

RESPONSIBLE PROCUREMENT

G4 indicators: G4-12, G4-DMA, G4-EC9, G4-DMA, G4-EN33, G4-DMA, G4-HR11

GRI Standards:

- 102 – General Disclosures**
- 103 – Management Approach**
- 204 – Procurement Practices**
- 308 – Supplier Environmental Assessment**
- 414 – Supplier Social Assessment**

I. CHALLENGE

In addition to ensuring compliance with regulations and policies, responsible procurement is part of a holistic risk management approach designed to secure our sourcing, and to protect Sanofi's image and reputation. It is about seeking to create value while meeting the procurement challenge of employing innovative sourcing strategies, to promote supplier diversity and support our CSR performance.

II. STRATEGIC APPROACH

Procurement provides the company with raw materials, goods and services all around the world. Sanofi is committed to selecting goods and services that are produced and provided in compliance with demanding environmental, social, and ethical standards. Socially responsible procurement creates business value while contributing to our CSR approach. We expect our suppliers to meet the standards set out in the Sanofi Suppliers' Code of Conduct, and their compliance may be a decisive factor in their commercial relationships with Sanofi.

Our responsible procurement strategy is an integral part of Sanofi's supply chain. We carefully monitor not only the quality of raw materials that go into making our products, but also the practices of our suppliers. To ensure the safe manufacturing and distribution of our products, we establish quality policies and comply with good manufacturing processes. We work closely with suppliers to make sure they are aware of the economic, social, and environmental standards that are fundamental to our CSR strategy. Around the globe, we take a multi-faceted approach to addressing supplier-related challenges.

The Suppliers' Code of Conduct was developed to ensure that all suppliers are aware of Sanofi's CSR principles. It is based on the United Nations (UN) Global Compact, International Labor Organization conventions, and our own Code of Ethics, and sets out the standards we expect suppliers to apply in order to:

- Respect human rights and labor practices,
- Protect workers' health and safety,
- Preserve the environment ,
- Uphold ethical standards by combating corruption, fraud, and bribery.

For more information, see:

- Sanofi Suppliers' Code of Conduct in our [Documents Center](#)

1. Sanofi's commitment

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

The Supplier Code of Conduct is integrated into electronic ordering systems and contracts throughout the Company. Furthermore, our supply contracts contain clauses that authorize us to verify suppliers' compliance with our requirements.

2. Organization

Procurement is a corporate function, one of the four pillars of our new Business Transformation Organization.

Table 1: Procurement key figures

	2017
Procurement spend in € billion	14,6
Spend in OECD countries in € billion	12,2
Spend in non-OECD countries in € billion	2,4
Number of suppliers	87 400
Number of countries	156

Sanofi has a diverse procurement portfolio due to the diversified nature of our activities. Sanofi Procurement acts centrally on behalf of all our business units and activities and leverages synergies by pooling expertise and spend.

It is structured operationally in five areas: Cost of Goods Sold (COGS) and Distribution, Capital Expenditures (CAPEX) and Maintenance, Common Spends, Sales & Marketing, and Scientific & Clinical, and nine regions (North America, Latin America, Asia, Japan Pacific, Eurasia and Middle East, China, France, Africa and Europe)). This organizational model is built on global category management and a regional execution principle, combining global leverage and connectivity with businesses and markets. The five domains, structured in approximately 20 global categories, are divided into over 250 spend categories.

A three-step process is in place throughout the Company to improve sustainability practices in the supply chain, comprising supplier risk assessment, evaluation and development. It is coordinated centrally by the Risk Procurement team and implemented through cross-functional cooperation between the Procurement, the Health, Safety & Environment and the Corporate Social Responsibility Sustainability functions.

III. RISK ASSESSMENT IN THE SUPPLY CHAIN AND SUPPLIER EVALUATIONS

1. Integration of CSR in our supply chain risk assessment

In 2012 we designed our Procurement Risk Management Model to address the full range of procurement risks, and guarantee appropriate risk assessment and mitigation. This approach has been deployed and integrated into the procurement strategies by addressing and formalizing the following risk areas (if relevant):

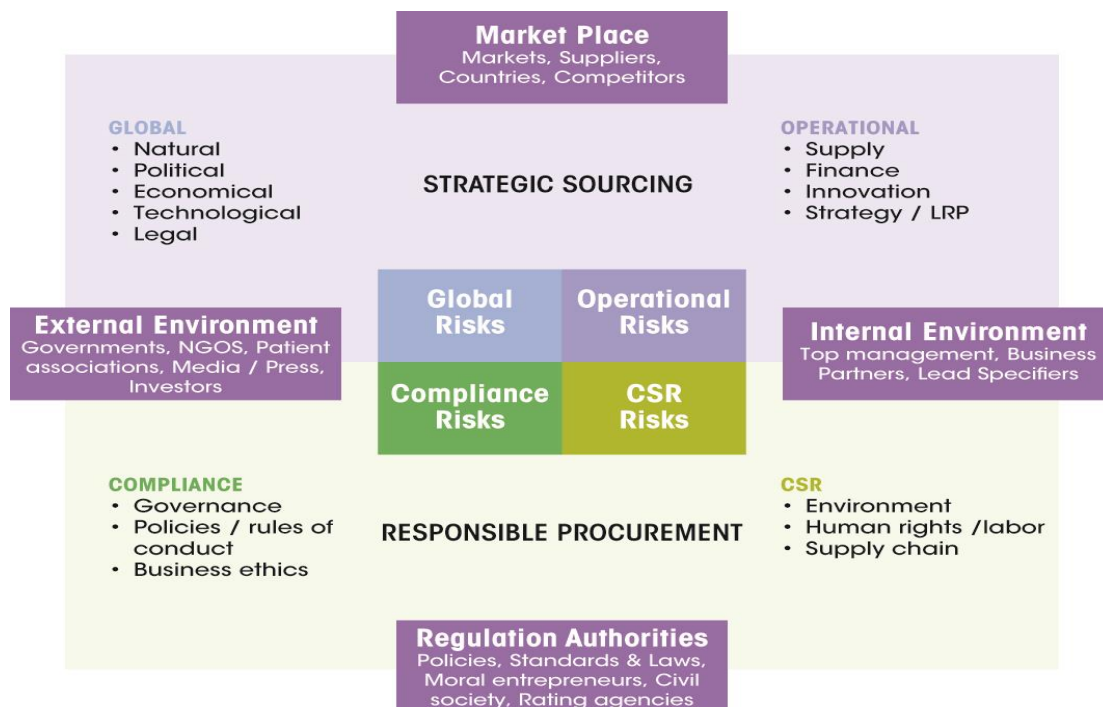
- Globally: natural, political, economic, technological, and legal,
- Operationally: supply (single source, dependency), finance, innovation, and strategy/long-range plan,
- Compliance: governance, procedures and policies, and business ethics (fight against corruption),
- Corporate social responsibility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

Each risk area covers risk criteria that were assessed in 2012 for each of our 200 procurement categories. The assessment was updated for the 2015 campaign.

This approach helps ensure that responsible procurement risks are not addressed as isolated or standalone issues, but are instead considered part of comprehensive risk coverage.

To develop the approach and better meet risk management challenges, Sanofi created a new structure and position to deliver a risk management strategy (methodology, processes, and systems) adapted to procurement needs and challenges, including those related to CSR.

2. Sanofi Procurement Risk Management Model



We also designed and deployed a specific risk methodology to identify and assess suppliers that should receive priority attention in terms of evaluation and monitoring.

Our CSR risk factors result from different analyses:

- Risk mapping per procurement category, taking into account environmental, social, and ethical risks, and highlighting 25 categories (vs. 34 in 2012) considered to be the most risky (e.g., waste, civil engineering and foundations, security and safety firms, etc.);
- Risk exposure mapping per country, taking into account human rights, health and safety, political stability, environmental sustainability index, corruption, and competitiveness, and underlining 42 countries (vs. 36 in 2012) in Africa, Southern Europe, Eastern, Asia Pacific, and Latin America to be included as priorities in our assessment scope.

As a priority, these criteria have to be applied to suppliers considered as preferred, as well new suppliers mentioned in our procurement strategies. Indeed, new suppliers have to answer six separate questions on their CSR performance as part of the process for joining our sourcing base.

In 2017 CSR risks were assessed for each procurement category by covering environmental (35% of weight), social (35%), and fair business practice (30%) risks.

Twenty-five procurement categories have been identified as high risk for CSR matters. These categories were targeted as priorities in 2017 suppliers' evaluation campaign. In addition, a total of 42 countries where procurement takes place were also targeted by our responsible procurement approach.

At the end of 2017, we have undertaken a renewed risk mapping of our procurement categories in response to the French "Devoir de vigilance" Law. This new risk mapping will be deployed during 2018.

3. Our Responsible Procurement Collaborative Platform for suppliers' evaluation

Our responsible procurement approach allows us to demonstrate that procurement is strongly committed to reinforcing the CSR approach and achieving significant results by:

- Optimizing the suppliers' CSR evaluation process by aligning it with procurement organization and needs, and by avoiding the time and administrative burden of CSR questionnaires for suppliers and buyers;
- Strengthening compliance, risk management, and transparency in regard to the evaluation process with our suppliers by systematically addressing CSR matters as an increasingly valuable asset in the suppliers' relationship management;
- Being focused on suppliers' performance by better monitoring of corrective action plans;
- Measuring the suppliers' CSR performance and delivering relevant key performance indicators (KPIs).

To make this approach more efficient for both Sanofi and our suppliers, and to strengthen its integration into the company's risk management and compliance processes, we made the choice to have a single and dedicated process based on international CSR standards and we use the services of our external partner, Ecovadis, which operates the suppliers' CSR assessments on our behalf. The suppliers' assessment is based on four topics covering 21 criteria, which are:

- Environment: energy and greenhouse gas (GHG) emissions, local pollution, water, biodiversity, materials/chemicals/waste, product use, product end of life, customer health and safety, and sustainable consumption;
- Labor practices and human rights: fundamental human rights, child and forced labor, non-discrimination, health and safety, working conditions, labor relations, training, and career management ;
- Fair business practices: corruption and bribery, anti-competitive practices, and fair and responsible marketing ;
- Responsible supply chain: suppliers' environmental performance and social practices.

Once the evaluation is complete, the CSR performance of each supplier is ranked from 10 (high risk) to 100 (high opportunity) at global and thematic levels. The supplier's score results from the collection and analyses of multiple data: self-assessment questionnaires that are customized according to the supplier's industrial sector and size, supporting documentation (codes, charters, policies, certifications, dashboard, reporting), and information coming from non-governmental organizations (NGOs), trade unions, and the media.

In addition to the quantitative results, strengths and weaknesses are highlighted and allow suppliers to initiate improvement in their operating model whenever their score does not meet Sanofi's CSR requirements.

In practice, the buyer debriefs the supplier on its scorecard. Corrective action plans are set up for suppliers with poor performance. If significant violations are identified that cannot be resolved, procurement may decide to conduct audits on site that are either internally or externally driven, or may terminate the relationship. The CSR evaluation allows suppliers to:

- Meet our CSR expectations to be qualified and included in sourcing decisions;
- Benchmark and position themselves against sector peers by having a complete evaluation of their CSR performance;
- Benefit from a shared and transparent evaluation process, allowing them to create and monitor their corrective actions;
- Re-use and communicate results to their own clients to enhance and develop the image and reputation of their company in the marketplace;
- Avoid time-consuming, paper-based evaluation questionnaires, and facilitate the mobilization of their internal resources.

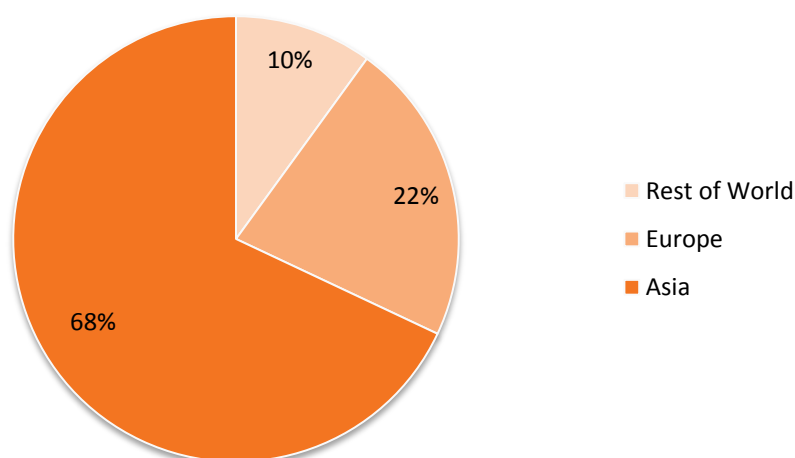
Table 2: Sanofi Supplier Evaluations, 2014-2017

	2014	2015	2016	2017
Number of suppliers assessed on their CSR performance	128	190	164	194
Number of assessed suppliers that met our CSR requirement	64	115	116	159
Percentage of assessed suppliers that met our CSR requirement	50%	61%	71%	82%
Number of buyers trained to the Responsible Procurement Platform	120	115	122	140

4. Supplier audits

Supplier audits, focusing primarily on Health, Safety and Environment (HSE) performance, are conducted by our HSE department or subcontracted to external auditors. These audits are currently focused on our active pharmaceutical ingredient (API) providers and our contract manufacturing providers. In 2017, a total of 158 (from 86 in 2016) audits were conducted, 88 audits focused on our API providers and 70 focused on our contract manufacturing providers.

Graph 1: Breakdown of our 2017 suppliers' audits



5. Improvement measures

Through re-assessments or follow-up audits, we monitor the implementation of the improvements requested by us. For example, in 2017, the thorough implementation of corrective action plans following audits has enabled us to reduce the percentage of audited API suppliers in India with a critical HSE level from 35% to 12%.

6. Objectives and targets

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

Regarding suppliers' sustainability assessments, our objective, in line with our together for sustainability target (see IV) is to carry out around 250 assessments per year in order to achieve the full coverage of our high risk suppliers by 2020.

Regarding supplier audits, our objective is to carry out audits of all our critical high risk active pharmaceutical ingredient (API) providers and contract manufacturing providers by 2020. The plan is risk phased:

- 2017-2019: focus on all antibiotics and hormones providers
- 2018-2020: focus on feedstock (synthesis intermediates) providers

7. Supplier development

We support our procurement employees in the implementation of sustainability requirements with targeted Group-wide training measures. We also offer our suppliers a wide range of development and dialogue opportunities on this subject.

During our supplier days, we provide training and information on our requirements. In 2017, we conducted supplier days in the USA, Poland, Brazil, China, Romania, India, Thailand, South Korea, Indonesia, France, Philippines, Vietnam, Czech Republic and Bangladesh.

In 2017, we also conducted supplier training and workshops in China and India in cooperation with PSCI and TfS. Our two industry initiatives offer additional advanced training modules for our suppliers through the TfS Supplier Academy and the PSCI Sustainability Webinars.

IV. OUR INVOLVEMENT IN CROSS SECTORAL INITIATIVES

In 2016, we joined the Together for Sustainability (TfS) initiative. Sanofi is the first French-based healthcare company to become part of this growing consortium of companies supporting sustainable supply chains. This initiative is based on established principles such as the United Nations Global Compact and the Responsible Care Global Charter®.

This initiative gives us access to a large shared platform of supplier assessments and audits, the opportunity to share best practices with our peers and to shape the CSR agenda through large supplier events organized by TfS.

Being part of this initiative, we still benefit from the services of our external partner, Ecovadis, which operates the suppliers' CSR assessments on behalf of TfS.

We believe that being part of this collaborative initiative will improve our capability, jointly with our suppliers, to uphold our CSR commitments and requirements. We consider CSR assessment to be a constitutive element of the suppliers' global performance measurement, and a necessary step for suppliers' selection.

Since 2017, Sanofi is a member of Pharmaceutical Supply Chain Initiative (PSCI). This association is a group of 24 pharmaceutical and healthcare companies who share a vision of better, social, environmental and economic outcomes for their suppliers.

Through this network, Sanofi joins two major work programs:

- Supplier shared audit program: To gain efficiency for both suppliers and Sanofi by avoiding, to the extent possible, multiple suppliers audits through structured sharing of audit information between PSCI members

- Supplier performance improvement program: To establish formal industry guidelines and support suppliers to raise their capability to address ethical, labor, health and safety, and environmental issues.

Our joining of PSCI complements our joining of the TfS initiative. While PSCI is currently focused on the pharmaceutical supply chain, TfS opens up wider sectoral supply chains and adds a key tool to ensure the sustainability of our suppliers: supplier assessments. These assessments enable us to obtain a quick large scale sustainability overview of our overall risky suppliers' portfolio. Based on that overview, we can then deep dive in key areas of our supply chain either through PSCI audits or TfS audits, depending on the sector of our suppliers.

V. OTHER SANOFI COMMITMENTS AND INITIATIVES

1. Direct sustainable sourcing for educational and promotional materials: MedDirect

The procurement function has set up sourcing programs, for items for diabetic patients (injection pad, colorful all-in-one kit), and one for Sanofi-branded items (pen, notepad, sticky notes, USB flash drives) and for print materials, in areas where such items may be distributed in accordance with applicable law and standards. They are produced in various countries around the globe. This initiative is important for several reasons. It contributes to:

- Avoiding human rights violations with respect to working conditions and wages, since labor conditions may be extremely poor for the manufacturing of this type of product (due to component toxicity, poor safety controls, illegal overtime, etc.);
- Avoiding the use of "in between" suppliers (that is, producers, resellers, and wholesalers), thereby helping to safeguard our supply chain management;
- Endeavoring to guarantee that sourcing origins comply with our CSR standards, and allow us to trace production while preserving product quality and safety;
- Making inspections of the products before they leave the factory ;
- Standardizing the materials we use;
- Leveraging savings by bundling volume for the different affiliates.

On-site audits were conducted to monitor our suppliers' compliance with labor, social, and environmental requirements, with the support of an independent, specialized third party on behalf of Sanofi. They included visits to factories, workshops, dormitory buildings, and other facilities, as well as face-to-face interviews with employees. In 2017, a total of 13 site audits took place in Asia.

In 2017 the MedDirect initiative was operational in 34 countries across all nine procurement, covering all our procurement regions worldwide.

2. Charter of intercompany relations in France

In France, Sanofi ratified the national "Charter of intercompany relations between large contractors and small/medium-sized enterprises (VSE-SMEs)." This charter sets out ten commitments for responsible purchasing and aims to build mutual trust and promote innovation between suppliers and customers. The commitments are to:

- Respect the interests of our suppliers by promoting partnerships and well-balanced relationships, reduce the risk of mutual dependency, and ensure financial fairness and a transparent competitive bidding process;
- Contribute to suppliers' economic competitiveness and the international business development of our suppliers, and develop a procurement-forecast management system to facilitate suppliers' businesses and enforce the Total Cost of Ownership (TCO) approach. Environmental and social issues are part of these commitments, as we need to anticipate the CSR challenges (including the potential environmental and social impacts of our procurement policies, sourcing, and specifications) to be prepared for evolving regulatory requirements (energy consumption, carbon footprint, waste treatment), and to ensure that our suppliers comply with environmental and social requirements;
- Promote the development of regional and local territories, and develop partnerships and commercial mediation.

To go beyond our commitment to this charter, we have developed an in-house SME support program. In France, we are working with around fifty start-ups and SMEs, helping them grow faster and hire more people. We have provided these businesses with funding, and also helped them to network with procurement and business development departments at other large companies. To assist them in hiring new staff, we have arranged for them to attend "First Job" forums organized by the French Pharmaceutical Companies

Association (LEEM), and we have supported them with training by offering places on Sanofi professional education courses. Other areas in which we have helped included pro bono expertise and support with international expansion. In 2017, Sanofi's SME program in France was awarded an "A" rating by the SME Charter Observatory and the company also had its "Responsible Supplier Relations" accreditation (first awarded in 2013) renewed by the French Ministry of the Economy and Business Ombudsman.

Sanofi also appointed an internal ombudsman, independent of the procurement function, who is in charge of facilitating the resolution of work-related differences between the company and our suppliers with neutrality, impartiality, and confidentiality.

For more information, see (in French):

- *Charte Relations Fournisseur Responsables* : <http://www.cdaf.fr/referentiel-des-achats/charte-label>

3. Improving hospitality and expense management in Asia

Easyday is a collaborative project led by the compliance and procurement departments in China in response to concerns over hospitality expenses by sales forces. Field forces used to manage promotional activity logistics individually. In 2014 Sanofi helped one of its suppliers develop the Easyday solution: a web and smartphone application, a selection of approved restaurants, payment management (no more cash; all restaurants and field forces were equipped with credit cards and machines), invoice management, control of all events (mystery clients) and expenses, and reporting.

Through this initiative, Sanofi has contributed to shaping its Asian business environment and transmitted ethical best practices in the healthcare sector. The solution is being rolled out in other Asian countries, and other big pharma players are considering working with Easyday.