



SIEMENS

# Sustainable Procurement

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.

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## Chapter 1

# Siemens Values and Legal Requirements

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. This applies as well to our Supply Chain Management. Only in close cooperation with all stakeholders – specifically our suppliers and third-party intermediaries worldwide - we can seize the opportunities and minimize risks associated with the challenge of sustainable development.

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 67,000 suppliers in around 140 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. More legislation is about to come into effect.

Some examples:

- **European Union:** Conflict Minerals Regulation, requirements on the corporate sustainability reporting: The Corporate Sustainability Reporting Directive - CSRD
- **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:** Act on Corporate Due Diligence Obligations in Supply Chains from 2023
- **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 Sustainable Procurement 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 Sustainable Procurement efforts.





## Chapter 2

# Code of Conduct for Siemens Suppliers

The “Siemens Code of Conduct for 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:

– Human Rights and Labor Practices, including (beside others)

- Prohibition of Forced Labor
- Prohibition of Child Labor
- Health & Safety for Employees
- Security Forces
- Grievance Mechanism

– Environmental Protection (beside others)

- Environmental pollution
- GHG emissions
- Land, forests, and waters
- Waste

– Fair Operating Practices, including (beside others)

- Anti-Corruption and Bribery
- Anti-Money Laundering, Terrorism Financing
- Data Privacy

– Responsible Minerals Sourcing


– Compliance to Code of Conduct in own supply chain

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 and follow-up 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 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

# 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.

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 4

# Suppliers' 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.

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 5

# Risk Analysis

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 Sustainable Procurement processes by considering the highly diverse and complex requirements by laws, customers, stakeholders and NGOs.

Critical suppliers can be identified. We have implemented processes to cover supplier risks according to our Code of Conduct categories.

### Risk analysis by using risk indicators:

In order to assess the sustainability risks of all our Siemens suppliers at least once per year, we utilize the professional services of an external provider. This provider uses internationally available information segmented into several risk indicators and combined with country-, industry- and commodity risk categories. Within that, the risk indicators are weighted. Finally, each supplier is allocated into the risk categories “Low / Medium / High / Extreme”.

This provides a clear understanding and walks us through all legislative requirements we must meet in the different regions we procure.

It is also the basis of the decision which suppliers should be audited by a so-called “External Sustainability Audit” within a fiscal year.

### Risk analysis by using Sustainability Self-Assessments:

Suppliers based in higher risk countries have to run through a Corporate Sustainability Self-Assessment (CRSA) during the supplier onboarding / Ready4Business process. This process has to be renewed all 3 years. Only suppliers who pass the requirements can receive the “Ready4Business” status and can be utilized as Siemens suppliers. Otherwise, they will be blocked in our central supplier management tool.



### Risk analysis on suppliers providing products relevant regarding 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 (3TG - Tin, Tantalum, Tungsten, Gold + Cobalt, Mica) which originate especially from Conflict-Affected and High-Risk Areas. Siemens relies on the "Responsible Minerals Assurance Process" (RMAP), which is the flagship program of the "Responsible Minerals Initiative" (RMI). Focusing on a "pinch point" (a point with relatively few actors) in the global metals supply chain, the RMAP uses an independent third-party assessment of smelter/refiner management systems and sourcing practices to validate conformance with RMAP standards. The assessment employs a risk-based approach to validate smelters' company-level management processes for responsible mineral procurement.

The RMAP standards are developed to meet the requirements of the OECD Due Diligence Guidance, the Regulation (EU) 2017/821 of the European Parliament and the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act.

Basis of this process are – again – our SCM Procurement tools SCM Star and SCM CoRe. We search for all goods purchased with the possibility of having Conflict Minerals (3TG - Tin, Tantalum, Tungsten and Gold), Cobalt and Mica included. Corresponding suppliers are contacted. Where necessary, we work with suppliers to remediate risks and perform additional due diligence so that we can continue to source responsibly, building on established management processes.

### Risk analysis on suppliers providing products or services with a high CO<sub>2</sub> footprint:

In 2016, the Siemens Board published the Siemens target for own operations to be Carbon-Neutral by 2030 (50% reduction by 2020). Supply Chain Management (SCM) is involved in many areas to ensure reaching this target. In 2020, Siemens committed itself to a Scope 3 upstream target: 20% CO<sub>2</sub>e reduction of our entire supply chain by 2030, CO<sub>2</sub>e neutral by 2050.

In order to reach this target, in 2017, we started our "Carbon Reduction@Suppliers" project cooperating with an external service provider. Together, we managed to develop an economic model which identifies the CO<sub>2</sub>e footprint of all our Siemens suppliers. Based on this model, we developed this model further creating a carbon web-assessment "supplier+s" in partnership with our provider "ctrl+s". By rolling out this carbon web-assessment into our supplier base, we show our suppliers the most important CO<sub>2</sub>e emitters and explain how their carbon footprint can be sustainably reduced. After the learning stage has been completed, we retrieve the supplier's information on planned or already executed emission reduction efforts in the carbon web-assessment.

More information is provided at [www.siemens.com/carbon-suppliers](http://www.siemens.com/carbon-suppliers).



## Chapter 6

# Risk Detection and Assessments

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 to assess our suppliers' sustainability performance.

### 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: for the categorization of a higher risk status we use the expertise of an external service provider as already explained in chapter 5 section "Risk analysis by using external risk indicators". 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. Even been accepted as our supplier, this process has to be renewed all 3 years.

### External Sustainability Audits

The External Sustainability Audits are conducted by an assigned internationally recognized sustainability auditing company. Using an external partner ensures a thorough and independent assessment of the implementation of our requirements and identifies 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.



### 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.

### Carbon Web Assessment ("supplier+s" by ctrl+s)

In our Carbon Reduction@Suppliers program, we collaborate with an external partner to analyze the economic data and model the carbon footprint of each of our suppliers. To facilitate this process, we utilize a Carbon Web Assessment called supplier+s that highlights the main sources of suppliers' CO<sub>2</sub>e emissions and provides guidance on how to reduce them.

It is based on the following methodology:

- The basis is the model calculation of our external partner ctrl+s, which divides our suppliers into product and service categories and country of origin and assigns an industry average for CO<sub>2</sub>e.
- We ask our suppliers to provide information via the "supplier+s" assessment about their implemented CO<sub>2</sub>e reduction measures and their general CO<sub>2</sub>e management. Based on their answers, we calculate the resulting emission reduction and the supplier's remaining carbon footprint.

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 7

# Risk Management and Consequences

Results of the different assessments 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. Those suppliers can be blocked in local systems around the world via our IT-based Global Master Data Management process for suppliers.





## Chapter 8

# Company's Responsibility

Establishing Sustainable Procurement (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.