

SUSTAINABLE SUPPLY CHAIN MANAGEMENT (SUPPLIER ESG ASSESSMENT AND DEVELOPMENT)

SUPPLIER ESG PROGRAM

Ashok Leyland Limited Sustainable Supply Chain Approach was established in 2022. It aimed to ensure the continuity of consistent product and service quality, and compliance with applicable environmental, social and governance regulations of our value chain's upstream activities. This is achieved by continuously working with our new and approved suppliers through a structured process from screening and monitoring to capability development. The Sustainability Goals on value chain is developed in 2022 and our target is to achieve "Net Zero" by 2048 that also consisting of

- 100% significant suppliers assessed on ESG focus areas by 2025 and baselining of our supplier chain on ESG performance.
- Special focus and hand hold to MSMEs (Micro, Small and Medium Enterprises) suppliers under ESG capability programmes
- Continuously improve suppliers who are identified medium to high risk on ESG, based on ESG assessments.
- High performing suppliers on ESG, awarding with further business and non-performing suppliers on ESG with exclusion from business.
- Provide awareness and focus on all forthcoming mandates and regulations by governing agencies and Government of India.

Ashok Leyland ESG Committee was established to oversee development and implementation of ESG strategy. Value Chain is one of Ashok Leyland ESG Strategic Pillars. ESG Committee reviews the processes for tracking the ESG performance and ensure compliance to regulatory ESG disclosures as required and amended from time to time (such as BRSR – Business Responsibility and Sustainability Reporting). The committee meets quarterly to discuss implementation plans, review progress towards sustainability goals, and provide necessary resources.

SUPPLIER SELECTION, EVALUATION AND INDUCTION

Standard Operating Procedure (SOP) on Supplier Evaluation of new suppliers has been designed to provide clear and concise guidelines on assessment for selection and evaluation of capabilities of suppliers for our requirements and inducing new suppliers.

The new supplier assessment consists of 3 criteria: -

1. **Vendor Due Diligence Check:** Consist of below criteria.

Business Relevance: Years in business, company profile, business registration certification and financial stability

Governance: supplier must sign Ashok Leyland Supplier code of conduct, General Purchase Agreement and conflict of interest is verified

2. **Quality, Safety, Environmental, and Labor Standards:** Consider suppliers' facility, product and process. The safety and quality are assessed, audited, and approved by Supply Chain Management team. Environmental, safety, and labor certifications are considered as part of ESG screening criteria.
3. **Overall Capability:** consider suppliers' management system, delivery capacity, lead time, price and payment term.

Based on the capability assessment, Supplier are inducted into Ashok Leyland.

Approved inducted suppliers will undergo below process of sustainable supply chain.

SUSTAINABLE SUPPLY CHAIN FRAMEWORK

SUPPLIER DEVELOPMENT

Identified high-risk suppliers are audited and improvement actions initiated & capability building initiatives.

SUPPLIER ASSESSMENT

Sustainability self-assessment is undertaken by significant suppliers and validation by physical / online by ESG supply chain team



IDENTIFICATION OF SIGNIFICANT SUPPLIERS (SUPPLIER SCREENING)

Significant suppliers are identified by their spending, criticality to business and substitution availability.

SUPPLIER EDUCATION & AWARENESS

Education sessions are arranged to identify significant suppliers on sustainability requirements such as environment, occupational health and safety and human rights, and steps to follow and undertake sustainability self-assessment.

SUSTAINABLE SUPPLY CHAIN FRAMEWORK CONSISTS OF 4 STEPS BELOW:

1. IDENTIFICATION OF SIGNIFICANT SUPPLIERS (SUPPLIER SCREENING)

The Corporate Supply Chain Sustainability team shall conduct business impact assessment to understand supplier impacts to our business continuity. The main criteria to identify significant suppliers are listed below.

- **High volume and/or spending:** Annual purchase volume and 80% of total spend value with suppliers shall be taken into consideration when identifying significant suppliers as supply discontinuity leads to negative business impact.
- **Criticality of products and/or services:** Products and/or services which are critical to our business shall be included as technology leadership, shortage of these products and/or services can create negative impacts to our business such as a drop in sales and reputational damage to our business.
- **Non-substitution of alternative products and/or services:** Suppliers with no similarly alternative products and/or services shall be considered when identifying significant suppliers.

2. SUPPLIER SUSTAINABILITY EDUCATION, AWARENESS AND AWARDS

All new significant suppliers are required to undergo sustainability training session conducted by the Corporate Supply Chain Sustainability team and compulsorily undertake sustainability self-assessment to identify potential sustainability risks of each supplier.

- **Supplier Education:** Corporate Supply Chain Sustainability team arranges sustainability training sessions for suppliers regarding the importance of sustainable supply chain to Ashok Leyland limited businesses, sustainability-related legal requirements such as environment, occupational health and safety and human rights, and steps to follow and undertake sustainability self-assessment.
- **Suppliers Award:** Corporate Supply Chain Sustainability team arranges “**ESG championship competition**” for suppliers with periodicity, suppliers get intimated to participate and awarded according to performance on ESG parameters.

3. SUPPLIER SUSTAINABILITY ASSESSMENT

Identified significant suppliers will undergo Sustainability self-assessment on Environmental, Social and Governance aspect. After submission of self-assessment by supplier, details validation will be done physical visit or on-line by Corporate Supply Chain Sustainability team. The assessment result below 3.5 rating, which rated as medium to high sustainability risk, will be subject to onsite Sustainability Audit yearly basis.

Sustainability risk Levels	Rating
No Risk	4.5 – 5.0
Very Low Risk	4.0 - 4.49
Low Risk	3.5 – 4.0
Medium Risk	3.0 – 3.49
High Risk	Lower than 2.9

4. Supplier ESG Development on Sustainability Risk

- **Audit of significant suppliers:** Significant suppliers rated medium to high sustainability risk (score below 3.5 rating) will be subject to onsite audit by Corporate Supply Chain Sustainability team. The audit process will consist of opening meeting, site inspection and interview, document review and audit closing.

In the case that major non-conformity is found during the audit. The Corporate Supply Chain Sustainability team shall call for immediate actions from the Sourcing & Supply domain team by highlighting that major non-conformity.

The official report with all non-conformities shall be sent out to the suppliers within a week after the audit. Supplier shall fill in corrective and preventive actions and timeline and submit to Corporate Sustainability team within 14 days after the receipt of the report. However, supplier with major nonconformity must submit the improvement action plans within 7 days. The improvement plan will be verified and approved by the auditor.

- **Follow-up audit of existing significant suppliers:** Existing suppliers whose previous audit rating is below 4.0 will be subject to follow-up audit as per defined frequency. The auditor will focus on closing the previous non-compliance issues and follow the same audit process of new significant supplier audited.

The audit rating and frequency of re-audit timeframe is presented in the below table:

Audit rating	Timeframe of re-audit
Excellent (4.5 – 5.0)	Once in 3 years (Desk-assessment)
Very Good (4.0 – 4.49)	Once in 3 years (Desk-assessment)
Good (3.5 - 4.0)	Once in 2 years (Onsite-assessment)
Acceptable (3.0 – 3.39)	Yearly (Onsite-assessment)
Improvement needed (Lower than 3.0)	Yearly (Onsite-assessment)
Improvement needed with major non-conformity	Within 6 months from last audit