

Vattenfall's Hard Coal Procurement Explained

Our due diligence process



Vattenfall is governed by many policies to ensure the sustainability of our business operations. The Vattenfall Code of Conduct for Suppliers 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.

Supplier Screening

In 2014, Vattenfall first implemented a risk screening process for our hard coal suppliers to make a fact-based decision on whether to buy hard coal from a supplier or not. In this screening, independent research companies collect publicly available information on the performance of our coal suppliers on social, environmental and human rights issues. This helps us to assess whether a supplier is compliant with Vattenfall's Code of Conduct for Suppliers and to identify any areas of improvements.

Since the set-up of the risk screening procedure we have put this into action by screening our existing and possible future supplier. In 2015, we conducted 11 desktop assessments and finalised the first screening cycle of all current and possible future suppliers of coal to Vattenfall's power plants. In 2017, we had additional 8 desktop assessments and 5 Bettercoal site-assessments in place.

Continued screening of our suppliers

Our due diligence process has continuously been strengthened, especially with respect to suppliers in high-risk countries. In 2016 and 2017, we have therefore been re-screening our suppliers and

checked for proof of improvement. An important aspect of our process is Bettercoal, which has made progress on conducting site-assessments, especially in Russia. We continue to believe that a joint push from companies can ultimately achieve more and therefore remain committed to this initiative. Three of our suppliers went through the Bettercoal assessment process (two in Russia and one in the USA). The next step will be for them to begin a correction action plan.

Additional requirements in Colombia

For hard coal suppliers in Colombia, additional requirements apply. As a starting point, we require that our Colombian suppliers support the Colombian government in its efforts for reconciliation for victims of past human rights violations. In addition to Bettercoal assessments, Vattenfall have made own on-site visits for human rights assessments.

In March 2017, two Vattenfall representatives visited Colombia for three weeks and met with victims, mining companies, several NGOs, local authorities as well as the Colombian government. This initiative has been praised by several NGOs and resulted in a report:

[HUMAN RIGHTS RISK ASSESSMENT IN COLOMBIA - "Vattenfall's efforts on coal supply chain responsibility"](#) .

In April 2018, the authors of the report did a follow-up visit to Colombia, together with representatives from Bettercoal. During this visit, the Bettercoal Members engaged with different stakeholders again to discuss the issues and recommendations included in our report. An update on how we have followed up on our report will be published two times a year on this site with the first one scheduled for June 2016.

Our efforts in Colombia are thus based on

- (i) the requirements we put in place in 2016
- (ii) the Human Rights Risk Assessment in 2017
- (iii) the follow-up of our Human Rights Risk Assessment in 2018 by going back to Colombia.

Continued engagement with our suppliers

These requirements and our efforts in this matter are in addition to our continued engagement with our suppliers through Bettercoal where we see an uptake of mining companies undergoing site-assessments conducted by independent 3rd party assessors. Also, we are directly engaging with current and possible future suppliers to inform them on our requirements, address responsible mining practices and support them in complying with Vattenfall's Code of Conduct for Suppliers (as well as the Bettercoal code).

A cross-functional Board (Responsible Sourcing Board) within Vattenfall decides whether to do business with a supplier based on the evaluation of the screening or the results of Bettercoal assessments. The board meets monthly and consists of representatives from Legal, Risk, Sourcing desk, Sustainability, and Strategy & Business Development.

When we see the need for improvement at our suppliers, our initial approach is to see if we can cooperate with our suppliers to improve the situation. 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. As the global coal mining industry is a very diverse industry with issues varying per country, we will always make such a decision on a case-by-case basis.