

# REFERENCE SCENARIO

## MACROECONOMIC SCENARIO

In the face of an uncertain geopolitical environment with growing tensions in various areas of the globe, the macroeconomic scenario in 2014 was marked by a slowdown in emerging market economies (China, Brazil and Russia) offset by robust recovery in the United States, United Kingdom and India. Europe was still weak, although with signs of a slight recovery.

The economic environment in 2014 was characterised by uncertainty and rising geopolitical tensions in several areas of the world, with a further slowdown in emerging market economies (China, Brazil and Russia in particular) and in Japan but a gradual recovery in North America (USA and Canada), the United Kingdom and Germany. The economies of several European countries such as Italy and Greece continued to be stagnant or in decline.

Economic activity carried on expanding in the first part of the year, despite some signs of weakness in emerging market countries: in China because of the growing level of private debt, in Russia because of the political and diplomatic crisis with neighbouring Ukraine, and in Brazil because of sharp economic slowdown. The macroeconomy gradually recovered force in the United States and United Kingdom, but weakened in some emerging market countries (Brazil, Russia) and in Japan. Growth in the Eurozone remained subdued, with asymmetries and disparities between the various countries, despite the economic support measures implemented by the European Central Bank such as the introduction of negative rates on deposit facilities and several refinancing operations to ease monetary conditions and support the provision of credit to households and businesses. The European recovery's loss of momentum was also affected by growing uncertainties about the political and financial situation in Greece. Meanwhile, globally, geopolitical tensions steadily increased in some oil-producing nations (Iraq and the Middle East), thereby augmenting the risks of further economic slowdown. In the last part of the year, economic activity accelerated significantly in the United States, rebounding ahead of expectations. The short and medium-term outlook for the global economy has nonetheless remained uncertain

because of persistent weakness in the Eurozone and Japan, the prolonged slowdown in China and the sharp downturn in Russia, hit by economic sanctions imposed by the international community. The sharp fall in oil prices, triggered by both greater supply and weaker demand, could help sustain growth in the coming quarters, but not without risks for the financial stability of the oil exporting nations.

The major international research institutes progressively revised down their growth estimates for 2014 and 2015 over the course of the year, confirming the growing uncertainties around the globe. Despite the difficult political and macroeconomic scenario, global demand in 2014 nonetheless reported an overall increase: in fact, global GDP grew by +3.3%\* on the previous year (compared with growth of +3.3%\* and +3.4%\* in 2013 and 2012 respectively), driven by the significant growth achieved by Asia's emerging market economies.

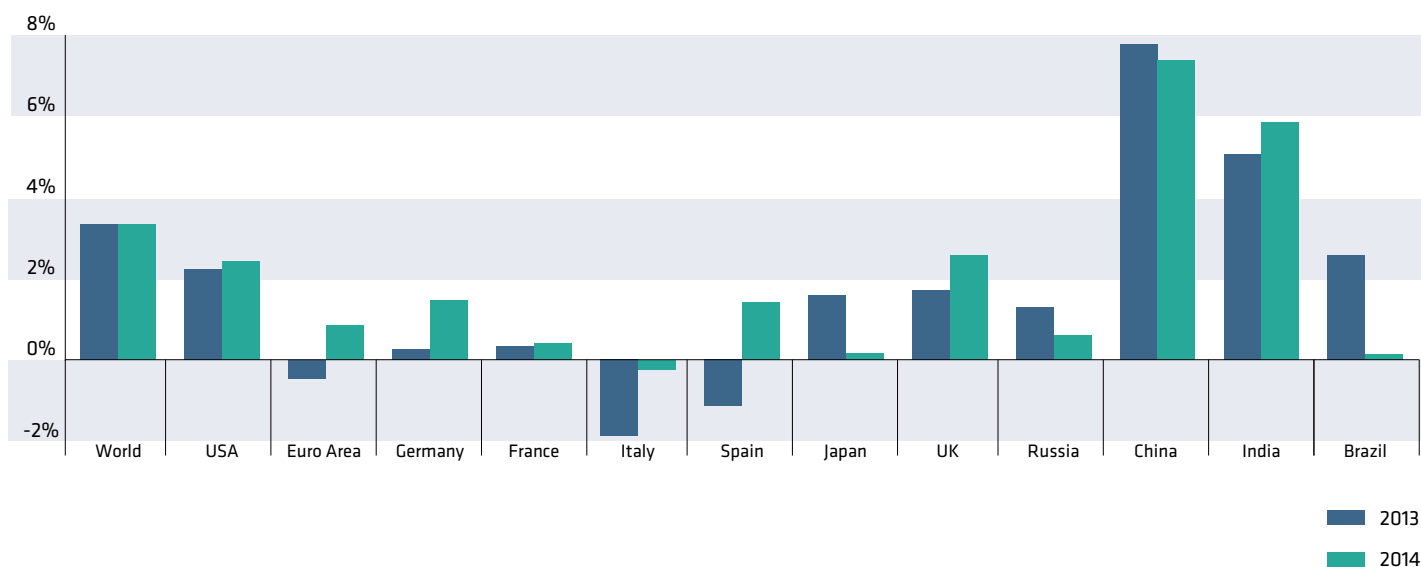
China, in particular, has confirmed a high growth rate (+7.4%\*), even if down from the previous year (+7.8%\*) but still a far cry from that in the recent past (+11.2% average annual growth in the period 2006-2010), reflecting some difficulties in its domestic market. India too, after two years of modest performance, returned to growth of more than 5%.

In the United States, positive signs on the domestic demand front and a gradual decline in unemployment contributed to an acceleration in growth on the previous year: GDP grew by +2.4%\* in 2014, up from +2.2%\* the previous year.

Europe saw a slight improvement in economic activity, albeit with specific idiosyncrasies in the different countries. Eurozone GDP grew by +0.8%\* on 2013, compared with -0.5%\* in the previous year, returning to expansionary mode after two consecutive years of recession.

\* Source: IMF, World Economic Outlook Update – January 2015

## GDP GROWTH BY COUNTRY 2013-2014



## CABLE INDUSTRY TRENDS

Global demand for cables grew slightly in 2014, especially in some market segments like optical cables and those for renewable energy.

In 2014 the world cable market reversed the slowing trend in operation from 2011 to 2013, mainly thanks to growing demand by markets in China, the United States and, albeit partially, in Europe. However, there were major differences within the industry both geographically and between the various market segments. Geographically, the increase in global cable demand was driven by high-growth regions, such as the Middle East, China and Asia in general, as well as by strongly recovering countries like the United Kingdom and Eastern Europe (except Russia). In fact, these regions saw continued investment to expand and upgrade infrastructure and buildings in response to growing demand by industrial operators and local communities. In the United States, the steady economic upturn was reflected in a slight growth in demand. In Europe demand regained momentum in the United Kingdom and Eastern Europe; this trend more than offset ongoing market stagnation in countries like Italy, France and Germany, exacerbated not only by a construction sector still struggling with the absence of infrastructure investments but also by persistently weak energy consumption, resulting in generally flat demand for energy cables and systems.

Even the various market segments displayed considerable disparities in 2014.

On the one hand, performance by higher value-added businesses was stable or marginally better; this was the case for high and extra high voltage submarine cables for interconnections and offshore wind farm connections in Europe, where the Prysmian Group confirmed its market leadership after being awarded new projects worth a total of more than Euro 1 billion during the course of the year. Demand for renewable energy cables was also significantly higher, particularly thanks to extension of government incentives to other countries, as was demand for optical fibre cables, especially in the United States and Europe (France, Spain, Italy, United Kingdom). There was also a slight recovery in demand for building wires, particularly in Northern Europe and Asia Pacific. On the other hand, demand declined for power distribution cables, especially in Europe, and for special cables for OEMs; lastly, demand for copper telecom cables continued to fall, in line with the trend underway since 2004 to the benefit of optical fibre cables.