



## Due diligence reporting

### Summary of VARTA's commitment to responsible sourcing

#### Introduction

VARTA AG produces and markets a comprehensive battery portfolio from microbatteries, lithium-ion cells and modules, household batteries and energy storage systems to customer-specific battery solutions for a variety of applications and, as a technology leader, sets industry standards in important areas.

The topic of due diligence and responsible sourcing is not only becoming increasingly important in society, but also for VARTA. VARTA's business activities are based on a complex network of suppliers from whom we procure a wide range of commodities, materials and services from all over the world. Only within the framework of a trusting and appreciative cooperation can we improve the social and environmental conditions along our supply chains and thus our products. A variety of minerals are needed for their production. Some of these minerals are associated with the financing of conflicts, human rights violations or environmental pollution. In order to prevent and mitigate negative impacts, VARTA has implemented the principles of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-affected and High-risk Areas. This due diligence report summarises VARTA's supply chain due diligence activities for critical minerals. For the conflict minerals (tin, tantalum, tungsten and gold) and cobalt, the OECD framework and the supplements for the 3T (tin, tantalum, tungsten) minerals were implemented accordingly. Furthermore, reporting templates to enhance supply chain transparency have been created for the minerals used in lithium-ion batteries (lithium, manganese, nickel, graphite, copper, aluminium) in order to identify any potential risks.



### OECD Step 1: Robust company management systems

To ensure that due diligence systems in companies can identify risks associated with minerals from high-risk areas, the requirements of the OECD Due Diligence Guidance have been implemented into the existing corporate VARTA management system.



## **VARTA's responsible sourcing policy**

Although the company has no industrial, mining or trading activities in conflict-affected or high-risk areas, the minerals and metals acquired by VARTA during its activities may in certain cases originate from such areas.

Recognising the potential negative consequences of mineral extraction, trade, handling and export from conflict-affected and high-risk areas, VARTA has adopted a responsible sourcing policy for minerals from conflict-affected and high-risk areas. This serves as the foundation for fulfilling our own commitment to respect human rights and prevent the exacerbation of conflicts. Furthermore, VARTA is committed to incorporating the policy into contracts with suppliers in order to promote risk awareness. VARTA bases this policy on the current established OECD guidelines (Annex II), focussing also on other high risks regarding health and safety violations, negative environmental impacts, and indigenous peoples' and affected communities' rights impacts.

## **Structure of the internal management system**

A cross-departmental working group was established to address due diligence activities and integrate the process into the established management system. Furthermore, training sessions have been held internally to explain the context and the importance of due diligence in the supply chain.

In the area of conflict minerals, responsible persons received two training sessions as well as a training session on the subject of supply chain law.

## **Establishment of a transparency system**

To enhance supply chain transparency of the 3TG minerals as well as cobalt, the industry standard templates Conflict Minerals Reporting Template (CMRT) and Cobalt Reporting Template (CRT) or Extended Minerals Reporting Template (EMRT) are used. An external software service provider is used for the automatic collection and aggregation of the information received. This external provider is a member of the Responsible Minerals Initiative (RMI) and thus helps to verify the identified smelters for their compliance with the Responsible Minerals Assurance Process audit. It also helps to detect red flags in the CMRTs and CRTs/EMRTs that we received from our suppliers.

## **Engagement with suppliers**

We aim to pass on our requirements for responsible sourcing to our suppliers, which is why these are integrated into our purchasing conditions. Recently, our new supplier sustainability policy was finalised in which our requirements are transferred to our suppliers, particularly with regard to relevant critical minerals.



## **Grievance mechanism**

An important part of due diligence is the establishment of a complaint mechanism. This enables stakeholders and whistleblowers to raise complaints of being negatively affected by our own business activities or those of our supply chain. This grievance mechanism (VARTA Integrity Line) is publicly available on our company website and is also referred to in our policy.

Results for the reporting year 2020:

No evidence of non-compliance was recorded.

Results for the reporting year 2021:

No evidence of non-compliance was recorded.

## **OECD Step 2: Identification and assessment of risk in the supply chains**

### **Risk preassessment and hotspot analysis**

Before a risk identification was carried out as part of the second step of the OECD guidance, a risk preassessment was conducted by reviewing media reports and other NGO reports. Based on this preassessment and our customer requirements, the relevant minerals for VARTA were identified. In addition, a hotspot analysis was carried out. This assesses countries based on various indicators, which are classified according to governance, conflicts, human rights and environment. This hotspot analysis is also cross-checked with the current CAHRA list at EU level to identify high-risk countries.

### **Identification of smelters/refiners in the supply chain**

We identify smelters/refiners for conflict minerals in the supply chain through the Conflict Minerals Reporting Template (CMRT). This is obtained at least once annually from our direct suppliers. In 2021, the Cobalt Reporting Template (CRT) was also requested from our suppliers for the first time. For this purpose, we worked closely with our suppliers to support them in completing the template. In order to obtain reliable answers, these were also checked for plausibility according to defined criteria and, if necessary, returned with a request for correction.

A separate template was developed to obtain information on the supply chain of other relevant minerals. This was sent to material suppliers relevant to the production of lithium-ion batteries for the first time at the end of 2021.

Results for the reporting year 2020:

57 suppliers of 3TG material were identified who disclosed 531 smelters (identified through RMI smelter IDs). 93% of the suppliers responded to our conflict minerals survey. Many of the reporting templates received were issued at company level.

Results for the reporting year 2021:

23 cobalt suppliers were identified who disclosed 23 smelters (identified through RMI smelter IDs). 100% of the suppliers responded to our query.



61 suppliers of 3TG material were identified who disclosed 371 smelters (identified through RMI smelter IDs). 100% of the suppliers responded to our conflict minerals survey.

## **Identification of the risk assessment scope**

The reporting templates which VARTA received were critically reviewed in accordance with set criteria. The criteria was in part defined by the external software provider and partly derived from customer requirements. This resulted in red flags. Each type of red flag was assigned different weighting according to their criticality. In order to be able to carry out the process in a risk-based and prioritised manner, the relevance of the suppliers for the company was also considered as a second component. Based on these two factors, a risk analysis and a risk matrix were drawn up. The risk matrix is divided into different sections, which determine the scope and priority of the due diligence measures.

## **Assessment of smelters'/refiners' due diligence measures**

Due to multiple actors between VARTA and the respective smelter/refiner, we do not evaluate their due diligence measures directly, but evaluate them according to their compliance with, for example, an audit by the Responsible Minerals Initiative. This is provided automatically via the platform of the external software provider.

Results for the reporting year 2020:

Of 429 3TG smelters, 57% have achieved RMI conformant smelter status. Another 3% are currently in the process of certification. The remaining smelters are either in the process of RMI engagement or unknown to the RMI. Another 102 smelters could not be evaluated due to insufficient data.

Results for the reporting year 2021:

Of 23 cobalt smelters, 73.9% have achieved RMI conformant smelter status. Another 21.7% are currently in the process of certification. The remaining smelters are either in the process of RMI engagement or unknown to the RMI.

Of 371 3TG smelters, 62.5% have achieved RMI conformant smelter status. Another 4.9% are currently in the process of certification. The remaining smelters are either in the process of RMI engagement or unknown to the RMI.

## **OECD Step 3: Response strategy for identified risks**

Based on the identified red flags, risk management measures are defined in coordination with the suppliers.

## **Report to senior management**

The status of due diligence activities is reported to top management on a semi-annual basis.



## **Adoption of the risk management plan**

The risk management plan includes three options: continuing trade while ensuring measurable risk-mitigation efforts; temporarily suspending trade while pursuing ongoing measurable risk mitigation; disengaging with a supplier in case mitigation appears not feasible or unacceptable.

The risk management plans are coordinated and agreed upon with the suppliers. A corrective action plan template is sent to each supplier with smelters that are not certified by the Responsible Minerals Assurance Process by the Responsible Minerals Initiative. This is then completed by the suppliers. It is expected that they will provide evidence of another audit or define appropriate measures on how they will develop the smelters towards certification and in turn also pass on these requirements to their suppliers. Further measures have been agreed with suppliers who have not yet identified any smelters in their supply chain. They are requested to contact their suppliers and obtain further information.

Results for the reporting years 2020 and 2021:

Some suppliers have reported that the requirements have been passed to their suppliers and have provided evidence of such measures. Other measures initiated by VARTA's suppliers included the suspension of the supply relationship with relevant smelters. In addition, the topics are also evaluated internally at VARTA and further measures are developed if necessary.

## **Risk management implementation, monitoring and performance**

The monitoring follows, if necessary, via audits or via the review of the CMRT and CRT/EMRT templates in the following year.

Results for the reporting year 2020:

For the new reporting year 2021, improvements have become apparent, as many non-certified smelters are no longer included in the supply chain.

## **Additional facts and risk assessments**

Each risk management measure is reassessed to determine whether it creates new risks.

Results for the reporting year 2020 and 2021:

Currently, no new risks have resulted from the risk measures.

## **OECD Step 4: Independent third-party audit of supply chain due diligence**

### **Checklist for suppliers**

A due diligence questionnaire has been developed for future supplier audits to ensure the implementation of the most critical requirements. In addition, the consistency of the data in the CMRT and CRT/EMRT is tracked and, if necessary, mitigation measures are triggered as part of risk management.

Results for the reporting year 2021:

the due diligence audit questionnaire has been included in audits since the beginning of Q3 2021.



## **Audits from customers on supply chain due diligence**

VARTA's due diligence management system was also reviewed by an independent party with a focus on cobalt. VARTA has passed the third-party audit. There were minor non-conformities, mainly due to the recent implementation of the due diligence management system and hence not all activities were fully completed at the time of the audit.

## **Participation in an industry organisation**

At the beginning of 2022, VARTA became an official member of the Responsible Minerals Initiative (RMI). By becoming a member of the Responsible Minerals Initiative, we are not only underscoring the great importance of this topic, but also intend to make the most of the benefits of membership to enhance our due diligence management system. Furthermore, once we have reached the necessary degree of maturity, we aim to participate in the working groups.

## **OECD Step 5: Report on supply chain due diligence**

The report on due diligence approaches, measures and results is published annually. Furthermore, the identified smelters are made publicly available via the CMRT and CRT/EMRT on our website. This is updated at regular intervals.

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We are aware of our responsibility to perform human rights due diligence. This report demonstrates that VARTA takes charge of the due diligence obligations despite remaining challenges in the raw materials supply chain. Many of these challenges can only be mitigated in the long term and not by VARTA AG alone. The report is intended to be the start of a meaningful dialogue with interested stakeholders. We look forward to receiving feedback on this report at [Conflict-minerals@varta-ag.com](mailto:Conflict-minerals@varta-ag.com).