# SEGMENT PERFORMANCE: ENERGY BUSINESS

## Slightly higher profitability despite lower sales.

(in millions of Euro)

| | 2013 | 2012 | % change | 2011 (*) |
|---|---|---|---|---|
| Sales to third parties | 6,018 | 6,382 | -5.7% | 6,268 |
| **Adjusted EBITDA** | **492** | **487** | **1.0%** | **447** |
| % of sales | 8.2% | 7.6% | | 7.1% |
| **EBITDA** | **469** | **417** | **12.5%** | **186** |
| % of sales | 7.8% | 6.5% | | 2.9% |
| Amortisation and depreciation | (105) | (108) | -2.9% | (99) |
| **Adjusted operating income** | **387** | **379** | **2.1%** | **348** |
| % of sales | 6.4% | 5.9% | | 5.5% |

**RECONCILIATION OF EBITDA TO ADJUSTED EBITDA**

| | | | | |
|---|---|---|---|---|
| **EBITDA (A)** | **469** | **417** | **12.5%** | **186** |
| **Non-recurring expenses/(income):** | | | | |
| Company reorganisation | 33 | 53 | | 42 |
| Antitrust | (6) | 1 | | 205 |
| Draka integration costs | - | 4 | | 2 |
| Tax inspections | - | 1 | | - |
| Environmental remediation and other costs | (3) | 3 | | 5 |
| Italian pensions reform | - | 1 | | - |
| Release of Draka inventory step-up | - | - | | 8 |
| Gains on asset disposals | (4) | (3) | | (1) |
| Other net non-recurring expenses | 3 | 10 | | - |
| **Total non-recurring expenses/(income) (B)** | **23** | **70** | | **261** |
| **Adjusted EBITDA (A+B)** | **492** | **487** | **1.0%** | **447** |

(*) Includes the Draka Group's results for the period 1 March – 31 December 2011.

Energy business sales to third parties amounted to Euro 6,018 million in 2013, compared with Euro 6,382 million in 2012, posting a negative change of Euro 364 million (-5.7%).

This negative change is attributable to the following principal factors:

- negative exchange rate effects of Euro 209 million (-3.3%);
- negative organic growth of Euro 65 million (-1.0%);
- negative change of Euro 134 million (-2.1%) in sales prices due to fluctuations in metal prices;
- negative change of Euro 20 million (-0.3%) due to non-consolidation of the results of Ravin Cables Limited (India) and Power Plus Cable CO LLC (Middle East – 49% consolidated), both of which deconsolidated since 1 April 2012;
- positive change of Euro 64 million (+1.0%) due to consolidation of Prysmian Powerlink Services Ltd (formerly Global Marine Systems Energy Ltd) as from November 2012.

Adjusted EBITDA for 2013 came to Euro 492 million, posting an increase of Euro 5 million (+1.0%) on the corresponding figure of Euro 487 million in 2012.

The following paragraphs describe market trends and financial performance in each of the Energy segment's business areas.

The pro-forma figures for full year 2011, in which the Draka Group's data are consolidated from 1 January, have been the subject of a number of reclassifications within each business area in order to make them fully comparable with the figures in subsequent periods. Given the limited usefulness and lack of significance for comparative purposes, it has been decided not to present the consolidated figures by business area for full year 2011 (which included Draka for only the period March-December).

## UTILITIES

(in millions of Euro)

| | 2013 | 2012 | % change | % organic sales change | 2011 (*) Pro-forma |
|---|---|---|---|---|---|
| Sales to third parties | 2,224 | 2,287 | -2.8% | -1.4% | 2,318 |
| **Adjusted EBITDA** | **281** | **270** | | | **264** |
| % of sales | 12.6% | 11.8% | | | 11.4% |
| **Adjusted operating income** | **240** | **234** | | | **238** |
| % of sales | 10.8% | 10.2% | | | 10.3% |

(*) The pro-forma figures are calculated by aggregating the Draka Group's results for the two-month pre-acquisition period (January-February) with the consolidated figures.

The Utilities business area encompasses Prysmian's Energy segment activities involving the engineering, production and installation of cables and accessories for power transmission and distribution. The Group engineers, produces and installs high and extra high voltage cables to *transport* electricity from power stations and within transmission and primary distribution grids. The highly customised, high-tech products serving this market include cables insulated with oil or fluid-impregnated paper for voltages up to 1,100 kV and extruded polymer insulated cables for voltages up to 500 kV. Prysmian also provides a number of services relating to power transmission systems, including installation and post-installation services, grid management and maintenance services, including grid performance monitoring, grid cable repair and maintenance, as well as emergency services, such as reinstatement of service following 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 oil or fluid-impregnated paper for transmission of up to 500 kV AC and DC; extruded polymer insulated cables for transmission of up to 400 kV AC and up to 300 kV DC). The Group - able to offer solutions satisfying the most stringent international standards (SATS/IEEE, IEC, NEK) - uses specific technologies for power transmission and distribution in underwater environments. Prysmian also produces medium voltage cables and 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. Lastly, the Group also makes accessories such as joints and terminations for low, medium, high and extra high voltage cables, as well as accessories to connect cables with each other and with other network equipment, suitable for industrial, construction or infrastructure applications and for power transmission and distribution systems.

## MARKET OVERVIEW

### Both the power distribution and generation markets continued to report differences between the various geographical areas and a tougher competitive environment, while the High Voltage market saw slightly more activity than in the previous year.

During 2013, the markets in which the Prysmian Group's Utilities business area operates saw a consolidation of the signs of uncertainty already emerging in the second half of 2012.
Both the power distribution and generation markets, in which demand declined throughout 2012, further confirmed the differences between the various geographical areas and tougher competitive environment.

Activity levels in the High Voltage market - traditionally highly international both in terms of demand and supply - were slightly higher than in the previous year, particularly thanks to the positive mix of investment projects realised in the period. This was particularly positive in view of the generally uncertain macroeconomic scenario regarding future energy consumption and access to funding, in response to which the largest utilities, particularly in Europe and North America, adopted a selective approach to new investment projects.
The focus in Europe, and North and South America was on rationalisation and/or maintenance projects to improve efficiency and reduce energy generation costs, while the focus in the Middle East and Southeast Asia was on extending and completing major projects. There was continued competitive pressure on prices for operators in growing economies, like China and India, not only due to a large number of competitors but also because of the need to limit financial exposure in the face of uncertain investment returns.

With reference to the Submarine cables market, the upturn in play since the second half of 2012 became even stronger in 2013 thanks to investments by utilities to build new offshore wind farms and commence major new interconnection projects.
Although this trend was particularly evident in parts of the world, whose energy demands had grown over the past two years, such as Northern Europe, North America, the Arab Emirates and emerging countries in Southeast Asia, new infrastructure upgrade projects also appeared in regions hard hit by the financial crisis, like the Mediterranean.

In contrast, demand in the Power Distribution market slowed even more in the period, confirming the downward trend already seen in the first half of the year that had commenced in the final quarter of the previous year.

Energy consumption trends in the principal European countries were basically flat, adversely affecting demand by the major utilities. The latter, operating in a recessionary economic environment, either maintained an extremely cautious approach given the difficulties in forecasting future growth, or else they concentrated on restructuring to improve efficiency and reduce costs of supply. As a result, the competitive environment in terms of price and mix remained extremely challenging almost everywhere.

In contrast, markets in North America confirmed the signs of recovery seen during 2012 and the first half of 2013, after a three-year period during which operators had reduced work on grids to the bare minimum.

The Network Components market can be broadly divided into products for high and extra high voltage networks and products for medium and low voltage use.
As regards High Voltage components, demand followed the downtrend trend in the number of projects in this sector, mainly caused by delays by the major utilities in awarding projects; volumes were also affected by the mix of the High Voltage order book, reflecting a common trend of 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.
Demand for submarine accessories was stable with an upward trend as a direct consequence of projects currently in progress around the world.

Lastly, the market for medium and low voltage accessories recorded opposing trends in different geographical areas: weak in Europe, mainly due to the lack of grid investment projects; still positive on the American continent, where routine maintenance of secondary distribution networks supported investments by the main energy suppliers; down in China, where the market was affected by strong competitive price pressures.

## FINANCIAL PERFORMANCE

### Thanks to excellent performance by Submarine Cables and good project mix for the High Voltage underground business line, Adjusted EBITDA reached Euro 281 million, up from Euro 270 million at 31 December 2012.

Sales to third parties by the Utilities business area amounted to Euro 2,224 million at the end of 2013, compared with Euro 2,287 million in 2012, posting a negative change of Euro 63 million (-2.8%) due to the combined effect of the following main factors:

- negative organic growth of Euro 33 million (-1.4%);
- negative exchange rate effects of Euro 53 million (-2.4%);
- negative change of Euro 25 million (-1.1%) in sales prices due to fluctuations in metal prices;
- negative change of Euro 16 million (-0.7%) due to non-consolidation of the results of Ravin Cables Limited (India) and Power Plus Cable CO LLC (Middle East – 49% consolidated), both of which deconsolidated since 1 April 2012;
- positive change of Euro 64 million (+2.8%) due to consolidation of Prysmian Powerlink Services Ltd (formerly Global Marine Systems Energy Ltd) as from November 2012.

The negative organic growth in 2013 reflects a number of opposing factors, such as the positive trend in the Submarine Cables business line that nonetheless failed to fully offset the growing weakness in other businesses, especially Power Distribution.
Reflecting the contraction in demand on European markets, the High Voltage business line's sales posted a slight decline. This was the combined result of projects awarded to Prysmian in markets with growing energy infrastructure requirements, such as the Middle and Far East, along with a number of projects for European utilities on domestic markets (in particular TenneT, Terna, EDF), and of the delay in implementing projects planned in Russia due to local political uncertainty. The order book at 31 December 2013 assures sales visibility for almost all of 2014.

Sales by the Network Components business line were down on the previous year, with a decline in volumes of Medium and Low Voltage accessories on the major European domestic markets but stable volumes for High Voltage products. In contrast, sales on the Chinese market reported a steep decline due to lower demand accompanied by growing price pressure in the face of stiff local competition.

Sales by the Submarine business line increased significantly on the previous year, in line with the completion of work on the major projects acquired. The main projects on which work was performed during the period were Messina II (Italy), the Helwin 2, Sylwin 1 and Borwin 2 offshore wind farm projects in Germany, Phu Quoc in Vietnam, as well as continuation of the Western HVDC Link project in the United Kingdom, work on which had started during the third quarter of 2012.
The value of the Group's Submarine order book at the end of 2013 (Euro 2,000 million) was in line with the level at the end of September, providing sales visibility for a period of about three years. The high level of the order book is thanks to contracts for interconnectors in the English Channel (Normandie3), in the Balearic Islands (Mallorca-Ibiza), over the Dardanelles Strait, between the island of Capri and Torre Annunziata and between Montenegro and Italy (Monita), and to contracts for offshore wind platform connections (DolWin3, Deutsche Bucht) and for the supply and installation of submarine cables for the offshore operations of ExxonMobil Corporation in the United States.
In order to satisfy these contracts, investments have been made to expand production capacity at the Pikkala plant in Finland, already operational at the end of 2011, and at the Arco Felice plant in Italy.

Thanks to the excellent performance of the Submarine Cables business and the good project mix of the High Voltage underground business, and despite the continued weakness of Power Distribution, Adjusted EBITDA for the Utilities business area increased to Euro 281 million, from Euro 270 million in 2012.

## TRADE & INSTALLERS

### The product range has been further expanded to satisfy demand for infrastructure cabling in airports, ports and railway stations.

(in millions of Euro)

| | 2013 | 2012 | % change | % organic sales change | 2011 (*) Pro-forma |
|---|---|---|---|---|---|
| Sales to third parties | 1,914 | 2,159 | -11.3% | -4.3% | 2,233 |
| **Adjusted EBITDA** | **72** | **77** | | | **73** |
| % of sales | 3.7% | 3.6% | | | 3.3% |
| **Adjusted operating income** | **47** | **49** | | | **35** |
| % of sales | 2.4% | 2.3% | | | 1.6% |

(*) The pro-forma figures are calculated by aggregating the Draka Group's results for the two-month pre-acquisition period (January-February) with the consolidated figures.

The Prysmian Group produces a comprehensive range of rigid and flexible low voltage cables for distributing power to and within residential and commercial buildings, always in full observance of international standards. 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 specified 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

### Markets in Europe with severe credit restrictions suffered, while the downward trend continued in North America. Markets in South America confirmed an upturn in volumes, driven by industrial and residential construction.

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.

Construction industry demand, already under pressure since the second half of 2012, declined during 2013, particularly in Central and Southern Europe, while remaining more stable in Eastern Europe and the Nordic region.
Like in the second half of 2012, persistent uncertainty about the construction industry's future prospects prevailed over the positive effects of lower metal and commodity prices; as a result, the largest industry players continued to maintain minimum stocks and constant pressure on sales prices.
Like in the past, countries in Europe, such as Spain and Italy, were particularly hard hit due to the negative consequences for the property market of severe restrictions on bank credit.
Even Germany and The Netherlands were affected by a stationary trend in demand for new build; this led to growing price pressures, also due to ever increasing competition by small foreign operators from Southern Europe and North Africa seeking outlets for their surplus capacity in the richer markets of Central and Northern Europe.

The year 2013 also confirmed the downturn in North American markets – already affected by flat demand for products serving infrastructure construction – due to delays in confirming tax incentives for energy-efficient buildings.

By contrast, markets in South America confirmed an upturn in volumes on the previous year, driven by both the industrial and residential construction sectors.

Lastly, the Australian construction market saw a decline in demand, and was characterised by strong competitive pressures from Asian operators, despite the Australian dollar's depreciation during the year.

## FINANCIAL PERFORMANCE

### Continued strategy of focusing on top international customers and developing tactical actions to avoid losing opportunities, by differentiating the offer in the various markets.

Sales to third parties by the Trade & Installers business area amounted to Euro 1,914 million in 2013, compared with Euro 2,159 million in 2012, posting a negative change of Euro 245 million (-11.3%) due to the combined effect of the following main factors:

- negative change of Euro 71 million (-3.3%) in sales prices due to fluctuations in metal prices;
- organic decrease of Euro 93 million (-4.3%), due to the general downturn in Central Mediterranean countries and North America that was only partially offset by the growth in sales volumes in South America;
- negative exchange rate effects of Euro 81 million (-3.7%).

During 2013, Prysmian Group continued its strategy of focusing on commercial relationships with top international customers and its development of tactical actions to avoid losing sales opportunities, by differentiating its offer in the various markets.

This led to a very selective commercial strategy, focused on improving the sales mix in favour of products for the "safety of people and property" (Fire resistant/LSOH), but also on accepting, if necessary, a reduction of market share in low-margin markets; this strategy allowed the Group to mitigate the decline in business profitability.
In Asia, Prysmian Group proved unable to grow in line with the increasing demand by the construction industry, resulting in a slight loss of market share.

In North America, despite the downturn in demand, Prysmian Group enjoyed an increase in profitability due to improved sales mix and the achievement of manufacturing efficiencies at its Canadian production site in Prescott.

Prysmian Group strengthened its position in South America, where it managed to increase its market share while keeping prices at an adequate level thanks to its wide range of products.

The combined factors described above led to an Adjusted EBITDA of Euro 72 million in 2013, down from Euro 77 million (-6.4%) the year before.

## INDUSTRIAL

### A continuous process of specialisation permits ever greater customisation of products and solutions.

(in millions of Euro)

| | 2013 | 2012 | % change | % organic sales change | 2011 (*) Pro-forma |
|---|---|---|---|---|---|
| Sales to third parties | 1,765 | 1,801 | -2.0% | 4.1% | 1,824 |
| **Adjusted EBITDA** | **134** | **139** | | | **116** |
| % of sales | 7.6% | 7.7% | | | 6.4% |
| **Adjusted operating income** | **99** | **99** | | | **79** |
| % of sales | 5.6% | 5.5% | | | 4.3% |

(*) The pro-forma figures are calculated by aggregating the Draka Group's results for the two-month pre-acquisition period (January-February) with the consolidated figures.

The extensive product range, developed specifically for the Industrial market, stands out for the highly customised nature of the solutions offered. These products serve a broad range of industries, including Oil&Gas, Transport, Infrastructure, Mining and Renewable Energy. The Group offers solutions to the *Oil&Gas* industry for both upstream hydrocarbon research and refining activities and downstream exploration and production activities. The product range is therefore very wide and includes low and medium voltage power and instrumentation/control cables, as well as multipurpose umbilical cables for transporting energy, telecommunications, fluids and chemicals when connecting submarine sources and collectors to FPSO (Floating, Production, Storage and Offloading) platforms. In the *Transport* sector, the range of cables offered by Prysmian is used in the construction of trains, ships and motor vehicles; in the infrastructure sector, the principal applications for its cables are found in railways, docks and airports. The product range also includes cables for the mining industry, the automotive industry and for elevators, cables for applications in the renewable energy sector, cables for military applications and for nuclear power stations, able to withstand high levels of radiation.

## Stable or growing demand for core sectors like OEM, Elevator and Automotive contrasted with a downturn for renewable energy, hit worldwide by the ending of incentives.

Trends on Industrial cable markets in 2013 displayed considerable inconsistencies between the various business lines and large differences between the diverse geographical areas.
As already seen with the Accessories business, the common trend, even in the industrial cables business, was one of 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 business, some market segments showed stable or growing demand, like the strategic OEM, Elevator and Automotive markets, while others experienced a contraction in volumes, like the renewable energy market, which saw a worldwide slump in demand with the ending or postponement of government incentives to develop solar or onshore wind farms.

In the Oil&Gas and port facilities sectors, international demand declined due to delays in several projects in the Middle and Far East, while nonetheless remaining strong in South America and Oceania.

Demand in the industrial infrastructure and mineral resources sectors continued to be weak in 2013 and below 2012, primarily due to falling commodity prices and significant production overcapacity.
As far as applications for the transport sector are concerned, the major European players adopted a cautious stance due to poor visibility as to when to resume investments and to recent deficit-cutting policies in the Eurozone's major economies; demand in other parts of the world remained buoyant. One particular exception was the rail transport sector in North America, which posted record demand in 2013 as a result of urban and suburban railway reconstruction following the hurricane that hit the east coast in the second half of 2012.

The divergent pattern of demand described above was also confirmed in the automotive sector. While volumes increased on the prior year in areas outside Europe, mainly the Americas and Asia, the restrictive financial policies in Europe forced the ending of incentives in support of the automotive industry with a consequent impact on the level of demand in local markets.

Lastly, renewable energy was the sector within the industrial business that most suffered from a slump in demand.
This was primarily the case in Southern Europe, where the restrictive financial policies adopted by the main governments either cut special incentives or made it more difficult to access credit for onshore wind projects.

## FINANCIAL PERFORMANCE

### Organic growth in sales, thanks to increased demand in high value-added businesses.

Sales to third parties by the Industrial business area amounted to Euro 1,765 million in 2013, compared with Euro 1,801 million in 2012. The reduction of Euro 36 million (-2.0%) is due to the following factors:

- positive organic growth of Euro 75 million (+4.1%), largely due to the growth in volumes in high value-added businesses (Specialties&OEM, Oil&Gas and Elevator) despite the slowdown in the renewable energy sector; positive results for the Automotive business;
- negative change of Euro 5 million (-0.2%) due to non-consolidation of the results of Ravin Cables Limited (India) and Power Plus Cable CO LLC (Middle East – 49% consolidated), both of which deconsolidated since 1 April 2012;
- negative exchange rate effects of Euro 69 million (-3.9%);
- negative change of Euro 37 million (-2.0%) in sales prices due to fluctuations in metal prices.

In Europe, Prysmian Group benefited from a solid order book for the top-end OEM sector (cables for Cranes and Mining for South American and Asian markets) and continued to focus its commercial efforts on the Oil&Gas industry, where it was able to benefit from the growth in demand by the North Sea oil industry, served by the Norwegian and British markets, despite a steep downturn in exports to energy-producing nations in the Middle East.

However, this managed to offset only in part the dramatic decline in volumes in the renewable energy sector, most evident in Southern Europe.

The strategy of technological specialisation of the solutions offered allowed Prysmian Group to consolidate its Elevator market leadership in North America and to expand into the Chinese and European markets, where it is still underexposed.

As for SURF products, sales of umbilical cables and flexible pipes, manufactured for the South American market at the Vila Velha plant, were in line with 2012 despite the rescheduling of investment projects requiring flexible pipes. The Down-Hole-Technology (DHT) business performed particularly well in North America, thanks to the renewed contract with Schlumberger.

Asia Pacific and Brazil were the regions that offered the Group the most attractive growth opportunities, thanks to consolidation of its market share in Australia and the award of major international projects in Brazil.

Adjusted EBITDA came to Euro 134 million in 2013, down Euro 5 million (-3.6%) on Euro 139 million in 2012, mainly due to lower volumes in the renewable energy sector and the postponement of onshore and offshore projects in the Middle and Far East.

## OTHER

(in millions of Euro)

| | 2013 | 2012 | 2011 (*) Pro-forma |
|---|---|---|---|
| Sales to third parties | 115 | 135 | 167 |
| **Adjusted EBITDA** | **5** | **1** | **5** |
| **Adjusted operating income** | **1** | **(3)** | **2** |

(*) The pro-forma figures are calculated by aggregating the Draka Group's results for the two-month pre-acquisition period (January-February) with the consolidated figures.

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.