# Sustainable Procurement

**GRI Standards:** 

2-1: Organizational details

308-1, 308-2: Supplier environmental assessment

414-1, 414-2: Supplier social assessment

#### **EXECUTIVE SUMMARY**

Aligned with Sanofi's CSR ambition, Sustainability is embedded in Sanofi Procurement processes, as well as in its Supplier Relationship Management, with the aim to create sustainable business throughout Sanofi Supply Chain.

As a signatory of the UN Global Compact, Sanofi is committed to supporting and applying fundamental principles in the areas of human rights, labor, health and safety, environmental protection, anti-corruption and data privacy. These principles, detailed in the Suppliers' Code of Conduct, are part and parcel of our relations-management practices for our current and future suppliers. Hence, we expect our suppliers to meet the standards set out in the Sanofi Suppliers' Code of Conduct, and their compliance is a decisive factor in their commercial relationships with Sanofi.

Sanofi sustainable Procurement strategy is articulated around three pillars:

- we build a responsible business (Governance & Risk Management);
- we contribute to a Healthy Planet (Environmental responsibility); and
- we care about people (Social Responsibility).

To be effective, Sanofi Sustainable Procurement policy is primarily risk-based to maximize positive impact on the environment and society. In that sense, sustainability requirements have been systematically embedded in the different steps of our Procurement processes: supplier onboarding, tenders, continuous monitoring through audits and assessments.

In parallel, Sanofi has engaged in deeper, qualitative relationships with key suppliers to ensure adherence with our ambitious sustainability requirements. Multiple initiatives have been taken to engage, train and influence our suppliers.

To amplify our impact in the pharmaceutical and healthcare supply chain, we are actively contributing to the Pharmaceutical Supply Chain Initiative (PSCI), a group of pharmaceutical and healthcare companies that promote responsible supply chain management and better business conditions across the industry.

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# 1. Sustainable Procurement Strategy

## 1.1. SANOFI'S COMMITMENT

As a signatory of the UN Global Compact, Sanofi is committed to supporting and applying fundamental principles in the areas of human rights, labor, environmental protection, and anti-corruption. These principles, detailed in the Suppliers' Code of Conduct, are part and parcel of our relations-management practices for our current and future suppliers.

### 1.2. SANOFI'S UPDATED SUSTAINABLE PROCUREMENT STRATEGY

Sustainability has been on the agenda of Sanofi Procurement teams over the past ten years. The initial focus has been on managing risks and achieving desired levels of compliance with company's commitments and sustainability standards.

Aligned with the Play to Win Strategy, whereby CSR is a key priority, Procurement now looks beyond compliance, to embrace sustainability as an opportunity to create mutual value with its supply chain and its stakeholders.

In line with the updated CSR strategy and Sanofi Planet Care environmental roadmap, our Sustainable Procurement Strategy has been reshaped and is built pillars:

#### We build a responsible business (Governance & Risk Management)

Through responsible sourcing, Sanofi aims to minimize risks and create stable, long-term business relationships with selected partners, that are screened through a risk-based approach.

For purchasing categories considered as risky from a sustainability standpoint, suppliers are either audited (most critical vendors), or subject to thorough due diligence assessments.

Supplier audits, focusing primarily on Health, Safety and Environment (HSE) performance, are conducted by Sanofi HSE department or subcontracted to external auditors. These supplier audits are mainly targeted on high-risk critical raw materials Sanofi manufacturing subcontractors. Action plans are continuously monitored to ensure remediation of issues.

Due diligence assessments are managed through third party provider EcoVadis, who measures supplier maturity for a wide range of CSR criteria (see more details in paragraph 2.2.)

# We contribute to a Healthy Planet (Environmental responsibility)

This pillar is directly linked to Sanofi Planet Care strategy. We are committed to engaging our suppliers in our environmental ambitions by sourcing responsibly. We are mainly focusing on:

- Reduction of Scope 3 emissions: following the identification of its top CO<sub>2</sub> emitters and top strategic suppliers (representing approx. 70% of supplier- related emissions), and after onboarding them in our Supplier Engagement Program Sanofi has formally prompted them to collaboratively work on decarbonization.
- eco-design: Sanofi conducts life cycle analysis of its products. Consequently, we are working with our
  packaging suppliers to: reduce the resources and energy used in manufacturing, use materials and
  resources with the minimum impact on the environment, limit emissions, pollution and the ecological
  impact (climate, biodiversity), facilitate the reuse or recycling of the product, and improve waste
  management in our supply chain.

#### We care about people (Social Responsibility)

We aim to maximize our impact on society through our supply chain. Our strategy is articulated around two main priorities:

Social and Human Rights: our suppliers are requested to comply at least with international human
rights treaties, without prejudice to more favorable national laws. In particular, the observance of ILO
(International Labor Organization) fundamental conventions by suppliers is an essential requirement
for Sanofi. The following aspects are scrutinized in our Procurement process: child labor, working hours,
wages and fringe benefits and freedom of association.

#### • Supplier Diversity:

- > We have a Global Supplier Diversity program in place to increase the inclusion of historically disadvantaged or under-represented groups in our sourcing processes. In 2022, we made a public commitment to double our woman- owned business spend by 2025 and spend over €1.5 billion with small and diverse businesses by 2025.
- > We are also strengthening communities' economic engagement with our suppliers through Tier II program, where we engage with our suppliers and encourage them to work with diverse suppliers and ensure our large corporate supplier base reflects our behaviors. Our partnerships with advocacy groups such as MSDUK, WeConnect International, WBE Canada and chambers of commerce around the globe support us to increase our collaboration and engagement with small and diverse businesses and also support women's economic empowerment.

#### 1.3. ORGANIZATION

Sanofi Procurement is integrated into the Finance function to increase its efficiency and enable fluidity with the business. As a result of the variety of its business segments, Sanofi purchases raw materials, goods and services globally and buys from a wide range of suppliers.

The Procurement function is centralized and serves all departments transversally. It is structured operationally in five domains (Directs, Digital, Professional Services, Marketing & Sales, Scientific & Clinical) and five regions (North America, France, Europe, International and Greater China & JPAC). The operating model is global category management with regional execution. The five domains are split into approximately 20 global categories and over 250 sub-categories.

Sustainability is embedded in the different steps of the Procurement process: onboarding, sourcing, contracting, assessment, delisting.

In parallel Sanofi is committed to engage and develop its suppliers to maximize our impact on the planet and society.

Sustainable Procurement is coordinated centrally by a dedicated Sustainable Procurement team. This team is split in three sub-teams, corresponding to our three strategic pillars (Environmental Responsibility, Social Responsibility and Risk Management).

Sustainable Procurement designs the relevant processes, the supplier engagement approach, facilitates the embedment of sustainability in Procurement ways of working and coordinates the overall sustainability strategy execution with other Departments (CSR, HSE, HR, Ethics & Business Integrity, etc.).

In its mission, the Procurement Sustainability team is supported by the Procurement Sustainability tribe, that is composed of sustainability champions from each Procurement Domain and Regions, and other functions. These representatives are co-leading key sustainability initiatives, and act as change agents in their respective Procurement organizations.

The Procurement community is regularly trained on the supplier ESG program. In 2023, 330 Buyers have been trained on the Sustainability process and platform.

# **Procurement key figures**

	2023	2022	2021
Procurement spend (in billion euros)	15,8	17,8	15
Spend in OECD countries (in billion euros)	14,4	16,2	13,6
Spend in non-OECD countries (in billion euros)	1,3	1,7	1,4
Number of suppliers	33 952	43 680	52 563
Number of countries	119	132	131

# 2. Embedment of sustainability in procurement processes

#### 2.1. SUPPLIER CODE OF CONDUCT

Sanofi's commitment to sustainability is firstly reflected in our Supplier Code of Conduct, that any supplier, and supplier of our suppliers must comply with. They are expected to respect:

- labor regulations against child labor, forced labor, violence and discrimination (ILO fundamental convention);
- decent working conditions (working hours, wages and benefits, freedom of association);
- health and Safery: workers health and safety protection, hazard information and training, emergency preparedness; and
- environment: regulatory compliance, climate change mitigation, minimize releases in the environment (air, water, soil), pollution prevention, reduction of energy and water usage and biodiversity.

The Supplier Code of Conduct is integrated into electronic ordering systems. Each time a supplier is onboarded, it should acknowledge and agree to our Supplier Code of Conduct.

<u>For more information</u>, see our <u>Document Center</u>: Sanofi Suppliers' Code of Conduct.

# 2.2 SUPPLIER RISK GOVERNANCE

In 2023, Sanofi initiated the advancements in its internal Supplier Risk Governance Structure, signaling a strategic step towards aligning our initiatives with suppliers and enhancing our ability to monitor associated risks. This ongoing effort includes the rollout of Coupa in the North American region in 2023, with plans for implementation across other regions in 2024. Coupa's integration will significantly bolster the governance structure and streamline our processes. Sanofi employs a robust governance model, led by its dedicated risk management team. This model emphasizes continuous interaction and a commitment to the principles of continuous improvement. Key stakeholders involved in this process include procurement teams, regional procurement leads and the risk management team. The governance model aims to address the three major areas in supplier lifecycle management – Supplier Onboarding, Supplier Risk Assessment and the Business Continuity aspect. The framework involves regular meetings with Sanofi internal stakeholders to address the supply risks that may arise due to risky suppliers in the system.

#### 2.3 SUPPLIER RISK ASSESSMENT

Our Procurement Risk approach encompasses all Procurement categories and considers the following risk areas:

- macro risks: geopolitical, economic, technological, legal, natural disasters;
- operational risks: supply (single source, dependency), financial, cybersecurity, strategic business issues:
- compliance risks: fraud and business ethics issues; and
- sustainability risks: environmental, social and governance issues.

We have systems and procedures in place to ensure effective implementation of the company's supplier sustainability programs required to identify and address material risks and impacts. The company relies on a global operating standard that defines the sustainability and risk management framework, the triggering criteria for assessments or audits and the processes to be followed.

This global operating standard has established sustainability baseline requirements that suppliers must meet, as well as expectations for ongoing improvement.

Sustainability risks are assessed through our 267 purchasing sub-categories. The categories are assessed based on their inherent risk in terms of health and safety (score from one to four), the environment (score from 1 to 4) and human rights (score from one to four). The inherent risk is determined regardless of the country of operation, as follows:

- health and safety: the number of people potentially affected, the seriousness and irreversibility of the consequences on people;
- environment: the extent of the negative consequences (in terms of pollution and use of natural resources) on the environment and communities and biodiversity (whether or not limited to the site), and their irreversibility; and
- human Rights: the characteristics of the workforce (level of qualification, number, temporary or not) and specific human rights risks in the sector.

As a result of this compounded rating, 47 categories of purchases are considered at risk from a sustainability standpoint. The underlying purchases are mostly related to the following activities and products: Capex, Energy, Packaging, Consumables, Waste Management, Active Ingredients, Raw Materials, Subcontracting, Clinical Trials, Transport and Distribution.

Suppliers belonging to these 47 categories are monitored depending on their sub-classification:

- group A: Audits (see paragraph 2.6.);
- group B: EcoVadis assessment (see paragraph 2.7); and

## 2.4 SUPPLIER SELECTION

Since 2022, suppliers participating to Sanofi tenders need to go through a compulsory sustainability assessment, encompassing the following dimensions: social responsibility, environmental policies,  $CO_2$  emissions and product/service traceability.

This assessment contributes to up to 20% of suppliers' score card in the tender award process.

If suppliers do not have measures against forced labor, child labor and discrimination, it can't be selected.

If not already in place, suppliers need to commit to:

- go through an EcoVadis process (All purchases);
- measure their CO<sub>2</sub> Scopes 1 & 2 emissions (Goods Purchases);
- have plans to measure Scope 3 and disclose CDP Climate assessment (Goods Purchases); and
- implement a robust Diversity, Equity and Inclusion policy (Service Purchases).

If a supplier is selected and has a sustainability score below average, corrective action plans need to be integrated into the contract and implemented within one year.

#### 2.5 SUPPLIERS CONTRACT

Our key supply contracts contain clauses that authorize us to verify suppliers' compliance with our requirements. Furthermore, our terms and conditions dispatched for any order contain an obligation for suppliers to respect our Supplier Code of Conduct.

#### 2.6 SUPPLIER ONBOARDING

As part of their onboarding process, suppliers considered as risky from a sustainability standpoint (as described in paragraph 2.2.) are systematically requested to complete an Ecovadis assessment.

This assessment of suppliers is enabled through a dedicated supplier onboarding platform. This solution also manages:

- other targeted due diligences (anti-bribery, financial and cybersecurity); and
- the systematic agreement of our vendors to Sanofi Suppliers Code of Conduct.

# 2.7 SUPPLIER AUDITS

Supplier audits, focusing primarily on Health, Safety and Environment (HSE) performance, are conducted by our HSE Department or subcontracted to external auditors.

In 2023, our objective was to focus on critical and antibiotics suppliers and to continue carrying out audits of all our high risk active pharmaceutical ingredient (API) providers and contract manufacturing providers

# Sanofi Supplier audits, 2021-2023

	2023	2022	2021
Number of Sanofi CMO audits (Contract Manufacturing Organizations) (a)	39	46	60
Number of audits of active and intermediate pharmaceutical ingredients (API) suppliers (a)	86	81	88
Number of audits of other suppliers: packaging, logistics, CROs (Contract Research Organizations), etc $^{\rm (a)}$	53	43	24
Number of suppliers audited during the year with critical findings	25	11	38

<sup>(</sup>a) Includes PSCI shared audits.

Improvement plans are monitored through re-assessments or follow-up audits:

	2023	2022	2021	2020
Number of active suppliers audited (cumulative)	836	757	667	673
For suppliers audited with critical findings:				

Number of supplier relationships terminated	45	46	14	18
Number of suppliers who have improved	60	22	4	9
Number of suppliers subject to re-audit	79	12	20	18

<sup>\*</sup>Data YTD October 2022.

Other Assessment	Year 2023	Year 2022
Anti-Bribery and Corruption Due Diligence	1881	2725
Business ethics onboarding assessment	1881	2725
Financial onboarding assessment	2439	3349
HSE onboarding assessment	222	307
CSR onboarding assessment	517	589
Cybersecurity onboarding assessment	149	139
Cybersecurity assessments	335	271
Supplier Quality audits	1829	2019

# 2.8 SUPPLIER EVALUATION

Sustainability evaluation are managed through our partner EcoVadis. In line with our CSR ambitions, we have increased the scope of suppliers to 700+ in 2023 The following suppliers are subject to EcoVadis assessment:

- our TOP300 suppliers mandatory;
- high-risk suppliers (approx. 400) mandatory (as defined in paragraph 2.2); and
- suppliers participating to Sanofi tenders (as defined in paragraph 2.3).

This assessment must be completed upon supplier onboarding (as described in paragraph 2.5) and renewed at least every three years.

EcoVadis assesses supplier maturity in the following areas:

- environment: energy and greenhouse gas (GHG) emissions, local pollution, water, biodiversity, materials/chemicals/waste, product use, product end of life, customer health and safety, and sustainable consumption;
- labor practices and human rights: fundamental human rights, child and forced labor, nondiscrimination, health and safety, working conditions, labor relations, training, and career management;

- fair business practices: corruption and bribery, anti-competitive practices, and fair and responsible marketing; and
- responsible supply chain: vendors' ability to influence their own suppliers CSR performance.

Suppliers with a score below target must implement corrective action plans in areas flagged as insufficient.

The CSR performance of each supplier is ranked from ten (high risk) to 100 (high opportunity) and results from broad data collection: customized self-assessment questionnaires (based on suppliers' size and industry), supporting documentation (codes, charters, policies, certifications, dashboard, reporting), data from non-governmental organizations (NGOs), trade unions and media.

Suppliers with poor performance are requested to implement corrective action plans.

In case of significant and/or non-remediated deviations, Procurement may decide to conduct on-site audits or terminate the relationship.

Strengths and weaknesses are highlighted and allow suppliers to initiate improvement in their operating model whenever their score does not meet Sanofi's CSR requirements.

# Sanofi Supplier Assessments, 2016 - 2023

	2016	2017	2018	<b>2019</b> *	2020	2021	2022	2023	
Number of suppliers assessed on their CSR performance	164	194	211	240	237	392	273	225	
Number of assessed suppliers that met our CSR requirement	116	159	175	153	172	315	237	211	
Percentage of assessed suppliers that met our CSR requirement	71%	82%	83%	64%	72%	80%	87%	94%	
Number of buyers trained to the Responsible Procurement Platform**	122	140	98	101	70	389	447	330	

# **Objectives and targets**

Our priority is to focus on the potentially high sustainability risk suppliers in our supply chain.

Regarding suppliers' sustainability assessments, our objective, in line with our together for sustainability commitments is to carry out around 300 suppliers' assessments per year, the aim being to achieve coverage of all our strategic high-risk suppliers by 2024. We currently stand at around 92.9%.

#### 2.9 SUPPLIER ENGAGEMENT

Our <u>Procurement ESG Guide for Suppliers</u>, which is publicly available on the Sanofi supplier website, summarizes our expectations towards suppliers, which are reflected for relevant suppliers in our supplier engagement plan.

We engage with the top  $CO_2e$  emitting companies to raise their environmental maturity, regardless of the category, sector or country they belong to. Top  $CO_2e$  emitters are identified using a hybrid calculation methodology for emissions. Activity-based calculation is applied for Directs Material suppliers (Raw Material, Outsourcing, Packaging, Devices) and a spend-based calculation is used for the other purchasing categories. The top emitter identification is renewed every year to ensure that the most relevant suppliers are onboarded to the program.

The Supplier Engagement Program for Top  $CO_2e$  Emitters and top strategic suppliers includes a supplier sustainability maturity assessment. After completing questionnaires on key sustainability maturity indicators, suppliers are assigned with a certain maturity level. Suppliers not being in the required target maturity level need to improve so to be compliant with Sanofi´s expectations. On the key indicators, crosschecks with external platforms (Ecovadis, CDP, SBTi) are performed. Our supplier sustainability maturity assessment is based on the PSCI (Pharmaceutical Supply Chain Initiative) maturity model, which is in line with the SMI (Sustainable Markets Initiative).

Within the supplier engagement program, Top  $CO_2$ e emitters need to reach a target maturity level by performing the required activities. To complete activities for leveling up, Sanofi individually (operational support by sharing best practices or helping suppliers assess their emissions) or collectively (via PSCI or the Energize program) supports suppliers in their environmental journey.

Activities to complete by our suppliers within the Supplier Engagement Program:

- Commit to set science-based targets in alignment with SBTI +1,5 °C
- Commit to use 100% renewable electricity by 2030
- Assess and disclose Scope 1+2+3 emissions
- Report to CDP Climate
- Provide Carbon Footprints of products/ services sourced by Sanofi
- Engage with their own supply chain
- Share decarbonization roadmaps with Sanofi

Sanofi has engaged in external supplier development initiatives to raise the maturity of its top suppliers in environmental matters via multiple channels. With other pharmaceutical industry leaders and via different initiatives, we support suppliers achieving our environmental supplier expectations. Among other support means, we support suppliers as follows:

- Direct collaboration with suppliers
- Training resources offered via PSCI, Energize and EcoVadis
- Ease access to renewable electricity via the Energize Program
- Availability of aligned supplier targets defined via SMI Healthcare Taskforce members to speak "one voice"
- Onboarding of API suppliers to the Activate Program (Manufacture2030) to decarbonize ressource-intensive API production

In addition, we conduct specific decarbonization programs with our suppliers to reduce the carbon intensity of our most carbon intensive sourcing items.

Our environmental performance is publicly available at CDP (Home - CDP). In terms of supplier engagement, Sanofi is part of the 2023 CDP Supplier Engagement Leaderboard.

In addition, Indian and Chinese suppliers are regularly trained through the PSCI group on the following topics: pharmaceutical residues in the environment, antimicrobial resistance, water stewardship, safety, process safety and industrial hygiene. In 2023, 32 of Sanofi's Indian suppliers of active ingredients and 40 of Sanofi's Chinese suppliers of active ingredients participated. As Sanofi is an active member of PSCI, Sanofi hosted the 2023 Spring PSCI Congress in France.

# 3. Our involvement in cross sectoral initiatives

Since 2017, Sanofi is a member of the Pharmaceutical Supply Chain Initiative (PSCI). This association is a group of 72 pharmaceutical and healthcare companies who share a vision of better, social, environmental, and economic outcomes for their suppliers. This collaborative initiative will improve our capability, jointly with our suppliers, to uphold our CSR commitments and requirements.

Through this network, Sanofi joins two major work programs:

- supplier shared audit program; and
- supplier performance improvement program: to establish formal industry guidelines and support suppliers to raise their capability to address ethical, labor, health and safety, environmental issues (such as Scope 3 and decarbonization), and inclusion and diversity.

PSCI is an opportunity for Sanofi to proactively address common sustainability challenges faced by industry peers, leverage best practices and build sound approaches to manage the change.

# 4. Other Sanofi commitments and initiatives

### 4.1. SUPPLIER DIVERSITY

In 2023, Sanofi's dedication to supplier diversity reached significant milestones globally. Our diverse spend reached €1.45 billion, bringing us within reach of our 2025 target of €1.5 billion. Additionally, we successfully doubled spending with women-owned businesses, reaching €261.68 million ahead of schedule.

This commitment to diversity and societal impact led to Sanofi being shortlisted for the prestigious 'Intel Supplier Diversity & Inclusion Award'. Additionally, our placement at No. 19 on DiversityInc's 2023 Top 50 List underscored our dedication. We were honored with the 'Best Corporations for Veteran's Business Enterprises Award' from NaVoba and recognized as 'Local Corporation of the Year' by the New York & New Jersey Minority Supplier Development Council.

Aligned with our supplier diversity strategy, Sanofi initiated robust social initiatives to bolster community economic engagement and foster inclusion among historically disadvantaged or under-represented groups. Examples include our support for the Kogi Coffee Tribe in Colombia, where mentoring programs were established to enhance business management skills.

The introduction of 'Sanofi's Play to WIN - Supplier Diversity Awards' aimed to acknowledge and celebrate outstanding contributions to supplier diversity within our procurement community. Furthermore, our collaboration with BetterShared, a women-owned enterprise, resulted in the 'Supplier Diversity Through Art' Program, showcasing diverse artworks across regions including France, Europe, the US, and APAC.

Our teams in France and the EU showcased proactive efforts by representing Sanofi at key events such as the social inclusion summit at the French Ministry of Finance and 'The Réseau des Femmes d'affaires du Québec'. Additionally, EU representatives engaged in discussions on challenges and opportunities in the supplier diversity sphere at The French Chamber of Commerce events.

These initiatives reflect Sanofi's unwavering commitment to fostering diversity, inclusion, and community engagement on a global scale.

#### 4.2. SUPPORT TO SMEs IN FRANCE

Headquartered in France, Sanofi is committed to support the development of French SMEs.

In 2022, Sanofi had its "Responsible Supplier Relations" accreditation (first awarded in 2013) renewed for the tenth time by the French Ministry of the Economy and Business.

In France, Sanofi has also signed the national "Charter of intercompany relations between large contractors and their suppliers in particular small/medium-sized enterprises" This charter sets out ten commitments for responsible purchasing and aims to build mutual trust and promote innovation between suppliers and customers. <u>For more information</u>, see our Charte Relations Fournisseurs et Achats Responsables: <a href="http://www.rfar.fr">http://www.rfar.fr</a>.

We have also developed an in-house SME support program in collaboration with the PACTE PME association. Since 2021, the program is focused on the development of 15 key start-ups, selected Sanofi buyers. This program will increase the skills of these promising players while allowing Sanofi to capture innovation.

In parallel, Sanofi has appointed an internal mediator, independent of the procurement function, who is in charge of facilitating the resolution of work-related differences between the Company and our suppliers with impartiality, and confidentiality.