SCHAEFFLER

Introduction to Renewable Energy KPI Requirements

Nextra Consulting GmbH

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AGENDA

1 **Introduction**

2 Scope and objectives

3 Resulting requirements for suppliers

4 Q&A

5 Further guidance and support

1. Intro

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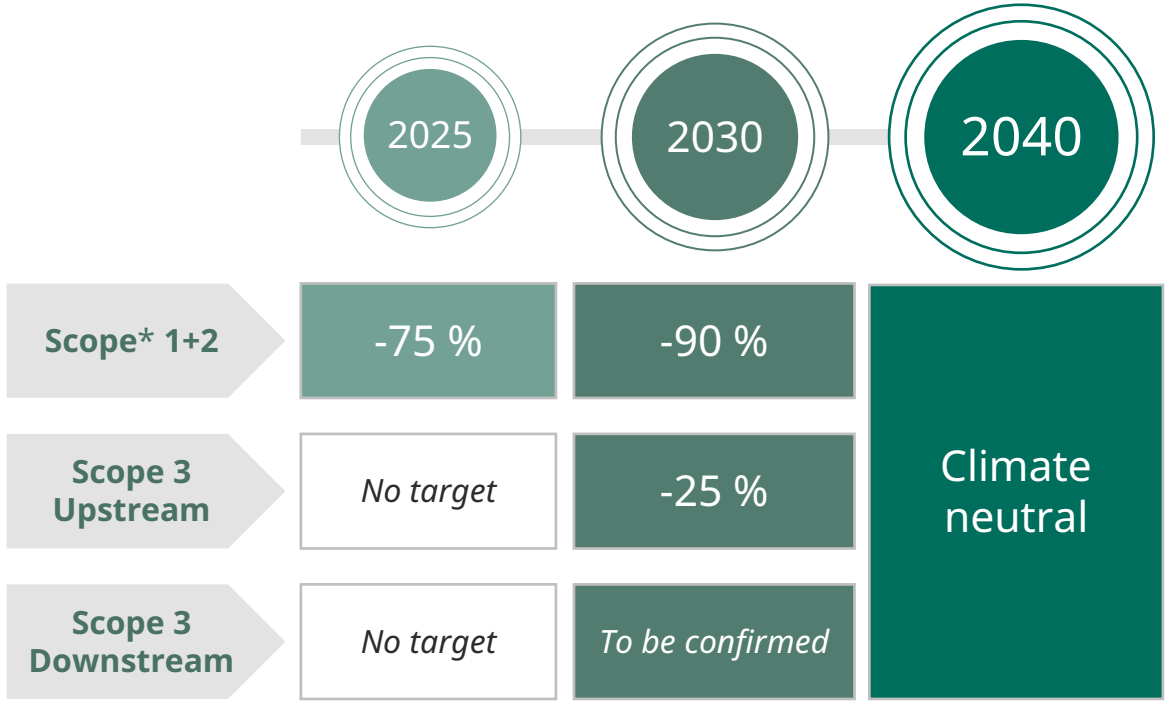
Schaeffler‘s motivation to encourage suppliers‘ transition to renewable electricity (RE)

RE usage poses an important lever for Schaeffler‘s decarbonization efforts in its supply chains

Climate target setting:



Introduction:

- Commitment includes reducing emissions at every stage of supply chain, with **suppliers being expected to integrate environmentally responsible practices** and **reducing their carbon footprint**
- **Several of Schaeffler’s suppliers are already using 100% RE**, motivating Schaeffler to obtain transparency over the current status quo of 100% RE usage in its entire supply chain
- Schaeffler’s concrete target is to **transition its entire supply chain to RE by 2030**, as shift towards (carbon-neutral) renewable electricity poses an **important lever** for Schaeffler’s decarbonization efforts

To **ensure transparency** about status quo and progress of RE transition in the supply chain, a new RE **KPI is introduced**

*According to greenhouse gas (GHG) Protocol corporate standard, a company’s GHG emissions are classified into three scopes.
Source: Schaeffler Sustainability Report 2023

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Relevance of 100% RE transition for suppliers

Transitioning to 100% RE not only contributes to overall corporate sustainability but provides strategic advantages for suppliers

Future regulatory trends and compliance

- Preparing for stricter sustainability regulations and compliance requirements that may increasingly mandate the use of RE in the future
- Reducing the risk of carbon taxes and other emission-related penalties

Reputational and competitive advantage

- Enhancing brand image as sustainability is becoming an increasingly relevant decision-making factor for customers
- Positioning the company as sustainability leader in the industry with greater opportunities to secure long-term partnership (e.g. with Schaeffler)

Increased economic resilience and future cost savings

- Reducing dependence on fossil fuels, thereby mitigating risks from market uncertainties (e.g. price fluctuations) and geopolitical tensions
- Potential long-term cost savings due to prospected price decline of solar and wind energy

Suppliers' transition to 100% RE provides **immediate and long-term strategic benefits**, thereby strengthens suppliers' **overall market position** and **future-proofs their operations**

RE: Renewable Electricity

2. Scope and objectives

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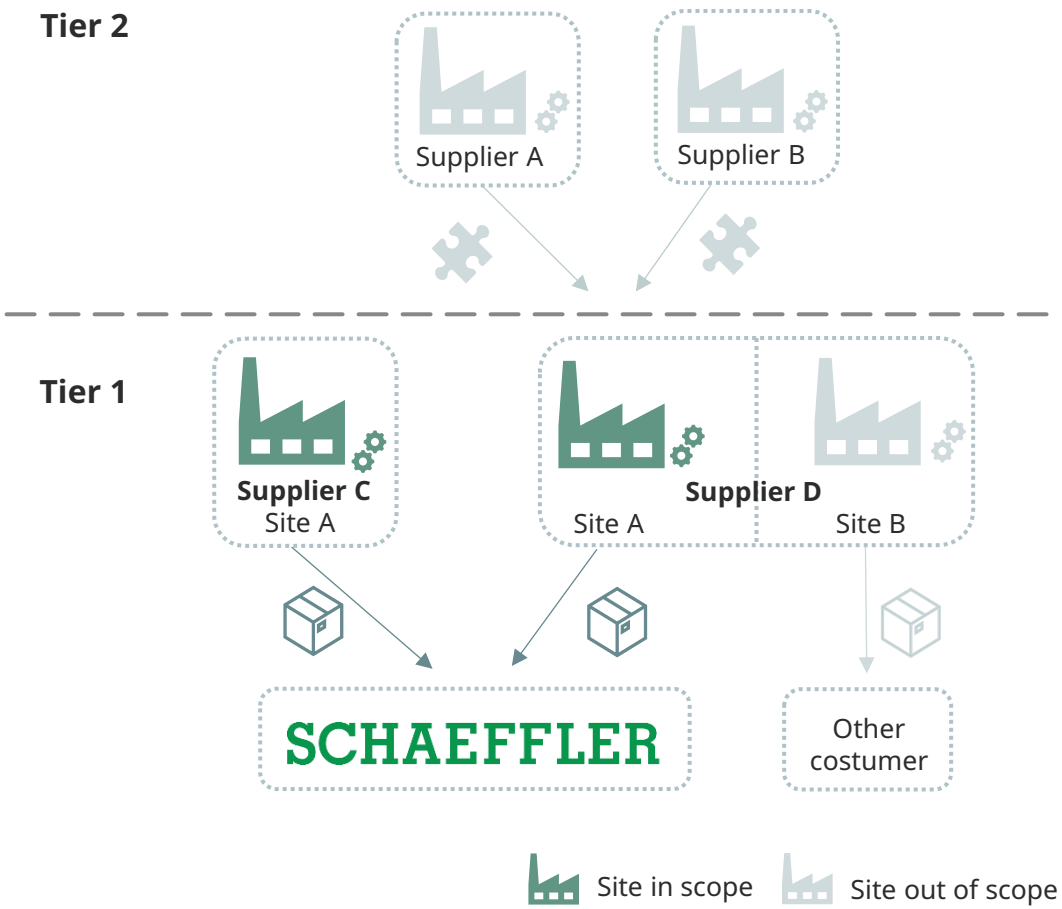
Definition of Schaeffler relevant production sites

Considered in scope are tier-1 suppliers which manufacture products for Schaeffler

Example of relevant production sites:



Definition:

"In scope is **electricity** used by **direct suppliers** at all of **their Schaeffler relevant production sites**."

- ***Electricity:***
  While other forms of energy are also recognized as relevant to Schaeffler's broader sustainability efforts, this definition of RE specifically pertains to electricity.
- ***Direct suppliers:***
  Suppliers that belonging to Schaeffler's tier 1* supply chain
- ***Schaeffler relevant production site:***
  All production sites of the supplier (**incl. subsidiaries**) that **manufacture products for Schaeffler** (incl. parts, materials or similar outputs that are used directly or indirectly in the development of Schaeffler's own products).
- ***Production site:***
  All production sites of the supplier (**incl. subsidiaries**) that **manufacture products for Schaeffler** (incl. parts, materials or similar outputs that are used in the development of Schaeffler's own products).

*While the current focus is on Schaeffler's tier-1 suppliers, it is considered equally important that suppliers actively encourage and support their upstream supply chains towards a transition to 100% RE by taking proactive measures to promote the adoption of RE and measures to reduce GHG emissions.

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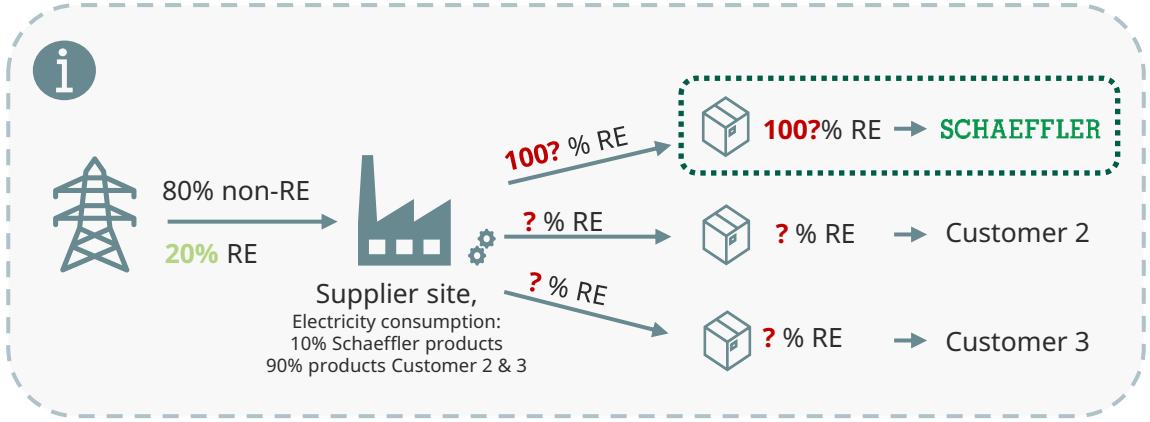
Deep Dive: Handling of suppliers demanding mass-balance option

Mass balancing is not recommended and accepted only if the calculation methodology is externally audited

Introduction to Mass Balancing:

- **Definition:** In this context, **mass balancing** refers to the approach of **attributing the amount of renewable electricity** entering a system (e.g., a supplier site) **to a specific product** sold to Schaeffler. The allocation is made even though the actual electricity used in production may come from a mix of RE and non-RE sources.



- **Example:** A supplier uses 80% non-renewable electricity and 20% renewable electricity. Since the products sold to Schaeffler only account for 10% of the supplier's total electricity consumption, the mass balancing approach would allow the supplier to claim that Schaeffler's products are produced with 100% renewable electricity (assuring that there is no double-counting within the RE share for Customers 2 & 3).

Schaeffler's approach:

- Due to its reduced impact on overall RE transformation (no 100% RE use within sites), and complex verification processes required (e.g. to assure no double-counting), **Schaeffler does not encourage suppliers to adopt mass-balance approaches**

- In **exceptional cases**, i.e. when **suppliers claim they have no other option** but to achieve 100% RE through applying a mass-balance approach, the supplier needs to undergo:
  - **externally audited** mass-balance approach (incl. provision of audit reports to Schaeffler)
  - **active approval** of specific case **by Schaeffler**

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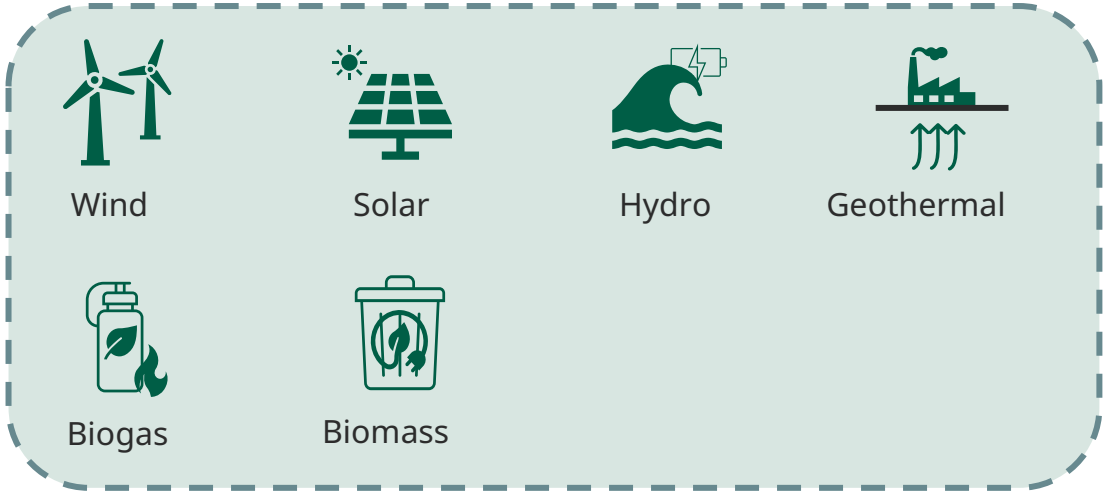
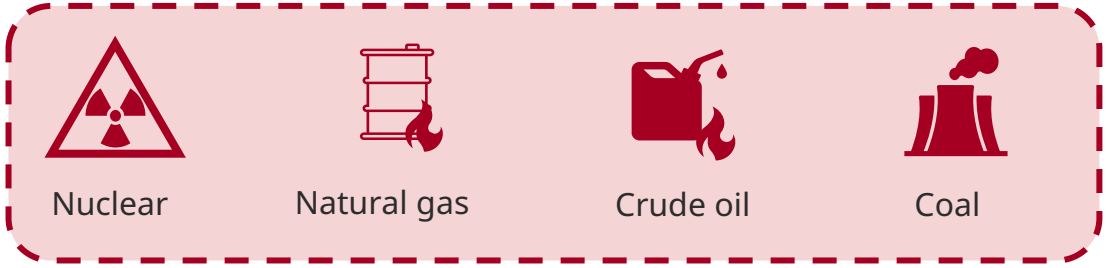
Definition of Renewable Electricity (RE)

Schaeffler refers to electricity from renewable sources as defined according to ESRS

Renewable sources:



Non-renewable sources:



Overview:

- While other forms of energy (incl. heat and chemical energy) are recognized as relevant to Schaeffler's sustainability broader sustainability efforts, **focus of this RE KPI is on renewable electricity**
- With **definition based on ESRS** Annex II, Schaeffler aligns with current regulatory standards:

  *"**Electricity from renewable non-fossil sources**, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas."*

  → Electricity generated from **nuclear power** and other **non-renewable sources is not considered** as renewable.

On **basis of the RE definition**, Schaeffler aims to assess the status quo of suppliers using 100% RE and continuously increase this share until reaching the RE KPI target in 2030.

3. Resulting requirements for suppliers

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Overview of resulting requirements for suppliers

Supplier is required to ensure transition to 100% RE in their production of Schaeffler‘s products

Transition to 100% RE

- Supplier is encouraged to **transition current electricity supply to 100% RE**, if not already achieved
- In addition to own electricity supply, supplier is encouraged to support own upstream supply chain to transition to 100% RE

Provision of datapoints disclosing RE usage

- **New suppliers** are obliged to provide datapoints **with the Request for Quotation** (RfQ)
- **Existing suppliers** are **contacted via SupplyOn (PM) and Coupa (NPM)** to request for datapoints

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Signature of Conformity Statement or Declaration of Intent

- Supplier is requested to sign a **declaration regarding commitment to use 100% RE** as of today (CS) or declared target date (DoI)
- **Conformation of accepting binding standards** (incl. definitions of RE, relevant sites) **and associated supplier expectations** (incl. proof documents, control process)

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Provision of proof documents for random checks

- Suppliers are randomly checked and requested to provide proof documents **demonstrating the use of 100% RE** for all Schaeffler relevant production sites
- Proof documents to be submitted depend on the RE procurement type

RfQ: Request for Quotation; CS: Conformity Statement; DoI: Declaration of Intent;

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Overview of relevant datapoints requested from suppliers

Data points are requested from suppliers to monitor progress towards RE KPI target

Overview:

100% RE today?

Classification, if 100% RE is used by supplier at all Schaeffler relevant production sites* **[yes/no]**

If „**no**“:

Target year for 100% RE?

Target year of supplier to use 100% RE at all Schaeffler relevant production sites **[target year]**

Optional for progress tracking:

Average RE share of all Schaeffler relevant production sites [percentage value]

Objectives:

- Two main types of datapoints:
  - Assessment whether **supplier already achieves 100% RE** at all Schaeffler relevant production sites

  If answer is “no”:

  - Assessment **when supplier plans to achieve 100% RE** at all Schaeffler relevant production sites
- Datapoints are to be **submitted based on specific definitions** (incl. RE, relevant production sites) to ensure alignment with Schaeffler‘s objectives

Implementation:

- Data collection process:
  - **New business relation:** With provision of Request for Quotation (RfQ), mandatory provision of datapoints (Starting mid 2025)
  - **Existing business relation:** From Q1/2025, Schaeffler initiates supplier mailing with request for datapoints

*Schaeffler relevant production site: All production sites of the supplier (incl. subsidiaries) that manufacture products for Schaeffler (incl. parts, materials or similar outputs used in the development of Schaeffler's own products).
RfQ: Request for Quotation;

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Introduction to Conformity Statement (CS) and **Declaration of Intent** (DoI)

With signature, suppliers take full responsibility of complying with 100% RE as of now or a target date

Overview:

Conformity Statement

Declaration of Intent

While **CS and DoI** have similar contents, they **differ in their temporal commitment**:

- **CS:** Immediate 100% RE usage, as of the date of signature
- **DoI:** Achieving 100% RE usage by clearly specified target date, latest 2030

CS: Conformity Statement; DoI: Declaration of Intent;

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Introduction to Conformity Statement (CS) and **Declaration of Intent** (DoI)

With signature, suppliers take full responsibility of complying with 100% RE as of now or a target date

Main Contents:

1. Introduction
2. Background and objectives
3. Definitions and scope of application
4. Duration of commitment
5. Obligations of Suppliers
6. Quality criteria
7. Consequences of non-compliance
8. Contact
9. Confirmation and signature

Core functions:

- **Terminology:** Both documents (CS and DoI) provide a clear overview of the relevant definitions (e.g. RE, Schaeffler relevant site) used
- **Guidance:** Documents set clear expectations to fulfill Schaeffler's requirements regarding the use of RE, enabling suppliers prepare for transitioning to 100% RE
- **Commitment:** Signing documents allows companies that have not yet achieved 100% RE to demonstrate their ambitions and commit to a clear target year for reaching this objective

CS: Conformity Statement; DoI: Declaration of Intent;

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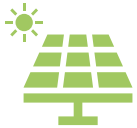
Deep Dive: Overview of accepted renewable electricity procurement types

Procurement options differ in their contribution to the overall transition towards renewable electricity



Self-generation

- The company owns facilities to **produce and consume its own RE**, e.g. through **on- and off-site** solar or wind installations
- Installations can be **on-grid**, i.e. allowing surplus RE to be sold back to the grid; or **off-grid**, by using energy storage systems, e.g. batteries

Power Purchasing Agreements (PPAs)

- Long-term **contract between company and RE producers**, e.g. with wind and solar farms
- PPAs can be **on-site**, i.e. RE facilities are built on company's property but operated by a third party; or **off-site**, i.e. RE is procured by remote facility

Unbundled Energy Attribute Certificates (EACs) & green tariffs

- **Unbundled EACs**: Companies **purchase certificates** representing proof that 1 MWh of RE has been produced, with **electricity being sourced separately**
- **Green Tariffs**: Programs offered by utilities, with **companies paying premium to ensure electricity procured is renewable**

Depending on the company-specific RE procurement strategy, utilizing a **combination of the different RE procurement types** may be relevant **to cover overall electricity demand** (e.g. by using on-site installations while simultaneously entering into PPAs).

PPA: Power Purchasing Agreement; EAC: Energy Attribute Certificate;

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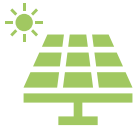
Overview of proof documents accepted for respective RE procurement types

Proof documents must be submitted upon Schaeffler's request after signing the Conformity Statement



Self-generation

a) **With EACs**

EAC cancellation statement
Confirms cancellation of retained EACs from own generation, ensuring EACs are not double-claimed

b) **Without EACs** (on-site)

Proof of generation
Discloses data on electricity amount generated (incl. third-party verification) and the metering methodology

+ **Declaration of self-consumption**
Discloses producer identification and data on electricity amount generated and self-consumed

Power Purchasing Agreements (PPAs)

a) **With EACs**

EAC cancellation statement

+ **PPA contract**
Agreement specifying central aspects as type of electricity generation and amount procured

b) **Without EACs** (on-site)

PPA contract

+ **Proof of generation**

+ **Declaration of self-consumption**

Unbundled Energy Attribute Certificates (EACs) & green tariffs

a) **RE is procured** (electricity provider manages EACs)

Power supply contract
Discloses buyer identification, contract duration, tariff type and electricity mix procured

+ **EAC cancellation statement**

+ If no EAC cancellation statement or information on RE share is available:
Certificate of attestation or similar
Confirms that sufficient EACs have been cancelled and information about electricity mix provided

b) Grey electricity is procured (company manages EACs itself)

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Further necessary information and data to be submitted on request entails e.g. **MWh figures, invoices** (in accordance with antitrust and confidentiality laws)

PPA: Power Purchasing Agreement; EAC: Energy Attribute Certificate;

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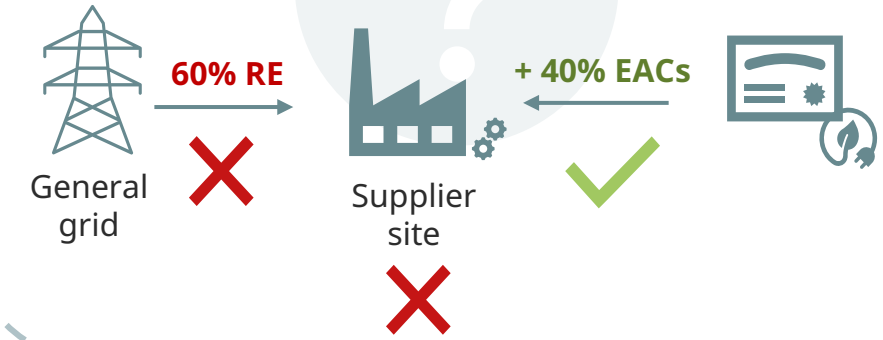
Deep Dive: Practical examples

Claiming 100% RE for green tariffs and grid electricity requires the provision of sufficient underlying EACs in any case

Example:

My grid mix shows 60% of renewable electricity and 40% of non-renewable electricity. Would it be sufficient to acquire EACs for the 40% share of non-renewable electricity only?



Explanation:

No, claiming the grid mix of RE is double-claiming use of RE which other companies have actively purchased for themselves. **While you can claim the 40% share of RE by acquiring sufficient EACs, you must also provide evidence for the 60% RE through sufficient EAC cancellation statements from your electricity** supplier to substantiate this claim.

EAC: Energy Attribute Certificate;

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Deep Dive: Practical examples

Claiming 100% RE for green tariffs and grid electricity requires the provision of sufficient underlying EACs in any case

Example:

I have a green tariff with my electricity supplier. Thus, can I claim 100% RE?

Explanation:

Yes, but **in addition to the electricity supply contract**, in order to claim 100% RE, you are required to **provide evidence through sufficient EAC cancellation statements (or similar, e.g. Certificate of attestation) from your electricity supplier**.

EAC: Energy Attribute Certificate;

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Next steps for Schaeffler‘s existing suppliers

Overview

1. **Identification of relevant sites:**
   - In accordance with definition of “Schaeffler relevant production sites”, identify relevant sites and check current RE shares of respective sites

2. **If relevant: Develop and implement RE transition plans:**
   - In case your organization is not yet using 100% RE, start conceptualizing and implementing strategies to transition to 100% RE in your electricity supply

3. **Data collection and submission:**
   - Begin organizing and collecting relevant datapoints on RE usage of suppliers’ relevant production sites
   - Submit relevant datapoints on SupplyOn/Coupa within the specified timeframe

4. **Signature of relevant documents:**
   - Depending on current RE usage, review and sign the Conformity Statement (CS) or Declaration of Intent (DoI) confirming your commitment to associated RE targets

5. **Collection of proof documents:**
   - Regularly collect relevant proof documents required to be able to provide them to Schaeffler if being selected in random control process

CS: Conformity Statement; DoI: Declaration of Intent;

5. Q&A

Q&A

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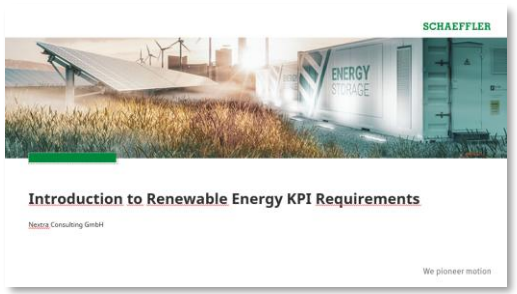
Overview of further informative documents and contact options

To prepare for Schaeffler‘s data collection process, suppliers is offered a webinar, FAQs and a contact person

Recorded webinar session will be provided



Webinar slides will be provided

In addition, FAQ sections with questions are provided

Contact option in case of queries:

First contact person within Schaeffler remains your **respective buyer**.

Thank you.

Back-Up

Glossary I/II

Term	Definition
CS (Conformity Statement)	Formal document in which a supplier commits to using 100% RE immediately upon signing. By signing the CS, the suppliers take full responsibility for complying with this commitment, ensuring that all electricity consumed meets the specified renewable criteria.
DoI (Declaration of Intent)	Formal document in which a supplier commits to achieving 100% RE by a clearly defined target date, which must be no later than 2030. By signing the DoI, the supplier takes full responsibility for complying with this commitment, ensuring that all electricity consumed by the target date declared meets the specified renewable criteria.
Direct supplier	Suppliers that belonging to Schaeffler's tier 1 supply chain.
EAC (Energy Attribute Certificate)	EACs operate within a book-and-claim system to trace the attributes of each megawatt-hour (MWh) of electricity from the producer to the consumer. For renewable EACs, they serve as evidence of the unique characteristics of each MWh of generated renewable electricity. EACs must provide all relevant details about the generation of the underlying green electricity, including the location, fuel type, and the specific month or quarter of generation. Each EAC must be linked to 1 MWh of actual green electricity generation, regardless of the size of the facility or its proximity to the consumer.
EECS (European Energy Certificate System)	Refers to the harmonized system for European GoOs. It was established to promote the generation and consumption of RE within the EU and enables the tracking and verification of RE production through the issuance of certificates.
GoO (Guarantee of Origin)	Refers to the specific type of EAC, mainly used in Europe.
Green tariff	Pricing plan offered by utility companies that allows customers to purchase renewable electricity directly from the utility at a premium rate. This electricity is sourced from renewable energy projects, such as wind or solar farms, and is supplied through the existing power grid.
Mass balancing	In the context of renewable electricity, mass balancing provides a methodological framework for verifying and substantiating claims of RE consumption attributed to the manufacturing specific products or services.
on- grid / off-grid	Refers to the electricity source being either connected to the grid (on-grid) or operating independently from it (off-grid).
PPA (Power Purchasing Agreement)	A long-term contract between a company (the buyer) and an electricity producer (the seller). Through a PPA, the buyer agrees to purchase a specified amount of renewable electricity at a fixed price directly from the electricity producer. This arrangement allows companies to secure renewable electricity without owning or operating their own generation assets.
Production site	All production sites of the supplier (incl. subsidiaries) that manufacture products for Schaeffler (incl. parts, materials or similar outputs that are used in the development of Schaeffler's own products).

Glossary II/II

Term	Definition
PVO (Purchasing Volume)	Refers to the total value of goods or services that a company procures from its suppliers over a specific period. It includes all purchases made to support the company's operations, such as raw materials, components, and services.
RE (Renewable Electricity)	Electricity from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas (cf. ESRS Annex II). This means that electricity generated from nuclear power and other non-renewable sources is not considered as renewable.
REC (Renewable Energy Certificate)	Refers to the specific type of EAC, mainly used in the US and Canada.
RE KPI (Renewable Electricity Key Performance Indicator)	Refers to Schaeffler's commitment of 70% of its PVO to be produced with 100% RE. The RE KPI is designed to measure and track the progress of the company's progress towards transitioning towards RE within its supply chain.
Schaeffler relevant production site	All production sites of the supplier (incl. subsidiaries) that manufacture products for Schaeffler (incl. parts, materials or similar outputs that are used in the development of Schaeffler's own products).
Scope 1/2/3 emissions	According to greenhouse gas (GHG) Protocol corporate standard, a company's GHG emissions are classified into three scopes. Scope 1 includes direct emissions from sources the company controls, like company-owned vehicles or on-site electricity production. Scope 2 covers indirect emissions from the generation of purchased electricity, heating, or cooling used by the company. Scope 3 encompasses all other indirect emissions throughout the value chain, such as those from suppliers or the use of sold products. The scopes help companies identify, measure, and reduce their total GHG footprint across different areas of impact.
Tier 1/2	In supply chain management, Tier 1 and 2 refer to different levels of suppliers based on their proximity to the purchasing company. Tier 1 suppliers are the direct suppliers to a company. They provide components, products, or services that are immediately used in the company's production process or operations. Tier 2 suppliers are one step further back in the supply chain, providing goods or services to the Tier 1 suppliers.

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