AN INTEGRATED SUPPLY CHAIN

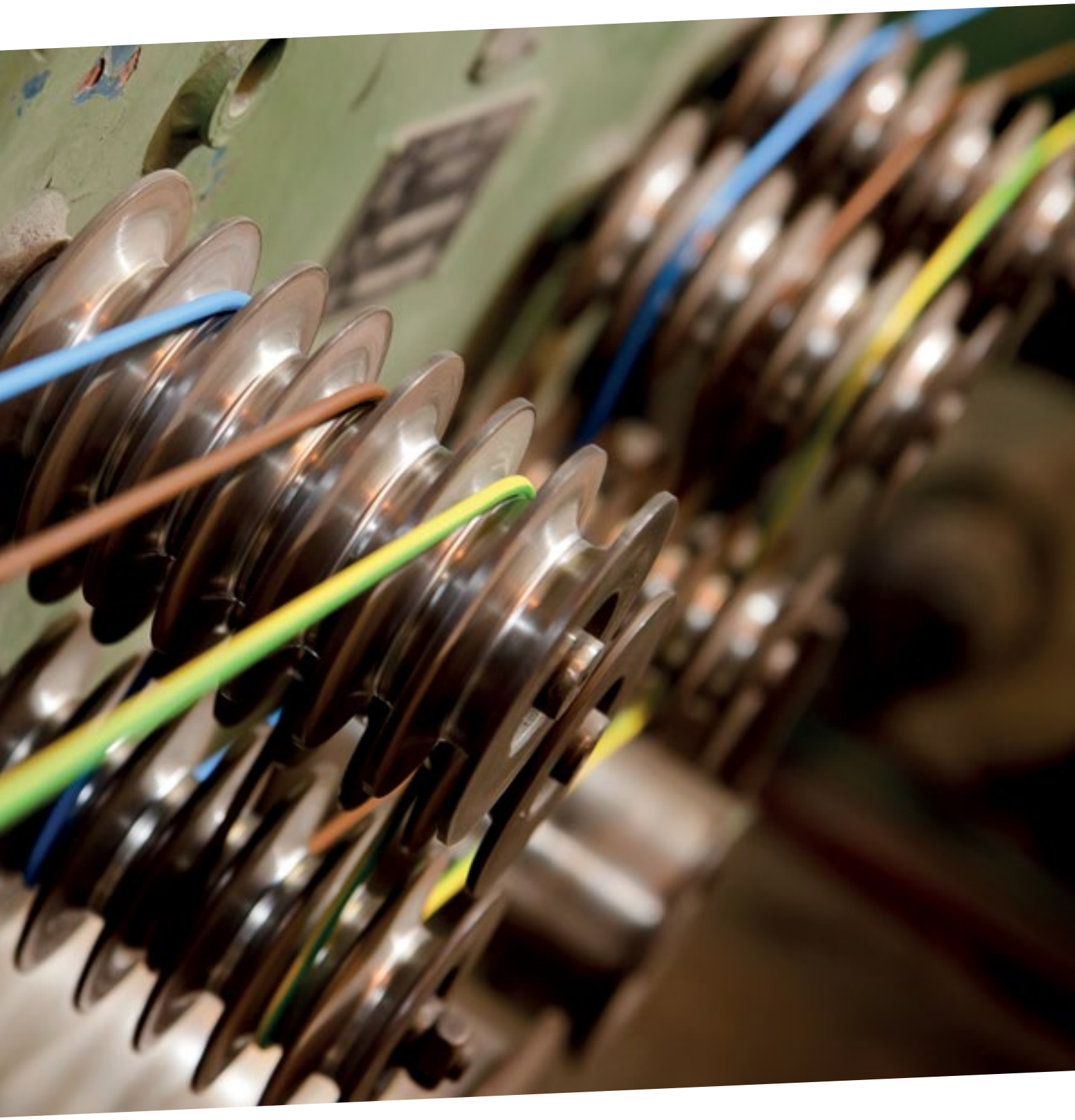
SOURCING

Prysmian Group continually strengthens its relationships with strategic suppliers, through centralised procurement and adoption of a global approach involving just one organisational model, common processes and a single commodity management policy.

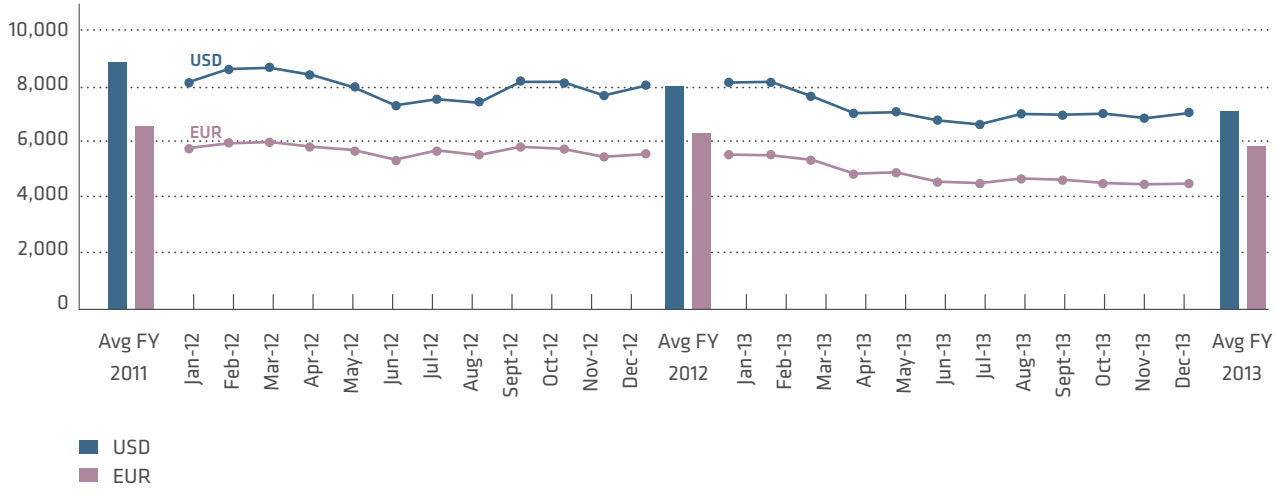
The main raw materials used by the Group in its production processes are copper, aluminium, lead, special glass and coating for optical fibres, as well as various petroleum derivatives, such as PVC and polyethylene.

Market volumes were slightly lower in 2013, reflecting a still weak global economic environment especially in Europe and causing a generally declining trend in the average price of the principal commodities compared with the previous year. In the case of base metals, copper and aluminium prices were noticeably lower than the year before, down by as much as 8% in USD prices, reflecting a gradual slowdown by the emerging economies and consequent emergence of fears about possible reductions in future demand by these countries. Lead went against this trend, posting a slight increase in price on the previous year. The average price of Brent crude declined, albeit marginally. Among the various petroleum derivatives, the price of polyethylene was generally stable compared with the previous year, with limited fluctuations over the 12-month period. PVC and plasticisers displayed stable or slightly declining price trends due to continued weakness in overall demand.

Once again in 2013, the Prysmian Group was able to deal with fluctuations in base metals through strict application of its hedging policies and daily ma tching between purchase and sales commitments. Sales price adjustment mechanisms, combined with careful hedging, helped mitigate the impact of price fluctuations on the income statement. As for other raw materials, work continued to rationalise and consolidate the supplier base. The Group's increased size and consequently greater bargaining power with suppliers have allowed it to successfully achieve synergies of scale.
The strengthening of commercial relationships with key suppliers over the year allowed the Group to minimise costs and the risk of disruption in supplies, ensuring both short and long-term benefits for the Group. In addition, the process of transforming organisation of the Procurement function was completed during the first half of the year; it now adopts a global approach through a single organisational model, common processes and commodity management policy aimed at maximising the benefits of the Group's size and geographical scale, in complete fulfilment of local needs.

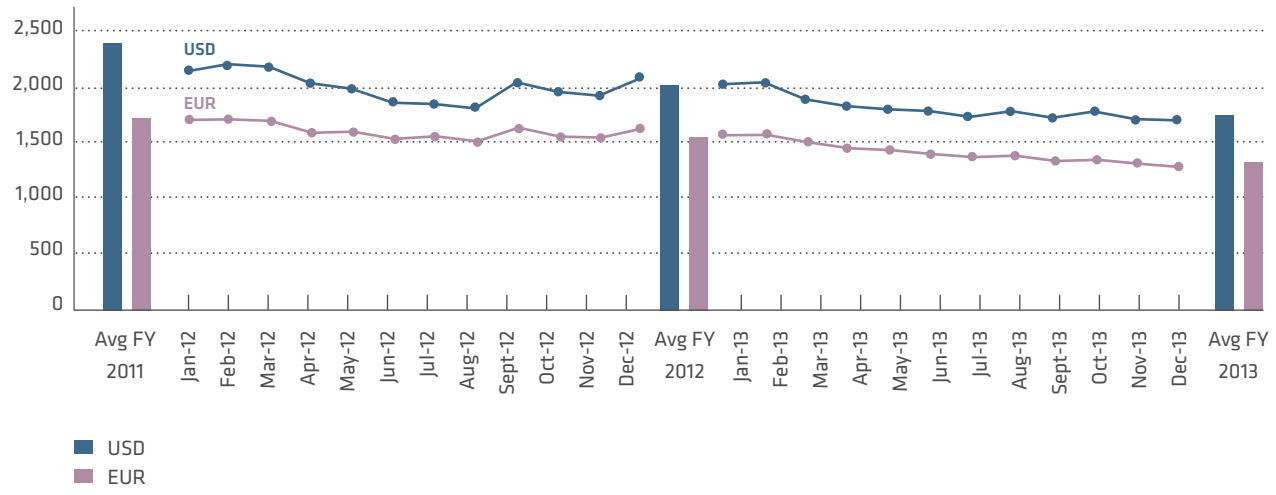


- **Copper**. The average cash settlement price per tonne of copper on the London Metal Exchange (LME) was USD 7,326 (Euro 5,518) in 2013, signifying an 8% decline on the prior year USD price (-11% in Euro). Fluctuating between a low of USD 6,637 and a high of USD 8,242, the price was more volatile than in 2012 (low 7,252 – high 8,658).



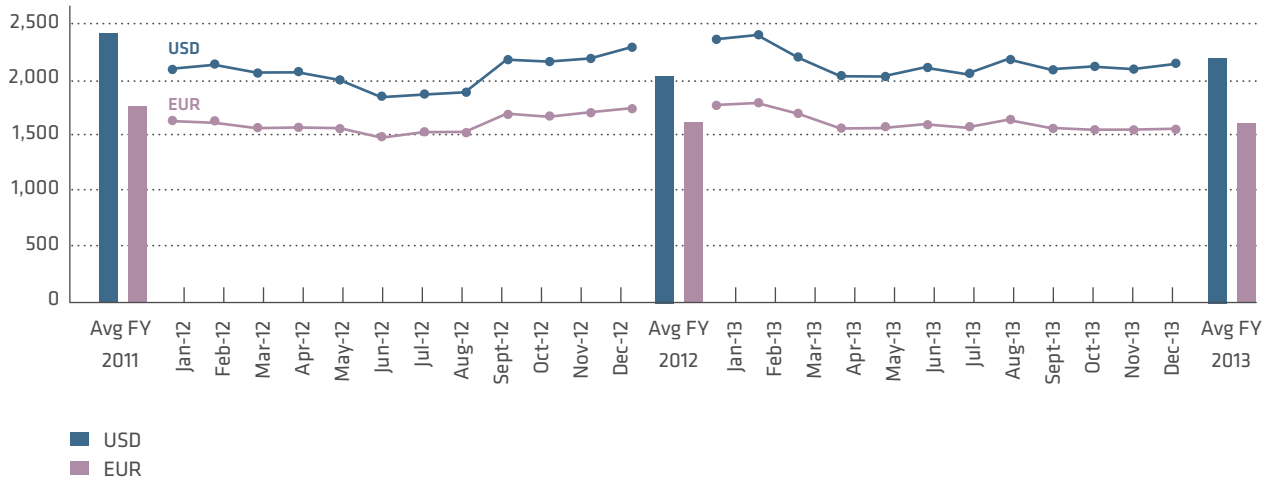
Source: LME data. Price per tonne.

- **Aluminium**. Even the price of aluminium reported a significant decrease in 2013 (-9% in USD prices), with stock levels in the official London Metal Exchange warehouses still at over 5 million tonnes. The renewed fall in prices compared with 2012 triggered tensions in conversion premiums. The average price per tonne of aluminium was USD 1,846 (Euro 1,391) in 2013, compared with USD 2,019 (Euro 1,570) in 2012.



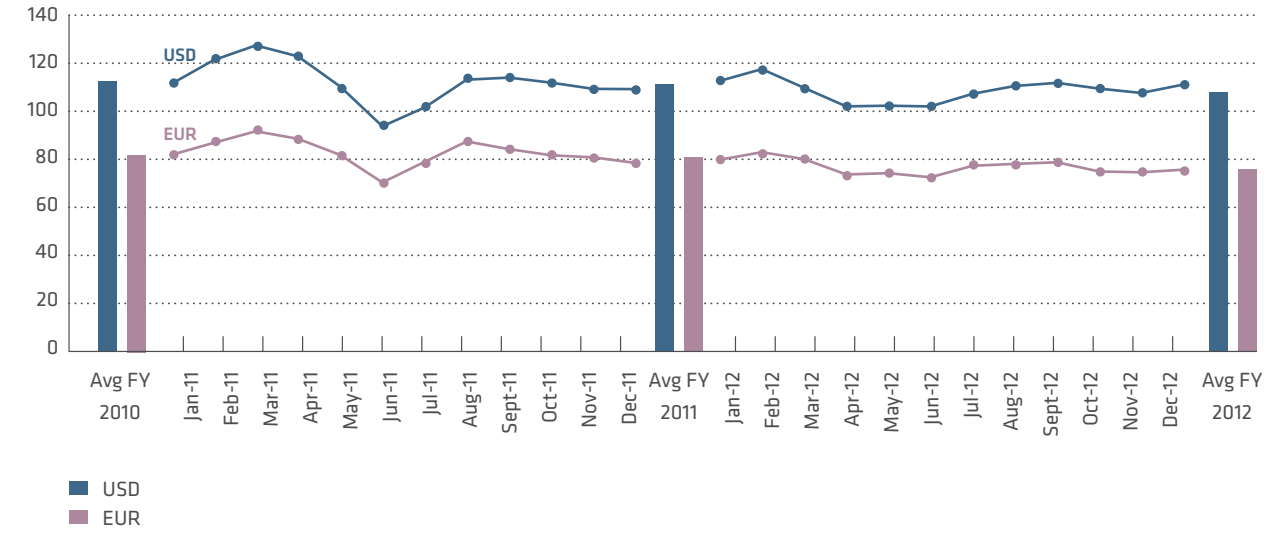
Source: LME data. Price per tonne.

- **Lead.** The average price per tonne of lead on the London Metal Exchange was USD 2,142 (Euro 1,613) in 2013, up 4% in USD and 1% in Euro on the prior year.



Source: LME data. Price per tonne

- **Oil**. There was less volatility in Brent crude prices in 2013, which ranged between USD 97 and USD 119. The average price per barrel of Brent crude was USD 109 in 2013, down 3% on 2012. The average Euro price was 6% lower, down from Euro 87/barrel in 2012 to Euro 82/barrel in 2013. Ethylene prices declined more moderately, in the order of 1%. As a result, even the other principal petroleum derivatives reported generally stable or slightly lower prices than the previous year.



Source: ICE data. Price per barrel.

INDUSTRIAL ACTIVITIES

Once again in 2013, Prysmian Group's focus was on higher value-added products and on concentrating technological expertise to benefit from economies of scale, and so improve manufacturing efficiency and reduce capital employed.

The Group's manufacturing operations are carried out through a highly decentralised model, involving 91 plants in 33 different countries. The widespread distribution of plants is a strategic factor in allowing the Group to react quickly to different market needs worldwide. Over the course of 2013 the Prysmian Group continued to implement an industrial strategy based on the following factors:

(i) focus on higher value-added products;
(ii) maintenance of a widespread geographical presence to minimise distribution costs;
(iii) concentration of high-tech product manufacture in a limited number of plants in order to focus technological expertise and benefit from economies of scale, thus improving manufacturing efficiency and reducing capital employed.

The process of integrating Draka's industrial activities, started in 2011, carried on during the year with the gradual extension of best practices to the respective organisational models and management systems used in manufacturing operations; at the same time, major strategic investments continued to be made in Submarine cables, High Voltage cables, Optical cables and Fibre.
Gross investments amounted to Euro 144 million in 2013, down from Euro 152 million the previous year, as a result of further optimising capital employed after the transition period following Draka's acquisition. Investments to increase production capacity accounted for 43% of the total. Production capacity increases mostly referred to the Utilities, Industrial and Optical Fibre businesses.

Utilities. Work carried on during the year to increase capacity at the Arco Felice Submarine cables plant in Naples to allow it to fulfil the contract for the Western HVDC Link between England and Scotland. Also with regard to the submarine cables business, investments were made at the Drammen plant to prepare production lines for the manufacture of cables to connect some of ExxonMobil's offshore platforms off the coast of the United States to the mainland. At the same time, the new medium and high voltage cable factory was completed and inaugurated in Rybinsk, Russia: the inauguration of this new facility is a key stage in the Group's expansion plans for a high-potential, strategic market like Russia, also in view of the recent agreement signed with the local operator "Rosseti" for the purpose of developing high and extra high voltage transmission systems up to 500 kV.

Industrial. In the Oil&Gas sector, major investments were made in the Santo André and Sorocaba plants in Brazil serving the Oil&Gas projects acquired by the Group from Jurong and Keppel Fels shipyards in Singapore, and in the Schuylkill Haven factory in the United States, where it was decided to expand capacity for the production of Airguard cables, used in special applications requiring very high performance cables in terms of resistance to chemicals and mechanical stress.

Telecom. In the Optical Fibre business, there were continued investments in efficiency, especially at the European optical fibre plants in Battipaglia (Italy) and Douvrin (France), with the goal of reducing fibre manufacturing costs. In particular, work was started at the Italian plant to build a trigeneration plant intended to reduce energy costs. During the year, the new optical cable factory was inaugurated in Slatina, Romania, thereby becoming one of Europe's centres of excellence for optical telecom cables.

Investment expenditure on achieving efficiencies to reduce fixed and variable costs, particularly in relation to materials usage and product design, accounted for approximately 14% of the total: this expenditure included major investments in making the metallurgical area more efficient, after deciding that some of the Group's plants (Durango in Mexico, Schwerin in Germany and Emmen in The Netherlands) would complete the process of verticalisation by expanding their manufacture of conductors in order to improve the business's competitiveness in sectors such as automotive and power distribution.

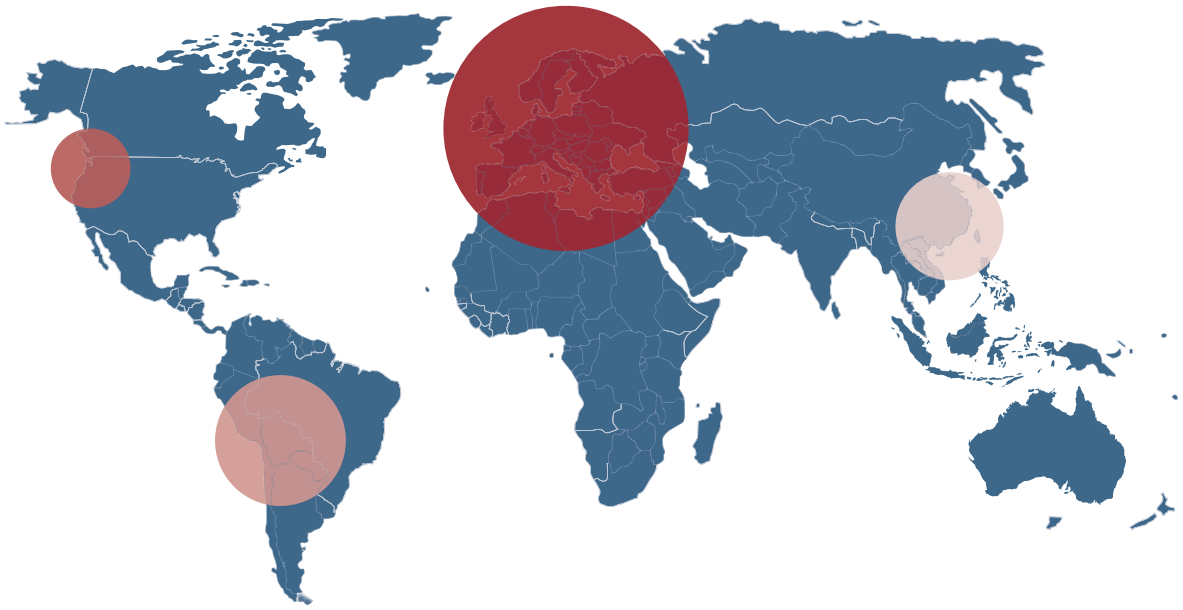
Some 12% of investment expenditure was for ongoing development of information systems and, to a lesser extent, for research and development. In particular, there was continued spending on rolling out the "SAP Consolidation project", aimed at standardising the information system in all the Group's operations over the next few years: in 2013, the new ERP system was rolled out to the Czech Republic, Norway, Sweden and Denmark.

Capital expenditure for structural maintenance work or for worker safety accounted for about 12% of the total, in line with previous years.
Lastly, the category of other investments (19% of the total) included the acquisition of an industrial building in Santa Perpetua (Spain) as well as two other particularly important

projects for the Group: the takeover of the lease on the Ansaldo 16 industrial site in the Bicocca district of Milan, headquarters of the Group's R&D function, and the start of construction work at the adjacent Ansaldo 20 industrial site. These two investment projects are for the construction of the Group's new headquarters, which will extend over an area of more than 20,000 m^2 and allow the Group to consolidate all its Milan-based company functions in one place, with a resulting saving in running costs.

The following diagrams show how the Group's investments in 2013 were split by business, type and geographical area.

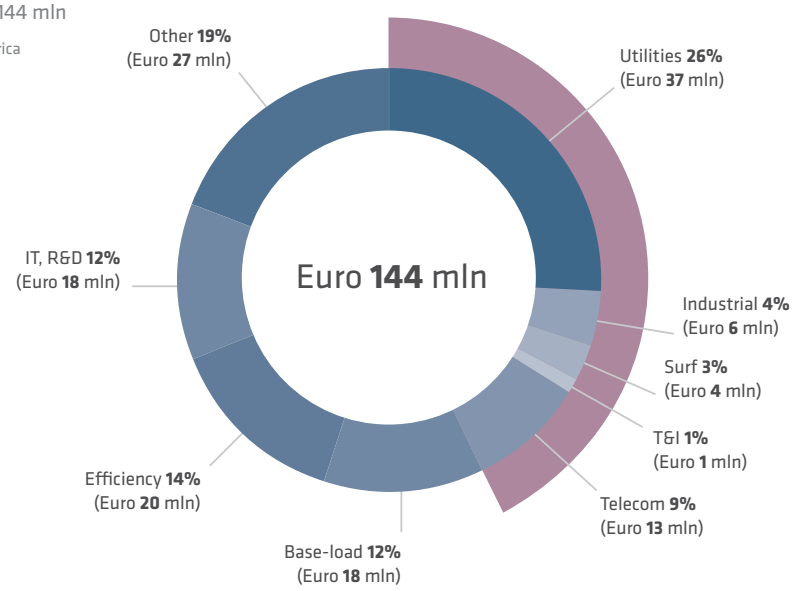
INVESTMENTS IN 2013



- EMEA* (76% - Euro 109 mln)
- South and Central America (8% - Euro 12 mln)
- North America (6% - Euro 9 mln)
- APAC (10% - Euro 14 mln)

TOTAL CAPEX: Euro 144 mln

*Europe - Middle East - Africa



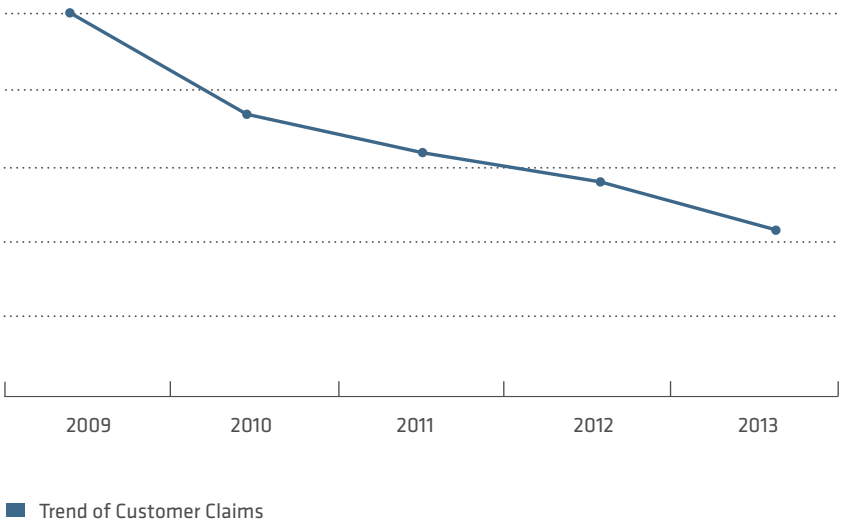
Total capacity increase

QUALITY

Downward trend since 2009 in the number of customer claims has continued.

During 2013 the Quality function consolidated its position within the Group's various entities and pursued a strategy of continuous improvement in performance, based on company policy of ever increased focus on customer service. Confirming the validity of the current strategy, the number of Customer Claims fell once again in 2013 (-15% on the previous year), continuing the downward trend of the last few years.

TREND OF CUSTOMER CLAIMS



The results achieved are also the product of the widespread extension of the Quality function's auditing activities, both centrally and locally, applying the same methodology everywhere to guarantee achievement of the high standards of excellence set.
In line with the goal of making the Quality function an even more effective contributor to the Group's competitiveness, the first phase of the "Cost of Poor Quality" (COPQ) project was successfully completed; this project will progressively allow all the Group's production units to manage non-conformities on a standardised basis, and to have automatic access to reliable information on the associated costs. The COPQ project will be rolled out to the various countries in parallel with the SAP 1C system roll-out and will provide users with more detailed information about costs, thus allowing effective action on the most critical areas and processes using proven methods and ways of improvement.

LOGISTICS

Prysmian Group launched several projects in 2013, as complements to the Customer Centricity and Factory Reliability initiatives, to improve logistics in terms of lead-time flexibility, timeliness and efficiency, which have already produced tangible results.

The Logistics function manages all the Group's intercompany flows at the level of both annual budget and monthly operations, with the aim of satisfying demand in all markets that do not have a local production source due to lack of capability or production capacity. The Logistics function also manages short and medium-term production allocations and planning through Sales & Operations Planning (S&OP), a process which serves as the link between the demand cycle (sales) and the supply cycle (manufacturing and procurement). The Group plans production according to whether a product is classified as "engineer to order" (ETO), "assembly to order" (ATO), "make to order" (MTO) or "make to stock" (MTS).

ETO: the ETO management model is mainly used in the Submarine and High Voltage cables businesses, where the Prysmian Group's services start with system design and go all the way through to final cable laying.
ATO: The ATO approach allows a fast response to demand for items that use standard components but differ only at the final stages of production or packaging. This approach has the dual objective of responding rapidly to market demand while at the same time keeping inventories of finished goods to a minimum.
MTO: Under the MTO approach, production is activated and goods shipped only after receipt of a customer order, significantly reducing unused inventory levels and the time that raw materials and finished goods remain in stock.
MTS: In contrast, under the MTS approach, generally used for more standardised products, inventory management focuses on producing items for stock to allow a fast response to demand.

In keeping with the Group's strategic objectives and as a complement to the Customer Centricity and Factory Reliability initiatives, Prysmian Group launched several projects in 2013 to improve logistics services, in terms of lead-time flexibility, timeliness and efficiency, which produced tangible results in several European countries as early as the second half of the year: synergies between distribution networks, warehouses and distribution centres, arising from the Draka acquisition, the "Supply Chain Integration" project and the roll-out of the "SAP Consolidation project" are just a few examples that demonstrate the Group's commitment to achieving more efficient use of resources, greater sharing of information and a significant reduction in market response times. In addition, a specific project was completed in North America during 2013 aimed at reducing distribution costs and increasing the level of service; a similar project was also launched in China.
The ongoing attention to flexibility of response to the ever more challenging demands of the market has improved the reliability of planning and the execution of manufacturing output, in terms of both mix and volumes in ever faster response times, as well as allowing stricter control of every type of inventory: raw materials, intermediate products and finished goods. This has allowed the Group to respond efficiently and effectively to the general reduction in sales volumes and accompanying decline in manufacturing output by promptly adjusting inventory levels.
Lastly, all Group operating units have continued to focus, in partnership with customers and suppliers, on actions to recycle, recondition and reuse packaging in order to minimise environmental impact.