

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

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Introduction

CATL is one of the world's leading manufacturers of lithium-ion batteries. Our cell products 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 manual mining is inevitable during cobalt production. This mining model is running beyond the country's legal protection and thus cannot protect the workers' safety, human rights and the environment. CATL fully recognizes that there are risks that may have a significant negative impact when running mining business as well as doing mineral trading, processing and exporting, and it also recognizes that enterprises have the obligation to respect human rights and not exert negative impact on society. CATL is committed to following the *Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains* released by China Chamber of Commerce of Metals and Chemicals ("Chinese Guidelines") and the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* published by the Organization for Economic Cooperation and Development (OECD Guidance), so it has included them into the CATL's contract or agreement with mineral resource suppliers. CATL will widely disseminate the Responsible Mineral Supply Chain Responsibility Management Policy and implement it in the Mineral Resources Supply Chain as required by the China and OECD Guidelines. Based on this, CATL will publish a public report on what CATL has taken and achieved when it becomes aware of the problem.

CATL strengthens communication with our customers, investors, employees and suppliers, works with our partners and suppliers, and is committed to responsible purchasing, ensuring the transparency of our purchase of raw materials from suppliers and improving the existing problems in such areas as health, safety, environmental protection, society, commercial integrity, etc.

CATL has set up a Supply Chain Sustainable Development Management Committee, which is responsible for making decisions on the goal and plan of supply chain

sustainable development as well as risk management. The Purchasing Department is responsible for responsible purchasing and conducting due diligence, and reporting regularly to the Committee on the progress of due diligence and potential risks in 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 related to the sustainable development of our supply chain can be addressed through sending mails to our email address at SRC-SRM@catlbattery.com.

Since the main production areas of cobalt are not in the conflict zones, or have nothing to do with bloody conflicts, they are not a kind of “conflict minerals” and thus not subject to high levels of control. In addition, cobalt is not subject to the Dodd-Frank bill neither. However, the violations of human rights in the cobalt supply chain are still worrying, especially driven by the new energy market in recent years, the demand for cobalt ore is growing rapidly. CATL is also paying more and more attention to the responsible purchasing of cobalt. In regard of the cobalt supply chain, we think the following issues are worthy of attention:

1. Child labor and human rights violations
2. Health and safety protection
3. Environmental risks

CATL opposes any illegal behavior that is directly and/or indirectly related to the above three risks, and we are trying to take any measures to avoid the above three risks in our supply chain.

Due diligence is a continuous and proactive process which needs our timely response. This process helps to ensure that companies respect human rights and

do not encourage conflicts. Due diligence also helps to ensure that companies comply with international and domestic laws and regulations, including laws governing illegal mineral trades and UN' s sanctions resolutions. Risk-based due diligence refers to the steps companies should take to identify and resolve actual or potential risks so as to prevent or reduce the negative impact associated with their activities or purchasing decisions.

At present, there hasn' t been a comprehensive set of available standards in the due diligence for cobalt, but two due diligence guidelines for conflict minerals - the *Chinese Guidelines* and the *OECD Guidance* - have strong applicability to the due diligence of cobalt resources. Therefore, CATL takes these two guidelines as guidance documents when carrying out cobalt resource due diligence.

According to these two guidelines, in order to show the respect for human rights, upstream and downstream companies involved in mining and trading activities in conflict-affected and high-risk areas should implement a comprehensive supply chain due diligence risk framework. The framework proposed in the *Chinese Guidelines / OECD Guidance* is called the 5-step framework, which is completed in five steps. After years of practice, the 5-step framework has achieved good results in the management of conflict minerals. Given the similarities between the cobalt resource supply chain and the conflict mineral resource supply chain, we believe that the 5-step framework will have great guiding significance in addressing the risks in the cobalt resource supply chain.

The five-step framework is as follows:

1. Establish a strong enterprise management system to ensure that the existing due diligence system and management system within the organization are able to deal with the risks associated with mineral resources in conflict-affected or high-risk areas.
2. Identification and assessment of supply chain risks, that is, to identify and assess

the risks associated with mining, trading, processing and exporting of ore in conflict-affected and high-risk areas.

3. Develop and implement response strategies for identified risks, and assess and respond to the identified risks so as to prevent or reduce negative impacts. Enterprises can carry out joint initiatives to follow the recommendations set forth in this section in a collaborative manner, but retain their respective due diligence responsibilities and ensure that all work done together should take into account the specific conditions of each enterprise.

4. Conduct independent third-party audits of smelting/refining companies' due diligence practices, and conduct independent third-party audits of smelting/refining companies' due diligence for responsible supply chains of minerals in conflict-affected and high-risk areas, so as to improve the due diligence practices of smelting/refining companies and upstream companies in the supply chain, which include the establishment of an institutionalized mechanism for auditing on industry initiatives with the support of the government and the cooperation of stakeholders.

5. Annual report on supply chain due diligence work, that is, publicly report the due diligence work for responsible supply chain of minerals in conflict-affected and high-risk areas, and strengthen the public's confidence in the measures a company is taking.

CATL fully approves of the *Chinese Guidelines / OECD Guidance* and applies them as the criterion for selecting reliable partners. In view of this, this progress report is also based on the five-step framework.

Due diligence management policies and system of CATL responsible mineral supply chain

CATL has established the Management Committee for Supply Chain Sustainable Development, made sustainable development an important part of the sourcing strategy, enhanced the weight of sustainable development in supplier certification, performance evaluation and sourcing decision-making, and deepened cooperation with customers, suppliers and industry organizations. Through the sourcing business, 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 on supplier risk mitigation measures.

CATL has always been concerned with the environmental impact of operations in supply chain and committed to reducing such impact. It has also attached much importance to the improvement of environmental protection and management capabilities in the supply chain, the rights and interests of employees in the supply chain, as well as employee moral education and compliance. 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 correct supplier's non-conformities in a timely manner and ensure the reasonability and compliance of the supply chain.

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 China Guidelines and the OECD Guidance.

In a responsible manner, CATL has included supply chain sustainable development into internal process documents based on a 5-step framework, and promoted it internally. It has also defined the methods of communication with suppliers and the complaints mechanisms in the documents.

The CATL due diligence management system of responsible mineral supply chain is established to strengthen cooperation with suppliers, ensure the openness and transparency of the Company's supply chain, and ensure that there are no child labour, violations of human rights, or health and environmental risks in the Company's supply chain.

In 2018, CATL conducted a comprehensive survey of major raw material suppliers to examine their risks of human rights, ethics and occupational health. We examined suppliers of cathode materials (especially those containing cobalt minerals), and conducted an inspection on suppliers' due diligence management of responsible mineral supply chain to identify whether they have taken strict policies and measures to deal with 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 about how to ensure responsible sourcing, and to pass on the concept of responsible sourcing to every player 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 ensure effective implementation. We hope to make great efforts to realize sustainable development of our supply chain, as well as influence and drive the sustainable development of the entire industry.

Identify risks in the supply chain

CATL has committed to do its utmost to identify key upstream players in the cobalt supply chain as required by our clients. According to the *Chinese Guidelines / OECD Guidance*, enterprises at identified 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 for products production. Nickel, cobalt, manganese constitute a precursor, which is then processed into positive powder. Different players are at each link of the cobalt supply chain, including refineries, smelteries, international traders, and local traders.

Given the complexity of the cobalt supply chain, CATL has had in-depth communication with members of the RCI organization, and the members of the RCI organization agree that the following issues are of concern, and CATL has included the following issues 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 pressing children into forced labor.

2. Health and safety protection

E.g. Miners in mining operations are not equipped with basic personal safety devices 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; crushing rocks can produce a great deal of dust.

Develop and implement the risk mitigation plan for 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 cobalt mining is not a responsible solution, so CATL, together with many other players, 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 enjoys their due human rights.

For this reason, CATL has joined the organization named “Responsible Cobalt Industry Initiative” (RCI). RCI is a multi-stakeholder alliance voluntarily initiated by upstream and downstream enterprises and relevant organizations in the global cobalt supply chain, including government departments, think tanks, international development agencies, international organizations, non-governmental organizations, and civil associations.

The members of RCI are committed to achieving the following three high-level objectives, which are totally 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:

(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) 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 knowledge, 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 advice and 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 improve the governance capacity of local government departments of mines, improve the environment of local mining areas, promote local social development, and strive to eliminate social and environmental risks caused by cobalt mining and trade.

5. Establish a complaints mechanism of the industry: Within the long-term plan, establish an industry-level complaints mechanism, strengthen communication, dialogue and consultation among various stakeholders, respond to stakeholders and help to meet their demand and requirements of RCI member enterprises in the global cobalt supply chain.

As a member of the RCI, CATL fully supports RCI' s actions and enjoys relevant results of the RCI. At the same time, CATL plans to arrange for personnel to travel with RCI to the Democratic Republic of the Congo in September 2019 to conduct field investigations into the cobalt supply source mines.

Third-party independent audit

CATL fully understands that cobalt due diligence requires all smelters and refineries in its supply chain to participate in the third-party audit programs, and priority should be given to those smelters that purchase 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 values and supports third-party audit, and is actively seeking to collaborate with third parties to audit the smelters/refiners on the cobalt supply chain. For smelters/refiners that completely refuse to participate in any third-party audits, CATL can only remove them from the supply chain because though we are willing to grow with the suppliers, we cannot tolerate that they are unwilling to comply with international standards and against the values of our company, customers, investors and employees.

Report on progress and results of due diligence management

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 ensure the transparency and sustainability of the cobalt supply chain.

Unswerving policies and a clear communication mechanism and complaint mechanism 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, paying attention to the transparency of the cobalt supply chain, strengthening communication with suppliers and capacity building for suppliers. We will make every effort to ensure the transparency of cobalt supply, 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:

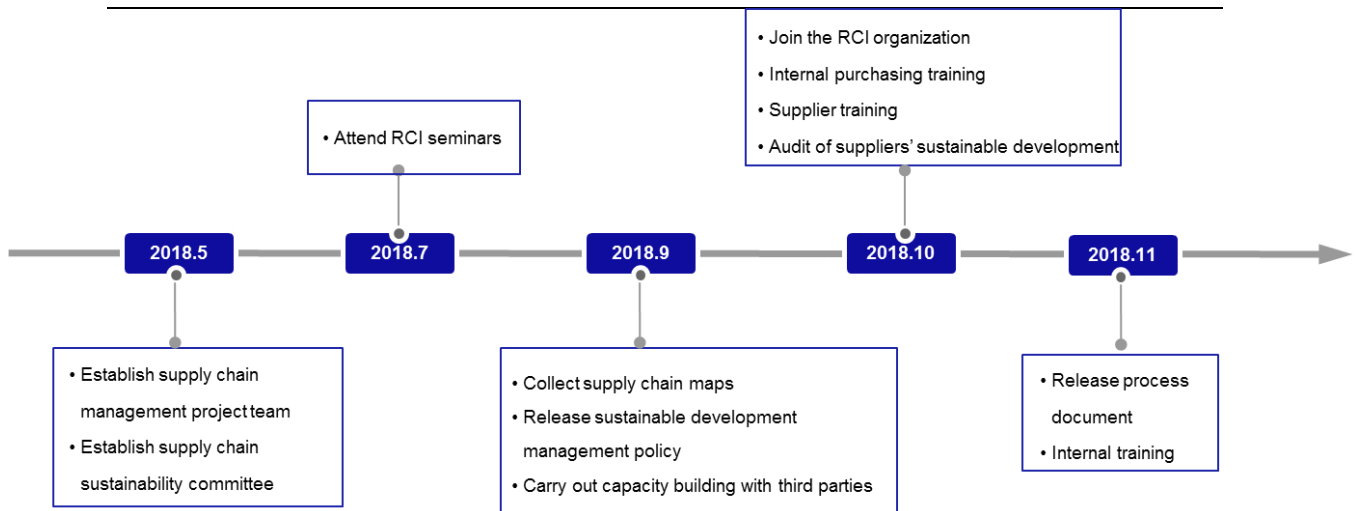


Figure 1 Progress of the supply chain management project for sustainable development

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 will also strengthen the communication with suppliers and capacity building for suppliers. Currently, 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 little 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 improve global warming issues. 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 conduct further in-depth communication and consultation with the upstream and downstream of the international cobalt supply chain and various stakeholders on the results, issues and recommendations. Through RCI Coordination, the Chinese delegation held bilateral talks with representatives of the Congolese Ministry of Mines, and held consultations on governance and control at the source.



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, but to ensure the transparency and sustainability of the entire supply chain, CATL is also investigating and analyzing the supply chain of nickel, manganese, lithium, graphite, etc. CATL plans to release them in the next year' s sustainability report.