

**2018-2019 Responsible Cobalt Supply Chain  
Progress Report**

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## Introduction

CATL is one of the world's leading lithium-ion batteries manufacturers. Battery cell products generally contain cobalt. More than half of the cobalt supply in the global market is from the Democratic Republic of the Congo in central Africa, where artisanal and small scale mine is inevitable during cobalt production.

Fully recognize that the mining, trading, processing, and exporting of the minerals in the conflict affected and high-risk areas may have a significant negative impact, and recognize that companies have an obligation to respect human rights and never have any negative impact on society. CATL is committed to adopting the "China Responsible Mineral Supply Chain Due Diligence Management Guide" (hereinafter referred to as "China Guidance") which was issued by China Chamber of Commerce of Metals, Minerals & Chemicals Importers and Exporters (CCCME) and the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, Third Edition" (hereinafter referred to as "OECD Guidance") which was issued by Organization for Economic Cooperation and Development (OECD), and "Dodd -Frank Wall Street Reform and Consumer Protection Act" (hereinafter referred to as "Dodd -Frank Act") regulating the Tin, Tantalum and Tungsten and Gold (hereinafter referred to as "3TG") Minerals in Conflict Areas. We incorporate these two Guidance into contracts or agreements with mineral resource suppliers. CATL will widely promote this Policy, and endeavor to implement this policy in the mineral resources supply chain in accordance with the "China Guidance" and "OECD Guidance" . CATL will widely promote this Policy, and endeavor to implement this policy in the mineral resources supply chain in accordance with the "China Guidance" and "OECD Guidance" .

Due diligence is a continuous and proactive process. With the process, the company is able to avoid the risks in cobalt supply chain with respect to human rights. Due diligence also helps to ensure that companies comply with international due diligence guidance and laws and regulations. Therefore CATL applies the five-step framework to operational activities to avoid the risks along the cobalt supply chain.

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## **Establish strong company management systems**

As part of CATL's sourcing strategy, CATL has established the Management Committee for Supply Chain Sustainable Development, enhanced the weight of sustainable development in supplier certification, performance evaluation and sourcing decision-making, and strengthened cooperation with customers, suppliers and industry organizations. CATL has promoted sustainable development of suppliers, reduced supply risks, improved customer satisfaction and competitiveness of the supply chain. The Committee is composed of senior management team, who make decisions on annual goals and plans of supply chain sustainable development, and supplier risk mitigation measures.

In view of the specificity of cobalt resources, CATL has released its due diligence management policy for responsible mineral resources supply chain on its official website. CATL promises to widely disseminate this policy and implement it in the mineral resources supply chain in accordance with the Chinese Guidelines and the OECD Guidance.

CATL always put high attention on environmental issues with the environmental impact of operations in supply chain and committed to reducing such impact. And CATL also focus on the improvement of the environmental protection and management capabilities in the supply chain, the rights and interests of employees as well as employee moral education. It has applied scientific management methods in supply chain management to achieve optimum balance between socioeconomic and environmental benefits as well as optimized sustainable development, which in turn ensures the supply chain security.

The sustainable development management of CATL supply chain evaluates suppliers from ten dimensions such as labor, environmental protection, occupational health and operation. The purpose of such management is to identify the improvement areas for suppliers and collaborate with suppliers on continues improvement to ensure supply chain is sustainable and ensure the reasonability and compliance of the supply chain.

CATL is committed to handling complaints from affected stakeholders in an open and transparent manner and it has established a complaints mechanism for all the external stakeholders. Now any issues concerns or grievances related to the

sustainable development of our supply chain can be addressed through sending mails to our email address at [SRC-SRM@catlbattery.com](mailto:SRC-SRM@catlbattery.com).

In 2018, CATL conducted a comprehensive survey of major raw material suppliers to examine their risks of human rights, ethics and occupational health. CATL examined suppliers of cathode materials (especially those containing cobalt minerals), and conducted an inspection on suppliers' due diligence management adopted policies and measures to manage risks of child labor, health and safety, and environment in the cobalt supply chain. Based on the results of the survey, we will regularly organize seminars to discuss with suppliers on how to ensure responsible sourcing, and we pass on the concept of responsible sourcing to every actor in the supply chain, starting from our suppliers.

CATL incorporates the requirements for responsible sourcing into the Code of Conduct for Suppliers, and requires suppliers to sign the document and implement accordingly. We are committed on best efforts to achieve sustainable development of supply chain, as well as influence and drive the sustainable development of the entire industry.

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## Identify and assess risk in the supply chain

CATL has committed to do its utmost to identify key upstream actors in the cobalt supply chain as required by our clients. According to the China Guidelines / OECD Guidance, enterprises at chock points in the supply chain should be audited by independent third parties for their due diligence practices.

CATL does not purchase raw cobalt minerals directly from mines, but purchases different cathode materials containing cobalt and then process them into battery. Precursor contains nickel, cobalt and manganese, and precursor is supplied to cathode suppliers. Different players are at each link of the cobalt supply chain, including refineries, smelteries, international traders, local traders and mines.

Given the complexity of the cobalt supply chain, CATL had in-depth communication with members of the Responsible Cobalt Initiative (RCI), and the members of the RCI come to a consensus that the following risks are on high priority and CATL has included the following areas as a risk focus of the cobalt supply chain:

1. Child labor and abuse of human rights  
E.g. Illegal employment of child labor and force child labor to work.
2. Health and safety protection  
E.g. Miners in mining operations are not equipped with basic personnel protection equipment such as masks and gloves.
3. Environmental risks  
E.g. Improper management of wastewater in the mining process can cause pollution to surrounding rivers and soil as well as destroy biodiversity.

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**Design and implement a strategy to respond to identified risks**

More than half of the world's cobalt comes from Congo. The demand for cobalt is ever increasing due to the rapid development of the new energy industry. Prohibiting ASM is not a responsible solution. So CATL, together with many other actors such as Suppliers, clients, is committed to taking steps to actively deal with risks in the cobalt supply chain. We aim to eliminate use of child labor while protect miners' livelihood, and ensure that everyone is treated fairly and protected their due human rights.

For this reason, CATL has joined the RCI. It is a multi-stakeholder alliance voluntarily initiated by upstream and downstream enterprises and relevant organizations in the global cobalt supply chain, including government departments, advisory committee, international development agencies, international organizations, non-governmental organizations, and civil associations.

The members of RCI including CATL are committed to achieving the following three high-level objectives, which are fully approved of and supported by CATL :

1. Objective one: Transparency of the supply chain and risk assessment

Call on upstream and downstream enterprises to recognize the principles and due diligence management methods in the Chinese Guidelines and the OECD Guidance. Enhance the RCI members' understanding of due diligence management through a five-step framework, improve the transparency of the supply chain, and strive to build a responsible global cobalt supply chain. RCI' s services and corporate actions will focus on tool development, including tools for assessing upstream and downstream risk in the supply chain, audit tools, risk mitigation and resolution tools; encourage enterprises to publish due diligence management reports.

2. Objective two: Implementation of initiatives

Promote cooperation with local governments, local communities, international development agencies, international organizations, academic institutions, and civil associations to implement initiatives, including:

2.1 Take action in local communities, such as the Democratic Republic of the Congo, to address risks and negative impacts in the cobalt supply chain.

2.2 Provide training to local operators and stakeholders to promote participation of local players into the global value chain.

3. Objective three: Effective communication

Establish effective communication and create reporting tools, use public communication strategies to effectively communicate work progress and results to the public.

RCI also has the following functions:

1. Information sharing, training and capacity building services: Establish a communication platform, strengthen knowledge sharing, promote information communication, communicate with upstream and downstream enterprises about the social and environmental risks in the cobalt supply chain, provide knowledge, skills and risk management training related to due diligence management of supply chain, and improve the ability of upstream and downstream enterprises in the supply chain to identify and manage enterprise risks.
2. Supply chain risk management services: Identify all the upstream and downstream players in the cobalt supply chain, establish a transparent supply chain system, develop and promote risk identification tools applicable to the cobalt supply chain, provide members with advisory services of supply chain risk management, and strive to meet members' expectations and demand in the cobalt raw material supply chain.
3. Due diligence management of supply chain and third party assessment services (audit): Provide enterprises with Information, tools and technical support to improve their capabilities for due diligence management of supply chain; develop standardized cobalt supply chain risk assessment tools and third-party assessment tools, provide recommendations on enterprise risk management.
4. Support intervention activities in local communities, and address negative impacts of the supply chain: Raise funds through multiple channels (voluntary donations from members and third-party financial support), promote the establishment of relief funds, help to improvement governance on mining industry from local government, improve the environment of local mining areas, promote local social development, and strive to reduce social and environmental impact caused by cobalt mining and trade.



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**Carry out independent third-party audit of supply chain due diligence at identified points in the supply chain**

CATL fully understands that cobalt due diligence requires all check points in its supply chain to participate in the third-party audit programs, and priority should be given to those refiners that source cobalt from the Democratic Republic of the Congo.

In order to actively promote the implementation of the three high-level goals, the RCI Council held a conference call in December 2018, and it has decided through majority voting rules to cooperate with CCCMC to start the audit work of the pilot phase of the cobalt refinery as soon as possible. In order to ensure the smooth implementation of the cobalt refinery pilot assessment and enhance the independence, transparency and recognition of the pilot assessment, it is proposed to invite experienced international agencies or NGOs as observers to participate in the assessment in the pilot phase. Organizations to be invited include: OECD, Global Witness, ISEAL, and Pact.

As a member of the RCI, CATL fully supports third-party audit, and is actively seeking to collaborate with third parties to audit the smelters/refiners on the cobalt supply chain. CATL shall remove those smelters/refiners that refuse to participate in third-party audits from the supply chain. Even though CATL is willing to grow with suppliers, it cannot accept any partners that unwilling to comply with international standards and against the values of our company, customers, investors and employees.

## Report on supply chain due diligence

This is the first public release of CATL's report on the sustainable development of cobalt supply chain. CATL has recognized that releasing the report is the basic responsibility of all stakeholders on the upstream and downstream of the cobalt supply chain. We welcome your feedback, and encourage all the partners to work together to improve the transparency and sustainability of the cobalt supply chain. Unswerving policies and a clear communication mechanism and third party due diligence audit program are the key point for CATL's transparency in the cobalt supply chain. As a key downstream company, CATL will set itself as an example and focus on strengthening the cooperation with suppliers or other third parties, improve the transparency of the cobalt supply chain, strengthening communication with suppliers and provide capacity building for suppliers. We will make our best effort to avoid risk of child labor other human right abuses and mitigate if any risks identified, and that there is no risk of child labor, occupational health and environmental pollution on our cobalt supply chain.

CATL established a supply chain management project for sustainable development in 2018. The progress of the project is as follows:

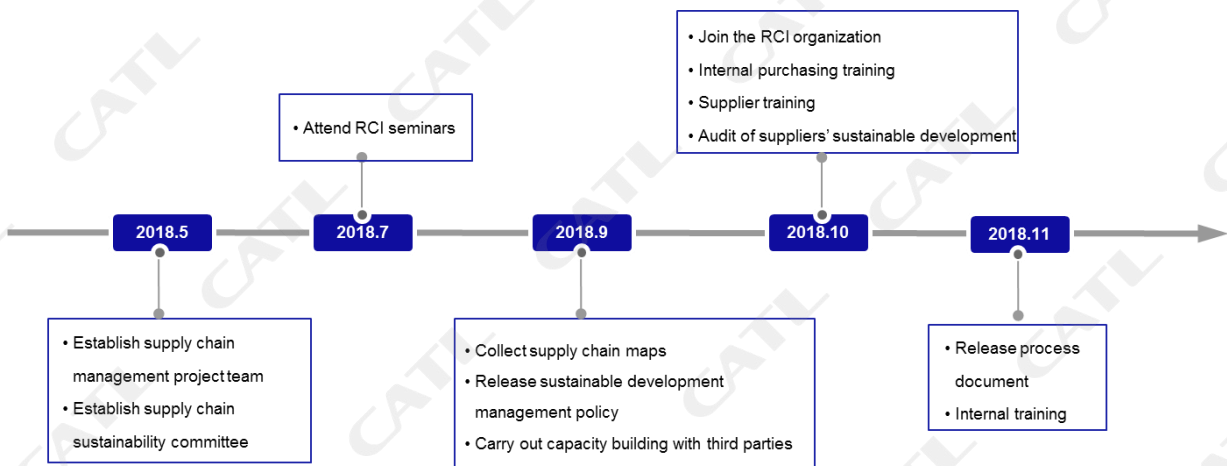


Figure 1 Progress of the supply chain management project for sustainable development

CATL will establish a risk indicator library for the risks identified on the supply chain, classify the risks based on the supply chain map information and develop corresponding solutions, and it has completed 3 rounds of seminars with first-tire suppliers, during which 43 suppliers have participated in the discussion how to

ensure the responsible purchasing. As most domestic companies have limited understanding of the construction of sustainable development system, CATL will continue to strengthen capacity building for suppliers, and require suppliers to complete capacity building for their suppliers. For the traceability of raw materials of its products, CATL is now using MES system to trace incoming materials. At the same time, it is actively cooperating with upstream and downstream enterprises in the supply chain to build a traceability system to ensure that the raw materials of its products can be traced back to the source.

CATL is working hard to slow down global warming. In our supply chain, we are collecting and analyzing carbon emissions data, promoting suppliers to establish a sound energy management system and carbon emission management system, and working together with our suppliers to promote the use of renewable energy and improve the process so as to reduce carbon emissions on the supply chain. All of these will help create a green ecological environment.

CATL has been represented at the 13th responsible Mineral Supply chain Forum, held by the Organization for Economic Cooperation and Development (OECD) in Paris, France, from 26th 23 to April 2019, to have further in-depth communication and consultation with the upstream and downstream companies of the international cobalt supply chain and various stakeholders on the risks and recommendations. Through RCI Coordination, the Chinese delegation held bilateral conversations with representatives of the Congolese Ministry of Mines, and held consultations on governance and control.



Figure 2 Photo by the Chinese delegation with representatives of the Congolese Ministry of Mines (CATL, right)

This report is a progress report on the cobalt supply chain, to improve the transparency and sustainability of the entire supply chain, CATL is also investigating and analyzing the supply chain of nickel, manganese, lithium, graphite through independent third party audit program. CATL plans to release progress status of other mineral supply chain in the next year' s sustainability report.