

# INSIGHT

Prysmian  
Group

## ON TRACK TO MEET FY TARGET

The Quarterly Review

Issue 4 | 2014

Italian PM Renzi  
visits Prysmian  
in Australia

New Organisation  
in Europe

Succeeding  
in fast-growing  
Turkey

12







# On track, getting ready to deliver

*The first nine months of 2014 showed a degree of organic growth (+0.2%) with profitability remaining stable (excluding the extraordinary Western Link effect), which means that Prysmian Group can confirm its full-year target. The Western Link project is on track and the Group does not foresee any additional costs or delays, after the technical problems encountered earlier this year.*

*In the Focus On section of this Insight, we look at the reorganisation of Prysmian in Europe, with the establishment of three new regions, and the continuous and increasing effort of the Group in the field of education, training and talent breeding.*

*The three new European regions – Northern Europe, including the Nordic countries and Russia, Central Europe, including Germany and the Danube area, and Southern Europe, including Spain and France – have been identified on the basis of clear signals coming from the markets in terms of integration, and similarities in product standards and business models. Italy, UK and the Netherlands will stand alone because of their unique requirements. The goal is to speed up decision-making processes and streamline internal connections in order to improve flexibility, enhance competitiveness and fully exploit business opportunities.*

*Our Global Scenario section is devoted to the fast growing market in Turkey, as Prysmian celebrates the 50<sup>th</sup> year of its presence in the country. Prysmian's success in Turkey is thanks to its ability to act as a solution provider rather than just a product supplier. Hans Hoegstedt, CEO of Prysmian Group Turkey, tells Insight about this success and explains how to become even more competitive in this challenging environment.*

Editorial Team - INSIGHT

## Contents

### Quarterly overview

Slightly positive organic growth, continued increase in Telecom volumes	4
Signs of improvement spread over several businesses	5
On track to meet FY target	6

### Focus on

Re-shaping Europe: Prysmian is establishing three regions	7
People – our most strategic asset	8

### Global scenario

Succeeding in a fast-growing country: interview with Hans Hoegstedt, CEO of Prysmian Group Turkey	10
A visitor of distinction: Prysmian welcomed Italy's Prime Minister, Matteo Renzi, to its Australian facility at Dee Why	12

### Doing business

Swiss Railways contract secured	13
Connecting the Cyclades	13

### Getting things done

Prysmian makes the towers of London safer	14
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**Prysmian**  
Group

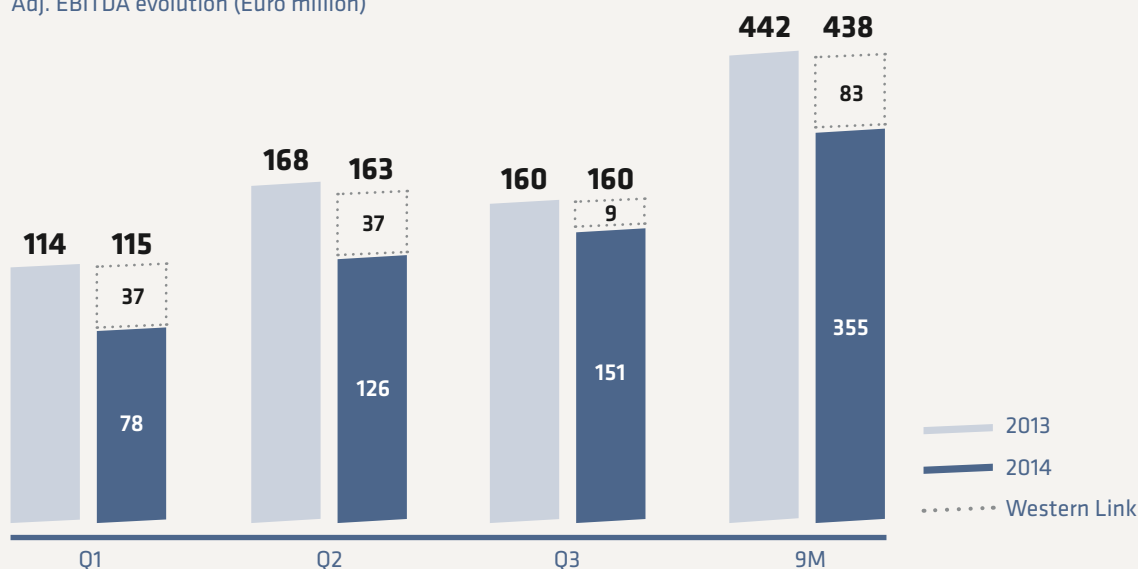


# Slightly positive organic growth

## Continued increase in Telecom volumes

### Profitability in line with last year, excluding the WL effect

Adj. EBITDA evolution (Euro million)



### Sales at €5,014 million and ADJ. EBITDA at €355 million in the first nine months

Good performance for Power Transmission and Telecom. Ongoing volume improvement in Trade & Installers. The launch of a share buy-back programme.

The approved financial [results for Prysmian Group's first nine months](#) of 2014 showed generally stable profitability, excluding the adverse impact of the Western Link project. CEO Valerio Battista explained that the pace of volume recovery in the telecom cables business continued to exceed expectations, while the building cables market is showing a slight improvement in volumes. Positive performance in North America and Asia has served as a partial counterbalance to the weak environment in Europe and deterioration in South America. Group sales amounted to €5,014 million, compared with €5,297 million one year earlier, posting organic growth of +0.2% assuming

the same group perimeter and excluding metal price and exchange rate effects. Without the Western Link effect, organic growth would have been +1.7%, confirming an upsurge in volumes in the Trade & Installers and Telecom businesses. Adjusted EBITDA was €355 million, or €438 million excluding Western Link, which is basically in line with the first nine months of 2013 (€442 million). The policy of targeted investments in the higher value-added businesses has also continued, with a new €40 million plan for the submarine cable plants in Arco Felice, Italy and Pikkala, Finland. Adjusted operating income came in at €249 million, or €332 million excluding Western Link (in line with €333 million in the first nine months of 2013). Net finance income and costs reported a negative balance of €108 million, down from €114 million in the first nine months of 2013, thanks to the improvements

in financial structure and in the cost of Group debt. Adjusted net profit was €134 million; however excluding the Western Link project, it would have been €191 million, up +6.7% from the first nine months of 2013. The net financial position at the end of September 2014 was €1,292 million, compared with €1,193 million at the end of September 2013, with the target to achieve approx. €900 million by year end.

The Board of Directors also decided to launch a share buy-back programme with a maximum total value of €50 million, with the purpose of providing the company with a 'pool of securities' to be used for possible extraordinary corporate actions, meeting obligations arising from debt instruments convertible or supporting the share-based incentive plans for the Group's employees.

# Signs of improvement spread over several businesses

Positive organic growth in Submarine (excluding Western Link), High Voltage, Network Components, T&I and Telecom. Mixed picture in Industrial, with Renewables and Elevator still positive, OEMs and OGP & SURF weak but expected to improve in the last quarter.

## Energy

Sales amounted to €4,269 million, compared with €4,534 million one year earlier. Organic variation was slightly negative (-0.1%) but without Western Link would have been +1.7%. Adjusted EBITDA came to €280 million, however excluding the Western Link project, they would have come to €363 million, in line with €361 million in the first nine months of 2013.

### Utilities

Sales amounted to €1,535 million, with an organic decrease of -3.1% due to Western Link, without which it would have been an increase of +1.8%. The reduction in adjusted EBITDA to €135 million from €195 million in the first nine months of 2013 was entirely due to Western Link; without this it would have risen by 11.8% to €218 million. Sales of High Voltage Underground Cables were basically stable with strong results in Spain, UK and the Netherlands offset by weakness in Italy and France. The positive trend continued in North America. Sales in the Submarine business, affected in the third quarter by the phasing of certain projects, are expected to recover in the

fourth quarter and report double-digit organic growth for FY 2014, excluding Western Link. The outlook for underground and submarine power transmission cables and systems remains positive, with an order book of close to €3 billion. Programmes for technological development are continuing with the €40 million due to be invested in the plants in Pikkala, Finland, and Arco Felice, Italy and with the transformation of the Cable Enterprise cable-laying vessel. The Distribution business has continued to be affected by the ongoing shortage of demand, although volumes and prices showed signs of stabilising in the third quarter of 2014.

### Trade & Installer

Volumes confirmed the increase seen in the first half, despite some softening, with sales of €1,434 million and organic growth of +5.3% on the prior year. In Europe, the Nordic and East European countries drove the recovery, making up for persistent weakness in Central and Southern Europe. The slowdown in the construction industry was behind the drop in volumes in South America, while North America and Asia reported a still positive trend. Adjusted EBITDA came in

at €52 million, compared with €65 million in the first nine months of 2013, penalised by the effects of high pricing pressure and negative exchange rates.

### Industrial

Sales amounted to €1,228 million, with an organic decrease of -1.9%, mainly due to the slowing demand in the entire capital goods sector in Europe (impacting OEMs business) and to the phasing of certain Oil & Gas and SURF projects. The Oil & Gas business stabilised in the third quarter after a weak first half, with a further improvement forecast for the fourth quarter, as the Group is well positioned to benefit from growing demand for cables for offshore oil production in Northern Europe. In the SURF business (products and services for offshore oil production), the fulfillment of existing orders for Umbilicals and DHT will support fourth-quarter growth. Elevators continued to enjoy excellent performance, as did Renewables, while the Automotive business experienced slower sales and fiercer competition in Europe and North America. Adjusted EBITDA was €86 million, compared with €97 million in the first nine months of 2013, also impacted by negative exchange rates.

## Telecom

Growth in demand for optical cables globally, accompanied by strong upsurge in sales volumes. Growth in profitability in MMS, Multimedia solution business

Sales amounted to €745 million, recording organic growth of +1.9% in confirmation of the positive volume trend in progress since the start of the year. Optical cables enjoyed a strong recovery in demand in all the major markets, while the price pressure seemed to have stabilised. In Europe, the Group acquired works on major projects from leading operators, such as British Telecom in the UK, Telefonica and Jazztel in Spain, and Orange in France. The current trend is expected to be confirmed in the fourth quarter. In North America, the recovery in demand is expected to continue in the fourth quarter. Adjusted EBITDA amounted to €75 million, compared with €81 million in the first nine months of 2013.

## QUARTERLY OVERVIEW

# On track to meet FY target

**Prysmian Group confirms Adjusted EBITDA for 2014 at the lower end of the target range of €506-€556 million**

Although the macroeconomic environment in the first few months of 2014 showed signs of stabilisation and slight improvement, recent months have witnessed a gradual slowdown in economic activity, particularly in Europe and Brazil. In such a context, the Group's expectation for FY 2014 is that demand for medium voltage cables for utilities will remain weak, and that the gradual recovery in the building wires business seen in the first nine months of the year will

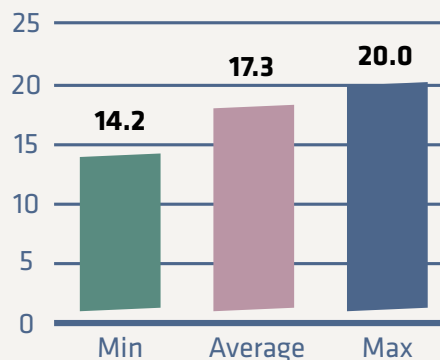
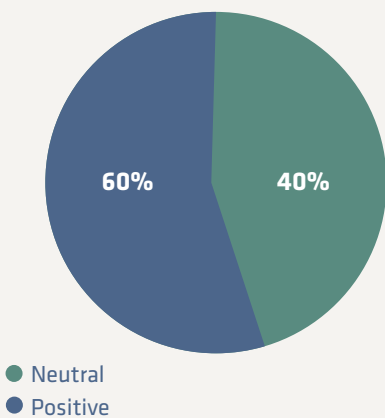
continue until year end. The Group also confirms the positive trend in demand in the high value-added businesses of power transmission, particularly submarine cables, as well as consolidation of the upturn in demand for optical fibre cables. Against this background, the results of the first nine months and the size of the current order book let the Group confirm Adjusted EBITDA for FY 2014 at the lower end of the target range of €506-€556 million (€600-€650 million excluding the negative impact of Western Link).

## Western Link progress seen

The execution of the Western Link project is on track, with Prysmian confirming its ability to manage unexpected issues and protect its reputation. Chief Financial Officer, Pier Francesco Facchini, said that the Group does not foresee any additional costs or delays in the project after some technical problems were encountered earlier this year.

## Market analysts on an upbeat note

### Brokers' Recommendation\* Target Price\*



\*Based on 20 brokers, last update November 19, 2014

Several major brokers expressed a positive view on Prysmian stock outlook after the release of the results for the first nine months of the year. BofA Merrill Lynch said the results were "solid" and issued a Buy recommendation. Both Credit Suisse and Mediobanca upgraded their recommendations to Outperform from Neutral, based on an attractive risk reward and

sound demand in Telecom. Morgan Stanley reiterated its Overweight recommendation noting that results should materialize into a positive inflection for the share as well as confirming Prysmian's ability to deliver in a difficult "cables context". Natixis upgraded its rating to Buy from Neutral on confirmation of the cost overruns on the Western Link contract and the good

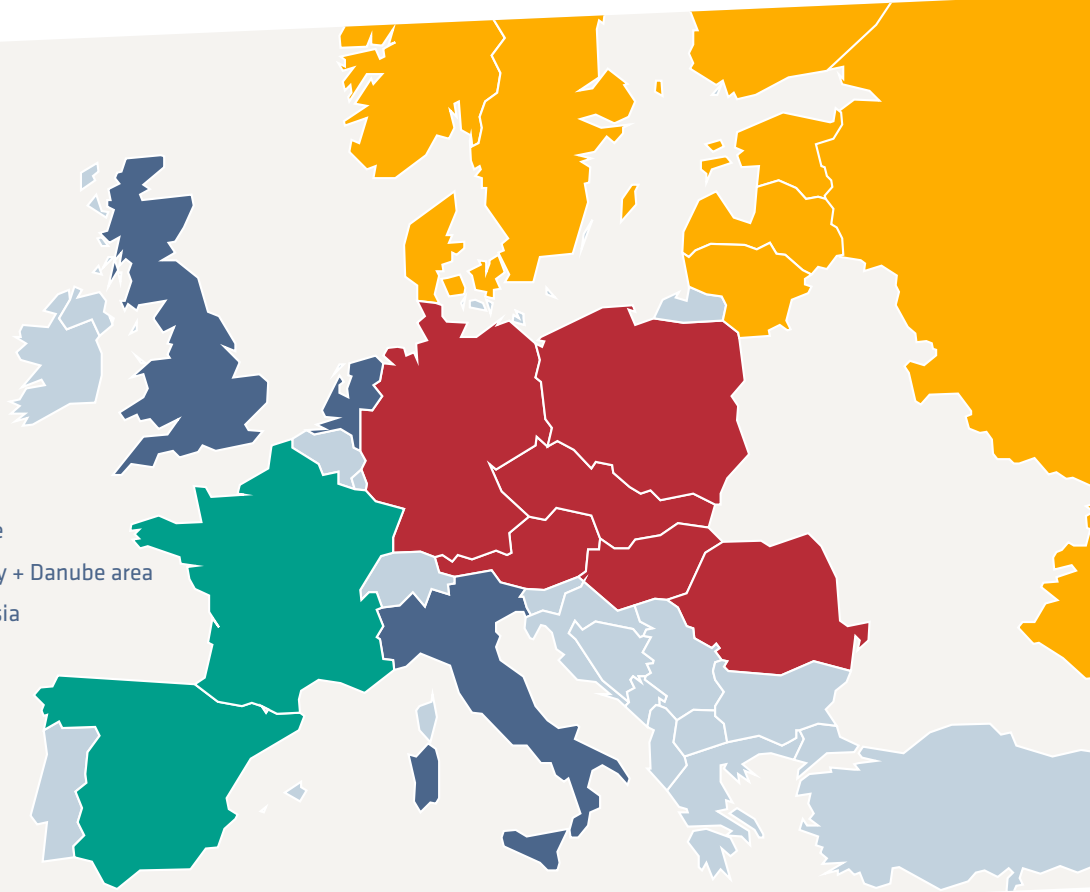
showing in underlying earnings in Utilities. Citi and Equita maintained their Neutral and Hold ratings unchanged, highlighting Prysmian's outperformance in the cable industry while waiting for some recovery in market demand.

# Re-shaping Europe

Prysmian is establishing three regions, identified on the basis of clear signals coming from the markets in terms of integration, similarities in product standards and business models.

## New Regions

- South Europe: Spain + France
- Central East Europe: Germany + Danube area
- North Europe: Nordics + Russia



With the goal of speeding up decision-making processes and streamlining the internal connections, the Group set up a new region-based organisational development scheme in Europe. This will help improve flexibility, step up competitiveness and fully exploit business opportunities.

The new organisational model is aimed at aggregating existing country organisations and introducing new regional entities in Europe. At the beginning of 2015, these regions will cover Northern Europe, including the Nordic countries and Russia, Central Europe, including Germany and the Danube area, and Southern Europe, including Spain and France.

In the current European framework, Italy, the Netherlands and the UK still show unique characteristics at country level in terms of

customers, technologies and market models.

With the organisational changes, the Group aims to improve the business while maintaining the pricing advantage, mirror customers' organisations with single contact points managing the key accounts, make the sales force more effective by maximising the value of their contacts with more product knowledge and market intelligence, share our product offer effectively among countries, and overcome the current direct relation between market offer and local production capability.

A new Market Intelligence & Development Unit will be created and equipped with product management structures at regional level.

Dedicated structures will thoroughly map the available local and regional product portfolio to offer the best possible pricing and provide effective technical support. Regions will have one integrated R&D department and one head respectively for Manufacturing, Supply Chain and Purchasing.



# People – our most strategic asset

## Prysmian Group looks to the future with continuous investment in human capital management

Among the number of education and training initiatives that Prysmian carries out at a global and local level, there are two pillars: the graduate programme and the Academy. The Group is currently [launching the fourth edition of its programme to recruit](#) 40 new graduates in engineering and economics, with the aim of helping develop the Prysmian's managers

and professionals of the future. After the success of the first three editions, which have seen the recruitment of 100 graduates from 30 countries, this year's programme once again offers successful candidates a contract and an initial period of induction and training at the Milan headquarters, followed by a 12-month job rotation in their country of origin.

"Prysmian continues to look to the future with this programme and is confirming in practice that personnel development is at the heart of its business development strategies," says Fabrizio Rutschmann, Group Human Resources & Organisation Director. "The project is almost unique because it is designed with



## e-Learning for ethics and compliance

Following the introduction of an e-Learning module to raise employee awareness about the Group's Ethical Code and Compliance Policies, a new multi-language version of the application has been made available on the Group Intranet. The code and policies reflect a commonsense approach to conducting business in an honest and ethical manner and in compliance with all applicable laws and regulations. In an important step to promote knowledge and understanding of the code and policies, a specific e-Learning training and attestation module was launched this year. So far approximately 2,800 employees around the world have already completed the module.



## FOCUS ON

an international perspective aiming at potentially attracting young people from five continents.”

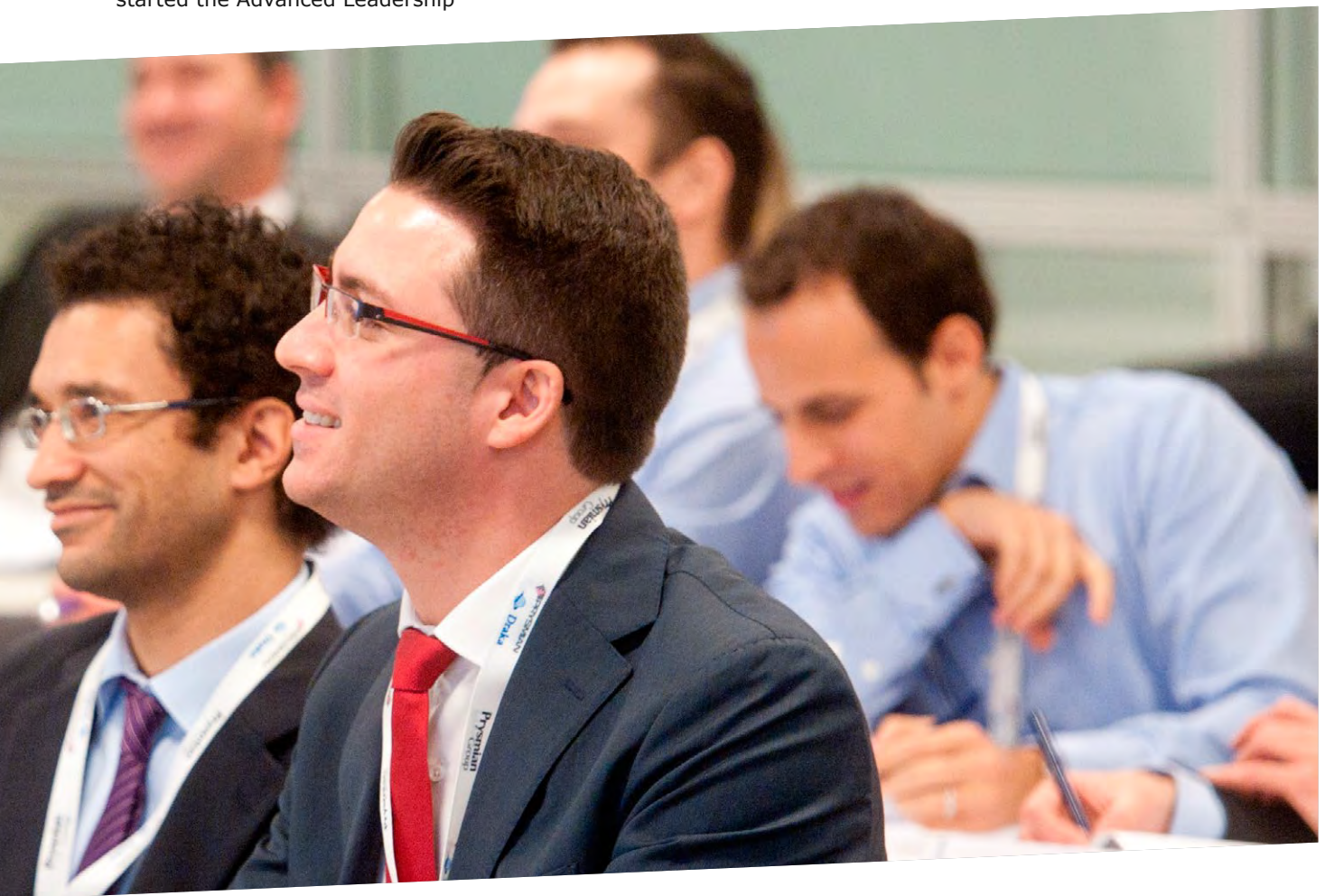
The job rotation will be followed by at least 24 months' experience abroad within a specific function, with the goal of making a significant contribution to the business. Recently the new cycle at the Academy moved forwards as 22 executives from different countries, functions and business units started the Advanced Leadership

Programme's fifth edition, organised by the HR Academy in collaboration with SDA Bocconi School of Management.

### Academy becoming worldwide

This year the academy has gone global as the first Regional Programme has started to train local employees from China, Australia and ASEAN countries. “The Group

Academy is growing,” underlines Rutschmann. “We are really proud of it. It was our purpose when we launched the first course in Milan, to become worldwide, offering customised training for managers and professionals. We will become more inclusive than in the past, matching years of experience and the excellence that we have created with local needs.”



## Sharing Experience

Prysmian is one of the few companies investing in 'new blood' for the future, giving new graduates the opportunity to work in a big company with a three-year period of continuous learning. They will visit different factories, gain top management exposure and receive mentoring from senior experts. The first year features six months in R&D, three months in Operations and three months in Commercial functions. Agusti Valls, R&D Director in Spain, recommends that newly joined young graduates should maintain a 360° perspective at every stage of the three-year programme. This will help stimulate the sharing of information, experience and expertise within the company.



# Succeeding in a fast-growing country

The success story of Prysmian Group in Turkey is thanks to its ability to act in the market as a real solution provider and not just a product supplier. In an interview with Hans Hoegstedt, CEO of Prysmian Group Turkey, we learn how to be even more competitive in this challenging environment.



Hans Hoegstedt  
CEO of Prysmian Group Turkey

With half of its 77 million population below the age of 30 and with an expanding dynamic urban population, the demand for energy, telecommunication and transport are the key components that make Turkey a strategic priority for the Group. There have been and continue to be great opportunities in the energy sector – the country's electricity consumption rose by 78% over the past 10 years – but also important changes in the telecommunications industry, with Turkey now ranking as the fourth-largest user of Facebook and the eighth largest for Twitter worldwide.

## The main assets of the market

Looking more generally at Turkey, in Hoegstedt's opinion it's the people that are the real asset: the country boasts a large number of highly qualified engineers, renowned for their entrepreneurial spirit and positive attitude to work. This means a high-performing and flexible workforce that provides impetus to high-tech manufacturers, such as Prysmian. Asked which sectors he's mainly looking to for growth, Hoegstedt names the energy and telecommunication

## Competitiveness matters

Turkey has plenty of cable producers, with Prysmian ranking first among the international companies. The Group has one of its 17 R&D centres at the Mudanya factory, while its sales volume makes up about 5% of the Group's total. With an extremely high over-capacity in the domestic market exports are increasingly important to the local cable industry. The major export market is the UK, as Turkish suppliers are British Approvals Service for Cables (BASEC) approved. Other important markets are the neighbouring countries: Iraq offers big volume but is volatile and still pretty poor except for O&G, while in Kazakhstan, Azerbaijan and Turkmenistan the large gas and oil developments are really interesting for Group.



## GLOBAL SCENARIO

network, where further cable demand is expected to come from the development and upgrading process of the general transmission network.

Another opportunity is the expansion of a high-speed rail network, with the plan to build 1,500 miles of high-speed train lines to connect 14 cities in just the next five years. There is also a burgeoning nuclear industry and renewable sector, especially from solar and wind. Turkey does not currently have nuclear plants but it is planning to build three. Hoegstedt also mentions infrastructure, because after decades of investing in roads, the government is preparing to invest heavily in a third Istanbul airport.

## Selling excellence

In this challenging market how did Prysmian Group Turkey manage to grow its market share in the T&I market by 20% between 2012-2014 while also improving profitability? "Our strategy has been to switch from a pure materials supplier to become a real solutions provider and to sell the excellence of the Group," answers Hans. "With over 90 cable manufacturers in Turkey the market is highly competitive. We knew it would be necessary but not enough to be highly cost competitive. We therefore went back to basics, asking ourselves: "What does the user really need and how can we create a clear point-of-difference and help them make their job faster, easier and more affordable?" Our R&D and marketing team started to investigate in detail how the cable was used and handled to find ways

to improve the product, not only in terms of performance but also in ease-of-use and speed of installation to reduce the installation cost. "The result of this work was the launch of the "Attention! Not all cables are the same..." initiative in Dec 2012, supported by several improved products, lots of training and education. The results in the first three years have been extraordinary, with greatly improved volume and margin. Our differentiated offer is today clearly proven to be superior, allowing the user to save up to 12% on the total installation cost. The first results of the initiative that were released in 2013 showed an incremental volume of 4,5kt resulting in an increased market share of 3% and an incremental contribution margin of €800,000. Maybe it is also possible to differentiate in T&I after all!"

## Celebrating 50 years

2014 is also a very special year for Prysmian Group in Turkey, as it celebrates its first 50 years in the country. Throughout this long history and as it has established an important industrial tradition, the company has had many 'firsts' in the market, including the first MV, HV, LSOH, Fibre production in Turkey. 2014 is also a special year for the Group, as it connects Asia and Europe in the first ever HV submarine connection in Turkey. To celebrate this important milestone, 2,400 employees and family members came together on 7 September for the first-ever open day in the Mudanya factory. Knowing the energy, determination and commitment of the Turkish team, we are sure that there is much more to come in the next 50 years.





# A visitor of distinction

**Prysmian welcomed Italy's Prime Minister, Matteo Renzi, to its Australian optical cable facility at Dee Why. The Group is partner to the Australian Government in the National Broadband Network project, which will cover 93% of the country**

The Chairman and Strategy Officer of Prysmian Group, Massimo Tononi and Fabio Romeo, welcomed Italy's Prime Minister Matteo Renzi at the Dee Why plant, which he visited during his attendance at the G20 summit in Australia last November.

Prysmian was chosen by the Australian Government as a partner in one of the world's most innovative projects for broadband telecommunications networks, the National Broadband Network, that will connect 93% of residential and commercial buildings across the vast continent-country. Prysmian was awarded the contract to design and supply optical cables for the rollout of the network, worth approximately €223 million, in 2011. More than 3 million km of fibre and 14,000 km of cable has been supplied to date. The path chosen by the Australian Government, which has decided to build the country's broadband network itself, could provide a good example for Europe, as the EU has already announced a €300 billion package of investment in infrastructures.



## Italian pride

Mr Renzi addressed the Prysmian audience in Dee Why by saying it was "a great honor to visit an Italian multinational that managed to become a world leader" and that is proving it by working day by day on a major, continent-wide project in Australia. The Italian PM also said that Prysmian has become what it is thanks to its quality and excellence and praised it as "a company

capable of understanding in advance where the world is heading." In Mr Renzi's words, Prysmian Group represents one of the most important Italian companies, with a team of 20,000 people all over the world, "proudly Italian and multinational at the same time. A company that creates innovation and quality, meaning it certainly creates the future."

## A long-standing presence

Prysmian is among the few Italian companies with plants in Australia, a country where it has already worked on important projects such as the Basslink, a high voltage submarine power line to transport renewable energy from the island of Tasmania to the state of Victoria. Optical cables for the NBN network are being manufactured at the technologically advanced Dee Why factory, recently enlarged after winning the NBN contract. Prysmian has operated in Australia and New Zealand since 1975, with three production facilities, manufacturing opticals and power cables and employing around 500 people.



## Swiss Railways contract secured

Prysmian Group will supply 2,800 km of signaling cables

The Swiss Federal Railways [awarded Prysmian a contract](#) worth approximately €26 million for a frame agreement, covering the supply of 2,800 km of signaling cables to strengthen the transport infrastructure. The contract management will be coordinated by the Group's team in Switzerland, while the cables will be manufactured in Berlin and delivered over five years to the

end of 2019. The award reflects customers' trust in Prysmian's capability to act as a one-stop-shop where different industries can find the most viable solutions to their needs. The achievement was also a successful example of cooperation within the Group, with the commercial activity handled by Switzerland while Germany offered full support and timely responses in the tender phase.

## Upgrading the Danish network

Prysmian Group has signed a contract in Denmark with Strukton, a transportation system company, to deliver railway signaling cables for the new Banedanmark F-Line West signaling system. The contract is for approximately 1,900 km of cables manufactured at the Berlin plant in Germany.

## Connecting the Cyclades

Greece's power operator IPTO has awarded Prysmian a contract worth approximately €95 million for the connection of the island of Syros to the mainland power transmission system. [The project involves](#) the design, supply and installation of a turn-key High Voltage Alternating Current (HVAC) cable system to transmit power of 200 MVA, consisting of 150kV extruded cables and an associated fibre optic cable system along a total route of more than 110km, for the interconnection of Syros and future expansion to the other Cyclades Islands of Paros, Mykonos and Tinos. The submarine cables for the Lavrion-Syros link will be manufactured in the excellence plant of Arco Felice in Naples.

## New order in China

Prysmian has secured a new order in China from Shanghai Waigaoqiao Shipbuilding, which is part of China State Shipbuilding Corporation. The Group will supply 320km of NEK 606 offshore cables for its new 2+2 CJ46-X100-D jack-up (self-elevating) drilling rigs.





## Prysmian makes the towers of London safer



Over 50km of Prysmian's FP200 Gold and FP PLUS cables have been installed as part of the emergency building service systems in East London's Aldgate Tower, a state-of-the-art 317,000 sq ft commercial quarter. Always in the British capital, Prysmian FP PLUS has been selected and installed

as part of the emergency building services of 6 Bevis Marks, the new addition to London's blossoming skyline in the heart of City. Aldgate was designed by Wilkinson Eyre Architects, the steel frame structure relies on a central steel core and offers 16 stories of grade A office space. 6 Bevis Marks is designed by

Fletcher Priest Architects and is the result of a joint venture between AXA and Black Rock. It reaches 16 stories, offering 160,000 sq ft of Grade A office space. Over 30,000m of Prysmian FP PLUS has been commissioned for use in the emergency lighting and fire alarm systems.

### New Compounding facility in the U.S.

Prysmian Group will invest in a new state-of-the-art compounding facility for Medium Voltage cable insulation at the Abbeville plant, South Carolina, as well as adding a second Vertical Continuous Vulcanization line (VCV). Production will begin during the second half of 2015. The investment will bring new jobs to the Abbeville community and further contribute to increased production capacity at Prysmian's flagship North American plant.

### Plant awarded in Canada

The Prescott plant was recognised by the Canadian Society of Safety Engineers Eastern Ontario Chapter for 'Outstanding Achievement' in protecting Employees, Property and the Environment. Among the actions taken, Prescott has introduced an Operator Proficiency System to ensure operators are thoroughly trained in job-specific tasks and able to demonstrate proficiency before beginning work.

### Prysmian brings opticals to smart grids

The Group aims at guaranteeing sustainable, economic and reliable electricity supply and data transmission, while enabling power grids to achieve a synergistic and smart fusion between the actions of all their users. The Group has developed a range of innovative fibre solutions to improve grid security and efficiency, presented at the 'FTTX and the smart city' conference in Milan.



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