

## Operations

The Prysmian Group's manufacturing operations are highly decentralised, with 88 factories in 31 countries. The capillary distribution of factories is a strategic asset, allowing the Group to respond in a suitably timely manner to the different requirements of market around the world.

Once again during 2015 the Prysmian Group continued to implement an industrial strategy based on the following factors:

- Manufacture of higher value-added products with greater technological content at a limited number of factories, that become centres of excellence with outstanding technological skills. This ensures the achievement of economies of scale, consequently increasing production efficiency and reducing capital invested.
- Constant search for greater manufacturing efficiency in the commodities sector, while maintaining a well-diversified geographical presence in order to minimise distribution costs.

Gross investment totalled 210 million euro in 2015 (+29% compared with 2014), mainly due to the efforts made on the projects addressing the industrial footprint, as well as to the usual level of investment made in the submarine cable businesses (both on- and off-shore) and the optical fibre business.

The most significant investment - around 44% of the total - was dedicated to increasing production capacity and to changes in mix.

Alongside the increase in production capacity, the related rationalisation process also continued during the year: the factories in Ascoli (Italy) and Aubevoye (France) were closed, with the consequent transfer of their machinery to other factories within the Group. This concentration of production has optimised the cost structure and rationalised the industrial footprint of the Group, in order to guarantee the appropriate saturation of plant capacity in each country.

With regard to the Energy Projects business at the Group's factories dedicated to submarine cables, Arco Felice (Italy) and Pikkala (Finland), significant investment has been made in order to increase capacity for the "50 Hertz" contract. This contract, worth more than 700 million euro that was awarded to the Group in 2014, involves the design, supply and installation of high voltage submarine cable systems between offshore wind farms situated in German waters.

Again with regard to the submarine cables business, work has started on the upgrade of the "Pacifique", a new cable-laying ship, in order to add a third dedicated installation unit alongside the "Giulio Verne" and the "Cable Enterprise".

In the High Voltage business, the two main investment projects started in 2014 have been completed: the first, in Abbeville (United States), involved the installation of a second vertical insulation line for Extra High Voltage cables with extruded insulation, in order to meet the growth in volume of a market that continues to expand; the second, in Slatina (Romania), was designed to satisfy the growth in demand from the market in south-east Europe.

Lastly, the Group has invested in Delft (Netherlands), following the award of a project to install a high-voltage link in the Netherlands for "TenneT".

Investment in the Energy Products segment continued during 2015, with a focus on those countries with the greatest growth potential, being China, Estonia, Malaysia and Hungary.

In Suzhou and Tianjin, China, production capacity has been increased for Trade & Installer, Rolling Stock and Elevator cables; in Keila, Estonia, the Group has invested in a new production hub for LV cables that will serve the north European market; in Malaysia, on the other hand, capacity has been installed for the production of instrument and control cables for the Far East area; lastly, two projects are nearing completion in Kistelek, Hungary: the first to create a line that produces rubber-sheathed cables for the central European market, and the second to expand production capacity in the Trade & Installer sector, in order to serve the central European market from a source with lower transformation costs.

In the Telecom business area, major work continued during 2015 in order to verticalise the production of optical fibres at the Sorocaba factory in Brazil, and at the Claremont factory in the United States, in order to serve better the North American market. Investment in additional capacity for the production of optical cables also continued at the factory in Slatina (Romania) where, at the same time, work has commenced on the construction of a new factory dedicated entirely to Telecom cables. This further confirms the desire to create there a European centre of excellence for telecom optical cables.

The Group invested 31% of the available resources in efficiency improvements that reduce fixed and variable costs, especially in relation to the use of materials and the design of products. This percentage was considerably higher than in the previous year (20%). Specifically, significant investments in efficiency have been made in the metallurgy sector of the Energy Products segment, following the decision of the Group to complete the verticalisation of production at a number of factories. With regard to the Telecom segment, investment to enhance efficiency has continued at the European factories for the production of optical fibre in Battipaglia (Italy) and Douvrin (France), with a view to reducing fibre manufacturing costs. In addition, projects completed at the Italian factory included the installation of a tri-generation plant that will reduce energy costs, as well as work to increase the size of pre-forms. Lastly, the Group has started work to expand the Grombalia plant in Tunisia, following a decision to bring activities in-house that were previously outsourced.

The Prysmian Group allocated 5% of total investment in the constant development of our IT systems and in R&D (the part not charged to the income statement). In particular, investment on implementation of the "SAP Consolidation" project continued during 2015. This is designed to harmonise IT systems across the Group in the coming years. Specifically, the kernel of the new ERP system was updated and the system was extended to the United Kingdom and Brazil.

Consistent with last year, capital investment to maintain capacity amounted to about 10% of the total, while the portion relating to other investments declined to 10%. This last category mainly includes construction of the Group's new headquarters within the Ansaldo 20 industrial area in the Bicocca zone of Milan. This facility, developed over an area in excess of 20,000 m<sup>2</sup>, will enable Prysmian to bring all business functions together in one location, thus saving on operating costs.

### GROUP INVESTMENTS IN 2015

