

REVIEW OF ENERGY PROJECTS OPERATING SEGMENT

(in millions of Euro)

	2016	2015	% change	2014
Sales	1,634	1,416	15.4%	1,241
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	260	221	17.6%	140
% of sales	15.9%	15.6%		11.2%
Adjusted EBITDA	260	221	17.6%	140
% of sales	15.9%	15.6%		11.2%
EBITDA	275	247	11.4%	190
% of sales	16.8%	17.4%		15.3%
Amortisation and depreciation	(36)	(34)		(28)
Adjusted operating income	224	187	19.6%	112
% of sales	13.7%	13.2%		8.9%

Reconciliation of EBITDA to Adjusted EBITDA

EBITDA (A)	275	247	11.3%	190
Adjustments:				
Company reorganisation	-	3		-
Non-recurring expenses/(income):				
Antitrust	(1)	(29)		(31)
Other non-operating expenses/(income)	(14)			(19)
Total adjustments (B)	(15)	(26)		(50)
Adjusted EBITDA (A+B)	260	221	17.6%	140

The Energy Projects Operating Segment incorporates the high-tech High Voltage underground and Submarine businesses, focused on projects and their execution, as well as on 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 offers specific technological solutions for power transmission and distribution in underwater environments, which also satisfy the strictest international standards.

MARKET OVERVIEW

The submarine cables business saw a fall in market demand in 2016 compared with the previous year. In future years, the market is expected to be stable at around Euro 2-2.5 billion per year. Demand for offshore wind farm projects confirmed the stabilising trend emerging late in 2013 (after the boom in 2011, 2012 and part of 2013), as a consequence of the high overall implementation costs of such projects and their subsequent transfer to the end consumer. The market continued to be 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 slowed, with all suppliers exposed to the weak 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.

FINANCIAL PERFORMANCE

Sales to third parties by the Energy Projects segment amounted to Euro 1,634 million in 2016, compared with Euro 1,416 million in 2015, posting a positive change of Euro 218 million (+15.4%).

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

- positive organic growth of Euro 262 million (+18.5%);
- reduction of Euro 26 million (-1.8%) for exchange rate fluctuations;
- sales price reduction of Euro 10 million (-0.7%) for metal price fluctuations;
- decrease of Euro 8 million (-0.6%) due to disposal of the interest in Prysmian Baosheng Cable co., a Chinese company deconsolidated from December 2016.

Organic sales growth in 2016 can be attributed to the significant upsurge in the *Submarine* business, accompanied by a good performance for the *High Voltage* business, also considering that the 2015 figure had benefited from a Euro 24 million positive effect in connection with the Western Link contract.

High Voltage performed well in North America and the Far East, particularly in China, but its performance was below par in all the major European markets, except France, because of lower demand for energy infrastructure.

Demand in Russia was still weak due to continued uncertainty in the local political situation, which delayed the implementation of previously planned major projects.

Sales by the *Submarine* business were sharply up on the previous year thanks to the sustained level of work on existing contracts.

The main projects on which work was performed in the period were the interconnector between Greece and the Cyclades islands, the link between Italy and Montenegro, the second interconnector across the Dardanelles Strait, completion of the link between Sicily and Calabria, the links between offshore wind farms

in the North and Baltic Seas and the German mainland (DoWin3, 50Hertz), the Western HVDC Link in the United Kingdom and the interconnection of the Philippine islands of Panay and Negros.

The main contribution to full-year sales came in equal measure from cable manufacturing by the Group's industrial facilities (Pikkala in Finland, Arco Felice in Italy and Drammen in Norway) and from installation services.

The value of the Group's *Submarine* order book is around Euro 2 billion, ensuring sales visibility for a period of about two years. The order book mainly consists of the following contracts: the link between Montenegro and Italy (Monita); 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, DoWin3, 50Hertz); the interconnector between England and Scotland (Western HVDC Link); and the Hainan2 project awarded in China.

The value of the Group's High Voltage Underground order book is around Euro 350 million.

Adjusted EBITDA for 2016 came to Euro 260 million, up Euro 39 million (+17.6%) from Euro 221 million in 2015.