

Procurement

Efficient and sustainable procurement processes

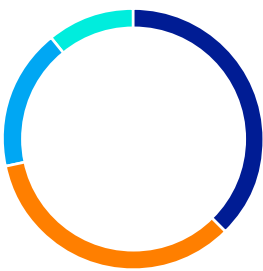
Our purchasing department views itself as a **partner for generating added value within the Group**. Its goal is to ensure the supply of materials and services at the best possible quality/cost ratio and thus strengthen the competitiveness of the company. We place great emphasis on the efficient design 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 2021 (without ITOs [?]) amounted to around €3.5 billion (previous year: around €3.2 billion).

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.

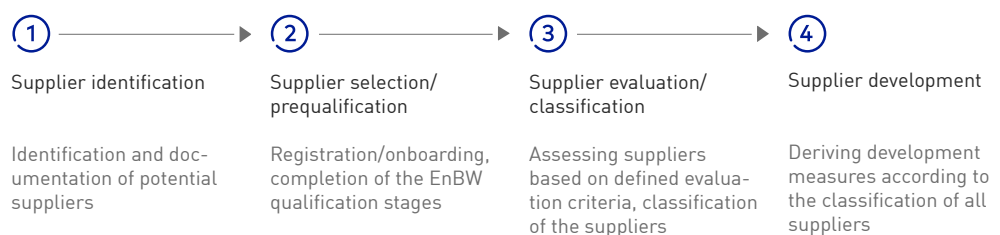
Sustainable procurement begins with the careful selection of business partners. Central purchasing at EnBW AG uses a standardized **prequalification process** for this purpose. Suppliers are required to provide a self-assessment via our supplier portal on whether they have sustainable measures in place 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 around 85% of our suppliers by the end of 2021 (measured by procurement volume).

Procurement volumes of the EnBW Group by segment in %



- 37.1 System Critical Infrastructure (2020: 36.1)
- 33.5 Sustainable Generation Infrastructure (2020: 35.3)
- 18.8 Smart Infrastructure for Customers (2020: 15.8)
- 10.6 Other (2020: 12.8)

Supplier management process



The **coronavirus pandemic** continues to have a significant impact worldwide on supply and demand along the supply chain. This results in some cases in legal and economic consequences that make 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 uses these to identify critical operating resources and to largely exclude supply risks by employing our multiple supplier strategy and by strategic stockpiling of the majority of these critical operating resources. For EnBW, the various shortages have primarily manifested themselves in higher prices and longer delivery times for these goods, although there was only a minor impact on procurement processes in the financial year. Shortages of raw materials, finished parts and services will remain a central theme in 2022.

We aim to fulfill our responsibilities for our **supply chains** in accordance with the Guiding Principles on Business and Human Rights of the United Nations. Further information can be found on our website.

[Online ↗](#)

Respecting human rights and protecting the environment are key pillars of our corporate 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 even more sustainable in the future – especially with consideration to social and ecological aspects. As part of a sustainable procurement project, which is one of the measures in the EnBW sustainability program (p. 41[↗]), a Supplier Code of Conduct (SCoC) was developed in 2020. It was introduced in 2021 as a shared set of values and an important criterion for the selection and development of our suppliers. As a consequence, all of our suppliers must fulfill binding minimum requirements with respect to sustainability as part of the prequalification process by 1 January 2023 at the latest. In addition, we analyze and evaluate sustainability risks and sustainability potential in the procurement markets and at our suppliers and, where necessary, agree measures to improve sustainability with our suppliers and evaluate their effectiveness together. We will be able to identify and reduce social and ecological risks in this way (German Supply Chain Due Diligence Act). Alongside the careful selection of suppliers and targeted supplier development activities, the deliberate procurement of sustainable products and services has also become an increasingly important aspect of sustainability in our supply chain. Our goal is to develop resilient and sustainable supply chains that supply products and services that fulfill all requirements with respect to human rights and environmental due diligence according to national and international standards. Furthermore, we will use the carbon footprint and other sustainability criteria as measurable decision-making criteria for the award of all relevant contracts. In purchasing, long-term relationships with our suppliers, communication and cooperation are particularly important to us.

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 [?]. As part of a Group-wide transformation project, a new purchasing system was introduced in central purchasing. The new purchasing system makes cooperation between suppliers, specialist departments and central purchasing significantly easier. Prequalification and supplier evaluation procedures, the ordering process and self-service applications have been greatly simplified and made much more intuitive. In addition, a catalog platform containing almost 25 million items has been introduced that can be accessed by the employees of EnBW AG.

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, including 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. 132[↗]).

Responsible raw materials procurement in the coal sector

Origin of coal supplies

With a view to the phaseout of coal-fired generation in Germany and the aim of making EnBW climate neutral by the end of 2035 at the latest, hard coal will be gradually replaced by more climate-friendly energy sources. Nevertheless, hard coal will still play a relevant role for EnBW as a source of energy over the next few years to ensure a reliable and economic supply of electricity. Responsible raw materials procurement, especially in the coal sector, is thus extremely important to us. As in the previous year, Russia was the main coal export country for Western Europe in 2021. The coal producers in Colombia, South Africa and the USA were able to secure higher prices for their coal in other markets. This development is also reflected in the volumes of coal delivered to the EnBW power plants. The significant increase in deliveries of 132.3% to 4.19 million t (previous year: 1.80 million t) was due to a higher demand for coal as a result of lower electricity production from wind energy, the recovery in demand compared to the previous year that had been impacted by the coronavirus pandemic and the improved competitiveness of coal in relative terms when compared to gas. Over a 10-year period, coal consumption fell by 35.8% compared to the figure in 2012 of 6.52 million t. As a result of the higher volumes in combination with higher prices for coal, the procurement volume increased significantly in 2021 to €433 million (previous year: €79 million).

It is important for us to know the origins of our coal. Some 77.9% 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, mainly by the producer Murray Energy. The Colombian coal was sourced from the producer Cerrejón.

The opportunities and risks in relation to coal procurement can be found in the “Report on opportunities and risks” ([p. 132](#)).

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. 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 2020. The independent audits carried out via Bettercoal and the monitoring of the progress made by the producers with respect to the Bettercoal Continuous Improvement Plans also flow into our process for auditing business partners. Furthermore, 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, with government representatives from the coal mining regions and with experts on individual countries and human rights. Instead of an on-site visit, a virtual trip to Colombia was organized in early 2021 by Bettercoal. A webinar on the theme of biodiversity and renaturation was also held for the operators of the Russian coal mines.

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

Origin of coal supplies to EnBW power plants

in million t	2021	2020
Russia	3.57	1.62
Colombia	0.21	–
USA	0.40	0.18
Total¹	4.19	1.80

¹ The figures may not add up due to rounding differences.

Further information on **coal procurement** can be found on our website.

[Online ↗](#)

The **rules of conduct governing the responsible procurement** of hard coal and other raw materials can be downloaded in PDF format here.

[Online ↗](#)

Further information on the international business initiative **Bettercoal** can be found here.

[Online ↗](#)

regular auditing of the sustainability performance of coal suppliers, a multistage auditing process will come into force in the event of suspected breaches of the rules, which can lead to temporary suspension or, as a last resort, the termination of the business relationship and thus 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 developed in cooperation with the producers and their implementation is monitored. In 2021, this committee held several meetings to discuss possible additions to our portfolio of producers that are necessary due to the current situation on the market. The discussions focused, in particular, on the sustainability performance of potential new coal producers in South Africa, as well as current issues related to the import of raw materials and the currently challenging situation on the market.

Current developments

Russia

In 2021, we carried out an intensive business partner audit of our coal producers SUEK and KRU based on a comprehensive assessment from Bettercoal. Due to the coronavirus pandemic and the difficult situation on the market, it was only possible to stay in contact with producers to a limited extent. As well as maintaining contact with the producers, we were also in dialog with other stakeholders in Russia, especially in view of the increasingly difficult situation faced by representatives from civil society when it comes to freedom of expression and critical reporting. At the end of last year, EnBW had already begun to further diversify its procurement portfolio in order to reduce its dependence on deliveries of Russian coal. It will be possible to fully switch to alternative sources in the medium term at higher cost while continuing to guarantee the security of supply.

Colombia

Due to the increased demand for coal, we once again procured small amounts of coal from Colombia in 2021. On the basis of the virtual dialog with Bettercoal, we had the opportunity to contact various different stakeholders in Colombia in early 2021. This included discussions with representatives from civil society, the unions and government, as well as with the coal producers. The discussions mainly focused on two topics: on the one hand, the current situation in the Cesar coal mining region in Colombia, where the coal producer Prodeco has announced that it will be handing back its coal mining licenses to the Colombian government, and the associated issue of what responsibilities Prodeco will still have with respect to due diligence after it ends its mining activities, and on the other hand, the question of how Bettercoal can further support the peace process via the coal producers.

South Africa

As a result of the current geopolitical tensions and the difficult situation on the coal market associated with them, we are considering whether to add South African coal producers to our portfolio. For this purpose, we carried out a country risk analysis with a focus on the coal mining region of Limpopo. The results have been included in our business partner audits and we are focusing on the issues of water management, emissions and resettlements in our evaluations of potential new business partners. We have entered into in-depth virtual discussions with one of the producers to find out more about their sustainability performance and have received a comprehensive range of documents to verify that the producer is complying with our sustainability requirements.

Other procurement alternatives

In order to further diversify our procurement portfolio in the medium term, we are currently examining additional procurement options in Australia, Africa and Asia in addition to those in Colombia, South Africa and the USA. The coal market is generally characterized by an elastic supply. The coal is mainly transported by ship, whereby no special pipeline infrastructure is required for this purpose. A comprehensive audit of all potential new business partners is also part of this examination process, to determine, for example, whether the quality of the coal is suitable for our power plants.

Responsible raw materials procurement in the gas sector

Natural gas as a transition technology

In order to achieve our target of climate neutrality by 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 (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. Due to the current situation in the Ukraine, alternative sources of supply are being strongly considered with a view to reducing the dependency on Russia in the gas sector.

Origin and own consumption

EnBW sources most of its natural gas via supply contracts with Equinor from Norway and Gazprom from Russia, and the European wholesale market. As is the case with coal procurement, EnBW is striving to make its gas procurement more diverse with respect to countries, suppliers and the terms of the contracts. This will also help us to reduce our dependency on Russian suppliers. Activities in the LNG sector are something that will become increasingly important in the future. They will generally open up access to additional sources of supply from global exporters of gas and LNG.

In 2021, we acquired 8,249 GWh of natural gas for our own consumption at EnBW (previous year: 9,660 GWh). 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. 132⁷).

Exercising due diligence

We also take our responsibilities seriously in the procurement of gas and exercise human rights due diligence in our supply chain. We are gradually transferring our business partner auditing processes from the area of coal procurement to gas procurement. In 2021, we thus audited the sustainability performance of all new business partners using a clearly defined process. 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. Existing suppliers are reevaluated 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 CO₂/kWh natural gas for the upstream supply chain for our gas procurement (source: DBI (2016): “Critical Evaluation of Default Values for the GHG Emissions of the Natural Gas Supply Chain”; German Environment Agency (2018): “Evaluation of Emissions in the Natural Gas Supply Chain in Germany”). This figure includes the methane emissions. For the combustion of the gas, we use an emissions factor (including methane) of 202 g CO₂/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. This includes measures at our grid subsidiaries for smart grid management to avoid blowouts, 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.