

A SUSTAINABLE SUPPLY CHAIN



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 2017. 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 principal 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.

In line with the Group's continued commitment in relation to sustainability issues, starting from the end of 2016, Prysmian has launched structured activities for the integration of ESG factors (Environmental, Social and Governance) within its supply chain. For this purpose, an internal document called "Supply Chain Strategy" has been drawn up containing the strategic approach and the objectives of the Group.

The strategic management of the Prysmian Group supply chain is based on the following principles:

- Risk assessment
- Identification of critical suppliers
- Supplier management and performance evaluation
- Search and selection of the supplier according to standardised processes.

In relation to these, Prysmian identified and developed 3 main macro-activities for the enhancement of sustainability aspects:

- Subscription of ethical standards in the introduction of new suppliers: Code of Ethics and Code of Business Conduct, definition of Conflict Minerals Policy and Human Rights Policy;
- Sustainability assessment of the current supply chain: Sustainability Desk Analysis, Risk Analysis and self-assessment questionnaires on sustainability issues;
- Management and improvement of sustainability aspects: implementation of actions with a view to achieving the objectives included in the Sustainability Scorecard.

OUR SUPPLIERS

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 sector⁴³. Given the substantial fragmentation of the copper market, Prysmian is one of the leading economic players in the sector.

Accordingly, considering various factors, such as 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. On the one hand, Prysmian resorts to producers that are integrated as much as possible and are able to guarantee the supply in the long term, having direct access to the raw material (mines or concentrates); on the other hand, Prysmian targets all the main producers in the world, with the aim of always ensuring an efficient coverage of its needs by optimising the metal supply 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 and who can guarantee greater flexibility.

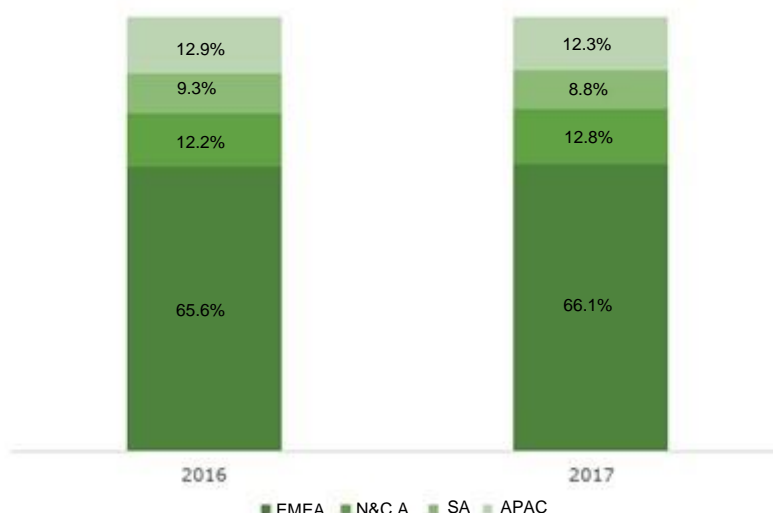
Even with regard to the purchasing of aluminium, the Group has decided to focus increasingly on suppliers that are vertically integrated (with processes that manufacture aluminium rod directly from aluminium oxide), in preference to those that are not integrated (manufacturers that smelt aluminium ingots 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.

Finally, 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 principal 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.

TOTAL SUPPLIERS BY GEOGRAPHICAL AREA

In 2017, out of a total of 4,935 suppliers of "base metals" and "raw materials", approximately 66% are in the EMEA area; the remaining part is instead divided almost equally between the remaining geographical areas in line with the 2016 data.

⁴³ Source: Global data Source from Natixis, Reuters and Morgan Stanley

PERCENTAGE OF SUPPLIERS BY 2017 GEOGRAPHIC AREA

SUPPLIERS BY GEOGRAPHICAL AREA (%)	2016	2017
EMEA	65.6	66.1
North and Central America	12.2	12.8
South America	9.3	8.8
APAC	12.9	12.3
Total	100	100

GOODS AND SERVICES PURCHASED LOCALLY

In 2017, 50.5% of total Group purchases related to base metals, with the remainder split between raw materials and non-raw materials.

As confirmation of Prysmian's commitment to promoting the local purchasing culture, with reference to "non-raw materials" the percentage of goods and services purchased from local suppliers is around an average of 64.6%.

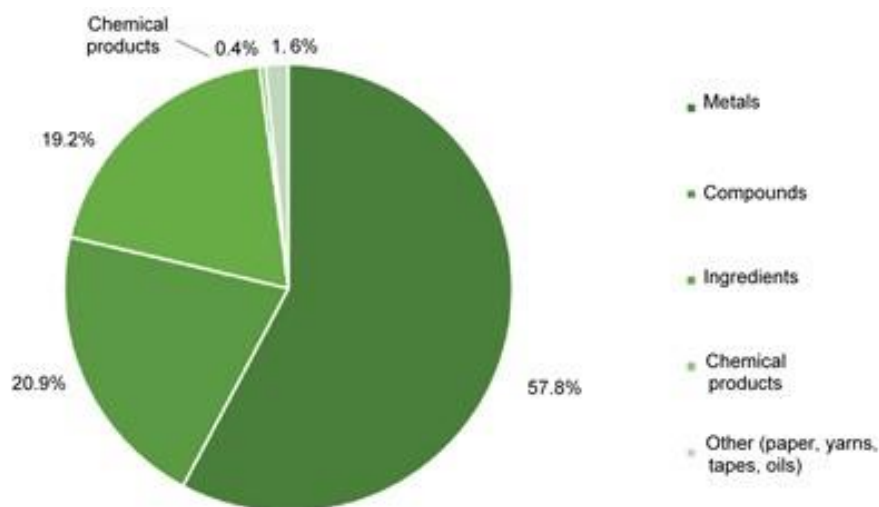
Below are the percentages of goods purchased locally, by relevant geographical area of the Group in 2017.

PERCENTAGE OF GOODS AND SERVICES PURCHASED LOCALLY IN 2017⁴⁴

GOODS AND SERVICES PURCHASED LOCALLY(%)	2017
EMEA	63.2
North and Central America	66.3
South America	73.2
APAC	71.9

⁴⁴ The calculation of the percentage excludes data relating to Italian and Corporate suppliers

RAW MATERIALS PURCHASED BY THE GROUP IN 2017 (% based on purchases in tonnes)



Raw material purchases in 2017 totalled 1,154 Ktonnes, of which 57.8% were metals in line with the quantity purchased in 2016. Once again, 11.4% of the raw materials used were sourced from recycled materials.

TOTAL RAW MATERIALS PURCHASED (KT)	2016	2017
Metals	656	667
Compounds	220	241
Ingredients	214	222
Chemical products	6	5
Other (paper, yarns, tapes, oil)	26	19
Total	1,122	1,154

A CHAIN OF RESPONSIBLE VALUE

In terms of supplier management, Prysmian qualifies 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 and reduce possible negative impact, the Group analyses all associated risks and opportunities on a centralised and integrated basis, focusing most on the critical risks.

In this regard Prysmian has renewed, in 2017, an internal analysis (Desk Analysis), developed for the first time in 2014, in which the main suppliers of the Group were assessed on the basis of sustainability criteria. Specifically, the analysis involved the Group's strategic base metals and raw material suppliers, which include strategic suppliers both from the point of view of the materials supplied and those that are relevant based on the purchase turnover. The Desk Analysis aims to analyse, through public documentation, the sustainability practices of suppliers with reference to three areas: management systems of ethical sustainability and integrity, environment, and human and labour rights. The analysis was carried out on a number of suppliers covering 55% of turnover (compared to the analysis of 2014 which covered 51%), increasing the percentage of expenditure covered by a 4% assessment with

a view to achieving the target 60% by 2020 (as indicated in the Sustainability Scorecard B.5). In relation to the Desk Analysis and referring to the macro-activities mentioned above ("Sustainability assessment of the current supply chain"), Prysmian has consequently developed a Risk Analysis on raw material suppliers.

The analysis takes into consideration both the ESG criteria identified and analysed during the Desk Analysis, and the elements linked to the business. The Risk Analysis enabled the identification of the most critical suppliers with respect to sustainability criteria to which the self-assessment questionnaire should be administered and define the 5 suppliers on which to carry out the first Sustainability Audits in order to reach the target of 20 Audits by 2020 (as indicated in the Sustainability Scorecard B.7).

The results of the Desk Analysis and the Risk Analysis are presented below, on the basis of which 9 suppliers have been identified as potentially critical for the issues assessed. Of these, 3 were subjected to on-site assessment, with the consequent definition of improvement actions. The results did not lead to a suspension of the supply relationship in any of the cases.

SUPPLIERS WITH CURRENT OR POTENTIAL IMPACT IN RELATION TO ENVIRONMENTAL CRITERIA, HUMAN RIGHTS, WORKING CONDITIONS AND SOCIETY		
Suppliers	Number of suppliers	% of spending
Evaluated suppliers	86	55%
Suppliers identified to have a current or potential negative impact	9	1.14%
Suppliers identified to have a current or potential negative impact, for which an improvement plan has been implemented	3	0.52%
Suppliers identified to have a current or potential negative impact, whose supply relationship has been suspended as a result of the assessment	0	0%

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 undertaken in prior years was continued during 2017 and new initiatives were launched. In particular, 12 quality 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 2017 were assessed using a qualification questionnaire that covers environmental, social and governance matters.

In 2017, Prysmian implemented subsequent initiatives, with a view to strengthening its commitment on sustainability matters. One example is the implementation of a new Vendor Management system that aims to track and analyse responses to supplier qualification questionnaires, Conflict Minerals risk assessment and child labour in products containing Mica. With regard to the work commenced in 2015 on the management of metals suppliers, work on their mapping, classification and involvement continued in 2017 using a self-assessment questionnaire designed to assess the principal 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 of BM. Once again in 2017, 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 principal 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 undertaken initiatives focusing on:

- Stability and continuity of production processes: new system for the collection of data and the monitoring of supplier service levels;
- 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 principal 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 was launched in 2017 and mainly implemented throughout Europe and is now being extended to other regions, provides monthly performance indicators analysed by country/factory/supplier.

CODE OF BUSINESS CONDUCT AND OTHER POLICIES

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, business partners, sales agents, sub-contractors and distributors.

The document covers the following topics:

- business integrity (fair trade, conflicts of interest, gifts and offers of entertainment, corruption, accountability);
- human rights and workers' rights (under-age working and slavery, health and safety at work, non-discrimination, freedom of association and collective bargaining);
- environment (principle of precaution, use of raw materials and compliance, energy consumption, greenhouse gases and other emissions, use of water, production of waste and recycling).

The Prysmian Code of Business Conduct was published on the Group's website in 2015. Suppliers are also informed of its existence and Prysmian's application of the related guidelines 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. The Group's Human Rights Policy was also extended by adding a specific chapter on 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 who do not promptly satisfy the required standards.

In 2017, the Prysmian Group prepared and published the Conflict Minerals Policy document with the aim of guaranteeing its customers a "Conflict Minerals free" supply chain through the following activities:

- Identification of purchased materials / semi-finished products containing 3TG (tin, tungsten, tantalum and gold from the Democratic Republic of Congo or neighbouring countries);
- Request to all regular suppliers to disclose the origin of the minerals used in their production processes (using international formats and standards);
- Analysis of information received and implementation of corrective actions.

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 glass-based tape that contain small quantities of mica, 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 2017, the Group continued analysing the results collected through the questionnaires sent to suppliers with the aim of developing increased monitoring aimed at avoiding the use of suppliers at potential risk of child labour in their supply chain.

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.

PRYSMIAN POWERLINK: AN INNOVATIVE APPROACH TO THE SUSTAINABILITY OF SUPPLIERS

Prysmian PowerLink, a Group company dedicated to the design, construction and installation of high and extra-high voltage cables and systems for the transmission of underground and submarine energy, has implemented for the past 2 years a cloud platform for managing the Vendor Management process with the goal of improving the supplier qualification process by facilitating customer-supplier communication.

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 428 registered suppliers, more than 80% have been qualified. 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 five 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 within the Prysmian Group, as it relates to the supply chain and, therefore, purchasing, highlighting the activities and topics of concern to the function and also covering aspects of the Group's Code of Business Conduct and of monitoring activities for the supply chain undertaken in recent years (self-assessment, Desk and Risk Analysis and audit). Additionally, the lesson guides 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 2017, more than 40% 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 2018 at the same level of intensity as in prior years. Furthermore, following the publication of the Sustainability Scorecard, the Prysmian Group has committed itself to achieving all the objectives declared by 2020.

SALES & OPERATIONS PLAN

"Enhanced supply chain" means providing excellent service to our customers while maintaining the connotations of flexibility, agility and adaptation to market changes, guiding the supply and production network through an increasingly optimised production allocation able to leverage the industrial Footprint of the Group.

In this context, the Supply Chain function further shaped in 2017 its organisation to support the Group's various businesses, fuelling more specific production allocations at the level of individual business applications, with intercompany flows supporting growth and production cost optimisation.

In the Telecom Optical business, the Intercompany flows reached a 35% share worldwide, and 53% at the European level, thanks to a supply chain orchestration that maximised the availability of optical fibre for the Group, in a global context that presents a lack of availability of optical fibre, despite the strong expansion of installed capacity by Prysmian.

Also in the Energy Business in 2017, Intercompany flows represented a differentiator, with a level never reached in the past of 20% of total world sales, particularly supporting growth in the Asia Pacific region.

The Supply Chain function 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 planning activity cannot be separated from the maintenance of high customer satisfaction and from another rotation of the Inventories to support cash generation.