

REVIEW OF ENERGY PROJECTS OPERATING SEGMENT



INTERVIEW WITH MASSIMO BATTAINI, Senior Vice President Energy Projects

Energy Projects is one of the two Operating Segments into which the Energy business has been divided: what is its perimeter?

It covers high-tech and high value-added businesses focused on projects and their execution, as well as on product customisation, in other words, the High Voltage underground business, Submarine systems and SURF (comprising umbilical cables, flexible pipes and special Downhole Technology cables for the oil industry). These are businesses with high technology content and high value-added: we engineer, manufacture and install high and extra high voltage cables for underground and submarine power transmission directly from power stations to the primary distribution networks. Through Prysmian PowerLink Services S.r.l., we develop the most advanced turnkey submarine systems, including for installation at depths of up to 2,000 metres with the assistance of our cable-laying ship, the "Giulio Verne".

What does it mean for a global leader like Prysmian to offer turnkey solutions?

It means being able to act as a strategic partner for country-systems, and in so doing, to strengthen its leadership and dictate new standards for the entire industry. Take the case of Germany, Europe's largest and strongest economy. Germany has a very ambitious goal where energy is concerned: to shift from fossil fuels to renewables. Prysmian is a genuine strategic partner to Germany in this strategic project: its ultra high-tech solutions are allowing the grid to be fed with increasing amounts of energy generated by offshore wind farms, while its turnkey cables and systems solutions are able to respond to ever more technically difficult and complex challenges. A glance at the connections maps for the North Sea gives an immediate idea of the scale of our activities and the importance of our contribution.

The frontier of innovation and technology is moving ever further ahead ...

Yes, we saw this in 2014, a year in which we consolidated our leadership but also faced new challenges, like the Western HVDC Link project, with its unprecedented levels of work and complexity, in which we encountered some technical difficulties that were later fully overcome thanks to our trademark technological excellence. In such a complex business we managed to achieve organic growth once again in 2014, which would have been higher but for the Western Link problems, subsequently resolved in full. This growth reflects a combination of equivocal factors: on the one hand, we had a positive trend for submarine systems and the SURF business, while on the other, we had to cope with weakness in the High Voltage business over the past year.

What are the prospects for the Energy Projects Operating Segment in the future?

Submarine sales grew in 2014 compared with 2013, with work still in progress on major projects, like Helwin 2, Sylwin 1 and Borwin 2 and 3 for offshore wind farms in Germany. While it's true that High Voltage performance has been generally negative in Europe, demand is still showing a positive trend in the Middle and Far East and in some North European markets. Prysmian is perfectly equipped to cope with increased demand, especially in the high value-added market segment, also thanks to recent investments in our European plants.





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(in millions of Euro)

	2014	2013 (*)	Change %	2012 (*)
Sales	1,355	1,360	-0.3%	1,250
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	154	232	-33.6%	197
% of sales	11.4%	17.0%		15.8%
Adjusted EBITDA	154	231	-33.5%	197
% of sales	11.3%	17.0%		15.8%
EBITDA	195	234	-16.7%	196
% of sales	14.4%	17.2%		15.7%
Amortisation and depreciation	(40)	(39)		(37)
Adjusted operating income	114	192	-40.9%	162
% of sales	8.4%	14.1%		13.0%
Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA				
EBITDA (A)	195	234	-16.7%	196
Non-recurring expenses/(income):				
Company reorganisation	1	4		3
Antitrust	(31)	(6)		1
Gains on asset disposals	-	(2)		(2)
Acquisition price adjustment ⁽¹⁾	(22)	-		-
Other net non-recurring expenses/(income)	11	1		(1)
Total non-recurring expenses/(income) (B)	(41)	(3)		1
Adjusted EBITDA (A+B)	154	231	-33.5%	197

(*) The previously published prior year comparative 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.

(1) This refers to the acquisition in November 2012 of Global Marine Systems Energy Ltd (now renamed Prysmian PowerLink Services Ltd) from Global Marine Systems Ltd.

The Energy Projects Operating Segment covers high-tech businesses whose focus is on projects and their execution, as well as on product customisation: High Voltage underground, Submarine and SURF (umbilicals, flexible pipes and special DHT (Downhole Technology) solutions for the oil industry).

The Group engineers, produces and installs high and extra high voltage cables for electricity transmission both from power stations and within transmission and primary distri-

bution grids. These highly specialised, high-tech 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 500 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 500 kV; cables insulated with extruded polymer for AC transmission up to 400 kV and DC transmission up to 300 kV). The Group offers specific technological solutions for power transmission and distribution in underwater environments, which also satisfy the strictest international standards. The range of products for the offshore oil industry includes not only submarine cables to link offshore platforms to mainland

power grids but also solutions for use in the extraction and storage of hydrocarbons. The wide portfolio includes all the SURF (Subsea Umbilical, Riser and Flowline) products and services: multifunction umbilicals for transmitting energy and telecommunications and for hydraulic powering of wellheads by offshore platforms and/or by FPSOs (Floating, Production, Storage and Offloading vessels); high-tech flexible pipes for oil extraction; special DHT (Downhole Technology) solutions, which include cables encased in insulated tubing to control and power systems inside extraction machinery below the seabed's surface and for the flow of hydraulic power fluids to such machinery.

Market Overview

Stable demand in the submarine cables business, like in mature markets for the high voltage underground business. Positive trend for umbilicals confirmed in Brazil.

The submarine cable business faced an essentially stable market in 2014 compared with the previous year. Demand for offshore wind farm projects confirmed the stabilising trend commencing late in 2013 (after the boom in 2011, 2012 and part of 2013), the consequence of the high overall implementation costs of such projects and their subsequent transfer to the end consumer. Once again in 2014, the market was dominated by a few large global players who were awarded almost all of the projects up for tender. The much more fragmented medium voltage segment of the market underwent a slowdown, with every supplier exposed to the weakness in the market for inter-array connections.

Demand in the high voltage underground business was essentially stable in the mature markets of Europe and North America. The imbalance between high production capacity

and limited demand continued to exert pressure on prices in these markets. By contrast, demand continued to grow in the Middle and Far East, where prices and profitability nonetheless remained well below those in mature markets due to competition from local manufacturers and importers.

The SURF business reported a positive market trend for umbilicals in Brazil, as well as a strong demand for flexible pipes used in pre-salt fields, in which, however, the Group is not yet present. By contrast, there was limited demand for the post-salt products in which Prysmian competes. The Downhole Technology product segment enjoyed a positive market trend, thanks to growth in demand by global operators for projects in both the United States and other geographical areas, such as Central and South America, Europe, Far East and Middle East.

Financial Performance

Sales to third parties by the Energy Projects segment amounted to Euro 1,355 million in 2014, compared with Euro 1,360 million in 2013, posting a negative change of Euro 5 million (-0.3%). Excluding the negative impact of the Western HVDC Link project, sales to third parties would have been Euro 1,416 million.

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

- positive organic growth of Euro 22 million (+1.7%); excluding adjustments for the Western HVDC Link project, organic growth would have been a positive Euro 83 million (+6.1%);
- reduction of Euro 22 million (-1.7%) for exchange rate fluctuations;
- sales price reduction of Euro 5 million (-0.3%) for metal price fluctuations.

Positive organic growth in 2014 reflects a combination of opposing factors, such as the positive trends in the Submarine and SURF businesses, as partially offset by weakness in the High Voltage business.

The High Voltage business performed poorly in some of the major European markets (Italy and North European countries) in the wake of lower demand for energy infrastructure. The Group increased its exposure to markets in the Middle and Far East, characterised by growing demand for energy infrastructure but also by lower profitability. Demand in Russia continued to be limited due to the uncertain local political situation causing delays in the implementation of previously planned major projects.

Sales by the Submarine business were up on 2013, despite the delay in the Western HVDC Link (UK). The main projects on which work was performed in the year were the Helwin 2, Sylwin 1 and Borwin 2 and 3 offshore wind farms in Germany. With regard to execution of the Western HVDC Link (UK) project, initiated in the third quarter of 2012, some technical

problems were encountered with the cable manufacturing process, resulting in a downward revision of Euro 61 million to expected sales.

The value of the Group's Submarine order book was in excess of Euro 2.3 billion at the end of 2014, providing sales visibility for a period of about three years. The order book mainly consists of the following contracts: the interconnector between Greece and the Cyclades islands, the interconnectors in the Balearic Islands (Mallorca-Ibiza) and over the Dardanelles Strait, the link between Montenegro and Italy (Monita), the contracts for offshore wind platform connections (DolWin3, Deutsche Bucht, 50Hertz), the link between offshore wind farms in the North Sea and the German mainland (BorWin3), the interconnection of the Philippine islands of Panay and Negros, the Shannon River crossing in Ireland, the interconnector between the UK and Scotland (WesternLink) and the contract for the supply and installation of submarine cables for part of the offshore operations of ExxonMobil Corporation in the United States. In order to satisfy these contracts, investments have been made to upgrade production capacity at the Pikkala plant in Finland, already operational since the end of 2011, and at the Arco Felice plant in Italy.

The SURF business reported a good performance for DHT cables in the North American market, in the face of a weak result in the flexible pipes segment. Performance in the umbilical cables segment was basically stable.

As a result of the events described in the Submarine business, an impoverished geographical mix of projects in the High Voltage underground business and stability in the SURF business, Adjusted EBITDA for the Energy Projects operating segment came to Euro 154 million (Euro 248 million without the negative impact of the Western HVDC Link project). This is a decrease of Euro 77 million from Euro 231 million in 2013, of which Euro 94 million is the adverse impact of the Western HVDC Link project; excluding this effect, Adjusted EBITDA would have reported an increase of Euro 17 million.

