



**GROUP PURCHASING**  
**Supply Chain**  
**Strategy and Vendor**  
**Management**

**GROUP PURCHASING**

# **Supply Chain Strategy and Vendor Management**

## **FOREWORD**

Following the increasing development of activities related to sustainability within the supply chain, in 2016 Prysmian Group has started an activity of further integration of ESG factors within its supply chain strategy, in order to emphasize their importance as a fundamental part of it.

This document aims to summarize the main features of the Prysmian supply chain strategy and the actions done in order to integrate ESG factors.

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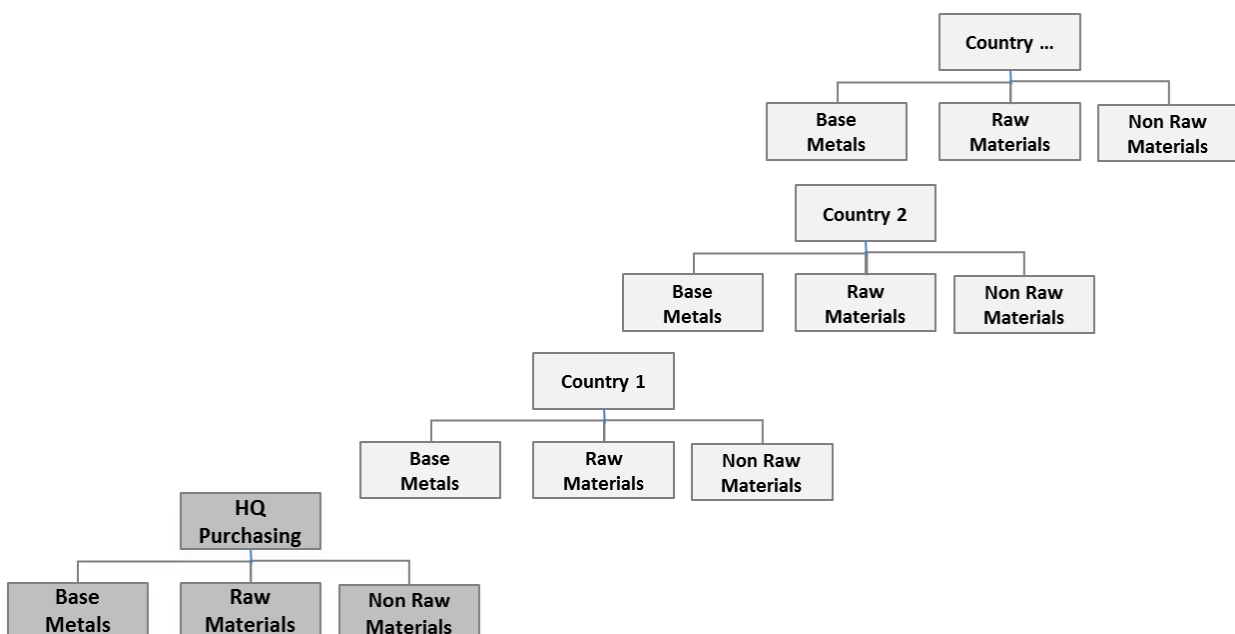
## 1. Prysmian Group Purchasing Organization

Purchasing is a Group global function with the mission of supporting Countries and BU's, enhancing Group results through cost competitive advantage and full leverage of Group dimension and global presence, acting as one team worldwide.

Group Purchasing Organization has the following characteristics:

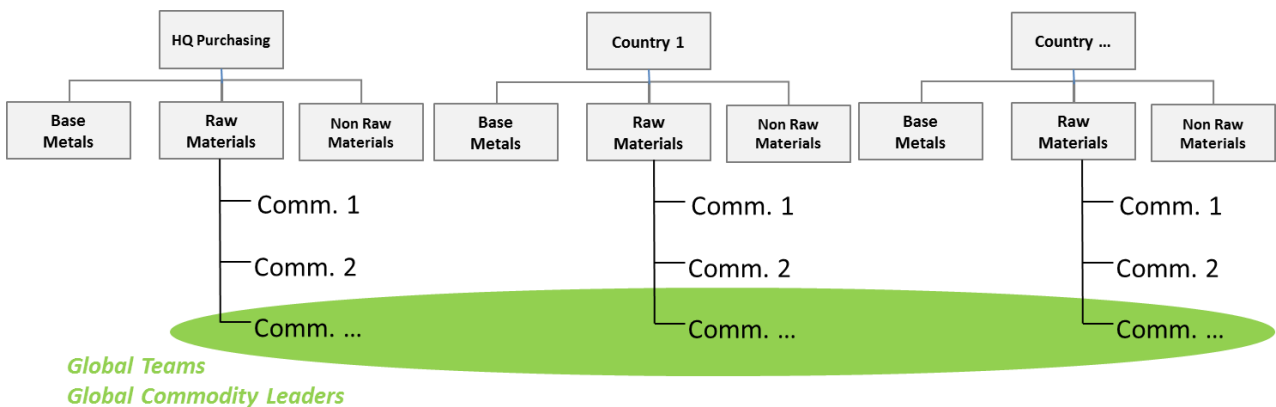
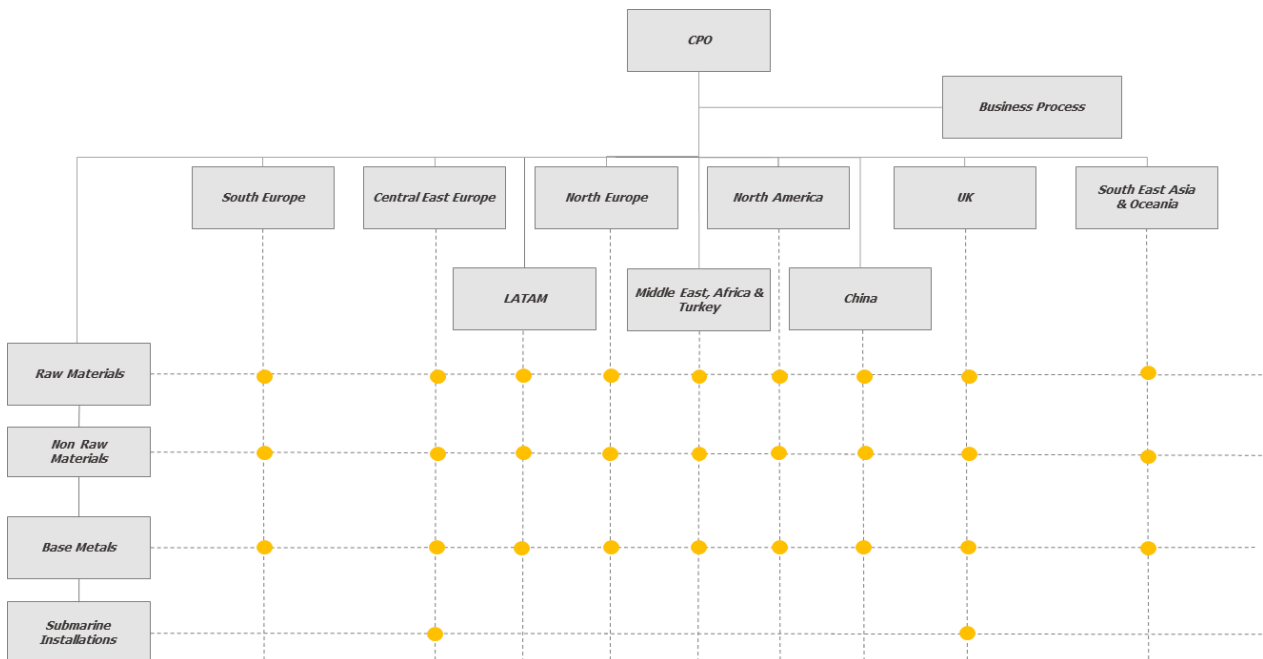
- One mirror organization across the Group based on three Commodities: Base Metals, Raw Materials, Non-Raw Materials (Indirect, Capex and Services)
- One responsible for each commodity identified in each Country/Region with strong functional link with the related HQ Commodity Head;
- One common commodity management deployed at the buyer's level creating Global Teams led by Global Commodity Leaders, with the aim to define and develop related sourcing strategy, sourcing pipeline and volume bundling, product benchmark and cost drivers;
- Common rules/systems/processes and common KPI's, monitoring, reporting.

The Group Purchasing Organization, at different levels (Corporate, Regions and Countries) is organized as follows:



- Corporate Head of Commodities (Base Metals, Raw Materials, Non Raw Materials) are globally responsible to implement and manage the Global Teams with the support of each Global Commodity Leader;

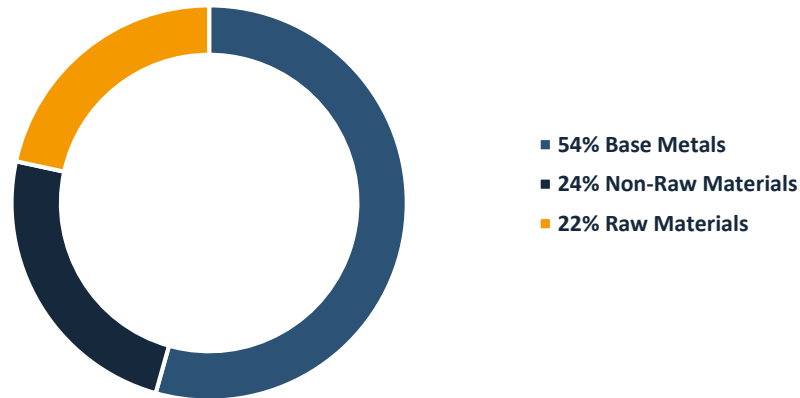
- Regional and Country purchasing Directors are responsible to optimize the overall purchasing strategy by facilitating the identification of possible synergies in terms of alternative sourcing. They hierarchically report to the Group Chief Purchasing Officer and the Regional/Country CEO's;
- Regional/Country head of commodities are responsible for their region/ country commodity management, directly reporting to the region/country purchasing director and functionally to the corporate head of commodity;
- Global Commodity Leaders are responsible to coordinate and address the assigned commodity strategy, benchmarking, cost analysis and “best sourcing” at Group Level;



## 2. Prysmian Group Purchasing Facts and Figures

Typical Group annual purchased value (APV) by commodity (7.5 – 8.0 Bn€ total):

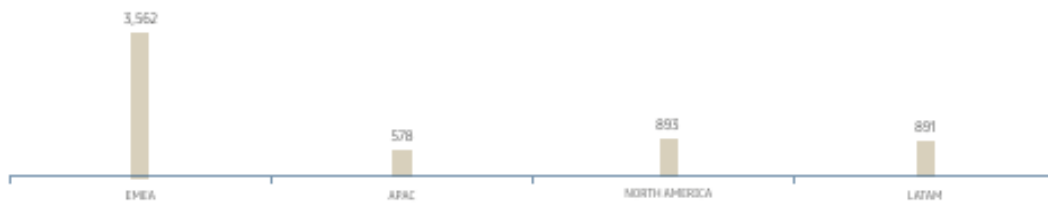
**% OF SPEND ON SUPPLIERS 2020 - PRYSMIAN GROUP**



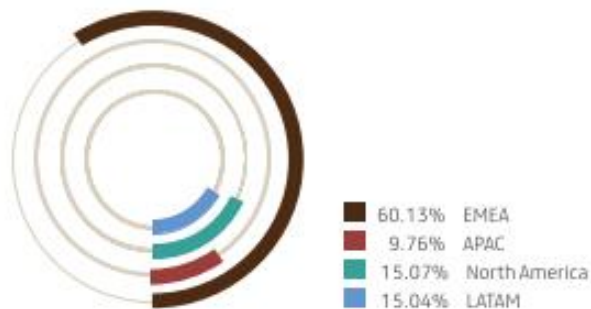
The overall APV variation year over year is primarily influenced by base metals (Al, Cu, Pb) quotations fluctuation driven as an example in Europe by London Metal Exchange.

### TOTAL NUMBER OF SUPPLIERS BROKEN DOWN BY GEOGRAPHICAL AREA IN 2020

**NO. OF SUPPLIERS 2020 – PRYSMIAN GROUP**



**% OF SUPPLIERS 2020 – PRYSMIAN GROUP**



In 2020, out of 5.924 suppliers of base metals and raw materials, 60.0% were located in the EMEA area, slightly less than 2019. The remainder were split almost equally among the other geographical areas.

### 3. Commodities overview

#### 3.1 BASE METALS

Three main raw materials fall under the Base Metals category, namely aluminum, copper and lead, with copper and aluminum representing the majority of the Group's raw material purchases.

Prysmian's production process starts from aluminum and copper wire rod for the manufacturing of cable conductors. These metals are purchased from the world's leading mining and smelting companies. The Group only self-produces minor quantities of wire rod (less than 10% of copper and 25% of aluminum total consumption).

The Group consumes about 2-3% of the world's copper production and about 7% of the copper used in the electrical and electronic sector. Given the highly fragmented copper market, Prysmian Group is one of the leading economic players in the sector.

The following three aspects are taken into account in the Group's metal sourcing strategy:

- The importance of suppliers within the Group's value chain;
- The high consumption of metals;
- The wide geographical distribution of Prysmian production sites

Concerning the purchase of aluminum, the Group increasingly focuses on suppliers that are vertically integrated (with processes that manufacture aluminum rod directly from aluminum oxide), in preference to those that are not integrated (manufacturers that purchase aluminum ingots in order to produce rod). This strategy has substantial environmental advantages due to simplification of the logistics and elimination of the ingot re-melting cycle, in addition to cost advantages and helping the Group guarantee security of supplies.

Due to the high electricity consumption required by aluminum production process, Prysmian has included the aluminum carbon footprint as a supplier selection criterion, assigning a considerable portion of the business portfolio to low-carbon aluminum producers.

Long-term strategies for the purchase of copper and aluminum lead Prysmian to work with

the largest players in the respective sectors with a strong focus on sustainability, thus creating a highly sustainable end-to-end cycle.

In the future the company aims to increase the amount of sustainable initiatives with suppliers. In addition, Prysmian plans to make its trading activities more sustainable. As a start, recently, 100% paperless initiative was implemented followed by 69% reduction in paper printed & scanned by HQ base metals team.

### 3.2 RAW MATERIALS

While Base Metals are mainly used for the conductors of energy cables, all the other raw materials represent a greater variety of products and applications:

- Raw Materials for Cables (aimed at insulation and protection of the conductor) such as Polyethylene and PVC compounds, rubbers, special plastics, yarns, tapes, galvanized steel wires, etc.
- Raw Materials for Optical fiber making such as coatings, glass tubes, high purity quartz sand and silicon donors' products, etc.
- Components for Energy and Telecom accessories such as connectors, metal parts composite insulators, casings, connecting boxes, etc.
- Raw Materials and Components for elevators

Given the huge variety and low volume of raw materials purchased, Prysmian represents a minor actor for most of the vendors in our supply base. Prysmian commonly uses either commodities fully available from multiple sources or high-performance raw materials that are only manufactured by a limited number of suppliers that are often multi-national companies highly specialized with strong technological know-how and well-focused on wire & cable market. Prysmian continuously assesses potential risks such as single sourcing, offer/demand unbalance, and financial risk. These risks are managed by long term supply agreements when the supplier is unique or substitutable only with great difficulties and long time. In case of financial risk or tight market offer, Prysmian cooperates with the technical functions to identify alternative suppliers to ensure diversification of sourcing options.

According to Prysmian's policy, only raw materials technically approved and sourced from qualified suppliers can be utilized. Following the Group's practice; Purchasing in collaboration with Quality and R&D functions carry out product/process audits aimed to assess the ability of the supplier to manufacture the related materials as well as to grant the requested technical performances and expected quality. Audits are performed onsite

with a deep assessment of the production lines, production process and full respect of all the quality procedures developed by the supplier. On average the Group performs 7/10 product/process audits per year; in 2020 after the training done in 2019 the audit practice has been extended throughout the full Prysmian perimeter as local initiative.

### 3.3 NON-RAW MATERIALS

The Non-Raw Materials category embeds all the services and goods which are not directly connected to our final products. Excluding installation services, among the most important categories which belong to the Non-Raw Material there are: Transportations, packaging, MRO and utilities, which combined cover more than 50% of the total Non-Raw spend. These four categories are managed in very different ways based on the centralization level required:

- **Transportation:** Strong support from the Headquarter in managing Global or National contracts with WW providers which bring expertise in the logistic aspects as well as in the management of the invoicing process. The business relationships with these suppliers are long-term partnerships with the aim of reaching:
  - Top quality efficiency in the Logistics flows
  - High service level and On-Time Deliveries
  - Cost Management & price stability to avoid “Spot” market fluctuations
- **Progressive relevance** is given also to the capability of transportation & logistics suppliers to measure and communicate the CO2 emission generated “on behalf” of Prysmian Group.
- **Packaging:** this includes drums and packaging material.
  - **Drums:** This is the most relevant packaging standard used to carry the cables to the final destination typically managed through national Contracts with a strong coordination from the Headquarter. Prysmian Group buys mainly Wooden and Steel reels, with a minor portion of plastic and plywood drums. Steel Reels are returnable and after being repaired they are put back in the circle while wooden drums aren’t always re-used. One of the most important targets we have as a group is to increase the volume of re-used wooden drums. There are also ongoing initiatives to increase purchasing of drum kits rather than assembled drums, with the aim of reducing space required for their transport and, in turn, reducing the carbon footprint of transport operations. For what is concerning plastic drums the Group is evaluating alternative materials and pushing as much as possible for using recycled plastic instead of virgin one.
  - **Other packaging material:** including pallets, wooden battens, end caps, and



foams which are used to cover the drum once loaded. This portion of the spend is locally managed with the aim of reducing the cost as much as possible pushing towards solutions which are more sustainable from an environmental standpoint

- MRO (Maintenance, Repair and Operations): This category includes a variety of materials/services but mainly Spare Parts (mechanical and electrical) and PPE. The management of this category is mainly national but sometimes, locally, plants can find shops with the best service and more competitive than bigger players. The target is to have the PPE portion of this category under a strict National control (to ensure that all the safety requirements are met) and keep the Spare Parts portion centrally managed (National) for its most part but giving the freedom locally to find the best deals for repairs.
- Utilities: majority of utilities purchased are referring to electricity (85%). Every year the Group is assessing the utilities spend to evaluate the possibility to use greener energy (e.g. solar panel investment), increase the efficiency of its plants to consume less energy (e.g. LED lamping initiatives) and to invest in the purchase of Guarantees of Origin certificates (GoO's).

**GOODS AND SERVICES PURCHASED LOCALLY [%] <sup>77</sup>**

	2020 (Prysmian Group)	2019 (Prysmian Group)	2018 (Prysmian Group w/o General Cable)
EMEA	70.8	70.4	69.4
APAC	79.7	84.9	62.0
North America	97.9	94.4	70.9
LATAM	83.0	82.6	65.5

## 4. Supply Chain Strategy overview & ESG factors integration

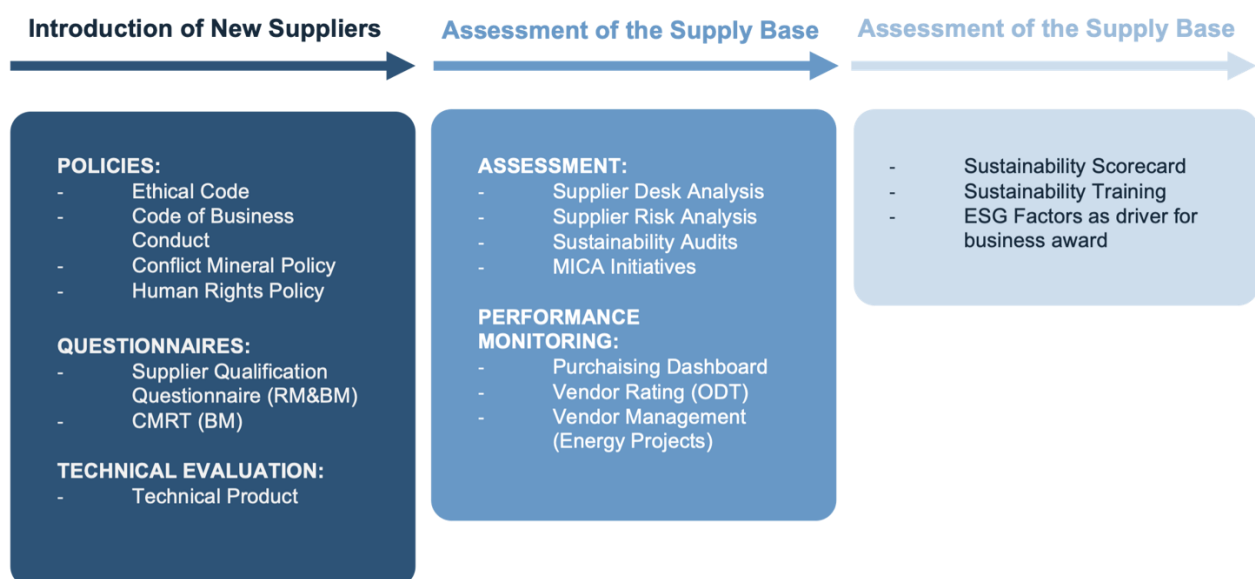
The Supply Chain Strategy Document has been introduced for the first time in 2018 with the purpose of explaining how the Procurement Department in Prysmian Group approaches and implements ESG factors in its processes. During the last few years the Procurement Function focused its attention on streamlining the activities and processes related to Sustainability with the aim of maximizing the effectiveness.

### SUPPLY CHAIN PILLARS:

- Policies
- Continuous Risk Assessment
- Suppliers Performance Monitoring

For all the above supply chain pillars, ESG factors have been considered as a fundamental part of each point and integrated within the existing strategy and activities rather than developing dedicated stream of sustainability in parallel to a more traditional supply chain.

Prysmian Group Purchasing identifies 3 main steps in the supply base management: **Introduction of new suppliers, Assessment of the actual supply base and Continuous improvement.** The scheme here below shows how ESG factors are embedded within each of the three steps.



**INTRODUCTION OF NEW SUPPLIERS:**

Every recurring supplier (Base Metals, Raw Materials and Non-Raw Materials) which starts a business relationship with Prysmian Group is required to be compliant with the Ethical Code ([Link](#)) and the Code of Business Conduct ([Link](#)). Moreover, the Group in the last years published the Human Rights Policy as well as the Conflict Minerals Policy (Specific to Base Metals suppliers mainly) which are additional documents that the suppliers need to acknowledge.

Any new Base Metals or Raw Materials supplier has to compile the Supplier Qualification Questionnaire with the aim to collect information related to Product, Process, Financial performances and Sustainability. The Supplier Qualification Questionnaire (here attached) is composed by 7 sections as Facilities, Production, Quality, HSE and so on. Starting from 2015 we added in the Supplier Qualification Questionnaire the section Sustainability where we ask to each new supplier its commitment on ESG aspects, how it manages improvements and reporting and if it is present any certification about the CSR management system. In addition to that as of 2015 Prysmian started the assessment of each new Base Metals supplier potentially affected by the risk of sourcing of Conflict Minerals (3TG) using the CMRT (Conflict Minerals Reporting Template). The final step for supplier qualification is the process/product audit that is performed only in case of critical material supplied or not satisfactory answers to the Supplier Qualification Questionnaire. The new suppliers introduction is subject to technical approval and full industrial test of the related products. All the above points allow Prysmian to assess the potential risk associated to the vendor and to determine whether the supplier is matching the conditions to be considered qualified.

For some specific Non-Raw Materials categories, starting from the beginning of 2020, Prysmian Group introduced a compliance screening platform (Exiger). Exiger is a global tool coordinated centrally but managed locally by each country/region of the Group. The Tool screens the internet looking for any non-compliances or allegations that the potential supplier might have faced, as a second step the supplier is requested to answer to a specific questionnaire and provide as much information about processes and internal organization. Every supplier is then evaluated based on the results of assessment and approved by the Purchasing and the Compliance function.

**ASSESSMENT OF THE ACTUAL SUPPLY BASE:**

Prysmian Group in the last few years improved and structured the core part of the entire process related to ESG monitoring: The Assessment of the current supply base.

This portion of the process is structured as following:

- Supplier Desk Analysis
- Risk Analysis
- Sustainability Audits
- Specific Initiative on Human Rights

## **SUPPLIER DESK ANALYSIS**

The Supplier Desk Analysis has been developed with the main purpose of carrying out an assessment on sustainability aspects regarding the main Prysmian Group's suppliers. The analysis is based on social, economic and environmental criteria (ESG). The Analysis is executed by a third-party partner with Prysmian Group on the Sustainability aspect of the Company. For each supplier, our Sustainability Partner will investigate websites or any other form of public information in order to assess 12 elements of analysis regarding three macro-areas:

- Sustainability and management systems
- Environmental criteria
- Human and labor rights.

The overall score assigned to each company is included between 0 (minimum score) and 12 (maximum score) calculated based on the number of elements that supplier has actually implemented in its own operations processes.

Recently the Group also developed an internal classification of the spend to better concentrate the efforts of the assessment. Out of the entire spend of the group, approximately 8 blnEUR, Prysmian Group classified part of it as "Critical Spend" and, on this portion, focuses its attention.

As explained in the initial chapters Prysmian Group's spend is divided into 3 macro categories: Base Metals, Raw Materials and Non-Raw Materials. Following this categorization, the Group studied each and every area and classified for each commodity the "Critical Spend":

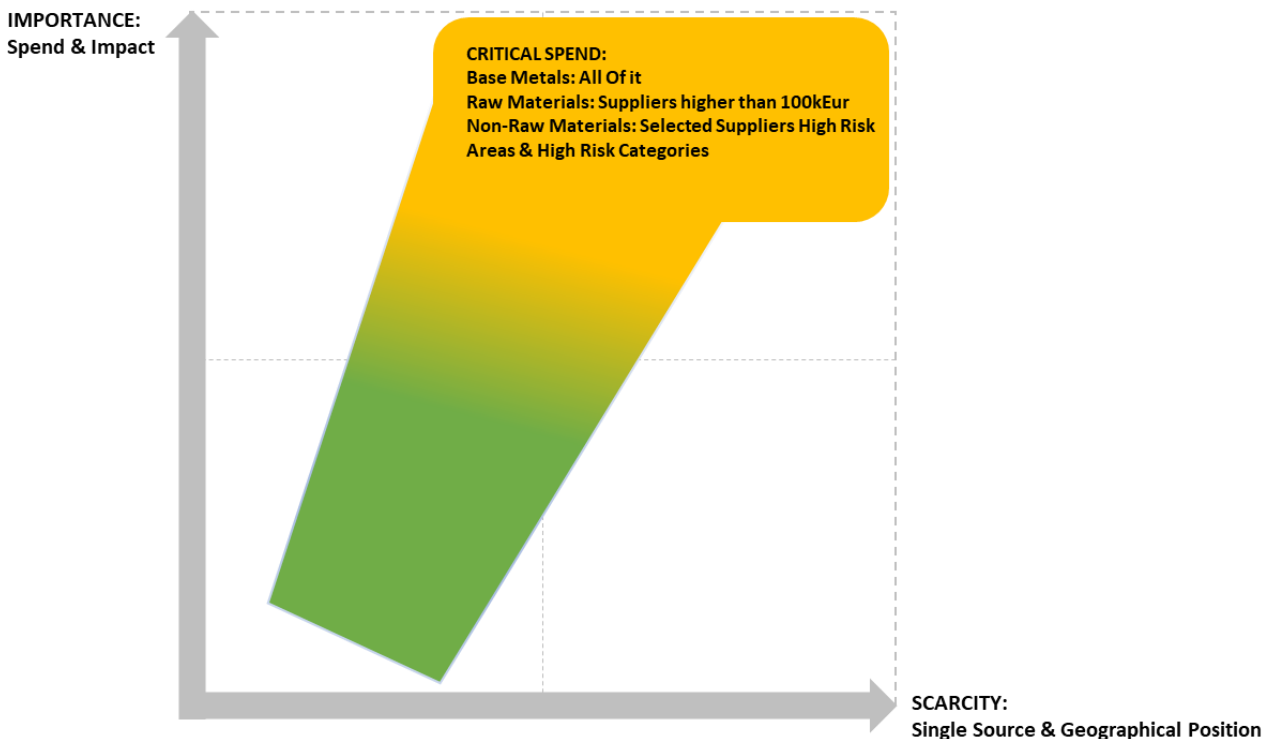
- Base Metals: All Recurring Spend.
- Raw Materials:
  - All Suppliers with yearly revenue with Prysmian Group higher than 100kEur
- Non-Raw Materials:
  - Selected Suppliers coming from the following Geographical Areas (LATAM,

ASEAN, CHINA, TURKEY, MIDDLE EAST) on this specific Categories:

- TRANSPORTATION
- UTILITIES
- MRO
- PACKAGING
- REELS

## RISK ANALYSIS

The supply chain risk analysis is based on data evaluation and examination coming from the desk analysis in terms of sustainability scoring matched with the list of parameters that for the company are critical in terms of risk assessment. The merge of these criteria allows Prysmian to identify risk clusters. The chart here below shows the combination and the importance of the critical parameters assessed by Prysmian to identify potential critical vendors including ESG factors.



**METHODOLOGY:**

Using the desk analysis database as basis for the risk analysis of suppliers, the final ranking takes into consideration three elements of analysis. For each element a different weight has been assigned:

**RAW MATERIALS & NON-RAW MATERIALS SUPPLIERS**

- Availability – Sustainability Risk (70%)
- Geographic Position Assessment
- Does the supplier have an “Anti-corruption” Policy?
- Does the supplier have an “Human Rights” Policy / Operations not in High Risk Areas?
- Importance – Spending (15%)
- Single Source - (15%)

**BASE METALS SUPPLIERS**

- Availability – Sustainability Risk (70%)
- Geographic Position Assessment
- Does the supplier have an “Anti-corruption” Policy?
- Does the supplier have an “Human Rights” Policy / Operations not in High Risk Areas?
- Importance – Spending (15%)
- Impact - (15%)

The results of this further analysis is an evaluation from 0-100 based on the categorization of the risk.

**RISK CATEGORIZATION**

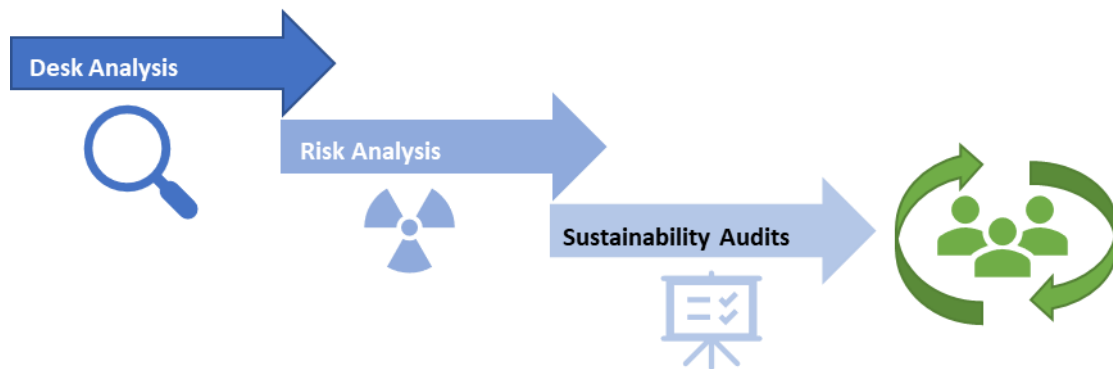
<b>NO risk</b>	<b>&gt; 80</b>
<b>LOW risk</b>	<b>80-65</b>
<b>MEDIUM risk</b>	<b>65-35</b>
<b>HIGH risk</b>	<b>&lt; 35</b>

## SUSTAINABILITY AUDITS

In addition to:

- Audit at suppliers for supplier qualification
- Product/Process audit for incumbent suppliers

Starting from 2017 a sustainability audit program has been developed. The target is to perform 30 audits within 2022 (please refer also to chapter 5 “Purchasing Sustainability Scorecard”) the audits will be performed with the support of an external advisor. The suppliers to be audited will be identified through the Risk starting from the “Low Score” suppliers.



To complete the picture of supply chain strategy here below a summary of the other relevant items.

## SUPPLY BASE MANAGEMENT MAIN PRIORITIES:

- Price Competitiveness
- Quality Level
- Service / On Time Delivery
- Terms of Payment
- Establishing competitive partnership with market leaders in their commodity

## PURCHASING DASHBOARD:

The purchasing dashboard (example attached) is the monthly document that is aimed to monitor and drive the following main KPIs:

- Year over Year Variances by Commodity
- BM Stock
- BM Coverages
- On Time Delivery
- Utilities Expenses Reporting

## 5. ESG factors integration improvement: Purchasing Sustainability Scorecard

Prysmian Group has a Company sustainability scorecard that is publicly available ([Link](#)). Within the Group's scorecard a specific Purchasing section has been developed that is focused on one target:

- In order to be compliant with the process explained in chapter 4, related to sustainability audits, we planned to perform at least 30 Sustainability audits within 2022.

Additionally, the Purchasing Department as continuous improvement is also committed to:

- Maintain the high level of Assessment of the Critical Spend, as of 2021 reached 92%, analyzing the high-risk suppliers with an annual frequency to ensure to limit the exposure of ESG risks in the Group's supply chain.
- For the first time the Assessment process has been extended to the Non-Raw Materials suppliers, the target for the future is to continue to improve the focus on this category increasing the ESG factors awareness on this specific supply base.

## 6. Vendor Management: Energy Project Focus

Within the business areas of Prysmian, the one that has priority in as far as vendor management is concerned is the Energy Project area (Prysmian PowerLink), that is working on big turnkey projects related to submarine and HV cables. 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 section: 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 centralized 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 868 registered suppliers, 89% have been qualified. The rest are going through the qualification process, while a small number representing about 1% of the total have been black-listed and are not used.

## 7. Importance of ESG Factors in sourcing decisions

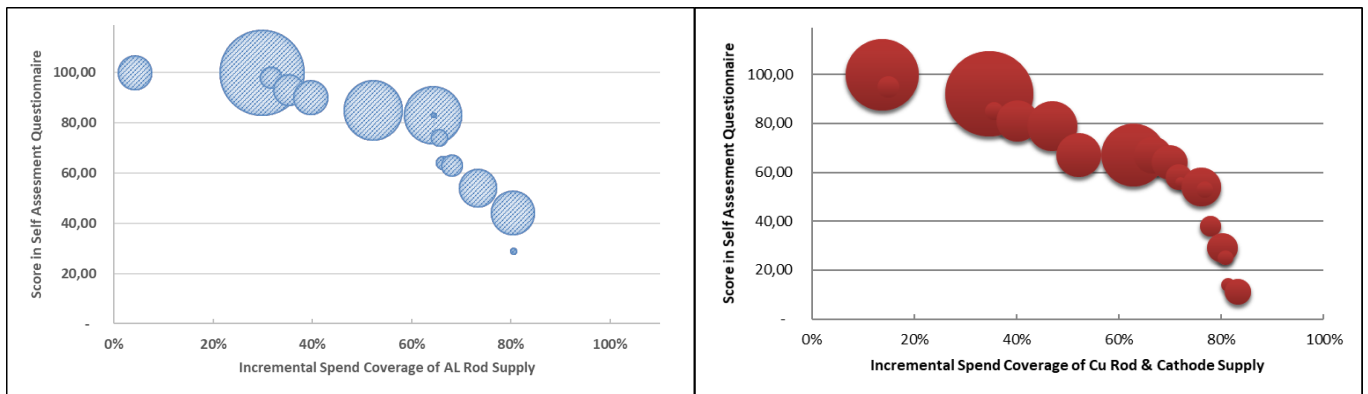
ESG Factors considerations as a driver for sourcing decisions and business award is becoming increasingly important within Prysmian Supply Chain Strategy. Here below we outline the activity done on the overall Base Metals Supply Base and one example related to Raw Materials.

**Base Metals:** Base Metals have been the first area of great attention in terms of sustainability due to their impact on Prysmian business in terms of both products and spend and also due to the intrinsic nature of the materials supplied that are really sensitive as far as environmental impact is concerned.

Having done for all the recurring rod suppliers the Assessment process, on one side it has been possible to have a clear assessment by supplier and to give to each and every supplier a feedback based on the result, on the other hand we have defined a minimum scoring to use as preferential driver for sourcing decision and business award year over year. Out of a total maximum score achievable of 100/100, we set 60/100 score as technical threshold for sustainability good practices that are considered necessary to enter in multi-year agreements. Currently all Base Metals suppliers having long term agreements of 2 years or

more are well above the defined threshold. Moreover looking at the overall recurring suppliers of rod, around 70% of total metals are sourced from Suppliers that have achieved a score greater than 60/100. This performance is monitored regularly and a high scoring in sustainability is a requisite to be considered preferred supplier also for yearly contract.

Here below two graphs for Copper and Aluminum rod showing the 2020 situation.



**Raw Materials:** Here we report one example related to PVC resins.

PVC resins can be produced with two main different processes as far as the monomer VCM is produced:

- A. Mercury cell technology
- B. Membrane cell technology

The Mercury cell technology uses a stream of mercury flowing along the bottom of the electrolyzer as the cathode. The World Health Organization considers Mercury as one of the top ten chemicals posing a threat to public health. In 2016, Prysmian has started a deep evaluation to understand the technology used by the recurring suppliers with the aim to reduce as much as possible the purchasing of PVC resins produced with Mercury Cell Technology.

In 2020, the Group has successfully eliminated PVC resins produced by Mercury cell technology from its Supply Chain—after progressively reducing them year on year. Therefore, all the Group’s producers of PVC resins utilize membrane cell technology.

## 8. Increasing ESG awareness across purchasing organization

The activities done in order to increase ESG factors importance and consideration within supply chain strategy and supply base management since 2015 are also part of the

professional training of the purchasing team worldwide. Prysmian Group Professional Academy aims at giving specialized professional training by function. Within this initiative, the Purchasing Professional Academy has a specific program devoted to train Global Commodity Leaders & Buyers called “Purchasing Fundamentals”. The program consists of one class per year, attended by around 30 people (12% of the total group purchasing employees). Starting from 2015, the training program includes a recurring section, dedicated to the importance of sustainability considerations and the way to use ESG supplier assessment in business award and business decision. Starting from 2017 sustainability and ESG supplier assessment has become a recurring item in the yearly worldwide purchasing leadership meeting (WWPLM) involving all corporate and country/region directors of the purchasing function. One partner of the Company's external advisor has been invited to a session illustrating sustainability in the market and within Prysmian and discussing actions and items for improvement.