

# SUSTAINABILITY IN PROCUREMENT AND THE SUPPLIER NETWORK.

COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION.



06/2019

**BMW  
GROUP**



Rolls-Royce  
Motor Cars Limited

# COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION.

Our measures for **complying with due diligence** along the procurement process are based on the geographic distribution of supplier locations and the percentage of purchasing volume, among other factors.

All commodity groups for production-related and non production-related services are also taken into account

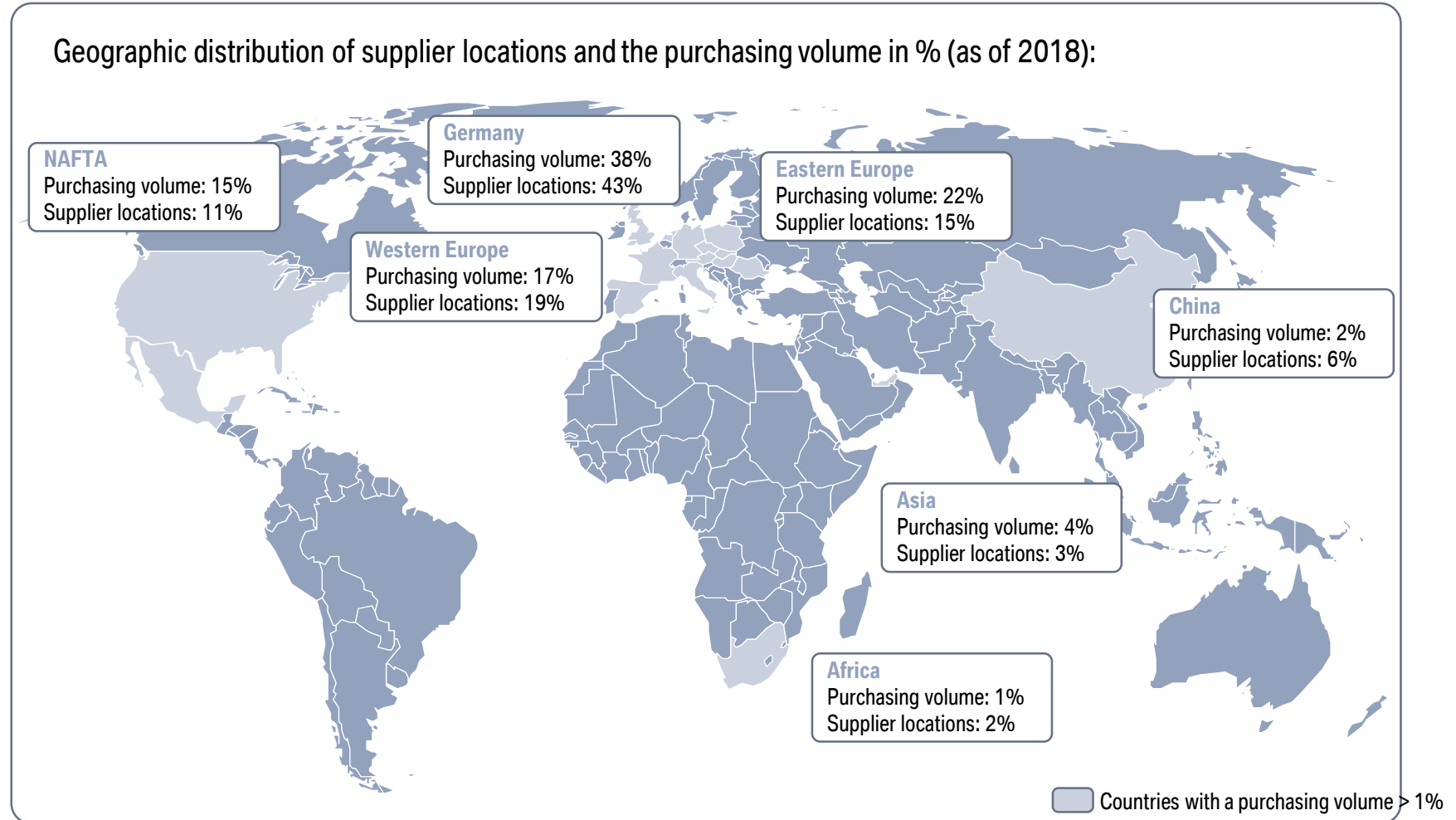
In our supplier selection process we have been checking critical suppliers using online assessments as well as other assessments and audits at the supplier location based on the **“BMW Group sustainability standards for the supplier network”** for several years.

In particular, suppliers who do not meet the BMW Group sustainability requirements are considered critical.

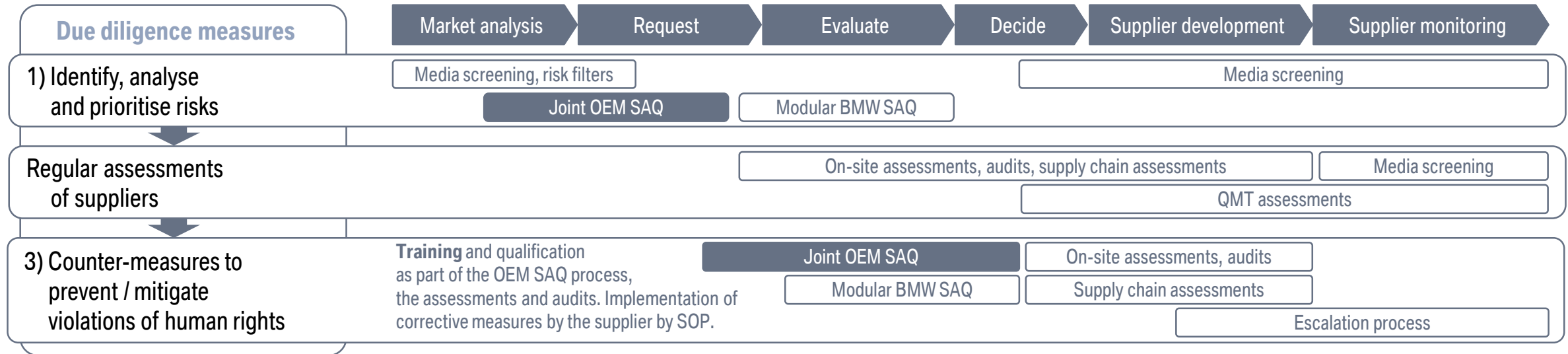
We agree corrective measures with them as well as deadlines for implementing those measures. Contracted suppliers are obliged to have those measures implemented by start of production at the latest.

Implementation is checked by independent third-party inspections and internal assessors.

Geographic distribution of supplier locations and the purchasing volume in % (as of 2018):



# COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION. SUSTAINABILITY QUESTIONNAIRE.



The BMW Group uses the **results** of the industry-specific sustainability questionnaire (OEM SAQ) to **evaluate** the **sustainability performance** of a supplier location (production and distribution site). The **result** is incorporated into the **procurement process** and a mandatory **criterion for the selection of suppliers**. Only locations that meet the BMW Group sustainability requirements or have committed in writing to meet those standards in a verifiable way by start of production at the latest will be considered during the supplier selection process.

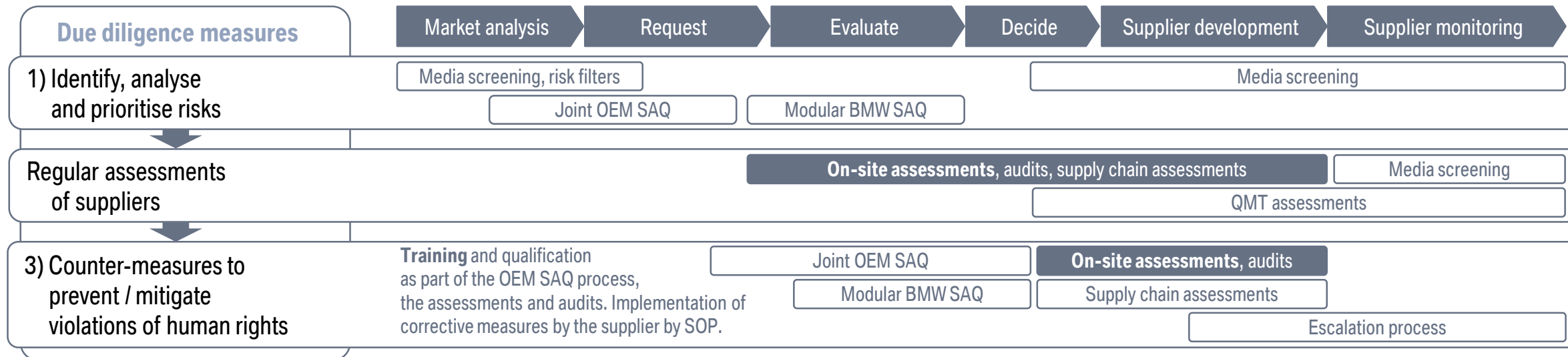
By **making sustainability requirements an integral part of the procurement process**, we increase transparency along the supply chain and sensitise top management at the suppliers on this matter. In 2018, **4,168 nominated and potential supplier locations** (2017: 4,886) were evaluated based on the BMW Group OEM SAQ.

**Corrective measures** with fixed deadlines for implementation were agreed with **1,123 supplier sites** (2017: 1,747).

**193 supplier locations** (2017: 234) were **not contracted** because they did not meet the BMW Group sustainability requirements, among other criteria.

**All BMW Group supplier contracts**, for direct as well as indirect material, contain **clauses regarding the BMW Group sustainability requirements**.

# COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION. ON-SITE VISITS.



If considerable shortfalls are identified, the BMW Group also uses the results of **audits as well as assessments at the supplier's production site** for a more **in-depth analysis** of the sustainability performance and/or to **enable** the supplier to meet the requirements. These audits or assessments are **carried out by accredited third-party assessors or BMW employees**.

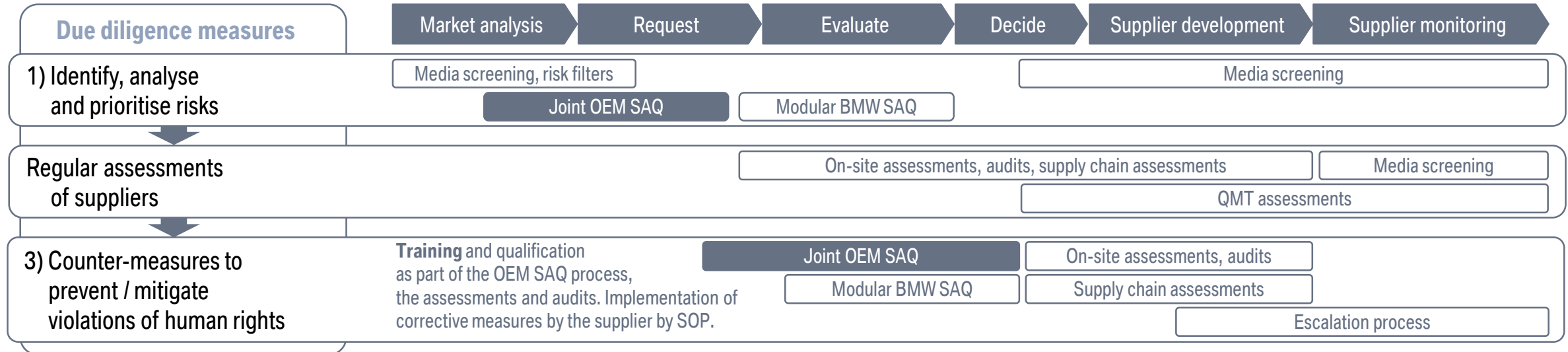
When contracting a supplier, only locations that **meet the sustainability requirements** are selected or those that undertake in writing to implement the measures derived from the audits and/or assessments by **start of production at the latest**.

By continuously **monitoring the implementation of measures**, we support our suppliers in incorporating the sustainability requirements into their business processes and at the same time help initiate a **continuous improvement process (CIP)**.

In 2018, a total of **79 audits** (incl. China) and **ten assessments** were carried out by or on behalf of the BMW Group. Crucial areas of action identified by audits and assessments were highlighted, particularly in the areas of hazardous substance management, waste management and working conditions or occupational safety.

**Action plans**, incl. deadlines and responsibilities, that are currently in the implementation phase were agreed with **all supplier sites**.

# COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION. RAW MATERIALS FROM CONFLICT REGIONS.



In relation to conflict minerals, the BMW Group has introduced a **process for complying with due diligence** based on **OECD Due Diligence Guidance**.

For each request for a quotation we use our sustainability questionnaire, which contains a separate section for conflict minerals. All affected suppliers must upload a valid Conflict Mineral Reporting Template (CMRT). In cases of non-compliance with our **due diligence requirements** an **escalation process** will be carried out. In addition, we run annual CMRT campaigns in order to increase transparency and ensure that our supply chain is free from conflict materials. To achieve this goal, we are in permanent contact with our suppliers and provide them with the **best possible instruction** at BMW training seminars and customised courses. Our 3TG team assesses and evaluates the results of the campaign, regularly reports to **top management** and is also in charge of our complaints hotline and our inbox for conflict minerals. All 3TG suppliers then receive **detailed feedback** concerning the status of their smelters and refineries, including **suggestions for improving** 3TG management.

In addition, we aim to achieve **full transparency** (response rate) in terms of affected suppliers through our financial and personal involvement in the **Responsible Mineral Initiative (RMI)**. We thus support the cross-industry **Conflict Free Smelter (CFS)** programme, in order to significantly increase the number of **conflict-free smelters** and refineries over the next few years. In line with our **“BMW Group sustainability standard for the supplier network”** and **commitment to human rights**, it is the **BMW Group’s** strategy to exclude components containing minerals from high-risk or conflict regions that do not come from certified smelters.



# COMPLYING WITH DUE DILIGENCE IN SUPPLIER SELECTION. COBALT.

The BMW Group's due diligence standards for cobalt as a raw material are also based on the **OECD Due Diligence Guidance for Responsible Supply Chains**.

At present, the BMW Group is not yet being supplied with cobalt directly, but it purchases battery cells containing cobalt. We have thus been working with our direct cell suppliers as well as their sub-suppliers to achieve complete **supply chain transparency** for cobalt. This includes evaluating audit results from individual supply chain stages.

The BMW Group drives the development and implementation of standardised auditing for cobalt smelters and refineries as part of its activities in the **Responsible Cobalt Initiative (RCI)** and the **Responsible Minerals Initiative (RMI)**. In collaboration with the Chinese Chamber of Commerce (CCCMC) we developed an auditing standard and an auditing process for this supply chain, which have been validated and further refined by means of pilot audits in 2018 and 2019.

Based on the information provided by direct suppliers of the BMW Group for 2018 and 2019, the two tables on the right were generated, listing name and location of processing smelters and refineries and naming the countries of origin of the supplied cobalt.

In addition, the BMW Group will procure cobalt for the **next generation of battery cells** directly from mines in Australia and Morocco from 2020. In this way, not only do we achieve long-term security of supply and stable prices, we can also put contracts in place to ensure compliance with our sustainability standards.

At the same time we are investigating how the working and living conditions of **artisanal miners and in surrounding communities in the Democratic Republic of Congo** can be improved. To this end we have, in collaboration with partner companies from our supply chain, commissioned the German development agency Gesellschaft für Internationale Zusammenarbeit (GIZ). If the pilot project is successful, those mines will also qualify for supplying cobalt directly to us.

Names of smelters / refineries <sup>1</sup>	Location	Countries of origin
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
Huayou Cobalt <sup>2</sup>	China, DRC	Russia
Jiana Energy	China, DRC	
Murrin	Australia	
Nichia	Japan	
Norilsk Nickel	Finland, Russia	
Umicore <sup>3</sup>	Belgium	

<sup>1</sup> All listed refineries and smelters have been asked by us or our cell manufactures to participate in audits. The objective of the audit programme is a continuous improvement of the supply chain in terms of meeting minimum requirements. The BMW Group does not tolerate human rights violations in its supply chains.

<sup>2</sup> Huayou was audited by DNV GL and measures were imposed based on the findings.

<sup>3</sup> No transparency with regard to countries of origin from Umicore, due diligence verified in report by external auditors PwC. PwC was given full transparency.