

# Vattenfall's responsible hard coal sourcing explained

## How we aim to source in a responsible manner

Vattenfall is governed by many policies to ensure the sustainability of our business operations. The Vattenfall Code of Conduct for Suppliers ([Supplier relations - Vattenfall](#)) defines the basic requirements in the areas of human rights and working conditions, environment and business integrity that our suppliers need to meet. Our Code is based on the UN Global Compact, the UN Guiding Principles, the OECD Guidelines as well as other international norms, conventions and guidelines in the sustainability area. Vattenfall expects its suppliers to implement the principles described in the Code of Conduct for Suppliers in their own business or to have at least equivalent standards adopted, and to conduct their business in accordance therewith.

### Due diligence in coal supply chain

For hard coal suppliers to our own plants Vattenfall has set up and implemented a risk-based due diligence process in order to screen our suppliers in-depth on how they perform on environmental, social and governance issues. Moreover, regardless of whether we have a direct contractual relationship with a certain mining operator or not, we think that it is important to improve the situation in and around all mines. Therefore, we engage through Bettercoal and encourage coal mining and consuming companies to improve the conditions.

### Continuously strengthened process

In 2014, Vattenfall first implemented a risk screening and assessing procedure for our hard coal suppliers to make a fact-based decision on whether to buy hard coal from a supplier or not. We collected publicly available information on the performance of our coal suppliers on social, environmental and human rights issues. This helped us to assess whether a supplier was compliant with Vattenfall's Code of Conduct for Suppliers and to identify any areas of improvements. Since the set-up of this procedure we have put it into action by regularly assessing the performance of our existing and possible future suppliers.

### KYC process complements due diligence

Currently, in coal sourcing we use a two-level approach to manage onboarding of various suppliers: a Know-Your-Counterparty (KYC) process followed by the due diligence process for coal sourcing.

The Know-Your-Counterparty process is similar to Know-Your-Customer policies, which are becoming more and more important globally to prevent various criminal activities such as financial fraud, money laundering and terrorist financing. Therefore, through our KYC process, we seek to actively identify, manage and control the risk

of transacting with counterparties that are involved in money laundering, tax-fraud, terrorist financing, are affected by EU sanctions or have poor performance on environment, social and governance issues. All new counterparties, including coal suppliers, are onboarded through the KYC process. Moreover, the need for continuous monitoring of certain counterparties is identified during the process.

\*haben wir auch mit Jera gemacht

## Role of Bettercoal

An important aspect of our specific due diligence process following the KYC process, is Bettercoal. The initiative has made progress on conducting site-assessments, especially in Russia and addressing country-specific issues through Country Working Groups. These Country Working Groups serve as platforms for dialogue between Bettercoal, its members and coal mining companies.

When we see the need for improvements at our suppliers, our initial approach is to see if we can cooperate with our suppliers to improve the situation via Bettercoal. With a declining need for hard coal, a joint push via Bettercoal gives us greater leverage in the meantime. This does not we do not reach out directly to a mining company if needed.

## A central decision body

Within Vattenfall, a cross-functional Board (Responsible Sourcing Board) decides whether to do business with a supplier based on KYC results, results of monitoring, and/or the results of Bettercoal assessments. The board meets on a regular basis and consists of higher management representatives from Legal, Risk, Sourcing, Sustainability and Communications.

We believe in the continuous improvement approach and do not support a strategy of disengagement as a starting point. Ultimately, we could come to the conclusion not to buy coal from a certain supplier until the situation has improved satisfactorily. This has happened several times during recent years and we removed companies from our list of approved direct suppliers. As the global coal mining industry is a very diverse industry with issues varying per country, we always make such a decision on a case-by-case basis.