

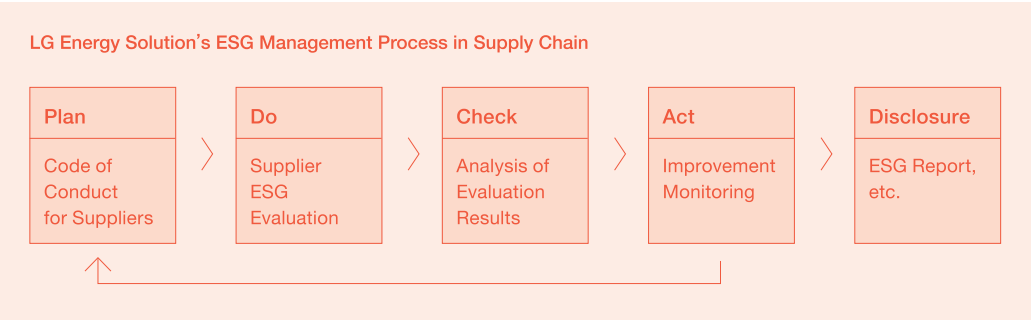
Supply Chain Sustainability



With the rapid growth of global battery market, ESG-related requirements in the battery industry have been increased including management of carbon emission, due diligence of supply chain, and the use of recycled materials. In particular, the notion that ESG management of supply chain is critical for sustainable battery business is gradually spreading throughout the industry. Considering the vastness and diversity of global battery material supply chain, in order to manufacture sustainable batteries, it is extremely essential to not only work with Tier-1 suppliers but also to broaden the scope of supply chain that take part in ESG-related activities. As a leader of the global battery market, LG Energy Solution is performing various ESG-related activities on supply chain, including conducting ESG risk assessment on suppliers, strengthening due diligence of raw material supply chain, and supporting carbon reduction in supply chain. With a view to fostering ESG activities as an integral part of sustainable business of all stakeholders of battery value chain, we will continue to actively reflect the views and needs of various stakeholders within the supply chain and formulate transparent and responsible supply chain ESG strategies.

How do you conduct ESG evaluation of your supply chain?

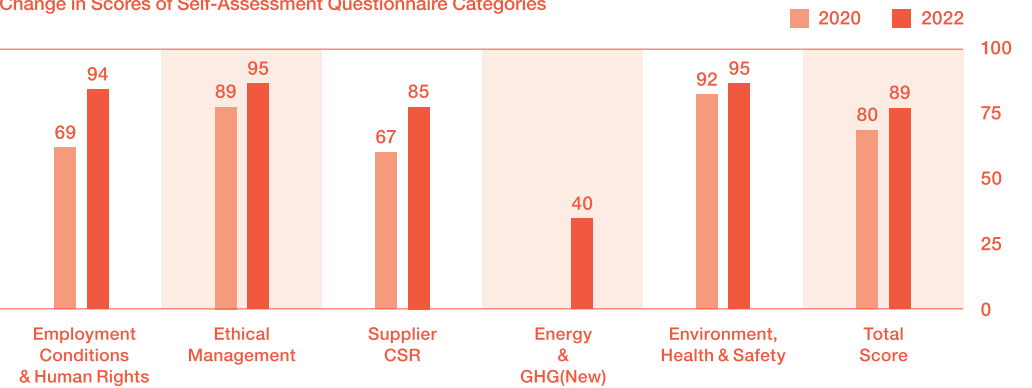
LG Energy Solution promotes awareness and urges actions of each and every supplier on human rights and labor issues as well as the purchase of responsible minerals, through the Code of Conduct for Suppliers. Supplier ESG evaluation is conducted annually to verify whether suppliers are in compliance with the Code and to identify corrective action plan and monitor the implementation in conjunction with on-site audit. Supplier ESG evaluations proceed in connection with purchase evaluations (i.e., new supplier registration evaluation, regular evaluation). A new supplier registration process requires evaluation of the candidate including on 10 ESG-related items. Regular purchase evaluation is conducted on domestic and international raw material suppliers and ESG evaluation accounts for 20% of the complete evaluation. In 2021, we focused on redefining and strengthening our own purchase management system split from LG Chem. The criteria of suppliers ESG evaluation was also adjusted, for example, strengthening the elements of climate action. In the first quarter of 2022, we conducted an ESG evaluation on 143 suppliers, with the updated self-assessment questionnaire (SAQ)—it consists of 67 questions, covering various areas such as labor conditions, human rights, ethical management, supplier CSR, energy and greenhouse gas, and occupational environment, health and safety (EH&S). Compared to the results of 2020 ESG evaluation, higher scores were marked in



Change in ESG Evaluation Subjects

Suppliers Subject to Periodic Evaluation	2019	102 suppliers	2020	117 suppliers	2022	143 suppliers
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Change in Scores of Self-Assessment Questionnaire Categories



the areas of labor conditions, human rights, and supplier CSR, which led to an over 10% rise in the total score. Such change indicates not only heightened awareness and response of suppliers due to strengthened global regulations and increased social awareness but also expanded application of laws related to labor conditions. On the other hand, the newly added energy and greenhouse gas category marked a low score, demonstrating the need to raise awareness of suppliers to plan climate actions, including increased use of renewable energy and concrete activities to reduce greenhouse gas emissions. In addition, for some of the suppliers in the high-risk group as revealed by SAQ results, we conduct due diligence on site to follow-up on serious nonconforming issues, identify corrective action plans and monitor its implementation. In 2019, the on-site due diligence was conducted on 10 suppliers, and in 2020, an ESG operation guide was produced and distributed to all suppliers instead of field inspections due to COVID-19. We also plan to conduct on-site due diligence in 2022 to monitor the implementation of corrective action plans by the end of the year and reflect it to the regular purchase assessment for the following year. LG Energy Solution includes ESG compliance clauses in its purchasing contracts to ensure every supplier is committed to managing ESG issues. We also encourage and support suppliers' transition to renewable energy. We intend to keep advancing the ESG evaluation system and expand the subjects and scope of assessment, as necessary, in order to strengthen ESG management throughout the supply chain. With an aim to secure over 90% of the low-risk group by 2030, we plan to strengthen monitoring of the status of ESG management of supply chain and support for the continuous improvement.

Status of Risk Groups

Year	High Risk		Mid Risk		Low Risk	
	Suppliers	Percentage	Suppliers	Percentage	Suppliers	Percentage
2019	10	9.8%	55	53.9%	37	36.3%
2020	11	9.4%	61	52.1%	45	38.5%
2022	3	2.1%	15	10.5%	125	87.4%

※ ESG evaluation was not conducted in 2021 due to the restructuring of the purchase management system

ESG by Me

We asked
Mi Young Jo of the
Daejoo Electronic
Materials (Supplier)
Environment Team

Please describe the work you currently perform.

I am in charge of energy, safety and environment licensing work in the Environment Team. We address needs and inquiries from customers like LG Energy Solution related to carbon neutrality and climate action and support installation of facilities and equipment as carbon reduction measures. Also, we collect energy consumption data of the company every year and submit it to relevant agencies.

What is Daejoo Electronic Materials' plans for carbon neutrality and what are some challenges in the implementation?

As agreed with LG Energy Solution in our commitment letter we are purchasing green premiums to comply with the renewable energy transition rate. Our climate action is still in an inception stage so we plan to focus on purchasing green premiums, and we are currently exploring other measures. There are various measures known and available out there to reach carbon neutrality, but it is most challenging to find measures that our company can actually apply.



In what areas are you working with LG Energy Solution to accomplish carbon neutrality, and what do you want to discuss further in the future?

We are working on renewable energy plant installation support project with LG Energy Solution. We purchase green premiums from LG Energy Solution which allows us to apply for the project as a supplier. After the application, an agreement was reached, so we are currently reviewing the installation of solar equipment. It would be of great help if we could receive training on practical measures for achieving carbon neutrality that are applicable to our workplace.

How does your supply chain management work?

LG Energy Solution is committed to sourcing raw materials in a responsible and transparent manner and addressing potential human rights and environmental risks that may arise throughout the process of sourcing and producing raw materials. The core value of responsible sourcing is reflected in the ‘Responsible Sourcing Policy’ and the ‘Code of Conduct for Suppliers,’ and we communicate to our suppliers our commitment and thereby expectations for them to join forces on a regular basis, as their joint efforts and awareness are essential to manage ESG issues, minimize potential risks, and thereby procure minerals in a responsible and sustainable manner.

All of LG Energy Solution's policies and detailed activities related to responsible sourcing are based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. A dedicated team in our purchasing division leads the due diligence process on cobalt supply chain, and we intend to extend this process to other core raw materials such as lithium, nickel and natural graphite. Moreover, we have introduced a blockchain platform since 2020 to track and manage warehousing of raw materials and product manufacturing history, and we plan to gradually increase the number of raw materials and suppliers that are subject to the application of this platform.

Global battery supply chain is extremely complex and vast, so it is difficult to solve all ESG risks arising in battery supply chain only through a single company's supply chain management activities. LG Energy Solution participates as a member company in numerous global initiatives such as Responsible Minerals Initiative (RMI) to seek optimal means of managing supply chain together with suppliers to establish responsible supply chain. We will continue to actively communicate with suppliers so that they recognize the importance of responsible sourcing activities and perform third-party verification on supply chain as well as their own risk reduction activities, and play a leading role to establish responsible battery supply chain.



Cobalt mining site and refinery

What do you do for reducing carbon emissions from your supply chain?

Given that over 70-80% of carbon emissions during battery manufacturing is generated from raw material supply chain, activities to reduce carbon emissions in sourcing and producing raw materials are absolutely critical to achieve carbon neutrality. LG Energy Solution currently carries out carbon reduction activities in their battery supply chain with the goal of achieving carbon neutrality across the entire value chain by 2050. We analyze carbon footprint data over the entire lifecycle of batteries to identify hotspots where a significant amount of carbon is emitted, and based on this data, we design carbon reduction strategies in our supply chain. Most of the carbon emitted from raw material production process results from power consumption, which means that the more power in supply chain we convert to renewable energy, the greater contributions we can make towards carbon reduction.

LG Energy Solution is committed to 100% renewable energy (RE100), aiming to convert all power used in the manufacturing process to renewable energy at both our own facilities and those of our Tier-1 suppliers by 2030, and is developing concrete plans in close coordination with suppliers, starting with cathode suppliers. In September 2021, we hosted an online briefing session for our major materials suppliers to share information on regulations and policies of key countries as well as global companies’ actions in response to climate change, and to emphasize the importance of actions for carbon reduction. Further, through regular meetings with suppliers, we share our know-how in transition to RE100 and the latest regulatory updates; and discuss with each supplier to develop annual transition plans and implementation methods, considering various circumstances for renewable energy procurement per country. We are looking to closely collaborate with our suppliers so that these RE100 transition activities can serve as a meaningful first step toward the realization of carbon neutrality in supply chain in the future.

To reach the goal of complete carbon neutrality throughout a battery’s lifecycle, LG Energy Solution is not only implementing renewable energy transition activities for supply chain but also exploring various carbon reduction measures including increased recycling and reuse of raw materials and improved energy efficiency in manufacturing processes.

ESG by Me

We asked Yesol Choi of the Supplier Relation Management Team



What do you do to use more of renewable energy as supplier?

Participation and cooperation of our suppliers is crucial for LG Energy Solution to achieve carbon neutrality across the entire value chain by 2050. The SRM team is promoting energy transition activities for primary suppliers of major materials, such as cathodes and anodes, with the goal of converting all electricity used in the production of materials that we purchase to renewable energy by 2030. When we first launched our plan for transition, there had been no precedents in Korea, so we had to take the initiative to come up with strategies and set up implementation measures. We referred to outstanding cases around the globe and asked for help from experts within the company in different areas, such as procurement and energy, to establish a roadmap for the transition to renewable energy in our supply chain and to commence the execution. We hosted our first information session on renewable energy for suppliers in the third quarter of 2021 where we explained the rationale and background for the need for a transition to renewable energy. Also, information

on policies and trends of carbon neutrality in each nation was shared, and we focused on promoting awareness and interest in RE100 and reaching a consensus with each supplier. Afterwards, through regular meetings with each of the suppliers, we have been sharing our know-how in transition to renewable energy and discussing the latest trends in policies and regulations to set energy transition goals and means of implementation together with our suppliers.

What challenges do you face on in the transition?

Systems and environments for supply and demand of renewable energy vary by country and region. Furthermore, each supplier has different climate related policies hence shows different pace in proceeding with the goal and adopting renewable energy, which can be challenging for us to coordinate. However, together with our suppliers, we are going to overcome these obstacles and continuously promote RE100 in accordance with the global trend of carbon reduction.