

# Due Diligence Practices of Responsible Cobalt Supply Chain & DRC's Community Intervention

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Create value for customers, contribute to the development of new energy lithium battery materials industry.

Stock Code: 603799  
[www.Huayou.com](http://www.Huayou.com)

## □ Global Cobalt Demand increase

Laptops / Smartphones / Electric and Hybrid cars

## □ Global cobalt supply chain challenges

Amnesty International published a report in Jan 2016 about human rights risks in cobalt **Artisanal & Small-scale Mining (ASM)** sector in former Katanga region of the Democratic Republic of Congo (DRC)

## □ Todo of cobalt industry

Responsible cobalt supply chain



**“THIS IS WHAT WE DIE FOR”**

HUMAN RIGHTS ABUSES IN THE DEMOCRATIC REPUBLIC  
OF THE CONGO POWER THE GLOBAL TRADE IN COBALT



□ **Upholds development concepts as Innovation, Coordination, Openness and Green.**

Therefore, we attach great importance to governance of internal corporate social responsibility and sustainable development.

□ **Actively take CSR in the countries we invested, thus investment is welcomed.**

- Taxes and Employment
- EHS Focus
- Free medical care.
- Infrastructure construction
- Local charities.

However, after the worldwide focus on human right in ASM supply chain, Huayou suddenly realized that we cannot just focus on the governance of internal CSR, but also need to engage actively in the due diligence management of entire supply chain.

# How to establish

## Global responsible cobalt supply chain?



Responsible Cobalt Initiative

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- A global organization - **Responsible Cobalt Initiative, RCI** for short.
- It is an alliance sponsored and set up jointly and voluntarily by upstream and downstream enterprises along the global cobalt chain and other related organizations and non-governmental organizations.
- The RCI aims to identify and respond to the social and environmental risks along the supply chain in a systematic way. A systemic approach will be used to mitigate the negative impacts and enhance the livelihood in the affected communities, to construct an inclusive, sustainable and responsible system for the cobalt supply chain.
- As one of the founder member of RCI, the due diligence program of Huayou Cobalt is the **pilot program of RCI**.



□ UN Guiding Principles on Business and Human Rights

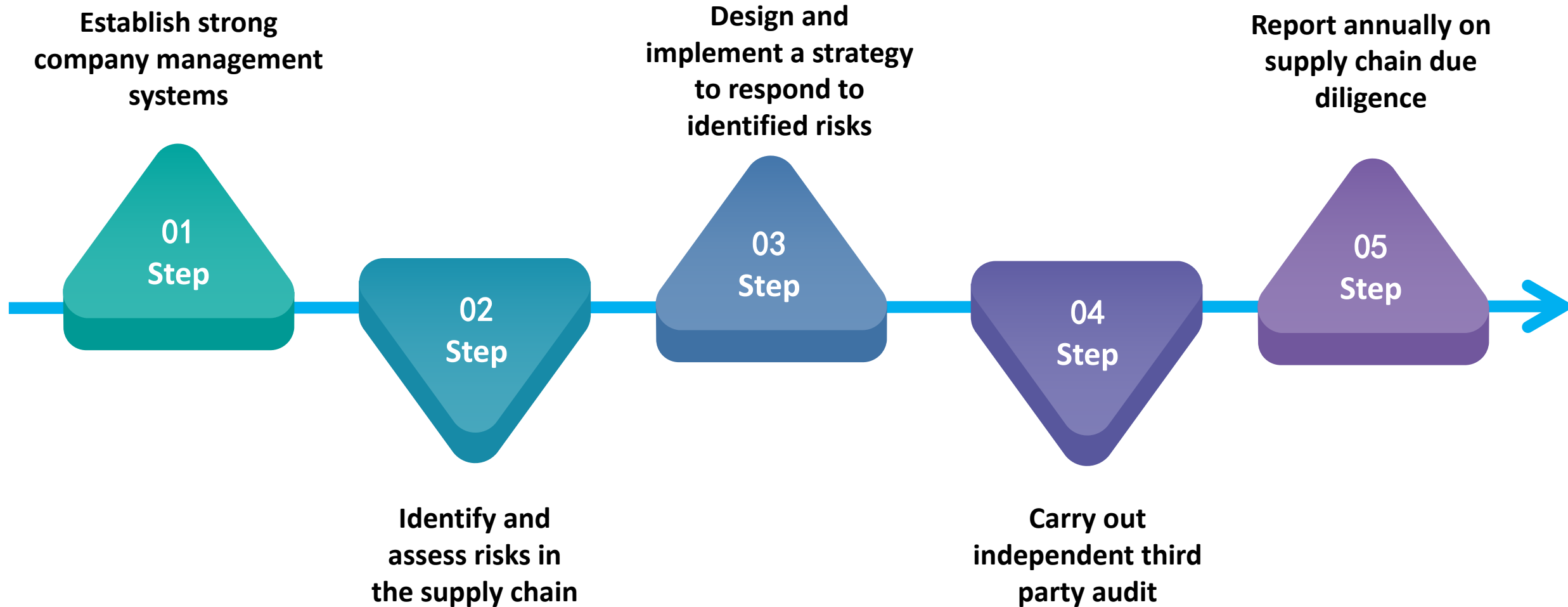


□ Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas



□ Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains

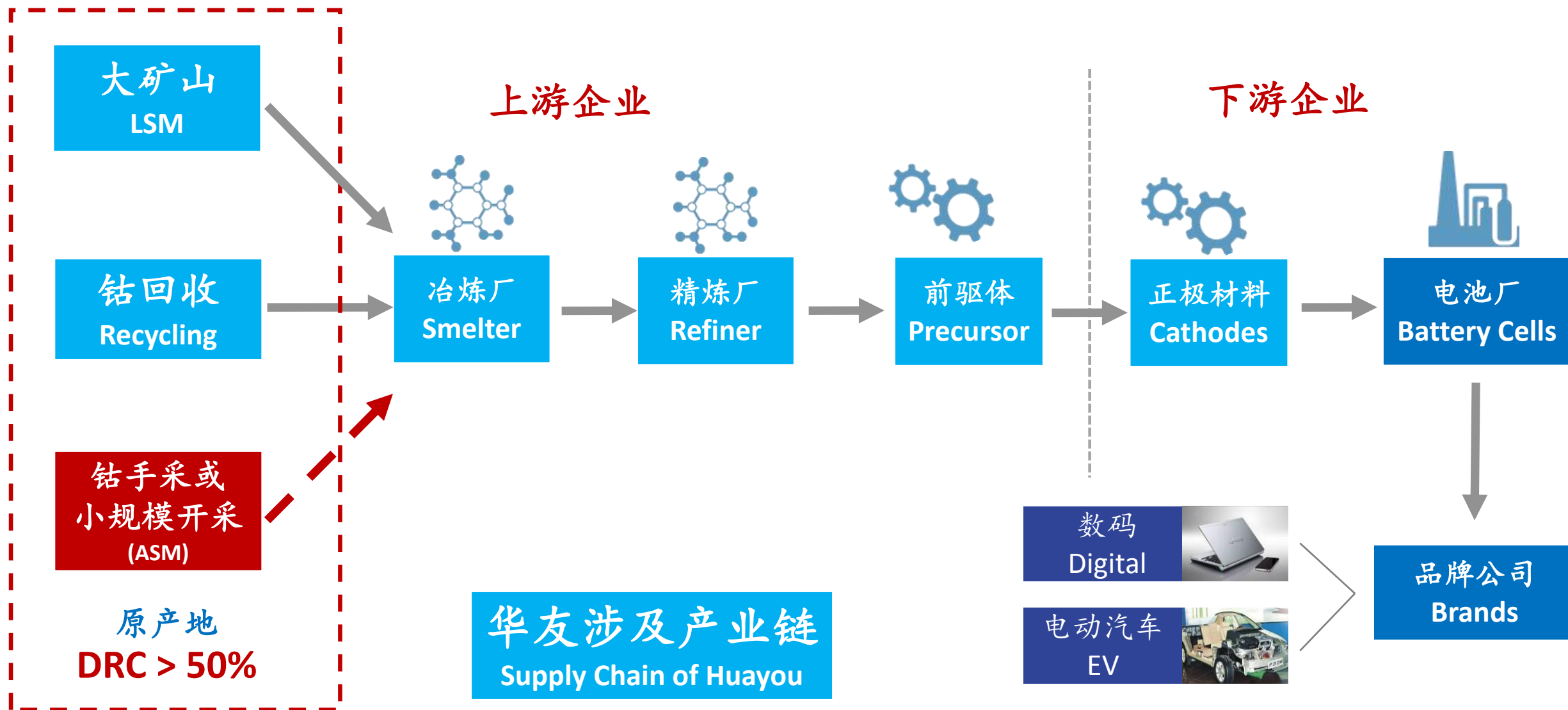




# Pilot program of RCI

Huayou's Due Diligence program introduction





## Huayou's due diligence timeline

April 2016 - August 2017 (18 months)

OECD & CCCMC Due diligence Five - Step framework	Planned	Completion
<b>Step 1:</b> Establish strong company management systems	April, 2016	April, 2016
<b>Step 2:</b> Identify and assess risks in the supply chain	September, 2016	September, 2016
<b>Step 3:</b> Design and implement a strategy to respond to identified risks	<b>March, 2017</b>	<b>April, 2017</b>
<b>Step 4:</b> Carry out independent third party audit	Q2, 2017	July, 2017
<b>Step 5:</b> Report annually on supply chain due diligence	Q3, 2017	August, 2017

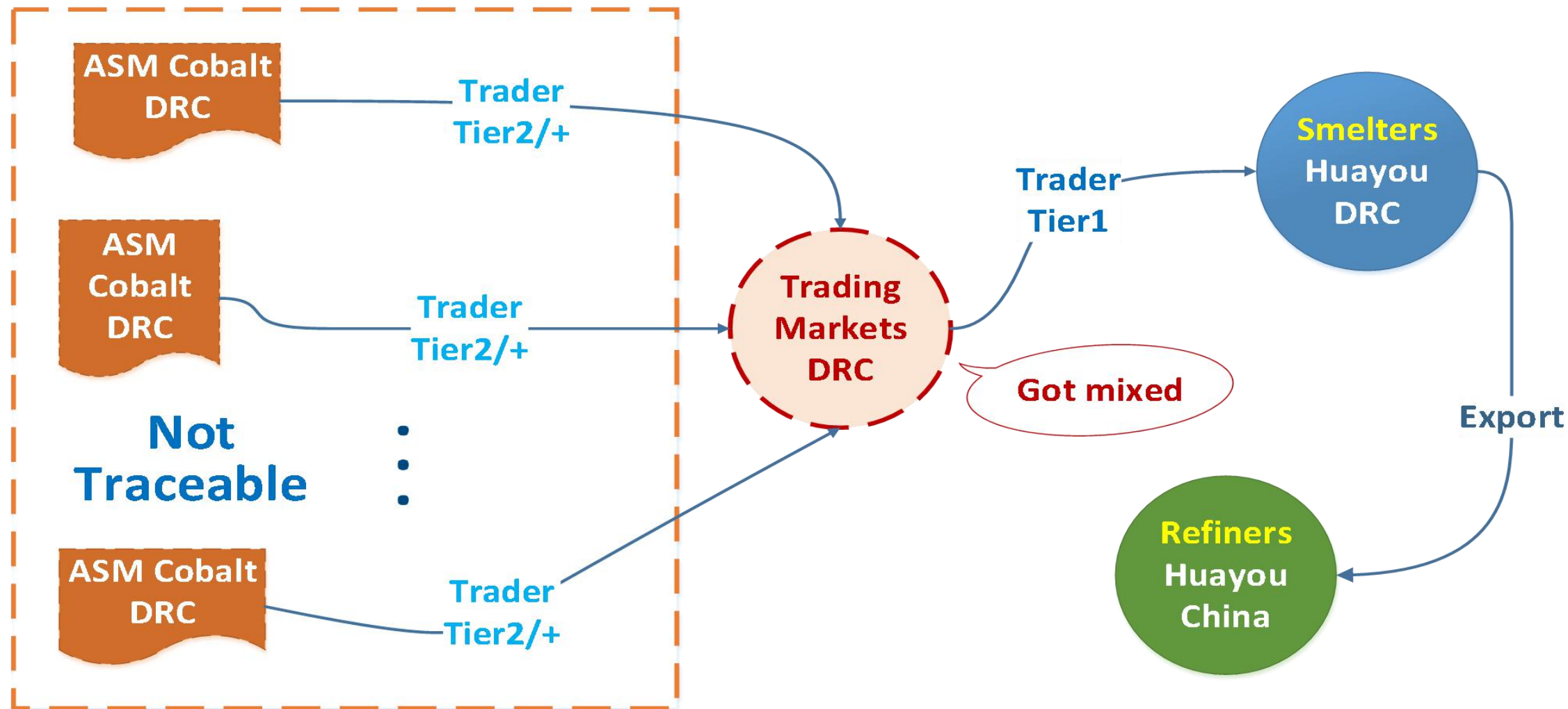
## Learning from Due Diligence Practices

- ❑ Supply chain risks in cobalt and conflict minerals have **essential differences**.
- ❑ Therefore, after identifying risks, cobalt supply chain **can not simply cut off** supply relations, but should take measures to mitigate risks.
- ❑ Enterprises should not only pay attention to the risk mitigation of cobalt supply chain, but also take remediation measures to the affected community through joint action, which can be regarded as the **sixth step** of Due Diligence.
- ❑ Responsible cobalt supply chain construction needs the whole society stakeholders to have **collaborative actions**.

# How do we formalize

## Huayou's ASM cobalt supply chain in DRC?

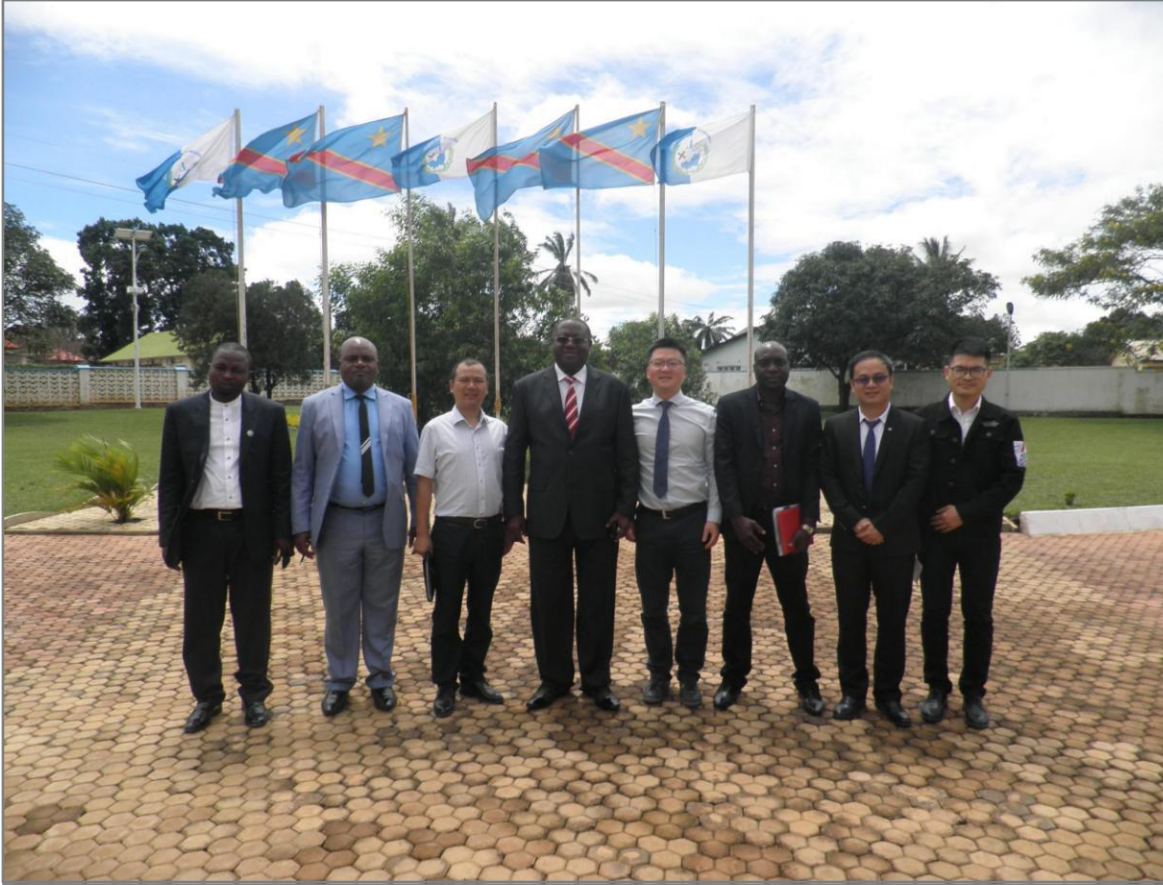
## Typical ASM supply chain



## Measures

- **Formalization** and improvement the ASM sector in DRC.
- Hard to control human right risks in the traditional ASM supply chain. We must **change the business model**.
- **Suspending** sourcing ASM from Free trading markets
- Establish **model mines** from the origin to control human right risks.
- **Tracking system** between model mine and treatment factories.





- Supported by local government and supply chain stakeholders, we have developed a **Responsible ASM Sourcing Management System** with a third party.



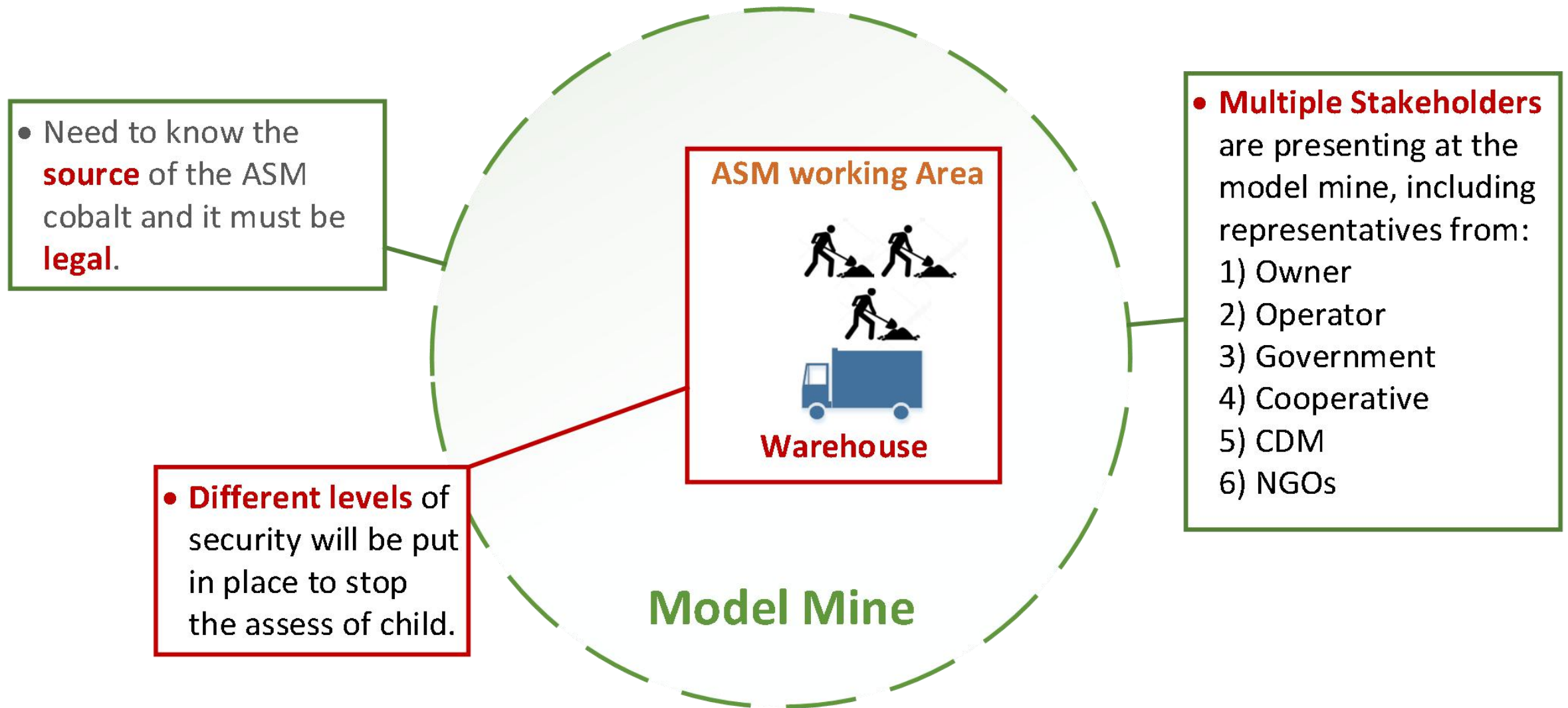


## The system formalize the ASM supply chain by below criteria:

- ❑ Know Source (Legality)
- ❑ Control risks (Child Labor)
- ❑ Track system (Origin to treatment)



NGO - **Pact** is CDM' partner in developing a responsible ASM sourcing mgmt system in DRC.

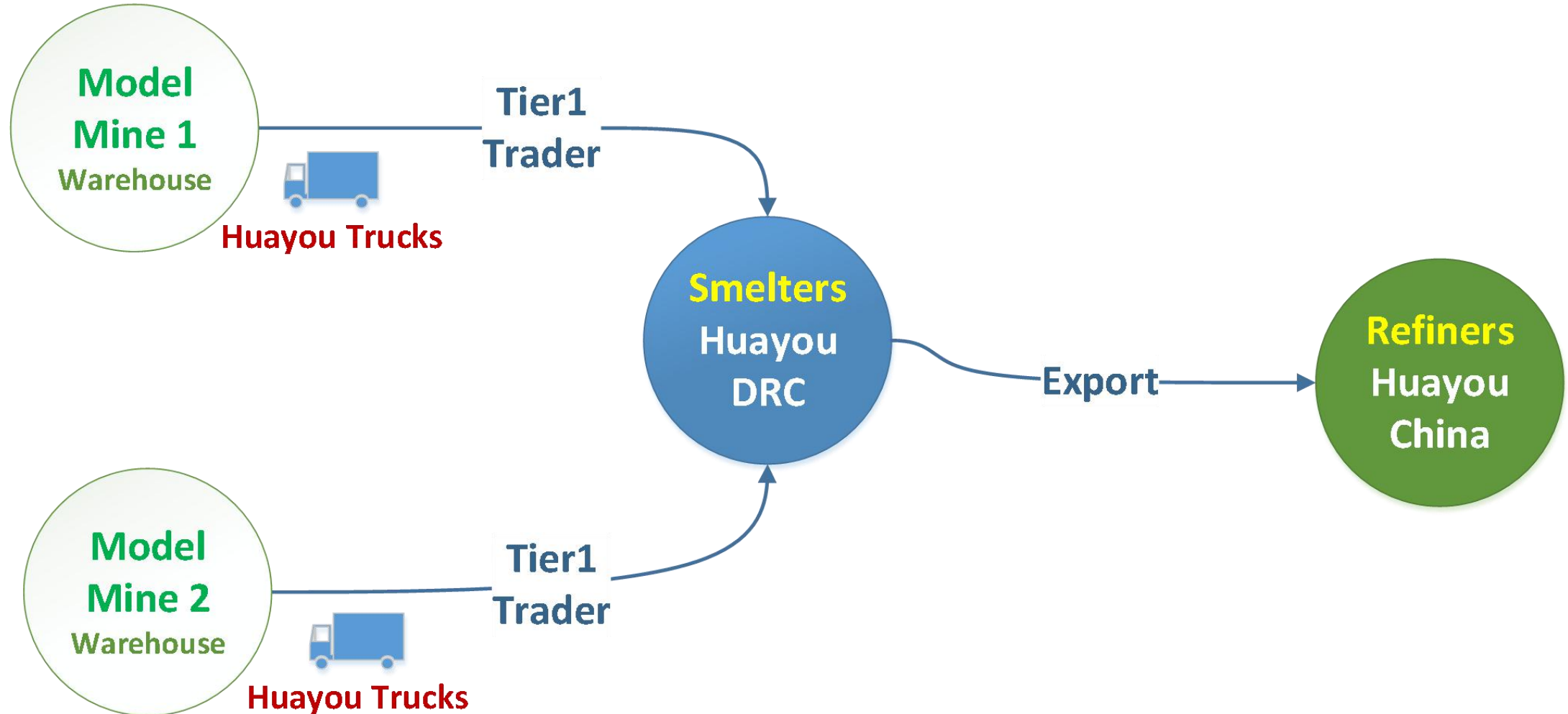


## How it looks like at Responsible ASM mines (Model Mines)





## Responsible ASM supply chain



## Notes:

- Identifying ASM in the supply chain **IS** acceptable, while irresponsibly sourced ASM is **NOT**.
- Supply chain due diligence is an **ongoing process**. Currently Due diligence of Huayou gives priority to child labor risks in its supply chain, but it will keep improving to add more controls on other risks like EHS in the supply chain.
- Due diligence does **NOT** solve the root causes of child labor, which is a social problem. It requires collaborative actions by DRC government, industry and other stakeholders in the supply chain to improve affected communities by more projects on the ground.

# Community intervention

Huayou's community intervention projects

## □ Associated Monitoring Group

Huayou proposed and assisted the Provincial Government to setup a **Associated Monitoring Group** with multiple stakeholders.

The group implements mining communities awareness raising, as well as monitoring checks on ASM mining areas and free-market places, including the model mines developed by Huayou on a regular basis.





## □ Rescue children from mining

Huayou cooperates with Good Shepherd of its child labor rescue project in DRC by annual funding and supporting. The program will help around **800-1000 children** this year.

## □ Newly-built school building

Huayou donated a new school building in the Kimbanguiste School in Kasulo area. 6 grand new classrooms for about **300 students** and was ready to use in September 2017.



## □ Agriculture Project

Huayou has built **Agriculture project** in DRC. By the construction of a modern agriculture demonstration farm, the project imports Chinese farming technology to DRC together with well-known universities from China and DRC.

In April 2016, Huayou's agriculture project was enrolled by **Food and Agriculture Organization of the United Nations (FAO)** as one of its Chinese demonstration projects to Africa.





## Audit of responsible cobalt supply chain

- ❑ In Q2 2017, the **responsible ASM supply chain** of Huayou was audited by an independent second party.
- ❑ And soon, **due diligence management system of responsible supply chain** of Huayou was audited by an third party.



On 9 August, 2017 - Changsha, China.

At the *Workshop on Cobalt Supply Chain Due Diligence & Achievement Report Meeting of Responsible Cobalt Initiative (RCI)'s Pilot Program*, **RCI** announced the pilot due diligence program of Huayou Cobalt to the whole world.



## Conclusion:

- RCI's Pilot program - Huayou's Due diligence practice shows: Due diligence of cobalt supply chain is **possible**. Don't wait until the perfect solution to **do actions** on the ground.
- Joining RCI, the whole industry including upstream and downstream companies should **work together** to achieve the construction of global responsible supply chain.
- We also strongly oppose and resist any form of false reports which are under the guise of human right, and this kind of malicious distortion the facts in cobalt supply chain can only aggravate the problem.





## By this opportunity, we would like to appeal to :

- ❑ all stakeholders should take the issue of human rights abuses in cobalt supply chain seriously.
- ❑ all cobalt companies to start the process of due diligence of responsible sourcing so that we can help to ensure a more just and sustainable future for all. Thus to do contribution to the development of the socioeconomic development of DRC.





**Thank you for your attention!**

**Q & A**

**November 27, 2017**