

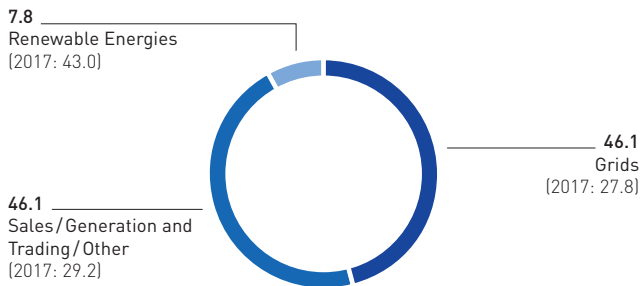
Procurement

Efficient and sustainable procurement processes

Purchasing at EnBW views itself as a partner for generating added value within the Group. It ensures the supply of materials and services at the best possible quality/cost ratio and thus strengthens the competitiveness of the company. EnBW places great emphasis on the efficient design of its procurement processes for achieving cost-effective purchasing results, as well as on sustainable procurement taking into account the requirements of national laws, EU law and the Group’s internal guidelines. In order to manage the procurement processes, a system using various different performance indicators is used. It continually delivers a realistic picture of the current situation in purchasing and enables a comparison of the target and actual situation, as well as the prompt implementation of control measures.

The **procurement volume** of the EnBW Group in 2018 (without ITOs) (Glossary, p.154) amounted to around €2.5 billion (previous year: around €4.1 billion).

Procurement volumes of the EnBW Group by segment
in %



A large number of suppliers and service providers contribute to the services rendered by EnBW. They play an important role in the company’s efforts to achieve a leading position on the energy market. **Supplier management** promotes successful cooperation between suppliers and EnBW because it makes the performance of the suppliers transparent and also makes continuous optimisation in partnership possible. The careful selection of our business partners is a part of our risk management system and supports the observance of legal regulations and internally defined quality standards.

Sustainable procurement begins with the careful selection of business partners. Central purchasing at EnBW AG uses a standardised **pre-qualification process** for this purpose.

Different thresholds are set depending on the product group and internal risk classification. Suppliers are required to provide a self-assessment via the EnBW supplier portal on whether they practise sustainable measures in the areas of data protection, quality management, environmental management, the respect for human rights, the fight against corruption and occupational health and safety. This self-assessment was completed by 90% of our suppliers by the end of 2018 (measured by procurement volume). Centralised documenting of certificates enables us to ensure that all the necessary prerequisites for awarding a contract are fulfilled. In general, the information is checked every three years on the basis of a renewed self-assessment. In the General Terms of Purchase of the EnBW Group, the supplier undertakes to observe the regulations on work safety, to pay a minimum wage and to observe the compliance and environmental principles of EnBW. In addition, the supplier undertakes to observe the regulations in the German Occupational Safety Act, the legal regulations for technical equipment, accident prevention regulations, the regulations on hazardous materials and any regulations on technical safety and occupational medicine in the “Additional Work Safety Terms of Purchase”.

As a result of the increasing decentralisation of energy generation caused by the focus on renewable energies, the complexity of the supply chain is growing and integrated **supply chain management** is becoming more important. This requires a comprehensive examination of the value added chain and the early identification of opportunities and risks. Especially with regard to the selective internationalisation of the business, central purchasing has developed an integrated supply chain management system in close cooperation with the business and functional units. EnBW gave another indication of its aim to tap into selected international growth markets in the area of renewable energies with its entry onto the Swedish market and its first activities in France, Taiwan and the USA in 2018.

As part of the recertification audit according to ISO 14001:2015, it was confirmed that issues that must be handled by the **environmental management system** are firmly integrated into the processes in central purchasing and that the traceability of relevant goods is ensured over their entire life cycles. Purchasing has firmly anchored sustainability and the protection of the environment into the General Terms of Purchase. In the section on environmental management, suppliers undertake to support the environmental principles of EnBW – especially those relating to environmental and energy management, climate protection and energy efficiency, emissions protection, biodiversity, water and soil protection and the use of resources.

Subsidiaries of EnBW that are not overseen by central purchasing address a number of non-financial aspects in purchasing with their own mechanisms.

Energiedienst Holding (ED) works together closely with central purchasing at EnBW AG to procure important product groups using joint invitations to tender and framework contracts, as well as in the associated pre-qualification processes. In addition, orders are placed largely with regional suppliers from Germany, Switzerland or neighbouring EU countries. ED believes that cooperation with these suppliers has proven its worth due to good supplier relationships and short response times. The purchasing terms at the ED Group were revised in 2018 with respect to environmental management requirements.

Purchasing at Pražská energetika (PRE) ensures that suppliers observe practices such as the payment of social security contributions, the settlement of tax liabilities and the prevention of money laundering. Potential suppliers must verify their compliance with these aspects by either submitting a sworn declaration or by presenting corresponding certificates when bidding for invitations to tender. The fulfilment of these obligations is also stipulated in supplier contracts.

At Stadtwerke Düsseldorf (SWD), sustainability aspects are anchored in the compliance guidelines, environmental management system manuals and process descriptions. In the area of procurement, SWD pays particular attention to the use of environmentally friendly and sustainable products. It also uses clauses in its supplier contracts to reinforce the fight against corruption and bribery and ensure observance of labour and social laws.

The fundamental principles for procurement at VNG are regulated by a code of conduct, the management handbook and Group guidelines. Aspects such as the prevention of corruption – which is embedded in the compliance management system and environmental management system – are a fixed component of procurement processes.

Responsible raw materials procurement in the coal sector

Origin of coal supplies

Hard coal will continue to play an important role for EnBW as a source of energy to ensure a reliable and economic supply of

electricity. Some 3.82 million t of coal were delivered to EnBW power stations in 2018 (previous year: 4.55 million t of coal). This corresponds to a procurement volume of almost €300 million.

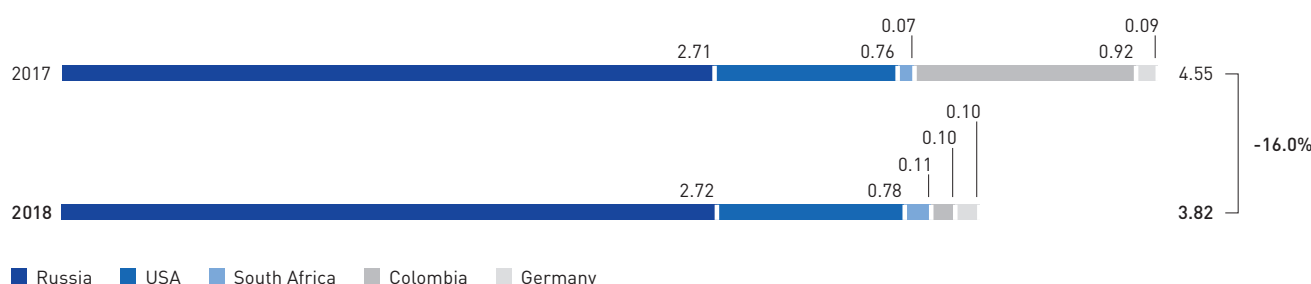
Russia was able to significantly expand its leading position on the generally declining market in Western Europe due to its geographical proximity to the shipping ports. In contrast, Colombian coal now only plays a subordinate role in Western Europe because Colombian mining companies have been able to secure higher prices for their coal in America, Asia and the Mediterranean region. It was thus for commercial reasons that EnBW purchased significantly less coal from Colombia than in the previous year, irrespective of sustainability aspects.

The origin of coal sourced from Russia can only be localised to the mining region of the Kuznetsk Basin (Kusbass) due to the large number of coal mines and coal producers in the country. A similar situation exists in South Africa, where the coal is sourced from the Mpumalanga Province. In contrast, it is possible to precisely trace the source of coal from Colombia because the three major Colombian coal producers have their own shipping ports. EnBW AG purchased Colombian coal from the producers Drummond and Glencore for its power plants in 2018. The coal from the USA originated almost exclusively from underground mining in the Illinois Basin and the Northern Appalachians.

EnBW places importance on maintaining a balanced procurement portfolio to avoid becoming dependent on individual producing countries, producers or traders, and the associated price and supply risks. EnBW now covers the largest part of its coal requirements through contracts held directly with selected producers. In addition, contracts with trade intermediaries are concluded which define a quality standard but not the source of the coal. More information on coal procurement at EnBW can be found at www.enbw.com/coal-procurement.

The opportunities and risks in relation to procurement and raw materials procurement can be found in the “Report on opportunities and risks” (p. 118).

Origin of coal supplies to EnBW power plants in million t



Positioning, overarching concepts and due diligence for the protection of human rights

In accordance with the Guiding Principles on Business and Human Rights of the United Nations, EnBW strives to procure coal responsibly and thus to fulfil its human rights responsibilities. Due to the special challenges faced in the area of coal procurement, the ongoing CSR performance (Glossary, p. 152) of current and potential coal suppliers is regularly discussed on the basis of the **EnBW rules of conduct** governing the responsible procurement of hard coal and other raw materials (www.enbw.com/verhaltenskodex) and used to determine any future action. The coal suppliers are evaluated on the basis of relevant international standards, such as the UN Global Compact, the OECD Guidelines and the IFC (International Finance Corporation) Performance Standards. The latest studies by competitors and international initiatives also flow into the evaluation of producers, such as information and contributions from civil society organisations.

Our code of conduct in combination with internal guidelines acts as the foundation for the targeted achievement of responsible coal procurement. The annual assessment of coal producers is carried out using the EnBW sustainability index, which covers all areas of the code of conduct. In addition to regular auditing of the sustainability performance of business partners, a multi-stage auditing process will come into force in the event of suspected breaches of the code, which can lead to the termination of the business relationship or exclusion from our procurement process. The results of the analyses in the sustainability index are discussed as part of a control process by the committee for the responsible procurement of raw materials (comprising members from all relevant specialist departments) at least once a year. Findings from discussions with external stakeholder groups, such as representatives from civil society, legal experts for the individual countries and human rights experts, also flow into these analyses. If any deviations from the minimum standards are identified, corrective measures are implemented in cooperation with the producers for existing supply contracts. The committee for the responsible procurement of raw materials met on two occasions in 2018, to discuss the sustainability performance of all significant supplier companies on the basis of existing findings from the sustainability index, as well as current issues related to the import of raw materials.

Current developments

EnBW continued to follow its approach for the responsible procurement of coal in the reporting year and implemented the measures approved by the Board of Management in 2017.

Although imports from **Colombia** fell sharply in 2018 – irrespective of sustainability issues as described above – EnBW continued its dialogue with Colombian producers for the ongoing improvement of their CSR performance. In February 2018, representatives from EnBW visited two coal producers in the Cesar mining region. In addition, numerous individual discussions were held with different governmental and non-governmental players. The exchange of information and opinions focussed on, amongst other things, the working and living conditions in the region, the importance of coal exports for the development of Colombia and the contribution being made by the coal producers to the implementation of the peace process in the country.

The trip to Colombia was also used to collect information for a **progress and development report**. The purpose of the report is to analyse the improvements achieved in the working and living conditions in Colombian coal mining in the period from 2013 to 2018 – especially with a focus on the engagement of coal importers. The results of the study will be used to derive possible courses of action for EnBW that could form the basis for further dialogue with coal producers. The aim is to agree a clear roadmap in cooperation with the coal producers about how coal producers can fulfil human rights responsibilities. The report is due to be completed in 2019.

EnBW also intensified its efforts to collect information on coal mining in **Russia** in 2018, especially with respect to the working and living conditions in the most important mining region of Kusbass. This also included requesting CSR information from coal producers. Other insights were gained through discussions with representatives of Russian and German civil society organisations who deal with the social and ecological impact of coal mining in Russia. These discussions mainly focussed on the insufficient level of information on CSR aspects in the region and problems encountered when visiting the coal mines. It also became clear during the talks that NGOs in Russia take a different approach to discussions about potential problems. Direct confrontation with companies in the region is unusual and there is generally no open dialogue between the companies and NGOs on an equal footing. It is thus all the more important for EnBW to find opportunities in this area to influence the CSR efforts made by the Russian coal producers. In order to identify measures that can be taken, discussions are also being held with other companies that source coal from Russia.

In preparation for future (liquid) gas contracts with business partners from various countries, preliminary human rights assessments were carried out that then flowed into the subsequent procurement process.