

## Risk Management

*The Prysmian Group adopts a system of internal control and risk management based on tools and information flows that enable the Board of Directors to take strategic decisions and establish guidelines for the system in an informed manner, considering the context in which the Group operates and the related financial, environmental and social risks.*

The value creation policy pursued by the Prysmian Group is and always has been based on the effective management of risks. Commencing from 2012, on adoption of the recommendations of the "Code of Corporate Governance for companies listed on the Italian Stock Exchange" regarding the management of risks, Prysmian has taken the opportunity to strengthen the Group's governance model and implement an advanced risk management system. This promotes the pro-active management of risks using a structured and systematic tool that supports the main decision-making processes. This "Enterprise Risk Management" (ERM) model, developed in line with internationally recognised models and best practices, allows the Board of Directors and management to evaluate in an informed manner those risk scenarios that might compromise the achievement of strategic objectives, and to adopt tools that are able to foresee, mitigate or manage significant exposures.

The Group's Chief Risk Officer (CRO), appointed to govern the ERM process, is responsible for guaranteeing together with management that the main risks faced by Prysmian and its subsidiaries are identified, assessed and monitored on a timely basis. In addition, an Internal Risk Management Committee comprising senior managers ensures, via the CRO, that the ERM process remains dynamic to reflect changes in the business, requirements and events affecting the Group over time. The CRO reports periodically (at least twice each year) to senior management on these changes.

The ERM model adopted, formalised in the Group ERM Policy that incorporates the guidelines for the System of Internal Control and Risk Management approved, in turn, by the Board of Directors back in 2014, follows a top-down approach, i.e. based on direction from senior management and the medium/long-term strategies and objectives of the business. This extends to all types of risk/opportunity that are potentially significant for the Group. These are shown in the risk model – presented below – which groups the areas of internal and external risk into five families that characterise Prysmian's business model:

- Strategic Risks: risks deriving from internal and external factors, such as changes in market conditions, business decisions that are wrong and/or implemented improperly, and slow reactions to changes in the competitive environment that might threaten the Group's competitive position and the achievement of its strategic objectives;
- Financial Risks: risks associated with the availability or sources of finance, or the ability to manage efficiently the volatility of exchange and interest rates;
- Operational Risks: risks deriving from events or situations that limit the effectiveness and efficiency of key processes, affecting the ability of the Group to create value;
- Legal and Compliance Risks: risks connected with violations of national, international and sector regulations or professionally improper behaviour that does not comply with the Code of Ethics, which expose the Group to possible penalties and damage its reputation in the marketplace;

- **Planning and Reporting Risks:** risks associated with the adverse impact of incomplete, incorrect and/or untimely information, with possible effects on the Group's strategic, operational and financial decisions.

#### Risk Model adopted by the Prysmian Group

STRATEGIC	FINANCIAL	OPERATIONAL
<ul style="list-style-type: none"> <li>• Macroeconomic, demand trends &amp; Competitive environment</li> <li>• Stakeholder expectations and Corporate Social Responsibility</li> <li>• Key customer &amp; business partners</li> <li>• Emerging country risk</li> <li>• Law &amp; regulation evolution</li> <li>• Research &amp; Development</li> <li>• M&amp;A / JVs and integration process</li> <li>• Operative CAPEX</li> <li>• Strategy implementation</li> <li>• Organizational framework &amp; governance</li> </ul>	<ul style="list-style-type: none"> <li>• Raw materials price volatility</li> <li>• Exchange rate volatility</li> <li>• Interest rate volatility</li> <li>• Financial instruments</li> <li>• Credit risk</li> <li>• Liquidity risk / Working Capital risk</li> <li>• Capital availability / cost risk</li> <li>• Financial counterparties</li> </ul>	<ul style="list-style-type: none"> <li>• Sales &amp; Tendering</li> <li>• Production Capacity / Efficiency</li> <li>• Supply Chain Capacity / Efficiency</li> <li>• Business interruption / Catastrophic events</li> <li>• Contract execution / liabilities</li> <li>• Product quality / liabilities</li> <li>• Environmental</li> <li>• Information Technology</li> <li>• Human Resources</li> <li>• Outsourcing</li> </ul>
LEGAL & COMPLIANCE	PLANNING & REPORTING	
<ul style="list-style-type: none"> <li>• Intellectual Property rights</li> <li>• Compliance to laws and regulations</li> <li>• Compliance to Code of Ethics, Policies &amp; Procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Budgeting &amp; Strategic planning</li> <li>• Tax &amp; Financial planning</li> <li>• Management reporting</li> <li>• Financial reporting</li> </ul>	

Managers involved in the ERM process are required to use a clearly defined, common methodology to measure and evaluate specific risk events in terms of "Impact - Probability of occurrence" and the adequacy of the system of controls in place. ERM is a continuous process that contributes, as defined in the ERM Policy, to the determination of the Group's three-year business and strategic plan by identifying possible events that could influence the sustainability of the plan, which is updated annually with the involvement of all key managers.

During 2016, the ERM process involved the Group's main business/function managers, resulting in identification and assessment of the main risk factors that are summarised below, together with the mitigation strategies adopted.

#### Sustainability risks

The Group constantly reviews its approach to the management of risks. Consistent with this and aware of the important opportunities deriving from the efficient management of sustainability risks, as well as the growing attention paid by regulators and stakeholders, Prysmian has decided to adopt a more holistic approach by identifying, for each area, the risks deriving from the environmental, social and economic impact of its activities.

**Sustainability Risk Model adopted by the Prysmian Group**

STRATEGIC	FINANCIAL	OPERATIONAL
<ul style="list-style-type: none"> <li>• <b>Macroeconomic changes and Geo-political environment</b></li> <li>• <b>Industry Trends and competitive environment</b></li> <li>• <b>Stakeholder expectations</b> (incl. sustainability ratings)</li> <li>• <b>Natural Environment / Human Capital Responsibility</b></li> <li>• <b>Operative Green CAPEX</b></li> <li>• <b>Organizational sustainability</b> (framework &amp; governance)</li> <li>• <b>Sustainability M&amp;A, JVs, business partners</b></li> <li>• <b>Sustainability Strategies and Business integration</b></li> <li>• <b>Sustainable R&amp;D</b></li> <li>• <b>Law &amp; regulation evolution</b></li> <li>• <b>Country Risk &amp; Ethical Culture</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Economic and Financial Integrity</b></li> <li>• <b>Capital availability / cost risk</b></li> <li>• <b>Sustainable Financial counterparties</b></li> <li>• <b>Commodity risk and natural resource security</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Eco-conscious customers and Green Sales</b></li> <li>• <b>Green Products and Technologies</b></li> <li>• <b>Product Lifecycle Footprint</b></li> <li>• <b>Sustainable Supply Chain</b></li> <li>• <b>Environmental</b> (water, energy, emissions, waste, etc.)</li> <li>• <b>Labor Practices &amp; Human Resources</b> (incl. Health &amp; Safety)</li> <li>• <b>Outsourcing</b></li> <li>• <b>Sustainable Information Technology</b></li> <li>• <b>Contract execution / liabilities</b></li> </ul>
LEGAL & COMPLIANCE		PLANNING & REPORTING
<ul style="list-style-type: none"> <li>• <b>Sustainability Intellectual Property rights</b></li> <li>• <b>Compliance to environmental and social laws and regulations</b></li> <li>• <b>Compliance to Code of Ethics, Environmental and Social Policies &amp; Procedures</b></li> </ul>		<ul style="list-style-type: none"> <li>• <b>Sustainability Budgeting &amp; Strategic planning</b></li> <li>• <b>Sustainability Tax Planning &amp; Reporting</b></li> <li>• <b>Management Reporting</b></li> <li>• <b>Sustainability (Environmental and Social) Reporting</b></li> </ul>

**ORGANISATIONAL MODEL (DECREE 231/2001)**

Prysmian adopted an organisational model (the "Model") in compliance with the requirements of Decree 231/2001 on 24 January 2006. This Model is periodically revised and updated to take account of changes in the list of administrative offences and crimes envisaged by the Decree, as well as the dynamics of the system of corporate governance and the organisational structure of the Group. This activity ensures that the Model is always up to date and applicable over time. The Company is and has always been determined to comply with the related legislative requirements, to implement the principles of proper management laid down in the Decree and to improve systematically the system of corporate governance, in order to combine the achievement of excellent results with full compliance with the regulations and the highest ethical standards.

The Model, which is an integral part of the Group's broader system of governance, is designed to establish operational rules of behaviour that are suitable for preventing illicit conduct deemed significant by the Company pursuant to the Decree, based on analyses of Prysmian's business activities, decision-making processes and system of internal control.

The Model comprises two sections. The first part, of a general nature, describes the Decree, the rules of governance and the general principles on which the Model is based.

- Code of Ethics, which sets out the key principles of ethical behaviour that must be observed by all those who work on behalf of Prysmian or its affiliates. Translated into 26 languages, the Code of Ethics is displayed at each Group affiliate and periodic training sessions are held for employees and collaborators;
- Guidelines for Conduct that, by analysing the key principles expressed in the Code of Ethics, identify required behaviours in the areas of "what to do" and "what not to do", thus responding to the need to prevent possible offence risk scenarios.

The second section, on the other hand, seeks to identify and govern the specific conduct required in areas that are known to expose the Company to offence risk situations.

The fundamental principles laid down in the Code of Ethics and the Guidelines for Conduct are rendered operational by the definition of specific Decision, management and control protocols that govern, for each process exposed to offence risk: the roles and responsibilities of the parties involved, the decision-making/authorisation procedures, and the management and control methodologies adopted.

Lastly, the governance rules for the Model specify the organisational rules for implementation, ensuring the continuous functioning of the Model.

Following the amendments made to the Decree during 2015 and 2016, with particular reference to eco-crimes<sup>5</sup> relating to environmental matters, corporate crimes<sup>6</sup>, self-money laundering<sup>7</sup> and the crime of worker exploitation<sup>8</sup>, the Internal Audit Function has completed a risk assessment for the purpose of evaluating the

<sup>5</sup> Law 68/2015, so-called "Eco-crimes Law": "Instructions on crimes against the environment".

<sup>6</sup> Law 69/2015: "Instructions on crimes against the public administration, mafia-type associations and false financial reporting".

<sup>7</sup> Law 186/2014: "Instructions on the emergence and return of capital held abroad, as well as for strengthening the fight against tax evasion. Instructions on self-money laundering". This measure amended the existing legislation by adding the new crime of self-money laundering to art. 25-octies of Decree 231/2001 and to the criminal code (art. 648-ter.1), as well as by increasing the penalties for money laundering (art. 648-bis) and the use of cash, goods or other value obtained from illegal sources (art. 648-ter).

<sup>8</sup> Law 199/2016: "Instructions on the fight against undeclared work, the exploitation of agricultural workers and the realignment of wages in the agricultural sector".

Group's exposure to the above offence risk scenarios and, if necessary, updating the Model adopted by Prysmian and each Italian company within the Group.

### **Internal Audit, Compliance and Internal Control**

In order to strengthen the system of internal control and risk management, commencing from 28 July 2016 the Board of Directors established a *Compliance* Function and, acting on a recommendation from the director responsible for the system of internal control and risk management approved by the Audit Committee and having consulted the Board of Statutory Auditors, appointed a *Compliance and Internal Audit Officer* to manage the new *Compliance* department as well as the *Internal Audit* department. As a consequence, the *Compliance and Internal Audit Officer* was granted the rights and duties envisaged in the Code of Self-Regulation for the managers of *internal audit* functions. The Group decided to maintain a separate Internal Audit organisation, which now reports hierarchically and functionally to the *Compliance and Internal Audit Officer*. Including the Compliance function, the Internal Audit function has now become larger and more structured.

The *Compliance and Internal Audit Officer* reports hierarchically to the Board of Directors who appointed him, while also reporting on his work to the Audit Committee and the Board of Statutory Auditors. This person is not responsible for any operational areas, despite having direct access to all the information needed for the performance of his functions.

The *Compliance and Internal Audit Officer* is mandated to check the adequacy and functioning of the system of internal control and risk management in compliance with international professional standards, both on an ongoing basis and with regard to specific requirements. Accordingly, he prepares an annual Audit and Compliance Plan for the Group, based on the risk assessment carried out as part of the ERM process.