GROUP PERFORMANCE AND RESULTS

INTRODUCTION

Adoption of IFRS 10-11

Following the adoption of *IFRS 10 - Consolidated Financial Statements* and *IFRS 11 - Joint Arrangements*, applicable retrospectively from 1 January 2014, the Group's consolidated figures have been restated as from 1 January 2013.

The main effects of applying the new standards relate to use of the equity method to consolidate Yangtze Optical Fibre and Cable Joint Stock Limited Co., Yangtze Optical Fibre and Cable (Hong Kong) Co. Ltd., Precision Fiber Optics Ltd. and Power Cables Malaysia Sdn Bhd, previously consolidated using the proportionate method, and Yangtze Optical Fibre & Cable (Shanghai) Co. Ltd., previously consolidated line-by-line.

Reclassification of share of net profit/(loss) of equity-accounted companies

The Group has adopted a new method of classifying its share of the net profit/(loss) of associates and joint ventures, whereby it recognises this amount as a component of "Operating income" when relating to companies that operate in the same sector as the Group. The comparative figures have been reclassified accordingly.

Change in segment reporting

From 1 January 2014 the Group embarked on a process of organisational change, which has involved redefining its segment information, in keeping with the new management model adopted by the Group.

Under the new organisational structure, the Energy segment has been divided into two Operating Segments: Energy Projects and Energy Products. However, the structure of the Telecom Operating Segment has remained unchanged.

The Energy Projects Operating Segment covers high-tech and high value-added businesses whose focus is on projects and their execution, as well as on product customisation, namely: High Voltage underground, Submarine and SURF (comprising umbilical cables, flexible pipes and special DHT (Downhole Technology) cables).

The Energy Products Operating Segment covers the businesses offering a complete and innovative product portfolio designed to meet the various and many demands of the market, namely: Energy & Infrastructure (including Trade & Installers and Power Distribution) and Industrial & Network Components (comprising Specialties & OEM, Oil & Gas, Elevators, Automotive and Network Components).

Reporting systems in support of the new model were fully implemented in 2014 and have been used for the purposes of preparing the current document. The Board of Directors approved the adoption of the new structure for segment reporting in its meeting on 23 January 2015.

More details can be found in the section on Alternative Performance Indicators contained in the present Directors' Report.

FINANCIAL PERFORMANCE

(in millions of Euro)

	2014	2013 (*)	Change %	2012 (*)
Sales	6,840	6,995	-2.2%	7,574
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	**466**	**578**	**-19.5%**	**619**
% of sales	6.8%	8.3%		8.2%
Adjusted EBITDA	**509**	**613**	**-17.0%**	**650**
% of sales	7.4%	8.8%		8.6%
EBITDA	**496**	**563**	**-12.2%**	**549**
% of sales	7.2%	8.1%		7.2%
Fair value change in metal derivatives	7	(8)		14
Remeasurement of minority put option liability	-	-		7
Fair value stock options	(3)	(14)		(17)
Amortisation, depreciation, impairment & impairment reversal	(188)	(173)		(180)
Operating income	**312**	**368**	**-15.6%**	**373**
% of sales	4.5%	5.3%		4.9%
Net finance income/(costs)	(140)	(150)		(134)
Profit/(loss) before taxes	**172**	**218**	**-21.3%**	**239**
% of sales	2.5%	3.1%		3.2%
Taxes	(57)	(65)		(72)
Net profit/(loss) for the year	**115**	**153**	**-24.7%**	**167**
% of sales	1.7%	2.2%		2.2%
Attributable to:				
Owners of the parent	115	149		166
Non-controlling interests	-	4		1
Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA				
Operating income (A)	**312**	**368**	**-15.6%**	**373**
EBITDA (B)	**496**	**563**	**-12.2%**	**549**
Non-recurring expenses/(income):				
Company reorganisation	48	50		74
Antitrust	(31)	(6)		1
Draka integration costs	-	-		9
Tax inspections	-	-		3
Environmental remediation and other costs	-	(3)		3
Italian pensions reform	-	-		1
Gains on asset disposals	-	(5)		(3)
Effect of YOFC dilution	(8)	-		-
Acquisition price adjustment (1)	(22)	-		-
Other net non-recurring expenses	26	14		13
Total non-recurring expenses/(income) (C)	**13**	**50**		**101**
Fair value change in metal derivatives (D)	(7)	8		(14)
Fair value stock options (E)	3	14		17
Remeasurement of minority put option liability (F)	-	-		(7)
Impairment and impairment reversal of assets (G)	44	25		24
Adjusted operating income (A+C+D+E+F+G)	**365**	**465**	**-21.5%**	**494**
Adjusted EBITDA (B+C)	**509**	**613**	**-17.0%**	**650**

(*) 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.

During 2014, the Group's profitability was largely stable while sales volumes recovered; in particular, the Energy Products segment reported a slight recovery for the Trade & Installers business, offset by a downturn for Power Distribution and some sectors of the Industrial business; the Energy Projects segment enjoyed a positive trend mainly thanks to the performance of the Submarine business (excluding the adjustments for the Western HVDC Link project), as offset by weakness in the High Voltage business; growth by the Telecom segment was mainly due to increased demand for optical fibre cables, which offset the deteriorating performance of copper cables.

During the last few days of April 2014, some technical problems were uncovered in relation to the manufacture of the cables for the Western HVDC Link project, which have affected the full-year results. In this Annual Financial Report, the effects of the Western HVDC Link project have been determined with respect to the results forecast prior to discovering the above technical problems; such effects amount to Euro 61 million on sales and Euro 94 million on operating income.

The Group's sales in 2014 came to Euro 6,840 million, compared with Euro 6,995 million in the prior year, posting a negative change of Euro 155 million (-2.2%). Excluding the negative impact on expected revenue from the Western HVDC Link project, the Group's sales would have been Euro 6,901 million (-1.3%). The decrease in sales was attributable to the following factors:

- increase of Euro 127 million (+1.8%) from organic growth; excluding adjustments for the Western HVDC Link project, organic growth would have been Euro 188 million (+2.7%);
- reduction of Euro 178 million (-2.5%) due to negative exchange rate effects;
- reduction of Euro 104 million (-1.5%) in sales prices following fluctuations in metal prices (copper, aluminium and lead).

The organic growth in sales of +1.8%, is analysed between the three operating segments as follows:

Energy Projects	+1.7%; (+6.1% excluding adjustments for the Western HVDC Link project);
Energy Products	+1.4%;
Telecom	+ 4.0%.

Group Adjusted EBITDA (before Euro 13 million in non-recurring expenses) came to Euro 509 million, posting a decrease of Euro 104 million on the corresponding figure in 2013 of Euro 613 million (-17.0%). Excluding the negative impact of the Western HVDC Link project, Adjusted EBITDA would have been Euro 603 million.
The full-year result for 2014 reflects the negative impact of Euro 14 million in higher exchange rate effects than in the prior year, arising from the depreciation of the Brazilian Real, the US Dollar, Australian Dollar, the Turkish Lira, certain North European currencies (Swedish Krona and Norwegian Krone) and the Argentine Peso.

EBITDA includes Euro 13 million in net non-recurring expenses (Euro 50 million in 2013). Such net non-recurring expenses in 2014 mainly include Euro 22 million in income from the purchase price adjustment against the acquisition of Global Marine Systems Energy Ltd (now renamed Prysmian PowerLink Services Ltd.), Euro 31 million in income from the net release from the antitrust provision, Euro 48 million in expenses for reorganisation and improving industrial efficiency, Euro 8 million in income from the dilution of the shareholding in Yangtze Optical Fibre and Cable Joint Stock Limited Company, Euro 8 million in expenses for restructuring the pension plan of certain Dutch companies and Euro 9 million to write down an unrecoverable tax credit of a Brazilian company.

Group operating income was Euro 312 million for 2014, compared with Euro 368 million in the prior year, posting a decrease of Euro 56 million. This reduction is mainly attributable to the adjustments against the Western HVDC Link project, and to higher impairment losses recognised against assets; this reduction has been partially offset by lower net non-recurring expenses and by the positive change in the fair value of metal derivatives. Excluding the negative impact on expected profit margin for the Western HVDC Link project, operating income would have been Euro 406 million.

Net finance costs came to Euro 140 million for 2014, down from Euro 150 million (-6.6%) in the prior year. The reduction of Euro 10 million is mainly attributable to the reduction in finance costs relating to the Group's borrowings.

Taxes came to Euro 57 million, representing an effective tax rate of around 33.1%.

Net profit for 2014 was Euro 115 million, compared with Euro 153 million in 2013. Excluding the adjustments for the Western HVDC Link project, net profit for 2014 would have been Euro 178 million.

Adjusted net profit[1] was Euro 186 million, versus Euro 269 million the year before. Excluding the adjustments for the Western HVDC Link project, adjusted net profit for 2014 would have been Euro 252 million.

(1) Adjusted net profit is defined as net profit/(loss) before non-recurring income and expenses, the fair value change in metal derivatives and in other fair value items, the effect of currency and interest rate derivatives, exchange rate differences, non-monetary interest on the convertible bond and the related tax effects.