

## Logistics

The Logistics function manages all the Group's intercompany flows, both at annual budget and monthly operational level, with the aim of satisfying demand in all markets that do not have a local production source due to capability or production capacity reasons. The Logistics function also manages short and medium-term production allocations and planning through the Sales & Operations Planning (S&OP) process, which links the demand cycle (sales) with the supply cycle (manufacturing and procurement). The Group's planning activities differ, depending on how the product is classified. "Engineer to Order" products are used mostly in Energy Projects for submarine, high voltage and umbilical cables, being businesses in which the Prysmian Group supports customers from the design of the "system" to the final laying of the cables. "Assemble to Order" products allow the Group to respond rapidly to demand for items that use standard components, and which are only differentiated at the final stages of production or in terms of packaging, while maintaining minimum inventories of finished products. "Make to Order" products are only manufactured and shipped after receiving an order from the customer, thus reducing the level of slow-moving inventories considerably while increasing the rotation of raw materials, components and finished products. The "Make to Stock" approach is generally used for the most standardised products, which require an inventory management policy capable of responding rapidly to demand. This last model is mostly applied in the "Energy Products" and "Telecom" areas.

The Prysmian Group continued the strategic focus on Customer Centricity during 2016, stabilising the high level of service achieved in terms of delivery reliability while, at the same time, starting work to reduce the lead-time between the receipt of an order to delivery of the product to the customer. The Group has also continued work on the reduction of inventories (overall, 60 million euro lower than in 2015, on a like-for-like basis), with a further positive effect on cash flows.

Further, the optimisation of the distribution chain has continued at the operational macro-region level, with a particular focus on the consolidation of warehouses/distribution centres and the outsourcing of logistics services in order to lower distribution costs.

The Logistics function has optimised the allocation of production, with an increase in intercompany flows in line with the consolidation of the global organisation into regions. Consistent with the Group's strategic objectives and in addition to the Customer Centricity and Factory Reliability initiatives, during 2016 the Prysmian Group continued the work carried out in recent years to improve our logistics services in terms of flexibility, timeliness and shorter lead-times.

The distribution logistics market in 2016 was characterised by the continued excess capacity of all leading airlines, while carriage by sea also continued to demonstrate unused capacity due to an increased number of ships and containers, as well as to the ongoing consolidation processes implemented by the main global carriers. Prysmian has concentrated work to improve physical distribution in the South-East Asia / China region, reducing the number of sea carriers to just one, with a marked reduction in costs and improved efficiency.

In addition, projects for the outsourcing of logistics (3PL) have been implemented in North America (USA and Canada) and in Europe (United Kingdom), applying the same format and best practices already found in the area, in order to obtain significant cost savings.

During the year, in the context of the Prysmian Academy, the Logistics function continued the process (launched in 2015) of training the logistics-manufacturing personnel who work for the Group's affiliates around the world. Implemented over a period of several days and using internal lecturers, the objective of this course is to facilitate networking, enhance the professional standing of the individuals concerned and share ways to improve the Group's logistics and make them more efficient.

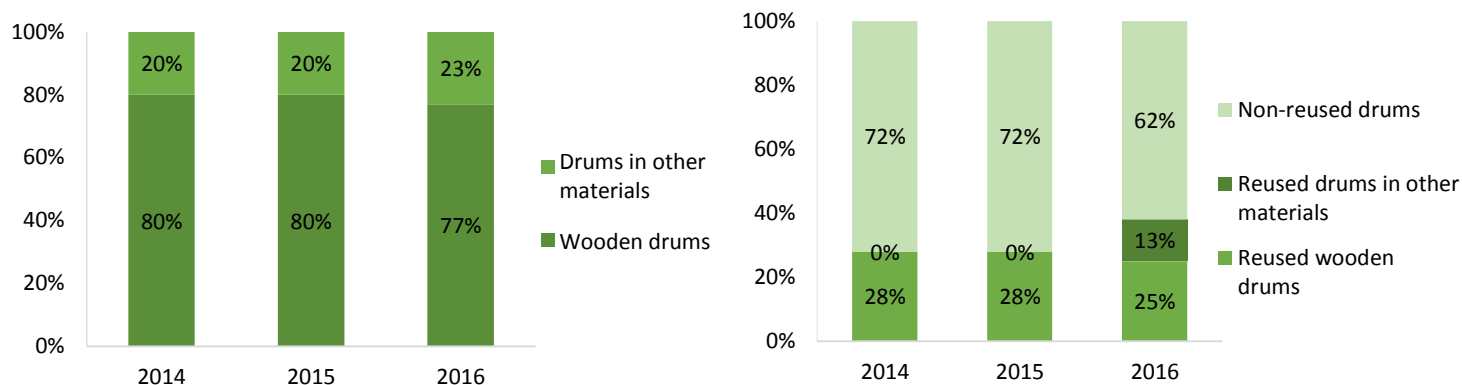
### COMMITMENTS FOR THE FUTURE

During 2017, the Optical Fibre business unit will continue to prefer sea shipments between North America and Europe, rather than air shipments, with a view to reducing the environmental impact of product transportation.

The expected reduction in air carriage was not achieved in 2016 due to a shortage of optical fibre caused by the growth in the world market (China in particular) for optical cables. However Prysmian has planned capacity increases that will enable the more balanced scheduling of optical fibre in raw material form during 2017. This will ensure a reduction in air transport costs for the optical fibre business, with a consequent beneficial effect on the environment in terms of emissions.

In addition, the Group will continue to encourage the replacement of road transportation with carriage by sea. Lastly, Prysmian is committed to using 3PL when negotiating future North American and Australian carriage contracts, in order to actively reduce GHG emissions via the optimisation of transportation.

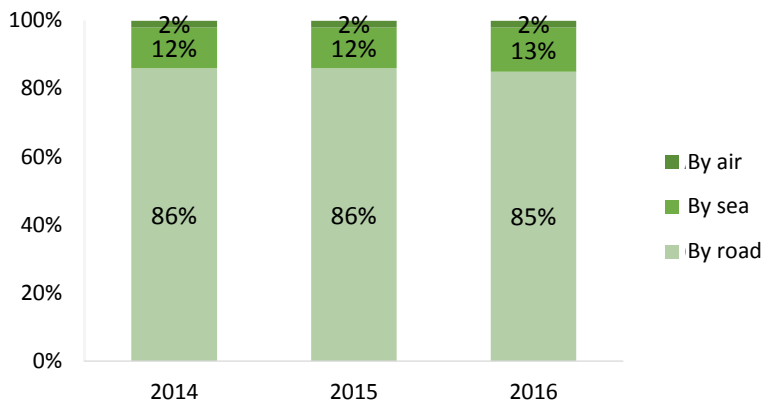
### DRUMS MADE OF WOOD AND OTHER MATERIALS



Small diameter drums are made from plastic/plywood, wood is used up to 3 metres in diameter, while larger drums for cables are made from steel. In general, the drum material selected depends on the diameter and length of the cable, criteria for the optimisation of logistics in order to reduce the carbon footprint, and specific requests from customers associated with regulatory aspects in the destination country.

The Group is heavily committed to maximising the re-utilisation of drums and lowering their environmental impact. For example, this involves using wood from replanted forests and implementing lagging solutions that reduce the recourse made to quality materials, while continuing to use recyclable materials. This commitment over the years has helped to improve the re-use rate of drums, as a consequence of our more precise and modern management techniques.

## METHODS OF TRANSPORTATION



As regards transport, Prysmian not only gives preference to local suppliers but is also committed to optimising the carriage of goods by air and by sea, as well as to selecting road hauliers that seek to implement sustainable policies and actions. In recent years, the Group has increased efforts to minimise the adverse effects of transportation on the environment.

As in prior years, road transport was the main type of transport used by the Group during 2016.