

## REFERENCE SCENARIO

### MACROECONOMIC SCENARIO

*The main features of the macroeconomic scenario in 2015 were slowing growth in the major emerging economies (Brazil, China and Russia), partially offset by gradual recovery in Europe's Mediterranean economies (Italy, France and Spain) which had suffered most during 2014, and stabilisation of growth in the United States and the United Kingdom.*

The world economy reported a modest growth in 2015, during which, despite accounting for about 70% of global growth, emerging economies displayed a progressive easing in the pace of development, while the more advanced economies managed a modest recovery.

Growth in the Eurozone remained subdued, although better than in 2014, with the most noticeable progress being made by Mediterranean countries that benefited from the economic stimulus measures by the European Central Bank, as well as its long-term quantitative easing programme. The lacklustre European recovery was affected during the year by growing uncertainties about the political and financial situation in Greece, culminating in the government crisis and the parliamentary elections called in September.

The emergence of growing signs of economic slowdown in China during the course of 2015 had a severe impact on the Shanghai stock market, with repercussions for other international financial centres. The government's actions to stem the crisis, including progressive devaluation of the yuan as well as a number of packages to stimulate industrial production, were not sufficient to prevent the worst GDP growth of the past 25 years. The steep decline in oil prices, to below USD 40 a barrel at year end, can be primarily attributed to the ending of the Iranian nuclear crisis and the subsequent resumption of trade relations with this country. This represents another worrying factor for economic growth and volatility in financial markets.

The major international research institutes progressively downgraded their growth estimates for 2015 over the course of the year, due to rising concerns about slowing growth in emerging economies and the collapse in commodity prices. In fact, global GDP grew by +3.1%\* year-on-year (compared with +3.4%\* and +3.3%\* in 2014 and 2013 respectively), reflecting a sharp slowdown in growth by emerging economies from +4.6%\* in 2014 to 4.0%\* in 2015 and modest progress by the more advanced economies, from +1.8%\* in 2014 to 1.9%\* 2015. The Chinese economy reported a reduction in growth, from +7.3%\* in 2014 to 6.9%\* in 2015, despite the expansionary economic measures deployed by the government in recent months. This mainly reflects the progressive deceleration of output in major industrial sectors like construction and steel, as well as a steady decline in capital investment. In Brazil, the combination of a number of factors, including the political stalemate, the collapse in commodity prices and the steep devaluation of the local currency, pushed the economy into a depression that is expected to continue in 2016.

The United States once again confirmed itself as the driving force of the more developed countries, with its GDP expanding at a rate of +2.5%\*, versus +2.4%\* in 2014, despite the strengthening of the dollar against other major foreign currencies.

Western Europe saw a gradual improvement in economic activity, albeit with specific idiosyncrasies in the different countries. Eurozone GDP grew by +1.5%\* on 2014, compared with +0.9%\* in the previous year, driven by the recovery of Mediterranean economies like Italy, which improved from -0.4%\* in 2014 to +0.8% in 2015, and Spain, which progressed to +3.2%\* in 2015 from +1.4%\* the year before.



\* Source: IMF, World Economic Outlook Update – January 2016

**CABLE INDUSTRY TRENDS**

*Global cable demand reported moderate growth in 2015, with some sectors such as optical cables and submarine interconnections showing a marked acceleration compared with 2014.*

Global demand for power cables posted a moderate increase in sales volumes in 2015, mainly thanks to growing demand in emerging countries (mainly China and India) and, to a lesser extent, in the United States and Western Europe. The Telecom cables industry reported a slight contraction on 2014 mainly due to the fall in demand for copper cabling, primarily attributable to their replacement with optical cables. In fact, the latter grew rapidly during 2015, almost entirely making up for the decline in copper cables.

Geographically, there was a sharp acceleration in the Indian and ASEAN markets, while China was once again confirmed as the world's largest cable market, generating more than 50% of global growth. 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. Important signs of recovery were also seen in the main West European nations, particularly in the Nordic countries and the Mediterranean, thanks to monetary easing by the ECB which fostered access to credit, in turn promoting a recovery in the construction industry.

Demand in the United States expanded albeit to a lesser extent than in 2014, like in the Middle East and Africa. Russia and Brazil were the two markets experiencing the largest downturns in 2015, caused by the EU and US trade sanctions in Russia's case and by the economic slump in Brazil's .

The various segments of the market had a mixed performance in 2015, with a strong expansion by higher value-added ones like high voltage and extra high voltage submarine cables and optical fibre cables. In particular, the latter segment benefited from growing demand for data transmission capacity that made it essential to upgrade existing network infrastructure, especially in European countries like Italy, France, Spain and the United Kingdom where the existing network is still predominantly copper. Global demand for optical fibre cables also benefited from growing investments in network infrastructure by China, which is the world's largest market by volume, and from the sustained growth of the US market, in which new players (content providers) are appearing with projects for very high transmission capacity dedicated networks.

The Prysmian Group, the world's top producer of optical cables, benefited from this trend during 2015, consolidating its leadership in the European market. It was a record year for the submarine cables business, thanks to interconnection contracts awarded by leading network operators, particularly in the North Sea, where the Prysmian Group once again proved to be a prime player by winning new orders worth in excess of Euro 1 billion. There were interesting developments in the OEM (Original Equipment Manufacturing) sector, with important advances in the areas of nuclear energy, rail transport and port cranes, while the mining and shipbuilding industries recorded a slowdown linked to commodity price trends. Oil & Gas applications were affected by oil prices, especially those products serving the MRO business (Maintenance, Repair and Operations). Lastly, the building wires market was largely stable, except in India, Spain and the Nordic countries, where growth in wire consumption outpaced that in 2014, while Brazil and Russia both posted a steep deterioration. In the telecom segment, the Prysmian Group benefited from the global growth in demand for optical cables, especially in North America, Europe and Australia, confirming its position as market leader in optical cable production. Even the segment of multimedia (MMS) applications displayed strong growth, benefiting from the development of data centres in Europe.