to the Group and Euro 16 million to non-controlling interests).

REVIEW OF ENERGY PROJECTS OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	1,490	1,634	-8.8%	1,416
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	265	260	2.1%	221
% of sales	17.8%	15.9%		15.6%
Adjusted EBITDA	266	260	2.3%	221
% of sales	17.8%	15.9%		15.6%
EBITDA	246	275	-10.5%	247
% of sales	16.5%	16.8%		17.4%
Amortisation and depreciation	(41)	(36)		(34)
Adjusted operating income	225	224	0.3%	187
% of sales	15.1%	13.7%		13.2%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	246	275	-10.5%	247
Adjustments:				
Company reorganisation	1	-		3
Non-recurring expenses/(income):				
Antitrust	18	(1)		(29)
Other non-operating expenses/(income)	1	(14)		-
Total adjustments (B)	20	(15)		(26)
Adjusted EBITDA (A+B)	266	260	2.3%	221

The Energy Projects Operating Segment incorporates the high-tech High Voltage underground and Submarine businesses, whose focus is projects and their execution, as well as product customisation.

The Group engineers, produces and installs high and extra high voltage cables for electricity transmission both from power stations and within transmission and primary distribution grids. These highly specialised, tech-driven products include cables insulated with oil or fluid-impregnated paper for voltages up to 1100 kV and extruded polymer insulated cables for voltages up to 600 kV. These are complemented by laying and post-laying services, grid monitoring and preventive maintenance services, power line repair and maintenance services, as well as emergency services, including intervention in the event of damage.

In addition, Prysmian Group engineers, produces and installs "turnkey" submarine cable systems for power transmission and distribution. The products offered include cables with different types of insulation: cables insulated with layers of oil or fluid-impregnated paper for AC and DC transmission up to 700 kV; cables insulated with extruded polymer for AC transmission up to 400 kV and DC transmission up to 600 kV. The Group uses specific technological solutions for power transmission and distribution in underwater environments, which satisfy the strictest international standards.

MARKET OVERVIEW

The submarine cables business saw a substantial growth in market demand in 2017 compared with 2016 thanks to the award of major projects both for interconnectors (IFA2) and for offshore wind farm connections (RTE Offshore, Dolwin6). This market is expected to grow in coming years, especially the Offshore Wind segment, fostered by the continuous reduction in electricity generation costs and the consequent increase in competitiveness.

Demand in the high voltage underground business has been essentially stable in Europe, with a mixed trend in the different countries, while reporting a downturn in North America and the Middle East. By contrast, demand has continued to grow in South East Asia, where the Group has won a number of major interconnection projects.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy Projects segment amounted to Euro 1,490 million in 2017, compared with Euro 1,634 million in 2016, posting a negative change of Euro 144 million (-8.8%).

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

- negative organic sales growth of Euro 78 million (-4.8%);
- decrease of Euro 15 million (-0.8%) for exchange rate fluctuations;
- sales price increase of Euro 9 million (+0.5%) for metal price fluctuations;
- decrease of Euro 60 million (-3.7%) due to the change in scope of consolidation after disposing of the interest in Prysmian Baosheng Cable Co. Ltd, a Chinese company deconsolidated as from December 2016.

The organic decline in sales recorded in 2017 is attributable to different phasing and contract mix in the Submarine business and soft High Voltage demand in some European markets (mainly the Nordics and Russia) and in North America, as partially offset by higher sales in the Far East.

The submarine cables business boosted its profitability on 2016, thanks to a favourable mix of projects and service and installation activities, which benefited from the deployment of new installation assets, like the third cable-laying vessel "Ulisse" and cable burial equipment.

The availability of these new assets is allowing the Group to bring back in-house more high-margin activities. The High Voltage business enjoyed a positive performance in the Far East and France, partially tempered by a slight decline in the UK, the Nordics and Russia.

The main submarine cable projects on which work was performed during the period were the link between Italy and Montenegro, the links between offshore wind farms in the North and Baltic Seas and the German mainland (Borwin3, 50Hertz), the Western HVDC Link in the United Kingdom, the interconnector between Norway and Britain (North Sea Link) and the interconnector between the Netherlands and Denmark (CoBRA cable).

Most of the sales in year derived from cable manufacturing activities by the Group's industrial facilities (Pikkala in Finland, Arco Felice in Italy and Drammen in Norway) and from installation services, performed with both its own assets and third-party equipment.

The value of the Group's Submarine order book is around Euro 2.1 billion, ensuring sales visibility for a time horizon of about two years. The order book mainly consists of the following contracts: the interconnector between Norway and Britain (North Sea Link); the CoBRA cable between the Netherlands and Denmark; inter-array and export cables for offshore wind platforms (Deutsche Bucht); links between offshore wind farms in the North and Baltic Seas and the German mainland (BorWin3, 50Hertz); the interconnection between France and the UK (IFA2); the link between Montenegro and Italy (Monita); the Hainan2 project in China; the new offshore project in France and the new interconnection project in the Philippines.

The value of the Group's High Voltage order book is around Euro 390 million, up from Euro 350 million at the end of 2016.

Adjusted EBITDA came to Euro 266 million in 2017, up from Euro 260 million in 2016, posting an increase of Euro 6 million (+2.3%).

REVIEW OF ENERGY PRODUCTS OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	4,880	4,469	9.2%	4,415
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	240	277	-13.4%	234
% of sales	4.9%	6.2%		5.3%
Adjusted EBITDA	244	280	-12.9%	252
% of sales	5.0%	6.3%		5.7%
EBITDA	223	216	2.9%	264
% of sales	4.6%	4.8%		6.0%
Amortisation and depreciation	(79)	(82)		(59)
Adjusted operating income	165	198	-16.5%	193
% of sales	3.4%	4.4%		4.4%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	223	216	2.9%	264
Adjustments:				
Company reorganisation	18	38		21
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	3	26		(33)
Total adjustments (B)	21	64		(12)
Adjusted EBITDA (A+B)	244	280	-12.9%	252

The Energy Products Operating Segment is organised into the businesses of Energy & Infrastructure (including Power Distribution and Trade & Installers) and Industrial & Network Components (comprising Specialties & OEM, Elevators, Automotive and Network Components), which are able to offer a complete and innovative product portfolio to a variety of industries.

Sales to third parties by the Energy Products operating segment amounted to Euro 4,880 million in 2017, compared with Euro 4,469 million in 2016, posting a positive change of Euro 411 million (+9.2%), due to the combined effect of the following main factors:

- organic sales growth of Euro 41 million (+0.9%), reflecting a contraction in volumes in some European countries and North America, absorbed by positive performance in Northern Europe and growth in Asia;
- decrease of Euro 108 million (-2.4%) linked to unfavourable exchange rate movements;
- sales price increase of Euro 478 million (+10.7%) for metal price fluctuations.

Adjusted EBITDA for 2017 came to Euro 244 million, down Euro 36 million (-12.9%) from Euro 280 million in 2016.

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)

	2017	2016	% change	% organic sales growth	2015
Sales	3,271	3,016	8.5%	-0.2%	2,795
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	128	152	-16.1%		111
% of sales	3.9%	5.0%			4.0%
Adjusted EBITDA	130	154	-15.5%		128
% of sales	4.0%	5.1%			4.6%
Adjusted operating income	73	92	-21.0%		93
% of sales	2.2%	3.0%			3.3%

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.

During the first half of 2017, the European Trade & Installers market continued to see generally stable or declining demand in most countries, with the exception of Northern Europe; however, encouraging signs of an upturn in some European countries started to emerge in the second half of the year.

As for Power Distribution, the trend in the principal European countries in recent years has reflected generally stagnant energy consumption, which in turn has adversely affected demand by the major utilities. The latter, operating in a recessionary economic environment, have either maintained extremely cautious positions given the difficulty of forecasting future growth, or else they have concentrated on business restructuring to improve efficiency and reduce supply-side costs. This situation has exacerbated the competitive environment in terms of price and mix, leaving an extremely challenging context almost everywhere.

Over the course of 2017, demand in the Power Distribution market was mostly stable or declining in Central and Southern Europe, while displaying positive signs in North America, in some Asian markets (Indonesia) and Northern Europe.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy & Infrastructure business area amounted to Euro 3,271 million in 2017, compared with Euro 3,016 million in 2016, posting a positive change of Euro 255 million (+8.5%) due to the combined effect of the following main factors:

- sales price increase of Euro 335 million (+11.1%) for metal price fluctuations;
- negative organic sales growth of Euro 6 million (-0.2%);
- decrease of Euro 74 million (-2.4%) for adverse exchange rate fluctuations.

Prysmian Group has carried on its strategy for the Energy & Infrastructure business of focusing on relationships with top international customers and of developing 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 complex commercial strategy, not only focused where possible on improving the sales mix, but also aimed at regaining market share while seeking to minimise the impact on sales margins.

Over the course of 2017, the Group witnessed volumes decline in some areas, like North America, due to government policies for renewable energy investments (wind farms), and Germany, in contrast with the same period last year which had enjoyed a strong first six months. Demand nonetheless remained sustained thanks to an upturn in infrastructure investment (for example, in Finland).

Positive second-half performance in some countries in Central and Southern Europe (like Italy, Spain and the Netherlands) was down to strict application of the Construction Products Regulation (EU Regulation 305/2011), which became mandatory from 1 July 2017 in every European Union member state. In addition, the fourth quarter saw volumes recover on the corresponding prior year period in other European countries, like Germany, some countries in the Danube region and in Turkey.

The rest of Europe remained largely stable with a contraction in low margin segments and persistent pressure on prices which the Group has sought to resist with its industrial reorganisation projects of recent years.

The Omani subsidiary continued to perform poorly, reflecting conditions on the local market. In Oceania, there was continued competitive pressure in Australia, while the trend in New Zealand remained positive. In terms of volumes, Brazil and China were generally positive, while signs of recovery in Argentina started to emerge in the final quarter.

Given the factors described above, Adjusted EBITDA for 2017 came to Euro 130 million, down from Euro 154 million in the previous year (-15.5%).

INDUSTRIAL & NETWORK COMPONENTS

(in millions of Euro)

	2017	2016	% change	% organic sales growth	2015
Sales	1,460	1,343	8.8%	3.5%	1,499
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	113	126	-10.0%		121
% of sales	7.8%	9.4%			8.1%
Adjusted EBITDA	115	127	-9.3%		122
% of sales	7.9%	9.5%			8.1%
Adjusted operating income	95	108	-11.7%		100
% of sales	6.5%	8.0%			6.6%

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 networks.

MARKET OVERVIEW

Trends in Industrial cable markets during 2017 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 growing demand, like certain OEM sectors (such as Railway and Infrastructure), and the Automotive business, while other segments saw volumes decline in specific countries due to delays in investment projects in areas of national interest such as Defence and Nuclear, accompanied by a temporary slowdown in demand for the Crane business.

The Elevator market recorded a rising trend in EMEA, but substantial stability and price pressure in North America and APAC.

The Automotive market posted stable growth almost everywhere, even if competitive pressure remained strong, especially in low-end segments.

Demand remained sustained in China, partly thanks to major growth in the market for electric cars, while staying stable in Europe and North America and growing at a healthy pace in South America.

FINANCIAL PERFORMANCE

Sales to third parties by the Industrial & Network Components business area amounted to Euro 1,460 million in 2017, compared with Euro 1,343 million in 2016, posting a positive change of Euro 117 million (+8.8%) due to the combined effect of the following main factors:

- positive organic growth of Euro 47 million (+3.5%);
- decrease of Euro 32 million (-2.3%) for adverse exchange rate fluctuations;
- sales price increase of Euro 102 million (+7.6%) for metal price fluctuations.

Given the Group's wide range of products and the highly customised nature of its solutions, allowing the necessary differentiation geographically and by application, overall performance in 2017 by its industrial applications business remained unaffected by the instability of investment demand in some sectors.

In the OEM market, the Group posted strong growth in Australia, China, Turkey and Northern Europe but a slowdown in the rest of Europe. As for the different applications, the market's main drivers were the businesses of Railway, supported by a growth in orders, and of Infrastructure, while Crane, Marine and Defence applications all performed worse than in 2016. The Renewables business slowed compared with 2016, reflecting strong price competition, especially in North America's Solar segment, and fewer government incentives.

The Elevator business was affected in 2017 by rising price pressure and project delays, partly mitigated by actions to expand the product portfolio.

The business grew in EMEA thanks to a renewed focus on some markets, while the APAC market was affected by rising price pressure for low value-added products and by softer demand. By contrast, the market in North America reported stable demand, mostly concentrated on low value-added products, and pressure on prices, also due to the hike in commodity prices.

The Automotive business improved its margins on the previous year, above all thanks to the strategy of focusing on top-end segments, to better industrial performance and to reorganisation of the manufacturing footprint. There was continued competitive pressure on low value-added products.

The Network Components business area recorded positive results for Medium and Low Voltage applications, driven by robust demand in North America and Northern Europe, while the High Voltage and Extra High Voltage market segment was affected by a downturn in demand.

Given the factors described above, Adjusted EBITDA for 2017 came to Euro 115 million, down from Euro 127 million in the previous year (-9.3%).

OTHER

(in millions of Euro)

	2017	2016	2015
Sales	149	110	121
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	(1)	(1)	2
Adjusted EBITDA	(1)	(1)	2
Adjusted operating income	(3)	(2)	-

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.

REVIEW OF OIL & GAS OPERATING SEGMENT

(in millions of Euro)				
	2017	2016	% change	2015
Sales	273	300	-9.0%	421
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	9	8	15.6%	16
% of sales	3.4%	2.7%		3.8%
Adjusted EBITDA	9	8	15.6%	16
% of sales	3.4%	2.7%		3.8%
EBITDA	7	8	-17.7%	-
% of sales	2.4%	2.7%		0.1%
Amortisation and depreciation	(16)	(15)		(13)
Adjusted operating income	(7)	(7)		3
% of sales	-2.5%	-2.4%		0.7%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	7	8	-17.7%	-
Adjustments:				
Company reorganisation	2	2		13
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	-	(2)		3
Total adjustments (B)	2	-		16
Adjusted EBITDA (A+B)	9	8	15.6%	16

The OIL & GAS Operating Segment encompasses the businesses of SURF (Subsea Umbilical, Riser and Flowline), DHT (Downhole Technology) and Core Cable Oil & Gas (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 steep contraction in prices during the year just ended due to strong competition on local markets.

In the Downhole Technology business, volumes associated with shale oil production in North America continued to grow, while international projects in the North Sea, West Africa and Asia remained in retreat. Growth resumed in the Middle East thanks to onshore investments in Saudi Arabia.

The Core Oil & Gas business continued to show signs of recovery, propelled by North American, Russian and Middle Eastern markets. Offshore activities remained highly depressed with pressure impacting not only the major Asian shipyards (in Singapore and Korea) but also EPC contractors. The drilling sector revived, largely driven by the US market, while the MRO segment remained weak.

FINANCIAL PERFORMANCE

Sales to third parties by the OIL & GAS segment amounted to Euro 273 million in 2017, compared with Euro 300 million in 2016, posting a negative change of Euro 27 million (-9.0%).

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

- negative organic sales growth of Euro 33 million (-10.8%);
- negative effect of Euro 7 million (-2.5%) for exchange rate fluctuations;
- sales price increase of Euro 13 million (+4.3%) for metal price fluctuations.

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 experienced a contraction in the umbilicals market in Brazil, Prysmian's main outlet for these products, linked to a downturn in activity by Petrobras;
- demand for Downhole Technology products suffered a 7% reduction on 2016 levels in connection with international projects in the North Sea, West Africa and Asia. However, the decline was partly offset by North American volumes linked to shale oil production and by commercial synergies arising from the integration of Gulf Coast Downhole Technologies LLC;
- the Core Oil & Gas business witnessed a recovery in onshore project demand. The business's overall profitability continued to be affected by the drop in higher-margin MRO and offshore volumes.

Adjusted EBITDA for 2017 was Euro 9 million, up from Euro 8 million in 2016, despite the contraction in turnover for the Brazilian SURF business.

REVIEW OF TELECOM OPERATING SEGMENT

(in millions of Euro)

	2017	2016	% change	2015
Sales	1,258	1,164	8.1%	1,109
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	177	135	31.1%	113
% of sales	14.0%	11.6%		10.2%
Adjusted EBITDA	214	163	31.1%	134
% of sales	17.0%	14.0%		12.1%
EBITDA	206	158	30.5%	119
% of sales	16.4%	13.6%		10.7%
Amortisation and depreciation	(41)	(40)		(44)
Adjusted operating income	173	123	40.0%	90
% of sales	13.8%	10.6%		8.1%
Reconciliation of Operating Income / Adjusted EBITDA				
EBITDA (A)	206	158	30.5%	119
Adjustments:				
Company reorganisation	6	6		10
Non-recurring expenses/(income):				
Antitrust	-	-		-
Other non-operating expenses/(income)	2	(1)		5
Total adjustments (B)	8	5		15
Adjusted EBITDA (A+B)	214	163	31.1%	134

As partner to leading telecom operators worldwide, Prysmian Group produces and manufactures a wide range of cable systems and connectivity products used in telecommunication networks. The product portfolio includes optical fibre, optical cables, connectivity components and accessories and copper cables.

Optical fibre

Prysmian Group is one of the leading manufacturers of the core component of every type of optical cable: optical fibre. The Group is in the unique position of being able to use all existing manufacturing processes within its plants: MCVD (Modified Chemical Vapour Deposition), OVD (Outside Vapour Deposition), VAD (Vapour Axial Deposition) and PCVD (Plasma-activated Chemical Vapour Deposition). The result is an optimised product range for different applications. With centres of excellence in Battipaglia (Italy), Eindhoven (the Netherlands) and Douvrin (France), and 5 production sites around the world, Prysmian Group offers a wide range of optical fibres, such as single-mode, multimode and specialty fibres, designed and manufactured to cater to the broadest possible spectrum of customer applications.

Optical cables

Optical fibres are employed in the production of standard optical cables or those specially designed for challenging or inaccessible environments. Optical cables, constructed using just a single fibre or up to as many as 1,728 fibres, can be pulled (or blown) into ducts, buried directly underground or suspended on overhead devices such as telegraph poles or electricity pylons. Cables are also installed in road and rail tunnels, gas and sewerage networks and inside various buildings where they must satisfy specific fire-resistant requirements. Prysmian Group operates in the telecommunications market with a wide range of cable solutions and systems that respond to the demand for wider bandwidth by major network operators and service providers. The product portfolio covers every area of the industry, including long-distance and urban systems, and solutions such as optical ground wire (OPGW), Rapier (easy break-out), Siroccoxs (fibres and cables for blown installation), Flextube® (extremely flexible easy-to-handle cables for indoor or outdoor installations), Airbag (dielectric direct buried cable) and many more.

Connectivity

Whether deployed in outdoor or indoor applications, Prysmian Group's OAsys connectivity solutions are designed for versatility, covering all cable management needs whatever the network type. These include aerial and underground installations, as well as cabling in central offices (or exchanges) or customer premises. Prysmian Group has been designing, developing and making cable and fibre management products for more than two decades and is at the forefront of designing next-generation products specifically for Fibre-To-The-Home (FTTH) networks.

FTTx

Increasing bandwidth requirements, by both business and residential customers, are having a profound effect upon the level of performance demanded of optical networks, which in turn demands high standards of fibre management. Optimal fibre management in every section of the network is increasingly a matter of priority in order to minimise power loss and overcome the problems caused by ever greater space limitations. The Group has developed the suite of xsNet products for "last mile" access networks, which is also very suited to optical fibre deployment in sparsely populated rural areas. Most of the cables used in FTTx/FTTH systems feature Prysmian's bend-insensitive BendBrightxs optical fibre, which has been specially developed for this application.

FTTA (Fibre-To-The-Antenna)

xsMobile, which offers Fibre-To-The-Antenna (FTTA) solutions, is an extensive passive portfolio which enables mobile operators to upgrade their networks quickly and easily. Incorporating Prysmian's experience in Fibre-to-the-Home (FTTH) and its unique fibre innovations, xsMobile provides different product solutions for three applications: antenna towers, roof-top antennas and Distributed Antenna Systems (DAS) for small cell deployment. The technology offers three access types for outdoor and indoor FTTA deployment, as well as backhaul solutions, incorporating the latest fibre technologies.

Copper cables

Prysmian Group also produces a wide range of copper cables for underground and overhead cabling solutions and for both residential and commercial buildings. The product portfolio comprises cables of different capacity, including broadband xDSL cables and those designed for high transmission, low interference and electromagnetic compatibility.

Multimedia Solutions

The Group also produces cable solutions serving communication needs in infrastructure, industry and transport, for a diverse range of applications: cables for television and film studios, cables for rail networks such as underground cables for long-distance telecommunications, light-signalling cables and cables for track switching devices, as well as cables for mobile telecommunications antennae and for data centres.

MARKET OVERVIEW

The global optical fibre cables market expanded in 2017 compared with the previous year. Demand grew in fast-developing markets (China and APAC) which alone accounted for more than 50% of the market. Optical fibre cable consumption continued to expand in North America and in Europe, thanks to plans under the Digital Agenda for Europe 2025. The latter envisages the provision of three levels of minimum service depending on the type of user. In fact, government offices and entities like schools and hospitals will benefit from a bandwidth of at least 1 Gb/s. Likewise, the entire residential population will be connected with 100 Mb/s, while all urban areas and transport corridors should have broadband mobile coverage with 5G technology. In Europe, the network architectures used vary according to decisions made by each country. FTTH networks are the preference in France, Spain, Portugal and the Nordics, while G.Fast is the norm in Germany and Britain; although these systems use the last metres of the existing copper network, massive volumes of optical cables are nonetheless required to upgrade the distribution networks. In other places like Italy, the two technologies coexist.

In Brazil, despite uncertainty about the country's macroeconomic performance and growth prospects, there was a slight recovery in investments by the major telecom carriers, both in copper and optical fibre cables.

North America continues to see a big increase in data consumption by all sectors of society. As a result, the major market players - AT&T and Verizon to name just a few - are investing in fibre network infrastructure. For instance, Verizon has announced that it is upgrading its network architecture around a next-generation fibre platform with the aim of increasing 4G coverage and laying the foundations for the subsequent development of 5G and IoT (Internet of Things) technology.

In conclusion, the growing demand for data on both fixed and mobile networks is leading to a progressive convergence between the two and to a consequent increase in fibre infrastructure investments.

The copper cable market is slowing down due to the maturity of the products concerned. The decline in this market was increasingly evident in 2017, with high demand for internet access causing major operators to opt to renew their networks using optical fibre, rather than perform maintenance or upgrade work on existing

networks. It is still worth remaining in this segment since the gradual decommissioning of assets by competitor cable manufacturers nonetheless offers attractive opportunities.

The MMS cable market has reported timid global growth, driven by Asia and, in the case of the optical cables segment, by China. Growth in demand is being fuelled by requests for ever greater bandwidth capacity in professional and office environments and data centres. Interestingly, this trend applies to both new buildings and projects to renovate existing ones. An important contribution to this growth is coming from industrial applications (Industry 4.0) that require new highly specialised products. Another important source of growth is HDTV cables used for the broadcast of digital content such as sports events or other events of media interest.

FINANCIAL PERFORMANCE

Sales to third parties by the Telecom operating segment amounted to Euro 1,258 million in 2017, compared with Euro 1,164 million in 2016, posting a positive change of Euro 94 million (+8.1%).

This change is attributable to the following factors:

- organic sales growth of Euro 62 million (+5.3%), mainly thanks to volume recovery for optical fibre cables;
- negative change of Euro 8 million (-0.7%) for exchange rate fluctuations;
- increase of Euro 15 million (+1.3%) due to change in the scope of consolidation after acquiring the data cables business from Corning Optical Communications GmbH & Co. KG.;
- sales price increase of Euro 25 million (+2.2%) for metal price fluctuations.

The organic growth in 2017 sales reflects the positive trend already observed the previous year. This mainly derives from the constant growth in demand for optical fibre cables, reflecting developments in major investment projects. Volume trends in Europe were positive while the general price pressure stabilised.

The Group has renewed important contracts with leading operators in Europe for the construction of backhaul links and FTTH connections. The network development plan in rural areas is progressing in the Netherlands, while the FTTH project of Open Fiber is in progress in Italy. In France the "Très Haut Débit" broadband roll-out project is progressing at full speed.

In North America, the development of new ultra-broadband networks is generating a steady increase in domestic demand from which Prysmian is benefiting. As part of a massive multi-year investment program by Verizon, one of the major US incumbents, Prysmian has recently signed a three-year agreement to supply optical fibre cables starting from January 2018. The Group has concurrently announced it will increase the production capacity of its North American plants to support this growth.

In Brazil, there has been an increase in investments by the major telecom carriers in both copper and optical fibre cables.

The high value-added business of optical connectivity accessories performed well, thanks to the development of new FTTx networks (for last mile broadband access) in Europe, particularly in France and Britain.

The Multimedia Solutions business recorded an increase in profitability on the previous year, thanks to its ability to satisfy growing demand with a high level of responsiveness and service.

The return on investments to reduce optical fibre costs and the relocation of some cable manufacturing sources to Eastern Europe also made a substantial contribution to the segment's overall results.

Adjusted EBITDA for 2017 came to Euro 214 million, reporting an increase of Euro 51 million (+31.1%) from Euro 163 million in 2016, also thanks to the contribution of Yangtze Optical Fibre and Cable Joint Stock Limited Company in China.

GROUP STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Net fixed assets	2,610	2,630	(20)	2,581
Net working capital	178	325	(147)	347
Provisions and net deferred taxes	(322)	(360)	38	(330)
Net capital employed	2,466	2,595	(129)	2,598
Employee benefit obligations	355	383	(28)	341
Total equity	1,675	1,675	-	1,507
of which attributable to non-controlling interests	188	227	(39)	229
Net financial debt	436	537	(101)	750
Total equity and sources of funds	2,466	2,595	(129)	2,598

NET FIXED ASSETS

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Property, plant & equipment	1,646	1,631	15	1,552
Intangible assets	735	792	(57)	823
Equity-accounted investments	217	195	22	177
Available-for-sale financial assets	12	12	-	12
Asset held for sale (*)	-	-	-	17
Net fixed assets	2,610	2,630	(20)	2,581

(*) These include the value of Land and Buildings classified as held for sale.

Net fixed assets amounted to Euro 2,610 million at 31 December 2017, compared with Euro 2,630 million at 31 December 2016, posting a decrease of Euro 20 million mainly due to the combined effect of the following factors:

- Euro 257 million in capital expenditure on property, plant and equipment and intangible assets;
- Euro 199 million in depreciation, amortisation and impairment charges for the year;
- Euro 97 million in negative currency translation differences;
- Euro 22 million for the net increase in equity-accounted investments primarily reflecting:
 - an increase of Euro 42 million for the share of net profit/(loss) of equity-accounted companies;
 - a decrease of Euro 10 million for dividend receipts;
 - Euro 11 million in negative currency translation differences.

NET WORKING CAPITAL

The following table analyses the main components of net working capital:

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Inventories	954	906	48	984
Trade receivables	1,131	1,088	43	1,098
Trade payables	(1,686)	(1,498)	(188)	(1,377)
Other receivables/(payables)	(243)	(178)	(65)	(317)
Net operating working capital	156	318	(162)	388
Derivatives	22	7	15	(41)
Net working capital	178	325	(147)	347

Net working capital of Euro 178 million at 31 December 2017 was Euro 147 million lower than the corresponding figure of Euro 325 million at 31 December 2016. Net operating working capital amounted to Euro 156 million (1.9% of annualised last-quarter sales) at 31 December 2017, a reduction of Euro 162 million from Euro 318 million (4.2% of sales) at 31 December 2016, reflecting the following factors:

- an increase in without-recourse factoring of trade receivables;
- an increase linked to fluctuations in metal prices (copper, aluminium, lead);
- a substantial decrease for currency translation differences.

EQUITY

The following table reconciles the Group's equity and net profit/(loss) for 2017 with the corresponding figures reported by Prysmian S.p.A., the Parent Company.

(in millions of Euro)

	Equity at 31 December 2017	Net profit / (loss) 2017	Equity at 31 December 2016	Net profit/(loss) 2016
Parent Company Financial Statements	1,328	111	1,293	137
Share of equity and net profit of consolidated subsidiaries, net of carrying amount of the related investments	372	277	404	318
Reversal of dividends distributed to the Parent Company by consolidated subsidiaries	-	(162)	-	(192)
Deferred taxes on earnings/reverses distributable by subsidiaries	(16)	(2)	(14)	-
Elimination of intercompany profits and losses included in inventories	(9)	(1)	(8)	(1)
Non-controlling interests	(188)	4	(227)	(16)
Consolidated Financial Statements	1,487	227	1,448	246

NET FINANCIAL DEBT

The following table provides a detailed breakdown of net financial debt:

(in millions of Euro)

	31 December 2017	31 December 2016	Change	31 December 2015
Long-term financial payables				
CDP Loan	100	-	100	-
EIB Loans	152	58	94	75
Non-convertible bond	743	741	2	740
Convertible bond 2013	-	288	(288)	279
Convertible bond 2017	456	-	456	-
Other financial payables	15	27	(12)	47
Total long-term financial payables	1,466	1,114	352	1,141
Short-term financial payables				
EIB Loans	17	17	-	17
Non-convertible bond	14	14	-	14
Convertible bond 2013	283	1	282	1
Revolving Credit Facility 2014	-	50	(50)	50
Derivatives	1	1	-	4
Other financial payables	56	90	(34)	180
Total short-term financial payables	371	173	198	266
Total financial liabilities	1,837	1,287	550	1,407
Long-term financial receivables	2	2	-	1
Long-term bank fees	1	2	(1)	4
Held-to-maturity financial assets	2	2	-	-
Short-term derivatives	1	1	-	8
Short-term financial receivables	7	38	(31)	8
Short-term bank fees	2	2	-	2
Financial assets held for trading	40	57	(17)	87
Available-for-sale financial assets (current)	11	-	11	-
Cash and cash equivalents	1,335	646	689	547
Total financial assets	1,401	750	651	657
Net financial debt	436	537	(101)	750

Net financial debt of Euro 436 million at 31 December 2017 has decreased by Euro 101 million from Euro 537 million at 31 December 2016. The main factors contributing to this change are summarised in the comments in the next section on the statement of cash flows.

STATEMENT OF CASH FLOWS

(in millions of Euro)

	2017	2016	Change	2015
EBITDA	657	645	12	622
Changes in provisions (including employee benefit obligations)	-	21	(21)	(39)
(Gains)/losses on disposal of property, plant and equipment, intangible assets and non-current assets	(2)	(3)	1	-
(Gains)/losses from business combinations or disposal of investments	-	(18)	18	(36)
Share of net profit/(loss) of equity-accounted companies	(42)	(31)	(11)	(39)
Net cash flow provided by operating activities (before changes in net working capital)	613	614	(1)	508
Changes in net working capital	88	67	21	243
Taxes paid	(104)	(76)	(28)	(71)
Dividends from investments in equity-accounted companies	10	10	-	17
Net cash flow provided/(used) by operating activities	607	615	(8)	697
Cash flow from acquisitions and/or disposal	(7)	31	(38)	(138)
Net cash flow used in operating activities	(254)	(227)	(27)	(200)
<i>Of which for investment in Wuhan Shen Huan</i>	<i>(35)</i>	<i>(11)</i>	<i>(24)</i>	<i>-</i>
Free cash flow (unlevered)	346	419	(73)	359
Net finance costs	(70)	(68)	(2)	(100)
Free cash flow (levered)	276	351	(75)	259
Share buy back	(100)	-	(100)	-
Dividend distribution	(101)	(102)	1	(91)
Capital contributions and other changes in equity	3	-	3	3
Net cash flow provided/(used) in the year	78	249	(171)	171
Opening net financial debt	(537)	(750)	213	(802)
Net cash flow provided/(used) in the year	78	249	(171)	171
Equity component of Convertible Bond 2017	48	-	48	-
Conversion of Convertible Bond 2013	17	-	17	-
Other changes	(42)	(36)	(6)	(119)
Closing net financial debt	(436)	(537)	101	(750)

Net cash flow provided by operating activities (before changes in net working capital) amounted to Euro 613 million at the end of 2017. The decrease in net working capital provided Euro 88 million in cash flow. After Euro 104 million in tax payments and Euro 10 million in dividend receipts from equity-accounted companies, net cash flow from operating activities for 2017 was a positive Euro 607 million.

Net cash flow used in the year for acquisitions and/or disposals of equity investments came to Euro 7 million, mainly attributable to the purchase of non-controlling interests in subsidiaries and the payment of the second and final instalment for the acquisition of Gulf Coast Downhole Technologies LLC.

Net operating capital expenditure amounted to Euro 254 million in 2017, a large part of which relating to projects to increase, rationalise and technologically upgrade production capacity and to develop new products.

During the year a total of Euro 70 million in net finance costs were paid as well as Euro 101 million to distribute dividends and Euro 100 million to buy back the Company's shares.

Net financial debt also benefited from Euro 48 million for the equity component of the convertible bond issued in January 2017 and from the partial conversion of the convertible bond issued in 2013.

ALTERNATIVE PERFORMANCE INDICATORS

In addition to the standard financial reporting formats and indicators required under IFRS, this document contains a number of reclassified statements and alternative performance indicators. The purpose is to help users better evaluate the Group's economic and financial performance. However, these statements and indicators should not be treated as a substitute for the standard ones required by IFRS.

In this regard, on 3 December 2015, Consob adopted the ESMA guidelines in Italy with publication of "ESMA Guidelines/2015/1415" which supersede the "CESR Recommendation 2005 (CESR/05-178b)". The alternative performance measures have therefore been revised in light of these guidelines.

The alternative indicators used for reviewing the income statement include:

- **Adjusted operating income:** operating income before income and expense for company reorganisation⁽¹⁾, before non-recurring items⁽²⁾, as presented in the consolidated income statement, before other non-operating income and expense⁽³⁾, before General Cable acquisition-related costs, and before the fair value change in metal derivatives and in other fair value items. The purpose of this indicator is to present the Group's operating profitability without the effects of events considered to be outside its recurring operations;
- **EBITDA:** operating income before the fair value change in metal price derivatives and in other fair value items and before amortisation, depreciation and impairment. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **Adjusted EBITDA:** EBITDA as defined above calculated before income and expense for company reorganisation, before non-recurring items, as presented in the consolidated income statement, before other non-operating income and expense, and before General Cable acquisition-related costs. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items, without the effects of events considered to be outside the Group's recurring operations;
- **Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies:** Adjusted EBITDA as defined above calculated before the share of net profit/(loss) of equity-accounted companies;
- **Organic growth:** growth in sales calculated net of changes in the scope of consolidation, changes in metal prices and exchange rate effects.

(1) Income and expense for company reorganisation: these refer to income and expense that arise as a result of the closure of production facilities and/or as a result of projects to enhance the organisational structure's efficiency;

(2) Non-recurring income and expense: these refer to income and expense related to unusual events that have not affected the income statement in past periods and that will probably not affect the results in future periods;

(3) Other non-operating income and expense: these refer to income and expense that management considers should not be taken into account when measuring business performance.