PERFORMING CORPORATE DUE DILIGENCE IN THE SUPPLIER NETWORK.

July, 2021
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"AT THE BMW GROUP, SUSTAINABILITY BEGINS IN THE SUPPLIER NETWORK"  
ANDREAS WENDT, BOARD MEMBER FOR PURCHASING AND SUPPLIER NETWORK.

"Our aim is to ensure the most sustainable supplier network in the entire industry"

The BMW Group is convinced that we can only increase overall sustainability performance through continuous supplier development and consistent supplier and sub-supplier management.  
Given the growing complexity of our n-tier supplier network, we actively approach our direct suppliers and jointly develop measures to create more transparency and achieve greater effectiveness.
Our corporate due diligence measures along the procurement process are based, among other things, on the core topics and core elements of the German government’s National Action Plan (NAP).

The BMW Group Code on Human Rights and Working Conditions explains how our company promotes human rights and good working conditions and implements the core labor standards of the International Labor Organization (ILO). Important topics such as equal treatment of all employees, the right to health and safety at work, and the protection of personal data of employees and customers are also included. The code applies to employees, suppliers and authorized sales partners. In this way, we make an indispensable contribution to our long-term corporate success.

The BMW Group Supplier Sustainability Policy summarizes the BMW Group’s guiding principles for the global supplier network in accordance with internationally recognized standards and guidelines on ESG issues (see "References"). We require our business partners to ensure compliance with all legal requirements at all times, to protect the environment, and to respect human rights in line with international expectations. The standard is updated regularly based on the results of our risk analysis.

The sustainability requirements for suppliers of production material and automotive parts as well as for non-production related material are specified in the "BMW Group International Terms and Conditions for the Purchase of Production Materials and Automotive Components - IPC" and the "General Terms and Conditions for Indirect Purchasing" (GTC).
PERFORMING CORPORATE DUE DILIGENCE IN THE SUPPLIERS SELECTION PROCESS – RISK ANALYSIS.

We carry out a continuous risk analysis based, among other things, on the probability of occurrence, possible severity, our degree of influence as well as our ability to influence potential and actual adverse impacts of our business activities.

To determine the degree of influence, we are guided, inter alia, by the quantity, the purchasing volume or the share of our sales.

All commodity groups for production-related and non-production-related goods and services are included in the analysis.

To identify the probability of occurrence and severity of possible adverse impacts, we use a BMW Group-specific risk filter and supplement this with standardized risk maps from the Responsible Business Alliance (RBA).

The RBA risk assessment platform is an essential step we use for due diligence efforts to ensure sustainability in our supplier network. This model provides a dynamic assessment methodology for a high-quality, country-specific risk analysis for each supplier location assessed.

The assessment model uses various data sources such as UNICEF’s Child Labor Index. We combine this risk view with a commodity group-specific view.

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Due Diligence NAP core elements

1) Management-system, policy statement, ...
2) Conducting regular risk analyses
3) Measures to ward off potentially adverse impacts at direct and indirect suppliers
4) Effectiveness review
5) Reporting
6) Grievance mechanism

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Overall risk assessment by region and country with regard to the probability of occurrence and severity of potential adverse impacts of our business activities on affected parties.

**Source: RBA Risk Map**

*Indirect: non-production-related goods and services

**Direct: production-related goods and services**
We have identified the following potential risks at direct suppliers, which may arise due to the location of their production sites in procurement countries such as Mexico, Turkey or Poland, on the basis of the probability of occurrence, severity and our degree of influence measured in terms of purchasing volume:

Mexico:
- Extreme risk:
  - Freedom of association
  - Forced labor
  - Occupational health and safety
- High risk:
  - Occupational health and safety
  - Accident rate
  - Fire safety
  - Health and safety policy
  - Remuneration
  - Employee rights
  - Child labor
  - Migrant workers
  - Occupational health and safety
  - Machine safety

Turkey:
- Extreme risk:
  - Forced labor
  - Freedom of association
  - Employee rights
  - Remuneration
  - Occupational safety
  - Machine safety
  - Waste management
- High risk:
  - Occupational safety
  - Accident rate
  - Occupational safety
  - Fire protection
  - Child labor
  - Occupational health / safety
  - Health and safety policy
  - Migrant workers

Poland:
- Extreme risk:
  - Occupational safety
  - Freedom of association
  - Migrant workers
- High risk:
  - Occupational health and safety
  - Lack of health and safety guidelines
  - Machine safety
  - Fire safety
  - Remuneration
  - Waste management

Due Diligence NAP core elements
1) Management system, policy statement, ...
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Since 2014, we have been identifying supplier location-related risks with the help of the industry-wide sustainability questionnaire of the Drive Sustainability initiative, which we initiated in 2012. In 2019, we assessed 3,921 supplier locations on the basis of the industry-specific sustainability questionnaire even before issuing the contract. The number of sites evaluated derives from the bidding circles in the purchasing projects.

For 1,317 sites, we defined corrective preventive measures to minimize potential adverse impacts. Preventive measures we require depending on company size include:

- A person with primary responsibility for social sustainability,
- the publication of a CSR/sustainability report,
- a policy on working conditions and human rights,
- an occupational health and safety guideline,
- a certified occupational health and safety management system according to ISO 45001 or comparable,
- an environmental guideline,
- as well as a certified environmental management system according to ISO 14001, EMAS or comparable.

Contracted suppliers with identified risks must have fully implemented these preventive measures by the start of production at the latest. Verification is carried out by independent third parties as well as our own assessors. Measurement is carried out annually using the internal target management process.
Performing corporate due diligence in the supplier network - July, 2021
PERFORMING CORPORATE DUE DILIGENCE IN THE SUPPLIERS SELECTION PROCESS – RISK ANALYSIS AND PREVENTION.

Due Diligence NAP core elements

1) Management system, policy statement, ...

2) Conducting regular risk analyses

3) Measures to ward off potentially adverse impacts at direct and indirect suppliers

4) Effectiveness review

5) Reporting

6) Grievance mechanism

Sourcing Strategy

Market research | Request | Evaluate | Decide | Supplier development | Supplier monitoring

- Code of Conduct
- Commodity Supply Chain Strategy
- Tender document/ Contract
- Supplier database
- BSC / PSC targets

Risk filter

- Onsite Assessments, Audits, Supply Chain Assessments
- Self Assessment (OEM SAQ)*

Media Screening

- Onsite Assessments, Audits, Supply Chain Assessments
- Escalation process

Self Assessment (OEM SAQ)*

Qualification / Training

Onsite Assessments, Audits, Supply Chain Assessments

Media Screening

Self Assessment (OEM SAQ)*

½ - 2 years

½ - 4 years

Nomination

Start of production

* An evaluation result is required for the nomination process of supplier locations of direct material with a purchasing volume of more than €2m and supplier locations of indirect material with a purchasing volume of more than €10m.

Target achievement, i.e. the fulfillment of our due diligence requirements, is measured at an agreed due date prior to the start of production and is reported to the Board of Management. It is part of the BMW Group PSC target system. By integrating due diligence tools into the procurement process and agreeing and continuously measuring PSC targets, we achieve a high level of implementation of preventive measures.
In 2017, at the suggestion of the BMW Group and with the support of other automotive manufacturers in the Drive Sustainability initiative, an analysis of the most important raw materials was carried out at the European business network CSR Europe.

In 2018, this resulted in the Material Change Report of the two standardization initiatives mentioned above as well as in "The Dragonfly Initiative ".

The report identified and assessed sustainability opportunities and risks for 18 prioritized raw materials used in vehicle production. The report serves as a basis for discussion of potential improvements and the development of joint approaches to solutions in the automotive and electronics industry.

In addition, the BMW Group has applied further specific approaches to create transparency.


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**Materials**
- Aluminium / Bauxite
- Cobalt
- Copper
- Glass (silica sand)
- Gold
- Graphite (natural)
- Leather
- Lithium
- Mica
- Nickel
- Palladium
- Rare Earth Elements
- Rubber (natural)
- Steel / Iron
- Tantalum
- Tin
- Tungsten
- Zinc
Creation and assurance (block chain) of traceability to determine affectedness.

The BMW Group is involved in standardization initiatives such as the GAIA X partner platform and is actively driving the expansion of the IMDS database with the goal of obtaining traceability on an occasion-related basis to environmental and social standards. Block chain technologies, among others, are also used to secure traceability.

Other methods to create and assure (block chain) traceability back to the raw material extraction or smelting and thus to determine the affectedness are:

- The cooperation with the mine or smelter (tungsten),
- the supply / directed buy of raw materials from the mine (cobalt, lithium, palladium, platinum),
- as well as the supply / directed buy of smelters (steel, aluminum).

The direct purchasing of the raw materials aluminum, steel, platinum, palladium, cobalt and lithium enables traceability and transparency with regard to environmental and social standards. This is crucial for performing due diligence measures in raw material supply chains.

Creating traceability and transparency "from mine to smelter" and auditing the smelter. Gold, tin, tantalum, tungsten.

By using standardized applications such as the Conflict Minerals Reporting Template (CMRT) provided from the Responsible Minerals Initiative (RMI), to create traceability through tier-1 suppliers to the audited smelter for the conflict minerals tungsten, tantalum, tin and gold (3TG), the BMW Group achieved the following key performance indicators (KPIs) in 2019:

- 99% volume coverage of component suppliers.
- 354 smelters in the BMW Group supplier network (traceability).
- 77% of them are "conflict-free" (transparency).
OCCASION-RELATED HUMAN RIGHTS DUE DILIGENCE OBLIGATIONS FOR INDIRECT SUPPLIERS.

Activities / measures to eliminate, avoid or mitigate identified adverse impacts on affected parties in raw material supply chains:

- Avoidance or substitution (e.g. BMW iX: replacement of chrome with olive leaf essence for leather tanning, replacement of chrome with lacquer for trim, avoidance of rare earths with copper for e-machine) / reduction of raw materials

Suppliers are activated to demand minimum standards from their suppliers (cascading) for all 37 raw materials analyzed.

Participation in the development of n-tier certification systems (Chain of Custody) e.g. for steel (RSI), aluminum (ASI), natural rubber (GPSNR) and demand / apply the certification systems in the supplier network (aluminum (ASI) / natural rubber (FSC))

Contribute to the development of certification systems for specific stages of the value chain (RMI, IRMA) and demand these in the supplier network for mineral raw materials such as conflict minerals and lithium.

Closing material cycles. The use of secondary raw materials (aluminum, steel, tungsten, ...) reduces or avoids the purchase of primary raw materials.

Enabling identified supply chain levels through supplier site activities.

The cross-industry Cobalt for Development initiative began training sessions for twelve micro-mining cooperatives in Kolwezi, Democratic Republic of Congo (DRC), in October 2020. The trainings cover key environmental, social and governance aspects of responsible mining practices. They include mine site management and legal compliance, human rights, health and safety, and environmental management. The initiative aims to train more than 1,500 miners from micro mines by mid-2021.

Communication:

The BMW iX... combines locally emission-free driving pleasure, sporting agility and a compelling operating range with a character profile dedicated squarely to sustainability.

Sustainable tires for BMW X5 Plug-in Hybrid: BMW Group becomes first automotive manufacturer to use new Pirelli tires containing FSC-certified natural rubber and rayon.

Harnessing the power of the desert sun: BMW Group sources aluminum produced using solar energy.

BMW Group steps up sustainable sourcing of lithium for battery cell production to ensure rapid e-mobility expansion.

Minerals derived from responsible mining.

BMW Group creates closed-loop material cycle for tungsten production tools to protect valuable resources.

Greater Transparency in Cobalt Mining.
For the raw material cobalt, the BMW Group’s corporate due diligence is oriented in particular to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Up to the 4th generation of battery cells, the BMW Group procures the raw material cobalt via the supply chains; currently, only small quantities are produced. For years, we have therefore been working with our direct cell suppliers and their sub-suppliers to achieve full supply chain transparency for cobalt. This includes auditing individual stages of the supply chain, in particular according to the Cobalt Refiner Supply Chain Due Diligence Standard, which was jointly developed by the Responsible Minerals Initiative (RMI) and the Responsible Cobalt Initiative (RCI).

Based on information provided by direct suppliers to the BMW Group as of September 2020, the two tables on the right list the name and location of processing smelters and refiners, and identify the countries of cobalt's origin.

Since the start of production of the 5th generation of battery cells in 2020, the BMW Group has been purchasing cobalt directly from mines in Australia and Morocco, and making it available to cell suppliers. Around one-fifth of the cobalt required comes from Morocco, four-fifths from Australia. In this way, we not only achieve long-term security of supply and price stability, but can also contractually safeguard our sustainability standards.

<table>
<thead>
<tr>
<th>Name of smelters / refineries</th>
<th>Location</th>
<th>Countries of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambatovy</td>
<td>Madagascar</td>
<td></td>
</tr>
<tr>
<td>Freeport Cobalt</td>
<td>Finland</td>
<td>Democratic Republic of Congo, Madagascar, Morocco</td>
</tr>
<tr>
<td>Ganzhou Yi Hao Umicore Industries Co., Ltd.</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Huayou Cobalt</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Guangdong Jiana Energy</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Murrin Murrin</td>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td>Nichia</td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>Norilsk Nickel</td>
<td>Finland</td>
<td></td>
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<tr>
<td>Umicore Olen, Umicore Finland Oy</td>
<td>Belgium, Finland</td>
<td></td>
</tr>
<tr>
<td>XTC New Energy Materials</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Tanaka Chemical Corp.</td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>Gunagdong Brunp Recycling</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Managem</td>
<td>Morocco</td>
<td></td>
</tr>
</tbody>
</table>

1 Status 09/2020: All listed refineries and smelters are urged by us or our cell manufacturers to participate in audits. The aim of the audit program is to continuously improve the supply chains with regard to compliance with minimum standards. The BMW Group does not tolerate human rights violations in the supply chain.

2 No transparency regarding countries of origin of Umicore, proof of compliance with due diligence based on audit report of external audit by PwC. PwC was granted full transparency.