LETTER TO STAKEHOLDERS

Further improvement in net financial position, strong cash flow generation capability and commitment to cost control, have all helped to confirm our Group once again in 2013 as a benchmark in the cable industry for solidity, profitability and creation of value for stakeholders.

Market scenario

The macro environment in 2013 was still generally difficult, although trends diverged between the various markets and geographical areas and signs of partial stabilisation were seen in the second half of the year. In this context, also beset by negative exchange rate effects, the Prysmian Group has achieved its stated annual targets. Positive sales and earnings performance by the higher value-added businesses of power transmission and certain areas of the industrial cables market, in line with the Group's strategy, limited the negative impact of falling demand in sectors like power distribution, construction, renewables and telecommunications.

Business performance

Group Sales amounted to Euro 7,273 million, posting negative organic growth of -3.1% on 2012, assuming the same group perimeter and excluding metal price and exchange rate effects. The negative trend showed signs of reversing in the second half of the year, with organic growth at -0.9% compared with -5.3% in the first half. In line with its growth strategy, our Group performed well in high value-added businesses, particularly underground and submarine power transmission and certain business areas of the industrial cables market. In contrast, the power distribution business continued to experience difficulty, while the second half saw the building wires sector return to basic stability. The sharp decline in demand for telecom and renewable energy cables, underway since the end of 2012, affected the overall sales figure for 2013. The geographical distribution of Sales reflects a recovery in North and South America, except for the Telecom business, and persistent weakness in Central Europe and the Mediterranean. Asia Pacific reported strong demand for industrial cables but continuing weak demand for building wires and power distribution cables. In terms of profitability, the Group achieved its originally announced Adjusted EBITDA target, set in the range Euro 600-650 million. In fact, Adjusted EBITDA amounted to Euro 612 million, down 5.5% on 2012 mainly due to negative exchange rate effects of Euro 23 million as well as to the decline in the Telecom business. This profitability measure also confirms the signs of improvement in the second half of 2013, with Adjusted EBITDA rising to Euro 330 million from Euro 282 million in the first half. Margins improved slightly, with Adjusted EBITDA representing 8.4% of sales, up from 8.2% in 2012 (9.0% in second half 2013). Of particularly positive significance was the continued improvement in Net financial position, which stood at Euro 834 million at the end of December 2013, down from Euro 918 million at 31 December 2012.

Strategy development

The process of integration with Draka has continued successfully in 2013. The target synergies have been exceeded, reaching an aggregate of Euro 120 million at the end of 2013 compared with a target of Euro 100 million. Synergies achievable in the procurement area are almost at a run-rate level (approximately Euro 45 million); Euro 60 million in savings have been obtained from fixed cost synergies and Euro 15 million from optimising the manufacturing footprint. Target synergies by 2016 are confirmed at an aggregate Euro 175 million, particularly derived from further rationalisation of the manufacturing footprint and from organisational rightsizing. This target, originally set for 2015, will be pursued while paying particular attention to the maintenance of customer service levels.

Strategic investments for growth

In line with its growth strategy, the Group has focused its investments on high-tech, high value-added businesses and in geographical areas with the best growth prospects. Approximately Euro 61 million was invested in 2013 to increase production capacity and develop the product portfolio; the major investments included the new optical cables plant in Slatina (Romania) and the new high voltage cable factory in Russia. Since its IPO in 2007, the Group has invested some Euro 462 million in total to improve product mix and develop the product portfolio, with a focus on: production capacity increases for submarine cables and systems; geographical diversification, cost reduction and development of high voltage underground products; reduction of production costs for telecom cables; and development of high value-added products (SURF) in the industrial cables business.

Human Capital Development

With the goal of strengthening the engagement and involvement of all its employees in the business and achievement of its targets, the Group successfully launched

in autumn 2013 a plan to allow the Group's employees to purchase shares on favourable terms. The plan offers employees the opportunity to purchase Prysmian shares at a discount of up to 25%, funded in the form of treasury shares. The plan's first purchase window has been very successful, with applications received from more than five thousand employees, who have invested a total of almost Euro 8 million to date.
Extensive participation has also been reported in other major initiatives launched by the Group to develop the potential of its human capital. Five hundred employees have taken part in the technical and managerial training programmes organised by the Prysmian Academy. The Build the Future programme to induct high potential talents into the business has involved fifty young people from around the world.

Focus on growth

Our Group's vocation is that of a global player with a clear mission of growth. Over the past few years we have pursued this goal with perseverance and determination, knowing that growth and ability to manage change represent the most effective and concrete strategy for a group like Prysmian, answerable to a wide spectrum of stakeholders for whom we create value.
This is why we have invested in both organic growth, as outlined earlier, and external growth, confirming our Group's ability to act as a business aggregator.
The acquisition of Draka has marked a radical turning point. This has been a complex, difficult-to-execute project, which is now approaching its end with the integration almost completed. But above all, we have returned to a well-balanced and solid financial situation. Following the acquisition of Draka, the Group's debt amounted to about Euro 1,400 million, which has now returned to optimum levels, thanks to our ability to contain costs while continuing to generate strong cash flow. This allows us to look to the market, knowing that we are in a position to take advantage of any new opportunities for growth.

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