



DUE DILIGENCE REPORT

Closing the Loop - Supply Chain Due Diligence (Reporting period 2021/ 2022)

Published in June 2022

CONTENTS

Contents	2
1 Introduction	3
1.1 At a glance.....	3
1.2 Performance indicators and outlook for 2022/ 2023.....	4
2 Full report	5
2.1 The business model	5
2.2 Closing the Loop's Supply Chain.....	5
2.3 Company Management System	7
2.4 Third-Party Assurance.....	8
2.5 Due Diligence	8
2.5.1 Report annually on supply chain due diligence	9
2.5.2 Transparency in the supply chain -KYC	10
2.6 company policies	13
2.7 Traceable stock	15
2.8 Identify and assess risk in the supply chain - red flag identification.....	15
2.9 Design and implement a strategy to respond to identified risks.....	16

1 INTRODUCTION

Closing the Loop's (CTL) mission is to make new electronics waste-neutral by eliminating the waste created by electronics. Our main activity to achieve this is the collection of scrap mobile phones and other electronic devices from low-income countries, as a compensation service for our customers.

In order to ensure the maximum positive impact of our activities, CTL demands the highest standards and regulations from its supply chain partners. CTL integrated standards and regulations and publicly declares conformity, amongst others, with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

This report is written and inspired by the guidelines within the OECD Guidance and informs about policies that ensure conformity in line with Annex II of the OECD Due Diligence Guidance.

As CTL collects electronic waste (e-waste), this strategy not only applies to the Conflict Minerals, but all parts of a mobile phone.

1.1 AT A GLANCE

What happened since the last Due Diligence report (June 2021), a summary:

- CTL was assured by a third-party for the first time and published an Operational Excellence Report (chapter 2.4)
- Working on a co-funded research project with GIZ Germany with the focus on environmentally friendly recycling of 20t of screens and batteries (chapter 2.2)
- Downstream supply chain (chapter 2.5.2.1):
 - Initiated and supported a third-party verification with our recycler in Italy for legally required CENELEC standard
 - Supported our recycler to become an EERA member, a leading association for the recycling and re-processing industry
 - Visited the recycler on-site and performed an informal due diligence
- Upstream supply chain(chapter 2.5.2.2):
 - Traveled to active collection countries to run checks and train supply chain partners
 - Held several virtual and in-person trainings of the trainers
- Closed partnerships with a large bank and went through their official due diligence (chapter 2.1)

1.2 PERFORMANCE INDICATORS AND OUTLOOK FOR 2022/ 2023

CTL's team and supply chain keeps growing. For the period 2022/ 2023 we have great collection and scaling ambitions. The progress we are making within our supply chain's due diligence helps the company to scale sustainably and ethically. We feel that we continuously improve aspects of our supply chain.

For the coming reporting period (2022/ 2023) we start formulating concrete KPIs and are setting the following targets:

- Scale-up collection and recycling of waste compared to 2021
- Expanding collection to 2 more African countries
- Offer waste compensation for 1 more product
- Expand downstream connections by linking our work and engage with 2 more recyclers in Africa, perform formal training and support their due diligence
- Start frequent talks with 30% of our 2nd tier suppliers

Read on in our Due Diligence report on the next page:

CTL is a signatory to the Dutch Gold Sector Agreement and follows the OECD Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain.

For any inquiries, questions about our policies or documentation or for feedback reach out to hannah.jung@closingtheloop.de

2 FULL REPORT

2.1 THE BUSINESS MODEL

CTL's core business model is that of waste compensation for IT. In simple terms, clients purchase waste compensation, a service they add to their procurement of IT devices on a one-for-one basis. This service can be implemented regardless of the supplier or brand of their devices and can be added at any time of the product's lifecycle. For each waste compensation unit purchased, CTL collects an equivalent amount of e-waste in Africa. If, for example, a client purchases 10,000 mobile phones, CTL will collect 10,000 mobile phones from a country like Ghana and ensure that these devices are safely and responsibly recycled. This compensates for the waste created by the new devices. The service can be purchased directly from CTL or through a growing number of resellers.

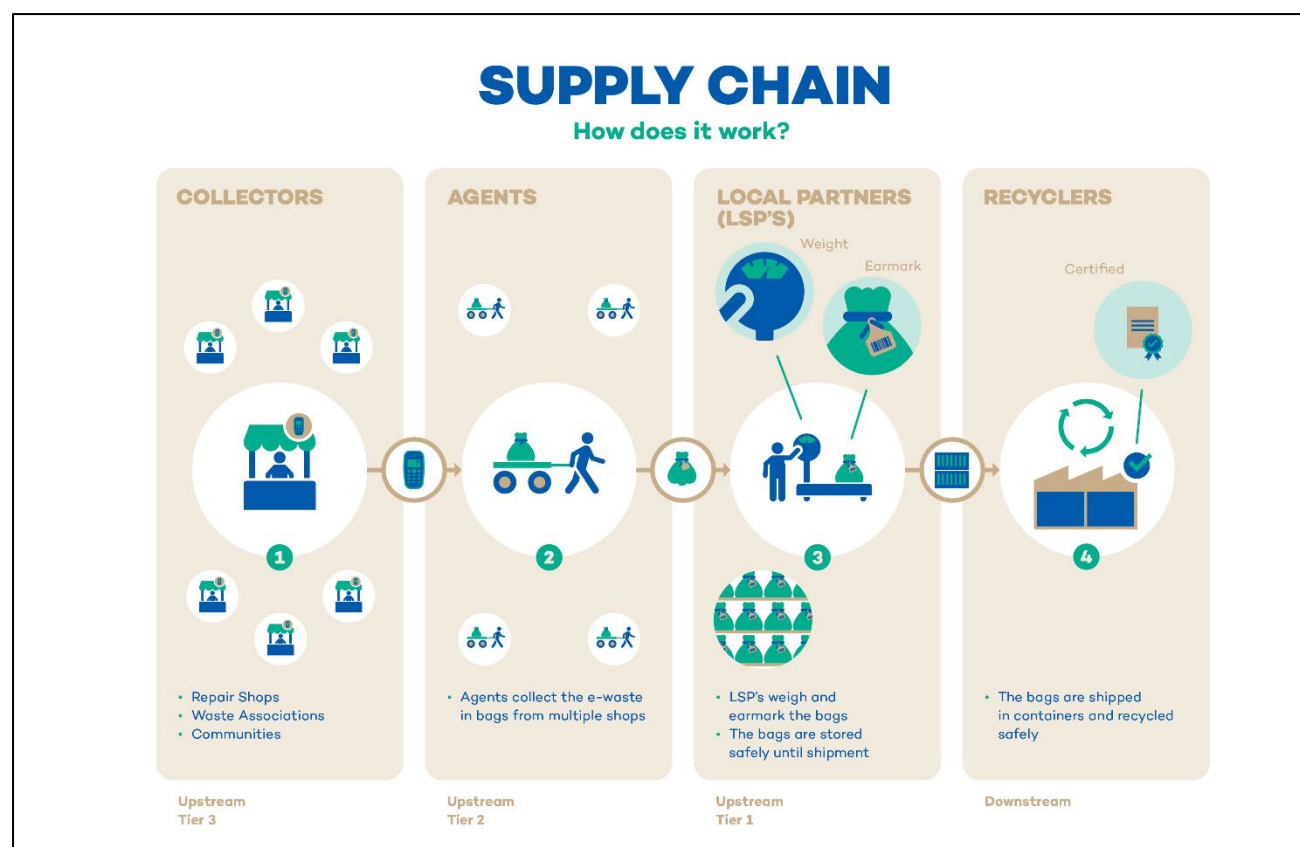
Waste compensation is a financing mechanism to make e-waste collection and recycling in informal markets (financially) sustainable.

Commercially the past business year went well for the company. The company closed a partnership with a large multinational bank that finances leasing. Part of the partnership onboarding was thorough due diligence of operational and supplier processes. In Q2 CTL also closed a partnership and onboarded Vodafone Germany with a substantial volume of compensations. For CTL that means that supplier operations must expand rapidly, and we have the measures in place to do so sustainably. At the same time for CTL, this means that we need to focus on ongoing due diligence.

2.2 CLOSING THE LOOP'S SUPPLY CHAIN

CTL facilitates the process of waste transportation and connects the upstream collection in low-income countries with downstream recycling. Thus, CTL's position in the supply chain is an overarching coordination role connecting upstream with downstream. This position is unique and needed to reduce electronic waste in an environmentally friendly manner.

The company knows all its 1st and 2nd tier upstream suppliers and all downstream recyclers in person. That makes it easy for the company to keep an overview of the supply chain.



Picture 1: Closing the Loop's supply chain

CTL can declare that 100% of its employees and 1st and 2nd tier upstream suppliers and downstream partners sign a contract, comply with the OECD Due Diligence Guidance and are aware of the requirements to comply with these.

This enables CTL to know exactly who is working in the supply chain and to build up a trusted relationship with the partners. Prior to closing a partnership, CTL runs certain checks on potential partners. Besides delivering KYC information, partners are tested for their general business capabilities.

Downstream recycling partners fill in a checklist and must provide certain certifications or at least a gap report that confirms necessary compliance with a standard.

Since January 2021 CTL has been working on a project for the expansion of the supply chain in Nigeria:

E-waste compensation as a circular financing mechanism in Nigeria (EcoN)

The focus of the (pilot) project is the sound recycling of batteries and flat-panel screens while creating downstream value locally and improving the livelihoods of collectors. The project target to collect 20 t of screens and batteries was already met. Solutions for the environmentally friendly treatment are found. We are increasing the collection and recycling capacity in Nigeria.



Picture 2: Screen dismantling exercise with EcoN in Nigeria, 2021

CTL colleagues travelled to Nigeria twice in 2021 for the training of trainers with a focus on health and safety measures and performing due diligence on potential partners.

The project is funded with a 50% investment by the German development agency GIZ through the PREVENT Waste Alliance and we are working with leading environmental research organisations.

2.3 COMPANY MANAGEMENT SYSTEM

In 2021 and 2022 CTL further developed its Management System which manages, evaluates, and improves the supply chain and relationships with all stakeholders involved in this supply chain. The company is run by key principles documented in our General Business Principles and put into practice through a Supplier Code of Conduct. These principles are translated into a system of policies, rules, and processes by which the company is directed and controlled. Developing the system is an ongoing process and we continuously finetune our processes and Standard Operating Procedures (SOPs).

For example, through a third-party assurance that was performed in 2021/ 2022, we were able to demonstrate a credible risk management system and red flag management with track records. This led the company to be able to improve processes that prevent risk occurrence. For example, after finding some devices with batteries through ongoing due diligence checks in our storage site in Africa, we now run an extra check in our e-waste packing process in which we ensure to remove all batteries from phones.

The responsibility to carry out ongoing due diligence is anchored in the Management System and attributed to CTL's Director of Supply Chains and the Operations & Responsible Business Coordinator.

2.4 THIRD-PARTY ASSURANCE

A big milestone in 2021 was the first third-party assurance done on CTL. Together with leading consultancies, CTL worked on getting supply chain operations and processes assured. The assurance was finalised by presenting the assurance results in an operational transparency report which can be provided upon request.

In a preparatory phase, CTL ran through a pre-assurance with another third-party consultancy. KPMG as the final assurance provider performed a limited assurance on CTL by focusing on 5 selected KPIs for the business year 2020. The KPIs mostly covered supply chain operations. KPMG's local offices even did site visits to CTL's locations in Ghana and Nigeria.



The assurance proves a credible risk management system and assures CTL's operational processes for waste compensation as a credible model.

At the same time, we still allow external third-party audits by any of our partners if needed.

2.5 DUE DILIGENCE

CTL does ongoing due diligence with all its supply chain processes and based on its company policies. The due diligence processes also follow the OECD Due Diligence Guidance principles. These are also inherently mentioned in all partner contracts. We understand due diligence as a sort of monitoring of all processes and work that is linked to our supply chain and to keep risks at a minimum for the improvement of our supply chain. We do that by doing ongoing documentation and formalisation of internal activities and processes. The due diligence is closely linked with the incident and red flag tracking system.

For the first time this year, we want to disclose specific examples of our due diligence to show how it strengthens our Management System.

One due diligence measure is the tracking of incidents and if relevant, their mitigation in a system. In 2021 we received an incident report from our battery collection site in Nigeria that is connected to the EcoN project:

"Partner in Nigeria was present when batteries started smoking at a collection site. People wanted to pour water over it but the partner instructed to use sand."

After consulting with the ECoN project the team decided on mitigation measures to specifically treat battery health and safety. Several training moments in which partners were trained in how to treat smoking batteries were set up. Additionally, a battery manual was prepared and handed out. Partners are instructed to always have a water bucket and a sand bucket available at the warehouse.

Besides a strengthened Management System the assurance enables us to state:

During the third party assurance, the Human Rights due diligence was checked specifically and it was assured that no Human Rights incidents have been reported through the incidents reporting.

In 2022 CTL also received expert advice from the Gold Agreement consortium on their Human Rights due diligence. The expert advice is still running in June 2022 and will be rounded off in mid-2022. The experts already confirmed that CTL has outstanding Human Rights due diligence for the size of the company and years of experience. Now the team is working on identified improvements such as the implementation of an HRIA and an improved Grievance system.

2.5.1 Report annually on supply chain due diligence

CTL reports on supply chain updates and due diligence through the website in the forms of blog posts, an annual due diligence report and amendments to the Code and the Business Principles when needed. Additionally, once a year the company offers every client, stakeholder or any other interested party to gain insights into our due diligence efforts. This must be requested by the company.

Since the start of the Gold Agreement and following the reporting requirements, CTL has improved due diligence efforts and reporting substantially.

2.5.2 Transparency in the supply chain -KYC

CTL does a thorough scan of any supplier when entering a partnership. However, part of the due diligence is a program for ongoing monitoring of the partnership. We know our LSPs and Agents in person, are in touch with LSPs weekly and meet them annually in person for training.

To ensure transparency in the supply chain, as part of the KYC program CTL requires all partners in its supply chain to provide NAP (name, address, phone number), official ID, Incorporation certificate and to sign a contract (part of the acquisition processes).

Example of connecting relevant supply chains:

CTL shipped stocks from Fairphone in a 2022 shipment for recycling from Ghana. The Amsterdam-based manufacturer of fair and sustainable smartphones collected waste phones in Ghana in the past but struggled with the actual shipment. CTL facilitated not only the shipment but also the environmental friendly recycling of the end of life mobile phones for them. CTL connected Fairphone to Refimet for the smelting and refining of the waste. By now, Fairphone and Refimet are looking into the options of reusing refined material for Fairphone's manufacturing supply chain for smartphones.

2.5.2.1 Downstream acquisition

Recyclers used to be selected on a project-by-project basis. When we are about to export an e-waste container we look into options. Most of the time the recyclers we successfully collaborated with in the past have a priority as we know that they can follow our very strict logistics compliance requirements. Every recycler and refiner we collaborate and collaborated with went through a thorough acquisition process in which we require transparency in refining processes, reporting, and certain certifications. For the past few shipments, we have been working with the same recycler.

With every export project, we visit the recycler to run checks on the delivered waste that is ready for recycling. During that site visit, we also do an in-person due diligence check with the recycler. The last visit was in June 2022.



Picture 3: Site visit with the whole CTL team at Refimet including a compliance check on shipment, June 2022

To meet the commitment of the year 5 Gold Agreement we decided to publicly disclose the details of the collaborating refiner. At the moment we are working with the following recycler and refiner:

Refimet srl, Italy - upon request, we can provide contact details.

We are supporting our contracted refiner to be fully compliant with the CENELEC recycler standard. In fact, in 2021 CTL supported Refimet with a third-party audit and to comply with CENELEC. That project included the improvement of Refimet's Management System. Concretely, after the check, they were able to bring the required documentation on paper. Moreover, through our network, we helped Refimet to become an EERA member. This is part of the due diligence we do with the recycler and it is also required by TCO Certified. In

the past Refimet has also become a Responsible Jewellery Council (RJC) member on the advice and request of CTL.

Generally, recyclers have to comply with standards set forth by CTL. The recycler must provide official certificates (these are checked for validity), and disclose the smelting (sub-) processes and information on by-product discharge. Furthermore, CTL checks all refiners against a recognized list of audited and accredited refiners list (RMI list- Responsible Minerals Initiative). Refiners and recyclers are not required to be certified by these lists, though their standards are applied by CTL, and CTL works with the refiners that don't have the certification to get certified where possible.

2.5.2.2 Upstream acquisition

Our long-term collaborating LSPs and any new LSPs are going through a few acquisition steps in which we not only ask for a lot of documentation but even ask them to run a trial e-waste collection. LSPs are responsible for the acquisition and are providing us with the right documents and information to onboard new collection Agents.

The 3rd level suppliers are informed about the OECD Due Diligence Guidance through their Agent. Though CTL has no figures on the compliance of 3rd level (and further) suppliers. During a training in 2022 in which 3rd level suppliers were present and trained we realised that measuring their compliance is not feasible. For example, most of them don't speak English and Guidance documents are mostly available in English. Therefore CTL implements approaches that are feasible for the specific setting. We held training and used material such as photos and videos that are easy to understand. During the training, they were given PPE and trained in health and safety measures when it comes to electronic waste.



Picture 4: Informal sector training with 3rd tier waste collectors in Nigeria, April 2022



Picture 5: Recycler visit, compliance check and health & training with EcoN, April 2022

2.6 COMPANY POLICIES

After defining more policies in 2020/ 2021 such as the Human Rights policy, which covers child labour, all policies are now fully integrated into our ongoing due diligence. Moreover, the most important policies were checked in a third-party audit.

We actively trained our supply chain in those policies during compliance trips to Ghana in November 2021 and twice in Nigeria in October 2021 and May 2022. The training involved a presentation of all Supplier Code policies and included an interactive part with the Agents in which they had to apply the learnings and solve compliance questions.



Picture 6: CTL and Öko-Institut are giving a training of the trainers at recycler in Nigeria, October 2021

After implementing a Human Rights policy and ongoing due diligence at the beginning of 2020, the company hasn't received any human rights-related risks or incidents related to the operations to date. This KPI was also assured in the 2021 assurance.

Generally, as mentioned in the Management System chapter already CTL continuously further develops its set of policies integrates them and informs relevant parties.



Picture 7: ECN-stakeholder meeting in Nigeria for the development of a national Extended Producer Responsibility scheme, April 2022

2.7 TRACEABLE STOCK

CTL uses a supply chain software called Chainpoint to ensure accurate and traceable stock. The software enables CTL to have an overview of all stock at all times and to know exactly where a batch comes from. We collect upstream collection information around batch ID, weight, count, where a batch comes from and how much was paid. After the recycling process downstream data around the refining and extracted Urban Mined Metals are added to the system as well.

The system is transparent in a way as well as compensation clients' can have insight upon request and receive a yearly reporting of compensated products.

Besides the software, the company's upstream supply chain does a thorough record-keeping system on paper with logbooks. This provides the ability to check for accuracy afterwards and reduces the risk of errors. Regular spot-checks are done to verify these entries. In 2021/ 2022 we were able to do these checks more frequently and standardise the process.

The assurance report enables us to state:

CTL ensures accurate stock by frequently performing spot checks in order to eliminate errors such as counting errors and noncompliant products.

2.8 IDENTIFY AND ASSESS RISK IN THE SUPPLY CHAIN - RED FLAG IDENTIFICATION

It is CTL's responsibility to continuously assess the risk in its supply chain and to eliminate risks before they occur. The focus of the Risk Management Plan is on early risk identification. As part of the supply chain policy, CTL has a thorough red flag identification and mitigation system and is prepared with the right response measures in place in case a risk arises. The risk assessment was assured in the 2021 assurance.

The company keeps track of and documents all-risk incidents in our risk management system. Together with a Senior Manager a suitable mitigation activity is identified and monitored.

Several processes ensure that CTL can identify red flags at an early stage:

- Incident reporting system in our project management tool
- Regular internal checks on the stock, downstream and upstream
- CTL has frequent (average once a week) direct contact with all partners and a minimum of once a year with second-tier suppliers

- In 2022 for the first time third-tier suppliers were met as well
- Active Know Your Counterparty to ensure transparency of our supply chain
- A Grievance mechanism was adopted in early 2020 and introduced to all supply chain partners. Grievances are handled by an independent Board member.
- Annual partner meeting in person to evaluate the partnership based on thorough feedback.
- CTL implemented a monthly feedback system and feedback evaluation with the supply chain partners to provide transparency and an early risk identification mechanism.
- Thorough research of politics or societal development in the area of operation

The conclusion of our red flag and incident system is that we receive most incidents through active and direct communication with trusted partners. For CTL it proves beneficial to visit partners to build a trusted relationship with them so they feel comfortable sharing incidents they encounter.

As for downstream partners, they usually have a well-functioning system themselves for the nature of the smelting and refining business and the compliance with international standards.

2.9 DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS

CTL has a documented process in place for identified risks. All identified risks in our supply chain are mitigated as soon as possible. Below we are describing a few standard processes:

- Any risks and red flags (following CTL's red flag definition) are documented and handled in a formal system (supply chain risk management plan) that includes the documentation and reporting it to Senior Management
- Red flag mapping and assessing the effect of risks on other business relationships to alleviate further risks
- Mitigation and remediation plan: The performance of the risk mitigation efforts is monitored and regularly reported to Senior Management. Under the change of circumstances, CTL undertakes an additional fact and risk assessment.
- Policy implementation and training: Policy development and implementation involve research to be aware of potential risks. To prevent risks we train our partners regularly about our policies, which align with official standards and laws.
- Any unexpected risks are handled by Senior Management and perhaps an external expert party.