

REVIEW OF TELECOM OPERATING SEGMENT



**INTERVIEW WITH PHILIPPE VANHILLE,
Senior Vice President Telecom**

What does it mean to be a global leader in telecommunication cables, especially optical fibre ones?

It means being at the forefront of a field, namely digitisation, which, along with electrification, is one of the two most powerful drivers of the planet's industrial and economic growth. The digital economy grows and spreads on optical cables, and the Group is a global leader in the manufacture of the core component of every type of optical cable: optical fibre. We're a global leader because we own one of the world's three optical fibre manufacturing technologies and we're experts in the design of optical cables serving the many needs of telecom networks. But I would add that, if we are leader, it's also because we're convinced that bringing fibre to every home and building in the world is an important goal and a major driving force for communities.

Are we talking about connectivity and FTTx?

And about all the ramifications that allow fibre to be brought to the end user: the home with FTTH, the antenna with FTTA, the building with FTTB ... Increasing bandwidth requirements, by both the business and residential sectors, are having a profound effect upon the performance required of the optical network, which in turn demands high standards of fibre management. This is why we've have developed the family of xsNet products for "last mile" access networks, which is also very suited to optical fibre deployment in sparsely populated rural areas. Most of the cables used in FTTx/FTTH systems feature Prysmian's bend-insensitive BendBrightxs optical fibre, which has been specially developed for this application.

But there isn't just the last mile...

The Group operates with a range of solutions that respond to the demand for wider bandwidth by major network

operators and service providers. Our product portfolio covers every area of the industry, including long-distance and urban systems, and solutions such as optical ground wire (OPGW), Siroccoxs (fibres and cables for blown installation), Flextube® (extremely flexible easy-to-handle cables for indoor or outdoor installations), and many more. A range of products that allows us to undertake major projects, even on a continental scale like the ambitious Fibre-to-the-Premises programme launched by the Australian government; a project that confirms the central role of Prysmian in tackling a challenge of such enormous dimensions, as Matteo Renzi, the Italian Premier, was able to see during a recent visit to our Dee Why production facility in Australia.

What are the prospects for the Telecom Operating Segment?

The size of the global market for optical fibre cables is predicted to grow although with large regional differences. Demand in 2014 reported growth in fast-developing markets, like China, and those with high communication infrastructure needs, like India. This was accompanied by a recovery in volumes in Europe. In Brazil we saw a slight dip in volumes, while North America recorded a recovery after the steep falloff in 2013 with the ending of government incentives. In Europe, in particular, we have won contracts for work on major projects to realise backhauls and FTTH connections for leading operators, such as British Telecom in the United Kingdom, Telefonica and Jazztel in Spain, Orange in France and Telecom Italia in Italy. The high value-added connectivity business has remained generally positive in Europe and North America, thanks to the development of new FTTx networks.





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(in millions of Euro)

	2014	2013 (*)	Change %	2012 (*)
Sales	994	986	0.8%	1,202
Adjusted EBITDA before share of net profit/(loss) of equity-accounted companies	91	87	4.2%	133
% of sales	9.1%	8.8%		11.0%
Adjusted EBITDA	116	106	10.1%	149
% of sales	11.7%	10.8%		12.4%
EBITDA	116	86	31.7%	127
% of sales	11.6%	8.7%		10.5%
Amortisation and depreciation	(42)	(43)		(48)
Adjusted operating income	74	63	19.7%	101
% of sales	7.4%	6.4%		8.4%
Reconciliation of Operating Income / EBITDA to Adjusted Operating Income / Adjusted EBITDA				
EBITDA (A)	116	86	31.7%	127
Non-recurring expenses/(income):				
Company reorganisation	6	13		16
Draka integration costs	-	-		1
Tax inspections	-	-		2
Effect of YOFC Dilution	(8)	-		-
Gains on asset disposals	-	(1)		-
Other net non-recurring expenses	2	8		3
Total non-recurring expenses/(income) (B)	-	20		22
Adjusted EBITDA (A+B)	116	106	10.1%	149

(*) 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.

As partner to leading telecom operators worldwide, Prysmian Group produces and manufactures a wide range of cable systems and connectivity products used in telecommunication networks. The product portfolio includes optical fibre, optical cables, connectivity components and accessories and copper cables.

Optical fibre

Prysmian Group is one of the leading manufacturers of the core component of every type of optical cable: optical fibre.

The Group is in the unique position of being able to use all existing manufacturing processes within its plants: MCVD (Modified Chemical Vapour Deposition), OVD (Outside Vapour Deposition), VAD (Vapour Axial Deposition) and PCVD (Plasma-activated Chemical Vapour Deposition). The result is an optimised product range for different applications. With centres of excellence in Battipaglia (Italy), Eindhoven (the Netherlands) and Douvrin (France), and 5 production sites around the world, Prysmian Group offers a wide range of optical fibres, designed and manufactured to cater to the

broadest possible spectrum of customer applications, such as single-mode, multimode and specialty fibres.

Optical cables

Optical fibres are employed in the production of standard optical cables or those specially designed for challenging or inaccessible environments. The optical cables, constructed using just a single fibre or up to as many as 1,728 fibres, can be pulled (or blown) into ducts, buried directly underground or suspended on overhead devices such as telegraph poles or electricity pylons. Cables are also installed in road and rail tunnels, gas and sewerage networks and inside various buildings where they must satisfy specific fire-resistant requirements. Prysmian Group operates in the telecommunications market with a wide range of cable solutions and systems that respond to the demand for wider bandwidth by major network operators and service providers. The product portfolio covers every area of the industry, including long-distance and urban systems, and solutions such as optical ground wire (OPGW), Rapier (easy break-out), Siroccoxs (fibres and cables for blown installation), Flextube® (extremely flexible easy-to-handle cables for indoor or outdoor installations), Airbag (dielectric direct buried cable) and many more.

Connectivity

Whether deployed in outdoor or indoor applications, Prysmian Group's OAsys connectivity solutions are designed for versatility, covering all cable management needs whatever the network type.

These include aerial and underground installations, as well as cabling in central offices (or exchanges) or customer premises. Prysmian Group has been designing, developing and making cable and fibre management products for more than two decades and is at the forefront of designing next-generation products specifically for Fibre-To-The-Home (FTTH) networks.

FTTx

Increasing bandwidth requirements, by both business and residential customers, are having a profound effect upon the

optical network performance level required, which in turn demands high standards of fibre management. Optimal fibre management in every section of the network is increasingly a matter of priority in order to minimise power loss and overcome the problems caused by ever greater space limitations. The Group has developed the suite of xsNet products for "last mile" access networks, which is also very suited to optical fibre deployment in sparsely populated rural areas. Most of the cables used in FTTx/FTTH systems feature Prysmian's bend-insensitive BendBrightxs optical fibre, which has been specially developed for this application.

FTTA (Fibre-To-The-Antenna)

xsMobile, which offers Fibre-To-The-Antenna (FTTA) solutions, is an extensive passive portfolio which enables mobile operators to upgrade their networks easily and quickly. Incorporating Prysmian's experience in Fibre-to-the-Home (FTTH) and its unique fibre innovations, xsMobile consists of different product solutions for three applications: antenna towers, roof-top antennas and Distributed Antenna Systems (DAS) for small cell deployment. The technology offers three access types for outdoor and indoor FTTA deployment, as well as backhaul solutions – incorporating the latest fibre technologies.

Copper cables

Prysmian Group also produces a wide range of copper cables for underground and overhead cabling solutions and for both residential and commercial buildings. The product portfolio comprises cables of different capacity, including broadband xDSL cables and those designed for high transmission, low interference and electromagnetic compatibility.

Multimedia Solutions

The Group produces cable solutions for a variety of applications serving communication needs in infrastructure, industry and transport: cables for television and film studios, cables for rail networks such as underground cables for long-distance telecommunications, light-signalling cables and cables for track switching devices, as well as cables for mobile telecommunications antennae and for data centres.

Market Overview

Although the global optical fibre cables market grew compared with the previous year, there were large regional differences. The year was also marked by the consolidation of wireless technologies (4G, LTE) requiring the installation of optical backbones to power antennae located across the territory.

Although the global optical fibre cables market grew in 2014 there were large regional differences. In fact, demand reported growth in fast-developing markets (China) and those with high communication infrastructure needs (India), along with recovery in Europe. In France and Spain, projects to extend residential broadband access, in accordance with the European Digital Agenda's targets, played a crucial role in this positive turn of events. Even in Central Europe the distribution of bandwidth via xDSL and G.FAST technologies, using the last metres of the existing copper network, entails a modification of the distribution network that requires huge volumes of optical cables. In Brazil, volumes increased slightly in 2014 on the previous year, even though the benefits of the government's fiscal incentives in support of investment were less than expected. North America recorded a recovery in demand after the steep drop in 2013 with the ending of government incentives. The revival in demand also appears to have accelerated a volume recovery in Asia as well.

In parallel with the traditional activities of developing the fixed network, 2014 was marked by the consolidation of wireless technologies (4G, LTE) which require the installation of optical backbones to power antennae located across the territory. Mobile technology is experiencing a period of significant growth both in developing countries, pending highly expensive investments in fixed network infrastructure, and in mature countries where demand for broadband on portable devices is constantly growing.

The Access/Broadband/FTTx market grew in 2014, mainly in Europe and North America, with demand driven by the development of optical fibre communication infrastructure. In addition to cables, this segment comprises a varied portfolio of accessories for fibre connection. However, the still relatively low maturity of these products implies wide market differences between the various geographical areas.

The copper cables market continued to slow not only because of the economic downturn in the past two years, causing some major operators to scale back their larger investment projects,

but also because of product maturity. The decline in this market was increasingly evident in 2014, with high demand for internet access causing major operators to choose to renew their networks using optical fibre, rather than perform maintenance or upgrade work on existing networks.

The MMS cable market posted a slight global growth, with Asia and South America making a larger contribution than Europe in both the copper and optical cable segments. Demand growth is being generated by the demand for ever greater bandwidth capacity in professional and office environments and data centres. Interestingly, this phenomenon occurs both in new buildings, and in projects to renovate existing ones. An important contribution to this growth is coming from industrial applications that require new highly specialised products. Another important channel is represented by HDTV cables used for the broadcast of digital content such as sports events or other events covered by the media.



Financial Performance

Sales to third parties by the Telecom operating segment amounted to Euro 994 million in 2014, compared with Euro 986 million in 2013, posting a positive change of Euro 8 million (+0.8%).

This change is attributable to the following factors:

- organic sales growth of Euro 40 million (+4.0%), thanks to volume recovery for optical fibre cables;
- reduction of Euro 26 million (-2.6%) for exchange rate fluctuations;
- sales price reduction of Euro 6 million (-0.6%) for metal price fluctuations.

The organic growth in sales in 2014 was mainly driven by the recovery in demand for optical fibre cable, which offset lower demand for copper cables and OPGW products, in turn due to the postponement of investment projects in areas affected by geopolitical turmoil, such as Iraq and Libya. Optical cables enjoyed a strong upsurge in demand in all the major markets, while the general price pressure seen in the first part of the year seemed to have stabilised, also

thanks to US dollar appreciation. In Europe, in particular, the Group won contracts for work on major projects to realise backbones and FTTH connections for leading operators, such as British Telecom in the United Kingdom, Telefonica and Jazztel in Spain, Orange in France and Telecom Italia in Italy. Even North America displayed a recovery in domestic demand during the year mainly involving development of 4G LTE infrastructure and new FTTx networks. In South America government tax measures in support of investment did not bring any significant improvements in 2014. Lastly, the Asia Pacific region saw work resume on the NBN project in Australia and demand follow a positive trend in Singapore. The Multimedia Solutions business posted a recovery in profitability thanks to the strategy of focusing on higher value-added products, such as data centres in Europe, and of rationalising its presence in lower margin businesses. The high value-added connectivity business enjoyed a positive trend, thanks to the development of new FTTx networks (for last mile broadband access) in Europe and North America.

Lastly, copper cables continued their steady decline due to the retirement of traditional networks in favour of next-generation ones.

Adjusted EBITDA for 2014 came to Euro 116 million, reporting an increase of Euro 10 million (+10.1%) from Euro 106 million in 2013, also thanks to the contribution of Yangtze Optical Fibre and Cable Joint Stock Limited Company in China.

