

The Siemens logo, consisting of the word "SIEMENS" in a bold, blue, sans-serif font.

SIEMENS

Ingenuity for life

Sustainability in the Siemens Supply Chain

Version 1.0, October 2018

Supply Chain Management

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As soon as a company transfers some of its reputational risk, corporate social responsibility and environmental impact elsewhere, it must tackle Supply Chain Management as one of its most pressing concerns.

Dr. Klaus Staubitzer

Chief Procurement Officer



Chapter 1

Siemens Values and Legal Requirements

Siemens' sustainability initiatives are an essential aspect of successfully implementing the Siemens Strategy Program Vision 2020+. Our understanding of sustainability is fully based on our company values – responsible, excellent, innovative. At Siemens, we define sustainable development as the means to achieve profitable and long-term growth. In doing so, we align ourselves with the goals of the UN's 2030 Agenda for Sustainable Development and the OECD Guidelines for Multinational Enterprises.

According to the UN Global Compact, the "supply chain can make a significant impact in promoting human rights, fair labor practices, environmental progress and anti-corruption policies". Some of the biggest contributions can be made on the United Nations Sustainable Development Goals (SDG), especially regarding SDG 8 on Decent Work and Economic Growth, which among other things addresses labor issues, and SDG 12 on Responsible Consumption and Production. SDG 12 specifically calls on companies to work to adopt sustainable practices and increase reporting on their progress too. Efforts can be made to address poor working conditions, ranging from minimum wage violations to extreme occupational hazards, and eradicate all forms of forced labor and child labor. Unhealthy workplaces can be cleaned up.

Siemens' purchasing volume equals roughly half of our total revenue from some 90,000 suppliers in around 150 countries. This brings an enormous responsibility ensuring Human Rights, Employees' Health & Safety and Environmental Protection at all our suppliers worldwide as we claim: "We only do business with clean partners".

Within the recent years numerous pieces of legislation were published and require our absolute attention. Besides others, EU law on environmental protection and human rights came into effect as well as legislation in USA, UK, France, Denmark, Australia, and Germany.

Some examples:

- **European Union:** Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Regulation concerning Restriction of Hazardous Substances (RoHS), Timber Regulation, F-Gases Regulation, Conflict Minerals Regulation
- **United States of America:** Dodd-Frank Act, Sec 1502 “Conflict Minerals”, California Transparency in Supply Chains Act of 2010, Business Supply Chain Transparency on Trafficking and Slavery Act of 2015
- **Germany:** Requirements out of the National Action Plan on ensuring Human Rights in the Supply Chain
- **United Kingdom:** Modern Slavery Act 2015
- **France:** Loi de Vigilance

Siemens Supply Chain Management (SCM) has to ensure that Siemens meets all these requirements. SCM therefore has implemented various procurement processes. This Sustainability in the Siemens Supply Chain Brochure shall internally help to understand and fulfill all sustainability requirements within the business relations with our suppliers. Externally it shall inform our stakeholders on our Supply Chain Sustainability efforts.



Chapter 2

Code of Conduct for Siemens Suppliers

The “Code of Conduct for Siemens Suppliers and Third Party Intermediaries” and thereon based company-wide, mandatory requirements and processes ensure the effective establishment of the specified environmental, compliance and labor standards across all countries of operations.

The Code of Conduct covers the following requirements:

- Legal compliance
- Prohibition of corruption and bribery
- Fair competition, anti-trust laws and intellectual property rights
- Avoid conflicts of interest
- Respect for the basic human rights of employees
- Prohibition of child labor
- Health and safety of employees
- Environmental protection
- Promote compliance to Code of Conduct in own supply chain
- Avoid use of Conflict Minerals (part of Responsible Minerals Sourcing)

The Code of Conduct commitment processes for suppliers are Siemens-wide mandatory:

- To become “Ready-for-Business” all new suppliers have to commit to the Code of Conduct. The commitment must be given during the supplier’s registration process in our global procurement application SCM STAR.
- All new and extended procurement contracts have to include the Code of Conduct commitment, a paragraph on Supplier Self-Assessment and Audit-right and a specific termination clause in case of major breach of our Code of Conduct requirements.
- All worldwide available Siemens Conditions of Purchase have to include the principles of the Code of Conduct.

Siemens requires all its suppliers to promote the implementation of the requirements of the Code of Conduct in their own supply chain.

As companies are facing the challenge of complying with a multitude of different environmental and labor standards, we intend to avoid a "code mania" and we are striving to reduce the duplication of efforts at suppliers and customers while maintaining our high environmental and labor standards. We have, therefore, introduced a corporate managed procedure for accepting industry-specific codes as equivalent to the requirements of our Code of Conduct, as well as those of suppliers and associations, when their requirements comply with our own requirements.



Chapter 3

Risk Awareness

Siemens has implemented a system of interconnected processes and tools to ensure full transparency and awareness for our purchases and for our supply chain risks & opportunities. It is important not only to implement “stand-alone” processes for different risk areas but to develop a comprehensive system covering all Code of Conduct requirements. This, however, is a lengthy and continuous process which – step-by-step – adds new elements. We are working constantly on improving our Sustainability in the Supply Chain processes by considering the highly diverse and complex requirements by laws, customers, stakeholders and NGOs.

Critical suppliers can be identified in various ways. We have implemented processes to cover supplier risks according to our Code of Conduct categories. This provides a clear structure and walks us through all legislative requirements we must meet in the different regions we procure.

Examples for specific risk categories are suppliers:

- based in higher risk countries
- falling under general supplier quality management aspects
- with high purchasing volume
- that are requested from customers
- with forced and compulsory labor risks and risk for child labor
- with health and safety risks, mainly working in building business (“contractors”)
- providing products falling under the RECh / RoHS legislation
- providing products or services with a high carbon footprint
- providing products relevant concerning responsible mineral sourcing



Chapter 4

Data Transparency

Data transparency is a prerequisite for all procurement activities and a must for fulfilling sustainability requirements in the supply chain and its legal obligations.

Our Siemens-wide implemented procurement applications “SCM STAR” (Strategy And Realization) and “SCM CoRe” (Controlling and Reporting) provide all Siemens procurement data centrally. Based on the supplier’s risk categorization all relevant suppliers in one or more critical groups can therefore be identified.

In order to systematically leverage the potential of the procurement function in terms of opportunity and risk management across all our businesses and regions, standardized extraction and central provision of all procurement-relevant information is crucial. For this purpose, all relevant procurement information is administered in a central database where the data is aggregated and made available to individual users (Controllers, Buyers, Commodity Managers, Purchasing Councils, Project Procurement Managers).

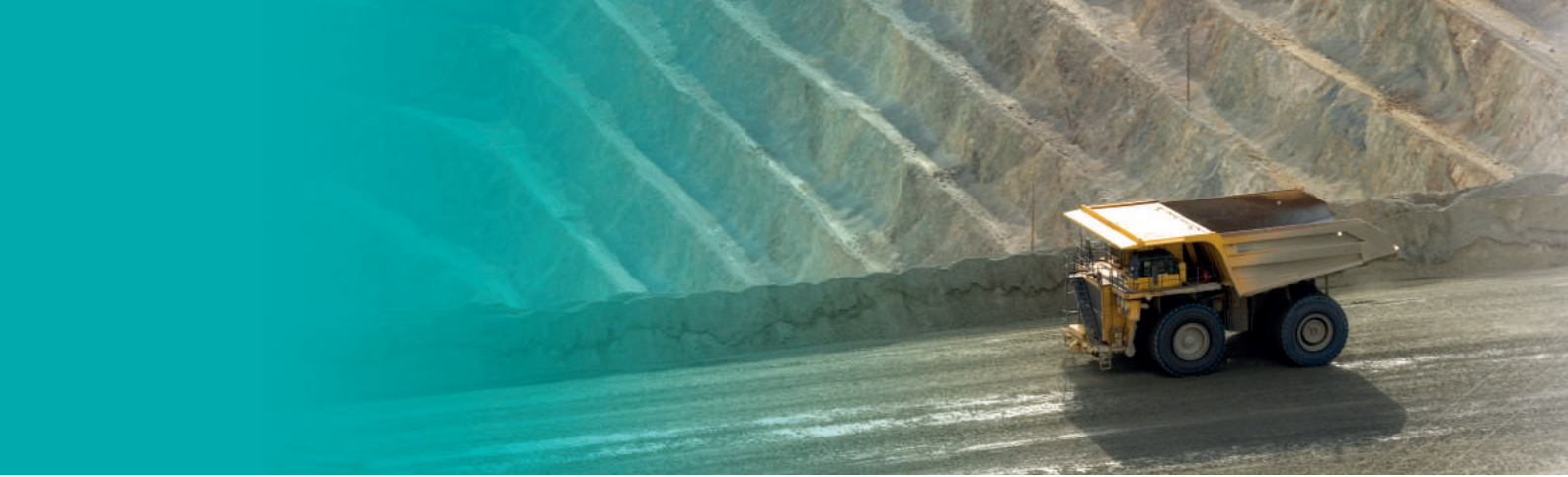
SCMCoRe contains – amongst others – following data on all purchases of goods and services:

- Supplier information (incl. registered name, address and country)
- Identifier for Account (IfA): Internal unique identification number for suppliers
- Commodity Code (ESN): Internal 3-digit ESN classification key for all purchased goods and services
- Purchasing Volume

SCM STAR is a cloud-based Siemens procurement application integrating areas of Supplier Management, Contract Management and Sourcing where all employees with procurement responsibilities have access to. SCM STAR has the following benefits:

- Reduced complexity of processes based on market standards
- Transparency and end-to-end coverage of Source-to-Contract (S2C) processes
- One single S2C cockpit for buyer and supplier interaction
- Modular and integrative solution

This system includes all necessary information for strategic procurement and our supplier management processes, such as qualification, evaluation, risk & opportunity management as well as development of suppliers. In addition, it also provides functions for electronic information exchange with suppliers including the Corporate Responsibility Self-Assessment.



Chapter 5

Supplier's Ready-for-Business

We have implemented a mandatory, Siemens-wide Supplier Management Process to ensure that we collaborate with the best suppliers. All relevant aspects in relation to procurement, quality, logistics and technology have to be considered, as well as strategy, innovation, potential and risks. Innovations and potential procurement options are monitored regularly along with important market and technology trends.

Especially at the beginning of a potential collaboration with a supplier it is important to verify suppliers' commitment in order to act in the sense of our values and according to our requirements.

Therefore, suppliers nominated on basis of preselection must clearly provide a commitment of their obligation to fulfill all minimum requirements. This includes the suppliers' agreement to abide by the Siemens Code of Conduct. Additionally, within the Supplier Qualification process, suppliers have to fulfill various requirements depending on defined triggers, e.g. country of location or kind of delivered products and services.

Only if the supplier has successfully completed the registration and qualification processes, it is assigned with the status "Ready-for-Business" (R4B) and can be utilized by Siemens buyers.



Chapter 6

Risk Exposure

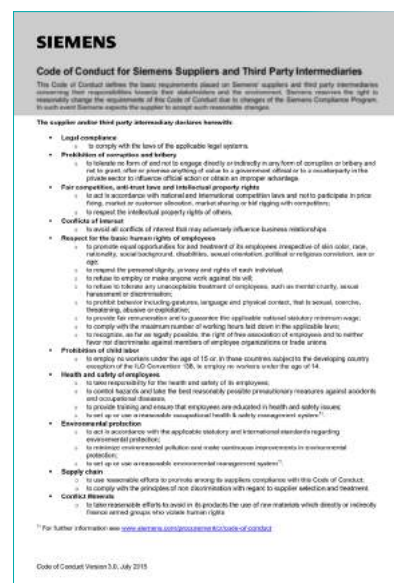
With such a large and geographically dispersed supplier network, Siemens cannot maintain the same level of oversight for every supplier with reasonable effort. For example, it would be impossible to perform site audits everywhere. Therefore, we have established risk analysis procedures for all risk categories to systematically identify potential risk suppliers within each commodity or country. In doing so, we implemented risk based processes to secure our supply chain's sustainability risks.

Additionally, other processes within SCM, Compliance, Environment, Health and Safety or on regional level are in place for very specific internal topics or legislative demands.

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Suppliers based in higher risk countries – Corporate Responsibility Self-Assessment

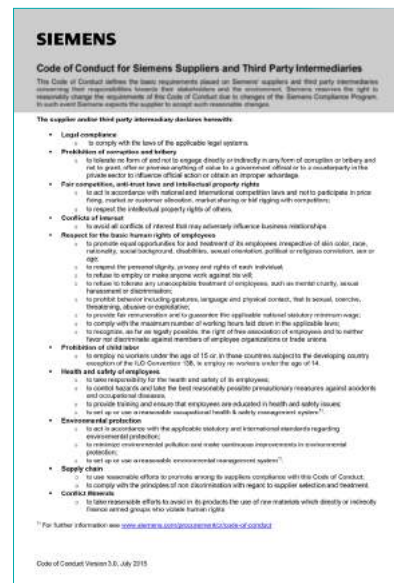
When based in a higher risk country, the supplier has to pass a Sustainability Self-Assessment in order to become a Siemens supplier. The more detailed process is described under Chapter "Risk Detection – Corporate Responsible Self-Assessment".



All Code of Conduct requirements in scope

Suppliers falling under general supplier quality management aspects

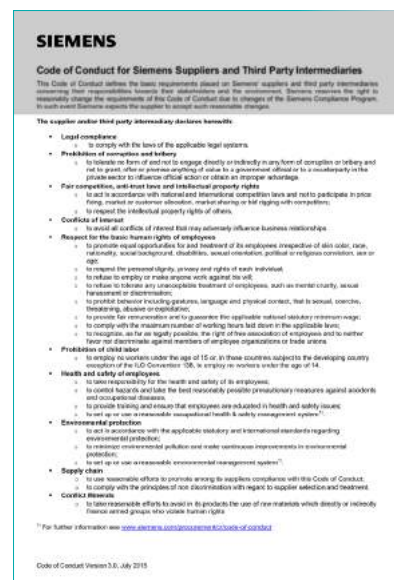
Sustainability is part of our quality requirement towards our purchased products and services. Generally, supplier audits serve to check, monitor and continuously improve suppliers' quality capability. Supplier quality audits also include questions about sustainability that cover the aspects and requirements of the Code of Conduct.



All Code of Conduct requirements in scope

Suppliers with high purchasing volume

Many of our "high purchasing volume suppliers" have strong sustainability processes and controlling mechanisms due to their own size and economical importance and seem less critical. But they are sensitive partners which have high impact in case of sustainability failures due to their large number of (possibly affected) employees or to the surrounding community due to their economic power. We often use the External Sustainability Audit for in-depth controlling of our high-volume suppliers.



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All Code of Conduct requirements in scope

Forwarding sustainability requirements into 2nd tier suppliers: A main aspect conducting audits at high volume suppliers is that they mostly have a larger supplier base. An External Sustainability Audit enables us to ensure that our strong sustainability requirements will be forwarded to the supplier's supply base (our 2nd tier suppliers).

Customer requested suppliers – “Correct Purchasing” Regulations

Suppliers requested by the customer are categorized as critical. The Siemens internal “Correct Purchasing” Regulations describe the handling of this specific customer demand in its “Dos and Don’ts” which were developed together with the Siemens Compliance Organization: Independent of the customer’s preference for a specific supplier, alternative offers have to be obtained by Siemens SCM and compared with the customer request. In case of negative deviation (price, quality and sustainability risks) the customer should be contacted and the situation must be discussed, jointly decided and documented in the project files.



Corruption/
bribery
requirements
in scope

Suppliers with forced/compulsory labor risks and risk for child labor

Protecting the weakest in our supply chain must be our most important duty. As an element of our Digitization Program, we developed an electronic system which has been able to dig into more specific Human Rights topics in our supply chain. While earlier processes mainly used high level country and industry specific risk factors, the new model will include far more detailed information provided by national and international resources and will be updated constantly. It is currently in a testing phase.



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Human rights
requirements
in scope

After identifying the relevant risk suppliers, the process will be similar to the other approaches which are described in this brochure: using our detection modules for (on-site) checks, spotting deficiencies and reacting immediately.

Suppliers with Health & Safety risks, mainly working in building business (“contractors”)

The assurance of employees’ Health & Safety during building business is one of our most important sustainability requirements. We decided to question new contractors at the earliest possible moment regarding their safety performance. Siemens SCM together with Siemens EHS (Environment, Health & Safety) experts developed an Occupational Health & Safety (OHS) questionnaire which has to be filled in during the supplier selection (on-boarding) phase. Although ensuring all Siemens minimum requirements, the OHS questionnaire can differ within the Siemens Businesses and Regions as different crafts/projects and locations and their different dangers might lead to specific questions. EHS experts alone, without the influence of e.g. SCM or Project Management (most building works are executed in our projects), decide if a contractor qualifies to work on Siemens project sites. This process is the first step in a line of OHS measures.



Health & Safety requirements in scope

Suppliers providing products falling under the REACH / RoHS legislation

National and international legislation pertaining to environmental protection include, among others, restrictions and prohibitions regarding the use of substances that could be hazardous to humans or the environment like the "RoHS" ("Restriction of Hazardous Substances") directive or the necessity of information and registration requirements for certain substances contained in products as stipulated by the "REACH" Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals). Based on our Siemens-wide procurement data base (see chapter "Data Transparency"), Siemens SCM together with our Environment, Health and Safety (EHS) colleagues have implemented a systematic identification which allows us to approach all relevant suppliers. "Relevant" are those suppliers where the risk of declarable substances (according to the REACH/RoHS legislation can occur in their purchased products. We contact all those suppliers to ensure avoidance of any restricted substances according to the "List of Declarable Substances (LoDS)". More details on this detection module is described in chapter "Risk detection – substance commitment".



Environmental protection requirements in scope

Suppliers providing products or services with a high CO₂ footprint

In 2016, the Siemens Board published the Siemens target to be Carbon-Neutral by 2030 (50% reduction by 2020). Supply Chain Management (SCM) is involved in many areas to ensure reaching this target. On the Supply Chain side, we are continually working on CO₂ transparency and are in close cooperation with suppliers in order to reduce our suppliers' CO₂ footprint.

In 2017, we started our "Carbon Emissions@Suppliers" project cooperating with an external service provider. Together we managed to develop an economic model which identifies the CO₂ footprint of all our Siemens suppliers. Based on this model, we are currently building up a system to approach our high emission CO₂ suppliers. A first survey demanding more detailed direct supplier information on their CO₂ footprint was conducted centrally with more than 5,000 suppliers causing approximately half of our Scope 3¹ CO₂ footprints. Step-by-step, we seek to sensitize our supplier base regarding the importance of more CO₂ efficient production.



Environmental protection requirements in scope

Suppliers providing products relevant in regard to Responsible Minerals Sourcing (incl. "Conflict Minerals")

Siemens has rolled out a uniform and enterprise-wide process ("Supply Chain Due Diligence") to determine the use, source and origin of the relevant minerals in our supply chain (e.g. Conflict Minerals) which originate from Conflict-Affected and High-Risk Areas and are affected by risks defined in Annex 2 of the OECD Due Diligence Guidance. This includes the "Responsible Minerals Assurance Process" (RMAP) as part of the "Responsible Minerals Initiative" (former "Conflict Free Sourcing Initiative"). We work closely with our suppliers to support us in carrying out these steps. Where necessary, we work with suppliers in order to remediate risks and perform additional due diligence so that we can continue to source responsibly, building on established management processes.



Conflict minerals & responsible minerals sourcing requirements in scope

¹Scope 1: All direct Greenhouse Gas (GHG) emissions by a company; Scope 2: indirect GHG emissions from consumption of purchased electricity, heat or steam; Scope 3: other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in Scope 2, outsourced activities, waste disposal, etc.



Chapter 7

Risk Detection

Controlling risks need not necessarily lead to audits. There are alternative possibilities for effective detection and development. We, therefore, implemented a set of interconnected controlling mechanisms which are customized towards the respective risk.

Following exemplary processes should illustrate our efforts:

Corporate Responsibility Self Assessments

We found that sustainability topics are observed or understood in different ways in different regions/countries. Therefore, we have categorized our suppliers according to their physical location: the categorization for higher risk status is mainly based on OECD countries membership combined with the result in the Transparency International Corruption Perception Index. Suppliers with a respective purchasing volume located in a higher risk country have to conduct our Corporate Sustainability Self Assessment. Based on the answers we decide if the candidate fulfills our requirements, has to set up development measures or has to be rejected.

Supplier Audits

Supplier Audits basically focus on quality oriented risk mitigation and are conducted by Siemens Quality Management via on-site visits. Within the scope of supplier quality, adherence to the requirements of the Code of Conduct is checked. The respective ESG (Environmental, Social and Governance) questions are integrated in the Supplier Audit Questionnaire. As a result, the suppliers receive a detailed report including findings and measures to improve the situation.

External Sustainability Audits

The External Sustainability Audits are conducted by assigned internationally recognized sustainability auditing companies. Using external partners ensure a thorough and independent assessment of the implementation of our requirements and identify any potential risk in the supplier's practices.

The audits follow a standardized process and generate a corrective action plan to the supplier, not only covering the implementation of requirements but also providing recommendations for the further development of sustainability practices.

Substance Commitment

In order to adhere with national and international legislation and their requirements on certain substances (besides others REACH and RoHS), potential relevant suppliers are contacted and have to declare whether their products delivered to Siemens contain any restricted substances according to the "List of Declarable Substances (LoDS)". Therefore, they have to commit to declare such content to Siemens.

Responsible Mineral Sourcing

We implemented an annual Supply Chain Due Diligence process. By surveying our suppliers with Responsible Minerals Initiative's "Conflict Minerals Reporting Template" (RMI's CMRT), we identify all smelters & refiners in our supply chain. All eligible smelters or refiners will be reached out and audited via RMI's "Responsible Minerals Assurance Process" (RMAP) where Siemens is a member company and actively supports the smelter engagement.

Beyond all the globally defined risk detection processes Siemens has a major advantage because the world-wide Siemens organization is based in most countries in which our suppliers are located. This means that our local buyers are in the optimal position to know their suppliers best and they can visit suppliers on-site during their negotiations and general meetings, for example.



Chapter 8

Consequences

Results of the different detection modules with minor deviations and suspicion of serious deviations trigger a corrective action process.

If non-conformance with our Code of Conduct is identified, Siemens will work together with the supplier to mutually agree on corrective actions which have to be implemented within an agreed time frame. If all efforts to develop the supplier remain unsuccessful, whether due to lack of willingness or inability, Siemens reserves the right to terminate the business relationship and phase out the supplier.

Since fiscal 2015, we have implemented the tightened process of the “Central Warning Message” which ensures a faster and more effective reaction to major breaches of the Code of Conduct requirements: All local blocking now has to be reported to Corporate SCM. There, the necessity of a worldwide blocking is decided centrally. It allows us to block suppliers for all Siemens organizations worldwide at short notice.



Chapter 9

Company's Responsibility

Establishing Sustainability in the Supply Chain (e.g. Human Rights, Health & Safety standards, Environmental Protection, fighting against Corruption) shall not be a secret internal company policy – it is not implemented to gain an economical advantage against competitors. It must be shared publicly as an inspiration to jointly work for a better life for all who take part in our interconnected world.

It is a company's responsibility – or less abstract: every buyer's responsibility – to ensure that all measures offered are used to improve the lives of our suppliers' employees and the conditions in the societies in which they are based.

Code of Conduct for Siemens Suppliers and Third Party Intermediaries

This Code of Conduct defines the basic requirements placed on Siemens' suppliers and third party intermediaries concerning their responsibilities towards their stakeholders and the environment. Siemens reserves the right to reasonably change the requirements of this Code of Conduct due to changes of the Siemens Compliance Program. In such event Siemens expects the supplier to accept such reasonable changes.

The supplier and/or third party intermediary declares herewith:

- **Legal compliance**
 - to comply with the laws of the applicable legal systems.
- **Prohibition of corruption and bribery**
 - to tolerate no form of and not to engage directly or indirectly in any form of corruption or bribery and not to grant, offer or promise anything of value to a government official or to a counterparty in the private sector to influence official action or obtain an improper advantage.
- **Fair competition, anti-trust laws and intellectual property rights**
 - to act in accordance with national and international competition laws and not to participate in price fixing, market or customer allocation, market sharing or bid rigging with competitors;
 - to respect the intellectual property rights of others.
- **Conflicts of interest**
 - to avoid all conflicts of interest that may adversely influence business relationships.
- **Respect for the basic human rights of employees**
 - to promote equal opportunities for and treatment of its employees irrespective of skin color, race, nationality, social background, disabilities, sexual orientation, political or religious conviction, sex or age;
 - to respect the personal dignity, privacy and rights of each individual;
 - to refuse to employ or make anyone work against his will;
 - to refuse to tolerate any unacceptable treatment of employees, such as mental cruelty, sexual harassment or discrimination;
 - to prohibit behavior including gestures, language and physical contact, that is sexual, coercive, threatening, abusive or exploitative;
 - to provide fair remuneration and to guarantee the applicable national statutory minimum wage;
 - to comply with the maximum number of working hours laid down in the applicable laws;
 - to recognize, as far as legally possible, the right of free association of employees and to neither favor nor discriminate against members of employee organizations or trade unions.
- **Prohibition of child labor**
 - to employ no workers under the age of 15 or, in those countries subject to the developing country exception of the ILO Convention 138, to employ no workers under the age of 14.
- **Health and safety of employees**
 - to take responsibility for the health and safety of its employees;
 - to control hazards and take the best reasonably possible precautionary measures against accidents and occupational diseases;
 - to provide training and ensure that employees are educated in health and safety issues;
 - to set up or use a reasonable occupational health & safety management system¹⁾.
- **Environmental protection**
 - to act in accordance with the applicable statutory and international standards regarding environmental protection;
 - to minimize environmental pollution and make continuous improvements in environmental protection;
 - to set up or use a reasonable environmental management system¹⁾.
- **Supply chain**
 - to use reasonable efforts to promote among its suppliers compliance with this Code of Conduct;
 - to comply with the principles of non discrimination with regard to supplier selection and treatment.
- **Conflict Minerals**
 - to take reasonable efforts to avoid in its products the use of raw materials which directly or indirectly finance armed groups who violate human rights

¹⁾ For further information see www.siemens.com/procurement/cr/code-of-conduct

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