

LETTER TO STAKEHOLDERS



Our Group's performance in 2014 confirms signs of a slight recovery in sales volumes, accompanied by a generally stable level of profitability. The decisive contributions to this result were from the strategic submarine cables and systems businesses, with strong growth, and from optical cables, with recovering volumes and profitability. This is a particularly significant result, having been achieved in a still difficult scenario, that has seen demand recover for some businesses, like optical cables and renewables, contrasting with weakness in the more cyclical sectors, like power distribution cables, and a slowdown in the Oil & Gas market. Extraordinary events also had a significant impact on the Group's results, such as the technical problems encountered with the important Western Link project, which we promptly reported to the customer and the market. I am pleased to say that the Group was able to deal with and manage even this crisis situation, the effects of which are in line with previous announcements and whose recovery plan is proceeding according to schedule.

Business performance

Group Sales amounted to Euro 6,840 million, posting organic growth of +1.8% assuming the same group perimeter and excluding metal price and exchange rate effects. Excluding the adverse impact of the Western Link project, organic growth would have been +2.7%. The decisive contribution to this good sales performance came from submarine cables and systems, where the Group had double-digit growth. Telecom cables also posted a solid recovery, while Trade & Installers saw a slight upturn in volumes. Performance by High Voltage cables and the SURF business was broadly in line with 2013, while there were no signs of recovery for Power Distribution and the OEM and Oil & Gas segments of the industrial cables market.

In terms of profitability, Adjusted EBITDA came in at Euro 509 million, compared with Euro 613 million in 2013. Excluding the adverse impact of the Western Link project, Adjusted EBITDA would have been Euro 603 million, basically in line with its

level in 2013. The decisive contribution to this result came from high value-added businesses, in particular submarine cables and systems, along with the significant improvement in profitability posted by the Telecom business. However, pressure on prices continued to impact the profitability of the more cyclical businesses (Trade & Installers and Power Distribution), which nonetheless found a stabilisation point. Within the Industrial cables business, the various segments had widely differing performances, with Renewables and Elevators making a good contribution, while others were less positive, such as Oil & Gas, affected by the fall in oil prices, and some slowing sub-segments of Specialties & OEMs. The Group confirmed its solid financial structure with a net financial position at the end of December 2014 of Euro 802 million (Euro 805 million in 2013), well ahead of initial expectations, achieved thanks to the Group's significant cash-generating capacity. Synergies arising from integration with Draka amounted to Euro 140 million.

Strategy development

Industrial investments

In this context, the Group has relentlessly pursued its growth strategy by focusing on investments in its high value-added businesses, on ongoing actions to reduce costs and improve the efficiency of its organisational structure and manufacturing footprint.

In particular, we are driving forward the process of concentrating high-tech product manufacturing in a smaller number of plants, with the goal of creating centres of excellence with high levels of know-how, where economies of scale can be achieved by improving manufacturing efficiency and reducing capital employed. In the standard businesses, the focus has been on pursuing greater manufacturing efficiency, while nonetheless maintaining a wide geographical presence to minimise distribution costs.

The Group's overall capital expenditure totalled Euro 163 million in 2014, up from 2013. Investments to increase production capacity and improve the mix accounted for around 30% of the total and were particularly focused on the Energy Projects and Telecom segments. In the submarine cables business, investments to increase production capacity and develop additional technological capabilities were made at all three production sites located in Arco Felice (Italy), Pikkala (Finland) and Drammen (Norway). Also of note was the upgrade of the "Cable Enterprise" cable-laying ship which will additionally boost the Group's submarine project execution capabilities. There were two main capex projects in the high voltage underground business: the first in Abbeville (United States) to build a second production line and the second in Slatina (Romania). The Telecom segment's main capital ex-

penditure was to upgrade the optical fibre plant in Sorocaba (Brazil) and to increase production capacity at the plant in Slatina, confirmed as one of Europe's centres of excellence for optical cables. The Energy Products segments made tactical capital investments to support the development of promising markets.

A significant proportion of overall capital expenditure was devoted to improving efficiency in order to reduce fixed and variable costs, with a focus on product design and experimentation with new materials. In the optical fibre field, the investment programme to recover fibre manufacturing competitiveness continued to move ahead.

Lastly, the Research & Development department worked on several projects, particularly in the submarine cables area, with the aim of further strengthening the Group's undisputed technological leadership; projects also focused on Extra High Voltage underground cables and P-Laser cables and on Oil & Gas cable product development and technology transfer between Group factories. The Telecom business introduced innovations to optical fibres to boost their capacity and performance and to optical cables and connectivity to meet the specific requirements of broadband cabling projects.

Human Capital Development

The quality of human resources is confirmed as a strategic factor for the Group's competitiveness. Prysmian carried out several important People Development projects in 2014. The Graduate Program attracted more than 16,000 applicants from all over the world, leading to the selection of 50 high-potential new graduates to join the 130 already recruited. Attention was also given to fostering the value of senior resources under the Experience Counts project. The Prysmian Group Academy, a school of managerial and professional education, saw as many as 600 employees pass through its doors during the year. Equally successful were other projects concerning Talent & Succession Management and performance appraisal. Lastly, the Group employee share purchase plan (YES Plan) reported a strong take-up, with around 5,000 employees signing up in 2014, year one of the plan, confirming their great sense of corporate belonging and their confidence in the Group's future.

Value creation

Among the principles underlying the Prysmian management approach is the ability to satisfy the expectations of our stakeholders and shareholders, through a constant focus on value creation. We are pleased to have achieved the 2014 targets announced to the market and we are able to reward our shareholders, for their continued confidence in our management, with a proposed dividend in line with 2014.