



Network Italy

SUSTAINABLE SUPPLY CHAIN MANAGEMENT: RESPONSIBILITY AND OPPORTUNITY FOR BUSINESSES





Network Italy

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Introduction

The purpose of this paper is to showcase and enhance the commitment of Italian business participants of the United Nations Global Compact to sustainable supply chain management, while highlighting the private sector's responsibility and opportunity to engage all players across the supply chain for achieving sustainability goals.

Such commitment is part of the broader role of businesses to contribute to the implementation of the United Nations 2030 Agenda for Sustainable Development, starting from SDG 8 (Decent Work and Economic Growth) through to and including the environmental, economic and social dimensions at large.

This paper discusses sustainable supply chain management in terms of three main pillars, namely: the decarbonization and reduction of indirect emissions, human and labor rights and the circular management of negative externalities. Indeed, the business participants of the United Nations Global Compact have pushed these areas higher up on their agendas in the wake of the current widespread focus on European Commission regulatory changes (e.g. the proposed directive on corporate sustainability due diligence) and the private sector's faster-paced ambition to align with the 1.5°C target of the Paris Agreement, with further efforts being urged towards Net-Zero.

The paper was presented as a preparatory document and discussed at the annual meeting dedicated to the CEOs and Presidents of the Italian business participants of the United Nations Global Compact, held on May 10, 2022 in Milan, and will be officially released on October 3, 2022 at the Salone of CSR and Social Innovation.

This document is the brainchild of a highly-committed working group, coordinated by the Secretariat of the UN Global Compact Network Italy and comprised of the business participants listed below in alphabetical order: Andriani, Aeroporti di Roma, Bolton Group, Brembo, Carbonsink Group, Edison, Enel, Eni, Esselunga, Feralpi, Ferrovie Nord Milano, Ferrovie dello Stato Italiane, Hera, illycaffè, Inwit, Iren, Italmobiliare, Leonardo, Maire Tecnimont, Nestlé Group in Italy, Pirelli, Poste Italiane, Prysmian, Rina, Saipem, Snam, Sofidel, Telecom Italia, Terna, Tper, Trussardi, Webuild.

The companies participating to the working group cover together over 140,000 suppliers. This is significant of the great impact these companies can have on workers, families and communities from a social, environmental and economical point of view.

We hope that this position paper will serve as food for thought and learning, and that it will inspire other companies with respect to engaging the supply chain in accordance with the 10 Principles of the UN Global Compact.

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1. SUSTAINABILITY IN SUPPLY CHAINS





SUSTAINABILITY IN SUPPLY CHAINS

The supply chain is the connected and interdependent set of suppliers, businesses and service providers involved in the production of a product or service, from manufacturing to sales by means of distribution channels.

A good supply chain management means a business has the right level of control over material flows, inventories and the information needed to meet its demand, thus reducing the risk of oversupply or shortages, boosting the performance of operations and reducing costs, which ultimately results in stronger competitiveness.

Given the importance of this theme for the private sector, businesses are equipping themselves with management systems that enable efficient supply chain management and collaboration with supply chain organizations so as to boost innovation, reduce time to market and drive down the prices of products and services, improve quality and distinguish themselves from competitors in terms of added value.

Why is it important to sustainably manage the supply chain?

Overexploitation of the Planet's resources and raw materials and exponential growth of the world's population raise the issue of which **development model is compatible with safeguarding the ecosystem from an environmental, social and economic point of view**. The search for sustainable production and consumption models involves the entire economic system, businesses and the world of production, whose actions should be tailored to the need to ensure greater sustainability.

Procurement is increasingly playing a key role in the growth and sustainability strategy of businesses, especially after the Covid-19 pandemic has changed the social and economic landscape worldwide and demonstrated how important sustainability is to develop supply chains, including in view of resilience. Indeed, maintaining and increasing supply chain effectiveness requires careful risk management across the supply chain, leveraging technological innovation and sustainability.

Supply chains are the engine of the global economy, given that, by spreading products and services around the world, they connect businesses and individuals across geographic, industrial, cultural and regulatory boundaries. In fact, open markets have enabled businesses to buy from - and outsource production to - suppliers **located in developing and emerging Countries**. This, in turns, has meant greater opportunities for the social and economic development of those areas and has opened them up to socially responsible governance practices in the production of goods, creation of jobs and provision of services, without which businesses are exposed to significant operational and reputational risks. While supply chains are widespread internationally, they play a **pivotal role in Italy** in terms of increasing the prosperity of some districts (mostly specializing in niche and/or innovative business) and enhancing the entrepreneurship of local businesses.

Supply chain sustainability is, therefore, increasingly recognized as being a key component of corporate sustainability. In addition to being "the right thing to do", managing the social,



environmental and economic impacts of supply chains and countering corruption is a **business opportunity**.

Integrating sustainability strategies and goals in supply chain management is, therefore, increasingly vital for the private sector because:

- sustainable supply chain management is a key driver of positive impacts globally, as an estimated 80% of global trade depends on supply chains¹;
- engaging suppliers in the sustainable and circular design of products, goods and services foster the development of innovative approaches;
- it offers the opportunity to continue to guarantee the quality of products or services, better manage operational and reputational risks, and, above all, ensure business continuity by generating economic impacts that can be quite significant;
- it allows to also direct institutional investors' and markets' growing focus on sustainability to supply chain management as well.

By managing and improving the environmental, social, economic and governance (ESG) performance through supply chains, **businesses pursue their own interest as well as that of their stakeholders and the society at large**. By implementing supply chain sustainability programs, businesses directly engage primary suppliers and, through them, secondary suppliers as well, thus promoting values and practical solutions, both upstream and downstream, and capitalize on the sustainable management of social and environmental impacts for the greater benefit of all.

No doubt, this commitment delivers and maximizes the impact of businesses' contribution to create shared value and sustainable development, thereby reaching the **Sustainable Development Goals set by the United Nations 2030 Agenda**. Due to its cross-cutting nature, the supply chain is the dimension where a business can have the greatest potential impact in terms of advancing all Sustainable Development Goals (SDGs). In particular, **SDG 8** (Decent Work and Economic Growth) and **SDG 12** (Responsible Production and Consumption) explicitly call out the importance of integrating human and labor rights issues in production models that take account of the protection of the environment and biodiversity, emphasizing the role of business in driving consumption patterns toward awareness and sustainability.

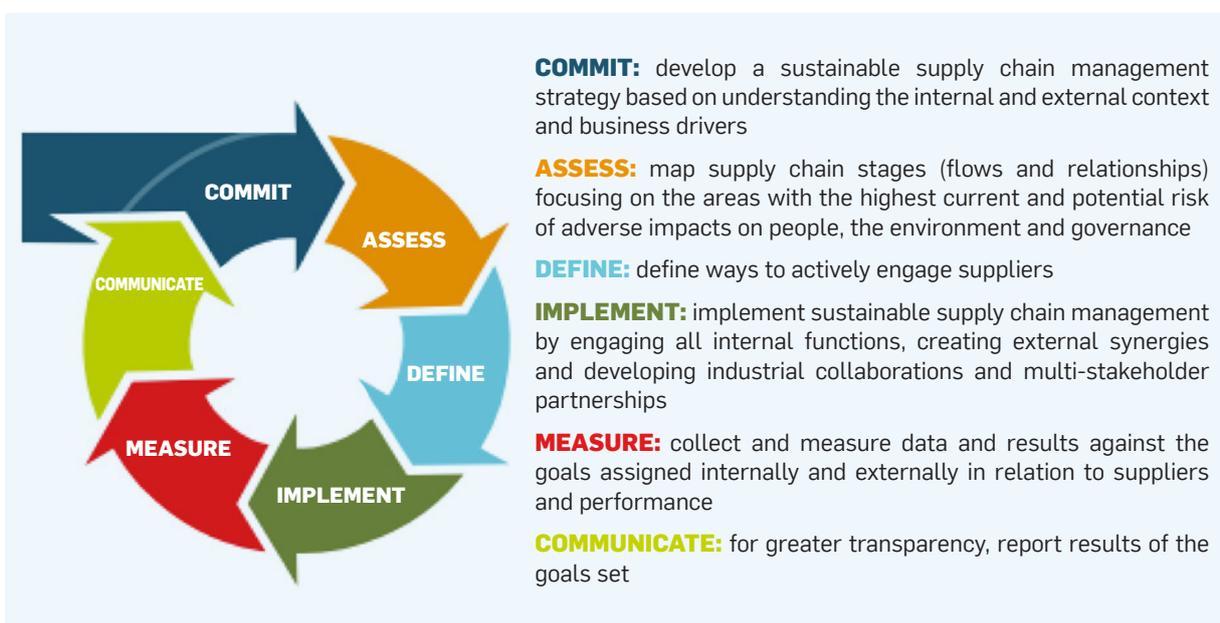
What does it mean to sustainably manage the supply chain?

Sustainable supply chain management means addressing **environmental, social and economic impacts** and encouraging **good governance practices** through an analysis of the lifecycle of goods and services. The goal of sustainable supply chain management is to create and enhance the long-term social, environmental and economic value of products and services in the marketplace for all stakeholders involved, with a view to just transition.

1. UNCTAD: World Investment Report 2013, op. cit., pp. 133-135



Being the leading international Corporate Social Responsibility initiative, the **United Nations Global Compact** encourages its 16,000+ participating businesses to integrate the 10 Principles relating to Human Rights, Labour, Environment and Anti-Corruption in their strategy, culture and day-to-day operations and contribute towards achieving the SDGs. The Global Compact has developed a model for the sustainable management of business supply chains, as the latter are recognized as being a key area to work on in order to achieve concrete sustainability goals. This model sets forth three principles for successful sustainable supply chain management (Governance, Transparency and Involvement), which are necessary in all stages and the circularity of which fosters an ongoing drive to improvement.



The **European Commission** has also pledged to promote sustainable supply chains by publishing, on February 23, 2022, a **proposal for a directive²** that requires businesses to conduct sustainability due diligence to stimulate responsible behavior across all global value chains.

Businesses will be required to identify, prevent, mitigate and, if necessary, bring to an end, the effects and/or potential impacts on Human Rights (e.g., child labor and forced labor) and the Environment (e.g., pollution and loss of biodiversity), in line with the International Conventions to which the UN Global Compact, among others, refers, while continuing to monitor compliance with them and the actual implementation of improvement actions, and transparently communicating the progress made in all these activities. These new standards aim to provide legal certainty and a level playing field for businesses, ensuring greater transparency for consumers and investors.

2. https://ec.europa.eu/info/publications/proposal-directive-corporate-sustainable-due-diligence-and-annex_en



The new Community standards will enable to progress towards the green transition and will protect human rights in Europe and the rest of the world.

As things currently stand, these rules should first apply to businesses with 500+ employees and then be extended to those with 250+ employees, in certain high-impact sectors, and should cover the activities of businesses, their subsidiaries and their value chains (i.e., well-established direct and indirect business relationships). Based upon the discussions underway, the proposal should require businesses to:

- integrate due diligence in their corporate policies;
- identify, prevent, eliminate or mitigate actual or potential adverse effects on human rights and the environment;
- monitor the effectiveness of due diligence policies and measures;
- publicly account for what has been implemented;
- have in place a plan to ensure that their strategy is compatible with limiting global warming to 1.5°C, in line with the Paris Agreement;
- engage directors (who are called upon to establish and monitor the implementation of the due diligence and integrate it in the business strategy), tying their remuneration to the implementation of the business plan and the fight against climate change.

In addition, in February 2022, the European Commission's Platform on Sustainable Finance, which was set up in order to have technical support in legislative work on the subject, presented its final report on the **social taxonomy**. This is meant to supplement the taxonomy of eco-friendly activities introduced into EU law in 2020, which defines three macro-objectives that businesses are required to meet and promote in relation to the impacts of their economic activities on stakeholders across the entire value chain: decent work; adequate standards of living and well-being of consumers and users of goods; and sustainable and inclusive communities.

As with the "green" taxonomy, in order to be considered socially sustainable, an activity should make a substantial contribution to one of the three objectives mentioned above, without causing significant harm to any of the others (according to the "do not significant harm" principle) and meet minimum safeguards that will be defined in an ad hoc report. Substantial contribution can be realized in three ways: through additional social benefits generated by the activity itself; by avoiding and addressing adverse impacts on stakeholders; and through activities that enable other activities to bring about social benefits.

The proposed directive on corporate sustainability due diligence and the social taxonomy can, therefore, be seen as **complementing each other**: on the one hand, preparing businesses to manage social risks and attracting investments, and, on the other hand, supporting financial players in socially sustainable investments by providing measurable information.

Supplier engagement in the sustainability goals of businesses

Engaging suppliers and supply chains is crucial for sustainable supply chain management.



Indeed, these stakeholders are critical for achieving the sustainability goals of businesses and to stimulate positive impacts on the surrounding community. In particular, a **collaborative approach**, based on fairness and transparency of the objectives to be achieved together, enables suppliers to be properly aware of what businesses expect in terms of commitments to be undertaken for protecting and promoting human rights and the impacts of business activities on the environment. These elements could also be integrated in the documents that govern the relationship between the parties (i.e., contract, code of conduct, etc.). Mapping the supply chain, assessing risks and impacts (especially in the areas with the highest actual and potential negative externalities on people, the environment and governance) is a priority in view of consistent action and right-sized sustainability expectations and goals depending on the supplier's degree of maturity. Importantly, businesses should think in terms of collective action, adopting shared supplier assessment platforms or cross-cutting measurement tools. In addition, given the importance of the social dimension, businesses with high purchasing/investment power can play a considerable role in generating impact on communities and territories.

Many businesses have a rigorous process for selecting ("qualifying") and monitoring suppliers. Indeed, they use questionnaires, self-assessments, interviews and on-site audits to assess suppliers upfront and all along thereafter. Supplier performance assessment will enable businesses to incentivize and reward the "most sustainable" suppliers in view of continuous improvement, while helping suppliers identify and address less-performing and critical situations or areas, collaborating with other businesses or organizations to raise awareness and train suppliers on sustainability issues and managerial skills. Ultimately, an inclusive, participatory approach is needed for supplier qualification and bidding.

Many suppliers are small and medium-sized businesses. It is precisely for them that large businesses are called upon to implement **sustainability awareness-raising, support and training programs** through activities aimed to inform and educate them as well as build a sustainability culture, including by using tools in collaboration with external stakeholders. Such tools should be geared to continuous improvement and leverage skill development, the ability to innovate and financial strength - these being necessary to boost business resilience, sustainability and competitiveness in international markets. Large companies should play this role in a scenario where all economic players, whatever their size, can contribute to the overall sustainability of the Italian economy as a whole. In a nutshell, large businesses are expected to support SMEs in their path towards sustainability (through workshops, questionnaires, working groups) in a **win-win deal**, with large companies counting on more advanced, structured and reliable (and hence, more competitive) suppliers, and the SMEs benefiting from customized economic and learning resources that can make up for the dedicated functions and skills they do not have inhouse.

2.

REDUCING SCOPE 3 INDIRECT EMISSIONS





REDUCING SCOPE 3 INDIRECT EMISSIONS

The *GHG Protocol Corporate Standard* categorizes corporate carbon footprint emission sources into three groups (each referred to as a scope). Scope 1 covers direct emissions from greenhouse gas (GHG) emissions within the organization's perimeter (combustion, heating or air conditioning plants, etc.); scope 2 covers indirect emissions from the generation of purchased electricity and steam consumed by the organization. Scope 3 includes all other indirect corporate emissions that occur in the value chain, both upstream and downstream.

While **Scope 3 emissions** often account for the **biggest impact** in terms of corporate GHG, due to highly complex operations and the involvement of external players (e.g. supply chains), reducing scope 3 emissions is quite a **challenge for businesses**.

The CDP *Global Supply Chain Report 2020 'Transparency to Transformation: A Chain Reaction'*³ provides evidence from its analysis of 8,000+ businesses reporting through the CDP protocol, showing that, on average, **supply chain emissions are 11.4 times higher than direct** (i.e. scope 1 and 2) emissions. Therefore, setting targets to reduce emissions across the value chain (scope 3) is becoming a new corporate priority, with 1,500+ businesses having set - or committed to - science-based climate targets.⁴ **96%** of them have defined **scope 3** GHG emissions reduction **targets**.

Indeed, according to the CDP *Global Supply Chain Report 2021*⁵, in the year under examination more than 11,000 individual suppliers, including 5,000+ SMEs (up by 41% over 2020) responded to CDP questionnaires that include questions on their commitment to reducing emissions.

Likewise, McKinsey & Company's study '*Making supply-chain decarbonization happen*', published in June 2021, confirmed that businesses committed to the Science Based Target initiative are increasingly setting scope 3 (in addition to scope 1 and 2) targets. Notwithstanding this commitment, the way forward is challenging for a variety of reasons, namely: **complex** and at times **inconsistent accounting and tracking** of greenhouse gases; the need to work in collaboration with customers, supplier networks and industrial groups and the difficulty of keeping key players engaged in a complex, long-term transformative effort.

The expectation that the private sector plays its role in achieving the Paris Agreement goals is very high and made more challenging by the Glasgow COP26 results (i.e. the recognition that the target of limiting global average temperature rise to 1.5°C gives the greatest chance of reducing the adverse consequences of climate change). The recent *IPCC Sixth Assessment Report*⁶ provides scientific evidence that staying **within 1.5°C** can make a significant difference: short-term actions that limit global warming to this level are expected to substantially reduce projected climate-change-related losses and damage to human systems and ecosystems as compared to higher levels of warming; if global warming would exceed 1.5°C in the coming decades or later, many human and natural systems would face additional severe risks.

3. https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765

4. Data Science based Target Initiative, July 2022

5. <https://www.cdp.net/en/research/global-reports/engaging-the-chain>

6. https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_SummaryForPolicymakers.pdf



Achieving *Net-Zero* is, then, the goal - often a challenging one - that businesses must strive for in the near future.

Challenges:

- **active engagement of suppliers** belonging to varied supply chains located **in Countries** subject to national regulations **different from European** ones;
- **no** (or very poor) **reference framework for greenhouse gases accounting**; no (or very poor) **data monitoring and collection methodology** related to the specific business case and catering for higher comparability of the data requested from suppliers; technological gap and obsolescence, despite the availability of *Enterprise Resource Planning* (ERP) solution providers and startups in the market offering emission calculation platforms;
- **dependence on suppliers' secondary data**, often based on approximate and rough and/or scarcely comparable average calculations. It will be necessary, instead, to ensure primary data, better if certified, for greater robustness and transparency in investor communication and corporate sustainability reporting, and to improve communication between businesses and suppliers on data collection systems;
- **transparency of data and shared parameters** allowing for univocal comparison of suppliers during the selection and/or qualification phase;
- **suppliers' training on decarbonization** and how to reduce emissions in general, as achieving corporate *scope 3* and *Net-Zero* targets of the buyer companies also depends on them;
- planning and adopting mechanisms in the form of **contracts or rewards** acknowledging suppliers' commitment to sustainability and emission reduction;
- use of **standard or common methodologies for calculating** and attributing energy consumption and emissions;
- **continued commitment** to decarbonization, which requires a long-term joint effort by suppliers in a rapidly changing environment, especially from a regulatory perspective.

Opportunities:

- creation and implementation of an **integrated corporate climate strategy** covering all the areas where the business can have an impact (be it adverse or positive), enabling the organization to demonstrate its consistency and contribution to global climate goals and ambitions;
- possibility of **joining platforms created by other businesses** in view of pooling the tools available;



- **alignment to standardized EU guidelines** such as those proposed by the European Taxonomy, with a focus on adaptation besides mitigation;
- possibility of **attracting economic resources and investors** who are increasingly responsive to corporate strategies and policies aimed at decarbonization and the achievement of Net-Zero goals;
- **raising the awareness of suppliers on reporting**, using shared metrics that improve the homogeneity and comparability of information and achievements.

A woman wearing a headscarf and a light-colored shirt is smiling while working in a tea plantation. She is surrounded by tea bushes, and other workers are visible in the background. The image has a reddish-pink tint.

3. MANAGING THE IMPACTS ON THE SOCIAL DIMENSION: HUMAN RIGHTS AND DECENT WORK



MANAGING THE IMPACTS ON THE SOCIAL DIMENSION: HUMAN RIGHTS AND DECENT WORK

The respect of human rights should be viewed as the foundational element in pursuing sustainable progress above and beyond regulatory compliance. More specifically, the promotion of just and decent work practices, respect of diversity and non-discrimination are gaining more and more importance in Europe and internationally. Indeed, **human rights is an umbrella framework** that covers other rights such as the right to education, to an healthy and wholesome environment and to health. In this scenario, the correlation between human rights and climate change is clear, as the latter can often act as a driver of multiple adverse social and economic impacts.⁷

For the private sector, it is crucial to ensure the respect of human rights throughout the supply chain - with a specific focus on eliminating all forms of discrimination and forced and child labor, promoting gender equality, enhancing diversity and inclusion of vulnerable groups in particular - as well as decent working conditions, health and safety, freedom of expression and collective bargaining. Businesses **often** set this theme **in the context of compliance**, as they are required to comply with national, regional and international standards and regulations. While compliance cannot be taken for granted, businesses should view it as a starting point that, incorporating risk management, should further **evolve to create a real sustainability culture** at the level of communities and territories and systemically contribute to the dissemination of good practices in terms of human rights management that act as a benchmark for both their own and other sectors. In this increasingly complex scenario, on the one hand the regulatory standards do not guarantee the same level of human rights protection equally in the different geographies where supply chains are located, on the other the international standards are key for establishing a higher and more uniform level of human rights protection.

Although businesses recognize that they have a responsibility to limit and prevent the adverse impacts of their activities on human rights and society at large, and many include **human rights due diligence** in their decision-making and risk management systems, until recently the normative reference for responsible business conduct have been the United Nations *Guiding Principles on Business and Human Rights*⁸ and the *OECD Guidelines for Multinational Enterprises*⁹, which are **voluntary** in nature (soft law). In recent years, specific **legislative provisions** that bind companies to apply the schemes described above have been added to these voluntary standards of reference. However, businesses, as part of the implementation of a comprehensive sustainability strategy, have increasingly focused on human rights so much that, in many cases, the concept of 'due diligence' has turned into **"duty of diligence"**. This also applies to corporate sustainability reporting, given that the directive on the disclosure of non-financial information (EU Directive 2014/95), transposed in Italy by Legislative Decree 254/2016, requires large companies to report on their environmental and social performance, management of human resources,

7. https://www.ohchr.org/sites/default/files/Documents/Publications/FSheet38_FAQ_HR_CC_EN.pdf

8. https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

9. <https://www.oecd.org/daf/inv/mne/MNEguidelinesITALIANO.pdf>



respect of human rights and fight against corruption. Along these lines, the European Parliament passed a resolution on March 10, 2021 that calls on the Commission to enact new rules on due diligence and corporate responsibility in relation to the respect of human rights, issuing a directive to standardize the legislation of Member States, which will have to be applied to the entire supply chain.

According to the *Corporate Human Rights Benchmark 2020*¹⁰, that assesses the human rights disclosures of more than 230 global businesses in five industries at high risk of adverse impacts such as agriculture, fashion, mining, ICT manufacturing, and automotive manufacturing, while progress has been made compared to previous years with the rigorous procedures put in place by businesses on human rights, it remains **difficult to translate** these **commitments into effective performance and results**.

In the particular historical context in which we find ourselves during the writing of this paper, reference cannot be omitted to the conflict in Ukraine, which involves the entire European community, businesses included. This situation has clearly shown that tragic events such as **conflicts** do have a considerable **impact, not only on individuals** in terms of violations of fundamental human rights, **but also on the supply chains** of businesses, as the latter need to redraw the map of their supply chains (as was already the case during the pandemic). The private sector will therefore be called upon to ensure continuity of operations while acting responsibly by looking at the social dimension of its choices, should the latter entail plant closures that cause economic and social damage to affected communities.

Challenges:

- **adaptation** of existing human and labor rights standards **to the specific business context**, and hence development of sustainability integration systems that provide for active engagement of suppliers;
- application of the **concept of flexible procurement**, with the incidence on the turnover of one and the same supplier been capped at 30%-50%¹¹ to avoid overdependence and shocks in a crisis situation- as has happened, for example, with the current conflict in Ukraine - even if from a contractual and negotiation point of view, this means for business more complex relations with employees and suppliers;
- identification and management of **risks related to human rights, occupational safety and other social issues at the supply chain level**, necessitating the development of accurate due diligence processes able to preserve business continuity;
- **difficulty for small suppliers of bearing the costs** of adopting sustainable practices in their operations, as this often involves certifications required by large companies in the selection phase. It will be crucial to build and promote a constructive dialogue with

10. <https://www.worldbenchmarkingalliance.org/publication/chrb/>

11. Threshold indicated by some of the businesses participating in the working group in charge of writing this paper



suppliers so as to support them along the way, mitigating also sustainability ambitions as some businesses are grappling with distress and uncertainty in the wake of the pandemic;

- **aligning the need for strategic partnerships with suppliers to stringent and complex regulatory requirements** such as, for example, the Procurement Code, so as not to jeopardize the principle of fair competition among suppliers;
- **integration of audits on site into management audit procedures**, engaging the local communities and increasing the diversification of interventions, including suppliers' education, based on the specific local situation;
- **cultural paradigm shift** of businesses in general and of purchasing department employees in particular, as the latter will be called upon to consider, in their procurement choices, not only the criterion of the lowest cost, especially in relation to the size of low-cost Countries, but also other virtuous variables related to human rights and decent work.

Opportunities:

- initiation of the European process for the adoption of a **directive** establishing the obligation to conduct a **due diligence on human rights** and environmental aspects across the supply chain and definition of the Social Taxonomy as part of the Sustainable Finance Strategy, demonstrating the increased focus on the social and environmental dimensions;
- dissemination of the corporate sustainability strategy to the supply chain through **supplier selection and monitoring based on sustainability performance**, including in relation to human and labor rights, in order to develop a joint path for growth;
- **engagement of suppliers in sustainable innovation processes**, which is fundamental to creating shared value, reducing procurement criticalities, and identifying and responding to the needs of specific local contexts;
- creation of and/or participation in **international labor and human rights platforms** that engage competitors and peers;
- establishment of a **virtuous mechanism** that would lead to enhanced protection of human rights in different contexts for the benefit of people.

4. ASSESSING EXTERNALITIES THROUGHOUT THE LIFECYCLE OF PRODUCTS AND SERVICES





ASSESSING EXTERNALITIES THROUGHOUT THE LIFECYCLE OF PRODUCTS AND SERVICES

Businesses are called upon to manage the externalities they generate during the life cycle of products and services, which can be positive or, as is more often the case, negative (e.g. pollution).

The **management of externalities** is also associated with **broader systemic considerations**, such as the increasing demand for materials and resources available in limited quantities on the Planet and the economic difficulties caused by the pandemic. The latter, in turn, have led to raw materials price hikes and supply chain disruptions that significantly hampered business operations. To face these challenges, it is necessary to overcome the logic - and limitations - of the linear economy and invest, instead, in **circular production and consumption models**, thus ensuring environmental sustainability of the system, sound economic recovery, stable development and competitiveness of the private sector.

Circularity is an economic paradigm in which goods are produced from renewable materials and energy inputs, projected from an eco-design point of view and are used for longer; resources are not consumed but recovered, waste is minimized and the value of resources and materials is capitalized. This model is **truly sustainable**, as indicated by **Goal 12** of the United Nations 2030 Agenda. Several regional and national decision-making bodies are moving in this direction.

In 2019, the European Commission launched the **Green Deal**, i.e. the strategy that aims to achieve climate neutrality by 2050 by meeting the international commitments under the Paris Agreement and promoting a more modern and inclusive economy. In March 2020, the Commission presented a **new circular economy action plan**, on which the Council adopted conclusions in December 2020 that also highlight the role of this model in ensuring a green recovery from the Covid-19 pandemic. The action plan sets forth more than 30 action points (sustainable product design, circular production processes, empowering consumers and public purchasers to make informed choices) and covers sectors such as electronics and information and communication technologies, batteries, packaging, plastics, textiles, construction and building, and food.

In addition, in March 2022, the European Commission presented a **package of new proposals¹² on circular economy** that address the eco-design of products: new requirements to make products more durable, reliable, reusable, repairable, easier to maintain, renovate and recycle, and energy- and resource-efficient. The specific information required to be disclosed on products will ensure that consumers know the environmental impact of their purchases, thanks to the introduction of a mandatory 'digital passport' for all regulated products, which will facilitate the traceability of substances used along the supply chain and make it easier to repair or recycle products.

Italy's **National Recovery and Resilience Plan (NRRP)** also places the **circular economy at the center of Mission 2**, focused on "Green Revolution and Ecological Transition," making €2.1bn available to improve the capacity for efficient and sustainable circular waste management.

12. <https://eur-lex.europa.eu/legal-content/IT/TXT/HTML/?uri=CELEX:52022DC0140&from=EN>



Funds are dedicated to strengthening separate waste collection infrastructures, modernizing or developing new treatment facilities, bridging the gap between northern and southern Italy and implementing innovative flagship projects for strategic supply chains.

Indeed, according to the Circularity Gap Report 2022¹³, the **global circularity rate dropped from 9.1% to 8.6%** between 2018 and 2020 due to increased consumption (up by over 8% in the past five years against an increase in reuse of only 2% from 8.4 to 8.6 Gt). Hence, it is necessary to accelerate efforts and spur ambition, starting with the key role that the private sector can play for production and consumer education.

Supply chain engagement is, therefore, crucial for businesses in managing externalities throughout the lifecycle of products and services and adopting patterns of circular production and consumption, resource-efficient use and preservation of the environment and natural capital.

Choosing to embrace circular production models, by shifting the focus to regeneration, opens up a variety of **business opportunities in terms of innovation and co-design with suppliers** and can be applied to multiple stages of the lifecycle: upstream, starting from design, and downstream, with reuse and recycle strategies (secondary raw materials), involving operations and logistics in the stages in between.

It should be emphasized, however, that respect of **circular economy requirements** is **not a mandatory condition** that businesses demand their suppliers to meet during selection and verification (as is the case, instead, with human or labor rights). Rather, in order to strengthen the overall competitiveness of their supply chains, businesses may choose to give preference to - and support - the suppliers that respect such requirements. This is why it is crucial for large companies to build a path of co-evolution with their supply chains, often facilitated by shared mechanisms and collective actions.

Challenges:

- **difficulty of matching contractual aspects and supplier circularity requirements**, so it might sometimes be deemed necessary to be less stringent on the latter, especially in the case of small suppliers, to whom education and support should be provided;
- **economic investment required** in order to be able to adopt circular economy mechanisms, which can be quite high for some product sectors; besides, consumers do not always perceive the added value of these products;
- **managing the impact of certain regulations** such as those on end-of-waste, which can make it difficult to adopt circular solutions;
- failure to identify **mechanisms to monetize externalities**, that could instead be useful

13. The Circularity Gap Report 2022, The Circularity Gap Reporting Initiative - Circle Economy



for businesses to make more conscious decisions;

- **lack of facilitated taxation measures for sustainable products**, that would be useful to increase their competitiveness relative to “non-sustainable” products and set off the current economic downside due to recycled materials being more expensive;
- need for **businesses to be forward-looking** when designing and adopting circular economy mechanisms, thinking that they will reap the benefits of their economic and technological investments in the long term;
- **long-drawn out and uncertain authorization processes** for the implementation of circular waste management infrastructures and initiatives;
- increasing emphasis placed by EU and national institutions on the **DNSH (do not significant harm) principle** in relation to the projects benefiting from Next Generation EU and NRRP funding.

Opportunities:

- **use of secondary raw materials**, which can be crucial for those product sectors that suffer from shortages of virgin raw materials;
- **redefinition of the concept of waste**, transitioning from waste material to source of value;
- **promotion of end-of-life materials** regeneration processes for the production of secondary raw materials;
- **improved communication of the added value of recycled products** or products derived from circular processes, so as to promote a culture of reuse and durability among consumers;
- **exploiting and enhancing the growing market trend** of changing production models to embrace circularity and efficient use of resources, by defining business strategies aligned to this trend that can stimulate innovation and the search for new raw materials;
- **application of carbon pricing** (or, more generally, resource efficiency) mechanisms that can support businesses to innovate their supply chains and stimulate competitive advantages and better brand positioning;
- possibility of **attracting economic resources** for the development of products and processes enabling the circular economy;
- encourage **collaborations between different business functions, supply chains and sectors** to manage complex projects such as circular ones and strengthen public-private partnerships to create synergies and pool knowledge, skills and resources.



**5.
BEST PRACTICES
OF THE ITALIAN
BUSINESS
PARTICIPANTS
IN THE GLOBAL
COMPACT**



BEST PRACTICES OF THE ITALIAN BUSINESS PARTICIPANTS IN THE GLOBAL COMPACT

The Italian business participants in the UN Global Compact are the most active on - and sensitive to - sustainability and adopt innovative solutions to this end. Below is a description of the best practices of the companies which contributed to this paper, which analyze and provide cases of real-life application of the three main pillars described above.

REDUCING SCOPE 3 INDIRECT EMISSIONS



MEASUREMENT OF SCOPE 3 EMISSIONS IN THE CLIMATE STRATEGY VALIDATED BY CLIMATE NEUTRAL NOW

Defining a climate strategy with targets aligned with the goals of the Paris Agreement and climate science is an essential step to reduce the impacts of climate change. In building its strategy, Carbonsink began by measuring its GHG inventory including Scope 3 emissions, which are usually the most important component of a company's carbon footprint especially in the service sector. Carbonsink defined a reduction and compensation plan and submitted its commitment to Climate Neutral Now, the United Nations (UNFCCC) initiative to encourage organizations and businesses to achieve challenging climate goals. Climate Neutral Now awarded gold medals to the Measure and Contribute steps; and a silver medal to the Reduce step. Measurement in many Scope 3 categories contributed to the achievement of the result, which confirms the importance of quantifying indirect emissions in building an effective climate strategy.



LEAP - PARTNERSHIP FOR SUSTAINABILITY

Promoting sustainability in a supply chain involving more than 11,000 suppliers – primarily small- to medium-sized companies - is a key to Leonardo's competitiveness. To help improving the sustainability of its supply chain, in its 2020 Integrated Report, Leonardo committed to: promote the awareness of SDGs; provide training and sustainability reporting tools among 80% of its key suppliers; set , together with its partners, the adoption of defined targets and plans for green energy, for the reduction of CO2 emissions as well as for recycling of waste and water consumption. Leonardo has adopted three tools supporting this process, which are analysed in the case study below: the LEAP - Partnership for Sustainability programme for the development of the supply chain, the Manifesto for Supply Chain Sustainability and the LEADS (Leonardo Assessment and Development for Sustainability), an assessment model measuring a series of parameters applying to different dimensions of suppliers' sustainability.



METZERO TASK FORCE AND EMISSION REDUCTION ACTIVITIES

Maire Tecnimont Group is constantly committed to consolidate relations with its suppliers, in a process aimed at integrating the principles of sustainability and social responsibility along the entire production chain. Maire Tecnimont suppliers are required to follow the founding principles of the Code of Ethics and to respect human rights in accordance with the Group's sustainability policy. During 2020, the Group has launched a multi-year strategic project ("In Country Value") to strengthen the supply chains in the countries where it is present. Maire Tecnimont has also launched structured activities aimed at integrating ESG factors within its supply chain, leveraging three elements: the qualification process, supplier management tools and the organization of procurement activities. Thanks to this screening program, the Group carried out the calculation of ESG scores on more than 2,200 suppliers of materials and services and on 100% of new suppliers.



Good food, Good life

SUSTAINABLE LOGISTICS AND CIRCULAR AGRICULTURE: BIOGAS AS A KEY SOLUTION

Sustainable logistics is one of the key components of the journey towards decarbonization undertaken by Sanpellegrino, a Company belonging to Nestlé Group in Italy, as well as one of the most efficient levers to help create virtuous multi-stakeholder systems. The Group started experimenting with means of transport powered by fossil-based liquid natural gas (LNG) for its products in 2016, when the subject was absolutely pioneering, and no infrastructure was yet available. The natural evolution of the project was the implementation, in 2021, of the BIO LNG, obtained from agricultural and zootechnical waste, capable of having a significant impact on CO2 emissions, which could be reduced by up to 100%, depending on the mixture of residual materials in the gas production process. Biofuels are one of the cornerstones of the Company decarbonization roadmap and they could be extended to other Nestlé businesses in Italy and worldwide, thus becoming one of the most concrete contributions to the whole national economy.



DEVELOPMENT AND APPLICATION OF SOCE (SAIPEM OFFSHORE CARBON ESTIMATION) FOR THE EVALUATION OF GHG EMISSIONS ALONG THE ENTIRE PROJECT VALUE CHAIN

Saipem has developed a tool that estimates the carbon emissions of offshore EPCI (Engineering, Procurement, Construction, and Installation) projects already in the bid phase that will be carried out in the future. The tool can forecast the CO2 emissions associated with the activities that will take place in EPCI projects, using both real data (taken from the historical emissions of company assets and sites) and emissions data from internationally recognised databases. Furthermore, in order to provide emissions estimates as accurate and up-to-date as possible, the tool also allows for the inclusion of emissions data directly collected from the suppliers involved in the project. The collection of this data is carried out in the negotiation phase with the supplier from which specific documentation is requested, such as the EPD (Environmental Product Declaration) or expected estimates of CO2 emissions related to the activity of the project in which the supplier is involved.



SNAM AND ITS SUPPLIERS, TOGETHER TO REDUCE EMISSIONS

In addition to the objective of achieving carbon neutrality by 2040 for its operations (Scope 1 and 2), Snam is committed to reducing emissions along its value chain (Scope 3), mainly due to investee companies and suppliers. The target defined on the latter category envisages an emission intensity reduction of -55% by 2030 vs. 2019 of the supply chain compared to the CapEx. In order to achieve this objective, suppliers who define clear reduction plans will be incentivized, joint projects will be developed to promote emerging technologies, the use of green fuels (bioCH₄, H₂) as well as renewable energy, and the comparison and exchange of know-how will be encouraged with suppliers who are at the beginning of their reduction process. The new supply chain development model will guide suppliers for the next few years, foreseeing their significant contribution to an increasingly decarbonised economy.



CO2 SCOPE 1 2 AND 3 EMISSIONS: THE SUBJECTS INVOLVED AND THE RESULTS IN TPER'S EXPERIENCE

Transport has a significant impact on the environment and the quality of life, and to ensure sustainable mobility it is important to act at the system level, also involving the supply chain, so that the actions are comprehensive and the results of greater scope. In addition to having acted on investments and service quality, since 2017 TPER has included both the companies of the group and the other companies in the supply chain in the measurement of energy consumption and emissions. For emissions, therefore, not only the direct ones (Scope 1 Greenhouse Gas) are measured, but also the indirect ones associated with the consumption of energy purchased from the network (Scope 2) and finally that of some subjects in the supply chain, partners of the public transport service (Scope 3). These measurements are carried out annually according to standardized criteria and methodologies, the results of which are certified by external auditors. For the future, it is planned to broaden the analysis to include additional players in the supply chain.



MANAGING THE IMPACTS ON THE SOCIAL DIMENSION: HUMAN RIGHTS AND DECENT WORK



**BOLTON
GROUP**

BOLTON GROUP AND OXFAM: TOGETHER FOR A FAIR AND INCLUSIVE SUPPLY CHAIN

In 2020 Bolton Group started a four-year collaboration with Oxfam with the aim of setting new standards of corporate social sustainability in the tuna fishing sector and building an “increasingly fair supply chain” where equity, inclusion, elimination of inequalities, gender equality and respect for rights and safe and decent working conditions are guaranteed for all. The transformation process includes: the review and strengthening of the Group’s policies on human rights and working conditions, including the Human Rights policy and the Code of Ethics; the implementation of a due diligence process in the three key countries of the tuna supply chain - Ecuador, Morocco and Indonesia - through the “Human Rights Impact Assessment” methodology; the adoption of an effective monitoring and management system of all aspects related to human rights and working conditions; the communication of commitments and activities undertaken with the aim of positively influencing the entire fishing sector.



EDISON’S COMMITMENT TO ITS SUPPLY CHAIN: DEVELOPING A LOCAL SUPPLIER ENGAGEMENT MODEL THROUGH SUPPORT AND EMPOWERMENT ON ESG ISSUES

Edison’s procurement process has always been attentive to environmental, health, safety and anti-corruption issues, from the scouting phase to the contractual phase, also including the supplier qualification process structured to be selective but also to support suppliers. As of 2021, the monitoring of ESG issues, including human rights, has been strengthened. In particular, a specific analysis was conducted on suppliers that are the size of SMEs, which constitute a significant share of Edison’s supplier portfolio. At a time when they are called upon to increasingly strengthen the aspects required by corporate sustainability, Edison aims, as a responsible operator, to engage and support suppliers in raising their level of sustainability. Starting from the main ESG gaps detected and through the creation and provision of tools such as training programs, supplier awareness will be raised regarding the importance of ESG issues from the market positioning perspective.



PROTECTION OF HUMAN RIGHTS IN THE COFFEE SUSTAINABLE PROCUREMENT POLICY

Producing sustainable quality is a daily choice that illycaffè puts into practice throughout its supply chain, starting with the direct collaboration with coffee producers. In this context, understanding the needs of communities plays a central role, in favor of which illy promotes a virtuous growth path. illycaffè supports projects created to transfer knowledge or services necessary to increase well-being and prevent risks, which are



identified by the continuous monitoring of suppliers and dialogue with local institutions. illycaffè invests heavily in the risk associated with child's safety. Therefore, supporting education means guaranteeing access to school and protecting the human rights of its stakeholders, working towards sustainable development.

Posteitaliane

INSIEME 24 SI: THE PLATFORM FOR THE GENERATION OF IDEAS

In November 2021, Poste Italiane launched "INSIEME 24 SI", the platform for the collection of ideas and contributions aimed at the Group's entire population. It cross-cuttingly involves the different areas of the Company's organization, in line with the goals of responsible growth, digitalization and social cohesion, encouraging a proactive approach and creating shared value. In the context of Poste Italiane's Strategic Plan "2024 Sustain & Innovate Plus," "INSIEME 24 SI" represents a tool to take into account all stakeholder's contributions in the pursuit of the Group's sustainability strategy. The platform thus makes it possible to promote people, ideas and skills, and to create suitable conditions for the implementation of innovative projects capable of generating a positive impact inside and outside the Company, amplifying the Group's ability to anticipate future challenges. The initiative will be continued until 2024 and will be structured in several cycles.

**Prysmian
Group**

**MANAGEMENT OF CONFLICT MINERALS IN BASE METALS
PROCUREMENT**

Conflict Minerals are among the most lucrative sources of income for armed groups, contributing to fueling the armed violence in the Democratic Republic of Congo and neighboring countries. Various industries, particularly in manufacturing, use the four conflict minerals—tin, tungsten, tantalum, and gold— or the 3TGs, in a variety of products. Section 1502 of the Dodd-Frank Act on Conflict Minerals is mainly a transparency measure, which was passed in 2010 and implemented in 2012 by the U.S. Securities Exchange Commission, creating a reporting requirement for all companies publicly traded in the United States. In 2017, the EU followed suit by passing a new regulation aimed at stopping the export of conflict minerals and metals to the EU. The requirement started to apply in January 2021. In 2017, Prysmian Group has started the Conflict Minerals reporting process, based on the Due Diligence Guidance provided by the Organization for Economic Cooperation and Development (OECD) for sourcing minerals from conflict-affected or high-risk areas (CAHRAs). The Group has implemented a policy for conflict minerals which is publicly available and gives an overview of the due diligence steps for Conflict Minerals Sourcing in Prysmian Group's base metals purchasing department.



HUMAN RIGHTS AND THE SUPPLY CHAIN: PROTECTING THE HEALTH AND SAFETY OF EMPLOYEES OF CONTRACTORS AND SUBCONTRACTORS

Terna considers protecting health and safety at work a fundamental human right, the centrality of which warrants constant attention, starting with the main values expressed in the Code of Ethics and ending with managing daily operations. Terna operating personnel and the operating personnel of contractors and subcontractors perform activities that are inherently risky, such as working several meters above ground, maintenance on live power lines, and working on complex constructions sites. Over time, Terna has defined policies that deal with managing stakeholders, respecting human rights within the Group, and monitoring social and environmental aspects in the supply chain, formalising management and health and safety monitoring processes that also ensure a constant path towards improvement and gradually spread a culture of sustainability to the supply chain as well.



SUPPLY CHAIN: RESPONSIBILITY AND SHARED VALUE

Webuild promotes respect for all human rights in its value chain through specific actions, such as qualification, the application of the Supplier Code of Conduct, periodic monitoring and evaluation systems. In particular, starting from the commitment assumed by the Company and the highest standards of integrity, correctness, reliability and sustainability, the Supplier Code of Conduct, constitutes a reference and an explanatory guide for the Group's suppliers, detailing the binding behaviors expected from its supply base.



ASSESSING EXTERNALITIES THROUGHOUT THE LIFECYCLE OF PRODUCTS AND SERVICES



PERSONE, AMBIENTE E SVILUPPO PER UNA TERRA CHE CAMBIA



SUPPORTING LOCAL SUPPLY CHAINS IN THE SHIFT TOWARDS SUSTAINABILITY

Aeroporti di Roma considers it essential to involve suppliers to ensure the sustainability of the entire value chain, therefore we have developed a two-pronged strategy in this regard: on the one hand, we have defined tools to reduce the environmental impact of specific supplies, working throughout the procurement process (contractual forms, technical specifications, contractual clauses, tender awarding requirements) and achieving important results over the years, for example: 84% reduction of single-use plastic bags inside the terminal or the circular management of 99% of waste, including through the installation of composters at the airport or the optimised re-use of demolition materials and excavated soil in new infrastructure; on the other hand, we have worked to progressively improve the environmental performance of our entire supplier base through increasingly sophisticated supplier sustainability assessment and rating systems, with the aim of strengthening collaboration and support tools to 'help' our partners in their transition towards increasingly sustainable management models.



A CO-EVOLUTION FRAMEWORK FOR A REGENERATIVE SUPPLY CHAIN

Andriani, as a Benefit Company, aims to promote and apply the concept of widespread prosperity. That is why, within the new Statute, the first common benefit purpose aims at paying attention to the production chain, to contribute to the creation of value for all the actors involved by introducing principles of sustainable and integrated agriculture. Through the new Supplier Code of Conduct, a materiality-based manifesto that presents what the Group wants to achieve together with them, we want to start a path of co-evolution. The methodology for applying the Code takes a fundamental element into account: the interdependence between business, the social sphere and natural ecosystems. For this reason, the concept of supply chain was abandoned in favor of that of value network, as the multidimensional cooperation of several players is the necessary condition to generate shared value in and outside the supply chain.



THE SUSTAINABILITY PATH IN THE PRODUCTION OF BREMBO BRAKE CALIPERS

In recent decades, the automotive industry has seen an exponential increase in the use of aluminium alloys for multiple applications. In fact, aluminium offers significant properties in terms of lightness, and hence a reduction in vehicle fuel consumption, as well as mechanical strength, malleability, heat conductivity and, last but not least, complete recyclability.



Set against these benefits from the application point of view is a production process that requires high energy volumes. It is estimated that more than 10.4 tonnes of CO₂¹⁴ are emitted into the atmosphere worldwide for every tonne of aluminium produced, with very large fluctuations around this figure depending on the method for generating the electricity used in the process (coal, gas or hydroelectric).

Creating products that, with the same performance and aesthetic impact, partially or totally use secondary aluminium (generated through the recycling process) instead of primary aluminium is one of the most ambitious sustainability challenges that Brembo has set itself.



CIRCULAR APPROACH TO THE SUPPLY CHAIN

The achievement of increasingly ambitious decarbonization goals assumes a transformation of the energy system through electricity production from renewable sources, global electrification of the final consumption, adoption of technologies for energy storage and smart grids development. This overall dynamism brings with it a growing need for raw materials, significant in quantitative terms and different in qualitative terms, compared to the current one. The Group's commitment to the circular economy has accelerated in recent years, with an integrated strategy along the entire value chain that leverages on measurement, innovation, and collaboration with the aim of carrying out functional initiatives for an overall redesign.



SUSTAINABLE ENERGY BASKET BOND PROGRAMME

Eni is committed to an energy transition that can, through concrete solutions, preserve the environment, provide access to energy for all and be socially equitable at the same time. The company has conceived and launched various initiatives in favour of supply chain sustainability, the development of which requires significant resources. In this context, Eni, together with Elite and Illimity, has devised the 'Sustainable Energy - Basket Bond' programme. This is an innovative multi-year financial tool - open to all companies in the integrated energy supply chain and not exclusively to Eni's suppliers - that allows companies engaged in the energy transition to access the capital needed to implement projects and investments functional to sustainable development with advantageous terms.



VALORISATION OF WASTE GENERATED BY THE ESSELUNGA FISH DEPARTMENT WITH THE HYDROLIZED PROTEIN PROJECT

The Lipitalia Diusa Group, a market leader in Italy, has been active since the 1960s in the collection and processing of animal by-products into fertilisers or animal fats for the production of fuel oil, electricity and thermal energy. New circular economy policies and a renewed awareness of the valorisation of waste have led to the design and construction

14. Figure from "Greenhouse Gas Emission Intensity - Primary Aluminium (tonnes of CO₂e per tonne of primary aluminium)", updated in 2018, published by "International Aluminium Institute" and available at <https://international-aluminium.org/statistics/greenhouse-gas-emissions-intensity-primary-aluminium/>



of a plant for the transformation of fish waste into marine hydrolysates, thanks to the historic partnership with Esselunga. In this way, fish by-products, which can no longer be used for human consumption, are transformed into food suitable for animal feed, thus reducing waste.



RFI – CORPORATE SOCIAL RESPONSIBILITY ASSESSMENT

RFI is the FS Group company that manages the railway infrastructure in Italy and is one of the main contracting stations in Italy. Since 2017, the concept of Corporate Social Responsibility has been introduced in tenders with the aim of rewarding the most virtuous companies. Companies that participate in tenders announced according to the criteria of the economically most advantageous offer, can decide to undergo a sustainability assessment to compete for a bonus score, using an external monitoring platform (EcoVadis) that analyses performance in 4 areas: environment, work organisation and human rights, ethics, sustainable procurement. Following the assessment, a 'CSR rating' is given to each supplier. The higher the score, the more technical points are awarded, thus rewarding the most sustainable companies.



THE CIRCULAR ECONOMY IN THE SUPPLY CHAIN

In 2019, Hera Group implemented a project to review its purchasing processes from a circular perspective. Initially, following the Ellen MacArthur Foundation's "Resolve" model, the types of goods and services purchased were analyzed and for each the current level of maturity of "circularity" in supplier selection and future potential was defined. Subsequently, the Circular Procurement Guideline was defined and implemented in the 2021 Operational Instruction on Sustainability in Procurement. These recommendations, defined by leveraging the results of a working group coordinated by the Global Compact Network Italy, include four cornerstone principles: eco-efficiency, dematerialization, renewability and recyclability. Overall, 9.5 percent of the value of tenders awarded in 2021 is related to circularity criteria. In the same year, the circularity reporting methodology was extended to all purchases.



GUIDELINES FOR A CIRCULAR DESIGN

In the path started by INWIT in 2020 for the creation of a sustainable business model, the supply chain's sustainable management has been included among the priorities. The goal is to identify innovative solutions to limit the impacts along the entire life cycle of our infrastructures, from the design phase, which is essential for giving the infrastructure a circular economy vision, to end-of-life management. In line with this goal, we defined the *Guidelines for the validation of non-standard antenna port structures*, to make available to suppliers the guidelines for the definition of new design proposals for our infrastructures. The works, in fact, must be designed to have limited impacts throughout their life cycle, must last as long as possible, must be repairable and in the end-of-life phase the works must be able to be disassembled so that each of their parts could find a new use.



SELECT SUPPLIERS FOR ENVIRONMENTAL SUSTAINABILITY

Integrating sustainability into the strategy means defining a planning and monitoring system of medium and long-term objectives and structuring business processes to ensure and support the achievement of these objectives. This is the path followed by Iren Group which for the procurement has adopted a supply chain management system consistent with its sustainable development strategy. Here we address the aspects related to the selection and evaluation of suppliers for environmental sustainability.



SUSTAINABILITY OF THE NATURAL RUBBER SUPPLY CHAIN

With the global demand for natural rubber set to increase, sustainable management of the related supply chain is essential to preserve forests, biodiversity and to enable sustainable development for local communities and economies. The economic, social and environmental sustainability of the natural rubber supply chain is a priority for Pirelli, fully aware that the origins of its rubber supply chain impact forests. Pirelli is located downstream in the natural rubber supply chain, as it does not have its own plantations or natural rubber processing plants. However, the company intends to play an active role in this context: contributing to the global efforts dedicated to the sustainable management of natural rubber.

6.

CORPORATE PLATFORMS ON SUPPLIERS' ENGAGEMENT





CORPORATE PLATFORMS ON SUPPLIERS' ENGAGEMENT

In order to emphasize the importance of supply chain engagement, companies are increasingly developing digital platforms - either their own or shared with other partners - to facilitate the exchange of information on suppliers and to stimulate their active engagement on sustainability issues.

Below are some examples.

Edison Supplier Qualification Portal

The Portal is aimed to manage Edison's supplier pre-selection and qualification process, structured in the following stages: verification of ethical and judicial prerequisites, technical assessment, safety, environmental and sustainability profile assessment, financial assessment and commercial assessment. In 2021, the sustainability section of the Supplier Qualification Portal was enhanced with ten mandatory questions on ESG, the adoption of sustainability goals, sustainability report writing and publication, Diversity & Inclusion policies, partnership(s) in sustainability projects, human rights policies, GHG emissions calculation, use of green energy and use of green gas, commitment to research and innovation. This soft 10-question-based approach balances the need to survey the all-round sustainability profile of suppliers and the difficulty of the latter - mostly SMEs - in compiling complex assessments (due to lack of information and poor of knowledge of the themes), in view of selecting suppliers while supporting them in a stepwise improvement of their sustainability profile.

Supplier Development Program

Supporting the growth of suppliers also means enabling achievement of a Group's strategic objectives. Consistent with this vision, Enel has taken initiatives, in all countries where it operates, to support the growth of local companies. In Italy, Enel has launched the Supplier Development Program (<https://globalprocurement.enel.com/tenders-and-opportunities>), aimed to make its supply chain more solid, performing and innovative, while promoting the sustainable development of the businesses with which it works. The Supplier Development Program, launched in July 2020 to support about 500 strategic suppliers, has recently been extended to more than 6 thousand Italian suppliers.

WeBuy Platform and Global Procurement Portal

Enel has been for years on a digitalization course that also covers supplier relations. Two examples of digital facilitation and supply chain engagement are: (i) the single platform (WeBuy) for managing all transactions with suppliers (all the way from supplier initial qualification to performance evaluation, through tenders, the exchange of communications and the signing of contracts), that also has a space with all individual supplier data (status of qualifications obtained and in progress, calls for



tenders, list of active and expired contracts, performance indices detected through vendor rating, status of payments) and supported by a telephone and virtual help desk in different languages; (ii) the Global Procurement Portal where tender notices, requirements plan, contract standards, agreements and services made available by Enel for supplier development are published. To date about 50 thousand suppliers are registered on WeBuy, about half of whom have at least one active contract. The Global Procurement Portal (<https://globalprocurement.enel.com/>), on the other hand, is freely accessible and searchable by all stakeholders (not just suppliers).

Open-es: the alliance for sustainable business development

Open-es is a system-wide initiative that brings together the industrial, financial and institutional spheres to support, through an open digital platform, all businesses in their journey to measure and improve sustainability. It is a partnership of leading Italian and international businesses such as Eni, WeBuild, Snam, Saipem, Rina, BCG, Google Cloud, Accenture, KPMG, Techedge, Baker Hughes, Autostrade per l'Italia, illimity Bank, ESG European Institute. Through this free tool, the business participants in this community can make their information available to suppliers, customers and financial partners, measure their ESG profile, obtain an improvement plan, collaborate and compare to other players across the supply chains. To date, this is a 5,400-strong business community whose members have measured their sustainability performance, identified gaps to be filled and embarked on a sustainable development journey also thanks to a Development Hub where they can find useful solutions and services for growth and improvement.

Esselunga Web Tool Packaging

Esselunga has developed the "Web Tool Packaging" platform, a corporate tool for packaging eco-design projects that, through the Life Cycle Assessment (LCA) methodology, allows to monitor and assess the impacts of supplier-proposed solutions for branded products whilst receiving decision-making support for choosing alternative packaging solutions with a focus on carbon footprint, water consumption, plastic reduction and circularity indicators. The HSE Office is the owner of the Tool. Since 2020, the Tool has enabled all suppliers of branded products to map information on the packaging used, enabling systematic monitoring and impact assessment of the materials used.

'Future' online magazine for the Sofidel supply chain

In 2022, Sofidel published "Future - Building a Better World Together", the online magazine dedicated to its supply chain. 'Future' features sustainability stories with the aim of sharing inspirations and promoting dialogue among the Group's suppliers to help spread knowledge useful for building an inclusive, sustainable and resilient future for people and the Planet.

The publication of 'Future' is part of the Group's efforts to develop a socially, environmentally and economically sustainable supply chain and create shared value together with its suppliers.

'Future' presents the views of international sustainability leaders and showcases the sustainability



stories and experiences of Sofidel Group suppliers. The digital magazine is published in the “Sustainable Procurement” website, developed by Sofidel in 2021 to share the principles, processes and policies underlying the Group’s sustainable procurement model.

TenP Paper: the Sofidel sustainable supply chain self-assessment platform

The “TenP Paper” platform for pre-qualifying Sofidel suppliers draws inspiration from the Ten Principles of the United Nations Global Compact, which the Group joined in 2010 as a “Participating Member.” It was established to assess the environmental, social and economic sustainability performance of suppliers and identify common risks and solutions to advance supply chain sustainability.

In 2014, Sofidel joined, as “Corporate Partner”, the “TenP” self-assessment platform developed by the Global Compact Network Italy (GCNI), of which Sofidel is a “Founder Promoter” member. In 2021, the Sofidel Group’s sustainable supply chain self-assessment platform was renamed “TenP Paper” and integrated on the SAP Ariba system.

Also based on the “TenP Paper” platform is the “Sofidel Suppliers Sustainability Award” (3SAward), established by the Group in 2016 in an effort to acknowledge and give visibility to the most sustainable suppliers and support those who are working on improving their sustainability performance.

Pirelli platform for third party ESG legal compliance audit monitoring and management

The platform is managed by the Sustainability and Sustainable Procurement area and allows Pirelli and the third-party auditor to accurately manage and track the third-party audits that Pirelli conducts on the suppliers involved in the “annual campaign” (existing suppliers selected according to specified parameters) and in the “pre-qualification” phase (suppliers selected according to the product category and the characteristics of the supply relationship). Workflow: mapping of the supplier being audited, audit set up, management and tracking of the examinations conducted and follow-up actions.

Terna’s “Procurement” and “Supplier Qualification” portals.

The “Suppliers” section of the terna.it website starts with the Group’s Codes of Conduct and the links to the two portals dedicated to Procurement and Qualification; it provides existing and potential suppliers with exhaustive information and support through dedicated channels (3.000+ requests handled in 2021). The “Procurement and Tenders” and “Corporate Protection and Services” functions are in charge of these digital platforms and add to their engagement activities with market scouting initiatives aimed at expanding the Group’s supply chains and periodic meetings with qualified businesses and Trade Associations to share regulatory and requirements updates and sustainability issues needing to be delved into.

7.

CONCLUSIONS





CONCLUSIONS

The conclusions of this paper are based on the **insights emerged from the May 10, 2022 meeting** on sustainable supply chain management **attended by CEOs and Presidents** of the Italian UN Global Compact business participants, most of which were involved in developing this paper. The **endorsement of top managers** has been fundamental in relation to sustainability and has enhanced the engagement in this joint paper of the Italian business participants in the Global Compact.

- **Sustainability is an integral and decisive part of the private sector's transformative strategy**, which, starting from an all-round change in the way of doing business, enables economic and competitive returns;
- The path toward **sustainability is one that businesses today cannot fail to take**; it is irreversible and must permeate all dimensions of businesses, including supply chains, in order to achieve both the corporate sustainability goals of individual businesses and the international targets on climate change, social equity and economic prosperity to which the private sector is called upon to contribute;
- Sustainable supply chain management starts with a complex **engagement process** that applies not only to the extremely important **buyer-supplier relationship, but also to interfaces**, across business functions and including HR, finance and R&D in addition to procurement;
- While **supplier engagement** in the achievement of corporate sustainability goals should be **gradual and supportive**, businesses should **set milestones and time horizons**. Businesses often decide to start with a small group of suppliers in order to build together a shared path, with qualification questionnaires in the selection stage and the signing of policies and codes of conduct;
- **Measurement is fundamental** for supply chains: by systematically mapping the supply chain, businesses can understand their baseline situation and identify targets for improvement. Concrete examples include supplier self-assessment questionnaires aimed to supplier cultural growth on sustainability, tools such as Ecovadis or new platforms such as Open-Es that emphasize the value of collaboration among different companies;
- In addition, measurement has the fundamental goal of making suppliers' sustainability performance **data homogeneous and comparable**;
- With specific reference to supply chain sustainability, rather being prescriptive, **the approach should be performance-oriented**, with targets, including rigorous ones, that adapt and grow along with the process of sustainable supply chain evolution;
- Now, more than ever before, also in relation to recent EU sustainability regulatory developments, it is important for businesses to **focus on their impacts on the social dimension** (occupational safety and human rights) – in addition to considering decarbonization and circular economy - to achieve sustainability goals that are truly consistent;
- In the effort to decarbonize operations by engaging suppliers in this ambitious commitment, it is critical to consider **logistics, with a focus on downstream as well as upstream**.
- The dimension of supply chains comprises buyers, suppliers as well as, more broadly,



the **local communities impacted by purchasing choices**; hence, businesses have a responsibility to also consider these “additional” actors of the value chain;

- Even at the supply chain level, businesses prefer to **prioritize those actions that are more closely related to their core business**, that can also yield more immediate results, but it will be necessary to take account of all key players, including external ones, with a focus on finance.

FULL LIST OF CORPORATE BEST PRACTICES





FULL LIST OF CORPORATE BEST PRACTICES

The corporate best practice have been developed following a common template, aiming at highlighting 5 key elements:

1. Challenge addressed related to the theme of sustainable supply chain management (with a focus on one of the three main topics analyzed in the document) and target set
2. Methods of implementation (strategy, processes, operations)
3. Stakeholder involved
4. Monitoring and KPIs
5. Results and e impacts: value for the company and shared value

REDUCING SCOPE 3 INDIRECT EMISSIONS



Business Sector: Support Services

Title: Measurement of Scope 3 emissions in the climate strategy validated by Climate Neutral Now

To counter the impacts of climate change and limit the rise in global temperatures to 1.5°C, it is essential to define a climate strategy, with targets aligned with the ambitious goals of the Paris Agreement and climate science. Carbonsink believes that a transition to Net-Zero by 2050 is possible, as well as necessary; in fact, it has developed a mitigation strategy, consisting of two emission reduction targets of Scope 1+2 and Scope 3. Direct emissions (Scope 1) are emissions from sources owned or controlled by the company or entity under study. Indirect emissions (Scope 2, Scope 3) are a consequence of the operations of the company or entity under study, but occur from sources owned or controlled by external parties.

They include emissions from the production of purchased and used energy (Scope 2) and other emissions related to upstream or downstream activities of the operations of the company or entity under study (Scope 3). To build its climate strategy, Carbonsink began by measuring both direct and indirect emissions. In particular, it estimated Scope 3 emissions, which are usually the most important component of a company's carbon footprint especially in the service sector.



For this reason, Carbonsink carried out a screening to identify potentially relevant Scope 3 categories, quantifying emissions for a significant number of categories (8 out of 15) from the primary data available. The work carried out is an integral part of the Company's climate strategy, which, with reference to Scope 3, includes:

- An improved calculation of emissions, aimed at moving beyond the screening stage, to visualize impacts and future reductions.
- The definition of a Sustainability Policy focused on activities relevant to Scope 3: procurement and supplier selection, shipping and mobility. In addition, the Policy will cover some areas directly influenced by employees: water consumption, waste management, and corporate commuting.
- The activities planned to reduce Scope 1 and 2 will also be reflected in Scope 3. In particular, there will be a reduction in the Fuel&Energy Related Activities category due to the implementation of initiatives such as the replacement of the corporate fleet with hybrid or electric vehicles, or the commitment to achieve 100 percent renewable energy through Guarantees of Origin.

In the Scope 3 screening phase, indirect emissions were quantified from:

- Purchased Goods and Services
- Purchase of Capital Goods
- Fuel and Energy Related Activities
- Transportation and Distribution of products
- Disposal of waste Generated in Operations
- Business Travels
- Employee Commuting
- Leased Assets and Services

The choice of categories to be explored in depth was based on literature guidance, such as the Science Based Targets initiative and GHG Protocol. The data collection process, mainly spend-based, was based on the availability of information found through the collaboration of Procurement and Administration. Once the primary data was obtained, the process moved on to find the most appropriate emission factors for each emission source from recognized literature sources such as UK BEIS-DEFRA, IPCC Sixth Assessment Report AR6, and others.

Carbonsink involved its supply chain in emission mapping, monitoring and reduction actions (for the supply of goods and services such as office and space rental, office materials, business activities such as events, shipping, mobility etc.). By communicating its commitment and direct experience within partner and customer relationships, the company aims to raise awareness and bring more attention to the importance of including Scope 3 emissions in corporate climate strategies.

Monitoring of emissions and their evolution is done through the annual update of the Carbon Footprint. Having constructed its inventory following both the GHG Protocol and the relevant ISO standard, it is easy for Carbonsink to capture expected reductions, expressed in tons of CO₂



equivalent. One of the goals of Carbonsink's climate strategy for Scope 3 emissions is to move beyond the screening stage. This involves going deeper into the different emission sources while trying to avoid the use of economic data, preferring physical and quantifiable data in mass, units, and other values that are not monetary. This goal requires constant work on supplier involvement and data collection planning.

The Scope 3 component constitutes about 80 percent of Carbonsink's total carbon footprint. This result confirms the importance of quantifying indirect emissions and is the starting point on which an effective climate strategy needs to be built to take action on emission hotspots. Carbonsink submitted its measurement exercise to Climate Neutral Now, the United Nations Framework Convention on Climate Change (UNFCCC) initiative to encourage organizations and stakeholders to set and achieve challenging climate goals. The Initiative recognized Carbonsink's work worthy of recognition, awarding the gold medal to the Measure and Contribute steps; and a silver medal to the Reduce step. Measurement of many Scope 3 categories contributed to the achievement. The purpose of continuous improvement and refinement of the calculation is essential for a maintenance and enhancement of this result, as well as for the achievement of the reduction targets set by Carbonsink. It is easier to identify and implement the necessary reduction actions starting from a baseline as accurate and concrete as possible.

By communicating and conveying the experience to its customers, partners and the general audience, Carbonsink contributes to raising awareness and bringing attention to the issue.



Business Sector: Aerospace & Defense

Title: LEAP - Partnership for Sustainability

Most of Leonardo's suppliers are highly specialised SMEs (87% of suppliers operating in Italy are SMEs), offering niche know-how with a high propensity for innovation. However, as revealed by the results they have achieved and their lack of plans and targets for the future, many of them lag when it comes to awareness of environmental issues and combating climate change. Given the supply chain's impact in the overall GHG emissions, the implementation of a decarbonisation roadmap by the top suppliers is a critical issue in combating climate change.

In these challenging circumstances, Leonardo has adopted a structured developing plan for its key suppliers, an integral part of its sustainability strategy.

To reinforce this development plan, Leonardo, in its integrated report, publicly committed to pursuing two main goals specifically intended for its key suppliers and partners:

- 100% of LEAP partners¹⁵ with targets and plans for green energy, reduction of CO2 emissions, waste recycling and reduction of water consumption.

15. The LEAP - Leonardo Empowering Advanced Partnerships - programme is Leonardo's new supply chain management and improvement model. Through LEAP, Leonardo is acting as a driver and accelerator of growth for its suppliers in the national ecosystem, to create stronger and more sustainable relationships with the supply chain.



- raising awareness on SDGs delivering training and tools to support reporting to more than 80% of key suppliers.

These goals are among the central elements of the 18 lines of action identified in the *Manifesto for Supply Chain Sustainability* - Leonardo's vision for accelerating the integration of sustainability among its suppliers. The Group encourages its supply chain to improve environmental performance in four areas:

- Industrial efficiency: optimising the efficiency of production processes with the aid of lean transformation programmes.
- Action for Planet: mobilising resources for measuring and reducing GHG emissions, water consumption and waste production, supported by sustainable mobility.
- Green energy: aiming for 100% guaranteed renewable energy.
- Ecodesign and circular economy: designing new products using eco-compatible materials, in a circular perspective.

The strategy for the sustainable growth of the supply chain and the development of Leonardo's key suppliers has been broken down into several different actions and projects implemented through the LEAP Programme launched in 2018. LEAP has accelerated a process of transformation - that begins with Leonardo's internal organisation and processes - with the objective to measure, assess, select, engage and develop Leonardo's partners and suppliers through a framework of shared processes, methods and tools. More specifically, LEAP aims to establish the best possible conditions to enhance partners' technological skills and their excellence in a more sustainable context. Sustainability targets are integrated into the development plans defined with all LEAP partners; their implementation is monitored and guaranteed every quarter by multi-functional teams.

LEAP, as part of Leonardo's supply chain strategy, is based on an in-depth analysis - which goes beyond the classic dimensions of price and performance - of key suppliers' strengths and weaknesses. This analysis aims to identify the suppliers with whom to build medium to long-term partnerships. The practical integration of sustainability into strategy has been implemented at every stage of working with suppliers: from pre-qualification and qualification requirements to selection criteria for tenders; from contractual terms & conditions to assessments for continuous improvement of key suppliers (the intensity of Leonardo's 'acceleration impact on supplier's transformation differs according to the supplier's role in the supply chain).

Regarding the green transition, in line with the assessment on suppliers, Leonardo has acknowledged that managerial culture and skills are of central importance when accompanying suppliers along the path to decarbonisation. This is why Leonardo has come up with specific processes for training - promoting awareness and supporting preparation of sustainability planning and reporting - which center around three lines of action:

1. dedicated workshops held with the involvement of experts and industrial market leaders in the area of green solutions;



2. managerial training programme for suppliers, consistent with Leonardo's internal training programmes, and provided free of charge through the use of interprofessional funds and/or public funding;
3. video courses and toolkits for implementing an initial sustainability plan and non-financial reporting.

At the same time, Leonardo is analysing its Scope 3 upstream emissions, mapping emissions to identify the main levers for decarbonisation and choosing the most appropriate and suitable suppliers to initiate specific projects.

In line with Leonardo's strategy, the LEAP Programme attributes a vital role to the company's stakeholders. Given its goal of making Italy's AD&S industry stronger, more competitive and sustainable, the Programme involves several institutional and industrial stakeholders with whom Leonardo has sought synergies in implementing supplier development actions. Central to this partnership structure is the involvement of institutions, the educational system (universities and technical institutes), industry associations (Confindustria and Regional Aerospace Clusters), the financial sector (CDP and ELITE Borsa Italiana on the Italian stock exchange, and Italy's most prominent banks) and the local communities.

Leonardo monitors its suppliers' progress using LEADS. This toolkit for assessment and development, allows to track progress on the corrective actions agreed with suppliers through specific KPIs.

Leonardo monitors more than 20 aspects of the green transition, with a special focus on the following KPIs:

- number and % of key suppliers who benefit from the sustainability education programme;
- number and % of critical suppliers and LEAP partners who have made plans for reducing environmental impact, particularly decarbonisation;
- % of energy from renewable sources;
- number and % of key suppliers with environmental certification;
- intensity of CO2 equivalent gases emitted (in relation to revenues).

Leonardo's strategy for supply chain development is an investment in shared value.

The growth of partners – in size and capabilities - benefits both Leonardo and its suppliers. Sustainable growth in the supply chain is undoubtedly an element of competitiveness for everyone involved. Leonardo, for example, benefits from a stronger, higher performing, innovative and resilient supplier base. By including new challenges, such as sustainability and decarbonisation, in its strategic vision, the supply chain becomes competitive in the present and going forward. For suppliers, especially SMEs, the prospect of medium-to-long-term business horizons, combined with the strategic guidance and practical support offered by Leonardo, represent a great opportunity to take a qualitative and dimensional leap forward. This also enables them to capture new international customers/markets and create sustainable value in the territories in which they operate.



The results of the LEAP Programme, by building a more integrated, competitive and sustainable ecosystem leveraging on medium to long-term partnerships with supplier, with a special focus on SMEs - are straightforward. Indeed, preliminary results of university studies suggest that, since 2018, businesses involved in LEAP have recorded a significant growth in sales (+ 20% for 2020 over 2017), intangible assets, operating profit, propensity to innovation and managerial structure, compared to similar suppliers not involved in LEAP.



Business Sector: Industrial Engineering

Title: MetZero task force and emission reduction activities

The company puts particular emphasis on measuring GHG emissions from the supply chain. Quantifying emissions related to its own organization and along the entire value chain allows the Group to measure the positive effects of climate change mitigation actions, aiming for carbon neutrality by 2030 on Scope 1 and 2 emissions and before 2050 for Scope 3 emissions.

With reference to emissions related to the supply chain, which represent (2021) more than 90% of the total, the Group has started a path to align the supply chain of suppliers and subcontractors with the 2050 decarbonization targets. Specifically, a working group (MET Zero task force) has been set up in order to launch a structured process of engaging suppliers, both in terms of measurement methodologies and with regard to the best practices to be adopted to steer the supply chain towards decarbonization targets.

The task force sees the participation of figures delegated by their respective departments, covering the areas of engineering, construction, organization, logistics, general services, and sustainability. It is divided into four vertical working groups built to combat the different emission sources with action plans, which aim to reduce the emissions generated by:

- 1.** Acquisition of goods and services;
- 2.** Logistics and packaging;
- 3.** Energy consumed by offices and by travel;
- 4.** Activities on construction sites.

The action plans foresee a synergistic approach, both between different departments within the company and with suppliers, with regard to:

- the reduction of energy consumption at our places of work, the installation of



photovoltaic systems for self-consumption of renewable energy, the purchase of certified renewable energy;

- energy efficiency and the replacement of fossil fuels on our construction sites;
- changes in the car fleet to increase the number of electric vehicles present, agreements and concessions for the sustainable mobility of employees;
- the engagement of our suppliers, both in terms of the purchase of equipment and with regard to logistics, to support them as they move through the process of reducing emissions and to develop solutions for more sustainable packaging use.

The Group is developing, through its subsidiary NextChem, a portfolio of 'enabling' technologies for the energy transition and has elaborated a Green Circular District model, a virtuous model which combines the circular economy with decarbonization objectives for the development and recovery of traditional sites based on fossil sources. The production of low carbon chemicals that serve as building blocks for industry, using existing sites and waste as feedstocks, reduces the use of virgin raw materials and energy dependency. The model aims to produce high-quality recycled polymers from mechanically recyclable plastics and low-carbon chemicals and fuels from non-recyclable waste, while supporting the green conversion of industry (primarily refineries) by reducing emissions.

Upcycling is a technology that allows post-consumer plastic waste to be mechanically recycled and to obtain, through a compounding treatment, recycled polymers with high added value, with the same properties as fossil-sourced plastics.

NextChem has also identified a solution to valorize plastic and dry waste that cannot be mechanically recycled and would be destined for incineration or landfill. This chemical recycling solution (Waste to Chemical) does not use combustion and does not compete with mechanical recycling, but integrates with the latter in a symbiotic way. Through a chemical conversion process, which recovers the hydrogen and carbon contained within these waste types, a synthesis gas is obtained from which compounds such as hydrogen, methanol and ethanol are produced.

NextChem is also investing in pyrolysis, a technology that allows plastic waste to be transformed into low-carbon fuels, and is also involved in depolymerization, with a role of coordinator in the DEMETO project, funded by the European Union, aimed at developing technology for the chemical recycling of PET and polyester textile fibres. NextChem, coordinator of the consortium of 14 partners, has set up a pilot plant at the Abruzzo Technology Park. This technology will also be of great use for the treatment of laminated fibres from textile waste, such as polycotton.



Good food, Good life

Business Sector: Food Producers

Title: Sustainable logistics and circular agriculture: biogas as a key solution

The international brands of the Sanpellegrino Group, Acqua Panna and Sanpellegrino (water and soft drinks) bring the iconicity of Made in Italy to 150 countries around the world. Levissima is the most known brand of mineral water in Italy, present on the tables of 9 million Italians.

Within the life cycle assessments aiming at measuring the carbon footprint of products marketed by the Group, logistics is one of the areas having the greatest impact (around 40% on average), and also one with the greatest potential for emission mitigation.

In a national context traditionally based on road transport logistics, the innovation of heavy transport can bring very significant results not only in reducing the footprint of specific products, but in terms of renewing and creating opportunities for entire industrial sectors, with an environmental benefit intrinsically linked to the themes of the European Green Deal and the Italian PNRR (National Plan of Resistance and Resilience).

Sanpellegrino has always been involved in the development of optimized, integrated, and innovative logistics within Nestlé Group, using all available instruments to reduce its ecological footprint.

This involves, first and foremost, the study and constant improvement of flows, in addition to the use of all alternative means of transport to replace 'road transport', with rail transport predominating wherever possible, and the testing and application, at an industrially wider level, of fuels alternative to diesel. Sustainable logistics plans now allow 45% of water to be transported on environmentally friendly vehicles.

Logistical projects have therefore always been one of the key areas of the decarbonization routes that the Company has been following in its commitment to achieve Net Zero by 2050. In order to implement the use of biofuels, Sanpellegrino is planning to invest more than 4 million € per year in land and sea transport.

Back in 2016 Sanpellegrino, in cooperation with one of its logistical partners, Maganetti Group, activated a fleet of liquid natural gas (LNG)-fuelled heavy goods vehicles for outbound transport from Acqua Levissima production plant, in Valtellina.

This was a particularly pioneering initiative, at a time when liquid gas technology was still in its infancy and the supply station infrastructure in Italy was practically non-existent.

The original 16-truck fleet of gas vehicles has been growing progressively to 30% of the Maganetti Group total. The same kinds of agreements were also concluded with other logistical partners, with the aim of covering an increasing share of the Group brand-related transport made with this type of fuel.



In addition to being the lowest carbon dioxide-intensive fossil fuel, liquid natural gas enabled emissions of particulates and fine particles to be almost completely cut down and was also an effective solution for local pollution. However, the fossil source could not be the end point of an increasingly pushed decarbonization path.

The changeover to BIO-LNG as a fuel in early 2021 was the natural evolution of the project and also a real key to reducing emissions of this important product footprint component. The BIO-LNG from agricultural and zootechnical residues can reduce total emissions by up to 100%, including the production process of the gas itself.

As part of its cooperation with Nestlé, the Maganetti Group has therefore concluded agreements with an agricultural cooperative in Piedmont, Cooperativa Speranza, which in 2020 set up a production plant for BIO-GAS for transport with a capacity of 1,500 tons per year, equivalent to the annual needs of approximately 70 heavy goods vehicles.

In 2021, the project made it possible to save around 6,000 tons of CO₂, and an increase in quantities is planned for 2022, with the aim of fuelling with BIO-GAS, by the end of the year, 100% of the quota of the Maganetti Group fleet currently powered by LNG.

For Levissima, the brand most impacted by the project to date, this meant a 11% reduction in emissions from road transport compared to 2018, with an absolute impact exceeding the removal of 3,000 tons of CO₂ and an estimated cancellation of about 24,000 tons of CO₂ in 2025.

This type of action is being considered and implemented throughout the Group, at national and international level.

However, the concrete and evident results must not overshadow the importance of this type of intervention from the point of view of building multi-stakeholder partnerships. Implementation was only possible thanks to the strong involvement of all actors in the process, as well as the entrepreneurial spirit and the transparency and confidence relationship with which all stages were addressed. Territorial involvement was necessary, so that the authorities and the public were fully aware of and aligned with the objectives of the initiative, in a genuine territorial process for sustainable development, which also has important economic repercussions, because it enables the growth of circular business initiatives, with alliances between big players and young and innovative productive realities. Finally, the whole thing is being combined with the modernization and diversification of local infrastructure, with a leverage effect on other sectors of the economy. That is how synergy and cooperation in a virtuous supply chain become a tool to combat climate change, to develop opportunities and to create shared value.



Business Sector: Oil Equipment, Services & Distribution

Title: Development and application of SOCE (Saipem Offshore Carbon Estimation) for the evaluation of ghg emissions along the entire project value chain

With the aim of providing sustainable solutions to its clients, Saipem has internally developed a systematic calculation tool that estimates, right from the bid phase, the quantity of CO₂ emitted in the development of its EPCI (Engineering, Procurement, Construction and Installation) offshore projects. From the point of view of the value chain, this means our clients will have an estimate of the Scope 3 emissions relating to the construction phases of plants/infrastructures built by Saipem.

Accordingly, the tool, called Saipem Offshore Carbon Estimation (SOCE), will make it possible to analyse emissions as a forecast, and not as a final estimate, and was designed to use information relating to the specific sector as much as possible.

To this end, Saipem has identified the phases of the life cycle concerning the supply chain of its projects that are most relevant in order to assess the activities responsible for atmospheric emissions in qualitative and quantitative terms.

The entire Saipem supply chain was analysed by identifying the internal emissions sources, that is, directly attributable to Saipem's activities (scope 1 and 2), and those of scope 3.

The calculation tool was designed to be as accurate as possible in the identification and use of specific calculation factors.

For direct emissions sources, the emissions factors used by SOCE are defined within the internal environmental reporting system and come from historical emissions data in different Saipem sites.

For indirect emissions sources, the quantification of emissions factors was carried out with a two-fold approach:

- identification of international reference databases with availability of data referable to activities, goods and services included in the supply chain of Saipem projects;
- collection of emissions data directly from Saipem suppliers.

The selected databases provide average emissions data based on the type of emission and the methods of execution of the activity. For the materials and products purchased as part of the Saipem project, a specific emissions factor was identified that is representative of the material and the geographic region of its supply (e.g. steel pipes from Asia).

Therefore, using internal emissions data and database data for external activities, the SOCE tool lets us model the entire chain of Saipem's EPCI offshore projects with good approximation.

Furthermore, SOCE allows us to use, as an alternative to the data from the databases, the



emissions directly declared by the suppliers for the performance of their scope of work. This has the dual benefit of having more detailed and specific emissions estimates of the supply chain (therefore providing ad hoc estimates for the client) and at the same time building a Saipem database of emissions factors connected to its suppliers.

Data collection on supplier emissions takes place through a request for specific documentation on emissions (e.g. EPD - Environmental Product Declaration) during the purchase process or, if such documents are not available, through questionnaires submitted to suppliers. The questionnaires are structured in such a way as to collect the necessary information such as the type and consumption of energy sources envisaged within the scope of work.

To date, 21 suppliers have been involved, of which around 70% have provided emissions estimates. The data collected this way made it possible to cover about 40% of the emissions associated with the materials procurement phase, a phase that corresponds to about 80% of the total emissions of the EPCI project that was the subject of the study.

The SOCE tool, integrated with Saipem's internal environmental reporting processes, has been validated in accordance with the ISO 14064 standard. It is checked annually to keep both the calculation system and the update of the emissions factor database valid.

The tool currently offers the possibility to estimate the carbon emissions of supplies, making this information available to the client during the bid phase, and providing, where possible, various solutions, thus allowing clients, in particular those who are more attentive and sensitive to environmental issues, to make informed choices.

The use of the tool contributes to the creation of value on different levels: it responds to the needs of clients who require increasingly sustainable solutions and at the same time allows Saipem to measure its overall performance, including therefore those of its supply chain, with the ultimate goal of being able to direct its purchasing strategies also considering the environmental impacts.



Business Sector: Gas, Water & Multiutilities

Title: Snam and its suppliers, together to reduce emissions

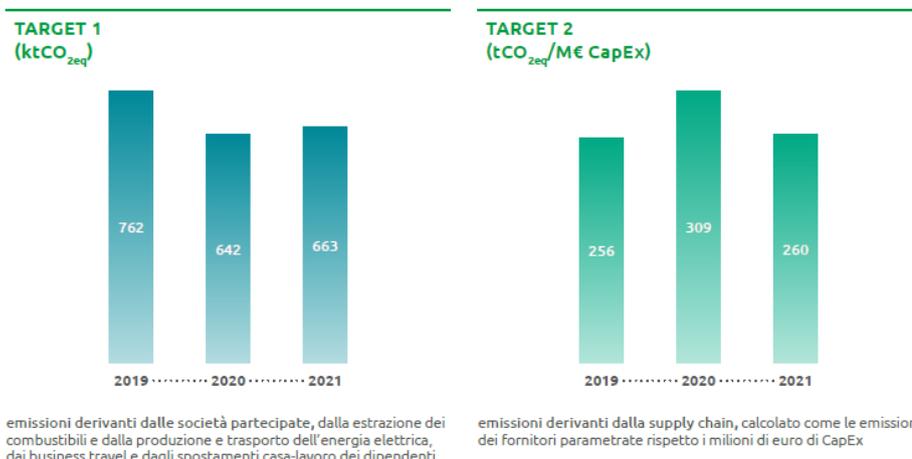
In 2021, Snam decided to launch a project within the Net Zero Carbon strategy to define specific objectives for the reduction of Scope 3 emissions by 2030, in addition to those already defined relating to Scope 1 and 2, thus going beyond its own company perimeter with the belief that it is essential to work in synergy with the value chain to achieve the goal of an increasingly decarbonised world.

Snam's Scope 3 emissions correspond to 41% of the total and can be divided into the following macro-categories:

- emissions deriving from investee companies;
- emissions deriving from the supply chain¹⁶;
- emissions for fuel extraction activities and from the production and transport of electricity (not already included in Scope 1 and 2 emissions);
- other emissions, which include business travels and home-work travels.

In relation to these emissions, two objectives have been defined for 2030 compared to 2019 values, the first envisages a reduction of 46% and takes into consideration the emissions, in absolute terms, of the investee companies and other minor emission categories; the second, instead, consists in a 55% reduction in the emission intensity of the supply chain compared to CapEx.

Snam's targets are in line with the objective of containing global warming within 1.5 °C established in the Paris Agreement and with the generic methodology of the SBTi (Science-Based Targets Initiative), and they make Snam the first infrastructure company within the European Union to establish these targets also towards its suppliers.



16. Corresponding to the categories of the GHG Protocol: purchased goods and services, capital goods, upstream transportation and distribution, waste generated in operations and upstream leased assets.



As part of the second target, a new and in-depth analysis of the supply chain was carried out, which represents 33.4% of the emissions of Scope 3 emissions, evaluating the potential for the containment and reduction of emissions in the near future, especially with reference to those suppliers who, due to their activity, are more emissive.

For the next few years, this will be a challenging objective to work on in order to accelerate the fight against climate change and on which Snam will commit itself to the utmost.

In particular, the company will focus on:

- incentivize suppliers to introduce clear plans to reduce GHG emissions (for example through the optimization of new processes and the implementation of new criteria in tenders);
- develop joint projects to promote emerging technologies in order to: a) increase the use of green fuels (biomethane, hydrogen) and renewable energies in production processes; b) request the use of green fuels for vehicles used by its suppliers;
- support suppliers who are at the beginning of their reduction process to measure emissions more effectively, also through the comparison and exchange of know-how.

In addition, Snam will continue to raise awareness on these issues by continuing to ask to its most significant suppliers in terms of emissions to fill out the CDP Supply Chain questionnaire, whose response rate, in 2021, reached 74%.

As a result, thanks to green procurement initiatives for the procurement of goods and services and the continuous awareness-raising activity of suppliers on the issue of decarbonisation, the emission intensity of emissions deriving from the supply chain was reduced by 16% in the 2021, compared to 2020 values.

The definition of the target, the mapping and monitoring of emissions and the possible reduction actions, in addition to the suppliers themselves, also saw the collaboration between various company functions, such as the ones of Sustainability and Supply Chain, which have created synergy and have organized themselves to optimize the different processes.

In fact, the definition of the target was the result of a process that began through the review of supplier emissions, an analysis of their decarbonisation plans, an in-depth study of possible emission scenarios, followed by an analysis of the possible applicable technological solutions and completed through the collection of feedback from the main suppliers in relation to possible solutions.

Suppliers are fundamental allies for strengthening and developing the business and are strategic partners in order to be able to achieve decarbonisation objectives. For this reason, Snam is constantly committed to deepening and consolidating the relationship with them relying on the sharing of skills, competences and objectives, also in terms of sustainable innovation.

It is therefore necessary to continue to work together, implementing key actions, with an ever-increasing strengthening of partnerships, an ever-greater sharing of values and objectives and towards the enhancement of the strengths and synergies between different companies and sectors.



Business Sector: Gas, Water & Multiutilities

Title: CO2 scope 1 2 and 3 emissions: the subjects involved and the results in Tper's experience

Transport has a significant impact on the environment. For this reason, TPER intends to contribute to sustainable mobility (which on the one hand allows citizens to move freely and comfortably, on the other hand reduces the negative impact of private traffic) through the enhancement of public transport.

To improve the environmental impact of transport (reducing the consumption of energy sources of fossil origin and consequently emissions) it is however important to act at the system level, developing technological innovation and the development of more efficient logistics, promoting a new culture of movement and involving the supply chain so that the actions are comprehensive and the results of greater scope.

In this sense, TPER has acted both by investing in new, less polluting technologies (diversifying energy sources and purchasing new, more efficient and less polluting vehicles), and by involving the other entities performing the public transport service in the managed territories in the measurement of the emissions produced.

The objective of reducing the environmental impact of vehicles is pursued by TPER mainly through a policy of reducing pollutants and lower CO2 production.

TPER has started a process of renewal of its vehicle fleet, through the purchase of new vehicles and the use of less polluting energy sources, such as electricity or methane, including biomethane. It is also implementing new projects for the use of green hydrogen (produced from renewable sources).

The investment policy, which leads to greater vehicle efficiency and therefore to a reduction in the consumption of fossil fuels and emissions, has been extended since 2017 by including in the measurement of consumption and emissions not only the companies of the group, but also other companies of the supply chain. Not only the direct emissions of the group are measured (Scope 1 GHG - Greenhouse Gas), but also the indirect ones associated with the consumption of energy purchased from the network (Scope 2 GHG) and finally that of some subjects in the supply chain, partners of the service of public transport in the managed territories (Scope 3).

These measurements are carried out annually according to standardized criteria and methodologies, the results of which are certified by external auditors.

The environmental impact reduction objectives derive from supranational strategic objectives such as those contained in the Paris Agreement on climate change, where the Member States of the European Union have decreed the 40% reduction of greenhouse gas emissions by 2030 compared to 1990 emissions. Reducing transport-related emissions is a crucial sector for reducing overall emissions.



These objectives are then declined on a national and local level, therefore TPER's actions are framed in compliance with the sustainability objectives established by the PUMS (urban sustainable mobility plans) of the basins in which the public transport services by road are carried out, in the agreements territorial and more generally in the regional plan (PRIT). The company is therefore an active subject in achieving the objectives set by the local Authorities, which are the reference stakeholders.

On an annual basis, when drafting the NFS / sustainability report, TPER internally asks the subsidiaries and the group of companies in the selected supply chain to compile a reporting package in which, among other information, energy consumption data is requested. (electricity, methane, diesel) and the kilometers traveled.

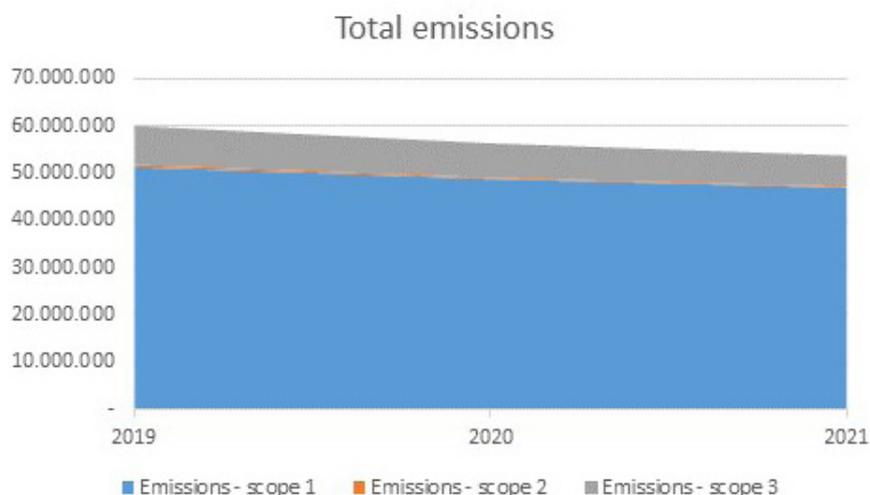
The data received are then used for the calculation of emissions, according to parameters based on public studies (main sources www.isprambiente.gov.it, www.sviluppoeconomico.gov.it, www.CO2nnect.org), and with a methodology shared with auditors.

In this way the emissions of TPER and of the subsidiaries (Scope 1) but also of the other selected companies of the supply chain (Scope 3) are calculated.

The kilometer data is essential to measure not only the trend of CO2 emissions in absolute value, but also the intensity of emissions, in relation to the services provided, of which the service kilometers are a valid proxy.

It is possible to highlight the positive effect of TPER's choices in defining the mix of power sources (electric, methane, diesel) and in the choice of gradually replacing the most polluting vehicles with new, low-impact vehicles. All the issues analyzed show a trend that is gradually decreasing from year to year. The reduction in emissions from 2018 onwards was significantly caused by the fact that all the electricity purchased by TPER for automotive transport, offices and other services derives from renewable sources. This entails a significant drop in emissions (scope 2), since indirect emissions are zero in the calculation.

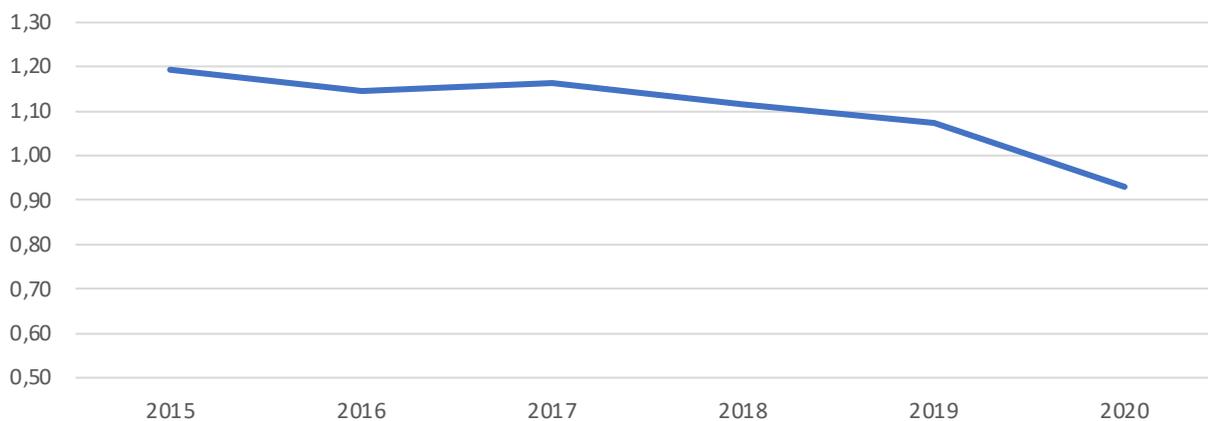
The tables show the data relating to direct emissions (Scope 1 GHG - Greenhouse Gas) together with the indirect ones associated with the consumption of electricity purchased from the network (Scope 2 GHG) and those produced by the other parties in the supply chain that perform shares of the public transport in the reference area (Scope 3 GHG).





Energy consumption and therefore emissions are conditioned by the quantity of services provided. To take this aspect into account as well, an emission intensity index has been defined which takes into account the overall impact of emissions in relation to the total km of service provided, both by TPER and by the other companies in the analyzed supply chain. In this way you can see the overall impact of emissions (scope 1 + 2 + 3)

Emission intensity index (kgCo2/km) scope 1-2-3



For the future, TPER plans to extend this analysis to include additional players in the supply chain.



MANAGING THE IMPACTS ON THE SOCIAL DIMENSION: HUMAN RIGHTS AND DECENT WORK



Business Sector: Diversified

Title: Bolton Group and Oxfam: together for a fair and inclusive supply chain

The fishing supply chain is one of the longest and most complex in the food industry because it involves both a multiplicity as well as a diversity of players, most of whom work in developing countries (where fishing activities take place). These countries each operate according to their own legal and cultural models which may not include several aspects related to the respect for human rights, including, for example, rights and opportunities for women or trade unions. In addition, isolation on fishing vessels at sea for long periods of time and the use of vessels operating under different flags can contribute to raising the level of risk of violations of rights.

The ultimate goal is to promote a new concept of “fairer” and sustainable food, not only for the environment and those who consume it, but also for those who produce it, and to build an increasingly fair supply chain where inclusion, elimination of inequalities, gender equality, respect for human rights and safe and decent working conditions are guaranteed to all.

The work is divided into several phases:

1) In-depth analysis of company policies in order to identify gaps and assess risks:
Evaluation and updating of Company Policies and Codes: Human Rights Policy, Code of Ethics, Suppliers Code of Conduct and Vessels Code of Conduct. The review and updating of these corporate documents, which the Bolton Group and in particular the Food Business Unit will support and request from each supplier, have been managed following many of Oxfam’s recommendations and implementing the provisions of the human rights standards internationally recognized set out in the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the United Nations Guiding Principles on Business and Human Rights and the Base Code of the Ethical Trading Initiative (ETI).
Through these Corporate Policies and Codes, Bolton Group promotes a process of continuous improvement and will work for their full implementation side by side with its suppliers along the path of sustainability within its global tuna supply chain. Any non-conformities will be addressed with plans of incremental corrective actions and agreed within a process of continuous improvement.

2) Impact assessments on human rights:
We are conducting a thorough due diligence process to assess the social and labor rights



violation risks using an Oxfam methodology, which applies the Human Rights Impact Assessment integrated with specific principles along our three main tuna supply chains: Ecuador, Morocco and Indonesia. This methodology is based on the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Due Diligence Guidance for Responsible Business and is implemented by independent researchers who conduct a 360 ° assessment of all the mechanisms of the supply chain by analyzing the role of all stakeholders and actors involved along the supply chain. It helps to understand the true nature and causes of human rights violations beyond simple documentary verification.

3) Communication:

We will communicate the commitments and activities undertaken to manage and resolve any identified non-conformities to positively affect the entire fishing sector through the use of these policies and practices.

The stakeholders involved are employees and external workers, suppliers, trade unions and workers' associations, civil society organizations, international organizations, institutions, universities, trade associations from the food and tuna sector.

In order to establish adequate procedures to prevent, mitigate and remedy risks, we will define and implement an internal company monitoring system - Human Rights Management System - to monitor, control and ensure that the respect of Human Rights within our supply chain is addressed efficiently.

To date, we have completed the mapping phase of existing human rights procedures and policies, we are updating and improving our Group Human Rights Policy, which will reflect the provisions of the Ethical Trading Initiative (ETI) Basic Code, the United Nations Guiding Principles on Business and Human Rights and the ILO Conventions.

We have also started the due diligence of our supply chain in Ecuador and directly involved all the most relevant stakeholders in the process: employees, NGOs, industry representatives, trade union representatives, local authorities. The first results will be available in autumn 2022 and will allow us to identify an action plan and new procedures capable of guaranteeing a more equitable and inclusive supply chain.



Business Sector: Electricity

Title: Edison's commitment to its supply chain: developing a local supplier engagement model through support and empowerment on ESG issues

Edison's supplier base consists of more than 3,000 suppliers, with 94% of its total spending going to domestic suppliers, an annual expenditure of around 1 billion euros, and currently open work sites worth a total of 1 billion euros.

Aware of the fundamental role of companies in the promotion and defence of Human Rights, Edison also aims to contribute to this issue by exercising its purchasing power and influence on its suppliers to stimulate and concretely support them in raising their level of sustainability across all ESG areas, including Human Rights. Amongst the supplier companies, the case study focuses on SMEs, which play a crucial role in the Italian economy, representing 92% of the businesses active in our country, and which are seeing increasing demands on sustainability issues while also facing internal and external barriers. Among these, those perceived as most critical are, for example: transformation of the corporate culture and employee engagement on these issues, change in the vision of the top management (*Source: "Italian SMEs and Sustainability" Forum for Sustainable Finance*).

Edison supports and promotes the Human Rights recognised at international level within its sphere of influence. Edison's ethical principles are enshrined in the Group's Code of Ethics and represent the basic element of its corporate culture.

Edison requires its suppliers and the relative supply chain to adopt the same standards of conduct on issues such as human rights, occupational health and safety, environmental protection and the fight against corruption, as a necessary prerequisite for developing a lasting partnership. In particular, supplier engagement on the issue of human rights has historically taken place through various means:

- Compliance with the 231 Model and the Code of Ethics: on seeking to qualify, suppliers undertake to comply with 231 Model and the Code of Ethics; in addition, suppliers and subcontractors operating at the Group's sites and offices must read and accept General Regulation 02, which contains provisions on safety, hygiene in the workplace and environmental protection for companies, self-employed workers, service providers and suppliers.
- Supplier pre-selection and qualification process: thoroughly investigates environmental aspects (in 2021 the UN Human Rights Council recognised the human right to a safe, clean, healthy and sustainable environment), anti-corruption aspects, and health and safety aspects: the adoption of integrated management systems (ISO 14001 and 45001) to oversee environmental and health and safety aspects, ensures a systemic approach, risk reduction and continuous performance improvement, monitored - sometimes even monthly - through indicators such as the IF external company accident ratio, which in 2021 was 1.1 against a significant volume of activity at Edison's work sites (more than 8 million hours worked in 2021).



- Supplier Qualification Team (TQF): for a set of sectors deemed strategic (30% of the total suppliers assessed each year) - in terms of economic value, recurrence of supplies over time, relevance of the good and/or service for safety and environmental protection purposes - responsibility for the supplier qualification process is assigned to the TQF: an inter-functional group which, through its delegates, represents all of the company's main Organisational Units that use Procurement processes.

With a view to strengthening the monitoring of ESG issues, in 2021 the sustainability section of the Qualification Portal was strengthened by requesting mandatory information from the supplier that investigates even more specifically human rights-related issues such as the adoption of ad hoc policies, or attention to Diversity & Inclusion, or Sustainable procurement. The different ESG areas are investigated with a simplified approach through a set of 10 questions, which balances the need to survey the complete sustainability profile of the suppliers with the difficulty on the part of suppliers - frequently SMEs - in compiling complex assessments (lack of information, lack of knowledge of the issues). In addition, interviews with a cluster of 100 suppliers selected on the basis of different sectors and company sizes were initiated in 2022, with the aim of investigating the main and typical ESG gaps.

The results of these investigations will lead to awareness-raising initiatives, training and the provision of tools. An initial example is the document on Supplier Best Practices on human rights, labour rights, environmental practices and anti-corruption, which, made available in 2022, goes precisely in the direction of supporting suppliers in embarking on a path of improvement starting with practical advice and through an engagement process aimed at increasingly creating a two-way relationship and a real partnership with the supplier.

In 2022, monitoring also began on major non-Italian suppliers, geared towards assessing country risk (with a focus on human rights) by making use of the elements already analysed at EDF Group level.

At company level, the working group involves the following Departments: Procurement, HSEQ, Sustainability & CEO Office.

The target group of suppliers involved derives from the preliminary analysis performed on Edison's supplier portfolio, which showed that:

- Over 94% of total expenditure is on Italian suppliers;
- More than 60% of all of Edison's plant suppliers are local suppliers, of which more than 70% are SMEs;
- The prevailing sectors (local SMEs) are: plant maintenance, building works, mechanical and electrical works, professional firms and suppliers of mechanical and electrical components.

Amongst other aspects, the durability and solidity of Edison-supplier relationships was also analysed; the picture that emerged was that of a prevalence of long-term relationships, an enabling factor for the creation of sustainable value.

Project progress will also be measured using a number of KPIs including:

- No. of qualified suppliers with ESG card;
- No. of suppliers involved in engagement activities (training)



The work is expected to result in an increase in supplier awareness of ESG issues and the importance of focusing on them from a strategic perspective in terms of market positioning. The shared value will be seen in the consolidation of the partnership relationship, the reduction of supply chain risk and bringing more sustainable or higher value products to the market.



Business Sector: Beverages

Title: Protection of human rights in the coffee sustainable procurement policy

Since its foundation, illycaffè has focused its strategies on a sustainable business model that can offer competitive advantages, integrating economic and income targets with social and environmental aspects that it pursues by sharing the value generated (economic sustainability), personal growth (social sustainability) and respect for the ecosystem (environmental sustainability).

As a stakeholder company and Società Benefit (Benefit Coporation), illycaffè aims to improve the quality of life of all its stakeholders.

Reconciling the interests within the company and those of its stakeholders is a fundamental trait for any stakeholder company and Società Benefit. illycaffè has always been committed to creating listening and dialogue tools - in particular the materiality matrix - that strengthen the relationship with stakeholders and multiply the shared value created.

These principles are reflected in the Sustainable Procurement Process (SPP), the new supply chain sustainability standard used by illycaffè for the procurement of sustainable high-quality green coffee; this protocol is one of the most comprehensive sustainability standards in the coffee procurement process:

- It defines the company's principles of sustainable development and social responsibility in procurement policies and practices.
- It promotes qualification and monitoring of suppliers, not only in financial terms, but also with regard to environmental and social aspects, encouraging improvement goals and programmes throughout the supply chain.

Producing sustainable quality is a daily choice that illycaffè puts into practice throughout its supply chain, starting with the direct collaboration with coffee producers. In this context, understanding the needs of communities plays a central role, in favor of which illy promotes a virtuous growth path. illycaffè supports projects created to transfer knowledge or services necessary to increase well-being and prevent risks, which are identified by the continuous monitoring of suppliers and dialogue with local institutions.



illycaffè invests heavily in the risk associated with child's safety.

The risk of employing minors in coffee production is an important social sustainability issue, mainly in those countries where the closure of schools coincides precisely with the coffee harvesting period.

illy has always been committed to promoting respect for human rights and combating child labour.

Over the years, this commitment has been translated into concrete actions:

- Adherence to the principles of the United Nations' International Labour Organization (ILO). The company only purchases from countries that have ratified the ILO standard and have established a minimum labour age of 14 years or older in their legislation.
- Application and reference to the Code of Ethics in all contracts with suppliers, which includes clauses on respect for human rights in procurement and along the supply chain.
- Control of its coffee suppliers, which includes regular monitoring and active management of issues such as child labour, forced and compulsory labour, and access to the farm's records or personal visits to the company premises. In order to minimise these risks, illycaffè – in cooperation with the Ernesto Illy Foundation – develops special projects designed to transfer the knowledge needed to prevent these social risks.

Since 2018, for example, illycaffè and the Ernesto Illy Foundation have decided to encourage and promote education, through programs that support school buildings, quality educational offers and training for teachers, with the aim of extending, in rural areas, access to education for as many children as possible, freeing them from poverty and the risk of child labor.

The goal is to generate a virtuous circle that lays the foundations for a generational change in coffee production, thanks to a network of well-trained and motivated young people, future producers ready to implement sustainable practices and to contribute to the development of sustainable coffee supply chains.

The long collaboration with the Seeds for Progress foundation in Nicaragua and Guatemala is just one of the many examples of projects that have led to the construction of a kindergarten classroom, the reconstruction of two primary school classrooms and bathrooms of the entire facility in Aguas Frías, in the Wiwilí area, Nicaragua. The investment, which also includes pedagogical initiatives to introduce technology as a school tool, benefited 282 students and 14 teachers in 2021 alone, recording an enrollment rate of 20% higher than in the previous two years.

illycaffè decided to adopt an integrated supply chain approach, which is made possible only by sharing sustainability principles, analysing and understanding local contexts, and identifying related materialities, necessary to strive towards the resolution of critical issues, in a process of continuous improvement. All this is achieved with the engagement of various players belonging to the coffee supply chains with which illy operates: local institutions, sector associations of the producing countries, as well as foundations and non-profit organizations. The aim is to achieve real and concrete implementation of sustainable practices and the defense of the human rights of all stakeholders involved, especially the weakest ones.



Posteitaliane

Business Sector: Life Insurance

Title: INSIEME 24 SI: the platform for the generation of ideas

Playing a key role in affirming the principles of sustainable development among businesses is a fundamental issue for Poste Italiane, which plays a central role in Italy's economic and social fabric. With this in mind, the Company has adopted a Code of Ethics accompanied by a body of corporate policies and guidelines on the protection of human rights. In particular, the Company is committed to protecting the rights of all those included within its value chain, including suppliers and partners, giving them a voice and valuing their individual contributions. For such reasons, the Company has launched the "INSIEME 24 SI" platform, a people engagement initiative aimed at fostering the active and spontaneous contribution of all the Group's people, as well as the establishment of a responsible growth path for the Company. In this way, Poste Italiane supports an innovative and sustainable culture that can generate a positive impact in the daily actions of each person in the Group.

"INSIEME 24 SI" is the space in which to gather everyone's contribution to the realization of the Industrial Plan, the place where each person can propose his or her own innovative idea inspired by the eight pillars of the sustainability strategy, or by putting his or her skills at the disposal of an idea of other colleagues, becoming a contributor. The call-to-action areas to which individuals can contribute with their proposals are the following: Customer experience, Green transition, Innovation, People development, Diversity and inclusion, Integrity and transparency, Sustainable finance, and Creating value for the country.

The process leading to the implementation of participation through the Platform was initiated with the collection and publication of ideas proposed by individuals or teams participating in the project. In parallel, the adhesions of contributors who provided their expertise were collected.

The ideas collected were evaluated by a jury of experts, and following various stages of assessment, 10 were selected as the best. These will then be awarded during a final event.

To enable participation by all of Poste Italiane's people, a technological platform was implemented to support the Group's internal Change Management program, which creates synergies between the Noi di Poste corporate intranet and the Office 365 system. Specifically, a special section has been created on the intranet, where one can find all the information related to the initiative (Home, How it works, Context, News and Insights), as well as useful indications for participation and a specific functionality, through which one is referred to an Office365 PowerApp, developed internally for enrollment in the program. The PowerApp makes it possible to manage all the main phases of the process and is accessible to the Group's entire population.

This platform is also functional for Poste Italiane's engagement with its stakeholders, integrating their ideas within the process of defining the Sustainability Strategy. This contributes both to the creation of value for all of the Group's stakeholders and to the reputational growth of the Company in the social context in which it operates.



In implementing this project, Poste Italiane has punctually established the criteria for the evaluation of the proposed ideas. Specifically, the responsible parties will be in charge of evaluating the ideas with respect to the Purpose, the sustainable development objectives and the ESG strategy of SI 2024. They also evaluate the degree of innovation of the proposed solution with respect to the market and the business context. Finally, an assessment is made of the benefits, the economic feasibility and the sustainability of the proposed solution and the outputs produced at different stages of the idea management process. Each of the evaluation elements considered is analyzed on the basis of specific KPIs.

Through the “INSIEME 24 SI” initiative, Poste Italiane has achieved important results in terms of ideas collected and people involved that reflect the value of the initiative in promoting different people, ideas, skills, territorial areas and creating suitable conditions so that concrete projects can be activated and innovative solutions, that can generate a positive impact inside and outside the Company, can be proposed. To date, the initiative has involved a total of 583 contributors, of which 271 were brought by ambassadors. Of these, the business functions Mail, Communication and Logistics (PCL) and Post Office Network (MP) have contributed significantly to the extent of 41 percent and 30 percent, respectively, by proposing ideas mainly related to the pillars “People development” and “Innovation”. In total, through the platform, the Group collected 674 ideas, of which 337 were received by the ambassadors. In addition, 12,600 accesses to the dedicated intranet section were registered, as well as 1,500 subscribers to the talks, of which more than 1,000 actually participated. Finally, the results achieved showed a high participation of the territory and an equal distribution among the various Macro Areas.



Business Sector: Electronic & Electrical Equipment

Title: Management of conflict minerals in base metals procurement

The main challenge facing companies in manufacturing industries is the ethical sourcing of conflict minerals, which are necessary for the functionality of products they provide the market. Furthermore, there is a lack of performance indicators to be used to measure progress towards strategic objectives and goals on conflict minerals strategies¹⁷. By having a well-structure and periodic approach, Prysmian Group aims to maintain a robust database that will enable it to keep track of minerals purchases and eliminate implied risk as much as possible.

Implementation Method

Prysmian ensures that its business partners are aware of – and compliant with – its policy regarding Conflict Minerals¹⁸. The Group strives to have and to offer to its customers a Conflict

17. GAO. (2020, September). CONFLICT MINERALS: Actions Needed to Assess Progress Addressing Armed Groups' Exploitation of Minerals. <https://www.gao.gov/assets/710/709383.pdf>

18. Prysmian Group. (2017, April). Prysmian Group Policy on Conflict Minerals. https://www.prysmiangroup.com/sites/default/files/atoms/files/Conflict-Minerals-Policy_Eng.pdf



Free Supply Chain. Out of the four Conflict Minerals considered at risk, Prysmian is mainly using minor quantities of tin. Below are the three main steps taken annually to assess and eliminate the risk of contributing to human rights violations:

Step 1: Identifying 3TGs in Prysmian's Supply Chain

The Group's consumption of base metals for the previous calendar year (2021 at the time of writing this paper), shows that 3TGs used within the Group are limited to tin ingots, tinned copper semi-finished products and tinned lead alloys. These products are necessary for the functionality of the final products. Based on the information found, the list of base metals suppliers to be involved in the disclosure process is defined.

Step 2: Collecting CMRTs from suppliers

To assess whether 3TGs in Prysmian Group's Supply Chain originate from the covered countries, the suppliers providing them are surveyed using the Conflict Minerals Reporting Template (CMRT) as developed and issued by the Responsible Minerals Initiative (RMI) of the Responsible Business Alliance (RBA) and the Global e-Sustainability Initiative (GeSI).

Periodic follow-ups are done in case of non-responses until feedback is obtained. Additionally, the responses received are analyzed to identify inconsistencies and potential red flags. In case of inconsistencies, follow-ups are made to clarify, as detailed in step 3.

Step 3: Analysis of Received Responses

In this step, each of the questions on the CMRT is analyzed, with a focus on the following:

1. Disclosure Scope & Percentage of Supply Chain Covered: The way a CMRT is set up, suppliers can choose the disclosure scope- either covering the entire Company, a list of products or a user-defined scope of coverage. The suppliers' chosen scope is analyzed for consistency with the Group's needs and what the specific supplier provides the Group. More specifically, it is always ensured that suppliers declaring with a "Product" scope have included all products they supply to Prysmian, while "User Defined" scopes are also checked for completeness of information provision. Additionally, the percentage of 2nd-tier suppliers surveyed by our 1st-tier suppliers is also monitored.
2. Smelter Overview: Smelters and refiners can either be classified as "Conformant smelters" by the RMI, which means they have been audited by the Responsible Minerals Assurance Process (RMAP), "Active smelters" which are identified by RMI but, due to ongoing or incomplete auditing processes, are not yet considered "Conformant", or smelters that are neither RMI-identified (not included in their database) nor RMAP-certified. These lists are available and periodically updated by the RMI¹⁹.

In case the smelters identified belong to the third category, i.e. unrecognized by the RMI, a further investigation is conducted to assess the level of risk they introduce to the supply chain in the context of armed conflict in CAHRAs. As per the RMI²⁰, risk levels are assigned to a country based on the following criteria:

- Level 1 Country: Countries with known active ore production for minerals that are not identified as Level 2 or Level 3

19. <http://www.responsiblemineralsinitiative.org/conformant-smelter-refiner-lists/>

20. <http://www.responsiblemineralsinitiative.org/about/faq/smelters-or-refiners/how-are-country-risk-levels-determined/>



- Level 2 Country: A country where minerals from CAHRAs are known to transit. This currently includes Kenya, Mozambique and South Africa
 - Level 3 Country: A country where minerals are mined in a CAHRA as defined by the mineral origin and/or supplier red flags of the OECD Due Diligence Guide
- In parallel, a discussion is initiated with the suppliers working with those smelters to define an action plan and to address the supply chain human rights violation risk.

Stakeholders Involved, Monitoring & KPIs

This process implies the cooperation of the Purchasing & Quality Departments, where CMRTs collection and data entry are done by the Purchasing Department, and the Quality department checks the completeness of supplier templates and CMRT version provided.

The process is monitored by annual collection campaigns, with a focus on the following criteria/KPIs:

- Supplier response rate: Prysmian has managed to reach a 100% response rate on global base metals supply base
- Smelter classification by RMI: In 2021, 95% of smelters identified in Prysmian's base metals supply chain were classified as "Conformant" by RMI, while the remaining 5% were classified as "Active" due to ongoing or incomplete auditing processes. Further delays are caused by operational impacts of Covid-1921.

Results & Impact

The Dodd-Frank 1502 Act and related regulations have led to substantial improvements in corporate supply chains transparency, with more than 75% of the world's mines undergoing third-party audits, they have also facilitated the development of a certification mechanism to distinguish conflict mines. A 2015 study by the International Peace Information Service (IPIS) found that 79% of 3T miners surveyed worked²² in mines with no armed group involvement²³, a significant change from 2010 where almost all mines were controlled by armed groups⁸. This study is currently being updated by IPIS.

In Prysmian supply chain, higher levels of awareness and cooperation from suppliers were noted year over year, with more attention being paid to conflict minerals as a human rights issue rather than a compliance issue. The number of suppliers with internal policies on conflict minerals has also been slowly, but steadily, improving (80% in 2021 vs. 75% in 2018), with all but one base metals supplier covering 100% of their tier-1 suppliers with CMRT collection.

As per OECD²⁴ guidelines, as a risk management measure, companies should consider either "...i) continuing trade throughout the course of measurable risk mitigation efforts; ii) temporarily suspending trade while pursuing ongoing measurable risk mitigation; or iii) disengaging with a supplier in cases where mitigation appears not feasible or unacceptable"⁹. Following this guidance; Prysmian focuses on engaging with suppliers as they can more directly impact adverse effects

21. Active Tin Smelters (responsiblemineralsinitiative.org)

22. IPIS. (2015). Analysis of the interactive map of artisanal mining areas in eastern DR Congo. https://ipisresearch.be/wp-content/uploads/2016/10/Analysis-and-map-artisanal-mining-DR-Congo_v005-1.pdf

23. U.N. Security Council, "Interim report of the Group of Experts on the DRC," S/2010/252, para. 77, p.17, May 24, 2010, available at http://www.un.org/ga/search/view_doc.asp?symbol=S/2010/252.

24. OECD. (2016). OECD Due Diligence Guidance for Responsible supply Chains of Minerals from Conflict-Affected and High-Risk Areas. <https://www.oecd.org/daf/inv/mne/OECD-Due-Diligence-Guidance-Minerals-Edition3.pdf>



and agreeing on a strategy for risk mitigation with clear objectives. Risk mitigation efforts depend on the size of the company and the specific operational context and aim to have reasonable timeframes. In case of lack of proper response from the supplier, the last resort is to discontinue business with the them.



Business Sector: Electricity

Title: Human rights and the supply chain: Protecting the health and safety of employees of contractors and subcontractors

Protecting worker health and safety is a fundamental human right that must always be guaranteed, which, for Terna, is also a guiding value that directs operations.

This topic is a priority and constantly monitored, also considering the specifics of the Company's business (electricity transmission) and its significance in terms of potential accidents, considering the supply chain too, due to its scope — the number of employees from companies contracted and subcontracted by the Terna Group amounts to 4,000 FTE, almost as many as Terna itself (4,224 employees; 5,136 for the entire Group)²⁵ — as well as the risk inherent in the work (for example, 150-380 kV overhead lines, laying 150-380 kV cables, vegetation control).

The gradual growth of investments in new electricity infrastructure (lines and substation) has led to a constant increase in the number of worksites and, consequently, external operating personnel, to whom Terna has dedicated the "Safeguarding environmental and social aspects across the supply chain" guidelines (since 2016), which introduced a way to analyse and evaluate important social and environmental aspects, along with specific indications for their sustainable management through appropriate prevention and monitoring systems.

A later survey on human rights identified the groups of people who are potentially vulnerable in this sense and led to including employees of contractors and subcontractors in the "Respect for Human Rights within the Terna Group" guidelines, which, in line with the UN's **"Protect, Respect and Remedy"** framework, introduced a due diligence tool to the Group for regularly verifying respect for human rights.

Before each individual supplier is contracted, they must meet numerous social and environmental prerequisites. Then, in addition to the contractual obligation to comply with the provisions of Terna's Code of Ethics and the 231 Organisational Model, they are asked to adopt behaviours consistent with the principles of legality and ethics, protection of human rights, labour, health

²⁵. Data from 31/12/2021.



and safety, environmental protection and information security, formalised in the “Principles of Supplier Conduct”.

Contracts involving the use of external labour on Terna's worksites are subject to even stricter rules. Beyond appointing a Prevention and Protection Service Manager, an on-site Safety Officer, an Emergency Management Officer and their substitute, and a qualified physician, Terna requires additional checks on operating personnel's knowledge of Italian and their understanding of safety, also requiring them to take training courses on using PPE and operating procedures, as well as environmental protection measures. For certain roles, (for example, overhead line monitoring and maintenance personnel, vegetation management personnel, safety officers, etc.), Terna requires them to take additional training courses which are tracked in a special section of the Supplier Qualification portal.

To minimise the risk of human and labour rights infractions prejudicial to employees of contractors, in addition to specific documentation from contractors, Terna also requires a copy of the insurance taken out to cover damage to third parties, people and property, including property owned by the contractor, for the entire duration of the work and for an amount appropriate to the nature of the work plus periodic proof of the tax and social security payments made.

In order to increasingly monitor and improve health and safety indicators for workers of external companies, Terna constantly collects information about accidents involving contractors and subcontractors and proves this by publishing the information in its Integrated Report. Specifically, for its worksites, Terna has defined a two-level safety and environmental protection control system. The first level is performed by the Customer's structure that verifies the work of the Safety Coordinator in the execution phase and the executing companies. The second is performed by Terna (the Health, Safety & Environmental Services Department), which audits the entire management and control process on worksites.

With the goal of gradually expanding the culture of sustainability to its supply chain as well, every year, Terna sets targets for increasing the number of qualified suppliers with certifications such as OHSAS:18001/45001 and ISO:14001.

In recent years, variable remuneration targets for executives and managers have confirmed the high level of attention to the issue. In fact, the monitored indicators also include the Occupational Safety Index, consisting of the attendance rate and the severity of employee injuries. For the CEO, accidents involving contractor personnel are also considered.

The current controls, monitoring, targeted initiatives — for example the Excellence in Safety project launched in 2021 and still underway — and the annual targets improve the already high standards workplace safety for Terna employees each year, and for employees of external companies, helping to create a culture of safety shared with the entire value chain, which extends the prevention and protection mechanisms to even the smallest companies, increasing awareness and protection of their employees' human rights.



Business Sector: Construction & Materials

Title: Supply Chain: responsibility and shared value

The Webuild Group employs an average of around 15,000 suppliers from around 70 different Countries with more than 90% of its purchase from local suppliers. The Company selects its suppliers according to rules based - among others - on the assessment of compliance with applicable standards on human rights, labour law - including equal opportunities - health, safety and the environment. An inadequate functioning of the qualification process and/or assessment of the suppliers' performance or the possible abuse of a strong position vis-à-vis smaller suppliers could possibly expose the Group to various risks as part of its procurement process, such as compliance, reputation and commercial. Within the procurement process, therefore, the supplier qualification process plays a significant role.

In this regard, in 2021, integrity checks were carried out on approximately 6,500 potential suppliers, which resulted in a positive outcome in 94% of the cases, included also in the supplier register. Furthermore, 73% of significant orders (i.e. > EUR 250,000) were concluded with suppliers who were also qualified on the basis of social/environmental criteria.

All the Group's operating entities are subject to periodic risk assessment activities on human rights, according to an assessment methodology - partly borrowed from the project risk assessment tools already used by the Company - aimed at determining the risks connected to direct and subcontracted activities. The analysis takes into account specific indicators to define the Country risk of each of the Group's operating entities, since the geographical context (to be understood as the set of multiple country-specific conditions, such as regulations, practices, etc.) is a relevant factor in assessing the human rights situation, contributing to the correct identification of priority aspects. In particular, as suggested by the main human rights regulations (e.g. Australia Modern Slavery Act), the most recent Vulnerability and Government Response indices provided by the Global Slavery Index (www.globalslaveryindex.org) are used. For a "not low" Country risk, the specific relevant risks were assessed, as well as the mitigation measures adopted by the business units.

Also with reference to the supply chain, the periodic human rights risk assessment is regularly conducted in order to verify the presence of suppliers from Countries at risk and/or supplies of commodities considered at risk (based on the country of production).

As regards the general risk profile of the supply base, in 2021, the Group can appreciate the following positive results:

- 82% of the suppliers are based in "very low" and "low" risk Countries;
- none of the analysed suppliers come from Countries classified as "very high" risk and only 0.03% come from "high" risk Countries;
- in the reporting period, no purchases were made by significant suppliers for goods related to commodities that can be considered at risk²⁶.

26. Significant refers to suppliers with contracts exceeding 250,000 euro. Below this threshold, in the period the only purchases of products related to commodities that can be considered at risk concerned workwear, foodstuffs and raw materials such as crushed stone and sand, amounting to 0.04% of total purchases.



As a result of the periodic risk analysis on its supply chain, the Company has defined a series of safeguards briefly illustrated below.

Contracts entered into with suppliers contain provisions committing them to comply with applicable regulations, the principles of the Code of Ethics, the Suppliers' Code of Conduct, Model 231 and the Company's Anti-Corruption Model, as well as requirements in the areas of Quality, Health and Safety, and the Environment. The Suppliers' Code of Conduct, in particular, defines the principles that the Group's suppliers - and their subcontractors - must comply with in 11 well-defined thematic areas (including health and safety at work, fair and favourable working conditions, equal opportunities and non-discrimination, and local communities), as well as the procedures for monitoring these principles and handling reports on their compliance. Specific termination clauses are applied in case the supplier acts contrary to these provisions.

The QHSE Departments in charge of the project carry out constant on-site monitoring activities that mainly concern subcontractors and are aimed at verifying, by means of periodic audits, that the activities carried out by them comply with the applicable quality and environmental, health and safety standards. Any non-conformities that emerge are managed in accordance with management system procedures and include the definition of improvement plans and follow-ups aimed at verifying their implementation. The involvement of subcontractors on these aspects also takes place through periodic coordination meetings and the participation of subcontractors' personnel in classroom and training activities.

In addition to this, downstream from the conclusion of the contract and during its execution, the Company - through the head office Procurement Department and contract contact persons - monitors the performance of the most relevant suppliers through a special evaluation process that analyses four main areas: Commercial Behaviour, Technical, Service and Health, Safety and Environment.

During 2021, the supplier assessment covered the most important contracts in economic terms. In particular, the evaluation process covered almost all the suppliers of the contracts analysed (response rate higher than 95%) within the scope of the analysis, who recorded an average performance of 86/100 (up from the previous year), proving the high quality of the supply base used by the Group.

In any case, particularly poor performance may result in the exclusion of the supplier from the Vendor List and from participation in future tenders. Conversely, the preferential use of positively performing suppliers is envisaged.

Webuild also has a programme, Supplier Development Hub, which provides for initiatives to compare, share and mutually contaminate skills, technologies and know-how, through conventions such as the annual Supplier Meeting²⁷, Webinars and Innovation Days. This also includes specific information opportunities on the evaluation systems adopted such as the Supplier Performance Management process mentioned above or Open-ES. The latter is a digital platform, which the Company has recently joined, dedicated to sustainability in supply chains that allows suppliers to check and plan their sustainability performance, also in relation to market demands.

Engagement and transparency on human rights and the supply chain with Group stakeholders (in particular with investors, ESG rating agencies and non-governmental organisations such as the Business and Human Rights Resource Centre) is constant.

²⁷. It is attended by employees as well as Italian and international suppliers of the Group and is an opportunity to present the main initiatives in the field of procurement. For the past two years, the focus has been on sustainability.



ASSESSING EXTERNALITIES THROUGHOUT THE LIFECYCLE OF PRODUCTS AND SERVICES



PERSONE, AMBIENTE E SVILUPPO PER UNA TERRA CHE CAMBIA

Business Sector: Travel & Leisure

Title: Supporting local supply chains in the shift towards sustainability

ADR has long since embarked on a path of integrated sustainability in all areas of its business; the concept of The Careport, the logo that in 2021 has been placed alongside ADR's, symbolises the airport system's desire to take care of the communities of passengers, the territory and the environment in a process of continuous and inclusive interaction with stakeholders.

In this context, the supply chain takes on an increasingly central role in achieving the goals set by ADR, which can be grouped into the following focus areas: combating climate change, circular economy, green infrastructure, biodiversity, people and development of the region.

In this respect, the characteristics of ADR's supplier base are specific:

- more than 80% of the value of contracts awarded each year by ADR28 is done through tenders, whose participants are selected from a panel of qualified suppliers.
- The role of local suppliers is very important (around 90% of active suppliers are local), often consisting of small and medium companies.

In this context, it is evident, on the one hand, how great the opportunity is for ADR to be an actor in the development and growth of the supplier community in our aim to achieve sustainability, but also that the management of outsourcing throughout the supply chain is particularly complex, given the fewer resources, skills and sensitivity to sustainability issues that characterise SMEs in Italy.

In this respect, ADR has long since defined a strategy to ensure the progressive sustainability of the supply chain, through specific tools applied at each stage of the purchasing process, achieving important results.

These tools can be grouped into two basic clusters:

1. Tools to ensure the sustainability of the specific supply

In this context, a specific analysis is always carried out when defining the sourcing strategy and technical specifications of a new supply, in order to identify opportunities to reduce the environmental footprint.

In addition, specific contractual clauses are included in all contracts to ensure proper and virtuous

28. Intra-group assignments pursuant to Article 7 of Legislative Decree 50/2016, as amended, are excluded from this calculation.



management of issues such as waste management and work safety, as well as compliance with fundamental ethical principles.

Finally, in tenders with a technical evaluation component, specific rewarding elements on sustainability criteria are included, with particular reference to decarbonisation and gender equality (UN Women Empowerment Principles).

These instruments have brought important results in terms of circularity and reduction of environmental impact; examples in this sense are the waste management cycle (about 99% of waste produced in 2021 was sent for recovery, organic waste is treated in a composting plant inside Fiumicino airport), the reduction of plastic waste (84% reduction of single-use plastic bags inside the terminal in 2021 and the target of achieving a totally plastic free terminal) and the circular management of construction sites (580,000 cubic metres of excavated soil have been completely reused within the airport grounds).

2. Tools to ensure the overall sustainability of the supplier panel

In this respect, ADR has initiated an evolutionary process in stages. Since 2017 a qualification process has been in place that applies to all registered suppliers; the evaluation is based on sustainability (CSR) and economics (marginality, financial soundness) parameters; in particular, the sustainability parameters are based on the 'on-off' fulfilment of certain requirements:

1. Corporate Social Responsibility			
Area	Cluster	Parameter	Points
Certifications	Social Responsibility	ISO 45001 – H&S ²⁹	10
		ISO 37001 – Anti Corruption	10
		SA 8000 – Social Accountability	2
	Organization	ISO 9001 – Quality	15
		ISO 27001 – ISMS	2
		ISO 20000 – ITSM	2
	Environment	ISO 14001 – SGA	10
ISO 50001 - Energy		2	
Governance	Code of Ethics		5
	Sustainability Report/ Integrated Report		2
Total			60

2. Economics	
Total	40

At present, all approx. 600 active suppliers (i.e. with at least one order received in the last 24 months) undergo the qualification process; in addition, approx. 60 sustainability audits are carried out each year on the most critical active suppliers.

29. Formerly OHSAS 180001



Over the years, this rating system has made it possible to obtain important information on suppliers (e.g. possession of relevant Biosafety certifications during the pandemic emergency) or to define rewarding criteria for suppliers with a high rating (e.g. greater likelihood of being invited to tenders) and ultimately helping to initiate a process of virtuous evolution of the supplier base. In the course of 2021, ADR decided to launch an experimental project to evolve the qualification system, through an ESG survey aligned with the best standards (Green Deal, Agenda 2030 U.N. target, GRI standards) composed of about 60 questions divided into 4 sections (Business, Social, Environment and Governance) with the aim of obtaining a complete database on suppliers (e.g. CO2 emissions, waste production, diversity policies, governance, ...).

The preparation of the new questionnaire has been supported by specialised operators in the sector, with the constant monitoring and contribution of ADR's competent structures. The launch of the initiative was then supported by specific communication initiatives, including the first ADR's Supplier DAY, an event that involved the entire community of ADR's current and potential suppliers.

Six months after the operational start of the project, almost 600 questionnaires were completed, making it possible to start the assessment of the Supply Chain's degree of maturity with respect to ESG issues, identify the most critical areas, and set improvement targets and related supplier support and development programmes.

On the basis of ADR's experience, significant conclusions emerge, which can be generalised as useful food for thought for an overall evolution of the topic of managing externalities within the supply chain:

- The overall evolution of the supplier base with regard to sustainability issues is a much more complex issue than the sustainability of the specific supply, and can only be addressed through a long and gradual process
- There is a significant gap between large companies and SMEs in the degree of sensitivity, competence and substantial advancement with regard to ESG issues, particularly concerning the Environment (e.g. investment in renewables, management and control of emissions, possession of environmental certifications) and Social (e.g. gender parity, welfare initiatives) dimensions.
- To date, there is no single, standardised, simple ESG supplier rating model, nor a system that correctly weighs supplier maturity against company size.
- The role of large customers is crucial in stimulating the process of sustainable supply chain evolution, especially in the presence of medium-sized and small suppliers. A progressive roadmap must be defined in this regard, including:
 - A timely and quantitative baseline analysis, to assess the degree of maturity of the supply chain, as well as specific areas of strength and improvement
 - Specific support and education initiatives, especially for SMEs, dedicated support programmes for suppliers can be developed in this regard
 - Reward schemes for virtuous suppliers and, only at a later stage, the setting of ESG rating thresholds below which operators are excluded from participating in tender procedures.



Business Sector: Food Producers

Title: A Co-Evolution Framework for a Regenerative Supply Chain

As a Benefit Company and in addition to its business objectives, Andriani pursues environmental and social benefits of widespread prosperity, according to the principle of extended responsibility and in accordance with the 10 Principles of the Global Compact and the 17 Goals of the 2030 Agenda. This leads to the identification of 5 impact areas, one of which being dedicated to the production chain.

In this perspective, the sustainable management of a supply chain appears as a complex but imperative challenge, which Andriani faces by leaving behind the concept of “supply chain” in favor of that of “value network”: together with its suppliers, the company aims to build a regenerative ecosystem based on mutual collaboration and on the identification of objectives for reducing emissions, strengthening the ethical-social sphere of the business and strategies for circularity and responsible use of resources.

The initiative is consistent with the reporting work carried out by the company in recent years, thanks to the constant development of Communication on Progress. These official documents give evidence of a continuous commitment and the will to speak to all stakeholders, which Andriani wants to address as an agent of change.

At the heart of the project's implementation strategy there are two cardinal ideas: interdependence and co-evolution. This choice stems from the awareness of being in a world characterized by increasingly fragile natural and social ecosystems, with respect to which a new entrepreneurial approach must be adopted. In addition, multiple reference standards offer a diverse benchmark framework that gives solidity to the undertaken actions: these include the aforementioned 10 Global Compact Principles and 17 SDGs, as well as self-assessment tools such as the SDG Action Manager platform and the B Impact Assessment.

Andriani's Supplier Code of Conduct, together with the Selection and Assessment Framework, is a tool that captures the complexity and scope of the challenge by referring to Open Innovation as a method for developing solutions tailored to specific needs, with a solid strategic horizon as reference. It consists of 11 material topics, each of which has mandatory and optional requirements that leverage dialogue as a privileged engagement strategy:

- 1.** Transparent Governance;
- 2.** Anti-corruption;
- 3.** Human Rights;
- 4.** Safety and Wellbeing in the Workplace;
- 5.** Quality, Safety and Traceability;
- 6.** Energy, Emissions and Climate Risk Mitigation;
- 7.** Sustainable Mobility;



- 8.** Circular Economy;
- 9.** Biodiversity;
- 10.** D&I and Human Capital Development;
- 11.** Open Innovation & Shared Value.

The starting point is the collection of information for the definition of a sustainability baseline, which represents the current state of progress: the goal is to determine the degree of diffusion of governance practices aimed at measuring the environmental and social impacts of each supplier, as well as assessing their sensitivity towards material issues in their respective sectors, while at the same time offering ideas for the start or continuation of growth paths in these areas.

The Code of Conduct therefore represents a manifesto of Andriani's vision, while the Qualification Framework acts as an operational guide to comply with it and the expectations it entails in terms of strategic choices and actions to be taken.

The involved stakeholders are certainly and mainly suppliers, but also start-ups and partner companies with whom to establish multilateral relationships (hence the "value network") oriented towards the final result. All these subjects fall, in various ways, into the same ecosystem which as such must behave, emulating the typical complementarity of natural systems, providing mutual assistance through the sharing of know-how and developing joint action plans on issues of common interest.

Monitoring takes place through the completion of the Qualification, Selection and Assessment questionnaire which takes 4 main pillars into account: cost, service, quality and sustainability. The questionnaire provides for the insertion of both quantitative information, which acts as KPIs (such as environmental impact data, energy and water consumption, waste management, etc.), and qualitative (presence / absence of official policies and formalized strategic plans, collaborations with world of research, etc.). Once the compilation is completed, you will get an all-encompassing overview of the supplier's economic, social and environmental performance. From here on, Andriani has the opportunity to identify any margins for improvement to be presented to the supplier in a bilateral discussion that outlines a horizon of continuous improvement in the medium-long term.

The described process began in the early months of 2022, involving supplier companies having a longer-term relationship with Andriani and representing most of the purchased volumes. Their reference sectors range through different purchasing categories or "product groups": food raw materials, packaging, transport, services. The first results obtained are encouraging since almost all of the surveyed companies welcomed the initiative by signing the Code of Conduct and undergoing the qualification process. From here on, Andriani will gradually expand its range of action involving all suppliers over time.

The entire operation, as a whole, resulted in Andriani itself making progress in its own B Impact Assessment, as evidence of a work which is significant and consistent with the goals of a Benefit Company.



Business Sector: Automobiles & Parts

Title: The sustainability path in the production of Brembo brake calipers

A new challenge

In the 80s, Brembo introduced onto the market an aluminium brake caliper for cars that was an innovative proposal, both in light of the material used and the design presented. The new solution was gradually adopted by the largest manufacturers of high-performance cars, such as Porsche, Mercedes, Lancia, BMW, Nissan and Chrysler.

Today, the new challenge for Brembo is to produce aluminium brake calipers with a lower environmental impact in order to contain CO₂ emissions and the consumption of natural and energy resources, while continuing to ensure the innovation, performance and reliability that set the brand apart on a global scale. On the one hand, this challenge will have to consider the timing and regulatory and homologation requirements of customers, and, on the other hand, it will have to take account of the changing dynamics of international trade.

Our strategic approach

Brembo has long focused its efforts on the gradual reduction of its environmental impact, in parallel with consolidated and advanced plans for the improvement and energy efficiency of the Company's own technologies (foundry, mechanical processing) and with a growing supply of renewable energy.

In this sense, the creation of an aluminium brake caliper represents a fundamental contribution to Brembo's sustainability commitment. A number of phases are envisaged to achieve this target, including:

- the gradual increase in the purchase percentage of primary aluminium produced using energy sources with lower CO₂ emissions;
- the introduction of "hybrid" alloys produced using an increasing amount of carefully selected recycled aluminium;
- the development of calipers made entirely with recycled aluminium alloys and compliant with stringent quality parameters.

To this end, the application of sustainability and environmental impact assessment parameters will continue to be of considerable importance in Brembo's sourcing process, which aims to reward aluminium suppliers with a lower CO₂ footprint.

Our team

The initiative requires the joint effort of various business functions, and in particular: Purchasing, Environment & Energy, Systems Division, Operations, Design, Quality and Research & Development. The team has the support and backing of the Group, which recognises sustainability as one of its identity traits, as well as a priority for the future and for the wellbeing of the communities in which it operates.



Staying the course

The performance indicator defined for the monitoring of the initiative is represented by the number of tonnes of CO₂ produced (by Brembo's suppliers) per tonne of aluminium purchased. The emission value is calculated based on the data provided by the suppliers and is then compared with statistical values available for the countries in which they operate.

In 2021, this indicator revealed a reduction of more than 30% in carbon dioxide emissions per tonne of aluminium purchased by Brembo. The result has been made possible by selecting in particular aluminium suppliers that use electricity produced from natural gas and renewable sources instead of coal.

In parallel, a second indicator will then be added to monitor, in addition to the emissions estimate, the percentage of recycled aluminium contained in Brembo calipers.

The value for Brembo and the community

The production of brake calipers made of secondary aluminium aims to generate multiple benefits in terms of circularity and sustainability.

First and foremost, the entire process of developing and implementing the "calipers of the future" will favour a drastic reduction in CO₂ emissions over the next ten years.

In addition, the project will reduce water consumption and the soil erosion and pollution effects caused by mining activities.



Business Sector: Electricity

Title: Circular approach to the supply chain

The supply chain's involvement

The initial steps of design and procurement are critical to the transition to a circular business model. The decisions taken in these stages impact both on the upstream supply chain (raw materials and energy used) and on those downstream, influencing the chance of extending the asset life or of reusing its materials at the end of the cycle.

By the way, the circular procurement strategy aims to improve the circularity of the products and services purchased by Enel with reference to all the technologies and Units of the Group through:

1. Definition of metrics and KPIs: starting from the strategic product categories with the highest impact, through the EPD system (Environmental Product Declaration) and the development of standard metrics (PCR: Product Category Rules), the environmental impacts linked to material and energy flows are measured.



2. Adoption in the tender's technical specifications of requirements promoting the circularity and sustainability of the product, such as for example the use of biodegradable oils in transformers.
3. Use of rewarding factors in our competitive tender process for suppliers who implement actions aimed at improving the circularity of the product. E.g. sustainable waste management, that is the rewarding of the supplier who brings the highest % of waste to recovery and recycling rather than sending it to landfill.

Another important ongoing change of Enel Group tender process concern with the prior request for the quantities of raw materials necessary for the development of the activities covered in the tender, with a specification of the percentages deriving from recycled material and from potentially recyclable material. By doing so, in addition to having a clear vision of how much Enel is exposed to the risk of procuring the materials necessary for the realization of the energy transition, it will be possible to carry out a ranking to reward suppliers who use a higher % of recycled entering material in their productive cycles.

Examples of circularity

From a circular point of view, and with reference to the end of life, in 2021 the Group recovered and reintroduced into the industrial process about 90 thousand tons of material linked to end-of-life equipment: we are actively working to recover as many raw materials as possible from the existing assets and designing future assets with the aim of reaching ever higher levels of recyclability.

The Group has long begun to rethink production and consumption models to minimize the environmental impact and the resources consumption. The goals are to use circular energy sources and materials, extend the useful life of a product, create platforms for sharing, reuse, and regeneration, also to rethink products as services. The design and the procurement strategy are key to achieve these goals and make the transition to increasingly comprehensive circular economy models.

A first example is the "Circular Smart Meter" project which represents a virtuous example of applying the principles of the circular economy to our main energy measurement tool. In fact, from 2020, the production of the new Circular Smart Meters in recycled plastic has begun: in Italy 370 thousand have already been manufactured and it is estimated to reach a production of 8.2 million by 2026.

The decision to review the smart meter value chain in a circular way, from the design phase to the end of life, was made possible thanks to the adoption of innovative solutions aimed at minimizing the impact on the environment, limiting the use of virgin material and waste production and instead maximize the socio-economic benefits at local level. Each Circular Smart Meter allows a saving of 7Kg of CO₂ over its useful life (equal to 15 years) and 1.1 kg of virgin material, as well as activating a local production chain of "second" raw material. For the first lot (30 thousand meters), the environmental benefits related to the production of the Circular Smart Meter with



regenerated plastic were measured using the Life Cycle Assessment method: a reduction of 210 tons of CO₂ emitted was estimated compared to what happens in the traditional process. Furthermore, it is possible to re-insert the waste material of the old devices (mainly plastic) into the production process of the new Smart Meters. In percentage terms, 48% by weight of the new Smart Meters is made up of regenerated materials. The end-of-life management of Circular Smart Meters is expected to be more virtuous since the recyclability and reuse of materials (metals and steel in addition to plastics) is estimated to be 79% by weight and can be managed locally.

A second example is the Juicebox, Enel's electric car charging solution. We started a process for the reuse of plastic obtained from disused Group products to produce the outer casing (recycled plastic from electronic meters no longer in use). The production of the recycled plastic Juicebox made from Smart meters started in December 2020 at the supplier's plant in Poland. This facility serves the European market, and to extend the good practice to other geographies, we set up the research of suitable recycled plastic in North America and China. So far with the nearly 27,000 Juiceboxes built with recycled polycarbonate at the end of 2021, it is estimated to have saved around 140 tons of CO₂.

A further example is represented by the production of electrical street cabinets with a percentage of material coming from the recycling of wind turbines. The solution is currently in the industrialization phase. The recycling of wind turbines is not limited to the production of electrical cabinets: in fact, other options are being examined, which could give rise to numerous applications: from the so-called "cement co-processing", which uses ground material to be integrated into the cement, to the recovery of fibers, which could be used in the construction and furniture sectors or to produce composite design components.

To this end, Enel is engaged in the construction of the first two recycling plants, in Italy (Rossano) and Spain (Compostilla), which will make it possible to create new business models for the reuse of secondary raw materials from wind turbines no longer in use.



Business Sector: Oil & Gas Producers

Title: Sustainable Energy Basket Bond Programme

Eni has devised and launched various initiatives in favour of supply chain sustainability in line with its fair and inclusive energy transition strategy, which envisages long-term carbon neutrality, operational excellence and alliances for local development.

These initiatives aim to promote - with a systemic approach - a business culture open to seizing opportunities for innovation, transformation and adoption of circular models offered by the energy transition. This is a growth path that also includes improving the ESG profile of companies along social, environmental, economic and governance lines to preserve competitiveness in an uncertain and rapidly changing scenario.

Initiatives of this kind need to be supported by significant and long-term investments. Therefore, the economic dimension is an important enabler of business transformation paths and the way credit is accessed can be a competitive advantage.

In this context, Eni, Elite and Illimity Bank (the latter in the role of the authorised financial operator) - launched the 'Sustainable Energy - Basket Bond' programme. This multi-year tool allows companies committed to the energy transition to access financial resources aimed at growth to realise projects functional to sustainable development based on certain criteria. Access to the Programme is open to all companies in the integrated energy supply chain, not just Eni's suppliers. The adoption of circular economy models, access to renewable energy sources, modernisation of plants and equipment, training of new skills, and technology for safety are some concrete examples of the programme. The circular economy is a relevant field for the programme's objectives. This area offers and targets new consumption and production models with a high rate of innovation and the ability to propose solutions with potentially considerable added value, even for small and medium-sized businesses.

The programme - according to the characteristics defined by Illimity Bank - allows interested companies to join a minibond issue 'basket', subscribed by institutional investors. Companies can acquire new skills in financial management and visibility in the market.

From an organisational point of view, the programme is open to all companies operating in the integrated energy supply chain to join. Elite takes care of the origination by supporting the presentation and promotion activities of the operation. Illimity Bank, on the other hand, supports structuring possible issues in view of the financial and credit profiles and possible relations with institutional investors.

The 'Sustainable Energy - Basket Bond' represents an opportunity to strengthen the energy chain's solidity and essential support for Eni's energy transition. It is a programme that aims to create positive externalities both for companies that could benefit from an improvement in their ESG profile, and - potentially and in general terms - in their competitiveness, and for Eni that. in the



medium term, will be able to increasingly rely on a structured, solid supply chain, capable of proposing innovative solutions.



Business Sector: General Retailers

Title: Valorisation of waste generated by the Esselunga fish department with the hydrolized protein project

Excellence for Esselunga means product quality and safety, but also a commitment to promoting a supply chain that is attentive and respectful of workers' rights, the environment and animals. The focus on responsible supply chain management begins at the supplier selection phase and extends continuously over time, through regular dialogue, support and control activities. In this way, Esselunga is committed to pursuing the highest ethical standards of protection of human rights and human dignity throughout the supply chain, but also to encouraging and marketing products, both food and non-food, from ethically managed supply chains that guarantee compliance with environmental and social sustainability requirements, including animal welfare. In the process of sustainable supply chain management, suppliers thereby become strategic partners with whom the Group, to achieve its objectives and create a positive global impact on the environment and communities, intends to establish relationships of trust, based on loyalty and transparency, that will last in the long term, as well as foster dialogue and mutual collaboration in a logic of continuous improvement.

Esselunga is also aware that its production and distribution activities have significant impact on the environment and therefore invests resources to constantly improve its performance. As well as constantly looking for innovative solutions to implement, the company has decided to focus its efforts in three areas: climate change, waste management and packaging.

With particular reference to waste, Esselunga is aware that imprecise management of food surpluses leads to food waste and has therefore decided to make waste reduction one of its strategic priorities.

As a manufacturer, the company carefully designs its industrial processes and seeks to optimise all ingredients and raw materials used. As a distributor, on the other hand, it also plans orders via an ever-evolving digital reordering assistance system and donates any surpluses to food banks or sends them to recovery chains.

Esselunga's partnership with supplier Lipitalia 2000 comes under the latter, and is the perfect integration of sustainability strategy and objectives into supply chain management. This collaboration is inspired by circular production and consumption models, whereby waste is minimised and the value of the resources used is increased through recovery and reuse.

New circular economy policies and a renewed awareness of the valorisation of waste have led Lipitalia 2000 to design and build a plant for the transformation of fish waste into marine



hydrolysates, thanks to the historic partnership with Esselunga.

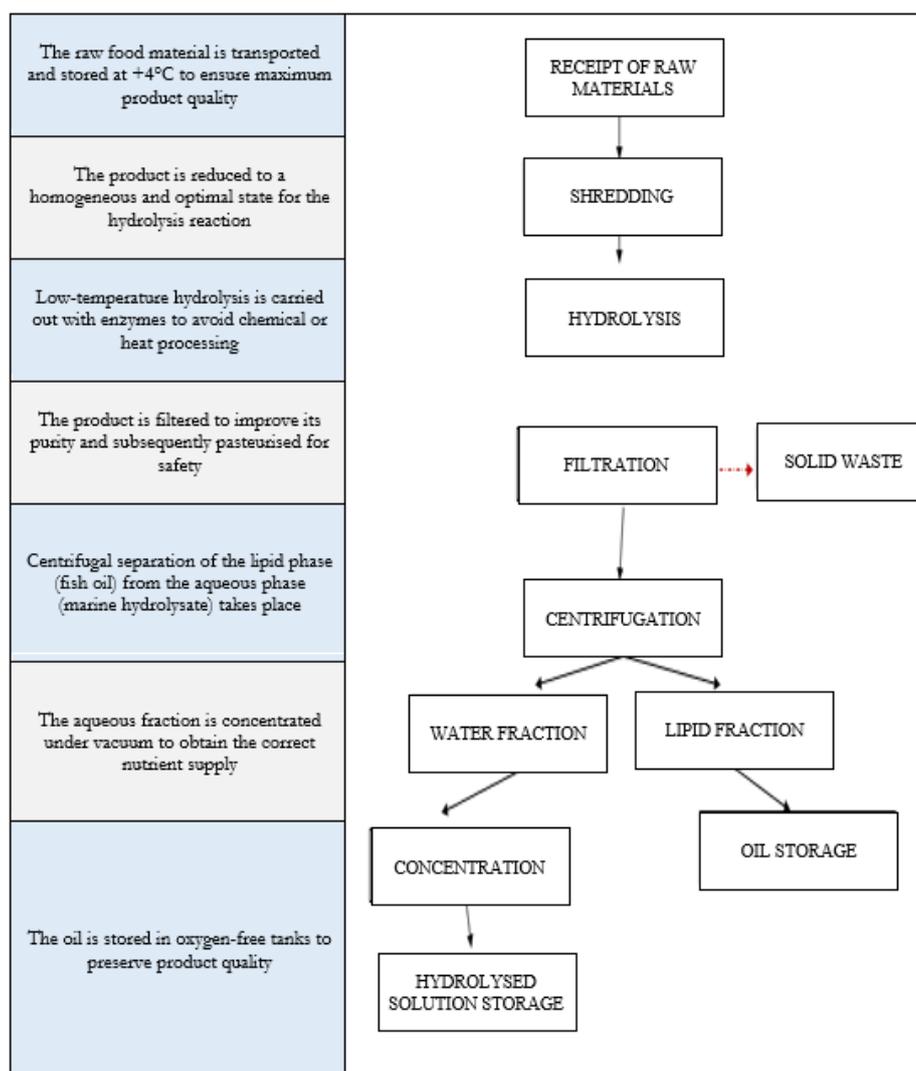
The aim was to build a new production line for raw fish materials for the pet-food and animal husbandry sectors that would meet the following requirements: 100% Italian production according to circular economy and Green Chemistry principles for a premium quality product.

In this way, fish by-products, which can no longer be used for human consumption, are transformed into high quality food suitable for animal feed.

The entire Lipitalia 2000 team has worked hard to ensure high product quality standards at all stages of the process, from logistics to production, avoiding waste.

The designed production process involves enzymatic hydrolysis and vacuum concentration, which minimises the use of chemicals and utilises low reaction temperatures, allowing for a reduction in thermal energy and electricity consumption. Water is also recovered from the process by distillation, which, following treatment, can be re-emitted into the atmosphere in the form of steam.

PROCESS DESCRIPTION





The main stakeholders involved are:

- Lipitalia 2000 S.p.A., owner of the plant that processes fish SOA into raw material for the pet food and chemical industries;
- Companies producing both livestock feed and pet food interested in purchasing high quality raw material of fish origin for feed production;
- Actors such as Esselunga who produce fish by-products no longer destined for human consumption.

To ensure the system is as efficient as possible, Lipitalia 2000 has put in place an automatic energy consumption monitoring system (electrical, water and thermal) via a SCADA (Supervisory Control And Data Acquisition) system so consumption can be measured in real time for each tonne of product processed.

All process steps are therefore monitored with meters that allow real-time calculation of dosages and quantities of both the fish SOA (animal by-products) in production and any additives or adjuvants required for processing.

On the quality side, an HACCP system has been put in place which continuously monitors all finished products leaving the plant, thereby ensuring their compliance with customer requirements.

In addition, daily sampling is carried out by the operators on all products as an additional quality control. With specific reference to fats, acidity and water content levels are checked to ensure they meet the specifications, while the protein fraction is checked to ensure the percentages of dry matter, fat and protein also meet those required by the specifications. In addition, the level of histamine is analysed as an indicator of product freshness.

Finally, every six months, external laboratories check to ensure there are no undesirable substances and, according to the internal-control plan, a microbiological check is carried out on all products, again by an accredited external laboratory.

Thanks to this project, which began in 2021, approximately 2,700 tonnes of waste from the Biandrate Fish Processing Centre will be turned into high quality animal feed every year, thereby reducing waste from upstream processes.



Figure 1. Plant for the valorisation of fish by-products no longer destined for human consumption.



Business Sector: Industrial Transportation

Title: RFI - Corporate Social Responsibility Assessment

Driving the 'market' towards responsible business management models, rewarding the 'most sustainable' companies and triggering a virtuous circle. The objective of EcoVadis' CSR assessment methodology is to measure the quality of the management system in terms of corporate social responsibility - through its policies, actions and results. The focus, with respect to the issues highlighted in the papers, is transversal and consists not only of monitoring social impacts, but also of performance in terms of emissions reduction and life cycle performance of supplies (goods/services and works).

The EcoVadis CSR assessment methodology is based on seven core principles:

1) Factual Evidence

The burden of proof is on the evaluated company (e.g. policies, certificates, reports). Company statements are only credited if evidence is provided.

2) Industry sector, country and size

The CSR management system is assessed taking into account the issues of the sector, location and size and geographical scope of the company.

3) Diversification of Sources

The assessment is based not only on documents provided by the company but also on opinions published by non-governmental associations, trade unions, international organisations, local authorities or other third parties (e.g. auditors, Carbon Disclosure Project, Dow Jones Risk Compliance Database).

4) Technology

An assessment system can only be reliable if it is supported by technology.

5) Assessment by international CSR experts

Supporting documents are analysed by a team of CSR experts who keep track of best practices.

6) Traceability and Transparency

All documents used in the evaluation process are stored securely and can be traced. Evaluated companies can access, if necessary, the details of the result and the attribution of each individual score.

7) Excellence through continuous improvement

A professional evaluation methodology, open to quality control, continuous improvement and stakeholder feedback.

Implementation mode (strategy, processes, operations):

The assessment is conducted through the monitoring platform developed by EcoVadis. EcoVadis operates a platform through which it provides supplier sustainability assessments for the global supply chain. Participation in the CSR assessment allows the company to automatically share its performance with all current and future members of Railsponsible, an initiative that brings together leading companies in the rail industry with the aim of promoting responsible supply chain management.



The CSR assessment of each company will be usable by the companies for all current tenders and possibly also for other contracting stations; this assessment is based on four main areas: Environment, Labour Management/Organisation and Human Rights, Fair Business Practices and Sustainable Procurement.

The cost of the evaluation is partly financed by RFI and partly by the participating companies, which are required to pay a subscription fee.

Stakeholders involved:

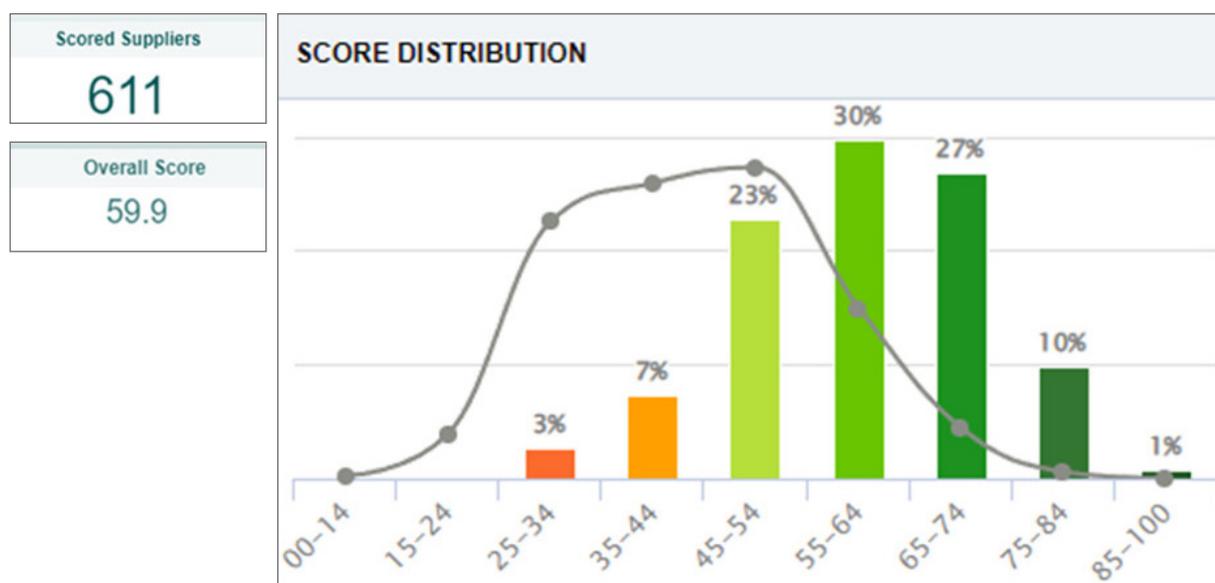
Economic operators who voluntarily decide to undergo the assessment in order to obtain the award within the framework of tenders announced by RFI that provide for a technical-economic evaluation (economically most advantageous offer).

Monitoring and KPIs:

The EcoVadis assessment delves into 21 areas, grouped into 4 themes: Environment (ENV), Labour Practices and Human Rights (LAB), Fair Business Practices (FBP) and Sustainable Procurement (SUP). The themes assessed and their relative weighting vary depending on the activities, size and geographical location of the company.

Results and impact: value for the company and shared value:

RFI has assessed, from 2017 to date, more than 600 suppliers that have obtained an average score of 59.9 points out of 100 (above the average of companies assessed on Ecovadis in the same sector, which is 43.8 out of 100). This result demonstrates that the inclusion of the 'CSR' criterion in tenders encourages suppliers to improve their processes from an ESG perspective, representing a strategic element in the awarding of the RFI tender. In terms of economic impact, in 2021 the value of tenders in which the CSR criterion has been included **is more than EUR 11.1 billion.**





Business Sector: Gas, Water & Multiutilities

Title: The circular economy in the supply chain

Since 2008, the Hera Group has favoured the economically most advantageous offer method as a criterion for evaluating bids using sustainability criteria, consistent with the principles of the Code of Ethics.

Among the main criteria adopted, mention is made of: management of atmospheric emissions and noise; prevention, reuse and recyclability of waste; energy efficiency; reduction of the hazardousness of substances used; reduction of water consumption; adoption of its own Code of Ethics; inclusion of disabled and disadvantaged workers; accident prevention and safety training; quality of materials, means of work and equipment; professional titles and skills; and technical performance and efficiency. To these criteria were added others related to the circular economy. In 2019, in fact, the Hera Group activated a project aimed at managing the transition of purchasing models in line with the principles of the circular economy, based on the “Resolve” model proposed by the Ellen Mac Arthur Foundation and activating some pilot projects for the following year.

In 2020, the Group’s Procurement and Tenders Department, together with several companies in the energy and environmental sectors, participated in a working group organized by the Global Compact Network Italy, in collaboration with the Università Superiore S. Anna of Pisa, with the aim of defining guidelines for circular procurement. At the conclusion of the work, Guidelines were drafted and published, which the Hera Group has incorporated into the Operating Instruction on Sustainability in Procurement (already operational since 2013), introducing alongside the principles of environmental and social sustainability, the cardinal principles of Green Circular Procurement.

More specifically, having reaffirmed the procurement activity principles (with respect to current legislation on tenders, alignment of the entire supply chain to the goals, equality of treatment of suppliers, transparency and traceability of purchases, free competition and rotation of suppliers), four key principles relating to circularity were identified: eco-efficiency, dematerialisation, renewability and recyclability. These principles can be organised into technical reward criteria during the tenders awarded with the most economically advantageous bid method, or organised into specific technical specifications when planning the requirements. A reporting model was also developed with the goal of monitoring the impact of the projects started up: in particular, in accordance with what has already been done to monitor the use of sustainability criteria in awards, the technical criteria relating to the principles of the circular economy were mapped.

In continuity with the previous years, also in 2021, provision was made for circularity criteria for over 90% of the tenders awarded according to the most economically advantageous bid method, with an average score of 8.3. Considering this score, the value of tenders with the most economically advantageous bid method attributable to circularity criteria stood at 12.5%.

The main tenders awarded at the lower price with elements of circularity envisaged in the technical specifications are reported below:



- With the purpose of monitoring and optimising the consumption of the Hera Group's vehicles, an open procedure was called for the supply of black boxes. These devices enable the collation and processing of data on the mode of transport and the driver's driving style with the goal of optimising consumption and preventing maintenance work.
- In private negotiations relating to the performance of remediation works and networks enhancement linked to the Municipality of Bagno di Romagna (Forlì-Cesena), with a view to boosting the eco-efficiency of the lifting plant, systems will be adopted for monitoring loads and levels, in order to prevent malfunctions and promptly intervene on those already identified. The technological equipment, together with the provision of a detailed maintenance plan, aim to extend the useful life of the plant and delay its disposal and replacement. The successful tenderer is also required to possess the Emas certification for tender eco-management.
- In the private tender for the performance of the non-hazardous special waste recovery service (wood and wood packaging), the waste is assigned to authorised plants which enhance the wood and turn it into goods ready to be introduced to the market, actually replacing the raw material deriving from the cutting down of trees.
- In the private tender for the performance of the inert urban waste recovery service, the waste material originating from construction sites (e.g. cement, bricks, tiles and ceramics) collected in a separated manner at the collection centres in the territory of Modena, is assigned to authorised plants that re-use it as an alternative to other raw materials and re-inject it in the production cycle in the form of additional construction materials.

In 2021, the circularity reporting with the lowest price bid method was extended to all purchases of the Hera Group. By applying the new model of circularity reporting, it is estimated that in the tenders awarded in 2021 with the lowest price bid method, the value generated by circularity elements stood at almost Euro 10 million, equal to 4% of the total value.

As a whole, considering both the tenders awarded with the most economically advantageous bid method and the tenders awarded to the bids with the greatest discounts, the portion of the value of awards connected with circularity elements stood at 9.5% of the value of all tenders awarded in 2021. The Hera Group has set a goal of increasing the value of tenders awarded connected with circularity criteria to 10% in 2022.



INWIT

Business Sector: Mobile Telecommunications

Title: Guidelines for a circular design

In the path started by INWIT in 2020 for the creation of a sustainable business model, the supply chain's sustainable management has been included among the priorities.

With its Sustainability Plan, whose update to 2024 has been approved by the Board of Directors in February 2022, INWIT committed to integrating the principles of sustainability in the supply chain, to create awareness on ESG issues.

The goal is to identify innovative solutions and implement initiatives to limit the impacts along the entire life cycle of our infrastructures, from the design phase to the end of life, with a circular economy approach.

The design phase is essential to give the infrastructure a vision of a circular economy. The work, in fact, must be designed to have limited impacts throughout its life cycle, it must last as long as possible, it must be repairable, and, in the end-of-life phase, it must be able to be disassembled so that each part could find a new use.

Starting from this assumption, we have defined the *Guidelines for the validation of non-standard antenna port structures*, a tool designed to make available to suppliers the guidelines for the definition of new design proposals for our infrastructures, with clear minimum requirements and with indications to make them compliant with the general criteria required by INWIT, just right from the project presentation stage.

The document is developed in such a way that it can be applied to a wide range of design solutions, in terms of both technology and materials used.

For example, suppliers are invited to propose design solutions to be disassembled, so that the same structure can be reused to serve multiple locations without significantly impacting the area affected by the installation. It is also recommended to prepare a plan for the disassembly and selective demolition of the work at the end of its life.

It is also desirable that the monitoring systems proposed include a self-powered sensor, for example, through electrical energy storage systems guaranteed by photovoltaic panels to be installed in site.

With reference to the materials choice, the designer must take into account their potential in terms of recyclability and durability, preferring the use of materials of natural origin with low environmental impact such as wood, in addition to the classic building materials produced according to innovative criteria, with a view to ecological transition, such as recycled concrete obtained from the reuse of secondary raw materials, steel with minimum content of recycled material certified according to Italian CAM (Minimum Environmental Criteria) requirements and aluminum alloys.

The guidelines for the circular design of our infrastructures allow us to create awareness of sustainability both inside and outside the company.



Internally there is a transversal involvement on various company functions, dealing with the design of our telecommunication towers.

On the supply chain, these guidelines directly affect designers, but following a life cycle approach, we also indirectly involve material suppliers, maintenance and waste management suppliers.

With our Sustainability Plan we have been committed to reduce our environmental footprint with a circular economy approach, with the aim of maximizing the recycling of the materials used, by intervening already in the design phase of our infrastructures. To support this approach, in the Plan we have been committed to perform a Life Cycle analysis of our model sites, to allow us to further reflect on the impacts of our infrastructures throughout the whole life cycle and to adopt sustainable and circular choices.

We included initiatives aimed at increasing the life cycle of materials and products, with specific KPIs in terms of % of waste sent for recycling, among those produced on our infrastructures, and the use of more circular materials.

The monitoring of the Sustainability Plan is reported annually within our Integrated Report.

Below are some initiatives implemented in 2021 following the life-cycle approach:

- **Wooden tower:** the first tower in Italy made entirely of laminated wood was built in Brugherio on the east ring road in Milan. In addition to being characterized by greater environmental and landscape integration, the idea with which this tower has been designed is to replace as much steel as possible with wood, a renewable resource, thus exploring a sustainable alternative in the construction of telecommunications infrastructures.
- **Fast-site plant:** INWIT realized its first fast-site plant in the municipality of Beinasco (Turin). The prefabricated raw-land plant has been built with an elevated infrastructure, anchored on a prefabricated platform. The platform is easy to install and use and is designed to obtain obvious advantages in the reduction of excavation volumes, in the speed of installation (2 days instead of 4 weeks of the plants built on site), in the possibility of reuse (disassembly and reassembly) of both pile and prefabricated foundation itself.
- **Lithium batteries:** 50 kits (200ah) installed. Lithium batteries, compared to lead ones, are characterized by a longer life cycle (average life three times longer), smaller size and weight, longer delivery times; these batteries have an integrated Battery Management System with the possibility of control remotely and can store more energy.



Business Sector: Gas, Water & Multiutilities

Title: Select suppliers for environmental sustainability

Iren Group has integrated sustainability into its development strategy, defining a structured system for planning and monitoring objectives. An approach that is also expressed through the management of the supply chain, thanks to the adoption of environmental and social criteria and standards in the supplier selection and evaluation system.

In pursuing a growth strategy that also offers a contribution to the achievement of the Sustainable Development Goals of the UN 2030 Agenda, the Group has adopted a structured supply chain management system in which the utmost importance is given to social and environmental aspects. In relation to the latter, policies and procedures have been adopted for the selection and evaluation of suppliers.

All economic operators who qualify in the Iren supplier register must complete a questionnaire that, with regard to environmental sustainability, explores the following aspects:

- adoption of an organization and management model pursuant to Italian Legislative Decree 231/2001, also aimed at the prevention of environmental crimes;
- adoption of initiatives for a responsible approach to business planning and management, in line with the UNI ISO 26000 guidelines;
- willingness to undergo an annual survey and sustainability audits;
- possession of environmental certifications;
- use of products for the reduction of environmental impacts;
- adoption of work instructions for the management of packaging and waste and for the storage and collection of recyclable materials;
- use of low-consumption and low-emissions materials.

In tender procedures with an award criterion based on the best quality-price ratio (about 83% of calls for tenders), criteria for the attribution of technical scores inspired by environmental issues are identified, when compatible, such as, for example, measures to contain the environmental impact through recycling of waste produced by construction sites, waste management, air and water protection, energy efficiency, use of vehicles with low environmental impact.

In all assignments, Iren Group requires its suppliers to sign contractual clauses that commit to carry out the activities according to criteria of environmental protection and efficiency:

- implement procedures for the identification and minimization of negative environmental impacts deriving from activities;
- carry out proper management of waste, reduce its production where possible and commit to recovery and recycling;
- control the consumption of raw materials, products, water and energy resources avoiding waste;



- use substances and/or products that are as environmentally sustainable as possible;
- control the emission of dust, fine dust and fibers in general, in work areas and adjacent ones;
- contain the noise generated by the activities;
- use vehicles and/or equipment with low environmental impact;
- organize logistical transfers to ensure the lowest environmental impact;
- adopt tools to exert an influence on the behavior of any subcontractors and/or suppliers;
- train and inform employees on the environmental aspects related to the activities assigned to them and ensure the presence of adequately trained personnel to face and limit the impacts on the environment deriving from accidental events;
- take all measures, including preventive ones, to avoid, in the executive phase, soil and/or surface/groundwater pollution and, in general, situations of damage or danger to the environment;
- for any work carried out in green areas, ensure their protection and conservation.

In the event of non-compliance with environmental obligations by the supplier, Iren Group may order the immediate suspension of activities until the safeguard measures are adjusted, without prejudice to the possibility of terminating the contract.

These clauses are in addition to those provided for health and safety, human and workers' rights and to the express acceptance of the rules of the Group's Code of Ethics, which is a condition for admission to tenders for works, services, supplies and a condition for the effectiveness of contracts. The violation of the Code of Ethics, which expressly refers to environmental protection, implicates the exclusion from the tender or, if observed later, the revocation of the award or the termination of the contract due to the fault of the supplier. It may entail, in relation to the severity, also the prohibition for one year of participating in the tenders of Iren Group.

The supply chain management system involves all Iren Group's Departments and Business Units, all suppliers already qualified in the Iren register (over 5,000) and suppliers who will qualify in the future. The logic of the management system is also discussed with the Iren Local Committees, the entities dedicated to the systematic dialogue and engagement of the Group's stakeholders.

The verification of the contracts' provisions on environmental aspects, during the execution phase, is monitored by the Group's Works Departments both through documentary analysis and with direct controls during the execution of the works.

Suppliers are also subject to an evaluation by the Group's Departments/Business Units that manage the contracts and directly verify the supplier's behavior in the executive phase (Vendor Rating). This evaluation generates a score that complements the qualification score. Repeated negative outcomes or serious breaches in the service performance entail the suspension and subsequent exclusion from the supplier register for a predetermined period.

Annually, the ratio between the total value of calls for tenders with sustainability criteria in the evaluation score and the total value of calls for tenders is monitored.

On average, in the last three years, 73% of the total value awarded refers to calls for tenders which include sustainability criteria in the evaluation score, a figure that confirms the strategic orientation of Iren Group and produces reliability towards the achievement of the medium and long-term objectives defined in the Business Plan to 2030.



A concrete example of supply chain engagement, oriented towards the Group's strategic objectives in terms of circular economy, with a consequent reduction in GHG emissions, is represented by the collaboration started with a Group's primary supplier, in the field of waste management services in which millions of bags are used annually for the sorted waste collection. Thanks to a co-design work carried out between Iren and the supplier, the plastic collected and treated in Iren plants is employed to produce the bags that will be used by the Group for sorted waste collection, covering 100% of its needs.

Given the strong territorial impact of the activities managed by Iren Group, the quality of supplies contributes to the growth of the territories, improving the environmental context, thanks to investments on infrastructures (electricity networks, gas, aqueduct and sewerage, wastewater treatment plants) and on essential services (waste collection, recovery and disposal). In addition, it represents a significant opportunity for the development of innovative technologies and processes and, consequently, for territorial growth also in terms of know-how.



Business Sector: Automobiles & Parts

Title: Sustainability of the natural rubber supply chain

One of Pirelli's priorities is the economic, social and environmental sustainability of the natural rubber supply chain. Processes of dialogue and observation of the sourcing of natural rubber have led not only to capture the beauty around people, nature and the environment, but also the fragile balance that holds them together. Corporate targets range from non-deforestation, to the growth of producers' skills on best agroforestry practices. All necessarily implemented through the engagement of the supply chain, which in turn has roadmaps of activities pursuing the following objectives:

- promotion of local community development and prevention of conflicts on land tenure;
- protection of ecosystems, flora and fauna;
- no deforestation, no peatland exploitation, no use of fire, and adoption of High Conservation Value (HCV) and High Carbon Stock (HCS) methodologies;
- efficient use of natural resources;
- traceability and mapping of socio-environmental risks along the supply chain (risk-based approach);
- defence of human rights and promotion of decent working conditions;
- ethics and anti-corruption;
- provision of a dedicated grievance mechanism for natural rubber that allows stakeholders to address any grievances and initiate remedial action.

Pirelli published the 'Sustainable Natural Rubber Policy' in 2017 and updated it in 2021. The



publication took place after a consultation process with international NGOs, the main suppliers of natural rubber for Pirelli, retailers and growers within the supply chain, Automotive customers, multilateral organisations and companies with expertise in sustainable sourcing of materials. The draft policy was presented and discussed with key stakeholders. In December 2018, the Company published the Pirelli Policy Implementation Manual on Sustainable Natural Rubber Management. The objective of the manual is to facilitate the understanding of the principles, commitments and values expressed in the Policy, as well as to provide guidance for its implementation to the supply chain. As per the development of the Policy in 2017, the drafting process of the Manual also foreseen the involvement and consultation of the main related stakeholders.

Pirelli has equipped itself with a 2019-2021 Plan of Activities with KPIs and timely reporting of the results achieved, published on the Company's website in the Policy-dedicated area.

From upstream to downstream, the natural rubber supply chain involves producers/growers, sellers, processing plants, distribution companies and manufacturing companies. As a tyre manufacturer, but not the owner of any rubber plantations or processing plants, Pirelli is at the end of the chain. It buys natural rubber from approved processors, whose processing plants are located in the Countries of origin.

Pirelli sources its natural rubber from Indonesia, Thailand, Malaysia, Brazil and China. Most of these processors purchase natural rubber from middlemen or retailers who, in turn, purchase it from the growers, often in a chain of multiple retailers, so as to cover the geographical distance from the grower to the processing plant. However, there are few processors who, due to their geographical proximity, are able to purchase natural rubber directly from the grower.

As reported in the previous paragraph, following consultations with key stakeholders in the value chain, in 2017 Pirelli disclosed its policy on Sustainable Natural Rubber Management. The aim of the latter is to help preserve forests and maintain biodiversity, as well as to ensure the long-term development of local communities and economies.

In line with its stated approach, in 2017 Pirelli played a proactive role in the creation of the Global Platform for Sustainable Natural Rubber (GPSNR), together with the tyre manufacturers with which it is part of the Tire Industry Project Group, within the World Business Council for Sustainable Development. The development of the Platform has benefited from the input, ideas and suggestions of the main stakeholder categories involved in the value chain, such as rubber producers, processors, car manufacturers, and from the fundamental contribution from the experience of leading international NGOs. The Platform, launched in Singapore in October 2018 with the joining of the first 'funding members', including Pirelli, is independent, based on multi-stakeholder dialogue and aims to support the sustainable development of the natural rubber business globally, benefiting the entire value chain through shared tools and initiatives underpinning the respect of biodiversity and the increase of plantation productivity, particularly those of smallholders, respect for human and labour rights, and the prevention of land grabbing.



Monitoring and KPIs:

- More than 95 per cent of natural rubber volumes purchased in 2021 come from suppliers that have a roadmap in place and have monitored implementation progress in line with Pirelli Policy;
- 100% of Suppliers have been trained on Pirelli Policy;
- 100% of suppliers have been audited on-site to verify compliance with Pirelli Policy and, where necessary, to activate improvement plans.

Many achievements were the result of the Group's commitment to the entire natural rubber supply chain, to name a few, in 2021:

- Pirelli is the first company to launch and produce the first Forest Stewardship Council (FSC) certified tyre line for natural rubber and rayon; FSC forest management certification confirms that plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while ensuring economic sustainability;
- Pirelli in partnership with BMW is supporting Birdlife International in a three-year project that aims to promote long-term sustainable and deforestation-free natural rubber production in Indonesia. The initiative involves part of the Hutan Harapan rainforest area (Sumatra Island) and will be developed through a series of initiatives aimed at protecting the indigenous community, preserving a deforestation-free area of 2,700 hectares and protecting endangered animal species;
- Pirelli in partnership with BMW is supporting Birdlife International in a three-year project that aims to promote long-term sustainable and deforestation-free natural rubber production in Indonesia. The initiative involves part of the Hutan Harapan rainforest area (Sumatra Island) and will be developed through a series of initiatives aimed at protecting the indigenous community, preserving a deforestation-free area of 2,700 hectares and protecting endangered animal species;
- On a social level, Pirelli and the Indonesian rubber supplier, Kirana Megatara, have for years been donating scholarships for the children of local producers, in the conviction that the future sustainability of the natural rubber business cannot absolutely disregard the proper training and development of the new generations, and their right to education.

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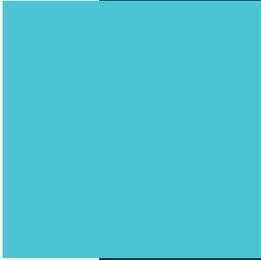
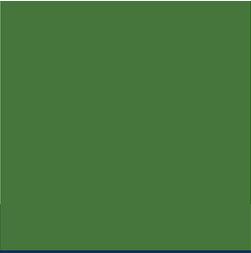
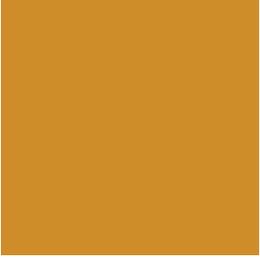
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