

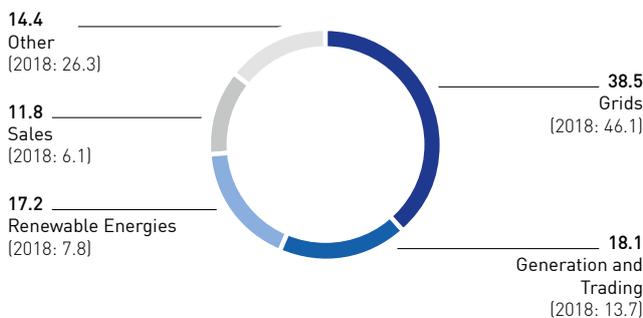
# Procurement

## Efficient and sustainable procurement processes

Our purchasing department views itself as a **partner for generating added value within the Group**. Its goal is to ensure the supply of materials and services at the best possible quality/cost ratio and thus strengthen the competitiveness of the company. We place great emphasis on the efficient design of our 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 2019 (without ITOs) (Glossary, from p. 139) amounted to around €2.8 billion (previous year: around €2.5 billion).

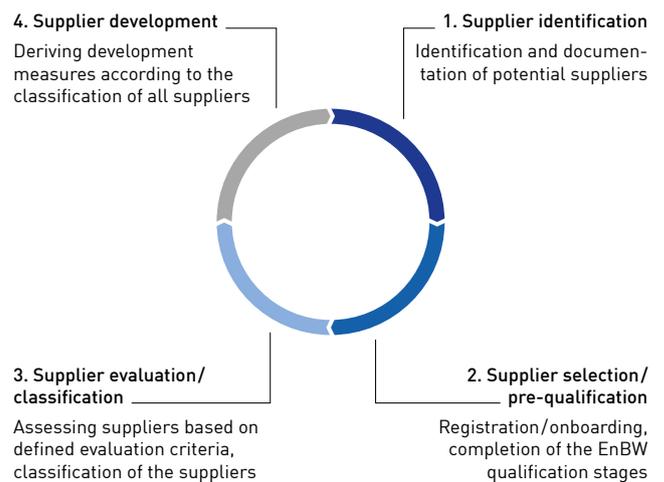
**Procurement volumes of the EnBW Group by segment in %**



A large number of suppliers and service providers contribute to the services we render. They play an important role in our efforts to achieve a leading position on the energy market. **Supplier management** promotes successful cooperation with our suppliers 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. Especially with regard to the selective internationalisation of the business, central purchasing is also developing an integrated **supply chain management system** in close cooperation with the business and functional units.

Sustainable procurement begins with the careful selection of business partners. Central purchasing at EnBW AG uses a standardised **pre-qualification process for this purpose**. Suppliers are required to provide a self-assessment via our 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 almost 90% of our suppliers by the end of 2019 (measured by procurement volume). The General Terms of Purchase of the EnBW Group and the additional purchasing regulations regarding occupational safety define other detailed requirements for our suppliers.

### Supplier management process



Our **subsidiaries** that are not overseen by central purchasing address non-financial aspects in purchasing using 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.

Purchasing at the companies of **Pražská energetika (PRE)** ensures that suppliers pay social security contributions, settle their tax liabilities and do not engage in money laundering, amongst other things. 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 as a way to reinforce the fight against corruption and bribery and to 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 protection 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. A total of 3.16 million t of coal was delivered to our power plants in 2019 (previous year restated: 3.81 million t of coal). This corresponds to a procurement volume of €170 million (previous year: almost €300 million).

Russia was able to further strengthen its leading position on the generally declining market in Western Europe due to its geo-

graphical proximity of the shipping ports. In contrast, Colombian coal has generally become less significant in Western Europe, in particular, because Colombian mining companies have been able to secure higher prices for their coal in America, Asia and the Mediterranean region. Due to these general market developments, we sourced the majority of our coal from Russia and the USA.

We place 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. 82% of our coal requirements are covered by contracts held directly with selected producers. The remainder is sourced from contracts concluded with trade intermediaries which generally define a quality standard but not the source of the coal. In addition, we maintain close contacts with other potential producers and traders to avoid any dependency on one single producer.

The Russian coal was sourced from the mining region of the Kuznetsk Basin (Kusbass) and was primarily mined by the producers SUEK and Kuzbassrazrezugol (KRU). The American coal was sourced from underground mines in the Illinois Basin and the northern Appalachians. The main producers were Murray Energy and Consol Energy. The Colombian coal was supplied by the company Drummond. The South African coal was supplied to us as part of a trading contract and was sourced from the Mpumalanga Province.

Further information on our coal procurement is available at [www.enbw.com/coal-procurement](http://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. 103).

### Origin of coal supplies to EnBW power plants<sup>1</sup>

in million t



<sup>1</sup> The figure for the previous year has been restated.

### 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, we strive to procure coal responsibly and thus to fulfil our human rights responsibilities. Due to the special challenges faced in the area of coal procurement, the ongoing CSR performance (Glossary, from p. 139) 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](http://www.enbw.com/verhaltenskodex)) and used to determine any future action, especially requesting further specific information from selected

suppliers. The coal suppliers are evaluated on the basis of relevant international standards, such as the UN Global Compact. The latest studies by competitors and international initiatives flow into the evaluation of producers, as do specific information and contributions from civil society organisations.

Our rules of conduct in combination with internal guidelines act as the foundation for our business activities. The annual assessment of coal producers is carried out using the EnBW sustainability index, which covers all areas of the rules of conduct. In addition to regular auditing of the sustainability performance of coal suppliers, a multi-stage auditing process will come into force in the event of suspected breaches of the rules,

which can lead to the termination of the business relationship or exclusion from our procurement process. When new contracts are due to be concluded, the results of the analyses in the sustainability index are discussed with participation from all relevant specialist areas including representatives from the trading, compliance and sustainability departments. 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. In 2019, there were several meetings of these representatives to discuss, in particular, the sustainability performance (Glossary, from p. 139) of the Russian coal producers on the basis of existing findings from the sustainability index, as well as current issues related to the import of raw materials.

### Current developments

We have used extended measures to focus particularly on the coal producers from Russia and Colombia in the reporting year.

#### Russia

Due to the continuous increase in coal imports from Russia, we have also continuously intensified our efforts to fulfil our human rights responsibilities with respect to the Russian coal suppliers over the past three years. In the process, we are able to call on our experience from and the approaches we took in our engagement in Colombia.

We want to obtain better information on the working and living conditions in the mining regions in Russia, continue to strengthen our relationships with stakeholders and clearly communicate our minimum requirements for responsible coal procurement to our coal suppliers. We have thus carried out more in-depth research into the most important coal producers for our Russian coal supplies, sought direct contact with companies with requests for information about selected sustainability issues such as environmental protection and work standards and also carried out a business partner audit of the coal suppliers again in 2019 in cooperation with the compliance department due to enhanced public reporting requirements. In individual cases, we needed to verify the ownership structure and obtain further information about public controversies. For this purpose, we consulted with our competitors in order to increase the level of information on Russian coal producers in the Kusbass region and clarify how we can continue to positively influence the sustainability performance of the producers through dialogue and on-site inspections. Moreover, we are including CSR clauses in all direct business contracts concluded with Russian companies.

In November 2019, EnBW representatives travelled to Moscow and the Kusbass region to discuss sustainability issues with the producers relevant to us, namely SUEK and KRU. We discussed our requirements for occupational safety and compliance and, in particular, environmental protection, resettlement and compen-

sation issues with both governmental and non-governmental players. The itinerary also included a tour of the mines from which we receive our main supplies. This allowed us to gain our own impression of additional measures being taken for water purification and the rules for maintaining an appropriate distance between residential areas and the mines. We were also able to address different solutions for environmental protection and for handling the concerns of residents. There are plans to examine the implementation of further measures in future trips to Russia in 2020 and to revisit the coal suppliers from the Kusbass region from whom we source our coal, so that we can examine the progress being made in respecting human rights along the value added chain.

#### Colombia

Although imports from Colombia have generally fallen sharply since 2018, we have continued the dialogue with Colombian producers in order to achieve ongoing and long-term improvement in their CSR performance (Glossary, from p. 139). The main focus of the engagement in Colombia was the completion of our previously announced progress and development report. The results presented in this report demonstrate how the Colombian mining companies in the Cesar region have set up and expanded the internal structures for complying with international human rights standards over the last five years. This includes a clear commitment to respecting human rights and internal management systems. The report analyses the most important effects with respect to sustainability along the coal supply chain. The main focus is placed on the areas of occupational safety and health, relationships with unions, resettlement of communities, environmental and health protection and security and combating violence. Overall, the progress and development report shows that the mining companies that were investigated had made progress over the last few years within their sphere of influence, even though there is still a need for these issues to be continuously addressed, also in cooperation with other producers, the government and above all local residents. On the basis of the results of the report, we are working with producers on further plans for action to improve the situation in these mining areas. Some representatives from civil society have criticised the results of the report and terminated their previously constructive dialogue with EnBW about coal procurement. We do not agree with the sweeping accusations that we have played down the severity of the issues and have handled the situation in Colombia uncritically and point instead to the extensive data and facts presented in the report. We are also available for objective dialogue with the NGOs in the future.

#### Other issues

In addition, we carried out (preliminary) investigations into the sustainability and compliance of producers from various countries with whom we may conclude (liquid) gas contracts in the future. From a sustainability perspective, we have not yet identified any anomalies with those companies with which we currently have an existing contractual relationship that would necessitate a more in-depth investigation into the companies.