

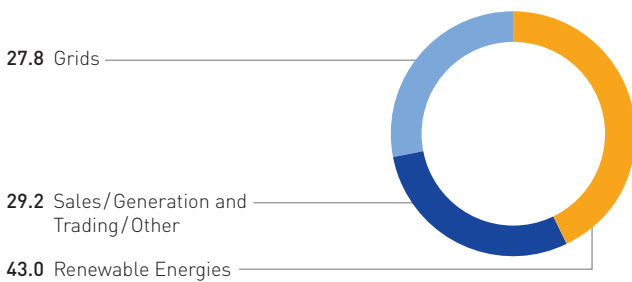
Procurement

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 – while 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 2017 (without ITOs) amounted to around €4.1 billion (previous year: around €2.4 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. This is connected with the desire to procure high-quality materials and services that are safe and socially acceptable.

Sustainable procurement begins with the careful selection of business partners. Central purchasing at EnBW AG uses a standardised pre-qualification process for this purpose. Starting from a certain procurement volume, suppliers are required to provide a self-assessment via the EnBW supplier

portal about 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 submitted by 93% of our suppliers by the end of 2017 (measured by procurement volume). Centralised documenting of certificates enables us to ensure that all the necessary prerequisites for awarding a contract are fulfilled. The information is updated every three years on the basis of a renewed self-assessment.

Companies in which EnBW has a participating interest that are not overseen by central purchasing address a number of non-financial aspects. Challenges in the area of human rights do not exist in the opinion of EnBW due to the existing minimum standards in Europe, where the vast majority of the suppliers are based.

Energiedienst Holding (ED) works closely together 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 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. In addition, the purchasing guidelines have been revised with the aim of bundling procurement orders to a greater extent.

The purchasing department at Pražská energetika ensures that key sustainability aspects are observed by suppliers, such as the payment of social security contributions, the settlement of tax liabilities and the prevention of money laundering. Potential suppliers are required to 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 defined in the supplier contracts.

Stadtwerke Düsseldorf uses compliance guidelines, environmental management system manuals and process descriptions to fight corruption and bribery, as well as for the protection of the environment.

The fundamental principles for procurement at VNG-Verbundnetz Gas are regulated by a code of conduct, the management handbook and Group guidelines. Aspects such as sustainable environmental protection and the protection of corruption are fixed components of the procurement regulations and the compliance management system.

In order to identify potential new sources of supply, such as in Asia, and to expand the supplier portfolio, market analyses on

global procurement markets are carried out and meetings with suppliers are held. Procurement plays an important role in the strategically important expansion of the portfolio of power plants in the area of renewable energies. EnBW was able to achieve significant savings in the area of procurement for onshore and offshore wind power plants.

Due to the growing focus on results in purchasing, suppliers increasingly attempt to make supplementary claims above and beyond the originally agreed order volumes. In order to reduce the risk of supplementary claims, contract management is working on further improving the general quality of the contracts for supplier relationships. One measure is, for example, the close cooperation between the legal, technology and purchasing departments, especially in the field of onshore and offshore wind power plants.

The opportunities and risks in relation to procurement can be found in the "Report on opportunities and risks" (p. 95).

Responsible raw materials procurement in the coal sector

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

In October 2017, the Board of Management of EnBW confirmed the existing approach for the responsible procurement of coal and also resolved additional measures. The aim is to significantly strengthen the company's influence on the Colombian producers and also improve their CSR performance. For this purpose, EnBW will strengthen the influence it has over producers through the targeted expansion of direct supplier relationships. By adding CSR clauses to direct supply contracts, the producers will be obligated to observe the EnBW code of conduct. The first contract based on the resolutions made by the Board of Management was already concluded at the end of 2017, which will significantly increase the proportion of direct supplier relationships with Colombian producers over the next few years.

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, especially in Colombia, the current CSR performance of potential coal suppliers is regularly discussed

on the basis of the rules of conduct governing the responsible procurement of hard coal and other raw materials (www.enbw.com/verhaltenskodex), which were adopted in July 2014, 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 the producers, such as information and contributions from civil society organisations.

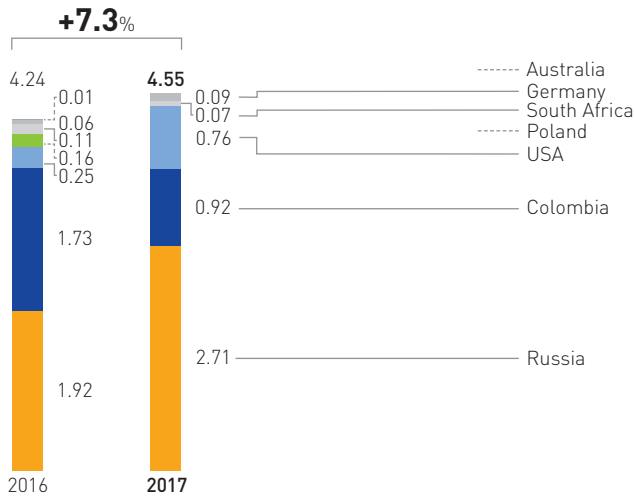
Our code of conduct in combination with an internal implementation guide act as the foundations for the targeted achievement of responsible coal procurement. The annual assessment of coal producers is carried out using the EnBW sustainability index, which covers all areas of the code of conduct. In addition 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 stakeholders 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, where necessary, in cooperation with the producers for existing supply contracts. The committee for the responsible procurement of raw materials met on two occasions in 2017, to discuss the sustainability performance of all significant supplier companies on the basis of existing findings from the sustainability index.

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 4.55 million t of coal were delivered to EnBW power stations in 2017 (previous year: 4.24 million t of coal). This corresponds to a procurement volume of €340.4 million. In the reporting year, Russia further strengthened its position as the main country of origin for coal supplies. The share accounted for by Colombian coal fell significantly.

Origin of coal supplies to EnBW power plants

in million t



As the three major coal producers in Colombia have their own shipping ports, it is possible to precisely trace the source of the coal from this country. The Colombian coal delivered to EnBW power plants was sourced via various contracts, primarily from the producers Drummond and Prodeco. Coal from the USA originated mainly from coal mines in the Illinois Basin, where the controversial method of mountaintop removal mining is not used. A small amount originated from non-traceable sources in the USA. The origin of coal sourced from Russia can only be localised to the mining region due to the large number of coal mines and coal producers in the country. The Russian coal sourced by EnBW originates from the Kusnezsk Basin.

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 covers the largest part of its coal requirements through contracts with trade intermediaries, which usually define quality standards but not from where the coal originates. In addition, direct business relationships exist with selected coal producers which we will expand in the future. More information on coal procurement by EnBW can be found on our website at www.enbw.com/kohlebeschaffung and in our Energiewende blog at www.dialog-energie-zukunft.de/infografik_kohle.

The opportunities and risks in relation to raw materials procurement can be found in the “Report on opportunities and risks” (p. 95).

Observance of the code of conduct and other measures

All current coal suppliers fulfil the minimum requirements of the code of conduct. The developments in Colombia, particularly in relation to the implementation of the peace process, is a special area of focus. In order to continue to discuss and agree suitable measures in cooperation with the suppliers in the sense of the direct, constructive dialogue practised over the past few years, discussions have been held with representatives of the Colombian government and civil society. In addition, EnBW is expanding its activities in Russia. We have been supporting, for example, a project headed by the UNDP (United Nations Development Programme) and the WWF (World Wide Fund For Nature) for identifying and evaluating the sustainability activities of companies in the coal sector. The further development of our own measures for responsible coal procurement is significantly influenced by the recommendations of the National Action Plan for Business and Human Rights from the German government – with EnBW having intensified its discussions with governmental and non-governmental representatives for this purpose.