Procurement – principles and processes

Integrating sustainability in procurement and contractors management

April 2020
LafargeHolcim acts for responsible sourcing in the supply chain

Setting the right Group governance

- "Supplier Code of Conduct" embracing the UNGC principles
- Policy landscape reinforced through "Minimum Control Standards" system: Procurement, Human Rights, Environment, Health & Safety, Anti-Bribery and Corruption, Fair competition...
- "Supplier ESG/ H&S qualification Standard" adopting the OECD Due Diligence Guidance for Responsible Business Conduct
- Public statements on our company governance and the respect for Human Rights
- Disclosure of sustainability performance in accordance with GRI
- Signature of the WBCSD “Call to Action for Business Leadership on Human Rights”
- Grievance mechanisms for employees, suppliers and communities (Integrity Line Platform)
- LafargeHolcim Sustainable Procurement Program is top rated by Ecovadis

Actively verifying compliance across Group companies and the Supplier base

- Internal Audits and Internal Control standards
- Human Rights Impact Assessment based on Danish Institute for Human Rights
- Health & Safety Audits (employees and contractors on-site)
- Supplier assessment by third parties (AVETTA, Dun & Bradstreet, Damstra...)
- Third Party Due Diligence (Anti-Bribery and Corruption)
- Suppliers Field Audits and ongoing Dialogue to improve sustainability performance
Group Procurement Policy - Scope and principles (extracts)

Scope: The Procurement Policy covers 100% of the third-party spend of LafargeHolcim Ltd and its consolidated Group companies ("LafargeHolcim Group").

Procurement principles:

- Procurement manages 100% of the third-party spend in all countries. Such spend is divided into categories and category clusters, managed by Category teams. Category teams bring together all relevant functions at the Global, Regional and Country levels, and provide complete management from the strategy definition to local execution.
- Procurement creates value by leveraging size and volumes, efficient processes and systems, and combined global expertise, with a consistent focus on the lowest "Total Cost of Ownership".
- Supplier sustainability compliance, adherence to Health & Safety Standards and to applicable laws and regulations are integral part of any sourcing decision
- LafargeHolcim must ensure its supply chain acts in accordance with UN Global Compact principles, guidelines on Human Rights for multinational Enterprises and OECD guidelines
Group Procurement Policy Principles – Key rules (extracts)

“Supplier sustainability compliance, adherence to Health & Safety Standards and to applicable laws and regulations are integral part of any sourcing decision.”

2. All activities must be fully compliant with Group Health and Safety Policy and Standards.
3. Supplier sustainability compliance is integral part of any sourcing decisions.
   - All contracts and Purchase Orders should have mandatory legal language requiring suppliers to participate in the Supplier pre-qualification process
   - The pre-qualification process is conducted with priority given to those procurement categories which represent the highest risk in terms of company reputation and/or supply chain disruption to LafargeHolcim. If a supplier is non-compliant and does not demonstrate willingness to work on performance improvement, the supplier relationship will be terminated
   - Everyone working in Procurement shall have objectives on sustainability targets
Acting for responsible sourcing in our supply chain

What is Sustainable Procurement?

It is about taking social and environmental factors into consideration alongside financial factors in making procurement decisions.
What does it mean in actions?

Doing the things right …

- Work with “approved” suppliers
- Compliance with law and regulation

.... and doing the right things.

- Buy sustainable products/services
- Raise market standards

1. **WHO** is the supplier and what risks/ opportunities bring to LH? (prioritization)
2. **Verify** compliance (qualification)
3. **Remediate** non-compliance
4. **Monitor** ongoing performance

- OECD Guidelines for multinational enterprises (due diligence)
- SAPIN II
- Devoir de Vigilance
- Unternehmen initiative
- Modern slavery Act
- OSHA
- etc

Main focus categories:
- Raw material
- Packaging
- Equipment
- Energy
- Transportation
- Refractories
- Grinding media
- Contractors

Main focus markets:
1. BCC China
2. MEA
3. APAC
4. Latam
5. Eastern Europe
LafargeHolcim manage suppliers relationship based on a good understanding of their strategic importance and the risks / opportunities they bring to our company, enhances the value we get from them and reduces the risk related to supply disruption and company reputation.

The strategic importance and risks are related to:

- **product & market complexity** *(strategic and/ or critical quadrant)*

- **High ESG risk** *(any quadrant as risk is related to the product / service impact on environment, H&S, working conditions, human rights and governance)*

<table>
<thead>
<tr>
<th>Relative importance of LafargeHolcim in the market</th>
<th>Relative importance of Supplier in the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Leverage Suppliers</th>
<th>Strategic Suppliers</th>
<th>Non-Critical Suppliers</th>
<th>Critical Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimize Value</td>
<td>Develop Collaboration</td>
<td>Simplify</td>
<td>Reduce Risk</td>
</tr>
</tbody>
</table>

© 2020 Holcim Technology Ltd
# Working with approved suppliers

Pre-qualification (before contract) and ongoing performance evaluation (during business relationship)

<table>
<thead>
<tr>
<th>Supplier Prioritization</th>
<th>Engagement and Assessment</th>
<th>Results Review &amp; Scoring</th>
<th>Risk Mitigation</th>
<th>Performance</th>
</tr>
</thead>
</table>

## Who are our suppliers?

Supplier segmentation and Risk-based approach to focus effort on critical, strategic and high ESG/H&S impact suppliers

## What risk / opportunities do they bring to our company?

Qualify\(^1\) suppliers based on requirement (technical, financial health, ESG/H&S standards)

## How breaches can be verified?

- Analysis of self-assessment results.

## Can we engage / maintain business relationships?

1. Agree improvement Plans
2. Monitor improvement
3. No improvement/ no collaboration = consequences: Block / replace suppliers

## Is the supplier qualified for ever?

Ongoing performance measurement of qualified suppliers during execution of activities

---

1 \(^1\) Three levels of verifications are to be followed to ensure conduct a proper assessment of the supplier risk:
- Self-assessment
- Fact Finding gathering evidences of breaches identified during Self-Assessment (next level of document verification).
- Audit: conduct on-site supplier audit to cross-check and verify breaches identified during Fact-Finding
- Note: High risk contractors (categories listed in Annex 7 of the Suppliers Sustainability Management Standard) are always to be audited.
Supplier ESG/H&S prioritization:
Understanding who are the suppliers and what risk they bring to LH

A 3-steps standard methodology to prioritize the supplier base based on ESG/H&S impact

1. Filter the supplier base, based on ESG/H&S risks related to the product/services provided = 1st List

2. Filter the supplier 1st List, based on risks exposure related to business relationship (volumes and spend)¹

3. Based on country risk level, adjust Final List of suppliers in scope (increase/decrease suppliers in scope)

Main procurement categories in scope:
- Raw material
- Maintenance, Engineering, Quarry services, Transportation (contractors)
- Energy
- Equipment
- Capex
- Packaging

- 80% spend
- 80% volume / transactions

Countries with high risk business environment:
- Human Development Index < 0.79
- Freedom House Index = Not Free or Partially Free

¹ Exception: “Contractors” risk exposure is not related to volume but to the risk of the work executed
## Verification of Supplier ESG/H&S compliance - Code of Conduct

Three level of verification according to country risk level and breaches identified

Assessments provide suppliers with the opportunity to demonstrate compliance and provide LH with the basis to monitor performance of high risk suppliers

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Self-assessment (questionnaire)</td>
<td>Qualification platforms make this step more efficient, consistent and transparent</td>
</tr>
<tr>
<td>2</td>
<td>Fact-finding (evidences)</td>
<td>To verify breaches identified in the self-assessment. High risk countries are expected to conduct this step and not to rely on self-assessments.</td>
</tr>
<tr>
<td>3</td>
<td>On-site Supplier Audit</td>
<td>To confirm breaches with stronger evidences and trigger specific remediation actions. Suppliers of extractive raw materials in high risk countries are to be audited annually / bi-annually</td>
</tr>
</tbody>
</table>
Deep verification on contractors conducted in low regulated markets
The LH Human Rights methodology (Due diligence)

Compliance (transversal):
• Bribery and Corruption
• Grievance mechanism

Human Resources
• Child Labor
• Forced Labor
• Freedom of association
• Non-discrimination
• Working conditions
• Minimum wage

Procurement
• Contract workers compliance related to:
  - Child Labor
  - Forced Labor
  - Freedom of assoc.
  - Non-discrimination
  - Working conditions
  - Minimum wage
  - H&S

Security + H&S
• H&S
• Security guards

Local management (Plant)
• Community impact (Impact on living conditions / water / health)
• Armed actors
• Land management
• Grievance mechanism

Sustainable Development: main responsible to Human Rights and social topics, according to the local context

Formal consultations with employees and contractors to discuss in an open environment about “work life” conditions.

“Focus Groups”

“On-the-spot interviews”
Auditing Suppliers
Audit protocol and toolbox for procurement organizations to adopt

On-site audits are conducted in general to verify breaches identified during self-assessment & Fact-finding processes and in particular for suppliers of extractive raw material and for contractors conducting very high risk jobs (listed in Annex 7 of the Supplier Sustainability Management Standard)

The Audit protocol provides guidelines on:

- When is needed to conduct an Audit on supplier premises?
- Audit Objective
- Audit Scope
- Audit Duration
- Audit Team
- Audit Process
- Audit preparation
- Audit Execution
- Report and follow-up
Helping Suppliers & Contractors to perform

Guidebook for supplier sustainability improvement

The “Guidebook” compiles a set of recommended actions to close breaches to our Supplier Code of Conduct. Recommendations include pragmatic considerations related to the size and maturity of the supplier (small contractors, sole owners).

4.1 Non-compliance & corrective actions to minimum requirements as per Group SD

4.1.1 Non-Discrimination (Equality)

Employment-related decisions shall be based on relevant and objective criteria. Suppliers shall make no distinctions on grounds including, but not limited to: age, disability, gender, sexual orientation, political or other opinion, ethnic or social origin or religion. Employment-related decisions include, but are not limited to: hiring, promotion, lay-off and relocation of workers, training and skills development, health and safety, any policy related to working conditions like working hours and remuneration.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Finding</th>
<th>Corrective Action / Guidelines</th>
<th>Recommended Timeline</th>
<th>Verification Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZT - Does your company comply with all applicable laws on employment and occupation discrimination?</td>
<td>No</td>
<td>Supplier to provide evidence of the law they are bound to comply with (based on type of legal entity registered) and the reasons of the breach.</td>
<td>Two weeks</td>
<td>Fact-Finding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LH CSR. Legal and Procurement to analyze the records and determine the magnitude of impact on LH reputation and supply continuity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Same group is to provide a recommendation to steering group to decide (i.e., block supplier; waive the risk due to low materiality…).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M - Does your company have a non-discrimination policy in place (policy on equal treatment of employees including criteria such as gender, sexual orientation, race or religion)?</td>
<td>No</td>
<td>1. LH to provide an example of Policy Statement for Supplier to adopt and communicate to employees and external stakeholders. 2. LH shall continuously verify with workers’ representatives to confirm that employment decisions are non-discriminatory and culturally sensitive.</td>
<td>1. Two weeks 2. After period agreed with Supplier (upon completion of point 1)</td>
<td>1. Fact-Finding 2. Field Audit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Note: Sole Owners and Small Companies (10 or less FTEs) are NOT required to develop a Policy. However, field audit (point 2) is mandatory for Small Companies to gather evidence from workers. Supplier to develop a Policy, example:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ExoCorp</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supplier to provide copy of the records (if required, a confidentiality agreement can be signed between the parties).</td>
<td>One week</td>
<td>Fact-Finding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LH CSR. Legal and Procurement to analyze the records and determine the magnitude of impact on LH reputation and supply continuity. Same group is to provide a recommendation to steering group to decide (i.e., block supplier; waive the risk due to low materiality…).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**“Consequence Management” to address non-compliance**
Pre-qualification and ongoing performance evaluation

A comprehensive Guidance is available for Procurement to work with suppliers on closing the identified breaches

<table>
<thead>
<tr>
<th>Commercial(^1) qualification</th>
<th>Supplier approved</th>
<th>=</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability (ESG) qualification</td>
<td>Supplier approved</td>
<td>=</td>
<td>Contract with Remediation Plan(^2)</td>
</tr>
<tr>
<td>Technical qualification (goods &amp; services)</td>
<td>Supplier “conditionally” approved</td>
<td>=</td>
<td>Stop business</td>
</tr>
<tr>
<td>Ongoing Performance Evaluation</td>
<td>Supplier rejected</td>
<td>=</td>
<td>Stop business</td>
</tr>
</tbody>
</table>

\(^1\) Financial health of the supplier

\(^2\) Conditionally approved suppliers are required to establish a remediation plan within a specific period of time to fix identified gaps. After that period, if gaps are not closed or if the supplier does not collaborate, then LH shall stop business with the supplier.
Supplier ESG Qualification Target – Status end 2019
Countries to focus on efficiently and consistently qualifying suppliers with high ESG\(^1\) impact

High ESG impact Suppliers Qualified [% Total Spend of high ESG impact Suppliers]

<table>
<thead>
<tr>
<th>Year</th>
<th>High ESG impact suppliers identified by countries (59% of spend; 34% of # 107k active suppliers)</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>81%</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Of high ESG impact suppliers 91% are contractors (covering 39% of total spend) and 3% raw material, energy, equipment and packaging suppliers (covering 20% of total spend)

1) Environmental / Social / Governance / Health & Safety
2) Source: Sustainable Procurement Scorecard FY 2019 – Like for Like
Sustainable procurement is embedded in the procurement operating model as illustrated below. The chapter 9 of the Suppliers Sustainability Management Standard, describes key elements of the procurement process.

- Sustainability aspects are considered in the definition of category sourcing strategies
- Sustainability requirements are bound in the contractual terms and conditions (SA8000)
- Ongoing supplier performance evaluation includes sustainability performance and affects supplier qualification status
- During Tendering process, suppliers are informed and engaged about LH sustainability expectations and the qualification process
- Contracts are awarded to suppliers that fulfil sustainability criteria
- Sustainability breaches are addressed by enforcing contractual terms and conditions and ongoing dialogue with suppliers to set remediation plans according to the consequence management process
The Chapter 10 of the SSMS outlines the requirements for ensuring that adequate processes are developed and implemented to control or minimize the risks associated with contracted activities.

**Specific Health & Safety elements of the contractor management include:**

- the roles and responsibilities for contractor’s management: Site Contractor Coordinator, Procurement and Contractor.

- the key activities and considerations for each step of the process illustrated in graph beside.

- The approach toward contractor employees, subcontractors, Tools, Equipment and PPE.

- Link to extensive H&S standards and Audit toolbox (Group H&S).
• Performance from all countries is consolidated on annual basis.

• Figures are available per topic, region and country since 2016