

# SUSTAINABLE PROCUREMENT

## EXECUTIVE SUMMARY

As a key player in the pharmaceutical active ingredient value chain, EUROAPI is committed to delivering active ingredient solutions which meet the highest quality, social and environmental requirements, as well as providing a resilient and responsible supply chain.

EUROAPI's sustainable procurement strategy aims to create business value while integrating our ESG approach in the supply chain risk assessment.

In accordance with the United Nations Global Compact guidelines, EUROAPI 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 our Supplier Code of Conduct, are an essential part of our relationship management practices for our current and future suppliers.

We expect our suppliers to meet the standards set out in the EUROAPI [Supplier Code of Conduct](#) and their compliance may be a decisive factor in their future commercial relationships with EUROAPI.

In 2022, our efforts were focused on developing our Responsible Procurement Program which involved creating an ESG questionnaire for suppliers, conducting a supplier risk mapping and setting up an interactive supplier platform. We also implemented initiatives to secure the continuity of supply. Although faced with geopolitical tensions and raw material availability constraints, we managed to accelerate our mono-sourcing exit program for raw materials which is designed to secure business continuity and prevent operating shutdowns. Despite several challenges throughout the year related to raw material and energy price increases, shortages and freight issues, business continuity was maintained.

In 2023, signing our Supplier Code of Conduct will be mandatory for all new suppliers, and the ESG questionnaire will have to be completed by all suppliers classified as "under surveillance". In view of the current global geopolitical tensions and environmental impacts affecting its supply chain, the Group will continue to prioritize supply chain continuity with programs aimed at relocating to Europe the production of certain raw materials, intermediates and APIs as well as at reinforcing our competencies and resources to optimize transportation and distribution.

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## 1. BACKGROUND

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According to the United Nations Development Program, “*sustainable procurement means making sure that the products and services we buy are as sustainable as possible, with the lowest environmental impact and most positive social results*”.<sup>1</sup>

At EUROAPI, sustainable procurement is the integration of our environmental, social and governance (ESG) principles into our procurement processes and decisions, while ensuring they still meet the requirements of our stakeholders.

Procurement touches everything from purchasing raw materials, industrial or IT equipment, and travel to procuring energy systems or professional services, to name a few examples. It is therefore essential to ensure that all our business partners (suppliers, distributors, wholesalers, etc.) are aligned with our ESG principles. Sustainable procurement is part of our holistic risk management approach designed to secure our sourcing process and to incorporate ESG at every procurement level.

## 2. STRATEGIC APPROACH

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### 2.1. EUROAPI’s commitment

As a signatory of the UN Global Compact, we are 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 our Supplier Code of Conduct, are an essential part of our relationship management practices for our current and future suppliers.

All our new suppliers and “under surveillance” suppliers must acknowledge and agree to our Supplier Code of Conduct. The suppliers of our suppliers also need to comply with our Supplier Code of Conduct.

Our Procurement Risk Management process and our Supplier Code of Conduct foresee the possibility to audit our suppliers at any time if required.

The Supplier Code of Conduct is integrated into our e-procurement tool and is available to all our contracts throughout the Group.

EUROAPI has also a Supplier Relationships Charter (available on our website) which defines the rules of conduct that must be respected by all EUROAPI employees in their relationships and exchanges with suppliers.

The charter is in place to raise awareness about relationships with suppliers and to discourage any conduct that could conflict with EUROAPI’s ethics and compliance rules as well as to promote respectful relationships with all our suppliers.

### 2.2. EUROAPI’s sustainable procurement strategy

Sustainability, defined as social, environmental and economic performance, has always been on the agenda of our procurement teams. The focus has been on managing risks and achieving desired levels of compliance with our commitments and existing sustainability standards.

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<sup>1</sup> United Nations Development Program – Sustainable Procurement - <https://www.undp.org/procurement/sustainable-procurement> accessed on 23/03/23

EUROAPI's sustainable procurement strategy is organized around our main ESG priorities:

### **Resilient and Responsible Sourcing and Supply Chain**

By acting responsibly in collaboration with our suppliers, we aim to minimize risks and create stable, long-term business relationships with our partners.

We are focusing on:

- sustainability requirements for suppliers; and
- strengthening risk management.

We expect our suppliers to meet the standards set out in EUROAPI's Supplier Code of Conduct. Their compliance is a decisive factor in their commercial relationships with us. The Supplier Code of Conduct was developed to ensure that all suppliers are aware of EUROAPI's ESG principles:

- respect human rights and labor practices;
- protect workers' health and safety;
- preserve the environment;
- uphold ethical standards by combating corruption, fraud and bribery; and
- ensure privacy and data protection.

For more information, please refer to EUROAPI's [Supplier Code of Conduct](#).

### **Environmental Sustainability**

EUROAPI's ambition in terms of environmental sustainability is detailed in our Environmental Sustainability Factsheet (available on our website). Our main environmental objectives through our sustainable procurement strategy are:

- reduce greenhouse gas (GHG) emissions through collaboration with key contributors in order to reduce our carbon footprint;
- improve energy efficiency and develop the use of renewable energies;
- use water in a way that is socially equitable, environmentally sustainable and economically beneficial;
- use materials and resources with minimal impact on the environment;
- limit emissions, pollution and the environmental impact (climate, biodiversity, etc.) of manufacturing and distribution activities; and
- facilitate the reuse, or recycling, of hazardous and non-hazardous waste.

The 12 principles of green chemistry<sup>2</sup> which provides a framework to improve materials, processes and systems can be used as a reference.

### **Safe and Diverse Workplace**

Our overall ambition is to contribute to the development of local ecosystems directly but also indirectly by enhancing the commitment of suppliers to the promotion of diversity through non-discrimination in the workplace, neighborhood businesses, structures promoting integration through work, professional equality between genders, etc.

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<sup>2</sup> ACS Green Chemistry Institute - 12 Principles of Green Chemistry:  
<https://www.acs.org/content/acs/en/greenchemistry/principles/12-principles-of-green-chemistry.html>

## 2.3. Future perspectives

Our procurement strategy is developed at corporate level and based on industrial site requirements. Its deployment and adaptation are however done at industrial site level.

The aim is to encourage our industrial sites to adapt and develop their own environmental, diversity and inclusion procurement policy according to local requirements, needs and opportunities while following the Group's global ESG directives.

The corporate team provides industrial sites with tools, guidelines, etc. to allow them to develop their own responsible procurement initiatives and ambitions.

Initiatives and success stories led by our industrial sites are shared globally in order, when appropriate, to be implemented throughout the Group and thus keep improving our ESG procurement performance through a continuous improvement process.

## 2.4. Organization

The procurement function is embedded in the Industrial Operation Organization.

Procurement organization is based on Local Procurement Teams, Category Lead Buyers and a Procurement Excellence Team:

1. The Procurement Excellence Team provides Local Procurement Teams with guidance and tools in line with the sustainable procurement strategy.
2. Category Lead Buyers centralize company spends and define general categories management strategies. We are operationally structured in two domains: Direct Spends (raw materials and packaging) and Indirect Spends (Distribution / Capital Expenditure (CAPEX) and Maintenance / Energies and Waste Management / IT / Professional Services, Marketing & Sales / Scientific) and five countries (France, Germany, Italy, Hungary and the United Kingdom).
3. Local Procurement Teams are at the center of our strategy and are supported by Category Lead Buyers and the Procurement Excellence Team. Local Procurement Teams are based at our industrial sites and their mission is to manage supplier relationships and to mitigate associated risks.

A three-step process is in place throughout the Group to improve sustainability practices in the supply chain, based on:

- supplier ESG risk assessment;
- evaluation; and
- mitigation plan.

It is coordinated and implemented through cross-functional cooperation between Procurement, Health, Safety & Environment, Ethics and Business Integrity and ESG functions.

## 3. RISK ASSESMENT IN THE SUPPLY CHAIN AND SUPPLIER EVALUATION

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### 3.1. Integration of ESG in our supply chain risk assessment

We have designed our Procurement Risk Management model to address the full range of procurement risks and to guarantee appropriate risk assessment and mitigation. This approach is being deployed and integrated into the procurement strategies by addressing and formalizing the following risk areas (if relevant):

- Globally: natural, political, economic, technological, and legal
- Operationally: supply (single source, dependency), finance, innovation, and strategy/long-range plan
- Compliance: governance, procedures and policies, and business ethics (fight against corruption)
- ESG: environment, social/human rights/labor and supply chain.

This approach will help ensure that responsible procurement risks are not addressed as isolated issues but are instead considered as part of a holistic risk coverage approach.

To develop this approach and better meet risk management challenges, EUROAPI has developed a risk management strategy (methodology, processes and systems) adapted to procurement needs and challenges, including those related to ESG.

### 3.2. Supplier onboarding process

The procurement risk mapping exercise described above is integrated into our e-procurement tool, allowing an initial evaluation of all new suppliers regarding the topics of health and safety, environment and human rights, among others. All new suppliers shall have to complete a self-assessment questionnaire to make sure they meet our requirements.

In addition to these global policies, the Procurement Department has developed and uploaded onto our digital procurement platform a set of ESG-related questionnaires that are sent to selected suppliers in order to assess their level of compliance with our expectations.

### 3.3. Supplier qualification process

The supplier qualification process involves several departments including Procurement, Quality, Development and Finance.

The Procurement Department leads the Procurement Risk Management (PRM) process, the aim of which is to identify risks and to minimize both their probability of occurrence and impact.

This specific process relies on a questionnaire and is based on five criteria:

- Ethics
- Financial
- Corporate Social Responsibility (CSR / ESG)
- Health, Safety & Environment
- Cybersecurity

This process has been created to incorporate HSE programs and requirements as well as ESG pillars and goals. It provides the Group with a unique set of tools capable of classifying our suppliers and guiding the remediation process in cases where a supplier might not comply with our required standards.

### 3.4. Responsible procurement program

EUROAPI is committed to respecting human rights, employee health and safety, and environmental standards, in its own operations and throughout its supply chain. The Group considers cooperation with its suppliers as an opportunity to integrate sustainability into the entire value creation process.

To ensure alignment with its commitments, EUROAPI is in the process of establishing a responsible purchasing approach with raw material suppliers structured around the following steps:

- supplier risk mapping;
- prioritization (surveillance) of suppliers by risk profile;
- online signature process for the Supplier Code of Conduct for all suppliers;
- online questionnaires about ESG commitments for “under surveillance” suppliers (35.5% of raw material suppliers); and
- remediation plan based on ESG questionnaire assessments.

Once the Procurement Department has identified a potential supplier, the Quality Department uses a scientific approach based on the evaluation of the critical matters of the “compound” in question. Additional tools available to strengthen our qualification process are audit, certificates and GMP verifications where appropriate. The ultimate goal of these processes is to assess the sustainability of the potential supplier.

### **3.5. Sustainable procurement collaborative platform for supplier evaluation**

To facilitate supplier relationship management, we have developed a dedicated e-procurement tool for suppliers. This portal allows suppliers to upload the required documents and all the useful documentation they would need to become acquainted with our way of working, regulations, etc.

Our responsible procurement approach emphasizes how strongly committed our Procurement Team is to reinforce the ESG approach. It will achieve significant results by:

- optimizing the supplier ESG evaluation process by aligning it with procurement organization and needs;
- strengthening compliance, risk management, and transparency regarding the evaluation process with our suppliers by systematically addressing ESG matters as an increasingly valuable asset in supplier relationship management;
- being focused on supplier performance by a better monitoring of corrective action plans; and
- measuring supplier ESG performance and delivering relevant key performance indicators (KPIs).

To make this approach more efficient for ourselves and our suppliers, and to strengthen its integration into the Group’s risk management and compliance processes, we chose to have a single and dedicated process based on international ESG standards.

### **3.6. Supplier relationship management**

Supplier audits, focusing primarily on Health, Safety and Environment (HSE) and Quality performance, shall be conducted by our HSE or Quality departments or subcontracted to external auditors for our high-risk critical raw materials.

Other ad-hoc third-party assessments and audits based on our category assessment are carried out when relevant, including:

- anti-bribery and anti-corruption due diligence;
- business ethics onboarding assessment;
- financial onboarding assessment;
- HSE onboarding assessment;
- CSR onboarding assessment;

- cybersecurity onboarding assessment;
- fire and natural hazards assessment; and
- supplier quality audits.

Through reassessments and follow-up audits, we monitor whether requested improvements have been implemented. This helps determine whether continued collaboration between EUROAPI and the concerned suppliers is warranted.

Our priority is to focus on suppliers classified as “under surveillance” in our supply chain. Regarding supplier audits, our objective is to carry out audits of all the “under surveillance” suppliers of critical raw materials.

For existing suppliers, a regular assessment program will be jointly defined with ESG and HSE Departments based on their risk profile. Should a supplier fail to meet any of EUROAPI's requirements, corrective action plans to improve their ESG performance over a given time will be developed by the supplier and approved by EUROAPI. At our discretion, additional audits might need to be carried out.

If a supplier cannot meet EUROAPI's ESG requirements, or if the non-conformity gap observed is too large to be rectified, then a supplier relationship termination action plan will be implemented. This action plan will be determined within a reasonable timeframe according to the risk observed and the strategic nature of the supplier. During this transition phase, we will progressively decrease our orders through this supplier until the termination of the relationship.

#### **4. SECURING CONTINUITY OF SUPPLY**

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EUROAPI was created in the midst of a global health crisis which highlighted the strategic importance of API production for public health. Reliability is one of the Group's main contributions to society. It is key in helping our clients to improve patients' health and well-being.

Going forward, we expect this commitment to be increasingly challenging, based on our experience in 2022 and current forecasts, with the energy crisis and geopolitical tensions having an impact on raw material availability and transportation.

That is why, on top of addressing strict quality standards for product safety, and those requirements more specific to our sustainable procurement strategy, the Group's industrial and sales operations have developed and implemented initiatives that contribute to our resilience as an API provider.

These include:

- A repatriation and backward integration program aimed at relocating the production of initial or ‘starting’ raw materials, intermediates and APIs to strengthen our production resilience. Although the Group's vertical integration of API production is more extensive than its main European competitors, feasibility studies and technology suitability assessments are also being carried out on 10 strategic raw materials, intermediates and APIs, which might result in their production reintegration from 2023 onwards.
- A mono-sourcing exit program to reduce single sourcing of raw materials for a selection of critical APIs and APIs used in the composition of essential medicines or medicines of vital importance. This covers more than 500 raw materials entering in the composition of more than 30 APIs.



- The reinforcement of the Group's Business Continuity Plans at all its sites to address a wide range of scenarios of unplanned business disruption in a timely and optimized manner.

In view of the current global geopolitical tensions and environmental impacts affecting its supply chain, EUROAPI has decided to reinforce its competencies and resources with respect to the management and optimization of transportation and distribution in 2023.

The objective is to meet business requirements and develop scenarios to determine optimized delivery plans in the most secure and environmentally friendly way.

Once the appropriate dedicated resources have been recruited, we will conduct in-depth risk mapping analysis, draft action plans and define key performance indicators.

In 2022, no shortages interfered with the Group's delivery commitments.

## **5. OTHER COMMITMENTS, OTHER INITIATIVES AND OUR KEY ACHIEVEMENTS TO DATE**

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Five of EUROAPI's six industrial sites are Seveso-classified sites. The Group, supported by its procurement teams, is working on a daily basis to meet, and even go beyond the Seveso regulation to protect and secure not only our employees but also people living in the neighborhood of our industrial sites and the environment. To go even further, all of EUROAPI's industrial sites will be ISO 14001 and ISO 50001-certified by the end of 2023.

Activities in 2022 were focused on the development of the ESG questionnaire, the supplier risk mapping and setting up the interactive supplier platform.

In 2023, signing the Supplier Code of Conduct will be mandatory for all new suppliers and the ESG questionnaire will be sent to 100% of suppliers classified as "under surveillance". The approach will be gradually rolled out and will apply to other suppliers classified as "medium risk" and "low risk" as the Group advances with the program and remediation plans.

As part of our commitment to implementing responsible purchasing, we are seeking to take part in relevant initiatives together with our industry peers, in order to take collaborative action with our shared suppliers.

In January 2023, we initiated the application process for membership of the Pharmaceutical Supply Chain Initiative (PSCI). PSCI is a non-profit business membership organization aimed at bringing together pharmaceutical companies and API producers to promote responsible supply chain practices and to share suppliers' audits.

In 2022, in order to address clients' requests, three of the Group's sites were audited according to PSCI principles. Audits can be shared with the Group's clients on request.

EUROAPI's broad portfolio of APIs requires a large and varied number of suppliers. To be able to maintain its production activities, the Group works with an estimated 3,000 suppliers grouped into two categories: raw material (solvents, organic intermediates, natural products, mineral products, acids and bases, etc.) and non-raw material (IT, professional services, Scientifics, CAPEX, Maintenance Repair Operations, etc.).

Due to their impact on manufacturing processes and prices, raw material suppliers are under particular scrutiny.

In 2022:

- More than 71% of the total raw material expenditure of the Group was in Europe and 23% was in China and India.
- The Group's top ten raw material suppliers accounted for approximately 32% of our total raw material expenditure, 42% of which was from dual or multiple sources.
- Despite geopolitical tensions and raw material availability constraints, we managed to accelerate the mono-sourcing exit program for raw materials, designed to secure business continuity and prevent operating shutdowns.
- After the lessons learned at the start of the Covid-19 pandemic, we were also able to be proactive in anticipating deliveries of strategic intermediates sourced from overseas.
- Despite several challenges related to raw material and energy price increases, shortages and freight issues, we have managed to maintain business continuity over the last two years.