

Supply Chain

Strategic approach by the Group

The Group constantly strengthens relations with strategic suppliers, seeking to build together a common organisational process focused on sustainability throughout the entire production chain.

The focus on customer service continued during 2016. This policy was adopted in prior years with the objective of improving flexibility, reliability and time to market. Implementation of the "factory reliability" concept, introduced in 2010, has improved the quality of our planning and supply processes with regard to the control of volumes and inventory levels.

Group suppliers source the main raw materials used by Prysmian in the production processes: copper, aluminium, lead, various petroleum derivatives (such as PVC and polyethylene) and components for power and Telecom cable accessories, as well as special types of glass and sheathing for optical fibre.

With reference to the strategic approach adopted to supply chain management, the Group has established five priorities that take environmental and social objectives into account:

- Only use qualified suppliers;
- Only use materials whose technical characteristics have been authorised;
- Develop strategies for commodities that guarantee continuity of supply and availability of the required volume. In particular, the financial health of the supplier is important, as is only modest dependency on specific suppliers by Prysmian;
- Guarantee on-time delivery and a high level of quality over time;
- Ensure competitive prices.

Purchasing of metals

The majority of the Group's purchases of raw materials, about 70%, comprise metals (especially copper and aluminium), which are a fundamental resources for our activities.

With regard to the procurement of metals, Prysmian purchases copper and aluminium wire rod, from the world's leading manufacturers, in order to make the conductors for cables. In special cases, Prysmian produces its own copper rod from copper cathode, but the output volume is less than 10% of total consumption.

The Group absorbs slightly more than 2% of the world's copper production and about 5% of the copper used in the electrical and electronic sector¹¹. Given the substantial fragmentation of the copper market, Prysmian is one of the leading economic players in the sector.

Accordingly, considering the importance of the role played by suppliers within the Group's value chain, the high consumption of metal and the very broad geographical distribution of Prysmian's factories, the procurement of metals follows two strategic directions. Firstly, Prysmian uses manufacturers that are as integrated as possible, with direct access to the raw material (mines or concentrates) and the ability to

¹¹ Source: Global data Source from Natixis, Reuters and Morgan Stanley.

guarantee long-term suppliers; secondly, Prysmian purchases from all major global manufacturers, in order to ensure the efficient coverage of requirements and optimise the metals logistics chain.

The Group has therefore chosen to develop long-term agreements, veritable industrial partnerships, with integrated suppliers that guarantee sourcing for extended periods via reciprocal volume commitments. The necessary flexibility needed to follow the natural cycles of demand is assured by short-term agreements (usually annual, with considerable flexibility regarding volume). These include suppliers that are not integrated, since this characteristic guarantees greater flexibility.

Even with regard to the purchasing of aluminium, the Group has decided to concentrate increasingly on suppliers that are vertically integrated (with processes that manufacture aluminium rod directly from aluminium oxide), in preference to those that are not integrated (manufacturers that smelt aluminium ingots in order to produce rod). This strategy assures the security of supplies and also has cost and environmental advantages, due to simplification of the logistics and elimination of the ingot re-smelting cycle.

Long-term strategies for the purchasing of copper and aluminium naturally lead Prysmian to work with the largest and most important companies in the respective sectors. With regard to the main quantities of non-ferrous metals, this approach enables the Group to deal with suppliers that focus strongly on all aspects of sustainability, thus creating a highly sustainable end-to-end cycle.

THE GROUP'S SUSTAINABLE SUPPLY CHAIN

In terms of supplier management, Prysmian identifies its suppliers via a formal process founded on economic and financial analysis. Specifically, the Group examines data and information about the risk of dependency on the suppliers considered and, also, about their technical and technological capabilities and skills.

In order to monitor the sustainability of the supply chain, especially with regard to critical suppliers, the Group analyses all associated risks and opportunities on a centralised and integrated basis, focusing most on the critical risks.

In this regard, Prysmian carried out an internal analysis of key suppliers during 2014, assessing them against a number of sustainability criteria. This analysis considered the Group's strategic suppliers: those that are critical and those deemed significant in terms of the value of purchases. The selected suppliers covered about 51% of the Group's purchases in 2014.

Continuing this approach, Prysmian implemented multiple initiatives in 2015, with a view to strengthening its commitment on sustainability matters. In order to guarantee the quality of the materials purchased, the Group is committed to using only those raw materials approved by the responsible technical functions following laboratory tests and extended processing trials conducted both in-house and by qualified suppliers. This process seeks to check the environmental and social aspects, as well as those of a qualitative nature. The qualification process starts by sending a questionnaire that the supplier is required to complete in full, addressing every aspect. This is followed by an audit of the materials classified as critical, or if further details are needed because, for example, the replies to the questionnaire were not considered sufficiently complete. Raw materials are considered critical if purchased from a single supplier or if the supply percentages are particularly high, or if they are used in applications that are especially demanding in terms of the performance required.

The work commenced in prior years was continued during 2016 and new initiatives were launched. In particular, 10 audits of raw material and base metal suppliers were carried out, consistent with the level of activity in the prior year. In one case, these checks identified the need for a plan to improve certain phases of the production process and product testing, in order to guarantee the stability of quality levels.

Following activation in 2015, once again all new suppliers in 2016 were assessed using a qualification questionnaire that covers environmental, social and sustainability matters.

With regard to the work commenced in 2015 on the management of metals suppliers, work on their mapping, classification and involvement continued in 2016 using a self-assessment questionnaire designed to assess the main parameters affecting sustainability:

- Integrity: fair trade, conflicts of interest, gifts and entertainment, bribery and corruption
- Human and workers' rights: under-age working, health and safety, non-discrimination
- Environment: use of raw materials, use of energy and carbon dioxide emissions, water consumption and associated risks
- Mining activities and conflict minerals: resettlement, closure plans and sustainable use of land

Compared with 2015, when the self-assessment questionnaires covered about 80% of all metals suppliers, in 2016 the mapping managed to analyse all regular suppliers.

Once again in 2016, the replies to the self-assessment questionnaire were analysed by an external agency specialised in sustainability audits. This agency prepared evaluation forms for each supplier, highlighting any areas for improvement that Prysmian then discussed directly during the usual negotiation meetings. In this way, the Group's supply chain has become much more aware of the importance that Prysmian attaches to sustainability as a criterion for the selections of suppliers and the assignment of contracts. Based on the information and data collected, there are no sustainability issues with any of the main base metal suppliers used by Prysmian in 2017.

With regard to the work performed in relation to the suppliers of raw materials other than base metals, the Group has launched 3 initiatives focusing on:

- Stability and continuity of production processes: new system for the collection of data and the monitoring of supplier service levels;
- Anti-corruption ethics, especially in geographical areas commonly thought to be at risk: special initiative addressing the supply base in China;
- Under-age working ethics: special initiative addressing mica suppliers.

With a view to increasing awareness about environmental, social and sustainability matters, a new system for monitoring supplier service levels was developed and implemented during 2016. The main objective is to reduce the risk of interruptions in the flow of purchased raw materials.

The report was developed together by the Purchasing, Logistics and Quality functions, which defined the related operating procedures. The instrument, which has already been implemented throughout Europe and is now being extended to other regions, provides monthly performance indicators analysed by country/factory/supplier. In addition, a number of initiatives were launched during 2016 on matters and geographical areas commonly thought to be at risk. The entire supply base in China was asked to sign a document confirming their commitment to and focus on our anti-corruption policies and practices.

Further action launched in 2016 addressed a specific product category: mica.

A responsible approach to mica mining

In order to manufacture certain safety cables and make them fire resistant, Prysmian purchases limited quantities of a few types of tape that contain small quantities of mica-glass, but we do not use this mineral directly in our products and production processes. The extraction process for this mineral is considered to be at risk of under-age working, especially in geographical areas like India where large quantities are mined. The Group tackled this issue during 2016 by requesting all suppliers of products with a sub-supply of mica to complete a questionnaire certifying the absence of child labour anywhere in the supply chain.

In addition, Prysmian opened a dialogue on this matter with significant international peers and NGOs, participating in numerous workshops and initiatives intended to analyse the issues in a responsible manner. In particular, building on the report entitled 'Beauty and a Beast, let's beat child labour in the mica industry' published in May 2016 by Terre des Hommes – an international organisation dedicated to the defence of children's rights and to the promotion of fair development without discrimination – Prysmian took part in a working party on these topics chaired by the NGO in collaboration with several international firms affected by the use of this mineral. Possible solutions were agreed and opportunities for action were identified in order to establish a sustainable chain of production for this mineral in the mining areas.

Lastly, Group management of potential risks in the business relationship includes supplier approval of Prysmian's Code of Ethics. In particular, whenever a contract is awarded, the supplier must accept and sign the Group's Code of Ethics, in full awareness of the related rights and obligations.

Code of business conduct

With a view to spreading responsible commercial practices and ensuring that ethical, economic, environmental and social standards are met throughout the value chain, in 2014 the Prysmian Group decided to promote a responsible and sustainable chain of supply by adopting a Code of Business Conduct. This Code took effect in 2015 and applies to all employees and business relations. The principles set down in the Code apply to the business transactions and daily activities of the employees of all Group entities and their suppliers, commercial partners, commercial agents, sub-contractors and distributors. The document covers the following matters: business integrity (fair trade, conflicts of interest, gifts and offers of entertainment, corruption, accountability); human rights and those of workers (under-age working and slavery, health and safety at work, non-discrimination, freedom of association and collective bargaining); environment (principle of precautions, use of raw materials and compliance, use of energy, greenhouse gases and other emissions, water consumption, waste production and recycling).

The Prysmian Code of Business Conduct was published on the Group's website in 2015. In addition, its existence and Prysmian's application of the related guidelines are highlighted to suppliers at the scouting and qualification stages.

The above work on anti-corruption and child labour in specific geographical areas and product categories was carried out in 2016 in order to support the operational implementation of the principles laid down in the code of business conduct. In addition, the Group's *Human Rights Policy* was extended by adding a specific

chapter on the monitoring and identification of potential violations in the supply chain, with remedial action in the first instance and, if necessary, the exclusion from all commercial and business relations of suppliers that do not respond promptly to the standards required.

PRYSMIAN POWERLINK: AN INNOVATIVE APPROACH TO THE SUSTAINABILITY OF SUPPLIERS

Prysmian PowerLink implemented a cloud platform for the Vendor Management process about 2 years ago, with a view to improving the process of qualifying suppliers by facilitating customer-supplier communications. The portal comprises two distinct sections: Supplier Information Management (SIM) and Supplier Performance Management (SPM), respectively used to manage the qualification phase (ex-ante) and the performance evaluation phase (ex-post) of suppliers. In particular, the first area (SIM) provides a centralised system for managing the entire life cycle of the customer-supplier relationship, from the creation of the master details database to the monitoring of financial strength indicators. The data used for the selection process is input by suppliers with direct access to the system, via the completion of a questionnaire that, once completed, is sent to the following functions for assessment: Purchasing, HSE, Installation/PM, Quality. The second area (SPM) guides the process of defining, measuring, monitoring and analysing the performance of suppliers in terms of the service provided. The purpose of the system is to improve the quality of service, while achieving an overall reduction in costs and the related risks. Each supplier is assessed against specific criteria: compliance with technical, HSE and Quality requirements, and level of contractual and business flexibility. In the event of an adverse result, Prysmian will be able to promote corrective actions designed to steadily improve performance or, depending on the seriousness of the case, to "black-list" the supplier. To date, out of 355 registered suppliers, more than 90% have been qualified and 84% are used regularly. The others must still complete the qualification process, while a small number representing about 2% of the total have been black-listed and are not used.

PURCHASING PROFESSIONAL ACADEMY

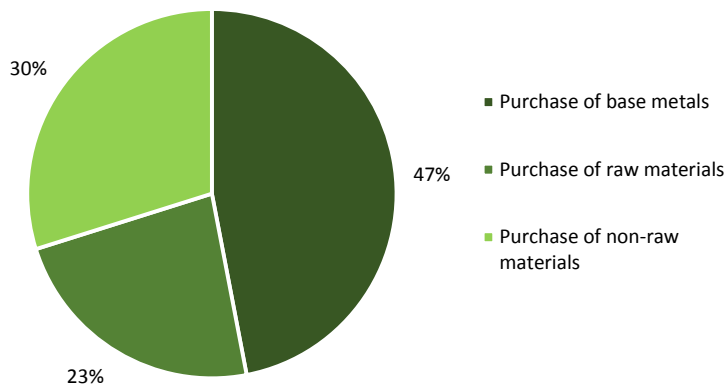
Prysmian Group Academy is the Group's international professional and management education and training school. Over the past three years, the *Professional School* has specifically addressed purchasing by delivering an annual one-week course for 30 participants that combines contributions from highly professional internal lecturers (from both Corporate HQ and country management) with those from external supply chain professionals. Attendance is open to buyers from all Group companies, with a view to reviewing purchasing fundamentals and the integrated management of global commodities.

A section dedicated to understanding the importance of sustainability matters, entitled "Purchasing & Sustainability", has been included since 2015. This lesson focused on sustainability with the Prysmian Group, as it relates to the supply chain and purchasing, highlighting the activities and topics of concern to the function and also covering aspects of the Group's Code of Business Conduct. Additionally, the lesson guided buyers to take full account of sustainability when scouting for and selecting suppliers, alongside the traditional selection criteria based on technical, economic and financial parameters, risk management and overall cost effectiveness. By the end of 2016, 25% of Prysmian purchasing personnel around the world have received training in this area.

COMMITMENTS FOR THE FUTURE

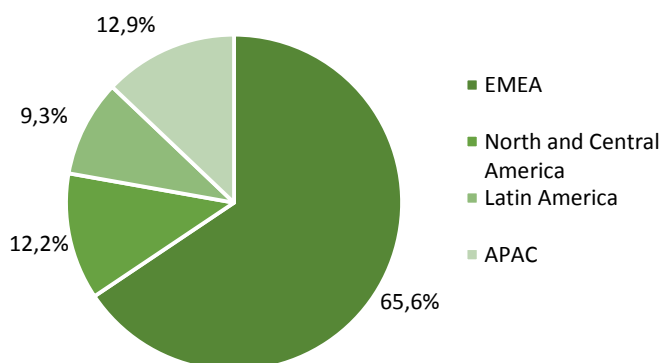
In confirmation of the commitment to manage the sustainability risks relating to first-level suppliers, Prysmian expects to continue the programme of supplier audits during 2017 at the same level of intensity as in prior years.

Total purchases by type in 2016



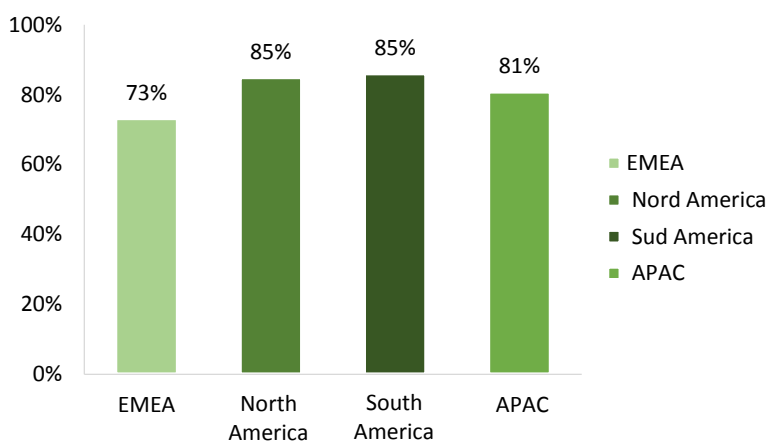
In 2016, 47% of total Group purchases related to base metals, with the remainder split between raw materials and non-raw materials.

Total number of suppliers broken down by geographical area in 2016



In 2016, out of 5,020 suppliers of base metals and raw materials, 65.6% were located in the EMEA area, much as in 2015. The remainder were split almost equally among the other geographical areas.

Percentage of goods and services purchased locally in 2016

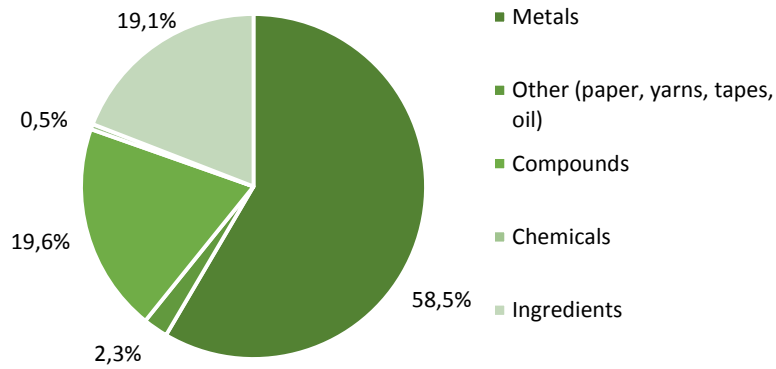


In confirmation of Prysmian's commitment to promoting the culture of local buying, purchases of goods and services classified as "non-raw materials" from local suppliers exceeded 80% in all geographical areas of operation except EMEA, which reached 73%.

North
America

South
America

Raw materials purchased by the Group in 2016 (% based on purchases in tonnes)



Raw material purchases in 2016 totalled 1,121 Ktonnes, of which more than 58% were metals, in line with the quantity purchased in 2015. Once again, 11% of the raw materials used were sourced from recycled materials.