

## **ZTE Corporation**

### **Conflict Minerals Report 2019/20**

#### **Instruction**

ZTE Corporation (“ZTE”) is committed to sourcing responsibly and respects human rights in accordance international conventions and practices, such as UN Global Compact. We do not tolerate any activity that fuels conflict or violates human rights. We are conducting due diligence within our supply chain to assure “DRC Conflict-Free” for the metals of gold (Au), tantalum (Ta), tin (Sn), tungsten (W) and Cobalt (Co) are not derived from or sourced from mines in conflict areas of the Democratic Republic of Congo (DRC) and adjoining countries, as known as the Covered Countries include Central Africa Republic, South Sudan, Zambia, Angola, the Republic of the Congo, Tanzania, Burundi, Rwanda, and Uganda, or illegally taxed on trade routes, either of which are controlled by non-governmental military groups, or unlawful military factions.

ZTE is not subjected to the SEC Conflict Minerals rule as the company is not listed in the New York Stock Exchange (NYSE). However, the ZTE Conflict Minerals Report 2019/20 is prepared with reference to the Rule13p-1 under the Securities Exchange Act of 1934 (“Rule 13p-1”) for better practice. Conflict minerals in this Report refers to gold (Au), tantalum (Ta), tin (Sn), tungsten (W) and Cobalt (Co).

#### **Reporting period**

This Report covers the reporting period from 1 August 2019 to 30 July 2020.

#### **Overview**

##### *Company*

ZTE, founded in 1985, is a leading integrated telecommunications equipment manufacturer in the world market and a provider of integrated global telecommunications solutions, with shares listed on the main board of the Shenzhen Stock Exchange and the main board of the Hong Kong Stock Exchange. We have provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in numerous countries and regions, making contributions to facilitating communications for users all over the world via multiple means, including voice, data, multi-media, wireless broadband and cable broadband.

##### *Product*

Our products are divided into the following categories: wireless, wireline, cloud computing, and terminal. Hardware device production, including mobile phones and peripherals, inevitably requires at least one conflict minerals that determines us within the Rule's scope.

#### **Design of Conflict Minerals Program**

ZTE undertook the conflict minerals program in order to determine whether the necessary conflict minerals utilized in our products were “conflict free.” We designed our conflict minerals program to be in conformity, in all material respects, with the internationally recognized due diligence framework in the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, (OECD 2017) (“OECD Due Diligence Guidance”) and related Supplements for Conflict Minerals, specifically as it relates to our position in the minerals supply chain as a “downstream” purchaser.

Based on our reasonable country of origin inquiry, we do not have sufficient information from suppliers or other sources to conclude whether the necessary conflict minerals originated in the Covered Countries conflict free. However, based on the information provided by suppliers, smelters and refiners, as well as from the Responsible Minerals Initiative (“RMI”) (formerly known as the Conflict-Free Sourcing Initiative (“CFSI”)), London Bullion Market Association (LBMA), and other sources, we believe that the conflict minerals contained in our products originate from the countries listed in this Report, as well as from recycled and scrap sources.

Summarized below are the design components of our conflict minerals program as they referred to the five-step framework set forth in the OECD Due Diligence:

## **1. ZTE Conflict Minerals Management Systems**

### Overview

ZTE has policies and guidelines in place to demonstrate its commitment to respect human rights and stipulate the conflict minerals management procedures. The Policy on Conflict Minerals Management states the commitment of ZTE to respect human rights and the environment in accordance with industry and internationally accepted principles, including the United Nations Global Compact. Policy on Conflict Minerals Management is publicly available on our website:

[https://res-www.zte.com.cn/mediares/zte/Files/PDF/white\\_book/20180820CTKC.pdf?la=zh-CN](https://res-www.zte.com.cn/mediares/zte/Files/PDF/white_book/20180820CTKC.pdf?la=zh-CN)

ZTE has also established the Conflict Minerals Management Standard (中兴通讯冲突矿产管理规范) to facilitate the implementation of the Policy on Conflict Minerals Management. The roles and responsibilities of management and relevant departments are clearly listed in the Conflict Minerals Management Standard. It also outlines ZTE’s requirements on suppliers on the sourcing of conflict minerals and ZTE conflict minerals due diligence procedures. In 2019, ZTE reviewed all the management policies relating to conflict minerals and further enhanced the comprehensiveness of the Conflict Minerals Management Standard with reference to the feedback from different stakeholders and internationally recognized industry standards.

### Governance

ZTE’s conflict minerals management is guided by the management team leading by our Vice President, with the execution team consisting of appointed representatives from different departments, including sales, sourcing, quality and compliance departments. The management team is responsible for the overall management and implementation of the Standard to ensure the applicability, transparency and effectiveness of the Standard to monitor the risk over the conflict minerals of our supply chain. The management team conducts regular review on the performance indicators and reports to the senior management, our CEO and COO. The execution team, equipped with relevant competence and experience, are responsible for coordinate with stakeholders on executing the Conflict Minerals Management Approach as outlined in our Standard, including the annual Conflict Minerals Risk Assessment. The conflict minerals risk and/or opportunities identified will be reported to our senior management in timely manner through the management team, so that our senior management can formulate corporate strategies related to conflict minerals.

### Supplier Requirement and Engagement

ZTE aims to build long-term relationships with its suppliers by constantly communicating with suppliers on its expectations and driving improvements through the provision of support and capability building activities.

ZTE requires all relevant suppliers to guarantee that all materials are procured from environmentally and socially responsible sources. Requirements and specifications related to conflict minerals are incorporated in either the supplier contracts or Declaration of Metal Conflict-Free (无冲突矿产承诺书). All suppliers are required to sign either Declaration of Metal Conflict-Free or supplier contracts with terms and conditions incorporated to commit and comply to our policies and requirements on conflict minerals. The requirements include the submission of Conflict Minerals Reporting Template (“CMRT”), and participation in related training and due diligence activities every year. Additional conflict-free requirements of Cobalt have been included in the Declaration and supplier contracts since 2018.

To support and build capabilities of suppliers on conflict minerals management, ZTE also provides both online and offline conflict-free minerals training programs for suppliers. Existing suppliers of ZTE are encouraged to contact ZTE sourcing team if they wish to seek additional guidance and assistance on conflict minerals management.

ZTE encourages and welcomes suppliers and external parties to report any problems, concerns or violations relating to our conflict minerals program through our official grievance mechanism.

Email: [complianceaudit@zte.com.cn](mailto:complianceaudit@zte.com.cn)

Hotline: 400-830-8330 / +86 0755 26771706

Online: <https://www.zte.com.cn/china/whistleblowing/report>

## **2. Risk Identification and Assessment in Supply Chain**

As a downstream company, ZTE does not have a direct relationship with conflict minerals smelters and refiners. Under the Supplier Conflict Minerals Risk Management Guidance (供应商冲突矿产风险管理指导书), we identify the risk of direct suppliers of ZTE that may contain conflict minerals through the use of due diligence tools created by the RMI which includes the CMRT, a supply chain survey designed to identify the smelters and refiners that process the necessary conflict minerals contained in our products, and two other tools designed by ZTE to further comprehend its reasonable country of origin inquiry, namely Supplier Conflict Minerals Risk Assessment Tool (供应商冲突矿产风险评估工具) and the Supplier Conflict Minerals Management Questionnaire (中兴供应商冲突矿产管理问卷). ZTE maintains records related to our conflict minerals programs at its database system for at least five years.

We conduct annual supply chain conflict minerals due diligence exercises using CMRT and the Supplier Conflict Minerals Management Questionnaire (中兴供应商冲突矿产管理问卷), requiring our direct suppliers to identify smelters and refiners and the country of origin of the conflict minerals used in products supplied to ZTE and to report their conflict minerals management performance. These exercises are applicable to all direct suppliers of ZTE identified with potential use of conflict minerals, to ensure the traceability of the origin of raw materials. We will then classify the identified smelters and refiners according to the type of conflict minerals used. The data will be consolidated and verified with the RMI, LBMA and other external data sources on whether minerals used by the identified smelters and refiners are conflict-free.

ZTE conducts risk assessment to identify conflict minerals risk of the suppliers using the self-developed Supplier Conflict Minerals Risk Assessment Tool (供应商冲突矿产风险评估工具). The Tool considers overall conflict minerals risk of suppliers from two dimensions, namely the supplier influence on ZTE operation and the risk of conflict minerals management of suppliers. Suppliers' overall conflict minerals risk levels are then classified into high, medium and low with the use of risk matrix. Supplier's spend, replacement, compliance history, conflict minerals management performance, location, and location of smelters or refiners are taken into account for risk evaluation of each individual suppliers. In particular, risks of smelters and refiners and supplier locations are assessed with reference to the internationally recognized resources recommended by the RMI, including Heidelberg Conflict Barometer, Control Risk Worldmap and INFORM Worldmap. The Supplier Conflict Minerals Risk Assessment is conducted annually, with the result of CMRT and Supplier Conflict Minerals Management Questionnaire.

### **3. Management Strategies on Identified Risk with Suppliers**

As a responsible company, ZTE does not immediately terminate business relationship with the high-risk suppliers identified. Instead, we actively collaborate with suppliers to optimize their management on conflict minerals through different risk mitigation measures according to their levels of conflict minerals risk.

For all suppliers, ZTE provides annual training programs on enhancing their conflict minerals management. In 2019, ZTE has organized ten supplier conferences on conflict minerals issues with over 200 suppliers. In early 2020, we also provided online training programs in both Chinese and English languages which covered 277 suppliers on our approach and standards for conflict minerals management, relevant laws and regulations. As part of the risk mitigation plan, suppliers are required to ensure the upstream smelters and refiners have obtained valid conflict-free third-party certification and send the relevant proof to ZTE. We also encourage our suppliers to formulate a Conflict Minerals Free Policy to regulate their sourcing activities.

For medium and high-risk suppliers, ZTE provides specialized conflict minerals management training programs based on the improvement area of the suppliers. These aim to provide suppliers with resources and knowledge to establish necessary conflict minerals management procedures and documents. We maintain on-going communication with the medium and high-risk suppliers to review the effectiveness of the new management procedures until the overall risk level is reduced to low. In July 2020, we further provided a face-to-face specialized conflict minerals management training to 68 high-risk suppliers so as to build their capabilities and improve their performances in conflict mineral management. Due to the pandemic, the remaining high-risk suppliers were unable to participate in this training. Hence, we keep in close contact with them and offered online trainings.

In addition, as a member of Responsible Business Alliance (RBA) and Global e-Sustainability Initiative (GeSI), ZTE conducts audits on conflict minerals management for all high-risk suppliers. Qualified audit teams conduct audits based on the audit requirement of Downstream Assessment Program of Responsible Minerals Assurance Process Assessment (RMAP). Suppliers are assessed in the areas of company management, risk assessment, risk mitigation and smelters or refiners due diligence throughout their conflict minerals supply chain.

To conclude the audit, we provide suppliers with corrective measures to strengthen their conflict minerals management. If supplier does not cooperate and meet our satisfaction,

necessary penalties will be imposed which ultimately lead to termination of business partnership. In 2019/20, ZTE has removed 6 direct suppliers in the supply chain.

#### **4. Independent Third-party Certification of Supply Chain Due Diligence**

We do not have a direct relationship with conflict minerals smelters and refiners. However, we understand the most important point in the supply chain for a downstream company to have third-party conflict-free validation is the smelter or refiner level. We require all our direct suppliers to provide details of upstream smelters and refiners used through CMRT exercise. We compare the list against the validated smelters and refiners lists of RMAP to confirm whether the smelters are validated as conflict free. The RMAP has agreed on mutual cross-recognition of gold refiner audits with London Bullion Market Association (“LBMA”) and Responsible Jewellery Council (“RJC”) are reflected in the RMI list of validated smelters and refiners. <http://www.conflictreesourcing.org/conflict-free-smelter-refiner-lists/>

ZTE has formulated the Conflict Minerals Third Party Audit Guidance (中兴通讯冲突矿产第三方审核指导书) to guide our direct suppliers and their upstream smelters and refiners to obtain effective third-party certification. The Guidance provides detailed procedures on how to perform effective third-party audits, such as the qualifications of auditors, pre and post audit procedures, and required third-party audit documentations.

#### **5. Report on Supply Chain Due Diligence**

The summary of our supply chain due diligence activities is reported on an annual basis either through this Report or through our annual Sustainability Report.

Our Sustainability Report is available on our company website at:

<https://www.zte.com.cn/global/about/citizenship/CSR-Reports>

A list of all identified conflict minerals smelters and refiners and their third-party certification status is available for our business partners and investors upon requests.

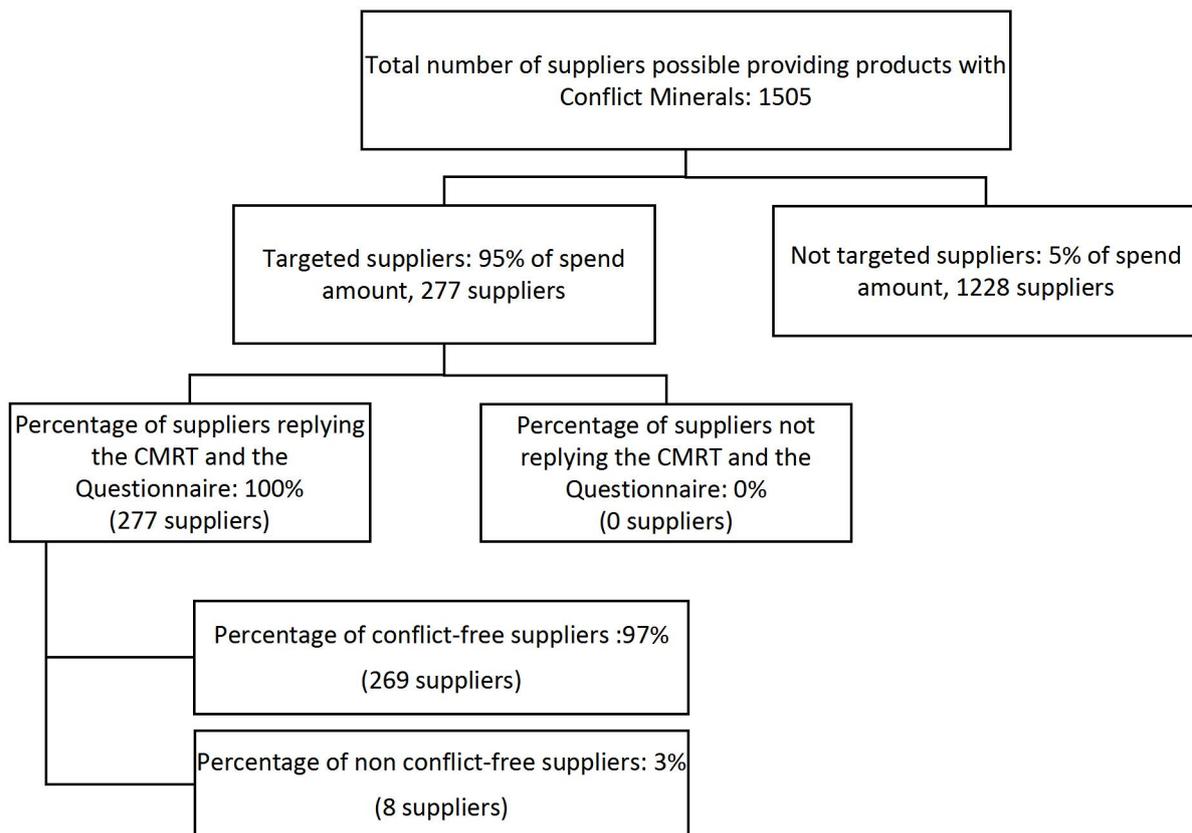
The content of any website referred to in this Report is included for general information only and is not incorporated by reference in this Report.

#### **ZTE Due Diligence Measures Undertaken and Results in 2019/20**

ZTE started our reasonable country of origin inquiry by determining whether the suppliers to be in scope for the supply chain inquiry. The analysis of the material content information gathered for all products led us to conclude that small quantities of the five metals in question are present in practically all parts and components used to manufacture products in our business. The product data provided by material research and design department was used to determine which of our suppliers are relevant to the conflict minerals supply chain inquiry. Suppliers being phased-out and products sourced from third parties and subsequently resold by ZTE without influence over the manufacturing or design of such products were not in scope. In addition, we applied a spend threshold to exclude from the scope the suppliers accounting for relatively insignificant procurement spend.

The number of suppliers in the original scope was 1505. Among them, 277 suppliers were above the supplier spend threshold applied, in the aggregate representing 95% of supplier spend in original scope. The remaining suppliers were under threshold level or were in the phase-out process. We evaluated and surveyed these suppliers with questionnaires. The response rate for the suppliers surveyed was 100%.

1. 269 suppliers are confirmed conflict-free as validated by RMAP. Among the 8 non conflict-free suppliers, 6 suppliers were removed, and 2 suppliers were dissolved by business operation.
2. We identified 81 high-risk suppliers.
3. We have conducted 121 audits in total for validation. Due to the outbreak of pandemic, ZTE plans to conduct audits of the remaining suppliers by the end of 2020.



Based on the due diligence exercise,

- 99% of our direct suppliers have conducted due diligence on their upstream suppliers.
- 97% of our direct suppliers have already formulated a Conflict Minerals Free Policy.
- 97% of our direct suppliers purchase conflict minerals from validated smelters and refiners on RMAP lists: gold 95%, tantalum 99%, tin 98%, tungsten 96% and cobalt 78%

### Reasonable Country of Origin Inquiry (RCOI)

In 2019/20, ZTE identified 340 smelters or refiners in its supply chain, of which 284 smelters or refiners' RCOI information was available through validation by RMAP. Of the remaining 56 smelter or refiners, ZTE directly contacted with them and was able to determine the country of origin.

		Conflict Minerals					
		Tantalum	Tin	Gold	Tungsten	Cobalt	Total
Smelter Quality	Conformant	40	75	109	43	4	271
		97.56%	88.24%	74.66%	93.48%	18.18%	79.71%
	Active	0	0	0	1	12	13
		0.00%	0.00%	0.00%	2.17%	54.55%	3.82%
	Not participated	1	10	37	2	6	56
		2.44%	11.76%	25.34%	4.35%	27.27%	16.47%
	Total	41	85	146	46	22	340
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Based on the information collected, the countries of origin of conflict minerals in the supply chain of ZTE may include:

The countries of origin for Tantalum may include: Brazil, China, Estonia, Germany, India, Japan, Kazakhstan, Macedonia (the former Yugoslav Republic of), Mexico, Russian Federation, Thailand and United States of America.

The countries of origin for Tin may include: Belgium, Bolivia (Plurinational State of), Brazil, China, India, Indonesia, Japan, Malaysia, Myanmar, Peru, Philippines, Poland, Spain, Taiwan (Province of China), Thailand, United States of America and Viet nam.

The countries of origin for Gold may include: Andorra, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czechia, France, Germany, India, Indonesia, Italy, Japan, Kazakhstan, Korea (Republic of), Kyrgyzstan, Lithuania, Malaysia, Mexico, Netherlands, New Zealand, Philippines, Poland, Russia Federation, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan (Province of China), Thailand, Turkey, United Arab Emirates, United States of America and Uzbekistan.

The countries of origin for Tungsten may include: Austria, Brazil, China, Germany, Japan, Korea (Republic of), Philippines, Russia Federation, Taiwan (Province of China), United States of America and Viet nam.

The countries of origin for Cobalt may include: Belgium, China and Finland.

Being a responsible company, ZTE supports legitimate trade and positive development in the DRC and adjoining countries. 2 suppliers had reported smelters sourcing conflict minerals in one or more of the Covered Countries. 3 smelters from the consolidated smelter list were observed to process conflict minerals sourcing from the Covered Countries while 2

of these smelters were found to be conformant according to RMAP. ZTE has requested the supplier to remove the remaining smelter.

#### Inherent Limitations on Due Diligence Measures

As a downstream purchaser of conflict minerals, our measures can provide only reasonable, not absolute, assurance regarding the source and chain of custody of the necessary conflict minerals. Since we do not have direct contractual relationships with smelters and refiners, we rely on our direct suppliers to gather and provide specific information. Besides we rely, to a large extent, on information collected and provided by independent third-party audit programs. Such sources of information may obtain inaccurate or incomplete information and may be subject to fraud.

#### Next Steps

ZTE will undertake the following next steps to improve the due diligence process and mitigate the possibility that we are utilizing conflict minerals that benefit armed groups contributing to human rights violations:

##### Short-Term Objectives:

1. Continuously improve conflict minerals management capability to meet customer requirements and exceed the industry average
2. Continue to require suppliers to reply CMRT and maintain 100% response rate
3. Ensure all qualified suppliers sign the Declaration of Metal Conflict-Free
4. Ensure all suppliers worth the top 95% of ZTE's purchasing volume complete the Supplier Conflict Minerals Management Questionnaire
5. Verify suppliers' due diligence as part of overall supplier assessments
6. Design and offer more training programs for suppliers to raise their awareness and to enhance their conflict minerals management system

##### Mid-Term and Long-Term Objectives:

1. Actively engage the upstream suppliers, smelters and refiners. Provide support to suppliers to get third-party certification and participate in industry initiatives, so as to achieve 100% of the identified smelters and refiners are certified with independent third-party certification program.
2. Collaborate with suppliers, stakeholders, and industry initiatives to further increase awareness and conflict minerals due diligence capabilities.