

# HITHIUM 2024 Supply Chain Due Diligence Report

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## **1. Hithium Supply Chain ESG Due Diligence Background**

Under the global sustainable development trend, the ESG concept has become an important part of the core competitiveness of enterprises. In order to respond to international ESG regulatory requirements, practice responsible supply chain management, reduce environmental, social and governance risks, and enhance the sustainable development capabilities of enterprises, our company actively promotes supply chain ESG due diligence. This move aims to comprehensively evaluate the ESG performance of supply chain partners, ensure that they meet our sustainable development strategy, customer needs and international standards, and jointly build a green, transparent and responsible supply chain system.

## **2. Audit Purpose and Importance**

This supply chain ESG audit aims to evaluate the environmental, social and governance performance of key suppliers to ensure that they meet our sustainable development requirements. By identifying potential risks and optimizing supply chain management, we will continue to improve ESG performance, practice corporate

social responsibility, enhance customer and market trust, and jointly promote sustainable development.

### **3. Audit Scope**

#### **3.1 Audit Object**

Applicable to suppliers of various raw and auxiliary materials required to directly or indirectly provide final products to Hithium Energy Storage and its wholly-owned, holding or joint venture companies

#### **3.2 Review content**

- 1) General requirements for environmental management
- 2) Exhaust gas management
- 3) Wastewater management
- 4) Waste management
- 5) Noise and vibration control
- 6) Energy management

- 7) Measures to address climate change
- 8) Water management
- 9) Soil and biodiversity conservation
- 10) General requirements for occupational health management
- 11) Fire safety management
- 12) Chemical Management
- 13) Occupational Health and Safety
- 14) Social responsibilities
- 15) Conflict Minerals Management
- 16) Community living
- 17) Code of Business Ethics
- 18) Intellectual property protection

## 19) Information security management

The content of this audit covers three dimensions: social responsibility, environmental protection, and business ethics (ESG), including the above 19 topics and a total of 100 questions.

## **4. Audit Overview**

### **4.1 Review Basis**

This audit followed internationally recognized ESG standards and best practices, including but not limited to ISO 14001, ISO 45001, ISO 50001, ISO 14064, ISO 14067, ISO 27001, SA8000 "Corporate Social Responsibility Certification Standards", ISO 37001 "Anti-Commercial Bribery Management System Specifications and Guidelines", OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, CCCMC China Mineral Supply Chain Due Diligence Guidelines, EU Battery Law and other relevant domestic and international laws, regulations and industry norms.

## **4.2 Review process**

Hithium has formulated the "Supplier ESG Due Diligence Management Procedure" to systematically promote the sustainable development of the supply chain. The procedure includes the following key links:

- 4.2.1 Preparation of audit checklist: Our ESG management department, third-party consulting agency, and third-party audit agency will formulate an ESG due diligence audit checklist based on Hithium's ESG strategy and sustainable development direction, as well as domestic and international ESG standards, industry characteristics, and relevant regulatory requirements;
- 4.2.2 Information collection: Suppliers and the procurement center collect supplier ESG information and cooperation information;
- 4.2.3 Risk assessment: The ESG Management Department identifies, assesses and ranks the ESG risks of suppliers based on the ESG information forms submitted by them, and selects suppliers that need to undergo ESG due diligence audits based on the supplier cooperation status;



4.2.4 Conducting audits: Conducting ESG due diligence audits. Before conducting audits, the ESG

Management Department organizes relevant training for audited suppliers to help them understand the audit scope and prepare for the audit in advance; formulates an audit plan, and the ESG

Management Department auditors and third-party auditors conduct relevant audits on schedule;

4.2.5 Correction and follow-up: The ESG Management Department organizes rectification training based on the supplier audit results, assists and guides suppliers to formulate problem item correction plans (CAP), and negotiates the rectification period;

4.2.6 Report preparation: The ESG Management Department prepares an annual supply chain ESG due diligence report based on the audit results.

### **4.3 Audit team composition and responsibilities**

4.3.1 Audit team composition: It is composed of experts from different backgrounds, including Hithium Energy Storage ESG Management Department, third-party audit agencies, third-party ESG consulting agencies, etc.

4.3.2 Audit team responsibilities: Collect information according to the audit process, prepare audit checklists, conduct audits, analyze results, follow up, write audit reports, etc., and continuously optimize the audit process based on the audit results.

## **5. Audit findings**

### **5.1 Audit findings analysis**

5.1.1 Among all audit items: 57% of items are compliant, 43% of items are non-compliant

5.1.2 Among the non-conformities: serious non-conformities accounted for 17%, general non-conformities accounted for 21

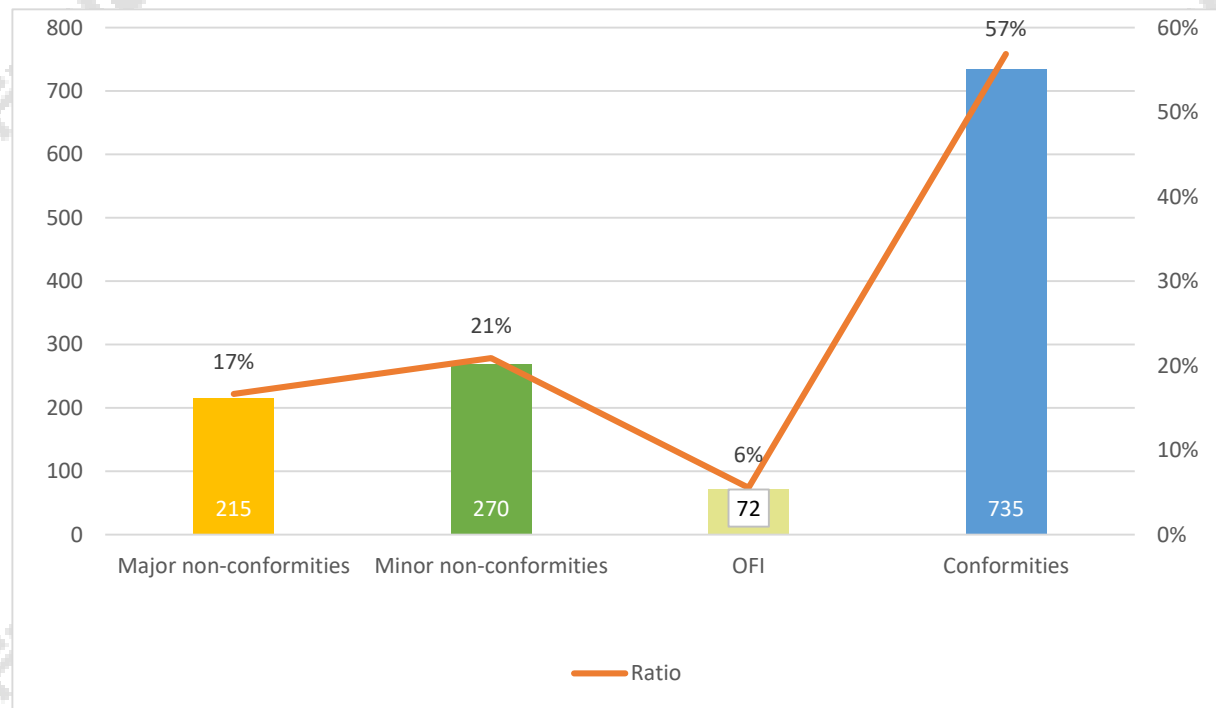


Figure 1: Number and Percentage of Findings

## 5.2 Audit findings analysis (by category)

Statistically analyzed by audit findings, the four issues with the highest number of non-conformities are: Social responsibility, Conflict minerals, energy management, and Climate change response.

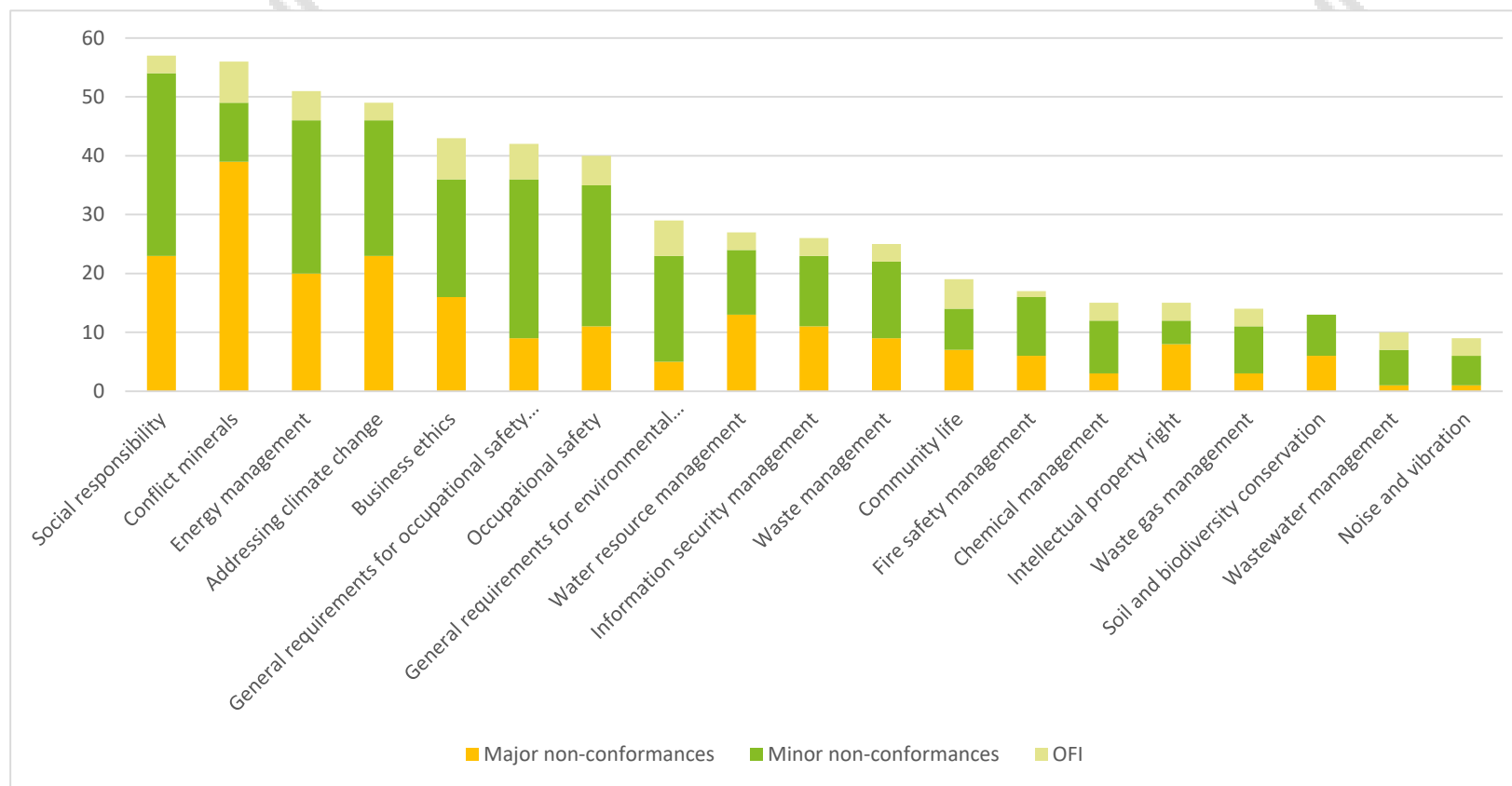


Figure2: Findings by Topics

### **5.3 Data analysis of each category - serious non-compliance**

The top four topics of serious non-compliance are: Conflict minerals, Climate change response, Social responsibility, and Energy management.

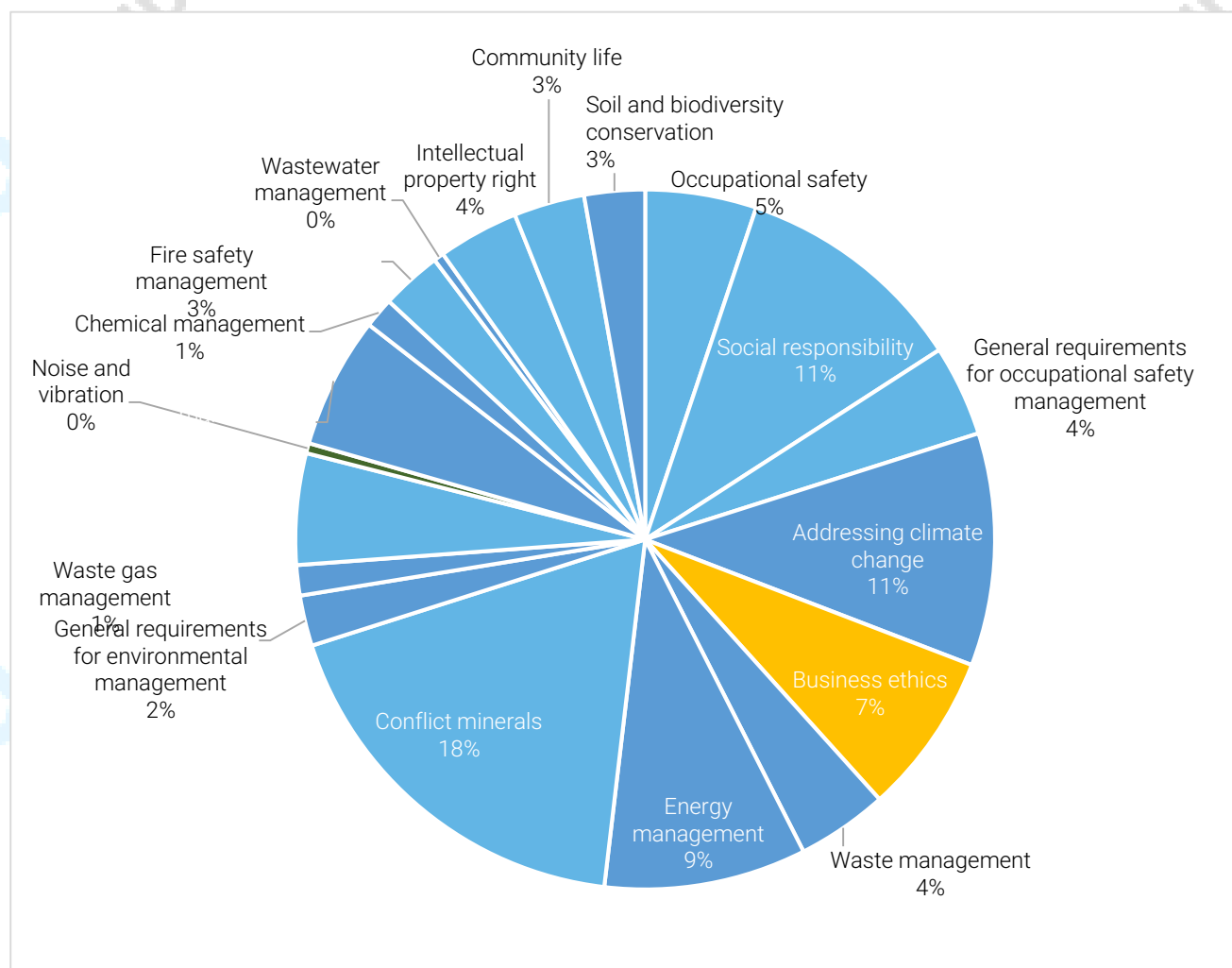


Figure 3 : Major Non-Conformances Topic Ratio

#### 5.4 Data analysis of each category - generally not compliant

Top 4 Minor Non-Conformances : Social responsibility, General requirements for occupational safety management, Energy management , Occupational safety.

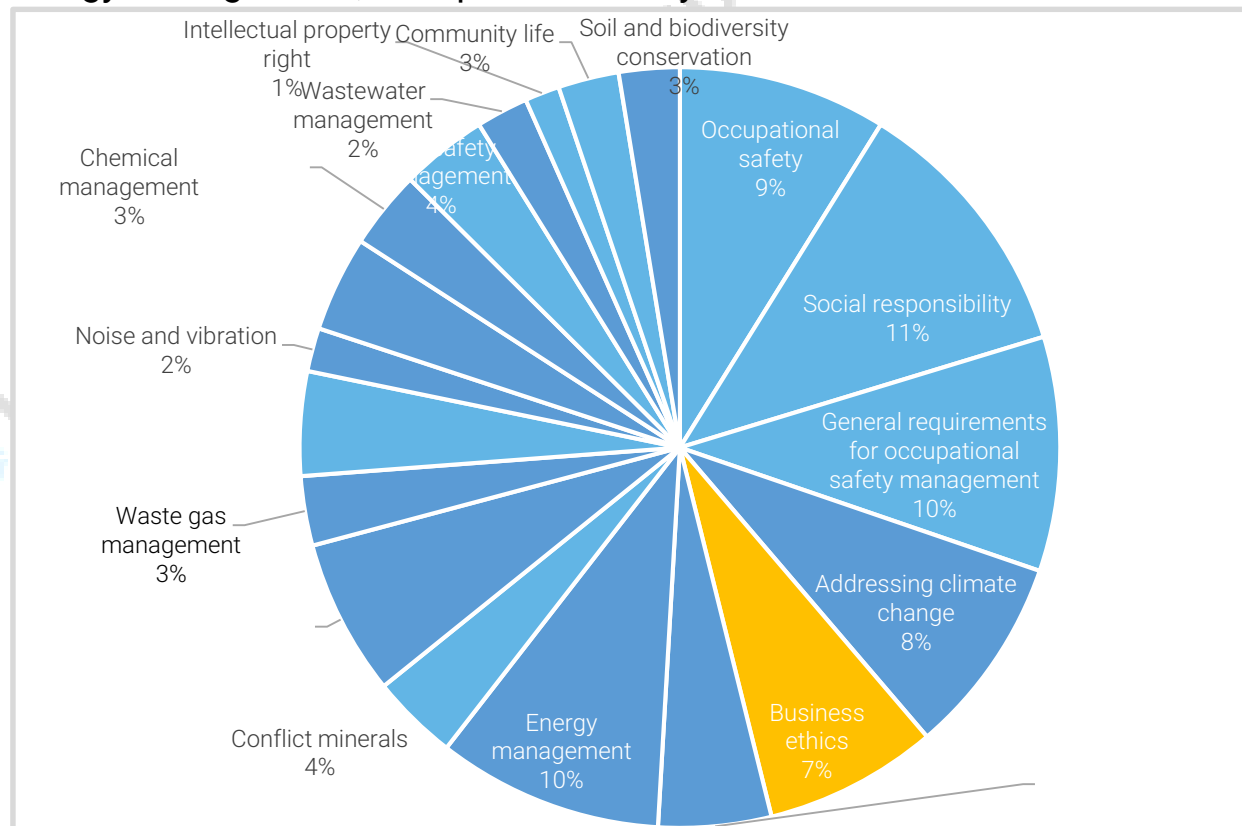


Figure 4 : Minor Non-Conformances Topics Ratio

## 6. conclusion

Our company conducted supply chain ESG due diligence in 2024 and found that the ESG performance of the supply chain was differentiated. Some companies performed well, but some companies did not meet expectations in conventional ESG management issues. Overall, supply chain ESG management is a long-term task that requires collaboration with partners to promote the improvement of ESG levels across the entire chain.

### 6.1 Summary

#### 6.1.1 Audit Object

This audit conducted ESG due diligence on 15 key suppliers, covering 11 categories including graphite, aluminum shell, copper foil, container, electrolyte, iron lithium, fire protection system, Pack aluminum box, container, diaphragm, top cover, aluminum foil, and liquid cooling unit. Class I material suppliers



(i.e. materials involving major safety and having a significant impact on product performance) accounted for 100%.

#### 6.1.2 Result

- According to the analysis of the results of this supply chain ESG audit, nearly 50% of the audit items did not meet the basic standard requirements of Hithium Energy Storage. Among them, the non-compliance with the four key issues of Conflict mineral management, Climate change response, Social responsibility and Energy management was the most prominent, and will become the key improvement areas of the company's subsequent supply chain ESG management.
- In terms of occupational health and safety and social responsibility, which are the basis of corporate operations, suppliers still have systematic management shortcomings. Hithium Energy Storage will strengthen the requirements for supplier capacity building and improve their basic management level through mandatory improvement measures.

## 6.2 Summary and evaluation

The evaluation results show that there is still a gap between the ESG management status of Hithium Energy Storage's core suppliers and the company's sustainable development requirements, which is mainly reflected in the following three dimensions:

### 6.2.1 Weak basic management

Some suppliers have obvious shortcomings in their routine business operations and management, and have not yet established standardized management systems in basic areas such as social responsibility and occupational health and safety;

### 6.2.2 Compliance risks are highlighted

Non-compliant operations in key operational links, especially in high-risk areas such as responsible mining and environmental protection, may affect the sustainability and stability of the supply chain;

### 6.2.3 Lack of management system

There is a general lack of systematic ESG management framework and professional capabilities,

making it difficult to effectively identify, assess and control ESG risks.

## **7. Action Plan**

Based on the results of the 2024 supply chain ESG audit, Hithium Energy Storage will take the following systematic measures to promote the improvement of suppliers' ESG management capabilities and strengthen supply chain risk management in accordance with short-, medium- and long-term time plans. Starting from April 2025, Hithium plans to:

### **7.1 Short- to medium-term actions (0-12 months)**

#### **7.1.1 Update of evaluation criteria**

This revision aims to fully understand the current status of supplier ESG management, and at the same time provide clear guidance for suppliers to improve their social responsibility fulfillment and occupational health and safety management systems. The revised evaluation system will more systematically and objectively reflect the sustainable development capabilities of suppliers and

promote the overall improvement of the ESG management level of the supply chain. Based on the results of the 2024 supplier ESG audit and evaluation, the following optimization adjustments are made to the current evaluation standards:

- New special audit content :

Supplement the “Conflict Mineral Management” special audit module to the existing ESG audit and assessment checklist and compile a special checklist.

- Optimization of existing evaluation sections:

Based on the results of this review, combined with the latest international ESG regulations and ESG-related reports from peers, key ESG risk indicators (such as labor rights protection, occupational health and safety, etc.) are supplemented, redundant clauses are deleted, and the pertinence and effectiveness of the assessment are improved.

#### 7.1.2 Supplier capacity building support

According to the communication with relevant persons in charge of suppliers during this audit, it was

found that the experience and capabilities of the current persons in charge of suppliers in the field of ESG management are limited. Therefore, Hithium plans to improve the ESG management level of the supply chain by enhancing the capabilities of suppliers and establishing an experience sharing working mechanism through the following measures.

- Training resource empowerment :

Hithium will cooperate with international authoritative certification organizations to jointly develop customized ESG-themed series of training courses, covering key topics such as Conflict mineral management (such as Supply chain due diligence, Conflict mineral risk avoidance, etc.), Social responsibility system construction (such as Labor rights protection, Business ethics, etc.), Occupational health and safety (such as risk assessment, safety protection, emergency management, etc.), Climate change response (such as carbon inventory, emission reduction path planning, etc.), Energy management system (such as energy efficiency optimization, renewable energy application, etc.), and provide free learning resources for suppliers.

- Best Practice Case Promotion: :

Through platforms such as the annual supplier conference and ESG seminars, we share industry benchmark cases and management tools learned during the audit process to promote experience exchange and collaborative improvement among suppliers.

#### 7.1.3 审核问题点监督与整改 Supervision and rectification of audit issues

- Graded rectification requirements :

According to the 2024 audit results, suppliers will be required to carry out graded rectification for the identified non-conformities. Severe non-conformities must be rectified within three months, and a written report and supporting materials must be submitted. General non-conformities must be rectified within six months, and a written rectification report and supporting materials must be submitted. OFI (Opportunities for Improvement) is not a mandatory requirement, but suppliers are advised to include it in the mid- and long-term management optimization goals.

- Closed-loop management:

Suppliers who fail to make rectifications on time or whose materials do not meet the standards will be included in the key audit list for the next year and will be arranged for on-site reviews to ensure that the problems are substantially resolved.

#### 7.1.4 Establishment of systemic risk management system

In 2024, Hithium's ESG management of suppliers will focus on on-site audits of suppliers, mainly establishing and improving the due diligence process and system, but missing the identification of supplier ESG risks, that is, further quantifying, evaluating, and grading risks based on due diligence information collection and preliminary screening, and formulating countermeasures. In the coming year, Hithium plans to establish a systematic ESG risk management system, including: completing and issuing the "Supplier ESG Risk Management System" in Q2 2025, covering functional division of labor, risk assessment (risk grading assessment mechanism), special management and control (formulating special management plans for high-risk areas), emergency response (formulating ESG risk emergency plans), etc.

By establishing supply chain ESG risk management, a closed-loop management of "risk warning - due diligence - risk management - continuous optimization" is formed.

## **7.2 Long-term action (12-36 months)**

### **7.2.1 Audit checklist optimization**

Based on the audit results of three consecutive years, we conduct horizontal comparison and multi-dimensional analysis, continuously update the audit content and expand the scope of audit objects. We establish a performance linkage system based on the audit analysis results, link ESG audit results with supplier performance, and optimize procurement decisions.

### **7.2.2 Support and assistance**

We will continue to optimize the training system, expand the scope of training, and establish a Hithium excellent supplier ESG practice case library, and try to establish a collaborative innovation mechanism with suppliers, especially to increase cooperation opportunities in addressing climate change and Conflict mineral management.



### 7.2.3 Risk management

Continuously update Hithium's supplier ESG risk management system and establish an early warning mechanism.