

# ESG PROGRAM OF SUPPLIERS



Junho/2024

**ESG PROGRAM OF SUPPLIERS**

Cemig understands that the success of its business is directly related to its supplier strategy, and adopts the same principles and values in relation to its supply chain.

To provide guidance on the main guidelines in the relations of Cemig with the supply chain, the Company published:

- “ESG Requirements for the Supply Chain” (<https://www.cemig.com.br/en/wp-content/uploads/sites/7/2024/06/esg-requirements-for-supply-chain.pdf> )
- Cemig Code of Conduct (<https://www.cemig.com.br/en/wp-content/uploads/sites/7/2022/06/cemig-code-of-conduct.-en.pdf>)
- Commitment to Human Rights of Cemig (dpr-h-19-2017-commitment-to-human-rights.pdf (cemig.com.br))

Among the main guidelines addressed in the relationship of Cemig with the supply chain, the following topics stand out:

- 1) Forced or slave-like labor and working conditions;
- 2) Child labor;
- 3) Health and safety;
- 4) Harassment and other discriminatory conduct;
- 5) Equal opportunities;
- 6) Freedom of trade union association;
- 7) Remuneration and benefits;
- 8) Maternity leave;
- 9) Employment relationship;
- 10) Migrants;
- 11) Environmental management;
- 12) Greenhouse gas emissions and energy consumption;
- 13) Pollution prevention and waste management;
- 14) Resource Efficiency and energy efficiency;
- 15) Biodiversity and combating deforestation;
- 16) Soil conservation;
- 17) Protection of personal data;
- 18) Ethics, Compliance and anti-bribery.
- 19) Anti-corruption and reporting channel;
- 20) Conflict of interests;
- 21) Antitrust and Defense of Free Competition;
- 22) Isonomy, transparency and legality.

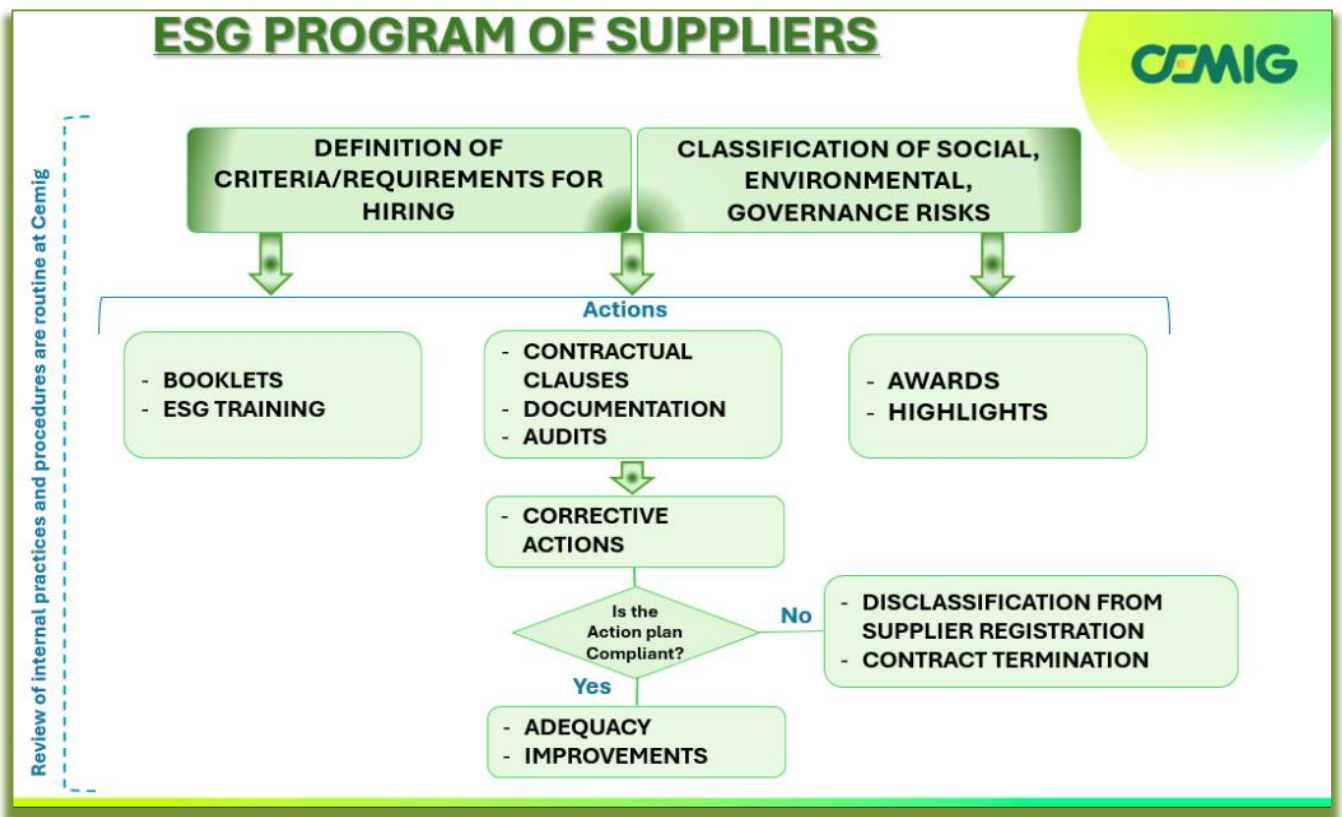
Supervision of the implementation of the ESG Program of Suppliers is the responsibility

of the Executive Board of Purchasing and Logistics – DCL.

Purchasing practices with suppliers are continually reviewed to ensure alignment with the guidelines defined in the Program and avoid potential conflicts with ESG requirements. For these reviews, benchmarking with other companies, corporate communication channels and forums with suppliers are considered.

**Steps of ESG Program of Suppliers**

Cemig's Supplier ESG program involves a set of activities and measures that allow companies to recognize and assess potential ESG risks and, consequently, plan corrective measures to ensure a solid sustainability performance throughout the supply chain, in line with the company's ESG strategy for the supply chain and purchasing practices, as described below:



**Figure 1: ESG Program of Suppliers**

**[Legend:]** REVIEW OF PRACTICES AND INTERNAL PROCEDURES ARE DAILY PRACTICES AT CEMIG - Definition of Criteria/Requirement for Contraction | Classification of Social, Environmental Risks and Governance | Booklets, ESG Training | Actions: Contractual Clauses, Documentation, Audit – Corrective Actions – Compliant Action Plan? YES – Adjustment | Improvements – NO – Removal of registration of suppliers | Contract Termination.

## 1) Definition of criteria, ESG requirements and contractual clauses

The requirements for registering and hiring suppliers are more rigorous as the object supplied involves greater risk in aspects of the environment, social responsibility and health and safety. Throughout the supply chain management process, protection instruments are adopted in order to mitigate exposure to these risks.

When prospecting for new suppliers, those who do not comply with socio-environmental requirements or whose reputation is compromised are disregarded from prospecting and development activities.

When the performance of a supplier with a current contract falls short of what was expected and defined in the contract, or there is non-compliance with a legal or contractual requirement, a punitive administrative process is carried out to investigate what happened and, when necessary, execute the penalty defined by the competent bodies.

**In 2023, Cemig filed 16 administrative proceedings, nine fewer than in 2022.** Of these, **15 were due to contractual defaults** (failure to comply with terms, non-delivery of the service or material, irregular service), and one due to fraud (presentation of false documentation during the registration and bidding process, irregularities in cutting services). **Five suppliers had their relationships terminated as a result of punitive administrative proceedings.**

## 2) Supplier risk classification, taking into account social, environmental and governance aspects

**Based on the** strategic and emerging risks, in the standards of industry and commodities of the company, **and trends in supply chain management, it was identified 11 risks (country-specific, sector-specific, and commodity-specific) that could have an impact in our business, if they manifest themselves in the supply chain of the Company.**

### Social Dimension

- Non-compliance with labor legislation, payment of wages and social security
- Non-compliance with human rights
- Impact on the community, inappropriate behavior or lack of engagement in the community
- Inappropriate health and safety conditions at work and inadequate work practices.

### **Environmental Dimension**

- Non-compliance with environmental legal requirements
- Lack of environmental impact management
- Misuse of natural resources

### **Economic and Governance Dimension**

- Lack of risk management
- Non-compliance with quality parameters or service levels
- Non-compliance with business ethics

Some suppliers are also classified according to their criticality, considering the **specific risk aspects of the country of origin**.

In 2023, there were **148 suppliers with current contracts categorized as high environmental risk and 663 categorized as high social risk**.

Of this set, **663 are classified as suppliers with high sustainability risk**, as they involve the supply of objects that have high environmental and social risk, and two of these are classified as high financial risk.

### **3) Audits (assessment of 2nd party and 3rd party (carried out by independent auditors)).**

#### **Assessment of 2nd party:**

Internal and external audits use methodologies according to the management systems of quality (ISO 9001), environmental (ISO 14001) and health and safety (ISO 45001).

Furthermore, a semi-structured questionnaire was prepared, in partnership with the sustainability area, based on aspects considered relevant – taking into account the ESG risks in the Supply Chain described in the previous item and demands from interested parties (sustainability ratings, surveys with the community, among others).

Supplier assessments are carried out as follows:

#### **❖ INDUSTRIAL TECHNICAL ASSESSMENT - ATI**

To supply more critical materials for the operations of Cemig, an assessment is carried out with systematic verification of evidence - the Industrial Technical

Assessment (ATI), which consists of document analysis and visits to the manufacturer's facilities with the aim of verifying, through clear evidence, the compliance of the production process with the requirements defined by Cemig. ATI is carried out by a contracted company (**assessment of 2nd party**) and an employee, **using a methodology developed based on certifications (ISO)**.

**Items related to ESG risks are checked in ATIs** (described in "Supplier risk classification, taking into account social, environmental and governance aspects" of this document).

Guaranteeing the quality of materials to be acquired by Cemig also goes through the approval process, which includes carrying out specific tests and inspections.

#### ❖ **TECHNICAL ASSESSMENT IN CONTRACTOR - ATE AND TECHNICAL COMPLIANCE VERIFICATION IN CONTRACTOR – VCTE**

For contractors working in distribution services, it is required a Technical Assessment in Contractor (ATE); and, for contractors working on private works, which will be part of Electrical Power System (SEP) of Cemig, it is required a Contractor Technical Conformity Verification (VCTE).

ATE and VCTE aim to evaluate suppliers **according to specific criteria, such as team composition, personnel, training, tools, equipment, vehicles, facilities (offices, warehouses, cafeterias, changing rooms), documentation, among others, taking into account the main risks mapped.**

**"On-site"** visits are carried out and defined in the contract. The table below shows the number of visits carried out in 2023 for supplier approval, receipt inspections and VCTE and ATE.

<b>"On-site" audits at service providers</b>		
<b>Visits performed</b>	<b>2022</b>	<b>2023</b>
Suppliers Confirmation	332	334
Reception Inspection	6.265	5.012
VCTEs	22	43
ATEs	73	44

**Table 1: "On-site" audits at service providers**

In 2023, 0.6% more suppliers were approved than in 2022, and receipt inspections reduced by 20%, while ATEs reduced by 39%.

95% more VCTEs were carried out compared to 2022. This increase was due to the flow of contracts – VCTEs last for two years, and the last large volume occurred in 2021.

The total number of ATIs in 2023 increased by 19% compared to 2022:

<b>“On-site” audits of material suppliers</b>				
<b>Total evaluations</b>		<b>Approved</b>	<b>Failed</b>	<b>Pending</b>
2022	117 entries (37 cancellations)	60	12	8
2023	140 entries (60 cancellations)	53	17	10

**Table 2: “On-site” audits of material suppliers**

If any “non-conforming” item is verified during visits, Corrective Action Plans are required from suppliers, with defined deadlines for improvement. Improvement actions, as well as their respective deadlines, are monitored by the contract management areas.

**If the actions are not completed by the next audit (ATE, ATI or VCTE), suppliers are excluded from contracting.**

<b>Scope and progress of our supplier assessment program</b>		
<b>Supplier Assessment</b>	<b>FY 2023</b>	<b>Target for FY 2023</b>
1.1 Total number of Supplier assessment via desk assessments/on-site assessments	501*	Number of suppliers 100
1.2 % of unique significant suppliers assessment	31.91083	
1.3 Number of suppliers assessed with substantial actual/potential negative impacts	663	
1.4 % of suppliers with substantial actual/potential negative impacts with agreed corrective action/improvement plan	1.5081	

<b>Scope and progress of our supplier assessment program</b>		
<b>Supplier Assessment</b>	<b>FY 2023</b>	<b>Target for FY 2023</b>
* VCTEs + ATEs + ATIs + "Suppliers Confirmation" = 43 + 44 + 80 + 334 = 501		
1.5 Number of suppliers with substantial actual/potential negative impacts that were terminated	5	

**Table 3: Scope and progress of our supplier assessment program**


<b>Supplier coverage and progress with corrective action plans</b>		
<b>Corrective action plan support</b>	<b>FY 2023</b>	<b>Target for FY 2023</b>
2.1 Total number of suppliers supported in corrective action plan implementation	10	Number of suppliers 10
2.2 % of suppliers assessed with substantial actual/potential negative impacts supported in corrective action plan implementation	1.5083	

**Table 4: Supplier coverage and progress with corrective action plans**



❖ **ASSESSMENT OF 3RD PARTY:**

Cemig carries out audit of 3rd party on some critical suppliers. An example are suppliers located abroad.



**Inspection Event Result - Industrial Technical Evaluation (ITE)**

**I. General data**

<b>CONTROL NUMBER</b>	Not provide	<b>START DATE</b>	15-May-2023	<b>END DATE</b>	16-May-2023
<b>CORPORATE NAME</b>	RISEN ENERGY				
<b>SAP CODE</b>	Not provide				
<b>TIN (Tax Identification Number)</b>	Not provide				
<b>FACTORY ADDRESS</b>	TASHAN INDUSTRY ZONE, MEILIN STREET, NINGHAI NINBO 315609, ZHEJIANG PROVINCE, PR CHINA				
<b>CITY / STATE</b>	NINGHAI NINBO	<b>COUNTRY</b>	CHINA		
<b>NAME OF AUDITOR</b>	XU QUANCHENG				
<b>SUPPLIER COLABORATOR</b>	Ms. Nannan Wang, RISEN sales assistant of Brazil market.				
<b>SUPPLIER COLABORATOR</b>	Ms. Tang Qingsong, System specialist of RISEN ENERGY. Mr. Zhou Liangliang, System specialist of RISEN ENERGY.				

**2. Score by blocks**

QUESTION BLOCK	MAXIMUM SCORE	OBTAINED SCORE	SUBTOTAL	FINAL SCORE
<b>PROCESS MANAGEMENT - WEIGHT 75%</b>				
DOCUMENTATION AND SYSTEMS	8,00			
RAW MATERIAL (RECEIVING / SUPPLIERS)	16,00			
PRODUCTION	22,00			
TESTS	16,00			
MAINTENANCE AND CALIBRATION	8,00			
SHIPMENT AND MANUFACTURING LAYOUT	5,00			
PEOPLE MANAGEMENT	8,00			
QUALITY MANAGEMENT	12,00			
AFTER SALES	5,00			
<b>BUSINESS SUSTAINABILITY - WEIGHT 25%</b>				
SOCIAL RESPONSABILITY	100,00			
ENVIRONMENT	100,00			
HEALTH AND SAFETY	100,00			

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Gerência de Relacionamento com Fornecedores - SL/RF

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**Inspection Event Result - Industrial Technical Evaluation (ITE)**

**7. Approvals**

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Required field. Reserved for signatures.

**Belo Horizonte, 30 de Maio de 2023**

(Signature)

**intertek**

Reviewed

Witnessed

Initial: *Xu Quancheng*

Date: CN - 0082

(Name) Xu Quancheng

Material Inspection Technician / Engineer – Cemig/Intertek

(Signature)



Marcos Fernando da Silva  
ENGENHEIRO ELETRICISTA  
CREA 25093

(Name) Marcos Fernando da Silva

Technical manager - Intertek

Figure 2: Audit of 3rd party of supplier in China.

**Coverage and progress of suppliers with corrective action plans:**

Supporte ao plano de ação corretiva	2022	2023
Total number of suppliers supported in implementing the corrective action plan	13	10

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**100% of suppliers that fail to comply with the minimum requirements relating to damage to the environment or to the physical or psychological integrity of people or the supplier's systematic failure to protect people or the environment are obliged to take corrective actions.**

Figure 3: Corrective Action Plan (supplier exclusion in case of non-compliance)

## ❖ SUPPLIER PERFORMANCE INDEX - IDF:

Supplier monitoring is carried out through a system in which the supplier, supply area and the technical area responsible for managing the contract interact. In this system, suppliers considered strategic are monitored, the main indicator used is the Supplier Performance Index (IDF). **The purpose of IDF is to monitor the performance of the individual supplier and compare it with other suppliers with defined and standardized rules for indicators, penalties and bonuses.**

Its **computation is monthly**, and is based on the evaluation of three aspects:

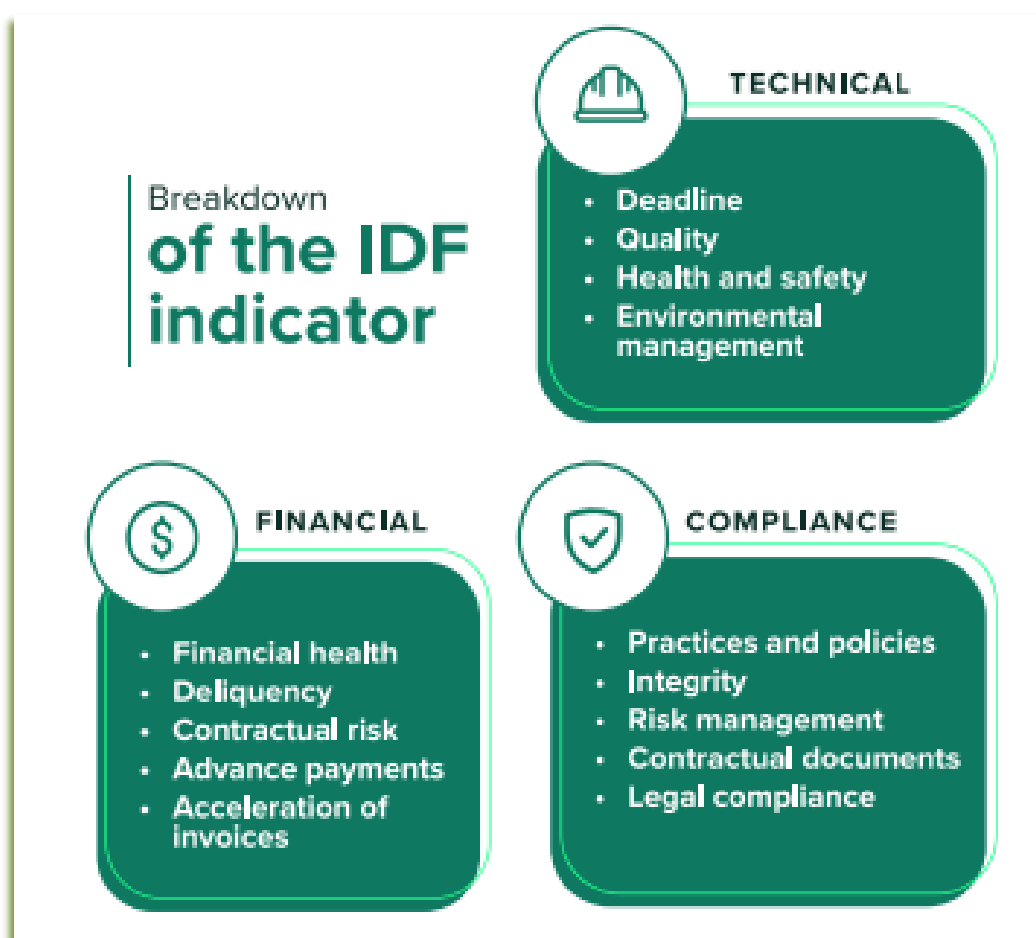


Figure 4: Indicator IDF

The IDF helps Cemig monitor and understand the financial health of its suppliers and intervene if a possible need for assistance and support is identified, such as sharing knowledge and good management practices, in order to avoid losses on both sides.

**Supplier integrity actions are monitored by the index through a questionnaire and the result allows for a bonus of up to 3% in the IDF result.**

Monitoring the Compliance aspect encourages suppliers to establish a code of ethics and anti-corruption policy and to invest in training their employees.

**When the performance of the supplier falls short of what was expected and defined in the contract, or there is non-compliance with legal or contractual requirements, a punitive administrative process is carried out to investigate what happened and, when necessary, execute the penalty defined by the competent bodies. On the other hand, **results above expectations** are identified by the assured material supply program and/or **recognized in the annual Cemig Supplier Award event (reported below in item 5).****

**All contracts have a Service Level Agreement and are evaluated by managers. However, IDF currently only applies to critical suppliers, and the aim is to gradually expand the scope.**

IDF calculated in 100% of critical suppliers				
IDF	2020	2021	2022	2023
IDF Total	94,40%	84,80%	85,68%	88,70%

Table 5: IDF calculated in 100% of critical suppliers

#### ❖ OTHER RELEVANT INDICATORS FOUND:

In terms of **health and safety** in the Supply Chain, one of the indicators monitored is the **Frequency Rate of Work-related Accident Leave (TFA)**, specific to contractors.

To assess environmental performance, one of the indicators is the **Percentage of Waste intended for disposal, recycling, regeneration and reuse**. This indicator is part of the monitoring of suppliers due to the fact that contracted companies carry out services that generate a significant amount of waste, arising from customer service, tree pruning, network construction, cleaning of transmission lines, among other services.

Relevant Socioenvironmental Indicators				
		2021	2022	2023
<b>Social</b>	Frequency of work accidents with sick leave (TFA) - Contractors	1.75	1.63	1.14
<b>Environmental</b>	Percentages of waste destined to sale, recycling, regeneration and reuse	98.22%	99.27%	98.53%

Table 6: Social and Environmental Indicators

#### ❖ EXCLUSIONS AND PENALTIES FOR NON-COMPLIANCE WITH REQUIREMENTS AND REQUIREMENTS

In 2023, **Cemig filed 16 administrative proceedings**, nine fewer than in 2022. Of these, **15 were due to contractual defaults** (failure to comply with terms, non-delivery of the service or material, irregular service), and one due to fraud (presentation of false documentation during the registration and bidding process, irregularities in cutting services).

**Five suppliers had their relationships terminated as a result of punitive administrative proceedings.**

#### 4) Supplier Development

##### Training and guidance booklets

#### ❖ AWARE OF THE IMPORTANCE OF DEVELOPING OF SUPPLY CHAIN OF CEMIG, THE COMPANY PROMOTES SEVERAL TRAINING COURSES AND PROVIDES BOOKLETS ON ESG TOPICS.

In 2023, through a partnership between the areas of supplies, sustainability, health and safety and environmental responsibility, Cemig launched an ESG supplier development program. The training covers economic and governance dimensions; social and environmental, involving topics such as SDGs, ethics and compliance, harassment and workplace violence, human rights, decent work, workplace safety, waste management and climate change. In 2023, the program totaled seven days of training, 344 hours of training for 27 supplier companies and 86 participating people. In addition to the ESG Supplier Development Program, CEMIG offers training to contractors and third parties at UniverCemig.

<b>Hours of training offered by Cemig to suppliers</b>			
<b>Hours</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total Third party trained at UniverCemig	12.900	12.800	15.231
Total Third party attendance to training at UniverCemig	25.028	30.888	23.305
Total Thained man-hours – total course load (Third parties under training at UniverCemig)	52.423	70.201	111.772

**Table 7: Hours of training offered by Cemig to suppliers**

To ensure compliance with the ESG strategy and objectives, in addition to training its own suppliers, Cemig promotes constant training for its workforce and internal stakeholders on the Supplier ESG Program. Cemig has training for Contract Managers, offered by Univercemig (Cemig Corporate University).

Supplier coverage and progress in qualification programs		
Capacity building programs	FY 2023	Target for FY 2023
3.1 Total number of suppliers in capacity building programs	184	Number of suppliers 184
3.2 % of unique significant suppliers in capacity building programs	11.71975	

**Table 8: Supplier coverage and progress in qualification programs**



**Figure 5: “Cemig On Line” Newspaper – 11/22/2023 – Forum with suppliers with the participation of Vice-President of Distribution Marney Antunes**

**[Legend:]** CEMIG HOLDS FORUM WITH SUPPLIERS OF THE COMPANY – Released on November 22, 2023 - The purpose of the event is to identify development opportunities jointly to its main partners

**5) Awards and highlights.**

Suppliers with better ESG performance are preferred by applying a minimum weight to ESG criteria in supplier selection and contract awarding.

In the 2023, 2024 Edition (EDITAL\_Premio\_Fornec\_ESG\_2023-2024\_Final.pdf (cemig.com.br)), Cemig was awarded the best Projects in the following ESG pillars: Environmental, Social and Governance Pillar.



**Figure 6: ESG Award - Suppliers**

The awarded Projects are presented at the Awards Event, being a way of allowing others access to ESG benchmarking.

**6) Relevant Data About The Supply Chain Of Cemig**

KPIs for Supplier Screening	
Supplier Screening	FY 2023
1.1 Total number of Tier – 1 suppliers	1064
1.2 Total number of significant suppliers in Tier-1	663
1.3 % of total spend on significant suppliers in Tier-1	43
1.4 Total number of significant suppliers in non Tier-1	907
<b>1.5 Total number of significant suppliers (Tier-1 and non Tier-1)</b>	<b>1570</b>

**Table 9: Supply Chain KPIs**

The data in TABLE 12, 13, 14 and 15 and other data described in this document were audited by a third party in the 2023 Sustainability Report of Cemig.

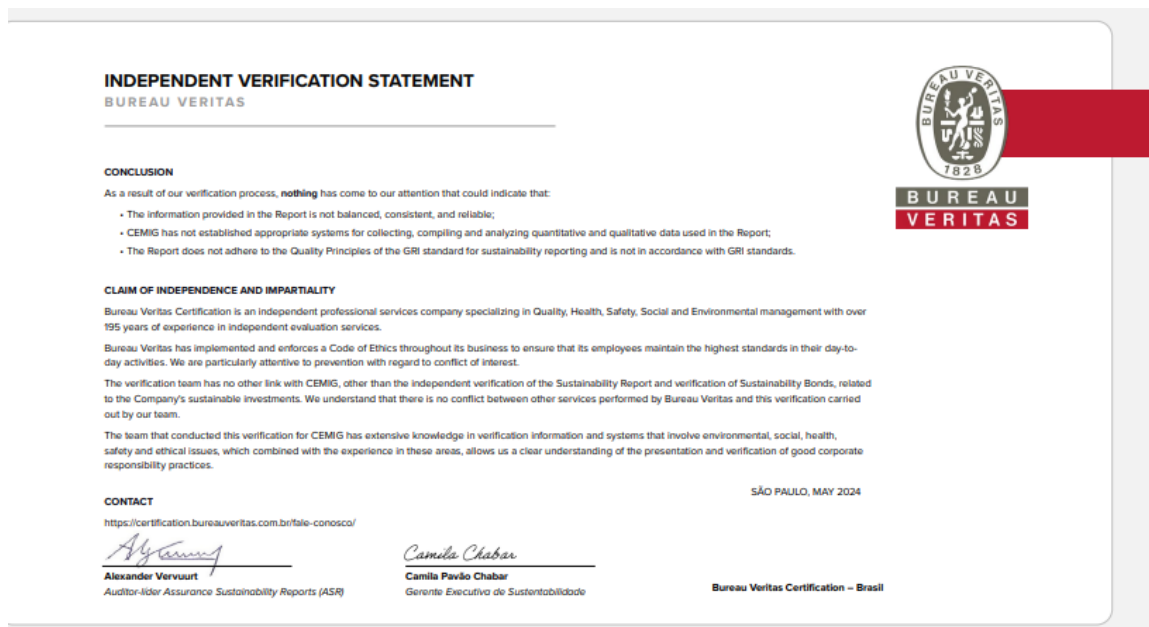


Figure 7: Proof of third-party audit in the 2023 Sustainability Report in which the above information is available.