

SUSTAINABLE SUPPLY CHAIN MANAGEMENT.

DUE DILIGENCE IN THE SUPPLY CHAIN.



12.2017

**BMW
GROUP**



Rolls-Royce
Motor Cars Limited

DUE DILIGENCE IN THE SUPPLY CHAIN.

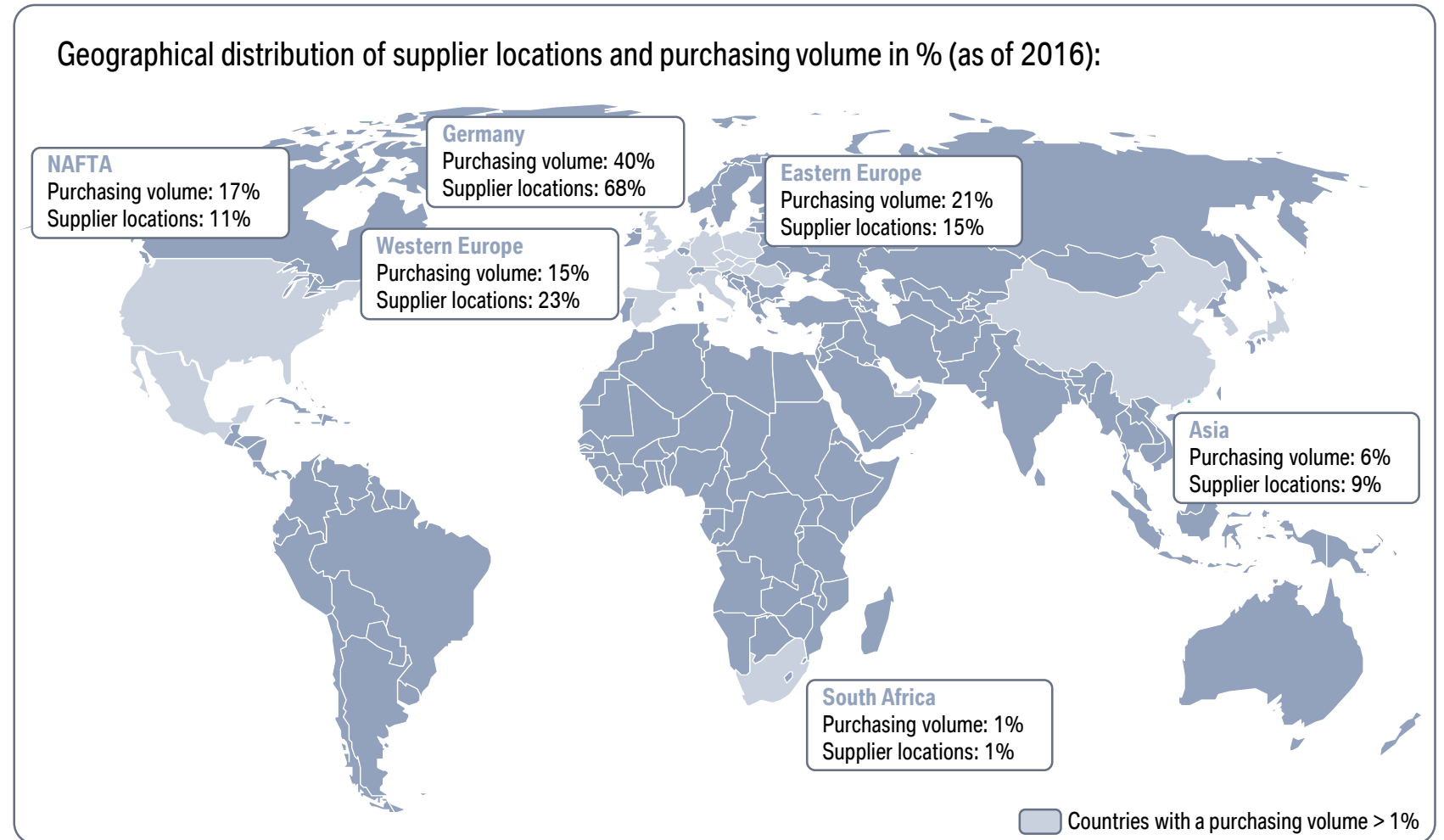
Amongst others, our **due diligence measures** along the procurement process are linked to the geographical distribution of the supplier locations and the purchasing volume.

All Commodities for product related and non-product related parts and services are integrated in the contemplation.

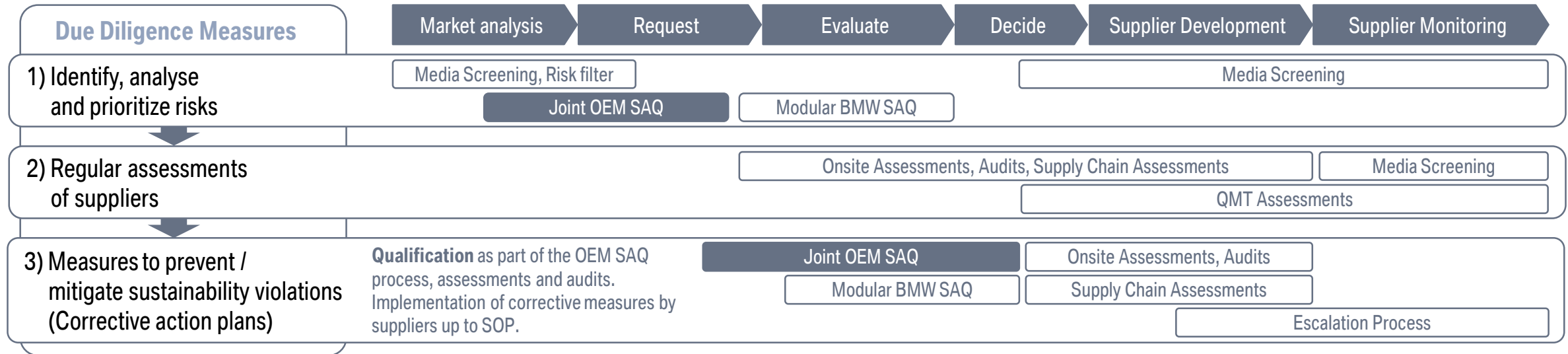
In line with supplier selection, since several years, we check critical suppliers with the help desof Online Assessments, Onsite Assessments and Audits based on the **BMW Group supplier sustainability policy**.

Especially the suppliers, who do not fulfil the sustainability requirements determined by the BMW Group, are critical.

Together, we agree upon corrective actions as well as due dates in order to implement these measures. Nominated suppliers have to implement the measures before start of production (SOP). Verification occurs through independent third parties and own assessors.



DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. OEM SAQ.



The BMW Group uses the **result** of the **OEM industry Sustainability Questionnaire** to assess the **sustainability performance** of each supplier location (production and supply location). The **result** becomes an integral part of the **procurement process and a mandatory criterion for supplier selection**. In nominating (contracting) suppliers, only locations which meet BMW Group sustainability requirements, or have demonstrably agreed in writing to do so before start of production, are taken into consideration.

By **establishing sustainability requirements in the procurement process** we increase transparency along the supply chain and **raise awareness on this topic at our suppliers' top management**. In 2016, the BMW Group assessed around **5,600 supplier locations** (2015: 1900), in some cases multiple times, against the OEM industry Sustainability Questionnaire. In the case of around **2.350 supplier locations** (2015: 400), agreement was reached on **corrective measures** with target deadlines.

Over **650 supplier locations** (2015: 300) were **not contracted** because they did not meet BMW Group sustainability requirements, amongst other things.

All contracts of BMW AG and over 95% of BMW Group contracts with suppliers contain clauses relating to BMW Group sustainability requirements.

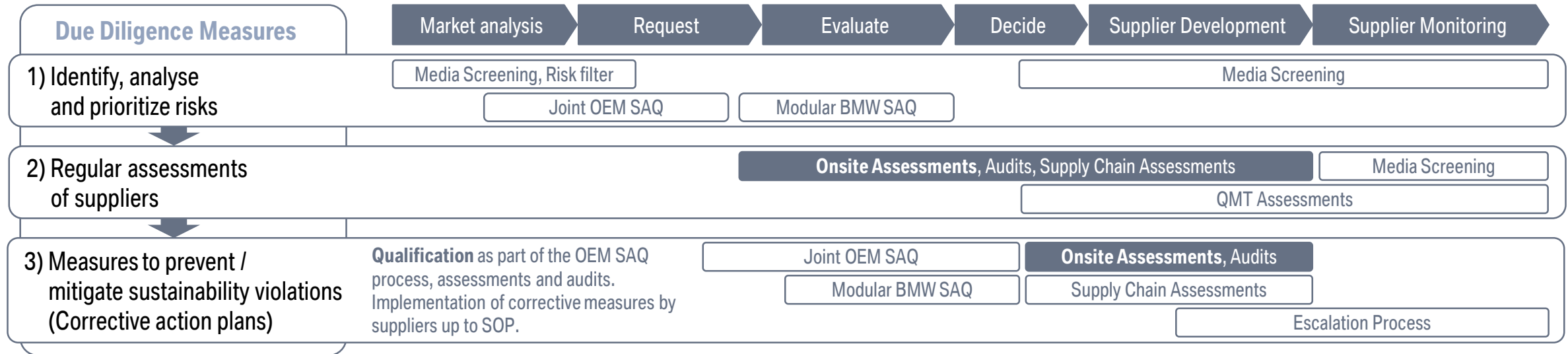
On the following slides, we explain our risk management approach based on the example of Eastern Europe.

DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. EXAMPLE EASTERN EUROPE.

The following **environmental, business ethics and social risks were identified** in Eastern European countries with a **high BMW Group purchasing volume**. **Sustainability deficits** have been identified for potential supplier locations. Therefore, **in case of nomination corrective measures have been agreed in advance**. These corrective measures have partially been implemented already in 2016. All measures must be implemented latest by the time of the production start. If the implementation does not take place, an escalation process will be initiated.

Identified ecological, business ethics and social risks based on the BMW Group Risk filter.	Agreed corrective measures to remedy the identified deficits based on the OEM sustainability questionnaire (OEM SAQ)	Number of contracted suppliers with identified deficits	Number of contractors who have already implemented the corrective actions in 2016
Environment			
Low Proportion of renewable electricity consumption	Appointment of a senior management person with responsibility for environmental sustainability	2	2
Threats to Biodiversity	Implementation of a formal environmental policy	16	0
Risk of Eutrophication (Dissolved oxygen concentration)	Implementation of an environmental management system.	18	0
	Implementation of a certified environmental management system (more than 100 employees)	27	11
	Organisation of trainings on environmental management	20	10
Business Ethics			
Strength of Auditing and Reporting Standard	Appointment of a senior management person with responsibility for business conduct and compliance	8	7
Perception Corruption Index	Implementation of a policy that outlines the principles regarding corruption and extortion	35	18
	Implementation of a formal business conduct and compliance policy	36	21
	Organisation of trainings on anti-corruption and ethics	28	13
Social			
Discrimination in the Workplace	Appointment of a senior management person with responsibility for social sustainability	8	5
	Implementation of a policy that outlines the principles regarding non-discrimination.	18	8
Forced or Involuntary Labour	Implementation of a policy that outlines the principles regarding forced or compulsory labour	23	11
Restriction of freedom of Association /Collective Bargaining	Implementation of a policy that outlines the principles regarding collective bargaining	45	12
Working Conditions	Implementation of a policy that outlines the principles regarding working conditions	19	9
Health and Safety Risks	Organisation of trainings on health & safety	45	23
	Organisation of trainings on social issues	31	15

DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. ONSITE ASSESSMENTS.

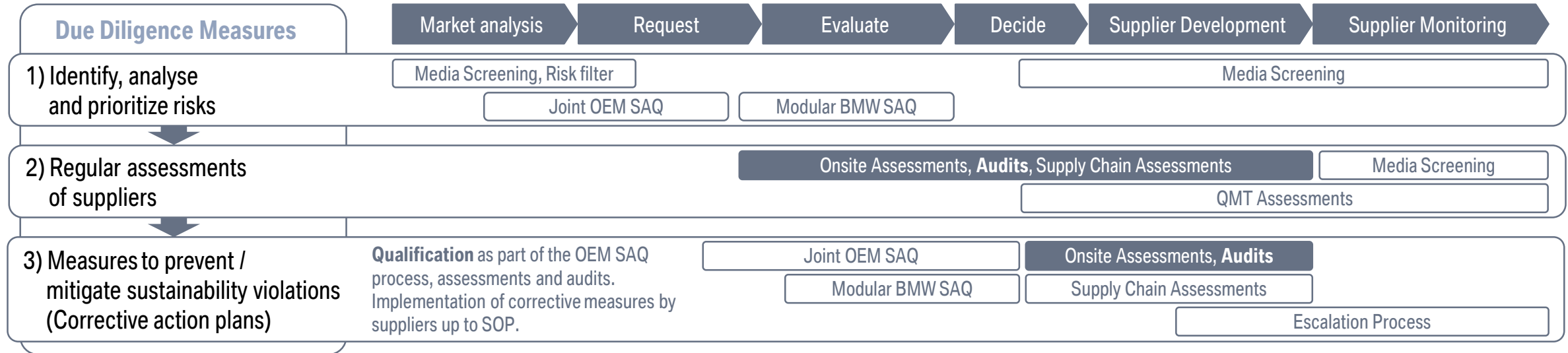


At supplier locations with identified deficits, the BMW Group uses the **results of Onsite Assessments performed by internal experts** to analyse more in depth and develop the **sustainability performance**. In nominating (contracting) suppliers, only locations are taken into consideration, which **meet the BMW Group sustainability requirements** or commit to corrective actions to be completed **before start of production**.

Through **monitoring of corrective actions**, we support our suppliers with the implementation of sustainability requirements in their business processes and therefore promote **continuous improvement**.

In **2016** (implementation in 2015), **28 (2) supplier locations with focus on Eastern Europe (Tier-1 and Tier-n) were assessed** regarding environmental protection, occupational health & safety and social sustainability. **Major findings** are in the field of occupational health & safety (e.g. employee protection, management of hazardous materials) and environmental protection (e.g. waste management). With **all supplier locations, corrective action plans** incl. due dates and responsibilities have been agreed, which are currently in implementation phase.

DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. AUDITS.

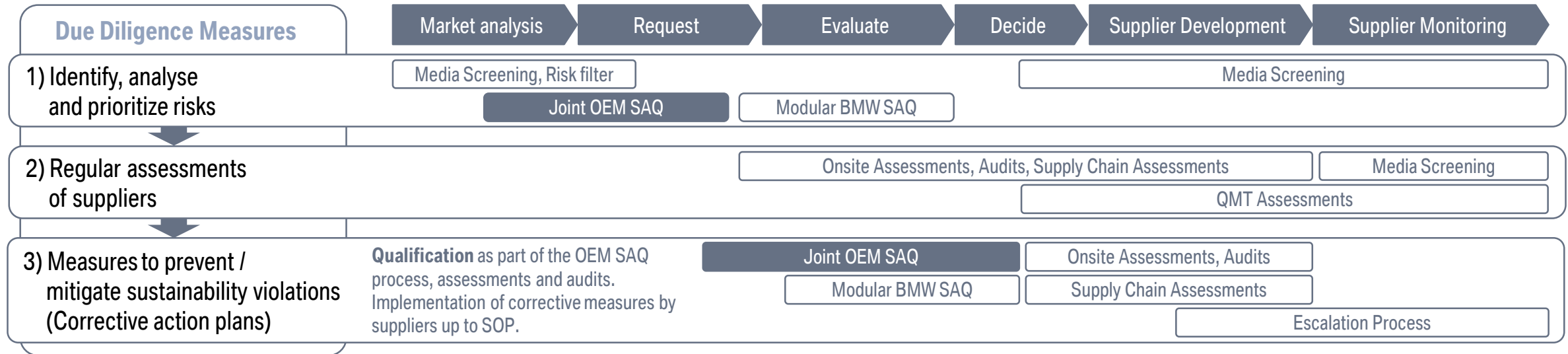


Besides the onsite assessments the BMW Group uses the results from **sustainability audits**, which were conducted by **accredited external 3rd parties**, to **evaluate and enhance** the sustainability performance of selected supplier locations. Suppliers can only be nominated, if they comply with the **accepted auditing standards** (e.g. WCA, SMETA, TGI), or if they commit to completing corrective or preventive actions **by the start of production**.

Through **ongoing monitoring of actions**, we support our suppliers in embedding sustainability in their business operations, thus driving **continuous improvement**.

In **2016** (2015), **15** (11) supplier locations **worldwide (1-tier & n-tier) were audited** in the areas of environmental protection, social standards, health & safety and business conduct. **87%** (82%) thereof had **sustainability gaps** found in the initial audit. **Major findings** were regarding health & safety (fire protection, emergency preparedness), working conditions (wages & hours), and employee training on sustainability. A detailed **action plan** including due dates and responsible persons was agreed upon with all suppliers individually. In 2016, 100% of suppliers with sustainability gaps showed **improved performance** after **verification** of actions taken.

DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. CONFLICT MINERALS.

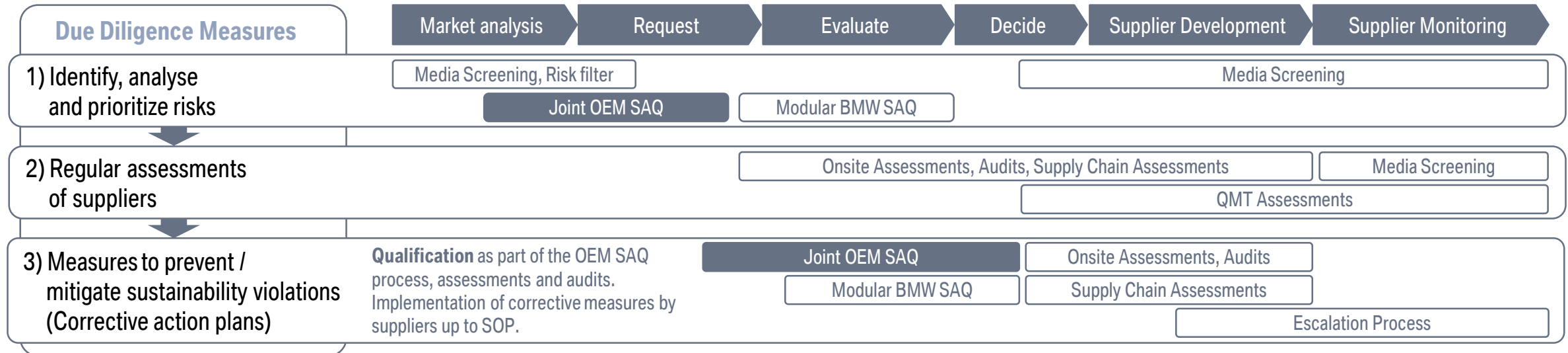


The BMW Group uses the **result** of the **OEM industry Sustainability Questionnaire** to assess the **sustainability performance** of each supplier location to evaluate the use of **high-risk raw material from conflict affected regions**. According to our **BMW Group supplier sustainability policy** and in respect to our commitment to human rights, the BMW Group adopted the strategy of not sourcing components containing conflict minerals which directly or indirectly finance or benefit armed conflicts.

For these conflict minerals, the BMW Group implemented a complete due diligence process based on the **OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidelines)** and **integrated it in the procurement process** within the joint OEM SAQ. This integration allows the BMW Group to continuously evaluate the **transparency and performance of the supply chains** affected by conflict minerals. A **conflict mineral team** is dedicated to the monitoring of relevant KPIs and refers to the **top management** on a regular basis. In case of non-compliance an **escalation process** is started.

The BMW Group is also member of the **Conflict Free Sourcing Initiative (CFSI)** and supports through this cooperation the inter-sectoral work of the conflict free smelter program (CFSP). The target of the BMW Group is to get a 100% response rate of affected suppliers and to significantly improve the number of conflict free audited smelters and refiners in all its supply chains in the next years.

DUE DILIGENCE MEASURES ALONG THE PROCUREMENT PROCESS. COBALT.



For many years now, the BMW Group has aspired to achieve supply chain transparency for cobalt through supplier workshops, discussions with sub-suppliers or reviewing of the audit results from individual smelting plants/refineries. **The BMW Group is not supplied directly with cobalt, but it does purchase cells containing cobalt.**

Based on the information provided by direct suppliers of the BMW Group in 2017, the following two tables have been generated listing the name and location of processing smelters / refineries and naming countries of origin of cobalt.

The BMW Group is currently working on the standardization of the internal processes for conflict minerals and cobalt, the central focus being on the development / implementation of an audit standard. The BMW Group is forging ahead with this within the framework of its activities within the **Responsible Cobalt Initiative (RCI)**. Development and implementation is to be realized through the cooperation with the **“Responsible Cobalt Initiative (RMI)”** by analogy with the conflict minerals.

Names of Smelting Plants/Refineries	Location	Countries of Origin ²
Ambatovy	Madagascar	Australia
Freeport Cobalt	Finland	Democratic Republic of Congo
Ganzhou Tengyuan Cobalt Industrial Co., Ltd.	China	Finland
Ganzhou Yi Hao Umicore Industries Co., Ltd.	China	Madagascar
Murrin	Australia	Russia
Norilsk Nickel	Finland	
Umicore	South Korea	
South Korea	South Korea	

¹ Recycling

² No direct transparency from Umicore with respect to countries of origin. Proof of compliance with the due diligence obligation on the basis of external auditing report from PwC. PwC obtained full transparency.