SEGMENT PERFORMANCE: TELECOM BUSINESS

Prysmian fully satisfies demand by business and residential customers for ever faster connections and broadband services, by supplying high-performance networks offering high standards of fibre management.

(in millions of Euro)

	2013	2012	% change	2011 (*)
Sales to third parties	1,255	1,466	-14.4%	1,315
Adjusted EBITDA	**120**	**160**	**-25.0%**	**121**
% of sales	9.6%	10.9%		9.1%
EBITDA	**100**	**138**	**-27.5%**	**103**
% of sales	8.0%	9.4%		7.7%
Amortisation and depreciation	(50)	(56)		(43)
Adjusted operating income	**70**	**104**	**-32.3%**	**78**
% of sales	5.6%	7.1%		5.8%

RECONCILIATION OF EBITDA TO ADJUSTED EBITDA

EBITDA (A)	**100**	**138**	**-27.5%**	**103**
Non-recurring expenses/(income):				
Company reorganisation	13	16		12
Draka integration costs	-	1		-
Tax inspections	-	2		-
Gains on asset disposals	(1)	-		-
Release of Draka inventory step-up	-	-		6
Other net non-recurring expenses	8	3		-
Total non-recurring expenses/(income) (B)	**20**	**22**		**18**
Adjusted EBITDA (A+B)	**120**	**160**	**-25.0%**	**121**

(*) Includes the Draka Group's results for the period 1 March – 31 December 2011.

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 a leading manufacturer 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 sewage 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 a 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), JetNet (mini blown cable), 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 is at the forefront of designing next generation products specifically for Fibre-To-The-Home (FTTH) networks.

FTTx
Increasing bandwidth requirements, from 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 optical fibre-based 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.

MARKET OVERVIEW

2013 saw growth in demand in the Chinese and Indian markets, in contrast with general stability in Europe and a steep drop in demand in North America and Brazil.

Forecasts for the optical fibre cables market made at the start of the year predicted that the size of the global market would grow although with large regional differences. In fact, 2013 saw demand grow in fast-developing markets (China) and in those with high communication infrastructure needs (India), while markets in Europe were basically stable. Carrying on the 2012 second-half trend, 2013 saw a steep drop in demand in North America, due to the ending of government incentives, and in Brazil, where operators were slow to take advantage of the investment-friendly tax measures introduced by the government in the first half of the year.
The Access/Broadband/FTTx market grew marginally in 2013, with demand driven by the development of optical fibre communication infrastructure, although the low maturity of these products implies different evolution in demand by geographical area.

The copper cables market continues to slow not only because of the economic downturn in the past two years, causing some major operators to downsize their larger investment projects, but also because of product maturity. The downturn in this market was increasingly evident in 2013, with high demand for internet access leading the major operators to opt to renew their networks using optical fibre, rather than perform maintenance or upgrade work on existing networks.

FINANCIAL PERFORMANCE

Lower demand in North and South America was not fully offset despite major projects in the UK, Spain and Australia, with a consequent decline in revenues.

Telecom business sales to third parties amounted to Euro 1,255 million in 2013, compared with Euro 1,466 million at 31 December 2012, posting a negative change of Euro 211 million (-14.4%).

This change is attributable to the following factors:

- negative exchange rate effects of Euro 42 million (-2.9%);
- organic decrease of Euro 176 million (-12.0%), due to the first-half downturn in demand for optical fibre and copper cables;
- positive change of Euro 15 million (+1.0%) for the line-by-line consolidation of Telcon Fios e Cabos para Telecomuniçaoes S.A. (consolidated since 1 April 2012);
- negative change of Euro 8 million (-0.5%) in sales prices due to fluctuations in metal prices.

The negative organic growth in 2013 primarily reflects the downturn in demand for optical fibre cables in North and South America. This effect more than offset positive trends coming not only from large-scale projects, such as those started for BT (United Kingdom), Telefonica (Spain), Orange (France) and NBN (Australia), but also from emerging markets and channels, such as Eastern Europe and India. The sudden slump in demand in North America, linked to the ending of government investment incentives, triggered a more competitive market environment. In this scenario, our major competitors adopted particularly aggressive pricing policies, winning market share at Prysmian Group's expense.
In Brazil, the market awaited implementation of the announced plan of government incentives to support new communications infrastructure. This plan, which aims to incentivise the development of technology and local production, should be very beneficial for all telecom operators. The delay meant that investments during the year were confined to infrastructure maintenance work, negatively affecting the manufacturers of network materials as a result. Like in North America, the low level of activity led to a reduction in market prices. In addition, some foreign manufacturers started to create local production bases in order to profit from the expected economic benefits.
In Europe, the highly competitive nature of the market, with the presence of many small and medium-sized local producers, put prices under strong pressure, despite growing volumes, causing the sector's profits to fall as a result.
In addition, the market for copper telecom cables continued

to suffer from a gradual phasing out in favour of next-generation networks. Lastly, there was a slight growth during the year in the optical connectivity sector, driven by the development of FTTx networks (last mile broadband access), particularly in France, the UK and the Netherlands.

Adjusted EBITDA came to Euro 120 million in 2013, reporting a decrease of Euro 40 million (-25.0%) from Euro 160 million at 31 December 2012.