

## RESPONSIBLE SUPPLY CHAIN MANAGEMENT

ENKA believes that in order for its sustainability efforts to be successful, the sustainability approach needs to be spread throughout the value chain. In this sense, ENKA views its suppliers as important parts of the value chain and intends to make the entire supply chain a part of the progress and development it seeks for itself.

**IN ALL FIELDS IT IS INVOLVED IN, ENKA WORKS WITHOUT COMPROMISE FROM ETHICAL RULES AND IN KEEPING WITH THE NATIONAL AND LOCAL LAWS AND REGULATIONS AS WELL AS THE STIPULATIONS OF INTERNATIONAL STANDARDS. IN LINE WITH THIS, ENKA EXPECTS ITS SUPPLIERS AND PARTNERS TO ACT IN KEEPING WITH ETHICAL RULES AND TO MEET THE REQUIREMENTS OF RESPONSIBLE MANAGEMENT.**

With its philosophy of continual improvement and creating value together, ENKA assesses all of its suppliers according to their fields of activity and reviews supply chain risks and suppliers' approach to environmental, social and economic sustainability.

ENKA's senior management decided in May 2018 to form a Corporate Supply Chain Department and the department was established and began operating in August 2018. The Corporate Supply Chain Department is responsible for the functional management and auditing of all procurement units throughout ENKA, but it does not carry out procurement itself. By focusing on the company-wide use of new generation procurement methods and e-trade applications, it ensures a widening of the supplier pool and its effective use by all procurement units.

To establish data mining infrastructure in order to carry out mass analyses of all procurement transactions and to keep statistics that will ensure future strategic decisions are taken based on data, an experienced data architect is employed full time at the department. Intensive work is being undertaken with the software team on new generation procurement applications, development of a supplier interface and data mining. As a result of the work carried out over a few months, all procurement transactions carried out at ENKA projects over the last eight years were stored on a shared platform for analysis to reveal ENKA's procurement profile for the last eight years.

ENKA Supplier Code of Conduct was published in 2017 in Turkish, English, Russian and Arabic and was communicated to new and existing suppliers by various means of communications and ENKA's website. All contracts signed with our suppliers include the terms of ENKA Supplier Code of Conduct and suppliers and their employees are asked to conduct their activities in line with ENKA Supplier Code of Conduct.

ENKA aims to expand its sustainable and responsible supply chain approach to include ENKA Pazarlama dealers, which are among its stakeholders. ENKA plans to hold a sustainability workshop for ENKA Pazarlama dealers in February 2019 to communicate the ENKA Supplier Code of Conduct, including sustainability policy and approach and anti-bribery and anti-corruption policy and to increase the awareness and consciousness of participating firms on these issues.

### SELECTION OF SUPPLIERS

The selection of suppliers is carried out by procurement departments, using criteria such as line of business, the needs and expectations of parties and special requirements concerning the demanded products or services.

Procurement activities are carried out by treating every supplier fairly and as equals and in line with the procurement and supplier selections procedures prepared for ENKA and its subsidiaries and other requirements. ENKA pays utmost attention to select suppliers according to their competence and pays its suppliers by criteria established by contract.

Any firm that wants to develop a business relationship with ENKA may register to the ENKA Global Vendor Network portal. The ENKA Global Vendor Network (EGVN) contains trade information on all suppliers,

service providers, subcontractors and other third parties with which business relations have been established. All information belonging to other firms are kept confidential at ENKA.



ENKA Global Procurement System (EGPS) is a global procurement and warehouse management software that was developed to monitor the entire procurement process end-to-end, beginning with procurement planning, proceeding through receiving offers, holding a tender, evaluating tenders, issuing purchase orders, shipping, warehouse acceptance, storing and finally issuing of the goods and allows recording and control of material and equipment purchases at every stage.

With improvements made to the EGPS in 2018, it became possible for registered suppliers to be invited to put in tender offers using the EGPS. Suppliers that are invited to tenders can enter the portal with their own user information to make offers directly and can access the details of tenders they have previously participated in on their home page. Furthermore, the questions and answers and informative correspondence throughout the tender process are shared with all suppliers in full transparency. Thus the offers process, which used to be run by e-mail and on the phone, has been fully integrated with the online system and become fully observable and transparent. In 2019, work will continue on perfecting these applications in light of feedback from suppliers and procurement units.

## THE TARGET FOR THE END OF 2019 IS TO HAVE CARRIED OUT MORE THAN HALF OF THE NUMBER OF PROCUREMENT TRANSACTIONS USING ELECTRONIC PROCUREMENT METHODS.

Before coming to an agreement with any firm, ENKA's procurement units run a pre-qualification assessment. Among the criteria for the pre-qualification assessment are the volume of goods and services to be purchased, risk level, supplier assessment results, time and cost analyses, quality assessment analyses, environmental performance, business experience of the supplier as well as their performance and attitude to ethics, compliance and sustainability.

Sustainability factors were included in the corporate procurement procedure and the supplier pre-qualification and performance evaluation criteria in 2017 and began to be used by all procurement units in 2018. These factors include the following main criteria:

- Health, Safety and Environment Management Systems
- Measurements for water consumption, carbon footprint and waste management
- Promises to conduct ethically and in compliance with human rights
- Policies and procedures on preventing child labour and forced labour
- Policies and procedures on bribery and corruption
- Policies and procedures on preventing discrimination and harassment
- Legal compliance with workers' rights and working hours
- Social responsibility projects
- Supplier's evaluation of its sub-suppliers on social and environmental compliance criteria

Given business lines ENKA is engaged in, among the most important selection and evaluation criteria are Occupational Health and Safety (OHS) and Environmental performance. Suppliers with which work is carried out or will be carried out as stakeholders have to meet comprehensive and detailed OHS and Environmental selection criteria.

Suppliers are categorised by their sector, amount and value of procurement, critical materials or services they offer, the continuity of the business relationship, ability to offer goods and services at international standards, strategic importance due to constraints on time or resources and risk class. The categorisation guarantees outputs that provide the highest benefit and value added in keeping with requirements.

**SUPPLIER ASSESSMENT**

The monitoring and evaluation of the performance of suppliers is among the most important criteria for the healthy functioning of a sustainable supply chain.

**ENKA RUNS EVALUATION SYSTEMS ON ELECTRICAL PLATFORMS TO MEASURE ITS SUPPLIERS' PERFORMANCE, SCHEDULE, COST, QUALITY, OCCUPATIONAL HEALTH AND SAFETY, ENVIRONMENTAL, ETHICAL AND SOCIAL PERFORMANCE.**

In 2017, additional sustainability subjects such as compliance with ethics, human rights and ENKA Supplier Code of Conduct, environmental and social compliance and combating bribery and corruption were added to the list of questions for performance evaluation.

The evaluations were carried out electronically, using the ENKA Global Vender Network (EGVN) database. Performance scores based on the assessments can be accessed by all ENKA users through the EGVN. Before any potential supplier is contracted, the former performance of the supplier is checked on EGVN and no contracts are offered to suppliers whose assessment score is under the acceptable limit, and if any human rights violations or cases of bribery and corruption have been detected.

In 2018, ENKA assessed 9.82% of the suppliers it works with in terms of ethics, human rights, combating bribery and corruption, OHS, environmental and social issues. No cases of environmental or social non-compliance were identified at the firms as a result of the evaluation. ENKA decided not to work with 14 suppliers as they did not meet the assessment criteria or performed poorly.



Moscow Public Buildings

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**COMPANIES' PERFORMANCE EVALUATION COMPLETED IN 2018**

During the reporting period, ENKA TC, an ENKA real estate subsidiary active in Russian Federation, carried out an assessment of six waste disposal services firms for environmental impact and two cleaning services firms for their social impact, as the activities of these suppliers were identified as risk areas. Contracts with two of the firms assessed for environmental impact were cancelled, as it was identified that they did not practice waste sorting at their own facilities. The firms assessed for their social impact were examined especially in terms of working conditions and worker payments and no cases of non-compliance were observed.

In 2018, ENKA began to carry out sustainability audits of suppliers which are of strategic significance to ENKA. The audits carried out by Corporate Sustainability Department focused on ethics and compliance, human and workers' rights, combating bribery and corruption, social compliance, occupational health, safety and environmental management. In the audits that took place during the reporting period, no cases of child labour or forced labour, or cases of corruption, were encountered. The audits are intended to identify issues in need of improvement, leading suppliers to prepare the necessary sustainable improvement action plans and act in accordance with the plans. The audits are therefore intended to contribute to improvements in the existing systems of suppliers.

According to article 7 of section 3.2 Human Rights and Fair Working Conditions of ENKA Supplier Code of Conduct, all suppliers and service providers that work with ENKA have to respect the right of their employees to establish independent trade unions, become members of such unions and to organise at the workplace. During the reporting period, no violations of employees' right to organise and collective bargaining were encountered at supplier firms and no reports, complaints or tip-offs about such an issue were received.

Any cases of non-compliance identified during supplier assessment are officially communicated to the supplier's management as soon as possible. According to the type of non-compliance and the stipulations of the contract with the supplier, measures such as issuing a warning, punitive action or annulment of contract may be enforced.

**LOCAL PROCUREMENT**

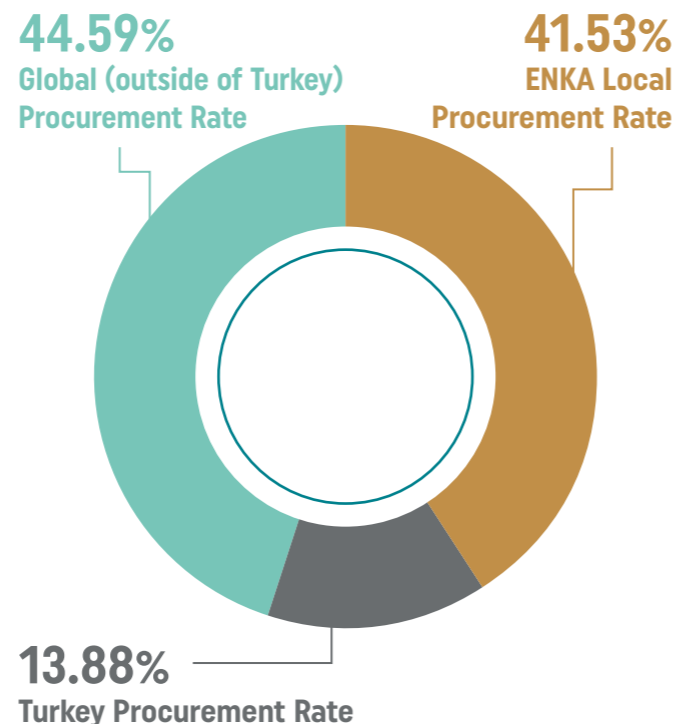
In projects it undertakes in many regions around the world, ENKA carries out considerable local procurement and thereby supports the economic development of local communities. For ENKA, the term 'local suppliers' denotes suppliers registered within the territory in which ENKA is active.

With its strategy of local procurement, ENKA not only supports the development of local communities, but also prevents loss of natural resources and time as well as negative impacts on society and the environment due to the logistics of international procurement.

During the reporting period, ENKA İnşaat's share of consolidated local procurement of goods and services stood at 41.53% of its consolidated international purchases. 13.88% of procurement was sourced from Turkey.

**LOCAL PROCUREMENT RATES BY PROJECT**

In line with ENKA's sustainability strategy, ENKA subsidiaries also prioritise local firms for purchases, provided that technical conditions and standards are met. In 2018, the local procurement rate was 94% at ENKA Power, 37% at ENKA Pazarlama; 95% at MKH, 100% at Mosenka, 99.4% at ENKA TC and 95% at CCI which operate in Russia; and 82% in Cimtas Ningbo which operates in China.



PROJECT NAME	LOCAL PROCUREMENT RATE (%)
Athens Embassy Project	21.96%
Dhi Qar 750 MW Combined Cycle Power Station	46.12%
FGP 3GP Project	14.99%
India Embassy Project	16.89%
Kashirskaya Project	84.22%
Kenya Embassy Project	5.75%
Kosovo Route 6 Project	54.64%
Mexico Embassy Project	14.44%
Nizhnkamskneftekhim Combined Cycle Power Station	19.74%
Paraguay Embassy Project	23.49%
Basra Umm Qasr Project	32.46%
Samawa Combined Cycle Power Plant	51.52%
SCPX Early Works and Facilities	58.13%
Sri Lanka Embassy Project	18.30%
Kazan TAIF Business Centre Project	95.53%
Tengiz Projects	66.94%
West Qurma 1 IOT Project	77.13%

**RISK MANAGEMENT**

BEHIND ENKA'S ABILITY TO OVERCOME CHALLENGES AND CONTINUE ITS SUCCESS IN THE DIFFICULT GEOGRAPHIES AND COMPETITIVE SECTORS IT ENGAGES IN, LIES A RISK MANAGEMENT APPROACH THAT ENCOURAGES MULTI-STAKEHOLDER PARTICIPATION, FOLLOWS CHANGES, MONITORS INTERNATIONAL STANDARDS AND DEVELOPMENTS AND AS A RESULT IS CAPABLE OF TURNING RISKS INTO OPPORTUNITIES.

Risk management is a component of all ENKA's processes and activities, and risk-based thinking is encouraged by ENKA's senior management.

During the risk management process, ENKA's present and potential activities are assessed not only in terms of financial and legal risks, but also for economic, environmental and social risks. At ENKA, the highest organ responsible for the risk management function is the Early Identification of Risks Committee, which reports to the Board of Directors. In 2017, a Risk Management Work Group was established under the Committee to ensure that an active and effective risk management programme is implemented.

The purpose of the Committee is the early identification of any potential risks that might jeopardise the existence, development and continuation of the company, the implementation of preventive actions concerning identified risks, and undertaking work related to risk management and review risks management systems in force at least once a year. The Committee meets at least six times every year with a maximum interval of two months and consists of the non-executive members of the Board of Directors.

The Risk Management Work Group was formed to ensure that corporate risks are identified, the means of risk reduction are specified, and that identified measures against risks are assessed and implemented.

