**Appendix 2**

**Policy of China** **Shenhua Energy Company Limited for Suppliers’ management of Environment, Social Responsibility and Corporate Governance (ESG) (Trial)**

**Chapter I General Provisions**

**Article 1** To strengthen the suppliers’ ESG management of China Shenhua Energy Company Limited (hereinafter referred to as the “Company”), effectively identify suppliers’ ESG risks, improve their overall capacity for managing and controlling ESG risks, and include suppliers in the ESG management system of the Company, this policy is hereby made in accordance with relevant policies including *Policy of CHN Energy Group for Administration of Suppliers (Trial)*, *Implementation Rules of CHN Energy Group for Management on Admission and Exit of Suppliers (Trial)*, *Implementation Rules of CHN Energy Group for Management on Performance of Material Suppliers (Trial)*, and *Business Ethics of China Shenhua Energy Company Limited (Trial)* and take the actual situation of the Company into consideration.

**Article 2** ESG referred to in this policy means philosophies and standards in relation to the environment, social responsibility, and corporate governance, with a focus on the non-financial performance of the company. The goal of this policy is to evaluate the contributions of the company in terms of environmental protection, advancement of sustainable economic development, social responsibility fulfillment, and the like.

**Article 3** Supplier ESG management referred to in this policy means various management activities, which might occur in all links of the supplier management, including supplier ESG admission, grading, evaluation, and exit by addressing suppliers’ ESG-related risks.

**Article 4** The policy applies to the Company and all wholly-owned companies, controlled companies, and branches at all levels thereunder (hereinafter referred to as “All Units”). Equity investment entities of the Company may execute by reference to this policy. All Units may make detailed management provisions to carry out the suppliers’ ESG management work based on the actual needs and by reference to this policy.

**Chapter II Duty Division**

**Article 5** The working committee for Safety, Health, Environment Protection, and ESG (hereinafter referred to as “ESG Committee”) under the Board of Directors of the Company is responsible for making decisions on relevant matters regarding suppliers’ ESG management.

**Article 6** The senior management team of the Company is responsible for the supervision of Daily work in relation to suppliers’ ESG management. The Department of Enterprise Management and Legal Affairs of the Company is responsible for the coordination and advancement of specific issues.

**Article 7** All Units shall assist in working in relation to suppliers’ ESG management.

**Article 8** Key duties of the ESG Committee include the following:

(I) Review and approve suppliers’ ESG strategies, measures, and management guidance of the Company;

(II) Review and approve risks and opportunities and the like regarding suppliers’ ESG;

(III) Review and approve policies regarding suppliers’ ESG management;

(IV) Review and approve the suppliers’ ESG risk grading, internal monitoring, and other work;

(V) Attend the presentation on the updates of suppliers’ ESG management;

(VI) Review and approve other important matters related to the suppliers’ ESG management.

**Article 9** The senior management of the Company is responsible for advancing work related to ESG management, of which key duties include:

(I) Review the suppliers’ ESG strategies, measures, and management guidance of the Company;

(II) Review risks and opportunities and the like regarding suppliers’ ESG;

(III) Review policies regarding suppliers’ ESG management;

(IV) Review the suppliers’ ESG risk grading, internal monitoring and other work;

(V) Review other important matters related to the suppliers’ ESG management.

**Article 10** Key duties of the Department of Enterprise Management and Legal Affairs include:

(I) Responsible for the market investigation and related work for this purpose;

(II) Draft the suppliers’ ESG strategies, measures, and management guidance of the Company;

(III) Organize carrying out various work for the suppliers’ ESG performance;

(IV) Organize carrying out the suppliers’ ESG risk grading, internal monitoring and other work from time to time;

(V) Responsible for supervision and check of suppliers’ ESG certifications and organize evaluating suppliers’ ESG performance;

(VI) Sort out and evaluate risks and opportunities and the like regarding suppliers’ ESG;

(VII) Responsible for briefing the updates of suppliers’ ESG management;

(VIII) Responsible for other matters in relation to the daily management of suppliers’ ESG.

**Article 11** Key duties of All Units include:

(I) Require suppliers to provide information on ESG-related ratings and certifications at the stage of procurement;

(II) Carry out and implement the ESG evaluation for high-risk suppliers;

(III) Organize communications with suppliers and conduct necessary training;

(IV) Give preference recommendations to those suppliers with an outstanding ESG track record, by taking the ESG evaluation results of suppliers into consideration, when necessary.

(V) All Units shall, act upon the requirements of the Company, carry out and implement the suppliers’ ESG risk management, designate a responsible department for this field, and properly coordinate and manage issues regarding suppliers management.

**Chapter III Suppliers ESG Risk Grading**

**Article 12** The Company carries out the ESG grading management for suppliers and defines the ESG risk grades of suppliers based on ESG risk judgments.

**Article 13** Supplier ESG grading management refers to evaluation from two dimensions by using the ESG risk judgment matrix (Attachment 1):

(I) By type of industry. Including metallurgy and minerals, petrochemical, mechatronics, logistics, financial service and the like;

(II) By purchase amount. Including below RMB 1 million, RMB 1 million - 10 million, and above RMB 10 million.

**Article 14** Based on the ESG risk judgment results, the Company carries out the grading management in our suppliers, and suppliers are divided into high-risk suppliers, medium-risk suppliers and low-risk suppliers.

(I) High-risk suppliers refer to suppliers in industries with high ESG risks and with a cumulative purchase amount of the current year of more than RMB 10 million;

(II) Medium-risk suppliers refer to suppliers in industries with no high ESG risks or with a cumulative purchase amount of the current year of no higher than RMB 10 million;

(III) Low-risk suppliers refer to suppliers in industries with low ESG risks and with a cumulative purchase amount of the current year of lower than RMB 10 million.

**Article 15** For high-risk suppliers, a requirement for obtaining ESG-related certifications shall be included as a prerequisite for ESG high-risk suppliers. If ESG medium-risk suppliers submit ESG-related certification materials, priority will be given to them in the supplier admission step.

**Article 16** The Company encourages suppliers to obtain ESG-related certifications and materials in (including but not limited to) the following aspects (see Attachment 2 for details):

(I) Product quality and safety;

(II) Occupational health and safety of employees;

(III) Environment management, green products;

(IV) Data privacy and information security.

**Chapter V Supplier ESG Management**

**Article 17** According to the ESG performance, the Company will from time to time organize to carry out ESG valuation update work in ESG high-risk suppliers.

**Article 18** All Units shall, based on their actual situation, from time to time invite high-risk suppliers to fill in *Supplier ESG Questionnaire* (see Attachment 3 for details), update the evaluation of suppliers, and give timely feedback about the evaluation results.

**Article 19** *Supplier ESG Questionnaire* includes the following items:

(I) Enterprise management and governance: sustainable development management, business ethics, etc.;

(II) Social responsibility: entitlements and interests of employees, customer services, etc.;

(III) Environment protection: energy saving and consumption reduction, emission reduction, etc.

**Article 20** Supplier ESG Management Standards

(I) Suppliers shall ensure that operation and products and services thereof are consistent with laws and regulations;

(II) Suppliers shall ensure that they comply with public ethics and good conduct of regions (countries) where their businesses are carried out in the course of businesses, and no bad behaviors such as bribery are allowed;

(III) Suppliers shall follow the principles of “open, fair and impartial”, and maintain a good business cooperation environment;

(IV) In case of significant conflicts of interests, suppliers shall timely explain the situations to the cooperating company; Any company employee shall report to the company in time in case he or she has kinsfolk relationship with people of suppliers.

(V) Suppliers shall employ workers legally, and strictly prohibit disguised forced labor and child labor. The use of workers shall be consistent with laws and regulations;

(VI) Suppliers shall strictly prohibit discrimination against employees due to reasons such as sex, race, nationality, age, marriage status, the status of children, sexual orientation, religion or physical disability;

(VII) Suppliers shall follow the statutory minimum wage levels and self-discipline rules in regions (countries) where businesses are carried out;

(VIII) Suppliers shall provide and maintain a safe and healthy working environment for employees to minimize the possibility of work-related injuries and illness;

(IX) Suppliers shall pay attention to environmental protection, and the company encourages them to make policies regarding environmental protection in their business fields;

(X) Suppliers shall reasonably use natural resources during the production and provision of products and services, and strictly control the discharge of pollutants and wastes to make it consistent with the standards of regions (countries) where businesses are carried out;

(XI) To further highlight the social responsibility of All Units, the Company encourages them to cooperate with product or service suppliers with outstanding environmental protection performance.

**Article 21** Supplier’s evaluation score shall be used as a basis for the suppliers grading. Suppliers grading shall follow the rules below:

(I) Suppliers with an evaluation score higher than 90 (inclusive) are Level A suppliers;

(II) Suppliers with an evaluation score lower than 90 but higher than 75 (inclusive) are Level B suppliers;

(III) Suppliers with an evaluation score lower than 75 but higher than 60 (inclusive) are Level C suppliers;

(IV) Suppliers with an evaluation score lower than 60 are Level D suppliers.

**Article 22** Department of Enterprise Management and Legal Affairs is responsible for summarizing, reviewing, and notifying All Units and procurement institutions of the supplier ESG evaluation results after the results are examined and approved by the Procurement and Bidding Leading Team.

**Article 23** The Company shall sign code of conduct (see Attachment 4 for details) with suppliers at the procurement stage.

**Chapter VI Evaluation Result Application**

**Article 24** Department of Enterprise Management and Legal Affairs shall make recommendations regarding giving rewards or punishment to suppliers based on the supplier ESG evaluation results and submit it to the Procurement and Bidding Leading Team for review.

**Article 25** If a supplier has one of the following situations after being verified by the Department of Enterprise Management and Legal Affairs and approved by the Procurement and Bidding Leading Team, the supplier shall be notified to correct it within a specific period:

(I) The supplier is defined as a Level C2 supplier for two times;

(II) Other circumstances that need to be corrected within a period as determined by the Company.

**Article 26** A supplier will be prohibited from engagement once it has one of the following behaviors. Department of Enterprise Management and Legal Affairs will investigate and verify, then submit to the ESG Committee of the Company for approval. The handling of this will refer to relevant policies and procedures.

(I) ESG evaluation result of the supplier is Level D;

(II) The supplier gives false information in the *ESG Questionnaire* or fails to provide relevant supporting materials for its certification;

(III) The supplier violates *Code of Conduct for Supplier*;

(IV) Supplier is in breach of relevant contract during the performance, causing losses to the Company;

(V) ESG incidents that violate relevant national laws and regulations or relevant industrial standards occur, such as significant environment pollution accident, significant safe production accident and significant community dispute.

**Chapter VII Exchange Management**

**Article 27** The Company shall establish effective communication channels with suppliers, such as holding an annual suppliers conference, and encourage suppliers to participate in regular discussions with the company in the fields including but not limited to cost reduction, quality and service improvement, low-carbon technologies, and human right protection. Information sharing will be realized.

**Article 28** The Company shall organize ESG-related trainings for suppliers based on the production and procurement needs and encourage suppliers to participate to jointly enhance the cooperation level.

**Article 29** The Company encourages suppliers to voluntarily submit and report information on GHG emissions of relevant reporting period of each year and the YOY change, and the Department of Enterprise Management and Legal Affairs is responsible for the collection and calculation of such information.

**Chapter VIII Supplementary Provisions**

**Article 30** Department of Enterprise Management and Legal Affairs is responsible for the interpretation of this policy.

**Article 31** The policy will be effective as of the issuance date.

Attachments: 1. Supplier ESG Risk Judgment Matrix

2. List of ESG Certifications

3. Supplier ESG Questionnaire

4. Code of Conduct for Supplier

Attachment 1:

Supplier ESG Risk Judgment Matrix

|  |  |  |  |
| --- | --- | --- | --- |
| Above RMB 10 million |  | Medium-risk area | High-risk area |
| RMB 1 million – 10 million |  |  |  |
| Below RMB 1 million | Low-risk area |  |  |
| Total risk value | 3 | 5 | 6 | 7 | 8 | 9 | 11 |
| Industry | •Service industry: enterprise management, legal consulting, advertising, trading | • Medical and health care services/equipment, pharmaceutical, biotechnology | • Computer, communication and other electronic equipment manufacturing• Engineering architecture, architecture installation, decoration• Banking, insurance• Retail: office suppliers• News and media• Furniture manufacturing | •Lodging, catering• Software and information technology service industries | • Auto manufacturing• Transportation: logistics, air transport, road transport, sea transport, railway | • Chemical industry | • Oil and gas |

Attachment 2:

List of ESG Certifications

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of Certification** | **Standard Setting Body** | **Applicable Industries** | **Field** | **Introduction** |
| ISO 14000 | ISO | Global commerce, industry, government, non-profit organizations and other users | Environment management series standards | The series of standards integrates environment management experiences of many developed countries in the world, is a complete and highly feasible system of standards, and covers organizational structure, planning activities, duties, practices, procedures and process and resources necessary for drafting, implementing, realizing, evaluating and maintaining environment policies. Among them, ISO14001 is the main standard of the environment management system standards, belongs to an international standard in accordance with which enterprises establish and implement environment management systems and pass the certification and that is based on ISO14000 environment management system, and aims to standardize environment activities of all organizations including enterprises and social groups, to save resources, reduce environmental pollution, improve the environment quality, and promote the sustainable and healthy development of economy |
| CDP levels | CDP | All industries | Climate change disclosure level;Water resource protection disclosure level;Forest protection disclosure level | CDP sends questionnaires to enterprises with environment impact in the world, and respectively scores answers of enterprises in terms of response to climate change, water resource protection and forest protection, and according to the scores, there are 8 levels: D- to A, representing special topic management ability of an enterprise |
| OHSAS 18001 | International standard jointly launched by 13 organizations including British Standards Institution | Unlimited | Occupational health and safety | OHSAS18001 standard and the resulting occupational health and safety management system certification system is another certification system for management system standard that has become worldwide popular in recent years.OHSAS18001 standard was an international standard jointly launched by 13 organizations including British Standards Institution (BSI) and Det Norske Veritas (DNV) in 1999, and when ISO had not been laid down, it worked as a quasi-international standard. |
| ISO 45001 | ISO | Applicable to any organizations that hope to establish, implement and maintain an occupational health and safety management system  | Occupational health and safety management system | ISO 45001 was built based on existing standards of OHSAS 18001; their main goals are identical, and to improve the occupational health and safety performance of organization. ISO45001 pays more attention to “environment of organization”, stresses duties and the leading role of the highest-level leader, pays close attention to the management duties, and highlights the risk-based thinkingAnd pay more attention to monitoring and measurement of performance |
| ISO 27001 | ISO | Applicable to large, medium and small-sized organizations | Information security management system standard | As the current international representative information security management system standard, ISO 27001 has been widely applied in governmental institutions, banks, securities companies, insurance companies, telecommunication operators, network companies and many multi-national companies in all regions of the world, which re-defined requirements for information security management system (ISMS) and aims to help enterprises ensure that they have adequate and targeted security control options. By establishing, operating and improving the information security management system, enterprise may further standardize enterprise-related information management work so as to ensure the security of cloud computing service of enterprise. |
| ISO 28000 | ISO | Unlimited | Comprehensive supply chain risk | ISO28000 was developed and proposed in response to the needs of the transportation and logistics industries for common safety management standards, with the ultimate goal of improving the overall safety of the supply chain. The supply chain safety management system, based on ISO 28000 certification standard, can identity levels of risks during your entire supply chain operation. After that, company can use such information to conduct the risk evaluation, and apply necessary control through support and management tools (e.g., document control, KPI, internal review and training). |
| EcoVadis |  | Unlimited | Supplier CSR | EcoVadis certification is based on the enterprise social responsibility standard ISO26000, and is an online review platform providing global supplier enterprises with the enterprise social responsibility certification in terms of environment protection, human rights of labors, business ethics, sustainable procurement and the like. |
| TAPA-FSRFreight Supplier Minimum Security Requirements | TAPATransported Assets Protection Association | Technology products | The transportation line of supply chain  | As an important tool for the supply chain management, certification of warehousing equipment and transportation operation based on requirements of TAPA FSR can help:Increase safety of warehousing and operation; improve the safety coefficient of high-value/risk products disposed of by organization; reduce insurance premiums; prove that your organization and your ability are enough to meet needs of customers; obtain opportunities of TAPA members or other businesses related to high-value products; help organizations establish new management systems with new technologies and consistent with new safety requirements |
| TAPA-TSRTrucking Security Requirements | TAPATransported Assets Protection Association | Technology products | The transportation line of supply chain  | TSR was established to ensure the transportation safety of high-value assets in the world. This standard can be implemented together with FSR. TSR provides for the minimum acceptable standards that organizations focusing on auto transport shall reach throughout the supply chain, and work to maintain such standards; meanwhile, TSR also lists specific processes and detailed parameters on how suppliers meet the auto transport consistency requirement, and SGS may review organizations based on requirements of TSR. |
| ISO 28000 | ISO | Unlimited | Comprehensive supply chain risk | ISO28000 was developed and proposed in response to the needs of the transportation and logistics industries for common safety management standards, with the ultimate goal of improving the overall safety of the supply chain. The supply chain safety management system, based on ISO 28000 certification standard, can identity levels of risks during your entire supply chain operation. After that, company can use such information to conduct the risk evaluation, and apply necessary control through support and management tools (e.g., document control, KPI, internal review and training). |

Attachment 3:

Supplier ESG Questionnaire

Name of Enterprise \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Products Produced/Sold or Services Provided

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Completed by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Department \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Contact Information \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

During the corporate ESG governance, what have you already done:

|  |  |
| --- | --- |
| The company establishes development strategies for sustainable development/social responsibility |  |
| The company makes policies such as principles of business ethics or code of conduct |  |
| The company sets up a management institution for sustainable development/social responsibility |  |
| The company drafts policies and systems for anti-corruption/bribery |  |
| The company conducts anti-corruption trainings |  |
| The company signs labor contracts with employees in accordance with laws |  |
| The company legally establishes the occupational health and safety management system and policy |  |
| The company pays employees’ salaries on time |  |
| The company pays social security fees based on rules |  |
| The company provides employees with relevant position skill trainings |  |
| The company carries out democratic management and support the labor union activities |  |
| The company does not use child labor or force labor |  |
| The company establishes relevant quality management systems for products/services |  |
| The company provides products/services consistent with quality safety requirements |  |
| The company carries out reasonable marketing, and does not conduct false or exaggerated promotion |  |
| The company establishes the customer service system and policy |  |
| The company protects customer data and privacy |  |
| The company legally conducts public procurement and sign execution contracts |  |
| The company includes environment, social, business ethics, enterprise management and other requirements into procurement contracts |  |
| The company carries out sustainable development/social responsibility trainings for suppliers |  |
| The company pushes forward the responsible and green procurement |  |
| The company competes in a legal and fair manner and maintains the fair environment |  |
| The company actively participates in the industrial exchange and be involved in making industrial standards |  |
| The company promotes the industrial sustainable development |  |
| The company establishes an environment management system |  |
| The company makes investments in terms of environment protection |  |
| The company uses renewable energy/raw materials |  |
| The company develops or applies environment-friendly products/technologies |  |
| The company comprehensively utilizes waste products |  |
| The company guarantees that its pollution discharge meets standards |  |
| The company carries out energy-saving and consumption-reducing activities (water, power and energy saving) |  |
| The company identifies climate change risks and establishes countermeasures |  |
| The company pays attention to its impact on ecological environment, soil, biodiversity and the like |  |
| No significant environment protection accident occurred to the company |  |
| The company lays down community communication policies |  |
| The company advances the community economic development, such as infrastructure construction promotion, and job creation |  |
| The company respects the community culture |  |
| The company conducts charitable activities and provides volunteer services |  |
| The company pays taxes in accordance with laws |  |
| The company complies with laws, regulations and policies |  |
| Number of questions answered |  /40 questions |
| Total score (100 scores) |  /100 scores |

Attachment 4

Code of Conduct for Supplier

China Shenhua has been paying close attention to the enterprise social responsibility management work, actively conducts the enterprise ESG governance, integrates sustainable development into the enterprise strategy, and promotes the joint participation of all parties. Based on the UN’s call for global action and relevant international standards, China Shenhua hereby makes the *Code of Conduct for Supplier*, raises requirements regarding environment management, social responsibility and enterprise management and governance, and expects suppliers to comply with the same and actively take actions, to jointly make contribution for a sustainable future.

**I. Environment**

(I) Comply with local laws and regulations regarding environment protection;

(II) Improve the resource use efficiency, adopt energy-saving and environment-friendly technologies, and promote energy saving and emission reduction;

(III) Reduce pollution to the environment, including discharge of solid waste, air pollutants, waste water, etc.

(IV) Actively respond to the climate change, and protect biodiversity;

**II. Social Responsibility**

(I) Protect interests and human rights of employees, including minimum salaries and working hours;

(II) Refuse to use of forced labor or child labor in the workplace;

(III) Eliminate any discrimination based on race, age, sex, religious belief and the like during the recruitment and employment;

(IV) Provide a safe working environment, and protect occupational health and safety of employees;

(V) Respect employees’ rights of free assembling and collective negotiation;

(VI) Actively participate in the community public welfare, and promote the sustainable development of the region where it is located;

**III. Enterprise Management and Governance**

(I) Comply with relevant laws and regulations, policies and industrial standards;

(II) Maintain fair competition and comply with generally accepted principles of business ethics

(III) Oppose to any form of embezzlement, corruption and extortion;

(IV) Respect and protect intellectual properties;

(V) Protect customer data information and privacy.

We completely accept and will execute based on requirements of this Code, and agree to cooperate with China Shenhua and conduct necessary interview and investigation for this purpose.

Supplier \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_