

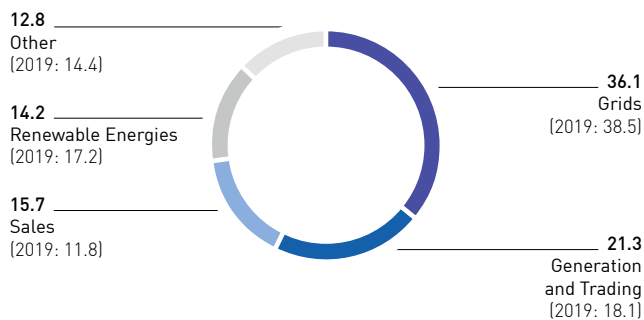
Procurement

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 2020 (without ITOs) (Glossary, from p. 138) amounted to around €3.2 billion (previous year: around €2.8 billion).

Procurement volumes of the EnBW Group by segment in %¹

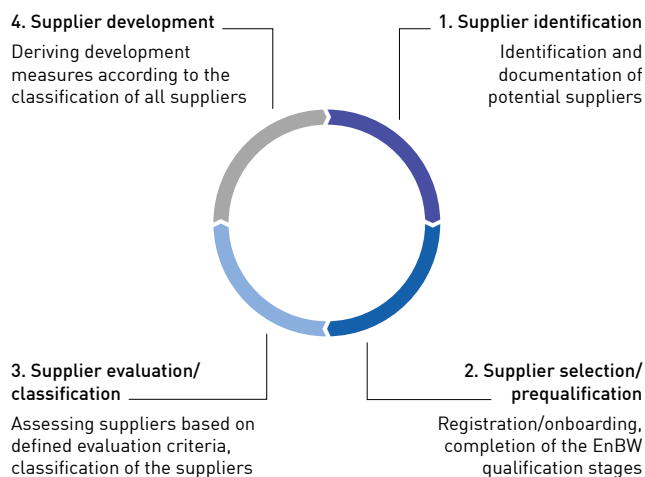


¹ The figures do not add up to 100% due to rounding differences.

A large number of suppliers and service providers 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 optimization 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 internationalization of the business, central purchasing at EnBW AG 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 standardized **prequalification process** for this purpose. Suppliers are required to provide a self-assessment via our supplier portal on whether they have sustainable measures in place in the areas of environmental management, occupational health and safety, the respect for human rights, the fight against corruption, data protection and quality management. This self-assessment was completed by almost 90% of our suppliers by the end of 2020 (measured by procurement volume).

Supplier management process



The **coronavirus pandemic** had a significant impact worldwide on supply and demand along the supply chain in 2020. This resulted in some cases in legal and economic consequences that made having an effective supplier management system crucial. As an energy company and operator of critical infrastructure we are acutely aware of the responsibility we have – not only during this crisis. In order to assess the impact the coronavirus pandemic will have in the future, we work with various, in some cases extreme, scenarios. Purchasing has used these to identify critical operating resources and any supply risks have been largely excluded due to our multiple supplier strategy and strategic stockpiling of the majority of these critical operating resources. We anticipate that any potential delays to supply will continue to have only a minor impact even in the future.

Respecting human rights and protecting the environment are key pillars of our culture. In cooperation with our business partners, we aim to improve the situation with respect to sustainability across the entire supply chain. We are thus planning to make our procurement process more sustainable in the future – especially with respect to social and ecological aspects. As part of a **sustainable procurement project**, a Supplier Code

of Conduct (SCoC) has been developed. It will be introduced in 2021 as a shared set of values and an important criterion for the selection and development of our suppliers. The aim is to integrate it into the procurement process for all goods and services in order to supplement the minimum requirements in the pre-qualification process with sustainability aspects. We will be able to identify and reduce social and ecological risks in this way.

Switching over to use **recycled paper** certified with the Blue Angel environmental label for any paper that is required internally or for customers is part of the measure “Paper reduction and recycling” in the EnBW sustainability program (p. 35f.). Central purchasing at EnBW AG made this switch in 2020.

Various **automation and digitalization initiatives** have been introduced in central purchasing at EnBW AG with the aim of simplifying our processes even further and, in particular, ensuring that any recurring procurement activities are carried out with the minimal amount of effort. This will allow us to concentrate on valuable and future-oriented strategic growth themes in the Group, such as the expansion of renewable energies and broadband (Glossary, from p. 138).

Our **subsidiaries** that are not overseen by central purchasing at EnBW AG 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 prequalification processes. In addition, orders are placed largely with regional suppliers from Germany, Switzerland or neighboring EU countries.

Purchasing at the companies of **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 fulfillment 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 labor 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 fixed components of procurement processes.

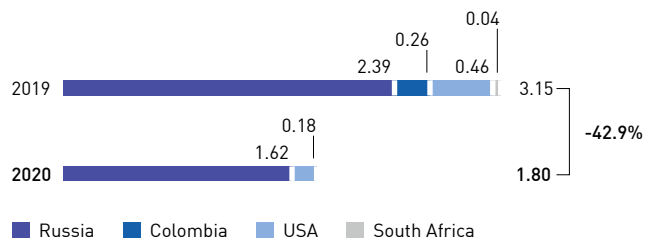
We also refer you to the details provided in the “Report on opportunities and risks” (p. 103).

Responsible raw materials procurement in the coal sector

Origin of coal supplies

With a view to the phasing out of coal-fired generation in Germany and the aim of making EnBW climate neutral by 2035, hard coal will be gradually replaced by more climate-friendly energy sources. Nevertheless, hard coal will still play a fundamental role for EnBW as a source of energy over the next few years to ensure a reliable and economic supply of electricity. Coal deliveries to our power plants have fallen continuously over the last five years from 4.24 million t of coal in 2016 to 1.80 million t in 2020 (previous year: 3.16 million t of coal). This sharp fall in comparison to 2019 is mainly due to the lower demand for electricity as a result of the coronavirus pandemic, the mild winter weather in the first quarter and the cheap price of gas. The deliveries represent a procurement volume of €79 million (previous year: €170 million).

Origin of coal supplies to EnBW power plants in million t



Russia was able to further strengthen its leading position on the generally declining market in Western Europe due to its geographical proximity to the shipping ports. Colombian coal does not play a role in Western Europe at the moment because Colombian mining companies have significantly reduced their production levels and 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 a small proportion from the USA.

It is important for us to know the origins of our coal. Some 83% of our coal requirements are thus covered by contracts for which the producers are already known when the contract is concluded. The remainder is sourced from contracts concluded with trade intermediaries which usually 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 (Kuzbass) 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 by the producers Murray Energy and Consol Energy. We did not source any coal from Colombia or South Africa in 2020.

Further information on our coal procurement is available at www.enbw.com/coal-procurement. The opportunities and risks in relation to coal procurement can be found in the “Report on opportunities and risks” (p. 103).

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. The EnBW coal supplier portfolio acts as the basis for our activities and it is updated on an annual basis. The sustainability performance of current and potential coal suppliers to EnBW is examined and evaluated on the basis of the **EnBW rules of conduct** governing the responsible procurement of hard coal and other raw materials (www.enbw.com/verhaltenskodex). We determine any future action based on the supplier evaluations, such as requesting further specific information from selected suppliers. In addition, we pay close attention to the latest studies from competitors and international initiatives, as well as specific information and contributions from civil society organizations.

We have been a member of the corporate initiative **Bettercoal** since July 2020 (www.bettercoal.org). The independent audits carried out by Bettercoal also flow into our process for auditing business partners. We are active in the Russian and Colombian working groups because the large coal producers come from these countries. In addition, we use Bettercoal as a platform for exchanging information with our producers and above all with other stakeholders from civil society, as well as with experts on individual countries and human rights.

Our rules of conduct in combination with internal implementation guidelines act as the foundation for our business activities. In the sustainability clause that is part of all of our contracts with coal producers, we obligate our business partners to observe these 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 regularly presented to an internal **committee for the responsible procurement of hard coal and other raw materials** (AVB) with participation from all relevant specialist areas. If any deviations from the minimum standards are identified for existing supply contracts, corrective measures are initially developed in cooperation with the producers and their implementation is monitored. In 2020, this committee held several meetings to discuss, in particular, the sustainability performance of the Russian coal producers, 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 in the reporting year.

Russia

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

It was necessary to cancel the planned trip to our main coal producer KRU in March 2020 due to the coronavirus pandemic. Instead, we held video and telephone conferences to discuss our requirements for occupational safety and compliance and, in particular, environmental protection, resettlement and compensation issues.

To check the local working and living conditions, we asked our coal producers to provide concrete proof of important occupational health and safety guidelines and adherence to them. This information was provided to us and personally discussed in detail. Furthermore, we have now received detailed sustainability reports from our producers SUEK and KRU for the first time that include transparent information on their sustainability activities.

We received further information on the situation in Kuzbass via Bettercoal and have been able to determine potential for improving the local situation and for improvements that could be made by the operators of the mines. This information will be used as the basis for discussions with our producers to improve their sustainability performance. In addition, we held discussions with other stakeholders in Russia on the situation in the coal mining regions.

Colombia

We did not source any coal from Colombia in 2020. Nevertheless, we remained in contact with the main producers and kept ourselves informed about the local situation in the mines, especially in light of the more difficult conditions as a result of the coronavirus pandemic. Although we have not sourced any coal from the producer Cerrejón in Colombia for a few years, we have obtained further information on the current conditions for workers in the mines and on the miners' strike directly from Cerrejón in relation to the stakeholder inquiries in order to gain a better picture of the local situation and the controversial positions. In addition, we have presented both the producers and the unions with our minimum requirements for responsible coal procurement. On the one hand, our minimum requirements are a fixed component of our contracts with producers in the form of a sustainability clause, while on the other hand, we have also personally discussed them with representatives of the unions on earlier trips to Colombia.

Responsible raw materials procurement in the gas sector

Natural gas as a transition technology

In order to achieve our climate neutrality target 2035, we are working intensively on switching over our power plants initially from coal to more climate-friendly gas (fuel switch) and then to climate-neutral gas such as biogas or hydrogen in the long term. Natural gas plays an important role as a transition technology – either in the form of liquefied natural gas (LNG) or grid-based natural gas. Therefore, we are now gradually expanding our measures for the responsible procurement of raw materials to also include the procurement of natural gas.

Origin and own consumption

EnBW sources most of its natural gas via supply contracts with Equinor from Norway, Novatek and Gazprom from Russia, and the European wholesale market.

In 2020, we acquired 9,660 MWh of natural gas for our own consumption at EnBW. We use this gas for generating electricity and heat in our power plants, for heating our buildings and for operating our gas plants.

The opportunities and risks in relation to gas procurement can be found in the “Report on opportunities and risks” (p. 103).

Due diligence

We are increasingly fulfilling our responsibility as a company also in the procurement of gas and exercising human rights due diligence in our supply chain. In future, we will examine all new

business partners using a clearly defined process. We already carried out the first business partner audits of our gas producers in 2020. This includes an audit with respect to both compliance and sustainability. The main focus is placed on the observance of international sustainability standards, compliance with guidelines on environmental protection and human rights, dialog with stakeholders and disclosure of the extraction methods. In the future, we will also reevaluate existing suppliers from a sustainability perspective every one to three years, depending on a risk assessment, as part of our recurring audits, insofar as there are no reasons to carry out an audit sooner.

Methane emissions

The monitoring of methane emissions from natural gas is becoming increasingly important due to the growing procurement volumes. It is very difficult to collect exact data on methane emissions particularly in the upstream gas supply chain due to the different calculation models used. We are currently working with a general emissions factor of 29 g CO₂eq/kWh natural gas for the upstream supply chain for our gas procurement. This figure includes the methane emissions. For the combustion of the gas, we use an emissions factor (including methane) of 201 g CO₂eq/kWh natural gas based on data from the German Environment Agency (UBA) and the German Emissions Trading Authority (DEHSt). Despite these low amounts, we are continuously working to further reduce methane emissions with the aim of achieving a climate-neutral gas supply in the future. This includes measures for smart grid management to avoid blow-outs, systematic integrity evaluations of the grid, eliminating any weaknesses and the continuous modernization of grid technology, as well as the application of special technical equipment and systems to avoid methane emissions from our lines during maintenance and repair work.