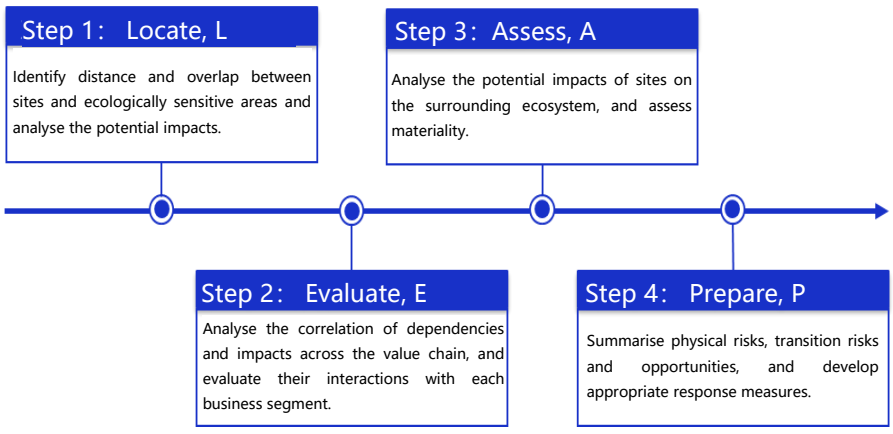
Contemporary Amperex Technology Co., Limited Biodiversity Risk and Opportunity Assessment Report

Introduction

Contemporary Amperex Technology Co., Limited (hereinafter referred to as "CATL" or "we") has fully acknowledged that biodiversity conservation is not just about respecting the equal rights to the natural environment and its resources but also the only way for sustainable transformation. We have assessed the impacts of our own operations and the entire value chain on biodiversity, and formulated response measures for the identified risks and opportunities.

Biodiversity Approach

We have adopted the four-step approach recommended by the Taskforce on Nature-related Financial Disclosures (TNFD) - Locate, Evaluate, Assess, and Prepare (LEAP) - to thoroughly assess biodiversity risks and opportunities across the entire value chain of the battery industry. This approach involves identifying dependencies and impacts across the value chain, evaluating the transmission mode of the impact of these factors on each segment in the value chain, summarising potential risks and opportunities that each business segment may face, and integrating biodiversity protection strategies such as avoidance, mitigation, regeneration, and restoration into our response measures.



Ecologically Sensitive Area Identification

We have applied the Integrated Biodiversity Assessment Tool (IBAT) to identify the ecological sensitivity of all our sites and those of our key upstream and downstream partners. Moving forward, we will prioritise monitoring the impact of six highly ecologically sensitive sites on the surrounding ecosystem and implement effective risk prevention measures.

Table 1 IBAT Identification Results of Ecologically Sensitive Areas

Indicators	Value
Total number of sites under assessment (including our sites and those of our key upstream/downstream partners)	54
Number of sites with protected areas within a radius of 10 km	2
Number of sites with key biodiversity areas within a radius of 10 km	4
Number of sites with a weighted quantity of threatened species greater than 50 within a radius of 50 km	0

Materiality Evaluation for Dependencies and Impacts

We have employed the ENCORE (Explore Natural Capital Opportunities, Risks, and Exposures) tool to identify dependency and impact factors across the value chain. Based on the materiality evaluation results, we will prioritise those factors with a Very High (VH) materiality rating and analyse how these factors might be affecting our business operations and vice versa.

Table 2 Materiality Evaluation Results for Dependencies in Battery Production Value Chain

S/N	Dependencies	Mining and quarrying	Manufacture of chemicals and chemical products	Manufacture of batteries and accumulators	Manufacture of motor vehicles	Waste management and remediation activities - Materials recovery
1	Biomass provisioning	VL	NA	NA	NA	NA
2	Solid waste remediation	L	M	L	L	M
3	Soil and sediment retention	M	M	L	M	VL
4	Water purification	VH	M	M	M	NA
5	Other regulating and maintenance service - Dilution by atmosphere and ecosystems	M	L	L	L	VL
6	Biological control	NA	NA	NA	NA	VL

7	Air filtration	VL	VL	VL	VL	M
8	Flood control	H	M	M	M	VL
9	Global climate regulation	H	VL	VL	VL	VL
10	Water supply	H	M	M	L	M
11	Noise attenuation	VL	VL	VL	VL	VL
12	Other regulating and maintenance service - Mediation of sensory impacts (other than noise)	L	VL	VL	VL	VL
13	Local (micro and meso) climate regulation	L	L	L	L	NA
14	Storm mitigation	M	M	M	M	VL
15	Water flow regulation	H	M	M	M	L
16	Rainfall pattern regulation	VH	M	M	VL	M

*Materiality rating: VH - Very High; H - High; M - Medium; L - Low; VL - Very Low; NA - Not Applicable

Table 3 Materiality Evaluation Results for Impacts in Battery Value Chain

S/N	Impacts	Mining and quarrying	Manufacture of chemicals and chemical products	Manufacture of batteries and accumulators	Manufacture of motor vehicles	Waste management and remediation activities - Materials recovery
1	Disturbances (e.g. noise, light)	M	M	M	M	M
2	Area of freshwater use	VH	NA	NA	NA	NA
3	Emissions of GHG	M	M	VL	VL	M
4	Area of seabed use	L	NA	NA	NA	NA
5	Emissions of non-GHG air pollutants	M	M	L	L	M
6	Other abiotic resource extraction	M	NA	NA	NA	NA
7	Emissions of toxic pollutants to water and soil	VH	VH	H	M	M
8	Generation and release of solid waste	H	M	L	L	M
9	Area of land use	M	L	L	L	M
10	Volume of water use	M	H	L	L	M
11	Introduction of invasive species	L	NA	NA	NA	M

*Materiality rating: VH - Very High; H - High; M - Medium; L - Low; VL - Very Low; NA - Not Applicable

- **Impact of water purification:** When water purification services degrade or the service capacity is insufficient, enterprises across the value chain will invest in water saving or water purification equipment to obtain water resources that meet the requirements of production water quality, which will increase their operating costs. If upstream enterprises transfer operating costs to downstream ones, the cost of raw materials for battery manufacturing will increase. Upstream mining and quarrying are highly

dependent on water purification services, and when the services degrade, it is more likely to cause production activities like the downstream battery manufacturing to be interrupted by the limited access to raw materials.

- **Impact of rainfall pattern regulation:** On the one hand, the increase in precipitation may cause flood and damage to production equipment, resulting in asset impairment. And upgrading or repairing production equipment, or investing in flood control equipment, can increase operating costs. On the other hand, the reduction of precipitation may lead to drought and water scarcity, and enterprises across the value chain will have to invest in water saving or recycling equipment to obtain sufficient water resources, which will also increase their operating costs. If upstream enterprises transfer operating costs to downstream ones, the cost of raw materials for battery manufacturing will increase. Mining and quarrying industries are highly dependent on rainfall pattern regulation, and when severe drought or water scarcity occurs, it is more likely to cause production activities like the downstream battery manufacturing to be interrupted by the limited access to raw materials.

- **Impact of production and operation on area of freshwater use:** Freshwater is the foundation for nature to provide a range of ecosystem services. To make freshwater stored and transported in rivers and lakes more accessible for production and life, infrastructure such as bridges, dams and flood control facilities are often needed, which are expected to affect the hydrological cycle, freshwater topography and natural flow of rivers, resulting in changes in regional freshwater reserves or freshwater use areas, and adversely affecting the living conditions of other species in the surrounding ecosystem. There are two main mechanisms through which production activities in the mining and quarrying links result in changes in area of freshwater use and thus affect ecosystem components. The direct impact is the excessive exploitation of freshwater resources through reservoirs and other water conservancy facilities, which may alter hydrological flows in downstream areas and thus increase

the risk of drought. The indirect impact is that the massive use of water in production breaks the balance of water resources, and the reduction of lake surface area affects temperature, evaporation rate and other climate conditions, resulting in shrinking population of birds, insects and aquatic organisms due to the loss of habitats. In addition, when freshwater ecosystems are used as dams, reservoirs or other water storage facilities, they may also affect the temperature, humidity, precipitation and other meteorological conditions in the surrounding area, leading to a series of adverse effects.

- **Impact of production and operation on emissions of toxic pollutants to and water soil:** Some production activities release toxic substances that directly harm organisms and the environment. For example, mining operations may release pollutants containing heavy metals and a variety of toxic chemicals, such as sulphuric acid, cyanide and mercury. Improperly handled waste generated from the manufacture of primary plastics may lead to chemical discharges that pollute soil and water with toxic substances. Heavy metals such as chromium, copper, zinc, arsenic, cadmium, nickel and lead may be emitted during the production of batteries and accumulators, which can enter soil and water through drainage systems. Automotive manufacturing can generate toxic waste, mainly from paint residues, used oils and absorbents, lead-acid batteries, and automotive chemicals such as antifreeze and refrigerants. And the mechanical processing, like fragmentation, or chemical conversion of recycled metal and non-metal waste may also discharge certain toxic pollutants to soil and water. There are three main mechanisms through which water and soil pollution due to production activities affects ecosystem components. First, the exposure of biological species to soil and water pollutants may affect their health and even cause long-term diseases through genetic mutations, thus affecting the species populations. Second, only for soil, on the one hand, contaminated soil may lose its original function. For example, agricultural land pollution leads to crop yield not up to expectations, necessitating more land development or

intensive land use, resulting in the loss of structural and biological integrity. On the other hand, soil pollution caused by deposition of sulphur and metals, for example, leads to the degradation of habitats and thus affects species populations. Third, the toxicity of pollutants may lead to a decrease in the abundance of invertebrate and fungal species, probably accompanied by invasive plants that can survive pollution or other stressful conditions and settle in polluted ecosystems, thus changing the original ecological structure and biological integrity.

Biodiversity Risk and Opportunity Assessment and Response Preparation

We have analysed and assessed the biodiversity-related risks and opportunities in the short, medium and long term in a targeted manner, and summarised potential business impacts based on TNFD recommendations. Responses are designed integrating biodiversity conservation strategies such as avoidance, mitigation, regeneration, and restoration, ensuring that biodiversity-related risks are effectively managed for the long-term stability of the business.

Table 4 Biodiversity Risk and Opportunity Assessment and Response Preparation

Risk/ Opportunity	Description	Timeframe	Potential Impacts on Business	Responses
Physical risks	**Acute risks**	Short-term	• Changes in rainfall patterns can lead to floods, landslides, or droughts, affecting the continuity of production. It will also cause damage to factory buildings and equipment, particularly in mining and quarrying operations and those near the sea. Additionally, it can trigger pollution leaks, posing hazards to water resources and the health and safety of employees.	• Flood risk prevention measures, such as seepage prevention, rainproof and anti-corrosion treatment, should be taken in the construction phase of the factory; • Developing the Environmental Emergency Plan, establishing an emergency team, conducting regular emergency drills, providing timely warning, and ensuring effective risk management; • Implementing measures to ensure the health and safety of employees; • Supplementing emergency water supplies.
	Chronic risks	Medium/Long-term	• The degradation of water purification services and the reduction of freshwater use areas may lead to inadequate water supplies or deterioration of surrounding soil and water quality, which may affect production continuity and potentially harm the health of employees.	• The company conducts comprehensive water risk analysis, improving the water risk assessment and tracking management system based on existing emergency plans and risk management, and further develops water risk mitigation and response measures; • Formulating water-saving goals, emergency plans for water supply interruptions and supply guarantee mechanisms, and implementing targeted water-saving measures in the production and operation process to enhance the effectiveness of water resources comprehensive management; • Increasing the consumption of recirculated water and reclaimed water; • Obtaining ISO 14001 certification of environmental management system.
Transition risks	**Policy/Liability risks**	Short-term	• The compliance matters in specific regional markets have been extended and increased, such as the application ratio of recycled materials and deforestation-free requirements. It still takes time to build up full capacity, which affects the market expansion progress and requires additional planning on resource investment strategies.	• Providing a team of experts at each site to monitor regulatory developments in different markets, communicating and collaborating with internal departments in a timely manner to discuss ways to build regulatory responses and technical capabilities; • Regularly organising internal specialized training on biodiversity management.

Risk/ Opportunity	Description	Timeframe	Potential Impacts on Business	Responses
Transition risks	**Market risks**	Medium/Long-term	• Consumers' awareness of the sustainability of products and services is on the rise, and regulators are also raising the bar for access to certain markets. As a result, downstream enterprises have higher sustainability requirements on upstream suppliers, resulting in increased raw material procurement costs and compliance management costs.	• Implementing supplier classification management, communicating with some suppliers on performance improvement and developing alternative suppliers as necessary; • Considering tapping into recycled material production and application technology, and actively engaging in innovative cooperation mode aligned to the circular economy with high-quality industry partners.
	Technology risks	Short-term	• In response to policy changes, it is difficult for the current technology planning to adapt quickly to the needs of technological upgrading and transformation, potentially leading to a slowdown in market expansion.	• Discussing with upstream suppliers the need to upgrade raw material standards, evaluating suppliers' preparation period to meet this need and formulating procurement plans to ensure stable supply of raw materials that comply with market and regulatory standards; • Evaluating the corresponding technology upgrading and transformation strategies taking into account the current situation of its own production process, and carrying out relevant technological renovation actions in an orderly manner.
	Reputational risks	Short-term	• Stakeholders such as communities, investors and customers are raising their expectations on companies' performance in biodiversity protection, and negative biodiversity management results affect a company's reputation, which in turn affects its financing and market capitalisation.	• Providing transparent disclosures through the official website, ESG reports, and ratings, and timely responding to stakeholders' concerns and demands on biodiversity conservation performance; • Actively communicating with stakeholders on biodiversity protection concepts and management results, and discussing the direction and methods for high-quality development within the industry.
Opportunity	**Business performance**: Market opportunities	Medium/Long-term	• Business customers and consumers are more likely to choose products and services that are in line with the concept of sustainable development.	• Communicating sustainability values and management results to partners and consumers through channels such as ESG reports and the website; • Integrating environment-friendly characteristics of products in all links such as battery production, sales and recycling.
	Business performance: Capital flow and financing opportunities	Medium/Long-term	• The capital market prefers more eco-friendly and resilient companies and provides them access to low-cost financing, or lowers the financing threshold for projects that meet these criteria.	• Planning to establish a green/sustainable finance framework, clarifying the concept of sustainable finance, objectives and use of funds after financing and developing a disclosure plan; • Keeping an eye on domestic and international financing opportunities for bonds and credit products related to eco-friendly and sustainable transformation.
	Business performance: Resource efficiency opportunities	Short-term	• Water saving helps reduce operating costs for water consumption and wastewater treatment.	• Paying attention to the application of water-saving technologies to increase water use efficiency and reuse rate.

Risk/ Opportunity	Description of Risk	Timeframe	Potential Impacts on Business	Responses
Opportunity	**Business performance**: Products and service opportunities	Medium/Long-term	• The EU has imposed compliance requirements on the use of recycled metals in batteries, raising the bar for compliance and bringing opportunities to compete in this field.	• Improving the circular application capabilities for battery recycling and secondary metal regeneration, including establishing the used battery tracing network and recycling systems for the classified use, dismantling and sorting, and remanufacturing of recovered batteries.
	Business performance: Reputational capital opportunities	Medium/Long-term	• Ecological protection is a growing concern for society, and companies that practice resource equality and give back to society are more likely to win public support.	• Communicating sustainability values and management results to partners and consumers through channels such as ESG reports and the website; • Integrating environment-friendly characteristics of products in all links such as battery production, sales and recycling.
	Sustainable performance: Opportunities for sustainable use of natural resources	Medium/Long-term	• Reducing dependence on non-renewable minerals will help stabilise the business along the value chain.	• Slowing down the exploitation of mineral resources and improving the circular application capabilities for battery recycling and secondary metal regeneration, including establishing the used battery tracing network and recycling systems for the classified use, dismantling and sorting, and remanufacturing of recovered batteries.
	Sustainable performance: Opportunities for ecosystem protection, restoration and regeneration	Short-term	• Certain regions are subject to regulatory requirements. And market demand for ecological restoration is gradually increasing.	• Promoting cooperation in mine rehabilitation and exploring new business opportunities.

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