

Responsible Supply Chain Management

ENKA recognises that its suppliers play an important role in its achievements. As the company progresses, it also seeks to make its whole supply chain a part of this progress. Within the framework set by the principles of transparency and the rules of ethics, ENKA builds its relations with the suppliers with which it collaborates on a basis of quality, a competitive environment, conformity to international standards, sustainability and honesty.

In all of the fields in which it operates, ENKA carries out its work in accordance with the local legislation of the countries concerned and the requirements of international standards, and without compromising its ethical rules. In this context, it expects its suppliers and collaborators to act in accordance with the rules of ethics and fulfil the requirements of responsible management. With its philosophy of constant improvement and joint value creation, ENKA assesses all its suppliers depending on their fields of activity, and reviews their supply chain risks and environmental, social and economic sustainability.

As noted under the heading "Ethics and Compliance", ENKA published the ENKA Supplier Code of Conduct in four languages in 2017 - Turkish, English, Russian and Arabic. It informed its new and existing suppliers about this through various communication channels and on its own website. This requirement is included in all the contracts signed with suppliers, and these firms and their employees are expected to conduct their activities in accordance with the ENKA Supplier Code of Conduct.

In the same way, the ENKA Ethics Hotline, available in six languages, was established and went into operation in 2017. All stakeholders including local communities, suppliers, service providers, subcontractors and their workers are able to report any

complaint or infringement of the rules of business ethics to the ENKA Ethics Hotline Unit using the telephone number +90 212 376 1010.

Selection of Suppliers

Suppliers are selected by the procurement units taking into account criteria related to the business lines in which they are active, the needs and expectations of the parties and the particular requirements of the product or service which has been requested. All suppliers are treated fairly and equally during the procurement process, which is conducted in accordance with the procurement procedures, supplier selection procedures and other relevant requirements drawn up by ENKA and its subsidiaries.

Any company which wishes to enter into a business relationship with ENKA can register on the ENKA Global Vendor Portal. This portal, known as the ENKA Global Vendor Network (EGVN), contains company information for all suppliers, service providers, subcontractors and all other kinds of third party with which a business relationship has been entered into in the company's fields of activity. Information about these companies is retained within ENKA.

The ENKA Global Procurement Management System (EGPS) is a global purchasing and warehouse management software programme which has been developed to keep track of the whole procurement process from end to end, starting with procurement planning and proceeding via the receipt of offers, opening of tenders, evaluation of tenders and issue of purchase orders to shipping, warehouse acceptance and stocking and finally the issue of the goods. The programme makes it possible to record and control purchases and movements of materials and equipment at all stages of the procurement process.



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Before reaching an agreement with any supplier, the ENKA procurement units make a pre-qualification assessment of the company in question. The criteria for prequalification include the supplier's conduct and attitudes in matters of ethics, compliance and sustainability as well as the quantity of the product or service to be purchased, the level of risk, the supplier evaluation results, time and cost analyses, quality assessment analyses and the supplier's environmental performance and business experience.

During the reporting period, issues related to sustainability were added both to the corporate procurement procedures and to the criteria for the prequalification and evaluation of suppliers. Chief among these issues were the following criteria:

- Management systems for the Environment and Health and Safety at Work
- Measurements for water consumption, carbon footprint and waste management
- Pledges to do business in conformity with ethics and human rights
- Policies and procedures for preventing child labour and forced labour
- Policies and procedures concerning bribery and corruption
- Policies and procedures for the prevention of discrimination and harassment
- Legal compliance with employee rights and working hours
- Social responsibility projects
- Assessment of the supplier according to social and environmental compliance criteria by firms with which it is in contact

Considering the business lines in which ENKA operate, one of the topics of greatest importance among the selection and assessment

criteria is the supplier's performance in terms of the Environment and Health and Safety at Work. Suppliers with which ENKA works or is contemplating working have to meet comprehensive and detailed selection criteria in the areas of Worker Health and Safety (H&S) and the Environment. Some of these criteria are as follows:

- Existence of a pledge concerning H&S and the Environment
- H&S and Environment Management Systems
- The supplier's plans and procedures for H&S and the Environment and the related records
- The number and frequency of H&S accidents in the past five years
- The number and volumes of leaks and spills resulting from the supplier's activities in the past five years
- The number of personnel within the organisation of the supplier who are directly concerned with H&S and the Environment
- Legal penalties incurred by the supplier
- Engagement in social responsibility projects

Suppliers are classified according to the sectors in which they operate, the amounts and values of purchases made, critical materials or the services they provide, the continuity of the business relationship, the conformity of products and services to international standards, time and resource limitations and their reasons, and strategic importance and risk categorisation. This approach guarantees the procurement of outputs which are in accordance with the requirements and which provide the maximum value added and overall benefit.



Supervision of Suppliers

In line with the aims of sustainable supply chain, monitoring and evaluation of the performance of the suppliers is one of the most important conditions for the healthy operation of the supply chain.

ENKA operates an evaluation system on an electronic platform in order to measure the success of its suppliers in terms of performance, time, cost, quality, health and safety at work, and environmental and social matters.

In 2017, a number of new items related to sustainability were inserted in questionnaires used for performance evaluation. Performance evaluations were carried out for a total of **470** firms during the course of the year. These evaluations were conducted electronically via the ENKA Global Vendor Database.

In future years, sustainability audits will be a part of ENKA's cooperation with the suppliers and service providers which hold a strategic importance for the company. These audits are planned to be conducted in conjunction with independent audit institutions commissioned by ENKA, and will particularly focus on the suppliers' management of Human Rights, Social Compliance, Safety at Work, Health and the Environment, and Operations. The sustainability audits are to be held in addition to the existing worker health and safety, environmental and quality audits.

In the light of these audits, areas where improvements are needed are identified with the aim of contributing to the preparation of action plans by the suppliers containing the necessary corrective and sustainable actions, to the conduct of the suppliers'

activities in line with these plans, and hence to the suppliers making improvements in their existing systems. During the reporting period, audits were conducted at approximately 200 supplier firms.

If the supplier evaluations reveal cases of non-compliance, then the management of the supplier is informed as a matter of urgency. Depending on the nature of the failure and the provisions of the contract made with the supplier, other measures may also be taken, such as warnings, penal action and the cancellation of the contract.

ENKA evaluated 7% of the suppliers with which it was working or intending to work in 2017 from the point of view of H&S and Environmental and Social matters. As a result of these evaluations, 19 suppliers were deemed unfit to work with.

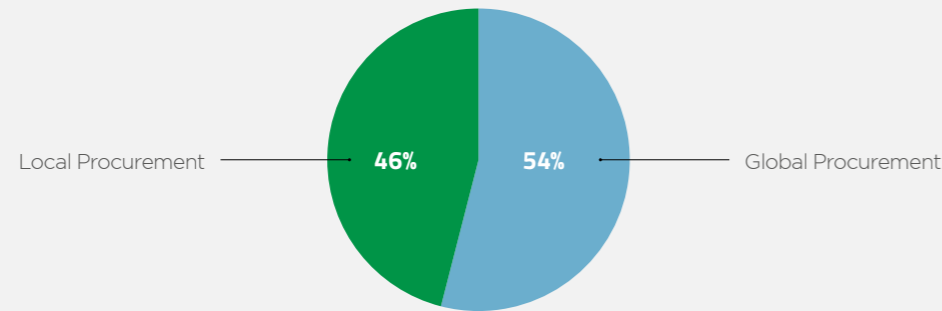
Local Procurement

ENKA does a considerable amount of local procurement for its projects in various regions of the world. In this way, it supports the economic progress and development of the local communities. ENKA uses the concept of "local suppliers" to refer to suppliers registered within the geographical borders in which it operates.

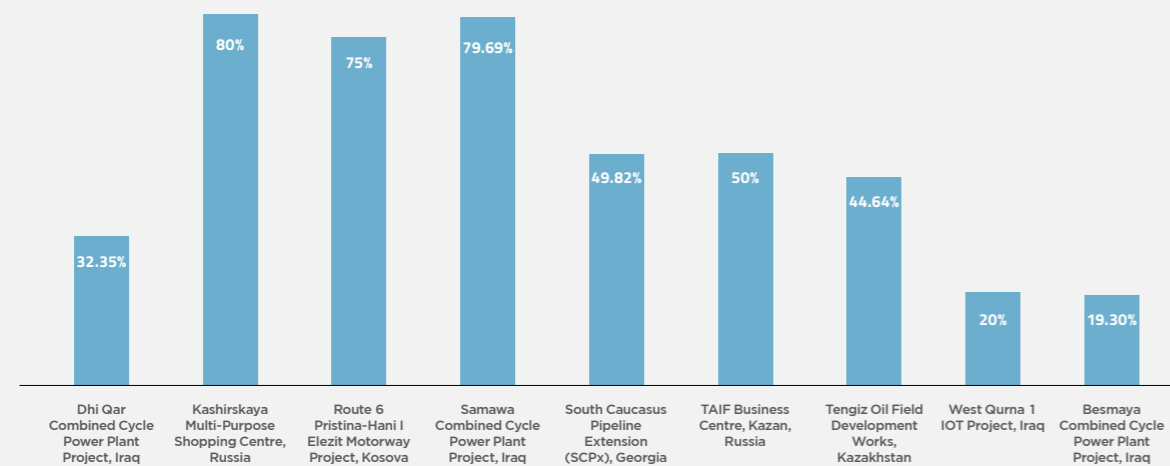
Through its local procurement strategy, ENKA does not only support the development of local communities; it also prevents the loss of the natural resources and time that would be spent on logistics in the case of an international procurement and obviates related social and environmental impacts.

The ratio of products and services ENKA İnşaat purchased from local suppliers to its total procurements within the reporting period, is at 46% on a consolidated basis.

ENKA İnşaat Local Procurement Ratio



Local Procurement Ratios By Project



These ratios have been calculated using local procurement numbers in 2017, and therefore differ from the project's overall procurement ratios.

Preference is also given to local firms at ENKA's subsidiaries, although they have not made any formal commitment in this respect, provided the firms meet the technical specifications and standards. In 2017, ENKA Power had a local procurement ratio of 36% (Purchases from BOTAŞ and GETSAŞ are

not included in this ratio for reasons of confidentiality). Cimtas Ningbo made 90% of its purchases in China, where it is located. CCI and ENKA TC, which are active in Russia, respectively conducted 90% and 80% of their procurement locally.

“ We at ABB offer many products to ENKA and we receive orders for some of the projects.

We are proud of ENKA's ethics and compliance programme. As you know, ABB is one of the leading companies worldwide in terms of the implementation of Rules of Conduct and Business Ethics.

ENKA has similar concepts, which makes our collaboration with them easier. ENKA carries out its work honestly and on time, and its work is of high quality. The company also ensures that a responsible and ethical approach is adopted at every level.

As a part of its responsible supply chain management, ENKA encourages, trains, monitors and develops its business partners, subcontractors and suppliers. I therefore think it is very advantageous to work with ENKA, both on behalf of myself and on behalf of my company.

Recai İnel, ABB Electric Marketing Manager, Transformers and Power Grids

ENEXIO designs and supplies air cooled condensers (ACCs) for various power plants on which ENKA is engaged as the EPC contractor.

“ In general, the relations between ENEXIO (formerly known as GEA Energetechnik GmbH) and ENKA are conducted in a framework of mutual trust, respect and transparency. This creates a win-win situation for both parties.

In our opinion, ENKA is a global player with significant experience in plant engineering and construction.

Steffen Schneider, ENEXIO Germany Project Manager