

Audit Report on Congo Dongfang International Mining sarl.

prepared for LG Chem.



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Task and objective:

Audit on responsible cobalt supply chain management

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Reference to part of this report which may lead to misinterpretation is not permissible.



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1 INTRODUCTION

LG Chem. Ltd. (hereinafter addressed as ‘LG Chem.’) has commissioned DNV GL Business Assurance Korea Co., Ltd. (hereinafter addressed as ‘DNV GL’) to carry out an audit on Congo Dongfang International Mining sarl. (hereinafter addressed as ‘CDM’) to assess the extent of implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (hereinafter addressed as ‘OECD Due Diligence Guidance’). Based on both qualitative and quantitative information provided by CDM, this audit was performed against CDM’s due diligence management system and two Artisanal and Small Scale Mining (hereinafter addressed as ‘ASM’) sites (‘Kasulo’, ‘Twiluzembe’) in accordance with the terms of reference agreed on with LG Chem. This audit report (hereinafter addressed as ‘Report’) has been prepared by DNV GL summarising the findings of this audit as well as areas identified for improvement.

The audit team could access to CDM and ASM premises during audit time. Relevant documents and records were made available to the audit team as requested. The on-site audit of CDM and 2 ASM sites were conducted from April 5 to 7, 2018 by 1 DNV GL auditor with attendance of an observer from LG Chem., and the audit process included document review, interview of management & workers and site inspection. The audit is based on the assumption that the statements and information/data were provided in good faith by CDM.

Due to confidentiality reasons, the Report was also reviewed by CDM through LG Chem. to ensure that any business confidential information is not disclosed without CDM’s consent. This sequence of review has been formally approved by LG Chem. This, however, does not affect DNV GL’s conclusion on the audit findings.

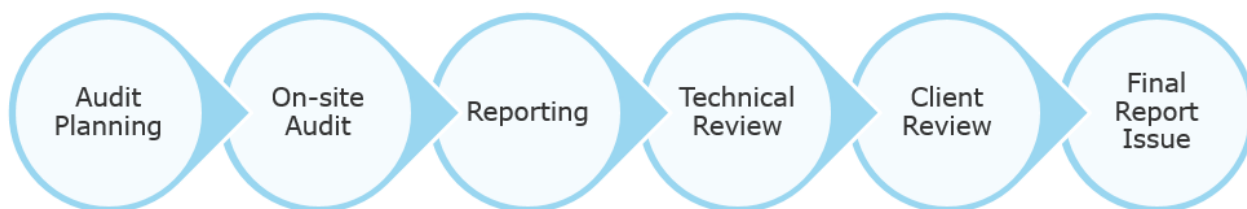
The Report is issued only to LG Chem. and shall not be copied to any other parties unless it is agreed in writings with LG Chem. and DNV GL. Any other parties shall not use the Report for their own purpose.

The audit team has strictly complied with DNV GL Code of Ethics¹ and adhered to the audit principles addressed in ISO 19011:2011.

¹ Available from DNV GL Website (www.dnvgl.com)

2 SCOPE OF WORK

2.1 Audit Process & Scope



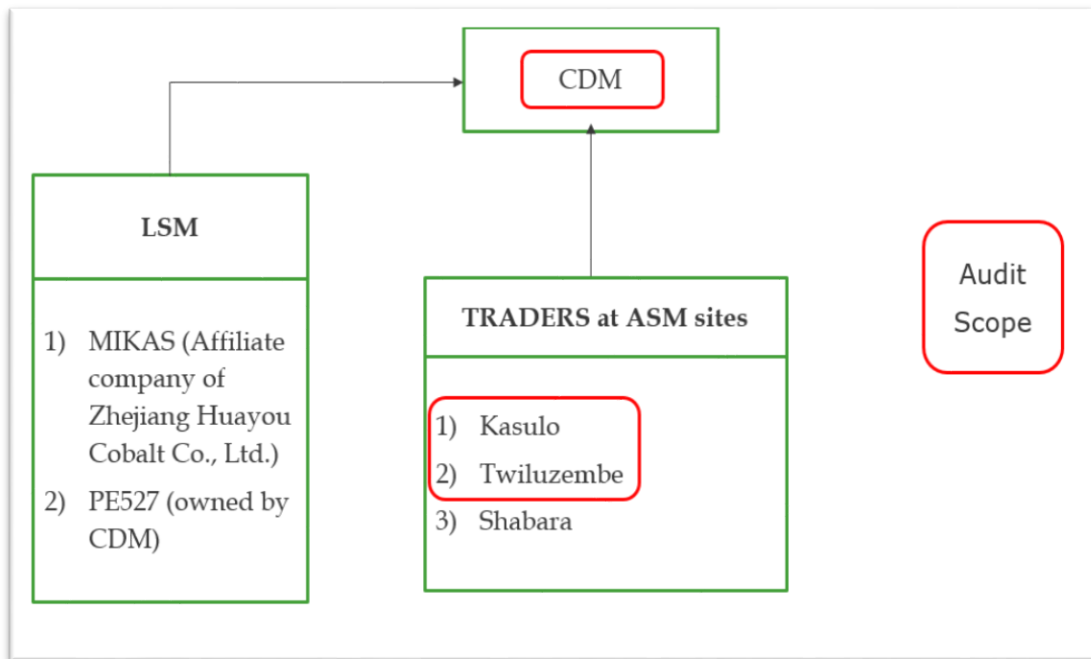
<Figure 1, Audit Process >

DNV GL has conducted the audit according to the process described in the figure 1 above on CDM and 2 ASMs in Democratic Republic of Congo (DRC).

The audit team has carried out the audit in the schedule as follows;

| Activity | Dates | Remark |
|---------------------------|----------------|--|
| Audit Planning | March 20, 2018 | Audit scheduling and planning |
| Visit to ASM (Kasulo) | April 5, 2018 | Site in DRC visited |
| Visit to ASM (Twiluzembe) | April 6, 2018 | Site in DRC visited |
| Visit to CDM | April 7, 2018 | Site in DRC visited |
| Audit Report (Draft) | April 20, 2018 | Audit reporting by the auditor |
| Technical review | April 23, 2018 | Review of audit report and report by independent reviewer in DNV GL. |
| LG Chem. review | May 23, 2018 | Review by CDM for confidential information in the report included. |
| Final Report issued | May 23, 2018 | Report is issued to LG Chem. |

The audit scope only includes 3 sites depicted in the Supply Chain Map of CDM described in the Figure 2.



<Figure 2, Supply Chain Map of CDM as of April 5, 2018>

As international audit standards for sustainable cobalt sourcing from supply chain is currently not available, the audit standards stated below are applied for this audit as agreed with LG Chem.;

- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas (Third Edition).
- PACT & Huayou checklist² which is developed by PACT & Huayou

The overall focus of DNV GL’s audit was on the assessment of the extent to which CDM has established and implemented its supply chain due diligence system for responsible sourcing based on the ‘Annex 1 Five Step Framework for Risk Based Due Diligence in the Mineral Supply Chain of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Area’ and on

² It is noted that the checklist is developed by PACT & Huayou based on the reference documents below;

Compendium on Best Practices on Small Scale Mining in Africa (UNECA)
http://www.africaminingvision.org/amv_resources/AMV/Compendium%20on_best_practices_in_%20smallsacle%20.pdf

Safety & health in small-scale surface mines: A handbook (ILO)
http://www.ilo.org/wcmsp5/groups/public/@ed_dialogue/@sector/documents/publication/wcms_162738.pdf

Working Together: How large-scale mining can engage with artisanal and small-scale miners (CommDev/CASM/ICMM)
<http://documents.worldbank.org/curated/en/148081468163163514/pdf/686190ESWOP1120ng0TogetherOHD0final.pdf>

Standards and Guidelines for Sierra Leone’s Artisanal Diamond Mining Sector (DDI)
<http://www.ddiglobal.org/login/resources/standards-guidelines.pdf>

Certified Trading Chains in Mineral Production: Principles and Standards (BGR)
<http://igfmining.org/wp-content/uploads/2016/15/Int'l-%20certification%20document%20Buchholz.pdf>

The checklist is not publicly available, but provided to the auditor only for this audit.

the assessment of adherence to the principles in the ‘PACT & Huayou Checklist’ for 2 ASM sites. Especially priority of investigation was given on presence of any child labor and human right abuse in the ASM sites. The PACT & Huayou checklist consists of 3 parts (Part 1: Source of the ASM cobalt, Part 2: Risk Control, Part 3: Tracking System) with multiple checkpoints and the audit was performed against the main requirements addressed on those 3 parts

2.2 Audit team and Impartiality

| Role | Name | DNV GL Office | Impartiality |
|--------------------|-----------------|---------------|--------------|
| Auditor | Seung Young Lee | Korea | OK |
| Technical Reviewer | Seung Hyun Kwak | Korea | OK |
| Approver | In Kyoon Ahn | Korea | OK |

DNV GL has provided LG Chem. with the supplier audit on Zhejiang Huayou Cobalt Company Limited. to assess implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas from July 11 to 12, 2017. Except that audit service, DNV GL has not provided any consultation or advisory services to Zhejiang Huayou Cobalt Company Limited till completion of the audit which would be otherwise conflict with the independence of our work. DNV GL ensures the auditor was selected based on an appraisal of auditor’s qualification and experience. The auditor conducting the audit is multi-disciplinary and has extensive experiences in audits.


2.3 Principles of auditing

The audit team has adhered to following principles as set forth in ISO 19011:2011;

- 1) Integrity: the foundation of professionalism
- 2) Fair presentation: the obligation to report truthfully and accurately
- 3) Due professional care: the application of diligence and judgement in auditing
- 4) Confidentiality: security of information
- 5) Independence: the basis for the impartiality of the audit and objectivity of the audit conclusions
- 6) Evidence-based approach: the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process

2.4 Disclaimer and Liability

The information contained in this Report is the view of the independent auditor of DNV GL and does not explicitly represent the views of CDM, LG Chem. or any other 3rd parties. The auditor’s opinion is that the



information provided in the Report is reliable and accurate, but it is furnished without warranty of any kind. The audit process is based on samples of the available information and statements from the interviewees but there might have negative findings on the areas described here. This Report shall not be regarded as a full or partial compliance with any other standards or any other certification schemes that might exist and shall not be used in any public promotional way, including certification as an evidence of compliance, as it does not guarantee full or future compliance and the audit is based on as-is and where-is basis. There is an element of uncertainty in auditing with limited audit time and with limited audit scope agreed with LG Chem., and those acting upon the audit conclusion should be aware of the uncertainty inherent in the audit process as addressed in ISO 19011:2011 (Guidelines for Auditing Management Systems).

This Report is based upon the application of professional judgment to certain facts with resulting subjective interpretations. However, for assessment of the specific situation, we are dependent upon the quality and completeness of the information provided to us during the investigation. Professional judgments expressed herein are based upon the facts currently available within the limits of the existing data, scope of work, and time schedule. While DNV GL endeavours to ensure that the information and analysis in the Report is correct, accurate and reliable, DNV GL will not be liable for any errors, inaccuracies or delays in content, or for any actions taken in reliance thereon.

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3 AUDIT CONTENTS

3.1 Due Diligence System³

1) OECD Due Diligence Guidance: Step 1 – Establishment of strong Company Management System

- A) *Company should adopt, and clearly communicate to suppliers and the public, a company policy for the supply chain of minerals originating from conflict-affected and high-risk areas. This policy should incorporate the standards against which due diligence is to be conducted, consistent with the standards set forth in the model supply chain policy in Annex II.*

The following public policies for supply chain of minerals originating from conflict-affected and high risk areas are established and it is publicly available at the Huayou website⁴. CDM is a subsidiary company of Zhejiang Huayou Cobalt and CSR Director in Zhejiang Huayou Cobalt stated that all policies and due diligence programs for responsible sourcing are equally applied to all subsidiaries of Zhejiang Huayou Cobalt.

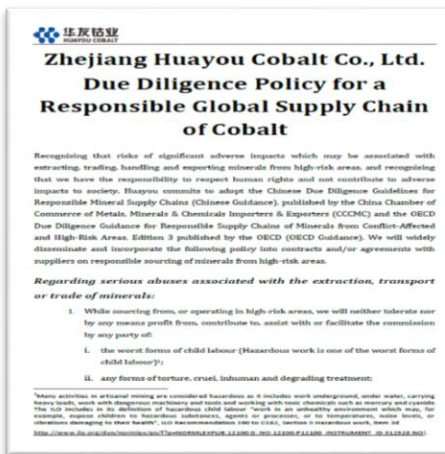
- (a) 'Suppliers Code of Conduct of Zhejiang Huayou Cobalt' is set for expectations from suppliers to comply with the requirements on 'Labor and Human Rights', 'Health & Safety', 'Environment, 'Ethics' and 'Company Management'.
- (b) 'Zhejiang Huayou Cobalt Due Diligence Policy for a Responsible Global Supply Chain of Cobalt' is set for commitment to adopt the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains and OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, Edition 3.
- (c) 'Zhejiang Huayou Cobalt Supplier Standard for Responsible Sourcing of Cobalt' includes supplier responsibility standard and due diligence declaration.

³ The statements written in Bold and Italic are taken from OECD Due Diligence Guidance.

⁴ <http://en.huayou.com/shehui/downloadcategoryid=10&isMode=false.html>



< Figure 3, Suppliers' Code of Conduct of Zhejiang Huayou Cobalt captured from website >



< Figure 4, Zhejiang Huayou Cobalt Co., Ltd. Due Diligence Policy for a Responsible Global Supply Chain of Cobalt captured from website >



<Figure 5, Zhejiang Huayou Cobalt Supplier Standard for Responsible Sourcing of Cobalt captured from website >

Zhejiang Huayou Cobalt published the audit report on the Due Diligence and responsible Cobalt Supply Chain on its website on August 9, 2017 and revised supply chain map with policy that no cobalt

is sourced from open market. Sourcing from open market has been suspended in CDM since the 2nd quarter of 2017. The latest supply chain mapping of CDM is provided in the 'Figure 2'.

Although the policies on proper management of supply chain of minerals originating from conflict-affected and high risk areas are established, the scope of the policies is not clearly stated, whether the policies are applicable to CDM. CSR Director of Zhejiang Huayou Cobalt explains that all subsidiaries of Zhejiang Huayou Cobalt shall uphold and implement the policies. It is recommended to review the policies and address explicitly that scope of application includes CDM and subsidiaries of Zhejiang Huayou Cobalt or develop independent CDM's policies.

B) Company should structure internal management to support supply chain due diligence.

'Zhejiang Huayou Cobalt Due Diligence Policy for a Responsible Global Supply Chain of Cobalt' which CSR director of Zhejiang Huayou Cobalt claims, is equally applicable to CDM, includes statement of incorporating policies regarding the following issues into contracts and/or agreements with suppliers on responsible sourcing of minerals from high-risk areas.

- Serious abuses associated with the extraction, transport or trade of minerals:
- Risk management of serious abuses:
- Direct or indirect support to non-state armed groups:
- Risk management of direct or indirect support to non-state armed groups:
- Public or private security forces:
- Risk management of public or private security forces:
- Bribery and fraudulent misrepresentation of the origin of minerals:
- Money laundering:
- Payment of taxes, fees and royalties due to governments:
- Risk management of bribery and fraudulent misrepresentation of the origin of minerals, money-laundering and payment of taxes, fees and royalties to governments:
- Occupational health and safety:
- Risk management of occupational health and safety:
- Child labor
- Risk management of child labour:

'CDM Corporate Social Responsibility Working Committee' was formed and announced in CDM on April 15, 2017. The president of CDM has taken the chairman role of CSR working committee and his role & responsibilities are described in the internal memo on CDM CSR Working

Committee. This committee is officially addressed in ‘Huayou Cobalt’s Due Diligence and Audit of Responsible Cobalt Supply Chain Report’ issued on August 9, 2017.



< **Figure 6, CDM CSR Committee at ‘Huayou Cobalt’s Due Diligence and Audit of Responsible Cobalt Supply Chain Report’ screenshot from website**>

CDM has developed the management system including policies and ‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 which were developed with a help by external organization ‘RCS GLOBAL’ pursuant to OECD Due Diligence Guidance and Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains (Chinese Guidance) and the management system has been implemented since February 2017.

It is recommended to perform formal management review on the effectiveness of due diligence system on a regular basis.

CSR Director stated that formal due diligence report including management review result will be issued in August 2018.

C) Company should establish a system of controls and transparency over the mineral supply chain. This includes a chain of custody or a traceability system or the identification of upstream actors in the supply chain. This may be implemented through participation in industry-driven programs.

CDM’s Traceability system (Tracking system) is introduced and relevant summary of tracking system is publicly disclosed at the website⁵.

⁵ <http://en.huayou.com/downloadRepository/ce6d255e-2a81-4718-bd51-7f6f85f0ed5d.pdf>



<Figure 7, CDM Tracking system introduction at the report 'Responsible Cobalt Supply Chain Updates on actions and controls on the ground' disclosed at the website>

CDM has introduced “Model Mines Program – Responsible ASM Mine” and only ASMs which successfully completed the audit by CDM and external audit performed by PACT Inc.⁶ based on the ‘PACT & Huayou checklist’ are approved as the model ASM mines. Program manager of PACT (Mr. Luc Lenge) has confirmed the approval process during the interview. Currently, 3 approved ASMs in Kasulo, Twiluzembe, and Shabara and 15 approved traders (Kasulo: 12 approved traders / Twiluzembe: 1 approved trader / Shabara: 2 approved traders) have business relationship with CDM.

To remove the potential mixing with cobalt from other sources which may have the risk of originating from conflict-affected and high-risk areas, entire loading process is completed within ASM premises and trucks loaded with cobalt drive to CDM directly without any stoppage. All trucks used for transportation of cobalt are registered by CDM and only those registered trucks are used for transportation of cobalt. Traceability of cobalt is made up of the information recorded on mandatory government documents, delivery note and seals on truck load with cobalt. Cobalt from ASM sites is mixed later with the cobalt from LSMs (Large-Scale Mining) at CDM premise (visit to LSM is not made during this audit). Hence, there is limitation in the full traceability back to origin of source. CSR Director stated that CDM is already aware of necessity of full traceability and under consideration for further improvements. In that sense, currently efforts are given to ensure clear traceability of cobalt from approved 3 ASM sites to CDM. Cobalt concentrates processed in CDM are exported to Zhejiang Huayou Cobalt (Refiner) in China.

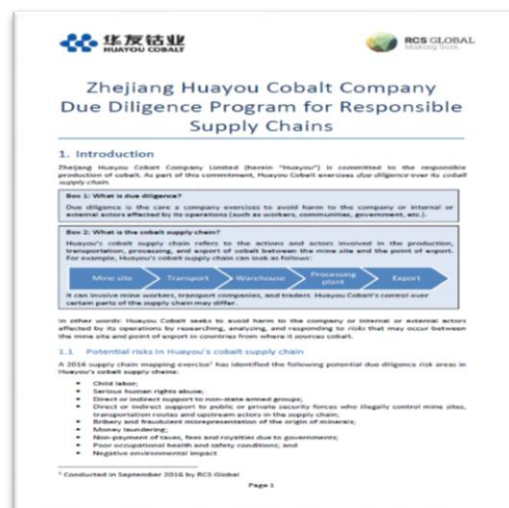
⁶ www.pactworld.org

D) Company should strengthen company engagement with suppliers. A supply chain policy should be incorporated into contracts and/or agreements with suppliers. Where possible, assist suppliers in building capacities with a view to improving due diligence performance.

The commitment on responsible sourcing of minerals from high-risk areas is incorporated into contracts and/or agreements with suppliers on responsible sourcing of minerals from high-risk areas per the ‘Zhejiang Huayou Cobalt Due Diligence Policy for a Responsible Global Supply Chain of Cobalt’.

‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 was developed with a help of ‘RCS GLOBAL’.

Scope of application is addressed in the Due Diligence Program and it includes various types of suppliers including directly from a Large-Scale Mining (LSM) and ASM sites.



< Figure 8, Due Diligence Program for Responsible Supply Chain >

Formal supplier mapping was developed in 2016 ('Supply Chain Mapping Report – October 2016') and it is also applied to CDM. However, periodic review and update of supplier chain mapping has not been made yet since the first issuance in 2016. It is recommended to define frequency of review, regularly update the supply chain map and make it readily accessible.



< **Figure 9, Supply Chain Mapping Report – October 2016** >

Internal training by the RCS GLOBAL was provided to responsible persons on February 2 and 3, 2017. Due diligence program training was provided to CDM on April 7, 2017 and 18 CDM employees attended the training. Supplier training on traders in 3 ASM sites was made on April 8, 2017. Suppliers/traders of CDM were also trained on November 21 to 26, 2016 by the 3rd party (PACT Inc.).

Formal notification to CDM's suppliers was made with regard to compliance with the following criteria/standards on May 30, 2017.

1. Conformance of Origin of Minerals;
2. No Child Labor Risk or others in the Supply Chain (Strict control to the risks);
3. Traceability of Origin of Minerals.

Cooperation agreement with traders includes compliance requirements with 'Suppliers Code of Conduct of Zhejiang Huayou Cobalt' and 'Zhejiang Huayou Cobalt Supplier Standard for Responsible Sourcing of Cobalt'. 3 strategies for risk mitigation and communication information reporting non-compliance (243-844-035-683, denociation2016@gmail.com) are addressed in the agreement.

Confirmation letter to comply with 'Suppliers' Code of Conduct of Zhejiang Huayou Cobalt' and 'Zhejiang Huayou Cobalt Supplier Standard for Responsible Sourcing of Cobalt' was received from mine cooperative in the approved ASM site dated on August 4, 2017 with Serge Mukalai, Head of cooperative.

E) Company should establish a company-level, or industry-wide, grievance mechanism as an early-warning risk-awareness system.

‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 includes commitment and procedures to managing grievance system.

Grievance system is established and publicly accessible at Huayou website⁷ and contact point of the grievance is described as follow;

Cobalt Supply Chain Due Diligence:

- Tel: 0573-88589950
- E-mail: CSR@huayou.com / Brycelee@huayou.com
- Address: No. 18 Wuzhen East Road, Economic Development Zone, Tongxiang, Zhejiang, China Contact: Huayou Cobalt (CSR Office).

It is stated that feedback by CSR Office should be made within 7 working days after receiving the information.



< Figure 10, Grievance Mechanism captured from the facility’s website >

Grievance mechanism regarding supply chain due diligence is established in English and publicly accessible from Huayou website. It is recommended to provide the information on grievance mechanism in local language in CDM and 3 approved ASM areas so that suppliers or local community can easily report any grievance or complaint without language barrier. It is also recommended to actively reinforce public reporting mechanism seeking information on any potential non-compliance with Zhejiang Huayou Cobalt policies and child labor engagement through promotion of public awareness, meetings, training or communication with NGOs present near mines or communities.

⁷ <http://en.huayou.com/shensu/i=40&comContentId=40.html>

Auditor tried to call 3 times to the phone number (243-844-035-683) stated in the agreement with supplier but no one answered. The text message was also left, but no feedback was received until the end of the audit. It is recommended to regularly test the robustness of the mechanism in place and continuously improve the system including establishment of alternative way of communication channels.

2) OECD Due Diligence Guidance: Step 2 – Identification and Assessment of risk in the supply chain

A) *Company should identify risks in their supply chain as recommended in the Supplements.*

‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 established by Zhejiang Huayou Cobalt addresses risk identification (‘4. Risk Identification’), assessment (‘5. Risk Assessment’) and mitigation (‘6. Risk Mitigation’) processes to identify potential high-risk suppliers amongst new and existing suppliers. Scope of application is addressed in the Due Diligence Program and it includes different types of suppliers including LSM and ASM sites.

CDM reviews ‘Know Your Supplier Questionnaires’ submitted by respective suppliers to identify risks and detect any of the following signs and CDM checks if any of the following signs are present on the ‘Know Your Supplier Questionnaires’;

- Risks (Child labor, Serious human rights abuse, Direct or indirect support to non-state armed groups, Direct or indirect support to public or private security forces who illegally control mine sites, Transportation routes and upstream actors in the supply chain, Bribery and fraudulent misrepresentation of the origin of minerals, Money laundering, Non-payment of taxes, fees and royalties due to governments, Poor occupational health and safety conditions and Negative environmental impact)
- No provision of requested ‘Know Your Supplier’, Supplier Code of Conduct, or other documents
- Discrepancies in the information provided by the supplier during the ‘Know Your Supplier’ process
- No commitment to implementing due diligence in accordance with the OECD Guidance or Chinese Guidelines, does not sign the Supplier Code of Conduct and / or the Supplier Standard and / or does not agree to implement effective risk mitigation
- No improvement of supplier’s due diligence practices and / or no risks mitigation identified in the cobalt supply chain in accordance with the risk mitigation plan
- No applicable industry effort for responsible cobalt sourcing

If any of the above-mentioned warning signs are present, the supplier is categorized as “high-risk”.

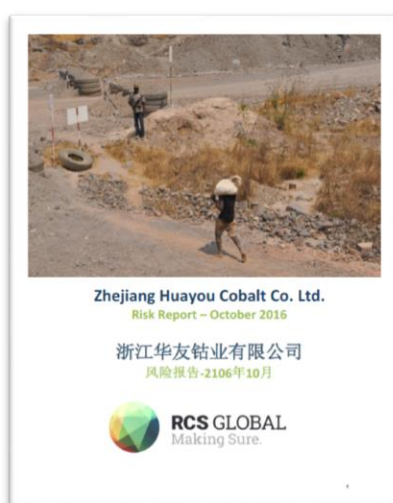
B) Company should assess risks of adverse impacts in light of the standards of their supply chain policy consistent with Annex II and the due diligence recommendations in this Guidance.

CDM completed risk assessment according to the ‘Due Diligence Program for Responsible Supply Chain’ dated on January 13, 2017. Additionally, other tools including ‘Mine Site Visit Checklist’, ‘Incident Report’, and ‘Risk Assessment Template’ are developed to assess risks.

From the results of the risk assessment in the Due Diligence Program, high risks assessed based on the risk calculation points (higher risk when calculation values are high) for LSM and ASM supply chains are identified as follows;

| Risk Rank | Risks | LSM Supply Chain (Unlikely X Due Diligence Risk Level). | ASM Supply Chain (Unlikely X Due Diligence Risk Level) |
|-----------|--|--|---|
| 1 | Worst forms of child labor | 5(1x5) | 25(5x5) |
| 2 | Systematic or widespread human rights abuse associated with the extraction, transport or trade of cobalt | 8(2x4) | 12(3x4) |
| 3 | Direct or indirect support to non-state armed groups or public or private security forces | 8(2x4) | 8(2x4) |
| 4 | Bribery and fraudulent misrepresentation of the origin of cobalt | 4(1x4) | 16(4x4) |

Risk Assessment for specific CDM’s scope is made by external organization ‘RCS GLOBAL (Risk Report – October 2016)’.



< **Figure 11, Risk Report – Oct. 2016**>

CDM has made efforts to mitigate identified risks and supply chain is changed as per the latest supply chain map described at the report (Section ‘2.1 Audit process and Scope’) since first issuance of the risk report (Figure 11, Risk Report-Oct. 2016). However, the last risk assessment report has not been periodically reviewed nor updated although some risks have been mitigated and supplier control practice is improved. It is recommended to review from risk identification, risk assessment and risk mitigation as per the current practices and maintain updated risk reports accordingly.

Currently, traders who source cobalt from model mines and supply to CDM could also source cobalt from open market for other customers. CDM does not source from open market. Further consideration is recommended through risk assessment on whether it implements current OECD guidance.

3) OECD Due Diligence Guidance: Step 3 – Design and implementation a strategy to respond to identified risk

A) Company should report findings of the supply chain risk assessment to the designated senior management of the company.

Based on the findings/recommendations from internal/3rd party assessments and external risk assessment (Figure 11, Risk Report-Oct. 2016), Huayou/CDM Cobalt Supply Chain Risk Mitigation Plan for 2018 is established. The plan is reviewed and revised by CDM based on the last year performance results and new mitigation plan is established yearly.

Progress of implementing actions addressed in the 2017 Risk Mitigation Plan is monitored and updated. Last update was made on December 30, 2017. CSR deputy manager stated that the plan including findings is periodically reported to the president of the company (Chen Hong Liang).

B) Company should devise and adopt a risk management plan.

Based on the ‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 established by Zhejiang Huayou Cobalt including CDM, steps for risk mitigation plan are developed to address and control systematic responses to identified risks. Main tools for risk mitigation are ‘Risk Mitigation Plan’, ‘Meeting Minutes’, ‘Supplier Performance Review Checklist’ and ‘Internal Monitoring Checklist’.

The following 3 strategies for risk mitigation in accordance with the Chinese Guideline are addressed in the ‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017.

1. Continuation of business relationship during mitigation efforts. This includes at a minimum instances of child labor (excluding worst forms of child labor).
2. Suspension of business relationship during mitigation. It includes at a minimum any risk defined in the Huayou Due Diligence policy, the supplier Chain-of-Custody, the supplier standards, and all risks related to the worst form of child labor.
3. Termination of relationship with a supplier after failed attempts at mitigation or where Huayou cobalt reasonably deems risk mitigation is not feasible or presents an unacceptable risk as defined in the Due Diligence Policy and the supplier Chain-of-Custody.

C) Company should implement the risk management plan, monitor and track performance of risk mitigation efforts and report back to designated senior management.

Monitoring performance of risk mitigation activities is addressed in the ‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017 and it includes following main monitoring activities;

- Internal Monitoring Checklist: Check implementation of Due Diligence Program at least once a year.
- Meeting Minutes: Regular meetings with suppliers and stakeholders to review risk mitigation twice a year.
- Review information collected under risk identification and assessment.
- Supplier Performance Review Checklist: assess suppliers’ performance every 6 months.
- Independent 2nd/3rd party audit: Annually

Internal audit based on the checklist developed by external organization was made for 3 ASM sites. ‘Risk Mitigation Plan’ is updated every 6 months and the last update of the risk mitigation plan was performed on June 17, 2017 and December 30, 2017. The plan includes results of internal audit which

was made for 3 ASM sites (Kasulo in March 2017, Twiluzembe in March 2017, Shabara in March 2017). Updated risk mitigation plan was reported to the president of the company (Chen Hong Liang).

D) Company should undertake additional fact and risk assessments for risks requiring mitigation, or after a change of circumstances

After various monitoring activities to review performance of risk mitigation addressed in the ‘Due Diligence Program for Responsible Supply Chains’ dated on January 13, 2017, formal risk mitigation plan is updated accordingly. However, as described at Section 2, B) of this Report, existing risk assessment is not periodically reviewed and updated based on actual implementation of mitigating risks and changes in the supply chain. It is recommended to review risk assessment and maintain updated risk assessment accordingly.

4) OECD Due Diligence Guidance: Step 4 – Independent third-party audits of supply chain due diligence at identified points in the supply chain

Companies at identified points (as indicated in the Supplements) in the supply chain should have their due diligence practices audited by independent third parties. Such audits may be verified by an independent institutionalised mechanism.

‘Due Diligence Program for Responsible Supply Chains’ was established by Zhejiang Huayou Cobalt on January 13, 2017 and CDM. The program requires annual 2nd/3rd party audit.

The 3rd party audit to Zhejiang Huayou Cobalt Co., Ltd. was made for the period of June 19 to 21, 2017 and it included the audit on CDM (without physical visit to CDM site). The 3rd party audit report is publicly available in the Zhejiang Huayou Cobalt website ⁸.

Additional external audit was made for the supply chains of CDM as follows;

- 2nd party audit of Huayou Cobalt’s Responsible ASM supply chain in the DRC for ASM sites (Shabara and Twiluzembe) was performed by RCS Global. Formal report and summary report were issued on May 26, 2017. The assessment was mainly focused on Serious human rights abuse associated with the extraction, transport or trade of minerals, Direct or indirect support to non-state armed groups, Direct or indirect support to public or private security forces who illegally control mine sites,

⁸ <http://en.huayou.com/shehui/downloadcategoryid=10&isMode=false.html>

transportation routes and upstream actors in the supply chain, Bribery and fraudulent misrepresentation of the origin of minerals, Money laundering, Non-payment of taxes, fees and royalties due to governments, Poor occupational health and safety conditions and Child labor.

- External audit by PACT Inc. for the ASM sites was conducted (Kasulo on July 15, 2017 and December 22, 2017, Twiluzembe on April 15, 2017, Shabara on April 22, 2017).

CSR director stated external due diligence audit for supply chains is planned in April 2018.

5) OECD Due Diligence Guidance: Step 5 - Report on supply chain due diligence

Companies should publicly report on their supply chain due diligence policies and practices and may do so by expanding the scope of their sustainability, corporate social responsibility or annual reports to cover additional information on mineral supply chain due diligence.

Information regarding efforts and activities on sustainable sourcing is publicly available from the Zhejiang Huayou Cobalt website ⁹.

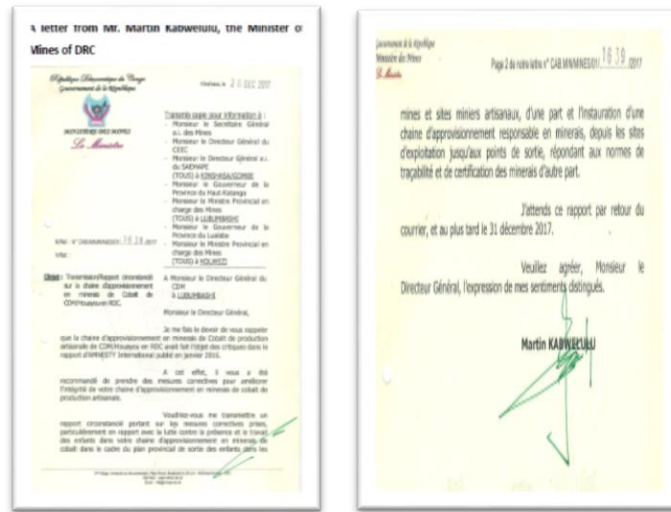


< Figure 12, Public information accessible through website >

Report on actions for sustainable sourcing and CDM's due diligence activities for all 3 ASM sites (in the province of Lualaba) was submitted to DRC National Ministry of Mines on December 20, 2017. Formal government letter was issued from DRC National Ministry of Mines on February 13, 2018 to state

⁹ <http://en.huayou.com/shehui/downloadcategoryid=10&isMode=false.html>

compliance with OECD Due Diligence Guidance and requesting continuous efforts to zero child labor. It is available from the Zhejiang Huayou Cobalt website ¹⁰



< Figure 13, Letter from DRC National Ministry of Mines captured from website >

Annual Corporate Social Responsibility report is published in which actions of sustainable sourcing are described. The CSR reports dated on May 3, 2016 and May 2, 2017 are publicly available from the Zhejiang Huayou Cobalt website ¹¹.



< Figure 14, CSR Report accessible through website >

CSR responsible interviewed stated that CSR Report for 2017 would be issued in May 2018 and additional due diligence report is to be published in August 2018.

¹⁰ <http://en.huayou.com/downloadRepository/08dcf69b-f9de-4199-808e-c6aa55f680d6.pdf>

¹¹ <http://en.huayou.com/shehui/downloadcategoryid=8&isMode=false.html>

3.2 ASM sites visit

Date of Visit: April 5 2018

ASM site visited: Kasulo, Kolwezi, Lualaba, DRC

Date of Visit: Apr. 6 2018

ASM site visited: Twiluzembe, Kolwezi, Lualaba, DRC

Work Process at ASM sites visited:



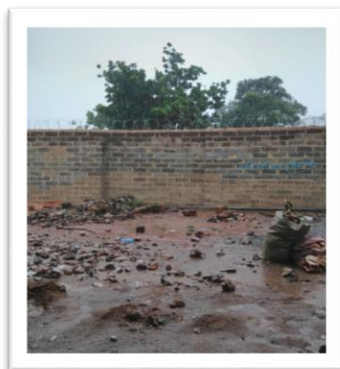
< Figure 15, Work process at ASM sites >

ASM sites (Kasulo and Twiluzembe located in Kolwezi, Lualaba, DRC) were visited by the auditor and an observer from LG Chem. to verify compliance with the PACT & Huayou Checklist [‘Mine Site Parameters (Ver. 3)’ and the ‘Mine Site Assessment Form (Ver. 3 2018)’] developed by PACT & Huayou. The mine site assessment form is designed to be used when child labor is confirmed. Work process at AMS sites are the same and addressed as shown above.

Sites Overview:

Kasulo site is less than 500 meters away from the local community and entire premise is separate by brick wall with barbed wires to prevent child from accessing to the site.

Twiluzembe site is used to be LSM before concession and it is far from the community. Two security checkpoints are in operation to prevent access of child to the site.



<Brick wall with barbed wire installed at Kasulo>



<Warning signs posted at Kasulo>



<First security checkpoint of Twiluzembe site>



<Site overview of Twiluzembe site>



<Warning signs posted at the security checkpoint of Twiluzembe site>

Site Observation:

Relevant legal regulation on prohibition of child labor under 18 years old and no access of pregnant women (Ministerial Order 0919 / Cab. Mines / 01/2015be of October 29, 2015, ILO Convention No. 176, 05 June 1998) is identified on the PACT & Huayou checklist. Preventive measures of child labor are established. Before registration of workers to the mine management team, worker's age is verified and formal mine identification card is issued. Workers shall show identification card to access ASM sites. Workers stated that they are over 18 years old. Signs addressing 'No access of child and pregnant women' are posted at the main gate or security checkpoint area. During on-site inspection in the 2 ASM sites (Kasulo, Twiluzembe), no confirmed instances of child labor is observed.

Government supervisors from SAEMAPE (formerly. SAESSCAM¹²) and Inspector of Mine Division are present at the sites to check and monitor if there is child labor at the ASM sites. A person from CDM is also present to control cobalt production and trucking and monitor child labor on-site.

There is no armed group near the site and any agency of army is not involved in mining activities. Health & Safety officer is available at the ASM site and the officer interviewed stated that safety trainings including proper use of Person Protective Equipment (PPE) and emergency response are conducted to workers. Basic control measures of Health & Safety and Environment are taken, however, further improvement on the followings needs to be made;

- No first aid kit is available (Twiluzembe)
 - Emergency drill is not made as per the emergency plan.
 - Emergency assembly point is not marked nor communicated.
 - Safety warning signs are posted at the security gate, however warning signs on PPEs are not available at working area.
 - Workers exposed to hazards are observed not wearing proper PPEs.;
- 1) Workers conducting the crushing test do not wear safety goggles
 - 2) Miners don't wear safety boots and helmet.
 - 3) Miners wear slippers at site.
- Overall environmental management should be improved (awareness of environment impact assessment results, waste segregation and collection practice).
 - Workers' work schedule is not displayed (Twiluzembe).
 - Safety regulations for visitors are not introduced.



<Worker without wearing proper PPE>¹³

¹² Service d' accompagnement et d' encadrement du Small-scale mining, a service of DRC Ministry of mines

¹³ Photos are deliberately rearranged as blurred photo to avoid any privacy interference. Original photos can be shown to LG Chem. when necessary



<Some workers without proper PPE>¹⁴



< Wastes such as empty bottles, waste sacks are not properly collected >

Tracking system (Traceability):

Before delivery of cobalt from ASM sites, mandatory governmental documents and delivery note should be issued and checked. The mandatory governmental documents (also refer to the photo 1 below) include CEEC certificate, Permission letter, Transportation permission letter, Local tax certificate, Original of minerals, Division of Mine fact sheet and SAEMAPE permission letter. The mandatory government documents include information on the date of production, product, quantity, mine information and truck information.

The delivery note (also refer to the photo 2) includes information of product delivered, ASM name, trader name, date of trucking, seal numbers (depends on the size of trucks and 5 to 16 seals are made on each strap on the trucks), driver name, truck plate numbers (both front and back numbers) to prevent potential mixing or contamination with other unidentified cobalt during trucking. Delivery note includes confirmation signatures by SAEMAPE/Cooperative, expeditor and CDM.

¹⁴ Photos are deliberately rearranged as blurred photo to avoid any privacy interference. Original photos can be shown to LG Chem. when necessary

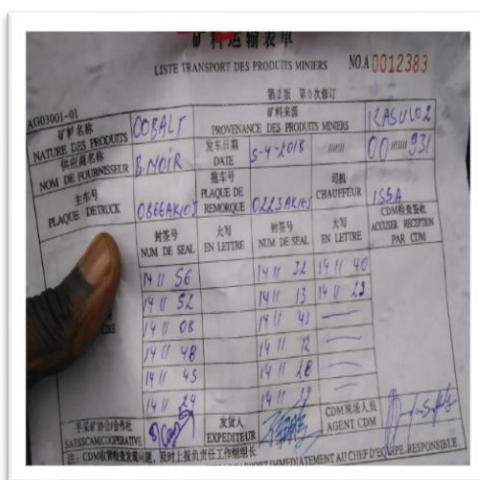
Upon arrival at CDM, the status of seals is checked whether seals are damaged and seal numbers are changed during transportation and integrity of documents (original copies of mandatory government documents and delivery note) are checked before unloading cobalt at CDM. A manager stated that the documents were retained at CDM for 25 years.

Once document verification is complete, measurements of truck weight with cobalt load and without cobalt load are made. The difference becomes the net weight of cobalt load delivered. Net weight of cobalt is recorded on the raw material receiving list in which date of receiving, origin of cobalt, weighing information and net weight. The recent material receiving list shows that origins of cobalt match with current supply chain map.

The cobalt in conveyor is moved to the next process to final products. Production volume is monitored. Products from CDM are shipped to Huayou in China.



<Photo 1, Mandatory Delivery Documents>



<Photo 2: Delivery Note including destination, truck, seal information and confirmation signatures>



<Verification of truck numbers (front and back) with delivery note>



<Verification of seals at ASM sites>



<Verification of seals at CDM>

Remark for this audit: Most part of the audit at ASM sites were covered by interview with managers and workers and site walk-through inspection because the audit team could only stay at site for very limited time and documented evidences (e.g. training record, safety risk assessment, environmental assessment, updated workers' registry etc.) are not available at the site. It is stated that most of documents are kept at the office located in the city area. It is recommended to maintain documented evidences on site as possible or arrange the additional visit to the place where documented evidences can be verified.

4 AUDITOR NOTE

“Still high risks sourcing from open market “

The auditor visited so called “Open Market” located in Musompo, Kolwezi, DRC where cobalt from open sources are gathered, and traded. Auditor is intended to check to whom cobalt are sold.

It is not difficult to observe someone who looks under aged carrying cobalt sack in the open market. Initially the audit team tried to further collect the objective evidence including interview with the child or persons in the open market, however the auditor decided not to do and leave the area due to the security issue.



<Photos taken at Musompo areas¹⁵>

Even though, CDM suspended sourcing from open market since the 2nd quarter of 2017, there are still high risks of child labor mainly hand-picking cobalt or carrying cobalt to open markets, continuous due diligence and monitoring shall be implemented by CDM to prevent cobalt from uncontrolled source.

¹⁵ Photos are deliberately rearranged as blurred photo to avoid any privacy interference. Original photos can be shown to LG Chem. when necessary

5 CONCLUSIONS

Public report (“Finding on the worst forms of child labor” issued by United States Department of Labor)¹⁶ states that children in the DRC including Katanga province are continuously engaged in the worst form of child labor. Also, there are high concerns in the market, media or interested parties on child labor engagement in the supply chains in the country.

Based on the audit undertaken for 3 days, CDM’s due diligence system for sustainable sourcing, including publicly open policies, due diligence management program, records for internal & external, and its risk mitigation plan on management of supplier chains is established and implemented to a somewhat extent.

However, high risks of child labor still exist in the country, provincial and community level. There are still rooms for improvements on the existing due diligence system of CDM and control of ASMs including findings addressed in this report, especially on environmental and health & safe working conditions.

Continuous improvement including reinforced monitoring through announced and unannounced visits and strong corrective actions against any deficiencies found during operation of due diligence program is highly encouraged to ensure and achieve that CDM sources cobalt from child labor free suppliers.

¹⁶ <https://www.dol.gov/agencies/ilab/resources/reports/child-labor/congo-democratic-republic>

6 APPENDIX

6.1 Persons attended during audit

| Name | Title | Organization |
|--------------------------|-------------------------------|---|
| Mr. Bryce Lee | Director of CSR | CSR Department Zhejiang Huayou Cobalt Company Limited. |
| Mr. Harry Chan | Deputy Chief of CSR office | CSR Department Zhejiang Huayou Cobalt Company Limited. |
| Mr. Long Yu | - | Congo Dongfang International Mining sarl. |
| Mr. Luc Lenge | Program Manager | PACT Inc. |
| Mr. Terry Lee (observer) | Professional | CSR Team, Corporate Affairs Department LG Chem. |

6.2 Documents/Records reviewed

- 1) Zhejiang Huayou Cobalt Co., Ltd. Due Diligence Policy for a Responsible Global Supply Chain of Cobalt
- 2) Suppliers' Code of Conduct of Zhejiang Huayou Cobalt Co., Ltd.
- 3) Zhejiang Huayou Cobalt Co., Ltd. Supplier Standard for Responsible Sourcing of Cobalt
- 4) Zhejiang Huayou Cobalt Co., Ltd. Due Diligence Program for Responsible Supply Chain
- 5) Notification letter to suppliers (May 2017)
- 6) External Risk Report 2016 for Zhejiang Huayou Cobalt Co., Ltd.
- 7) External Supply Chain Mapping Report 2016 for Zhejiang Huayou Cobalt Co., Ltd.
- 8) External Evaluation Report 2017 for 3 ASMs (Kasulo, Twiluzembe, Shabara)
- 9) External Evaluation Report for Kasulo site (Dec. 2017)
- 10) 2nd Party Assessment for Responsible ASM Supply Chain in DRC (May 2017)
- 11) Summary report of 2nd Party Assessment for Responsible ASM Supply Chain in DRC (May 2017)
- 12) Government letter from DRC National Ministry of Mines
- 13) CSR Reports 2016
- 14) Mandatory transportation documents, including tax certificates.
- 15) Transportation document, including truck, seal, cobalt information.
- 16) Material receiving list at CDM



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