Vestas’ Social Management System

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1. INTRODUCTION
The world needs renewables in its transition to a low-carbon economy. By developing and delivering sustainable energy solutions, Vestas is playing an essential role in the transition to a low carbon economy, and ultimately tackling the issue of climate change. However, ensuring that this transition is inclusive and responsible for the communities where Vestas is present, is key to running our business sustainably. Vestas is therefore committed to respecting human rights by reducing our negative impacts on local communities where we are present, whilst enhancing positive impacts, as an integral part of how we do business.

Financiers are increasingly understanding that managing social risks is a critical success factor to complete large infrastructure projects, including wind parks, particularly in emerging markets. Without the SLO, the project risks becoming delayed or even failing as the local communities withdraw their support and potentially block the project’s progress.

To operationalise our commitment, Vestas uses the concept “Social License to Operate” (SLO). Building on this concept, Vestas has developed its own social framework, informed by good international industry practice, to create the social license to operate connected to the construction and operation of wind parks. The international standards referred to include the International Bill of Human Rights, the fundamental conventions of the International Labour Organisation (ILO), and globally recognised international financial performance standards such as the IFC Performance Standards on Environmental and Social Sustainability.

Furthermore, core to Vestas’ approach is the UN Guiding Principles on Business and Human Rights (UNGPs). The UNGPs provide the framework for how businesses can avoid causing or contributing to adverse human rights impacts, by having in place a (i) human rights policy, (ii) due diligence process, and (iii) access to remedy for victims of abuse.

This document outline how Vestas has operationalised our human rights methodology in our market approach supporting Customers creating a bankable project.

Kristian Heydenreich,
Senior Director, Compliance & CSR
2. VESTAS’ SOCIAL LICENSE TO OPERATE

Gaining, and maintaining, the Social License to Operate (SLO) is increasingly recognised as a critical success factor to complete large infrastructure projects, particularly in emerging markets. If a wind park project fails to maintain the SLO, it is likely that the project will experience disruptions and delays, such as road blockades, strikes, and ensuing litigation, causing project cost overruns. Ultimately, continued degradation and eventually loss of the SLO can force the cancellation of a project, resulting in financial loss and reputational damage.

Unlike legal licenses, it is not possible to apply for a social license. The SLO exists when a project has the ongoing approval and acceptance from the local community and other stakeholders. Hence, Vestas - or its Customer - may have a social license for one project but not for another project in the same country/region.

Vestas’ experience in several emerging markets shows that the below three core factors may contribute to loss of SLO if not managed well.

3. VESTAS’ FRAMEWORK

At Vestas, we act with integrity in everything we do. This means making the right decisions when faced with difficult situations and ensuring that our actions match our values of Accountability, Collaboration, Simplicity and Passion.

Our values and external commitments are transferred into our Code of Conduct, policies and procedures setting the global standard for all employees in Vestas and for Vestas’ business partners, and extending beyond national borders, cultures and local traditions.

3.1 Commitments & Policies

Vestas is a signatory to the United Nations Global Compact and the World Economic Forum’s Partnering Against Corruption Initiative. Furthermore, we are guided by the International Bill of Human Rights, the Fundamental Conventions of the International Labour Organisation, the IFC Performance Standards on Environmental and Social Sustainability, the Organisation for Economic Co-operation and Development’s (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

The Code of Conduct and related global policies are approved by Vestas’ Executive Committee, routinely reviewed and communicated to internal and external stakeholders on Vestas’s intranet and website.
• **Vestas Employee Code of Conduct** and **Supplier Code of Conduct**
  The Vestas Employee Code of Conduct sets the standard for all employees to be able to act with integrity and to make the right decisions when faced with difficult situations. The Vestas Supplier Code of Conduct outlines the minimum requirements that our Suppliers shall respect and comply with when conducting business with Vestas.

• **Vestas Human Rights Policy**
  Vestas recognises its responsibility to respect human rights as set out in the United Nations Universal Declaration of Human Rights and according to the framework outlined in the UN Guiding Principles on Business and Human Rights. This commitment, which includes our expectations for Vestas’ business partners, is described in the Vestas Human Rights Policy and implemented across the organisation globally.

• **Vestas Freedom of Association and Collectively bargaining**
  Vestas commits to respecting employees’ rights to freedom of association and collective bargaining without interference and free from discrimination. Vestas promote these rights in relations with business partners, as described in the Supplier Code of Conduct, and will seek to prevent or mitigate any adverse impacts on this right by business partners which are directly linked to Vestas’ operations, products or services.

• **Vestas Anti-Slavery and Human Trafficking Statement**
  Pursuant to the United Kingdom’s Modern Slavery Act 2015, and to support greater transparency in this area, Vestas prepares a statement annually. The Statement addresses the steps Vestas has taken to ensure that there is no modern slavery in our own business and our supply chain. Vestas recognises that Modern Slavery (slavery, servitude and forced or compulsory labour and human trafficking) is an emerging global issue, which we need to be alert to and prepared to act on.

3.2 Vestas’ Social Due Diligence
Vestas’ Social Due Diligence (SDD) is tailored to the wind industry, implemented globally, and is today an integral part of Vestas’ Sales gate process. The process identifies and assesses adverse social risks\(^1\), and seeks to avoid, minimise and where not possible compensate for the adverse impact caused or contributed to by Vestas. The findings will inform the preparation of project-level social mitigation plans, tailored to the risks, whilst also seeking to maximise local community opportunities.

The SDD process is applicable to i) Engineering, Procurement and Construction (EPC) projects outside high income OECD countries\(^2\), ii) Supply & Installation projects of 100MW or above outside high income OECD countries, and iii) projects in OECD countries where there is a risk for impacting indigenous peoples lands, territories or livelihoods\(^3\).

**Identification and assessment of social risk**
The SDD process is started in the tender phase. Customer and cross-functional dialogue are key to ensure that we in a timely manner clarify any uncertainties linked to identified potential social risks and the division of social roles and responsibilities around i.e. stakeholder engagement, land acquisition, local employment, cultural

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\(^{1}\) Social risks: Vestas has conducted a corporate-wide Human Rights Impact Assessment across our Value Chain. Part of the process was to “translate” and link social issues addressed in the Vestas Social Due Diligence methodology with potential adverse human rights impacts.

\(^{2}\) High income Countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea Rep, New Zealand, Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Slovenia, UK, US.

\(^{3}\) OECD countries where the Indigenous People Index (Verisk Maplecroft) is rated ‘Extreme’ or ‘High’.
customs and heritage, community health and safety, or access to remedy for impacted communities and workers.

The Environmental and Social Impact Assessment (ESIA), Environmental and Social Management Plan (ESMP) and the Stakeholder Engagement Plan (SEP) prepared by the developer are the main documents for Vestas’ SDD. These documents contain a wealth of information about the local context and potential social risks and is relevant to Vestas when preparing a project specific Vestas’ social mitigation plan.

In case of complex projects, or where the project documentation does not meet Vestas’ SDD standards, Vestas can decide to make use of external consultants and experts to inform our SDD.

Finally, the SDD is a live document and can be reviewed if there are significant changes to the project development, construction or service phase.

Below matrix describe main social issues addressed in the Vestas SDD.

<table>
<thead>
<tr>
<th>Social issue</th>
<th>Description of potential adverse social/human rights impact</th>
<th>IFC PS (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder engagement</td>
<td>Absence of, or poor, local community consultation and engagement, not taking into consideration the local context such as literacy and educational levels, languages, gender inclusion or inclusion of other vulnerable groups. Impact on project affected indigenous people present in the project area but failure in obtaining a Free Prior and Informed Consent (FPIC).</td>
<td>PS 1 PS 7</td>
</tr>
<tr>
<td>Land acquisition, land use and livelihood</td>
<td>Lack of clarity on land ownerships and current land use; project situated in an area currently, historically or potentially affected by conflict or violence; any negative impact on livelihood e.g. crop damages, land loss, loss of residential or business infrastructure; restriction on the land use during Construction or Operation and Service.</td>
<td>PS 5 PS 7</td>
</tr>
<tr>
<td>Displacement and Resettlement</td>
<td>Project causing resettlement (physical and/or economic displacement), forcible eviction of communities for the project, absence of or poor resettlement action including in community consultation, inadequate, poor or delayed compensation, vulnerable groups being disproportionately affected in resettlement, no development benefits for displaced communities and persons.</td>
<td>PS 5 PS 7</td>
</tr>
<tr>
<td>Local Employment and procurement opportunities</td>
<td>Absence of or inadequate local employment offerings and non-adherence by contractors or Customer to any legal requirements pertaining to local labour and material or non-fulfilment of promises made related to this in community consultations/interactions; division of labour in terms of unskilled, temporary labour among others.</td>
<td>PS 2</td>
</tr>
<tr>
<td>Demographic movement</td>
<td>Influx of construction workers from outside the project area or even migrant workers leading to local community tension (e.g. employment related) and also strain on local infrastructure and services.</td>
<td>PS 2 PS 8</td>
</tr>
<tr>
<td>Cultural customs and heritage</td>
<td>An area with wind potential can face serious change in local demographic and cultural environment due to influx of outside labour, behaviour incompatibilities, unacceptable practices, even health related issues (transmissible or endemic diseases). This could adversely affect local customs and leading to resentment</td>
<td>PS 8 PS 7</td>
</tr>
</tbody>
</table>
among communities. Any chance findings of cultural heritage related, and culturally significant historical, archaeological structure or property involves great degree of sensitivity of local communities.

Community Health and Safety

Communities living in close vicinity to a project can experience adverse disturbance and human health effects from e.g. noise, dust, and traffic accidents. They also may face increased exposure to diseases, hereunder water and vector borne diseases, and communicable diseases.

Access to remedy

Grievance mechanism is important and needs to be accessible and working throughout the project life to allow project affect communities to express their concerns and register any project related complaints.

**Key social mitigation measures**

To track and communicate progress on implementing the Vestas social mitigation plan, Vestas may decide to hire a project-level social coordinator. The social coordinator is working in close coordination with the Customer’s Community Liaison Officer and the respective Vestas project team towards gaining and maintaining SLO.

Based on our experiences and informed by the corporate-wide Human Rights Impact Assessment Vestas has defined four core areas, highlighted below, as being critical to gaining and maintaining the SLO, and supporting successful delivery and commissioning of a project:

(a) **Local Employment and ‘Local-Local’**

Vestas seeks to foster project ownership amongst the communities by creating and offering suitable local direct job opportunities through contractors and subcontractors and enhancing alternative sources of livelihoods through indirect employment/income generation opportunities. Most job opportunities are provided in the construction phase where there is a need for civil and electrical work. In addition, Vestas seek to enhance unskilled job opportunities by employing traffic marshals and patrol leads (especially for projects in difficult and distant terrains), road safety educators, green teams, among others. Sourcing of project construction related materials as per local laws and international norms and standards needs to be taken into consideration and as much as possible this needs to be ‘local-local’, referred to as from immediate vicinity, district, province as applicable.

(b) **Empower and Demystify facts about wind parks through Social Awareness Training**

Educating local communities about wind energy is an important step to dispel any misconceptions and unfounded fears, provide community safety training and community liaison as part of efforts to obtain the SLO. Furthermore, training of employees in cultural behaviour is key to avoid any tension between migrant workers and local communities.

(c) **Community Engagement**

Initially, the project developer is responsible for establishing relations with the people affected by a wind park through public consultations, whereby project information is disclosed, and communities can voice concerns. Community engagement will continue throughout the project life. Vestas also plays an important role in maintaining a sound relationship with the people impacted by the project.

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4 “local-local” procurement: Differs from Local Content by providing benefits to the local community by creating business opportunities with local enterprises in immediate vicinity to a project i.e. from the district or provincial level.
Furthermore, a robust and effective operational grievance mechanism does not only establish avenues to air concerns or grievances but also involves regular interactions from the local communities through the social coordinator. This process ensures that the concern or grievances from community members are heard, responded to and managed through a defined process.

(d) Community Development
The project should identify and work on critical community development areas to uplift the communities socially and economically and improve their overall quality of life in aspects such as social infrastructure development support (i.e. support for healthcare, education, drinking water), skills training for local employment, local cultural activities for community bonding, among others. This not only creates goodwill for the project in the communities, but also provides opportunities to create ‘ambassadors’ in community who can further communicate to community members positively about the project.

As a practice, Vestas’ focus on community development activities is primarily for the period of construction to show commitment in a project area.

Vestas coordinates community development activities with the Customer to synergise efforts and ideally resources too, and to maximise the outcomes and reach.

Tracking and reporting on progress
Following the SDD process and subsequent action planning for SLO and related activities, it is important to have an in-built monitoring, reporting and communication mechanism in place to track mitigation measures, capture progress and resolve any issues or establish necessary course correction that may be needed.

Progress on social mitigation measures is reported to the customer on a monthly basis as part of the Health, Safety and Environmental statistic.

The in-built monitoring mechanism will also help in preparing for any external or third-party audit by the lenders of the project if this should be requested. Documentation and transparent reporting is key and regular monitoring provides an opportunity to improve.

3.3 Stakeholder engagement & the Operational Grievance Mechanism
Stakeholder engagement
Meaningful stakeholder engagement is key to Vestas. In addition to Vestas’ commitment to respect the human rights of local communities and other stakeholders, we also believe that building a sound relationship with stakeholders, and in particular Project Affected People\(^5\), will strengthen our understanding of local communities’ concerns, doubts, and expectations. Moreover, a sound stakeholder relationship will contribute to maintaining the SLO.

While approval and acceptance of a project is gained during the project development phase by the Customer through public consultations, the trust building typically first starts when the project begins to materialise during construction and later operation. Vestas’ role is to support our Customer maintaining the SLO by ensuring an ongoing reporting back to the communities.

\(^5\) Project Affected People: people or organisations that might be directly affected by the project and/or have been identified as most vulnerable to change. They need to be engaged in identifying potential impacts and decision-making on mitigation measures.
Vestas’ Social Management System

Vestas’ reporting will depend on our Scope of Work, but can include:

- update if new Environmental, Health and Safety or Social risks emerge;
- progress on construction work;
- progress on implementing project commitments;
- monitoring results on issues that interest the community;
- communicate the benefits generated by the project;

Vestas’ stakeholder engagement toolbox includes a variety of engagement tools that can be applied depending on whether we need to inform, involve or collaborate with the stakeholder. The tools are adapted to reflect cultural customs, literacy levels, languages, and educational levels. Furthermore, Vestas seeks to maintain continuity in who deals with the community. Its effectiveness will be reflected in the acceptance, dialogue and business continuity.

**Operational Grievance Mechanism**
Vestas is committed to remedying actual adverse impacts on individuals, workers, and communities that we may have caused or contributed to. Where adverse impacts are committed by third parties with links to Vestas through our services, we seek to use our leverage to ensure that those impacted are remedied. For this purpose, Vestas has in place an Operational Grievance Mechanism (OGM) during the construction of our wind farm projects. The OGM is available without obstructing access to other remedies.

Vestas’ Operational Grievance Mechanism (OGM) provides a transparent and fair way for workers, groups or individuals impacted by a project, to raise a concern, complaint or doubt. The Vestas OGM should not be seen as a stand-alone process or a substitute for stakeholder engagement, but rather an integral element of Vestas’ approach to obtain and maintain the SLO and thereby reduce risks, act as early warning, build relationships and save cost.

In addition, Vestas’ global whistle-blower hotline “EthicsLine”, can be used to report observed or suspected malpractice.

**The process**
The Vestas OGM is tested globally. It enables an effective handling of concerns or grievances raised by a project affected party. Moreover, the grievance can be anonymous; the stakeholder is not obliged to facilitate any personal data.

The communication channels can vary depending on local customs and characteristics. The main channel is face to face, but Vestas also uses suggestion boxes, an email address, a toll-free telephone hotline, and regular meetings with affected communities.

In case of a grievance, the Customer and Vestas shall conduct a due diligence to determine (a) if the grievance has any merit, (b) to gain an understanding of the facts associated with the case, (c) if Vestas or any contractor is involved.

Vestas ensures that records and evidence are registered and tracked in the Vestas global Incident Management System (IMS).

The closing timeline of the grievance will depend on each case. However, regardless of whether a complaint is accepted or not, a response to the stakeholder must be promptly provided, in an understandable and transparent way.
Grievance categories
A complainant, be it a group or an individual, can raise a concern, or a grievance related to below issues e.g.:

<table>
<thead>
<tr>
<th>Grievance categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livelihood</td>
<td>Issues could be due to e.g. damage to water wells, take of more land for access roads than agreed too, damage to traditional tracks, mismanagement of dust impact from transport and vehicles on roads on crops or animals causing respirational deceases, accidents involving animals, inadequate restoration of sites.</td>
</tr>
<tr>
<td>Community health &amp; safety</td>
<td>Issues with community health &amp; safety could be due to e.g., lack of information/awareness of impacts, supplier non-compliance with project code of conduct or related policies, accidents involving people due to increased traffic and movement of heavy machinery, social ills (e.g. prostitution, drugs, alcoholism, sexually transmitted diseases etc), impact from flicker, noise or dust from transport and vehicle on roads, pressure on local health resources, social conflicts etc.</td>
</tr>
<tr>
<td>Cultural heritage and customs</td>
<td>Issues with cultural heritage and customs could be due to e.g. damage to archeological, religious, or historical sites, undermining of cultural values and indigenous rights.</td>
</tr>
<tr>
<td>Misalignment on benefits</td>
<td>Issues with project benefits could be due to, e.g., mismanagement of community expectations to local employment, uneven job distribution/competition for jobs, uneven community development distribution etc.</td>
</tr>
<tr>
<td>Security guards</td>
<td>Issues with security guards could be due to complaints or concerns about the security arrangements and acts of security personnel expressed by e.g. affected communities, employees, contractors and which could result in resettlement, distrust and escalation of events.</td>
</tr>
<tr>
<td>Land compensation</td>
<td>Issue with land compensation could be due to e.g., flawed land acquisition process, land ownership being non-transparent, inadequate resettlement plan, lack of free, prior and informed consent from indigenous people etc.</td>
</tr>
<tr>
<td>Other, please write matter</td>
<td></td>
</tr>
</tbody>
</table>

Reporting
Vestas reports the number of community grievances received in our Annual Report and Sustainability Report.

Effectiveness criteria
The Vestas OGM is designed to be culturally appropriate (e.g. language, educational level), be dialogue-based and apply the below guiding principles:
<table>
<thead>
<tr>
<th>Legitimate</th>
<th>by enabling trust from affected stakeholders and by being accountable for the fair and objective conduct of the process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessible</td>
<td>by being known to affected stakeholders and by providing assistance where relevant</td>
</tr>
<tr>
<td>Predictable</td>
<td>by having clear and known procedure in place with an indicative time frame and resolution options</td>
</tr>
<tr>
<td>Equitable</td>
<td>by engaging stakeholders in the final design of the grievance mechanism and seeking that the parties have reasonable access to information, advice and expertise</td>
</tr>
<tr>
<td>Transparent</td>
<td>by keeping parties informed about progress for example by letter, telephone</td>
</tr>
<tr>
<td>Rights-compatible</td>
<td>by respecting the confidentiality of all parties to the grievance handling process and verify that those outcomes are consistent with internationally recognized human rights</td>
</tr>
<tr>
<td>A source of continuous learning</td>
<td>by identifying trends and patterns for improving the mechanism, and by providing appropriate training to staff and contractors on dealing with grievances and preventing future harms</td>
</tr>
</tbody>
</table>

*Table 1: Effectiveness criteria for the Vestas OGM*

### 4. IMPLEMENTATION OF THE SOCIAL MANAGEMENT SYSTEM

The development and implementation of the Social Management System is anchored with the Group CSR Department, whilst operational management of the social mitigation plans are anchored with the Construction teams.

To ensure that the SMS continues to meet external expectations, the Group CSR team remain up to date with current trends and changing global and national scenarios, changes in industry practices, and developing international norms and standards with direct or indirect implications to Vestas. Continuously developing the Group CSR team's knowledge and skills is key to our work in informing and preparing the business on social risks and supporting their management.

Lastly, this SMS manual will be reviewed on a regular basis and were found necessary, related policies and procedures will be corrected and improved.