

RESPONSIBLE SOURCING

DONG Energy has more than 20,000 suppliers globally. Some of these are located in countries that do not meet international standards for human and labour rights, the environment or anti-corruption. If a supplier repeatedly fails to live up to our standards, we can end the relationship with the supplier. However, we believe to create real change it is more effective to work with the supplier and help the company to improve step by step.

PROGRAMME

With more than 20,000 suppliers, it is important for DONG Energy to be able to identify the suppliers that are most at risk of falling short of international standards for human and labour rights, the environment or anti-corruption. Upon identification, we can work with them in a consistent and structured way to help them improve.

We do this through our Responsible Sourcing Programme, which was implemented in 2014. The programme applies risk based due diligence through a four step approach in accordance with the UN Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the UK Bribery Act:

- All suppliers must accept our requirements
- We risk screen supplier contracts
- We assess supplier performance
- We collaborate on improving supplier performance

GOVERNANCE

The Responsible Sourcing Programme is integrated into DONG Energy's Procurement system and processes. Each procurement employee has the responsibility to screen contracts above 3 million DKK.

At corporate level, CSR & Responsible Sourcing assesses the screenings and acts on medium to high risk contracts, selecting suppliers to engage and working in collaboration with them. The Programme is monitored by DONG Energy's Compliance Committee, which consists of representatives from top management across the business and is chaired by the CEO.

Responsible sourcing at DONG Energy

<p>1</p>  <p>All suppliers must accept our ethical, social and environmental expectations</p>	<p>4</p> <p>If supplier performance falls short of our expectations, we collaborate on the development of an improvement plan.</p> <p>Our approach is based on dialogue in good faith and continuous engagement.</p> 
<p>2</p>  <p>We perform risk screenings to identify medium and high-risk suppliers</p>	
<p>3</p>  <p>We assess supplier performance through site assessments or self-assessments</p>	

CODE OF CONDUCT

DONG Energy's Code of Conduct for Suppliers defines what we believe is responsible ethical, social and environmental practice. We consider the content of the Code as material and an integral part of our business relationship with individual suppliers.

Learn more about responsible sourcing in DONG Energy in our Code of Conduct for Suppliers and our Guidance Kit for Suppliers:

- www.dongenergy.com/codeofconduct
- www.dongenergy.com/guidancekit

SUPPLIER ACCEPTS REQUIREMENTS

As a signatory to the United Nations Global Compact, DONG Energy is committed to delivering continuous improvements within the Compact's four thematic areas; human and labour rights, the environment and anti-corruption.

Our Code of Conduct for Suppliers builds on the four areas. All suppliers must accept the expectations defined in the code and set up mitigation mechanisms commensurate with their risks. For instance, we do not expect a supplier to have a detailed mitigation plan for the risk of child labour if that risk is non-existing.

As different standards exist throughout the world we do not expect full compliance from day one. However, we expect that suppliers are committed to achieving compliance within a reasonable period of time.

In addition, suppliers must accept our anti-bribery warranty. We require suppliers to implement adequate procedures in order to prevent behaviour that contrasts with the UK Bribery Act.

BETTERCOAL

DONG Energy has joined forces with a number of Europe's largest energy companies to form Bettercoal, an organisation that aims to ensure continuous improvements to ethical, social and environmental conditions in the coal supply chain.

Coal suppliers to DONG Energy are comprised by the Bettercoal Code and assessment programme. This means that for coal suppliers activities otherwise part of the Responsible Sourcing Programme is managed by Bettercoal (except on anti-corruption).

For DONG Energy, this means that coal suppliers must achieve an acceptable level of compliance before we establish a business relationship.

Read more: <http://bettercoal.org/>

RISK SCREENING OF SUPPLIER CONTRACTS

We conduct risk screenings of supplier contracts to identify suppliers that have a higher risk of falling short of our requirements.

All contracts above 3 million DKK are risk screened when the contract is signed. The aim is to identify medium to high risk suppliers, based on their country of production and type of product or service.

We risk screen contracts below 3 million DKK on an annual basis.

ASSESSMENT OF SUPPLIER PERFORMANCE

Risk screenings that result in a low risk score are usually not selected for an assessment. We prioritise medium and high risk contracts. We employ four types of assessments that are tailored to the different risk profiles of contracts:

- Anti-corruption questionnaires.
- Self-assessment questionnaires.
- 2nd party site assessments.
- 3rd party site assessments.

The questionnaires are desk studies that rely on written responses and documentation provided by suppliers. If we conduct a site assessment, the supplier hosts a team from DONG Energy and, in some cases, external assessors. The higher the risk of poor performance, the more thorough the assessment.

COLLABORATION ON IMPROVING SUPPLIER PERFORMANCE

If breaches are identified during an assessment, DONG Energy develops an improvement plan together with the supplier.

The supplier is responsible for implementing the plan. DONG Energy will follow up on agreed improvement actions and when we find that they have been satisfactorily implemented, we close the improvement plan. However, as we continuously monitor our suppliers, it is possible that the supplier will be selected for another assessment in the future.

THE VALUE OF OUR APPROACH



Rasmus Skov
Head of Responsible Sourcing in DONG Energy

What value does the Responsible Sourcing Programme bring to our suppliers and DONG Energy?

We believe remediation of poor practices is achieved more effectively through collaboration with the supplier on implementing improvement measures. That creates real and positive change for the supplier, its employees and for the environment. Improving conditions in our supply chain also benefits DONG Energy, as it gives us a more stable supply chain where unforeseen and costly delays are less likely, and it improves our relationships with suppliers.

How is the programme received by our suppliers and which are the steps going forward?

Suppliers generally understand the mutual value of the programme and engage actively, even if for many it is the first time they are assessed on human rights or anti-corruption measures. Engaging suppliers is not always easy as we are sometimes only a small customer, but we put a big emphasis on this collaboration through our Code of Conduct for Suppliers. So far no suppliers have refused to engage with us.

Still, we will continue to improve our setup. In 2014 we developed a Responsible Partner Programme that introduces the responsible sourcing tools and guidelines to new joint venture partnerships. The partner programme will be implemented in the first quarter of 2015.

LEARNING ABOUT RESPONSIBLE SOURCING

In connection with the Responsible Sourcing Program, the corporate department CSR & Responsible Sourcing conducts internal training workshops to ensure that responsible sourcing is well integrated across our procurement processes. Since programme launch, the large majority of our procurement employees – around 150 people – have completed the training.

Ida Jacobsen, Contract Advisor in Group Procurement, participated in the training. It changed her view on how to ensure responsible practices in DONG Energy's supply chain: "When a supplier is not in compliance with our expectations, they should not be a supplier to us. At least this was my immediate thought. But through the workshop it became clear to me that we do not improve anything by leaving. When there is a willingness to make improvements we have to stay and work together with the supplier to materialise such improvements. It is challenging but it makes sense."



Ida Jacobsen
Contract Advisor, Group Procurement