

BUSINESS ENVIRONMENT

MACROECONOMIC ENVIRONMENT

In 2016 the world economy recorded growth in line with the previous year, marked by a sharp slowdown in the United States, offset by recovery in some emerging countries (Russia, Brazil), and stabilisation in Europe and China.

The global macroeconomic environment showed modest growth in 2016, with expansionary trends in the more advanced economies progressively dwindling in the face of gradual recovery by some emerging economies.

Eurozone economic growth remained sluggish, even though the expansionary monetary policy promoted by the European Central Bank continued to be in place throughout 2016. In particular, in the second half of the year, the uncertainty ensuing Britain's June vote to leave the European Union (Brexit) undermined confidence in the expected consolidation of the upturn emerging in 2015. The constitutional referendum held in Italy on 4 December 2016, combined with the crisis in some of the nation's financial institutions, helped increase the level of domestic uncertainty, which was reflected in a substantial hike in interest rates in the last months of the year.

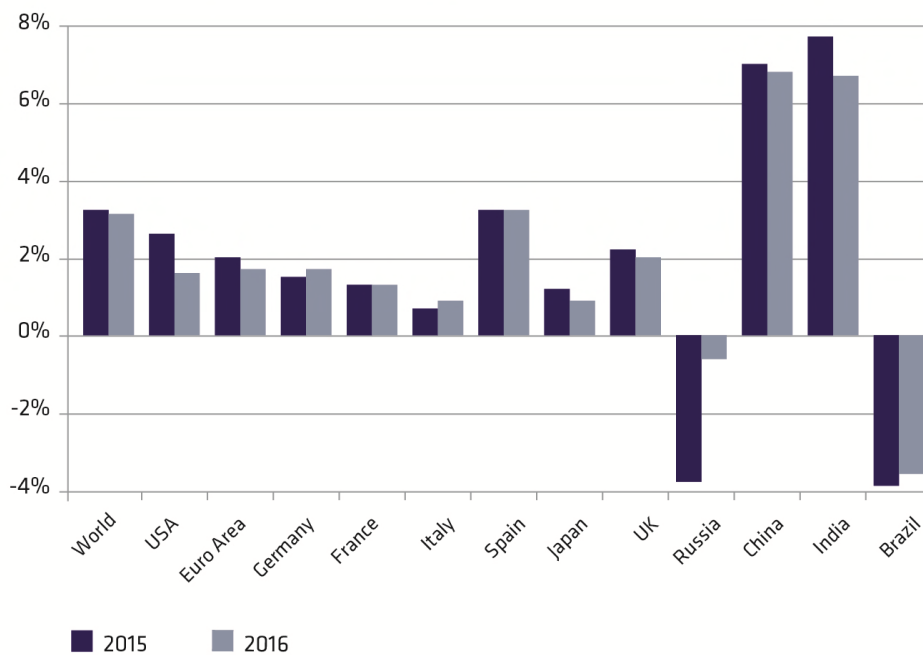
While remaining positive, the US growth rate declined by more than expected, especially in the first part of 2016, affected by the inevitable slowdown in the oil industry as well as by the impact on exports of the dollar's appreciation against major world currencies.

China continued its transition from an export-driven industrial economy to a service economy, more oriented to supporting domestic consumption. This involved an inevitable slowdown in industrial activity and investment, thus affecting short-term economic growth and prices of raw materials used in the main industrial processes. The stimulus package implemented by the government in support of the housing market and infrastructure investment allowed the country to meet its growth objectives.

Global GDP grew by +3.1%* year-on-year (compared with +3.2%* and +3.4%* in 2015 and 2014 respectively), reflecting a sharp slowdown in growth in advanced economies from +2.1%* in 2015 to 1.6%* in 2016 and a general stabilisation in growth in emerging economies at +4.1%*. Chinese economic growth went from +6.9%* in 2015 to 6.7%* in 2016, in line with government targets, thanks to the government's introduction of a series of important measures to support the housing market and infrastructure investment, benefiting growth in the second half of the year. India continued to grow fast thanks to the renewal of international trade treaties and to important reforms deployed by the government. Completing the picture of emerging countries are Brazil, where the first signs of recovery were glimpsed in the second half of the year thanks to newfound political stability, and Russia, where growth went from -3.7%* in 2015 to -0.6%* in 2016 thanks to government intervention to stabilise the economy after the shock suffered in 2015 through the combination of energy price collapse and introduction of international sanctions following the crisis in Ukraine. The US economy reported a marked slowdown, with growth dipping from +2.6%* in 2015 to +1.6%* in 2016, reflecting the effects of the oil industry crisis and of a stronger dollar on exports.

In Europe, economic growth gradually stabilised although impacted in the second half of the year by Britain's vote to leave the European Union and by the uncertainty surrounding the constitutional referendum in Italy. Eurozone growth stabilised at +1.7%* in 2016, down from 2.0% in 2015, with some countries broadly in line with the 2015 trend (France +1.3%*, Spain +3.2%*), and others slightly up on 2015 (Germany improved from +1.5%* to +1.7%* in 2016; Italy from +0.7%* to +0.9%* in 2016). Outside the Eurozone, growth in Britain slowed from +2.2%* in 2015 to +2.0%* in 2016, partly reflecting the negative impact of the June pro-Brexit vote.

GDP GROWTH BY COUNTRY 2014-2015



* Source: IMF, World Economic Outlook Update – January 2017

CABLE INDUSTRY TRENDS

Global demand for cables showed a moderate increase in 2016, driven by increased volumes in China, India and other emerging economies in Asia, while the Brazilian market continued to see a steep decline. Global demand for optical cables continued to grow, supported by a dynamic Chinese market.

Global demand for power cables in 2016 saw a modest increase in volumes on the previous year, mainly driven by a volume recovery in Russia and resilient demand in emerging Asian countries, as partially tempered by a steep drop in demand in Brazil. Telecom cable sales were marginally higher than in 2015, thanks to double-digit growth in optical cable volumes, while the copper cables market continued to shrink but by less than in 2015. In fact, the latter benefited from strong recovery of volumes in Russia and emerging Asian countries, mitigated by extremely poor performance in Brazil.

Geographically, Russia is the largest source of disparity with 2015, in both the power and telecom cables sectors, thanks to stabilisation in its macroeconomic environment following the shock suffered in 2015 from international trade sanctions and the collapse in energy prices.

Emerging Asian countries (such as China, India, Indonesia, Malaysia) were the main engine of 2016 growth in global demand for power cables, with above-average volume growth compared with the rest of the world. In Europe and the US, demand for power cables stabilised in the course of 2016, reflecting trends in the main economic indicators and industrial output. The optical cables market continued to expand strongly in the US, while remaining largely stable in Western Europe, albeit with differing trends between the various countries. Lastly, the difficult situation in Brazil persisted, affected by slowing industrial activity and investment cutbacks.

The various segments of the market had a mixed performance in 2016, featuring strong expansion by optical fibre cables, general stability in the high voltage underground and weakening demand in Europe for medium and low voltage cables. The optical fibre cables market benefited from growing demand for data transmission capacity, making it essential to upgrade existing network infrastructure, like in Italy, France, Spain and the United Kingdom where the existing network is still predominantly made up of copper cables. Global demand for optical fibre cables also benefited from growing investments by China, the world's largest market by volume, and from sustained growth in the US market, where new players (content providers) are emerging with projects for ultra-high speed dedicated networks.

The submarine cables market shrank compared with 2015, mainly due to contingent factors related to the postponement of some projects to 2017; the mix of projects awarded during the year was more skewed towards offshore wind projects, while in 2015 the market was dominated by interconnection projects. The Prysmian Group was confirmed as market leader in this segment after winning the largest contract up for tender in 2016, namely COBRACable linking Denmark and the Netherlands, worth a total of approximately Euro 250 million. In a broadly stable market for high voltage underground cables, the Group retained its market share in Europe and North America, but experienced a temporary slowdown in new contracts in China due to industrial reorganisation carried out during the year.

The industrial applications business saw a mixed trend for the different market niches. While the Elevator and mass transport businesses posted attractive growth rates, applications for port cranes, mining and nuclear power stations slowed due to a global reduction in investment in these sectors.

Applications for the Oil & Gas segment were negatively impacted by the decline in tendering for new development projects both onshore and offshore, due to the widespread oil industry crisis with oil prices at their lowest level in more than 10 years. The T&I building wires business posted a moderate decline in the second half of the year, mainly due to lower demand in central and southern European countries and to a significant reduction in volumes in Brazil, while the Nordics continued to grow even if more slowly than in 2015. The fibre optical cables market maintained a solid growth trend during 2016, especially in North America and Australia, benefiting from growing investments by both public and private operators to increase the level of broadband coverage in outlying areas and to meet growing demands for widespread interconnection. The multimedia (MMS) business benefited from a rapidly expanding market for indoor communication systems such as data centres, enterprise networks and mobile phone data transmission systems.