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# Hyundai Motor Company

## Carbon Neutral Guide for Suppliers

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# 1. Overview

## 1.1. Hyundai Motor Company Carbon Neutral Strategy

Hyundai Motor Company has set the goal of achieving carbon neutrality by 2045 in all stages, from procurement of automobile parts to production and operation, with a will to consider the global environment and sustainable development for the future of humanity.

First of all, Hyundai Motor Company is shifting their products and business structures centered on internal combustion engine vehicles to electrified vehicles to reduce carbon and achieve zero carbon in their sales vehicles. With the goal of 100% electrification (electric vehicles, hydrogen fuel cell vehicles) in the European market by 2035, Hyundai Motor Company is pursuing the goal of fully electrifying vehicles sold in major markets by 2040. For emerging markets, Hyundai Motor Company plans to accelerate electrification considering customer needs, market conditions, and infrastructure construction.

Regarding the use of renewable energy, Hyundai Motor Company has established a RE100 roadmap that aims to cover 100% of renewable energy in global factories by 2045, ahead of the global RE100<sup>1</sup> initiative recommendation target of 2050 for business sites (production plants) within their direct management scope. The companies are promoting carbon neutrality in their business sites by expanding the application of green hydrogen to crucial manufacturing processes. We plan to apply the optimal solutions considering the conditions of each plant, such as solar panel installation on the roof of the production plant, purchase of a renewable energy certificate, PPA<sup>2</sup> with an external renewable energy generator, etc., to achieve the phased target of renewable energy (60% in 2030 and 90% in 2040 based on the RE100 Initiative recommendation target).

To achieve this carbon-neutral goal, we plan to provide carbon-neutral guidelines not only to Hyundai Motor Company's business sites but also to their major partners and make various

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<sup>1</sup> RE100: Abbreviation for Renewable Electricity 100%. It is a global campaign that promises to supply 100% of electricity used by companies with renewable energy.

<sup>2</sup> PPA: An abbreviation of Power Purchase Agreement, which means power purchase contract. This is a contract made when a power generation company sells electricity produced through new and renewable energy generation to Korea Electric Power Corporation. This contract is possible only when a permit is issued from the Korea Electric Power Corporation and a power transmission line is connected.

efforts, such as demanding social actions.

In particular, to practice true carbon neutrality, we plan to conduct an environmental impact analysis (LCA<sup>3</sup>) for a vehicle's entire life cycle from acquiring raw materials to operation, disposal and recycling. Based on this, we will carry out environmental improvement activities throughout the whole process.

## **1.2. Guide Application Subject**

All suppliers that provide goods and services to Hyundai Motor Company has entered into contracts with us for other transactions (including lower-level suppliers who transact within the supply chain) must comply with these guidelines. We may also recommend that other business partners do business with our partners to comply with the provisions of this guideline.

## **2. Compliance**

### **2.1 Establishment of Greenhouse Gas Response System**

Suppliers must establish an implementation plan for mid-to-long-term responses to carbon neutrality, including their own GHG emission reduction plan, and install and operate a comprehensive response system to ultimately achieve carbon neutrality.

#### **1) Reduction of GHG emissions throughout the product life cycle**

- ① Suppliers shall reduce environmental impact at each stage of the product life cycle. Suppliers must review the environmental impact throughout the product lifecycle, implement an eco-friendly procurement policy from the development stage, and take initiatives to reduce environmental impact.
- ② Raw material suppliers must also strive to build a low-carbon ecosystem throughout the product development.

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<sup>3</sup> LCA: An abbreviation for Life Cycle Assessment. This refers to a technique to reduce and improve the use of energy and mineral resources by evaluating their environmental impacts in all processes of a product or system, including raw material extraction, processing, assembly, transportation, use, and disposal.



## 2) Establishment and operation of a comprehensive response system to achieve carbon neutrality

- ① Suppliers shall establish a system that can measure and manage energy consumption and greenhouse gas emissions and make continuous efforts to reduce them.
- ② Suppliers shall actively reflect the greenhouse gas reduction system when making new investments (expansion of new factories, electrification parts business, etc.).
- ③ Suppliers shall operate an environmental management system composed of organization, plan, procedure, performance check, etc. to mitigate environmental impact.
- ④ Suppliers shall actively participate in achieving mid-to-long-term carbon neutrality, such as the promotion of RE100.

### 2.2. Reduction of workplace GHG emissions

Suppliers shall manage energy consumption and greenhouse gas emissions to reduce greenhouse gases generated from factories, offices, research institutes, and logistics facilities. Also, suppliers shall establish and implement their own GHG reduction activity plans, such as improving energy use efficiency at the business site, optimizing the production process, and expanding the conversion to renewable energy. Through this, the suppliers can achieve the effect of cost reduction.

#### 1) Establishment of a clean production system and continuous improvement of environmental

### **management infrastructure**

- ① Suppliers shall establish an eco-friendly production system such as acquiring ISO<sup>4</sup> certification, an international standard for 'response to climate change,' for all their business sites.
- ② Suppliers shall establish an education system to raise employees' awareness of environmental issues, such as carbon neutrality, and actively supplement their environmental facilities.
- ③ Suppliers shall form a company-wide GHG response consultative body and do their best to improve the energy efficiency of their business sites, expand using renewable energy, and improve the working environment.
- ④ When investing in new facilities, suppliers shall continuously promote innovation activities to achieve carbon neutrality by actively reviewing the use of high-efficiency facilities to improve energy efficiency in the workplace, expansion of the use of renewable energy in the production process (solar power generation, etc.), and PPA, etc.

## **2) Continuous efforts to minimize environmental impact**

- ① Suppliers shall reduce their dependence on natural resources and minimize negative impacts from mining and drilling by continuously seeking ideas for reducing the use of natural resources when energy is input for parts production.
- ② Suppliers shall minimize waste generated at the manufacturing site, establish management standards for generated waste, strictly manage and legally treat it, and continuously seek to improve the efficiency of input resources, such as reducing packaging materials.

### **2.3. Supply Chain Carbon Reduction Management**

Suppliers shall actively reduce greenhouse gas emissions in the overall process from procurement of raw materials to product development, production, and delivery. Suppliers shall

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<sup>4</sup> ISO: ISO: An abbreviation for International Organization for Standardization. ISO 14001 is a certification standard related to environmental management. ISO 14097 is emerging as a new standard as "a framework containing principles and requirements for evaluating and reporting greenhouse gas management and related investment and financial activities."

build a low-carbon ecosystem throughout the supply chain by encouraging other suppliers (including raw material companies) in the parts supply chain that they do business with also participate in these activities.

### **1) Implementation of eco-friendly procurement policy (purchase of raw materials and parts development)**

- ① Suppliers must promote the transition to low-carbon emission materials and actively trade with raw material and parts suppliers who actively implement eco-friendly/low-carbon policies.
- ② Suppliers shall implement preemptive measures such as weight reduction design and weight reduction proposals from the development of the part stage to reduce the use of natural resources and raw materials.

### **2) Reduction of GHG emissions at supply chain business sites**

- ① Suppliers shall actively recommend and support the use of high-efficiency facilities in the production process and expansion of renewable energy to improve the energy efficiency of business partners.
- ② Suppliers shall actively recommend and support the conversion of delivery vehicles and vehicles at their business sites to eco-friendly vehicles.

### **3) Establishment of a carbon-neutral response system in the supply chain**

- ① Suppliers shall support their suppliers in managing their energy usage and greenhouse gas emission data and conduct periodic monitoring.
- ② Suppliers shall urge their suppliers to voluntarily participate in comprehensive greenhouse gas responses such as environmental management campaigns (CDP<sup>5</sup>, RE100, etc.), natural ecosystem/forest protection activities, and participation in the eco-friendly parts business.

## **2.4. Reduction of Greenhouse Gases in the Logistics Process**

Suppliers shall manage greenhouse gas emissions generated in the process of supplying to Hyundai Motor Company in the long term, carry out activities such as converting transport

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<sup>5</sup> CDP: An abbreviation for Carbon Disclosure Project. An international non-profit organization in charge of the carbon emission information disclosure project

vehicles to eco-friendly vehicles.

### **1) Reduction of energy consumption and greenhouse gas emissions in the logistics process**

- ① Suppliers shall make efforts to reduce energy consumption and greenhouse gas emissions generated in the overall process of packaging/logistics/vehicle transportation.
- ② Suppliers shall check the overall logistics process, such as efficient logistics operation management, inventory optimization, reduction of packaging materials during delivery, and reuse after collection.

### **2) GHG emission information management and eco-friendly logistics conversion**

- ① Suppliers shall collect and manage greenhouse gas emission data generated throughout the logistics process.
- ② Suppliers shall actively participate in recycling packaging materials (transport boxes, pallets, cushioning materials, etc.) used in the delivery process and carry out greenhouse gas reduction activities such as converting transport vehicles to eco-friendly vehicles in the long term.

## **2.5. Disclosure of information on energy consumption and greenhouse gas emissions**

Suppliers shall calculate and provide information on energy consumption and greenhouse gas emissions at business sites as accurately as possible within the requested period through the method specified by Hyundai Motor Company.

If the supplier is a government-designated “management target company” or “quota assigned company” of greenhouse gas emissions, it must provide certified actual emissions. Also, if some of their business sites are not included, the supplier must provide actual emissions of those sites not included as well.

### **1) Provision of transparent and accurate information (energy consumption and greenhouse gas emissions, etc.)**

- ① Suppliers shall actively provide information such as energy consumption and greenhouse gas emissions within the due date upon request from Hyundai Motor Company.
- ② Business sites requested to provide information may be all facilities such as factories, R&D facilities, offices, sales offices, and logistics facilities. They shall calculate the requested information accurately based on the standards specified at the request time and actively provide the same.



## 2) Key indicators related to energy consumption and GHG emissions

- ① Indirect GHG emissions from electricity/steam use: Electricity/steam consumption at the workplace
- ② Greenhouse gas emissions from fixed combustion facilities: Fuel consumption used in combustion facilities (LNG, gasoline, diesel, kerosene, etc.)
- ③ Greenhouse gas emissions in the transport combustion process: Fuel consumption generated during transport within the workplace required for the entire production process and fuel consumption generated in the process of suppliers' delivery to Hyundai Motor Company
- ④ Others: Information on renewable energy usage status, CDP and RE100 participation, reduction activities, etc.

## 2.6. Participation in domestic and overseas environmental management activities

### 1) Active interest in and participation in environmental management activities

- ① Suppliers shall fulfill their social responsibilities as specialized companies in the automobile parts industry to develop and distribute environmentally-friendly vehicles.
- ② Suppliers shall actively participate in various education programs related to ESG management<sup>6</sup> and carbon neutrality and raise their employees' environmental awareness.
- ③ Suppliers shall comply with environmental laws and agreements and disclose their efforts and performance for environmental management.
- ④ Suppliers shall actively cooperate on suppliers' ESG evaluation and on-site due diligence to support ESG management.
- ⑤ Suppliers shall establish an environmental management system verified by an external organization (ISO certification for international standards for climate change) and continuously maintain it.

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<sup>6</sup> ESG Management: Management that reflects non-financial factors such as Environment, Social, and Governance in corporate activities to strengthen the company's sustainability capabilities.

## **2) Establishment of governance and system improvement for systematic and efficient carbon neutrality promotion**

- ① Suppliers shall establish policies to achieve their mid-to-long-term carbon neutrality, such as managing energy consumption and greenhouse gas emissions, and form an organization (company-wide greenhouse gas council, etc.) to manage them.
- ② Suppliers shall reflect the carbon-neutral goal in their sustainability management strategies, supplement internal norms/policies based on this, and establish/complement codes of conduct/guides that can be presented to other business partners.
- ③ Suppliers shall make an active effort to achieve the carbon neutrality goal by reflecting and managing the greenhouse gas reduction at business sites, identifying suppliers with climate risk, and ESG evaluation and evaluating and managing key performance indicators (KPIs).
- ④ Suppliers shall actively participate in external platform activities related to carbon neutrality, such as CDP and RE 100.

## **3) Cooperation enhancement with other partners (in business)**

- ① Suppliers shall actively raise other suppliers' awareness of carbon neutrality, such as preparing their own ESG training programs for their partners or guiding them to the Hyundai Motor Global Partnership Center (GPC) program.
- ② Suppliers shall promote ESG cooperation among partners, such as exchange activities such as greenhouse gas knowledge sharing meetings, environmental performance evaluation and awards, and joint research on low-carbon parts development.

## **3. Responsibilities and roles of partners**

All suppliers of Hyundai Motor Company must abide by the guidelines presented in this guideline in their business decision-making and business operation processes.

Hyundai Motor Company and third-party organizations entrusted with Hyundai Motor Company may investigate and inspect whether suppliers comply with this guideline within the scope permitted by law and recommend improvements for risks identified. In the given case, suppliers

must actively establish and implement improvement plans for identified risks.

These guidelines may be regularly supplemented and revised to build a sustainable supply chain and are available on the Hyundai Motor Company website and the HMG Partner Transparent Purchasing Practice Center.