

# 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 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.

## 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.

## External supplier

During the last decade, Vattenfall has continuously and significantly reduced its coal consumption for heat and power production. In 2022, our coal consumption dropped to approximately 800 thousand tons of hard coal annually. Such a small volume can no longer be sourced directly from producers. Therefore, we decided to outsource the sourcing activity to an external supplier as of end of 2021.

We performed an intensive due diligence and tendering process and chose a supplier. Our main criteria was to find a partner who has the same ambition on sustainability and responsibility as we in Vattenfall have. Our supply partner acts in accordance with Vattenfall's Code of Conduct and is - like Vattenfall - member of Bettercoal.

Despite this new set up we will continue to have a list of suppliers that will be screened by Bettercoal and our supplier. We will also continue to have own activities to screen and approve new producers and especially new originations.

## 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, and is addressing country-specific issues through Country Working Groups. Currently, there are two [Country Working Groups](#) in place, one on Colombia and a newly set up group on South Africa. They 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 mean we do not reach out directly to a mining company if needed.