Scatec

Transparent Supply Chains

Solar Modules

2023

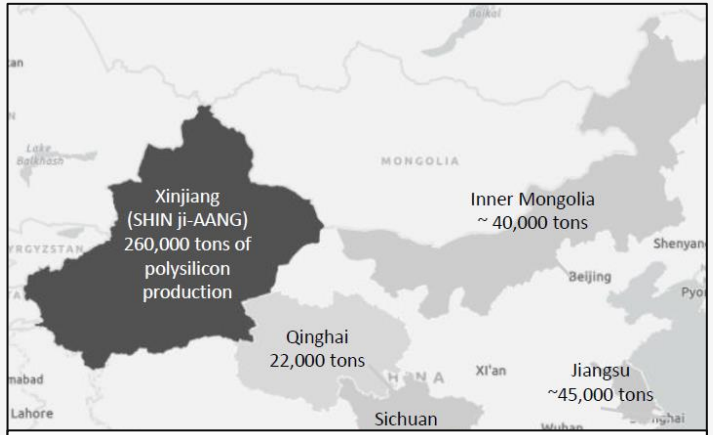
Overview:

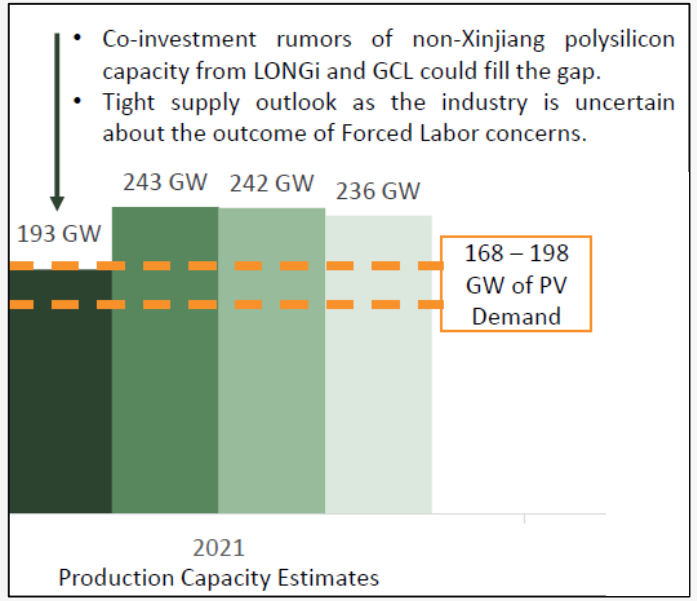
- Labour Practises Issue in Xinjiang Province and the Impact on our Supply
- Our Approach to Sustainable Procurement
- Challenges in Creating Transparency in the Downstream Supply Chain
- Added Measures in Our Procurement Cycle for Module Procurement
- Updating of Supplier Selection Process
- Summary

Labour Practises Issue in Xinjiang Province and the Impact on our Supply

In the last two years, the province Xinjiang in China is alleged to have widespread use of forced labour in their polysilicon production sites. China, China's PV association and Xinjiang manufacturing bases are disputing this. All module suppliers are indirectly affected and implicated.

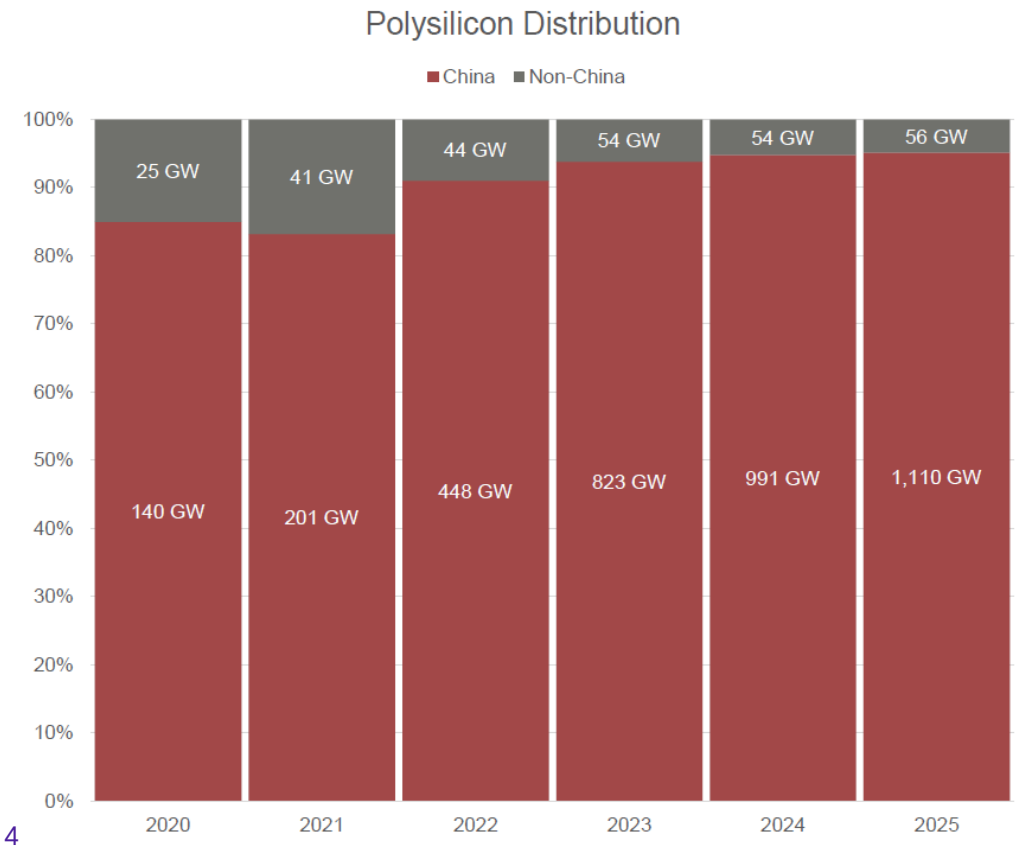
- 71% of Silicon is produced in China
- Xinjiang Produces 63% of the 71% in China and 53% of the global supply
- Chinese demand is forecasted around 60GW for 2021, this represents 31% of global capacity and 45% of Chinese capacity.
- We expect that the capacity from Xinjiang will predominantly be reserved for the Chinese market, but as global demand is forecasted at between 168GW, and 198 GW polysilicon will be constrained and depending on the final demand there could be an oversupply from Xinjiang based on strong resistance for offtake for global production.

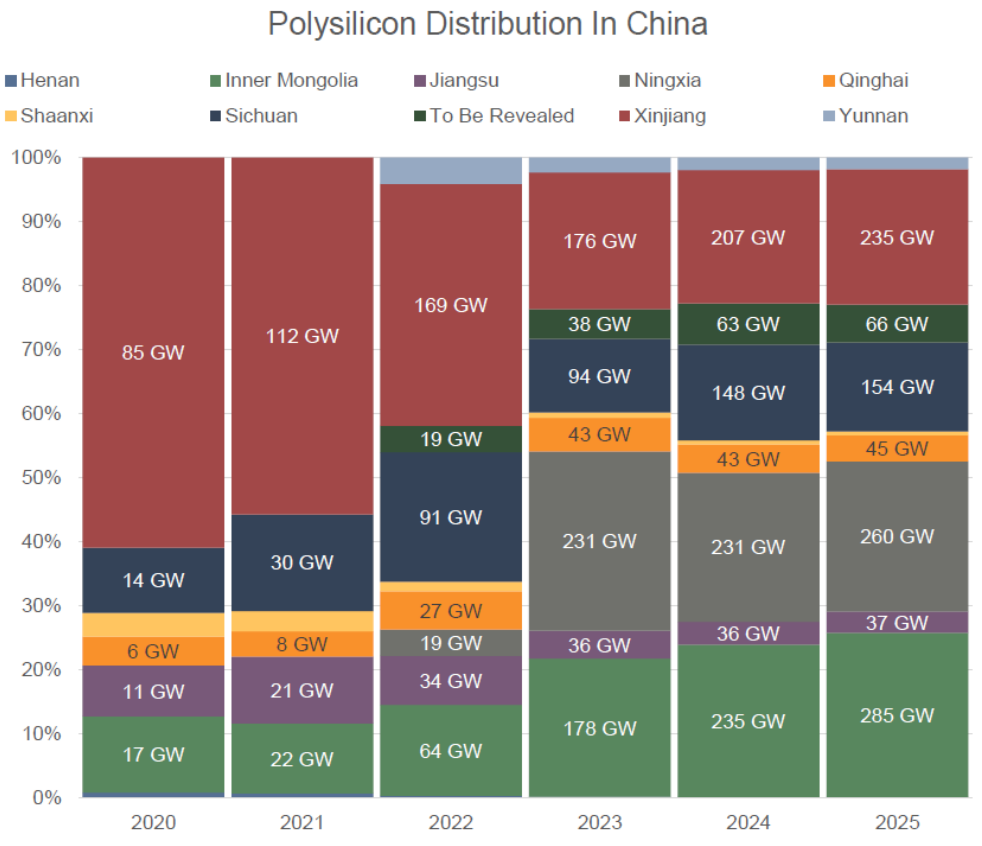




Update on Polysilicon Capacity

China Will Remain The Center Of Polysilicon Production, But Xinjiang Will Fall From 55% Share Of Capacity In 2021 To 20% By 2025





End of year polysilicon capacity nameplates based on supplier announcements and expansion plans | **CEA**

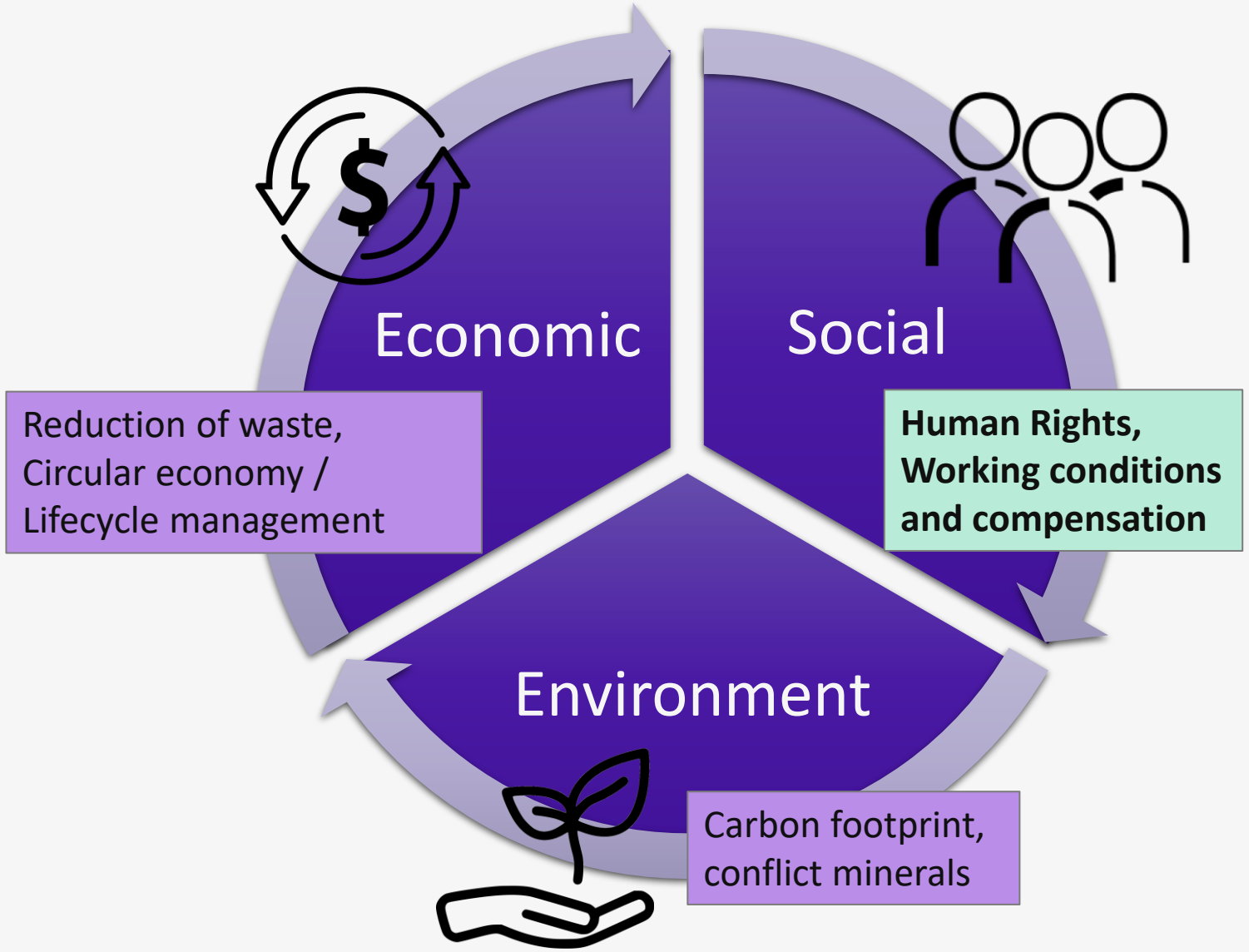
Our Approach to Sustainable Procurement

Compliance Standards

- Code of Conduct
- IFC Performance Standards & Equator Principles
- UN Global Compact
- OECD Due Diligence Guidance for Responsible Business Conduct

Monitoring & Control

- Supplier Due Diligence
- Audits
- Supplier Development Programmes

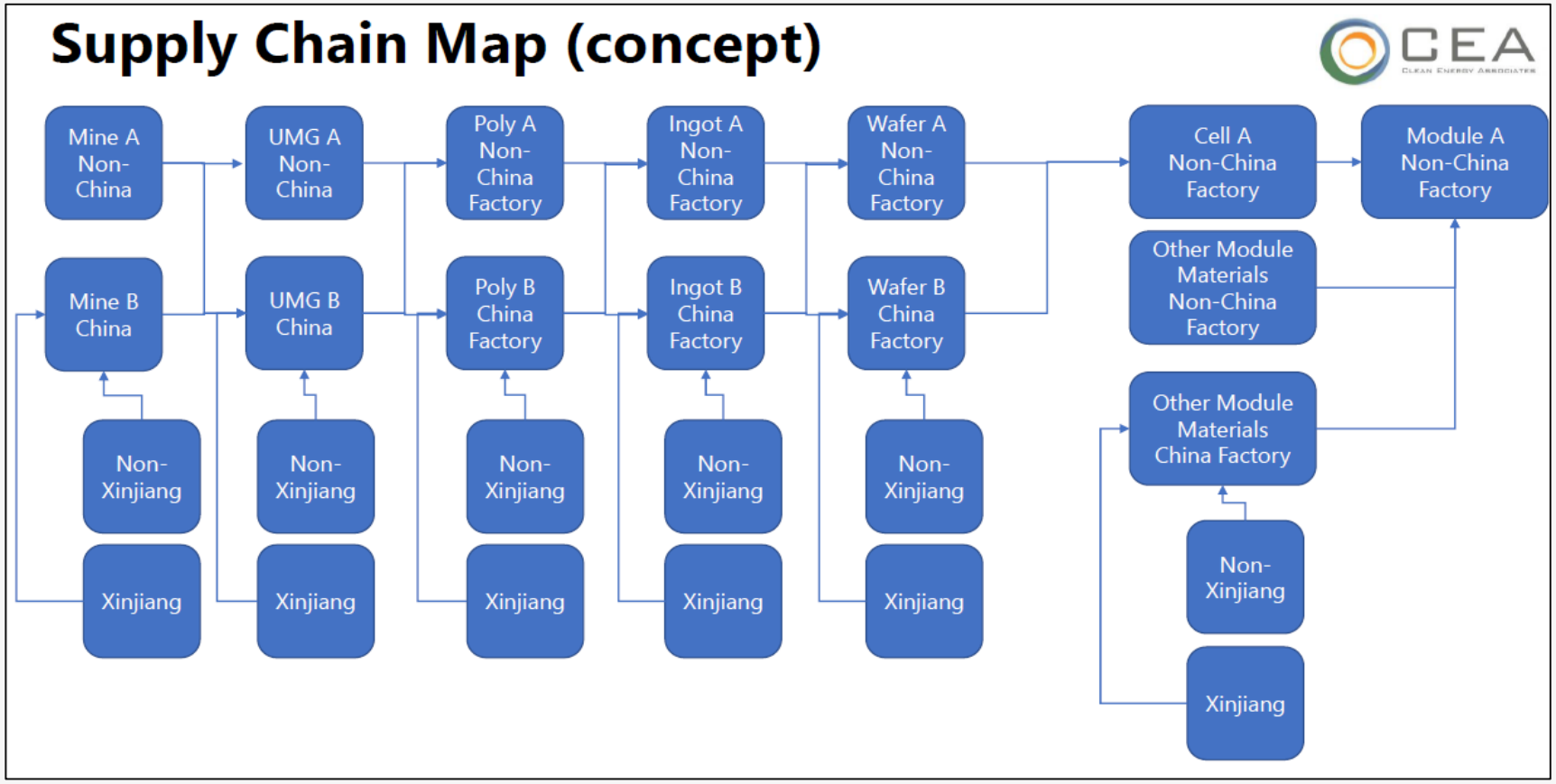


Challenges in Creating Transparency in the Downstream Supply Chain

Why don't we just go and audit the Suppliers downstream?

Third party audits are not allowed by the government in Xinjiang.

Why don't we just verify that we are not using product from Xinjiang?
It is very challenging to determine that the polysilicon in the purchasers module has originated from a specific production facility as the raw material goes to the same facility to produce the ingot and there is very little control on the bathes used in specific ingots.



How do we do it then?

- SEIA's published Traceability Protocol is a recommended set of policies and procedures for manufacturers to identify source of products input and to trace the movement of these throughout the SC.
- 3rd Party audit's – key to measure organization's commitments and implementation with traceability policies and procedures (CEA).
- Traceability Protocol is structured around ISO 9001:2015 – therefore not a new management system but easily integrated into existing management systems.

Figure 2: Conceptual Supply Chain; Mg-Si is the feedstock to a polysilicon plant

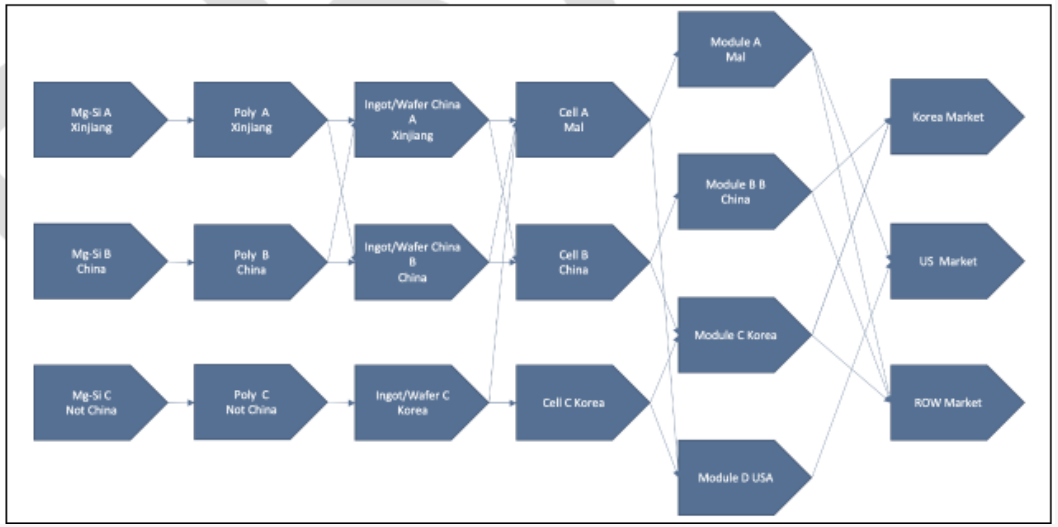
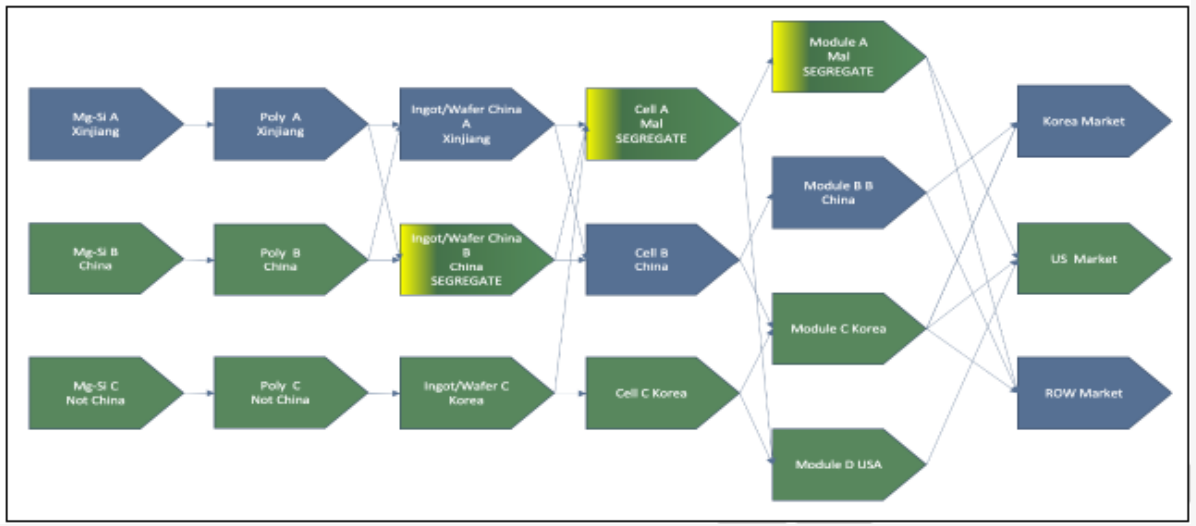


Figure 3: Green indicates control of the polysilicon supply chain



Procuring Responsibly: Actions on Traceability

- Appointed CEA to conduct Phase 1 and Phase 2 of Scatec's top 3 - 5 Suppliers for upcoming projects incl. Mendubim.
- **Phase 1: Desktop Review**
  - Supplier SC mapping
  - Documentation collection – reasonable cooperation required at each level of SC
  - Highlight key elements that appear to be incomplete, inadequate or unclear in terms of establishing full provenance
  - CEA will request additional documentation from Suppliers to fill the gaps
  - Request the facility's segregation methodology and assess effectiveness
  - Expectation is to identify significant quantity of gaps with material impact – therefore very import to engage suppliers now to allow time for SC adjustments – proactive
- **Phase 2: Onsite Audit**
  - Physical audit to confirm actions to close gaps – and confirm policies and practises are robust
  - Confirm traceability as per framework

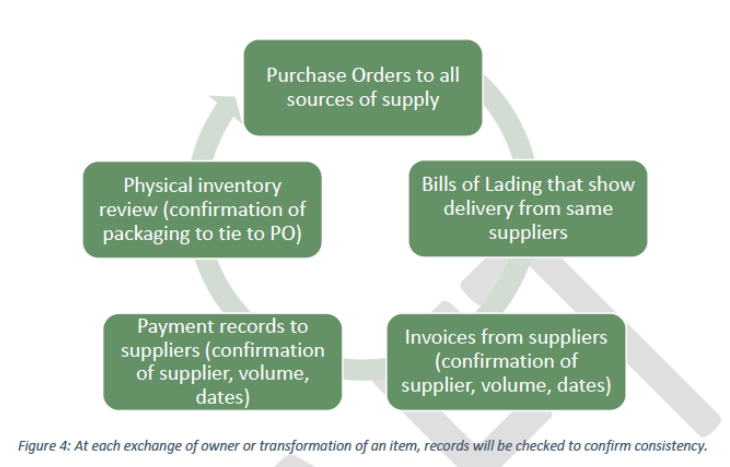
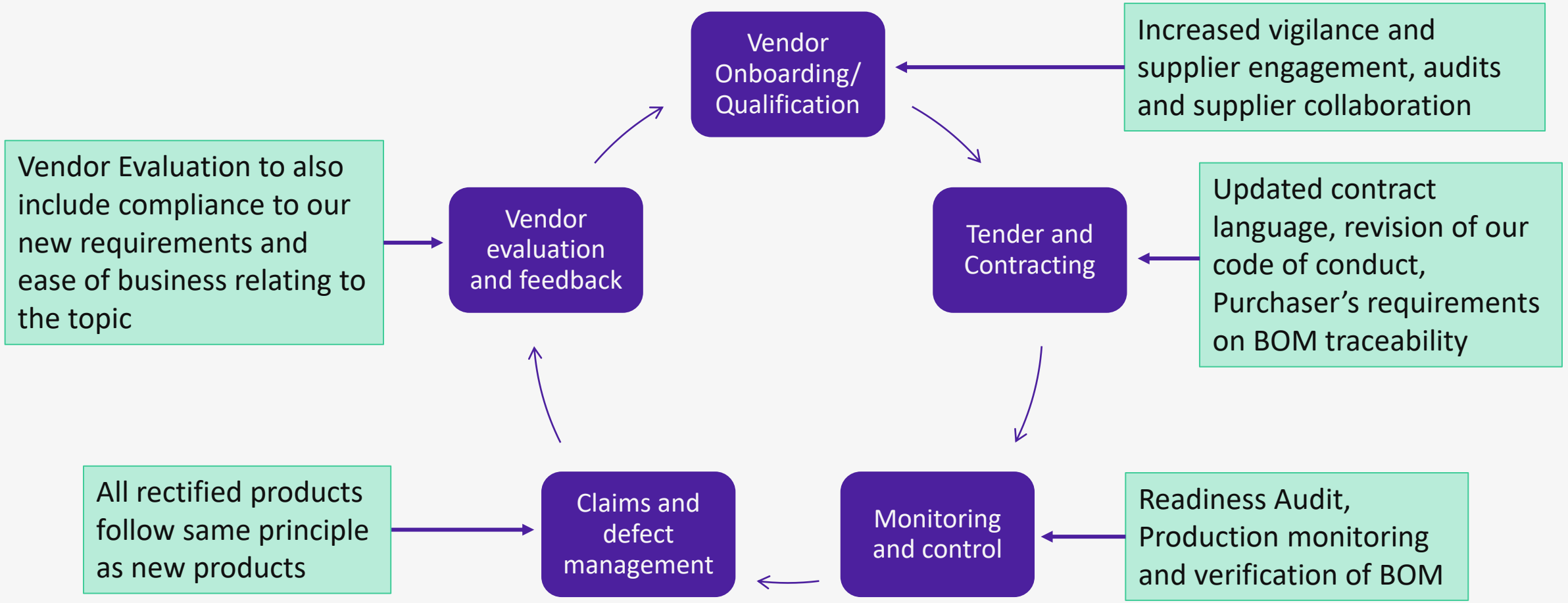


Figure 4: At each exchange of owner or transformation of an item, records will be checked to confirm consistency.

Added Measures in Our Procurement Cycle for Module Procurement



Scatec's Supplier Selection Process

Online Vendor Registration

- Legal IDD screening
- NDA
- Desktop Due Diligence

Project Tender Process

- Bidders list available from pre-qualification
- Project Requirement specific DD
  - *Traceability/SC mapping*
  - Technical
  - Environmental
  - QHSE
  - Etc.
- Audits
- Scoring/Evaluation

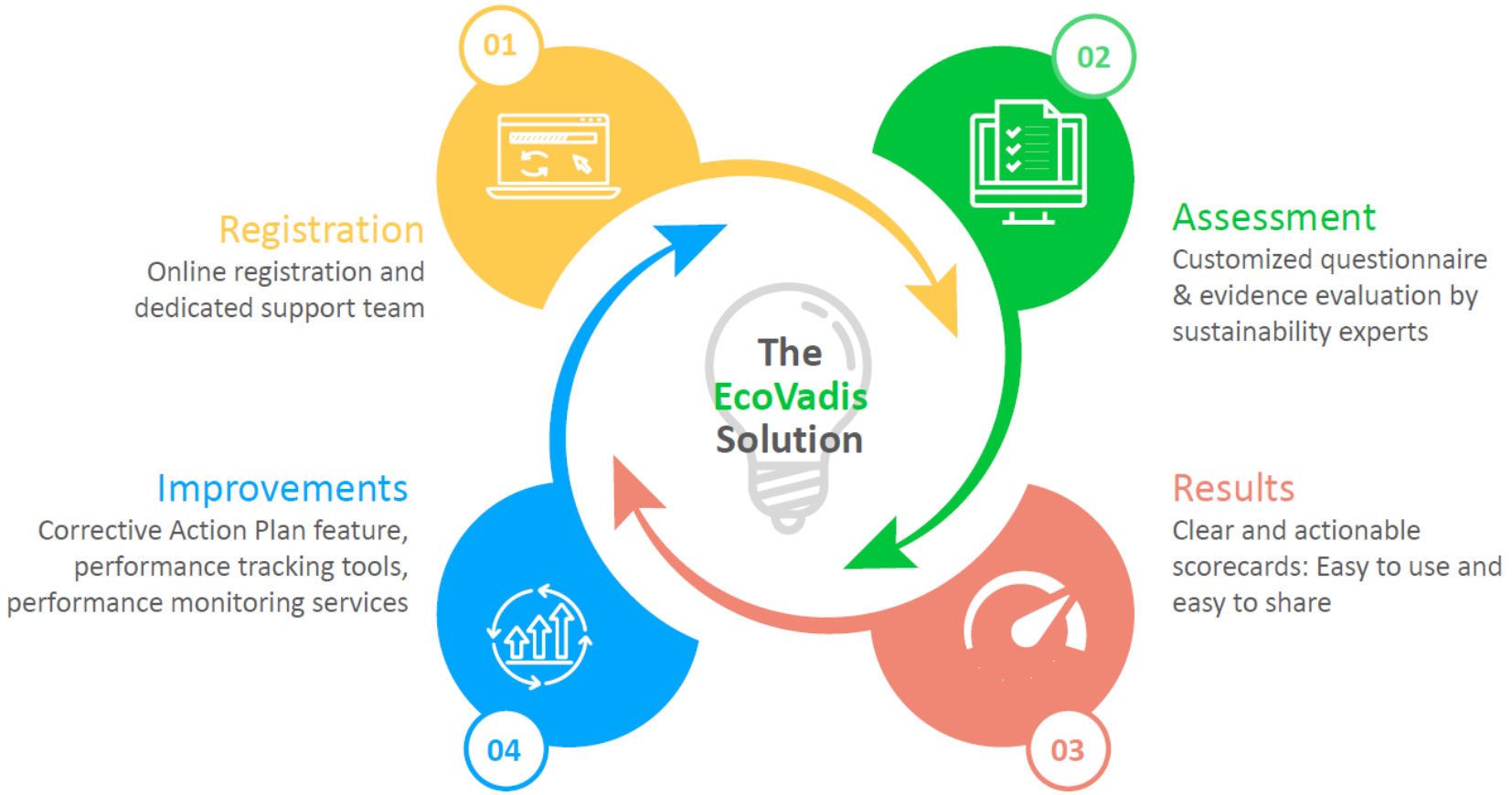
Ecovadis scorecard for Sustainability Rating

Post Contract Award

- Continuous monitoring of performance
- Ongoing QHSE audits during productions
- IDD flags
- Evaluation of Performance – feeding back into Vendor database

Sustainable Supply Chain Improvements: EcoVadis

Assessment Process for Rated Companies



Registration
Online registration and dedicated support team

Assessment
Customized questionnaire & evidence evaluation by sustainability experts

Improvements
Corrective Action Plan feature, performance tracking tools, performance monitoring services

Results
Clear and actionable scorecards: Easy to use and easy to share

The EcoVadis Methodology

Weighted and activated according to supplier industry, size and geography

covers 4 Pillars and 21 Criteria Based on International Standards

Policies - Actions - Results

• Energy Consumption & GHGs • Water • Biodiversity • Local & Accidental Pollution • Materials, Chemicals, & Waste • Product Use • Product End-of-Life • Customer Health & Safety • Environmental Services & Advocacy	• Employee Health & Safety • Working Conditions • Social Dialogue • Career Management & Training • Child Labor, Forced Labor & Human Trafficking • Diversity, Discrimination & Harassment • External Stakeholder Human Rights	• Corruption • Anticompetitive Practices • Responsible Information Management	• Supplier Environmental Practices • Supplier Social Practices

Ecovadis: Scorecard

Actionable Scorecard for Each Supplier

demo scorecard example

BEST PRACTICE

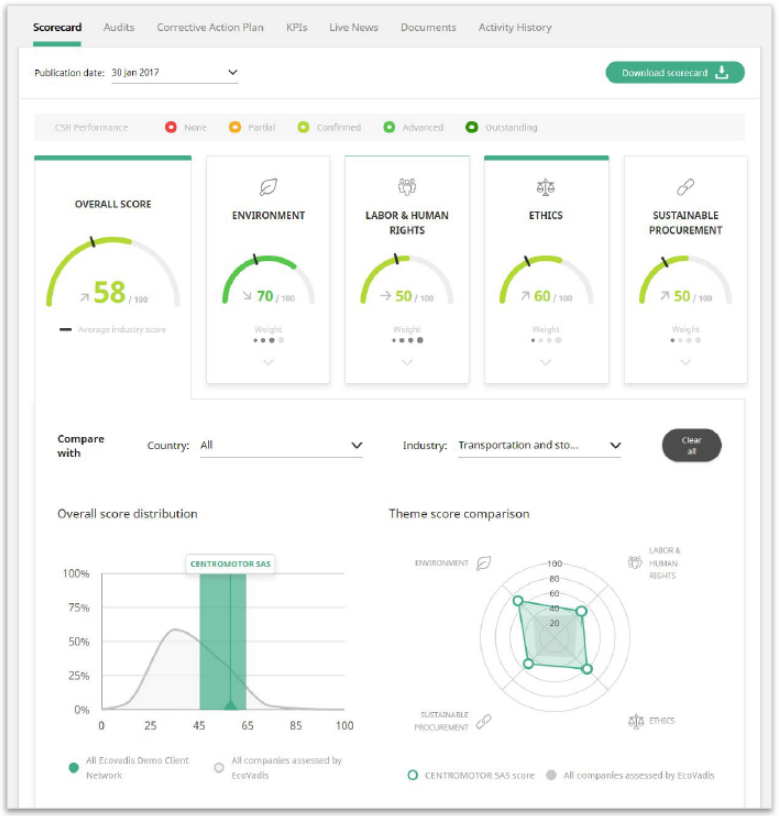
Use when running an RFI/RFP

Performance benchmarking

- Against your other suppliers
- Against all suppliers in the EcoVadis network

Scoring scale

85 - 100	Excellent performance
65 - 84	
45 - 64	Average performance
25 - 44	
0 - 24	Critical performance



BEST PRACTICE

Use the scorecard to prepare for suppliers' performance assessment

Overall CSR performance

- View average scores
- Performance trends
- Theme weights (1 to 4)
- Theme scores

Summary

- We believe it is our responsibility to act proactively and ensure no reputational harm and do not by implication support any activity that has not been verified to be in accordance with our code of conduct. Therefore:

  - All mitigations in our procurement cycle are implemented with immediate effect;
  - We work with suppliers willing to comply to our requirements and verify to the extent possible that the raw material is not originating from sensitive areas;
  - We continue to work closely with our supply base and advisors such as CEA to monitor the implementation;
  - We continue to monitor legislation and export control and adjust measures accordingly;
  - Collaborate with peers in the industry to understand their approach and create collective pressure on the supply chain to ensure compliance.

Scatec

improving our future