

Strategic approach by the Group

The Prysmian Group constantly strengthens relations with strategic suppliers, centralising procurement and leveraging a global approach marked by a single organisational model, common processes and a system for the management of commodities.

The focus on customer service continued during 2015. This policy was adopted in previous years with the aim 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. Only in specific 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 sector¹³. 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 that suppliers play 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

¹³ 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.

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 information is 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.

9 audits were carried out at European and American suppliers during 2015: there was only one case in which these checks identified need for a plan to improve the process controls in place to guarantee constant quality levels. The related supplies were rescheduled for delivery from alternative established suppliers.

Action taken in 2015 included adding a section on sustainability to the new supplier qualification questionnaire, as part of the process of evaluating environmental and social criteria when selecting,

assessing and qualifying suppliers. The objective is to purchase raw materials from suppliers that have clear policies for the safeguarding of environmental and social matters.

As an integral part of the “Supplier Quality Assurance” Operating Procedure, this questionnaire asks suppliers to certify the existence of a company policy on sustainability matters, the mechanisms in place to guarantee its implementation and any third-party certifications obtained. With regard to the environmental, health and safety aspects, the questionnaire checks for the existence of certifications, or certification work in progress, that cover strictly environmental matters (ISO 14001, EMS), as well as the system for managing the risks and hazards associated with production processes, and the actions taken to reduce their impact (OHSMS). The replies received to each questionnaire are used to check the alignment of the supplier's policies with those of the Group and, therefore, to select suppliers that guarantee full compliance with and implementation of the Group's sustainability systems.

In addition, as part of the vendor management of metal suppliers, Prysmian decided during 2015 to map fully all suppliers of wire rod to the Group. Prysmian in fact believes that the most significant environmental impact is probably generated by the production cycle used by the suppliers of base metals, from extraction to the greenhouse gases emissions, and from the consumption of energy at the refining stage, through to the production of rod.

Alongside this mapping, all suppliers were classified with reference to their awareness of sustainability and the attention dedicated to the issues by them. The results will be considered when Prysmian makes purchasing decisions, giving preference where possible to suppliers with the highest sustainability ratings.

The Group therefore devised and sent a self-assessment questionnaire to 47 suppliers of wire rod, representing almost the entire rod supply chain external to Prysmian and about 80% of the total volume of the metal suppliers. The questionnaire investigated the following aspects of their business behaviour:

- 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
- conflict minerals, resettlement, closure plans and sustainable use of land

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 2016.

Lastly, management of potential risks in the business relationship includes supplier approval of Prysmian's Code of Ethics. 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.

PRYSMIAN POWERLINK: AN INNOVATIVE APPROACH TO THE SUSTAINABILITY OF SUPPLIERS

Prysmian PowerLink has recently finalised the implementation of a cloud platform for the Vendor Management process, with a view to improving the process of qualifying suppliers by facilitating customer-supplier communications. The portal was developed during the first four months of 2015 and comprises two separate 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). 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, with 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 the supplier base or, depending on the seriousness of the case, to "black-list" the supplier. To date, more than 85% of suppliers have passed the qualification process.

LOCAL SUSTAINABILITY INITIATIVES

In Norway, the Group has adopted a local system for the management and rating of suppliers, which are assessed with reference to the ISO 9001, ISO 14001, OHSAS 18001 certifications of their management systems, the efficiency of their logistics processes and, in particular, the traceability of their raw materials.

The process includes the implementation of a supplier scorecard and, in the event of an adverse outcome, critical suppliers are contacted to discuss possible areas for improvement.

Other specific initiatives involving suppliers taken by Prysmian Norway relate to:

- the improvement of forecasting & planning processes in order to increase the number of full-load shipments, thereby minimising the cost of transporting goods;
- the improvement of packaging;
- the signature of agreements with suppliers governing the system for the recovery of wooden and plastic drums, in order to avoid unnecessary disposal and facilitate their re-use.

PURCHASING PROFESSIONAL ACADEMY

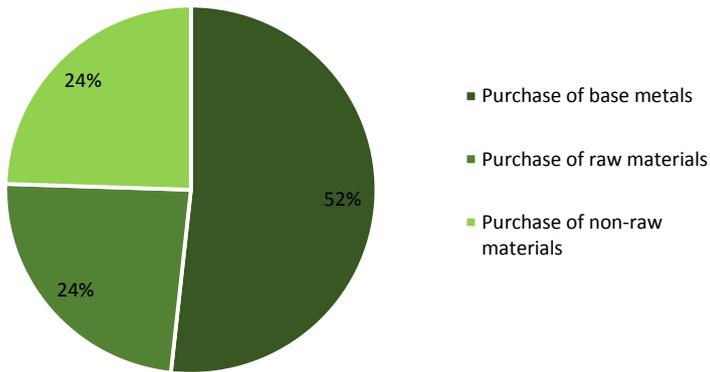
Prysmian Group Academy is the Group's international professional and management education and training school. Over the past three years, the Professional School has specifically addressed purchasing by delivering an annual one-week course for 30 participants that combines contributions from highly professional 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", was included in the course held in 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.

COMMITMENTS FOR THE FUTURE

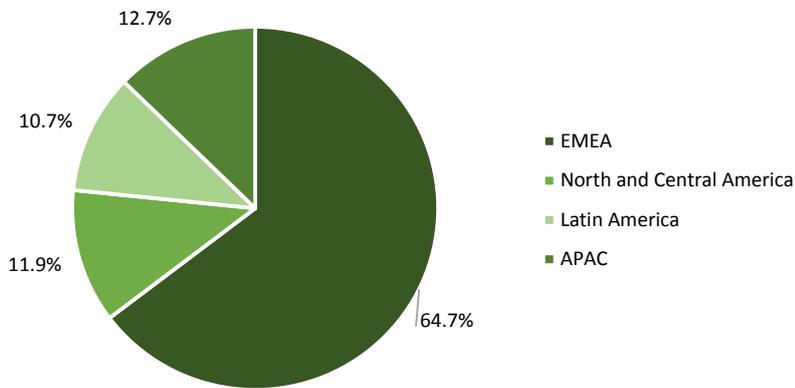
In confirmation of the commitment to manage the sustainability risks relating to first-level suppliers, Prysmian expects to carry out audits at 20 suppliers during 2016.

Total purchases by type in 2015



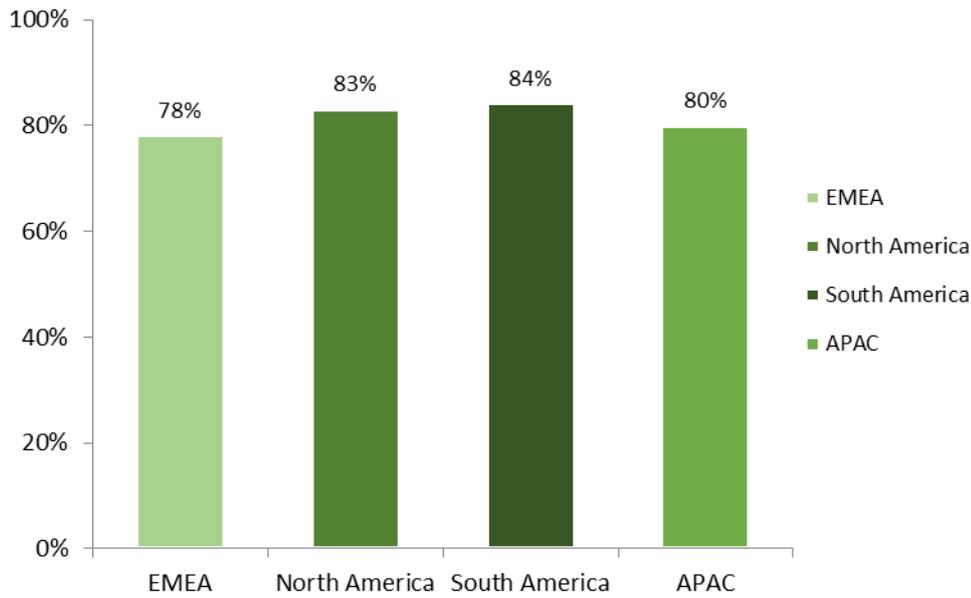
In 2015, 52% of total Group purchases are related to “base metals”, with the remaining split between “raw materials” and “non-raw materials”.

Total number of suppliers broken down by geographical area in 2015



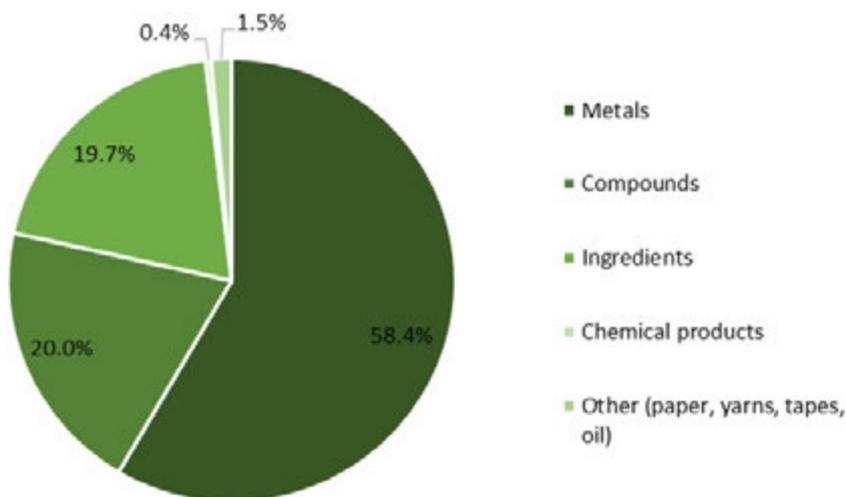
In 2015, out of 5,024 suppliers of “base metals” and “raw materials”, 64.7% are located in the EMEA area, in line with 2014 data. The remaining is split almost equally among the other geographical areas.

Percentage of goods and services purchased locally in 2015



In confirmation of Prysmian's commitment to promote local buying, purchases of goods and services classified as "non-raw materials" from local suppliers exceed 80% in all geographical areas of operation except EMEA, which reaches 78%.

Raw materials purchased by the Group in 2015 (Ktonne)



Raw material purchases in 2015 are 1,155 Ktonnes, of which 59% are metals in line with the quantity purchased in 2014. Once again, 11% of the raw materials used are sourced from recycled materials.