



The evaluation and monitoring of ESG Sustainability in industrial Supply Chains

Webinar, September 17th 2021

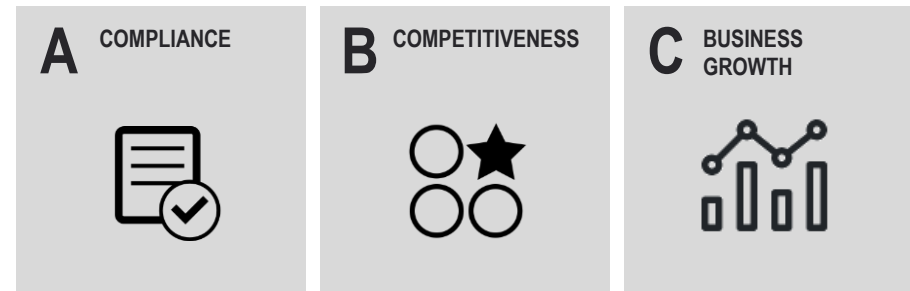


ESG Sustainability is a value becoming universally recognized

ESG Sustainability requirements by Lenders and End-Users



- **Not something new** for the Plant Engineering industries (Local Content, certifications, ...)
- A **must-do** with the **potential** to become the new “**quality system**” (30 years later)
- Above all, a **mean** for further:



Our journey to Supply Chain ESG Sustainability



Creation of ANIMP's open and industry-wide workgroup



Jul
2019

1st release of
industry Guideline

Feb
2020

Mar
2020

Guideline deploy on
SupplHi and invites
to Vendors

Calibration of industry
Guideline based
on the analysis
of 1.000 Vendors,
globally

Mar
2021

Ott
2021

Establishment of
Steering Committee
and launch of industry-wide
open program

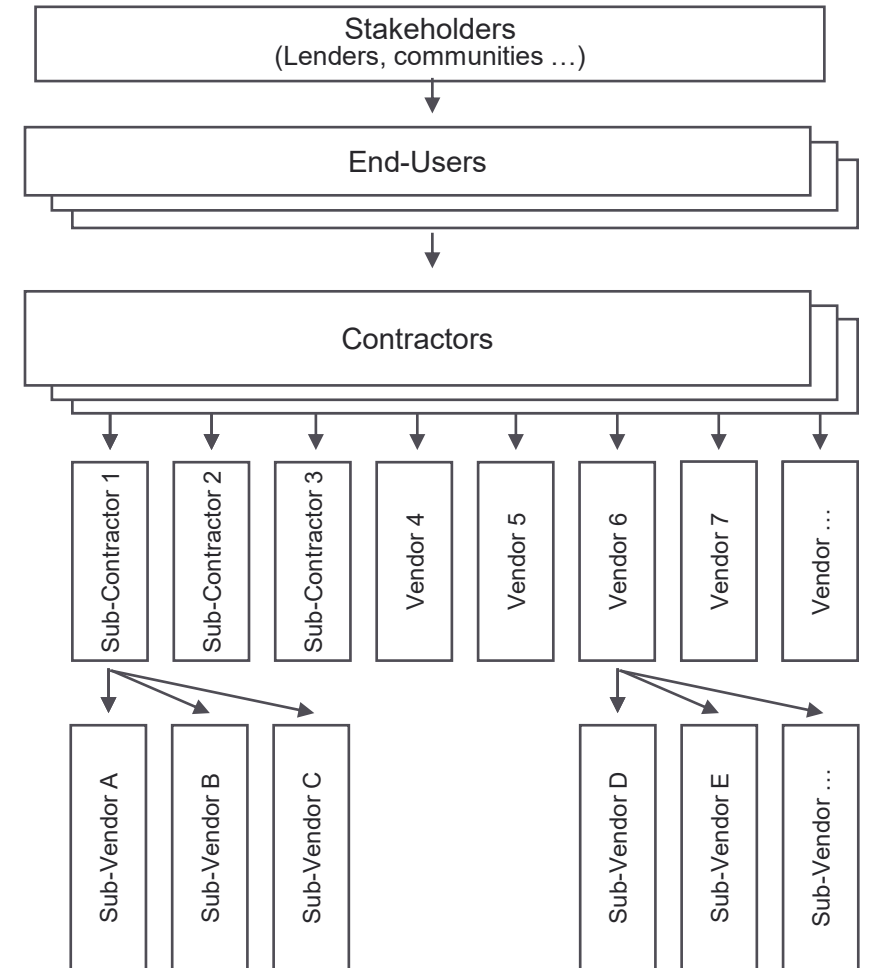
ESG improvements
to the Supply Chain

You are as ESG Sustainable as the last of your critical supplier is.

Companies' Revenues in B2B		
Purchases (>50%)	Other costs	Margin

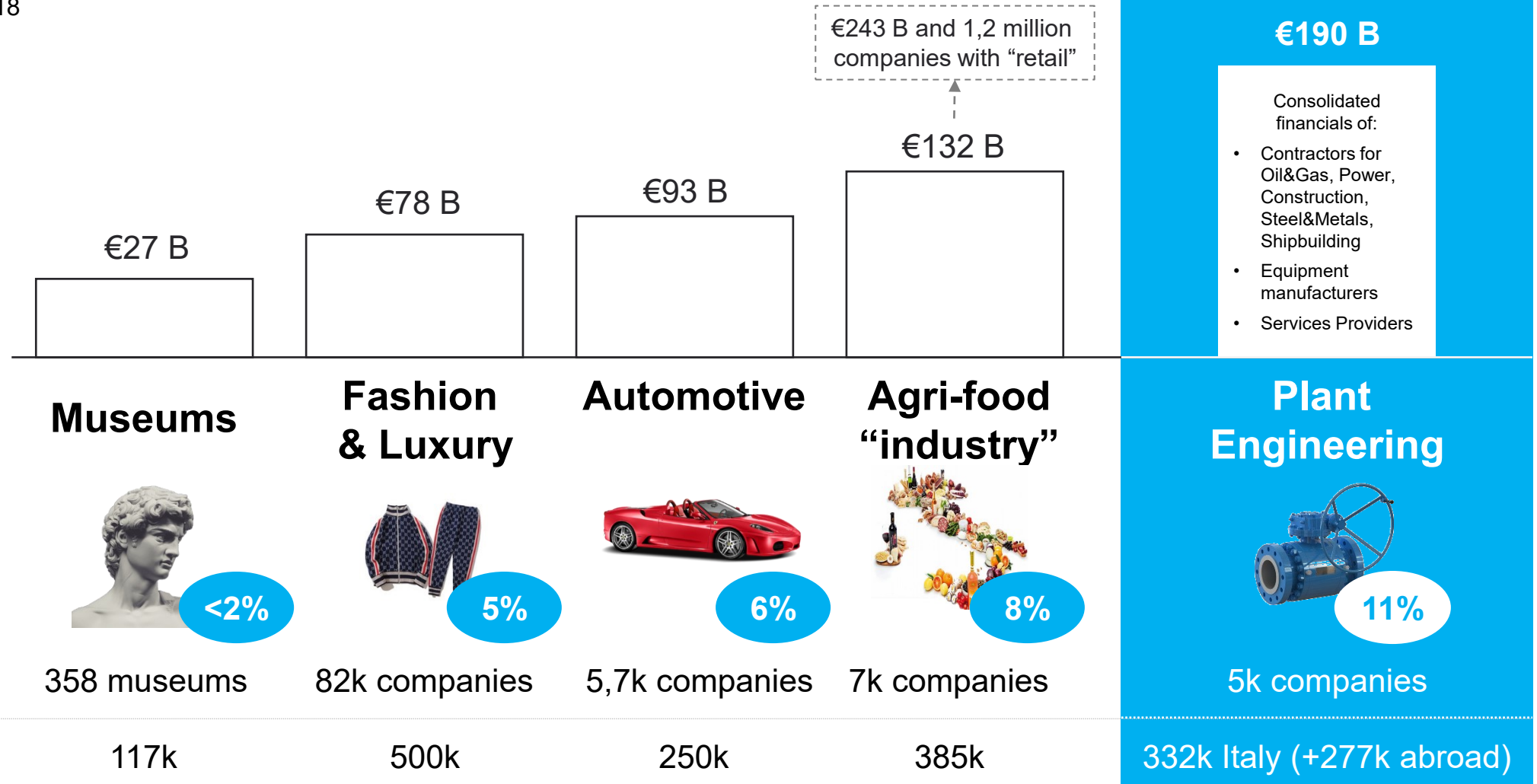
Lack of a Guideline for ESG Supply Chain metrics in our industry

- **Assessment of ESG Sustainability** in Plant Engineering industries is required by Clients and it is a **pass-through in a supply chain** that:
 - can represent **up to 80%** of an organization's revenues
 - is truly **global**
 - is mainly characterized by **SMEs**
 - has peculiarities by **category of supply**
- Several international standards are present, but **lack of a Guideline on metrics to assess ESG performance for Vendors in Plant Engineering**.
In addition, risk of over-complexity stimulated by larger data providers



Plant Engineering is a leading value chain for what Italy is famous for

Value of Production, 2018



Source: analysis by Cribis D&B and SupplHi on Cribis D&B, BCG, Quattroruote, AlixPartners and ICE public data

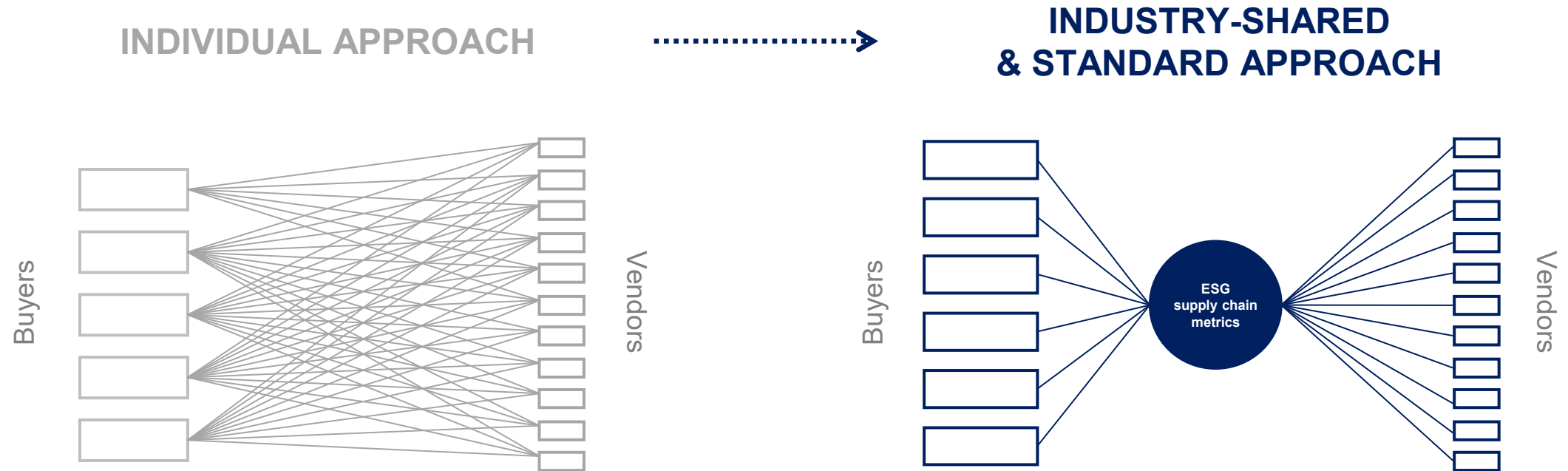
If you can't measure it, you can't improve it.



Sir William Thomson

Inventor of the Kelvin international
system of absolute temperature

Proposed approach on ESG Supply Chain metrics



- **Costly for all actors**
- **Complex Compliance**
- **Perceived as further burden by the industry**

- **Cost savings (up to 80%)**
- **Standard, with possibility of customization**
- **Providing guidance to SMEs for ESG growth**

INDUSTRY-SHARED and INDEPENDENT approach

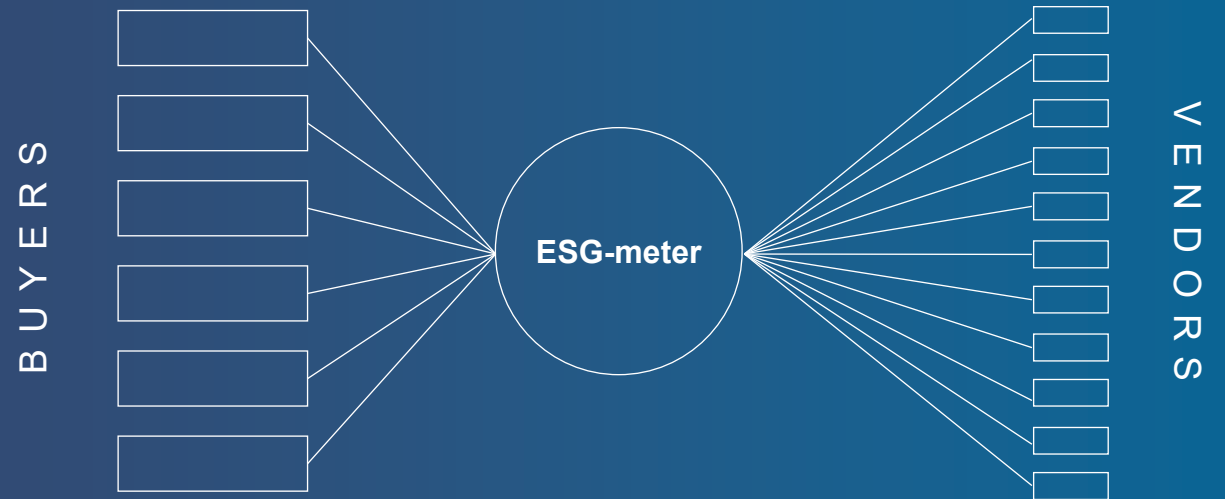
Customers that co-designed the ESG solution with SupplHi are international and global players in industrial B2B



Partners



OPEN INNOVATION
FOR A TRULY INDEPENDENT SUPPLY CHAIN ESG MODEL



- ✓ Independent & Transparent
- ✓ Industry-shared **Guideline**, specific for industrial B2B and based on international best practices
- ✓ Free-of-charge for Vendors
- ✓ Fully digital, simple and easy-to-use, with possibility to integrate it into Vendor Management and Risk Management processes

The standard guideline is built on the world's most trusted ESG frameworks declined on industrial B2B needs



10 principles behind the Vendor ESG model



Mapping of **Sustainability needs of End-Users** and Stakeholders (e.g. lenders)

Benchmarking of 32 existing practices on Sustainability-related information requested in Plant Engineering

Analysis of the **existing Standards, Norms & Programs**



... and many more

- 1 **Standard** and **focused** on the **B2B industrial equipment and services**
- 2 Valid at **global level**
- 3 **Pragmatic** and **easy-to-use**, limiting the burden for all actors of the value chain
- 4 **Comprehensive** and - based on **multiple templates** - valid for all types of supplies
- 5 Linked - as much as possible - to the **existing standards, norms and programs** available on the market
- 6 **Easy to compare with ESG Scores** to drive improvements of Vendors' Sustainability
- 7 Guideline **constantly updated** to cope with the newly introduced practices, requirements and standards
- 8 **Open and free-of-charge to any type of Vendor** and accessible also to smaller Buyer organizations
- 9 **Focused at production location level**, with the possibility to evaluate the Sustainability of Sub-Vendors
- 10 **Shareable with the banking system** to support funding for investments on Sustainable improvement actions

Supply Chain ESG model's data structure

SUPPLY CHAIN ESG MODEL

Presence of multiple
Templates to better reflect
the macro-types of supplies
(linked to the Categorization of
each Buyer organization)

TESG_A
Critical Equipment

TESG_B
Not/Critical Equipment

TESG_C
Construction Services

TESG_D
Fabrication at Yards

TESG_E
Logistics Services

TESG_F
Other Services

Level 4

~120 data fields
associated to 3 types of weights

	Answer score	Weight
Has the company been convicted of violations related to Environmental practices and damages?	3	3
Presence of activities to reduce the impact of noise & vibration, odours and pollution	3	2
Company's reporting of GHG emissions	1	3
Availability of a MET (Materials, Energy, and Toxicity) Matrix of raw materials and auxiliaries at production plants	2	1
Presence of an Environmental Product Declaration (EPD)	3	2

Next page example

... ☐ ☐

Level 3

14 Sub-Areas

Environmental Management System	A
Energy Efficiency	A
Waste Management	A
Pollution	B

Social Responsibility	A
Equal Opportunities	B
Human Rights	D
Working Conditions	C

H&S Management System	A
H&S Risk Assessments & Analysis	B
H&S Training & Medical Surveillance	D

Ethics	A
Responsible Information Management	B
Sustainable Procurement	D

Level 2

4 Areas

ENVIRONMENT	A
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SOCIAL	C
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HEALTH & SAFETY	B
-----------------	---

GOVERNANCE	D
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Level 1

Score are
calculated as the
weighted average of
the answers of the
Sub-Area and Area

Score	Range
A	81%-100%
B	61%-80%
C	41%-60%
D	21% - 40%
E	0%-20%

SUSTAINABILITY

Vendor ESG Questionnaires data structure

Level 4

Presence of different types of questions addressed to the Vendor:

- Declaration
- Selection (to increase comparability)
- Certification / Policy / Program
- Reporting (at the moment not considered for the score, e.g. tons of waste managed by type)

Vendors are constantly notified by the SupplHi platform to keep their Sustainability information constantly updated through the expediting to Vendors of the expiring information

The information requested to Vendors is based on the categories of supply of the Vendor. Each category of supply of the individual Buyer organization is linked to the SupplHi Standard Categorization, and each category of supply of the SupplHi Standard Categorization is linked to one of the six different Standard Template for Vendor Sustainability, as per the below example

Each question – in the specific template – is associated to a weight from 1 to 3.

Each question is linked to the UN Sustainability Development Goals (SDG)

Guideline question ID 12
Question type Selection
Question expiry none
Area Environment
Sub-Area Pollution

Presence of an Environmental Product Declaration (EPD)

0	The company does not follow a procedure to analyse or assess the environmental impact of its products through their life cycle
1	The company has a procedure to assess the environmental impacts of its products without issuing an EPD
2	The company has implemented a procedure to assess the environmental impacts of its products and issues certified EPD specific for a product and at a production site
3	The company has implemented a procedure to assess the environmental impacts of its products and issues certified EPD specific for a product that covers all its main production sites

Template		Weight
TESG_A	Critical Equipment	2
TESG_B	Non-Critical Equipment	1
TESG_C	Construction services	not present
TESG_D	Fabrication at Yards	not present
TESG_E	Logistics Services	not present
TESG_F	Other Services	not present

SUSTAINABLE
DEVELOPMENT
GOALS



Vendor ESG Questionnaires quickly reached critical mass

100% DIGITAL PROCESS



Industry shared platform

Free-of-charge registration by any Vendor

ESG Questionnaire based on ANIMP Guideline (~100 questions)

Quality Assurance of information from Vendors by SupplHi

Cumulated number of completed ESG Questionnaires by international Vendors on SupplHi platform

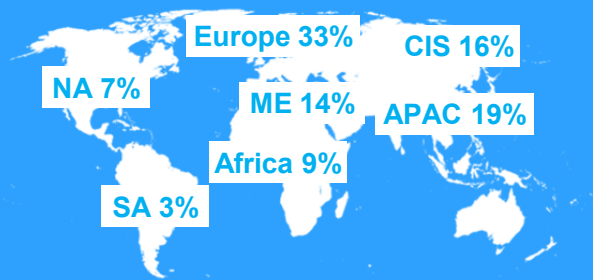


The analysis covers the results from the Questionnaires received

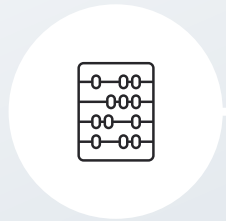
Templates' coverage:

Critical Equipment	59%
Construction Services	12%
Fabrication at Yards	3%
Logistics Services	5%
Other Services	20%

Geographical coverage across 58 Countries:



Calibration of the ESG Assessment model



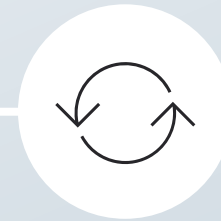
1st ELABORATION

of results according to
ESG questions and
weights initially defined
in the Guideline



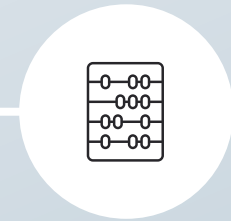
ANALYSIS

of the distribution of the
initial results, by
question and template



CALIBRATION

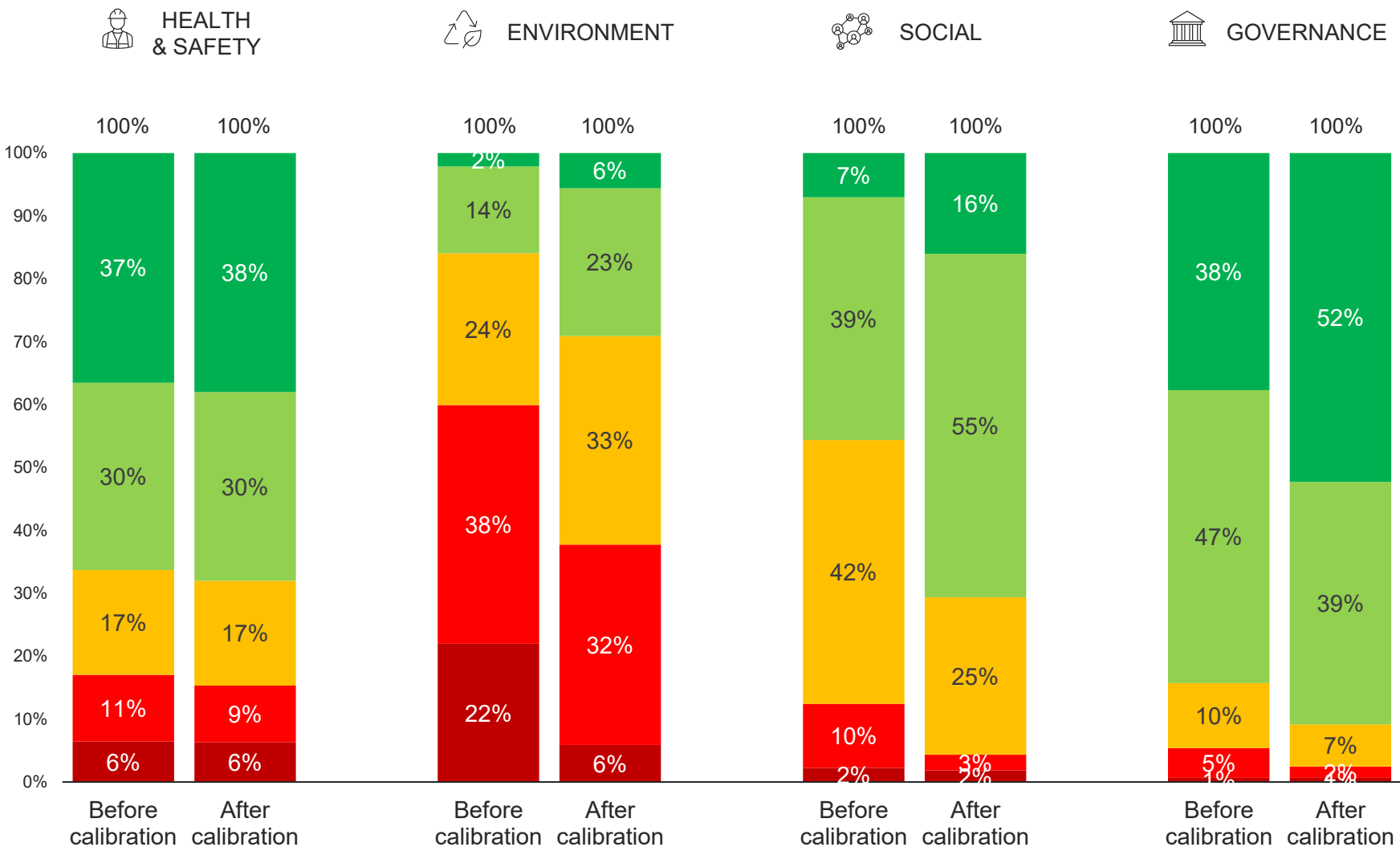
of questions and weights
of the model to better
reflect the status of the
supply chain



UPDATE

of the Score based on
fine tuned weights and
questions, and discussion
with workgroup

Scores by ESG Areas



HIGHLIGHTS

Health & Safety is reflecting a high focus on associated risks with 85% of vendors with a score of C and Higher

Environment - with more than 1/3 of scores below letter C - presenting the biggest area of improvement required in the supply chain

Within **Social**, Working Conditions presents a lever to the total score of this area

Governance presenting highest scores, with potential for more intense Guideline requirements

Scores by ESG Sub-Areas



HIGHLIGHTS

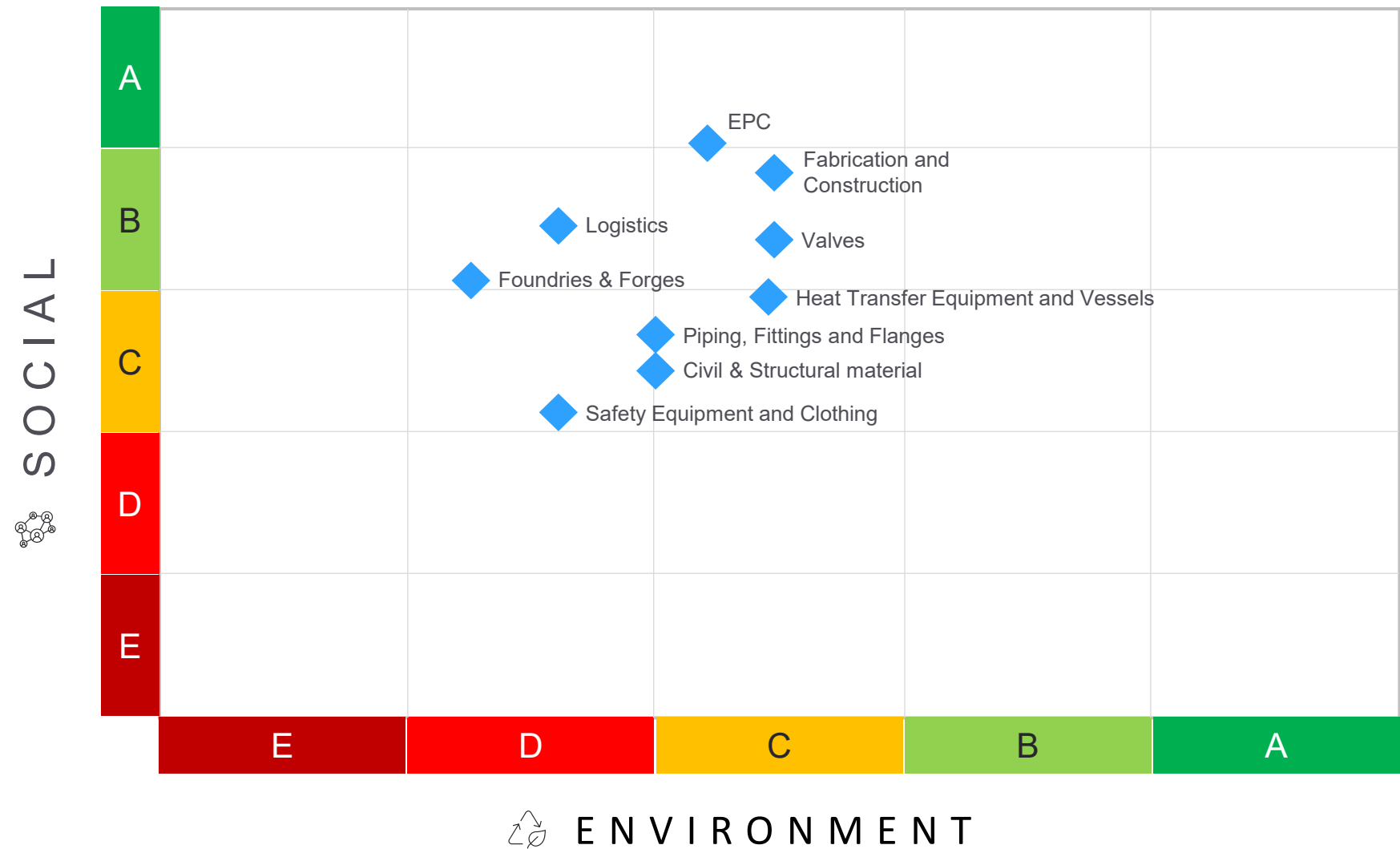
Health & Safety requires more focus around its **Management System** and the Training

In **Environment**, **Pollution** showed the highest scores whereas **Environmental Management System** has more than 50% of scores with a score of D and E

Social Responsibility is the subarea with the lowest scores in **Social** and among all subareas. Whereas **Working Conditions** is lever of the Social Pillar

Sustainable procurement does not reflect the high scores of other **Governance's** subareas with 1/3 of scores less than C

Scores by category of supply



HIGHLIGHTS

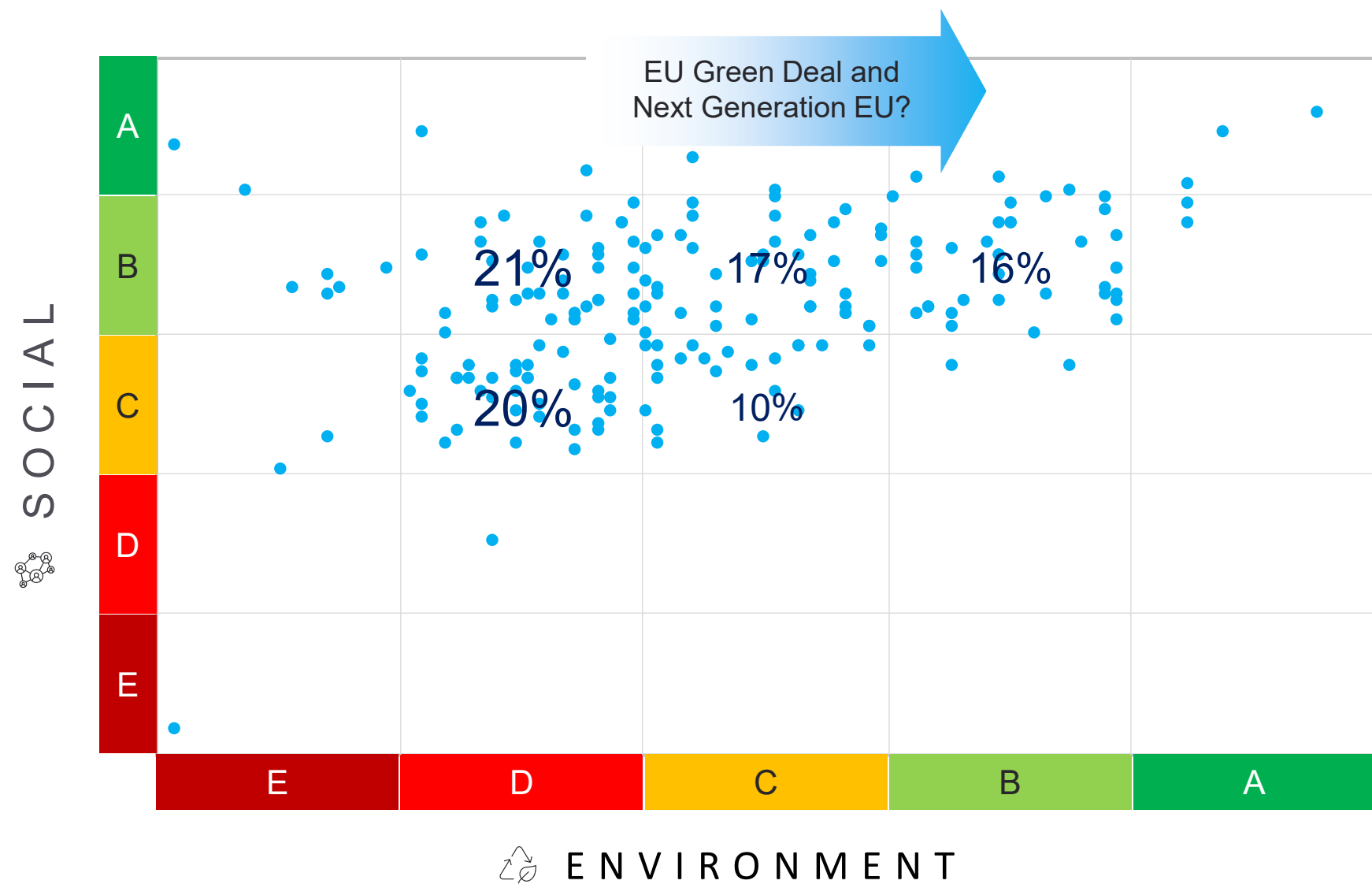
Service providers have scored higher than **Manufacturers** in terms of **Social** Sustainability.

EPC Services have scored the highest under **Social** Sustainability being the only category with an A score scale

In **Environmental** Sustainability, Critical Equipment such as **Heat Transfer Equipment and Vessels** have scored higher than **Safety Equipment and Clothing**

The highest score for **Environmental sustainability** was a C scale shared by 3 categories of supply whereas the lowest was occupied by **Foundries and Forges** scoring D

Focus on ~550 Italian Vendors



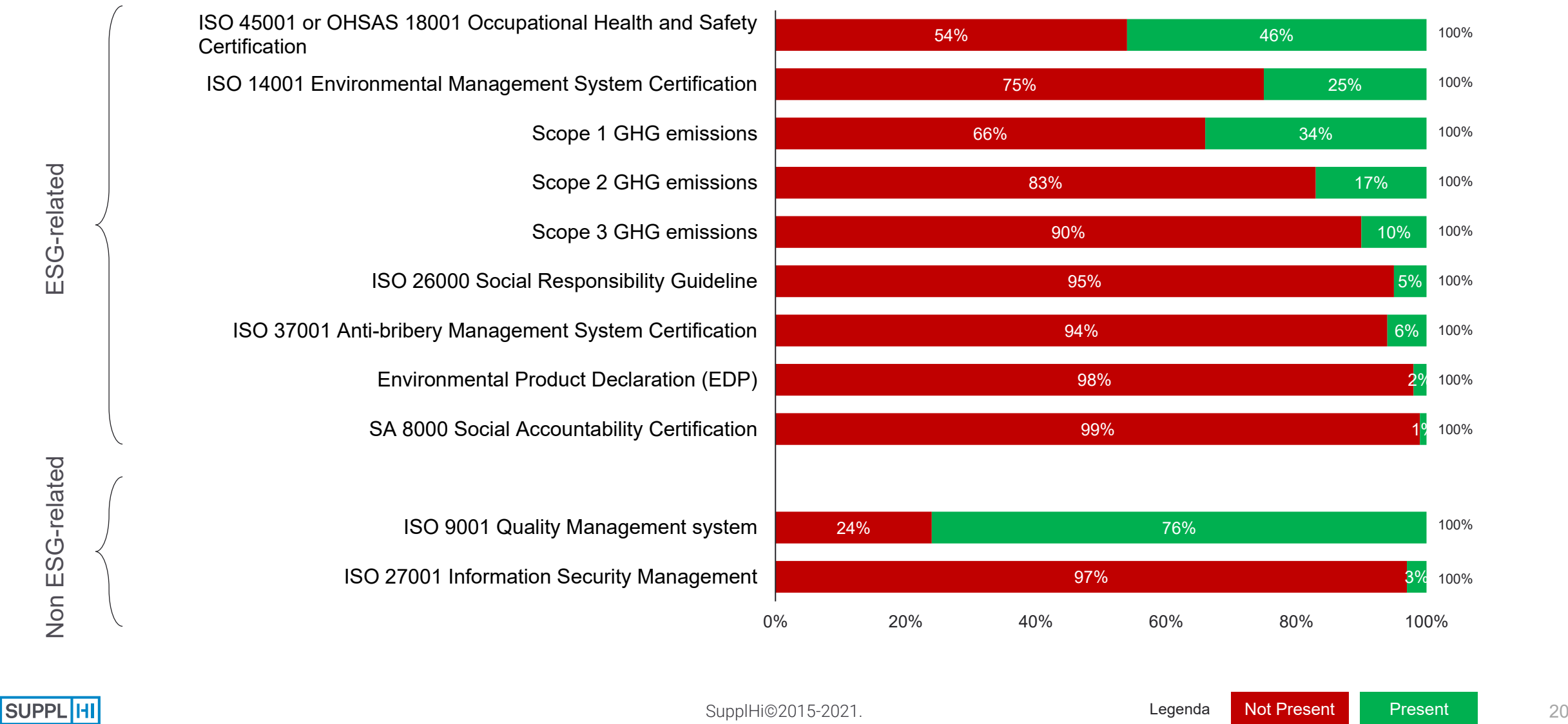
HIGHLIGHTS

More than 43% of Italian Vendors have scored C and Higher in terms of **Environmental** Sustainability

While in **Social** Sustainability, more than 84% of the Italian respondents have scored C and Higher with more than 54% are in the A & B score scale

Only 20% have been evaluated with a B or Higher in both pillars (Social and Environmental sustainability)

Typical ESG Certifications & reporting practices



TOP5 industry-wide ESG gaps and priorities



Stimulate **CO2 measurement by Vendors** (Scope 3 of Buyers)



Increase adoption of **Health & Safety Management System**



Increase **Waste Management** and stimulate **Circular Economy**



Sustainable Procurement across the entire supply chain



Stimulate further **Health & Safety Training**

4.000+ Vendor's ESG Improvement Initiatives collected


Search...

EN GF


SUPPL HI

Vendor Sustainability initiatives

Filters


**Façade Insulation**
IZOTECHNIK Sp. z o.o. (Poland)

Our Company has installed a new layer of façade insulation on its occupied building in a quest to better isolate the offices during winter and thus consuming less heating energy


Capability  Environmental

Type **Building Insulation**

Completed 01/2019 - 01/2019


**Glass Power**
WZ Certification GmbH (Germany)

WZ Certification has adopted the Solar glass for its offices in Germany. With this new technology, the company will be relying more on its free renewable energy generated from the transparent solar Panels also operating as traditional windows


Capability  Environmental

Type **Renewables within plant**

Ongoing 01/2020 - 01/2021


**Transport Fleet UP-grade**
ISS Global Forwarding Italy S.p.A. (Italy)

ISS Global Forwarding has upgraded its transport fleet by replacing older vehicles engines with new environmental-friendly ones consuming less fuels (diesel & petrol)


Capability  Environmental

Type **Green Mobility**

Completed 01/2018 - 01/2018


**Transport Optimization**
deugro (USA) (USA)

In order to optimize transport modalities for our clients, Deugro has adopted Cargosoft as their freight forwarding system tool. The software provides a real time tracking of the company's logistics across all involved functionalities


Capability  Environmental

Type **Digital tool**

Completed 01/2019 - 01/2019


**Clean Waste Water**
Rivt S.p.A. (Italy)

Rivt S.p.A. is installing a water depuration recovery system to treat industrial waste water and reuse it as a recovered water for cleaning purposes while reducing the company's environmental impact


Capability  Environmental

Type **Waste Water recovery**

Ongoing 01/2020 - 01/2020


**Responsible Minerals Initiative (RMI)**
Nidec ASI S.p.A. (Italy)

Nidec ASI S.p.A. has joined the Responsible Minerals Initiative (RMI) as part of its commitment towards a 100% compliant sourcing of Conflict material (tantalum, tin, tungsten, and gold)


Capability  Governance

Type **Conflict materials**

Ongoing 01/2019 - 01/2020


**Conflict Free Material**
CCI Italy S.R.L. (Italy)

In partnership with governmental organizations and NGOs, CCI Italy S.R.L. will adopt a fully transparent process which allows the full tracking of the sources of the procured conflict material (tantalum, tin, tungsten, and gold) confirming our Compliance with international law


Capability  Governance

Type **Conflict materials**

Planning 01/2020 - 01/2021


**CEO Days**
HSM Offshore bv (Netherlands)

HSM Offshore bv offers an internship for outstanding female students in Indonesia with the opportunity to act and perform the CEO's tasks in the company's branch once a week


Capability  Social

Type **Gender Equality**

Ongoing 01/2019 - 01/2021

**Recycled Housing**
TROMONT d.o.o. (Croatia)

As part of its focused and efficient recycling program, TROMONT will offer decent housing solutions for refugees in Greece made from recycled plastic and steel material collected

Capability  Social

Type **Community Development**

Planning 01/2020 - 01/2022

Initiative to reduce the impact of noise & vibration, odors and pollution

Sound Level Checks
Noise Suppressing Panels
External Noise Evaluation
DPI for Personnel

Reduction of Fumes from Welding
New Wastewater Treatment
Inhouse Air Pollution Tests
...

Technologies and programs to reduce Environmental impact

Air Suction Filters
Dust's Removal System
Garbage Sorting
Waste Gas Treatment

Recycling of Waste
Tree planting activities
Environmental Awareness Campaign
...

Implementation of a dedicated Corporate Social Responsibility activity

Update to Code of Conduct
HSSE Training
Modern Slavery & Human Trafficking
...

Job related stress
Participation in STEM events
Certification B Corp
...

Communication of Guidance to Vendor's growth on ESG

Vendor Sample LTD (United Kingdom)

ENVIRONMENTAL



Suggested Improvement Action

- ! IA_00124
Achieve ISO 14001 Certification
82% of your competitors have obtained it.
- ! IA_00125
Increase renewable energy consumption
Your current level (4%) is much lower than the average of your competitors (11%).
- ! IA_00126
Increase Scrap Waste Management
Your competitors save up to 35% of their waste through a dedicated procedure and system.

SOCIAL



Suggested Improvement Action

- ! IA_00127
Increase the percentage of women in managerial positions
Companies with a higher % of women in management roles are most likely to generate higher returns.
- ! IA_00128
Achieve SA 8000 Certification
Companies with SA 8000 Certification have a 20% higher score on their social sustainability assessment.

GOVERNANCE



Suggested Improvement Action

- ! IA_00129
Assign a Sustainability Manager
64% of medium-sized organizations in your industry have a dedicated Head of Sustainability
- ! IA_00130
Perform an ESG Sustainability assessment for your supply base
Join the Top 20% rated companies in your industry by adopting an ESG sustainability program to your vendors.
- ! IA_00131
Issue a periodical Sustainability Report
Issue a yearly Sustainability report illustrating your company's sustainability performance and taken initiatives to become a pioneer in your industry.

Why Supply Chain GHG inventory matters now



Carbon Emissions and the fight against **Climate Change** are a global imperative embraced by all main organizations

In industrial B2B, **purchased goods and services** account for the highest proportion of Scope 3 emissions



Buyers are becoming **responsible for the CO2 emissions of their suppliers** (e.g. Shell's court order, May 2021)

In the initial years of Scope 3 estimations, **Buyers used data of relatively low quality due to limited availability**



Industrial B2B is characterized by **SMEs** and only **2% of them report their CO2 emissions** and have a **reduction target** in place

Buyers need to boldly stimulate and carefully monitor **suppliers and sub-suppliers to develop GHG inventories** and to set challenging **reduction targets**

Buyers are becoming responsible for the CO2 emissions of their Suppliers



Shell: Netherlands court orders oil giant to cut emissions

🕒 26 May 2021

A court in the Netherlands has ruled in a landmark case that the oil giant Shell must reduce its emissions.

By 2030, Shell must cut its CO2 emissions by 45% compared to 2019 levels, the civil court ruled.

The Shell group is responsible for its own CO2 emissions and those of its suppliers, the verdict said.

It is the first time a company has been legally obliged to align its policies with the Paris climate accords, says Friends of the Earth (FoE).

BBC NEWS

On May 26, 2021, the Hague District Court issued a ruling ordering Shell, to ensure that the aggregate annual volume of all CO2 emissions of the Shell group, **its suppliers**, and customers is reduced by at least net 45% by the end of 2030, relative to 2019 levels.

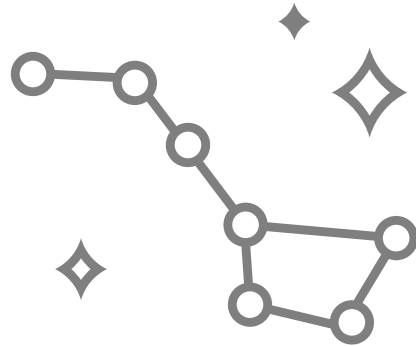
Shell is responsible for its own CO2 emissions and those of its suppliers, the verdict said.

This is the first ruling in the Netherlands in which a non-State entity is ordered to reduce CO2 emissions. This ruling can potentially pave the way for further climate change litigation against non-State emitters of CO2 in and outside of the Netherlands.

Evolve your Scope 3 Carbon inventories, now

FROM

In their initial years of scope 3 data collection, companies used data of relatively low quality due to limited availability.

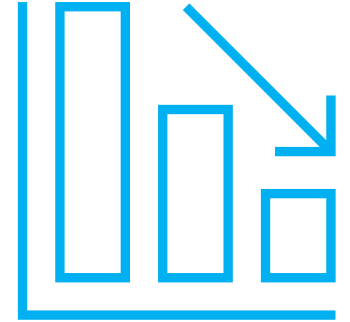


Broad sector averages do not represent nuances of unique processes and products, especially for the fragmented supplier base in industrial B2B

***Secondary data** cannot target reductions and demonstrate results of reduction efforts*

TO

Buyers are now seeking to improve the data quality of the inventory, prioritizing supplies that have relatively low high emissions and relatively low data quality.

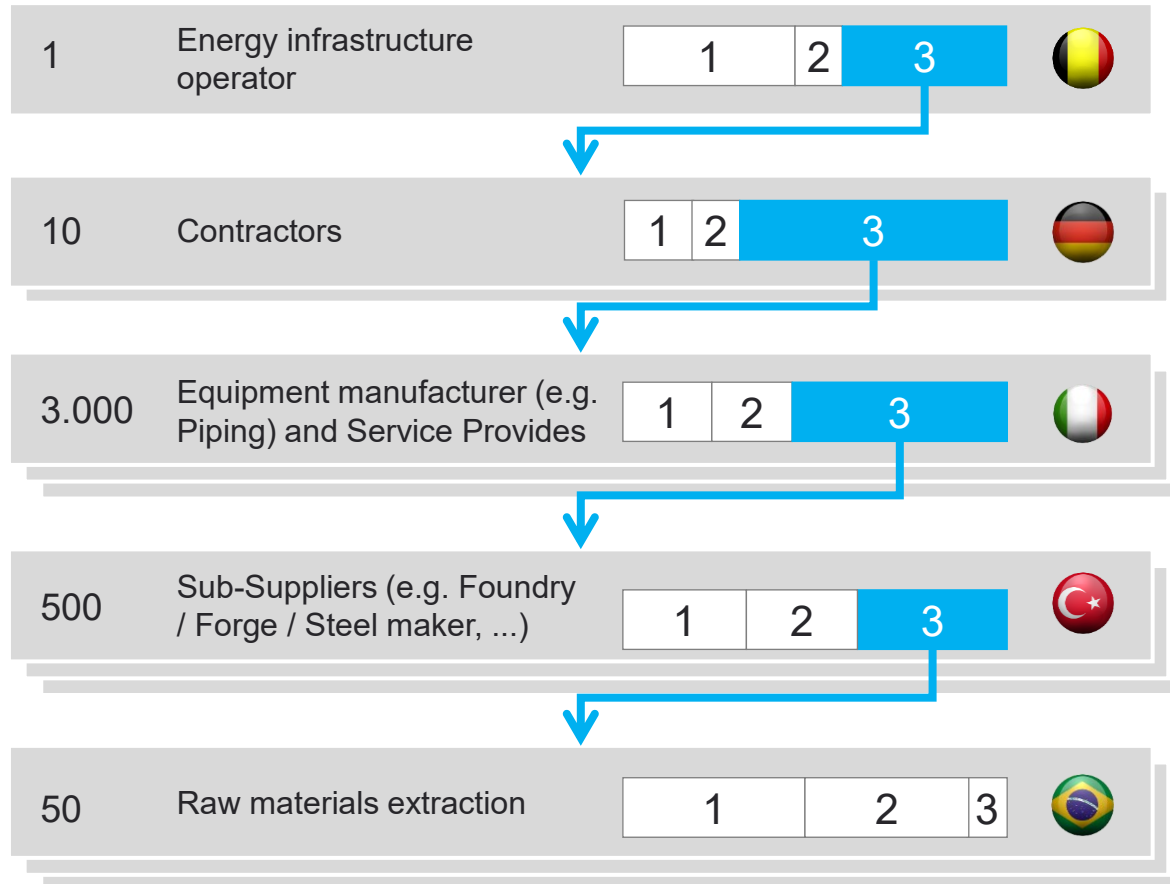


Primary data through “supplier-specific method” (collecting - when possible - at product-level **cradle-to-gate GHG inventory** data) or **“hybrid method”** must now be **stimulated across the entire supply chain**

*If Vendors can’t **measure** it, they can’t **improve** it.*

In industrial B2B, CO2 measurement and reduction is a Supply Chain-wide effort

Illustrative scheme of Scopes and emissions in industrial B2B supply chains:
Scope 3 emissions depend on the previous several layers of the supply chain



Complex Supply Chain,
requiring an ad-hoc tools:



Multi-layered



Fragmented supplies



Mainly SMEs



Global



Not always visible

Buyer's challenges on CO2 emissions in industrial B2B



CAPTURE THE REALITY

How do I collect **trusted Primary data** (including realistic reduction targets) on CO2 **beyond the top 10% of Suppliers?**



CASCADE GHG AWARENESS

How do I encourage a **fast and solid adoption** of CO2 metrics in a **fragmented** supply chain made of **SMEs** and **several layers?**



TRACK PROGRESS

How do I **monitor and collaborate on CO2 reduction targets** and Performance Improvement across the years with my Suppliers and Sub-Suppliers?

Buyers need to quickly scale the CO2 measurement & monitoring on large and fragmented global supply chains through a smart and collaborative digital solution for Supplier Engagement

Quantifying Vendor's carbon emissions

ILLUSTRATIVE

Vendor is already present or invited to register **free-of-charge** to the **industry-shared SupplHi platform**

If present, Vendor – through a standard Questionnaire - is asked to **provide the CO2 emissions** (Scope 1, 2 and 3) and related **targets** according to a baseline year

If data is missing, **Carbon Tracker** estimates such values based on the **relevant inputs uploaded by Vendor**:

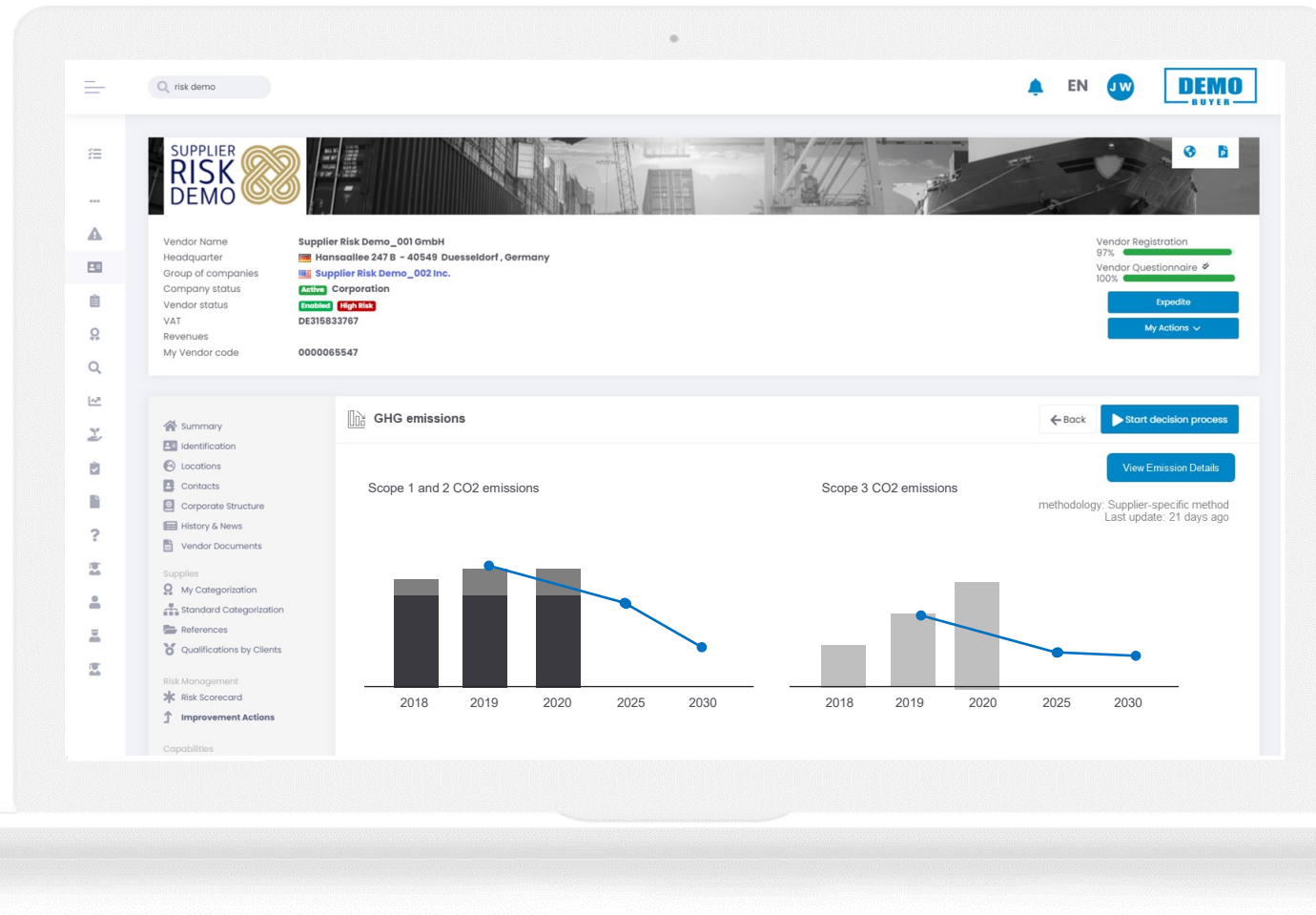
- boundary details
- reporting period
- meter readings
- purchase data
- utility bills

Information goes online only after **SupplHi's quality assurance. Constant data quality assessment**, also through **comparisons** across vendors in similar categories of supply and geographies

The screenshot displays the SupplHi Vendor Questionnaire interface. The top navigation bar includes the SupplHi logo, a menu icon, a notification bell, the language 'EN', and a user profile icon 'AC'. The left sidebar lists functionalities: Dashboard, My Company, Vendor Registration, Questionnaire (with a sub-item 'Edit Vendor Questionnaire'), List of missing info, Qualifications, and Support. The main content area is titled 'Vendor Questionnaire' and shows a progress bar at 2% (not submitted). It includes a 'My Company' section with details for 'Test - (Milano, Italy)', a VAT number, and a SupplHi ID. The 'Questionnaire' section has a sidebar with categories: Health & Safety, Environmental (selected), Social, Governance, Procurement, and Production. The 'Emissions' section contains two main parts: 'Monitoring and actions to reduce GHG emissions' with four radio button options, and 'Company's reporting of GHG emissions' with four radio button options. A third section, 'Presence of activities to reduce the impact of noise & vibration, odours and pollution', is partially visible at the bottom. 'Save' and 'Submit' buttons are located in the top right of the questionnaire area.

Setting Vendor Carbon footprint commitments

ILLUSTRATIVE



Through **Carbon Tracker**, the Vendor:

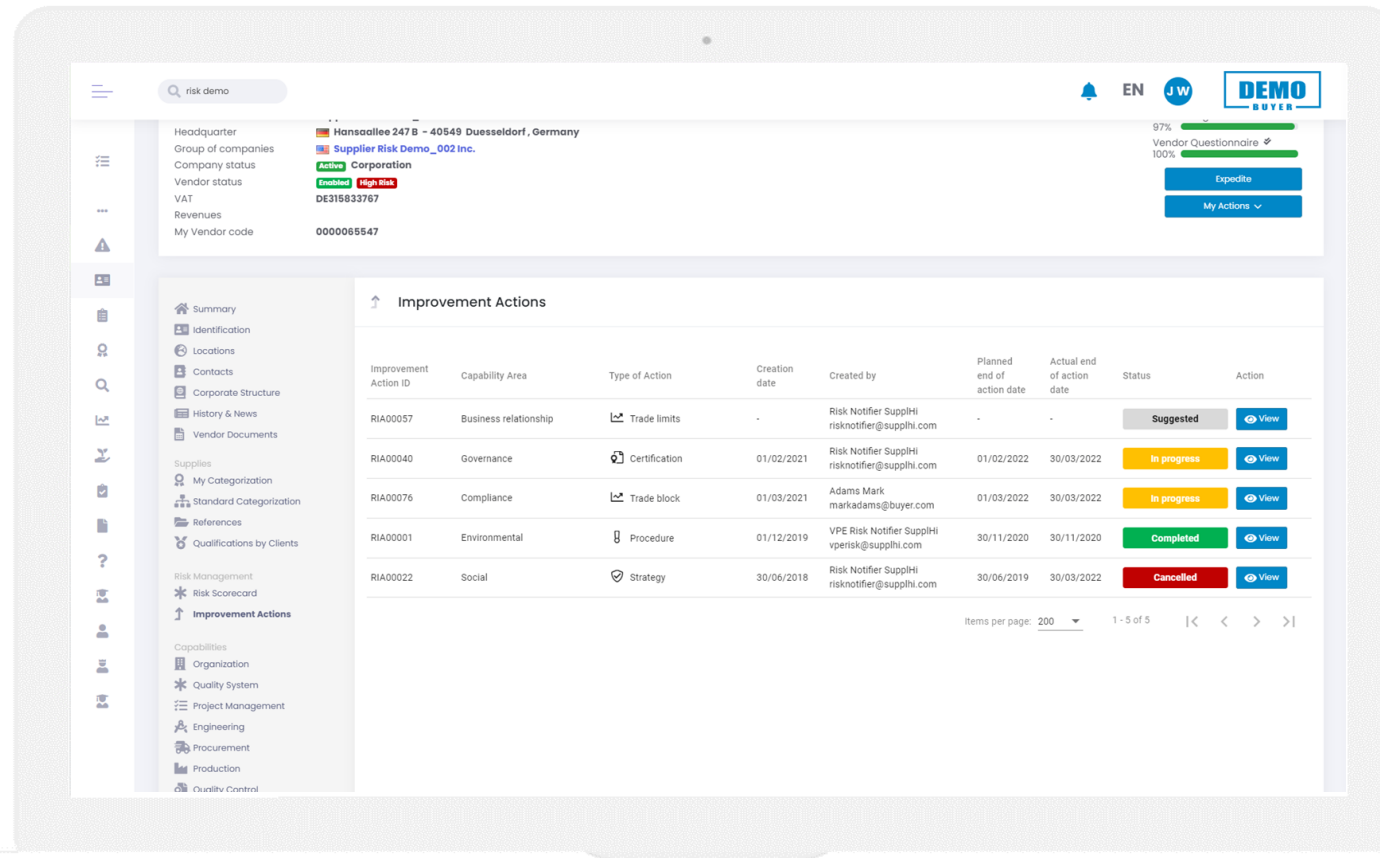
- obtains an **automatic quantification of its CO2 emissions** (Scope 1, 2 and 3)
- defines reduction targets (to 2025, 2030, ...) based on the **Science Based Targets (SBT)**
- defines **initiatives** to reach Targets (based on the Standard Databank of CO2 reduction initiatives managed by SuppliHi)

Possibility of Vendor's **CO2 validation by TIC co. or specialized consultants.**

Customers on SuppliHi **visualize the current emissions and reduction Targets** (2025, 2030, 2040, ...) for a specific Vendor.

Monitoring of Improvement Actions

ILLUSTRATIVE



Vendors are requested to monitor coverage and performance over time.

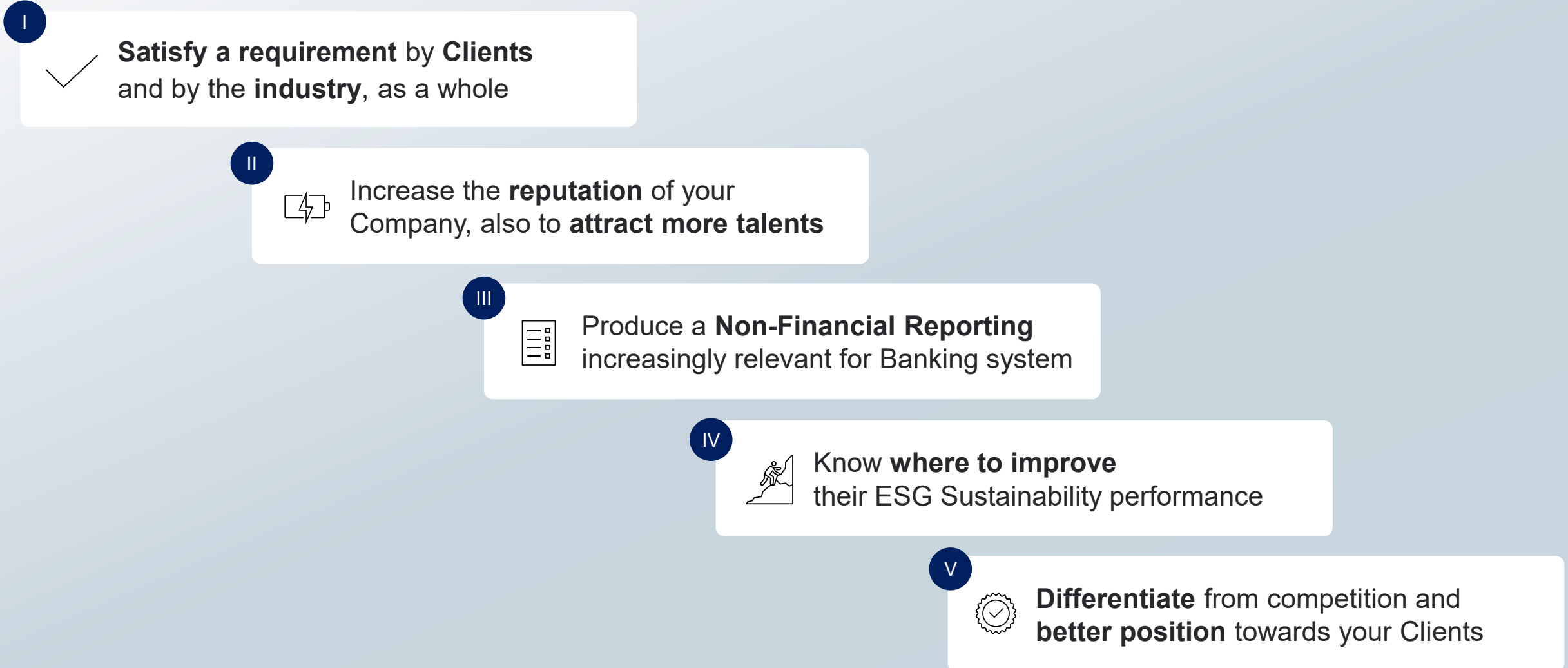
Vendor's CO2 reduction targets on platform are made of:

- **Improvement Actions** (e.g. new industrial filters, employees mobilities, sustainable procurement, ...)
- **Action plan**
- **Governance** to achieve realization of actions

Endorsement of **Science Based Targets** initiative

Actions are **monitored** at Vendor level and **commented** on their progress by the Vendor

Benefits for Vendors



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