

Supply Chain Due Diligence Guideline	Department	Revision No.	Last Updated
	Purchasing Team	3	2024.12.9

Date. 2024.12.9.

Hyosung TNC Supply Chain Due Diligence Guideline

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1. Purpose

1.1 This document applies to all suppliers of Hyosung TNC Co., Ltd. (hereinafter referred to as ‘the Company’) and requires them to fully comply with all laws and regulations governing business operations, while ensuring best practices in the essential elements of ESG management, including ethics, environment, labor/human rights, safety/health, and management systems.

1.2 The Company and any third-party organizations entrusted by the Company may, within the limits permitted by law, review and conduct due diligence to assess whether suppliers comply with ESG risk evaluation criteria. Based on the results of ESG evaluations and due diligence, the Company may recommend improvements for identified risks, and suppliers are obligated to develop and implement a risk mitigation plan through mutual consultation.

2. Scope of Supply Chain Due Diligence

2.1 This policy applies to all suppliers involved in direct transactions related to the supply of raw materials, auxiliary materials, packaging materials, and other goods at all global business locations.

2.2 The Company identifies ‘Key Suppliers’ and ‘Focus-managed Suppliers’ based on ESG importance, ESG risks (such as country, industry, issues), and transaction volume that may have a significant financial or non-financial impact on the Company. The detailed criteria are as follows:

Criteria	Details
Key suppliers	<ul style="list-style-type: none"> ▪ Suppliers of Company’s Key Business Divisions ▪ Suppliers located in countries with high ESG risks ▪ Key Raw material suppliers in industries with high ESG Risks ▪ Suppliers with a high transaction volume in the Company’s key business divisions¹⁾ ▪ Exclusion of Simple Intermediaries/Agents from Evaluation²⁾
Focus-managed Suppliers	<ul style="list-style-type: none"> ▪ Suppliers with high transaction importance, such as key raw material suppliers ▪ 'High-risk' suppliers identified based on the Company’s risk issues ▪ Suppliers with low substitutability

1) Transaction volume may vary based on the Company’s total annual transaction amount.

2) Simple intermediaries/agents, even with high transaction amounts, are excluded from evaluation.

3) Criteria for Identifying Risk Issues:

1) ESG evaluation scores and disclosure standards identification

For key suppliers that have undergone separate ESG evaluations by the following organizations, the risk is identified based on the evaluation results issued by these organizations.

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Target		Large Enterprises Medium Enterprises		Small Enterprises	
Category		KCGS	MSCI	EcoVadis	ESG Diagnostic Report
Evaluation Organization		KCGS	MSCI	EcoVadis	Korea SMEs and Startups Agency
Evaluation period		Current year Evaluation results	Evaluation Validity Period including the current year	Evaluation Validity Period including the current year	Results within 2 years including the current year
Results	Low Risk	S, A+, A, B+	AAA, AA, A	Platinum, Gold, Silver, Bronze	Overall score of 70 or higher
	Average	B+, B, C	BBB, BB, B	Committed	Overall score of 50 or higher
	High Risk	D, No evaluation	CCC, No evaluation	Medal acquisition failure	Overall score below 50

※ In the case of entities without a rating, the rating of the parent company will be used for evaluation if available

2) Screening

The Company identifies risks through news searches, checking issues such as lawsuits, fines, and regulatory violations.

3. Supply Chain Due Diligence and ESG Evaluation

3.1. Annual Due Diligence

The Company conducts an annual written or on-site due diligence for identified 'Focus-managed Suppliers'.

3.2 Written Due Diligence

1) The Company evaluates ESG risks, including the supplier's agreement to the "Supplier Code of Conduct," using the "Supply Chain ESG Risk Evaluation Indicator" annually.

2) The results of the written due diligence are classified into three categories: 'Low Risk,' 'Moderate Risk,' and 'High Risk.' The "Supply Chain ESG Risk Evaluation Indicator" is based on the evaluation items in the 'Hyosung Group Supplier ESG Management Guidebook.'

ESG Risk Evaluation Indicators	Environment (E)	Social (S)	Governance (G)
Evaluation Criteria	Environmental management strategy, energy efficiency, climate change response, pollutant emissions, waste management, etc.	Labor conditions, workplace safety and health, supplier management, community engagement, etc.	Decision-making system, fair trade, anti-corruption (ethical management), etc.

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3) Suppliers evaluated as 'High Risk' in the written due diligence are required to submit a risk mitigation and improvement plan within 12 months. Afterward, an on-site due diligence will be conducted to monitor the improvement status.

3.3. On-Site Due Diligence

- 1) Suppliers evaluated as 'High Risk' in the written due diligence will be notified that they are subject to on-site due diligence.
- 2) The on-site due diligence team will inspect ESG risks following international guidelines related to the environment, human rights, safety, ethics, and other relevant areas.
- 3) The due diligence team will review the supplier's improvement action plan and assess the implementation of corrective measures.

4. Post-Supply Chain Management

- 4.1 The company will communicate the ESG risks identified during the on-site audit and the evaluation results to the respective supplier.
- 4.2 If a "high-risk" ESG risk is identified during the on-site audit, the supplier is required to re-establish and submit an improvement plan within one year, and the company will recommend the implementation of risk mitigation measures. A regular ESG risk diagnosis will be conducted in the following year based on the results.
- 4.3 If the actions taken by the supplier are deemed insufficient, the company may suspend or terminate the business relationship. The supplier will be given a reasonable amount of time to resolve the reasons for the suspension or termination, and existing orders will not be affected.
- 4.4 If a supplier faces difficulty in identifying improvement measures on its own, the company will support the supplier's ESG management capabilities through ESG training, consulting, and improvement assistance activities.
- 4.5 Suppliers who show improvement in ESG risk management compared to the previous year will be selected as "Excellent Partners" and awarded accordingly.

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