

Contemporary Amperex Technology Co., Limited

Risk Management

Good corporate governance is an important cornerstone for achieving stable and healthy development of Contemporary Amperex Technology Co., Limited (“CATL” or the “Company”). CATL attaches great importance to the effective operation of corporate risk management and internal control systems, and comprehensively and continuously explores a risk management mechanism in accordance with its own business objectives, so as to promote the high-quality development of the Company.

Risk governance structure and risk culture

As the supreme governance body of the Company, the Board of Directors is the ultimate decision-maker in setting the Company’s risk management overall objectives and risk tolerance level, and is responsible for effective supervision over the implementation of the Company’s risk management and internal control system. The Board is also ultimately responsible for the effectiveness of the above actions.

CATL has established a risk governance structure – “Three Lines of Defence” to continuously improve the effectiveness of risk management and clarify the risk management responsibilities of each department in the Company. CATL has set up an Internal Audit Department to operate under the guidance and supervision of the Audit Committee of the Board of Directors, which is responsible for inspecting and supervising the establishment and implementation of the Company’s internal control system and the authenticity and completeness of the Company’s financial information, reporting to the Audit Committee of the Board of Directors in time on risks or significant control deficiencies identified in the audit, and continuously monitoring these issues. The functional departments of risk management, such as the Comprehensive Management Department and the Legal and Compliance Department, are responsible for assisting the Board of Directors in managing the Company’s risks, regularly reviewing the implementation of risk tracking and reporting to the management. The Company’s business departments are responsible for managing risks in their daily operations.

- First line of defence: Management personnel of business departments is the risk owner. They are responsible for identifying key risks within the business scope, reporting changes on risks in time, and reasonably assessing and controlling relevant risks.
- Second line of defence: CATL has assigned the role of risk manager in the senior management and established a Senior Committee to develop risk management standards and monitor and guide the implementation of risk management standards at the first line of defence.

- Third line of defence: The Company’s internal audit department is responsible for providing independent and objective audits and reviews on the effectiveness of significant risk management and internal control, and directly reports to the Board of Directors to ensure the objectivity, authority and credibility of internal audit results.



CATL Risk Governance Structure

CATL is committed to integrating the culture construction of risk management into the Company’s development strategy, continuously improving the risk management awareness of all employees, and implementing the culture construction of risk management in multiple dimensions, laying a cornerstone for the Company’s long-term and steady development.

CATL has established a comprehensive risk management training system, and conducted risk management specialized training for all employees to continuously improve employees’ awareness of risk management and control. The Company has released a specialized training course on “Risk Management and Internal Control” for current employees to guide employees to integrate the awareness of risk management in daily work, and encourage them to share practical experience and insights.

Risk assessment is an important part of the CATL’s production processes. For example, at the product testing phase, the Company conducts a risk assessment on products and ensures that they pass the internal compliance testing.

In terms of crisis management, the Company continues to comprehensively update the risk management plan, formulate a crisis management system and establish a closed-loop management mechanism. The Company manages crisis events on a tiered and categorised basis and defines relevant response standards to ensure the orderly implementation of emergency response, decision-making, handling, post-incident rectification and optimisation. In this way, the Company can control the deterioration of crisis events and make every effort to reduce the significant damage or negative impact caused by crisis events.

CATL has included the effectiveness of risk management in the evaluation indicator system of the business units and established specialized incentives. Employees who provide constructive risk management advice on risks identified by the Company are also eligible for bonus incentives. The Company urges all employees to report risk events through multiple channels, including communicating with the risk management functional departments and providing feedback to the heads of their respective departments. This initiative aims to foster comprehensive involvement in enterprise risk management and jointly establish a robust internal control environment.

Risk management process

Guided by the COSO *Enterprise Risk Management Framework*, CATL has developed a risk management framework and policies that are aligned with its own risk appetite and actual business conditions. The Company categorises risks into traditional and emerging types based on their different characteristics and scope of influence. Emerging risks are defined and classified in accordance with the *Global Risk Report*, an annual publication of the World Economic Forum.

General risk management procedures

The Company conducts comprehensive closed-loop risk management according to a step-by-step process of risk identification, assessment, response and monitoring. The Company also regularly reassesses risks and reviews risk response strategies to promote sustainable development.

- Risk identification: Business units and functional teams collect risk information from internal and external sources on a regular or irregular basis, perform preliminary risk identification, and occasionally perform risk identification based on the actual business conditions. Taking into account the needs of business units and functional teams, the Legal and Compliance Department provides methodological guidance and professional consulting support on risk management;
- Risk assessment: Business units and functional teams analyse and assess the identified risks on multiple dimensions, including likelihood of occurrence and magnitude of impact. They assess the residual risk based on the inherent risk, taking into account existing controls or other risk management measures, and determine whether it is within the acceptable threshold for risk managers;
- Risk response: Business units and functional teams develop and implement response plans based on the relevant risk management procedures for the significant risks assessed;
- Risk monitoring: The Audit Department monitors and assesses, at least annually, the ability of the relevant departments and business units, including the risk management functional departments, to implement risk management in accordance with the relevant regulations and its effectiveness. Monitoring and assessment reports are submitted directly to the Audit Committee of the Board of Directors to drive the continuous improvement of the risk management system.

Emerging risk management procedures

Emerging risk management procedures follow the basic risk management procedures. If the risks identified during the risk identification process are considered emerging risks, the business units or functional departments must synchronise the risk information with the Legal and Compliance Department, which maintains the emerging risk database in a consistent manner.

Business units or functional departments, the Legal and Compliance Department and other relevant teams form an emerging risk management team. The team assesses risk exposure by considering the business characteristics of the Company in specific risk scenarios, using targeted techniques such as scenario analysis and stress testing, and adaptively manages risk accordingly.

Key Risk Identification List

Category	Risk Topic	Risk Category	Risk Description and Potential Influence	CATL Response Measures
Traditional Risk	Personal information security risk	Operational	<p>With the development of society and technology, the risk of personal information security protection is increasing. Regulators in various countries and regions continually strengthen the supervision on personal information protection. Companies are facing significant challenges such as promoting employees' security awareness, responding to compliance requirements and defending of cyberattack threats.</p> <p>Failure to establish an effective mechanism to protect personal information security may lead to unauthorized breach of sensitive data, resulting in improper acquisition and misuse of personal information. This will negatively affect our employees and cooperative partners, and raise reputation risk to the company.</p>	<ul style="list-style-type: none"> Developed personal information protection policies and risk assessment procedures; Established a professional team responsible for protecting and managing personal information, and regularly reviewing the effectiveness of the personal information protection mechanism; Carried out company-wide compliance training on personal information protection to improve employees' awareness.
	Employee working overseas risk	Operational	<p>As the company's business expands globally, employees have more chances to work overseas. The company pays close attention to ensuring employees acquire the necessary knowledge and skills ahead of their overseas business trip or relocation. Enabling employees' personal development and ensuring their safety while working overseas are crucial to the company.</p> <p>If the company fails to provide necessary guidance and training to employees, and to establish mechanisms to protect employees from incidents while working overseas, the company's overseas business may be negatively affected.</p>	<ul style="list-style-type: none"> Formulated management policies and procedures, and established risk management mechanisms for employees' overseas business trips and expatriate assignments; Provided cross-cultural communication training, overseas safety guidance, and procedures to help employees acquire necessary knowledge and skills before working overseas, which can reduce cultural conflicts, promote cross-cultural cooperation and ensure safe travel; Set up an overseas travel emergency response team to ensure employees to obtain timely support during overseas travel and expatriate assignments; Provided overseas travel insurance for employees and ensured they understand how to obtain relevant assistance.

Category	Risk Topic	Risk Category	Risk Description and Potential Influence	CATL Response Measures
Emerging Risk	Disruption of a systemically important supply chain risk	Economic	<p>The unstable economic and political environment in the world's major markets has led to the restructuring of the global industrial supply chain, bringing new challenges and opportunities to the enterprise.</p> <p>If CATL fails to timely respond to challenges such as unstable global market and political environment, adjust its supply chain strategy agilely, and improve its supply chain management capability in a timely manner, the company could face obstruction or interruption of the supply chain.</p> <p>Meanwhile, the risk also brings new opportunities to the company. Under various difficulties and challenges, if the company can improve its agility and resilience by enhancing capabilities in supply chain management, it would deliver confidence to our partners and customers. Moreover, the company will be able to improve its reputation and market competitiveness and achieve sustainable development.</p>	<ul style="list-style-type: none"> Strengthened cooperation by establishing strategic relationships, signing framework agreements, and enhancing communication with suppliers and partners; Explored diversified cooperation models of the supply chain to enhance resilience; Established a risk management mechanism for the supply chain to dynamically monitor risks; Monitored and evaluated regulatory policy changes to understand the influence in markets and responsively adjust strategies.
	Integration of sustainability into production and operation risk	Environmental	<p>With the widespread recognition of the sustainable development concept, the public's expectation for enterprises' sustainable operation and production in various countries and regions is increasing. Therefore, whether the company could integrate sustainability into operation and production to meet the stakeholders' expectations is a significant challenge.</p> <p>If CATL fails to establish a sustainable management mechanism to upgrade its production and operation to be carbon and environmentally friendly, the company's products could be fail to meet customer needs. Risks such as reputational damage may arise.</p> <p>On the other hand, if CATL can seize the opportunity to integrate sustainable management into its production and operation, and bring reliable green products to customers, the company would continue to gain market recognition, which helps in building long-term competitiveness.</p>	<ul style="list-style-type: none"> Established a sustainable development management mechanism, published the "Zero Carbon Strategy", developed the "CATL Carbon Chain Management System" digital platform, and promoted carbon reduction in the company's production, operation and value chain; Integrated sustainability into product quality management, including established green production indicators, developed mechanisms such as self-assessment of prohibited substances, and provided consulting service to business departments on sustainable matters; Raised clear sustainability requirements to suppliers, signed sustainability agreements, and actively provided training for suppliers.

CATL's Key Risk Identification List for 2024

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