



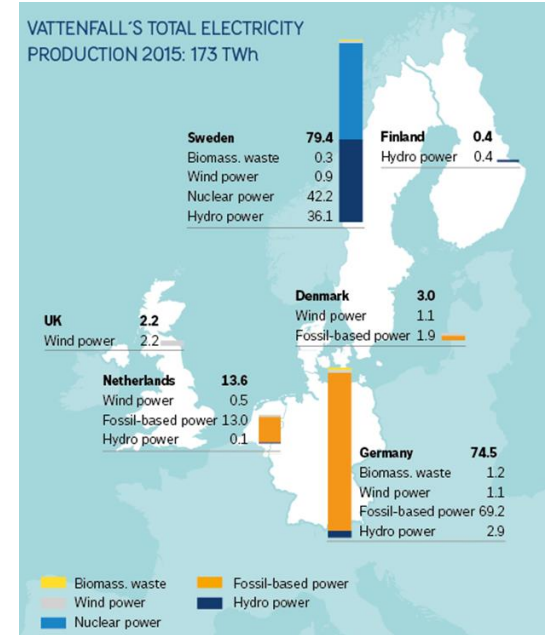
COAL SUPPLY CHAIN RESPONSIBILITY

An explanation of the Vattenfall due
diligence procedure

April 2016/Joel Frijhoff

VATTENFALL AT A GLANCE

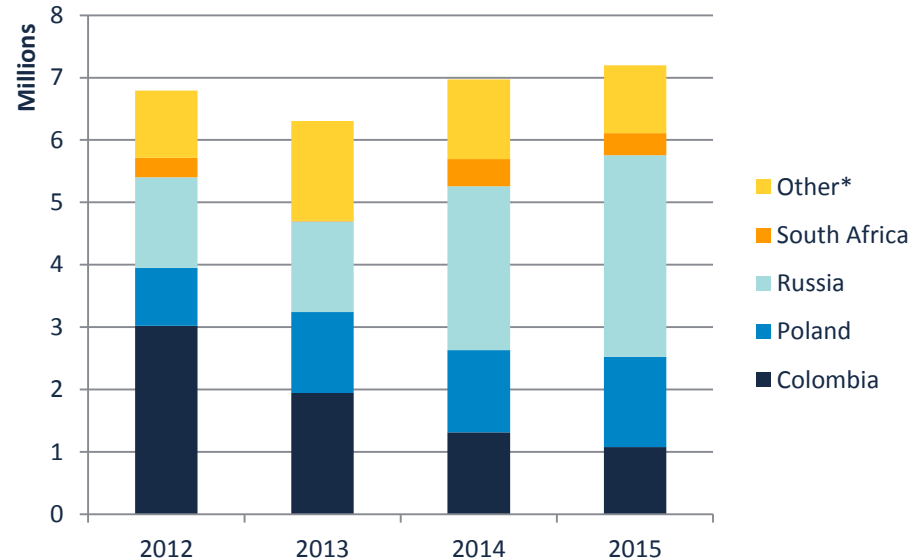
- One of Europe's largest generator of electricity and heat
- Vattenfall has approx. 6.2 million electricity customers, 3.2 million electricity network customer and 2.1 million gas customers
- 100% owned by Kingdom of Sweden
- Operations mainly in Denmark, Finland, Germany, Netherlands, Sweden and the UK
- Main products: electricity, heat, gas, energy services
- Business operations: Production, Trading, Distribution, Sales and energy services



OUR HARD COAL PORTFOLIO

- VF buys hard coal for use in our power station and for trading purposes.
- In 2014, Vattenfall had a total of 4575 MW installed in hard coal-fired capacity with a total usage of 6.8 MT of hard coal.
- The main countries where VF buys coal for use in our own power plants are Russia (43%), Poland (25%) and Colombia (14%) (2015 data).

Origin of coal used in power plants



*Other countries are US, Norway, Australia and Kazakhstan

OUR GROUND RULES FOR COAL DUE DILIGENCE

- Starts with our Code of Conduct for Suppliers which defines the basic requirements in the areas of human rights and working conditions, environment and business integrity that we expect our suppliers to meet.
- 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. However, Vattenfall could ultimately come to the conclusion not to buy coal from a certain supplier because a supplier is not willing to cooperate or has not improved satisfactorily.
- In 2014 Vattenfall implemented an annual risk screening process for our current and potential new hard coal suppliers to make a fact-based decision on whether to (continue to) buy hard coal from a supplier or not.

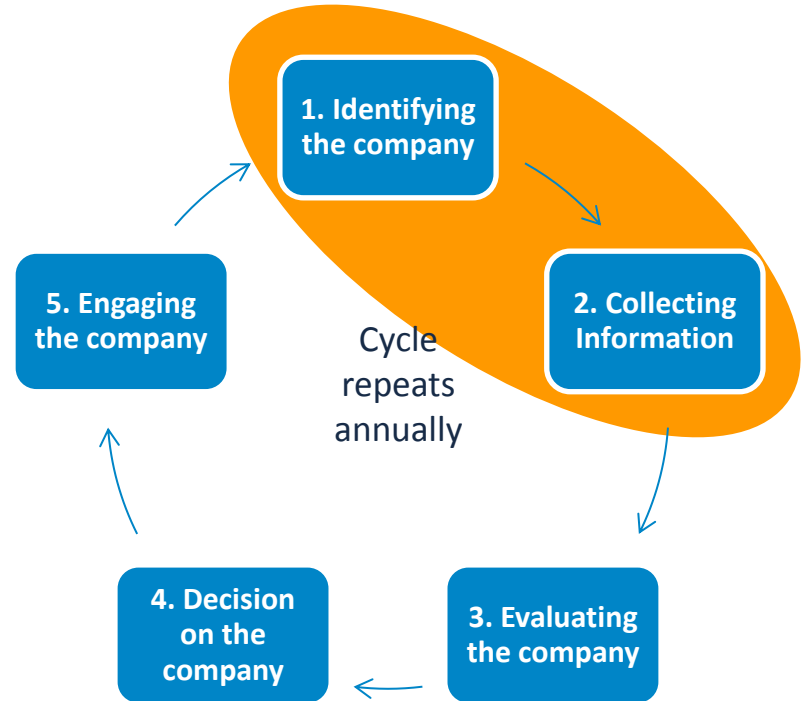
OUR HARD COAL DUE DILIGENCE PROCEDURE

1. Identification of relevant mining companies

- Current suppliers.
- Potential suppliers.

2. Collect information on performance of these mining companies

- Information focusses on on topics set out in our Code of Conduct for Suppliers.
- Relevant sources include independent desktop assessments, public reports, Annual Reports and information provided by Bettercoal.



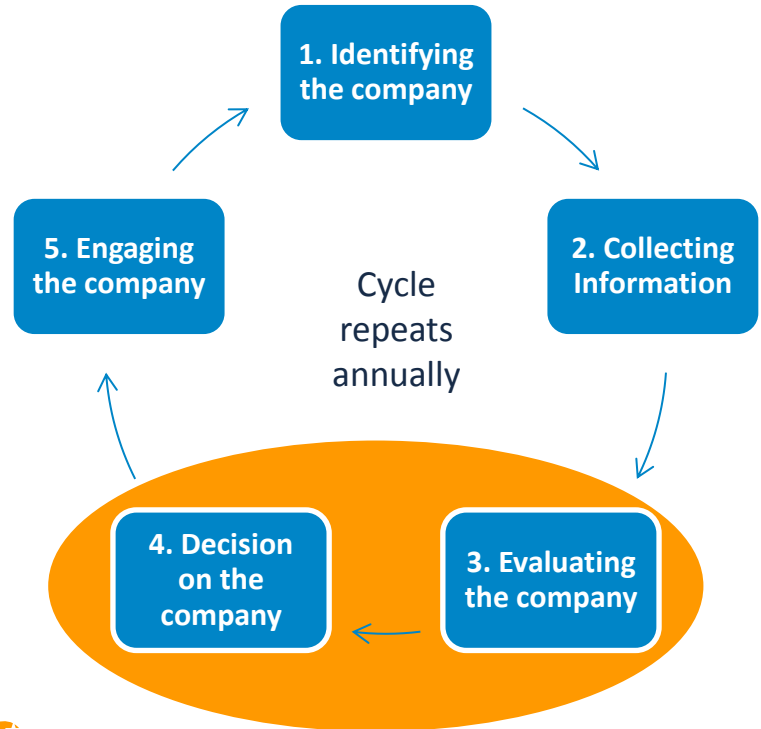
OUR HARD COAL DUE DILIGENCE PROCEDURE

3. Evaluating the company

- Information is reviewed by an internal group of experienced auditors.
- Outcome is presented to an internal cross-functional Board which evaluates the company.

4. Decision on the company

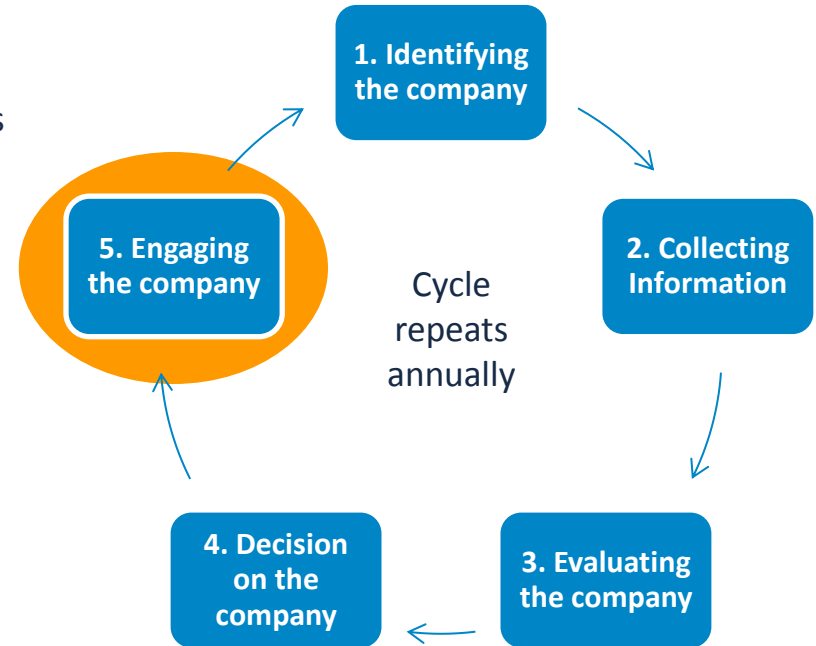
- Based on (i) the review of the company by the internal auditors, (ii) the way the company has shown willingness to cooperate towards continuous improvement and (iii) the business relevance of the company.
- A decision can mean that the company is (a) accepted as a supplier, (b) accepted as a supplier but with areas of improvement identified or (c) not accepted as a supplier.



OUR HARD COAL DUE DILIGENCE PROCEDURE

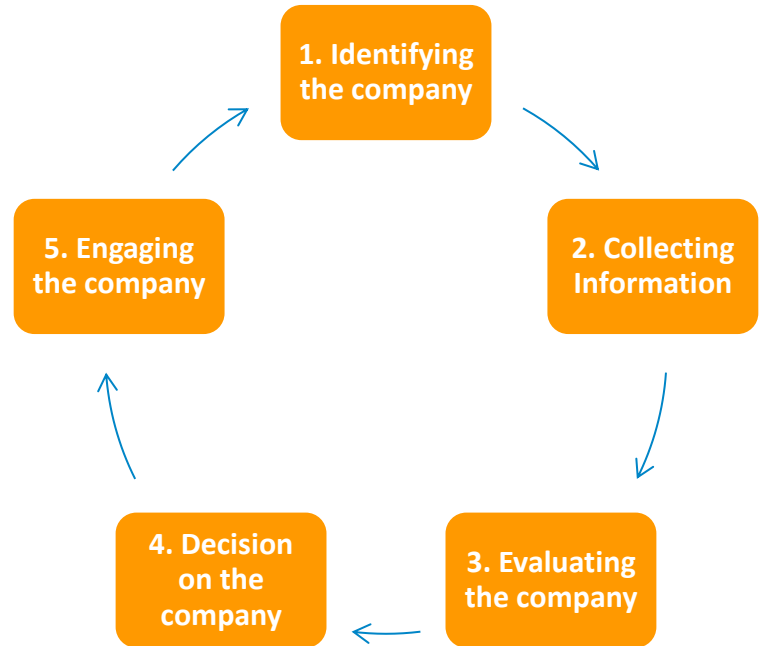
5. Engaging the company

- Engagement is sought when a company is not approved as a supplier or is approved with areas of improvements identified
- Engagement is done on the basis of continuous improvement.
- Engagement can be done individually, in cooperation with other utilities and/or through Bettercoal



THE RESULTS SO FAR...

- Vattenfall completed the first full cycle of screening of our current and potential future suppliers, based on;
 - 11 independent desktop assessments
 - 1 Bettercoal site-assessment
 - 3 Bettercoal self-assessments
- Areas of improvements were identified for all our current and potential future suppliers on for example community engagement, health and safety
- Engagement was sought with these companies, e.g. ;
 - High-level meeting with one company
 - Set-up a workshop for Polish mining companies in collaboration with Bettercoal and other utilities
 - Push for Bettercoal site-assessment



THE MAIN CHALLENGES GOING FORWARD...

- Gain traction with large mining companies
- Create awareness on the importance of the topic
- Speed of Bettercoal
- Continue to build internal competence and expertise
- Pioneering in a declining market



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